Dear Friends and Clients,

The first-quarter of 2019 started out strong, as stocks raced out of the gate and shrugged off year-end 2018 fears to advance by double digit percentages. The Russell 2500 Value index (small/mid-cap) increased by 13.11%, the Russel 2000 Value index (small-cap) increased 11.92% and the S&P 500 increased by 13.65%.[1] As we discussed in our 4th quarter letter, we did not believe the year end equity sell-off had any fundamental basis. This presented an excellent buying opportunity that we took advantage of and we ended 4Q18 nearly fully invested, which led to strong performance for RAM portfolios.

Investor risk appetite was spurred by the unexpected easing stance of the U.S. Federal Reserve in late March. The Fed's announcement of no 2019 rate hikes and to cease the reinvestment of maturing bond coupons represented almost a complete policy reversal from a year-ago. Global economic slowdown fears and geopolitical uncertainty in the European union (especially the U.K. and Turkey) likely also led investors to seek safety in U.S. treasuries, regardless of yield. These combined factors drove the yield on the 10-year treasury note down to a low of 2.33% on March 28th, versus a November 2018 level of almost 3.25%.[2] This yield decline, in our opinion, renewed the "risk-on" quantitative buying of high PE (price/earnings ratio) companies, due to lower financing costs and higher values calculated when using a discounted cash flow approach.

The significant fall in the 10-year Treasury yield caused a slight inversion in the 3-month bill vs. the 10-year treasury note in late March. This spread moved to a very skinny positive one basis point by quarter end. An inversion of this curve has historically been a pre-cursor of every recent U.S. recession, with only one false positive. However, as much as we are usually skeptics of the phrase "its different this time", we think this may be a false signal due to the fact that the inversion was caused by Fed moral suasion and a global flight to safety, which pushed the 10-year yield lower while short rates remained relatively flat. Thus, the inversion was not caused by spiking short-term inflation and Fed rate hikes, which in our opinion would be a more worrisome sign for future growth. U.S. GDP remains strong, unemployment is low and falling and inflation is tame. Further, as we have seen from recent earnings results, conference presentations and our conversations, our portfolio company management teams remain upbeat, see strengthening in their served markets, and are not battening down the hatches for a recession.

What is not different this time is our long-term view and our investment philosophy of i) a strong financial position, ii) the ability to grow and iii) a significant discount to our assessed fair value (AFV). We remain focused on identifying what a company's stock price is worth over the next three to five years, and have seen that most of the time this AFV price has no relation to the current market price. As

witnessed over the last year, investor sentiment can, and usually will change dramatically over short periods of time. Whip-lash moves in sentiment do not alter our view of what our portfolio companies are actually worth. Rather, the dramatic price swings that are caused by these spastic shifts in sentiment often offer an excellent opportunity to purchase securities that have become deeply discounted or to sell securities where price expectations have become overly aggressive.

Portfolio Highlights

At the end of March, we held 21 positions in our model portfolio and were 93% invested.[3] The average price earnings ratio of the owned companies in the portfolio is compellingly low in our opinion, 11.1x based off Bloomberg estimates.[4] Moreover, 10 portfolio holdings trade under 1.05x book value, despite what we see as a visible path for these companies to grow earnings and cash flow over our investment horizon.[5]

Our top performing positions in the quarter were Hain Celestial Group and Trinet Group. Hain recovered nicely from a weak 4Q18, as the investment community embraced the turnaround plan presented by new CEO Mark Schiller at their February Investor Day meeting. Trinet outperformed driven by its strong 4Q18 earnings and an upbeat outlook for 2019 driven by cost controls and healthy margin expansion. Independence Contract Drilling (ICD) was our worst performer in the quarter, likely driven by investor fears about oil prices and potential spending cuts to the service provider group in general. We remain upbeat on ICD noting that its state of the art shale drilling rig fleet remains fully utilized. Additionally, now that the Sidewinder merger is complete, ICD has a clear path to growth with high return rig upgrades, a strategy supported by MSD Capital, a 30% owner of the company.

Activists find us

We see activism and resource conversion, the monetization of hidden or undervalued assets, as a welcome additive to our investment cases. However, we will not purchase a company for the hope of activism, spin-off, sale, etc. alone. If this possibility exists in addition to the three tenants of our investment philosophy, it can represent a visible catalyst to increase value. While we will not chase activist or resource conversion announcements, quite often, activists find us, i.e. activists announce holdings in our owned positions. This quarter, we had two such events, as Engaged Capital dramatically increased its holding in Hain Celestial Group, to a 16.19% position on March 7, 2019[6]. Engaged is seeking an aggressive repositioning of the company's brands to focus resources on the top growth opportunities and to end support for smaller money losing tertiary brands. Separately, on March 28, Sachem Head Capital announced an initial position in Eagle Materials of 8.9%.[7] Sachem is seeking a sale of Eagle's fracing sand business. We think this strategy makes sense, and note that we valued this

division at zero in our investment case, as Eagle in our opinion is dramatically undervalued on the basis of its core cement and wall board divisions alone.

Carrizo Oil and Gas

We have followed the energy exploration and production (E&P) industry since 1995 and understand that the essential factor in successful companies is possessing prolific and low-cost oil deposits, what we refer to as "good rocks". Carrizo Oil and Gas (CRZO) is a shale driller focused on what we see as the two highest quality resource basins in the country, the Texas Permian and Eagle Ford. Carrizo meets our mandatory hurdles of financial strength and visible growth, and due to investor neglect we see the shares as extremely undervalued.

Over the course of 2017 and 2018, Carrizo sold its non-core holdings in the Utica, Marcellus and DJ basins to focus exclusively on the Permian and Eagle Ford. This divestiture activity and a more focused capital expenditure plan targeted for 2019 have greatly improved Carrizo's financial strength. Carrizo should begin to produce consistent positive free cash flow beginning in 3Q19, which should continue to improve the balance sheet. Debt to EBITDA is targeted to fall below 2x in 2019. Although Carrizo has no debt maturities due before 2022, it has pledged to utilize excess cash flow produced by higher oil prices to further reduce leverage[8].

The high quality of Carrizo's acreage positions in the Eagle Ford and the Permian should allow it to significantly grow its production, targeted at 10%+ for 2019, at very attractive returns. CRZO's Eagle Ford wells are estimated to produce an internal rate of return (IRR) of 79% at $55 per barrel, while having a low-cost break-even point of $32 per barrel.[9] The Eagle Ford benefits from its South Texas exposure, which allows for the sale of oil at a Gulf Coast 'sea-borne' price, which has averaged $5-$9 per barrel over the more land locked West Texas Intermediate (WTI) benchmark since January 2018.[10]

Carrizo's core Woodford Permian acreage is estimated to produce an IRR of 50%-95% at $55 oil, and break-even at a price of $26.50-$31.50 per barrel, depending on the drilling depth. The Permian benefits from multiple stacked layers of oil, akin the icing in a 7-layer cake. These stacked layers allow for top-tier economics due to the efficiencies of shared surface equipment[11].

We believe a misunderstanding of shale production has caused significant investor neglect and undervaluation in Carrizo's shares. The greatest benefit of shale production is that exploration risk is eliminated, as the layers of oil bearing rock are evident. Thus, the focus with shale is production efficiency, much like any manufacturing and production operation. Currently, investors are obsessed with the fear that the horizontal wells will interact with one another to reduce economics. This interaction is a fact, but is not new. What Carrizo and other producers must do is place initial test wells

closer and closer together, in order to determine the optimal spacing distance for development that maximizes production against any interaction drain. Investors have focused on a few recent test wells, instead of the full field production plans of Carrizo, which we referenced above. Further, over our years we have seen the truth in the saying "big fields get bigger" as technology advances continue to improve production methods and returns, amplifying why the possession of high quality reserves is a strategic benefit.

From a valuation perspective, Carrizo is compelling. Shares closed the quarter at $12.47, vs. its 52-week high of $31.57 in July 2018[12]. Carrizo estimated its PV10 reserve value, a measure of the discounted future value of all proved reserves, at an enterprise value of $3.0 billion using $55 per barrel oil, or $12.18 per share. The company's leverage to higher oil prices is seen in its 2018 year-end PV10 at $65 oil of $4.1 billion, or $24.09 per share.[13] Importantly, neither of these measures include over 700 drilling locations with a high likelihood of success, as they are not counted as proved reserves yet. Nor does this estimate fully account for the likely upside from Carrizo's more exploratory acreage, the full value of its mid-stream gathering and water disposal assets, nor the likely future benefit of technology developments that help big fields get bigger. We have set our AFV for Carrizo at just under 5x our 2020 estimate of EBITDA, or $22 per share, 76% up from current levels.[14] We see potential for upside from this target, as Carrizo could become a target for a larger E&P company looking for more acreage in these basins, including the energy bemouth, Exxon, which called out the Permian basin as a top priority at its March 6, 2019 investor day.

Kansas City Life Insurance

For value investors, boring and unknown can be exciting and we believe Kansas City Life Insurance Company (KCLI) is a great example. Founded in 1895, KCLI is a Missouri domiciled company that sells individual and group life, annuities and health insurance in 49-states. KCLI is relatively unknown due to the fact that although it is a $373 million market cap company, it floats only around 25% of 10.6 million shares outstanding, with the balance owned by the founding Bixby Family which owns approximately 60%, and management. Although KCLI trades on the OTC market, it is A-rated by AM Best, it files quarterly and annual reports and more importantly is overseen by insurance regulators in the states in which it operates.

KCLI has an outstanding financial position, with no debt and a capital surplus of $278 million. In 2018 KCLI generated over $36 million in capital vs. a dividend payout of approximately $11.45 million. Current book value of equity of is $691 million, or $65.19 per share, versus its quarter end market price of $35.25.[15,16] Further, its year-end book value can be considered understated as it included a non-cash write down if its bond investment portfolio of $65 million due to higher interest rates (recall the yield on

the 10-year treasury rose from 2.40% to 2.68% in 2018). With the plunge in current rates, this $6.13 per share non-cash impairment will likely be reversed in the near term.[17] KCLI's bond portfolio is very high quality, with 99% investment grade at year-end 2018, almost all of which will be held to maturity, despite being classified as available for sale, which causes the quarterly adjustments due to interest rate moves.

While lower rates will likely provide a mark-to-market write up of the bond portfolio, the offset is that the low interest rate environment presents an earnings headwind for the life insurance group. The low rates mean that older bonds that mature out of its investment portfolio are reinvested at lower rates, producing less interest income. Also, lower rates pressure the margins on floor levels of guaranteed return products.

While the low interest rate environment is likely to abate over our three-to-five year investment horizon, KCLI is not waiting and is focusing on balanced growth and cost controls. KCLI has invested in digitization and automation in underwriting, to lower costs and speed the process of new underwriting, which should help with sales processes due to the improved ease of use.

Additionally, on October 1, 2018 KCLI completed the acquisition of Grange Life Insurance for $77 million from Grange Mutual Casualty company. Based in Columbus, Ohio, Grange Life operates in 15 states and significantly increases KCLI's distribution reach. This acquisition helped KCLI report revenue growth of 10.4%, compared to an industry that grew at an estimated 1%.[18] The acquisition was modestly accretive in the first full quarter of ownership, and should continue to build profitability, even as KCLI keeps the distribution network separate due to its strong name recognition and distributor loyalty. Cost control, disciplined underwriting and bolt-on M&A opportunities will continue to be KCLI's focus for growth through this low rate environment.

The valuation opportunity on KCLI is compelling. The shares are trading at 54% of book value, with continuing excess surplus generation, no debt, an overfunded pension plan and a book value that is understated due to ephemeral mark-to-market adjustments. While KCLI pays a dividend of $1.08 per share, for a 3.06% yield, a paid to wait approach will not likely be enough for management. KCLI's board has approved a 1 million share repurchase program, just under 10% of its market cap and just under 40% of its float. KCLI last repurchased shares in 2015 at $52.50 per share, significantly over current levels. We have expressed our opinion to management to be aggressive on repurchase at these levels, despite the lean float, as we think repurchases should be aggressively pursed when the economics are this compelling. We have set our AFV for KCLI at $55, 56% above current trading levels, but still only a conservative 85% of year-end 2018 book value, vs. peers trading at .85x-1.1x and relatively recent take-over premiums such as the Dai-Ichi Life acquisition of Protective life January 2015 for 1.17x BV.[19,20]

Looking Forward

We continue to expect the markets to be volatile into mid-2019. In our view investors are confused by the recent flip-flop of the Fed on interest rate moves. If job growth resumes a healthy 150,000+ monthly pace and GDP continues at 2%-3%, we believe the Fed will again shift to a tightening mode. The brewing initial public offering (IPO) frenzy, led by the late 1st quarter success of the Levi Strauss and Lyft debuts show that investors are not afraid of risk and have ample capital to put in the market.

That said, despite the end of the Russia-gate investigation, the political climate in the U.S. remains divided, and we see little hope for legislative clarity on issues such as infrastructure spending and health care reform. The most important macro development we are watching for is the outcome of the U.S.-China trade negotiations. Successful completion of these talks would likely re-ignite acceleration in U.S and China growth, while a failure that ended in higher import tariffs on Chinese goods would almost certainly lead to diminished U.S. and global growth. We believe these negotiations are causing significant investor uncertainty, as they are the “title match” between the two largest global economies with significant implications for both countries.

While the markets do not like uncertainty, it does provide an excellent opportunity for the patient investor to identify and own securities that are misunderstood and undervalued. Our long-term investment philosophy allows us to look past current uncertainties and sentiment, with an understanding that the current market prices are not an efficient mark of value. Our investment approach allows us to discern what a company’s equity is worth, and not sway based on short-sighted Wall Street research or the daily hysteria of the financial press. We seek to uncover companies with fundamental strengths that are currently undervalued, where this value will likely emerge over our investment horizon.

Thank you for your continued trust and support. Please do not hesitate to contact us for client service, to discuss our commentary or to just opine on the market and stocks.

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1 Index performance levels are sourced from Bloomberg.

2,17 U.S. Treasury yield data sourced from Bloomberg.

3 All portfolios are based off our model portfolio. Individual portfolios may hold slight deviations in position sizes and names held due to reasons including tax loss selling and our philosophy of investing newer portfolios over time.

4 Bloomberg 2019 earnings estimates as of 12/31/2018 for FY 2019, and excluding KCLI as no Bloomberg estimate published.

5 Book value estimates based of company documents, SEC filings and Bloomberg reporting for period ending 12/31/18, or most recently reported fiscal quarter.
6, 7 Sourced from SEC 13D filings.
8,9,11,13 Carrizo financial information, operation information and estimates, and company guidance sourced from 4Q18 press financial press release, 2018 10K filing, 10/2/18 company presentation and 3/5/19 company presentation.
10 WTI crude and Louisiana Light Sweet Crude current and historical pricing sourced from Bloomberg.
12,16 Historical stock prices and financial information sourced from Bloomberg.
14,19 Projections are estimates sourced from Rewey Asset Management proprietary analysis.
15 KCLI financial information sourced from 4Q18 financial press release and 2018 annual report.
18 Life insurance industry growth for 2018 based on KCLI management's estimated of LIMRA data.
20 KCLI peer group (Lincoln Financial, Prudential Financial, MetLife, Manulife Financial, Power Corp. of Canada) financial information and stock market prices sourced from company SEC filings and Bloomberg. Protective Life estimated deal metrics sourced from Bloomberg.

Advisory services offered through Rewey Asset Management, a Member of Advisory Services Network, LLC.

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