CAPITAL ADVISORS

Key Points

- **We believe interest rates have reached an important threshold that justifies thoughtful consideration from many investors about the asset allocation mix of their portfolios.**
- For the first time in 15 years, it is possible to construct a high quality bond portfolio comprised entirely of investment-grade securities to produce a portfolio-level yield-to-maturity in the range of 5.5% (tax-free municipal bonds offer slightly higher yields on a tax-adjusted basis).
- There are numerous real-world investment objectives that can be achieved with a high-quality return stream in the mid-single digits.
- Consider, for example, that the annual spend rate for many retirement portfolios falls within the 4%-6% range, as does the spending policy for most charitable foundations and endowments.
- Within the framework of a diversified portfolio, the current interest rate environment may present an opportunity to narrow the range of outcomes for the portfolio without dragging the expected return below a useful investment objective like retirement spending, for example.
- This kind of risk-reward tradeoff has not been possible for most of the past 15 years, when central bankers saw fit to hold short-term interest rates near zero in response to one boogey man after another.
- Today, investors have an opportunity to "lock-in" helpful interest rates for an extended period of time, *and we recommend doing so* for many portfolios that include fixed income.
- Some may ask, "Why should I buy a bond that matures in seven years (or 8, 9, 10 years…) when I can get a similar yield in a money market fund?"
- The reason is *reinvestment risk*, which refers to the likelihood that short-term interest rates might decline within the next few years, thereby eliminating the opportunity to earn a higher rate of interest for a longer period of time.
- As we will describe in this report, the so called "neutral rate" for U.S. monetary policy is significantly lower than the current target range of 5.25%-5.50%.
- Estimates of "neutral" vary among the members of the Federal Open Market Committee (Fed) that execute domestic monetary policy, but the range the Fed provides in its public communication is clustered around 2.5%.
- This matters because whenever inflation is deemed to be under control, the Fed can be expected to lower its policy rate toward neutral, which will pull rates down on money market funds and other short-term bonds in the process.
- If there is a recession, the Fed would likely push short-term interest rates even lower.
- We encourage clients to consider the content of this report and reach out to your Wealth Advisor if you feel it applies to you.
- You might also hear from us proactively if we reach this conclusion on your behalf.

Narrowing the Range of Outcomes

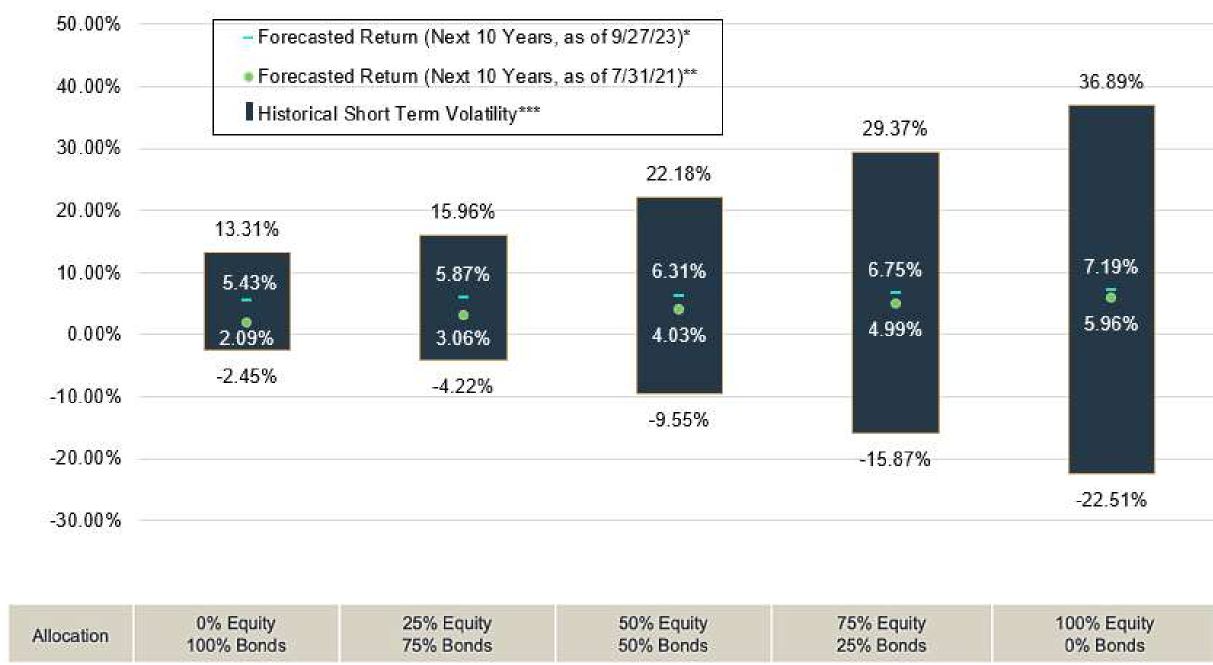
The graphic below illustrates the main message of this report, which is that *it is now possible to reduce investment risk in a diversified portfolio while still earning a rate of return sufficient to achieve real world investment objectives like retirement spending.* This has not been possible for most of the past 15 years.

The dark blue bars in the graph depict the range of 12-month returns for five different portfolio designs with incrementally more aggressive asset combinations between stocks and bonds.[1] The size of each blue bar, and the depth of its negative boundary, put the concept of investment risk into graphical perspective. Investment risk means more things can happen than will happen. Stocks provide higher returns than bonds in the long run, but the range of outcomes for stocks is much wider than bonds, particularly as it relates to potential drawdown risk in the short-term.

Risk-Reward Tradeoff of Asset Allocation

A survey of 20-30 Global Investment Banks and Investment Managers

Source: Horizon Actuarial Services, Capital Advisors



IT IS NOT POSSIBLE TO INVEST IN AN INDEX. Index performance has not been reduced by an assumed management fee representative of the fee Capital Advisors charges for the asset class represented by each index. Standard indices utilized for this purpose are described in our disclosures. Assumes monthly rebalancing. *Forecasted returns (as of 9/28/23): Equity portion of returns - S&P 500 Index (70%) and MSCI EAFE Index (30%) represented by an aggregate view of approximately 20-30 global investment banks and investment managers, provided by Horizon Actuarial Services – and Fixed Income represented by the yield on the Bloomberg Aggregate Bond Index. **Forecasted returns (as of 7/31/21): Equity portion of returns - S&P 500 Index (70%) and MSCI EAFE Index (30%) represented by an aggregate view of approximately 20-30 global investment banks and investment managers, provided by Horizon Actuarial Services. ***Historical Short-Term Volatility is calculated by multiplying "2" by the historical annualized standard deviation of monthly index returns and adding/subtracting this figure to the forecasted return over the next 20 years. Standard deviation is a measure of dispersion of the historical index returns from its mean and "2x" standard deviation represents a 95% confidence interval of historical 12-month possible outcomes. Supplemental to compliant presentation. See disclosures on the last page.

[1] The range of 12-month outcomes is estimated by the weighted standard deviation of each asset class in the hypothetical portfolios.

Less Risk for a Similar Reward

When interest rates were still anchored to zero a couple of years ago (the lower of the two numbers inside the blue bars in the graph above), the only way to design a low-risk investment portfolio was to accept a rate of return too low to accomplish helpful investment objectives. However, now that interest rates have reached mid-single digits (see chart below), ***some investors might choose to dial-down the risk profile of their portfolio by a notch or two, since this can now be accomplished without eviscerating the expected return to an unproductive level.***

Bloomberg US Aggregate Bond Index Yield
As of September 27, 2023

IT IS NOT POSSIBLE TO INVEST IN AN INDEX Source: Bloomberg Period 9-27-1993 to 9-27-2023.

Stocks for the Long Run…

Please note that this is *not* a call to action for everyone. Many investors will appropriately conclude that their current asset mix is fine. We also want to emphasize that we expect stocks to outperform bonds in the long run. ***We are not down on stocks as an asset class.*** For investors seeking to maximize returns over a long time horizon, a heavy allocation to stocks is the way to go, in our opinion.

Be Mindful of "Reinvestment Risk"

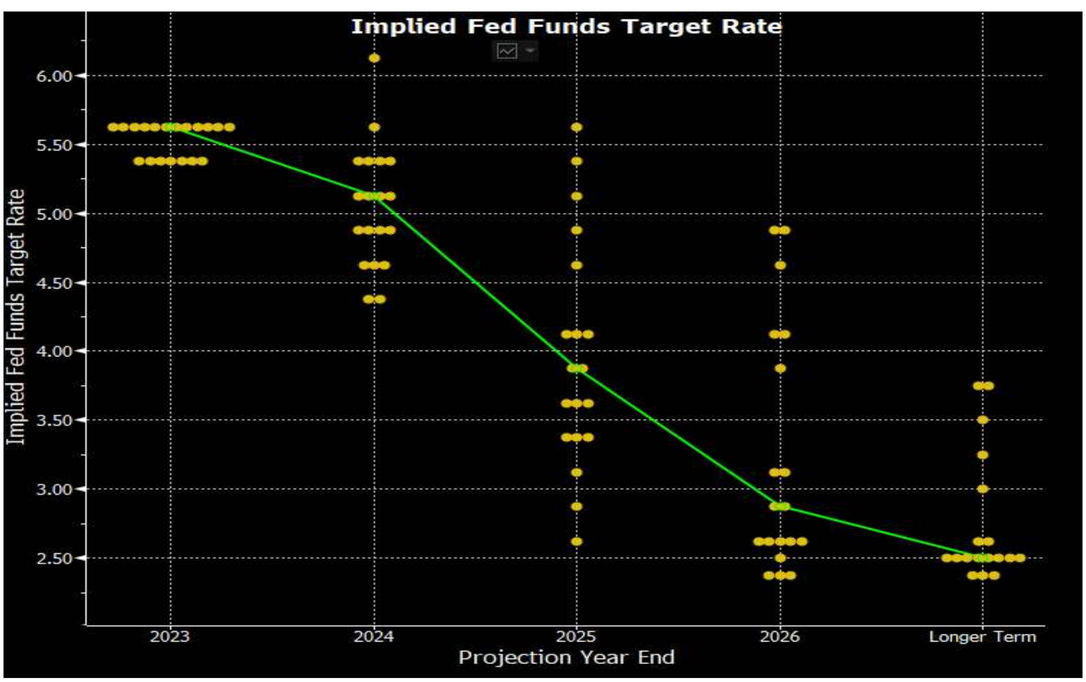
When contemplating the design of a bond portfolio, reasonable people might ask, **"Why should I buy a bond that matures in 2030 when I can get the same yield in a money market fund?"** The reason is that the yield on money market funds could drop *by half* within a year or two, whereas the interest payments from a longer-term bond are locked in until it matures. This same logic applies to any short-term bond or CD that requires its owner to reinvest the proceeds into the interest rate environment that exists when the security matures in a year or two.

What is the "Neutral Rate" and Why Should I Care?

Another fair question is, **"Why would short-term interest rates go back down?"** The answer in this case is the likely normalization of monetary policy in the not-to-distant future.

Short-term interest rates are driven primarily by monetary policy. Central banks set the policy target, and market interest rates fall in line *at the very short end of the yield curve*. Monetary policy has a much weaker influence on longer-term interest rates.

Central banks anchor their policy actions around a so called "neutral rate," which is the level of short-term interest rates that is deemed to be neither stimulative, nor restrictive for the economy. Unfortunately, the precise level of "neutral" is a matter of opinion, even among central bankers who are expected to utilize it. Currently, the neutral rate for the U.S. economy is estimated to be approximately 2.5%, as reflected in the chart below showing the estimated target for the Fed Funds Rate among each Fed governor over the next few years (neutral is the rate above the time period, "Long Term" in the chart).



Source: Bloomberg

As reflected in the chart above, most policy makers expect short-term interest rates to begin dropping by 2025, and they project a longer-term average resting place for rates to be around 2.5% (the so-called neutral rate). This means that whenever inflation is deemed to be under control, short-term rates should be expected to make their way toward the 2.5% level. Moreover, if the economy slips into recession, as many economists still expect, short-term rates might drop *below* 2.5%, at least temporarily.

Current Design of Our Investment Strategies[2]

The remainder of this report addresses the current positioning of each of our investment strategies under current macro conditions. The specific design of *your* portfolio is customized to match your return objectives and risk tolerance. **For a refresher on how your portfolio is designed, and why, please reach out to your Wealth Advisor any time.**

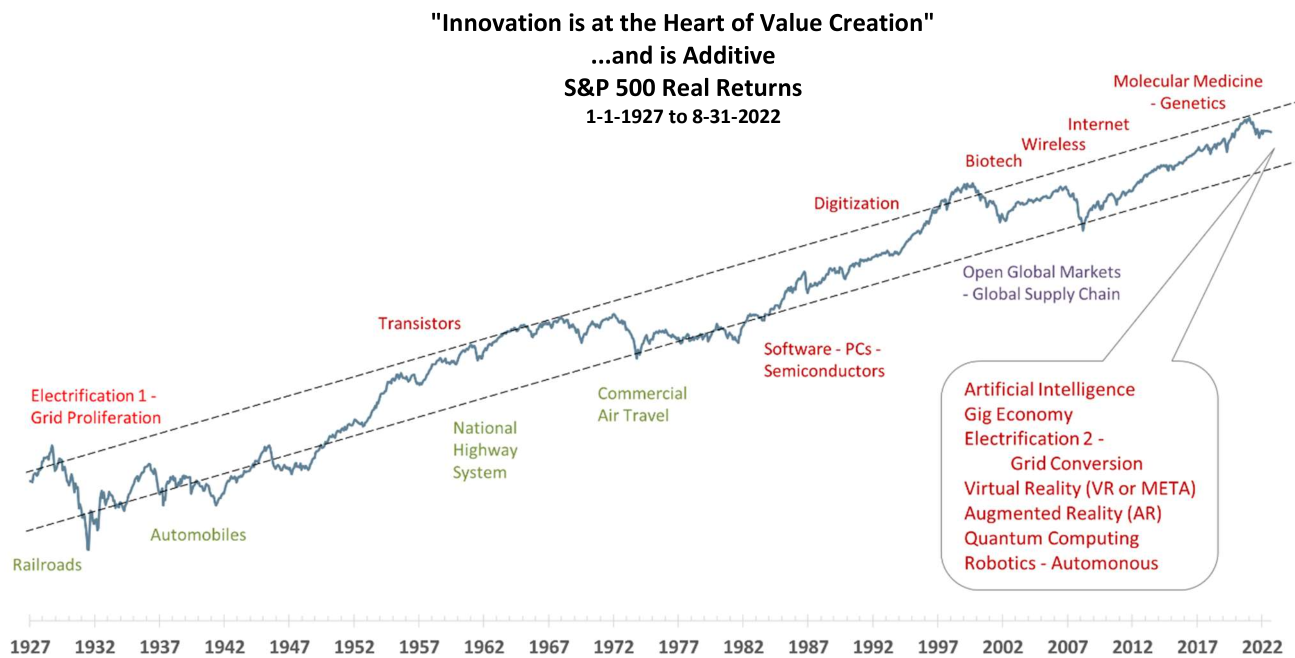
ASSET LEVEL	Based on your investment objectives and risk tolerance, we set parameters for an optimal stock/bond mix. Instead of keeping your portfolio at a stagnant allocation, we have the ability to change the stock-to-bond-to-cash ratios as market conditions change.
PORTFOLIO LEVEL	By understanding the types of portfolios/accounts we're managing, we structure each portfolio to fit its stage in the investment life cycle (accumulation vs. distribution). We also take into account legacy positions and/or outside assets.
STRATEGY LEVEL	By understanding your optimal asset allocation range and the types of portfolios being managed, we determine how our specific strategies should be combined. We utilize both fundamental and tactical strategies to help take diversification one step further.
SECURITY LEVEL	Our team of CFA charter holders performs deep research behind each security selected and provides rationale for trades. We strive to position your portfolio for prevailing market conditions to participate in long-term trends.

[2] The portfolio strategy discussions in this section are supplemental to a compliant presentation. A complete list of Capital Advisors' portfolio models and compliant presentations are available by contacting Capital Advisors.

Managed Equity Growth

Our "growth" discussion starts with what we believe to be a somewhat historic innovation environment. Innovation is the heart of value creation. We expect growth stocks to continue outperforming other types of equities over time due to these companies' ability to shape and prosper from the development of the economic trends this innovation enables.

We seek to identify the global economy's most attractive value creation trends and invest in companies that lead them. We seek the best management teams, sitting on top of the best assets with the best business models and the ability to help shape those trends' evolution. The next graph shows how enabling innovations have added economic value over time. Note how the pace of innovations has increased; the number of new innovations that are just coming out is relatively high.



IT IS NOT POSSIBLE TO INVEST IN AN INDEX Source: Capital Advisors, Inc., Bloomberg

Key Risks & Risk Management

Of course, there are always risks that we need to carefully factor into our risk-management strategy. Among the leading ones are the Fed holding interest rates too high for too long, the negative systemic liquidity impacts of abnormally high global debt, the geopolitical uncertainties that accompany changes in the global economic order, and regulations' impact on innovation trends. We include these risks in the lead of the investment process because risk management is key to that process.

This quarter, we took some profits and reduced positions in two stocks that surged in recent weeks, **NVIDIA (NVDA ~$435)** and **Cameco (CCJ ~$40)** to control the strategy's risk exposure. We also sold **Dollar General (DG ~$105)** and our long-held position in **General Motors (GM ~$33)**. After trimming DG at higher levels, the investment thesis fundamentally changed when management reported consecutive quarters of opaque and atypical operational and strategic challenges. The GM thesis changed after management reported consecutive quarters of disappointing electronic vehicle (EVs) sales and a stubbornly high cost structure. Seeing through the near-term labor union uncertainties and higher cost of automobile purchases due to higher interest (auto loan) rates, we believe there are still highly attractive ways to gain direct EV exposure.

Separately, we initiated a new position in the energy grid transition thesis, specifically in nuclear, and we added to positions in what we view to be undervalued opportunities in the gig economy, Technology, and competitively advantaged Finance.

Cash serves a dual role in the *Managed Equity Growth Strategy*. One is to balance risks taken elsewhere in the portfolio. A second is to take advantage of excellent opportunities during volatile periods without having to sell the stocks of great companies at depressed prices.

The following table shows the strategy's 2023 performance and long-term performance adjusted by risk. Briefly, the *Sharpe Ratio* shown below compares the return actually generated versus what was possible to get without taking risk (using a Treasury yield proxy, currently over 5%); it then adjusts that "excess" return by risk measured in the form of volatility. Put simply, the number reflects the return, in excess of the risk-free rate, per unit of risk taken. Higher is better.[3]

2023 Risk-adjusted Performance (Sharpe ratio)

	3 months	6 months	Year to Date	5 years
Representative Client Account	0.27	1.80	1.32	0.64
S&P 500	-0.40	1.45	1.21	0.51
Bloomberg Peer Avg.	-0.52	1.00	1.12	0.43

Through Sept. 25, 2023

IT IS NOT POSSIBLE TO INVEST IN AN INDEX   Source: Bloomberg

Much is being discussed in market circles of stock-bond relative valuations given a seemingly high equity PE and investment-grade bond in well excess of 6%. Asking for indulgence regarding one more key metric, one of the most important measures of this comparison is the Equity Risk Premium (ERP).

[3] Source: Bloomberg. The Representative Client Account closely approximates the strategy's performance as calculated by Orion and pricing agencies.

The ERP compares the amount that equity investors pay for a unit of earnings with the fixed return available in the bond market. There are nuances in the exact calculation, so the most important thing is how the numbers compare to each other. In isolation, a lower ERP could reflect a less attractive risk-adjusted market environment.

Current S&P 500 ERP (9/29/2023):	2.9%
Current Equal Weighted S&P 500 ERP (9/29/2023):	4.0%
Average S&P 500 ERP since 1983	4.3%

IT IS NOT POSSIBLE TO INVEST IN AN INDEX Source: Bloomberg, Capital Advisors, Inc.

Using the S&P 500 Index as the market proxy, the equity risk premium appears unattractive versus historic norms: 2.9 vs. 4.3. Note the Index is market-cap weighted and gives significant weight to the seven largest Technology companies which accounted for the lion's share of the Index's returns this year. If we dilute those seven companies' impact by using the Equal Weighted S&P 500 Index, the broader equity market's ERP is nearly in line with historic norms.[4]

A similar approach yields even more stark results with P/E valuations. Since 2010, the equal-weighted index's average P/E is 17.8x, slightly higher than the (market-weighted) S&P 500 Index average of 17.6x – but essentially the same. In other words, it typically does not matter whether one looks at the equal-weighted or market-weighted measure. Currently, the Equal Weighted S&P 500 Index P/E is a relatively low 16x, versus the market-weighted S&P 500's seemingly lofty 20x.

Managed Equity Dividend

The goals of the *Managed Equity Dividend* strategy are to provide clients with steady, healthy cash flow, cash flow growth over time, and exposure to the equity market for longer-term capital appreciation. Last year, the strategy's cash flow jumped 23% on the heels of 9% in 2021.[5] Since its 2012 inception, the strategy's dividend cash flows have compounded over 7% annually through September of this year.[6]

The *Strategy's* stocks have generally appreciated over the past several years, and we have consistently "rolled the yield higher" through the purchase of higher-yielding securities. We have been extremely mindful of retaining a distinct quality focus. This process has boosted the strategy yield to 4%+ at present, from the high threes in 2021, for instance.[7] Companies presently yielding significantly below the strategy's aggregate yield play a key role in portfolio balance, which includes secular trend leadership, world-class management, and strong balance sheets. That balance, diversification, and balance sheet quality are part of our risk management process. We actively manage those positions to size them in the portfolio in conjunction with their changing risk/reward outlooks and their contribution towards the strategy's objectives.

[4] Source: Bloomberg
[5] Source: Orion, Bloomberg, Capital Advisors, Inc.
[6] Source: Charles Schwab, Orion
[7] Source: Bloomberg, Capital Advisors, Inc.

Due to rising dividend payments, yields based on initial investment prices can rise over time. The following table is an example of how dividend yields have risen in terms of initial investments. It shows, for instance, the current dividend yield, the yield when we added the stock to the Buy List, and the current yield using the stock price at the time we added it. The right-hand column shows how much the dividend payment has increased while on the Buy List.

The Power of Dividends As of 9/29/2023

Managed Equity Dividend Examples

Company	Bought	Acq Yrs	Acq Price	Current Dividend Yield	Yield at Time of Acq	Current Yield on Acq Price	Div Growth
CVX	Jul-2020	3	$86.33	3.6%	6.0%	7.0%	17%
BX	Aug-2019	4	$47.23	2.9%	4.1%	6.7%	65%
ABBV	Mar-2020	4	$89.85	3.9%	5.5%	6.6%	25%
AVGO	Feb-2020	4	$280.60	2.2%	4.7%	6.6%	42%
CSCO	Feb-2016	8	$24.60	2.9%	3.0%	6.3%	86%
WSO	Apr-2020	3	$156.00	2.6%	4.5%	6.3%	38%
PAYX	Apr-2020	3	$68.65	3.0%	3.7%	5.2%	44%
TXN	Apr-2020	3	$99.98	3.2%	3.6%	5.2%	44%
IPG	Feb-2021	3	$26.29	4.3%	4.1%	4.7%	22%
SCCO	Jul-2021	2	$48.50	5.3%	5.6%	8.2%	48%
ARCC	May-2020	3	$15.50	9.8%	10.3%	12.4%	20%
ETN	Feb-2019	5	$77.61	1.6%	3.5%	4.4%	30%
KO	Oct-2016	7	$42.40	3.3%	3.3%	4.3%	31%
HD	Mar-2020	4	$193.84	2.8%	3.2%	4.3%	39%
LMT	Oct-2018	5	$334.00	2.9%	2.6%	3.6%	25%

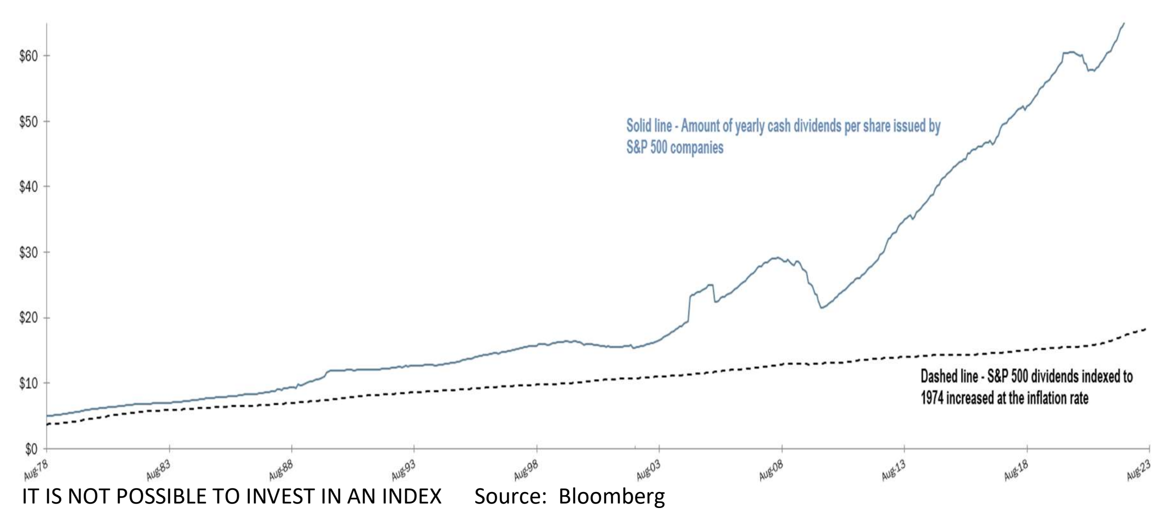
Source: Bloomberg, Capital Advisors, Inc.

Acq. Pr: Share price at which the position was originally purchased (acquired)
Current Dividend Yield: Indicated dividend yield using current market prices
Yield at Time of Acq: Dividend yield at time of the initial investment
Current Yield on Acq Price: The current dividend yield using the initial purchase price
Div. Growth: How much the annual dividend has grown since the initial investment

Over time, companies have increased their dividend payments well above inflation as shown below.

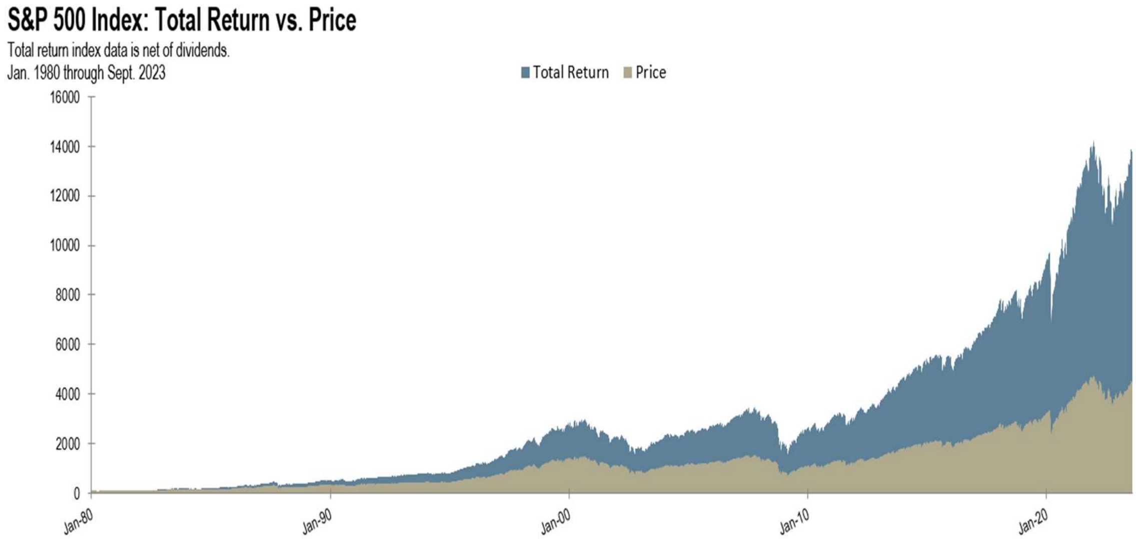
S&P 500 dividends have increased at a faster pace than inflation

Aug. 1978 through Aug. 2023



IT IS NOT POSSIBLE TO INVEST IN AN INDEX Source: Bloomberg

That growth helps make dividends a significant portion of total equity market returns.



IT IS NOT POSSIBLE TO INVEST IN AN INDEX   Source: Bloomberg

Given the potential for economic volatility, we are maintaining a focus on stronger balance sheets, though we seek to maintain the *Strategy's* yield and cash flow growth characteristics over time. We effectively reduced portfolio turnover in 2022. We continue to expect 2023 to be more challenging vs. the broader equity market, and recently increased turnover. With higher interest rates, a more challenging energy grid transition, and an outlook for a continued restrictive regulatory environment, we reduced Utility and Health Care exposure. We secured profits in positions that have appreciated significantly, reducing their dividend yields. Examples include **Eaton (ETN ~$216)** and **Broadcom (AVGO ~$832).** We picked up opportunities in much higher-yielding stocks that have attractive, potentially undervalued market power in artificial intelligence and Financial Services. We continued to focus on strong cash flow structures, franchise business models, and earnings that have increased far more than their stock prices over the past several quarters.

Performance in Sharp Market Rotations

We purposefully manage the *Strategy* to mitigate risk within the confines of focused exposure to higher dividend-paying stocks. While that focused exposure has multiple benefits, there are times when market conditions do not favor that factor. Our risk management process seeks to mitigate this risk but cannot fully avoid it. In 2022, for instance, the Strategy posted a gain despite the broader equity market being down materially.[8]

The *Strategy's* beta vs. the *S&P 500* is approximately 0.7, suggesting it has been meaningfully less volatile than the broader market. In 2022, that lower volatility held true while the strategy significantly outperformed "the market."[9]

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[8] Source: ORION; Bloomberg

[9] Source: Bloomberg as of June 30, 2023. The market is reflected by the S&P 500 index's total return.

So far this year, lower-yielding strategies with an abundance of mega-cap Technology stocks have generally outperformed those with a stricter dividend cash flow focus. Last year, the situation was very much reversed. Viewed with a longer-term lens, the *Managed Equity Dividend Strategy* has outperformed the S&P 500 Total Return Index by approximately 5.3% from the beginning of 2022 through August of this year. Over the past three years, the *Strategy* outperformed the S&P 500 by an average of 2.8% per year. [10]

Fixed Income

The behavior of the bond market over the past quarter has been difficult to say the least. Since June 30th, U.S. Treasury yields have crept up another 0.2% in the 2- year part of the curve while increasing the most, 0.6% to 0.7%, in the 10- to 30-year end of the maturity spectrum *(aka a "bear steepener").*[11] The bond selloff seems to have been less a function of rising Fed Funds rate expectations, and more of a general realization that the Fed may hold short rates at restrictive levels for much longer than previously anticipated (i.e., not cut rates any time soon).

Although we have been constructive on the bond market for most of 2023, we were mindful of the risk that rates could continue to rise in conjunction with the Fed's determination to bring inflation down to its 2% target. As such, we retained dry powder throughout the year and outperformed most of our bond strategies' benchmark proxies due to the relatively conservative positioning of our portfolios. Although the Fed may not fully get to its inflation target in the immediate future, the current landscape is now finally providing attractive "real yields" that could provide a better return profile and protection against changes in inflation expectations.

Looking forward, and as discussed in the earlier sections of this document, we believe it is time to "lock in higher yields for longer" for our clients' bond strategies.

Managed Credit Strategies

Within our *Managed Credit Strategies*, we have tilted the portfolios toward better credits, with roughly 70% of our clients' exposure in companies currently rated A- or better, on average.[12] We believe our BBB exposure has better balance sheets than the broad market, but we are willing and able to further reduce this allocation should we see specific situations worsen. We also hold a modest allocation to U.S. Treasuries, as applicable, to provide further credit diversification from a potential slowdown in the economy.

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[10] Between 1-1-22 and 8-31-23, the S&P 500 TR performance is -2.8% (source: Bloomberg); the Managed Equity Dividend Strategy is +2.5% (source: Orion). Between 8-31-20 and 8-31-23, the S&P 500 TR rose at a 10.2% annual rate; the Managed Equity Dividend Strategy rose 13.0% annually.

[11] Source: Bloomberg

[12] Source: ORION

Our overweight to investment grade corporate credit generally outperformed Treasuries in the third quarter, and our defensive duration posturing also added relative performance in the face of higher interest rates. With interest rates at even higher levels, we will look to add to the longer end of the maturity spectrum to lock in higher yields for longer. On a go forward basis, portfolios are now yielding between 5.3% and 5.5%,[13] depending on one's yield curve positioning.

Municipal Bonds

Our *Municipal Bond* portfolios are still focused on "A" and above credits with strong debt coverage and liquidity profiles. We have also intentionally over-weighted essential service revenue bonds (water & sewer, utilities, etc.), and general obligation bonds with an average portfolio credit quality of "AA." Citing stretched valuations heading into the quarter, portfolios were generally positioned with less interest rate sensitively to rising rates versus the broad market, which somewhat helped protect on the downside. Thankfully so! The municipal bond market witnessed even greater drawdowns than the Treasury market in the third quarter. As maturities come due, we will actively be buying bonds in the seven-to-ten-year (or longer) part of the municipal yield curve to take advantage of these attractive yield levels. Municipal bond portfolios are now yielding between 3.6% to 4.1% tax free *(between 5.7% and 6.5% at the 37% highest marginal tax rate)*[14] depending on one's yield curve positioning, providing solid levels for tax-sensitive bond investors.

ETF Bond Models

Our *Aggregate Bond* ETF strategy continues to be 100% invested in "defined maturity," investment-grade corporate bond ETFs. Although interest rates proved to be a headwind in the third quarter, investment grade credit outperformed, allowing the model to provide some downside protection versus the benchmark proxy. Today, there is a relatively conservatively positioned laddered maturity structure of ETFs ranging between 2025-2029. Our expectation in the fourth quarter will to be to rotate out of some of the shortest maturity ETF in favor of a longer maturity option. With the increase in overall market yields over the quarter, the model now carries an average net acquisition yield of approximately 5.7%[15].

The *Income Bond* ETF strategy has focused on maximizing cash flows within the construct of balancing risks, most notably through sector diversification (see chart below). Unfortunately, interest rates pushed higher this quarter and flipped the year-to-date performance on the strategy to slightly negative. Shorter corporate bonds held their ground while longer duration assets, including Treasuries, and most notably AAA-rated, agency mortgage-backed securities (MBS) trended lower at what we believe is at an unsustainable pace.

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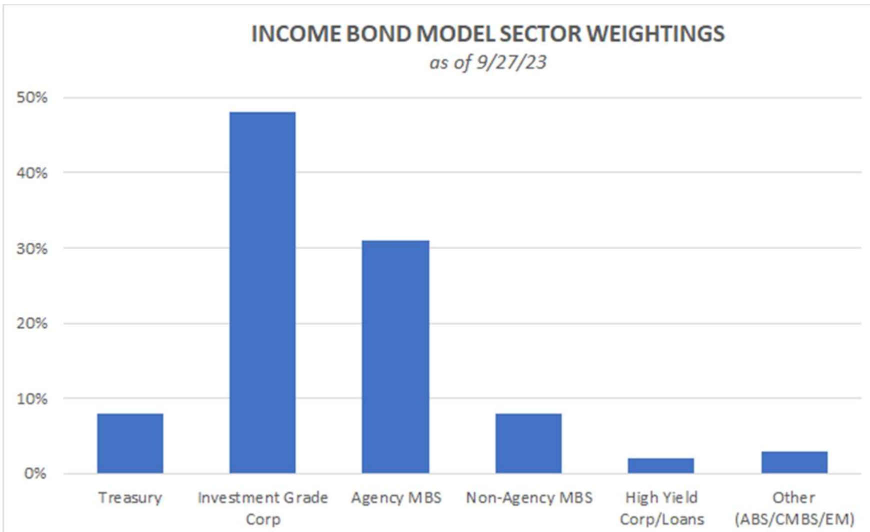
[13] Source: ORION; Bloomberg
[14] Source: ORION, Bloomberg
[15] Source: Bloomberg, iShares, State Street

We expect to opportunistically add to higher quality MBS in the fourth quarter to lock in the decade's high attractiveness of this sector on both an absolute and relative basis. Our two active managers within the model (**SPDR Doubleline Total Return ETF (TOTL: ~$39)** and **Janus Henderson Mortgage-Backed Securities ETF (JMBS: ~$43)** have also signaled to be adjusting their allocations in a similar manner. With the increase in overall market yields over the quarter, the model now has an average net acquisition yield of approximately 5.8%[16].



Source: ORION, iShares, State Street, Doubleline, Janus Henderson

Tactical Global Growth Strategy

International equities have shown some life of late, as reflected in the overweight positions for *International Developed Markets* and *International Small-Cap* for the upcoming quarterly holding period. The *U.S. Mid-Cap* sector will see a reduction in its weighting for the upcoming period, while *U.S. Small-Cap* and *International Small-Cap* will both see an increase relative to their weightings last quarter.

Tactical Global Growth Strategy
Asset Allocation for the Upcoming Quarter

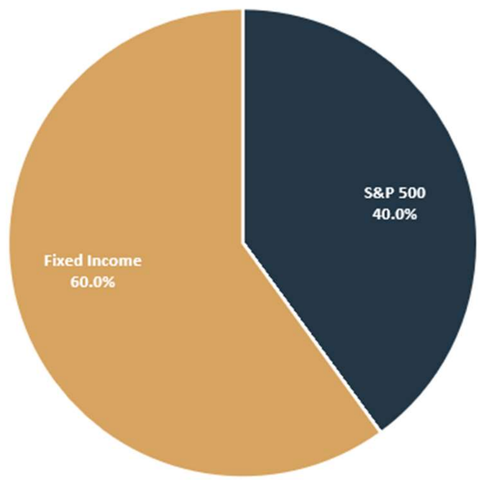
Asset Class	New Weighting (9/29/2023)
International Developed Markets	Overweight (17%)
International Small-Cap	Overweight (17%)
U.S. Large-Cap Growth	Overweight (17%)
U.S. Mid-Cap	Neutral Weight (11%)
U.S Large-Cap Value	Neutral Weight (11%)
U.S. Small-Cap	Neutral Weight (11%)
Emerging Markets	Underweight (5%)
Real Estate	Underweight (5%)
High-Yield Credit	Underweight (5%)

[16] Source: Bloomberg, iShares, State Street

Dynamic Allocation Strategy

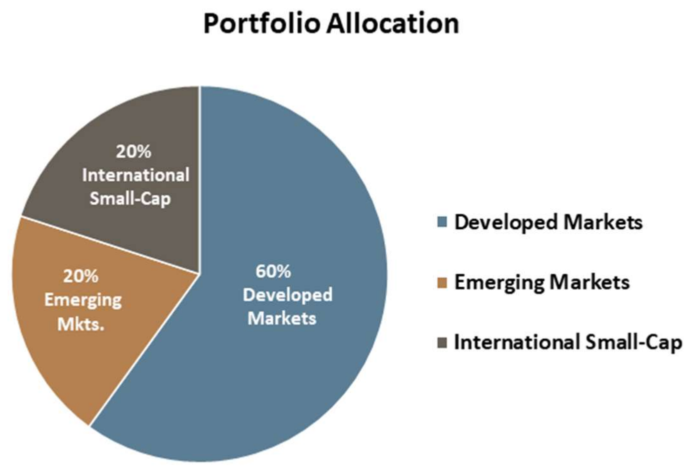
This strategy has been migrating toward a more conservative asset allocation in recent weeks as many equity markets have drifted lower since the end of July. This first sector to come out was Emerging Markets on August 22nd. Next the Developed International sector was removed on September 7th. Most recently, Real Estate and Domestic Small-Cap were sold on September 26th. Proceeds from all of these sales have been reinvested into an exchange traded fund (ETF) that invests exclusively in short-term U.S. Treasuries. This vehicle provides a recent acquisition yield just over 5%, allowing the strategy to earn a productive return during periods like now then the portfolio is positioned defensively. As of quarter-end the portfolio was invested in just one of its five risk market sectors representing approximately 40% of the total allocation.

Current Allocation



International Focus Strategy

The strategy's factor tilt toward value was particularly helpful during the third quarter, allowing the strategy to outperform many common international benchmarks during the period. Although international equity markets have not kept pace with the U.S. in recent years, returns for these markets have been productive, nonetheless. Interestingly, many developing countries have done a better job at managing inflation and fiscal discipline in the aftermath of the pandemic compared to their developed market neighbors in the U.S. and Europe. Time will tell if this historic role-reversal finds its way into relative stock market performance at some point in the future.



The *International Focus* strategy provides a strategic commitment to international equities to expand the universe of companies for investment beyond the U.S. market within a diversified portfolio. To enhance the potential diversification benefits of this expansion, the strategy seeks to capture a return premium relative to common international equity benchmarks through disciplined emphasis on three market factors that have demonstrated a long-term history of attractive risk-reward characteristics: Value, Momentum and Low Market Capitalization, or “small cap."

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The **Russell 1000 Growth Index** seeks to track the investment results of an index composed of large- and mid-capitalization U.S. equities that exhibit growth characteristics.
The **Russell 1000 Value Index** seeks to track the investment results of an index composed of large- and mid-capitalization U.S. equities that exhibit value characteristics.
MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S.
MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.
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Vanguard High Dividend Yield ETF is an exchange-traded fund that seeks to track the performance of the FTSE High Dividend Yield Index, which consists of common stocks of companies that pay dividends that generally are higher than average.

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