ACG Market Review

Fourth Quarter 2021

Global Highlights:

- **Economy** – Inflation continued to spike, but relief is expected as labor markets and supply chain issues normalize
- **Equities** – Volatility returned to near pre-pandemic levels as the S&P 500 recorded its third straight year of double-digit gains
- **Fixed Income** – High quality bonds rounded out a rocky year in the red as yields crept up over the course of 2021

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Focus on Inflation

Perhaps the biggest economic story of the fourth quarter and of 2021 was the stark and unexpected spike in year-over-year inflationary readings. According to the U.S. Bureau of Labor Statistics, the 12-month percentage change in the Consumer Price Index (CPI) was 6.8%, or the largest 12-month increase since 1981-1982. The report follows nearly two years of massive government stimulus, supply side shocks, and labor shortages driven mainly by the COVID-19 pandemic. Looking forward, it is worth noting that consensus expectations among economists show that inflation is expected to abate significantly over the next year as supply chain issues are resolved. In addition, longer-term price increases are expected to remain only slightly elevated as compared to long-term averages.

One explanation for the accelerated price increases seen in 2021 was the sudden vanishing of the U.S. labor force. As fiscal and monetary support helped circumvent employment losses during the depths of the pandemic, a more difficult puzzle to solve has been how to incentivize individuals to rejoin the work force. Although the U.S. unemployment rate is now approaching pre-pandemic levels of about 4%, labor market participation remains significantly depressed. Many strategists and economists point to early retirements, lack of immigration, and a shift in dual income family members to caregiver roles as potential culprits for the discrepancy. No matter the cause, the result has been higher wages and increased negotiating power for employees. Wage growth has historically been a powerful driver of inflation.

Another underlying dynamic contributing to heightened price levels lies in the multitude of supply side shocks recently experienced around the world. In the second half of 2021, average supplier delivery times saw dramatic increases, and inventory levels fell drastically as global economies began to emerge from lockdowns and demand for goods increased sharply. Factory lockdowns in Asia have led to shortages of key components, such as semiconductors, which are used in the production of most automobiles today. Exacerbating the problem, the average number of semiconductors used per vehicle today is nearly 300, compared to 212 in 2019. For context, in the U.S., increases to new car prices have contributed significantly to elevated CPI readings over the past year. In contrast to current circumstances, market expectations are optimistic that many of the problems related to global supply chains will begin to dissipate in mid-2022.

Markets Calm Despite Headlines

Despite the headline risks and evolving dynamics the year brought, markets were remarkably calm through 2021. For example, the VIX index (a popular measure of stock market volatility), fell back to levels nearly in line with 2019, before the pandemic rocked global markets. In addition, 2021 was unique in that the S&P 500 did not have a peak-to-trough loss of more than 5%. Over the last 30 years, only 1993, 1995 and 2017 had smaller intra-year losses.

Though some quantitative measures of volatility appeared lower, market participants were challenged to remain steady throughout the course of the year as headlines concerning inflation, labor market issues, and new COVID-19 strains bombarded daily newsfeeds. Nonetheless, the S&P 500 returned 28.71% for the year and hit 70 new all-time highs along the way. Compare this to the entire 2000s decade, which only saw 13 new all-time highs in total.

For the fourth quarter the index finished up 11.03%. Additionally, all sectors within the S&P 500 posted gains for the year. Sector performance was led by Energy which was up almost 55%, though this comes after a sharp decline in the year prior.

One of the prevailing trends we have seen in recent years has been the outperformance of growth equities versus value equities. Towards the end of 2020 and approximately halfway through 2021, value investors enjoyed a long-awaited return to favor. This emerging trend reversed, however, during the fourth quarter of 2021 as growth outperformed value by 3.87% for the quarter and 2.44% for the year.

After outperforming in 2020, small cap equities underperformed large caps in 2021 as the Russell 2000 index finished up 14.82% for the year.

Stocks Follow Earnings

In somewhat astonishing fashion, and despite the myriad of aforementioned negative headlines, earnings for U.S. based companies increased by almost 50% during 2021. Providing marginal relief to investors concerned about high equity valuations, earnings outpaced returns across all market segments, which has led to a contraction in the equity market's price-to-earnings ratios. This sharp uptick in earnings is a signal that many companies have adjusted and even thrived during the pandemic.

Over long periods of time stock returns tend to follow company earnings. Given this trend, a looming question for investors will be whether earnings can continue to grow steadily to help support high relative valuation levels. Looking into 2022, it is worth noting that earnings growth projections appear more normalized at 8.7%, according to consensus estimates, suggesting we may begin to see lower equity returns.

Despite the gains corporations have made in earnings and the strong equity market performance that followed, one prevalent risk that remains for investors is that bad news may not yet be priced into market expectations. To elaborate, for the past ten years, when measured three days after, firms that miss earnings estimates tend to perform about 2% worse than the market. In comparison, during the third quarter 2021 stocks that missed on earnings fell about 7% on average. Conversely, stocks that beat earnings estimates outperformed by about 1%, which is in line with the historical average.

According to J.P. Morgan, the 25-year average of the median price to earnings ratio for S&P 500 companies is 16, versus the current of 20.3. The silver lining, however, is that this headline number masks the high degree of valuation dispersion within the index. The valuation spread between the 20th and 80th percentile stocks is nearly double the 25-year average. This should be good news to investors as it suggests there are still pockets of discounted stocks to be found.

Fed Retires Transitory, Turns Even More Hawkish

During the fourth quarter, the Federal Reserve, retired the long-held adjective used to describe the current inflationary environment, "transitory". This notable change in Federal Reserve sentiment accompanies a clear transition towards faster tapering and eventual rate hikes, tools that can be used to achieve the Fed's dual mandate of stable prices and maximum employment.

Citing strong economic activity and rising inflation, during the most recent Federal Open Market Committee (FOMC) meeting, the Federal Reserve announced that its original initiative to taper asset purchases $15 billion per month would be doubled to $30 billion per month. Tapering is a process by which the Federal Reserve reduces or "tapers" monthly asset purchases. This increased rate of tapering means that the monthly bond purchase program is slated to wind down in March of 2022.

Market participants will be watching closely as the end of tapering will likely signal the beginning of interest rate hikes. Following the drastic action taken amid the onset of the COVID-19 pandemic in March 2020, the Federal Reserve has maintained rates near zero to help spur economic activity, though with the recent spike in inflation, pressure is on to begin lifting rates. The most recent "Fed Dot Plots" show FOMC committee members now project three rate hikes in 2022, followed by several additional rate hikes in 2023.

In other news, Jerome Powell, Chairman of the Federal Reserve was reappointed by President Biden in late November. The reinstatement likely provides some relief to investors concerned about turnover in leadership within the U.S. central bank during a markedly delicate time for markets. Powell's current term was set to end in February 2022.

In contrast to equities, bonds experienced a slightly more volatile ride in 2021. High quality fixed income, as represented by the Bloomberg Barclays U.S. Aggregate index, fell -1.54% for the year, however the index was flat for the quarter. High yield bonds as represented by the Bloomberg Barclays High Yield Corporate index made gains of 5.28% over the year as spreads continued to narrow and remain at historic tights.

Pandemic to Endemic

The final days of 2021 have brought with them a new and highly infectious variant of the COVID-19 virus, Omicron. On a positive note, increasing vaccination rates and early data suggesting milder symptoms imply that investors may expect to avoid the harsh disruptions experienced in the early days of the pandemic.

Early responses to the variant also seem encouraging as decision makers around the globe are focusing more on hospitalization and death rates, which currently appear relatively stable even as case rates continue to skyrocket. This could be taken as a potential indicator that we may be turning the page on the nearly two yearlong global pandemic and transitioning to an endemic phase.

In addition, new treatments in the form of anti-viral pills from Pfizer and Merck were granted approval for emergency use by The Food and Drug Administration (FDA) in late December. The oral anti-viral drugs are the first to be authorized for use against COVID-19, providing another factor that may help foster positive sentiment in the market heading into 2022.

Market Index Review – December 2021

Major Market Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500	4.48	11.03	28.70	28.70	26.07	18.47	16.55
Russell 2000	2.23	2.14	14.82	14.82	20.02	12.02	13.23
Russell 3000	3.94	9.28	25.66	25.66	25.79	17.97	16.30
MSCI ACWI	4.00	6.68	18.54	18.54	20.38	14.40	11.85
MSCI ACWI ex USA	4.13	1.82	7.82	7.82	13.18	9.61	7.28
Bloomberg US Aggregate TR	-0.26	0.01	-1.54	-1.54	4.79	3.57	2.90

Russell Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Russell 1000	4.05	9.78	26.45	26.45	26.21	18.43	16.54
Russell 1000 Growth	2.11	11.64	27.60	27.60	34.07	25.32	19.79
Russell 1000 Value	6.31	7.77	25.16	25.16	17.64	11.16	12.97
Russell MidCap	4.08	6.44	22.58	22.58	23.29	15.09	14.91
Russell MidCap Growth	0.35	2.85	12.73	12.73	27.46	19.83	16.63
Russell MidCap Value	6.28	8.54	28.34	28.34	19.62	11.22	13.44
Russell 2000 Growth	0.44	0.01	2.83	2.83	21.16	14.53	14.14
Russell 2000 Value	4.08	4.36	28.27	28.27	17.99	9.07	12.03

Sector Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500 Materials	7.57	15.20	27.28	27.28	24.17	15.12	12.81
S&P 500 Consumer Discretionary	-0.25	12.84	24.43	24.43	28.50	21.35	19.57
S&P 500 Consumer Staples	10.29	13.31	18.63	18.63	18.80	11.76	12.24
S&P 500 Energy	3.08	7.97	54.64	54.64	4.67	-1.45	1.20
S&P 500 Financials	3.33	4.57	35.04	35.04	20.60	13.26	16.32
S&P 500 Health Care	8.98	11.17	26.13	26.13	20.02	17.58	17.46
S&P 500 Industrials	5.33	8.64	21.12	21.12	20.28	12.80	14.19
S&P 500 Information Technology	3.38	16.69	34.53	34.53	42.75	32.13	24.01
S&P 500 Real Estate	10.23	17.54	46.19	46.19	22.65	14.87	--
S&P 500 Communication Services	2.53	-0.01	21.57	21.57	25.87	11.49	11.56
S&P 500 Utilities	9.64	12.93	17.67	17.67	14.32	11.76	11.05

International Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
MSCI EAFE	5.12	2.69	11.26	11.26	13.54	9.55	8.03
MSCI Europe	6.60	5.66	16.30	16.30	14.90	10.14	8.18
MSCI Pacific	2.35	-2.72	2.63	2.63	11.06	8.48	7.81
MSCI EAFE Small Cap	4.36	0.07	10.10	10.10	15.62	11.04	10.80
MSCI Emerging Markets	1.88	-1.31	-2.54	-2.54	10.94	9.87	5.49
MSCI Frontier Markets	1.49	0.71	19.73	19.73	12.74	9.57	7.34

Bond Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
FTSE T-Bill 3 Months	0.00	0.01	0.05	0.05	0.96	1.11	0.60
Bloomberg US Municipal TR	0.16	0.72	1.52	1.52	4.73	4.17	3.72
Bloomberg US Govt/Credit TR	-0.32	0.18	-1.75	-1.75	5.50	3.99	3.13
Bloomberg US Govt/Credit Int TR	-0.13	-0.57	-1.44	-1.44	3.86	2.91	2.38
Bloomberg US Credit 1-3 Yr TR	-0.02	-0.53	-0.18	-0.18	2.82	2.35	2.09
Bloomberg US Credit Long TR	-0.37	1.52	-1.18	-1.18	11.37	7.64	6.42
Bloomberg US Corporate High Yield TR	1.87	0.71	5.28	5.28	8.83	6.30	6.83
FTSE WGBI	-0.62	-1.10	-6.97	-6.97	2.75	2.94	0.96

Other Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
HFRI FOF: Diversified Index	0.78	0.63	6.26	6.26	8.31	5.60	4.52
HFRI FOF: Conservative Index	1.31	1.23	8.19	8.19	6.98	4.79	4.11
HFRI FOF: Strategic Index	0.35	0.62	6.38	6.38	10.46	6.94	5.30
HFRI Equity Hedge Index	1.85	0.91	11.96	11.96	14.49	9.56	7.50
Wilshire Liquid Alternative TR USD	0.73	0.60	4.69	4.69	4.77	2.96	2.41
FTSE EPRA/NAREIT Global TR USD	6.05	9.18	23.04	23.04	11.37	8.45	9.06
Alerian MLP TR USD	3.56	0.55	40.17	40.17	2.12	-2.70	-0.26
Bloomberg Commodity Index TR USD	3.53	-1.56	27.11	27.11	9.86	3.66	-2.85

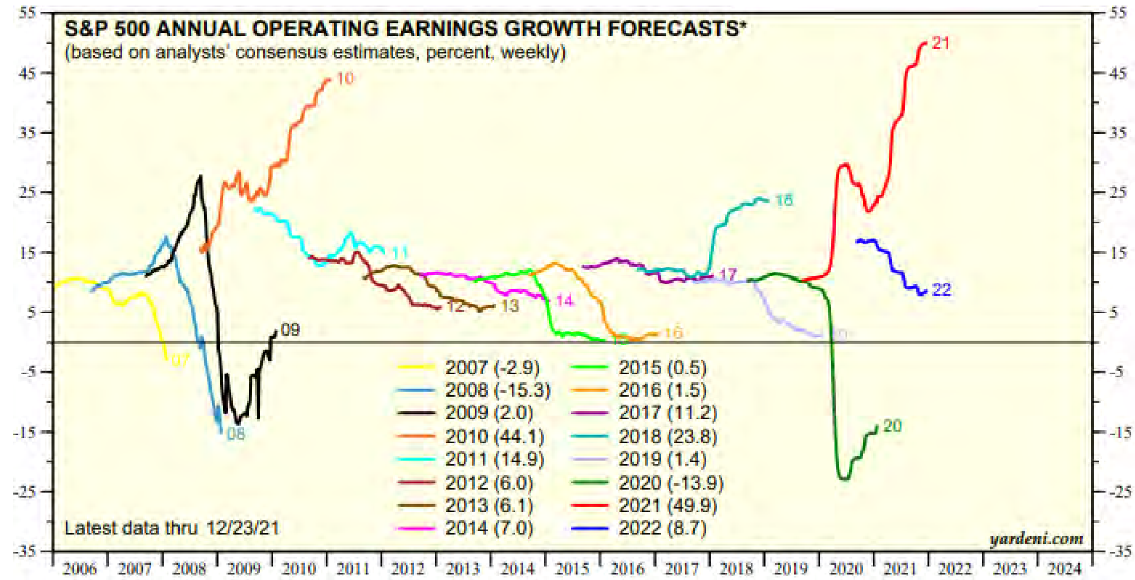
Source: Morningstar, ACG
Returns include dividends; 3-year, 5-year and 10-year returns are annualized. Indices are unmanaged.
You cannot invest directly into an index. Past performance is not indicative of future results

Q4 2021: Despite Obstacles, The Rally Rolls On

Source: Hedgeye, ACG

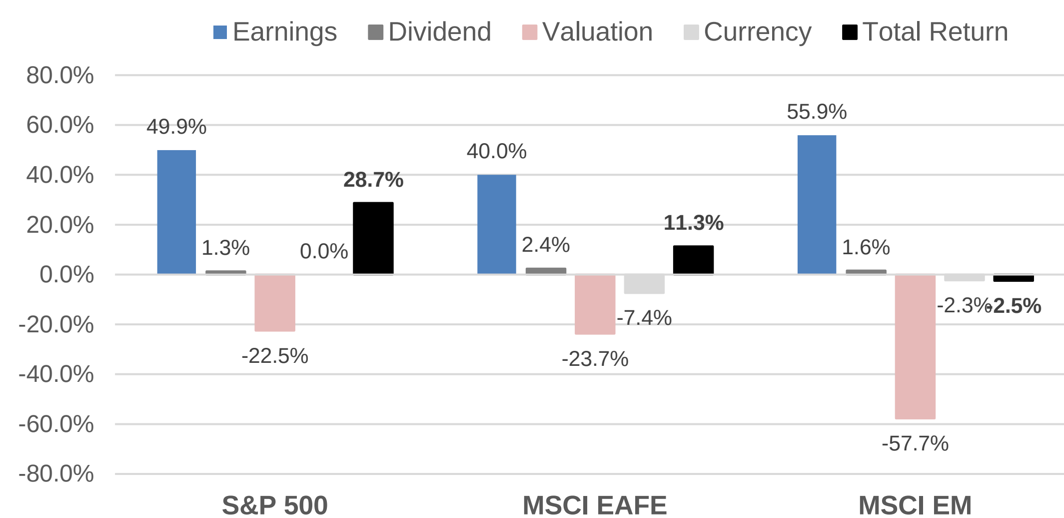
2021 Equity Rally Driven by Fundamentals…

- Despite the havoc brought on by the global pandemic and all of the associated knock-on effects of inflation and supply chain issues, most corporations were able to successfully adjust and even flourish in 2021. S&P 500 earnings increased almost 50% year-over-year and are currently projected to grow between 5-10% in 2022



- The exceptionally strong S&P 500 return in 2021 was unique in both its magnitude and also in that it was driven entirely by strong earnings growth. In fact, earnings growth explained more than 100% of the total return for the year. As a result, valuations (for example, price-to-earnings ratios) actually declined during 2021. While earnings growth was strong in other geographies, total returns lagged the U.S. market

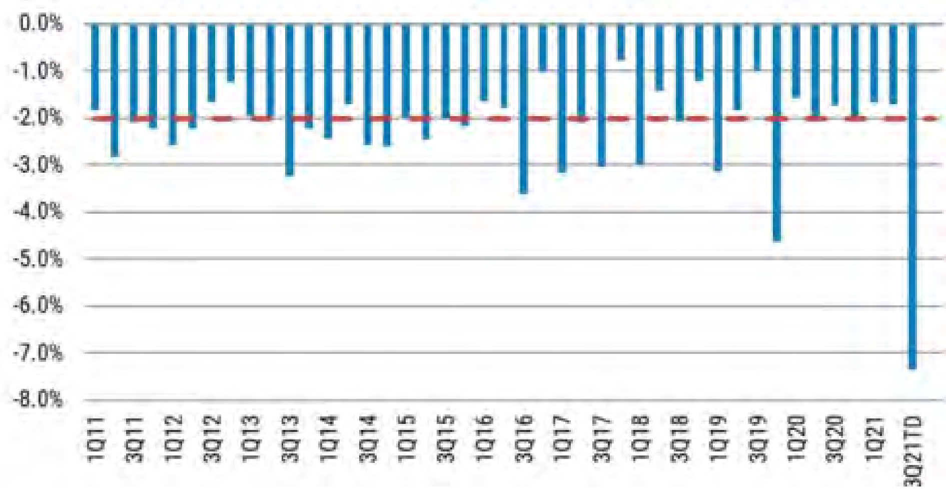
2021 Calendar Year Equity Market Attribution
(Earnings +/- Dividend +/- Valuation +/- Currency = Total Return)



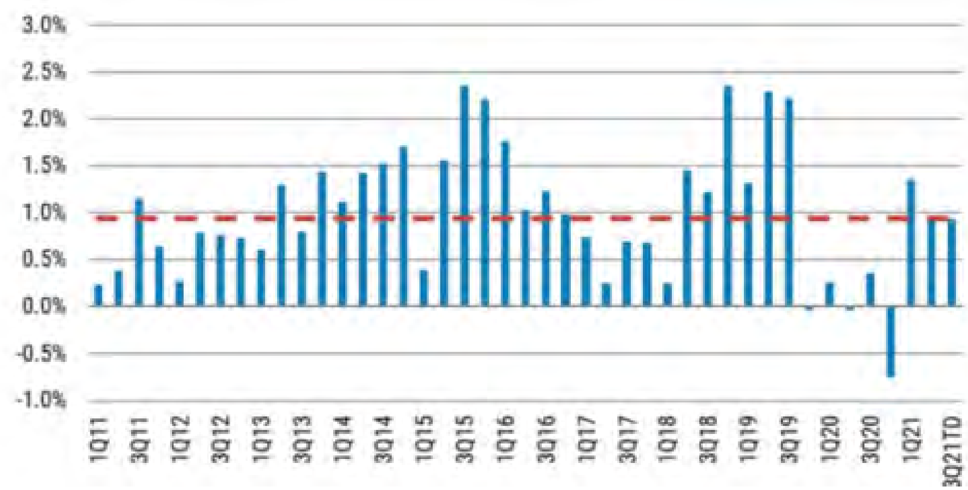
Source: Standard & Poor's, I/B/E/S, Refinitiv, Bank of America, Datastream, ACG
Note: Trailing earnings and price-to-earnings ratio used for attribution calculation

…But Reaction to Earnings Suggest Bad News Not “Priced In”

Median Stock Performance after EPS Miss
(Relative Performance - 3 Days After Report)



Median Stock Performance after EPS Beat
(Relative Performance - 3 Days After Report)



- Over the last decade, the median performance for stocks that miss consensus Wall Street earnings estimates was about 2% worse than the broad index measured 3 days after the miss. Last quarter, however, stocks missing estimates were punished by 7% on average, suggesting bad news is not priced into the market

- Similarly, the median performance for stocks that beat consensus Wall Street earnings estimates is about 1% better than the broad index measured 3 days after the miss. Last quarter, stocks beating estimates were not seeing any extra reward and were up 1% - similar to long term average outperformance

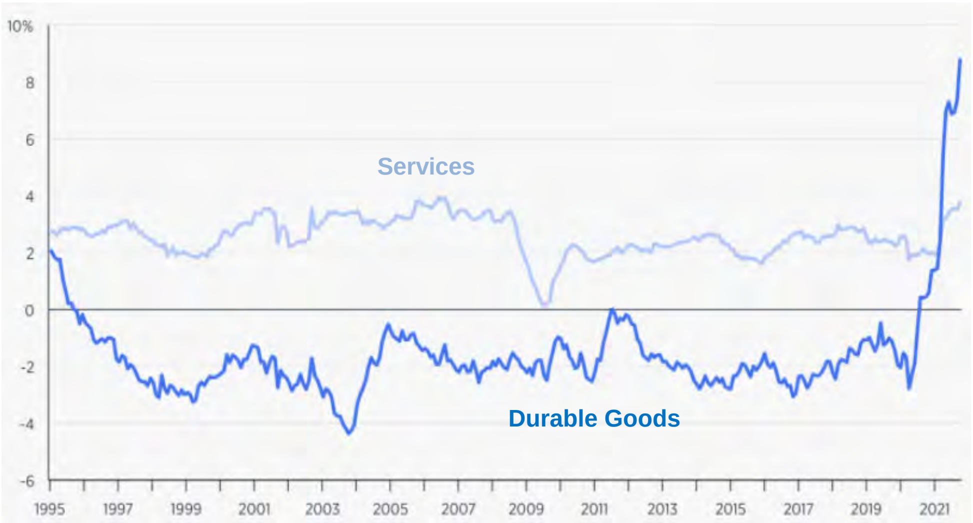
Source: Refinitiv, FactSet, Morgan Stanley, ACG

Inflation Spikes….

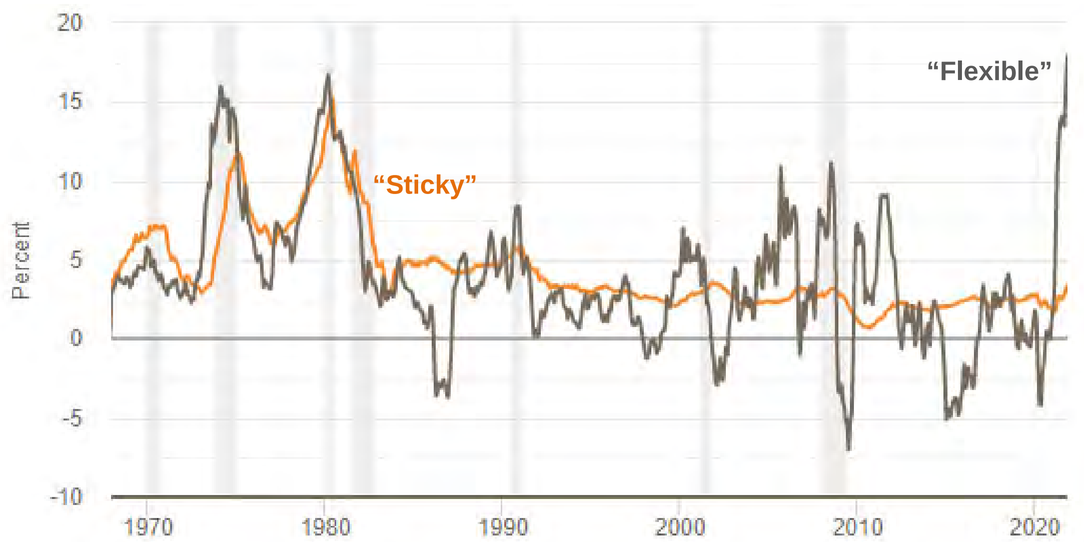
- Headline inflation, as measured by the Consumer Price Index, spiked to a year-over-year reading of 6.8% in December, the highest reading since the early 1980s. The Federal Reserve, tasked with keeping prices under control, looks at Personal Consumption Expenditures (PCE) which they divide into goods and services. While most of the recent spike in prices is due to goods, it's also interesting to note that goods prices were deflationary for the last 25 years, mostly as a result of China being the low-cost workshop to the world

- The Federal Reserve Bank of Atlanta breaks down the components of inflation further into "flexible" and "sticky" segments. While the spike in flexible prices is the highest on record, sticky prices are only up slightly – which paints a vastly different picture than that of the 1970s when both segments were elevated. As a result, the inflationary period of the late 1970s and early 1980s is likely not a good comparison to today

Year-over-Year PCE Inflation
(Goods vs. Services)



Year-over-Year Inflation
(Flexible vs. Sticky Components)



Source: Federal Reserve, Federal Reserve Bank of Atlanta, Bureau of Labor Statistics, ACG
Note: Examples of flexible price items are; vehicles, gasoline, luxury items, apparel, hotels, household food
Examples of sticky price items are; rent, medical services and items, Telecomm, Household goods, insurance, education

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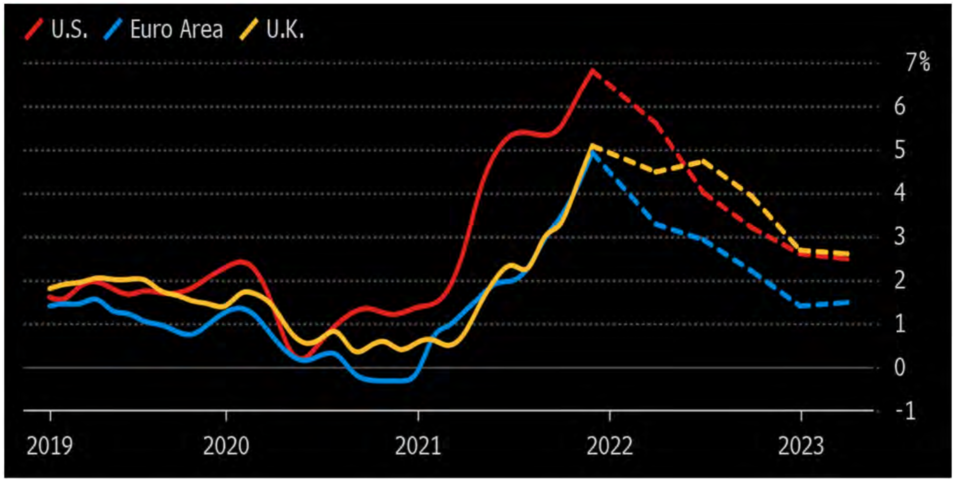
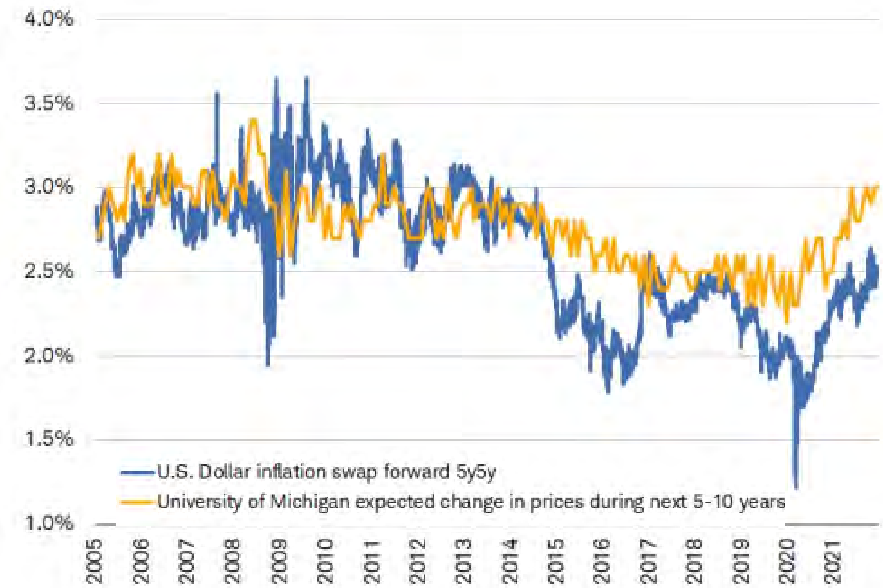
….But for How Long?

Year-over-Year Inflation by Region
(Consensus Estimates, Actual vs. Projection)



Longer-term Inflation Expectations
(Inflations Swaps & Sentiment)



- Most economists expect inflation to remain elevated in the short-term, and then come down over the next year as bottleneck and supply chain issues improve and we pass the one-year anniversary of some of the large increases we saw earlier in 2021. Looking forward, inflation is expected to be slightly higher than what we've seen over recent years, albeit nowhere near the current elevated levels

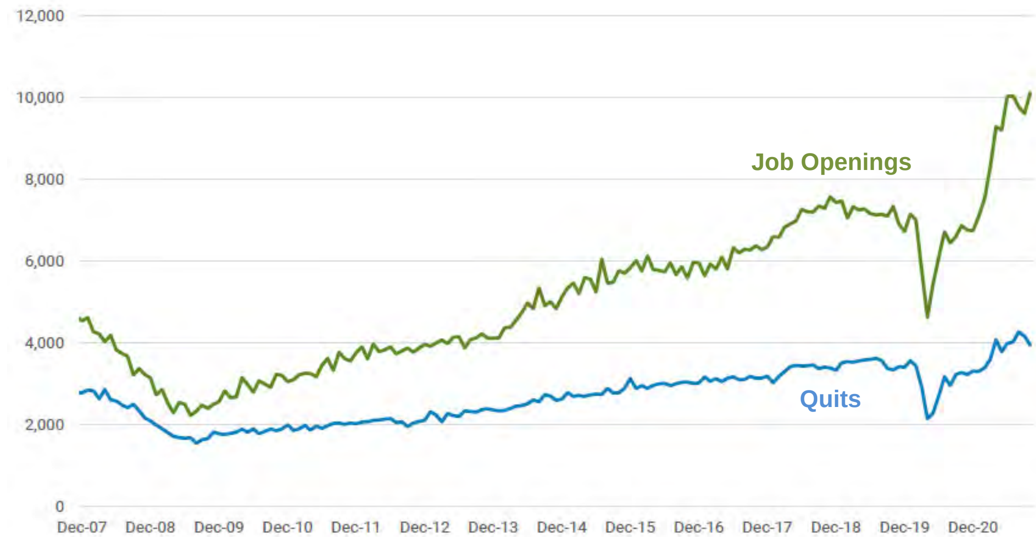
- Looking further out, many economists point to both market implied inflation expectations (through the 5-year forward swaps market) and survey data (University of Michigan 5 to 10-year inflation expectations) to assert that expectations for the future price increases remain significantly below current elevated levels and are much closer to the long-term averages. This also argues that we won't have run-away inflation

Source: Bloomberg, Goldman Sachs, Bureau of Labor Statistics, ACG

Where Have all the Workers Gone?

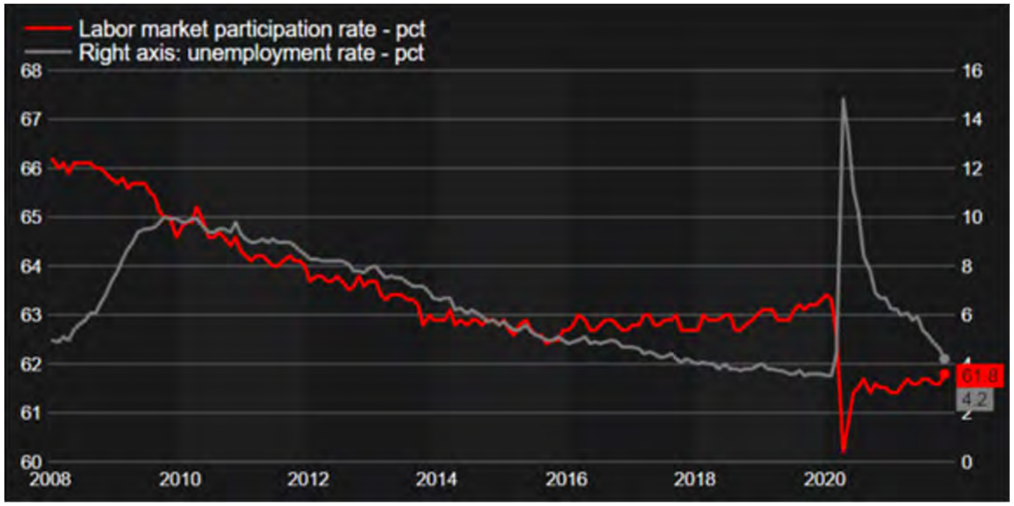
- With less supply of workers, job openings in the U.S are above the 10 million job level, the highest reading since the JOLT (Job Openings and Labor Turnover) survey started over 20 year ago. Companies are having trouble filling these openings – which implies that some workers may have more negotiating power for higher wages

Total U.S. Job Openings & Quits
(JOLT Survey)



- The headline unemployment rate has steadily decreased since the early days of the pandemic when many businesses were forced to shut down. From a high of nearly 15% in mid-2020, the rate has now moved closer to the pre-pandemic level of 4%. Labor force participation, however, has decreased significantly as some workers retired early, some dual income family members shifted into caregiver roles and immigration came to a near halt as a result of the pandemic

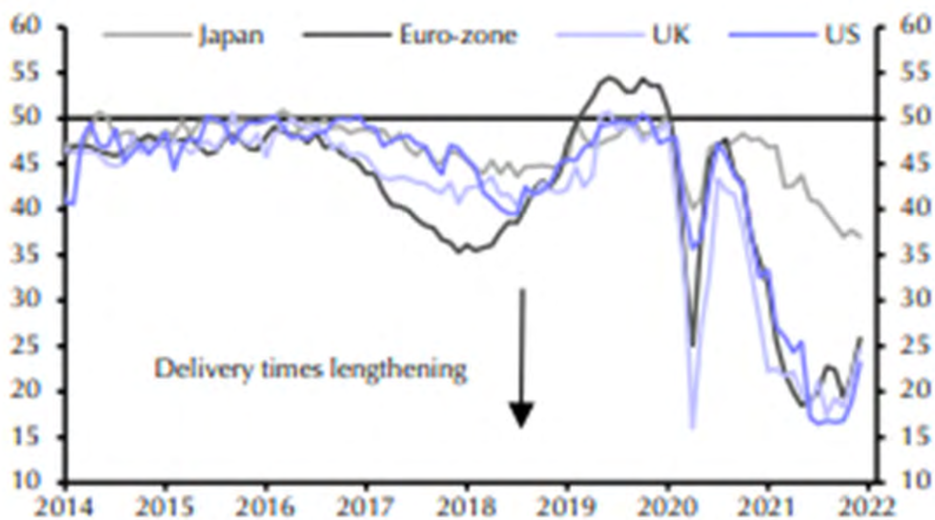
U.S. Labor Market
(Unemployment Rate vs. Participation Rate)



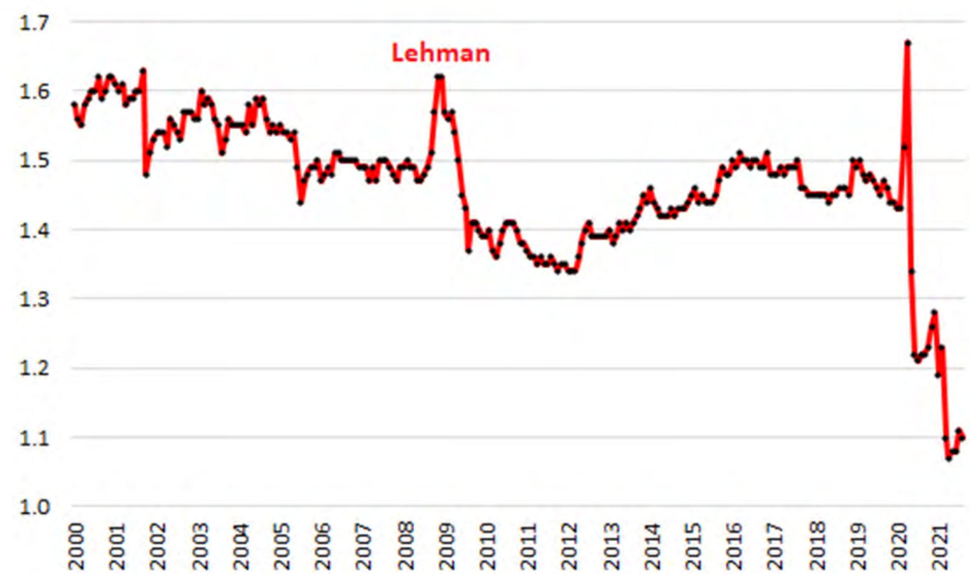
Source: Bloomberg, Bureau of Labor Statistics, Refinitiv, Reuters, ACG

Supply Chain Turmoil Creates Headwind…

Supplier Delivery Time Index
(50 = Normal Delivery Times, Lower = Slower)



Inventory – Sales Ratio
(All Retailers, Seasonally Adjusted)



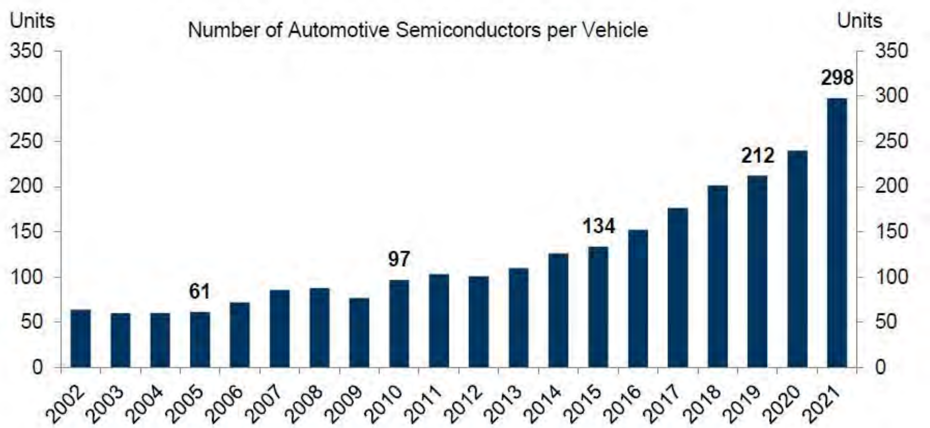
- Average supplier delivery times increased significantly during the second half of 2021 as supply chain constraints remained elevated. Issues such as a shortage of truck drivers and lack of port workers to unload cargo have contributed to supply issues. Recently, we've seen an improvement, but current expectations are for these logistics issues to last into at least mid-2022

- Retail inventory levels, which were already low due to higher consumer demand as economies re-opened and consumers re-emerged with pent up demand, moved to new lows due to the recent supply chain issues. This dynamic played a key role in the higher prices we are seeing across many areas of the economy

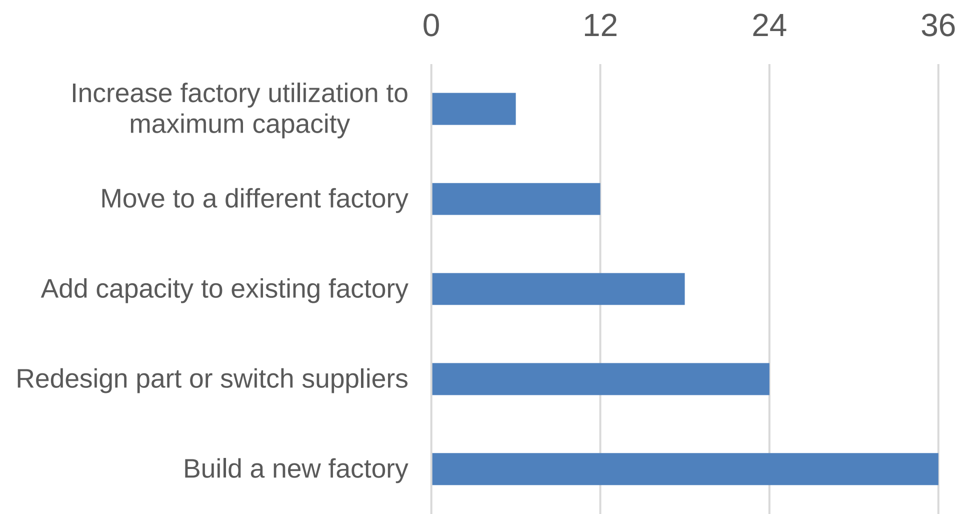
Source: HIS Markit, Census Bureau, ACG

…And Some Supply Chain Issues Not Going Away Soon

Number of Semiconductors in Cars
(Number of Months)



Solutions to Semiconductor Shortage Issue
(Estimated Number of Months)



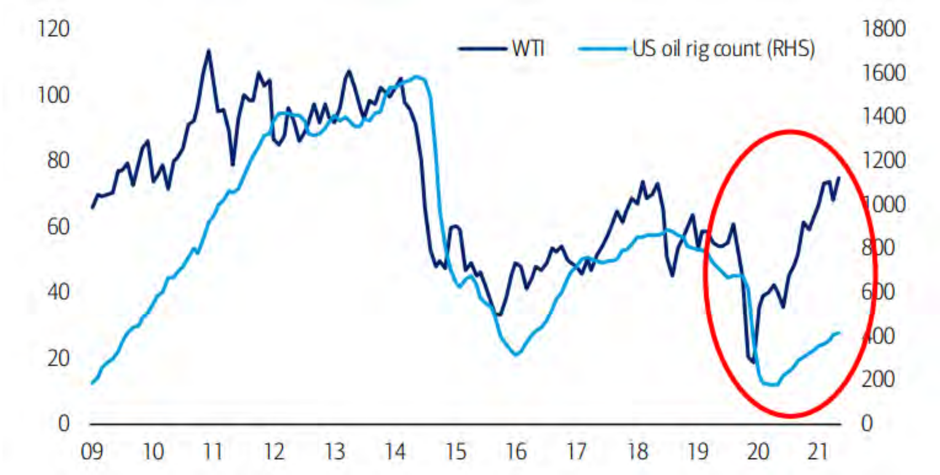
- As automobiles become more advanced, they are increasingly using more semiconductors per vehicle. For example, the average vehicle today uses almost 300 semiconductors. Due to more advanced safety features, more adoption of hybrid and battery technology, and increased autonomous driving features, usage is up 50% in just the last couple of years

- With supply chain constraints causing a shortage in semiconductors and slowing global vehicle production, manufacturers have explored additional ways to boost semiconductor production. Unfortunately, however, many of the solutions will take significant time to come on-line and solve the problem of chip shortages

Source: Goldman Sachs, Bain, ACG

Higher Oil Prices Again, but With More Capital Discipline

Oil Price vs. U.S. Oil Rig Count
(West Texas Intermediate Oil)



Natural Gas Prices
(Henry Hub, Dollars per Million BTU)

- 2021 saw a significant rise in energy prices. As economies reopened and once dormant factories came back on-line, energy demand spiked. In addition, supply remained constrained due to a variety of factors including capital discipline by many energy companies (see chart), OPEC pressure, and increased environmental scrutiny

- In addition to oil, natural gas prices also rose significantly during Q4 2021. Economists point to a variety of factors including a cold 2020-21 winter season, strong power demand during a warmer summer, weak hydropower output in the western U.S., a busier-than-usual nuclear maintenance schedule and relatively modest new production growth

Source: Bloomberg, Bank of America, ACG

The Federal Reserve: A Faster Path to Normalization

FOMC "Dot Plot" vs. Fed Fund Futures

- At November's Federal Open Market Committee (FOMC) meeting the Federal Reserve announced the much-anticipated taper to their monthly bond purchase program, pledging to scale back purchases of Treasuries and Mortgage-backed securities by $10 billion and $5 billion per month, respectively

- At their December meeting, the Fed became notably more hawkish on rates, citing increasing concerns over the potential for inflation to stay elevated. As a result, they announced a doubling of the taper to a pace of $30 billion per month. At this new pace, they are now on track to end the program early in 2022, paving the way for subsequent rate hikes

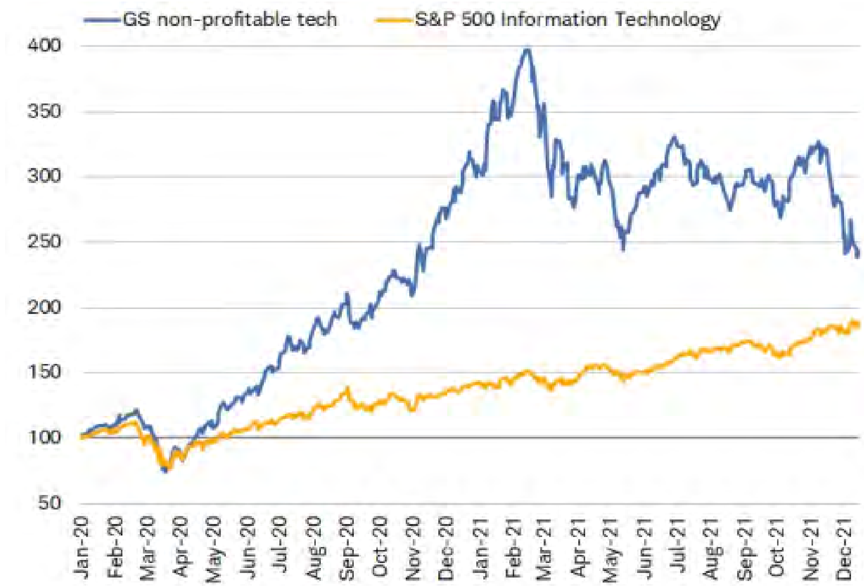
- After the December meeting, the projections of FOMC members and market implied rate futures are closely aligned with an expectation for a series of rate increases through mid-2023. Current projections imply three 25 basis point hikes in 2022 and an additional three 25 basis point hikes in 2023

Source: Bloomberg, CME, Federal Reserve, ACG

Equity Market Starting to Discount Higher Rates

- Some segments of the market have already started to price in the potential for higher inflation and interest rates. For example, the most speculative non-profitable technology stocks, which are very sensitive to higher discount rates because their projected earnings are typically far out in the future, declined significantly in the fourth quarter

Index Return Comparison



- The growth stock heavy Nasdaq Index ended the year just 2.6% from all-time highs, but only 35% of the stocks in that index were above their 200-day moving average. Approximately 60% of NASDAQ stocks were down at least 20% from their peak while over 25% were down at least 50% from their peak. The headline Index, however, was barely impacted due to the high degree of concentration in the largest names

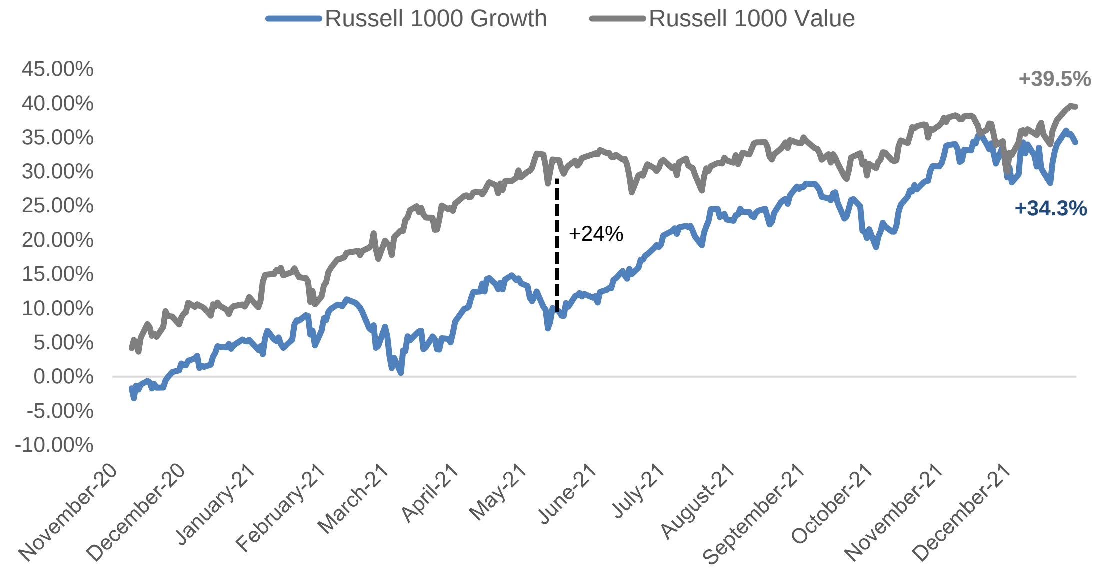
NASDAQ
(Index Return vs. Breadth)

Source: Goldman Sachs, NASDAQ, Charles Schwab, ACG
Note: Market breadth indicates the number of stocks advancing relative to those that are declining

Style and Capitalization: The Roller Coaster Continues

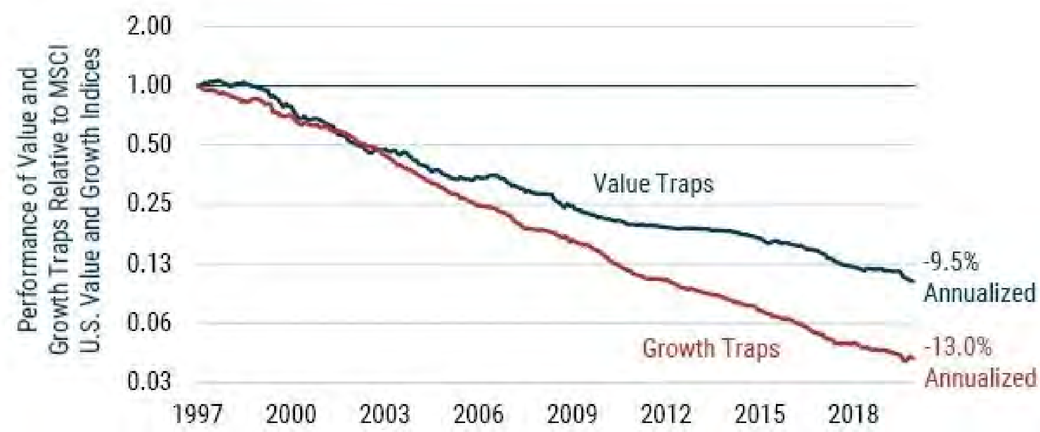
- While Value stocks had a strong rally during the end of 2020 and into the first half of 2021, Growth stocks reasserted their leadership in the fourth quarter and as a result outperformed Value stocks by 2.4% for the calendar year of 2021. Many investors are now asking if the Value rally already peaked

Value vs. Growth Performance



- The term "Value trap" is well-known among investors but "Growth traps" get little attention. GMO recently published research suggesting that they are the more worrisome of the two. They wrote, "The seduction is different, borne from grand narratives of disruptive technologies, hyper-growth, and breathtaking breakthroughs. But Growth stocks are no less prone to disappointment. Growth stocks have lofty investor expectations, so when they fail to deliver, investors are merciless."

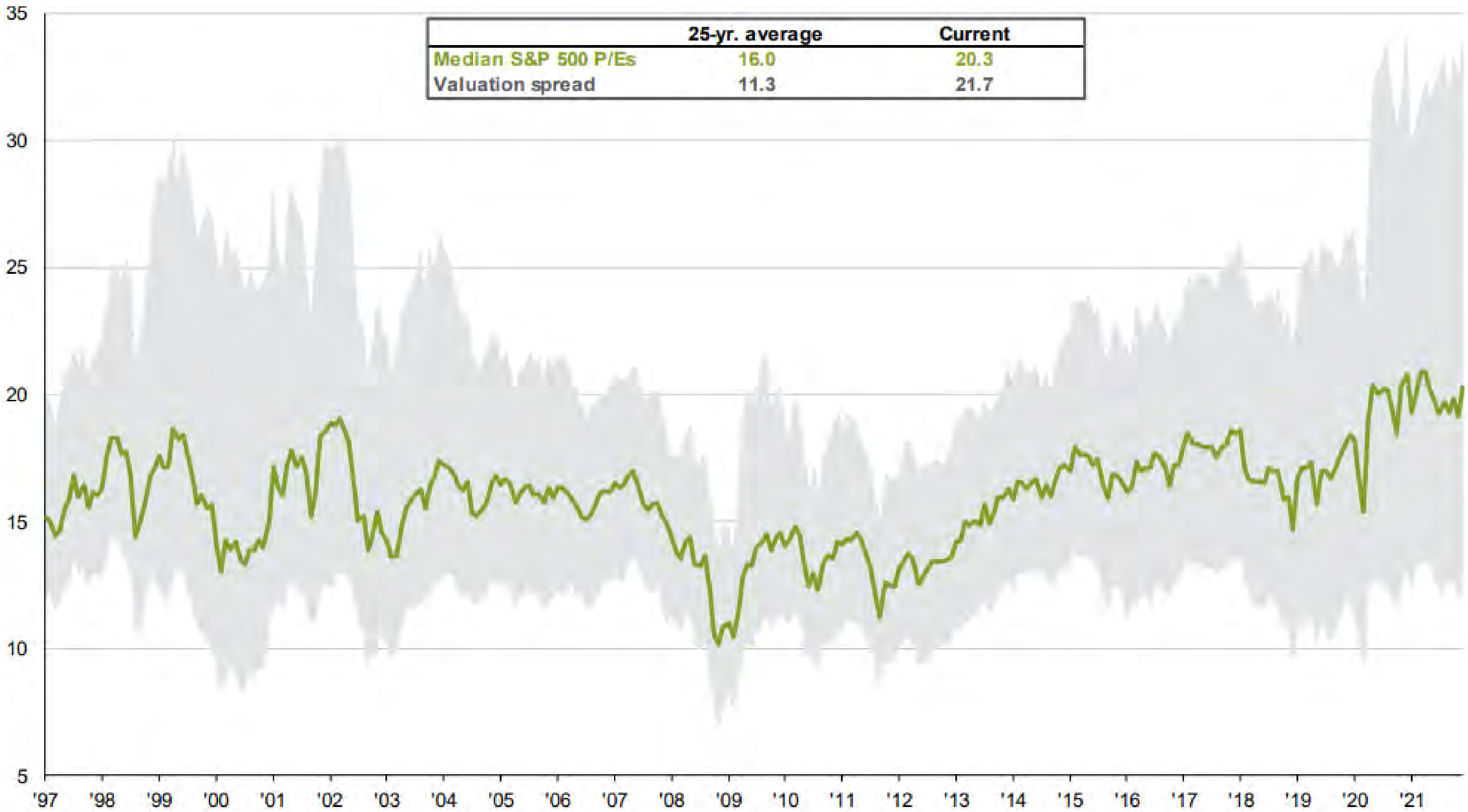
Relative Performance of Value and Growth Traps
(vs. Respective Style Universe)



Source: Bloomberg, GMO, ACG

“This is a Market of Stocks, Not A Stock Market” – Ben Graham

S&P 500 Valuation Spread
(Difference Between 20th and 80th Percentile)



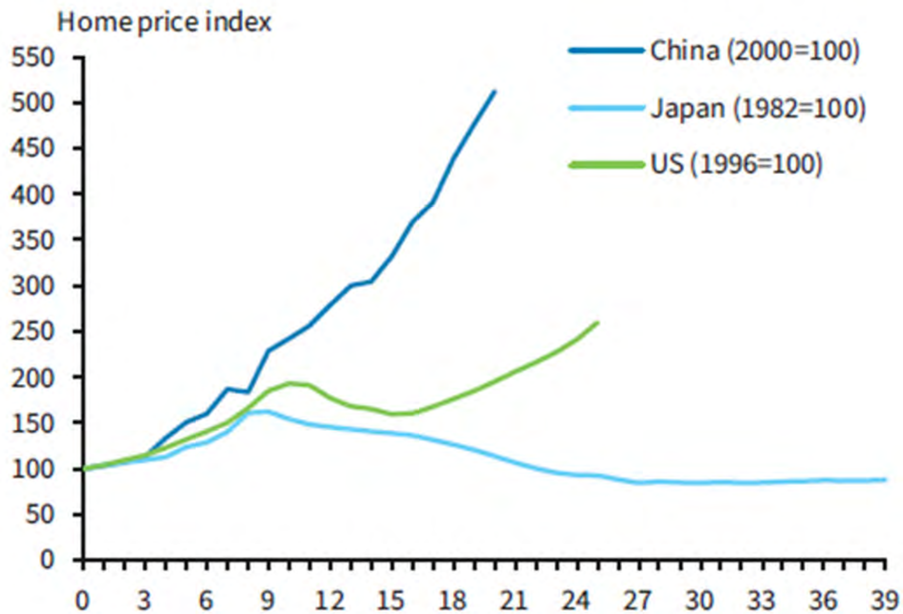
	25-yr. average	Current
Median S&P 500 P/Es	16.0	20.3
Valuation spread	11.3	21.7

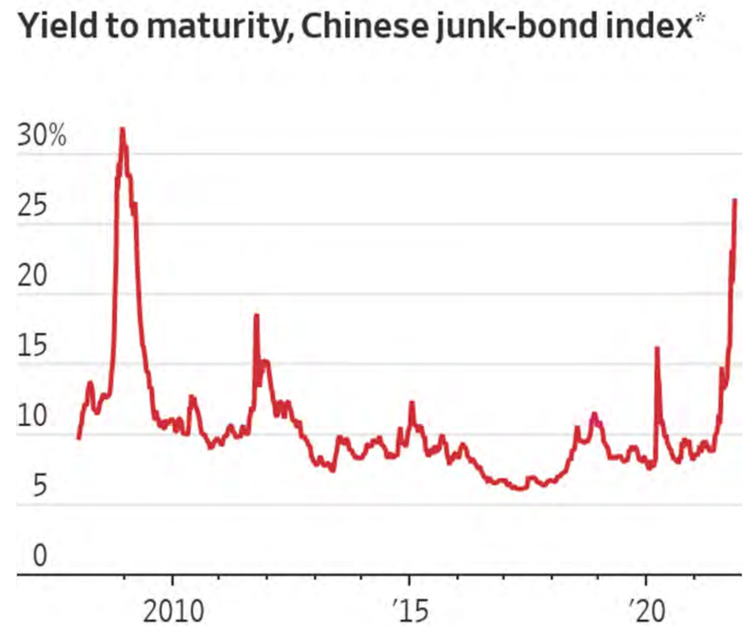
- While the headline price-to-earnings ratio of the overall market is elevated vs. history, it masks the high degree of valuation dispersion between individual stocks within the index
- The valuation spread between the 20th and 80th percentile stocks is nearly double the 25-year average

Source: JP Morgan, FactSet, ACG

ACG Atlanta Consulting Group

Risks: Chinese Property Market Bubble





- Problems associated with China Evergrande Group, a real estate developer, sparked fears of a crisis earlier this fall. Wall Street strategists and economists were already worried about a rapid rise in Chinese real estate prices
- While leverage in the Chinese property system is much lower than it was during the U.S. or Japanese bubble periods, China has built far more houses than it needs and this excessive supply could mean losses for developers, a decline in house prices, and wider economic fallout that could impact China's ability to grow as rapidly as it has historically
- Chinese high yield credit spreads spiked during the most recent quarter as fear spread among investors

Source: Barclays, Bloomberg, Wall Street Journal, ICE Data 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 DEFINITIONS

Asset class and reference benchmarks:

ASSET CLASS	BENCHMARK
U.S. Equity	S&P 500 TR
International Developed Equity	MSCI EAFE NR
Emerging Market Equity	MSCI EM NR
U.S. Fixed Income	Bloomberg Barclays U.S. Aggregate Bond TR
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 Barclay 10-Year U.S. Treasuries: Measures the performance of U.S. Treasury securities that have a remaining maturity of 10 years.

Bloomberg Barclays 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 Barclays 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 Barclays 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 Barclays 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 DEFINITIONS

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

HFRI Fund of Funds Conservative: FOFs classified as 'Conservative' exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more 'conservative' strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index. A fund in the HFRI FOF Conservative Index shows generally consistent performance regardless of market conditions.

HFRI Fund of Funds Diversified: FOFs classified as 'Diversified' exhibit one or more of the following characteristics: invests in a variety of strategies among multiple managers; historical annual return and/or a standard deviation generally similar to the HFRI Fund of Fund Composite index; demonstrates generally close performance and returns distribution correlation to the HFRI Fund of Fund Composite Index. A fund in the HFRI FOF Diversified Index tends to show minimal loss in down markets while achieving superior returns in up markets.

HFRI Fund of Funds Strategic: FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index. A fund in the HFRI FOF Strategic Index tends to outperform the HFRI Fund of Fund Composite Index in up markets and underperform the index in down markets.

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. Price Earnings Ratio (P/E) is the price of the stock divided by its earnings per share.

INDEX DEFINITIONS

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.

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 IndexSM 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 IndexSM (WLIQAEH), Wilshire Liquid Alternative Global Macro IndexSM (WLIQAGM), Wilshire Liquid Alternative Relative Value IndexSM (WLIQARV), Wilshire Liquid Alternative Multi-Strategy IndexSM (WLIQAMS), and Wilshire Liquid Alternative Event Driven IndexSM (WLIQAED).