Q4 2024 investment outlook:

Life truly is like a box of chocolates

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Executive summary

Investor gains continue in 2024 as the fourth quarter begins, with global stocks, bonds and several real asset categories delivering solid returns. Despite early August volatility, equities have delivered double-digit returns, and country plus sector participation beyond U.S. technology stocks is a welcomed development. Bonds have provided both income and price appreciation despite corporate bonds offering historically low compensation relative to government bond yields. In the third quarter alone, investors absorbed Japanese interest rate increases, several regional conflicts around the world and an ongoing political news cycle turning at hyper speed.

However, the U.S. Federal Reserve (Fed) cutting interest rates for the first time since beginning its rate increasing cycle in March 2022 represents the most significant event for investors. We have likened the Fed to a personal trainer, raising interest rates (akin to increasing the ramp height on a treadmill) to slow the economy. After maintaining its interest rate target at between 5.25%-5.5% for more than a year, the Fed lowered interest rates by half a percent, giving the somewhat fatigued economic runner some relief. The key for consumer and business activity will be their ability to taper in a measured fashion versus a more severe slowdown; our base case is business and consumer activity will modestly decline.

While we retain a positive outlook for diversified portfolios, we face several major events in the year's final quarter. The election looms large in November, with policy implications for several sectors as well as major tax and trade policy considerations. The Federal Reserve meets two more times this calendar year, with investors parsing every word to forecast if the half percentage cut versus the central bank's usual quarter percent cadence carries any significance or merely represents a jumpstart in a phase transition. Global earnings and economic data releases will carry extra meaning as investors weigh how achievable the 11.8% global earnings forecasts and 14.5% U.S. large company earnings forecasts may be. As our most senior capital market analysts share below, we are optimistic about both yield and price appreciation opportunities for investors, but we will remain guarded about consumer health, policy risks and valuation metrics as each day presents new considerations. Thank you for your trust; enjoy the content that follows.

Global economic views

Global economic activity remains relatively solid entering 2024's final quarter.

Growth in the United States and India remain exceptional at 3.1% and 6.7%, respectively, year-over-year. Other major economies, including Brazil, China, the eurozone, Japan and the United Kingdom (UK), demonstrate modest but positive economic expansion despite high interest rates' lagged effects across most economies. Inflation pressures continue to ease around the world due to lower commodity prices and slowing demand. Moderating growth and inflation trends are likely to persist well into 2025 due to lagged effects of high borrowing costs. U.S. election uncertainties and the specific path of the Federal Reserve are key questions for investors as we head into year-end.

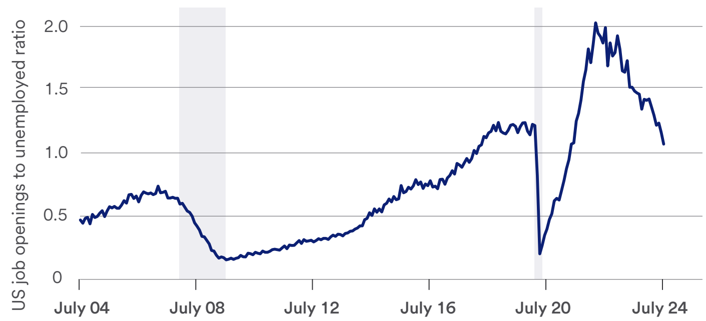
U.S. economic exceptionalism is likely to moderate into 2025.

Healthy consumers and solid business equipment investments led to 3.1% year-over-year gross domestic product (GDP) growth through the first half of 2024. The U.S. Bank Economic Team anticipates some deceleration in activity into the new year as still-elevated borrowing costs dampen consumer spending and the labor market eases. Inflation is also likely to ease along with the restraint in spending and recent declines in commodity prices.

The transition of the Fed to a more normal interest rate policy — a lowering of interest rates and borrowing costs — should help the economy in 2025. However, this near-term path is unlikely to impact economic data in the coming quarters; such policy changes act with long and variable lags on the economy. Easing demand for labor should help control inflation, though supply constraints in labor and commodities remain risks.

Attention will soon turn to the November 5 U.S. elections. Historically, market returns see greater impacts from economic growth and inflation data than election outcomes. Economic impacts from the election are most likely to fall on narrow sectors or regions based on control of Congress and the executive branch and the likelihood of enacting the winning party's agenda.

U.S. job openings to unemployment ratio



Sources: U.S. Bank Asset Management Group analysis, Bloomberg data, July 31, 2004-July 31, 2024. Gray bars indicate recessionary periods.

Developed market economies deliver modest expansions as global central banks adjust policy rates.

The recovery in developed market economies remains weak and uneven. Gross domestic product results for the eurozone, Japan and the United Kingdom are out of recession territory but remain modest. Economic growth appears unlikely to accelerate, with consumers and businesses in Europe challenged by high interest rates the European Central Bank (ECB) and the Bank of England are only beginning to trim. In contrast, the Bank of Japan has initiated interest rate hikes with inflation holding above its target. Elevated rates and easing business activity should temper potential gross domestic product and inflation into year-end. Adjustments to global trade policies and tariffs arising from the U.S. election are risks to 2025 growth prospects.

Emerging market activity likely slows as India passes peak acceleration, China struggles with housing market excess supply and low commodity prices hurt natural resource exporters.

Emerging market economic activity remains relatively diverse, with India benefiting from strong government spending and development while China struggles to recover from an excess of housing investment. Commodity exporting economies, such as Brazil and Mexico, are hurt by lower commodity prices and a dearth of global demand. India's economy likely decelerates from its recent peak, but the level of activity remains elevated as the economy benefits from the continuing effects of government investment and manufacturing expansion. China's economic output is likely to disappoint again, with struggling consumer sentiment amid languishing home prices and inadequate central government stimulus programs.

U.S. equity markets

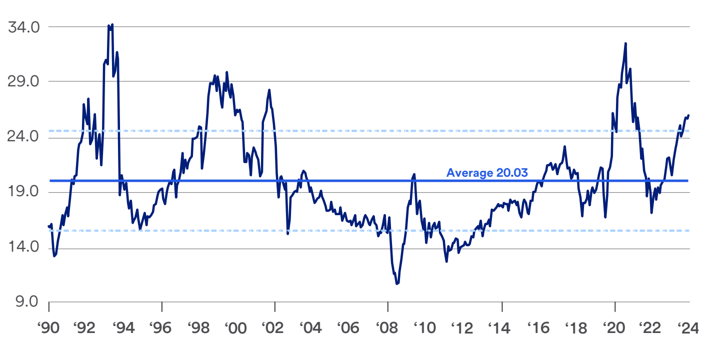
U.S. equities begin the fourth quarter amid increased market volatility and political uncertainty.

The S&P 500 ended 2024's first three quarters up 20.8%, with all 11 sectors posting year-to-date gains. Ten sectors are up 10% or more, led by Information Technology (29.6%), Communication Services (27.9%) and Utilities (27.4%). Strength evidenced across both growth- and defensive-oriented sectors reflects investors' uncertainty regarding near-term economic prospects. The artificial intelligence (AI) buildout benefits growth-oriented sectors such as Information Technology and related sub-industries, a trend we see continuing for the foreseeable future. Meanwhile, moderating interest rates boost the dividend appeal for Consumer Staples, Healthcare, Real Estate and Utilities, traditionally considered defensive-oriented sectors investors seek during periods of economic uncertainty.

Inflation, interest rates and earnings are directionally consistent with equity prices.

Waning inflation, moderating interest rates and stable earnings projections support higher-trending U.S. equity prices into year-end, albeit at a moderate pace. Expense control remains a common theme among companies across all sectors, bolstering profit margins and earnings growth. As of September 30, analysts forecast S&P 500 earnings of approximately $240 per share for full-year 2024 and $275 in 2025, according to Bloomberg, FactSet and S&P Cap IQ, reflecting respective 9.2% and 14.4% year-over-year growth. Stock market valuation, or the price investors are willing to pay for realized or projected earnings, reflects a similar degree of optimism. At current price levels, the S&P 500 Index trades at 23.9 times the 2024 estimate and 20.9 times 2025 projections, at the high side of its 35-year historical average, though short of extremes.

S&P 500 last 12 months price-earnings ratio



Sources: Bloomberg, FactSet, U.S. Bank Asset Management Group Research, September 23, 2024.

While still retaining a positive forward view for U.S. equity markets, several factors temper our near-term outlook. Earnings estimates anticipate more robust growth in 2025 than 2024, a potentially overly optimistic scenario. Valuation remains elevated, and companies are likely to adjust forward guidance following the release of third quarter results beginning in mid-October. Finally, government policy is subject to change depending on the election outcomes and price volatility tends to ensue during and following periods of change.

Consumer and business spending remain resilient.

Consumers continue to travel, spending on discretionary goods is growing, and loan and credit card defaults are near normal levels, presenting a favorable backdrop for the upcoming holiday buying season. Conversely, we also observed that while travel remains strong, overall spending on experiences appears to have plateaued, with consumers redirecting or broadening spending in other sectors. Additionally, lower-income groups are exhibiting signs of financial stress and overall slowing in spending.

Technology spending by businesses remains robust, particularly directed toward AI and related products, helping propel the popular broad-based indices higher. Worldwide accelerated computing and generative AI demand is surging across nations, industries and companies, while the potential total market size for related products remains in a discovery process as firms develop and launch new technologies. Companies and countries are looking to employ AI capabilities to improve and modernize their workflows, reach production faster, and improve accuracy and efficiency. We see compelling investment opportunities over both the short- and long-term in areas such as data capture, storage, processing, software and analytics, security, distribution and power generation.

We favor balanced exposure to both technology-oriented growth sectors and defensive, income-oriented sectors.

The world today is experiencing a rate of change that has never been faster, and speed, scale and efficiencies do not occur without technology. This presents a favorable backdrop for AI-related buildout beneficiaries. While individual companies within this space may be subject to near-term pullbacks following strong year-to-date performance, their longer-term growth theses remain intact, warranting continued exposure even at current elevated valuation levels.

Similarly, defensive/income-oriented sectors such as Real Estate, Utilities, Consumer Staples, Industrials and select Healthcare companies should continue to respond favorably to the Fed's less-restrictive policy stance; lower Treasury yields reduce the competition from bonds for dividend-paying securities. Additionally, select Utility companies are also favorably positioned to benefit from anticipated increased power needs associated with data centers and AI-based application buildout. In aggregate, we believe a balanced approach combining growth-oriented technology and defensive sectors provides exposure to evolving technologies while capitalizing on favorable risk profiles of sectors and companies during periods of economic uncertainty and a lower interest rate environment.

Foreign equity markets

Reasonable valuation, modest earnings growth and ongoing policy support back our neutral foreign developed equity view.

Accommodative central bank policies spurred foreign developed markets to broad-based gains across geographies and economic sectors in 2024. Both the ECB and Bank of England cut interest rates in July, reducing borrowing costs to support credit demand and economic activity as inflation eases. Interest rate markets anticipate one to two additional cuts by both prior to year-end. Meanwhile, the Bank of Japan ended its negative interest rate policy by raising rates initially in March and again in July to a modest 0.25%, leading to a strengthening currency, which lowers imported energy costs for local businesses and consumers.

Foreign markets have responded favorably to central bank actions, with the MSCI EAFE Index representing large companies across 21 developed markets (excluding the United States and Canada) rising 15.3% in 2024 as of September 29. Evidencing broad participation, all 12 of the largest country allocations and 10 of 11 economic sectors have generated positive year-to-date returns. Despite recent price gains, valuation remains within a normal range and historically low relative to domestic counterparts.

Several factors drive our neutral outlook regarding foreign developed equity market prospects as we look ahead through 2024's fourth quarter toward the year ahead. First, central banks appear positioned to provide further monetary policy support, with interest rate markets anticipating two to three additional ECB rate cuts and one to two cuts by the Bank of England by year-end. Declining interest rates should promote increased economic activity, benefiting cyclical sectors such as Energy, Financials, Industrials, Materials and Real Estate representing more than 50% of total foreign equity exposure (versus less than 30% in U.S. large company stocks).

Second, analysts' 2025 earnings estimates appear reasonable, forecasting 6.3% growth relative to 2024, in contrast to more optimistic expectations for U.S. large companies. Factoring modest earnings expansion, a current dividend yield of 3.0% and average valuation derives return expectations roughly in line with historical averages. Additionally, 2025 earnings forecasts have remained relatively stable throughout the year, less dependent on individual sector, industry, or individual company prospects than represented in domestic markets. For example, the largest 20 companies constitute nearly 45% of the S&P 500 Index by market weight, more than double the weight of the top 20 companies in the MSCI EAFE Index.

Lower sector, industry and individual company concentration and greater geographic and currency diversification provide U.S.-based investors with a broader range of growth drivers in foreign developed markets. However, risks to our cautiously optimistic outlook remain concentrated in the European region. European wage inflation remains sticky, challenging companies' ability to pass on cost increases amid subdued consumer demand, while the Russia/Ukraine conflict represents an ongoing regional event risk.

Emerging market risks and opportunities appear evenly balanced amid evolving growth drivers.

Emerging markets continue to evolve. At its inception in 1988, commodity-oriented countries including Malaysia, Brazil and Mexico constituted nearly two-thirds of the MSCI Emerging Markets Index by market value.[1] China was added to the index in 1997 and the country's rapid urbanization and industrialization paralleled its ascent to the largest index weighting by 2007.[2] India has surpassed China in economic growth rate (6.7% versus 4.7% in the second quarter) and briefly eclipsed China in index market share during the third quarter, with strong year-to-date performance gains propelling India to a 20.8% market weight as of September 29, according to Bloomberg.

Our investment process integrates a past/present/future mosaic including prior trend analysis, current conditions assessment, and reasonable inferences about future outcomes in determining our forward views. Our emerging market equity outlook incorporates the evolving opportunity landscape from raw materials fueling the global economy to China's rapid economic ascendency and to today's more diversified growth driver set including an emerging India, South Korea and Taiwan's still-prominent global role, and now China's internal economic reset.

We view risks and opportunities across emerging markets as evenly balanced as we look to 2024's conclusion and the year ahead. Earnings growth contracted in 2023 amid higher global interest rates while analysts forecast a robust profit recovery in 2024 (13.9%) and 2025 (15.8%) as central banks begin unwinding restrictive policies, lowering borrowing costs. Through September 2024, while emerging market equities have gained 17.5%, valuation remains within a normal historical range and a 2.7% dividend yield provides some total return support. Tempering our forward outlook, global growth concerns weigh on South Korea and Taiwan's near-term export prospects, while China's ongoing housing woes continue to impair consumers' sentiment and spending.

Fixed income markets

High-quality bonds near their highest yields since 2009 present compelling income opportunities.

Treasury yields fell in the third quarter, reflecting investor anticipation the Fed steadily cuts the target federal funds rate to around 3% by the end of 2025. Yet, high-quality bonds still offer opportunities to lock in yields above 4% for a diversified portfolio of high-quality bonds, such as those included in the Bloomberg Aggregate Bond Index, before the Fed meaningfully cuts interest rates. Such yields offer investors the best income opportunities on high-quality bonds since 2009. Bond prices move in the opposite direction of interest rates; potentially lower interest rates on the horizon support high-quality bond return prospects, albeit with risks of volatility if the Fed falls short of meeting the market's forecast.

Modest supplemental exposures to riskier and more unique corners of the bond market can improve return potential relative to high-quality bond portfolios. High yield or "junk" bonds are lower-quality bonds that typically offer incremental yields relative to high-quality Treasuries to entice investors to accept the risk of issuers defaulting on their debt repayment obligations. Non-agency mortgages, which are not backed by the government, also offer opportunities to increase income returns by taking on credit risk. These mortgage bonds offer yields around 8% and few borrowers failed to meet their monthly mortgage payment in the third quarter, according to the New York Federal Reserve.[3] Recent yields in the low teens on insurance-linked securities (reinsurance) provide ample cushion against elevated environmental disaster-related insurance payouts while still providing attractive return opportunity for investors.

Treasury yields reflect 2.25% in cumulative interest rate cuts by the end of 2025. This sets a high, though not insurmountable, bar for further high-quality bond price gains.

The Fed adjusted its policy outlook in the third quarter to recognize an improving balance between its price stability and full employment mandates. Accordingly, the Fed began reducing interest rates with a 0.5% cut in September to target a 4.75%-5.00% federal funds rate. Bond yields pricing in an additional 2.0% in rate cuts to bring the federal funds rate down to 3% imply investors expect inflation to slow steadily closer to the Fed's 2% price stability target, justifying a neutral policy stance. While aligned with economists' 2.2% Personal Consumption Expenditures (PCE) Price Index forecast for year-end 2025, high-quality bond prices reflecting a complete return to a neutral policy stance present little margin of error for investors if the Fed fails to meet such a target.

Slower rate cuts could disappoint investors and act as a headwind to bond prices. In addition, election uncertainty may further exacerbate rate changes with greater attention on federal government spending and its budget deficits. These near-term risks highlight the importance for bond portfolios to align with the time horizon of investors' goals. Short-term bond prices are less sensitive to yield changes. Conversely, long-term bonds experience larger price swings when market yields change but offer the benefit of locking in interest payments for a longer period.

Corporate and municipal bonds are slightly expensive but fairly compensate for credit risks.

The extra yield on corporate bonds over Treasuries is slightly below long-term averages. The same is true for high yield municipal bonds after adjusting for their tax-exempt income status, whereas investment-grade municipals are near longer-term norms. This implies corporate and riskier municipal

1 MSCI Barra

2 MSCI Barra

3 newyorkfed.org/microeconomics/hhdc

bonds have smaller yield cushions to absorb potential credit losses and compensate for price volatility. While recent higher borrowing costs weighed on some issuers' ability to repay their debts, corporate defaults have slowed in recent months and municipal defaults remain infrequent. Somewhat high valuations on corporate and municipal bonds reflect solid issuer fundamentals and strong investor demand. While sentiment shifts can cause temporary swings in riskier bond prices, their extra income improves long-run return opportunities.

Non-agency mortgage bonds and reinsurance have meaningful return potential with differentiated income sources. Mortgage bond fundamentals remain solid. Home price gains in recent years create strong collateral support, and mortgage delinquencies remain low. Homeowners also have a strong incentive to remain current on mortgage loan payments to retain what is often an inexpensive fixed rate mortgage rate locked in before Fed interest rate hikes drove mortgage rates higher. Slow housing market activity also constrains new mortgage supply and provides a favorable technical tailwind for the category. For qualifying investors, reinsurance (insurance-linked securities) offers above-average yields, currently in the low teens. This income compensates for insurance payout risks stemming from catastrophes such as hurricanes. These events can be sporadic, and reinsurance can provide a meaningful and differentiated source of return for portfolios outside the normal business cycle over time.

Real asset markets

Real estate investment trusts (REITs) performance accelerated with investors anticipating lower interest rates.

Publicly traded real estate securities outperformed the broader market in the third quarter as investors bet on a relatively ambitious Fed easing cycle. Additionally, some of the worst-performing sub-sectors such as office and retail experienced outsized gains more recently. As a result, the Real Estate sector outperformed the broader market by 11% for the third quarter.

Vacancy rates rose while income growth decelerated across geographies and property types, leaving both in line with long-term averages. We expect income growth to taper off to below-average levels throughout the rest of 2024 and into 2025 for most property types, which should be partially offset as share prices reset higher based on lower interest rates. We continue to see relative value in publicly traded REITs compared to current private market prices. Real estate financing, while still available, remains costly, reducing the number of compelling private market opportunities.

REITs now trade near estimates of net asset value, reducing one potential source of forward excess returns. However, positive catalysts remain. First, lower interest rates help REITs in several ways, including reducing interest expense as maturing debts are refinanced at lower rates. Second, lower interest rates could reduce required rates of return on real estate for investors, effectively lowering the bar for properties with compelling economics at purchase. Finally, most REIT benchmarks are heavily weighted to property types with positive long-term characteristics. Cellular towers, data centers and industrial warehouses continue to experience strong underlying demand. These sectors can act as a tailwind for real estate portfolios even if other property types continue to struggle to find their footing amid shifting industry dynamics.

Strong electricity demand contributing to higher-than-normal earnings growth combined with robust investor sentiment made Utilities a leader within the global infrastructure category.

Infrastructure securities outperformed the broader market in the third quarter due to investor sentiment favoring more defensive and interest rate-sensitive assets. Utilities led the sector, with investors more convinced increased electricity demands for artificial intelligence and data centers may be long lasting. Utilities outperformed the S&P 500 by 13.5% in the third quarter.

Through the rest of 2024, we believe data centers' energy needs may continue to drive earnings growth rates at utility companies by more than twice their historical growth rates. However, midstream energy companies could come under pressure if recent crude oil market headwinds persist. Fundamentally, we still see compelling long-run opportunities in midstream energy companies as domestic oil producers pump record amounts of crude oil to offset production cuts by the Organization of Petroleum Exporting Countries (OPEC). Midstream companies are less affected by energy prices and more influenced by the flow of product through their systems, contributing to durable cash flow. However, midstream companies' equity performance remains correlated with the oil complex, and the stocks often face headwinds in a challenged crude oil price environment.

Recent declines in commodity prices align with a decelerating inflation and growth backdrop.

Commodities delivered negative performance in the third quarter as inflation and growth decelerated. However, precious metals continue performing well and are up on the year, with gold reaching new all-time highs as interest rates declined.

The backdrop for commodities may remain challenged in coming months, with the growth and inflation outlook calling for further modest deceleration. Inventory depletion rates for industrial commodities, especially crude oil and copper, may come later than thought, contributing to price headwinds. However, over the long-term, the energy needs to power data centers and the transition to green energy while meeting overall energy demand growth likely translates to an increase in demand for fossil fuels and various metals for an extended period.

Alternative investments

Hedge fund managers are embracing recent volatility and looking for overpriced securities to sell short.

Hedge fund managers reacted to this summer's capital market volatility by further reducing leverage and net market exposure (total securities invested long less securities sold short) compared to positioning in the first half of the year. They have been net sellers of the market for five consecutive months, shorting individual stocks more actively than hedging for broad market declines. This does not imply hedge funds are avoiding risk, but we anticipate managers will focus more on individual stock and bond selection than approaches that benefit from overall market directionality. Low overall net exposure will position managers for potential market downside and allow for a portfolio starting point from which to tactically lean net long or short and pursue high conviction opportunities.

Hedge funds pursue investments to both buy long or sell short while market volatility and significant stock price movement present a constructive investing background. Equity market neutral, a strategy buying long select securities while selling short others to isolate security selection and hedge overall market risk, is one of the best-performing strategies this year, returning 7% through the first three quarters. Meanwhile, fixed income managers pursuing relative value and arbitrage opportunities (similar assets trading at dissimilar prices) are generating mid-single digit returns and largely benefiting from high coupon payments in their portfolios. Trend-following strategies benefiting from direction market movements began the year well, rising more than 10%. However, most of these managed futures funds have given back half of their gains due to August's market swings and trend reversals, including recent declines by the U.S. dollar. While discretionary macro strategies have underperformed this year, we continue to see opportunities for long-short investing among changing economic growth rates, monetary policy decisions and currency values reflecting macro strategies' flexibility and asset class investing breadth.

Elevated volatility and price swings create differences in performance among securities and an opportunity to generate returns over the benchmark with low correlation to underlying indices. We view hedge funds generally as compelling for their flexibility and strategy breadth, as well as providing diversification benefits. We are also intrigued by managers seeking to exploit market inefficiencies and innovate. Shareholder activists have initiated a record number of investment campaigns this year. A higher number than usual of new hedge funds have launched, including one driven primarily by machine learning technology. A high-profile firm announced recently it wants to build an artificial intelligence equivalent of an investment team member to answer complex research questions before making stock trades. In addition to the currently conducive environment for investing long and short, attractive longer-term opportunities may be emerging for managers focused on idiosyncratic endeavors.

Private markets

Private market valuations lag public market pricing and are typically less volatile, resulting in short-term distortions.

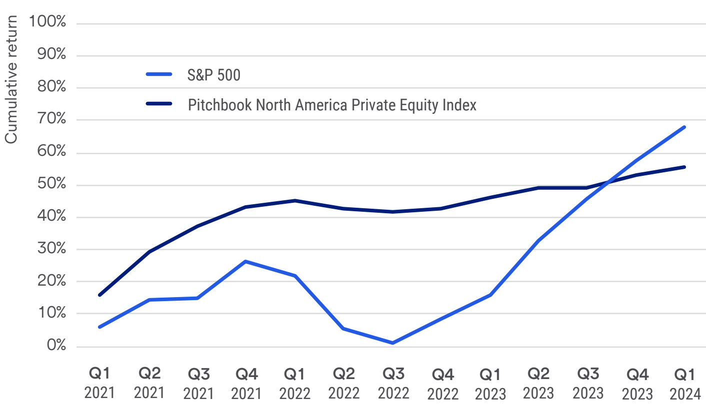
Private market investments are normally valued on a quarterly basis, with valuations tested by third-party auditors annually. In 2022, when rising inflation and rising interest rates drove a sell-off across publicly traded markets, the investment industry was quick to call out that private market investment managers were not marking down their investments to reflect the steep drawdown in public markets. Similarly, private market valuations have not kept pace with rising public market valuations as public markets rallied, but that valuation gap is not receiving similar attention.

Valuations in private markets are typically determined on a quarterly basis using a combination of inputs, including comparable private transactions, discounted cash flows and public market comparisons. Comparable transactions include recent sales, purchases or fundraising for a comparable private company. Discounted cash flows are projected earnings of the private company discounted by expected return. Public market comparisons include the prices at which similar public companies are trading.

These three price points are mapped on what is commonly known as a "football field" of valuations. The mapping looks like football field yard markings running laterally on the illustration and the private investment's value is usually determined as the midfield of these markings, or median price point of these inputs. When public market companies are trading at elevated valuations, the median valuation determined using the methodology tends to be lower; when public market companies are trading at cheaper valuations, the median valuation tends to be higher. This valuation approach has consistently been applied across market and economic cycles since the early days of private market investing.

In the short term, when public market valuations are at the higher end of the range, private market valuations can lag, and investors should be wary of drawing conclusions around relative performance. The true value of private investments is realized over the holding term of the investment, and it is important for investors to maintain a longer-term view during times of volatility.

Private and public market valuations



Sources: U.S. Bank Asset Management Group analysis, Pitchbook, Q1 2021-Q1 2024.

Thesis-driven opportunities we see in the current markets.

Our thesis-driven research guides our private market investing approach, considering broader secular trends, dislocations and market exuberance. In private equity, we continue to focus on investment managers that find opportunity in founder-owned businesses in fragmented markets where consolidation and professionalization can unlock these businesses' growth potential. We view the primary opportunity in the lower and middle end of the market where plenty of neighborhood services businesses can benefit from this approach.

We are cautiously exploring artificial intelligence. We do not chase "shiny objects" but stay informed with developments and emerging opportunities, waiting for the right time and with the right investment partner to execute on our thesis. We see opportunities to get involved with applications that leverage AI to provide real world solutions. While still in the nascent stages, we are tracking opportunities as they emerge and become commercially viable. In private debt, we see opportunity for alternative sources of debt financing taking market share from traditional corporate lenders such as banks, insurance companies and other institutional providers, while earning attractive returns compared to similar public market investments.

Finally, we also see opportunity in commercial real estate private debt given roughly $3 trillion in maturities over the next three years. Traditional commercial real estate lenders such as smaller banks are managing their existing loan books down, thereby creating opportunity for alternative lenders to step in and provide transitional debt funding and long-term debt solutions at attractive returns. We are also excited about the growing opportunity of private equity investing in sports and media including teams and related media and technology.

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Past performance is no guarantee of future results. All performance data, while deemed obtained from reliable sources, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for investment. The **S&P 500 Index** is an unmanaged, capitalization-weighted index of 500 widely traded stocks that are considered to represent the performance of the stock market in general. The **S&P 500 Total Return Index** includes the same stocks but includes the reinvestment of dividends. The **MSCI EAFE Index** includes approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East (EAFE). The **MSCI Emerging Markets Index** is designed to measure equity market performance in global emerging markets. The **Personal Consumption Expenditures (PCE) Price Index** is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. It is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior. The **Bloomberg U.S. Aggregate Bond Index** is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. The value of **large-capitalization stocks** will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions. **Stocks of small-capitalization companies** involve substantial risk. These stocks historically have experienced greater price volatility than stocks of larger companies and may be expected to do so in the future. **Growth investments** focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends, which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments. **Value investments** focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or such stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments. **International investing** involves special risks, including foreign taxation, currency risks, risks associated with possible difference in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in **fixed income securities** is subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Investments in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. The **municipal bond market** is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in **real assets** such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. 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 risks related to renting properties (such as rental defaults). **Hedge funds** are speculative and involve a high degree of risk. An investment in a hedge fund involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem or transfer interests in a fund. **Private capital investment funds** are speculative and involve a higher degree of risk. These investments usually involve a substantially more complicated set of investment strategies than traditional investments in stocks or bonds, including the risks of using derivatives, leverage, and short sales, which can magnify potential losses or gains. Always refer to a Fund's most current offering documents for a more thorough discussion of risks and other specific characteristics associated with investing in private capital and impact investment funds. **Private equity investments** provide investors and funds the potential to invest directly into private companies or participate in buyouts of public companies that result in a delisting of the public equity. Investors considering an investment in private equity must be fully aware that these investments are illiquid by nature, typically represent a long-term binding commitment and are not readily marketable. The valuation procedures for these holdings are often subjective in nature. **Private debt investments** may be either direct or indirect and are subject to significant risks, including the possibility of default, limited liquidity and the infrequent availability of independent credit ratings for private companies.