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To the clients and friends of The London Company:

I shall be telling this with a sigh Somewhere ages and ages hence: Two roads diverged in a wood, and I--I took the one less traveled by, And that has made all the difference.

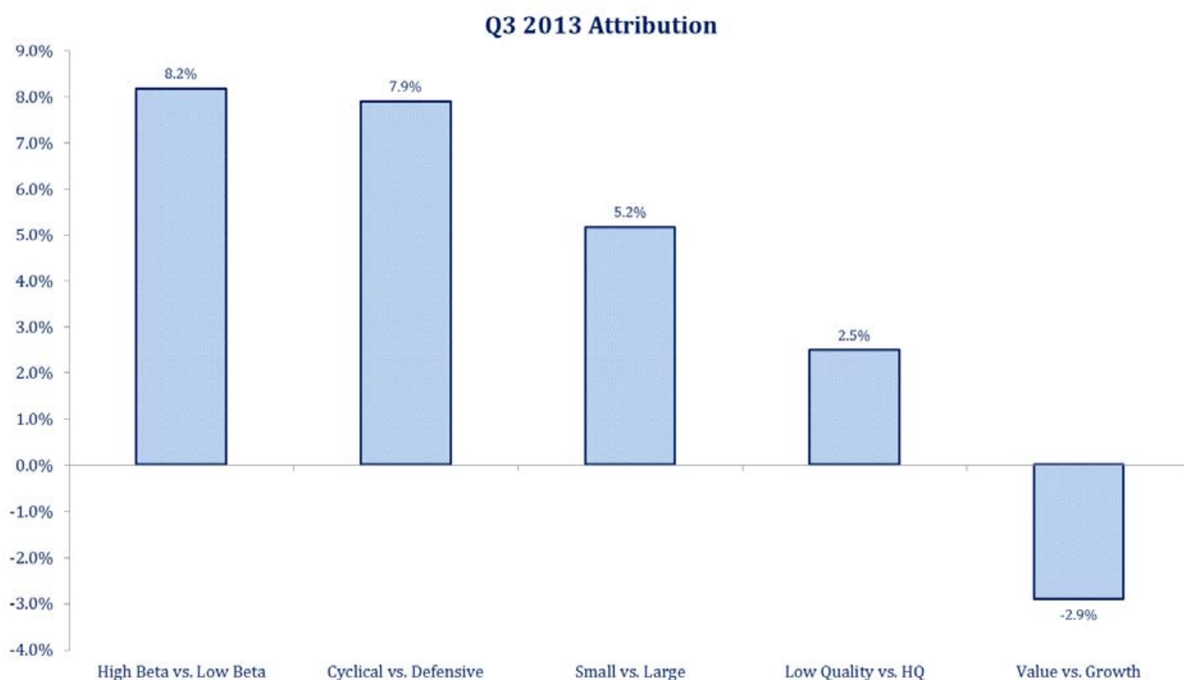
Poet Robert Frost penned these immortal words nearly a century ago, but investors in future years may look back and wonder with a sigh whether or not Chairman Ben Bernanke may have been a bit "Frost-bitten" at the September 2013 FOMC Meeting. After first leaning market expectations in June toward a likely policy path of "tapering" the Fed's quantitative easing program, thereby igniting a widely celebrated "taper-tantrum" in the fixed income, commodities and emerging markets, Bernanke again jolted followers and conventional wisdom with the September decision NOT to initiate tapering. Faced with a policy fork in the road, the Fed chose the road less traveled within the capital markets. That decision will surely make a huge difference in how the markets evolve from here, cognizant that at some point the Fed will have to devise an exit strategy from quantitative easing.

Last quarter, we wrote about being encouraged by improving economic data, growing consumer confidence, and a relative downshift in some of the macro uncertainties around the globe. These elements certainly have contributed to sustaining the long advance enjoyed within the US stock market, which now has entered its fifth year. However, the liquidity provided by the Fed might be the one high-octane ingredient that had the most effect, propelling the domestic equity markets to all-time highs. By enforcing a zero interest rate policy (ZIRP), the Fed has engendered an incredibly favorable environment for equities and other financial assets, while buying time for the sluggish economic recovery to unfold. With ZIRP as the market compass, bond yields fell to unprecedented levels, as the 10 year US Treasury touched a 1.63% yield in early May, just before the Fed unleashed its taper talk. The implications of tapering instantly reset investor expectations about bonds versus stocks, with the 10 year Treasury yield rocketing 82% higher to a peak of 2.97% on September 10th, just before the Fed meeting.

Meanwhile, equities shrugged off reactionary weakness and resumed the climb into uncharted territory throughout the summer months, with the S&P500 and Russell 2000 both touching record highs on September 19th, the day following the FOMC decision. Thus far, 2013 has been a very strong year for equities, with the S&P500 and Russell 2000 indexes gaining 5.2% and 10.2% for the third quarter and 19.8% and 27.7% for the first nine

months respectively.* Within the equity markets, there also has been a fork in the road, with higher quality, more defensive, yield-oriented issues leading the charge early in the year before ceding leadership to lower quality, more cyclical and more growth-oriented issues to blaze the trail forward. This shift coincided with the Fed's shift in forward policy guidance in June, completely changing the environment within the markets.

While the overall market backdrop was favorable during the latest quarter, the performance drivers were highly unfavorable to our portfolios. We generally do not expect to capture all of the upside in such robust return periods, since our primary objective is downside protection. True to form, we did not keep pace with our benchmarks in any of our strategies, with the margin of underperformance widening as we moved down the market capitalization scale. With smaller capitalization companies broadly out-performing larger ones in the benchmarks, and our portfolios having increasingly larger market capitalizations relative to our benchmarks going from large cap to small cap, this performance pattern was an unsurprising outcome. In examining various performance drivers, it is quickly apparent that the attributes that we favor in our holdings were out of favor with the market in the quarter. The following chart clearly and succinctly highlights this point:



Source: Strategas

Within the S&P500, the leading sectors reflected a cyclical bent, with materials, industrials, consumer discretionary and information technology all up roughly 2x the index, while the telecommunications, utilities, staples, and healthcare sectors all lost ground or were up less than half the index. For our larger cap portfolios, being underweight industrials and overweight staples did limit our performance. Additionally, our technology positions lagged the overall sector. Meanwhile, the smaller cap Russell 2000 was paced more by growth and cyclical influences, with healthcare, technology, industrials, and staples all supplying double-digit returns. While we enjoyed strong performance from staples, our

underweighting in technology and healthcare, along with a few stock specific factors in financials accounted for the shortfall. As always, we remind our investors not to read too much into any one quarter, as we construct our portfolios on a bottom up basis, aiming to provide superior risk adjusted returns over the market cycle, and expect a very different pattern of return than the market.

Looking ahead, there are a number of challenging issues facing equity investors. The Fed's decision not to initiate tapering benefitted financial assets short term, but opened the door to fresh questions as to why policy abruptly was reversed. Running a misdirection play in football can be an effective way to catch an opponent off guard, but seems a far less logical call when quarterbacking market expectations about the forward growth and inflation rates of the US economy. The tapering reversal injected more uncertainty about Fed credibility and direction in future policy actions, particularly given economic data has been picking up and consumer/business/investor confidence all have been on the upswing. The unwelcome return of political impasse in Washington, and the prospect of contentious battles over the budget, debt ceiling, Obamacare, defense, and other impactful issues, could derail the markets and the economy. Navigating a successful geo-political course in dealing with global hotspots Syria and Iran will require a show of diplomatic flair and finesse that could prove daunting. Given all that and outsized year to date equity returns, where does the market go from here?

For those looking to us for clues, regrettably we can offer little predictive insight in answering that question. Our time-proven investment approach that has added value remains centered upon focusing our time and resources protecting downside at the company level, and not trying to interpret and divine dynamic, complex macro events. While we admire Robert Frost, we are long term investors and not poets, and certainly not prophets either. We do share his belief in taking the less traveled path in how we manage money, for being different has made all the difference in how we have built our long term record. We prefer to measure the opportunities available in equities where strong balance sheets, high free cash-flows, and prudent capital allocation decisions can unlock value over time. While interest rates have backed up from unsustainably low absolute levels, the gap between the costs of debt versus the cost of equity remains historically wide and in our favor. We like many of the ingredients of today's market, and see plenty of room for corporate managements to return more capital to shareholders via growing dividends, share repurchases, or through other strategic actions. Increasingly, management hesitancy to act is provoking bolder actions by activist shareholders eager to seize a corporation's capital allocation agenda. Activism is on the rise across the entire market capitalization spectrum, wherein even behemoths like Microsoft and Apple find themselves under attack to return more capital to shareholders. We would expect that positive corporate fundamentals, more limited organic growth opportunities, and a rising tide of shareholder pressure collectively should result in an acceleration of merger and acquisition activity over time. For a patient investor, this path stretches ahead as far as the eye can see and further bolsters our confidence.

Thank you again for your trust and support, and please feel free to contact us with any questions or concerns.

Best regards,

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