CLEAR HARBOR
ASSET MANAGEMENT

September 29, 2021

Aaron J. Kennon
Chief Executive Officer & Chief Investment Officer

Friend of Clear Harbor,

The third quarter of 2021 continued the tug-of-war between uncertainty and self-assurance in the global marketplace. Several concerns took their toll on stocks late in the quarter, including those over the Delta variant, a more cautious U.S. and international consumer, potential economic fallout from China's faltering real estate sector, and data confirming that the elevated GDP growth of Q2 was, indeed, the likely peak of this cycle in the U.S. Nevertheless, the broader economic reopening story appears intact. As hospitalizations and case counts generally decline, we are adjusting to our new normal—which is to say: finding ways to live with the virus, perhaps indefinitely.

From a policy perspective, too, a degree of normalization has taken hold. The massive federal assistance (financed through equally massive deficit spending) of 2020-2021 is subsiding, with enhanced unemployment benefits ending this month for millions of Americans. While a $1 trillion bipartisan bill has broad popular support to meet long-neglected infrastructure needs, a proposed $3.5 trillion package tackling a much broader range of priorities is very much in question, as moderate Democratic officeholders ponder its implications for the 2022 midterm elections.

Last week also marked an important shift at the Federal Reserve, which finally signaled that its $120 billion monthly asset purchase program, commenced at the height of Covid fears back in Q1 2020, could begin to ebb as early as this November. The dollar has rallied on the heels of this announcement; bond markets are taking these signals in stride, with little of the confusion that provoked the "taper tantrum" and sent markets reeling in 2013. (I would also observe that the apparent "convulsions" witnessed in the last six trading days remain within the contours of a dozen similar movements over the last two years.)

Nevertheless, as we have seen many times before, predictions and pivots by central bankers can diverge from, and even collide with, evolving data and investor expectations. Today's markets are discounting mechanisms for future possibilities; we must always be mindful of this sometimes unsettling reality as we allocate capital and advise clients. This remains a time for humility in the face of the unknowable, and I am grateful for the constant debate and diversity of views within our firm as we explore it.

For myself, I maintain the base case that I articulated last quarter: most notably, that a return to trend GDP of approximately 2% will occur in the U.S.—and more rapidly than most economists and strategists have estimated. Indeed, both at home and abroad, near-term consensus expectations for growth have already retreated considerably. Longer-term expectations (for, say, 2022-2024) could be the next to shrink under the weight of consumer, corporate and government debt, more diffuse government stimulus, and sagging demographics across the developed world.

At the same time, global fiscal and monetary policymakers have fostered risks for the coming decades that are as yet difficult to grasp, but in time may force difficult decisions on short notice. Meanwhile, despite robust earnings, much of the latest advance in equities appears due to historically elevated valuations; technical data is hinting at the growing risk of our first broad correction in some time.

In short: even if a "return toward normal" in the economy continues to take hold, that is no guarantee of placid markets. With a rough September already in the books, the final quarter of 2021 could prove a transitional moment for markets, which carries the risk of higher volatility. It is against this backdrop that we at Clear Harbor manage risk as we pursue our clients' individual objectives for capital preservation, income, and total return.

<u>Q3 Market Review</u>

While the broad global equity benchmark—the MSCI All-World Index—declined 3.5% in September and 0.5% for Q3 while rallying 11.7% YTD.[1] The S&P 500 improved just 1.8% during Q3 but is up 17.3% YTD, while the small-cap Russell 2000 Index declined 3.4% during Q3 while increasing 13.4% YTD. One area of weakness has been Emerging Markets, with the MSCI Emerging Markets Index falling approximately 1.0% for the quarter and 8.0% YTD.

In fixed income, the broad U.S. benchmark—the Bloomberg Barclays Aggregate Bond Index—has declined 1.7% YTD and was unchanged during Q3. Within the asset class, the investment grade benchmark is off by 2.0% so far this year, while high yield credit markets have improved by 3.0%. The broad U.S. Treasury index has lost 2.7% YTD. For context, the 10-year Treasury yield commenced the year at 0.91%, ratcheted higher to 1.74% in late March, and currently trades at 1.53%.

After supply-constrained spikes last spring, many closely watched commodities have recently returned to more reasonable levels. Lumber has fallen 63% from its peak in May, iron ore 40%, and Copper 12%.

Not all commodities have followed the downward trend. Aluminum prices have advanced 48% throughout the year without any noticeable correction. Supply constraints and strong demand have provided fundamental support for the metal, with little relief in sight on the supply side well into 2022. Similarly, oil continued to bear out our thesis of a meaningful price recovery, gaining 2.0% in the quarter and 54% so far this year, in tandem with the economy itself.

Gold faltered 2.6% in Q3 and 9.2% YTD even as global central bank balance sheets continued to expand, driven by skyrocketing public debt levels. Since we generally view gold not as a commodity to be compared with industrial metals, but rather as an alternative currency, I continue to see merit in allocating modest portfolio capital to the yellow metal. I also believe that, should the global economy

[1] All return figures are as of the close of trading on September 29, 2021.

underperform expectations in Q4 and 2022, gold is positioned well for those who fear rising debt loads in the face of sagging economic activity.

Economic Outlook

The universal hope is that rather than stalling out after its recent boom, the U.S. economy will instead glide softly to a decent level of growth—one that restores employment to pre-pandemic trends, while avoiding the overheating that could invite an inflationary spiral. Evercore ISI goes so far as to argue that the economic gains of the last quarter could represent a "self-sustaining expansion" as capital goods manufacturing accelerates to meet demand, reducing the need for fiscal and monetary support. Other potential upside surprises could include marked gains in employment coinciding with a rise in consumer and business confidence as the Delta variant subsides and the threat from emerging variants wanes.

However, recent evidence of flagging consumer and manufacturing activity suggests that future economic data could prove far more volatile, and perhaps disappoint the more optimistic economists. Indeed, recent data may represent a more marked deceleration in economic activity than many recognize. It is worth remembering that despite steady employment gains of late, millions who had jobs prior to Covid remain unemployed. J.P. Morgan recently noted that the only other periods in which Purchasing Managers Index readings declined as far and quickly as they have this year occurred right before the global economy headed into its last three recessions.

Clearly the spectrum of leading economists is wide, with little agreement on how economic data will evolve in the quarters ahead. For myself, I do not predict a U.S. recession in the near future. Indeed, I note that while the rate of change for PMI is disturbing, the absolute number still suggests continued, albeit tepid, economic expansion.

One thing is clear: Markets have accepted the economic deceleration to date—from 6.5% in Q2 to an estimated 3.6% for Q3—in stride. They may not react well to further deceleration now that Delta trends are improving, and the Fed itself is more ebullient about the economic picture. If future data fails to justify current market prices, it could challenge investors, policymakers and central banks at a time when fiscal stimulus appears more elusive (and likely spread out over a decade or more), tax hikes more likely, and unemployment still stubbornly elevated. With or without a major correction, I therefore look for market volatility to trend higher as the economy finds its footing.

Neither the optimists nor the pessimists have a lock on the truth. We try to constantly remind ourselves that if the Fed's track record of predicting the economic future is poor, ours may prove little better. That is why we always consider market fundamentals in addition to our own macroeconomic viewpoints.

- Inflation

The many "unknowables" of the economy present market participants with ample opportunities to misjudge the investing landscape. Of these, the anticipated evolution of inflation—particularly the direction of wages and labor in the post-Covid world—is high on my list of important factors to consider, and perhaps the greatest risk to our base case. Nevertheless, I still look for the thrust of headline inflation readings to subside in the calendar year ahead.

Several assumptions underlie this view. Principal among them: that the Delta variant is at or near its peak, with vaccinations continuing to rise, and that core drivers of the world economy will continue to recover gradually. I.e., as workers return to their factories, trucks and container ships, and global supply chains creak back to life, stubborn bottlenecks should begin to unclog, reducing shortages.

It is important to recognize that inflation is not a simple, binary, “on/off” event: it can vary, sometimes substantially, by sector or product type. As such, some important gauges of price pressure could remain elevated even as other inflation trends decline. For example, chronic under-investment in homes could see rents continue to support consumer price index readings. Indeed, the cost of owning or renting a home is a larger component of the CPI than, say, gasoline—yet it tends to move much more slowly. The result may be sustained gains in certain headline inflation numbers, even if day-to-day pricing signals (like those we see at the pump) tell a different, more complex, and perhaps more moderate story.

In addition, even in sectors where the appetite to expand capacity may be growing, the intense private and government focus on transitioning to renewable energy will surely divert investment from inputs that are still essential across a range of industries and finished goods. Crude oil is one example that could suffer neglect in the years ahead, as corporate allocators of development capital prioritize decarbonization projects (many of which, I hasten to add, themselves represent highly productive and worthy investments). These higher costs will doubtless find their way to consumers even as the march toward a less carbon intensive economy accelerates.

On the demand side, the massive rush of consumers to spend on goods during the pandemic is now pivoting back to services. As this unprecedented shock to the supply chain passes, inflation for many core durable goods should continue to abate. However, this too will take quarters, rather than weeks and months, to manifest convincingly in the data. And while the economic reopening should help restrain the cost of goods, its impact on pricing across the services sector is still very much to be determined—in large part by the trajectory of labor costs.

- Wages and Employment

The direction of wages is critical to the question of whether headline inflation abates or becomes self-reinforcing across some key segments of the economy. Even if reopened supply chains bring the price of a washing machine back to Earth, the sustained inability of small businesses to fill millions of open positions may put durable upward pressure on the price of everyday services for U.S. consumers as demand continues its post-Covid bounce-back.

While wage inflation is most salient in industries such as hospitality, critical segments of the global supply chain such as trucking are seeing wage pressures as well, with employers desperate for drivers. Even within the field of professional finance, anecdotal evidence suggests that wages have crept higher, as younger professionals yearn for greater work/life balance in a post-Covid world.

- Productivity

The magic bullet that could lift growth forecasts and wages alike, without stoking inflation, would be a tidy increase in productivity. Though long missing from official data, anecdotal evidence is accumulating that more efficient processes are becoming embedded across the economy. Some, such as at-home delivery apps and improved supply chain management systems, were spurred by the pandemic. Many, such as enhanced CRM software, could expand margins and even accelerate revenue for companies in multiple sectors, particularly technology.

The sense of our investment committee is that the potential for long-term productivity gains is considerable from such diverse fields as energy management, digital payments, artificial intelligence, and customer and employee engagement and retention technologies. A range of industries stands to benefit from adopting such advances—not to mention the smaller corps of companies that profit from developing, marketing and integrating them into their clients' business operations. Ultimately, the benefits can ripple across the broader economy.

Capex tends to come in waves, as corporate leaders race to meet a combination of rising consumer demand and evolving competition. Many large companies currently have ample dry powder on their balance sheets, and are able to accelerate spending if they perceive the opportunity to improve their competitive position.

With that said, I am also mindful that companies with the largest swaths of market share could face rising competition from smaller market disruptors and innovators. This is both the story of innovation and the history of the equity market itself. As one study put it: "Only 52 U.S. companies have been on the Fortune 500 since 1955, thanks to the 'creative destruction' that fuels economic prosperity."[2] While I do not believe that any of today's technology giants are poised to fall, balanced exposures to both emerging and established companies is often both prudent and rewarding over the long term.

<u>Federal Reserve Policy</u>

As the year began, evidence was compelling that economic growth was too strong to justify keeping rates near zero much longer, let alone bond purchases at the annual pace of $1.4 trillion. The Fed's posture has since shifted: Chairman Powell has successfully communicated his intent to start tapering its asset purchases this fall or early winter, while so far reassuring investors that actual rate hikes remain a ways off and dependent on continued supportive data.

I do not envy the central bank, which faces a quandary. On the one hand, I sympathize with the goal to normalize policy, and recognize the difficulty of doing so in an environment of decelerating growth and above-trend unemployment and inflationary readings.

On the other hand, I think there is room for the Fed—like the economy itself—to thread the needle. As I have suggested before, I believe that economic moderation is the Fed's friend. As we wade through

---

[2] American Enterprise Institute: https://www.aei.org/carpe-diem/only-52-us-companies-have-been-on-the-fortune-500-since-1955-thanks-to-the-creative-destruction-that-fuels-economic-prosperity-2/

2022, our economic picture may be one of growth decelerating back toward trend, steady if unimpressive employment growth, and the general ebbing of inflation. Such a backdrop could give the Fed leeway to proceed with tightening as currently envisioned, to slow its pace, or to pause it altogether as needed and desired—all without necessarily jeopardizing the confidence of market participants.

That, however, will require both the cooperation of the global economy, and the Fed to remain nimble on its high wire. This period of transition for monetary policy is unique, and so are the risks it holds for policy error and market volatility. The Fed has managed expectations quite well of late, under tricky circumstances. Should it lose its footing—whether through a communications gaffe or a perceived policy blunder next year—it could derail the euphoria that has prevailed since the March 2020 market lows.

Market Outlook: Equities

Many of the cyclical stocks that led the rally in the first half of 2021 (Energy, Materials, Industrials) stalled during Q3, passing the baton to more defensive and even growth-oriented sectors (Technology, Healthcare, and Communications Services). The one important exception is Financials, which bucked the cyclical swoon and outpaced all other sectors over the course of the quarter. That exception aside, this overall rotation seems justified given the deceleration in economic activity both at home and abroad.

The trends back toward consumer-led growth are in line with the thesis of a transition back toward pre-pandemic consumption patterns. I find further support in the fact that average U.S. incomes rose by 7% during the pandemic, prompting the most significant spike in the savings rate on record. While cash on hand has declined from those historic levels, consumer spending—particularly on services—should reaccelerate as more dollars are allocated to the segment that represents approximately 70% of the U.S. economic pie. Of course, even as consumption trends back toward the historical mean, employment data must follow suit in order for this projection to become a reality.

At the margin, I am in effect making the case for growth over a broad set of cyclical stocks. However, uncertainty about growth and inflation, as well as about the timing, degree and overall direction of monetary response, presents undeniable risk. Should persistent inflation prompt the Fed to taper more aggressively and even accelerate its return to higher interest rates, pro-cyclical sectors within the “value” style would have a renewed opportunity to shine.

This is a subject of lively and productive discussion within our firm. While I believe capital will accrue more toward growth over the long term, I acknowledge many scenarios in which procyclical momentum could increase—particularly if interest rates rise further from current levels. Furthermore, within the universe of “cyclicals,” appealing opportunities exist to please a growth investor—for example, among renewable energy companies.

On balance, for many equity portfolios, the conflicting signals and precariousness of this monetary and economic moment would argue for a thoughtful blend of growth and value stocks. Such a strategy anticipates a range of foreseeable medium-term outcomes, and may even offer exposure to additional areas of potential long-term value creation.

- Earnings and Valuations

Many U.S. and even global equities—particularly growth stocks—appear stretched when judged by earnings multiples, price-to-book and other traditional valuation metrics, and may seem to need further substantial earnings gains just to justify current price levels. In some cases, it could take years for companies to grow earnings toward more attractive valuations. With that said, great companies with industry-leading business models and management teams hold greater potential to compound their growth over multiple years, in some cases ultimately justifying their seemingly elevated multiples.

For investors with unconstrained mandates, equities must also be compared with the many other asset classes at their disposal. In this context, equities still appear reasonably attractive, offering good relative value when judged against their historical relationship to investment grade and junk bond yields. (Whether this warrants a higher equity allocation in light of a particular investor's horizon and risk tolerance is a longer conversation—one we are happy to have at any time.)

On a technical basis, various indicators of market strength suggest an elevated risk that major equity market indices may be positioned to correct, at least temporarily. While we see some reason for incremental caution in these signals, the reality is that corrections are a normal part of a healthy, functioning market—and timing such events is often futile for long-term investors.

- European Shares

While we expect a high level of sector-level correlation across global developed equity markets, government spending in 2022 is expected to present stark divergences that were absent in 2021. For example, Goldman Sachs posits that the precipitous decline in U.S. government stimulus from its record-setting pace of the last 20 months will pull on net GDP by -3% to -4%. (Goldman still sees GDP in 2022 at a positive 4.6%, reflecting their view of the underlying strength of the post-Covid recovery in the U.S.) This stands in stark contrast to Europe, where government spending will continue to contribute to GDP, perhaps adding +0.75% in 2022 (with estimated total 2022 Eurozone growth likewise at 4.6%).

At least in the near and medium term, this divergence could modestly boost the relative appeal of European equities. These shares already enjoy something of a valuation discount, even after considering and calculating the degree to which European equity valuations are more heavily driven by their overweight to financials, industrials and consumer staples.

<u>Market Outlook: Fixed Income</u>

I have often cautioned that the U.S. Treasury is more dependent on the Federal Reserve than at any point in modern economic history. While a similar dependency on central banks could be argued in Japan or even the Eurozone, it is perhaps starkest here at home, where the Administration's push for another major unfunded spending package (some $3.5 trillion) presumes that interest rates will remain low indefinitely. Short of draconian spending cuts or dramatic tax hikes, low rates are the only way to keep interest payments on our national debt—already $29 trillion—at all manageable.

The question is how long "indefinitely" will remain possible for the Fed. At some point, they will be caught in a vice. The vice begins to squeeze when our debt service requires that easy policy should continue, but inflation urges the central bank to tighten. How the Fed reacts to that squeeze will have many important impacts across the economy, but perhaps most directly on bondholders.

The reality is that the vice has already begun to squeeze—and in the wake of Covid, the Fed has chosen to keep rates lower than inflation would ordinarily warrant. Consider: a few months prior to the pandemic, longer-term inflation expectations were approximately 1.8%, versus a 10-year Treasury yield of 1.9%—about 0.1% above the inflation rate. Today, longer-term inflation expectations have risen to 2.20%, yet the 10-year Treasury yield hovers around just 1.53%.

That's right: the real, inflation-adjusted rate of the 10-year Treasury is now decidedly negative at -0.67%. Such low rates cannot be attributed simply to expectations that long-term inflation will be anemic (not to mention well below the current levels reflected in the CPI and PCE). No: the Fed is artificially suppressing rates below their historical relationship to inflation. In part, this is to support the recovery from the pandemic. But increasingly, it also seems geared toward giving the Treasury headroom to fund the massive growth of the deficits over the last several years—and perhaps in the years to come.

The need to fund deficits, maintain growth, and lift employment will create inordinate pressure on the Fed to keep interest rates lower than their historical relationship to inflation and nominal GDP. In my view, markets underestimate how dovish the central bank may remain in not just the quarters, but the years ahead. This risk has significant implications for investors in equities, currencies and commodities—but particularly, and most directly, on anticipated returns across fixed income.

Despite these caveats, I still believe that in most multi-asset class (or "balanced") portfolios, bonds serve the important dual roles of creating an alternative stream of returns and providing a degree of ballast against a possible downturn in economic conditions and key equity markets. Indeed, the recent price action of longer-duration Treasuries and government-sponsored mortgage-backed securities suggests that they still offer some protection during moments of uncertainty.

With that said, the "moat" represented by these important components of fixed income is certainly not as wide or deep as it was prior to the financial crisis, when we last experienced a conventional monetary policy regime. Clients should know that if interest rates were to trend higher due to persistent inflation, fixed income performance could feel the pinch just as equities come under similar duress. In short, the risk of equity and bond price correlations rising from here is incrementally higher than in prior years.

China and Emerging Markets

The Chinese economy has decelerated markedly in the past quarter, with economists ratcheting down growth expectations for the rest of the year and into 2022. The Chinese consumer appears cautious in the face of regulatory clampdowns on business sectors ranging from for-profit education to fintech to real estate. Concern is especially high about the real estate market, which is a crucial domestic sector, including the risk of insolvency at several of the country's largest developers.

The poster child for these concerns, Evergrande, last week missed a significant interest payment on some $300 billion of debt and is at risk of default next month. While the outcome of this particular saga is unknown at the time of this writing, we are mindful that the last major Asian real estate bubble, in 1997, altered the economic trajectory of the region when it popped. It also forced central banks on the other side of the planet to pivot to an easier policy posture, which helped grease the wheels to a bubble of our own—the dot-com bubble—which gave an unexpected jolt to kick off the new Millennium.

Foreign capital flows have paused in response to the news, and China's central bank, once perceived as hawkish, may prove more accommodative while finding ways to "ring-fence" the troubles at Evergrande. At the same time, Chinese equities have corrected substantially, creating valuation dispersions not seen in some time. It is reasonable to ask if this presents an attractive entry point.

I have long been skeptical of allocating significant capital to investments in China, and I remain so. Instead, I note that other emerging markets across Southeast Asia and South America appear poised to attract capital on the strength of their own growing middle classes and their own export-driven economic infrastructure. This should continue to benefit smaller- and mid-cap companies that provide goods and services to this growing, global consumer segment. In fact, emerging market companies domiciled outside of China (as reflected in the MSCI Emerging Markets ex-China) has returned 7.4% year-to-date, versus a 17.3% decline in the MSCI China-Only exchange-traded fund.

The geopolitics of the region continue to evolve as well. Two weeks ago, the U.S., UK and Australia announced a new defense alliance to counterbalance the rise of China's military posture in the Pacific. The arrangement provides for Australia to acquire nuclear submarines. This Anglo-American alliance has echoes of the one that defeated Nazism and the Japanese empire; it sends a clear message to China that economic interests are not the only ones the democratic West will prioritize, or organize to defend.

Current military frictions in the seas around China derive chiefly from the more autocratic Communist Party led by Chairman Xi Jinping. This may bring significant, hard-to-predict repercussions for economies and investors around the world, and particularly for the U.S., with whom China's own economic fortunes are tightly woven. As allocators, we remain content to find incremental exposure to China's enormous markets through companies domiciled elsewhere. We will continue to monitor the evolution of the frictions, risks, and opportunities of doing business in the Middle Kingdom as we construct and adjust client portfolios in the quarters and years ahead.

<u>Clear Harbor Firm Update</u>

I could not be more delighted to welcome to Clear Harbor Henrik Brun, who joins us as a Managing Director. I have known Henrik for many years and can attest to the care, thoughtfulness, and integrity that he brings to our profession. His values are fully aligned with those of our employee-owned firm, particularly his unwavering dedication to the fiduciary responsibilities we owe to our clients.

We are also pleased to welcome the arrival of Susan O'Shaughnessy, who is working as a member of our client service team. Sue has two decades of experience serving as a client liaison; she looks forward to communicating with many of you in the days and weeks ahead.

For those who are receiving this quarterly missive for the first time, please know that Henrik has joined a firm that shares his appreciation for each individual client's unique circumstances and goals. We recognize that a portfolio constructed for a not-for-profit may not be suitable for a young family that is building a nest egg, planning for college, or aspiring to buy or build a vacation home.

Beyond such objective differences, we also appreciate that each client is differently hard-wired with regard to risk. An investment strategy that one individual finds unacceptably aggressive might seem timid to another, even if the two have similar financial circumstances and life ambitions. In constructing a strategic portfolio or an overall wealth plan, we therefore want it to reflect what makes you, "you."

The personal dimension of the client relationship at Clear Harbor doesn't just make our own jobs more enjoyable and rewarding: it also helps keep your financial plan on course. I am reminded of a Davis Advisors study that considered the 20-year period from 1994-2013, when the average stock mutual *fund* returned 8.7% annually. Sadly, the average stock mutual fund *investor* achieved only 5.0% over the same period—some 40% shy of their potential. The fundamental reason? Investors who embraced more risk than they could tolerate ended up selling into periods of volatility, while missing the eventual rebound.

As stewards of client wealth, this is why we do more than diligently map the four corners of your specific financial picture: we seek your candid thoughts and concerns about money. Both these considerations, the empirical and the emotional, help drive our recommendations and advice in individual situations.

I will close with two key points about our firm. First, we are humbled by markets. We always seek to better understand their history, their shifting economic and social foundations, and the range of potential paths they may take into the future. When seen in hindsight, "mistakes" in this business may be inevitable, but respect for what we don't yet know can help reduce the frequency and impact of such misjudgments.

Second, Clear Harbor does much more than manage assets. We seek to advise on the many elements of your broader financial picture, while equipping you with the necessary tools to understand the strategies available to you. We want to be a sounding board for estate planning, for example, or before a home purchase. We also liaise regularly with clients' existing tax and insurance professionals. We are always alert to the potential impacts of tax or other public policy changes on specific client situations, such as the most advantageous timing of gifts or asset sales.

On behalf of the firm, as we peer beyond Q4 and into 2022: We are grateful for your trust in us, and look forward to seeing many of you in person in the months ahead. Never hesitate to reach out to us; it is what motivates us.

Sincerely,

Disclosure:

Clear Harbor Asset Management, LLC ("Clear Harbor") is an SEC registered investment adviser with its principal place of business in the State of Connecticut. Clear Harbor and its representatives are in compliance with the current notice filing requirements imposed upon registered investment advisers by those states in which Clear Harbor maintains clients. Clear Harbor may only transact business in those states in which it is notice filed, or qualifies for an exemption or exclusion from notice filing requirements.

The material contained herein is intended as a general market commentary. The commentary may contain general information and views that are not directly relevant to your particular account. Opinions expressed herein are those of Aaron Kennon and may differ from those of other employees and affiliates of Clear Harbor Asset Management LLC. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security. Any comparison to an index, including the S&P 500 and Russell 2000, is for comparative purposes only. An investment cannot be made directly into an index, which are unmanaged and do not reflect the deduction of advisory fees. This brochure is limited to the dissemination of general information pertaining to its investment advisory services. The current account composition is intended for informational purposes and allocations are subject to change.

For information pertaining to the registration status of Clear Harbor, please contact Clear Harbor or refer to the Investment Adviser Public Disclosure web site (www.adviserinfo.sec.gov). For additional information about Clear Harbor, including fees and services, send for our disclosure statement as set forth on Form ADV from Clear Harbor using the contact information herein. Please read the disclosure statement carefully before you invest or send money.