COVID-19 deaths have surpassed 1 million worldwide, highlighting its magnitude in 2020. Our hearts are with all of those impacted by the virus, especially those who have fallen ill and the healthcare industry professionals working to care for them.

COVID-19 is one of two themes dominating our fourth quarter outlook, along with election outcomes. Both feature uncertainty and forecasting difficulties. We retain a “glass half full” outlook despite these significant catalysts, viewing an eventual medical solution as the driving force behind our positive stance. Supportive central bank policy, gradual economic recovery in key geographies, and pent up consumer and business demand could unlock values in asset categories subdued by current challenges.

That said, several categories have already discounted positive future outcomes ahead of a full economic recovery. Equity market sectors that have drawn interest due to pandemic business model resilience, along with bond categories aided by stimulus, could be vulnerable should valuations come into question. An adverse election outcome, medical progress setbacks, and stagnant economic growth could all anchor asset prices. In the sections below, our investment team members outline their views across asset classes and geographies. While it is cliched for an advisory firm to promote diversification, the upcoming quarter will likely have several ebbs and flows that a well-constructed portfolio in concert with your unique financial circumstances can help endure. As always, we will keep you apprised of our views and we appreciate your trust.

Global economic views

Reopenings have led to a global economic recovery, though growth is flattening into year-end.

The global recession yielded to recovery as the world reopened after shutdowns combating the coronavirus pandemic. High frequency economic data rebounded from second quarter lows, although the absolute level of activity is well below the pre-pandemic pace. The success of the return to
school and the U.S. election season uncertainty are key swing factors for the pace of the gradual recovery in coming quarters. A widely distributed medical vaccine or therapy is a prerequisite to recover economic activity lost since the end of 2019. The massive scale of current government spending and global monetary authority stimulus measures is insufficient to bridge the current gap. Our expectation is for modest global economic growth well into 2021 as the global economy heals from business impairment and vast unemployment.

**Half the jobs have returned, but recovery progress is likely modest from here.**

The U.S. recovery is well underway, with half the 21 million people who lost jobs in March and April back at work by the end of August. The $2.2 trillion Coronavirus Aid, Relief and Economic Security (CARES) Act provided stimulus funds equivalent to 11 percent of annualized second quarter gross domestic product (GDP) for the United States. The funds supported unemployed consumers and business funding in a time of economic shutdown. Looking through year end into 2021, the swing factor on the magnitude of economic growth is likely to be around a medical solution to the coronavirus and the pace of reopening around the country. Current data indicates the absolute level of economic activity remains below first quarter 2020 pace. Coming quarters are likely to see a moderation of the growth trajectory. Consumer price inflation has been accelerating since May, with a year-over-year increase of 1 percent through July. As stimulus from the CARES Act stimulus and Federal Reserve (Fed) work their way through the economy, price inflation is likely to accelerate, perhaps nearing the Fed's inflation target (2 percent) late next year.

**Uneven foreign recovery should continue, with China likely to maintain a lead in growth.**

Economies outside the United States have suffered as well. Recessions plagued major economies in the first and second quarter, including China, Europe, Japan, South Korea, India and Brazil. China and South Korea were among the first to reopen and lead the recovery. Other major economies shut down later, and recessions lingered through the second quarter for Europe and Brazil and likely into year-end for India and Japan. Despite significant stimulus measures by global central banks, the global economy is likely to continue in this multi-speed recovery ahead of a global medical solution for the coronavirus. Economic growth normalization is likely to continue in China and South Korea. Trends are likely to be more modest in Europe and Brazil, since their economic reopening remains sensitive to coronavirus infections. India continues to struggle with growing coronavirus infections and will likely lag other economies into year-end. Japan entered a recession in the fourth quarter of 2019, just before the coronavirus hit their economy. While Japan will eventually recover, its growth rate is likely to remain quite modest as the economy awaits new reforms to stimulate the economy.

**Equity markets**

**We are maintaining our “glass-half-full” orientation heading into year-end.**

Supportive monetary and fiscal policy, medical progress toward a COVID-19 vaccine and a favorable fundamental backdrop anchored by restrained inflation are among factors supporting our glass half-full equity outlook. However, we expect volatility to remain elevated into the new year, following the national election outcomes and for as long as the duration and impact of COVID-19 remain unknown.

Additionally, we are seeing indications of improving economic conditions both in the United States and abroad. The dollar has trended lower in recent weeks relative to currencies of our trading partners, benefiting U.S. exporters while serving as an indicator of global economic healing. This bodes well for the pace of earnings growth in 2021.

Along with an improving economy, benign inflation and low interest rates provide valuation support while serving as the basis for higher stock prices. Inflation is currently trending above the yields of the 10- and 30-year Treasury bond, meaning real interest rates, or interest rates less the rate of inflation, are negative. When real interest rates are below zero, the value of cash flows — even those that investors may realize far off in the future — goes up. This negative real yield environment, occurring both home and abroad, in our view contributes to U.S. equities’ continued attractiveness.
Information Technology has become the new defensive sector and e-commerce is gaining in popularity.

Technology is about change and COVID-19 has accelerated the need for 24/7 connectivity, mobility and all things internet-related. Cloud computing, artificial intelligence, machine learning and e-commerce are among factors fueling the race toward digitalization and the overall performance of the Information Technology sector. We see these trends continuing into 2021 and beyond, supporting the notion that Information Technology and related industry groups have become the new defensive sector (one that consistently delivers stable and predictable earnings both in good and bad times).

E-commerce is clearly gaining in popularity, driven by the internet’s convenience, innovation and disruptive nature. Importantly, some retailers are positioned better than others for success in this new normal. We consider best-in-class operators to be those with an internet presence that also promote in-store traffic and personal touch.

Energy, Financials, Real Estate and Utilities, traditionally among defensive-oriented sectors, have lagged in 2020. The COVID-19 pandemic and associated destruction to economic growth has clouded the visibility of these and other sectors, thus positioning them to be less defensive and more cyclical — increasingly sensitive to the business cycle.

Our foreign developed equity outlook remains relatively subdued across both near- and longer-term time horizons.

Strong monetary and fiscal policy action, restrained inflation and low interest rates support foreign developed equities’ near-term growth prospects. We respect the recent rally in equity prices, with economic recovery sectors such as Materials, Consumer Discretionary and Industrials posting particularly strong quarterly gains. However, virus resurgence is dampening Europe’s near-term economic outlook while structural issues such as challenging demographics and less growth-oriented equity markets remain longer-term headwinds for the region as a whole. This leads us to maintain a strategic bias toward domestic equities over time.
The economic backdrop is generally positive, though the recovery pace is slow.

Muted inflation and low interest rates continue to provide valuation support for foreign developed equities, while the ongoing dollar decline (3.5 percent in the third quarter) continues to provide a positive tailwind for U.S. investors’ foreign holdings. Meanwhile, the European Central Bank, Bank of England and Bank of Japan remain committed to providing aggressive monetary support and the European Commission approved a substantial fiscal package of grants and loans to European countries hardest hit by COVID-19, repaid with common market tax proceeds. However, the economic recovery across Europe, Australia and Far East (EAFE) countries has been shallower than the pace in the U.S. and foreign emerging economies. We see this evidence in a relatively more modest improvement in our proprietary foreign developed economic Health Check from its low readings in March and April.

For now, virus resurgence is dampening near-term growth prospects. At the end of the second quarter, new COVID-19 cases across foreign developed countries averaged around 4,500 per day compared to more than 40,000 in the United States. As we approached the third quarter’s end, average daily cases surged to 40,000, with Spain and France accounting for nearly two-thirds of foreign developed cases. Virus growth resurgence is hampering reopening efforts and dampening growth prospects just as the European economy recovers from a 15 percent second quarter economic decline, which was far deeper than the U.S.’s 9 percent annual contraction.

Relative equity market performance reflects a shallower economic recovery.

Foreign developed equities delivered broadly positive performance in the third quarter, rising 4.8 percent and with nine of 11 economic sectors posting positive returns. Overall, economic reopening and recovery sectors fared best, with Materials, Consumer Discretionary and Industrials pacing quarterly gains. However, quarterly performance was more modest relative to U.S. and emerging market indices, reflecting a shallower economic recovery. Analysts continue to revise 2020 earnings estimates lower, reflecting the region’s more muted economic growth prospects. Rising equity prices and falling corporate earnings estimates have combined to drive equity market valuation well above historical averages, which causes a wedge or gap to open between economic and corporate fundamentals and capital market performance that investors must resolve through time.

Longer-term, the region’s demographics and the index’s composition remain growth 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.

Foreign emerging market equities’ risk and reward appear reasonably balanced through the end of the year.

Thematic considerations, a supportive macro-economic backdrop and China’s ongoing economic recovery support our balanced outlook. The “phase one” trade deal between the United States and China remains intact, despite heightened rhetoric and recent U.S. policy actions. In the absence of a vaccine, the coronavirus outbreak continues to spread across emerging markets, with Brazil and India representing the new global epicenters. China’s continued post-lockdown economic recovery and emerging policymakers’ efforts in bridging the gap to an anticipated 2021-2022 corporate profits recovery remain the major near-term considerations.

The economic backdrop for emerging markets remains supportive despite some geopolitical challenges.

Inflation, a historical scourge of emerging market economies, remains contained. This leaves central banks free to pursue aggressive monetary policies. The U.S.-China phase one trade deal continues to move forward despite China falling behind in its commitment to purchase U.S. agricultural products and recent U.S. actions against several prominent Chinese technology firms. Meanwhile, ongoing dollar weakness continues to benefit emerging market investors in two ways. First, it decreases the dollar-denominated costs for emerging market borrowers, supporting domestic growth prospects and aiding corporate 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; despite a recent flare-up in South Korea, it appears mostly contained as those economies continue to reopen. Meanwhile, the virus continues to spread across high population density countries in Latin America and South Asia, where governments’ ability to manage health and societal impacts remains unclear. India (80,000 average new daily cases) and Brazil (30,000) represent the new global pandemic epicenters, accounting for nearly one-half of all new global cases.

**Strong third quarter equity performance recovered all of 2020’s earlier losses.**

The MSCI Emerging Markets Index was up sharply in the third quarter, rising 9.6 percent and recovering all of 2020’s calendar losses. While eight of 11 economic sectors posted positive returns, Consumer Discretionary (27 percent), Technology (21 percent) and Materials (12 percent) generated outsized quarterly gains. The strong price performance has driven equity market valuation well above historical averages, with investors’ focus shifting to an expected 2021-2022 corporate profits recovery, viewing 2020 as a fundamental gap year.

China’s ongoing economic recovery remains key and its economy, the earliest impacted by COVID-19, continues to recover. Our proprietary China economic Health Check ended the third quarter at the year’s highest reading, substantially recovering from March’s all-time low. China’s stock markets have responded in kind; the Shanghai Shenzhen 300 Index rose 11.2 percent and reached a five-year high during the quarter. Taiwan’s economy has also rebounded to a 2020 high, according to our economic Health Check, while South Korea’s recovery has been somewhat shallower. Together, these three East Asian countries — among the earliest impacted by COVID-19 — represent nearly two-thirds of the MSCI Emerging Market Index and their ongoing economic recovery remains key to our balanced emerging markets equity outlook.

**Fixed income markets**

**Years of low rates favor high-quality corporate and municipal bonds.**

U.S. Treasury and investment-grade corporate and municipal bond yields, which move in the opposite direction of bond prices, remained low in the third quarter. Corporate and municipal bond yields fell modestly in the quarter, meaning higher prices and better performance. Yields compared to Treasuries are near normal historical levels across most corporate and municipal bond categories, providing incremental income over low-yielding Treasuries. Stimulus measures and improving market sentiment drove volatility from time to time, which we expect will persist due to uncertainties such as the back-to-school policies, vaccine and rapid test development and the U.S. elections in November.

The Fed continues to play a large role in the recovery. Low interest rates and bond purchase programs are likely to last for years, solidified by a mid-September Fed policy meeting. Its updated policy framework favors allowing inflation to overshoot its targets before tightening policy, a further tailwind for bond investors. Longer-term Treasury yields are more dependent on the recovery in economic growth and inflation expectations, investor demand for rapidly growing new Treasury bond issuance and the Fed reaction if yields rise quickly.

**Opportunities in U.S. corporate bonds are skewed toward higher quality bonds.**

Investment-grade and high yield corporate bond yield spreads (corporate bond yields compared to Treasury yields) are near historical median levels, having fallen in the third quarter. Investment-grade corporate defaults should remain insignificant, reflecting large fiscal and monetary stimulus measures and ample ability to issue new debt, as evidenced by the recent record pace of bond issuance. Strong liquidity metrics and cash balances on corporate balance sheets offset concerns around elevated indebtedness, providing confidence that high-quality companies can bridge potential funding gaps until operating cash flows improve.

Riskier high yield corporate bond spreads are near historical norms, with some outliers in high risk industries.
The uneven recovery in high yield bond prices means prohibitive funding costs for the weakest credit profiles and hardest hit industries. On balance, high current income provides a degree of cushion against the disparate recovery among sectors and ongoing economic uncertainty.

**Municipal bonds continue to provide a valuable source of nontaxable income.**

Municipal bonds continued to bounce back after struggling early in the year. Investors are supported by a number of factors: Incremental tax-equivalent yield, near-normal valuations, Fed municipal bond buying programs and likely fiscal policy support. Risks have been moderated by reductions in state and local government headcount and some services, but budget gaps remain, indicating some volatility may persist.

Lower-quality high yield municipals represent a host of esoteric bonds, with less exposure to traditional state and local government borrowers. Around half of all defaults and other incidents of distress so far this year occurred in continuing care, assisted living and hospital bonds. Another 20 percent occurred in economic development bonds ultimately backed by private companies. We see some value in the yield that high yield municipal bonds offer. However, we caution investor restraint, because additional distress is likely among weaker issuers, and support from the Fed focuses on traditional investment-grade issuers.

**Real asset markets**

**Seismic demand shifts are affecting traditional property types.**

Most real asset sectors trailed the S&P 500 during the third quarter. Non-traditional property types, cell towers and data centers were the best performing sub-sectors within real estate investment trusts (REIT). More traditional property types such as retail, office and hotels underperformed. The non-traditional property types continue to exhibit positive operating performance, whereas more traditional property types have been weaker. In fact, second quarter income, less certain expenses for all property types, was negative in the second quarter, for the first time in a decade, with retail properties seeing that income measure slide 30 percent. Industry selection remains key for investors across real estate given the headwinds for certain segments.

**Increasing inflation expectations are positive for commodities.**

Commodity markets rebounded strongly in the third quarter as the economy recovered and inflation rose. Crude oil was an exception, with major global oil exporters agreeing to taper its production cut and Saudi Arabia reducing prices for forward delivery. In the United States, low prices forced production shutdowns, eliminating a quarter of peak U.S. oil production. Going forward, these supply cuts should provide a tailwind to prices though still high inventories and modest demand curb the potential for gains.

Both industrial and precious metals saw solid performance in the third quarter and factors appear to be in place for higher prices into 2021. Metals benefited from lower interest rates and better economic growth. With industrial metals, like copper, growth has absorbed spare production capacity, which could lift prices if global economic growth returns to more normal levels. Precious metals, especially gold, rose due to the declining value of the U.S. dollar and increasing inflation expectations. We expect gold prices to remain firm as interest rates stay low.

**Alternative investments**

**Markets recovered over the past six months, but hedge fund managers’ mindsets have changed little.**

Hedge fund managers continue to take advantage of market dispersion among sectors and companies both negatively and positively impacted by the COVID-19 effect on global economies. While most global capital markets have recovered from the March and April lows, skilled investors can still find opportunities to own quality companies with favorable growth characteristics trading below the prices of early 2020. Looking ahead, we expect hedge fund managers will continue to hold the Technology and Healthcare securities responsible for the market rally in the second and third quarters while also keeping an eye on the upcoming election and the potential for changing
fortunes across sectors and individual companies. In a virus-constrained environment, these two growth-oriented sectors also present attractive acquisition targets for larger companies and Special Purpose Acquisition Companies (SPACs). Institutions form SPACs to raise capital for the specific purpose of acquiring existing companies. Just this year through July, more than 50 SPACs formed in the United States, many of them hedge fund-originated, and raised more than $33 billion for the purpose of acquiring existing companies.¹

In hedged equity, scarce growth and disruptive technology remain ongoing investment themes. Hedge funds that invest in the Technology and Healthcare sectors continue to have positive growth prospects, where the velocity of change continues to disrupt the status quo and create differentiation between winners and losers. Managers can quickly respond to changes within industries and sectors and adapt to the changing investment landscape due to their ability to both buy companies with attractive prospects and sell short the company shares they view as disadvantaged. Most importantly, hedge funds are not as sensitive as traditional fund managers are to benchmarks such as the S&P 500 Index. This allows them to be more dispassionate regarding a company’s history, more indifferent to its weighting within an index and more focused on a company’s future prospects.

COVID-19 and governments’ responses triggered many shocks to various sectors and industries in ways investors could not anticipate. Companies with strong e-commerce capabilities and those that facilitate working remotely, such as cloud computing, data management, data centers and cyber security experienced stock increases usually not seen so quickly after a severe market drawdown. Based on recent reporting by investment companies that track securities purchased and sold by hedge funds, demand for technology stocks continues.² Meanwhile, demand for stocks sensitive to the economic cycle is tepid due to the uncertainty with the economy, virus and how the November election will play into the economy.

Based on guidance from the Fed, we expect low yields for the foreseeable future in hedged fixed income. Low yield expectations for traditional bonds in public markets make unique credit strategies such as litigation finance and insurance-linked securities more attractive. Insurance-linked securities offer a higher yield than traditional credit investments but have a different return profile due to the type of weather-related risks underwritten by the bonds. We expect returns generated by litigation finance investments to be similar to private equity, but with a risk profile dependent on the litigation cases it underwrites. However, both have little to no correlation to public markets and economic cycles. Both types of investments provide the opportunity to outperform traditional credit investments and a diversification benefit difficult to find in the public markets.

Private Markets

The search for growth favors private market investors.

In our third quarter outlook, we discussed how private market returns typically experience lower volatility than public market returns and that private market investment managers take an active business management approach. This active management capability is one of the primary drivers of outperformance when compared to public markets. Active management can add value throughout the life cycle of an investment, from sourcing investment opportunities in businesses to helping grow revenues and increase profitability of those businesses and finally by orchestrating an optimal exit of the investment. Exits occur through the sale of the business to another buyer, an initial public offering (IPO), or other accretive events. A rising stock market is favorable for IPOs, and investors’ search for growth has led to some of the best performing IPOs in recent history.

¹ Yahoo Finance, August 28, 2020 “SPACs have raised $33B in 2020 vs. $13B in 2019”
² Goldman Sachs Prime Services Monthly: August 2020 – Hedge Fund Performance and Positioning
The average one-day gain for IPOs in the United States so far this year is 23.7 percent, compared to 12.8 percent in 2019 and 13.4 percent in 2018, according to data provider Dealogic. Private market investment managers are taking advantage of this environment to exit some of their mature investments — especially in software companies that are experiencing double-digit revenue growth. We expect this trend to continue as long as there is public market investors’ appetite for businesses growing in an otherwise virus-constrained growth environment. This is one more way for private market investment managers to continue to add value and drive returns for investors.

We continue to see opportunities in private equity and private debt as we look toward year-end and into 2021.

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 in the event the borrower is unable to repay the loan, increased to 82 percent of total outstanding private debt in 2018 compared to 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 to limited opportunities 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 September 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.
U.S. Bank, and representatives do not provide tax or legal advice. Your tax and financial situation is unique. You should consult your tax and/or legal advisor for advice and information concerning your particular situation.

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. The Shanghai Shenzhen 300 Index is a market capitalization-weighted stock market index designed to replicate the performance of the top 300

**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 is 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 changes 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.