Market Insights

Winter 2018

Many investors greeted 2017 with apprehension, but it turned out to be a very good year for risk-based assets. In what likely would have been a surprising outcome to most prognosticators, the stock market[1] returned nearly 22% in 2017 and continued its nine year bull run. This streak of years with returns in the black has been notable for its duration, but even more so for the lack of volatility throughout the climb to its current height. The past year took that lack of volatility to a new low with annualized daily volatility for the year coming in at a meager 6.7%. It may be difficult to picture what that number means, but it is stunningly low. The same measure over the prior 20 years was 19.6%, and the 2017 reading marks the second lowest for a calendar year on record.

In a year where most seemingly important world and economic events were met with a collective shrug from investors, the most market-moving development was undoubtedly the changes to the tax code enacted in Washington in December. The most prominent feature of the new law was the reduction in the statutory corporate tax rate from 35% to 21%. The new law, through a variety of changes, also provides for temporary tax cuts for most individuals and large increases in exemptions that will prevent many taxpayers from falling under the Alternative Minimum Tax or the estate tax. These sweeping changes to the tax code are likely to offer a number of opportunities and strategies for tax minimization. If you haven't already, we highly recommend consulting with your tax adviser and discussing the topic with your Kovitz financial adviser, as needed.

Regarding the effect on the economy and the stock market, there is much debate over whether or not these tax cuts will create enough incremental economic growth to counteract the additional deficits they create over the next ten years. However, the focus of our analysis has been mainly on the change to the corporate tax rate. For any company that generates most or all of its income in the United States, and was thus paying the full 35% federal tax rate, the new law will result in an immediate 21.5% increase in net income starting in 2018 and every year thereafter, all else equal.

It's possible that this bounty will be diminished by rising wages resulting from increased competition for workers or increased investment. Indeed, several companies announced they were paying their employees special bonuses as a direct result of the tax overhaul, but these were one-time payments that amounted to a small fraction of one year's worth of tax savings under the new rate. At least in the near-term, we expect the tax savings to predominantly flow to shareholders in the form of increased dividends or share buybacks. While we offer no grand predictions of what the overall, long-term effect the changes to the tax code will have on the US economy, the corporate tax reduction is unequivocally good for stocks, and thus owners of stocks.

[1] As represented by the S&P 500

While tax rates fell, interest rates have continued to rise. The Federal Reserve raised the overnight fed funds target rate another quarter of a percent in December. Including the increases that took place in June, March, and December of 2016, the fed funds target range now stands at 1.25%-1.50%, up from 0.25%-0.50% a little over a year ago. Meanwhile, long-term rates ended the year pretty much where they began. This combination has produced the narrowest gap between short-term and long-term rates since 2007, and that was when the Fed was aggressively raising rates to slow down an overheating economy being fed by the housing and credit bubble.

Current Portfolio Positioning

Despite the fact that our clients' equity portfolios have returned 304%[2] since the last market bottom in March of 2009, we remain steadfast in our commitment to only buy when the value we are getting is materially more than the price we are paying. We further commit to invest client assets as if they were our own and to invest alongside our clients whenever possible. Honoring these commitments is second nature to us, even if adhering to the former has remained challenging in this environment. Nevertheless, we continue to pursue every opportunity across asset classes for our clients even if we end up passing on many more than we choose to invest in. Across our strategies, we are positioned as follows:

1. Equities: We remain defensively positioned with above-average cash balances, although these were reduced throughout the latest quarter as we added three new positions to client portfolios. These are discussed in detail in the accompanying Core Equity Commentary.
2. Fixed Income: Given the reduced incremental yield currently obtained by purchasing long-term bonds relative to short-term bonds, we continue to slightly overweight short-term bonds in our clients' bond ladders. This decision, the interest rate environment, and other topics are discussed in more detail in the accompanying Fixed Income Commentary.
3. Alternatives: We continue to recommend the inclusion of some alternatives, such as hedged equity and real estate, in client portfolios as these assets may improve the overall risk/reward profile of a client's total portfolio, if suitable.

As always, these are general comments that do not apply to all KIG clients. Please discuss your particular situation with your KIG Financial Advisor for more information on these topics.

Best Regards,

Kovitz Investment Group

Kovitz Investment Group

[2] As represented by the KIG Equity Composite net-of-fees return between February 28, 2009 and December 31, 2017. Individual client portfolio returns will differ from Composite returns based on variations in account holdings, cash position, and other client-specific circumstances.

Core Equity Commentary
Winter 2018

Market and Performance Summary

For the fourth quarter of 2017, the Kovitz Investment Group (KIG) Equity Composite[3] (the "Composite") appreciated by 5.3% and finished the year with a gain of 16.4%. For purposes of comparison, the S&P 500 rose 6.6% during the quarter and ended 2017 with a gain of 21.8%.

We are pleased with the absolute return achieved this year, particularly as it was achieved with cash balances in the Composite that approximated 8%, on average, throughout the year. The implication is that these returns were generated while employing less risk than the overall market. Late in the year, we began to put some of this excess cash to work as several companies fell to levels where we were willing to add them to our clients' portfolios (discussed in "Portfolio Activity" section below). As we said in the past few newsletters, "We will be ready and eager to deploy cash as genuine opportunities present themselves." We are pleased that the time we devoted to creating a backlog of ideas and waiting on the ups and downs of the market to provide an attractive entry point finally bore fruit. We remain optimistic about the long-term outlook for our current collection of holdings, where its valuation, in aggregate, is significantly lower than that of the overall market. The wide valuation disparities that characterize the current market offer significant opportunities for our style of active management.

Neither Hurricane Irma's 185 mile per hour winds, nor North Korea's increased movement towards developing nuclear weapons were enough to shake investor conviction during the quarter. Global equity markets continued their advance unabated, shrugging off a host of worries, not the least of which were: increasingly high valuations, near term prospects for higher interest rates and coordinated tightening by central banks, a rising terrorism threat level, numerous natural disasters, escalating geopolitical tensions, and ever-increasing partisan politics in Washington. Such has been the enduring strength of what is now the second longest bull market in modern financial history. During this run, stocks have basically gone straight up with only a few brief periods which could be considered minor corrections. The disciplined investors' best friend – volatility – has been practically non-existent. In fact, there hasn't even been a 3% pullback since November 4, 2016, the longest on record without such a decline.

Our point in stating this is not that investors should have reacted to these various concerns by selling out of their equity portfolios. Most concerns are ever-present to some degree and some are completely irrelevant to our investment decision making process (as they don't impact corporate profits), but, historically, one or two of these concerns, let alone the entire collection mentioned above, would have sent markets reeling, if only for a short period of time. Have investors finally given up the ghost of sins past and resolved to tune out the noise that litters the financial news networks and publications? We highly doubt this time is different. For the time being, however, there seems to be a focus only on the good news, such as underlying economic strength, both domestically and globally, robust earnings

[3] The returns for the equity portion of your individual account may differ from the Composite due to variations in account holdings, cash position, and other client-specific circumstances.

growth, reduced regulation for businesses, the continuation of a low interest rate environment, and, perhaps most importantly, the recently enacted 40% reduction in statutory corporate tax rates.

However, as investors concerned first and foremost with preservation of capital, we can't choose to focus on just the good stuff. Perhaps we are in the midst of a veritable "Goldilocks" environment, one that is "just right" for continued smooth sailing. Or perhaps not. As always, we don't waste time trying to predict whether the market will go up or down in the immediate future – or even where it *should* go in the immediate future. Our decision-making framework utilizes a probabilistic approach that incorporates downside elements as much as upside ones. We rely on a fundamental, research-driven process where we strive to build a diversified portfolio of equity investments through the purchase of competitively advantaged and financially strong companies at prices substantially less than our estimate of their intrinsic values. Our process emphasizes the appraisal of factors that we believe matter most to a business's long-term success. These include the franchise durability of the business, the strength of the balance sheet, the predictability of the cash flows, and the capability of the management team to allocate these cash flows intelligently and judiciously. Typically, portfolios of companies with these characteristics will perform well on a relative basis regardless of what is happening in the overall market environment. Patience, persistence, and a long-term investment horizon are essential to long-term investment success.

The chart below summarizes annualized performance over various standard time periods ending December 31, 2017 and cumulative performance results from January 1, 1997 through December 31, 2017 for the Composite.

KIG Composite[4]
Annualized and Cumulative Equity Performance (Net of Fees)

	Average Annual Total Returns						Cumulative
For Period Ending 12/31/17	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**15 Year**	**Since Inception 1/1/97**	**Since Inception 1/1/97**
KIG Composite	16.4%	9.0%	12.8%	8.7%	9.6%	10.9%	770.5%

The table below lists the results for the same time periods as above for the S&P 500 and many of the other benchmarks widely held as investments via a style-box approach.

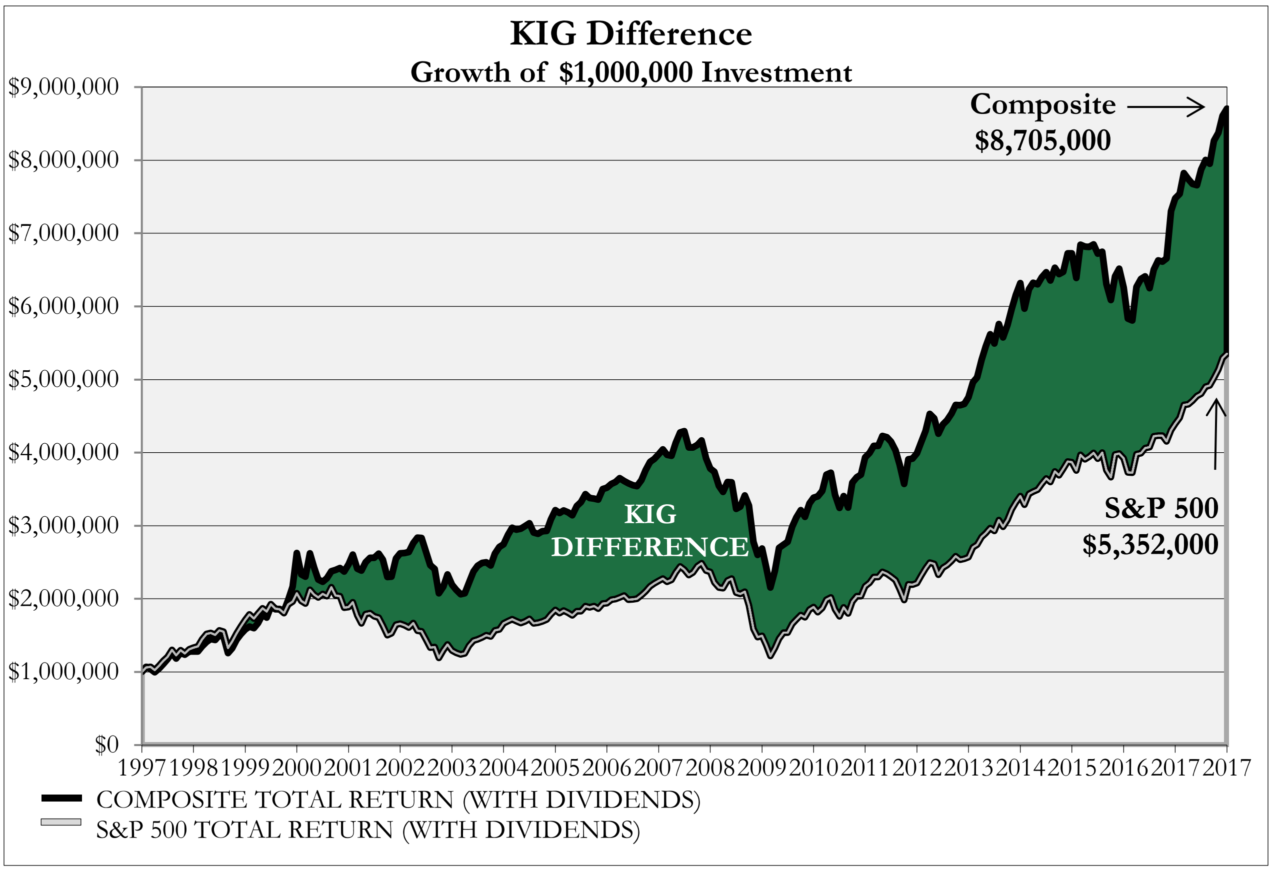
Other Market Indices
Annualized and Cumulative Equity Performance

	Average Annual Total Returns						Cumulative
For Period Ending 12/31/17	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**15 Year**	**Since Inception 1/1/97**	**Since Inception 1/1/97**
S&P 500	21.8%	11.4%	15.8%	8.5%	9.9%	8.3%	435.2%
Small Cap Equity (Russell 2000)	14.6%	10.0%	14.1%	8.7%	11.2%	8.5%	459.2%
International-Developed (MSCI-	25.0%	7.8%	7.9%	1.9%	8.1%	5.1%	183.0%
International-Emerging (MSCI -	37.3%	9.1%	4.3%	1.7%	12.3%	6.5%	276.9%
Gold	12.8%	2.7%	-5.4%	3.8%	8.4%	5.9%	231.6%
Commodities (CRB)	1.7%	-5.1%	-7.8%	-5.7%	1.2%	2.1%	55.2%

4 The returns for the equity portion of your individual account may differ from the Composite due to variations in account holdings, cash position, and other client-specific circumstances.

Below is a graph of the KIG Composite's cumulative return since inception relative to the cumulative return of the S&P 500 over the same time period. The shaded area represents the Composite's excess return over the benchmark.

Since inception on January 1, 1997, the Composite has outperformed the S&P 500 by an average of 2.6 percentage points annually. That might not sound like much. However, the extraordinary power of compounding is such that this relative outperformance over 20+ years has generated considerable rewards for our clients. In dollar terms, $1 million invested in the Composite at inception would now be worth $8.7 million at December 31, 2017. By comparison, the same investment in the S&P 500 would now be worth $5.4 million. In other words, an investment with KIG would now be worth about 63% more than if one had simply invested in an index fund that tracked the S&P 500.



Portfolio Activity

We added three new positions during the quarter.

Blackstone (BX)

Blackstone is an alternative asset manager and one of the largest asset management firms in the world with approximately $390 billion under management. These assets are roughly evenly divided among four business units: private equity, real estate, hedge fund solutions, and credit. There is also an additional $90B of committed, but undrawn, capital ("dry powder") at their disposal across all platforms. As an alternative manager, Blackstone typically raises funds from outside institutions for limited-life funds that generate both management fees and performance fees. The performance fee component of their revenue, as would be expected, is quite volatile from year to year, but we expect it to generate the majority of their revenue over the long run even with just moderate performance.

We chose to invest in Blackstone because we believe the scale of its operations has become a competitive advantage. Whether it's because of a history of good performance, the success of the "Yale Model[5]," or the proliferation of index funds, we believe institutions, pension funds, and sovereign wealth funds will increasingly seek out alternative asset managers as a source of outperformance. Blackstone has the size, breadth of offerings, corporate infrastructure, and reputation to facilitate massive fundraising efforts. In this way, even though they have funds winding down every year, we view the risk of a material decrease in assets under management as minimal.

After tax-effecting their economic net income (an adjusted earnings figure used by alternative asset managers to back out the mark-to-market effects of the fund's they manage, which are consolidated into their income statement under GAAP), we believe the units are currently trading at a low double digit earnings multiple. At this valuation we believe the market is greatly underappreciating the competitive advantages possessed by Blackstone and the potential for earnings (economic net income) to grow much faster than the market as a whole.

General Electric (GE)

Once the largest company in the world measured by market capitalization, the GE of today is a smaller, more focused industrial company. Having shed most of its finance business and its media business (NBC) in the years following the global financial crisis, GE's revenues are now derived primarily from several industrial segments. GE's primary segments include:

- Power - primarily the design, installation, and service of gas turbines used to generate electricity;
- Aviation - design, manufacture, and service of jet engines
- Healthcare - design, manufacture, and service of healthcare equipment
- Oil & Gas - services provided assist in the exploration and production of oil and natural gas
- Renewable energy - windmills and other green energy initiatives
- Transportation - locomotives
- GE Capital - legacy finance business

GE is considered a leader in nearly all of these industries, but several of them are experiencing cyclical downturns, most notably Power, Oil & Gas, and Transportation. This recently led to a significant downward revision in earnings guidance, a 50% reduction in the company's dividend, and the replacement of its CEO, all of which led to a decline of over 40% in the price of the shares this year.

GE remains a top-tier operator in its largest business lines where the company's comprehensive offerings, reputation, and integration with customers' designs make it difficult for customers to

[5] The Yale Model is a method of managing large pools of capital that emphasizes larger allocations to illiquid assets, such as private equity and real estate, over allocations to traditional equity and fixed income. It was pioneered by David Swensen and his team while managing Yale University's endowment.

switch to a competitor. We also believe that new management has a credible vision for moving the company forward. Among its priorities are:

1. Streamlining business units with a focus on the three core segments of Aviation, Power, and Healthcare, while targeting more than $20 billion of asset and business divestitures;
2. Generating roughly $2 billion of cost savings through rightsizing and restructuring actions;
3. Utilizing a more disciplined approach to capital allocation, in contrast to prior management, who did not generate appropriate returns from M&A, and divested units at prices considered too low; and
4. Improving corporate governance by consolidating decision-making, raising accountability, and increasing transparency. While more nebulous, improvement in these areas should lead to more rigorous execution and align compensation with long-term goals.

The shares still trade at a high-teens multiple of the average estimate for the next year's earnings, but we believe those earnings have minimal further downside risk. Share prices also have the potential to rebound substantially if end-markets improve over the coming years, or the company's planned reformation/restructuring proceeds as planned. By initiating with a small position, we are prepared to take it higher should the market continue to discount GE's shares while the intrinsic value of the business remains unchanged.

Henry Schein (HSIC)

Henry Schein is one of the world's largest providers of health care products and services. The company serves more than 1 million customers, including dental practitioners and laboratories, animal health clinics, and physician practices. It offers a comprehensive selection of products, services, and value-added solutions for operating efficient practices and delivering high quality care. In the three industries in which the company operates, the distribution markets are highly concentrated. Schein is estimated to account for ~35% of the dental market, ~20% of the animal health market, and ~20% of the medical supply market.

Henry Schein is a strong operator that has consistently taken market share, grown revenue (excluding acquisitions) at a higher rate than the industry as a whole, and generated high returns on capital. Its infrastructure, together with broad product and service offerings at competitive prices and a strong commitment to customer service, enables the company to be a single source of supply for its customers' needs. HSIC has over 4,000 field sales consultants around the world that are specialists in practice management. They understand how practices should run, and they help customers operate a more efficient business, which allows practitioners to focus on providing better clinical care. The company continues to advance its strategies in geographic expansion, market share growth, margin expansion, and advancing its product portfolio with products that present greater value to customers.

A longtime member of our investment universe, the company's shares have historically traded at a premium to the market, which prevented us from establishing a position at an acceptable price. However, the shares have fallen from ~$93 to ~$70 over the last five months after the firm modestly lowered forward earnings guidance, lost a large dental customer to a competitor, and has been increasingly included in chatter on the Street of Amazon entering the healthcare distribution market.

We view this as an overreaction. Earnings guidance for next year was lowered only 3% and the large customer only made up less than 1% of total sales. Most importantly, we believe Schein's customer relationships, competitive pricing, comprehensive product and service offerings, dedicated sales force, and integration into customers' operations through its enterprise software offerings are true differentiators. We believe these factors will make it extremely difficult for a no frills, online-only competitor like Amazon to take a significant amount of market share from the company in any of the industries in which it operates.

We also added to two pre-existing portfolio positions CBS (CBS) and Carmax (KMX). We pared back our positions in Leucadia (LUK) and Wells Fargo (WFC) to fund the newly initiated positions discussed above.

Key Contributors/Detractors to Results

For calendar year 2017, the individual positions that impacted Composite performance the most during the year were:

Top 5 Contributors		Top 5 Detractors	
Company	Percentage Return*	Company	Percentage Return*
Boeing	94.8%	**Halliburton**	-8.2%
Apple	48.5%	**Harley-Davidson**	-10.3%
Berkshire Hathaway	21.6%	**Walgreens Boots Alliance**	-10.5%
Bank of America	35.7%	**Schlumberger**	-17.4%
CBRE Group	37.5%	**CBS**	-6.2%

*Including impact of dividends

Largest Current Positions

As of December 31, 2017, the Composite's ten largest positions were:

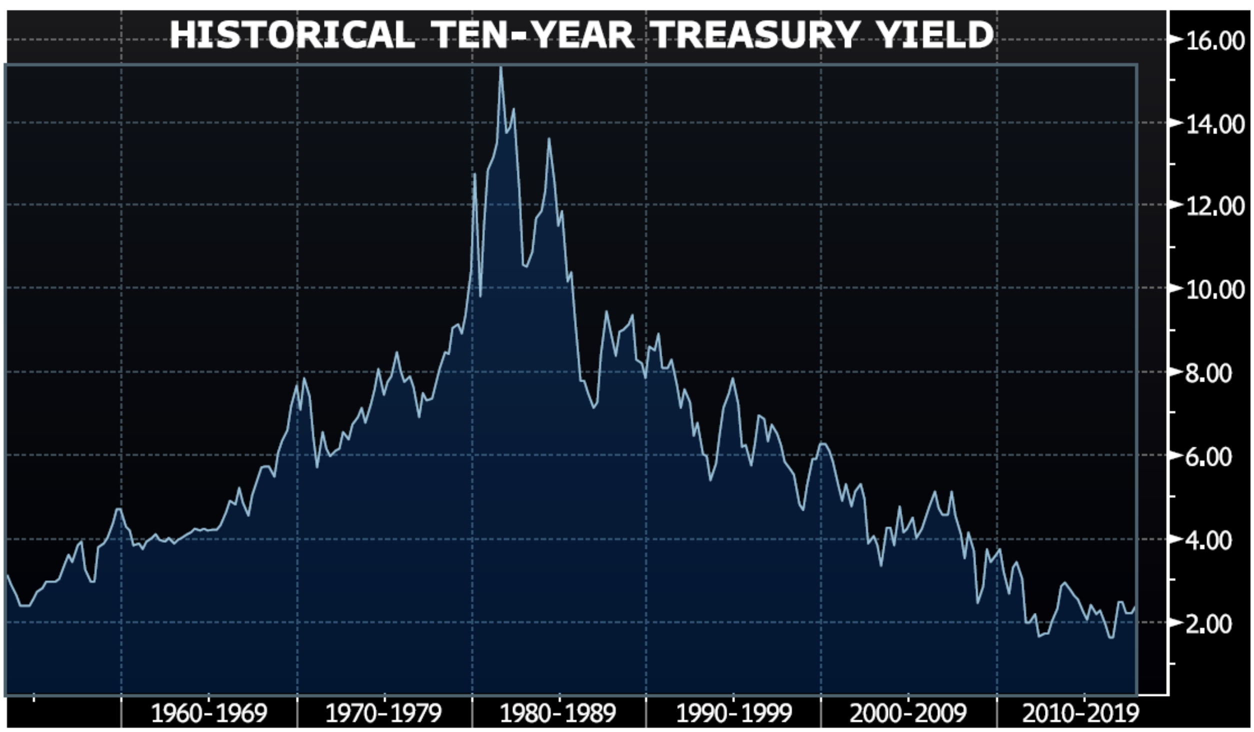
Company	Ticker
Berkshire Hathaway	BRK.B
Apple	AAPL
Quanta Services	PWR
JPMorgan Chase	JPM
Bank of America	BAC
Alphabet (Google)	GOOG/GOOGL
General Motors	GM
CBS	CBS
Boeing	BA
CBRE Group	CBG

We appreciate the faith that you, our partners, have placed in us to manage your capital on a long-term basis. Your patient capital and shared long-term time horizon provides a tremendous advantage as we go about our investment decision making process. Managing other people's money is an enormous responsibility and we hope you take comfort in the fact that we are doing the exact same thing with our own money as we do with yours.

Fixed Income Commentary
Winter 2018

Interest rates marched higher this quarter, but consistent with the general trend for most of 2017, short-term bond rates increased by more than long-term rates. The yield on Treasuries with two years until maturity started the year at 1.2% and ended at 1.9%. In contrast, the yield on ten-year Treasuries has fallen from 2.5% to 2.4%. These movements have flattened the yield differential between the ten-year and two-year Treasuries from 1.3% at the beginning of the year to 0.5% at year-end – the narrowest the spread has been since mid-2007, and down from a peak of 2.6% in early 2014.

The flattened differential between rates on long-term and short-term bonds is largely driven by the Federal Reserve's ("Fed") persistence in ratcheting the federal funds rate higher in a low inflationary environment. The Fed is pursuing this policy because it believes the tight labor market, with unemployment currently at 4.1%, will eventually cause inflation to overshoot their stated 2% target. While the Fed can significantly influence the rate on short-term bonds, market forces– including expected inflation, expected economic growth rates, and supply and demand imbalances – determine rates for longer-term bonds. Stagnant long-term rates mean market participants either don't believe or are ignoring the inflation concern. In such an environment, we see value in the short-end of the yield curve and are comfortable maintaining our conservative position with a higher concentration of maturities within the next four years. While we're not attempting to forecast the interest rate path over the next few months, we're happy to pare back interest rate risk to our clients when it doesn't cost us much to do so and absolute interest rate levels remain very low from a historical perspective.



The sweeping tax reform passed in December introduced some structural changes to the fixed income market, with municipalities feeling the most direct impact. First, the new bill eliminates municipalities' ability to pre-refund issuances. Municipalities historically had the ability to effectively retire their old debt in advance when conditions were favorable by issuing new bonds at lower rates, and using the proceeds to purchase Treasury bonds that would then be used to pay the interest and principal payments to holders of the original bonds. Pre-refunding was attractive to municipalities and investors alike. Pre-refunded muni bonds offered a federally tax-exempt income stream that was effectively backed by the US government. Without new supply of pre-refunded debt, clients invested in our municipal bond strategy will notice a diminished allocation to this security type going forward.

Second, the alternative minimum tax ("AMT") no longer applies to families earning less than $1 million of income, which should boost the price of qualified private activity bonds ("PABs"). PABs are municipal bonds issued to finance projects that benefit the general public, but might also enrich private businesses. Like other municipal bonds, interest on the bonds is federally tax-exempt; however, the interest becomes taxable if an investor is subject to the AMT. Since many institutions and mutual funds avoided such bonds to avoid the possibility of the interest on a portion of their portfolios becoming taxable, PABs offered incremental yield over traditional municipal bonds as long as an investor was fairly certain he or she would not be subject to the AMT. Previously, taxpayers could be subject to AMT with as little as $200,000 in income, but with the increased exemption amount, the pool of PAB buyers should increase dramatically – driving prices up and yields down. We will continue to search for value in the PAB space, but the days of "free" incremental yield to non-AMT clients could be a thing of the past.

Lastly, the tax bill caps the federal tax deductibility of state and local taxes ("SALT") at $10,000. Without the deducibility, there's a double taxation on income at both the federal and state level. This change hurts high-income citizens of high-tax states the most – especially residents of New York, New Jersey, and California. While we don't foresee an imminent mass migration of citizens from high-tax states to low-tax states, the limited deduction meaningfully increases the cost of living in high-tax states, and there will be pressure for these states to cut costs and spending to lower taxes. We do not believe the change causes any credit concerns for our eight-year maximum maturity municipal bond ladders, but we'll follow the long-term effects of the tax change closely.

The tax reform's impact on other areas of the bond market were less direct, but still meaningful. The changes were positive for our clients' corporate bond portfolios. The top corporate tax rate was slashed from 35% to 21%, boosting after-tax cash flows of most companies. With less cash being siphoned for tax payments, there's more available for interest payments and debt reduction, which increases the creditworthiness of corporate borrowers.

For our clients' mortgage bond portfolios, the tax bill was likely a net positive. Personal income tax rates were also decreased, which, similar to the corporate outcome, enhances the creditworthiness of the underlying borrowers by increasing homeowners' capacity to cover mortgage payments. On the other hand, the new tax bill limits the federal tax deductibility of home mortgage interest and property tax expenses through an increased standard deduction, elimination of supplementary itemized deductions, and the SALT cap. By decreasing the deductibility of these home expenses, residential ownership becomes relatively more expensive compared to renting, which should be a negative for home prices. Our clients' portfolios are focused on mortgages originated before 2005, so any pullback in prices related to this should have nominal effects on borrowers' home equity, considering that over ten years of mortgage payments and home appreciation are already factored in.

Closed-End Fund Commentary

As first discussed in the Winter 2016 newsletter, we initiated a position in closed-end funds in December 2015 to exploit what we believed to be a market dislocation. Even though we avoided, and even discouraged, closed-end funds in the past, we thought the market for closed-end funds that invest in high-yield debt presented a unique opportunity set that stacked the odds of successful returns in our clients' favor.

For background, closed-end funds have a fixed amount of capital and a fixed number of shares that trade on an exchange in the same fashion as common stocks. Unlike typical open-end mutual funds and ETFs, their market prices can vary – sometimes significantly so – from their net asset value ("NAV"). Because of their fixed capital base, these funds also typically employ leverage, although the amount of leverage varies among individual funds depending on the underlying assets owned by the fund and the discretion of the manager.

While many closed-end funds regularly trade at some discount to their NAV, we observed unusually large discounts for closed-end funds that invest in high-yield debt. The dislocation seemed to stem from a combination of two factors: 1) the perception that rising short-term interest rates would increase borrowing costs for leveraged funds, and 2) expanding credit spreads[6] for fixed income instruments caused a decline in the net asset value of many funds. Because of these factors, investors in closed-end funds, who were traditionally individuals attracted solely by the leverage-enhanced distribution rates (sometimes called "yields") offered by these funds, began abandoning the space. This sustained selling pressure expanded the difference between market price and NAV to levels not seen since shortly after the financial crisis of 2008.

In keeping with our investment philosophy, our decision to buy was made when everyone else seemed to be selling. Despite our prior aversion to the asset class, we ultimately determined that the combination of closed-end funds trading at discounts to NAV approaching 15% in many cases, and high yield bonds trading on the cheap end of historical norms, had stacked the odds in our clients' favor. We selected funds that were invested in high yield corporate bonds, bank loans[7], and asset-backed securities that we felt offered the best risk-return profile for clients. We also used a diversified portfolio approach with the goal of minimizing the risk of any single fund performing substantially worse than the asset class as a whole.

We believe our investment thesis played out during 2016, and continued to do so in 2017. Credit spreads narrowed, and corporate defaults remained low. Both factors enhanced returns by increasing bond prices, pushing fund NAVs higher. Throughout the year, we exited many individual fund positions as their market price approached their respective net asset values. So far, we've successfully exited roughly half the closed-end fund positions that we purchased for clients two years ago. We

---

[6] Credit spreads are the difference in yield between bonds of differing credit quality. As credit spreads expand, bond yields increase and high yield bond prices decrease.

[7] Bank loans, sometimes referred to as leveraged loans, are typically made to businesses that are too small to attract enough demand to float a typical bond issue. In terms of risk, these securities are similar to high yield bonds and they typically have floating-rate coupons.

believe the remaining positions in client accounts still offer relatively attractive risk-return profiles, and we continue to be patient in our sale decisions by waiting for fund prices to reach more reasonable discounts to NAVs.

Going forward, we're cautious about the state of the high yield bond market. Yield-starved investors have pushed high yield bonds to historically rich levels, which impairs future returns and increases downside scenarios in a broad market selloff. Prolonged periods of high demand can deteriorate underwriting standards and impair bond quality. On the positive side, high yield credit metrics are still healthy and the US economy is healthy by most measures. We've conservatively structured our clients' closed-end fund portfolios in an attempt to neutralize these market factors and weather volatility in the high yield bond market. In the meantime, we believe our clients should be content with receiving an attractive income stream while we await better valuations.

This newsletter has been prepared by Kovitz Investment Group Partners, LLC® (KIG), an investment adviser registered under the Investment Advisers Act of 1940, and is a quarterly newsletter for our clients and other interested persons. Within this newsletter, we express opinions about direction of the market, investment sectors and other trends. The opinions should not be considered predictions of future results. Discussion in this newsletter relating to a particular company is not intended to represent, and should not be interpreted to imply, a past or current specific recommendation to purchase or sell a security, and the companies discussed do not include all the purchases and sales by KIG for clients during the quarter. A list of specific recommendations made by KIG over the past year can be made available upon request. In addition, please note that any performance discussed in this newsletter should be viewed in conjunction with complete performance presentations that we update on a periodic basis. Such presentations are available at www.kovitz.com, or by calling us at 312-334-7300. Information contained in this newsletter which is based on outside sources is believed to be reliable, but is not guaranteed or not necessarily complete.

Past performance does not guarantee future returns.

Mary Anderson, MBA
312.334.7355
manderson@kovitz.com

Cara Haselrig
312.334.7331
chaselrig@kovitz.com

Jason Petitte, CFA
312.334.7311
jpetitte@kovitz.com

Jenny Boyke, MAS, CPA, CFP®
312.334.7316
jboyke@kovitz.com

Joel Hirsh, CFA
312.334.7307
jhirsh@kovitz.com

Peter Rudman
312.334.7327
prudman@kovitz.com

Marc Brenner, JD, CPA
312.334.7302
mbrenner@kovitz.com

Debbie Hopkins, MBA, CFP®
312.334.7325
dhopkins@kovitz.com

Mark Rosland
312.334.7322
mrosland@kovitz.com

David Castro, CFP®
312.334.7361
dcastro@kovitz.com

Kate Jonynas, CFP®
312.334.7309
kjonynas@kovitz.com

Ted Rupp, MBA
312.334.7317
trupp@kovitz.com

Andrea Cohen, CFP®
312.334.7312
acohen@kovitz.com

Mitchell Kovitz, CFA, CPA
312.334.7301
mkovitz@kovitz.com

Rich Salerno
312.334.7304
rsalerno@kovitz.com

John Conway, CRPC®
312.334.7343
jconway@kovitz.com

William Lee
312.334.7335
wlee@kovitz.com

Jonathan Shapiro, CFA, MBA
312.334.7324
jshapiro@kovitz.com

Ed Edens, MBA, CFP®
312.334.7333
eedens@kovitz.com

Melissa Mabley Martin, CFP®
312.334.7328
mmabley@kovitz.com

Jesse Stumpf, CFA
312.334.7320
jstumpf@kovitz.com

Amanda Falkum, CFP®
312.334.7351
afalkum@kovitz.com

Bradford Madison, CFP®, CTFA
312.334.7347
bmadison@kovitz.com

Eric S. Vernsten, JD, MBA
312.334.7348
evernsten@kovitz.com

Skip Gianopulos, JD, LLM, CFP®
312.334.7303
sgianopulos@kovitz.com

Christopher Nicholson, CFP®
312.334.7319
cnicholson@kovitz.com

Bruce Weininger, CPA, CFP®
312.334.7334
bweininger@kovitz.com

Leonard Gryn, CPA
312.334.7360
lgryn@kovitz.com

Jack Nicholson, MBA, CFP®
312.334.7323
jnicholson@kovitz.com

Patrick Wiese
312.334.7305
pwiese@kovitz.com