RGA INVESTMENT ADVISORS, LLC

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March 2013 Investment Commentary

What do we own?

In our preview for 2013, we outlined five key series to focus on for the year: Europe's improvement; the improving household balance sheet; growing momentum in real estate; a pronounced move towards energy independence; and the lagging technology sector. We took a decisively bullish tone towards both the economy and the stock market, which at the time seemed like a contrarian stance. It did not take long for our perspective to gain momentum in the stock market. The first quarter of 2013 was one for the record books. On March 5th, the Dow Jones Industrial Average closed at an all-time high and the S&P 500 followed suit on March 28th, the last day of trading in the quarter.

For the first quarter, the Russell 2000 led the way with a 14.41% gain, followed by the Dow adding 12.58%, and the S&P 500 tacking on 11.88%. Out of our five key series for 2013, real estate's momentum and improving household balance sheets collectively have been a very positive force for the economy and stock market. Meanwhile, Europe has been a notable laggard this year, and the emergence of Cyprus as a problem accelerated concern for the Old Continent. Technology continued to flutter amongst the weakest sectors of the stock market. While Cyprus was an unforeseen problem (the type that typically carries the most severe negative consequences), we think much of the concern was unwarranted and hyperbolic. Over the months leading into 2013, Europe's powerful upward move required time for digestion, a constructive phase for markets to continue their march upwards.

The question on everyone's minds right now is whether this year will follow the recipe of the last few years with a "Spring Swoon" or will the momentum help commence a virtuous cycle that inevitably steers the economy out of the malaise we have experienced. While we believe markets are vulnerable to a correction right now, this is due more to the compounding optimism over the past few months that have traveled too far too fast, than a concern about the direction of the economy. As such, we believe we are entering a time where people will talk less and less about the economy.

What do we own?

This month we would like to introduce a new section to our quarterly commentary entitled "What do we own?" In this section, we will talk briefly about our three best and worst performing stocks during the past quarter. When we invest in companies, we place a great emphasis on the fundamentals of the business, with a keen eye towards the company's treatment of shareholders as stakeholders. The stocks in your portfolio are far more than just symbols or lines on charts; they are fractional ownership interests in real underlying businesses. Our hope is that in discussing these stocks in more detail in our commentary, you can share in some of the excitement we have for the underlying businesses, and can foster a sense of pride in the businesses that you are a part of as an owner.

The Leaders:

Cree, Inc. (NASDAQ: CREE) +56.96%

Cree is a leading innovator in LED lighting. While Cree is classified as Semiconductor Company, this classification is slowly losing relevance. Cree is leading LED lighting adoption in two key ways: they are accelerating the rate of improvement on the technology and rapidly driving down retail pricing for these new lights. During the quarter, Cree experienced two notable catalysts to drive share prices higher. First, the company reported stellar earnings, indicating both rapidly growing sales and expanding profit margins. Second, and perhaps most importantly, Cree entered into an arrangement with Home Depot to sell the company's Edison-styled LED bulb for just below $10 (the deal also includes some higher wattage bulbs that retail at price points between $13 and $14). This is a major breakthrough, as these bulbs instantly became both the cheapest to own and highest quality residential light bulbs (cheapness is measured by cost of ownership over the bulb's warrantied and expected life) available on the market. Technology and household appliance critics and analysts alike quickly praised this move as a monumental breakthrough in lighting. While the stock is no longer downright cheap, the market opportunity remains vast and the earnings trajectory is improving accordingly.

iRobot Corp (NASDAQ: IRBT) +36.31%

iRobot's strong first quarter was due in equal parts to a regression to the mean following a challenging 2012 and accelerating progress on two key initiatives. 2012 at iRobot was defined by the precipitous drop in defense department revenues, dropping from over 50% of company sales to almost nothing. Meanwhile, those who solely take a big picture look at this company without digging beneath the hood will have missed out on what we think is the most notable development at iRobot: the rapidly accelerating adoption of its household robotics line, led by the Roomba automatic vacuum. The first quarter's strong performance was driven by the Roomba, FDA approval for the first telemedicine robot, the iRobot RP-VITA, better than expected profitability in the fourth quarter of 2012, and the commencement of a share repurchase program. We are particularly intrigued by the entrance into telemedicine, an area with huge future potential, and while we never invest on potential alone, the company is able to self-finance this investment with its ample cash stash and fairly steady cash flows from operations.

Exor SpA (OTC: EXORF) +29.67%

Exor is an Italian-based holding company that boasts substantial stakes in Fiat Motors, Fiat Industrial, SGS SA, Cushman Wakefield and Juventas amongst its core holdings. Due to the market turmoil in Europe, Exor trades at a substantial discount to its net asset value. This means that should the company sell off all of its assets, it would realize a value well in excess of its share price today. This is merely part of our attraction to the company. We like each constituent holding of Exor, and are particularly fond of management's actions on behalf of shareholders. This quarter, our position took a decisive move upwards when Exor announced an initiative to streamline its capital structure by rolling the outstanding preferred shares (which we own) into the common stock. Simultaneously, the company started buying back shares at an aggressive pace. One holding that attracts us to Exor is its stake in Fiat Motors. While Fiat is struggling in Europe, it has a globally profitable presence, and a substantial stake in Chrysler Motors with the option to purchase more. Fiat jointly owns Chrysler with VEBA, the union representing autoworkers' healthcare trust. Once the differences between the two parties are resolved on the option to purchase the remainder of Chrysler, the company can then engage in streamlining efficiencies between Fiat and Chrysler and benefit from substantial synergies. We believe that Fiat Motor's stake in Chrysler alone could be worth more than Fiat's entire market cap.

The Laggards:

ING Groep (NYSE: ING) -22.89%

Many know ING, the global bank and insurer. In the first quarter, ING's stock was hurt by ongoing concerns in the Eurozone. First, ING was forced to pay a share of the Dutch bailout of SNS Reaal and later ING announced it had over $1 billion of exposure in Cyprus. Meanwhile ING shares continue to trade for a fraction of tangible book value. This is due to the continued uncertainty of when ING will finally repay its own bailout from the financial crisis. Interestingly, ING has made substantial progress on this front, and we view the rough first quarter more as a give-back of a portion of the substantial gains experienced in the second half of 2012 than a reflection of renewed cause for alarm. As a condition for repaying its bailout, ING has been forced to sell off many of its non-European assets, and it has done so in the US and Asia at prices near or above book value. Soon, ING will spin-off its US-based asset management business, and with the proceeds, a substantial step will be taken towards finishing payback to the Dutch government. Once this is done, ING can engage in share buybacks and possibly reinstate a dividend. This is a dynamic situation with ample opportunity and time for continued improvement. As such, our position remains small, with room to buy more should the opportunity present itself.

Power-One Inc. (NASDAQ: PWER) -0.24%

Power-One is a leading inverter company in the solar and server markets, though the company is nearly unanimously perceived as a solar company by the stock market. We like Power-One because they have a competitive edge in the inverter business, and are not in the sub-space of solar with the most deflationary pricing pressures (that would be the wafer makers themselves). Further, we like Power-One because the company has a pristine balance sheet and significant deferred tax assets (DTAs) that can be used to offset tax liabilities in the US. The problem is that the company has yet to establish a firm presence in the US in order to take advantage of these DTAs. This was due to the US' slow ramp of solar investment and delays in ramping up production at the company's Arizona manufacturing facility. During the quarter, Power-One announced a deal with Panasonic in order to sell inverters in Japan. We view this as a very positive development, though the market has failed to take notice. Japan is one of the world's fastest growing solar markets, and generally speaking, the country is slow to afford outsiders the access and credibility necessary to gain entry. Time will be the most important catalyst as Power-One is able to continue to earn money on a cash basis and build up its robust balance sheet.

Siemens AG (NYSE: SI) +0.04

Siemens' first quarter struggles are similar in nature to ING, as an outstanding second quarter of 2012 requires some time to digest. There are several crosscurrents that attract us to the Siemens story: a core European company that benefits from a weaker Euro; a European company that gets punished by the stock market for being in Europe; a European company which earns much of its money outside of the Eurozone; a company shedding non-core assets and streamlining operational efficiency; a steady non-cyclical business with a cyclical business exposed to the greatest global secular trend (urbanization); and a smart, shareholder friendly management team. The catalyst that started Siemens' up move this summer was the simultaneous commencement of a 3 billion euro share repurchase, and 3 billion euro debt issue. We view this as prudent capital structure arbitrage, for the company was overcapitalized relative to its peers and was able to issue debt at extremely low interest rates over a blend of timeframes. The benefits of this low cost debt go directly to its shareholders in the form of the stock repurchase, and a lower cost of capital moving forward.

Thank you for your trust and confidence, and for selecting us to be your advisor of choice. Please call us directly to discuss this commentary in more detail. Please feel free to call Jason or Elliot directly at 516-665-7800.

Warm personal regards,

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