

2020 investment outlook: As a new decade begins, our “glass half-full” assessment continues

Quarterly Outlook

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Executive summary

The new year marks a new decade, and 2020 promises significant developments. A U.S. Presidential election, ongoing British exit deliberations and United States/China trade negotiations permeate debates about how long the current economic cycle can persist. For investors, 2019 represented gains across most major asset classes following a challenging 2018, and market participants are questioning whether momentum can persist. We see a global economy forming a solid base in early 2020, thanks to strong consumers and decent corporate profit trends, yet ongoing growth is susceptible to major policy risks. Trade policy is the most immediate issue, with some businesses awaiting clarity before initiating major capital expenses, and rumblings surrounding impeachment add to conjecture. We expect central bank policy to continually reflect an accommodative and pro-growth stance, adding to our glass half-full perspective on the economy and markets.

Of course, markets do not always move in lockstep with the global economy. Strong asset returns in 2019 may have pulled forward anticipated stabilizing and improving economic trends. Within global equities, we favor domestic stocks due to reasonable profit growth expectations and favorable valuations. International developed equities may continue the strength reflected in the second half of 2019, despite long-term demographic challenges, and emerging market stocks will follow China's lead. We are not expecting a blockbuster total return environment for bonds but expect investors will continue to enjoy the defensive properties high-quality government and corporate bonds provide. However, we are watching for any signs of credit deterioration. Real assets may also show some resurgence if inflation returns beyond our expectation of a modest pickup in the first half of 2020, and we continue to recommend that qualified investors explore hedge fund and private market strategies if they're suitable for their unique situations. In sum, we anticipate a confluence of healthy consumers, measured corporate profit growth at reasonable valuations and a global economy grinding out a reasonable output level to produce modest total portfolio gains for diversified investors. The potential for an even better year exists if policy risks remain at bay.

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[1] Important disclosures provided on pages 8 and 9.

Global economic views

Easier monetary policy is a prelude to 2020 economic improvement.

Policy and trade uncertainty dominated the 2019 economic backdrop. United States/China trade negotiations and the Federal Reserve (Fed) pivot to interest rate cuts dominated headlines. The economic story was one of slowing growth, with businesses reacting to tariffs, the changing trade environment and the effects from 2018 interest rate increases. Looking ahead to 2020, the policy adjustments from 2019 will likely stabilize global economic growth and lift inflation prospects, at least for the first half of the year. Government policy will be a key factor in the magnitude and direction of these changes. Brexit implementation will likely be a focus in Europe and the United Kingdom, and in the United States voters will head to the polls for the 2020 Presidential election.

U.S. growth is stabilizing, but trade policy and the election are potential swing factors.

The tailwind of Fed interest rate cuts is likely to provide some stabilization to U.S. economic output in the new year. In 2019, economic growth slowed toward the longer-term average of 2 percent. We anticipate 2020 growth to be near this average level, with deviations driven by changes in trade and tariff policies. Consumer spending remains solid, and any variation will likely be driven by surprises in the labor market. Business spending could improve in 2020 if a trade deal materializes, and it is unlikely business executives will require further investment cuts at current growth levels.

The recent spate of Fed rate cuts is likely to spur inflation prospects. Commodity prices remain stable (although there are some signs that oil prices are perking up) but the impact of rising wages will finally lift inflation. The Fed appears willing to tolerate some inflation above its 2 percent target, which could mean somewhat higher inflation in 2020. However, we see the inflationary cycle as short lived. Future business investment is not certain, and higher prices, as seen last year in the housing market, limits demand..

As we close out 2019, the United States and China continue to dance around a trade deal. U.S. tariffs remain an issue for China, while the United States continues to press for intellectual property protections and a rebalancing in the exchange of goods.

Negotiations are likely to remain in headlines well into 2020, and additional tariffs are a risk to U.S. growth. As we reach the middle of the year, Presidential election politics will likely be in full swing. Policy uncertainty could suppress some investment prospects, depending upon candidates, their proposed policies and prospects for Congressional control. Proposed policies are more likely to have a modest impact on specific sectors rather than on overall economic output.

Foreign economic growth is stabilizing, but upside likely requires a trade deal.

Growth in Europe and Japan appears poised to stabilize in 2020 after slipping for much of 2019. Fed rate cuts and the resumption of European Central Bank (ECB) quantitative easing should provide some support to the European economy. Growth in Japan struggled at the end of 2019 due to the October consumption tax increase. With no new headwinds across these economies, output is likely to stabilize. However, there is little evidence of acceleration while these economies continue to deal with the effects of negative interest rate policies and aging populations.

Emerging market economies are also likely to benefit from the easier monetary policy stances in the United States, Europe and Japan. China is likely to remain in a secular growth downtrend, but in the near term the balance of evidence points to some stabilization. Stabilization is already underway in Taiwan, Russia and Brazil. United States/China trade policy will be a key swing factor for growth prospects in emerging economies, with a deal that limits or cuts tariffs providing meaningful upside to our expectations.

Equity markets

The fundamental environment is conducive for positive, but more subdued, performance of U.S. equities in 2020.

Restrained inflation, low interest rates and moderate earnings growth provide valuation support and the basis for stocks to trend higher in the new year. Additionally, the dividend yield of U.S. equities remains attractive compared to lower-yielding fixed income alternatives. As we approach the end of 2019, the 10-year U.S. Treasury yield is less than 2 percent and nearly 50 percent of S&P 500 companies offer dividends yielding more.

Investor sentiment is mostly positive, evidenced by strong performance and attractive valuations, helping shape expectations for still higher equity prices. The S&P 500 is set to end 2019 up nearly twice the historical average, with growth/cyclical as well as defensive sectors advancing 15 percent or more. Information Technology — the best-performing sector in 2019 — still seems well positioned, bolstered by innovations in cloud computing, big data analytics and storage and software components associated with artificial intelligence and machine learning.

As we close 2019, valuations are elevated compared to historical norms, yet remain short of extreme levels. The S&P 500 is approaching the new year trading at a multiple of roughly 19 times forward 12-month earnings estimates. This is above the 30-year average of 17, but shy of multiples of 20 times or more that are typically associated with valuation extremes. Thus, in our view, valuations remain within a “zone of okay.”

We expect market volatility to be closer to long-term averages in 2020.

Market volatility, as measured by the Chicago Board Options Exchange (CBOE) Volatility Index (VIX), was muted in 2019, averaging nearly 20 percent below historical norms. Looking into 2020, headlines surrounding United States/China trade discussions and election year dynamics may result in more normal volatility.

Monetary policy remains a key driver of equity performance, as evidenced by market performance since December 26, 2018, when the Fed shifted from its hawkish (rate increasing) bias to a dovish (rate lowering) stance. Consistent with the adage, “don’t fight the Fed,” we expect equity prices to trend higher as long as the Fed remains in an easing mode. Conversely, we expect volatility and associated pressure on equity prices to return at some future date when the Fed reverts to a hawkish bias, which we see as a low probability event in 2020 absent ramping inflation.

Company earnings are a wildcard for 2020.

U.S. equity prices trended higher throughout 2019 even as the pace of earnings growth slowed, widening the gap between asset prices and fundamentals. The slowing pace of earnings growth in 2019 was largely attributed to sluggish global growth, trade uncertainty and difficult year-over-year comparisons due to the benefit of lower tax rates in 2018. In 2020, we expect the situation to reverse, with global economic growth improving amid easier year-over-year earnings comparisons. Thus, we expect the gap between prices and fundamentals to narrow, providing valuation support and justification for higher stock prices in the new year.

We anticipate a more modest return environment for foreign developed equities after a strong 2019.

Foreign equities, as measured by the MSCI EAFE Index, posted strong gains for U.S.-based investors in 2019, overcoming an economic slowdown in Europe, trade and Brexit-related policy uncertainty and a slight headwind from modest U.S. dollar appreciation. Performance was broad based, with positive contributions from all 11 sectors, led by Technology.

Looking forward to 2020, analyst estimates for full-year profit growth appear reasonable at 7.5 percent. Reasonable profit growth, combined with a 3.5 percent dividend yield, forms the basis for our positive, but more subdued, outlook for foreign developed equities in 2020.

A positive macro backdrop and favorable investor sentiment grounds our balanced outlook.

The overall macro backdrop across foreign developed economies is positive for equities in 2020. Our proprietary economic Health Check of foreign developed markets remains below long-term averages. However, momentum turned positive in the second half of 2019, suggesting that the worst of the economic slowdown may be behind us. Inflation remains tame, well below central bank targets, implying that monetary policy will remain accommodative well into — and perhaps throughout — the next year. Finally, we see little policy risk outside of Brexit, with no major elections looming in 2020 and the transition of the ECB presidency from Mario Draghi to Christine Lagarde already behind us.

Investor sentiment also remains favorable. Valuation measures are reasonable and trending higher, indicative of rising investor optimism. We see few indications of investor euphoria that is typical of market tops. Valuation measures relative to volatility are well off of levels normally consistent with extreme investor complacency. Meanwhile, the strong performance in 2019 still leaves the MSCI EAFE Index nearly 10 percent below the high-water mark reached in early 2018.

A number of factors hold us back from having stronger conviction.

We remain cautious due to structurally low economic potential, a lack of fiscal policy cohesion, a continued uptrend in the U.S. dollar and the composition of indices compared to domestic equity indices. An aging demographic profile constrains potential economic growth in both Europe and Japan. While we see few policy risks outside of Brexit, we also see few policy catalysts, with fiscal policy remaining fragmented among individual countries within the euro area. The U.S. dollar remains in an uptrend, which points to a continued headwind for U.S.-based investors in foreign developed equities. Finally, index composition remains a negative factor. Compared to the S&P 500, the MSCI EAFE Index has a far lower weighting in innovative sectors like Healthcare and Technology.

All in all, we are maintaining a balanced outlook for foreign developed equities as we look to the year ahead.

Profit growth in foreign emerging equities could narrow the recent performance gap between U.S. and foreign developed equities.

Emerging market equities, as measured by the MSCI Emerging Markets Index, posted solid but unspectacular gains for U.S.-based investors in 2019 compared to both domestic and foreign developed alternatives. The escalation in tariffs and the on-again, off-again trade deal between the world's two largest economies were key drivers for emerging market performance in 2019. Unlike domestic and foreign developed equities, positive performance was heavily concentrated in just a few sectors (Technology and Consumer Discretionary).

Looking forward to 2020, analysts anticipate a re-acceleration in profit growth after the year-over-year decline in 2019. Achievable double-digit profit growth, combined with a 2.9 percent dividend yield, forms the basis of our balanced, but improving, outlook for emerging market equities in 2020.

Our balanced outlook is irrespective of a conclusion to the trade impasse between the U.S. and China.

The overall macro backdrop across emerging market economies supports an improved outlook for equities in 2020, regardless of whether the U.S. and China concludes a “phase 1” trade deal. Our proprietary Health Check of foreign emerging economies remains below long-term averages, but has rebounded off of mid-year lows; the trend is pointing higher heading into the new year. Inflation, a historical scourge of emerging market economies, remains muted, allowing central banks from Asia to Latin America to South Africa to shift to a nearly universal accommodative stance. Economic re-acceleration, muted inflation and accommodative central banks form a supportive macro environment.

Several factors temper our enthusiasm: a lack of firm conviction in a cyclical recovery of profits, ongoing trade-related concerns and high valuation that may already price in better profit news in 2020.

While the improvement in our emerging markets economic Health Check supports expectations of a recovery of corporate profits in 2020, we view a recovery with some skepticism until it comes more clearly into focus. This year started off on a similarly optimistic note, but the expected recovery in profits never materialized. Emerging market equities are poised to end the year with a mid-single digit profit decline from a year ago. Regarding ongoing trade negotiations, we continue to view headline-induced market volatility as noise with little informational content as to what an ultimate conclusion will look like. Finally, valuation based on forward-looking estimates is well above long-term averages, suggesting that better profit news in 2020 may already be priced in, creating risk of another earnings disappointment in the year ahead.

Overall, we are maintaining our balanced outlook for foreign emerging equities but look for the performance gap to narrow compared to equity alternatives as we look to the year ahead.

Fixed income markets

Interest rates may remain low, but we see more risk of upside pressure in 2020.

Long-term rates should remain rangebound near all-time lows in 2020, but three factors could drive rates modestly higher. First, heavy Treasury issuance due to ongoing deficit spending should increase the supply of U.S. Treasury notes and bonds. Second, extremely low government bond yields outside the United States, with trillions of dollars sporting negative yields, could rise modestly and ease foreign demand for U.S. bonds. Economic momentum appears to be bottoming and further monetary stimulus in Europe and Japan should be limited. This, in turn, could nudge yields outside the United States higher, curtailing foreign demand for U.S. bonds. Third, progress in U.S. trade talks could alleviate investor safe haven demand for U.S. Treasuries. To start 2020, interest rates should remain relatively steady, because monetary policy is likely to remain on hold for now.

Low current yields on core bonds mean subdued near-term return expectations. However, high-quality bonds remain a critical component within diversified portfolios. We believe investors should own a balance of high-quality bonds across maturities, including some long-term (more than 10 years to maturity) bonds to provide ample diversification against higher expected return (and higher risk) holdings, such as stocks. However, the relatively minimal difference in incremental yield between longer-term and short-term bonds means there is little advantage to investors to tilt too heavily to long-term bonds.

U.S. corporate credit returns likely modest but supported by improving economic momentum.

Investment-grade and high yield corporate bond yields compared to Treasuries are tighter than historical medians, indicating lower-than-normal investor compensation for incurring additional credit risk. Corporate debt is high and investors are demanding more compensation for riskier debt, particularly in struggling energy companies. Taken in isolation, this would indicate reducing corporate credit exposure is prudent. However, more accommodative global monetary policy in 2019 means corporations across credit rating tiers can refinance existing debt at cheaper rates than their maturing debt. Also, economic momentum appears to be improving. These trends are supportive for solid returns in 2020.

Global central bank easing bias is likely to continue with the Fed on hold.

There were more global central bank interest rate cuts in the third quarter of 2019 than at any time since the great recession. In 2020, rate cuts are unlikely to surpass the pace of the third quarter, but central banks globally are likely to maintain an easing bias. This should act as an incremental tailwind to risk assets and inflationary pressures. Domestically, the Fed appears to be on hold for now after three rate cuts in 2019. Markets still assign some chance of additional cuts in 2020, reflecting creeping concern in markets of slowing economic activity late in the economic cycle and the Fed's bandwidth to cut rates further if necessary.

Global central bank balance sheets are growing again, with asset purchase programs resuming. Ongoing bond purchases should help keep shorter-term bond yields contained and continue to lend support to risk assets. The ECB and the Fed both re-started bond purchases in October. The Fed is buying Treasury bills to provide liquidity to short-term borrowing markets, while the ECB is attempting to stimulate economic activity and jump-start inflation.

Municipal bonds remain an attractive choice for taxable investors in higher tax brackets.

Tax-free municipal bonds have experienced ravenous demand from investors as the quest for tax havens persists and credit conditions remain benign. Strong demand and light supply from municipal issuers drove valuations to extreme levels at certain points in 2019. Despite somewhat expensive valuations, investment-grade municipal bonds continue to offer superior yield opportunities (both absolute and risk-adjusted) for high tax bracket investors in the core bond category.

Light supply has been a key theme the past two years and may be in the early stages of reversing. However, if recent upticks in supply are any indication, somewhat higher supply going forward should be no match for persistent investor demand. An infrastructure bill (which could meaningfully increase supply) remains elusive, since Washington appears paralyzed by partisan politics and the 2020 Presidential election.

Real assets

Low interest rates and declining income growth are challenges for real estate investors.

Publicly traded real estate securities performed well in 2019. Declining interest rates, coupled with solid economic growth and relatively low supply compared to previous property cycles, were the primary catalysts. Property market fundamentals are now more mixed. Vacancy rates are near historic lows, but net operating income (NOI) growth slowed and is currently below the long-term average. (NOI is the revenue from property minus operating expenses.) We expect NOI growth to

remain low due to growth supply of available properties and flat levels of business investment. Additionally, income (as measured by NOI) relative to property values is near all-time low levels, indicating prices are high. However, prices are likely to remain well supported in the near term due to ready availability of cheap credit for property investment. Commercial mortgage interest rates are well below the average earnings yield on Class A property. As a result, new investors can still generate decent returns on property investments. With the Fed keeping interest rates steady for now, the spread between mortgage rates and property earnings yields should remain relatively stable in support of prices. However, these same factors are likely to limit any significant upside to property market prices. While the deceleration in NOI growth is urging caution, we believe investors are still likely to at least earn the dividend yield of real estate investments. Furthermore, property investments do offer a fair risk/reward tradeoff compared to other asset classes. Therefore, we remain cautious, with the understanding that changes in interest rates can have an outsized impact on property market performance going forward.

Supply issues remain the major swing factor for commodities.

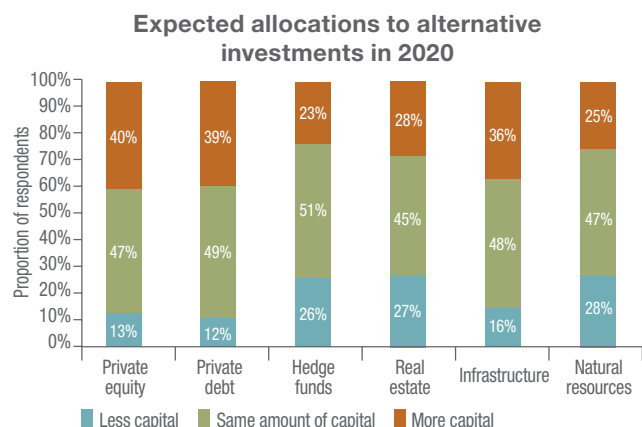
Commodity markets, from industrial metals to oil, traded relatively flat and in a tight range for all of 2019. The United States/China trade war and Fed activity shook business investment sentiment, leading to disappointing demand growth. Turning to 2020, supply could become the major swing factor. While U.S. shale production set new record highs in 2019 and domestic crude inventories rose, investment (as measured by oil rig counts) fell. This is likely to lead to a production plateau in 2020. On the global supply front, the Organization of the Petroleum Exporting Countries (OPEC), led by Saudi Arabia and joined by key non-member exporters, including Russia, limited production for all of 2019. The agreement is set to carry forward through the first quarter of 2020. Current expectations are for an extension of the agreement. Coupled with stagnation in U.S. production growth, this means the recent phase of global supply

acceleration could be ending. On the demand side, our view of economic stabilization indicates demand should be solid after a couple years of slowing growth. These fundamental factors should provide some support to oil prices over the course of 2020.

Alternative investments

Investor sentiment remains favorable across alternative investments, with a large majority of investors planning to commit the same or more capital in the year ahead.

A majority of investors surveyed by Preqin, a research provider, expect to make similar or greater commitments in the year ahead. As seen in the chart below, private equity, private debt and infrastructure are favorite targets for adding capital. Meanwhile, fewer respondents expect to add to hedge funds, private real estate and natural resources in the year ahead. On balance, investor sentiment through this lens looks positive but not euphoric, alleviating some concern that too many dollars will be chasing a limited number of good opportunities, compressing potential returns.



Hedge fund performance was positive and broad based in 2019.

Year to date through November 2019, 60 of the 62 Hedge Fund Research Inc. (HFRI) hedge fund strategy indices posted a positive return. Positive performance in 2019 and indications of modest capital inflows reflect positive investor sentiment and help shape expectations for active trading hedge fund strategies to deliver positive returns in

2020. The best-performing strategies were focused in the Technology and Healthcare sectors.

In 2020, Europe, Technology and Healthcare remain attractive investment opportunities. Active trading-oriented hedge funds may be able to take advantage of dislocations in each area. Investors appear to be avoiding Europe due to structural demographic challenges, lack of fiscal policy cohesion and a difficult interest rate and regulatory environment for the banking sector, in addition to Brexit-related policy uncertainty. This is reflected in the longest period of capital outflows in recent history. These outflows create opportunities when financially strong companies, often market leaders within their respective markets, subsequently trade at below-average valuations due to low or negative investor sentiment. Any positive catalysts, such as corporate share buy-backs or signs of growth acceleration, can have a meaningful positive impact on share prices and investment returns.

The Healthcare and Technology sectors are two areas of the U.S. equity market we believe hedge funds are capable of generating favorable performance while protecting capital. Both sectors are subject to a high velocity of change due to technology breakthroughs. As such, active trading strategies may be able to take advantage of the ever-changing rotation of new companies or technologies displacing older companies and obsolete technologies.

Be prudent when investing in private investments.

Private investment funds have posted double-digit returns for the past 10 years as U.S. equity markets continue to push forward and reach new highs. Our capital market assumptions expect private markets to generate the highest expected returns looking forward, but we cannot assume they will generate the same level of returns. In a market attracting more capital than can be prudently invested, it is important investors focus on investing in private markets funds that offer “value-add” knowledge in addition to the capital invested in a company. Knowledge and experience are competitive advantages that can assist the fund’s portfolio of companies, renegotiate contracts to reduce costs, increase market share, improve the use of technology and find a strategic buyer. All of these would benefit the fund investors.

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Diversification and asset allocation do not guarantee returns or protect against losses. Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio.

Past performance is no guarantee of future results. All performance data, while deemed obtained from reliable sources, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for investment. The **S&P 500 Index** is an unmanaged, capitalization-weighted index of 500 widely traded stocks that are considered to represent the performance of the stock market in general. The **MSCI EAFE Index** includes approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East (EAFE). The **MSCI Emerging Markets Index** is designed to measure equity market performance in global emerging markets. The **Chicago Board Options Exchange (CBOE) Volatility Index (VIX)** shows the market's expectation of 30-day volatility and is a widely used measure of market risk and is often referred to as the "investor fear gauge."

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. The value of **large-capitalization stocks** will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions. **Stocks of small-capitalization companies** involve substantial risk. These stocks historically have experienced greater price volatility than stocks of larger companies and may be expected to do so in the future. **Growth investments** focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends, which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments. **Value investments** focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or such stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments. **International investing** involves special risks, including foreign taxation, currency risks, risks associated with possible difference in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in **fixed income securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Investment in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. The **municipal bond market** is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in **real assets** such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults). Investing in **master limited partnerships (MLPs)** involves additional risks as compared to the risks of investing in common stock, including risks related to cash flow, dilution and voting rights. MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling. Additional management fees and other expenses are associated with investing in MLP funds. **Hedge funds** are speculative and involve a high degree of risk. An investment in a hedge fund involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem or transfer interests in a fund. **Private capital investment funds** are speculative and involve a higher degree of risk. These investments usually involve a substantially more complicated set of investment strategies than traditional investments in stocks or bonds, including the risks of using derivatives, leverage, and short sales, which can magnify potential losses or gains. Always refer to a Fund's most current offering documents for a more thorough discussion of risks and other specific characteristics associated with investing in private capital and impact investment funds. **Private equity investments** provide investors and funds the potential to invest directly into private companies or participate in buyouts of public companies that result in a delisting of the public equity. Investors considering an investment in private equity must be fully aware that these investments are illiquid by nature, typically represent a long-term binding commitment and are not readily marketable. The valuation procedures for these holdings are often subjective in nature. **Private debt investments** may be either direct or indirect and are subject to significant risks, including the possibility of default, limited liquidity and the infrequent availability of independent credit ratings for private companies.

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