ACG Market Review – Fourth Quarter 2023

- **Economy – An economic soft-landing in the U.S. moves from a low probability event to the consensus view**
  - Softer inflation data led to increased market expectations for Federal Reserve rate cuts in 2024 and into 2025
  - The positive feedback loop for risk assets from the easing of financial conditions and Fed pivot was reinforced by a few other factors:
    - The broader soft-landing narrative
    - Consumer resilience
    - Strong Q3 2023 corporate earnings and stable 2024 consensus earnings expectations

- **Equity – Narrative around peak Fed rates sparks widespread rally across equities**
  - U.S. equity markets saw a broadening of leadership following recent dominance of the Magnificent Seven
    - Despite the broadening of the rally, most of the Magnificent Seven names still outperformed in Q4 with AMZN +19.5%, MSFT +19.1%, META +17.9%, NVDA +13.9% and AAPL +12.5% all beating the market
  - Small caps and other formerly out-of-favor areas showed strength during the quarter

- **Fixed Income – Fed comments and economic data led to projections for a Fed pivot to cutting rates**
  - Treasury yields were volatile with 2- and 10-year notes down 75 and 70 basis points respectively during Q4
  - As a result of the above, most financial conditions indexes saw significant easing
  - Fixed income investments saw some of the strongest quarterly returns on record

- **Risks/Other Considerations**
  - Risk narratives centered around a potentially premature move to cut rates by the Fed, the lagged effects of the tightening cycle on corporate profits, overbought conditions following such a strong rally, and geopolitics focused on potential escalation in the Middle East and/or Ukraine

Statistic	Last Year	Last Quarter	Current
Fed Funds Rate	4.50%	5.50%	5.50%
Prime Rate	7.50%	8.50%	8.50%
10-Year Treasury Yield	3.88%	4.57%	3.88%
30-Year Fixed Mortgage Rate	6.48%	7.31%	6.62%
S&P 500 P/E Ratio (Forward Earnings)	17.0x	17.6x	19.6x
Projected Earnings Growth (S&P 500, Quarterly)	-3.2%	+7.5% (est.)	+5.2% (est.)
U.S. GDP (Real, Quarterly)	+2.6% (Q4 2022)	+4.9% (Q3 2023)	+2.5% (Q4 2023 est.)

Source: Morningstar, ACG

Market Index Review – December 2023

Major Market Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500	4.54	11.69	26.29	26.29	10.00	15.69	12.03
Russell 2000	12.22	14.03	16.93	16.93	2.22	9.97	7.16
Russell 3000	5.30	12.07	25.96	25.96	8.54	15.16	11.48
MSCI ACWI	4.80	11.03	22.20	22.20	5.75	11.72	7.92
MSCI ACWI ex USA	5.02	9.75	15.62	15.62	1.55	7.08	3.83
Bloomberg US Aggregate TR	3.83	6.82	5.53	5.53	-3.31	1.10	1.81

International Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
MSCI EAFE	5.31	10.42	18.24	18.24	4.02	8.16	4.28
MSCI Europe	5.00	11.05	19.89	19.89	5.80	9.09	4.13
MSCI Pacific	5.89	9.25	15.27	15.27	0.95	6.55	4.62
MSCI EAFE Small Cap	7.28	11.14	13.16	13.16	-0.69	6.58	4.80
MSCI Emerging Markets	3.91	7.86	9.83	9.83	-5.08	3.69	2.66
MSCI Frontier Markets	3.05	3.97	11.63	11.63	-0.52	3.33	2.00

Russell Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Russell 1000	4.94	11.96	26.53	26.53	8.97	15.52	11.80
Russell 1000 Growth	4.43	14.16	42.68	42.68	8.86	19.50	14.86
Russell 1000 Value	5.54	9.50	11.46	11.46	8.86	10.90	8.40
Russell MidCap	7.73	12.82	17.23	17.23	5.92	12.68	9.42
Russell MidCap Growth	7.58	14.55	25.87	25.87	1.31	13.81	10.57
Russell MidCap Value	7.79	12.11	12.71	12.71	8.36	11.16	8.26
Russell 2000 Growth	11.97	12.75	18.66	18.66	-3.50	9.22	7.16
Russell 2000 Value	12.45	15.26	14.65	14.65	7.94	10.00	6.76

Bond Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
FTSE T-Bill 3 Months	0.47	1.41	5.26	5.26	2.25	1.91	1.26
Bloomberg US Municipal TR	2.32	7.89	6.40	6.40	-0.40	2.25	3.03
Bloomberg US Govt/Credit TR	3.68	6.63	5.72	5.72	-3.53	1.41	1.97
Bloomberg US Govt/Credit Int TR	2.32	4.56	5.24	5.24	-1.63	1.59	1.72
Bloomberg US Credit 1-3 Yr TR	1.29	3.01	5.28	5.28	0.51	2.03	1.75
Bloomberg US Credit Long TR	7.30	13.71	10.73	10.73	-6.50	2.70	3.88
Bloomberg US Corporate High Yield TR	3.73	7.16	13.44	13.44	1.98	5.37	4.60
FTSE WGBI	4.20	8.08	5.18	5.18	-7.18	-1.39	-0.31

Sector Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500 Materials	4.56	9.69	12.54	12.54	7.92	13.58	8.60
S&P 500 Consumer Discretionary	6.10	12.42	42.40	42.40	3.72	13.73	11.69
S&P 500 Consumer Staples	2.67	5.54	0.52	0.52	5.82	10.86	8.54
S&P 500 Energy	-0.02	-6.94	-1.33	-1.33	36.24	13.40	3.48
S&P 500 Financials	5.40	14.03	12.15	12.15	10.65	11.97	10.05
S&P 500 Health Care	4.30	6.41	2.06	2.06	8.07	11.58	11.61
S&P 500 Industrials	7.01	13.05	18.13	18.13	10.59	14.21	10.00
S&P 500 Information Technology	3.83	17.17	57.84	57.84	15.10	26.95	20.79
S&P 500 Real Estate	8.70	18.83	12.36	12.36	6.66	8.90	--
S&P 500 Communication Services	4.80	10.95	55.80	55.80	4.42	13.31	7.81
S&P 500 Utilities	1.92	8.56	-7.08	-7.08	3.55	7.11	8.91

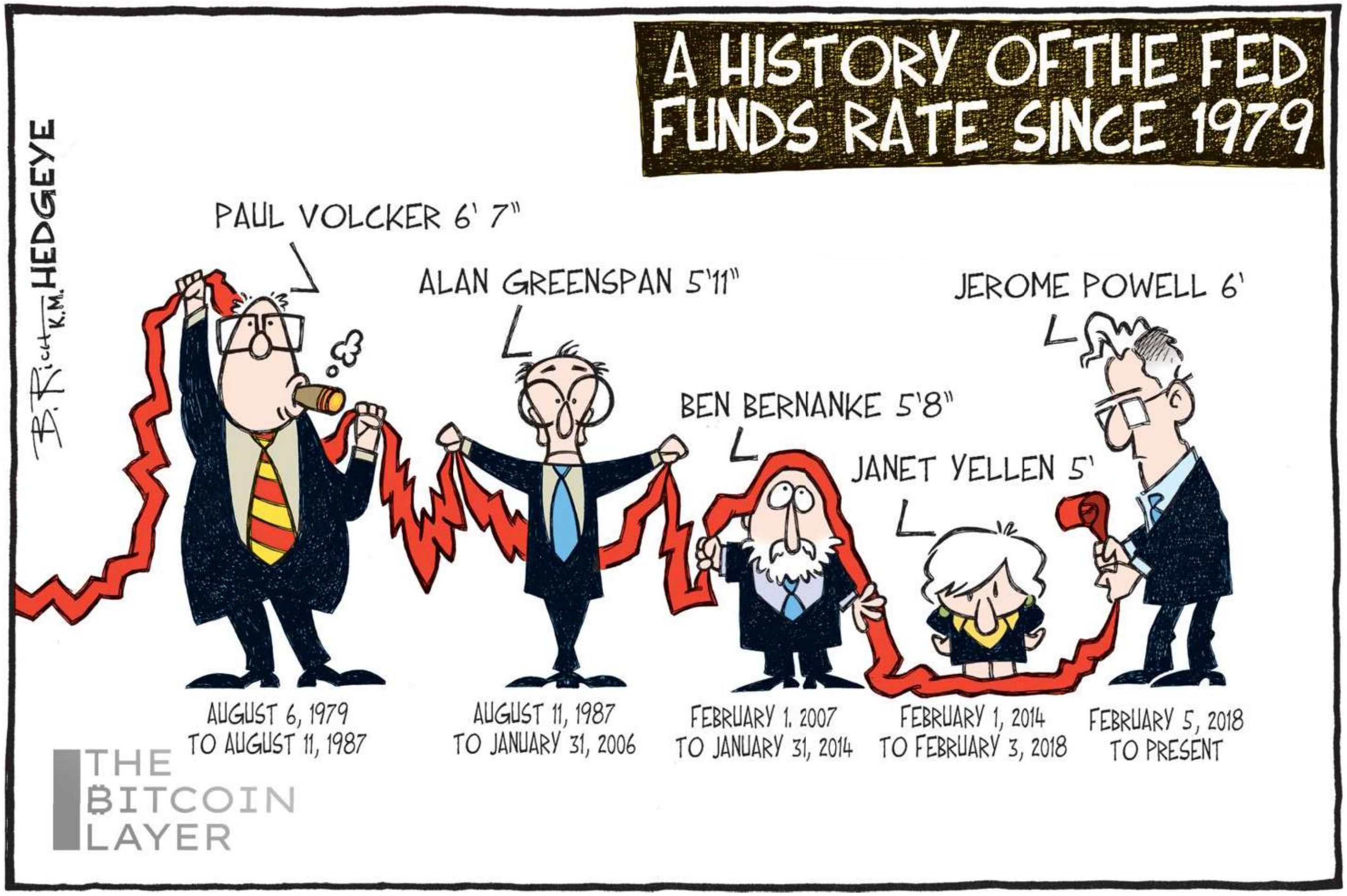
Other Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Morningstar US Long-Short Equity	3.06	5.98	9.94	9.94	4.28	6.02	3.57
Morningstar US Equity Market Neutral	-0.71	1.25	5.29	5.29	6.16	2.56	2.15
Morningstar US Multistrategy	1.00	1.86	6.50	6.50	3.30	3.76	2.35
Wilshire Liquid Alternative TR USD	0.40	1.89	4.42	4.42	1.03	2.53	1.35
FTSE EPRA/NAREIT Developed NR USD	9.46	15.29	9.67	9.67	1.18	2.81	3.57
Alerian MLP TR USD	-2.17	4.98	26.56	26.56	32.43	12.03	1.90
Bloomberg Commodity Index TR USD	-2.69	-4.63	-7.91	-7.91	10.76	7.23	-1.11
S&P Global Infrastructure TR USD	4.25	10.94	6.79	6.79	6.05	7.37	5.73
WTI Crude BL	-4.98	-20.80	-10.32	-10.32	14.14	9.75	-3.07
US Dollar Index	-2.09	-4.60	-2.11	-2.11	4.06	1.05	2.39
Consumer Price Index *	-0.20	-0.24	3.45	3.14	5.67	4.03	2.80

* Consumer Price Index returns will be reported as of the previous month end due to the delayed release of data.

Source: Morningstar, ACG
Returns include dividends; 3-year, 5-year and 10-year returns are annualized. Indices are unmanaged.
You cannot invest directly into an index. Past performance is not indicative of future results

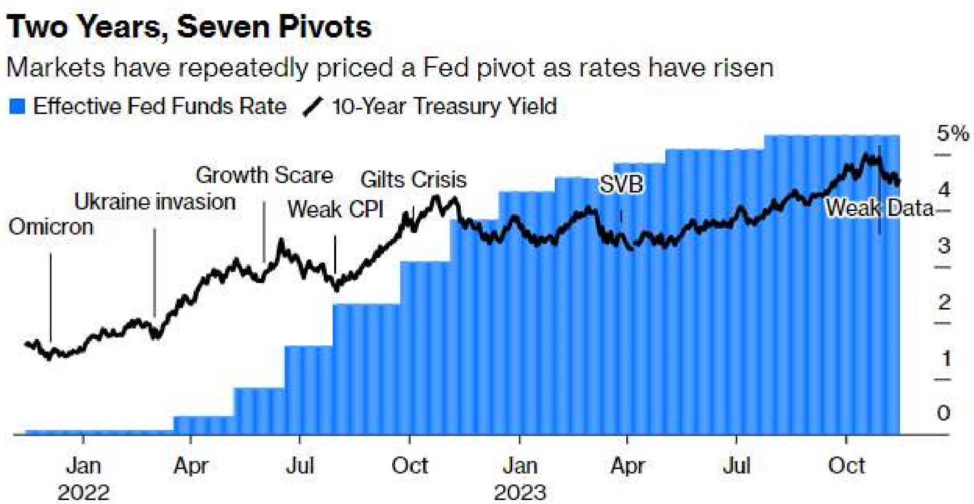
ACG Atlanta Consulting Group

Q4 2023: Is the Fed Really Done Raising Rates?



Did We Just See the Much Anticipated "Fed Pivot?"

Federal Funds Rate vs. 10-Year Treasury
(Yield)



Rate Hikes vs. S&P 500 Performance
(Final Fed Reserve Rate Hikes 1929-2023)

Final Fed rate hikes			
	S&P 500 performance		Subsequent first Fed rate cut (number of days)
Final Fed rate hike	6 months later	12 months later	
8/9/1929	-17.8%	-28.6%	59
1/16/1953	-7.2%	-3.2%	320
8/23/1957	-8.2%	6.3%	58
9/11/1959	-5.5%	-2.8%	185
12/6/1965	-5.0%	-11.2%	331
4/3/1969	-7.4%	-10.5%	405
4/25/1974	-18.4%	-2.6%	155
2/15/1980	8.5%	11.1%	71
5/5/1981	-6.5%	-10.9%	874
2/24/1989	20.1%	14.2%	68
2/1/1995	19.0%	32.1%	104
5/16/2000	-6.8%	-15.0%	155
6/29/2006	12.1%	18.3%	297
12/19/2018	17.8%	27.3%	150
Average	**-0.4%**	**1.8%**	**231**
Median	**-6.0%**	**-2.7%**	**155**

- Over the last two years, the markets priced in a "Pivot," where the Federal Reserve was expected to cut rates after a period of hikes, seven times. Each time, the markets were wrong, and the Fed continued to hike rates. While this time may ultimately turn out to be another false signal, markets reacted as if this was the real thing with equities surging and yields falling significantly

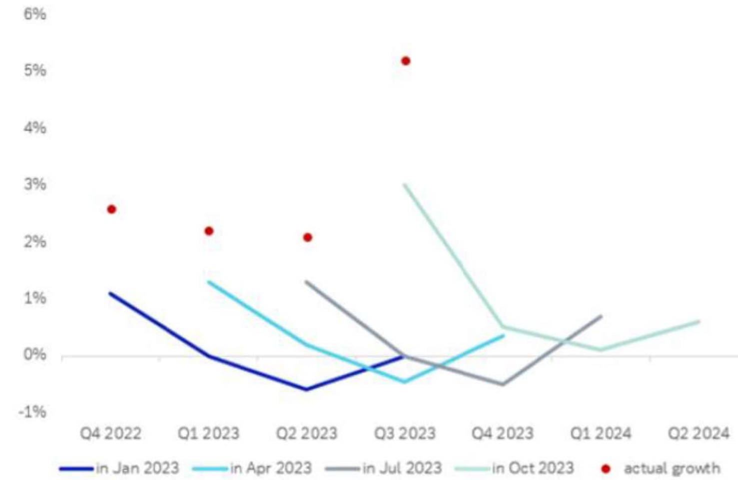
- Looking back at peak Fed Funds rates over the last 100 years, one sees a wide range of time from the last rate hike until the first rate cut. Equity returns, on average, have been muted during these periods. The average, however, masks a great deal of dispersion within the data. Some years saw large double-digit declines, while others saw strong market rallies

Source: Bloomberg, Charles Schwab, Federal Reserve, ACG

An Economic Soft Landing Seems More Likely, But…

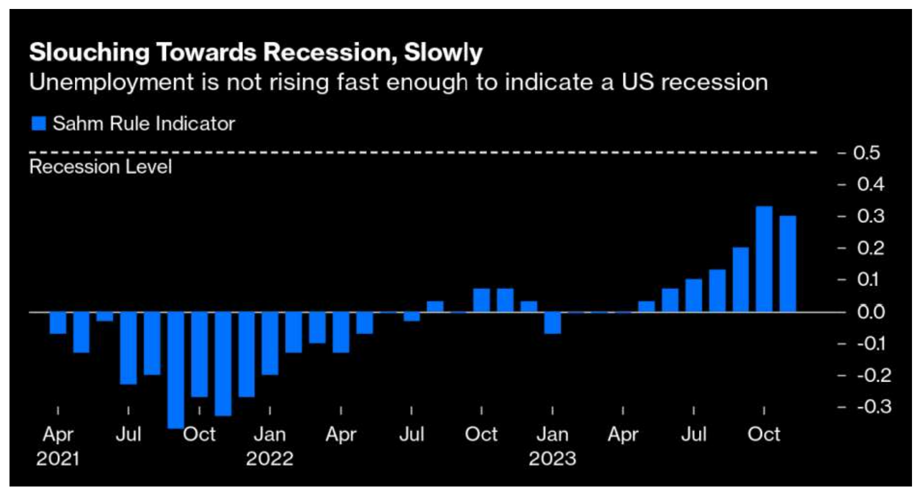
- Throughout 2023, U.S. GDP growth consistently surprised to the upside vs. estimates. Strategists and economists braced for an imminent recession each quarter, but each quarter they were surprised by higher than forecasted economic strength. Deutsche Bank put together the chart to the right to highlight this phenomenon over the four quarters. Current projections call for economic growth to bottom out in early 2024, but in still positive territory

Actual vs. Forecast U.S. Quarterly GDP Growth
(Quarterly Bloomberg Economist Survey)



- One measure that has gained traction recently in trying to forecast economic weakness is the so-called "Sahm Rule," named after former Federal Reserve economist Claudia Sahm. Typically, when a recession is coming, employment peaks, begins to decline slowly, and then reaches a tipping point and then falls much faster. Sahm's rule suggests that that tipping point is reached when the 3-month rolling average of the unemployment rate exceeds the minimum 3-month average over the preceding 12 months by 0.5%. While this measure has been rising, it is still below the recession threshold

"Sahm Rule" Unemployment % Indicator
(Most Recent 3 Month Avg. Unemployment % Minus Minimum 3 Month Avg. Over the Last 12 Months)

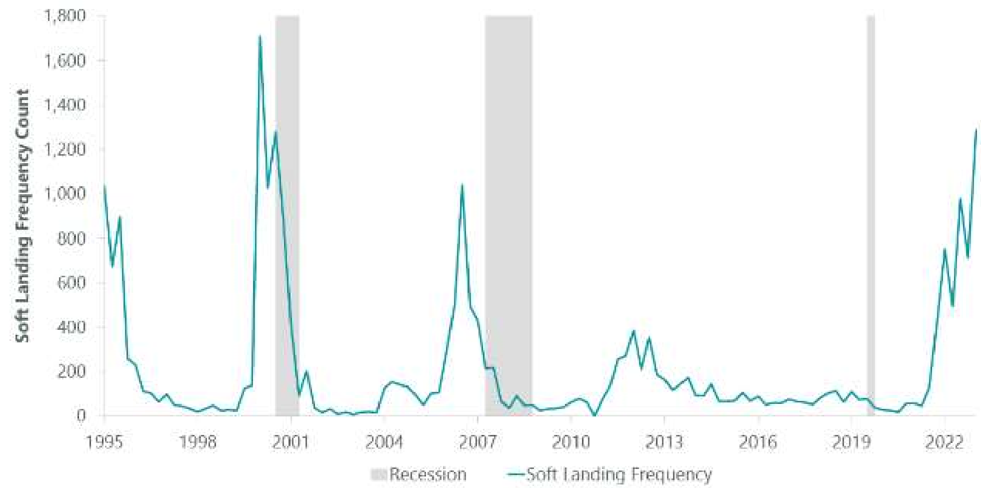


Source: Deutsche Bank, Bureau of Economic Analysis, Bloomberg, ACG

…Recessions Always Start as Soft Landings

- During the last quarter, the narrative around a "soft landing," where Fed rate hikes do not cause an immediate recession, gained a lot of traction among investors, Wall St. strategists, and economists. Looking back, however, the frequency of mentions of the term soft landing in company earnings filings, transcripts and presentations has always spiked before a recession and many are hopeful of avoiding such an outcome

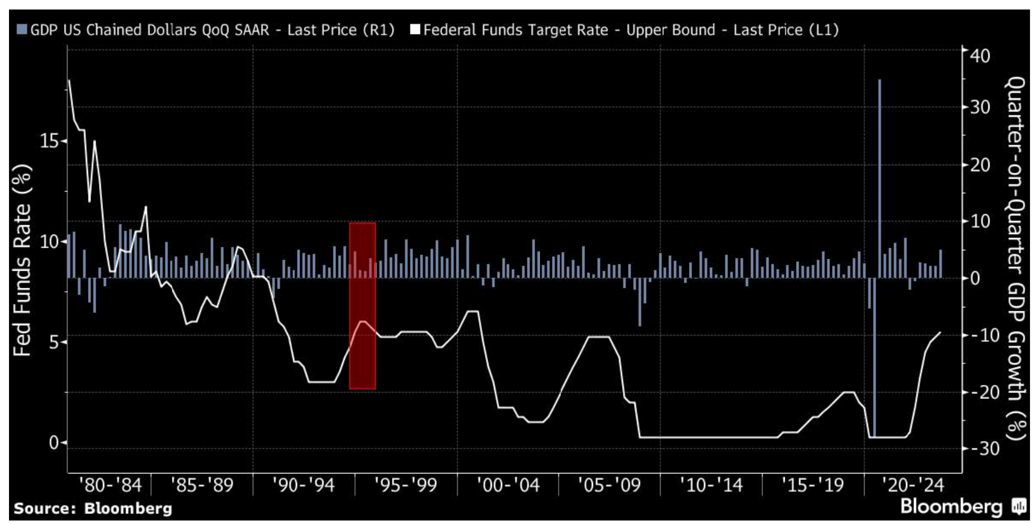
Frequency of the phrase "Soft Landing"
(Count of mentions in company earnings releases, 1995-2023)



Note: Soft landing frequency is the count of mentions of the term 'soft landing' in company filings, transcripts, and presentations since 3Q95. Data as of Sept. 30, 2023. Source: NBER and Bloomberg.

- Historically, if one looks back to 1980, the period in the mid-1990s was the only example where the Fed successfully achieved a soft landing. So, while the U.S. could completely avoid a recession, the odds still favor economic weakness sometime in the next 12-24 months

GDP Growth vs. Fed Funds Rates
(Quarterly GDP, 1980-2023)



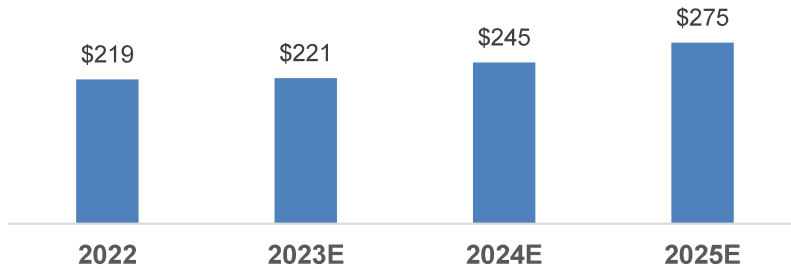
Earnings Outlook Strong, But Not Without Risks

- After a period of stalled earnings growth, consensus estimates for the S&P 500 now show a return to strong annual growth over the next couple of years. 2024 over 2023 shows a growth rate of 11% and 2025 over 2024 shows 12% annual growth. Using 2024 projected earnings, as of year-end 2023, the S&P 500 now trades at a forward price-to-earnings ratio of 19.4 times

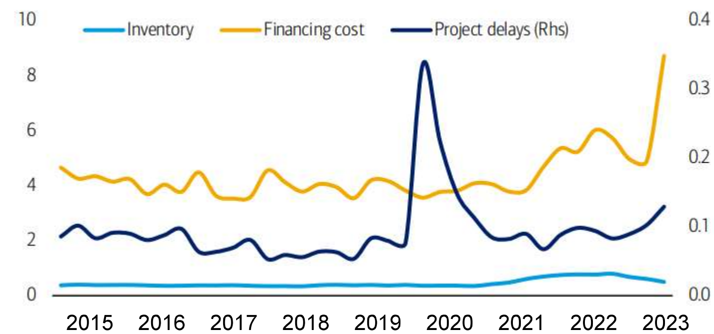
- In reviewing corporate earnings calls, one can see themes that businesses are faced with over time. During the pandemic, it was often "supply chain" and "project delay" related. More recently, as rates have increased significantly over the last 2 years, "financing cost" has seen a spike in mentions as corporate management begins to grapple with the new higher rate environment

- Over the last decade, most corporations (especially large ones) benefitted from the low-rate environment by continually refinancing their debt at ever lower rates. Their ability to do this, however, came to a halt when the Fed hiked rates to combat runaway inflation. Now, the average yield on corporate debt (minus the coupon on outstanding debt) is a difference of nearly 2%, resulting in a much different environment for refinancing

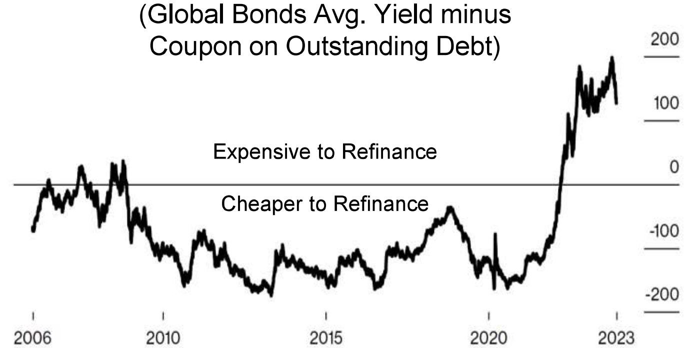
S&P 500 Earnings
(Consensus Annual Earnings / Estimates)



Earnings "Buzzwords"
(Q3 2023 S&P 500 Earnings Call Mentions of Terms)



Global Debt Refinancing Costs
(Global Bonds Avg. Yield minus Coupon on Outstanding Debt)



Source: DataStream, Standard & Poor's, Bank of America, Bloomberg, ACG

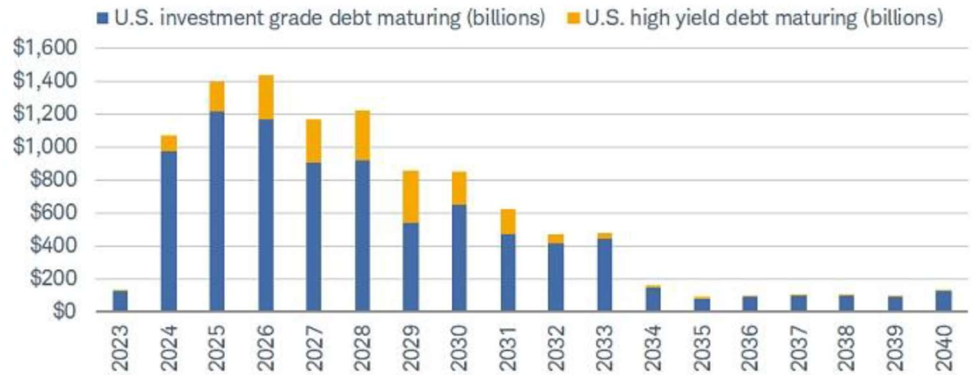
The Effect of Rising Rates on Corporate Profits

- While very little corporate debt matured in 2023, looking out over the next five years, one can see that over $1 trillion of debt is due to mature in each of the next 5 years. Based on current rates, this debt will have to be refinanced at higher rates and will likely create a drag to corporate earnings going forward

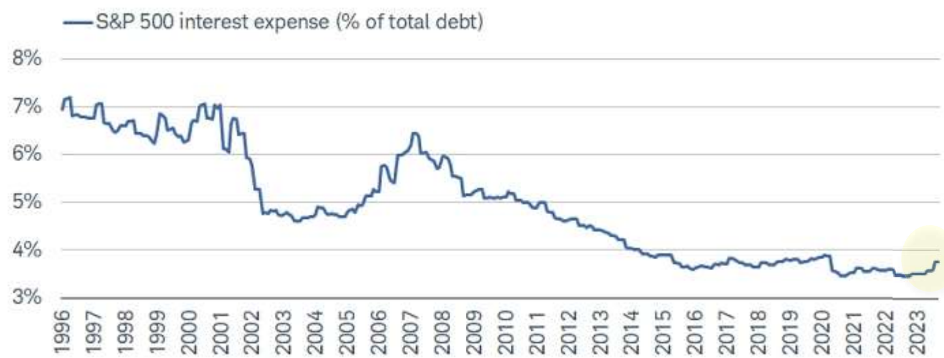
- On the bright side, the increase in rates, at least thus far, has had a muted effect on interest expenses for larger domestic companies

- On the other hand, when you look at the rate of change, the uptick looks more significant as it is now in double-digit territory. Wall Street analysts will likely pay close attention to this metric as they review earnings calls into 2024

U.S. Corporate Debt Maturity Schedule
(Maturity by Debt Category and Year)



Corporate Interest Expense
(S&P 500 Interest Expense (% of Total Debt)



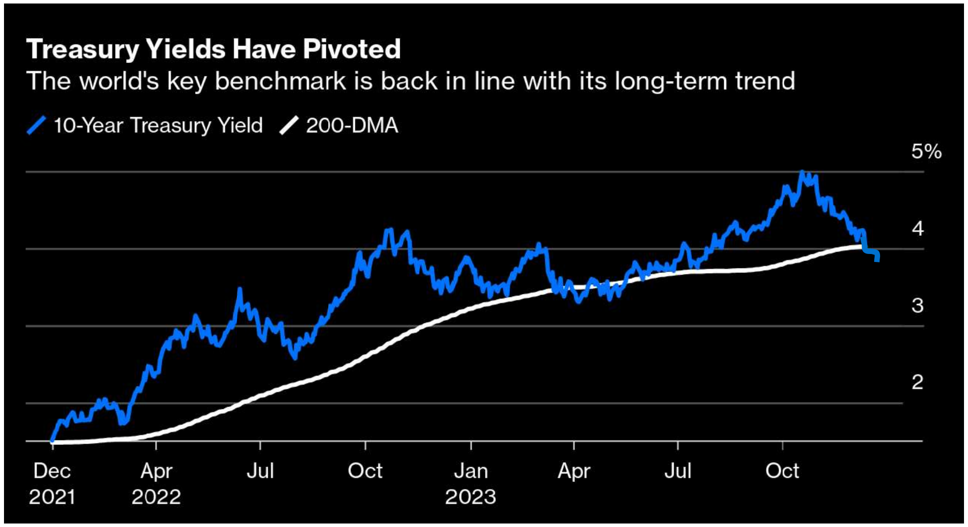
Source: Charles Schwab, Standard & Poor's, Strategas, ACG

Bond Volatility: "November Was a Good Year"

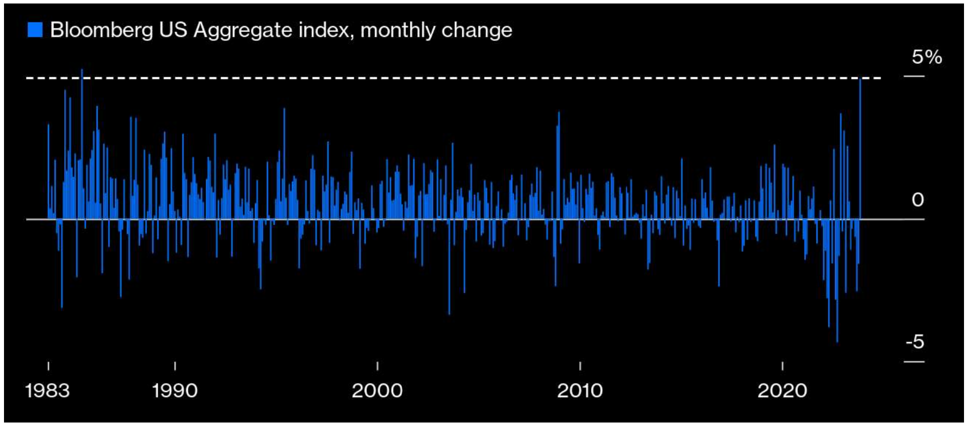
- During the last two years, as the Federal Reserve hiked rates to combat inflation, intermediate maturity bond yields, such as the 10-Year Treasury for example, were slow to increase due to the inversion of the yield curve and uncertainty over the full path of future Fed policy. In the last quarter, however, yields shot up above the 5% level as markets priced in potential future hikes. The spike proved to be brief as after the last two Federal Open Market Committee (FOMC) meetings, the narrative changed and eventually solidified around peak rates and 10-Year Treasury yields ended the year back under the 4% level

- As a result of this uncertainty, bond returns were abnormally volatile. In 2022, bonds experienced some of their largest declines ever. In 2023, bonds rebounded early in the year as rates fell back slightly but then fell sharply again in Q3 as yields shot up. When rates fell precipitously in November (by almost 100 basis points), markets saw the strongest monthly return to the Bloomberg Aggregate Bond Index in almost 40 years

10-Year U.S. Treasury Yields
(2022-2023)



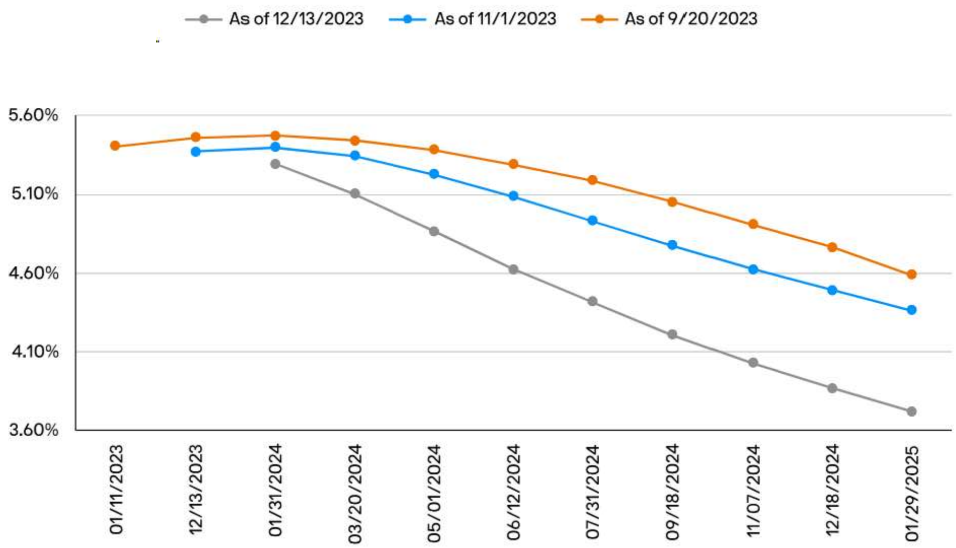
Bloomberg Aggregate Bond Index
(Monthly Return, 1983-2023)



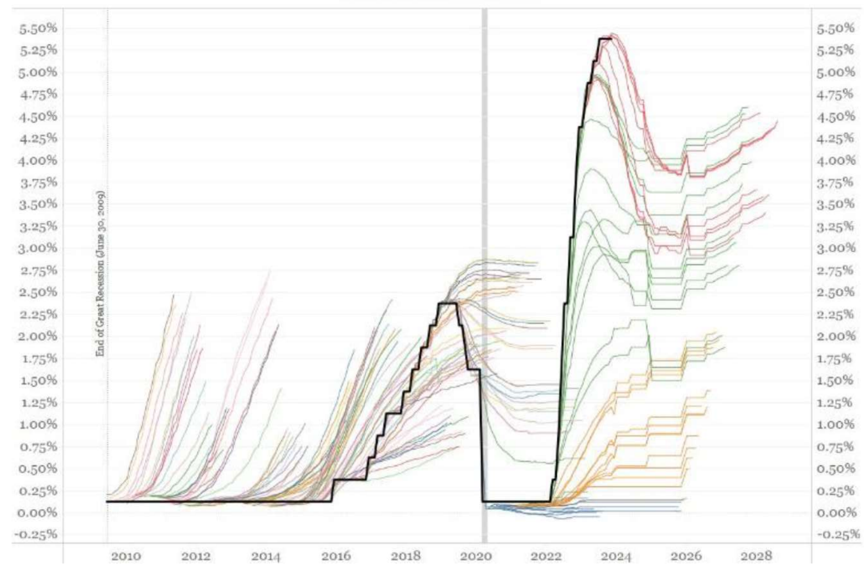
Source: Bloomberg, Federal Reserve, ACG

What Will 2024 Have in Store for Rates?

Federal Reserve Interest Rate Hike/Cut Projections
(Following Last 3 FOMC Meetings)



Federal Funds Futures Forward Curve
(2010-2023)



- Early in 2023, the market predicted a “higher for longer” interest rate policy from the Federal Reserve. During the second half of 2023, as inflation cooled, consensus quickly changed to an expectation of future rate cuts. At each of the last three Federal Open Market Committee (FOMC) meetings, expectations for future interest rates dropped, which implies the potential for rate cuts in 2024

- Neither the Federal Reserve nor the market is very good at predicting the future path of the Fed Funds rate. The chart above shows the implied course of the rate (derived from the futures market) at each meeting of the FOMC going back to 2010. Markets persistently predicted hikes throughout the last decade when rates stayed at or close to zero, and then understated how far the Fed would hike during the most recent cycle

Source: Bloomberg, Bianco Research, Federal Reserve, ACG

Interest Rates to the Rescue!

Bank Stock Performance
(By Region, 2023)

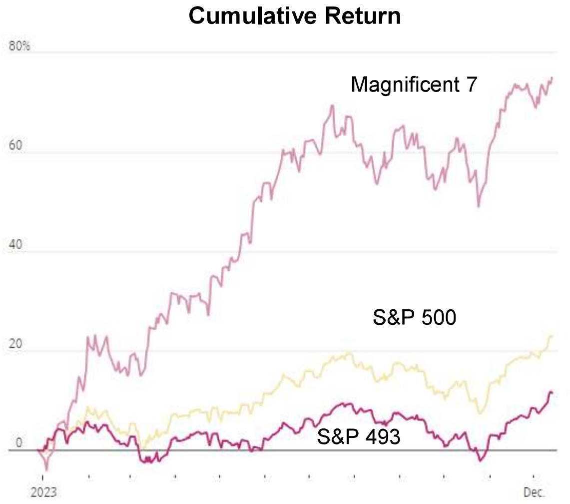
Real Estate Performance vs. Interest Rates
(MSCI ACWI RE Index vs. 10 Year Treasury, 2023)

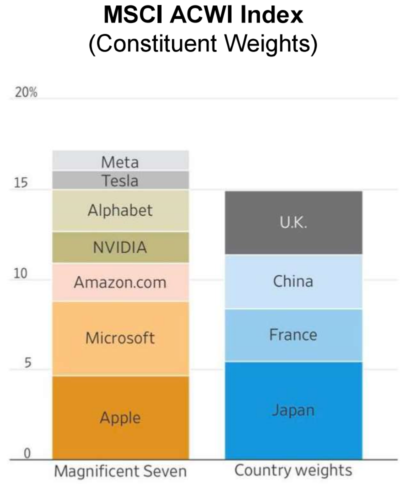
- In early 2023 bank stocks fell abruptly when a few of the smaller regional banks ran into issues and investors started to question the health of the entire sector. While Silicon Valley, Signature, and other banks each had different issues, the underlying cause was the rapid rise in interest rates. As rates fell during the fourth quarter, investor enthusiasm returned to the sector and bank shares rallied. Currently, regional banks are now trading back above their book value

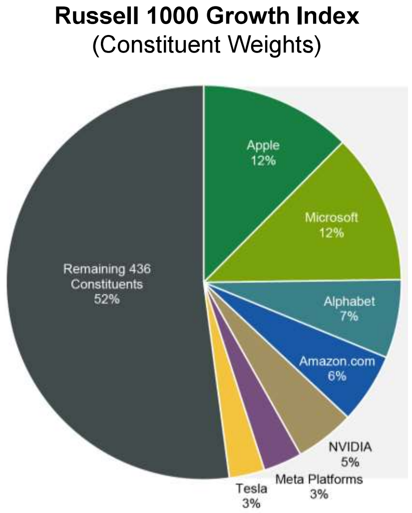
- Another sector that was volatile in 2023 was commercial real estate. This is largely due to the sectors sensitivity to long-term interest rates. After the pandemic and with continued uncertainty around the future of work-from-home and hybrid work environments, real estate firms with high exposure to the office sector, and malls, were particularly hard hit. Recently, as rates fell during the fourth quarter, property related shares have surged

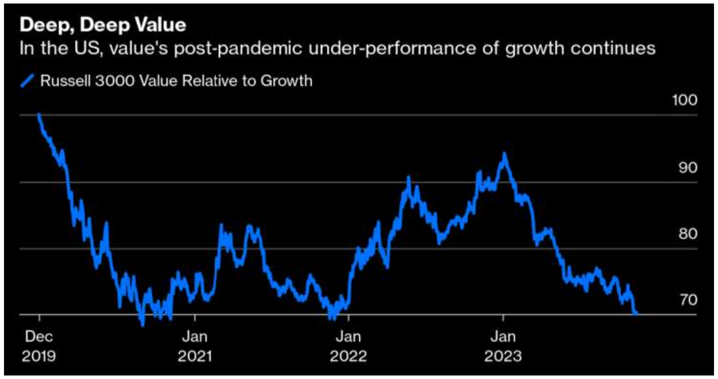
Source: Bloomberg, MSCI, FTSE, Topix, Standard & Poor's, ACG

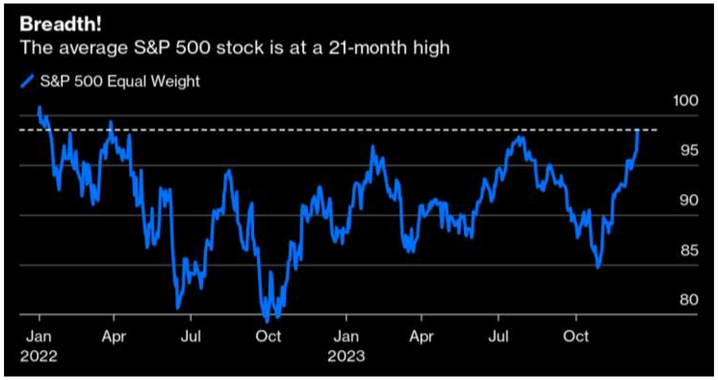
Despite Headline Returns, Not All Stocks Performed Well











- 2023 was another year when diversification away from the S&P 500 was a drag to returns. Investors with a perfect crystal ball on January 1st, 2023 would have had the highest returns by just investing in the S&P 500. Much of that, as we have discussed throughout the year, was due to the strength of just a few of the largest stocks

- Despite recent frustration with diversification, we maintain our long-term view that diversification by geography, size, and investing style is a good thing. We do, however, concede that it can be challenging over shorter periods of time

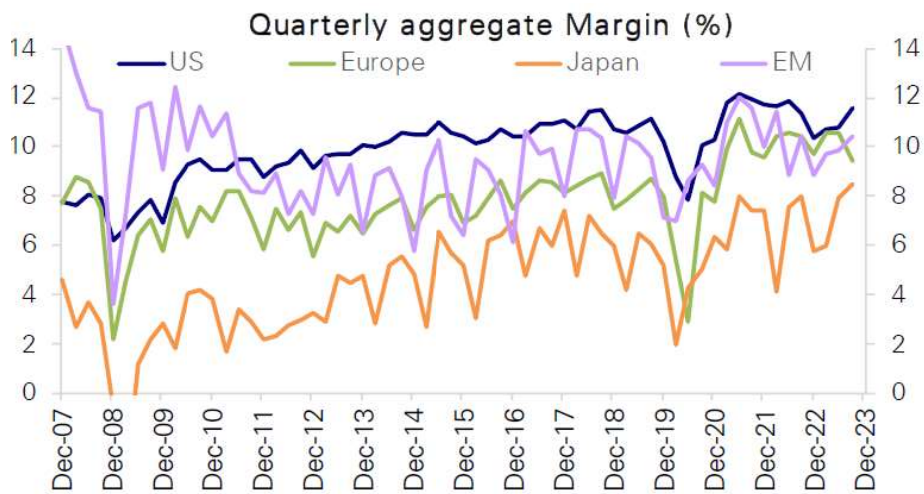
- **With high levels of concentration in many indexes, now may be a dangerous time NOT to be diversified!**

Source: Russell Investment Group, MSCI, Dow Jones, FactSet, Bloomberg, ACG

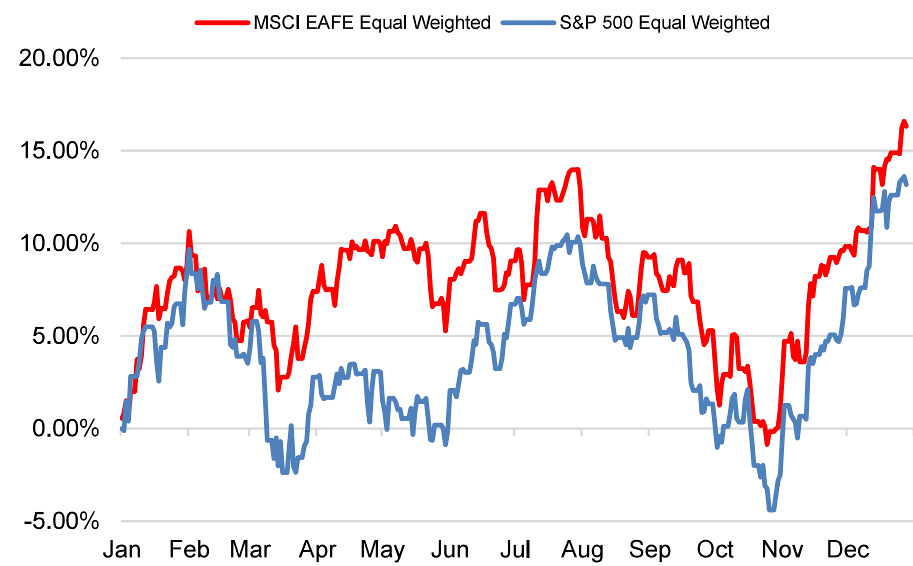
ACG Atlanta Consulting Group

Europe Continues to Lag - Mostly Due to Fundamentals

Quarterly Corporate Margins
(% by Region)



Equal Weight Index Return Comparison



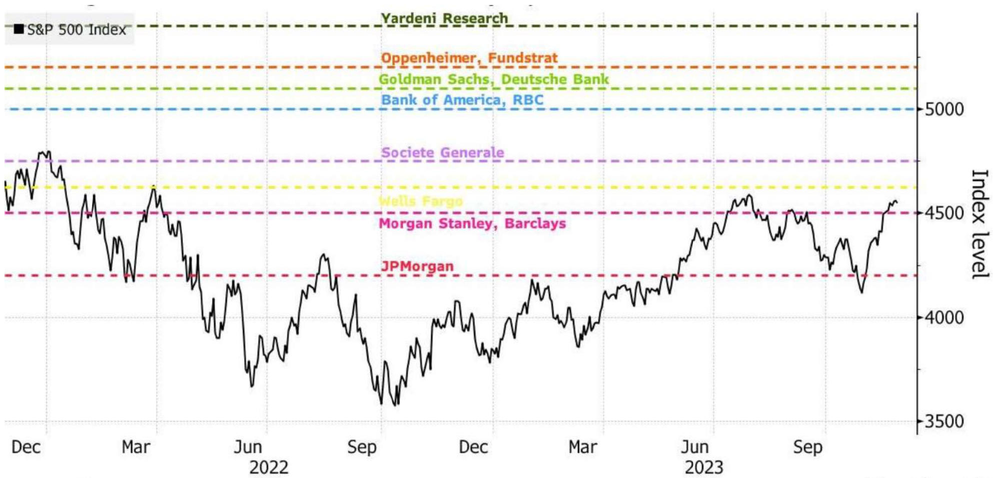
- After a global dip during the pandemic, the U.S., Japan and Emerging Markets showed slight margin improvements during Q3 2023. Estimates for future earnings for European companies was adjusted down by financial analysts as a result of Q3 disappointments. The potential positive for investors in international stocks is that with future guidance recently reduced, bad news around earnings is "baked in" to current prices and leaves room for future upside surprise

- While traditional market capitalization indexes such as the S&P 500 and MSCI EAFE indexes show strong U.S. outperformance, if the indexes are adjusted to be equally weighted (giving each stock in the index equal representation), one sees a much different picture. Looking at calendar year 2023, the MSCI EAFE Index equal weight index was up +16% vs. +13% for the equally weighted S&P 500 Index. Cap-weighted, this comparison is +18% for MSCI EAFE vs. +26% for the S&P 500 in 2023

Source: Citigroup, MSCI, I/B/E/S, ACG

Where Do Equities Go From Here?

S&P 500 Targets By Firm
(Year End 2024 Target Level)



S&P 500 Percent Declines and Probabilities
(1928-2023)

S&P 500 Intra-Year Decline	% of Years	Happens Every
-1%	100%	Year
-5%	94%	1.1 Years
-10%	63%	1.6 Years
-15%	40%	2.5 Years
-20%	26%	4 Years
-30%	21%	5 Years
-40%	11%	9 Years

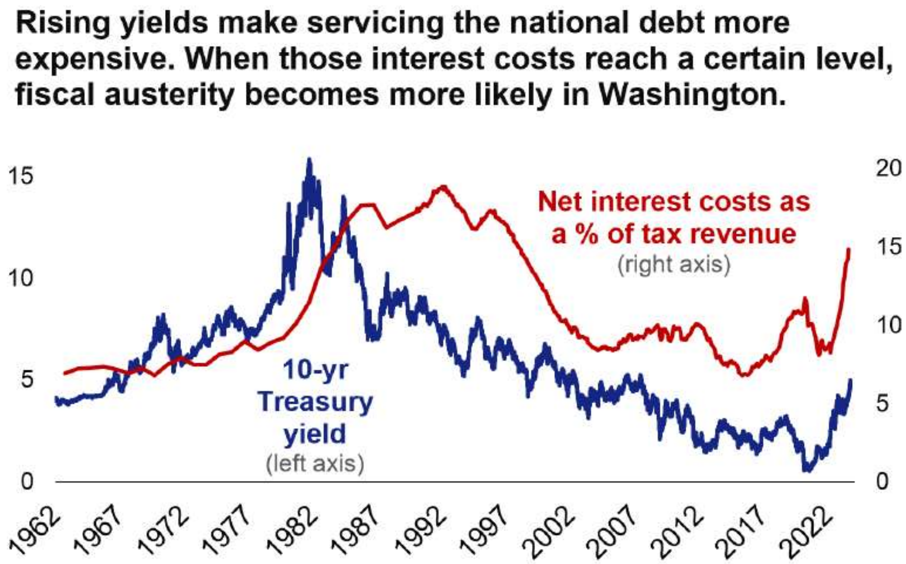
- With continued uncertainty around future Federal Reserve policy and the potential for a recession, forecasts for the S&P 500 are wide-ranging. The chart above looks at recent Wall Street strategists' forecasts for the level of the S&P 500 at year end 2024. The ten forecasts in the chart range from over 5,000 on the high side to 4,200 on the low side. With the strong rally to end 2023, many have been forced to revisit their forecasts. For reference, the consensus year-end target for 2023 was just over 4,000

- During 2022, and even at times during 2023, equity markets experienced declines that felt gut wrenching. Those types of declines, however, are almost commonplace when you review long-term equity market history. For example, in 63% of all calendar years there is peak-to-trough decline of at least 10%. In 26% of all calendar years there is a decline of at least 20%. Even a 40% decline happens every nine years on average

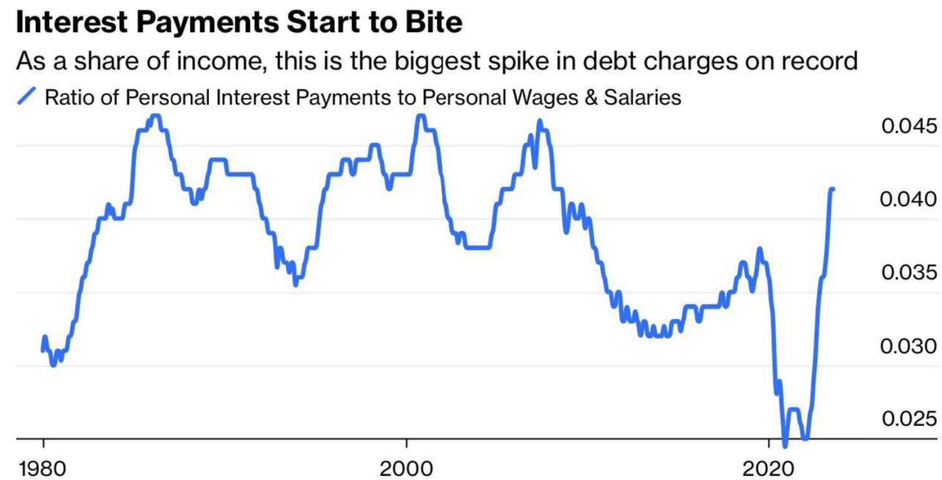
Source: Bloomberg, ACG

Risks: Higher Interest Rates Force Austerity

Yields and Net Interest Costs
(10-Year Treasury vs. U.S. Government Net Interest Costs)



Personal Interest Payments as % of Wages
(Ratio)



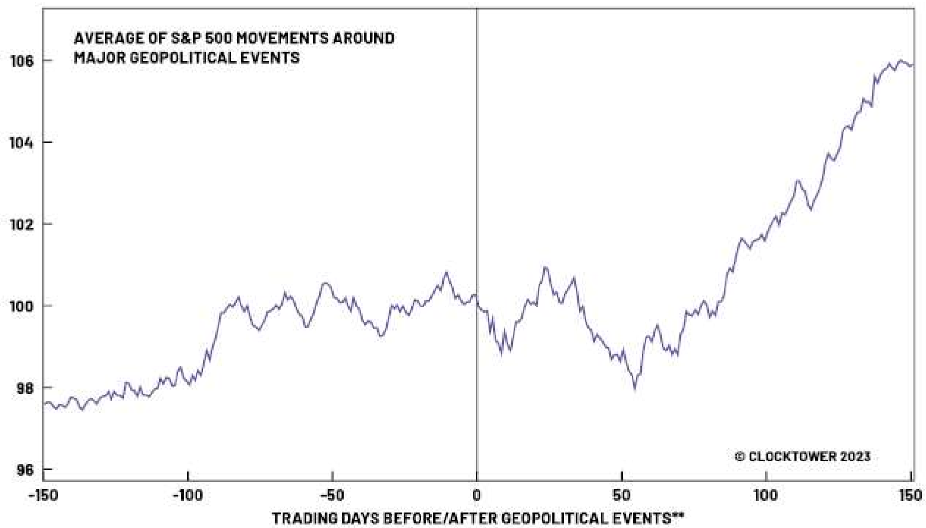
- For the last twenty or so years, falling rates allowed the U.S. government to benefit from lower interest costs. More recently, rising interest rates and rising Treasury yields caused this calculation to change considerably. For example, net interest costs as a percent of tax revenue went from under 10% to near 15% currently

- Similarly, personal income is also being negatively impacted by higher rates. The ratio of personal interest payments to personal wages & salaries spiked during 2023. While some of this spike is due to the ending of pandemic era policies (temporary pauses on student debt payments, for example), higher financing costs (mortgages, auto loans, credit card rates, etc.) are mostly to blame

Source: Bloomberg, Bureau of Economic Analysis, Bureau of Labor Statistics, ACG

Risks: Geopolitics

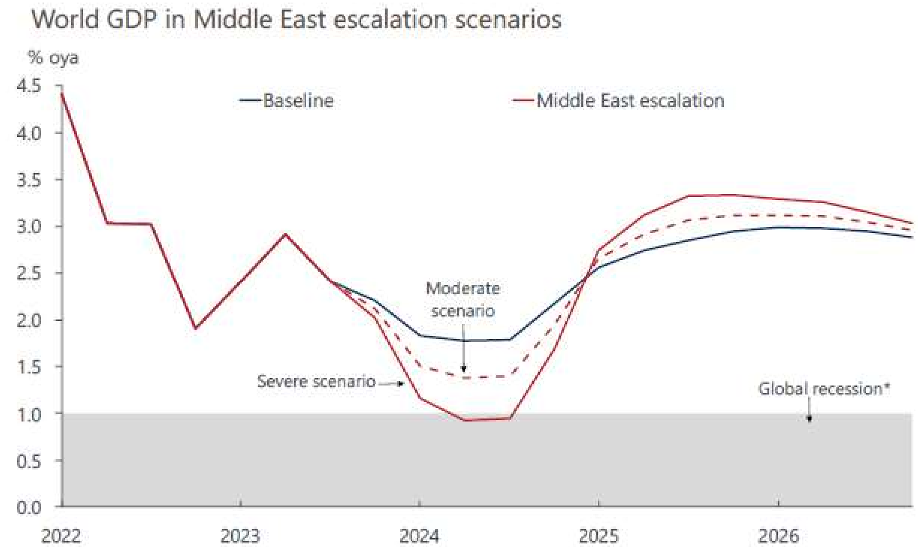
S&P 500 Returns Around Geopolitical Events
(Major Geopolitical Events 1962-2022)



* REBASED TO FIRST DAY OF GEOPOLITICAL EVENT = 100.
** INCLUDES 26 MAJOR GEOPOLITICAL EVENTS FROM THE CUBAN MISSILE CRISIS IN 1962 TO THE RUSSIA-UKRAINE WAR IN 2022.
SOURCE: MACROBOND.

Global GDP Estimates
(Various Middle East Scenarios)

Chart 1: Global recession would be mild even if oil prices reached $150pb



*Source: Oxford Economics/Haver Analytics *Global GDP growth below population growth.*

- Looking back at market history from the Cuban Missile Crisis in 1962 to the Russian invasion of Ukraine in 2022, the above chart looks at short-term equity market returns around such geopolitical events. As one can see, on average, equity markets react to such events in the first two months and then quickly look past those events and revert to their long-term pattern of going up over time by focusing on fundamentals like earnings and economic growth

- One big risk in geopolitics is the risk of an event spiraling into a larger issue. In the case of the current Israeli / Hamas conflict, this is very much the case. One key risk in any escalation is the potential effect a wider conflict would have on the price of oil. Estimates of the effect to global GDP growth is a negative 1% drag in the worst-case scenario – a scenario where they model oil prices shooting up to $150 per barrel

Source: MacroBond, Haver Analytics, Oxford Economics, ACG

Appendix: Charlie Munger's Passing

Famous quotes attributable to Charlie Munger

- "If I can be optimistic when I'm nearly dead, surely the rest of you can handle a little inflation"
- "Lifelong learning is paramount to long-term success."
- "The best thing a human being can do is to help another human being know more."
- "Three things ruin people: drugs, liquor and leverage."
- "You'll do better if you have passion for something in which you have aptitude. If Warren Buffett had gone into ballet, no one would have heard of him."
- "It's so simple. You spend less than you earn. Invest shrewdly, and avoid toxic people and toxic activities, and try and keep learning all your life, etcetera etcetera. And do a lot of deferred gratification because you prefer life that way. And if you do all those things you are almost certain to succeed. And if you don't, you're gonna need a lot of luck."
- "The world is not driven by greed. It's driven by envy. I have conquered envy in my own life. I don't envy anybody. I don't give a damn what someone else has. But other people are driven crazy by it."
- "I constantly see people rise in life who are not the smartest, sometimes not even the most diligent, but they are learning machines. They go to bed every night a little wiser than when they got up and boy does that help—particularly when you have a long run ahead of you."
- "The best armor of old age is a well spent life preceding it."

Note: Charlie Munger was an American businessman, investor, and philanthropist. He was vice chairman of Berkshire Hathaway, the conglomerate controlled by Warren Buffett; Buffett described Munger as his closest partner and right-hand man (Wikipedia).
Source: ACG

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We urge you to take a moment to compare the account balances contained in this report to those balances reflected on the statements that you receive directly from your account’s custodian. Please contact us or the account custodian with any questions you may have. Also, please notify us promptly if you do not receive statements on all accounts from the custodian on at least a quarterly basis.

INDEX DESCRIPTIONS

Asset class and reference benchmarks:

ASSET CLASS	BENCHMARK
U.S. Equity	Russell 3000 TR
Non-U.S. Equity	MSCI ACWI ex US NR
U.S. Fixed Income	Bloomberg Barclays U.S. Aggregate Bond TR
Global Real Estate (prior to 2008)	NASDAQ Global Real Estate NR
Global Real Estate (2008-present)	FTSE EPRA/NAREIT Global Real Estate NR
Commodities	Bloomberg Commodity TR USD
Cash & Cash Alternatives	Citi Treasury Bill 3 Mon USD

Alerian MLP: The Alerian MLP Index is the leading gauge of large- and mid-cap energy Master Limited Partnerships (MLPs). The float-adjusted, capitalization- weighted index, which includes 50 prominent companies and captures approximately 75% of available market capitalization, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

Bloomberg 10-Year U.S. Treasuries: Measures the performance of U.S. Treasury securities that have a remaining maturity of 10 years.

Bloomberg U.S. Aggregate Index: Represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment- grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

Bloomberg Global Aggregate ex-U.S. Dollar Bond Index: Tracks an international basket of bonds that currently contains 65% government, 14% corporate, 13% agency and 8% mortgage-related bonds.

Bloomberg High Yield: Covers the universe of fixed-rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC-registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures and 144-As are also included.

Bloomberg U.S. Corporate High Yield: Composed of fixed-rate, publicly issued, non-investment grade debt.

The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities.

Dow Jones U.S. Total Stock Market Index, which comprises all U.S. equity securities with readily available prices.

FTSE 3-Month Treasury-Bill Index: This is an unmanaged index of three-month Treasury bills.

FTSE EPRA/NAREIT Global Real Estate Index: Designed to represent general trends in eligible listed real estate stocks worldwide. Relevant real estate activities are defined as the ownership, trading and development of income producing real estate.

INDEX DESCRIPTIONS

Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US.

Morningstar US Equity-Market Neutral: These funds attempt to reduce systematic risk created by factors such as exposures to sectors, market-cap ranges, investment styles, currencies, and/or countries. They try to achieve this by matching short positions within each area against long positions. These strategies are often managed as beta-neutral, dollar-neutral, or sector-neutral. A distinguishing feature of funds in this category is that they typically have low beta exposures (less than 0.3 in absolute value) to equity market indexes such as the MSCI World. In attempting to reduce systematic risk, these funds put the emphasis on issue selection, with profits dependent on their ability to sell short and buy long the correct securities.

Morningstar US Event Driven : These funds attempt to profit from price changes related to a variety of corporate actions, including bankruptcy, emergence from bankruptcy, divestitures, stock buybacks, dividend issuance, major shifts in corporate strategy, and other atypical events. Many of these funds undertake activist techniques to spur further corporate changes at the underlying companies.

Morningstar US Long-Short Equity: These funds primarily take long and short positions in U.S. equities. These funds follow a strategy in which at least 75% of the fund's gross exposure is in equities, and 75% of equities exposure is in U.S. equities. The fund may also include some derivative instruments. These funds tend to have betas of 0.3 and higher relative to broad U.S. indexes like the S&P 500 and DJ Wilshire 5000.

Morningstar US Macro Trading: These funds base investment decisions on an assessment of the broad macroeconomic environment. They look for investment opportunities by studying such factors as the global economy, government policies, interest rates, inflation, and market trends. As opportunists, these funds are not restricted by asset class and may invest across such disparate assets as global equities, bonds, currencies, derivatives, and commodities. These funds primarily invest through derivatives markets. They typically make discretionary trading decisions rather than using a systematic strategy. At least 60% of the funds' exposure is obtained through derivatives.

Morningstar US Multistrategy: These funds offer investors exposure to several different hedge fund investment tactics. In most of these cases, all of the assets are managed in-house at the hedge fund, but the assets may be divided between multiple portfolio managers, each of whom focuses on a different strategy. This is not to be confused with a fund of funds, which uses external portfolio managers and strategies, as well as second layer of management and performance fees. An investor’s exposure to different tactics may change slightly over time in response to market movements.

MSCI All Country World Index Ex-U.S Index.: A market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. It includes both developed and emerging markets.

MSCI EAFE Index (Europe, Australasia, Far East): A free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. The EAFE consists of the country indices of 21 developed nations.

MSCI EAFE Growth Index: Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the growth style.

MSCI EAFE Small-Cap Index: An unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada.

MSCI EAFE Value: Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the value style.

MSCI Emerging Markets Index: Designed to measure equity market performance in 25 emerging market indexes. The three largest industries are materials, energy and banks.

The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market.

Russell 1000 Index: Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investible U.S. equity market.

Russell 1000 Value Index: Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

INDEX DESCRIPTIONS

Russell 1000 Growth Index: Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell Mid-Cap Index: Measures the performance of the 800 smallest companies of the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index.

Russell Mid-Cap Value Index: Measures the performance of those Russell Mid-cap companies with lower price-to-book ratios and lower forecasted growth values.

Russell Mid-Cap Growth Index: Measures the performance of those Russell Mid-cap companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2000 Index: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

Russell 2000 Value Index: Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Growth Index: Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 3000 Index: Measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Standard & Poor's 500 (S&P 500): Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market.

Wilshire Liquid Alternative Index: The Wilshire Liquid Alternative Index℠ measures the collective performance of the five Wilshire Liquid Alternative strategies that make up the Wilshire Liquid Alternative Universe. The Wilshire Liquid Alternative Index (WLIQA) is designed to provide a broad measure of the liquid alternative market by combining the performance of the Wilshire Liquid Alternative Equity Hedge Index℠ (WLIQAEH), Wilshire Liquid Alternative Global Macro Index℠ (WLIQAGM), Wilshire Liquid Alternative Relative Value Index℠ (WLIQARV), Wilshire Liquid Alternative Multi-Strategy Index℠ (WLIQAMS), and Wilshire Liquid Alternative Event Driven Index℠ (WLIQAED).