WILMINGTON TRUST

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Capital Perspectives

Monthly investment analysis and insights from Wilmington Trust Investment Advisors

ON THE RECORD

Investment Landscape Does an About-Face

In this issue:

Tony Roth
Chief Investment Officer

A defining characteristic of the investment environment this year has been an oscillating market driven by a rapidly changing set of facts and overall investment narrative. We started the year with optimism that we would move beyond COVID-19 and enter a period of slower but more normalized growth. However, investor sentiment plummeted following an inflationary perfect storm. A reacceleration of core inflation, Russia's invasion of Ukraine, and dramatic market repricing of monetary policy expectations led the market sharply lower. A chorus of recessionary warnings could be heard building through the second quarter. Downgrades of corporate earnings guidance, particularly from retailers like Walmart and Target, have been equally jolting.

The facts and narrative made another about-face this summer, with the S&P 500 rallying 17% in two months.[1] Better-than-expected earnings, signs of peaking core inflation, a reversal in interest rates, and receding commodity prices all contributed to optimism—and maybe a bit of FOMO (fear of missing out)—for equity investors. Also underpinning market momentum was a belief, evident in investment industry commentary and fed funds futures pricing, that the Federal Reserve (Fed) would "pivot" toward rate cuts almost immediately after reaching the peak fed funds rate for the cycle. As of July 31, the futures market was pricing a peak fed funds rate of 3.3% in December 2022 and 60 basis points or bps (0.60%) of rate cuts by December 2023 (Figure 1). In other words, the Fed would achieve victory over inflation by early next year then immediately begin to ease policy, an echo of the "soft landing" achieved in the mid-1990s. What is often missed is the fact that the S&P 500 went nowhere during the Fed's 1994 rate-hike cycle and only took off after the Fed stopped tightening in early 1995. Today's inflationary conditions make the comparison ill suited.

[1] The S&P 500 index returned 17.4% between June 16, 2022 and August 16, 2022.

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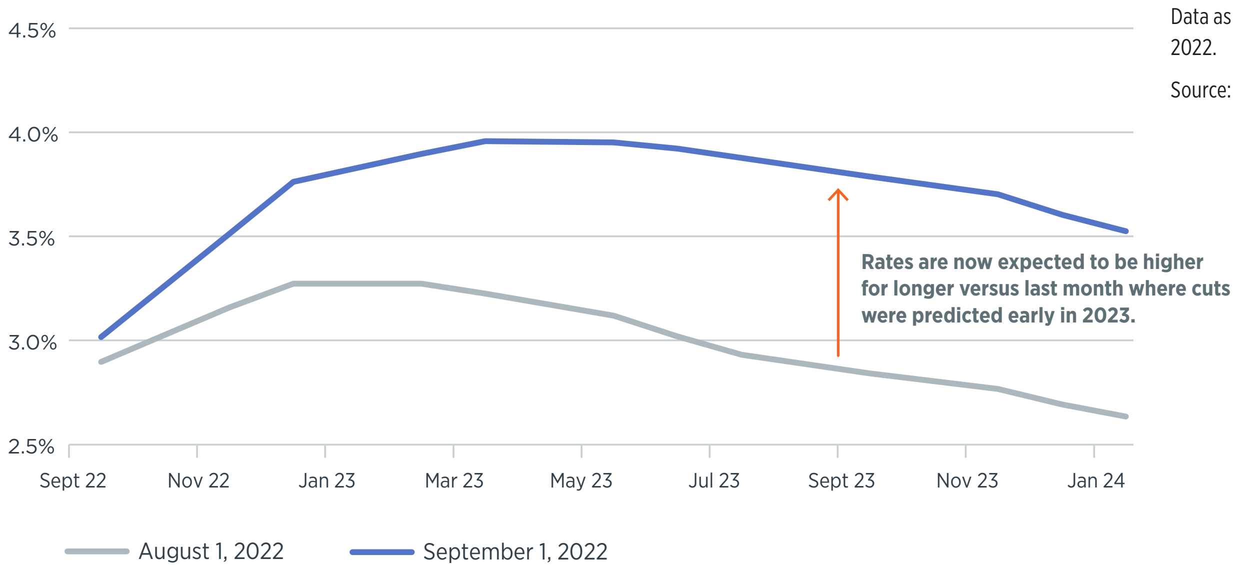
Figure 1

Powell pours cold water on the 'Fed Pivot' narrative

Fed funds futures implied policy rate (%)



Data as of August 1, 2022.

Source: Bloomberg.

We maintain conviction that inflation will acutely decelerate leading to strength in the equity market.

The effect of the market pricing rate cuts in 2023 was that the peak fed funds rate diminished in importance, and the market looked ahead to easier financial conditions for the balance of 2023. Shares of smaller, riskier, more leveraged, and higher-valued companies all outperformed. While we had communicated our expectation that the fed funds rate will top out at around 3.25%–3.50% we have been skeptical of the view that inflation data would compel the Fed to begin cutting rates by the second quarter of 2023. We resisted any temptation to chase the summer rally, holding a neutral allocation to equities versus our strategic benchmark (since June), maintaining excess levels of cash, and focusing on quality stocks.

Indeed, Fed Chair Powell's speech at Jackson Hole on August 26 was intentionally shorter and more direct than in past years. He emphasized combatting inflation as the Fed's chief priority. Importantly, he also poured cold water over the thesis that the Fed will soon pivot away from tightening policy, referencing the mistakes made in the 1970s when policymakers let down their inflationary guard too early. He, like the rest of us, welcomed the improvement in inflationary data but made it clear that one month does not a trend make. The market narrative was recast again.

So where does that leave us?

The S&P 500 retreated 8%[2] since August 16 and closed August approximately 17% off the January 2 highs (Figure 2). It is possible that a disappointing August Consumer Price Index (CPI) report could lead to the market retesting the June lows. However, as long-term investors we are focused on returns 9–12 months from now, and over this longer timeframe we maintain conviction that inflation will acutely decelerate leading to strength in the equity market.

We see increasing evidence that core inflation has peaked, and absent a resurgence of commodity prices, we expect that headline inflation will also decelerate from

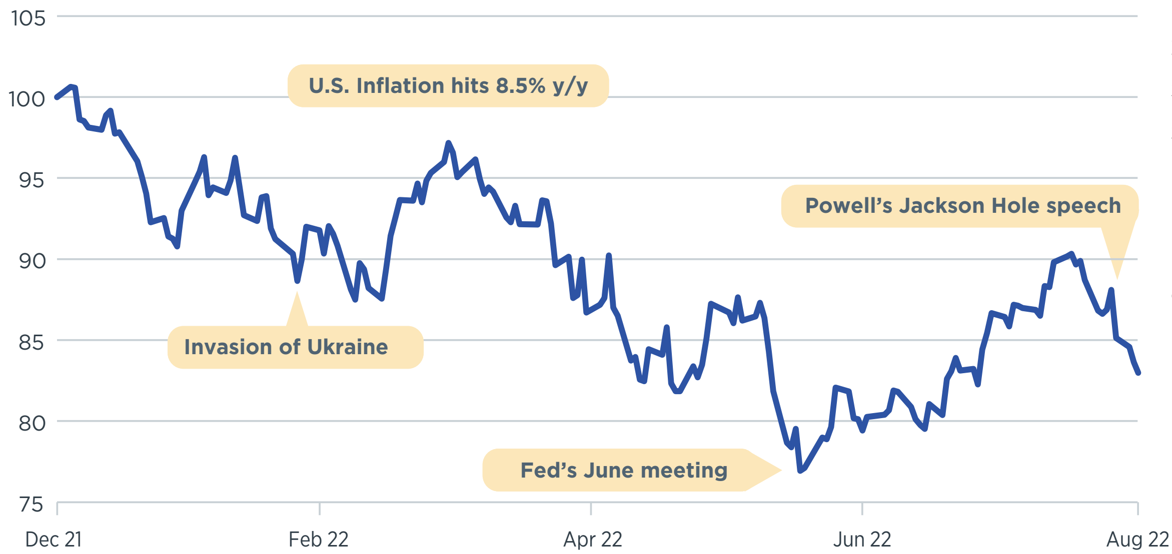
[2] As of August 31, 2022. Source: Bloomberg.

Continued

Figure 2

Summer rally fizzles after Jackson Hole

S&P 500 indexed to 100



Data as of August 1, 2022.

Source: Bloomberg.

S&P 500 represents price return data indexed to 100 on December 31, 2021.

Indexes are not available for direct investment.

There are several inflationary risks that could flatten the slope of inflation's deceleration.

current levels. Going somewhat unnoticed, as it fell on the same day as Powell's Jackson Hole speech, was the very positive Personal Consumption Expenditures (PCE) inflation report for July, which showed inflation of just 0.08% month over month, down from a monthly average of 0.4% for January to June. Our expectation is for the CPI to finish the year around 7.0% on a year-over-year (y/y) basis, before falling more quickly to 3.0% by June 2023.

My last letter detailed some constructive developments related to core inflation. These factors—among them a slowing of goods spending, growing inventory levels in manufacturing and retail industries, and diminishing supply-chain pressures—continue to foreshadow a material slowing of inflationary pressures. However, it is too soon to claim victory in the inflation battle. In particular, there are several inflationary risks that could flatten the slope of inflation's deceleration. In this letter I discuss three key dynamics to monitor, not because we expect inflation to reaccelerate, but because there is a risk that inflation could prove stickier than we currently expect:

1. Housing

The housing market has been on a wild ride so far this year, with volatile mortgage rates—now surging above 6%[3]—in the driver seat. Collapsing new home sales, stagnating buyer traffic, and a jump in the number of listings reducing their asking prices all point to a housing market that is coming back down to Earth after the COVID-era surge in demand. However, the shelter component of the CPI is notoriously sticky. Most rental agreements reset once per year, so price changes have historically taken more than a year to feed through into the government's inflation readings. Inventory of new homes, existing homes, and rental units are all very low relative to history, which could keep a floor under residential real estate prices even as demand cools.

[3] As of September 8, 2022. Sources: Bloomberg and Bankrate.com.

Continued

An extremely tight labor market and low participation rate pose upside risk to wages while giving the Fed cover to be more aggressive in tightening policy.

2. Commodity prices

Most energy, metal, and agricultural commodities are well off their 2022 highs but remain inflation risks. Oil and gasoline prices have corrected by -27%[4] and -23%, respectively. Expectations for demand have dragged down oil prices, as China continues to lock down cities for COVID mitigation. If growth proves more resilient in the U.S., China, and elsewhere, oil prices could move higher. The possibility of more barrels coming online as a result of the Iranian Nuclear Deal has also weighed on oil prices, but these could easily be offset by Organization of the Petroleum Exporting Countries (OPEC) production cuts or under-production. Adding to upside risks are European sanctions on Russian oil, set to be imposed on December 5. It is possible those barrels could be absorbed by Asia, if Europe even goes through with the sanctions. The U.S. Strategic Petroleum Reserve has been reduced by 24% this year to the lowest level since 1984, and the release of reserve barrels is set to conclude at the end of October 2022. The Atlantic hurricane season has been eerily quiet. These elements all suggest the decline in oil prices should not be extrapolated from current levels.

Natural gas remains swept up in the Ukraine war and generic contract prices have increased 70% in the last two months alone. Prices of European-based contracts have increased far more, to levels 10 times the average price between 2016 and 2019.[5] Europe is stockpiling ahead of the winter but supplies from Russia could be weaponized at any point. Food inflation has been as painful for consumers as energy, but fortunately, crop yields for corn, soybeans, and wheat have been surprisingly resilient despite dry weather and war-related disruptions.

3. Wages

Labor market data stand in stark defiance of recessionary fears. In August, the economy added 315,000 net new jobs and has averaged 381,000 over the last six months. The four-week moving average of initial jobless claims is moving back down toward all-time lows. Job openings and the quit rate have come off the burner but remain near all-time highs. More than 20% of small businesses surveyed by the National Federation of Independent Businesses in July indicated quality of labor as their primary concern (second only to inflation). Anecdotally, we are hearing many stories from our clients and investment partners across industries that they are continuing to struggle to find workers.

While that is good news for near-term economic growth, an extremely tight labor market and low participation rate (a measure of the total number of people working or actively looking for a job divided by the working-age population) pose upside risk to wages while giving the Fed cover to be more aggressive in tightening policy. The August payroll report from the Bureau of Labor Statistics indicated wages had increased 5.2% y/y, more than double the 2007–2019 average of 2.5%. Equally alarming is the Atlanta Fed's Wage Growth Tracker, which measures the change in the median wage and helps to look through changing composition of the labor force and other statistical issues. This measure held at 6.7% in July (latest data point available), compared to a 2007–2019 average of 3% (Figure 3).

Continued

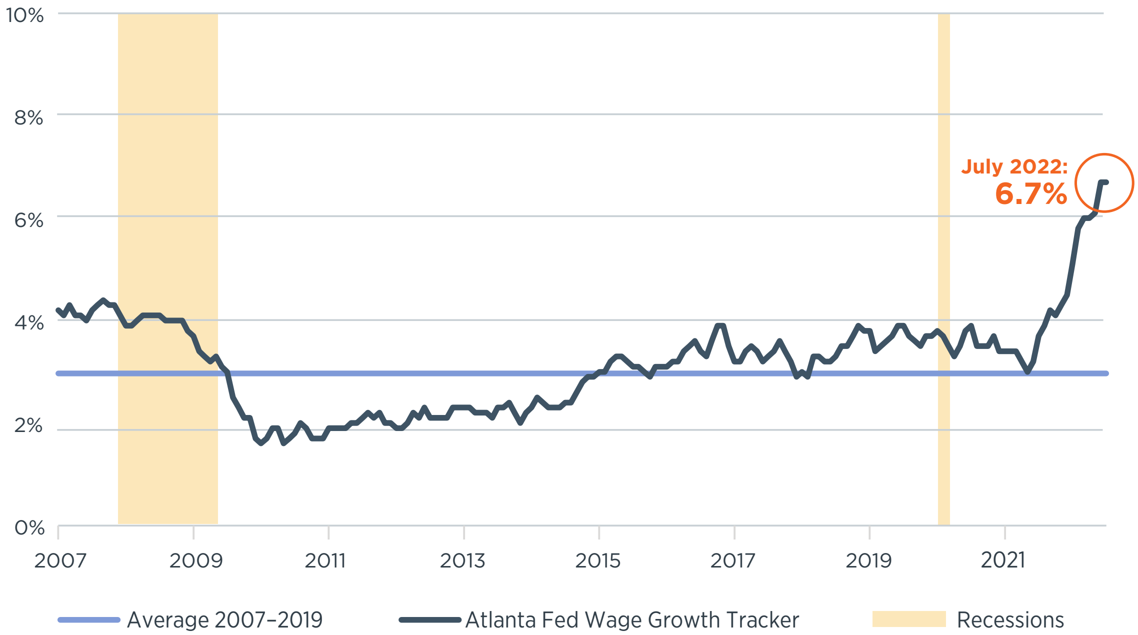
4 As measured by West Texas Intermediate Crude from June 8, 2022 through August 31, 2022. Source: Bloomberg.

5 Source: World Bank Group, as of July 31, 2022.

Figure 3

Monitoring wage pressures

Atlanta Fed Median Wage Growth Tracker



Data as of July 31, 2022.

Sources: Federal Reserve Bank of Atlanta, Bloomberg.

Blue line represents the average wage growth from 2007 to 2019.

If our forecast for inflation proves accurate, then the market's expectations for Fed policy may be too aggressive, which could breathe life back into the equity market.

All three inflation risks—housing, commodities, and wages—bear monitoring, but it is the third one that poses the biggest structural risk to inflation. Absent an increase in productivity, or an erosion of profit margins, persistent wage growth of this nature will inevitably feed through into price increases across the economy.

We approach risk markets with caution and continue to hold elevated cash in portfolios, but we remain fully invested in equities versus our strategic benchmark. If our forecast for inflation proves accurate, then the market's expectations for Fed policy may be too aggressive, which could breathe life back into the equity market. A potential recession in 2023 would likely be mild, and equity valuations have already corrected quite a bit. While the economic outlook for Europe is certainly bleaker than in the U.S., we have not felt that valuations were presenting a compelling opportunity to rotate from international developed equities into the U.S., though that could change should the U.S. market correct further. Across equities we are focused on quality (defined as low leverage, stable earnings, and high return on equity) and hold a slight overweight to growth equities. We find growth equities attractively priced relative to their history and expect secular growers to outperform in a cyclical slowdown. Rising rates have been a major headwind to the growth factor, but we see opportunity in secular growth equities for long-term investors. Diversification across factors and sectors is key.

We hold a slight underweight to fixed income versus our benchmark. The 10-year Treasury yield has increased 62 basis points since early August to 3.2%, but the more aggressive action of late has been on the short end of the curve. The 2-year Treasury yield has soared to 3.5%, leaving the yield curve deeply inverted, an ominous recessionary signal. We do not anticipate a material increase in long-maturity

Continued

Figure 4

High-net-worth portfolios with private markets*

	Tactical tilts	− NEUTRAL +	Positioning
Equities	U.S. Large Cap	○ ○ ○ ● ○ ○ ○	Neutral
	U.S. Small Cap	○ ○ ○ ● ○ ○ ○	
	International Developed	○ ○ ○ ● ○ ○ ○	
	Emerging Markets	○ ○ ○ ● ○ ○ ○	
Fixed Income	Investment Grade	○ ○ ● ○ ○ ○ ○	Underweight
	Tax-Exempt High Yield	○ ○ ○ ● ○ ○ ○	
Real Assets	Inflation-linked Bonds	○ ○ ● ○ ○ ○ ○	Underweight
	Global REITs	○ ○ ○ ● ○ ○ ○	
	Other/Commodities	○ ○ ○ ● ○ ○ ○	
Alternatives	Equity Long/Short Hedge	○ ○ ● ○ ○ ○ ○	Underweight
Private Markets*	Equity/Debt/Real Estate	○ ○ ○ ● ○ ○ ○	Neutral
Cash		○ ○ ○ ○ ○ ● ○	Overweight

Data as of August 31 2022.

Positioning reflects our monthly tactical asset allocation (TAA) versus the long-term strategic asset allocation (SAA) benchmark. For an overview of our asset allocation strategies, please see the disclosures.

* Private markets are only available to investors that meet Securities and Exchange Commission standards and are qualified and accredited. We recommend a strategic allocation to private markets we do not tactically adjust this asset class.

Treasury yields, in part as we expect investors to trade any additional Fed hawkishness with lower inflation and growth expectations (and higher recession risks) down the road. Still, with the yield curve as inverted as it is and a 2-year Treasury yielding 3.5%, cash is an attractive asset.

Best,

Tony

ASSET CLASS OVERVIEW

Municipal Fixed Income

Dan Scholl
Head of Municipal Fixed Income

	AS OF AUGUST 31, 2022		
	Month	3 months	Trailing 12-month return
S&P Municipal Bond Index	-2.29%	-1.54%	-8.08%
S&P Municipal High Yield Index	-2.12%	-1.84%	-9.72%
S&P Municipal Bond New York Index	-2.55%	-1.99%	-8.77%
S&P Municipal Bond California Index	-2.24%	-1.42%	-8.33%

Sources: FactSet, Bloomberg. Investing involves risks and you may incur a profit or a loss. Past performance cannot guarantee future results. Indices are not available for direct investment.

What we are seeing now

Municipals continued to struggle through the end of August as Federal Reserve (Fed) rate increases and fund outflows led municipal yields to increase across the maturity curve and returns to remain negative year to date. To date, the level of negative returns in 2022 are close to the 1981 period of high inflation—and could reach the worst period since 1969—a period marked by stagflation.

Rising yields and declining net asset values (NAVs) for municipal bond funds have caused fund outflows to reach record levels of over $80 billion through August—beating the $70 billion in outflows that occurred in 2013 and in stark contrast to last year, which saw inflow of $100 billion, the highest in municipal history. Fund outflows have caused widespread selling by fund managers and declining bond prices and can lead to a persistent negative feedback loop as investors continue to experience significant market declines.

Interestingly, higher-rated (AAA, AA) investment-grade municipals have outperformed lower-rated credits (A and BBB) as investors desire higher-rated credits during volatile periods, but generally, longer-term, lower-rated investment-grade credits outperform over longer market cycles. High-yield municipals have performed in line with investment-grade municipals as supply has decreased since last year. Rising rates have caused the funding cost of marginal projects, typically in the high yield space, to become much more difficult to finance with bonds—decreasing supply.

What's changing

This current negative return environment has been caused by the level of rate increases and not by municipal credit fundamentals. Generally speaking, municipal credits are at their strongest levels in history as federal funds related to the pandemic and rising tax growth have led to high levels of cash reserves and rainy-day funds for both state and local governments. Although governments continue to be strong, some municipal sectors such as health care, higher education, and airports are still managing through the effects of the pandemic and inflation. Health care facilities and systems, in particular, continue to struggle with rising costs (labor/nursing costs) and the decline in federal funds that helped these systems replace lost revenues during the pandemic.

What we expect

Higher municipal yields, however, have caused tax-exempt municipals, as an asset class, to offer significant after-tax value—especially to individual investors in the higher personal income tax brackets. Generally, yields are about 200 basis points or bps (2.00%) higher than when they hit their lowest point in history in August of 2020. If the Fed continues to increase rates to combat inflation as expected, the after-tax yield and level of income will increase for investors.

Investment Positioning

Portfolio targets effective September 1, 2022, for high-net-worth clients with Hedge Funds

Growth & Income

	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)
Equities		
U.S. Large Cap	31.5%	Neutral
U.S. Small Cap	5.5%	Neutral
International Developed	16.0%	Neutral
Emerging Markets	5.5%	Neutral
Fixed Income		
U.S. Investment Grade–Tax-Exempt	28.5%	Underweight
High-Yield–Tax-Exempt	2.0%	Neutral
Real Assets		
U.S. Inflation-Linked Bonds	1.0%	Underweight
Global REITs	1.5%	Neutral
Other	1.5%	Neutral
Nontraditional Hedge	5.0%	Underweight
Cash & Equivalents	2.0%	Overweight
Total	100.0%	

Note: Totals may differ slightly from the allocation building blocks due to rounding.

TAA, or Tactical Asset Allocation, represents our *current recommendation* for each model strategy.

SAA, or Strategic Asset Allocation, represents our *current benchmark* allocation for each model strategy.

This material is for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or a recommendation or determination that any investment strategy is suitable for a specific investor. Opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. Allocations presume a long-term investment horizon. Wilmington Trust's 2022 Capital Markets Forecast is available on www.wilmingtontrust.com/cmf-2022 or upon request from your Investment Advisor. There is no assurance that any investment strategy will be successful. Investing involves risks and you may incur a profit or a loss.

For an overview of our asset allocation strategies, please see the disclosures.

Source: WTIA.

Investment Positioning

Portfolio targets effective September 1, 2022, for high-net-worth clients with Private Markets*

Growth & Income

	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)
Equities		
U.S. Large Cap	24.3%	Neutral
U.S. Small Cap	4.3%	Neutral
International Developed	11.6%	Neutral
Emerging Markets	4.1%	Neutral
Fixed Income		
U.S. Investment Grade–Tax-Exempt	24.7%	Underweight
High-Yield–Tax-Exempt	2.0%	Neutral
Real Assets		
U.S. Inflation-Linked Bonds	0.9%	Underweight
Global REITs	1.3%	Neutral
Other	1.3%	Neutral
Nontraditional Hedge	6.0%	Underweight
Private Markets*	17.5%	Neutral
Cash & Equivalents	2.0%	Overweight
Total	100.0%	

Note: Totals may differ slightly from the allocation building blocks due to rounding.

TAA, or Tactical Asset Allocation, represents our *current recommendation* for each model strategy.

SAA, or Strategic Asset Allocation, represents our *current benchmark* allocation for each model strategy.

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Source: WTIA.

Disclosures

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Alternative assets, such as strategies that invest in hedge funds, can present greater risk and are not suitable for all investors.

Any positioning information provided does not include all positions that were taken in client accounts and may not be representative of current positioning. It should not be assumed that the positions described are or will be profitable or that positions taken in the future will be profitable or will equal the performance of those described.

Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses, such as management fees and transaction costs that will reduce returns.

An overview of our asset allocation strategies:

Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High-Net-Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

Continued

Disclosures Continued

Allocations:
Each strategy is constructed with target weights for each asset class. Wilmington Trust periodically adjusts the target allocations and may shift away from the target allocations within certain ranges. Such tactical adjustments to allocations typically are considered on a monthly basis in response to market conditions. The asset classes and their current proxies are: large–cap U.S. stocks: Russell 1000® Index; small–cap U.S. stocks: Russell 2000® Index; developed international stocks: MSCI EAFE® (Net) Index; emerging market stocks: MSCI Emerging Markets Index; U.S. inflation-linked bonds: Bloomberg/Barclays US Government ILB Index; international inflation-linked bonds: Bloomberg/Barclays World exUS ILB (Hedged) Index; commodity-related securities: Bloomberg Commodity Index; U.S. REITs: S&P US REIT Index; international REITs: Dow Jones Global exUS Select RESI Index; private markets: S&P Listed Private Equity Index; hedge funds: HFRI Fund of Funds Composite Index; U.S. taxable, investment-grade bonds: Bloomberg/Barclays U.S. Aggregate Index; U.S. high-yield corporate bonds: Bloomberg/Barclays U.S. Corporate High Yield Index; U.S. municipal, investment-grade bonds: S&P Municipal Bond Index; U.S. municipal high-yield bonds: Bloomberg/Barclays 60% High Yield Municipal Bond Index / 40% Municipal Bond Index; international taxable, investment-grade bonds: Bloomberg/Barclays Global Aggregate exUS; emerging bond markets: Bloomberg/Barclays EM USD Aggregate; and cash equivalents: 30-day U.S. Treasury bill rate.

All investments carry some degree of risk. Return volatility, as measured by standard deviation, of asset classes is often used as a proxy for illustrating risk. Volatility serves as a collective, quantitative estimate of risks present to varying degrees in the respective asset classes (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

Quality ratings are used to evaluate the likelihood of default by a bond issuer. Independent rating agencies, such as Moody's Investors Service and Standard & Poors, analyze the financial strength of each bond's issuer. Ratings range from Aaa or AAA (highest quality) to C or D (lowest quality). Bonds rated Baa3 or BBB and better are considered **Investment Grade.** Bonds rated Ba1 or BB and below are **Speculative Grade** (also **High Yield**.)

Paragon
Paragon® is a portfolio analysis, risk assessment, and goal optimization tool. The Paragon report uses hypothetical examples in conjunction with forecasts for inflation, economic growth, and asset class returns, volatility, and correlation and provides you with general financial planning information and to serve as one tool in helping you develop a strategy for pursuing your financial goals. It is not intended to provide specific legal, investment, accounting, tax or other professional advice. For specific advice on these aspects of your investments, you should consult your professional advisors.

Gold
The gold industry can be significantly affected by international monetary and political developments as well as supply and demand for gold and operational costs associated with mining.

ESG
A strategy that integrates environmental, social, and governance (ESG) factors into the investment process may avoid or sell investments that do not meet criteria set forth by the investment manager. Such investments may perform better than investments selected utilizing ESG factors.

DEFINITIONS

Alpha is a measure of performance on a risk-adjusted basis. The excess return of a strategy relative to the return of the benchmark index is a strategy's alpha.

The Barclays U.S. Mortgage Backed Securities Index measures the performance of investment grade fixed-rate mortgage-backed pass-through securities of GNMA, FNMA, and FHLMC.

Basis points refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

Beta is a measure of how an individual asset moves when the overall stock market increases or decreases. Thus, beta is a useful measure of the contribution of an individual asset to the risk of the market portfolio when it is added in small quantity.

The Bloomberg Agriculture Subindex Total Return (BCOMAGTR), formerly known as Dow Jones-UBS Agriculture Subindex Total Return (DJUBAGTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat and reflects the return on fully collateralized futures positions and is quoted in USD.

The Bloomberg Barclays Global Aggregate Bond Index measures the performance of global investment-grade fixed-rate debt markets, including the U.S., Pan-European, Asian-Pacific, Global Treasury, Eurodollar, Euro-Yen, Canadian, and investment-Grade 144A index-eligible securities.

The Bloomberg Barclays U.S. High Yield Corporate Index measures the performance of taxable, fixed-rate bonds issued by industrial, utility, and financial companies and rated below investment grade with at least one year until maturity and an outstanding par value of at least $150 million.

The Bloomberg Commodity Total Return index (BCOMTR) is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM and combines the returns of BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

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Disclosures Continued

The Bloomberg Dollar Spot Index tracks the performance of a basket of 10 leading global currencies versus the U.S. Dollar. It has a dynamically updated composition and represents a diverse set of currencies that are important from trade and liquidity perspectives.

The Bloomberg Energy Subindex Total Return (BCOMENTR), formerly known as Dow Jones-UBS Energy Subindex Total Return (DJUBENTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas and reflects the return on fully collateralized futures positions and is quoted in USD

The Bloomberg Industrial Metals Subindex Total Return Index (BCOMTNT), formerly known as Dow Jones-UBS Industrial Metals Subindex Total Return (DJUBINTR), is a commodity group subindex of the Bloomberg CITR composed of longer-dated futures contracts on aluminum, copper, nickel and zinc and reflects the return on fully collateralized futures positions and is quoted in USD.

The Bloomberg Precious Metals Subindex Total Return (BCOMPRTR), formerly known as Dow Jones-UBS Precious Metals Subindex Total Return (DJUBPRTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on gold and silver. It reflects the return on fully collateralized futures positions and is quoted in USD.

The Bloomberg US Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

The Bloomberg US Treasury US TIPS TR USD index measures the performance of rules-based, market value-weighted inflation-protected securities issued by the U.S. Treasury. It is a subset of the Bloomberg US Treasury Inflation-Linked Bond Index (Series-L), which measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.

Consumer price index measures the price of consumer goods and how they're trending and is a tool for measuring how the economy as a whole is faring when it comes to inflation or deflation.

Drawdown measures the potential drop in portfolio asset values for the most recent stock market peak to the most recent stock market trough.

Duration risk is the risk associated with the sensitivity of a bond's price to a one percent change in interest rates. The higher a bond's duration, the greater its sensitivity to interest rates changes.

Equity risk premium is the extra return that's available to equity investors above the return they could get by investing in a riskless investment like T-Bills or T-Bonds or cash.

Event-driven hedge fund strategies attempt to take advantage of temporary stock mispricing before or after a corporate event takes place. An event-driven strategy exploits the tendency of a company's stock price to suffer during a period of change.

The federal funds rate is the target overnight inter-bank lending interest rate set by the Fed.

Global intangible low-taxed income (GILTI) is a category of income that is earned abroad by U.S.-controlled foreign corporations (CFCs) and is subject to special treatment under the U.S. tax code.

Headline inflation is a measure of the total inflation within an economy, including commodities such as food and energy prices, which tend to be much more volatile and prone to inflationary spikes.

HFR® (HedgeFundResearch) Indices are the established global leader in the indexation, analysis and research of the hedge fund industry. They are broadly constructed indices designed to capture the breadth of hedge fund performance trends across all strategies and regions.

The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms and is considered to be a key indicator of the state of the U.S. economy.

ISM Non-Manufacturing Index is an economic index based on surveys of more than 400 non-manufacturing (or services) firms' purchasing and supply executives and is part of the ISM Report On Business—Manufacturing (PMI) and Services (PMI).

LIBOR is the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another.

Macro hedge fund strategies generally focus on financial instruments that are broad in scope and move based on systemic or market risk (not security specific). In general, portfolio managers who trade within the context of macro strategies focus on currency strategies, interest rates strategies, and stock index strategies.

MSCI AC Asia ex Japan Index captures large- and mid-cap representation across two of three developed markets countries (excluding Japan) and nine emerging markets countries in Asia. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI All Country World Index (ACWI) is a stock index designed to track broad global equity-market performance. Maintained by Morgan Stanley Capital International (MSCI), the index comprises the stocks of about 3,000 companies from 23 developed countries and 26 emerging markets.

MSCI China Index captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). The index covers about 85% of this China equity universe. Currently, the index includes large-cap A and mid-cap A shares represented at 20% of their free float adjusted market capitalization.

MSCI EAFE Growth Index captures large- and mid-cap securities exhibiting overall growth style characteristics across developed markets countries around the world, excluding the U.S. and Canada.

MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Continued

Disclosures Continued

MSCI EAFE Value Index captures large- and mid-cap securities exhibiting overall value style characteristics across developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index captures large- and mid-cap representation across 26 emerging markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Europe Index captures large- and mid-cap representation across 15 developed markets (DM) countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European DM equity universe.

MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese market. The index covers approximately 85% of the free float-adjusted market capitalization in Japan.

MSCI United Kingdom Index is designed to measure the performance of the large- and mid-cap segments of the UK market. The index covers approximately 85% of the free float-adjusted market capitalization in the UK.

Price-to-earnings (P/E) ratio measures a company's current share price relative to its earnings per share (EPS).

Relative value hedge fund strategies cover a variety of low-volatility trading strategies with the consistent theme of attempting to reduce market risk, i.e., the manager seeks to generate a profit regardless of which direction the markets are moving. All relative value strategies minimize market risk by taking offsetting long and short positions in related stocks, bonds, and other types of securities.

Russell 1000 Growth is a market capitalization-weighted index that measures the performance of the large-cap growth segment of U.S. equity securities; it includes the Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value is a market capitalization-weighted index that measures the performance of the large-cap value segment of U.S. equity securities; it includes the Russell 1000 index companies with lower price-to-book ratios and lower expected growth values.

Russell 2000 Index measures the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

S&P 500 index measures the stock performance of 500 large companies listed on stock exchanges in the U.S. and is one of the most commonly followed equity indices.

The S&P Developed Property index defines and measures the investable universe of publicly traded property companies domiciled in developed markets. The companies in the index are engaged in real estate related activities, such as property ownership, management, development, rental and investment.

Stagflation is persistent high inflation combined with high unemployment and stagnant demand in a country's economy.

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