Market Insights
Winter 2019

The mind is its own place, and in itself can make a heaven of hell, a hell of heaven. – Paradise Lost

It was a tough year for global equity markets. While it might be overly simplistic to say nothing of monumental significance occurred during the year that would easily explain the large swings in equity valuations, there rarely is a direct cause of these sorts of things. Investor psychology, amplified by machine-based algorithmic trading, is a fickle thing, often creating demons or angels out of thin air.

Some investors point to the positive points in the U.S. economy, such as low unemployment, rationalized corporate tax rates, recent GDP growth, and consensus economic forecasts that call for more of the same. Data points such as these certainly carried the day for the first three quarters of 2018. But the focus turned decidedly to various negative concerns in the fourth quarter, including damaging trade wars, a government shutdown over the President's demands for funds to build a wall across the U.S./Mexico border, and the ever-present pockets of geopolitical uncertainty. Regardless of what *should* be happening, if there is such a thing, the reality is that this was the first down year for the market[1] since 2008. Even growth stocks[2], which have enjoyed seemingly unlimited optimism regarding their future prospects for several years, were not immune as they declined 1.5% on the year. Value stocks[3] failed to pick up much ground in the latest quarter and ended the year down 8.3%. The pain was more acute overseas as developed international markets[4] suffered a 13.8% decline and emerging markets[5] ended the year off 14.6%.

Given that the U.S. market[1] peaked as recently as October 3rd and proceeded to shed nearly 20% before bottoming after the worst return on Christmas Eve in at least a century, the speed of the decline may have been more jarring than the modestly negative calendar year return itself would otherwise indicate. No matter how you were spending the Christmas holiday, if you had any contact with other people at all, someone more than likely asked breathlessly, "Did you see what happened to the stock market yesterday?" Fear was in the air and this was indeed an abnormally poor quarter for global equity markets.

So, it's settled then. A recession is inevitable and equity returns will be poor in the immediate future, right? Hardly. Well, maybe, but it is hardly assured. Stock market returns have historically been a poor predictor of both recessions and future stock market returns. The below chart shows the last eleven recessions that have occurred in the U.S. dating back to 1948, the decline in GDP associated with

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[1] *As represented by the S&P 500*
[2] *As represented by the Russell 1000 Growth Index*
[3] *As represented by the Russell 1000 Value Index*
[4] *As represented by the MSCI EAFE Index*
[5] *As represented by the MSCI Emerging Markets Index*

each, and the returns of the stock market[1] over the 12 and 24 months preceding the recession. As you can see, only two of the eleven recessions have been preceded by a decline in the stock market in the year prior to the recession. If anything, recessions tend to be preceded by periods of strong performance in equity markets, although this is also a poor predictor of, well, anything. There are plenty of years with above-average equity market returns that aren't followed by a recession.

Start of Recession	Peak-to-Trough Real GDP Decline	S&P Return, Prior Year	S&P Return, Prior Two Years
Nov-1948	-6.72%	12.96%	23.67%
Jul-1953	-9.72%	2.30%	29.32%
Aug-1957	-13.69%	0.71%	18.83%
Apr-1960	-5.13%	3.22%	40.70%
Dec-1969	-4.20%	-10.64%	6.27%
Nov-1973	-11.90%	0.02%	21.94%
Jan-1980	-8.46%	18.61%	26.40%
Jul-1981	-10.14%	20.61%	41.48%
Jul-1990	-5.43%	16.45%	40.35%
Mar-2001	-1.70%	-6.94%	2.57%
Dec-2007	-15.00%	7.79%	23.12%
Jan-2019	*???*	*-4.39%*	*16.47%*

Furthermore, even if the economy does slide into a recession, we must be careful to guard against the scars of 2008. Not all recessions are created equal, and that recession was remarkable because of its severity, not simply because of its recency. If history is any guide, a recession – should a recession even occur in the near future – is more likely to be a modest decline in GDP rather than the global financial panic we experienced a decade ago.

However, you certainly wouldn't know that by looking at certain sectors of the stock market where depressed valuations are implying a significant disruption in the economy is imminent. Perhaps these shares are being pushed down by overreaction to legitimate concerns regarding the effect of ongoing trade wars and global instability. Or, perhaps it was just the shine coming off generously valued momentum stocks and, once that started, the machines and algorithms that drive daily market movements drove everything else down in tandem – valuation be damned.

Ultimately, our job is not to guess why the stock or bond market is doing what it's doing – a Sisyphean task to be sure. Our role is to help our clients meet their financial goals – whatever they may be. To accomplish this task, we first create a financial plan with each of our clients. Second, and most important, we all stick to the plan. As you are no doubt aware, the plan never entails ripping up the plan just because the stock market fell – or rose – over some brief period of time. Finally, we create an investment portfolio based on the plan that we feel offers the best odds of helping our clients meet their goals.

For the equity portion of these portfolios, we select companies with sustainable competitive advantages, high returns on capital, sensible levels of debt, and a history of prudent capital allocation trading at prices that imply none of these characteristics are present. Please see the accompanying Equity Commentary for additional thoughts on this segment of your portfolio.

For the fixed income portion, we select bonds which we believe are high-quality and have a low risk of default. We then structure portfolios that we believe will generate satisfactory returns for clients with limited sensitivity to changes in interest rates, especially during a time of rising rates during calendar year 2018, and during the steep sell-off of risk-based assets in the fourth quarter. In other words, our client bond portfolios are generally acting as we intend. Please see the accompanying Fixed Income Commentary for additional discussion on this topic.

Additionally, we sometimes recommend investments in alternative asset classes where we feel there is the potential for increased returns without materially altering the overall risk of the portfolio or where we feel there is the potential to materially mitigate market risk without materially reducing the overall expected return of the portfolio. An example of the latter, our hedged equity strategy, had a notable year.

In brief, the increased volatility through the year and sharp sell-off in the overall equity markets greatly benefitted our hedged equity strategy over the past twelve months. As has become apparent, many hedged equity strategies offered in the marketplace don't actually hedge against a market decline. This was borne out in 2018 when our strategy's hedged equity peers[6] ended the year down more than 9% on average – or more than twice as much as the stock market[7]. If you are an accredited investor, we can provide you a separate hedged equity commentary, which provides a broader discussion, at a later date.

Again, this is our job – set goals with clients, plan to meet those goals, and invest in assets that we believe offer the best risk-adjusted chances of satisfying the plan. As always, this is the same process we follow for ourselves, and our money is invested side-by-side with our clients'.

Best Regards,

Kovitz Investment Group

Kovitz Investment Group

[6] As represented by the HFRX Equity Hedge Index
[7] As represented by the S&P 500

Core Equity Commentary
Winter 2019

Market and Performance Summary

For the fourth quarter of 2018, the Kovitz Investment Group (KIG) Equity Composite[8] (the "Composite") fell by 13.7% and finished the year with a loss of 11.1%. For purposes of comparison, the S&P 500 decreased 13.5% during the quarter and ended 2018 down 4.4%.[9] Since inception on January 1, 1997, our equity strategy has returned 674.0% (9.7% annualized) vs. a return of 411.8% for the S&P 500 (7.7% annualized).

One year ago, in our end of year 2017 commentary, we wrote:

> "Global equity markets continued their advance unabated, shrugging off a host of worries… Historically, one or two of these concerns 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..."

Outside of a brief respite in February and March of this past year, this sentiment continued into 2018 until it changed abruptly in this past quarter. Instead of focusing only on the good, market participants panicked over everything, resulting in the worst quarterly return since the depths of the financial crisis in 2008. However, what we are experiencing now is not a financial crisis – it's more just a crisis in confidence. Recent concerns have centered largely on the hawkish stance of the Federal Reserve, D.C. dysfunction, the impact that trade tariffs are having on the global economy and U.S. corporate profits, and how a global economic slowdown would impact our own relatively strong economy. The narrative up until recently had been that very little could derail the underlying strength of the U.S. economy.

Historically, the U.S. stock market has averaged a roughly 15% correction per year. In that context, recent movements are nothing out of the ordinary; we just forgot what they feel like after a decade pretty much devoid of such corrections. Perhaps it's our primal survival instincts that cause negative markets to feel worse than the good feels in rising markets. Or maybe it's the breathless coverage by the financial media who never met an unsettling story it didn't like. Intrepid news reporter Eric Sevaried once stated that "The biggest business in America is not steel, automobiles, or television. It is the manufacture, refinement, and distribution of anxiety." And this was in 1964, well before the advent of the 24-hour news cycle.

Yet, to a great extent, ours is a strategy that needs a certain amount of anxiety and the occasional market correction in order to re-stock the portfolio with bargain securities and to concentrate our holdings in our highest conviction names. The really great investing opportunities are almost always found in environments of fear and doubt. The last thing we want to do is add regret to the list of

[8] *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.*

[9] *Please refer to the last page of this newsletter for a complete presentation of KIG's Equity Composite, along with relevant disclosures.*

emotions, so we are taking advantage of prices that will likely seem cheap in retrospect. In other words, it allows us to get active again after sitting on our hands for much of the last couple of years. This is evident in the number of transactions described in our "Portfolio Activity" summary below.

"Perceived" Risk

Recent action in the markets may be indicating the possibility of a recession on the near-term horizon. While we have invested through many recessions, we don't know of anyone – ourselves included – who has a successful track record of accurately predicting one. We do know this, however: it goes against the grain of conventional market wisdom, but every day the market goes down it becomes less risky. Conversely, a rising market becomes riskier with each new high set. Seth Klarman, legendary investor and CEO at the Baupost Group, sums it up this way:

> "Most investors take comfort from calm, steadily rising markets; roiling markets can drive investor panic. But these conventional reactions are inverted. When all feels calm and prices surge, the markets may feel safe; but, in fact, they are dangerous because few investors are focusing on risk. When one feels in the pit of one's stomach the fear that accompanies plunging market prices, risk-taking becomes considerably less risky, because risk is often priced into an asset's lower market valuation. Investment success requires standing apart from the frenzy – the short-term, relative performance game played by most investors."

To value-minded investors, the time to buy is when perceived risk is high; the time to sell is when perceived risk is low. Risk to us is inherent in price and value, not in price momentum. Stock prices fluctuate as underlying fundamentals change or are perceived to change. Since business operations don't fluctuate nearly as much as perceptions, prices often change not because reality has changed, but because investors' perception of reality has changed. A big gap between perception and reality can create a big opportunity for profit.

Losses of the magnitude experienced during the fourth quarter in such a short period of time can become paralyzing for some. Conversely, it can encourage overreaction and increased instability of emotions. These are the primary reasons we have a structural framework in place to guide our actions. Our big-picture philosophy is that we believe in investing in leading business franchises when they face transitory negative events. If we're right about the transitory part, we can typically buy when we believe there's both much less downside and much more upside than the market as a whole.

Our job, then, is to endure the emotional discomfort of deviating from the crowd and not give in to the temptation to guess what the market will do in the short run. The bedrock of our philosophy is that price matters. Just as our clients would be poorly served if we chose to simply pile into whatever shares had appreciated the most over recent years (ignoring price, valuation, and underlying fundamentals), they would be equally disserved if we gave into market fears and ignored the opportunity set brought on by falling prices. This is a time when paying calm, careful, and deliberate attention to the investment landscape can have a tremendous payoff. Sources of future returns are often sowed in times of turmoil.

The chart below summarizes annualized performance over various standard time periods ending December 31, 2018 and cumulative performance results from January 1, 1997 through December 31, 2018 for the Composite.

KIG Composite[10]
Annualized and Cumulative Equity Performance (Net of Fees)

	Average Annual Total Returns						Cumulative
For Period Ending 12/31/18	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**15 Year**	**Since Inception 1/1/97**	**Since Inception 1/1/97**
KIG Composite	-11.1%	7.3%	4.1%	11.1%	7.1%	9.7%	674.0%

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.

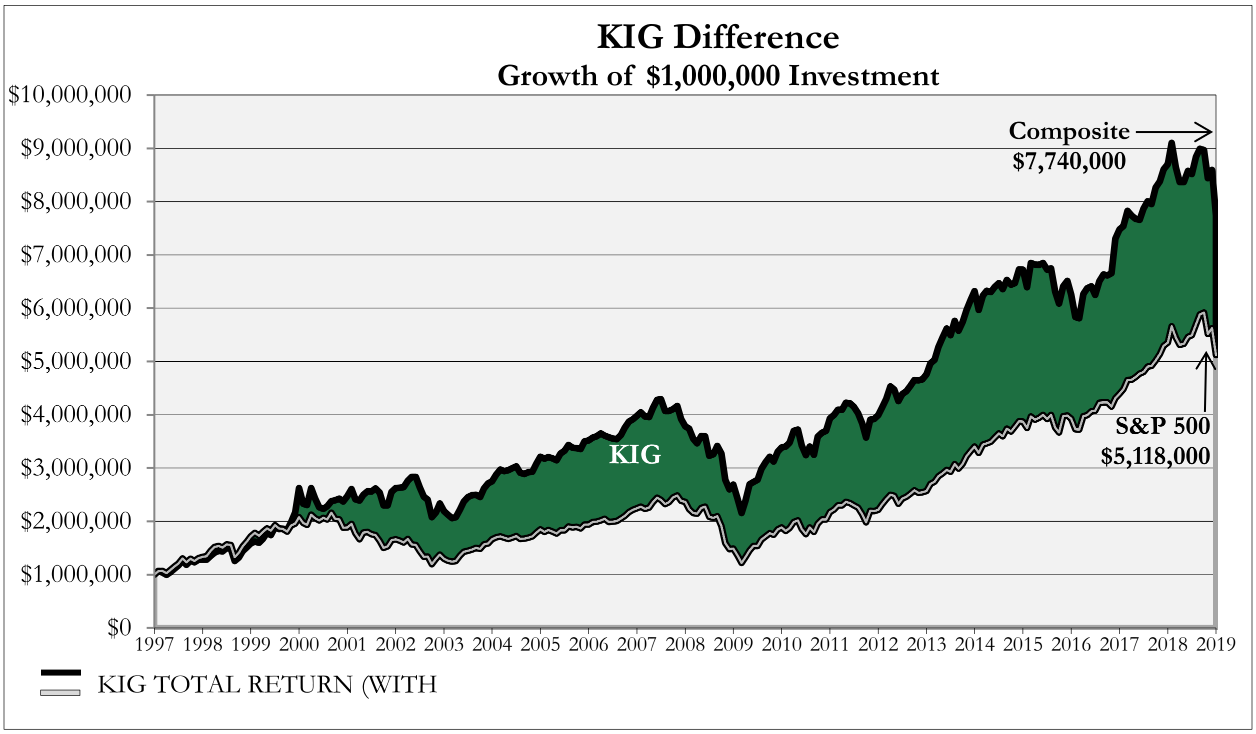
Other Market Indices
Annualized and Cumulative Equity Performance

	Average Annual Total Returns						Cumulative
For Period Ending 12/31/18	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**15 Year**	**Since Inception 1/1/97**	**Since Inception 1/1/97**
S&P 500	-4.4%	9.3%	8.5%	13.1%	7.8%	7.7%	411.8%
Large Cap Value (Russell 1000 Value)	-8.3%	7.0%	5.9%	11.2%	7.0%	7.7%	416.4%
Small Cap Equity (Russell 2000)	-11.0%	7.4%	4.4%	12.0%	7.5%	7.6%	397.6%
International- Developed (MSCI- EAFE)	-13.8%	2.9%	0.5%	6.3%	4.7%	4.1%	144.0%
International- Emerging (MSCI -EEM)	-14.6%	9.2%	1.6%	8.0%	7.9%	5.5%	222.0%
Gold	-2.8%	5.7%	0.7%	3.1%	7.0%	5.5%	222.3%
Commodities (CRB)	-10.7%	-0.1%	-8.9%	-2.6%	-1.0%	1.5%	38.6%

10 *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 percentage points annually. That might not sound like much. However, the extraordinary power of compounding is such that this relative outperformance over 22 years has generated considerable rewards for our clients. In dollar terms, $1 million invested in the Composite at inception would now be worth $7.7 million at December 31, 2018. By comparison, a similar investment in the S&P 500 would now be worth $5.1 million. In other words, an investment with KIG would now be worth about 51% more than if one had simply invested in an index fund that tracked the S&P 500.



Portfolio Activity

During the quarter, we initiated one new position, added to numerous currently held positions, and completely exited two others. As discussed above, volatility (also known as sell-offs) is a necessary condition for our strategy's success.

We took a new position in **US Foods (USFD)**. US Foods is a broadline distributor with a national footprint that supplies food and other supplies to restaurants and commercial kitchens in the health care and hospitality industries. The industry is highly fragmented. Sysco, US Foods, and Performance Food Group account for 16%, 9%, and 6% of industry sales, respectively, but the market shares of other competitors start to drop off dramatically after that. The three large players frequently engage in small, bolt-on acquisitions. The scale they have achieved has become a self-reinforcing advantage as they reap the benefits of purchasing inventory on a larger scale, generating cash that is used to upgrade their distribution centers, and building a more efficient distribution network by optimizing truck loads and increasing route density. US Foods further distinguishes itself from its competitors by offering best-in-class analytics and menu management tools that help their customers optimally run their businesses.

Shares of US Foods had fallen nearly 30% from its recent highs after the announcement of the acquisition of a large competitor, SGA, was poorly received by the market. Instead of deleveraging its balance sheet, the company instead paid what was generally considered a high price for an acquisition. Investors were further disappointed with a worse than anticipated earnings report. While we don't dispute that the management team paid a full price, the asset is a good strategic fit that fills out US Foods' presence in the Northwest, which has been one of the stronger geographic areas in the U.S. for food distribution. Over the long run, we expect US Foods to grow their revenue roughly in line with nominal GDP and be further supplemented by smallish acquisitions. Add in some operating leverage, and earnings have the potential to grow at a mid- to high-single digit pace for the foreseeable future. With the shares trading at 13x forward earnings at our purchase, a six-multiple discount to Sysco, we believe this represents an attractive entry price for a company with a stable, predictable business that should grow earnings at least in line with the overall market over long periods of time.

Among the positions we increased were:

Facebook (FB) – Negative headlines over privacy concerns persisted, pushing the valuation to its lowest level since becoming a public company. User metrics remain intact, however, and we don't see advertisers abandoning the site. The stock is now priced as if the opposite were true in both cases.

American Airlines (AAL) – The stock sold off as concerns over the global economy escalated even as oil prices came down over 30% from its recent highs. At its current valuation, it is hard for us to envision a scenario where there is more downside over the next few years.

Blackstone (BX), **CarMax (KMX)**, **CBS (CBS)**, **Jacobs Engineering (JEC) and Quanta Services (PWR)** – All appear to be pricing in a significant recession that may or may not come. To the extent the economy does weaken, we believe downside from current levels is limited.

Mohawk (MHK) – Shares of Mohawk traded down sharply after the company announced disappointing Q3 results and lowered guidance for the next two quarters. The reduction in guidance is being caused by a confluence of factors, including: steep inflation on input costs due to higher commodity costs; the impact of tariffs on materials imported from China; rising transportation costs due to higher fuel cost and strained capacity among trucking companies; increased competition from foreign competitors due to the strong/strengthening dollar; and, lower-than-expected volumes due to production capacity constraints and weakened demand.

We believe many of these factors are temporary and the negative impact is being compounded by the fact that they are hitting just as Mohawk is nearing the end of an investment cycle. Furthermore, we do not believe the company's long-term competitive position within the industry has been degraded. Mohawk remains a low-cost producer with an expansive global manufacturing and distribution network that would be difficult for a competitor to disrupt. As these forces abate and the U.S. housing market adjusts to higher interest rates, we continue to believe Mohawk's normalized earnings power is significantly higher than recent results would indicate.

We sold **Henry Schein (HSIC)** because it had both reached our estimate of fair value and we believed the capital was better invested in the other positions listed above. At purchase in November 2017, we paid what we believed was a slightly below-market multiple for a superior business and industry leader. After increasing our clients' position on additional weakness in February, the shares quickly appreciated to a valuation of nearly 20x forward earnings, which was in line with our estimate of fair value.

We also exited **McKesson (MCK)**. Unlike Mohawk where we believe most issues are temporary and that their competitive position has not changed, McKesson is a little more nuanced. While McKesson provides a necessary service (delivering drugs) and is one of three large players in a consolidated industry, it has become increasingly difficult to estimate normalized earnings. Headwinds for McKesson seem much more secular in nature (as opposed to cyclical in MHK's case) and we chose to shift capital into other opportunities where we have more conviction.

Key Contributors/Detractors to Results

For calendar year 2018, the individual positions that impacted performance the most during the year were:

Top 5 Contributors		Top 5 Detractors	
Company	**Percentage Return***	**Company**	**Percentage Return***
Starbucks	33.5%	**Quanta Services**	-22.9%
Henry Schein	17.4%	**Mohawk Industries**	-45.3%
Robert Half Int'l	4.8%	**CBS**	-24.9%
Aon	9.6%	**American Airlines**	-37.7%
Berkshire Hathaway	3.0%	**Bayer**	-42.0%

*Including impact of dividends

Largest Current Positions

As of December 31, 2018, the Composite's ten largest positions were:

Company	Ticker
Berkshire Hathaway	BRK.B
Alphabet	GOOG/GOOGL
Quanta Services	PWR
Apple	AAPL
CBS	CBS
CarMax	KMX
General Motors	GM
Jacobs Engineering	JEC
AMERCO	UHAL
CBRE Group	CBRE

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 2019

Investors flocked to safety this quarter amidst volatility in the global financial markets. In turn, interest rates reversed course from their upward climb and bond prices rose accordingly. The yield on ten-year Treasury bonds dropped to 2.7% by year-end from over 3.2% in November. The rally in prices was a positive for bond returns, and the U.S. Aggregate Bond Index[11] erased losses from earlier in the year to finish close to breakeven in 2018. While returns close to zero are not typically ideal, investment-grade bonds were some of the best performing assets this year.

Despite investor trepidations, the Federal Reserve ("Fed") continued to tighten the reigns on the economy. They decided to raise short-term interest rates again this quarter, which marked the fourth increase this year. The Fed's benchmark rate now stands at 2.5%, up from 1.5% at the beginning of the year. In comments that contributed to unease in equity markets during December, Jerome Powell, the Fed Chairman, also reiterated the Fed's commitment to reducing the central bank's balance sheet, which applies additional upward pressure on rates by creating an excess supply of bonds in the market. The rising interest rate tide has been met with a wall of backlash recently, and future rate hikes are notably coming under question. As evidence of the disconnect, the Fed is planning to hike rates at least two more times in 2019, but prevailing bond prices are implying greater odds that rates will be cut rather than raised.

Red flags were also raised in the bond market this quarter when the yield curve[12] partially inverted. In a normal interest rate environment, yields on longer-term bonds are greater than those on shorter-term bonds since investors expect to be compensated for the extra risk of locking in yields for longer periods to time. This quarter, the standard relationship was flipped when one-year Treasuries paid higher rates than those with five years left to maturity. Inversions make higher-yielding short-term bonds appear relatively attractive, but, historically, they've signaled the end of economic expansions. If that relationship holds true again, rates could fall and an investor locking in current yields for longer should come out ahead. Regardless, interest rates seem to be approaching a crossroads.

At Kovitz, we don't believe betting on interest rate movements is the best way to make money for our clients, nor have we come across another bond manager that has been able to regularly time the market. We believe laddering a bond portfolio is the best structure to ride out interest rate volatility. If rates rise, maturing bonds take advantage of higher rates. If rates fall, existing holdings produce more income than prevailing rates. The result is more consistent income, liquidity and returns. Core bonds should provide stability within an investment portfolio, which bond ladders are designed for and market timing generally is not. Instead, our goal is to enhance returns by focusing on diligent security selection in bond markets that offer higher yields than prevailing Treasury rates: municipals, corporates, and non-agency mortgage-backed securities.

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[11] *The Bloomberg Barclays U.S. Aggregate Bond Index is a benchmark that broadly measures the U.S. investment grade taxable market.*
[12] *A yield curve plots the yields of similar bonds with differing maturities.*

BOND YIELDS BY MATURITY AND RATING				
	Treasuries	**Corporate Bonds**[13]		
	AAA	**AA**	**A**	**BBB**
One-Year	2.6%	2.8%	3.0%	3.4%
Five-Year	2.5%	3.2%	3.4%	4.0%
Ten-Year	2.7%	3.7%	3.9%	4.6%

Looking at corporate bonds, yields are meaningfully higher than Treasuries as illustrated above. Corporate bonds with five years left to maturity offer yields up to 4% for BBB-rated bonds, the lowest rating in the investment-grade category, versus 2.5% yields on five-year Treasury securities. Additionally, unlike treasury bonds, the yields on longer-dated corporates are much higher than those with limited time to maturity. The larger return potential is accompanied by greater risk in that corporate bonds are not free from default risk. Default risk can't be avoided, but we believe it can be significantly mitigated by concentrating on issuers with sustainable competitive advantages, consistently high returns on capital employed, and little reliance on debt financing. It's a formula that we believe has served our clients well for many years.

Strict investment discipline is most important within the BBB rating category since it is only one notch above "junk"[14], where chances of default start increasing exponentially. Triple-B issuers are the ones that will struggle the most to maintain investment-grade status if the end of this economic cycle is on the horizon. We do not take this risk lightly when vetting purchases. For example, for certain clients, we started accumulating a debt position in BBB-rated Starbucks this quarter[15], a financially sound company with an incredibly strong consumer brand and a loyal customer base. Starbucks has almost as much cash on their balance sheet as debt and robust, growing operating profits which cover their interest expense more than eight times over. In other words, the company has the financial flexibility to weather any foreseeable adverse scenarios. On the other hand, Campbell's Soup, an issuer also within the triple-B category but one that we have not purchased for clients, is battling a secular shift away from processed packaged foods and fueling top-line growth through leveraged buyouts. Their debt load recently tripled following the acquisition of Snyder-Lance, best known for making pretzels, and interest expense now eats up over a quarter of their projected operating profit. In this case, the triple-B rating is predicated on the assumption that Campbell's will reduce leverage over time as the acquisition is digested. If not for that assumption, the bonds would be rated junk. Not every triple-B is created equal.

As Graham & Dodd put it, "The soundness of straight bond investment can be demonstrated only by its performance under unfavorable business conditions; if the bondholders needed prosperity to keep them whole, they would have been smarter to have bought the company's stock and made the profits that flow from prosperity."

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[13] *Corporate yields sourced from Bloomberg's BVAL curves.*

[14] *High-yield bonds, also known as junk bonds, are rated BB and below.*

[15] *Please note that bond purchases will vary across accounts, depending on client asset allocation, cash availability, other client-specific circumstances, and the nature of the firm's bidding and portfolio management processes.*

EQUITY COMPOSITE										
Year	Gross Return	Net Return	Benchmark Return	Internal Dispersion	Composite 3-Year Standard Deviation	Benchmark 3-Year Standard Deviation	# of Portfolios	Composite Assets ($MM)	Firm Assets ($MM)	*Composite Composition* --------------- Carve-Outs
1997	29.53%	27.99%	33.36%	7.82%	-	-	64	39.3	175	94%
1998	25.16%	23.67%	28.58%	7.15%	-	-	77	54.9	218	94%
1999	67.84%	65.89%	21.04%	48.91%	20.38%	16.52%	97	92.9	316	91%
2000	-4.74%	-5.87%	-9.10%	12.51%	22.62%	17.42%	38	39.6	166	90%
2001	7.29%	6.06%	-11.89%	14.63%	22.13%	16.71%	58	55.2	266	73%
2002	-15.39%	-16.31%	-22.10%	4.10%	20.25%	18.55%	101	80.5	272	64%
2003	26.65%	25.21%	28.68%	3.79%	17.83%	18.07%	114	97.3	364	68%
2004	18.28%	16.92%	10.88%	2.96%	15.37%	14.86%	153	137.6	604	76%
2005	10.84%	9.54%	4.91%	2.20%	9.69%	9.04%	263	227.6	746	64%
2006	14.43%	13.05%	15.79%	2.28%	7.26%	6.82%	384	324.4	918	58%
2007	-3.75%	-4.93%	5.49%	3.84%	8.24%	7.68%	473	358.4	1,053	67%
2008	-27.96%	-28.86%	-37.00%	2.19%	14.33%	15.08%	384	255.7	1,061	68%
2009	27.38%	25.86%	26.46%	3.48%	20.29%	19.63%	430	363.1	1,434	76%
2010	17.59%	16.17%	15.06%	1.62%	22.07%	21.85%	144	118.4	1,768	0%
2011	2.78%	1.52%	2.11%	1.69%	19.36%	18.70%	154	118.4	1,974	0%
2012	20.59%	19.14%	16.00%	1.70%	14.20%	15.09%	172	160.4	2,404	0%
2013	34.36%	32.82%	32.39%	2.80%	11.19%	11.94%	208	291.2	3,023	0%
2014	7.69%	6.43%	13.69%	1.82%	9.28%	8.97%	212	278.3	3,040	0%
2015	-5.82%	-6.96%	1.38%	1.31%	11.36%	10.47%	238	287.3	2,703	0%
2016	20.90%	19.49%	11.96%	2.10%	12.85%	10.59%	203	256.2	2,696	0%
2017	17.81%	16.43%	21.83%	1.79%	12.28%	9.92%	219	314.7	3,139	0%
2018	-9.97%	-11.09%	-4.38%	1.44%	12.86%	10.80%	211	265.1	3,674	0%

DISCLOSURES

Kovitz Investment Group (KIG) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Kovitz Investment Group Partners, LLC has been independently verified for the periods January 1, 1997 through December 31, 2017. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Kovitz Investment Group, LLC underwent an organizational change effective January 1, 2016, and is now Kovitz Investment Group Partners, LLC. KIG, an investment adviser registered under the Investment Advisers Act of 1940, manages equity, fixed income, and hedged equity portfolios for its clients. From January 1, 1997 to September 30, 2003, certain staff of KIG operated as the Kovitz Group, an independent division of Rothschild Investment Corp., and as Kovitz Investment Group, LLC from October 1, 2003 through December 31, 2015, and provided the same services as those listed above throughout the entire period.

The KIG Equity Composite includes all fee-paying, discretionary portfolios managed to the KIG equity strategy. KIG employs a single value-based equity strategy with the goal of maximizing long-term total return. The Composite's inception date is January 1, 1997. The Composite was created on January 1, 2001. Effective January 1, 2000, the Composite no longer included portfolios managed by a manager who made a change in investment style. The persons currently responsible for managing Composite portfolios have been primarily responsible for portfolio management throughout the entire period shown. The minimum portfolio size to be included in the Composite is $250,000. Portfolios in the Composite may occasionally make use of leverage and/or derivatives, but such use does not have a material effect on Composite performance. The use of derivatives is generally limited to covered call writing, and uncovered option writing is never used.

The benchmark for the Composite is the S&P 500 Index. The index is composed of 500 leading companies in the United States, covers approximately 75% of U.S. equities, and serves as a proxy for the total market. Unmanaged index returns do not reflect fees, expenses, or sales charges. An investment cannot be made directly in an index.

Returns shown incorporate the effects of all realized and unrealized gains and losses and the receipt, though not necessarily the direct reinvestment of, all dividends and income. Gross-of-fees returns are presented before management fees, but after all trading expenses. Net-of-fees returns are calculated by deducting model investment management fees, which are defined as the highest, generally applicable fees of 1.25% of equity assets and 0.50% of cash assets, from the gross composite return. The management fee schedule is as follows: 1.25% per annum on assets up to $5 million with reduced fees at multiple breakpoints thereafter. Such fees are negotiable.
Prior to January 1, 2010, the Composite included the performance of assets that had been "carved out" of multiple asset class portfolios. When calculating performance, a hypothetical cash balance for each month was allocated to the carve-out on a pro-rata basis relative to the portion of each portfolio's assets that comprised the carved out asset class. Beginning January 1, 2010, changes in the GIPS standards caused the Composite to be redefined and all carve-outs to be removed from the Composite. Carve-outs formerly included in the Composite continue to be managed in the same manner as they were before being removed from the Composite.

Valuations are computed and performance is reported in US dollars. The measure of internal dispersion presented above is an asset-weighted standard deviation. The 3-year standard deviation presented above is calculated using monthly net-of-fees returns. The 3-year standard deviation is not presented when less than 36 months of returns are available. A complete listing of composite descriptions and policies for valuing portfolios, calculating performance, and preparing compliant presentations are available on request.

The description of products, services, and performance results of KIG contained herein is not an offering or a solicitation of any kind. Past performance is not an indication of future results. Securities investments are subject to risk and may lose value.

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. 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.

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