# Butler Family Foundation Investment Committee

## Conference Call

## February 28, 2024 at 3:00 p.m. CT

I. Welcome

II. Approval of Minutes

III. Year in Review

IV. Portfolio and Performance Update
   A. Portfolio Summary Statement
   B. Overall Foundation Performance
   C. Individual Manager Performance
   D. Summary of Fees and Managers

V. Update on Current/Potential Investments
   A. Starwood Opportunity Fund XIII
   B. Northstar Mezzanine Partners VIII

VI. Other Business

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Attachments:

a. Minutes of August 15th Investment Committee
b. Principal Portfolio Summary Statement
c. Historical Portfolio Performance
d. Individual Manager Performance
e. Summary of Fees and Managers
f. Memo to IC regarding Starwood Fund XIII
g. Northstar Fund VIII Memo
h. MFO Year-End report
i. Article "Investing Success in Two Easy Lessons"

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

**MINUTES OF THE AUGUST 15, 2023**
**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 Tuesday, August 15, 2023, at 3:00 p.m. Central Time via conference call.

The meeting was called to order by Patrick O'Brien, 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: Andrew B. LeFevour, Patrick O'Brien and Ronald Kaliebe. Also present were John Butler and Robert Hybben. Mr. Hybben mentioned that both Andrew LeFevour and Ronald Kaliebe are at the end of their three-year terms. Both indicated they would like to serve on the Committee for another three years and will be nominated at the upcoming October Board meeting.

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

The Chair called on Mr. John Butler, Chief Investment Officer, to review the current holdings of the portfolio and summarize any major changes since December 31, 2022. Mr. Butler began by reviewing the Principal Summary Statement. Mr. Butler then reviewed Individual Manager performance and asset allocations as of June 30, 2023. He commented that the year-to-date performance in the stock market has been driven by just seven stocks, which distorts performance comparisons and historically has been a sign of a weak market.

The Committee next discussed the Investment Policy Statement. The Investment Committee Charter notes that the Investment Policy Statement will be reviewed by the Committee each year at the August meeting. However, the current policy was last reviewed on the February 2022 Investment Committee call and approved by the Board of Trustees at the April 28 Board meeting, so the Committee did not review the document this time.

Mr. Butler then provided the Committee with an update on some of the Foundation investments and potential new investments. As was noted in prior meetings, Mr. Butler expects to shift another $5M from the Mondrian holding to the Vanguard International Stock Fund at some point in 2023. While Mondrian has outperformed its benchmark year-to-date, Mr. Butler would like to see a greater spread between the two before making the shift. It was also noted in the last meeting that Mr. Butler would likely add to the Vanguard Small-Cap Index Fund, which was done in March of 2023. Finally, Mr. Butler updated the Committee on a recent meeting with local representatives of the J. P. Morgan office. As mentioned previously, Mr. Butler is looking closely at the JP Morgan Global Transport Income Fund. He is also starting to monitor an upcoming real estate fund that would be managed by Starwood Capital.

The next Committee meeting will be in February 2024. The meeting will be scheduled in January and materials for the meeting will be sent one week prior to the meeting.

The meeting adjourned at 3:50 p.m. Central Time.

John K. Butler

John K. Butler, Secretary

ATTEST:

Patrick O'Brien, Committee Chair

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FD433
SUMMARY STATEMENT
OF INVESTMENT HOLDINGS
BY SECURITY CATEGORIZATION

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


25007299

AS OF DECEMBER 31,2023

| | COST | MARKET VALUE | ACCRUED INCOME | %GAIN (LOSS) | % MKT | ESTIMATED ANNUAL INCOME | CURRENT YIELD |
|---|---|---|---|---|---|---|---|
| SETTLED CASH | 0.00 | 0.00 | 0.00 | .0 | .0 | 0.00 | .00 |
| RECEIVABLES | 206,451.77 | 206,451.77 | | .0 | .2 | | |
| NET CASH | 206,451.77 | 206,451.77 | | .0 | .2 | | |
| CASH EQUIVALENTS | 9,690,894.61 | 9,690,894.61 | 46,556.11 | .0 | 9.6 | 495,607.95 | 5.11 |
| FIXED INCOME | 20,081,249.33 | 18,506,768.03 | 119,589.15 | (7.8) | 18.3 | 1,040,653.57 | 5.62 |
| COMMON STOCK | 9,785,153.95 | 23,833,693.41 | 34,531.51 | 143.6 | 23.5 | 721,634.24 | 3.03 |
| EQUITY FUNDS | 15,061,327.15 | 18,646,701.01 | 0.00 | 23.8 | 18.4 | 61,370.84 | .33 |
| MISCELLANEOUS | 360.00 | 360.00 | 0.00 | .0 | .0 | 0.00 | .00 |
| VENTURE/LMTD PART/CLS HLD | 22,093,830.22 | 30,169,103.00 | 0.00 | 36.5 | 29.8 | 0.00 | .00 |
| BALANCED FUNDS | 153,445.16 | 151,470.00 | 5,775.00 | (1.3) | .1 | 7,260.00 | 4.79 |
| NET ASSETS | 77,072,712.19 | 101,205,441.83 | 206,451.77 | 31.3 | 100.0 | 2,326,526.60 | 2.30 |

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

AS OF DECEMBER 31,2023

| | COST | MARKET VALUE | ACCRUED INCOME | %GAIN (LOSS) | % MKT | ESTIMATED ANNUAL INCOME | CURRENT YIELD |
|---|---|---|---|---|---|---|---|
| SETTLED CASH | 0.00 | 0.00 | 0.00 | .0 | .0 | 0.00 | .00 |
| RECEIVABLES | 206,451.77 | 206,451.77 | | .0 | .2 | | |
| NET CASH | 206,451.77 | 206,451.77 | | .0 | .2 | | |
| CASH EQUIVALENTS | | | | | | | |
| SHORT TERM FUNDS | 9,690,894.61 | 9,690,894.61 | 46,556.11 | .0 | 9.6 | 495,607.95 | 5.11 |
| CASH EQUIVALENTS | 9,690,894.61 | 9,690,894.61 | 46,556.11 | .0 | 9.6 | 495,607.95 | 5.11 |
| FIXED INCOME | | | | | | | |
| GOVERNMENT AND AGENCIES | 4,335,494.72 | 4,193,895.07 | 19,362.94 | (3.3) | 4.1 | 221,950.31 | 5.29 |
| BOND FUNDS | 6,278,929.70 | 5,277,260.29 | 2,760.18 | (16.0) | 5.2 | 365,159.42 | 6.92 |
| MUNICIPAL BONDS | 3,011,933.84 | 2,790,454.75 | 35,032.85 | (7.4) | 2.8 | 124,857.25 | 4.47 |
| CORPORATE BONDS AND NOTES | 4,336,096.40 | 4,238,710.28 | 56,601.03 | (2.2) | 4.2 | 229,474.51 | 5.41 |
| ASSET-BACKED SECURITIES | 2,115,335.71 | 2,003,524.59 | 5,812.64 | (5.3) | 2.0 | 98,977.95 | 4.94 |
| COLLATERALIZED MTG-BACKED | 3,458.96 | 2,923.05 | 19.51 | (15.5) | .0 | 234.13 | 8.01 |
| FIXED INCOME | 20,081,249.33 | 18,506,768.03 | 119,589.15 | (7.8) | 18.3 | 1,040,653.57 | 5.62 |
| COMMON STOCK | | | | | | | |
| HEALTH CARE | 1,200,235.14 | 2,967,040.00 | 8,900.00 | 147.2 | 2.9 | 94,260.00 | 3.18 |
| UTILITIES | 522,788.38 | 495,280.00 | 4,160.00 | (5.3) | .5 | 16,640.00 | 3.36 |
| FINANCIALS | 1,210,826.78 | 3,191,394.24 | 12,861.51 | 163.6 | 3.2 | 106,046.04 | 3.32 |
| CONSUMER STAPLES | 1,293,371.70 | 2,719,439.17 | 0.00 | 110.3 | 2.7 | 90,223.20 | 3.32 |
| CONSUMER DISCRETIONARY | 189,730.00 | 1,609,330.00 | 0.00 | 748.2 | 1.6 | 42,680.00 | 2.65 |
| MATERIALS | 572,659.70 | 1,202,460.00 | 1,710.00 | 110.0 | 1.2 | 21,120.00 | 1.76 |
| ENERGY | 488,819.84 | 1,715,640.00 | 0.00 | 251.0 | 1.7 | 67,420.00 | 3.93 |
| INFORMATION TECHNOLOGY | 855,567.39 | 4,119,570.00 | 0.00 | 381.5 | 4.1 | 64,400.00 | 1.56 |
| INDUSTRIALS | 1,042,348.97 | 3,350,740.00 | 0.00 | 221.5 | 3.3 | 94,920.00 | 2.83 |
| TELECOMMUNICATION SERVICE | 680,825.30 | 754,000.00 | 0.00 | 10.7 | .7 | 53,200.00 | 7.06 |
| ADR'S | 1,727,980.75 | 1,708,800.00 | 6,900.00 | (1.1) | 1.7 | 70,725.00 | 4.14 |
| COMMON STOCK | 9,785,153.95 | 23,833,693.41 | 34,531.51 | 143.6 | 23.5 | 721,634.24 | 3.03 |
| EQUITY FUNDS | | | | | | | |
| MUTUAL EQUITY FUNDS | 15,061,327.15 | 18,646,701.01 | 0.00 | 23.8 | 18.4 | 61,370.84 | .33 |
| EQUITY FUNDS | 15,061,327.15 | 18,646,701.01 | 0.00 | 23.8 | 18.4 | 61,370.84 | .33 |

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

AS OF DECEMBER 31,2023

| | COST | MARKET VALUE | ACCRUED INCOME | %GAIN (LOSS) | % MKT | ESTIMATED ANNUAL INCOME | CURRENT YIELD |
|---|---|---|---|---|---|---|---|
| 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 | 22,093,830.22 | 30,169,103.00 | 0.00 | 36.5 | 29.8 | 0.00 | .00 |
| VENTURE/LMTD PART/CLS HLD | 22,093,830.22 | 30,169,103.00 | 0.00 | 36.5 | 29.8 | 0.00 | .00 |
| BALANCED FUNDS | | | | | | | |
| COLLECTIVE BALANCED FUNDS | 153,445.16 | 151,470.00 | 5,775.00 | (1.3) | .1 | 7,260.00 | 4.79 |
| BALANCED FUNDS | 153,445.16 | 151,470.00 | 5,775.00 | (1.3) | .1 | 7,260.00 | 4.79 |
| NET ASSETS | 77,072,712.19 | 101,205,441.83 | 206,451.77 | 31.3 | 100.0 | 2,326,526.60 | 2.30 |

## Patrick and Aimee Butler Family Foundation - Historical Portfolio Performance

| | Butler Family Foundation | | | | | Foundation Average | | | | | Market Benchmark (65/35) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | YR | TOTAL | 5-YR | 10-YR | ITD | YR | TOTAL | 5-YR | 10-YR | ITD | YR | TOTAL | 5-YR | 10-YR | ITD |
| 2004 | 11.6% | 52.3% | 8.8% | | 8.8% | 11.4% | 19.3% | 3.6% | | 3.6% | 7.9% | 8.6% | 1.7% | | 1.7% |
| 2005 | 4.7% | 59.4% | 7.2% | | 8.1% | 8.2% | 29.1% | 4.6% | | 4.4% | 4.0% | 12.9% | 2.8% | | 2.1% |
| 2006 | 12.7% | 79.7% | 8.7% | | 8.7% | 13.7% | 46.8% | 7.8% | | 5.6% | 11.7% | 26.2% | 6.2% | | 3.4% |
| 2007 | 6.3% | 91.0% | 10.3% | | 8.4% | 10.3% | 61.9% | 11.2% | | 6.2% | 6.2% | 34.0% | 9.7% | | 3.7% |
| 2008 | -21.2% | 50.5% | 2.0% | | 4.6% | -25.9% | 19.9% | 2.3% | | 2.0% | -22.1% | 4.4% | 0.7% | | 0.5% |
| 2009 | 16.1% | 74.7% | 2.8% | 5.7% | 5.7% | 20.5% | 44.5% | 3.9% | 3.8% | 3.8% | 18.8% | 24.0% | 2.7% | 2.2% | 2.2% |
| 2010 | 11.6% | 94.9% | 4.1% | 5.6% | 6.3% | 12.5% | 62.6% | 4.7% | 4.7% | 4.5% | 12.1% | 39.0% | 4.2% | 3.5% | 3.0% |
| 2011 | 1.7% | 98.1% | 2.0% | 5.3% | 5.9% | -0.7% | 61.5% | 1.9% | 4.8% | 4.1% | 4.4% | 45.1% | 2.8% | 4.5% | 3.2% |
| 2012 | 12.6% | 123.2% | 3.2% | 6.7% | 6.4% | 12.0% | 80.8% | 2.2% | 6.6% | 4.7% | 12.3% | 63.0% | 4.0% | 6.8% | 3.8% |
| 2013 | 18.6% | 164.6% | 12.0% | 6.8% | 7.2% | 15.6% | 109.1% | 11.8% | 6.9% | 5.4% | 20.4% | 96.2% | 13.5% | 6.9% | 4.9% |
| 2014 | 5.0% | 177.9% | 9.7% | 6.2% | 7.1% | 6.1% | 121.8% | 8.9% | 6.4% | 5.5% | 11.0% | 117.8% | 11.9% | 7.2% | 5.3% |
| 2015 | 0.7% | 179.7% | 7.5% | 5.8% | 6.6% | 0.0% | 121.8% | 6.4% | 5.6% | 5.1% | 0.9% | 119.8% | 9.6% | 6.9% | 5.0% |
| 2016 | 9.5% | 206.3% | 9.1% | 5.5% | 6.8% | 6.4% | 136.0% | 7.9% | 4.9% | 5.2% | 8.8% | 139.1% | 10.5% | 6.6% | 5.3% |
| 2017 | 12.0% | 243.1% | 9.0% | 6.0% | 7.1% | 15.0% | 171.4% | 8.5% | 5.3% | 5.7% | 15.4% | 175.9% | 11.1% | 7.5% | 5.8% |
| 2018 | -4.3% | 228.3% | 4.4% | 8.1% | 6.5% | -3.5% | 161.9% | 4.6% | 8.1% | 5.2% | -2.9% | 167.9% | 6.4% | 9.9% | 5.3% |
| 2019 | 16.9% | 283.8% | 6.7% | 8.2% | 7.0% | 17.4% | 207.5% | 6.7% | 7.8% | 5.8% | 23.5% | 230.9% | 8.7% | 10.3% | 6.2% |
| 2020 | 4.1% | 299.5% | 7.4% | 7.4% | 6.8% | 13.1% | 247.8% | 9.4% | 7.9% | 6.1% | 15.2% | 281.2% | 11.6% | 10.6% | 6.6% |
| 2021 | 11.7% | 346.2% | 7.8% | 8.5% | 7.0% | 16.3% | 304.4% | 11.4% | 9.6% | 6.6% | 17.4% | 347.5% | 13.4% | 11.9% | 7.1% |
| 2022 | -6.4% | 317.5% | 4.0% | 6.5% | 6.4% | -12.0% | 255.9% | 5.6% | 7.0% | 5.7% | -16.1% | 275.5% | 6.4% | 8.7% | 5.9% |
| 2023 | 10.3% | 360.5% | 7.0% | 5.7% | 6.6% | *13.0%* | *302.2%* | *9.0%* | *6.8%* | *6.0%* | 18.7% | 345.7% | 10.7% | 8.6% | 6.4% |

**Inception Date is 12/31/99**
**All returns are net of fees**
**Any returns in italic are estimates**

# Patrick and Aimee Butler Family Foundation - Individual Manager Performance

| | Allocation - Dec 31, 2023 | | | | Performance Data - Dec 31, 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| **Asset Class** | **Assets** | **Wgt** | **Target** | **Range** | **1 YR** | **5 YR** | **ITD** | **Incep. Date** |
| **Cash** | $9.6 | 10% | 5% | 0-10% | 4.8% | 1.7% | NA | NA |
| **Fixed Income** | | | | | | | | |
| Sit Investment Assoc. | $16.3 | 16% | 15% | 10-20% | 7.0% | 2.4% | 2.9% | 12/31/2011 |
| *Barclays Aggregate* | | | | | 5.5% | 1.1% | 1.7% | |
| **U.S. Equities** | **$34.3** | **34%** | **40%** | **35-45%** | | | | |
| Vanguard Small-Cap Index Fund | $10.5 | 10% | | | 18.2% | 11.7% | 10.0% | 3/31/2018 |
| Large-Cap Value (Internal) | $23.8 | 24% | | | 4.6% | 10.3% | 8.2% | 12/31/1999 |
| *S&P 500* | | | | | 26.3% | 12.0% | 7.0% | |
| **International Equities** | **$29.6** | **29%** | **25%** | **20-30%** | | | | |
| Vanguard Total Int. Stock Index | $7.6 | 8% | | | 15.5% | 7.4% | 5.0% | 6/30/2022 |
| Mondrian Investment Group | $22.0 | 22% | | | 20.4% | 6.5% | 5.5% | 6/30/2004 |
| *MSCI All-Country World* | | | | | 15.6% | 7.1% | 4.9% | |
| **Alternative Investments** | | | | | | | | |
| Miscellaneous | $11.2 | 11% | 15% | 10-20% | NA | NA | NA | NA |
| *HFRI Composite* | | | | | 5.8% | 5.8% | NA | |
| **Total Foundation** | $101 | 100% | 100% | | 10.3% | 7.0% | 6.6% | 12/31/1999 |

Notes:

Mondarian 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

## Summary of Fees, Managers and Custodians - December 31, 2023

| Asset Class | SMA or Fund | Custodian | Manager | Assets | Fee | Est. Costs |
|---|---|---|---|---|---|---|
| Cash | | | | | | |
| Stock Account | SMA | Principal Cust. Ser. | Internal | $1.7 | 0 | $0 |
| Misc. Account | SMA | Principal Cust. Ser. | Internal | $7.9 | 0 | $0 |
| Fixed Income | | | | | | |
| Sit Investment | SMA | Principal Cust. Ser. | Sit Investment | $16.3 | 30 | $49 |
| Equities | | | | | | |
| Domestic - Large Value | SMA | Principal Cust. Ser. | Internal | $23.8 | 0 | $0 |
| Domestic - Small Cap | Fund | JP Morgan | Vanguard | $10.5 | 5 | $5 |
| International | Fund | JP Morgan | Mondrian | $22.0 | 67 | $147 |
| International | Fund | JP Morgan | Vanguard | $7.6 | 5 | $4 |
| Alternatives | | | | | | |
| Debt Partnerships | Fund | Wells/US Bank | Northstar | $3.4 | 200 | $68 |
| Global Fixed Income | Fund | BNY Mellon | Templeton | $3.0 | 110 | $33 |
| Infrastructure Part. | Fund | Real Asset - NA | Morgan Stanley | $2.9 | 200 | $58 |
| Global Real Estate | Fund | Real Asset - NA | Morgan Stanley | $0.5 | 200 | $10 |
| Global Real Estate | Fund | Real Asset - NA | Starwood Capital | $0.0 | 200 | $0 |
| Wasterwater Opp. | Fund | Real Asset - NA | Equilibrium Cap. | $1.0 | 200 | $20 |
| Gateway Partnership | Fund | Real Asset - NA | Moran & Cos. | $0.4 | 100 | $4 |
| | | | | $101 | | |
| **Estimated Investment Fees (Direct & Imbedded)** | | | | | | $398 |
| **Custodial Costs** | | | | | | $40 |
| **Internal Investment Costs** | | | | | | $85 |
| **Estimated Total Investment Costs** | | | | | | $523 |
| **Percent of Assets** | | | | | | 52 bp |
| **Average for Foundations** | | | | | | 90-120 bp |

**Notes:**

SMA is seperately managed account

All SMA custodied at Principal Custody Solutions

Fees are stated in basis points (1/100 of 1%)

**PATRICK AND AIMEE BUTLER FAMILY FOUNDATION**

**TO:** INVESTMENT COMMITTEE
**FROM:** JOHN BUTLER
**SUBJECT:** STARWOOD OPPORTUNITY FUND XIII
**DATE:** NOVEMBER 8, 2023

---

Dear Investment Committee Members:

I wanted to update you on a couple of items. First, the Foundation redeemed $5 million of the Mondrian Partnership on October 31, 2023 and I am expecting to reinvest $3 million of the proceeds in the Vanguard Total International Stock Fund before the end of the year (we are slightly over-weight our target for international, so we are reducing it modestly). You may remember that we originally moved $5 million from the Mondrian Partnership to the Vanguard Fund in May of 2022 and had discussed making a second similar move at a later date. The Mondrian Fund has outperformed its benchmark by 5% year-to-date, so this was an appropriate time to make the change.

The second and more important item concerns the Starwood Opportunity Fund XIII. As we have discussed, the Foundation is under-weight the real estate area as one of the two Morgan Stanley Funds we are invested in is effectively wrapped-up and the other is no longer calling capital. On the August Investment Committee call I mentioned that Starwood Capital would be coming to market with a new fund and that I would be taking a close look at it. I have finished my due diligence and am comfortable with the product, and so am planning to commit $3 million to the Fund. The subscription period has just opened and documents are due in December, so the time-frame is relatively short. In addition, we will be going through JP Morgan because this amount is not large enough to go directly with Starwood. I have attached a brief overview of the Fund which gives a basic description of Starwood Capital and the Fund's intended approach. I should mention that I first heard of this Fund through MFO, who have known Barry Sternlicht and Starwood Capital for years. They will also be investing in Starwood Opportunity Fund XIII for their clients, including a $5 million allocation for the Ruth Mott Foundation. (MFO is the Mott Family Office)

I believe it makes sense to increase the Foundation's allocation to real estate at this time, but I also believe it will remain a challenging market, and so a large, diversified fund managed by a seasoned investment team would appear to be the best approach. The Starwood Opportunity Fund XIII fits this criteria.

As always, please let me know if you have any questions, comments, or concerns.

**NORTHSTAR**
**CAPITAL LLC**

Date: August 29, 2023

To: Limited Partners of Northstar Mezzanine Partners VIII L.P.

From: Northstar VIII GP, LLC

Re: Northstar Mezzanine Partners VIII L.P. (NMP) Update and Outlook

Dear Investor,

We are cautiously optimistic given the start of 2023. While quite early in its fund life, the performance of NMP VIII is meeting our expectations. Confidence levels among management teams and private equity sponsors remain high – albeit with a watchful eye towards the second half of 2023 – both at the portfolio company and fund levels.

We are pleased to announce we have completed five platform investments to date in NMP VIII. In Q2 2023, NMP completed debt and equity investments in Capitol Services, a platform investment led by Clearview Capital, and Accord Carton, a platform investment led by Mason Wells. Subsequent to quarter end, NMP invested in Corporate Technologies, a new platform investment led by Tonka Bay Equity Partners. At present, we are conducting due diligence on a sixth platform investment, which is on track to close in Q4 2023. While the overall U.S. M&A market has slowed in 2023, we are on track to achieve our invested capital target for the year.

We continue to invest with experienced private equity sponsors in good businesses that fit within our investment criteria. These investments are being completed at attractive pricing with defensible capital structures. For the investments completed through June 30, 2023, the median interest rate is 12.5%, up from 11.0% for NMP VII. Meanwhile, the median net leverage at close is 4.2x, while the median equity contribution is 61.3%. Further, our pipeline of new investment opportunities remains healthy. The current year is shaping up well for new investment opportunities that require knowledgeable junior capital.

We sincerely appreciate your commitment to NMP VIII as well as the support and trust you have placed in Northstar Capital.

Sincerely,

Northstar Capital

# MFO MANAGEMENT COMPANY

## INVESTMENT PHILOSOPHY & PRINCIPLES

*We thought it beneficial to lay out the philosophy and principles that guide the MFO investment office. These principles have been passed along and refined through the years and have allowed the Mott family's assets to not only survive but thrive over generations. It is widely discussed at family office meetings that most wealth is gone by the third generation. That is not the case here and a huge credit goes to the governance that has been in place for decades.*

*"THE STOCK MARKET IS A DEVICE TO TRANSFER MONEY FROM THE 'IMPATIENT' TO THE 'PATIENT'."*

*- WARREN BUFFETT – CHAIRMAN, BERKSHIRE HATHAWAY*

- **INTEGRITY** - MFO Management has a decades-long history of operating as a fiduciary with the utmost integrity. Furthermore, there are no conflicts of interest or affiliations with recommended funds. The investment staff are highly qualified professionals and only serve Mott family members.
- **LONG TERM INVESTORS** – Our patience is our biggest advantage when it comes to long-term investing. We have held assets and been with external managers for decades. We have never been a forced seller of any asset and use no leverage.
- **FORWARD THINKING** - We invest based on where we think the underlying fundamentals of companies or asset classes are going. We do not try to time the markets - we tactically lean in and out of each asset class as opportunities present themselves and rebalance the portfolios as needed. Our convictions are well informed, and we do not chase past performance; we look to what is coming next.
- **DIVERSIFICATION** – We develop client specific plans that remain diversified between growth, real and risk-reduction assets (fixed income and hedges), and then within each asset class we use multiple investment options (both active and passive).
- **QUALITY MATTERS** - We hold high quality direct investments (both public & private) and invest with high quality investment managers - preferably in income generating assets. We do not invest in speculative investments nor with quant models or people we do not know well. We believe in paying a fair price for a good business.
- **TOTAL RETURN FOCUS** - We try to maximize after-tax returns by using low-cost managers and holding onto unrealized gains and tax loss harvest where possible. While we remain laser focused on total returns, we also put emphasis on downside protection and protecting clients against permanent capital loss.

# MFO MANAGEMENT COMPANY
## INVESTMENT OFFICE

**To Our Clients** **January 22, 2024**

## ECONOMIC OUTLOOK & INVESTMENT STRATEGY

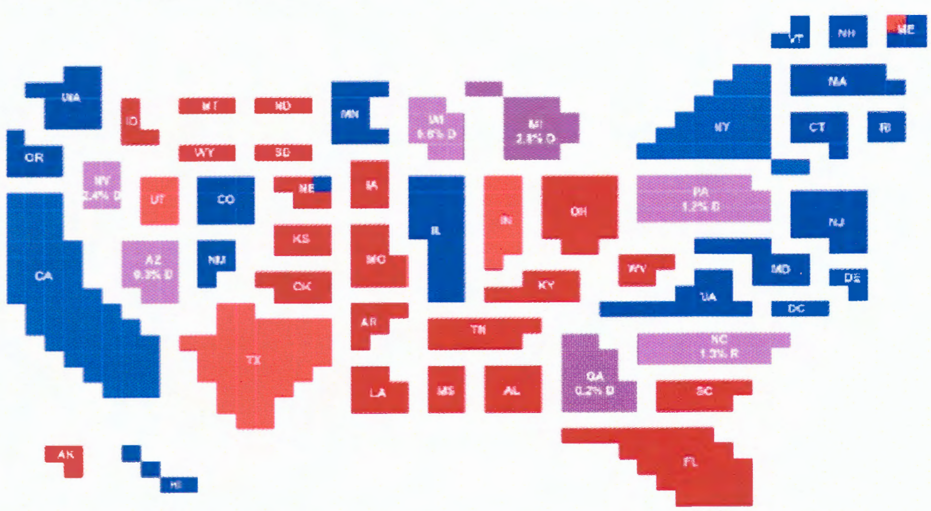
2023 ended with a sharp rise in both equity and fixed income markets as the widely expected recession did not come to pass, inflation fell sharply and late in the year, the Fed stopped raising interest rates and later indicated they would be cutting rates in 2024. We had argued for months that the Fed should stop raising rates as the economy had slowed sharply under the weight of higher rates. However, the underlying sharp slowdown in rate sensitive purchases, mainly housing and autos, was masked by a very strong economy during the summer and fall as travel boomed across the globe. By November, the Fed realized the damage was done and went into a period of pause. We expect 2024 to be an economy less impacted by the Federal Reserve and more impacted by domestic and global events. The best news for investors is that we no longer have to fight the Fed.

We are now in a period of Fed "pause" where going forward there is likely to be a tug of war between inflation and the economy. If the economy weakens the Fed will cut rates, if it does not and inflation holds firm around 3% or even moves up modestly, the Fed is likely on a longer pause. Many economists are jumping ahead of the Fed, expecting six rate cuts this year versus the three the Fed is expecting. We are in the camp that inflation will trend sideways and the economy will hold up so a period of extended pause might be in the cards. We think it is highly unlikely the U.S. goes into even a modest recession this year baring an unforeseen event.

There are two major issues facing the country, one domestic and one international, which make us a bit less confident in our outlook as both items are likely to shift and sway from bad to worse throughout the year.

***U.S. Elections*** - First, hanging over everything for the next ten months is the presidential election cycle. We have no idea as to the ultimate outcome, but we encourage everyone to follow along and support their candidate of choice. The picture below shows how only a few states truly swing the results. Politically, there is going to be pressure on Fed Chair Powell to cut rates at any sign of a further economic slowdown. No sitting president wants to seek re-election during an economic downturn; hence a recession is unlikely. As long as inflation stays contained, the Fed may accommodate. With consumers feeling the pinch from interest rates there could be cuts even if there is not a broad-based slowdown in the economy or major layoffs. The housing lobby is a powerful group which just might push the Fed into early action.

**Chart 19: November**
US map by electoral votes & 2020 election results



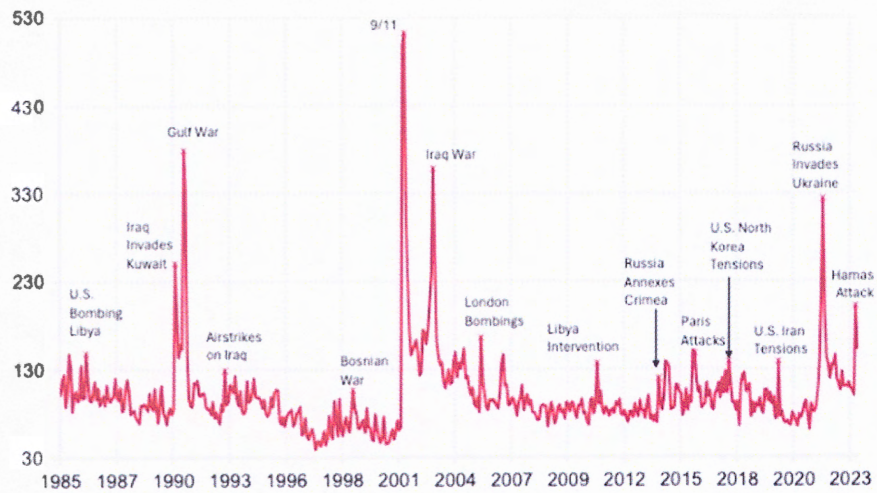

**Source:** BofA Global Research; purple = swing state (includes margin of victory in 2020), red = Republican, blue = Democrat

BofA GLOBAL RESEARCH

***Geopolitics –*** Secondly, geopolitical issues continue to dominate the headlines and resources around the world. When we wrote the last client letter, there was mostly peace in the Middle East. While usually a tinderbox, peace deals were being moved forward. Fast forward to today Israel is at war with Hamas in the south and Hezbollah in the north. We have Iran-backed Houthis attacking oil and U.S. cargo ships in the Red Sea - it is a total mess. No one had ever heard of the Houthis until a few weeks ago. This of course has taken the attention off Russia and Ukraine much to Europe's dismay. North Korea seems to have a rejuvenated missile program they are testing and of course China continues to insist on its reunification of Taiwan. We live in an uncertain and dangerous world and we all need to pay attention to what is happening. Sadly, the next crisis could be something we are not even considering, see below.

CHART 36: GEOPOLITICAL RISKS HAVE RISEN

Global: Geopolitical Risk Index
(Index)




Source: www.matteoiacoviello.com, Rosenberg Research

## Investment Strategy & Review

### ■ Overall Asset Allocation:

Below are our asset allocation tables – There are no changes in the allocations, we are maintaining overweight positions in cash and fixed income in most accounts to pre-fund spending needs for the next six months or so. While interest rates are still high this makes sense, less so if money market rates begin to drop. Most MFO client accounts follow the balanced or income models except for very aggressive children's accounts and trusts.

| | BENCHMARK ASSET ALLOCATION - JANUARY 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% | 13% |
| **Long/Short Funds *** | 10% | 13% | 5% | 15% |
| **Sub-total Risk Assets** | **12%** | **33%** | **40%** | **28%** |
| **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% | 22% |
| **Foreign Developed Equities** | 10% | 10% | 8% | 10% |
| **Venture Capital/Private Equity *** | 0% | 0% | 0% | 8% |
| **Sub-total Growth Assets** | **75%** | **56%** | **45%** | **62%** |
| **Totals** | **100%** | **100%** | **100%** | **100%** |

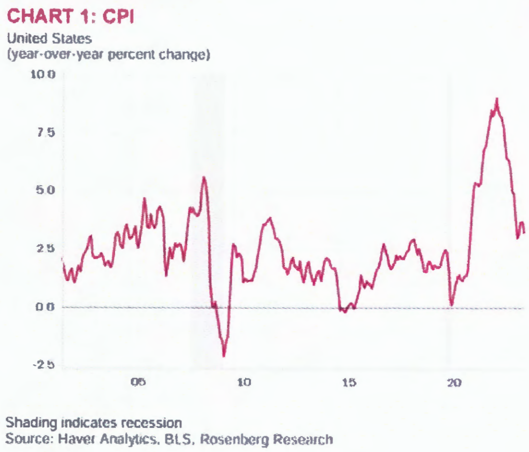
* subject to account circumstances & size, long/short funds, could be up to 15% and private equity/venture capital could be up to 7% of Equity, Balanced and Income-oriented accounts

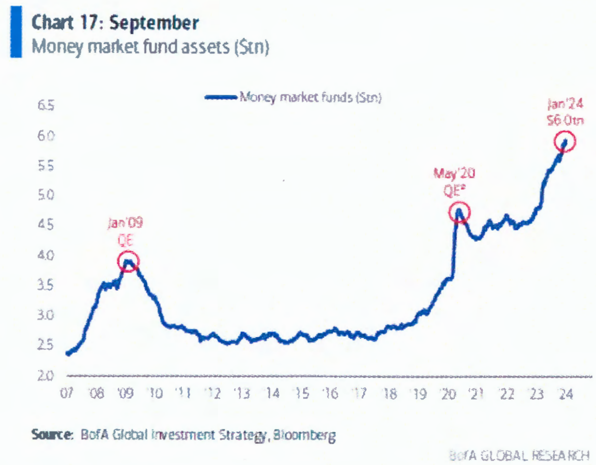
**Please remember that at any given date actual individual account values may fluctuate within a few percentage points around these targets.

### ■ Fixed Income:

Last summer there was one of the fastest up moves in rates from 4% to 5% on the 10-year Treasury, which proved to be similar to a blow-off top in equities. The last hurrah for the bond vigilantes as rates peaked. Not long after, rates quicky dropped back down to 4% as inflation fell significantly (see below) and the Fed signaled cuts ahead. This whipsaw, usually seen in equities, showed how volatile all asset classes have become due to the underlying market structure filled with high-speed traders, quant models and derivatives on top of derivatives.

As a result of the higher rates plus a decent economic and credit picture, fixed income looks to be very attractive going forward. High Yield and floating rate funds are yielding 7-8%, while Treasuries and money markets are yielding 5% with no risk. This has led us to hold more fixed income and money market funds in client accounts as the returns are going to be more competitive with equities. However, from a contrarian point of view, record amounts of funds sitting in money market funds (see below) provides equity bulls hope this money eventually flows into equities once rates decline. We do not try to time such as shift but are cognizant of the dry powder on the sidelines.

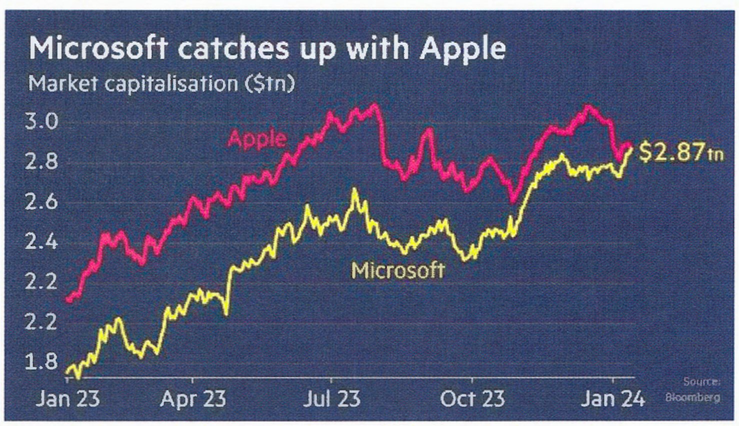


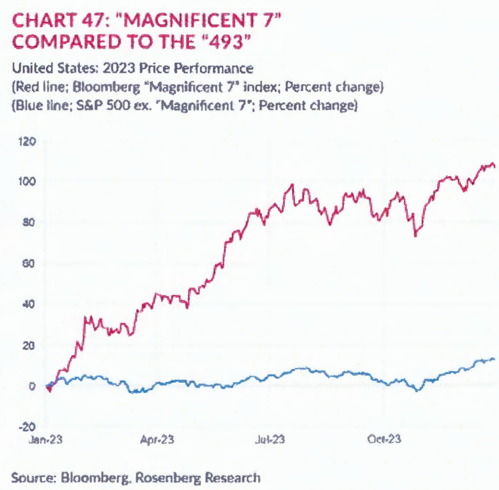




■ EQUITIES:

For the year the S&P 500 finished up 26%, back towards all-time highs, while all other equity asset classes also ended the year strong. Client accounts ended the year up between 12-19%, depending on the allocation strategy, a very good year.

2023 was a tale of four quarters. The first 3/4 of the year was driven by the widely discussed Magnificent Seven tech stocks (Apple, Amazon, Meta, Google, Microsoft and newcomers Tesla and Nvidia) and almost nothing else. Apple and Microsoft, seen below reached the magical $3 trillion market caps and have been sparring back and forth ever since. During the fourth quarter (see chart below), with a few magic words from the Fed, everything else began to participate resulting in one of the sharpest two-month equity rallies in decades.



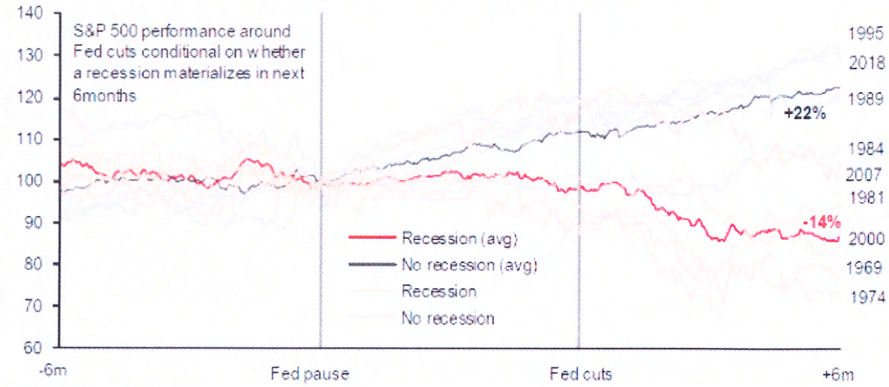

## ***2024 Investment Outlook***

*"This may be the most dangerous time the world has seen in decades,"*

*CEO Jamie Dimon – JP Morgan Chase*

Looking forward to 2024, we expect a year that is much less dominated by the Federal Reserve actions and more by corporate earnings, valuations, elections, and geopolitics. Companies will have a better year as they do not have to swim against the tide that was Federal Reserve rate hikes. Corporate expenses are more predictable than during a period of rising inflation and rising interest rates, a double whammy to corporate earnings. Ultimate market performance might hinge on whether or not there is a recession during the Fed pause, see below.

**19. Performance of S&P 500 around Fed pauses and easing**




Source: FTSE Russell, Factset, HSBC

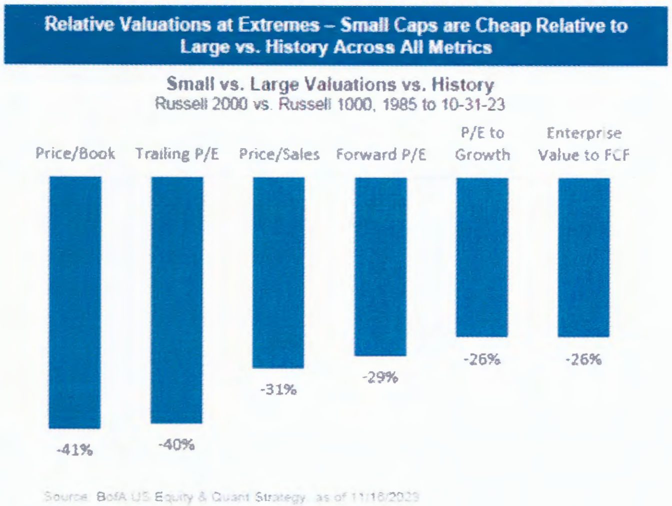
As the Fed ends its tightening cycle, companies will be valued based on their earnings stream and how they have handled the higher rate environment. Global companies may face some impact from geopolitics depending on where they operate but for the most part U.S. companies are broadly diversified in revenues and operations. Companies in defense, gold and oil production are a natural hedge against geopolitical issues abroad. Meanwhile, there are a few companies being penalized for higher sales into China like Starbucks, Nike and Estee Lauder, but companies like Apple with their entire manufacturing operation in the region seem to be getting a free pass. The market is constantly picking geopolitical winners and losers.

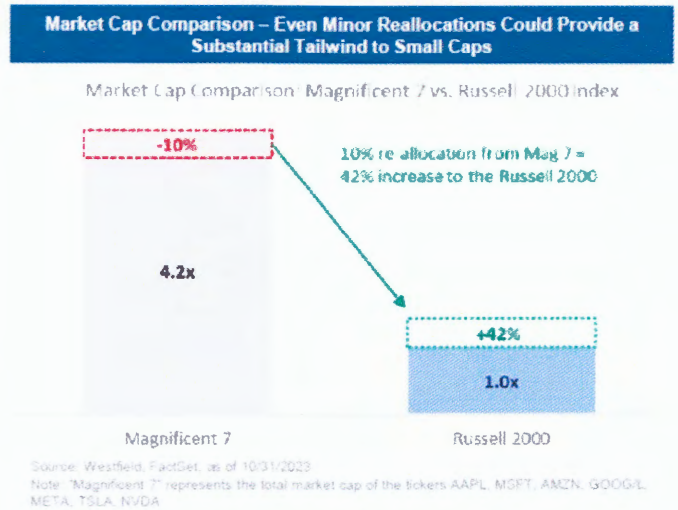
On a positive note, there are still a lot of domestic programs that can drive the U.S. economy. We have mentioned them before, but all three are really just beginning, 1) Corporate onshoring, 2) CHIPs Act/IRA and 3) Defense Production. Also interesting is market performance during an election year, the piece from J.P. Morgan below speaks for itself – does history repeat itself?

- Lastly, **in Presidential Election years dating to 1960**, the SPX has finished positively 13 of 16 times. The average up-return is 12.9%, the average down-return is -17.2%, and the overall average is 7.3%. Also, in those 13 up years, the SPX has produced at least +10% return in 8 of those years, or 61.5% of the time. Not, in the three down-year observations, the outcomes were -38.5% (2008), -10.1% (2000), and -3.0% (1960); so, one could argue that two of three were outliers.

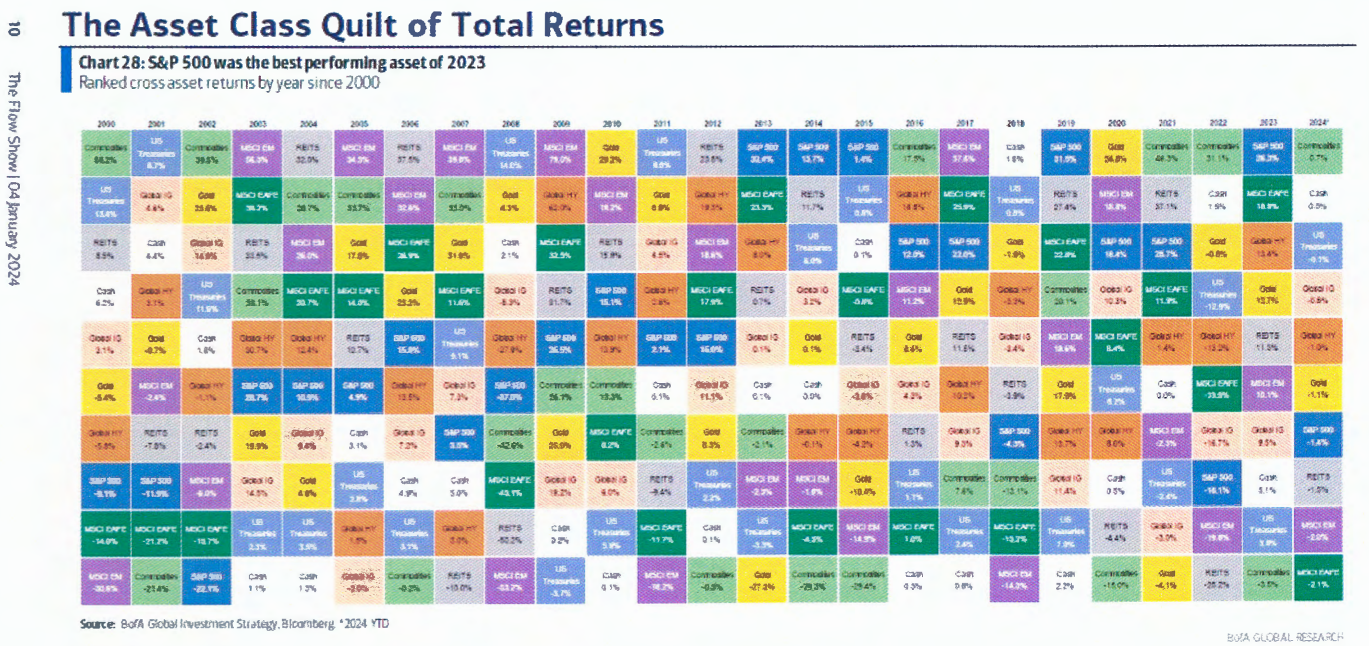
| YEAR | POTUS | SPX RET |
|---|---|---|
| 2020 | Biden | 16.3% |
| 2016 | Trump | 9.5% |
| 2012 | Obama | 13.4% |
| 2008 | Obama | -38.5% |
| 2004 | G.W. Bush | 9.0% |
| 2000 | G.W. Bush | -10.1% |
| 1996 | Clinton | 20.3% |
| 1992 | Clinton | 4.5% |
| 1988 | H.W. Bush | 12.4% |
| 1984 | Reagan | 1.4% |
| 1980 | Reagan | 25.8% |
| 1976 | Carter | 19.2% |
| 1972 | Nixon | 15.6% |
| 1968 | Nixon | 7.7% |
| 1964 | Johnson | 13.0% |
| 1960 | Kennedy | -3.0% |

***Small Caps and Real Estate*** - As we mentioned previously, we thought small caps and REITs would be the greatest area of outperformance once the interest rate cycle turned. <u>They proved themselves as such in the last few months of 2023</u>. Large Cap indexes are still at much higher multiples although skewed by technology stocks. Small-cap valuations are at a multi-decade lows and REITs are in the eye of the storm related to interest rate impact. We think both areas should continue to outperform as rates fall. *Westfield Capital* provided an interesting thought on re-allocation below.




## *APPENDIX - "Quilt" Chart of Asset Class Returns - Diversification Matter*




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.

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FINANCIAL ANALYSTS JOURNAL®
60 YEARS 1945-2005
Reflections

# Investing Success in Two Easy Lessons

Charles D. Ellis, CFA

Successful investing should be easy. Obviously, it is not. But in my more than 40 years, mostly in the privileged position of trusted advisor to the leaders of major investment and securities firms, two investment lessons stand out for me as particularly valuable and easy to use. Anyone who "gets it" on these two easy lessons will do well. Like career "bookends," one lesson came early and one came late in over four decades of continuous learning about investing.

In Munich, Germany, while visiting my son Chad and his wife Trish last summer, we agreed to cheer for their friend who was running in a marathon. Their friend had run several marathons, so she had a realistic plan and knew that at about 11 o'clock, she would pass a particular church. So, we were stationed there, and right on schedule, she came by. We cheered lustily; she waved—and was quickly gone.

We went off to lunch at a *Wursthaus* and then took the tram out to Munich's Olympic Park. As we walked from the tram station to the stadium and the marathon's finish line, we passed a trio of cheerful Kenyans who had already completed the race—probably coming in 1st, 2nd, and 3rd—and were going home. Our friend wouldn't finish the race for nearly an hour.

The organizers of the Munich Marathon had arranged an attractive way to finish: Runners came into the stadium through a tunnel that was filled with vapor and then burst out into the sunlight as they entered the Olympic stadium, with only one short lap around the stadium left to go. The runners—nicely encouraged—loved it.

Sitting in the stadium with a few hundred other fans, we enjoyed watching runners—individually and in small groups—come through the portal entrance and into the stadium for the final lap to the finish line. The runners were all different in age, dress, and running style, but in one particular way, they were all the same: Runner after runner—on entering the stadium, seeing the crowd, and hearing the scattered but friendly applause—reached high overhead with both arms in the traditional triumphal "Y" and held it for at least half a minute as, grinning in victory, they ran out the final lap.

At first, it seemed strange. Didn't they know the Kenyans had won long ago? As time went by—and we were there nearly two hours because our friend had caught a cramp and had to slow down—it might have seemed stranger and stranger to see later runners act like champions, heroes, and winners. Then it hit me: They *were* winners. They were *all* winners—because each runner had achieved her or his own realistic objective.

Some finished in *less* than three hours; some in *only* three hours; some in "only" three and a half hours. Others beat their prior best times. Some won simply by completing the whole marathon—some for their first time and others for their last time.

Successful investing sounds easy—avoid harm and work for your long-term objectives—but learning the lesson may take too many years for the power of compounding to benefit us.

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*Charles D. Ellis, CFA, is chairman of Investors Education, New York City.*

 

The powerful message: Each runner had achieved his or her own realistic goal, so each was a true winner and fully entitled to make the Big Y and run the victory lap.

If, as investors, we each thought and acted the same way—understanding our capacities and our limits—we could plan the race that would be right for us and, with the self-discipline of a long-distance runner, run our *own* race to achieve our *own* realistic objectives. In investing, the good news is clear: *Everyone can win*. Everyone can be a winner.

The secret to winning the Winner's Game in investing is simple: Plan your play and play your plan to win *your* game. And if you do not think and work that winning way in investing, you will, by default, be playing the Loser's Game of trying to "beat the market"—a game that almost every investor will eventually lose.

My other favorite investing insight came more than 40 years ago. A freshly minted MBA, I was in a training program on Wall Street (at Wertheim & Company). As part of our training, we met once a month for the hour before lunchtime with the heads of various departments—syndicate, block trading, research, municipal bonds, and so on—for an introductory explanation of each unit's work.

One day, we were happily surprised to learn that the senior partner had agreed to take a Thursday slot to discuss the larger picture. Joseph K. Klingenstein—known to his friends as "Joe" and to us as "JK" (except when he was or might be present, in which case he was *always* "Mr. Klingenstein")—wore pince-nez glasses and was patrician, dignified, and erect.

As Mr. Klingenstein spoke about the history of his firm and of Wall Street and its traditions, we listened quietly—but not, I fear, conscientiously. At 10 minutes before noon, Mr. Klingenstein had finished his talk and asked, "Do you young gentlemen have any questions?"

Silence.

The silence was broken by the brightest and certainly the most outspoken of our little group. "Yeah, Mr. Klingenstein, I've got a question for you. You're rich, Mr. Klingenstein. We all want to be rich too, Mr. Klingenstein. So, what can you tell us from all your experience, Mr. Klingenstein, about how to get rich like you, Mr. Klingenstein?"

Of course, you could have heard the proverbial pin drop—or a butterfly land on a marshmallow. We were mortified. Such a way to speak to such a very great man!

At first, Joseph K. Klingenstein appeared to be angry, perhaps *very* angry. But then, to our great and collective relief, it became clear that he was silent because he was thinking—thinking carefully about his many investment experiences. Finally, looking directly at his questioner, he said simply and clearly, "Don't lose."

After JK rose and left the room, we all went off to lunch, where we agreed, "If you ask a stupid question, you get a stupid answer."

As the years have passed, Mr. Klingenstein's advice has come back to me again and again. Now, I know that in two simple words, JK gave us the secret of investing successfully. While all the chatter and excitement is taking place about big stocks, big gains, and "three-baggers," long-term investment success really depends on *not losing*—not taking major losses.

We all know that a 50 percent loss requires a *double* the next time up just to get even, but still we strive for the Big Score, even though we also know full well that accidents happen most often to too-fast drivers; that Icarus got too close to the sun; that Enron Corporation, WorldCom, and many dot-coms had *very* high "new era" multiples before their obliteration.

Large losses are forever—in investing, in teenage driving, and in fidelity. If you avoid large losses with a strong defense, the winnings will have every opportunity to take care of themselves. And large losses are almost always caused by trying to get too much by taking too much risk.

If, as investors, we could learn to concentrate on wisely defining our own long-term objectives and learn to focus on not losing as the most important part of each specific decision, we could all be winners over the long term. And if it is too late for any of us because our best years are behind us, it is not too late to tell our children or grandchildren.