Q3 2020 Market Synopsis

Economic & Market Update:

The third quarter of this historic year was good for global stock markets with positive returns in the mid to upper single digits. Large cap US and emerging stocks were the best returning regions, with the SP500 up 8.2% and the emerging index up 9.5%. European stocks and US small cap stocks were laggards, with both up around 5% in the period.

Despite good stock market performance, an 11% correction occurred off the late August highs through late September accompanied by higher volatility. We have since made up about 80% of this drawdown and currently are only about 1% to 2% off the 3,588 all-time high on the SP500.

Other financial assets had a tougher period. The bond aggregate and public real estate were right around breakeven, while commodities/energy were down about 7%.

The 10-year Treasury yield was unchanged at 0.68% through the quarter, continuing a period of extremely low volatility and movement in this benchmark yield.

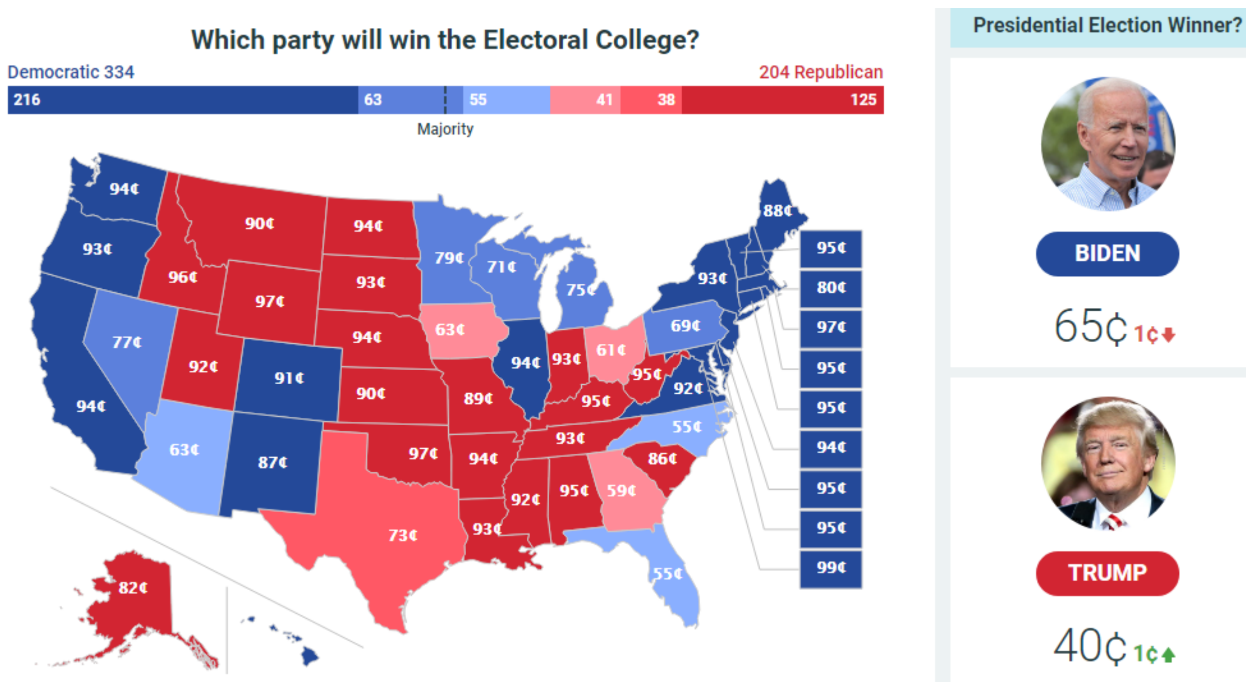
Select 2020 YTD Asset Class Returns (9/30/2020)	
US Mid/Long Treasury Bonds	+ 10.8%
S&P 500 (US LC Stock Market)	+ 8.3%
Investment Grade Corporate Bonds	+ 7.5%
Insurance Linked Securities (XILSX)	+ 5.6%
MSCI Emerging Market (Emerging Stock Market)	+ 2.2%
Alternative Lending (LENDX)	+ 1.2%
High Yield Bonds	+ 0.2%
Private Real Estate Equity (TIPWX)	- 0.8%
Private Farmland, Timberland, Infrastructure (VCRRX)	- 1.8%
MSCI EAFE (Foreign Developed Stock Market)	- 4.2%
DJ US Real Estate (US Real Estate)	- 7.7%
S&P Small Cap 600 Index (US SC Stock Market)	- 8.5%
Nat Gas/Oil Pipeline Companies (TPYP)	- 28.4%

* *GPB Holdings II, Mosaic, BREIT, and KKR Fund Performance included within the private investment section on page 6*

The major factors which impacted markets in Q3 2020 are highlighted below:

- **Election Uncertainty & Stimulus Negotiation:** A very significant event for the country and a meaningful one (at least in the shorter term) for the financial markets is of course the upcoming election. As important as who will be the next president is the make up of Congress. On top of the election, the added dynamic of stimulus negotiations continues to be highly volatile. Traphagen does not have any specific forecast for the amount or timing of any legislation, but we do believe before year end some amount of meaningful stimulus will be passed with an emphasis on small businesses, the airline industry, and unemployment benefit enhancement.

Below: *Odds of Presidential winner by national electoral college and state by state results. Sourced from Predictit.com.*



In addition, the chances for a fully democratic held Congress are now 62%, with the chances of a 'Dem Sweep' around 58%.

Below you will find an overview of what we feel are the lilkely policy scenarios for which we are managing and hedging client portfolios:

Scenario 1: Trump wins with split Congress (no signficant policy change)

Scenario 2: Biden wins with split Congress (no signficant policy changes; although some shift away from aggressive foreign & trade policy, China relations, and more friendly relations with the EU and other allies, etc.)

Scenario 3: ***Biden wins with Democratic Congress (signficant policy changes likely; see below)***

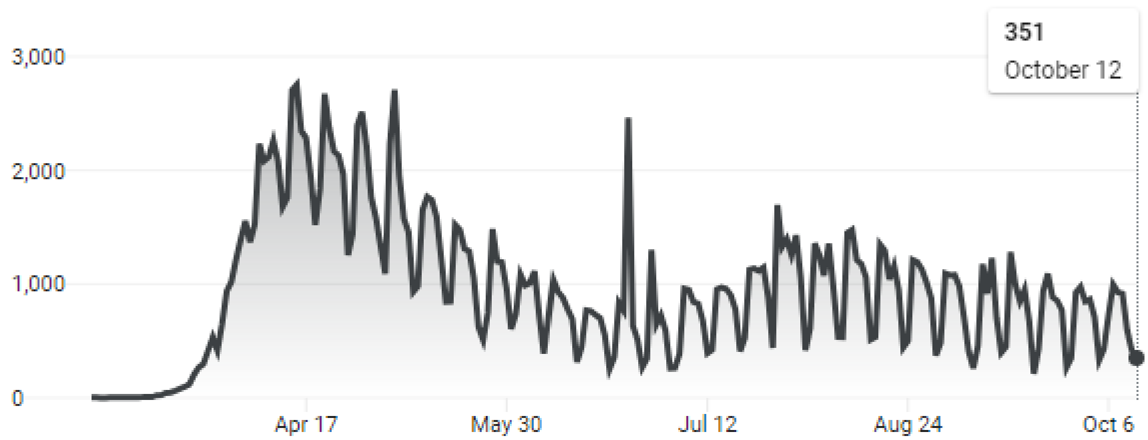
We summarize our thoughts of possible policy changes with scenario #3 in the below table. Given this, regardless of the election outcome (outside of a shorter term knee-jerk reaction), we do not think there is any reason to signficanly change an investor's portfolio. There can certainly be industries that experience an outsized benefit, like renewable energy and infrastructure, and we are currently researching investments to take advantage of these possibilites.

Increase in corporate income tax rate from 21% to 28%	**Signficant Negative for US Stock Market & Economy**
Increase in personal income & investment tax rates for high earners	**Moderate Negative for US Stock Market & Economy**
$1.3T planned infrastrucutre plan & support for renewable energy	**Moderate Positive for US Stock Market & Economy**
Increase spending on healthcare & expanision of 'Obamacare'	**Unclear/Neutral for US Stock Market & Economy**
Less 'Aggressive' Trade/Foreign Policy and China Relations	**Moderate Positive for US Stock Market & Economy**
Likely more spending on COVID relief and stimulus	**Moderate Positive for US Stock Market & Economy**

- **Generally Improving COVID health news:** US COVID cases have begun to rise again after a return to school and offices. Europe is seeing an even more significant second wave, where their numbers are approaching levels not seen since March and April. Despite these case increases across North America and Europe several positive trends are present.
    - Regardless of the number of cases, lockdowns similar to what we saw last March - May are unlikely
    - Hospitalization and mortality rates have been steadily declining over the past six months as treatments and general virus knowledge have significantly improved
    - Within the next 6-12 months it is expected that a combination of several different treatments and an effective vaccine will improve

the ability to fully open the economy and the prognosis for those that are infected.

Below: *Chart of US COVID related fatalities from March through today.*



Although daily new cases are up roughly 50% versus April levels, fatalities are down 6X. **This roughly 12X reduction in the fatality rate over the past 6 months hopefully continues;** and creates a world where we can operate close to 'normal' while living with the virus.

- **Corporate Profits & Unemployment:** Corporate profits, although down significantly in the first half of 2020 vs. 2019, are expected to experience a sharp recovery from those depressed levels starting in Q3. We will start getting the first Q3 earnings this week from many prominent companies, with the first group largely in the financial sector. Several sectors never even experienced a drop in earnings including consumer staples, communications, technology, and healthcare. And as we have stated before, together these sectors make up the majority of the stock market. This is one reason the SP500 has been so resilient through this recession.

  Other areas of the economy that were hit hard including travel/leisure, energy, financials, traditional retail, restaurants, airlines, etc. will still be struggling for a period of time; and will not make a significant earnings rebound until sometime in 2021.

  On the employment front, the dire forecasts from earlier this year of 20% to 25% rates of unemployment never came to fruition. In fact, since the high point of 14.7% in April when lockdowns were at their zenith, we have seen a dramatic and much quicker than anticipated reduction in the jobless rate to 7.8%.

From this point forward, unemployment will be much tougher to bring down as the majority of remaining job losses are not easily remedied. These are largely positions that might be long term or in some cases permanently displaced by small business closures or technology changes due to the virus.

Below: *Unemployment Rate over past 10 Years*

Traphagen 2020 Portfolio Changes & Performance Update

As we summarized during the last quarterly update, Traphagen implemented many tactical trades and investments from March through July for both offensive and defensive purposes. Within September and October there will be additional investments made, which are detailed below. CCLFX and SHMRX can be viewed as much higher yielding replacements for traditional bonds which now have higher interest rate risk with little return potential. The other securities are stock plays explained in more detail below.

Ticker	Asset Class	Description
CCLFX	**Private Corp. Lending**	Collaterized loans to private small/medium companies; 7% yield
SHRMX	**Insurance Linked Bonds**	Lower risk insurance linked bonds; ~ 5.5% -6.0% yield; no rate risk
ARKG	**US SC Stock- Genomics**	US small/medium sized companies in biotech/genomics sector
DON	**US MC Stock- Dividend**	US medium sized companies with high dividend yields; 3.4% yield

Private Investment Update *(for accredited investors only; $1M+ with Traphagen)*

Private Equity (GPB Fund II): 2020 continues to be a much better year than 2019 for GPB and the three core divisions are now operating near or above pre-COVID levels with all being profitable. The Q1 2020 dividend equated to a roughly 6.7% return; given this and other variables, Traphagen's estimate of total return for 2020 is in the +3% to +9% range. Given we are still in an environment of high uncertainty this projection is still subject to material change. We are especially impressed with the Prime Auto Group, where after the hard lockdowns of March-May, they have notched 4 months of record sales. In addition, they will be making tactical divestitures and acquisitions within the auto and physical therapy divisions over the next month or two.

As we compose this update, Eisner is wrapping up the final step of the audit, which is filing the form 10 with the SEC. This will include complete audited financials of all relevant portfolio companies and the GPB fund itself for 2017, 2018, and 2019, along with the 1st half of 2020.

We expect GPB to hold an in-depth investor update webinar later this month with the heads of each of their three main divisions (invite to follow).

Private Equity (KKR Fund): The well diversified private equity fund has roughly 75% KKR exposure with the remaining allocated to other private equity companies and cash. The KKR fund returned -3.5% through July (most recent month available). The companies within this investment continue to operate and streamline their operations looking for opportunities to purchase distressed companies at a discount through the recession. The largest sectors within the fund are global technology, healthcare, and consumer services.

Private Real Estate Credit (Mosaic): Traphagen continues to be extremely pleased with Mosaic and their excellent execution through the 2020 recession. We expect a return of roughly 5% through Q3, and we think a 7% to 8% return is probable for the year. With the initiation of their new $200M liquidity facility and a $100M additional institutional investment they are now looking to take advantage of opportunities that have arisen from the recession. In addition, the influx of capital will act as a defensive tool; allowing them to hold existing properties through this period with significant staying power.

It is important to note, for some clients we chose to retain their entire position, for others we trimmed, and still others we sold out in full. This decision was done on a client by client basis and was impacted by the investor's risk level, position size, total portfolio size, and liquidity needs. It is possible, we could reenter the position for those clients that we have sold or redeem it next year for those we have retained.

Private Real Estate Equity (Blackstone Fund): This fund has been amongst the best real estate performers across the asset class so far this year. Through August, it was down only 0.6%, and we expect the fund to be near breakeven or positive once the September returns are released. Although still early, a 2020 return of 2% to 4% is possible while the public real estate index is down 8.1%, with much steeper losses in commercial and retail real estate. We will likely expand the use of this investment for many clients over the next three to six months. In addition, it is amongst the highest yielding real estate funds with a net rental yield of 5.4% (paid monthly).

2020 Market and Economic Outlook Update & early 2021 Preview:

In the last update we stated uncertainty and volatility will be front and center for the rest of 2020, and we think that has been and will continue to be the case through November. However, once into December and early 2021, things begin to change for the better on several fronts.

Whatever the outcome, the election will be behind us in December and that uncertainty will be removed from the markets. As we mentioned earlier in this update, given the overall environment and stated policies of each candidate we think over the mid/long term the markets and economy will be just fine regardless of the winner. Of course, a ‘knee-jerk’ negative reaction is possible, but we expect this to be shorter term and could present an opportunity for longer term investors.

As we move into 2021, we should continue to see rapid health progress in terms of general virus knowledge, treatments, and ultimately a vaccine. This should start to put COVID lockdowns, closures, and negative business earnings largely behind us. Although unemployment is likely to stay somewhat higher than normal through 2021 and into 2022, the overall economic picture should be much more stable.

Lastly, with uncertainty on the political and the economic fronts receding along with a FED that continues to promise near 0% interest rates for years and likely additional fiscal stimulus we see a ‘green light’ for most risk assets through 2021. There certainly are some assets that are fully or over-valued, but we continue to see opportunities to create attractive risk adjusted returns for our clients in the alternative, private, and equity asset classes.

As we conclude this historic year, we hope our clients have taken something positive from this experience and have spent the time needed to preserve their mental, physical, and financial health. We have certainly learned not to take ‘normal life’ and spending time with loved ones for granted, and we hope all will try to keep this outlook front and center as the pandemic hopefully fades into the history books over the next year or two.

Best regards,
Your Traphagen Investment Team