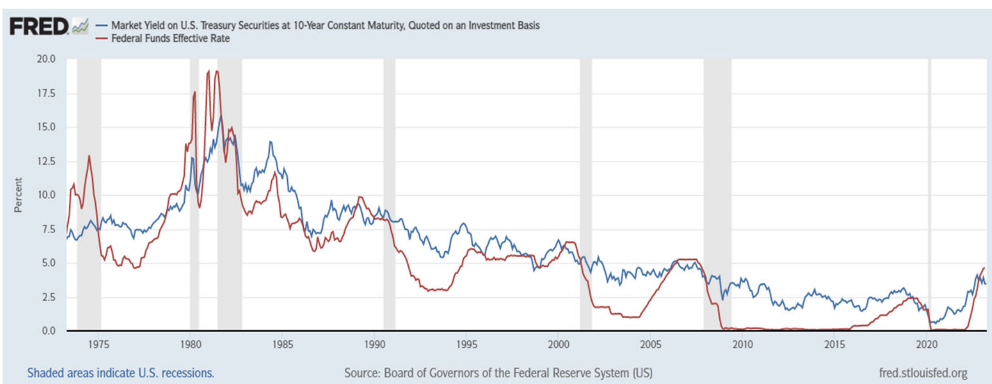
Arbor Capital Management

A Pure Asset Manager

Second Quarter 2023 Investment Overview

Data is gradually accumulating, suggesting the US is slipping into recession as we expected. We think the financial markets have partially discounted a recession and its risk to earnings. The remainder of the year will likely be a broad readjustment period as supply chain and bank liquidity issues resolve themselves.

Economy. Growth is moderating and expected to remain slow for at least the next year, possibly two. The consensus of forecasts expects negative GDP growth throughout the summer, with recovery commencing this autumn and a return to moderate growth in 2024. These are just forecasts, but we think they represent a logical base case from which to work. We believe the Fed has already set things in motion for a relatively mild recession. An indicator with an excellent track record is the spread between the Federal Funds Rate and the 10-year Treasury. Once Fed Funds exceed the 10-year, a recession generally follows.



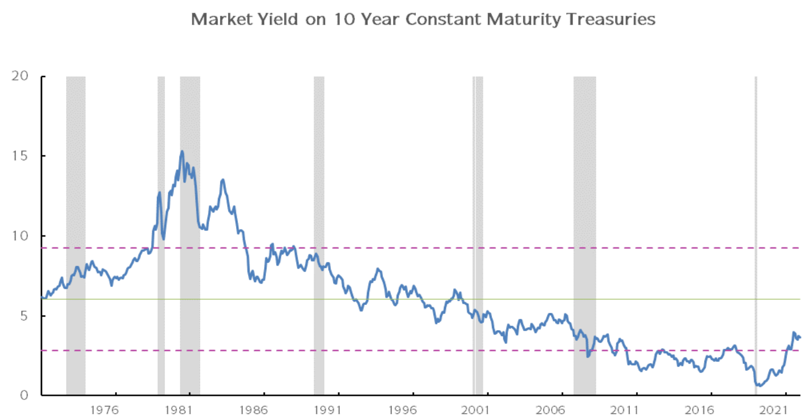
The Service Sector has outpaced Manufacturing over the past 12 months and is still expanding while Manufacturing is starting to contract. We expect consumer confidence and consumption to track with Jobs data. Unemployment is still low (3.5%). However, job openings are beginning to shrink, indicating a tightening of companies' expansion plans.

Energy prices are off the highs of 2022. The decline in oil prices was principally a result of sales of over half of the Strategic Petroleum Reserve. Combined with an OPEC production cut, the stage is set for tightening supplies and climbing prices, all other things being equal. High energy costs produce a spending constraint leading to sub-par economic growth and occasional inflation spikes.

Interest Rates. The Fed dramatically raised its Fed Funds Rate in response to an inflationary surge. Interest rates responded across the entire yield curve. Since the yield curve is currently 5%, bringing it more in line with short-term Treasuries, is the current "street" expectation. We will all know after the next Fed meeting on May 3. According to recent futures trading, a rate reduction commencing late this year is priced into bonds. Arbor's view is that forecast is overoptimistic. The dollar is under attack, once again, by the BRIC (Brazil, Russia, India, China) nations, who appear to be gaining the possible membership of Saudi Arabia, Turkey, Egypt, and possibly Mexico. As it stands now, the BRICS have overtaken the G7 in PPP-adjusted GDP. As a block, they compete strongly with the US Dollar as a reserve currency. If they are successful, we can expect an upward bias to inflation and interest rates for a long time. Foreign countries would no longer be as compelled to buy US Treasuries, creating a significant demand vacuum, and economic sanctions would cease being effective.

The 10 Year Treasury currently yields about 3.6%, well below the 50-year average of 6.03%. It appears to us that the Fed is trying to inch interest rates back to a more normal 5% range. There is some logic to this approach, making Fed policy more flexible in later years.

inverted, it seems logical that the Fed would slow its pace of interest rate hikes. An increase of 25 basis points to a target of



Fixed Income. Our fixed-income policy remains focused on short-term instruments. We shop for value based on credit quality, term to maturity, and after-tax yield. At some point, we will wish to extend term to maturity to capture relatively high yields for an extended number of years based on your needs.

Equities. We heavily favor companies with organic growth, strong management controls, and disciplined capital structure decisions. Ultimately, we are seeking well-performing companies that are in a position to improve their Return on Invested Capital (ROIC) or already have a high ROIC that is relatively stable. This approach is suited to holding up well against the current economic backdrop. Regardless of what is happening in the world, these companies tend to compound the underlying enterprise's growth consistently. These companies are building moats around their respective market shares.

As a registered investment advisor, the SEC, under the Investment Advisors Act, requires that our disclosure brochures be delivered to each client and prospective client. 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 716-446-9111 or write Sandy Dodson at smdodson@arborcapitalmgt.com, or the undersigned or go to SEC.GOV.

We appreciate the opportunity to be of service to you. Please call us anytime to talk, particularly if you have any changes in your goals, lifestyle, or your health. We are the Arbor Capital family and we are here for you.

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 25, 2023

Chief Investment Officer

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