

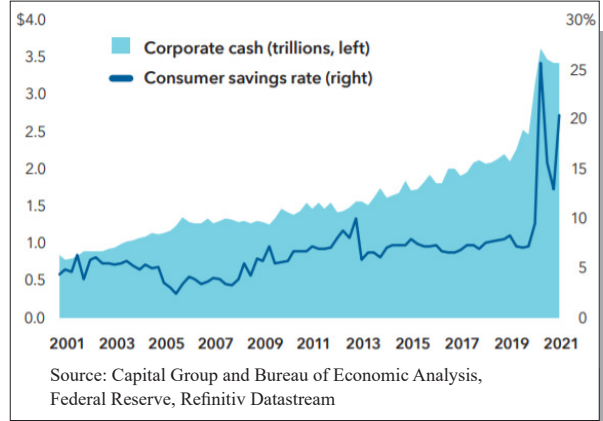


## Summer 2021 Investment Report

With many experiencing the significant economic recovery, the question of how long it will last continues to loom. We believe the shortest recession in history will be followed by one of the fastest recoveries in history and that growth will return to more muted levels in the coming year. As a result, we have not made significant changes to our investment strategy and remain focused on the long-term.

The economy has grown steadily in the recent months, as more people are vaccinated and consumer optimism is near an all-time high. Trillions of dollars of monetary and fiscal stimulus policies on top of strong household finances (as shown in graph to the right) has led, in some cases, to supply not being able to keep up with demand for many goods, resulting in price increases (inflation). The Commerce Department reported that Core Consumer Price Inflation (excludes food and energy)

jumped at an annual rate of 4.5% in June 2021, the highest level in 30 years. We expect much of this inflation to be short-lived, as supply chains and inventories respond to the additional demand. In fact, we've seen some of this inflation recede in the latest readings. For example, used car and truck prices were up 10.5% year over year, and made up approximately one-third of the total CPI increase. That said, we have started to see price declines at weekly auctions as new car inventories build.



### Tracking Risks

#### COVID-19

The biggest worry for the global outlook is the alarming spread of the COVID-19 Delta variant. While this may slow the pace of reopening, we are hopeful that it will not change the direction. We are optimistic that with widespread vaccinations and, if needed, boosters we will continue on the path to economic recovery.

#### Valuation

S&P 500 companies are releasing Q2 2021 earnings now and are expected to grow earnings by 70% compared with Q2 2020. We have seen companies beat these high expectations and see their stocks sell off after releasing earnings, showing that some investors think that this is a good time for profit taking. Yes, growth rates will be lower, but we continue to believe that stocks offer a much better risk/reward profile over the next 3-5 years.

#### Regulation

Some of the large companies in our client portfolios are dominant players in their industry. There is a fine balance between size and scale to create efficiencies and using size to stifle competition. We see more concerns with the latter and the Biden Administration, along with leaders elsewhere, are looking to reign in the power of corporations. China has the political system to make changes quickly, but these issues will play out over years in most countries.

As always, we will continue to track these risks and manage the assets we are entrusted with a goal of balancing capital preservation and long-term growth.

# Summer 2021 Investment Report (continued)

## Trends We Are Monitoring

### Proxy Voting

The year-long pandemic and economic lock-downs that marked 2020 gave way to a dynamic 2021 annual meeting season, as investors wielded their proxy votes to express their views on an array of environmental, social and governance proposal issues, executive compensation plans, and corporate board quality and effectiveness. Environmental and social (E&S) resolutions drew some eye-popping support levels, including over a dozen on diversity, climate change and political spending that scored over 80%. A total of 34 E&S proposals have received majority support to date—surpassing last year's record of 21—and included six that were unopposed by the boards. Some newly emergent resolutions on racial audits, access to COVID-19 medicines and say-on-climate (SOC) advisory votes also did remarkably well for their first year, reaching vote averages in the 30% range. Albeit groundbreaking, the results are not entirely unexpected. Major investors, including BlackRock and Vanguard, had signaled a greater willingness to support E&S resolutions this year as well as hold board members accountable for inadequate attention to material E&S risks. This culminated in the blowout of the season when shareholders unseated three Exxon Mobil directors in a landmark proxy fight launched by newcomer activist Engine No. 1—the first contest of its kind tied to the global energy transition.

### Semiconductor Production

Semiconductors are essential components in every electronics product, whether it be a simple wifi connected switch or a supercomputer used for Artificial Intelligence. Unfortunately, the supply of chips cannot be turned on and off like a switch. Multibillion-dollar wafer fabrication plants are finely tuned and run 24/7, 365 days a year. Changing the production line for a new chip product can take weeks, if not months, and adding significant new wafer fabrication capacity can take years and billions of dollars.

When the pandemic spread in 2020, carmakers shut down production lines and cancelled orders for chips used in car electronics systems like driver assistance and navigation control. Chip foundries like Taiwan Semiconductor Manufacturing Corp (TSMC) retooled production towards consumer goods (phones, laptops, gaming devices) which were experiencing a surge in demand during the pandemic lockdowns. Chip buyers, anxious to secure inventory and avoid uncertainty with a potential US-China tech war, have been stockpiling chips. This has led to expansion plans across the industry, with TSMC planning to spend US\$100 billion over the next three years, with a portion going to US-based foundries.

We have seen this increase in demand for sophisticated chips for many years and have multiple investment in client portfolios to profit from this growing area. Given the importance of semiconductors for critical parts of any economy, it is no surprise that the sector has become more politicized. While it's difficult to quantify these risks, we focus capital on chip companies with sales to a wide client base who are willing to pay higher prices for smaller, faster, more energy efficient chips.

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