MJB ASSET MANAGEMENT

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Richard Bregman, *Chief Executive Officer*

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Dear Clients and Friends:

I hope that you are all well and enjoying the transition into the fall season, whether that brings you multi-colored leaves or somewhat cooler beach weather!

After a solid first half of the year, our portfolios gave back some ground during the summer months. We know from experience that our portfolios are occasionally out of sync with gains in the popular market indices. The past three-month period has been one of those times. I'd like to share with you the factors that have impacted our returns as we enter the fourth quarter.

1. **Narrow market: large U.S. stocks are doing well; the rest of the market not nearly as well.** As of this writing, the S&P 500 index of large U.S. stocks is up 9% this year. By contrast, the MSCI EAFE Index of non-U.S. stocks is up only 0.1% for the same period and the Russell 2000 index of small stocks is *down* 2.9%. The differences are even more pronounced for the third quarter.[1] We continue to see the merits of diversification – meaning we invest beyond just buying large U.S. stocks – and are confident such diversification will serve us well down the road. Two features of our approach to diversification that are currently out of sync with the S&P 500 are:

    - *Global Approach* — Our positions in large U.S. stock funds are doing very well; our positions in other areas of the market, particularly non-U.S. stocks, are doing less well. Given our global focus, it is not surprising that at times we do not keep pace with the S&P 500. Further, the recent performance differential between large U.S. stocks and the rest of the markets offers abundant opportunities to find comparatively inexpensive stocks that sow seeds for future gains. We remain confident in those opportunities and are maintaining our positions in funds that invest in those markets.

    - *Hedging Strategies* — Our hedging strategies offer protection in down markets yet present a tradeoff when the costs of hedging place a drag on performance in bull markets. Hedging strategies are insurance policies against market downturns; they typically use options, futures or so-called "short sales" to limit volatility or make gains when markets decline.

[1] For the third quarter, the S&P is up 1.6% while the EAFE is *down* 4.5% and the Russell 2000 is *down* 6%.

However, we are now in the fifth year of a largely uninterrupted bull market. In effect, we have been paying for flood insurance and there has been no flood (yet). Nevertheless, markets remain unpredictable and we remain committed to protecting our gains should a severe and/or sustained downturn arrive.

2. **Fund-specific performance.** We have a high degree of confidence in our research and fund selection process. On occasion a fund does not work out as expected. It is rare that three different funds in our portfolios underperform simultaneously. Yet that is exactly what happened in the third quarter:

    - *The Marketfield Fund* — Structural changes have affected the way its managers invest. Though Marketfield has added significant gains to our clients' portfolios since 2008, the fund is down 6% year-to-date and has shaved approximately 1% off of our portfolio performance this year. The downturn came after Marketfield's managers sold the fund to a large insurance company, New York Life. After the sale, New York Life made Marketfield—which previously had a high minimum investment and was only available to clients of independent investment advisors—widely available through its own network of brokers and insurance salespeople. The result: Marketfield ballooned from roughly $4 billion in net assets before the sale to $20 billion within a few months after the sale. We believe the asset bloat is limiting the ways in which fund managers Michael Aronstein and Michael Shaoul are able to execute their ideas. As such, we are exiting our position in Marketfield.

    - *Third Avenue Focused Credit* — The fund is having a fine year but a very rough third quarter. Third Avenue buys distressed bonds[2] at a steep discount and holds them to maturity. In early September, one of the fund's holdings – Altegrity – unexpectedly lost a government contract that provided a large part of that company's revenues. Fearing a default, many investors sold: Altegrity's bonds dropped in value by approximately 50% and Third Avenue's net asset value dropped by almost 2% the same day, contributing to the fund's 5% decline in the third quarter. We have spoken with fund manager Tom LaPointe, who has advised us that Altegrity is a one-off situation; he anticipates making money on the position after the market realizes that Altegrity will be able to make its interest payments on the bonds. We remain confident in Third Avenue Focused Credit and are maintaining our position in the fund.

    - *Evermore Global Value Fund* — This global fund's European exposure was a drag on performance this quarter. We have spoken with fund manager David Marcus and are confident that the ingredients that have marked his longer term success are still in place: intense research leading to a concentrated, global portfolio of special situations not well understood by the market and trading at substantial discounts. Marcus has found numerous such values in Europe. His style of investing periodically takes his returns out of sync with the markets (the fund is down 5% in the third quarter); we believe the current returns are consistent with Marcus' strategy and are maintaining our position in Evermore.

[2] Distressed bonds are bonds originally issued by healthy companies that have run into financial trouble, thus creating the opportunity for Third Avenue.

We have always invested side-by-side with all of our clients in the same funds and we too experience the ups and downs. We also maintain the exact same investment philosophy for our personal portfolios: seek value, protect against the downside and remain consistent through various market cycles.

Thank you for investing with MJB Asset Management. My door is always open if you would like to discuss your portfolio or any other matter and I look forward to hearing from you.

Sincerely,

Richard Bregman