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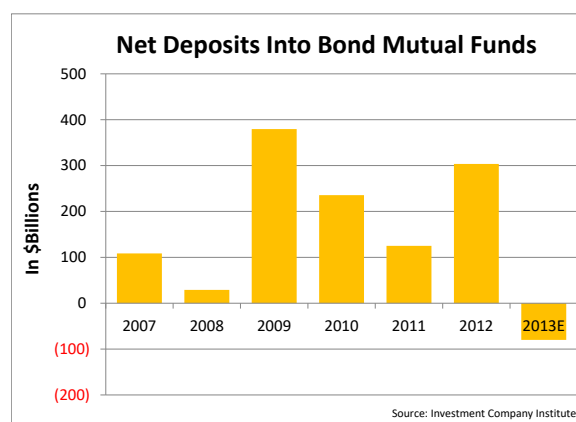
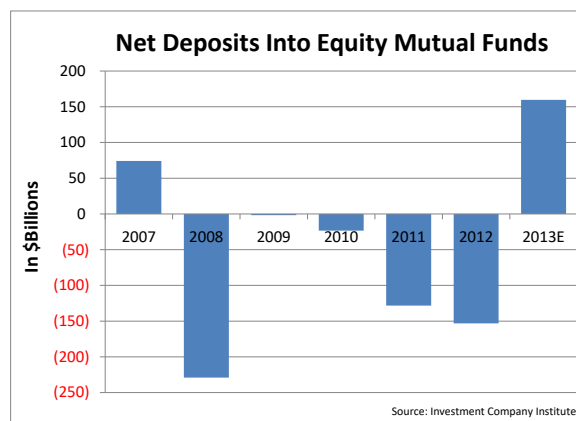
Catch a Wave and You're Sitting On Top of the World

Wednesday, January 8, 2014

Dear Kopion Clients,

2013 was a bonanza. Kopion's return for the year was 62.5% before fees (60.9% after fees). The S&P 500 and Russell 2000 returned 32.4% and 38.8%, respectively.

Kopion's exceptional performance during the year was driven by a unique combination of factors. The most important of these was our place within the larger market cycle. Sir John Templeton observed that "Bull Markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria." While this is a generalization, I have still found it to be a very helpful framework for understanding the larger market cycle. 2008-2012 were the pessimism and skepticism phases, and three important dynamics developed during that time. The first of these was the sheer magnitude of the exodus out of stocks and into seemingly safer assets such as bonds as illustrated by the two charts on the right. This shift created a multitude of individual and institutional investors who had accumulated too much in cash and bonds. When the recovery gathered strength during 2013, these investors naturally began looking for an attractive entry point back into stocks, but there were so many of them looking for a pullback that all of the year's pullbacks became shallow and short lived. A second important consequence of the 2008-2012 exodus was that valuations had become relatively low, though this was not widely acknowledged at the time. Many investors believed that valuations should be low because the economy seemed likely to muddle along indefinitely and because the



market seemed riskier than it had in the past. A third important dynamic was that these conditions persisted for so long that many investors became conditioned to expect them to last indefinitely. These three dynamics set the stage for an incredibly durable bull market when the economy began to show sustained improvement during 2013. I thus believe that the stock market transitioned from the skepticism phase to the optimism phase during the year, and this benefitted all equity investors.

Kopion, however, also benefitted from three additional factors during 2013. Market commentators often speak of the stock market as if it is one giant monolith that moves in direct response to a few key variables such as the economy, the Federal Reserve, and general investor sentiment. This is a gross over-simplification, though it was generally accurate from 2010-2012 because during that period, most investors did focus heavily on those variables, and they were much less discriminating among various stocks. Most of the time, however, the stock market is not so much a “stock market” as it is a “market of different stocks,” each of which has their own competitive landscape, long-term trends, and valuation. As investors grew less preoccupied with macroeconomic concerns during 2013, their attention returned to stock-picking, and this benefitted Kopion because we focus on companies with strong prospects that are trading at good valuations. Our stocks thus began to get the credit they deserved. The second factor that Kopion enjoyed during 2013 was an improving outlook for many of our companies. All of our companies invested prodigiously throughout the economic downturn, improving their competitive positions and expanding their market opportunities through various means such as new product development, expansive process improvements, and smart acquisitions. While such efforts are somewhat routine, our companies excelled in these areas during the downturn at the same time that many of their competitors retrenched. Many of our companies’ prospects are thus proving to be better than expected, and their stocks are being rewarded accordingly.

The final factor that Kopion benefitted from during the year was some good luck. During most years, a few of our stocks will encounter some type of adversity that causes them to decline and create a drag on the rest of the portfolio. In 2013, however, we were dealt very few of these setbacks, and this was partially good luck. In addition, while I deliberately choose companies with strong upside potential, this upside is developing even better than I had expected, and this also involves a degree of luck. It is impossible to quantify the benefit of this luck, and I believe it was the smallest of all of the factors that I’ve discussed, but it still bears mentioning.

I have some ambivalence about the outlook for our portfolios going forward. On one hand, some type of setback is well overdue, and each day brings us closer to it. It is thus important to view 2013’s gains within this context, recognizing that a decline is somewhere around the corner, and it will erode some of these gains. That said, I also see a number of encouraging signs. From a valuation perspective, many of our positions are still attractive, and most of the others are at least “okay.” Furthermore, recoveries sometimes produce positive surprises as the companies who invested during the downturn emerge as the “winners” in their industries, with larger market shares, lower cost structures, and more opportunities. Some of our stocks are already getting credit for this, but experience has taught me that such surprises can be easy to underestimate. Lastly, I draw some encouragement from the fact that much of the

optimism I've seen to date is guarded as well as the number of investors who are still waiting to "get back in."

2013 is likely to be the best year of my investing career. It is difficult to imagine repeating this scenario in which I began with so many significantly undervalued stocks and most of them went on to enjoy much better outlooks and valuations within the same year. But while 2013's success was exceptional in its degree, I believe that it still speaks to the quality of Kopion's investment process, and I believe that this process will continue to lead to good results over the long term.

Thank you for your confidence and support.

Best Regards,

Terry Ledbetter, Jr., CFA

PERFORMANCE DISCLOSURES

Period	Kopion, Gross	Kopion, Net <small>Max Fee</small>	S&P 500	Russell 2000
Annualized*				
1 Year	62.5%	60.5%	32.4%	38.8%
3 Years	24.1%	22.6%	16.2%	15.7%
Since Inception [†]	29.0%	27.5%	16.9%	18.9%

Period	T Ledbetter, Gross	T Ledbetter, Net <small>Max Fee</small>	S&P 500	Russell 2000
Annualized*				
1 Year	62.5%	60.5%	32.4%	38.8%
3 Years	24.1%	22.6%	16.2%	15.7%
5 Years	31.6%	30.0%	17.9%	20.1%
Since Inception [‡]	17.3%	15.9%	7.2%	8.7%

*Ending 12-31-13

[†]Since 8-23-09

[‡]Since 2-3-04

Past performance does not guarantee future results. Investments with Kopion may lose value.

Terry Ledbetter, Jr. began managing his first diversified investment account on 2-4-04 while employed by Friedberg Investment Management (FIM). Mr. Ledbetter left FIM on 7-31-09 and founded Kopion Asset Management, LLC (Kopion), which became a legal entity on 8-24-09. Importantly, when Mr. Ledbetter founded Kopion, he continued to manage the same accounts that he had been managing while employed by FIM. The accounts, investment strategy, and investment process all remained the same. The performance information cited throughout Kopion's marketing materials includes all of the diversified investment accounts managed directly by Mr. Ledbetter since 2-4-04, which is when he began managing his first diversified investment account. This information is provided for both Mr. Ledbetter's entire performance history as well as for the portion of Mr. Ledbetter's performance history that occurred after Kopion was founded and became a legal entity.

The performance information cited throughout Kopion's marketing materials has been thoroughly documented, and it has been calculated using normal industry protocols, which are described in more detail below. This information has not, however, been audited by an independent third party. Dividend and interest income in these accounts was reinvested. Returns for these accounts have been asset-weighted to calculate historical returns. Said another way, the accounts were aggregated into a single group and then performance was calculated for that single group. This group includes some sub-accounts and securities that were carved out of larger accounts in order to exclude assets like mutual funds that Mr. Ledbetter did not manage directly. Those mutual funds were managed by professionals at third party firms, and Mr. Ledbetter's involvement was limited to being a passive shareholder of those mutual funds. In addition, some of those mutual funds followed fixed income strategies, which were very different from the strategy used by Mr. Ledbetter when he was employed by FIM and later at Kopion. Performance information that includes assets like mutual funds that were not managed directly is available, and Kopion will provide it promptly upon request.

Kopion reports its Time Weighted Returns (TWRs). TWRs make adjustments for deposits and withdrawals so that those transactions do not influence performance results. Consequently, deposits do

not increase the return, and withdrawals do not decrease the return. TWRs thus allow for performance comparisons between Kopion's (and Mr. Ledbetter's) history and market indices.

Kopion reports both "gross returns" (which are returns before Kopion's management fee) and "net returns" (which are returns after deducting Kopion's management fee). Kopion's management fee schedule is graduated, which means that the fee rate begins to decrease after an account's dollar value exceeds a certain threshold. The label "Net _{Max Fee}" indicates that the net returns being presented reflect Kopion's maximum fee rate for all periods presented. The words "net" or "after fees" without the words "Max Fee" in subscript lettering indicates that the net returns being discussed reflects actual fees.

Kopion has provided the returns of the S&P 500 and the Russell 2000 indices in order to provide the broader stock market context of Kopion's (and Mr. Ledbetter's) returns. The S&P 500 tracks the performance of relatively large publicly traded companies, and the Russell 2000 tracks the performance of relatively small ones. Kopion does not "benchmark" its portfolio against indices in the traditional sense of carefully managing the portfolio for comparison against a specific index. Instead, these two indices are used as broad indicators of the stock market's performance. Mr. Ledbetter has primarily focused on small and medium sized firms, but he has also invested in some large companies as well. This is why Kopion has provided the results of both the S&P 500 and Russell 2000. These indices cannot be invested in directly, but mutual funds and exchange-traded funds that track these indices ("index funds") are available in the market. Kopion's (and Mr. Ledbetter's) investment strategy carries more risk than investing in an index fund that tracks either the S&P 500 or the Russell 2000. This is primarily because Kopion's (and Mr. Ledbetter's) strategy involves investing in a relatively small number of stocks and those stocks are primarily for small to medium sized companies. This approach results in greater volatility and greater risk of capital loss than index funds tracking either the S&P 500 or the Russell 2000.

Indices' performance figures have been obtained from sources believed to be reliable.