OBSERVATIONS

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FINANCIAL MARKETS UPDATE

Countless lives and financial markets have been completely turned upside down over the course of just a few weeks. Everything that seemed so certain only a short time ago has gone up in smoke. Our health, jobs, sanity, emotional, physical and financial well-being are all being tested and there is no doubt we will come out stronger on the other end. Since the beginning of time, every generation has faced adversity, persevered, innovated, endured, and moved society further to accomplish greater things. During a crisis, it is understandable to worry about the now and it's nearly impossible to see the light at the end of the tunnel. And like past crises, we will pull together, move forward and be better off in the future. This time will be no different.

In the meantime, there is likely to be more pain before we can heal. The initial shock and uncertainty that plagued our nation during the first few weeks of March reverberated through financial markets. There was a stretch of time when nearly every day we were setting off equity market circuit breakers, due to the extreme price movement in stocks. Daily swings of +/- 10% were becoming the norm, and anything less seemed like a quiet day. What we just experienced in markets was akin to October 2008. The crises are vastly different, but the action in financial markets is very similar.

In 2008, as financial institutions began to fail, the entire financial system looked bleak and therefore investors sold first and asked questions later. Last month as U.S. citizens became ill and state and local governments announced mandatory orders to shelter in place, panic ensued, and the nation hit peak uncertainty when life as we knew it came to a screeching halt. The S&P 500 crashed 30% in a straight line over the course of 13 trading days. And in the last few days of the meltdown, absolutely no company was spared. Instead, everything got liquidated with a push of a button. Since the S&P 500 panic low of 2,191 on March 23rd, financial markets – credit and equity – have stabilized a bit. The S&P 500 has clawed back roughly half of its losses and volatility has been cut in half. We are now seeing more +/- 3%-5% days, as opposed to +/- 6%-10% days.

As is currently the case, volatility in 2008 remained heightened but subdued after the initial volatility spike in October. It was years before volatility meaningfully came down and for several months the equity markets chopped away, struggling to find footing and ultimately setting a new low before its ascension higher. The best analogy I can come up with is when a powerful hurricane makes landfall: the most damaging and intense period is in the beginning and relatively short. Only after the storm passes can you begin to assess the damage and start the process of rebuilding. Equity markets react the same way to a crisis. It was this way in 2008 and will likely be the same now. The initial burst of volatility has passed; and now that monetary and fiscal plans have been enacted to help soften the economic blow, there is slightly more certainty to the situation. There is still more uncertainty than certainty, but now there appears to be a path forward for many. It is the cloud of uncertainty hanging over us that will cause volatility to remain elevated for the foreseeable future. In addition, as we sift through the economic, corporate and personal damage caused by the coronavirus pandemic, we can only then begin to price in a recovery. Recent stock market strength indicates the initial recovery has begun. We will experience dark days and weeks along the path to a full recovery, but just know the sun will come out tomorrow and there is a bright future ahead of us.

TANDEM STRATEGY UPDATE

To say we've been active on the transition and strategy level would be an understatement. We've never been as active in our clients' portfolios as we have been over the past several weeks – not even in 2008. Advancements in technology and constant analysis has allowed our systems, operations and

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quantitative model to improve over the past 12 years. The speed at which we can act on a signal is light years ahead of where we were a little over a decade ago. Over the course of a few weeks, cash levels declined rather significantly. In percentage of portfolio terms, cash levels have been reduced as follows:

- Large Cap Core – high 20s to low teens
- Equity – mid teens to mid-single digits
- Mid Cap Core – low 30s to high teens

In Large Cap Core, we took positions in 6 new companies and added to 12 core holdings. Equity saw 4 new additions to the portfolio and incremental purchases in 7 core holdings. And, in Mid Cap Core we took 3 new positions and added to 12 of our core holdings. In fact, many of the incremental purchases in our core holdings were to companies we sold at higher prices not all that long ago. We were able to finally find value in companies that have been expensive for quite some time now.

As we mentioned on a couple of recent calls, the buying can be thought of as being done in tranches. The first tranche of buys was done as the market initially sold off. Our quantitative model signaled many buy signals as stock prices plummeted and we got back to valuations that we haven't seen in years. The second tranche of buys were based on an implied earnings discount used in our quantitative model. By applying a discount to future earnings, we are giving ourselves a margin of safety for the inevitable drop in future earnings. The third tranche of buys apply a discount to earnings in our model and historically low valuations to provide the greatest margin of safety. Currently, we are acting on the second and third tranches. However, given the recent rebound in equity prices, you've noticed our buying has slowed considerably.

In fact, most recently what you've seen in the portfolio is a little bit of profit taking. The volatility hasn't all been to just the downside, as seen by the 25% rise in the S&P 500 over the last two weeks. We have also been able to take advantage of a strong rebound in specific companies that are back to being expensive again and ranked a sell in our quantitative model – Hormel (HRL), Dollar General (DG), ResMed (RMD), Microsoft (MSFT) and Tyler Technologies (TYL).

Lastly, a core holding of ours – United Technologies (UTX) – recently merged with Raytheon Company to form Raytheon Technologies (RTX). Before the merger was complete, UTX spun-off their HVAC segment – Carrier (CARR) – and they spun off their elevator segment – Otis Worldwide (OTIS). The core business of UTX, aerospace and defense, (made up of Collins Aerospace and Pratt & Whitney) is what merged with Raytheon Company to create one of the largest aerospace and defense companies in the world. We are currently going through the numbers of CARR, OTIS and RTX. CARR and OTIS were the more cyclical businesses of legacy UTX and on the surface do no appear to meet our fundamental criteria as standalone businesses. Considering these are very small positions in the portfolio, it is likely we will divest them from our strategies over time. More work needs to be done on RTX, but for now we remain holders of the company.

A THANK YOU!

We strive every day to improve what we do best – managing other people's money. Thanks to our clients and financial advisor relationships, our assets under management have grown over 20-fold since the Financial Crisis. Through all this growth, we've stayed true to our process and disciplines while improving our systems all along the way. Our goal has always and will always be to provide a consistent experience regardless of our size. I hope we've been able to not only meet your expectations but exceed them along the way.

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"It requires a great deal of boldness and a great deal of caution to make a great fortune, and when you have it, it requires ten times as much skill to keep it."

- Ralph Waldo Emerson

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