FIRST LONG ISLAND INVESTORS, LLC

FIRST QUARTER 2020 REPORT

INVESTMENT PERSPECTIVE

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For FLI clients, this investment perspective is accompanied by a detailed review of each investment strategy inclusive of performance, holdings and/or managers added to or removed from the strategy, insight, and investment themes.

March 31, 2020

"Do not judge me by my successes, judge me by how many times I fell down and got back up again." Nelson Mandela

The first quarter, following an excellent year in 2019, commenced with reasonably strong results consistent with what was a strong economy characterized by near record employment, low interest rates, and low inflation. And then, "out of the blue," came the coronavirus leading to what could be the greatest medical crisis, a global pandemic, the world has seen since the H1N1 pandemic (Spanish flu) of 1918. Emanating from a region in China, this disease, now known as COVID-19, has cast its horror on over 180 countries with the United States being hit the hardest. To boot, the epicenter, for now, is New York accounting for more than a third of the cases in our country.

The response by the President, the House and Senate, and the Federal Reserve has been rapid and bold, although many believe that our testing capability was slow to ramp up and that the Chinese were not as transparent and forthcoming as they could have been. Despite some missteps, the collective clout of the Administration and its task force, our Congress people, the vast majority of Americans, a resilient private sector including numerous leading companies, and research centers at hospitals and universities around the world, gives us optimism that we will defeat this invisible enemy in time.

However, without a vaccine (which scientists around the globe are working to develop) and treatment for the symptoms of the dreadful virus, the only prescription for stemming the tide of this scourge is social distancing and staying in our homes. This prescription has an obvious side effect, the crippling of our economy and that of the world economy. Despite our economic strength coming into 2020, we are now faced with an economic contraction that could take us from a 50-year low unemployment rate of 3.5% to potentially an unemployment rate as high as 20% or more. Small businesses shuttered, hotels nearly empty, airlines with drastically reduced flights and millions unemployed, our domestic economy and that of the world have fallen off a cliff for now.

Domestically, several bipartisan laws and the actions of the Federal Reserve will infuse trillions of dollars into our economy to aid the unemployed, small businesses, and various industries that have been crippled. This is to buy time for so many while waiting for the defeat of the virus and a return to some normalcy. (At some point we will have to deal with the potential of inflation given the mountain of debt being created.) Will it be like it was before or will it be a "new" normal? Only time will tell. Will most buying and traveling habits of Americans return to what they were? Only time will tell. Will Americans be comfortable attending sporting events, the theater, and the movies again? Only time will tell. We just do not know, except, if history is a guide, we as Americans will get up again and return to some significant level of normalcy.

When one thinks of all of the tragic events, market disruptions, and medical crises of the past we can think of two World Wars, the Spanish flu of 1918, the polio epidemic of the 1950's, the oil crisis of the mid 1970's, the hyper-inflation of the early 1980's, the AIDS pandemic, the stock market crash of 1987, the implosion of Long Term Capital Management and the currency crisis of 1997, the tech bubble and collapse of 2001-2, the 9/11 terrorist attacks on the U.S., and the financial crisis (the "decession") of 2008-9 as well as the Korean and Vietnam Wars. In most of these instances, financial markets fell dramatically or even crashed. Behavioral patterns for many Americans changed for a period of time. Yet at the beginning of this year, America was enjoying its possibly greatest period of prosperity with employment and the stock market at historic levels. In addition, housing prices were at or near their highest. And then "out of the blue."

So, it is our opinion at FLI that once this virus is beaten (and we believe it will be), Americans and our businesses, with the help of the federal and state governments along with our strong private sector, will pick themselves up yet again!

How Do We Invest?

Let us be candid, we face an ugly medical crisis and a severe recession that we believe will be short lived. The ultimate numbers in terms of Americans and others falling prey to this virus will be horrifying. The number of unemployed will be startling and the number of shuttered businesses, despite help from the government, will be incredibly sad. We might also see empty hotels and dry docked cruise liners for quite some time. I sometimes speak of looking over the valley to the other side when overcoming economic hardships. This time we might be looking over the Grand Canyon, but just for what we believe will be a relatively short period of time. It could be six months or a year. Perhaps even longer.

If there is one thing that we have seen over all of the sad events in the last hundred or so years, is never ever count out Americans and American business. We always pick ourselves back up thanks to the resolve, ingenuity, creativity, and entrepreneurialism of the American people and our capitalistic system coupled with our democracy.

Our customized, prudent asset allocation for our clients today has, and always has had, security and defensive components. I am glad to say that our security and defensive baskets, although down, have for the most part preserved our clients' capital better than the larger losses experienced in many of the traditional equity indices. All of our traditional equity strategies except one are outpacing their respective indices. We have always focused on quality companies with strong balance sheets. In several of our strategies we have made modest changes to further strengthen the quality where we could. We have not sold out or gone to cash trying to predict the bottom and then having to decide when to jump back in. Our experience over the years has suggested that selling into a panic is typically a big mistake, so we have not.

Where we could increase our equity weightings in secular growth trends like online purchasing, cloud computing, high-quality pharmaceuticals and medical instruments, or 5G technology we have. Social media companies and online search engines are also areas we believe will experience growth. Additionally, we should not forget electronic payments (especially important while being at home). Our goal is to preserve capital by owning strong companies that are well managed and look to the future. At the same time, in our Dividend Growth strategy we have focused on the balance sheets of our portfolio companies to increase the probability that dividends will at least be paid, and in many instances be increased, as they have for so many years.

The bottom line is that we are staying the course with our allocations to the baskets of security, defensive, and traditional equity strategies. Also, our mezzanine loan strategies seem to be weathering this period of stress as the properties we lend to are all very well located.

We have not included any charts showing macro- and micro-economic trends or valuation graphs based on earnings and interest rates because they would not mean much at this point as it is virtually impossible to predict much of anything economically this year. Our focus is on 2021 and beyond when we believe much will return to some normalcy. Our strong belief is that the prices we are seeing now for the companies we are investing in will be higher in a year or two. If anything, we view this as a long-term buying opportunity for the highest quality companies that have durable growth prospects, strong balance sheets, and/or the ability to pay meaningful dividends.

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We believe that America and its companies will again pick themselves up as they have following periods of extreme stress in the past. We would ask you to judge us the way Nelson Mandela has suggested– by the way we pick ourselves up along with your entrusted funds.

Please do not hesitate to call any of us at First Long Island and most importantly stay safe and practice social distancing, and if possible just stay at home for now.

Best regards,

Robert D. Rosenthal
Chairman, Chief Executive Officer,
and Chief Investment Officer

*The forecast provided above is based on the reasonable beliefs of First Long Island Investors, LLC and is not a guarantee of future performance. Actual results may differ materially. Past performance statistics may not be indicative of future results. Partnership returns are estimated and are subject to change without notice. Performance information for Dividend Growth, FLI Core and AB Concentrated US Growth strategies represent the performance of their respective composites. FLI average performance figures are dollar weighted based on assets.

The views expressed are the views of Robert D. Rosenthal through the period ending April 23, 2020, and are subject to change at any time based on market and other conditions. This is not an offer or solicitation for the purchase or sale of any security and should not be construed as such.