



Over the past five years investors have benefitted from strong capital markets, both in the U.S. and abroad. Despite the volatility and continued troubling news from various parts of the world, Americans have been fortunate. The U.S. economy continues to recover and while there are pockets of structural unemployment, the unemployment rate has recovered also. During this period, the investment performance of the Ashdon Select Equity portfolios was strong, but lagged the S&P 500 index. Performance reports alone do not tell the story of a portfolio actively managed for long term growth with low risk of loss. We would like to share some of our thoughts on performance with our investors.

Actively managed funds have lagged market benchmarks for several years since the end of the financial crisis. There are a few causes for the underperformance against the benchmark, one being the character of the stock market itself. We think it will be helpful for you to understand three things about your portfolio returns: the sale of the Marketfield fund, the returns from domestic (US funds), and the returns from the international funds.

The Marketfield Fund (MFLDX): The Marketfield fund is a long/short hedged stock fund. We invested in the fund to help protect your portfolio in the case of a volatile stock market. The fund managers changed their investment strategy at the beginning of 2014. Unfortunately, they were wrong, resulting in lost value. This was unacceptable, and we sold this fund in November. Through 2014 we were in constant contact with the managers through e-mail exchanges and phone calls. They were insistent in sticking to their thesis until October when they made a significant portfolio adjustment. These changes were made during the worst of the October correction, so execution was poor. Most importantly, the portfolio changes by the fund manager did not reflect a recognition of their wrong positioning. They remained stubborn. For a strategy like this, it is unacceptable that the managers are so committed to their positions that they will accept losses.

For investor portfolios that held the fund for several years, the investment has resulted in an attractive net gain. For investors that entered more recently, the position generated a net loss. Ashdon Select Equity portfolios that previously held the Marketfield fund now have higher than normal cash levels as a result of the liquidation. Based on our current outlook, we believe the higher cash allocation is timely and we will hold this cash until we judge that the market valuation is appropriate to purchase new positions.

Domestic Managers: US funds have lagged the benchmarks over the past 12 months; this lag is typical for funds during periods where markets become untethered from fundamentals. In spite of the lag, portfolio returns are attractive in spite of the relative underperformance.

The EIC Value Fund (**EICVX**) and Crawford Dividend Growth Fund (**CDGIX**) are performing as we expect. Performance lags continue to be driven by higher than normal cash levels (EICVX in particular) as these managers find themselves selling positions that are well priced, but not finding companies to buy – at the right price. We fully support this kind of investing discipline.

The Destra Focused Fund (**DFOAX**): The Destra fund, a macro + fundamental strategy, is the largest allocation in the portfolio. The fund manager makes a macro call and then buys the best companies consistent with this call. His portfolio is concentrated in 20 stocks. We met the manager in August and came away from the meeting confident in the position and the management quality. This manager's macro call has been right on – for a couple of decades now. The portfolio value rebounded substantially over the last half of the year, outperforming the index. This kind of “lumpy” investment return is typical for many active managers.

International Funds: The Ashdon Select Equity portfolios include investments with three international managers. The Dreyfus International Fund (**DISRX**) and the Longleaf International Fund (**LLINX**) invest in large companies that operate outside the US. Your portfolio will hold either DISRX or LLINX. The Oakmark Small Cap International Fund (**OAKEX**) invests in smaller foreign companies. These international holdings weakened through the year and closed the year with a loss. In our view, there are fundamental differences between these managers and MFLDX, allowing us to remain committed to these portfolio investments. First, these managers invest in foreign companies based on fundamental analysis. There is no speculation. Quarter-to-quarter or even year-to-year price fluctuations do not impact their view. Second, we understand that these foreign holdings can have higher volatility than domestic holdings, so we have a smaller weight to them in the portfolio (about 12% for DISRX/LLINX and about 3% for OAKEX). Third, while the recent weakness in foreign markets has several causes, one of the primary causes has been the strength of the US dollar compared to other currencies all around the world. That is, the investment return you see is largely impacted by currency changes, not company fundamentals. In local currency terms, this effect would add an estimated 20% to the performance (based on the move in the dollar index). Currency effects are expected to be negligible over time for a long term investor.

To abate these risks we are not currently adding to our positions in OAKEX based on our expectation that smaller capitalization stocks may be weak for a period. We are opportunistically adding to DISRX and LLINX. Both fund managers deal in large cap companies traded on foreign exchanges, but profit from global operations. Current market volatility is creating opportunity for these managers. (DISRX is also closed to new investors. We feel fortunate to be invested.)

Over time, we expect investment returns to get back on track with long term performance goals (8% to 10% annually over long periods) if we stick to our investment discipline. Investment returns are likely to be “lumpy” as exemplified by the Destra fund at the end of the year. Terminating MFLDX will help, but patience with value release is the tried and true prescription.

Please don't hesitate to ask any questions you have.

Sincerely,



David