NORTH STAR
ASSET MANAGEMENT, INC.

April 2019

INVESTMENT UPDATE

Executive Summary

- While the economy remains healthy, growth is likely to return to a more typical pace in 2019, as the tailwind of tax reform that accelerated economic growth in 2018 will be weakening.

- Recognizing this slowdown, the Fed shifted to a more accommodative monetary policy and temporarily paused its Fed Funds rate hikes as it looks to assess the strength of the economy.

- The stock market clearly appreciated the Fed's decision to pause rate hikes, with the S&P 500 recovering from last year's steep declines to post its fastest start to the year since 1998, with a total return of 13.7%.

- Given the support of a dovish Fed, a strong consumer, and increased business investment, the U.S. economy remains on track for growth in 2019.

- U.S. corporate profits are positioned to continue to grow in 2019, and with stock market valuations trading in-line with their historical average forward price-to-earnings multiples, we believe stocks remain attractive for long-term investors.

Fed's Shift Calms Markets

The last six months in the stock market illustrate why it is so important to be a long-term investor. During the fourth quarter of 2018, U.S. economic growth began to slow to a more typical rate after having strengthened throughout 2017 and through the first three quarters of 2018 on the tailwind from U.S. tax reform. While the economy was strengthening, the Fed was raising rates in order to keep the economy from overheating, to build up some dry powder in order to be able to cut rates to support the economy the next time it becomes weak, and to stave off inflation before it takes hold. As economic data began to show slower growth, the stock market sold off sharply amid concerns that the Fed would continue raising rates and push them too high, too quickly. However, the Fed recognized its need to assess the strength of the economy and shifted its policy, deciding to temporarily pause its Fed Funds rate hikes and to continue to provide support to economic growth. Investors clearly approved of the shift, as the stock market rallied to within a just a few percentage points from its all-time high by the end of the March.

One consequence of the Fed's actions is an inverted yield curve, with yields on short-term treasuries sitting higher than intermediate treasuries. This has historically been perceived as a predictor of an upcoming recession, as every recession since 1965 has been preceded by an inverted yield curve, though not every yield curve inversion has been followed by a recession. We believe this time the yield curve is not a reliable predictor as the Fed's large holdings of short-to-intermate term treasuries are keeping these interest rates artificially low, while economic fundamentals continue to point to a growing economy.

U.S. Economy to Generate Solid Growth in 2019

With the tailwind from the tax cuts softening, and exports expected to slow in 2019 given weaker foreign economies and a stronger dollar, U.S. economic growth is likely to be modestly slower in 2019 than the 3.0% rate experienced in 2018. However, given support from a dovish Fed, a strong consumer (benefitting from accelerating wage growth and solid balance sheets), and increased business investment (aided by continued deregulation and ongoing benefits from corporate tax reform), growth should remain above 2% for the year. One indicator that gives us confidence that the economy is continuing to grow is the American Trucking Association Truck Tonnage Index. This index is a real-time indicator of the health of the economy as it measures the actual movements of goods around the country. Truck tonnage growth was very strong throughout most of 2018, and while it softened slightly at the end of the year, the strong recovery in January is a great sign that the economy continues to grow (see Graph 1).

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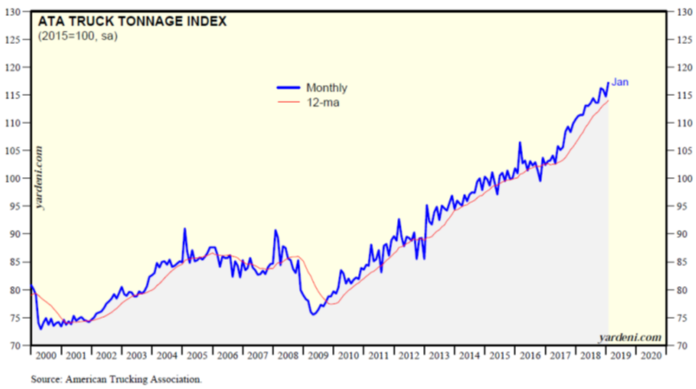
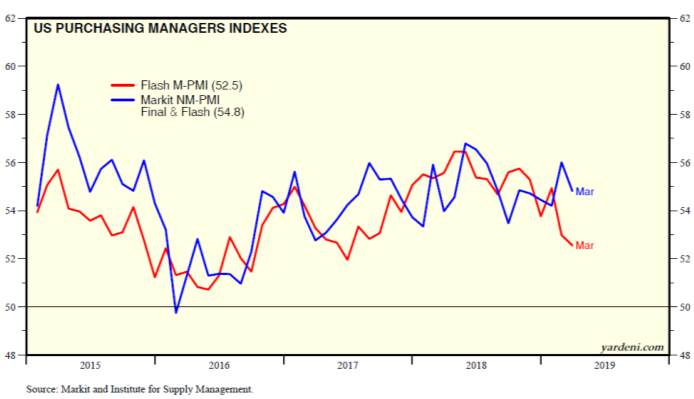
Graph 1. Strong Truck Tonnage Growth Indicates the Economy Continues to Grow



Looking forward, the U.S. purchasing manager's manufacturing and non-manufacturing indexes, which are good measurements of the health and future growth of the manufacturing and services sectors, give us confidence that the economy is well positioned for future growth. While both surveys weakened late in 2018 from their highs set earlier in the year, they both remain solidly above 50 (see Graph 2), indicating growth in both sectors is likely to continue, though at a slightly slower pace.

Graph 2. Manufacturing and Non-Manufacturing (Services) Indexes Continue to Point to Growth



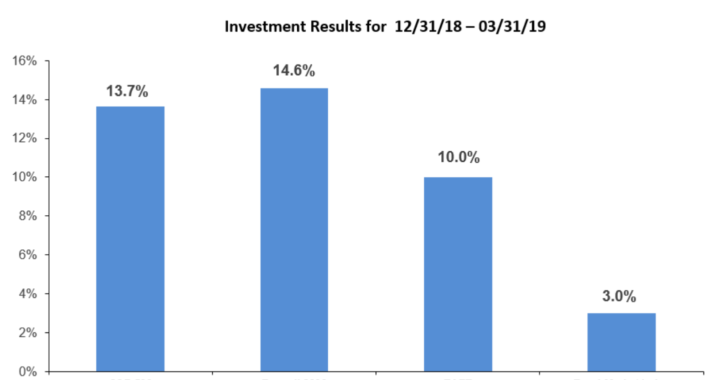
With the U.S. economy remaining healthy and positioned to continue to grow in 2019, corporate profits remain poised for growth as well. After experiencing an exceptionally high rate of growth in 2018, benefitting significantly from corporate tax reform, corporate profit growth should return to a more normal pace this year. With stock market valuations trading in-line with their historical average forward price-to-earnings multiple of 16.5x, corporate profit growth should continue to support higher stock prices over time. However, volatility is likely to persist as investor sentiment continues to swing with the latest headlines. With trade negotiations continuing, the 2020 election cycle ramping up, and the potential for the Fed to signal a shift back toward rate hikes on any strong economic data, the risk of headlines shifting investor sentiment from optimistic to pessimistic continues. When market volatility strikes, we truly appreciate our philosophy of investing primarily in high quality consistent growth companies. No matter how bad market psychology becomes, we can take comfort in knowing that our clients own strong companies that have proven their ability to grow during both good and bad times. While their stock prices may fall, the underlying value and long-term growth potential of these companies remain unchanged. In time, the current concerns will be overcome. In the meantime, the companies that we have invested in are doing their best to grow their earnings, which will eventually be reflected with higher stock prices.

Stocks Post Strong Recovery to Start the Year

During the first quarter stocks recovered sharply (see Graph 3) from their steep declines in the fourth quarter of 2018, with large capitalization stocks (S&P 500) generating a total return of +13.7%, recording their fastest start to the year since 1998. Small capitalization stocks (Russell 2000) performed even better with returns of +14.6%. Foreign stocks (MSCI EAFE) continued to lag their domestic peers, generating returns of +10.0% for the quarter. Finally, with bond yields declining across most maturities during the quarter, bonds (Citi Broad Bond Index) generated solid returns of +3.0%.

Though stock market valuations remain attractive for long-term investors, given the recent strong performance, we believe now is a good time to rebalance portfolios if equity ratios have moved well above the mid-point of one's targeted range.

Graph 3. Stocks Post Strong Recovery to Start the Year



In accordance with SEC Rule 204-3(b), our Form ADV is available upon request. Please call or write to Susan C. Beaver, North Star Asset Management, Inc., 59 Racine St., Suite A, Menasha, WI 54952.