SELECTIVE
WEALTH MANAGEMENT

2015 Annual Report

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Each account experienced different returns due to differences in account size and the inception date. We explain these differences in greater detail on pages 27 and 28.

We encourage you to read them.

For additional information please email info@selectivewm.com

Executive Summary

Year	Selective	S&P 500[2]	Relative	
2009	+86.0%	+60.1%	+25.9%	Accomplished at preceding investment partnership.
2010	+23.3%	(4.5%)	+27.8%	
2013[1]	+39.2%	+24.2%	+15.0%	
2014	(4.4%)	+13.7%	(18.1%)	
2015	+5.8%	+1.4%	+4.4%	
Cumulative	+222.9%	+118.9%	+104.0%	

Table 1: Businesses Presently Owned

Business	Symbol	Purchase Price	Current Price[3]	Dividends	Gain (Loss)[4]
Alphabet Inc.	GOOG	$513.36	$758.88	$0.83	48.0%
Cognizant Technology Solutions	CTSH	$42.47	$60.02	-	41.3%
Baidu Inc.	BIDU	$153.99	$189.04	-	22.8%
National Research Corp.	NRCIB	$32.61	$35.82	$0.79	12.3%
Autohome Inc.	ATHM	$31.91	$34.92	-	9.4%
Oracle Corporation	ORCL	$36.05	$36.53	$0.15	1.7%
Union Pacific Corporation	UNP	$85.34	$78.20	$0.21	(8.1%)
International Business Machines	IBM	$154.02	$137.58	$2.91	(8.8%)
Wal-Mart Stores Inc.	WMT	$69.80	$61.31	$0.27	(11.8%)
Biglari Holdings Inc	BH	$373.09	$325.82	$1.31	(12.3%)

1) Returns are from inception (March 1st) to year-end. Returns for partial years are not annualized.
2) S&P 500 returns are total returns - which include price changes and dividends. The S&P 500 is not a suitable benchmark and is used for general comparison. We do not believe there is a suitable benchmark given the concentrated nature of our investment style.
3) Current prices reflect market close as of December 31, 2015.
4) Gain (Loss) calculation includes the payment of dividends.
5) Returns are based on a composite average of accounts greater than $5,000.

Table 2: Businesses Sold During 2015

Business	Symbol	Purchase Price	Sale Price	Dividends	Gain (Loss)[1]
Solarwinds Inc.	SWI	$41.41	$57.45	-	38.7%
BofI Holding Inc.	BOFI	$74.81	$103.76	-	38.7%
Core Laboratories NV	CLB	$102.29	$125.83	$1.09	24.1%
Lancashire Holdings Ltd.	LCHSF	$10.72	$10.90	$1.87	19.1%
Jiayuan.com International Ltd.	DATE	$5.43	$5.76	$0.66	18.1%
Albemarle Corporation	ALB	$45.11	$51.35	$0.29	14.5%
National Research Corp.	NRCIB	$32.55	$36.37	$0.75	14.1%
Quality Systems Inc.	QSII	$15.33	$16.88	$0.42	12.9%
Penns Woods Bancorp Inc.	PWOD	$43.13	$43.08	$1.82	4.1%
Patriot National Inc.	PN	$7.72	$7.06	-	(8.5%)
Manning & Napier Inc.	MN	$10.85	$7.76	$0.31	(25.6%)
Pulse Seismic Inc.	PLSDF	$2.89	$1.82	$0.10	(33.7%)
Liquidity Services Inc.	LQDT	$18.29	$6.25	-	(65.8%)

Results

In 2015, we posted a modest gain advancing 5.8% compared to 1.4% for the S&P 500. We took the lead against the market on January 1st and maintained that lead for all 365 days of the year. Overall, our relative performance of +4.4% was satisfactory considering the prudence with which we've constructed our investment portfolio. During 2015, we pulled the weeds and watered the flowers – selling our least impressive businesses and purchasing more of the most dominant companies. The quality of our Selective Companies is more impressive than it was twelve months ago and the current pricing relative to the market is attractive.

Year	Selective	S&P 500	Relative
2015	+5.8%	+1.4%	+4.4%

As a firm, assets under management increased more than 120% during 2015. Although our 5.8% gain contributed slightly, the increase in assets was accomplished primarily from referrals and existing clients contributing. During the month of August the stock market experienced its first correction in more than 5 years dropping over 10% and during this same timeframe we saw record contributions. We appreciate your vote of confidence and are fortunate to have clients that think like business owners. We applaud your willingness to invest when markets decline - this contrarian attitude will create tremendous wealth over the lifetime of your investment career.

1) Gain (Loss) calculation includes the payment of dividends.

Selective Companies - Two Categories of Compounders

Before we dive into the Selective Companies we presently own, I'd like to discuss the two categories of businesses we purchase: Growth Companies and Buyback Companies. Both categories of companies must pass our Selective Process and possess the characteristics of a dominant business, but the mechanism for building wealth for shareholders is different in each case.

Growth Companies are relatively straight forward – these businesses compound wealth for owners by increasing the size of the overall business. Growth Companies allocate your earnings as a business owner into projects that create new markets or win additional market share in existing markets. The metrics used to evaluate Growth Companies are well known in the world of finance – return on assets, return on equity, annual growth rates, etc. The best way to evaluate a Growth Company is to look at how the business allocates capital and understand the unit economics of the growth engine. For example, when evaluating a software company, we'd analyze the client acquisition costs relative to the customer life-time value using metrics such as gross profit per customer, churn, etc. Once the unit economics are well understood, a classic discounted cash flow model can be used to determine a range of values for the enterprise. The solution to this discounted cash flow calculation is known as the *intrinsic value* of the business. The intrinsic value can then be compared to the market price to determine if the investment is a wise decision. The goal is to purchase companies in which the intrinsic value is much higher than the market price. For Growth Companies, the intrinsic value of the company and the market price of the company are independent variables. This type of analysis is well understood and the most utilized by professional investors.

The second category of Selective Companies is not as well understood by the investment community. These are companies that compound wealth for owners by repurchasing shares; we call these Buyback Companies. Unlike Growth Companies that invest the majority of earnings into new projects, Buyback Companies tend to be mature businesses with relatively limited prospects for growth. The majority of earnings for Buyback Companies are allocated toward repurchasing shares, or "buying back" stock. This reduces the number of shares outstanding and increases our percent ownership in the business with no additional investment on our end. By way of example, imagine that you run a business with 3 partners and profits are split four ways – 25% each. One of the partners decides to sell his stake to the remaining three partners and profits are now split three ways – 33% each. The company is the same size, but your ownership percentage increased, which in turn increases your profits. This is how buybacks work, but with millions of partners. In short, Growth Companies invest earnings to increase the size of the pie, whereas Buyback Companies invest earnings to increase the size of your slice.

When it comes to Buyback Companies, a discounted cash flow model is not as useful, because the intrinsic value of the company and the price of the company are dependent variables. The lower the price of a Buyback Company, the faster your slice of the pie grows (or compounds). All else being equal, Buyback Companies compound your earnings faster as the price of the stock declines. For this reason, we love to purchase Selective Companies with dominant market positions that are mature and aggressively repurchasing stock when the price of the stock is low. We maintain ownership in these Buyback Companies as long as the market capitalization of the business remains depressed. Once the market capitalization rises, the speed at which our earnings compound decelerates and the investment becomes less attractive. To illustrate the power of compounding for a Buyback Company I encourage you to read about Union Pacific on pages 13 and 14. Union Pacific is one of our largest holdings and a personal favorite of mine. The Union Pacific example demonstrates the mathematics we employ when evaluating Buyback Companies.

Each category also has unique characteristics in the marketplace. Our growth companies tend to be more volatile in price whereas the Buyback Companies, being large and mature, are more stable. One could argue that the Buyback Companies are defensive due to the low P/E multiples and mature nature of the business. We would argue they are both defensive and aggressive due to the rapid compounding that will ensue from share repurchases. Buyback Companies actually become *exponentially* more valuable as the market capitalization declines. Our portfolio is evenly divided between Selective Growth Companies and Selective Buyback Companies.

The reason for this brief explanation between the two categories of Selective Companies is to explain why we buy and sell businesses. Growth Companies can be purchased and held for long periods of time to build wealth, regardless of the price of the stock. We intend to hold our Selective Growth Companies for several years. The Selective Buyback Companies, on the other hand, are attractive as long as the market capitalization (not the stock price) of the business remains depressed. When the market capitalization of a Buyback Company rises we sell the position at a profit, because future growth in per share earnings will decelerate. Table 3 organizes our Selective Companies into Selective Growth Companies and Selective Buyback Companies.

Table 3: Categorization of our Selective Companies

Selective Growth Companies	**Selective Buyback Companies**
Alphabet Inc.	Oracle Corporation
Cognizant Technology	Union Pacific Corporation
Baidu	International Business Machines
National Research Corp.	Wal-Mart Stores Inc.
Autohome Inc.	Biglari Holdings Inc

Businesses Presently Owned

Our portfolio of Selective Companies is more impressive today than it was twelve months ago. During 2015, we sold businesses that had a material change in the company's long-term prospects and replaced them with dominant companies that fall into the Growth or Buyback category. From an operating perspective, it appears that our Selective Companies are positioned to perform exceptionally well during 2016. A brief description of how each company performed during 2015 and our expectation for 2016 is provided on the pages that follow.

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Alphabet Inc.

Ticker: GOOG
Purchase Price: $513.36, Current Price: $758.88
Dividends: $0.83
Gain: +48.0%

2015 In Review – Google Inc. changed its name to Alphabet Inc. after a restructuring intended to bring transparency to the business. The company experienced sensational growth with revenue and profits increasing nearly 20% in constant currency driven almost entirely by the company's dominant position in global search. Market share, excluding China, remains strong, exceeding 75%. Bing and Yahoo! remain the two closest rivals with 12% and 10% market share, respectively. Alphabet generated over $74 billion in revenue in 2015 versus $66 billion during 2014. Alphabet continues to grow rapidly and dominate the lucrative market of search.

Future Expectations – We expect the core search business to have robust growth in the double digits during 2016. The business model for Alphabet remains intact and the transition to mobile is largely complete. The company was able to successfully monetize searches that occur on mobile devices. Our investment in Alphabet was primarily to own the core search business, but the company is slowly becoming a technology conglomerate with free 'options' embedded in the business model.

There are two technologies wholly owned by Alphabet that have the potential to generate massive profits in the future. The first is the Android mobile operating system. This operating system is currently given away for free on all Android devices to ensure phones and tablets utilize Google technologies when performing searches. In 2015 more than 1 billion Android devices were sold. If Alphabet elected to charge $15 for the operating system per device it would almost immediately generate $12 billion dollars after tax and nearly double the profits for the company. We believe that the operating system is the most valuable part of the smartphone ecosystem and a $15 dollar fee would be easily implemented if Alphabet elected to do so.

The second free option inside Alphabet is the automated car driving software. Alphabet completed more than 1 million miles of autonomous driving in 2015 and could be coming close to a commercial version of the driving software. The automobile market is in excess of $2 trillion dollars per year and we believe that if Alphabet perfects autonomous driving it could be a catalyst for growth that isn't currently priced into the stock. We'll keep you posted in the coming years on Alphabet's businesses outside of core search…

Cognizant Technology Solutions

Ticker: CTSH
Purchase Price: $42.47, Current Price: $60.02
Gain: +41.3%

2015 In Review – Cognizant was on pace for growth in excess of 22% during 2015 when massive floods hit Chennai, India. Chennai has a population of more than 4.5 million people, and the flood caused hundreds of millions of dollars in damage across the city and claimed the lives of more than 70 individuals. Cognizant employs roughly 60,000 individuals in Chennai, representing over a quarter of the company's work force. In the short-term, the floods will have a material impact on the company's ability to perform outsourcing tasks for their clients, but in the long-term, it will not affect the strength of the business. Despite the challenges, Cognizant had a sensational year breaking records for revenue and income at $12 billion and $1.6 billion, respectively. The company succeeded in its efforts to integrate TriZetto.

In addition to having an incredible year, Cognizant pledged $40 million to support flood victims in Chennai. This generous donation was applauded joyously by residents of Chennai as Cognizant continues to be an outstanding corporate citizen with a brand that extends well beyond high quality IT solutions that reduce costs for clients. We could not be more proud to own such an amazing enterprise.

Future Expectations – In 2016, we expect Cognizant to have another record year with growth in the double digits. The company's business model maintains revenue retention rates in excess of 100%, and Cognizant is constantly winning additional clients. We expect Cognizant to post record revenue and profits every year for the next 10 years and would be very surprised to see even a slight dip in earnings. The growth will be substantially less than it was in the previous decade – but impressive none the less.

One of the major difficulties facing Cognizant will be finding the right employees. Cognizant's services are largely based on a highly skilled technical staff and in order to maintain growth the company must increase its workforce on a percent basis equal to the growth in revenue (plus attrition of roughly 12%). This means that Cognizant will be required to hire roughly 60,000 new individuals per year for the foreseeable future. We believe the company is up to the task, but execution will be paramount to the company's future success. Again, to see 60,000 new jobs created annually in India at 7x the national average pay is astounding to behold – it is truly a pleasure to be an owner of Cognizant.

Baidu Inc.

Ticker: BIDU
Purchase Price: $153.99, Current Price: $189.04
Gain: +22.8%

2015 In Review – Baidu is a solid example of the short-term thinking prevalent on Wall Street. The company began the year primarily as a pure search company (like Google) with 70% market share in China and generated $7.9 billion in core search revenue during 2014. To start the year, the company was valued at $70 billion. During 2015, core search revenue increased more than 30% and exceeded $10 billion; however, at the lowest point in August, the company saw its valuation slashed by nearly 60%. Why the massive drop in price? This year Robin Li, the Founder, CEO, and largest shareholder of Baidu, announced the company would be investing heavily in the online-to-offline (O2O) business model. The O2O business model allows individuals to order services, such as food delivery, using an app on their phone. The entire transaction, including payment, can be completed via this mobile app. In order to attract users to the app, Baidu will offer users coupons for their first few purchases. These subsidies will cost Baidu roughly $3.2 billion over the next three years.

Wall Street believes correctly that subsidizing the O2O business model is not sustainable. Eventually, the aggressive subsidies must stop. We agree, but we then ask one additional question that Wall Street does not…who cares? If the O2O business model fails, Baidu will have "wasted" $3.2 billion in cash over a three-year period and will be forced to abandon the concept. If this channel for growth proves worthless, Baidu will still be earning roughly $5 billion per year from core search in five years and likely have a net cash position in excess of $15 billion. Even if the O2O initiative fails entirely Baidu will be much more valuable in five years. If the O2O business model proves successful, Baidu will be a grand slam.

Future Expectations – Our future expectations assume that Baidu continues to grow the core search business – which is a near certainty. Microsoft recently threw in the towel and gave up competing against Baidu in China and Google has less than a 2% market share there. The internet penetration rate in China is less than 50% and has substantial room for growth. We expect Baidu to easily clear 20% growth annually for the next 5 years from the core search business. We will keep you updated on how the O2O growth initiative is progressing.

National Research Corp.

Ticker: NRCIB
Purchase Price: $32.61, Current Price: $35.82
Dividends: $0.79
Gain: +12.3%

2015 In Review – National Research Corp had a solid year. The company posted a modest rise in revenue and maintained a flat net income despite increased expenses that resulted from the acquisition of Digital Assent. The company maintained an exceptionally stable customer base with revenue retention rates above 93%. During 2015, the total contract value increased to $109.3 million and subscription based-revenue agreements represented 88% of that value. The back log of contracts makes revenue visibility very high, and it appears that revenue and net income should increase at a double-digit pace in 2016.

During the year the company declared a total of $4.08 per share in dividends – of which $2.64 is payable on January 15, 2016. This equates to a dividend yield of 12% during 2015 – truly sensational. It should be noted that the timing of this dividend was slightly awkward for performance reporting. All shareholders who owned the stock prior to December 31, 2015 received the special dividend payment – meaning the stock had to be purchased by December 29, 2015 to settle in time. This is known as the ex-dividend date and, as usual, the stock declined $2.64 on this day to reflect the dividend payment. Due to the size of the dividend payment, the decline in price negatively impacted our reported performance for 2015 by a meaningful amount. Once we receive the dividend, the performance will be "added" in 2016. Anytime there are large special dividends declared toward the end of the year, it will decrease our annual performance during the current year and add a few percentage points for the following year. We don't mind this nuance. We prefer owning stocks that pay extremely large dividends at awkward times rather than owning stocks that pay mediocre dividends at regular intervals.

Future Expectations – We recently sent a letter to the Board of Directors outlining why the two-class share structure of National Research Corp is detrimental for shareholders. The Class A shares are currently three times as expensive as the Class B shares and pay substantially less in dividends. We currently own the cheaper, high-dividend paying, hyper-majority voting Class B shares. Our recommendation to the Board was to buy back the Class B shares, which would be accretive for Class A shareholders, profitable for Class B shareholders, and alleviate the confusion, reduced liquidity, and economic damage caused by the two share class structure. We'll let you know how the Board received our recommendation.

Autohome Inc.

Ticker: ATHM
Purchase Price: $31.91, Current Price: $34.92
Gain: +9.4%

2015 In Review – Autohome had a sensational year. The company posted a 56% increase in revenue compared to 2014 and almost a 100% increase in net income. This was accomplished by attracting more unique visitors to the website, increasing the number of dealership subscribers while simultaneously raising prices, and attracting more advertising dollars from OEMs. The highest priority for the business is to widen its economic moat by continuing to curate outstanding content on all makes and models of cars released in China to ensure the best user experience for car shoppers. We believe this feat was accomplished when considering that 50% of all time spent searching for a new car was spent on Autohome's website. This is more than 3x the nearest competitor. We could not have been more pleased with the company's performance during 2015.

Future Expectations – Looking forward, we expect Autohome to experience more growth in 2016, driven primarily from additional dealership subscriptions and increasing the price on subscriptions that are up for renewal. We believe the subscription service currently offers dealerships far more value than the current pricing would imply, and Autohome will be able to raise prices rapidly for the next few years to close this gap. This pricing tailwind should greatly increase profits as revenue rises with little-to-no incremental expenses.

The most substantial short-term threat to growth would be macro-economic factors, such as the growth in OEM passenger cars sold in China decreasing due to economic contraction. During 2015, OEM passenger car sales increased 2.8% year-over-year – the slowest growth rate in more than 5 years. Despite the slowdown, we believe that Autohome has several avenues to generate additional revenue during 2016 without an increase in OEM car sales. Long-term we anticipate that the Chinese auto market will continue to expand as the middle-class becomes more affluent; and Autohome will benefit greatly from this trend. Autohome will be able to expand its subscription services to the auto after-market and sell leads to repair and auto body shops. It appears that we are in the early innings for long-term growth.

Oracle Corporation

Ticker: ORCL
Purchase Price: $36.05, Current Price: $36.53
Dividends: $0.15
Gain: +1.7%

2015 In Review – Oracle is one of the most predictable businesses that we own and had a solid year in 2015. The company almost beat the revenue and profit records achieved in 2014 – falling shy by just 2.5%. Oracle continues to provide software that performs critical functions for thousands of enterprise companies globally, but has had a shift in product pricing and delivery. Historically, the company has sold perpetual software licenses with additional recurring revenue through maintenance fees, but the software landscape is continuing to change. Today the company is focused on selling Software-as-a-Service, which has lower upfront cash payments and higher recurring revenue. This puts a temporary damper on revenue as the transition occurs – a pain being felt by all software companies globally. However, the pain at Oracle is minimal as the company achieved more than $14 billion dollars in cash flow for owners during 2015. This cash was largely deployed to pay dividends and repurchase stock – with the lions share going toward stock repurchases.

Future Expectations – Oracle falls squarely in the category of a Selective Buyback Company. The firm is large and mature with stable profits and allocates more than 50% of earnings to share repurchases. As the price of Oracle falls the company becomes more valuable (see Union Pacific for a detail analysis of why this is the case). We expect Oracle to easily achieve a cash flow of more than $14 billion dollars per year with the majority of these earnings dedicated to share repurchases (compounding our stake in the business quickly). For this reason we would love to buy additional Oracle stock at roughly $30 per share, and would likely sell in the event the share price exceeds $42.

Union Pacific Corporation

Ticker: UNP
Purchase Price: $85.34, Current Price: $78.20
Dividends: $0.21
Loss: (8.1%)

2015 In Review – Union Pacific performed exceptionally well considering the difficulties that all transportation companies faced during 2015. Volumes shipped for most commodities were on the decline – particularly coal and oil in the Western United States. Despite these macro-economic headwinds, Union Pacific earned nearly $5 billion in profits and allocated more than half of that to share repurchases. The company continues to gain efficiencies by accomplishing more with less. In 2015, they reduced the employee count, lengthened the average train, and retired leased locomotives to keep expenses in-line with the reduced volume. When volume picks up, which it will, profits should recover very nicely and exceed all records on a per-share basis in the years to come.

Future Expectations – Union Pacific is a perfect example of a Selective Buyback Company. The economics of this particular business are wonderful, and the power of the company's repurchase program is evident. I'd like to take a moment to expound on the mathematics of Union Pacific's repurchase program since it applies to all of our Selective Buyback Companies and Union Pacific's is particularly delightful.

When considering the per share compounding of intrinsic value for Union Pacific, we cannot separate "value" from "price" – the two are dependent. To calculate the intrinsic value of Union Pacific, we must estimate a few key variables: future earnings, how capital is allocated, and the market capitalization. Our estimate of future earnings assumes a growth rate of 9% from the current earnings of $5.2 billion. This growth is achieved through 3% core pricing increases, reduction in the workforce, lengthening of the average train, and other efficiency gains. While this seems like a rapid growth rate for a business with flat volumes – remember – Union Pacific has compounded earnings at a rate of 20% for the last 10 years from similar cost initiatives. After projecting earnings, we assume that the company allocates 60% of earnings to share repurchases and the current price multiple remains fixed. Under these conditions, the share price will compound 9% per year from growth in earnings *plus* an additional 6.2% per year from the share repurchase activity for a total of 15.2% per annum. A sensational growth rate for a mature business with a very wide economic moat.

Table 4: Union Pacific Future Growth

Year	Earnings	Market Capitalization	Shares Repurchased	End of Year Shares	Share Price
2016	$5,242,880,000	$66,792,233,579	40,226,701	813,893,933	$82.07
2017	$5,714,739,200	$72,803,534,601	41,782,027	773,667,232	$94.10
2018	$6,229,065,728	$79,355,852,715	39,716,951	731,885,205	$108.43
2019	$6,789,681,644	$86,497,879,459	37,572,031	692,168,254	$124.97
2020	$7,400,752,991	$94,282,688,611	35,533,123	654,596,223	$144.03
2021	$8,066,820,761	$102,768,130,586	33,604,326	619,063,101	$166.01
2022	$8,792,834,629	$112,017,262,338	31,780,199	585,458,774	$191.33
2023	$9,584,189,746	$122,098,815,949	30,055,089	553,678,575	$220.52
2024	$10,446,766,823	$133,087,709,384	28,423,622	523,623,486	$254.17
2025	$11,386,975,837	$145,065,603,229	26,880,715	495,199,864	$292.94
2026	$12,411,803,662	$158,121,507,519	25,421,561	468,319,149	$337.64

The future share price of Union Pacific would reach $337.64 by 2026 if the price multiple for the business remained unchanged. Now, let's assume our assumptions break down and the price multiple of the stock changes (which, of course it will), results will differ. In the event the price multiple doubles, the future growth of the business would be limited to 12.0% instead of 15.2% (9% from organic growth and 3% from repurchases). As the price multiple of the stock rises, the annual growth in earnings from share repurchases decreases. In the event the price multiple is cut in half, the annual growth in earnings from share repurchases increases and the total per share growth would be 22.2% (9% from organic growth and 13.2% from repurchases). If the price multiple were cut in half today, the stock would still be worth $307.56 in 10 years due to the increased effectiveness of the repurchases. Obviously, buying *after* the 50% decline would be ideal, but it goes to show that our return would not be drastically affected over a 10-year period due to the power of buybacks. Purchasing a mature business at a depressed price level when the majority of growth comes from repurchases is a safe investment. Even when the stock declines in value our results over 10-years would not be drastically affected – assuming that we are correct about the earnings of the business.

Table 5: Buyback Growth vs. Price

	Constant Price	Price Doubles	Price Halves
Organic Growth	9.0%	9.0%	9.0%
Buyback Growth	6.2%	3.0%	13.2%
Annual Growth	15.2%	12.0%	22.2%
Share Price (2026)	$337.64	$520.22	$307.24

International Business Machines

Ticker: IBM
Purchase Price: $154.02, Current Price: $137.58
Dividends: $2.91
Loss: (8.8%)

2015 In Review – IBM had a challenging year with revenue and profits declining double digits. The majority of the decline was due to the strengthening of the US dollar – in constant currency, performance was about flat. The strategic imperatives, the most profitable and critical part of IBM's business, continue to grow and now represent $40 billion in revenue or 42% of overall revenues. These initiatives grew more than 27% in 2015 and by the year 2018 will be large enough to reverse the declining revenue from the lackluster hardware division. This portion of IBM's business is sticky with client relationships lasting several decades. In addition to the outstanding growth in strategic imperatives, we see a bright future for cognitive computing through the Watson division. This particular division will begin selling to enterprises during 2016 and CEO Ginny Rometty is targeting $10 billion in annual revenue within the first 10 years. This would be an impressive feat and a very high-margin business. We are now entering our third year as owners of IBM and continue to buy more – we're excited about the future of this business.

Future Expectations – IBM is another Selective Buyback Company. When we initially purchased shares in Big Blue, the company had 1,108,794,396 shares of stock outstanding; this figure has been reduced to 970,110,126 today. Thus, our ownership in IBM has increased more than 14% in the last two years with no additional investment. The aggressive buyback plan and dividend payments will eventually equate to more than a 10% annualized gain for us as business owners. At the current growth rate of the strategic imperatives ($40 billion x 27%) and incredibly low stock price (less than 10x earnings), it would be surprising to see IBM's stock price lag the market again this year. Rest assured, if business continues to improve at its current pace and the stock price does *not* rise, we will build wealth at a nice pace from the share repurchase program in the upcoming years (more than 20% per annum). Keep your fingers crossed that the price of IBM stays low for as long as possible.

Wal-Mart Stores Inc.

Ticker: WMT
Purchase Price: $69.80, Current Price: $61.31
Dividends: $0.27
Loss: (11.8%)

2015 In Review – Wal-Mart had an excellent year in 2015 earning just north of $15 billion. To put this figure in perspective, Wal-Mart earns more money in a month than Amazon has earned in its entire existence. Oddly, the market capitalization of Wal-Mart is 33% less than Amazon. Granted, Amazon reinvests the majority of potential profits into future growth, so the comparison isn't entirely fair. For a more direct comparison, Home Depot and Wal-Mart have similar market capitalizations ($165 billion and $200 billion, respectively), but Wal-Mart earns 2.5x more profit. Yet another example of Wal-Mart being the home of everyday low prices.

Wal-Mart's competitive position is strong as the number one brick-and-mortar retail location in the world. The company is cost efficient, a price leader, and the destination of choice for hundreds of millions of shoppers globally. Same-store-sales increased in 2015, meaning that more people are shopping at Wal-Mart today than ever.

Future Expectations – Wal-Mart is another Selective Buyback Company. The company has been aggressively repurchasing shares; and at the current price level, will retire stock very quickly. We expect the majority of our per share growth in earnings to come from this repurchase activity. There is no doubt that 2016 will be a difficult year for Wal-Mart and earnings will likely decline to slightly less than $14 billion, a very healthy profit for the King of Capitalism. Looking past 2016, we anticipate Wal-Mart's revenue should pass the GDP of Norway by 2018 and exceed $16 billion in profit around the same timeframe. As a Selective Buyback Company, it is our intention to maintain ownership in Wal-Mart as long as the price remains low and the business continues to operate with excellence. In the event the share price rises quickly, the growth we achieve through the repurchase program will decelerate and the intrinsic value of the company will decline – meaning we'd sell our stake at a healthy profit. In the meantime we'll be collecting a 3.2% dividend – a 50% higher yield than a current 10-year US treasury bond.

Biglari Holdings Inc.

Ticker: BH
Purchase Price: $373.09, Current Price: $325.82
Dividends: $1.31
Loss: (12.3%)

2015 In Review – Biglari Holdings had a sensational year. The company's insurance division, First Guard, increased profits by 100%, Steak n' Shake continued dominant operations with the 26th consecutive quarter of same-store-sales growth, and the 20% ownership stake in Cracker Barrel saw an earnings increase of more than 20% year-over-year. The turnaround efforts at Maxim continue with operating losses shrinking from $7 million per quarter to $4.2 million with strong revenue growth. The only blemish on the record for 2015 was the lack-luster growth in franchise locations for Steak n' Shake – this particular effort is not progressing as rapidly or as profitably as we would like. If Biglari can straighten out Maxim and the franchise operations the value of Biglari Holdings would be roughly double the current price.

In addition to sensational operational results the company repurchased 33% of the outstanding stock during 2015 increasing our ownership in the business a whopping 50% with no further investment. This was accomplished through additional borrowings that are non-recourse to the parent company. Despite the progress the price of the stock declined and the gap between price and value has widened significantly. We believe that this is due to the failures in the franchising efforts of Steak n' Shake coupled with the heavy investment in Maxim magazines turnaround efforts.

Future Expectations – Our future expectations for Biglari Holdings are foggy at best. The company is surely undervalued, but the two most recent investments – Steak n' Shake franchising and Maxim magazine, appear to be poor decisions. It is expected that capital allocators will make mistakes from time to time and not all investments will turn out profitable (we know this all too well), but should the company continue to stumble in the allocation of capital it will materially impact how we view the future of the business. We hope that next major investment decision makes strategic sense and has a clear path to enhancing shareholder value. Stay tuned…

Businesses Sold During 2015

We sold businesses this year for reasons ranging from plummeting oil prices to private equity acquisitions. We closed nine deals at a profit and four at a loss – with the biggest losers being major decliners that remained from poor decisions in 2014 (Liquidity and Pulse). To summarize our purchases and sales during 2015 – we pulled the weeds and watered the flowers (with the intention of being careful to avoid future weeds). Our portfolio today is in excellent position to outperform the market.

Table 1: Businesses Sold During 2015

Business	Symbol	Purchase Price	Sale Price	Dividends	Gain (Loss)
Solarwinds Inc.	SWI	$41.41	$57.45	-	38.7%
BofI Holding Inc.	BOFI	$74.81	$103.76	-	38.7%
Core Laboratories NV	CLB	$102.29	$125.83	$1.09	24.1%
Lancashire Holdings Ltd.	LCHSF	$10.72	$10.90	$1.87	19.1%
Jiayuan.com International Ltd.	DATE	$5.43	$5.76	$0.66	18.1%
Albemarle Corporation	ALB	$45.11	$51.35	$0.29	14.5%
National Research Corp.	NRCIB	$32.55	$36.37	$0.75	14.1%
Quality Systems Inc.	QSII	$15.33	$16.88	$0.42	12.9%
Penns Woods Bancorp Inc.	PWOD	$43.13	$43.08	$1.82	4.1%
Patriot National Inc.	PN	$7.72	$7.06	-	(8.5%)
Manning & Napier Inc.	MN	$10.85	$7.76	$0.31	(25.6%)
Pulse Seismic Inc.	PLSDF	$2.89	$1.82	$0.10	(33.7%)
Liquidity Services Inc.	LQDT	$18.29	$6.25	-	(65.8%)

Solarwinds Inc.

Ticker: SWI
Purchase Year: 2014, Sale Year: 2015
Purchase Price: $41.41, Sale Price: $57.45
Gain: +38.7%

Sell Decision – Our sale of Solarwinds was a forced decision. The company continued to operate brilliantly in 2015, but was acquired by the private equity firms Thoma Bravo and Silver Lake. We believe the price paid was fair for all parties.

BofI Holding Inc.

Ticker: BOFI
Purchase Year: 2014, Sale Year: 2015
Purchase Price: $74.81, Sale Price: $103.76
Gain: +38.7%

Sell Decision – Our decision to sell BofI was a difficult one. The company continues to grow in excess of 30% per year, but this rapid growth became a cause for concern. The company has grown so rapidly that the loan portfolio is almost entirely unseasoned. The bank is focusing on "niche" markets to high-net worth individuals with no income in the jumbo loan market. While we believe there is the potential that this type of lending is actually brilliant (requiring large down payments to credit worthy retirees while simultaneously requiring capital be posted with the bank), it was too difficult to verify that lending was being done with prudence.

BofI had a lending warehouse that allowed third-party mortgage brokers to initiate loans on the banks' behalf. This type of third-party lending can be done well…but it is very difficult to manage properly. The same type of behavior led to huge problems during the financial crisis and we became uncomfortable with the transparency of the loan portfolio. In the event that we get additional clarification on the current loan portfolio and conclude that BofI is lending with excellence, we would consider repurchasing the stock. All of the competitive advantages from efficient operations remain in place.

Core Laboratories NV

Ticker: CLB
Purchase Year: 2015, Sale Year: 2015
Purchase Price: $102.29, Sale Price: $125.83
Dividends: $1.09
Gain: +24.1%

Sell Decision – We purchased Core Labs as the oil rout began in late 2014 for clients with available funds. The company had a widely diversified customer base providing services to low cost and high cost producers. Shortly after our purchase the price of the stock jumped quickly for reasons unknown. We viewed the dramatic rise as unwarranted and took our profits anticipating further trouble ahead for oil and gas producers. We may be looking to repurchase our stake if the price of the business declines to a point that makes sense in a world of sub $40 dollar per barrel oil.

Lancashire Holdings Ltd.

Ticker: LCSHF
Purchase Year: 2014, Sale Year: 2015
Purchase Price: $10.72, Sale Price: $10.90
Dividends: $1.87
Gain: +19.1%

Sell Decision – The majority of our gain from Lancashire came from special dividends. Our purchase and sale price were nearly identical, but the business changed substantially during our holding period. Due to the soft insurance market, Lancashire continued to downsize the business and reduced the book value of the company by mailing equity capital to shareholders in the form of dividends. We received 15% in dividends during the last twelve months. As the company shrank in size, the price to value of the stock became less attractive than our initial purchase and we decided to sell a substantially smaller company for a price that was higher than our initial purchase. This is analogous to purchasing a cow – milking it – and then selling the cow for more than you paid for it. Total milk payments were approximately $260 million dollars.

Jiayuan.com International Ltd.

Ticker: DATE
Purchase Year: 2014, Sale Year: 2015
Purchase Price: $5.43, Sale Price: $5.76
Dividend: $0.66
Gain: +18.1%

Sell Decision – During the spring and early summer of 2015, the Chinese stock market was performing well. Jiayuan.com received an offer to go private by Vast Profit Holdings who intended to purchase all the American Depository Shares and then list Jiayuan.com on the red hot Chinese markets. We sold the shares shortly after the announcement when the takeover price was $5.37 per share. Later Vast Profit increased the bid to $7.20 per share, but ultimately recanted on the offer when the Chinese market plummeted more than 40% over the course of the summer. The majority of our profits on this deal were received from the special dividend.

Albemarle Corporation

Ticker: ALB
Purchase Year: 2015, Sale Year: 2015
Purchase Price: $45.11, Sale Price: $51.35
Dividend: $0.29
Gain: +14.5%

Sell Decision – We sold Albemarle toward the end of the year to raise cash for the purchase of another company. The business was sold due to the modest prospects for growth and 15% gain we had earned during our holding period. The excess cash was immediately deployed into a new opportunity.

National Research Corp.

Ticker: NRCIB
Purchase Year: 2015, Sale Year: 2015
Purchase Price: $32.55, Sale Price: $36.37
Dividends: $0.75
Gain: +14.1%

Sell Decision – We sold National Research Corp in select client accounts for the same reason we sold Albemarle. Clients with sufficient funds to utilize the investment opportunity maintained their ownership of National Research Corp.

Quality Systems Inc.

Ticker: QSII
Purchase Year: 2014, Sale Year: 2015
Purchase Price: $15.33, Sale Price: $16.88
Dividends: $0.42
Gain: +12.9%

Sell Decision – We sold Quality Systems at a slight profit due to a shift in the business model. For several years leading up to our purchase QSI was able to sell new software licenses to hospitals under a perpetual license model – collecting large cash payments upfront at exceptionally high margins. During our ownership the business model was shifting toward software-as-a-service with lower margins and lower upfront cash payments. It wasn't clear that the new pricing model would yield future profits that were comparable to the old perpetual license / maintenance model. Despite our best efforts to forecast the future direction of QSI we were unable to confidently predict future income and decide to sell the business for a slight profit rather than risk owning a deteriorating company.

Penns Woods Bancorp Inc.

Ticker: PWOD
Purchase Year: 2014, Sale Year: 2015
Purchase Price: $43.13, Sale Price: $43.08
Dividends: $1.82
Gain: +4.1%

Sell Decision – Penns Woods Bancorp was sold to free up additional cash for an alternative investment. We knew prior to investing in the bank that it would not be a 'home run' investment, but was superior to holding cash due to the exceptional quality of the bank and high dividend payments. We were content with the investment overall.

Patriot National Inc.

Ticker: PN
Purchase Year: 2015, Sale Year: 2015
Purchase Price: $7.72, Sale Price: $7.06
Loss: (8.5%)

Sell Decision – Ownership of Patriot National lasted a total of two weeks and falls under the "unforced error" category. We bought Patriot shortly after the CEO, Steve Mariano, announced that he was selling $30 million of stock and would reduce his ownership stake to 51%. Following the announcement the price of the stock fell 50% and we viewed this as a unique buying opportunity that we had to capitalize on quickly. Before our purchase we performed substantial due diligence on the quality of the company, including requesting financial reports on the insurance carrier clients that Patriot National provides services for. The largest carrier client was Guarantee Insurance (66% of revenue for Patriot), which was 100% owned by the Mr. Mariano. We viewed this contract as low risk since Mr. Mariano owned 100% of the counterparty and 51% of Patriot. A few days following our purchase, we received access to the financial report on Guarantee Insurance and discovered that the company was losing money – quickly. The company had $45 million in risk-adjusted capital and was losing money at a rate of $20 million per year. During 2014, Mr. Mariano personally added $45 million to capitalize Guarantee, but the losses were continuing to mount and additional capital was needed to keep Guarantee afloat. Mr. Mariano's personal sale of $30 million in stock in Patriot National was going to be used to help recapitalize Guarantee. If Guarantee went under, Patriot would suffer a substantial decline in both revenue and income. Guarantee was in bad shape – so we immediately sold. The unforced error was assuming that the counterparty risk of the Guarantee Insurance contract was low since Steve Mariano owned both entities.

Manning & Napier Inc.

Ticker: MN
Purchase Year: 2015, Sale Year: 2015
Purchase Price: $10.85, Sale Price: $7.76
Dividends: $0.31
Loss: (25.6%)

Sell Decision – During our ownership of Manning & Napier the firm continued to underperform the market across most of its investment funds. The company experienced large client outflows. We elected to sell due to the lack of a competitive moat surrounding the business. Asset management firms in general have a difficult time with differentiation and can decline in value rapidly if investment performance is poor for an extended period of time. We didn't want to assume this risk moving forward and elected to purchase a higher quality business with the proceeds of the sale.

Pulse Seismic Inc.

Ticker: PLSDF
Purchase Year: 2014, Sale Year: 2015
Purchase Price: $2.89, Sale Price: $1.82
Dividends: $0.10
Loss: (33.7%)

Sell Decision – The global decline in oil prices continued during 2015 with no signs of recovery. Saudi Arabia continued to increase production and stated that they have no intention of slowing down. When we purchased Pulse, we were correct that the company had a strong competitive position in Canada. The company's seismic maps create a regional monopoly on licensing for oil and gas exploration companies. How were we wrong? We forgot to consider Canada's competitive position globally in the oil and gas exploration market. Western Canada has been a major producer for half a century and it seemed reasonable to assume that production in the region would continue, if not accelerate, in the next half century. We failed to consider what would happen if OPEC decide to behave irrationally – selling *more* oil for *less* absolute dollars. The extraction costs of certain OPEC nations (~$10 per barrel) is significantly less than Western Canada (~$65 per barrel); and at depressed prices the entire region becomes largely unattractive. We sold the position because we were unable to answer one simple question – how long will OPEC keep prices low? If they decide to maintain low oil prices for 3 years or more, ownership of Pulse Seismic becomes an unattractive investment. It was unfortunate that we saw the steepest decline in oil prices in history shortly after this purchase.

Liquidity Services

Ticker: LQDT
Purchase Year: 2014, Sale Year: 2015
Purchase Price: $18.29, Sale Price: $6.25
Loss: (65.8%)

Sell Decision – The majority of our losses on Liquidity were experienced during 2014. The portion that remained was liquidated during 2015 due to the lack of clarity in the business model. We've talked extensively about this particular business in previous reports and our boardroom updates. I won't belabor it here. The business is not demonstrating the ability to compete in the commercial reverse supply chain marketplace at levels that bring an acceptable return on invested capital for business owners. This was a busted investment.

The Investment Environment

Our gain of just about 5.8% in 2015 was satisfactory considering the difficulties of the investment environment. Most investors frequently ask what our expected return is over a 10-year period and it is a very valid question, however, it is inherently flawed. Investment returns are not "fixed" over long periods of time, and the quality of investment opportunities available to us are determined by the marketplace. Today, that marketplace is not conducive to strong investment results on an absolute basis. The interest rate on a 10-year US Treasury has been at the lowest level in history for nearly 5 years at just over 2%. This is an important figure because it anchors the prices of all other assets. With interest rates at all-time lows investors are willing to pay more for fixed income securities driving down yields. This, in turn, affects the prices of stocks. As yields decrease on fixed income securities investors are then willing to pay more for businesses driving up price multiples. Today the S&P 500 stands at 19x forward looking earnings – a substantial premium to historical levels, but appropriate considering the low interest rate environment.

Given the low interest rate environment, it is extremely likely that stock market returns over the next thirty years will be less than they were in the preceding thirty. In 1980, the 10-year US Treasury was at an all-time high of 14% with comparable levels of inflation. The high interest rate on risk-free assets drove down the prices of stocks to historically low levels. Over the last 30 years the stock market has benefited from tremendous business success **and** falling interest rates (down to 2% today). The falling interest rates likely increased returns more than 300% over this 30 year period. Not surprisingly, many of the best investment track records in history were accomplished over this time period. Investor returns were buoyed by the shifting rate environment, and it is unlikely many of these investment track records will be match in absolute terms. Today, we are in the opposite camp. With rates near 0% the next 30 years will likely see similar business success, but a headwind of falling asset prices as interest rates rise. Unfortunately, this reality cannot be changed.

Our objective over this time period will be to purchase outstanding companies that will succeed in the ensuing decades. The prices offered today for these Selective Companies is much higher than they were in 2009; and the number of investment opportunities are far less. This will not always be the case. When markets turn sour and investors are gripped with fear, opportunities will surface again and we will take advantage of the moment. In the meantime we proceed with caution by purchasing high quality businesses that are mature and stable. We believe that the businesses we presently own will generate a return of roughly 9% to 14% per year for owners based on the earning power of these companies. Price fluctuations year to year will certainly cause investment performance to deviate from the fundamentals of the businesses we own, but over long periods of time returns will be driven by the results of the companies we own.

Looking Ahead – 2016

Looking ahead, we are pleased with our current collection of Selective Companies. The quality of the businesses we own is at the highest level since 2013 and prices are relatively attractive for our particular businesses. We remain agnostic about what will occur in the stock market during 2016, but are cautious when considering potential investments. One objective we have as a firm is to launch a mutual fund to move all client assets into a fund structure. By creating a fund we believe we can increase investment returns by 3-5% per year by reducing costs, simplifying trading, and opening a broader universe of investment options. To launch the fund, we need approximately $20 million dollars under management and we hope to clear this hurdle by the close of 2016. We believe the fund structure will continue to improve transparency and performance for our clients moving forward.

Sincerely,

/Christopher J. Devlin/

Christopher J. Devlin
CEO, Selective Wealth Management
1/11/2016

Clarifications

For those of you that have questions about the returns in your account we would appreciate it greatly if you would read the following carefully because they answer some frequently asked questions and should put your mind at ease with respect to how we are managing your investment account.

Clarification #1 – Your results are different than what is reported on the preceding pages.

We manage all of our client accounts separately, which means that the businesses you purchased and how much you paid is dependent on when you opened your account or contributed funds throughout the year. For this reason all accounts have different results. The results reported are a collected average of all accounts. We wish that all accounts experienced identical results, but they do not, cannot, and should not.

We work extremely hard to make the best decision for each account based on the size of the account and when it was opened. If you are new to the firm your results are likely materially different than those reported – that is expected because you weren't with us for each decision we made this year.

You can, however, rest assured that as your account grows your results will converge to the firm average going forward. Smaller accounts and new comers take the most time to meld with the rest.

Clarification #2 – You may not have owned all the businesses found in this report.

When a business is available at what we believe to be an attractive price we review how much cash is available in each account and then purchase a position that we believe to be an appropriate size. If you did not own a business found in this report it is for one of two reasons:

1) You did not have an account when we made the original purchase. If you opened an account after we made an original purchase it is unlikely that you owned that business this year. We purchased the business on your behalf *only if* the business was selling for the same price we originally paid or less. If the business rose in price we did not make the purchase in your new account. This is to your advantage as it protects your investment principle. Don't be bothered that you missed some investments – there will be many ideas going forward.
2) You did not have enough cash in your account at the time of purchase.

Clarification #3 – Returns for each individual business are from the time of purchase to the time of sale.

The sections of this report entitled "Businesses Sold In 2015" & "Business Presently Owned" describe each business that we purchased, held, or sold during this year. The returns presented in these sections are total returns – meaning the return of the investment from start to finish – regardless of duration. The calendar year of purchase and sale is also provided to show an approximate holding period. We find this presentation style simple, clear, and believe it is a fair way to evaluate the success of each individual investment.

Clarification #4 – The purchase price and sale price for each business may differ from your account.

The purchase price and sale price for each business is typically the same for all clients. Differences exist for individuals that opened an account after we made an initial purchase if the price of the business had declined from our original purchase price. Those new accounts will have a different and *lower* purchase price – meaning superior results. Additionally, smaller accounts may have a purchase price *lower* than that which is shown for the reasons stated in Clarification #2. In rare instances individuals did pay slightly more for a business than the original purchase amount – this only occurred when we thought the price was still very attractive.

Clarification #5 – Different accounts held different percentages of the same investment.

Accounts may have purchased a different percentage of a particular investment based on account size. This is to minimize the impact of trading commissions charged by our custodian to your account. For example, a $100,000 account may purchase 10% of a particular stock ($10,000), but a $5,000 account may purchase 20% of the same stock ($1,000). The trading commission of $11 represents 1.1% of the smaller accounts purchase price, but only 0.11% of the larger account. Had we purchased only 10%, or $500, in the smaller account the trading commission would be 2.2%. For this reason smaller accounts are typically more concentrated.

Disclaimers & Disclosures

Past performance does not guarantee future results, and a loss of original capital may occur. The information herein should not be construed as a recommendation to purchase or sell any particular security or an assurance that any particular security held in a portfolio will remain in the portfolio or that a previously held security will not be repurchased. Securities discussed herein may not represent a portfolio's entire holdings. It should not be assumed that any of the security transactions or holdings discussed herein have been or will equal or exceed the investment performance of the securities discussed.

This report is provided for the general information of the clients of Selective Wealth Management LLC. It is not intended for distribution to prospective investors unless preceded or accompanied by an effective prospectus, which contains more information on fees, charges, and other expenses and should be read carefully before investing or sending money.

Definition of the Firm

Selective Wealth Management LLC (the "Firm") is a registered investment adviser that was established in 2012 and has a single, all-cap, value-oriented, concentrated investment style approach. The Firm is based out of Lynchburg, Virginia and services institutional and retail clients in the United States. A list of the Firm's composite descriptions, as well as information regarding the Firm's policies for valuing investments, calculating performance and preparing compliant presentations, are available upon request.

Fees

Returns are presented net of management fees, custodial fees, withholding taxes and trading expenses.

Fee Schedule

The standard fixed management for all accounts is 1.25% and accounts are billed in arrears.