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Dear Fellow Investors,

"Our new Constitution is now established, and has an appearance that promises permanency; but in this world nothing can be said to be certain, except death and taxes."
— Benjamin Franklin, 1789

No doubt most of us have heard this quip about "death and taxes," most often attributed to illustrious Founding Father (and politician and writer and inventor, etc.) Ben Franklin. Allegedly, however, the expression appeared in books by two different authors more than 60 years before Franklin's usage made it famous. It goes to show that even the origin of a quote about the limited nature of certainty is uncertain!

As investors, we have to endure a lot of uncertainty. But as value investors, we can use uncertainty both as a backstop and as a motivator. In a quote you will see later in this letter, notable value investor Seth Klarman reminds us that being certain in an uncertain world is "hazardous for investors." There is no way to know how any company's stock will perform or what the market will do in the short term, so it is better to fall back on sound analysis—not hunches, emotion, or another guru's absolute conviction. We can let uncertainty motivate us to seek what *is* possible to know and analyze, and make informed investment choices from there.

Capital Allocation: Mergers & Acquisitions

"To see things in the seed, that is genius." –Lao Tzu

In our August 2019 letter, we mentioned the five main ways CEOs deploy capital. In this letter, we are taking a closer look at one of the riskiest but potentially most fruitful of the capital allocation methods: mergers and acquisitions. Simply, this move involves two companies combining to make a new company (merger) or one company purchasing another company (acquisition). We often hear about mergers and acquisitions (M&A) when they involve big-name companies or brands—and especially when it looks like a deal is about to implode. But mergers and acquisitions occur more frequently between small- and medium-sized companies and often with great success.

As value investors we should care about mergers and acquisitions because they give us more information to analyze: Does the merger enhance a company's intrinsic value or diminish it? Will a company's recent acquisition bring it closer to full value, or is it still trading at a discount to its intrinsic value? M&A as a capital allocation strategy also shows us whether a company is itself a value investor; that is, does the company tend to acquire/merge with companies that have high intrinsic value? We like to invest in companies that are themselves value investors.

Despite the risk, data shows that M&A is an effective capital allocation strategy. Companies that are considered "serial acquirers" tend to have the best performance. In our portfolio, the serial acquirers are Berkshire Hathaway, Broadcom, Colfax, Danaher, Middleby, and Roper Technologies, to name a few. As you will see in the following News section, acquisition has been the capital allocation method of choice for several of our companies in recent months.

News from Our Portfolio

"Whatever the environment, we try to remain humble, which means maintaining our discipline of buying only great companies with strong balance sheets when they're priced with a wide margin of safety. It's when you're not humble that you end up doing things that will make you humble."
–François Rochon

Berkshire Hathaway (BRK.B) | Ownership: 1%– 5%
In August, international oil and gas company Occidental Petroleum Corporation (OXY) completed its acquisition of energy company Anadarko Petroleum (APC)—but not without assistance from Warren Buffett and Berkshire Hathaway. Buffett pledged to inject $10 billion into Occidental if it won the bid for Anadarko over Chevron. In return, Berkshire would receive 100,000 shares of cumulative perpetual preferred stock (valued at $100,000 each), paid out at 8%. "Cumulative preferred stock" means that any past dividends that were not paid out previously will be paid to Berkshire and other cumulative preferred shareholders first. "Perpetual," of course, means the dividends will be paid for as long as the company exists, and in this case, at a fixed rate of 8%.

To make the deal even better for Berkshire, the company would also receive a warrant to purchase up to 80 million shares of Occidental at $62.50. A warrant provides the right to buy a share of stock at a specific price on or before a specified date. While Berkshire's financial support certainly helped Occidental broker a favorable deal (i.e. the acquisition of Anadarko) in the short-term, Berkshire's investment will pay off handsomely in the long run. For their one-time $10 billion investment, Berkshire will earn preferred stock dividends of $800 million annually. During the 2008 financial crisis, Berkshire made similar investments in Goldman Sachs and Bank of America. As a result, Berkshire is now the largest shareholder of Bank of America and the fourth largest shareholder of Goldman Sachs.

Brookfield Asset Management (BAM) | Ownership: 1%– 5%
Brookfield Asset Management owns 37% of Brookfield Business Partners (BBU), which in August agreed to acquire a controlling interest (approximately 57%) in Genworth Canada, the largest private sector residential mortgage insurer in Canada. For BBU, this is a high-value acquisition for several

reasons. First, Genworth Canada is an essential service provider to the housing market in Canada. It has developed a strong market share through a broad underwriting and distribution platform, and there are natural barriers to entry for competitors because the industry is highly regulated. Furthermore, the company has a long track record of generating consistent earnings and attractive returns on capital, as well as a resilient risk profile thanks to a large geographic market, customer diversity, and a stable Canadian housing and mortgage sector with consistently low mortgage delinquency rates.

NXP Semiconductors NV (NXPI) | Ownership 1%–7%

NXP is a global semiconductor manufacturer of parts that enable electronic devices and systems to hook up to the Internet wirelessly and securely—think "smart" things, like phones, watches, and appliances. This fall, NXP introduced major breakthroughs in microcontroller (MCU) technology. In September, the company introduced the world's first MCU-based solution for adding offline face and expression recognition to smart devices used at home and in commercial and industrial settings, without the need for cloud connectivity. Said Denis Cabrol, executive director for NXT's IoT solutions, "Think about a toy that recognizes each member of the family and responds appropriately depending on their facial expressions or a smart appliance that can intuitively adjust its settings to a user's preferences based on previous interaction." This development means device manufacturers can incorporate face, expression, and emotion recognition into their IoT products relatively easily, quickly, and inexpensively. In October, the company unveiled a new family of crossover MCUs that combine improved levels of performance and reliability with high levels of integration. One of the MCUs can run up to 1 GHz, which is a major breakthrough in processing speeds for MCU technology.

Roper Technologies, Inc. (ROP) | Ownership: 1%–7%

In August, Roper Technologies, which operates businesses that design software and develop engineered products for niche markets, announced its plans to acquire iPipeline, provider of cloud-based software solutions for the life insurance and financial services industry. The deal is expected to be an all-cash transaction valued at $1.625 billion.

Danaher Corporation (DHR) | Ownership: 1%– 7%

Danaher, worldwide designer, manufacturer, and marketer of life sciences, diagnostics, dental, environmental, and applied solutions is one of our "serial acquirers," having completed more than 200 deals over the last ten years. In September, Envista Holdings Corporation (NVST), launched its initial public offering (IPO) as a spinoff of Danaher. Envista is essentially three companies (KaVo Kerr, Nobel Biocare Systems, and Ormco) that represent more than 30 brands in the dental industry. Danaher originally acquired these companies as part of their dental platform. Danaher will still own approximately 80% of Envista's shares.

RenaissanceRe Holdings Ltd. (RNR) | 1%– 6%

Headquartered in Pembroke, Bermuda, RenaissanceRe is an international provider of reinsurance and insurance products in the Property, Casualty, and Specialty segments. Our average entry point was around $130, and recently, believing the stock to be fully valued, we sold our shares at $193 for a return on investment (ROI) of 48%.

JDP Bond Portfolio

The following table provides a brief summary of how the JDP Bond Portfolio has performed on average over the last three years:

JDP Bond Portfolio by Quarter*

2016	Yield**	2017	Yield**	2018	Yield**	2019	Yield**
Q1	6.5%	Q1	6.2%	Q1	7.1%	Q1	7.3%
Q2	6.1%	Q2	6.4%	Q2	7.3%	Q2	7.1%
Q3	5.9%	Q3	6.9%	Q3	7.8%	Q3	7.2%
Q4	6.0%	Q4	6.5%	Q4	7.4%		

*Monthly yield average **Does not include redemption

Embracing Uncertainty

"It is much harder psychologically to be unsure than to be sure; certainty builds confidence, and confidence reinforces certainty. Yet being overly certain in an uncertain, protean, and ultimately unknowable world is hazardous for investors. To be sure, uncertainty breeds doubt, which can be paralyzing. But uncertainty also motivates diligence… Unlike premature or false certainty, which induces flawed analysis and failed judgments, a healthy uncertainty drives the quest for a justifiable conviction."

–Seth Klarman

We can never be certain about what the market will do or how any one stock will behave, but I try to embrace the uncertainty by following two simple rules: 1.) Pay attention and 2.) Be patient. I didn't say they were easy to do, but they are effective. I am investing my own hard-earned capital right alongside yours, so rest assured we're in the uncertainty together.

I truly believe our investors are a special group. We continue to be very selective about who we add to our growing family because we only want to work with those whom we admire, respect, and love. Thank you for your trust. We will always work diligently to remain worthy of it.

Cordially,

Joseph Del Principe