January 26, 2015

First Long Island Investors, LLC

December 31, 2014

This report on the Fourth Quarter will be brief as, by now, you should have received our annual thought piece: The Longer-Term Investor - 2015 and Beyond. It contains our view of the future and describes many aspects of the investment landscape confronting the longer-term investor, some of whom might be thinking about evacuating from the equity, and other risk, markets that have provided them with significant returns over the long term. Fear of record prices, volatility, geopolitical hot spots, and political uncertainty are causing a fog. Our thought piece tries to pierce that fog and give direction to our clients.

Perhaps the fourth quarter provides a glimpse into what 2015 might be. For in the fourth quarter we lived through appreciation for most, but not all, equity indices, a precipitous drop in oil prices, continued concern over geopolitical hot spots, a robustly growing gross domestic product, a contentious mid-term election giving Congressional control to the Republicans, and growing earnings for many companies. Also, ongoing concerns from some of these factors led to a spike in volatility in the equity markets during the quarter which resulted in a number of significantly down and up days (As usual, the big down days were not fun). This in turn hurt many hedge funds while resulting in better results for long-only equity strategies for those advisers and investors who stayed the course.

In particular, our defensive equity strategies each had a strong quarter. Additionally, our traditional equity strategies had solid performance in the quarter with excellent performance from our traditional growth strategies. In all, each FLI strategy appreciated during the quarter.[1] Of course, fixed income continues to be perplexing as the Fed has continued to kick the can of raising interest rates down the road. However, at the most recent meeting, the Fed did change the language in its statement, and it looks like it will finally start to slowly raise short term rates in mid-2015. This of course assumes that our domestic economy continues to expand and international economies do not significantly worsen. When (and if) rates go up this could create some additional short-term volatility.

The fourth quarter demonstrated to us that fundamentals of rising earnings, low interest rates, and reasonable valuations do matter. These factors prevailed over short-term volatility caused by geopolitical, domestic, and foreign economic headlines. Many active managers failed to keep up with indices during 2014 as lower-quality companies (those with poorer balance sheets) appreciated more than stronger companies. We believe this began to change in the fourth quarter. We expect this will continue in 2015 as growth in earnings should be more dependent on revenue growth from stronger companies as opposed to higher profit margins from layoffs and cost cutting initiatives.

The fourth quarter also reflected greater consumer confidence resulting from better employment numbers and the significant decrease in oil prices. The decline in oil prices acted as a tax cut and gave all consumers

[1] Results are exclusive of one strategy which has yet to report results.

and oil consuming businesses extra cash flow. Some of this extra cash found its way into consumer spending in the quarter and we expect to see more of this in 2015.

In summary, on balance, we had a strong fourth quarter. Several of our defensive and traditional equity strategies exceeded their benchmarks for the quarter and most achieved strong absolute returns for the year. When considering that these results followed a banner 2013, we are quite happy and we hope you are too. At the same time, we try to keep risk low through prudent asset allocation and concentration within each asset class. As an example, we continue to significantly underweight foreign-domiciled companies (with respect to both stock holdings and fixed-income portfolios). Foreign equities continued to underperform (in the fourth quarter and all of 2014) all domestic equity indices. In our opinion, a modest international allocation is still most appropriate.

We remain cautiously optimistic going into 2015 and think the bumps in the fourth quarter might just set the stage for what we will have to endure this coming year. By the way, from a historical standpoint, the third year of a Presidential term has been positive for domestic equity markets over the past 50+ years. That is a nice historical data point, but as we often mention it is not a guaranty, just a guide.

We look forward to serving and guiding you as we enter 2015. Please feel free to call upon us for any of your wealth and money management needs. Starting a new year is always a good time to review your asset allocation, estate, and income tax planning, and all of your life, health, and property insurance needs. If we do not hear from you rest assured you will hear from us each quarter.

Best regards and Happy New Year,

Robert D. Rosenthal
Chairman, Chief Executive Officer
and Chief Investment Officer

*The forecast provided above is based on the reasonable beliefs of First Long Island Investors, LLC and is not a guarantee of future performance. Actual results may differ materially. Past performance statistics may not be indicative of future results.