ROBOTTI & COMPANY ADVISORS, LLC

Investment Securities

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Dear Client,

We want to reflect on this past quarter, our current positions and give you our thoughts on the future.

Performance Overview

	Value Equity Composite[1], Net	Benchmark[2]
Quarter 2 2013	-2.73%	1.54%
YTD 2013	1.62%	15.10%
COMPOUND ANNUAL GROWTH RATE (THROUGH YEAR END 2012)		
3 Year	11.56%	13.35%
5 Year	3.63%	4.16%
20 year Inception	13.04%	8.59%

Year to date, the Robotti Value Equity Composite has returned 1.62**%**, versus the benchmark return of 15.10**%.** As is evident, we have underperformed the market as measured on both a YTD and QTD basis. While we tend to not overly concern ourselves with short term underperformance, we should identify for you what has caused such a divergence in our returns from the benchmark, given the underlying confidence we have in our investments. Since the market lows of 2009, as marked by an S&P level of 677, the broad stock market has advanced by more than 138%.[3] The Federal Reserve, in an attempt to spur economic activity as well as equity market appreciation, has brought interest rates down from a level of 4.00% in June 2008 to 1.98%.[4] While it can be argued whether or not the Federal Reserve's operations have had their effect on the economy, it is clear that we have seen the effects of a sustained low interest rate environment on both the fixed income and equity markets. It is in environments like these where the

[1] The Value Equity Composite has been defined and created to include all fee paying, discretionary accounts with an initial size of $100,000 or more that are managed with an objective of capital appreciation through the purchase and sale of primarily equity securities that, at the time of purchase, are small to mid-cap and that have been selling for significantly less than their intrinsic value or those that may grow their intrinsic value at above average rates. This composite was created in December 2001. The Investment results of the Value Equity Composite are only for illustration purposes and it cannot be assumed that future results will reflect this past performance. Performance of this composite has been calculated using U.S. Dollars. These results were calculated based on reinvestment of dividends and other earnings. Individual account performance may vary.

[2] Inception through August 2011, benchmark was the Russell 2000 Index. September 2011 to present, benchmark is the Russell 2500 Value Index.

[3] Bloomberg – low taken on 03/09/09, current taken on 07/01/2013

[4] TreasuryDirect.gov

usual merits of a well thought out, fundamentally based approach to investing may seem to no longer work and are held in question. If history has taught us anything, these are the types of environments that tend to correct themselves quickly and, in doing so, create many opportunities for investors with a fundamentally based approach. Despite the current macro environment, we continue to manage our investments much as we have for the past 30 years. We search for securities with the potential to double sometime over the next three to five years that also possess a reasonable margin of safety. This philosophy leads us to focus on the long-term potential of the businesses we own and not the short term gyrations caused by the market. When it comes to volatility and returns, we agree wholeheartedly with Warren Buffet when he said, "I'd rather have a lumpy 15% return than a smooth 12%."[5] I see writing a quarterly letter in much the same way that we approach our frequent calls to the management of our investments – as a way to understand the important, long-term drivers of the business. We don't necessarily concern ourselves with our investment's quarterly performance, but we do want to speak with the companies regularly to continue to collect the seemingly disparate data points that together make up our investment thesis mosaic. Our calls do not focus so much on whether a business met, exceeded, or missed the street's estimates, but rather on how the underlying business has changed. In the same way, we hope that our communications can help you become familiar with how we invest and make decisions – an important thing for our investors to understand. The CEO of Amazon, Jeffrey Bezos, said it very well in his 1997 letter to shareholders, "We aren't so bold as to claim that the above is the 'right' investment philosophy, but it's ours, and we would be remiss if we weren't clear in the approach we have taken and will continue to take."[6]

Subsea 7

Subsea 7 (OB:SUBC) is the largest single position in the Composite, and as such its price movements have an exaggerated effect on our overall performance. At the end of this quarter, management of SUBC announced that they would be taking an impairment charge of 250-300M USD on a project they have off the coast of Brazil. We, along with management, view this as an issue specific to this particular contract and believe this is not a problem that will affect the rest of their backlog. SUBC is unlikely to bid on projects like this in the future, as it is not the first time an event like this has occurred on this specific project. The market is viewing this as a systematic problem, and pricing it accordingly, as is evidenced by the 11.66% drop in share price since the release of the news on 6/26/2013. We continue to be encouraged by positive developments with the company that we feel are not being fully recognized in the current stock price. Despite this comfort and understanding, we remain vigilant and cognizant of the need to constantly check our work so as to avoid complacency or hubris. Over the past year, we have hosted investor breakfasts with management, met with them in New York and Oslo, and have spoken to the company's competitors regularly. We continue to have very strong convictions in the growth of the subsea market, SUBC's management, and the company's competitively advantaged position. We see this quarter's equity contraction as an overreaction to a one-time event, and divergent from our view on the intrinsic value of the company, while at the same time we think that Subsea 7's fundamentals continue to improve.

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[5] *Trade Like Warren Buffett*, P.102
[6] Amazon Letter to Shareholders 1997

Subsea 7 is a contractor focused on the installation of subsea equipment for oil and gas companies with the particular expertise of operating in deep water. There are three main competitors in this market – Technip, Saipem, and Subsea 7. Subsea 7 is the market leader with the largest backlog in the market, currently estimated at over $10B[7]. Technological advances in the subsea market have allowed producers to drill in further depths, giving them access to previously unattainable resources. Deeper drilling projects require more complex operations, and this trend towards multi-faceted and complicated projects directly benefits the larger more sophisticated players, of which we believe Subsea 7 is the best positioned. The addressable market for Subsea 7's services continues to expand in a number of ways. Today, the vast majority of activity is focused offshore in the North Sea, the US Gulf of Mexico, Brazil, the West African countries of Nigeria and Angola, and Australia. In recent years discoveries have increased not only in the previously identified areas, but also in new provinces – the Mexican portion of the Gulf of Mexico, Ghana, Mauritania, Sierra Leone, Mozambique, Tanzania, Malaysia, Indonesia, China, and Vietnam. As various technologies such as subsea compression and separation become more accepted and eventually a best practice for subsea exploration – reducing total development cost and raising oil recovery – there is potential for each project to grow substantially for contractors like SUBC. Technological advances are our friends. Larger project sizes should further leverage SUBC to the pickup in activity, evidenced by the growing number of deep water wells.

Realization deferred is the most apt way of describing our investment in Subsea 7. The market continues to avoid the equity, but as it does, SUBC continues to strengthen its strategic position. At the beginning of the year Subsea 7 was at $24.60, and has since fallen 27.93% to $17.73. In the meantime, we have seen the company's backlog increase from $9B to more than $10B, TTM EBITDA[8] up nearly 20% from 2011, and EBITDA margins grow to 16.5% from 15.9% in 2011.[9] We believe SUBC will heed the words of funnyman Steve Martin and eventually "be so good they can't ignore you." As we monitor our investment we continue to focus our efforts on making sure they are on the way to being that good, and try not to focus on who is ignoring them.

Subsea 7 is emblematic of the type of investment that has historically done well for us. It is in an industry that is repeatedly ignored, viewed solely through disappointing past earnings, and is priced as such. While others like to look at the industry's previous earnings as continuing in perpetuity, we have a different view on what the economics can be in the future. I recently gave a talk where I discussed the three edges that separate us from other investors, identified as behavioral, analytical, and informational. While all of these factors are crucial, we believe the behavioral edge to be paramount. The advantage lies in the ability to weather the periods of distress and wait for the market to recognize the value in our investments as we see it. In short it is the ability to tolerate losing money before we make it. This lets us concentrate our research efforts on understanding the long-term normalized earning power of a business before the street gains interest. As a result, we are better able to drown out the noise that the market distracts itself with

[7] Subsea 7 Q1 2013 Result Presentation May 16, 2013
[8] Trailing Twelve Month Earnings Before Interest, Taxes, Depreciation, and Amortization
[9] Subsea 7 Q1 2013 Result Presentation May 16, 2013

and focus our analytical work on what is truly important to the business. It is at times like this we are grateful for having investors that share our long-term view.

Position Changes

As long term buy and hold investors, we tend to have low turnover of our portfolio. As such, we rarely have large position changes from quarter to quarter, usually adding two to five positions annually. I would nonetheless like to take this time to let you know about the few changes we have made.

One of our new positions for the quarter is Pico Holdings (NASDAQ:PICO), which we believe is both run by intelligent managers who are invested alongside public shareholders, and is also significantly undervalued. The company is a diversified holding company that aims to acquire undervalued assets, such as water rights and land. Pico is trading near book value (1.19x)[10], while holding some very attractive assets that we believe were very timely purchased. Among them are water rights in the Southwest that have been in place since the 90's. Most of the water was acquired when its main use was to be sold to the agricultural sector. Management recognized the potential for future growth due to the increase in demand for housing in the Southwest, which provides significantly better margins. Management continues to be creative in unlocking value, and in that vein made the fascinating decision to build a Canola oil plant on land they owned in Minnesota. Canola oil is quickly becoming a replacement product for other types of oils, and has seen its demand grow steadily. Previously the U.S. imported all of their Canola oil from Canada, and paid a high tax to do so. Pico's decision to build a plant on the U.S. side of the border positions the company as the only U.S. based Canola crushing plant, allowing Pico to sell the oil without having to add the import tax. With Canola imports from Canada at 1.37B pounds in 2012[11], Pico's asset is very well positioned. We like managers that think like us about out of favor assets, and so it was refreshing to see that during the housing crisis in 2008, Pico invested in real estate and built up a large inventory for community development at severe discounts to the prices at the time. We believe that the current value of these assets is understated on the balance sheet and that over time Pico should be able to realize this value as the housing market continues to recover.

We've spoken in the past about our belief in the recovery of housing, and our interest in adding investments that will benefit from this trend. While Pico is tangentially related to this theme, we have continued to add to UMH Properties Inc. (NYSE:UMH), which we think is more directly advantaged to this development. UMH is a real estate investment trust that owns, operates, leases, and sells manufactured home communities. Manufactured houses give homeowners the opportunity to own or rent quality homes for below market prices due to the lower costs of factory production. UMH provides consumers a cost effective option, and with the economy still working through its slow recovery, is an attractive economic alternative for the residential market even as companies go to the residential rental market. Through its acquisition of manufactured housing community sites, UMH has been expanding its footprint and increasing the number of units it can rent or sell. As importantly, most communities have significant sites of land available for expansion and this expansion provides material upside leverage.

[10] Data from Pico Q1 2013 Form 10-Q
[11] U.S. Department of Agriculture

During the quarter we sold a portion of our investment in Builders FirstSource (NASDAQ:BLDR). After a 200% run over the past year and a half, Builders no longer screams “value stock,” but the knowledge we have gained from following the industry and the company still gives us a strong conviction in the company’s potential. Despite selling off a portion of our position, we continue to hold a very sizable stake in the company, and believe that the housing market will continue its rebound – meaning more work for the company and more gains for us.

Thank You

As always, this is an exciting business. With a talented investment team, instincts, experience, and patience, we continue to guide our investments into the future. We truly appreciate your support, patience and confidence in us.

All the Best,

Robert E. Robotti

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