Chicago Partners

Third Quarter 2019 Interactive Conference Call

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Client Question

- Client question on long-term viability of energy pipelines

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Chicago Partners Conference Call

- Housekeeping – Matt

- Yield Curve & Interest Rates
- Economic Environment - Jim
- Checklist for Optimal Recessionary Conditions – Matt F
- Leading Economic Indicators – Matt F
- Market Fundamentals – Jim
- Direct Indexing – John
- Qualified Opportunity Zones – Matt G
- Client Questions & Q&A – CP Team
- Closing Remarks

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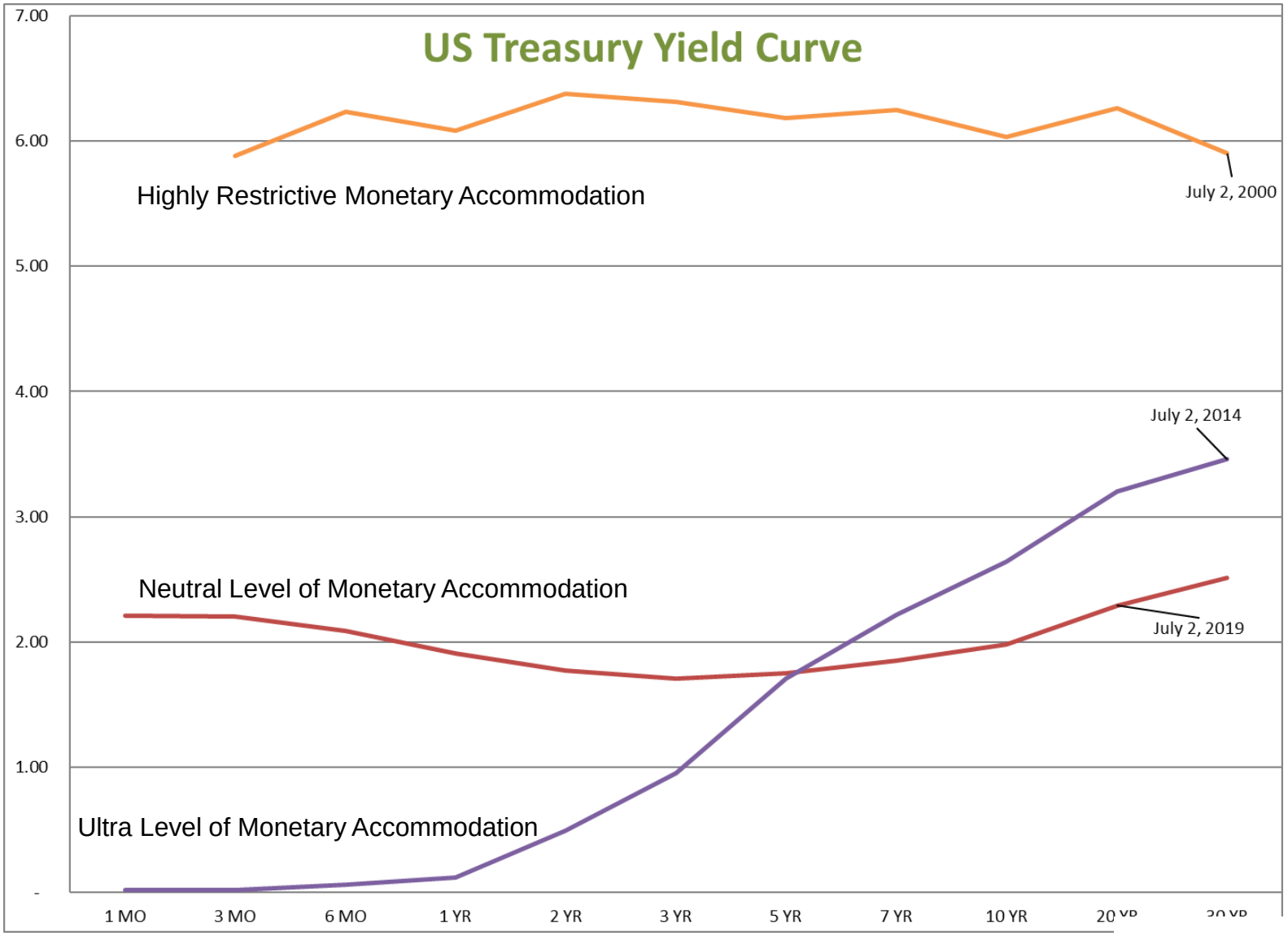
Yield Curve



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Fed Funds & Interest Rates on 4/11/2019

99) Export | World Interest Rate Probability

United States | Instrument: Futures: Fed Funds - Effective | Fed Effective Rate 2.41

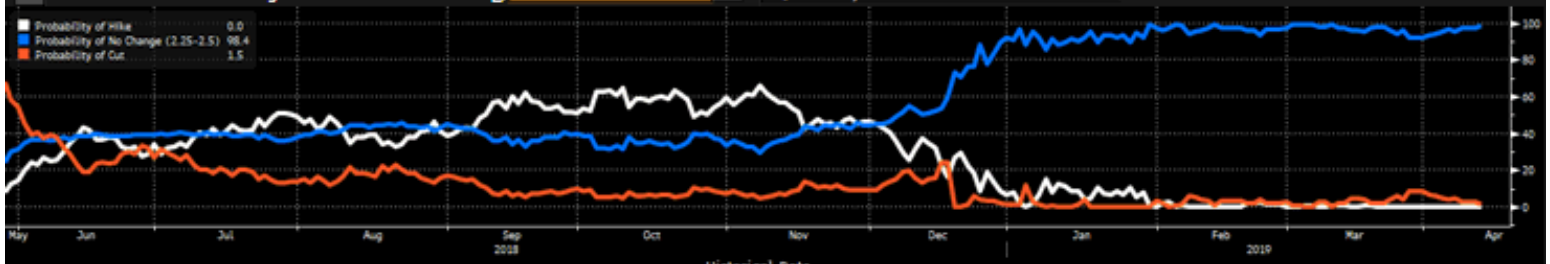
1) Overview | 2) Future Implied Probability

Current Implied Probabilities | 3) Add/Remove Rates

Dates: Meeting / Calculation | Calculated 04/11/2019 | Based on rate 2.25-2.50

Meeting	Hike Prob	Cut Prob	1.25-1.5	1.5-1.75	1.75-2	2-2.25	2.25-2.5	Fwd Rate
05/01/2019	0.0%	1.6%	0.0%	0.0%	0.0%	1.6%	98.5%	2.41
06/19/2019	0.0%	11.8%	0.0%	0.0%	0.2%	11.6%	88.2%	2.38
07/31/2019	0.0%	14.9%	0.0%	0.0%	0.6%	14.3%	85.1%	2.37
09/18/2019	0.0%	31.8%	0.0%	0.1%	3.3%	28.4%	68.2%	2.32
10/30/2019	0.0%	36.0%	0.0%	0.3%	4.8%	30.8%	64.0%	2.31
12/11/2019	0.0%	50.4%	0.1%	1.3%	10.7%	38.3%	49.6%	2.25
01/29/2020	0.0%	57.1%	0.2%	2.6%	14.4%	39.8%	42.9%	2.22

Historical Analysis for Meeting 05/01/2019 | 4) Add/Remove Series



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Fed Funds & Interest Rates on 7/10/2019

99) Export — World Interest Rate Probability

United States — Instrument — Futures: Fed Funds - Effective — Fed Effective Rate 2.41

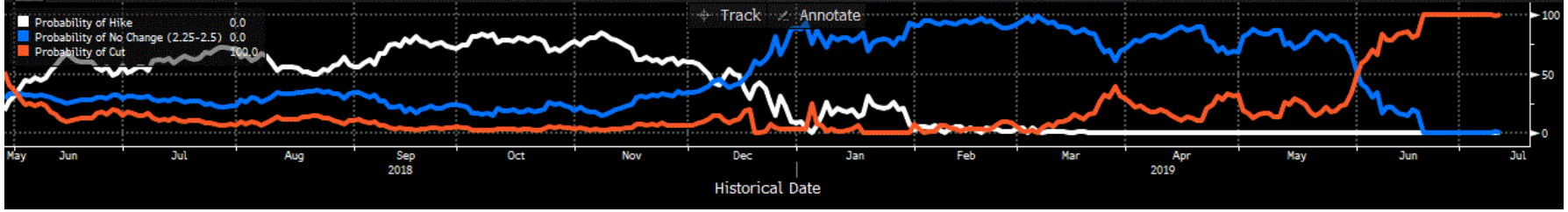
1) Overview | 2) Future Implied Probability

Current Implied Probabilities — 3) Add/Remove Rates

Dates: Meeting / Calculation — Calculated 07/10/2019 — Based on rate 2.25-2.50

Meeting	Hike Prob	Cut Prob	1-1.25	1.25-1.5	1.5-1.75	1.75-2	2-2.25	Fwd Rate
07/31/2019	0.0%	100.0%	0.0%	0.0%	0.0%	22.5%	77.5%	2.09
09/18/2019	0.0%	100.0%	0.0%	0.0%	14.8%	58.8%	26.4%	1.92
10/30/2019	0.0%	100.0%	0.0%	5.4%	30.7%	47.1%	16.9%	1.83
12/11/2019	0.0%	100.0%	2.4%	16.7%	38.0%	33.5%	9.3%	1.72
01/29/2020	0.0%	100.0%	6.4%	22.7%	36.8%	26.7%	6.7%	1.65
03/18/2020	0.0%	100.0%	9.5%	25.3%	34.9%	23.0%	5.4%	1.60
04/29/2020	0.0%	100.0%	11.7%	26.7%	33.2%	20.5%	4.7%	1.57
06/10/2020	0.0%	100.0%	14.5%	27.9%	30.8%	17.5%	3.8%	1.52
07/29/2020	0.0%	100.0%	16.1%	28.2%	29.3%	16.0%	3.4%	1.49

Historical Analysis for Meeting 07/31/2019 — 4) Add/Remove Series



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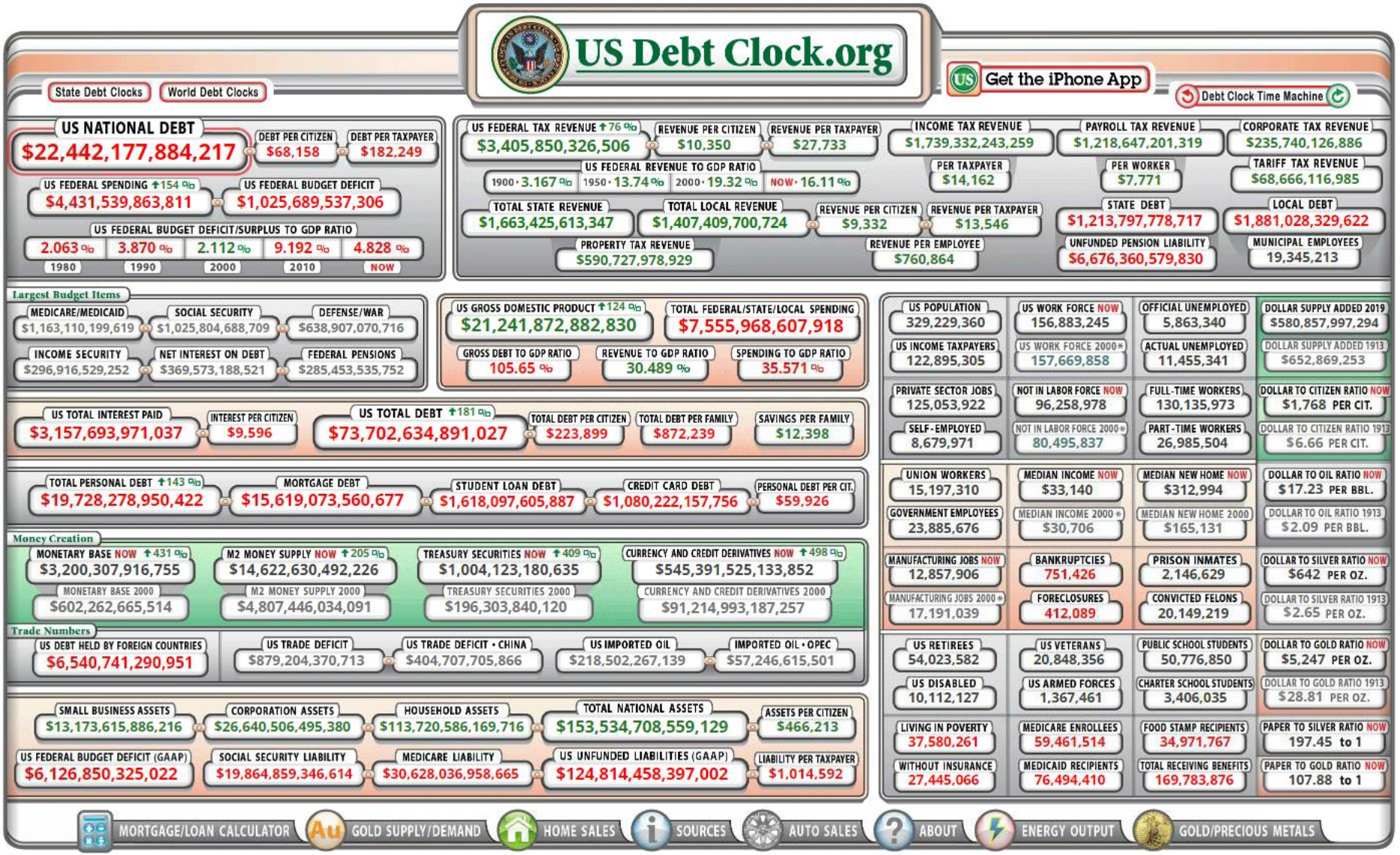
National Debt Clock



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Checklist for Optimal Recessionary Conditions

- Accelerating Inflation – No
- Inverted Yield Curve – No, but close as discussed
- Employment Declining – No, 224,000 new jobs
- 29 Months After First Rate Hike – Yes, 43 months
- P/E Above 17 – Yes, 17.2
- 10 Year Treasury Above 6.6% (Normalized Rate of 4.0%) – No, it is 2.04%
- Bonds More Attractive Than Stocks – No
- Dividend Yield Decreasing – No, dividends are still increasing

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Leading Economic Indicators

New Economy Indicator

- Empire State Manufacturing 6M Ahead Technology Spending – Outlook was generally lower than last month and fell to 12.8. (Last Quarter: 20.3%)

Economic Survey Results

- Consensus response is cautiously optimistic, less than last month. The Duke CFO Global Business Outlook pointing towards an economic slowdown in 2020.

Conference Board Leading Economic Index

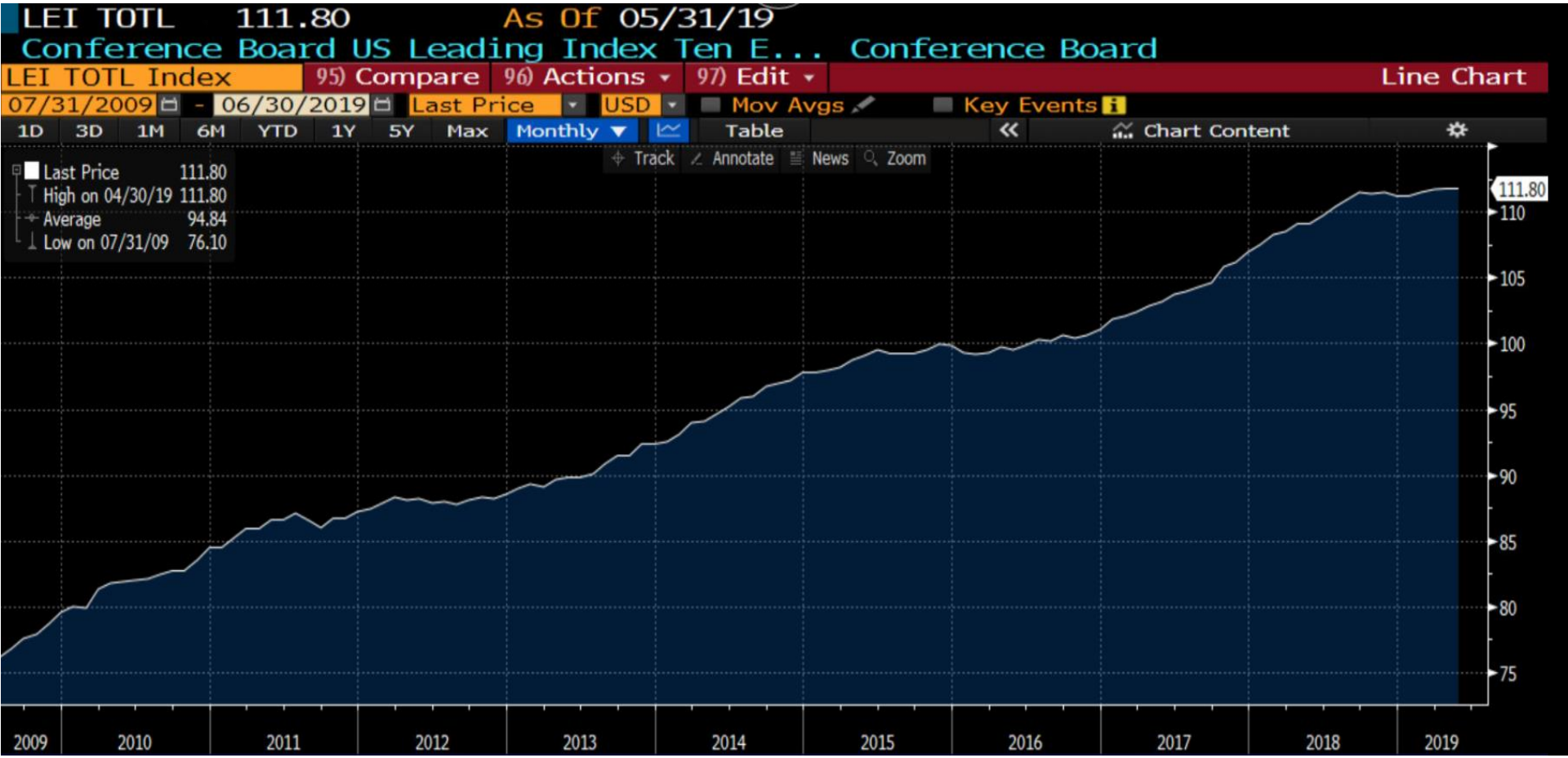
- Bloomberg Chart – Page 9

CEO Confidence Index – CEO Confidence in the Economy 1 Year From Now

- Bloomberg Chart – Page 10

Leading Economic Indicator

US Conference Board Leading Index



Last Quarter:

111.50

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Leading Economic Indicators

CEO Confidence Index – Economy 1 Year from Now

Last Quarter:

6.72

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Capital Markets Equation

$$\text{Market Return } (R_M) = E + Y + \Delta\ P/E$$

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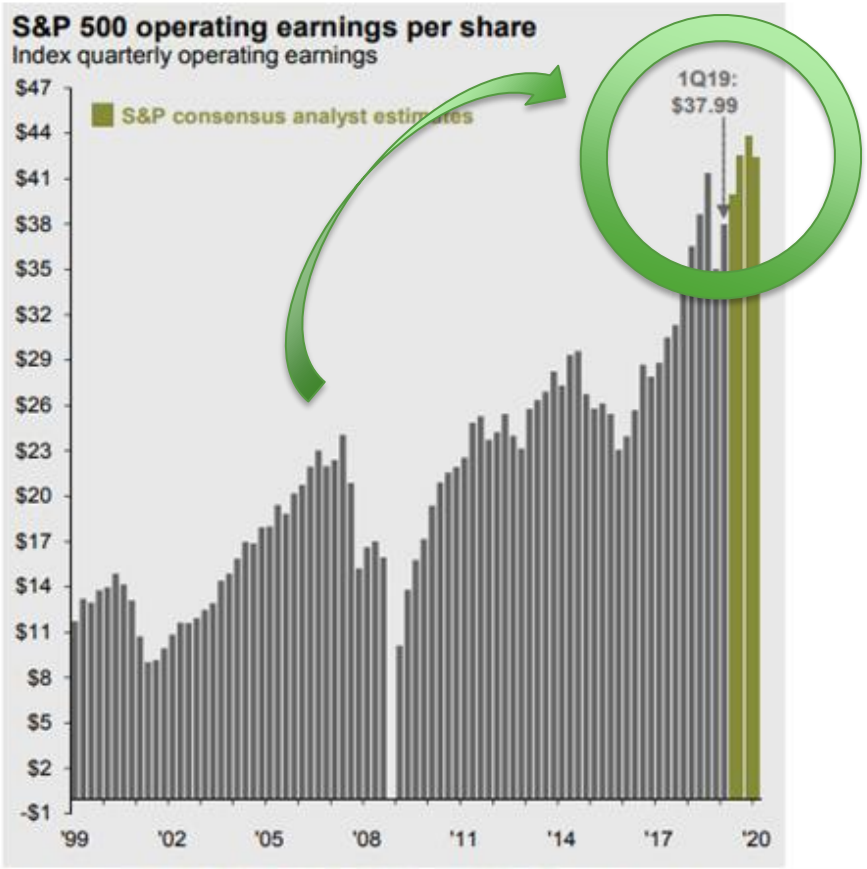
Capital Markets Equation

Market Return (R_M) = E + Y + Δ P/E

Corporate profits

GTM - U.S.



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
EPS levels are based on operating earnings per share. Earnings estimates are Standard & Poor's consensus analyst expectations. Past performance is not indicative of future returns. *Net earnings revisions are calculated as the number of upward revisions minus the number of downward revisions as a percentage of total revisions. Total revisions include upward, downward and unchanged revisions.
Guide to the Markets – U.S. Data are as of June 30, 2019.

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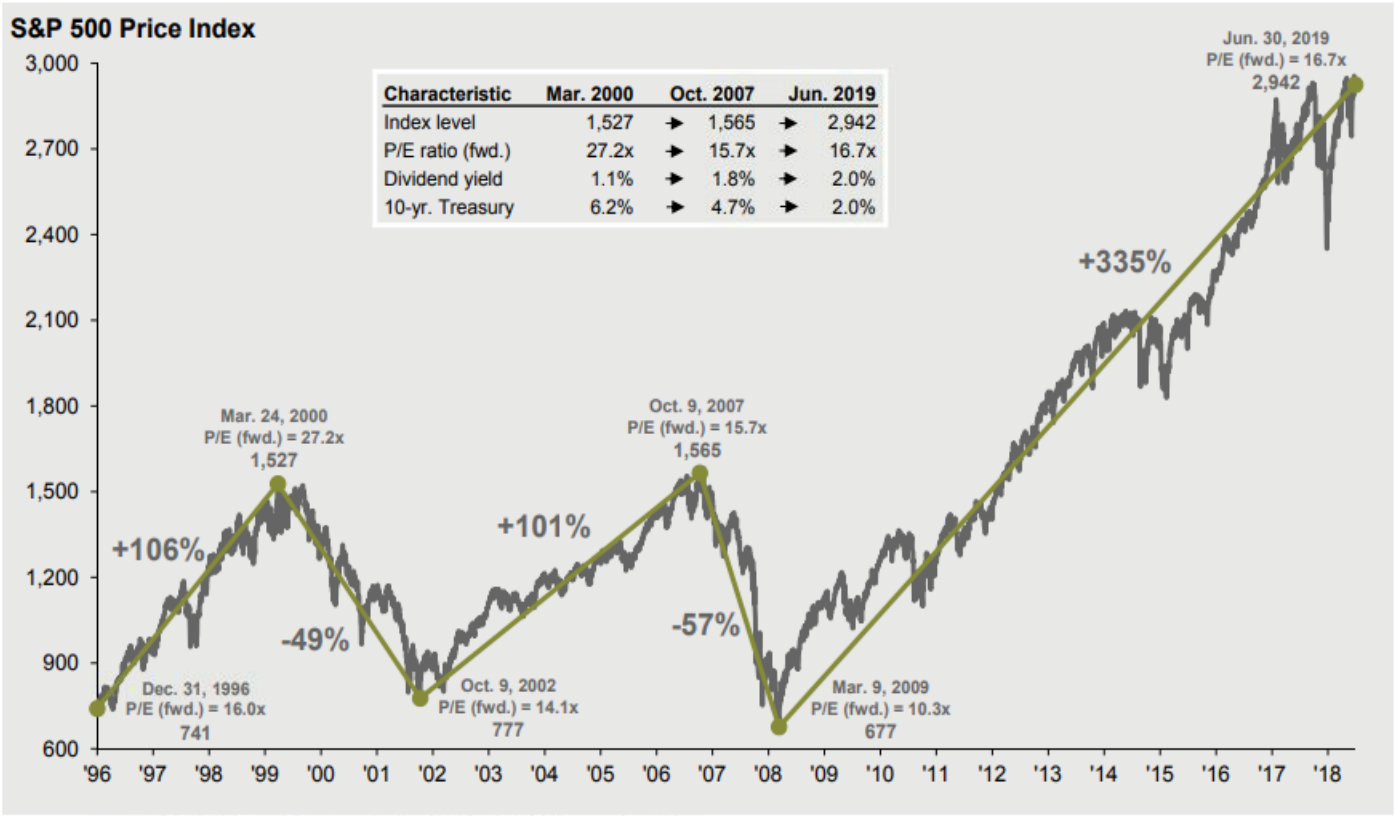
2019: Market Fundamentals

S&P 500 Index at inflection points

GTM - U.S.



Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.
Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of June 30, 2019.

S&P 500 Dividend by Year 1997-2019 (Est*) (4% Annualized Growth)

Year	Value
2019 (Est*)	55.63
2018	53.75
2017	48.23
2016	45.08
2015	44.34
2014	40.61
2013	36.30
2012	32.90
2011	28.31
2010	25.07
2009	25.08
2008	32.64
2007	31.92
2006	29.81
2005	27.29
2004	24.70
2003	22.80
2002	21.48
2001	21.53
2000	22.60
1999	23.97
1998	23.89
1997	23.22

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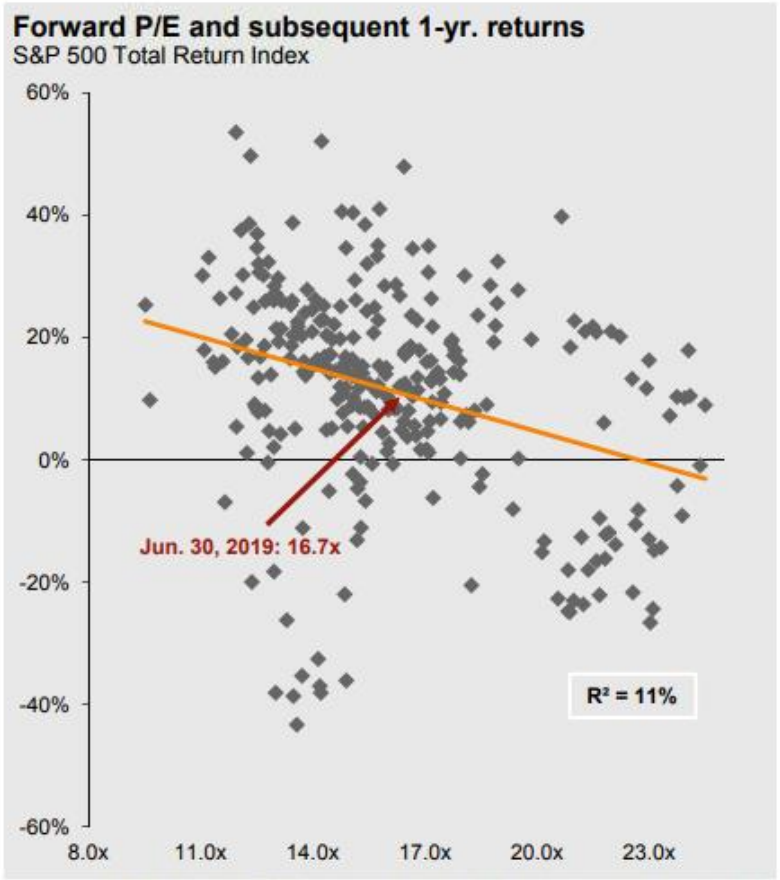
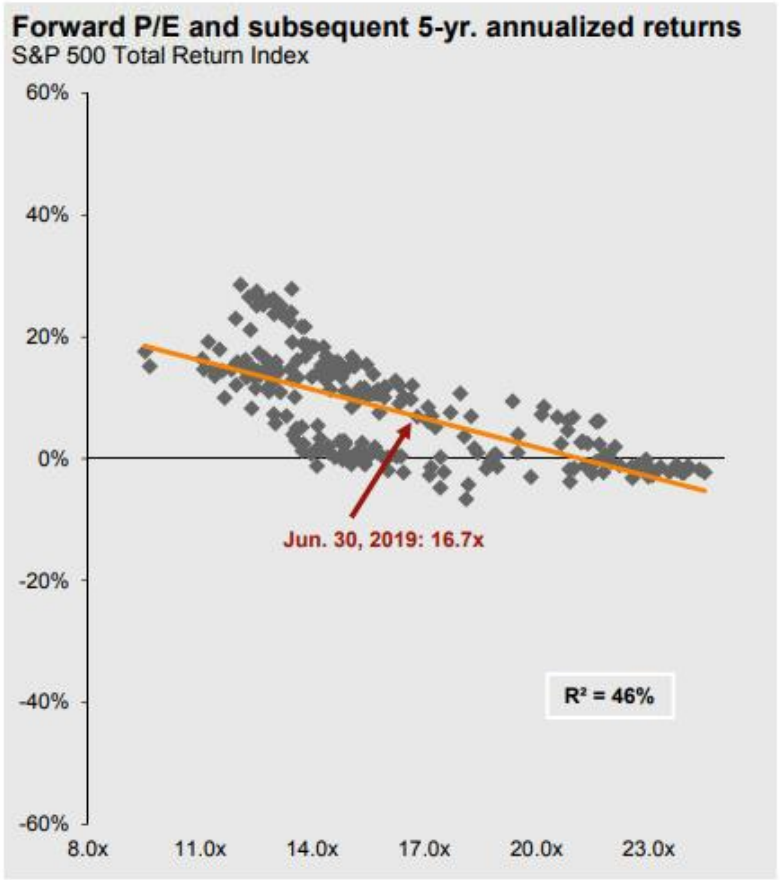
Capital Markets Equation

Market Return (R_M) = E + Y + Δ P/E

P/E ratios and equity returns

GTM - U.S.





Source: FactSet, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Returns are 12-month and 60-month annualized total returns, measured monthly, beginning June 30, 1994. R^2 represents the percent of total variation in total returns that can be explained by forward P/E ratios.
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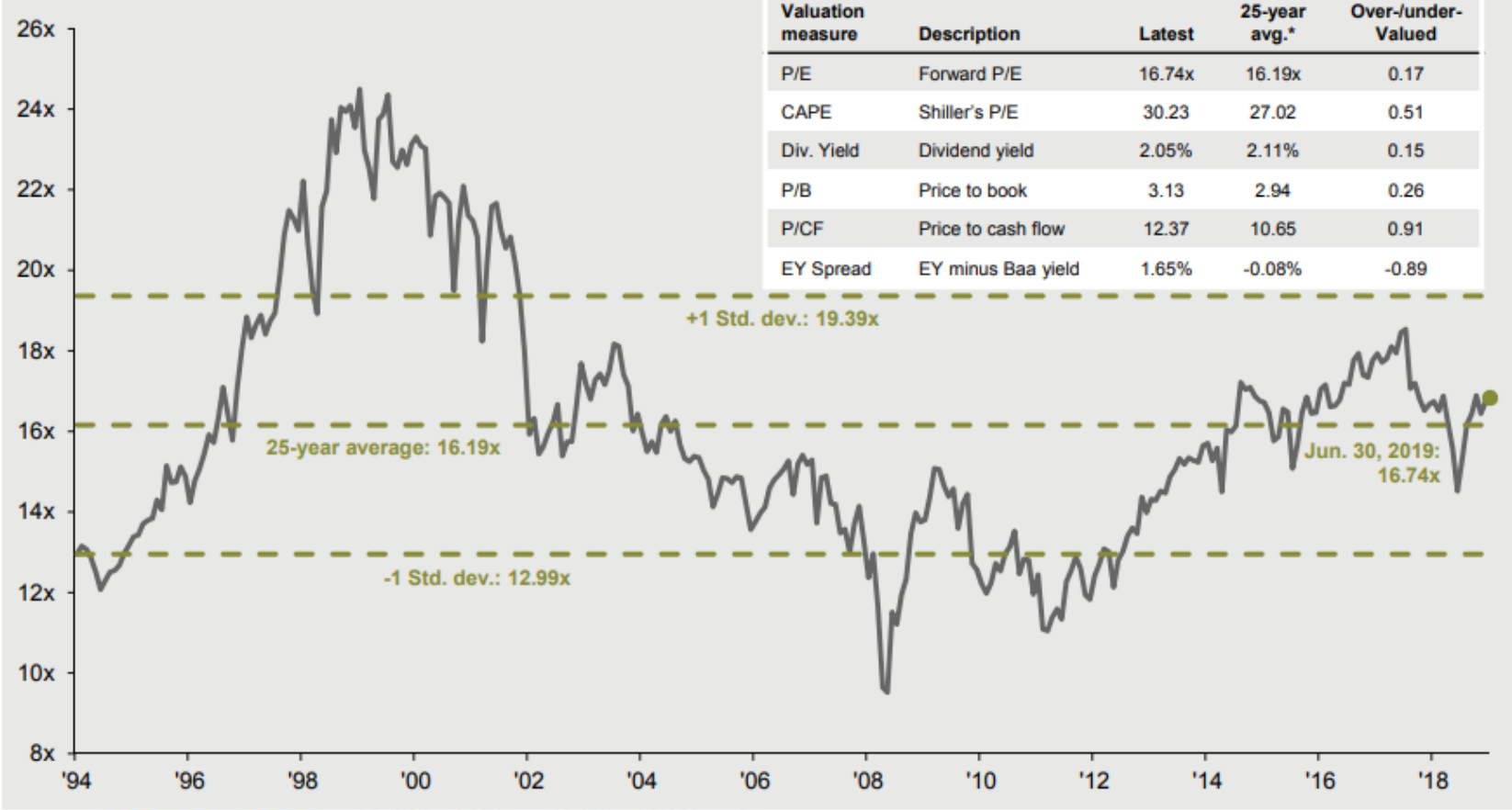
2019: Market Fundamentals

S&P 500 valuation measures

GTM - U.S.

S&P 500 Index: Forward P/E ratio



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	16.74x	16.19x	0.17
CAPE	Shiller's P/E	30.23	27.02	0.51
Div. Yield	Dividend yield	2.05%	2.11%	0.15
P/B	Price to book	3.13	2.94	0.26
P/CF	Price to cash flow	12.37	10.65	0.91
EY Spread	EY minus Baa yield	1.65%	-0.08%	-0.89

Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since July 1994, and FactSet for June 30, 2019. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. Price to book ratio is the price divided by book value per share. Price to cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. *P/CF is a 20-year average due to cash flow data availability.
Guide to the Markets – U.S. Data are as of June 30, 2019.

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Direct Indexing

- **Direct Indexing:** is the replication of an index by purchasing the underlying securities in a separate account instead of a managed fund such as a mutual fund or ETF.

- **Tax-Loss Harvesting:** Direct indexing allows for tax-loss harvesting on individual positions, which provides greater opportunity for offsetting gains against losses compared to a mutual fund or ETF, in which you can only recognize losses if the entire fund is trading at a loss.

- **Avoiding Imbedded Gains:** When you buy a mutual fund that has unrecognized gains in its underlying securities, you are buying a share of these gains. If the mutual fund where to sell these appreciated shares, you would be distributed a taxable gain, even though you did not participate in the share appreciation. You avoid this issue with your own portfolio via direct indexing.

- **Portfolio Customization:** Direct indexing allows for customization within an index portfolio. You can include or exclude individual positions as you choose. For example, an Investor's ESG (Environmental, Social, and Corporate Governance) preferences can be incorporated into the portfolio, or an investor can overweight or underweight a sector, such as energy or technology.

- **Low Cost:** By owning individual securities via Direct Indexing, you avoid the management fee expenses that mutual funds and ETFs typically charge.

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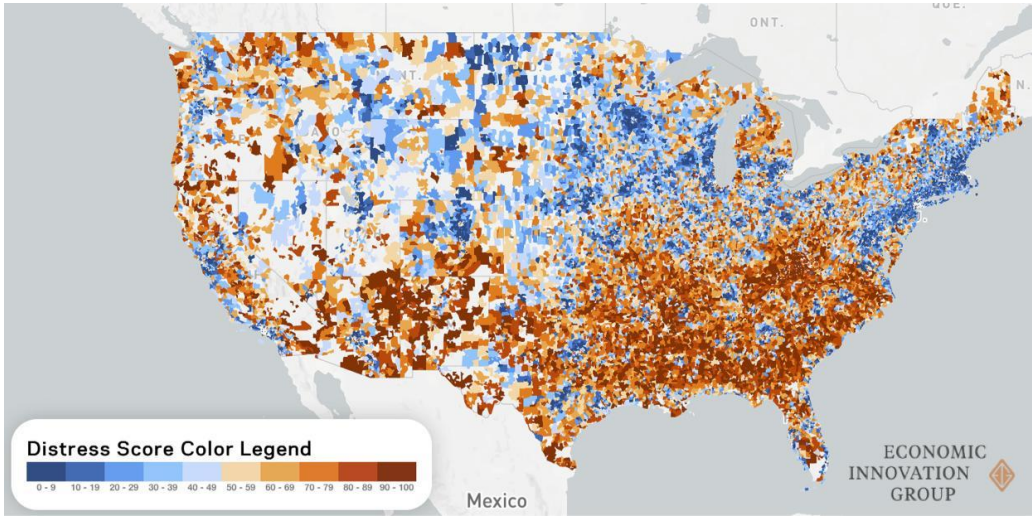
Qualified Opportunity Zone “QOZ”

- Tax Cuts and Jobs Act of 2017

- Tax Benefits
  - Immediate Deferral of Capital Gains
  - Reduction of Capital Gains based on Holding Period
  - Tax-Free Growth of Principal Appreciation

- Assets Available to Invest In
  - Apartment Complexes
  - Rent-A-Car Facilities
  - Parking Structures
  - Plane Refueling Depot
  - New Funds Developing Daily



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Qualified Opportunity Zone "QOZ"

Investor sells business and realizes $1M in capital gains

Capital gains and Asset Fully Taxed with Interest if Sold within 5 years

Asset held for 5 years capital gain is decreased by 10%

- **$1M → $900K**

Asset held for a total of 10 years and has appreciated to $2M

- **Gains on Investment are not taxed**
- **$1M returned to Investor Tax Free**

180 Days capital gains are Invested into QOZ

Asset held for 2 more years: capital gains decreased additional 5%

- **$900K → $850K**

In year 8 gains on deferred $850K are due

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Interactive Client Q&A

Client Question

- Does Chicago Partners offer corporate trustee services?

Chicago Partners Trustee Services

- Corporate Trustee Services
- Current Trustee or Successor Trustee
- Bifurcated Trust Model
  - Chicago Partners will act as the Investment Manager
  - Chicago Partners Private Trust Services will act as the Trust Administrator
- Services to be launched in the fourth quarter of 2019

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