Quarterly NEWSLETTER

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America's Innovation Decade Drives Record Performance!

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The 2010s marked the first calendar decade that the S&P 500 was in a bull market for the entire period. The S&P 500 finished the decade with a 31.5% total return in 2019. After slumping in the third quarter, many investors feared a trade impasse would lead to a 4th quarter similar to the 13.5% pull back in fourth quarter 2018. In early October, however, the Trump Administration announced a Phase I trade deal, which set the market on a 9.1% run, reaching new all-time highs during the quarter. The S&P 500 rallied another 3% in January until concerns over the Coronavirus reversed the early gains. The S&P 500 opened the decade on January 1, 2010 at 1,115 and finished on December 31, 2019 at 3,231 more than tripling including dividends (+256%,) resulting in a compounded annual total return of 13.6%. The market return for the 2010s were much higher than the historical market return, so the gains of the 2010s brought "the lost decade" of returns (2000s) in line with historical averages over the 20-year period.

Perhaps the most unforeseen outcome in 2019 was the strength in bond returns in the face of huge equity market rallies. Despite the strong equity rally, trailing 12-month bond returns were higher than equity returns for the first nine months of 2019 because of the 4Q18 equity market downturn. Rates started to drift lower after the Fed paused in January and signaled at the end of March it would likely be on hold. Rates steadily declined, adding to bond returns, as the Fed started to cut rates in the third quarter. The move to easier monetary policy enabled the U.S. bond market to post its best return of the decade at 8.72% in 2019 versus its 3.75% 10-year average. With many sovereign bonds still at negative yields, the developed international market underperformed the U.S. in local currency terms (+6.84%) and in U.S. dollars (+8.22%).

We have enclosed our full 4Q19 Review and 2020 Outlook for your review.

Q4 2019 S&P 500 Sector Performance

	Q4	1 Year
Healthcare	14.37%	20.82%
Consumer Discretionary	4.47%	27.94%
Consumer Staples	3.51%	27.61%
Financials	10.44%	32.09%
Telecommunication	8.99%	32.69%
Information Technology	14.40%	50.29%
Materials	6.37%	24.58%
Energy	5.49%	11.81%
Industrials	5.50%	29.32%
Utilities	0.80%	26.40%
Real Estate	-0.54%	29.00%

Proprietary Performance Results

Equities	4th Qtr	YTD	1 year	3 year	5 year	10 year
Focused Equity Fund[1]	6.76%	32.08%	32.08%	15.74%	11.16%	13.17%
Aggressive Growth Fund[2]	6.36%	32.20%	32.20%	22.87%	15.52%	16.03%[1]
Science/Technology Fund[3]	14.03%	38.26%	38.26%	24.19%	15.52%	14.78%
S&P 500	9.07%	31.49%	31.49%	15.26%	11.68%	13.55%
Balanced	**4th Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Strategic Income Builder Fund[4]	6.54%	21.69%	21.69%	9.36%	6.96%	8.73%
60% Russell 3000 Value, 40% Barclays Aggregate Index	4.52%	19.27%	19.27%	7.40%	6.33%	8.71%
Alternatives	**4th Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Liquid Alpha Fund	-1.41%	3.19%	3.19%	2.42%	n/a	n/a
Structured Alpha LP	-1.76%	1.41%	1.41%	n/a	n/a	n/a
SG CTA Index	-2.15%	6.26%	6.26%	0.84%	n/a	n/a
Tax-Free	**4th Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Muni Funds Blend	0.73%	6.83%	6.83%	4.53%	3.40%	3.65%
Barclays 1-12 yr. Muni Index	0.86%	5.63%	5.63%	3.57%	2.60%	3.15%
Aquila Churchill Tax-Free Fund of KY	0.50%	5.66%	5.66%	3.57%	2.52%	3.36%
Dupree KY Tax-Free Income	0.41%	6.69%	6.69%	3.83%	2.85%	3.74%

There is no assurance that any of these investment strategies will meet its investment objective. Performance results for each strategy are computed on the strategy's overall returns. Each strategy and index includes the reinvestment of dividends. Past performance does not guarantee future results. Current performance may be lower or higher than the performance results quoted. [1] Net of management fees; Inception date 7/1/1989; performance results of SMC Capital and/or its principals as advisor from inception to 2/28/06 and as sub-advisors to CBandT since 3/1/06. [2] Inception date 3/31/2006. [3] Inception date 12/31/2008. [4] Inception date 12/31/2008.

Fixed Income

As widely expected, the Federal Reserve lowered the Fed Funds rate 0.25% at its meeting in October, its third cut this year. This puts the Funds rate in a range of 1.50% - 1.75%, down from 2.25%-2.5%. FOMC members all agreed to keep rates unchanged in December, its first unanimous vote since May. This "dovish" Fed helped pushed the 10-year Treasury to near historical lows, closing at 1.46% on September 3rd, before volatility returned. It established a range of 1.7% to 1.9% for the remainder of the year before finishing the quarter at 1.92%. Rates remain attractive, particularly in comparison to the mostly negative interest rates in European debt. This "dovish" backdrop was demonstrably favorable for both bonds and stock returns. The Bloomberg Barclays U.S. Aggregate Bond Index surged +8.72% in 2019, its best year since 2002, as investors sought a haven from negative rates overseas. However, U.S. investment-grade bonds took a breather and returned only +0.18% during the last quarter of 2019.

Like stocks, corporate bonds have recovered and performed exceptionally well. Investment-grade U.S. corporate debt returned +14.54% in 2019, its best year during the decade. Non-investment grade or "high-yield" bonds trailed slightly, returning +14.32%, despite their significant "income" advantage. These returns are in contrast to a deteriorating credit picture, according to Standard & Poor's. International bonds could not match the returns here in the U.S during 2019. The "hedged" Global Aggregate ex-US returned +7.57% vs. +5.09% unhedged. Our international exposure is limited to emerging market bonds, which outperformed. As a proxy, the iShares JPM USD Emerging Markets Bond ETF (EMB) returned +15.5% for the year. Tax-exempt municipal bonds returned +7.54%, the best year since the 2014 rebound from the Fed induced "Taper Tantrum". As we have discussed, the demand for municipal bonds has been spurred in part by the new limit on state and local tax deductions (SALT). Investors have added over $102 billion into tax-exempt mutual funds and ETF's in 2019, or roughly $2 billion per week on average.

During 2018, our base case was that the Treasury curve (long vs. short-term interest rates) would continue to flatten, which it did. During 2019 we noted that an "inverted" curve is more probable than a steepening curve, which happened throughout much of the year. Given the Fed's policy action of further rate cuts and T-bill purchases during the quarter, the curve is no longer inverted and basically flat inside 3 years. From here, we should see a steeping curve if the market is correct and the Fed continues to cut rates. We remain confident in our 1-3% total return forecast for investment grade bonds over the next 3 to 5 years. Overall, yield is a strong predictor of future returns and the Bloomberg Barclays Aggregate index is currently yielding around 2.3%, so that would confirm that range.

Fixed Equity

Unitedhealth Group, Inc. (UNH)
9/1/2019 – 12/31/2019

For the fourth quarter and the twelve months ending December 31, the strategy returned 6.76% and 32.08%, respectively, versus a 9.07% and 31.49% gain for the S&P 500 Equity Index. Since inception, the strategy has narrowly trailed the S&P 500's annual return of 14.67% by -0.28% with an annualized gain of 14.39%. However, the fund has achieved these results taking on meaningfully less risk than the S&P 500 with a beta of 0.88 and capturing only 91% of the index's annualized standard deviation, thus producing annualized alpha (the amount of risk-adjusted performance greater than the benchmark) of 1.23 since inception (12/31/2008).

Leaders: Quality-growth and size were the strongest factors across US large-cap equities through Q4, with information technology and financials producing the largest total returns within Focused Equity. We saw many of the largest market capitalization stocks rally, with UnitedHealth (UNH, +35.78%), Apple (AAPL, +31.46%), Adobe (ADBE, +19.39%) and JPMorgan Chase (JPM, +19.30%) posting the highest total returns in the strategy over the fourth quarter. Over the last twelve months, size and quality-growth remained dominant across all sectors, as Apple (AAPL, +88.99%), MasterCard (MA, +59.11%), Microsoft (MSFT, +57.45%), Facebook (FB, +56.49%) and Lockheed Martin (LMT, +52.48%) were the best performing stocks in Focused Equity for 2019.

Laggards: As the market shifted toward growth throughout the fourth quarter, consumer and rate-sensitive sectors fell out of favor, including companies like Yum! Brands (YUM, -10.82%), Ventas (VTR, -10.38%), Home Depot (HD, -5.30%), and American Water Works (AWK, -0.71%). Earlier in the year we saw one of the strongest industrial stocks over the last decade, Boeing (BA, -13.88%), fall further in Q4 after a second fatal crash on its 737-MAX series prompted regulatory authorities to ground the plane across the globe. Throughout Q4, Boeing and the FAA uncovered additional issues with the series that would further delay the 737-MAX return to service, and ultimately removing CEO Dennis Muilenburg from the helm. For the last twelve months, commodity sensitive stocks were the largest detractors in the strategy as energy and materials stocks like EOG Resources (EOG, -20.51%), Dow (DOW, -8.83%) and Dupont de Nemours (DD, -2.82%) significantly lagged the market. We exited Ventas, Dow and Dupont in the new tax year.

Strategic Income Builder

State Street Corp (STT)
9/1/2019 – 12/31/2019

During the quarter, the strategy (SIB) soundly beat its blended benchmark, returning +6.54% vs. +4.52% (60% Russell 3000 Value & 40% Barclay's US Aggregate). For 2019, results were even more impressive, returning +21.69% vs. +19.27%. Performance also compares favorably to the Lipper Balanced Fund Index, which returned +5.12% and +19.44% respectively. Since inception (1/1/09), the SIB strategy has returned an annualized +9.64%, somewhat ahead of the benchmark return of +9.26%. The yield generated from the strategy has consistently exceeded that of its benchmark. On a risk-adjusted basis, the strategy has generated a positive alpha of 1.0% annualized with a beta of 0.92. The success of the portfolio is the result of an attractive mix of income producing securities, asset class and sector allocations, and tactical positions in global markets.

For the quarter, our equities returned +9.64% compared to the Russell 3000 Value return of +7.48%. Calendar year equity returns were +29.76% and 26.26%, respectively. Equity allocation ended the year at 67.3% of the portfolio, or 7% over its benchmark. Dividend yield ended the quarter at 3.1%, or roughly 0.7% higher than the Russell 3000 Value and 1.3% more than the S&P 500. UnitedHealth (UNH +35.8%) was the best performing stock for the quarter. We established the position in late September near the lows of last year at $216/share. We attribute most of that prior weakness to Medicare-for-All rhetoric from some of the Democratic Party presidential candidates. In our view, UnitedHealth's long-term earnings growth forecast of 13-16% is achievable in coming years. State Street (STT +34.5%) was our second best performer. State Street had languished last year through September (-3.9%) against a challenging revenue-growth backdrop, before its dramatic rebound during the quarter. State Street's cost cutting is expected to help enhance profitability. While the Charles River's technology may still produce additional synergies. That acquisition was an attempt to deepen client relationships and battle the accelerated industrywide fee compression. Apple (AAPL +31.5%) was our third best performer for the quarter. Historically within SIB, this stock has had an above market yield (S&P 500), something hard to come by in technology. However, given its +89% total return in 2019 (our largest gainer), it now has a dividend yield of less than 1%.

Quarterly fixed income performance was +0.87% vs. +0.18% for the Bloomberg Barclays Aggregate Bond return. These results allowed us to surpass the excellent index returns for the full year; +8.79 vs. +8.72%. The fixed income allocation finished the quarter little changed at roughly 22%. Projected yield on the fixed income portfolio is currently 3.6%, which compares to 2.3% for the Bloomberg Barclays Aggregate Index.

Alternative investments struggled and were basically flat during the quarter. December income payouts were less than we have seen in recent years. Allocation of roughly 6% was also relatively stable. In general, we believe we can reduce portfolio volatility and enhance returns over time utilizing alternatives. While income generation is possible, it is difficult to predict in these strategies as we noted above.

Science & Technology Strategy

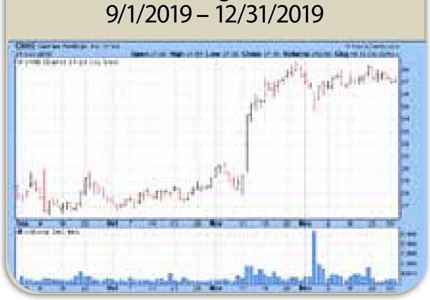
The Science & Technology strategy (SciTech) returned 14.03% for the fourth quarter outperforming the Lipper Science & Tech Fund Index (+11.95%). For 2019, SciTech trailed its index, returning 38.26% vs. 39.75% for the Lipper Science & Tech index, however it outperformed the S&P 500 (31.49%). Since the inception of the fund (3/31/2006), the strategy has returned 11.00% versus 11.19% for the Lipper Science & Tech Index and 9.14% for the S&P 500. Over the long run the strategy is beating the Lipper SciTech index on a risk-adjusted basis, has a Sharpe Ratio of 1.06, runs a 0.92 beta to the index and generates alpha of 0.76%. The SciTech prospectus implies a mandated allocation to healthcare of 20%. Healthcare stocks lagged technology stocks 16.23% vs. 27.65%, respectively, since the 2016 presidential campaign period, when politicians started threatening major changes to the healthcare delivery system and pharma supply chain. Nevertheless, our tech and healthcare holdings outperformed their sector benchmarks in 4Q19 and 2019.

Leaders: Apple (AAPL) made the biggest impact on the strategy during the fourth quarter, 2019, the last 10 years and since inception. Fittingly, Apple (AAPL) finished the "mobile revolution" decade with a remarkable 31.4% return for the quarter and an 89.1% return for 2019. The stock compounded 27.3% returns for the decade. It has been a holding since the first day of this fund compounding 29.9% annually since inception making it a "32 bagger" on our $10 average purchase price. President Trump's favorite business man, Tim "Apple" Cook, defied naysayers since Steve Jobs passed away in 2011. Cook introduced the Apple Watch, AppleTV, AirPods, etc., and grew services (Apple Store) exponentially. As a separate company services would rank in the top 25 of the S&P 500. The Mac personal computer business, which ushered in the "Computer Age" in 1980s and 1990s, now represents less than 10% of sales and grows around 2% annually. iPhones, on the other hand, make up 60% of revenues. The gains of 2019 price in some of the next wave of Apple's growth, the 5G super cycle. We believe the 900+ million iPhones in use will be replaced in the next 3 to 4 years with 5G models. Therefore, we will likely be holding shares for at least another 3 to 4 years.

Laggards: Only four holdings lost money during the quarter, collectively losing 0.3%: Alcon (ALC -4.5%), the maker of contacts spun-off from Novartis (NVS +8.8%), Proofpoint (PFPT -11.1%), the leading cloud-based security software firm, Stryker (SYK -2.7%), a leading orthopedic implant and medical device firm and Xilinx (XLNX -5.7%), a leader in programmable microchips. We exited XLNX during the quarter, before it released disappointing earnings in January and Alcon in January. Seven positions lost money for 2019 including Alcon (-11.8%) and Xilinx (-14.1%). We exited Humana (HUM -18.6%) earlier in the year after the Federal government refused to waive a tax on health insurers.

Small Cap

Cannae Holdings Inc. (CNNE)
9/1/2019 – 12/31/2019



The Small Cap Value Composite returned 9.77% for Q4 versus 8.49% for the Russell 2000 Value index. For the year-to-date, the strategy returned 30.21% vs. 22.39% for the benchmark.

One of the largest contributing holding in the Portfolio during Q4 was Cannae Holdings Inc. (CNNE, +35%), which owns a 17% stake in publicly traded HR software and services firm Ceridian (CDAY), a 24% stake in privately held commercial data and analytics provider Dun & Bradstreet, a healthcare IT company (T-System), and restaurant brands (O'Charley's, 99). The stock surged following management's Q3 earnings call, which revealed annualized cost savings for Dun & Bradstreet continue to run ahead of expectations, effectively pulling forward the timeframe for a potential monetization event. Another top contributor was Tech Data Corp. (TECD, +38%), the second-largest IT distributor in the world. In November, private equity firm Apollo Global offered to acquire the company for $130/share compared to our $135 assessed value. TECD subsequently reported its Q3 2019 results, which increased our assessed value to $139. During the go-shop period, Berkshire Hathaway offered $140/share for TECD, and Apollo later increased its offer to $145/share. We trimmed more than half of the position after the $145 bid was announced. Another positive contributor was Premier Inc. (Cl A) (PINC, +31%), a healthcare GPO and data analytics provider. PINC suffered from weak stock performance in Q3 2019 due to a short seller attack. Management took advantage of last quarter's share price by aggressively repurchasing shares. We maintained the position.

One of the largest negative contributing holding in Q4 was Vonage Holdings Corp. (VG, -35%), a global provider of business communication software. In November, VG reported disappointing Q3 results headlined by the Business Application segment, which includes VG's Contact Center (CCaaS) and Unified Communications (UCaaS) businesses, reporting below the market top-line growth of +8%. Another poor performer was Modine Manufacturing Co. (MOD, -33%), a manufacturer of thermal management components for vehicular, industrial, and HVAC end markets. During the period, MOD shares plummeted when the company announced weak Q2 earnings results and significantly reduced guidance. Lower customer demand in the vehicle and commercial/industrial segments led management to restructure and reduce expenses. Another bottom contributor during the quarter was Resideo Technologies Inc. (REZI, -17%), a global provider and distributor of smart-home products. In October 2019, REZI announced disappointing preliminary Q3 2019 results and reduced FY 2019 guidance (revenue -1%, EBITDA -19%) stemming from a mismanaged product transition and poor handling of input costs. REZI also announced a new interim CFO Bob Ryder, who had an excellent track record as CFO of Constellation Brands from 2006-2015.

Kentucky Municipals

Quarterly bond issuance by Kentucky municipalities rose to over $1.7 billion from $1.2 billion in the previous quarter. Competitively awarded deals were $477 million with negotiated deals of $1.255 billion. Deal size was very strong at $40 million with 43 new issues in total. Bank-qualified (BQ) issuance was only $65 million or roughly 4% while non-BQ issuance made up the majority, coming in at $1.5 billion or 87%. The remaining $154 million (9%) was taxable municipal issuance. Visible KY supply is moderate to start the year with $187 million on the calendar in coming months.

KY bonds basically kept pace with the national market this quarter. The S&P Municipal Bond Kentucky Total Return Index returned +0.69% vs. +0.74% for the Bloomberg Barclays Municipal Index. For 2019, these returns were +7.31% vs. +7.54%, respectively. This S&P KY Municipal Index's yield-to-worst (YTW) fell from 2.03% to 1.95% during the quarter. Currently at 1.89%, this yield metric is 1% lower than the 2.89% to start 2019. As discussed in our fixed income commentary, individual demand for tax-exempts has been fueled by the limitation on state and local tax deductions. For comparison, the Bloomberg Barclays Municipal Index has a yield-to-worst of 1.71%, so the state has a yield advantage of roughly 0.2%.

Kentucky Pension Update

Kentucky Attorney General Andy Beshear claimed victory in a close race against incumbent Gov. Matt Bevin. Mr. Bevin, who was elected in 2015, earned the teachers' ire by trying to move them from a traditional pension plan to a 401(k)-style plan and for criticizing a walkout. He had the support of President Donald Trump, who tweeted his endorsement and held a rally for Bevin. Teachers helped lead the charge against Mr. Bevin, donning the "Red for Ed" shirts that have become synonymous with teacher strikes across the country and knocking on doors after school. "We're absolutely backing Andy Beshear — the guy who has fought with us and not the guy who has fought us," said Jeni Bolander, a high school teacher who was among those who protested last year. Mr. Beshear has said he wants to use gambling-tax revenue to boost the pension system for teachers and first responders, saying it will include legalizing casinos, sports betting and capitalizing on fantasy sports.

State officials in Kentucky underfunded the pension system for years, leaving a plan for non-hazardous duty employees just 13% funded in 2018. In 2013, the state moved new state workers into a cash balance plan, which combines elements of traditional pensions with 401(k) plans and determines the value of benefits based on individual accounts. But teachers, covered by the $18.1 billion Kentucky Teachers' Retirement System, haven't had to withstand any changes, said Adam Koenig, a Republican state lawmaker. "They're the only ones that have not taken a haircut," he said. In 2018, Mr. Bevin's administration passed a law that would move new teachers into a hybrid plan, which was later ruled unconstitutional because it violated legislative procedures. Mr. Beshear, as attorney general, fought the law in court. The teacher's pension is about 57.7% funded.

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