NEWSLETTER

FOURTH QUARTER 2022

KOVITZ

Guided by value.

It doesn't hurt me
Do you wanna feel how it feels?
Do you want to know – know that it doesn't hurt me?

| "RUNNING UP THAT HILL", KATE BUSH

I think we can just come right out and say it: 2022 was a pretty dreadful year as far as global markets are concerned. Despite gaining over 7% in the last quarter of the year, the stock market[1] ended the year down about 18%. International markets fared little better, as developed markets declined 14% and emerging markets ended the year off 20%.

As undesirable as this outcome was, it was not all that unusual. Stock prices move around – a lot. That is the cost investors must endure in order to capture the long-term wealth-building benefits of owning equities, which have compounded at a 9.5% rate over the past century or so despite numerous dramatic downturns. In fact, the past five years have witnessed three of the fourteen largest drawdowns since the 1920s, including drops of 19% in 2018, 34% in 2020, and 24% in 2022, yet, perhaps surprisingly, the market still managed to return about 9.5% per year over that timeframe.

Rarely has there been a period that offered so many opportunities to panic in such a short period of time, and even more rarely has the penalty for interrupting the long-term compounding power of owning equities been so swift and severe.

What was somewhat unusual about this past year was that a decline in equity markets coincided with a swift rise in interest rates, which left much of the bond market in shambles as well. One measure, the Bloomberg Aggregate Bond Index, lost 13% this year. In simpler terms, if you bought a 10-year Treasury bond – an often-quoted proxy for a "risk-free" investment – at the beginning of the year and sold it on December 31st, you lost 17% of your initial investment, including the interest payments you received.

Of course the primary driver of increasing interest rates was inflation. After a decade of central bankers at the Federal Reserve and across the globe trying to stop disinflation from becoming deflation, including the enactment of massive fiscal and monetary stimulus in 2020 and 2021, the simultaneous convergence of COVID-related impacts on the supply and transport of goods and labor and a shock to energy markets caused by Russia's invasion of Ukraine sent prices soaring in 2022. As of the most recent reading, the twelve highest year-over-year inflation readings since 1982 occurred during each of the last twelve months.

Perhaps the most challenging aspect of 2022 was that there was no overarching event, no pandemic, no financial crisis, one could point to as the cause of all this financial carnage. Instead, it was just a steady drip . . . drip . . . drip . . . of bad news, pronouncements of ever-tighter policy from the Federal Reserve, and fear of the economy tipping into a recession.

The great irony of 2022 and fears of a recession is that arguably the primary cause of inflation – and thus the Fed raising interest rates, which put downward pressure on stocks and bonds – is that the economy keeps chugging along and refusing to actually tip into a recession.

There have been a number of high-profile layoffs in the Tech sector, across the mortgage industry, and in certain other sectors, yet the latest nationwide unemployment rate of 3.5% remains near all-time lows. Wages have more or less kept pace with inflation, while the biggest gains were reaped by those in the bottom half of the income spectrum, which has reduced income inequality (somewhat). Month-over-month inflation, as opposed to the lagged year-over-year numbers commonly cited, has declined substantially from levels seen earlier in the year. China is finally dropping their flawed zero-COVID policies, which should eventually greatly reduce the supply chain snarls that have continued to plague companies across the world.

[1] All general references to "the stock market", "the market", or "stocks" refer to the S&P 500 Index and its total return

So, there are a number of things making the looming recession more of a question than a virtual certainty. However, the development most likely to improve sentiment is the change in gas prices. There is no single economic indicator that Americans seem to focus on more than the price of a gallon of gas. And that price has now fallen roughly 40% from the highs in the middle of the year and is back to June 2021 levels.

As we move into 2023 amidst a backdrop of depressed markets and equally depressed outlooks, it's more important than ever to focus on the three core principles that drive our approach to managing client capital at Kovitz.

First, the future is unknowable.

Second, the future is unknowable.

Finally, and most importantly, the future is unknowable.

In consideration of these core principles, our first priority for clients is to design a comprehensive financial plan that incorporates their individual ability, willingness, and need to take risk to meet their financial goals. During this planning and goal-setting process, we anticipate the impact of a sharp decline in the value of risk assets like the one we just experienced and ensure both the plan and each client's psyche can handle such turmoil.

Within that framework, we construct a portfolio of investments centered around a core of equity ownership in a group of high quality, prudently financed businesses with durable competitive advantages, the ability to exercise pricing power to offset inflation, and trading at prices that offer a margin of safety against permanent impairment of capital. We supplement this core with a mix of bonds, hedged equity, direct ownership of real estate, and private equity, where appropriate and based on the individual needs of each client. It is within this allocation mix where market dislocations can potentially provide opportunity for patient, long-term-oriented investors.

Lastly, we stick to the plan whether the stock market is down 18% like it is this year or up 362% like it was over the prior decade, updating it periodically when circumstances change, but not as a reaction to short-term market movements.

By reiterating this process over and over again, a year like 2022 – while certainly unpleasant – can't truly hurt us.

MARKET AND PERFORMANCE SUMMARY

During the fourth quarter of 2022, the Kovitz Equity Composite[1] (the "Composite") increased by 5.3%, net of fees. By way of comparison, the S&P 500 was up 7.6% while the Russell 1000 Value Index rose 2.4% for the same period. Year-to-date through December 31, the Composite fell 22.6% while the S&P 500 and the Russell 1000 Value declined by 18.1% and 7.5%, respectively.

While the war in Ukraine and China's abrupt attempts to roll-back its zero-COVID protocols continue to occupy a corner of investors' attention, inflation and the Federal Reserve remain firmly top of mind. Questions regarding the timing and outlook for potential further reductions in inflation, the extent to which the Federal Reserve will ultimately need to raise interest rates, whether the Fed's actions will produce a recession and, if so, would it be mild or harsh, dominate investor's waking moments.

Even though the fourth quarter resulted in a relatively strong positive return for stocks, the path of least resistance has been lower for the better part of the year. Each time the market bounces on expectations that U.S. inflation has peaked and bond yields have stabilized, any hope gets thwarted by a Federal Reserve adamant on keeping rates "higher for longer" until they consider their job to slow down inflation definitively done.

Based on this preoccupation with the Fed, daily moves in the stock market are tightly correlated to the movement in interest rates; on days rates move up, stocks generally trade down and vice versa. The inference is that stocks trade like widgets, with scarcely any differentiation between companies and their fundamentals.

For those with a long-term orientation, this is fantastic news. Indiscriminate selling is starting to create an environment where experienced business analysts can sort through the wreckage and find value. (See "Portfolio Activity" section below for a sense of some of the high-quality businesses we've been adding to.)

Besides, the discussion surrounding inflation, interest rates, and recession are all examples of short-term thinking. Not only is the short-term future unknowable with any degree of certainty, but whether or not there is a recession in 2023 and the character of such a recession should it occur are not going to have much of an impact on the long-term value of businesses we are looking to own. Since we are not traders of businesses, but owners of businesses, we needn't burden ourselves with the risk of guessing on such matters. Instead, we like to focus less on things that are hard to predict and more on things where we believe we have an edge, such as studying businesses to gain insight on fundamentals and how those may play out under multiple scenarios in the years ahead.

In that vein, our discipline looks for businesses, (a) with durable competitive advantages and commensurate high returns on capital, (b) that employ modest balance sheet leverage, (c) with management teams with equal measures of talent and integrity that think in terms of maximizing value per share, and (d) for which we assess the prospective capital deployment will be value-additive. While these attributes must be present, we will only take action if the stock price of the business is fair, by which we mean a valuation at entry that should allow us to benefit fully as a long-term shareholder from the growth in the intrinsic value of the company.

The resulting portfolio is a collection of good businesses that are diverse in both economic profile and risk with their stocks trading at opportunistic to fair prices. When viewing our portfolio as a conglomerate, we believe that the collection of businesses we have acquired will be able to grow 'Owners Earnings' at solid rates through varying business cycles, resulting in a satisfactory compounding of investor returns.

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

While there were a number of periods of clear skies and sunshine in the market this year – including the early part of the fourth quarter – storm clouds cast a dark shadow over the market for most of the year. During times of market turmoil, we find it extremely helpful to reread what we consider one of the most important paragraphs about investing Benjamin Graham ever wrote.

> "But note this important fact: The true investor scarcely ever is forced to sell his shares, and at all other times he is free to disregard the current price quotation. He need pay attention to it and act upon it only to the extent that it suits his book, and no more. Thus, the investor who permits himself to be stampeded or unduly worried by unjustified market declines in his holdings is perversely transforming his basic advantage into a basic disadvantage. That man would be better off if his stocks had no market quotation at all, for he would then be spared the mental anguish caused him by other persons' mistakes of judgment."
>
> | BENJAMIN GRAHAM, THE INTELLIGENT INVESTOR

Your basic advantage as an investor, explains Graham, is that you don't have to trade just because everybody else is. "Selling because others are makes you hostage to the whims of tens of millions of strangers who often go collectively crazy." That's not an ideal way to live, and it's certainly no way to invest. Yet, this pattern occurs in every market disruption even though it is precisely the opposite of what real long-term investors should do.

The price of a company's shares is an ephemeral blip on a screen indicating only where the supply of shares offered for sale meets immediate demand. Short-term market gyrations matter little unless one wishes to transact.

Today, it seems investors change their mind ever more frequently about the constitution of their holdings, shrinking time horizons and investment holding periods as a result. The increasingly short-term nature of many participants in the equity markets is a large contributor to market volatility. In typical fashion, as markets decline, investor risk tolerances weaken, and they ultimately succumb to the pressure of others to sell.

No less an expert, Warren Buffett's take on this is also instructive. He believes that the stock market exists only to serve investors, not instruct them. This speaks to the importance of distinguishing between the fundamental performance of a business and the price movement of its stock. Intrinsic values of businesses (those not going through profound change) are relatively stable, while the prices of these businesses move as if the fundamentals change minute by minute. Investors minding both value and price can periodically be served by the stock market when business fundamentals and share price diverge. Too often, however, investors are informed only by share price movements from which business fundamentals are then inferred. These investors are not served by the stock market. Rather, they are instructed by it, which is the equivalent to the tail wagging the dog.

Above all, your results depend much less on how markets behave than on how you behave. Many people buy stocks with the goal of selling them at a higher price, thinking they are for trading, not for owning. This means they abandon the owner mentality and instead act like gamblers who bet on stock price moves.

We are in an industry obsessed with near-term outcomes over which we have little direct control. In the short-term, markets are driven by money flow and sentiment, but the ability for earnings power to compound drives returns over the long-term. As an investor, you have a choice. You can decide to invest in a business as an owner and share in the profits generated, or you can decide to trade in and out of the digital equivalent to pieces of paper in hopes that someone will buy yours at a higher price than what you paid for it. The problem most investors face is that the first method is hard; it takes time and patience. Thinking only about short-term price swings as opposed to the business operation's performance places you in a game that's hard to win, for you are forsaking logic and critical thinking for guessing how others are thinking and how they may react.

The chart below summarizes annualized performance over various standard time periods ending December 31, 2022, and cumulative performance results from January 1, 1997 through December 31, 2022 for the Composite.

KOVITZ CORE EQUITY COMPOSITE[2]
ANNUALIZED AND CUMULATIVE EQUITY PERFORMANCE (NET OF FEES)

Average Annual Total Returns							Cumulative
	Year to Date	1 Year	3 Year	5 Year	10 Year	20 Year	Since Inception	Since Inception (1/1/97)
Core Equity Composite	-22.59%	-22.59%	4.63%	5.17%	8.94%	8.49%	9.7%	1020%

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
	Year to Date	1 Year	3 Year	5 Year	10 Year	20 Year	Since Inception	Since Inception (1/1/97)
S&P 500	-18.11%	-18.11%	7.66%	9.42%	12.56%	9.80%	8.53%	740%
Large Cap Value (Russell 1000 Value)	-7.54%	-7.54%	5.96%	6.67%	10.29%	8.83%	8.21%	677%
Small Cap Equity (Russell 2000)	-20.44%	-20.44%	3.10%	4.13%	9.01%	9.36%	7.68%	585%
International Developed (MSCI EAFE)	-14.45%	-14.45%	0.87%	1.54%	4.67%	6.43%	4.39%	206%
International Emerging (MSCI EM)	-20.09%	-20.09%	-2.69%	-1.40%	1.44%	8.72%	6.85%	460%
Gold (S&P Gold)	25.99%	25.99%	10.49%	6.46%	-3.30%	-0.32%	-0.07%	-2%
Commodities (S&P GSCI)	21.99%	21.99%	15.29%	8.88%	0.20%	3.07%	3.38%	137%

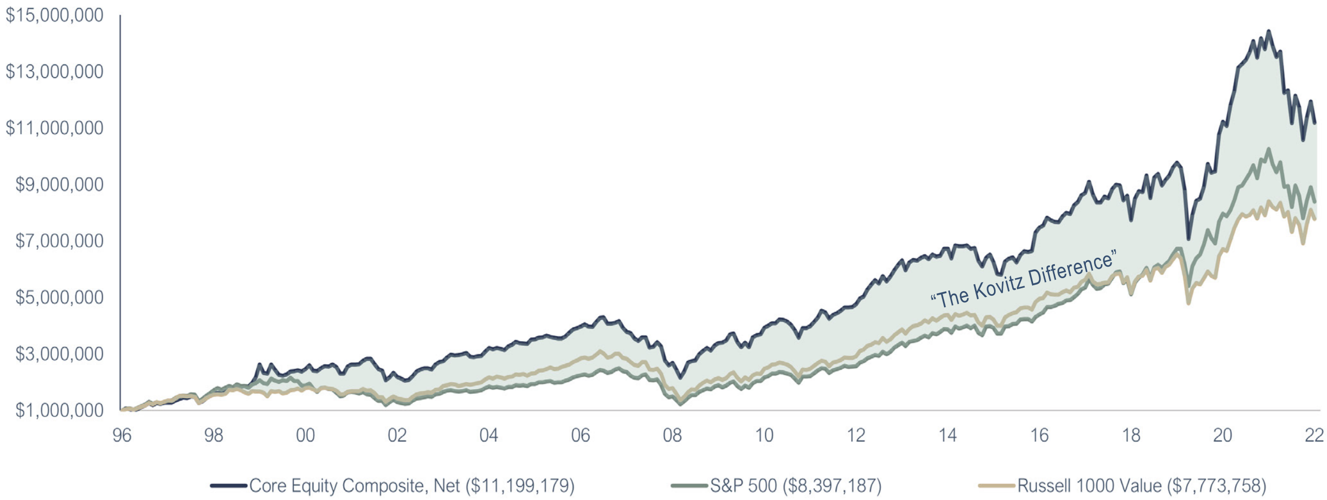
Source: Bloomberg Finance, L.P.

[2]The returns for the equity portion of your individual account will differ somewhat from the Composite due to variations in account holdings, cash position, and other client-specific circumstances. Please refer to the last page for a complete GIPS compliant presentation, along with important disclosures.

Below is a graph of the Kovitz 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, our investors' equity capital has compounded at a rate of 9.7% annually versus 8.5% annually for the S&P 500. The Composite's cumulative return since inception is 1,019%, versus 740% for the S&P 500. While the outperformance on an annual basis may not seem substantial, the extraordinary power of compounding is such that this relative outperformance over 26 years has generated considerable rewards for our clients. In dollar terms, $1 million invested in the Composite at inception would now be worth $11.2million on December 31, 2022, while the same investment in the S&P 500 would be worth $8.4 million.

KOVITZ DIFFERENCE
GROWTH OF $1 MILLION INVESTMENT



Source: Kovitz using data from Bloomberg Finance, L.P.

PORTFOLIO ACTIVITY

Despite being productive in terms of investigating new ideas, we did not initiate any new positions during the quarter. The upshot of doing this work has deepened our appreciation of what we already own. We did make several modifications to current holdings that we believe improve the quality and prospective growth of the portfolio.

We increased the weightings of several existing positions, including the following.

AMAZON (AMZN)

Amazon declined almost 50% in 2022 and is now trading at a price where we believe the margin of safety has grown substantially. Amazon's management made a similar mistake to many in the tech sector, believing that the COVID bump in demand was a permanent increase in the company's rate of growth to be sustained into the future. In believing this, Amazon's management chose to invest in excess logistics and fulfillment facilities just in time for growth rates to decline. As a result, margins have fallen substantially, and the company's valuation with it.

We believe the company is still likely to grow over time, but at a slower pace than had been anticipated by management. While the company's fixed costs are too high today, we believe margins are likely to recover as excess fixed costs are absorbed over the next several years. We believe margins will also benefit from an improving mix shift of revenues where higher-margin lines of business are growing faster than lower-margin business lines.

First-party retail sales (sales made directly by Amazon) are the lowest margin business line for the company. Third-party retail, advertising, and AWS (the company's cloud computing business) all possess more attractive margins than first-party retail. Back in 2018, when the market was pleased with the newfound profitability Amazon had begun to display, first-party retail was 53% of total sales. Today we estimate that proportion of sales has fallen to 44% and is likely to continue its decline as a percentage of total sales.

While management made an error, they quickly acknowledged it and set out on a path to rationalize the costs. While current profitability is impaired, we believe normalized earnings power remains meaningfully higher. It may take some period of time to grow into their supersized logistics network, but the benefit of Amazon's expansion over the last couple years is that their competitive position as the dominant e-commerce retailer and service provider has become virtually unassailable. In other words, either Amazon will grow into their fixed cost base, rationalize some costs, or realize a bit of both, but there is no competitor in a position to challenge the moat they have built.

CARMAX (KMX)

CarMax's latest earnings report showed a continued deterioration in the used car market as consumers have generally pulled back on big-ticket purchases in the face of higher interest rates and massive inflation in the prices for used vehicles. While we believe that the near-term fundamentals are likely to remain challenged, the long-term structural opportunity in front of CarMax is improving.

We have been invested in CarMax since 2006. Over that time, we have seen the CarMax story evolve from a regional oddity in the car dealership market (i.e., no haggle pricing) to a nationally scaled business with durable competitive advantages built around scale at key nodes in the process, including inventory, sourcing, reconditioning, financing, and logistics. Moreover, we have seen multiple industry cycles, investment periods, competitive challenges, and funding environments for the company. There is no doubt that these dynamics create a cyclical back drop for CarMax and that the enthusiasm for the stock ebbs and flows amongst other stock market participants. However, KMX has emerged from all these cycles with a stronger competitive position, and we increasingly believe that to be the case with the current cycle.

Currently, there are multiple headwinds facing the industry. During the pandemic, prices spiked as the limited inventory of new cars forced consumers to buy used cars in greater proportions than normal. This price spike was exacerbated by ultra-low interest rates which fueled easy finance terms for customers and encouraged several new entrants incentivized by cheap money and a stock market willing to finance losses in the name of growth to aggressively bid on cars. Now that the proverbial punch bowl has been removed and new car supply is improving, the used car market is dealing with the hangover of these effects right as consumers are seeing their purchasing power degrade. For comparison, the two new entrants into the used car market thought to pose the biggest threat to CarMax's future growth, Vroom and Carvana, are *now* seen by many market participants to have ongoing business concerns. Their share prices are down 92% and 98% year-to-date, respectively. It is ironic that it was not that long ago that we were being asked why we owned CarMax when it seemed like the future would be with the two aforementioned companies.

As the industry grapples with these dynamics, CarMax has not been immune. Same store unit volume is down sharply, as are sales to other dealers in the company's wholesale division. Adding to Wall Street's concern is that CarMax has historically been extremely friendly to its workforce and is choosing to let attrition drive their fixed cost savings instead of mass layoffs into what is already a recession in the used car market. Furthermore, CarMax is continuing its investments in digital channels while the rest of their peers are pulling back.

All that said, results are proving that CarMax's omni-channel sales strategy is working. Despite a sharp drop in unit sales and retail prices, gross profit per unit remains near all-time highs and customers that are shopping are finding the flexible options provided by CarMax even more appealing. Additionally, the sourcing advantages that CarMax brought to the retail side are now being deployed more deliberately in the wholesale market, opening up new avenues for profitable growth. We wouldn't be surprised if the industry worsens from here temporarily, but we see the payoff from the omni-channel strategy and believe the strong financial position of CarMax will allow them to emerge from this cycle with some of the largest market share gains in the company's history.

LOWE'S (LOW)

We first began purchasing Lowe's in 2020 based on our assessment that the recently appointed CEO Marvin Ellison would provide a playbook to address the performance gap between the company and its larger peer, Home Depot. Despite the difficulties presented by COVID, Ellison and team have delivered on our expectations. They have made the company nimbler, regained the confidence of professional and DIY customers alike, and brought Lowe's retail infrastructure up to modern standards.

Today, there is significant concern regarding what the shape of a housing recession will look like and the aftermath effects of a COVID bump in home improvement activity. While these short-term risks are present, we believe the market has lost sight of the ongoing improvements at the company and that a good deal of excess COVID-era transactions gains have already normalized. In fact, our work leads us to believe that retail transaction volumes are back to pre-COVID levels. Meanwhile price improvements in non-commodity products should prove to be sticky. Importantly, the secular tailwinds of an aging housing stock combined with strong home equity positions (underpinned by mortgages that are predominantly at fixed rates this cycle vs. variable in the Great Financial Crisis) should help support home improvement demand and sales and profit results at the company. To date, Lowe's management reports seeing no difference in results between regions where there have been home price declines and price stability. Coupled with the fact that existing housing turnover was already down 25-30% at the time of Lowe's last quarterly earnings report, we think the retailer is showing resilience in this environment.

The company's shares are trading below a market multiple for a business that we believe can sustain some of the best returns on capital in the retail landscape. We believe that long-term shareholders will be compensated for their patience as others recognize, (1) the sustainable improvements at the company and, (2) the revenue and earnings growth profiles, supported by a new wave in household formation and ongoing renovation demand.

CHARTER COMMUNICATIONS (CHTR)

Charter provides broadband, video, and mobile service to 30 million customers. Despite concerns regarding competition for broadband from fixed wireless and fiber combined with a subscriber growth hangover after massive gains during COVID, Charter continues to benefit from being the incumbent, low-cost provider of high-speed internet service. While subscriber additions have been hard to come by in recent quarters, the company is experiencing record low churn (i.e., cancellations) among its existing subscriber base and continues to upgrade speeds across their entire network towards fiber-like symmetrical 1 GB/s speeds and to 5 GB/s speeds across 85% of their footprint over the next three years.

With speeds well in excess of the demands of the vast majority of households and as move activity eventually picks up from multi-decade lows, Charter will have more opportunities to acquire customers. We also believe that fixed wireless ultimately runs into capacity constraints and fiber overbuilding economics become more challenged in this higher interest rate environment. Further, as bundling low-cost mobile service with broadband makes existing subscribers just as sticky as the marriage of video and internet did in the past, we expect Charter to continue to modestly grow subscribers over time.

Further, with video becoming a smaller part of their business, operating margins and, oddly enough, operating income (in dollars) should benefit as the company becomes less reliant on managing growing content costs and benefits from the lower cost to serve an internet-only customer (or internet plus mobile).

Overall, while expectations have declined from a year ago, we continue to believe Charter possesses several durable competitive advantages vs. peers and upstart competitors and that this will result in continued operating income and free cash flow growth over time.

Towards the end of the quarter we began to exit one position. We will provide an update in next quarter's newsletter. Finally, we decreased two existing positions during the quarter.

MOTOROLA SOLUTIONS (MSI)

As you may recall, we started acquiring our position in Motorola Solutions during 2020 as we believed there was below average macro-economic risk to Motorola's long-term earnings power trajectory from the fallout of COVID. In fact, we believed that on the other side of the pandemic Motorola's earnings power would be significantly higher. Over time, we continued to add to the position as we saw increased evidence that their competitive position was strengthening in their core Land Mobile Radio franchise and emerging positions in Video Security and Command and Control Software.

We still believe that investors have not fully appreciated the true earnings power of the business nor the high-quality nature of recently added earnings streams. Still, the recent stock price increase on enthusiasm from government funding flowing to local budgets in conjunction with our concern about certain large scale contract renewals abroad has led us to lightening our exposure as the margin of safety has been reduced.

LAS VEGAS SANDS (LVS)

We also trimmed Las Vegas Sands (LVS). We began purchasing shares in the middle of 2021 as Sands' properties in Macau and Singapore remained largely shut down as those locales took a far more conservative approach to COVID than most of the West. At the time, our belief was that the shares of this premier operator of integrated resorts (aka casinos) were priced well below their intrinsic value once Macau and Singapore reopened to foreign travelers, which we believed would happen at some point. After holding onto its COVID-zero policies much longer than most of the world expected, China finally began to move towards normalization this past quarter. This coincided with the renewal of Sands' and five other concessionaires' licenses to operate in Macau on terms that more or less maintained the pre-COVID status quo. With the stock price responding positively to these developments, we took some chips off the table to deploy into other opportunities.

LOOKING BACK AT 2022

> *"Forecasts create the mirage that the future is knowable."*
>
> | PETER BERNSTEIN

The macro environment is tough to predict. Economic experts naturally attempt to make rational estimations for the future that reside within some reasonable band of historical deviations, but global markets find ways of creating low probability outcomes with regularity. This year was no exception. Let's compare several of these predictions from the beginning of the year versus reality:

1. The inflation rate was expected to average 3.4%. It clocked in at 7.1%[1].

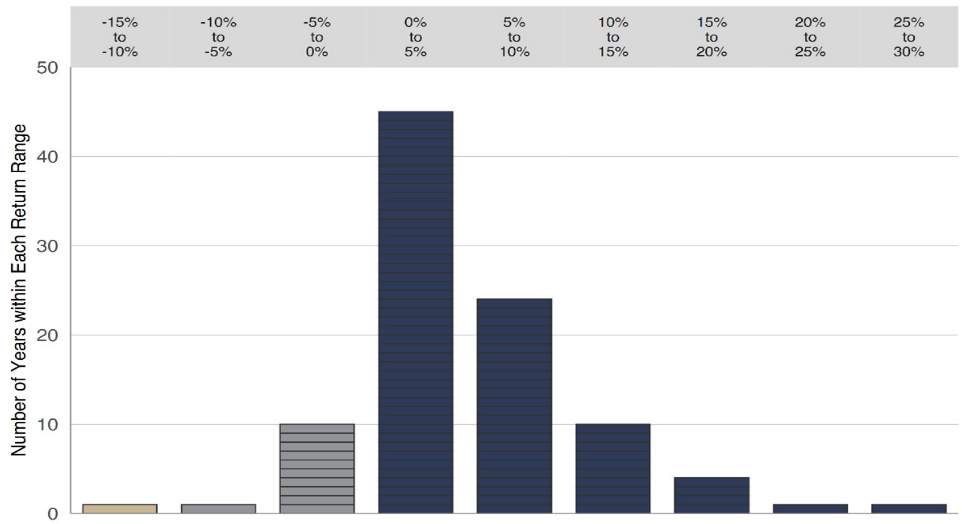
2. The Federal Reserve was projected to bump rates three times to 1%[2]. The Fed wound up conducting a historically aggressive hiking campaign with their target rate reaching 4.5%.

3. Longer-term bond yields were supposed to rise modestly with 10-year Treasury rates inching to 1.7%. Instead, borrowing costs for the U.S. government, corporations, and homeowners exploded to 4.2%, 5.4%, and 6.7%, respectively[3].

The bond market often induces a heavy dose of humility in those who attempt to predict it.

The main driver of these developments in the bond market was that the high inflation rate – influenced by complex global economies, supply chain issues, and actions of central bankers – proved much stickier than most anticipated. The Fed was forced into a sharp pivot to bring inflation back to their 2% target and pushed through historically aggressive interest rate hikes. As rates rise, bond prices fall, and the declines resulted in the worst year for bond market performance on record. The widely quoted Aggregate Bond Index fell 13% on the year[4].

ANNUAL BOND MARKET RETURNS SINCE 1926[5]



[1] One-year U.S. Breakeven Rate as of 12/31/21 and the U.S. CPI Urban Consumers YoY as of 11/30/22 (most recent), respectively.

[2] Fed Fund Futures implied one-year rate as of December 2021.

[3] Expected 10-Year rate implied from 12/31/21 Treasury yield curve. Borrowing costs measured using the Bloomberg U.S. Agg Treasury YTW, Bloomberg U.S. Agg Corporate YTW, and the Bankrate.com U.S. 30 Year Fixed National Avg, respectively.

[4] Bloomberg U.S. Aggregate Bond Index.

[5] Years 1926-2022. IA SBBI U.S. Intermediate-Term Government Bond Index. SOURCE: Kovitz using data from Morningstar.

We don't believe our job is to predict the unpredictable. Instead, we stay focused on investment factors within our control – vetting potential investments through rigorous credit standards, identifying relative value opportunities in a highly fragmented fixed income landscape, and executing ideas at the best possible prices. Most importantly, and especially as it relates to the 2022 extremes, the overriding concern of our core fixed income strategy remains mitigating downside risk and protecting principal.

This process sheltered our investors from most of the broader bond market's losses. The average Kovitz bond account declined only 4.6%[6] in 2022. Our concerted effort to minimize interest rate risk drove the outperformance. We believed the prudent way to supplement yields was through uncovering value in less followed or out of favor pockets of the bond market, as opposed to extending maturities, taking on more interest rate risk, or lending to less creditworthy borrowers, and that philosophy led us to avoid much of the carnage in the bond market over the past year.

After an extended period of unwavering monetary stimulus clashing against low-to-negative global interest rates, 2022 required an unconventional approach to fixed income management, and we're happy to have taken the road less travelled.

LOOKING FORWARD TO 2023

The mantra "bonds are back" has been circulating media outlets recently. In a sense, it's tough to disagree. Fixed income yields are at the highest level since before the Global Financial Crisis. The low-rate environment which plagued the bond market for most of the last decade made it difficult to find palatable returns without stretching too far down the risk spectrum. Today, some of the highest quality bonds yield around 5%, which is in-line with long-run average returns.

After the worst stretch in history for bonds, it's natural to expect improved returns in 2023. We agree it's highly unlikely that bond performance in 2023 will come close to resembling the prior year, but a prosperous bond market shouldn't be a foregone conclusion. Given the ferocity of both inflationary pressures and the Fed's resolve to crush them, the bond market is caught between a rock and hard place. As always, we won't bet client capital on which way the market could break, but it remains in uncharted territory. And uncertainty breeds volatility.

Volatility is a problem if it leads to permanent impairment of capital. We feel well positioned to avoid that outcome. With the economy slowing and many signals pointing to an imminent recession, it's important to remind investors that we have no credit concerns within our bond portfolios. Without defaults, price volatility can only result in tangible losses if bonds are forcibly sold before maturity – a risk we mitigate through keeping sensible allocations to liquid bonds and structuring bond portfolios with large, recurring cash flows.

The opportunities created through volatility should be welcomed by long-term minded investors. As liquidity dries up, we're able to increase yields through patient bidding in less trafficked corners of the tax-exempt and taxable bond markets. Anxieties in the credit market are leading to highly attractive yields again for bonds issued by Business Development Companies. We've also been finding value in "busted" convertible notes from high quality issuers. Due to their steeply discounted prices, some convertible bonds are presenting the asymmetric return outcomes we seek – yields similar to other high-grade bonds of similar credit quality with a chance for upside from the equity conversion option.

All-in, after years of believing the potential reward offered in exchange for taking on interest rate risk was insufficient and positioning our clients' bond portfolios defensively as a result, we have begun to normalize the average maturity of our holdings given the new interest rate environment. While this will result in a slightly more aggressive tilt to bond portfolios relative to most of 2022, it is still a relatively defensive posture, which we feel is warranted.

[6] Measured using the internal rate of return on all fixed income securities by account, gross of fees. Individual account returns will differ.

Kovitz Equity Composite									
Year	Gross Return	Net Return	Benchmark Return	Internal Dispersion	Composite 3-Year SD	Benchmark 3-Year SD	# of Portfolios	Composite Assets ($mm)	Firm Assets ($mm)
2013	34.36%	32.82%	32.39%	2.80%	11.19%	11.94%	208	291.2	3,023
2014	7.69%	6.43%	13.69%	1.82%	9.28%	8.97%	223	278.3	3,040
2015	-5.82%	-6.96%	1.38%	1.29%	11.36%	10.47%	263	287.3	2,703
2016	20.90%	19.49%	11.96%	2.10%	12.85%	10.59%	203	256.2	2,696
2017	17.81%	16.43%	21.83%	1.79%	12.28%	9.92%	219	314.7	3,139
2018	-9.97%	-11.09%	-4.38%	1.44%	12.86%	10.80%	211	265.1	3,674
2019	27.83%	26.32%	31.49%	2.45%	13.99%	11.93%	195	323.9	5,061
2020	16.14%	14.75%	18.40%	2.11%	22.34%	18.53%	184	353.5	5,990
2021	30.15%	28.60%	28.71%	2.03%	21.34%	17.17%	212	474.7	7,465
2022	-21.80%	-22.59%	-18.11%	0.89%	23.60%	20.87%	72	341.8	6,767

DISCLOSURES

Fees: Gross-of-fees returns 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. Prior to January 1, 2021, Composite net-of-fees returns were 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. Beginning on October 1, 2020, the Composite net-of-fees returns are calculated by deducting model investment management fees, which are defined as the highest, generally applicable fees for the strategy of 1.00% of all composite assets. The firm's current management fee schedule is as follows: 1.25% on assets below $1 million, 1.0% per annum for assets from $1 million to $5 million, 0.85% per annum on assets from $5 million to $10 million, 0.75% per annum for assets from $10 million to $20 million, 0.65% per annum for assets from $20 million to $35 million, 0.55% per annum for assets from $35 million to $50 million, and 0.50% per annum for assets over $50 million. Such fees are negotiable. Where applicable, the total bundled or wrap fee charged to each portfolio is dependent on the end client's financial advisor and wrap sponsor. The composite includes accounts that do not pay trading fees.

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.

Definition of The Firm: Kovitz Investment Group Partners, LLC (Kovitz) is an investment adviser registered with the Securities Exchange Commission under the Investment Advisers Act of 1940 that provides investment management services to individual and institutional clients. From October 1, 2003 to December 31, 2015, the Firm was defined as Kovitz Investment Group, LLC. Effective January 1, 2016, Kovitz Investment Group, LLC underwent an organizational change and all persons responsible for portfolio management became employees of Kovitz. From January 1, 1997 to September 30, 2003, all persons responsible for portfolio management comprised the Kovitz Group, an independent division of Rothschild Investment Corp (Rothschild).

Composite Definition: The Kovitz Equity Composite includes all fee-paying, discretionary portfolios managed to the Kovitz Core Equity strategy. The Kovitz Core Equity strategy utilizes a private owner mentality to purchase equity securities issued by companies with durable competitive advantages and strong balance sheets that are trading at a significant discount to their intrinsic value. The goal of this strategy is to maximize 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 until December 31, 2021. Thereafter, the strategy minimum was raised to $1 million. 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 S&P 500 Index is composed of 500 leading companies in the United States, covers approximately 75% of the market capitalization of U.S. equities, and serves as a proxy for the total market. The S&P 500 Index returns do not include the effect of transaction costs or fees and assume reinvestment of dividends into the index.

GIPS: Kovitz Investment Group Partners, LLC (Kovitz) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Kovitz has been independently verified for the periods January 1, 1997 through December 31, 2021. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Valuations are computed and performance is reported in U.S. dollars. The measure of internal dispersion presented above is an asset-weighted standard deviation. The three year standard deviation presented above is calculated using monthly net-of-fees returns. The three year standard deviation is not presented when less than 36 months of returns are available. The risk measures, unless otherwise noted, are calculated gross of fees. A complete listing of composite descriptions and policies for valuing portfolios, calculating performance, and preparing GIPS reports are available on request. The composite includes accounts that do not pay trading fees.

The description of products, services, and performance results of Kovitz 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.