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Dear Clients and Friends:

Much has been written and said on the novel coronavirus (Covid-19) over the last month. I will not attempt to explain the virus, predict its path, or opine on the drastic measures taken to mitigate it. I, like everyone else, have opinions about the virus, the global reaction, and subsequent long-term impacts on society and our economy. I will address the possible second- and third-order effects in ensuing writings, but this short memo will focus on the facts: what is transpiring from an economic standpoint and how we're managing and protecting your capital – specifically as it relates to equities.

First, a quick review – we entered 2020 with the economy and equity market in its eleventh year of expansion. Unemployment was at a 50-year low, businesses couldn't find qualified labor, and new start-ups were being funded at an epic pace. Interest rates were near record lows and equity markets, as measured by the largest 500 US businesses (S&P 500), hit an all-time high in February. Then, things changed…. Covid-19, which started as a distant problem in China, soon upended the developed world as countries shutdown businesses and entire industries stopped (hotels, restaurants, airlines, retailers) to combat the spread. Within weeks of the February peak, stocks fell over 30%, credit markets were choking and liquidity was drying up. Companies and municipalities couldn't access the markets to refinance or issue new debt. Money markets were in a panic as investors withdrew capital. Extremely high-grade companies that issue short-term debt called commercial paper could no longer finance daily cash needs. Adding fuel to the fire (literally and figuratively), the energy market exploded when Saudi Arabia reduced the price it charges for oil and decided to produce at maximum capacity. This coupled with Russia's decision to max-produce and the reduced oil demand from less travel and manufacturing (from Covid-19) sent oil prices plummeting from around $60/barrel earlier in 2020 to below $20 at one point in March. Nearly 5% of US workers are employed in energy related jobs – and many of these jobs won't exist if oil prices stay in the 20s. Then two significant things happened:

1. The Fed got its monetary bazooka out of the bunker and said it would purchase an unlimited amount government, corporate, and municipal bonds. It also took interest rates from 1.50% to 0% and provided liquidity to support money market funds.
2. The Government passed a $2.2 trillion stimulus bill aimed at putting money directly into the hands of individuals (cash payments), small businesses (forgivable loans), and large systematically important

industries (e.g. airlines). The stimulus package could really be considered a bridge loan/grant meant to hold people, small businesses and corporations over until the economy starts again.

I am not insinuating the two measures taken above are enough to offset the pain of a global economic shutdown, nor do I fully agree with each specific action. However, I do commend our political leadership in DC and the Fed for acting swiftly with enormous firepower. If we learned anything from the 2008-09 global financial crisis (GFC) it was to go big, early! The government essentially said, "We're all-in and will make any and all resources available to combat this pandemic!"

As we address the current economic landscape, there are more questions than answers. We have spent countless hours speaking with executives from businesses we own, other investors, and analysts. The ability to forecast earnings and fundamentals has never been more challenging. Some industries and businesses remain effectively closed. The government has promised to help, but we know the government can't make every industry and business whole. We have evolved our investment checklist to include questions like the following, among others:

1. Is the business currently producing revenue?
2. How many days can the business survive if the current environment continues?
3. How badly is free cash flow affected and how long?
4. Are sales lost or deferred?
5. Balance sheet condition before, during, and potential outcomes after the pandemic?
6. How has access to liquidity and credit been impacted?
7. What is the risk of equity dilution via issuance, government intervention, or required additional debt to bridge the shutdown gap?
8. Is a secular shift accelerated because of the shutdown, how? Think retail.
9. Opportunities to grow and invest during shutdown?
10. Likelihood of complete loss?

Most experienced investors know the saying, "Balance sheets don't matter until they're the only thing that matters!" That saying couldn't be truer today. Even the best balance sheets will be stretched if the business can't operate and produce enough cash flow to cover costs. Two months ago, we did not expect to be asking how long our businesses could survive without revenue, but that is the reality of the current situation! We are acting where necessary across our portfolios to ensure the businesses we own today can bridge the shutdown gap without permanent destruction of capital. We have sold several businesses with risks of significant long-term damage or where we have found more compelling opportunities. This does not mean the businesses we sold will not go up in price or don't have upside from here. We sold because we have better opportunities to own businesses with similar upside and less downside. Businesses we sold included:

- Airlines: the majority of which was held via Southwest Airlines (LUV) are in the eye of the storm. LUV entered 2020 in the best position in history. Record cash flow, no debt, great returns on capital, great culture, and great management. Six weeks later, it's on life support.
- Disney (DIS): pressures within the business (parks: closed, sports/ESPN: closed, studio: closed), expanded balance sheet due to the $71 billion Fox acquisition, and the current valuation made it a good candidate to sell and buy more attractive investments.
- Graftech (EAF) and Cliffs (CLF): new investments from last year that held promise, but given they have been shutdown and no longer passed our checklist for viability we have sold and will invest proceeds in better-positioned businesses.
- Miscellaneous smaller positions that were not widely held across our portfolios have also been sold and capital will be redeployed.

We entered 2020 with excess cash based on elevated valuations. We have put new cash and recycled capital (from selling stressed businesses) to work in businesses we believe will thrive again when the economy returns. Some of these businesses include:

- Charles Schwab (SCHW): added to existing holding
- American Express (AXP): added to existing holding
- Starbucks (SBUX): added to existing holding
- Anheuser-Busch (BUD): added to existing holding
- Madison Square Garden (MSG): owner of Madison Square Garden, the Knicks, Rangers, and other assets. We owned MSG for years and sold it in 2018. The business is completing a spin-off of its non-sports assets, which we believe will create value.
- Wells Fargo (WFC): added to existing holding
- Berkshire Hathaway (BRKB): added to existing holding

We also purchased several diversified assets using exchange-traded funds we believe are well-positioned for the future but carry no permanent capital risk:

- SCHB: a broad basket of small, mid-size, and large US businesses
- FNDE: value-based emerging market equities we believed were very attractive before the Covid-19 crises and believe long-term investors will be rewarded.
- Energy: we believe investing in energy given current oil prices is attractive, but the extent and duration of the price decline caused by the increased supply (Saudis & Russians) and reduced demand (from Covid-19) caused us to buy more diversified investments that hold multiple businesses, including:
    a. VDE: an energy ETF owning businesses like Exxon, Chevron, and others
    b. AMLP: an energy ETF owning pipeline and transportation businesses like Enterprise Products, Energy Transfer, etc.

We have more recycled capital to deploy and will wait for compelling opportunities. As of this writing (11:56, April 7, 2020), the S&P 500 has officially entered a bull market, described as a gain of 20% or more from a recent low. In six weeks, we have gone from an all-time high to the quickest bear market in history (decline of 20% or more), reaching a decline of 35%, and now back to a bull market. We don't know if the bottom has been reached and markets will scream higher from here or if we'll reset lower when poor earnings and economic reports come in. Today, markets are no longer priced for lasting economic pain. They seem to be pricing in a more V-shaped recovery compared to a hard economic/risk reset. Remember, as rational, long-term investors, we don't attempt to answer questions that can't be answered. No one knows when/where the bottom will be reached. It's easy to extrapolate the most recent past into the future and let personal opinions and biases cloud your thinking – but these are costly mistakes. Here is what we know:

1. The world is not ending
2. Some people will survive, consume, innovate, create, and work to improve the future
3. Businesses will capitalize on #2 above by creating compelling products and services
4. We will invest your capital like our own – because our capital is invested alongside
5. We will not risk permanent loss
6. We will not attempt to predict the unpredictable

In closing, we believe we will exit this crisis stronger, more united, and more prepared for the next one. Americans are gritty, innovative, and creative. We've overcome slavery, a civil war, a couple world wars, pandemics, bad politics, 47 recessions, a depression, natural disasters, the brutal (and necessary) evolutions of capitalism, and much more. We have a system that works. We have many problems. We always have and always will so long as people are present.

I pray for our global, national, state, and local officials, along with the countless business leaders tasked with incredibly difficult decisions. Let's give them grace and pray for wisdom and discernment.

I'm adding a page from Jamie Dimon's (CEO from JP Morgan) annual letter that I think you'll enjoy.

Yours,

John Barker

Excerpt from Jamie Dimon's Letter:

> Sometimes extraordinary events in history can cause a change in the body politic. As a nation, we were clearly not equipped for this global pandemic, and the consequences have been devastating. But it is forcing us to work together, and it is improving civility and reminding us that we all live on one planet. E Pluribus Unum. I am hoping that civility, humanity, empathy and the goal of improving America will break through. We have the resources to emerge from this crisis as a stronger country. America is still the most prosperous nation the world has ever seen. We are blessed with the natural gifts of land; all the food, water and energy we need; the Atlantic and Pacific oceans as natural borders; and wonderful neighbors in Canada and Mexico. And we are blessed with the extraordinary gifts from our Founding Fathers, which are still unequaled: freedom of speech, freedom of religion, freedom of enterprise, and the promise of equality and opportunity. These gifts have led to the most dynamic economy the world has ever seen – one that nurtures vibrant businesses large and small, exceptional universities, and a welcoming environment for innovation, science and technology. America was an idea borne on principles, not based upon historical relationships and tribal politics. It has and will continue to be a beacon of hope for the world and a magnet for the world's best and brightest. Of course, America has always had its flaws. The current pandemic is only one example of the bad planning and management that have hurt our country: Our inner city schools don't graduate half of their students and don't give our children an education that leads to a livelihood; our healthcare system is increasingly costly with many of our citizens lacking any access; and nutrition and personal health aren't even being taught at many schools. Obesity has become a national scourge. We have a litigation and regulatory system that cripples small businesses with red tape and bureaucracy; ineffective infrastructure planning and investment; and huge waste and inefficiency at both the state and federal levels. We have failed to put proper immigration policies in place; our social safety nets are poorly designed; and the share of wages for the bottom 30% of Americans has effectively been going down. We need to acknowledge these problems and the damage they have done if we are ever going to fix them. There should have been a pandemic playbook. Likewise, every problem I noted above should have detailed and nonpartisan solutions. As we have seen in past crises of this magnitude, there will come a time when we will look back and it will be clear how we – at all levels of society, government, business, healthcare systems, and civic and humanitarian organizations – could have been and will be better prepared to face emergencies of this scale.

While the inclination of some will be to finger-point and look for blame, I hope we can avoid that. I also hope we can avoid people using times of crisis to argue for what they already believe. We need to demand more of ourselves and our leaders if we want to prevent or mitigate these disasters. This can be a moment when we all come together and recognize our shared responsibility, acting in a way that reflects the best of all of us. As President Kennedy historically said, "Ask not what your country can do for you – ask what you can do for your country." My fervent hope is that America rolls up its sleeves and starts to attack these problems. Fixing them would better prepare us for future catastrophes, create better economic outcomes for everyone (with policies that aim to maximize economic growth, driving the best potential outcomes), improve income inequality, protect the most vulnerable and foster economic growth that is more resilient, which would also strengthen America's role in the world. We must never forget that America's economic prosperity is a necessary foundation for our military capability, which keeps us free and strong and is essential to world peace. These issues could all be tackled while preserving the freedoms ascribed by our Founding Fathers: life, liberty and the pursuit of happiness, freedom of speech, freedom of religion and freedom of enterprise, which means the free movement of capital and labor (meaning you can work where you want and for whom you want). At the end of the day, the pursuit of happiness, our freedoms and free enterprise are inseparable. If we acknowledge our problems and work together, we can lift up those who need help and society as a whole. Business and government collaborating together can conquer our biggest challenges.