

Butler Family Foundation Investment Committee

Conference Call

August 20, 2024 at 3:00 p.m. CT

- I. Welcome
- II. Approval of Minutes
- III. Portfolio and Performance Update
 - A. Manager Performance
- IV. Review of Investment Policy Statement (IPS)
- V. Update on Current or New Investments
 - A. Wastewater Opportunity Fund
 - B. Starwood Capital
 - C. Northstar Capital

Attachments:

- a. Minutes of February 28th Investment Committee
- b. Principal Summary Statement
- c. Manager Performance
- d. Investment Policy Statement
- e. Updates from Wastewater & Starwood
- f. Northstar Capital Historical Returns
- g. MFO Quarterly Letter

Call-in Number: 866-705-2554 (Access Code 828154#)

**MINUTES OF THE FEBRUARY 28, 2024
INVESTMENT COMMITTEE MEETING
OF THE
PATRICK AND AIMEE BUTLER FAMILY FOUNDATION**

The Investment Committee meeting of the Patrick and Aimee Butler Family Foundation was held on Wednesday, February 28, 2024, at 3:00 p.m. Central Time via conference call.

The meeting was called to order by Patrick O'Brien, current Chair of the Investment Committee. John K. Butler acted as recording Secretary of the meeting.

Upon call of the Secretary, the following Committee members were present: Patrick O'Brien, Ronald Kaliebe, Andrew B. LeFevour and Emmett LeFevour. Mr. O'Brien welcomed Emmett LeFevour to his first meeting and thanked him for volunteering. Also present was Foundation Chief Investment Officer John Butler.

The Chair called for consideration of the minutes of the August 15, 2023 meeting of the Investment Committee. Upon motion duly made, seconded and unanimously carried, the minutes of the August 15, 2023 Investment Committee meeting were approved, ratified and confirmed.

The Chair then called on Mr. John Butler to provide an overview of the markets in 2023. Mr. Butler commented that the year was a reversal from 2022, with large-cap growth assets once again outperforming everything else. This outperformance was driven by a belief by investors that the Federal Reserve will begin cutting interest rates, that the economy will achieve a "soft landing", and that AI will be a significant game-changer.

The committee then reviewed the 2023 year-end summary statement, which is produced by the Foundation's custodian, Principal Custody Solutions. Mr. Butler pointed out that the Foundation assets continued to hold steady around \$100 million, with grants and expenses offsetting market appreciation.

Mr. Butler next reviewed the performance of the overall Foundation portfolio for the year. The Foundation's total return for 2023 was just over 10%, below the estimated 13-14% for the average foundation. Mr. Butler commented that he was pleased with the performance of the Foundation given its diversified portfolio and believes it is well positioned for the coming year.

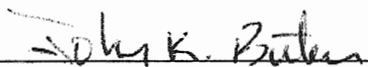
Mr. Butler then reviewed the asset allocation of the Foundation and the performance of the Foundation's individual asset managers. As of December 31, 2023, the asset allocation remains within the targets set by the Foundation's Investment Policy Statement. Mr. Butler also reviewed the performance of the individual asset classes and managers.

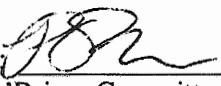
Next, Mr. Butler reviewed with the Committee the schedule showing the managers of the various asset classes of the Foundation, where the assets are held (i.e., who is the custodian) and the estimated fees paid by the Foundation. Mr. Butler then discussed the total cost of managing the Foundation's assets versus the costs incurred by other foundations and noted that the Butler Foundation's costs remain well below average.

Mr. Butler then updated the Committee on any potential new investments or recent changes. While the Foundation did redeem \$5 million from the Mondrian International Fund at the end of 2023, it only reinvested \$2 million in the Vanguard Total International Stock Index fund as markets around the world surged in the fourth quarter of last year. In the fourth quarter of 2023, the Foundation also committed \$3 million to the Starwood Opportunity Fund XIII using J.P. Morgan as a conduit. It is anticipated that the Fund will not be calling any capital until later in the year. Finally, Mr. Butler updated the Committee on the Northstar Mezzanine Partners VIII, where the Foundation also has a \$3 million commitment. While the Fund has made several investments, it has not actually called any capital, which is why it is not shown on any reports.

The next Committee meeting will be in August of 2024. The meeting will be scheduled in July and materials for it will be sent one week before.

The meeting adjourned at 3:45 p.m. Central Time.


John K. Butler, Secretary

ATTEST: 
Patrick O'Brien, Committee Chair

FD433
SUMMARY STATEMENT
OF INVESTMENT HOLDINGS
BY SECURITY CATEGORIZATION

PATRICK AND AIMEE BUTLER FAMILY FOUNDATION
CONSOLIDATED ACCOUNT
BASE CURRENCY: USD

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AS OF JUNE 30, 2024

	<u>COST</u>	<u>MARKET VALUE</u>	<u>ACCRUED INCOME</u>	<u>%GAIN (LOSS)</u>	<u>% MKT</u>	<u>ESTIMATED ANNUAL INCOME</u>	<u>CURRENT YIELD</u>
SETTLED CASH	14,686.82	14,686.82	0.00	.0	.0	0.00	.00
RECEIVABLES	232,929.56	232,929.56		.0	.2		
NET CASH	247,616.38	247,616.38		.0	.2		
CASH EQUIVALENTS							
SHORT TERM FUNDS	7,473,428.23	7,473,428.23	32,106.82	.0	7.3	379,147.37	5.07
CASH EQUIVALENTS	7,473,428.23	7,473,428.23	32,106.82	.0	7.3	379,147.37	5.07
FIXED INCOME							
GOVERNMENT AND AGENCIES	5,408,679.95	5,167,379.64	30,243.24	(4.5)	5.1	266,347.67	5.15
BOND FUNDS	6,594,840.51	5,574,403.33	8,253.34	(15.5)	5.5	389,186.66	6.98
MUNICIPAL BONDS	2,983,688.40	2,817,789.55	39,011.79	(5.6)	2.8	139,726.55	4.96
CORPORATE BONDS AND NOTES	2,998,205.04	2,868,781.03	39,164.61	(4.3)	2.8	159,344.69	5.55
ASSET-BACKED SECURITIES	2,164,913.57	2,090,079.18	8,926.34	(3.5)	2.0	111,735.27	5.35
COLLATERALIZED MTG-BACKED	1,722.85	1,454.34	9.72	(15.6)	.0	116.63	8.02
FIXED INCOME	20,152,050.32	18,519,887.07	125,609.04	(8.1)	18.1	1,066,457.47	5.76
COMMON STOCK							
HEALTH CARE	1,200,235.14	2,991,710.00	8,900.00	149.3	2.9	94,960.00	3.17
UTILITIES	522,788.38	427,280.00	0.00	(18.3)	.4	17,520.00	4.10
FINANCIALS	1,210,826.78	3,578,983.56	12,861.51	195.6	3.5	109,246.04	3.05
CONSUMER STAPLES	1,293,371.70	2,517,716.02	0.00	94.7	2.5	91,755.20	3.64
CONSUMER DISCRETIONARY	189,730.00	1,624,880.00	0.00	756.4	1.6	44,920.00	2.76
MATERIALS	572,659.70	1,205,300.00	1,710.00	110.5	1.2	21,120.00	1.75
ENERGY	488,761.48	1,851,080.72	0.00	278.7	1.8	49,457.80	2.67
INFORMATION TECHNOLOGY	846,518.42	4,667,435.00	0.00	451.4	4.6	64,300.00	1.38
INDUSTRIALS	1,042,348.97	3,328,570.00	0.00	219.3	3.3	95,200.00	2.86
TELECOMMUNICATION SERVICE	680,825.30	824,800.00	0.00	21.1	.8	53,200.00	6.45
ADR'S	1,727,980.75	1,689,600.00	7,000.00	(2.2)	1.7	71,125.00	4.21
COMMON STOCK	9,776,046.62	24,707,355.30	30,471.51	152.7	24.2	712,804.04	2.88
EQUITY FUNDS							
MUTUAL EQUITY FUNDS	14,884,652.78	19,027,727.66	43,398.19	27.8	18.6	41,390.80	.22
EQUITY FUNDS	14,884,652.78	19,027,727.66	43,398.19	27.8	18.6	41,390.80	.22

FD433
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AS OF JUNE 30, 2024

	<u>COST</u>	<u>MARKET VALUE</u>	<u>ACCRUED INCOME</u>	<u>%GAIN (LOSS)</u>	<u>% MKT</u>	<u>ESTIMATED ANNUAL INCOME</u>	<u>CURRENT YIELD</u>
MISCELLANEOUS							
OTHER MISCELLANEOUS	360.00	360.00	0.00	.0	.0	0.00	.00
MISCELLANEOUS	360.00	360.00	0.00	.0	.0	0.00	.00
VENTURE/LMTD PART/CLS HLD							
VENTURE CAPITAL	23,333,169.08	32,004,116.88	0.00	37.2	31.3	0.00	.00
VENTURE/LMTD PART/CLS HLD	23,333,169.08	32,004,116.88	0.00	37.2	31.3	0.00	.00
BALANCED FUNDS							
COLLECTIVE BALANCED FUNDS	105,003.91	106,176.00	1,344.00	1.1	.1	4,928.00	4.64
BALANCED FUNDS	105,003.91	106,176.00	1,344.00	1.1	.1	4,928.00	4.64
NET ASSETS	75,972,327.32	102,086,667.52	232,929.56	34.4	100.0	2,204,727.68	2.16

Patrick and Aimee Butler Family Foundation - Individual Manager Performance

<u>Asset Class</u>	<u>Allocation - June 30, 2024</u>				<u>Performance Data - June 30, 2024</u>			
	<u>Assets</u>	<u>Wgt</u>	<u>Target</u>	<u>Range</u>	<u>6 MOS</u>	<u>1 YR</u>	<u>5 YR</u>	<u>Incep. Date</u>
Cash	\$7.2	7%	5%	0-10%	2.5%	5.2%	2.0%	NA
Fixed Income								
Sit Investment Assoc.	\$16.5	16%	15%	10-20%	1.6%	6.1%	1.5%	12/31/2011
<i>Barclays Aggregate</i>					-0.7%	2.6%	-0.2%	
U.S. Equities	\$35.0	34%	40%	35-45%				
Vanguard Small-Cap Index Fund	\$10.7	11%			3.1%	11.5%	8.5%	3/31/2018
Large-Cap Value (Internal)	\$24.3	24%			5.8%	11.1%	8.9%	12/31/1999
<i>S&P 500</i>					15.3%	24.6%	15.1%	
International Equities	\$30.9	30%	25%	20-30%				
Vanguard Total Int. Stock Index	\$7.9	8%			5.1%	11.0%	5.8%	6/30/2022
Mondrian Investment Group	\$23.0	23%			3.5%	10.5%	5.0%	6/30/2004
<i>MSCI All-Country World</i>					5.7%	11.6%	5.6%	
Alternative Investments								
Miscellaneous	\$12.0	12%	15%	10-20%	NA	NA	NA	NA
<i>HFRI Composite</i>					5.0%	9.8%	6.7%	
Total Foundation	\$102	100%	100%		3.2%	8.1%	5.6%	12/31/1999

Notes:

Mondrian fund was changed from International Equity Fund to All Countries World in January 2012
Performance for Alternative Investments is an estimate due to manager changes and time lags

Patrick & Aimee Butler Family Foundation

Investment Policy Statement

Investment Objectives

- The Foundation is a private family foundation incorporated in 1951 and based in St. Paul
- It is expected the foundation will be in existence for perpetuity
- The investment objective for the Foundation is Balanced Growth
- Total program expenses are expected to average 5% over rolling periods

Guidelines: Internally Managed Assets

- The Foundation will oversee all cash investments. The Foundation's Chief Investment Officer (CIO) is responsible for this portfolio.
- The Foundation will also manage a domestic equity portfolio consisting of individual securities. The Foundation's CIO is also responsible for all management and trading decisions for this portfolio.

Guidelines: Externally Managed Assets

- The Foundation will utilize a variety of investment advisers to manage other asset classes. These may include: domestic and global fixed income, small-cap domestic equities, international equities, domestic and global real estate, mezzanine debt, infrastructure and commodities. It is expected that many of these investments will be in a fund or partnership format rather than individual securities.
- The Foundation may consider mission related investments (MRIs), assuming that the projected returns of the proposed investment are competitive with non-MRI alternatives and that the investment fits within the overall investment strategy. In addition, illiquid asset classes may be used as long as the total portfolio has adequate liquidity
- The Foundation's CIO is responsible for hiring, monitoring and if necessary, terminating, all external managers and opening any associated custodial accounts.

Communication and Oversight

- While the Foundation's CIO has day-to-day responsibility for the investment portfolio and reports to the Investment Committee, the ultimate responsibility for the investment portfolio lies with the Board of Trustees.
- At least annually, Foundation Trustees will at a minimum receive the following: a Principal Financial Summary Statement, a summary of all current custodians and fee schedules, a summary of performance relative to other foundations, and a current Investment Policy Statement.
- The CIO will be responsible for voting proxies of companies held directly and will do so in a manner that balances the interests of shareholders with Foundation values. Proxies of companies held by outside managers will be voted by those managers.

ASSET ALLOCATION TARGETS

<u>Asset Class</u>	<u>Target</u>	<u>Range</u>	<u>Benchmark</u>
Cash	5%	0-10%	Not Benchmarked
Fixed Income	15%	10-20%	Barclays Aggregate
Domestic Equities	40%	35-45%	S&P 500
International Equities	25%	20-30%	MSCI ACWI
Alternative Investments	15%	10-20%	HFRI FOF Composite
Total Foundation	100%		COF Foundation Avg. Undiversified Index

General Notes

The Fixed Income portfolio performance only includes the externally managed portion

The performance of the Alternative Investments asset class is an estimate

Index Notes

ACWI stands for All Country World Index (ex U.S.)

HFRI FOF stands for Hedge Fund Research Fund of Funds

Council on Foundation Average is only calculated annually

Adopted by the Butler Family Foundation Board of Trustees on April 28, 2023

I. QUARTERLY UPDATE

LETTER TO OUR INVESTORS

We are sharing our 2024 Second Quarter Report for the Wastewater Opportunity Fund ("the Fund").

As of June 30, 2024, the Fund's Net IRR is 1.01%, with cumulative distributions through quarter-end totaling approximately \$180.6 million (\$191.0 million distributed to investors, net of \$10.4 million recallable capital returned). The Net IRR reflects a realized gain from exiting Virginia WaterHub, a realized loss from exiting Freestate Farms ("Freestate"), and a write down of Liberty Processing & Soils ("Liberty") due to lack of marketability.

In 2Q24, the Fund exited Freestate and Virginia WaterHub, with both post-closing adjustments complete as of the date of this letter. Distributions of \$26.1 million made during the quarter included proceeds from the sales, release of additional reserves from the 4Q22 sales of GGP and COBE, and Fund receivables collected. The post-closing adjustment for Freestate resulted in \$0.4 million returned to the buyer.

The market has remained quiet in response to the expanded outreach for Liberty. In response to market quietness, we ran a valuation of this investment as of June 30, 2024, which resulted in an unrealized loss of \$7.1 million. While the Fund has received limited feedback from potential buyers on the process, we believe Liberty's size and its mostly merchant feedstock supply contribute to the lack of interest. The facility has approximately 35% of the feedstock under contract, while the remainder of the feedstock accepted is merchant. To increase the portion of contracted feedstock, the Fund has engaged with the New York City Department of Sanitation, which will be releasing a biosolids outlet request for proposal ("RFP"). We provided a tour and responded to the first stage of the RFP. In addition, we continue to seek support from the local township to increase the facility's permitted processing capacity. We are exploring interest from the third-party management team and will continue to evaluate options.

FUND SUMMARY¹

as of June 30, 2024

Fund Size	\$ 184.3
Fund Vintage	2015
Number of Investments Remaining	2
Percentage Committed	100%
Fund NAV	\$ 11.0
Distributed to Investors ²	\$ 191.0
Fund Total Value ³	\$ 202.0
Drawn from Investors ⁴	\$ 194.7
Percentage Drawn ⁴	97.6%

¹ Dollar figures in US \$ millions

² Inclusive of recallable capital distributed and capital contributed for reinvestment, respectively

³ Includes NAV and distributions

⁴ Percentage drawn of total capital, including approved reinvestment.

FUND PERFORMANCE

as of June 30, 2024

	GROSS	NET
Distributions/Paid-In Capital	1.15x	0.98x
Total Value/Paid-In Capital	1.20x	1.04x
Fund IRR	4.93%	1.01%

Trenton Biogas recorded another operating loss for the quarter. The facility required repair to the feedstock intake equipment and the heating system, contributing to downtime during the quarter. Legal disputes with both the EPC provider and the feedstock contractor are ongoing.

After completing exits of Virginia Waterhub and Freestate, the Fund needs to return \$3.7 million to have returned Fund capital in full, releasing the accrued fees. Despite our best efforts, we anticipate both Liberty and Trenton Biogas will take some time to exit. We will contact you ahead of the Fund extension expiry on September 30, 2024 with plans for asset liquidation.

Sincerely,
The Equilibrium Team

II. SUMMARY OF INVESTMENTS

The table below provides a summary of the Fund's portfolio investments (projects) as of the current quarter. Please see section IV Fund Financials for more detailed information on each project. AS OF JUNE 30, 2024, IN US MILLIONS

PROJECT	DATE OF INVESTMENT	PAID IN CAPITAL	REALIZED VALUE	FAIR VALUE ¹	TOTAL VALUE	TVPI	CURRENT PROJECT LTV ²	TTM EBITDA ³
ACTIVE INVESTMENTS								
LIBERTY	MAY 2017	\$ 13.8	\$ 0.1	\$ 6.9	\$ 7.0	0.51x	-	\$ 0.9
TRENTON	SEP 2018	\$ 13.8	\$ 5.0	\$ 3.2	\$ 8.2	0.60x	0.44x	\$ (2.0)
EXITED INVESTMENTS								
GGP I & II	SEP 2015	\$ 89.9	\$ 94.5	\$ -	\$ 94.5	1.05x	-	\$ -
POG	OCT 2015	\$ 1.2	\$ 1.5	\$ -	\$ 1.5	1.28x	-	\$ -
COBE	JUN 2016	\$ 12.8	\$ 27.2	\$ -	\$ 27.2	2.13x	-	\$ -
ORGANIC DIVERSION - BRIDGE LOAN	MAY 2017	\$ 0.1	\$ -	\$ -	\$ -	-	-	\$ -
VIRGINIA WATERHUB	AUG 2017	\$ 17.0	\$ 25.4	\$ -	\$ 25.4	1.49x	-	\$ -
FREESTATE	MAR 2018	\$ 23.9	\$ 2.6	\$ -	\$ 2.6	0.11x	-	\$ -
SYNTECH - BRIDGE LOANS	APR 2018	\$ 1.2	\$ -	\$ -	\$ -	-	-	\$ -
THREEMILE	APR 2018	\$ 29.0	\$ 76.1	\$ -	\$ 76.1	2.63x	-	\$ -
ARIES - BRIDGE LOAN	AUG 2018	\$ 0.3	\$ 0.3	\$ -	\$ 0.3	1.26x	-	\$ -
TOTAL PORTFOLIO INVESTMENTS		\$ 203.0	\$ 232.7	\$ 10.1	\$ 242.8	1.20 x	0.37 x	\$ (1.1)

¹ See the individual investment summaries for further information regarding Fair Value.

² The Fund operating agreement limits the LTV ratios at time of issuance. The LTV ratio provided herein is the ratio as of June 30, 2024 based on current debt and asset balances of the project as a whole.

³ The TTM EBITDA shown represents the Fund's estimated proportional share of the underlying project's performance.

J.P.Morgan

July 2024

Dear Investor,

We are pleased to welcome you as an investor in Starwood Distressed Opportunity Fund XIII ("Starwood XIII" or the "Fund"). The Fund will follow an opportunistic strategy investing across multiple sectors including residential, industrial, data centers, and hospitality. The Fund intends to make 50-75 investments, primarily across the U.S and Europe. The Fund will target larger allocations to debt investments and distressed / corporate transactions with average equity investments of \$150 million.

It is anticipated that the Fund will rely exclusively on its subscription line through the fundraising period and not call capital until the final close which is anticipated to be sometime in 2025. At this point the origination fee payable to J.P. Morgan in connection with your investment in the Fund will be due.

We will provide quarterly and annual reports, capital call and distribution notices, tax information, and any other information about the activities of the Fund as they become available. The Fund is now showing in your J.P. Morgan Online account and on statements. We expect K-1s to begin for tax year 2024 and to be sent to you in 2025.

Please contact your J.P. Morgan team member with any questions and thank you for choosing to invest with us. If you received this letter in hard copy and would like in the future to receive it electronically, please contact your J.P. Morgan team member.

If you are a person with a disability and need additional support with this message, please contact your J.P. Morgan team member or email us at accessibility.support@jpmorgan.com for assistance.

Sincerely,

J.P. Morgan Private Investments Inc.

As Administrator for SOF XIII Private Investors, LLC (the "Onshore Conduit") and SOF XIII Private Investors Offshore 1, L.P. (the "Offshore Conduit")

Please refer to the Confidential Private Placement Memorandum for capitalized terms not defined above.

This material has been prepared by J.P. Morgan Securities LLC and approved for distribution by the following legal entities subject to applicable law:

J.P. Morgan Securities LLC, 383 Madison Ave, New York, NY 10017

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Tracking ID: 220448846 07/16/2024 at 11:12AM ET

FUND PERFORMANCE

- Maintaining continuity of strategy, discipline and philosophy to produce attractive returns for our investors through several economic cycles

Historical Performance as of 3/31/2024

<i>(\$ in millions)</i>			Hold			Gross ⁽¹⁾		Excl Sub Line		Incl Sub Line	
Fund	Status	Period (Years)	Invested Capital	Total Value	MOIC	IRR	MOIC	IRR	MOIC	IRR	
Realized	NMP III (2001)	Fully Realized	6.2	\$124.7	\$249.4	2.0x	18.9%	1.6x	10.9%	Not applicable	
	NMP IV (2005)	Fully Realized	6.3	\$309.0	\$611.0	2.0x	16.0%	1.6x	10.8%		
	NMP V (2007)	Fully Realized	5.0	\$585.1	\$954.9	1.6x	13.4%	1.4x	8.1%		
	NMP VI (2013)	Nearly Realized	4.7	\$322.6	\$640.0	2.0x	19.1%	1.7x	12.6%		
Growth	NMP VII (2018)	Growth	3.0	\$364.4	\$519.8	1.4x	15.3%	1.3x	10.0%	1.3x	10.2%
	NMP SBIC (2020)	Growth	2.0	\$113.8	\$142.3	1.3x	15.0%	1.3x	10.8%	1.2x	11.1%
	NMP VIII (2022)	Investing	0.6	\$105.5	\$120.0	1.1x	25.8%	1.1x	17.4%	NM ⁽⁴⁾	NM ⁽⁴⁾

(1) Gross IRR and Gross MOIC are presented gross of Fund expenses and GP costs.

(2) Net MOICs and net IRRs have been reduced for management fees, portfolio expenses, paid/accrued carried interest and adjusted to remove the impact of subscription line (if applicable). Excludes blocker expenses, if applicable, which are incurred at the investor's discretion.

(3) Net MOICs and net IRRs have been reduced for management fees, portfolio expenses, and paid/accrued carried interest. Excludes blocker expenses, if applicable, which are incurred at the investor's discretion. NMP III - VI did not use a subscription line. NMP VII, NMP SBIC and NMP VIII net MOIC and net IRR include the impact of a subscription line.

(4) Not meaningful as the first capital call was issued in March 2024, shortly before quarter end.

Note: IRRs are based on actual cash flows through March 31, 2024 and estimated proceeds assuming existing investments were liquidated on March 31, 2024. There can be no guarantee that the Funds will achieve these results as the valuations are subject to change and may not be realized. Performance information for Funds I and II is available upon request. NMP SBIC includes SBA leverage.

CONFIDENTIAL

MFO MANAGEMENT COMPANY INVESTMENT OFFICE

To Our Clients

July 22, 2024

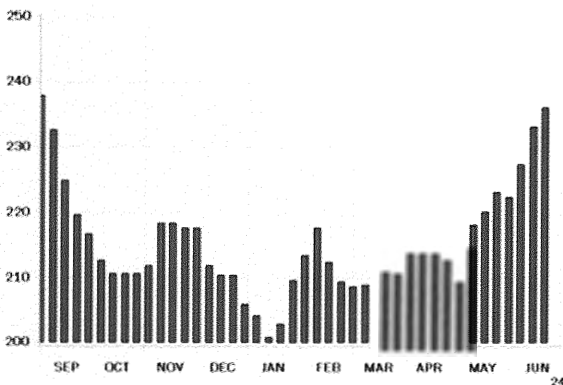
ECONOMIC OUTLOOK & INVESTMENT STRATEGY

We are making some noticeable changes to our economic outlook. This is due to the fact the economy has started to slow at a faster pace as higher interest rates are finally starting to affect consumer behavior outside of housing and autos. While inflation is still not at the Fed's 2% target it is close enough at 3% flat that the market has become certain of a September rate cut. We believe this is highly probable as the Fed must cut well ahead of the election leaving September as the best time, with the cover of a slowing economy, discussed below. If not September, then it would likely be December and then into 2025. Chair Powell will try to remain politically independent around the election as his term doesn't expire until 2026, yet his actions are a focus of the election.

We have consistently said the economy is slowing but signals have been mixed throughout the year. That is still the case, but the slowdown has accelerated sharply in some areas over the past three months. We have noted the following: – 1) consumer goods and services spending has slowed; 2) job growth is slowing, 3) jobless claims are rising; 4) consumer debt is rising; 5) availability of credit is slowing; 6) University of Michigan Sentiment Survey is at the lowest level in 8 months, 7) companies across consumer such as Walmart and restaurants are reporting weakened outlooks; and 8) housing sales are slowing further. The pictures below tell the story which shows the why the Fed is likely to begin the rate cut cycle at a measured pace. Remember slowing growth does not mean a recession, which requires negative GDP growth – a soft landing is still the most likely outcome.

Initial Claims

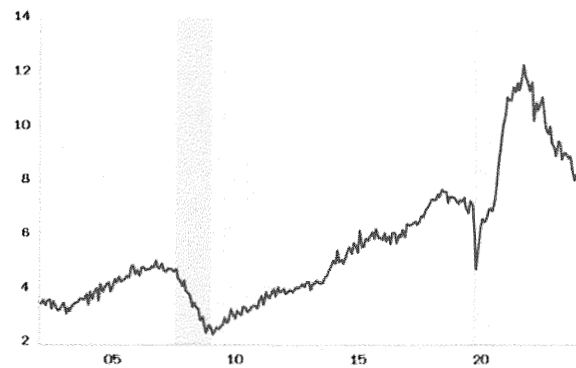
United States
(thousands; 4-week moving average)



Source: Haver Analytics, Department of Labor, Rosenberg Research

Job Openings

United States: Job Openings and Labor Turnover Survey
(millions)

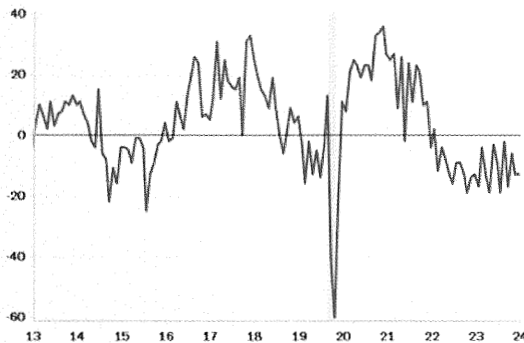


Shading indicates recession

Source: Haver Analytics, BLS, Rosenberg Research

New Orders

United States: Kansas City Fed Manufacturing Survey
(percent balance)

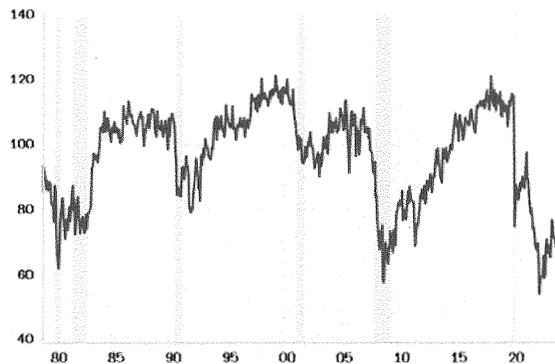


Shading indicates recession

Source: Haver Analytics, Kansas City Fed, Rosenberg Research

Consumer Sentiment

United States: University of Michigan Survey of Consumers
(index)



Shading indicates recession

Source: Haver Analytics, University of Michigan, Rosenberg Research

Pending Home Sales

United States
(index)



Source: Bloomberg, NAR, Rosenberg Research

Lumber Futures

United States
(\$ per 1000 board feet)



Source: Haver Analytics, Rosenberg Research

Geopolitics – Geopolitical issues continue throughout the world with the wars in Ukraine and Israel making little progress this past quarter. China continues to harass other nations in the South China Sea including the Philippines and with blockades and sharp rhetoric against Taiwan. If ever China was to invade Taiwan, now would be the time with U.S. leadership focused on the election. Maybe it is good China is not acting up now, signaling they may be bluffing about their stated intentions to retake Taiwan. China would likely be the largest lightning rod of another Trump administration. We continue to minimize any direct Chinese investments.

U.S. Elections – The presidential campaign is heading into the final stretch. It has been a race like no other with Trump surviving an assassination attempt and Biden dropping out three months before the most important election in the world. While the polls are now favoring Trump, we now know that anything can happen. Below is a chart of the policies of both parties, with the only thing both agree on is tariffing China. Under Trump, favored sectors include energy and defense as well as more M&A. Under the Democrats, favored sectors include green energy, EVs and infrastructure. Ironically, for the markets over the long term, it doesn't matter who is in office (see below).

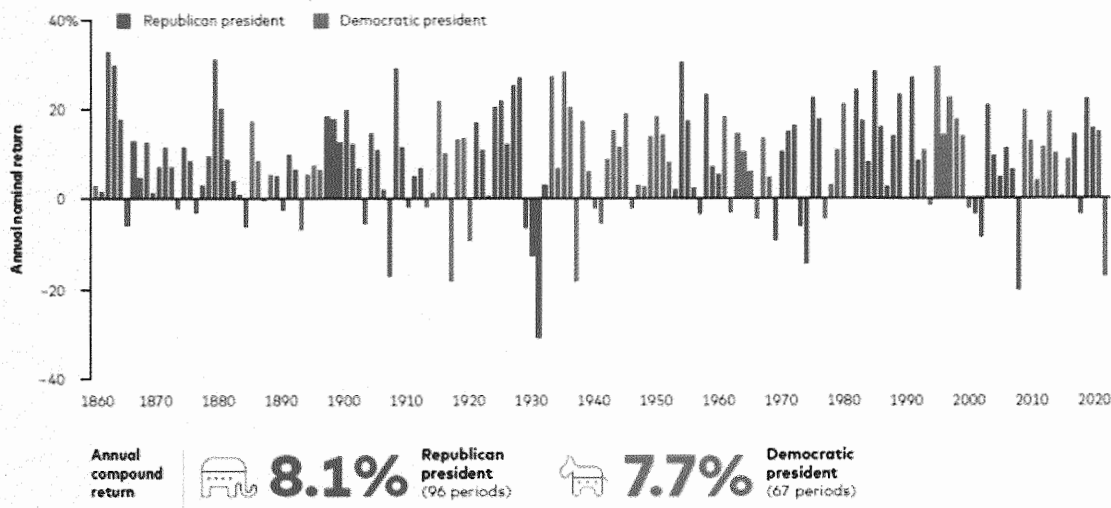
Comparison of Trump and Biden Economic Policy Stance

United States

	Biden / Democrats	Trump / Republicans
Fiscal Policy	<ul style="list-style-type: none"> • Social spending: Increased child benefits, college tuition funding, student loan cancellation • Partial tax cut extension: Extend TCJA tax cuts on those earning less than \$400,000 	<ul style="list-style-type: none"> • Full tax cut extension and expansion: Make TCJA permanent, and enact new (unspecified) tax relief. • Possible cuts to Biden flagship spending bills
Monetary Policy	<ul style="list-style-type: none"> • Maintain Fed Independence: Biden White House recently defended Fed independence • Powell status unclear: Biden has not indicated whether he would re-appoint Chairman Powell 	<ul style="list-style-type: none"> • Erode Fed independence: Trump campaign considering wider consultation on interest rate policy, likely to make partisan appointments • Powell out: Trump has said he will not re-appoint Chairman Powell
Trade policy	<ul style="list-style-type: none"> • Targeted tariffs: Strategic incremental tariffs on Chinese imports; targeted export restrictions on sensitive equipment 	<ul style="list-style-type: none"> • Blanket 10% tariffs on all imports: Additional 60% levy on Chinese imports.
Immigration	<ul style="list-style-type: none"> • Positive stance on legal immigration: Encourage skilled migration into the U.S. • Tougher stance on illegal immigration: Biden will continue to make illegal crossings more difficult 	<ul style="list-style-type: none"> • Mass deportation: Trump has proposed deporting all undocumented U.S. residents • Forceful crackdown on illegal immigration: Still maintaining "border wall" policy
Energy & Climate	<ul style="list-style-type: none"> • Aggressive stance on fossil fuels: Continuation of policies such as natural gas permit pause • Climate transition: Heavy subsidization of green technologies and industries centered around energy transition strategy 	<ul style="list-style-type: none"> • "Drill baby, drill": Strong support for fossil fuel industry, skeptical on transition technologies, possible reduction of clean energy subsidies

Source: Fitch, ABC News 538, RealClearPolitics, Politico, WSJ, Washington Post, New York Times, Rosenberg Research

Presidential political party, 60/40 portfolio returns show no statistical difference



INVESTMENT STRATEGY & REVIEW

■ **OVERALL ASSET ALLOCATION:**

Below are our asset allocation tables. We continue to favor being overweight higher yielding fixed income as the total return is competitive with equities. Within equities, we favor small cap funds and REITs for new funds. Client account total returns are up 4-6% through June 30th and are up more sharply into July.

BENCHMARK ASSET ALLOCATION - JULY 2024				
ASSET CLASS **	ALL EQUITY (PERSONAL & TRUSTS) (AGGRESSIVE)	BALANCED OBJECTIVES (PERSONAL & TRUSTS)	INCOME ORIENTED (PERSONAL & TRUSTS)	FOUNDATION MODEL (TOTAL RETURN)
Risk Reduction Assets				
Fixed Income/Money Market	2%	20%	35%	15%
Long/Short Funds *	10%	13%	5%	15%
Sub-total Risk Assets	12%	33%	40%	30%
Real Assets				
Real Estate, REITs, Commodities, Utilities	13%	11%	15%	10%
Growth Assets				
U.S. Large Company Equities	35%	23%	20%	22%
U.S. Small Company Equities	30%	23%	17%	20%
Foreign Developed Equities	10%	10%	8%	10%
Venture Capital/Private Equity *	0%	0%	0%	8%
Sub-total Growth Assets	75%	56%	45%	60%
Totals	100%	100%	100%	100%

* subject to account circumstances & size, long/short funds, could be up to 15% and private equity/venture capital could be up to 7% of Equity, Balanced and Income-oriented accounts
 **Please remember that at any given date actual individual account values may fluctuate within a few percentage points around these targets.

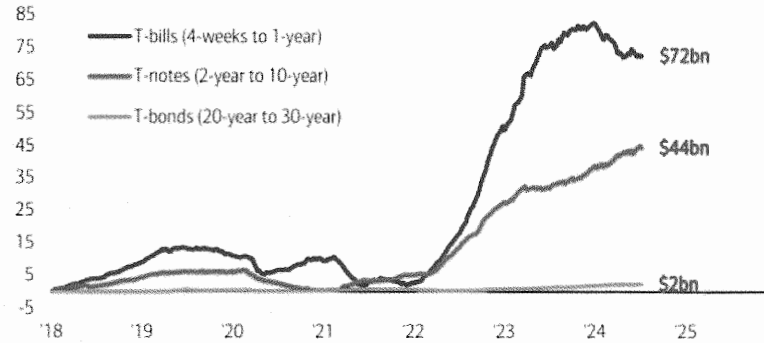
■ **FIXED INCOME:**

Interest rates, specifically on the 10-year Treasury continue to hover around 4.5%, within the range of the past few years. Lately rates have trended downward as inflation hit 3% and the Fed continues to say they will lower rates this year and a September cut is being priced into the markets. Even at these interest rates, fixed income provides our client accounts with some of the highest income in years.

Over the past year, we have added a few new funds including the *River Canyon Total Return Bond Fund* yielding 8.5% and the *BlackRock Floating Rate Income Fund* yielding almost 9%. We continue to like the total return outlook for fixed income for the next few years as this yield is competitive with historical equity returns. As seen below, if and when yields do come down there is a lot of money in short-term Treasuries (and money markets) that will be looking to move into higher yielding bonds or equities.

Chart 2: BofA private clients all in T-bills, no one in Treasury bonds

Cumulative BofA private client flows since 2018 to T-bills, T-notes, and T-bonds



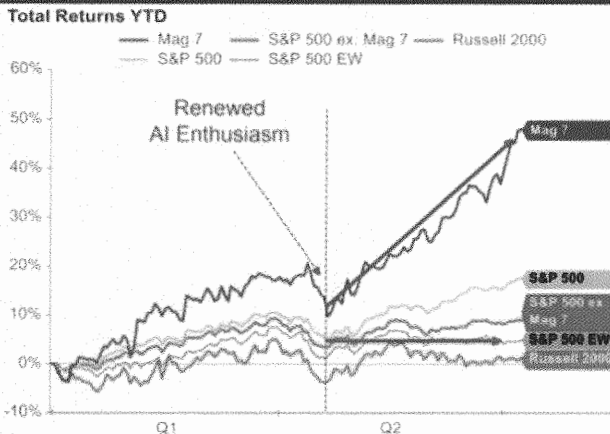
Source: BofA Global Investment Strategy

BoFA GLOBAL RESEARCH

■ **EQUITIES:**

The S&P 500 Index was up 15% through June 30th led entirely by the Magnificent 7 stocks (see below), while the rest of the equity indexes are relatively flat. Clients have participated in the multi-trillion-dollar Mag 7 stocks via direct investments in some companies and the S&P 500 Index fund. A fun fact for clients is that *Meta Platforms Inc.* (Facebook/Instagram/What's App) has become the largest single stock investment idea to ever come out of MFO's self-managed equities.

Returns Diverged Dramatically Mid Quarter Between Maga Cap Tech and the Rest of the Market



Source: FactSet as of 7/9/2024

Amazingly NVDA Accounted for Nearly Half of the S&P Return Contribution in 2Q

Mag 7	2Q Total Return	S&P 500 Contribution
NVIDIA	36.74%	44%
Apple	22.99%	31%
Alphabet	20.82%	19%
Microsoft	6.42%	10%
Amazon.com	7.13%	6%
Tesla	12.57%	3%
Meta Platforms	3.94%	2%
S&P 500	4.28%	

Mag 7 stocks accounted for 116% of S&P Total Return in 2Q!

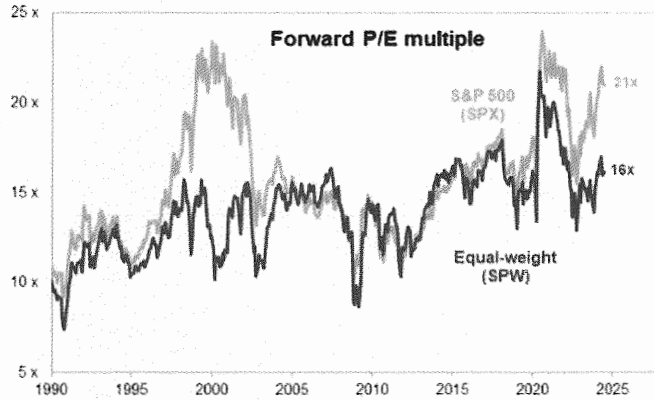
Source: Wealthfront FactSet, as of 6/30/2024

Interestingly, July has been a very strong month, with the rate sensitive smaller caps and REITs taking the lead as interest rates dropped back to the lower end of the range. For example, the Russell 2000 Index rose 11% in July alone. Large caps led by technology stocks lagged for the first time in a while. This is good and makes for a healthier market than what we have been experiencing.

Outlook - Overall valuations are mixed with the Magnificent 7 above average while the other 493 stocks in the S&P 500 are a lot cheaper. Also, it appears that earnings growth is beginning to turn positive for the other 493 companies and the gap between the two groups is set to contract. The gap between large cap and small company valuations is still the widest it has ever been. The two charts below show this bifurcation in the market. We expect a more correlated performance going forward as the Mag 7 companies hold up in the trillion-dollar valuation club while the rest of the market tries to catch up to their lofty P/E ratios.

S&P 500 P/E multiple: aggregate vs. equal-weight

Aggregate index (SPX) trades at P/E of 21x vs. 16x for equal-weight index (SPW)



Source: Goldman Sachs Global Investment Research

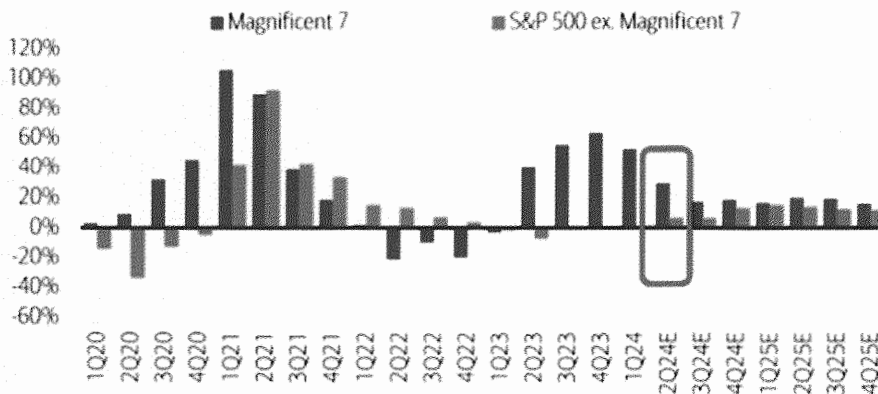
Chart 10: Large Cap Growth at highest vs Small Cap Value since 2000
Large Cap Growth vs Small Cap Value – price relative



Source: BofA Global Investment Strategy, Bloomberg (Large Cap Growth = SGX Index, Small Cap Value = RUJ Index)

BofA GLOBAL RESEARCH

Exhibit 1: 2Q is expected to be the first EPS growth quarter for the Other 493
Magnificent 7 vs. the other 493 consensus quarterly EPS YoY



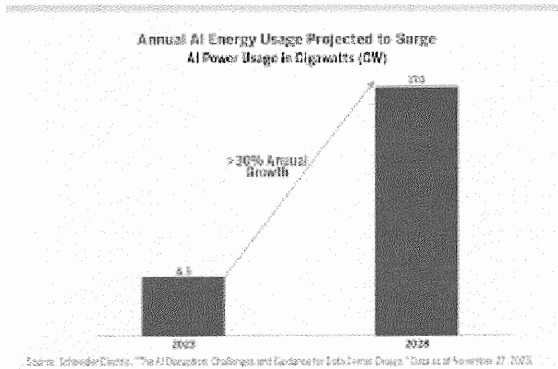
Source: BofA US Equity & Quant Strategy, FactSet

BofA GLOBAL RESEARCH

Our outlook continues to favor rate sensitive areas of the market including of small caps and REITs, as we have discussed many times. Corporate earnings will be driven by growth initiatives/stimulus regardless of the election outcome as both parties will want to prop up the economy regardless of the level or deficits or national debt especially at lower interest rates. These drivers include: 1) Corporate onshoring, 2) CHIPS Act/IRA, 3) Defense Production 4) Hardware and software spending to ramp up AI data centers.

Geopolitical Hedges – In order to hedge geopolitical risk in a small way, owning Treasuries, defense stocks, energy and gold might provide some relief should major geopolitical issues arise, especially related to the Middle East and China/Taiwan. We hope no disasters are imminent, but the world is as dangerous as ever and prone to accidents. Most clients own some form of the above-mentioned investments along with hedge funds which would also provide some downside protection.

The Vanguard Utility Index – The utility sector has been a pleasant surprise with a move up more than 14% this year as estimates for power consumption are running at 2-3x in the future depending on the source. Trillions of dollars will be needed to upgrade the grid using every energy source available. We don't know if this will happen, but we do know more power from all sources will be needed to meet future EV and data center/AI demand. Coupled with the demand from onshoring and the semiconductor factories, we are happy we added the *Vanguard Utility Index* to most client accounts a few years ago, mainly for the defensive nature and the high dividend yield. Below are a few interesting charts on the boring utility sector that just happens to be the hottest thing around with all the buzz about AI and the need for power.

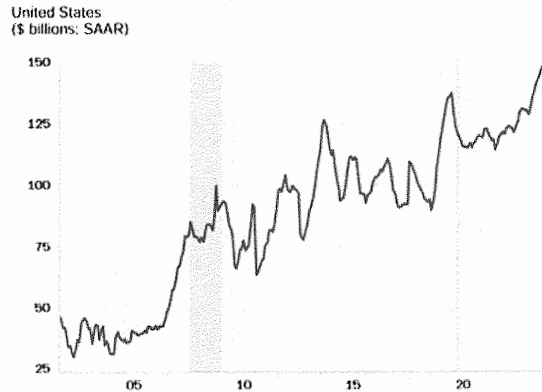


S&P 500: Electric Utilities
United States (index)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

Construction Spending: Power Plants



Shading indicates recession
Source: Haver Analytics, Census Bureau, Rosenberg Research

Should you have any questions, please feel free to contact the MFO Investment Office at (248) 723-0050 or visit us at our new address - 380 N. Old Woodward, Suite 175, Birmingham, MI 48009.

Joseph A. Covino, CFA – jcovino@mfo.com
 Andrew C. Hopper, CFA – ahopper@mfo.com
 Mary F. Burdett – mburdett@mfo.com