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Q2 2021 Investment Outlook

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04-20-2021

WORLD ECONOMIC OUTLOOK APRIL 2021

GROWTH PROJECTIONS BY REGION

(PERCENT CHANGE)



UNITED STATES



EURO AREA



MIDDLE EAST AND CENTRAL ASIA



EMERGING AND DEVELOPING ASIA



LATIN AMERICA AND THE CARIBBEAN



SUB-SAHARAN AFRICA



IMF.org/social

Source: IMF, World Economic Outlook, April 2021.

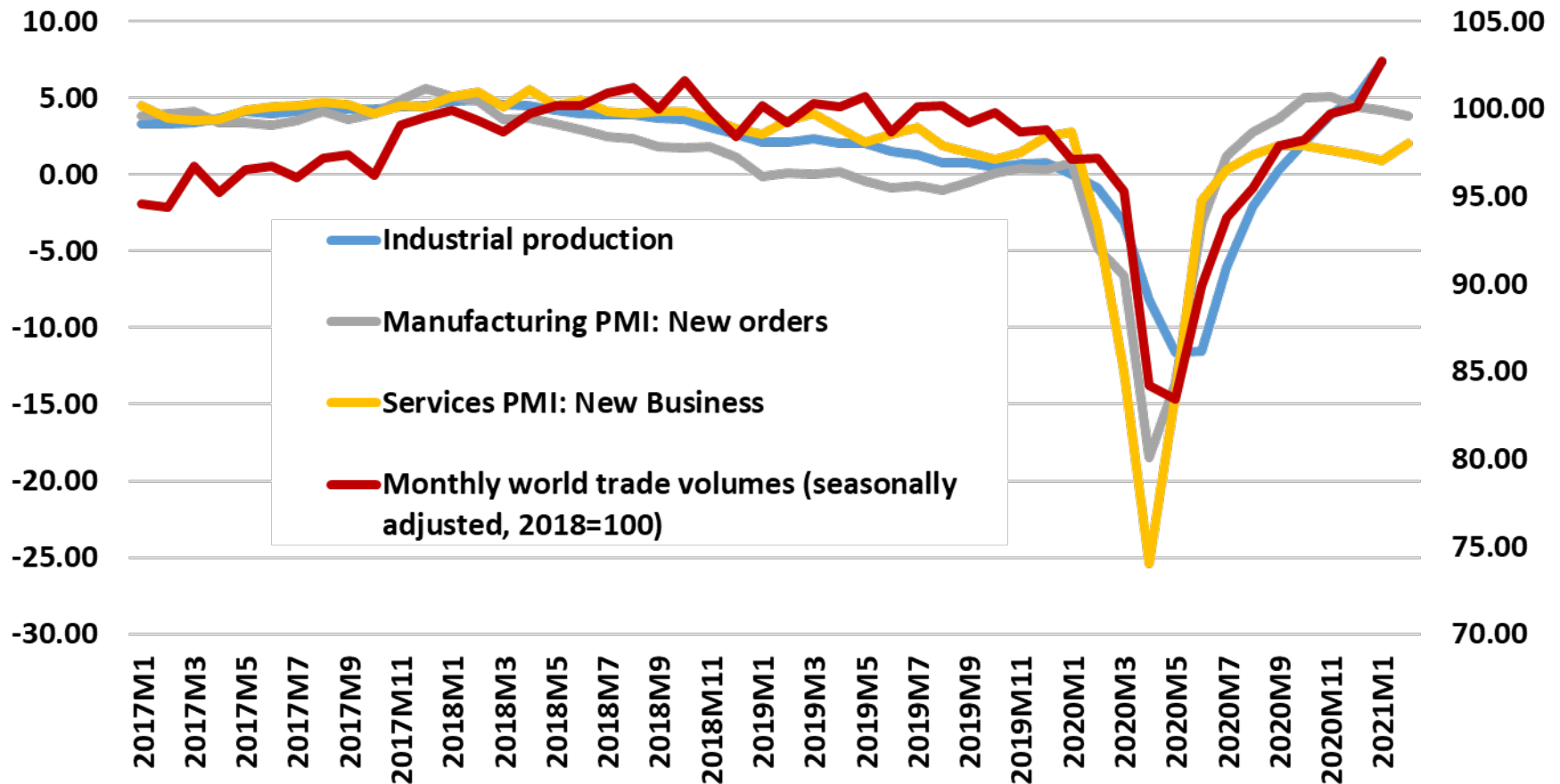
Note: Order of bars for each group indicates (left to right): 2020, 2021 projections, and 2022 projections.

Source: International Monetary Fund World Economic Outlook March 23, 2021

The global economy has responded to Vaccine delivery, Fiscal Stimulus and Central Bank Easing

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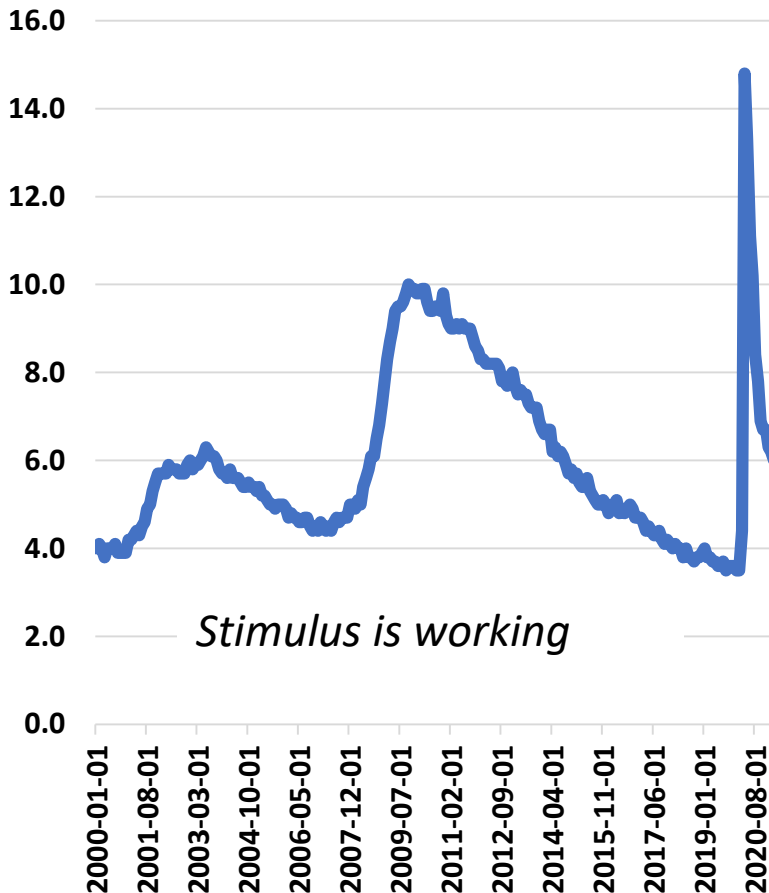
Three-month moving average, annualized percent change; deviations from 50 for PMI, unless noted otherwise



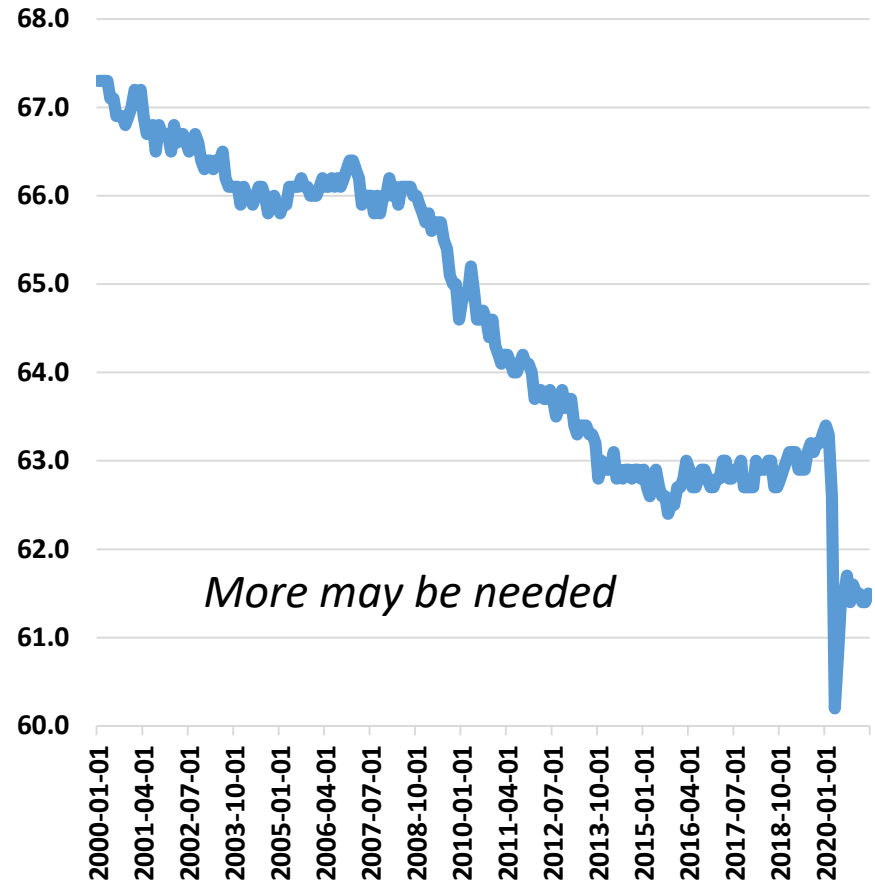
Source: IMF World Economic Outlook March 23, 2021

Strong Recovery in Demand is moving Manufacturing Higher. The Service Industry is recovering more slowly

Unemployment is Back Down

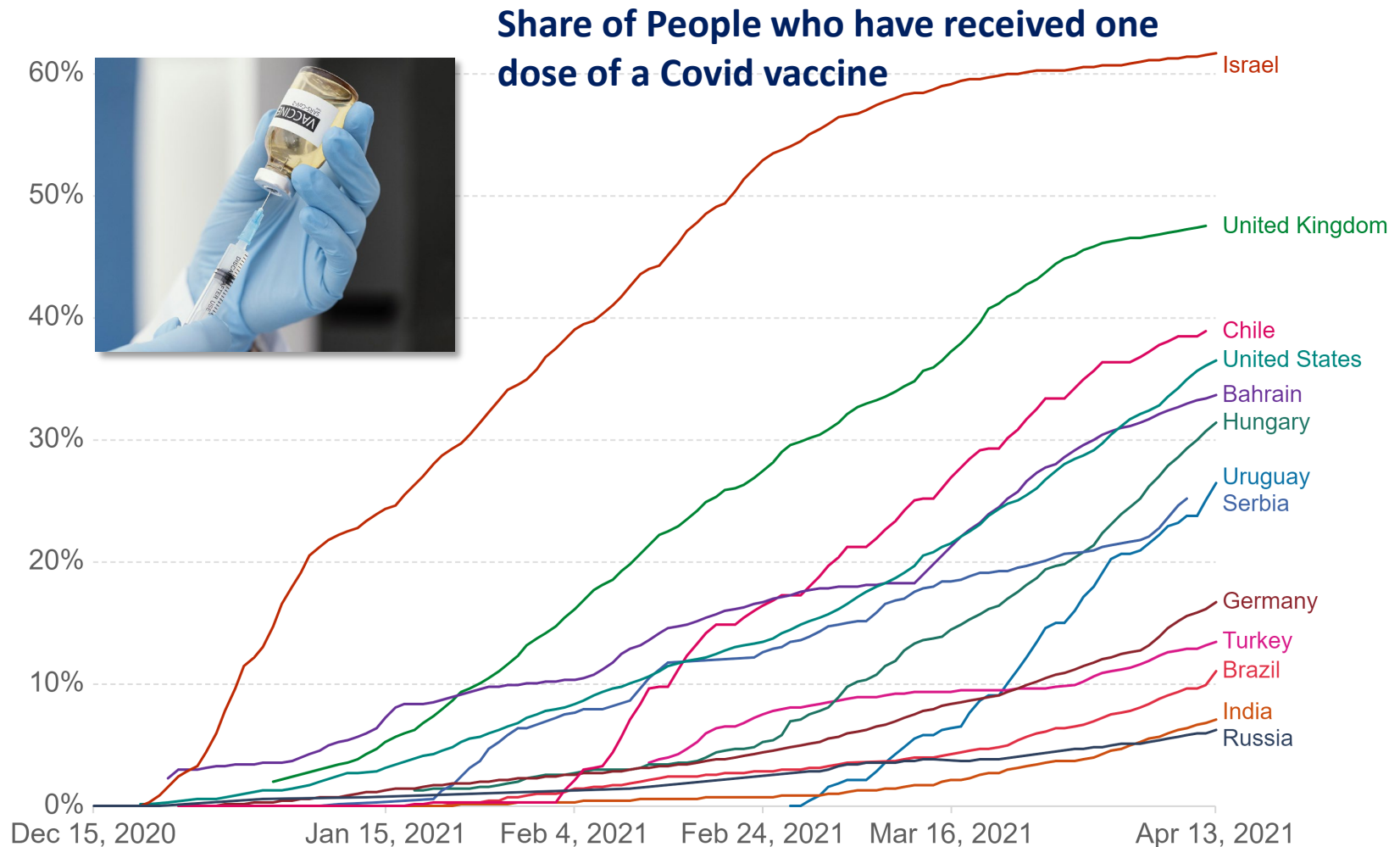


But Labor Participation is Very Low



Source: U.S. Bureau of Labor Statistics, Unemployment Rate [UNRATE], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/UNRATE>, April 14, 2021.

The Federal Reserve would like to see lower unemployment and higher participation, so they have announced short rates will stay near zero through 2023



Source: Our World in Data <https://ourworldindata.org/covid-vaccinations> data as of 4-13-2021: as with all of our data, we are making this dataset openly available. For source data <https://github.com/owid/covid-19-data/tree/master/public/data/vaccinations/locations.csv> illustration Image by [Ali Raza](#) from [Pixabay](#)

Recovery Largely Based on Which Countries distribute the Vaccine

\$1.9 Trillion Stimulus Package (Done) Plus \$2 Trillion Infrastructure Proposal:



Over 8 Years = \$250 Billion a Year average

- **\$ 621 Billion for Transportation**
- **\$ 111 Billion Clean Drinking Water**
- **\$ 100 Billion for Broadband for All**
- **\$ 100 Billion for Power Grid**
- **\$ 213 Billion for Affordable Housing**
- **\$ 400 Billion of the care economy**
- **\$ 100 Billion for Workforce Development**

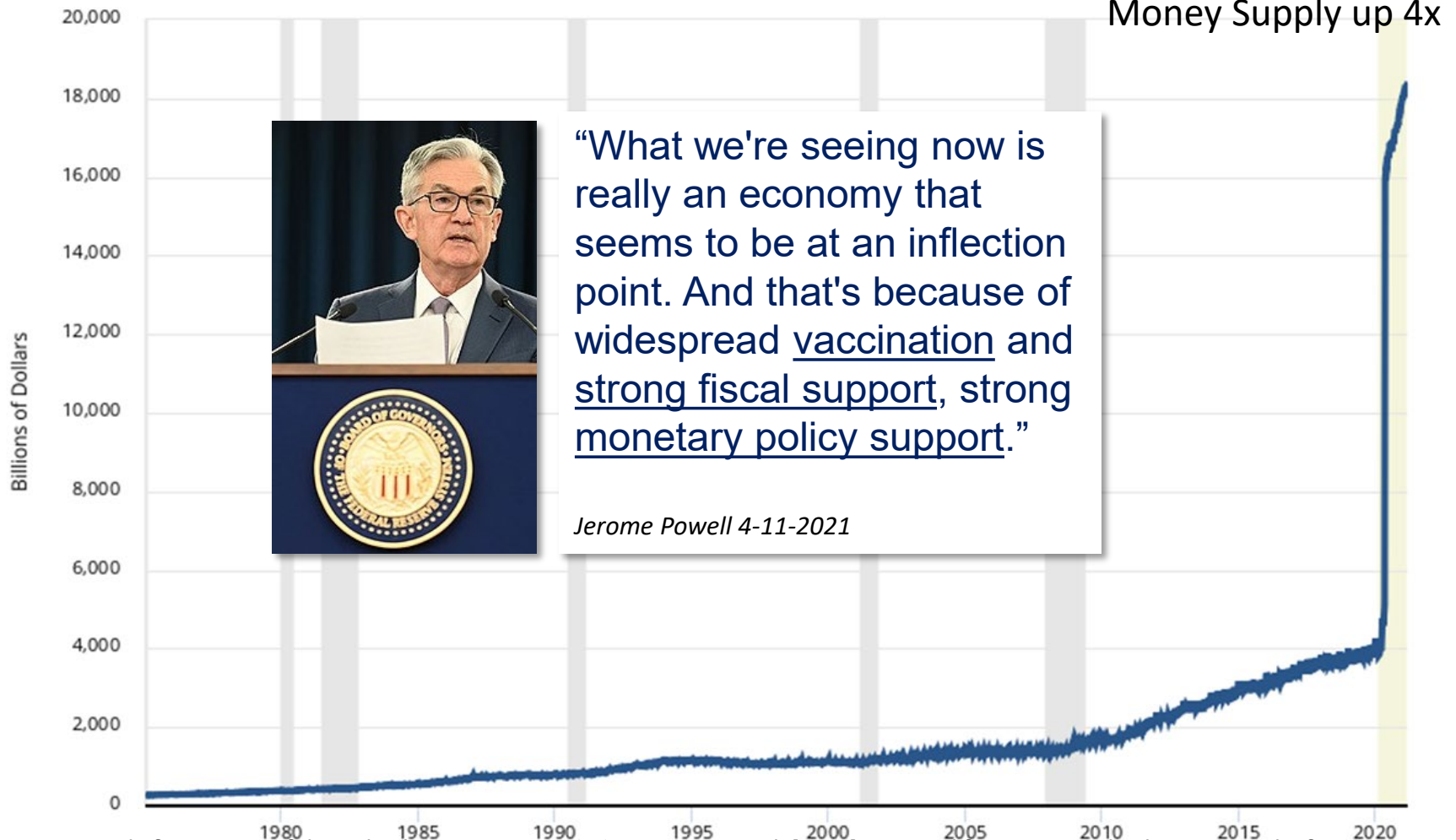


To help Pay for some of the Cost

- **Raise Corp Tax to 28% for 15 Years**
- **Raise Global Minimum Tax**

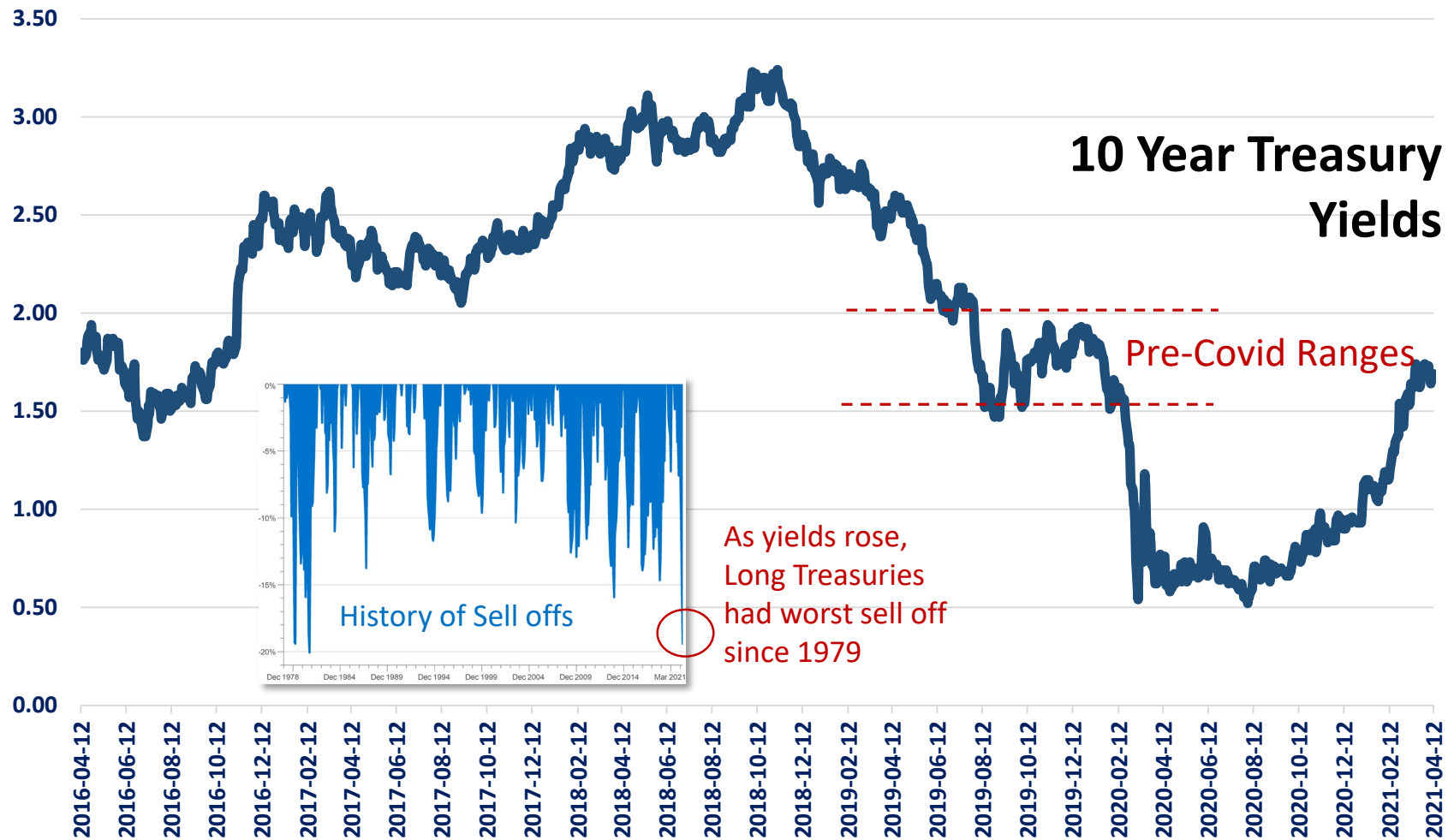
Source: <https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/> Wikimedia Commons images

FRED  — M1 Money Stock



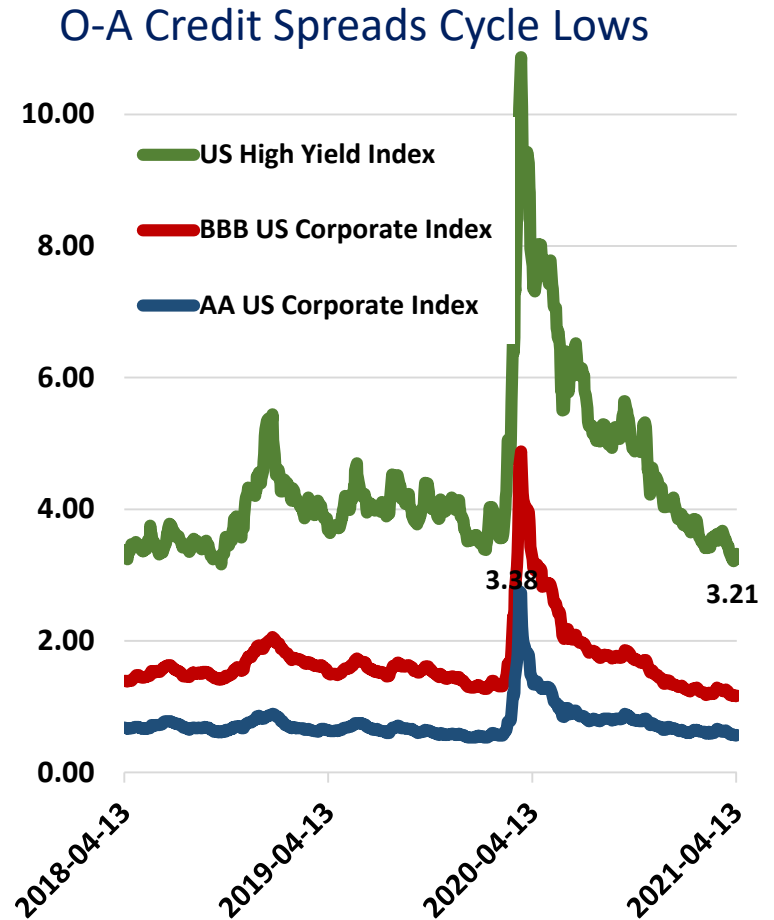
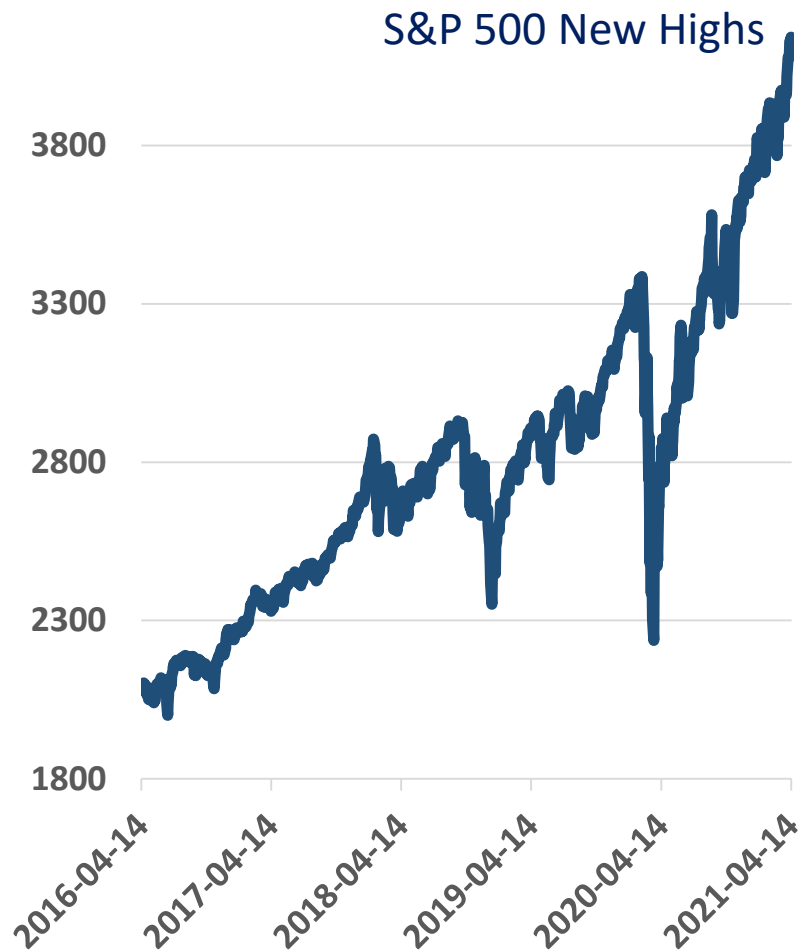
Board of Governors of the Federal Reserve System (US), M1 Money Stock [M1SL], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/M1SL>, April 14, 2021. Illustration Wikimedia

The Federal Reserve foresees the economy accelerating quickly this year yet still expects to keep its benchmark interest rate pinned near zero through 2023, despite concerns about higher inflation



Source: Board of Governors of the Federal Reserve System (US), 10-Year Treasury Constant Maturity Rate [DGS10], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DGS10>, April 13, 2021. PSN Informa: Drawdown as of 3-31-21

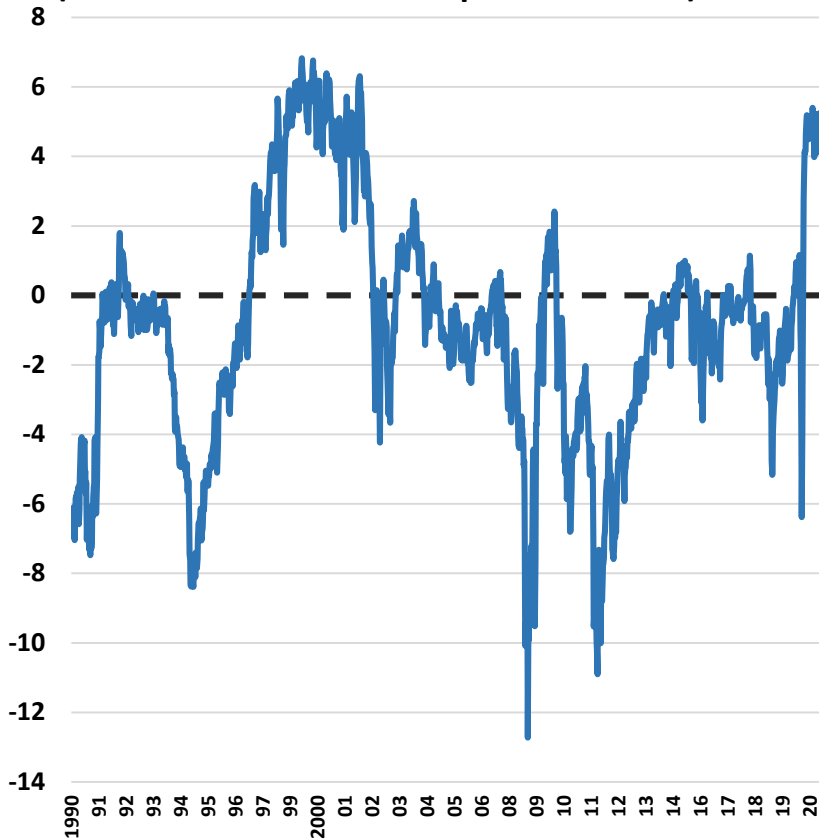
Bond investors may not have experienced the pain of bond price decreases, unless they were investing in the 1970s



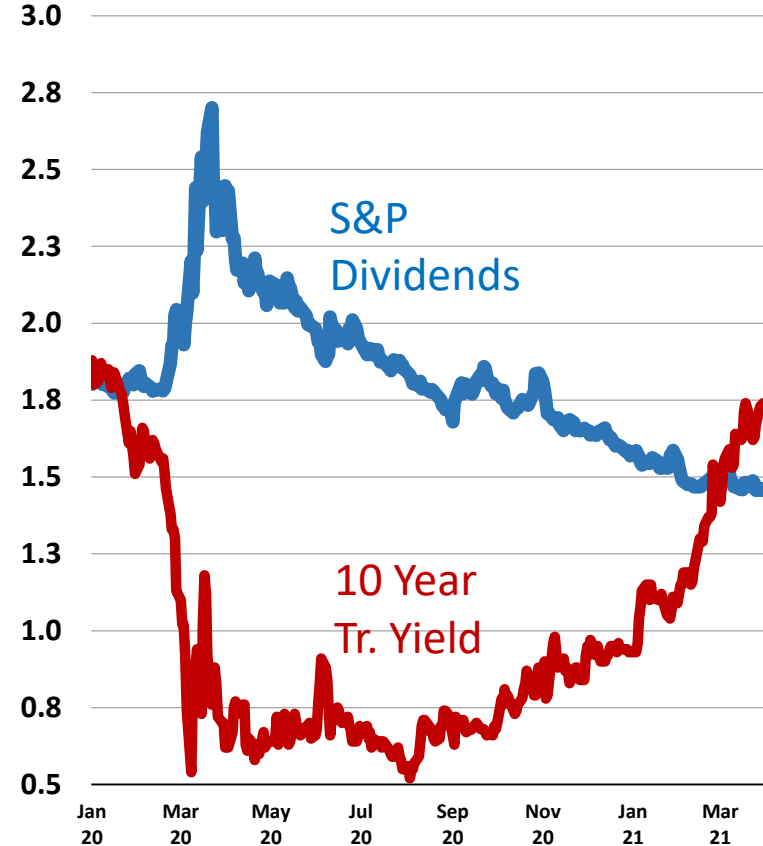
Source: Ice Data Indices, LLC, ICE BofA US High Yield Index Option-Adjusted Spread [BAMLH0A0HYM2], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/BAMLH0A0HYM2>, April 14, 2021.

O-A = Option Adjusted Credit Spread of Corporate Bonds over Treasuries: considering that Corporates can be called, while Treasuries are Non-Callable

US Equity Market Misalignment (Deviation from fair value per unit of risk)



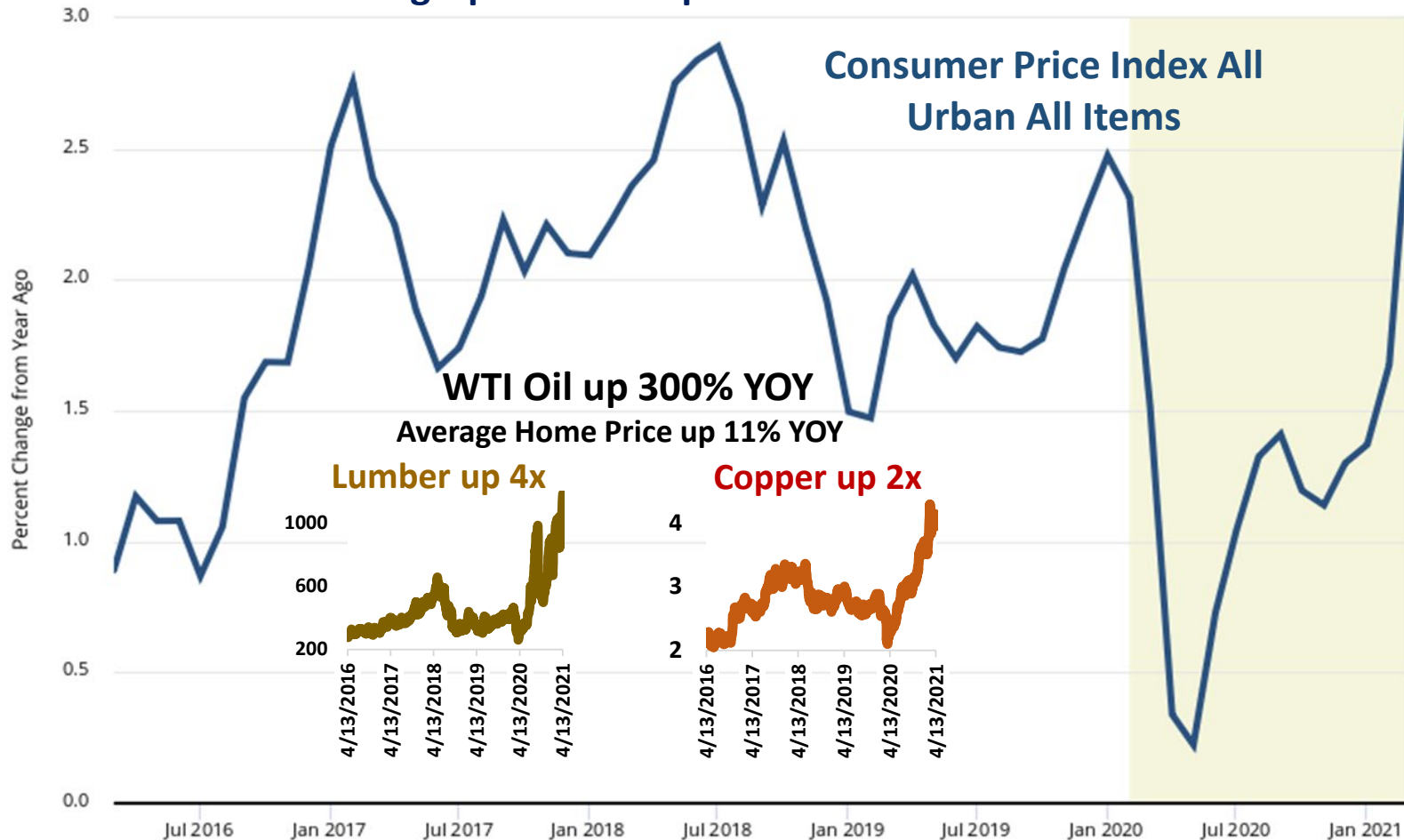
US Equity Market Misalignment Bond Yields Cross Stock Dividends



Source: Market Misalignment: IMF WEO, Global Financial Conditions 04-2021, S&P Dividends Alliance Bernstein Capital Market Outlook Q2 2021

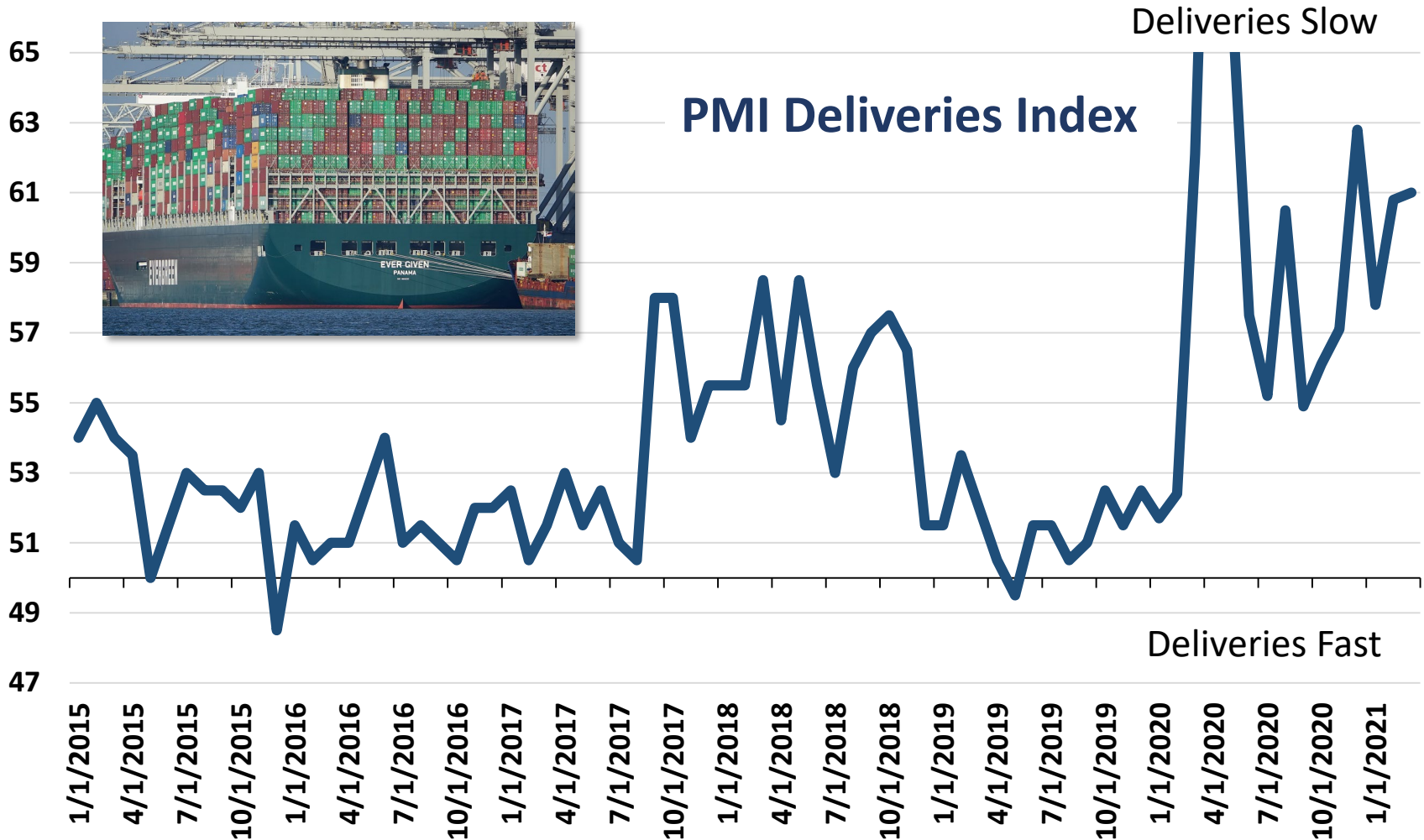
IMF language implies that stocks are overpriced, trading at very high multiples to earnings, cash flow and dividends

Inflation Heating Up – From Depressed Levels



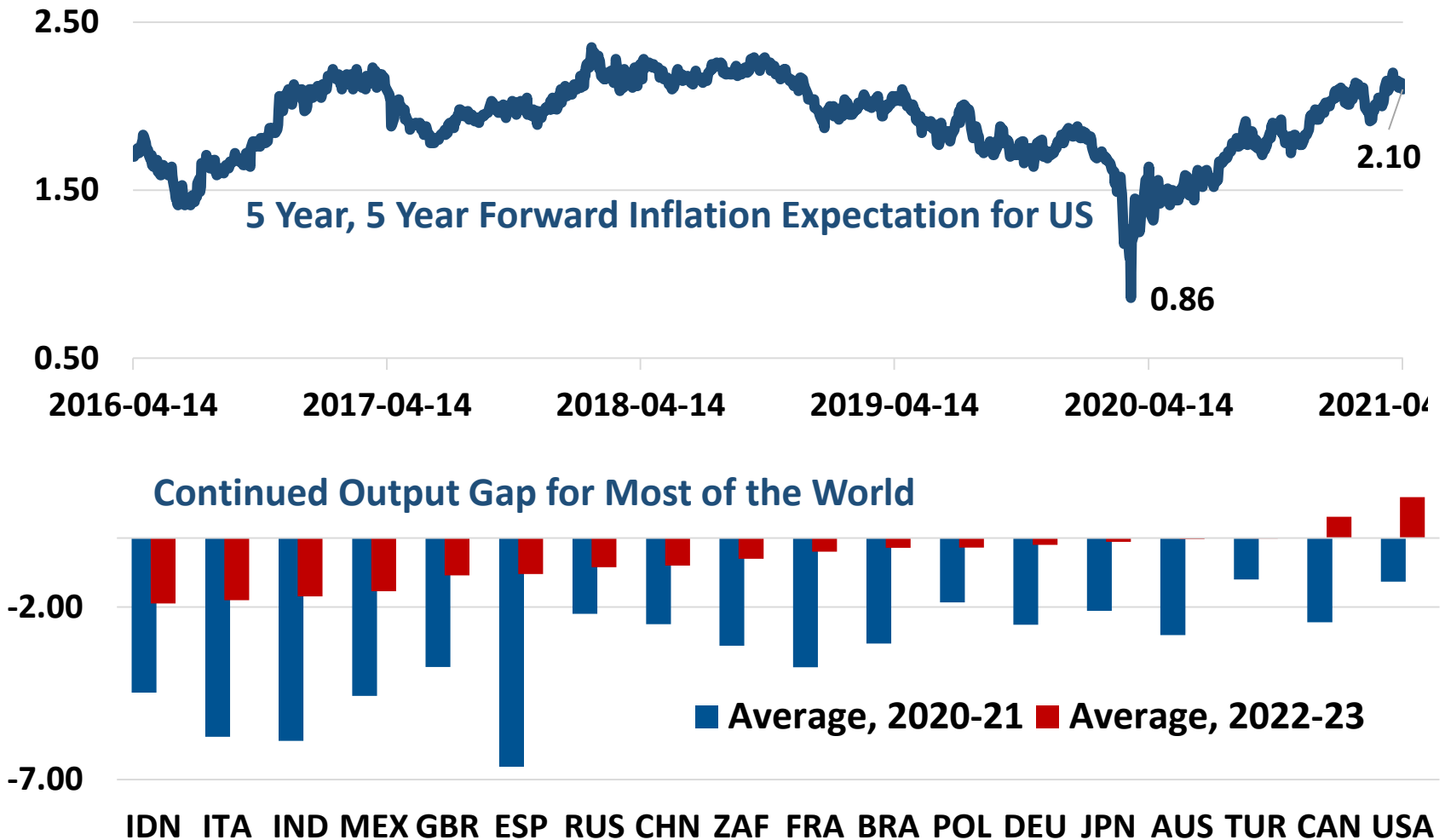
Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CPIAUCSL>, April 14, 2021. Quandl &P/Case-Shiller 20-City Composite Home Price Index [SPCS20RSA] Historical Futures Prices: Random Length Lumber Futures, Continuous Contract #1 Copper Futures, Continuous Contract #11. Non-adjusted price based on spot-month continuous contract calculations. Raw data from CME.

Rising Demand, Fed Easing combined with Shipping Delays is pushing up CPI



Source: Quandl https://www.quandl.com/data/ISM/NONMAN_DELIV-Services-PMI-Supplier-Deliveries-Index image source: kees torn, CC BY-SA 2.0 <<https://creativecommons.org/licenses/by-sa/2.0/>>, via Wikimedia Ever Given carried 18,000 containers

28% of Global manufacturers report shipping delays vs 8% “normal” delays. Shortage snarls auto output, home construction; but is strong predictor of upward economy



Source: IMF World Economic Outlook 04-2021, Federal Reserve Bank of St. Louis, 5-Year, 5-Year Forward Inflation Expectation Rate [T5Y1FR], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/T5Y1FR>, April 14, 2021.

The spike in inflation may be temporary due to a larger Output Gap for most of the world

Capital Market Returns

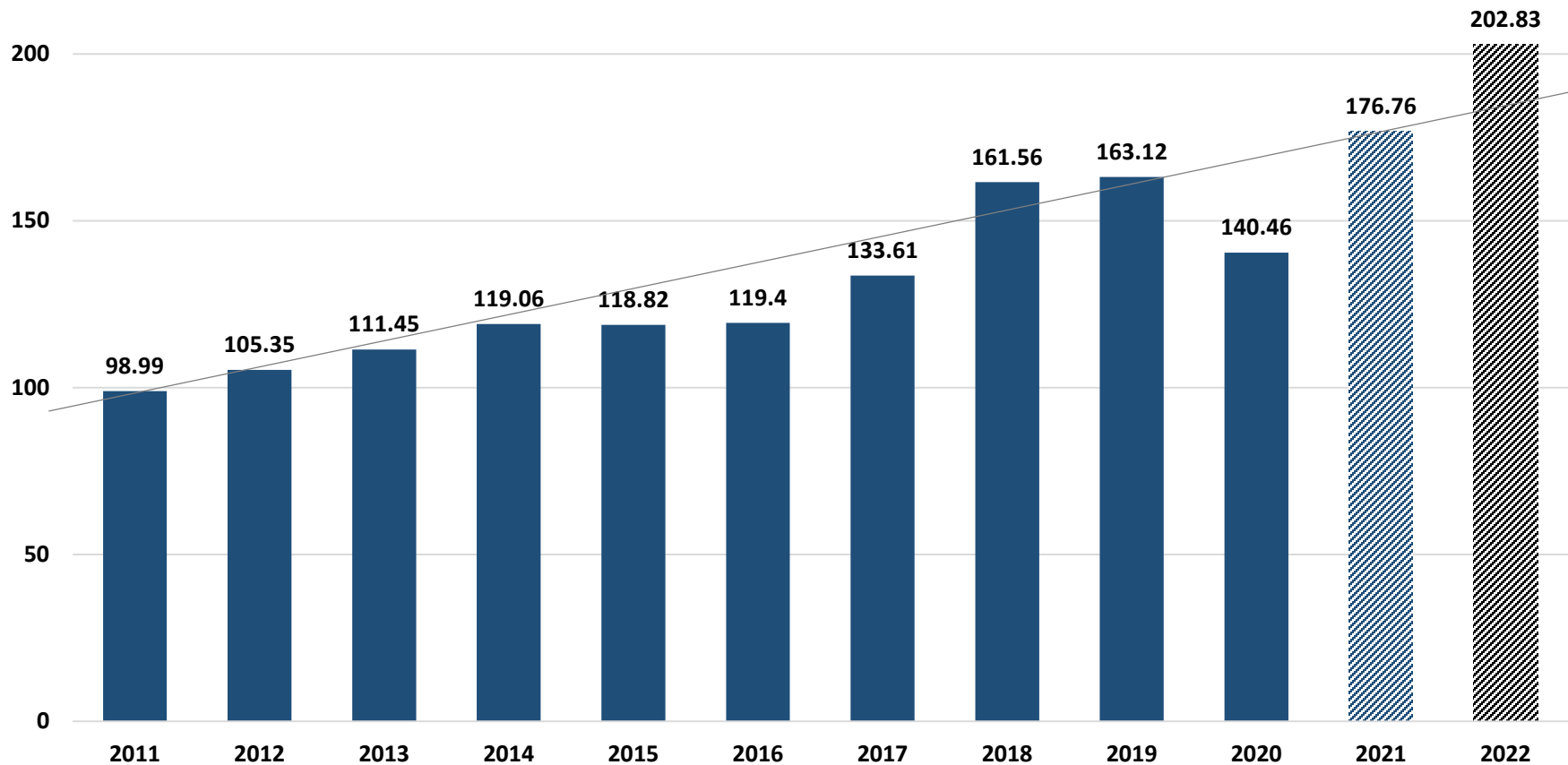
As of March 31, 2021; Private Real Estate as of December 31, 2020 (1 Quarter Lag)

ASSET CLASS	INDEX IN USD	3-MONTH	YTD	1-YR	3-YR ANN	5-YR ANN
Global Equity						
Global Equity	MSCI All Country World	4.7%	4.7%	55.3%	12.6%	13.9%
US Equity	S&P 500	6.2%	6.2%	56.4%	16.7%	16.1%
International Equity	MSCI All Country World ex US	3.6%	3.6%	50.0%	7.0%	10.7%
Emerging Markets Equity	MSCI Emerging Markets	2.3%	2.3%	58.9%	6.9%	12.8%
Global Fixed Income						
Investment Grade Fixed Income	Barclays US Aggregate	-3.4%	-3.4%	0.7%	4.6%	3.1%
Inflation-Linked Securities	Barclays Universal Govt Inflation-Linked	-2.6%	-2.6%	6.3%	4.9%	4.9%
High Yield	Barclays Global High Yield (H)	-0.2%	-0.2%	23.4%	5.4%	7.1%
Emerging Markets Fixed Income	JP Morgan EM Bonds (UH in USD)	-6.7%	-6.7%	13.0%	-1.3%	1.7%
Alternative Investments						
Global REITs	FTSE EPRA/NAREIT Global REITs	6.0%	6.0%	34.4%	5.1%	5.4%
Commodities	Bloomberg Commodities	6.9%	6.9%	35.0%	-0.2%	2.5%
MLPs	Alerian MLP	22.0%	22.0%	103.1%	-3.1%	-0.8%
Hedged Strategies	HFRX Global Hedge Fund Index	1.2%	1.2%	16.1%	3.4%	3.9%
Managed Futures	HFRX Macro/CTA Index	0.4%	0.4%	5.9%	2.7%	1.0%
Private Real Estate	NCREIF Private Real Estate	-	0.0%	1.6%	4.9%	5.9%
Global Cash						
Cash	Citigroup 3-month Treasury Bill	0.0%	0.0%	0.2%	1.5%	1.2%
Other Fixed Income						
Municipal Fixed Income	Barclays Municipal Bond	-0.4%	-0.4%	5.5%	4.9%	3.5%

Source: Morgan Stanley Global Investment Office 03-31-2021

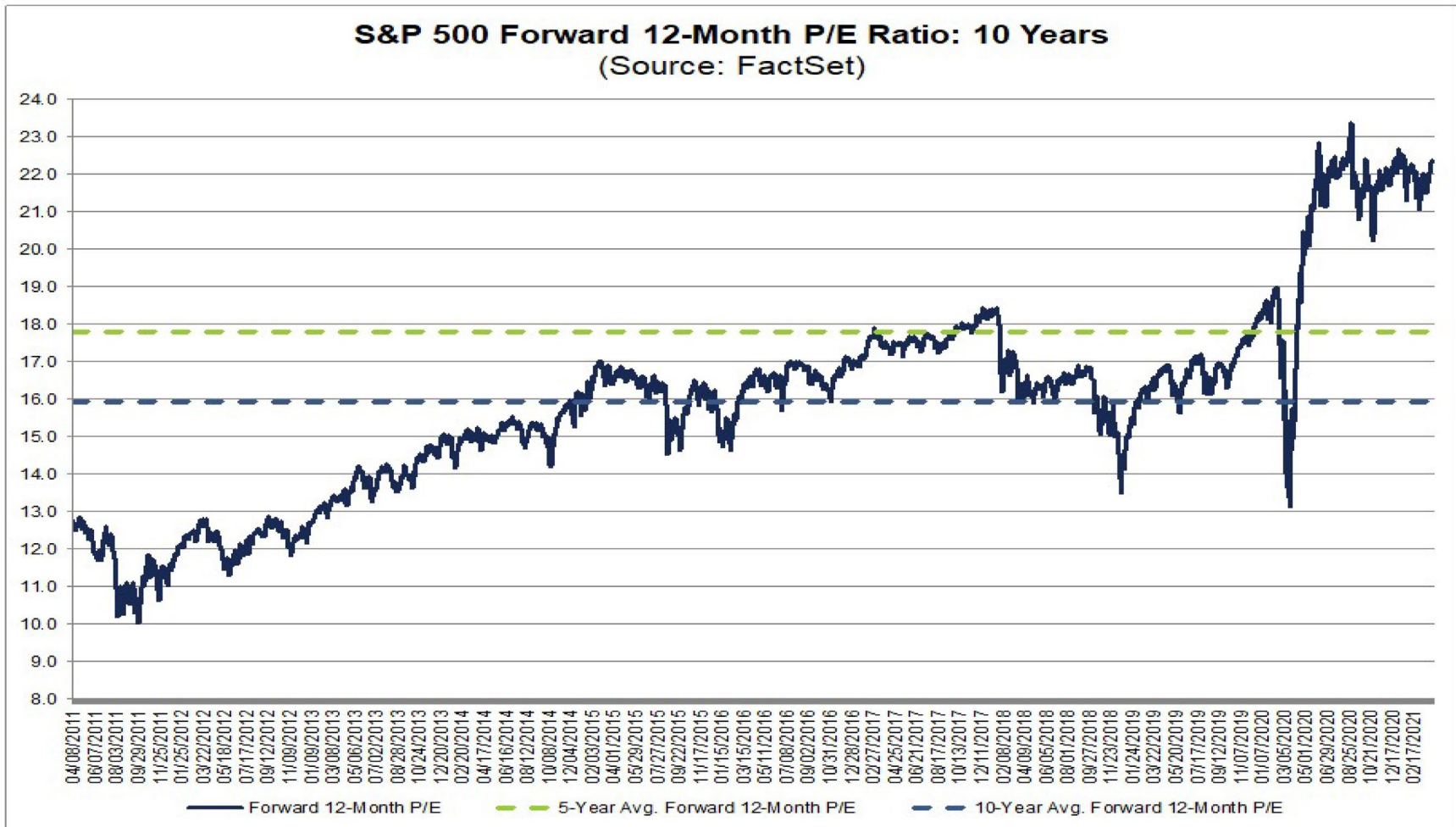
Past performance is not a guarantee of future results

S&P 500 Calendar Year Bottom-Up EPS Actuals & Estimates



Source: FACTSET

Earnings over long cycles grow at a fairly even rate of 6%. Equity prices, however, over estimate and under estimate the future prospects of growth creating bubbles and panic

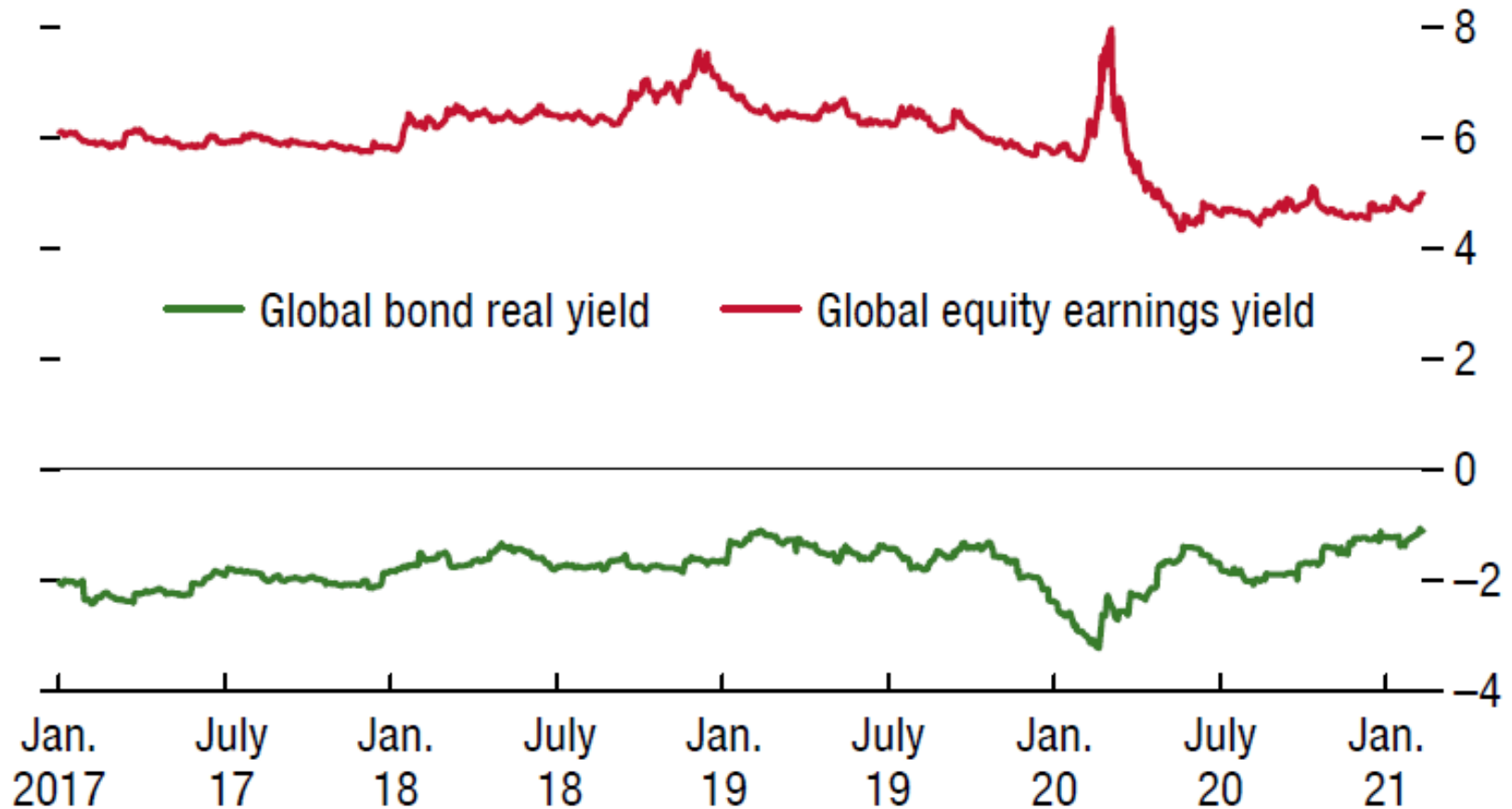


Source: FACTSET Earnings Insight

https://www.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_040921.pdf

Stocks are at elevated levels, resulting from a stimulative Federal Reserve and investor enthusiasm for future prospects

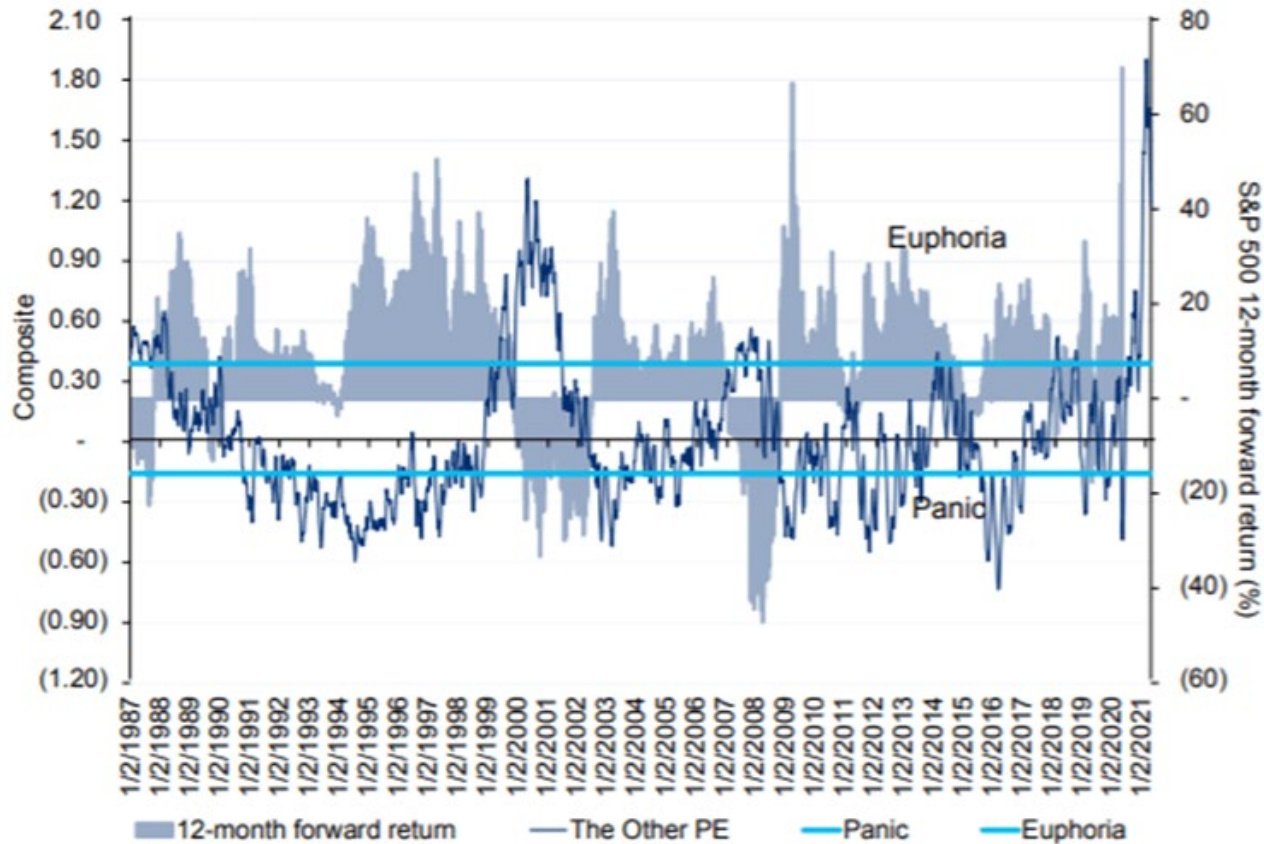
4. Global Equity Earnings Yield and Real Bond Yield (Percent)



Source: International Monetary Fund World Economic Outlook April 2021

Stocks are very expensive, except compared to the alternative: negative real return bonds

The “Other” PE – The Panic/Euphoria Model



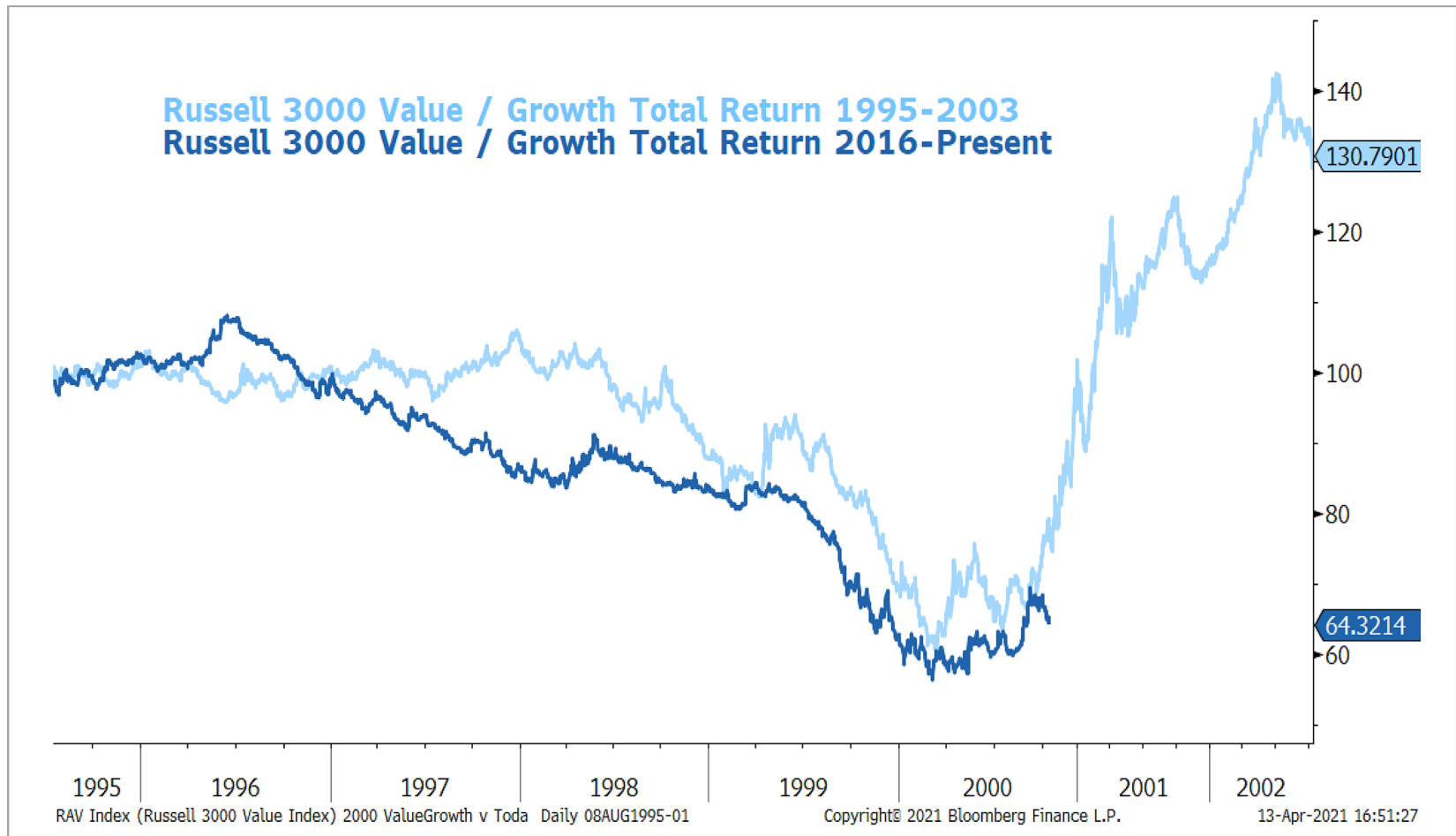
Source: Citigroup Citi Research - Tobias Levkovich Panic/Euphoria Model The model uses the Market Sentiment Composite, a measure of investor sentiment. This metric tracks the mood of investors, which is then translated into a probability of the market's advancing or declining over the near term and over the next 12 months.

❑ Expected 7 Year Returns

❑ 5 Potential Opportunities in the Market Now

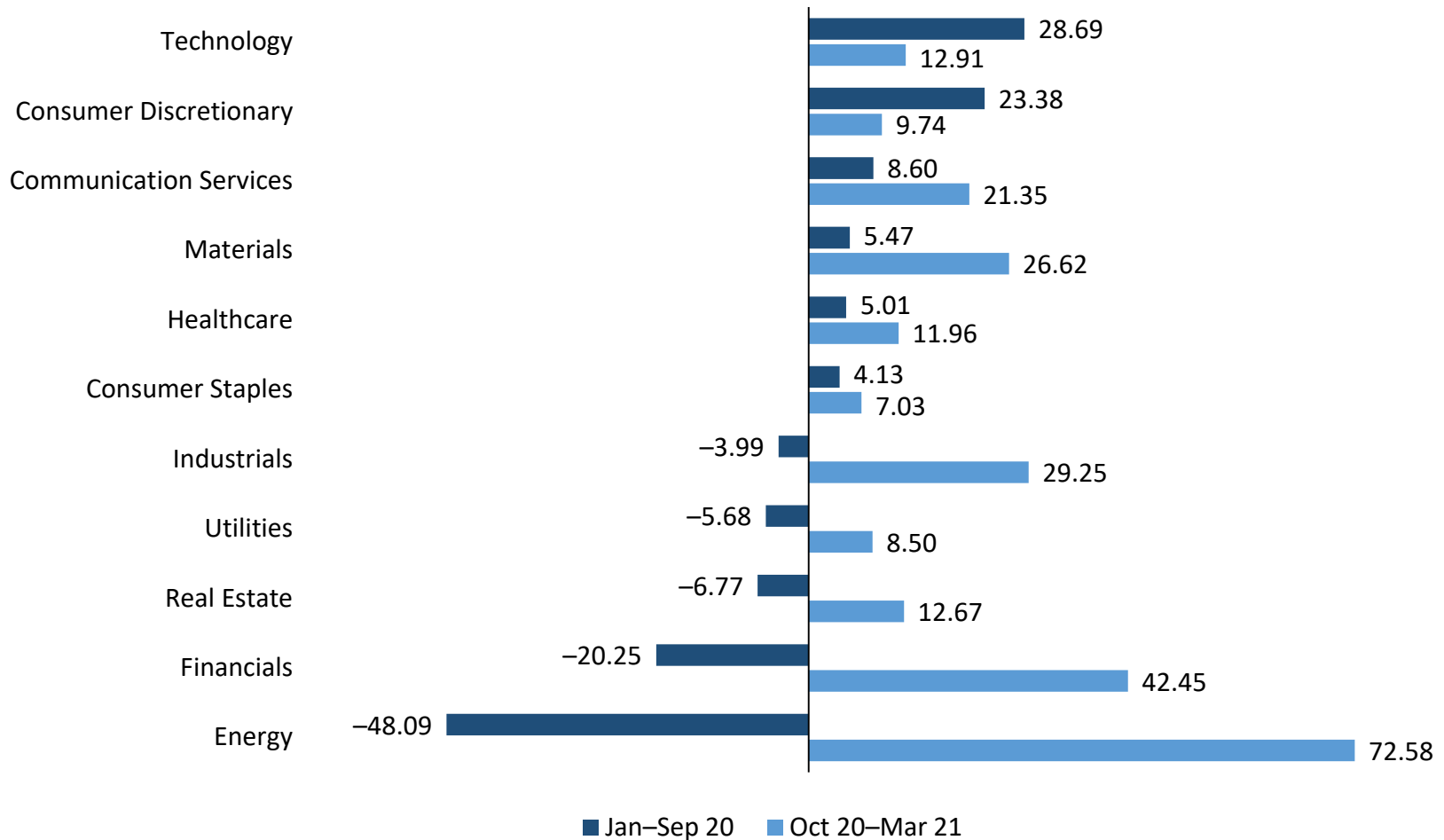
- 1. Cyclical Value Recovery**
- 2. Shareholder Activism**
- 3. Yield Alternative: Non U.S./EM Debt**
- 4. Yield Alternative: Regulatory Capital Relief Trade**
- 5. Interval, Tender Offer Funds**
 - a. Last Mile E-Commerce Real Estate**
 - b. Investment Grade Single Tenant Lease**
- 6. Non US/Emerging Markets**

For further information email abigail.j.gage@msgraystone.com



Source: Morgan Stanley Global Investment Office data as of 4-13-2021

Value Stocks may be in the early innings of outperformance



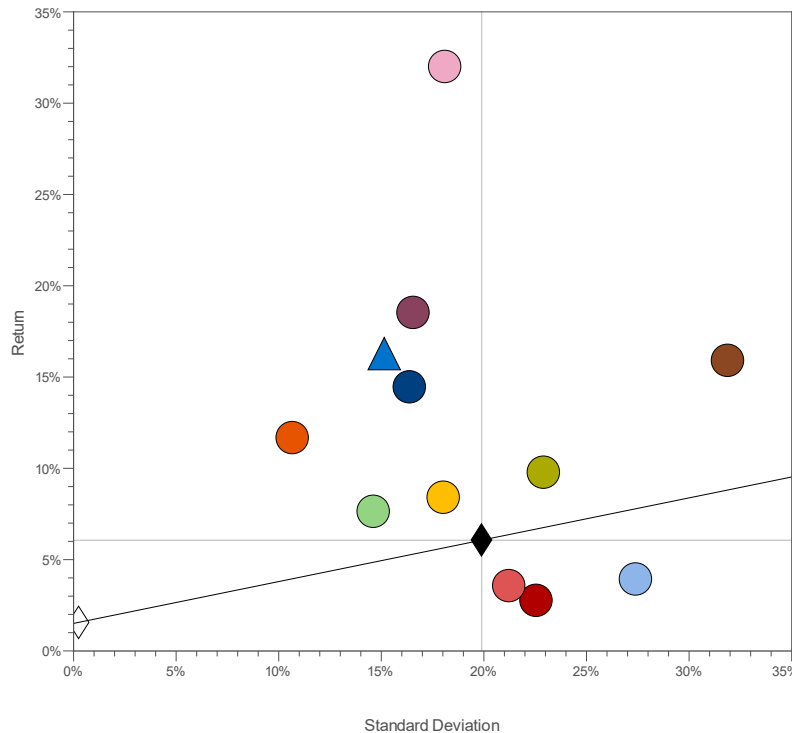
Source: Source: Alliance Bernstein AB CMO 2nd Quarter 2021

The worst stocks in the Covid pandemic are rallying the hardest in the recovery

An activist entity will buy a material stake, mobilize other investors, and then seek to enforce shareholder value.

Activists vs. Russell 1000 Value Index

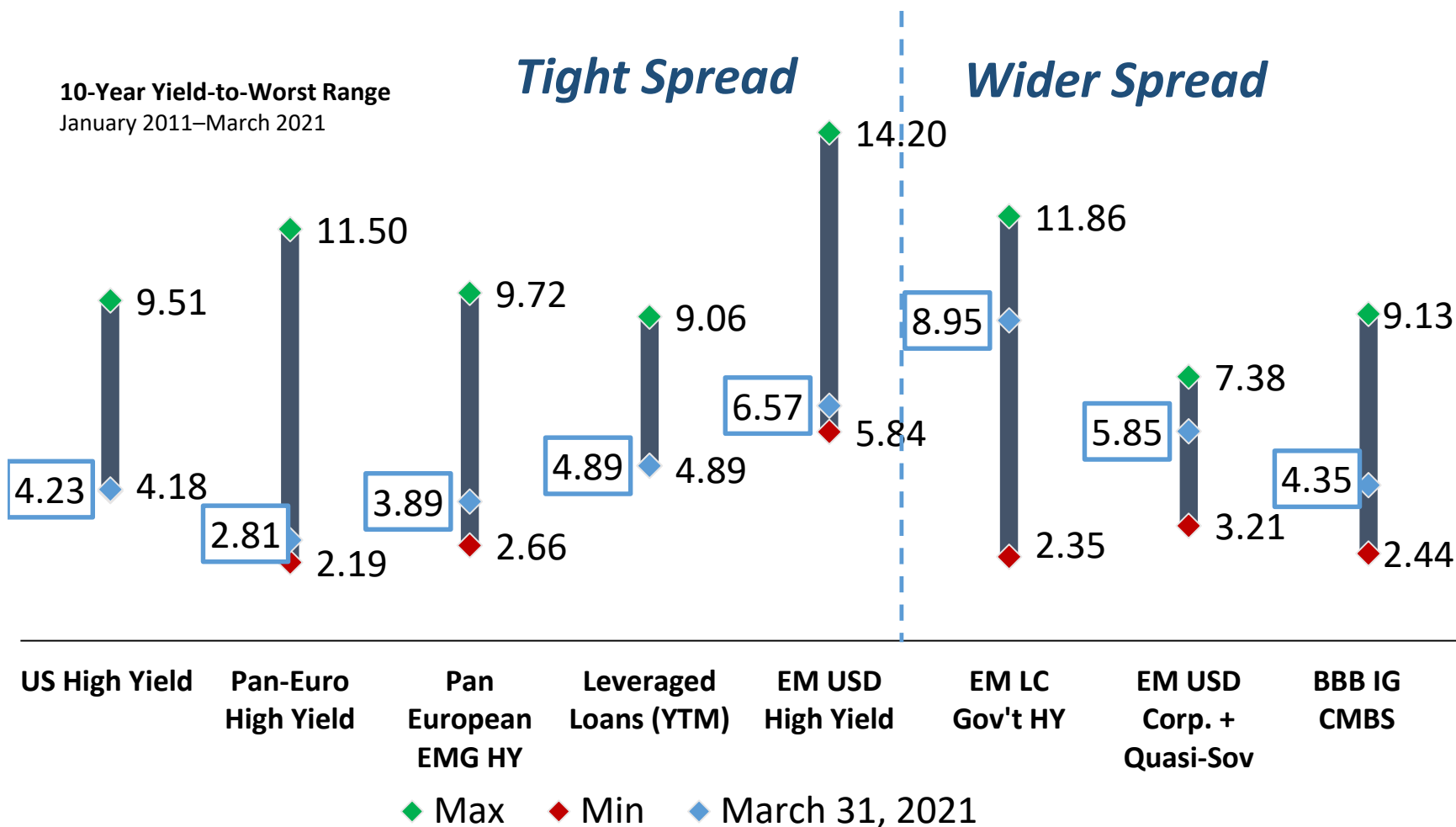
Risk / Return
January 2018 - December 2020 (Single Computation)



Activists Strategies

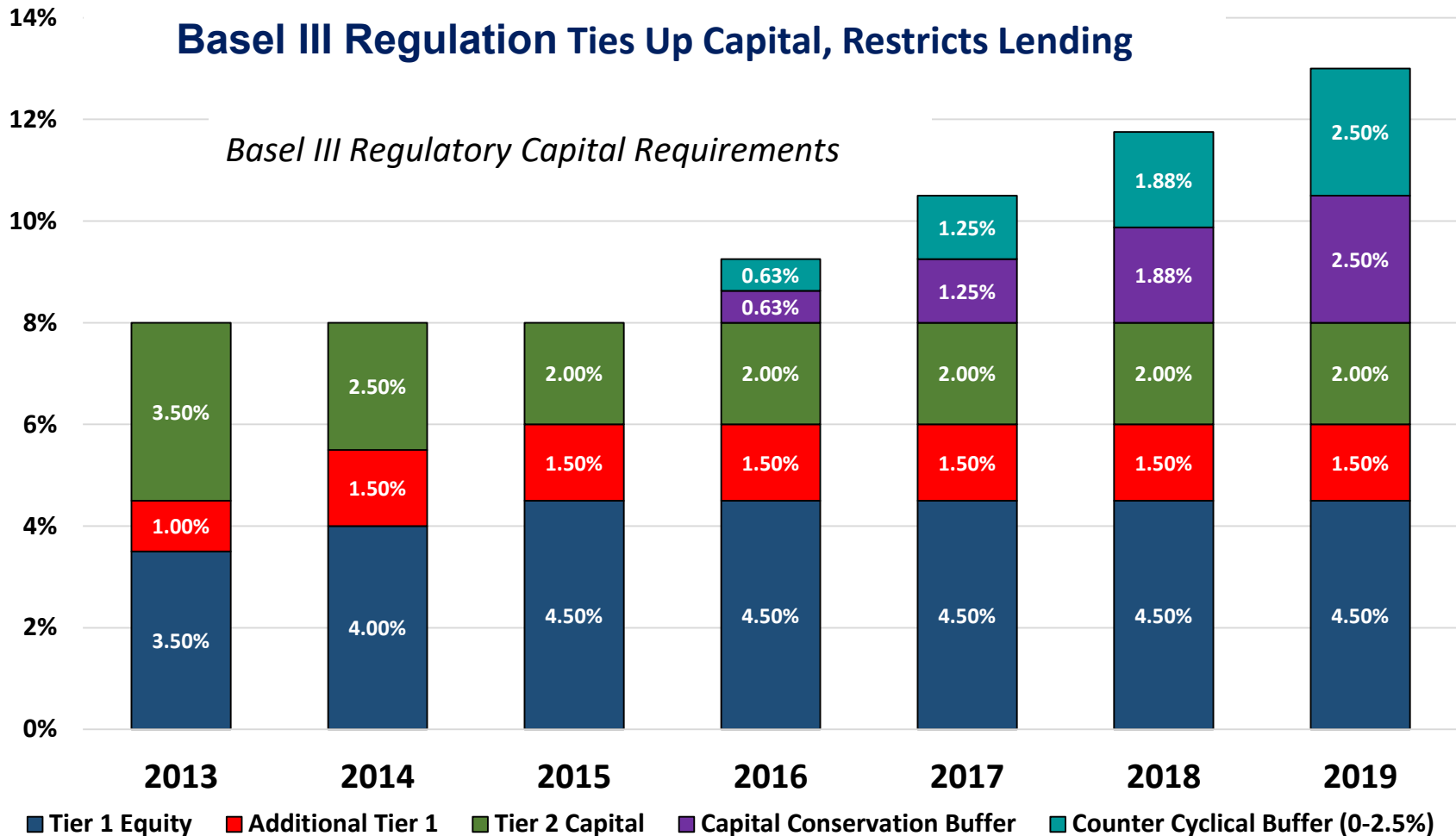
- Winning seats on the board to advance their agenda
- Installing a new executive team focused on slashing costs, pushing for higher profit margins
- Corporate restructuring including selling underperforming business units.

Source: PSN Informa Style Advisor: Includes all Activist Managers in Albourne database with performance from 2018 – 2020 Activist Strategies are described at Lazard <https://www.lazard.com/media/451406/lazards-q3-2020-review-of-shareholder-activism.pdf>



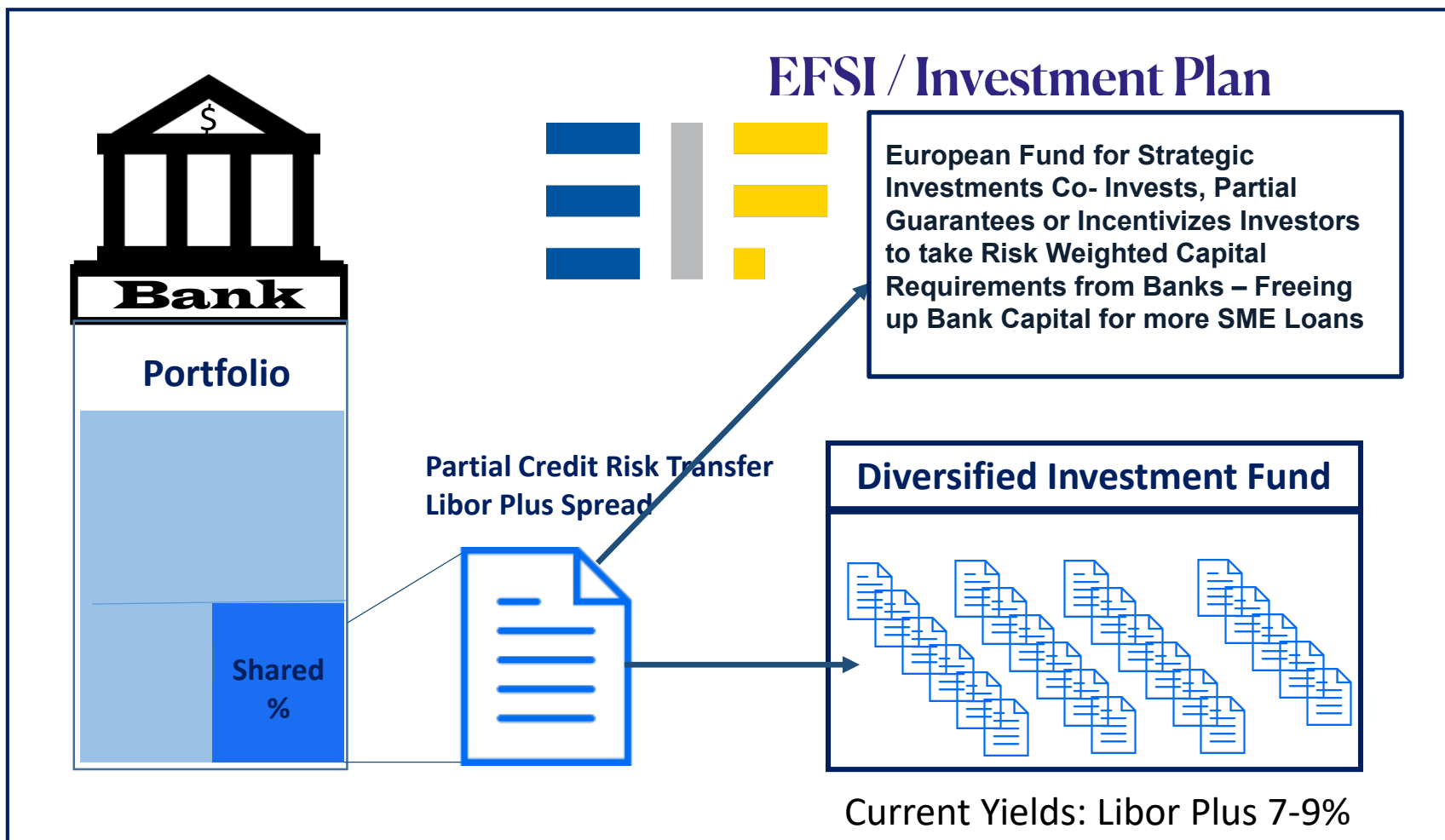
Source: Alliance Bernstein CMO 2nd Quarter 2021 Historical information provided for illustrative purposes only. US High Yield is represented by Bloomberg Barclays US High Yield Corporate Index; Pan-Euro High Yield by Bloomberg Barclays Pan-European High Yield; Pan-European EMG HY by Bloomberg Barclays Pan-European EMG High Yield; EM LC Gov't HY by Bloomberg Barclays EM Local Currency Government High Yield; EM USD Corp + Quasi-Sov by Bloomberg Barclays EM USD Corp + Quasi Sovereign High Yield; EM USD High Yield by Bloomberg Barclays EM USD Sovereign High Yield; Leveraged Loans (YTM) by Credit Suisse Leveraged Loan Index; BBB IG CMBS by Bloomberg Barclays CMBS IG BBB Index

One Vaccine Recovery Story may be Emerging Market Sovereigns and Corporates that are not yet Vaccinated



Source: Source: Federal Reserve Bank of Richmond "Basel III and the Continuing Evolution of Bank Capital Regulation" 06-2011 European Investment Fund https://www.eif.org/what_we_do/efsi/index.htm. EFSI is an initiative launched jointly by the EIB Group – the European Investment Bank and [European Investment Fund](https://www.european-investment-fund.com/) – and the European Commission to help overcome the current investment gap in the EU. Also see Structured Credit Investor <https://www.structuredcreditinvestor.com/>

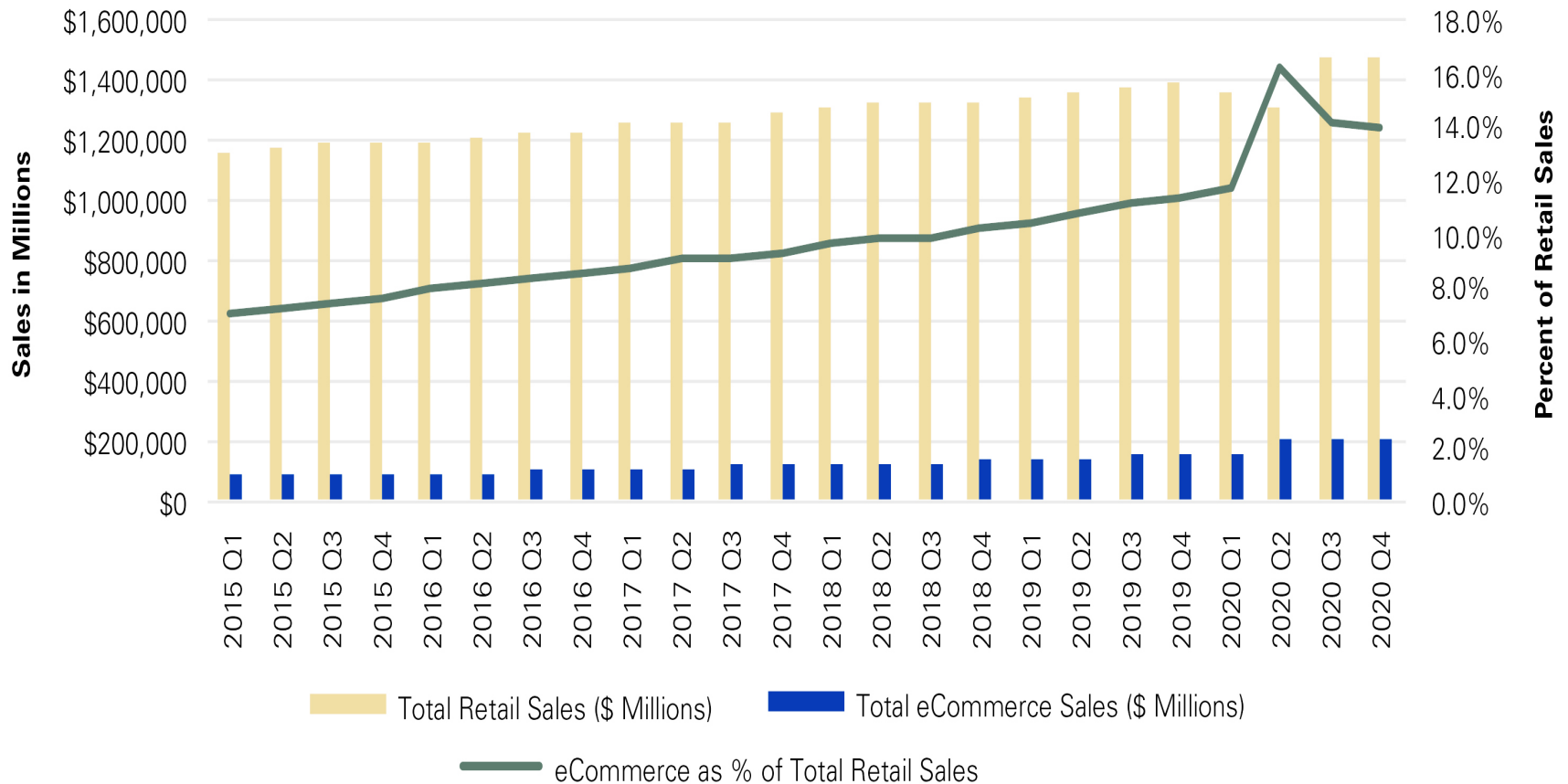
The European Investment Bank and European Investment fund are anxious to increase lending to Small and Medium Businesses in Europe. To do so, they are encouraging sharing of bank portfolios to free up capital for new loans



Source: SPF (formerly Credit Suisse) data as of 04-2021, European Investment Fund https://www.eif.org/what_we_do/efsi/index.htm. EFSI is an initiative launched jointly by the EIB Group – the European Investment Bank and [European Investment Fund](https://www.eif.org/) – and the European Commission to help overcome the current investment gap in the EU. Also see Structured Credit Investor <https://www.structuredcreditor.com/>

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Total Ecommerce Sales as a Percent of Retail Sales US

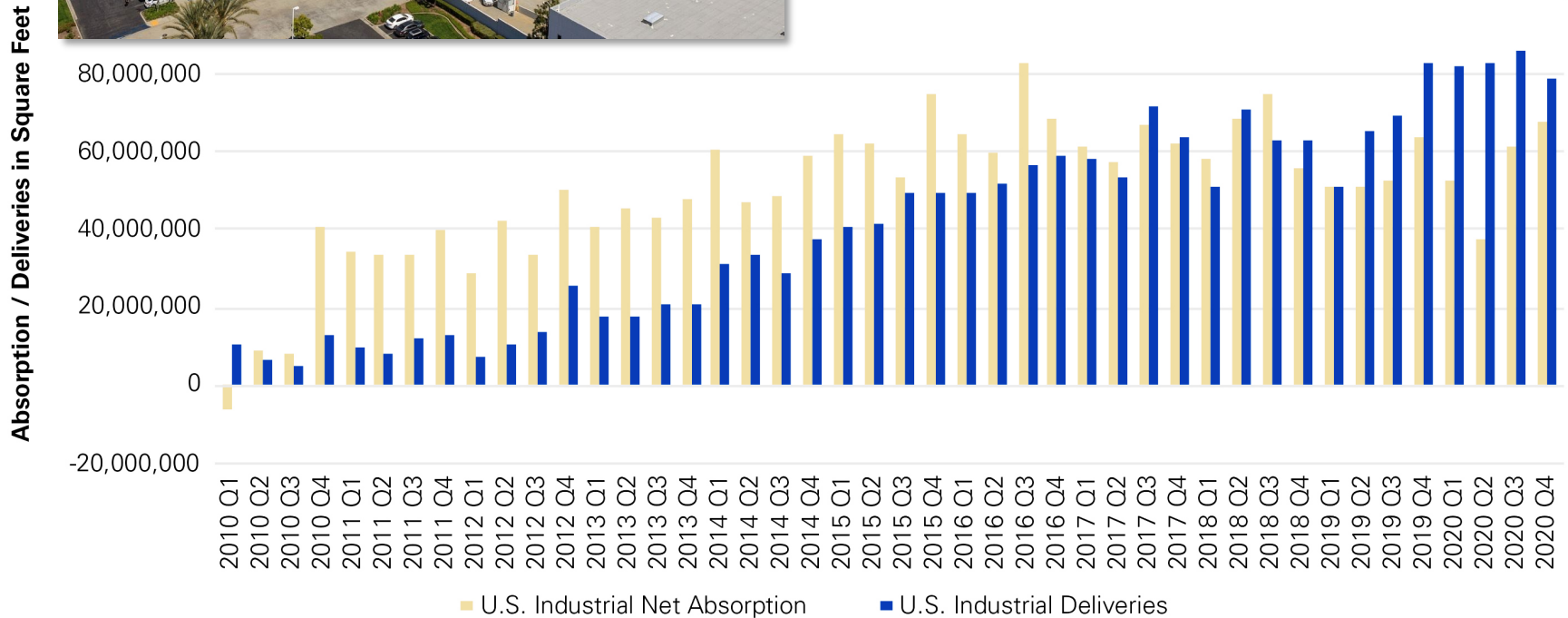


Source: Newmark Research 02-2021 **The e-Commerce Evolution: Industrial Demand and the Final Mile** By Garrick Brown 4th quarter data is preliminary

The move to E-Commerce pushes demand for warehouses near the last mile of delivery. Also, supply chain interruptions are increasing the need for more space for more inventory



Industrial Net Absorption and Deliveries 2010-2020



Source: Newmark Research 02-2021 *The e-Commerce Evolution: Industrial Demand and the Final Mile* By Garrick Brown 4th quarter data is preliminary
Photo JLL

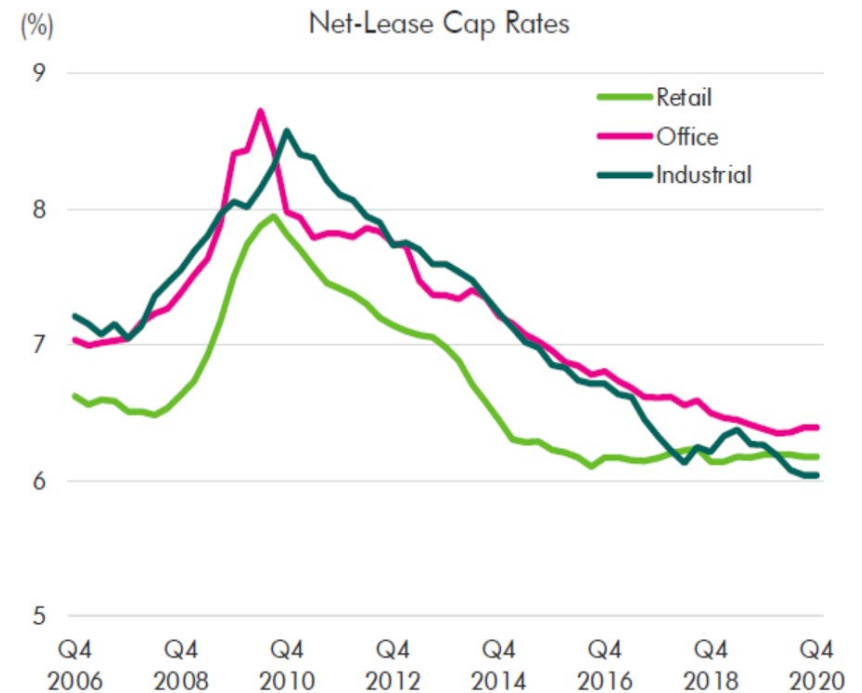
Portfolios of Industrial and Commercial Real Estate may be delivering mid single digit returns with potential of income growth

The Relative Advantage of Real Estate - Income Producing

While Treasury Rates Dropped 4%



Industrial Lease Rates Dropped Only 1%



Source: Board of Governors of the Federal Reserve System (US), 10-Year Treasury Constant Maturity Rate [DGS10], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DGS10>, April 14, 2021. CBRE December 2020

On a Relative Basis, Income Producing Real Estate appears more attractive. Leases may have inflation escalators, Treasury Notes do not

Is it possible to capture the Illiquidity premium without long lockup?

	Liquid	"On or off the bus" at Intervals			Illiquid
Vehicle	Alternative Mutual Funds	Interval Funds	Tender Offer Funds	Non-traded REITs and BDCs	Private Market Funds
Typical Frequency	Daily	Typically Quarterly	Typically Quarterly	Daily, Monthly, or Quarterly	Capital Distribution 2-12 Years
Liquidity	Share redemptions	Tender offers	Tender offers	Share redemptions	No Liquidity
Mandatory Redemption	Yes	Yes	No	Yes	N/A
% of Total Fund Liquid	No limit	5% to 25%	5% to 25%	5% to 25%	N/A

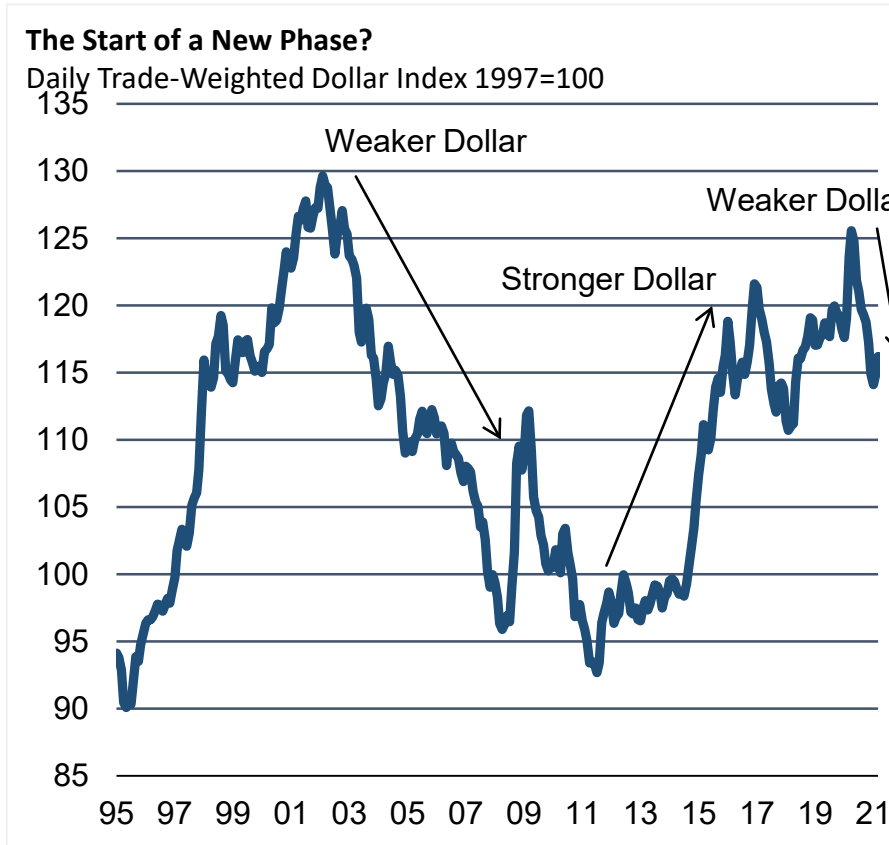
SEC disclosure: Legally, interval funds are classified as [closed-end funds](#), but they are very different from traditional closed-end funds in that:

- Their shares typically do not trade on the secondary market. Instead, their shares are subject to periodic repurchase offers by the fund at a price based on [net asset value](#).
- They are permitted to (and many interval funds do) continuously offer their shares at a price based on the fund's net asset value.

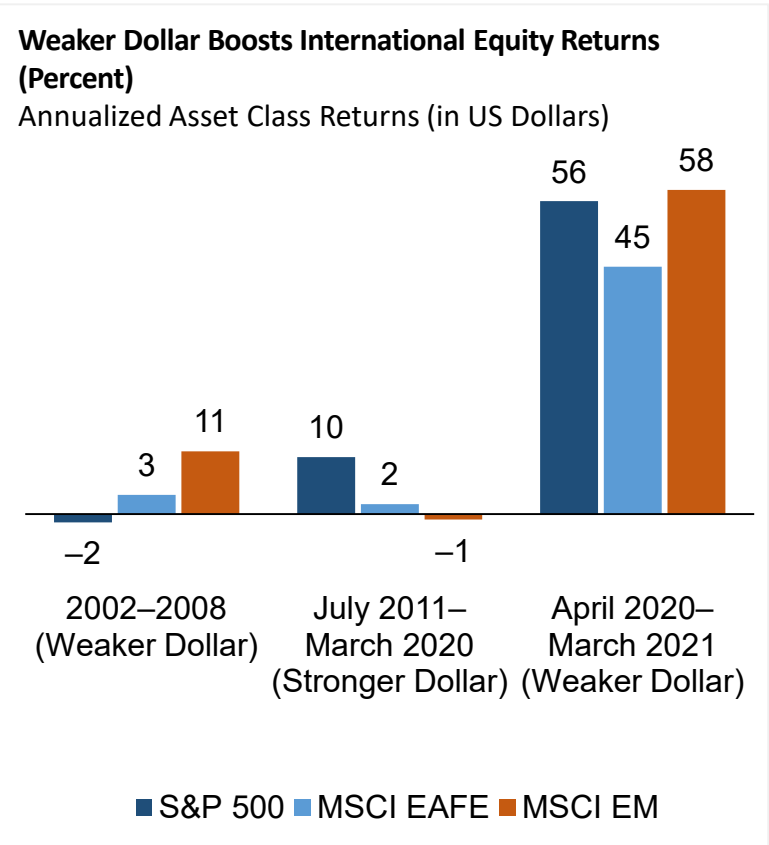
The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Principal value and return of an investment will fluctuate with changes in market conditions. Investors should carefully consider the investment objectives and risks as well as charges and expenses of a mutual fund before investing. To obtain a prospectus, contact your Financial Advisor or visit the fund company's website. The prospectus contains this and other important information about the mutual fund. Read the prospectus carefully before investing.

Source: SEC: Securities and Exchange Commission <https://www.investor.gov/introduction-investing/investing-basics/glossary/interval-fund>

Interval Funds and Tender Offer Funds may offer Investors a more liquid entry into otherwise illiquid assets



Source: Source: Alliance Bernstein CMO 2nd Quarter 2021



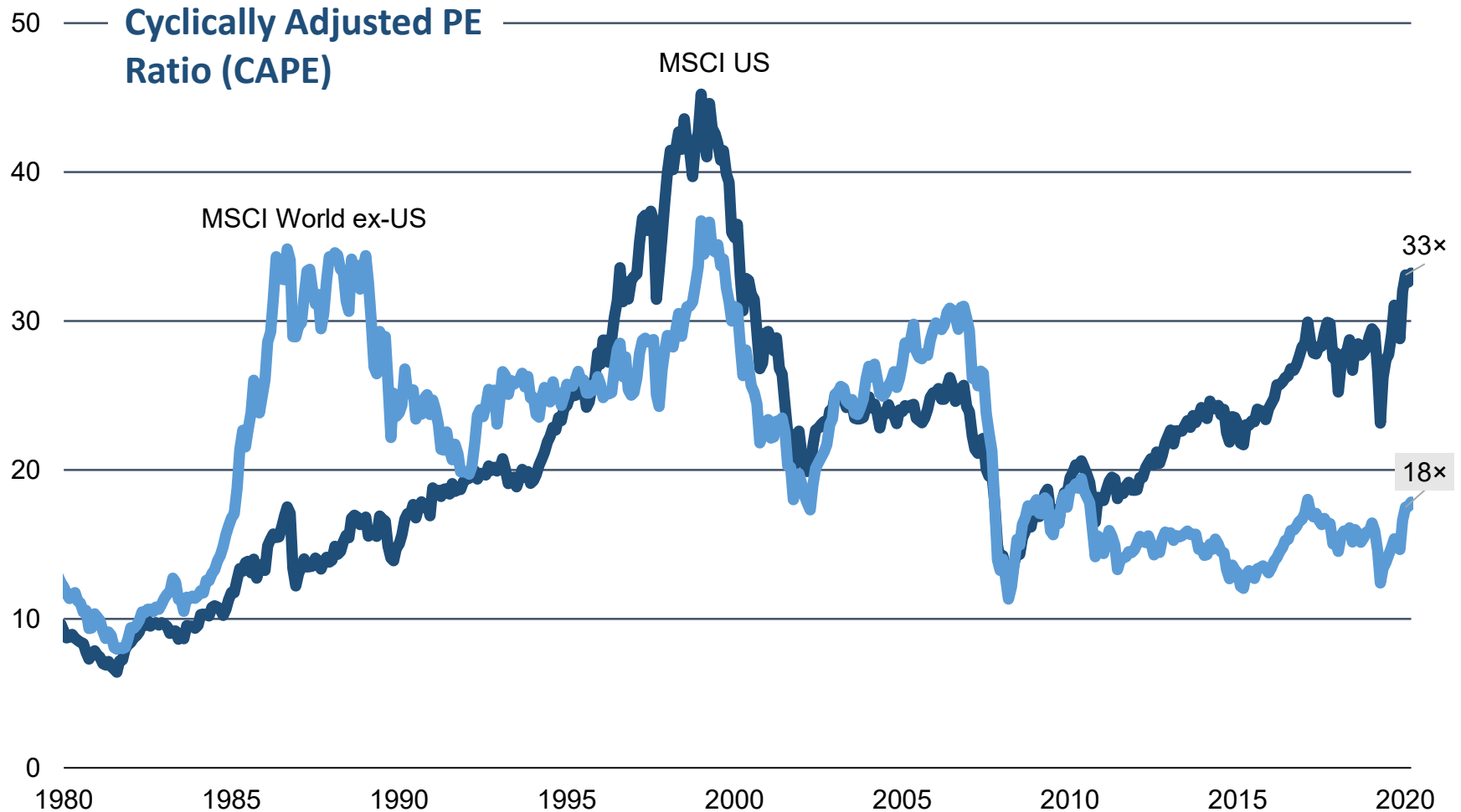
After False Start in 2017, Could this be the beginning of trend for EM Securities?

Emerging Market Net Flows Billions



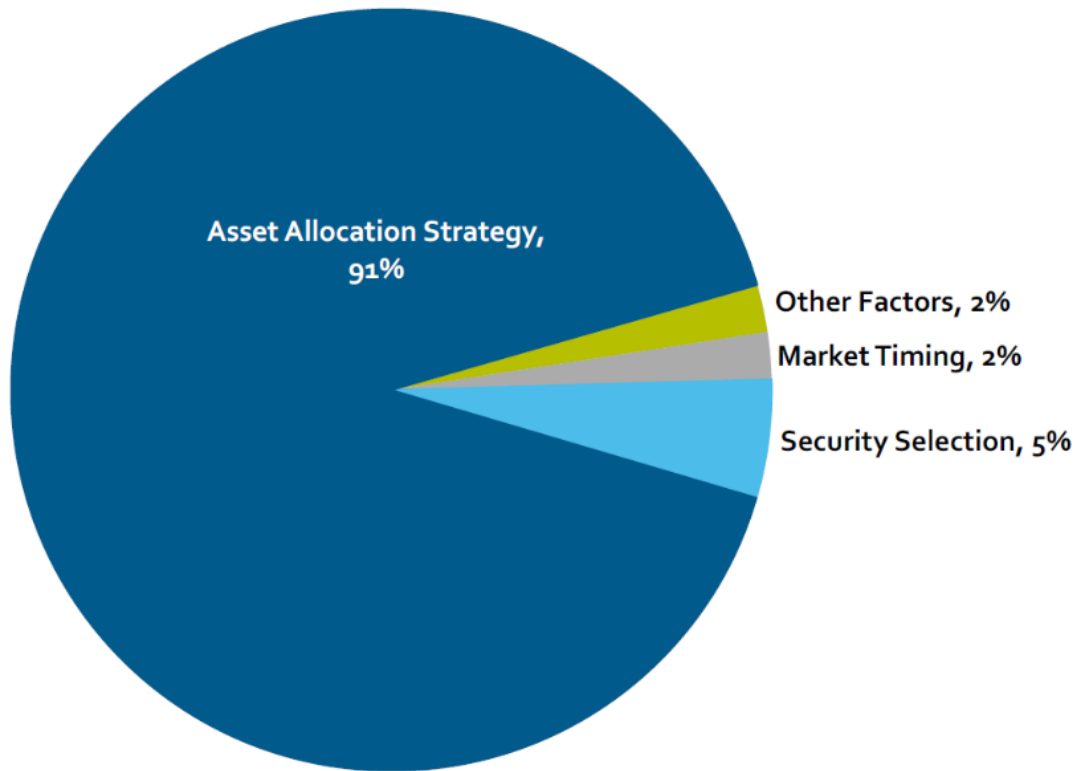
Source: International Monetary Fund GSF Report April 2021

Flows into Emerging Markets reflect more investor confidence



Source: Alliance Bernstein, AB CMO 2nd Quarter 2021

US Stocks continue to look expensive relative to other global equities



91% of Performance Determined by Allocation

Source:

Source: Morgan Stanley Research: Roger G. Ibbotson. Does Asset Allocation Policy Explain 10, 90 or 100 Percent of Performance? Financial Analyst Journal, January/February 2000; Brinson, Singer and Beebower. Determination of Performance II: An Update, Financial Analyst Journal, May/June 1991. Based on US pension-fund data from 1977 to 1987.

Cash

Cash Alternatives			US Cash Deposits	Non-USD Deposits
CDs	Money Market	US T-Bill		

Fixed Income

Investment Grade								Non Investment Grade			Convertible Bonds
Treasuries	Agencies	Corporates	Inflation Protected	Non-Us	Mortgages	Municipals	Floating Rates	US High Yield	Emerging Markets Debt	Municipal High Yield	

Equities

US			Developed Market			Emerging Markets			Preferred Stocks
Large Cap	Mid Cap	Small Cap	Large Cap	Mid Cap	Small Cap	BRIC	Beyond BRIC	Frontier	

Alternatives

Real Assets	Absolute Return Assets	Equity Hedge Assets	Equity Return Assets	Private Investments
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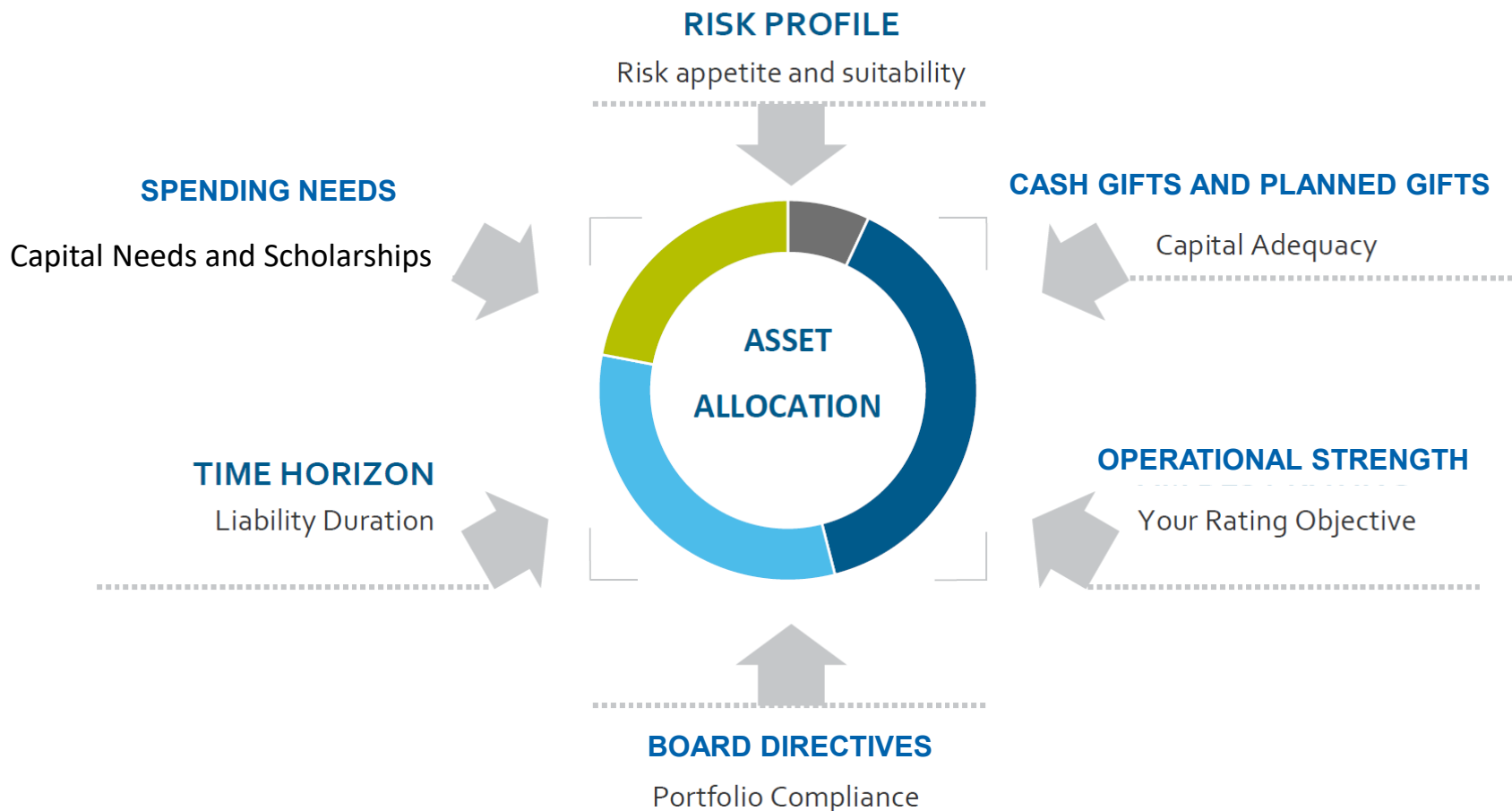
Include All Policy Eligible Asset Classes

Source: Morgan Stanley Wealth Management GIC

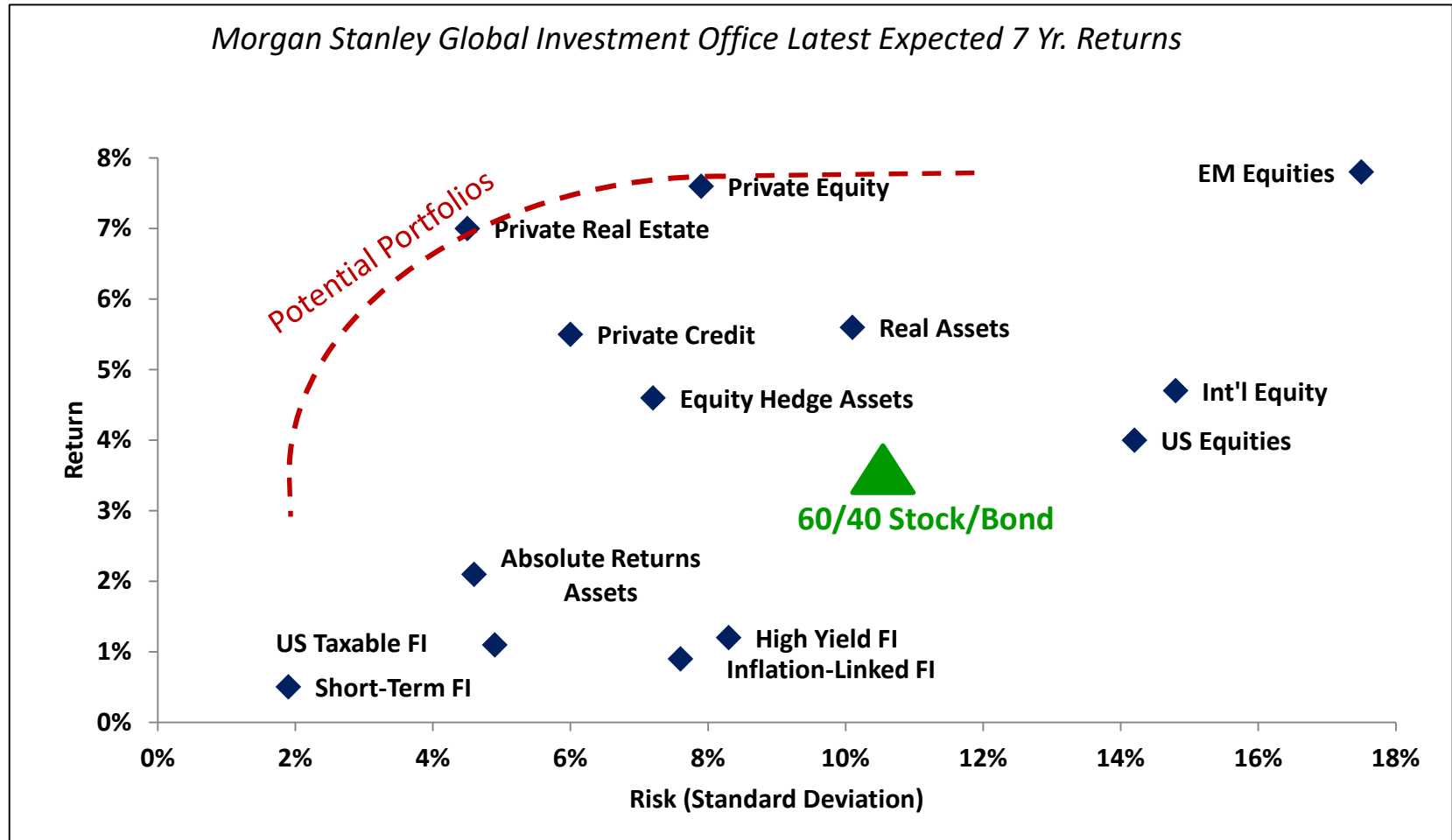
CORRELATION MATRIX

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	
1 Ultra Short Fixed Income	1.00																							
2 Short Term Fixed Income	0.37	1.00																						
3 US Core Fixed Income	0.17	0.83	1.00																					
4 High Yield	0.08	0.09	0.22	1.00																				
5 Municipal Bonds	0.03	0.51	0.73	0.35	1.00																			
6 Mortgage Backed Bonds	0.19	0.75	0.88	0.02	0.60	1.00																		
7 Emerging Markets Bonds	0.04	0.30	0.46	0.84	0.59	0.29	1.00																	
8 Convertible Bonds	0.06	0.02	0.09	0.84	0.19	0.06	0.64	1.00																
9 CLOs A-BB	0.12	0.01	0.11	0.78	0.37	0.15	0.67	0.72	1.00															
10 CLOs AAA-AA	0.02	0.04	0.15	0.76	0.35	0.11	0.68	0.66	0.91	1.00														
11 US Large Cap Equity	0.07	0.12	0.05	0.77	0.03	0.15	0.56	0.91	0.57	0.54	1.00													
12 US Mid Cap Equity	0.10	0.11	0.01	0.82	0.09	0.14	0.59	0.94	0.65	0.62	0.97	1.00												
13 US Small Cap Equity	0.12	0.19	0.12	0.73	0.01	0.22	0.47	0.90	0.60	0.56	0.90	0.95	1.00											
14 Int'l Equity	0.10	0.09	0.01	0.78	0.14	0.08	0.68	0.80	0.54	0.49	0.85	0.82	0.73	1.00										
15 Emerging Markets Equity	0.05	0.07	0.13	0.73	0.20	0.02	0.71	0.70	0.52	0.45	0.72	0.70	0.61	0.83	1.00									
16 Equity Hedge Assets	0.10	0.09	0.02	0.84	0.12	0.16	0.65	0.95	0.71	0.66	0.93	0.94	0.90	0.88	0.81	1.00								
17 MLPs	0.07	0.02	0.10	0.77	0.12	0.06	0.58	0.74	0.65	0.71	0.73	0.77	0.67	0.62	0.57	0.76	1.00							
18 REITs	0.05	0.19	0.42	0.62	0.42	0.27	0.59	0.60	0.48	0.50	0.61	0.67	0.60	0.52	0.47	0.56	0.54	1.00						
19 Asset Backed Bonds	0.18	0.13	0.04	0.74	0.36	0.20	0.66	0.62	0.88	0.89	0.50	0.58	0.54	0.50	0.45	0.65	0.61	0.48	1.00					
20 Activist Equity	0.04	0.09	0.02	0.73	0.04	0.09	0.48	0.87	0.55	0.52	0.90	0.91	0.84	0.76	0.59	0.86	0.71	0.56	0.48	1.00				
21 Risk Managed Equity	0.01	0.27	0.48	0.51	0.46	0.42	0.53	0.49	0.23	0.18	0.52	0.50	0.39	0.56	0.53	0.48	0.31	0.54	0.19	0.50	1.00			
22 Private Equity	0.06	0.15	0.08	0.33	0.11	0.15	0.31	0.27	0.37	0.42	0.26	0.33	0.36	0.25	0.22	0.35	0.36	0.33	0.52	0.22	0.09	1.00		
23 Private Real Estate	0.13	0.13	0.17	0.18	0.14	0.06	0.12	0.16	0.11	0.09	0.08	0.06	0.01	0.05	0.02	0.07	0.05	0.06	0.06	0.15	0.11	0.60	1.00	

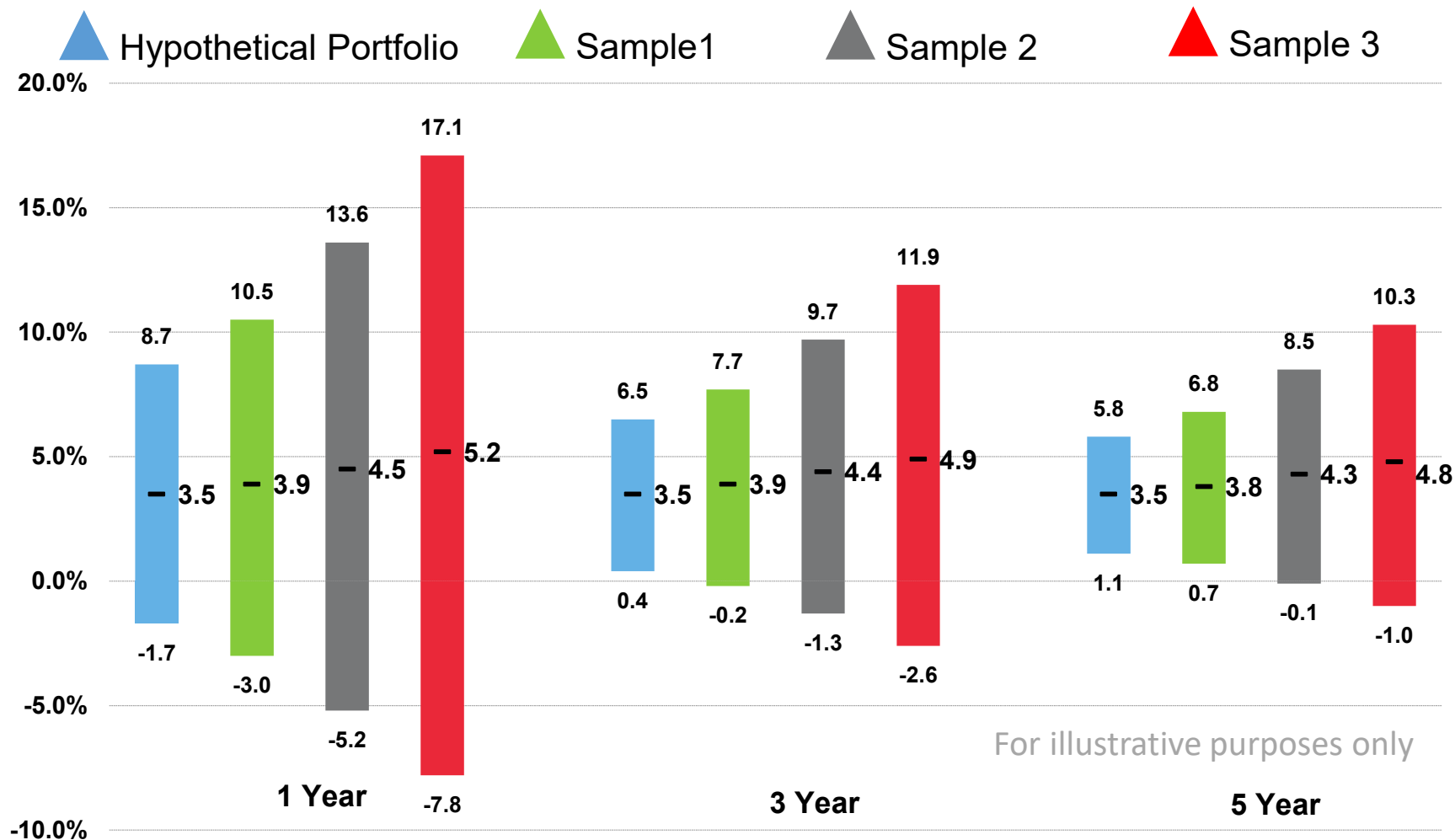
Measure the Impact of Diversification that a Potential Asset can Bring



Source:



Source:

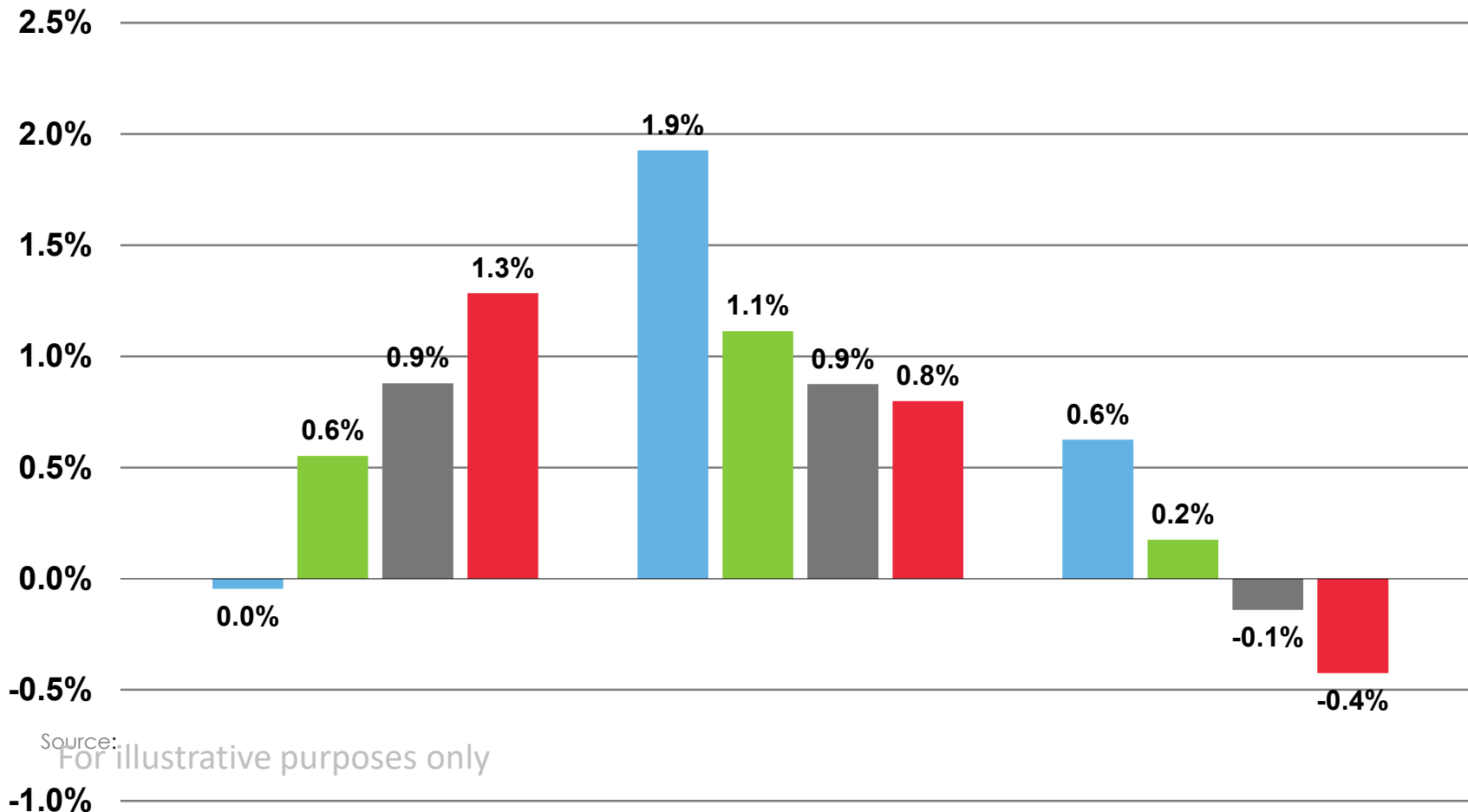


Source: Global Investment Committee Over a single year, portfolio risk may be high. As horizons extend, the expected best and worst compounded return scenarios draw closer to the mean expected return.

**US 10-Yr TSY Bond Yld +100
bps
3 months**

**US 10-Yr TSY Bond Yld -
100 bps 3 months**

**US HY Yld Spd
+200 bps 3 months**



Source:
For illustrative purposes only

HYPOTHETICAL RANGE OF PORTFOLIO VALUES BY YEAR

(\$MM)

<2% 2% 4% 6% 8% 10%

Probability



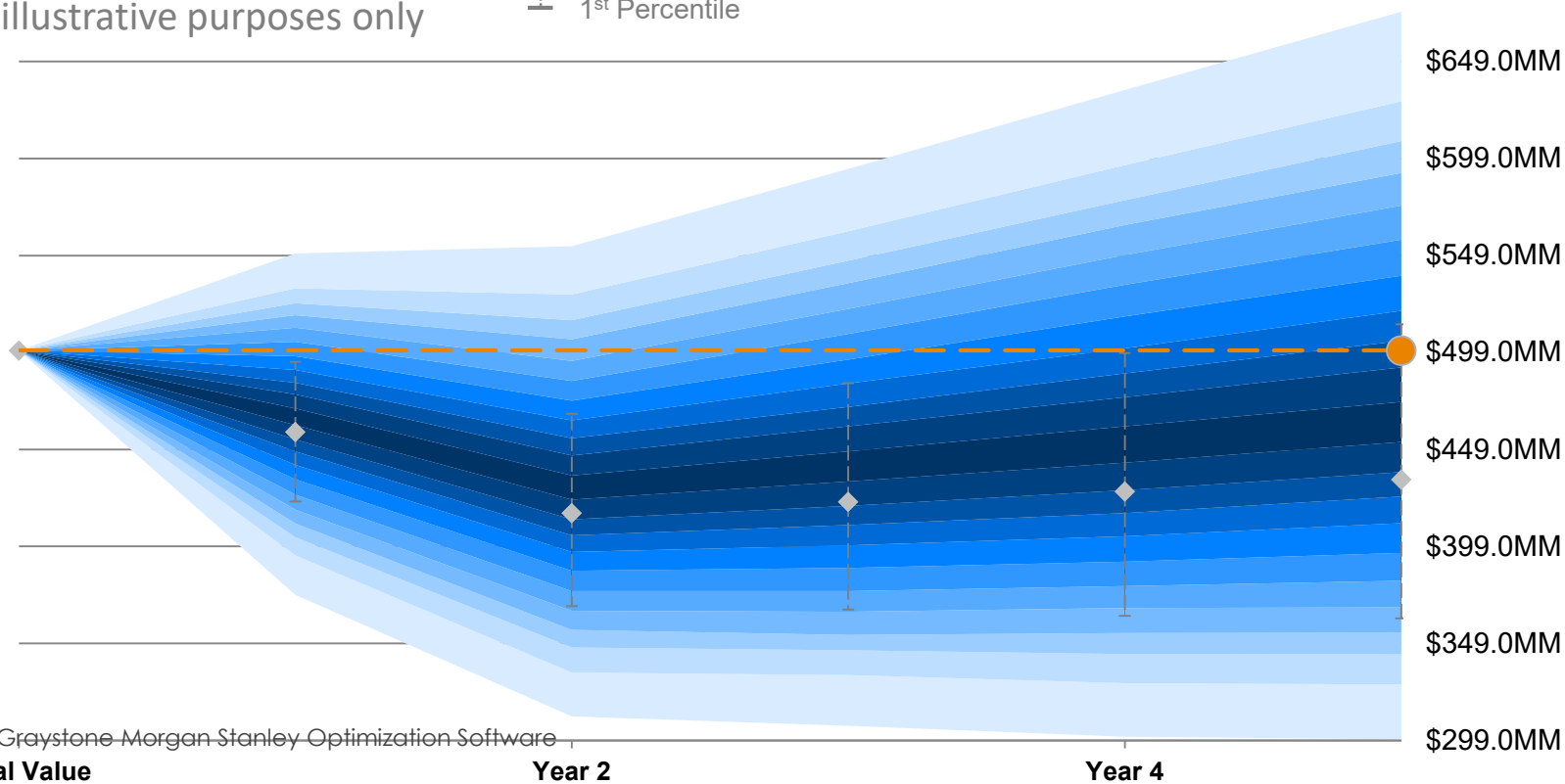
Current Portfolio Value

- 99th Percentile
- ◆ Median
- 1st Percentile

● **Target End of Horizon Value: \$500,000,000**

Values Adjusted for assumed inflation

For illustrative purposes only

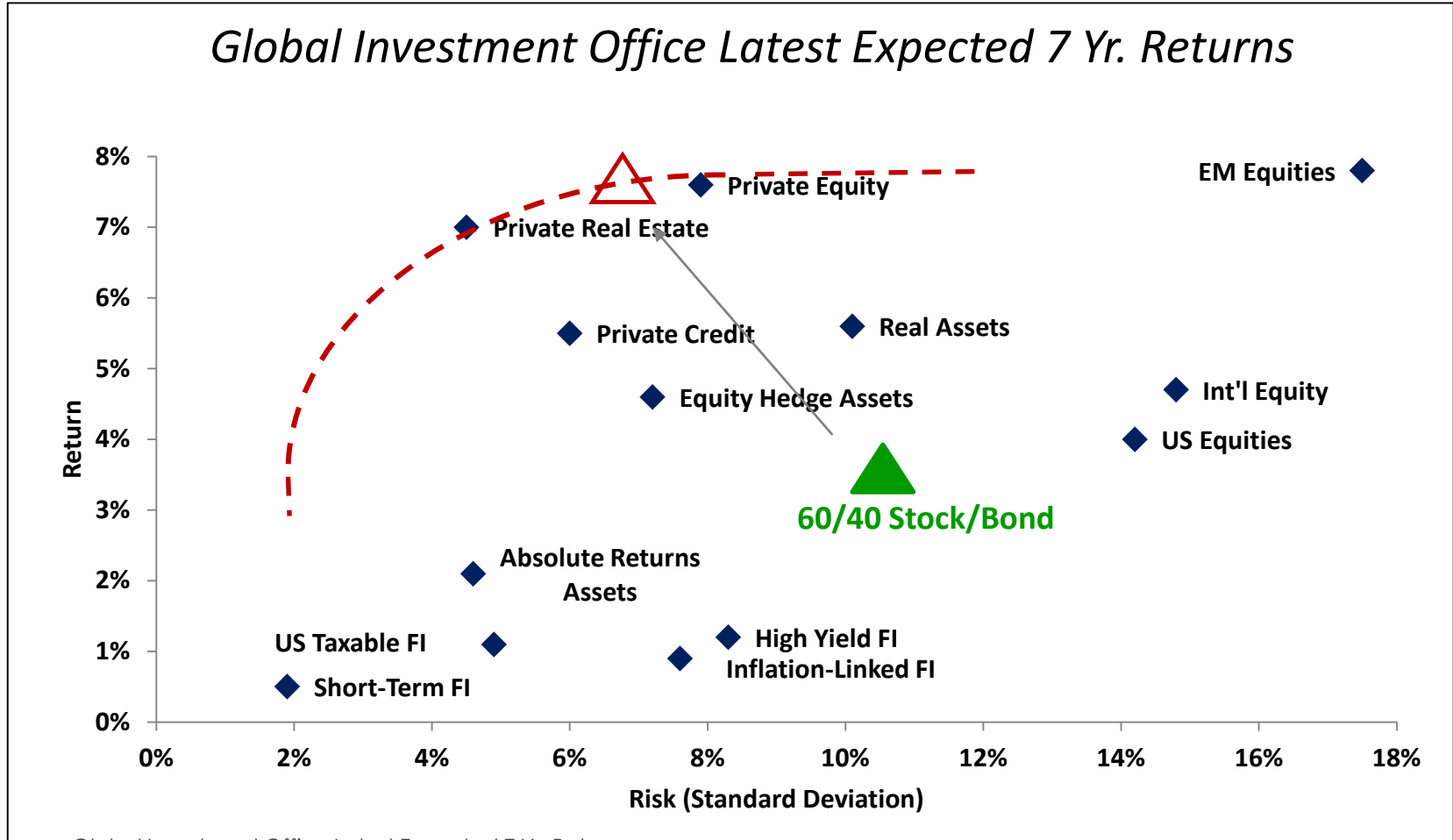


Source: Graystone Morgan Stanley Optimization Software

Initial Value

Year 2

Year 4



- ❑ **Let us help you Re-Optimize your Portfolio with new 7 Year Inputs**

- ❑ **Examine 5 Potential Opportunities in the Market Now**
 1. **Cyclical Value Recovery**
 2. **Yield Alternative: Non U.S./EM Debt**
 3. **Yield Alternative: Regulatory Capital Relief Trade**
 4. **Interval, Tender Offer Funds**
 - a. **Last Mile E-Commerce Real Estate**
 - b. **Investment Grade Single Tenant Lease**
 5. **Non US/Emerging Markets**

For further information email abigail.j.gage@msgraystone.com

Information

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Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

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Individual funds will have specific risks related to their investment programs that will vary from fund to fund.

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Interest in municipal bonds is generally exempt from federal income tax. However, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax-exemption applies if securities are issued within one's state of residence and, local tax-exemption typically applies if securities are issued within one's city of residence.

International investing may not be suitable for every investor and is subject to additional risks, including currency fluctuations, political factors, withholding, lack of liquidity, the absence of adequate financial information, and exchange control restrictions impacting foreign issuers. These risks may be magnified in emerging markets.

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The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar-denominated, investment-grade, fixed-rate, taxable bond market segment of SEC-registered securities. The index includes bonds from the U.S. Treasury, Government-Related Corporate, Mortgage-Backed, Asset-Backed, and Commercial Mortgage-Backed Securities sectors. An investment cannot be made directly in a market index. Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made. NOTE: High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

Barclays Capital U.S. Credit Bond Index is composed of all publicly issued, fixed-rate, non-convertible, investment-grade, domestic corporate debt (collateralized mortgage obligations are not included). Total return comprises price appreciation/depreciation and income as a percentage of the original investment. This index is rebalanced monthly by market capitalization. An investment cannot be made directly in a market index.

Important Information, continued

Barclays Capital Municipal Bond Index is a broad measure of the municipal bond market with maturities of at least one year. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. An investment cannot be made directly in a market index.

The MSCI EAFE® Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. As of May 2005 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. An investment cannot be made directly in a market index.

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of the linear relationship between an asset or asset class and the asset or asset class it is being compared to, most typically that between an individual stock and a market index. In the context of a market index, a stock's beta dictates the average degree to which its historical returns coincided with the returns to the index. A beta of 2, for example, implies that a stock has, on average, moved twice as much as the index, (given that the beta is positive), but with double its magnitude (i.e. a market increase of 5% would, on average, portend a stock increase of 10%, while a market decrease of 5% would portend a stock decrease of 10%). In this presentation, beta is used to model the relationship between a stock and a proxy index, in conjunction with the stock's overall volatility (defined subsequently).

Value-at-Risk (Annual): A measure of the downside risk of an investment portfolio, Conditional Value-at-Risk is the *expected* (annual) loss in the event the portfolio experiences a 'one year in the red' event, i.e. a downside returns event so severe one might probabilistically expect it to occur, on average, once every 20 years. In other words, Conditional Value-at-Risk is the average portfolio loss in the event of the portfolio experiencing particularly adverse circumstances. As contrasted with Value-at-Risk, (defined subsequently), the metric is affected not just by the dispersion across all downside extremes, but also by the frequency of thin downside extremes.

Correlation, or correlation coefficient, is a mathematical representation of the relationship between two asset classes and ranges between -1 and +1. Perfect positive correlation (a correlation of +1) means that as a security moves, either up or down, the correlated security moves in lockstep. Perfect negative correlation, alternatively, means that if one security moves in either direction the security that is perfectly negatively correlated will move by an equal degree in the opposite direction. If the correlation is 0, the movements of the securities or asset classes are independent, meaning one's moving does not affect the likelihood of the other's moving.

Efficiency Analysis: Efficiency analysis plots portfolios along two dimensions, one corresponding to an investment objective, most typically forecasted return, and the second to risk, most typically forecasted volatility. The analysis evaluates the *efficiency* by which one is achieved at the expense of the other. Graphically speaking, more 'efficient' portfolios appear in an efficiency analysis chart above less efficient ones controlling for risk, i.e. at the same point along the horizontal axis. Research suggests that skillful blending of asset classes can maximize the tradeoff between objective and risk, and thus 'efficiency' is relevant to the determination of an appropriate strategic asset allocation.

Leptokurtic Distribution: A probability distribution implying that large deviations from the average are materially more probable than what so-called 'normal' probability distributions imply is common. It is characterized as 'fat tailed'. For further on this property of distributions, please see the '**Skewness**' and '**Kurtosis**' entries further in this Glossary.

Kurtosis: A statistical measure of the "peakedness" of a distribution. In a return series that is leptokurtic, i.e. one that exhibits higher kurtosis than the normal distribution, risk is manifested through low frequency of 'extreme events', both positive and negative, measured as returns several standard deviations away from the average. These distributions are called 'fat tailed' because their extremes are *thick* with probability. A normal distribution is 'thin tailed' such that returns 3 or more standard deviations away from the average are exceedingly rare). In 'low kurtosis' return series, i.e. kurtosis less than or equal to normal, risk is manifested through high frequency deviations close to the average. The vast majority of financial return series are leptokurtic, however some investments, e.g. hedge funds, are significantly more so than the average, which is an unfavorable attribute of their profile.

Downside Risk: a measure of uncertainty based upon the forecast likelihood of events. For example, 5th percentile return is defined as the portfolio return that only 5% of potential returns are less than (and 95% of returns are greater than), a number which will vary greatly with the forecast frequency of adverse return events.

Return Probability: In simple terms, the likelihood of a given return threshold being passed. Specifically, in the context of a model of capital market dynamics, risk and return forecasts can be used to infer the probability that a given portfolio's return will be above or below any nominal threshold at any specific future point in time.

Probability < 0% or Probability of Loss is the probability that portfolio return will be *less than or equal to* zero.

Probability > Target Return or Probability > 7520 Rate is the probability that portfolio return will be *greater than or equal to* the supplied target or 7520 rate. As with other such figures, the accuracy of the calculations are based on the accuracy of the risk, return and distributional assumptions applied to the calculation.

SARY (CONT'D)

Density: one way to express the likelihood of a particular event is to display its probability density. The more a given event is 'dense with probability' the more likely it is. In this analysis, probabilities represent the relative likelihood of a portfolio's achieving a specified value at a specified time in the investment horizon.

Return : In the context of an internally consistent model, risk and return forecasts can be used to infer the likelihood that a given portfolio's return will be above or below any nominal threshold.

Probability < 0% or Probability of Loss is the probability that portfolio return will be *less than or equal to* zero.

Probability of Target Return is the probability that portfolio return will be *greater than or equal to* the supplied target. As with the other figures in this analysis, the accuracy of those predictions are a function of the accuracy of the risk, return and distributional assumptions applied to the calculation.

Weighted Average Return: Projected annual rate of change in the price of an asset class or portfolio. In the foregoing analysis, Portfolio Return Forecasts are based on a weighted average of the return assumptions detailed in Appendix 4, where the weights are equal to the portfolio itself.

What-if Analysis: An examination of the effect of a specified event- historical, hypothetical or some combination of the two (here conditional)- on a portfolio's return. Another name for 'what if' analysis.

Sharpe Ratio: Developed by William F. Sharpe, this calculation measures the risk-adjusted return, or 'efficiency', of a portfolio. The Sharpe Ratio is calculated as the *excess* expected return on an investment divided by its expected volatility, i.e. standard deviation, where excess means expected return minus the risk free rate of return. One criticism of Sharpe ratios is that the measure of risk, portfolio standard deviation, analyzes all forms of dispersion equally, upside and downside, and does not sufficiently control for downside event risk.

Skewness: A statistical measure of asymmetry of an asset class or portfolio return distribution. Negative skew is an undesirable characteristic of some investments, e.g. private real estate, indicating that the return distribution (representing the likelihood of downside deviation from average) is 'longer' than the right hand, i.e. that downside events are bigger than their reciprocally plausible upside ones. Because the values of negatively skewed distributions lie above the average. Positive skewed distributions, such as private equity and managed futures, exhibit the opposite behavior, and distributions with long tails are skewed to the right of the average.

Standard Deviation: A statistical measure of the dispersion of data (in the context of this report, return data). Standard deviation can be thought of as the *average* difference between an individual data point and the mean of all data points under consideration. All else equal, more broadly distributed returns will have a higher standard deviation than more narrowly distributed returns.

Turnover: A measure of the average holding period of an investment in a client's portfolio. Portfolio turnover is calculated by taking either the total value of securities bought or sold – whichever is less – over a specified period, divided by net asset value. The GIC's assumptions of asset class turnover are based on the average turnover values of managers in that category.

Maximum Drawdown (Annual): A measure of the downside risk of an investment portfolio, it is defined in this presentation as the portfolio loss that is less than 95% of projected one year returns. One way to interpret this is that drawdowns of this magnitude or greater would be, on average, anticipated in one out of every twenty years, subject to the accuracy of the risk, return and distributional assumptions applied to the calculation.

Volatility: A measure of the magnitude of variability of the returns of an asset class or security, measured statistically as the forecasted standard deviation of those returns (see above). It is generally the case that a higher level of return volatility implies greater risk, as this implies more substantially adverse outcomes for a given level of likelihood of their occurrence.

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Alpha: A measure of a portfolio's time weighted return in excess of the market's return, both adjusted for risk. A positive alpha indicates that the portfolio outperformed the market on a risk-adjusted basis, and a negative alpha indicates the portfolio did worse than the market.

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