Edgemoor's Quarterly Report

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Onward and Upward

Stocks continued rising through the first quarter of 2021, maintaining momentum despite the ongoing pandemic, political and social unrest, and rising interest rates. Investors found encouragement in the accelerating pace of vaccinations and expectations of a strong economic recovery this year, partly fueled by the promise of trillions of dollars in relief from the U.S. government and ongoing support from the Federal Reserve.

We see encouraging signs for the economy and the market over the coming months and anticipate a surge in economic activity as more people get vaccinated and resume pre-pandemic activities such as travel, entertainment, and dining out. After such a prolonged rise, however, the market may tread water for a bit or even decline, though we think any drop in prices would likely be temporary if underlying economic trends remain on track.

First Quarter in Review

Following an 18.3% surge in 2020, the S&P 500 index gained another 6.2%, including dividends, in the first three months of 2021. There were a few minor pullbacks along the way, but investors mostly remained optimistic about a return to more normal economic activity as states rolled out vaccinations.

Market leadership shifted from technology firms that mostly thrived during the pandemic to sectors that will likely benefit most from the economic rebound, including energy, financials, and industrials. Stocks in these sectors significantly outpaced the overall market during the first quarter. Small stocks, which are generally more affected by economic swings, also rose sharply. Technology stocks took a breather, but we believe that selectively they continue to offer attractive long-term return potential even after their 2020 surge; many will likely benefit from a persistence of trends toward remote work and online buying that occurred during the pandemic.

The U.S. government provided another round of relief by approving in March a $1.9 trillion package, welcome news particularly to the many workers who remain unemployed. The overall jobs picture improved during the quarter and indicated rising momentum. Nonfarm payrolls rose by 916,000 in March, bringing the total number hired for the quarter to 1.6 million, and the unemployment rate declined modestly to 6.0%. The Institute for Supply Management's manufacturing index reached its highest level since 1983, and its corresponding services index hit a record high.

Amidst an improving economy and increased business activity, corporate earnings rose. Companies will report first quarter results soon, and analysts' estimates of first quarter corporate earnings have increased to a growth rate of about

24%, up from approximately 16% at the beginning of the year, an upward revision that is higher than normal.

Largely due to concerns about inflation that might result from the influx of relief dollars and a rebounding economy, interest rates rose sharply, with the yield on the 10-Year Treasury almost doubling from 0.9% at the beginning of January to over 1.7% at the end of March. As a result, the Bloomberg Barclays U.S. Aggregate Bond Index returned a negative 3.4% as bond prices fell. Reported inflation remained low, however, with the core rate below 2%.

The Fed did its part to try to alleviate fears of inflation by maintaining its commitment to bond purchases and the low federal funds rate. Chair Powell reiterated his belief that the Fed has tools necessary to ward off inflation, at the same time saying that he does not believe inflation will rise much, if any, above the Fed's targeted rate of 2% for the foreseeable future.

Outlook

We are optimistic that the U.S. economy is poised for a sharp rebound later this year as more people get vaccinated and return to travel, entertainment, dining out, and other activities curtailed by the pandemic for the past year. We believe this resumption of something resembling life before COVID-19 can happen if states succeed in increasing and broadening vaccination efforts, as they have begun doing, and penetrate populations that have so far been more difficult to reach or reluctant to get the shots.

As for additional support from the government, we are hopeful that Congress will approve a significant amount of infrastructure spending, though the final result will probably be smaller and narrower than the Biden administration's $2 trillion initial proposal, announced at the end of March. The razor-thin majorities that Democrats hold in the House and Senate will lead to much wrangling and compromise in the face of strong Republican resistance to the proposed corporate tax increases and specific provisions of the plan.

Particularly with the potential for an additional boost from infrastructure spending, we expect consumers to spend more freely and businesses to continue hiring and investing. Analysts predict GDP growth of 7% or more for this year, which would be the highest rate since the 1980s.

We expect inflation will remain modest and interest rates will rise but remain near their historically low levels. There are still 9.7 million unemployed workers, and we do not expect to see significant wage pressure in the near term even as more employees return to work. We are also confident that the Fed will act, if necessary, to ward off inflation if it does increase more than we forecast.

Risks to this outlook include new variants of COVID-19 that have emerged around the world and may be more contagious and resistant to vaccines, as well as impatience that could lead to abandonment of safety measures that are still necessary to prevent additional spikes in COVID-19 cases. In addition, it is possible that the massive amount of money injected into the economy from relief bills could cause an increase in inflation. Also, getting more of the unemployed back to work is critical to the long-term health of the U.S. economy.

Finally, we believe the earnings outlook for companies is positive and stock valuations are reasonable. Analysts currently project 26% earnings growth for the full year 2021, a huge rebound from 2020. The S&P 500 index trades at about 22 times expected earnings for the next twelve months, a level that is higher than the long-term average, but we think still-low interest rates and expectations of an economic rebound justify current valuations. We continue to find attractively priced stocks and income investments to add to our portfolios and are happy to hold those that we already own, subject to continued monitoring and evaluation.

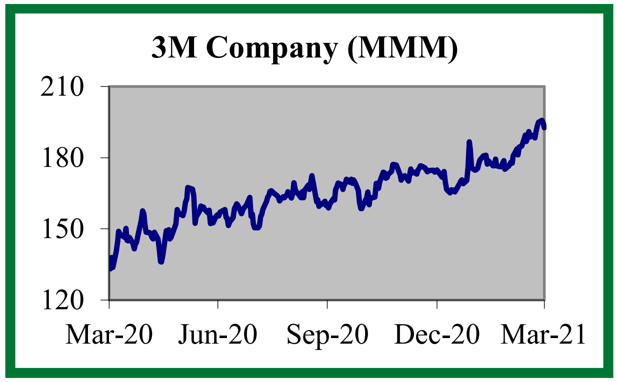
Remote Office Operations

We continue to work remotely, have been able to fully carry on our work, and are readily available by phone or email. We will work remotely until being together 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. Stay safe and healthy.

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 markets today.

3M Company (MMM)



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

Price (03/31/2021)	$ 192.68	Forward P/E	19.9
Market Cap ($B)	$ 111.3	Price/Book	8.7
Dividend Yield	3.1%	Price/Sales	3.5
Return on Equity	47.0%		

Over its nearly 100-year history, 3M has invented some of the world's most widely used and recognized consumer products, including Scotch-Tape and Post-It Notes. This highly diversified, industrial manufacturer sells more than 50,000 products in 60 countries across four major business segments, including Safety & Industrial (36% of revenues), Transportation & Electronics (27%), Healthcare (27%), and Consumer & Office (10%). The company is an S&P 500 component and a part of the Dow Jones Industrial Average.

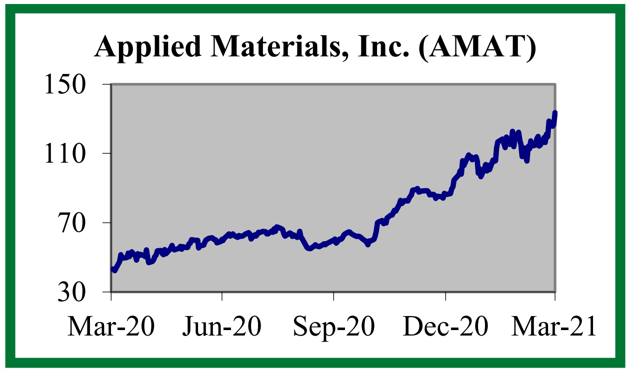
The company has long been known for its innovative culture. Its own "vitality index" – the percentage of sales stemming from products introduced over the previous five years – now stands at an impressive 30%, up from 20% just a few years ago. Furthermore, 3M's ability to leverage those innovative technologies across multiple product platforms has enabled it to generate impressive returns on invested capital, which have averaged more than 20% over the past five years as compared to 12.6% for the S&P 500 Industrial index.

A diverse product and geographic base also allows 3M to outperform the economy in times of economic weakness. The current COVID-19 pandemic is a case in point, as 3M's net earnings were down just 2% in 2020 compared to an 18% earnings decline for the S&P 500. This outperformance was driven by strength in certain of 3M's end markets, including personal safety, home improvement, general cleaning, food safety, and biopharma filtration, offset by cyclical weakness in some industrial end markets. 3M's fast-growing healthcare segment also contributed meaningfully to the company's resilience during the pandemic and is expected to continue to be a growth driver in the future.

3M's new CEO, Mike Roman, has instituted a new global operating model for the company, which includes consolidating manufacturing, supply chain, and customer operations; realigning all corporate functions; and reducing operating expenses by $250-$300 million annually.

The company enjoys a healthy balance sheet, with $5.1 billion of cash and $12.9 billion of shareholders' equity, and generates strong free cash flow of $2.1 billion. 3M has increased its dividend for 62 consecutive years, and the shares currently yield an above-market 3.1%. At 19.9 times estimated 2021 earnings, 3M shares are attractively valued relative to the S&P 500 average of approximately 22 times forward earnings.

Applied Materials, Inc. (AMAT)



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Price (03/31/2021)	$ 133.60	Forward P/E	22.6
Market Cap ($B)	$ 129.5	Price/Book	10.7
Dividend Yield	0.7%	Price/Sales	6.8
Return on Equity	38.5%	Debt/Equity	0.5

Applied Materials provides manufacturing equipment, services, and software to the semiconductor, display, and related industries. Customers include manufacturers of semiconductor chips and wafers, organic light-emitting diode displays, and other electronic devices. The company operates in three business segments: Semiconductor Systems (67% of sales, 72% of operating income), Applied Global Services (24%, 22%), and Display and Adjacent Markets (9%, 6%).

As the global leader in semiconductor fabrication tools and equipment by revenue and market share, Applied Materials enjoys longstanding relationships with all major global chip manufacturers and has the broadest product portfolio in the industry, effectively offering one-stop shopping to its customers. The company has field engineers stationed in nearly every one of its customers' chip-manufacturing facilities around the globe, providing competitive insights into their needs and processes. As semiconductor fabrication has become increasingly complex, requiring more process steps and new manufacturing technologies, the company's existing relationships and insights into future technology needs have led to steady new orders for its state-of-the-art equipment.

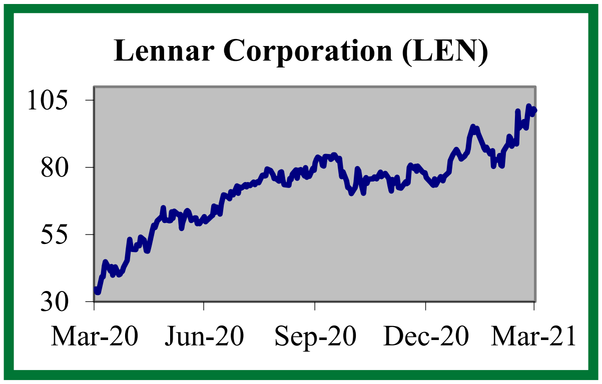
During the COVID-19 pandemic, demand for electronics has surged, accelerating the digital transformation of companies, industries, and economies. This increase in demand has in turn led to a shortage in the supply of chips, as manufacturers have struggled to keep pace. The resulting unprecedented demand for fabrication equipment recently led to the company's first-ever $5 billion revenue quarter.

Other areas of growth for Applied Materials include artificial intelligence (AI), big data, internet of things, robotics, and autonomous vehicles. The company recently announced a breakthrough AI-enabled wafer inspection system that helps customers accelerate the production, performance, and yield of their chips. These types of key technologies are projected to drive semiconductor demand for many years to come and, in turn, fuel growth for the company's products and services as the industry leader.

The chip industry is inherently cyclical, but the company's large scale, efficient operations, and huge installed base of customers and products allow Applied Materials to weather business cycles better than its competitors. In addition, the company's growing stream of recurring revenues from service-based businesses contributes to the stability of earnings.

Applied Materials is financially strong and shareholder friendly. Cash and marketable securities total $8.2 billion, compared to debt of just $5.5 billion. The company has repurchased nearly $6 billion of shares in the last several years, reducing share count by 10% and adding about $0.20 per share to earnings in 2020. In March 2021, management raised the quarterly dividend by 9% to $0.96 per share, after a 5% hike in 2020. Shares are up 66% in 2021, a reflection of the company's leading market position, strong growth prospects, and an expected earnings growth rate of more than 14% annually for the next five years.

Lennar Corporation (LEN)



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

Price (03/31/2021)	$101.23	Forward P/E	9.9
Market Cap ($B)	$32.2	Price/Book	1.7
Dividend Yield	1.0%	Price/Sales	1.3
Return on Equity	14.4%		

Headquartered in Miami, Lennar Corporation is one of the two largest homebuilders in the United States as measured by the number and dollar value of homes delivered. Lennar builds a variety of homes at multiple price points, including entry-level homes, step-ups, multi-family, and retirement homes. Lennar has a national footprint, thanks in part to its 2018 acquisition of west coast rival CalAtlantic, with its eastern and western regions now contributing roughly 30% each to the company's 53,000 total home deliveries in 2020. Lennar also provides mortgage financing, title insurance, and closing services. Total revenues topped $22.5 billion in 2020.

Overall, the U.S. homebuilding market is benefitting from record low interest rates, favorable demographics, and years of underproduction since the Great Recession of 2009. The COVID-19 pandemic has also reinforced the value of a safe home, with space to live, work, exercise, and enjoy the outdoors.

Lennar has positioned itself well to take advantage of this strong demand cycle. The company has a top three market share in 26 of the 30 fastest growing metropolitan markets in the United States. Its focus on first-time home buyers in affordable regions like Texas, Florida, and the Carolinas is driving growth in this important segment of the market. The company's newer active-adult retirement communities are expanding nationwide to capture the aging baby boomer population.

All these factors combined to drive record-setting sales, earnings, gross margins, and new orders for Lennar in 2020. The company's average selling price for its homes also grew nearly 6% to $428,000. Lennar strategically purchased attractively priced lots during the economic downturn of 2008-2009 and now controls an ample land supply to meet future demand, with new orders and backlog expected to jump another 20% in 2021. The company ended 2020 with a backlog of $9.5 billion worth of homes to be delivered.

Lennar's balance sheet is strong with $2.9 billion of cash, $20 billion of shareholders' equity, and just $7 billion of long-term debt. Lennar stock is attractively valued at 9.9 times 2021 earnings, compared to a peer average of 13.5 times. The company raised its dividend 100% in October 2020 to $1.00 per share for a current yield of 1%. We believe Lennar is a best-in-class homebuilder that will benefit from continued growth in the U.S. housing market.

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 approximately $1.2 billion as of March 31, 2021 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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