10th Annual Value Investor Conference
May 2-3, 2013
Held at The University of Nebraska - Omaha
College of Business, Mammel Hall

Robert Robotti
Founder and CEO, Robotti & Company Advisors

“Is Buy and Hold Investing Really Dead?”

Join Us for the 11th Annual Value Investor Conference
May 1-2, 2014 — The University of Nebraska - Omaha
College of Business, Mammel Hall.

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Is Buy and Hold Investing Really Dead?

Robert Robotti
President & CEO
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History

• Established in 1983 by Robert Robotti.

• Our niche is small-to-mid capitalization equities of misunderstood, neglected, or out-of-favor companies.

• Until 2004, our primary focus was on North American investments.

• In 2005, Isaac Schwartz launched Robotti & Company’s international investing initiative, initially focusing on Asia.

• Putting his “boots on the ground,” Isaac moved to Singapore in 2007 and lived in Hong Kong for five years.
“To me, value investing is a big tent that accommodates many different people. At one end of the tent there is Ben Graham, and at the other end of the tent there is Warren Buffett, who worked with Graham and then went out on his own and made adjustments to the teachings of Ben Graham.”

- Jean-Marie Eveillard (Graham and Doddsville – Winter 2007 Ed.)
Past performance is no guarantee of future results. Illustration is based on a hypothetical $1,000,000 investment, net of management fees. All results shown assume reinvestment of dividends and capital gains.
Value Investing

Invest only when there is a sufficient margin of safety.

The ability to estimate intrinsic value.

Knowing where to fish - search where others aren’t looking.

Variant view of future cash flow.

Behavioral edge – maintaining the proper temperament.

Be a contrarian - invest in ideas that make others cringe.

Patience - wait for times when you can take advantage of Mr. Market.
Cognitive Biases

**Estimates**

1. **Anchoring**
   Anchoring estimates to an inappropriate baseline such as guidance or consensus.

2. **Confirmation bias**
   Cherry picking data to support a thesis, rather than objectively analysing.

3. **Framing**
   Interpreting positively-crafted statements positively.

4. **More is more fallacy**
   Adding greater detail makes thesis more persuasive but less likely.

5. **Overconfidence**
   Overriding models and data because we convince ourselves we know better.

6. **Availability bias**
   Judging probability of events by how easy it is to think of examples.

7. **Substitution**
   Substituting the question ‘Is this stock fairly valued’ with ‘Do I like this stock.’

8. **Halo effect**
   Assuming all aspects of company positive just because a few stand out.

**Investment decision**

1. **Herding**
   Buying when everyone else buys (and/or when share price is rising).

2. **Loss aversion**
   Reluctance to sell losers but willingness to sell winners.

3. **Mental accounts**
   Unwillingness to invest in a good opportunity because you ‘missed out already’

4. **Status quo bias**
   Reluctance to change a portfolio despite evidence supporting that change.

5. **Overoptimism**
   Underestimating the risks around a stock you own or recommend.

6. **Recency bias**
   Focusing on recent /upcoming catalysts rather than the long-run thesis.

7. **Hindsight bias**
   Assuming you always knew a certain outcome would happen.

8. **Causal thinking**
   Assuming a link between a news story and the share price performance that day.

*Source: Goldman Sachs Research, Kahneman ‘Thinking, fast and slow’, Montier ‘Behavioural investing: a practitioners guide to applying behavioural finance’.*

*ZeroHedge*
“It’s time to say farewell to buy-and-hold. The strategy involves buying high-quality stocks at a reasonable price and holding them for a long time, if not forever. It has made many smart investors, including Warren Buffett, a lot of money. But technology is the buy-and-hold investor’s enemy, and it is becoming a stronger and more disruptive force every day.”

Don’t Believe Buffett – Buy-and-Hold Investing Is Dead
The Globe and Mail, 3/27/13

“This isn't your father's market. Gone are the days when using a buy-and hold strategy – purchasing a variety of stocks and sitting on them long-term – makes sense.”

Lessons From Investing’s Lost Decade
ABC News.com, 8/2/2012

“The Lost Decade of Stock Investing: Advisers sold us a bill of goods about the lasting value of real estate and stocks.”

The Lost Decade of Stock Investing
The Wall Street Journal, 10/15/09
What does “Buy and Hold” Mean?

“The Buy-and-Hold approach is to do nothing.”

*Securities Training Corporation, 2012*

“…Some people will tell you to ignore the board, that you can make money if you just close your eyes, buy some good-looking stocks and hold onto them forever. They tell you that's the responsible way to invest – buy and hold – and forget about everything else because it's all short-term noise.”

*Jim Cramer, “Mad Money Manifesto”*
• The theory that stock market prices are random and therefore cannot be predicted can be traced to French economist Jules Regnault in the book *Calcul des Chances et Philosophie de la Bourse* (1863).

• In 1965 Eugene Fama wrote an article titled “Random Walks In Stock Market Prices” which was a less technical version of his Ph.D. thesis.

• The term was popularized among individual investors in the 1973 book, *A Random Walk Down Wall Street*, by Burton Malkiel, a Professor of Economics at Princeton University.
• Since 1994, DALBAR has been measuring (1) the returns achieved by investors vs. the returns of a passive index and (2) the effects of investor decisions to buy, sell, and switch into and out of mutual funds over both short- and long-term time frames.

➢ The results consistently show that not only do a majority of actively managed funds underperform the passive index, the average investor actually earns less than mutual fund performance reports would suggest.

• DALBAR just proved what Benjamin Graham taught us over 60 years ago in his introduction to *The Intelligent Investor*: “For indeed, the investor’s chief problem—and even his worst enemy—is likely to be himself.”
Is Graham and Dodd Ancient History?

The ‘investment theory’ upon which the 1927 – 1929 stock market proceeded…ran as follows:

1. “The value of a common stock depends on what it can earn in the future.”
2. “Good common stocks are those which have shown a rising trend of earnings.”
3. “Good common stocks will prove sound and profitable investments.”

“These statements sound innocent and plausible. Yet they concealed two theoretical weaknesses that could and did result in untold mischief. The first of these defects was that they abolished the fundamental distinctions between investment and speculation. The second was that they ignored the price of a stock in determining whether or not it was a desirable purchase.”

Source: Security Analysis: The Classic 1934 Edition by Benjamin Graham and David Dodd
Why Listen to Us Over A Bunch of PhDs?

“In theory there is no difference between theory and practice. In practice there is.”  
*Yogi Berra*

![Diagram: Theory (A → B) vs. Practice (Complex Path)]

“It's investing blind, and investing blind is no different from investing dumb.”  
*Jim Cramer*

“The notion that the desirability of a common stock was entirely independent of its price seems incredibly absurd.”  
*Benjamin Graham*  
Security Analysis: The Classic 1934 Edition
Learning from History

- There have been two >50% market drops over the past 15 years.

Source: Bigcharts.com
Throughout history there have been many changes to, and developments in the financial markets.

What has never changed is the fact that market participants – human beings – are always driven by emotion.

In the financial markets, two of the most powerful and most troublesome emotions are: fear and greed.
Humans are Emotional Beings

“Individuals who cannot master their emotions are ill-suited to profit from the investment process.”

Benjamin Graham

• In an efficient market luck would dominate skill, there would be no need for money managers, and doing nothing would be the best bet…

  ➢ Luckily, markets are inefficient.
Our behavioral edge comes from our ability to tolerate losing money before we make it. As a result, our investment process concentrates on understanding the long-term normalized earning power of a business well before the herd, in this case the market, gains interest.
“Example isn't another way to teach, it is the only way to teach”

- Albert Einstein
The Intelligent Buy and Hold Investor

• *Intelligent* Buy and *Thoughtful* Hold Investing Works.

- Get to know management / owners. (They might even listen to you!)

- Better understand industry dynamics / business fundamentals: tune out short-term noise and focus on long-term fundamentals.

- Serve on company boards: “I'm a better businessman because I am an investor and a better investor because I am a businessman.”

- Accumulate knowledge to form an informed contrarian opinion: Slow and steady has proven itself the superior way to generate long-term returns.
Get to Know Management / Owners
Understand what drives management decisions to allocate capital.
PriceSmart, Inc. (PSMT)

• Owns and operates 30 membership warehouse clubs in Central America and the Caribbean.

• Founded in 1994 by Sol Price, a pioneer of the warehouse store who also founded Price Club in 1976.

• Clubs sell perishable foods and other consumer products at low prices to individuals and businesses.

Data as of 04/30/13

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<th>Metric</th>
<th>Value</th>
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<tr>
<td>Cash</td>
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<tr>
<td>Enterprise Value</td>
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</tr>
</tbody>
</table>

PriceSmart One Year Price Chart

Source: Capital IQ
• Costco acquired Price Club in 1993 to form PriceCostco.

• Price Enterprises Inc. was spun off from the new entity in 1994.
  ➢ Sol Price and his son Robert Price left PriceCostco to run the new business.

• PriceSmart focused on South America, but kept a similar business plan to Costco.
• Our thesis was predicated upon the belief that the company operated a niche business with little competition.
  ➢ They were bringing a successful plan to a new market.
• As is the case with many long term investments, things get rocky at times.
• Trouble in the period from 2003-2005 led the company to restructure in 2005.
  ➢ As a result, the company brought in a new executive management team and recapitalized through a rights offering.
• Belief in Sol Price who backstopped the rights offering.
• Because we had time to get to know the owners of the business, we were able to not only feel comfortable with the stock’s price decline, but also add more to our position, lowering our cost basis.

Source: Capital IQ, Company Financials
Understand Industry Dynamics
Tune out short-term noise and focus on long-term fundamentals.
NewMarket Corporation (NEU)

- Niche specialty chemicals business that produces petroleum additives used in fuels and lubricants.
- The company also markets tetraethyl lead in the U.S. and has a real estate development business in downtown Richmond, VA.
- Until 2004, the company was known as Ethyl Corp.

**Data as of 04/30/13**

<p>| | |</p>
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<td>64</td>
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<td>Enterprise Value</td>
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**NewMarket One Year Price Chart**

Source: Capital IQ
NEU: Variant View

• We believed that the supply/demand fundamentals had fallen into place to allow for higher margins.

  • We observed a cycle of contracting margins, due to rising costs followed by expanding, due to industry pricing discipline.

• We believed NewMarket could earn $4.00 per share of free cash.

• With the stock at $15.00, the implied valuation was < 4x our free cash projection.

• NewMarket’s CFO smirked at our estimates and said “From your lips to god’s ears…”

Source: NewMarket Financials
NEU: The Outcome

NewMarket Revenue 1997 - 2012

NewMarket Net Debt 1997 - 2012

NewMarket EBITDA 1997 - 2012

Source: NewMarket Financials, Robotti & Company Adjustments
• It was clear that industry fundamentals were setting the stage for an explosion in pricing power and returns.

• While all of the signs were there, investors were still skeptical that the industry would ever achieve a consistently profitable level.

• In 2012, NewMarket earned $17.85 per share and has earned $17.96 per share over the trailing twelve months.

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<tr>
<td>Total Revenue</td>
<td>1,063.6</td>
<td>974.2</td>
<td>869.9</td>
<td>825.3</td>
<td>707.6</td>
<td>656.4</td>
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<tr>
<td>growth</td>
<td>(8.4%)</td>
<td>(10.7%)</td>
<td>(5.1%)</td>
<td>(14.3%)</td>
<td>(7.2%)</td>
<td>(15.2%)</td>
<td>(18.2%)</td>
<td>(20.3%)</td>
<td>(17.5%)</td>
<td>(8.8%)</td>
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<td>(17.5%)</td>
<td>(19.6%)</td>
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<td>Operating EBITDA</td>
<td>201.6</td>
<td>180.6</td>
<td>173.9</td>
<td>114.3</td>
<td>93.1</td>
<td>86.5</td>
<td>95.8</td>
<td>91.4</td>
<td>72.6</td>
<td>114.3</td>
<td>136.8</td>
<td>144.3</td>
<td>293.8</td>
<td>325.0</td>
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<td>margin</td>
<td>19.0%</td>
<td>18.5%</td>
<td>20.0%</td>
<td>13.8%</td>
<td>13.2%</td>
<td>13.2%</td>
<td>12.7%</td>
<td>10.2%</td>
<td>6.7%</td>
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<td>8.9%</td>
<td>19.2%</td>
<td>18.1%</td>
<td>16.0%</td>
<td>18.4%</td>
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Source: NewMarket Financials, Robotti & Company Adjustments
NEU: Additional Clues

- Since 2007 the Gottwald family purchased almost 2 million additional shares of stock (on a net basis).

- Since FY 2007 the company’s share count was reduced 22.5% from 17.3 million to 13.4 million shares.

- In 2011, Berkshire Hathaway acquired Lubrizol for approximately $9.5 billion or 7.5x trailing EV/EBITDA, convincing many that this might not be a bad business after all!

Source: Capital IQ
Serve on Company Boards

“I'm a better businessman because I am an investor and a better investor because I am a businessman. If you have the mentality of both, it aids you in each field.” -Warren Buffett
Accumulate Knowledge To Form an Educated Variant View

An investor who is wrong, yet maintains a contrarian view, is still wrong.
Contrarian Investing

**contrarian** (noun) A person who opposes or rejects popular opinion, especially in stock exchange dealing.

• We don’t believe that it is constructive to have a variant view only for the sake of being a contrarian.
• A necessary component of a well-founded contrarian view is time – to understand the important drivers of an investment.

Source: Google.com
Stolt-Nielsen Limited (OB:SNI)

- Stolt-Nielsen is the world’s leading chemical shipping company founded in 1959 by Jacob Stolt-Nielsen, a pioneer of the parcel tanker industry.

- The company has over 5,700 employees worldwide with 42 offices in 25 countries.

- Three main segments include: (1) Stolt Tankers, (2) Stolthaven Terminals, (3) Stolt Tank Containers.

- Additional segments include: Stolt Sea Farm, Stolt-Nielsen Gas, and Stolt Bitumen Services.

- At just over tangible book value, shares trade at < 50% of the company’s estimated sum of the parts value.

Data as of 04/30/13

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
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<td>Diluted Shares</td>
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<td>Market Cap</td>
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<td>Cash</td>
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<td>Enterprise Value</td>
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Stolt-Nielsen One Year Price Chart

Source: Stolt-Nielsen 1Q 2013 Report, Capital IQ
Stolt-Nielsen: Investment Highlights

- Leading player in an oligopoly market, with strong barriers to entry
- Ability to replace fleet is superior to dwindling competition – simultaneous ability to grow terminal and container businesses
- High insider ownership – skin in the game
- Oversupply in the late 90’s started the chain of events resulting in 15 years of underperformance – current undersupply may do the opposite
- Poised to benefit from a strong chemical manufacturing resurgence
- Terminal and Container segment values are not reflected in the current market price and provide strong returns on capital
- Trades for < 50% of the company’s estimated sum of the parts value
Stolt-Nielsen: Segment EBITDA

Source: Stolt-Nielsen Annual Reports, Quarterly Presentations; Robotti & Company calculations
Stolt-Nielsen: Terminal Capacity

Stolthaven Terminals: Global Presence

Terminal Storage Capacity Growth (thousands cbm)

<table>
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<th>Year</th>
<th>Capacity</th>
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<tr>
<td>06</td>
<td>0</td>
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<tr>
<td>08</td>
<td>960</td>
</tr>
<tr>
<td>10</td>
<td>1,920</td>
</tr>
<tr>
<td>12</td>
<td>2,880</td>
</tr>
<tr>
<td>14</td>
<td>3,840</td>
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<tr>
<td>16</td>
<td>4,800</td>
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Capital Expenditure Programme (U.S.$ Millions)

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<th>Year</th>
<th>Expenditure</th>
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<tr>
<td>10</td>
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<td>11</td>
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<td>16</td>
<td>241</td>
</tr>
<tr>
<td>17</td>
<td>192</td>
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Source: Stolt-Nielsen Annual Reports
# Stolt-Nielsen: Terminal Expansion

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<tr>
<th>Owned Terminals</th>
<th>JV Terminals</th>
<th>Avg. 50% Participation</th>
<th>Total</th>
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<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Capacity in cbm</strong></td>
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<tr>
<td>Current Capacity</td>
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<td>Approved Expansions</td>
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<tr>
<td>Expansion Capabilities</td>
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<td><strong>Capacity in cbm</strong></td>
<td>2,593,599</td>
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<td>Approved Expansions</td>
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<tr>
<td>Expansion Capabilities</td>
<td>120,000</td>
<td>60,000</td>
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<tr>
<td><strong>Capacity in cbm</strong></td>
<td>1,392,107</td>
<td>1,332,107</td>
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## Capacity Expansions (cbm)

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<tr>
<th>Owned Terminals</th>
<th>JV Terminals</th>
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<tr>
<td><strong>Capacity in cbm</strong></td>
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<tr>
<td>2013</td>
<td>2014</td>
<td>2015</td>
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<tr>
<td>Owned Terminals</td>
<td>239,580</td>
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<td>JV Terminals</td>
<td>224,000</td>
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<td><strong>Total</strong></td>
<td>463,580</td>
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Source: Stolt-Nielsen Q1 2013 Investor Presentation, Robotti & Company estimates
Stolt-Tank Containers: Fleet and Shipment Growth

Stolt Tank Containers: Fleet and Shipment Growth

Stolt-Nielsen: Industry Map

• Strong conviction level about shifting industry dynamics.
Stolt-Nielsen: Identify the Bear Case

• Management could destroy value by allocating capital to lower return businesses.
  • Company founder, Jacob Stolt-Nielsen, and his family own > 50% of the company’s shares.

• Industry competitors might be allowed to remain solvent and therefore irrational for longer than expected periods.

• Stolt-Nielsen could be a value trap.
  • While this has proven true until this point, we believe the underlying shifts in the industry that we have identified will eventually be reflected in supply/demand.
  • Case study: the railroad industry.
• We believe that the industry is in the midst of a structural shift that will affect the long-term supply/demand balance and allow constituents to realize an appropriate return on their assets.

• Economic activity should rebound at some point – which means increased chemical manufacturing and production.
  • As a result of shale drilling there is a resurgence of chemical manufacturing in United States. This will continue to fragment the chemical manufacturing process, and therefore increase the need for the efficient and economic transportation and logistics services.
  • This will not only help the tanker business, but will also provide an additional boost to the terminal and container businesses which already enjoy high returns on capital.

• Activity in the Middle East will provide additional growth opportunities.
• Stolt-Nielsen’s current share price of $20.64 is just over 1x the company’s tangible book value.

➢ We think book value will grow over next 3 – 5 years, driven by growth of the terminal and container businesses and a rebound of the shipping business.

• Stolt-Nielsen trades for less than 50% of its sum of its parts value.

Source: Stolt-Nielsen Annual Reports, Robotti & Company Calculations
<table>
<thead>
<tr>
<th>Business</th>
<th>2011 EBITDA</th>
<th>2013 EBITDA</th>
<th>2011 Valuation</th>
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<td>Tankers (Broker Valuations)</td>
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<td>Construction in Progress</td>
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<td>$147 M</td>
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<td>$86 M</td>
<td>$120 M</td>
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<td>STC (8x)</td>
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<td>$792 M</td>
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<td>$176 M</td>
<td>$144 M</td>
</tr>
<tr>
<td>Other (Bx)</td>
<td>$15 M</td>
<td>$15 M</td>
<td>$120 M</td>
<td>$120 M</td>
</tr>
<tr>
<td>Investments in JVs</td>
<td></td>
<td></td>
<td>$275 M</td>
<td>$301 M</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td></td>
<td><strong>$4,288 M</strong></td>
<td><strong>$4,562 M</strong></td>
</tr>
<tr>
<td>Net Debt (Basis 2011 Actuals and 5-yr plan)</td>
<td></td>
<td></td>
<td>($1,397) M</td>
<td>($1,617) M</td>
</tr>
<tr>
<td><strong>Sum Of the Parts Valuation</strong></td>
<td></td>
<td></td>
<td><strong>$2,891 M</strong></td>
<td><strong>$3,045 M</strong></td>
</tr>
<tr>
<td>Market Cap as of May: 10.12</td>
<td></td>
<td></td>
<td>$1,133 M</td>
<td>$1,133 M</td>
</tr>
<tr>
<td>Market Cap in % of Sum of the Parts Valuation</td>
<td></td>
<td></td>
<td>39%</td>
<td>37%</td>
</tr>
</tbody>
</table>

(a) Stolt Tankers: $1,958.0 M accounts for the value of the broker valuations of the ships used as collaterals in our loan facilities
(b) Investments in Joint Ventures, exclude the equity income from Joint Ventures in Terminals
(c) 2011 and 2013 EBITDA info as of YTD actuals

Intelligent Investing is Alive and Well

- In the introduction to *The Intelligent Investor* Benjamin Graham wrote: “For indeed, the investor’s chief problem—and even his worst enemy—is likely to be himself. (The fault, dear investor, is not in our stars—and not in our stocks—but in ourselves. . . .)”

- In *Security Analysis*, Graham and Dodd wrote: “An investment operation is one which, upon thorough analysis promises safety of principal and an adequate return. Operations not meeting these requirements are speculative.”

- Furthermore, “the notion that the desirability of a common stock was entirely independent of its price seems incredibly absurd.”

- We believe that Buy and Hold investing without regard to price has never been a valid investment approach.

- Intelligent Buy and Thoughtful Hold Investing as we have described is very much alive and we believe it will continue to do well for a very long time.
## Disclosure: Ownership Information

<table>
<thead>
<tr>
<th>Disclosures</th>
<th>NewMarket (NEU)</th>
<th>PriceSmart (PSMT)</th>
<th>Stolt-Neilsen Ltd (OB:SNI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robert Robotti and/or members of his household have a financial interest in the following securities</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Robotti or its affiliates beneficially own common equity of the following securities</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Robotti or its affiliates beneficially own 1% or more of any class of common equity of the following securities</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Robert Robotti serves as a Director or Officer or Advisory Board Member of the following securities</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

As of the date of this presentation, Robotti & Company Advisors, LLC and/or its affiliates owns shares of Stolt-Neilsen Limited and PriceSmart and does not have any current intention to exit these positions.

Companies have been chosen solely as a case study to illustrate the investment process and approach of Robotti & Company Advisors, LLC. This information should not be interpreted as a performance record or as an indication of future performance results.
DISCLOSURE TO PAGE 5

Net performance results are presented after deducting the Firm's actual investment management fees, any custodial fees, trading commissions and expenses. For accounts subject to a performance-based fee, net performance is net of those fees. These results were calculated based on reinvestment of dividends and other earnings. Certain accounts pay an additional management fee to a third-party investment adviser for whom the Firm acts as sub-adviser and performance is calculated net of their fee as well as the Firm's fee. Performance of this composite has been calculated using U.S. dollars. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Past performance is no guarantee of future results. Individual account performance will vary. Investors should be aware that they could lose money.

S&P benchmark and correlating performance figures may contain immaterial variances if S&P changed its figures ex post facto.

* Inception through August 2011, benchmark presented is the Russell 2000 Index. September 2011 to present, benchmark presented is the Russell 2500 Value Index. The 2011 index return is blended. The index was changed to better reflect the composite’s holdings and strategy; because of the firm’s buy-and-hold strategy, positions that were small-cap when purchased may have grown or merged to become mid-cap or larger companies, and holding larger cap positions is a natural evolution of this strategy. The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Index measures the performance of those Russell 2000 companies which represent the 2000 smallest companies in the Russell 3000 Index. As the Russell 2500 Value includes both small and mid-cap companies, the Firm believes it is a more appropriate benchmark for the composite.
Questions

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