D|O

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Financial Advisors LLC

Dear Fellow Investors,

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"Patience is bitter, but its fruit is sweet."
–Aristotle

Wasn't it just yesterday we were talking about how December 2018 was the worst month for the Dow and S&P since 1931? In just a few months' time, the pullback ended, the market was back up, and we started seeing substantial gains in our investments. Though we're happy to be back on this side of things, the swing from panic mode (for some investors) to big gains is evidence yet again of a market that is neither rational nor efficient.

And so, what do prudent value investors do when times are "good"? We focus on managing our gains and making them continue to work for us. That's what the best CEOs do when their companies have more cash thanks to realizing gains. In fact, when we're analyzing a company that we think might be worth investing in, we look to see how the CEO is allocating capital.

Capital Allocation: 5 Methods

"Most bosses rise to the top because they have excelled in an area such as marketing, production, engineering, administration, or sometimes, institutional politics. Once they become CEOs, they now must make capital allocation decisions, a critical job that they may have never tackled… it's as if the final step for a highly talented musician was not to perform at Carnegie Hall, but instead to be named Chairman of the Federal Reserve."
–Warren Buffett, Berkshire Hathaway Annual Report, 1987

Pick up a book written by a CEO and you're likely to get a heavy dose of how they manage the operations of their company as well as the philosophy that underlies their decision making. No doubt these are important factors in the success of their companies, but another less discussed—and not often mastered—business management skill is capital allocation. That is, CEOs must decide how to deploy their company's resources to earn the best possible return for shareholders.

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Essentially, there are five ways a CEO can deploy capital: invest in existing operations; acquire other businesses ("mergers & acquisitions"); pay down debt; repurchase stock ("share buybacks"); and pay dividends to shareholders. Each method can yield powerful results. One method is not necessarily better than the other, but the best CEOs recognize when the time is right for a certain capital allocation method. We will examine the risks and potential benefits of each of these five methods in future letters.

Realizing Gains

"We are fully aware when valuations are getting stretched, which often coincides with a position getting outsized in the portfolio. In those cases, we will likely take money off the table by managing the position size down." –Chuck Akre

We've realized gains in several of our equity investments, including Qualcomm, The Middleby Corporation, The Danaher Corporation, AMETEK, and Roper Technologies. We also took gains from a special dividend paid out by Fiat Chrysler. Of course it is gratifying to report gains, but we believe it is just as important to provide you with some context—why we own them and what has led to their increasing value. (Please note: Ownership percentages vary based on our clients' particular needs.)

Qualcomm (QCOM) | Ownership: 2%– 9%
When Qualcomm was trading in the low $50s, we bought every share we could. Qualcomm stock rose to around $70 when Broadcom was set to acquire the company, but ultimately the deal did not go through. In April of this year, Qualcomm ended a lengthy and complicated legal battle with Apple over the licensing of Qualcomm's chip technology in Apple's mobile devices, including its iPhones. The settlement included a payout from Apple to Qualcomm rumored to be around $6 billion, as well as a six-year licensing agreement and a supply agreement guaranteeing that the chipmaker continue to provide its products to the largest company in the world. With this settlement and the expected increase in product shipments, Qualcomm anticipates an incremental earnings per share of $2. As Qualcomm shareholders, we were able to realize a gain of 54% over a short period of time.

The Middleby Corporation (MIDD) | Ownership: 1%–9%
We first purchased shares of Middleby at a discount in November 2017, and since then, the company has continued to assemble a strong portfolio of brands and technologies in the restaurant, food processing, and residential kitchen industries. Over the past two years, Middleby has completed fifteen acquisitions and continues to report a healthy backlog of orders in each of their three business segments. So far, our investment in the company has allowed us to realize a gain of 32%.

Danaher Corporation (DHR) | Ownership: 1%– 7%
Danaher designs, manufactures, and markets life sciences, diagnostics, dental, environmental, and applied solutions worldwide. Danaher has proven to be an adept acquirer, completing more than 200 deals over the last ten years with very little disruption. The Rales brothers, who founded Danaher, are experts in capital allocation. They build their wealth through leveraged buyouts and tax-efficient

restructurings. If you invested $10,000 in Danaher in 1990, it would be worth more than $800,000 today. That is a 27-year compound annual growth rate (CAGR) of 18%.

In February 2019 on rumors of a large acquisition, Danaher stock went from $98 to $135. Indeed, the company did make a large acquisition that month, purchasing the biopharma business of General Electric's Life Sciences division for $21.4 billion. GE Biopharma provides instruments, consumables, and software that support the research, development, and manufacturing of biopharmaceutical drugs. The purchase further expands Danaher's life science offerings. Since that deal, we have realized a gain of 78%.

AMETEK, Inc. (AME) | Ownership: 1%–7%
AMETEK is a global leader in electronic instruments and electromechanical devices. If you invested $100 in AMETEK ten years ago, it would be worth more than $450 today, which is a 10-year CAGR of 16%. In 2017, we realized a return on our investment (ROI) of 27%. When the stock pulled back, we purchased more shares. In 2019, we have realized a gain of 67%.

Roper Technologies, Inc. (ROP) | Ownership: 1%–7%
Roper Technologies, Inc. (ROP) is a diversified technology company that designs software, develops engineered products, and provides solutions in the healthcare, transportation, commercial construction, food, energy, water, education, and academic research markets. At the time we invested in it, the company boasted a 25-year CAGR of 21.5%. Since first purchasing shares in 2018, we have realized a gain of 36%.

Fiat Chrysler Automobiles N.V. (FCAU) | Ownership: 1%–13%
We also realized gains from our ownership of Fiat Chrysler Automobiles (FCA). In May, FCA sold its automotive parts business, Magneti Marelli, to the holding company of Calsonic Kansei Corporation, a leading Japanese automotive component supplier, for approximately €5.8 billion ($6.54 billion). According to FCA CEO Mike Manley, the sale "recognizes the full strategic value of Magneti Marelli, improving our financial position, delivering value to our shareholders, and allowing us to enhance our focus on our core product portfolio." Also in May, FCA executed a special dividend, paying shareholders a total of approximately €2 billion from the net proceeds of the sale—equivalent to $1.45 per share. This was considered a "special dividend" because it was paid separately from the company's typical dividend cycle.

Notable and Newsworthy

"How do you make money? Spinoffs, split-ups, liquidations, mergers and acquisitions."
–Mario Gabelli

Colfax Corporation (CFX) | Ownership: 1%–5%
In February of this year, Colfax completed its biggest deal ever: the purchase of orthopedic solutions leader DJO Global Inc., for $3.15 billion. Colfax bought the company to tap into the growing demand among aging baby boomers for medical devices such as knee and hip implants. The acquisition marks a significant improvement in Colfax's portfolio. Compared with its other brands, DJO's orthopedic

products provide a larger end market, higher margins, and lower cyclicality, all of which, in our eyes, boosts Colfax's intrinsic value.

Eagle Pharmaceuticals (EGRX) | Ownership: 1%–5%
In April of this year, Eagle announced that it was expanding its existing licensing agreement with Teva Pharmaceuticals for BENDEKA™ (bendamustine hydrochloride), an injectable drug used for treating patients with chronic lymphocytic leukemia or a certain type of non-Hodgkin lymphoma. This means Eagle will receive increasingly larger royalty payments from Teva for as long as the drug is sold in the U.S. Thanks to a decision issued by the FDA in February of this year, no other bendamustine product (including generics) can launch in the U.S. until December 2022. BENDEKA also has a strong patent portfolio that runs through 2033, which further increases the exclusivity of the drug.

New Purchases

"Skepticism and pessimism aren't synonymous. Skepticism calls for pessimism when optimism is excessive. But it also calls for optimism when pessimism is excessive."
–Howard Marks

Brookfield Asset Management Inc. (BAM) | Ownership: 1%–5%
Brookfield Asset Management is a leading global alternative asset manager and one of the largest investors in real assets. Their investment focus is on real estate, renewable power, infrastructure, and private equity assets. Over the last year, they raised $31 billion of capital across their business, deployed $30 billion of capital in high-quality investments globally, and realized $17 billion of proceeds from asset sales. As of 2019, they have 630 institutional investors. Brookfield aims to have 1,000 institutional investors by 2023.

On March 13, 2019, Brookfield purchased 62% of Oaktree Capital Group (OAK) for $4.8 billion. Founded by legendary value investor Howard Marks, Oaktree is a leader and pioneer in alternative asset management. They have $120 billion of assets under management and offices in 18 cities across 13 countries. The transaction enables Brookfield to broaden its product offering to include a premier credit platform, creating one of the most comprehensive offerings of alternative investment products for global investors. Together, the two companies will have $475 billion of assets under management and $2.5 billion annual fee-related revenues, making them one of the leading alternative asset managers. We expect to make Brookfield one of our foundational investments moving forward.

Alibaba Group Holding Limited (BABA) | Ownership: 1%–5%
Alibaba is a Chinese company that cannot be ignored. Alibaba's businesses are comprised of core commerce (Taobao, Tmall, 11main), cloud computing (Alibaba Cloud, Aliyun), digital media (Alimama), and entertainment (Sina Weibo, Youku Tudou), and innovation initiatives (China Smart Logistics). In addition, Ant Financial, an unconsolidated related party, provides payment and financial services to consumers and merchants on Alibaba's platforms. A digital economy has developed around the platforms and businesses essentially making Alibaba the Amazon, Google, Ebay, PayPal, Twitter, and Etsy of China.

Alibaba is reported to have 721 million mobile monthly active users, which means on a monthly basis, Alibaba has more active users than the total estimated population of the United States, Canada, Mexico, United Kingdom, Germany, France, and Belgium in total. Alibaba Cloud is the fourth largest cloud service in the world, with 76% year over year cloud computing revenue growth. 40% of China's Top 500 companies and nearly half of China's listed companies are reported to use Alibaba Cloud.

In the commerce segment, Taobao.com (in Chinese, *taobao* means "search for treasure") has grown to become China's largest shopping website and is ranked the ninth most popular website in the world by Alexa.com. Launched in 2003, Taobao lists hundreds of millions of products and services from millions of sellers. Taobao doesn't charge transaction fees, and the site is free to join for merchants, which has helped it gain an enormous user base in China. To further illustrate the size and success of Alibaba's shopping platforms, consider that on Singles Day—the equivalent of Black Friday and Cyber Monday in the U.S.—Alibaba's sales hit $1 billion in one minute and twenty-five seconds. In 24 hours, sales totaled $30.8 billion. Compare that to $24.9 billion, which was the total sales produced by the 870 Macy's department stores in 2018. It bears repeating: Alibaba is a company to watch.

JDP Bond Portfolio

The following table provides a brief summary of how the JDP Bond Portfolio has performed on average over the last three years:

JDP Bond Portfolio by Quarter*

2016	Yield**	2017	Yield**	2018	Yield**	2019	Yield**
Q1	6.5%	Q1	6.2%	Q1	7.1%	Q1	7.3%
Q2	6.1%	Q2	6.4%	Q2	7.3%	Q2	7.1%
Q3	5.9%	Q3	6.9%	Q3	7.8%		
Q4	6.0%	Q4	6.5%	Q4	7.4%		

*Monthly yield average **Does not include redemption

An Easy Step Toward Higher Returns

"Money makes money. And the money that money makes, makes money."
–Benjamin Franklin

Not only is having capital and knowing what to do with it of utmost importance to CEOs, it serves us investors well, too. We encourage our fellow investors to set up monthly contributions to ensure that cash is on hand when an opportunity arises. I'm happy to answer any questions you may have and put this simple tool to work for you.

At the Core of What We Do

"Friends are as companions on a journey, who ought to aid each other to persevere in the road to a happier life." –Pythagoras

We are fortunate to be able to serve you during those times when we like what the market is doing and also when we're waiting for the tide to turn. As always, we care about your wellbeing above all else. We're in this for the long haul, and we choose to put your interests before the firm's short-term financial gain. We believe this is the right way to do business, and it has served our business well.

Our investors are a special group. We continue to be very selective about who we add to our growing family because we only want to work with those whom we admire, respect, and love. Thank you for your trust. We will always work diligently to remain worthy of it.

Cordially,

Joseph Del Principe