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Dear Atherean Wealth Management client:

Enclosed is your portfolio summary report for the quarter ending March 31, 2022, a summary of your investment objectives and target asset allocation as per our records, and an investment advisory fee statement for the first quarter of 2022. It is important that you review your investment objectives and target asset allocation and let us know if any of it is incorrect or if there are any changes to your overall financial profile or liquidity needs. For a full report of the holdings in your accounts we encourage you to refer to your statements generated by the custodian.

Economic Review and Outlook

The U.S. economy contracted in the first quarter of 2022 with real GDP declining 1.4% on an annualized basis, which is down considerably from the 6.9% annualized growth rate which the economy experienced during the fourth quarter of 2021. Nominal GDP growth remained high as inflation ran at 7.9% in the first quarter. We believe that, despite substantially less accommodative monetary and fiscal policy than what was in place throughout the pandemic, the U.S. consumer remains in solid condition as evidenced by a low unemployment rate and high savings rates[1] and that the risk of a near-term recession remains low.

Equity Markets – Recent Performance and Valuation

The first quarter of 2022 was characterized by substantial equity market volatility[2] as geopolitical conflict and treasury yield curve bear-flattening[3] impacted equity valuations. Year-to-date as of the end of the first quarter of 2022 the U.S. large-cap (S&P 500) index is down 5%, the U.S. mid-cap (S&P 400) index is down 5%, and the U.S. small-cap (S&P 600) index is down 6%, and the Europe, Australasia, and Far East (EAFE) index is down 6%

[1] Since February of 2020, just prior to the pandemic, U.S. consumers have accumulated additional savings of almost $2.2T as of the end of 2021. Almost $1.4T of this is due to income (including transfers) and almost $0.8T of this is due to deferred consumption. We believe that this provides a solid cushion against any kind of economic slowdown. Source: U.S. Bureau of Economic Analysis and MRB Partners, *U.S.: Checking in on Consumers,* April 21, 2022

[2] In early March the Chicago Board Options Exchange Volatility Index ("VIX") clocked in at over 36, a level not seen since April of 2020, the height of the COVID-19 pandemic

[3] Since the beginning of 2022 the U.S. ten-year treasury yield has increased from 1.52% to 2.90% while the two-year treasury yield has increased from 0.73% to 2.72%, resulting primarily from increased Fed hawkishness in response to persistently high inflationary conditions. While we still believe that the chances of a recession in the U.S. are low despite the 10-2 yield curve inversion which occurred in late March, rising interest rates across all maturities have been negative for equity market valuations

on a total return basis. Fixed income markets had one of their worst-performing quarters on record with the Bloomberg Aggregate Bond Index down about 6%.

Earnings growth for the first quarter slowed in tandem with the overall economy as S&P 500 earnings grew just over 3% year-over-year[4]. Valuations remain historically high with the S&P 500 currently trading at a forward P/E multiple of over 22 and the Shiller CAPE ratio recently settling in at a level of over 36.

Portfolio Management

As discussed in our 2020 third quarter letter, we believe that companies which have demonstrated their ability to grow revenues and profits throughout a wide variety of economic conditions are especially attractive in low-growth environments, as such companies tend to perform better than the equity market overall when there is a deceleration in the profit cycle[5]. We believe that there is a moderate risk of low real economic growth and earnings growth in the near future (although we believe that nominal growth, which is growth including inflation, will continue to be high). Given this economic environment, we believe that companies which are growing faster than the overall economy represent an attractive opportunity, provided that they can be purchased at a reasonable price. The recent equity market pullback, which has resulted from rising interest rates, increased interest rate volatility, and geopolitical instability related to the armed conflict in Ukraine, has left many high-growth companies oversold and underpriced and has thus presented some favorable buying conditions.

In the first quarter we took a position in the vehicle salvage broker Copart Inc (CPRT)[6]. Founded in the early 1980s by entrepreneur Willis Johnson with a single salvage yard in Vallejo, California, the company has grown its revenues at a spectacular 19% annualized rate since going public in the 1990s through a combination of organic growth, network effects related to the positioning of its auction platform, salvage yard rollups in the U.S. and overseas expansion. As the company is effectively a digital auction platform with unique inventory storage needs, barriers to entry are high as a result of zoning restrictions for salvage yards[7]. Copart also benefits from network effects related to its function as an auction platform with a highly fragmented customer base. Accordingly the company enjoys a substantial economic moat and its North American operations are part of an effective duopoly[8]. Over the past ten years net operating margins have consistently been over 25% and as a result return on equity has consistently been over 20%, and this has been accomplished with impressively low financial leverage[9]. While the company's forward price-to-earnings ratio of just over 26 is high compared

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[4] S&P 500 earnings were $47.45 per share in the first quarter of 2022, up from $45.97 per share in the first quarter of 2021. At this point in time Q1 2022 earnings data is a blend of projected earnings and earnings already reported. Source: Standard & Poors via YCharts

[5] As discussed previously in this letter earnings and economic growth slowed in the first quarter, and stocks of companies which are growing at a rate faster than the overall economy tend to perform well in such environments. For further explanation see, for example MRB Partners, *U.S. Growth Stocks: The Road Ahead Will Remain Rocky*, February 29, 2022

[6] The securities which we discuss in this letter are not necessarily allocated to all of our client accounts. Whether or not we choose to allocate a particular security to your account will depend on your risk tolerance, investment objectives, tax situation and objectives, and liquidity needs. Nothing printed in this letter should be construed as a solicitation or an attempt to effect transactions in securities.

[7] For example, in the United States there are currently just over 150 permitted salvage yards where totaled vehicles can be stored while they are waiting to be sold via auction

[8] It is estimated that CPRT and competitor Insurance Auto Auctions (IAA) together comprise over 80% of the salvage vehicle auction industry in North America. Source: SEC Edgar, KAR Auction Services, information statement, current report (8-K), June 14, 2019

[9] Return on equity, or the efficiency with which a company utilizes its capital to produce a profit, is a function of profit margins, asset turnover (primarily of inventory), and financial leverage (such a decomposition of ROE is frequently referred to as "DuPont Analysis"). CPRT achieves its high return on equity via high margins and effective inventory management; it thus has a limited need to employ substantial financial leverage. CPRT trailing twelve-month debt-to-EBITDA ratio is just under 30%, and debt-to-assets ratio is just under 8%.

with that of the S&P 500 we believe that the equity is favorably priced given the company's high margins[10] and what we believe to be the potential for continued high growth in the future[11].

As always, we are available to discuss your investment portfolio, discuss your financial plan, or address any other questions or concerns which you may have. Please feel free to reach out via phone or email if you would like to speak with us.

Sincerely,

Atherean Wealth Management

Atherean Wealth Management, LLC

[10] With net-margins of almost 35% for the twelve months ending 12/31/2021, CPRT profitability is higher than that of many other oligopoly-type software companies (INTU, for example had net margins of 19% and currently trades at a forward P/E of 38, and ADBE had net margins of 30% and currently trades at a forward P/E of almost 30)

[11] CPRT is continuing to re-invest its profits and expand in domestic and overseas markets. In 2019, 2020 and 2021 CPRT opened 24 new operational facilities in the U.S. as well as 13 new operational facilities in Brazil, Germany, and Spain. Source: Copart Inc 2021 annual report