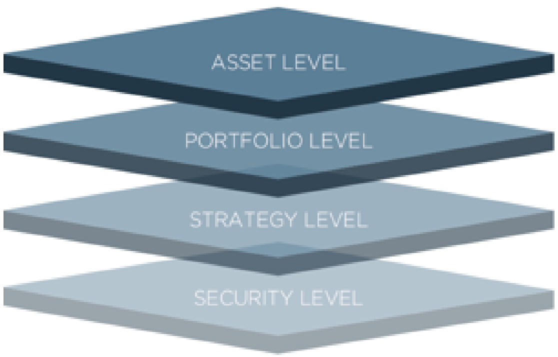
CAPITAL ADVISORS

Key Points

- In hindsight our market commentary on April 3rd was incomplete because it only addressed one potential off-ramp from President Trump's disruptive trade policy, when in fact there are four (specifics to follow).
- Our investment advice from that piece remains the same – Average-in any new commitments to the stock market but start the process; and limit any asset allocation shifts toward safety to incremental changes rather than bailing out of stocks completely, particularly when taxes are involved.
- We base this prescription on the notion that the tariff structure outlined on April 2nd would be so disruptive to the U.S. economy, if sustained, that it seems likely to be modified or rescinded through any of four possible mechanisms.
- The most hopeful of these mechanisms was the subject of our commentary on April 3rd, whereby Trump's tariff threats might trigger a wave of bilateral negotiations to *lower* trade restrictions between the U.S. and many of its trading partners.
- So far, this speculation has not aged well, but it remains a possibility, and it is not the only avenue for an off-ramp.
- A more likely mechanism may be intervention by the Supreme Court or a district court.
- Legal experts make a compelling case that an overhaul of the global trading system oversteps the boundaries of the International Emergency Economic Powers Act (IEEPA) that President Trump relied upon to enact his tariff policy.
- At least one lawsuit has already been filed, so the process toward a potential legal intervention has already been triggered.
- A third potential mechanism is Congress, which could step in for the same reason as the courts – to address a perceived violation of the boundaries of the IEEPA by the President.
- The fourth option for an off-ramp is a pivot by President Trump in response to negative signals from the financial markets, the economy, polls, and legislators worried about their own self-interest in the mid-term elections.
- Unlike Covid or the Global Financial Crisis, the root cause of the current market turmoil is manmade and relatively easy to address.
- This makes risk management particularly challenging because a simple press release could spark a violent, V-shaped rally, thereby justifying patience, even though an escalating trade war, if sustained, would almost surely trigger a global recession, in our opinion.
- With markets already reflecting a lot of bad news, we believe the best course of action is patience with an eye toward capturing opportunities in particularly hard-hid stocks.
- For those feeling less hopeful, please reach out to your Wealth Advisor to design a thoughtful asset allocation adjustment in the direction of caution.

Current Design of Our Investment Strategies[1]

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.

Managed Equity Strategies

In line with the macro and market views stated earlier in this report, the equity strategies remain engaged with equity markets while retaining focused risk management. At the time of this writing, both managed equity strategies were performing better than the S&P 500 Index and well above benchmark growth indices.[2]

Managed Equity Growth

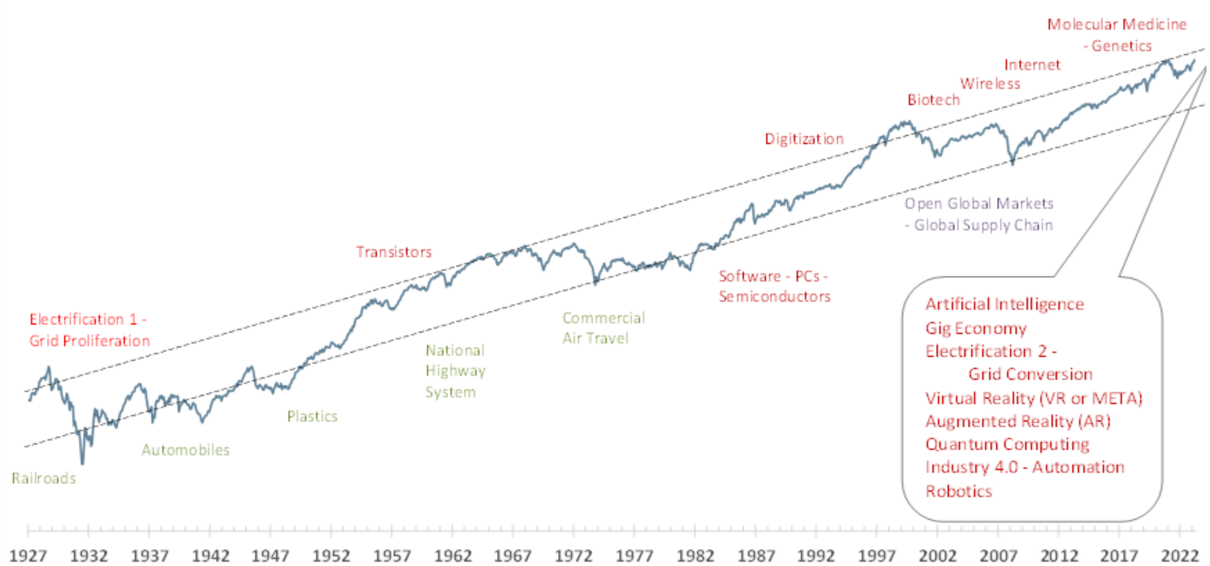
We raised cash in January – focusing on AI infrastructure companies - and again in March focusing on economically sensitive companies and China-exposed supply chains. The Managed Equity Growth Strategy currently has approximately 12% cash that helps manage risk in volatile times and provides capital to take advantage of opportunities. Opportunities may be surfacing but only very recently. Through the first days of April, the S&P 500 Index was approximately 10% off its high, marking a typical annual pullback. Only three days later – after the third-largest drop since WWII – the S&P is down ~18% at the time of this writing. According to our calculations, there have been 40 10% pullbacks (drawdowns) since 1950. The average annual return from the bottom of those drawdowns was at or below the average annual gain over that 70+ year period. It was not until the S&P experienced a 20% drawdown that the following 12-month performance

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

was moderately above the normal annual average. Those recoveries typically took at least six months to come into view.[3]

Stocks of some of the world's leading companies are down well more than the S&P 500. We believe a subset of these companies have the world's best balance sheets and strongest abilities to shape the development of vital, global, socio-economic trends. In our view, "enabling" innovations – like those illustrated below - can create significant economic value regardless of the tariff structure. One area of emerging investment opportunity could be among the leaders of those trends.

"Innovation is at the Heart of Value Creation"
...and is additive
S&P 500 real returns Jan. 1927-Feb. 2023



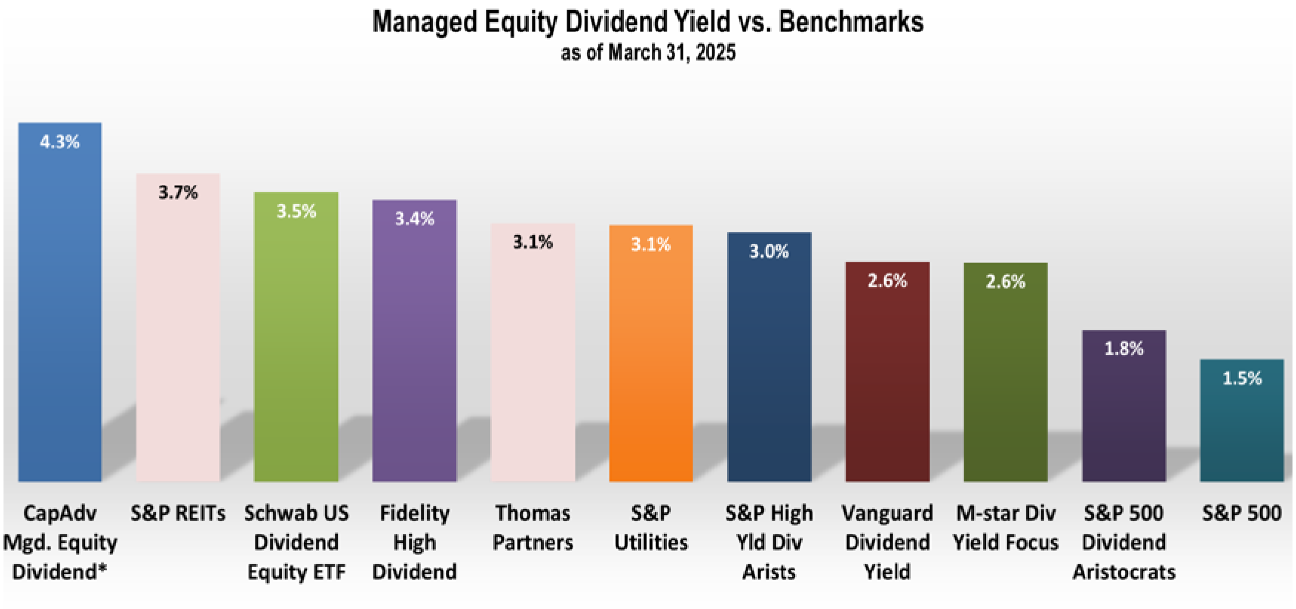
Source: Bloomberg. The S&P 500 Index is shown on a logarithmic scale

Managed Equity Dividend

The Managed Equity Dividend Strategy strives to maintain a highly competitive cash return – in the form of its dividend yield – and cash flow growth over time while providing attractive equity market exposure.

The following illustration shows the Strategy's yield versus available peers including high-yielding equity indices.

[3] Source: Bloomberg, Capital Advisors, Inc.



Dividend coverage ratio: 1.2 **Cash flow growth**: ~7%+ /yr (since inception, 1Q 2012)

Altman Z: 5.1 (above 3 suggest balance sheet strength. Excludes Financials)

Source: Bloomberg; Orion

The Strategy seeks to grow its dividend cash stream approximately 4%-6% over time and has outperformed that level since inception. The dividend coverage ratio shows that, on average, the Strategy's companies generate 1.2x more operating cash than necessary to cover their dividends. Altman is a commonly accepted financial ratio that measures balance sheet strength; above 3.0 is generally considered quite solid.

Fixed Income Strategies

The first quarter witnessed a steady trend lower in interest rates, reversing much of the increases late last year. However, since President Trump's reciprocal tariffs were announced on April 2nd, there has been a significant "flight-to-quality" march lower in yields, with Treasuries leading the way versus all other fixed income products. The market odds for the Fed to cut rates have increased to four or more cuts of 0.25% by year end.[4] We are not certain all of this comes to fruition as it appears the tariffs being imposed globally could cause near term inflationary pressures on goods (and services) which may keep the Fed at bay and "higher for longer". However, should economic data begin to weaken quickly and precipitously, possibly led by an increase in the unemployment rate, it is somewhat likely the Fed will be there ready to materially reduce its borrowing rate.

[4] Source: Bloomberg, World Interest Rate Probability, as of 4/04/25

Managed Credit Strategies

Within our *Managed Credit Strategies*, we are orienting the portfolios toward better credits, with roughly 75% of our clients' exposure to companies currently rated A- or better, on average.[5] 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 any potential slowdown in the economy.

Our overweight to investment-grade corporate credit underperformed Treasuries in the first quarter while our slightly defensive duration profile did not keep pace with broad markets following the modest price increases from falling rates. With interest rates somewhat lower than just a few months ago, we will still look to add interest rate risk but not go out in maturity much past 7-8 years. On a go-forward basis, portfolios are now yielding between 4.1% and 4.6%, depending on one's yield curve positioning.[6]

ETF Bond Models

Our *Aggregate Bond* ETF strategy remains 100% invested in "defined maturity," investment-grade corporate bond ETFs, which somewhat negatively impacted the model's performance relative to the benchmark in Q1 as corporate credit trailed Treasury returns. Today, there is a relatively conservatively positioned laddered maturity structure of ETFs ranging between 2026-2030, and the model carries an average net acquisition yield of approximately 4.4%.[7]

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). In Q1, the model underperformed the benchmark due to a slight underweight in interest rate risk and an overweight to investment-grade corporates. Looking forward, "AAA-rated" Agency Mortgage-Backed securities remain heavily weighted and have performed well in the most recent environment as corporate credit has softened. We continue to like the asset class as a yield enhancer to Treasuries and a diversifier to corporates. In addition, the potential for stable to declining interest rates could bring back incremental buyers of this high-quality asset class (i.e. insurance companies, banks, etc.) over the course of this year. Today, the strategy carries an average net acquisition yield of approximately 4.7%[8].

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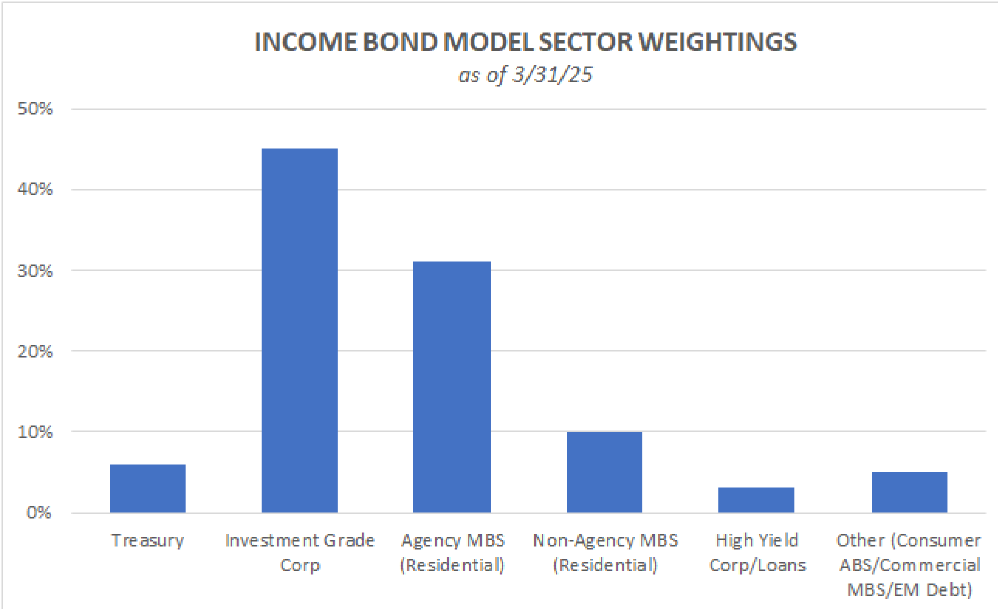
[5] Source: ORION

[6] Source: Bloomberg, ORION, as of 4/04/25

[7] Source: Bloomberg, iShares, State Street, as of 4/04/25

[8] Source: Bloomberg, iShares, State Street, as of 4/04/25



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

Municipal Bonds

Our *Municipal Bond* portfolios continue to be 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." High-quality municipal bonds may provide some stability going forward should risk markets experience continued bouts of volatility. However, the impending tax plan of the Trump administration could be a slight negative to municipal bond valuations should either personal or corporate rates incrementally decline from here *(the tax benefits would slightly decline for owning a municipal bond versus a taxable bond).* Meanwhile, municipal bond portfolios are now yielding between 2.7% and 3.3% tax free *(between 4.6% and 5.6% at the highest marginal federal tax rate)*[9] depending on one's curve positioning.

Tactical Global Growth Strategy

In early March we executed trades in this strategy to increase its allocation to **Emerging Markets** from 15% to 20%, while reducing the core allocation to **Global Equities** by five percentage points. This adjustment has been helpful so far, even though both sectors have been weak along with the entire global equity market.[10] The current weightings for the model portfolio are included below, along with a description of each investment vehicle included in the strategy.

[9] Source: ORION, Bloomberg, highest marginal tax rate of 40.8% = 37% federal plus 3.8% net investment income tax, as of 4/04/25

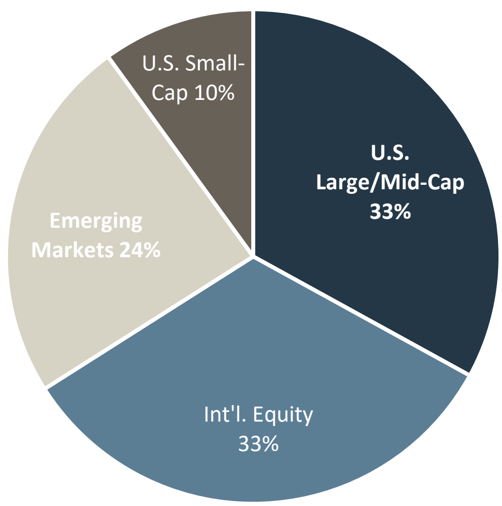
[10] Source: Bloomberg; From March 7, 2025, to April 4, 2025, VWO outperformed ACWI by approximately 1.9 percentage points

Tactical Global Growth Strategy
Model Portfolio
04-07-2025

Investment Vehicle (Ticker Symbol)	**Asset Market**	**Portfolio Weight**
iShares MSCI ACWI ETF (ACWI)	Core Global Equity	50%
Schwab International Equity ETF (SCHF)	Developed Int'l. Equity	20%
Vanguard Emerging Markets ETF (VWO)	Emerging Markets	20%
iShares S&P 600 Small Cap ETF (IJR)	U.S. Small Cap	10%

The geographic diversification of the portfolio is reflected below, including the "look-through" allocation within the Global Equity Index (ACWI), which encompasses the entire worldwide equity market, including domestic and international stocks from developed nations and emerging market countries.

Strategy Model
Geographic Exposure
04-07-2025



The increase in the allocation to Emerging Markets responds to a recent pickup in the relative strength of these markets within the global equity landscape, and it is consistent with a common view among many providers of long-term capital market forecasts, as illustrated in the table below.

Capital Market Assumptions
10-Year Return Forecast
Estimates for the Period 2025 to 2034[11]

	Equity Market Sub-Sector			
Institution	**U.S. Large-Cap**	**U.S. Small-Cap**	**Developed Int'l.**	**Emerging Markets**
Blackrock	6.2%	5.4%	8.0%	8.2%
Callan	7.5	7.7	7.5	7.7
Invesco	4.7	7.7	5.9	8.5
J.P. Morgan	6.7	NA	7.1	7.2
Ned Davis	6.9	6.0	7.7	7.9
Vanguard	3.5	5.2	8.3	6.2
Verus	5.3	6.3	6.7	7.0
Average	**5.8%**	**6.4%**	**7.3%**	**7.5%**

Past performance may not be indicative of future results

This table is derived from the 10-year "Capital Market Assumptions" of several large investment firms that have published their updated estimates within the past few months. Institutional investors frequently use long-term return forecasts like these as an input for designing investment portfolios or modeling future scenarios in a comprehensive financial plan. This table focuses on the four sub-sectors of the global equity market that comprise the investment universe for the *Tactical Global Growth Strategy*.

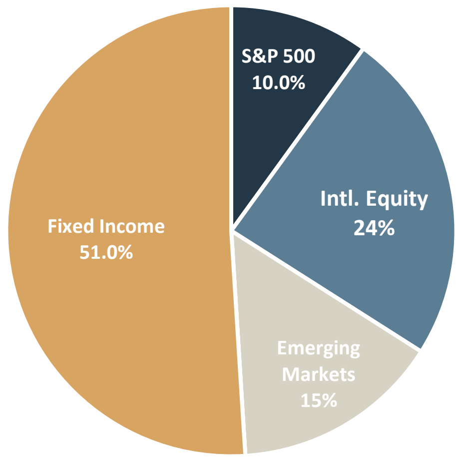
We use Capital Market Assumptions in the *Tactical Global Growth* strategy to help inform its asset mix across the dimensions of domestic vs. international equities, large-cap vs. small-cap, and developed vs. emerging markets. The current asset allocation for the strategy includes an active tilt in the direction of international equities and emerging markets relative to common benchmarks for the global equity asset class. We have also included a meaningful position in small-cap stocks to participate in a potential narrowing of the valuation gap between small-cap and large-cap companies, which has become historically wide in recent years.

Dynamic Allocation Strategy

This strategy held roughly half of its allocation in short-term U.S. Treasuries and cash reserves as of the end of March, providing a relatively defensive posture in front of the stock market weakness that accelerated in early April. A pickup in volatility toward the end of last year triggered a shift to a more conservative posture beginning in early December. If recent weakness persists, we expect this strategy to move to an even more defensive position with up to 90% of its allocation in Treasuries and cash reserves.

[11] Source: Blackrock, Callan, Invesco, J.P. Morgan, Ned Davis Research, Vanguard, Verus; Estimates published between Sept. and Jan. 2025

Dynamic Allocation Strategy
Allocation as of 3-31-25



We believe the *Dynamic Allocation* strategy can play a helpful role in the risk management discipline of a balanced portfolio. Each of the five equity market index funds (ETFs) within the strategy has an automatic sell discipline tied to its moving average trend line. In English, this means each sector will be sold when its trend line turns downward. Consequently, money allocated to this strategy can be expected to shift out of risk markets and into short-term U.S. Treasuries whenever downside volatility in the equity markets picks up.

Despite having the flexibility to shift almost entirely into short-term U.S. Treasuries during times of market stress, the strategy can capture a large portion of the upside whenever global equities experience a sustained advance.

The **S&P 500 Index** is a stock market index based on the market capitalizations of 500 leading companies publicly traded in the U.S. stock market, as determined by Standard & Poor's. The index is calculated on a total return basis with dividends reinvested and is not assessed a management fee.
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.
MSCI EAFE Small-Cap Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of small- and mid-cap stocks in the developed markets, excluding the U.S.
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.
Morningstar Dividend Yield Focus aims to track high-yielding, qualified dividend-paying, U.S. based securities screened for companies with financial health. The Index is calculated on a total return basis with dividends reinvested and is not assessed a management fee. It is not possible to invest directly in an index.
Bloomberg Aggregate Bond Index is an unmanaged index made up of U.S. Government, corporate, mortgage-backed and asset-backed securities rated investment grade or higher. The index is designed to measure the performance of the domestic investment-grade bond market.
Morningstar Dividend Yield Focus Index: A selection of 75 US stocks with relatively strong dividend yields and financial quality.
FTSE US High Dividend Yield ETF: Represents the performance of stocks characterized by above-average dividend yields based on the FTSE US High Dividend Yield Index.
Vanguard High Dividend Yield ETF: A passively managed ETF that seeks to replicate the FTSE US High Dividend Yield Index.
S&P US REIT Index: Defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States.
S&P US Utilities Index: Defines and measures the investable universe of publicly traded utility companies domiciled in the United States.
S&P 500 Dividend Aristocrats Index: Designed to measure the performance of S&P 500 index constituents that have followed a policy of consistently increasing dividends every year for at least 25 consecutive years.
S&P High Dividend Yield Aristocrats Index: Measures the performance of the 50 highest yielding companies within the S&P Composite 1500 that have increased their dividends every year for at least 20 years.
Fidelity High Dividend Yield ETF: Tracks the performance of large- and mid-capitalization dividend-paying companies in the Fidelity High Dividend Yield Index that are expected to continue to pay and grow their dividends.
Schwab US Dividend Equity ETF: Tracks the Dow Jones US Dividend 100 Index with companies characterized by financial quality and high dividend yields.

Estimated portfolio yield represents the 12-month run-rate of interest and/or dividend payments in a strategy divided by the market value of the securities and cash reserves invested in the strategy. Estimated interest/dividend payments and market values are calculated by a portfolio accounting system from *Orion* using a single client portfolio that Capital Advisors believes to be representative of clients' portfolios invested in the same strategy. The actual portfolio yield for any single client portfolio may be lower or higher than the yield quoted. The underlying holdings of any presented portfolio are not federally or FDIC-insured and are not deposits or obligations of, or guaranteed by, any financial institution.

Security Recommendations: The investments presented are examples of the securities held, bought and/or sold in the Capital Advisors strategies during the last 12 months. These investments may not be representative of the current or future investments of those strategies. You should not assume that investments in the securities identified in this presentation were or will be profitable. We will furnish, upon your request, a list of all securities purchased, sold, or held in the strategies during the 12 months preceding the date of this presentation. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities identified in this presentation. Capital Advisors, Inc., or one or more of its officers or employees, may have a position in the securities presented, and may purchase or sell such securities from time to time.

Items of Note Regarding Exchange Traded Funds: An Exchange Traded Fund (ETF) is an investment company that typically has an investment objective of striving to achieve a similar return as a particular market index. The ETF will invest in either all, or a representative sample of the securities included in the index it is seeking to imitate. Like closed-end funds, ETFs can be traded on a secondary market and thus have a market price that may be higher or lower that its net asset value (NAV). If these shares trade at a price above their NAV they are said to be trading at a premium. Conversely, if they are trading at a price below their NAV, they are said to be trading at a discount.

The information provided is supplemental to a fully compliant GIPS Report. A complete list of Capital Advisors' composites and performance results is available upon request. The actual return and value of an account will fluctuate, and at any time the account may be worth more or less than the amount invested.

Additional information, including management fees and expenses, is provided on Capital Advisors' Form ADV Part 2, available upon request or at the SEC's Investment Adviser Public Disclosure site, https://adviserinfo.sec.gov/firm/summary/104643

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