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Dear Client,

During the first quarter, the US stock markets maintained their upward trajectory. The S&P 500 saw a rise of over 10%, while the Russell 2500 Value, though trailing behind, still managed a respectable increase of over 6%. Throughout the quarter, our Robotti Value Equity strategy matched, and even slightly surpassed, the performance of the S&P index. Crucially, we achieved this success by investing in a distinct set of companies, diverging significantly from those driving the S&P 500's gains. This contrast is evident not only in our portfolio composition but also in the timing of our performance. The similarity in outcomes is largely coincidental.

To a large extent, the US stock market continues to have notable bifurcation between a limited number of extremely successful companies that have become the stock market darlings, and everything else. We would note that discussion of public investments is different today than it was 30 years ago. Back then, the vast majority of equity capital was invested in publicly traded companies, while today a very significant amount of capital is invested in "private equity." This is the backdrop that makes us excited about the opportunities we see broadly across publicly traded companies, which are not part of the asset allocation models of institutions and advisors today.

Reflections

One of my colleagues most of you know is David Kessler, who graduated from Columbia Business School in 2008. As our inside man, he set up a talk this past week with a group of current MBA students through the Columbia Student Investment Management Association (CSIMA).

One observation I shared was recalling a famous quote by James Carville when he was a strategist for Bill Clinton in the 1992 presidential race, "It's the economy, stupid!" That's a critical observation about where the investment opportunities are today and, critically, where they are not. Despite the confluence of significant cyclical changes and long-dated structural economic shifts, the allocation of capital has not responded. These generational changes including the evolution of globalization, climate related infrastructure, and lack of asset heavy business have exposed some extremely well positioned companies today. The industries and companies well positioned vary differently from the beneficiaries of the persistent, and dare I say, distorted economic environments for the decade post the world financial crisis.

While I'm a self-professed dyed-in-the-wool bottom-up stock picker, over the years we have developed a grass-roots macro-economic research process. I'm sure you've heard us talk about this before, but very briefly, by looking at the components of an industry (including its customers, suppliers and competitors) we can gain a really good understanding of the macro environment. This is not a top-down thesis, but rather one that has grown organically from what we're seeing on the ground at the company level.

Chart of the Decade Winners

Top 10 Companies by Market-Value

12/31/1979	12/31/1989	12/31/1999	12/31/2009	Today
IBM	NTT	Microsoft	Exxon	Microsoft
AT&T	Bank of Tokyo	GE	PetroChina	Apple
Exxon	Industrial Bank of Japan	NTT Docomo	Apple	Amazon
Standard Oil	Sumitomi Mitsui	Cisco	BHP Billiton	Alphabet
Schlumberger	Toyota	Walmart	Microsoft	Facebook
Shell Oil	Fuji Bank	Intel	ICBC	Alibaba
Mobil	Dai-Ichi Kangyo Bank	NTT	Petrobras	Tencent
Eastman Kodak	IBM	Exxon	China Construction Bank	JPMorgan
Atlantic Richfield	UFJ Bank	Lucent	Royal Dutch Shell	J&J
GE	Exxon	Deutsche Telecom	Nestle	Visa
ENERGY	**JAPAN**	**TECH / TELECOM**	**CHINA / COMMODITY**	**INTERNET**

Source: Empire Financial Daily

We often show this chart because we think it highlights how stock market winners are largely determined by economic events that are beneficial to select groups.

- The '70s belonged to the energy companies with the price of oil going from $3 to $40/bbl.
- The '80s belonged to the Japanese, with the growth of their economy driving capital.
- The '90s belonged to the first internet bubble.
- The 2000's belonged to the growth of China and the movement of manufacturing.
- The '10's belonged to low-interest rates and the post financial crisis recovery.
- What will be the new roaring '20s?

Capital responds to robust economic environments and follows the winners. So where can we identify the structural changes in the world's economy that will bolster certain businesses? Importantly, can we identify this next group?

The bottom-up stock research done by our team has identified many compelling investments, while in the process they have identified businesses well positioned as these structural changes play out.

A question that has come up repeatedly in the last few years is when will we have a recession? My answer is simple: We are in the midst of one right now. China has been in a recession for a while now, and that has an equal, if not larger impact on the world's economy as America does. China has been the engine of global growth for over 40 years. The current recession has been mitigated by the structure of its political system and lack of a need for return on capital from its large-scale decisions. The response to mitigating the downturn? Produce. It doesn't matter if they have someone to sell to or not. Just keep producing.

Trenton Bridge, which connects Trenton, New Jersey to Bucks County says "Trenton Makes, The World Takes" on its side. This harkens back to the day when America was the world's manufacturing hub. Over the last 40 years China could have written this on the side of all their many projects, though I would argue with a small addition. "What China makes the world takes…On the chin." This has been extensively reported and litigated, but not until the covid supply chain crisis has the world woken up to reality. The persistence of the problem is the result of China's hybrid capitalist economy that allows them to act without profit as a motive.

The response to this wake-up call is a longer discussion for another time, but I will focus on two crucial pieces. Firstly, the baton of cheap manufacturing is being passed on, both due to rising costs in Chinese labor and countries' needs to diversify supply chains. This movement of production is nothing new. It first went to Japan after WWII, then Korea, then China (whose vast size and resources made it last the longest). Now it is moving on to southeast Asia and India. Yes, we live in a digital world, but the fact of the matter is we still use physical things. This structural change will have significant impacts across almost every industry. Demand for these physical goods continues to grow as supply either shrinks, moves, or changes.

A second response has been the massive reshoring happening in North America. For the last 40-50 years, industrial businesses in North America have been competitively disadvantaged, but that has now flipped on its head. Labor cost differences between China and the U.S. obviously still exist, but they have moderated as China's middle class has grown. Even though America will almost certainly have the highest cost of labor in the world, we have one of the lowest costs of energy. We recently spoke with the CEO of a North American steel producer who noted that only 10% of his costs were labor. I should add that this reshoring is not solely from Asia. We have seen many companies picking up stakes and moving west from all over Europe as well. Such is the attractiveness of North America today.

Energy costs here are dramatically lower than in the rest of the world, which will only accelerate the movement of capital. We have seen this across industries, whether it is Nippon steel, Canadian Solar, or Amkor technologies. Regardless of the type of company, the U.S. has become tremendously attractive.

My colleague, Theo van der Meer, recently recommended a book to me, "The Wizard and the Prophet." It sounds so compelling I may have to commit to actually reading it! The book presents two dueling ideologies: the wizards, as personified by Norman Borlaug, who believe that science and innovation can save humanity, and the prophets, as personified by William Vogt, who believe conservation and reduction are the only path forward. Our wizard Norman Borlaug substantially increased the production capacity of agricultural products and by many estimates has saved more lives than any one person. William Vogt on the other hand is largely credited as starting the modern environmental movement, and with it the much-needed pressure to protect our environment. The book, to its credit, doesn't offer any solutions, but merely presents the two arguments. The arguments it presents remind me of my wife's not-for-profit, MedShadow, which focuses on the side effects of medicine. Pharmaceuticals are critical to modern medicine, yet they come with significant risks and uncertainties. No rational person would argue for the abolition of all medicines, but similarly no one would argue that every medicine is worth the risks.

Whether you lean towards Wizard or Prophet, like most things the answer generally lies somewhere in the middle. Given the world's increasing demand for already scarce natural

resources, we must both find a way to use them more efficiently, replace some and reduce our usage of others. Recently the Biden administration restricted access to a significant part of the Alaskan wilderness, which among other outcomes, effectively cancelled a $7.5B copper project. As we have talked about in the past, copper is a crucial part of the clean energy transition. Copper is becoming harder to find, is buried deeper and is surrounded by more rocks than it used to be. Last September when I visited Chile, it was emphasized to me that copper production is also a huge demand on water. With most countries outlawing the use of groundwater, many are beginning to desalinate to continue producing copper (an extremely energy intensive process). To be clear, I am not arguing against these environmental restrictions. They are necessary and ever changing as we continue to understand our impact on our environment. The bottom line is that these all put inflationary pressures on goods produced. Copper is one example, but we see this across industries. As globalization moves across southeast Asia, India and North America, and we advance the energy transition, we will need a lot of money and energy to facilitate the process. The world needs more of its limited resources, and there are no easy answers. The upshot is that building out the infrastructure necessary for the world to relocate production and accelerate the energy transition will take longer to implement at higher costs. A reasonable tradeoff, but absolutely inflationary.

Investment Opportunities

Our portfolio companies largely supply cost-effective environmentally reasonable answers to these questions. Our companies have a plethora of advantages that position them well for not only continued profitability, but significant growth in that profitability, increasing the value of these businesses. Frequently, there's an owner/manager with a significant economic interest who has identified strategies and capital allocation plans that will generate strong returns. Further, many of the businesses are directly related to the transitions we have talked about throughout this letter.

The economic outlook is part of the investment advantage. The other advantage that permeates our portfolio has to do with the valuation of those businesses. You all know that we consider ourselves value investors, and one of the aspects of that is to ask what the valuation of a business is, and how that differs from its current public trading price. There are a multitude of reasons why stocks trade below their economic value. Capital allocation today is largely predicated on the belief that the economic environment that existed post-financial crisis will persist indefinitely. Look back at history. That's never been the case. That's already not the case. I think you know we use the phrase "financial Brigadoon" to refer to Brigadoon, a place that only exists one day every hundred years. The economic environment post a financial crisis of extremely low inflation, low economic growth, low-to-no and even negative interest rates (therefore free money for certain unicorns) was a total anomaly. That's the financial Brigadoon that much of capital investment continues to hope will return and persist. There is no margin of safety with that investment allocation, and therefore substantial risks.

I sit on the board of several nonprofits and, due to my expertise, I often help with investment decisions. Like most enterprises looking to invest, they largely use outsourced CIOs (chief investment officers) to manage the asset allocation of the endowments. The similarities I see from each of these advisors in where to allocate those assets is striking. Nearly every one was in agreement. While we all know the mantra that, "past performance is not an indicator of future performance" it does not seem that these CIOs have taken it to heart. These are not asset allocation models, but asset concentration models. They are concentrated on large US listed public companies with as large of a slice of private equity as you can get.

So, what are we doing here at Robotti? We are still focusing on that divergence between intrinsic and market value. This divergence between the price we pay for the intrinsic value we receive also provides a margin of safety. We think the lemming style of capital allocation works in the stock-picker's favor, as we are able to make investments before the crowd. As we always say, good things happen to stocks that are cheap.

Travel schedule

As many of you know, I love what I do. One of the great benefits is the ability to travel; visit with companies (both those we are invested in, and ones that seem interesting), meet with investors to hear their thoughts and questions, or just visit new portions of the Globe as we think through their impact on the global economy. An extra benefit is that more and more companies are once again traveling to New York to visit with investors. So, whether it's the Canadian steel company or the Bank of Georgia (the country, not the state) or the CEOs of the five banks that control 90% of the market in Mongolia, you name it, it is all fascinating and compelling data points, which provide insights into investment opportunities.

We have a few events coming up in May that we wanted to let you know about. We will be hosting a luncheon in Omaha during the Berkshire meeting, which if you were planning on attending, we would love to have you. Then later that month we will be traveling to Richmond, Virginia and the Markel annual meeting where we will be hosting our 4th annual Robotti Live event. This has turned into a great event, where we get a tremendous turnout of very smart investors discussing the current environment. We highly encourage anyone willing to make the trip to attend.

Outside of those events we will also be in California May 13th to meet with many of you. For those that are unable to make it we are more than happy to set up a time to speak with you either by phone or video call. Without clients like you, we wouldn't be able to invest with the time horizon that we need to, and therefore wouldn't be able to get the results that we strive to. You are the lifeblood of what we do and, as such, we are always more than happy to talk to you and hear from you.

Now that it's once again spring season, it's fascinating to see nature come to life. My best wishes to you and your loved ones, especially if there are hardships. My best wishes they work out well. In the meantime, enjoy life to the fullest extent you can.

All the best,

Bob

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