US Private Wealth Management
U.S. Bank

South County Economic Development Council

Binational Forum
June 1, 2022

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CREDENTIALS

Master of Business Administration, Cornell University – Samuel Curtis Johnson Graduate School of Business, Ithaca, New York

B.A., Loyola Marymount University, Los Angeles, California

As a Regional Investment Director, Bill is responsible for oversight of investment management activities within the California Region and works closely with market leaders in business development. He also serves at the national level as a member of the Investment Strategy Group, where he contributes to both building our investment solutions platform and managing the asset allocation process.

Bill has over twenty years of experience in multiple disciplines including wealth management, investment management and real estate and his early career experience includes assignments at Morgan Stanley and Merrill Lynch. Prior to joining U.S. Bank, Bill was the Head of Wealth Management in California for First Bank, one of the largest privately owned banks in the United States. His professional background includes extensive experience constructing and managing multi-asset class investment portfolios for trust, individual and institutional clients as well as leading high-performance teams.

Bill is an active member of his community, serving as a member of the Board of Directors and Chair of the Investment Committee for the Pacific Symphony. He also serves as a member of the Board of Directors and Chairman of the endowment committee of the Boys and Girls Club of Laguna Beach.

Bill resides in Laguna Beach with his wife Tina and two children. When he is not at work, he enjoys spending time with his family and playing music.

Upfront conclusions

Central bank actions are key focal points.

The speed at which central banks shift to more restrictive policies coupled with the depth of those policies will help frame how interest rates move and how other asset classes respond.

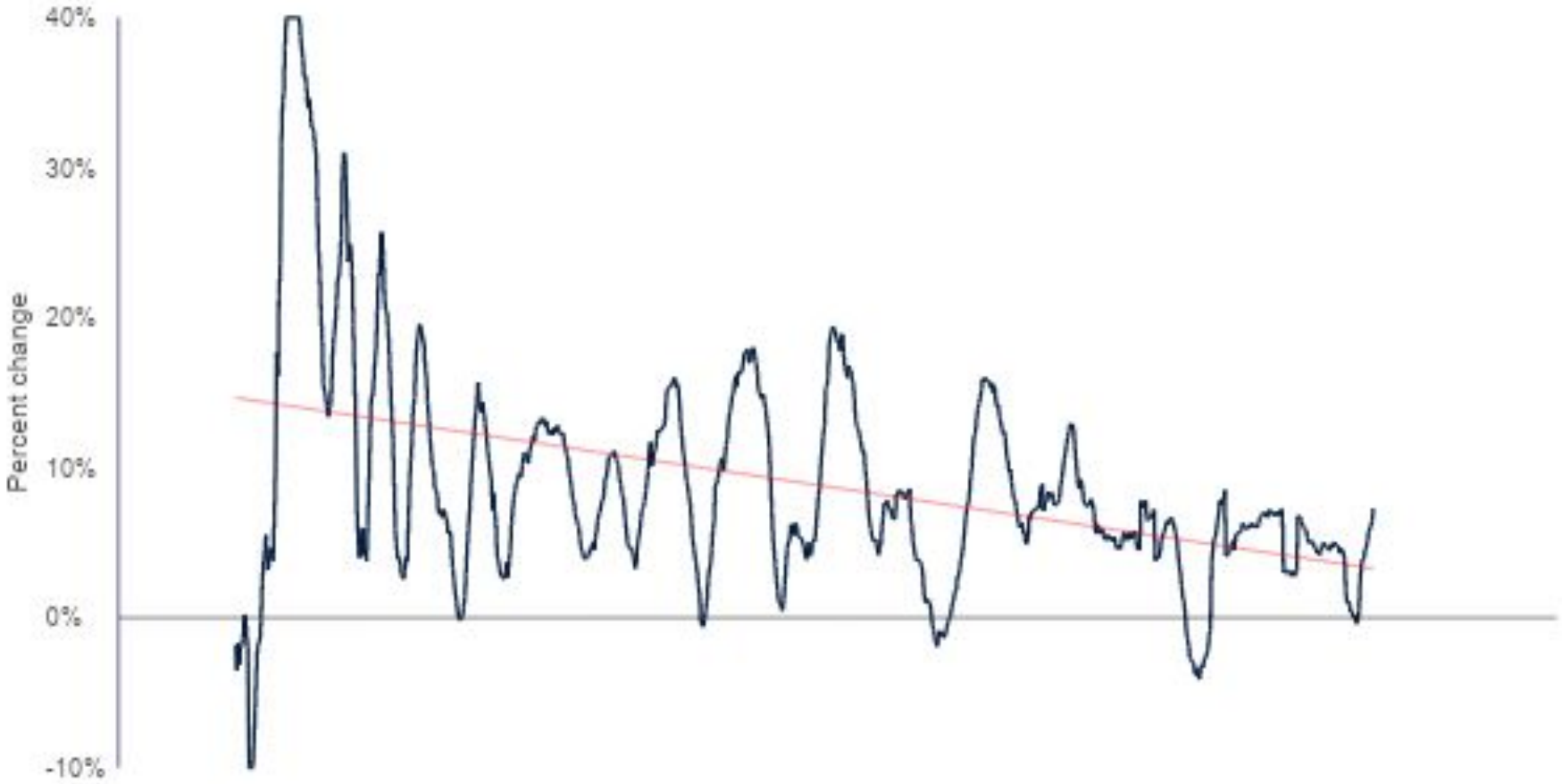
Economic momentum may be challenged in the upcoming quarters, but it is still demonstrating growth.

Forecasters have anticipated a slowdown in economic growth through midyear, thanks to tougher comparisons against a robust 2021. However, accelerated central bank tightening and higher commodity prices may result in lower gross domestic product estimate revisions should consumer and business activity roll over from their current paces.

Context:
Major economic and market drivers

Credit: The core economic driver

Access to and usage of credit plays a central economic role, but credit growth is slowing per the downward sloping red trendline. January 2021 marked the first time this indicator went negative since 2010, but demand is exhibiting a strong bounce from pandemic lows.



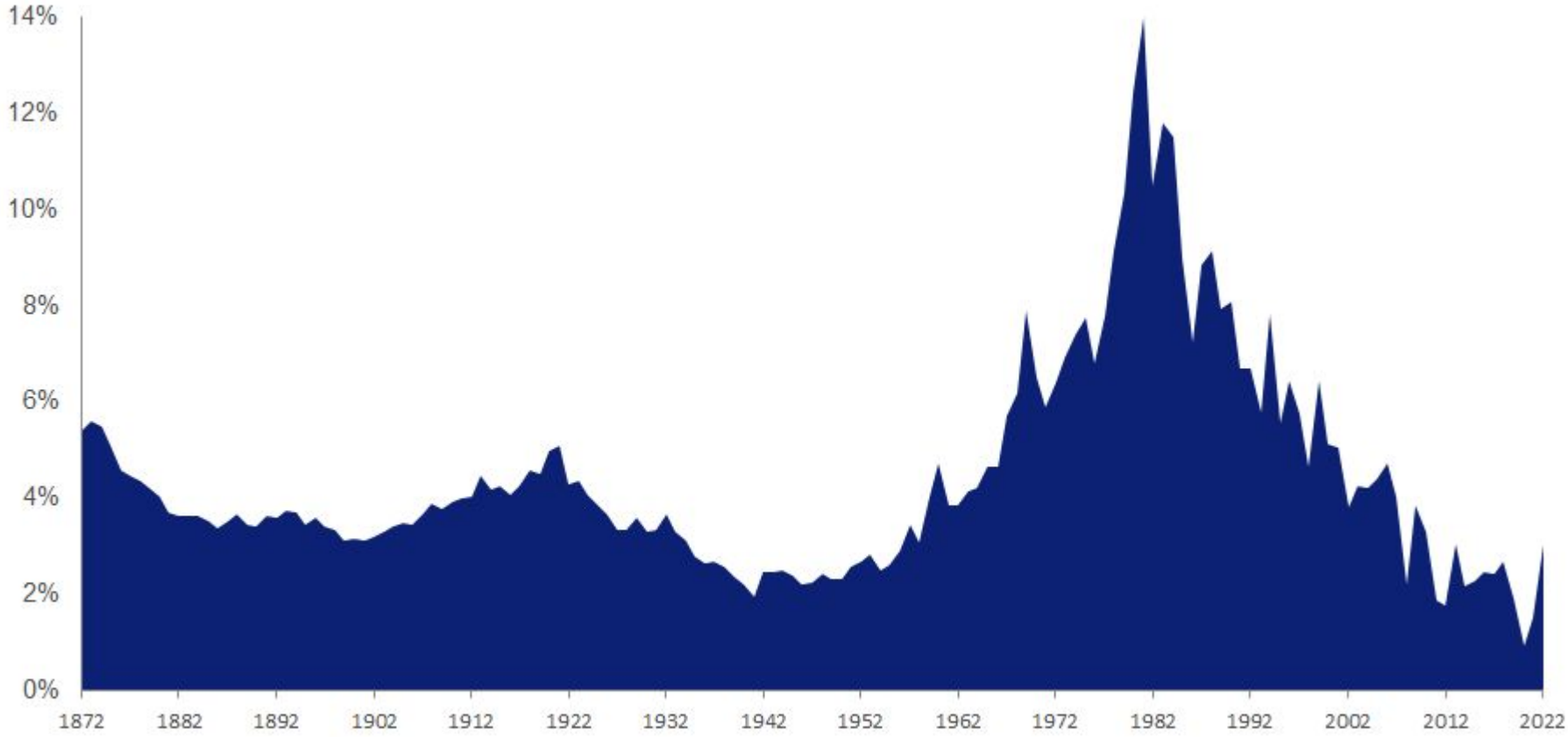
Sources: U.S. Federal Reserve, Bloomberg. Data period: January 1950-March 2022.
Percent change of total consumer credit (United States)

Please refer to disclosures in the appendix.

Despite bond yields' recent move higher, borrowing costs remain modest relative to a multi-generational historical context

Rising Treasury yields are putting increasing borrowing costs, which could impact consumers' and businesses' willingness to borrow and, therefore, economic growth. Credit still appears reasonable when considering a longer-term perspective, but recent increases in mortgage borrowing costs are notable.

U.S. long Treasury yields



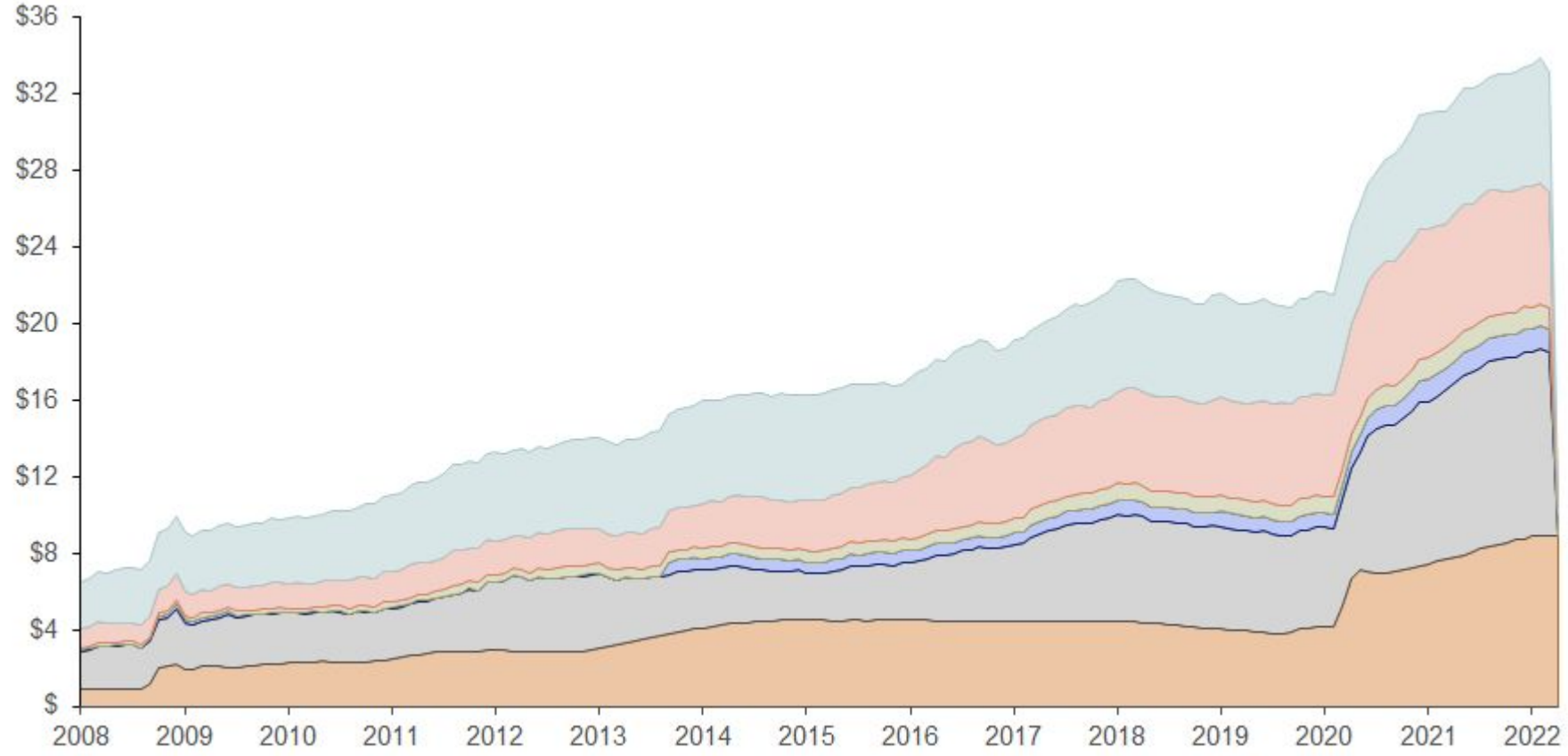
Source: Bloomberg. Data period: December 1871-May 5, 2022.

Please refer to disclosures in the appendix.

The “wall of money” remains high, but may shrink later in 2022

Central banks have had a massive capital market presence since 2008, helping to keep interest rates low. The Federal Reserve is preparing to reduce its asset holdings by allowing bonds on its balance sheet to mature while simultaneously raising interest rates, a material policy shift from pandemic-era emergency policy support.

Total balance sheet size by major central banks
($ trillions)



Sources: U.S. Bank Asset Management Group analysis, Bloomberg. Data period: January 2008-April 30, 2022.

Please refer to disclosures in the appendix.

Current economic and capital market highlights

Immediate-term focus

How markets absorb two pending phenomena: Higher interest rate targets and balance sheet reductions.

The Fed increased its target interest rate range from 0.25%-0.5% on March 16 to 0.75%-1.0% on May 4, and further indicated it will be taking steps to reduce its balance sheet asset holdings starting on June 1. Market liquidity, or the ability of buyers and sellers to transact with ease, is a focus for us as interest rates rise.

Inflation: Energy prices present another set of price concerns.

The Russia/Ukraine tensions led to near-term inflation risk, and while oil prices have come down from early March levels, hydrocarbon supply imbalances could result in persistent price increases as we enter the Northern Hemisphere's summer driving/cooling season.

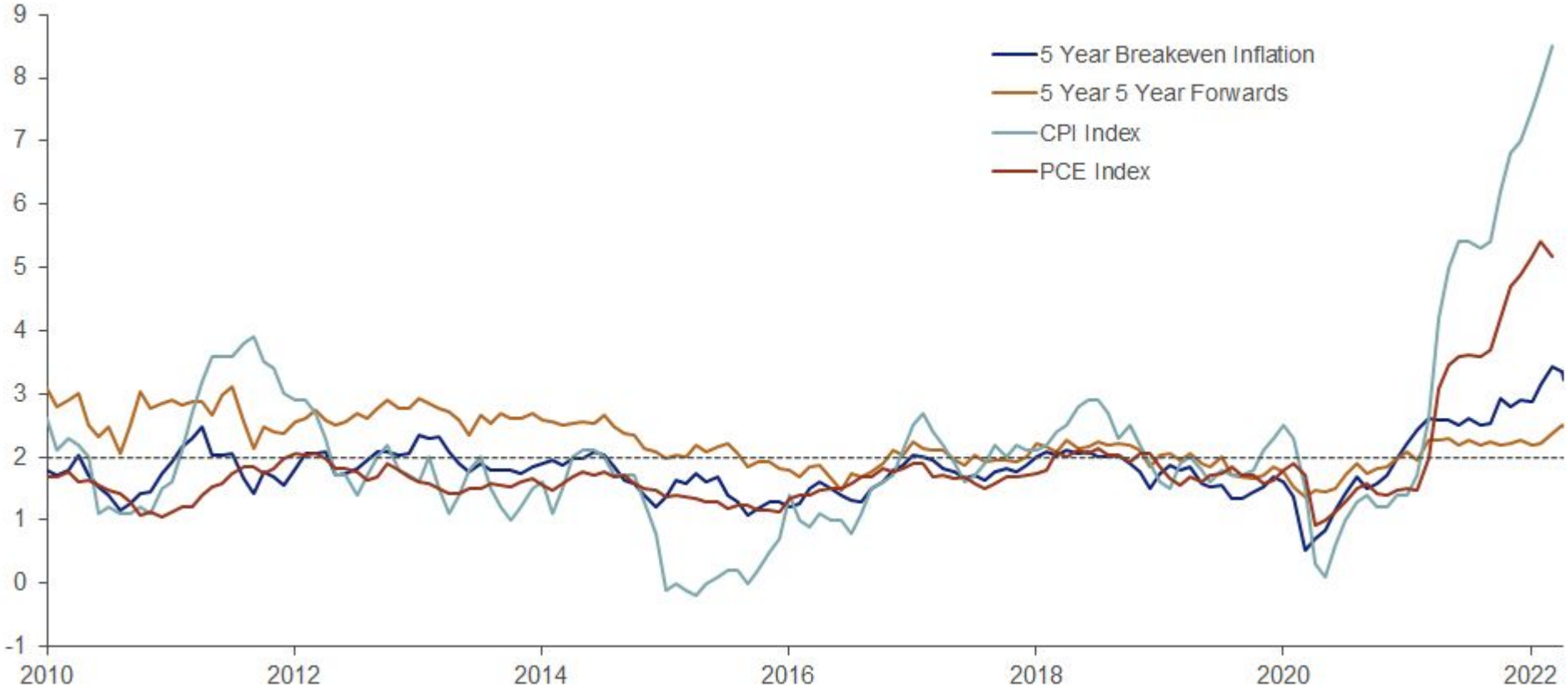
Economic momentum: Growth is slowing but still positive; how resilient will growth be as interest rates increase?

We expect some gradual economic easing as we get deeper into 2022, but persistently high energy and shelter costs exacerbated by higher borrowing costs could thwart economic activity. We are monitoring demand trends as COVID fears ease.

Inflation data: The 2% level had a gravitational pull, but recently elevated prices have persisted well above that prior benchmark

Both actual and expectations-based inflation measures are well above the 2% threshold central banks have historically targeted. How growth and inflation respond to central bank policy tightening action remains a key variable influencing capital market price volatility and performance.

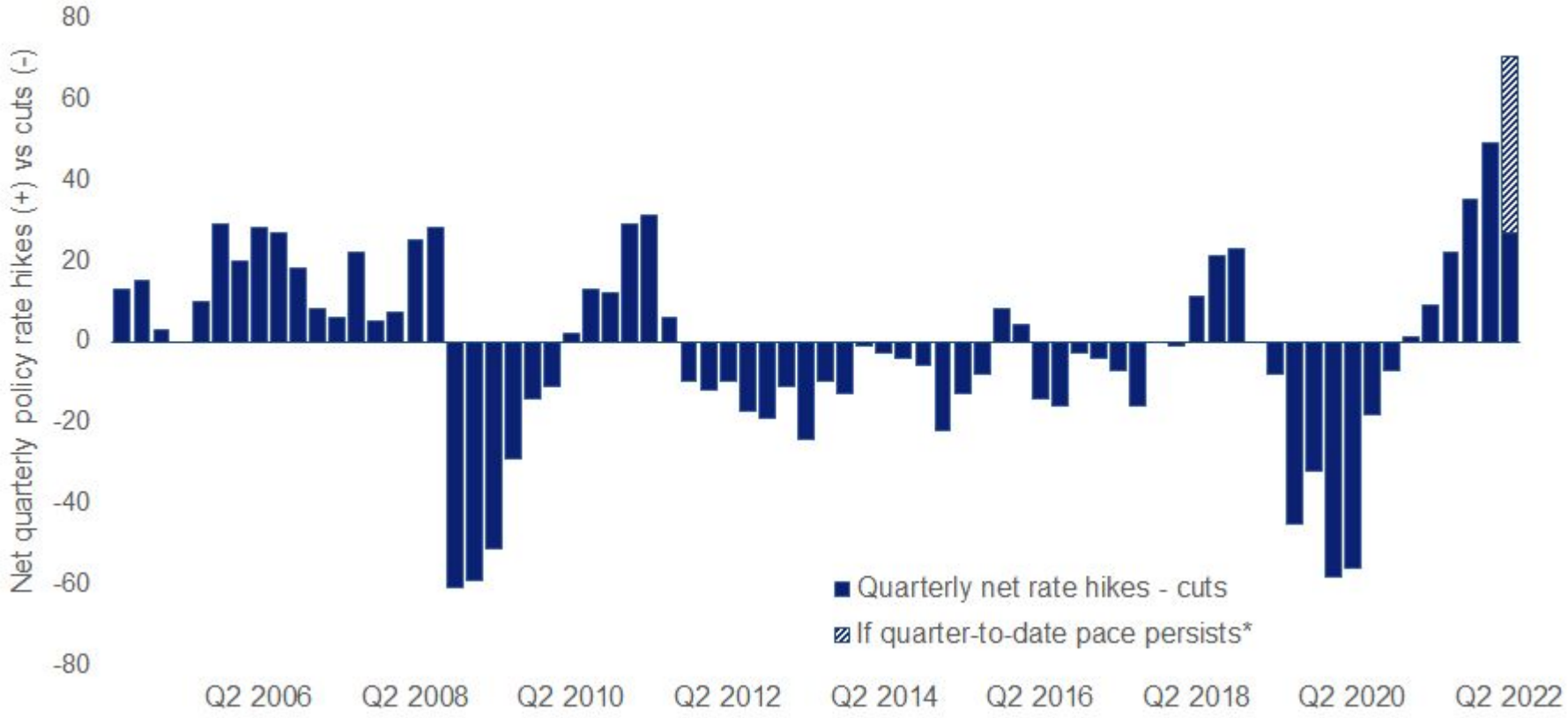
Comparing various domestic inflation measures



Source: U.S. Bank Asset Management Group analysis, Bloomberg.
Data period: January 2010-May 5, 2022. Dashed gray line indicates 2% target rate level.

Global central banks are raising interest rates to thwart inflationary pressures

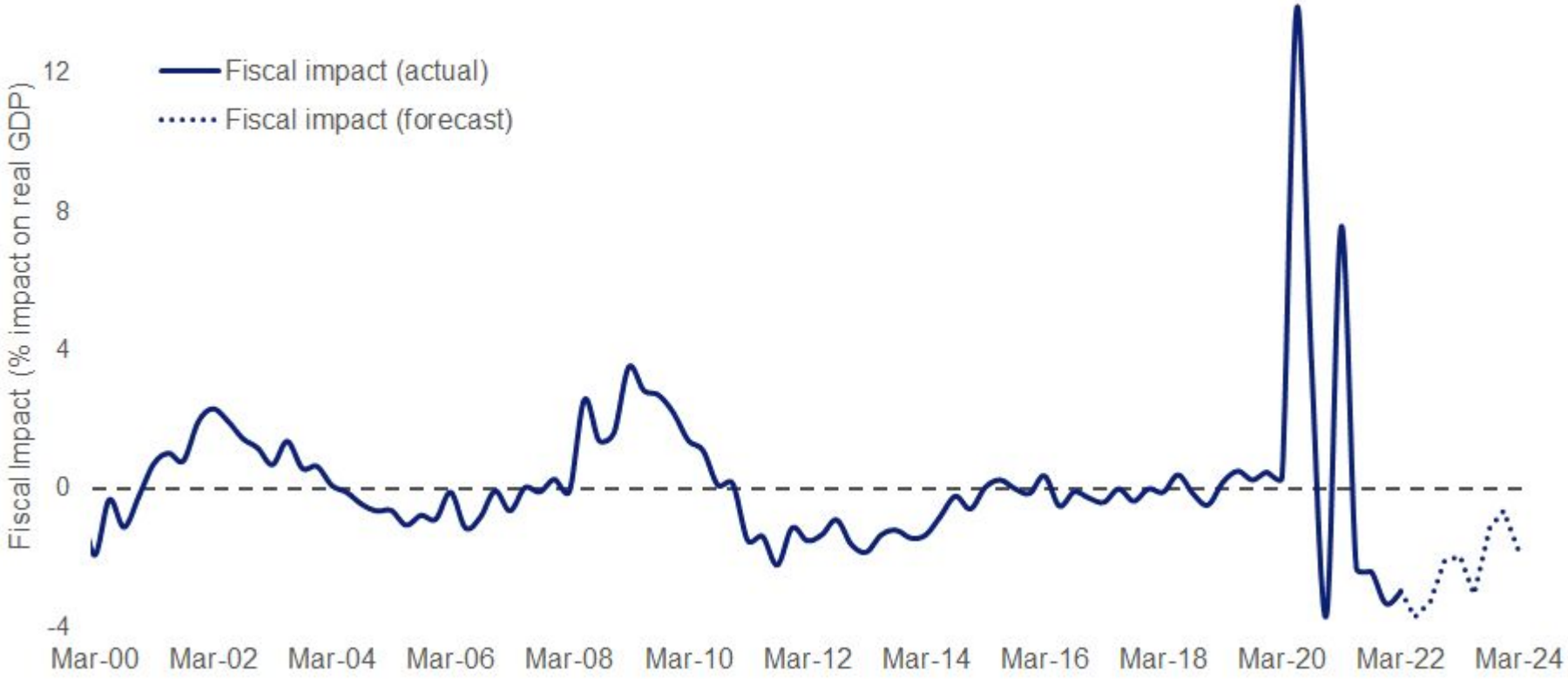
Our tracker of 60 central banks recorded two consecutive record highs of net policy rate increases in the fourth quarter of 2021 and first quarter of 2022. The current quarter is on pace for another high, with already 28 increases and only 1 decrease recorded through May 5.



Source: U.S. Bank Asset Management Group analysis, Bloomberg; Data period: August 31, 2004-May 5, 2022.
*If quarter-to-date pace persists is a linear extrapolation assuming the current pace of rate hikes is maintained through the entire quarter.

Fiscal policy, or the level of government spending, declines as pandemic-related stimulus fades

The Hutchins Center Fiscal Impact Measure shows how much local, state, and federal tax and spending policy adds to or subtracts from overall economic growth, and providers a near-term forecast of fiscal policies' effects on economic activity.

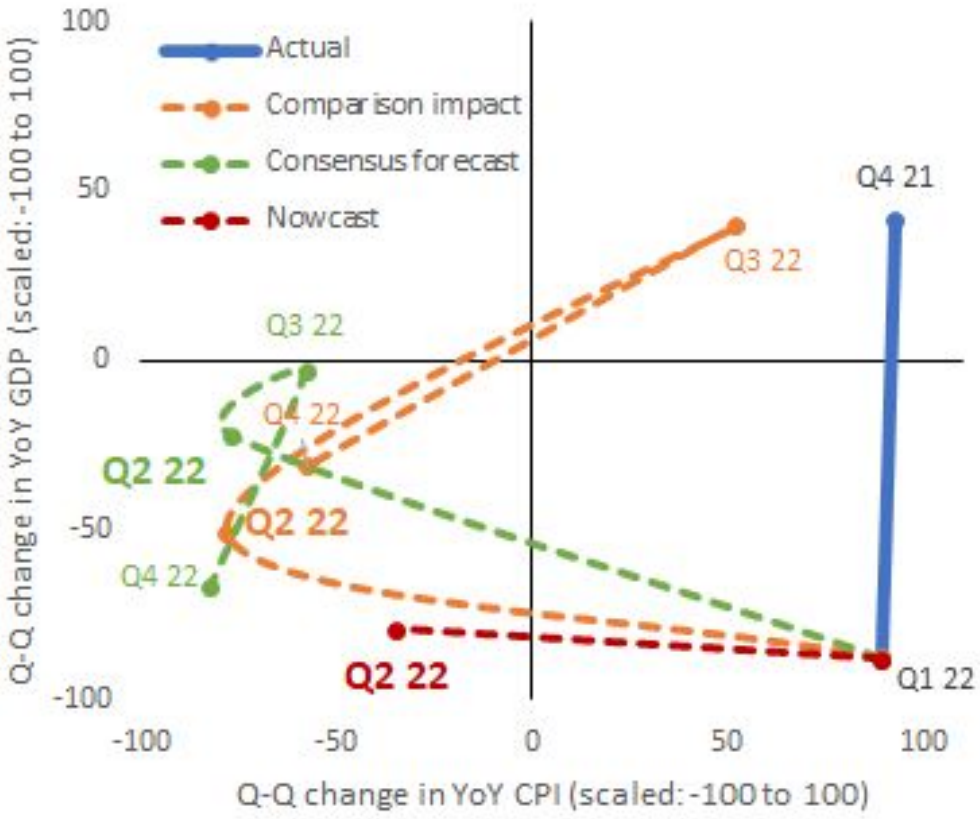


Source: U.S. Bank Asset Management Group analysis, Hutchins Center Fiscal Impact Measure; Data period: March 31, 2000-March 31, 2022. Forecast through March 31, 2024.

Please refer to disclosures in the appendix.

We are transitioning to a period of decelerating growth and inflation

Consensus forecasts project growth and inflation will slow in the second quarter, a phenomenon that historically has presented a challenging environment for equities relative to high-quality bonds.

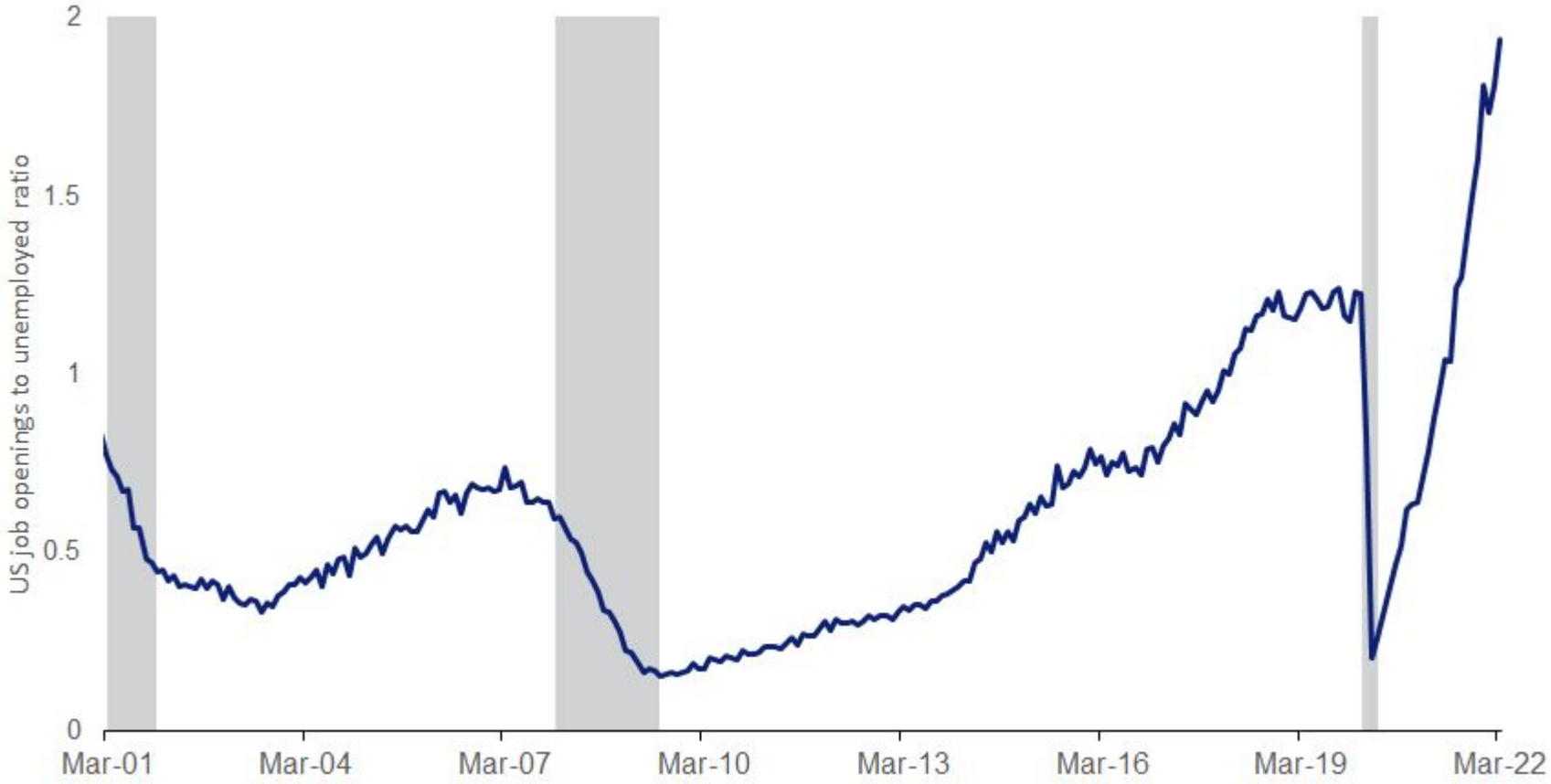


Source: U.S. Bank Asset Management Group analysis, Bloomberg, Federal Reserve: Data period: September 30, 1953, to May 5, 2022.
Comparison impact: Expected quarterly change = opposite of average quarterly change one year ago and two years ago.
Consensus forecast: Bloomberg consensus economic forecast.
Nowcast: GDP nowcasts averages Atlanta Fed and St. Louis Fed nowcasts. CPI nowcasts reflects Cleveland Fed CPI nowcast.

The number of job openings far surpasses the amount of unemployed people

The ratio of job openings relative to unemployed people indicates nearly two jobs are available for every person looking for work. This scarcity of workers is contributing to ongoing supply chain challenges and increasing wage inflation.

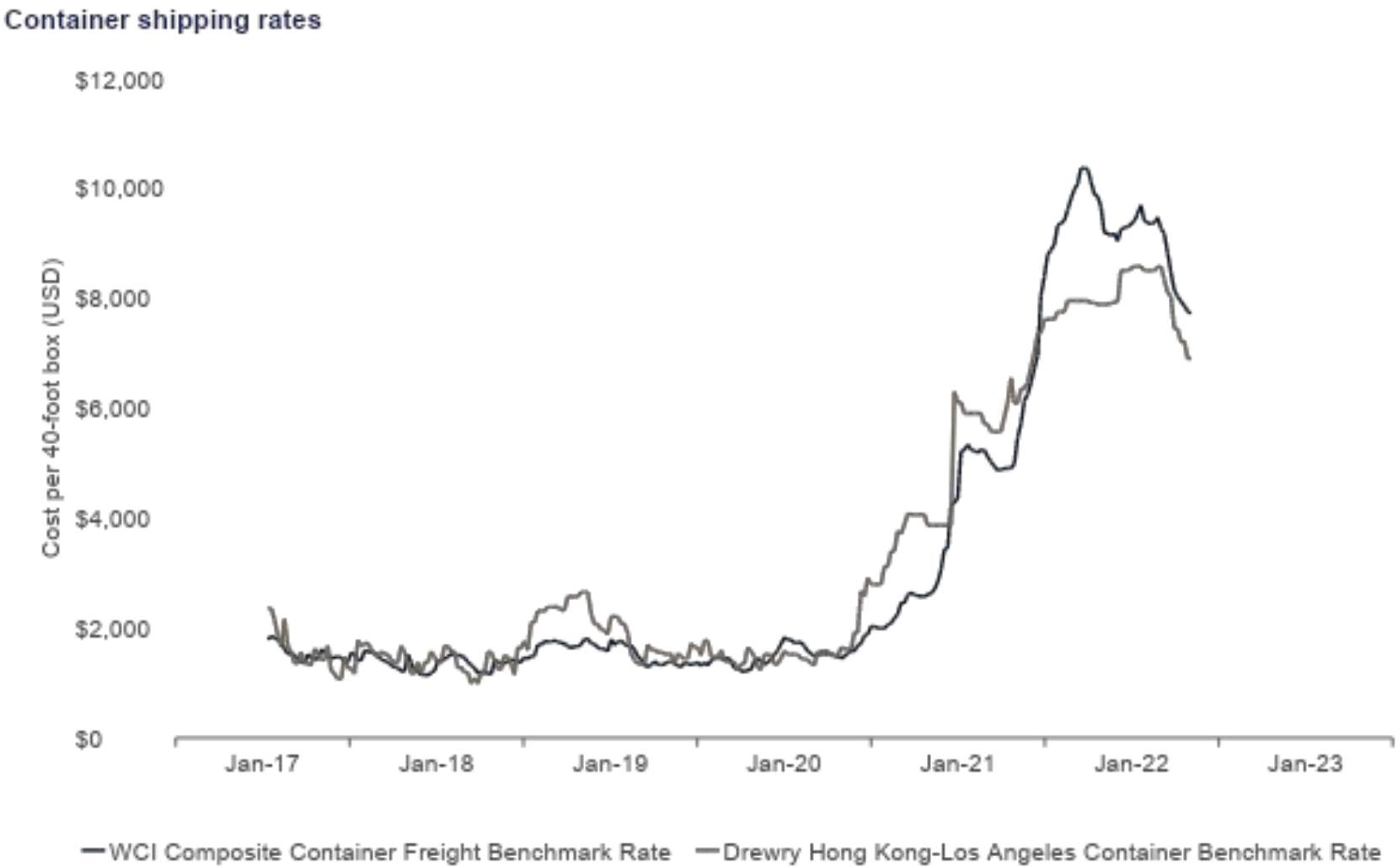
US job openings to unemployment ratio



Source: U.S. Bank Asset Management Group analysis, Bloomberg data. Data period: March 31, 2001-March 31, 2022.

Please refer to disclosures in the appendix.

Supply chain pressures are persistent, but stabilizing shipping prices may presage improvement in 2022

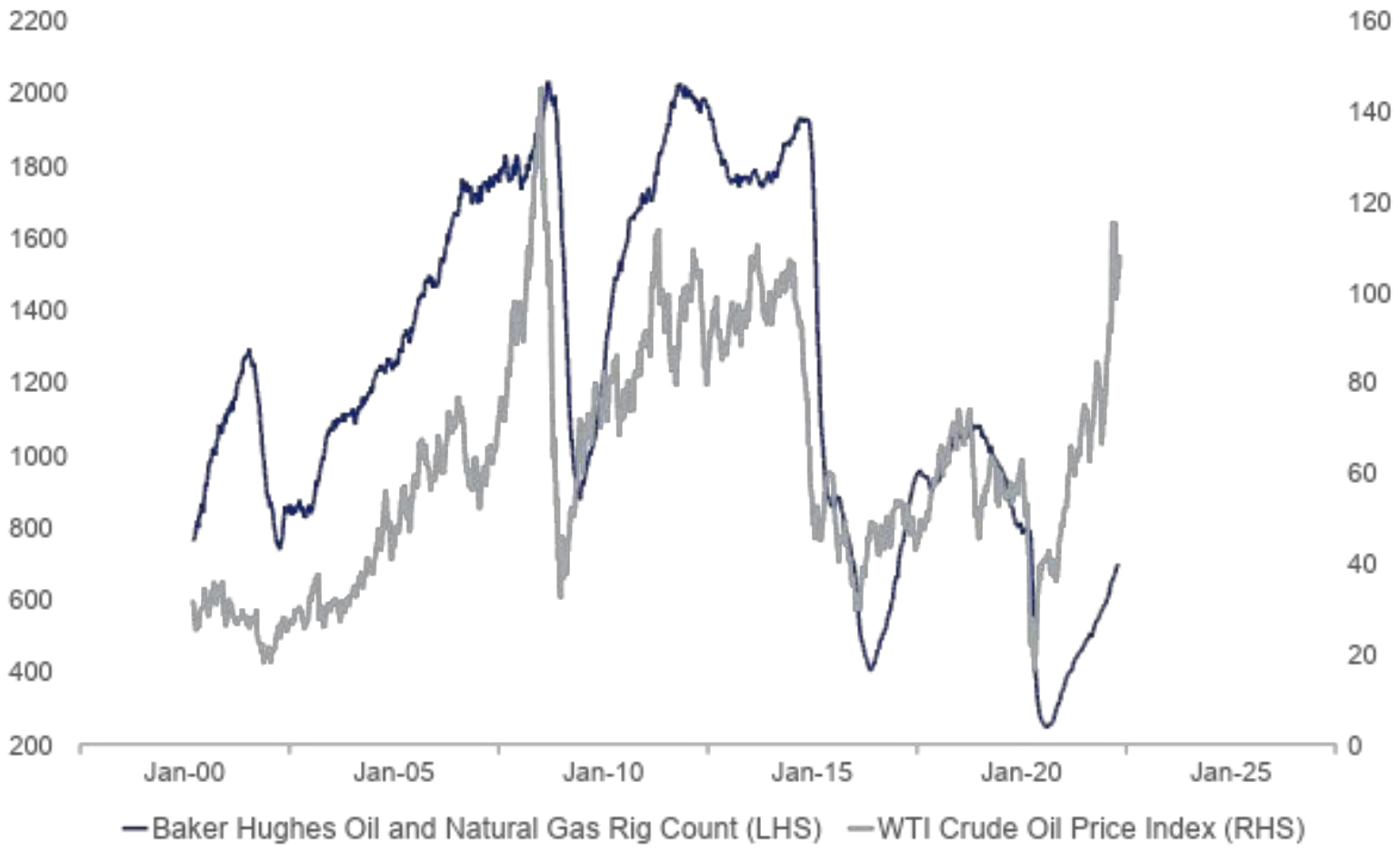


Source: U.S. Bank Asset Management Group analysis, Bloomberg data. Data period: May 5, 2017-May 5, 2022.

Please refer to disclosures in the appendix.

Oil supply: Slow supply response despite recent price spikes

Higher prices typically incentivize drilling activity, but the wide gap between oil prices and drilling rig counts reflects shareholders' pressure to more efficiently manage capital following challenging pre-pandemic returns, environmental/social/governance (ESG) influence and other factors restraining new supply from coming online.



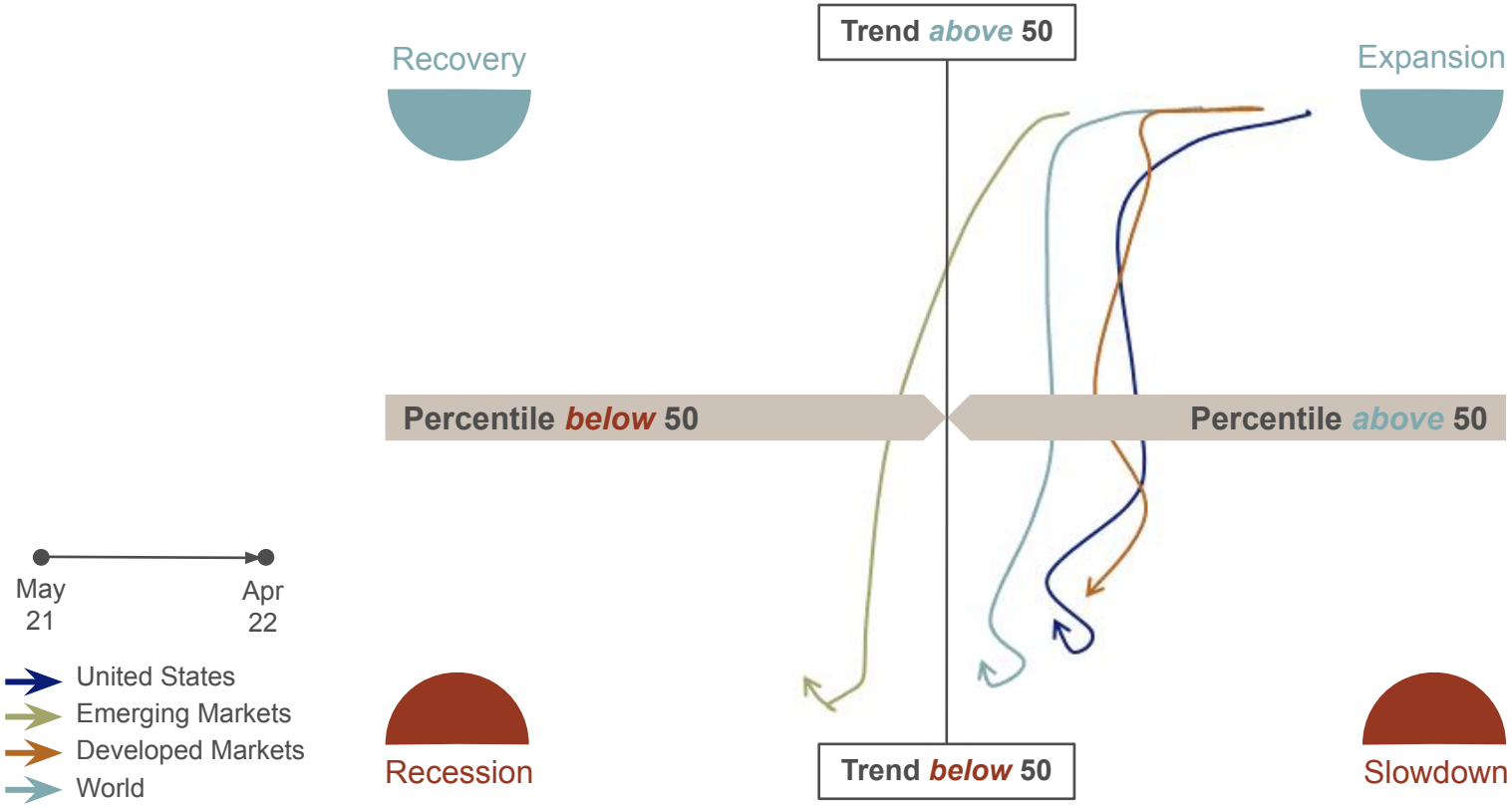
Source: U.S. Bank analysis, Bloomberg data. Data period: May 5, 2000-May 5, 2022.

Please refer to disclosures in the appendix.

Financial markets ≠ economics

U.S. Bank economic Health Check: **Global** economy

Our data suggests the recovery in the U.S. and foreign developed economies remains ongoing though momentum in the recovery's pace has clearly slowed. China's relatively weaker data reflects COVID-related activity curbs and tougher prior year comparisons, weighing on overall emerging market activity.



Sources: U.S. Bank Asset Management Group, Bloomberg. Data as of April 30, 2022.

Please refer to disclosures in the appendix.

Rising home prices support mortgage bond collateral values

Home prices have appreciated significantly, resulting in mortgage bond collateral values well in excess of home loan balances.

Source: U.S. Bank Asset Management Group analysis, Bloomberg data, Data period: April 30, 2002 – February 28, 2022.

Please refer to disclosures in the appendix.

Dashboard: A quick spin around the globe

The coronavirus presents a new set of challenges for policymakers; outside the United States, fiscal policy is neutral to expansionary across most of the major countries and regions. We continue to monitor positive inflationary momentum across the globe.

	United States	Europe	Japan	United Kingdom	China	India	Brazil
GDP Growth YoY Q1 2022	**3.6%**	**5.0%**	**0.4% (Q4)**	**6.6% (Q4)**	**4.8%**	**5.4% (Q4)**	**1.6% (Q4)**
• Health Check	60.0	66.3	48.6	59.3	20.8	53.0	52.2
• Trend	23.8	19.7	18.8	23.3	7.6	42.3	24.6
• Momentum	4.7	0.1	4.9	1.3	50.8	15.2	12.2

Inflation CPI Growth YoY	**8.5%** (Mar)	**7.4%** (Mar)	**1.2%** (Mar)	**7.0%** (Mar)	**1.5%** (Mar)	**7.0%** (Mar)	**11.3%** (Mar)
• Regime	High inflation	High inflation	Low inflation	High inflation	Low inflation	Moderate inflation	High inflation
• Trend	Up	Up	Up	Up	Flat	Up	Up

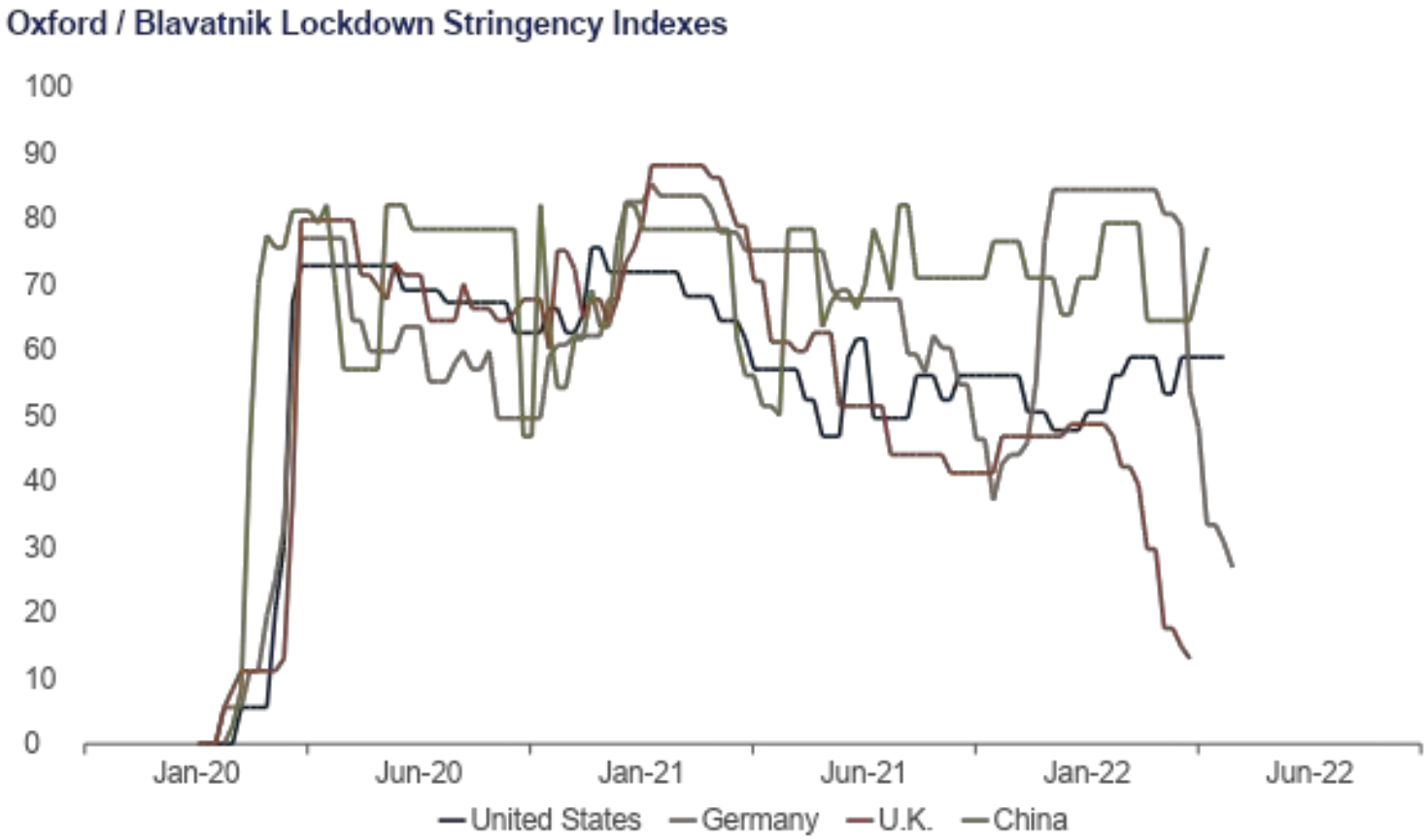
Monetary Policy							
• Regime	Expansionary	Expansionary	Expansionary	Expansionary	Neutral	Expansionary	Neutral
• Trend	Tightening	Neutral	Neutral	Neutral	Neutral	Tightening	Tightening

Fiscal Policy							
• Regime	Expansionary	Expansionary	Expansionary	Mildly Exp	Expansionary	Neutral	Neutral
• Trend	Down	Down	Up	Down	Down	Down	Down

Source: U.S. Bank Asset Management Group analysis.
Data: as of March 31, 2022, unless otherwise noted.
Growth rates represent year-over-year gross domestic product (GDP) growth.

Global Lockdown Stringency Indexes

Mobility and activity restrictions remain uneven across major global economies.



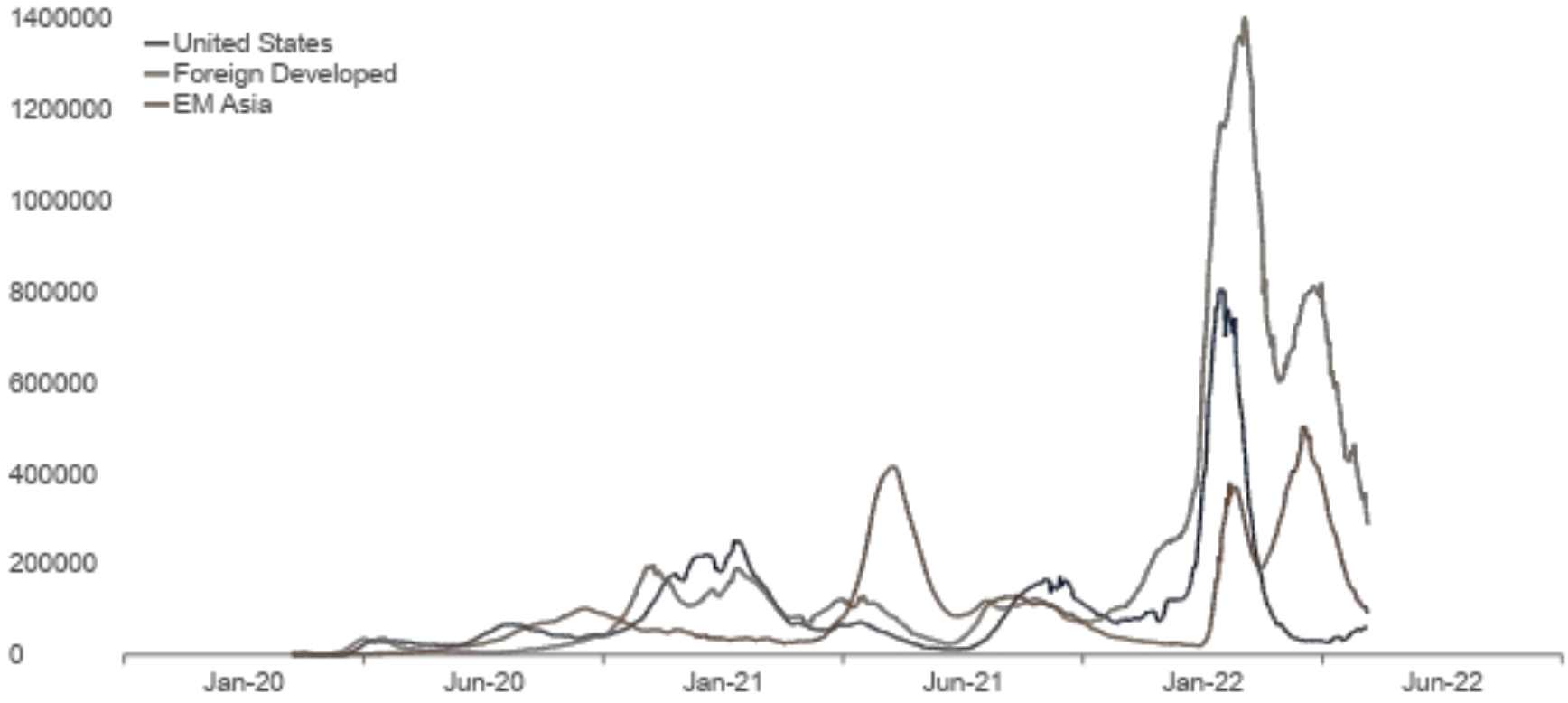
Source: U.S. Bank Asset Management Group analysis, Bloomberg data from Blavatnik School at Oxford, Data period: January 2020-April 29, 2022.

Note: The index records the strictness of 'lockdown style' policies that primarily restrict people's behavior. It is calculated using all ordinal containment and closure policy indicators, plus an indicator recording public information campaigns. Nine total response indicators are used, including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 being the strictest).

COVID-19 case growth by region through May 5, 2022

The Omicron variant wave is receding across global economies; while U.S. growth is ticking higher, case counts remain modest relative to previous waves. Policy responses such as vaccination progress and activity and mobility restrictions have been uneven across foreign developed and emerging economies.

Confirmed COVID-19 cases
(Daily infection increase by region, seven-day average)

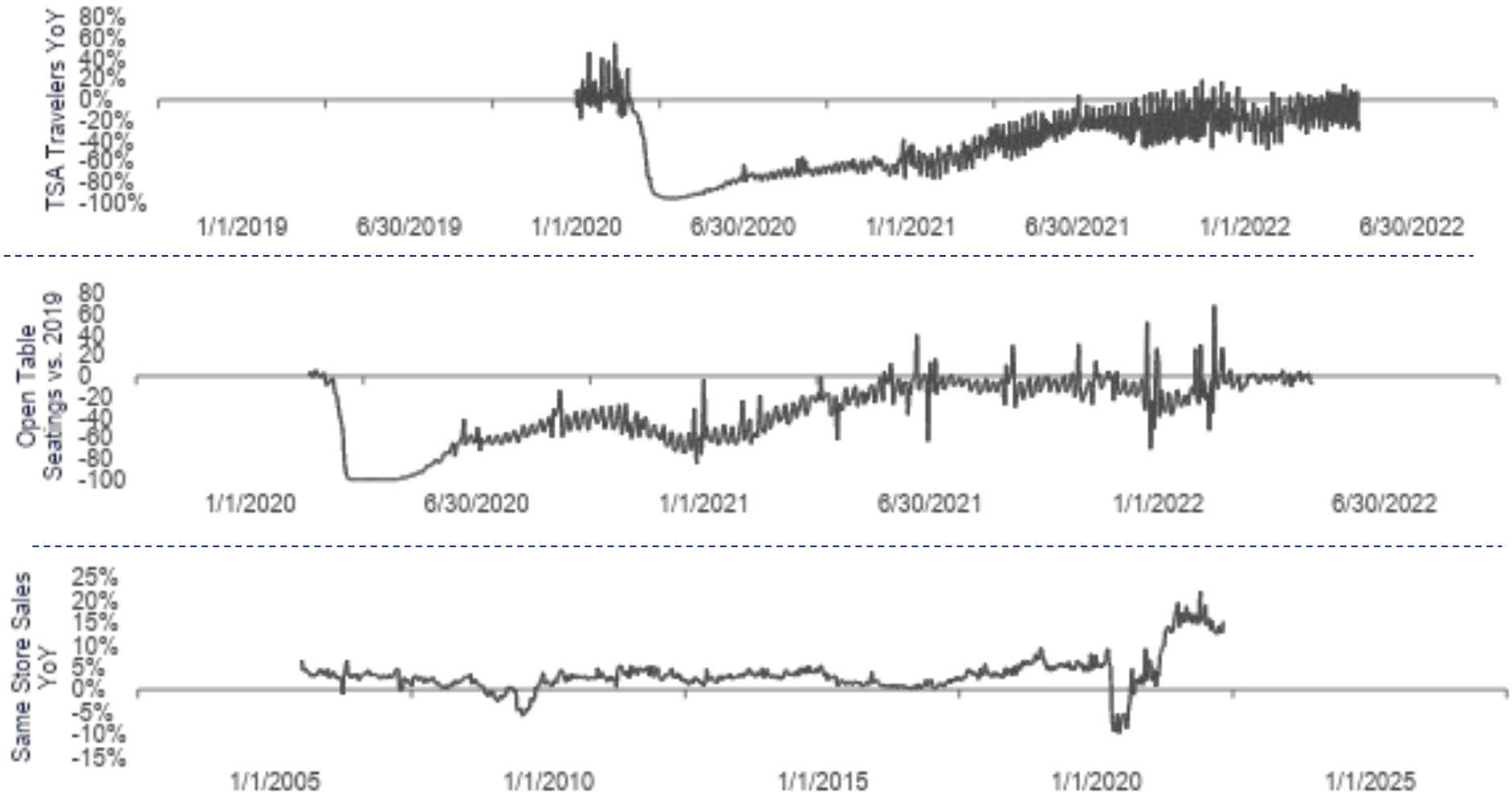


Source: Johns Hopkins CSSE. Data as of January 31, 2020-May 5, 2022.

Please refer to disclosures in the appendix.

Leading reopening indicators

Consumer spending and some leisure activities have fully recovered from extremely depressed conditions, reflecting consumers' still healthy balance sheets and demand shift toward experiences.



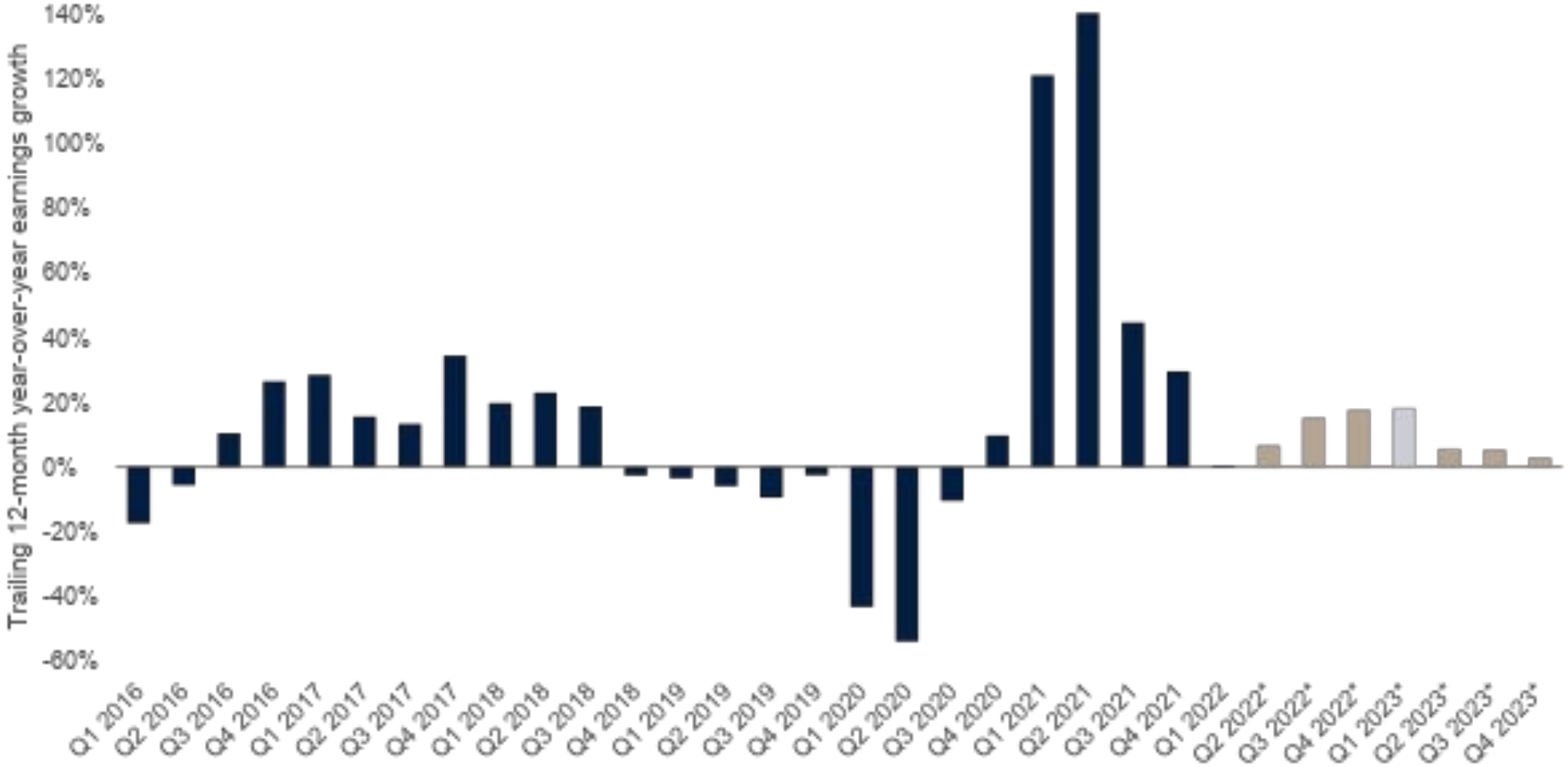
Source: U.S. Federal Reserve Redbook; Transportation Security Administration; and Open Table, Data as of October 29, 2020-May 4, 2022.

Please refer to disclosures in the appendix.

Fundamentals: Global equity earnings

Corporate profit growth slowed in 2022's first quarter amid the Omicron variant surge, supply chain challenges and tougher comparisons to rapid growth rates in 2021. The price investors are willing to pay for positive but slowing earnings growth as central banks combat inflation remains key in 2022.

MSCI All Country World Index



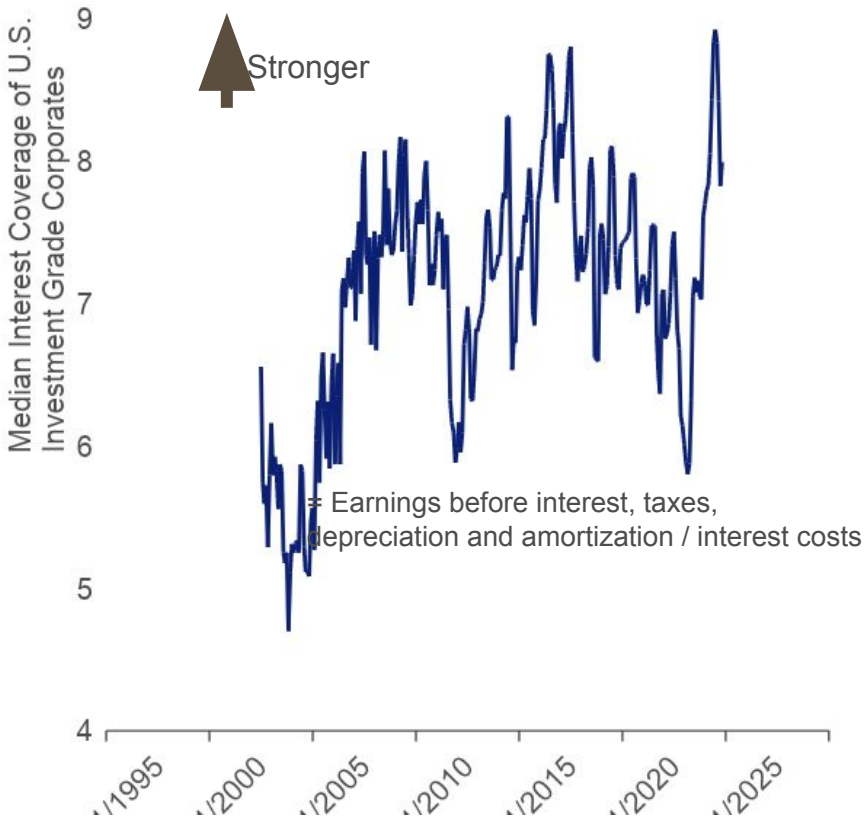
Source: U.S. Bank Asset Management Group analysis, FactSet Research System. Data: 1Q 2016 through 4Q 2024. *Projected earnings as of May 6, 2022.

Please refer to disclosures in the appendix.

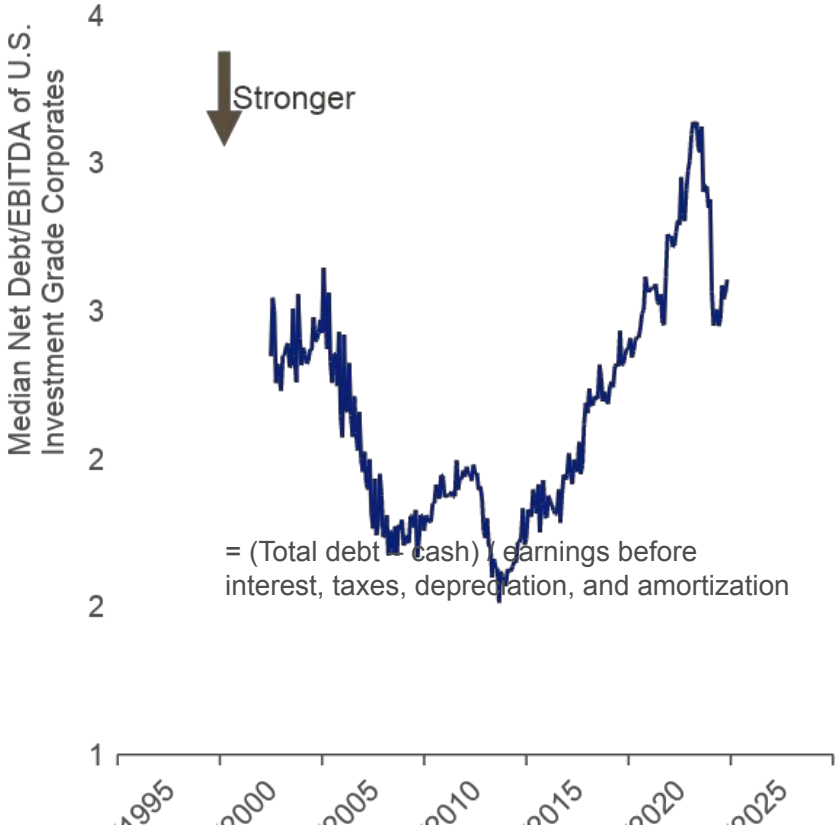
Strong fundamentals highlight companies' ability to service debt

U.S. companies' ability to make interest payments (interest coverage ratio) improved in 2021 due to rising earnings and low borrowing costs. Debt relative to earnings (debt to EBITDA ratio) fell as earnings rose in 2021, indicating reasonable corporate debt loads.

Interest coverage



Net Debt / EBITDA



Source: U.S. Bank Asset Management Group analysis, Bloomberg data: December 1999-April 30, 2022.

Please refer to disclosures in the appendix.

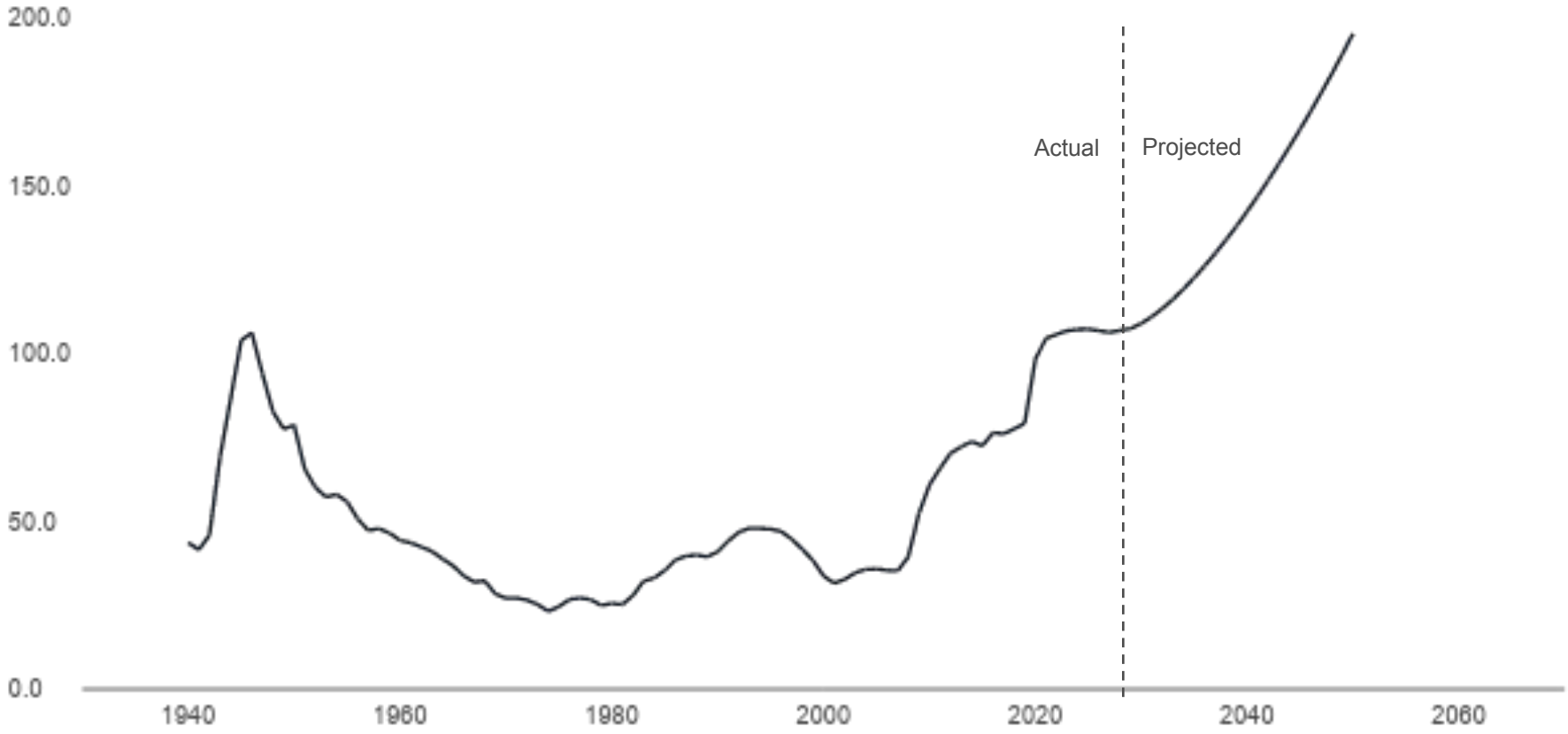
Intermediate and longer-term considerations

Deficit outlook: When will the bill come due?

An update to the budget and economic outlook

This visual update represents the Congressional Budget Office's (CBO) projections factoring in the COVID-19 stimulus and hit to Treasury's revenues due to the recession. The CBO expects a reduced budget deficit going into the 2030s, at which point entitlements take over and cause the deficit to rise again.

Federal debt held by the public and projected as a percentage of GDP
(2020-2051)



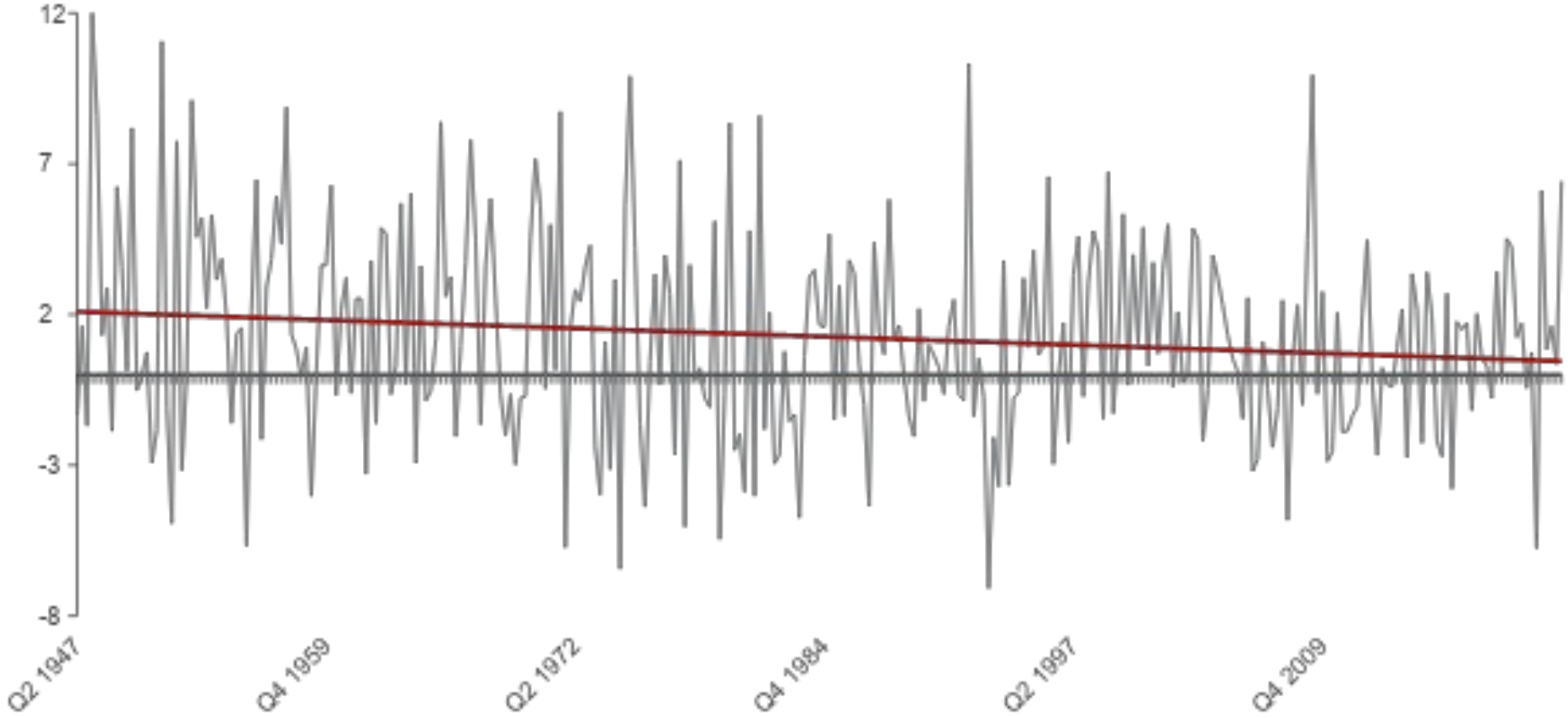
Source: Congressional Budget Office. Data: March 2021.

Please refer to disclosures in the appendix.

Long-term economic consideration #1: Productivity

Lower productivity levels mean less growth potential relative to historical norms, as the red trendline suggests.

Total factor productivity: United States



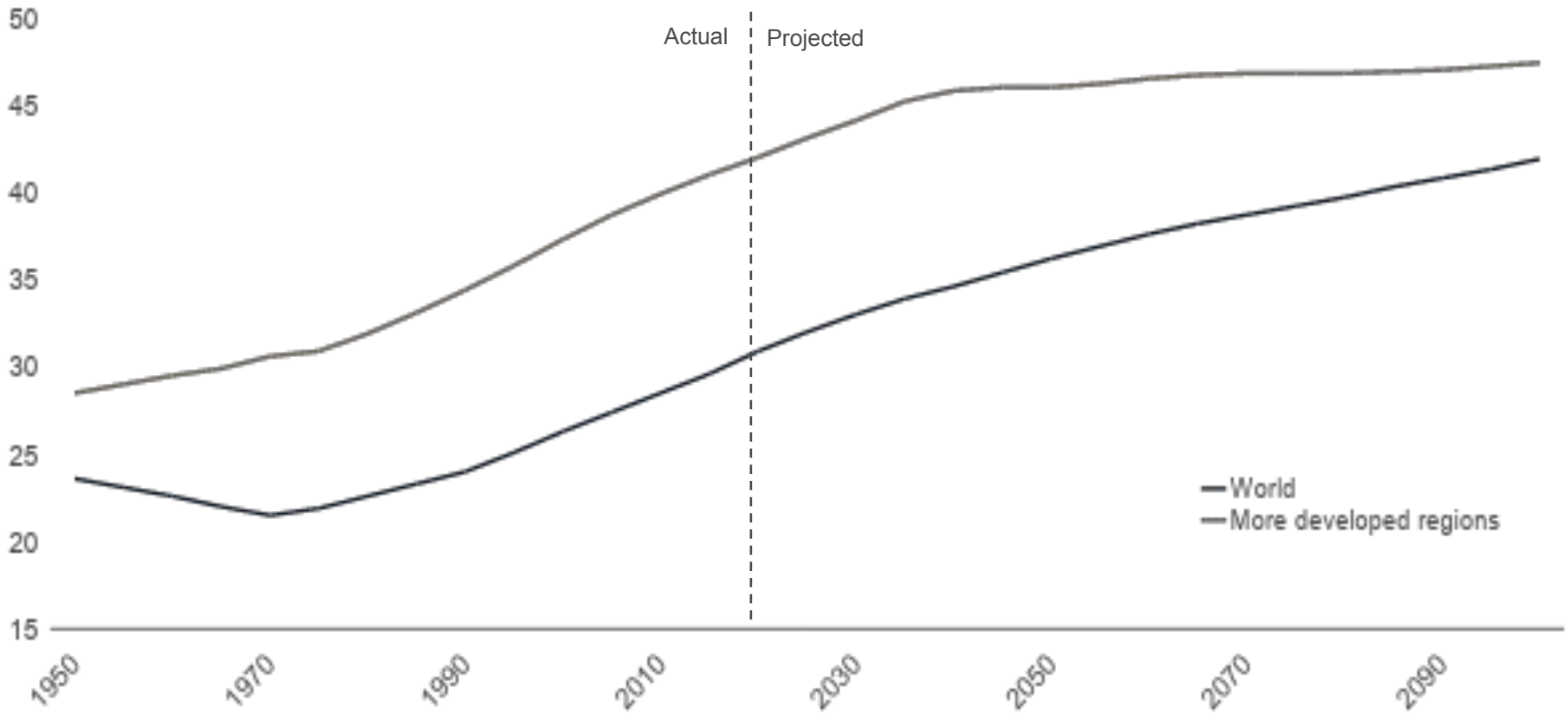
Source: U.S. Bank Asset Management Group analysis, Federal Reserve Bank of San Francisco. Data period: 2Q 1947-4Q 2021.

Please refer to disclosures in the appendix.

Long-term economic consideration #2: Global demographics

Aging populations tend to have less consumption growth, which could impact corporate profits.

Median age of population



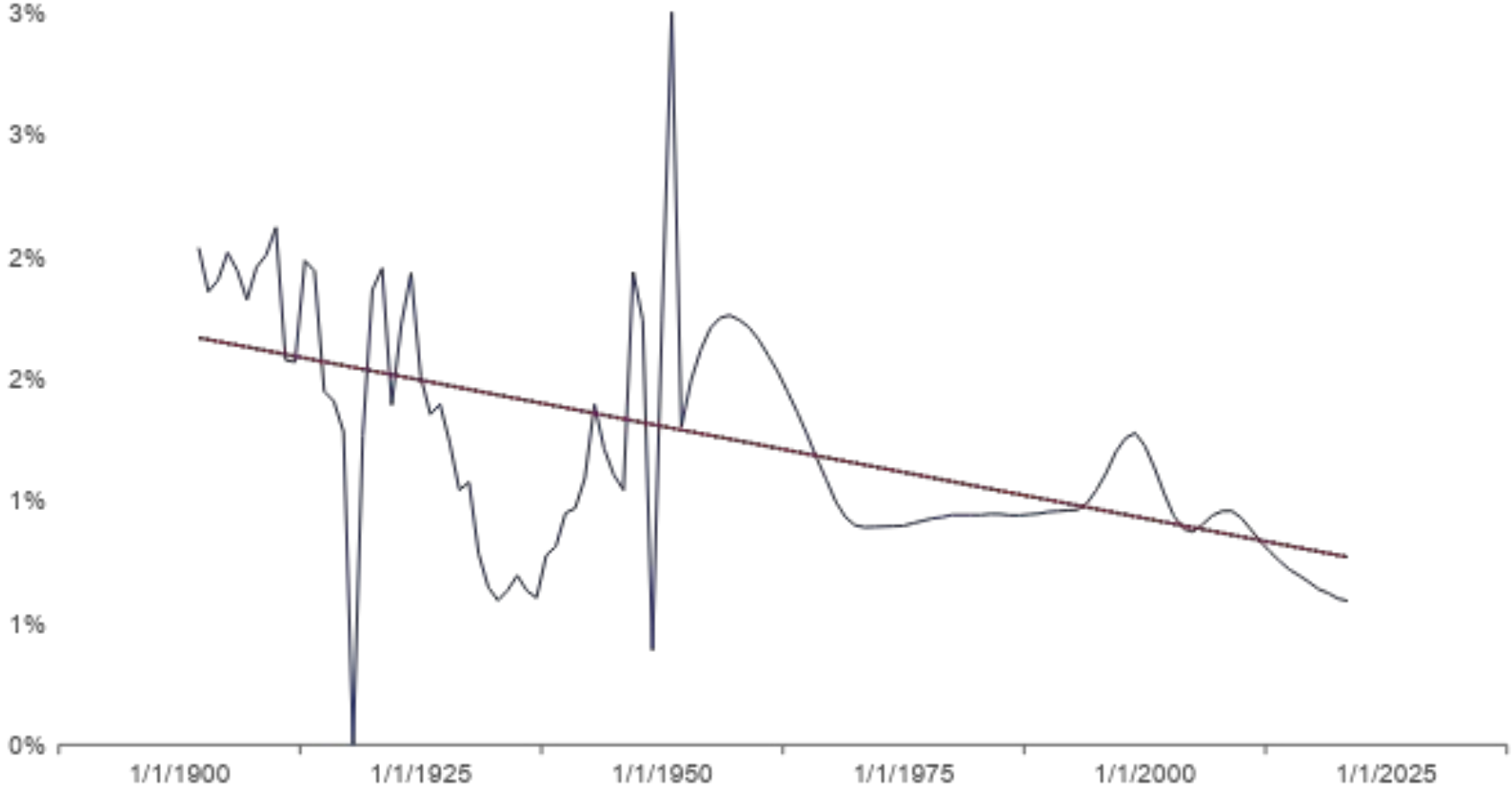
Source: The United Nations Department of Social and Human Affairs. Data period: 1950-2018 (actual). Projections from 2019 to 2100 (as of 2020).

Please refer to disclosures in the appendix.

Long-term economic consideration #3: U.S. demographics

Outside of the post-World War II baby boom, U.S. population growth has been in a structural decline since the turn of the 20th century. Recent data suggest the COVID pandemic further exacerbated the downtrend.

U.S. annual population growth*
(1900-2020)



Source: Bloomberg and the U.S. Census Bureau, 2021.
*Graphic excludes surge in births in 1950 to provide a more detailed picture of demographic trends outside that data point.

Please refer to disclosures in the appendix.

Conclusions

The bottom line

Policy, growth and earnings are our immediate focal areas.

Capital markets expect some tightening to occur, but policy overreach risks could upset a key asset price driver. The potential for sticky inflation outside of central bank control, particularly as the Ukraine invasion persists, could embolden more tightening than markets can withstand.

2022 will be a news-heavy year, requiring clients to focus on longer-term objectives.

Global monetary policy meetings, a key year in Chinese leadership, U.S. midterm elections and the usual list of economic and company earnings releases within a 24/7 news cycle offer many opportunities for noise. We encourage clients to focus on their unique circumstances and how we can help increase the odds of success.

Important disclosures (page 1 of 4)

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Performance reports included may show performance results gross of fees and expenses. If fees and expenses were included, the performance would be lower. If you have any questions, please speak with your relationship manager for additional information.

Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio. **Diversification and asset allocation do not guarantee returns or protect against losses.**

Important disclosures (page 2 of 4)

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. **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. **Stocks of mid-capitalization companies** can be expected to be slightly less volatile than those of small-capitalization companies, but still involve substantial risk and may be subject to more abrupt or erratic movements than large-capitalization companies. 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. **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 differences 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.

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). There are special risks associated with an investment in **commodities**, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors**.**

Investments in **fixed income securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Investment in fixed income securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term 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.

Important disclosures (page 3 of 4)

The **municipal bond** market is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issues 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. **Treasury Inflation-Protected Securities (TIPS)** offer a lower return compared to other similar investments and the principal value may increase or decrease with the rate of inflation. Gains in principal are taxable in that year, even though not paid out until maturity.

Non-financial **specialty assets**, such as real estate, farm, ranch and timber properties, oil, gas and mineral interests or closely-held business interests are complex and involve unique risks specific to each asset type, including the total loss of value. Special risk considerations may include natural events or disasters, complex tax considerations and lack of liquidity. Specialty assets may not be suitable for all investors.

Alternative investments very often use speculative investment and trading strategies. There is no guarantee that the investment program will be successful. Alternative investments are designed only for investors who are able to tolerate the full loss of an investment. These products are not suitable for every investor even if the investor does meet the financial requirements. It is important to consult with your investment professional to determine how these investments might fit your asset allocation, risk profile and tax situation. **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. **Exchange-traded funds (ETFs)** are baskets of securities that are traded on an exchange like individual stocks at negotiated prices and are not individually redeemable. ETFs are designed to generally track a market index and shares may trade at a premium or a discount to the net asset value of the underlying securities. **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. **Structured products** are subject to market risk and/or principal loss if sold prior to maturity or if the issuer defaults on the security. Investors should request and review copies of Structured Products Pricing Supplements and Prospectuses prior to approving or directing an investment in these securities.

Important disclosures (page 4 of 4)

Mutual fund investing involves risk and principal loss is possible. Investing in certain funds involves special risks, such as those related to investments in small- and mid-capitalization stocks, foreign, debt and high-yield securities and funds that focus their investments in a particular industry. Please refer to the fund prospectus for additional details pertaining to these risks. An investment in **money market funds** is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although these funds seek to preserve the value of an investment at $1.00 per share, it is possible to lose money by investing in these funds.

Holdings of First American Funds: U.S. Bancorp Asset Management, Inc. is a registered investment advisor and subsidiary of U.S. Bank National Association. U.S. Bank National Association is a separate entity and wholly owned subsidiary of U.S. Bancorp. U.S. Bank is not responsible for and does not guarantee the products, performance or services of U.S. Bancorp Asset Management. U.S. Bancorp Asset Management, Inc. serves as an investment advisor to First American Funds. **Holdings of Nuveen mutual funds**: Firstar Capital Corporation (Firstar Capital), an affiliate of U.S. Bancorp, holds a less-than-10 percent ownership interest in Windy City Investments Holdings, LLC which was formerly the parent of Windy City Investment Inc. and the indirect parent of Nuveen Fund Advisors, LLC which is the investment advisor to the Nuveen Mutual Funds. On October 1, 2014, Windy City Investments, Inc. was sold to Teachers Insurance and Annuity Association of America. As a result of the sale, U.S. Bancorp no longer has an indirect ownership interest in Nuveen Fund Advisors, LLC. Depending on the outcome of certain factors, Firstar Capital might in the future receive an earn-out payment in respect of its interest in Windy City Investment Holdings, LLC, under the terms of the sale. **Non-proprietary mutual funds**: U.S. Bank may enter into agreements with other non-proprietary mutual funds or their service providers whereby U.S. Bank provides shareholder services and/or sub-transfer agency, custodial and other administrative support services and receives compensation for these services. Compensation received by U.S. Bank directly or indirectly from mutual funds does not increase fund fees and expenses beyond what is disclosed in the fund prospectuses. For more information, review the fund prospectus.

Appendix

This information represents the opinion of U.S. Bank Wealth Management. The views are subject to change at any time based on market or other conditions and are current as of the date indicated on the materials. This is not intended to be a forecast of future events or guarantee of future results. It is not intended to provide specific advice or to be construed as an offering of securities or recommendation to invest. Not for use as a primary basis of investment decisions. Not to be construed to meet the needs of any particular investor. Not a representation or solicitation or an offer to sell/buy any security. Investors should consult with their investment professional for advice concerning their particular situation. The factual information provided has been obtained from sources believed to be reliable, but is not guaranteed as to accuracy or completeness. U.S. Bank is not affiliated or associated with any organizations mentioned.

Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio. Diversification and asset allocation do not guarantee returns or protect against losses.

Past performance is no guarantee of future results. All performance data, while obtained from sources deemed to be reliable, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for direct investment, nor are they subject to fees and expenses. The **S&P 500 Index** consists of 500 widely traded stocks that are considered to represent the performance of the U.S. stock market in general. 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 **MSCI World Index** tracks equity market performance of developed markets through individual country indices. The **Consumer Price Index** (**CPI**) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. The **Personal Consumption Expenditures (PCE) Price Index** measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends. The **Bloomberg Barclays U.S. Corporate High Yield Bond Index** measures the U.S. dollar denominated, high yield, fixed-rate corporate bond market. The **Bloomberg Barclays 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. The **Bloomberg Commodity Index** tracks prices of futures contracts on physical commodities in the commodity markets and is designed to minimize concentration in any one commodity or sector. The **Bloomberg Barclays Global Aggregate Index** measures **global** investment grade debt from 24 local currency markets. This multi-currency benchmark includes Treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. The **Wilshire U.S. REIT Index** is a broad measure of the U.S. real estate securities markets and a subset of the Wilshire Real Estate Securities Index and includes only Real Estate Investment Trusts (REITs). **West Texas Intermediate** (WTI) crude oil is the underlying commodity of the New York Mercantile Exchange's oil futures contracts. The **U.S. Dollar Index** (DY) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.

Appendix

The **Trade-Weighted Dollar Index** was created by the Federal Reserve to measure the value of the U.S. dollar based on its competitiveness versus trading partners. The **Bloomberg Barclays U.S. Commercial Mortgage-Backed Securities (CMBS) Investment Grade Index** measures the market of conduit and fusion CMBS deals, with a minimum current deal size of $300 million. **The S&P Global Leveraged Loan Index** is designed to measure the performance of the global senior loan market. This fixed-weight index is 75% weighted in the S&P/LSTA Leveraged Loan Index and 25% weighted in the S&P European Leveraged Loan Index. The **Chicago Board Options Exchange (CBOE) Crude Oil ETF Volatility Index** (Oil VIX) measures the market's expectation of 30-day volatility of crude oil prices. The **ICE BofAML MOVE Index** measures the implied yield volatility of a basket of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries. The **Chicago Board Options Exchange (CBOE) Volatility Index (VIX)** measures the market's expectation of 30-day volatility and is a widely used measure of market risk and is often referred to as the "investor fear gauge." The **Russell 2000 Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index and is representative of the U.S. small capitalization securities market. The **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The **Russell 2000 Value Index** measures the performance of those Russell 2000 Index securities with lower price-to-book ratios and lower forecasted growth values and is representative of U.S. securities exhibiting value characteristics. The **NASDAQ Composite Index** is a market-capitalization weighted average of roughly 5,000 stocks that are electronically traded in the NASDAQ market.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. **International investing** involves special risks, including foreign taxation, currency risks, risks associated with possible differences 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. Investments in **fixed income securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Investment in fixed income securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term 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. 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).