D|O

Del Principe | O'Brien
Financial Advisors LLC

Dear Fellow Investors, March 2018

In 2017, the JDP Equity Portfolio and JDP Bond Portfolio produced returns of 24% and 14.4%, respectively. As we reflect on the previous year—a very good year for many of our investments—let us reiterate that the philosophy of Del Principe|O'Brien has remained, and will remain, consistent over time. We believe that investing based on value, quality, and analyzability creates resiliency in our portfolios, and no matter how much success we see in a given year, we will continue to invest with these hallmarks to guide us.

As each of us considers our personal financial goals for the year ahead and as we prepare for tax season, let's remember how, with attention to the right details and a little perseverance, small gains can become big gains over time. (Please note: Portfolio returns vary based on our clients' particular needs and contributions for reinvestment.)

The Power of Compounding

"It is always startling to see how relatively small differences in rates add up to very significant sums over a period of years. That is why, even though we are shooting for more, we feel that a few percentage points advantage over the Dow is a very worthwhile achievement. It can mean a lot of dollars over a decade or two."

– Warren Buffett (Buffett Partnership Letter, 1962)

Take it from the Oracle of Omaha himself: there is power in compounding investment gains. A variation of just a few percentage points changes the success of an investment program significantly, and the effect is magnified over time. We could go on and on about why compounding matters, but these numbers are worth a thousand words:

Gains from $100,000 Compounded

	4%	*8%*	*12%*	*16%*
10 years	*$48,024*	*$115, 892*	*$210,584*	*$341,143*
20 years	*$119,111*	*$366,094*	*$864,627*	*$1,846,060*
30 years	*$224,337*	*$906,260*	*$2,895, 970*	*$8,484,940*

Quoted from Buffett Partnership Letter, 1963

There is no doubt that prudence and patience aren't glamorous, but thanks to compounding, they can pay off handsomely. As Irving Kahn not so gently but oh so wisely reminds us:

"You must have the discipline and temperament to resist your impulses. Human beings have precisely the wrong instincts when it comes to the markets. If you recognize this, you can resist the urge to buy into a rally and sell into a decline. It's also helpful to remember the power of compounding. You don't need to stretch for returns to grow your capital over the course of your life."

JDP Bond Portfolio

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

JDP Bond Portfolio by Quarter*

2016	Yield**	2017	Yield**
Q1	6.5%	Q1	6.2%
Q2	6.1%	Q2	6.4%
Q3	5.9%	Q3	6.9%
Q4	6.0%	Q4	6.5%

*Monthly yield average
**Does not include redemption

Stocks Closed Out in 2017

"The stock market is filled with individuals who know the price of everything, but the value of nothing."

– Phillip Fisher

The discipline of value investing lets us focus on the relationship between price and value. We seek bargains in businesses that are trading below their intrinsic value and sell when there is no longer a margin of safety. When selling a fully valued security, it is crucial to be prudent and only assign the proceeds based on the tenets of value investing.

Ferrari N.V. (RACE)
In 2014, the CEO of Fiat Chrysler (FCAU), Sergio Marchionne, presented his 5-year business plan, which included spinning off Ferrari in an Initial Public Offering (IPO) in 2016. This move would serve two very important functions: 1) It would help the debt burden of Fiat Chrysler; and 2) as a standalone brand, Ferrari would garner a much higher valuation. At that point, we saw our opportunity and decided to invest. When we closed out this year, we realized a 98% return on investment (ROI).

Akorn, Inc. (AKRX)
As we shared in our 2017 holiday mailing, it was a big year for the specialty pharmaceutical company and its shareholders. In April 2017, Akorn was bought by Fresenius Kabi for $4.3 billion. We closed our position a couple of months later, realizing a gain of more than 70%.

Baxter International Inc. (BAX)
We first heard about Baxter, a global manufacturer and supplier of healthcare products, in June of 2015 when Dan Loeb of Third Point Capital started purchasing shares. Immediately we began digging into Baxter's annual reports to learn more about the company. In October of 2015 we started to purchase shares; we felt the margin of safety was large enough and were further encouraged when Third Point Capital and others joined Baxter's board of directors.

Believing it was fully valued, we closed our position in Baxter in August of 2017. We hope someday the pendulum swings back the other way so we can purchase this great business once again. (History tells us that the pendulum usually reverts to the mean if we are patient.) This time around, our ROI was 49%, with an annualized return of 25%.

Yahoo! Inc. (YHOO)
In 2005, Yahoo was a thriving company that negotiated to buy a 40% stake in a then-private company called Alibaba for $1 billion. As of today, the market cap of now-public Alibaba Group Holding Limited (BABA) is north of $470 billion. Alibaba is basically the Amazon, Ebay, and PayPal of China. Knowing that Yahoo had this asset along with a stake in thriving Yahoo Japan, we felt that Yahoo as a company was incredibly undervalued and so acquired our ownership shares at a bargain price. We would like to think of this as a twenty-first century version of the classic Benjamin Graham "Net-Net" investment strategy. The difference is that this situation involved a large stake in a potentially trillion-dollar company.

Yahoo had the chance to become one of the largest and most successful companies in the world, but instead they sold off billions' worth of Alibaba and purchased other companies at bubble prices, squandering cash and opportunities along the way. We had to wait for a change in leadership but then realized a 54% ROI with an annualized return of 30%.

Profits in 2017

"Pigs get fat; hogs get slaughtered." – Unknown

While it's gratifying to see a good return on a particular investment, it is worth reminding ourselves what got us there: sticking to the bedrock principles of value investing and exercising discipline even—especially—when times are good.

Fiat Chrysler Automobiles N.V. (FCAU) | Ownership: 1%–13%
As we have mentioned, Fiat's CEO, Sergio Marchionne, has proven to be one of the premier leaders in the automotive industry. Over the last 18 years, Mr. Marchionne has compounded shareholders' capital at 21% annualized. In 1996, if you invested $1 when Marchionne became CEO of Alusuisse, it would be $32 today. With the appreciation of Fiat Chrysler and partial ownership of Ferrari, that number is even larger. We have realized returns well over 120% after selling approximately 40% of our ownership.

Qualcomm, Inc. (QCOM) | Ownership: 2%–13%
Knowing that Qualcomm was considerably undervalued in the low $50s, we bought every share we could get our hands on. Since then, Qualcomm has been aggressively pursued as a takeover by Broadcom, which has elevated Qualcomm stock to around $70. Our ROI has been 37.73%.

Phillips 66 (PSX) | Ownership: 2%–7%
We have realized an ROI of 24.50% from this energy company in a relatively short amount of time. Furthermore, PSX has shown us that we are on the right track with our D|O value investing strategy: Berkshire Hathaway also decided to buy PSX—to the tune of 2,000,000 shares—just two weeks before we invested. There are thousands of other companies Warren Buffett's firm could have chosen to invest in, but like us, they recognized the value (and potential) of PSX in particular.

AMETEK, Inc. (AME) | Ownership: 2%–7%
AMETEK is a global leader in electronic instruments and electromechanical devices that we believed was trading at a substantial discount to their intrinsic value. If you invested $100 in AMETEK ten years ago, it would be worth more than $450 today, which is a 10-year compound annual growth rate (CAGR) of 16% to shareholders. In 2017, we realized an ROI of 27.09%.

Lannett Company INC. (LCI) | Ownership: 2%–13%
Lannett Company Inc. develops, manufactures, and distributes generic pharmaceutical products for a wide range of medical conditions. In late 2015, LCI purchased Kremers Urban, which has allowed it to penetrate the niche specialty drug development market. We have managed to realize an ROI of 36%, but currently the stock has drawn back in price for no intrinsic reason. As it falls out of favor with the investment mandates of certain firms and drops further, we are hoping to gobble up more shares.

Fundamentals

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 be aware of what the possible risks are. The following are brief sketches of a few of the companies in our portfolio. 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.)

New Purchases

The Middleby Corporation (MIDD) | Ownership 1%–7%
The Middleby Corporation (MIDD) designs, manufactures, markets and services the restaurant, food processing, and residential kitchen industry around the world. Through organic growth and acquisitions Middleby has more than 50 brands among the business segments, including a growing pipeline of equipment sales in commercial food service.

In 2004, Middleby had $17 million in free cash flow and in 2017, $275 million, plus a return on equity greater than 20% over the last ten years. We have wanted to get into Middleby for some time, but we didn't want to chase those gains. We were hoping for an earnings disappointment so the emotional short-term investors would run for the hills. Looking at the chart analysis we knew there were good odds that we could get in around $111 per share. Since purchasing Middleby at a discount to its intrinsic value in November 2017, the company is up over 23% in the last 3 months.

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 for niche end markets such as healthcare, transportation, commercial construction, food, energy, water, education and academic research.

If you invested $100 at the IPO of Roper Technologies in 1992, it would be worth more than $13,000 today. That is a 25-year compound annual growth rate (CAGR) of 21.5%. To put that into perspective, the same investment of $100 in the S&P would be valued around $1,088 today. Roper is part of a small group within the S&P 500 to increase their dividend for a 25th consecutive year.

Says CEO Brian Jellison, "At Roper, our proven strategy is to buy great businesses and give them a permanent home with opportunities and tools to accelerate growth under our governance system. Each business has a separately-managed profit and loss statement and balance sheet, which fosters a high level of accountability. We emphasize financial ratio discipline to facilitate understanding and focus our businesses on continuous improvement."

On Deck

In addition to our new purchases, we have a healthy list of companies that we consider "on deck." These are great organizations that are valued fairly by the market at the moment. As volatility creeps in, we will follow our investing principles and purchase these businesses at a margin of safety well below their intrinsic value.

"For all my emphasis on the virtues of patience in value investment, it has to go hand in hand with minute attention to the detail, with conviction and determination, otherwise patience is just futile endurance."
– Peter Cundill

We are honored to be managing money for friends, family members, estates, not-for-profits, charitable organizations, and business entities. 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.

As always, we want to serve you in the way that best suits you and your needs. Please contact us if you would like more information about anything in this letter or want to discuss any aspect of D|O's value investing strategy. I am grateful to have your trust and will always work diligently to remain worthy of it.

Cordially,

Joseph Del Principe