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First Long Island Investors, LLC

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This critique of the Fourth Quarter will be brief as by now you hopefully have read our annual thought piece: “Welcome Back Volatility.” It describes how volatility became more pronounced in both the third and fourth quarters of 2015. The contributors to that volatility were investor uncertainty as to when the Federal Reserve would finally raise interest rates (they finally did in December), the continued plummeting of commodities led by oil, geopolitical tension around the world including terrorist attacks in Paris and San Bernardino, California, and the slowing of the Chinese economy as well as the devaluation of its currency.

These factors and the ensuing volatility masked what turned out to be a very positive quarter for equity markets which bounced back from the correction in the third quarter. (Our first correction since 2011!) However, the fourth quarter rally was not broad based and did not lift all ships. In fact, a number of large-cap growth companies, including Facebook, Amazon.com, and Alphabet (formerly Google), along with some others, helped the S&P 500 achieve a solid gain in the fourth quarter and were very much responsible for that average eking out a slight gain for the year. However, the reality is that many stocks declined in price as the result of a slowdown in growth of the global economy, collapsing oil prices, and the appreciation of the U.S. dollar.

Fortunately, all of our equity based strategies delivered solid performance or better in the fourth quarter. As mentioned before, our asset allocation advice to our clients to participate in growth-oriented strategies led to reasonable gains for the quarter and full year in our hedged growth strategy (nine consecutive years of outpacing its index); our Core strategy (which beat the S&P 500) and our growth-oriented equity strategy which also beat its weighted benchmark (includes both domestic and international components). Our Dividend Growth strategy delivered on its goal of providing clients with a strong increase in its annual dividends. The strategy’s average dividend increased by 9.5% and it also outpaced one of its indices, the Russell 1000 Value Index.

In other areas of investing, we are very pleased with the real estate mezzanine debt investment we launched in the third quarter as it appears to be making progress. Two of our value-oriented investments are very much tied to the success of Sears Holdings and Seritage Growth Properties (the R.E.I.T. created



with some of the properties previously owned, or in a few cases ground-leased, by Sears and now leased back to it). Although progress was achieved from a corporate standpoint, Sears' stock remains a disappointment, however we continue to believe in Edward Lampert, Chairman and CEO of Sears Holdings; Bruce Berkowitz, President of Fairholme, our deep value manager with a large position in Sears and Seritage; and the significant underlying value of the real estate in both entities.

In summary, we believe that we achieved reasonable results in a difficult environment for investing. Several of our strategies did well from both an absolute and relative standpoint. After many years of market appreciation and 0% interest rates, both a correction and an increase in interest rates were inevitable. We believe these will be digested by the investment markets, but with greater volatility, which we will just have to live with.

Careful asset allocation and concentration in companies with good earnings and revenue growth along with those companies that continue to grow dividends should help us achieve decent results in what we expect will be a most volatile 2016. In addition, investing in some strategies that have less correlation to equity markets should also provide some help in delivering a positive year facing the typical "wall of worry" that we as investors are used to.

We are pleased to share that Teri Vobis, has been promoted to Assistant Vice President and Director of Taxation. Teri is an integral part of our finance team and is available if you have any tax related questions. Please call upon any of us at FLI for help with your wealth management needs.

Best regards and wishing you a healthy and Happy New Year,

Robert D. Rosenthal

Chairman, CEO, CIO

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