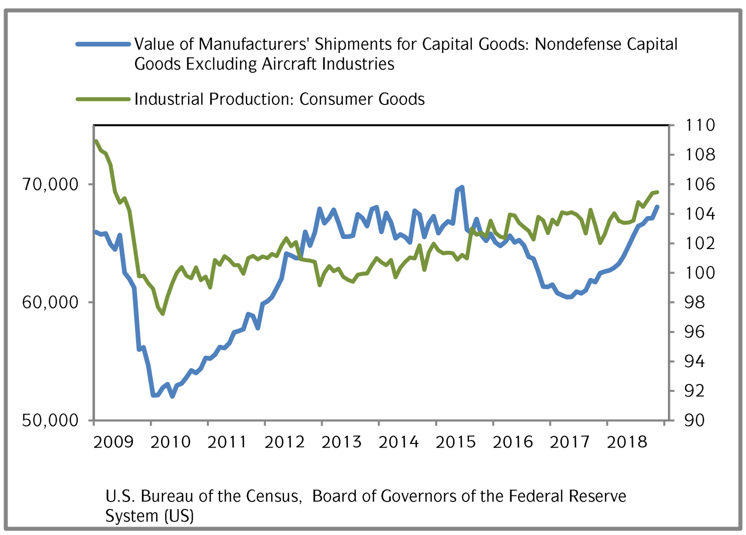
Arbor Capital Management

Second Quarter 2018 Investment Overview

The global economy continues to thrive and grow. However, the current economic cycle is old by historical comparison. There are several factors at play that we feel are strong enough to extend the current cycle even further and by extension continue to provide a favorable environment for financial assets.

Europe. Eurozone growth exceeded that of the US in 2017. The HIS Markit Europe Sector PMI is slowing in its rate of expansion, calling into question whether or not the European Central Bank (ECB) will reduce its quantitative easing as rapidly as expected. Germany posted a drop in Industrial Production of 1.6% vs. the consensus expectation of +0.3%. Additionally, regional Retail Sales and Consumer Confidence are also weakening. Weather and a major strike were major contributors to the disappointment. However, shortages are beginning to arise for skilled labor and other factors of production suggesting inflation risks may be building. The combination of shortages and weakening growth puts the ECB in a very difficult position, and its resolution is unclear.**US Economy.** Overall, the economy is continuing to expand at a steady but improving pace. The additional growth is fueled by tax cuts which are only beginning to show their benefits and expansion in Europe and Asia. Both Capital Equipment and Consumer Goods are advancing nicely.. The slow recovery from the last recession provided a buffer against the typical economic excesses from accumulating.

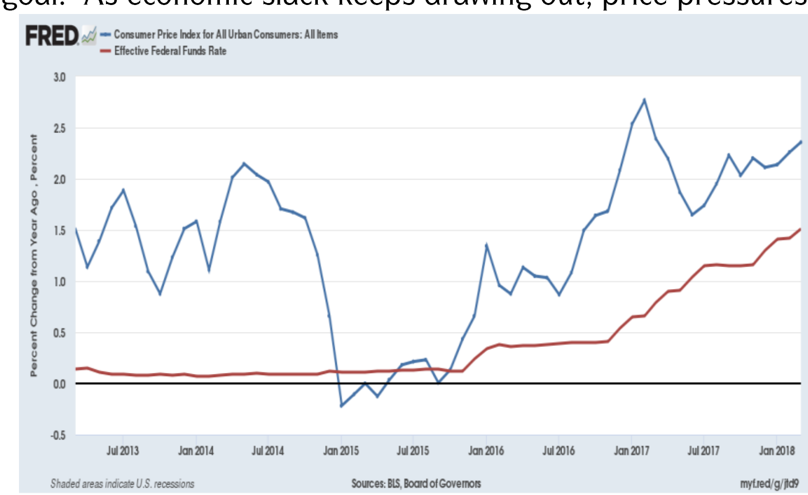


Unemployment continues to improve. Anecdotal evidence suggests that finding qualified workers is becoming more challenging than we expected. Currently U-1is approximately 4% which traditionally was considered full employment. U-6 which includes workers who have become discouraged and are not seeking employment is about 8%. We suspect that many of those listed as “discouraged” are working but not on anyone’s payroll. Under normal circumstances, labor costs explain about 35% of inflation. Should this expansion continue into extra innings, then there is a real possibility that wages could become a source of inflation pressure.

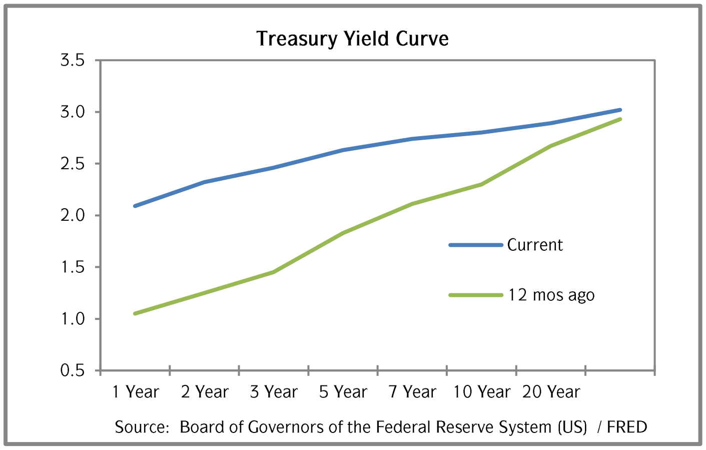
Another potential source of inflation is energy prices. Oil also explains about 1/3 of inflation. OPEC and Russia have each cut back on production to reduce excess supply to prop up prices. Meanwhile, the US shale producers managed to reduce the cost of production to $50.

Foreign Trade. We think the uproar surrounding the possibility of starting trade wars is overdone. The fundamental objection to this assumes that any form of tariff is a lose-lose proposition which is true if the starting point is free and open trade, but it is not. The US has been at a disadvantage for over 80 years. The status quo is being contested, not relative fairness or economic efficiency. Some corrective action is healthy in our view. On a broader scale, competition with China is going to become increasingly intense We think changes in trade arrangements are likely to be disruptive and the rhetoric may become heated. In the end, the US needs to move toward a fairer trade structure sooner or later.

Interest Rates. The Federal Reserve has long targeted 2% as the preferred inflation rate because it gives some policy flexibility with fewer worries about triggering deflation. Inflation is nearing the desired goal. As economic slack keeps drawing out, price pressures continue to build. The chart illustrates what has been happening by comparing year to year changes in the CPI (Consumer Price Index-All Urban Consumers – blue line) to the Effective Federal Funds Rate (red line). To jump-start the economy the Fed sharply cut rates. Then as inflation slowly began to build, the Fed Funds rate climbed as well. At the same time, the Fed is gradually allowing its balance sheet to shrink by letting some of its holdings mature without replacing them. The pace of the Fed’s portfolio run-off appears to be well under control to minimize market disruption. Since most economic time series are trending positively, we can expect an additional two to three rate increases later this year. The policy risk at the moment is if the Fed is too aggressive and creates an inverted yield curve that could precipitate a recession. The yield curve changes over the past year reflect very little change



in expectations for any sustained increase in inflation expectations and the rise in short-term rates has caused an obvious flattening of the yield curve. We suspect the Fed governors may defer rate increases should the Yield curve flatten further. From this perspective, the Fed policies are following what the market will give them, at least for the time being. In the meantime, the spread between Aaa Corporates and Baa Corporates has widened considerably indicating a reduced appetite for taking on credit risk, which is typical of later stages of a business cycle.



Fixed Income Strategy. The value of our ladder approach to bond portfolio construct is proving itself. Rising interest rates are allowing us to capture higher yields as holdings mature. We continue to favor floating rate and step-up instruments for their defensive nature. Taxable municipals offer a pick up in yield while still maintaining high credit quality. Should the economy experience a slow down the stronger credits will outperform weaker credits.

Equity Strategy. Stocks continue to rise driven by a strong macroeconomic backdrop and favorable tax changes that are providing a boost to corporate cash flows and earnings. Given the constructive macro-economic outlook we continue to believe equities will perform better than bonds or cash. We view the correction of the past two months is viewed as a healthy price readjustment that was a little past due. . What has changed recently is the severity of selling because of shortfalls in revenue or profit is much higher than usual suggesting that investor psychology is more anxious than many perceive. Consequently, we think the tone of the market is such that we are likely to live through a number of corrections this year. Sectors that we favor are Information Technology, Industrials and selected Materials.

As a registered investment advisor, the SEC, under the Investment Advisors Act, requires that our written disclosure brochures be delivered to each client and prospective client. Enclosed is the Summary we are required to supply at least annually. In addition to this summary, we offer to send you our current Firm Brochure with additional information should you request it. If you would like to receive our current Firm Brochure, please call or write Sandy Dodson or the undersigned.

We appreciate the opportunity to be of service to you. Please call us anytime to discuss your account, particularly if you have any changes in your goals or lifestyle.

We extend a special welcome to the many new clients who have joined the Arbor family in the last quarter. If you know someone or any organization that you believe would benefit from our services, please mention our name. We would be honored to have more clients like you.

Sincerely,

Gerald T. Cole, CFA **April 27, 2018**

Chief Investment Officer

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