



The first quarter of 2024 reflected increasingly positive investor sentiment as a consequence of increasingly positive economic fundamentals. From US corporate earnings growth to fixed income credit spreads, investors are optimistic about the coming quarters. Read on for our view on various parts of the investment universe.

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- A soft landing – where the Federal Reserve slows the economy enough to quell inflation but not so much that it causes a recession – looks increasingly likely
- This setup is reminiscent of the mid-1990s when the Fed successfully executed a soft landing. This period coincided with the emergence of a transformative new technology – the Internet

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- Earnings estimates for the full year suggest that growth will accelerate throughout the year, and that growth will broaden beyond the high-tech stocks comprising the Magnificent 7 — Apple, Microsoft, Nvidia, Alphabet, Amazon, Meta, and Tesla

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- As we expected, inflation has been higher than the market had assumed, which has driven interest rates higher
- At the same time, credit spreads have tightened, reflecting investors' confidence that the economic backdrop remains strong

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- We examine various segments of the private equity asset class, with a particular focus on structures accessible to Accredited Investors and Qualified Clients

2 TACTICAL ASSET ALLOCATION POSITIONING

Overweight

Neutral

Underweight

No Exposure

EQUITIES

US Large Cap	Large-cap stocks represented clear market leadership during 2023. More specifically, the 7 largest companies' stocks (the Magnificent 7) drove most of the market-cap-weighted S&P500 Index's return. Concern about this dynamic had us adding exposure to cheaper, value stocks for diversification purposes. We still have significant exposure to the Magnificent 7, given their leadership status and near-term ability to capitalize on artificial intelligence. Related, we continue to favor US companies in general, despite the fact the Magnificent 7 makes the index look "expensive." Importantly, the broader universe of US large caps exhibits reasonable valuations and 4Q23 finally saw them participating fully in the market rally.
US Mid Cap	We remain overweight mid-caps despite the fact they lagged both large- and small-cap indices in 2023. While large-caps offer financial stability, they're often mature companies exhibiting slow growth. Small-caps offer fast growth but high volatility. Mid-caps offer a nice balance between the two. Notably, mid-caps now trade at a large discount to large-caps having averaged a slight premium over the past 25 years.
US Small Cap	Small-caps are hurt by higher interest rates more than large-caps because they often seek more bank lending. This is why they suffered so much during 2023 as interest rates rose to multi-decade highs. Trading at a large discount to large-caps, small-caps look attractive, although they really need interest rates to come down materially to durably outperform. Importantly, the best time to overweight small-caps historically has been as the economy comes out of recession—and the US economy hasn't even fallen into one yet. If it does in 2024 (something we no longer expect) we plan to increase our allocation.
Intl Developed Large Cap	Developed international equities appear attractive on a valuation basis, as they reflect a significant valuation discount versus US counterparts. The disappointing recovery in China has resulted in tepid economic growth across developed economies, however, which has tempered the positive economic and stock market momentum that was evident back in early 2023. In addition, persistent US dollar strength remains a headwind to US investors realizing the long-term opportunity of higher returns internationally based on lower starting valuations. A material uptick in Chinese economic growth and/or US dollar weakness would certainly help.
Intl Dev Small Cap	We eliminated exposure to this asset class in the summer of 2022. Smaller international companies are more exposed to the geopolitical issues impacting Europe and other developed international economies.
Emerging Markets	Broad emerging market equity exposure hasn't made sense for some time now, given the largest country weight in the index – China at 20% – has been slowing down materially, first based on COVID-19 and now due to a rolling real estate crisis. To make matters worse, its relationship with the US remains fraught. US dollar strength is yet another headwind and that, in addition to political risk, led us to eliminate our exposure in mid-2021.

FIXED INCOME

US Treasurys	Interest rates have risen across all maturities, making US Treasurys more attractive as a hedge against an economic downturn. We are opportunistically increasing our exposure in maturities less than ten years.
US TIPS	We have maintained an allocation to short-term TIPS to hedge against higher, more persistent inflation. Over the last several months, inflation pressures have been slowly resurfacing, leading to solid relative returns for the sector. We will remain allocated to TIPS as long as inflation remains elevated, or a better investment opportunity arises.
US Agencies	US agencies offer minimal additional yield compared to US Treasurys. They are also less liquid and some lack the state tax exemption of Treasurys. Thus, we currently have no allocation.
US Corporates	Resilient US economic growth has caused corporate yield spreads to tighten to modestly overvalued levels. Even so, nominal yields are attractive, and the incremental yield over comparable US Treasurys is additive to portfolio returns. We are selectively choosing the bonds of issuers that are well-equipped to handle any softening in the US economy.
High Yield	We currently have no exposure to the traditional, syndicated High Yield asset class. Within this sector, credit fundamentals remain solid and funding conditions remain favorable for companies. Tight credit spreads, which are well below their long-term median values, have us waiting opportunistically for a chance to allocate here.
Floating Rate	Bank stress ramped up sharply in March 2023 and, given tightening financial conditions and banking sector issues, we eliminated our exposure to floating rate bank loans. We added to investment grade floating rate notes for their ability to preserve principal when short-term interest rates are rising.
Emerging Markets	With low growth and credit concerns outside the US, we continue to remain within the US for our fixed income exposure, as a defensive measure. US dollar strength on rising interest rate differentials has supported this posture.
Private Credit /Preferred Equity	Private credit offers an attractive yield and benefits from major banks' recent exit from various credit businesses. It maintains strong underlying issuer credit quality. We are using private credit for accredited clients and maintaining exposure to preferred stocks for clients that qualify for participation in the private credit fund we're using.

ALTERNATIVES

Commodities	2022's elevated inflation made commodities look attractive as a hedge. The Fed's success in bringing inflation back down has resulted in our elimination of exposure to commodities in early 2024.
Real Assets	This asset class offers attractive yields after inflation relative to bonds. It also improves diversification in portfolios and will likely dampen volatility in an environment of rising interest rates and/or inflation.

Positive economic surprises continued in the first quarter of 2024, after economists and market strategists were proven near-universally wrong in 2023. Most economists expected a significant recession in 2023 – with negative implications for stocks – but the Standard & Poor’s 500 Index rallied 26% instead. As 2024 dawned, most market participants, including us, remained skeptical, believing that stocks were ahead of themselves after 2023’s torrid rally. Right on cue, the S&P 500 tacked on another 10.6% total return in the first quarter of 2024. That resulted in the best first-quarter performance since 2019 and the 14th best since 1926, according to Ned Davis Research. Much like the big Federal Reserve (Fed) pivot-induced rally of late 2023, first quarter gains were broad-based, with large-, mid-, and small-cap indices, growth and value styles, and ten of the eleven S&P 500 sectors all showing positive returns. As one of our best independent research providers likes to say about market forecasts, “Nobody knows nuttin’!”

Interestingly, and very much in line with the quote above, the big first quarter equity rally wasn’t driven by Fed interest rates cuts and falling longer-term interest rates. Rather, it was driven by a persistently strong US economy and intensifying excitement around the development of artificial intelligence (AI). In fact, stocks got zero help from interest rates in the first quarter, as inflation remained sticky and interest rates rose during the quarter, leading to a negative 0.18% total return for the Bloomberg Intermediate US Government/Credit Index. As we suggested in this space last quarter, our working assumption is that markets today are acting very much as they did in the mid-1990s, which was the last time the Fed successfully executed a soft landing, i.e., slowing the economy enough to bring inflation under control without inducing a recession. It’s likely not a coincidence that we’re now also in the early stages of the deployment of a revolutionary new technology (AI), much as we were in 1995 when the commercial internet was born. In 1994, the Fed raised interest rates several times, leading near-100% of economists and market strategists to expect a recession in 1995, as well as the end of the great bull market that began under Ronald Reagan in the early 1980s. The

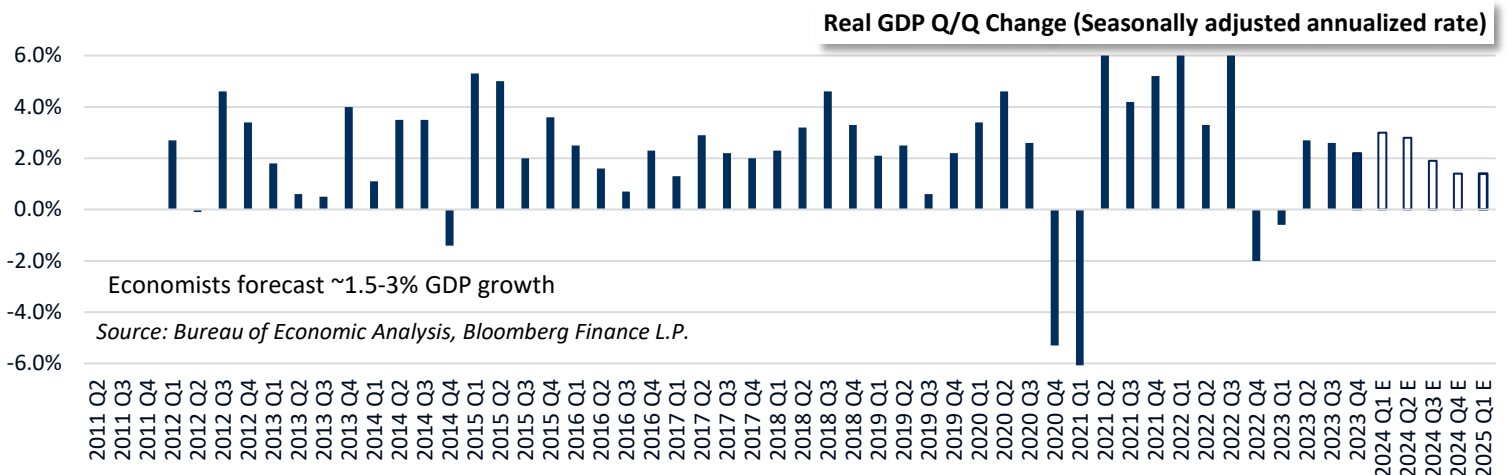
emergence of the internet and its buildout, however, derailed those forecasts and led instead to five straight years of 20%-plus total returns for the S&P 500 for the first time in its history. While certainly not suggesting we’re now in the throes of a bull market of that magnitude, we do feel the AI buildout and deployment has the potential to keep the surprises positive going forward. As Mark Twain said, “History doesn’t repeat itself, but it often rhymes.”

Given the above, we expect moderate economic growth of 2-3% in the US this year, while inflation reluctantly drifts lower, towards the Fed’s 2% target. While we believe the Fed Funds Rate has peaked for this cycle and that the Fed will cut rates in 2024, we also believe that persistent economic strength and sticky inflation will cause the Fed to cut rates less than the market currently expects.

As such, our asset allocation targets remain in a pro-risk stance. By that we mean we are fully allocated to equities (barbelled between some of the Magnificent Seven for AI exposure and other, cheaper equity segments like mid-cap, small-cap, and developed international equities) and, while underweight bonds overall, within the fixed income portfolios we are overweight credit. As we wrote last quarter, given today’s higher yields we believe bonds can once again fulfill their historical role in portfolios, namely that of providing income and downside protection. Having said that, we continue to hold 4-5% of total portfolios – sourced from the fixed income portion of the portfolio – in real estate and other real assets, for diversification purposes and as a hedge against the potential sticky inflation alluded to earlier. Finally, we’re currently overweight cash, given it yields 5%-plus and that we believe the Fed will be slower to lower short-term rates than many expect. ■

History doesn’t repeat itself, but it often rhymes.

–Mark Twain



4 EQUITY MARKET OUTLOOK

While our outlook for equities at the beginning of the year was optimistic, the global equity market continues to exceed expectations. The S&P 500 continues to lead the equity market and posted a return of 10.6% in the quarter on top of the 11.7% return in the prior quarter. The market has rallied so furiously over the past six months that it now looks as though it could be vulnerable to a short-term correction even though earnings growth has returned as expected and valuations remain reasonable in many equity market segments. We remain optimistic that shares will continue to follow earnings higher over the long term although we also still expect some volatility as we work through the balance of 2024.

One dynamic that has continued from 2023 into the first quarter of 2024 has been the extraordinary performance of shares linked to AI since it first captured investors' imagination with the debut of ChatGPT some 18 months ago. Nvidia shares remain a focal point in this area, which soared 82% during the quarter after a whopping 239% return in 2023. Nvidia's shares have appreciated so much that it is now the third largest component of the S&P 500 with a 5% weight and is having an outsized impact on the market. It has been responsible for almost a quarter of the S&P 500 Index return so far in 2024. At the same time, the so-called "Magnificent Seven" largest companies in the S&P 500 (Apple, Microsoft, Nvidia, Alphabet, Amazon, Meta, and Tesla) that often moved in unison in 2023, experienced a wide range of outcomes in the first quarter. Some of this cohort (Apple and Tesla) posted notable declines, others posted market-like returns (Microsoft and Alphabet) and only three (Nvidia, Meta, and Amazon) meaningfully outperformed the S&P 500.

While the paths of the Mag7 have begun to diverge, the rest of the market has begun to post more attractive relative performance, which seems justified based on the improving earnings growth potential that we noted in our last update. The chart at right highlights consensus earnings growth expectations for the S&P 500 by sector for the first quarter and the year as a whole. The first quarter looks like a continuation of 2023 with growth primarily limited to the Consumer Discretionary, Communication Services, and Technology sectors (the sectors dominated by the Mag7). The outlook for the year as a whole looks quite different with meaningful contributions from most sectors, fading headwinds from the commodity, staples, and healthcare sectors that have seen earnings decline over the past year, and overall S&P 500 earnings growth accelerating from 5% to 10%.

Factor leadership by size, style, and geography in the stock market followed the same pattern as earnings growth in the first quarter with large US growth companies continuing to lead global equity

markets as they did in 2023. If the early investments in artificial intelligence prove to significantly enhance productivity as expected, these companies may continue to thrive as the investment cycle in AI gradually becomes more durable and broadens out to include more and more industries. These leading technology companies do not appear to be in a "bubble" or "mania" because while their valuations are elevated, they are not detached from fundamentals. These companies are incredibly profitable, enjoy dominant market positions and balance sheets, and their earnings have grown as much if not more than their stock prices. In terms of simple valuation metrics like Price/Earnings (P/E) ratios, only two of the Mag7 stocks are trading meaningfully above their five-year median (Microsoft and Meta trade at 12% and 19% premiums, respectively, to their five-year median P/E) and none of them are approaching a record P/E ratio. At this point, the primary risk for these companies relates to the durability of their earnings. We continue to seek out a balanced approach that selectively participates in the earnings of these leading companies while maintaining a prudent level of diversification.

Our outlook for 2024 remains intact and is somewhat improved by a stronger-than-expected start to the year. The companies associated with AI investment appear well-appreciated and seem likely to continue to rise along with their earnings, but their relative advantage may be eroded somewhat as earnings growth accelerates and broadens out to include more of the market. The underlying strength of the economy still seems to be underestimated, which leaves room for much of the market to do some catching up. We remain wary of political, geopolitical, fiscal, and monetary policy risks that could provide catalysts for volatility at any time. In the meantime, we continue to remain fully invested in equities with a diversified approach tilted toward companies and areas that provide sufficient quality and growth potential to compensate for some short-term risk. ■

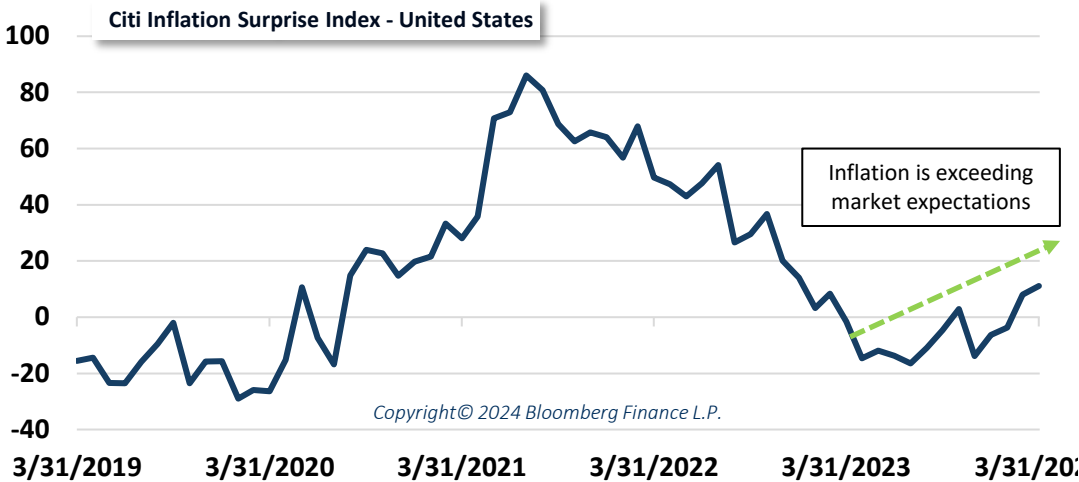
Consensus Earnings and Revenue Growth Forecasts

Source: MRB Partners © 3/2024	Earnings Growth (%YoY)		Revenue Growth (%YoY)	
	Q1-2024	FY-2024	Q1-2024	FY-2024
Communication Services	26.8	16.9	6.5	13.3
Consumer Discretionary	17.2	11.2	5.4	12.6
Consumer Staples	-1.4	6.2	1.5	9.6
Energy	-25.8	-7.6	-4.7	4.7
Financials	4.8	6.5	2.3	9.3
Health Care	-5.0	15.1	6.3	13.5
Industrials	3.8	9.0	3.2	11.2
Information Technology	19.7	15.8	6.4	15.6
Materials	-22.9	-1.5	-4.9	6.8
Real Estate	4.3	4.4	6.9	13.8
Utilities	18.1	12.0	-0.6	9.3
S&P 500	5.0	9.9	3.3	11.3
S&P 500 ex Energy	8.1	11.4	4.0	11.9

Within fixed income markets, our yearly themes began to materialize in the first quarter. Namely, our expectations for 2024 included persistent inflation, tight credit spreads, rising rates, and deficit concerns. With respect to inflation, Citigroup's Inflation Surprise Index measures whether inflation data has been above or below the market's expectations, and the trend in this indicator has clearly been higher since the start of the year. Inflation in services has been the main culprit, likely because this area is less sensitive to higher interest rates. Credit spreads also continue to tighten as the economy remains

positively with market optimism and an appetite for risk. In the first quarter, \$529 billion worth of US investment grade bonds were issued, which is an all-time record and is also 27% higher than the five-year average for the same period. High yield credit issuers sold \$84.6 billion of debt to investors, the highest first quarter total since 2021. High yield bond returns are another sign of the strength of today's credit markets. Despite rising interest rates in the first quarter, which are negative for bond returns, every high yield rating category delivered positive returns. The standout category was the CC-D rating category,

which returned 13.23% in the first quarter – a very large return for a bond asset class. This risky rating category is comprised of the lowest-rated bond issuers, some of which are on the verge of default, but these hefty returns show how exuberant the market has become. Overall, we hold a positive outlook for corporate credit, and yet there is a fine line in the market between enthusiasm and overoptimism. We continue to select high quality investments methodically – within corporate credit – while balancing risk and



resilient. Despite high yield spreads starting the quarter well below their ten-year average, they have tightened another 30 basis points (0.30%) in the first quarter. The Bloomberg US Corporate High Yield Index spread is expressed as an incremental yield spread over a comparable maturity US Treasury and helps indicate the amount of funding stress in credit markets. This measure currently stands at 301 basis points (3.01%) versus its 30-year median of 432bps. The 30-year low value for this measure is 235bps, which occurred in 1997. With regard to interest rates, the 10-year Treasury yield declined sharply at the end of 2023 when the market was forecasting that the Fed would cut interest rates six times in 2024. With aggressive cuts priced in, the 10-year Treasury yield started the year at 3.92%. We always believed that expectations for several rate cuts would prove to be too many, given the backdrop of persistent inflation and steady economic growth. Currently, the market has adjusted to expect only three rate cuts in 2024 and the 10-year Treasury yield has subsequently risen back to 4.39%. We still expect that our final theme of election volatility and deficit concerns will be important later in the year and may cause interest rates to move higher.

opportunity.

The municipal bond market continued to see elevated interest from investors in the first quarter, continuing the 2023 trend. The ICI Municipal Bond Mutual Fund and ETF Weekly Flows Index have shown positive weekly flows in ten out of the first twelve weeks of the year. Even though municipal bonds look overvalued historically versus comparable Treasuries, investors have been attracted by both high nominal yields and the increased value of the municipal tax exemption at these elevated yields. Some could also be taking the view that the Trump tax cuts, enacted in 2017, will not be extended and will expire in 2025, making tax-exempt municipal bonds even more appealing. Overall, credit quality in the municipal sector has been stable, with a generally favorable ratio of bond upgrades to downgrades. Strikingly, in 2023 there were two notable bond upgrades to the previously maligned state of Illinois and city of Chicago, showing how much municipal finances have improved over the last several years. We continue to look for attractive bonds and opportunistic entry points at which to invest in municipal bonds, a sector that we expect will continue to hold appeal for investors. ■

While we vigilantly watch for signs of economic weakness, we are heartened by credit conditions and trends in the corporate bond and municipal bond markets. In addition to tightening credit spreads, the first quarter was characterized by a record amount of corporate bond issuance. This is a positive sign because increased issuance tends to correlate

US High Yield Bond Returns by Credit Rating (Y-T-D, %)

BB	1.13%	Bloomberg Ba US High Yield Index
B	1.36%	Bloomberg B US High Yield Index
CCC	2.14%	Bloomberg Caa US High Yield Index
CC-D	13.23%	Bloomberg Long Ca to D US High Yield Index

News headlines in the US related to electric vehicles (EVs) have been broadly negative over the last six months as a number of headwinds have emerged to take the shine off of EV enthusiasm. While the near-term outlook remains somewhat uncertain, the reality is that all new technologies experience volatility when moving from new and niche to mainstream; this is where EVs are currently. When thinking about the path forward, it is important to take a global perspective and focus on structural factors that can drive mass market growth and thus scale and profitability.

Recent negativity around the current state of EVs in the US can be attributed to temporary headwinds and a framing issue. Context matters: In this case, excitement around Tesla's success and the meteoric run in its stock price in 2020 and 2021 served as a wake-up call for the rest of the auto industry – EVs can be nicely profitable, and consumers will buy them. Traditional auto manufacturers battled to announce the most ambitious battery electric vehicle (BEV) targets they could come up with, creating mix-shift expectations that are proving unrealistic. These targets will be met, though not as quickly as originally expected due to a series of temporary headwinds.

The rapid increase in interest rates starting in 2022 drove the average US five-year rate on a new auto purchase or lease to more than double by mid-year 2023. Higher financing costs along with stubbornly elevated pricing, particularly for EVs, became a challenge for buyers outside of the luxury market. Add to this a shifting tax incentive system from a credit captured when filing taxes to a point-of-sale credit starting in early 2024, and would-be buyers paused.

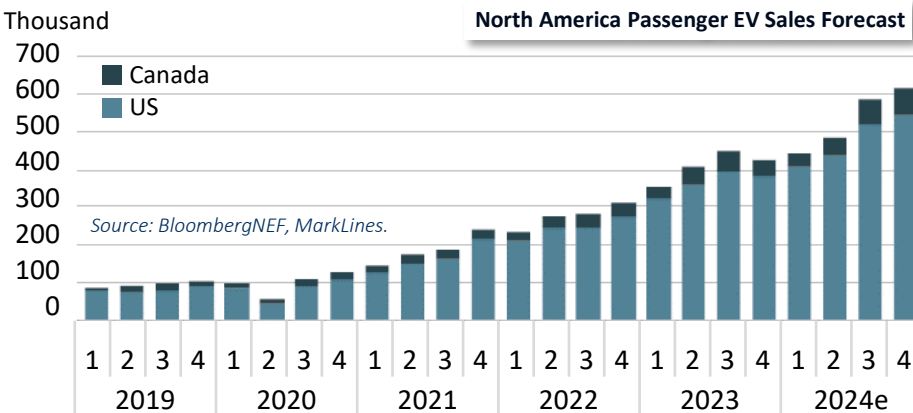
Taking a step back, the experience over the last few years represents volatility, and certainly swings in sentiment, around a longer-term trajectory. As illustrated in the chart below, EV sales continue to grow. The expectation is that this will continue as consumers adjust to a new financing environment and EV costs come down while the number of models available expands. Near-term growth of the EV category is also supported by higher volumes of plug-in hybrid electric vehicles (PHEVs), an important transition vehicle type. In 2023, EV sales in North America (NA) were up 50% over 2022 to 1.63 million units, with

BEVs representing 81% of sales. Bloomberg New Energy Finance (BNEF) forecasts that sales will reach 2.1 million units in 2024, representing 29% growth, a deceleration, but still solid expansion. Should this estimate prove accurate, EVs would move from 9.5% of NA units to about 11.8% in 2024. While there are certainly risks to this growth, primarily around the presidential election, these are shorter-term factors. In the medium- to long-term, cost, range, and convenience are the factors that will drive mainstream adoption.

The most significant cost driver of BEVs over internal combustion engine (ICE) vehicles is the battery. Data from Wolfe Research shows that the battery pack represents roughly 40% of the average BEV bill of materials or 25% of total manufacturer cost. Like other technologies, scale matters, and since 2010 the real cost of battery packs on a \$/kWh basis has fallen from about \$1,300 to \$151 as of 2022, according to BNEF. Wolfe Research shows that battery pack prices have continued lower to \$130/kWh by the end of 2023 as a result of lower lithium prices. BNEF and other industry forecasters widely see the \$100/kWh level as the point at which BEVs and ICE vehicles will be at cost parity. Major Chinese battery manufacturers are already in the \$60-\$70/kWh range and US manufacturers such as GM and Ford expect to be at \$100/kWh in 2024-2025. Tesla has a battery roadmap that points toward the \$60-\$70/kWh level within the next year or so.

Lower battery costs are a function of shifting chemistries, material substitution, and manufacturing scale. Certain Asian manufacturers are already producing commercial cells with sodium instead of lithium, and broadly, lower price point vehicles are shifting to lithium iron phosphate (LFP) from lithium nickel manganese cobalt (NMC). There is also rapidly developing work being done on semi-solid-state and solid-state lithium batteries. These and other battery developments will lower costs, improve safety, and increase range. Paired with higher voltage electrical architectures, charging times will significantly decrease over time. As soon as 2026, there should be BEVs hitting the US market at price points before subsidies in the low-\$20,000 range with better range and faster charging times than most models currently available.

As investors, we are currently cautious given the level of disruption and perceived political risk heading into November, though it is clear that the shift from ICE to EV is structural and will increasingly be driven by the economics of cost of ownership and purchase decisions of consumers. Our research focus is on enablers of the transition toward EVs, an area that will likely be of increasing interest over the next few years. ■



Note: EV sales include battery-electric and plug-in hybrid vehicle sales

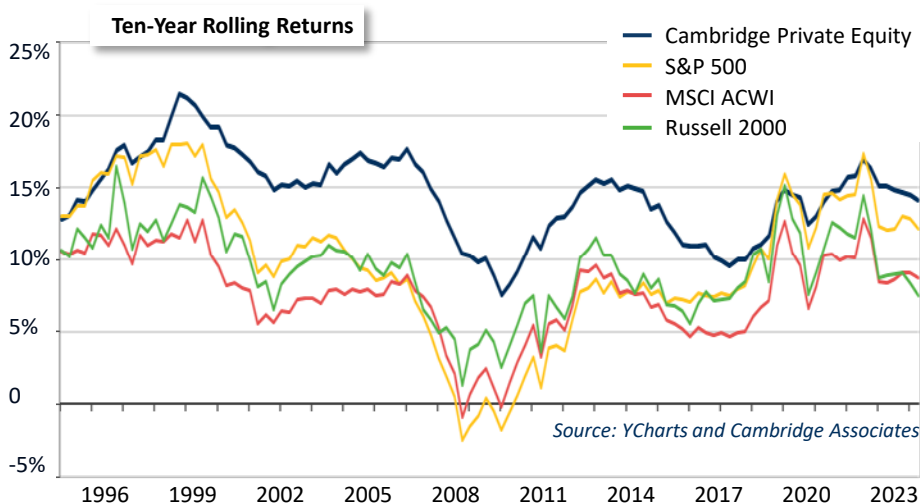
While private equity has long been available only to institutional investors and Qualified Purchasers, or QPs, (>\$5 million liquid net worth) through drawdown, closed-end, unregistered funds, innovations in structures are now making these investments available to Accredited Investors (>\$1 million liquid net worth) or Qualified Clients (>\$2.2 liquid net worth) in semi-liquid form in evergreen vehicles that are registered with the SEC, provide 1099 tax reporting, and can be held in custody.

Within semi-liquid private equity vehicles, we see a variety of strategies being executed:

- **Buyout:** These investments are typically majority acquisitions using financial leverage to acquire cash flow positive businesses. This can be further split into the Lower Middle Market (\$25-100 million deal size), Core Middle Market (\$100-500 million), Upper Middle Market (\$500 million to \$1 billion) and Mega deals (\$1+ billion). The varying company sizes bring with them different growth, valuation, leverage, and exit characteristics. Managers will also express sector and regional preferences within these categories.
- **Growth:** These investments are typically minority investments in businesses that are large and established, but do not yet generate positive cash flow. (This is distinct from venture capital, which is often pre-revenue and pre-profit.) Instead, these Growth businesses typically have hundreds of millions in revenue, solid competitive moats and business plans, and are perceived as likely profitable if all cash flow were not used to fund aggressive expansion.
- **LP Secondary:** In this strategy, a secondary buyer can purchase pre-existing share/commitments to private equity funds from the original investor (Limited Partner or LP) and become a replacement investor. These investments are typically made at a discount to the published Net Asset Value (NAV) and occur four to seven years post original commitment, implying a substantially more mature portfolio where asset sales (liquidity) over the next two to three years are more likely.
- **GP Secondary:** In this strategy, a secondary buyer works with a fund sponsor (General Partner or GP) to acquire companies from an older vintage fund. Existing LPs can either roll their investment into the GP Secondary or sell their participation to the buyer. These investments offer lower risk private equity exposure and have anticipated liquidity in between that of Buyout and LP Secondary strategies.

Qualitatively, private equity offers diversification for investors, especially in representing the US economy. According to Capital IQ as of February 2022, only 13% of US companies with revenues over \$100 million were publicly traded. Publicly traded companies have decreased by over 40% since 1996, while the private equity industry’s assets under management have grown from half a trillion to over \$8 trillion, providing business owners with a non-public market option to monetize their companies.

Quantitatively, private equity has consistently outperformed public benchmarks over the past 30 years. While public benchmarks have occasionally outperformed private equity over 5-year rolling periods in the past, this is less frequent when evaluating returns over a rolling 10-year period. Private equity also outperforms on a risk-adjusted basis due to factors such as



illiquidity, third-party valuations, and a discounted valuation methodology.

With the evergreen semi-liquid private equity industry in its infancy, there are some notable differences between the institutional vehicles:

Institutional PE Vehicle	Semi-Liquid PE Vehicle
Closed-end (10-year life)	Evergreen
Limited Subscription Period	Monthly Subscriptions
Capital Calls (cash drag for investors)	100% invested day 1 (cash drag for vehicle)
3-5 year Investment Period	Constantly Investing
Single Vintage	Vintage Diversification
Single Strategy	Buyout & Secondaries to improve liquidity
Assets sold at end of term	No need to sell assets
Liquidity provided at asset disposition	Regularly offered liquidity

A vital consideration for investors and advisors is that illiquidity in these strategies is a feature, not a bug.

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8 ALTERNATIVES OVERVIEW, CONTINUED

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The historical performance of the private equity benchmark wouldn't have been attainable if investors had been able to request their capital back in the depths of the GFC or in April 2020. The most liquid vehicle structures are required to return up to 5% of assets per quarter to redeeming clients. Redemptions greater than 5% are rolled to the next quarter, with each investor receiving their pro rata share. It can

potentially take many quarters for client capital to be returned, especially if redemptions are persistent. Other structures such as tender funds and registered, non-traded operating companies, endeavor to repurchase 5% of shares per quarter, but have no obligation to do so. While near-term asset growth will likely fuel abundant near-term liquidity, investors should expect bear-market liquidity in the asset class to be low to nonexistent. ■

GLOBAL MARKET RETURNS		Last 3 Months	Last 12 Months*	20-Year Annual Return**
US Equities	S&P 500 (Large US Companies)	10.56%	29.88%	10.15%
	S&P 400 (Mid-size US Companies)	9.94%	23.29%	10.04%
	S&P 600 (Small US Companies)	2.45%	15.83%	9.41%
	Russell 3000 (All US Companies)	10.02%	29.28%	10.05%
	Dow Jones US Real Estate Index	-1.17%	9.22%	6.86%
International Equities	MSCI World Index ex US (Developed Markets)	5.74%	15.92%	6.27%
	MSCI EAFE (Developed Markets)	5.94%	15.94%	6.25%
	MSCI Emerging Markets (Emerging Markets)	2.44%	8.59%	6.83%
	MSCI World ex US Small Cap (Developed Markets Small Companies)	2.70%	10.59%	6.86%
Fixed Income	Bloomberg Intermediate US Government/Credit TR	-0.15%	2.69%	2.76%
	Bloomberg US Corporate High Yield Total Return	1.47%	11.15%	6.54%
	Bloomberg Intermediate Corporate Total Return	0.26%	4.94%	3.67%
	Bloomberg US Intermediate Treasury TR	-0.36%	1.60%	2.35%
	Bloomberg US Treasury Inflation Notes TR	-0.08%	0.45%	3.36%
	Bloomberg US MBS Index Total Return Value Unhedged	-1.04%	1.39%	2.83%
	Bloomberg Global Aggregate ex USD 10% Issuer Capped (Hedged)	-2.78%	0.99%	1.94%
	J.P. Morgan Emerging Market Bond Index Global Core	9.69%	10.84%	5.67%
	Bloomberg Capital 5-Year Municipal Bond	-0.37%	1.95%	2.81%
Inflation	US CPI Urban Consumers ex Food and Energy NSA***	1.22%	3.75%	2.43%
Treasury Bill	US 3-Month Treasury Bill Index	1.27%	5.29%	1.55%

Source: Bloomberg Capital Markets

* Includes dividends for equity indices

** Annualized

*** CPI data for time periods is date ended 2/29/2024

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