WILMINGTON TRUST

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October | 2021

Capital Perspectives

Monthly investment analysis and insights from Wilmington Trust Investment Advisors

ON THE RECORD

Sloppy September

In this issue:

Tony Roth
Chief Investment Officer

September brought cooler temperatures to much of the country and cooler investor sentiment to the markets. The month is often associated with weakness for the stock market, and it has delivered on that reputation, with the S&P 500 index experiencing the first 5% pullback of the year and the 10-year Treasury note yield popping back above 1.5%. We have been waiting for a market correction as a number of important risks have built under the surface. We would bucket key risks facing the economy and markets into three categories: 1) economic slowing; 2) supply chain disruption and inflationary pressures; and 3) policy. We continue to analyze and monitor these risks and are sticking by our assessment that the economic recovery will endure, and the stock market will be higher 9–12 months from now, warranting a continued overweight to equities.

Economic slowing

Third-quarter U.S. economic data disappointed. The Delta variant interrupted a robust economic recovery, and for the first time since the onset of the pandemic, economic data dramatically missed expectations (Figure 1; a positive number indicates economic data coming in above consensus expectations, whereas a negative number indicates disappointment versus expectations). August and September nonfarm payrolls missed Bloomberg median consensus estimates by an average of 400,000 jobs per month. Weak consumer activity in the third quarter led our economics team to revise down our 2021 full-year GDP forecast from 7.5% to 5.8%.

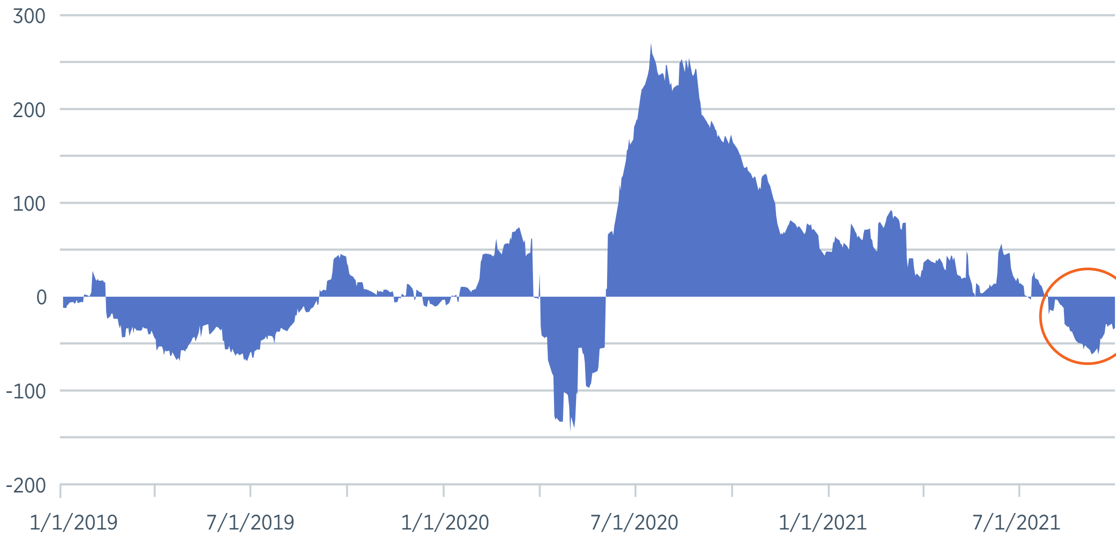
Growth in the next-largest economy—China—has also been disappointing. It is very possible that China did not grow at all in the third quarter, an economic performance

Continued

Figure 1

Economic data missed expectations in 3Q

Citi Economic Surprise Index



Data as of September 30, 2021.

Source: Bloomberg.

A number above zero indicates economic data surpassing consensus expectations, while a number below indicates a miss.

Weak consumer activity in the 3rd quarter called for a downward revision to our 2021 GDP forecast.

It is very possible that China did not grow at all in the third quarter, an economic performance that, outside of the pandemic, would be the weakest since 1999.

that, outside of the pandemic, would be the weakest since 1999. Monetary and fiscal policy has tightened as well as the regulatory environment, which I discuss later. The country has also adopted a zero-tolerance approach to COVID-19, resulting in a strict response function from policymakers for even a single case detected in some cities, and weighing on activity.

Nonetheless, there is good news for the path forward. For one thing, the recent disappointing data have reset expectations a bit lower, setting up the fourth quarter to surprise to the upside more easily. We also retain an above-trend GDP forecast for 2022 of 4%, which provides a favorable backdrop for equities to outperform bonds. COVID is increasingly moving to the rear-view mirror. Vaccinations have accelerated globally, particularly in nondeveloped parts of the world previously unable to obtain sufficient supply (Figure 2). Even more encouraging are the possibilities stemming from the development of oral antiviral drugs. Merck & Co.'s recent trial results for its experimental oral drug aimed at treating the virus were so successful in reducing the chance of hospitalization or death in at-risk patients that they ended trials early to apply for emergency use authorization as soon as possible. Vaccinations for children ages 5–11 could be authorized in the U.S. as early as this month.

If, in fact, the COVID crisis that has dominated the global environment for the past two years does recede, we see continued above-trend economic growth as our base case scenario for at least the next two calendar years. That said, here are the key areas of risk—outside of the global health arena—that could derail this outlook.

Supply chain disruption and inflationary pressures

Perhaps the biggest risks to our optimistic economic outlook is the fragile state of supply chains, on both GDP and inflationary levels. The disruption of manufacturing plants, backlogs at ports, and labor shortages have made it clear that the supply

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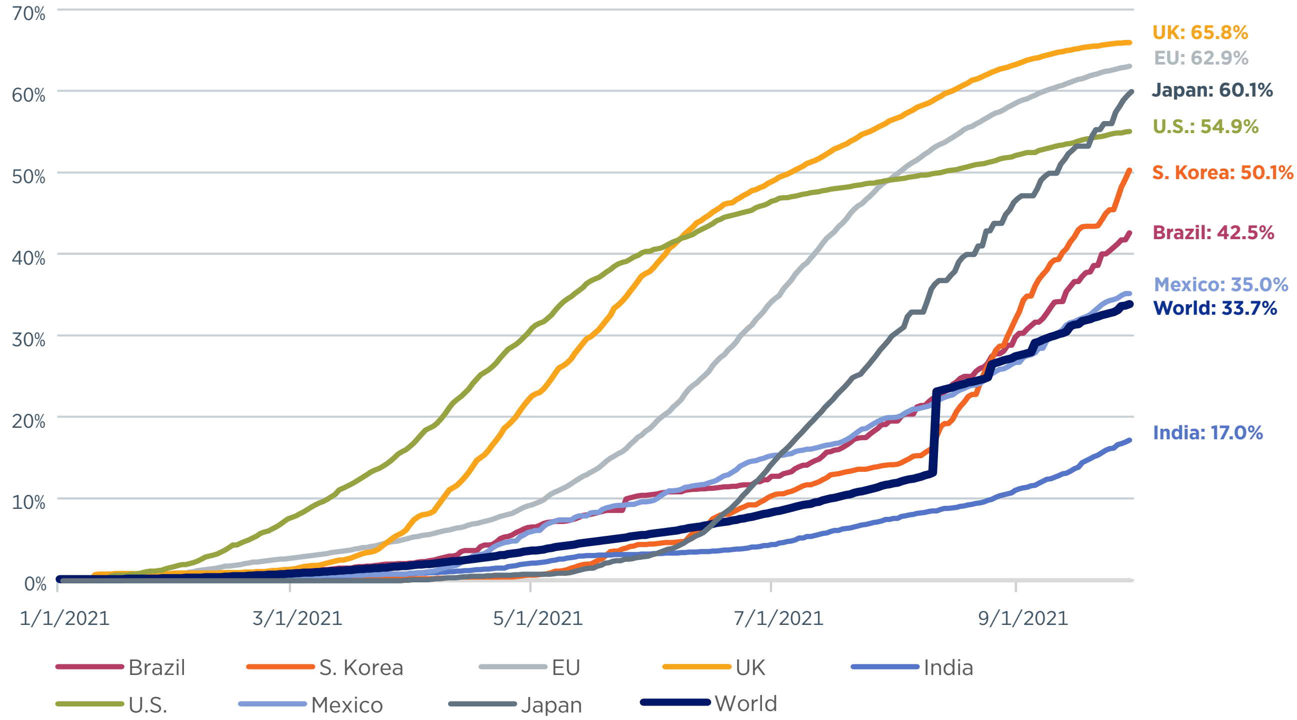
Figure 2

Vaccinations ramping up globally (% of fully vaccinated by country)



Data as of September 30, 2021. Sources: The COVID Tracking Project, Our World in Data, Macrobond.

The disruption of manufacturing plants, backlogs at ports, and labor shortages have made it clear that the supply side of the economy could hamper growth for longer than originally anticipated. There is no quick fix.

side of the economy could hamper growth for longer than originally anticipated. There is no quick fix. Shipping and transportation bottlenecks, not to mention a global shortage of semiconductors, could extend into the better part of 2022 or beyond. Elevated shipping costs (Figure 3) and broader price pressures are challenging the consensus view that inflationary pressures will be "transitory." Large multinationals such as Nike, FedEx, and Kohls have all issued warnings as to the impact on corporate earnings.

Supply chain challenges are also spilling over into the energy market, particularly in Europe, the UK, and China. Strong demand, renewable energy troubles, and shipping delays are stretching an already stressed energy market. This is the time of year when energy stockpiles usually grow heading into the colder winter months. If prices keep climbing, it creates an untenable situation for consumers and businesses over the next two quarters.

We take a long-term view when investing and are encouraged by two longer-term trends related to this topic. First, many companies are adapting and making changes to build resilience and flexibility into their supply chains, something we will explore in detail in our 2022 Capital Markets Forecast. This should increase capital expenditure in the near term and help reduce supply chain risk in the future. Second, inventory levels for manufacturers are at all-time lows and will need to be rebuilt back to normal levels or even higher. The inventory rebuild cycle is a strong support for the economic recovery to continue into the second half of 2022 and possibly beyond.

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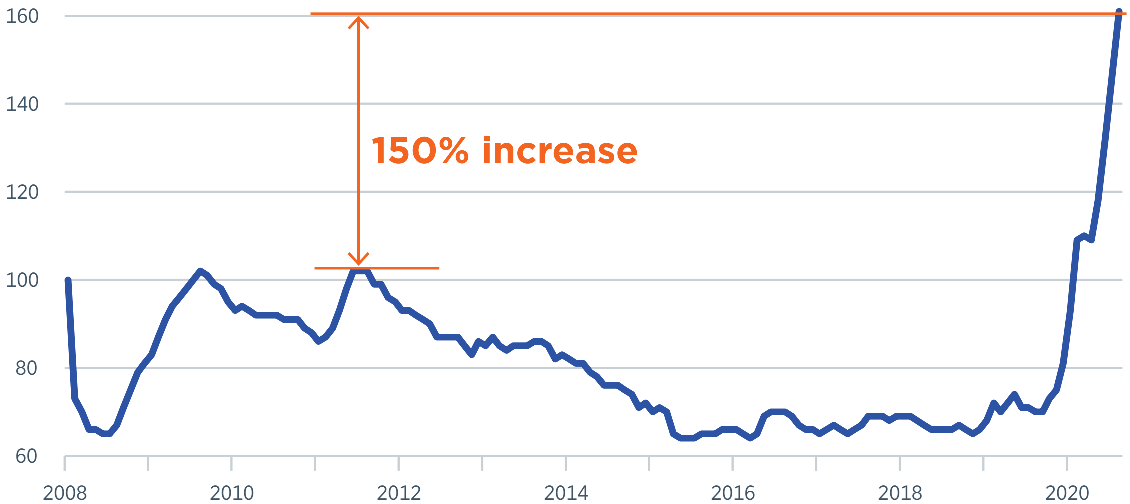
Figure 3

Global shipping prices are more than 1.5x their prior peak

World, Container Trades Statistics Ltd., Global Aggregated Price Index



Data as of July 31, 2021.

Source: Macrobond.

In Washington, the greatest risk is a misstep pertaining to the debt ceiling that results in a default by the U.S. Treasury, something that is low probability but would be unprecedented and potentially high impact for global financial markets.

Policy

The risk of a policy mistake is elevated today, not only in the U.S. but China as well. In Washington, the greatest risk is a misstep pertaining to the debt ceiling that results in a default by the U.S. Treasury, something that is low probability but would be unprecedented and potentially high impact for global financial markets. Outside of the debt ceiling, we expect the Democratic party to coalesce around a fiscal spending bill on the order of $1.5–$2 trillion to be passed through budget reconciliation. While this would result in a net drag on fiscal spending on a year-over-year basis, it still represents a very large stimulus by historical standards. Taxes are likely to be raised on high earners and corporations, though early proposals suggest that the top rate on corporations, global profits, and capital gains could be lower than originally proposed by President Biden.

The other pillar of U.S. policy comes from the Federal Reserve, where extraordinary monetary policy accommodation is winding down. The Federal Reserve appears set to announce a tapering of its asset purchases in November. This paves the way for a hike of the federal funds rate as soon as mid-2022. While financial markets generally bemoan the withdrawal of liquidity, we see the U.S. economy as healthy enough to stand on its own two feet and policy well telegraphed so as not to upset financial markets longer term. If, however, inflation necessitated a faster taper followed by an earlier rate-hiking cycle—not currently our base case scenario—markets would in our view react quite negatively as this development came into view.

Lastly, Chinese regulatory policy has grabbed headlines in recent months, something we have discussed in a recent *Wilmington Wire* blog post, as well as in prior issues of *Capital Perspectives.* We have likely not seen the last regulatory announcement from China; however, we expect policymakers to continue prioritizing growth of the consumer and middle class, and we believe Chinese equities may now be oversold. The slow-motion collapse of China Evergrande, the

Continued

Current tactical asset allocation

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

largest and most indebted property developer in the world, will most likely be managed with the help of policymakers. Financial contagion is not a grave risk in our view, but there is the chance property market weakness could spill into the broader economy and dent global growth.

Positioning for continuing market resilience

We maintain a pro-risk stance in portfolios, with overweight positions to equities (versus our long-term strategic benchmark) across major asset classes. We have greater expectations for international equities, where there is further economic ground to be recovered and valuations appear to be discounting more negative news than in the U.S. market.

We expect the 10-year Treasury yield to move beyond 2% over the next 12 months and the yield curve to steepen, a call we have had in place that is now starting to show signs of life. This presents a favorable backdrop for cyclical equities, while the larger, more expensive, tech-related stocks that hold such a heavy weight in the S&P 500 and Nasdaq indices could face headwinds. At today's level of rates and corporate credit spreads, the short-term outlook for investment-grade taxable and municipal bonds is challenged. We hold an underweight to the asset class.

In our view, while still the preferred macro asset class, equity returns are likely to be more muted going forward and experience increased volatility along the way. We continue to see our clients best served by maintaining a long-term investment view, riding through these pockets of weakness and deploying excess cash on market dips.

Best,

Tony

A Look Inside an Elusive Investment Alternative

Jordan Strauss, CFA
Senior Portfolio Manager, Wilmington Trust Investment Advisors, Inc.

Julian Freeman, CFA
Senior Research Analyst, Wilmington Trust Investment Advisors, Inc.

Private markets. Sounds like a secret club. And in many ways, it is—but today we are going to lift the veil of secrecy and let light in upon the mystery. To help break down this complex topic, we spoke with Senior Portfolio Manager Jordan Strauss and Senior Research Analyst Julian Freeman.

Q. Let's first lay out the basics. Julian, what exactly is meant by private markets investing—and how does it differ from public markets?

A. Private markets (PM) fits within the alternatives asset class.* It's outside of the traditional stock and bond world, where information is often readily available. Here, investing generally involves providing equity (buying an ownership interest) or debt (loaning money) to companies that aren't traded on public exchanges. To gain access to this exclusive space, investors generally participate in a PM investment fund. PM funds are typically structured as drawdown funds, where a limited partner (the investor) will make binding commitments of capital that the general partner (the fund manager or GP) will call down for investments over what's referred to as the fund's commitment period, ordinarily around three to five years. Following the commitment period, GPs seek growth and value creation of the portfolio companies they own. As GPs exit investments, they seek to return capital to limited partners.

A key distinction between public and private markets is that the latter offers access to far more opportunities. There are about 4,000 publicly listed stocks traded on U.S. exchanges[1] (a number that has been declining), but there are over 650,000 private companies in the U.S. with more than 20 employees.[2] With such breadth of opportunity, PM fund managers often deploy focused strategies, targeting companies that would benefit from their specialized knowledge and core competencies. Ultimately, investing in PM has offered the opportunity for higher returns than portfolios with only public markets and/or increased portfolio level diversification. These are often the factors that drive investors to consider PM investing.

Q. And can anyone invest in private markets?

A. No, an investor needs to be a qualified purchaser and/or accredited investor by meeting certain minimum requirements related to earned income and/or net worth, which is defined by the U.S. Securities and Exchange Commission (SEC).

Q. Jordan, what kind of private markets strategies are there?

A. Private equity strategies include buyout, where a GP will purchase a majority interest in an established company, work to improve profitability or grow the business, and then sell it. At the other end of the spectrum is venture capital, where managers make minority investments in early-stage startups, with a limited operating history and at times not even any revenue or profit. Growth is a strategy in

Continued

* Investments that focus on alternative assets are subject to increased risk and loss of principal and are not suitable for all investors.

1 https://www.theglobaleconomy.com/USA/Listed_companies/

2 https://www.census.gov/data/tables/2018/econ/susb/2018-susb-annual.html

With long-term locked-up capital and no stock price jumping around in the corner of the computer screen, GPs and companies have the ability to think long term, and make investments for the future rather than focus on the next quarterly earnings call.

between the two, where the manager provides equity capital to a fast-growing business, typically to expand the business and support future growth.

Private real estate, where managers own equity in properties, can comprise a number of different property types and risk profiles. Major property types include offices, apartments, warehouses, retail, and hotels, and there are managers who have specialized mandates in property types such as medical offices, self-storage, and senior living. In terms of risk profile, core assets have the least amount of risk and involve investing in stable, high-quality assets located in major metro areas that are expected to produce stable income with minimal improvements. In the middle of the risk spectrum are value-add assets, which generally require some type of improvement to maximize the value of the asset and its cash flow generation. Buyers usually have an improvement plan for the asset prior to purchase and may utilize more leverage in order to implement the improvements. Opportunistic projects present the highest risk and typically involve heavy repositioning or ground-up development.

Private debt comprises direct lending to companies, mezzanine financing (which involves making subordinated loans while often also taking a small equity interest), and distressed debt (where companies are either close to default or have defaulted). This is just a broad sweep. There are many other types of PM as well, including special situations and niche strategies, like litigation finance.

Q. And why might qualified investors want to add private markets to their portfolios at this time?

A. In short, PM may provide investors the opportunity to enhance portfolio return and/or lower volatility and increase diversification (private and public markets have not necessarily moved in lockstep). It's important to understand how PM funds seek to target higher returns. Julian mentioned the much larger investment opportunity set, with hundreds of thousands of private companies in the U.S. This, combined with the reality that there is limited availability of important information on private companies, generally means that PM are less efficient, which provides GPs with the opportunity to gain an informational advantage. Additionally, GPs typically have partial or total control and ready access to capital to support companies which allows for the pursuit of more complex business strategies, permitting major changes and greater value creation. Finally, with long-term locked-up capital and no stock price jumping around in the corner of the computer screen, GPs and companies have the ability to think long term, and make investments for the future rather than focus on the next quarterly earnings call.

One reason investors may want to consider PM now is that, given the strong return environment for equities and credit since the 2008 financial crisis, we believe return expectations going forward are more muted in public markets. The expected outperformance of PM is more valuable in environments with lower return expectations overall.

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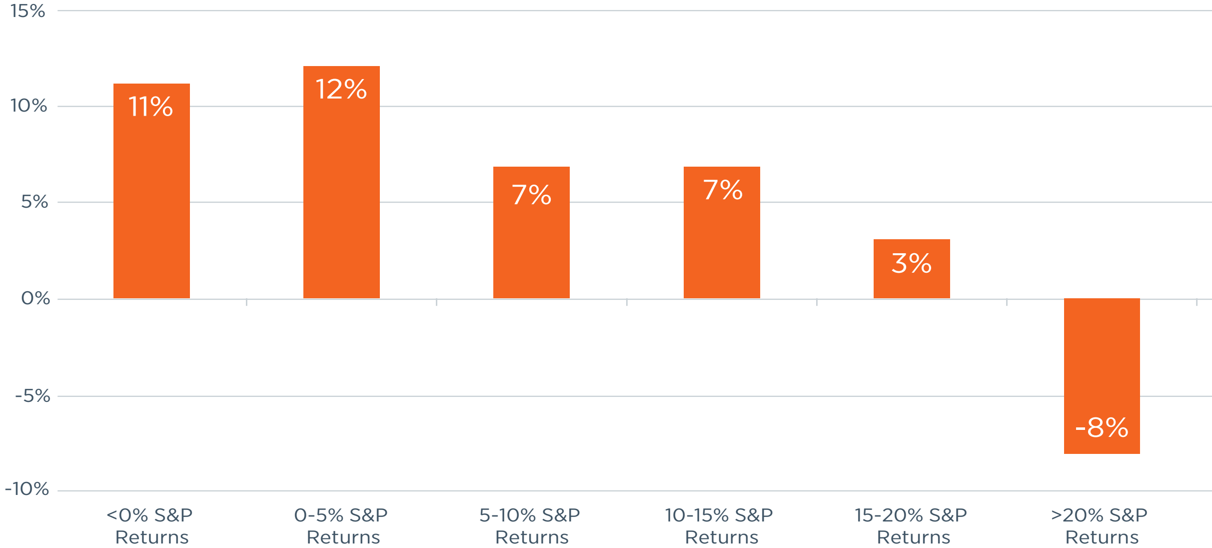
Figure 1

Private equity average relative returns in various market environments



Sources: Cambridge US Buyout Annual Returns vs. S&P 500 Annual Returns, 1987–2020.

Past performance cannot guarantee future results. Indexes 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 which will reduce returns. See the disclosure section for more information regarding indexes.

What's more, PM outperformance has historically been greater in weak environments. Figure 1 shows the excess return provided by private equity[3] relative to public equities given four different buckets of return outcomes for the S&P 500. In negative and low return environments, where the S&P was up less than 10%, private equities have provided the most outperformance.

Q. But there are risks, right? Please share a bit more about this, Julian.

A. As in most cases where there's potential high reward, there's high risk. Unlike publicly traded investments that can be quickly redeemed if liquidity is needed, PM capital is typically locked up for a number of years. The lack of exit options and the complex strategies employed in the operation and capital structure of these companies means that private investing attracts capital from investors who are comfortable with measuring their results over five to ten years or more. What's more, PM funds are not subject to the same SEC registration as mutual funds, which means they are illiquid and speculative in nature and there can be greater use of leverage. Investors have less transparency on underlying investments, often committing capital to a fund prior to the fund having made any investments. For these reasons, it is important to have a rigorous due diligence process.

Q. At a high level, Jordan, how does Wilmington Trust approach PM investments?

A. Our Manager Research Group's objective is to bring Wilmington Trust clients compelling private market opportunities at a cadence of approximately two to three times per year. Our focus is to align with what we believe are skilled investment

[3] Based on the Cambridge Associates LLC US Private Equity Index®, a horizon calculation based on data compiled from 1,468 US private equity funds (buyout, growth equity, private equity energy and subordinated capital funds), including fully liquidated partnerships, formed between 1986 and 2017.

Continued

A long-term strategic allocation that has accounted for an investor's risk tolerance, return goals, and investment time horizon is designed to weather short-term market storms.

managers and to invest alongside institutional allocators, including ivy league endowments, large state and corporate pension plans, sovereign wealth funds, etc. Each year, we aim to diversify our private market opportunities: three recent offerings include Suburban Multifamily Value-Add Real Estate, Distressed and Opportunistic Credit, and Middle Market Buyout Fund with operationally focused strategy.

Our clients generally invest directly into PM funds rather than through feeder structures that would typically add another layer of fees and expenses. What's more, we do not as a rule add fees to PM funds, nor do we receive fees from the funds that are part of our PM program, which we believe can help prevent potential negative selection bias (i.e., GPs that would not otherwise be able to raise their target fund size might turn to a firm that's willing to direct client capital toward the fund in exchange for a cut of the fees).

Q. For those who want to learn more, what should their next step be?

A. We encourage readers to have a conversation with their investment advisors who know them, their unique circumstances, risk tolerance, and a litany of other factors so they can make a careful, holistic assessment as to whether PM might be a compelling portfolio enhancement.

ASSET CLASS OVERVIEW

International Equities

Clem Miller
Senior Portfolio Manager

	AS OF SEPTEMBER 30, 2021		
	Month	YTD	Trailing 12-month return
MSCI EAFE (Developed) Index	-0.45	8.35	25.73
MSCI EAFE (Developed) Growth Index	0.07	6.88	20.87
MSCI EAFE (Developed) Value Index	-0.97	0.61	30.66
MSCI Euro Area Index	-1.55	10.07	27.25
MSCI Japan Index	4.56	5.90	22.07
MSCI Emerging Markets Index	-8.09	-1.25	18.20
MSCI China Index	-18.17	-16.67	-7.33

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

Throughout 2021, the Chinese Communist Party (CCP) has orchestrated a campaign to remake the country's internet platforms into means of executing the party's egalitarian social and economic agenda, which operates under the populist slogan "Common Prosperity." This campaign has employed more aggressive business interventions than those that occur in Western countries, where private firms enjoy legal protections. As a result of such interventions, investors have suffered significant stock losses, and are also wary of the slow-motion collapse of a major property developer. By contrast, European and Japanese stocks have performed well across a wide array of industries, reflecting in large part the progress their policymakers have made in overcoming the pandemic's health and economic impacts.

What's changing

Until 2020, global growth investors found China's internet platforms appealing, as they married wide-moat monopolistic business models to middle-class consumer growth, supported by a laissez-faire regulatory environment. The party's recent actions have flouted this formulation and these stocks are unlikely to offer strong forward earnings growth trajectories, in our view. While some market participants consider their original investment theses broken and are selling or trimming, others are looking at distressed valuations and see select opportunities in stocks they believe the party will favor. Not many years ago, investors saw China as offering a predictable policy environment and were cautious of Europe because of unstable populist politics. Now, it is China's politics that are populist.

What we expect

With the pandemic's Delta wave receding, we expect European and Japanese stocks to continue producing strong, broad-based earnings growth. Further, we do not think European and Japanese stocks are particularly expensive, on forward price-to-earnings ratios. We also anticipate that emerging markets outside China will generate improved earnings growth as Delta continues to recede, global cyclical recovery supports commodity prices, and semiconductor supply chain issues are resolved. As for China, it seems likely that the internet platform stocks will increasingly acquiesce to the party's demands and likely generate lower returns than before the recent heightening in regulatory scrutiny.

Investment Positioning

Portfolio targets effective October 1, 2021, 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%	Overweight
U.S. Small-Cap	5.5%	Overweight
International Developed	16.0%	Overweight
Emerging Markets	5.5%	Overweight
Fixed Income		
U.S. Investment Grade–Tax-Exempt	28.5%	Underweight
High-Yield–Tax-Exempt	2.0%	Overweight
Real Assets		
U.S. Inflation-Linked Bonds	1.0%	Underweight
Global REITs	1.5%	Neutral
Other	1.5%	Overweight
Nontraditional Hedge	5.0%	Underweight
Cash & Equivalents	2.0%	Neutral
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 2021 Capital Markets Forecast is available on www.WilmingtonTrust.com/cmf 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 October 1, 2021, 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%	Overweight
U.S. Small-Cap	4.3%	Overweight
International Developed	11.6%	Overweight
Emerging Markets	4.1%	Overweight
Fixed Income		
U.S. Investment Grade–Tax-Exempt	24.7%	Underweight
High-Yield–Tax-Exempt	2.0%	Overweight
Real Assets		
U.S. Inflation-Linked Bonds	0.9%	Underweight
Global REITs	1.3%	Neutral
Other	1.3%	Overweight
Nontraditional Hedge	6.0%	Underweight
Private Markets	17.5%	Neutral
Cash & Equivalents	2.0%	Neutral
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.

* Private markets are only available to investors that meet Securities and Exchange Commission standards and are qualified and accredited.

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Source: WTIA.

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Not Bank Deposits or Obligations	**May Lose Value**

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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.**

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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.

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

The BBG Commodity TR USD index measures the performance of future contracts on physical commodities which traded on US exchanges and London Metal Exchange. The commodity weightings are based on production and liquidity, subject to weighting restrictions applied annually.

The Bloomberg Barclays 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 Barclays 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.

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.

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.

HFR® (HedgeFundResearch) Indices are the established global leader in the indexation, analysis and research of the hedge fund industry.

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 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.

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.

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.

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.

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.

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.

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

Limitations on use:
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