BOYLE CAPITAL

April 8, 2019

Dear Investor,

After a challenging 2018, portfolios are off to a great start in 2019 and we believe the best is yet to come as housing reform evolves throughout the remainder of 2019.

As we wrote in January, this year is likely to be the year of Fannie Mae and Freddie Mac. Following last week's Senate confirmation of Federal Housing Finance Authority (FHFA) Director Mark Calabria, the table is now set for the Trump administration to reform America's housing markets through primarily administrative efforts. In a memorandum signed by President Trump on March 27th, the administration outlined for the first time, aspects of housing reform it supports. At the top of the memorandum was ending the conservatorships of Fannie Mae and Freddie Mac (also known as the GSEs or government sponsored entities). Other actions supported in the memorandum included establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the United States and providing compensation to the Government for any implicit or explicit backstops it provides to the GSEs or the secondary housing market.

The players at the table (Calabria, Treasury Secretary Mnuchin, Chief of Staff Mick Mulvaney and National Economic Council Director Larry Kudlow) all support removing Fannie and Freddie from conservatorship and the only way to do that while simultaneously protecting the taxpayer is through increasing the capital levels of the GSEs. In the coming months, we expect the Treasury to submit a proposal to the President outlining the initial steps of an administration led recapitalization of Fannie Mae and Freddie Mac. Monetizing on the Treasury's investment in the GSEs (Treasury owns 79.9% of the equity of Fannie and Freddie) and expanding the credit available for housing has the potential to lead to significant counter cyclical stimulus heading into the 2020 election. Despite a return of more than 45% year to date and 70+% over the past year, the preferred shares of Fannie Mae and Freddie Mac remain significantly below par value of $25.

Shares of Birchcliff Energy are up nearly 20% year to date yet remain well below the highs of two years ago when we made a mistake by not reducing our position. While it's been painful, the company is fundamentally stronger today than perhaps ever and priced for substantial gains as energy stocks recover. Looking out over the next six months, a win by conservatives in the upcoming provincial election in Alberta on April 16th and the federal election in October has the potential to dramatically improve the outlook for the energy patch in Canada and in turn the share prices of companies like Birchcliff. Meanwhile, the company remains profitable (consensus estimates are for more than $100 million of free cash flow in 2019) and trades for a historically low 56% of book value versus five and ten year averages of 100% and 140% respectively.

Our core financial stocks Berkshire Hathaway and Fairfax Financial remain attractively priced as well. Shares of Berkshire Hathaway have hovered around $200 over the past year despite underlying strength in its non-marketable investments and a recovery in its marketable securities such as Bank of America and

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Apple from the lows in 2018. As a result, we believe Berkshire shares are the most attractive they have been since the end of 2015 when shares briefly dipped below $130.

Like Berkshire Hathaway, Fairfax Financial's marketable investments have seen a substantial recovery since the end of 2018 yet shares of Fairfax are little changed year to date. At around book value, shares of Fairfax have rarely been cheaper over the past decade. We will be making our annual pilgrimage to Toronto for the Fairfax annual meeting in mid-April. Look for a blog update on www.boylecapital.com when we get back.

The other two financial stocks in portfolios, Bank of America and AIG, are at different ends of the investment spectrum. In the case of Bank of America, shares are up significantly from the lows of a decade ago and it's no longer considered a turnaround situation. Like many of the other major money center banks, Bank of America is overcapitalized today and a major part of the investment thesis going forward is the return of capital via dividends and share repurchases. By contrast, AIG remains a work in progress. CEO Brian Duperreault has a track record of success across many companies in the insurance space and is doing the things necessary to succeed at AIG. Despite significant catastrophe losses in 2018, AIG was profitable and is expected to grow profits in 2019. At $45 per share today, the stock sells at less than 70% of book value. Over time, we believe Duperreault can get the profitability of the company back to a minimum of 10% return on equity. Assuming a multiple of 12, this would put shares closer to $80 or more than 75% above today's levels. Our warrants, which expire in January 2021, have the potential for outsized returns under such a scenario.

Conclusion

At a time when markets are far from cheap, our portfolios offer one of the highest expected forward returns we have had in our near 15-year history. The best opportunity for housing reform in decades is upon us and portfolios are uniquely positioned to benefit, something that couldn't be easily replicated from scratch today. Further, value stocks are the cheapest versus growth stocks in more than 15 years and portfolios should benefit from a reversion to the mean over time. While we are pleased with the recovery in portfolios to date, we are excited and optimistic about the potential for portfolios throughout the rest of the year and you should be too!

Please call if we can be of assistance or if there have been changes in pertinent financial information, restrictions, or investment objectives.

Best Regards,

Brian F. Boyle

Brian F. Boyle, CFA

The S&P 500 is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The index is used for comparative purposes because it approximates what an investor could earn from a passive investment in the general securities market.

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