FIRST LONG ISLAND INVESTORS, LLC

SECOND 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.

June 30, 2020

"People who succeed in the stock market also accept periodic losses, set -backs, and unexpected occurrences. Calamitous drops do not scare them out of the game."
-Peter Lynch

The second quarter's strong performance for our strategies reflected massive Fed intervention (three trillion dollar expansion of balance sheet), the benefits of government programs designed to aid those most impacted by the economic shut down from the coronavirus (more than three trillion dollars), and the gradual reopening of the U.S. economy. Almost 0% interest rates, trillion dollar aid packages, and the belief that some normalcy would return in the next twelve months prompted a 20.5% gain in the S&P 500 Index during the second quarter. Meanwhile, those companies with the best prospects for durable earnings, as well as many companies that delivered services necessary for people and businesses to carry on under the restrictions imposed during the pandemic did exceedingly well (e.g., Amazon.com saw a 41.5% increase in share price during the quarter). We have tended to favor growth-oriented companies for quite some time, and those companies whose strategies included cloud computing and digital and electronic payments have long been staples in our portfolios.

Our clients, who through our guidance, maintained substantial equity investments in a diversified asset allocation made significant gains during the quarter. We can also say that virtually none of them left the "game" as referenced in the above quote from legendary investor Peter Lynch. The first quarter, facing a "novel" virus and a virtual shut down of our economy shook most investors to the core. However, we at FLI have experienced "calamitous drops" and "unexpected occurrences" before. We must admit that we have not seen such a pandemic in our lifetimes. Companies with strong balance sheets and excellent management coupled with the rapid and bold actions of both the Fed and bipartisanship in Congress gave us the confidence that better times would return in the not too distant future.

As we ended the quarter, the environment for investing in all asset classes was characterized by the following:

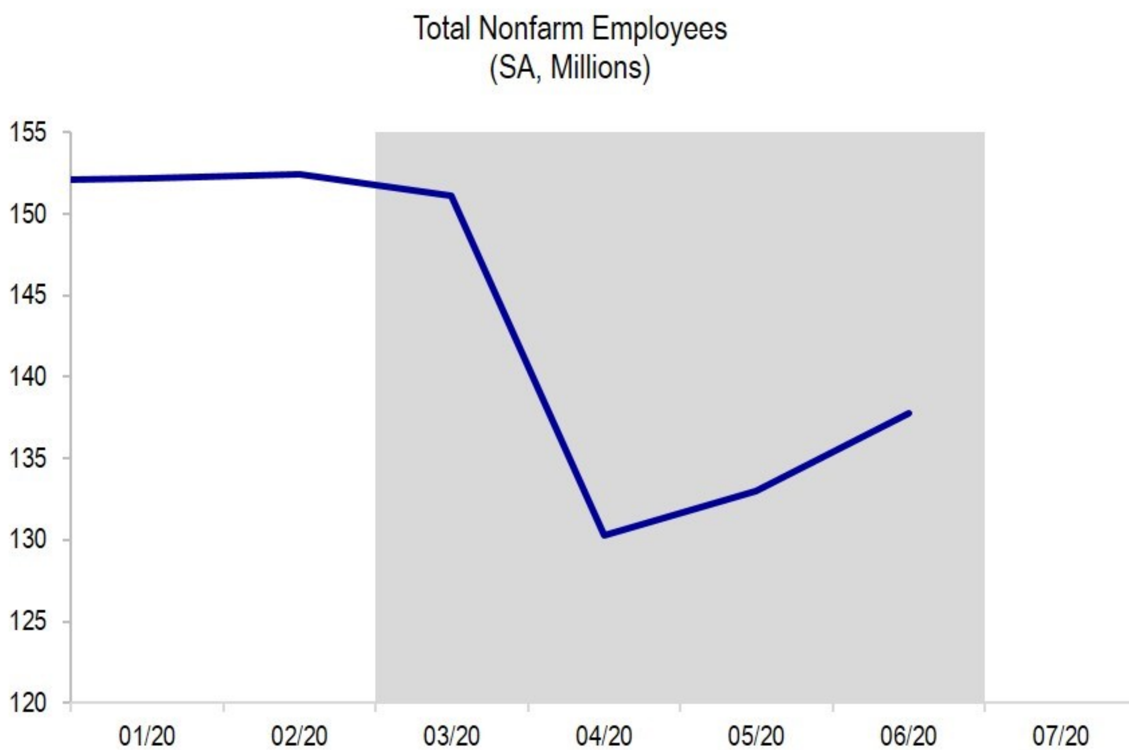
1. A pandemic virus (COVID-19) with no therapeutic cure or vaccine and cases increasing in certain parts of the country.
2. An economy that is gradually reopening with various restrictions limiting commerce and some freedom of movement for many around the country.
3. Certain companies thriving in this environment (Amazon.com, Microsoft, Walmart, Costco Wholesale, PayPal Holdings, etc.) while many industries are still reeling from various restrictions and consumer anxiety (hotels, airlines, casinos, restaurants, etc.).

4. Interest rates are historically low making it difficult for investors to obtain much more than return of principal in fixed income investments, while in Europe and elsewhere negative interest rates remain.
5. Some segments of real estate face the prospect of rents not being paid for now and therefore have issues meeting operating expenses and having to negotiate forbearance agreements with banks holding their mortgages. This impact seems to be affecting the ability for certain types of transactions (e.g., commercial sales and refinancings) to be completed or undertaken.
6. Scientists are working around the clock with government aid to create a vaccine for this dreaded virus which is impacting over 180 countries. Therapeutics are also being searched for to lessen the severity of the disease, especially among the older population and those with co-morbidities.
7. Many private equity valuations have been reduced to reflect these difficult times and the uncertain pace of economic activity while waiting for more visibility of success in the fight against COVID-19.

If the above was not enough, the murder of George Floyd in Minneapolis at the hands of a rogue cop (and three others who failed to act) has led to massive demonstrations about police brutality and racism. These demonstrations in some cities metastasized into looting, arson, and some bloodshed. This also has shook our country as many are calling for the defunding or elimination of the police. At the same time the level of crime has dramatically increased in cities such as New York City and Chicago, and six square blocks were taken over by demonstrators in Seattle ultimately leading to the deaths of two innocent people. After two weeks, the Mayor of Seattle ordered the end of the occupation and police took steps to disperse protestors from the occupied area.

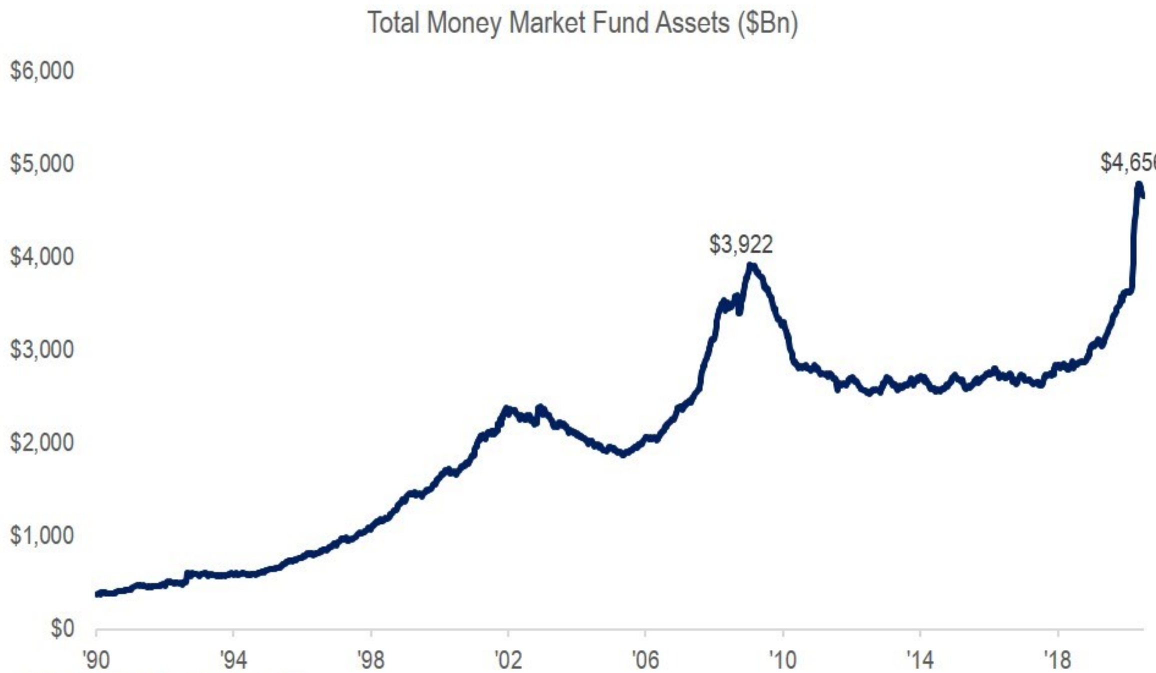
So why is the stock market doing so well? What should we be doing as investors? It has long been thought that the stock market anticipates the future. We agree. Despite the conditions listed above, the economy is rebounding in spite of the uncertainty with the disease and civil unrest. This is seen in the recent nascent recovery in employment (shown below):

This significant jump is only the last two months and we need to be cautious about the trend. Too many Americans are still out of work with approximately 33 million still receiving unemployment assistance (as of June 20, 2020). We expect another round of government stimulus, anticipated to be approximately a trillion dollars, to bolster the economy and buy time as the recovery unfolds.



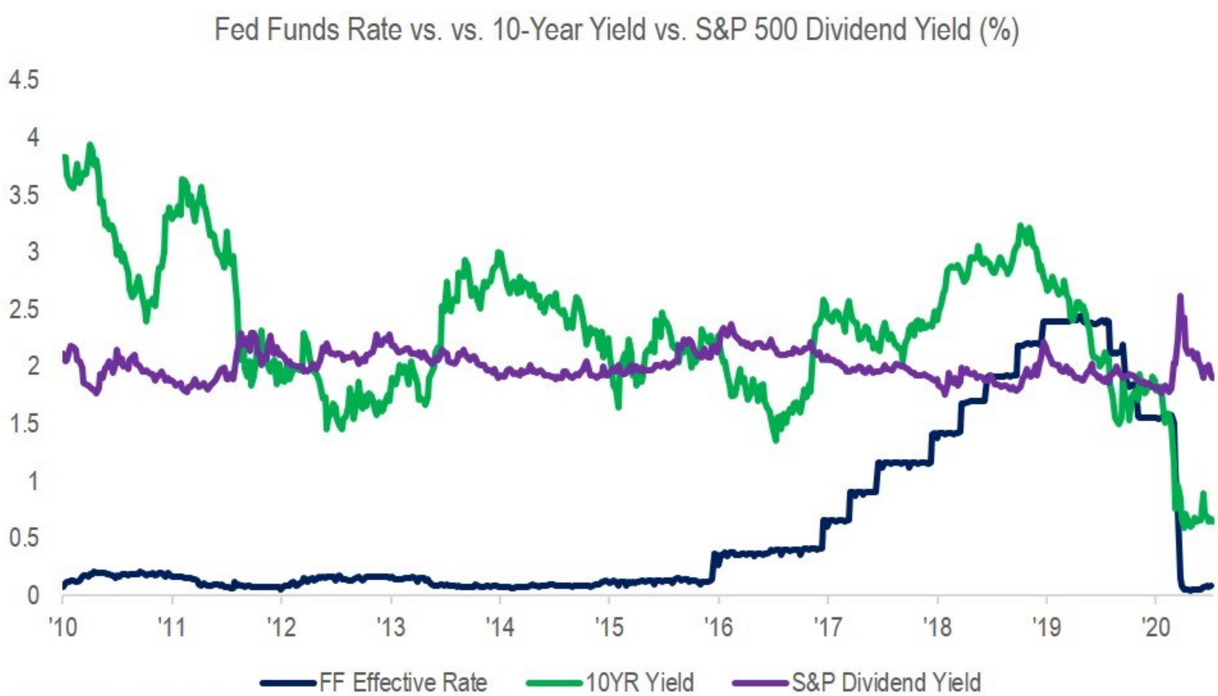
Source: Bureau of Labor Statistics

At the same time, the large money mountain on the sidelines continues to earn next to nothing in cash and treasury bond yields are at or near historical lows. This suggests to us that some of these funds will seek asset classes with better returns in the near future, including equities. (See chart on next page.)



Source: Strategas Research Partners

Money market fund yields and the rate on the Ten-year U.S. Treasury still are significantly below the dividend yield on the S&P 500:



Source: Strategas Research Partners

It is worth noting that the yield on our Dividend Growth strategy exceeds the yield on the S&P 500 by more eighty basis points and as of June 30, 2020 has produced an average dividend increase of 7% from our portfolio companies. This is particularly noteworthy as we expect the S&P 500 dividend to remain essentially unchanged due to companies impacted by the economic shutdown not raising, cutting, or eliminating their dividends.

How Did We Do?

Our defensive equity and traditional equity strategies all appreciated by at least 17% during the quarter, with many actually increasing by more than 20%! Several of our strategies made up most, if not all, of the losses of the first quarter. Our concentration on growth-oriented companies which are well positioned as we look forward seems to be working. Many of these companies reflect products/services and secular growth trends which accelerated because of the pandemic and the new or revised ways of life for both businesses and consumers. In addition, appreciation in our Dividend Growth strategy reflected most companies expected to raise dividends thus far in 2020 continuing to do so with a few exceptions that held their dividends waiting for more visibility (in our opinion). Including those few that did not yet raise their dividends, the average dividend increase for the portfolio companies has been 7%, which we expect will increase somewhat during the course of the year as we believe most of the companies that have not raised their dividends will do so.

Our private investments (which are presented to qualified clients) continue to show progress but have been somewhat impacted by the economic shutdown. One of our mezzanine real estate investments reflected some slowdown in refinancing activities, but we do not believe that valuations have been impaired. In another, our mezzanine loans for prime industrial properties continue to show significant promise, especially helped, in our opinion, by the continuing growth of internet business and one-day delivery becoming the norm. Separate reports will be forthcoming. Also, a few days after the quarter ended, Perosphere Technologies, a private equity investment, signed an agreement to be acquired. We will be writing a report on this as well once the transaction is completed.

Our Outlook

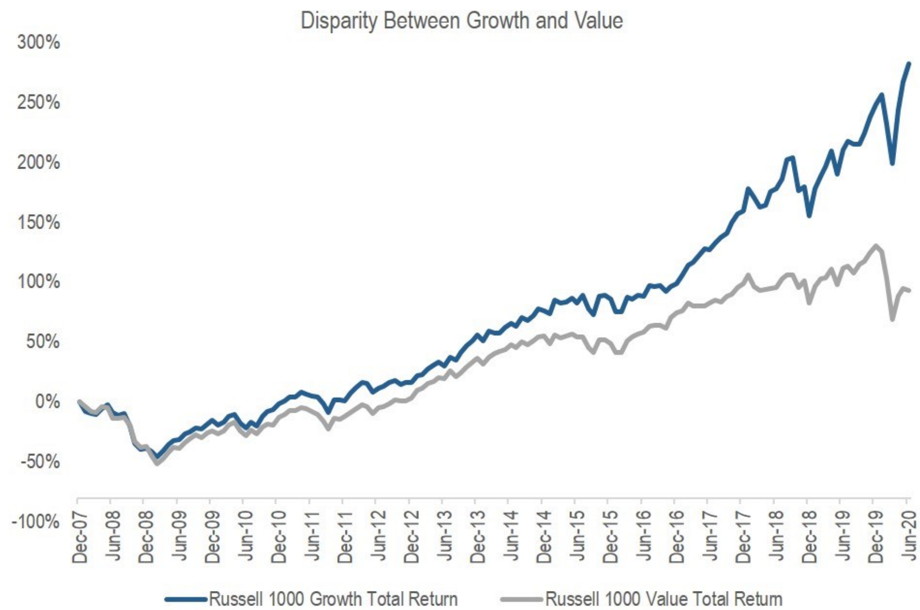
We remain cautiously optimistic while using all of our investment tools to have overcome the first two tumultuous quarters. Those same tools of diversification, asset allocation, and diligent investment management with proven investment strategies will be needed to face the uncertainty that we see going forward. The uncertainty includes:

1. Defeating or at the least living with the COVID-19 virus as we approach the regular flu season (and there is some concern about a new virus emanating from China in the form of a swine flu).
2. A continuation of the reopening of the economy that will probably have some fits and starts along the way, but we do believe it will continue to improve into 2021.
3. A domestic population more divided than we have ever seen, while we approach a major Presidential election in just four months.
4. Longer term, dealing with a blossoming Federal deficit (projected to be $3.7 trillion this year) as well as a swollen Federal Reserve balance sheet which could ultimately lead to higher inflation and/or higher interest rates.
5. Valuations for stocks, bonds, and real estate that will be bloated if the economy does not come back from its shutdown in due course. Strategas Research Partners, one of our economic advisors, projects a price-to-earnings ratio of near 21 for the S&P 500 for 2021 (although we believe it could be somewhat lower).

Of the above, the one which will receive the most attention in the coming months is the Presidential election followed by what happens in the Senate. If the Democrats win back the White House and flip the Senate (assuming the House majority stays Democrat), it will most likely mean significant tax and regulatory changes in the future. Based on what has been suggested by the presumptive Democrat candidate for President, we can expect higher taxes on the wealthy in several areas. It could also mean more regulations for small and large businesses as we emerge from the COVID-19 forced shutdown. We at First Long Island will be watching the outcome of these elections very carefully. We will have a special section in our next quarterly report (late October) trying to forecast what a potential Democrat sweep (all three branches) would possibly mean.

We urge all of our clients to maintain a defensively tilted asset allocation. Given the paltry bond yields (we continue to underweight fixed income and recommend some cash holding), we continue to overweight our defensive basket with inclusion of at least two if not three of those strategies. We also are maintaining a slight underweight to our traditional equity basket while favoring our growth-oriented companies. Growth continues to outpace value stocks by a wide margin. Actually a margin that seems unsustainable, but is based on the durability and duration of earnings growth. The chart at the top of the next page demonstrates that outpacing of growth over value:

Despite a fair number of our strategies having above average allocations to growth or being ordinarily biased to growth, we do have sufficient value exposure and in our opinion asset allocation featuring diversification does pay off over time.



Final Thought

As Peter Lynch states, setbacks and unexpected occurrences are facts of investing life. Between COVID-19 and the potential for sweeping tax law and regulatory changes if Democrats sweep in the upcoming election, we must be vigilant in maintaining a long-term perspective with a prudent asset allocation. Great companies and well located real estate will always have long-term value if purchased at reasonable prices which tend to reflect economic conditions, including both interest rates and inflation. We are maintaining our bias to high-quality companies with strong balance sheets, good management teams, among best-of-breed outside managers, as well as a customized asset allocation for each client based on his or her individual goals and needs. Despite the unusual circumstances that we find ourselves in, none of this has changed. It has worked for our clients in the past and we expect it to work for them in the future.

Stay safe, stay healthy, and do not hesitate to call upon us for any of your wealth management needs.

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 July 24, 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.

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