

2023 – *How was it Possible?*

PORTFOLIO MANAGER: Charles C. Kantor

How was it possible that against the doom and gloom over the past year, the major equity indices all posted well-above-average returns in 2023? This letter will not solely address this question. Nor will this letter only lay out the pros and the cons facing today's market. We don't believe it is appropriate to "guess" how any impending or unexpected economic, financial, and political uncertainties will play into financial markets on a short-term basis. We are not uniquely positioned to guess 2024's unexpected developments. We don't possess that hubris. We will leave that guesswork to others. Instead, this letter will lay out the importance of thinking and acting long-term and the rewards of staying disciplined in one's approach to asset allocation and investing.

We firmly believe that over a ten-year period, the reward earned will be commensurate with the risk taken. We understand that there are key assumptions that underpin our mindset of being a "reasonable optimist." These include but are not limited to our belief that:

- We operate in a thriving democracy capable of implementing corrective policies.
- Capitalism, as practiced in the United States, represents the only winning formula for sustained economic growth.
- Innovation will continue to propel the economy forward.
- The U.S. offers unparalleled opportunities for entrepreneurs to prosper by starting and building a company.
- The U.S. will remain in a low to moderate inflation environment.

2023 Review

The market developments in 2023 only served to embolden these views. First, the Federal Reserve (the "Fed") showed the fortitude necessary to contain

inflation, and second, Artificial Intelligence ("AI") is proof positive that innovation and ingenuity are alive and well.

At this time last year, many economists and pundits predicted the United States would fall into a recession. The Fed's aggressive interest rate hiking campaign, designed to tame inflation, would eventually slow economic growth to a standstill, thus sparking a wave of layoffs nationwide. These concerns were emboldened in the first quarter when we experienced the first negative "surprise" shock. Specifically, the fall of three regional banks and one global investment bank was expected to exacerbate fears around an economic slowdown, given the potential for households and businesses to have less access to credit. Subsequently, there was a protracted debt ceiling fight as the political divide between parties widened. And, of course, in the international arena, there were increased geopolitical tensions, whether due to the Russian invasion of Ukraine, the terrorist attack on Israel, or the deteriorating relations between the United States and China.

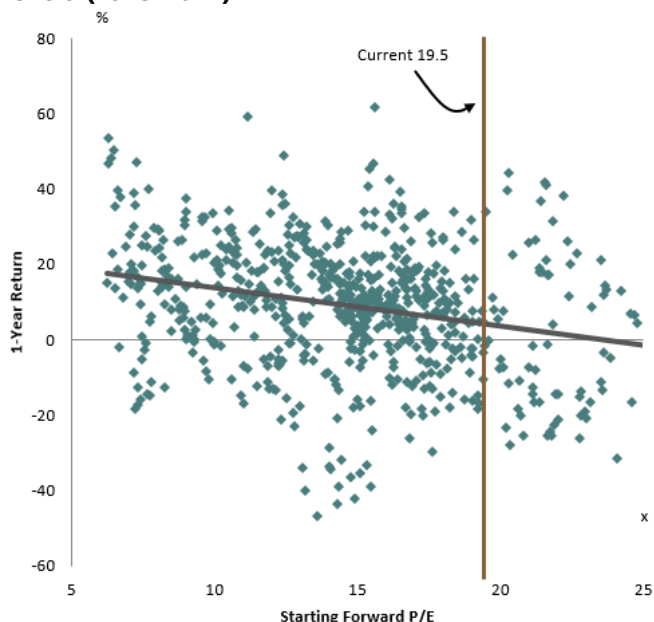
Against this backdrop, the S&P 500 Index (the "S&P 500") gained 26%, the NASDAQ Composite Index gained 44%, and the Dow Jones Industrial Average gained 16% in 2023. And despite all the aforementioned concerns of the market pundits, the U.S. economy remained on solid footing. U.S. GDP for 2023 is expected to come in at 2.5%, markedly higher than the 0.8% estimates. Job gains were substantial, as evidenced by employers adding an average of 232,000 jobs per month in 2023. Finally, the consumer remained resilient, productivity increased, and corporate revenues, margins, and earnings exceeded expectations.

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Valuations Have No Implication on One-Year Returns

From a financial market perspective, the S&P 500 began 2023 with a one-year forward price-to-earnings (“PE”) ratio of 17x. By the end of the year, the forward PE had increased to 20x. Despite the relatively high starting point on a historical basis, the market generated solid returns, which proves that accurately predicting the market’s next turn is difficult. One cannot guess the short-term market trends based on valuations. The chart below is a scattergram of the S&P 500’s one-year forward PE ratio and the actual return that year, showing that the one-year forward S&P 500 return is random, regardless of the starting valuation. This proves that valuation does not influence returns on a short-term basis.

1-Year Annualized Stock Returns vs. Starting P/E Levels (1923-2022)



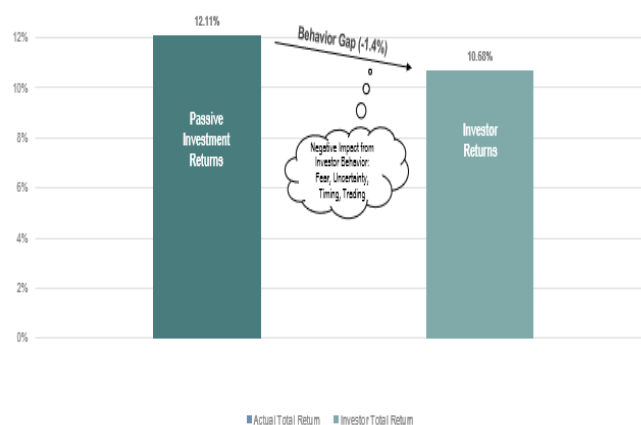
Source: Standard & Poor’s, FactSet, Refinitiv, UBS

The Influence of Fear and Greed on Investor’s Returns

Since we believe it is impossible to predict the future, we are here to serve as your financial therapist to

guide you on how best to position your valuable capital for your specific objectives. We continually balance returns with risk while staying disciplined with portfolio positioning and investment process. Thinking, but more importantly, acting long-term is a competitive advantage. Letting one’s emotions influence one’s behavior can be very costly. During periods of volatility, advice and experience matter. As the following chart explains, investment returns are not the same as investor returns. Investment returns are based on the assumption that you invest a lump sum at the beginning of the period and leave it alone. Investor returns measure your actual return. You earn this return as you buy and sell equity index funds. Bad decisions like purchasing a fund after it has already gone up, selling in a panic after a market decline, or trading too often will chip away at investor returns. On average, over a 10-year period, investors lose about 1.4% annually due to poorly timed purchases and sales of equity index funds compared to a buy-and-hold strategy.

U.S. Equity Index Funds – 10 Year Average Annual Rates¹



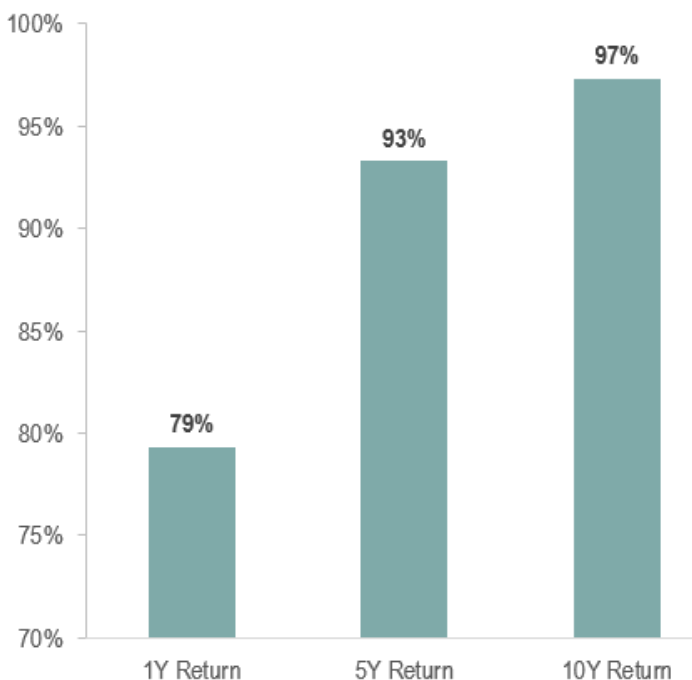
Source: Morningstar Direct. Data as of December 31, 2022. | The “Behavior Gap” figures for 2020-2022 are as follows: (-1.03%) for 2020, (-1.06%) for 2021, and (-1.43%) for 2022.

The Benefits of Thinking and Acting Long-Term

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As an equity investor, it is essential to remember that time is your friend. Historically, you'll likely see solid risk-adjusted returns if you have a long-term investment horizon of five or ten years. By lengthening your time horizon, you can potentially avoid and overcome losses. It's important to note that market timing is tricky. Panic selling can lead to missed opportunities, as the best market days often follow the worst days. As the following chart explains, since 1950, the market has delivered positive returns 93% and 97% of the time over any five and ten-year rolling time frame, respectively. This is a good indication that investing for the long term can yield positive results.

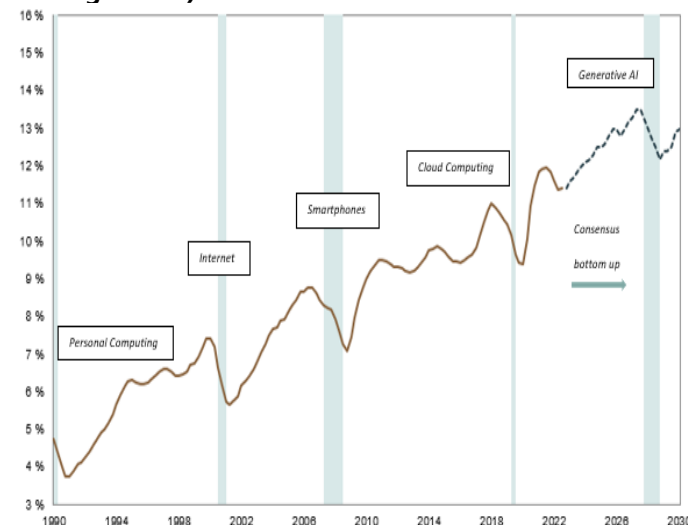
S&P 500: % of Periods with Positive Returns (Jan. 1950 – Nov. 2023)



As long-term investors, we are confident in capitalism. Our philosophies around “taking the long-term view” and being “reasonable optimists” will continue with our goal to produce sound decisions and good investment results. We remain unwilling to bet against the skills and ingenuity of the corporate managers

who lead our businesses. In our opinion, corporate managers’ willingness to drive innovation, enhance productivity, allocate capital to the best risk-adjusted return, and compete globally will provide investors with suitable long-term return potential for the risks they bear. AI innovation is simply the latest catalyst to spearhead transformative changes aimed at productivity enhancement. Mirroring the monumental shifts brought on by the advent of personal computers, mobile phones, and the internet, AI is expected to propel productivity gains, thereby liberating humans to engage in more stimulating and complex endeavors, as opposed to routine tasks that typically lead to high turnover. Simply put, we believe it pays to bet on optimism, perseverance, entrepreneurship, and science and take a long-term view. After all, the output from these factors is the driving reason the S&P 500 operating margins keep making higher highs and higher lows. As the chart below illustrates, the S&P 500 margins today are roughly double those of the early 1990s, and looking ahead, we expect AI to contribute another few hundred basis points of margin expansion.

S&P 500 Net Profit Margin (Trailing 4 Quarters through 2022)



Our Investment Approach

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We want to emphasize why we spend so much time on ensuring we have a disciplined – yet flexible process – anchored in core investment philosophies, such as:

- A belief in fundamental research and active engagement.
- Think and act with a long-term mindset (don't try to guess tomorrow).
- Balance sheets before income statements.
- Focus on Beyond Privileged & Resilient ("BP&R") companies.

After all, the frantic nature of the market since the start of COVID-19 reminds us that there can be tremendous value in active management led by human judgment, proven processes, and deep analytical rigor. Details matter – whether those details are related to individual companies (know your business models, your balance sheets, your management teams, your valuations) or to broader risk management (understand your factors, your exposures, your liquidity profile). It is always about leveraging an experienced team of investors to find the best risk-adjusted returns for our clients, and we do that through a focus on BP&R companies. We believe these high-quality organizations have the potential to thrive in virtually any environment or, at a minimum, emerge even stronger.

Given we cannot predict the short-term movement of the market, our investment strategy and process remain biased towards BP&R companies. We define BP&R companies as a combination of quality and growth with a focus on businesses that can earn a return greater than their cost of capital through a cycle. BP&R companies can grow and compound earnings over long periods. While not all companies with a high return on invested capital are high-return compounders, most compounders have a high return on capital. BP&R companies have a competitive advantage and barriers to entry. A competitive advantage can take many forms, including but not limited to network effects, intellectual property, high

switching costs, economies of scale, monopolies, strong cultures, solid brands, and business model innovations. Some of the best companies have more than one of these attributes. By possessing these traits, BP&R companies will typically have solid organic growth, stable profits, sustainable returns, and solid balance sheets, and they will generate excess cash flow to fund growth and potentially return to shareholders. BP&R companies understand that to remain competitive; they must value technology's strategic importance as a critical component of business – not just as a source of cost efficiency. And, if we enter a recessionary environment, we believe that these are the companies whose earnings and cash flows should hold up better than peers, thus why we look to own them for the long term.

Near Term Challenges

Our constructive long-term view on risk assets is not without challenges. Global challenges remain front and center and have ripple effects on the U.S. economy. 2024 will be a year where almost half the global population will go to the polls. Populist parties are serious contenders that could implement more aggressive policies towards trading partners. The Ukraine war disproportionately impacts European economies by straining supply chains and raising energy and food prices. The Israeli war is also causing global issues. Recently, Houthi rebels in the Red Sea have been targeting vessels, and not only those with Israeli links. This has led to many shipping companies bypassing the Suez Canal, increasing their days at sea and costs, which could cause a ripple effect and lead to higher prices for end consumers. Nations and companies worldwide are being drawn into a battle over the future of technology between the U.S. and China, forcing them to choose sides in a conflict fracturing global supply chains and pushing businesses out of lucrative markets. In addition, human rights and China's stance on Hong Kong, Taiwan (which

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itself has a vital election), and Russia create additional tensions between the U.S. and China.

Moreover, the debate about a hard or soft landing continues. Six months ago, the consensus among economists was that the economy would enter a recession over the next 12 months. As of today, the average forecast of economists is for no recession. A soft landing would be unusual since, over the past 80 years, the Fed has never managed to bring inflation down substantially without sparking a recession. A soft landing isn't guaranteed as the economy might deteriorate under the delayed impact of higher interest rates and tighter credit conditions. (If this were to happen, the Fed would have ample room to cut interest rates and support the economy.) Moreover, we firmly believe the most significant risks to the global economy are still unknown today – be they financial or geopolitical.

While we are cognizant of dynamics that may cause near-term volatility, and we always intend to focus on the details of our companies, we believe Warren Buffett may have said it best when he declared, "The stock market is a device for transferring money from the impatient to the patient." Let us all continue to be patient in our constant pursuit of attractive long-term risk-adjusted returns.

As we look to 2024, we wish everyone a happy and healthy New Year.

-The Kantor Group

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¹Morningstar Direct excludes allocation funds from this analysis because the overwhelming majority of allocation funds are actively managed in the sense that they deliberately set an asset mix rather than simply matching market averages. **U.S. passive fund investment return represents passively managed U.S. equity in the category group showing the actual index return.** The investor return figure represents the U.S. passive equity fund return for investors highlighting the enveloping trend that has seen assets move en masse from active to passive, with those shifts proving costly and beneficial, respectively, for passive and active investors given the pattern of returns we've seen over the past 10 years. **The Behavior Gap figure highlighted between these two figures shows the 143-basis-point per year shortfall between the funds' investor returns and time-weighted returns.** This supplemental report is provided at your request and is for informational purposes only; please refer to your account statement or other statement provided by your custodian for the official records of your account(s). Indexes are unmanaged and not available for direct investment. Investing entails risks, including possible loss of principal. Past performance is not indicative of future results, which may vary. See Additional Disclosures at the end of this presentation.

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The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. The "500" is one of the most widely used benchmarks of U.S. equity performance. As of September 16, 2005, S&P switched to a float-adjusted format, which weights only those shares that are available to investors, not all of a company's outstanding shares. The value of the index now reflects the value available in the public markets.

For more information on COVID-19, please refer to the Center for Disease Control and Prevention at [cdc.gov](https://www.cdc.gov).

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