Butler Family Foundation Investment Committee

Conference Call

August 19, 2020 at 10:00 a.m. CT

I. Welcome

II. Approval of Minutes

III. Portfolio and Performance Update
   A. Portfolio Summary Statement
   B. Manager Performance
   C. Overall Foundation Performance

IV. Review of Investment Policy Statement (IPS)

V. Update on Current or New Investments
   A. Real Estate Exposure
   B. Wastewater Fund Update

VI. Thoughts on CIO Back-Up Plans

Attachments:

a. Minutes of February 19th Investment Committee
b. Wells Fargo Summary Statement/Performance Data
c. Investment Policy Statement
d. Northhaven Funds (MS) Statements
e. MFO contact Info/MFO Quarterly Letter

Call-in Number: 800-261-3225 (Access Code 5243817049)

MINUTES OF THE FEBRUARY 19, 2020
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 19, 2020, at 4:00 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. Also present was Foundation Chief Investment Officer John Butler.

The Chair called for consideration of the minutes of the August 14, 2019 meeting of the Investment Committee. After discussion, and having received no comments from Committee members who were not present but had received the minutes, it was agreed the minutes would stand as currently written.

The Chair then called on Mr. John Butler, Chief Investment Officer, to provide an overview of the markets in 2019. Mr. Butler noted that although the year-end results are distorted by the equity market declines in the final three months of 2018, there is no question that 2019 was an exceptionally strong year for all asset classes, including both equities and fixed income. While he believes markets in general are still expensive and that it would not be surprising to see some weakness in the months ahead, he reminded the Committee that he has made similar cautionary statements in the past.

The committee then reviewed the 2019 year-end summary statement, which is produced by the Foundation's custodian, Wells Fargo. Mr. Butler noted that following the strong returns in 2019, the total assets of the Foundation are now at a record high of $110 million.

Mr. Butler next reviewed the performance of the overall Foundation portfolio for the year. The Foundation's total return for 2019 was 17%, which marks the second highest return for the Foundation in the past twenty years (2013 was the highest at 19%). Mr. Butler estimated that the expected returns of other private foundations will be in the around 15%, although final results will not be known until August. And while Mr. Butler emphasized the importance of a diversified portfolio, he noted that 2019 marks the 10th straight year that the average foundation under-performed a non-diversified portfolio.

Mr. Butler then reviewed the asset allocation of the Foundation and the performance of the Foundation's individual asset managers. As of December 31, 2019, the asset allocation remains within the targets set by the Foundation's Investment Policy Statement, with the exception of U.S. equities, which are 2% below the lower end of the target range. This underweight is offset by international equities, which are 1% above the upper end of the target range. Mr. Butler also noted that the allocation to the dedicated small-cap manager now stands at 7% of the total portfolio, compared to 3% at year-end 2018 and 0% at year-end 2017. Mr. Butler also reviewed the performance of the individual asset 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. He noted that the only recent new investment was a $3 million commitment to the North Haven Infrastructure III Fund (Morgan Stanley). The Fund has made two initial investments, but has not yet called any capital.

Finally, Mr. Butler reminded the Committee that at the 2019 spring meeting the Board approved changes to the Investment Committee Charter that allowed non-family members to serve on the Committee (subject to Board approval). Mr. Butler outlined the background and work experience of Ronald L. Kaliebe, who Mr. Butler is recommending be added to the Committee in this role. After discussion, the Committee agreed to recommend to the Board at the spring 2020 Board meeting that Mr. Kaliebe be added as a non-family member of the Investment Committee.

The next Committee meeting will be in August of 2020. The meeting will be scheduled in July and materials for the meeting will be sent one week prior to the meeting.

The meeting adjourned at 4:45 p.m. Central Time.

John K. Butler, Secretary

ATTEST:
Patrick O'Brien, Committee Chair

BASE CURRENCY: USD AS OF JUNE 30,2020

	COST	MARKET VALUE	ACCRUED INCOME	%GAIN (LOSS)	% MKT	ESTIMATED ANNUAL INCOME	CURRENT YIELD
SETTLED CASH	70.55	70.55	0.00	.0	.0	0.00	.00
RECEIVABLES	578,162.05	578,162.05		.0	.6		
PAYABLES	(181,254.13)	(181,254.13)		.0	(.2)		
NET CASH	396,978.47	396,978.47		.0	.4		
CASH EQUIVALENTS							
SHORT TERM FUNDS	9,239,248.00	9,239,248.00	71.57	.0	9.8	926.55	.01
CASH EQUIVALENTS	9,239,248.00	9,239,248.00	71.57	.0	9.8	926.55	.01
FIXED INCOME							
GOVERNMENT AND AGENCIES	3,613,625.01	3,697,133.75	14,729.19	2.3	3.9	169,717.32	4.59
BOND FUNDS	5,952,223.21	5,301,181.81	2,329.95	(10.9)	5.6	288,976.28	5.45
MUNICIPAL BONDS	2,518,217.20	2,606,652.70	23,304.55	3.5	2.8	88,225.90	3.38
CORPORATE BONDS AND NOTES	6,298,486.56	6,495,024.20	61,277.47	3.1	6.9	261,576.82	4.03
ASSET-BACKED SECURITIES	1,611,385.09	1,637,685.14	4,299.93	1.6	1.7	52,270.02	3.19
COLLATERALIZED MTG-BACKED	35,930.37	34,016.59	190.27	(5.3)	.0	2,283.16	6.71
FIXED INCOME	20,029,867.44	19,771,694.19	106,131.36	(1.3)	21.0	863,049.50	4.37
PREFERRED STOCK							
PREFERRED STOCK MISC	124,000.00	125,250.00	0.00	1.0	.1	6,095.00	4.87
PREFERRED STOCK	124,000.00	125,250.00	0.00	1.0	.1	6,095.00	4.87
COMMON STOCK							
HEALTH CARE	1,606,359.84	4,068,040.00	8,520.00	153.2	4.3	123,320.00	3.03
FINANCIALS	1,980,146.76	3,196,140.00	9,240.00	61.4	3.4	163,280.00	5.11
CONSUMER STAPLES	1,552,939.59	2,894,140.00	0.00	86.4	3.1	80,841.00	2.79
CONSUMER DISCRETIONARY	313,235.37	1,841,550.00	0.00	487.9	2.0	43,040.00	2.34
MATERIALS	708,900.66	1,046,000.00	1,880.00	47.6	1.1	11,520.00	1.10
ENERGY	1,207,142.93	1,258,520.00	3,300.00	4.3	1.3	40,080.00	3.18
INFORMATION TECHNOLOGY	1,385,744.71	3,876,050.00	0.00	179.7	4.1	88,140.00	2.27
INDUSTRIALS	2,427,457.21	4,068,220.00	500.00	67.6	4.3	120,440.00	2.96
TELECOMMUNICATION SERVICE	597,175.30	992,340.00	0.00	66.2	1.1	44,280.00	4.46
ADR'S	2,289,198.71	1,775,850.00	7,675.00	(22.4)	1.9	92,450.00	5.21
COMMON STOCK	14,068,301.08	25,016,850.00	31,115.00	77.8	26.6	807,391.00	3.23

WELLS FARGO

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SUMMARY STATEMENT
OF INVESTMENT HOLDINGS
BY SECURITY CATEGORIZATION

PATRICK AND AIMEE BUTLERFAMILY FOUNDATION
CONSOLIDATED ACCOUNT
BASE CURRENCY: USD

25007299
AS OF JUNE 30,2020

	COST	MARKET VALUE	ACCRUED INCOME	%GAIN (LOSS)	% MKT	ESTIMATED ANNUAL INCOME	CURRENT YIELD
EQUITY FUNDS							
MUTUAL EQUITY FUNDS	7,239,907.91	7,034,047.85	1,494.08	(2.8)	7.5	36,841.59	.52
EQUITY FUNDS	7,239,907.91	7,034,047.85	1,494.08	(2.8)	7.5	36,841.59	.52
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	30,569,864.50	32,640,958.00	0.00	6.8	34.6	0.00	.00
VENTURE/LMTD PART/CLS HLD	30,569,864.50	32,640,958.00	0.00	6.8	34.6	0.00	.00
NET ASSETS	81,668,527.40	94,225,386.51	138,812.01	15.4	100.0	1,714,303.64	1.82

Patrick and Aimee Butler Family Foundation - Individual Manager Performance

Asset Class	Assets	Wgt	Target	Range	6 Mos	1 YR	3 YR	Incep. Date
	Allocation - June 30, 2020				**Performance Data - June 30, 2020**			
Cash	$9.2	10%	5%	0-10%	0.3%	1.1%	1.4%	NA
Fixed Income								
Sit Investment Assoc.	$16.7	18%	15%	10-20%	4.6%	7.6%	5.2%	12/31/2011
Barclays Aggregate					6.1%	8.7%	5.3%	
U.S. Equities	$31.9	34%	45%	40-50%				
Vanguard Small-Cap Index Fund	$6.8	7%			-11.4%	-5.6%	4.0%	3/31/2018
Large-Cap Value (Internal)	$25.1	27%			-12.8%	-3.1%	4.1%	12/31/1999
S&P 500					-3.1%	7.5%	10.7%	
International Equities								
Mondrian Investment Group	$23.4	25%	20%	15-25%	-19.4%	-13.2%	-2.5%	6/30/2004
MSCI All-Country World					-11.0%	-4.8%	1.1%	
Alternative Investments								
Miscellaneous	$13.2	14%	15%	10-20%	-1.3%	-0.9%	2.7%	NA
HFRI Composite					-3.4%	-0.5%	2.1%	
Total Foundation	$94	100%	100%		-9.5%	-3.5%	3.0%	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 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
2000	12.8%	12.8%			12.8%	3.1%	3.1%			3.1%	-1.5%	-1.5%			-1.5%
2001	4.9%	18.3%			8.7%	-2.1%	0.9%			0.5%	-5.1%	-6.5%			-3.3%
2002	-1.0%	17.1%			5.3%	-5.7%	-4.8%			-1.6%	-9.9%	-15.8%			-5.5%
2003	16.6%	36.5%			8.1%	12.5%	7.1%			1.7%	19.5%	0.6%			0.2%
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%	*16.0%*	*203.8%*	*6.5%*	*7.7%*	*5.7%*	23.5%	230.9%	8.7%	10.3%	6.2%

All returns are net of fees
Any returns in italic are estimates

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 mange 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.

ASSET ALLOCATION TARGETS

Asset Class	Target	Range	Benchmark
Cash	5%	0-10%	Not Benchmarked
Fixed Income	15%	10-20%	Barclays Aggregate
Domestic Equities	45%	40-50%	S&P 500
International Equities	20%	15-25%	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 October 12, 2018

Account Number : 69458
Patrick & Aimee Butler Family Foundation

North Haven Real Estate Fund VII Offshore Investors Global, L.P.

Partner Capital Statement | FOR THE FIRST QUARTER 2020

CAPITAL COMMITMENT SUMMARY

	Inception-to-Date
Capital Commitment	**$2,580,300**
Capital Contributions	(2,450,131)
Return of Capital Contributions < 9 Months	194,754
Remaining Capital Commitment [1]	**$324,923**
Reserve Amount	**$203,416**
Reserve Contributions	-
Reinvestment of Proceeds	-
Remaining Reserve Amount	**$203,416**

PERFORMANCE SUMMARY

	As of Quarter End
Current Net Asset Value	**$165,473**
Projected Partner Net IRR	10.5%
Projected Equity Multiple	1.44x

Figures shown are subject to rounding.

[1] Pursuant to Section 5.01(a) of the Partnership Agreement, Remaining Capital Commitments were cancelled on July 1, 2013 for all purposes except (1) for the payment of Partnership Expenses (including Acquisition fees), (2) for a period until July 1, 2014, for new Investments and follow-ons to existing Investments that were committed prior to July 1, 2013 and (3) to repay Fund indebtedness and guarantees that existed as of July 1, 2013 (and any refinancings and renewals thereof).

For an explanation of key terms, see Definitions at the end of this report.

Account Number : 69458
Patrick & Aimee Butler Family Foundation

North Haven Real Estate Fund VIII Global-TE, L.P.

Partner Capital Statement | FOR THE FIRST QUARTER 2020

CAPITAL COMMITMENT SUMMARY

	Inception-to-Date
Capital Commitment	**$5,000,000**
Capital Contributions	(3,742,651)
Equity $3,447,773	
Loan $294,878	
Return of Capital Contributions < 14 Months	229,951
Unfunded Commitment	**$1,487,300**

PERFORMANCE SUMMARY

	As of Quarter End
Current Net Asset Value	**$1,162,509**
Projected Partner Net IRR	20.9%
Projected Equity Multiple	1.6x

Figures shown are subject to rounding.
801 - 69458

For an explanation of key terms, see Definitions at the end of this report.

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MFO Management Company

SERVING THE FINANCIAL NEEDS OF FAMILY MEMBERS SINCE 1976

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MFO Management Company is a single family office with locations in Flint and Birmingham, Michigan. We provide our clients with a proactive approach to tax and financial planning, identifying opportunities to increase cash flow and lower taxes.

Our services encompass nearly every aspect of your financial life. We are experienced in all matters of accounting and taxation, IRS problem resolution, estates and trusts, business formation, financial planning and investment, insurance, real estate purchases and sales.

Administrative services, such as Accounting, Tax and Personal services are provided by staff in the Flint office, while Investment services are handled primarily in the Birmingham office.

MFO's reputation for providing quality service reflects the high standards we demand of ourselves. Our responsive service and specialized staff spell the difference between our firm and the rest. We have seasoned professionals to help you with all your financial needs.

FEATURED ARTICLES:

Small Business Financing: Securing a Loan

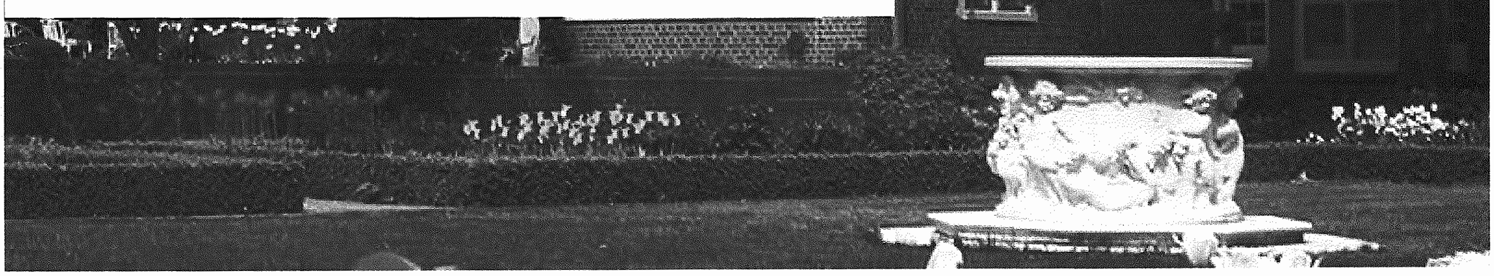
Most small business owners will visit a bank or other lending institution to borrow money, and understanding what your b...

Q & A: Returning an Economic Impact Payment

If you've received an economic impact payment for a deceased family member or another taxpayer who is not eligible to re...

Paying off Debt the Smart Way

Between mortgages, car loans, credit cards, and student loans, most people are in debt. While being debt-free is a worth...



MFO Management Company
INVESTMENT OFFICE

To Our Clients **July 17, 2020**

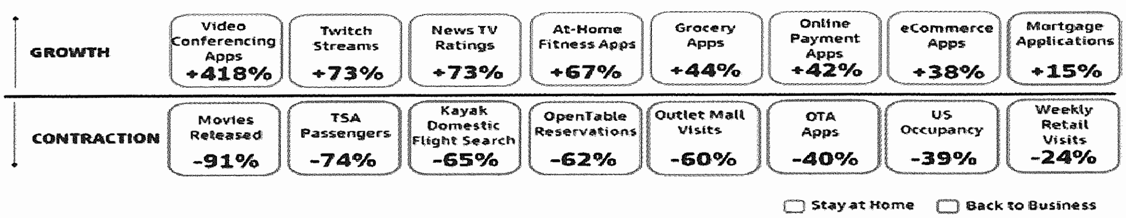
ECONOMIC OUTLOOK & INVESTMENT STRATEGY

We are now halfway through 2020 and it cannot end fast enough for the sake of the global economy not to mention the sanity of the nation. What started out quietly has turned into the nightmare of the coronavirus, a major recession, race riots and partisan politics at its worse. At least the murder hornets did not arrive! Ironically, there is a presidential election in a few months that is sure to further divide the country. The economy itself has improved from the shutdown with some jobs and businesses returning. That being said, lately it seems we are taking two steps forward and one step back as Covid-19 cases spike across the South and West. These states opened up too fast and too early with too few guidelines. **Wear a Mask!** In any case, the recovery will continue albeit slower than initially hoped and it looks like the only hope for anything resembling the pre-Covid-19 economy is to get a vaccine. There is faith that those working on it will come up with something hopefully this Fall.

The major debate among economists (and the stock market) continues to be the shape and speed of the recovery. During May and June over seven million jobs were restored, so for those people it may feel like a "V" shaped recovery. For the millions still unemployed and companies in the eye of the storm it feels like anything but. Small businesses, mainly restaurants, continue to feel the brunt of the shutdowns. Depending on the size and scope of the next stimulus plan many may go out of business soon. It is possible these workers have to transition to other industries, such as a waiter becoming a construction worker if there is a major infrastructure plan. America has always had a flexible workforce with workers moving between jobs such as construction, oil fields, homebuilding or wherever the need for labor is greatest. Presently there is great need in grocery and food delivery jobs, but flexibility will be key going forward for many workers. The graphic below shows the shift between industries during the pandemic.

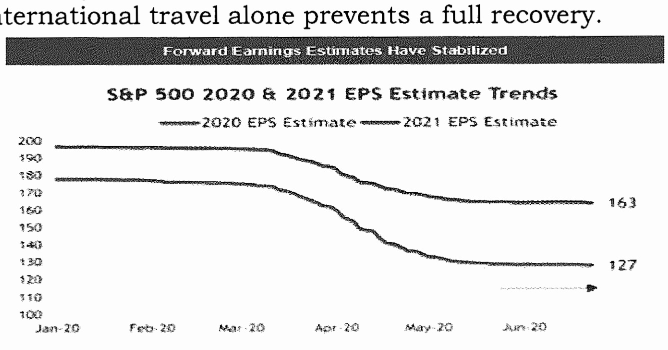
Exhibit 1: Reopening at a glance: Back-to-business segments see declines, stay-at-home see mixed results

% change y/y for week ending July 5

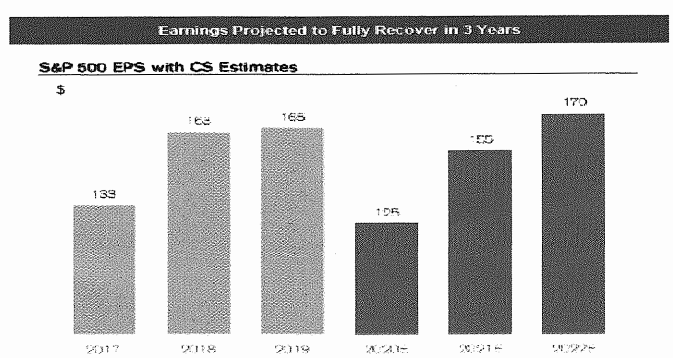


Source: Goldman Sachs Global Investment Research, as of 6/29/2020

There is a saying 'never count out the American consumer' and they have sure lived up to their reputation during the past few months. It is important to note that through the various stimulus programs many Americans have more money now than they did when working. Overall, there has been an estimated $3 trillion in transfers to individuals while lost wages were closer to $1 trillion. With plenty of time to kill, Americans have dramatically shifted their spending from air-travel vacations to localized indoor/outdoor activities. Good luck trying to buy a boat, RV, hot tub or anything else outdoors. At-home fun such as Pelotons, pools, decks and BBQs are also in high demand. As spending shifts, workers will shift to these industries to meet this demand. The shift will take time and will turn back to travel related industries eventually. In any case, it is not likely that there will be a full recovery of GDP or corporate earnings until 2022 (see below). The lack of international travel alone prevents a full recovery.



Source: SunTrust, FactSet, as of 7/8/2020



Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse estimates

Investment Strategy & Review

■ OVERALL ASSET ALLOCATION:

There is one change to the asset allocation models below. We are combining real estate (public/private) and natural resources (carbon-based or alternative energy) into one category called **Real Assets** and are also taking that combined weighting down marginally in the foundation model. We continue to own REITs but we are not likely to own a dedicated energy fund going forward other than some alternative energy companies.

	BENCHMARK ASSET ALLOCATION - JULY 2020			
ASSET CLASS **	ALL EQUITY (PERSONAL & TRUSTS) (AGGRESSIVE)	BALANCED OBJECTIVES (PERSONAL & TRUSTS)	INCOME ORIENTED (PERSONAL & TRUSTS)	FOUNDATION MODEL (TOTAL RETURN)
Fixed Income/Money Market	2%	20%	25%	13%
Equities				
MFO U.S. Large Co. Stocks	33%	20%	22%	20%
U.S. Small Company Stocks	25%	20%	20%	20%
Foreign Developed Equities	10%	10%	10%	10%
Emerging Markets Equities	10%	7%	7%	7%
Sub-total Equities	78%	57%	59%	57%
Alternatives				
Real Assets (Real Estate/Nat. Resources)	10%	10%	10%	7%
Venture Capital/Private Equity	0%	0%	0%	8%
Long/Short Funds *	10%	13%	6%	15%
Sub-total Alternatives	20%	23%	16%	30%
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:

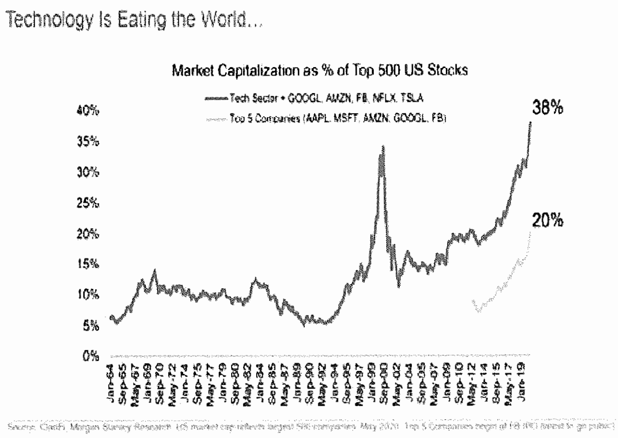
The 10-year Treasury bond is still yielding close to zero. Interest rates are unlikely to rise much this year as the Federal Reserve stepped in to support the credit markets buying mortgages, investment grade bonds, municipals and even borderline junk bonds. We do not expect much return from fixed income going forward other than the yield itself. However, it provides a ballast against risk assets should the stock market decline. We anticipate many corporate bonds will ultimately become distressed in the coming year, but our fixed income allocation is relatively insulated from significant credit risk. Some of our credit hedge funds will participate in the distressed area.

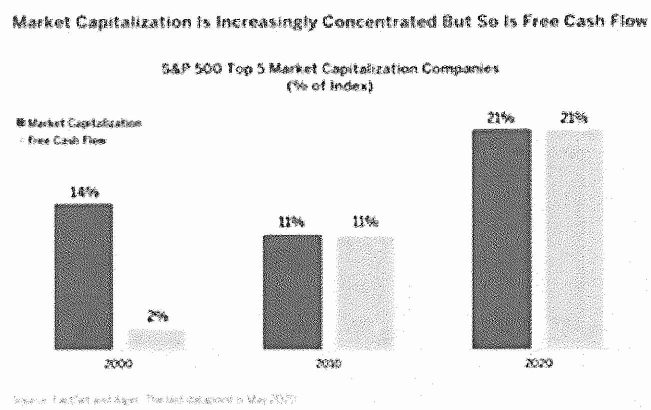
■ EQUITIES: **Technology Stocks, Vaccines and Elections!**

Equity markets have recovered sharply since the bottom in March, with most indexes now down modestly. The S&P 500 has been bouncing around flat for most of the summer led by growth stocks versus value stocks. Optimism for a vaccine and economic recovery has driven the market higher. With lots of liquidity in the market provided by the Federal Reserve, stocks have become the go-to investment in this pandemic. There are many stories about day traders driving up stocks, but the real buying has been institutions trying to catch-up on their equity allocations. The reality is that there is really no other place to even hope for a return other than equities (public or private). Considering low interest rates, low inflation and reasonable but not cheap valuations there is a fear of missing out.

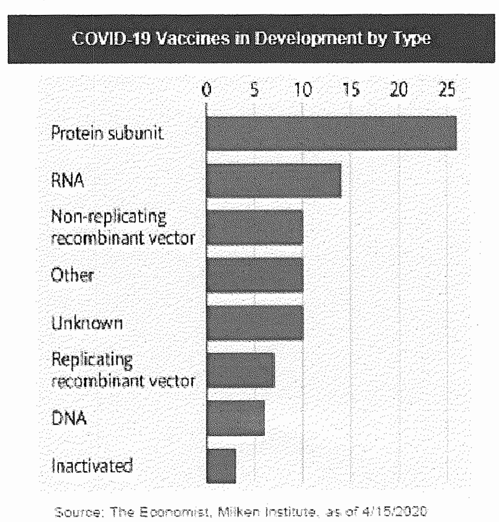
At MFO we stayed the course with our asset allocations and accounts have rebounded sharply from March. Certainly, there will be permanent changes to society after the virus passes and we have adjusted the equity portfolio to add companies that should benefit. David Rosenberg Research had the following list of permanent changes to society post-pandemic: working from home, online delivery, cybersecurity, reversal of globalization, income redistribution, food supply dynamics, investment in medical equipment and infrastructure, do-it-yourself, greater savings and a push towards ESG.

Technology Stocks: There is one more key reason for the rebound in the major indices, especially the cap-weighted S&P 500 that was led by technology stocks pre-Covid-19, remember the term FAANG. What is very different versus other market crashes or recessions is that in this case the largest participants in the market going into a crisis were actually <u>not</u> the cause of the crisis, unlike technology in 2000 or banks in 2008. In fact, technology has been the biggest beneficiary of this pandemic driving their earnings higher and higher. The entire country/world is living in the "cloud" - ordering from Amazon, Grubhub and meeting over Zoom. The chart below shows that technology is now over 38% of the top 500 stocks and the top five stocks are almost 20% of the S&P 500. The size and scale of these companies is unprecedented. As you can see below in 2000 tech rose to 14% of the market, but had very little cash flow, now the cash flow dollars equal their size. We have long held stock in Google and Apple and added Facebook and Microsoft during the first quarter. Collectively we have substantial technology exposure in the portfolio.



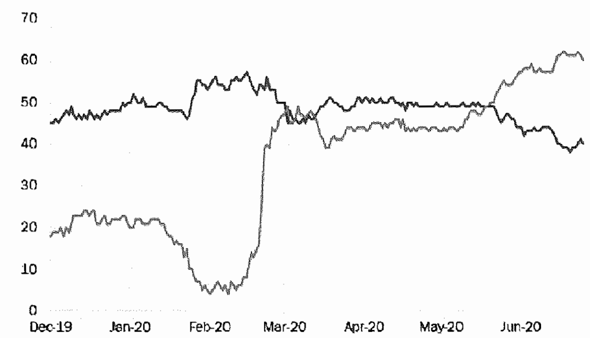


Vaccines: While we had hoped the virus would die down this summer, it clearly has not happened. It is obvious the key to getting the economy anywhere close to pre-Covid-19 is getting a successful vaccine. The market has reacted positively to progress in the various trials, imagine what happens when one is fully approved. While it will take a year or so for the entire world to get vaccinated the very fact one exists should push people into a more comfortable mindset. At MFO we are not scientists so we will not opine on what type of vaccine or company will win, however what we do know is that the best scientific minds in the world are collectively working on the problem and there are numerous potential vaccines (see below). We do believe innovation will win out over time!



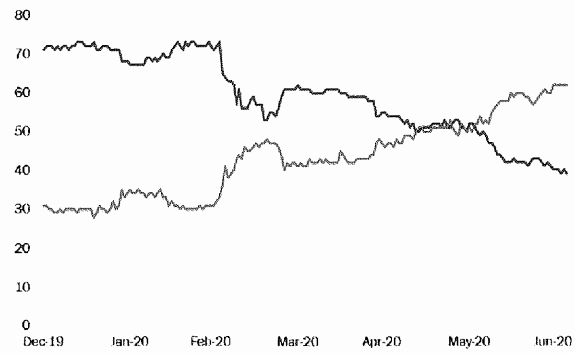
Elections: Our least favorite thing to do is to predict elections, especially the presidential election. There are still a few months to go and many things could happen. First, we will soon see who becomes the Democratic vice-presidential candidate. There could also be a surprise of sorts from Trump as he declines in the polls. In any case, the poor handling of the virus has led to predictions that look like a democratic blowout across the board. While Biden's agenda is not yet defined, it likely includes increased corporate, capital gain and marginal tax rates, while boosting minimum wages, infrastructure, alternative energy and defense budgets. As always anything can happen and we do not make portfolio changes based on the predictions. Tax law is particularly hard to plan ahead for, but we continue to store up tax losses to help offset future tax hikes.

CHART 1: U.S. PredictIt 2020 Presidential Election Outcome Probabilities
United States
(red line: Donald Trump presidency; percent)
(blue line: Joe Biden presidency; percent))



Source: Bloomberg, Rosenberg Research

CHART 2: U.S. PredictIt 2020 Senate Election Outcome Probabilities
United States
(red line: Republican majority; percent)
(blue line: Democratic majority; percent))



Source: Bloomberg, Rosenberg Research

CLIENT ACCOUNT UPDATE

Since a substantial amount of MFO's capital is managed by outside managers, we have spoken at length with every manager numerous times over the past four months. Additionally, we have also talked with many clients and welcome many more phone calls. Client accounts overall are now down around 5-7% year to date depending on the allocation or the day. Markets have been going sideways in recent weeks with large swings up and down. We are, however, hovering around all-time highs so we do think upside from here is limited. Markets are pricing in strong economic growth, strong earnings recovery and an effective vaccine. While all of this may happen, there have already been setbacks in the recovery and are likely to be more going forward. While some stocks, especially the growth stocks, are leading the market there are still many areas that are well below their pre-Covid-19 values. Going forward, we will look to invest in these value areas.

MFO Recovery Fund: If you recall from the last client letter the first companies we bought in March and April were some large cap brand name stocks that were well positioned to survive the pandemic. Once it was clear that the capital markets were open for public companies to raise funds to stave off bankruptcy, we decided to build a small "*MFO Recovery Fund*" to invest in a handful of harder hit travel and automotive companies. After researching a multitude of stocks and industries, we settled on the five stocks below for most clients to invest in directly or via the MFO Equity Fund. This group is already up nearly 15% and we see significant upside over the next 18 months. They are all brand names with good reputations and were all down around 40-50% when we purchased them.

ASBURY AUTOMOTIVE GROUP | Expedia | Six Flags | Southwest | WYNDHAM HOTELS & RESORTS

Should you have any questions, please feel free to contact the MFO Investment Office at (248) 723-0050.

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