OLYMPUS
WEALTH MANAGEMENT®

Quarterly Investment Commentary

Fourth Quarter 2021

## Highlights

- We believe today's level of inflation is temporary and will decline.
- The S&P 500 TR was up 11.03 % in Q4 and 28.71% YTD (as of 12/31/21).[1]
- The MSCI EAFE NR was up 2.69% in Q4 and up 11.26% YTD (as of 12/31/21).[1]
- The MSCI EM NR was down -1.31% in Q4 and down -2.54% YTD (as of 12/31/21).[1]
- Broad commodities were one of the best performing asset classes in 2021.
- We anticipate further market volatility to both the upside and downside as the economy and markets evolve.
- Investors should consider their options for generating income.
- We continue to see opportunities within private equity, private debt, and private real estate.

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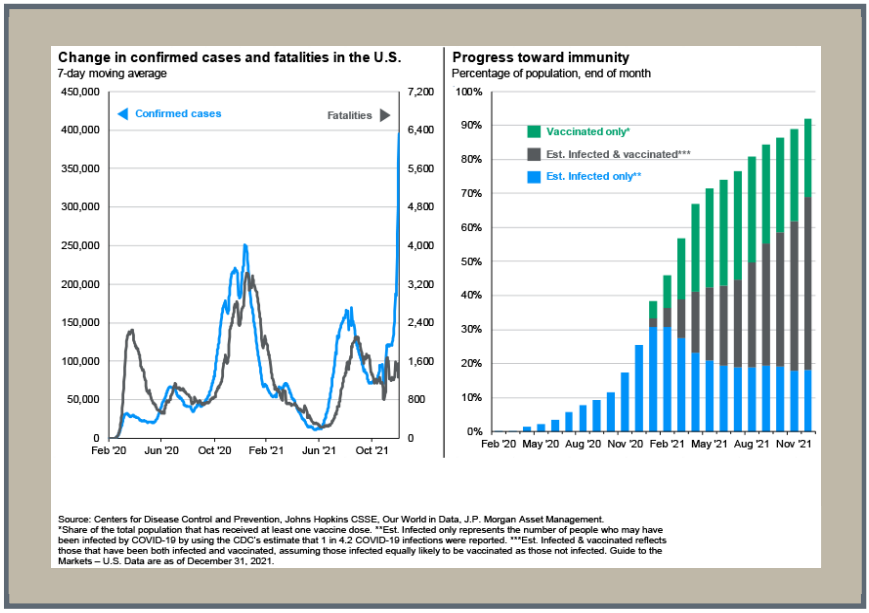
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Ann. | Vol. |
| EM Equity 39.8% | Fixed Income 5.2% | EM Equity 79.0% | REITs 27.9% | REITs 8.3% | REITs 19.7% | Small Cap 38.8% | REITs 28.0% | REITs 2.8% | Small Cap 21.3% | EM Equity 37.8% | Cash 1.8% | Large Cap 31.5% | Small Cap 20.0% | REITs 41.3% | Large Cap 10.6% | REITs 23.2% |
| Comdty. 16.2% | Cash 1.8% | High Yield 59.4% | Small Cap 26.9% | Fixed Income 7.8% | High Yield 19.6% | Large Cap 32.4% | Large Cap 13.7% | Large Cap 1.4% | High Yield 14.3% | DM Equity 25.6% | Fixed Income 0.0% | REITs 28.7% | EM Equity 18.7% | Large Cap 28.7% | Small Cap 8.7% | EM Equity 22.9% |
| DM Equity 11.6% | Asset Alloc. -25.4% | DM Equity 32.5% | EM Equity 19.2% | High Yield 3.1% | EM Equity 18.6% | DM Equity 23.3% | Fixed Income 6.0% | Fixed Income 0.5% | Large Cap 12.0% | Large Cap 21.8% | REITs -4.0% | Small Cap 25.5% | Large Cap 18.4% | Comdty. 27.1% | REITs 7.5% | Small Cap 22.5% |
| Asset Alloc. 7.1% | High Yield -26.9% | REITs 28.0% | Comdty. 16.8% | Large Cap 2.1% | DM Equity 17.9% | Asset Alloc. 14.9% | Asset Alloc. 5.2% | Cash 0.0% | Comdty. 11.8% | Small Cap 14.6% | High Yield -4.1% | DM Equity 22.7% | Asset Alloc. 10.6% | Small Cap 14.8% | High Yield 6.6% | Comdty. 19.1% |
| Fixed Income 7.0% | Small Cap -33.8% | Small Cap 27.2% | Large Cap 15.1% | Cash 0.1% | Small Cap 16.3% | High Yield 7.3% | Small Cap 4.9% | DM Equity -0.4% | EM Equity 11.6% | Asset Alloc. 14.6% | Large Cap -4.4% | Asset Alloc. 19.5% | DM Equity 8.3% | Asset Alloc. 13.4% | Asset Alloc. 5.7% | DM Equity 18.9% |
| Large Cap 5.5% | Comdty. -35.6% | Large Cap 25.5% | High Yield 14.8% | Asset Alloc. -0.7% | Large Cap 16.0% | REITs 2.9% | Cash 0.0% | Asset Alloc. -2.0% | REITs 8.6% | High Yield 10.4% | Asset Alloc. -5.8% | EM Equity 18.9% | Fixed Income 7.5% | DM Equity 11.8% | EM Equity 4.8% | Large Cap 16.9% |
| Cash 4.8% | Large Cap -37.0% | Asset Alloc. 25.0% | Asset Alloc. 13.3% | Small Cap -4.2% | Asset Alloc. 12.2% | Cash 0.0% | High Yield 0.0% | High Yield -2.7% | Asset Alloc. 8.3% | REITs 8.7% | Small Cap -11.0% | High Yield 12.6% | High Yield 7.0% | High Yield 1.0% | DM Equity 4.1% | High Yield 12.2% |
| High Yield 3.2% | REITs -37.7% | Comdty. 18.9% | DM Equity 8.2% | DM Equity -11.7% | Fixed Income 4.2% | Fixed Income -2.0% | EM Equity -1.8% | Small Cap -4.4% | Fixed Income 2.6% | Fixed Income 3.5% | Comdty. -11.2% | Fixed Income 8.7% | Cash 0.5% | Cash 0.0% | Fixed Income 4.1% | Asset Alloc. 11.7% |
| Small Cap -1.6% | DM Equity -43.1% | Fixed Income 5.9% | Fixed Income 6.5% | Comdty. -13.3% | Cash 0.1% | EM Equity -2.3% | DM Equity -4.5% | EM Equity -14.6% | DM Equity 1.5% | Comdty. 1.7% | DM Equity -13.4% | Comdty. 7.7% | Comdty. -3.1% | Fixed Income -1.5% | Cash 0.8% | Fixed Income 3.3% |
| REITs -15.7% | EM Equity -53.2% | Cash 0.1% | Cash 0.1% | EM Equity -18.2% | Comdty. -1.1% | Comdty. -9.5% | Comdty. -17.0% | Comdty. -24.7% | Cash 0.3% | Cash 0.8% | EM Equity -14.2% | Cash 2.2% | REITs -5.1% | EM Equity -2.2% | Comdty. -2.6% | Cash 0.7% |

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg US Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2006 to 12/31/2021. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past

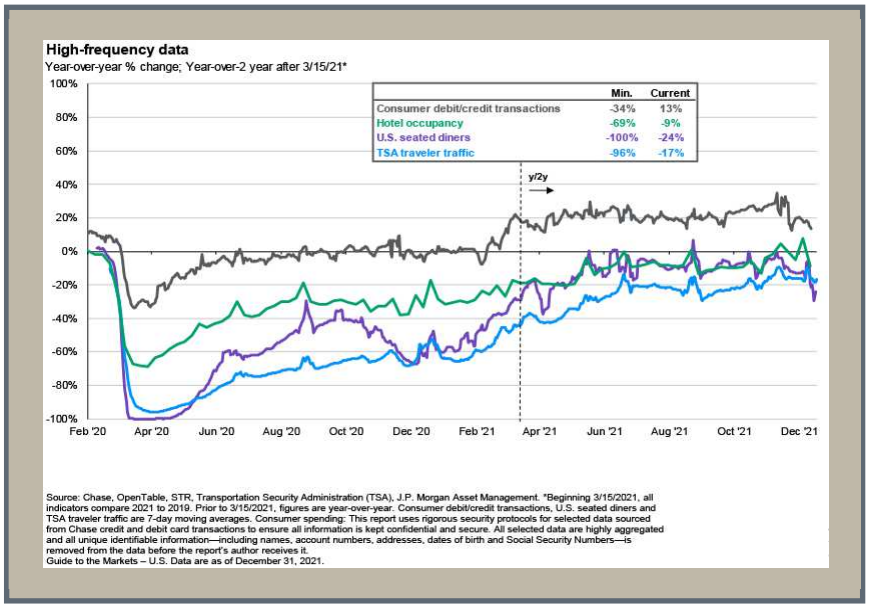
*The asset allocation performance shown is hypothetical and does not represent actual trading in a client account. Please refer to important disclosures at the end of the commentary.*

## Economy

With the recent surge in COVID, it is estimated that more than 90% of the population is vaccinated, infected or both as illustrated in the chart on the right. Breakthrough COVID cases continue to surge, but fatalities have remained relatively constant suggesting the virus is weakening. The world is figuring out how to function in this new paradigm, and we are optimistic that we may be starting to see the light at the end of the COVID tunnel. We are hopeful that shortages in raw materials and components will alleviate during 2022, but we do not see a good solution to labor shortages with current policies.

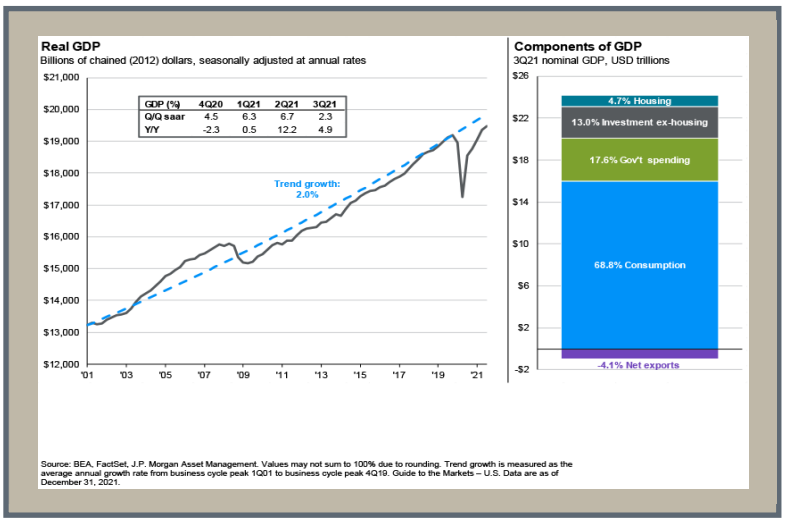



We continue to monitor economic data, and the high-frequency economic data (in the chart on the right), appears to have declined slightly with the recent surge in COVID cases. We anticipate broad economic growth, measured by GDP to continue its rebound to its pre-COVID trend sometime this year. Q4 GDP will be released later this week by the U.S. Bureau of Economic Analysis, and in the Federal Reserve's December meeting minutes, their economic staff forecasts strong but a slower rate of economic growth due to the Q4 surge in COVID, bottlenecks, supply shortages and transportation shortages.

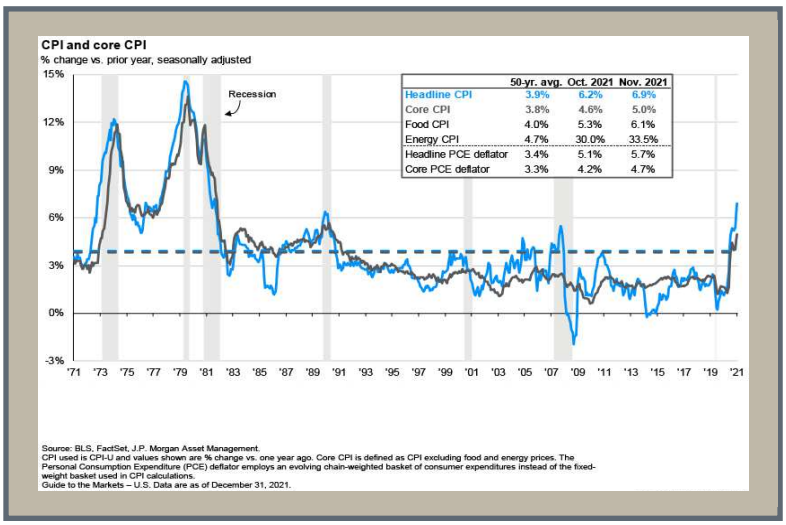



These bottlenecks and shortages are causing inflation. For the first time in decades investors are having to think about the impact of higher inflation. Rising prices on goods and services are having an impact on both individual spending power and corporate earnings. We are hopeful that 2022 will transition out of the COVID economy as inflation settles lower, supply chain challenges moderate, consumer demand remains robust, and the Federal Reserve and other central banks look to slowly increase interest rates. Notably, we believe as the economy and markets transition there will be bumps in the road. The S&P 500 index pullback so far in January 2022 is normal, and we anticipate further volatility to both the upside and downside as the economy and markets evolve.

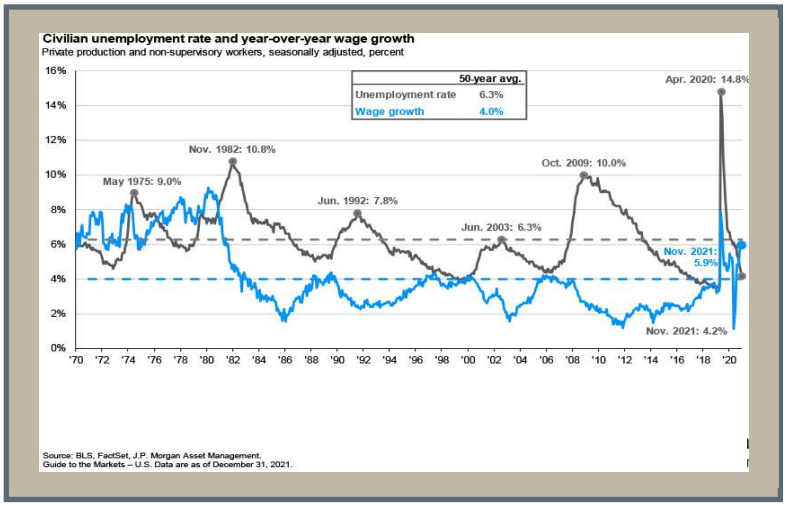
GDP[2]: Q4 GDP data is scheduled to be released 1/27/22. The third estimate of Q3 2021 GDP was released at 2.3%.[4] The third estimate is based on more complete data than was available in past months. According to the report, the Q3 increase reflected the continued economic impact of the COVID pandemic. The smaller increase in Q3 was attributable to increases in private inventory, personal consumption expenditures (PCE), state and local government spending, and nonresidential fixed investment.



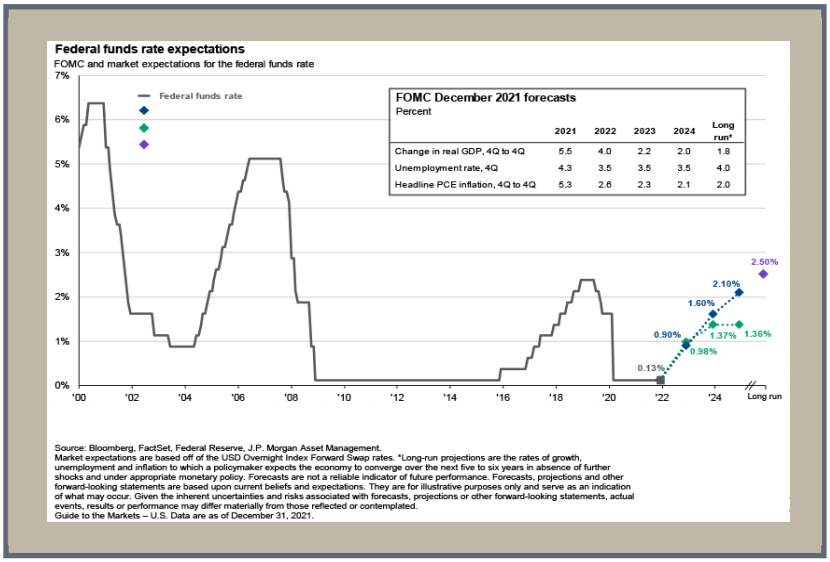

Inflation: While the year over year rate of inflation jumped higher during Q4, the month over month rate of increase has declined since October. In other words, inflation is showing signs of slowing down. Furthermore, as we move forward, we anticipate the base effect of inflation rates 12 months ago to result in lower inflation calculations in the coming year. As of 12/31/2021, Headline CPI increased 7.0% over the prior 12 months and Core CPI (ex-food and energy) was up 5.5% for the same period.[3] The Consumer Price Index report lists increasing energy commodity prices (+48.9% y/y), used cars and trucks (+37.3% y/y) and utility gas service (+24.1% y/y) as major contributors to the recent increase in inflation.[3] We continue to believe today's level of inflation is temporary and will decline. We do not, however, anticipate inflation to run below 2%, like it did over the past decade, due to recent wage inflation and lingering supply chain challenges.




Employment: The unemployment situation continued to improve over the past quarter and remains below its 50-year historical average. As of December 2021, the unemployment rate fell to 3.9%, down from 4.8% in September, 5.9 % in June 2021 and 6.3% in January 2021.[3] Job gains continued to improve in leisure and hospitality and business/professional services, manufacturing, construction, transportation, and warehousing. The number of people employed part-time who want full-time work continues to improve at 3.9 million in December down from 4.5 million in September and 6.2 million in December 2020.[3]



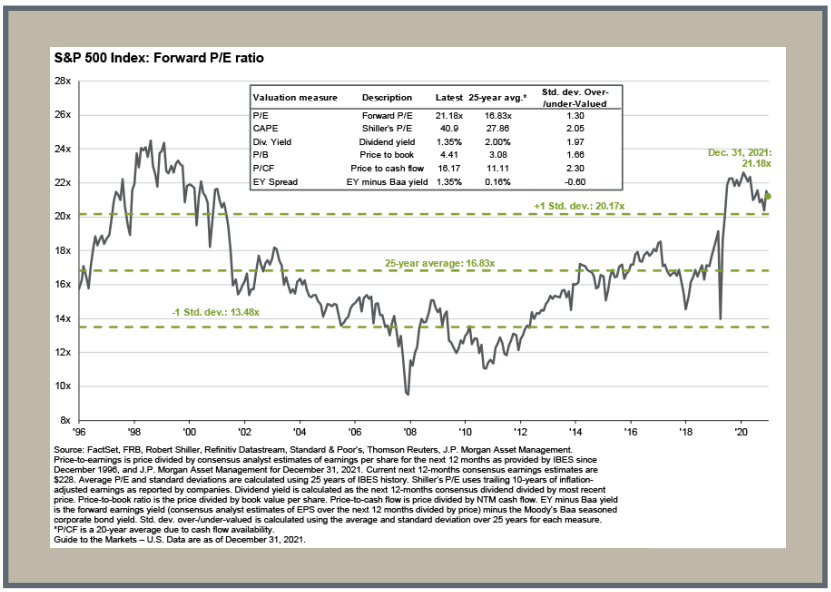
Interest Rates: The Federal Reserve has maintained their target range for the federal funds rate at 0.00% to 0.25%[6], but notably the Fed began decreasing their asset purchases in January 2021. In their meeting minutes, the Federal Reserve acknowledged the progress that has been made with improving employment and increasing inflation pressures.[7] The Federal Reserve emphasized their flexibility to modify the federal funds rate in this highly uncertain environment and we believe is setting market expectations for an increase in federal funds rate as soon as Q2 2022. The FOMC participant dot plat now suggests the potential for three interest rate increases by the end of 2022.




## Equity Investments

Equity markets generally moved up in Q4 2021 with US equities continuing to outperform both developed international equities and emerging market equities over the quarter. S&P 500 company earnings reported during the quarter remained strong, but wall street analysts anticipate earnings growth to slow from its current rapid pace as we look forward into 2022. Potential headwinds to future earnings growth include inflation, wage growth, and higher interest rates.

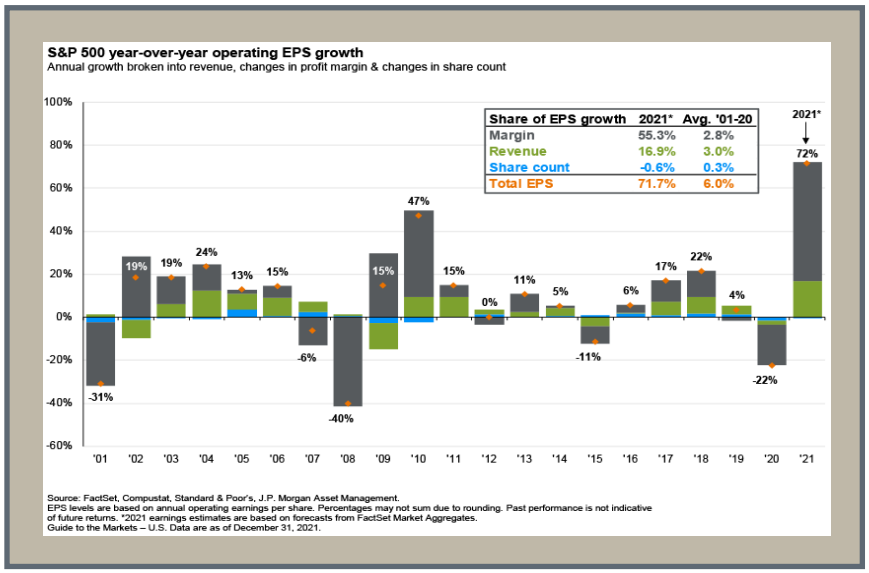
As of 01/13/2022, FactSet reported the forward 12-month P/E ratio on the S&P 500 is 21.1x, which is above both the 5-year average of 18.5x and above the 10-year average of 16.7x. Strong earnings growth outpaced equity market appreciation in 2021, resulting in slightly declining P/E valuations over the year.



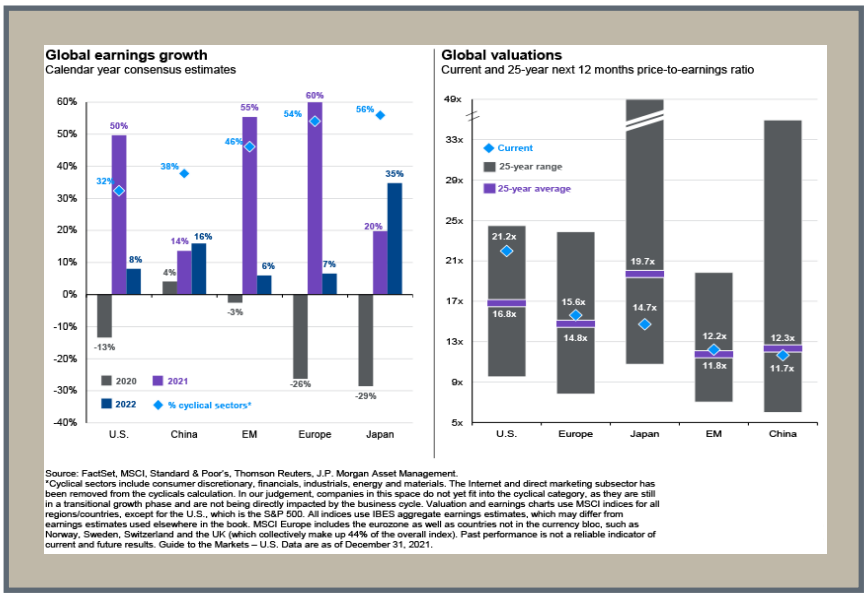

Today's P/E valuations remain high and have been historically supported by low interest rates. As we look forward and anticipate rising interest rates, we expect valuation multiples to decline. We anticipate companies with the highest valuations and lowest current cash flows to be impacted the most when higher interest rates have a greater impact on the present value of future cash flows. Broadly we anticipate positive equity market returns in 2022 due to anticipated economic growth and earnings growth, however we anticipate market volatility depending on the Federal Reserve's tone and pace of interest rate hikes.

During the fourth quarter of 2021, major equity markets ended the quarter mostly in positive territory. The S&P 500 TR (including dividends) was up 11.03% during the fourth quarter and up 28.71% YTD (as of 12/31/21).[1] Developed international markets measured by the MSCI EAFE NR were up 2.69% for the fourth quarter and up 11.26% YTD (as of 12/31/21).[1] Emerging markets measured by the MSCI EM NR were down -1.31% for the fourth quarter and down -2.54% YTD (as of 12/31/21).[1] The broad-based benchmark, MSCI ACWI NR, a market capitalization weighted index designed to measure the global equity market performance of 46 developed and emerging markets, was up 6.68% for the fourth quarter and up 18.54% YTD (as of 12/31/21).[1]

U.S.: Corporate earnings continued their impressive rebound from the initial months of COVID. The chart on the right illustrates this earning growth has come from a combination of both margin expansion and revenue growth. With current inflation rates, wage inflation and the potential for increasing interest rates in 2022, we anticipate earnings growth to slow from here. As of 1/13/2022, looking forward, FactSet is reporting that analysts project the 12-month bottom-up price target for the S&P 500 at 5301.67, 12.2% above the recent 4726.35 closing.[5]




Developed International: Developed international markets experienced a roller coaster like Q4 as COVID dissipated and surged again. Attention is also becoming focused on global central bank moves as they contemplate decreasing asset purchases and increasing interest rates. Rising inflation has caused the European Central Bank (ECB) to start their process of tapering their bond buying program. While developed international valuations are above their 25 year historical average, they remain attractive relative to other asset classes. We believe, however, that valuation alone is not a good indicator of when to buy or sell, because markets can stay expensive or stay cheap for a long time.

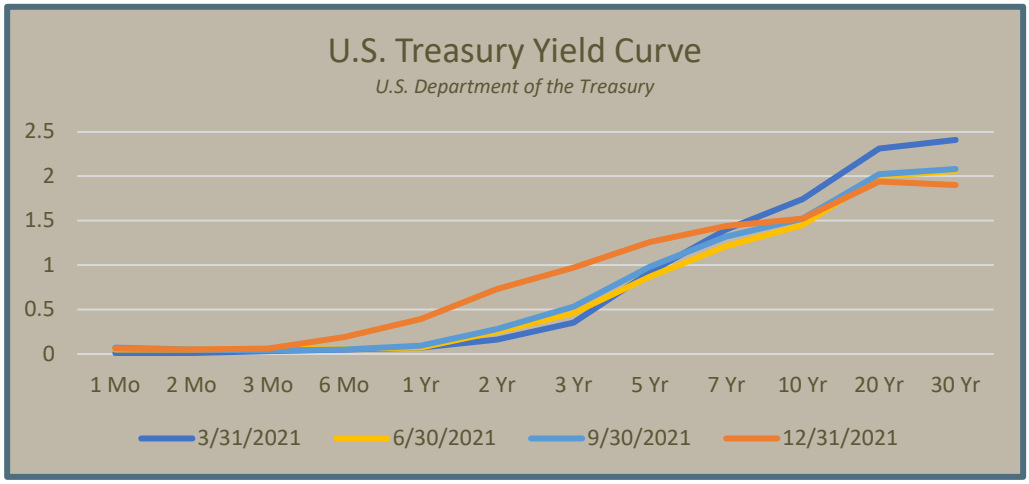



Emerging International: From our perspective it appears emerging market countries are struggling with their economic resilience while attempting to control the spread of COVID. China, the Goliath of emerging economies, and more than 35% of the MSCI EM index, continues to grapple between economic

growth and a zero COVID policy. Reports continue of China COVID lock downs with negative economic impacts.[8] While emerging market valuations remain near their historical average valuation, they continue to appear attractive relative to developed international equity valuations and U.S. equity valuations.

**Fixed Income Investments**

The Federal Reserve accelerated their normalization plans during Q4 as inflation jumped. The Federal Reserve accelerated the reduction of bond purchases in the secondary market, and it is anticipated bond purchases will be ending by March 2022. Furthermore, the Federal Reserve has begun signaling their intention to raise short-term interest rates shortly thereafter. So far, the Fed has done an excellent job communicating their intentions and avoiding a taper tantrum like we experienced in 2013. The Federal Reserve remains focused on COVID's impact on the economic data, and only time will tell how aggressively the Federal Reserve will act. With interest rates still low and potentially increasing further, it will be difficult to find real income and positive returns in core public fixed income markets. We firmly believe investors need to consider other fixed income investment strategies to navigate this low and rising interest rate environment. As we think about investing in publicly traded fixed income during a rising rate environment, we continue to diversify across short- and long-term investment grade core bonds (government, municipal, and corporate) for their diversification from equity market risk, but we also like unconstrained fixed income strategies, international fixed income, floating rate loans, high yield, and liquid alternatives in this market.




With short-term interest rates still at or near zero and longer-term interest rates still very low, investors should continue to consider their other options for generating income. Investors should expect to take on more credit risk, more interest rate risk, and/or liquidity risk to increase income. One challenge is that increasing credit risk or interest rate risk also increases price volatility of the bonds. If investors can assume illiquidity with their credit risk, then private credit and private real estate can potentially generate higher income with less price volatility when compared to publicly traded peers. If investors prefer to maintain liquidity, then in some circumstances, investors can take a total return approach when seeking income.

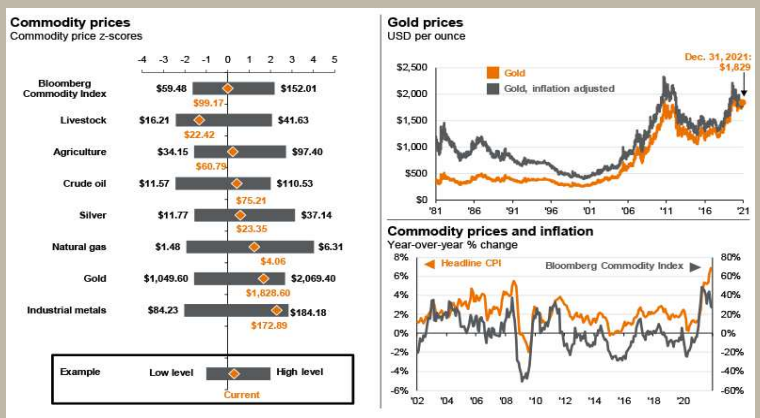
Extended credit (high yield bonds and floating rate loans) both appear expensive relative to their history as spreads are near their all-time lows. From a yield perspective, however, the sub-asset class remains attractive when compared to other publicly traded bond yields. High yield bond defaults have been declining from their 2020 peaks and are below their 30-year average. We continue to emphasize that strong credit underwriting and active management is paramount during default cycles, where avoidance of, and underweights to, the riskiest bonds should prove beneficial. If investors can assume illiquidity, then private credit can potentially generate higher income with less price volatility when compared to their publicly traded peers.

**Alternative Investments**

It may be difficult to repeat recent years of strong equity market returns with today's rising interest rates and higher inflation. As a result, we continue to like alternative investments for portfolio diversification. We like liquid hedge funds with the right risk and return profile to diversify away from equity market risk and interest rate risk. When selected carefully, we believe that allocations to alternative investments can be helpful in managing portfolio volatility, diversifying sources of risk, adding low correlated returns, and thereby enhancing risk-adjusted returns. In this low interest rate environment, we continue to like and use global macro strategies, merger arbitrage strategies, and option strategies for liquid hedge fund exposure.

Commercial real estate continues to recover from the COVID pandemic. Median rent rates are increasing across multi-family, office, industrial and retail properties.[9] Furthermore, the National Association of Realtors® reports cap rates are trending downwards relative to pre-pandemic levels, even as interest rates increase. The multi-family market has the lowest cap rate among core property markets at 5.2%.[9] The office market median cap rate was 7.0%, the industrial median cap rate was 6.5%, and the retail market median cap rate was 7.0%.[9]

Broad commodities were one of the best performing asset classes in 2021, as energy prices rebounded with the economy. We continue to hold a small allocation to commodities because of their diversification of risks, low correlation with other asset classes, and as a hedge against inflation. For these reasons we maintained a small allocation to a broad basket of commodities and gold through specific ETFs.




We continue to see opportunities and invest in private investments such as private equity funds, private debt funds, and private real estate funds. These asset classes are complex, less regulated, and different than their publicly traded peers. Choosing the correct manager in these asset classes is key and the dispersion of returns are wide. Our experience and exposure give us perspective on current terms, fees, investment strategies, etc. available today and allows us to compare private investment opportunities for our clients who qualify, understand, and desire this type of investment exposure. We welcome these conversations.

## Conclusion

U.S. economic data continues to evolve, and we anticipate the economy and markets to return closer to their pre-COVID trend in 2022. Inflation is showing signs of slowing, but ultimately will be determined by the economy's ability to successfully navigate shortages, bottlenecks, and transportation issues. Employment continues to improve and is near the full employment target of the Federal Reserve. Equity markets surged during Q4, and valuations remained high at year end with strong earnings expectations. It remains difficult for investors to find real income in public fixed income markets, and investors that want to increase income need to take on more interest rate risk, credit risk, or liquidity risk to increase income. We continue to see and invest in opportunities within private investments such as private equity funds, private debt funds, and private real estate funds, but these investments are less regulated, more complex, and illiquid.

We continue to advocate for investors to be thoughtful about putting money to work, staying invested, rebalancing, and sticking to their long-term plan. Investors should be prudent about how they diversify their assets, manage risks, and refrain from making big directional trades or trying to time the market. Afterall, it is about time in the market, not timing the market. We welcome discussing these and any other items of importance with you.

Best Regards,

The Olympus Wealth Management Team

*Sources: BlackRock, Eaton Vance, European Central Bank, FactSet, Invesco, JPMorgan, Morningstar Direct, National Association of Realtors®, Northern Trust, The Federal Reserve, U.S. Department of the Treasury, U.S. Department of Commerce Bureau of Economic Analysis, U.S. Department of Labor Bureau of Labor Statistics.*

*1. Morningstar Direct*

*2. GDP estimates are prepared on a schedule that requires three successive estimates – "advance", "preliminary" and "final". The advance estimate is prepared approximately 1 month after the end of the quarter. In most cases, the sources data for the quarter are not final and are subject to revision by the issuing agency. One month later the preliminary estimate replaces the advance estimate. The source data used for preliminary estimates, particularly the data for the third month of the quarter, are subject to further revision. One month later the final estimate replaces the preliminary estimate. The final estimate incorporates revisions in source data for the third month of the quarter. Source: http://www.bea.gov/scb/account_articles/national/1093od/maintext.htm*

*3. U.S. Department of Labor Bureau of Labor Statistics.*

*4. U.S. Bureau of Economic Analysis.*

*5. FactSet.*

*6. Federal Reserve press release 12/15/2021.*

*7. Minutes of the Federal Open Market Committee December 15, 2021.*

*8. The New York Times. "Supply Chain Woes Could Worsen as China Imposes New COVID Lockdowns." 1/16/2022.*

*9. The National Association of Realtors®. 1/17/2022. Weekly Real Estate Monitor.*

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*The performance for the various asset classes and the asset allocation portfolio shown in the chart on page one, is shown for illustrative purposes only and should not be assumed to be the performance of any Olympus strategy or client portfolio. The performance does not reflect the deduction of investment management fees, transaction costs, and other expenses that would be charged in a managed account. The deduction of these fees and expenses lowers performance results.*

*The asset allocation portfolio performance shown in that chart is hypothetical. Hypothetical performance results have certain limitations. Unlike an actual performance record, hypothetical results do not represent actual trading. Also, since the trades have not been executed, the results shown do not take into consideration certain market factors. No representation is being made that the hypothetical results shown will or is likely to be achieved. In fact, there are frequently sharp differences between hypothetical performance returns and actual client results. The results shown herein are based on historical index performance; however, they are calculated based on a buy and hold strategy and therefore do not take into account any material market factors and/or financial risk that may impact investment decisions during the investment times contemplated. For example, the ability of an investor to withstand losses or adhere to a particular trading program despite trading losses are material points which can also adversely affect actual trading. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical results, all of which can adversely affect actual trading results. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment or strategy will be suitable or profitable for a client's portfolio. There can be no assurances that a portfolio will match or outperform any particular benchmark.*

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*Definitions:*

*S&P 500 TR - The S&P 500 Annual Total Return is the investment return received each year, including dividends, when holding the S&P 500 index. The S&P 500 index is a basket of 500 large US stocks, weighted by market cap, and is the most widely followed index representing the US stock market.*

*MSCI EAFE NR - The 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.*

*MSCI EM NR - The MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries*. With 1,397 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.*

*MSCI ACWI – The MSCI ACWI (All Country World Index) is a market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.*

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**All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.**

*Equities:*

The **Dow Jones Industrial Average** is a price-weighted average of 30 actively traded blue-chip U.S. stocks.

The **MSCI ACWI (All Country World Index)** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The **MSCI EAFE Index(Europe, Australasia, Far East)**is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.

The **MSCI Pacific Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Pacific region.

The **Russell 1000 Index**® measures the performance of the 1,000 largest companies in the Russell 3000.

The **Russell 1000 Growth Index**® measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index**® measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Index**® measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **Russell 2000 Growth Index**® measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 2000 Value Index**® measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 3000 Index**® measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

The **Russell Midcap Index**® measures the performance of the 800 smallest companies in the Russell 1000 Index.

The **Russell Midcap Growth Index** ® measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth index.

The **Russell Midcap Value Index** ® measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value index.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The **S&P 500 Index** focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

*Fixed income:*

The **Bloomberg 1-3 Month U.S. Treasury Bill Index** includes all publicly issued zero-coupon US Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible.

The **Bloomberg Global High Yield Index** is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive. Until January 1, 2011, the index also included CMBS high yield securities.

The **Bloomberg Municipal Index**: consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market.

The **Bloomberg US Dollar Floating Rate Note (FRN) Index** provides a measure of the U.S. dollar denominated floating rate note market.

The **Bloomberg US Corporate Investment Grade Index** is an unmanaged index consisting of publicly issued US Corporate and specified foreign debentures and secured notes that are rated investment grade (Baa3/BBB or higher) by at least two ratings agencies, have at least one year to final maturity and have at least $250 million par amount outstanding. To qualify, bonds must be SEC-registered.

The **Bloomberg US High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.

The **Bloomberg US Mortgage Backed Securities Index** is an unmanaged index that measures the performance of investment grade fixed-rate mortgage backed pass-through securities of GNMA, FNMA and FHLMC.

The **Bloomberg US TIPS Index** consists of Inflation-Protection securities issued by the U.S. Treasury.

The **J.P. Morgan Emerging Market Bond Global Index(EMBI)**includes U.S. dollar denominated Brady bonds, Eurobonds, traded loans and local market debt instruments issued by sovereign and quasi-sovereign entities.

The **J.P. Morgan Domestic High Yield Index** is designed to mirror the investable universe of the U.S. dollar domestic high yield corporate debt market.

The **J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified)**is an expansion of the **J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI)**. The CEMBI is a market capitalization weighted index consisting of U.S. dollar denominated emerging market corporate bonds.

The **J.P. Morgan Emerging Markets Bond Index Global Diversified (EMBI Global Diversified)** tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. The index limits the exposure of some of the larger countries.

The **J.P. Morgan GBI EM Global Diversified** tracks the performance of local currency debt issued by emerging market governments, whose debt is accessible by most of the international investor base.

The **U.S. Treasury Index** is a component of the U.S. Government index.

*Source: Guide to the Markets December 31, 2021*

*Other asset classes:*

The **Alerian MLP Index** is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for the asset class.

The **Bloomberg Commodity Index** and related sub-indices are composed of futures contracts on physical commodities and represents twenty two separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc

The **Cambridge Associates U.S. Global Buyout and Growth Index®** is based on data compiled from 1,766 global (U.S. & ex –U.S.) buyout and growth equity funds, including fully liquidated partnerships, formed between 1986 and 2013.

The **CS/Tremont Hedge Fund Index** is compiled by Credit Suisse Tremont Index, LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The Index uses the Credit Suisse/Tremont database, which tracks over 4500 funds, and consists only of funds with a minimum of US$50 million under management, a 12-month track record, and audited financial statements. It is calculated and rebalanced on a monthly basis, and shown net of all performance fees and expenses. It is the exclusive property of Credit Suisse Tremont Index, LLC.

The **HFRI Monthly Indices (HFRI)** are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into 4 main strategies, each with multiple sub strategies. All single-manager HFRI Index constituents are included in the HFRI Fund Weighted Composite, which accounts for over 2200 funds listed on the Internal HFR Database.

The **NAREIT EQUITY REIT Index** is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List.

The **NFI-ODCE**, short for NCREIF Fund Index -Open End Diversified Core Equity, is an index of investment returns reporting on both a historical and current basis the results of 35 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s. The NFI-ODCE Index is capitalization-weighted and is reported gross of fees. Measurement is time-weighted.

*Definitions:*

Investing in **alternative assets** involves higher risks than traditional investments and is suitable only for sophisticated investors. Alternative investments involve greater risks than traditional investments and should not be deemed a complete investment program. They are not tax efficient and an investor should consult with his/her tax advisor prior to investing. Alternative investments have higher fees than traditional investments and they may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain. The value of the investment may fall as well as rise and investors may get back less than they invested.

**Bonds** are subject to interest rate risks. Bond prices generally fall when interest rates rise.

Investments in **commodities** may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.

**Derivatives** may be riskier than other types of investments because they may be more sensitive to changes in economic or market conditions than other types of investments and could result in losses that significantly exceed the original investment. The use of derivatives may not be successful, resulting in investment losses, and the cost of such strategies may reduce investment returns.

**Distressed Restructuring Strategies** employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings.

Investments in **emerging markets** can be more volatile. The normal risks of investing in foreign countries are heightened when investing in emerging markets. In addition, the small size of securities markets and the low trading volume may lead to a lack of liquidity, which leads to increased volatility. Also, emerging markets may not provide adequate legal protection for private or foreign investment or private property.

The price of **equity** securities may rise, or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. These price movements may result from factors affecting individual companies, sectors or industries, or the securities market as a whole, such as changes in economic or political conditions. Equity securities are subject to "stock market risk" meaning that stock prices in general may decline over short or extended periods of time.

**Equity market neutral strategies** employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. Equity Market Neutral Strategies typically maintain characteristic net equity market exposure no greater than 10% long or short.

**Global macro strategies** trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets.

**International** investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Some overseas markets may not be as politically and economically stable as the United States and other nations.

There is no guarantee that the use of **long and short positions** will succeed in limiting an investor's exposure to domestic stock market movements, capitalization, sector swings or other risk factors. Using long and short selling strategies may have higher portfolio turnover rates. Short selling involves certain risks, including additional costs associated with covering short positions and a possibility of unlimited loss on certain short sale positions.

**Merger arbitrage strategies** which employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are currently engaged in a corporate transaction.

**Mid-capitalization** investing typically carries more risk than investing in well-established "blue-chip" companies. Historically, mid-cap companies' stock has experienced a greater degree of market volatility than the average stock.

**Price to forward earnings** is a measure of the price-to-earnings ratio (P/E) using forecasted earnings. **Price to book value** compares a stock's market value to its book value. **Price to cash flow** is a measure of the market's expectations of a firm's future financial health. **Price to dividends** is the ratio of the price of a share on a stock exchange to the dividends per share paid in the previous year, used as a measure of a company's potential as an investment.

**Real estate** investments may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrower.

**Relative Value Strategies** maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities.

**Small-capitalization** investing typically carries more risk than investing in well-established "blue-chip" companies since smaller companies generally have a higher risk of failure. Historically, smaller companies' stock has experienced a greater degree of market volatility than the average stock.

*Source: Guide to the Markets December 31, 2021*

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Unless otherwise stated, all data are as of December 31, 2021 or most recently available.

**Guide to the Markets – U.S.**

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*Source: Guide to the Markets December 31, 2021*