MARKET LETTER

PACIFIC PORTFOLIO CONSULTING, LLC

Second Quarter 2023

GLITCHES IN THE MATRIX?

The Fed is on pause. No, wait! Cancel that: it may just have been a "skip" masquerading as a "pause." Okay, so more interest rate hikes to come then. One? Two? Certainly not more than two!? And those 2023 rate cuts that markets have been pricing in since early March? Oh, okay; those are gone too now.

Well, how 'bout those stocks, though, am I right? With the exception of the strong start out of the gate we saw back in 2019, the S&P 500 just logged its best 1st half in 25 years – that following 2022's absolute worst first half in 60 years! Now, after bouncing around in a trading range for a little over a year, stocks have broken out to the upside, supposedly leaving us with a brand spanking new "Bull Market;" isn't THAT something! Of course, longer-term interest rates were also rangebound for a year or so and recently seemed to be looking for a chance to break out to the upside… No big deal, though, because market leadership…it's rotating, it's broadening, it's…actually, no, it's not really doing any of those things, not yet anyway. For now, it's still the most concentrated it has ever been. All while the VIX index – Wall Street's infamous "Fear Gauge" – is effectively telling us to just hit snooze and roll over. What, me worry?

Then there is the coup in Russia; or not, as the case may be. In fact, just forget I said anything; apparently there is not nor has there ever been an attempted coup in Russia, nor is there anyone by the name of Yevgeny Prigozhin, although, if there were, he would no doubt be on a very extended holiday at some sunny beach resort in Minsk. He most definitely would not be in the process of having any trace of his existence erased by a certain fading leader of a certain fading "superpower" grasping at straws to go out in a blaze of glory and not an anticlimactic fizzle of irrelevance and scorn (not to mention the contempt and loathing of most of the free world).

Is your head spinning at this point? Quite frankly, I struggle with it myself. There is just an awful lot to unpack here and, at first glance at least, the most conclusive finding we are likely to be able to extract from this dataset is that current conditions may provide the most convincing proof to date that we are NOT, in fact, living in a simulation…since you literally could not make this stuff up!

Now, some of you are no doubt starting to wring your hands at the prospect of trying to impose any kind of meaningful standard of reason and logic on the financial markets; "Markets are dynamic, emotion-laden…they're a forward-looking discounting mechanism! They're…irrational!!" All of those things are certainly true, even that last one at times; and yet here we are. Much as we may all want to simply throw up our hands and say, "BEATS ME!!" none of us has that luxury right now. In fact, it is at times like this that clarity becomes all the more important. So we parse and decipher streams of data, evaluate models, and assess probabilities, working to piece together the narrative and achieve the necessary conviction that current price remains a reasonable representation of long-term value.

Putting it kindly, I think it's fair to say we are still somewhat short of that bar at this point. Certainly, it is pretty straightforward to see what is happening, if not always the "why." The "what next" question, however, is more challenging and can easily lead to (cognitive) network connectivity issues before beginning to overheat our core processors. Ultimately, the output from this process leans heavily, for the time being, towards a likely continuation of the recent discomfort – unusual for a rising market environment – caused by a seeming disconnect between what is and what the anecdotal evidence seems to be telling us "should be." As we progressively work our way through this tension, there will certainly be some risks to keep an eye on, given some excesses we perceive in the current market backdrop; nonetheless, we see these as paired with the potential for favorable but more normal market moves – some might even call them "modest" relative to recent gains – provided a number of conditions are met in the months and quarters ahead.

WHICH PILL WILL THE ECONOMY DECIDE TO TAKE?

Butchering a quote from Morpheus, "It's like a splinter in your mind…there's something wrong with the world." And, indeed, there would certainly appear to be from where we sit. I might have missed the memo but weren't we "supposed" to be heading into the throes of a recession right about now? We certainly thought so but clearly someone forgot to tell the economy, the new favorite watchword for which is "resilient!" (and a well-deserved one at that). Growth certainly

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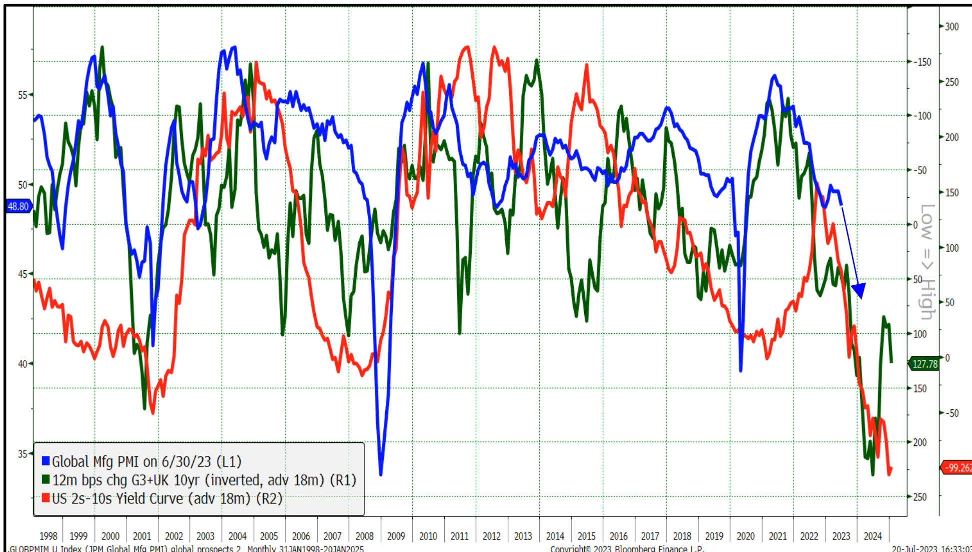
has slowed but is proving surprisingly tenacious nonetheless, given we have just experienced the most rapid monetary tightening in modern memory (and there is still a small ways to go), and has, thus far, refused to go negative.

Of course, the bond market seems to have its doubts about the sustainability of that whole state of affairs. As the Fed has made clear that it intends to keep its boot squarely on the neck of inflation and has pushed short-term interest rates ever higher, longer-term rates set by the bond market have not even attempted to keep pace. This has placed the yield curve – aka everyone's favorite harbinger of doom – in the deepest and longest inversion (i.e., yields for short-term bonds are higher than those for long-term bonds) since Paul Volcker laid the smack down on inflation back in the early 1980s. This is not by chance: the bond market is sending an equally unambiguous message of its own, clearly signaling its view that the Fed will take things too far – as it always has before – and be forced to ease in an effort to bolster (or even rekindle) economic growth.

Chart 1: Can Ignorance Truly Be Bliss?

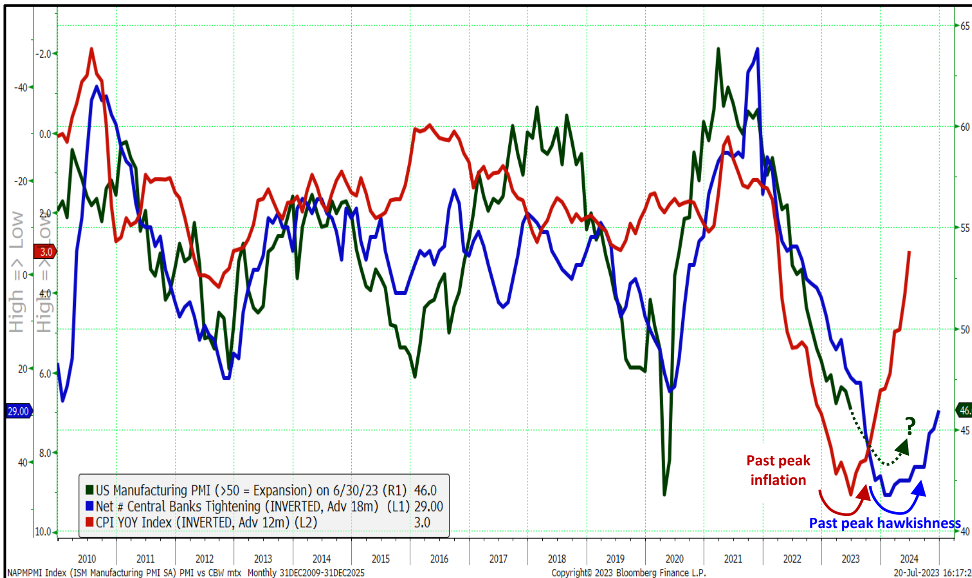


Take the blue pill and believe whatever you want to believe. That will not change the fact that economic activity – on the basis of any fundamental measure that has ever seemed to matter or provide the slightest bit of pertinent economic insight – has to come down. The cost of money – as measured by the yields payable on high-quality government bonds – has soared over the past 18 months. The bond market, for its part, appears to have taken the red pill and is now SCREAMING recessionary warnings to anyone willing to listen, as the US yield curve is deeply inverted. There is not only an intuitive logic to these indicators but their leading relationship to the pace of US and global economic activity long-standing and well established. As a result, while bumping out our timeframe modestly out from the 2nd half of 2023 to some time in 2024, we retain our view that the economy is still headed towards recession (albeit a fairly brief and shallow one).

With the Fed poised to raise rates at least once (which likely will have occurred by the time you read this) and potentially once more after that, the most likely outcome from this sort of dynamic seems relatively clear to us. In fact, although we may all have lost sight of it in the wake of the crisis-dominated conditions we have experienced over the past 20+ years, there is a fairly well defined chain of events that typically plays out in this phase of the economic cycle (which, as a reminder, has not been repealed). Let's go over the checklist together, just to make sure we are on track! Start with an over-stimulated economy (Check!) that drives inflation higher (Check, Check!), causing monetary authorities to begin withdrawing accommodation from the economy – i.e., raising interest rates – and (certainly in this case) eventually tightening to the point where they are actually starting to restrict activity (Check, Che...well, you get the idea). Now, as a tipping point is reached, the knock-on effects of this process start to fall into place fairly quickly; the economy begins to slow, inflation pressures start to ease, unemployment goes up…Wait, what?! Well, yes, of course; that should not come as a surprise: unemployment goes up, as rising interest rates increase the cost of doing business and projects that previously appeared profitable are abruptly shelved, existing operations are told to "get lean," and unprofitable companies that were only being kept alive by uber-cheap credit simply disappear. Voilà: workers are laid off, furloughed, or simply have their hours cut, giving rise to higher unemployment and underemployment.

Except that, so far in this cycle, higher unemployment is the missing link, the invisible man, the ghost in the machine…Unemployment is near its lows for the past 50 years, some 10 million jobs remain unfilled, and job creation – while moderating – continues to steadily outpace expectations. Could it be? Is it possible that Jerome Powell really is "The One"? Is the Federal Reserve actually poised to successfully thread the needle once more? And I say "once more" quite pointedly, as it has only ever been done once. Ten US recessions over the last 70-odd years and the Fed was (or had just finished) tightening into **every single one of them** and there is, in fact, only a single instance of material Fed tightening that did not end up pushing the economy into recession, when they raised rates by 3% in just over a year back in 1994. Of course, they've raised them by 5% in roughly the same amount of time this go around; oh, and GDP growth was 5.5% back then, not the meager 2% or so we currently face. This may help explain my personal skepticism towards the likelihood of a "soft landing." Don't let them fool you either: some are now using the term "soft landing" to describe anything shy of a deep recession, but the rules of the game are set at the time gauntlet is first thrown down and cannot be changed! A "Soft Landing" implies the Fed will somehow beat inflation without tipping the economy into recession at all.

Chart 2: Behold The "Real World"…Maybe It's Not So Bad(?)



Although it remains our view that inflation will take some time to get back to the Fed's 2% target, we have little doubt that we passed the worst of it a year ago, since which time progress has been quite substantial. This aligns with our view that global central banks are past their peak hawkishness as well, that while there remains a bias to tighten further for the time being, we are now close to the end of this monetary tightening cycle. Consistent with the historical relationships by which these factors tend to lead the level of economic activity, we see some incremental downside to the pace of activity over the coming 6 to 12 months – consistent with our outlook for recession – but of a fairly limited nature, consistent with what the economy might have seen in the "days of yore," prior to becoming fixated on the bubble- or crisis-induced lurches we have periodically been subjected to over the past 20 or so years.

There is another scenario that, in fairness, we should at least consider, one that could play out squarely in the Fed's favor – and, make no mistake, they will not hesitate to take credit for it if it happens – and that is the possibility of a mid-cycle slowdown. Such events are relatively common, having occurred in roughly 50% of the economic expansions over the last 70 years; these consist of periods of time between recessions during which the pace of economic activity weakens considerably but the economy as a whole manages to skirt a sustained period of contraction before finally reaccelerating. This idea has been gaining some popularity recently, as growth has remained modestly positive, the labor market has held steady, and – more recently – the administration in DC has begun touting the beneficial impact of the meaningful fiscal stimulus of Bidenomics' infrastructure spending.

Humbly, we beg to differ with all of the above: with growth having inflected lower, an already restrictive Fed poised to tighten further, and a broad swathe of leading indicators pointing towards further weakness, a brief and shallow recession remains our base case for the time being. We also beg to defer, however: economic growth having proven remarkably stubborn thus far and refused to go along with the broad-based, meaningful contraction scenario necessary to meet the true (and not merely technical) definition of recession, we have shifted our outlook on the timing of the downturn from the latter half of the current year to some time in 2024. Of course, as we always attempt to convey in the most blunt and unambiguous terms we can find, please know that such events are notoriously difficult to try to time – so don't do it! However, if we were – strictly for our own amusement, of course – to refer to Chart 2, above, in order to examine the dynamics of the factors that have led to a softening (but not capitulation) of global growth, it might be tempting to infer that the level of economic activity (as proxied by the US manufacturing PMI index) would be likely to trough around the end of the first or some time during the second quarter of 2024. Since it would be extremely unusual to see the PMI bottom ahead of the recession, one could then assume that the start of the new year represents as good a place as any to pin the tail on the economy.

WHOA…DÉJÀ VU!

History – market history, that is – does not repeat, it is true, although it certainly does often rhyme. I routinely find myself railing against one of the market's favorite battle cries – say it with me: "This Time It's Different!" My reaction, however, is in response to the way it is almost always used – i.e., as an excuse to do something that goes against traditional investing wisdom or an existing long-term investment plan – most often, in some aspect of discipline and risk control. The truth is, however, that it is always different; each cycle plays out with its own unique personality, its own drivers, timing, areas of excess, and areas of neglect. Inevitably, though, there are similarities between market cycles – at times, enough of them to send a tingle down your spine that says, "we've been here before and I'm not sure how I feel about it!" For example, if you are a seasoned veteran in the investment arena, I'll venture a guess that the first thing that comes to mind as you look at the current market backdrop is the late 1990s: a concentrated market, broad and sustained divergence not only between growth and value stocks in general but, more specifically, between a tight-knit contingent of so-called "horsemen" stocks – the same names, many of them tech stocks, leading the market higher day after day after day – and the broader market as a whole, to the point where these high-flyers not only rack up massive gains but sport seemingly eye-popping valuations that cannot help but give an investor pause…for the market, however, there has been no pause.

Chart 3: Not A Matter Of Hope, Simply A Matter Of Time

Make no mistake: the stock market definitely is up; it just isn't nearly as impressive as it may appear on the surface. You see, much of the market's year-to-date gains have been driven by a very small cohort of stocks: the very largest and growthiest of US companies, with bonus points if even a semi-plausible case can be made to tie it in to the AI craze. I present to you the "AMANTAMA"*…okay, so it doesn't exactly roll off the tongue; things were a lot simpler in the days of the "FAANGS." Let's simply refer to them here as the "Great 8" due to their number (duh) and the staggering gains they have exhibited so far in 2023: a market cap-weighted portfolio of these stocks would be up a whopping 70% so far in 2023 (as we write this three weeks into July)! Not only does this eclipse the gains in the broader S&P 500 index but – quite perversely! – the majority of the gains in the S&P itself are due to these same stocks due to the massive weightings they hold in the index! Read that again until it makes sense. Take that same portfolio of 500(ish) stocks and weight them equally and watch how the "market" suddenly goes from +18% year-to-date to roughly +9%. Having so much of the heavy lifting resting on the shoulders of such a small number of stocks isn't exactly the healthiest foundation on which to build a sustainable bull advance. While the market's shenanigans could conceivably go on for some time – having already lasted longer than anyone expected – we will quote the Oracle in saying "Everything that has a beginning has an end." We echo those same sentiments with our view that market leadership will, indeed, rotate, though we note that this could occur one of two ways: either the broader market catches up while the high-flyers take a breather (our expectation) or the broad market holds up better in a downdraft as the prior market darlings come back to earth.

** AMANTAMA = Apple, Microsoft, Amazon, NVDIA, Tesla, Alphabet A, Meta, and Alphabet C*

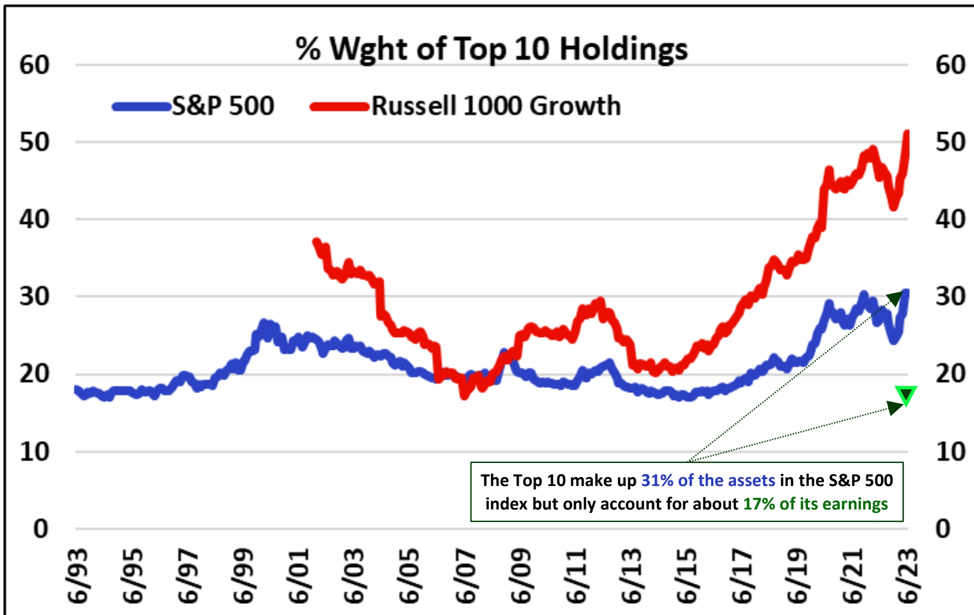
Of course, there's an equally relevant comparison that could be made to appeal to the relative newbie investor as well: the truth is, one need not look back at any of the prior market cycles but merely at an earlier phase of the current cycle – say, the several years prior to the 2022 bear market – to find a fairly similar, if less extreme, example of momentum and concentration.

On the bright side, this has given rise to some very nice returns…for the market indices, that is. The S&P 500, the bellwether, marquee index, proxy of all proxies for stocks in general gained a very impressive +8.74% in Q2, piggybacking on its equally robust +7.50% in the 1st quarter to boast a nearly +17% gain year-to-date, just outside the top ten percent of six-month showings over the past 40-odd years. Of course, as Chart 3 (above) attempts to highlight, distribution of the spoils from this market boom have been far from uniform. In fact, a disturbing portion of the gains of the index have been a result of the utterly massive appreciation of a handful of stocks that carry the largest weight in the index. Of course, given the market-cap weighting of indices like the S&P 500, the more such stocks gain in value, the larger and larger their allocation becomes, leading the trillions upon trillions of dollars of passively invested capital to buy more and more of them, thus creating a virtuous circle, albeit one with potentially vicious consequences. Throw in an unhealthy dose of speculation from FOMO investors watching all of this unfold and things can get quite out of hand.

And, indeed, they have. A market capitalization-weighted basket of stocks we have dubbed the "Great 8" (see text box above for a definition) was up a dizzying +70% year-to-date through the third week of July, nosebleed heights compared to the benchmark, let alone the rest of the broader market. While reminding ourselves that markets often can stay irrational longer than those who bet against them can stay solvent, we recognize that there is no law of market physics that says these stocks need to come back down to earth any time soon. This basket of eight stocks currently trades at a price-to-earnings multiple of 36.5 times estimated next twelve months' earnings. The S&P 500 is at 20 times (and even that doesn't exactly scream "bargain"), value stocks are at 15 times, and foreign developed markets are at 13 times. You tell me: is a P/E of 36.5 times earnings for these high-flyers crazy? And, if so, how much crazier would a 40x or even 45x multiple be??

I'll let you off the hook: the answer to the first questions is "Yes, it is" and to the second is "Not that much crazier!" So we could go there at some point – not something I expect, but stranger things have happened. At the end of the day, though, the market cares about earnings; that is what investors are ultimately buying and the bottom line is that this handful of stocks just doesn't have enough of them. Make no mistake: many of these companies have posted strong earnings and the outlook within the analyst community is good (when has it ever not been?) but when the top 10 stocks in the S&P 500 have grown to represent 31% of the index but are only kicking in around 17% to the index's earnings, you have to begin to question the market's math. Some of these stocks have gotten to the point where they appear to be pricing in some very rosy scenarios with precious little room for error. This is not to say that you should not own any Apple or Microsoft – that's not good risk control – but simply that a meaningful and durable rotation in market leadership is likely imminent and, in fact, will likely prove necessary in order stocks to continue to advance meaningfully from here – i.e., in order for this new "bull market" to be anything more than theoretical.

Chart 4: Actually, Yes, There Really Is A Spoon



I could just as easily have called this "Houston, we have a problem!" I know everyone loves a high-flyer, a stock that can apparently do no wrong and simply grows and grows, seemingly to the sky. Except that trees do not grow to the sky. At this point, the market's darlings have ballooned in their representation in the primary stock market indices, leading to a higher degree of concentration in the benchmarks than was the case even back in the dot-com era. Meanwhile, while no one could dispute the fact that the top stocks are carrying more than their fair share weight in terms of contributing to the market's advance, some might question – and rightfully so – whether such courageous leadership could survive a gut-check: simply put, the earnings power of these stocks, while impressive, is a mere shadow of their weightings in the index. A corollary of this is that the "market" as represented by the index does not exactly look cheap, the top stocks look priced to near perfection, and the rest of the market may potentially hold some attractive opportunities. If nothing else, this broader group of forgotten and (temporarily) unloved stocks is likely to begin converging with the leaders, either playing catch-up or, failing this, holding up better in a market downturn should the high-flyers' wings begin to melt. So, rather than simply looking to transcend the situation, we can – and should – make the necessary conscious choices to manage risk, avoid excessive concentration, and remain diversified and long-term focused.

In fact, we have already started to see some very sporadic bursts of life from mid- and small-cap stocks, as well as foreign developed and emerging market stocks, though these have, thus far, fallen fairly quickly under the hooves of the market darlings. Thus, all things small-cap, value, and foreign – basically anything outside of the S&P 500 and/or the tech sector – tended to work against you for most of the second quarter. The winds of change looked to be mustering to bluster as the quarter drew to an end and, so far in Q3 (and note that we are only 3 weeks or so into it), markets have begun to exhibit a somewhat more balanced tone. We expect this to continue; we remain positioned with a modest bias towards value stocks, one we will likely retain through the remaining two hikes we expect to see from the Federal Reserve (although our outlook on this front, like the Fed's, will remain data-dependent), while having shifted incrementally towards foreign equity (though still retaining a slight "home country" bias relative to the global equity benchmark index).

I Can Only Show You The Door

You're the one that has to walk through it. On the other side lie strategy, patience, risk management, and discipline. Crossing that threshold, you leave behind speculation, fast money, and FOMO; in return, you gain peace of mind and likely your best chance at successfully achieving the long-term goals you have laid out in your financial plan.

Note, of course, that "peace of mind" does not necessarily equal "comfort" – frankly, we are not expecting a whole lot of that. The US and global economies will likely continue to walk a fairly precarious path for the time being, as central banks continue to tighten policy – another couple of quarter-point hikes (inclusive of July) is our view for the Fed – and we continue to inch our way towards recession. It is our expectation, however, that the Fed will be sitting on the economy for some time even once it is done tightening; frankly, at this point, something big would have to happen – a so-called "exogenous shock," econospeak for a really bad thing that no one saw coming – to jolt the FOMC into easing mode any time soon under any scenario short of recession. As we have discussed herein for some time now, the monetary authorities clearly waited too long to get started and have since not been shy about breaking a few eggs in their efforts to whip up an inflation-control omelet. It seems unlikely they would risk taking their foot off of the brake too soon and potentially allow for a reescalation of inflationary pressures – particularly since this is the exact mistake made by the Fed in the early 1970s that led to massive runaway inflation later that decade.

We remain of the view that the recession we expect this course of action eventually to produce should be both brief and shallow. While consumers have tried to keep the post-COVID stimulus party going by supplementing spending with some of their prior excess savings, things do not look as though they have gotten out of hand. On the corporate front, meanwhile, while bankruptcies have been edging steadily higher since the Fed lifted rates off of the zero bound – just as one would expect – the overall level continues to look extremely benign by historical standards. As we move closer to the onset of this inflection in the economic cycle, however, we will continue to evaluate a move to reduce our value bias and be more style-neutral, given the benefit growthier – and, thus, "higher duration" aka interest rate-sensitive – stocks should enjoy as interest rates come down.

There is certainly more than enough potential for market volatility between now and then and a pullback or correction should be considered a distinct possibility. Having said that, however, we would not anticipate any such move to take us back to the October 2022 equity market lows. Nonetheless, there has been an awful lot of repositioning and short covering over the past couple of months and investor sentiment, while not jubilant, has moved up quite a bit, potentially taking some of the juice out of the market. Despite the presence of a staggering $5.5 Trillion (yes, with a "T"!) currently stashed in money market funds – representing an enormous amount of dry powder – such funds can currently earn around 4.5% effectively risk-free (never reach for yield!) and, thus, may not be in any real hurry to flow back into stocks or bonds until the right opportunity presents itself (or money market yields go back down).

Speaking of bonds, they continue to play a key role in diversified strategies and, following the battering they took in 2022 paired with the waning risk posed by the Fed, appear to have a considerably better risk-reward tradeoff than they have for some years. While credit risk may come back to haunt you – or, I should say, excessive credit risk, since a reasonable amount is nothing more than diversification – over the course of the recession, duration exposure should prove beneficial, as interest rates should come down fairly quickly and substantially at that time, an environment in which high-quality intermediate-term bond exposure should perform quite well.

In closing this quarter's piece – and once again paraphrasing from The Matrix (if you are not a fan, I apologize – maybe next quarter's will be more your cup of tea!) – I will simply say that we "don't know the future" and we "didn't come here to tell you how this is going to end." We did, however, come here to remind you that your long-standing discipline and process is working for you. The short-term gyrations are always going to grab your attention, just as they are always going to grab the headlines, but those are not what are going to determine the outcome…unless you hand over your power to them. Stick with the plan, you're doing great! Let our Investment Committee do the worrying; we're keeping a close eye on things and will continue to make modest course adjustments as required. For now, enjoy what's left of the summer and, only if you have nothing better to do, go ahead and reach out to your advisor, our CEO, Larry Hood, or me with any questions or concerns.

-Jim Ayres, CIO

2ND QUARTER 2023 CAPITAL MARKET PERFORMANCE

Index (as of 6/30/2023)[1]	1 Qtr	YTD	1 Year	3 Year	5 Year	10 Years
FTSE 3-month T-Bills	1.25%	2.39%	3.75%	1.33%	1.57%	0.98%
Bloomberg Barclays Gov't/Credit Int.	-0.81%	1.50%	-0.10%	-2.46%	1.23%	1.41%
ICE BofAML US High Yield	1.60%	5.34%	8.88%	3.20%	3.19%	4.33%
Bloomberg Barclays Multiverse	-1.39%	1.59%	-0.82%	-4.67%	-0.94%	0.35%
S&P 500	8.74%	16.89%	19.59%	14.60%	12.31%	12.86%
Russell 1000 Value	4.07%	5.12%	11.54%	14.30%	8.11%	9.22%
Russell 1000 Growth	12.81%	29.02%	27.11%	13.73%	15.14%	15.74%
Russell Mid Cap	4.76%	9.01%	14.92%	12.50%	8.46%	10.32%
Russell 2000	5.21%	8.09%	12.31%	10.82%	4.21%	8.26%
Russell 2000 Value	3.18%	2.50%	6.01%	15.43%	3.54%	7.29%
Russell 2000 Growth	7.05%	13.55%	18.53%	6.10%	4.22%	8.83%
MSCI EAFE	3.22%	12.13%	19.41%	9.48%	4.90%	5.91%
MSCI EAFE Small Cap	0.80%	5.89%	10.71%	6.15%	1.72%	6.59%
MSCI Emerging Markets	1.04%	5.10%	2.22%	2.72%	1.32%	3.33%
MSCI Frontier Markets	2.32%	5.57%	-1.87%	4.17%	1.14%	3.02%
Wilshire US REIT	3.31%	6.74%	-0.31%	8.55%	4.40%	6.39%
DJ Global Select RESI	1.06%	2.56%	-2.52%	5.79%	0.97%	3.91%
Bloomberg Commodity Index	-2.56%	-7.79%	-9.61%	17.82%	4.73%	-0.99%
IQ Hedge Multi-Strategy	2.28%	5.40%	6.95%	1.49%	1.85%	2.76%
Domestic Balanced	4.88%	10.57%	11.68%	7.80%	8.16%	8.42%
Global Balanced	3.47%	9.07%	10.22%	5.99%	5.98%	6.34%

[1] The Bloomberg U.S. Government Credit Intermediate and Multiverse indices are registered service marks of Bloomberg Finance LP. The ICE BofA US High Yield index is a registered service mark of Intercontinental Exchange; the S&P 500 Index is a registered trademark of the McGraw-Hill Companies, Inc.; the Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell Mid Cap, Russell 2000, Russell 2000 Value, and Russell 2000 Growth indices are registered trademarks of the Frank Russell Company; the MSCI EAFE and MSCI Emerging Markets indices are registered trademarks of MSCI or its subsidiaries; the Wilshire REIT index is a registered trademark of Wilshire Associates Incorporated; the DJ global Select RESI index is a registered trademark of Dow Jones Trademark Holdings LLC; the Bloomberg Commodity Index is a service mark of Bloomberg Finance L.P.; the IQ Hedge Multi-Strategy index is a trademark of New York Life Investment Management LLC. The Domestic Balanced benchmark represents a blend of 60% S&P 500 and 40% Bloomberg US Intermediate Government/Credit, rebalanced monthly, while the Global Balanced benchmark represents a blend of 60% MSCI ACWI and 40% Bloomberg US Intermediate Government/Credit, also rebalanced monthly.