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Investment Securities

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Dear Client,

Performance Overview

	Value Equity Composite, Net*	Benchmark**
2014	-17.22%	7.11%
RVE Annualized Performance (Through Year-End 2014)		
3 Year	6.08%	19.40%
5 Year	6.22%	15.77%
10 Year	6.99%	7.87%
20 Year	10.55%	9.69%

We have frequently pointed out the pitfall of having a short-term mindset when evaluating long-term prospects. While this principle is still sound and our investment philosophy remains unchanged, we are nonetheless disappointed by our underperformance in 2014. This year's portfolio results and the impact they have on our long-term returns requires introspection and discussion. How did we get here and what implication does our current position have for the future?

The Robotti Value Equity Strategy is managed with two primary goals in mind:

- To deliver results, net of fees, which exceed the general return of the stock market;
- To protect our invested capital from permanent loss. We measure this over 5-year periods due to the inherent volatility of the stock market. (see appendix)

What do we do to accomplish the goals? Our investment philosophy is based upon the belief that the market price of a security does not necessarily indicate its true economic value. Contrary to the conventional view, securities markets are not always efficient, particularly when considering facts beyond the next year. The gap between price and value can be wide, especially when a company is operating below its normalized level of profitability because of near-term headwinds.

Investors are more likely to generate outperformance when they focus on what they know best. One of our core competencies is most notably, but not exclusively, in companies across the energy supply chain. Developing a core competency may seem hard by itself, but sticking to that competency through the inevitable ups and downs can be much more difficult. Taking advantage of a core competency to invest in times of transition can lead to exceptional results. Transition is rarely a linear process and often leads to negative interim results as investors attempt to avoid the corresponding lack of clarity. More than 30 years of experience has taught us that periods of transition can be the catalyst for a cathartic process where companies shed unprofitable assets, reduce costs, make strategic investments that lead to industry consolidation or take other actions that lead to an eventual resolution. As one of our long-time clients recently pointed out, some of our greatest opportunities have emerged from companies facing serious challenges, though it was never pleasant waiting for the pain to subside in the midst of the turbulence.

Investing in energy related companies has been difficult this year, regardless of one's level of expertise. Our related investments are primarily in businesses that support the energy industry - the so-called "picks and shovels." Yet, when the price of a commodity declines by 50% over just a few months, there are very few places to hide, at least in the short-term.

The ability to maintain a high-level of conviction in the face of a market that increasingly disagrees with our investment outlook is a reflection of our behavioral edge. This should not imply stubbornness or blindness. Instead, we remain intensely focused on maintaining the proper perspective as we analyze new information. Sometimes this will result in adjusting the portfolio, but frequently additional analysis confirms the need to remain patient. It is difficult to maintain patience when managing other people's money. Inactivity can imply ignorance or indecision. We can assure you that in our case it means neither. The decision to remain patient is an active decision, no less important than buying or selling a security.

Retrospective and Experience

In order to achieve our goal of delivering results that outperform the market, we must hold a portfolio that differs from the market. This means we know the risk of underperformance exists and we have experienced this previously. Like our performance in 1998 and 1999 when we substantially underperformed all benchmarks, our recent performance reveals the importance of our second goal: to protect our invested capital from permanent loss.

The requirement of a margin of safety, or room for error, is fundamental to our investment process. It is particularly important that each of our energy related investments have the ability to withstand difficult parts of the energy cycle. As a result, we believe that we are currently invested in energy service companies that will not only be able to survive this downturn, but also have the financial flexibility to take advantage of opportunities the recent turmoil is likely to provide. This outlook also supports our belief that these mark-to-market losses are transitory and the risk of permanent capital loss is remote.

Current Position

The level of conviction we have in our current holdings has increased, strengthened by our belief that current valuations already price-in the downside, creating even more potential for dramatic appreciation.

Subsea 7 (OB:SUBC), our largest position, was the biggest detractor from our performance in 2014. With a year-end market capitalization of $3.4 billion and $145 million of net-debt, the company was valued at 5.4x trailing twelve month earnings and less than tangible book value.[1] Management has taken advantage of their financial strength to opportunistically repurchase debt at a discount to par and buy back shares at current levels. Consensus estimates are for earnings to bottom at $1.25 per share in 2016 which implies a current valuation of less than 8x trough earnings.[2] Although near-term headwinds exist, we believe that Subsea 7's dominant

[1] Capital IQ
[2] Ibid

position and growing barriers to entry combined with its depressed valuation sets the stage for appreciation of its shares, which is why it remains our largest investment.

The disruption in energy markets has cascading effects on other industries as well. Approximately ¼ of the portfolio is invested in industrial companies. While some of our investments fared better than others in 2014, we believe that investors have overlooked the fact that lower oil prices will substantially improve the economics of many businesses. Several of our portfolio holdings should benefit from lower energy prices including Stolt-Nielsen (OB:SNI), Omnova Solutions (NYSE:OMN), LSB Industries (NYSE:LXU), and Lincoln Electric (NASD:LECO), among others.

Our second largest holding, Stolt-Nielsen (OB:SNI), was also a large detractor from performance this year. The company has three primary segments: chemical tankers, tank containers and terminals. Stolt-Nielsen's chemical tanker business is poised to benefit from lower bunker fuel prices which should lead to improved margins, yet shares trade at a post-financial crisis low. With a current market value less than ¾ of tangible book value (which we think will grow over the next 3-5 years) our level of conviction that the stock is a bargain is higher than ever.

Both Omnova Solutions and LSB Industries found themselves targets of activist investors over the past year. Omnova generates 76% of its revenue from specialty chemicals used in coatings, adhesives and other applications and 24% from engineered surfaces including coated fabrics, laminates and films[3]. In October, the company announced it had redeemed $50 million of its Senior Notes due in 2018, reducing annual interest expense by approximately $4 million.[4] At the same time management announced its intention to repurchase $20 million of stock.[5] In December, the activist investor announced it would make 3 nominations for election to the Board of Directors at Omnova's 2015 annual meeting in March.[6] We think that improving fundamentals, declining capital expenditures, lower interest expense and the tax shield from the company's large NOL will lead to strong free cash flow generation, especially when compared to the company's $385 million year-end market capitalization.

LSB Industries is a leader in two niche businesses: (1) a chemical business and (2) a climate control business. Last December, the company became the target of activist investors. As a result, the company agreed to reduce the size of its Board, while still adding 3 new members who were recommended by the activists. In addition, a special committee was set up to review other aspects of the business. On December 22nd LSB announced that its founder, Jack Golsen, would transition from CEO to Chairman of the Board and his son, Barry Golsen, would assume the role of President and CEO. Together the family owns nearly 14% of the outstanding shares.[7] In our view, the company's true earning power has been obscured by recent operational issues, and shares trade significantly below our estimate of intrinsic value based on long-term normal earning power. The larger activist increased its investment by almost 120% in Q4 2014.[8] We believe that in the case of both Omnova Solutions

[3] Omnova Solutions Presentation, 10/1/14
[4] Omnova Solutions Press Release, 10/30/14
[5] Ibid
[6] Barrington Capital Press Release, 10/9/14
[7] Capital IQ
[8] SEC filings

and LSB Industries, suggestions proposed by activist investors will lead to a constructive outcome for all shareholders.

The retail industry is also likely to benefit as consumers spend less on fuel. That should be positive for GameStop (NYSE:GME) and American Eagle (NYSE:AEO). GameStop is the leading video game retailer in the United States. Shares ended the year >40% below its November 2013 high driven by the fear that digital downloads will render GameStop's business model obsolete. The company has a market capitalization of $3.7 billion, $20 million of net cash and a dividend yield of 3.8%.[9] Between January 2010 and January 2014 the company repurchased 34% of its outstanding shares at a 30% average discount to the year-end price.[10] We think that the market is underestimating the buying habits of GameStop's niche core consumer and earnings will continue to grow, driven by the new game console cycle. At less than 10x the consensus estimate of forward earnings, shares of GameStop are still well below our estimate of intrinsic value.

Looking Forward

While we are never happy to see the portfolio lose value, temporary or otherwise, the ability to tolerate losing money before we make it has proven to be the source of a long-term behavioral edge. Temporary loss and underperformance is a byproduct of managing a portfolio with the goal of achieving long-term results that are superior to the market. The recent panic in energy markets has been difficult but is not unprecedented. History never repeats itself, but our experience has proven that times of pain such as we are currently experiencing also prove to be the greatest source of opportunities.

We would not suggest that you overlook the performance of the portfolio in 2014. We do hope, however, that you have a better understanding of our view of the portfolio and why we are excited about the future. We remain committed to the same long-term, bottom-up, contrarian philosophy that we have adhered to for over 30 years and are working hard to be deserving of the trust and confidence you have placed with us. As always, please do not hesitate to contact us directly with any questions or concerns.

Sincerely,

Bob Robotti

[9] Capital IQ
[10] GameStop 2014 Analyst Day Presentation

Appendix

5 YEAR ANNUALIZED PERFORMANCE (since 1997)			
Five Year Period	**RVE (Net)***	Benchmark**	S&P 500**
2010-2014	**6.22%**	15.77%	15.45%
2009-2013	**17.86%**	19.82%	17.94%
2008-2012	**3.63%**	4.17%	1.66%
2007-2011	**0.81%**	0.25%	-0.25%
2006-2010	**8.43%**	4.47%	2.29%
2005-2009	**7.76%**	0.51%	0.42%
2004-2008	**6.02%**	-0.93%	-2.19%
2003-2007	**23.23%**	16.25%	12.83%
2002-2006	**19.96%**	11.39%	6.19%
2001-2005	**17.80%**	8.22%	0.54%
2000-2004	**16.53%**	6.61%	-2.30%
1999-2003	**10.70%**	7.13%	-0.57%
1998-2002	**1.54%**	-1.36%	-0.59%
1997-2001	**7.07%**	7.52%	10.70%
1996-2000	**8.40%**	10.30%	18.33%
1995-1999	**11.96%**	16.68%	28.56%
1994-1998	**15.80%**	11.87%	24.06%
1993-1997	**25.93%**	16.40%	20.27%

Disclosures

* 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.Performance results of the Composite have been calculated using U.S. Dollars. These results were calculated based on reinvestment of dividends and other earnings. Individual account performance will vary. The investment results of the Composite are only for illustration purposes and it cannot be assumed that future results will be reflective of this past performance.

** On September 1, 2011, the benchmark for the Composite was changed from the Russell 2000 Index to the Russell 2500 Value Index. The benchmark was changed to better reflect the Composite's holdings as well as its buy-and-hold strategy. Over time, holdings that were small-cap when purchased may have grown or merged to become mid-cap or larger companies. In addition, the Advisor believes that holding larger cap positions is a natural evolution of the Composite's strategy. The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the U.S. equity markets. 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 Advisor believes it is a more appropriate benchmark for the Composite. The S&P 500 Index is a capitalization weighted index of 500 stocks, representing all major industries, designed to measure performance of the broad domestic economy. The S&P 500 Index is included as a comparison to the broader market, as the Composite may occasionally be invested in larger capitalization companies. Index returns presented are total returns.

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