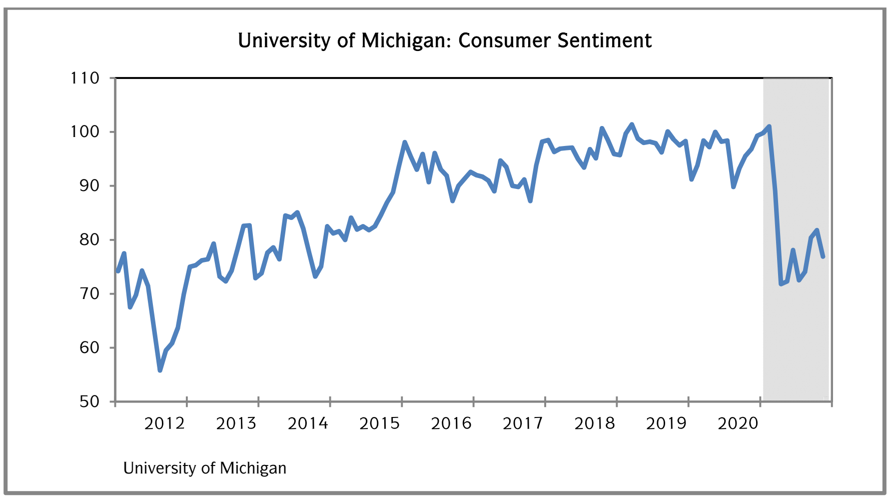
Arbor Capital Management

A Pure Asset Manager

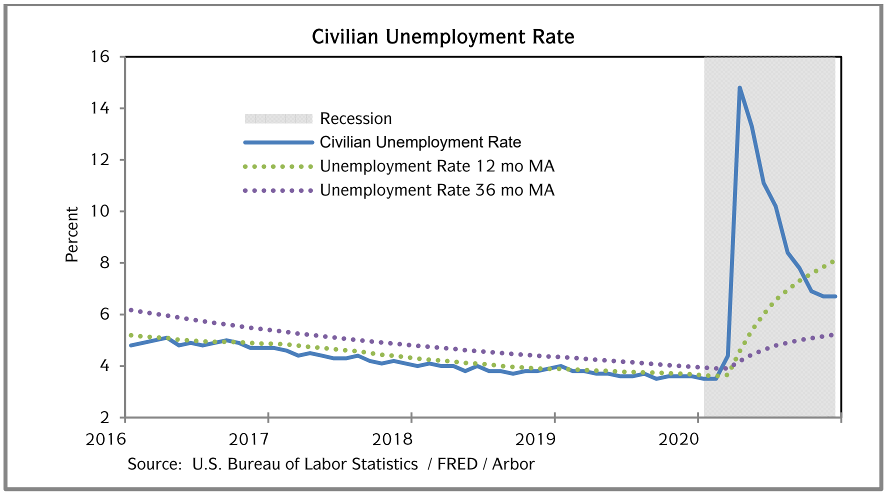
First Quarter 2021 Investment Overview

The new year opens with economic and share price momentum in its favor. Covid-19 concerns will likely diminish over time. As they do, many small businesses will be able to resume or expand their operations, which may boost jobs and inventory replenishment later in the year. From today's perspective, we think business conditions will continue to improve throughout the year.

The Economy. The economy rebounded nicely in the 3rd quarter, led by personal consumption expenditures, inventory investment, and residential fixed investment. A recovering service economy will provide a boost, as well. Consumer sentiment that, understandably, took a significant hit last year is on the mend.



The linkage between jobs, spending, and economic prosperity could hardly be more apparent, in our opinion.



Recently jobless claims have shown a worrying uptick resulting from renewed Covid-driven lockdowns. We don't expect as severe a reaction as we experienced last year. People have adapted to the rigors of lockdowns, and an additional round of stimulus is on its way. Our collective Covid mitigation efforts will be rewarded with quicker re-openings with a bit of luck.

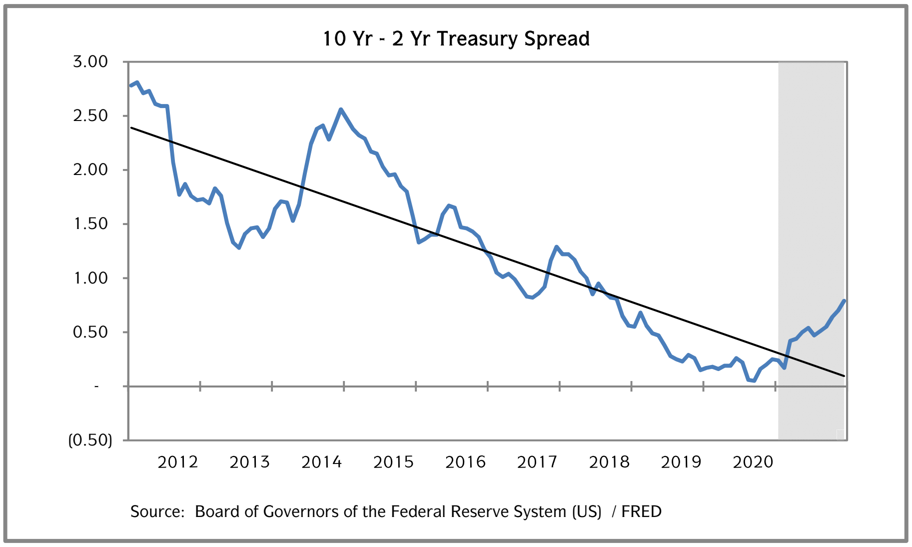
Any meaningful relief from the Covid related lockdowns would have a leveraged impact on economic growth.

Industrial data, such as the value of Non-Defense Capital Goods (excl. aircraft), Total Business Inventories, and Manufacturing Orders, all point toward a continued strong recovery. Quarterly GDP comparisons should continue to be strong throughout the remainder of the year. The interaction between the labor market disruptions and the expanding manufacturing sector will probably result in some push/pull type of economic struggle that will continue to recover against easy comparisons to last year. Sequential economic growth will be strong, particularly in the first half of the year, and will gradually decelerate to a more normal growth rate by year-end.

Monetary Conditions. Interest rates are still benefitting from easy-money policies that are likely to remain for the foreseeable future. As the economy continues to strengthen, we expect short-rates to remain relatively fixed, and long-rates will rise. As a result, the yield curve will steepen over time. The shape of the yield curve bears watching because its slope is an excellent indicator of inflation expectations. In other words, if inflation increases, then the return a bond buyer requires increases as compensation for their loss of purchasing power. In this manner, the yield curve directly reflects the forward-rate expectations of investors. We live in an extraordinary period where interest rates have been at or near historic lows for over a decade. Ten-year government bond yields in Germany and Japan remain negative, reflecting struggling economies. Provided the dollar remains stable, foreign funds will continue to purchase U.S. bonds, all other things being equal. As the economy continues to "ramp-up," Long-term interest rates will probably rise accordingly. Ten-Year Treasury rates of 2% ± by year-end seem to be a reasonable guess at this point.

Credit spreads have tightened over the past year. When Baa Credits soar above Aaa Credits, the spread signals increased default risk. The tightening spread over the past three quarters suggests strengthening business conditions which, corroborates the strength in the industrial data we've observed.

Fixed Income. As the Fed pledged to keep rates near zero, 10-and-2 year yield spreads widened to a



three year high.

Further steepening is likely. As the yield curve rises and steepens, the dollar would come under some pressure, making foreign holdings of U.S. Treasuries less attractive. The absence of non-domestic buyers would also add to an increase in yields across the entire yield curve. Since longer-term rates are rising, we are keeping bond maturities short while maintaining our credit quality standard of A or better.

Equities. Stocks are off to a strong start this year. Hopefully, the trend continues. Over the past several months, we have significantly reshaped our portfolios to participate in a resurgent economy and refreshed investment themes. We have long emphasized Technological Change as one of our most prominent investment themes. Our focus has been more on those possessing enabling technologies that facilitate downstream innovation. This includes names like Intel, Microsoft, Teradyne, Applied Materials, Cisco, Micron and others. They remain important components of our holdings. The conceptual glue that holds these together is that each of them provides capability to change the way we lead or lives and/or conduct our business. However, technology advances at an accelerating pace. Several emerging innovations are reaching commercial viability that also meet the same fundamental criteria, such as: Clean Energy, Web Payment Systems, Cloud Computing, BioTech, 5G Wireless, and Autonomous Vehicles. Our holdings have some participation in each of these areas to varying degrees. There are many small companies in these areas that have exciting potential. However, they are too small or are burning more cash than they are currently generating. Since their collective potential is so great, we have opted to gain participation with ETF's. This provides the exposure in a more diversified manner than would otherwise be efficient.

Banks may turn in surprise performances this year. There are three factors that drive Bank shares:

1. Interest Rates: Interest Rate spreads are widening allowing for improved profit potential.
2. Credit Quality: Companies are enjoying improved cash flows as the economy improves.
3. Loan Volume: As the economy recovers, Commercial and Industrial Loans will surge.

We own several large banks that are well run and positioned to thrive in the environment that we see unfolding. We may add one or two smaller regional banks that may offer attractive acquisition potential.

In addition to your year-end statements, we are enclosing a copy of our Privacy Disclosure Document in compliance with SEC requirements.

We are also including the yearly Realized Gain & Loss Report for all taxable accounts.

Once again, we would like to thank you for your business. We hope the coming year benefits your personally and financially. We would also like to extend a special welcome to our new clients who joined the Arbor family in the past quarter.

If you know someone or an 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 **January 28, 2021**

Chief Investment Officer

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