



**Del Principe | O'Brien  
Financial Advisors LLC**

Dear Fellow Investors,

May 2017

In 2016, the JDP Equity Portfolio and JDP Bond Portfolio produced returns of 22.5% and 14.1%, respectively. As we reflect on the fiscal year, let us reiterate that D|O's investment philosophy has remained consistent over time. We believe our hallmarks—value, quality, and analyzability—create resiliency in our portfolios.

Our sole aim in crafting our investment portfolio is to maximize long-term investment returns. We employ a repeatable process for identifying undervalued investments, and we believe we have engineered our investment program to create the greatest likelihood of success. (Please note: Portfolio returns vary based on our clients' particular needs and contributions for reinvestment.)

**Our Philosophy**

*“Money managers must keep firmly in mind that the only things they really can control are their investment philosophy, investment process, and the nature of their client base. Controlling your process is absolutely crucial to long-term investment success in any market environment. James Montier recently pointed out that when athletes were asked what went through their minds just before competing in the Beijing Olympics, the consistent response was a focus on process, not outcome. The same ought to be true for investors.”*

– Seth Klarman

Our origins run deep into the tenets of value investing. We consider ourselves dyed-in-the-wool value investors. To us, losing money is nothing short of a catastrophe. To avoid such catastrophes, we demand a significant margin of safety, which means choosing value over price and concentrating your capital in only our best ideas.

## The Bird Dog and St. Peter

*“An oil prospector dies and goes to Heaven. He asks St. Peter to be admitted, but is told that there is no room because there are already too many oil prospectors in Heaven. ‘Do you mind if I say four words?’ he asks. ‘No harm in that,’ says St. Peter. The prospector cries out, ‘Oil discovered in Hell!’ With that, the resident prospectors stampede out the Heavenly gates, and St. Peter invites the new arrival to come on in. ‘No thanks,’ the prospector muses, ‘I think I’ll go along with the rest of the boys. There may be some truth to that rumor.’”*

– Warren Buffett

We also subscribe to the view that securities are minority interests in real businesses. We must think and act like business owners. We look for businesses that are simple and easy for us to understand, that have durable qualities of high value, and are run by competent and trustworthy managers. We view ourselves as business analysts, not traders or speculators. We do not concern ourselves with quarterly projections or short-term fluctuations in stock price. Those variables do not hold weight in our long-term thinking. In fact, we welcome such turbulence. As Ben Graham, one of our investment heroes, said so eloquently, “Investment is most intelligent when it is most businesslike.”

## Fundamentals

*“What is a cynic? A man who knows the price of everything and the value of nothing.”*

– Oscar Wilde

At the core of our philosophy is a focus on the underlying value of the companies we invest in. We think it is important for you to know why we own them and to know what the possible risks are. The following are brief sketches of a few of the companies in our portfolio—both contributors and detractors. Investing isn’t always going to be roses, but remember: the up and down is useful to us investors. We stand to gain in the long run if the underlying value of these companies is sound. (Please note: Ownership percentages vary based on our clients’ particular needs.)

## Transocean Ltd. (RIG) | Ownership: 3%–17%

“The Bird Dog and St. Peter” joke about speculation is what created the short-term fluctuation that allowed us to make an investment in Transocean Ltd. (RIG) last fall. The debentures that we purchased for \$69 are currently trading around \$99. Most people would be happy with a 43.5% return over a six-month period and move on. As much as we like Mr. Market agreeing with us in the short term, we should quickly point out that this investment

will feed the portfolio 13% for the next 24 years (2041). We believe this is an asymmetrical investment based on Margin of Safety while being a creditor. Transocean, together with its subsidiaries, provides offshore drilling services for oil and gas wells in deepwater environments worldwide.

### **Danaher Corporation (DHR) | Ownership 1%–7%**

Danaher Corporation (DHR) 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. They are able to do so thanks to the highly regarded Danaher Business System (DBS), which is based on the Japanese concept of Kaizen—continuous improvement. The Rales brothers, who founded Danaher (each own about 6% of the company), 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%.

### **AMETEK, Inc. (AME) | Ownership 1%–5%**

AMETEK (AME) is a global leader in electronic instruments and electromechanical devices, with more than 150 operating locations and a global network of sales, service, and support locations around the world. We believe in AMETEK's growth plan based on their four key strategies: Operational Excellence, Strategic Acquisitions, Global and Market Expansion, and New Products. They have publicly expressed their objective of double-digit percentage growth in earnings per share while providing exceptional Return on Invested Capital (ROIC). If you invested \$100 in AMETEK ten years ago, it would be worth more than \$450 today. That is a 10-year compound annual growth rate (CAGR) of 16% to shareholders. To put that into perspective, the same investment in the S&P would be valued around \$200. We believe AMETEK is trading at a substantial discount to their intrinsic value.

### **Eastman Chemical Company (EMN) | Ownership 1%–5%**

Eastman is a global specialty chemical company that produces a wide array of products found in items we use daily—everything from the film in your windshield and the screen on your e-reader to the coating on your aspirin tablet. With a portfolio of specialty businesses, Eastman is highly diversified in end markets such as transportation, construction, consumables, tobacco, industrial chemical processing, food, agriculture feed, and health and wellness. Eastman developed a proprietary technology called Forward Osmosis to create the HydroPack™, which “transforms any water source...into clean and nutrient-rich energy drinks.” During the 2010 Haiti earthquake, Eastman delivered 24,000 HydroPacks so children could fill them up with sewer water—the only available water source during the

disaster—and stay hydrated safely. The Kool-Aid flavored product saved thousands of lives in Haiti. We foresee this technology implemented at a much larger scale within our own municipalities. Eastman Chemical Company has had a 10-year average annualized Return on Equity of 22.6%.

### **Akorn, Inc. (AKRX) | Ownership 1%–6%**

Akorn, Inc. (AKRX) is a diversified leader in specialty pharmaceutical generics, with significant scale and breadth in alternative dosage form products. Through acquisitions the company has expanded multiple platforms for branded over-the-counter products and animal health. Shares of AKRX have shot up 74% over the last few weeks in response to the news that Fresenius Medical Care AG & Co. (FMS) may acquire the generic pharmaceutical company. Word of the possible acquisition also helped one of our largest holdings, Lannett Company, Inc. (LCI; ownership 1%–12%), rise 20% over the same period. We believe the prudent thing to do is take a substantial gain and see if Akorn actually gets bought out. If they do not, we believe the stock will tumble in the short term and allow us to purchase it at a substantial discount like we did previously.

### **JDP Bond Portfolio**

*“The essence of investment management is the management of risks,  
not the management of returns.”*

*– Benjamin Graham*

At the beginning of each month, we update our Bond Portfolio so current and future clients know what to expect.

#### **JDP Bond Portfolio by Month\***

Month (2017)	Yield**	Month (2016)	Yield	Month (2016)	Yield
March	6.3	December	6.1	June	6.1
February	6.2	November	5.9	May	6.2
January	6.0	October	5.9	April	6.1
		September	5.9	March	6.2
		August	5.9	February	6.5
		July	5.7	January	6.6

\*Yields are calculated monthly

\*\*Does not include redemption

*“Coming together is a beginning; keeping together is progress; working together is success.”*

*– Henry Ford*

We are now managing money for 31 of our friends, family members, estates, not-for-profits, charitable organizations, and business entities, including four new relationships we began during this quarter. We continue to be very selective with those we add to our growing family. Selfishly, we only want to work with like-minded people whom we admire, respect, and love.

If you are interested in discussing anything in this letter, or if you have specific questions about the JDP Bond Portfolio, please contact me. It’s my mission to ensure that you have all the information and insight you need to feel confident in how we are investing your hard-earned capital. I am grateful to have your trust and will always work diligently to remain worthy of it.

Cordially,

Joseph Del Principe