EDGEMOOR
INVESTMENT ADVISORS

Edgemoor's Quarterly Report

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The past several weeks have been difficult, and we know watching the coronavirus spread and the stock market fall is unnerving, even to long-term investors. We believe that an essential part of our work on your behalf involves remaining patient and disciplined in times such as these, but we still feel the emotional pain of market losses (and are also invested alongside you in portfolios like yours). We also believe that sharing information and opinions based on our experience through previous economic cycles is fundamental to our ability to guide you through both good times and bad. Following are our thoughts on the current situation and outlook for the coming months.

What We Know

The worldwide spread of the novel coronavirus and COVID-19, the disease it causes, has upended societies, with widespread restrictions on business, travel, and social interaction sharply reducing global economic activity and causing layoffs or furloughs of millions of workers. Health officials are leading efforts to control this outbreak, but confirmed cases of COVID-19 have yet to peak in the United States and other countries.

It is encouraging to see that social distancing and other measures appear to have helped to slow the spread of the coronavirus. China and other countries that were the first to be affected are resuming some economic activity as COVID-19 wanes locally. However, we have likely not seen the worst in the United States and most of the world. We expect market volatility will continue as governments, health officials, companies, and investors try to determine the course of the virus and its effect on the U.S. and global economies.

COVID-19 is not the only issue that has unnerved investors. In addition, an ill-timed dispute between Saudi Arabia and Russia over oil production, in which both increased output, combined with lower global demand to cause oil prices to plummet. Many companies in the energy sector are unable to operate profitably at current oil prices, and consumers are not benefiting from lower gas prices due to the reduction in travel.

The spread of COVID-19 and the oil price decline have rattled global markets. After rising through mid-February, the S&P 500 index fell sharply into bear market territory, rebounded from its recent lows, and is now down about 19% this year. Over the past month, we have seen some of the stock market's largest ever one-day swings, both up and down. After eleven years, the longest bull market in history has come to an end.

As jarring as stocks' drop has been, we think it is helpful to put the recent pullback into perspective. The S&P 500 index currently trades at the same level as at the beginning of 2019, so it has essentially given back the huge gains from last year. Also, the S&P 500 index is still up over 285% since the depths of the financial crisis. Despite the recent decline, returns over the past decade have been very strong.

In response to the outbreak, central banks and governments around the world have announced aggressive initiatives to mitigate the economic impact of the spread of the coronavirus. The U.S. Federal Reserve has moved aggressively and quickly, enacting in a few weeks measures that took months to put in place during the 2008 financial crisis. The Fed has so far cut interest rates to near zero, committed to buying as much government debt as needed to shore up markets, and announced unprecedented plans to buy corporate bonds, including the riskiest investment-grade bonds. These are just several of the actions taken by the Fed to support capital markets and businesses. The European Central Bank and others around the world have enacted similar measures to offset the impact of the coronavirus on the global economy.

Meanwhile, the U.S. Congress has taken progressively larger actions, starting with approval of measures to fund development of a vaccine, provide paid leave to employees, and postpone the payment of taxes owed. More recently, Congress passed an over $2 trillion relief package that provides for direct payments to individuals, expanded unemployment insurance benefits for workers, loans and grants to businesses, and funds for states and healthcare providers.

Our Outlook

We believe the congressional relief package is vitally important and necessary to dampen the effects of the sharp drop in economic activity due to quarantines and lockdowns. We also expect there will be a need for additional support as the United States and the rest of the world continue to fight the coronavirus. The probability that the number of confirmed cases of COVID-19 in the United States has yet to peak and the record number of claims filed for unemployment benefits in the past two weeks point to the need for ongoing social distancing and caution.

The market is clearly anticipating more bad news, and it remains to be seen whether current valuations appropriately reflect future events. Typical stock valuation measures such as price/earnings are less helpful than usual due to the great uncertainty regarding earnings. However, we expect earnings in 2021 and beyond to be much less impacted by the current issues, and stocks are significantly less expensive now relative to those earnings.

We are watching developments closely and monitoring the virus's impact on the economy, the markets, and our clients' portfolios. We have sold a few holdings that we believe to be most exposed to these issues, a move that raised additional cash for future investment and should reduce risk in our portfolios. These changes were relatively minor, and we continue to believe the best course of action is to stick with our long-term investment strategy, which focuses on shares of high-quality companies with durable business models and competitive advantages that will survive this temporary threat. We also expect to resume investing available cash after the market volatility calms down, since the shares of some high-quality companies that we do not own are now available at prices well below our estimates of their intrinsic values.

We know recent market conditions have been stressful, and we appreciate your ongoing patience and confidence in our approach and stewardship of your assets. While we do not know how long this economic disruption will last, we are confident that the economy and markets will bounce back once conditions improve, as has happened after every other downturn, including recessions and wars. We remain optimistic that the United States will get through these tough times and that our clients' portfolios will perform well over the long term.

Remote Office Operations

We have been working remotely for the past three weeks and are pleased to report that the transition has been smooth. While we miss being together and meeting with you in person, we have been able to carry on with our work and are available by phone or email. Our investment committee has been meeting regularly via Zoom video conference to review our investment strategy, and we will continue to work remotely until being together in our office is clearly safe for all of us. If you need to send anything to us by mail, FedEx, or UPS, please contact Anne at 301-543-8881 or abaker@edgemoorinv.com for instructions.

Additional Information

We will continue to provide updates to you and will also post information to our blog, which you can access at www.edgemoorblog.com. One recent article you will find there highlights certain elements of the recently passed CARES Act, which waives required minimum distributions from IRAs for 2020, among other provisions. Stay safe and healthy and, as always, feel free to call or email with thoughts, questions, or concerns.

Analysis of Selected Securities

Following is a discussion of three securities we own and have bought recently. Due to factors specific to each company, these stocks are, in our opinion, priced attractively in the market today.

Amazon.com, Inc. (AMZN)

Source for chart and financials: Yahoo Finance and Morningstar. Past performance is not indicative of future results. Please see disclosures on page 8.

Price (03/31/2020)	$1,949.72	Forward P/E	66.0
Market Cap ($B)	$ 942.4	Price/Book	15.6
Dividend Yield	0.0%	Price/Sales	3.5
Return on Equity	22.0%		

Amazon is the largest U.S. e-commerce retailer and among the top e-commerce sites globally. The company's Prime membership subscription is a key differentiator in online retail services, as it includes free shipping for members and exclusive media content like music, videos, and audible books. Amazon is also the biggest global provider by market share of cloud-based infrastructure services through its Amazon Web Services (AWS) platform. Amazon's other business platforms include Whole Foods Market (acquired in 2017), digital voice assistant Alexa, and the popular Kindle e-reader.

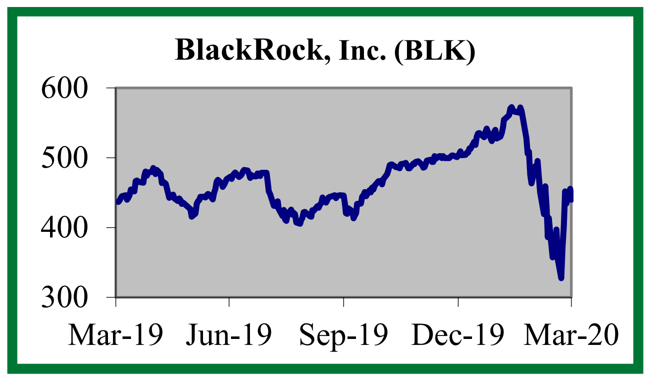
Amid the coronavirus outbreak, Amazon has seen dramatic increases in traffic across all its platforms. As more and more consumers shelter in their homes and businesses move to online operations, the demand for online retail services has grown substantially, as has the demand for cloud-based business operations. Amazon has responded with an aggressive hiring plan to add another 100,000 workers and increase pay to existing workers by $2 per hour.

Even before the pandemic, Amazon was working on several fronts to build and leverage its business operations. The company has been widening the network of third-party sellers on its platform for several years by developing a smoother and more efficient on-boarding process. Amazon has also been building up its network of independent drivers and delivery personnel while weaning its reliance on major shippers, including ending its relationship with FedEx and reducing its volume of shipments through the U.S. Postal Service. All of these trends should position Amazon well to capitalize on the continuing increases in demand for its digital products and services.

Amazon is financially strong. Revenues have grown at a compounded annual growth rate of over 20% for the last five years, reaching $280 billion in 2019. Earnings have grown similarly and are projected to jump nearly 40% for 2020. Cash and marketable securities topped $55 billion at the end of 2019, compared to just $23 billion of long-term debt. Amazon generates significant free cash flow, which reached $22 billion in 2019.

Amazon shares have held their value so far in 2020, representing 30% outperformance relative to the technology sector and 25% outperformance in relation to the broad market. The forward price/earnings ratios of 66x 2020 earnings and 40x 2021 earnings are higher than the market average but well below the company's five-year average of 88x. We believe the company's powerful growth prospects justify this premium multiple and expect good long-term returns from the stock.

BlackRock, Inc. (BLK)



Source for chart and financials: Yahoo Finance and Morningstar. Past performance is not indicative of future results. Please see disclosures on page 8.

Price (03/31/2020)	$ 439.97	Forward P/E	12.9
Market Cap ($B)	$ 64.4	Price/Book	2.0
Dividend Yield	3.3%	Price/Sales	4.6
Return on Equity	13.6%		

BlackRock is the largest asset manager in the world, with $7.4 trillion in total assets under management (AUM) at the end of 2019 and clients in more than 100 countries. BlackRock provides investment management, risk management, portfolio construction, and advisory services to institutional and retail clients. Its range of offerings includes both actively managed and passive investment products, separately managed accounts, and other pooled investment vehicles. In the highly competitive asset management industry, BlackRock's greatest differentiators are its size and scale, leading market share in both passive and active strategies, focus on institutional investors, solid long-term performance, and reasonable fees.

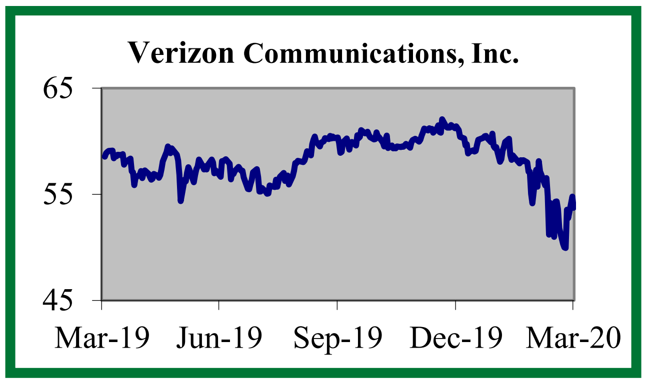
BlackRock's iShares platform is the largest domestic and global provider of exchange traded funds (ETFs), with an estimated 37% global market share that is well ahead of second-place Vanguard. BlackRock has benefited from the rise in popularity over the past two decades of passive investment products, which are designed to track a benchmark index and offer lower costs. Passive products account for roughly two-thirds of BlackRock's assets under management and nearly half of its revenues.

Institutional clients account for nearly 80% of BlackRock's total AUM. These investors tend to be more stable and trade in and out of funds less frequently than individual retail investors, which has allowed BlackRock to generate higher and more stable revenues and growth rates than many of its peers.

The significant market sell-off precipitated by the coronavirus pandemic so far in 2020 has strained the near-term outlook for BlackRock. The firm is unlikely to achieve management's ongoing annual growth rate target of 5% this year. However, most analysts believe that BlackRock will be well positioned, once markets do recover, to resume long-term AUM growth of 3% - 5% annually due to its demonstrated ability to retain a high proportion of assets through investment cycles.

BlackRock is financially strong and shareholder friendly. The firm's operating profit margin of 40% and return on equity of 13.6% are among the highest in the industry. Its balance sheet has minimal debt, and BlackRock carries a AA- credit rating from Standard and Poor's. The stock pays a growing and sustainable dividend that currently results in a yield of 3.3%. We consider the shares attractively valued at 12.9 times forward earnings, well below their five-year historical average of 16.6 times.

Verizon Communications Inc. (VZ)



Source for chart and financials: Yahoo Finance and Morningstar. Past performance is not indicative of future results. Please see disclosures on page 8.

Price (03/31/2020)	$ 53.73	Forward P/E	11.0
Market Cap ($B)	$ 226.9	Price/Book	3.6
Dividend Yield	4.6%	Price/Sales	1.7
Return on Equity	33.6%		

Verizon is a telecommunications giant that provides integrated communications, information, and entertainment products and services to over 120 million U.S. consumers and businesses. Verizon is the largest U.S. wireless service provider and, in a duopoly with AT&T, controls 70% of the U.S. wireless market.

Verizon has two main lines of business: wireless and wireline. The wireless business includes wireless voice and data services, as well as equipment sales (cellphones), and accounts for 70% of revenues and nearly 90% of earnings. The wireline business provides voice, data, and video communications products, such as broadband and managed networks, and accounts for 30% of revenues and approximately 10% of earnings.

Verizon has long prided itself on its network, continually investing in technology to ensure that it delivers the highest network quality to its customers. The company is leading the industry in the rollout of 5G technology, the latest mobile wireless technology that offers massive data capacity delivered at ultra-fast speeds. Verizon's 5G Ultra-Wideband service is now offered in parts of 34 major cities nationwide, nearly three times AT&T's 12-city offering.

The commitment to technological leadership and network quality has allowed Verizon to build a large and loyal customer base and to charge premium pricing (20%-25% above its peers), while also maintaining low rates of customer turnover. The efficient scale characteristics of the wireless business have also allowed Verizon to earn an average 19% on invested capital, by far the highest in the U.S. wireless industry and well ahead of rival AT&T at 12%.

Verizon's size and scale afford it several competitive advantages. Verizon enjoys lower fixed costs per connection than its rivals, because its costs can be spread over a massive customer base. In addition, its ongoing cash savings program is slated to achieve $10 billion of total cost savings by 2021.

Verizon's financial position is strong, with healthy profit margins, steady free cash flow, and $3.6 billion of cash on its balance sheet at year end 2019 (up from $2.7 billion in 2018). The stock offers an attractive and sustainable dividend, currently yields 4.6%, and is reasonably valued at 11x forward earnings. We regard Verizon stock as a core, long-term income holding.

Source for text and charts: Morningstar, S&P, Schwab, ValueLine, Black Diamond Performance Reporting, Yahoo Finance, and Argus reports.

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Edgemoor Investment Advisors is an independent wealth management firm providing investment and financial planning advice to individuals, retirement plans, trusts, family foundations, and an equity mutual fund. We manage $838 million as of March 31, 2020 for our clients and focus on long-term capital appreciation, preservation of capital, and income generation through disciplined management of value-oriented equity and income portfolios. Please contact us if you would like more information.

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The S&P 500 index is an unmanaged market-capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. Sectors in the index include Treasurys, government-related and corporate securities, mortgage-backed securities (MBS), agency fixed rate and hybrid ARM pass-through asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS). The S&P 500 index is discussed for comparative purposes only. The comparisons have limitations because the indexes have volatility, investment, and other characteristics that differ from the investment strategies of Edgemoor. Further, it is not possible to invest directly in the indexes.

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