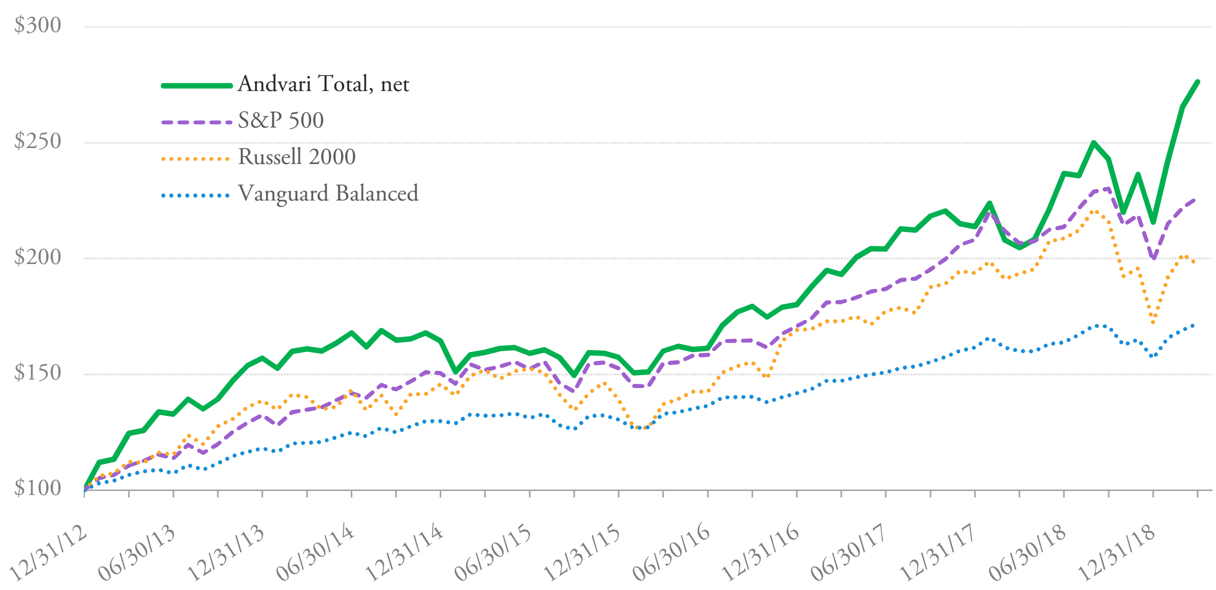
ANDVARI
ASSOCIATES

April 12, 2019

Dear Friends,

For the first quarter of 2019, Andvari was up 28.1% while the S&P 500 was up 13.6%.[1] The table below shows Andvari's composite performance figures against three benchmarks while the chart shows the cumulative gains of hypothetical $100 investments.

	2013	*2014*	*2015*	*2016*	*2017*	*2018*	*2019 YTD*	*Annualized Since 12/31/12*
Andvari Total, net[1]	**57.6%**	**4.8%**	**-4.4%**	**13.5%**	**18.9%**	**1.0%**	**28.1%**	**17.8%**
S&P 500	32.4%	13.7%	1.4%	12.0%	21.8%	-4.4%	13.6%	14.0%
Russell 2000 (IWM)	38.7%	5.0%	-4.5%	21.6%	14.6%	-11.1%	14.6%	11.5%
Vanguard Balanced (VBIAX)	18.1%	10.0%	0.4%	2.7%	13.9%	-2.9%	9.6%	9.1%



[1] "Andvari Total" represents all of Douglas Ott's investment accounts and all the discretionary accounts Andvari manages where it takes an active role in picking individual stocks and receives a fee. From 12/31/12 to 4/12/13 results included only Ott's personal and retirement accounts—the first Andvari clients transferred their accounts on 4/12/13. Andvari believes including Ott's performance figures for the first 4 months of 2013 is fair as he managed those assets similarly relative to later clients. Results are net of management fees (1% per annum), time-weighted, and includes all cash and other securities. The indexes and funds are listed as benchmarks and are total return figures and assumes dividends are reinvested and net of their respective underlying fees.

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Andvari's performance in the first quarter was excellent for several reasons. First, we had the benefit of starting from a low base given the negative performance in the fourth quarter of 2018. Second, many of Andvari's holdings experienced a confluence of positive news and results. Finally, for some of the taxable accounts Andvari manages, we took on leverage to invest in several companies whose share prices had fallen far too much. Most of these accounts are up 36% in the first quarter.

Andvari's Top Equity Holdings As of 3/31/19	**% of Net Assets**
Mesa Laboratories	14.7
Upland Software	9.8
Appian	8.3
GCI Liberty	8.2
Liberty Broadband	8.1
Roper Technologies	7.7
Mastercard	7.2
Tyler Technologies	6.6
Workday	5.9
Visa	5.3

ANDVARI'S HOLDINGS

Charter Communications

Charter (to which we have significant exposure via Liberty Broadband and GCI Liberty) announced good results for 2018 and that it would reducing annual capital expenditures from $9 billion to roughly $7 billion. This is an extra $2 billion that will mostly go to shareholders in the form of share repurchases. With the hardest parts of integrating the Time Warner and Brighthouse acquisitions behind Charter, shareholders see a clearer path towards higher margins and free cash flows. Charter shares remain undervalued even after being up over 22% in the first quarter—shares of Liberty Broadband and GCI are up 28% and 35% respectively.

Upland Software

Upland reported phenomenal results for 2018. It's strategy of cheaply acquiring solid, yet neglected, software companies owned by private equity firms continues to bear fruit. Although Andvari's original investment thesis did *not* require *any* organic growth for us to win as shareholders, Upland has proven that it can and will go after organic growth. This is icing on the cake. Shares are up over 55% in the first quarter.

Telaria

This has been another "roller coaster" investment for Andvari. We purchased shares of this advertising technology company at around $3.80. The company then lowered guidance in October 2018 and the share price ended 2018 at $2.73. Next, in February the company reported results for 2018 that were way better than expected. The share price shot up to over $5.50 and then over $6.50 per share. We've sold nearly all our shares at these prices and have been happy to earn a ~50% return in less than a year.

Workday

Workday reported good results for 2018, growing revenues 32%, from $2.1 billion to $2.8 billion. Operating expenses were elevated in the last half of 2018 due to their $1.6 billion acquisition of Adaptive Insights, but Adaptive's business planning software will be a good addition to Workday's human capital management platform. For 2019, Workday expects to grow revenues over 27% to $3.5 billion.

Workday's CEO also shared with investors for the first time that the company has an internal goal of achieving $10 billion in revenues. Andvari thinks Workday can easily achieve this goal within seven years, if not sooner with the help of other acquisitions.

Visa & Mastercard

For the calendar year 2018, revenues grew 20% for Mastercard and 13% for Visa. Both companies have operating margins above 50% and plenty of runway for continued growth. Cash and checks still make up 85% of the world's transactions. E-commerce as a percent of total retail sales in the U.S. is just now approaching 10%. The continuing shift to debit/credit cards is a huge tailwind that will benefit both companies for decades.

Tyler Technologies

Tyler is a software company focused exclusively on the government and public sector verticals. In December, its share price had declined to where it was 3 years ago despite the company having increased revenues by 58% over that time. After following Tyler for many years, Andvari purchased its first shares.

Tyler then announced in February the acquisition of two companies. The largest of the two is MicroPact, founded by CEO Kris Collo in 1997 with just two credit cards and $15,000 of his own money. Collo grew the enterprise from nothing to over $70 million in revenues and he will continue to lead the company going forward.

MicroPact will provide two benefits to Tyler. First, MicroPact's case management software expands Tyler's total addressable market. Second, MicroPact's clients are mostly federal government agencies and Tyler's clients are mostly state and local governments. It makes sense there will be cross-selling opportunities for Tyler and MicroPact.

Tyler continues to invest heavily to improve and add new features to its products. These investments are a temporary ceiling on already enviable operating margins of 20%, but they will make Tyler more competitive in bidding for the future business of larger government entities.

THE HIDDEN COST OF FRIENDSHIP

Over the last decade, I've spent a lot of time to find and research companies that have the potential to produce great returns for Andvari clients. Markel is and was one of those companies. Following a similar strategy as Buffett's Berkshire Hathaway, Markel has focused on underwriting profitable insurance and then using that float (the money that an insurance company holds onto between the time customers pay premiums and the time they make claims on their policies) to acquire non-insurance companies and to invest in publicly-traded securities.

I purchased my first block of shares in 2010 and a few current Andvari clients acquired shares soon after. I've traveled to Richmond, Virginia half-a-dozen times to attend the annual Markel shareholder meeting. It's been awesome meeting directors and senior management of Markel over the years. I've also enjoyed meeting and chatting with other fellow shareholders, some of whom have become great friends. There are *many* positive associations I have with this company.

However, as an adviser charged with providing my clients the best returns possible per their guidelines, I know that becoming "friends" with an investment has the potential to cloud my judgment. It could delay or prevent me from seeking out better opportunities to the detriment of myself and Andvari clients. In most circumstances when it comes to money, the less emotion involved the better.

Andvari started selling Markel shares in 2016 and accelerated the selling in 2018. We are down to less than thirty shares in a handful of taxable accounts. So why sell shares of a great company that has gone from $330 per share in 2010 to $1,200 per share in 2018?

My primary reason for selling was the "talk-to-walk ratio" of Markel management becoming noticeably out of whack. I score them *very* highly on sincerity, honesty, thoughtfulness, having a willingness to accept blame for mistakes, and a willingness to do whatever it takes to fix a problem. Markel is head and shoulders above almost every other public company in terms of telling a great, pro-shareholder story. But when a company like that fails to deliver long-term returns to its shareholders that are no better (or not much better) than a market index, one should ask "What is up with that?"

First, Markel's program of buying non-insurance businesses (known as Markel Ventures) has occupied far too much time of senior management for the level of benefit it has provided shareholders. More specifically, a few problems have surfaced over the last two years. First, in the second quarter of 2018, Markel recorded $33.5 million in expenses related to an investigation and remediation of one of their Ventures businesses. In connection with this same business, Markel recorded a goodwill impairment of $14.9 million, which eliminated *all* the remaining goodwill. Markel never said exactly which Ventures business caused these problems, but I believe a now-former CEO at one of the manufacturing businesses deceived several customers to induce purchases of its products. These customers discovered the lie and now this company (and Markel) has been on the hook financially and reputationally.

The second and most recent snafu is regarding CATCo, a specialized asset management firm which Markel acquired in 2015. In the latter part of 2018, Markel announced that CATCo was under government investigation. In January 2019, Markel then told shareholders that—in the course of its own investigations—they had discovered an undisclosed personal relationship between CATCo's founder/CEO and another CATCo executive. These two executives were fired. Finally, Markel announced in February they had written the goodwill of CATCo down to *zero*, which resulted in an impairment charge of *$179 million*.

My conclusion is Markel is not as good at acquiring companies (and appropriately monitoring them post-acquisition) as I once believed. Markel has written down all the goodwill of two acquisitions and has spent money and precious time investigating and remedying these matters. However, to be fair, let's put these mistakes into context. Several hundred million of write-downs and expenses is an absolutely large number, but it's not even three percentage points of Markel's $9 *billion* of shareholder equity at the end of 2018.

Fortunately for Andvari clients, we had already sold most of our shares by the end of 2018. As of April 10, Markel's share price has entirely missed out on the market rally: Markel is *down* 5.6% while the S&P 500 is *up* 15.2%. Shareholders have correctly placed the company in the penalty box.

Clients do not pay Andvari to become friends with companies or the management of companies. They pay Andvari to produce good returns while adhering to their investment goals. As such, I will always strive to be unemotional when it comes to investing the money entrusted to me. I'm in a good position to do this given most of my net worth is invested in the same securities owned by Andvari clients. Despite Markel being a good company with some of the kindest and most able managers, I've concluded there are better investment opportunities out there.

SUMMARY

I'm very happy with Andvari's recent performance. We were lucky to have a handful of positive events occur in the same quarter following a quarter of negative performance. Most satisfying is Andvari's net performance over the last 6¼ years has beaten multiple, passive indexes. Andvari has also hit a milestone of greater than $10 million of assets under management. I could not have achieved these results without the trust and confidence of Andvari clients. I am eternally thankful to them for the privilege of managing a portion of their hard-earned savings.

Sincerely,

Douglas E. Ott, II

Douglas E. Ott, II

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