Quarterly Chartbook
2Q2023

Summary Comments

Sticking with our new design, we have consolidated our main thoughts into this first page again. It has been an interesting summer so far. If you want to dig into details, we provide plenty in the slides to follow. If not, here is a quick summary.

- Perhaps the biggest stories of the last few months were AI (artificial intelligence) mania and the strength of the "Magnificent Seven". The Magnificent Seven (Apple, Microsoft, Nvidia, Amazon, Meta, Tesla, Alphabet) has been responsible for roughly two-thirds of the entire S&P 500® Index YTD return.
- Despite solid returns from the market this year, if investors were to expand their perspective beyond the very short-term, it could be seen that equity returns over the prior two years have been much more muted. In fact, the S&P 500® Index has only returned +4.4%, while the Nasdaq, which is all the rage this year, is still in negative territory over the same timeframe (-2.2%).
- Historically, stock prices have not grown well in excess of corporate earnings growth over long periods. As the saying goes, the stock market is a voting machine over the short-term and prices can diverge significantly from earnings, as we have seen recently with the "Magnificent Seven." Long-term, however, the stock market tends to be a weighing machine and eventually stock prices begin to align with earnings.
- Our experience has taught us that large concentrations in mega-cap companies, along with a corresponding push into growth-oriented investments, has left investors with little interest in smaller companies whose stocks are priced at relatively attractive valuations. In general, overlooked, underpriced and underappreciated companies are particularly attractive to us, given our long-term investment focus and emphasis on underlying fundamentals. As a result, we recently made an investment in a dedicated small-cap value product.
- In the second quarter of 2023, the U.S. economy recorded an annualized real GDP growth rate of 2.4%, which surpassed initial expectations. However, this growth rate was accompanied by a nominal GDP increase of just 4.7%, weaker than anticipated and down from the 6.1% growth seen in the first quarter. (Real GDP is adjusted for inflation while nominal GDP is not.) Headline inflation cooled to about 3% year-over-year in June 2023, driven largely by declines in energy and used car prices. We are, however, monitoring energy and commodities, which have been moving up in the weeks since the last inflation report.
- We believe it is important to remain cautious in this environment by seeking higher-quality, more liquid, and resilient investments on the fixed income side. We recently executed a trade in client fixed income portfolios to sell long-maturity Treasuries and buy shorter maturity Treasuries. Our primary considerations were to shorten portfolio duration (reduce interest rate risk) and increase yield. Later this year, or early next year, if the economic outlook reaches a point of greater clarity and is accompanied by a repricing of economically sensitive market sectors, it may be time to become more aggressive.

Please let us know if you have any questions.

Bob David

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Market Performance

Annualized % Returns (As of 07/31/2023)

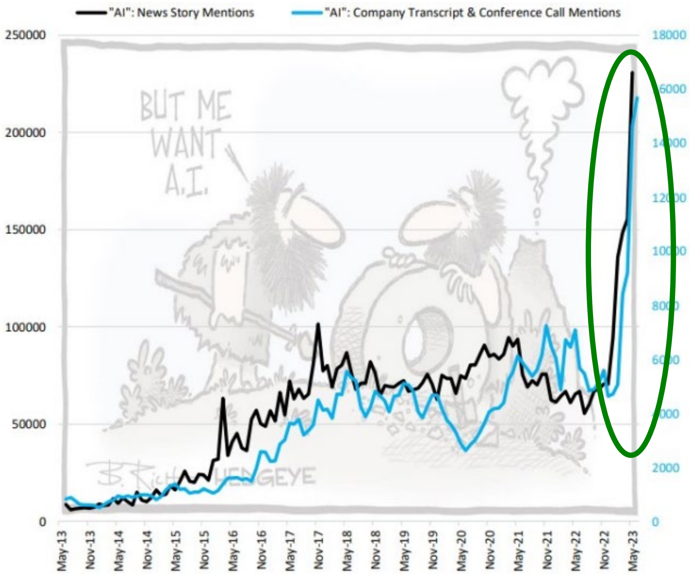
Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	13.02	13.72	12.20	12.66
Russell 1000 Index	Mid/Large Cap Stocks	12.95	13.22	11.92	12.44
Russell 1000 Growth Index	Growth Stocks	17.31	12.19	15.23	15.53
Russell 1000 Value Index	Value Stocks	8.28	14.14	8.01	9.02
Russell 2000 Index	Small Cap Stocks	7.91	12.01	5.09	8.17
MSCI EAFE Index	Non-U.S. Developed Market Stocks	16.79	9.25	4.55	5.20
MSCI Emerging Markets Index	Emerging Markets Stocks	8.35	1.46	1.71	3.47
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	10.19	8.18	3.50	5.76
BofAML Preferred Stock Fixed Rate Index	Preferred Stocks	-0.86	-0.86	2.13	4.31
Barclays Municipal Bond Index	U.S. Municipal Bonds	0.93	-1.00	1.87	2.81
Barclays Aggregate Bond Index	U.S. Bonds	-3.37	-4.46	0.75	1.50
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	-1.44	-2.61	1.28	1.41
BofAML U.S. Treasury Master Index	Treasury Bonds	-4.44	-5.47	0.42	1.01
BofAML U.S. Mortgage Backed Securities Index	Mortgage Backed Bonds	-4.75	-3.89	0.04	1.13
BofAML U.S. Corporate Master Index	Corporate Bonds	-1.06	-4.11	1.76	2.65
BofAML U.S. High Yield Master II Index	High Yield Bonds	4.16	2.10	3.23	4.29
BofAML Euro Broad Market Index	European Bonds	0.21	-7.88	-2.99	-1.09
BofAML Local Debt Market Plus Index	Emerging Markets Bonds	8.80	-1.51	1.48	0.55

Calendar Year % Returns (YTD as of 07/31/2023)

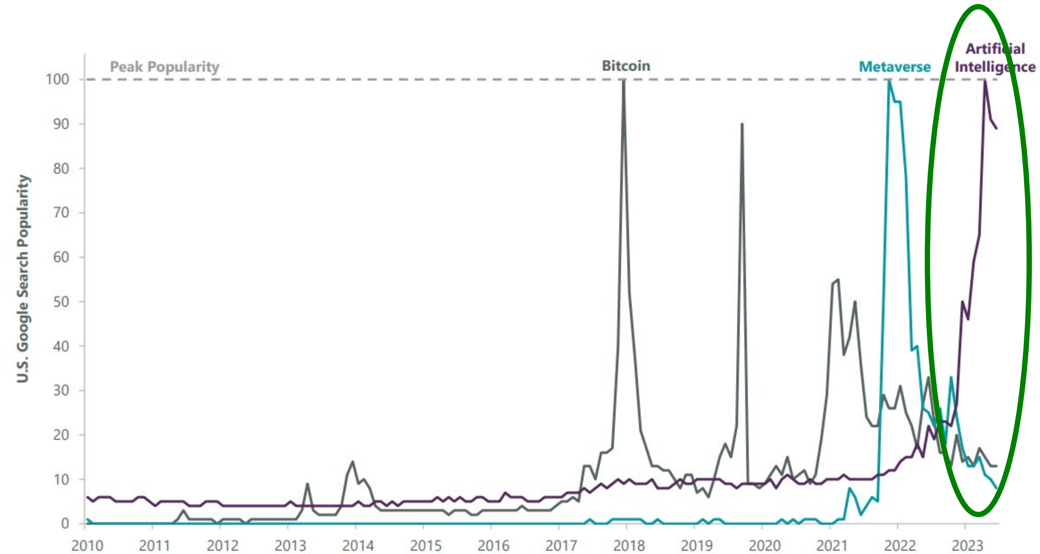
	YTD	2022	2021	2020	2019	2018
S&P 500 Index	20.65	-18.11	28.71	18.40	31.49	-4.38
Russell 1000 Index	20.69	-19.13	26.45	20.96	31.43	-4.78
Russell 1000 Growth Index	33.36	-29.14	27.60	38.49	36.39	-1.51
Russell 1000 Value Index	8.82	-7.54	25.16	2.80	26.54	-8.27
Russell 2000 Index	14.70	-20.44	14.82	19.96	25.52	-11.01
MSCI EAFE Index	15.28	-14.45	11.26	7.82	22.01	-13.79
MSCI Emerging Markets Index	11.42	-20.09	-2.54	18.31	18.44	-14.58
MSCI ACWI Ex USA Small Cap Index	12.27	-19.97	12.93	14.24	22.42	-18.20
BofAML Preferred Stock Fixed Rate Index	6.06	-14.60	2.24	6.95	17.71	-4.34
Barclays Municipal Bond Index	3.08	-8.53	1.52	5.21	7.54	1.28
Barclays Aggregate Bond Index	2.02	-13.01	-1.54	7.51	8.72	0.01
Barclays Intermediate U.S. Gov/Credit Index	1.77	-8.23	-1.44	6.43	6.80	0.88
BofAML U.S. Treasury Master Index	1.23	-12.85	-2.38	8.22	6.99	0.80
BofAML U.S. Mortgage Backed Securities Index	1.76	-11.88	-1.21	4.09	6.51	1.00
BofAML U.S. Corporate Master Index	3.68	-15.44	-0.95	9.81	14.23	-2.25
BofAML U.S. High Yield Master II Index	6.92	-11.21	5.35	6.07	14.41	-2.27
BofAML Euro Broad Market Index	5.44	-22.04	-9.66	13.35	4.11	-4.39
BofAML Local Debt Market Plus Index	8.16	-11.73	-6.53	4.50	16.44	-4.90

Source: Morningstar Direct

"AI" Mania



Source: Hedgeye



Source: ClearBridge Investments – The Anatomy of a Recession (3Q 2023)

The second quarter turned out to be another interesting period for the stock market as the majority of investor attention focused on a handful of technology companies. We fielded a number of questions on technology stocks and the impact on markets, so we thought it would be valuable to start our equity discussion on the topic.

- The focus on technology, and in particular artificial intelligence ("AI"), by the media and corporations could aptly be described as a "mania." Pundits debated the future impact of AI on businesses and the economy, and companies attempted to "ride the wave" of media and investor optimism (chart upper left).
- AI mania was on par with other recent market manias including Bitcoin/cryptocurrencies and the Metaverse (chart upper right). The spike in investor attention on AI led to record inflows to the technology sector, which drove prices higher. This was more noticeable than prior manias because it impacted the largest technology companies (and the largest market-cap weighted stocks), which helped to propel the broader stock market higher.

We are cognizant of the impact AI may have on businesses and the economy. However, we have not made a significant investment directly in the space because of expensive prices and lofty (and in some cases, unreasonable) expectations. As prior manias have shown, following the crowd higher may be profitable in the short-term, but over the long-term can be detrimental.

Equity – The "Magnificent Seven"

S&P 500 Year to Date Contribution

Ticker	Company Name	Sector	Price	Market Cap (trn USD)	% Chg YTD	S&P 500 Contribution Index Points	S&P 500 Contribution % of Move
AAPL	Apple	Technology	193.35	3.04	49.24	113.71	15.26
MSFT	Microsoft	Technology	347.91	2.58	45.75	97.34	13.07
NVDA	NVIDIA	Technology	448.77	1.12	207.17	89.47	12.01
AMZN	Amazon.com	Cons. Discret.	129.82	1.33	54.54	48.77	6.55
META	Meta Platforms	Comm. Svcs.	299.47	0.78	148.85	47.85	6.42
TSLA	Tesla	Cons. Discret.	258.34	0.83	109.73	43.42	5.83
GOOGL	Alphabet*	Comm. Svcs.	119.77	1.52	35.75	42.19	5.66
		Seven Mega Caps		11.20	93.00	482.76	64.80
		All Other S&P 500 Members		41.87	9.71	262.20	35.20
		Total S&P 500		53.07	10.90	744.96	100.00

** Includes impact of both share classes*

Source: The Bespoke Report – July 21st, 2023

Goldman Sach's Top Performing Themes

Macro/Thematic	YTD
Memes	64.4%
Artifical Intelligence	60.0%
Megacap Tech	54.3%
Housing Exposure	40.4%
New Technology	40.2%
Expensive Software	37.3%
Non Profitable Tech	34.2%
Secular Growth	32.3%
Liquid Most Short	26.8%

**Goldman Sachs Macro/Thematic baskets. Stocks are selected by Goldman Sachs specialists. Baskets are rebalanced on a quarterly basis.*

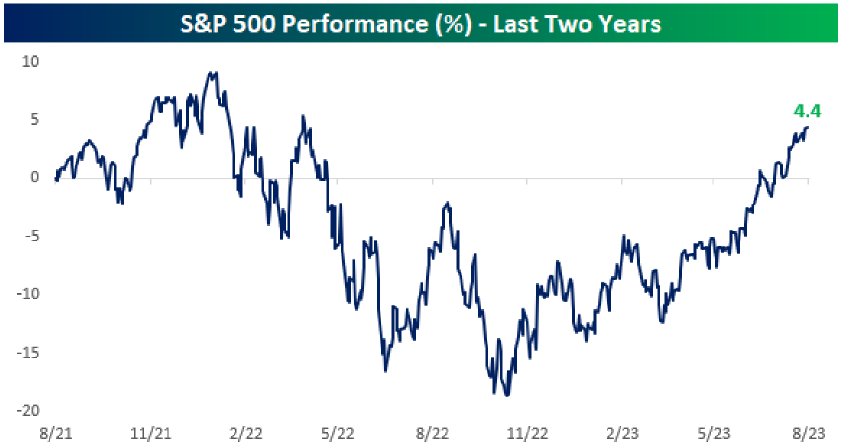
Source: FMI Fund, Inc. Quarterly Report – June 30, 2023

Several of the largest technology companies, described by some in the media as the "Magnificent Seven," have accounted for the vast majority of stock market gains this year.

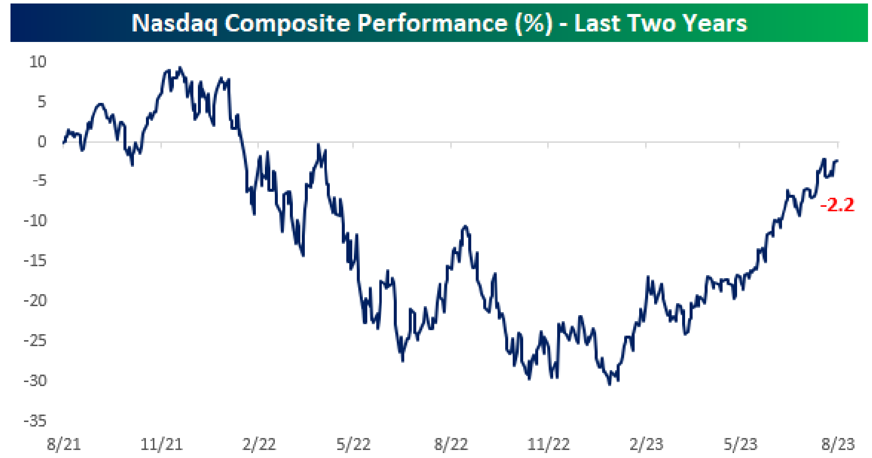
- The Magnificent Seven (Apple, Microsoft, Nvidia, Amazon, Meta, Tesla, Alphabet) has been responsible for roughly two-thirds of the entire S&P 500® Index YTD return (chart upper left).
- The flood of money into the top technology stocks has also led to increased risk taking across a variety of stock market "themes" (baskets of stocks with similar characteristics). Not surprisingly, artificial intelligence has been a top performing theme (chart upper right). However, more concerning from a speculative standpoint, and overall market health, are themes such as memes, expensive software, non profitable tech and liquid most short.

We believe artificial intelligence will have a large impact on businesses in general, but we have become increasingly concerned that valuable technology has been bid to unreasonable prices and has also encouraged unhealthy market speculation in the stocks of companies with poor financials and highly uncertain futures.

Equity – Short-Term Memories Need Longer-Term Perspective



Source: Bespoke Investment Group – August 1st, 2023



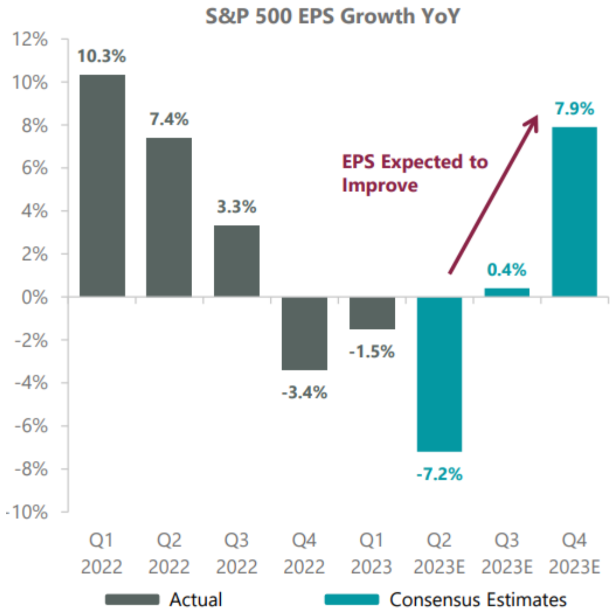
Source: Bespoke Investment Group – August 1st, 2023

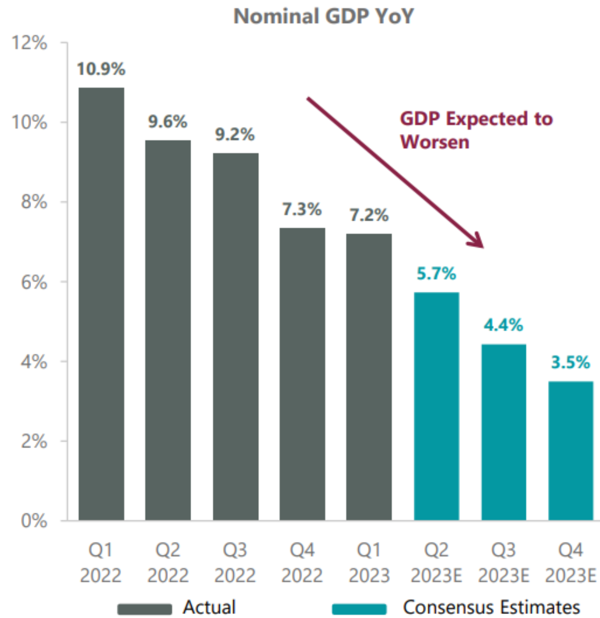
Financial publications and media provide an inordinate amount of coverage to extremely short-term market movements and market drivers. We believe this type of focus (and hype) is primarily responsible for the increased number of "manias" and the degree of stock market speculation in very narrow segments of the market.

- We believe a longer-term perspective is needed to counter the short-term orientation of the media.
- Despite solid returns from the market this year, if investors were to expand their perspective beyond the very short-term, it could be seen that equity returns over the prior two years have been much more muted. In fact, the S&P 500® Index has only returned +4.4%, while the Nasdaq, which is all the rage this year, is still in negative territory over the same timeframe (-2.2%).

We believe that when investor attention becomes too short-term focused, it can lead to poor decisions and significantly more volatility in portfolios. The attraction of large, short-term gains is hard to ignore, but we believe maintaining a long-term focus is more beneficial for investor returns.

Equity – U.S. Earnings





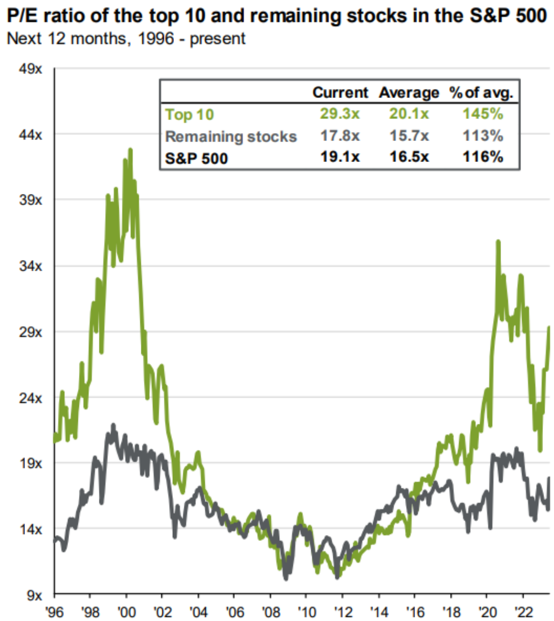
Source: ClearBridge Investments – The Anatomy of a Recession (3Q 2023)

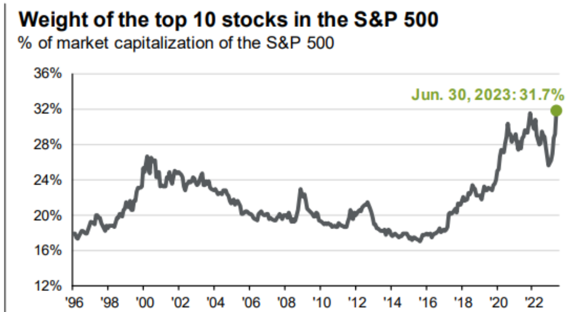
On a positive note, earnings growth is expected to improve in the second half of 2023, especially in the fourth quarter (chart upper left).

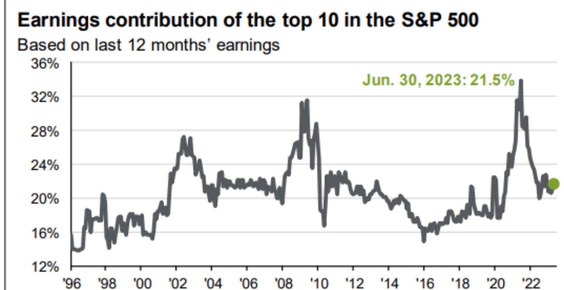
- The question is whether earnings can grow at an increasing rate, even with the expectation of declining economic growth (GDP). Even though earnings growth and economic data do not move in lockstep, corporate earnings growth (in aggregate) cannot grow well in excess of GDP growth indefinitely.
- Historically, stock prices cannot grow well in excess of corporate earnings growth either. This can diverge significantly over the short-term, as we have seen recently with the "Magnificent Seven." While stock prices have risen substantially for those companies, individual earnings growth projections have been much different. Earnings growth projections for Nvidia and Meta have increased, been flat for Microsoft, Google, Amazon and Apple, and declined for Tesla.

Overall, we believe future expectations need to be rooted on the basis of reasonable expectations. Speculation-fueled manias have routinely surfaced over short periods. However, equity gains have historically returned to fundamentals over the long-term.

Equity – U.S. Valuations







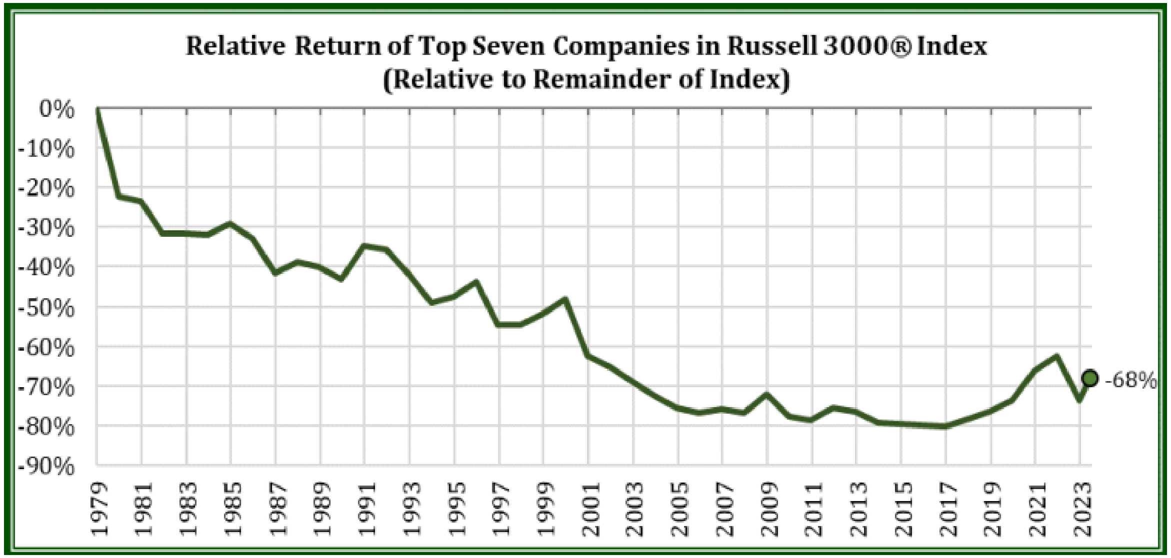
Source: JP Morgan Asset Management – Guide to the Markets 3Q 2023

As noted on the previous slide, stock prices for many of the largest companies have increased significantly this year, without a corresponding increase in earnings growth projections. The result has been a spike in price-to-earnings (P/E) ratios for the largest companies (top 10 shown in the chart above left) in the S&P 500® Index.

- The sharp increase in P/E ratios for the top stocks has pushed valuations higher in aggregate for the S&P 500® Index. However, when excluding the largest companies, valuations are not nearly as extreme (chart upper left).
- Outsized gains for the largest companies has also resulted in significant concentration risk in the S&P 500® Index (chart upper right). More recently, the increase in market cap concentration reached its highest level in 60 years.
- Finally, as noted earlier, stock gains for the largest stocks were primarily responsible for the overall S&P 500® Index gain this year. However, earnings contribution for those same stocks in the S&P 500® Index has not been nearly as significant (chart upper right bottom).

At some point, stock prices will need to reflect the reality of earnings growth. So, just as the largest companies have been the biggest drivers of overall stock market gains, the opposite may also be true when prices adjust to reported earnings.

U.S. Equity – Risk



Source: Equity Investment Corporation – 2023 Second Quarter Commentary

Just as trees cannot grow to the sky, at some point, it becomes extremely hard for mega-cap companies to continue to grow at a rapid pace, in part due to sheer size.

- History has shown that as companies get bid higher and market-caps get increasingly large, other forces come into play such as saturation of markets (a moderation in customer growth), innovative new entrants and a more restrictive regulatory environment.
- The chart above examines this phenomenon by looking at the relative performance of the seven largest companies in the Russell 3000® Index (Russell total market index) compared to the remainder of the index. As can be seen, the cumulative relative performance of these companies is quite poor, with the largest periods of underperformance following times of large disparities in relative valuation (i.e. when the top seven companies' valuation levels are significantly higher than the remainder of the index).

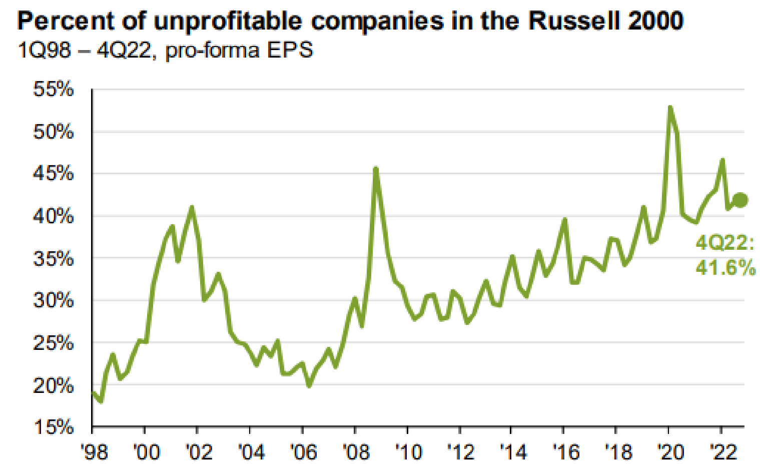
Many investors may see the largest companies as an attractive investment moving forward. However, we are more cautious (in aggregate) due to a combination of factors such as recent relative performance and relatively unattractive valuation levels. We urge investors to remember that not all great companies are also great investments. We believe individual stock performance will be much more nuanced in future periods.

U.S. Equity – Opportunity

		Style			
Size		All	Value	Core	Growth
	All	**0.95**	0.84	0.99	0.98
	Large	0.97	0.86	1.02	0.99
	Mid	0.90	0.82	0.92	0.95
	Small	0.73	0.58	0.80	0.90

Source: Morningstar. Data as of June 26, 2023.

Source: Morningstar – Q3 Stock Market Outlook

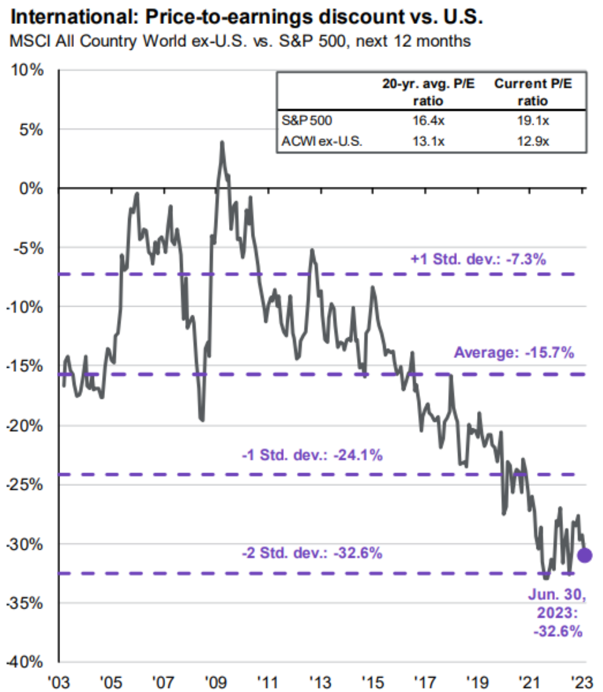


Source: JP Morgan Asset Management – Guide to the Markets 3Q 2023

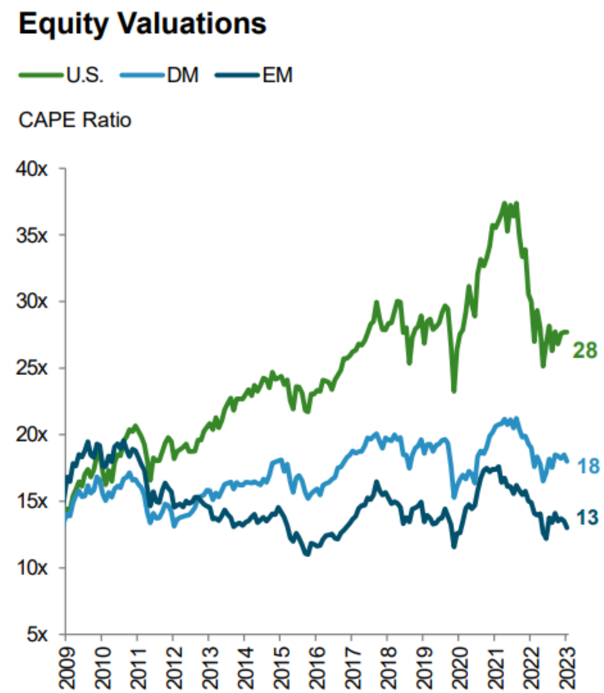
One area of the market that we believe has been neglected by investors is small-cap value.

- Historically large concentrations in mega-cap companies, along with a corresponding push into growth-oriented investments, has left investors with little interest in smaller companies whose stocks are priced at relatively attractive valuations. This is reflected in the "fair value" chart (above left), where small-cap value companies are estimated to be trading at a significant discount to the group's long-term value.
- Not all small-cap companies are created equal though, which can be seen in the chart (above right). The data in this chart demonstrates there are numerous unattractive, unprofitable small-cap companies that we do not believe would be worthy of investment. Therefore, we view active management, as opposed to broad-based passive investing (investing in all small-cap companies through an index-based investment product) as a better option.
- In general, overlooked, underpriced and underappreciated companies are particularly attractive to us, given our long-term investment focus and emphasis on underlying fundamentals. As a result, we recently made an investment in a dedicated small-cap value product.

Foreign Equity – Opportunity



Source: JP Morgan Asset Management – Guide to the Markets 3Q 2023



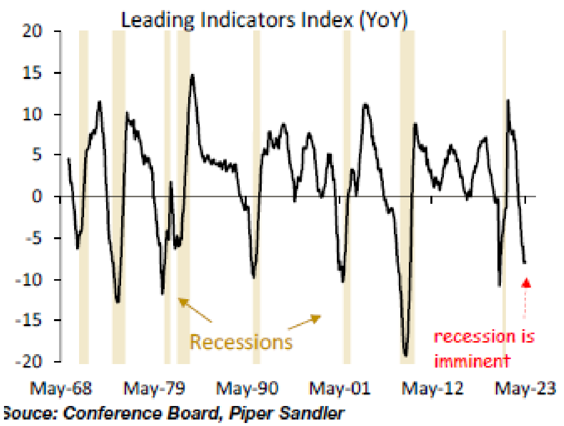
Source: Fidelity Investments – Quarterly Market Update (3Q 2023)

Foreign equity markets remain relatively attractive when compared to the U.S. equity market from a valuation perspective (top left).

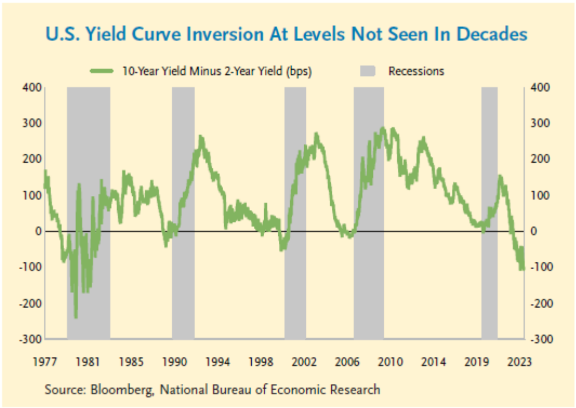
- U.S. equity markets have historically traded at a "premium" (i.e. more expensive valuations) relative to foreign equity markets. However, the premium for U.S. equities, based on current price-to-earnings (P/E) ratios, has become quite extreme relative to history (chart above left).
- The premium for U.S. equity markets is apparent across valuation metrics, including CAPE ratios ("cyclically-adjusted price-to-earnings"), which uses inflation-adjusted earnings for the prior 10 years (chart above right).

We believe the combination of valuations and underlying fundamentals provide an attractive long-term opportunity for investors. Similar to U.S. markets, not all foreign stocks, regions and countries are created equal. We continue to believe active management is the most attractive way to invest in this segment of global equity markets.

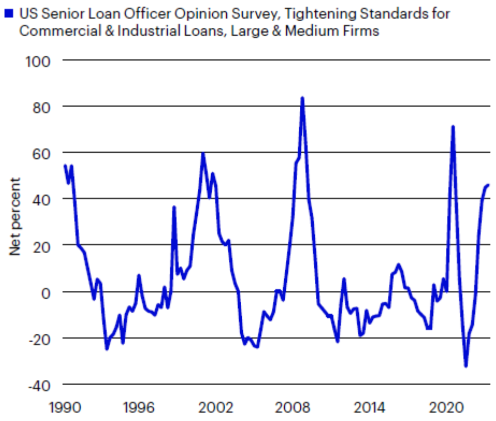
Fixed Income – Economic Growth



Source: Piper Sandler



Source: Metwest



Source: Invesco

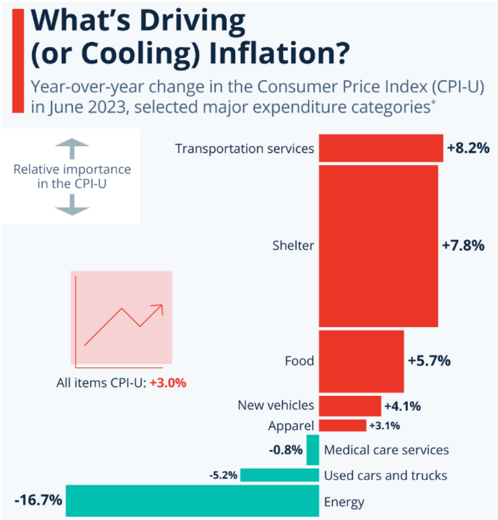
- In the second quarter of 2023, the U.S. economy recorded an annualized real GDP growth rate of 2.4%, which surpassed initial expectations. However, this growth rate was accompanied by a nominal GDP increase of just 4.7%, weaker than anticipated and down from the 6.1% growth seen in the first quarter. (Real GDP is adjusted for inflation while nominal GDP is not.)

- When looking under the hood, the report is somewhat concerning. Consumer spending, which accounts for almost 70% of GDP slowed to a 1.8% annualized rate from 3.7% in the prior quarter. At the same time, government spending accelerated from 2.7% to 3.8% year-over-year. This indicates GDP growth is being supported by deficit spending, which is unlikely to continue in the current political environment.

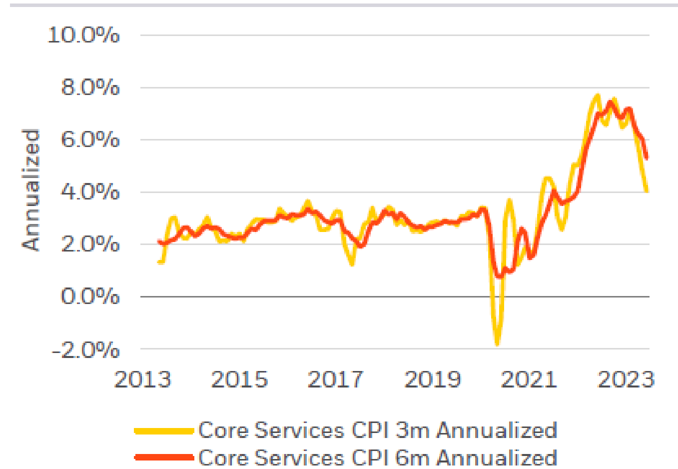
- In the coming quarters, the conference board's leading indicators, the inverted U. S. Treasury yield curve, and lending standards (all shown above) continue to signal the economy will slow further. The lagged impact of U.S. Federal Reserve (Fed) action and tighter lending standards typically is felt 4-6 quarters after the onset of tightening.

- Taking everything into consideration, a recession continues to be likely, but the timing may be farther in the future than initially expected as the effects of fiscal stimulus finally work out of the system.

Fixed Income – Inflation



Source: Statista



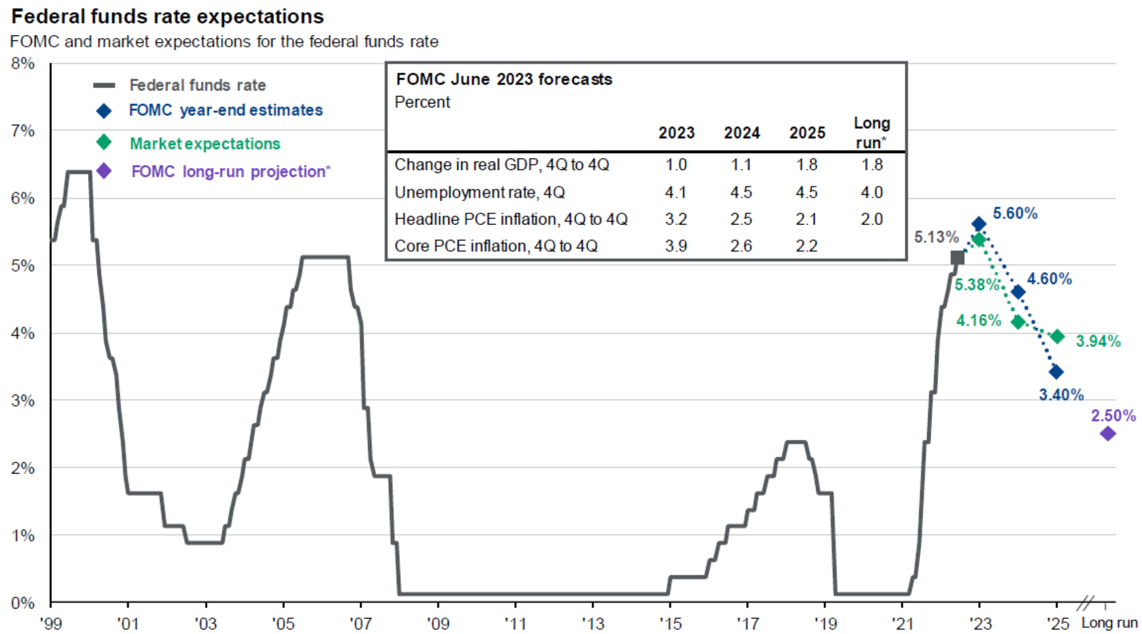
Source: Blackrock

- Headline inflation cooled to about 3% year-over-year in June 2023, driven largely by declines in energy and used car prices. Core inflation, which removes food and energy, has improved but is still elevated, as it was up about 5% year-over-year. However, if we take out shelter and used cars, which have factors that suggest levels will be lower soon, we can see progress has been made in this area as well.

- Services inflation has decreased since its peak in 2022 but remains persistent. Many attribute this to "structural healing" in the labor market, as the industries hit hardest during the pandemic, such as leisure & hospitality, education, healthcare services, and construction, are experiencing the strongest demand for workers. The good news is that the labor market looks to be closer to the end of the healing process than the beginning. This suggests the rate of services inflation is likely to moderate more rapidly in the future.

- Overall, inflation continues to move in the right direction. We have seen substantial progress on headline inflation and have reasons to be optimistic for future readings of the core and services components. We are, however, monitoring energy and commodities, which have been moving up in the weeks since the last inflation report.

Fixed Income – Fed Tightening



	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	1.0	1.1	1.8	1.8
Unemployment rate, 4Q	4.1	4.5	4.5	4.0
Headline PCE inflation, 4Q to 4Q	3.2	2.5	2.1	2.0
Core PCE inflation, 4Q to 4Q	3.9	2.6	2.2	

Source: JP Morgan

- At its June meeting, the Fed chose to leave rates unchanged at 5.25%, marking the first time in ten consecutive meetings that it did not make a move. Before the June meeting, market pricing had indicated the Fed would "skip" the meeting but would resume hiking rates in July. This prediction turned out to be accurate, as the Fed announced a 25 basis point (0.25%) increase in rates after the July meeting.

- At the July meeting, officials claimed interest rates were already in restrictive territory, but signaled two additional hikes this year. Financial markets still think there will be small reductions in rates early next year. As of now, the expected rate cuts are anticipated to happen slowly, but history indicates this is unlikely as the Fed usually “breaks” something (the economy) prior to easing policy. If something breaks, rates tend to move lower more quickly to limit the damage. The unprecedented speed of this tightening cycle makes it unlikely the easing cycle (lowering rates) will deviate from history.

Fixed Income – Yields & Spreads

Maturity	12/31/21	12/31/22	3/31/23	5/31/23	6/30/23	1 Mo Chg	Q2 Chg	YTD Chg
3 Mo	0.06%	4.41%	4.80%	5.42%	5.31%	-0.11%	0.51%	0.90%
1	0.39%	4.73%	4.65%	5.18%	5.44%	0.26%	0.79%	0.71%
2	0.74%	4.43%	4.03%	4.41%	4.90%	0.49%	0.87%	0.47%
3	0.96%	4.23%	3.79%	4.05%	4.53%	0.48%	0.74%	0.30%
5	1.27%	4.01%	3.58%	3.76%	4.16%	0.40%	0.58%	0.15%
7	1.44%	3.97%	3.54%	3.71%	4.01%	0.30%	0.47%	0.04%
10	1.51%	3.88%	3.47%	3.65%	3.84%	0.19%	0.37%	-0.04%
20	1.94%	4.15%	3.80%	4.02%	4.08%	0.06%	0.28%	-0.07%
30	1.91%	3.97%	3.65%	3.86%	3.86%	0.00%	0.21%	-0.11%

Source: Baird

Option-Adjusted Spreads (in bps)

	12/31/21	12/31/22	3/31/23	5/31/23	6/30/23	1Mo Chg	Q2 Chg	YTD Chg
U.S. Aggregate Index	36	51	57	55	49	-6	-8	-2
U.S. Agency (non-mortgage)	8	26	28	23	19	-4	-9	-7
Mortgage and ABS Sectors								
U.S. Agency RMBS (Pass-throughs)	31	51	63	56	52	-4	-11	1
U.S. Agency CMBS	34	52	62	55	51	-4	-11	-1
U.S. Non-Agency CMBS	95	179	215	212	211	-1	-4	32
Asset-Backed Securities	38	76	85	79	68	-11	-17	-8
Corporate Sectors								
U.S. Investment Grade	92	130	138	138	123	-15	-15	-7
Industrial	95	125	124	127	113	-14	-11	-12
Utility	107	129	136	140	132	-8	-4	3
Financial Institutions	83	140	164	157	139	-18	-25	-1
Non-Corporate Credit	55	66	68	63	58	-5	-10	-8
U.S. High Yield Corporates	283	469	455	459	390	-69	-65	-79
Emerging Market Debt	581	687	731	747	681	-66	-50	-6

Source: Bloomberg Indices

Source: Baird

- During the second quarter, Treasury yields increased (table top left). This contributed to a negative overall return for the bond market, as measured by the Bloomberg Barclays Aggregate Bond Index. The 10-year Treasury bond was up 0.37% and the 2-year Treasury bond was up 0.87%. This pushed the inversion between the two bonds to -1.06%, just short of the maximum spread reached in March.

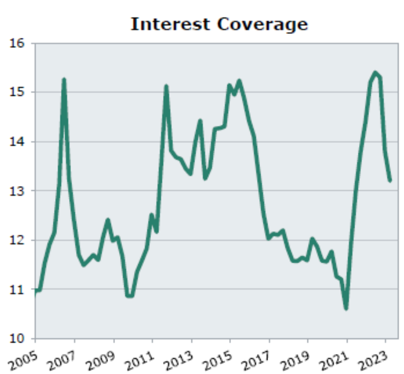
- Overall, the second quarter was a positive relative period for risk assets as U.S. high yield bonds and emerging market bonds all tightened (yield spreads compared to U.S. Treasury bonds fell) during the quarter. As a result, those asset classes produced positive absolute returns for the period.

Fixed Income – Positioning

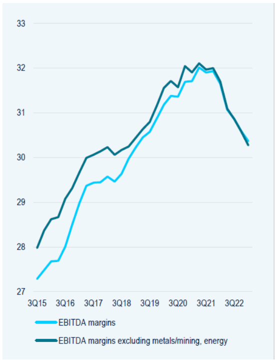
- We recently executed a trade in client fixed income portfolios to sell long-maturity Treasuries via TLT (iShares 20+ Year Treasury Bond ETF) or IEF (iShares 7-10 Year Treasury Bond ETF) and buy shorter maturity Treasuries via SCHO (Schwab Short-Term U.S. Treasury ETF). Our primary considerations were to shorten portfolio duration (reduce interest rate risk) and increase yield. We view the trade as tactical in nature, which means the holding period of the investment may be short-term in nature. With some components of the CPI, notably commodities, back on the rise and more resilient economic data than expected, it is possible interest rates may test this cycle's high before ultimately falling. Our goal was to limit downside portfolio performance in that scenario while also earning more interest.

- Overall, portfolios continue to be positioned to out yield client benchmarks with moderately less interest rate risk. With an inverted U.S. Treasury yield curve (short-term interest rates are higher than long-term interest rates), portfolios are positioned to take advantage of higher yields in short-to-intermediate maturity bonds. On the credit side, we continue to be patient with corporate bond ownership. EBITDA margins and interest coverage have started to decline, which are notable downgrades to overall business fundamentals. We continue to emphasize municipal bonds in tax-aware portfolios due to their attractive fundamentals (charts below).

- We believe it is important to remain cautious in this environment by seeking higher-quality, more liquid, and resilient investments. Later this year, or early next year, if the economic outlook reaches a point of greater clarity and is accompanied by a repricing of economically sensitive market sectors, it may be time to be more aggressive. We continue to like a balance of low-cost index funds for desired Treasury exposure, and flexible active managers to navigate the volatility on the credit side.



Source: Baird



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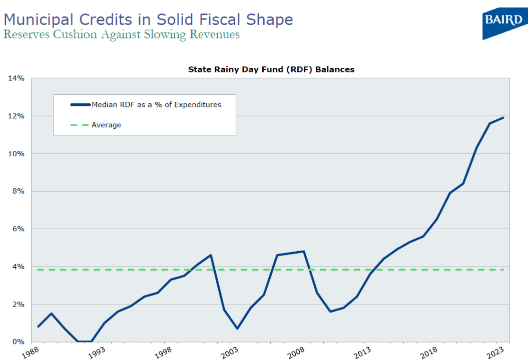

Source: Baird

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.

C.J. holds a B.B.A. in Finance from the University of Wisconsin-Milwaukee. He has earned the right to use the CFA designation. C.J. is a member of the CFA Institute and CFA Society of Milwaukee.

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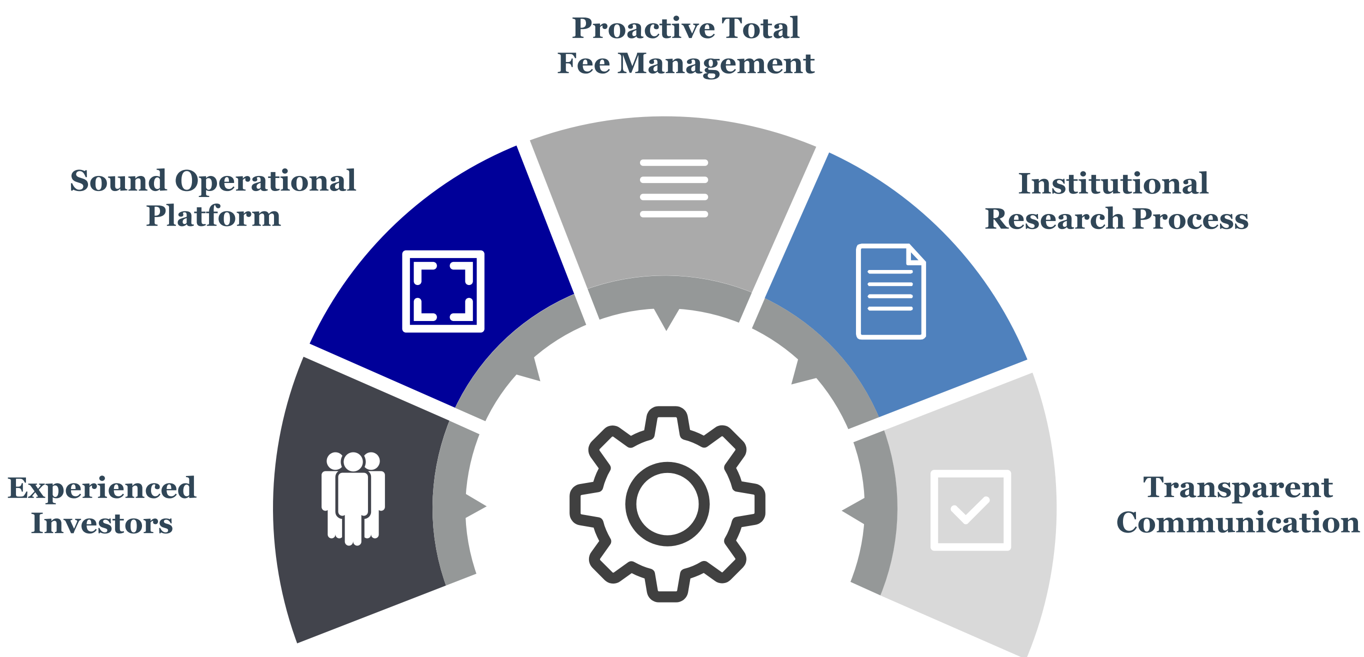
David LaCroix is a Senior Financial Advisor at Entasis Asset Management. David has more than 50 years of experience in the investment industry. Prior to joining Entasis, David worked at Cleary Gull Advisors, a Johnson Financial Group Company, and Cleary Gull Inc., a prior affiliate of Cleary Gull Advisors, 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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