



3Q investment outlook: From one horizon to the next

Quarterly Outlook

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Executive summary

We continue to focus on two investment horizons when contemplating our investment outlook. The first horizon centers on the tradeoff between reopening economies and potential virus spread; in absence of a COVID-19 eradication through a medical solution or herd immunity, we must respect how the reopening path develops over the near term. The second horizon focuses on what the global economy and capital market landscape looks like as we move closer to a medical solution over the medium and long term. While global central bank and public sector stimulus actions have improved market functions and helped stem worst-case economic scenarios, we continue to evaluate these actions' long-term implications on growth and inflation. Further, the next few months will be critical in assessing how companies, sectors and geographies emerge from current challenges. Some businesses are thriving in the post-coronavirus world while others face dire realities about financing and demand within this fluid economic backdrop. Finally, the upcoming election season will provide another wrinkle for investors as we get deeper into the third quarter and begin the year's final stanza.

In this publication, we offer a glass-half-full perspective for diversified investors and are cautiously optimistic of the investment outlook. Asset prices moved markedly lower through late March before snapping back during the second quarter, initially discounting persistent malaise before switching to a more optimistic view. We are seeing modest improvements in economic activity, consumer and business demand, and resiliency in animal spirits. These developments, coupled with central banks' ongoing support of low borrowing costs, will likely lead to ongoing recovery, although markets may be pricing in too much progress too quickly.

As always, we appreciate your trust. These are difficult times, but throughout this period we have found clients who are grounded in a financial plan tailored to their unique circumstances have been able to withstand volatility within a constant news cycle. We appreciate the opportunity to connect with you, and should you have additional questions or would like to discuss any of this piece's content, please do not hesitate to let us know.

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

Global economic views

A global recession likely gave way to a modest recovery.

COVID-19 plunged the global economy into recession. Reopening took hold across major global economies in the second quarter, initially across Asia and now in the United States and Europe. Many questions remain regarding changes in consumer and business spending patterns and tastes. The recovery in the third and fourth quarters of this year is likely to show a strong rebound in activity as we return to work from a virtual standstill. While there may be some pent-up demand, which could boost growth, a full recovery of foregone activity during the shutdowns may prove elusive as many questions remain regarding changes in consumer and business spending patterns and tastes. The answers to these questions combined with a challenging labor market recovery means growth in 2021 may be somewhat disappointing relative to longer term averages.

Stimulus should aid U.S. recovery, with little inflation pressure in the near term.

The loss of 21 million jobs in the United States between February and May this year was the largest decline in this data series' history on both a total and percentage change basis. The unemployment rate is the highest since the Great Depression, registering more than 13 percent in June. However, fiscal and monetary stimulus intervention has provided some lift for the future recovery as the economy progresses in reopening. Fiscal stimulus, through expanded unemployment insurance benefits, drove the savings rate higher, while also limiting consumer demand for mortgage and rent forbearance. Low interest rates and the U.S. Federal Reserve (Fed) support of markets should provide a boost to the housing market and potentially capital spending later this year. However, should a larger-than-expected proportion of recent job losses become permanent, changes in consumer and business spending behavior may drive lower economic activity levels. The economy is likely to return to its trend growth rate, but we see little sign of additional acceleration in growth.

Lower oil prices over the last two years, coupled with the economic shutdown to combat COVID-19 infection spread, led to much lower inflation across the United States and global economies. Some investors fear we are on the cusp of rampant inflation caused by fiscal stimulus, low interest rates and virtually unbounded Fed bond purchases. Over the rest of 2020, inflation is likely to stabilize and perhaps push higher from recent low levels due to the recent stabilization in oil prices and the economic recovery. Stimulus-driven inflation will depend upon government action duration relative to economic activity levels. For now, rampant inflation appears unlikely in the next 12 to 18 months, but higher price levels for goods and services could materialize should the Fed continue to purchase bonds and hold interest rates at very low levels in the face of more normal economic output.

Growth will be a function of reopening.

Foreign economies also suffered when they invoked stay-at-home orders to combat COVID-19 infections. Major Asian economies including China, South Korea and Japan were among the first to enact shelter-in-place orders, and much of Europe and the United States shut down about the same time. As of the end of the second quarter, the virus is spreading more to other emerging markets, with infection rates ramping in Latin America, in particular. Economic reopening started cautiously in Asia and is now spreading across Europe. Continuing social distancing measures have limited the economic recovery as we await a medical solution to this disease. We anticipate a modest recovery in economic activity, with foreign economies likely requiring a year or more to return to more normal growth rates. Based on differences in pace of reopening, the recovery appears likely to be somewhat faster in Europe, somewhat slower in Asia, and further down the road in Latin America.

Equity markets

We continue to emphasize a “glass-half-full” orientation.

Supportive policy, improving investor sentiment and positive price trends provide a constructive backdrop for equities in the second half of the year, despite the absence of a definitive COVID-19 treatment and

prevention solutions. The expectation that the COVID-19 pandemic is peaking or contained predicates our glass-half-full orientation. We anticipate volatility, a hallmark of market price action in the first half, to remain elevated in the second half of the year. The duration and impact of COVID-19 remains unknown, and the path toward normalcy requires time and is subject to much uncertainty.

The fundamental backdrop remains supportive for U.S. equities:

- Restrained inflation and low interest rates provide valuation support.
- The yield curve (the difference between two- and 10-year Treasury rates) is steepening, an indicator of improving economic growth expectations.
- The dollar is trending lower, benefiting U.S. exporters.
- The price of crude oil moved steadily higher throughout the second quarter, mitigating stress in the energy sector.
- Massive monetary and fiscal stimulus programs support economic recovery, while medical progress toward COVID-19 treatment and prevention solutions continues.

The increasing gap between advancing equity prices and subdued economic activity tempers our optimism somewhat, in addition to the unknown duration and impact of COVID-19. Equity prices trended higher in the second quarter even as analysts continued to ratchet earnings growth expectations lower. This is an unsustainable trend over the longer term, and investors are looking toward an earnings recovery in 2021 or 2022 to support current equity prices.

Investor sentiment has improved and price trends are improving.

Favorably-trending price performance and elevated — yet short of extreme — broad-market valuations reflects improving investor sentiment. The S&P 500 reached the midpoint of the year down 4.0 percent year-to-date, 32.7 percent above the March 23 low of 2,337, and just 9.2 percent shy of the February 19 all-time high of 3,386. The index is beginning the third quarter trading at roughly 21.5 times trailing 12-month earnings estimates,

levels considered elevated, but short of extremes. Trailing 12-month price-earnings ratios of 23 times or higher are generally considered more extreme.

Domestic equity price trends reflect a recent trading pattern of higher highs and higher lows, and market breadth, or the proportion of industries and companies participating in the recent market rally, has improved considerably. Eight of 11 S&P 500 sectors have 50 percent or more of companies within each sector trading above their average price over the past 50 trading days, which is considered a positive price trend; seven of 11 sectors have 50 percent or more of companies trading above 100-day average price. In our view, this reflects improving momentum indicating that the near-term path of least resistance is likely still higher.

Opportunities exist beyond COVID-19.

While the extent that the world will change because of COVID-19 remains unclear, we anticipate secular growth trends in artificial intelligence, machine learning, cloud computing, robotics and automation, and e-commerce to be unphased by the pandemic, and in some cases the pandemic strengthens their long-term case. The pace of digital transformation may even be enhanced due to social distancing and work-from-home protocols. In addition, we sense the COVID-19 pandemic is shaping a new kind of consumer. An accelerated shift towards online shopping presents a favorable backdrop for strong brands with direct and digital capabilities. More at-home dining benefits grocers and quick-service restaurants — perhaps at the expense of casual diners. Also, increasing emphasis on space bodes well for homebuilders and building products companies that provide product for the do-it-yourselfers.

The dividend income profile of equities improved as interest rates trended lower. Dividend-paying equities provide yield-oriented investors with longer-term horizons and a risk tolerance for some price volatility both income and potential for capital appreciation. As of June 30, nearly 75 percent of S&P 500 companies are offering dividends above the 10-year Treasury yield of 0.7 percent.

Our foreign developed equity outlook reflects two different investment horizons.

Strong policy action and muted virus response to date supports foreign developed equities' near-term growth prospects. We respect the recent recovery in equity prices, with sectors such as materials, industrials and financials posting particularly strong gains in June. However, structural issues in foreign developed economies, such as challenging demographics and less growth-oriented equity markets, remain longer-term headwinds, which lead us to have a strategic bias towards domestic equities over time.

The economic backdrop is generally positive.

Muted inflation and low interest rates continue to provide valuation support for foreign equities, as well. A falling dollar creates a positive tailwind for U.S. investors' foreign holdings. In addition, firming crude oil prices at economically tolerable levels (not too high for consumers, not too low for producers) provides support for the beleaguered energy sector without crimping consumers' spending power.

COVID-19 case growth supports economic reopening in foreign developed markets, at least for now. The virus's growth across Europe, Australia and the Far East (EAFE) countries continues to moderate, even with economic reopening. New cases across the region average a little more than 5,000 per day, an 85 percent decline from early-April peak levels and significantly lower than U.S. daily increases (22,000 per day at present). Meanwhile, medical progress toward COVID-19 therapeutic treatments and vaccinations continues.

Monetary and fiscal authorities are "all in."

The European Central Bank (ECB), Bank of England (BOE) and Bank of Japan (BOJ) are providing aggressive monetary support. The ECB increased monetary stimulus by a larger-than-anticipated \$678 billion in June, bringing the total available asset purchase pool to nearly \$2.2 trillion. The German government, known for its fiscal discipline, unveiled a stimulus package that included lower taxes and direct payments to families. Perhaps most crucially, the European Commission announced an \$847 billion package of grants and loans to European countries hardest hit by COVID-19, repaid with tax proceeds raised across the entire common market, not just in the affected countries.

Investor sentiment and market breadth have improved. The MSCI EAFE Index is trading at roughly 19 times trailing 12-month earnings estimates, higher than the late-March lows and modestly above average, but still well short of extremes. Performance is becoming more broad-based, with hardest-hit sectors such as Energy and Financials recovering in June. However, foreign developed equity performance still lags domestic large-cap equities by a wide margin in 2020.

Longer-term, the region's demographics and the index's composition remain headwinds. Compared to the S&P 500, the MSCI EAFE Index has a far lower weighting in innovative, growth-oriented sectors like Healthcare and Technology. Over the longer term, an aging demographic profile constrains potential future economic growth in both Europe and Japan compared to the United States.

We view foreign emerging market equities' risk and reward as reasonably balanced.

The coronavirus outbreak remains ongoing, with Brazil, India and other emerging markets representing the new global epicenter. Thematic considerations, less attractive alternatives and China's ongoing emergence from restrictive containment policies support our balanced outlook. The "phase one" trade deal between the United States and China remains intact, despite ongoing tensions between the world's largest economies, while the ability of emerging governments to bridge to a 2021 economic and corporate profits recovery is the major near-term consideration.

The macro backdrop for emerging markets presents both challenges and opportunities.

Inflation, a historical scourge of emerging market economies, remains muted. This leaves central banks free to pursue aggressive monetary policies. The U.S.-China phase one trade deal continues to move forward, though tensions remain elevated due to COVID-19 origins and recent events transpiring in Hong Kong. The production agreement between Russia and Saudi Arabia helped firm oil prices, which historically tend to move in the same direction as emerging market equity prices.

Recent dollar weakness is doubly supportive. The dollar fell 6 percent after March 23, which represented the S&P 500 Index's low point for the year. A falling dollar benefits emerging market investors in two ways. First, it decreases

the dollar-denominated costs for emerging market borrowers, supporting growth and aiding profitability. Second, a falling dollar increases U.S. investors' foreign holdings values.

The virus's path and impact vary across emerging economies. The virus hit China and South Korea earliest; as of late June, it appears mostly contained as those economies continue to reopen, though a recent outbreak in Beijing forced school closures and highlights virus re-emergence risks. Meanwhile, the epicenter has shifted to high population density countries in Latin America and South Asia, where governments' ability to manage health and societal impacts remains unclear.

China's economic restart and the virus's response remain keys.

The response of China consumers and businesses to economic reopening and the potential for a virus second wave remain key variables we are watching. Together with neighbors Taiwan and South Korea, among the earliest impacted by COVID-19, China and East Asia represent more than 60 percent of the MSCI Emerging Market Index.

Investor sentiment has improved. The MSCI Emerging Markets Index is trading at roughly 16 times trailing 12-month earnings estimates — higher than the late March lows and well above average though not at extreme levels. Investors' focus is shifting to an expected 2021 profits recovery, viewing 2020 as a fundamental "gap" year. We view analysts' 2021 revenue and profit estimates skeptically, given the long lag and the virus's current spread across constituent countries.

Fixed income markets

Lower rates potentially lasting into 2022 and an active Fed create opportunities in high-quality corporate and municipal bonds.

Yields on high quality bonds, such as U.S. Treasuries, remained near historical low levels for most of the second quarter after plummeting in the first quarter. Riskier corporate and municipal bond yields fell from extremely high levels, but incremental yield above Treasuries remain above long-term average levels. Market sentiment around the pace and degree of reopening and economic recovery

drove large swings in asset prices, and volatility is likely to continue. Fed policies helped restore order to markets, and its recent shift to purchase more corporate bonds rather than Treasuries and mortgages boosted investor confidence.

The Fed indicated plans to hold short-term interest rates near zero well into 2022. This should also hold other shorter-term bond yields low, which would limit incomes for bond investors. Longer-term Treasury yields are heavily dependent on the recovery in economic growth expectations, investor demand for significant new Treasury bond issuance to pay for stimulus measures and how the Fed reacts if yields rise quickly. The Fed could deploy additional tools if market sentiment turns for the worse or if bond yields rise significantly.

High-quality bond portfolios remain a critical component of well-diversified portfolios. The opportunity in corporate and municipal bonds is modest and remains skewed toward high-quality credit profiles. Ongoing Fed programs relating to market liquidity and access to capital via debt markets remain important backstops in the event economic recovery falters. The speed at which riskier bonds recovered paired with their current valuations leave them susceptible to ongoing volatility should investor sentiment shift.

Opportunities in U.S. corporate bonds skewed toward higher quality due to risks in lower-quality bonds.

Investment-grade and high yield corporate bond yield spreads (corporate bond yields compared to Treasury yields) shifted from extremely high levels to levels still somewhat higher than historical medians during the second quarter. Downgrades by ratings agencies for investment-grade bonds may persist, but defaults should remain insignificant, reflecting significant fiscal and monetary stimulus measures. The relative yield and risk environment skews toward high-quality corporate bonds. Gross new issuance hit record high levels near \$1 trillion year-to-date through early June, showing that high-quality companies have ample access to cash via new debt to bridge potential funding gaps until operating cash flows improve. Riskier high yield corporate bond spreads are also wider than normal, but risks are also higher, due to

high indebtedness coming into the crisis and less flexibility to weather a slower-than-expected recovery. We are cautious in selecting high yield corporate bonds given the relatively fair values when comparing yields to risks.

High-quality municipal bonds are attractive.

Municipal bonds began recovering in the second quarter, albeit at a slower pace than corporate bonds. Investment-grade municipal bond yields relative to Treasuries remain somewhat higher than normal. This is despite quick reactions from state and local governments to reduce spending and services by cutting significant headcount from their payrolls to manage potential budget gaps. High-quality issuers must continue to address budget problems, but quick Fed policy actions have helped them retain access to new financing. Yields of lower-quality municipal bonds are also slightly higher than normal when compared to yields of high-quality U.S. Treasury bonds. However, yields are relatively low when compared to underlying fundamental risks (tax or revenue receipts compared to costs, for example). Heavily indebted issuers have less flexibility, and high yield municipal allocations have significant exposure to single-source revenue projects that are struggling. We recommend caution with high yield municipal exposures. The broad dispersion in payment sources and the impact of shutdown orders across the municipal markets continues to necessitate active credit oversight.

Real assets markets

Real estate has potential for excess returns, but uncertainty abounds.

After trailing the S&P 500 to begin the second quarter, real estate investment trusts (REITs) rallied strongly, led by the laggards in the space. A large move from growth stocks to value in June was the primary catalyst for the recent outperformance, but Fed policies also helped. Over the past month, the market focused less on potential deterioration in property fundamentals and more on buying assets with the largest price declines during the year.

The property market was already experiencing declines in net operating income and increases in vacancies for most property types prior to COVID-19. Landlords are now experiencing large delinquencies and issuing dramatically

higher default notices to tenants, depending on property type. Hotels and resorts are generating 10 percent to 20 percent of revenue seen prior to the crisis. Retail landlords are collecting 20 percent to 60 percent of rents due. The office market is grappling with potentially seismic shifts in demand, as companies explore more permanent “work from home” arrangements and demand declines for shared space companies that became major tenants in many large markets. We believe the real estate prices are somewhat expensive, and current revenue assumptions implied by prices may be elevated. Our expectation is for property market fundamentals to deteriorate further due to the late stage of the business cycle and economic growth impairment resulting from the global spread of COVID-19. Despite these fundamental challenges, incomes from properties remain solid relative to other asset classes, especially fixed income.

Increasing inflation would be positive for commodities, but doubt remains.

Commodity markets, from industrial metals to oil, rebounded strongly in the second quarter as economic growth started to recover and production shutdowns decreased new supply. Massive monetary stimulus from the Fed helped, as well. OPEC+ members extended a historic production cut agreement through July to try to arrest declining oil prices. (OPEC+ is the Organization of the Petroleum Exporting Countries plus 10 additional oil-producing nations.) The agreement eliminates almost 10 million barrels a day of new supply from the market, or nearly 10 percent of 2019 global oil production, according to the U.S. Energy Information Administration. In the United States, low prices have forced companies to shut down now unprofitable output, eliminating another 2 million barrels a day of supply. These supply cuts should stabilize prices in the near term. Much higher prices require a resolution to the current supply glut, likely through a recovery in demand as the global economy reopens.

Industrial metals, such as copper and iron ore, also rebounded in the second quarter, benefiting from the Fed's monetary policy and a more positive outlook on economic growth. Additionally, the absorption of spare production capacity — previously brought online when prices were higher — has limited supply growth. Lower investment in productive capacity for the past five

years could benefit copper if global economic growth returns to its longer-term trend. The lack of cash flows — such as dividend or interest payments — from commodity investments, including copper, implies we cannot be patient investors, since the price change is likely to be gradual.

Gold prices held firm for the quarter as a beneficiary of growth fears and declining real interest rates. Prices have not broken to new highs, likely because demand from Asia has been somewhat disappointing as consumers focus on basic needs to weather COVID-19 pandemic shutdowns. Looking forward, the continued increase in the Fed balance sheet through asset purchases, low interest rates and a weaker U.S. dollar should support gold prices. Economic reopening in Asia could also provide some support as demand recovers.

Alternative investments

Market volatility highlights hedge fund managers' nimbleness in reacting to changing dynamics.

The policy responses to COVID-19 (social distancing, stay-at-home orders) caused a divergence in fortunes for business that fall into two categories: companies that mostly require in-person relationships and interactions and those with technology viewed as critical to working from home or providing in-home entertainment.

In the first quarter, some hedge fund managers used hedging strategies such as selling stocks short (shorting) and holding more defensive-oriented securities relative to more economically sensitive ones in order to protect capital during the market downturn.

In the second quarter, hedge fund managers maintained their exposure to healthcare and technology stocks, while gradually investing more capital as global equity markets recovered after March 23. Some managers also rotated out of defensive stocks into cyclically-sensitive sectors most impacted during the economic downturn. This illustrates the nimbleness of hedge funds over the past few months and how quickly they can decrease, increase and change their market exposures in reaction to market dynamics.

Outside of U.S. large-cap stocks, many global capital markets remain below beginning year price levels and offer ample opportunities to purchase good companies at lower valuations.

Opportunities exist for hedge funds in 2020.

We expect market volatility will remain elevated as investors contemplate variables during the gradual recovery and highlight some attractive hedge fund investment opportunities. In hedged equity, we continue to like hedge funds that invest in the Technology and Healthcare sectors, where advancements drive changes that reshape industries. The velocity of change results in disruption and hedge funds may profit by holding the securities of companies expected to succeed and selling short securities of companies expected to struggle.

In hedged fixed income, strategies such as litigation finance and insurance-linked securities offer a favorable investment opportunity. We find these strategies attractive because each has little to no correlation to public markets and economic cycles. In addition to providing diversification benefits, the strategies operate in markets considered inefficient relative to global public markets and provide investors with unique risk and return profiles. For instance, insurance-linked securities are expected to provide a higher yield than what is available through traditional bonds, in addition to modest capital appreciation similar to private debt.

Private markets

Private markets exhibit lower volatility and active management adds greater value during slower economic conditions.

Private market returns typically experience lower volatility than public market returns. Buyers and sellers set public securities prices daily throughout a market session, while appraisers calculate private market valuations on a quarterly basis. In other words, private market valuations are determined based on a number of factors, such as free cash flow and comparable company transactions. This also means that private market returns reflect the fundamental condition of the business on the date of valuation and are not subject to the frequently changing investor sentiment reflected in the public markets. As a

result, private equity has outperformed the S&P 500 Total Return Index in all 21 quarters that index returns were negative going back to 2001.

Private market investment managers take an active business management approach. This approach is one of the primary drivers of outperformance when compared to public markets and even more relevant during slower economic conditions. Active business management capability adds even more value during slowdowns — funds raised during the technology bubble's collapse in 2000-2001 and the financial crisis of 2008-2009 remain the highest-performing funds since 1994. Elements of active management include better governance, business operations expertise and access to capital that private market investment managers offer to their portfolio companies. For example, if a portfolio company is facing cash constraints, the investment manager can help raise additional financing through their relationships or advise on cash conservation measures. In other instances, investment managers can add value by helping a portfolio company adjust their sales model from in-person to an online format by leveraging expertise from other businesses that the manager has invested in.

We continue to see opportunities in private equity and private debt.

As companies face changing conditions, private equity investors with operational expertise can provide capital and share business best practices. Another angle that private equity investors can capitalize on is consolidation

within fragmented industries that increase scale and margins. We believe consumer and business digitization is a trend that is here to stay and will become more pronounced as competitive pressures grow on businesses and the next generation of digitally native consumers come online. Healthcare is experiencing its own innovation cycle, enabled by significant advancements in technology, better understanding of disease pathways and a more supportive regulatory environment. These trends will continue to present opportunities in private equity for the foreseeable future.

The share of covenant-light loans — loans that have limited protections for the lender — increased to 82 percent of total outstanding private debt in 2018 from 16 percent in 2008. When businesses face deteriorating financial positions, these lenders will have limited recourse in trying to recover their loan principal. The broad-based slowdown in business activity during an economic slowdown or contraction can compound this issue. Under such circumstances, opportunistic private debt investors can find a number of loans trading at a discount to their face value. However, distress-focused funds have raised large pools of capital recently and may not deliver promised returns due limited opportunity in the larger and more liquid end of the market that has recovered faster and is more competitive than during prior slowdowns. More nimble private debt managers with flexible mandates and smaller funds focused on the less liquid direct lending market may find good businesses in need of restructuring or willing to pay higher interest for debt financing.

This commentary was prepared in June 2020 and represents the opinion of U.S. Bank Wealth Management. The views are subject to change at any time based on market or other conditions and are not intended to be a forecast of future events or guarantee of future results and is not intended to provide specific advice or to be construed as an offering of securities or recommendation to invest. Not for use as a primary basis of investment decisions. Not to be construed to meet the needs of any particular investor. Not a representation or solicitation or an offer to sell/buy any security. Investors should consult with their investment professional for advice concerning their particular situation. The factual information provided has been obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness. Any organizations mentioned in this commentary are not affiliated or associated with U.S. Bank or U.S. Bancorp Investments in any way.

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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 **S&P 500 Total Return Index** includes the same stocks but include the reinvestment of dividends. 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.

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). **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.