2021 Capital Markets Forecast

Near-Term Sentiment + Long-Term Forecast

January 2021

Syntrinsic Investment Counsel
3840 York Street, Suite 100
Denver, Colorado 80205
303.296.7100
www.Syntrinsic.com

Contents

CEO Letter....3
Executive Summary....5
Near-Term Sentiment Summary....6
Long-Term Forecast Summary....7
I. Global Macroeconomic Themes....8
II. Near-Term Sentiment....16
Global Equities....16
Global Real Estate....21
Commodities....21
Private Equity....22
Private Debt....22
Hedge Fund Strategies....23
Global Fixed Income....23
III. Long-Term Forecast....26
Global Equities....26
Global Real Estate....31
Commodities....32
Private Investments....33
Hedge Fund Strategies....36
Global Fixed Income....38
Disclosures....42

Syntrinsic Investment Committee

Akasha Absher
President

Jim Brauer, CFP®, CIMA
Director, Consulting

Alex Haun, CFA, CAIA
Senior Analyst

Phil Kirshman, CFA, CFP®
Chief Investment Officer

Robin Meyer, CFA
Senior Analyst

Ben Valore-Caplan
Founder and CEO

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

CEO Letter

Reflecting on 2020, several words come to mind. Gratitude. Humility. Sadness. Relief. Disappointment. Courage. Despair. And ultimately, Hope.

And as these many words swirl about in a year of social and economic turmoil, I find a common question links the otherwise disparate tensions around the pandemic, the economy, social justice, climate change, and the financial insecurity that has been exacerbated for so many and highlighted by this tumultuous year.

As a country, how do we balance our quest for personal freedom with our shared responsibility for each other?

Even as we strive to make material progress on access to jobs, housing, health care, education, creativity, and capital; even as we address the multigenerational challenges of climate change and government debt; before we can more strategically address the twin titans of the pandemic and its economic carnage, we need to more clearly define what we are trying to accomplish in the first place. The political gamesmanship around financial and health care responses to the pandemic reflect a country that is not sure what matters.

Do we want a country in which we have a level playing field for all children to realize their full potential? Do we want an economy in which some people need to be permanently poor so that other people can realize a profit? Do we want every worthy innovator and entrepreneur to have access to the capital and networks they will need to realize their vision? Do we want every adult to have a realistic opportunity for a decent home, a safe and fairly compensated job, and the ability to care for their children and other loved ones? What exactly does it mean to be endowed by our Creator with certain inalienable Rights, such as Life, Liberty, and the pursuit of Happiness?

This tension between personal liberty and social responsibility has been with us since the beginning of the American experiment. And for an entrepreneur like me, someone who dedicates his days to thinking about how to use capital to create a more generative world, I am averse to simplistic solutions or top-down government mandates.

In my ideal world, people take personal responsibility for their own success AND take personal responsibility for ensuring that others have a fair opportunity to create their own successes. Thus, a person can build a business or career while striking at the formal and informal barriers that keep others from doing so. Such a mindset calls for nuance, thoughtful analysis, empathy, and a healthy regard for our fellow community members. And while the tone and tenor of our political parties and social media discourse paints a bleak picture, fortunately, there are many good people bringing those qualities to bear every day across every sector.

As we move from 2020, we have an opportunity to make this year an inflection point for strengthening our social fabric and our economic vitality. We can lean into 2021 with an even stronger commitment and ability to solve our greatest social challenges. The opportunities for entrepreneurship, innovation, and wealth creation abound. And they can and should co-exist with the opportunities for enhancing access to good-quality jobs, education, health care, housing, and the other factors that make life into living.

While many people are eager to see 2020 in the rear-view mirror, I look back with gratitude for my good colleagues at Syntrinsic who are striving to build a company worthy of our clients, to our clients

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

for their tremendous impact on the world, and to the many people who knowingly or not, serve as inspirations of profoundly decent humanity.

And as we head into 2021, I hope you will join me in keeping front and center the question of how we balance our quest for personal freedom with our shared responsibility for each other. Let's continue to share our answers and experiments with each other, to learn from each other, and in the process, to build a society that reflects the best of what we can be.

Sincerely,

Ben Valore-Caplan
Founder and CEO

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Executive Summary

In 2020, the COVID-19 health crisis devasted the economy and people's livelihoods, leading to a drop-in economic activity not seen since the Great Depression. Add in the social justice issues and it was hard to see how any investor could even think about investing in the markets. However, the economy, the investment markets, and our society were extremely resilient. Yes, there are still challenges on the horizon but opportunities as well. The economic stimulus provided by governments and central banks globally, the development of a vaccine for COVID-19, and the technological advances over the last year have provided both the economy and the investment markets with the ability to recover relatively quickly from this crisis. All of this only reinforces why it is essential for long-term investors to remain fully invested even in the face of adversity.

This past year, our Investment Committee has been focused on global growth, fiscal and monetary policy, inflation, trade, and sustainability as the key macroeconomic themes that will drive growth in the economy over the coming years. As we look out into 2021, those themes have not changed, but our expectations for how they will play out have shifted as the global economy has become more resilient. The time of fiscal austerity appears to be over, the trend towards sustainable investing has accelerated, and the risks associated with the COVID-19 crisis have declined. After analyzing these macroeconomic themes, we expect prolonged improvement in the economy and investment markets at the onset of this new business cycle. As a result, our near-term sentiment is more positive than it was at mid-year 2020. However, even with this positive outlook, we expect to see volatility in the investment markets due to uncertainty about the vaccine distribution, increasing geopolitical tensions, and from the technological revolution that is changing the face of industries and society.

Amidst all these opportunities and challenges, we remain grounded in our approach to forecasting the investment markets with a long-term forecast and a near-term sentiment. The long-term forecast serves as the underlying foundation for building strategic asset allocations that can endure through market cycles. Our approach provides a rational way to anticipate the likely returns available from equity, debt, real estate, commodities, hedge fund strategies, and private investments. We also realize that from time-to-time, economic and/or market conditions create opportunities to add value on the margins by modestly reducing or increasing allocations. As a result, we craft a near-term sentiment to complement our long-term forecast. Our near-term sentiment generally looks at opportunities to adjust allocations to asset classes and market segments with a three-year perspective in mind.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Near-Term Sentiment Summary

Asset Class/Segment	3Q 2020 Near-Term Sentiment	1Q 2021 Near-Term Sentiment
Global Equities	**Neutral**	**Neutral/Positive**
U.S. Equity	Neutral/Positive	Neutral/Positive
Non-U.S. Developed	Neutral	Neutral
Emerging Markets	Neutral	Neutral/Positive
Global Fixed Income	**Neutral**	**Neutral**
Core Bond	Neutral	Neutral/Negative
Core Plus Bond	Neutral	Neutral/Positive
Non-U.S. Developed	Negative	Negative
Emerging Markets	Neutral	Neutral
Real Assets	**Negative**	**Negative**
Real Estate	Negative	Negative
Commodities	Negative	Negative
Hedge Fund Strategies	**Neutral**	**Neutral**
Private Equity	**Neutral/Positive**	**Neutral/Positive**
Private Debt	**Neutral/Positive**	**Neutral/Positive**

Near-Term Sentiment

In anticipation of continued economic stimulus and our improving long-term growth forecasts, we are upgrading our sentiment for equities and core plus bonds. Even with higher absolute valuations and tight spreads, the extremely low interest rate environment increases the relative attractiveness of these asset classes and segments.

Within equities, the recent strong divergence in performance across companies and sectors through this pandemic has increased the opportunity set for active managers to add value. In addition, sustainability issues such as the environment, governance, and corporate engagement with all stakeholders (e.g., customers, employees, and communities) will be at the forefront. Active managers with the ability to navigate these trends need to be a component of equity portfolios, a shift from circumstances over the past decade.

Within fixed income, with interest rates at extremely low levels, the opportunity cost of holding government bonds even with the central bank intervention has increased. This dynamic reduces the relative attractiveness of core bonds versus core plus bonds.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Long-Term Forecast Summary

Asset Class/Segment	Index	1Q 2021 10-Year Forecast	3Q 2020 10-Year Forecast	Change from Previous Forecast
Global Equity	**MSCI ACWI**	**6.35%**	**6.10%**	0.25%
U.S. Large Cap	S&P 500	5.80%	5.55%	0.25%
U.S. SMID Cap	Russell 2500	6.20%	6.05%	0.15%
Non-U.S. Dev. Large Cap	MSCI EAFE	6.15%	6.00%	0.15%
Non-U.S. SMID Cap	MSCI ACWI ex-US SMID	7.25%	7.00%	0.25%
Emerging Markets Equity	MSCI EM	9.20%	8.90%	0.30%
Private Investments				
Private Equity	Cambridge US Private Equity	6.95%	7.85%	-0.90%
Private Debt	Cliffwater Direct Lending	5.65%	6.65%	-1.00%
Private Core Real Estate	NCREIF ODCE	5.80%	5.70%	0.10%
Private Core-Plus Real Estate	NCREIF ODCE + 179bps	7.60%	6.90%	0.70%
Real Estate				
Global Listed Real Estate	FTSE NAREIT/EPRA Global	5.55%	5.50%	0.05%
U.S. Listed Real Estate	FTSE NAREIT/EPRA United States	5.80%	5.70%	0.10%
Global ex-U.S. Listed Real Estate	FTSE NAREIT/EPRA Global ex-US	5.20%	5.20%	0.00%
Commodities				
Commodities	S&P GSCI	1.95%	1.85%	0.10%
Hedge Fund Strategies				
Hedge Fund Strategies	HFRI FoF Composite	2.10%	2.40%	-0.30%
Equity Hedge	HFRI Equity Hedged	3.45%	3.70%	-0.25%
Global Fixed Income	**Barclays Global Agg**	**0.35%**	**0.80%**	-0.45%
U.S. Core Bond	Barclays U.S. Agg	0.80%	1.80%	-1.00%
U.S. Core Plus Bond	Barclays 80% U.S. Agg/ 20% HY	1.45%	2.50%	-1.05%
High Yield bond	Barclays U.S. High Yield Corporate	4.15%	5.10%	-0.95%
Non-U.S. Developed Bond	FTSE WGI ex-US	0.05%	0.10%	-0.05%
Emerging Markets Bond	JPM EMBI	4.10%	5.10%	-1.00%
Cash	**3 Mo Treasury**	**0.70%**	**1.20%**	-0.50%
US Inflation	**CPI: Consumer Price Index**	**1.91%**	**1.83%**	0.08%
Global Inflation	**Weighted Regional Forecast**	**2.21%**	**2.11%**	0.10%

Long-Term Forecast

The extensive global economic stimulus that has supported and stabilized the economy during the health crisis has led to increased projections for both growth and inflation over the coming years. As a result, Syntrinsic is increasing our long-term capital markets forecast across equities, real estate, and commodities. However, the accommodative monetary policy, while supporting growth, has pushed down interest rates to extremely low levels, resulting in 10-year forecasts for fixed income that are materially lower than what we have seen over the last several years.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

I. Global Macroeconomic Themes

Restoring the Economy

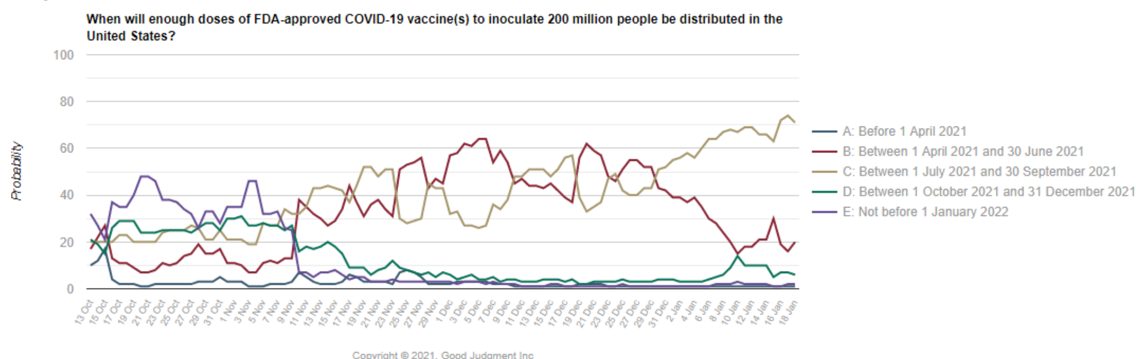
As of the day before this publication, January 18, the COVID-19 virus has taken at least 2.0 million (Source: Bloomberg) lives worldwide. The health crisis caused by the virus and the subsequent economic shutdown led to a global shock to aggregate demand that is unlike any previous recession in history. It is essential to note that while the shock to demand led to a steep surge in unemployment and a substantial rise in bankruptcies, it did not result from any supply/demand imbalances in the economy as with other recessions. In this situation, the shock was caused by government intervention and societal behavioral changes to protect lives. As we entered the COVID-induced recession, most American consumers had healthy balance sheets, the financial sector was well capitalized, inventories were lean, and while debt was high in the corporate sector, it was not unmanageable. Therefore, unlike previous recessions that required working through supply/demand imbalances, restoring the economy, and returning to full employment is highly dependent on a solution to the health crisis.

In December, vaccines developed by Moderna and Pfizer-BioNTech were authorized and approved for distribution. After the approval, globally governments have developed a timeline for vaccinating up to 60% of the population in the hopes that fosters herd immunity, starting with frontline workers and those who are high-risk. Forecasters anticipate that we will reach this herd immunity by mid to late 2021. While Syntrinsic is cautiously optimistic for the rollout of the COVID-19 vaccines, risks related to the effectiveness of this mass vaccination effort remain. The established timeline for the rollout in the United States has already been delayed. According to Good Judgement, a forecasting firm, probabilities for reaching herd immunity by mid-summer are declining. The graphic below shows that in December there was a higher probability that herd immunity would be achieved in the U.S. by June

Exhibit 1: US COVID-19 Inoculation Forecast

When will enough doses of FDA-approved COVID-19 vaccine(s) to inoculate 200 million people be distributed in the United States?	Today's Forecast	1-week Change
Today's Forecast:		
A Before 1 April 2021	1%	0
B Between 1 April 2021 and 30 June 2021	20%	+2
C Between 1 July 2021 and 30 September 2021	71%	+2
D Between 1 October 2021 and 31 December 2021	6%	-4
E Not before 1 January 2022	2%	0

Forecast History:



Source: Good Judgement as of 1/18/2021

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

30, 2021. That probability has declined, and it is now estimated that the 60% threshold will be reached between July and September 2021.

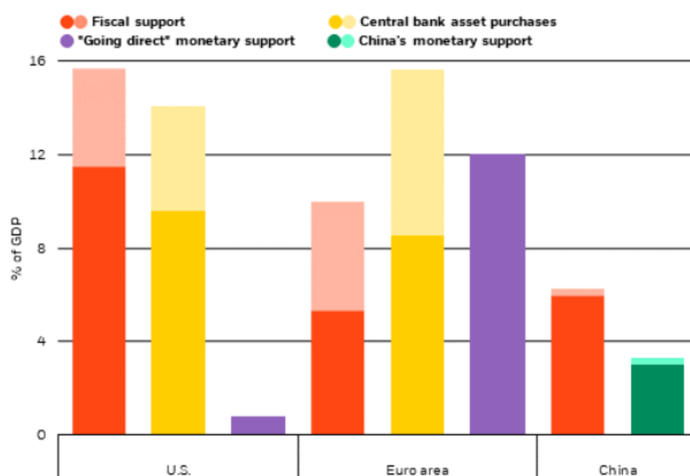
To date, much of this delay has been a result of logistics and production issues. However, other risks also could affect the timeline for fully re-opening the economy. For example, there is growing awareness of the possibility of more vaccine-resistant mutated strains and recognition that there are many people who may delay or refuse taking the vaccine for political and religious reasons, or due to concerns about the vaccine's efficacy and potential side-effects.

We recognize that society is in a materially different place than it was in the middle of 2020 with two approved vaccines and several on the way; that progress gives us cause for some tempered optimism. However, we do anticipate that the rollout of these vaccines as well as the aforementioned other risks will add to the volatility in the investment markets over the coming year.

Fiscal and Monetary Policy become key drivers of growth

Exhibit 2: BlackRock's estimated Fiscal and Monetary Support in key economies

Estimated fiscal and monetary support in key economies, 2020 and 2021



Sources: BlackRock Investment Institute, with data from Haver Analytics, December 2020. Notes: The orange bars show estimates of the discretionary fiscal measures in 2020 and 2021 in response to the pandemic, based on proprietary and broker research. The green bars show the estimated impulse of monetary growth in China measured via total social financing. The purple bars show the direct central bank support via programs such as the euro area's Targeted Longer-Term Refinancing Operations. The yellow bars show central bank purchases of sovereign debt. For the U.S. we assume the Federal Reserve purchases an additional $80 billion of U.S. government debt per month through 2021, in line with its recent policy announcement. For the euro area we include purchases under the Pandemic Emergency Purchase Program, and the additional 120 billion-euro purchases announced under the Asset Purchase Program. Bars of darker shades represent 2020, and those of lighter shades 2021.

Fiscal austerity appears to be over

The time of global fiscal austerity appears to be over. All indicators point to government intervention that is here to stay. In our 2020 Capital Markets Forecast, we spoke about how limited expansionary fiscal policy over the previous decade contributed to a low growth environment despite accommodative monetary policy. Essentially, central banks did what they could to promote growth but with little help from stimulative policies related to taxes, regulation, trade, government spending, and other fiscal tools. The extreme shock of COVID-19 shifted that stance from one of fiscal austerity to one of fiscal stimulus. This increase in deficit spending by governments globally has stabilized the economy by boosting incomes, preserving employment, and funding healthcare and education. As you can see from the Exhibit 2, that additional spending has equated to over 10% of GDP in the U.S. and slightly over 5% of GDP in Europe. These stabilization policies have had a direct impact on growth projections with consensus growth estimates improving from the middle of the year. Bloomberg Consensus estimates have increased US growth projections to -3.5% from -5.6% and in developed markets to -5.1% from -5.2% as of 12/31/20. These stabilization policies have appeared to limit some of the permanent scarring to the global economy. Already we are seeing a rise in the

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

savings rate in the U.S. and lower than expected unemployment in Europe, both signs that economic damage from COVID-19 might be short-term rather than permanent.

Based on rhetoric from governments globally, we expect sustained fiscal stimulus (deficit spending) in the coming years to support incomes, revenues, and employment lost due to COVID-19 as well as new stimulus measures to drive growth. We anticipate these new measures will be centered around infrastructure, focusing on adapting to climate change, expanding education and broadband, and making supply chains more resilient and more local. In December, the European Union, Japan, and the U.S. enacted economic stimulus packages totaling over $2.4 trillion[1], in addition to the stimulus passed in mid-2020. The E.U.'s package was the first joint stimulus package ($857 billion) adopted among the countries and is designed to give money to countries hardest hit by the pandemic. Not only might this package help revive the weakest E.U. economies, but it may also set a precedent for joint economic action that could make the E.U. a more organized and powerful economic entity.

Moreover, the E.U. agreed to $1.1. trillion in additional support for E.U. policies. In the U.S., President-elect Joe Biden has announced intentions to propose $1.9 trillion in additional stimulus above the $900 billion approved in December for added COVID-19 relief as well as for infrastructure and healthcare.

Exhibit 3: Bloomberg Financial Conditions Index

Source: Bloomberg

Supportive monetary policy is here to stay

Central banks globally have intervened with accommodative monetary policy to ease financial conditions and boost aggregate demand. These intervention measures have included lowering interest rates, purchasing fixed income issues across the spectrum of ratings, and providing lending facilities and loan guarantees. We anticipate that central banks globally will remain accommodative at least through 2022-23 but more than likely well into this decade. As you can see from Exhibit 3, financial conditions in the U.S. as evidenced by Bloomberg's Financial Conditions Index is back to pre-crisis levels.

The U.S. Federal Reserve (the Fed) has committed to achieving maximum employment and inflation of 2% percent over the longer run. This is a change[2] from previous years when the Fed had a 2% inflation target versus an inflation range over the longer run. As a result, the Fed has committed to keeping interest rates low until 2023 and maintaining asset purchases to sustain financial conditions as well as achieve full employment. The Fed has also committed to keeping a more accommodative policy well into the economic expansion to boost employment for low-and-moderate income communities.

[1] December 10, 2020, WSJ: ECB Expands Stimulus Program to Prop Up Pandemic-Hit Economy, https://www.wsj.com/articles/ecb-expands-stimulus-program-to-prop-up-pandemic-hit-economy-11607604670
[2] August 27, 2020 Federal Open Market Committee Press Release, https://www.federalreserve.gov/newsevents/pressreleases/monetary20200827a.htm

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Outside of the U.S., the major central banks have also committed to accommodative policies. The European Central Bank, Bank of England, and Bank of Japan have increased bond buying over the last few months and have committed to do more if needed.

What does all this mean for inflation?

Some analysts have expressed concern that we will start to see inflation pick-up as economic stimulus expands and increases the money supply, particularly in the U.S. In the 1970's, inflation increased as the government increased the money supply to finance budget deficits, which eventually led to a recession. However, over the last couple of decades the efficacy of monetary policy has diminished, and that relationship (increasing money supply and inflation) has broken down. In 2015, the Federal Reserve stated, "The importance of the money supply as a guide for the conduct of monetary policy in the United States has diminished over time."[3] Many economists believe that changing demographics, technological innovation, and globalization have been led to this breakdown in the historic relationship between inflation and the money supply. (Read: Inflation, Please)

Inflation Factors	
Positive Trends	**Negative Trends**
Fiscal and Monetary Policy	Changing Demographics
De-Globalization	Technological Innovation
Climate Change Costs	Employment Slack

That said, we recognize some things have changed dramatically over the last year that could lead to higher inflation, while other changes could weigh on inflation. We expect stimulative fiscal and monetary policy to modestly support inflation and reduce the likelihood of deflation. De-globalization, should it continue, would increase costs locally as we have seen with inflationary growth in the U.K. due to Brexit, a case study of de-globalization. And the increased costs associated with climate changes are likely to cause both economic activity and more inflation.

Keeping inflation in check are trends that pre-existed COVID-19, such as changing demographics and technological innovation. For better or worse, the pandemic has only accelerated technological innovation as well as created employment slack. Corporations around the world have been forced in a matter of months to adopt or develop technologies that normally would have taken many years to integrate. These technological changes also accelerate trends in employment given the increased flexibility of labor which broadens labor pools and could weigh against wage growth for years to come.

As we look out over the next couple of years, we do believe there will be some upward pressure on inflation, from the accommodative monetary and fiscal policies and increased demand as the economy restarts but expect the effects to be transitory. The negative factors outlined above are likely to keep U.S. inflation from meaningfully exceeding 2% over the long run.

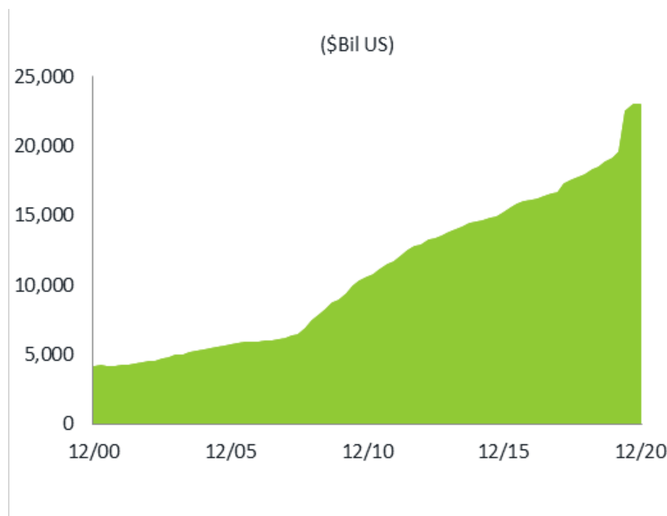
[3] "What is the money supply? Is it important?" U.S. Federal Reserve, December 16, 2015

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

What is the impact of higher government debt?

Another big concern in the marketplace is how additional fiscal stimulus will affect the already rising global debt. 2020 saw the largest increase in fiscal deficits since World War II. As of Q3 2020, global debt increased 8% from Q3 2019 (Source: IIF, BIS, IMF, Haver, and Visual Capitalist). That does not include the approximate $1.4 trillion in stimulus announced by governments within the developed markets over the last month and the plans for additional stimulus.

Exhibit 4: U.S. Federal Debt



Source: Bloomberg, Federal Reserve

In this extremely low interest rate environment, higher indebtedness to spur economic growth is not inherently negative. For example, in the U.S., while debt has been rising (see Exhibit 4: U.S. Federal Debt), the overall interest costs associated with that debt has been declining. That increased fiscal burden by the public sector has supported households and the private sector, minimizing the effect of the demand shock of the on the economy. The Bureau of Economic Analysis estimates that in the U.S., total disposable income increased by $1.03 trillion from March to November 2020 and boosted savings rate to 12.9% as of 12/31/2020. (See Exhibit 5). For context, the 10-year average savings rate is 8.3%.

Exhibit 5: U.S. Savings and Disposable Income

Source: Bloomberg, Bureau of Economic Analysis

We anticipate that we will see more stimulus measures focused on spurring growth and improving livelihoods with investments in infrastructure focused on broadband, education, and climate change. If executed, this type of stimulus could increase Gross Domestic Product (GDP), which in turn could generate revenue that would help offset the higher debt burden.

That said, the costs associated with high debt burdens, while muted in a low interest rate environment, can present a risk to the long-term health of the economy. In addition, the higher indebtedness could potentially increase interest rate and inflation volatility. Over the next several years, monetary policy will be anchored to maintain low interest rates and moderate inflation but increasing debt issuance will make this more challenging.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Re-thinking Globalization

As we mentioned in our Mid-Year 2020 Capital Markets Forecast Update, the health crisis caused by the COVID-19 pandemic has exacerbated issues around globalization. Globalization links trade, investment, data, ideas, technology, and people (e.g., workers, tourists, students, etc.).

Supply chain disruptions and bottlenecks have arisen across industries and around the world because of a slowdown in activity, limited movement of goods, and/or lack of workers. These disruptions have made it challenging to produce key products such as medical equipment, drugs, and food, thereby, driving up prices and calling into question the resiliency of our supply chains. This vulnerability, in addition to trade tensions that remain at the forefront between many regions (e.g., U.S. and China, China and Europe, Europe and U.K.) and migration reduction policies globally, has led many countries to think differently about trade.

The Biden administration has announced as part of its agenda to use government resources to bolster American industrial and technological strength and ensure the future is "made in all of America." China also has committed to reducing its dependence on overseas markets and technology with its "dual circulation" strategy, with plans for greater reliance on domestic economic activity that are likely to be revealed early 2021. Both plans, if enacted, could lead to a reduction in global trade and alter capital flows, particularly between the U.S. and Asia. In addition, in November 2020, the largest Asia-Pacific trade deal was enacted, the Regional Comprehensive Economic Partnership (RECP). It was enacted after the U.S. scuttled the Trans-Pacific Partnership. The RECP now accounts for 30% of the global economy and it excludes the U.S. and Europe.

A delinking/re-thinking of trade particularly as it pertains to goods could have implications on inflation and the dollar because of changing capital flows and investment. We do not anticipate a full delinking of the global economy but recognize there will be challenges particularly as it relates to the flow of ideas and data and the associated intellectual property concerns.

On a macro level, the changing pattern of trade highlights the need for global diversification within investment portfolios. From a bottom-up perspective, we anticipate that successful companies around the world generally will increase incorporation of environmental, social, and governance factors, particularly with regards to environmental sustainability, demographics, security, and stakeholder and committee engagement in their decision-making.

Sustainability at the forefront

Over the last several years, it has become more apparent to an increasing number of investors that in order to solve some of the social and environmental issues facing our society, investors need to hold companies accountable for more than just financial return (improvement in stock performance). Investors have begun to advocate for companies to change the relationship between the organization and its workforce, the environment, and the communities in which they operate. The extreme health, economic, social justice, and environmental issues surfaced by COVID-19 and climate change has made this focus on sustainability even more critical.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Transitioning to a low carbon economy is integral to growth

In 2020, 22 weather/climate disaster events with losses exceeding $1 billion each hit the United States, as per National Oceanic and Atmospheric Administration (NOAA). The cumulative losses were $95 billion and that does not include economic losses related to the pandemic. These events included droughts, severe storm events, tropical cyclone events, and wildfires. Overall, these events resulted in the loss of life of more than 262 people and had significant economic effects on the areas impacted. The 1980–2020 annual average was 7.0 events per year (CPI-adjusted); the annual average for the more recent five years (2015–2019) was 16.2 events (CPI-adjusted)[4].

Companies and governments understand that climate change is not only a threat to life but also an economic imperative. Moody's estimates that 18 sectors have a combined $7.2 trillion of debt with "high inherent exposure to physical climate risks such as devasting wildfires, storms, and other calamities." To put this economic risk in perspective, only two countries have GDP larger than $7.0 trillion, the U.S. and China.

In the last several months, we have seen government efforts to decarbonize. China has committed to reach net zero emissions by 2060[5]. A recovery plan from Europe has $500 billion euros allocated to green initiatives, and targets for reaching net-zero emissions. Even in the U.S., the latest COVID-19 relief bill was approved with some climate measures with $35 billion to fund wind, solar, and other clean energy projects. President-elect, Joe Biden, has committed to rejoining the Paris Climate Agreement and included in his agenda getting the U.S. to net-zero emissions by 2050. In addition, we have seen net-zero announcements from Japan and South Korea.[6]

The drive to a low-carbon economy will have a material effect on capital markets and propel continued investment into companies that are materially integrating environmental, social, and governance (ESG) factors into their business models. For the capital markets, measures to affect climate change can have a direct or indirect effect on GDP. The near-term effects on GDP will depend on how governments enact policies to achieve the transition to a low carbon economy. For example, government investment in green infrastructure and initiatives could be less costly to the private sector versus a carbon tax and/or product level regulation. Job retraining efforts will be a necessary element of this transition to reduce the adverse short-term impacts on people working in high-carbon impact sectors and companies.

Regardless of whether the transition to a low carbon economy is driven by the private sector, public sector, or both (which we think will be the case), this change will have a long-term impact on specific geographies and sectors as well as the long-term growth and health of the overall economy. As a result of these changes, diversification will be even more important and there will be additional opportunity for investment managers to add value through active decision-making.

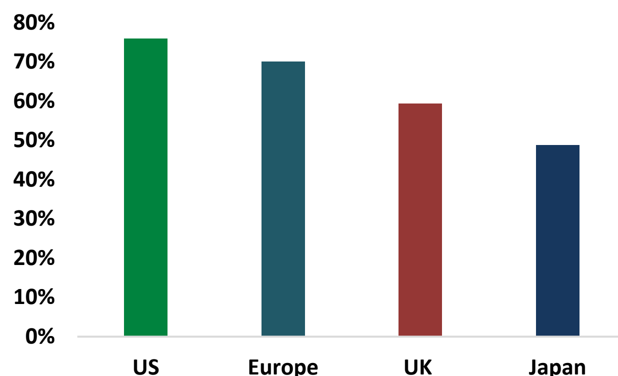
Solving inequality is imperative to growth

There have been real costs to this pandemic: the loss of human life, the loss of employment, lower educational attainment, and declining wealth. These costs will plague our society and economy for generations to come. Particularly, long-standing wealth and income inequality has been greatly

[4] 2020, National Oceanic and Atmospheric Administration, Billion-Dollar Weather and Climate Disasters: Overview, https://www.ncdc.noaa.gov/billions/
[5] September 9, 2020, Bloomberg, China beat the U.S. to a zero carbon emissions climate pledge, https://www.bloomberg.com/news/articles/2020-09-22/china-beat-the-u-s-to-a-zero-carbon-emissions-climate-pledge?sref=enY7HfMh
[6] January 5, 2021, Bloomberg, Climate action is embedding into how the world works

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

exacerbated by this crisis. As we wrote in [Investing for Economic Justice], the inequitable distribution of wealth and income is a structural issue that stems from systemic and structural biases and financial exclusion.



Source: Credit Suisse Global Wealth Databook, 2019, JP Morgan

These inequities have been exacerbated by the uneven recovery we have seen in wake of this crisis; U.S. investment markets have surpassed pre-crisis levels, thus benefitting asset owners. Meanwhile, unemployment, underemployment, and reduced pay has hit 26.8 million workers, 13% of the U.S. working-age population (Source: Economic Policy Institute October 2020). As of 4Q 2020, the total unemployment rate was 6.5%, but for black workers the unemployment rate was 9.9% and for Latinx workers it was 8.7% (Source: U.S. Bureau of Labor Statistics). For black men, the number is even higher at 11%.

It is important to note that this disparity in unemployment started long before the COVID-19 crisis and has been weighing on economic growth, dampening consumption and investment. McKinsey estimates that this wealth gap will cost the economy between $1.0 – 1.5 trillion between 2019 and 2028, which represents 4-6% of projected U.S. GDP in 2028. This inequity is not unique to the U.S. as wealth inequality has been rising globally. In addition to the direct costs to GDP, inequality is one of the indirect driving forces behind the rise in populism, which has implications for foreign policy, fiscal policy, regulation, free flow of labor and taxation that would only exacerbate the adverse estimates referenced above.

Recently, the President of the Federal Reserve Bank of San Francisco, Mary Daly, prepared a speech entitled "Is the Federal Reserve Contributing to Economic Inequality?" acknowledging that there is a critical role for monetary policy to play in stemming inequality and remaining accommodative to achieve full employment for all workers. President Daly also highlighted that there is a role for the government, the corporate sector, and for private citizens to play in achieving greater equity.

Addressing inequality will be key for the Biden administration and we believe will be central to his fiscal stimulus plans. We see a discussion on and a potential push towards higher minimum wages, corporate taxation, as well as spending on inclusive infrastructure (e.g., education, climate, and broadband). Because economic and employment exclusion cuts across geographic, cultural, and political lines, these efforts may have more broad-based support than in previous decades.

Corporations focused on addressing issues of inequality through equal pay, workers' rights, diversity and inclusion, and inclusive climate strategies will win in the marketplace as they build more resilient companies and appeal to a growing number of investors. Investor flows into companies with strong environmental, social, and governance (ESG) ratings has surpassed traditional equity flows over the past year. Coordinated fiscal and monetary policy as well as the increased push towards evaluating environmental, social, and governance factors in investment decision-making can potentially drive growth over the coming years as well as reduce risk in the portfolio.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

II. Near-Term Sentiment

Global Equities

The extreme central bank intervention in 2020, while helping stave off what could have been one of the worst depressions in our history, is keeping interest rates low and making fixed income less attractive relative to other assets. Therefore, while valuations are toward the high end of their historic range, there are limited opportunities for return in this low interest-rate environment, leading us to improve our Global Equity sentiment to **Neutral/Positive**.

U.S. equity

In the U.S., the extraordinary coordinated monetary and fiscal policy of 2020 has replaced income for many consumers, provided liquidity for businesses, and improved overall financial health. These actions stabilized the economy, provided a backstop to fixed income markets, and indirectly supported the equity markets.

At the onset of the shutdowns, it appeared as if consumer and corporate balance sheets would deteriorate from rising unemployment, declining revenues, and tightening financial conditions. There was concern that loan losses in the financial sector would dwarf that of the Global Financial Crisis. Ten months later, however, the measures authorized by the Fed to ease financial stress and ensure a functioning financial system—lowering interest rates, purchasing fixed income assets, and providing lending facilities—improved financial conditions to pre-crisis levels. In addition, the $2.0 trillion (CARES Act Relief Bill) of fiscal stimulus—direct checks to individuals, increased unemployment benefits, and Paycheck Protection Program loans to companies—provided income to offset the extreme drop in aggregate demand from the shutdowns.

Anticipate a rebound in consumer spending

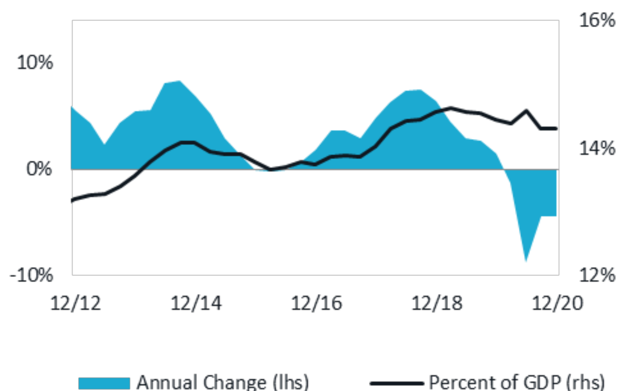
One of the most important drivers of the U.S. economy is the consumer. The U.S. consumer accounts for 70% of GDP. Even with higher unemployment, consumer disposable income and savings are at levels higher than pre-crisis. The combined fiscal and monetary stimulus in early 2020 added $1.03 trillion to disposable income (Source: Bureau of Economic Analysis) and increased savings rates to 12.9% from 7.9% at the end of 2019 (See Exhibit 5: U.S. Savings Rate and Disposable Income). We have not seen a time in history when disposable income has risen during a recession. The higher disposable income in conjunction with the new $900 million of fiscal stimulus passed in December and the perceived pent-up demand from lower spending in 2020, leads us to believe that the consumer could be a material driver of growth in the coming years. To note, the consumer spent $575 billion less in services (i.e., traveling, restaurants, shopping, etc.) in 2020 because of the shutdown. As that spending gets reactivated, even gradually, the economy would again find consumers to be a powerful ally.

We do, however, recognize that though there are two COVID-19 vaccines approved for the U.S. at this time, there is a risk that the timing of the rollout could be delayed. It would be reasonable to expect that COVID-19 cases could surge, which would cause more states to lockdown and further weigh on unemployment, consumer spending, and bankruptcies. Even with that risk, we think the propensity for states to fully lockdown their economy is waning, and the additional stimulus passed in December should provide enough financial stability for the country to make it through the first half of 2021. In addition, we anticipate another round of fiscal stimulus in the first quarter from the Biden

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

administration, which would provide additional support to the economy and be a tailwind for the consumer.

Exhibit 7: U.S. Business Fixed Investment



Source: Bloomberg

U.S. corporates are healthier than expected

From a corporate perspective, recent U.S. earnings have beaten expectations that had been downgraded because of the pandemic. Earnings have been driven primarily by the increased savings and disposable income of the U.S. consumer. Estimates for Earnings Per Share (EPS) growth are expected to rebound for 2021 as consumer savings boosts pent-up demand. Additionally, corporate margins will likely improve as labor market slack will limit higher wages and lower interest rates will keep debt service costs low. Furthermore, business investment has begun to improve, which could also support productivity.

From a balance sheet perspective, while leverage has been ticking higher, many corporations have been able to refinance debt at lower interest rates and extend maturities out 10 - 25 years. In the current interest rate environment, we do not believe that the higher leverage will be a drag on growth in the coming years but will provide companies the liquidity to invest and grow.

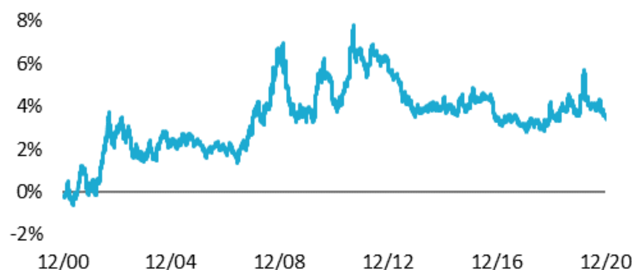
It is key to note, that unlike the Global Financial Crisis the financial sector entered this crisis well capitalized. Even with some of the bankruptcies seen during the crisis, loan losses for banks are well below what was experienced during the Global Financial Crisis because of the Fed's accommodative policies. A relatively healthy financial sector is also constructive for economic growth going forward.

Overweight U.S. equities relative to other regions

The healthy consumer, a well-capitalized financial sector, and accommodative monetary policy alongside anticipated fiscal stimulus that is both supportive (i.e., COVID-19 relief) and stimulative (i.e., designed to create jobs) could deliver a strong tailwind to growth in the U.S. for the next few years.

For the investment markets, while equity valuations appear high on an absolute basis, the equity risk premium is below what has been experienced during previous economic cycles due to lower interest rates (See Exhibit 8), thus justifying the higher valuations. Moreover, the lower relative exposure to global trade amongst

Exhibit 8: S&P 500 Equity Risk Premium



Source: Bloomberg, based on Fwd. P/E and U.S. 10 Year Treasury Yield

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

U.S. companies relative to companies in other regions, and the tailwinds to growth lead us to remain **Neutral/Positive** for U.S. equities.

That said, the recent strong divergence in performance across companies and sectors through this pandemic has increased the opportunity set for active managers to add value. As the U.S. likely enters a stronger recovery in late 2021, companies that have lagged through the pandemic have the potential to rebound as demand improves from higher consumer savings. In addition, sustainability issues such as the environment, governance, and a corporation's engagement with all stakeholders (e.g., customers, employees, and communities) will be at the forefront. Active managers with the ability to navigate these trends need to be a component of large-cap US equity portfolios, an important shift from circumstances over the past decade.

Non-U.S. Developed equity

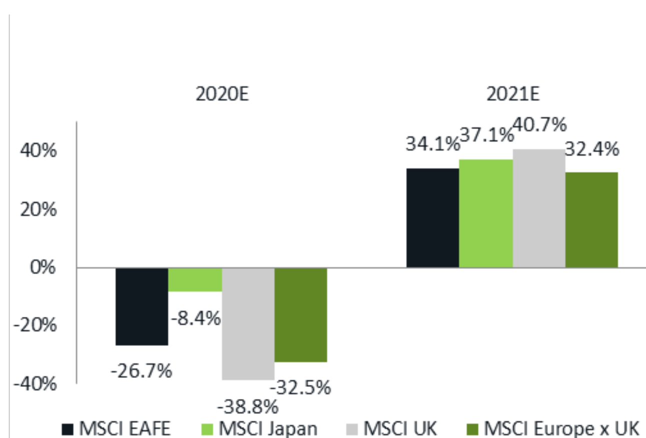
Similar to the U.S., Non-U.S. Developed countries and regions (e.g., Eurozone, Japan, U.K., Australia, etc.) have used accommodative monetary and fiscal policy to stabilize and support their economy through the lockdown in economic activity. While the individual countries are weathering the pandemic with varying degrees of success, overall, the broader Non-U.S. Developed economics have thus far avoided the most severe downside scenarios. However, their fiscal response played a direct role in preserving employment versus the U.S. approach of transferring income with stimulus checks and higher unemployment benefits. While unemployment is lower in some regions on a relative basis, consumer savings is not as high. This combined with the more extended lockdowns and the region's higher dependance on trade, lead us to remain **Neutral** on Non-U.S. Developed equity.

Regional dispersions take shape

Expectations for 2020 full-year earnings growth are sharply negative in all of the regions, though Japan will be more modestly negative. Dispersion in expectations reflect differences in how each region has effectively managed the virus and, in turn, the pandemic's impact on economic activity.

In Europe, earnings expectations have declined slightly as growth projections decreased because of the virus's resurgence and subsequent lockdown restrictions. The major fiscal stimulus package reached this summer and the one in December among E.U. nations is a positive and will continue to stabilize the region until the vaccine is distributed. Even with this stimulus, our enthusiasm for the Eurozone is tempered because of the large exposure to trade and more cyclical sectors.

Exhibit 9: Foreign Developed Consensus Earnings Per Share Growth



Source: Thomson Reuters

In the U.K., consumer sentiment and spending reached lows not seen since 2008. Corporate profit margins have moved markedly lower in 2020, below companies in the Eurozone and Japan. While our outlook has improved because of the Brexit deal, the strict lockdowns and resurgence of the virus

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

with a mutated strain is weighing on the economy. Accommodative monetary and fiscal policy has provided some stability, however, the economic shutdown from the virus and the uncertainty around Brexit for most of the year has weighed heavily on consumers and companies in the U.K.

The earnings outlook for Japan is more favorable than other Non-U.S. Developed regions. Japan moved swiftly to lock down major density regions and stem the virus's spread within its borders. This measure has proved successful thus far, which earnings expectations seem to reflect. Overall earnings are expected to recover strongly in 2021 in line with global market expectations for all economies. Corporate balance sheets, however, do remain under-utilized (as they were prior to the pandemic) with high cash levels that has thus far limited economic growth. Domestic conditions could see gradual gains going forward as we move through the pandemic, as low unemployment, consistent wage growth, and a strong domestic consumer should be beneficial to Japanese equities. However, similar to other Non-U.S. Developed regions, risks remain as Japanese companies are vulnerable to disruptions to trade. That said, the Regional Comprehensive Economic Partnership (RCEP) among 15 Asian countries, including Japan, is a signal to investors that the region is committed to multilateral trade integration.

Non-U.S. Developed equity still less attractive

Exhibit 10: EAFE Equity Risk Premium

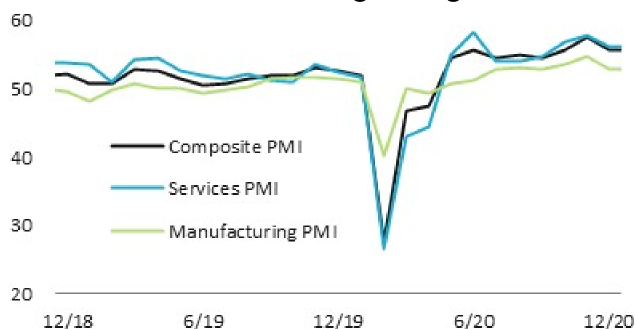
Source: Bloomberg, Based on fwd. P/E and average sovereign 10-year yields from Germany, Japan, UK, Canada, and Australia.

Valuations for European, U.K., and Japanese equities are higher than long-term averages on an absolute basis, as in the U.S. Also like the U.S., the equity risk premium in these regions (See Exhibit 10) is lower than previous periods because of the extremely low interest rate environment. We anticipate that interest rates will remain low as the European Central Bank, Bank of Japan, and Bank of England have all committed to remaining accommodative at least through 2022. Though, while valuations are low, 30% of the companies in the Non-U.S. Developed equity markets are banks and thus the negative interest rate environment will be a drag on their profitability. In addition, European companies derive roughly 60% of revenues from non-E.U. countries and thus are vulnerable to trade tensions directly with the U.S. as well as those between the U.S. and China. These challenges lead us to remain underweight Non-U.S. Developed equities versus their market capitalization in global equity markets.

Emerging markets equity

Emerging market growth continues to outpace developed market growth, consistent with our long-term capital markets forecast. China is the emerging market's primary constituent

Exhibit 11: China Purchasing Managers Index



Source: Bloomberg, Caixin.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

economy. The country's recovery appears positive based on the economic data seen from China purchasing managers indexes (See Exhibit 11) and continued directed stimulus that the Chinese government has telegraphed. We anticipate that China's recovery will lead global GDP growth in 2021. This solid growth will have a positive impact on emerging market trading partners within Asia ex-China as well as broader emerging markets constituent countries. As a result, we have **Neutral/Positive** sentiment on emerging markets equities.

China is the driver of growth, buoying the rest of Asia

In China, trade is no longer the major driver of growth and consumer savings has also increased, both of which are positive for long-term economic vitality. A strong consumer will drive consumption in 2021 and support the recovery in revenues and margins. Bloomberg consensus expectations are for full-year earnings and revenue growth to be positive 33.6% and 10.9% respectively, and both expectations are among the highest globally. Asia now makes up roughly 80% of the emerging markets index, with China the largest and most influential constituent, representing nearly 40% of the index's composition. China has telegraphed that it will continue accommodation measures as needed, seeking to stabilize growth as well as offset any potential resurgence of trade disputes. We anticipate that the incoming U.S. administration, while espousing a more domestic approach, will take a more measured stance understanding the relevance of trade while prioritizing intellectual property. Even with the potential trade risk, China has already significantly reduced the country's dependence on trade over the last decade and is launching the "dual circulation" strategy to accelerate the move to a more domestic, consumption-based economy.

The shift in supply chains as result of the trade tensions has benefited regional counterparts such as Vietnam, Myanmar, and Cambodia, contributing to durable growth in Asia ex-China. The recently signed Regional Comprehensive Economic Partnership also will support growth for Asia ex-China countries.

Latin America an outlier

LatAm optimism has faded in 2020 as the region's governments have proven ill-equipped to deal with the ongoing pandemic, particularly Brazil. LatAm as a group suffers from less developed and effective health care infrastructure as well as a much more limited ability to implement impactful fiscal or monetary stimulus. In addition, certain structural weaknesses existed among LatAm constituent economies before the onset of the pandemic, a stark contrast to the U.S., which boasted a strong domestic consumer and strong corporate balance sheets heading into 2020. One positive tailwind for LatAm is China's swift return to economic growth as China is a critical trading partner for the region and, specifically, a substantial buyer of LatAm agricultural commodities."

Emerging Markets valuations reasonable

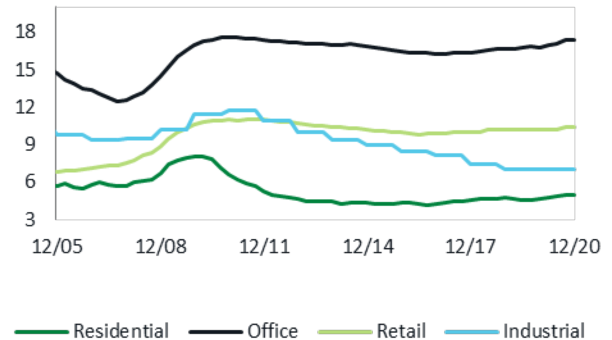
Emerging markets are trading at a reasonable discount to U.S. and Non-U.S. Developed equities. Like other regions, current valuations are elevated relative to historical averages. However, dispersion among index constituents remains high, with faster growing, tech-oriented companies trading well above emerging markets and global averages.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Global Real Estate

We continue to maintain a **Negative** sentiment for Listed Real Estate. The weak labor market and the technological revolution manifested by e-commerce growth, the work from home transition, and Zoom meetings, creates more uncertainty in the real estate sector, especially in office, retail, and hotels. As mentioned previously, we believe that inflation risks in the economy are contained, limiting real estate's attractiveness as an inflation hedge in portfolios.

Exhibit 12: U.S. Real Estate Vacancy Rates



Source: Bloomberg, Reis, Inc.

Still weak labor markets around the world are another headwind for overall real estate demand. Real estate is highly correlated to labor market strength. Vacancy rates have increased in office and retail real estate investment trusts (REITS) as seen in Exhibit 12, and the longer-term outlook for demand for both sectors remains in question. A continuation of some degree of work from home once the pandemic subsides may challenge demand for office space and the era of Zoom meetings is calling into question the need for at least some business travel. However, the picture is not all bad in real estate, as the transition to e-commerce from brick-and-mortar retail is driving demand for the industrial sector and warehouse space in particular.

Real estate valuations have fallen to more historic levels as the market quickly discounted the perceived and expected deterioration in fundamentals. The asset class has failed to rebound from March lows as dramatically as other assets classes such as equities and fixed income. The lagging performance has contributed to REITs trading close to fair value. Lower interest rates tend to support REIT performance, however, limits to yields falling further will likely cap this benefit. Any pickup in yields will serve as a headwind to performance.

Commodities

We continue to maintain a **Negative** sentiment on commodities as the long-term risk/return profile remains unattractive and the portfolio diversification benefits are limited. Similar to Real Estate, with inflation risks contained it is hard to justify the inflation protection inherent in commodities. Longer-term, we continue to see energy—the largest commodity sector—as a volatile, range-bound sector given the supply demand fundamentals.

Over the next several years, we anticipate there will be increased commodity price volatility as the economy recovers, demand rebounds, and traditional usage evolves. The commodities sector is very diverse, consisting of energy (e.g., oil and gas), agriculture, base metals, metals, and minerals. The prices of each subsector will be affected by macroeconomic factors such as changing demographics, technological shifts, and climate change. The transition to a low carbon economy, climate disasters, and the potential for more pandemics will have an outsized impact on the commodities sector. While

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

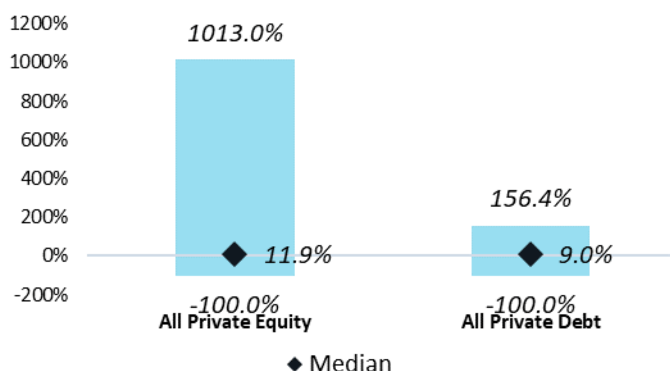
the risks and opportunities inherent in the sector bear monitoring, the uncertainty at this time precludes us from recommending a dedicated allocation to the asset class.

Private Equity

As mentioned previously, we are Neutral/Positive on global public market equities. This positive sentiment carries over into our view on private equity.

As valuations rise and returns decline for most asset classes, investors, to the extent able and willing, will look to the private markets for additional sources of risk and return. The illiquidity risk inherent in many private structures—if managed correctly and aligned with investor risk tolerance—can be positive for portfolios. The illiquidity feature provides fund managers with the ability to find opportunities for alpha by making long-term investments in companies that are not in public markets for various reasons such as size, scale, ownership, etc. The private equity market is extremely large at $4.5 trillion as of 2018 (Source: Institutional Investor) and consists of funds that invest in companies that span different stages of growth in a company. As a result, private equity can provide portfolios with greater diversification and reduce the correlation to long-only equity and fixed income markets. Fund managers have access to a larger universe of companies in traditional sectors as well as those developing new and innovative technologies and solutions not seen in the public markets. In addition, because private equity is not priced daily, portfolios experience reduced overall portfolio volatility.

Exhibit 13: Private Investments performance dispersion



Source: Preqin. Performance reflective of Net IRR of 2000-2018 vintages through 12/31/2020

Like all investing, manager selection is essential but even more so in private equity. (See Exhibit 13) Manager selection and vintage year, geographic, and sector diversification is key to building a successful private equity program.

Private Debt

Unlike the fixed income markets, private debt is attractive in this economic environment as more debt exists outside of the traditional markets, leading us to maintain our sentiment of Neutral/Positive. Many companies have turned to the private market for financing and restructuring as result of this crisis. This demand creates opportunities for investments that are not seen in the traditional investment grade and high yield market such as middle market loans, securitized assets, asset-based loans, distressed loans, special opportunities, etc. The ability to invest in these different markets and take advantages of dislocations can provide an additional source of alpha to a portfolio. Similar to private equity, private debt managers can also invest in themes such as developing new and innovative technologies and solutions not seen in the public markets. While adding private debt can increase the credit risk in a portfolio, the differentiated return has the potential to offset the additional credit and liquidity risk and provide increased diversification and return potential.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

As with private equity, manager selection is extremely important (See Exhibit 13) in building a private debt program.

Hedge Fund Strategies

The opportunity set for hedged strategies remains attractive as investment volatility is elevated and dispersion in sectors and asset classes is more pronounced. As U.S. fixed income yields and expected return remain low, hedge strategies offer differentiated risk management, sources of potential alpha, and portfolio diversification. However, these advantages are somewhat offset by low cash yields and higher fees which weigh on potential investment returns, keeping our sentiment **Neutral.**

Increasing stock performance dispersion

An increase in stock performance dispersion across sectors due to the pandemic has increased the stock selection opportunity set for long/short equity. As a result, long/short equity is more appealing than in the past and can provide an additional source of alpha and further diversify traditional portfolios.

Increasing asset class dispersion

As with long/short equity, the elevated dispersion/dislocations in the markets make the relative value segment more appealing. The asset class dispersion provides active relative value managers with opportunities to take advantage of dislocations across asset classes, and/or of the capital stack opportunities provided by issuers in both the equity and fixed income markets.

Down market protection

Global macro strategies also could add diversification to portfolios based on the market environment. Typically, macro strategies are lower returning and perform better in volatile, down markets. We do not currently rely upon dedicated global macro managers, though that could change should the opportunity set evolve.

Global Fixed Income

In global fixed income, we expect that central banks will continue to intervene for the foreseeable future with asset purchases and low interest rates, thus backstopping the developed fixed income markets and leading us to maintain our **Neutral** sentiment. We continue to believe that extremely low interest rates (see Exhibit 14) will limit the return potential and diversification benefits of the asset class over the next several years, which keeps us from a more positive view of the asset class.

Exhibit 14: 10-Year U.S. Treasury Yields

Source: Bloomberg, U.S. Treasury

An unattractive combination of low yields, tight spreads, and high duration

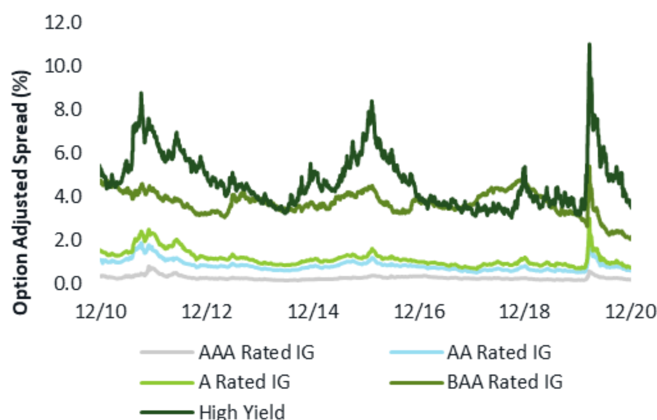
We are downgrading our sentiment on core bond to **Neutral/Negative** from Neutral, as low yields, tight spreads, and the higher duration makes this segment less attractive on a relative basis. After reaching near historical highs during March, credit spreads have tightened throughout 2020 and are now close to post Global Financial Crisis averages

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

(Exhibit 15). In addition, Treasury and Agency bond yields are lower than year-end 2019 and negative in real terms.

The Fed's intervention into the fixed income markets improved financial conditions and coupled with low interest rates, provided companies with an attractive environment to refinance outstanding debt at compelling interest rates while extending maturities dramatically. At the end of 2020, the effective duration of investment grade debt was 8.1 years, up from at the end of 2018 (See Exhibit 16). The increased duration increases the interest rate risk of the segment. While we anticipate the Fed will remain accommodative and keep interest rates low, as the economy recovers a steepening of the yield curve is possible as long-term yields market prices in higher growth and inflation.

Exhibit 15: U.S. Corporate Credit Spreads



Source: Bloomberg, U.S. Treasury

Fed backstop provides an attractive opportunity

While spreads on investment grade credit securities have largely recovered from March highs, U.S. high yield bond spreads remain elevated relative to year end 2019 and the duration is lower. Below investment grade companies are inherently riskier because of the higher leverage but we believe the increased yield and elevated spread levels present an opportunity. The direct intervention from the Fed in the corporate bond markets, including high yield "fallen angels" and ETFs, served as a psychological floor for corporate bonds. Essentially, the Fed became the buyer of last resort for corporate bonds. We recognize that the Treasury ended the corporate bond facilities at the end of 2020, but we believe that the new Treasury Secretary, Janet Yellen, who is the former Chair of the Federal Reserve, will enact something similar as part of the administration's COVID-19 relief package. Yellen was considered "dovish" during her tenure as Federal Reserve Chair.

Exhibit 16: U.S. Corporate Bond Durations

Source: Morningstar, based on iShares USIG and USHY ETFS

This technical support alongside our projections for re-opening the economy led us to a more positive view on the core plus bond segment and an upgraded sentiment of **Neutral/Positive.** Even with this more positive view, our approach remains to access this segment through active managers who can sort through the considerable risks and who can allocate to different fixed income sectors based on their evaluation of the expected risk and return opportunities.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Negative real yields unappealing

Non-U.S. Developed bond yields continue to be very low and negative in many parts of the yield curve. As with the U.S. Federal Reserve, Non-U.S. Developed central banks have committed to maintaining accommodative policies by keeping interest rates low and purchasing fixed income securities. As a result, we expect total returns from Non-U.S. Developed fixed income investments to be low or negative on a relative and absolute basis, causing us to maintain our **Negative** sentiment.

Improving risk appetite to benefit EM

While central bank liquidity programs in the developed markets have supported credit issues, they have no direct impact on emerging market sovereign and corporate issues. However, an abating of the global liquidity crisis and an overall resetting of risk appetite should benefit emerging market debt in the coming year. In addition, further strengthening of the U.S. Dollar—typically a headwind to emerging market debt performance—is not a consensus market expectation in the near term. While corporate and sovereign yields across emerging markets are now slightly below their long-term averages and the growth outlook has improved, the risk in the emerging market bond market is highly idiosyncratic, which leads us to maintain our **Neutral** sentiment.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

III. Long-Term Forecast

Global Equities

Across global equities, Syntrinsic has modestly increased on our equity projections across all regions from mid-year 2020 forecast. Our projections for growth improved because of the boost from the global economic stimulus that has offset the decline in demand from lockdowns.

Exhibit 17: Syntrinsic Global Equity Forecast

Asset Class	Index	2021 Ten-Year Forecast	2020 Mid-Year Forecast	Change
Global Equity	MSCI ACWI	**6.35%**	**6.10%**	**0.25%**
U.S. Large Cap	S&P 500	5.80%	5.55%	0.25%
U.S. SMID Cap	Russell 2500	6.20%	6.05%	0.15%
Non-U.S. Dev. Large Cap	MSCI EAFE	6.15%	6.00%	0.15%
Non-U.S. SMID Cap	MSCI ACWI ex-US SMID	7.25%	7.00%	0.25%
Emerging Markets Equity	MSCI EM	9.20%	8.90%	0.30%

Source: Syntrinsic

Forecasting Global Equities

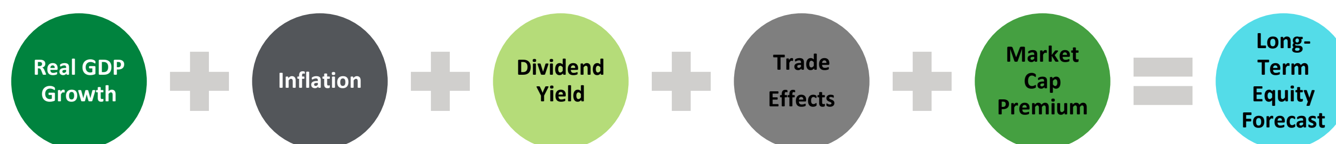
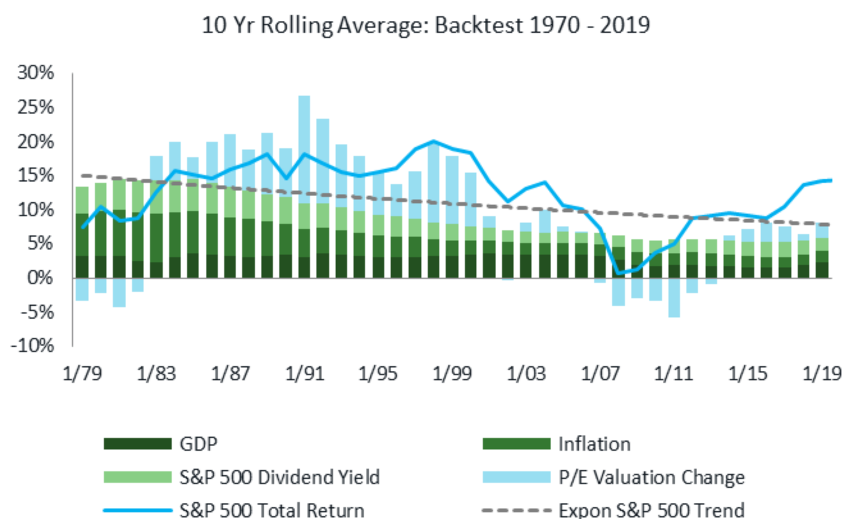


Exhibit 18: US Equity Forecast versus Actual (Backtest)



Source: Bloomberg

Syntrinsic's public market large-cap equity forecasts are based on expectations for real economic growth, inflation, and yield, with adjustments made for trade and market capitalization.

Our research and experience indicate that these factors have been highly correlated to actual returns, particularly in U.S. equity markets. Exhibit 18 illustrates how the growth of U.S. Gross Domestic Product, plus inflation, plus the dividend yield of the U.S. equity market have trended on a rolling ten-year basis. The solid light blue line indicates the annual total return of the

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Standard & Poor's 500, a reliable proxy for the U.S. large cap equity market. The dashed line reflects the smoothing of the S&P 500, cancelling out much of the noise due to short-term volatility.

As our analysis indicates, cyclical factors such as changes in price-to-earnings (P/E) ratio can influence returns over long sweeps of time. Given that such factors can be much more difficult to anticipate, we account for such trends in our near-term (three-year) sentiment.

Forecasting real growth in Gross Domestic Product (GDP)

Growth in Gross Domestic Product (GDP) should manifest in the public equity markets as companies derive additional earnings, buy materials, make capital investments, and pay employees, contractors, and vendors.

Syntrinsic takes a two-pronged approach to forecasting real growth in GDP. We rely, in part, on forecasts from key governmental and quasi-governmental sources such as the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), and the US Congressional Budget Office (CBO). In addition to these forecasts, we incorporate Bloomberg consensus estimates into our analysis. The Bloomberg consensus estimates are timely, incorporate a diverse set of assumptions and expectations, and provide complimentary insights. We have used this data to check our internal research efforts. After careful review, we have used the Bloomberg Consensus estimates to establish a three-year GDP growth picture, then incorporated our previous estimates for long-term growth and the shape of the recovery to develop a ten-year growth forecast.

Exhibit 19: Ten-Year Real Economic Growth

Region	2021 Ten-Year Forecast	2020 Mid-Year Forecast	Change
United States	**1.62%**	**1.47%**	**0.15%**
Non-U.S. Developed	1.01%	0.87%	0.14%
Emerging Markets	3.82%	3.43%	0.39%

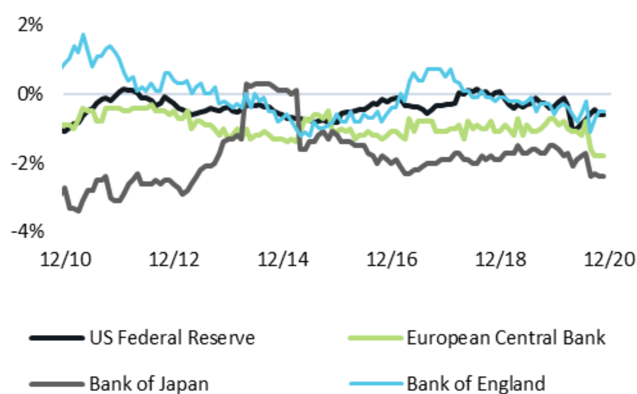
Source: Syntrinsic

Forecasting inflation

Syntrinsic relies upon global central bank target rates of inflation as a starting point for our inflation assumptions, as do many other analysts. Indeed, long-term inflation forecasts from the IMF, OECD and CBO closely match the central bank stated targets for most countries. However, Syntrinsic has noted that since the Financial Crises, many developed world central banks—in particular, the U.S. Federal Reserve, European Central Bank, and the Bank of Japan—have failed to achieve their inflation targets. Despite the potential for a near-term cyclical uptick in inflation, we mentioned in our near-term outlook believe changing demographics, ongoing technological innovation, will anchor inflation on a secular basis.

For our 2021 long-term forecast, our inflation assumptions anticipate that the consistent

Exhibit 20: Central Bank Target versus Actual



Source: Bloomberg

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Exhibit 21: Syntrinsic Ten-Year Inflation Forecast

Central Bank	Central Bank Inflation Target	Ten-Year Spread (Target versus Actual)
U.S.		
US Federal Reserve (Fed)*	2.00%	-0.38%
U.S. Inflation Assumption		**1.91%**
Non-U.S. Developed		
European Central Bank (ECB):	2.00%	-0.94%
Bank of Japan (BoJ):	2.00%	-1.81%
Bank of England (BoE):	2.00%	-0.06%
Bank of Canada	2.00%	-0.38%
Bank of Australia	2.50%	-0.54%
Non-U.S. Dev. Inflation Assumption		**1.06%**
Emerging Markets		
Central Bank of Brazil	4.00%	...
People's Bank of China	3.00%	...
Reserve Bank of India	4.00%	...
Bank Indonesia	3.00%	...
Bank of Russia	4.00%	...
South African Reserve Bank	4.50%	...
EM Inflation Assumption		**3.39%**

Source: Syntrinsic, Bloomberg

inability of developed country central banks to reach their stated inflation targets over the past decade will persist through the next. As such, Syntrinsic applies a discount based on the degree central banks in developed regions have missed inflation targets over a trailing ten-year time frame.

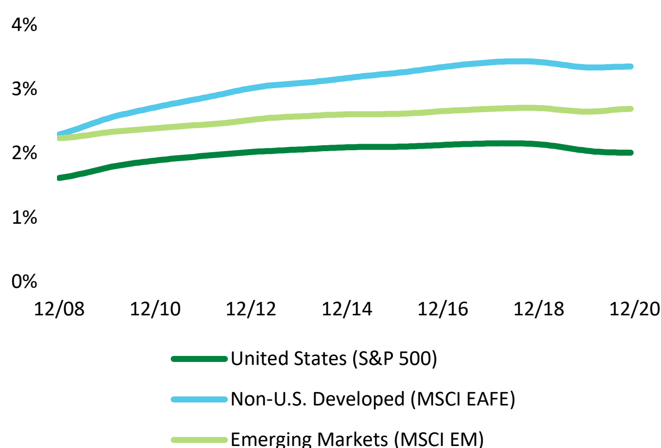
Given that the emerging markets are represented by a much more diverse array of central banks and that there are significant limits on the reliability of data regarding actual inflation rates, Syntrinsic has not applied a similar discount to forward-looking emerging market inflation.

**The U.S. Federal Reserve uses the Personal Consumption Expenditures (PCE) price index to set its inflation target. Most U.S. investors use the Consumer Price Index (CPI) to measure inflation, which on average tracks 0.30% above PCE. Syntrinsic has adjusted our inflation forecast similarly.*

Forecasting equity dividend yield

Equity yields over the past decade have been relatively stable across regions. We expect dividend yields to follow recent trends going forward as we do not see a meaningful catalyst that would propel yields of the major indexes positively or negatively. Our expectations for equity dividend yields are based on the ten-year rolling average as we believe it is more indicative of an economic cycle and better reflects the potential trajectory for yields coming out of this crisis.

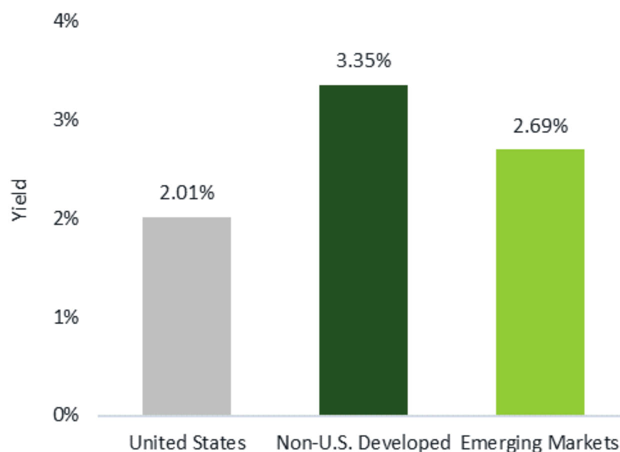
Exhibit 22: Global Equity Dividend Yields



Source: Bloomberg

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Exhibit 23: Ten-Year Dividend Yield Assumptions



Source: Bloomberg

U.S. yield changes have been muted more recently, with S&P 500 yields holding close to 2.0% as seen in Exhibit 23. The emerging market and Non-U.S. developed dividend yields have been on a downward trend resulting in a slightly lower yield assumption from our mid-year 2020 forecast update.

Yield is a particularly important part of equity return in Non-U.S. developed markets, with dividend yields representing just over half of anticipated equity total return.

Forecasting adjustments due to international trade

While growth forecasts across regions directly impact the anticipated earnings of equity markets in those regions, Syntrinsic considers it essential to account for where companies are securing their revenues. For example, a company that is dependent on revenues from a developed economy such as the U.S. or France will be operating in slower growth economies than a competing company that may be growing its revenues in China or India where economic growth rates are likely to be higher.

To account for the impact of trade on anticipated economic growth, Syntrinsic incorporates regional revenue sources for the MSCI All-Country World Index. As indicated in Exhibit 24, S&P 500 companies have recently derived 61% of revenues from U.S. sales, with 22% coming from trade with Non-U.S. Developed markets and 17% from emerging markets. These Non-U.S. revenue sources end up adding an additional 0.25% per year in anticipated growth for the U.S. equity market.

Exhibit 24: Equity Index Revenue Exposure by Region

Index	United States	Non-U.S. Developed	Emerging Markets	Trade Effects
S&P 500	**61%**	22%	17%	0.25%
MSCI EAFE	19%	**58%**	23%	0.75%
MSCI EM	10%	18%	**73%**	-0.72%

Source: Morningstar (11/30/2020)

Similar exercises for Non-U.S. Developed and emerging market indices result in a +0.75% for Non-U.S. Developed companies while companies based in the emerging markets subtract 0.72% from projected growth due to revenues derived from slower growing developed economies.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Forecasts for large cap equities by region

By summing the forecasts for real economic growth, inflation, dividend yield, and then adjusting for trade effects, Syntrinsic calculates the baseline results for large cap equities in each region.

Exhibit 25: Syntrinsic Large Cap Equity Forecasts by Region*

		United States			Non-U.S. Developed			Emerging Markets	
Assumption		**1Q 2021**	**3Q 2020**		**1Q 2021**	**3Q 2020**		**1Q 2021**	**3Q 2020**
Real Growth	↑	1.62%	1.47%	↑	1.01%	0.87%	↑	3.82%	3.43%
Inflation	↑	1.91%	1.83%	↓	1.06%	1.08%	↓	3.39%	3.40%
Yield	-	2.01%	2.01%	↓	3.35%	3.36%	↓	2.69%	2.70%
Trade Effect	↑	0.25%	0.20%	↑	0.75%	0.70%	↓	-0.72%	-0.67%
Large Cap Equity Return Forecast	↑	**5.80%**	**5.55%**	↑	**6.15%**	**6.00%**	↑	**9.20%**	**8.90%**

Source: Syntrinsic

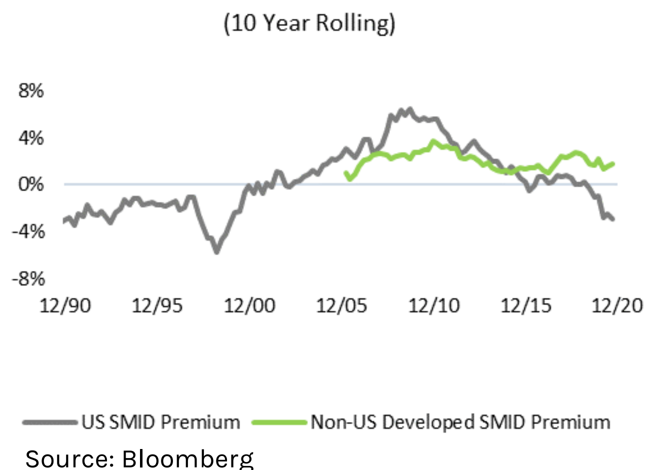
**Red arrows indicate a decline from Mid-Year 2020 to 2021, while green indicates an increase. "-" represents no change in forecast.*

Forecasts for Small/Mid (SMID) Cap Equities by Region

Syntrinsic recognizes that SMID cap equities have tended to earn an equity risk premium relative to large cap equities. Our research confirms that the SMID cap premium has approximated 0.40% per year for US equity markets, the region for which there is the most comprehensive historic data. By adding 0.40% to the 5.80% U.S. large cap equity forecast, we anticipate 6.20% for SMID cap U.S. equity over the decade ahead.

While there is less robust data for Non-U.S. equity markets, we see that premium in the available data (See Exhibit 26); thus, we apply a 0.65% premium to Non-U.S. SMID equity. Recognizing that most Non-U.S. SMID managers invest in both Non-U.S. developed and emerging market equity, we have added a 1.10% premium to the forecast returns of the Non-U.S. Large Cap equity markets as represented by the MSCI-ACWI ex-U.S. index, bringing the forecast return to 7.25%.

Exhibit 26: Small and Mid-Capitalization (SMID) Premiums by Region



Source: Bloomberg

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Global Real Estate

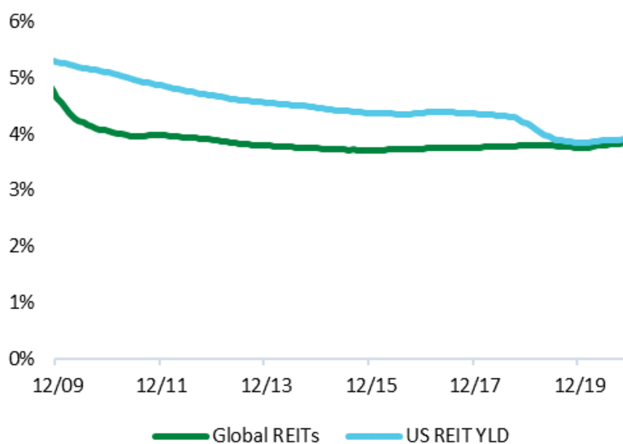
Exhibit 27: Global Real Estate Forecast

Asset Class	Index	2021 Ten-Year Forecast	2020 Mid-Year Forecast	Change
Global Listed Real Estate	FTSE NAREIT/EPRA Global	**5.55%**	**5.50%**	**0.05%**
U.S. Listed Real Estate	FTSE NAREIT/EPRA United States	5.80%	5.70%	0.10%
Global ex-U.S. Listed Real Estate	FTSE NAREIT/EPRA Global ex-US	5.20%	5.20%	0.00%

Source: Syntrinsic

Real estate as an asset class is highly idiosyncratic, with tremendous variation across types of exposures, particularly in private real estate. For forecasting purposes, Syntrinsic uses different methodologies for private real estate (See Private Investments) and real estate accessed through securities listed on public market exchanges, what is known as listed real estate.

Exhibit 28: Global REIT Yields (10-Year Rolling Average)



Source: Bloomberg

Forecasting listed real estate

Investors that gain exposure to real estate through public markets generally invest in Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs). While trading like equities, the structural differences, and historic correlations of these securities result in Syntrinsic treating listed real estate as an asset class distinct from other equity sectors.

To forecast listed real estate returns, we start with current REIT yields. Current global yields of 3.83% are in-line with mid-year 2020 yields. We then add a return component to account for anticipated growth in Net Operating Income (NOI), the "earnings" of a REIT. We estimate this premium to be zero globally due to downward pressure on Real Estate demand. We apply that spread to listed real estate in each region and then proportionately to calculate the global listed real estate forecast.

Exhibit 29: Listed Real Estate Forecast by Region

	United States	Non-U.S. Developed	Global
Yields	3.89%	3.67%	3.83%
Inflation*	1.91%	1.53%	1.72%
Spread: NOI less inflation	0.00%	0.00%	0.00%
Real Estate Forecast Return	**5.80%**	**5.20%**	**5.55%**

Source: Syntrinsic

**While Syntrinsic forecasts global inflation at 2.2%, for REIT markets we weight inflation based on REIT market exposures.*

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Commodities

While commodity-related investments manifest within equity and debt markets—and some hedge fund strategies—Syntrinsic views commodities as a distinctive asset class that might be worth dedicated investment depending on market conditions and investment objectives. Commodities include industrial metals (e.g., iron, copper, etc.), precious metals (e.g., gold, platinum, etc.), energy (e.g., oil, natural gas, etc.) agricultural products (e.g., wheat, soybeans, etc.), and softs (e.g., coffee, cotton, etc.)

Syntrinsic assumes that commodity returns will closely match global inflation. Given our regional inflation forecasts, we anticipate global inflation of 2.21% over the coming decade. We recognize that near-term environmental and geopolitical events can trigger price spikes or dips in certain commodities; however, we do not see such events as driving long-term fundamentals.

Exhibit 30: Commodity Forecast

Commodity Return Expectations	
Global Inflation Forecast	2.21%
Premium/Discount	-0.26%
Commodity Return Forecast	**1.95%**

We discount or add to global inflation based on supply/demand dynamics and current demand trends for commodities. Given continued slowing Chinese demand for commodities as China moves to a more service-oriented economy and given the lack of another catalyst to take up that demand, Syntrinsic applies a discount of 0.26% to the global inflation forecast, bringing our commodities return forecast to 1.95%.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Private Investments

Exhibit 31: Private Investments Forecast

Asset Class	Index	2021 Ten-Year Forecast	2020 Mid-Year Forecast	Change
Private Equity	Cambridge US Private Equity	6.95%	7.85%	-0.90%
Private Debt	Cliffwater Direct Lending	5.65%	6.65%	-1.00%
Private Core Real Estate	NCREIF ODCE	5.80%	5.70%	0.10%
Private Core Plus Real Estate	NCREIF ODCE + 179bps	7.60%	6.90%	0.70%

Source: Syntrinsic

Syntrinsic's forecast enables investors to model reasonable long-term return expectations; however, private equity, debt and real estate investments exhibit so much dispersion in terms of strategy, style, sector, leverage, and other factors, that investors must strive to understand how specific investments might compare to the broad universe to a much greater degree than in traditional public market equity and debt investments.

Forecasting private equity

Investors typically access private equity markets over public equity markets to earn a return premium in exchange for the additional risks inherent in private equity, including liquidity. As such, Syntrinsic forecasts private equity returns by analyzing the historic risk premium over the Standard & Poor's Public Market Equivalents (PME) Index. The PME index represents a method of simulating actual S&P 500 returns in a manner that reflects the distinctive cash flow and internal rate of return characteristics of the private equity industry.

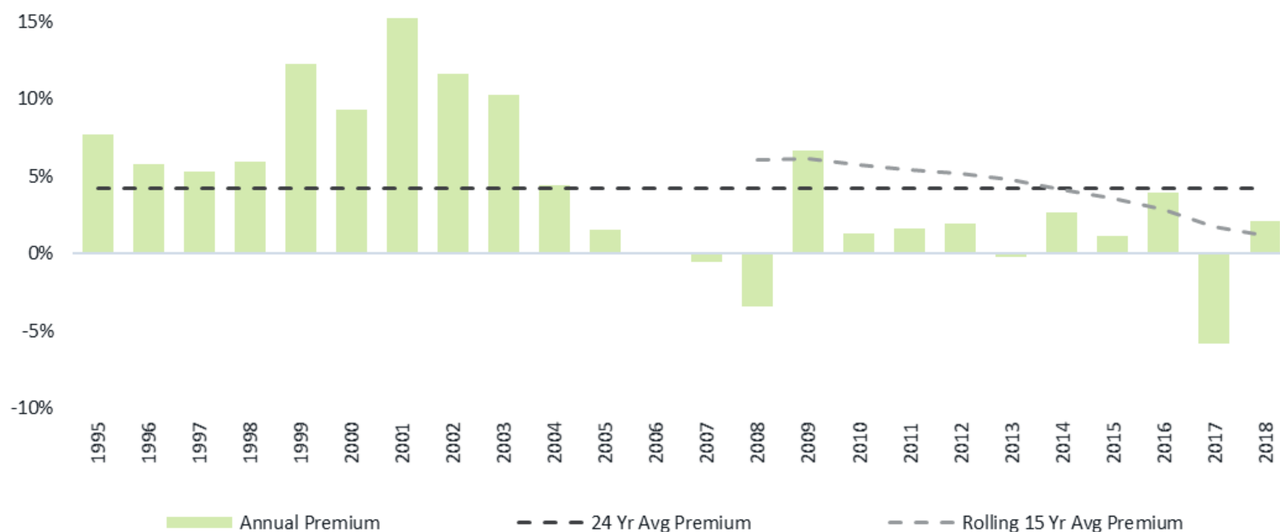
Exhibit 32: Private Equity Forecast

Private Equity Return Expectations	
U.S. Large Cap Equity Forecast	5.80%
Premium over US Large Cap Equity	1.15%
Private Equity Forecast Return	**6.95%**

As illustrated in Exhibit 33, the private equity risk premium has declined in the last 15 years compared to longer-term averages. Syntrinsic believes that these recent trends are more predictive of economic and investment conditions going forward. As a result, we rely upon the more recent private equity risk premium trend of 1.15% over our return forecast for U.S. large cap equities.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Exhibit 33: Private Equity Return Premium over S&P 500 PME by Vintage Year



Source: Cambridge US P/E pooled returns relative to S&P PME by vintage year

Forecasting Private Debt

Private debt investment funds represent a pool of loans generally made to companies. Specific funds will vary in terms of sector, credit quality, and use of leverage, thus creating great dispersion across the asset class. Recognizing this, Syntrinsic's private debt forecast relies on the historical risk premium of the Cliffwater Direct Lending Index over U.S. high yield bonds. The Cliffwater index represents a broad array of private debt strategies and is generally recognized as a proxy for the asset class. Because high yield bonds also represent loans made to companies—but through public markets rather than private—high yield bonds serve as a good anchor for the forecast.

Exhibit 34: Private Debt Forecast Calculation

Private Debt Return Expectations	
U.S. High Yield Bond Forecast	4.15%
Premium over US High Yield Bonds	1.50%
Private Equity Forecast Return	**5.65%**

Forecasting private real estate

Syntrinsic organizes private real estate most broadly into two categories, core and core plus. In this context, core private real estate represents diversified pools of high quality, mature U.S. real estate properties diversified across sectors and geography. Returns are driven primarily by cash flows of those properties and some return due to realized gains. Core plus private real estate includes core properties as well as some more aggressive properties that strive to add value through improvements, resale, and other activities.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

For core private real estate, Syntrinsic relies on the historical risk premium over listed US real estate. Surprising to some, the historic premium of core private real estate over listed real estate has been negligible over the long term, despite core private real estate having less volatility due to the timing of valuations. This may be due in part to the high fees on most core private real estate funds, which could be consuming any added value that a private vehicle would have generated over public markets.

Meanwhile, core plus private real estate strategies have a historical premium of 1.80% over the FTSE NAREIT All Equity Index, an index of US REITs. While there may be times when investing in core private real estate makes sense, we generally recommend that investors in private real estate focus their efforts on core plus investments that have the opportunity to add value.

Exhibit 35: Private Core and Core Plus Real Estate

Private U.S. Real Estate Expectations		
	U.S. Core	**U.S Core Plus**
U.S. Listed Real Estate Return	5.80%	5.80%
Private Real Estate Premium	0.00%	1.80%
Private Equity Forecast Return	**5.80%**	**7.60%**

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Hedge Fund Strategies

Exhibit 36: Hedge Fund Strategies Forecast

Asset Class	Index	2021 Ten-Year Forecast	2020 Mid-Year Forecast	Change
Hedge Fund Strategies	**HFRI FoF Composite**	**2.10%**	**2.40%**	**-0.30%**
Hedge Fund Strategies	HFRI FoF Composite	2.10%	2.40%	-0.30%
Equity Hedge	HFRI Equity Hedged	3.45%	3.70%	-0.25%

Source: Syntrinsic

Hedge fund strategies encompass myriad trading methodologies across multiple asset classes and with different investment and risk management objectives. Syntrinsic draws upon industry practices in concentrating our forecast on equity and fixed income-beta with additional support from cash returns.

The equity and fixed income beta components recognize that while hedge funds represent a highly diverse universe, historically their bottom-line results as an asset class have had consistent correlation with equity and fixed income markets. To determine the appropriate beta for the different hedge fund strategies, we analyze the historic beta and correlations to global equity markets, fixed income markets, and the Hedge Fund of Fund universe. We then apply those beta estimates to our long-term return forecasts for equity and fixed income to establish a return forecast for different hedge fund strategies.

The cash component of our forecast considers the elements of hedge fund return attributable to short rebates and interest earned on cash being held as an investment or as collateral for leverage. Even lower short-term rates since the middle of the 2020 have acted to suppress this component of return; as a result, our ten-year cash forecast has declined from 1.20% in the middle of 2020 to 0.70% in 2021.

Forecasting hedge fund of fund

Hedge fund of fund expected return speaks to strategies that represent multiple hedge fund methodologies such as equity hedge, global macro, relative value, and fixed income arbitrage. In practice, some such strategies are developed by a single firm that incorporates multiple third-party managers, while other times a single manager will apply multiple strategies within a single investment fund.

Exhibit 37: Hedge Strategies Forecast Calculation

Hedge Fund Strategies Return Expectations	
Equity Beta	0.25
Equity Beta Contribution to Return	**1.39%**
Fixed Income Beta	(0.03)
Fixed Income Beta Contribution to Return	**0.01%**
Equity + Fixed Income Beta Return	1.40%
Cash Return	0.70%
Hedge Fund Strategies Forecast Return	**2.10%**

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Forecasting equity hedge

Approximately half of the hedge fund universe is represented by equity hedge strategies. Even within that more limited segment, strategies vary in terms of long, short, and gross positioning, concentration risk, regional exposure, use of leverage, sector exposure and other factors. Nonetheless, equity hedge strategies on the whole have expressed a beta to the equity markets of 0.48 providing a useful reference point for forecasting the market segment.

Exhibit 38: Equity Hedge Forecast Calculation

Equity Hedge Return Expectations	
Equity Beta	0.48
Equity Beta Contribution to Return	**2.73%**
Fixed Income Beta	(0.12)
Fixed Income Beta Contribution to Return	**0.04%**
Equity + Fixed Income Beta Return	2.77%
Cash Return	0.70%
Hedge Fund Strategies Forecast Return	**3.45%**

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Global Fixed Income

Exhibit 39: Global Fixed Income Forecast

Asset Class	Index	2021 Ten-Year Forecast	2020 Mid-Year Forecast	Change
Global Fixed Income	Barclays Global Agg	**0.35%**	**0.80%**	**-0.45%**
U.S. Core Bond	Barclays U.S. Agg	0.80%	1.80%	-1.00%
U.S. Core Plus Bond	Barclays 80% U.S. Agg/ 20% HY	1.45%	2.50%	-1.05%
High Yield bond	Barclays U.S. High Yield Corporate	4.15%	5.10%	-0.95%
Non-U.S. Developed Bond	FTSE WGI ex-US	0.05%	0.10%	-0.05%
Emerging Markets Bond	JPM EMBI	4.10%	5.10%	-1.00%

Source: Syntrinsic

Syntrinsic recognizes that ten-year fixed income returns will be closely aligned with the average yield received over that ten-year period. While our forecasting process does allow for modest adjustments to current yields, we generally account for cyclical factors such as potential credit spread tightening or expansion in our near-term sentiment. Since the beginning of 2020, global bond yields have moved even lower from already historically low levels because of extreme central bank intervention to stabilize the economy from the shock of the health crisis. This decline has negatively impacted the long-term return outlook for fixed income from the previous year.

In an effort to anchor our scenarios with reasonable assumptions, we consider long-term structural drivers of interest rates, including our expectations for economic growth and inflation. Given our expectations for real GDP growth in the U.S. of 1.62% and inflation of 1.91%, we anticipate long-term risk-free rates at approximately 3.53%. The risk-free rate in this case is represented by the ten-year U.S. Treasury Bond.

Forecasting U.S. core bond

U.S. core bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index, which includes approximately 80% to U.S. Government bonds and 20% to investment grade U.S. corporate bonds. Thus, to forecast reasonable returns for U.S. core bonds, it is important to understand the premium (spread) of the U.S. Aggregate

Exhibit 40: Core Bond Forecast Calculation

U.S. Core Bond Return Forecast	
10 Year U.S. Treasury Yield Expectation	3.53%
U.S. Aggregate Spread	0.24%
U.S. Core Bond Expected Yield	3.77%
Current U.S. Core Bond Yield	1.19%
U.S. Core Bond Forecast Return	**0.80%**

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

over the risk-free rate, as well as likely scenarios for the movement of ten-year yields from where they are today to the expectations predicted by real GDP growth and inflation.

Given our expectation that U.S. Treasury yields should be approximately 3.53% ten years from now and adding the historic 0.24% spread of the U.S. Aggregate over U.S. Treasury yields, it is reasonable to expect that U.S. core bonds will yield 3.77% ten years from now. With yields currently at about 1.19%, our forecast would require interest rates to rise over the decade. While we cannot predict the path of those potential interest rate increases, we estimate that there will be a gradual increase in interest rates over the next 10 years. We expect that the extreme economic stimulus will drive growth over time, but central bank intervention will keep rates from rising meaningfully over the next couple of years. While rising interest rates will create opportunities for higher yield, rising rates also adversely impact bond values, leading to an annualized forecast return lower than the current yield for the U.S. core bond market segment.

Forecasting U.S. high yield bonds

U.S. high yield bonds follow a similar pattern except that the spread between high yield bonds and the U.S. Treasury Bond is higher to account for the additional risk inherent in below investment grade bonds. As well, we factor in a discount that accounts for historic defaults net of recoveries within the high yield market.

Exhibit 41: High Yield Forecast Calculation

U.S. High Yield Bond Return Forecast	
10 Year U.S. Treasury Yield Expectation	3.53%
U.S. Aggregate Spread	5.20%
U.S. Core Bond Expected Yield	8.73%
Current U.S. Core Bond Yield	5.33%
U.S. Core Bond Forecast Return	**4.15%**

Forecasting U.S. core plus bonds

In practice, many active fixed income managers strive to add value through incorporating more aggressive, higher yielding bonds into a portfolio of primarily investment grade securities. Syntrinsic considers such an approach to be "core plus" with the "plus" acknowledging the additional risk and potential return of such a strategy. While every fixed income manager is unique, we find that U.S. core plus can be represented by 80% U.S. core bond and 20% U.S. high yield bond. Given the forecasts outlined above and the 80/20 weighting, Syntrinsic forecasts 1.45% total return per year for U.S. core plus bond.

Forecasting U.S. short-term bonds and cash alternatives

Creating a ten-year forecast for short-term bonds and cash is inherently challenging due to the mismatch in time horizon. Nonetheless, it is important for investors using short-term bonds and cash to have guidance regarding reasonable return expectations for an asset class often used to keep pace with inflation.

Exhibit 42: Cash Yield Forecast Calculation

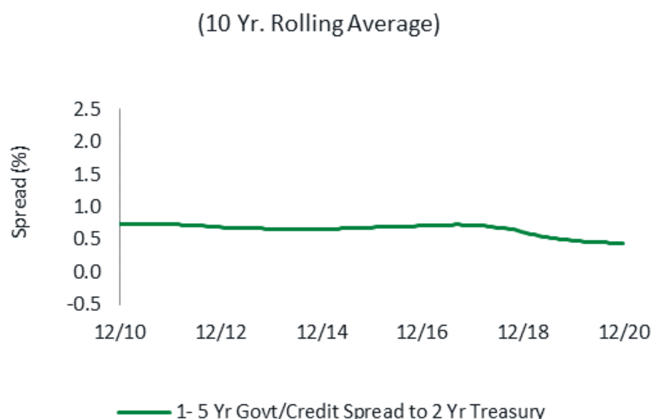
U.S. Treasury Yield and Spread Expectations	
10 Year Yield Expectation	3.53%
10 Yr-2 Yr. Spread	-1.57%
2 Year Yield Expectation	1.96%
2 -Yr. - Fed Funds Rate Spread	-0.25%
Fed Funds Rate Expectation	1.71%
Fed Rate - 3 Mo T-Bill	-0.22%
Expected Cash Yield	**1.49%**

To anchor our approach, Syntrinsic relies on historic spread relationships between the 10-year U.S. Treasury Bond, 2-year U.S. Treasury

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Note, Fed Funds Target Rate, and 3-month U.S. Treasury Bill. While these relationships are not set-in stone and can vary over the short-term, they provide reasonable guidance for longer-term planning.

Exhibit 43: U.S. Short-Term Bond Premium to Two-year U.S. Treasuries



Source: Bloomberg

Syntrinsic short-term bond yield expectations extend spread analysis from above to include credit.

Our expectations for spreads for short-term bonds (as measured by the Bloomberg Barclays 1-5 Yr. Govt/ Credit Index) are relative to our 2-Year U.S. Treasury yield expectations. Our actual return expectations for short-term bonds averages scenario analysis of multiple paths of current short-term bond yields (using an average of recent yields) moving toward our expected yields over the next decade. We extend this methodology for our long-term cash return expectations.

Exhibit 44: Cash Forecast Return

Cash Forecast Return	
3 Month T-Bill Expected Yield	1.49%
Current Cash Yield	0.09%
Cash Forecast Return	**0.70%**

Forecasting Non-U.S. Developed and emerging market bonds

Syntrinsic develops forecasts for Non-U.S. Developed bonds with an approach similar to how we forecast U.S. core bonds, starting with components of expected inflation and real GDP growth of Non-U.S. Developed nations. We apply the same discount to expected yields due to yield suppression seen across the developed world for our expected long-term yield. While we recognize that extraordinary central bank intervention across Non-U.S. Developed countries affects interest rates, we expect current yields to move towards our long-term expected yields over the forecast horizon.

Exhibit 45: Non-U.S. Developed Bond Forecast

Non-U.S. Developed Bond	
Non-U.S. Developed Expected Growth	1.01%
Non-U.S. Developed Expected Inflation	1.06%
Non-U.S. Developed Expected Yield	2.07%
Current Non-U.S. Developed Bond Yield	0.63%
Non-U.S. Developed Bond Forecast Return	**0.05%**

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Exhibit 46: Emerging Market Bond Forecast

Emerging Market Bond	
10-Year U.S. Treasury Yield Expectation	3.53%
EM Bond Spread to 10-Year Treasury	3.27%
Emerging Market Bond Expected Yield	6.80%
Current Emerging Market Bond Yield	4.82%
Emerging Market Bond Forecast Return	**4.10%**

Bonds have become an increasingly important tool in the emerging markets and represent many diverse economies and currencies. As such, the calculus for anticipating return requires a different approach. For our emerging market bond forecast, we utilize the long-term historical spread of emerging market debt to the 10-Year U.S. Treasury Bond. Based on Syntrinsic's expectations for emerging market debt yields to move from current levels to our expected yield over the forecast horizon, through various interest rate scenarios, we anticipate ten-year returns of 4.10% per year, just slightly below the current yield on the emerging market bond market.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.

Disclosures

The information in this document is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance. The opinions expressed in this document are the combined work of Syntrinsic's Investment Committee. Our research comes from a multitude of sources, but any opinions expressed are our won.

Given the complex nature of risk-reward trade-offs involved in portfolio construction, we advise clients to consult with financial professionals on specific investment-related decisions. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. In addition, past performance is not a guarantee of future results.

Assumptions, opinions, and estimates are provided for illustrative purposes only and are subject to significant limitations. Expected return estimates are subject to uncertainty and error. Expected returns for each asset class can be conditional on economic scenarios to which actual returns could be significantly higher or lower than forecasted. They should not be solely relied upon as recommendations to buy or sell securities.

Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information provided here is reliable, but do not warrant its accuracy or completeness.

This material has been prepared for information purposes only and is not intended to provide, and should not be relied on for, accounting, legal, or tax advice.

2021 Syntrinsic Investment Counsel, LLC. All rights reserved.
Please consult Form ADV for additional disclosures. Syntrinsic does not provide legal or tax advice. Consult your legal or tax advisor regarding your situation. Past performance is no guarantee of future results. Confidential.