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Dear Client,

We want to reflect on the 2011 year, our current positions and give you our thoughts on the future outlook.

Equity Market Overview

This was a turbulent year in equity markets, but at the close of the year the S&P 500 finished off basically right where it started at 1,257.6 (thanks to a 2% dividend yield, it actually finished the year up 2%). 2011 was a condensed version of the equity market's performance since the year 2000 - many gyrations up and down with a multitude of economic swings including 2008's near financial implosion. Given the decade of very volatile and ultimately sideways moving markets, one can understand why there has been the advent of the widespread view that a 'buy-and-hold' investment plan is dead.

As we well know, much of equity valuation is determined by human emotions best identified as fear and greed, and not just economic facts and security valuations. Today, investor disenchantment is very high given the lost decade of 2000-2010, the turbulence of 2011 and the post 2008 realization that systemic risk is real and is ever present. Investors are fearful of sustaining new losses and continue to sell equities. A clear indicator of this is that, according to Strategic Insight, U.S. Equity Funds had $85 billion in net outflows while taxable bond funds had $129 billion in net inflows for 2011. In addition, a recent Bloomberg article stated that more than $469 billion has been pulled from U.S. equity mutual funds over the past 5 years. In reading their tea leaves, the financial press provides a welcome forum highlighting the many problems that exist. We all know that the Euro zone mess risks disastrous consequences for world financial markets. We know that our own government is either unable or unwilling to implement intelligent fiscal policy. With all of these economic problems and the uncertainty that they create, it is no surprise that equity investors continue to reduce and avoid equity investments. Wall Street professional investors seem focused on chasing high-frequency trading profits (exacerbating investor concern and fragile confidence) and hedging "fat tail" probabilities while keeping their short positions up to keep their "net long" position low. As an example, the ISI Hedge Fund Survey, which is based on the actual exposure at 36 long/short funds with approximately $90 billion in assets, indicated that net hedge fund exposure at year end 2011 moved down to 43.9%. This is close to the lowest level of long exposure in four years and below the low exposure reached at the market's low in March 2009**.** All of these factors have a further depressing effect on equity valuations. Only fools like us, mired in the past, would buy-and-hold undervalued securities in a world like this.

Our Results

When we look back on 2011, we underperformed the broad market as measured by the S&P 500, the Russell 2000 and the Russell 2500 Value index[1]. The year's results did not meet the expectations we set for ourselves. Of course, we would submit that we do not think that one year is the appropriate time horizon to consider the success of our investing. Our investment approach is contrarian and long-term in nature. By that we mean, we invest in companies - frequently in turbulent circumstances - with a long-term horizon, generally with a 3 to 5 year outlook. We believe the record confirms the validity of our investment approach. If we look back over this millennia, since January 1, 2000, unlike the S&P 500 (as a broad measure of US equities) which is barely up (+0.55% compounded), the Russell 2000 (4.61% compounded) or the Russell 2500 Value (8.45% compounded) the composite of our managed accounts over that timeframe has compounded at 11.1% annually. In plainer terms, the value of $1 invested on January 1, 2000 in our Value Equity Strategy would be worth roughly $3.53 today.

Current Value of $1 Invested on 1/01/2000

S&P 500	$1.00
Russell 2000	$1.72
Russell 2500 Value	$2.64
Robotti Value Equity Composite	$3.53

Our Investment Approach

We invest in companies and industries that we believe are trading in the stock market at prices significantly below their intrinsic value, frequently measured by the normalized earnings potential of the business. More often than not these companies and industries are going through difficult periods; most investors do not like investing in them. This usually means that there is significant selling pressure on the companies we target for our investments; we accept that this means in the short term the market price of these investments will most likely continue to decline, and our performance with it. Despite short term gyrations in market prices, our experience tells us that if we are right in our assessment of the intrinsic value of the company, our patience and conviction can pay off in multitudes.

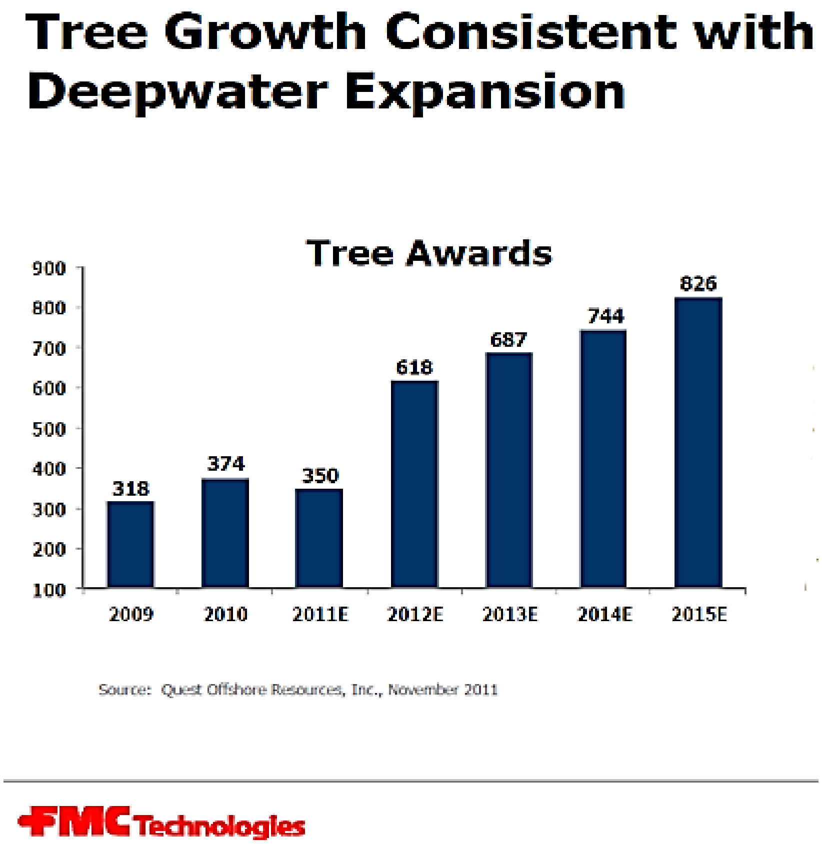
This is best exemplified in 2011 in our experience with the investments we've made directly related to home-building in America. We have been investors in the manufactured housing industry for a number of years. This industry has been decimated over the last decade. Joe Stegmayer, CEO of Cavco recently summed up the state of the industry by saying: "for the housing industry, including all forms of construction, this down cycle so far now 70 months from peak to trough, *is the longest of any of the nine cyclical declines* post World War II. The manufactured housing industry has experienced *10 years of weak shipments with the most recent 4 years having recorded the lowest shipment levels in the 53 years for which data are available*." The premise of our investment has been that this industry provides probably the most cost-effective housing option in America today. In addition, these homes are, in our opinion, also the lowest absolute cost homes currently available. We believe that these facts are most important today. The financial realities of our current world mean that these homes offer the logical choice for an enlarged portion of America's population when they consider buying their first home or downsizing later in life. Financing the purchase of these homes is also well suited to the first time home buyer – the lower price translates to less money needed for a down payment and a lower monthly mortgage payment.

The industry has been winnowed down to a very few remaining companies. These surviving companies are well-positioned to enjoy what is most likely to be an extended multiyear period of improving sales. While we aren't saying that a multi-year upswing will begin in 2012, we do believe that one is coming eventually, and that when it arrives, the upside potential for companies in the industry will be dramatic.

In addition to the investments we've made in companies that are direct participants in manufactured housing and companies that supply that industry, we also have invested in Builders FirstSource, a supplier, distributor and value added supplier to our nation's home-building industry. The customers of Builders FirstSource have been through a horrendous multiyear period. Builders FirstSource's sales for 2011 were a small fraction of what they were in 2007. Despite the lowered sales since 2007, we believe that Builders FirstSource's competitive position has significantly improved through this downturn. We further believe that home-building in America has not gone the way of the buggy whip!

Energy

Our largest portfolio investment is Subsea 7, a contractor focused on the installation of sub-sea equipment for oil and gas companies with the particular expertise of operating in deep water. In 2011, Subsea 7's market price declined over 22%, impacting our performance severely. Our position size in Subsea 7 is based on our long-term conviction in both the outlook for the company and its valuation, especially today. In contrast to the market's reduction in Subsea's market price over the past year, the company's fundamental position has continued to improve. Deepwater oil and gas activity has continued to increase dramatically. In addition, the market continues to expand as there have been significant discoveries of new geographic jurisdictions previously not identified as containing economic deep water resources. Competitively, Subsea's position has also further improved. In a post Macando and Gulf of Mexico oil spill world, oil and gas companies are more apt to award contracts to those contractors with high levels of experience—raising barriers to entry for new competitors. This should enable Subsea 7 and its two main competitors to enjoy dramatically increasing activity levels at continually improving margins. A leading indicator of the ramp up is the number of contract awards to companies like FMC technologies, a manufacturer of subsea equipment, including trees—a piece of equipment installed on each and every well to control the flow of oil and gas out of the well. A slide from a recent FMC Technologies Investor presentation highlights this:



While tree awards are forecast to grow at a 15-20% plus annual compound rate, of particular relevance to Subsea 7 is that the number of trees to be installed in deep water is increasing as a percentage of total tree awards. By the year 2016 estimates project that ultra-deepwater installations will account for almost 25% of the annual tree market. All of this equipment will need to be installed by Subsea 7 or its existing two experienced competitors. We believe that the complexity as well as the scale of these projects is also a significant positive for Subsea 7.

As we have pointed out in the past, a significant positive development for Subsea 7 was its merger in 2010 with Acergy, our legacy position. Today, the newly merged Subsea 7 is overseen by Kristian Siem, the company's Chairman and a 20% shareholder. The board under Mr. Siem's direction has interests that are closely aligned with us, its shareholders. We believe this to be an extremely important and positive development.

Other Significant Investments

At year-end, our second-largest holding is the chemical shipping company Stolt Nielsen. Stolt Nielsen is a long-term holding that has not been a large contributor to our performance. Once again, we think the future will be significantly different than the past. Over the last two years due to the fallout of the financial crisis, economic activity has been significantly depressed. Historically, chemical consumption has increased at a rate greater than world GDP. While in recent years chemical demand has fallen more than overall economic activity, we believe that the historical trend is intact. Further, with globalization and emerging market growth, demand for marine chemical transportation, as measured by ton-mile should increase. As with our position in Builders FirstSource, Stolt Nielsen's competitive position has dramatically improved and we believe that these difficult years have enabled the company to position itself to benefit to an even greater extent than the industry at large.

Today, Stolt Nielsen trades at a 20% discount to book (a book value that we believe to be significantly understated). Despite difficult times it has reinstated its dividend, and today has close to a 5% dividend yield.

2012 and Beyond

Our experience has been that buying ownership interests in businesses at less than their intrinsic value and holding those investments for the long term is a sound and rewarding investment approach. In response to the financial turbulence of the last five years, most CEO's of the companies we have invested in have cut costs, reduced inventories and invested in efficiencies with the logical impact on employment. As a result balance sheets have been improving even through these difficult economic times. This includes many US companies accumulating and marshaling significant cash balances and borrowing capability. Companies are positioned to invest when opportunities arise from a stabilizing and improving economy. We are uncertain when this will occur but this financial flexibility ensures they will be well positioned to invest when business opportunities arise.

The year 2012 has gotten off to a good start for equities. There's no telling if this will persist for the year. We do think that a more normal economic environment will lead to continually improving economic results and much more appropriate valuations for equities. We are not prognosticators on economic cycles, and will leave that to economists to be wrong about. Our investment approach has always been focused on identifying companies that are trading at a significant discount to their normalized earnings potential. We are confident many of our investments will be more closely valued relative to their intrinsic value in the future but we are always uncertain about the timing of that future.

Thank You

This is an incredibly exciting, challenging and thrilling business. We are fortunate to have a talented investment team whose sole focus is finding outstanding companies for us to invest in on your behalf. Our instinct is to let our experience and patience continue to guide our investments in the future. We truly appreciate your support, patience and confidence in us.

All the best in 2012 and beyond,

Robert E. Robotti

1. As of September 1, 2011, the benchmark for this composite has been changed from the Russell 2000 Index to the Russell 2500 Value Index. The index was changed to better reflect the composite's holdings and strategy; because of the firm's buy-and-hold strategy, positions that were small-cap when purchased may have grown or merged to become mid-cap or larger companies, and holding larger cap positions is a natural evolution of this strategy. The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Index measures the performance of those Russell 2000 companies which represent the 2000 smallest companies in the Russell 3000 Index. As the Russell 2500 Value includes both small and mid-cap companies, the Firm believes it is a more appropriate benchmark for the composite.

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