

October 20, 2017

Dear Friends,

In the third quarter, our Small-Cap Dividend portfolio composite increased 4.2% (net of fees) versus 5.7% for the Russell 2000; year-to-date our composite is now up 10.5% (net of fees) versus 10.9% for the Russell 2000. Given that the average small-cap stock in our portfolio has a beta of 0.77 relative to that of the Russell 2000, we are particularly pleased with our results.

Back in August, for example, when the Russell 2000 declined by 1.3% and our portfolio only declined by 0.1%, we reaped some of the benefits of having a relatively lower volatility portfolio. As the mission of our Small-Cap Dividend portfolio is to help investors benefit from the higher organic growth of small companies with less volatility than the Russell 2000 index, we are off to a good start.

Currently, our small-cap portfolio is composed of three types of investments: small companies that pay dividends, healthcare companies that *could* pay dividends (i.e. they generate free cash flow), and special situations (mostly spinoffs). We select from a broad array of companies that have these characteristics in order to create a broadly diversified portfolio – currently 83 names - with sector weightings very close to those of the Russell 2000. By organizing the portfolio this way, we can purchase strong, growing companies with solid balance sheets while avoiding investing in the unprofitable companies that comprise one third of the index.

Typically, we increase our positions as our thesis proves itself out. Take Medifast, for example. Medifast had a very profitable business selling weight loss products in the U.S. as a multi-level marketer, but it hadn't had much growth over the past five years. That said, it had many of the ingredients of a great turnaround: a balance sheet with a large cash position, a new CEO brought in from a larger competitor and a good product that was on trend with global concerns of health and wellness. We were optimistic about our initial 1.0 percent position in the stock, but wanted further validation of our thesis before increasing our investment.

We bought the stock in June and then, in August, saw that the new C.E.O.'s strategy was taking hold. Their product, rebranded as OPTAVIA, was resonating with today's consumer who is more interested in fitness than pure weight loss. The number of sales representatives was increasing. Sales per sales rep were increasing as well. We felt this evidence de-risked our thesis and so added to our holdings, even though Medifast's stock price in August was higher than our initial entry price. For the third quarter, Medifast was our number one performing stock.

Our worst performing stock for the quarter was mining company Tahoe Resources, an investment that highlights the importance of diversification in a small-cap portfolio. Tahoe operated two mines, but then, in July, the license to operate one of them was unexpectedly suspended by the Guatemalan Supreme Court. As a result of the uncertainty created by this decision, Tahoe's market value decreased substantially. Given that Tahoe's story had changed substantially, we took our losses and moved on.

Small-cap companies are by their nature not as diversified as blue-chip companies. As such, a single event can have an outsized impact on a company's share price, both for good and bad. Studies show that having a dividend can reduce the odds of a company's substantial decline, which is why we tend to favor dividend-paying companies and believe that this type of drawdown should impact our portfolio less frequently than it impacts our benchmark.

Below is a table of our five best and worst performing positions for the 3rd quarter.

3Q17 Performance of Top 5 Contributors

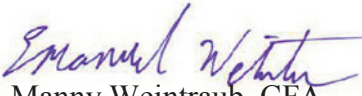
Company	Ticker	% Change
Medifast, Inc.	MED	43.2%
Brooks Automation, Inc.	BRKS	40.0%
Lithia Motors	LAD	27.7%
Korn/Ferry International	KFY	14.2%
Travelport Worldwide, Ltd.	TVPT	14.1%

3Q17 Performance of Top 5 Detractors

Company	Ticker	% Change
Tahoe Resources, Inc.	TAHO	-38.9%
Patterson Companies, Inc.	PDCO	-17.7%
Hostess Brands, Inc.	TWNC	-15.2%
Premier Inc.	PINC	-9.5%
Care Capital Properties	CCP	-7.7%

We believe that now is a great time to be investing in small-caps with the extra margin of safety that a dividend can provide.

With all best wishes for a wonderful autumn,


Manny Weintraub, CFA
Founder and Principal