NEWSLETTER

SECOND QUARTER 2020

KOVITZ

Guided by value.

KOVITZ

MARKET INSIGHTS
SECOND QUARTER 2020

And you may find yourself living in a shotgun shack,

And you may find yourself in another part of the world,

And you may find yourself behind the wheel of a large automobile,

And you may find yourself in a beautiful house with a beautiful wife,

And you may ask yourself, 'Well, how did I get here?'

| THE TALKING HEADS, "ONCE IN A LIFETIME"

Here we are, halfway through 2020. The COVID-19 pandemic continues to rage throughout the United States and many countries around the world. U.S. unemployment is at 11%. U.S. GDP is expected to have contracted by 35% during the second quarter. Total passengers passing through TSA checkpoints at U.S. airports are down 79% from a year ago[1]. Restaurant visits are running 62% below levels from a year ago[2]. The number of people hospitalized due to COVID-19 (a less noisy number than new cases) is rising sharply in many states.

And yet, the stock market[3] is only down 3% year-to-date and up 7.5% over the last year. How did we get here?

First and foremost, as bad as the pandemic has been, with major disruptions to lives and businesses across the country and 120,000 dead and still counting, there is more reason for optimism now than there was in March. The worst-case scenario feared at that time involved potentially millions dead and we all knew so little about the virus, how it spread, and what the effects would be. While scientists and medical professionals are still learning, it appears that worst-case scenario is unlikely to come to pass. Improved treatments, earlier detection, and most of the populace taking precautionary measures have all contributed. There are also glimmers of hope that there will possibly be a vaccine available in 2020 and with increasing confidence by 2021. Blind fear has evolved to cautious optimism, and that is reflected in the prices of securities.

Second, the Federal Reserve has taken enormous and unprecedented measures to support the economy. In addition to the standard response to a crisis of lowering the target federal funds rate to effectively 0%, the Federal Reserve has taken many measures to support the economy. These include engaging in direct purchases of treasury bonds, corporate bonds, and mortgage-backed securities, expanding its balance sheet by nearly $3 trillion, engaging in direct lending to banks, large corporations, and state and local governments, and acting to backstop money market funds and ensure sufficient liquidity in markets for virtually every major type of debt.

It is unclear what the future cost of this unprecedented intervention in the economy will be. Higher inflation or a long hangover when the support is removed are both potential results. A gradual exit with minimal negative impact on the overall economy is also a possibility. For now, all that seems to matter is that these actions have reduced the fear of a worst-case scenario where the U.S. financial system ceases to function, and that is reflected in the prices of securities.

---

[1] June 30th, 2020 vs. the same weekday one year prior

[2] Based on data as of June 30th, 2020 supplied by OpenTable for restaurants that use their reservation management system

[3] All references to the "stock market" or the "market" refer to the S&P 500 Index.

Third, the direct impacts of COVID-19 on the economy are not evenly distributed. While businesses such as restaurants, airlines, and non-essential retail stores have been devastated, the environment is something close to business as usual for many other businesses whose operations are not dependent on occupying the same physical space as their customers. As it happens, the latter group of businesses made up the lion's share of the overall market capitalization of the stock market coming into this year, and their share has expanded as a result of the pandemic.

To some degree, this dynamic creates a disconnect between the human cost of the pandemic and its impact on the overall stock market. Consider that the largest 50 companies in the S&P 500 – the top 10% – currently account for 56% of the total market capitalization. These same companies account for only 34% of the total employees (and only 28% if Walmart and its 2.2 million employees were excluded). Meanwhile, the other 450 companies in the index – the bottom 90% – make up just 44% of the weight by market capitalization despite possessing 66% of the employees.

	S&P 500 (by Market Cap)	
Statistic	Top 50	Other 450
Market Cap	56%	44%
Employees	34%	66%

Source: Bloomberg

While no company is completely immune to the effects of COVID-19 on the U.S. economy and its people, business disruptions are falling disproportionately hard on businesses with, on average, smaller market capitalizations that collectively employ more people. For these companies, the human cost of COVID-19 is reflected in the prices of their securities, yet this is being disguised – when viewing the returns of broad market indices – by the fact that these companies comprise less than half of the overall market in terms of market capitalization.

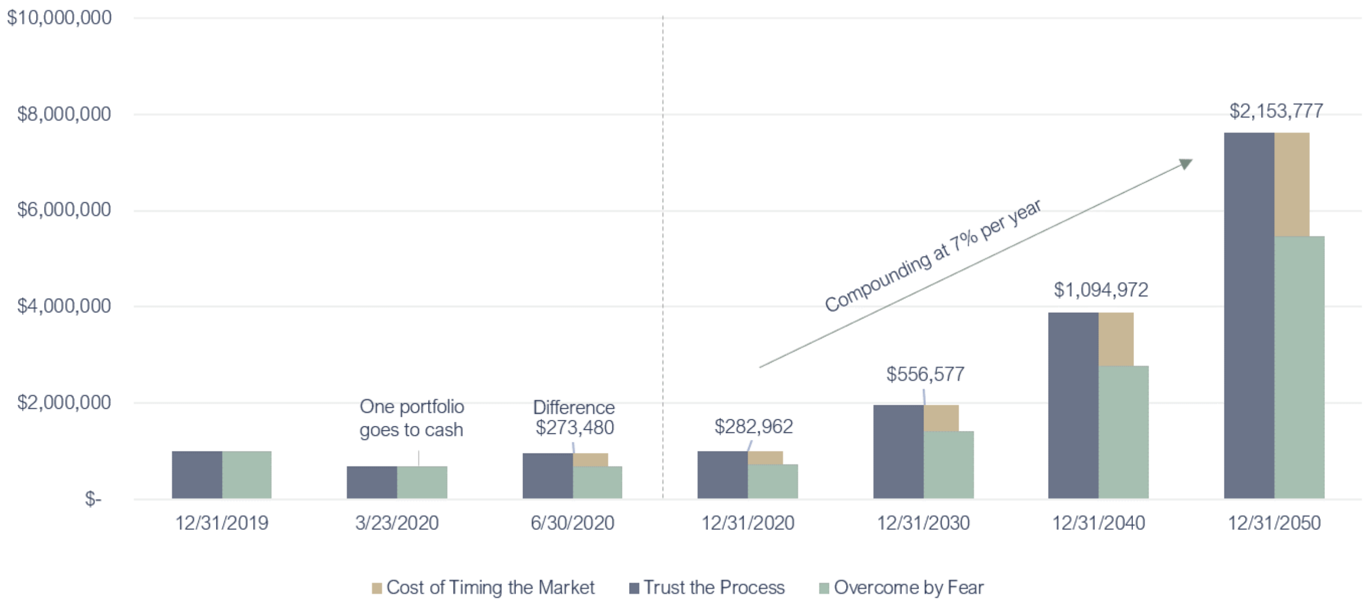
Another way to think about this dynamic is that the S&P 500 Equal Weighted Index, where each constituent of the S&P 500 has the same weight in the index, has trailed the S&P 500 by nearly 7% year-to-date and nearly 11% over the past year. The last time the S&P 500 outperformed its equal-weighted cousin by that magnitude was during the last days of the Dot-Com Bubble.

Taken together and with a healthy dose of hindsight, these three factors explain much of how we got here from the stock market's March lows.

At some point in the last six months, many investors – maybe even most – have been tempted to sell all of their stock holdings. As an emotional response to a jarring event, such feelings are understandable; however, allowing such feelings to overcome reason and acting on them would have been a grave error.

Precise data is hard to come by, but reports from Fidelity Investments via the Wall Street Journal[1] and the American Association of Individual Investors indicate that a small portion of investors significantly reduced their equity holdings during the recent stock market drawdown. Anecdotally, some portion of these investors sold all of their equity holdings during this timeframe[2].

Investors who did so inflicted irreparable harm on their financial prospects and their ability to meet their future goals. The below chart quantifies this effect by comparing the value of a $1 million stock portfolio where the owner stayed fully invested throughout the first half of 2020 to the value of the same starting portfolio where the owner sold all of his or her equities on the day the market bottomed and bought back in on June 30th. Not only are the foregone gains of the last three months quite substantial, but the power of compounding[1] amplifies the damage as time goes on.



This example assumes the portfolio grows at 7% per year after June 30, 2020. Source: Kovitz, using data from Bloomberg.

This is not to say anyone could have known that the stock market would go on to register a 39% gain between its year-to-date low on March 23rd and June 30th. However, the long history of markets – and human progress – teaches us that such a recovery was bound to happen *at some point*. Perhaps it would be a year, or two, or ten, but it would happen. In the curious case of 2020, it happened in a few months.

At Kovitz, we prepare our clients to avoid this impairment of capital. We equip our clients with a comprehensive financial plan that includes determining an appropriate mix of stocks, bonds, and alternatives based on each client's ability, willingness, and need to accept risk. Within that framework, we then select investments that we believe offer the best risk-adjusted prospects of meeting each client's goals. Finally – and perhaps most importantly during moments of extreme market volatility – we stand side-by-side with our clients and help them stay on the course that has been laid out before them.

[1]Investors Approaching Retirement Face Painful Decisions. Wall Street Journal. June 15th, 2020.

[2] An earlier version of this commentary referenced statistics and a chart published in the Wall Street Journal obtained from Fidelity Investments stating that 18% of all Fidelity account holders and nearly a third of Fidelity account holders over the age of 65 sold all of their equity holdings between February 20th, 2020 and May 15th, 2020. The Wall Street Journal subsequently revised this article, citing an erroneous interpretation of the data obtained from Fidelity. We have updated this commentary to reflect this change.

STRATEGY HIGHLIGHTS

CORE EQUITY

In the Kovitz Core Equity strategy, we took advantage of volatility early in the quarter to invest excess cash in client accounts into equities and to upgrade the overall quality and our expected return of client portfolios.

FIXED INCOME

Early in the quarter, we took advantage of abnormally large spreads between the yields on corporate, municipal, and mortgage-backed securities and the yield on Treasuries to invest client cash at relatively attractive rates. With fixed income markets normalizing and prevailing interest rates extremely low, client portfolios remain conservatively positioned, with relatively low sensitivity to interest rate risk and credit risk.

HEDGED EQUITY

The Kovitz Hedged Equity strategy performed above our expectations in the first half. We were very pleased with both the return and the ability to provide uninterrupted liquidity during the heightened market volatility. The fund continues to be positioned defensively as we enter the second half of the year.

Be well. Stay safe. And wear a mask.

Your Kovitz Team

MARKET AND PERFORMANCE SUMMARY

For the quarter ending June 30, 2020, the Kovitz Equity Composite[1] (the "Composite") increased by 20.2%. During the same time frame the S&P 500 increased 20.5% and the Russell 1000 Value Index increased 14.3%.

This quarter stood in stark contrast to the last, when fear and anxiety ruled investor psychology. The most recent low point in this market sell-off was near the end of March as the devastation wrought by this novel coronavirus and all its narratives travelled in real-time right into our hands. The first social media pandemic created an environment that was the perfect breeding ground to sow panic. Characteristically, investors extrapolated present conditions far into the future and dumped equities en masse. Taking a contrarian view, we leaned into the decline and purchased a number of stocks that were being thrown out without consideration of a future beyond the pandemic.

Scares and uncertainties continually crop up in financial markets, but they have presented great opportunities for investors willing to look beyond the near-term crises. We have always believed there is merit in remaining invested and continuing to purchase new investments before such uncertainties, and presumably the discounts, disappear. In other words, we didn't know when the panic would subside, but stocks have a way of bottoming long before all the uncertainties are removed.

At Kovitz, we remain focused on ascertaining the difference between what we think a business is worth and its current stock price. This emphasis on business value, as opposed to share price action, empowers us to act when others are fleeing the markets. Through experience, we know that business values are far less volatile than stock prices, and, with enough patience, share price ultimately converges with business value.

The year so far has been one of superlatives for the market. First, the S&P 500 experienced its fastest 30% drop in history, spanning the 22 trading days from its record high close on February 19th through March 20th, before bottoming on March 23rd 34% lower than the recent high. Prior to this, the three fastest 30% pullbacks all occurred during the Great Depression. Even at these depths, the conventional wisdom from Wall Street's best and brightest prognosticators was that the market was still not near an investable bottom with predictions of another flush downward. Our thoughts on the matter were summed up in the following passage from last quarter's letter:

> "Some might ask: "but, couldn't the market fall further?" Yes, it could, but we don't think that's necessarily the right question. The legendary investor Sir John Templeton always said he tried to buy at the point of maximum pessimism, but he never knew when that was. We are never sure of that either, but we believe the correct question for the current environment is this: "Has the retreat in stocks caused certain securities to be priced where the odds are skewed more favorably towards a positive outcome than to a negative one over a reasonably long time horizon?" We believe the answer to that question for many businesses is yes."

The second market milestone began precisely at the March 23 bottom when the S&P 500 index turned on a dime and went on to complete its best 50-trading day stretch in the index's history since the Great Depression, gaining 39.6%. The index would continue its climb, reaching a 44.5% increase off the low at its recent peak on June 8. Because nobody could have possibly predicted a V-shaped market recovery was imminent was precisely why the conditions were ripe for it to happen.

Honestly, we were as shocked as anyone. Just last quarter we wrote:

> "We cannot, nor will we attempt to, predict the timing of when stock prices will begin climbing in earnest. Don't be disappointed or surprised if it doesn't occur instantaneously. There will not be a single event or a water-shed moment to which one will be able to identify as the turning point. Instead, at some indeterminate point in the future, we will look back and realize that the opportunities we thought were being served up by a fearful market were authentic."

[1] The returns for the equity portion of your individual account will differ somewhat from the Composite due to variations in account holdings, cash position, and other client-specific circumstances.

Jeremy Grantham, chairman of the investment firm GMO, has said, "...be aware that the market does not turn when it sees light at the end of the tunnel. It turns when all looks black, but just a subtle shade less black than the day before." Check.

We do not profess to have an awareness of how to bet on the short-term direction of the economy or the market. In "normal" times (if there is such a thing) it's extremely tough for anyone to be systematically successful in predicting short-term moves. We would argue with the confluence of factors wrought by the pandemic, it's nearly impossible. One would have to forecast not only the trajectory of the virus itself, but how unemployment unfolds, the impact of fiscal stimulus, monetary stimulus, and many other variables. Warren Buffett has said, when you do one thing in economics, you have to ask, "And then what?" There are new variables each day that influence the course and the outcome of the situation, and it is beyond anyone's ability to accurately predict how future events will unfold *and* how the stock market will react to such events as they happen.

We choose, therefore, to simply focus on making conservative estimate of the long-term earnings power for each of the businesses we follow and deploy capital into opportunities where we think the current price will satisfy our probability-adjusted return objective. We are excited about the prospects for each of the businesses in which we and our clients have partial ownership and we are keeping a watchful eye out for additional opportunities.

Please bear in mind that no one here is claiming any sort of economic victory over COVID-19 after one quarter of results. Financial markets seem to have a way of humbling even the most cocksure. However, over time, we take comfort in a story relayed by Abraham Lincoln in a speech given the year before he was elected president:

> *It is said an Eastern monarch once charged his wise men to invent him a sentence, to be ever in view, which should be true and appropriate in all times and situations. They presented him with the words* **"And this, too, shall pass away."** *How much it expresses! How chastening in the hour of pride! How consoling in the depths of affliction!*
>
> ABRAHAM LINCOLN, SEPTEMBER 30, 1859

Consoling in the depths of affliction, indeed.

The chart below summarizes annualized performance over various standard time periods ending June 30, 2020 and cumulative performance results from January 1, 1997 through June 30, 2020 for the Composite.

KOVITZ CORE EQUITY COMPOSITE[1]
ANNUALIZED AND CUMULATIVE EQUITY PERFORMANCE (NET OF FEES)

	Average Annual Total Returns							Cumulative
	Quarter to Date	Year to Date	1 Year	5 Year	10 Year	20 Year	Since Inception (1/1/97)	Since Inception (1/1/97)
Core Equity Composite	20.2%	-13.1%	-8.1%	4.8%	10.1%	6.9%	9.5%	749.8%

The table below lists the results for the same time periods as above for the S&P 500 and additional benchmarks representing components of a typical "style-box" approach to investing.

OTHER MARKET INDICES
ANNUALIZED AND CUMULATIVE EQUITY PERFORMANCE

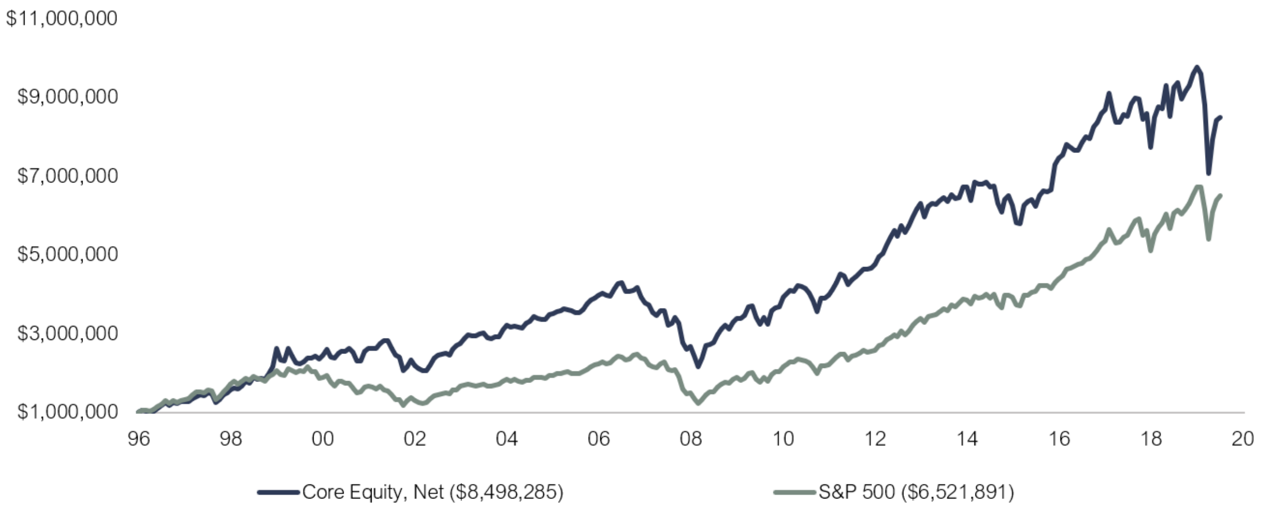
	Average Annual Total Returns						Cumulative
	Year to Date	1 Year	5 Year	10 Year	20 Year	Since Inception (1/1/97)	Since Inception (1/1/97)
S&P 500	-3.1%	7.5%	10.7%	14.0%	5.9%	8.3%	552%
Large Cap Value (Russell 1000 Value)	-16.3%	-8.8%	4.6%	10.4%	6.3%	7.5%	447%
Small Cap Equity (Russell 2000)	-13.0%	-6.6%	4.3%	10.5%	6.7%	7.5%	444%
International Developed (MSCI EAFE)	-11.3%	-5.1%	2.1%	5.7%	2.9%	4.2%	164%
International Emerging (MSCI EEM)	-9.8%	-3.4%	2.9%	3.3%	6.6%	5.6%	259%
Gold	17.1%	25.7%	8.1%	3.0%	8.8%	6.6%	346%
Commodities (CRB)	-25.5%	-22.8%	-8.4%	-5.5%	0.0%	0.6%	15%

Following is a graph of the Kovitz Composite's cumulative return since inception relative to the cumulative return of the S&P 500 over the same time period. The area between represents the Composite's excess return over the benchmark.

Since inception on January 1, 1997, our investors' equity capital has compounded at a rate of 9.5% annually, versus 8.3% annually for the S&P 500. The Composite's total return since inception is 750%, versus 552% for the S&P 500. The out performance on an annual basis may not seem significant; however the extraordinary power of compounding is such that this relative out performance over 23 and a half years has generated considerable rewards for our clients. In dollar terms, $1 million invested in the Composite at inception would now be worth $8.5 million at June 30, 2020. By comparison, a similar investment in the S&P 500 would now be worth $6.5 million. In other words, an investment with Kovitz would now be worth about 30% more than if one had simply invested in an index fund that tracked the S&P 500.

[1]The returns for the equity portion of your individual account will differ somewhat from the Composite due to variations in account holdings, cash position, and other client-specific circumstances. Please refer to the last page for a complete GIPS compliant presentation, along with important disclosures.

KOVITZ DIFFERENCE
GROWTH OF $1 MILLION INVESTMENT



PORTFOLIO ACTIVITY

During the first quarter of the year, due to the extreme volatility the market displayed, we were fortunate to have the opportunity to initiate nine new positions with an identifiable theme: exceptional businesses that we believe will weather any coronavirus-related macroeconomic downturn well and emerge stronger on the other side due to the possession of one or more competitive advantages. With the market's speedy recovery off the panic low, it was difficult to find more of these thematic opportunities. Thus, we initiated only one new position, home improvement retailer Lowe's (LOW), during this most recent quarter. Instead, our activity centered around optimizing our portfolio's expected return profile, balancing risk and reward through adjusting position sizes based on our conviction of each company's intrinsic value estimate.

INITIATED POSITIONS

LOWE'S (LOW)

We initiated a position in Lowe's as we believe the company is well positioned given the critical function it fulfills in the retail ecosystem, its conservatively financed balance sheet, and significant cash flow generation. A large part of our investment thesis centers around the high-caliber management team brought in during 2018 to specifically address the performance gap in terms of store productivity and operating margins with Home Depot that had materialized over the preceding decade. In fact, the new CEO, and many on his team, are Home Depot alumni. In late 2018, Lowe's outlined a credible plan to turn around the company, which we expect will improve margins and accelerate same-store sales growth. In 2019, Lowe's began to lay the foundation for its multi-year transformation by working to reestablish best-in-class retail fundamentals including improved customer service and product merchandising, reduced structural costs and labor efficiencies, modernized technology systems, and expanded distribution capabilities.

While the pandemic may push some of the timing back, 2020 will see Lowe's shift its attention from basic retail fundamentals to more strategic initiatives, including improving omnichannel capabilities (combining in-store and online offerings) and investing behind the Pro customer, the professional tradesmen that perform repair and maintenance, remodeling and construction services for others. Lowe's will also be updating its decade-old e-commerce platform, which, when complete, will dramatically enhance functionality and the overall user experience, thus unlocking the potential for accelerated sales growth.

INCREASED POSITIONS

Among the positions we added exposure to during the quarter were some we initiated at slightly smaller positions during the previous quarter. These include Autodesk, Becton Dickinson, Charter, Hasbro, Lockheed Martin, and Northern Trust. We also added to longer-term holdings, such as American Express, Aon, Jacobs, and Philip Morris[1].

To make room for these purchases while maintaining a measure of excess cash, we exited three holdings and trimmed five others. Despite the spate of optimism over the scaled re-openings of the economy, we find the odds unattractive at the current price that air travel will bounce back to pre-COVID levels fast enough for Delta to avoid a substantial infusion of outside capital that would impair current equity owners. Thus, we sold our remaining shares in Delta. We also exited Boeing as its airline customers will more than likely be in tight financial straits, making it possible that Boeing's large order backlog of planes will be worth less than we had envisioned pre-pandemic.

In a future where the recovery of travel is sharper than our base case, it may prove to have been a mistake to have exited these positions. Still, we do not feel that it would be a suitable risk to take with portfolio capital given our assessment of the potential returns under a variety of scenarios. We continue to have substantial exposure to "travel-related" companies in client portfolios through Booking Holdings, American Express, and Walt Disney. We have higher confidence that these businesses will survive this downturn without requiring external capital and will likely emerge stronger than their competition when the world normalizes at some future point.

BECTON DICKINSON (BDX)

Becton Dickinson is one of a handful of premier global medical technology businesses that serves nearly every facet of the medical supply chain. Its largest business unit is focused on medication delivery and management through devices such as catheters, pumps and injection systems. Importantly, many of these items are the staples of the healthcare world and are consumed on a regular basis creating a steady demand for their product. The two other segments, Life Science and Interventional, are focused on supporting infectious disease science and surgery.

It is also one of the few stocks that has not moved materially higher off the March lows and has in fact retrenched recently after executing an equity offering. As such, while the price-to-value gap has narrowed for parts of the market, including a number of positions currently held in client portfolio's, Becton Dickson's valuation is still attractive. We also believe there is limited downside risk because 60% of its revenue is comprised of consumables, which are effectively recurring in a normal environment and its infectious disease products are likely to see a boost from COVID-19 related testing and research. We are sensitive to the fact that there remains a certain degree of timing risk related to when 'elective' surgeries return, which could affect near- term price action, but our longer-term time horizon allows us to wait for the eventual recovery.

JACOBS (J)

We initially purchased Jacobs for our clients in 2014. At the time, we considered the business one of the better global E&C (Engineering and Construction) companies. Over the last few years, under the leadership of Steve Demetriou, the company has gone through a remarkable transition and has largely divested most of the "C" parts of its business and recycled that capital into higher value-added government services work, serving everything from federal programs at NASA and the CIA to local municipal programs for water management and inter-state logistics. We do not believe that the benefits of this transition are fully reflected in the current valuation of the business as it will take time for the company to turn its backlog into revenue/profits and ultimately boost its return on capital. As these higher return projects begin to flow through the income and cash flow statements, we believe the market will ascribe a valuation similar to other high-quality services organizations as opposed to one representative of E&C companies.

---

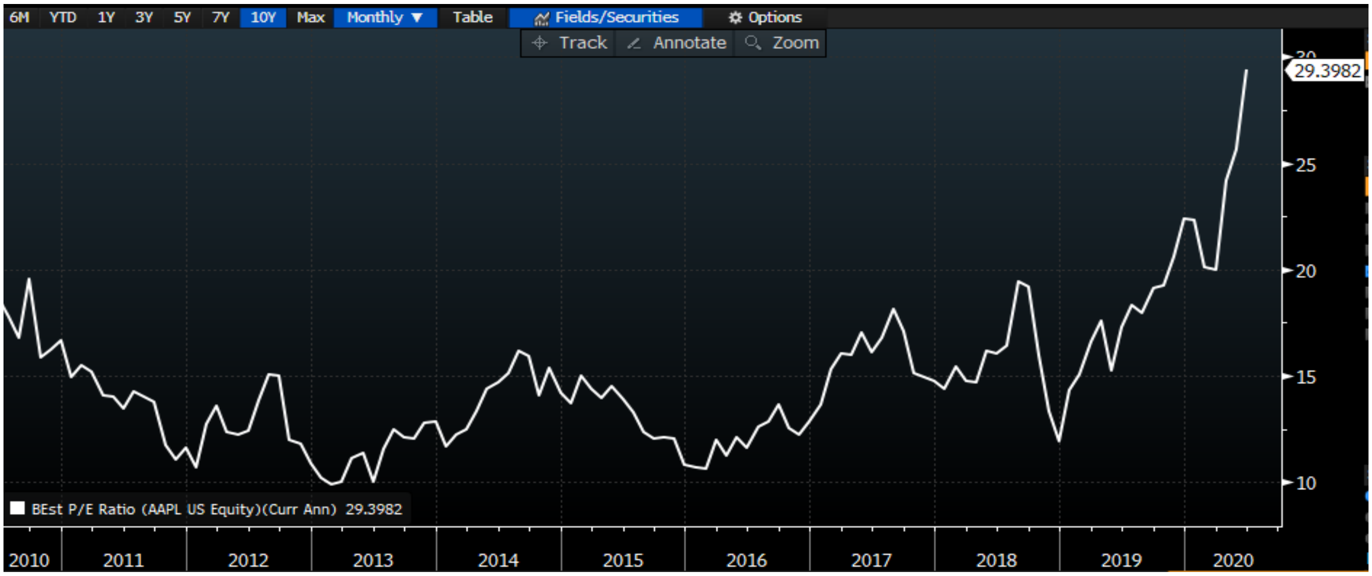
[1] Descriptions of these businesses can be found in Commentaries from the recent past.

REDUCED POSITIONS

APPLE (AAPL)

We first bought Apple back in 2011. Throughout this entire period, we have viewed the company more as a "consumer staple" company as opposed to a "technology" company, because so few customers ever leave the Apple ecosystem of products once they enter. Over the last twelve months, the market has begun to price the more stable, staple-like qualities of Apple and awarded it with an expanding multiple of earnings (see graph below). At current levels, we think the valuation is relatively full for a company growing revenue at a mid-single-digit percent. As such, while we still admire the business and believe in the company's prospects (particularly around services), we reduced the position as the margin of safety has diminished.

APPLE: EXPANSION OF P/E VALUATION MULTIPLE (2010-2020)



Source: Bloomberg

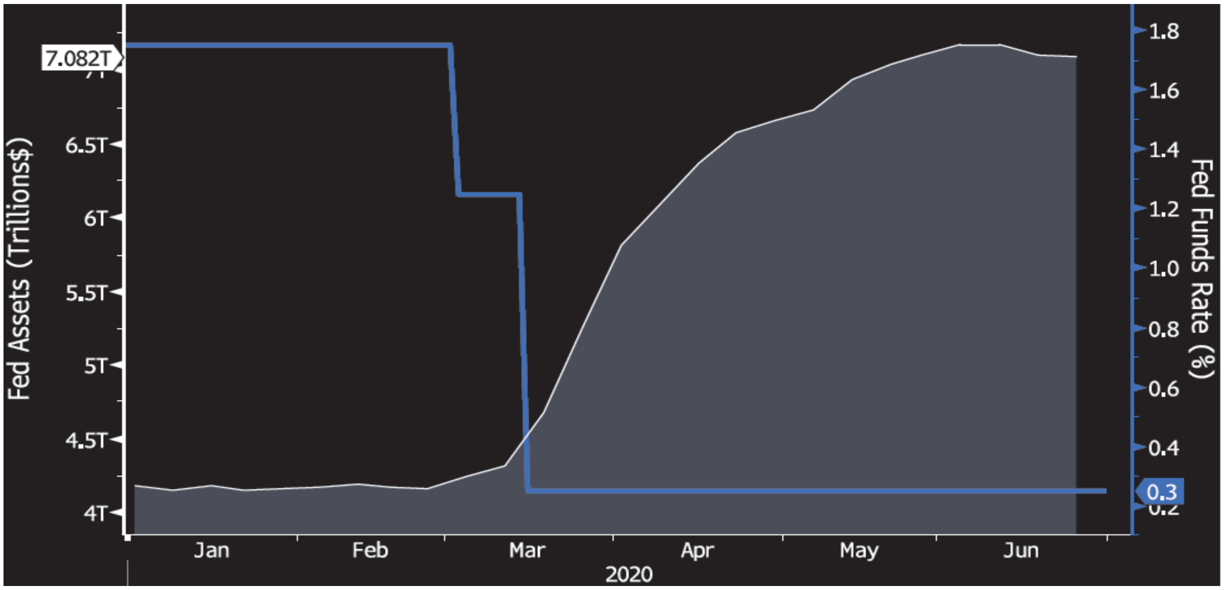
KOVITZ

FIXED INCOME COMMENTARY
SECOND QUARTER 2020

ROCK BOTTOM INTEREST RATES HAVE RETURNED

Since the start of the coronavirus pandemic, the Federal Reserve ("Fed") has unleashed several stimulatory measures to prop up the economy by lowering interest rates. The Fed continues to hold short-term rates near zero via its control of the fed funds rate. The yield on cash-like Treasury bills with one-year to maturity earn investors less than a quarter of 1%, which is down from over 1.5% at the end of last year. The Fed has also restarted its bond buying program on a very large scale in order to push down longer-term rates, more formally known as quantitative easing. Through this program, the Fed has increased the size of its balance sheet by 70% since late March by purchasing $3 trillion of bonds. In turn, yields on ten-year Treasury bonds have fallen to 0.6% from 1.9% at the start of year. The Fed has also launched new programs aimed at keeping borrowing costs low for small businesses, large corporations, and municipalities. All these actions have increased the demand for bonds and helped pull Treasury yields down to historically low levels.

MONETARY STIMULUS



Source: Bloomberg

"LOWER FOR LONGER" APPEARS MORE LIKELY

Despite the quick V-shaped recovery in asset prices, the pandemic has caused lasting damage to the economy that could require the Fed to hold rates lower for an extended period. Fed Chairman Jerome Powell said this quarter that they are "not even thinking about raising rates" and outlined projections that keep short-term rates pegged near zero until at least 2022. The interest rate futures market is pricing in an even grimmer outlook. Based on the current prices of these derivatives, market participants do not expect short-term rates to move much higher than 1% over the next 30 years. We have little confidence that the futures market can accurately forecast interest rates 30 years into the future, but expectations of persistently low interest rates have a negative impact on return expectations throughout the entire fixed income market. At Kovitz, even though we make long-term investments in sectors that offer superior yields to Treasuries, the benchmark Treasury yields act like gravity, pulling down future returns for all bonds.

A RISING TIDE LIFTS ALL BONDS.

The tidal wave of monetary stimulus vaulted prices across almost all sectors of the fixed income market. Valuations of corporate, municipal, and mortgage bonds all moved markedly higher during the quarter. On top of declining underlying interest rates, prices in the fixed income market are benefitting from investors' growing appetite for credit risk. The spread between yields on high quality bonds over Treasuries is evidence of this relationship. Corporate bonds now offer 1.2% of excess yield on average, down from 2.7% last quarter [1]. Price appreciation has been the primary driver of bond performance this year. The U.S. Aggregate Bond Index[2] advanced another 2.9% in the second quarter and is now up 6.1% on the year.

WE REMAIN DEFENSIVELY POSITIONED.

In a world where the consensus expectation is that rates will remain low into perpetuity, we do not believe investors are being compensated much for the risk that rates or inflation could rise – resulting in losses for bondholders. There are certainly very strong arguments for inflation to remain low. Other developed countries, like Japan, have been trying to spur inflation for decades through zero-to-negative interest rates and extreme deficit spending to no avail. On the other hand, there is a counterpoint. There is a chance, arguably a material one, that inflationary pressures are building. The Fed has injected $3 trillion into the economy within the last few months. It took the Fed six years after the Financial Crisis to spend that same amount, and, unlike the last crisis, a portion of that money was deposited directly into taxpayer checking accounts. It's possible the unprecedented stimulus and low rate environment could spur consumer and business spending and cause prices to increase at a faster pace than expected.

We are not betting on an impending period of higher inflation or interest rates, but we believe we should be paid more than, well, nothing for the risk that it could happen. Our primary goal as fixed income investors is to preserve principal, and inflation can destroy wealth when locked into fixed incomes for long periods of time. As such, we're managing our interest rate risk by focusing our purchases on fixed-rate bonds with maturities of less than five years. We further mitigate interest rate risk by recommending allocations to mortgage bonds and structured corporate bonds with floating coupon rates. We believe these are smarter ways to enhance fixed income returns than seeking out ever-longer maturities in order to pick up a meager amount of additional yield.

THERE'S NO FREE LUNCH FOR BOND INVESTORS.

In a world where Treasuries earn less than 1%, there are no "safe" investments still earning 5%. If a bond investment is exhibiting above market yields, risk of some kind is being taken. However, not all types of risk are equally meaningful to all types of investors. Bond investors can receive extra compensation for buying low-quality credits or by investing in long-duration bonds, but both methods can generate real losses of value during periods of distress. As such, we do not believe the excessive risk taking by these means is justified. On the other hand, we believe it is justified to focus a small portion of our clients' fixed income portfolios on niche sectors of the fixed income market that offer excess returns for assuming liquidity risk.

Liquidity premiums compensate investors for their limited ability to transact in these securities quickly at an efficient price. Mortgage bonds, structured notes, and "odd-lot" municipal bonds are means by which we're enhancing returns through liquidity premiums. Unlike credit risk and interest rate risk which impact all investors universally the same, we view the inefficient pricing in less liquid markets as more of an opportunity than a risk because of the way we invest. We significantly limit the odds of forced liquidations by buying high-quality bonds with limited time to maturity and with the intent to hold to maturity. We also limit less-liquid securities to a small subset of clients' total fixed income portfolio or allocate them to retirement accounts where investment horizons are lengthened. There may be no free lunch, but for clients that stay the course, liquidity risk doesn't cost much. We continue to look for opportunities to exploit in these overlooked markets.

LIQUID TREASURY ALLOCATION

The market is caught between the coronavirus fallout and Federal Reserve euphoria which has led to a period of historically wide swings in the market. The potential economic and societal outcomes from this point forward are some of the widest ranges we've witnessed in our investment career. The future is highly uncertain, and throughout history, uncertainty has led to investment opportunity.

To better position client portfolios for volatility, we've started to add a modest allocation to short-term Treasuries within balanced accounts that own both equities and fixed income. Treasuries are the most liquid fixed income securities and allow for the ability to quickly and

[1] Measured by the Bloomberg Barclays Intermediate Corporate Total Return Index.

[2] The Bloomberg Barclays U.S. Aggregate Bond Index broadly measures the U.S. investment grade taxable market.

efficiently redeploy capital when needed. We view the Treasury position as a temporary placeholder and will be cautiously looking for better long-term investments over the coming months. This capital will also be available to rebalance into equities should there be another broad sell-off in the markets.

As we discussed above, the opportunity cost, or the yield foregone by buying Treasuries instead of higher yielding corporate bonds, is currently very low. Prices across all sectors of the fixed income market have rallied significantly this quarter, so much so that carving a small allocation out of the core fixed income portfolio for liquid Treasuries doesn't cost much in return. For example, the difference between owning a corporate bond and a Treasury is roughly 1.2% in yield[3] . Assuming the Treasury bond is 5% of an account, the position would cause a 0.06% drag on portfolio returns over the next year in the worst-case scenario. On the other hand, if we get the opportunity to redeploy the Treasury proceeds into risk-based assets at discounted prices, portfolio returns could be improved immensely. We view this as a very favorable trade-off for our investors.

[3] Measured by the Bloomberg Barclays Intermediate Corporate Total Return Index

Kovitz Equity Composite									
Year	Gross Return	Net Return	Benchmark Return	Internal Dispersion	Composite 3-Year SD	Benchmark 3-Year SD	# of Portfolios	Composite Assets ($mm)	Firm Assets ($mm)
2010	17.59%	16.17%	15.06%	1.62%	22.07%	21.85%	144	118.4	1,768
2011	2.78%	1.52%	2.11%	1.69%	19.36%	18.70%	154	118.4	1,974
2012	20.59%	19.14%	16.00%	1.70%	14.20%	15.09%	172	160.4	2,404
2013	34.36%	32.82%	32.39%	2.80%	11.19%	11.94%	208	291.2	3,023
2014	7.69%	6.43%	13.69%	1.82%	9.28%	8.97%	223	278.3	3,040
2015	-5.82%	-6.96%	1.38%	1.29%	11.36%	10.47%	263	287.3	2,703
2016	20.90%	19.49%	11.96%	2.10%	12.85%	10.59%	203	256.2	2,696
2017	17.81%	16.43%	21.83%	1.79%	12.28%	9.92%	219	314.7	3,139
2018	-9.97%	-11.09%	-4.38%	1.44%	12.86%	10.80%	211	265.1	3,674
2019	27.83%	26.32%	31.49%	2.45%	13.99%	11.93%	195	323.9	5,061

DISCLOSURES

Fees: Returns shown incorporate the effects of all realized and unrealized gains and losses and the receipt, though not necessarily the direct investment of, all dividends and income. Net-of-fees returns are calculated by deducting model investment management fees, which are defined as the highest, generally applicable fees of 1.25% of equity assets and 0.50% of cash assets, from the gross composite return. The management fee schedule is as follows: 1.25% per annum on assets up to $5 million with reduced fees at multiple breakpoints thereafter. Such fees are negotiable. Gross-of-fees returns are presented before management fees, but after all trading expenses.

Definition of the Firm: Kovitz Investment Group Partners, LLC (Kovitz) is an investment adviser registered under the Investment Advisers Act of 1940 that provides investment management services to individual and institutional clients. From October 1, 2003 to December 31, 2015, the Firm was defined as Kovitz Investment Group, LLC. Effective January 1, 2016, Kovitz Investment Group, LLC underwent an organizational change and all persons responsible for portfolio management became employees of Kovitz. From January 1, 1997 to September 30, 2003, all persons responsible for portfolio management comprised the Kovitz Group, an independent division of Rothschild Investment Corp (Rothschild).

Composite Definition: The Core Equity composite includes all fee-paying, discretionary portfolios managed to the Kovitz Core Equity strategy. The Kovitz Core Equity strategy utilizes a private owner mentality to purchase equity securities issued by companies with durable competitive advantages and strong balance sheets that are trading at a significant discount to their intrinsic value. The goal of this strategy is to maximize long-term total return. The inception date for this strategy is January 1, 1997, and the Composite was created on January 1, 2001. The minimum portfolio asset size for the Composite is $250,000. The benchmark is the S&P 500.

Valuations are computed and performance is reported in US dollars. The measure of internal dispersion presented above is an asset-weighted standard deviation. The 3-year standard deviation presented above is calculated using monthly net-of-fees returns. The 3-year standard deviation is not presented when less than 36 months of returns are available. A complete listing of composite descriptions and policies for valuing portfolios, calculating performance, and preparing compliant presentations are available on request.

GIPS: Kovitz Investment Group Partners, LLC (Kovitz) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Kovitz has been independently verified for the periods January 1, 1997 through December 31, 2018. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. A complete list of firm composites and performance results is available upon request.

The description of products, services, and performance results contained herein is not an offering or a solicitation of any kind. Past performance is not an indication of future results. Securities investments are subject to risk and may lose value.

Kovitz Investment Group Partners, LLC ("Kovitz") is an investment adviser registered with the Securities and Exchange Commission. The information and opinions expressed in this publication are not intended to constitute a recommendation to buy or sell any security or to offer advisory services by Kovitz. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to participate in any trading strategy, and should not be relied on for accounting, tax or legal advice. This report should only be considered as a tool in any investment decision matrix and should not be used by itself to make investment decisions.

Opinions expressed are only our current opinions or our opinions on the posting date. Any graphs, data, or information in this publication are considered reliably sourced, but no representation is made that it is accurate or complete, and should not be relied upon as such. This information is subject to change without notice at any time, based on market and other conditions. Past performance is not indicate of future results, which may vary. 20-4-014.