



# Wedgewood Fund

## (RWGIX/RWGFX)



### First Quarter 2023 Review and Outlook

#### Performance: Net Returns as of March 31, 2023

	Current Quarter	One Year	Three Year	Five Year	Ten Year	Since Inception
<b>Institutional Class (RWGIX)</b>	9.78%	-8.69%	19.26%	12.62%	10.90%	12.02%
<b>Retail Class (RWGFX)</b>	10.00%	-8.85%	18.98%	12.32%	10.68%	11.79%
<b>Russell 1000 Growth Total Return Index</b>	14.37%	-10.90%	18.58%	13.66%	14.59%	14.86%
<b>S&amp;P 500 Total Return Index</b>	7.50%	-7.73%	18.60%	11.19%	12.24%	12.99%
<b>Morningstar Large Growth Category</b>	11.64%	-12.65%	14.44%	9.78%	11.68%	11.97%

Total returns presented for periods less than 1 year are cumulative, returns for periods one year and greater are annualized. The inception date of the fund was September 30, 2010. The performance quoted herein represents past performance. Past performance does not guarantee future results. High short-term performance of the fund is unusual, and investors should not expect such performance to be repeated. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost, and current performance may be higher or lower than the performance quoted. For performance data current to the most recent month end, please call **888.564.4517**. Gross expense ratios, as of the most recent prospectus dated January 26, 2023, for Institutional and Retail classes are 1.00% and 1.25%, respectively.

Index performance returns are for illustrative purposes only and do not reflect any management fees, transaction costs, or expenses. Indexes are unmanaged and one cannot invest directly in an Index.



For the first quarter, the Fund gained 9.8%. The S&P 500 Index gained 7.5%. The Russell 1000 Growth Index gained 14.4%.

Top performance contributors for the quarter include Meta Platforms, Apple, Taiwan Semiconductor Manufacturing, Alphabet and Booking Holdings. Top performance detractors for the quarter include First Republic Bank, Texas Pacific Land, UnitedHealth, S&P Global and Progressive.

During the quarter we trimmed Texas Pacific Land. We sold Progressive. We added to Pool Corp. and UnitedHealth.

<b>Top Contributors to Performance for the Quarter Ended March 31, 2023</b>	<b>Average Weight</b>	<b>Percent Impact</b>
Meta Platforms, Inc.	6.61%	3.72%
Apple Inc.	6.96%	1.70%
Taiwan Semiconductor Manufacturing Co., Ltd.	5.95%	1.42%
Alphabet Inc.	6.34%	1.14%
Booking Holdings Inc.	3.98%	1.12%

<b>Top Detractors to Performance for the Quarter Ended March 31, 2022</b>	<b>Average Weight</b>	<b>Percent Impact</b>
First Republic Bank	3.66%	-4.11%
Texas Pacific Land Corp.	2.41%	-0.91%
UnitedHealth Group Inc.	5.32%	-0.69%

*Portfolio Attribution is produced by RiverPark Advisors, LLC (RiverPark), the Fund's adviser, using FactSet Research Systems Portfolio Analysis Application. Please take into account that attribution analysis is not an exact science, but may be helpful to understand contributors and detractors.*

*Performance attribution is shown gross of fees. Holdings are subject to change.*



First Republic Bank was a significant detractor from performance during the quarter. The Company is a retail bank with a sterling underwriting track record headquartered in Northern California. First Republic became collateral damage in the collapse of Silicon Valley Bank, which - unlike First Republic - is a commercial bank, but like First Republic happens to be headquartered in Northern California. Regardless of how irrational it was for depositors to panic and pull their deposits from First Republic, the long-term damage to the Company's franchise is real and we have not added to our positions in First Republic since Silicon Valley Bank's failure. We rarely invest in banks. First Republic was the only bank in our large cap portfolios in the past decade. We were attracted to First Republic because it was one of the most responsibly run banking outfits in the country, and it also happened to be growing. This compares to our large cap growth investment universe that is bereft of banks because most banks have been regulated into providing commodity-like levels of service, while barely posting GDP-like loan growth against a monetary *The Hunger Games* backdrop of *de-minimis* nominal and real yields. After First Republic it is unlikely that we will consider investing in banks for the foreseeable future, or at least until regulatory and market structures change. (See more on First Republic below.)

Texas Pacific Land was a top detractor to performance during the quarter. Also, early in the quarter we trimmed our weighting after the stock's remarkable run in 2022. The Company's royalty interests span over 880,000 acres in West Texas. Most of this land is located in the highly productive Delaware Basin of the Permian Basin. Although oil and gas prices will always be volatile over the short term, we expect development activity on the Company's acreage to continue to grow at a rapid pace, primarily driven by both domestic and multinational producers looking to maximize returns on increasingly scarce oil and gas capital expenditures.

UnitedHealth Group detracted from performance during the quarter. The Company reported strong operating earnings growth at both of its operating segments, UnitedHealth and Optum. Although the market has near-term concerns about the roll-off of Covid-19 Medicaid business, the Company is well positioned to recapture these customers through its multiple service platforms. Further, after solid relative performance in 2022, "defensive" stocks such as UnitedHealth started 2023 as a "source of funds" for investors looking to add to beaten down stocks. We expect UnitedHealth to continue to post steady results, so we took advantage of the market's negative sentiment and added to our weightings in UnitedHealth.

S&P Global was a bottom contributor to portfolio performance during the quarter. Adjusted revenue declined -5%, mostly driven by the decline in ratings revenues which is lapping strong one-year and two-year comparisons. During 2022, the Company closed on its acquisition of IHS Markit which has diversified its revenue streams into new, but high-margin business lines. The Company's new corporate structure should allow for attractive growth, even if fixed income issuance trends stay at stall-speeds for the next few quarters.

Progressive Corporation also contributed less to performance than most portfolio holdings during the quarter. Progressive reported excellent absolute and relative premium and policies in force



(PIF) growth through February. We think much of this has been driven by the Company's highly disciplined approach to policy pricing and is a by-product of years of methodically investing in incremental market segmentation intelligence, most notably telematics. Although Progressive is reaping the relative, competitive rewards of the recent industry pricing volatility, we think the stock currently reflects this reality, and we recently exited our remaining position in the Company. We continue to think Progressive is well run and we will monitor the business and industry, particularly as it relates to balance sheet exposure to the domestic financial services industry.

Meta Platforms was a top contributor to performance during the quarter. Meta's 2022 advertising revenue grew slightly (currency-adjusted) over 2021, was up over +60% compared to 2019 (pre-Covid). The shift of advertisers and consumers to social media has been fairly dramatic and sticky. Further, although Meta's profit margins have fallen below pre-Covid levels, the business likely hired well in excess of what it needed because they assumed the Covid-19 induced growth would continue. The Company more recently guided for 2023 adjusted expense growth to be in the low single digits over 2022, which we think is a sensible level to be at as end markets normalize. We think Meta still has plenty of room to moderate its expense base and drive significant value by repurchasing shares at historically depressed multiples.

Apple also contributed to performance during the quarter. Apple grew revenues +3% (foreign exchange adjusted) as its various product lines normalized against difficult comparisons. Apple's installed base continues to grow and is at over 1.8 billion devices and helps drive a software and services business that makes up about a third of the Company's gross profit dollars. As we have highlighted in the past, Apple's relentless focus on the development and integration between hardware (especially integrated circuits) as well as software, continues to add significant value for customers of their products and services. We expect this favorable competitive dynamic to continue for the foreseeable future.

Taiwan Semiconductor Manufacturing contributed to performance as revenues grew +27% (in USD) from the year ago quarter. Despite this strength, the Company's customers have seen near-term weakness in demand due to Covid-19 normalization as well as the launch timing of new products. However, the Company is well-positioned to continue a long-term growth trajectory because its leading-edge capacity is being absorbed by high-performance computing applications, particularly at nontraditional integrated circuit (IC) design houses, such as Apple, Alphabet and Amazon, which have become IC-design powerhouses over the past decade. Importantly, the Company's aggressive investment in leading-edge equipment, tight development with fabless IC designers, and embrace of open development libraries, should continue to foster a superior competitive position and attractive long-term growth.

Alphabet maintained flat revenues (foreign exchange adjusted) at its core search advertising segment on a difficult year ago comparison. We added to our weighting in the quarter as investors became overly concerned about headlines related to the potential for competition from Microsoft's



AI investments. Although consumer-facing AI tools are novel and no doubt interesting, we do not think they represent an existential crisis. Alphabet has been investing in, developing and commercializing AI hardware and software tools, as well as the precursors for those hardware and tools, for over a decade. The Company built these investments into its expense base long ago. Further, we think the rest of Alphabet's businesses, particularly its Cloud segment, are capable of generating much better margins at some point. In the meantime, the Company has a fortress balance sheet and has been repurchasing shares at attractive historical multiples.

Booking Holdings was also a top contributor to performance. The Company reported accelerating travel trends into the beginning of 2023 with room night bookings up over +25% compared to 2019. Both domestic and, increasingly, international travelers have multiple years of pent-up travel aspirations as governments around the globe continue relaxing some of their most stringent, pandemic-related travel restrictions. We think populations are coming to grips with the risk of infection and will inevitably return to spending on travel well beyond pre-Covid levels. Booking Holdings represents a key source of demand for the small and medium sized hospitality industry and has the second largest global booking volume for alternative accommodations. We think the latter observation is particularly misunderstood by investors and represents substantial upside to the stock, regardless of the timing of the recovery of traditional hospitality spending.



### Bailey Bros. Building and Loan Association

*"No, but you ... you ... you're thinking of this place all wrong. As if I had the money back in the safe. The money's not here. Your money's in Joe's house ... right next to yours. And in the Kennedy house, and Mrs. Macklin's house, and a hundred others. Why, you're lending them the money to build, and then, they're going to pay it back to you as best they can. Now what are you going to do? Foreclose on them?"*

George Bailey. *It's a Wonderful Life*. 1946.



Source: George Bailey, portrayed by Jimmy Stewart, in *It's a Wonderful Life* (1946). Photo: Alamy.



## Company Commentaries

### First Republic Bank

*BERT. I hate to break anything up but there's something funny going on down at the bank. I've never really seen one, but it has the earmarks of a run.*

*MRS. MARTINI. Oh, my God.*

*BERT. If you got any money in the bank, folks, you better hurry. (The townsfolk all react in panic and run off.)*

*GEORGE. You wait here, dear. I'll be just a minute. (He starts to exit.)*

*MARY. George, let's not stop. Please, let's go.*

*GEORGE. I'll be back in a minute, Mary...*

*It's a Wonderful Life. 1946.*



Source: *It's a Wonderful Life*.



We at Wedgewood Partners earnestly believe if there is bad news to report in your portfolio, we report it up front, in detail, no sugar coating and we are blunt in owning up to our mistakes. Well, as you all know painfully well by now, we have some explaining to do given the collapse in the stock of First Republic Bank.

The short explanation is that the Company got caught in a ruthless deposit run. We didn't see it coming. Keep this stat in mind throughout this Letter's commentary:

**According to the FDIC, as of year-end 2022, the nation's banks held \$17.7 trillion in deposits. 50% are uninsured.**

In the early innings of the current banking crisis, which began with the swift failure of both Silicon Valley Bank and Signature Bank of New York, our focus on First Republic was on the asset (loans) side of the Company's balance sheet. In other words, we were first focused on the Company's exemplary history as one of the best, most conservative lenders in the industry. Historically, bank failures, by far, have been due to credit risks. Our focus was on the wrong side of the balance sheet. Our mistake here would quickly prove to be dire. Our focus should have been on the liability side of the Company's balance sheet - in other words, the deposit funding side of the balance sheet. Specifically, when word spread quickly (particularly on social media from a few notable venture capital firms that fanned the fires urging their portfolio of companies to immediately withdraw all their deposits from SVB) of a deposit run on Silicon Valley Bank, we earnestly believed First Republic's long-held, loyal customer base would hold fast through the burgeoning turmoil. This would prove to be our greatest mistake. In four short, chaotic trading days, beginning March 9, the day after Silicon Valley Bank announced a \$2.25 billion capital raise to shore up its capital base, including the bank being seized on the morning of Friday March 10, and finally with the sudden failure of Signature Bank NY over that weekend, panic and fear were in the air.

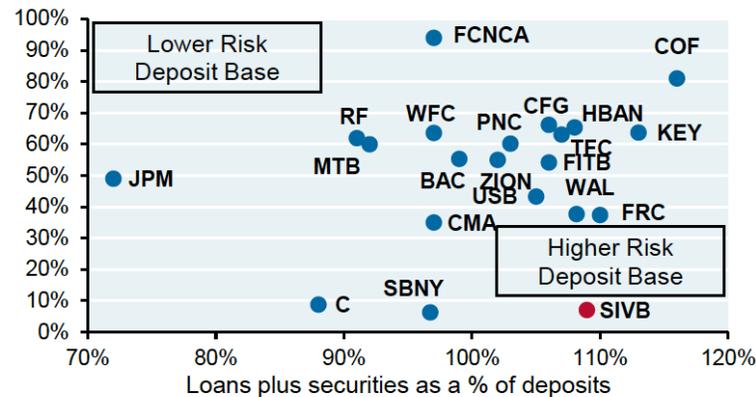
By Monday, First Republic's stock collapsed -85%, despite First Republic's Chairman's Herbert assuring CNBC viewers that the bank was not seeing depositors fleeing the bank. The stock plunge spoke to a different reality - shattering the confidence in the bank. The deposit run on First Republic was on. Just two days later rumors swirled of massive deposit outflows by the bank's largest competitors redepositing fleeing customers.



Here are a couple of graphics on the leading banks on the eve of the banking crisis in terms of loan-to-deposit ratios and the impact of unrealized securities losses on capital ratios.

### US bank loan-to-deposit ratios

Estimated retail deposit share of total deposits



Source: Autonomous Research, JPMAM. Securities include Hold to Maturity and Available for Sale categories. Q3 2022.

### Impact of unrealized securities losses on capital ratios

Percent



Source: JPMAM, Q4 2022.

Since then, as of this Letter, considerable efforts from both industry and regulators (reminiscent of the Panic of 1907) continue with the apparent goal to firewall off the failure of more banks to quell what would likely become a renewed spark of nationwide deposit runs, with considerably more failures of regional and community banks.

The key issue now with First Republic, and the banking industry, is once a bank suffers a large, immediate deposit outflow, a liquidity issue can quickly become a vicious solvency issue because the lack of funding must be quickly shored up. If not, the need to quickly reduce a bank's loan



book and investment securities to a level congruent with the new, lower deposit funding base becomes paramount. In other words, a not-too-small amount of the bank's loan book and investment securities would need to be sold quickly. In the current interest rate environment, such liquidations would book large losses. These losses would in turn be charged against a bank's capital base. If the capital base then becomes imperiled, any subsequent capital raise would likely wipe out a large portion of a bank's equity capital (i.e., shareholders).

We note the piercing sting of the apocryphal words in Ernest Hemingway's *The Sun Also Rises*, "How did you go bankrupt? Two ways. Gradually, then suddenly."

Here is a current timeline of the Panic of 2023:

March 8: Silvergate Capital, a "crypto" bank voluntarily liquidates.

March 8: Silicon Valley Bank, a commercial bank (really more of a specialty investment bank, than commercial bank), financing over half of U.S. venture capital-backed technology and health-care companies, plus over +40% of more recent publicly traded companies of the same ilk, due to "a textbook case of mismanagement," announces a significant capital raise demanded by Moody's Investor Service in order to avoid a sharp credit rating downgrade.

March 10: The California Department of Financial Protection and Innovation seizes Silicon Valley Bank and places it under receivership of the FDIC. At that time, approximately 89% of the bank's \$172 billion in deposits is over the FDIC's \$250,000 insured limit. The FDIC would later report that the 10 largest accounts of the bank held over \$13 billion in deposits; the day before the bank was seized \$40 billion in deposits were withdrawn; and the day the bank was seized, \$100 billion in deposits was set to be withdrawn 80% of deposits in just *two days*. Silicon Valley Bank was the second-largest bank failure in U.S. history – and likely also the fastest.

March 10: In a regulatory filing, First Republic Bank "reiterates First Republic's continued safety and stability and strong capital and liquidity... deposit base is strong and very-well diversified. Consumer deposits have an average account size of less than \$200,000 and business deposits have an average account size of less than \$500,000. Within business deposits, no one sector represents more than 9% of total deposits, with the largest being diversified real estate. Technology-related deposits represent only 4% of total deposits... liquidity position remains very strong...sources beyond a well-diversified deposit base include over \$60 billion of available, unused borrowing capacity at the Federal Home Loan Bank and the Federal Reserve Bank...very high-quality investment portfolio is stable and represents a modest percentage of total bank assets. The investment portfolio is less than 15% of total bank assets. Of this, less than 2% of total bank assets is categorized as available for sale. First Republic has consistently maintained a strong capital position with capital levels significantly higher than the regulatory requirements for being considered well-capitalized. First Republic has a long-standing track



record of exceptional credit quality. Nonperforming assets are only 6 basis points of total assets. Since 2000, First Republic's average annual net charge-offs have been just 1/10th those of the top U.S. Banks."

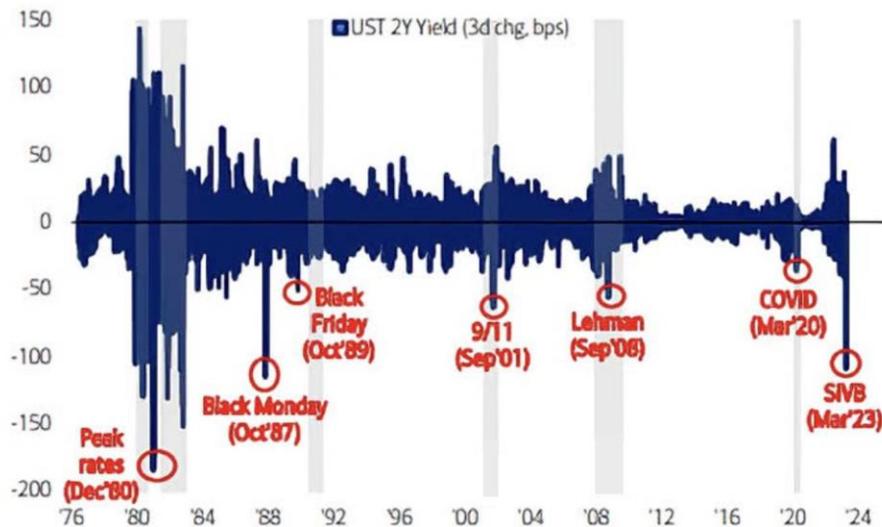
March 10: Treasury Secretary Janet Yellen meets with banking regulators.

March 11: The U.S. Federal Reserve and the FDIC weigh the creation of a liquidity fund that would allow regulators to backstop more deposits at banks.

March 12: FDIC, in coordination with the U.S. Treasury announces that all Silicon Valley Bank's depositors – insured and uninsured – would be made whole. This announcement crystallizes deposit runs on banks with larger percentages of uninsured deposits, such as First Republic – which given the banks focus on the extremely wealthy, 68% of the banks deposit base was uninsured. In the immediate days, the issue of insured versus uninsured deposits becomes the focal point of confused policy statements from Treasury Secretary Janet Yellen, including the statement on *CBS' Sunday Morning Show* that there would be no "bailout" of Silicon Valley Bank, yet the bank's unsecured creditors (depositors), particularly, and specifically, uninsured depositors would be made whole. Signature Bank, an important apartment lender in New York, tragically morphed into a "crypto" bank, due to 30% of deposits came from the crypto arena failed – the third largest in U.S. history. Similar to SVB, Signature Bank failure was designated as "systemic risk" and thus allowed extraordinary measures to protect all depositors. Treasury Secretary Yellen is "working closely" with banking regulators.

March 13: U.S. President Joe Biden says the administration's actions should give Americans confidence that the banking system is safe. U.S. Federal Home Loan Bank opens its lending war chest to provide even more liquidity to banks amid continued higher-than-usual demand for funds. There is a historic collapse in U.S. Treasury yields. The 2-year Treasury (a very useful market proxy to gauge the efficacy and direction of Fed policy) collapses from over 20 bps over the Federal Funds rate to under the rate by *90 bps!*

## Biggest 3-Day Drop In 2-Year Yield Since Oct 1987 Crash



Source: BofA Global Investment Strategy, Bloomberg

March: 13-17: During this fateful week, at the height of the banking panic, the flight into cash-rich technology stocks was nearly historic as well. It is the best week for growth stocks vs. value stocks in 22 years (Dot-Com) and also the best week for the NASDAQ 100 versus the S&P 500 Index since 2008 (GFC). Anticipating a sharp change to an ease in Fed policy, the rally in tech stocks continues sharply throughout all of March. The NASDAQ 100 rises 21% during the first quarter – its best quarterly gain in a decade.

March 14: Moody revises its outlook on the U.S. banking system to "negative" from "stable", citing heightened risks.

March 16: Treasury Secretary Yellen tells a U.S. Senate hearing that uninsured deposits would only be guaranteed in banks deemed a contagion threat, which in turn raising fears about smaller banks. Led by J.P. Morgan, large U.S. banks inject \$30 billion in deposits into First Republic Bank to shore up the lender's finances.

March 17: Moody's downgrades First Republic, citing "a deterioration on the bank's financial profile."

March 19: UBS agrees to buy Credit Suisse for 3 billion Swiss francs in stock and agrees to assume up to 5 billion francs in losses. Senator Elizabeth Warren says Fed Chair Jerome Powell "has failed...and should not be Fed chair."



March 21: U.S. Treasury Secretary Janet Yellen tells bankers that she is prepared to intervene to protect depositors in smaller U.S. banks.

March 22: Secretary Yellen tells lawmakers that she has not considered or discussed "blanket insurance" to U.S. banking deposits without approval by Congress, again stirring up investor worry. Federal Reserve Chair Jerome Powell says SVB's failure is not indicative of wider weaknesses in the banking system.

March 24: Deutsche Bank shares drop over -8% in Europe and the cost of insuring the company's bonds against the risk of default spike. Other banking stocks also slump in Europe.

March 25: U.S. authorities consider the expansion of an emergency lending facility that would offer banks more support, notably for First Republic, according to a Bloomberg News report.

March 31: Senator Warren expresses the need to address the inadequacies of current FDIC insured deposit levels.

Banking is hard. Leveraged businesses that lend short and invest long are inherently risky. In extreme economic environments, much of that risk is out of management's control, particularly with interest rates – both short and long – that often swinging wildly throughout an economic cycle. Such swings are punctuated by policy errors of judgement by central banks. Much of the U.S. banking industry is dominated by commodity-like features. Checking account fees, interest rates on money-market funds, certificates of deposit and mortgages don't vary that much from competitor to competitor. Long-term banking relationships aren't the norm. In the banking industry, outside of the C-suite, top positions on both bank arms of investment banking and investment management typically are rarely lucrative. Last, but certainly not least, banking is a capital-intensive industry. To grow, a bank needs more capital. Depending on the inning of an economic cycle, plus the concomitant shape of the yield curve, capital costs are often too dear to access. So why invest in an industry with so many headwinds to success?

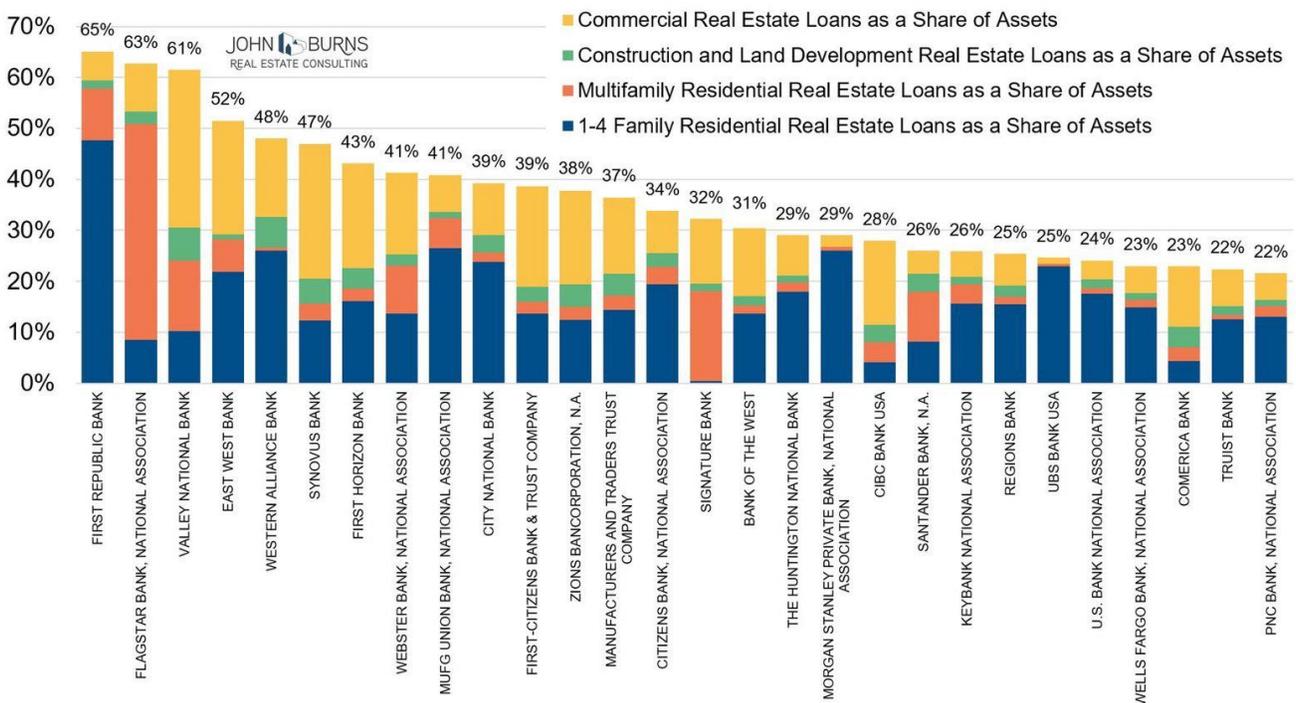
In our +30-years of investing, and recognizing all the above, we have rarely invested in banks. We agree - banking is too damn hard. That said, we have had success being highly selective in what we consider to be the very best-in-class banks. Our success investing in banks was not among our best investments over our past + 30 years to be sure, but worthy at the time of investment in Norwest/Wells Fargo, Commerce Bancorp of New Jersey and U.S. Bancorp. (We particularly enjoyed the journey with the enigmatic Vernon Hill of CBH.) These three banks shared one thing in common when we owned each, they were best-in-class banking operators in their respective chosen activities.



Our thesis on First Republic Bank was similar: best-in-class, white-glove service to the very wealthy – the sticky, very wealthy. In addition, and most key, the bank’s bankers were outstanding, conservative lenders. When First Republic makes a loan – more focused on residential mortgages than most banks - it would be the most exceptional circumstance that said loan didn’t get repaid. With wealthy clients, very high FICO scores and an abundance of collateral, loan losses, again, were the rare exception. Mix in too a highly reputable, market share-taking asset management division, and such tailwinds and non-commodity attributes make for a consistent recipe for compelling growth. The following graphics encapsulate the First Republic Bank story – and our attraction to the Company – which, in our view, is the story of a bank *too good to fail*.

### Real Estate Loans in Domestic Offices as % of Total Assets by Loan Type

Banks with \$50B+ in assets and >20% of assets in real estate loans



Sources: FDIC; John Burns Real Estate Consulting, LLC (Data: 4Q22, Pub: Mar-2023)  
As seen in monthly *Burns US Housing Analysis and Forecast*



# Exceptional Credit Quality

FIRST REPUBLIC BANK

Only 8 bps of cumulative losses on all loans originated since founding in 1985 <sup>(1)</sup>

(\$ in millions)	Years of Origination	Cumulative Net Losses <sup>(2)</sup>		Total Originations
Residential real estate <sup>(3)</sup>	1985-4Q22	\$81	0.03%	\$240,720
Multifamily/commercial construction <sup>(4)</sup>	1990-4Q22	38	0.23%	16,476
Commercial real estate	1989-4Q22	58	0.26%	22,457
Multifamily	1989-4Q22	62	0.16%	39,343
Business <sup>(1), (5)</sup>	2000-4Q22	91	0.09%	95,851
Unsecured	2000-4Q22	14	0.11%	12,593
Stock and other secured	2000-4Q22	3	0.01%	27,282
<b>Cumulative</b>	<b>1985-4Q22</b>	<b>\$347</b>	<b>0.08%</b>	<b>\$454,722</b>

8 bps of cumulative losses in 37 years

\$455 billion of originations in 37 years

(1) Excluding Paycheck Protection Program (PPP) loans.

(2) Includes estimated charge-offs on divested loans retained by Bank of America for period from July 1, 2010 to December 31, 2018. First Republic Bank was sold to Merrill Lynch in September 2007; through the acquisition of Merrill Lynch, it became part of Bank of America in January 2009; then it became independent again through a management-led buyback in July 2010.

(3) Originations and losses include single-family loans, home equity lines of credit, owner-occupied single-family construction loans, as well as all single-family loans sold in the Secondary Market. Includes a \$7.4 million loss in 2006/07 related to a business loan fraud in New York.

(4) Includes non-owner-occupied single-family construction loans.

(5) Includes a business loan loss of \$40 million involving fraud.



## FRC Client Relationship Lifespan Is Doubling

FIRST REPUBLIC BANK



(1) As of December 31, 2022.

(2) Includes term loans and, beginning June 2020, includes PLOC.

At this date, our investment team is trying to determine what path, likely a slim path at best, to claw back from the stock collapse. Our view on the near future of the bank is shaped by the significant efforts by both the U.S. Treasury and Federal Reserve, plus historic efforts by the leading banks to ring off the bank from collapse. In other words, First Republic is now a “systemically important bank.” Too big to fail. Too important to fail. If First Republic “fails,” who’s next? The list of “who’s next?” regional banks of equally considerable import is long. Many of these bank stocks are making new 52-week lows as we write this Letter.

The stock price of First Republic is now akin to a long-dated call option – without an expiration date. It appears that the Company will not be sold. Such an event would likely be a fire sale. However, the collective words to-date from Treasury Secretary Yellen imply *de jure*, versus *de facto* industry deposit insurance. Plus, given the liquidity provided by both the Fed’s Bank Term Funding Program and Discount Window, plus the industry’s collective deposit of \$30 billion a fire sale seems remote. An independent First Republic would be the best outcome for shareholders. As it stands now, the bank needs to quickly reduce the asset side of its balance sheet to offset the +\$80 billion in deposit outflows. Loans rolling off over the next few months, plus the sale of recent loans, if successful would be the first key step to remaining independent.



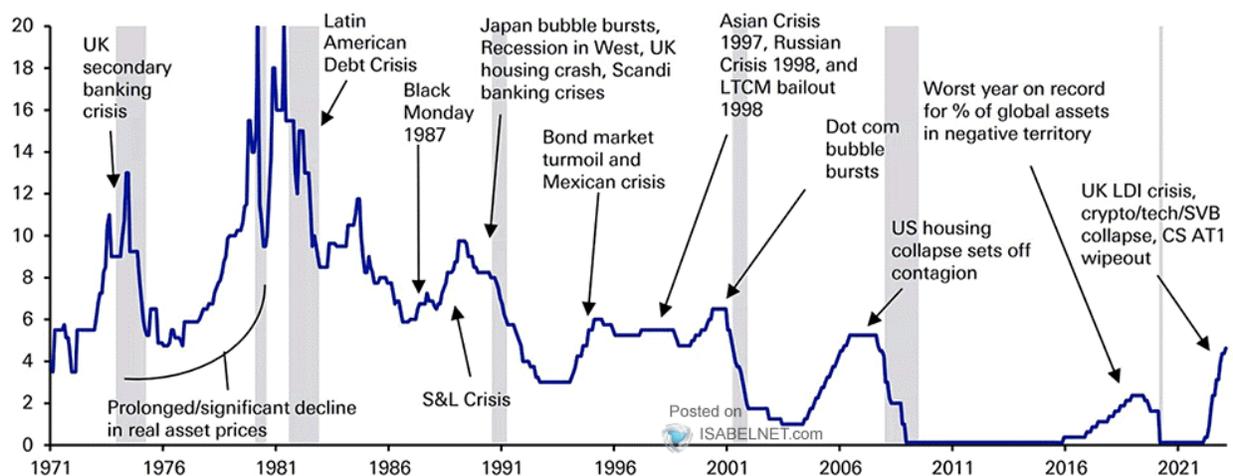
That said, all the actions taken thus far – and needs to take in the near term - by the Company to keep the lights on, even if successful, will considerably diminish the earning power of the bank for the foreseeable future. If said earning power is significantly negative for even a relatively short period, a capital raise will be dilutive to shareholders. Given these critical uncertainties we have not added to our position in the stock.

Again, the deposit run on the bank, plus the collapse in the stock, caught us off guard. We missed it. A most difficult mistake on our part. We continue to hold our precrisis position in the shares for the prospect of a better valuation the longer First Republic can remain independent. You will have received this Letter right before First Republic reports its first quarter. This report will be ugly. This report too will be the first detailed report from management since the banking crisis began. The investment team anxiously awaits this report.

### Bailey Bros. Building and Loan Association

Over our 30-plus years, in far too many of our Letters we have found the need to discuss (vent) our fears on the extreme pendulum swings in U.S. monetary policy. From boom, to bust, to boom, to bust, *ad infinitum*. Rinse, Repeat, Scream. Best intentions duly noted, the sage mandarins (and their literal army of PhDs) in the Eccles Building implicitly assume their collective IQs are more powerful in controlling both the “proper” level and term structure of interest rates rather than a free market of countless participants. Every teenager also has the best sober intentions the first time behind the wheel of their out-of-town parents’ Corvette.

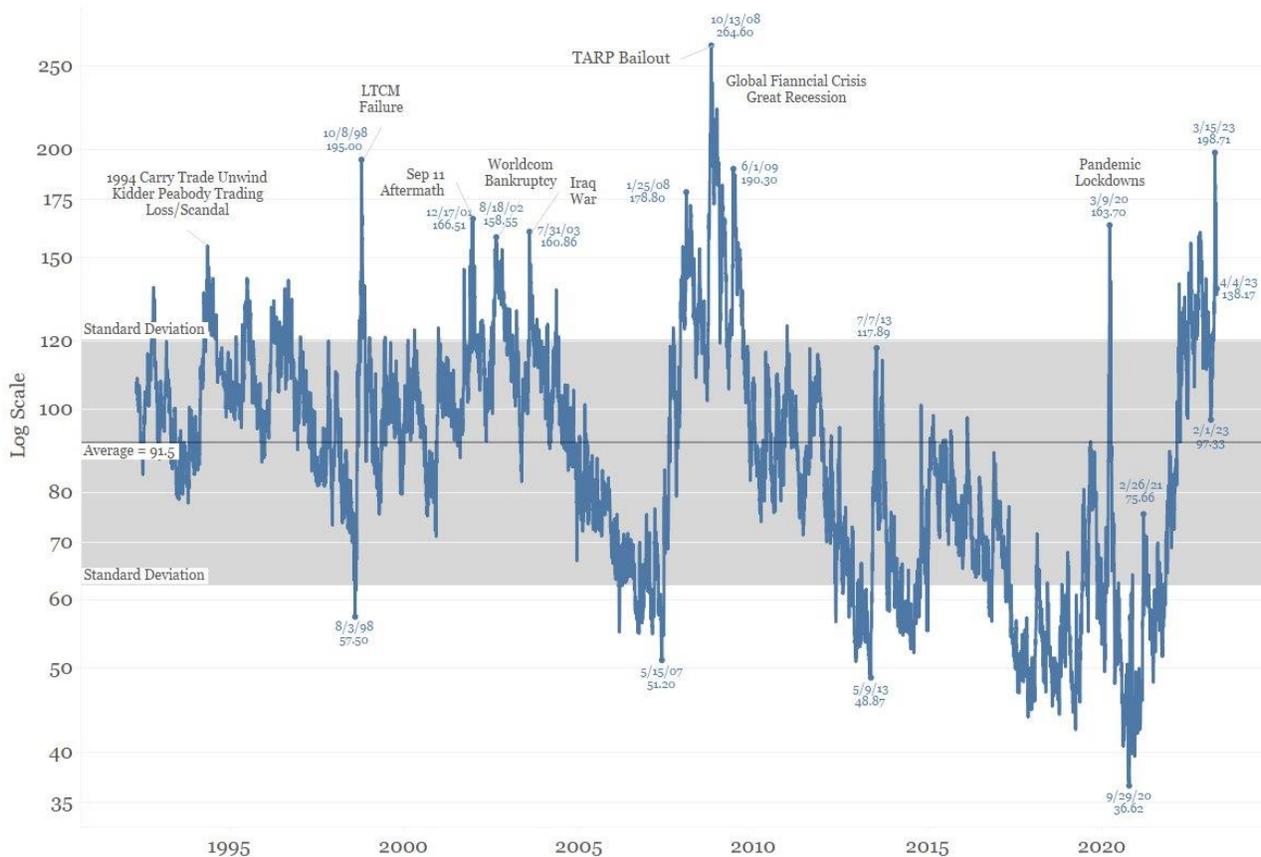
Figure 1: When the Fed hikes, something usually breaks.... this time is no different...



Source : Bloomberg Finance LP, Haver Analytics, Deutsche Bank



### MOVE Index



Source: Bloomberg

© 2023 Bianco Research, L.L.C. All Rights Reserved  
<https://www.biancoresearch.com/>

In describing the Federal Reserve’s less than excellent adventures in monetary policy, we have tortured numerous metaphors. In our 2018 Letter *Hotel California*, we opined that small-scale Quantitative Easing (QE), circa-Greenspan, was such a lovely place; however, Fed chairs since Bernanke have checked out any time they like, but QE never leaves. Successive Fed chairs have become both arsonist *and* fireman in their collective attempt to employ very blunt, very powerful monetary tools to micromanage ever-evolving macro mandates (The magical, idyllic economic state of sustainable 2% inflation, anyone?) In addition, the Fed’s obsession with the *level* of the Federal Funds Rates, instead of the *rate of change* has demonstrably helped create the current banking crisis. As dire as it seemed back in 1980, when Fed Chair Paul Volcker raised the Federal Funds Rate from 9% to 19%, that was nothing compared to Jay Powell raising it from 0.05% to 4.83% in twelve short months.

## Fed Stays the Course Amid Banking Turmoil

Upper limit of the U.S. federal funds target rate range\*



\* dotted lines indicate median projections of the midpoint of the appropriate target range for the federal funds rate at the end of the specified calendar year  
Source: U.S. Federal Reserve



statista

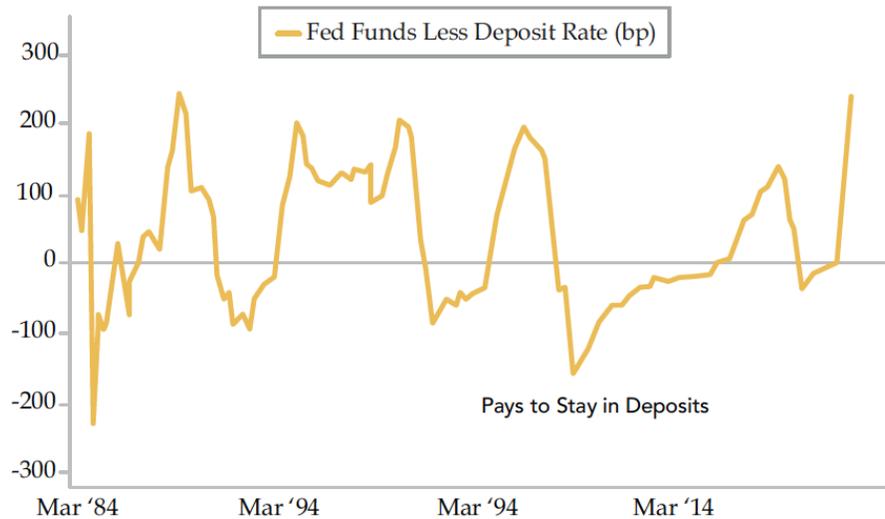
As Colonel Jessup, from *A Few Good Men*, might opine, the Fed’s historical record of extreme outcomes is clear – crystal clear. In the end, the Fed typically stays too easy for too long, or too tight for too long. Easy creates bubbles. Tight creates busts. The current folly of the Fed’s obsession with bringing inflation back to their nirvana of 2% has slammed the U.S. banking industry into the windshield.

Specifically, the matter of insured versus uninsured deposits must be addressed in order to mark the end of the crisis. No easy task for sure. Changing FDIC insured deposit levels takes an act of Congress. No best friends across that isle. One glance at the calendar does not give any banker (or bank shareholder) hope for a quick resolution. The Congressional Budget Office (CBO) projects that, if the debt limit remains unchanged, the federal government’s ability to borrow using even extraordinary measures will be exhausted between July and September of this year. Relatedly, the “x date” after which the U.S. Treasury may not be able to pay the federal government’s bills is August 18. It looks like it will be an unusually hot summer in D.C. Not to mention, the 2024 election season will be in full swing by this fall too.

In the meantime, starting in just two short weeks, banks will be reporting first quarter earnings. At the top of every investor’s (and bank CEO’s) mind will be deposit flows. We already know the initial crush of deposit flows has been a torrent of deposits out of regional and community banks into the biggest, “too-big-to-fail” banks. The *Wall Street Journal* reported on March 30 that in the immediate aftermath of the failure of Silicon Valley Bank and Signature Bank, the 25 largest banks captured \$120 billion in new deposit flows. Smaller banks lost \$108 billion in deposits. In addition, more than \$220 billion raced into money-market mutual funds.



## The Incentive to Withdraw Deposits Highest in 40 Years



Source: FDIC, Federal Reserve, Barclays Research. Note: The Fed tightened rates in 1994, 1999, 2004, and 2015

Source: Quill Intelligence

In recent Letters we feared Powell & Co.'s unprecedented tightness could not help but "break something." And Powell & Co. did. Specifically, they broke – severely broke - the mortgage bond securities (MBS) market. In short, the Fed's multiyear expansion of its balance sheet to \$9 trillion by purchasing both U.S. Treasuries and Federal guaranteed MBS – Fannie Mae, Freddie Mac and Ginnie Mae - via Quantitative Easing (QE) essentially concentrated the coupons on over \$13 trillion in MBS between coupons of 2% and 4%. Once Powell & Co. sharply reversed course and tightened monetary policy (QT) driving interest rates higher, the Fed quickly impose over \$1 trillion in unrealized losses on the nation's commercial banks. We'll try to explain.



### Unrealized Gains (Losses) on Investment Securities



Source: FDIC.  
Note: Insured Call Report filers only.

(Note: We must give proper due recognition and thanks to Christopher Whalen of Institutional Risk Analyst. He continues to give a master class on current monetary events in his numerous writings and media appearances. Much of what follows has been our education of his recent work on the Fed's Quantitative Tightening (QT) breaking the mortgage bond market.)

Long-only equity managers should not be writing about the mechanics and machinations of the MBS market, but here we are. A bond and MBS primer is in order. Bear with us; Bond Market 101 will quickly evolve (devolve?) into MBS 401. Note too, dear reader, those of you who are aficionados of *The Big Short* and *Margin Call*, who might just revere those instructive movies more than many of us on Wall Street revere *The Godfather Trilogy*, *Goodfellas* and *The Sopranos*, you might skip this next part.

Ok, Fixed Income 101. Let's stick with the very basic elements of the U.S. Treasury market bonds, notes and bills. Bonds issued at par (100) mature at par (100). Some are issued, plus those that trade on the secondary market are offered at premiums (say 102) and discounts like U.S. Treasury Bills (98).

Fixed coupons are just that. Not variable. Fixed. Payable to the owners of such bonds twice a year. Maturity date fixed too.

When interest rates rise, the price of fixed coupon bonds fall. When rates fall, prices rise. Further, bonds with larger coupons fluctuate less given a change in interest rates than bonds with smaller coupons. Those of you who employ a common asset allocation of say 60% equities and 40% bonds were likely astonished at how quickly and deeply your lower-coupon bond portfolio



declined in value last year once the Fed began swiftly raising interest rates. Bond portfolios built during the Fed's QE zero-interest rate regime simply, but powerfully lack the buffering, shock-absorbing power of higher coupon bonds.

Duration. Ok, let's amp it up a bit. Anyone reading the financial press over the past few weeks has become versed on the concept of "duration." Duration is simply a measure of how sensitive a bond or bond fund is to changes in interest rates. Us common folk call this interest-rate risk. Duration, like maturity, is measured in years. Duration for equity dummies means that for every 1% change in interest rates, a bond's price will change in the opposite direction by 1% *for every year of duration*. Further, a bond with a duration of five years will be more sensitive to changes in interest rates than a bond with a duration of three years but not as sensitive to changes as a bond with a duration of 10 years.

MBS 401: Now let's consider this wild animal called a mortgage-backed security. Compared to an MBS, a fixed rate bond is positively exacting – and rather boring. In the history of debt financing, either through regulated financial institutions or unregulated loan sharks, rarely has the asset owner (lender) been more at the mercy of the borrower – and at the mercy of the marketplace than an MBS. Put simply, the length of coupon payments, the timing of principal prepayments and the ultimate maturity date can be quite variable given changes in interest rates. When interest rate changes are historic in nature, well, a "risk-free" government-backed MBS can become very risky indeed for MBS owners – and as we have painfully seen of late, very quickly at that.

The dynamism and complexity of the MBS market to us simple equity folks, is, well, mind-numbing. Mix high IQ, unlimited computer power, untold needs of countless institutions who need to match assets and liabilities, cash flow priorities, Greek-letter hedging, the slicing and dicing of both coupon cash flows and quality-based principal tranches, and leverage, and of course basic interest rate risk within the MBS market (see *The Big Short*) is a witches' brew of controlled chaos – most of the time.

Most of our readers have likely had plenty of experience with mortgages. Unlike Treasuries, and this is a biggie, the debtors (not the owners) of such mortgages have the potential to impart substantial variability in both coupon and principal payments. Homeowners are expert at this very key feature. It's the rare borrower who doesn't know prevailing mortgage rates better than say the price of gas, eggs, or bread. And if interest rates fall enough, advertisements from both mortgage banks and mortgage brokers no doubt flood the airways and internet with mortgage refinance offers. Mortgage holders will refinance at the drop of a basis point if said refinance is remotely economical. Mortgage refinancing has been part and parcel of the American homeowner financial landscape since 30-year mortgage rates peaked at 18.50% in October 1981.

To illustrate the extreme borrower joy (and lender angst), let's say you bought a house or refinanced your mortgage between 2020 and 2021, at rates never before imagined. On an inflation adjusted level, such mortgages are literally "free" money. Fast forward to the present. Inflation-



fighting warriors at Powell & Co. have rapidly raised short-term rates from near zero to 5.00% - the fastest pace in over 40 years. 30-year mortgage peaked back in last November to almost 7.5%. The likelihood of your current mortgage ever being refinanced again, unless mortgage rates collapse to under 1.5%, is nil. If you are a homeowner over 50 years of age, you may never move again given your current mortgage rate has essentially locked you into your current dwelling. If mortgage holders lock in low rates, it's no surprise that refinances dry up. Mortgage prepayments dry up too. And why too make early principal payments on "free" money? On an actuarial basis, if you are over the age of 60, your 30-year mortgage will likely outlive you. Said another way in the nomenclature of the MBS market, the "liquidity" of your mortgage won't reenter the marketplace for two generations.

Pre-pandemic, 30-year mortgage rates almost reached decade highs of 5% in November 2018. Before the pandemic hit, 30-year mortgage rates fell below 4%. 30-year mortgage rates collapsed to 2.65% in December 2020, with the pandemic raging. Such rates would stay below 4% until March of 2022. The vast majority of the housing stock in the U.S. has locked in mortgage rates unimaginable in the history of home finance. Those of us (debtors) who locked in mortgages from 2020 to 2021 cheer our good fortune, courtesy of the Fed's zero-interest rate QE.

That was then. Since then, the Powell & Co. have channeled their collective inner-Paul Volcker to bring inflation back down to 2%. To do so, the Fed has raised rates from levels (near zero) never before experienced and at a velocity of increase more rapid than any tightening period in over 50 years.

Now let's look at the brutal owner's side of your mortgage, as the Fed - first slowly, then suddenly - slammed the banking industry into the windshield. Because most mortgage lending institutions don't hold your specific mortgage on their respective balance sheets (like Bailey Savings & Loan and First Republic Bank), your 2.75% mortgage has likely been repackaged as a 3% couponed Fannie Mae MBS. Your mortgage, and like kind of mortgages, ultimately do find their way back on the asset side of bank balance sheets as an MBS. Consider the dramatic and swift changes in said MBS in twelve short months. MBS issued at par (100) now likely trades in the high 80's. (Fannie Mae 2s, which purchased at 103 in 2021 were trading in the high 70's late last year. The "duration-adjusted" effective maturity has exploded upward, likely doubling (or even tripling) from assumptions when issued. This "duration" volatility caused the meltdown of Kidder Peabody in 1994 and Long Term Capital Management in 1998. In addition, the cost to hedge such a security takes into account the coupon rate, prevailing interest rates, assumptions of maturity and cash flows and the volatility of the price of said MBS in the marketplace. All of these variables make hedging very expensive. Perhaps 2X-3X over the cost of the coupon. In short, nobody in the marketplace wants to buy this piece of paper; hence the collapse in MBS price.



Now let's now try to put it altogether in a macro sense. Per Whalen:

*"Today, sadly, the Federal Reserve Board seems to forgotten that monetary policy is executed through and with banks in the bond market. By doubling the Fed's balance sheet between 2020-2021, from over \$4 trillion to now \$9 trillion in nominal dollars, the Federal Open Market Committee (FOMC) has injected vast amounts of market risk into the U.S. banking system.*

*"What few members of the FOMC seem to appreciate is that in duration-adjusted dollars, that \$3 trillion in mortgage-backed securities (MBS) owned by the System Open Market Account (SOMA), is today more like \$12 to \$15 trillion in terms of risk to U.S. banks and the Fed itself that own these low-coupon securities.*

*"As we've noted in earlier comments, the massive amount of refinancing that occurred in 2020-2021 has concentrated the coupons of about three-quarters of the \$13 trillion market for mortgage securities between 2% and 4.5%. The average coupon is about 3%, which today is trading at a 10-point discount to par. Most of the production in that period is found in 2s and 2.5% MBS, a ghetto of high volatile securities that are now points under water vs. SOFR (Secured Overnight Financing Rate) funding costs.*

*"Simply stated, U.S. banks are caught in a vice between rising short-term interest rates and the Fed's \$16 trillion effective long duration position in Treasury debt and MBS. How can SOMA be approaching \$20 trillion in effective, duration adjusted size when the Fed's own data show a nominal value just shy of \$9 trillion today? Because of the extension risk of the MBS, risk that now resides inside every mortgage portfolio in the U.S.*

*"The mortgage bonds owned by the Fed, which has an effective average life of 2-3 years at the time of issuance during QE, are now closer to 20 years when measured against actual prepayment rates. CMBS (Commercial Mortgage Backed Securities), which are generally interest-only affairs, where principal is rarely prepaid and refinancing is assumed, are also extremely sensitive to changes in interest rates.*

*"Given the market distortions of QE, how much can the Fed raise interest rates from 2021 levels before holders of those 2 and 2.5% MBS are insolvent? About 300 bps or 3%. But the FOMC has already moved the Federal Funds Rate (FF) nearly 6% in 18 months. Likewise with bank deposits, the Fed's 600 bps move in FF rates has destabilized those heretofore stable business deposits at banks, large and small.*

*"Banks often assume that retail term deposits (CDs) are stable, because individuals would forego all the accrued interest as penalty for early redemption,' our (blogger) friend Nom de Plumber observed overnight. 'However, for example, if a seasoned one-year deposit has been paying only 0.25%, but money-market mutual funds, short-maturity Treasuries, or new deposits are paying 4% or more, the customer will readily terminate that seasoned deposit and roll the funds to elsewhere. Hence, banks have been losing huge amounts of 'stable' funding as the Fed quickly raised interest rates."*

Those lending institutions (owners) who locked in mortgages during the same time period curse the Fed's new higher-interest-rate Quantitative Tightening (QT) policy. Extending beyond mortgages, most fixed-rate debt in the trillions issued before the Fed embarked on QT is dramatically in the red. It's not too difficult to forecast that even if the current banking crisis has



seen (suffered?) its nadir, we suspect that banking woes will still be part and parcel of financial headlines for the foreseeable future. Indeed, a Stanford University finance professor estimates that approximately 500 banks (11% of the U.S. banking stock) have suffered percentage losses on their respective assets *worse* than Silicon Valley Bank.

This new bolder banking world of ours where we are all bank tellers on our smartphones, will soon become even more bold still in a couple months when the Federal Reserve rolls out their new payment system. Little remarked to date, the Fed's FedNow Service will allow bank customers (both individuals and businesses) at over 10,000 financial institutions to send instant payments and transfers in real-time, 24-7,365, 24-hours a day, including weekends and holidays.

So, what's the "fix?" Here, once again, the informed opinion of Whalen:

***"While the Federal Reserve Board is busy trying to balance its various active interventions in the markets, we think that the time may have come for Congress to tell the FOMC to reduce its balance sheet. The losses to the Fed (and, indirectly the Treasury) will mount, but unless we force the Fed to reduce the scale and range of its market intervention, we may never emerge from "quantitative easing."***

***"For example, while the Fed has rightly taken steps to provide cash to banks, it has not yet addressed the hundreds of billions or more in cash flow losses facing banks that own securities issued during 2020-2021. Even if the Fed does not raise the target for federal funds (FF) above current levels, these losses will threaten the existence of dozens more banks, large and small, later this year."***

***"So, what is to be done? The FOMC needs to gently push money market funds out of the RRP (Reverse Repo Agreements) facility and into private markets. At the same time, the FOMC should sell MBS from the system open market account (SOMA) with the goal of keeping the 10-year bond above 3.5% yield. Don't worry in Fed Funds trades on the floor, we want to keep LT (long-term) rates positive and stable."***

***"Give the Street back the duration that is sitting, passive and sterilized, inside the SOMA. Market rates will start to stabilize and volatility will decrease. While the Fed does not hedge the SOMA portfolio, private investors will and this shift in duration and related hedging activity will help stabilize markets. The Street will start to repackage this low-coupon MBS into interest-only and principal-only bonds. Problem solved."***

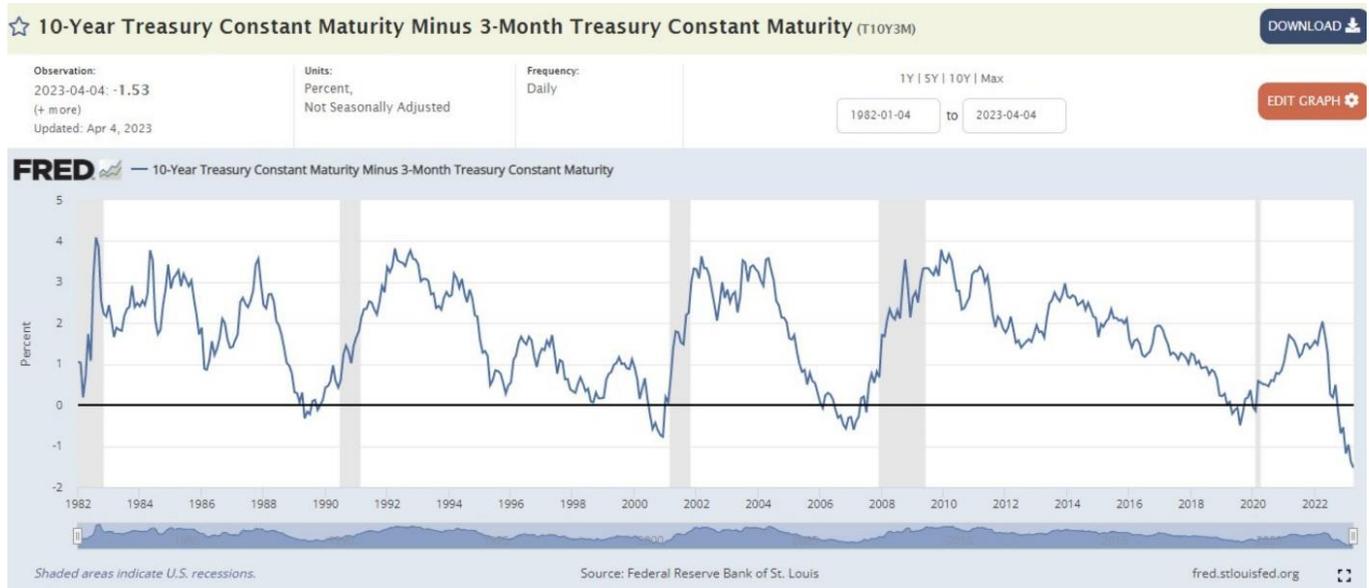
***"But even as the FOMC forces investors off of the public teat and back to the market, it must shoulder another burden, namely helping banks to deal with the funding mismatch between the Treasury and MBS issued in 2020-2021 and the current production issued today. Just by way of comparison, the average coupon for all \$13 trillion in outstanding MBS is a 3% coupon. Ginnie Mae 3s were trading around 90 cents on the dollar this AM (March 30)."***

***"The FOMC should order the FRBNY (Federal Reserve Bank of New York) to offer term repurchase agreements to banks and dealers for any Treasury note or bond, or agency/govt MBS, that was issued during 2020-2021, at par. The rate charged should be  $\leq$  the debenture rate on the security. This facility should be rolled every 30-days until the bond price reaches 5 points from par."***

***"If the Fed helps banks to avoid most of the cost of QE/QT, the savings in terms of bank failures avoided will be considerable. The cost of this operation to the Fed will be enormous, swelling the negative equity"***

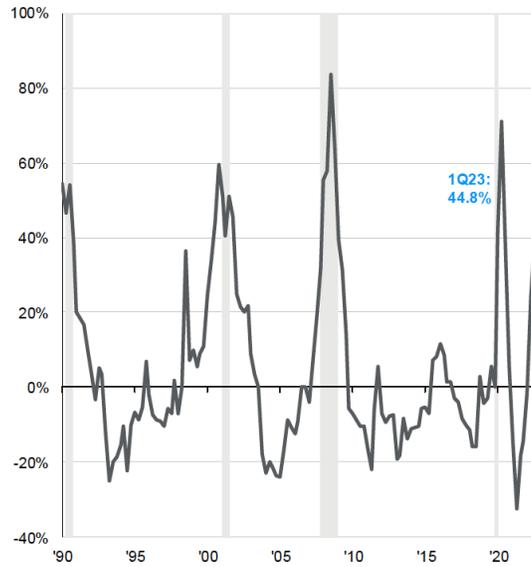
***position of the central bank. The political cost of this operation of revealing this colossal expenditure of public funds will also be enormous, but the time for hiding the losses incurred by the Fed as a result of QE is at an end.”***

Inverted yield curves have typically presaged near-future economic weakness at best and recession at worst – particularly if the yield curve inverts deep as it stands as deep as it has been over the past 40 years. More pertinent to the current banking crisis, it’s not just a matter of deposit flows out of banks, but the crisis has morphed into concerns ranging from cost of deposit funding and sharp reductions in loan growth to loan loss provisions and hits to capital. As such, the bond market is *screaming* for the Fed to cut rates now. Not during their next meeting in May. Nor June. *Now!*



Remember, much of consumer finance is priced off short-term rates. When benchmark rates raise 500 basis points (5%) in 12 swift months, secured consumer finance literally shuts down. Banks were already sharply tightening lending standards *before* the banking crisis. Indeed, Bloomberg reports that bank lending through March fell *\$105 billion* – the largest two-week drop in Federal Reserve data since *1973*.

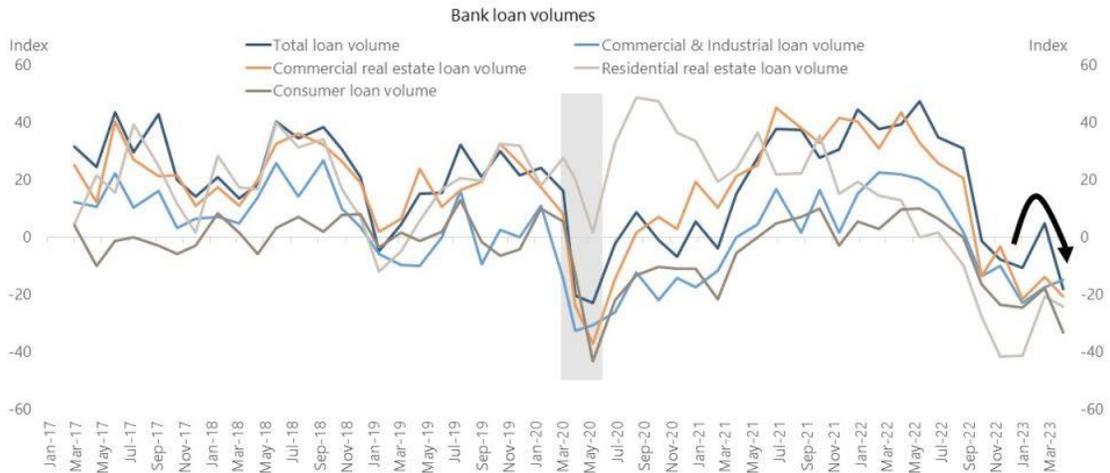
**Net percentage of banks tightening lending standards**  
Commercial and industrial loans for large and middle-market firms



Source: J.P. Morgan Asset Management

APOLLO

Bank lending has rolled over after SVB



Source: Banking Conditions Survey, Federal Reserve Bank of Dallas, Apollo Chief Economist. Note: Data collected March 21–29, and 71 banks and credit unions headquartered in the Eleventh Federal Reserve District responded to the survey. Apollo.



### NFIB Small Business Good Time to Expand

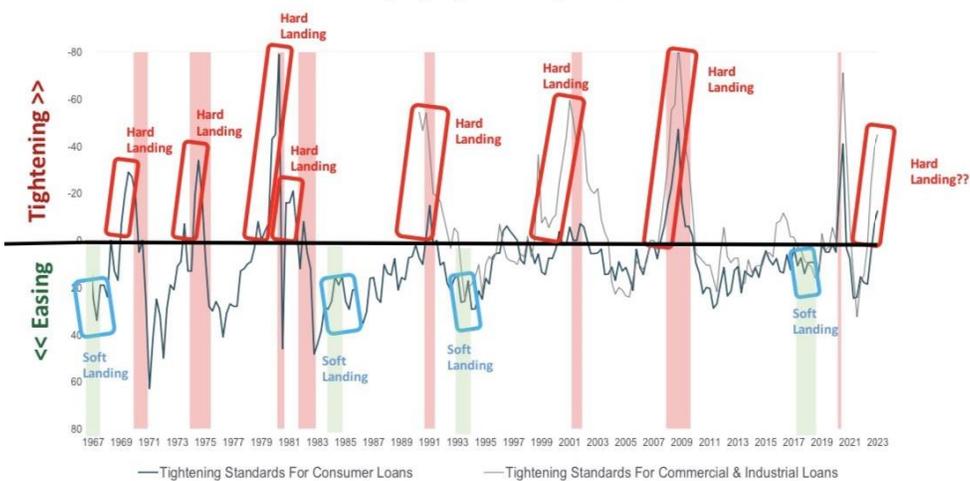


Data Source: National Federation of Independent Businesses, Bloomberg

© 2023 Bianco Research, L.L.C. All Rights Reserved  
<https://www.biancoresearch.com/>

### What Differentiates Soft And Hard Landings? ... Banks' Lending Standards

Soft Landings Are Preceded By Easy Lending Standards,  
Hard Landings By Tight Lending Standards



March 2023

Macro.PiperSandler.com

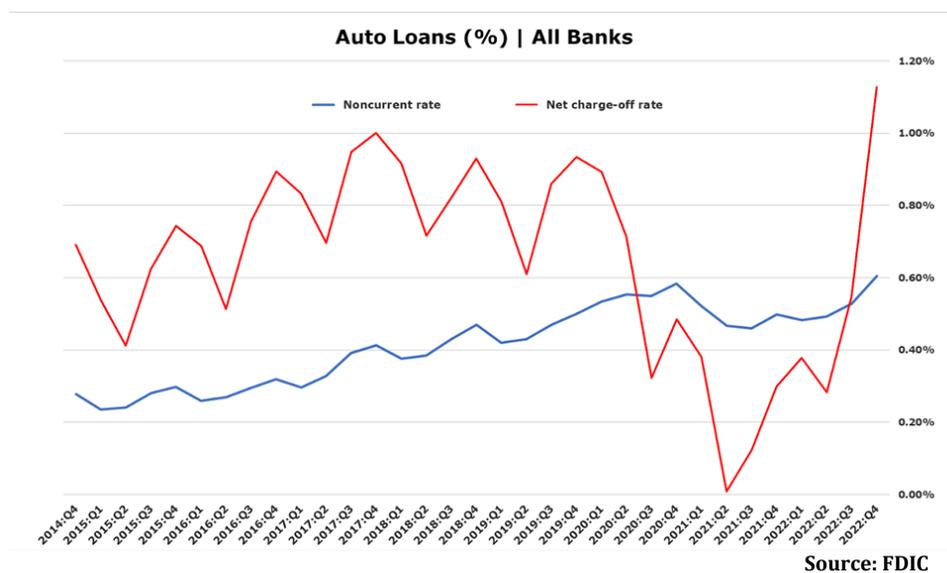
PIPER SANDLER | 21



The Kobeissi Letter reports that auto loan rates and credit card interest rates have just hit new record highs. Credit cards: 24.5%. Used cars: 14.0%. New cars: 9.0%.

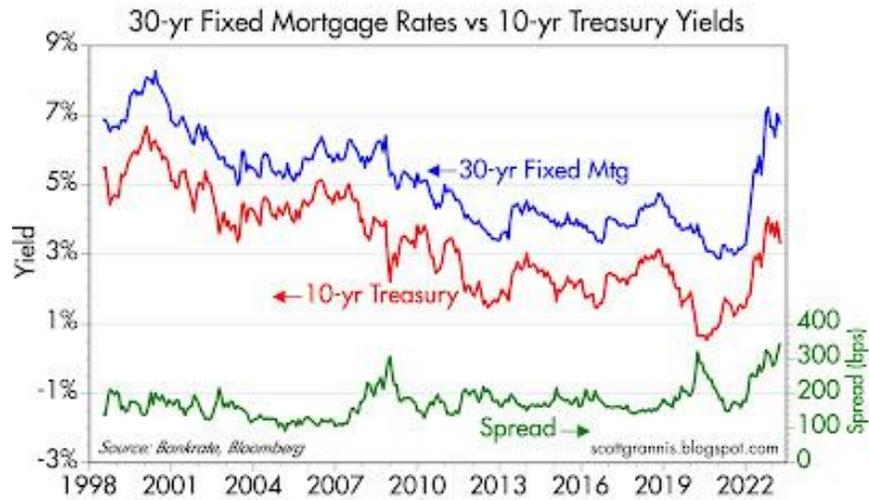
Our friend Whalen chimes in on the recent seismic changes on the auto loan market:

*“The final thought is credit, the one thing that nobody has needed to worry about over the past decade because of QE. The Fed’s purchase and sequestration of trillions in duration forced asset prices up and net loss rates down, resulting in negative credit loss rates for much of secured finance. Now everything from auto loans to CMBS and C&I loans and residential MBS are rapidly reverting to long-term average loss rates. The illusion that credit had no cost, created in 2020-2021, is now fading from view. Note in the chart below that net-charge off expenses for prime auto loan owned by banks bottomed out at zero in Q2 2021.”*



In addition, the tightening of mortgage rates has already hit the housing markets. According to Califia Beach Pundit:

*“In normal circumstances, 30-yr fixed mortgage rates tend to be about a point and a half (150 bps) above the yield on 10-yr Treasuries. (Think of 10-yr Treasuries as the North Star of the world bond market: the standard against which all other interest rates trade.) If the current spread were 150 bps instead of today's 344 bps, 30-yr fixed mortgage rates would be 4.8% instead of today's 6.7%. Mortgage rates today are hugely inflated relative to where they should be, and that has a powerful and negative impact on the housing market.”*



Powell & Co. are in a box of their own design. The banking crisis has presaged higher risks of harder economic landing, plus headwinds for corporate earnings. We look forward to fatter pitches served up by the stock market as the Fed tries to check out of its too-long stay at the *Hotel California*.



April 2023

David A. Rolfe, CFA  
Chief Investment Officer

Michael X. Quigley, CFA  
Senior Portfolio Manager

Christopher T. Jersan, CFA  
Research Analyst

## Top Ten Holdings

The below charts depict the top 10 holdings as of the end of the quarter.

Holdings	Percent of Net Assets
Meta Platforms, Inc.	8.1%
Motorola Solutions, Inc.	7.6%
Apple Inc.	7.6%
Alphabet Inc.	7.2%
Visa Inc.	6.7%
CDW Corp.	6.4%
Tractor Supply Co.	6.3%
Copart, Inc.	5.4%
Microsoft Corp.	5.4%
Taiwan Semiconductor Manufacturing Co., Ltd.	4.9%
<b>Total</b>	<b>65.6%</b>

*Holdings are subject to change. Current and future holdings are subject to risk.*



**The information and statistical data contained herein have been obtained from sources, which we believe to be reliable, but in no way are warranted by us to accuracy or completeness. We do not undertake to advise you as to any change in figures or our views. This is not a solicitation of any order to buy or sell. We, our affiliates and any officer, director or stockholder or any member of their families, may have a position in and may from time to time purchase or sell any of the above mentioned or related securities. Past results are no guarantee of future results.**

*To determine if this Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors, charges, and expenses before investing. This and other information may be found in the Fund's summary and full prospectuses, which may be obtained by calling 888.564.4517, or by visiting the website at [www.riverparkfunds.com](http://www.riverparkfunds.com). Please read the prospectus carefully before investing.*

*Mutual fund investing involves risk including possible loss of principal. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from social, economic or political instability in other nations. Narrowly focused investments typically exhibit higher volatility. There can be no assurance that the Fund will achieve its stated objectives. The Fund is not diversified.*

*The RiverPark Funds are distributed by SEI Investments Distribution Co., which is not affiliated with Wedgewood Partners, RiverPark Advisors, LLC, or their affiliates.*

*This report includes candid statements and observations regarding investment strategies, individual securities, and economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact.*

*Wedgewood Partners is committed to communicating with our investment partners as candidly as possible because we believe our investors benefit from understanding our investment philosophy, investment process, stock selection methodology and investor temperament. Our views and opinions include "forward-looking statements" which may or may not be accurate over the long term. Forward-looking statements can be identified by words like "believe," "think," "expect," "anticipate," or similar expressions. You should not place undue reliance on forward-looking statements, which are current as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate.*

*The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security.*