Shikiar

April 18, 2018

Dear Client:

Enclosed please find your investment performance and portfolio report for the first quarter of 2018. In it you will find first quarter performance for 2018, as well as annualized return and cumulative investment performance since inception. Additionally, the report provides the market value of the portfolio as of March 31, 2018, asset allocation, a complete listing of security positions, cost basis, and a year-to-date capital gain/loss report.

As we communicated to you in our year-end letter, "2017 was a vintage year for stock markets around the world, and performance of your portfolios at SAM Inc. was no exception." The financial backdrop of low interest rates, manageable inflation, elevated levels of liquidity, and accommodative monetary policies around the globe resulted in what we referred to as an investors' Goldilocks environment. The strength in last year's equity market continued unabated early in the first quarter, resulting in the Standard & Poor's (S&P) 500 Index and Dow Jones Industrial Average (DJIA) reaching all-time highs on January 26th. Since that time, however, major indices have traded off their highs, accompanied by significantly higher daily volatility. In contrast to the calm and upwardly sloping market last year, 2018 has thus far turned out to be very much a horse of a different color. At its trough, to date the market has corrected by approximately 10% from its January peak. A recent issue of the Wall Street Journal pointed out that investor sentiment seems to have quickly shifted from what was extremely optimistic to outright bearish, generally representing "an encouraging contrarian signal for those market participants who have long worried that Wall Street was overly bullish."[1]

The U.S. stock market finished the three-month period ending March 31, 2018 with its first quarterly decline since 2015, due in large part to renewed concerns over the potential for rising interest rates, upticks in inflation, trade tensions between the U.S. and China, and an overdue correction in the technology sector which had a significant advance during 2017. Consequently, most asset classes experienced modest losses in the first quarter of 2018. In fact, of the eleven sectors within the S&P 500 Index, nine of them posted negative returns. While the increase in volatility has become more pronounced of late, it does not necessarily presage the end of the bull market. To the contrary, we believe that what we are presently witnessing is a typical correction, which is quite normal following an extended period of rising prices alongside low volatility. To date, the U.S. equity market has already experienced significantly more volatility than that which occurred over all of last year. As of this date, there have been twenty-nine trading sessions in which the S&P 500 Index has closed up or down by one percent (or more). While daily swings of this

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[1] Wall Street Journal. April 7, 2018.

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magnitude are historically not uncommon, they do represent a meaningful change from 2017, during which time there were only eight such sessions for the entire year! Despite the fact that negative market moves can at times be disquieting, rest assured that at SAM Inc. we are very well-prepared to navigate through what we expect will be periodic corrections. The current environment does not yet detract from our constructive longer-term view of equities. That being said, however, we would not be reluctant to reverse course and become more defensive if we deem it appropriate.

We have entered into a period of uncertainty over the future terms and conditions of global trade. To wit, President Trump has announced various tariffs, including 15% and 25% on imported aluminum and steel, respectively, from certain foreign countries, most notably China. In a direct response, China's Commerce Ministry stated that Beijing would indeed follow suit with its own countermeasures, if necessary. This has certainly become a contentious issue of late, and the frequent inflammatory rhetoric on both sides has for the moment stoked fears of rising trade tensions and the possibility of a "trade war." Although we are cognizant of the risks to global markets and economic growth emanating from escalating tensions, we are cautiously optimistic that what we have been witnessing is political jostling on both sides. In the end, we expect that "cooler heads will prevail," and trade negotiations will ultimately ensue, which we believe would be a significant longer-term positive for global markets. This view has been somewhat validated, as China's President Xi Jinping on April 9th promised foreign companies greater access to China's financial and manufacturing sectors including a lower tariff on U.S. automobiles.

Overall, macroeconomic trends remain favorable. Residential housing activity continues to improve, and consumer confidence is high, as net job gains and low unemployment remain in a steady trend. Consumer balance sheets and net worth are at or near record levels. Additionally, the recent enactment of tax reform will greatly benefit corporations, as their tax rates have been reduced from 35% to 21%. This reduced burden will likely result in increased capital investment, job growth, and higher wages. Corporations will use the resulting tax savings for share repurchases, dividend increases, and possible acquisitions. There has also been a significant reduction in the tax rate for U.S. corporate cash held offshore and repatriated. The cash will likely find its way back to the U.S. and is estimated to be in excess of $2 trillion. The lower rate will result in higher earnings per share, a key analytical valuation metric. Importantly, the recent correction has lowered the forward price/earnings (P/E) ratio to approximately 16x, which we believe is a more reasonable multiple in the context of relatively low interest rates, an expanding economy, and corporate earnings which are projected to grow by at least 10%-15% this year. Lastly, we do not presently anticipate an economic recession in the U.S. anytime soon, nor do we see evidence of excessive euphoria and/or exuberance, which have historically been signs of market tops.

During the first quarter of 2018, the U.S. Federal Reserve raised its key short-term interest rate by one quarter of one percentage point to a range of 1.50% - 1.75%. This hike was widely expected, and the Fed maintained its projection for a total of three increases during 2018, while concomitantly raising its projection from two to three hikes next year. Additionally, the U.S. central bank increased its 2018 and 2019 economic (GDP) growth forecasts to up 2.7% and 2.4%, respectively, as compared to its prior estimates of up 2.5% and 2.1%, respectively. With the ten-year U.S. Treasury Bond yield still relatively low at approximately 2.8%, we believe future rate hikes will not be interruptive of the U.S. economic expansion for the foreseeable future. Although early, we are so far pleased with the leadership capabilities of the newly appointed Chairman of the Federal Reserve, Jerome ("Jay") Powell. U.S. dollar weakness continued in the first quarter, registering a decline of

approximately 2%. Global economic growth trends during the quarter were on balance mixed. The Eurozone decelerated somewhat and their Composite Purchasing Managers' Index (PMI) hit a 14-month low of 55 in March, albeit any reading above 50 still implies positive growth. Additionally, ECB chairman Mario Draghi reiterated that interest rates would not rise until well past the end of their Quantitative Easing (QE) program. The Chinese economy, the second largest in the world, continues to be steady and is estimated to have grown at approximately 7% in the first quarter.[2] In the developing world, India is projected to have grown faster than China for the first time in 25 years. This is a sign of the maturation of the Chinese economy, which is transitioning away from export-focused manufacturing as a service-based consumer society emerges.

Shifting back to the U.S., we are actively monitoring the direction and actions of our new administration and the late 2018 midterm elections. Every day seems to bring new political adventures. We are also mindful of numerous risk factors that may arise including a growing budget deficit, total debt to GDP increasing more than we would like to see, geopolitical tension around the globe (particularly in the Middle East and North Korea), and so-called "Black Swan" occurrences which by their very nature are unpredictable but hopefully will not be of a critical nature.

Our investment style, asset allocation, risk disciplines and stock selection have been and continue to be well matched for the current market environment. We maintain an unwavering commitment to proprietary research as well as an extremely stringent investment selection process. SAM Inc. portfolios are thoughtfully constructed with growth and dividend paying stocks, higher yielding preferred equities as well as corporate and municipal bonds, where appropriate. Our holdings manifest attractive, sustainable long-term fundamentals. Strong balance sheets, free cash flow, earnings growth, cash dividends, and share repurchases are an integral part of our investment decisions. We remain steadfastly focused on achieving our overarching objective – preservation of capital coupled with a performance goal of comfortably exceeding the risk-free rate of return plus inflation, and we remain confident in realizing this investment goal over a complete market cycle.

Thank you for your loyalty and confidence. It is very much appreciated.

Very truly yours,

Stuart A. Shikiar
President

Due to various factors, including changing market conditions, the aforementioned content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Shikiar Asset Management, Inc. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing.

[2] National Bureau of Statistics.