ROBOTTI
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Investment Securities

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January 19, 2016

Dear Client,

It is well known in the finance industry that the best time to sell stocks is at the peak of irrational exuberance and the best time to buy stocks is at the point of maximum pessimism. In a "normal" environment, it's hard to find anyone who disagrees with this logic. Some may even claim that this is "common sense."

It is also well known that it is impossible to perfectly time the markets. The goal is to sell somewhere in the upper portion of the top of the curve and buy somewhere in the lower portion of the bottom of the curve. No one can consistently pick the tops and bottoms. In a "normal" environment, it's hard to find anyone who disagrees with this logic. Again, "common sense."

Yet without fail, *every single time* the market finds itself somewhere within the upper portion of a peak, it is **clear to everyone** that selling is a mistake committed by investors who either lack intelligence or are washed-up and stuck in an era that has passed them by.

And *every single time* the market finds itself somewhere within the lower portion of a trough, it is **clear to everyone** that staying invested is a mistake committed by investors who either lack intelligence or are washed-up and stuck in an era that has passed them by. Those who would actually deploy capital at such a time are so clueless, they should be institutionalized.

Feel free to lock us up. Our experience of over 30 years leads us to conclude we are near a lower portion of a trough today, and we see plenty of opportunities to deploy capital.

In many respects, today's environment reminds me of the 1998 through 2004 period. Two years of losing money (1998 and 1999) while *everyone was getting rich* (that time with dotcom's and this time the few mega-caps which dominate the S&P) followed by five years where The Robotti Value Equity Composite generated 16.5% compounded annual returns in 2000 – 2004 while the S&P 500 lost 2.30% annually (*see attached*). Of course, history doesn't always repeat but it does frequently rhyme. That said, remember, past performance is not indicative of future results.

For over 30 years we have successfully sifted through troubled companies abandoned by the market to find hidden gems. While the market often turns its back on a stock for good reason, there are plenty of stocks scorned by investor emotion – primarily fear. This is generally where we have been able to find investments with the greatest dislocation between market price and economic value.

Looking Back to See Where we are now and Maybe Where We're Going

In the third quarter of 2014 and again in the second quarter of 2015, we wrote a retrospective of one of our largest holdings, Builders FirstSource (Nasdaq:BLDR). One aspect of having a very consistent and long-term investment approach is that we tend to speak on the same names multiple times.

I would refer you to our 2014 letter which goes into great detail about the aspects of BLDR as an investment, but I want to focus this letter on something we don't talk about very often – timing.

We first bought shares back in May 2009 at approximately $3.50 per share as homebuilding was entering a deep recession. We felt it was cheap, but, as often is the case with the companies we invest in going through difficult periods, it became cheaper. Even as a recovery progresses, the sheer time it takes builds disillusion and fear in investors. The prospects of a recovery seem to fade with time. The naysayers will continue to be right during this period and appear all knowing, while those anticipating a recovery look foolish as market prices decline further. The key term here is "market prices." As you know, our investment philosophy is based upon our belief that the market price does not necessarily indicate true economic value.

In Builders' case, shares traded down as low as $1.25 in mid-2011, down over 60% from our initial investment and we added to our position. In 2012 & '13 the recovery began, and today the shares trade at approximately $10 per share (up almost 3x our initial purchase and 5x our subsequent buys).

In the summer of 2015 we decided to reduce our holding in Builders. Valuation and portfolio allocations drove our decision to sell down to a 4% position. Therefore in July we sold approximately 1/3 of our holdings across client accounts at a market price above $14.

One may ask, "Did we miss the boat by not selling our full position at $14?" We think not. Our work on the company and the industry leads us to believe the mid-cycle earnings power of BLDR is likely $4-5 per share. Therefore BLDR, then at $14, and $10 at year end, may offer very dramatic appreciation potential. (For reference, BLDR is currently trading at 10x forward earnings of $0.85.) We are not sure when the mid-cycle will happen, but for the past 7 years single-family home building has averaged less than half the 40-year historical average. We are confident in our belief that home-building will return to the norm and if and when it does, we will see BLDR value continue to increase. In the meantime, the market's manic depressive evaluation of the business outlook leads to opportunities to buy and sell opportunistically. For example, in recent weeks we have selectively added to our holdings in accounts that were underinvested at these levels.

Despite the selloff we still have a sizable position today and we're happy about that (for the reasons stated above). However, the move from $14 per share to $10 at year end has contributed to the recent decline in your portfolio. Since July, BLDR has declined by 35% through year end, reflecting that the contagion of fear sparked by gas and oil prices has spread to many industries.

All of this illustrates how periods of distress can cause prices to disconnect from fundamental values and provide excellent opportunities for long-term investment results. As I mentioned, by mid '11 our purchase of BLDR in May of '09 looked foolish – down 50%. Our additional purchases of BLDR at $1.90 might have been questioned. Yet even down 35% from where it traded in July '15 both purchases have provided excellent returns. Today I posit, many of our portfolio holdings generally and our energy investments in particular are similarly situated. But remember, past performance is not indicative of future results.

What We Do Know

I was in Houston and Oklahoma City last month and had the chance to meet with a half a dozen companies that we own and/or know well. I walked away further convicted in my belief that the current environment is presenting us, as investors, with a dramatic investment opportunity. At the depths of despair today, it is easy to get washed away by the fear. But understanding the facts of the companies we know has led us to have conviction. Asset values and earnings power of many of these businesses suggest to us values that are potentially a multiple of their current prices. This assertion may appear foolish in the 'conventional' wisdom of the day, but after 30 years as a value investor I am confident that time will bear out the truth.

Our energy investments, in particular, are the replay of a movie I have seen many times in my career – investor despair at a low point in the cycle! Baron Rothschild once said, "Buy when there is blood in the street." There is no question that in today's energy investments there is plenty of blood. The full quote goes on to say, "… even if the blood is your own." As tough as it is to heed these words, we think they are extremely apt in the current environment. We have been bloodied recently, but through our diligent process of evaluating businesses we believe opportunities abound.

Opportunity is not limited to our energy investments, but we believe it extends itself throughout our portfolio. The stocks we own are exceptionally cheap today and I believe that these companies are very well positioned for substantial future returns. I can't predict if and when the turn will happen or if this is the bottom, but recent performance has set the table. It’s my belief that many of these companies will be trading at multiples of current prices in a few years’ time.

Over my 30 years of investing professionally I have found that these times of turmoil are the exact moment where rationality leads to outperformance.

It has been my experience that entry points like the one we currently see are somewhat rare. The mistake investors often make is to fail to take advantage of securities that represent very good value with a margin of safety out of fear. Therefore, I would urge you to very seriously look at your ability to commit more capital that matches with your personal financial situation. To that end I have included wire transfer instructions to this letter. Please contact your representative if you would like more information.

As always, I welcome your questions/comments/concerns especially given the recent difficult period.

My personal wishes to you and your families for a happy, healthy and prosperous 2016!

Sincerely,

Bob Robotti

The above letter, dated January 19, 2016, is the year-end update letter of Robotti & Company Advisors, LLC ("Robotti Advisors") with respect to separately managed account clients of Robotti Advisors. This letter should be read in conjunction with the following disclosure information:

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Note: certain statements on the attached material, including but not limited" to (a) statements of things that "are well known" to be the case (i.e. "It is well known in the finance industry that the best time to sell stocks is at the peak of irrational exuberance and the best time to buy stocks is at the point of maximum pessimism"), (b) statements with the phrase "every single time", and (c) certain similar statements, are not intended to represent absolute literal fact, but rather represent certain colloquialisms/mannerisms expressed by select market participants (but not necessarily individuals associated with Robotti Advisors).

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Robotti Value Equity Composite

ROBOTTI & COMPANY ADVISORS, LLC

December 2015

5 YEAR ANNUALIZED PERFORMANCE (*since 1993*)[1]			
Five Year Period	**RVE**	Benchmark	S&P 500
2011-2015	**(2.64%)**	9.16%	12.57%
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%

DISCLOSURE & NOTES

[1]Performance results of the Composite have been calculated using U.S. dollars and are net of fees. 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 performance of the Standard & Poor's 500 Index is presented for informational purposes only. Index returns presented are total returns.

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