1919 INVESTMENT COUNSEL
Complexity to Clarity
100 YEARS

2020 INVESTMENT ROUNDTABLE

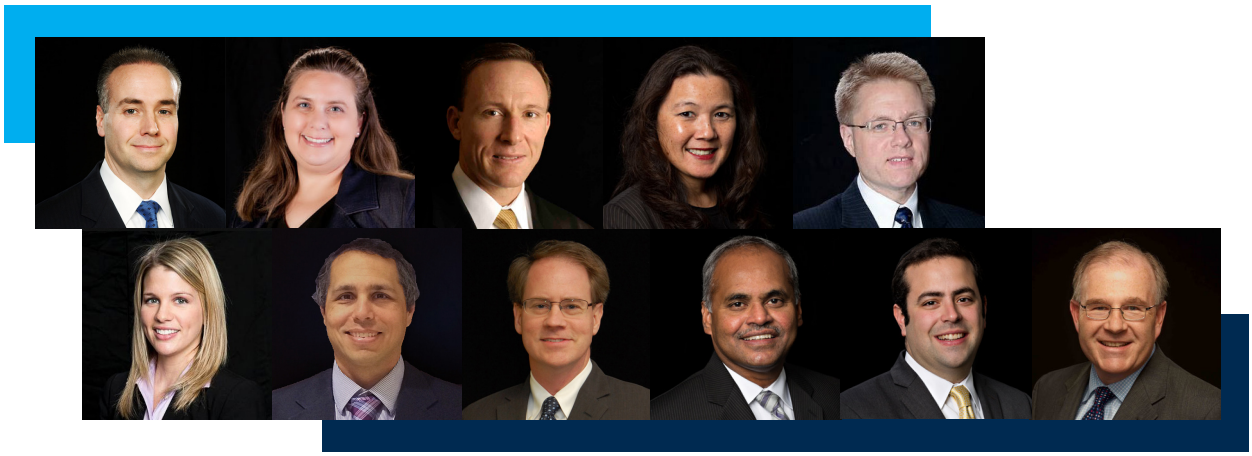
Recently our team of investment analysts met to discuss compelling long-term secular themes we believe will have a profound impact across a variety of industries and, as a result, provide growth opportunities for our clients. From breakthroughs in the Technology and Health Care sectors to the increased interest in socially responsible investing, we believe there is much to be excited about as we enter 2020.

Technological innovation continues to be a primary driver across all sectors of the economy. Groundbreaking technological advancements are enabling today's companies to work smarter, more productively, more cost-effectively, and most importantly, more in-tune with their customers than ever before.

While the market will continue to ebb and flow, we believe the long-term themes we explore in this 2020 Investment Roundtable are transformative and transcend short-term market fluctuations. Our insight into some of the more interesting developments follows.

As always, we wish you a happy, healthy, and prosperous 2020.

CHARLES KING, CFA
Managing Director and Chief Investment Officer



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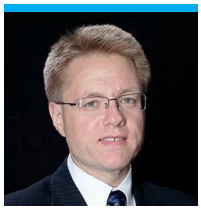
Technology continues to evolve at the speed of light with ever-shorter discovery and adoption time frames. Where are you finding opportunity and how are these developments impacting the various industries you cover?



THOMAS KRYGOWSKI, PhD, CFA
Principal, Equity Research Analyst

TK When it comes to the Technology sector there are three key areas that have been rapidly developing:

1. Networking
2. Cloud Computing
3. Data Storage

We believe that companies that have been able to adopt and utilize the latest advances in these areas enjoy enhanced capabilities, productivity, and competitive advantages. For example:

1. **Networking -** 5G networks are on the near horizon enabling companies that utilize 5G to have a distinct advantage. It's a foundational technology that will facilitate many new capabilities, including autonomous vehicles.
2. **Cloud Computing -** The adoption of cloud computing and the speed of which companies can take advantage of its capabilities continues to be a game changer.
3. **Data Storage -** Appropriate data management (from a privacy perspective), analytics, and the utilization of the huge amount and variety of data now available to the marketplace continues to be a hot topic for corporations and consumers.

At 1919 Investment Counsel, we seek to invest in innovative leaders that are applying these new technologies and capabilities to grow and better serve their markets. For example, we favor newer media companies using cloud computing and enhanced networking capabilities to gain new customers to the detriment of more traditional media companies struggling to compete.

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

CP Advances in technology are also significantly impacting the Financial Services industry. For example, smaller banks are now able to achieve scale by partnering with core technology companies, such as Fiserv, a global provider of technology solutions to financial services companies. While larger banks may be shoring up technological capabilities in-house, they are also partnering with technology providers to become more efficient in the delivery of products and services to existing customers and grow their customer base through digital marketing.

This optimal combination of "clicks and mortar," physical locations complemented by robust online and digital capabilities, is what many financial services companies strive to achieve. As a result, an interesting variety of partnerships has developed. For example, companies including Amazon and Google are now partnering with large banks to provide a variety of services and capabilities.

MATHI VAHEESAN, CFA
Principal, Quantitative Analyst

MV It's also interesting when you take a look at the impact of technology on global payment processing and the speed of adoption of new payment platforms. For example, in India and the emerging markets, in general, everyone has a cell phone. Residents within these regions never had a land line as new technological advances enabled older technology to be completely skipped over.

It's the same way with payment processing, consumers in these countries have migrated straight to mobile pay using their smart phones and have bypassed credit cards as a method of payment. Along the same lines in terms of the rapid pace of technology and adoption, the volume of car sales in India has fallen as potential buyers wait for electric cars—the expectation is there for the next best thing, so there is no need to settle for the older, outdated version.

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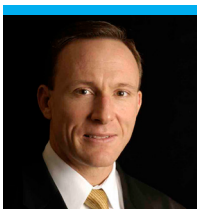
Virtual and more personalized medicine seem to be driving themes in the Health Care industry. What is the impact to the consumer?



CHRISTOPHER DELPI, CFA
Principal, Equity Research Analyst

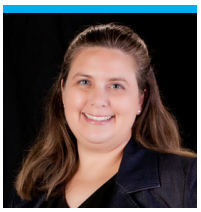
CD In terms of virtual medicine, we continue to see a number of exciting developments. Now, instead of going into doctor's office, a patient can contact a doctor who can diagnose the situation online, prescribe treatment, and the medicine can be delivered to their home—not only helping the patient but also minimizing contagion risk.

In addition, increasing longevity, a more sedentary lifestyle, and a rising obesity rate worldwide has led to more diabetes and cardiovascular disease. Complementing innovative new technologies, cost effective medical care, and in-depth research will be the key to maintaining quality of life as this demographic development unfolds.

In addition, research is underway to move towards more personalized medicine—from gene therapy and harvesting the body's immune system to fight cancer, to wearable devices that can help manage chronic conditions including diabetes, in the most efficient, comfortable and cost effective way.

A variety of life-changing, more personalized solutions are also emerging. For example, a wearable device is now available which serves as an artificial pancreas to help manage diabetes. Paired with an insulin pump, this device uses an algorithm to determine when the body needs more insulin, providing it as needed and eliminating injections and constant blood glucose monitoring through finger sticks.

The interest in socially responsible investing (SRI) continues to grow. What longer-term trends are emerging?



ALISON BEVILACQUA
Principal, Head of Social Research

AB Climate change and carbon footprint reduction, among a number of other issues we follow, are an important focus for many companies today. In fact, companies are now having to think about potential risks to their operations based on longer-term climate changes that may occur.

In addition, a larger percentage of their capital allocations are now going to fund green projects to help reduce the dependence on fossil fuels. A growing number of investors are keen to participate in the SRI movement to reduce carbon footprints through investment in the green bonds these companies are issuing to fund green projects.

As interest in socially responsible investing increases, many companies are providing more disclosure around environmental, social and corporate governance (ESG) issues as well as the proactive steps they are taking along this front. More than 85% of S&P 500 companies now publish sustainability reports as a key communication to investors and other stakeholders.

Rebuilding aging infrastructure continues to be a long-term theme in the U.S. What is your perspective in this area?

LAUREN KRIEGER, CFA
Vice President, Portfolio Manager

LK The reinforcement or replacement of deteriorating infrastructure in the U.S. is a long-term theme we expect to play out in the municipal bond arena over the next decade or so. As municipal projects and budgets are approved, we expect more municipal bond issuance to occur to fund infrastructure needs.

In fact, from a municipal bond perspective, the potential impact of climate change in terms of rising seas, hotter temperatures or more unpredictable weather patterns is an issue many municipalities are factoring into their strategic planning and risk management, particularly in states such as California.

Interestingly, and tying in with Mathi's earlier comments about technologies within emerging markets leapfrogging over older technologies, we are now seeing emerging market countries starting at more advanced levels when it comes to building infrastructure—utilizing better technology, better plumbing, and greater capabilities based on the latest advancements. As a developed country, the U.S. may ultimately lag emerging markets in terms of infrastructure quality.

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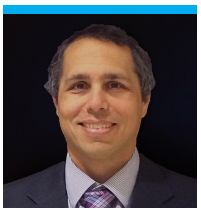
What noteworthy themes are you following in the industrial, materials and energy areas as we move into the next decade?



ERIC THOMPSON, CFA
Principal, Equity Research Analyst

ET It may be surprising to associate the industrial sector with secular themes, but a number of compelling developments are occurring. For one, cloud computing is allowing connectivity of equipment and machines on the factory floor and other environments in what is known as the Industrial Internet of Things (IIoT). By incorporating sensors and devices to collect real time data and connect to the cloud, information can be analyzed and processed to predict when equipment needs to be serviced. Considering that an unplanned outage can cost up to $250,000 an hour, predictive maintenance can save significant money and time while also driving efficiency. Numerous companies including Honeywell, Fortive, GE, and Rockwell Automation are developing internal IIoT capabilities for their areas of expertise.

Another theme 1919 has focused on is water conservation. I work closely with Alison and her social impact team on this issue. Approximately 3% of the world's water resources are considered freshwater and needed to sustain life. With population growth leading to greater consumption, water conservation and reuse have been important considerations. In this regard, it is estimated that about 30% of treated water is not converted into revenue due to leakage, mismeasurement, and theft. This is a major pain point for utilities and municipal water systems. There is a company on our radar that has assembled a portfolio of smart water technologies to address this issue called Xylem. This company uses new and innovative techniques to track where leakage occurs so that deteriorating water systems may be restored or replaced. It is innovative companies like these that we seek to invest in as solutions to longer-term secular trends emerge.

SHAYA BERZON
Principal, Equity Research Analyst

SB There have been a number of interesting themes developing in the energy sector. Interestingly, to follow-up on Alison's thought on SRI and ESG, in almost every oil and gas company presentation we have recently attended the company has addressed ESG issues. For example, gas companies now discuss how they seek to control methane flaring. Also, from an investment perspective, many energy companies have become more disciplined with capital allocation—reigning in growth investment, increasing dividends, and other shareholder-friendly behavior. While Energy has been a challenging sector to invest in, many attractive fundamentals are now in place. More positive supply and demand dynamics, as the anticipated result of the eventual slowing of West Texas supply and increasing demand from Asia and other emerging markets should be supportive of a more positive investment cycle. While we are watching the recent flare up in Iran and Iraq closely, we don't consider this to be a reason to own oil related stocks in and of itself.

From the materials perspective, we have seen increasing demand for copper, lithium, nickel, and other specialty materials used in battery storage as electric vehicles and other electrically powered technologies grow in usage. In addition, with the heightened focus on the reduction in greenhouse gas emissions, battery storage is an emerging trend. For example, batteries are being connected to solar farms—the battery gets charged by solar panels during the day and gets consumed by users at night, when consumption levels are higher. Costs for battery storage capabilities are falling sharply as the implementation of battery storage combined with solar power grows as an alternative energy source.

What are some of your macroeconomic considerations as we move forward in 2020?

AIMEE EUDY
Principal, Portfolio Manager

AE Economic growth and inflation expectations continue to be important drivers in the fixed income market. As we move forward in 2020, the Federal Reserve's proposed change to an average inflation target will be something new for investors to consider. As a result of setting a target range for inflation, the Federal Reserve will not need to move as quickly as the market may want them to with any interest rate adjustments.

In this continued "lower for longer" interest rate environment, we continue to be very deliberate and diligent about the fixed income securities we choose for inclusion in a client's portfolio. As always, a client's fixed income portfolio is constructed based upon a thorough understanding of their risk/reward profile and individual needs.

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STEPHEN WOROBEL
Principal, Portfolio Manager and Director of Equity Research

SW Consumer confidence continues to drive the market as the lower cost of borrowing, rising wages, and a historically low unemployment rate fuel this positive consumer outlook. As Chris Perry mentioned earlier, many companies have now fully adjusted to providing consumers with a "click and mortar" sales model, a physical store location with online ecommerce capabilities. Technological advances continue to drive change for companies and the consumer.

As we enter an election year and trade and tariff considerations are front and center, we are cognizant of not only what is taking place now but also of what we believe will occur over the next three, five, and ten years. Importantly, our investment process ensures that the following key questions are addressed:

1. What are the investable themes?
2. How do we expect them to play out over time?
3. How do we capitalize on the opportunities they present for our clients?

We appreciate the confidence our clients place in us as prudent stewards of their investable assets. We look forward to the opportunity to grow assets, generate income, and manage risk on their behalf over this exciting next decade and beyond. ■

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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 December 31, 2019 the firm managed approximately $15.1 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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