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Edgemoor's Quarterly Report

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A Strong Finish

The U.S. stock market soared in the fourth quarter, breaking records on the way to a finish near its all-time high and ending the best year for the S&P 500 index since 2013. Foreign markets lagged returns in the United States but still notched strong gains. Investors seemed to be pleased with signs of easing trade tensions and support from the U.S. Federal Reserve and other central banks to promote ongoing global economic growth.

The good cheer carried over into the new year, though the U.S. assassination of an Iranian military leader in early January and subsequent Iranian response brought geopolitical tensions to the forefront and led the stock market to pause. While other issues also have investors a bit wary, we believe currently ongoing economic growth and improved corporate earnings could pave the way for a positive year for stocks. However, we do not expect the market in 2020 to match the performance of 2019.

Fourth Quarter and 2019 in Review

The S&P 500 index returned 9.1%, including dividends, in the fourth quarter, bringing its total return for the year to 31.5%. The mood at year end was much more positive than a year prior, when concerns about slowing economic growth, the potential for a U.S. recession, and uncertainty about the Fed's support rattled the markets. This time around, economic indicators appeared to be healthier, few continued to believe a recession to be near, and the Fed clearly announced its intention to hold steady in 2020 after cutting rates three times during 2019. Foreign stock markets also caught fire in the fourth quarter; the MSCI ACWI ex USA Investable Market Index rose 9.2% and ended the year up 21.6%. Bonds also had a good year, with the Bloomberg Barclays US Aggregate Bond Index delivering a return of 8.7%, well above its long-term average.

Several key factors fueled the market's rise. Economic growth in the United States continued, albeit at a slower pace, and signs of recession eased. The housing sector gained strength, as new home starts and sales of new homes both rose. The yield curve inversion (short-term interest rates higher than long-term) that often predicts a recession flashed a warning signal for several months but then ended in November, largely due to the Fed's three rate cuts during the year. U.S. consumers also deserve credit for their positive impact on economic growth, as they continued to spend on goods and services and showed few concerns about future economic conditions. Rising wages amid a tightening labor market improved consumers' ability to spend, and the increased pay had little impact on inflation, which held just below 2%.

Business spending, in contrast, remained weak, partly due to concerns about trade conflicts and the slowdown in the manufacturing sector. Management teams are reluctant to commit capital to new investments without greater clarity on tariffs and other trade-related issues, and existing tariffs have already increased costs in many sectors and put pressure on margins.

Following three quarters of declines, corporate earnings likely rose in the fourth quarter and should eke out a modest gain for the full year. Utilities and health care companies led the way in 2019 with earnings gains of around 8%, while earnings in the materials and energy sectors slumped badly for the year.

On to the Next Decade

As we move into the 2020s, we are optimistic that the markets can deliver more positive returns. However, many of the same issues that threatened to end the party last year remain, including slowing global economic growth, ongoing trade wars, and geopolitical tensions.

We expect the increase in U.S. gross domestic product to be just over 2% for 2019 and to slow to slightly below 2% annually for the next few years. We believe there is a low probability of recession in 2020. The Fed has clearly stated that it will continue to monitor the economy and take further action as needed to provide support for growth. Current expectations are for the Fed to hold interest rates steady for most or all of 2020, reflecting the forecast for continued slow but steady expansion.

Inflation of less than 2% has been critical to the Fed's ability to keep interest rates low and stimulate hiring. With unemployment at only 3.5%, the lowest level since 1969, many economists would expect higher inflation. However, it is possible that the relationship between jobs and inflation may have changed due to structural shifts from new technologies and other factors, such that ongoing efforts to stimulate the economy may not cause inflation to rise as much as in the past.

Corporate earnings should pick up again in 2020, particularly if there is improvement on the trade front. Tariffs weighed on earnings for many companies last year, and we are optimistic that this burden will ease. Analysts currently project a nearly 10% increase in earnings for S&P 500 companies, but earnings estimates may decline during the year, as they typically do.

While foreign stocks again lagged U.S. stocks last year, continuing a recent trend, their pickup in the fourth quarter may signal a resurgence abroad. Foreign companies tend to be more dependent upon exports, so any improvement in global trade would benefit them. A strengthening dollar has also benefited U.S. stocks for the past few years, but the dollar fell in the fourth quarter and may continue to ease versus foreign currencies in 2020, making foreign stocks more attractive.

The United States' military action in Iraq in early January has inflamed tensions and prompted a retaliatory attack from Iran. Though market reaction has been muted so far, this conflict is one of the issues that has the potential to derail the global economy and markets. Other issues of concern include the United Kingdom's planned exit from the European Union, or Brexit, at the end of January and ongoing trade battles, primarily between the United States and China. The impeachment process in the U.S. Congress and upcoming presidential election will also grab headlines and have the potential to impact the stock market.

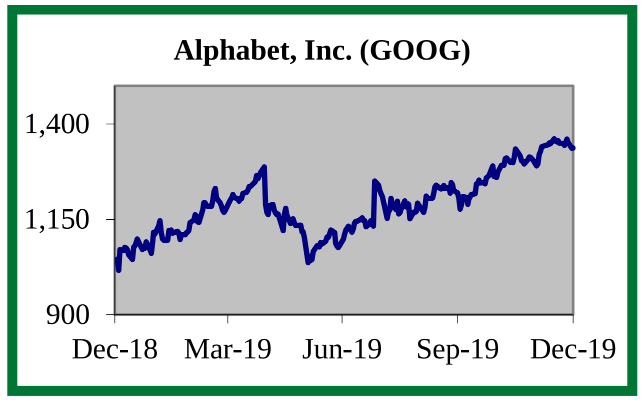
The S&P 500 index currently trades for just over 18 times projected earnings for the next year, a level we believe is reasonable given extremely low interest rates and a generally favorable economic environment. We certainly do not expect stocks to surge again in 2020 as they did last year, but we do believe the stock market can again provide positive returns to investors.

As for income investments, we continue to find attractive opportunities, primarily among preferred stocks, pipeline companies, utilities, real estate investment trusts, and business development companies. The yield on the 10-year Treasury has risen from the record low hit in the third quarter, and we remain wary of the potential for yields to rise over the longer term. The bonds we currently favor have relatively short maturities, which would insulate them somewhat from price declines if rates do rise.

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.

Alphabet, Inc. (GOOG)



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

Price (12/31/2019)	$ 1,337.90	Forward P/E	24.9
Market Cap ($B)	$ 978.1	Price/Book	4.8
Dividend Yield	0.0%	Price/Sales	6.1
Return on Equity	17.9%		

Alphabet, Inc., the parent company of Google, is a global technology company best known for its dominant internet search engine, which controls 80% of global online searches. The company was founded in 1998, went public in 2004, and today has a market capitalization of nearly $1 trillion dollars.

In addition to its popular search engine, Google's vast array of internet sites includes Gmail, YouTube, Google Maps, Google Earth, and Google Play. Its internet services include the

Chrome internet browser and the mobile Android operating system, which powers an estimated 75% of smartphones around the world. Together, these core assets provide a cohesive, end-to-end experience for consumers and, most importantly, drive internet advertisers to Google sites.

In December 2019, Google founders Larry Page and Sergey Brin stepped back from the company and appointed Google CEO and 15-year company veteran Sundar Pichai as CEO of Alphabet, Inc. We believe Pichai is a skilled manager and do not expect this leadership change to alter the company's operations or strategy.

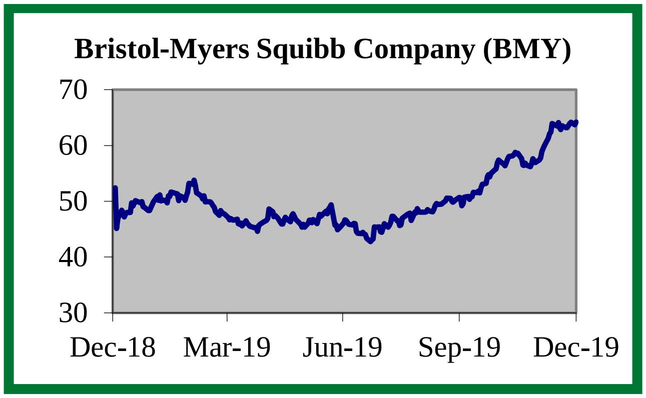
Alphabet's revenue and earnings growth has continued almost unabated for the last two decades, and its long-term earnings growth is forecasted to top 17% annually for the next five years. A main catalyst for this growth has been the substantial increases in both desktop and mobile advertising sales, which together account for 87% of Alphabet's total revenues. Advertisers have increasingly consolidated their spending around companies like Google that offer broad platforms, a vast user base, and unique assets. In addition, consumers use Google products almost habitually (an estimated 90% of all mobile searches are performed on the Google platform), creating a switching cost based on both familiarity and technology that we believe will continue to protect the company's online and advertising dominance.

Parent company Alphabet also invests heavily in emerging technologies, including enterprise cloud services, artificial intelligence, big data analytics, drone delivery, and autonomous vehicles. These "moonshot" investments leverage the company's technological expertise and financial strength and, if successful, could drive growth for decades to come.

Alphabet's financial position is as strong as its market presence. The company is expected to generate a record $160 billion of revenues in 2019 and $193 billion in 2020. Alphabet also produces free cash flow of $22 billion annually and held $121 billion of cash and marketable securities on September 30, 2019. The balance sheet is strong, with just $4.2 billion of long-term debt compared to more than $200 billion of shareholder equity.

At approximately 25 times forward earnings, Alphabet stock trades at a premium to the S&P 500 average price/earnings ratio. However, we believe Alphabet's higher than average growth prospects and strong competitive advantages justify the premium and make Alphabet stock an attractive long-term investment.

Bristol-Myers Squibb Company (BMY)



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

Price (12/31/2019)	$ 64.19	Forward P/E	11.1
Market Cap ($B)	$ 147.3	Price/Book	8.3
Dividend Yield	2.9%	Price/Sales	4.3
Return on Equity	36.2%		

Bristol-Myers Squibb is a global biopharmaceutical company offering a broad range of conventional prescription drugs and advanced biologic treatments. Its products are focused on the therapeutic areas of oncology, immunology, and cardiovascular diseases. The company completed its $74 billion acquisition of Celgene in November 2019, which further repositioned Bristol-Myers in the lucrative specialty pharmaceutical segment and provided one of the most promising pipelines of new products in the industry.

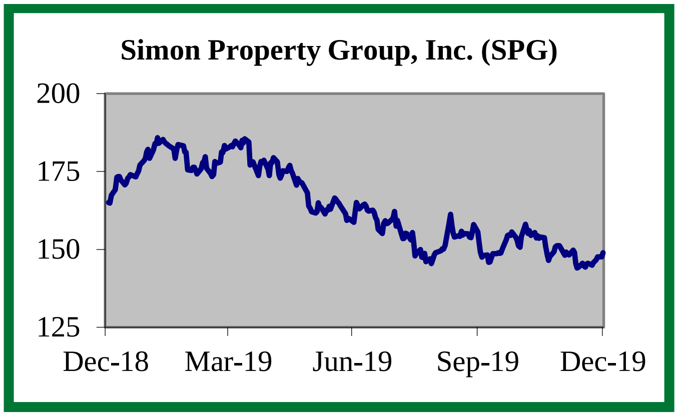
Prior to the acquisition, Bristol-Myers's sales were largely concentrated in two top brands, Opdivo (immuno-oncology) and Eliquis (cardiovascular disease). With the addition of Celgene's blockbuster blood cancer drug Revlimid, the company's oncology portfolio is better diversified and positioned for long-term growth. In addition, two new Celgene drugs have recently gained FDA approval, and a third is expected to be approved in March 2020. Combined with successful phase 3 trials for Opdivo's non-small-cell lung cancer application, these new drugs and developments could potentially increase annual sales up to 50% over time.

We also expect the Celgene merger to create significant value for Bristol-Myers shareholders over the near term. The combined company is projected to generate cost savings of $2.5 billion annually and boost earnings per share by 30% by 2022. Bristol-Myers took on $19 billion of new debt as part of the Celgene acquisition (for a total of $45 billion) but plans to reduce it significantly with proceeds from the pending $13 billion sale of Otezla to Amgen as well as the company's $7.5 billion of annual free cash flow.

Elsewhere in its portfolio, Bristol-Myers has shed several non-core businesses in favor of its high-margin, specialty drug strategy, including its diabetes business, medical imaging group, and wound-care division. In addition, the company has forged several new development partnerships, including a cardiovascular partnership with Pfizer, to reduce risks and lower development and marketing costs.

Bristol-Myers is financially strong and shareholder friendly. The company recently increased its dividend by 9.8%, and the shares currently yield an attractive 2.9%. In addition, the company announced a new $7 billion share buyback program in late 2019, which represents 5% of the company's current market capitalization. Bristol-Myers shares are attractively valued at just 11 times forward earnings, which is well below their five-year average of 19 times, and represent a solid long-term investment.

Simon Property Group, Inc. (SPG)



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

Price (12/31/2019)	$ 148.96	Price/FFO	11.7
Market Cap ($B)	$ 44.6	Price/Book	16.8
Dividend Yield	5.8%	Price/Sales	7.7
Return on Equity	77.1%		

Simon Property Group is a real estate investment trust (REIT) that owns, develops, leases, and manages high-quality regional malls and premium outlets in high-population, high-income markets in the United States and abroad. Simon is one of the largest owners of shopping centers in the world, with a current portfolio of 233 properties representing 191 million square feet of leasable space in the United States, plus another 29 properties overseas. With a market capitalization of nearly $45 billion, the company is also the largest publicly traded retail REIT.

Simon's scale, geographic diversification, and high-quality portfolio make its properties attractive to tenants. The company's retail tenants average nearly $680 in annual sales per square foot, putting Simon clearly in the Class A mall category. In addition, Simon properties have consistently enjoyed average occupancy levels near 95%, as well as strong pricing power, as seen in re-leasing spreads that have continued to grow despite pressures on retailers.

As malls and retailers face challenges from online competition, changing consumer habits, and anchor store bankruptcies, operators like Simon have been redeveloping department store spaces to add more experiential tenants like restaurants, theaters, entertainment venues, and fitness centers, as well as mixed-use tenants like hotels, offices, and residences. Simon has invested $5 billion dollars in these types of redevelopment deals over the last five years and plans another $5 billion over the next several years. Simon's strong credit rating has allowed it to finance these deals at relatively low cost. We expect these projects will result in higher mall traffic and better earnings growth for Simon as it replaces anchor stores that pay an average of $6 per square foot with smaller, non-anchor tenants who pay an average of $51 per square foot.

A recent addition to our portfolios, Simon has one of the best balance sheets among its peers and an A credit rating from Standard & Poor's. In addition, the company has grown its dividend 11% annually for the past five years, boosting its yield to 5.8%, and the stock is attractively valued at 11.7 times 2020 funds from operations, near the bottom of its five-year range.

Source for text and charts: Bureau of Labor Statistics Current Population Survey, Morningstar, S&P, Schwab, ValueLine, Black Diamond Performance Reporting, Yahoo Finance, and Argus reports.

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 $1.07 billion as of December 31, 2019 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. The MSCI ACWI ex USA Investable Market Index (IMI) is an unmanaged market-capitalized-weighted index of 6,472 large, mid, and small cap stocks from 22 developed and 24 emerging markets outside the United States. The index covers approximately 99% of equities outside the United States. The Bloomberg Barclays U.S. Aggregate Bond index is a broad-based, market-value-weighted index that measures the performance of the U.S. dollar denominated, investment-grade, fixed-rate, taxable bond market. 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, MSCI ACWI Ex USA IMI index, and Bloomberg Barclays U.S. Aggregate Bond index are 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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