THIRD QUARTER

3Q 2020 INVESTMENT ROUNDTABLE

As we move through this pandemic, and as the US Presidential election approaches, we have been discussing catalysts and events that may influence the markets, the economy, and, most importantly, our clients' portfolios in both the short and long term. In this issue of the Investment Roundtable, we highlight these considerations with timely insights from our experienced analysts and portfolio managers.

At 1919 Investment Counsel, in-depth research, ongoing constructive dialogue, and a focus on identifying and owning high-quality companies is at the core of our Investment approach. Our team works together to provide a comprehensive range of portfolio strategies and wealth management solutions informed by our sector, market, and economic expertise. We leverage our experience and in-depth fundamental research to create portfolios with the potential to perform well through economic and political cycles. Following is a sampling of some of the topics and trends on our minds. As you will see from my colleagues' remarks, the rapid acceleration of technology and its adoption across industries is a common theme we continue to explore as a catalyst for growth for many businesses.

Whatever the technological developments, election outcomes, and market and economic conditions may bring, our unwavering commitment is to provide our clients with expert advice and tailored solutions. This is the essence of what we have done on behalf of our clients as stewards of their assets for over 100 years and guides the framework of our client relationships for years to come.

CHARLES KING, CFA
Managing Director and Chief Investment Officer

How are you factoring potential election outcomes into your clients' investment portfolio positioning?

CHARLES KING, CFA
Managing Director, Chief Investment Officer

CK At 1919 Investment Counsel, we take a long-term perspective in managing our clients' portfolios. While considering the potential impact of an election cycle, we understand many factors come into play when managing portfolio allocations. The outcome of the election is just another variable to consider.

As we move closer to the election, we continue to refine our understanding of potential outcomes that may affect the markets from a regulatory, fiscal or monetary policy perspective. We have recently helped many of our family office clients understand potential tax policy changes and the implications for multi-generational wealth planning. As always, we continue to monitor developments closely. *(Please see our Portability of a Spouse's Unused Exemption white paper, which outlines potential tax impacts.)*

As we monitor our portfolio holdings, we note the election outcome may have a larger impact on the Healthcare, Financial Services, and Energy sectors. Based on in-depth company research, engaging conversations with company management teams, and seasoned industry and market expertise, our team is well-equipped to focus on both the long-term goals set for our clients' portfolios while factoring in any short-term considerations. This comprehensive investment approach is the foundation of what we do at 1919 Investment Counsel and reinforces our "client first" philosophy that traces its roots back to our founding in 1919.

Are you anticipating a continuation of a "lower for longer" interest rate environment?

BAYLOR LANCASTER-SAMUEL
Vice President, Credit Analyst

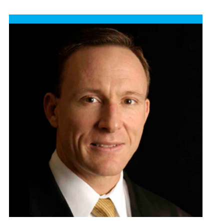
BS We believe we will continue to experience an extended period of low interest rates for the foreseeable future. At the Federal Reserve's annual Jackson Hole retreat (held virtually this year), Chairman Powell confirmed that the Fed is adopting a policy change to embrace "average inflation targeting." This policy shift may mean rates stay lower for longer, as the Fed may be less likely to pre-emptively raise interest rates based on expected inflation trends. Instead, the Fed will wait to see evidence that inflation has reached its 2% target on an average basis over time. Given our expectation for a prolonged low interest rate environment, we expect that fixed income returns may be lower going forward. As a result:

- To generate incrementally higher yields as compared to Treasuries we will selectively add BBB-rated taxable corporate bonds with intermediate maturities (5-10 years).
- To gain incremental yield for our clients' municipal bond portfolios we will extend the duration slightly.

Overall, from a portfolio composition perspective, we remain focused on high-quality, investment-grade fixed income securities, including corporate offerings in the Financial, Utilities, Technology, and Consumer sectors. With regard to municipal bonds, we maintain our focus on high-quality issuers.

The election outcome is important to the municipal bond market, as additional stimulus support for state and local governments remains controversial in Congress. The Democratic Party has advocated for more support while the Republican Party is not in favor. Whether the next agreed-upon stimulus package will include state and local support is not yet clear. Several municipal issuers, such as hospitals, are under revenue pressure due to the pandemic and the resulting decrease in elective procedures, an essential hospital revenue source. Both major credit rating agencies, Moody's and Standard & Poor's, currently have a negative rating outlook across most of the muni universe, except for State Housing Finance Agencies and essential service revenue bonds such as water, sewer, and electric. For investors interested in the issuing municipalities' ongoing creditworthiness, additional support at the state and local levels would be welcomed to offset the pandemic's negative financial impact. Despite the low yield environment, we believe fixed income still serves an important, stabilizing, and low volatility role in a client's overall portfolio.

What are the potential opportunities and issues to consider for the Healthcare sector?



CHRISTOPHER DELPI, CFA
Principal, Equity Research Analyst

CD Regardless of who is in the White House, we expect to see an increase in biotech and pharmaceutical companies' pressure to reduce prices. Rising drug prices have been a concern for Democrats and Republicans over recent years and were an early focus for President Trump. While these concerns receive less attention during the current race for the SARS-CoV-2 vaccine

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(SARS-CoV-2 is the scientific abbreviation for the severe acute respiratory syndrome coronavirus 2 virus that causes the COVID-19 disease), we expect pricing scrutiny to resume once we are beyond the pandemic. We believe Congress will follow public opinion and, right now, Americans are more concerned about a vaccine and potential treatment. However, this will take time. Once vaccines become available, there are complex logistics to address in order to effectively administer treatment to the public. For example:

- The vaccines in development are cold storage vaccines—requiring refrigeration and transportation at certain temperatures—as low as minus 112 degrees Fahrenheit in some cases.
- Many of the vaccines are double-dose vaccines that require booster shots; distributing twice as many doses requires twice as many logistics to solve.
- Like other vaccines, the vaccines in development are similar to a biologic, which requires a multi-step production process and longer development times.

Operation Warp Speed, a federal government partnership with the CDC (Centers for Disease Control and Prevention), the FDA (Food and Drug Administration), and the NIH (National Institutes of Health), among others, was launched earlier this year to facilitate and accelerate the development, manufacturing, and distribution of vaccines.

As a result of the pandemic, congressional support for scientific research funding continues to grow. From a portfolio perspective, we maintain meaningful exposure to the life sciences industry—including companies such as Thermo Fisher Scientific, Danaher, and Lonza Group—that not only supply materials needed for research but also assist in developing and manufacturing vaccines.

From a healthcare system perspective, the Democrats continue to seek a platform to shore up the Affordable Care Act (ACA) from a legal and funding perspective. The Act is currently under review by the Supreme Court regarding the punitive tax assessed on those without insurance coverage; that stipulation has been repealed, and the Act's constitutionality is in question. If the Democrats successfully expand the ACA, we believe hospitals and managed care companies should perform well. If the constitutionality of the ACA is struck down, the increased Medicaid funding that has resulted could also be eliminated.

What are the implications of the potential election outcomes for the Financial Services sector?

CHRISTOPHER PERRY, CFA
Principal, Equity Research Analyst and Fund Portfolio Manager

CP There has been a lot less discussion recently about regulation from either political party. Instead, the primary concern has been managing the pandemic's impact and restoring the economy. The extent of Fed policy action and government stimulus during the pandemic to support the economy and markets has been nothing short of remarkable. Through the CARES Act, banks of all sizes provided over $600 billion in loans to small businesses. This process has been effective and provides more goodwill for banks. It has been very encouraging to see this cooperation among banks, financial companies, and the government.

When assessing the various potential election outcomes, we expect more regulation, post-pandemic, if there is a Democratic sweep. For example:

- Banks may feel more pressure from the Consumer Financial Protection Bureau on regulation surrounding mortgages, credit cards, student loans, car loans, and bankruptcy reform.
- There is also the potential for nonbank financial companies to face greater regulatory scrutiny.
- Credit rating agency review may be an area of focus, as well as the creation of a public credit reporting agency.
- Tax increases may be on the horizon.

However, considering the helpful role banks have played in facilitating the Paycheck Protection Program's implementation, we believe a number of these regulatory discussions may occur later in the new presidential term.

A Biden presidency with a politically balanced Congress would reduce the uncertainty and lead to fewer disruptive changes for financial services companies. However, if President Trump wins another term with a similar congressional balance, we expect more deregulation for the Financial sector going forward.

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What are your thoughts on the potential impact of election outcomes on the Energy sector?

SHAYA BERZON
Principal, Equity Research Analyst

SB The traditional hydrocarbon energy sector (fossil fuels) faces challenges regardless of the election outcome due to global economic weakness and related demand reductions. Furthermore, the pandemic and the "work-from-home" effect (less activity and mobility) have impacted this industry and may continue to drag on demand. From an election perspective, there is concern that a Democratic sweep will increase the strain on the US-based hydrocarbon industry from increased regulation and taxation. For example, a fracking ban on federal lands may be imposed.

On the other hand, renewable energy is, to some extent, a bipartisan issue and generally supported on both sides of the aisle. There is, however, more urgency and broad scale support for renewable energy from the Democratic Party. We also see a growing appetite for socially responsible investments and renewable energy companies by investors.

At 1919 Investment Counsel, we invest in both traditional, high-quality hydrocarbon companies and renewable energy companies. This diversified investment approach to both traditional and renewable energy subsectors should position us well regardless of the election outcome.

From a renewable energy perspective, we see attractive opportunities in companies with reasonable valuations, strong growth potential, and innovative technology that provides sustainable competitive advantages and protection from commoditization. Our portfolios include investments related to renewable energy, cleaner energy, and energy efficiency.

What do ESG Investors think about the election cycle?

ALISON BEVILACQUA
Principal, Head of Social Research

AB Those of us at 1919 Investment Counsel focused on socially responsible investments are watching the election cycle and anticipating the various post-election scenarios. Socially responsible investors' interest in the election outcome tends to be more overarching and long-term in nature: What vision will the Presidential administration have for corporations' roles in society? What areas of regulation will Congress try to move forward? Will that involve new, fewer, or less restrictive rules for corporations?

How a specific administration views the practice of ESG (environmental, social, and corporate governance) investing in the broad marketplace can be impactful to investors. For example, the question of how and when ESG can be used by fiduciaries, and, in turn, made available in 401(k) and 403(b) plans has evolved over the past 10 to 15 years with Department of Labor (DOL) guidance, generally making ESG investing more accessible to plan participants.

However, in June of this year, the DOL proposed amended language to the ERISA rules that would, among other things, require plans considering ESG-focused investments to demonstrate that these investments are expected to perform at least as well as similar non-ESG investment options. The proposal would add significant documentation requirements should the fiduciary choose to use an ESG investment strategy.

When this proposal opened for comment, most respondents opposed the changes, including the bulk of the asset managers that submitted comments. Common responses included:

1. There is no current problem that needs to be fixed, and therefore the proposed rule change is unnecessary and adds confusion rather than clarity.
2. In general, the proposed rule amendment portrays a feeling of skepticism about ESG and dismisses research about the materiality and relevance of ESG factors despite increasing acceptance amongst investment professionals.
3. The proposed rule change perpetuates a flawed assumption that ESG investments sacrifice investment returns.

A lack of understanding regarding the evolution of socially responsible investing and ESG is clear in this recent proposal. However, it is essential to bear in mind as we move forward that while the directional changes any administration makes can impact corporate behavior, it is not the only influence. Opinions from various other constituents, including non-US federal governments, industry leadership, customers, and legal precedents, among others, should be considered. For example, while the US has stepped back from the support of the global climate agreement (the Paris Agreement), the bulk of the world's nations will continue to take action by enacting environmental rules encouraging companies and communities to reduce greenhouse gas emissions and mitigate the negative impacts resulting from

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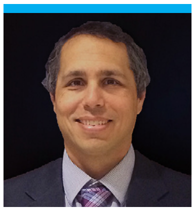
climate change. Thus, for some companies the election outcome may matter less, as they change their behavior to align with ESG approaches or regulations in other countries or markets, even if not required in the US.

Replacing aging infrastructure has been on the radar for both presidential candidates. Where do you see opportunities based on election outcomes?



ERIC THOMPSON, CFA
Principal, Equity Research Analyst

ET The Obama administration introduced the FAST Act (Fixing America's Surface Transportation Act), which provided $305 billion for surface transportation infrastructure planning and investment. Historically, roads and bridges have been financed through the Highway Trust Fund, an account that has been chronically underfunded due to its reliance on revenue from taxes on declining motor fuel consumption. The FAST Act provided funding certainty but is set to expire in September of 2020. This expiration and the upcoming election have given rise to increased and broader infrastructure rhetoric in Washington.

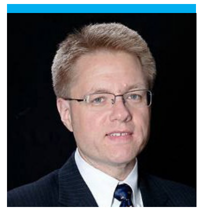
Early on, the Trump administration floated the idea of a $1.7 billion PPP (public private partnership) infrastructure plan that never materialized. Recently, the White House is said to be planning a $1 trillion reauthorization of the FAST Act over ten years with a focus on transportation and 5G infrastructure. On an annual basis, this would be a sizable step up from the $61 billion under the current five-year FAST Act. Democratic candidate, Joe Biden, has proposed a broader $2 trillion program focusing on decarbonization while spending roughly $50 billion on surface transportation annually.

The Biden plan is heavy on renewables, with a goal of making the nation's electricity generation carbon neutral by 2035. In 2018, electricity generation accounted for nearly 30% of US carbon emissions. Not surprisingly, transportation is the second largest area of pollution, accounting for almost 30% of carbon emissions. Another central focus of the Biden plan is broad EV (electric vehicle) adoption, where he intends to construct a national network of 500,000 charging stations. He has also earmarked $400 million to begin electrifying government vehicles and migrating federal buildings to clean energy. The list of additional projects and goals is lengthy, yet with the nation's post-pandemic fiscal year 2021 debt level expected to reach parity with GDP (gross domestic product) for the first time since 1946, underwriting these endeavors may be another story. These new projects would create opportunities for companies supplying the materials or expertise to implement them.

There has been a discussion about onshoring recently. What is your perspective as you speak with portfolio companies' management teams?

ET Onshoring has become an important topic for obvious reasons of personal safety during the pandemic. For example, we expect to see more domestic manufacturing of API (active pharmaceutical ingredients) and PPE (personal protective equipment). However, from a broader context, company supply chains have performed well despite the pandemic-related disruption, and the topic of onshoring or reshoring is not new. Our diligence and insights suggest that US industrial companies fully understand the merits of supply chain efficiency and already work hand in glove with suppliers. Recent discussions indicate that companies will continue to move along this path strategically.

Innovative technologies and platforms have become the lynchpin of the new pandemic normal. What are some of the exciting growth stories that have surfaced?



THOMAS KRYGOWSKI, PhD, CFA
Managing Director, Analyst & Portfolio Manager

TK During the pandemic, we started to see an acceleration in adopting innovative technologies, for example, in the fintech space, particularly with regard to payment processing. *(Please see our Tectonic Shifts in the Payments Industry whitepaper.)*

One company at the forefront of this evolution is PayPal. The significant growth in e-commerce has led to the broad adoption of digital payment methods, displacing those typically used in brick and mortar retail—such as cash, credit card, and check. It is unclear if this trend will continue once the pandemic ends, but it is clear that digital payment methods have reached critical mass. For example, PayPal's revenue growth was 25% in the second quarter of 2020, overtaking Visa's revenue growth for the first time, when many traditional retailers were shut down.

PayPal is building on market share gains by pulling forward key growth initiatives, such as introducing QR codes in partnership with CVS Pharmacy. QR codes are ubiquitous in Asia, Latin America, and parts of Europe, but it was not until CVS needed a digital, contactless payment option that QR codes were even considered in the US. Unlike credit cards, QR codes can unlock an array of payment options for consumers, such as split payment methods, use of loyalty points, and warranty registration, to name a few.

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Another example of innovative thinking during the pandemic comes from a much more traditional company, Disney. Historically Disney's revenues have been primarily generated through studios and parks. For example, last year, Disney garnered 60% of total box office receipts in the US.

During the pandemic, faced with studio and park shutdowns, Disney immediately cut costs inside their theme parks division and put new construction on hold. In studios, movie theater closures led to steep declines. The company pivoted by bringing its best content to consumers via its streaming platform, Disney+, which saw a 72% quarter over quarter spike in subscribers.

Content shifted to Disney+ included the movie theater versions of Hamilton and Mulan. Mulan will be offered to the 80 million Disney+ subscribers at a one-time fee of $30, which with even a moderate level of success, could generate hundreds of millions of dollars due to its large subscriber base. Disney views Mulan as a case study for the potential of direct to consumer offerings. From our perspective, Disney is an outstanding example of a well-established company spurred by a strong visionary team to take innovative risks to fuel future growth.

Do you have any concerns from the regulatory perspective when it comes to social media?

TK Both political parties are unhappy with social media companies, but for different reasons. On the Democratic side, the criticism is that the platforms can be weaponized in ways that hurt their candidate. On the Republican side, their concern is that they view social media as having an inherent liberal bias against conservative causes and believe that these platforms stifle their message. New regulations would likely require material changes to Section 230 of the Communications Decency Act, changes we doubt would see much bipartisan support.

The influence of technology continues to have broad applications across the economy and multiple sectors. From e-commerce (Amazon) to fintech (PayPal) to consumer products (Apple) to auto (Tesla), companies are leveraging technology and enjoying the benefits—higher productivity, differentiation, and competitive advantages, among others, to drive success.

What trends are you seeing in the consumer discretionary sector?

SEAN HUNG, CFA
Vice President, Equity Research Analyst

SH The potential for increased regulation is a factor we are considering for consumer goods companies. If there is a Democratic election outcome, we expect to see increasing regulation on emissions standards, which will benefit automobile manufacturers focused on clean energy goals. We also anticipate increased scrutiny on large companies such as Amazon, with the potential for higher tax assessments and more discussion about breaking-up large companies.

When it comes to consumer spending and the pandemic, a balancing act continues for Congress and the Fed to determine how to boost the economy most effectively. There are several consumer spending dynamics to consider:

- While the new housing market has been strong, overall, housing sales are down. High unemployment is resulting in decreased demand.
- The travel and leisure industries continue to suffer the impact of the pandemic on demand. Airlines are now starting to cut jobs, having passed the dates Congress required them to retain employees as a condition of the airline bailouts.
- One positive perspective is the increased spending on home improvement, as consumers spend more time in the home for both work and play. From paint (the purchase of paint is often the first indicator of increased home improvement activity) to more ambitious projects, such as deck additions, companies like Home Depot enjoy increased consumer demand.

Also of note is the evaluation of brick and mortar versus online stores in the Retail sector. As more consumers shop online, brick and mortar retailers need a compelling reason to attract consumers, whether it's product exclusivity or knowledgeable service. Companies like Home Depot or O'Reilly Auto Parts, with their service-based model, have defensible brick and mortar positions. Other retailers, including many department stores, will need to better define their rationale for brick and mortar locations.

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How will 1919 Investment Counsel work with clients as we move forward in 2020?

CHARLES KING, CFA
Managing Director, Chief Investment Officer

CK Due to the heightened level of uncertainty from the pandemic and the election outcome, we expect increased volatility through year end. Now, more than ever, we believe it is important for clients to maintain an appropriate degree of liquidity consistent with their cash flow needs. Our team will continue to work closely with each of our clients to determine the appropriate balance of cash, fixed income and equity allocation for their portfolios based on their unique goals and circumstances. Helping clients weather short-term volatility with a focus on long-term opportunities is the key to our client counsel at 1919.

We hope you have found this issue of the Investment Roundtable informative. We will continue our discussion of some of the themes we addressed in our upcoming Investment Review and Outlook, available early October.

1919 INVESTMENT COUNSEL
Complexity to Clarity

ABOUT 1919

1919 Investment Counsel, LLC (1919ic), an investment management firm, provides discretionary separate account management services for affluent individuals, families, trusts, foundations, endowments, and institutions. As of June 30, 2020 the firm managed approximately $15 billion of assets.

The cornerstone of 1919ic's investment process is proprietary, fundamental research with an emphasis on quality, risk management and diversification.

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