



March 21, 2011

Japan is on the top of my mind for many reasons. Like you, I watch in admiration of the Japanese people as they bravely endure an unprecedented disaster that painfully has not ended. I have no doubt that the determined nation will recover, and we will be impressed by their efficiency, speed, and courage.

I am also extremely focused on our responsibilities to you, our clients. As your investment manager, we have a responsibility to protect capital while looking for opportunities with the potential to create wealth over time regardless of the precipitating event. When our team met on the day of the earthquake, we knew exactly what needed to be done. We needed to gather the information, analyze the data, and be ready to make changes in our portfolios, including taking advantage of any panic selling. In other words, we need to do the job we do every day.

The first person we wanted to contact was one of our analysts who happened to be in Tokyo at the time visiting the management of companies we own on your behalf. When the earthquake struck he was in the middle of the street as debris was falling around him. We are glad to report he was uninjured and has safely returned to San Diego.

Everyone has seen the devastating images broadcasted since the earthquake struck, but our analyst reports that people are adapting very quickly. Although he spent 6 hours walking home the night of the earthquake, basic services in Tokyo were soon restored, and he was subsequently able to move about the city relatively easily. There are definitely very serious issues the media is well documenting, but some solutions are already being found. People were riding the trains and back at work on the Monday following the earthquake. The stock market opened - right on time.

We have been on the phones every day since Friday, March 11, speaking to our numerous contacts in Japan. As we look for opportunities, we also want to protect the capital in your portfolios. Much of our time has been spent reviewing holdings and doing a preliminary assessment of potential threats to our valuations. Damage to some manufacturing facilities has caused temporary shutdowns, while other companies we own have halted production as a precautionary measure. They are looking for potential damages to their facilities that are not yet apparent, but also assessing potential disruptions to supply chains. Nothing we learned to date is causing us to sell or pare any of our holdings. Our current view is that manufacturing can recover quickly once the power situation is resolved. That situation continues to unfold, and in our view the short term solution will be based on how to best use the power available while balancing the needs of all aspects of the economy.

Without in any way diminishing the human tragedy of the earthquake, tsunami, and nuclear accidents, developed economies can often recover quickly from natural disasters. The 1995 Kobe earthquake struck a major urban area and port, resulting in about 6,500 deaths and estimated capital stock damage of \$115 billion (USD). Nonetheless, while many initial estimates predicted that Kobe would take as much as 10 years to rebuild, within 15 months, manufacturing was at 98% of its pre-earthquake level. This recent event is dramatically different, but Japan has a proven track record of resilience and impressive reconstruction subsequent to natural disasters.

We will continue to monitor the situation in Japan very closely especially the unfolding developments at the Fukushima Daiichi nuclear power plant and will be ready to adjust our portfolios where appropriate. As we approach the Japanese market as well as other global markets, we will analyze our investment opportunities responsibly with the same discipline and acumen that has earned us your trust over the decades.

We'll continue to be in touch as events unfold.



Charles H. Brandes, CFA
Chairman

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