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Quarterly Markets Review

Q3

THIRD QUARTER 2022

MILL VALLEY / CA

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Markets Update: A Quarter in Review

THIRD QUARTER 2022

ECONOMY

What are now familiar headwinds – higher inflation, tightening global monetary policy, rising interest rates, weak economic growth, and geopolitical tensions — continued to pressure financial markets in the third quarter, with many economists debating whether we are currently in, or soon will be in, a recession.

With headline inflation seeming to have peaked as energy and gasoline prices eased, we saw stickier measures of inflation, like wages, food, and shelter persist higher. Coupled with a strong labor market and consumers continuing to spend amidst higher prices, the Fed has indicated a strong willingness to continue to raise interest rates. Some of the first global central bankers to hike interest rates outside of the US are now beginning to slow or stop hiking rates as the global economy slows and tighter monetary policy works its way through the financial system.

A soaring US dollar has raised concerns and proved challenging for global trade, businesses, and governments. This backdrop prompted the Fed to hike rates 75 bps in July and again in September. Central banks in Europe and the U.K. also raised rates amid soaring inflation, mostly due to energy price spikes from the war in Ukraine. In late September, the Bank of England launched a temporary bond-buying program to attempt to rescue U.K. government bonds and the British pound after a new government proposed tax cuts and fiscal stimulus in the face of 10%+ inflation.

The near-term uncertainty led to high volatility and losses for the quarter in global capital markets. We continued to harvest capital losses to help reduce tax liabilities for clients where it made sense throughout the quarter.

STOCKS

Global stocks were down -6.82% during Q3. Despite making a comeback in July and the first half of August, US stocks were down -4.46% to end the quarter. International developed stocks underperformed U.S. stocks, losing -9.2% for the quarter. Emerging markets stocks posted the worst regional results, down -11.57% for the quarter. Much of the decline in emerging markets is due to dollar-denominated debt repayment and weaker currency concerns.

The foreign currency conversion into US dollars masks the fact that many developed foreign stock markets have outperformed US stocks thus far in 2022 when measured in their local currencies. Over the long-run, currency fluctuations ebb and flow as they're traded and exchanged against one another.

There are many foreign companies that earn a large portion of revenues in US dollars but have a large portion of costs in their local currency. Those companies' profits have benefited from a strong US dollar. Many global companies, such as large US tech companies, derive a large portion of revenue from overseas. When they convert those revenues back to US dollars, their profits are squeezed.

Hedging currency is costly and difficult, and the volatility doesn't impact equites like it does bonds. Therefore, we maintain the foreign currency exposure with our global stock managers for diversification purposes over the long-term.

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Markets Update: A Quarter in Review (Continued)

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BONDS

With Treasury yields rising across the curve, U.S. fixed income index performances were mostly negative. The yield on the 10- year U.S. Treasury note topped 4% for the first time in more than 10 years, while the 2-year note was even higher as the yield curve remained inverted. US bonds were down -4.75% for the quarter. Global bonds ex-US were also down -2.21%.

Our active bond managers have been making changes to the underlying portfolio to take advantage of higher yields and change in the risk/return profile of the bond market. Overall, our shorter duration and higher quality fixed income bias has allowed us to protect more on the downside as longer duration bonds are more sensitive to rising interest rates, and credit spreads have generally widened, adding to losses in more speculative grade credit. Municipal bonds fared a bit better with the broad index down -3.46%. TIPS were among the worst-performing fixed-income sectors for the three-month period.

The broad aggregate bond index now yields close to 5%. For years, there was concern about whether diversified portfolios would meet their long-term return targets given the very low yields in fixed income. This is now a positive sign for future expected returns. Additionally, in the event of a more severe economic pullback or recession, these higher yields, coupled with stable cash flows and what would likely be a decline in interest rates in that environment, will help offset further equity declines. Fixed income remains an important portfolio diversifier and risk management position in our portfolio construction process.

REAL ESTATE

Global real estate was down -11.12% for the quarter, underperforming both broad stock and bond markets. US real estate investment trusts outperformed non-US REITs during the quarter, and in aggregate REITs were hit hard. We slightly reduced our target portfolio exposure earlier this year. There are many factors that impact various segments of the broad global real estate market, interest rates being one key factor. Real estate equity is a return enhancer to our portfolios, providing additional diversification and correlation benefits to more traditional stock and bond holdings.

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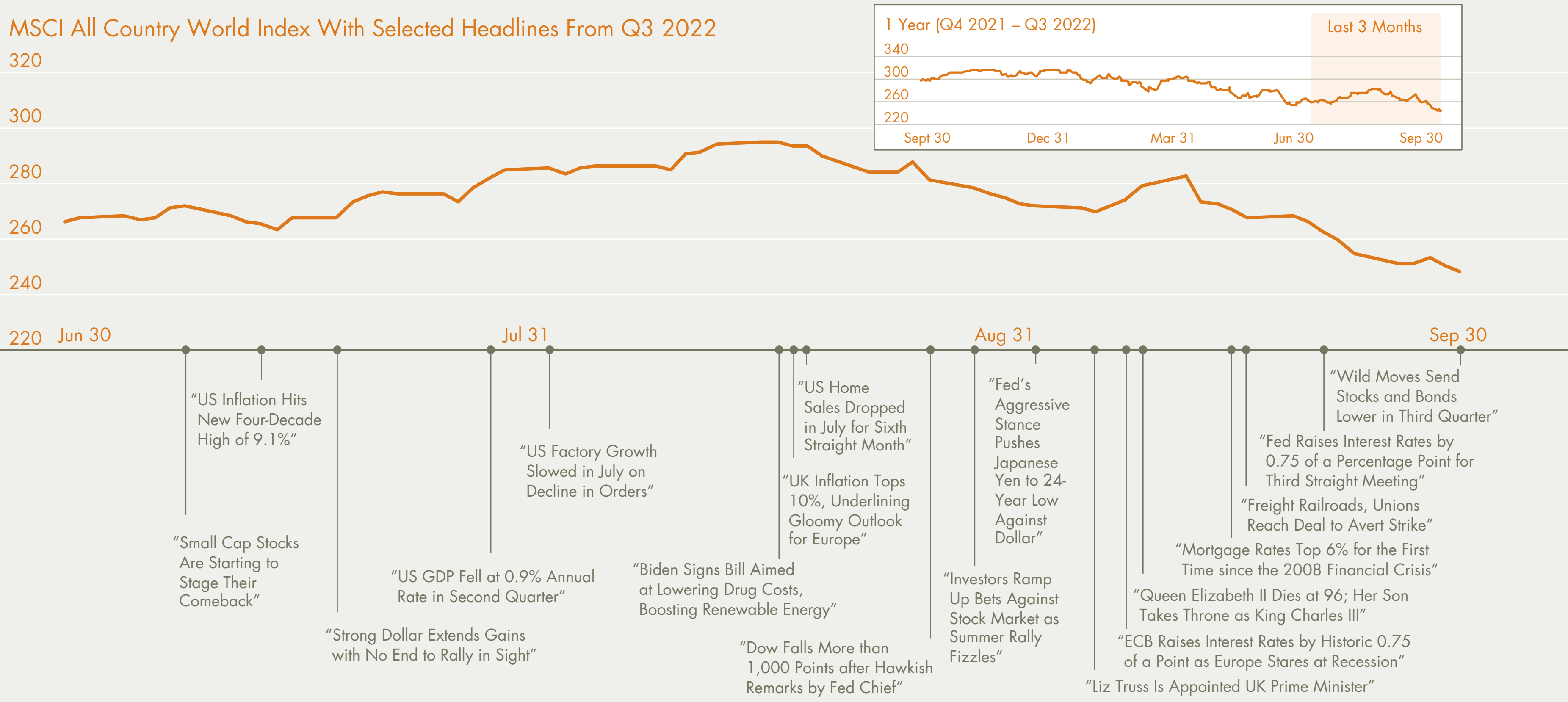
Market segment (index representation) as follows: Global stocks (MSCI All-Country World Index), U.S. stocks (Russell 3000 Index), International developed stocks (MSCI World ex USA Index [net dividends]), Emerging market stocks (MSCI Emerging Markets Index [net dividends]), US bonds (Bloomberg US Aggregate Bond Index), Global bonds ex-US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]), Municipal bonds (Bloomberg Municipal Bond Index), TIPS (Bloomberg US TIPS Index) and Global Real Estate (S&P Global REIT Index [net dividends]). *S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2022, all rights reserved.* *Bloomberg data provided by Bloomberg.*

THIRD QUARTER 2022

World Stock Market Performance: A Quarter in Review

MSCI All Country World Index With Selected Headlines From Q3 2022



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2022, all rights reserved.Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. For a description of indices, see Important Disclosures and Data Sources page.

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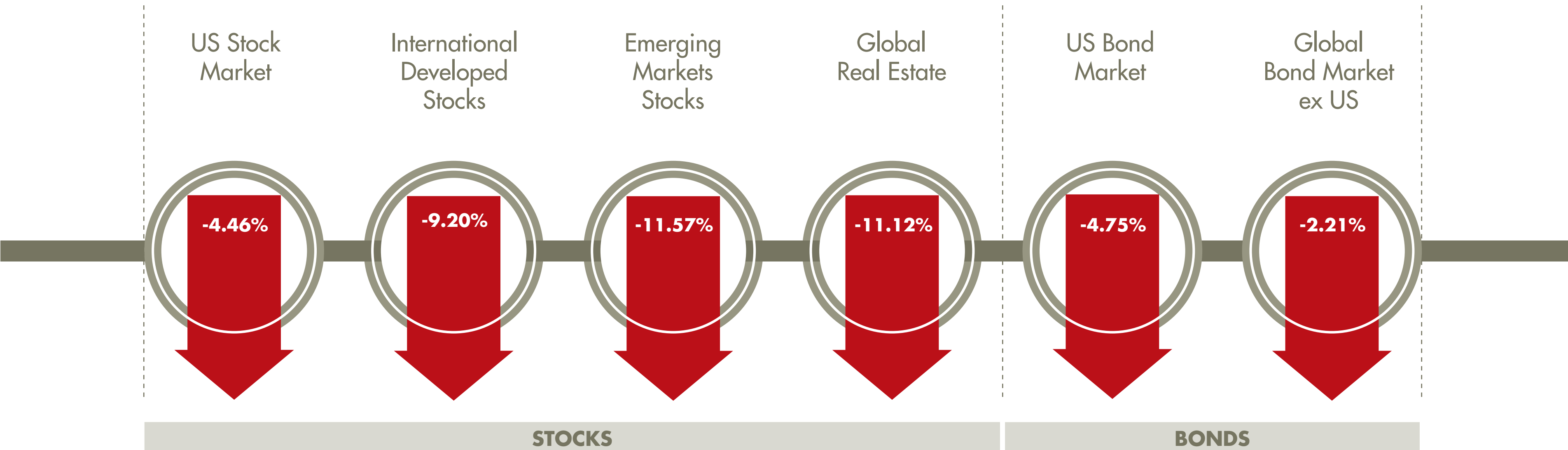
Markets Summary: Third Quarter 2022 Index Returns

THIRD QUARTER 2022



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Beyond the Quarter: Survey of Long Term Performance

AS OF SEPTEMBER 30, 2022

INDEX	5 Years %	10 Years %	20 Years %	Since Inception %	Inception Date
Global Stocks					
MSCI All Country World Index (gross div.)	4.96%	7.84%	8.5%	7.48%	JANUARY 1988
US Stocks					
Russell 3000 Index	8.62%	11.39%	9.93%	11.48%	JANUARY 1979
International Stocks					
MSCI World ex USA Index (gross div.)	0.12%	4.14%	6.62%	8.64%	JANUARY 1970
MSCI Emerging Markets Index (gross div.)	-1.44%	1.42%	9.10%	9.28%	JANUARY 1988
Global Real Estate Investment Trust Stocks					
S&P Global REIT Index (gross div.)	1.22%	4.68%	7.78%	7.77%	JULY 1989
Bonds					
Bloomberg Barclays U.S. Aggregate Bond Index	-0.27%	0.89%	3.08%	6.63%	JANUARY 1976
Bloomberg Barclays Global Aggregate Bond Index (hedged to USD)	0.32%	1.69%	3.25%	5.15%	JANUARY 1990
Inflation					
US Consumer Price Index*	3.82%	2.54%	2.50%	2.95%	JANUARY 1926

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**As of May 31st, 2022. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. For a description of indices, see Important Disclosures and Data Sources page.*

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Quarterly Article:
What Drives Investment Returns? Start with Ingenuity.

THIRD QUARTER 2022

Selected article by Weston Wellington, Vice President, Dimensional Fund Advisors

A recent news item reported that Frederick Smith intended to step down as Chairman and Chief Executive Officer of FedEx Corp., the largest air freight firm in the world.

As a Yale undergraduate in 1965, Smith wrote a term paper for his economics course outlining an overnight air delivery service for urgently needed items such as medicines or computer parts. His professor was not much impressed with the paper, but after a stint in the Air Force, Smith sought to put his classroom idea into practice. He founded Federal Express (now FedEx) in 1971, and one evening in April 1973, 14 Dassault Falcon jets took off from Memphis airport with 186 packages destined for 25 cities.

In retrospect, it was not an auspicious time to launch a new venture requiring expensive aircraft consuming large quantities of jet fuel. Oil prices rose sharply later that year following the Arab states' oil embargo, and the US economy fell into a deep recession. Most airlines struggled during the 1970s, and Federal Express was no exception.

But Smith's idea found favor with customers, and 49 years after its initial deliveries, the firm is a global colossus with over 650 aircraft, including 42 Boeing 777s—each of which can fly more cargo than 100 Falcons. Although it took over two years to turn its first profit, FedEx became the first start-up in American history to generate over $1 billion in revenue in less than 10 years without relying on mergers or acquisitions. The journey has proved rewarding for investors as well—100 shares purchased at the initial offering price of $24 in 1978 has mushroomed to 3,200 shares worth over $718,000 as of May 31, 2022.[1]

Fred Smith's idea is just one example of ingenuity that humans have exhibited for centuries. Sticks and stones led to hammers and spears, the wheel and axle, the steam engine, and eventually semiconductors and jet aircraft. The invention of writing made it possible to store and hand down information from one generation to the next, enabling ingenuity to compound into an ever-increasing body of knowledge. Although we often associate innovation with clever new technology, some remarkable developments have required little more than astute powers of observation. The curse of smallpox, for example, has afflicted humans with death or disfigurement for thousands of years. English doctor Edward Jenner noticed that milkmaids who had previously experienced cowpox did not catch smallpox, and in 1796, he took material from a milkmaid's cowpox sore and inoculated James Phipps, the nine-year-old son of his gardener. Later exposed to the virus, Phipps never developed smallpox, and Jenner published a treatise on vaccination in 1801. Smallpox vaccines gradually eliminated the disease in countries around the world, and the last known case was reported in Somalia in 1977.

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FedEx was the first US start-up to generate over $1 billion in revenue in less than 10 years without relying on mergers or acquisitions.

1. Stock split information sourced from FedEx investor relations website. Stock price information provided by Bloomberg. This is not taking into account cash dividends or any reinvestment.

Quarterly Article: What Drives Investment Returns? Start with Ingenuity. (CONTINUED)

One innovation often paves the way for others:

- Charles Lindbergh took off from Long Island for his historic transatlantic flight to Paris on May 20, 1927. That same day, J. Willard Marriott opened a nine-stool lunch counter serving cold A&W root beer in Washington, D.C. Ten years later he began to supply box lunches to airlines flying from nearby Hoover airport and 20 years later opened the world's first motor hotel in Arlington, Virginia. Today, Marriott is the world's leading travel firm, with over 8,000 hotel properties in 139 countries.
- The now-ubiquitous microwave oven can trace its roots to a happy accident. While working on radar equipment in 1945 for Massachusetts-based Raytheon, electronics engineer Percy Spencer noticed that the chocolate bar in his pocket had suddenly melted. His curiosity led to the introduction of commercial-grade water-cooled microwave ovens in 1947 costing thousands and ultimately to countertop units available today for $99.
- Frustrated by lengthy delays associated with loading and unloading cargo ships, trucking firm owner Malcolm McLean launched a shipping service in 1956 using standardized steel containers of his own design. Met with great skepticism when first introduced, his idea for theftproof stackable cargo boxes eventually transformed the global shipping industry—and world trade—by slashing dockside loading costs over 90%.
- On June 26, 1974, cashier Sharon Buchanan inaugurated the era of barcode inventory tracking when she scanned a pack of Juicy Fruit gum bearing a Universal Product Code at Marsh Supermarket in Troy, Ohio. Barcode scanners eliminated the drudgery and inevitable mistakes associated with manual entry by checkout clerks and provided store managers with powerful tools to track sales trends. As retailers such as Home Depot, Ross Stores, and Walmart expanded throughout the country in recent decades, barcode technology played a key role in matching inventory with local preferences at each location.
- In March 2022, a 20-year-old woman born with a small and misshapen right ear received a 3D-printed ear implant made from her own cells and shaped to precisely match her other ear. Although experimental, the procedure represented a significant advance in tissue engineering and could eventually lead to artificial organs such as lungs or kidneys.

The benefits of innovation are widely dispersed throughout the economy, often in unpredictable ways. Apple Inc. became one of the world's most valuable companies based on its clever marriage of the computer and the telephone; both iPhone users and Apple shareholders reaped substantial rewards.

On the other hand, suppose your fairy godmother had told you in 1935, at the dawn of commercial air travel, that this tiny sector of the economy would eventually become a gigantic industry with millions of passengers flying every year—including some flying from breakfast in New York to Los Angeles for dinner. What would your prediction be for industry pioneers such as TWA or Pan American? Most likely, bountiful prosperity and rewarding stock market performance. The millions of passengers materialized. The profits did not. Both firms went bankrupt. So innovation itself does not ensure prosperity in every case.

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Quarterly Article: What Drives Investment Returns? Start with Ingenuity. (CONTINUED)

That's why it makes sense to diversify. Investors are often tempted to focus their attention on firms that appear poised to benefit from innovation. But it's difficult to predict which ideas will prove successful, and even if we could, it's unclear which firms will benefit and to what extent. Software giant Microsoft has been a big winner for investors, with the share value soaring more than 100-fold over the 30-year period ending May 31, 2022. Discount retailer Ross Stores proved even more rewarding, as the stock price multiplied over 189 times during the same period. One firm developed powerful computer technology and the other applied it.

Civilization is a history of innovation—curious minds seeking to improve upon existing ways of meeting mankind's wants and needs. Public securities markets are just one example of such creativity, and they have a history of rewarding investors for the capital they supply to fund such innovation. But a significant fraction of the wealth created in public equity markets typically comes from only a small number of firms; therefore, we believe owning a broad universe of stocks is the most effective way to participate in the rewards of ingenuity and innovation, wherever and whenever it takes place.

Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.

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THIRD QUARTER 2022

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The MSCI ACWI consists of 47 country indexes comprising 23 developed and 24 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The Russell 3000 Index is a market capitalization weighted index that measures the performance of the 3,000 largest U.S. companies representing approximately 98% of the investable U.S. equity market.

The MSCI World Index ex USA is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index ex USA consists of the following 22 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 24 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, South Africa, Saudi Arabia, Taiwan, Thailand, Turkey and United Arab Emirates.

The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

The Bloomberg Global Aggregate ex-USD Bond Index is a broad-based benchmark that measures the performance of global investment grade fixed-rate debt markets that excludes USD-dominated securities. This index does not include bonds from the US. It includes treasury, government-related, corporate and securitized bonds from both developed and emerging markets issuers.

The Bloomberg Municipal Bond Index measures the performance of the Bloomberg U.S. Municipal bond market, which covers the USD denominated Long-Term tax-exempt bond market with four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

The Bloomberg US TIPS Index measures the performance of rules-based, market value-weighted, inflation protected securities issued by the U.S. Treasury. It is a subset of the Global Inflation-Linked Index (Series-L).

The S&P Global REIT Index is a float-adjusted market cap weighted comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets. It's rebalanced annually in September with share changes and IPO updates in March, June, and December.

Gross total return indexes reinvest as much as possible of a company's dividend distributions. The reinvested amount is equal to the total dividend amount distributed to persons residing in the country of the dividend-paying company. Gross total return indexes do not, however, include any tax credits.

Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

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