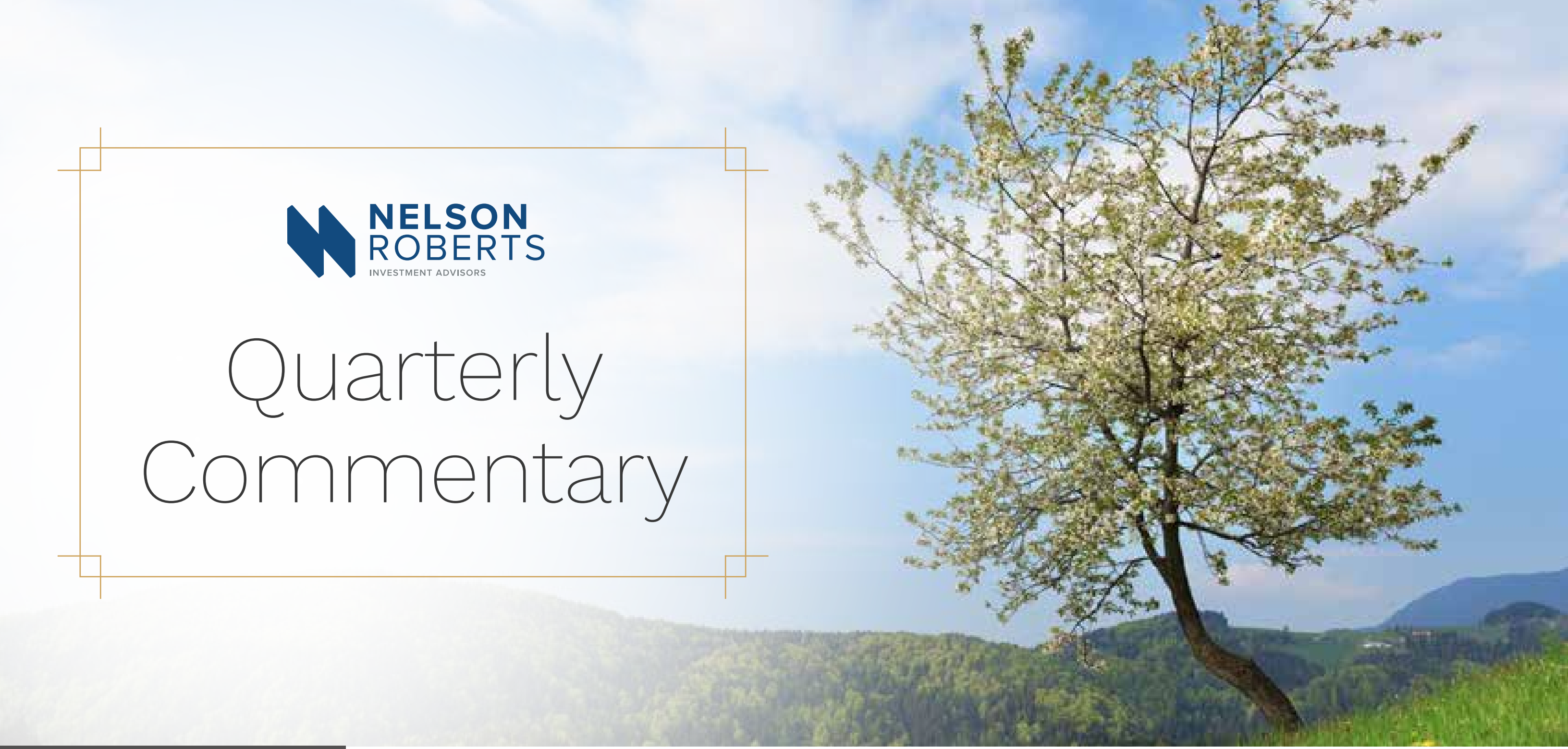

NELSON ROBERTS
INVESTMENT ADVISORS

Quarterly Commentary

2020 | Q1

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Preparing for the Worst, Hoping for the Best

The coronavirus outbreak that has ravaged the globe has led to extreme volatility in nearly every market. The Dow Jones Industrial Average fell more than 20%, into bear market territory, in just 20 trading days. This was the fastest bear market plunge in history, exceeding the pace of declines seen during the Great Depression. Then, between March 23 and March 26, the Dow recovered over 20%, notching a technical bull market in just three days. The complete lack of reliable data has created an information vacuum, leading to even higher volatility than was seen during the depths of the financial crisis in 2008. Market-wide circuit breakers have been triggered multiple times alongside precipitous drops during trading sessions. Fortunately, stock and bond markets have remained fully operational and have weathered the hysteria without breaking liquidity.

We have said before that markets hate uncertainty, and right now that is all we have. Without wide-spread testing of 100% of all individuals in statistically representative geographies, no one can know for sure when this outbreak will come under control. From a health standpoint, it appears that a strict lockdown is needed to bring down the rate of infection. But of course, the longer and more restrictive the lockdown, the more severe the economic shock. At this point, both the health and economic impacts will be devastating. Without a timeline for the resolution of either, nobody can gauge just how devastating.

The U.S. went from being a country with few cases to being the country with the largest number of cases within about two weeks. Although the federal government has implemented social distancing guidelines extending out to the end of April, most of the restrictions have been set up at the state level. In California, the shelter-in-place order began March 17, and early data indicate that these efforts have helped reduce the spread. On the other side of the spectrum, cases in New York continue to rise exponentially and there are signs that the health systems there are being overwhelmed.

Index Performance	Q1 '20	YTD
Dow Jones Industrials	-22.73%	-22.73%
Standard & Poor's 500	-19.60%	-19.60%
EAFE (international stocks)	-22.72%	-22.72%
Russell 2000 (small stocks)	-30.62%	-30.62%
Barclays Interm. Gov/Credit	2.40%	2.40%
Barclays Municipal	-0.63%	-0.63%

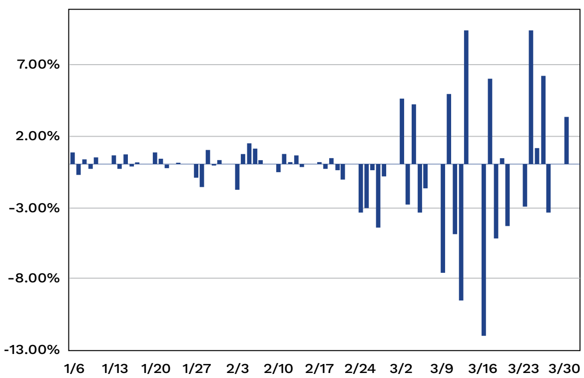
We apply rigorous analysis in asset selection so you can focus on your passion

ECONOMIC OVERVIEW

Preparing for the Worst, Hoping for the Best (cont.)

Though we do not know how deep the economic scars will be, we are starting to gather a few data points. On March 26, 3.3 million Americans filed for unemployment. This was the largest number of claims ever, dwarfing the previous record set in 1982 by a factor of five. On April 2, another 6.6 million unemployment claims were filed, doubling the new record set one week before. The March jobs report from the labor department will be released on Friday, April 3rd. The current consensus estimate is for losses of 100,000 jobs, but the range of economists' estimates is from a positive gain of 100,000 to a loss of 4 million. In other words, nobody has a clue.

S&P 500 Daily Price Changes in Q1 2020



Source: Bloomberg

We typically look at the forward price-to-earnings (P/E) ratio to get an idea of how expensive or cheap stocks are. Currently, no company or analyst has any idea what forward earnings will be, so the "E" in the equation is just a big question mark.

The Federal Reserve and the U.S. government have responded promptly, with a double-barreled shot of fiscal and monetary stimulus. The Fed quickly began buying securities, expanding its balance sheet from $4.2 trillion in assets at the beginning of March to $5.2 trillion, surpassing the prior post-financial crisis high of $4.5 trillion. On March 27, President Trump signed into law the $2.2 trillion coronavirus relief bill (see Special Topic: Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020). While we think that this massive fiscal and monetary stimulus is likely necessary to help bridge the gap and relieve those hurt most, we are concerned about what an unwinding of this stimulus might look like down the road.

In the meantime, we continue to search for signs of when this pandemic might come under control. In China, where this all began, the severe two-month long lockdown ultimately appears to have been effective, as the country is slowly getting back to work now that it has seen multiple days with no new infections. But cases are still on the rise in both the U.S. and across Europe, and we may yet see outbreaks spike elsewhere.

We are missing both data and context with which to make decisions. We are hoping for the best, but preparing for the worst, as we want to be conservative rather than aggressive in our positioning. We do not recommend selling into this decline, but we took the recent 20% market increase as an opportunity to exit positions we feel are most vulnerable to further downside if the situation deteriorates (see Asset Transactions: Weathering the Storm). In our commentary last fall, we recommended that clients review asset allocation with us, and this exogenous market shock reminds us why we engage in that discipline.

ASSET TRANSACTIONS

Weathering the Storm

Despite the wild gyrations in the market this quarter, we found opportunities to harvest tax losses and make several changes in our client portfolios. We added an overweight position to Disney (tkr: DIS) following its disproportionate decline in early March. Although Disney will see disruption from the coronavirus outbreak due to cancellations of its cruises, park closures, and cancelled sporting events, the company has recently focused most of its efforts on over the top (OTT) streaming services. We think these offerings should benefit in the near term as more people are quarantined and consuming video content at home. When the outbreak is ultimately contained, we think Disney will be positioned well to rebound, as it offers premium content and experiences that people will likely continue to enjoy.

We also sold our position in UnitedHealth Group (tkr: UNH). The stock had held up relatively well, boosted in part by Joe Biden's strength in the Democratic primary. Bernie Sanders' "Medicare for All" plan would be a huge negative for health insurance companies, but as Biden looks likely to be the nominee, UnitedHealth Group has benefitted. We took the relative out-performance as an opportunity to sell out of our position due to concerns about how COVID-19 might impact the company.

We bought GlaxoSmithKline PLC (tkr: GSK, see "Featured Equity"), giving us exposure to a large pharmaceutical company with a wide breadth of product offerings, emphasis on vaccines and a solid pipeline. While several other Big Pharma companies are spinning off their older-but-steady product portfolios, we think GlaxoSmithKline's diversification reduces risk and provides more dependable results. The company is also contributing its expertise and technology in collaboration with numerous companies and organizations to help develop a vaccine for COVID-19.

In the technology sector, we sold our position in IBM (tkr: IBM), harvesting a tax loss, and added an underweight position in Apple (tkr: AAPL). We believe Apple will withstand the turbulent environment given its strong cash position, and that it should outperform in an ultimate recovery.

We sold our position in Travelers Companies (tkr: TRV) due to concerns over "social inflation." This concept refers to the fact that there is greater willingness to sue insurers and higher expectations among juries about what insurance companies should pay. Furthermore, the company faces an increasingly challenging tort environment as the plaintiff's bar is getting more sophisticated, clever and aggressive.

In the energy sector, we sold Schlumberger N.V. (tkr: SLB), an oilfield services provider that has been hurt by underutilized equipment and more recently by both oil pricing wars between Saudi Arabia and Russia and further worldwide reductions in demand due to COVID-19.

Alongside the ~20% rally in the market near the end of the quarter, we sold positions in Hexcel (tkr: HXL), United Technologies (tkr: UTX) and TJX Companies (tkr: TJX). We believe these companies are most vulnerable in a prolonged "lockdown" scenario, which we think is a real possibility at this point. Aerospace companies Hexcel and United Technologies will be hurt as lowered demand for flights in 2020 will suppress the backlog for commercial aerospace orders in the future. TJX Companies will be hurt significantly if stores remain closed for a prolonged period. Its online presence is currently small, and therefore store closures hurt the company disproportionately relative to other retailers.

> "The coronavirus outbreak that has ravaged the globe has led to extreme volatility in nearly every market."

FIRM UPDATES

Nelson Roberts officially launched our new portfolio accounting system in the first quarter. Our clients now have access to the new online portal, where they can view their account details and quarterly reports.

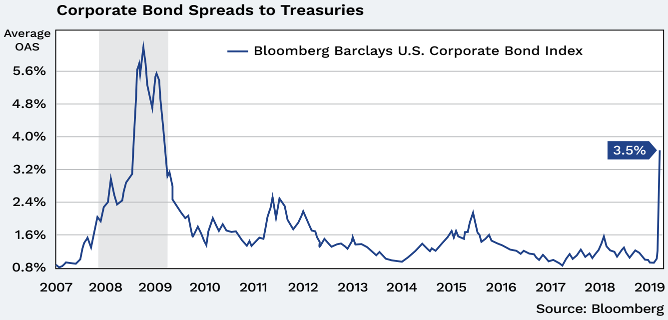
The Nelson Roberts team continues to operate remotely, and fortunately we were ready to go with remote access before the shelter in place order was announced. We are here to help answer any questions and to assist clients in navigating this turbulent time.

FIXED INCOME

Federal Reserve Stabilizes Fixed Income Market

The global selloff in equity markets put enormous pressure on the U.S. bond market in the month of March, raising concerns about the safety and liquidity of fixed income. As panic abated toward end of the quarter, credit markets rebounded and some normalcy returned to trading.

In mid-March, investors sold bonds and pulled cash from bond funds of all types at a record pace, prompting a vicious cycle of selling. Disruptions were felt in the U.S. Treasury market, which is typically immune to liquidity constraints. U.S. Treasury bill



yields traded below zero as investors exited longer and less liquid bonds and fled to the safety of bills. At the end of the quarter, the 3-month Treasury bill and 10-year Treasury yielded 0.02% and 0.68%, respectively.

The corporate bond market came to a standstill as investors all tried to rush for the exits at the same time. Many investment grade and junk-rated debt offerings stopped trading. The spread (difference) between U.S. Treasury yields and investment grade bond yields widened from less than 1 percent before the COVID-19 crisis to over 3%. Junk bond spreads spiked to over 9%. Potential buyers stayed away as the market contemplated which companies would survive and which might go bankrupt.

Municipal bonds declined in value as cities and states closed nonessential services. The risk of an economic recession and the financial strain placed on local governments due to a drop in tax revenue had bondholders concerned.

The disruptions have prompted a series of extraordinary Federal Reserve interventions to keep capital flowing and to calm the markets. The Fed has lowered its benchmark target rate to zero, eased regulatory requirements for some banks, opened up new lending facilities and indicated it would buy bonds in unlimited quantities. In its March 23 announcement, the Fed established three new lending facilities to provide up to $300 billion of liquidity by purchasing corporate bonds, a wider range of municipal bonds and securities tied to such debt as auto and real estate loans. With the passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act on Friday March 27, Congress approved an additional $454 billion for the Fed to lend. By providing the Treasury Department with a sizable pot of money, Congress has given the central bank more flexibility to ramp up lending and absorb initial losses.

In response to the liquidity constraints, we have taken steps to ensure our safe investments are secure for what is currently an unknown period of market disruption. Our focus has always been to invest in high-quality investment grade bonds and not chase higher yields by buying lower quality debt. We will continue to monitor the fixed income markets closely as we move more money into cash and U.S. Treasuries. The good news is that even as U.S. government debt grows to levels not seen since World War II, global demand for U.S. Treasuries remains strong.

TOP 15 HOLDINGS

- VANGUARD DEVELOPED MARKET ETF
- iSHARES S&P SMALL-CAP ETF
- AMAZON.COM INC.
- ALPHABET INC.
- MICROSOFT CORP.
- COSTCO WHOLESALE CORP.
- VERIZON COMMUNICATIONS INC.
- MEDTRONIC
- ILLUMINA INC.
- APPLE INC.
- CISCO SYSTEMS INC.
- VANGUARD EMERGING MARKETS ETF
- WALT DISNEY CO.
- HOME DEPOT INC.
- LINDE PLC

FEATURED EQUITY

GlaxoSmithKline PLC

The large pharmaceutical industry (aka “Big Pharma”) is an increasingly challenging subsector of healthcare. Companies that were once considered “steady Eddies” with predictable cash flow and generous, reliable dividends are now pivoting to emphasize growth. These companies are investing in and acquiring new (and more expensive) drugs, particularly in oncology. While this strategy might possibly lead to higher growth and higher margins, it is also riskier than the traditional Big Pharma approach. We sold Pfizer (tkr: PFE) because their dramatic change in strategy did not fit with our overall healthcare sector investments. After careful consideration, we decided to buy GlaxoSmithKline (tkr: GSK). This pharmaceutical company maintains a more balanced and broader product portfolio as well as a wider geographic reach than many of its competitors.

GlaxoSmithKline PLC Price

GlaxoSmithKline is headquartered in Great Britain and employs over 95,000 people globally. 55% of its sales are from pharmaceutical products, with an increasing emphasis in oncology. GlaxoSmithKline recently acquired a company called Tesaro, which brought with it a medicine called Zejula. Zejula is already approved to treat advanced ovarian cancer in the U.S. and Europe. The drug is being evaluated for use in other solid tumors as well. Vaccines constitute 20% of sales. Shingrix, GlaxoSmithKline’s new shingles vaccine, has been a major growth driver in the last year. This vaccine, which requires two doses, represents a dramatic improvement in the prevention of shingles and post-herpetic neuralgia in people older than 50, with over 90% effectiveness for both indications. GlaxoSmithKline also makes and sells Bexsero, a vaccine aimed at preventing a particular type of bacterial meningitis. Vaccines require considerable technical expertise to manufacture and are not subject to generic competition, which makes them not only a big contributor to public health, but also a strong source of ongoing revenue. GlaxoSmithKline’s consumer healthcare division generates 25% of revenues. Last year, GSK and Pfizer struck a deal to combine their consumer healthcare portfolios, with GSK owning two-thirds and Pfizer owning one-third. The goal is to improve margins and cut operating costs over the next two years, then spin the division off. The new company will have estimated revenues of $13 billion.

GlaxoSmithKline’s research focus areas include the immune system, genetics and advanced technologies. Given the COVID-19 epidemic sweeping the globe, the company’s vaccine expertise looks like a strong bet as more emphasis is placed on prevention of viral diseases. The company’s stock was also attractively valued, with a price-to-earnings ratio slightly lower than its peers and a dividend slightly higher, at 4.5%. While the market is certainly in a state of turmoil right now, people will still need medicines and GlaxoSmithKline should be able to maintain steady cash flow to service its debt and support its dividend.

(The preceding information regarding the featured equity should not be construed as a recommendation to purchase the security. It should not be assumed that future returns will be profitable or will equal the historical performance. Please contact us for a complete list of holdings.)

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SPECIAL TOPIC

Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020

The Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 is an estimated $2.2 trillion package passed by U.S. lawmakers to help support individuals and businesses that have been impacted by the spread of coronavirus. This is the third aid package passed by Congress meant to keep affected businesses and individuals afloat during this economic disruption.

The package allocates approximately $560 billion dollars to individuals and $877 billion to businesses, both large and small, that are severely hit by the spread of this disease. The remainder of the nearly $2.2 trillion will support public health, state and local governments, education, and other safety net programs.

Below are some of the key changes that have been made to support individuals and small businesses.

- Tax return filing has been extended by the Internal Revenue Service and the Franchise Tax Board to July 15th, 2020. Taxpayers can defer federal income tax payments due on April 15, 2020 to July 15, 2020 without penalties or interest. Income tax estimates for 1st and 2nd Quarter 2020 are also not due until the July 15th filing date.
- Required Minimum Distributions (RMD) are waived for 2020. An individual who has taken their RMD for 2020 can return it to their IRA, if desired.
- An individual can take a distribution from their IRA or 401k up to $100,000, penalty-free. The 10% early withdrawal penalty has been waived for people younger than 59 1/2. These distributions can either be repaid, or the income taxes paid over the subsequent three years.
- The government will make one-time cash payments of up to $1,200 per person, plus $500 per dependent child for families earning $150,000 or less. The payments phase out between $150,000 and $198,000 in earned income, based on 2018 or 2019 tax filings.
- Under the new legislation, gig workers, contract workers and freelancers will now be eligible for unemployment benefits. The legislation also adds $600 per week on top of the amount a worker receives from the state. This additional payment will last up to four months.
- Small businesses can receive up to $10,000 for emergency funds for operating costs. Additionally, there is a $350 billion pool for loans up to $10 million that could be forgiven if the loan is used to maintain payroll, pay rent, or keep workers on the books, provided workers stay employed through the end of June.

This historic legislation was passed quickly in response to the unprecedented shock. How some of its provisions will be implemented is still uncertain.

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