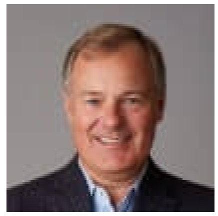
QUARTERLY COMMENTARIES

ALL EYES ON THE FED (KEEP YOURS ON YOUR HOLDINGS)



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Q1 2022 Quarterly Commentary – April 1, 2022

We certainly have not been alone in our concern over the implications of massive deficit spending in Washington and an overly accommodative stance by the Federal Reserve in the aftermath of the most acute part of the Covid pandemic. We think that the initial response on Capitol Hill and at the Fed was productive given the enormous uncertainty of the times, but we don't always agree with Mae West that "Too much of a good thing is wonderful!" In this situation, with more easy money on top of more stimulus, too much of a good thing set us up for price inflation. With unemployment figures plunging and

GDP growth soaring, fiscal restraint was in order on Capitol Hill. We did not get this. With markets on the mend and “real” interest rates deeply negative, the Fed should have declared victory for saving the financial system long ago and put some constraints on money supply. They did not. Now we’re paying the price.

Even before Russia invaded Ukraine, inflationary pressures were mounting, and the government finally acted in the long-term interest of the U.S. economy by killing the Build Back Better economic plan and pronouncing the end of loose monetary policies. Inevitably, market tailwinds turned into market headwinds as the punch bowl was removed from our economic party, at least in the short term. Global equity markets ended the first quarter in the red, with the S&P 500, Nasdaq Composite and the international MSCI ACWI ex-USA Index down by -4.6%, -8.9% and -5.4%, respectively. Because this market malaise was driven by inflation expectations rather than some other factor, bonds did not offer safe haven, and the Barclays Aggregate Bond Index ended the quarter down by -5.9%. Russia’s atrocities in Ukraine and the potential for a broader conflict involving NATO added to the uncertainty and fed market volatility.

We prefer that our government take its medicine before the symptoms get worse, with the Fed acting to normalize rates to a point where bond yields produce a return that is higher than inflation to mitigate asset price distortions that negative real interest rates have created across the equity and debt capital markets. If it means that the Fed increases its benchmark rates by 50 basis points per meeting and shrinking their balance sheet, so be it. The economic softening that could result would be uncomfortable, but we believe a far better outcome than kicking the can further down the road. For its part, Congress and the Administration should think carefully before passing new spending bills, instead focusing attention on deploying the substantial funds that have already been apportioned. We understand the temptation for the Senate to use the budget reconciliation lever to pass some new spending ahead of mid-term elections, but we hope they exercise moderation.

We do know that the Federal Reserve will be acting against inflation in the coming months, and its principal tools will be to raise short-term interest rates or to tighten money supply. Neither of these actions, when viewed on their own, are “friendly” to investors who own stocks, bonds, real estate or any other risky asset. However, we must remember that markets are driven by a host of factors. When we narrow the markets down to the individual stocks, bonds, housing unit or other instruments that comprise them, the changes in price may be totally independent of Federal Reserve action. Anyone who has owned real estate in the Bay Area likely didn’t consider Federal Reserve policy when making a decision about its purchase or sale. The price and value of our homes are driven by Bay Area-specific influences. In the arena of stock and bond investing, individual security selection is what we do, so our eyes are less on the Fed than may be the case with other investment teams whose decisions are more driven by “macro” influences.

This notion of focusing on what really matters was discussed at length in a recent webinar hosted by a team of Summitry’s Senior Financial Advisors as a response to several common concerns that have arisen in their conversations with clients. Naturally, inflation is near the top of the list of concerns. One of the most interesting insights we took away from this conversation was that inflation is usually discussed in terms of a single number that is published by the government. The Consumer Price Index is determined by a broad-based survey that measures changes in price of a basket of goods and services. We take that number as given, but in fact one person's effective inflation rate might be very different than another's. For example, the largest component of CPI, as measured by the government, is "shelter." But a person who owns a home is not impacted the same way by inflationary pressures as a person who rents. Similarly, a person who works from home will not be impacted by $6.00 per gallon gasoline prices as much as a person who commutes an hour each day to work. Actual inflation rates are very personal. Similarly, inflationary pressures will be felt very differently by the companies we follow. Summitry's investment team takes the time to evaluate the various broad and specific economic forces at play, including inflationary pressures, on each individual company we own.

Q1 Portfolio Changes

Please keep in mind, these commentaries should not be construed as a recommendation to buy or sell the securities discussed. Such decisions are made only within the context of the market environment as we perceive it at the time of the decisions and the structure of the diversified portfolio of which the securities are a component. ***

During the quarter we initiated new positions in Starbucks, Netflix, Taiwan Semiconductor and exited our positions in Citigroup and Bank of America.

Starbucks

Starbucks needs no introduction. Millions of people around the world purchase beverages and food at its stores daily. It's the only global coffee chain and one of the largest quick service restaurant operators in the United States. Starbucks coffee shops are always bustling with extremely loyal customers including 26 million loyalty members in the United States and almost 20 million in China.

Massive global scale with high and recurring demand creates attractive unit economics. Store level profit margins are well above industry standards and return on invested capital per store is much higher than most peers. As a result, the business produces boatloads of cash that can be reinvested for future growth or returned to owners.

Despite being a mature concept and a well-recognized brand, Starbucks still has considerable growth opportunities. Management is investing in new store formats, product innovation, store experience, and international growth. We expect the company to keep growing well above the general economy and faster than many peers.

The stock has come under pressure in recent weeks due in part to COVID-19 lockdowns in China and to concerns regarding employee relationships in the US. Starbucks has always been people-first type of an organization, but this ethos might have waned a bit under previous leadership. The company's founder, Howard Shultz, has recently came back to tackle these issues. We think Shultz will be able to reset relationships within the company and refocus on healthy growth that benefits all stakeholders.

Netflix

Netflix has disrupted the media industry, and in the process, created a very attractive platform for viewers, content creators, and owners. Netflix has built a leadership position in the media space because millions of subscribers around the world continuously chose the service as their prime source of entertainment. Netflix wins subscribers because it provides them with attractive content and great value.

While many traditional media players are trying to copy Netflix, we believe most of them will fail to scale. Netflix spent years cultivating relationships with creators and investing in original content. Today, it's the largest producer of scripted video content in the world and continues to spend well above peers. Because Netflix has the largest subscriber base amongst peers, they are able to outspend their competition and still generate strong profitability. We expect management to press this advantage.

With large parts of the world still hooked on Pay TV, Netflix has plenty of opportunity to grow. Streaming adoption in many international markets is rising. Netflix is best positioned to benefit from these trends and gain share from legacy providers.

The stock sold off after investors were disappointed by management's short-term guidance. This is less of a worry for us because we are focused on the next decade. Over the long term, Netflix will continue to grow at a healthy pace, gain market share, and dominate the space. We have been following this name for years and have been patiently waiting for an opportunity to buy it at a discount. We think such opportunity presented itself during this quarter.

Taiwan Semiconductor

TSMC is the largest contract manufacturer of semiconductors in the world. The company has become the go-to manufacturer of chips for successful technology companies such as Nvidia, Qualcomm, Amazon, and Apple. The products manufactured by TSMC can be found in almost any smart device such as phones, laptop, data center servers, and self-driving cars.

Decades of investments in manufacturing capabilities and R&D solidified TSMC's leadership in this space. TSMC has a monopoly in manufacturing cutting-edge semiconductors. We believe the company is well positioned to maintain its dominance in this space for the foreseeable future.

Demand for chips will continue to increase over time due to the growth in cloud computing, connected devices, artificial intelligence, machine learnings, and general increase in compute power per device. This is why we believe TSMC is the best positioned player in this space to benefit from the secular surge in end market demand.

The business has been firing on all cylinders, but the stock has lagged. We took advantage of the price volatility to establish a new position in this exceptional business.

Citigroup

Citi was a disappointing investment. Our hope was that fresh thinking at the board level with new management at the helm would steer the ship in a better direction. Citi has always been a complex financial institution, some of its segments are decent businesses while others are subpar, and profitability has always been well below peers. Our thesis was that by simplifying the franchise and exiting several business lines, the profitability gap with peers would narrow.

While the bank made some progress in recent quarters the pace of change was very slow. Management itself admitted that the turnaround could take years and there was no guarantee of success. The problems compounded after regulators slapped Citi with consent orders due to system related issues. These problems will also take years to solve.

We love to buy great businesses that go on sale for the wrong reasons. Citi was a fixer upper. After years of waiting for the renovation to be complete, we ran out of patience, and we decided to reallocate the capital to higher quality names in our portfolio.

Bank of America

Not all banks were created equal. Bank of America and Citi are both large and diverse financial institutions. They offer similar products and are exposed to many of the same risks. Yet, our experience owning Bank of America was very different from our ownership of Citi.

When we first purchased the shares, we expected management to improve efficiency and tackle legacy issues that were weighing on performance. Management delivered in spades and our thesis played out in full. During our holding period, profit margins skyrocketed and earnings per share increased a staggering 7-fold. The market took note of this exceptional growth and rewarded long term owners with outstanding double-digit returns.

After nine years of ownership, we sold the shares because we expected slower earnings growth in future years. We also thought that the stock price didn’t properly reflect competitive and cyclical risks. Bank of America remains an exceptional bank but paying too much for any business is a recipe for mediocre returns.

New to the Team

During the first quarter of 2022, Summitry welcomed two new members who will focus their efforts on growing the franchise. As Business Development Principals, Tom Guinane and Brandy Savage will work with our partners at Schwab and other professional intermediaries, as well as with clients who wish to introduce their family or friends to Summitry. They will marshal resources from the firm from our Private Client Group, Operations team, Research and Management to ensure that prospective clients get a full and fair picture of the firm before making the decision to grant Summitry their trust. Both Tom and Brandy come to Summitry with significant financial services experience. Tom Guinane comes to us from Fisher Investments, where he most recently served as an Investment Counselor Group Manager (overseeing the efforts of 12 Investment Counselors) in their San Mateo office. Tom had spent eleven years at Fisher in a variety of sales and counseling roles. He lives with his wife and twin boys in San Francisco and is a graduate of UCLA with a bachelor's degree in political science. Brandy Savage joins Summitry from Fidelity Investments, where he served as an Investment Consultant in their San Francisco office providing customized solutions to clients involving Fidelity's range of solutions. Prior to Fidelity, Brandy served as a Financial and Wealth Advisor at Merrill Lynch and Doric Trust, and as a clerk in several law offices. Brandy received his JD from Villanova University School of Law and Bachelor of Arts degree from California Lutheran University. He lives with his wife and children in Walnut Creek.

New to the Partnership

We were delighted to welcome Alex Katz, our Chief Growth Officer, as a partner of Summitry. Alex has had a massive impact on the firm, its vision and strategy since joining Summitry in 2018, and has stepped up in managerial roles involving both our Business Development and Private Client Group teams. We are looking forward to a long and successful journey together, driven by our mission that clients of Summitry, aided by our continually improving service, are able to live their best Bay Area lives.

Interested in learning more about us or our perspective? Contact us today!