CHIEF INVESTMENT OFFICE

Investment Insights

The Great Rebalance

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The opinions are those of the author(s) and subject to change.

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Data as of 9/8/2020 and subject to change.

As we work our way through the Chief Investment Office (CIO) May 2020 Investment Insights *The Great Separation* phases of the Workout Process—the accelerating shift in work, leisure, learning and other activities, we expect capital markets to undergo episodic volatility. Understanding this dynamic is critical to portfolio strategy in the years ahead. This current volatility is a convergence of new policies that are still young in their existence, a geopolitical backdrop that is less clear, and a macro environment in the U.S. that is being supported by unprecedented stimulus and liquidity. This collective environment is one that requires a rebalancing within both the private and public sector, in our view. As this evolves in the years ahead, implications for asset allocation processes, plans, and investment management trends are larger than most currently believe. We believe a higher level of diversification*, more frequent portfolio rebalancing, and exposure to newly developing themes are all needed within asset classes, while still remaining with higher than average exposure to equities, in order to potentially produce a level of returns consistent with long term averages, in our opinion.

The post-pandemic world is expected to create new opportunities and risk factors for investors. We see a shift in the balance in how investors view portfolio trade-offs due to changing household consumption patterns, rapid adoption for a newer operating environment by companies and an evolution in the role played by government in the economy and financial markets.

The macro environment remains uncertain for even a while after the imminent concerns of the coronavirus has faded, and economic activity will take time to return to pre-coronavirus levels. This new business cycle has the potential to create fresh drivers of growth but also leave in its wake business models that have permanent excess capacity or those stubbornly slow to keep up with the changed realities. This creative destruction[1] process will churn the labor force, which will go through a slow healing process and probably demand new and higher cognitive skills. As BofA Global Research has been highlighting, having experienced a deep recession and a hit to income and job prospects, consumers' caution will manifest itself in higher levels of savings, and spending is expected to further accelerate to online platforms seeking convenience and value.

Businesses will accelerate innovation in an effort to transition to a more digital mode of operation and delivery. Many industries will seek to shorten their supply chains and re-shore manufacturing that had left for cheaper locales in previous decades. This will necessitate the use of cash flows for higher capital expenditure (capex) as opposed to share buybacks, with a significant portion of spending directed to new economy capex like research and development (R&D) and technology. Business practices will change as companies look to redefine their role in the context of being postitive contributors to the broader society rather than just providing shareholder returns, and as a result will have the opportunity to inject more sustainability into their business models.

[1] The process of old business models being replaced by newer and more efficient and productive ones.

*Diversification does not ensure a profit or protect against loss in declining markets.

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The pandemic has amplified the role of government in the everyday life of citizens and businesses, who have looked toward their local authorities and the federal government for updates and guidance but also direct financial support during the pandemic. Government deficits will continue to be used for income replacement for households and cash flows for small businesses, with central bank balance sheets remaining elevated and liquidity provisions opportunistically deployed to accommodate capital markets. This, along with other national priorities like broadband deployment, physical and health infrastructure, reshoring* and a manufacturing renaissance, and boosting defense and cybersecurity capabilities, will not only need higher spending but greater partnership with the private sector.

Investors face an extended period of market fragility and financial repression. Previous notions of valuation and diversification will need to shift to a new balance. Market distortions could be a norm, and successfully differentiating between liquidity versus fundamental drivers and secular versus cyclical drivers will be key. At the same time, more granular diversification across assets, regions and styles along with active rebalancing for risk management or proactive risk-taking will be important. Investors will need to be more nimble and able to deploy such plans in an instant when volatility strikes. Incorporating thematic exposures through actively managed** traditional and alternative vehicles for qualified investors will be a potential source of excess performance.

Following on the previous releases of the CIO Investment Insights, "The Great" series[2], this report explores how this pandemic will lead to the *Great Rebalance* or finding a new balance for companies, investors, governments and consumers (Exhibit 1) and reflects on portfolio strategy for a post-coronavirus world.

Exhibit 1: The Great Rebalance of Companies, Investors, Governments and Consumers.

	Pre-coronavirus	Post-coronavirus
Companies	Use cash flows for stock buybacks	Use cash flows for capital expenditures and research & development
	Shareholder capitalism	Stakeholder capitalism
	Incremental innovation and change	Accelerated innovation especially toward digital business models
	China-focused supply chains	Globally diversified supply chains in countries deemed allies
	See government intervention as a negative	Accepting of government's role to drive national priorities like infrastructure, 5G, etc.
Investors	Hawkish on higher levels of government debt and deficits	More accepting of deficits and consider it necessary to support household incomes
	Cautious on higher valuations	More inclined to give higher valuation to high-quality assets like U.S. equities given low interest rates
	Fund flows primarily into passive investments***	More discerning about fundamentals and risk management. Shifts focus to active management and asset allocation
Governments	Cautious on running large deficits	Political acceptance across the aisle on using government spending to support incomes and small businesses
	Central bank balance sheets were being shrunk	Central bank balance sheets maintained at elevated levels.
	Central bank buying mostly concentrated in high quality assets	Direct intervention of central banks into riskier parts of market such as corporate bonds
	Less coordination between fiscal and monetary policy	Fiscal and monetary policy work in tandem
	In advanced nations, government intervention in everyday life was resisted	Citizens more amenable to sacrificing some privacy and individual priorities for broader national priorities like security, innovation and investments
Consumers	Lower savings rate	Higher savings rate as a cushion for economic and macro uncertainty
	Brick and mortar retail and in-person exchange of services	More e-commerce and online consumption of services— e-medicine, e-groceries, e-sports, etc.
	Lower levels in healthcare spending outside the U.S.	Increasing healthcare spending in developing countries

Source: Chief Investment Office. As of August 2020. CIO views are subject to change.

[2] The Great Separation April 2020; The Great Acceleration May 2020; The Great Convergence May 2020; The Great Clash June 2020; The Great Consolidation July 2020; The Great Rivalry August 2020; and, The Great Reset August 2020.

*Reshoring is the process of returning the production and manufacturing of goods back to the company's original country.

**Active management seeks to outperform benchmarks through active investment decisions such as asset allocation and investment selection.

***Passive management is an investing strategy that tracks a market-weighted index or portfolio.

Portfolio Strategy Considerations for the Great 2020s

Portfolio strategy in the coming decade should adjust for an acceleration in certain pre-coronavirus themes but also a new set of macro considerations unlike the previous decade. Investors should consider incorporating strategies that take into account the persistence of negative real interest rates, a gradual rise in inflation levels, an accelerating capex cycle in areas like technology, focus on regions that provide a higher capacity for fiscal and monetary stimulus, and should be more broadly diversified. Investors should also consider incorporating into their decisions a larger role played by the government in helping to drive economic outcomes and deglobalization trends reshaping supply chains. Below we highlight our 10 portfolio considerations for the post-coronavirus world.

1. Adherence to a disciplined investment process

Post-2008/2009 Great Financial Crisis (GFC), financial markets recorded four times the frequency of outlier events than in the 90 years prior.[3] This higher market fragility — or an increased tendency to go from relative calm to stress at rapid speeds — is often related to investor crowding, a more significant role played by high-frequency traders and quantitative investment strategies, and rising central bank balance sheets that appear to diminish fundamental forces.

This environment can lead investors to make the typical behavioral mistakes of either taking too much risk at market peaks or very little after sell-offs present opportunities. To help navigate market swings, investors should adhere to a disciplined investment process that provides an optimal mix of assets that potentially raises the probability of achieving one's long-term financial goals and cash flow requirements. This would start with an investment policy statement that lays out those goals and a tolerance for assumed risk in the financial markets, and frequently reviewing the plan with regular updates for any changed life circumstances.

As part of a disciplined investment strategy, investors should have a flexible and realistic goals-based spending and withdrawal strategy, which is as important as asset allocation in seeking long-term success. In addition, rising government debt, inequality and populism could potentially lead to higher taxes in the future, making incorporating tax-efficient strategies such as tax-exempt bonds and systematic tax loss harvesting accretive to net returns. Finally, against a backdrop of a stressed economic and operating environment, we see a higher scrutiny on companies and governments regarding progress toward sustainability targets. Investors have the opportunity to integrate environmental, social and governance (ESG) metrics and overlays into their valuation and risk/return considerations. This should make for a more robust and holistic investment process that potentially better weathers market fragility, policy changes and sustainability challenges while participating in the new business and market cycle.

PORTFOLIO CONSIDERATIONS

Consider a disciplined investment strategy and incorporate tax-efficiency and sustainability metrics into risk/return considerations.

2. More frequent rebalancing deployed during times of higher volatility

Rebalanced portfolios may retain their portfolio-level risk characteristics better than buy-and-hold portfolios. Along with systematic rebalancing, opportunistic rebalancing during market dislocations will be an important feature for long term portfolios going forward.

Investors should review their portfolios more frequently to ascertain misalignments with strategic allocations in the context of the appropriate risk to carry given the changing macroeconomic environment. In addition to fundamental factors, paying attention to central bank intentions and liquidity and investor sentiment and positioning can be useful indicators to decide whether to rebalance. This more active rebalancing should be level-set against cost, tax and operational considerations.

PORTFOLIO CONSIDERATIONS

Review portfolios regularly and opportunistically rebalance with a forward looking view on fundamentals, liquidity and sentiment.

[3] BofA Global Research, Global Equity Derivatives 2020 Outlook Deeper into the abyss, November 2019.

3. Expand the diversification toolkit

Fixed income should remain an important asset class for diversification purposes, in our view, but lower yield levels may render it less effective compared to previous episodes of equity drawdowns. Investors may have to be more conscious of duration management as bond allocations with medium to high levels of interest rate risk will be needed to provide useful diversification to equities than investments with low levels of interest rate risk. While the Federal Reserve (Fed) has signaled its disapproval of negative interest rate policy, foreign central banks have implemented it for a number of years. This potential for global bond yields to dip further into negative territory could make them useful diversifiers in a fragile economic and geopolitical environment. Furthermore, some exposure to Treasury Inflation-Protected Securities (TIPS) may perform relatively—not absolutely—better than nominal Treasurys if inflation rises or rates rise or both.

In addition, deglobalizaton trends such as re-shoring, focus on national priorities and separate technology standards could lead to diverging fundamentals and more differentiated equity returns among regions and sectors, raising the value of global diversification. Over the long term, tangible assets such as real estate, timber, and farm and ranch land may benefit portfolios through increasing diversification, helping to provide a hedge against potential future inflation and generating cash flows. Within alternative investments, a thoughtfully constructed portfolio of hedge funds, for qualified investors, could provide differentiated return for risk mitigation purposes, while private market assets such as private equity and private credit also for qualified investors, could provide thematic exposure to real economy trends, potentially enhance non-correlated returns and cash flows.

PORTFOLIO CONSIDERATIONS

Fixed income should remain important for diversification, in our view. Global diversification is becoming more valuable along with the use of tangible assets. Hedge funds and private assets for qualified investors could provide differentiated returns and cash flows.

4. Precious metals for potential tail-risk hedging

Precious metal prices — especially gold — could have further upside, in our view. Economic uncertainty, rising central bank liquidity, improving inflation expectations, a weaker dollar and most importantly negative real interest rates globally should act as supports (Exhibit 2).

When contemplating adding gold to portfolios, it's important to consider its portfolio utility in reference to other asset classes. When using gold as a hedge for economic uncertainty or deflation concerns, consider balancing the exposure with how much high-quality bond exposure one already carries in portfolios, which can potentially serve a similar purpose. When using gold as an inflationary hedge, recognize that high-quality equities over the long term have the potential to grow with inflation because of their pricing power, as long as there is no runaway inflation. In this situation, the allocation to gold should be in consideration to one's equity exposure.

At the current time, we believe the opportunity set is greater in equities and other asset classes that will benefit from reflationary efforts as we move through the new business cycle. For those investors who would like to hedge against uncertainty, a small allocation to gold could make sense.

PORTFOLIO CONSIDERATIONS

Precious metals like gold can be used for economic and policy uncertainty and are supported by negative real rates.

Exhibit 2: Gold Prices Have Risen As Real Interest Rates Have Declined.

Note: The real 10-year yield is depicted as the difference between the 10-year Treasury note and inflation expectations as illustrated by the breakeven rate.
Sources: Chief Investment Office; Bloomberg. Data as of August 14, 2020

5. Higher equity holdings for capital appreciation and income

The Fed's renewed focus on seeking to achieve their inflation targets should keep it accommodative and maintain policy rates at or near zero bound for the foreseeable future. At the same time, the deflationary shock from the pandemic, ageing demographics and technology-driven efficiencies should keep interest rates at the back end of the curve from rising significantly. This would lower income and capital appreciation opportunities from bond portfolios, and as such, investors would then maintain a higher allocation to equities than usual in multi-asset portfolios in seeking to achieve their total return objectives (Exhibit 3).

PORTFOLIO CONSIDERATIONS

Higher allocation to equities will be needed in seeking to achieve total return goals.

Equities, especially those in the higher-quality and growth realm, should command a structurally elevated valuation premium in the post-coronavirus world. Lower inflation levels, central bank accommodation translating to easier financial conditions, and a scarcity of quality and yield in other asset classes should be supportive of such higher valuation multiples.

Exhibit 3: Equities Are Relatively More Attractively Valued Versus Bonds And Could Provide Growth Opportunity.

	Yield	Price-earnings ratio (P/E)	5-Year Earnings per share compound annual growth rate
U.S. 10-Year Treasury Bond	0.55	181.8x	0%
U.S. Investment Grade Bond	1.89	52.9x	0%
U.S. High Yield Bond	5.22	19.2x	0%
S&P 500 Index	1.71	20.2x	6.5%
MSCI Emerging Markets Index	2.31	13.7x	3.2%

Note: The P/E of a bond represents the inverse of its yield-to-worst.
Sources: Chief Investment Office, FactSet. Data as of August 25, 2020.

6. U.S.-centric portfolio tilt but consider non-U.S. Equities for more cyclicality and diversification

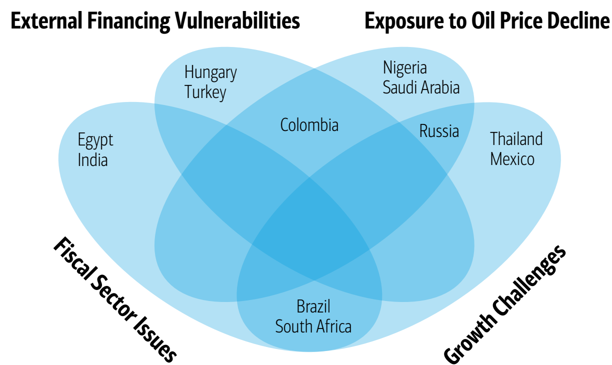
Since the GFC, we have seen U.S. equities outperform international markets by a wide margin owing to better relative growth trends, corporate profits and a more proactive central bank. In the post-coronavirus world, global capital should continue to favor the U.S. for its innovation prowess, access to skilled labor, health infrastructure, the dollar's status as the world's reserve currency and, most importantly, one of the largest consumer markets in the world.

PORTFOLIO CONSIDERATIONS

Large-cap U.S. equities have the potential to provide a balance of growth, yield and quality characteristics that should continue to be attractive for investors. However, international equities could narrow the performance gap with U.S and should be included for cyclicality and diversification.

However, international equities, given the degree of underperformance, relatively cheaper valuations and prospects for a weaker dollar cannot be ignored in strategic portfolios. This is especially true for developed markets like Europe and Japan that have stepped up with large fiscal and monetary measures to support their economies, with Europe taking an important first step toward greater fiscal union, long considered necessary to create continued growth. Emerging markets meanwhile are likely to face headwinds during this new business and market cycle from China's structural growth slowdown, some manufacturing supply chains leaving to move back to developed nations, and relatively less capacity for fiscal and monetary stimulus. Emerging markets is not a homogeneous asset class (Exhibit 4) and as such active management can be used to gain exposure to growth areas within emerging markets such as technology, healthcare and countries with large consumer markets.

Exhibit 4: Key Vulnerabilities of Major Emerging and Frontier Market Economies.



Source: International Monetary Fund (IMF). As of April 2020.

Note: The country sample is 18 emerging and frontier markets: Brazil, China, Colombia, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Nigeria, Peru, Philippines, Poland, Russia, Saudi Arabia, South Africa, Thailand, and Turkey. The countries with elevated vulnerabilities are identified as the ones that are in the bottom quartile when ranked across the multiple indicators in each category. Indicators in the fiscal sector include central government balance (share of gross domestic product (GDP), public debt (share of GDP), and gross financing needs (share of GDP). Indicators in the external sector include current account balance (share of GDP), short-term debt to remaining maturity (share of GDP), external debt (share of GDP), foreign holdings of government debt (share of total), and IMF's reserve adequacy metric. Exposure to oil decline is based on oil balance as a share of GDP. Growth challenges are highlighted for the countries where GDP is expected to contract by more than 5 percentage points year-over-year in 2020.

7. Tilt toward Secular Growth but have a balance of Growth and Value

We have seen Growth outperform Value for the better part of the last 15 years. The affect of the pandemic in accelerating the economy's shift to digital business models and consumer experiences along with historically low interest rates has accentuated this performance differential to extreme levels, making Growth investors nervous but reluctant holders. Timing sentiment-based shifts between Growth and Value is hard, and, therefore, portfolios should have a balance of both factors that can simultaneously gain from cyclical and secular forces gaining traction.

Growth should continue to benefit from accelerated secular investments in 5G, mobility, artificial intelligence, cloud computing, robotics, cybersecurity and health infrastructure globally. Value, which has a higher exposure to cyclicals, should benefit from an improved pace of earnings growth and anticipated economic normalization as the vaccine timeline shortens. Higher levels of nominal growth in 2021 and beyond would give investors greater confidence to step into Value and cyclicals, which should see better demand, pricing power and cash flows.

PORTFOLIO CONSIDERATIONS

Both Growth and Value oriented exposures should provide a balance as economic normalization gains traction.

8. Risk based approach to generating income

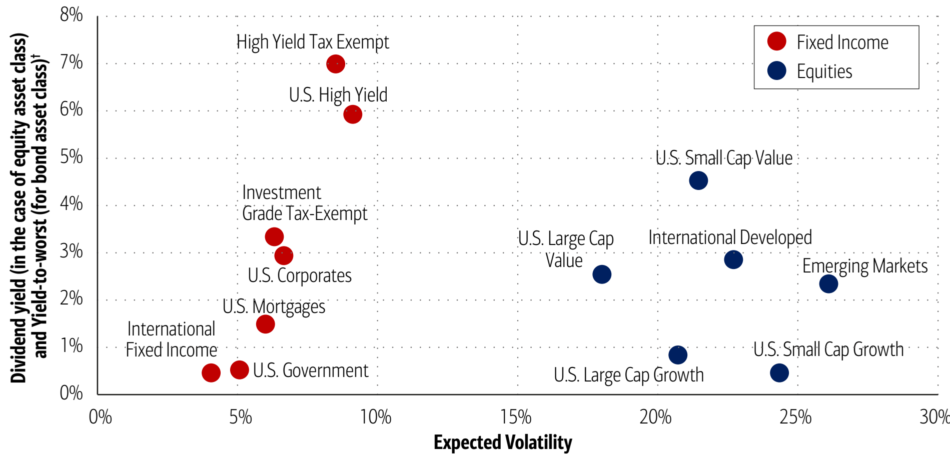
Higher household savings along with near all-time lows for government bond yields may encourage income-seeking investors to stretch into riskier segments of the market. In doing so, they may need to be more prudent about having a risk overlay to their income generating portfolio.

Government bonds such as U.S. Treasurys, investment-grade corporate bonds and high-quality municipal bonds may be seen as relatively lower risk assets for income generation (Exhibit 5). However, one should be cognizant of how much credit and/or duration risk they assume in these segments. High-quality dividend-paying and dividend-growing equities are higher on the risk spectrum. Investors should look for those companies with relatively wide economic moats, less leverage and stable earnings. Finally, certain higher dividend-paying equities, junk bonds, master limited partnerships, real estate investment trusts (REITs), etc., could provide higher yields but are lower in quality and more volatile. In the post-coronavirus environment, investors should be aware to a higher degree of where their portfolio income is coming from.

PORTFOLIO CONSIDERATIONS

Investors should seek to balance income generation from portfolios with the risk taken. Quality of balance sheet and cash flows, volatility of the asset class and liquidity and leverage are important considerations.

Exhibit 5: Assets Providing Higher Yield Typically Tend To Be More Volatile.



†Yield-to-worst of a bond is the lower of the yield-to-maturity or the yield-to-call.

Note: Expected volatility is based on CIO expectations of the variation an asset will exhibit during a specified time period as reflected in CIO's Capital Market Assumptions, while yield reflects the trailing 12-month earnings yield for equity indices and the yield-to-worst for fixed income securities. Municipals are grossed up at the highest federal tax rate for comparison purposes, and yields on High-Yield and High-Yield municipals are adjusted for credit losses.
Sources: Chief Investment Office; Bloomberg. Data as of April 27, 2020.

9. A world of divergence is considered better for active management

Companies with strong balance sheets and those in essential sectors and with digital business models have generally seen their stock prices rise, and these companies have been able to raise debt at attractive yields. However, valuations are more attractive in areas where the risk is that the pandemic may have damaged business models for the foreseeable future.

In the post-coronavirus world, innovation will further accelerate creating new business models and industries, in our view. Think more creative destruction ahead as declining business models would be replaced with faster-growing ones, transforming the stock market in its wake. The average tenure of a company's listing on the S&P 500 will likely shrink to just 12 years by 2027, according to Innosight's work on corporate longevity, declining from 24 years in 2016 and 33 years in 1964. At this churn rate, a significant number of companies could be replaced in the S&P 500 index in the next decade. This may create opportunities for those active managers with strong research and risk management capabilities to add value over passive investments.

Fixed income active managers have generally demonstrated the ability to outperform across different time frames. The nature of the fixed income markets — fragmentation, opaqueness and less liquidity — seeks to benefit active managers, who can take positions across various parts of the capital structure and with different tenures for the same issuer. In addition, rising government and corporate debt levels may require a deeper understanding of fundamentals to separate winners and losers.

PORTFOLIO CONSIDERATIONS

The opportunity set for active management has improved with fundamental divergences rising between industries, regions and styles.

10. Thematic exposure has the opportunity to add value

We live in a rapidly changing world with the pandemic acting as an accelerant to already established themes while being a catalyst for nascent trends to develop into new industries (Exhibit 6). Thematic investments could include companies with distinctive and specialized businesses in more dynamic areas of the economy and therefore have the potential to offer strong prospects for capital growth. However, this can also make theme-specific exposure volatile, testing investor patience.

Exhibit 6: The Coronavirus Crisis Is Expected To Accelerate Themes Already In Place.

DEGLOBALIZATION	THE E-EVERYTHING ECONOMY	NEXT-GEN TECH INFRASTRUCTURE	LARGER PUBLIC DEBTS	INEQUALITY
Localization of supply chains; automation, robotics and 3-D printing; re-shoring and trade protectionism	e-commerce, e-health, e-learning, e-work, e-sports, virtual/augmented reality	5G, fiber optics, cloud computing, and related telecom and digital capital expenditures	Modern Monetary Theory, larger role of fiscal spending, big government vs. small	Income inequality, health inequality, digital inequality, potential greater redistribution of wealth
HEALTHCARE INFRASTRUCTURE/ INNOVATION	**BIOSECURITY AND SMART CITIES**	**CYBERSECURITY**	**INCREASED CONSUMER/ BUSINESS SAVINGS**	**ARTIFICIAL INTELLIGENCE**
Increased spending per capita on medical equipment, facilities, mobile health, vaccinations, gene-editing	Pandemic monitoring and contact tracing, embedded in the technologies of smart cities, will accelerate the privacy debate	Protecting business, government and personal data has become even more important given new trends in telework, health monitoring and contact tracing	Increased savings rates, deleveraging expands from consumer sector to business sector	Big data, predictive health analytics, contact tracing, potential drug/vaccine discovery

Source: Chief Investment Office, Investment Insights The Great Acceleration, as of May 2020.

Conclusion:

The post-coronavirus world will be seeking a new approach to portfolio construction. Investors will have to factor in negative real rates, a bigger role for government, less globalization, more scrutiny on sustainability issues, massive and persistent government deficits, greater innovation and creative destruction, and consumer spending and experiences moving into the digital realm in an accelerated fashion.

This environment will prompt investors toward a disciplined investment process incorporating tax efficiency and more opportunistic rebalancing, a higher allocation to equities than usual seeking to achieve total return goals, greater diversification through global investments, precious metals, and non-traditional assets among others.

Index Definitions

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index.

Indexes are all based in dollars.

S&P 500 is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States. It is one of the most commonly followed equity indices, and many consider it to be one of the best representations of the U.S. stock market.

MSCI Emerging Markets Index is an index used to measure equity market performance in global emerging markets.

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The amount of a dividend payment, if any, can vary over time. Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. Bonds are subject to interest rate, inflation and credit risks. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes, or the rights of municipal security holders. Income from investing in municipal bonds is generally exempt from federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax. Investments in high-yield bonds (sometimes referred to as "junk bonds") offer the potential for high current income and attractive total return, but involves certain risks. Changes in economic conditions or other circumstances may adversely affect a junk bond issuer's ability to make principal and interest payments. Treasury bills are less volatile than longer-term fixed income securities and are guaranteed as to timely payment of principal and interest by the U.S. government. Mortgage-backed securities are subject to credit risk and the risk that the mortgages will be prepaid, so that portfolio management may be faced with replenishing the portfolio in a possibly disadvantageous interest rate environment. Investments in foreign securities (including ADRs) involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risk related to renting properties, such as rental defaults. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investing directly in Master Limited Partnerships, foreign equities, commodities or other investment strategies discussed in this document, may not be available to, or appropriate for, clients who receive this document. However, these investments may exist as part of an underlying investment strategy within exchange-traded funds and mutual funds. Nonfinancial assets, such as closely-held businesses, real estate, oil, gas and mineral properties, and timber, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations, and lack of liquidity. Nonfinancial assets are not in the best interest of all investors.

Alternative investments such as derivatives, hedge funds, private equity funds, and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity, and your tolerance for risk. Alternative investments are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. There is no secondary market nor is one expected to develop, and there may be restrictions on transferring fund investments. Alternative investments may be leveraged, and performance may be volatile. Alternative investments have high fees and expenses that reduce returns and are generally subject to less regulation than the public markets. The information provided does not constitute an offer to purchase any security or investment or any other advice.

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Private equity investments involve a significant degree of risk and should be regarded as speculative. They are only made available to qualified investors under the terms of a private offering memorandum. Holdings in a private equity fund may be highly leveraged and, therefore, more sensitive to adverse business or financial developments. Private equity investments are long term and unlikely to produce a realized return for investors for a number of years. Interests in a private equity investment are not transferable. The holdings of a private equity pool may be illiquid—very thinly traded or assets for which no market exists. A private equity investment may use leverage, which even on a short term basis can magnify increases or decreases in the value of the private equity investment. The business of identifying private equity investment opportunities is competitive, and there is no assurance that the private equity pool will be able to complete attractive investments or fully commit its capital. In addition, a private equity fund's high fees and expenses may offset the fund's profits. Private equity investments should be discussed with financial, tax and legal professionals in light of an individual's objectives, liquidity needs and tolerance for risk.

Impact investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.

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