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May 10th, 2019

Dear Client,

At Robotti & Company Advisors, we believe markets occasionally, and in certain pockets, behave irrationally, creating opportunities for investors with a well formulated, consistent, investment model. For 35 years, we have attempted to take advantage of these market phenomena by buying stocks that the markets misprice. We are stock pickers. We have always done extensive research of companies that appear to be mispriced to select portfolio investments.

Similar to other investment opportunities, The Robotti Structured Value Strategy ("the RSV") aims to identify opportunities that are a result of market inefficiencies. However, the RSV utilizes a more automated process, using a structured and systematic approach to stock selection. Through our proprietary system, we systematically identify and select securities that are heavily discounted, searching for companies with low valuation metrics [(i.e. Price to Earnings (P/E) and Price to Book Value (P/B)] that possess strong operating metrics [(i.e. Return on Equity (ROE))]. The potential gains come from these companies accurately reflecting the performance of the business. Further, our system seeks to identify positive earnings improvements which have not been detected or priced into the price of the stock.

Many quantitative strategies are overly vague with respect to positioning and methodology and are more of a "black box." In our Separately Managed Account (SMA) Strategy, we offer access to a highly structured approach in a transparent and liquid fashion, the "anti-black box." At its core, the RSV is similar to Robotti's time-tested investment approach, but distinct in the security selection process and its mandate.

**The Ponds We Fish In and Why**

One common broad category in which to classify public equities is the distinction between growth stocks and value stocks. Our 35 years of experience has been focused on the value stock category. Generally, growth stocks tend to be companies exhibiting strong growth in their economic success and therefore their economic metrics, while value stocks tend to be companies with more modest, or even troubled, financial dynamics. As a result of the different trajectories of economics of these two groups, growth companies can be valued more richly while the value companies tend to have lower valuations. This makes sense as, in many cases, it is appropriate.

The trouble is that frequently markets overreact. Influenced by human nature (people like to make money and hate to lose money) investor capital floods into the successful companies and expectations can balloon. Valuations can become priced for perfection. Conversely, lackluster or disappointing financial results can drag down investor expectations and accentuate the business risks of the company. The focus of investors on disappointing results can leave the valuation heavily discounted. **That is why we cling to the moniker "value investors," in the end, the valuation matters.** Pay too much and even the best companies become poor investments. However, we believe that buying a good business that is cyclically or otherwise depressed by transitory factors with a discounted valuation can be a very good investment.

Further, if one buys these discounted businesses at an inflection point, one can have an excellent investment. That is the method behind our madness!

**2018 Performance**

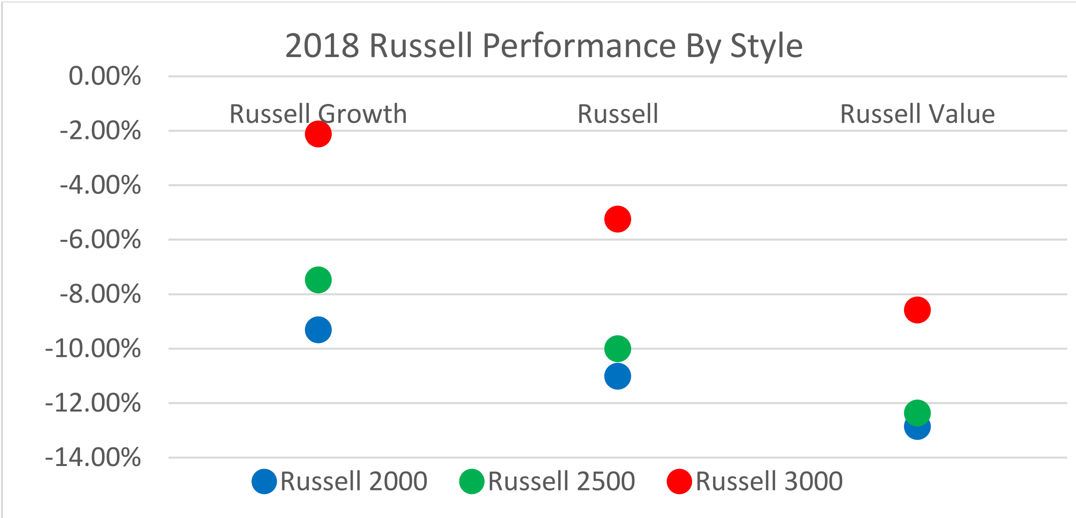
For the first nine months of 2018, the US securities markets performed well. Then came Q4, when the markets exhibited a very broad-based decline across most equity segments. This was particularly true in "our pond." According to S&P Capital IQ Data, the last quarter (Q4) of 2018 was the fourth worst performing quarter in the history of the Russell 2500 Value, our benchmark, since its inception in 1995. The Russell 2500 Value, for 2018, had over 71% of its companies down for the year. In Q4 2018, the number of companies down jumped to about 90%. Nine out of ten stocks were down.

**Despite the prevailing market volatility, our structured approach to value had good success. We finished the first nine months noticeably outperforming our benchmark. In addition, in Q4, when the market sold off dramatically, we also marginally outperformed.**

| Portfolio/Index | First 9 Months of 2018 | Q4 2018 | 2018 Performance |
|---|---|---|---|
| Robotti Structured Value Strategy (Net) | 8.03% | -16.69% | -10.00% |
| Robotti Structured Value Strategy (Gross) | 9.54% | -16.28% | -8.30% |
| Russell 2500 Value | 5.75% | -17.12% | -12.36% |

Another broad classification of securities is based on market capitalization, or the value the markets put on a company. As has been the case for a number of years now, large caps noticeably outperformed small caps. As with other Robotti vehicles, the RSV is predominately invested in small caps. Our broad pool and benchmark is the Russell 2500 Value, but we are consistently more heavily weighted in small caps. In our experience, small cap stocks tend to be mispriced and therefore systematically selected to our portfolio.

The RSV finished 2018 with an average market cap of about $1.2B. The Russell 2500 Value finished the year with an average market cap of about $4.3B. The Russell 3000 finished the year with an average market cap of about $110.3B. As the chart below shows, the larger the average market cap, the better the performance in 2018. The chart also shows that growth outperformed value which could lead one to believe that the RSV portfolio theoretically follows the same dynamics as the index. **However, due to the structured and automated nature of the strategy, the RSV outperformed its benchmark. Even while facing headwinds over the past few years, we remained consistent to our process, which we will continue to do.**




**Performance Since Inception**

2016, our first full year, was disappointing. While we generated double-digit gains, we noticeably underperformed the benchmark, finishing the year up 16.79% gross and 14.62% net while the benchmark finished 2016 up 25.20%. After a root-cause analysis, we realized the execution did not equal the original concept.

For 2017, to improve upon our execution, we made the decision to switch data providers to S&P Capital IQ. We found it to be more consistent in handling earnings anomalies and one-time items. This modification in our data sourcing is critical as earnings changes are key to our selection process. As a result, we believe that our data-to-date indicates that 2017 and 2018 are more representative of what the strategy's capabilities are. *In both 2017 and 2018, we were able to successfully and systematically identify companies that were undervalued, buying them before the market and generate profits.*

| Portfolio/Index | Cumulative Performance Since Inception (8/1/15 through 12/31/18) | Cumulative Performance 2017-2018 |
|---|---|---|
| Robotti Structured Value Strategy (Net) | 11.35% | -0.19% |
| Robotti Structured Value Strategy (Gross) | 18.32% | 3.59% |
| Russell 2500 Value | 14.23% | -3.28% |

**2019 Portfolio**

After periods of dramatic selling, like what occurred in Q4 of 2018, there tend to be many opportunities to pick companies that have been oversold. The 2019 RSV portfolio, as of the beginning of this year, was made up of 65 companies and has its heaviest sector weighting in Energy, Industrials, Materials, and Consumer Discretionary (ordered from largest to smallest). These four sectors represented about 83% of the portfolio in early January. Not coincidentally, these four sectors (based on individual stock, not weighted performance) finished 2018 down an average of 23.18%. It should be no surprise the RSV appears to be finding value, particularly in these sectors.

**Q1 and YTD 2019 Performance and Metric Update**

| Portfolio/Index | Q1 Performance | YTD Performance (Through 4/30/19) |
|---|---|---|
| Robotti Structured Value Strategy (Net) | 13.71% | 15.82% |
| Robotti Structured Value Strategy (Gross) | 14.19% | 16.86% |
| Russell 2500 Value | 13.12% | 17.08% |

**Conclusion**

With the ample opportunity set we see to invest in undervalued companies, we believe now represents an opportune time to invest in our strategy. Given its distinct approach to value investing, the strategy may be complementary to other of your value investments. Further, the strategy being structured and systematic, is designed to be scalable and customizable. As an example, we can cater the model to accommodate a large institution's ESG, or other mandate.

In closing, please let us know if you have any questions. Further, if you know someone who might be interested in our investment approach, please refer them to us. We would be happy to speak with them.

Thank you for your continued trust.

Sincerely,

David Kaiser
RSV Portfolio Manager

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