Q3 2021 QUARTERLY COMMENTARY – OCTOBER 1, 2021

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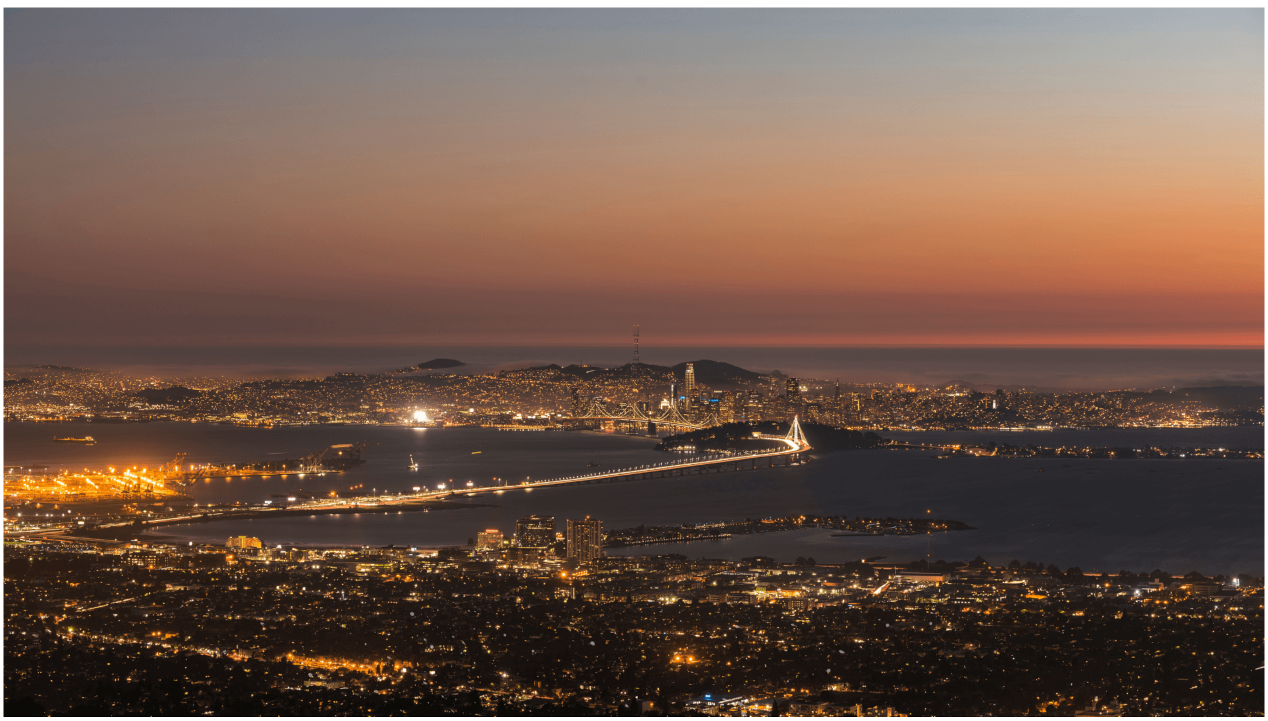

Every quarter, we hold a Quarterly Investor call for clients where we share our perspective on various factors that can influence the market, attempt to provide unique insight into our investment philosophy and explain the rationale for the latest changes in the portfolio. When it comes to our thoughts on the market, we often rely on learnings from behavioral finance, which studies the effect of psychology on investors and financial markets and identifies common biases that can impact decision making.

In our latest call, we outlined how we believe investors' expectations around future expected investment returns have become unrealistic, citing a study by Natixis Investment Managers that found individual investors expect to earn a return above inflation of 13% per year. For context, the market has returned an inflation-adjusted long-term average of 7% per year since 1900, so current expectations have grown to nearly double what long-term actual returns have been. This can likely be explained by a behavioral finance concept known as recency bias, which is the tendency to put too much emphasis on recent experience. Simply put, investors have grown accustomed to double-digit market returns because that has been their most recent experience.

We also discussed how volatility is a normal and healthy reality for investors and that our recent experience of low market volatility has been unusual. In any given year, market drawdowns of 10% or more have occurred more than 50% of the time since 1980. Our message was timely, though likely unwelcome. Little did we realize that following the S&P 500 hitting an all-time high on September 2, the market would register its first monthly decline since January, falling 4.76% for the month. In addition, the decline from its peak ended a streak of 211 trading days without at least a 5% pullback, the longest such streak since January 2018. Despite this decline, the market returned a positive 0.23% for the quarter and was up 15.92% on a year-to-date basis through the end of September. It is interesting to note that hidden within the overall strength of the market, more than 90% of all stocks in the S&P 500 have experienced at least a 10% correction from their 52-week highs.

During the call we made the point that we do not "invest in the market" but instead invest in individual businesses, each with their own unique attributes that make them attractive to us in terms of both the quality of the business and the price of the stock relative to its the intrinsic value. We reiterated that we have no crystal ball, nor do we spend any time attempting to predict the future direction of the market. Instead, we spend our time ensuring we own competitively advantaged businesses that can withstand tough conditions and increase in value over the long run.

In terms of current business conditions, as usual, there are both headwinds and tailwinds. The demand side of the economy continues its strong recovery as it reopens from the COVID-related shutdown. According to the International Monetary Fund, global growth in 2021 is expected to reach just under 6%, which would be the fastest annual growth rate since 1973. However, due to the disparity of vaccine availability, the recovery remains uneven, with advanced economies progressing well ahead of less developed and emerging economies. The pandemic's effect on both the labor market and supply chains is being felt across nearly all businesses. We believe this will lead to higher operating costs for businesses and likely delay the availability of certain goods and services, potentially impacting near-term profit margins. Anyone that has driven across the Golden Gate Bridge recently can see this visually with the stacked cargo ships scattered across the bay. We view these issues as temporary, and as we have outlined in previous communications, the value of our businesses is heavily weighted towards many years' worth of long-term earnings and cash flow potential, not short-term quarterly results.

In addition to the content, the call was noteworthy due to the record number of clients in attendance. No coincidence that the higher turnout resulted in more engagement in the question-and-answer segment, which is our favorite part of the call.

For those of you that were unable to attend the call you can view a replay on our website at the link here.

Q3 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 a new position in Nintendo and exited our position in BlackRock.

Nintendo

Nintendo is a prominent developer of video games and gaming consoles. It owns a rich library of games, which includes iconic blockbusters such as Mario, Donkey Kong, and The Legend of Zelda. Nintendo is the creator of hardware such as the Wii, Game Boy, and most recently, Nintendo Switch.

The business model for decades centered around gaming consoles. Nintendo had to develop a new system every several years and hope it would appeal to gamers. A successful gaming system led to high sales of games. If the hardware flopped, game sales suffered.

We think the business model is changing. Nintendo appears to have taken a note from Apple's playbook. To reduce the reliance on hardware hits, the company created the Switch, a gaming platform on which Nintendo can build future products. Shifting to a single platform will smooth the hardware cycle, and like the iPhone, will create a more stable and recurring replacement and upgrade demand for Nintendo hardware.

Another major change is happening in the sale of the games themselves. Historically, most of the revenue from games were in the form of physical sales. We now see a substantial opportunity to grow digital sales across the entire franchise. Nintendo is well behind its peers in terms of its digital operation and closing that gap will create substantial value to owners.

Management is also committed to attracting third party developers to Nintendo. Historically, most of the games on Nintendo consoles were Nintendo games. With the shift to a single console platform, third party developers will increasingly make games for Nintendo consoles, which will enhance the viability and the relevance of the single platform to gamers.

We think the market is taking a “wait and see” approach with the stock. We don’t believe the changing business model is reflected in the stock price, which we think makes Nintendo an interesting investment at this point.

BlackRock

BlackRock is the largest money manager in the world. It holds a dominant position in passive and alternative investment strategies, managing over $9 trillion for retail and institutional clients. BlackRock also owns a unique software business that caters to other investment firms.

We believe BlackRock is truly one of a kind. A diversified product portfolio protects the business from the ebbs and flows of the industry. Massive scale creates insurmountable cost advantages over peers. Owning the iShares brand solidifies the firm’s lead in the retail segment. And the software business offers an interesting growth opportunity and revenue diversification for owners.

When we first initiated the position, the market appeared to ignore these unique characteristics. This is no longer the case. With the stock price almost doubling during our holding period, the market today fully appreciates the qualities of this business.

Finding a great business is difficult, which is why when we do, we prefer to hold it for as long as possible. But if the stock already prices in most positive scenarios, it’s prudent to consider other alternatives. This was our approach with BlackRock.

Announcements

Summitry takes great pride in the investment it makes in both the personal and professional development of its people and is pleased to announce the following promotions.

Charles Angle, CFP® has been promoted to Financial Advisor. Charles has been with the firm since 2017, earning his CFP® designation and serving as a Financial Planning Associate. Charles has worked closely with three of our most senior Financial Advisors: Cynthia Duncan, Joe Martin and Sherry Williams.

David Langhals, CFP® has been promoted to Financial Advisor. David joined the firm last year as a Financial Planning Associate and very quickly showcased his depth of planning knowledge and ability to connect with clients. David is a 2013 graduate of The Ohio State University, where he earned a Bachelor of Sciences degree in Consumer and Family Financial Services. David became a Certified Financial Planner® in 2018 and previously worked as an Associate Financial Planner at an RIA based in Washington state.

Adam Govani, CFP® has been promoted to Senior Financial Advisor. Adam joined the firm in 2019 and quickly advanced to the role of Financial Advisor due to the depth of his planning expertise. Adam sits on our Financial Planning Committee, is a frequent contributor to our blog content and contributed to the launch of our tax planning structure.

To fill some of these large shoes, we are pleased to have Elijah Gonzalez join the team as a Financial Planning Associate. Elijah joins us from First Republic Bank, where he served as an Associate. Elijah is an Eagle Scout and graduate of UC Berkeley – Haas School of Business, where he was a recipient of the Business Faculty Award for Excellence.

Last but certainly not least, we are sending our heart-felt congratulations to Sherry Williams, who is retiring from the firm in October. Sherry joined us in 2007 and has built deep and meaningful relationships with her clients and colleagues over the thirty plus years she has been in the industry. Sherry was the very first Chartered Financial Planner® that we hired and was instrumental in our decision to expand our financial planning offer. When she is not travelling with her husband, Michael and two adult boys, you’ll likely find her cheering on her beloved UCLA Bruins. Thank you for all of your contributions to the firm, Sherry.