NorthStar Capital Proxy Voting Policies

NorthStar Capital has traditionally voted proxies on behalf of most of our clients with the constant and sole objective of representing their best interests as shareholders of the stocks held in their accounts. In 2004, the Securities and Exchange Commission instituted a new rule requiring investment advisers to establish certain policies and procedures for such voting of client proxies.

In response to this new rule, we have taken steps to do the following:

- design and adopt written policies and procedures for voting client proxies to ensure that we act in the interests of our clients as shareholders

- address how to handle any potential conflicts of interest

- retain records of our proxy voting on behalf of our clients of each separate vote, for each stock owned, in each account

- make our actual proxy votes and our full policy statement available to our clients upon request

Our policy establishes voting guidelines for the full range of topics we typically encounter in proxy voting. In some cases our guidelines are fixed, while in others we reserve the right to make exceptions.

Our general philosophy is to support proposals and director nominees which we judge to be in the best interest of our clients as shareholders. Our votes will be objective and in the client's interest at all times, even if a particular vote might present a conflict with the interest of our company. We seek to promote corporate accountability and disclosure and to align the interests of corporate management with those of the shareholders. Our voting guidelines offer a framework which can anticipate many, but not all, voting possibilities. The most common areas of anticipated proxy voting include: equity-based compensation plans, bonus plans, corporate control, shareholder rights, director elections, selection of auditors, and corporate and social issues.

Economic

- March consumer confidence held flat at 104.8 from a revised February 104.7
- Retail sales rose 0.7% in March, with auto sales at 15.8 million units, above estimates
- Non-farm payrolls increased to 303,000, above estimates of 200,000
- Unemployment held steady at 3.8%, with underemployment rising to 7.2%
- U.S. industrial production rose 0.4% in March, after a 0.2% gain in February
- Housing prices rose 5.7%, as the supply of homes remains tight at 2.9 months
- New home construction numbers were 1.32 million in March, below estimates
- Existing home sales were down at 4.19 million in March, with mortgage rates still high
- U.S. manufacturing is flat, with March ISM at 50.3, beating estimates
- Personal income was up 0.3% and consumer spending was up 0.8% in February
- GDP was up 3.3% in the fourth quarter of 2023, with 1st quarter growth estimates at 2.9%

Inflation

- March core inflation rose 3.4% for CPI and 0.3% for PPI, above estimates
- Crude oil rose to $83, as war continues to spread in the Middle East
- Inflation remains sticky and above the Fed target of 2%

Monetary Policy

- The Fed held the Fed Funds rate at 5.25%- 5.5% and the Discount Rate at 5.5%
- The Fed is expected to hold rates steady as inflation starts to rise again
- The Fed will remain data dependent, as more economists move to a soft landing scenario

International

- Iran attacked Israel with 300 missiles and 99% were knocked down by the Iron Dome System
- Israel countered with a precision attack right next to Iran's nuclear facilities, sending a message
- The Dollar and gold have strengthen as the Fed keep rates higher for longer
- Congress is working to get more aid for Ukraine and Israel as the wars drag on

Interest Rates

- Ten-year Treasury yields rose from 3.8% to 4.65%, and now stand at 4.6%
- Secure overnight finance rate SOFR, inter-bank lending standard, is 5.35%
- Mortgage rates rose from 6.5%, with the 30-year fixed at 7%
- Yields on international debt have remained positive, ending the free-money period

Earnings

- S&P 500 companies reporting with 74% beating on earnings and 58% on revenues
- Markets are forward-looking and are focused on 2024 earnings of $250 for the S&P 500
- 2024 earnings are projected to be up 8% from a year ago and 12% higher for 2025

Market Outlook

- In the first quarter of 2024, the S&P 500 was up 10.6% including dividends
- Market volatility has increased, with yields rising as the Fed may only cut two times – or not at all
- Communication services, Tech, and Energy were the best performing sectors
- The S&P 500 is trading at 21 times forward earnings, above its 25-year average

Current Investment Outlook

The stock market continued to rise throughout the first quarter, producing a 10% gain. Since then, the market has flattened out, with no clear trend. The so-called Magnificent Seven has become the Fab Five or the Fab Four, depending on the week. A good sign for the market has been its broadening out as the Magnificent stocks have somewhat stalled. Past laggards such as energy, financials, industrials, and gold have begun to show periodic leadership. The market still faces a great deal of skepticism, and this bodes well for its future direction. We still favor investing in the stocks of companies with strong fundamentals and reasonable valuations, and we believe that there is still room for the market to advance to higher levels.

We continue to have an extraordinary dichotomy between our American elites and middle-to-lower income earners. We also have a similar difference between a group of high technology-oriented stocks and the rest of the market. The economy continues to grow, and stocks continue to rise. But, today, we clearly have two Americas with significantly different prospects. The leadership in the market may be stalling for the moment, but we expect that stocks with exceptional dynamics of growth and profitability will continue to lead.

Inflation is not cooperating in 2024, and it remains above the Fed target of 2%, with the latest readings of the CPI at 3.5%. The outlook for inflation has worsened, with three disappointing readings in a row. Energy prices and an uncertain geopolitical picture are the primary villains. In an approach that has had extremely limited value, the Biden Administration has drawn down the Strategic Petroleum Reserves to keep a lid on oil prices. The Fed is looking for the opportunity to cut rates, but inflation is sending the message that they should actually move in the other direction. Stubbornly high inflation is not good for the market.

Interest rates are following the trends in inflation. Rates may or may not have peaked, but the market is clearly not ready for the Federal Reserve to start to cut. Inflation expectations tend to lead rates, and wage and price inflation has seemed poised to moderate. They just aren’t doing so, yet. Only a few weeks ago, the Fed was expected to cut rates six times in 2024, and that number was dropped to three and now to just one or two. It seems that the Fed may have to pause for longer than expected, and maybe all of 2024. Interest rates at current levels are an impediment to rising stock prices.

The U.S. deficit in 2023 was $1.84 trillion, and the CBO estimates are $1.6 trillion for 2024 and $1.8 trillion in 2025. These numbers are staggering. Federal debt has grown to $35 trillion, which is well over $100,000 per family. World debt is now over $313 trillion and is essentially out of control. Debt to GDP is 88% for the U.S. (about triple that with unfunded liabilities) and this is less onerous than France at 127%, Italy at 171% and China and Japan at more than 300%. Spending beyond one’s means is a worldwide problem.

Because we still have a dichotomy in the economy between our most wealthy citizens and other more average consumers, it makes it difficult to sort out the effect on our economy in total. High earning Americans are able to deal with our inflationary pressures, plus they continue to benefit from rising stock prices and higher home values. Offsetting the elites is the larger pool of everyone else – many of whom are more or less experiencing a depression. It is impossible to tell whose influence will be greater on the overall economy. Housing prices are rising because there is limited supply for sale. Mortgage rates have crept lower, but remain high at 7%. There is little incentive for homeowners to sell if they are locked in at a 3.5% mortgage. Insurance rates for housing and auto are rising by more than 20%, and the average family is spending an unbearable $700-800 more each month on food, gas, and housing. The employment picture is mixed, with more jobs created for foreign-born workers and fewer for domestic-born workers, plus an increase in part-time work at the expense of full-time employment. This year, we expect more weakening in commercial real estate and a slowing in fiscal stimulus. An offset should be a recovery in capital spending, netting out to very modest growth in GDP.

The 2024 Presidential campaign is shaping up as a rematch between Joe Biden and Donald Trump. This will be a significant political year for many reasons and at many levels. The choice may not seem to be compelling or exciting to many, but the policy differences are profound. A particularly disturbing trend in 2024 has been the blossoming of antisemitism on the college campus across the nation.

The Japanese market hit a recent high and we are told that the Chinese economy may be moving toward renewed growth. U.S. companies are bringing production onshore or moving toward more friendly locations to avoid risks and disruptions in the supply chain. Apple is shifting from China to India, and others are moving to Singapore and Vietnam. Beyond that, the international news is dominated by hostilities in Europe and the Middle East, and things are moving in a very troubling direction. At present, Russia has gained the upper hand in Ukraine, but we don't expect this war to be resolved any time soon. Iran took the extreme step of sending over 300 missiles and drones into Israel, and all but a small number were disabled in flight. The response was brilliant, as Israel took out an Iranian missile launch site at an airport right next to a nuclear power plant. Iran got the message (for the time being) and announced that nothing really happened, just a small explosion. Iranian citizens are actually begging for Israel to take out the Ayatollah, so it seems clear that there will be many more chapters in this book about the Middle East.

GDP should grow close to 2% this year and at a similar pace next year. We do not project a recession, but we are mindful of the conflicting factors by income levels that we discuss in this letter. Earnings are expected to grow close to 10% in 2024 and 10-12% in 2025. We believe that the bull market that began in October, 2022 is still intact. Projected earnings growth suggests that the market is selling at about 21 times S&P 500 earnings. The current level of valuation is high, but it allows stocks with strong earnings to perform well. For this reason and others, we continue to favor stocks with high profitability, good earnings growth, and earnings valuations that are not excessive. This level of valuation allows stocks with strength in earnings to be rewarded and may punish those that fall short. In other words, this market continues to favor careful individual stock selection.