VALUEWORKS
QUALITY ASSETS COMPELLING VALUATIONS

VOLUME 18,1 FIRST QUARTER 2020

What a difference a few weeks makes. As I wrote my last letter to you we were ending a short period of remarkable market quiescence. The speed at which conditions change is the one facet of the financial markets that, while I understand and anticipate it intellectually, continues to amaze me emotionally, even after 35+ years of doing this.

That said, our activity through these weeks has thus far been [quite disciplined] fairly modest. We came into this period with the core of our portfolio invested in very solid, well valued companies. These include names like Apple, Goldman Sachs, Comcast, Amgen, Gilead, Qualcomm etc. These holdings, like almost everything else in the financial markets, have eroded a degree, but not radically. As conditions stabilize – whether that is three months, nine months or two years -- these companies as a group should emerge stronger and more fully priced than before this crisis struck. We also hold a broad group of secondary companies whose shares are currently trading much lower but that should suffer quite modest negative ramifications from the current crisis, and to some degree stand to benefit from the massive changes we are seeing. A couple of good examples are MBIA Insurance, which we own for the value of its high-grade bond portfolio, and United Natural Foods, whose food distribution business is working at full steam to keep the shelves stocked. The New York Times will see subscriptions and readership ramp higher (perhaps offset by declining ad spending although the shift of ad dollars from sports, etc. may compensate). Maui Land & Pineapple's real estate holdings remain unchanged despite this virus, and their long-term value is likely only enhanced.

We also hold a group of mid-tier companies whose businesses will be strongly affected in the near term, but whose share prices are poised to double or quadruple once normalcy returns. You can be sure

Brunswick Corp's boat sales will be abysmal in the second quarter, Invesco will see assets and revenue decline, the dry bulk shippers will see historically low rates, and Newell Brands will see a decline in consumer discretionary spending. But each of these businesses are poised to survive the downturn and offer – as one would expect of the survivors from this moment in time – quite extreme upside.

There were also a handful of names, like Sprint, Mohawk Industries and Spirit AeroSystems, where we took money off the table prior to this sell-off gaining steam. Lastly, there are those issues that were in the portfolio that will find it hard to navigate through this period. We have exited any remaining holdings in National Oilwell at levels materially below our cost. Even at depressed levels the shares do not offer particularly good risk reward. $25 oil is a problem for that company and the upside from here does not compensate for the remaining risk in the shares. TransOcean is similarly at risk from these energy prices. We still own the shares but our economic exposure is trivial and the best-case upside of a 10-15 times gain may justify maintaining our exposure. There are one or two similarly situated holdings, but again our dollar exposure is modest. We have a close eye on them and will make further adjustments as prudent.

TOP 10 HOLDINGS

1. Apple
2. Qualcomm
3. Amgen
4. Comcast cl A
5. Maui Land & Pineapple
6. Gilead Sciences
7. Goldman Sachs Group
8. Kulicke & Soffa Industries
9. New York Times cl A
10. Cliffs Natural Res 6.25% Due 10-01-40

— As of 3/31/20 —

Our recent purchases are designed to provide real diversification and offer significant upside in a very security specific context. We bought back Spirit AeroSystems in the mid 30's after selling it in the high 60's. Whenever this is all comfortably behind us and the 737Max returns to service we see the shares recouping their old highs of just under $100 per share. If that happens in a year, great. If it takes four years, it is still a very powerful rate of return. We bought Genworth Financial at under $4.00 per share. China Oceanwide has worked for almost four years to get regulatory approval to buy the company at $5.43 per share. The last of those approvals was issued last week and the companies are expecting to close the deal in a matter of several weeks, for a 40% gain from today's price. While the shares may be volatile if the deal breaks, we think they represent excellent value at these levels as a standalone business. We will continue to refine our exposure in the volatile weeks and months ahead. We fully expect this level of volatility and economic dislocation to create some very dislocated prices and will use a very critical eye to identify particular opportunities.

As for the overall macro picture, it is so very different from anything we have been through before, yet so very similar. This is a particularly complex moment. Yet it is also pretty standard. An "exogenous shock" has caused real damage to people and the economy. Its unprecedented nature and uncertain path trigger both an emotional gut fear and an honest and clear-eyed uncertainty. Stocks and "risk-assets" decline in price as do commodities and anything but the safest debt. Policy makers move to stem the damage by providing lots of monetary and fiscal stimulus. It is pretty text-book perfect.

We all understand that the biggest uncertainty is the course this virus takes, and secondarily how we collectively respond to it. My confidence in what we are doing in the portfolio does not stem from any clarity on how those unknowns will resolve, but rather from the certainty that the moves we are making are prudent under any reasonable scenario.

On the quite optimistic side, it is credible that this week will see continued positive trends in Italy, Spain and then New York. Perhaps in these places actual infection rates have already been sky-high, meaning that most have already been exposed and will not get sick enough to notice. There would be a tremendous sense of relief if a pattern develops where hospitals start seeing more people exiting healthy than coming in sick. Clearly, we expect places modestly affected up until now to be increasingly impacted, but if hospitals are not overwhelmed and individual nations and regions seem to be recovering over the next several weeks, maybe a best case is that large parts of the country and world are getting back closer to normal by mid-May or Early June. If that happens and resources can be taken out of places like New York and redeployed to new "hot spots", we may start to feel a sense of mastery and control.

But there are plenty of less positive scenarios. Even if we are close to peaking in certain locations, it is easy to see how emotions get increasingly frayed with a series of high-profile deaths. And if new hospital admissions do not slow in heavily impacted places, and accelerate in more diverse regions, the strain on the system gets even worse. And if heavy rates of infection start to permeate communities with fewer resources, what kind of social unrest do we release? Or what happens if we get a sense of containing this threat and then in the fall it rolls around the world again with even greater impact?

One clear take away is that we have not completely mastered our environment. But this virus, to this point, seems to be something we can understand and that seems consistent with other diseases that we have learned to manage. I am optimistic, and am rooting for the good case above, but I also recognize that we need to be prepared to live with this threat for the next several quarters, and then take it from there.

From a market and economic perspective, there are a couple of clear consequences. The first is that interest rates are likely to shift importantly lower for an extended period. The second is that energy prices are likely to be much lower as well.

In the first days of this sell-off Treasury rates and interest rates across the board shifted lower. In the ensuing days, the spread between treasury rates and everything else has widened dramatically. A flight to safety and a recognition that credit quality will be materially eroded for many businesses caused a sharp drop in corporate bond prices and the first strains of a liquidity crisis. This crisis

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sell-off has been met with a clear policy response from the Fed, providing massive liquidity. Policy makers are acting like they learned the lessons from the Financial Crisis, and that is a good thing.

It is hard to see how the ten-year treasury rate gets back up to 1%. Rather it seems much more sensible to expect a prolonged period where it hovers around ½%. That will have a very large impact on borrowing costs across the board for quite some time. Mortgage rates have not yet adjusted down to these levels as the banks have not been able to process the demand for refinancing triggered by half of that drop. But looking out 2-4 months, we may well be seeing 30-year mortgage rates around 2 ¼-2 ¾%. It may not spur a jump in home prices, but it sure will make it easier for those looking to spread out into more space to make that possible.

Those lower rates will also help support the value of commercial space even as rental income gets disrupted. They will also make it easier to support all sorts of economic activities.

Energy prices have been in freefall. Oil traded down to under $20 per barrel and natural gas touched $1.55 an MCF. While these levels may not be sustained, it is hard to argue for much higher prices without a major economic rebound, and that is a problem that does not seem on the horizon! The ramifications will be profound with a large impact on consumers, manufacturers and others. Cheap energy may not be great for the oil patch, but it will provide a fairly far reaching stimulus for much of the rest of the economy.

Like the Stock market crash of 1987, the Berlin Wall coming down, 9/11, and the financial crisis, COVID 19 is of an historic magnitude. That is simply the case regardless of morbid statistics or other comparisons. The consequences and implications will be complex and long lived. But there will also be a confusing speed at which conditions and our perceptions change and evolve and change again. (It was only weeks ago that we were fixated on "trade war" etc.) In quarters from now, this present moment will seem stunningly far away. Yes, we intend on exploiting select opportunities in the weeks and months ahead. But these adjustments will be on the margin, upgrading the quality of our holdings as better options are presented. Throughout, the composition of our portfolio will remain consistent with our longstanding approach. Because as we have experienced from navigating multiple financial storms in the past thirty years, in these periods of turmoil there is no substitute for a stable hand at the tiller.

As I am sure you know, we are all working "from remote locations". The good news is that technology has come a long way since Valerie and I had to do this in September of 2001. Our office phones all operate seamlessly to our computers regardless of where we are and our systems are mostly "in-the-cloud". Our biggest shortcoming is that we are not set up to physically print and collate letters, so this is our first purely digital quarterly correspondence. We hope you don't mind, and perhaps is was about time we became more comfortable with the digital world. Another lasting change?

On an administrative note, your package this quarter includes our privacy and proxy policies as well as a summary of the significant changes in our ADV Part 2, the industry's standard disclosure document. If you have questions about these documents or would like to see any of them in a different format they are available on our website www.valueworksllc.com.

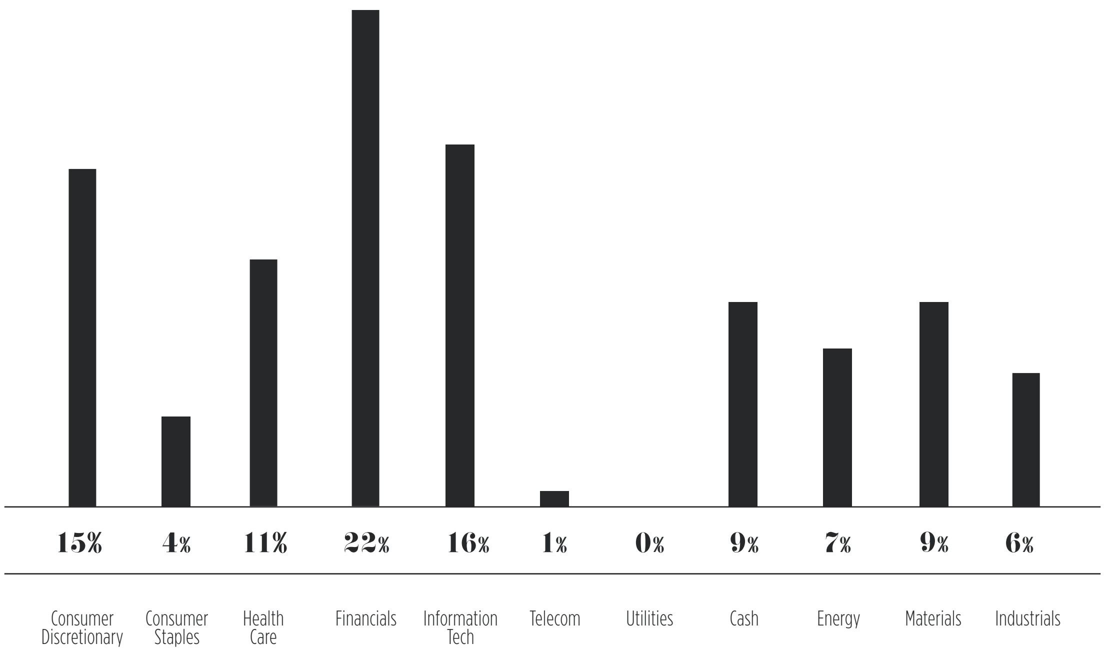
Hoping you and yours are staying healthy and being as prudent as you can. There may be an "economic cost" to our taking whatever steps we can so that all of us are here and healthy when this is over. But we can afford it. A few months staying home is not going to make everything disappear. And all of us being asked to slow down and stay put may not be so bad after all.

Please feel free to call. If not, I will be making an effort to reach out and touch base in the next couple of weeks.

-Charles Lemonides, CFA

SECTOR DIVERSIFICATION

CAPITAL APPRECIATION COMPOSITE



DEFINING OUR PHILOSOPHY

At ValueWorks we define value investing as buying the best-quality assets at the best possible prices. We like to think of ourselves as bargain hunters: it is our goal to pay only $0.50 to $0.75 for $1.00 worth of assets. We evaluate the component parts of a company, assigning each of its assets a dollar value that, when added together, comprises the underlying value of the company; if this is higher than the company's stock price, we consider it an investment opportunity.

OUR PORTFOLIO STRUCTURE

We believe risk can be better contained through educated security selection than through over-diversification. Consequently, our position sizes range between 3 – 5 % of the overall portfolio value. Fully invested portfolios tend to hold 25 – 35 individual investments.

We enter investments that we view as 25 – 50% undervalued and sell them when we see them as fairly priced. Our anticipated holding period tends to be one to two years which results in only modest portfolio turnover.

Because our decisions are based on research and sound fundamentals we view depressed price action on our securities as buying opportunities rather than sell signals.

We use senior debt and preferred instruments—offerings that can be easily misunderstood by traditional equity or fixed income investors—to gain equity type returns on safer vehicles.

OUR CLIENT SERVICES

ValueWorks provides independent investment management on an individual account basis. Our clients receive the benefits of owning securities directly, coupled with the advantages of having a dedicated portfolio manager.

Working directly with your financial consultant, we evaluate your investment profile and build a plan designed to meet your specific goals. As a high-end investment alternative, you receive:

• Individual review of your portfolio requirements

• A separately tailored portfolio created and maintained to your investment objectives and risk tolerance

• Access to the Portfolio Manager on an ongoing basis with timely and responsive communication

• Flexibility to meet your changing tax requirements and investment needs

• Comprehensive quarterly performance reports.

Working within the framework of our value investment discipline, we build portfolios that cover a wide spectrum of risk-tolerance, from aggressive to much more conservative and income oriented.

DEFINING OUR PROCESS

1 *Identification*

We monitor the financial markets to identify securities that match our investment criteria—focusing on opportunities that appear misunderstood by the general market.

2 *Appraisal*

First we identify the assets; then we appraise them. This allows us to determine the company's underlying value. We then decide whether the assets are of high quality and therefore likely to appreciate over time.

3 *Assessment*

Here we assess any claims against a company's assets; we then compare the market price of the claims to the company's underlying value. If a particular security trades at a discount, we identify factors that could eliminate the valuation gap and increase its price. We then make a decision on the purchase of the security.

4 *Re-Evaluation*

We continuously monitor our positions to determine if our original investment thesis still applies, taking necessary action to optimize our portfolio.

5 *Exit*

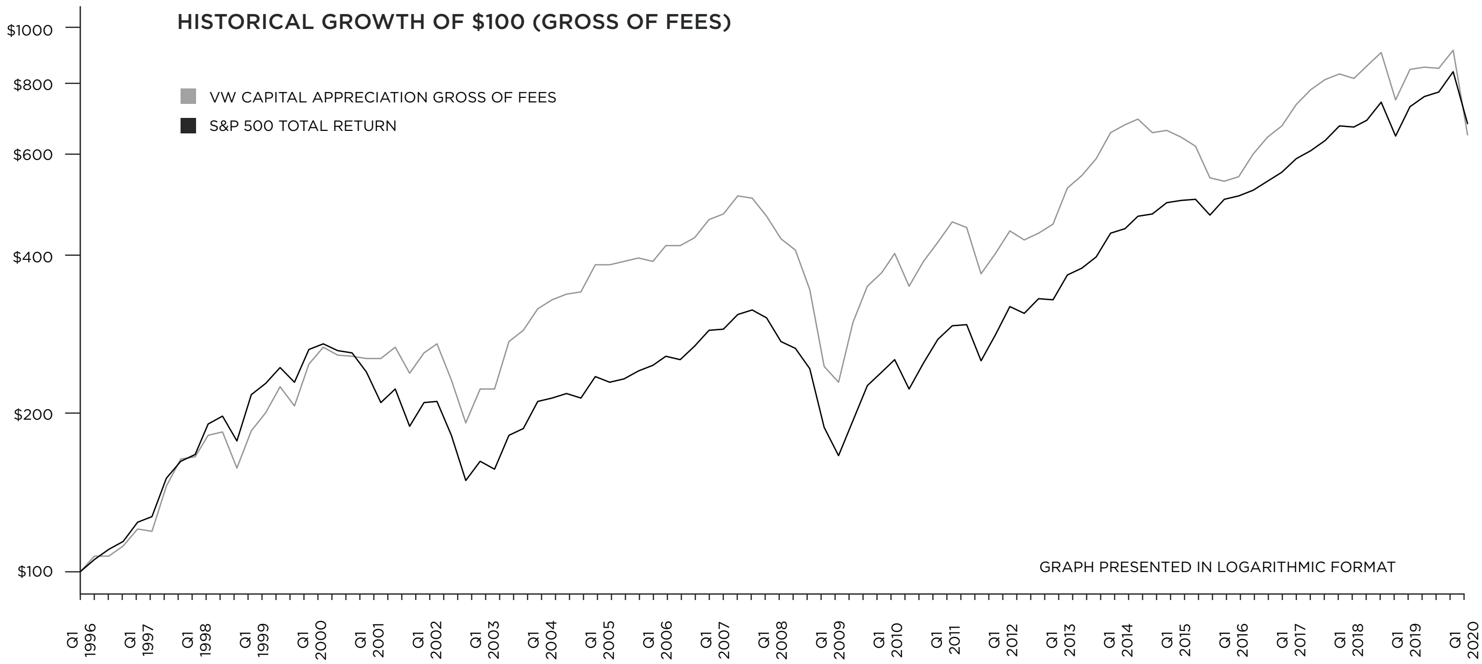
We exit a position when a security either reaches full valuation or changes in its outlook invalidate part of our original thesis.

Objective

Our objective is uncomplicated, but achieving it requires a high level of research, expertise, discipline and independent judgment. By applying this framework consistently we remove emotion from the investment decision making process, enabling us to capitalize on inefficiencies built into the market.

PERFORMANCE REVIEW

FIRST QUARTER 2020 DECEMBER 31, 2019 – MARCH 31, 2020



TRAILING PERFORMANCE DATA

VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

	GROSS OF FEES	NET OF FEES	S&P 500 TR
2020 Q1	-29.91	-30.11	-19.72
2020 YTD	-29.91	-30.11	-19.72
1 year	-23.83	-24.68	-7.10
3 years	-4.17	-5.24	4.97
5 years	0.24	-0.91	6.65
10 years	5.17	3.90	10.46
Life*	7.90	6.38	8.10

*Life is 24.25 years (inception 1/1/1996)

VALUEWORKS' BALANCED COMPOSITE

	GROSS OF FEES	NET OF FEES	BLENDED INDEX*
2020 Q1	-26.75	-26.94	-9.80
2020 YTD	-26.75	-26.94	-9.80
1 year	-18.04	-19.09	-0.11
3 years	-2.86	-4.15	4.87
5 years	0.47	-0.87	5.02
10 years	5.28	3.84	7.28
Life*	8.42	6.77	6.99

*The "Blended Index" is a calculation comprised of 50% S&P 500 and 50% Merrill Lynch Domestic Master Bond Index.

PAST PERFORMANCE MAY NOT BE INDICATIVE OF FUTURE RESULTS.

This Newsletter is intended to be presented with the Capital Appreciation Fact Sheet which contains additional disclosure information.

The above benchmark indices are unmanaged indices. The benchmark performance numbers reflect the reinvestment of dividends and interest but do not reflect the deduction of any fees or expenses. ValueWorks' value investing style is not limited to the securities in any of the above indices and utilizes specific investment techniques which are not utilized in the above indices and which may or may not increase volatility. Returns include all dividends, interest, accrued interest and other cash flows received as they may result from the implementation of a particular investment strategy. Trade date accounting has been used. Results for the full period are time weighted. Accounts are included in composite at the start of the first full period under management. From 1996—Q1 1998 exiting accounts are included through the period in which they left. Starting in Q2 1998 exiting accounts are included through the last full period under management. Results were generated at other firms prior to 9/30/01. Information on other composites is available on request. Investments in this strategy may lose value.
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