WILMINGTON TRUST

MEMBER OF THE M&T FAMILY

October | 2022

Capital Perspectives

Monthly investment analysis and insights from Wilmington Trust Investment Advisors

ON THE RECORD

High Anxiety

In this issue:

Tony Roth
Chief Investment Officer

The last week of September was bookended by two events that raised market anxiety to cycle highs. First, Liz Truss, the new UK Prime Minister, announced regressive fiscal policies that seemed to be working at cross purposes with the UK monetary authorities. The sheer unorthodoxy of bringing stimulative fiscal policy in the form of tax cuts at a time of unprecedented inflation deeply unsettled UK currency (sterling) and government bond (Gilt) markets. The diminished confidence in UK policy institutions quickly spilled over to global financial markets.

Second, on September 30, the Federal Reserve's (Fed) preferred policy gauge, the personal consumption expenditures (PCE) inflation report, delivered higher-than-expected readings. These developments, together with further deterioration of the geopolitical picture surrounding Russia and Ukraine, led to broad turmoil equally in global currency, bond, and equity markets. For long-term investors, anxiety is understandably high as even leadership of the steadfast "60/40"[1] portfolio is in question. Asset class correlations have increased, resulting in both stocks and bonds underperforming in tandem.

Nonetheless, history has repeatedly shown that peak uncertainty rewards the resolve of long-term investors. After holding excess cash for the balance of the year, we are starting to see interesting opportunities emerge. Within equities, we are not yet leaning into risk by overweighting the asset class versus our strategic benchmark, but we are repositioning that risk by rotating out of international developed equities into U.S. large cap. Among more defensive assets—which, admittedly, have not defended this year as we all would hope—we are moving some cash into investment-grade fixed income, offering a much more attractive yield than we've seen in 13 years.[2] We expect that the coming months may offer additional opportunities to reposition portfolios for the year ahead.

Continued

[1] A portfolio representing a simple mix of 60% equities and 40% bonds, which is a common risk profile in the industry for investors seeking a balance of growth and protection in their portfolio.

[2] Bloomberg.

Figure 1

Strong dollar a headwind to earnings and international equities

Bloomberg Dollar Spot Index (% change, year over year)

Data as of September 30, 2022.

Sources: Macrobond, Bloomberg.

Yellow shading marks recessionary periods.

We continue to see significant strength on the part of the U.S. consumer, and the U.S. jobs market continues to deliver an expanding base of employment.

The Fed's sledgehammer

The Fed is governed by a dual mandate: stable prices and full employment. However, with inflation persistently high, the Fed must choose, and choose they have. Inflation is the priority, even at the cost of jobs and overall economic growth. Members of the Fed have been very vocal, and they are all speaking from the same script. Hawkish rhetoric has reached a feverish—perhaps peak—pitch.

The Fed's main monetary policy tool, raising the federal funds rate, is often likened to a sledgehammer. The Fed can control the fed funds rate, but this tool is blunt. That singular policy rate does not immediately or directly affect borrowing costs. Instead, the fed funds rate influences interest rates across maturities and markets, which both drive and derive from decisions by investors, banks, consumers, and businesses. The effects can be lagged.

Like someone who may be attempting a delicate job with a sledgehammer, things can break. There is an increasing risk that the Fed's actions will in fact cause something to "break," if not in the real economy, then perhaps in the financial system. In our view, while the risks of a recession in the next year have risen, they remain under 50%. We continue to see significant strength on the part of the U.S. consumer, and the U.S. jobs market continues to deliver an expanding base of employment. However, there are a number of imbalances in global financial markets that we must monitor quite closely as the Fed continues its anti-inflation campaign.

The first chinks in the armor are being seen in the currency market. The Fed is indeed moving fast, and U.S. interest rates are elevated versus the rest of the developed world. Capital has flown into the U.S., despite all of the country's issues, because the U.S. appears to be the best house on a bad block. This has driven the dollar to gains of 15% in just one year[3] (Figure 1). While a strong dollar can be helpful

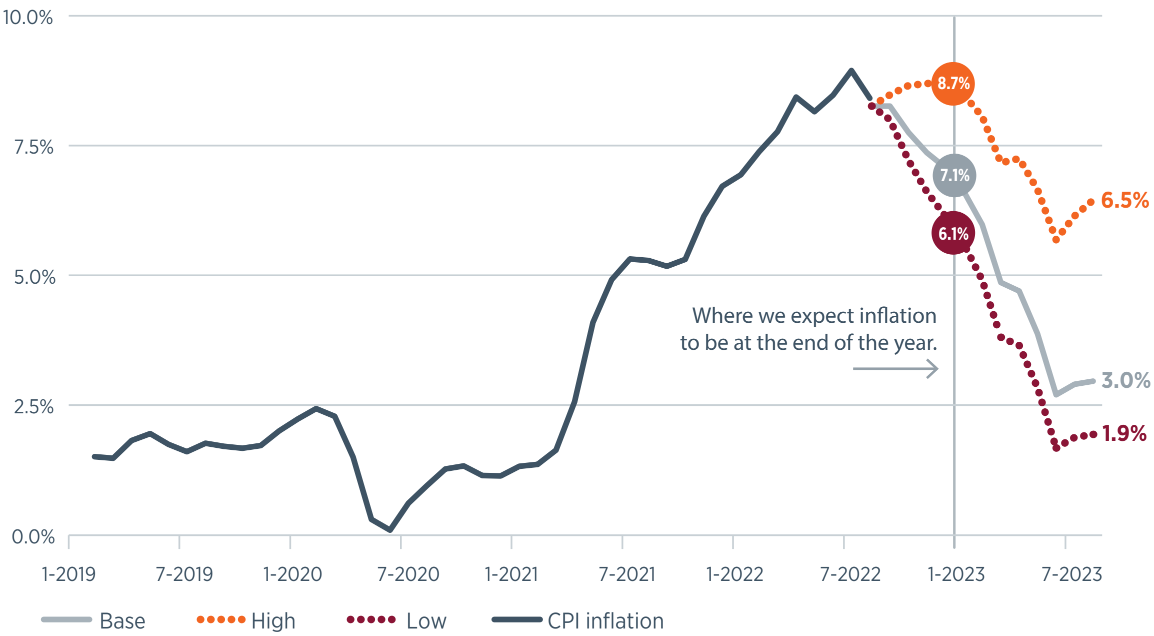
Continued

[3] According to the Bloomberg Dollar Spot Index, as of September 30, 2022.

Figure 2

U.S. inflation to moderate but remain elevated

Consumer Price Index (CPI) Inflation (% change, year over year)



Data as of September 30, 2022.

Sources: Bureau of Labor Statistics, WTIA.

Although the low, base, and high scenarios are all possibilities, we place the greatest probability on the base.

A strong dollar is exacerbating inflation in emerging markets economies, which are seeing their currencies weaken at the same time that their dollar-denominated debt burdens build.

in bringing inflation down—due to the inverse correlation with commodities, as well as the effect of importing cheaper goods—it is pressuring the earnings of U.S. multinationals.

The risks are global. A strong dollar is exacerbating inflation in emerging markets economies, which are seeing their currencies weaken at the same time that their dollar-denominated debt burdens build. Some of the larger cracks are developing as a result of tensions between policymakers' goals. In the UK, fiscal authorities are pushing a historic stimulus package at the same time, central banks are battling inflation of 9.9% year over year (y/y).[4] A one-month increase in the 10-year Gilt yield of 1.3% and an 8%[5] collapse in the British pound threatened the stability of pension funds, leading to a surprising move by the Bank of England to resume bond purchases, two months before they were supposed to start quantitative tightening. And in Japan, the yen has fallen to 145 per U.S. dollar, the weakest since at least 2000. In response, the Bank of Japan intervened to support the currency. Yet, the central bank remains committed to ultra-low interest rates and its policy of yield curve control (where it purchases as many government bonds as needed to maintain the yield on its 10-year government note within a narrow range of around 0%). Something has to give.

Repositioning

As we look ahead, it is impossible to predict with certainty when the carnage will end. However, we use history as a guide, and history provides a few lessons that we find useful in offering perspective.

[4] CPI reading for August. Source: Bloomberg.

[5] At its September 23, 2022 low.

Continued

We are finding the most attractive opportunities in fixed income since the financial crisis.

1. **The market is pricing a mild recession**
   It is still our view that U.S. inflation will decelerate rapidly (Figure 2), allowing for the Fed to take its foot off the brake at some point and coast the economy to a "soft landing" (i.e., avoidance of a recession), but the odds of a recession in the next 12 months have risen significantly. That said, many investors are anchored to the most recent recessions—a global pandemic, a global financial crisis, and a tech bubble. Our analysis of consumer balance sheets, corporate balance sheets, bank health, the labor market, and other measures suggest a potential recession would fall into the mild category. Historically, the average S&P 500 index drawdown for a mild recession[6] was -23% (Figure 3). As of September 30, the S&P 500 was down 25%, in our view already pricing in a mild recession.

2. **Bottoming is a process**
   This is admittedly an overused statement, but it's helpful since the last market drawdown of significance—March 2020—resembled a slingshot. At that time, the S&P 500 fell 34% in 23 days and was back to all-time highs just three months later. Most of the time, and particularly around recessions, the market takes time to "find the bottom" and then even more time to work off excesses in the economy as the market recovers. In this case, it is likely going to take some constructive inflation data and a more dovish tone from the Fed before the market breathes a sigh of relief.

3. **Down markets can provide opportunities to harvest losses and "upgrade" a portfolio**
   This can be mentally difficult to do, particularly if you're looking at your portfolio and comparing current prices to their prior highs. After all, it's only a paper loss until you actually sell. But long-term investors can benefit from rotating the portfolio into companies and vehicles that are better positioned for the year ahead while harvesting losses in the process. This type of strategic investment planning and execution can be very impactful over time.

Our Investment Committee recently made such an upgrade by rotating from international developed equities into U.S. large cap, the latter of which we expect to deliver relatively better economic activity and earnings. Europe is troubled; the UK is, frankly, exhibiting policy and market characteristics of an emerging economy, and Japan's monetary policy seems equally unsustainable. We are monitoring the progress of Ukraine's defense against Russia and are deeply concerned about the unpredictability of President Putin's actions going forward. We retain a neutral exposure to equities but would rather hold less of that exposure in an asset class with such a high risk premium.

A word on fixed income

While equity market performance has been disappointing, the returns delivered by fixed income have been much worse on a historical basis, causing many to lose faith in the bond market's ability to protect a diversified portfolio. We, on the other hand, are finding the most attractive opportunities in fixed income since the financial

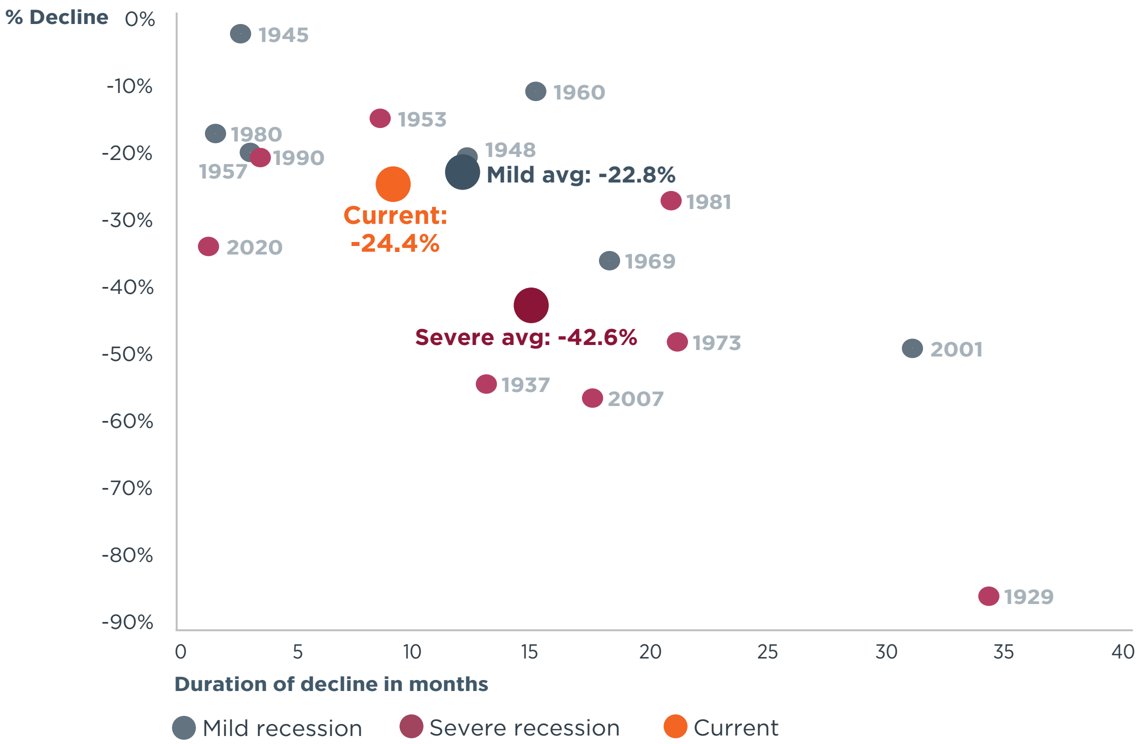
[6] Defined as an increase in the unemployment rate of 3% or less.

Continued

Figure 3

Stocks could be pricing a mild recession

S&P 500 drawdowns around U.S. recessions



Data as of September 30, 2022.

Sources: Bloomberg, WTIA.

Mild recession defined as those with less than 3ppt rise in the unemployment rate.

Past performance cannot guarantee future results. 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 which will reduce returns.

We remain confident that history will show that this period of investment pain too shall pass into a new era of prosperity.

crisis. (We aren't the only ones, as the increased competitiveness of bonds versus stocks is contributing, in our view, to equity market weakness.) The 10-year Treasury yield has more than doubled this year. Markets are now pricing in a peak fed funds rate of 4.4%. We expect a more modest upside to interest rates, and from these yield levels even a 0.5%–1.0% upward shift of the curve could still allow investment-grade fixed income to deliver a positive total return. It was this rationale that led our Investment Committee to deploy a small cash allocation to investment-grade fixed income, bringing the allocation to neutral versus our long-term strategic allocation.

These are uncertain, unsettling times. Anticipation of times like these is why we have created investment processes to help keep clients on track to meet their long-term goals. To be sure, we have not reached the end of recent market uncertainty and, by extension, volatility. But we remain confident that history will show that this period of investment pain, too, shall pass into a new era of prosperity. Patience and resolve are now critical while we await the Fed's work and the natural rebalancing of the financial order to play out. Please be sure to see the next page for our positioning.

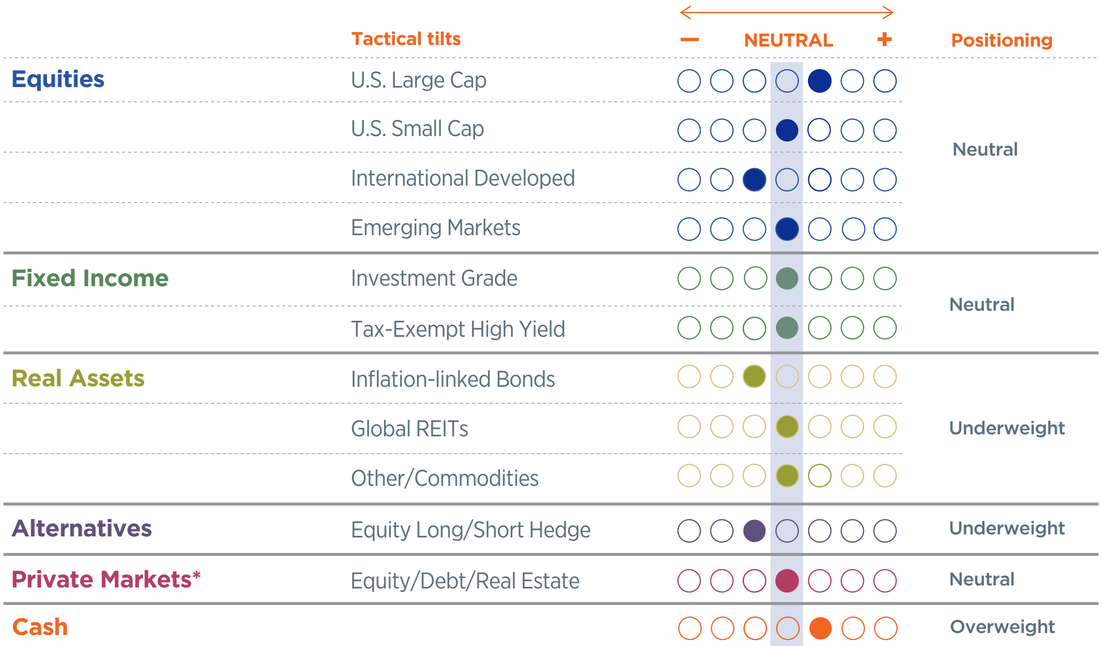
Best,

Tony

Continued

Figure 4

High-net-worth portfolios with private markets*



Data as of October 1, 2022.

Positioning reflects our monthly tactical asset allocation (TAA) versus the long-term strategic asset allocation (SAA) benchmark. For an overview of our asset allocation strategies, please see the disclosures.

* Private markets are only available to investors that meet Securities and Exchange Commission standards and are qualified and accredited. We recommend a strategic allocation to private markets we do not tactically adjust this asset class.

Watch the replay of our webinar:

Inflation, the Fed, Midterms & Portfolios: What's Ahead

Chief Economist **Luke Tilley,** Head of Investment Strategy **Meghan Shue**, and I discuss the potential impacts of the upcoming midterm elections and whether it is time for investors to become more cautious.

ASSET CLASS OVERVIEW

Real Assets

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

AS OF SEPTEMBER 30, 2022	Month	QTD	YTD
S&P Developed Property TR USD	-12.62%	-11.41%	-29.47%
Bloomberg Barclays US Treasury US TIPS TR USD	-6.62%	-5.14%	-13.61%
Bloomberg Commodity TR USD	-8.11%	-4.11%	13.57%

Source: Morningstar. 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

After a highly positive 2021, real assets posted mixed performance through 3Q 2022. Inflation and skyrocketing energy prices following Russia's invasion of Ukraine created an early tailwind for real assets. However, the Federal Reserve's (Fed) efforts to rein in inflation through rate hikes dramatically increased recessionary concerns, broadly pressuring real assets downward through the summer.

Year to date, real estate has seen a significant decline. While many property types have witnessed rent growth and price appreciation, the Fed's aggressive hikes present a headwind for the asset class as fixed income becomes more attractive for yield-seeking investors. Moreover, future rent growth and price appreciation are more at risk. Given broad macroeconomic turbulence, investors seemingly still favor defensive exposure, with property types like data centers and manufactured housing outperforming the broader asset class. Cyclical properties in office, retail, industrial, and hotels continued to lag, originally due to Omicron fears, but increasingly due to investor expectations of systemic economic slowdowns.

Inflation-linked bonds (ILBs) have also had a challenging year thus far, underperforming the nominal bond market through the second quarter and continuing their downward trend into the third. While inflation remains persistently high, which could lead investors to expect solid returns for ILBs, forward-looking expectations have fallen considerably, with 10-year inflation expectations dropping from above 3% in April to barely over 2% in late September. This decline in expectations, combined with the rise in nominal yields due to the Fed's hiking efforts, have caused real yields to shoot up to levels not seen in over a decade.

Commodities started the year strong after Russia's invasion of Ukraine sent prices skyrocketing on demand concerns. In 2Q 2022 though, as the narrative shifted away from inflation concerns and toward global growth concerns, industrial metals fell steeply. Precious metals also performed weaker than anticipated after initial price spikes as investors favored a strong dollar over other assets in their flight to safety. Oil and natural gas have done well year to date, though the ride remains volatile.

What's changing

After nearly 100 straight days of declines from a high of over $5 per gallon, gasoline prices reversed trend with slight increases recently. Oil, which largely determines gasoline prices, also climbed after a significant period of decline. A confluence of global factors (e.g., the war in Ukraine, lingering COVID impacts, potential economic recession, and drilling stoppages during hurricane season) is believed to have driven price moves.

What we expect

Despite near-term concerns, our longer-term outlook for real assets remains constructive. Real assets have historically acted as portfolio diversifiers and inflation hedges, especially important during economic uncertainty and consistently sticky CPI readings. Certain segments of real assets also benefit from macroeconomic tailwinds, including industrial and multi-family real estate and rare earth minerals. Energy is expected to continue to bear the brunt of geopolitical-induced price moves, which are traditionally hard to predict or time meaningfully. As long-term investors, we aim to maintain our discipline in challenging and volatile market environments like these.

Investment Positioning

Portfolio targets effective October 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%	**Neutral**
International Developed	16.0%	**Underweight**
Emerging Markets	5.5%	**Neutral**
Fixed Income		
U.S. Investment Grade–Tax-Exempt	28.5%	**Neutral**
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 October 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%	Neutral
International Developed	11.6%	Underweight
Emerging Markets	4.1%	Neutral
Fixed Income		
U.S. Investment Grade–Tax-Exempt	24.7%	Neutral
High-Yield–Tax-Exempt	2.0%	Neutral
Real Assets		
U.S. Inflation-Linked Bonds	0.9%	Neutral
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.

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.

Disclosures

Wilmington Trust is a registered service mark used in connection with various fiduciary and non-fiduciary services offered by certain subsidiaries of M&T Bank Corporation including, but not limited to, Manufacturers & Traders Trust Company (M&T Bank), Wilmington Trust Company (WTC) operating in Delaware only, Wilmington Trust, N.A. (WTNA), Wilmington Trust Investment Advisors, Inc. (WTIA), Wilmington Funds Management Corporation (WFMC), and Wilmington Trust Investment Management, LLC (WTIM). Such services include trustee, custodial, agency, investment management, and other services. International corporate and institutional services are offered through M&T Bank Corporation's international subsidiaries. Loans, credit cards, retail and business deposits, and other business and personal banking services and products are offered by M&T Bank, Member FDIC.

Wilmington Trust Investment Advisors, Inc., a subsidiary of M&T Bank, is a U.S. Securities & Exchange Commission-registered investment adviser providing investment management services to Wilmington Trust and M&T affiliates and clients. Registration with the SEC does not imply any level of skill or training. Additional Information about WTIA is also available on the SEC's website at https:// adviserinfo.sec.gov/.

The information in Capital Perspectives has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. The opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. This commentary is for information purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or as a recommendation or determination that any investment strategy is suitable for a specific investor. Investors should seek financial advice regarding the suitability of any investment strategy based on the investor's objectives, financial situation, and particular needs. The investments or investment strategies discussed herein may not be suitable for every investor. Diversification does not ensure a profit or guarantee against a loss. There is no assurance that any investment strategy will succeed.

These materials are based on public information. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas of Wilmington Trust or M&T Bank who may provide or seek to provide financial services to entities referred to in this report. As a result, M&T Bank and Wilmington Trust do not disclose certain client relationships with, or compensation received from, such entities in their reports.

Any investment products discussed in this commentary are not insured by the FDIC or any other governmental agency, are not deposits of or other obligations of or guaranteed by M&T Bank, Wilmington Trust, or any other bank or entity, and are subject to risks, including a possible loss of the principal amount invested.

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

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 a strategy relative to the return of the benchmark index is a strategy's alpha.

The Barclays U.S. Mortgage Backed Securities Index measures the performance of investment grade fixed-rate mortgage-backed pass-through securities of GNMA, FNMA, and FHLMC.

Basis points refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

Beta is a measure of how an individual asset moves when the overall stock market increases or decreases. Thus, beta is a useful measure of the contribution of an individual asset to the risk of the market portfolio when it is added in small quantity.

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 Barclays Global Aggregate Bond Index measures the performance of global investment-grade fixed-rate debt markets, including the U.S., Pan-European, Asian-Pacific, Global Treasury, Eurodollar, Euro-Yen, Canadian, and investment-Grade 144A index-eligible securities.

The Bloomberg Barclays U.S. High Yield Corporate Index measures the performance of taxable, fixed-rate bonds issued by industrial, utility, and financial companies and rated below investment grade with at least one year until maturity and an outstanding par value of at least $150 million.

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.

Continued

Disclosures Continued

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.

Consumer price index measures the price of consumer goods and how they're trending and is a tool for measuring how the economy as a whole is faring when it comes to inflation or deflation.

Drawdown measures the potential drop in portfolio asset values for the most recent stock market peak to the most recent stock market trough.

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

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

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

The federal funds rate is the target overnight inter-bank lending interest rate set by the Fed.

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.

Headline inflation is a measure of the total inflation within an economy, including commodities such as food and energy prices, which tend to be much more volatile and prone to inflationary spikes.

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.

The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms and is considered to be a key indicator of the state of the U.S. economy.

ISM Non-Manufacturing Index is an economic index based on surveys of more than 400 non-manufacturing (or services) firms' purchasing and supply executives and is part of the ISM Report On Business—Manufacturing (PMI) and Services (PMI).

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.

Continued

Disclosures Continued

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

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

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

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

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

Price-to-earnings (P/E) ratio measures a company's current share price relative to its earnings per share (EPS).

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.

Russell 1000 Growth is a market capitalization-weighted index that measures the performance of the large-cap growth segment of U.S. equity securities; it includes the Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value is a market capitalization-weighted index that measures the performance of the large-cap value segment of U.S. equity securities; it includes the Russell 1000 index companies with lower price-to-book ratios and lower expected growth values.

Russell 2000 Index measures the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

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.

Limitations on use:

This publication is intended to provide general information only and is not intended to provide specific investment, legal, tax, or accounting advice for any individual. Although information contained herein was prepared from sources believed to be reliable, Before acting on any information included in this publication you should consult with your professional advisor or attorney.

Third-party trademarks and brands are the property of their respective owners.

CFA® Institute marks are trademarks owned by the Chartered Financial Analyst® Institute.

Reference to the company names mentioned in this presentation is merely for explaining the market view and should not be construed as investment advice or investment recommendations of those companies.

The HFRX Fund of Funds Composite Index is being used under license from HFR Inc., which does not approve of or endorse any of the products or the contents discussed in this these materials. www.HFR.com.