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Capital Perspectives

Monthly investment analysis and insights from Wilmington Trust Investment Advisors

ON THE RECORD

From Pandemic to Endemic: The Inflation Equation

In this issue:

Tony Roth
Chief Investment Officer

As we begin 2022, our economic and market views hinge on the interplay among the public health situation, inflationary pressures, and monetary policy. The COVID-19 Omicron variant has thrown yet another roadblock into our earlier expectations for economic normalization and recovery of the ailing services sector. However, the latest viral strain will serve to delay, not derail, our expectations for a reversal in the relative dominance of the goods side of the economy over services. Moreover, we believe Omicron may represent the final major COVID surge, leading to an alleviation of the key trends that have caused the extreme inflation we are now experiencing in the U.S. and to a lesser degree, elsewhere. This outcome will not come fast enough however to forestall what we now see as the Federal Reserve working aggressively to tighten monetary policy in a bid to tame this largely unforeseen inflation. We believe the Fed's efforts will succeed without breaking the economic cycle.

It's all about inflation

The inflation trajectory is the single most important variable shaping the economic and market outlook in the year ahead. The inflationary surge experienced in the fourth quarter of 2021 was driven by the demand and supply sides and has weighed on consumer and business sentiment alike. We expect an abatement of pressures on both fronts as we move through the first half of the year, particularly if Omicron is the last major variant that allows us to transition from pandemic to endemic, as some experts and medical studies suggest. In fact, the dramatic upside surprises to inflation experienced in 2021 could be replaced by downside surprises as we move into the second half of 2022.

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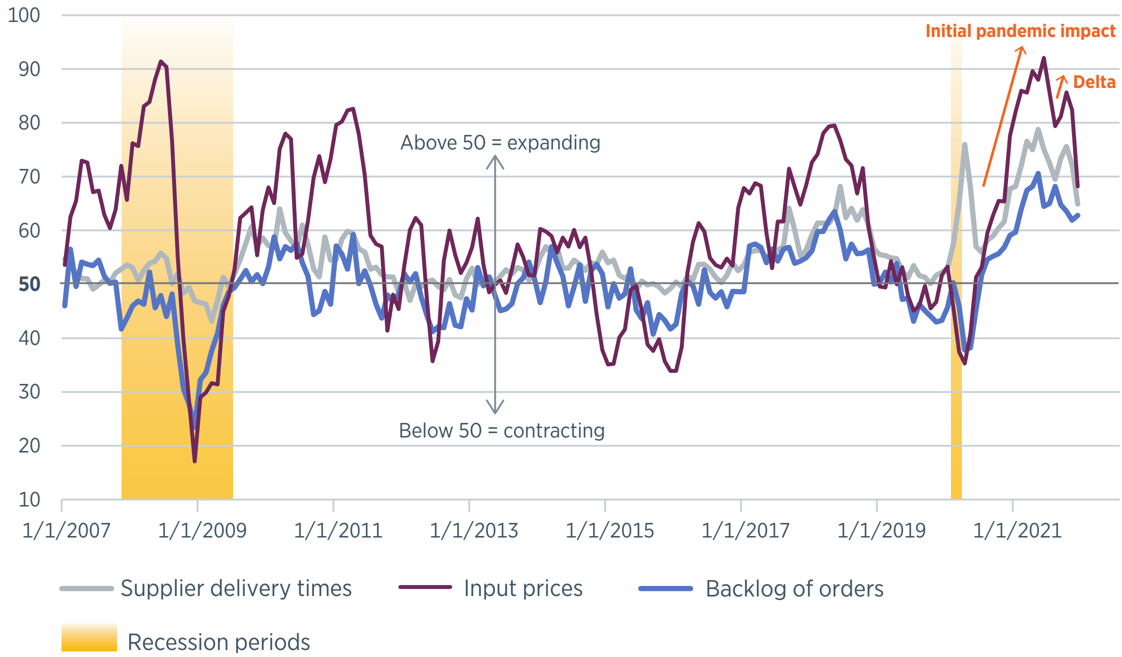
Figure 1

Supply-chain pressures showed signs of peaking prior to Omicron

Institute for Supply Management manufacturing purchasing manager index subcomponents



Data as of December 2021.

Sources: Institute for Supply Management.

The historic tightness of the labor market is seen also in the near-record number of job openings and all-time high number of workers voluntarily quitting jobs.

A long-awaited rotation from goods consumption to services is a pivotal element impacting the demand and supply sides of the inflation equation. This rotation has been delayed time and time again, but we expect it to finally take hold in 2022 as consumer savings levels normalize and the struggling service sector fully reopens. This would relieve the unprecedented pressure on the supply chain from a stimulus-funded surge in goods consumption, which was then compounded by labor shortages. Prior to Omicron, supply-chain pressures were showing signs of peaking, with extended supplier delivery times, longer order backlogs, and receding input prices (Figure 1). Omicron will stall that recovery, but the speed with which the variant is running its course along with its reduced lethality suggest the setback will be short-lived.

"Help wanted" ... Anyone?

The other critical piece underlying the inflation puzzle is the labor participation rate, which measures the percent of the working-age population that is employed or actively looking for a job. This measure is depressed versus prepandemic levels. The December payroll report revealed an unemployment rate of 3.9%—just 0.4% above the 50-year low set in January 2020—but this captures only those unemployed who are looking for work and misses the fact that the labor pool has shrunk to the tune of 2.3 million people versus December 2019. In other words, the lower labor participation rate suggests an even tighter labor market than is implied by the current unemployment rate. The historic tightness of the labor market is seen also in the near-record number of job openings and all-time high number of workers voluntarily quitting jobs (Figure 2). Most importantly for investors, businesses are

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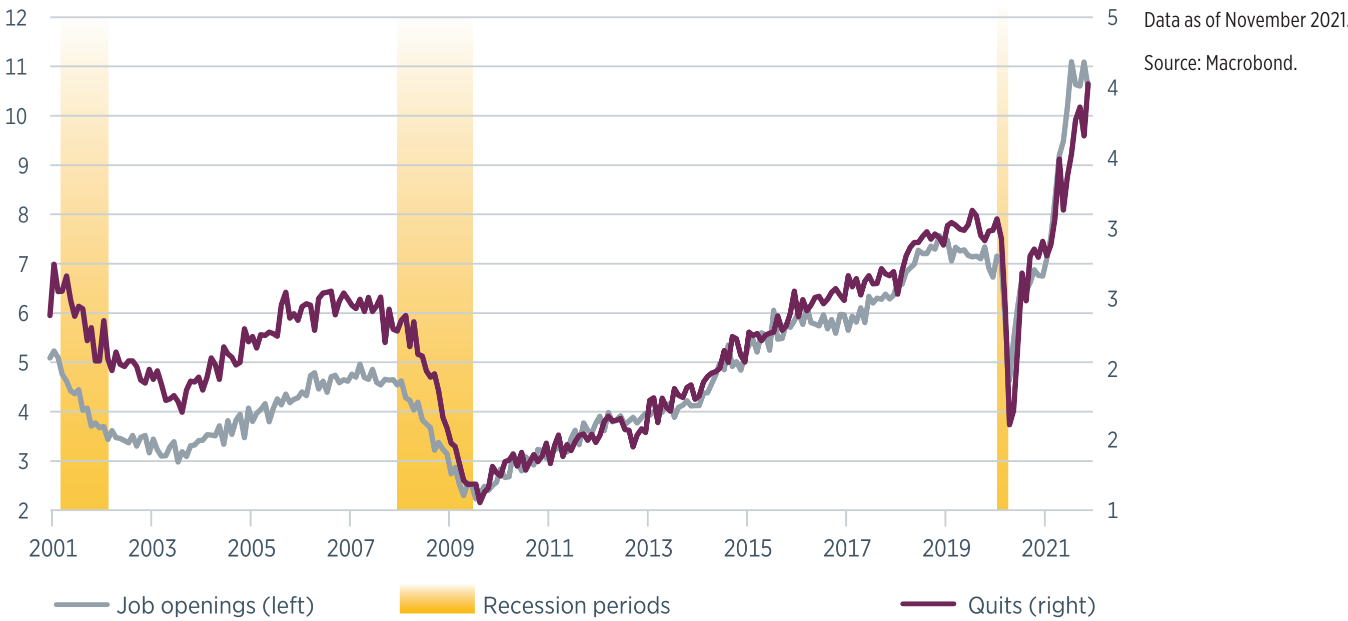
Figure 2

Record number of workers quitting jobs and elevated job openings point to tight labor market

(Millions of workers)



Reduced class sizes for preschools and daycares, unpredictable quarantine requirements, and virus concerns have weighed disproportionately on the female labor participation rate.

paying more to attract workers and passing this wage inflation through to consumers. If this continues, it could result in even higher inflation that starts to crimp consumer demand and forces the Fed to step in more aggressively.

The labor participation rate has started to show modest improvement. We expect this to continue as Omicron recedes—after, perhaps, a bump due to holiday gatherings and notwithstanding a likely setback in January payroll data due to the current wave. This would mitigate inflationary pressures from wage increases. There are three phenomena holding back labor participation that we expect to reverse:

- **Retirements** – We have seen an acceleration of retirements in the wake of virus concerns, vaccine mandates, and remarkable stock market returns. What we have *not* seen is the normal "churn" of retirees as a portion of the retired population returns to the workplace, often in a different industry or as owners of their own business. We expect to see some of these "temporary retirees" pulled back into the labor pool this year as the virus abates.
- **Childcare challenges** – Reduced class sizes for preschools and daycares, unpredictable quarantine requirements, and virus concerns have increased the already daunting task of finding and maintaining adequate childcare. This has weighed disproportionately on the female labor participation rate for ages 25–54, which is a full 1.3% below December 2019 levels, compared to 0.9% for men. This year should see a meaningful recovery in the female labor participation rate.
- **YOLO** – "You only live once" is a phrase we are applying to describe the labor market and the rethink of professional priorities due to the pandemic. Elevated consumer savings have given people a cushion to explore different career paths,

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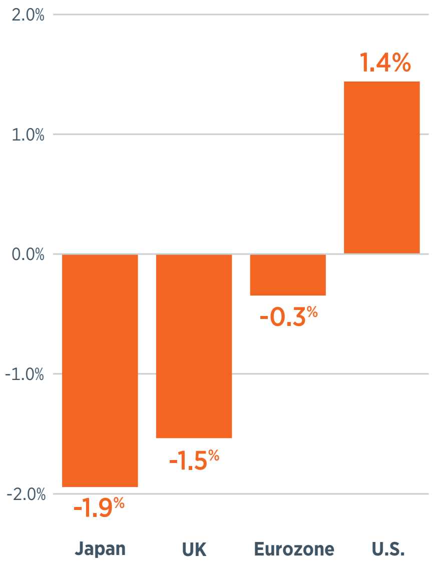
Figure 3

International developed economies have room for recovery

(% change in GDP from 4Q 2019 to 3Q 2021



Data as of 3Q 2021.

Source: Macrobond.

That the Fed seems open to allowing its balance sheet to shrink as early as this year should in our view provide further evidence that it is taking the inflation threat with sufficient gravity and will not allow it to spiral out of control.

start their own businesses, or even take a hiatus from work. In the absence of further fiscal stimulus, a normalization of savings and the simple passage of time could pull more people back into traditional work.

This brings us to the conclusion that inflationary pressures will moderate in 2022 to around 3% year over year on the headline Consumer Price Index (which includes the more volatile food and energy prices) by the end of 2022. (Note: This does not mean price levels will fall, but rather the rate of price increases will moderate.) If we are correct, then the first rate hike could come as early as March with a moderate one-hike-per-quarter pace thereafter. The market's current pricing of three rate hikes in 2022 fits with our expectation. A much more aggressive pace would in our view require inflation to remain elevated at current levels, which we are not forecasting.

The principal risk to our outlook lies in the participation rate failing to recover and wage inflation continuing to feed through to consumer prices for goods and services. An additional key variable is how the Fed will handle its $8.8 trillion balance sheet. Recently released minutes of the Fed's December meeting reveal this topic is very much on the minds of the committee members. While the group seems to agree rate hikes should come first, there appears to be an inclination to start balance sheet reduction in quicker succession than the nearly two-year gap in the previous tightening cycle. That the Fed seems open to allowing its balance sheet to shrink as early as this year should in our view provide further evidence that it is taking the inflation threat with sufficient gravity and will not allow it to spiral out of control.

Anticipating a passing of the baton

Monetary policy tightening and a net fiscal drag paints a less supportive picture in 2022 than in the prior year for risk assets. However, we remain constructive on equities and expect to see equity returns outpace bonds over the next 12 months. The first year of the Fed's rate-hike cycle is generally favorable for equities. The S&P 500 has exhibited positive total returns in the first year of all of the last four rate-hike cycles, with an average return of 5.8%. Expected earnings growth of 8%–10% for U.S. large-cap equities, alongside modest contraction in the price-to-earnings multiple, would support mid-single digit equity returns. This return profile is well below the last-3-year average annual total return for the S&P 500 of 26% but still warrants an overweight versus our strategic benchmark. Meanwhile, we expect the 10-year Treasury yield to end the year between 2% and 2.25%. This outcome should favor the value factor over growth within equities and pressure bond returns. We currently hold a slight preference for value over growth in equity portfolios and a significant underweight to investment-grade municipal bonds versus our strategic benchmark.

We see more promising prospects for equity returns abroad, where we hold a larger overweight than to U.S. equities. In international developed economies like Europe and Japan, monetary policy is likely to remain relatively accommodative—partly

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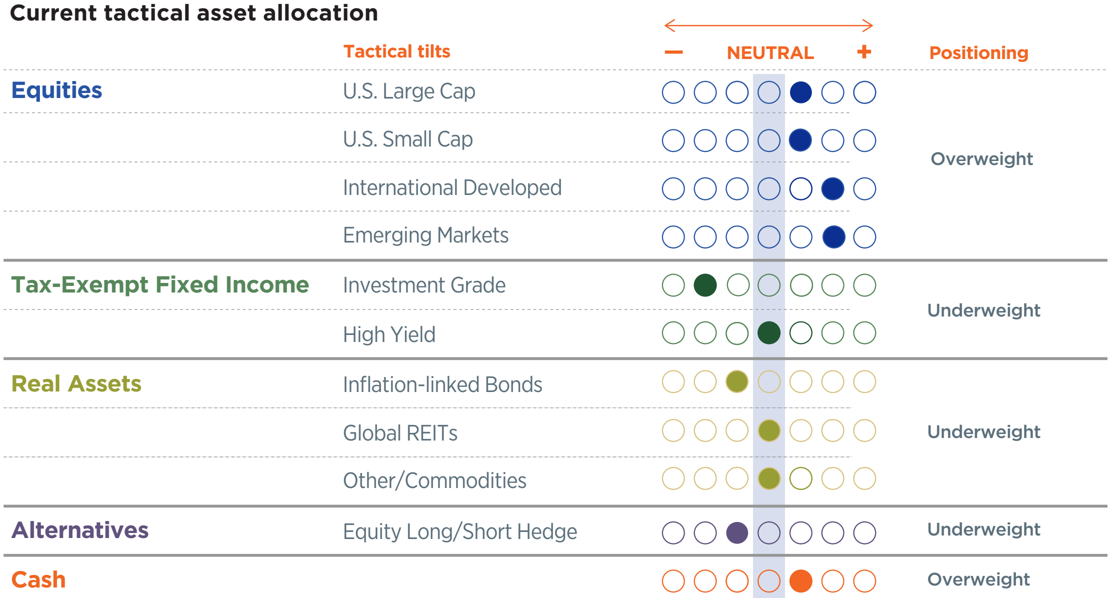
Figure 4

Current tactical asset allocation



TAA, or Tactical Asset Allocation, represents our current (9–12 month investment horizon) recommendation for each model strategy. The TAA is reevaluated monthly.

because the inflation scare in these areas is less pronounced than at home—while fiscal support is still on the upswing. The eurozone, Japan, and the UK have yet to return to prepandemic GDP levels, so arguably there is more ground left to cover in the economic recovery than in the U.S (Figure 3). The labor market in these regions has also been much less disrupted than in the U.S., and they are not struggling to the same degree with a shortfall in labor participation.

From a markets perspective, valuations of non-U.S. equities are very attractive relative to the U.S., and the cyclical tilt of European and Japanese equity markets should benefit from a global economic recovery. Currency does present a risk to U.S.-based investors. In 2021, the Bloomberg U.S. Dollar Spot Index appreciated 4.8%, and this acted as a drag on international equity returns converted into U.S. dollars. A stronger dollar going forward would present similar challenges. At the same time and offsetting this risk, a historically weak euro and yen benefit exporters and local currency returns for European and Japanese equities, respectively.

Emerging markets, where we also hold an overweight, struggled in 2021, weighed down by a strong U.S. dollar, high inflation, tightening monetary policy from central banks, and aggressive tightening of regulatory policy in China. Outsized risks remain, as they always do when investing in these countries—a key reason for a smaller allocation to emerging markets equities in our strategic benchmark than to developed markets equities. In addition, over the next 12 months, COVID will remain a pronounced risk to China's economic growth in light of the country's zero-tolerance COVID policy. We do however expect that the country's more recent regressive regulatory stance should soften somewhat ahead of the 20th Party Congress in the fall, where China's President Xi looks to further solidify power. Looking beyond

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China, a transition from pandemic to endemic would finally give traction to the global economic recovery, from which the broader emerging markets complex would benefit. Last, valuations for the asset class are depressed versus developed counterparts on a historic basis for a mid-stage global economic cycle.

To close, 2021 was very challenging for active management. The market chugged steadily upward, but under the surface experienced violent rotations between sectors and factors. Fund flows from the retail investment community into certain stocks like GameStop, AMC, and even Tesla decoupled valuations from fundamentals, making it difficult for active managers to keep up with the broader market. We see 2022 as an opportunity for asset allocators and active managers to take advantage of valuation dislocations and add alpha after fees. We will be monitoring and adjusting portfolios as necessary in an effort to give our clients the opportunity to benefit.

Best,

Tony

To hear more about what our experts expect for inflation and other unfolding trends as expressed in our 2022 Capital Markets Forecast, listen to these episodes of Tony's award-winning podcast, *Capital Considerations*:

"***An Economic Cycle Unlike Any Other***,"
where Tony is joined by Chief Economist Luke Tilley

and

"***The Adaptive Brilliance of Business***,"
with Head of Investment Strategy Meghan Shue

ASSET CLASS OVERVIEW

Hedge Funds

Jordan Strauss, CFA, Senior Portfolio Manager
Jessica Blitz, Research Analyst

AS OF DECEMBER 31, 2021

	Month	YTD	Trailing 12-month return
Global	0.07	3.65	3.65
Equity Hedge	2.65	12.14	12.14
Event Driven	-1.81	0.48	0.48
Macro	-0.87	-0.83	-0.83
Relative Value	-0.40	0.41	0.41

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

What we are seeing now

The commentary below is based on observations built from a variety of data sources, including manager letters collected by Wilmington Trust and information published by investment banks that together service and track a large portion of the hedge fund industry. The HFRX Index noted above, although industry standard, does not fully capture the full spectrum of fund returns across various strategies. The HFRX Equity Hedge Index, for instance, consists of only 17 funds that self-elect for inclusion, are open to new investors, and have at least $50 million in assets. Typically, the HFRX does a reasonable job of tracking industry performance, but in 2021, the HFRX diverged greatly from the returns that were reaped by many investors in this space, with higher reported returns in Equity Hedge and lower reported returns in Event Driven and Relative Value.

Hedge funds posted positive absolute returns across most strategies in 2021, while relative returns versus benchmark indices were more challenging. Though the market ended the year higher, it was a volatile journey and hedge funds struggled to keep up with gains amid rallies of "meme stocks" (which gained popularity from online platforms), global regulatory and geopolitical concerns, and continued COVID-19 scares.

Most funds lagged through year end, with few capturing large portions of market upside. Global funds captured ~45% of the MSCI ACWI upside through the end of Nov., while North American long/short funds captured only 28% of the S&P 500 upside during the same time period, despite higher leverage. Selection and factor exposures weighed on overall returns, having their worst year since 2010. Although most style factors weighed down alpha generation, value was the largest detractor by a sizable margin. Through year end, Event-Driven strategies dominated performance, though still lagged equity markets. Credit strategies also performed well, outpacing the median return of equity and macro funds.

Investors entered 4Q with a stable outlook. Net flows remained positive, nearing new highs. Interest in equity long/short strategies stayed elevated, and demand for Event-Driven and multi-strategy funds reached all-time highs moving into the end of the year.

What's changing

The winners of 2019 and 2020—long/short equity, tech/media/telecom, and health care-focused funds—all failed to keep pace with the broader equity market through 2021. Long/short equity generated the lowest upside capture ratio since data collection began in 2009, and health care funds finished the year with negative absolute returns. Emerging markets-focused funds, which also went into 2021 with high expectations, were similarly down for the year.

The year 2020 was the best on record for hedge fund performance, driven largely by positive net alpha. Net alpha turned negative in 2021, its worst year by a large margin. The top 50 crowded longs across North America, Europe, and Asia lagged relative to benchmarks—painful since crowding approached highs not seen since 2010. The top 50 crowded shorts all underperformed indices, though not by enough to offset underperformance in the long book.

What we expect

We believe major industry trends—emphasis on ESG considerations, performance dispersion, hedge fund market concentration, and fee compression—will continue for the foreseeable future. Despite near-term challenges overall, top performers have generated consistently strong returns over one-, three-, and five-year periods. We think with strong due diligence, investing in the right hedge fund may help provide a diversified return stream for investors and manage downside risk as displayed during the height of the COVID-19 selloff in the spring of 2020. Given record-high valuations in the equity market today, select hedge funds are well positioned to benefit from upswings and protect capital during dips, in our view.

Investment Positioning

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

Growth & Income

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

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

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

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

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

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

Source: WTIA.

Investment Positioning

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

Growth & Income

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

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

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

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

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

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

Source: WTIA.

Disclosures

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Some investment products may be available only to certain "qualified investors"—that is, investors who meet certain income and/or investable assets thresholds.

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

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

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

An overview of our asset allocation strategies:

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

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

Continued

Disclosures Continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Continued

Disclosures Continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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