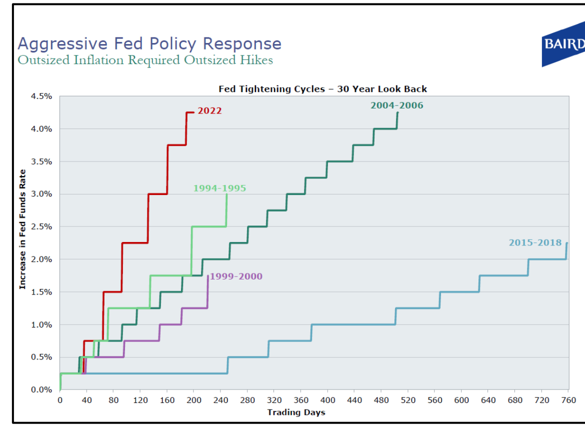
Entasis
ASSET MANAGEMENT

Quarterly Chartbook
4Q2022

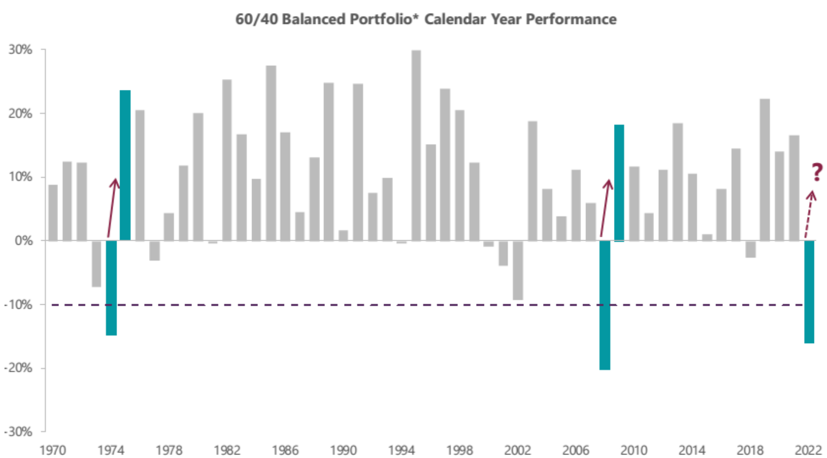
Founder Comments

We would be stating the obvious if we noted that 2022 was a difficult year for investment portfolios. In fact, going back to 1970, there have only been three times that a double-digit decline for 60/40 (60% stocks and 40% bonds) portfolios has occurred (below left). Historically, fixed income returns have helped to provide ballast to portfolios during difficult periods for equity markets. However, this was not the case in 2022 as fixed income returns posted negative returns. 2022 was the weakest year for fixed income in a down year since the late 1960's (below right).

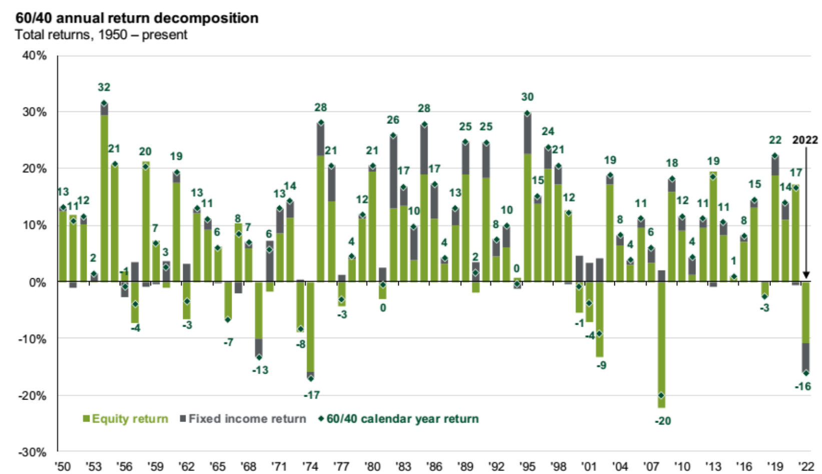


The primary culprit for balanced portfolio pressure was the most aggressive U.S. Federal Reserve tightening campaign in recent memory. (See red line in the chart to the right.) In our opinion, however, there are many reasons to be optimistic as we navigate 2023. We are keeping our attention on those silver linings.

As you have likely gathered from many prior commentaries from us, we view risk management as a very important component of return expectations. With that in



Source: ClearBridge Investments – The Anatomy of a Recession (4Q 2022)



Source: JP Morgan Asset Management – Guide to the Markets 1Q 2023 mind, we believe we are at the best starting point we have seen in a long time when it comes to achieving client return objectives – especially when you account for risk. Using the same 60/40 balanced portfolio as a reference point, let's assume we had a conservative goal of generating a 6% return for client portfolios. Over the past decade, U.S. bond market yields averaged 2.4%[1]. In order to reach a 6% return, the stock portion of client portfolios would have needed to generate a consistent return of at least 8.6%. Over long periods, it is certainly possible for that to occur, but over short periods, returns are likely to be volatile in order to achieve the long-term return target.

Now let's consider the situation we face today given that, as of the end of the year, U.S. bond market yields averaged 4.7%[1]. We will continue to assume a 6% return target and analyze from two different risk perspectives – stock return hurdle and necessary stock allocation.

Perspective 1 – stock return hurdle. With the bond portion of client portfolios yielding 4.7%, in order to reach a goal of a 6% portfolio return, the stock market return hurdle has fallen to 6.9% (see table below). All else equal, a lower hurdle translates to a greater probability of clearing that hurdle and achieving the 6% portfolio return target.

Perspective 2 – required stock allocation. Now that the bond portion of client portfolios is yielding 4.7%, if we hold the return expectations for stocks constant at 8.6%, then the amount of portfolio capital we need to allocate to stocks declines to only 33%. All else equal, because the bond portion of client portfolios can now generate a greater portion of the return goal, we do not need to hold as much in stocks to achieve the same 6% portfolio return target.

From both perspectives, risk has declined. Better starting yields for bonds has made achieving client return targets more probable in the coming years than over the past decade. 2022 was painful for sure, but we feel better about client return outcomes than we have in quite some time.

Please let us know if you have any questions.

Stock Return Hurdle				Required Stock Allocation		
Allocation	**Return**	**Wtd Return**		**Allocation**	**Return**	**Wtd Return**
60%	6.9%	4.1%		33%	8.6%	2.8%
40%	4.7%	1.9%		67%	4.7%	3.2%
		6.0%				6.0%

Source: [1]Dodge & Cox Investment Perspectives – A New Dawn for Fixed Income

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Market Performance

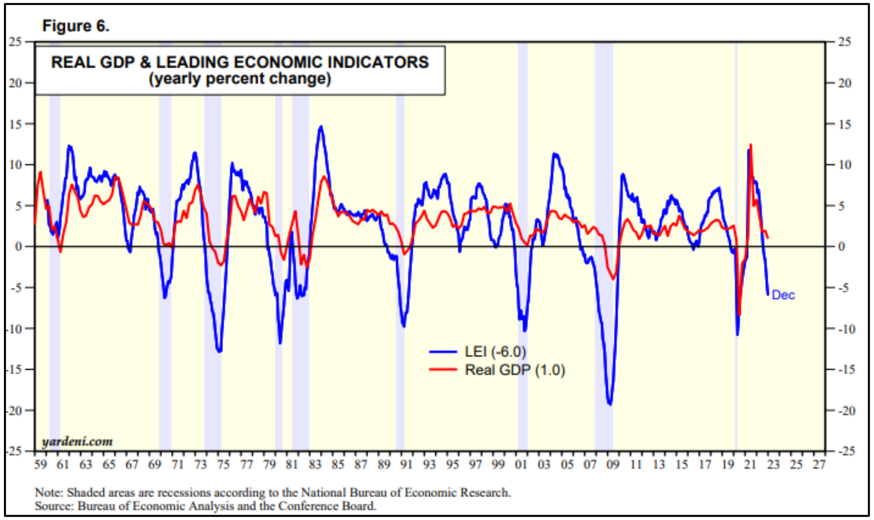
Annualized % Returns (As of 12/31/2022)

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	-18.11	7.66	9.42	12.56
Russell 1000 Index	Mid/Large Cap Stocks	-19.13	7.35	9.13	12.37
Russell 1000 Growth Index	Growth Stocks	-29.14	7.79	10.96	14.10
Russell 1000 Value Index	Value Stocks	-7.54	5.96	6.67	10.29
Russell 2000 Index	Small Cap Stocks	-20.44	3.10	4.13	9.01
MSCI EAFE Index	Non-U.S. Developed Market Stocks	-14.45	0.87	1.54	4.67
MSCI Emerging Markets Index	Emerging Markets Stocks	-20.09	-2.69	-1.40	1.44
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	-19.97	1.07	0.67	5.24
BofAML Preferred Stock Fixed Rate Index	Preferred Stocks	-14.60	-2.26	1.01	3.59
Barclays Municipal Bond Index	U.S. Municipal Bonds	-8.53	-0.77	1.25	2.13
Barclays Aggregate Bond Index	U.S. Bonds	-13.01	-2.71	0.02	1.06
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	-8.23	-1.26	0.73	1.12
BofAML U.S. Treasury Master Index	Treasury Bonds	-12.85	-2.72	-0.14	0.61
BofAML U.S. Mortgage Backed Securities Index	Mortgage Backed Bonds	-11.88	-3.23	-0.51	0.75
BofAML U.S. Corporate Master Index	Corporate Bonds	-15.44	-2.75	0.53	2.01
BofAML U.S. High Yield Master II Index	High Yield Bonds	-11.21	-0.26	2.10	3.94
BofAML Euro Broad Market Index	European Bonds	-10.03	0.24	3.33	3.45
BofAML Local Debt Market Plus Index	Emerging Markets Bonds	-22.04	-7.23	-4.49	-1.45

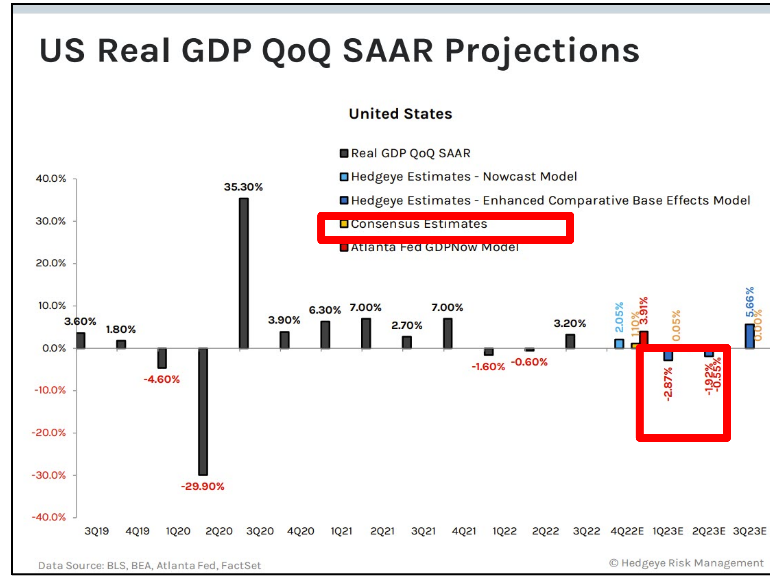
Calendar Year % Returns (3 Month as of 12/31/2022)

	3 Month	2022	2021	2020	2019	2018
S&P 500 Index	7.56	-18.11	28.71	18.40	31.49	-4.38
Russell 1000 Index	7.24	-19.13	26.45	20.96	31.43	-4.78
Russell 1000 Growth Index	2.20	-29.14	27.60	38.49	36.39	-1.51
Russell 1000 Value Index	12.42	-7.54	25.16	2.80	26.54	-8.27
Russell 2000 Index	6.23	-20.44	14.82	19.96	25.52	-11.01
MSCI EAFE Index	17.34	-14.45	11.26	7.82	22.01	-13.79
MSCI Emerging Markets Index	9.70	-20.09	-2.54	18.31	18.44	-14.58
MSCI ACWI Ex USA Small Cap Index	13.31	-19.97	12.93	14.24	22.42	-18.20
BofAML Preferred Stock Fixed Rate Index	0.16	-14.60	2.24	6.95	17.71	-4.34
Barclays Municipal Bond Index	4.10	-8.53	1.52	5.21	7.54	1.28
Barclays Aggregate Bond Index	1.87	-13.01	-1.54	7.51	8.72	0.01
Barclays Intermediate U.S. Gov/Credit Index	1.54	-8.23	-1.44	6.43	6.80	0.88
BofAML U.S. Treasury Master Index	0.72	-12.85	-2.38	8.22	6.99	0.80
BofAML U.S. Mortgage Backed Securities Index	2.07	-11.88	-1.21	4.09	6.51	1.00
BofAML U.S. Corporate Master Index	3.53	-15.44	-0.95	9.81	14.23	-2.25
BofAML U.S. High Yield Master II Index	3.98	-11.21	5.35	6.07	14.41	-2.27
BofAML Euro Broad Market Index	3.12	-10.03	6.49	5.13	9.10	7.20
BofAML Local Debt Market Plus Index	8.05	-22.04	-9.66	13.35	4.11	-4.39

Source: Morningstar Direct



Source: Yardeni Research



Source: Hedgeye

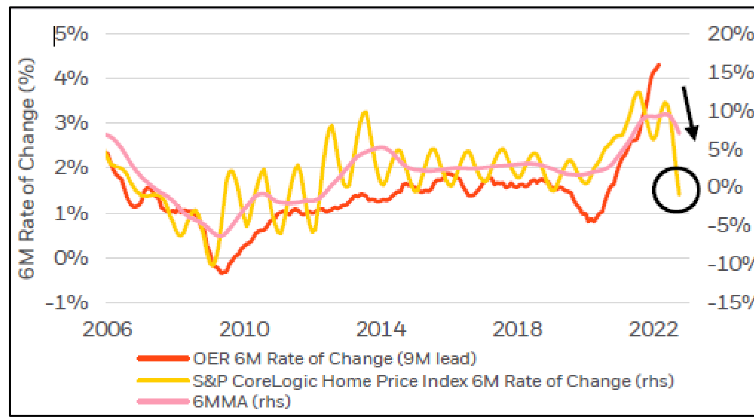
- After a rough start to 2022, the U.S. economy rebounded in the second half, posting two consecutive quarters of nearly 3% growth. For the full year, the economy produced a 2.1% annual real GDP growth rate.
- However, we should not mistake the reacceleration in growth as an all-clear signal. U.S. Federal Reserve (Fed) policy works with a well known "long and variable" lag. The Fed's own economists believe it takes anywhere from 6-18 months for their policy changes to have an impact on the real economy.
- The most compelling rationale for predicting a recession in 2023 is the speed of tightening conducted by the Fed and the subsequent tightening of financial conditions.
- The Leading Economic Index and Wall Street economists agree. Both are predicting a recession during the first half of 2023.

Fixed Income – Inflation

- 2022 witnessed a historic spike in inflation. However, today the data is painting a very different picture.
- There are still inflationary factors rolling through the system (mainly shelter, which is represented by owners equivalent rent), but if you look at the key drivers of inflation, it is on an extraordinarily different trajectory today than just six months ago. Blackrock's table (top right) represents nearly 85% of core and headline inflation. This basket is expected to experience deflation by April 2023.
- The U.S. core inflation rate was 5.71% in December, down from a high of 6.63% in September. Shelter was the primary driver over the period, which typically lags housing prices by 9-12 months.
- As a result of higher interest rates, house prices have recalibrated. The S&P CoreLogic Home Price Index was down significantly by the end of 2022 (lower right). This suggests rents should produce flat to negative growth by the end of 2023.
- If we strip out shelter, core inflation was negative for the last three months of 2022.
- Taking everything into consideration, it is highly likely core inflation will be lower in 2023, which may give the Fed room to slow, and ultimately pause rate hikes in 2023.

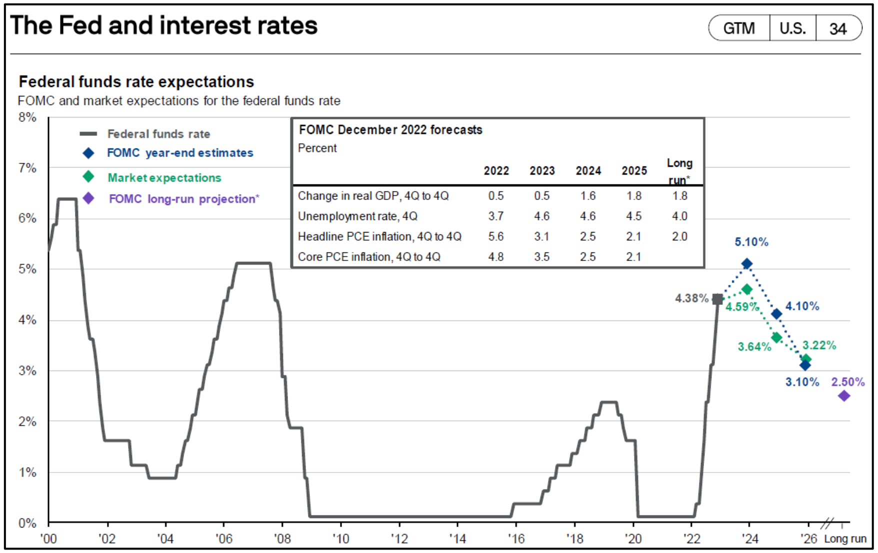
YoY	Med Care Services	Airfare	Used Cars	Corn	Soy	Lumber	Oil	Wages	Home Prices	Wtd Avg
1/31/2022	2.7%	4.9%	44.9%	14.4%	8.8%	10.5%	68.9%	6.7%	18.4%	15.7%
2/28/2022	2.4%	12.7%	36.7%	25.6%	17.0%	34.3%	55.6%	6.7%	19.3%	16.3%
3/31/2022	2.9%	23.6%	24.8%	32.7%	12.6%	-4.3%	69.5%	6.7%	19.0%	16.1%
4/30/2022	3.5%	33.3%	14.0%	10.6%	8.7%	-30.7%	64.7%	6.6%	18.9%	14.4%
5/31/2022	4.0%	37.8%	9.7%	14.7%	10.0%	-50.1%	72.9%	6.4%	18.3%	14.3%
6/30/2022	4.8%	34.1%	9.7%	3.3%	15.5%	-7.4%	43.9%	6.4%	16.3%	12.9%
7/31/2022	5.1%	27.7%	12.5%	12.7%	15.7%	-15.1%	33.4%	6.2%	13.9%	11.4%
8/31/2022	5.6%	33.4%	8.4%	26.2%	16.1%	5.4%	30.7%	6.0%	12.1%	11.6%
9/30/2022	6.5%	42.9%	-0.1%	26.2%	8.7%	-32.7%	5.9%	5.8%	11.1%	8.9%
10/31/2022	5.4%	42.9%	-10.6%	21.7%	13.9%	-22.0%	3.5%	5.6%	9.8%	7.9%
11/30/2022	4.4%	36.0%	-14.2%	16.8%	20.7%	-47.9%	21.7%	5.5%	8.3%	7.0%
12/31/2022	4.1%	28.5%	-14.9%	14.4%	14.3%	-67.4%	6.7%	5.0%	6.8%	4.5%
1/31/2023	4.1%	25.9%	-13.7%	8.4%	1.9%	-61.9%	-9.0%	4.9%	5.7%	2.9%
2/28/2023	4.6%	19.9%	-12.0%	-2.7%	-7.6%	-72.0%	-16.2%	5.0%	4.3%	1.1%
3/31/2023	4.6%	8.6%	-9.2%	-9.4%	-6.1%	-61.3%	-20.0%	5.0%	2.8%	0.1%
4/30/2023	4.6%	-8.2%	-8.5%	-17.1%	-11.1%	-64.1%	-23.3%	4.9%	1.2%	-1.8%
5/31/2023	4.8%	-18.3%	-9.3%	-10.0%	-9.7%	-42.8%	-30.0%	4.8%	-0.1%	-2.4%
6/30/2023	4.7%	-16.6%	-8.4%	-8.8%	-9.3%	-43.7%	-24.1%	4.7%	-0.3%	-2.1%
7/31/2023	4.9%	-9.4%	-8.5%	10.1%	-7.2%	-29.1%	-18.6%	4.7%	0.3%	-0.4%
8/31/2023	4.7%	-4.8%	-4.9%	0.7%	0.8%	-26.6%	-10.4%	4.7%	0.9%	0.7%
9/30/2023	4.3%	-5.4%	-2.2%	0.1%	11.3%	-11.6%	1.0%	4.7%	0.8%	1.9%

Source: BlackRock



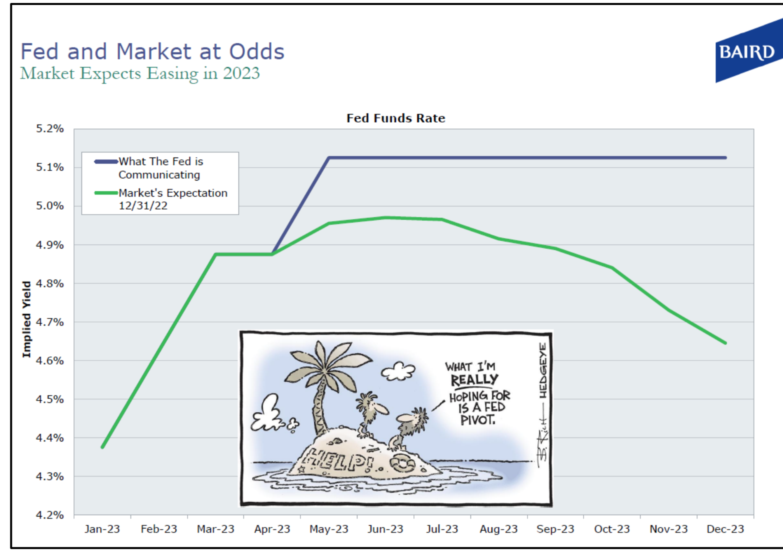
Source: BlackRock

Fixed Income – Fed Tightening



	2022	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	0.5	0.5	1.6	1.8	1.8
Unemployment rate, 4Q	3.7	4.6	4.6	4.5	4.0
Headline PCE inflation, 4Q to 4Q	5.6	3.1	2.5	2.1	2.0
Core PCE inflation, 4Q to 4Q	4.8	3.5	2.5	2.1	

Source: JPMorgan



Source: Baird

- With inflation running significantly higher than the Fed's 2% target at the start of the year, 2022 was characterized by a rapid and large increase in the Fed Funds rate, which drove interest rates higher across the yield curve and led to record poor performance for fixed income markets.

- After four consecutive 0.75% (75 bps) increases, followed by another 0.50 % (50 bps) hike in December, the Fed Funds rate stood at 4.5% at the end of 2022.

- The Fed has signaled another 0.50% worth of increases in early 2023. The market largely believes it will follow through with the hikes.

- However, Fed expectations diverge from those of the market in the path of rates following the peak.
    - The Fed predicts rates to stay at, or near, 5% for all of 2023, with cuts occurring some time in 2024.
    - Market consensus is that the Fed will cut rates before the end of 2023.

Fixed Income – Yields & Spreads

- Treasury yields shot higher at a historic rate given the Fed's aggressive tightening cycle. Rates were up across the yield curve. The benchmark U.S. Treasury bond 10-year yield climbed 2.37% in 2022. The move was its biggest annual increase since the 1950s. It finished the year at 3.88%, down modestly from the October intra-year peak of 4.25%. Even more dramatic, 2-year Treasury yields rose 3.69% to close the year at 4.43%, resulting in a persistently inverted yield curve from July through year end. See table, top right.

- Spreads (yield difference between asset classes and comparable U.S. Treasury bonds) widened for all major sectors during 2022. The widening was greatest in the riskiest sectors, including high yield corporates (+1.86%) and emerging market debt (+1.06%), which is indicative of risk-asset repricing. Investment grade corporate debt ended the year wider by +0.38%. The financials sector experienced the largest spread widening of +0.57%. See table bottom right.

- Even with solid returns in the fourth quarter, the Bloomberg Barclays Aggregate Bond Index declined -13.01% for 2022, cementing the worst annual decline since its inception in 1977. It far exceeded the prior record of -2.92% set in 1994. All major bond sectors declined for the year, but investment grade corporate bonds stood out by declining -15.76%, primarily driven by its higher-than-average interest rate sensitivity (duration).

Treasury Yields

Maturity	12/31/21	9/30/22	12/31/22	Q4 Chg	2022 Chg
3 Mo	0.06%	3.29%	4.41%	1.12%	4.35%
1	0.39%	4.05%	4.73%	0.68%	4.34%
2	0.74%	4.28%	4.43%	0.15%	3.69%
3	0.96%	4.29%	4.23%	-0.06%	3.27%
5	1.27%	4.09%	4.01%	-0.08%	2.74%
7	1.44%	3.99%	3.97%	-0.02%	2.53%
10	1.51%	3.84%	3.88%	0.04%	2.37%
20	1.94%	4.09%	4.15%	0.06%	2.21%
30	1.91%	3.78%	3.97%	0.19%	2.06%

Source: Baird

Option-Adjusted Spreads (in bps)

	12/31/21	9/30/22	12/31/22	Q4 Chg	YTD Chg
U.S. Aggregate Index	36	62	51	-11	15
U.S. Agency (non-mortgage)	8	15	26	11	18
Mortgage and ABS Sectors					
U.S. Agency RMBS (Pass-throughs)	31	69	51	-18	20
U.S. Agency CMBS	34	48	52	4	18
U.S. Non-Agency CMBS	95	154	179	25	84
Asset-Backed Securities	38	53	76	23	38
Corporate Sectors					
U.S. Investment Grade	92	159	130	-29	38
Industrial	95	155	125	-30	30
Utility	107	158	129	-29	22
Financial Institutions	83	166	140	-26	57
Non-Corporate Credit	55	73	66	-7	11
U.S. High Yield Corporates	283	552	469	-83	186
Emerging Market Debt	581	824	687	-137	106

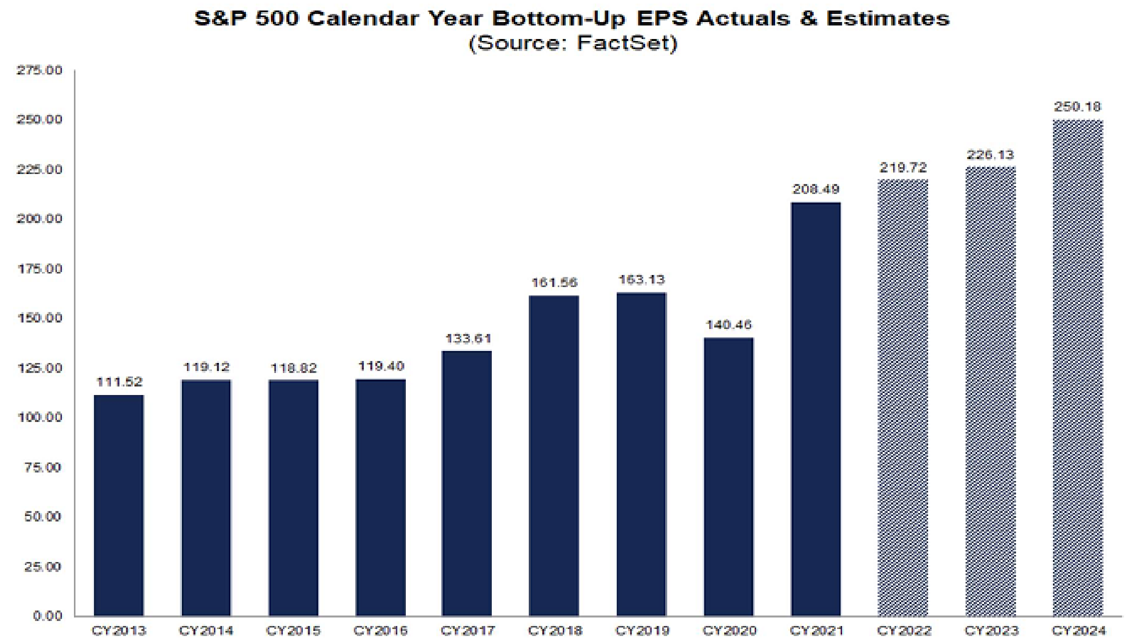
Source: Bloomberg Indices

Source: Baird

Fixed Income – Positioning

Characteristic	Positioning Notes Compared to Client Benchmarks
Interest Rate Risk	Client portfolios are positioned to have marginally less interest rate risk than comparable benchmarks. We have a bias to add duration, but are being patient, as inflationary pressures remain stubborn.
Yield Curve	Portfolios are slightly overweight short- to intermediate maturity bonds. With an inverted yield curve, short-term bonds now offer higher coupons than longer-term bonds.
Governments	We maintain a modest underweight to U.S. Treasuries.
Securitized Assets	We continue to generate the bulk of our yield advantage from our overweight to securitized assets, which offer higher yield per unit of risk than other sectors. Agency mortgages are particularly attractive after a recent pullback.
Investment Grade Credit	We recently moved to a neutral position in investment grade corporate bonds as we are being compensated more to take on the additional risk. We have a bias to add more on larger pullbacks.
High Yield & Bank Loans	We have a small allocation through our diversified mutual fund investments. We do not believe a dedicated investment is warranted now but are monitoring for a potential entry point.
International	Small allocation to emerging market debt via our diversified active managers.
Municipals	We continue to be constructive on municipals in tax-aware portfolios given strong fundamentals.

Equity – Earnings



Source: FactSet Earnings Insight – January 27, 2023

Analyst estimates have moderated for 2023 and 2024, but earnings growth is expected to remain positive for both calendar years.

- Based on analyst estimates, earnings are expected to decline over the first half of 2023 before rebounding over the second half of the year. Revenue growth is expected to remain positive, yet tepid, for all four calendar quarters.
- With relatively meager revenue growth, profit margins will be as important as ever in helping to deliver positive earnings growth for 2023. Profit margins ended 2022 at 11.4%, down from 11.9% at the previous quarter end, yet still elevated relative to history. Whether or not corporations can continue to thread the needle of increasing prices without destroying demand to combat inflation and maintaining their workforce despite a strong labor market and rising wages, will be two of the primary storylines to monitor as we traverse through an uncertain economic backdrop.

We remain cautious in our outlook for corporate earnings growth, which is reflected in portfolio positioning among U.S. equities.

Equity – Earnings

NTM EPS Behavior

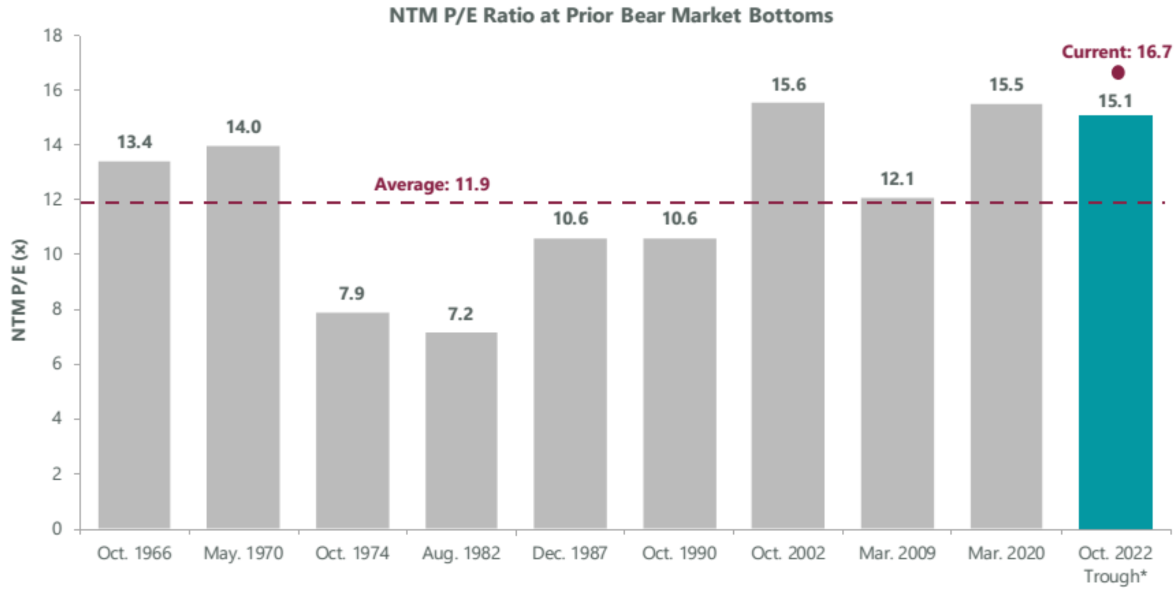
Market Peak	EPS Peak	# of Days	Market Trough	EPS Trough	# of Days	EPS Peak – Trough	Market Peak – Trough
Recessions							
3/24/2000	8/7/2000	136	10/9/2002	12/17/2001	-296	-17.5%	-49.1%
10/9/2007	11/1/2007	23	3/9/2009	5/8/2009	60	-39.3%	-56.8%
2/19/2020	1/30/2020	-20	3/23/2020	5/15/2020	53	-20.6%	-33.9%
Average GDP Recession:		46			-61	-25.8%	-46.6%
Non-Recessionary EPS Declines							
7/17/1998	9/29/1998	74	8/31/1998	1/4/1999	126	-2.6%	-19.3%
5/21/2014	10/7/2014	139	8/25/2015	2/6/2015	-200	-5.5%	-7.2%
11/3/2015	9/8/2015	-56	2/1/2016	3/1/2016	29	-3.2%	-13.3%
9/20/2018	12/6/2018	77	12/24/2018	2/1/2019	39	-2.3%	-19.8%
Average GDP Recession:		59			-2	-3.4%	-14.9%
Current*							
1/3/2022	*7/8/2022*	*186*	*10/12/2022*	*12/21/2022*	*70*	*-4.1%*	*-25.4%*

Source: ClearBridge Investments – The Anatomy of a Recession (4Q 2022)

One of the primary reasons for cautious positioning among U.S. equities is the large degree of uncertainty surrounding the impact the Fed's aggressive tightening will have on corporations and the broader economy in general.

- Based on the data in the table above, the degree of earnings and equity market drawdowns may hinge upon the Fed's ability to steer the economy into a so-called "soft landing" (largely achieve their goals without sending the economy into a recession). During the last three recessions, earnings have declined by an average of -26%, compared to non-recessionary periods when earnings declined an average of -3.4%.
- Average market performance was significantly worse during recessionary periods compared to non-recessionary periods.
- During the current period, earnings have fallen in line with non-recessionary EPS decline periods; however, market performance (as measured by peak drawdown) has been larger than typical non-recessionary EPS decline periods.
- Questions surrounding earnings growth, the path of future Fed tightening and economic resilience will remain top of mind as we move forward in 2023.

Equity – U.S. Valuations



Source: ClearBridge Investments – The Anatomy of a Recession (4Q 2022)

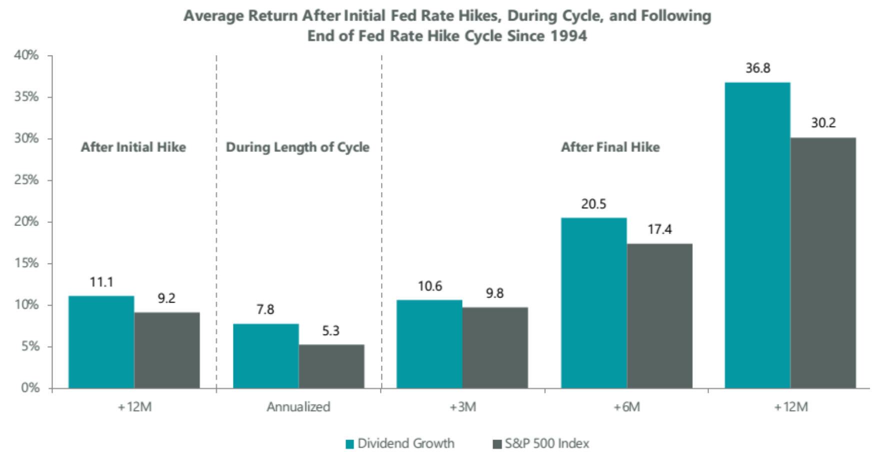
The S&P 500® forward P/E (price-to-earnings) ratio declined from over 21x to 16.7x at the end of 2022. However, a strong start to 2023 pushed the forward P/E ratio to 17.8x as equity prices rallied (numerator) while earnings (denominator) remained subdued.

- Even though U.S. equity valuations improved during the market selloff in 2022, valuations remain elevated when compared to valuations seen at prior bear market bottoms (average of 11.9x – see data in the table above).
- However, note that recent bear markets have seen valuations bottom at higher levels. This could be due to a variety of factors, such as equity market structure, expectation of a more responsive Fed, or a lower interest rate environment.

While valuations have declined from historically high levels, we believe earnings will remain challenged over the coming quarters, which may prevent a significant increase in the P/E multiple (price level of the S&P 500®).

Equity – U.S. Fundamentals

As of 12/31/2022 | Source: GMO
Composite valuation measure is composed of Price/Sales, Prices/Gross Profit, Price/Book, and Price/Economic Book.



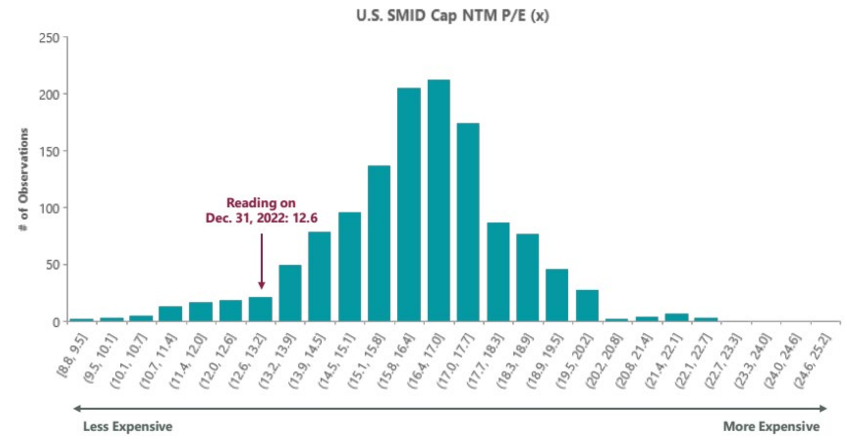
Source: ClearBridge Investments – The Anatomy of a Recession (4Q 2022)

Despite relatively expensive valuation levels for the U.S. equity market in aggregate, there continue to be attractive pockets of opportunity at the sub-asset class level. Two areas are "value" equities and investment strategies focused on growing dividends.

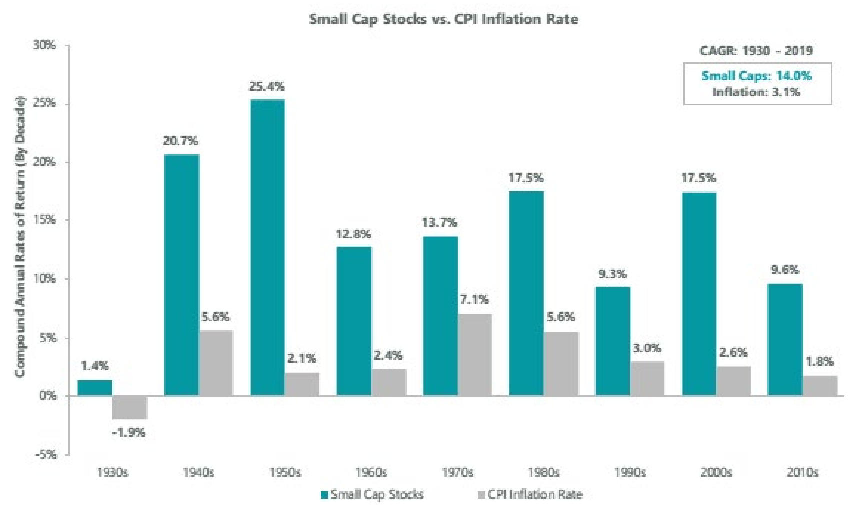
- Value equities outperformed growth equities by a wide margin in 2022 as investors transitioned their attention from speculative growth to attractively-priced, established businesses with consistent earnings and cash flows. Even with the significant outperformance in 2022, value-oriented securities remain attractive compared to growth-oriented equities. The chart above (upper left) displays a composite valuation metric from GMO, which remains attractively priced compared to history (15th percentile).
- The bar chart in the upper right displays the return of companies that have consistently grown their dividends compared to the broad S&P 500® Index in periods during and after the end of Fed rate hikes. Historically, investors have favored dividend growth during these cycles because it provides cash flows and relative stability during an otherwise tumultuous and uncertain period. Again, investors tend to focus on actual results.

Another area of opportunity in the U.S. is among small- and mid-caps.

- Small-/mid-cap ("SMID") equities declined along with the rest of the U.S. equity market in 2022, yet they remain attractively priced relative to large-cap companies and relative to their historical valuation levels (right).
- Historically, small-cap companies have been a relatively good source of "real" returns – returns in excess of inflation. The bar chart (lower right) shows that small-caps have been able to outpace inflation in every decade since the 1930's.
- Not all small-cap stocks are created equal. The small cap "universe" of companies contains a significant percentage of unprofitable companies (over 40% currently, see below). We believe the opportunity is best suited for active stock pickers.



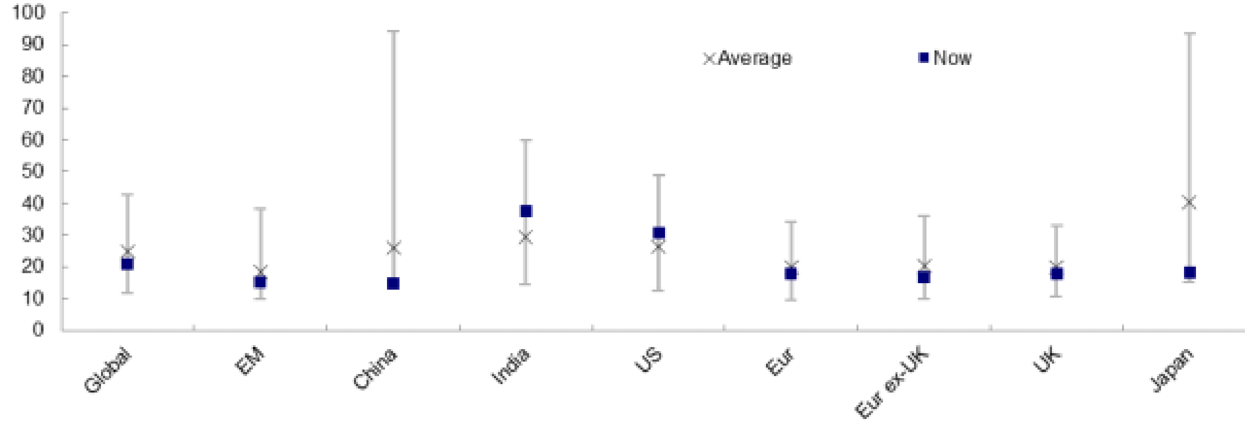
Source: ClearBridge Investments – The Anatomy of a Recession (4Q 2022)



Source: ClearBridge Investments – The Anatomy of a Recession (4Q 2022)

Source: JP Morgan Asset Management – Guide to the Markets 1Q 2023

Equity – Non-U.S. Valuations and the U.S. Dollar



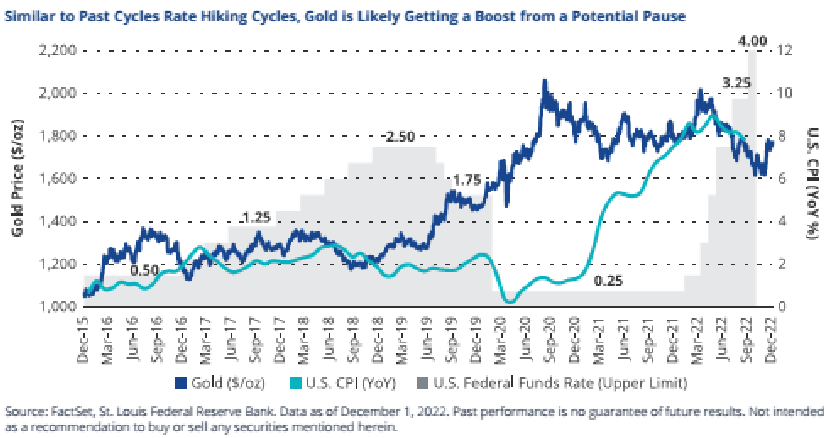
Note: Cyclically adjusted price/earnings ratio uses a 10-year moving average of earnings. Based on daily data from 3 January 1983 (except for China from 1 April 2004, India from 31 December 1999 and EM from 3 January 2005), using Datastream indices. As of 30 December 2022. Source: Refinitiv Datastream and Invesco

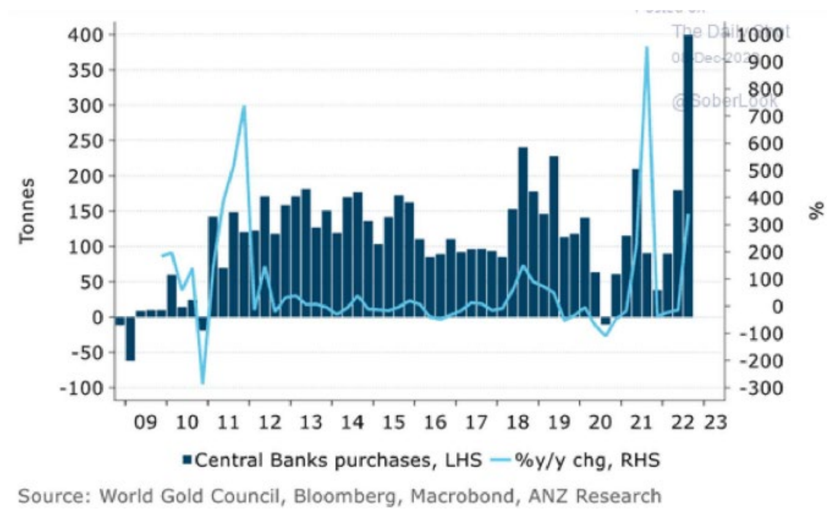
Developed foreign and emerging equity markets rebounded strongly during the fourth quarter of 2022 as the U.S. dollar reversed course following a strong rally for much of the year. U.S. dollar weakness has continued into the early part of 2023.

- The chart displays CAPE (cyclically adjusted price/earnings) ratios and ranges (40 years) for major markets and regions around the globe. A number of countries and regions are attractively priced compared to other regions/countries and their own history, such as emerging markets, China and Japan.
- China suffered large losses over the past two years, with one of the primary drivers being its zero COVID policy, which significantly constrained economic activity. China relaxed this policy at the end of last year and has been providing an increasingly large amount of stimulus. The combination of these factors should help to release pent-up demand in the country and the broader Asia region. Emerging markets derive approximately 30% of their revenue from China, while the broader MSCI ACWI Asia region derives roughly 25% of revenue from the country.
- The U.S. dollar has routinely gone through periods of strength and weakness, with the average cycle length being approximately eight years. The current cycle has lasted much longer than average. Commonly, bear markets tend to be inflection points (where market leadership changes). If the recent trend of U.S. dollar weakness continues, this should provide a tailwind to non-U.S. dollar denominated returns for U.S. based investors.

The combination of relatively attractive valuations, underlying fundamentals and the potential reversal of U.S. dollar strength cause us to be particularly optimistic for foreign equity returns (including emerging markets) over the intermediate-term.

Gold





We believe gold continues to be an attractive asset to own in portfolios given the uncertainty of corporate earnings growth, the trajectory of the economy, inflation outlook, path of Fed tightening and currency movements.

- In the fourth quarter of 2022, gold rebounded on speculation the Fed would begin to slow, or even pause, interest rate hikes. This is similar to what occurred during the last Fed rate hike cycle in late 2018 into 2020 (above left).
- We also believe gold may provide relative downside protection (compared to U.S. equities) if economic conditions were to weaken, the Fed misses the target of a "soft landing" and a recession ensued, corporate earnings receded more than expected, equity markets corrected, or inflation remained elevated.
- From a demand perspective, central banks significantly increased their gold holdings over the past year (above right). Consumer demand also tends to be high in emerging markets, particularly in Asian countries, so a resumption in economic growth and the reopening of economies may help to provide another tailwind.

Given our outlook and market dynamics, we believe an allocation to gold as an equity alternative remains attractive in portfolios.

Equity – Where Are They Now?

10 LARGEST RUSSELL 1000 COMPANIES AS OF 3/31/2000[1]
(PRICES ADJUSTED FOR SPLITS)

	Price as of 3/31/2000	% Change 5 Years Ending 3/31/2000	Price as of 11/30/2022	% Change 3/31/2000–11/30/2022
Cisco Systems	$77.31	3550.2%	$49.72	-35.7%
General Electric	$398.92	476.4%	$85.97	-78.4%
Intel	$65.97	1143.6%	$30.07	-54.4%
Microsoft	$53.13	1095.1%	$255.14	380.2%
Exxon Mobil	$38.97	134.0%	$111.34	185.7%
IBM	$112.71	474.7%	$148.90	32.1%
Citigroup	$418.84	597.6%	$48.41	-88.4%
Lucent Technologies	$61.25	N/A[2]	$2.34[3]	-96.2%
AT&T	$31.81	100.6%	19.28	-39.4%
Oracle	$39.03	1586.2%	83.03	112.7%
Russell 1000	1536.33	200.7%	4304.31	180.2%
S&P 500	1498.58	199.3%	4080.11	172.3%

Following a significant equity market selloff, many market participants tend to gravitate back to investment ideas that are familiar.

- However, investors should remember that just because something has declined significantly, does not necessarily make it "cheap" and destined to revisit previous highs. As noted earlier, bear markets are commonly inflection points for the market. Investments that were out of favor during the bear market tend to remain out of favor (relative basis).
- This was the case during the tech boom/bust at the turn of the century. The table above looks at the top ten largest holdings (by market cap) in the Russell 1000® Index as of 3/31/2000. While some stocks have generated positive returns over the entire period (3/31/2000 – 11/30/22), the majority remain well below previous tech bubble highs.
- Valuation levels during the recent growth bubble were not as extreme as during the height of the tech bubble. However, many large companies face the prospect of lower rates of growth because of heightened regulatory scrutiny and the possibility of fewer acquisitions, which had been a large driver of revenue growth in prior periods.

Data as of 11/30/2022

[1] Price change only. Any securities referenced should not be considered a recommendation to purchase or sell a particular security. The past performance of these securities is no guarantee of future results.
[2] Lucent Technologies did not exist as a company five years prior to 3/31/2000.
[3] Lucent merged with Alcatel on 11/30/2006. Closing price on 11/29/2006 was $2.34.

Source: FactSet

We are an investment firm, founded by investors.

Bob Batchelor, CFA®, CFP® is Co-Founder and Chief Executive Officer of Entasis Asset Management. Bob has 25 years of experience in the investment industry. Prior to founding Entasis, Bob worked at Artisan Partners where he held a variety of roles including Head of Corporate Communications, Managing Director, Head of Marketing and Technology and Head of Marketing and Communications. He also served as a member of Artisan Partners Executive Committee. Before Artisan Partners, Bob worked at Strong Capital Management as Client Account Manager and Director of Investment Research and Communication.

Bob holds an M.B.A. from Marquette University and a B.B.A. from the University of Wisconsin-Madison. He has earned the right to use the CFA designation. Bob is a member of the CFA Institute and CFA Society of Milwaukee. Bob has also earned the right to use the Certified Financial Planner™ certification and SE-AWMA™ professional designation.

Charles (C.J.) Batchelor, CFA® is Co-Founder and Chief Investment Officer – Equity of Entasis Asset Management. C.J. has 19 years of experience in the investment industry. Prior to founding Entasis, C.J. worked at Cleary Gull, a multi-billion dollar investment advisory firm, as Director of Investment Research. He also served as a voting member of Cleary Gull's Investment Policy Committee, Investment Committee and Equity Strategy Group.

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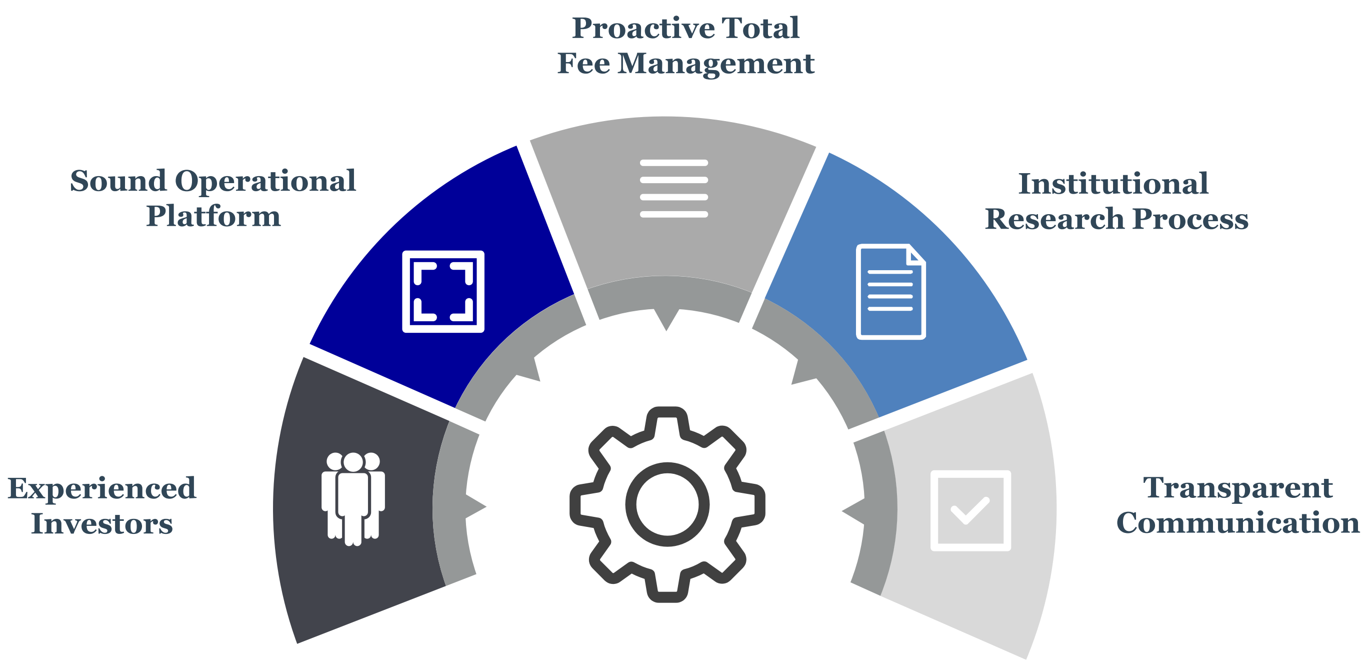
David LaCroix is a Senior Financial Advisor at Entasis Asset Management. David has more than 50 years of experience in the investment industry. Prior to joining Entasis, David worked at Cleary Gull Advisors, a Johnson Financial Group Company, and Cleary Gull Inc., a prior affiliate of Cleary Gull Advisors, where he most recently served as Vice President, Relationship Manager responsible for high net worth clients. Before Cleary Gull, David worked in a variety of portfolio management and client relationship management positions with A.G. Edwards and M&I Capital Markets Group.

David received his M.B.A. and B.B.A. in Finance from the University of Wisconsin-Madison. He has served as a member of the Archdiocese of Milwaukee Investment Committee, as a Trustee for the Village of Shorewood and as Director/Treasurer of Milwaukee Summerfest.

The Entasis Difference



Disclosure

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Investment Terms

Valuation levels are typically shown by calculating the price level of an index or a company relative to any number of characteristics of an index or company. For instance, the price-to-earnings valuation metric looks at the price of an index (or stock) divided by the total earnings of an index (or stock). Based on the multiple (in this instance, the multiple is how much investors are willing to pay – the price – for a given amount of earnings), it provides investors with a general sense of how expensive, or cheap, the overall market is at the present time. While there are a significant number of valuation metrics that are used in practice, and many ways to vary/modify the calculation of the price-to-earnings ratio, in this summary we are focused on the price investors are willing to pay (the level of the S&P 500® Index) divided by earnings expectations for the equity market (S&P 500 Index) over the next 12 months. This valuation metric is referred to as the forward P/E. A **yield curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. A **basis point** is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% (0.0001). **Interest coverage** is a measure of a company's ability to meet its interest payments on its debt. **Federal funds rate** is the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. It is one of the most influential interest rates in the U.S. economy, since it affects monetary and financial conditions, which in turn have a bearing on key aspects of the broad economy including employment, growth and inflation.

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