COLBERT
INVESTMENT
MANAGEMENT

First Quarter Letter to Clients
March 31, 2017

The initial euphoria of post-election-stress-relief, combined with expectations of lower taxes, less regulations and more infrastructure spending that buoyed financial markets during the final quarter of 2016 was dampened early in the 1st quarter of 2017. Then, gradually, markets began paying less attention to strident words and raucous official tweets, while paying more attention to actual action from the new administration.

In the meantime the U.S. economy has continued on its circa-2% GDP growth it has been on for several years now. Boring as it may sound, when unleashed upon a $18.5-thousand-billion economy ($18.5 Trillion), 2% growth is serious stuff. It's the equivalent of all of Norway's annual Gross Domestic Product. Or within two years, the U.S. economic growth alone would equal nearly a whole year of GDP in the Netherlands (Holland).

Another important macro-economic factor has been China's continued growth and prosperity, its economy having grown well above 6% this year (annual rate of growth). In fact, China's rejuvenated growth has lit a fire under depressed metal and other commodity prices. This has helped countries with large natural resources like Peru, Chile, Brazil, Canada, Mexico, Australia, countries in Africa, etc. to have better economic growth, along with higher stock prices.

What has really mattered to markets anyway are interest rates and corporate profits. While economic growth seems directly linked to increasing stock markets, don't be fooled. The main reason why real estate, businesses, art, and stocks have been going up in price is because of low interest rates. Excess liquidity looking for better returns has forced savings into riskier (and more volatile) assets and countries.

Much of the increase in the S&P 500 is also due to expectations of a roughly 9% increase in company profits overall this year. It should be noted though that a big chunk of that increase comes from the energy sector's rebound from the depressed oil prices of 2016 to more normal levels now, and from the financial sector which is benefiting from a slight increase in interest rates. Even without the energy and financial sector special boost, S&P 500 companies' profits may have increased by 5% year-on-year. Investing in a group of businesses whose profits are growing by 5% is more rewarding than putting your money in a 10 year U.S. government bond at 2.40% per year. Therefore when interest rates are relatively low and corporate profits increase, stock prices go up.

Markets are volatile, affected in the short term by the macro (politics, economics, and major news headlines). Markets are like a voting machine, sometimes fickle. Yet, over the long

term, the intrinsic value of a business (asset, real estate) should be reflected in the market price. Value investing is like a weighing machine, whereby intrinsic value is more stable than market price fluctuations might suggest.

Which brings me to why we have owned Apple. At this time last year, "Apple-bashing" was a popular sport amongst the investment community and the public in general. When you see a wonderful company being shown almost no respect by investors, investors jumping on the popular negative bandwagon, repeating the obvious negative concerns, almost indiscriminately selling the stock, all the while ignoring the enormous cash flow being produced by the company, one can't resist but smile at the opportunity to buy. We were seeing a company whose products are loved (not liked, loved!) by most of its customers, while its stock was selling at a low price to cash flow. The most important factor to estimating the intrinsic value of an asset or business is cash flow, and a wonderful company selling at a low price-to-cash flow is a steal. We now know what happened, investors realized that the business franchise is intact, analysts remembered how cash flow is king, and also the anticipation for an exciting product rollout is back. Apple's stock price has since rebounded strongly to be more aligned with its intrinsic value.

We have a number of companies in our portfolios with good returns of capital, generating solid cash flow, selling a relatively low prices relative to their underlying cash flow. Some are great companies that have fallen out of favor with investors. Our bond portfolios are built in the same manner, issuer by issuer, security by security. Such portfolio construction does not prevent errors. When you own a group of companies selling at attractive prices compared to an estimate of their intrinsic value, you feel confident in the future. In the meantime this quarter's portfolio performances are going in the right direction.

Sincerely yours,

Karim Armand
President

ADMINISTRATIVE NOTE:
Each year we are required by the U.S. Securities and Exchange Commission (SEC) to offer existing clients a copy of our updated ADV-Part II filing. Kindly inform us if you would like to receive this documentation.

DISCLAIMERS AND OTHER LEGAL INFORMATION

This letter ("Letter"), and any information and research contained herein, do not represent recommendations of investment advice to buy or sell securities or any financial instrument nor are they intended as an endorsement of any security or investment. **This Letter is for informational purposes only and any information contained in this Letter represents the writer's or provider's own investment opinions, and should not be construed as personalized investment or tax advice**. Nothing herein is an offer of any service that is not legal for offer into any particular jurisdiction with Colbert Investment Management Co. (together with all principals, affiliates, employees, and associated persons thereof collectively being referred to herein as "CIM") current licensure (if any).

LEGAL AND OTHER INFORMATION. Any information, data, statements, opinions, or projections made in this Letter may contain certain forward looking statements, projections and information that are based on the beliefs of CIM as well as assumptions made by, and information currently available to, CIM. Such statements in this Letter reflect the view of CIM with respect to future events and are subject to certain risks, uncertainties and assumptions (including, but not limited to, changes in general economic and business conditions, interest rate and securities market fluctuations, competition from within and without the investment industry, new products and services in the investment industry, changes in customer profiles, and changes in laws and regulations applicable to CIM. Should one or more of these or other risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Letter. Furthermore, although carefully verified, data is not guaranteed as to accuracy or completeness. The statements, opinions, and/or data expressed in this Letter are subject to change without notice based on market and other conditions. Descriptions of CIM's process and strategies are based on general practice and CIM may make exceptions in specific cases. This Letter is based on information available as of the time it was written, provided, or communicated and CIM disclaims any duty to update this Letter and any content, research or information contained therein. Accordingly, CIM does not make any representation as to the timeliness of any information in this Letter. As a result of all of the foregoing, inter alia, CIM can not be held responsible for trades executed by the recipients or viewers of this Letter based on the statements, projections, research, or any other information of any other kind included therein. ***Investments in securities are speculative and involve a high degree of risk; you should be aware that you could lose all or a substantial amount of your investment if you attempt to apply any of the information in this Letter*.**

The information contained herein is confidential and may not be reproduced or circulated in whole or in part.

***DISCLAIMERS AND INFORMATION RELATED TO ALL PERFORMANCE DATA**. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS AND FUTURE ACCURACY AND PROFITABLE RESULTS CANNOT BE GUARANTEED. PERFORMANCE FIGURES ARE PRE-TAX AVERAGES OF INDIVIDUAL YEAR'S RESULTS. ALL PERFORMANCE IS NOT NECESSARILY BASED ON THE SAME TYPES OF GAINS. THE AMOUNTS MANAGED MAY DIVERGE FROM THE AMOUNTS UNDER MANAGEMENT THAT FORMED THE BASIS FOR HISTORICAL PERFORMANCE. ALL PERFORMANCE ASSUMES THE REINVESTMENT OF EARNINGS. THE U.S. DOLLAR IS THE CURRENCY USED TO EXPRESS PERFORMANCE. ACTUAL INVESTMENT ADVISORY FEES INCURRED BY CLIENTS MAY VARY. INVESTMENT ADVISORY FEES ARE DESCRIBED IN CIM'S FORM ADV PART II. UNLESS OTHERWISE SPECIFIED, ANY PERFORMANCE IN THIS LETTER IS NOT AUDITED AND IS NOT INTENDED TO COMPLY WITH AIMR-PPS™ OR GIPS GUIDELINES. NO REPRESENTATION IS BEING MADE THAT FOLLOWING THIS LETTER AND/OR ANY INFORMATION CONTAINED HEREIN WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN OR DESCRIBED IN THIS LETTER. ANY INVESTMENT RETURN AND PRINCIPAL WILL FLUCTUATE WITH MARKET CONDITIONS, AND YOU MAY HAVE A GAIN OR LOSS ON YOUR INVESTMENTS. ACCORDINGLY, INDIVIDUAL RETURNS, FOR ANY GIVEN ACCOUNT OR YEAR, MAY VARY FROM ANY OF THE RELEVANT RETURNS SHOWN HEREIN.

ANY PERFORMANCE COMPARISON TO THE PERFORMANCE OF INDICES IN THIS LETTER MAY NOT BE A MEANINGFUL COMPARISON. INDICES CITED IN THIS LETTER ARE GENERALLY NOT AVAILABLE FOR DIRECT INVESTMENT AND ARE NOT SUBJECT TO FEES. ANY PERFORMANCE REFERENCED IN THIS LETTER IS NOT NECESSARILY BASED ON THE SAME TYPES OF SECURITIES CONTAINED IN ANY INDEX SHOWN OR REFERENCED IN THIS LETTER, NOR IS ANY SUCH INDEX REPRESENTATIVE OF ANY PERFORMANCE PRESENTED IN THIS LETTER. HEDGE FUNDS MAY USE SHORT POSITIONS, DERIVATIVES, AND LEVERAGE, UNLIKE SOME OF THE COMPONENTS OF SOME OF THE INDICES. ANY INDICES SHOWN IN THIS LETTER ARE ONLY TO REFLECT COMPARATIVE PERFORMANCE OF FAMILIAR OR OTHER INVESTMENT STYLES. NO REPRESENTATION IS BEING MADE THAT ANY STOCKS, PORTFOLIO, INDICES, FINANCIAL INSTRUMENT, INVESTMENT OR FUND (INCLUDING THE FUND) WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN OR DESCRIBED IN THIS LETTER. ACTUAL PERFORMANCE WILL VARY BASED ON MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INVESTMENT STRATEGIES, TAXES, MARKET CONDITIONS, AND APPLICABLE ADVISORY AND OTHER FEES AND EXPENSES.

****PERFORMANCE INFORMATION AND DISCLAIMERS RELATED TO THE CIM CORE EQUITY COMPOSITE**. CIM MANAGES FIXED INCOME, BALANCED AND EQUITY PORTFOLIOS, BUT ONLY RELEASES DATA HERE ON THE EQUITY PORTION OF CLIENTS' ASSETS. SIGNIFICANT DISPERSION MAY OCCUR BETWEEN THE PERFORMANCE, HOLDINGS, RATIOS AND PERCENTAGES SET FORTH ABOVE AMONG THE ACTUAL INDIVIDUAL CLIENT ACCOUNTS MANAGED BY CIM. THIS DISPERSION MAY BE DUE TO DIFFERENCES IN ACCOUNT SIZE, CASH FLOW, THE TIMING AND TERMS OF EXECUTION OF TRADES, INDIVIDUAL CLIENT NEEDS, ECONOMIC OR MARKET CONDITIONS AND OTHER FACTORS. PERFORMANCE FOR CIM CORE EQUITY COMPOSITE IS NET OF FEES AND EXPENSES. PERFORMANCE IS BASED ON ALL CLIENT EQUITY ACCOUNTS MANAGED BY CIM IN A SUBSTANTIALLY SIMILAR MANNER.

4658362_v2