

Punch

Newsletter

First Quarter 2020

Unprecedented and Familiar Times

Navigating a global pandemic with realistic optimism and the benefit of hindsight

Howard Punch
President and CIO



We hope this newsletter finds you in good health with family members close by or in touch. If you, your family, or friends have already been directly impacted by the COVID-19 virus, we care about you and want to hear from you. These are unique times for families, friends, our country, and our world. We hope and pray for a swift transition out of our current pandemic. Please know that in this work-from-home world to which we are all adjusting, we are only a phone call or e-mail away. We are fully staffed at all hours and working hard on your behalf.

During these unusual times for financial markets, our team at Punch & Associates is committed to helping clients successfully navigate the extreme volatility and uncertainty that characterizes the current investing environment. It would not be inconsistent to say two things:

- a. These are unprecedented times, and
- b. We've been here before.

In the aftermath of 9/11, while the nation was still getting over the shock of two planes flying into the tallest buildings in New York City and witnessing their subsequent collapse, and while we were still mourning the fallen victims, our government was encouraging us to get out of the house. "Go to a restaurant, take in a movie, attend a sporting event, gather with friends" was the general exhortation back then. Today, to

do such things would be viewed as tantamount to committing a crime. We must stay in, maintain proper social distancing to slow the spread of the virus, and give our medical community a chance to tend to the ill and come up with an answer. We are voluntarily closing large parts of the economy, which is problematic to say the least. We don't have a choice. At the same time, we need to be ready to re-open them. Yes, these are unprecedented times.

We've Been Here Before

Like 9/11, the COVID-19 pandemic has caused a re-assessment of the prospects of all businesses in America over a very short period. Financial reporting rules require companies to outline the uncertainties in their businesses. A restaurant or clothing company might typically include risks like changing consumer tastes, rising interest rates, or supply chain disruption. For the first half of the quarter, few companies pondered government-mandated closures or the impact on their business from the new rules on social distancing.

But this is my eighth bear market since coming into the business in 1983. In every past bear market, the pattern was as follows: 1) volatility increased, 2) people got scared, and 3) eventually stocks bottomed before the economy officially did. Given this history, it may never be as important as it is now to control your behavior as an investor. While it's impossible to

predict the exact bottom of the market, we know that acting on panic is generally not useful to guide one's decision-making in a high stress environment.

The Lonely Voice of Optimism

Pessimists have a strong following right now. Optimists are the clear underdog. A glass half-full? Are you kidding me? It's hard to see this situation this way. I suppose that's why they call what we're going through a crisis. In a crisis, everything that we thought was true ends up false; that which couldn't possibly happen, happens. Just a short time ago, current events seemed unimaginable. What we are experiencing now might have been borne out of the overactive imagination of a Netflix producer. Now we are watching it, but this time we all have a role in the movie.

In this movie, there is a positive narrative, one that features heroes. These heroes wear lab coats and scrubs instead of capes. They are the ones working on the frontlines of this crisis, potentially exposing themselves to this virus every day. Heroes stock shelves and check you out at the grocery store. They deliver your packages so you can stay safely at home. These heroes continue to work in factories producing essential goods and, in some cases, life-saving goods. There are heroes all around us and, like our soldiers, we should thank them for their service. Thank you if you or a family member are one of these brave people.

Shortages... and Hope

In this crisis, a lot of goods have been in short supply. During the initial stages, there was a run on toilet paper and hand sanitizer. I went shopping for a propane tank and couldn't find one. Crowds were emptying grocery store shelves of life's essentials. As people were focused on the immediate term, they may have lost sight of more important things like perspective and optimism.

David Rothkopf, writing for USA Today, recently made these comments about optimism:

Optimism is realism. That may be a hard concept to embrace in the middle of a rapidly worsening global pandemic and a crushing economic crisis. But history shows it is the right one. In fact, without that point of view, there very likely would not be any history at all.

Mr. Rothkopf went on to recount a story from his childhood:

I had just watched a documentary on what might come in the aftermath of a nuclear war, and it was very dark. One hundred million casualties in the United States alone. And, as the narrator put it, the end of life as we know it.

Gloomily, I went looking for my dad, and when I found him, he saw I was upset. He asked what was wrong, and I described the documentary to him. He was a scientist and a bit of a professional contrarian who took perhaps too much joy in challenging not just conventional wisdom but almost any idea until he was sure it held water. "One hundred million people could die!" I said with all the frustration teenagers typically have for obtuse parents. And his response was, "Well, during the Black Death, a third of Europe's population died, and the result was the Renaissance."

The world as we know it will only come to an end once, and I don't believe this is it. If I did, I probably wouldn't be writing this article. There are many concrete reasons for my optimism.

Regarding the virus:

1. People are listening to advice and voluntarily isolating themselves, which will give us a chance at "flattening the curve" or slowing the spread of the virus.
2. Testing may give us early detection of COVID-19 sufferers or identification of those who have recovered allowing us to create "safe zones," meaning we may be able to re-open parts of the economy.
3. Warmer weather may slow the virus, as other viruses have been slowed seasonally.
4. Scientists are testing experimental vaccines on accelerated timelines.
5. We have seen a rapid ramp-up of production of necessary medical equipment like ventilators to help treat COVID-19 sufferers.

Regarding the economy:

The coronavirus is both a medical crisis and an economic one. The cure for one competes with the cure for the other. To treat the virus, we must enact social distancing which means a large part of the economy necessarily must hit the "pause" button. The financial consequences to this shutdown have been sudden and dramatic. It's clear that strong decisive actions are

necessary, and that's what we've seen from the Federal Reserve and other policymakers in recent days:

1. The Federal Reserve has acted twice, only days apart, to lower interest rates. The speed with which the COVID-19 events are unfolding is incredible, but so is the speed of the Federal Reserve's response.
2. Policymakers acted with similar speed, passing three bipartisan pieces of legislation. The most recent is a \$2 trillion stimulus package sending checks directly to Americans, helping small businesses, and directing aid to industries like airlines, retail, and manufacturing.
3. Every central bank around the globe, like our Federal Reserve, is in a "whatever-it-takes" mode to buy time and minimize economic pain.
4. Many businesses and educational institutions have been able to work under sheltering rules with rapid adoption of remote working practices.
5. Energy markets have imploded, leading to the lowest gas prices we've seen in a long time.

Regarding the markets:

Markets quickly absorbed the reality that we would need to shut down a large part of the economy to fight the virus. Six short weeks ago, the S&P 500 Index was marking daily new highs. Since those days, we have lost roughly one quarter of the index's value. Indices measuring small companies have absorbed even greater losses. Here are some reasons we are more optimistic than three months ago about certain stocks:

1. Stocks are cheap. The Russell 2000 Index is back to 2013 levels. The Dow yields almost 3% with the 10-year Treasury yielding 0.68%. Which would you prefer to own over the next decade?
2. Historically, stocks have generated very positive returns in the aftermath of previous crises.
3. Value stocks have declined more than others after underperforming for a considerable period before this decline. This crisis could be the catalyst to spur on new investors in this asset class and new leadership of value-priced companies.
4. Markets continue to function and provide liquidity through dividends for investors that need it.
5. Many companies have products and services that benefit us during this time because they produce resources needed to sustain us or help us to fight this virus.

The Real Reason for Optimism

While there are many positive aspects of our current situation, the real reason for optimism is that after every crisis, we find a way to reinvent ourselves. We can employ the benefit of hindsight as we consider the ways in which other generations have gained strength through adversity. The suffering we, as individuals and as a society, experience today due to this pandemic will lead to character, unified resolve, collaboration, and innovation.

In a few short years after the 2008 financial crisis, we witnessed an expansion in new, creative companies born out of that dark economic time. The editors of the New York Times wrote in March of 2009, "The deck gets reshuffled in a recession as habits are re-examined and patterns of behavior are broken, perhaps to greater degree than when things are humming along at a steady state." They go on to say, "With business as usual off the table in a recession, people become more open to new and efficient ways of doing things. And they're forced to show more entrepreneurial discipline—you have to expend imagination before spending money."

Like the 2008 financial crisis and other economic recessions before it, we may now be entering the breeding ground for entrepreneurship and business opportunity. We find new ways to solve stubborn, deeply ingrained problems. We are forced out of the status quo and into a new perspective. We will emerge with scientific breakthroughs, new technology, more efficient supply chains, and ultimately, we will be better prepared for the years ahead.

Conclusion

We are in a medical crisis that has caused an economic crisis which has become a financial crisis. This has impacted everyone quite quickly. Fact-finding is difficult. Many "experts" with a microphone in front of them are making high-conviction guesses. But they are only guessing. Trying to get to the truth before others is our daily mission. While volatility is likely to remain high in the coming weeks, we believe it will taper down in time as we more accurately separate fact from speculation. Businesses valuations always revert to the present value of future cash flows. In our opinion, our companies are well positioned to get through the current crisis and eventually thrive on the other side.

Historically, times of uncertainty and fear are the greatest moments to be invested in the stock market. In the middle of each past crisis, it was hard to see around the corner. In hindsight, each past crisis has afforded a great buying opportunity for a

generation of investors. We see no reason why this time will be different.

Many of you have heard us tell stories of Warren Buffett and his partner, Charlie Munger. We hold them on a pedestal not because of their shrewd investment acumen or their insightful macro-economic analysis. We do so because they behave better than most other investors...especially during times like these.

In the late 1980s, Munger recalled in an interview that a guest at a dinner party asked him, "Tell me, what one quality accounts for your enormous success?"

Mr. Munger's reply: "I'm rational. That's the answer. I'm rational."

Our commitment to you will always be to act rationally in stewarding your resources.



"I really don't mind coming into the office to work."

Update Regarding Punch Events

In an effort to maintain the safety and well-being of our clients, staff, and communities, we have decided to cancel our Spring Investor Update at Surly Brewery which was scheduled for May 12th. We are working to produce online content to provide updates on each of our investment strategies and wealth planning topics. More information about accessing the content will be available in the coming weeks.

Our Annual Punch Summer Client Event is currently scheduled for July 23rd at CHS Field. We will provide updates regarding the status of this event via email over the coming weeks.

Precautions for Online Security

As you know, we take our clients' safety and security very seriously. That includes your personal cyber security. We want to share some best practices that these trying times have brought into sharp focus. It is unfortunate that there are people who will take advantage of us during the COVID-19 outbreak. Here are a few of the ways that the scammers are trying to do this:

Efforts to get you to click on email links or attachments – Everyone is anxious for news at this time. Beware of emails that will entice you to click on links to stories or information but in reality will end up downloading malware onto your system. Take extra precaution that emails are coming from reputable sources. Look for red flags like misspellings or bad punctuation within the subject line or body of the email. Consider going directly to the news source in your browser rather than clicking on links within an email.

Emails and websites selling products – Beware of emails or websites claiming to sell test kits, mask cleaning kits, etc. They are likely a scam. Be wary of emails offering assistance to get these products as well.

Fake websites – With everyone staying home, there has been a huge boom in teleconferencing websites such as Zoom. Be cautious when you are searching and signing up for these sites. Be sure you are on the correct site before entering any personal information. There are sites out there trying to mimic the real sites to capture your information.

Punch Income Strategy

Debt Markets Catch the Flu

Declines in income asset classes reflect fears of a worse-case scenario

John Carraux, CFA
Managing Partner



While this has been the most unusual and unforeseeable set of circumstances that most of us have seen in our lifetimes, we believe that... ailing credit markets will eventually heal.

In September of 2008, in the depths of the worst financial crisis since the Great Depression, stock and bond markets temporarily flipped. Assets that are traditionally considered “safe” declined more than assets that are traditionally considered “risky.” As an example during that month, investment grade corporate bonds declined more than their common stock counterparts in some cases.

This topsy-turvy market environment was the result of existential worries on the part of investors. Will financial markets continue to function? Will banks and markets remain open? Are any borrowers still creditworthy? In the face of COVID-19, we are encountering some of these same questions today.

Historically, the Punch Income Strategy has had roughly half the volatility of the stock market. While trying to produce a high and consistent stream of cashflow for clients, we accept some short-term price volatility. In the first quarter of 2020, like in 2008, various income-oriented securities declined in-line with equity indexes or more so. This is highly unusual.

To some extent, these declines simply reflect markets that are moving quickly and indiscriminately. The stock market decline of the past month was one of the fastest in history. Even assets like farmland and government office buildings (both owned in the Punch Income Strategy) saw similar declines as the stock market, despite being more conservative and creditworthy.

The larger concerns, though, surround the ability of consumers and businesses around the globe to continue to pay their debts. As the world goes on lockdown and enters an indefinite economic winter, the uncertainties of credit losses mount. With so much unknown, many investors are assuming the worst and trading accordingly. Once we get to the other side of this pandemic—which we believe will happen with the help of significant government intervention

and medical resources—then investors may no longer assume the worst.

Despite this uncertainty and volatility, the Punch Income Strategy continues to produce regular income to investors, and we are on the lookout for ways to increase this income as opportunities arise. The longer the current crisis continues, the more likely it would be that we could see some reductions in dividend distributions to investors; so far we have seen more increases than decreases.

In the first quarter, we added to several existing positions and initiated nine new ones. We believe these investments have strong and sustainable dividend and interest income. In one case, we re-purchased a closed-end fund that we sold just two months prior. We continue to hold higher cash balances than usual, and we are ready to deploy it selectively.

Periodically debt markets catch the flu, and an investment strategy that produces regular income is especially important because of the tangible and immediate return it provides. While this has been the most unusual and unforeseeable set of circumstances that most of us have seen in our lifetimes, we believe that, similar to 2009 and after, ailing credit markets will eventually heal.



The Punch Income Strategy is a total return strategy that emphasizes current income over capital appreciation. The strategy invests in a variety of securities and asset classes that generally share the common characteristic of producing cash flow income that has the potential to rise over time.

Punch Large Cap Strategy

Contrarianism as a Tool

Large companies provide haven for “sheltering-in-place” during uncertain times

Paul Dwyer, CFA
Director of Research



Many companies in the Punch Large Cap Strategy have cash balances well in excess of their near-term needs allowing them to sustain economic downturns and deploy capital opportunistically.



Like visiting a new city for the first time, each market crisis feels different. As investor Howard Marks said, “And finally there’s contrarianism, which can convert other investors’ emotional swings from a menace into a tool. Going beyond just fending off emotional fluctuation, it’s highly desirable to become more optimistic when others become more fearful, and vice versa.” While this sentiment is easy to understand, in real life it is hard to implement if we rely too much on our own emotions. Thankfully, well-marked signs can help us navigate and recognize opportunities.

Measurements of fear were at all-time highs during the first quarter. Market fear gauges exceeded levels not seen since the financial crisis in 2008. March delivered two of the six largest days of market decline since 1929. Towards the end of the quarter, we began to see signs of hope, but we still don’t know the full extent of COVID-19’s impact on the economy. We do know, however, when the market is exhibiting signs of panic, it has historically been a good time to get—or stay—invested.

Many companies in the Punch Large Cap Strategy have cash balances well in excess of their near-term needs allowing them to sustain economic downturns and deploy capital opportunistically. A few have strategically built cash balances specifically to take advantage of a correction. In any downturn, the best capitalized end up getting stronger, and our companies are poised to gain market share.

This strategy is also our most geographically diverse, helping to mitigate against any single economic disruption. COVID-19 is a pandemic, but the virus impacts countries at different times. One country’s productivity can help offset the weakness experienced in another.

Finally, many of the companies in the strategy are some of the most prominent in their industries and have customers who will continue to demand their product or service regardless of the economic environment. We have been through market crises before, and we believe we are again well positioned to participate in the recovery.

While in London, it was not uncommon to exit the Underground and be confused about which way I was headed. Thanks to well-marked signs, I was able to get where I needed to go, even if in the moment I felt lost. Despite continuing broad macroeconomic uncertainty, and the natural unease that comes with every market decline, we are paying attention to the signs that historically indicated investors are likely to be rewarded in the future. We feel confident that owning some of the strongest companies in the world will enable us to get to the other side of this crisis without permanent damage, and we believe these companies will thrive at some point in the coming years.

The Punch Large Cap Strategy invests in large publicly traded companies. The strategy takes a long-term, concentrated approach to owning companies with durable competitive advantages, cash flow generation, and growth potential.

Punch Small Cap Strategy

Small Companies, Big Value

A focus on strong balance sheets and management teams in times of crisis

Howard Punch
President and CIO



Our firm has managed the Punch Small Cap Strategy since our founding in 2002. This strategy's objective is long-term capital appreciation. We do this by investing in some of the smallest, least-followed publicly traded companies where we think opportunities are greatest to find undervalued securities.

Across all the Punch strategies, we are value investors and seek to protect against permanent loss of capital. We like to find solid businesses and buy them at valuations that provide a meaningful margin of safety. If we do this consistently, when something goes wrong, the business can still survive and eventually thrive when the environment normalizes.

We believe that a few factors are causing some of our favorite companies to be punished more than others in this environment:

1. Small companies underperformed large companies, as investors flocked to the best-known companies;
2. Indiscriminate selling occurred within asset classes as investors adopted a "ready, fire, aim" approach, simply seeking to de-risk portfolios; and,
3. Less liquid securities quickly fell out of favor in the "dash for cash."

The Current Market Environment

The COVID-19 pandemic is likely impacting every business across the world in some way. A small fraction of companies may benefit in the near term. The vast majority of companies are like people going through this pandemic, their businesses have no choice but to adapt. Some will have to do so rapidly. Companies with relatively stable demand (or demand that they can recoup) are best positioned to drive shareholder return. Those with deferred demand will need to find ways to defer costs and maintain enough liquidity on their balance sheets to get

to the other side of the crisis. Our strategy has always favored businesses with entrenched customer bases (which should leave demand relatively intact or only deferred), strong balance sheets, and strong management teams.

Reassessing Business Models

We are not being Pollyannaish with respect to COVID-19 and its near- and long-term implications for businesses. Our investment team is hard at work having lengthy conversations with the management teams of the companies you own. While conversing with management is a regular part of our research process, in recent weeks we have put this practice into overdrive. That said, we recognize that the world has changed in the last three weeks, which means that a conversation from a month ago may already be quite stale. For that reason, we have dozens of conversations daily with your companies.

Over time, we believe the market will reward the small cap companies you own, even though our strategy lagged the Russell 2000 Index during the quarter. Sector allocation was a main reason for the underperformance. The Punch Small Cap Strategy was underweight in the healthcare sector and overweight in the consumer discretionary sector. As you might expect during a pandemic with social distancing as the only near-term solution, healthcare was a top performing sector, and consumer discretionary was one of the worst. The companies in the Russell 2000 healthcare sector tend to be some of the most speculative with little current earnings power. With our focus on downside protection, we are content to underweight companies with these characteristics.

A majority of the consumer discretionary companies in the Punch Small Cap Strategy have characteristics that make demand largely deferred (housing-related, cars, golf equipment, etc.) but not lost (for example, we do not own

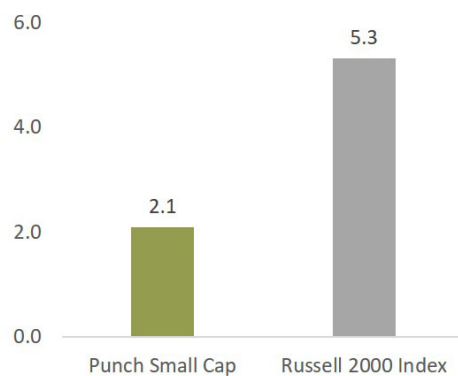
We like to find solid businesses and buy them at valuations that provide a meaningful margin of safety. If we do this consistently, when something goes wrong, the business can still survive and eventually thrive when the environment normalizes.

any restaurants). We believe, with time, our companies will regain much of their near-term lost revenue, have the balance sheets to sustain themselves, and even gain market share during this pause in economic activity. We maintain our belief that we have positioned the portfolio well to survive the present economic damage.

Comparing our strategy to the Russell 2000 Index, it becomes apparent that:

1. We favor companies with less debt. Our small cap portfolio has leverage of 2.1x equity compared to the Russell 2000 Index of 5.3x equity.

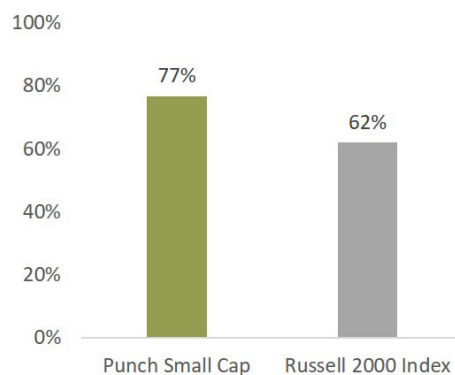
Average Company Leverage



Source: Bloomberg and Punch & Associates

2. Our companies are more profitable. Over three quarters of companies in the Punch Small Cap strategy are operationally profitable over the last 12 months compared to just over 62% of companies in the Russell 2000 Index.

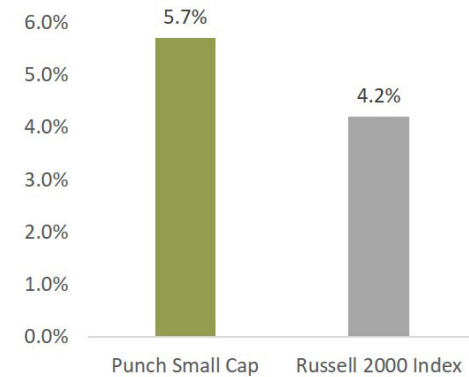
Percent of Profitable Companies



Source: Bloomberg and Punch & Associates

3. We focus on management alignment. Our companies' leadership owned nearly 35% more of their companies' stock than the average management team in the Russell 2000 Index.

Average Insider Ownership



Source: Bloomberg and Punch & Associates

The Path Forward

COVID-19's economic damage is real, but we recognize the market is forward looking and will eventually see past the current issues. History doesn't repeat itself, but it rhymes. As with past market downturns, our approach is consistent.

1. We seek to update and confirm our investment theses. We hold in-depth discussions with management teams to obtain real time updates and reassess their prospects. During market downturns, we use our analytical edge to determine who is best positioned for success in the intermediate term.

2. We aim to deploy excess cash throughout the downturn into long-term opportunities.

3. We harvest tax losses where possible to maximize after-tax returns.

4. We upgrade the portfolio by adding new companies as well as increasing our ownership in our favorite holdings. We intend to make your portfolio even stronger coming out of the crisis.

We will be executing these actions over the next few weeks, not months. At the same time, we are careful not to overreact during periods of extreme volatility. As always, we treat each investment as an ownership interest in a business, and in so doing, we maintain a multi-year view for the investment's potential success.

The Punch Small Cap Strategy is a growth oriented equity strategy that invests in smaller publicly-traded companies, primarily located in the U.S. The strategy looks for higher-quality companies that are trading at discounted prices because they are under-the-radar, out-of-favor, or simply misunderstood.

Wealth Strategies Group

Powerful Planning Opportunities in a Time of Crisis

Action steps to take in this moment of uncertainty

Jessica Johnson, JD
Managing Partner



When times are uncertain and circumstances are out of our control, we can easily feel lost and disoriented. Many of us have a natural inclination to *do something*. We have good news for you. While waiting out this pandemic, several powerful planning opportunities are available that didn't exist a few months ago in the height of economic exuberance.

1. Understand Your Cash Flow

For most of us, the pandemic has had a serious impact on our balance sheets and our income. Knowing where you are spending money is always important but never more so than in times of volatility, change, and uncertainty. You are not alone if you've never tracked your spending or gotten serious about a budget for your family. Now is the time to start understanding your cash flow and determining whether your spending is consistent with your financial capabilities and your values. Once you know how much you need, plan to have cash on hand to cover your expenses for the short-term.

Several budgeting tools can make the process of organizing your spending data easier. The trick is finding one that works for you and sticking to it. We recommend taking a look at your budget on a monthly basis before the month begins and reflecting on the prior month in the process. This cadence will allow you to recalibrate throughout the year as you enter each new season and as circumstances change. If you have combined your finances with a spouse or partner, you will likely find this level of communication helpful in setting clear expectations and avoiding money disagreements. Can you imagine the clarity and purpose you'll add to your situation when you have an accurate understanding of where your money is going? Now that your calendar is more open than ever, get organized without delay.

2. Take Advantage of Lower Stock Values

The stock market has taken a beating recently. We have experienced whiplash with daily volatility of historic proportions. If you believe that stock prices will eventually increase meaningfully, we may only have a short window of time to take advantage of depressed market conditions.

a. Convert Traditional IRAs to Roth IRAs

When you (or your beneficiaries) take money out of your traditional IRA account, you must pay ordinary income tax on the distribution. When money comes out of a Roth IRA account, you pay no tax on the distribution. Therefore the Roth IRA is an incredibly effective savings strategy. While stock values are low, you can convert your traditional IRA to a Roth IRA without selling any of the securities in your account. When you convert, the IRS imposes ordinary income tax on the value of the account at the time of conversion. Since many investors' account balances and taxable incomes are lower than they were a few months ago, now may be an ideal time to pay the tax and convert to a Roth IRA, allowing the account to grow tax free during any future economic rebound. In addition, the income may be subject to a lower tax rate for account owners with lower taxable income this year due to the pandemic, giving further incentive to this strategy.

b. Waive the 2020 Required Minimum Distribution for your IRA

As part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Congress's economic stimulus legislation passed recently, you are eligible to waive your required minimum distribution (RMD) from your IRA account this year. If you don't need to spend the distribution, leaving the assets in your account will avoid the resulting ordinary income tax on the distribution and allow the assets to participate in any potential growth in the market this year.

c. Diversification

Many clients tell us that they can't possibly sell out of a significant stock position because the capital gains tax is just too onerous. They wish they could diversify but doing so brings with it not only the tax cost but also the requirement that the reinvestment will perform well enough to recoup the tax payment. Although we can't predict the future, now that many legacy stock holdings have declined in value, this may be a time when you can sell at a lower tax cost and reinvest to capture growth with a more diversified portfolio.

d. Gifting

Each person can transfer \$15,000 per year to as many people as he or she wishes without the obligation to file a federal gift tax return (referred to as the “annual exclusion”). Each person can also transfer up to \$11.58 million during his or her lifetime without incurring a gift tax. This number increases each year by the cost of inflation, but this exclusion amount is scheduled to roll back to approximately \$6.2 million at the end of 2025. As a person uses his or her lifetime gift tax exclusion, that person’s remaining estate tax exclusion decreases.

One way to supercharge your giving to your children and grandchildren is to transfer assets that have the potential to grow in value over time. Now may be a good time to identify depressed assets and deploy them in one of the following opportunities:

College Funding – Consider transferring up to five years’ worth of annual exclusion gifts into a child or grandchild’s college savings account. Rules governing 529 plans allow givers to front load the accounts with a larger contribution. Doing so during current conditions may set up the account to benefit from an economic recovery, making our current misfortune a benefit for your children and grandchildren in the future.

Irrevocable Trusts for Children and Grandchildren – Gifting assets into a trust for one or more beneficiaries is another way to efficiently use either your annual exclusion or your lifetime gift tax exclusion. We help coordinate trust gifts by working

closely with you and your attorney and accountant to create and implement a giving plan.

Grantor Retained Annuity Trusts (“GRAT”) – A GRAT is a trust that allows its creator to give assets to his or her children without materially dipping into the annual or lifetime gift tax exclusions. For GRATs formed in April 2020, the IRS assumes a growth rate for trust assets of 1.2%. If the actual growth rate of trust assets over the trust term exceeds this hurdle rate, the excess growth passes to the children gift tax free. The GRAT work best with assets that have high growth potential and is ideal for families with estates that will likely be subject to state or federal estate tax.

Charitable Lead Annuity Trust (“CLAT”) – A CLAT is a trust that makes a series of payments to charity and distributes its remainder to children with little to no gift tax cost. Like a GRAT, the IRS assumes a hurdle rate, and the more trust assets grow in excess of that hurdle rate, the higher the remainder interest for children. The CLAT is a great planning strategy for families with taxable estates with significant charitable intent. The trust allows those families to transfer more to charity and family and less to the government by reducing gift and estate taxes.

For those of you not content to wait out the pandemic without taking action, we encourage you to consider the planning opportunities outlined above. If you would like to discuss your cash flow or implementing any of these strategies with a member of the Punch team, please give us a call. We look forward to *doing something* with you.

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CLIENT PORTAL ANNOUNCEMENT

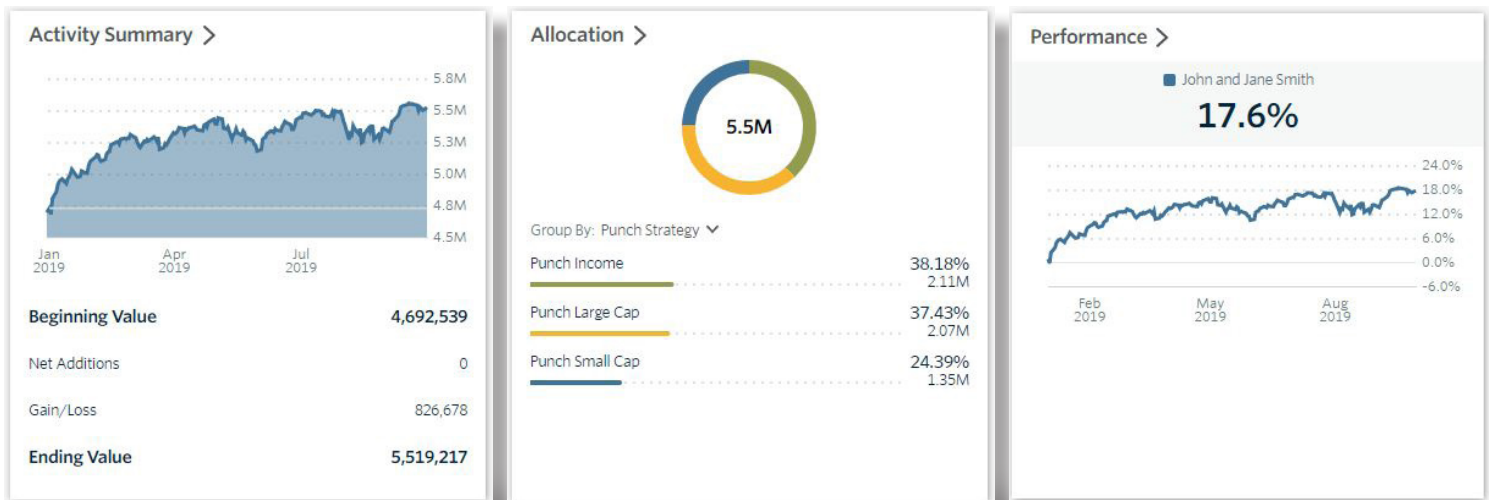
We are in the process of rolling out our new client portal. Our new portal is directly integrated with our portfolio accounting and performance software, offering you more clarity and transparency around your financial situation. This new platform will enable you to:

- View performance, asset allocation, holdings, projected income, and transactions by portfolio or individual accounts in an intuitive format;
- Link outside accounts and add private assets and liabilities to allow aggregated net worth reporting;
- View the most recent portfolio and account data and run reports for custom date ranges;
- Securely send and receive documents, statements, and quarterly reports; and
- Easily connect with members of the Punch team.

Please contact Steve Geier if you are interested in accessing our new portal.

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