

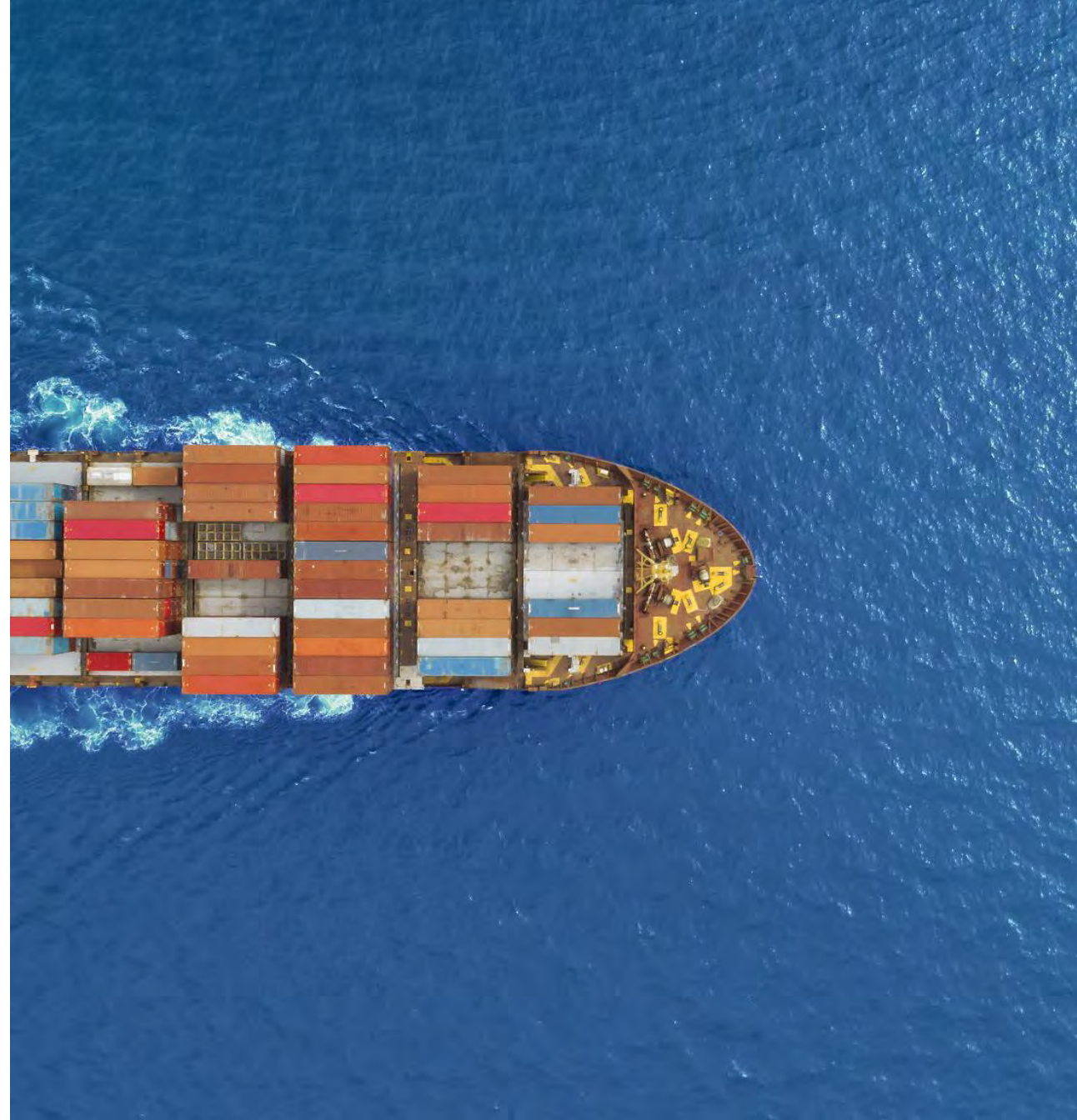
1Q 2022 CAPITAL MARKETS UPDATE

Syntrinsic Investment
Committee

April 2022

CONTENTS

- 1Q 2022 Capital Markets View
- Markets Overview in Charts
- Non-US SMID Cap Equity



1Q 2022 CAPITAL MARKETS VIEW

EXECUTIVE SUMMARY



Purchasing Manager's Index (PMI)

	3/31/22	12/31/21	9/30/21	6/30/21	3/31/21	12/31/20	9/30/20	
US Composite	57.7	57.0	55.0	63.7	59.7	55.3	54.3	↑
DM Composite	56.0	54.8	53.8	59.3	55.9	52.0	51.9	-
EM Composite	46.8	53.2	52.3	50.8	52.6	54.1	53.6	↓

Retail Sales, Annual % Change

	3/31/22	12/31/21	9/30/21	6/30/21	3/31/21	12/31/20	9/30/20	
US	17.6	16.6	14.2	18.9	29.7	2.4	5.9	↑
Eurozone	5.0	2.3	2.7	5.6	13.7	1.8	2.6	↑
China	1.7	1.7	4.4	12.1	34.2	4.6	3.3	-

Consumer Confidence

	3/31/22	12/31/21	9/30/21	6/30/21	3/31/21	12/31/20	9/30/20	
US	107.2	115.2	109.8	128.9	114.9	87.1	101.3	↓
Eurozone	-18.7	-8.4	-4.0	-3.3	-10.9	-13.8	-13.6	↓
China	120.5	119.8	121.2	122.8	122.2	122.1	120.5	↑

Unemployment Rate

	3/31/22	12/31/21	9/30/21	6/30/21	3/31/21	12/31/20	9/30/20	
US	3.6	3.9	4.7	5.9	6.0	6.7	7.9	↓
Eurozone	6.8	7.0	7.3	7.9	8.2	8.2	8.6	↓
China	4.0	4.0	3.9	3.9	3.9	4.2	4.2	-

US Financial Conditions

	3/31/22	12/31/21	9/30/21	6/30/21	3/31/21	12/31/20	9/30/20	
US Financial Conditions	-0.1	1.1	0.9	1.3	0.9	0.6	0.1	↓

1Q22 saw war in Ukraine increase volatility and negatively impact most markets except for some commodities, inflation continue to increase, economic growth moderate, and short-term yields rise causing the yield curve to invert at times. We examine these themes in the context of portfolio positioning in greater detail below.

For additional context and disclaimers, please refer to [Syntrinsic's 2022 Capital Markets Forecast](#)

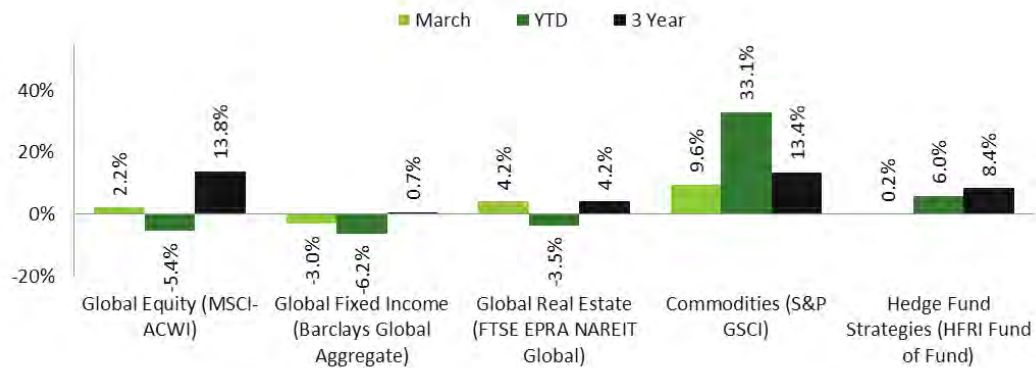
Sources: Bloomberg, Markit, US Census Bureau, Eurostat, National Bureau of Statistics China, US Conference Board, European Commission, and US Bureau of Labor

CAPITAL MARKET PERFORMANCE

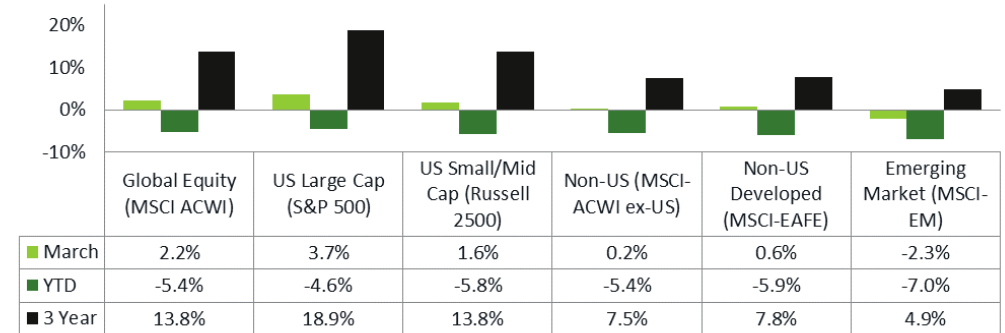
AS OF MARCH 31, 2022



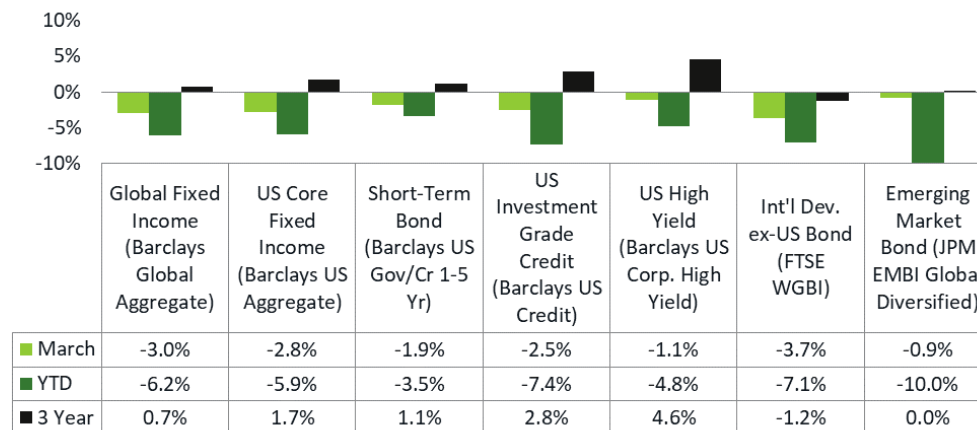
Asset Class Market Returns



US Equity Market Returns



Global Fixed Income Returns



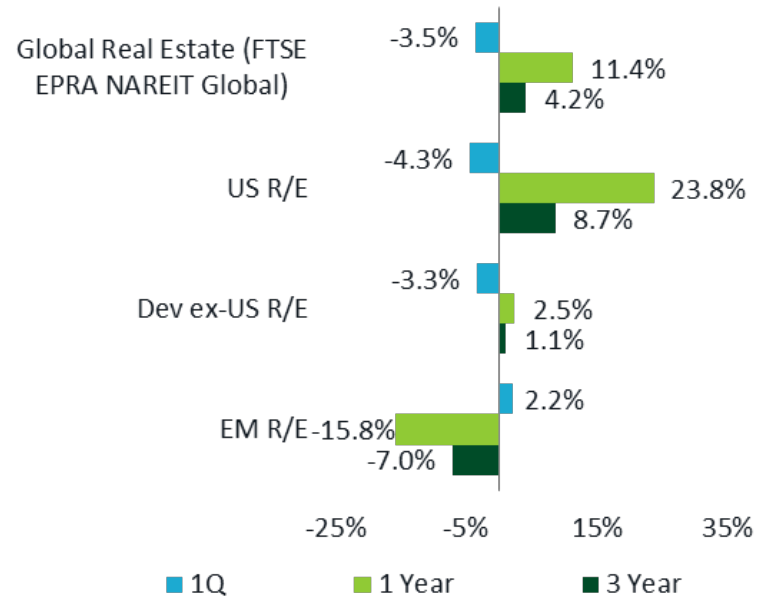
Source: Morningstar

CAPITAL MARKET PERFORMANCE

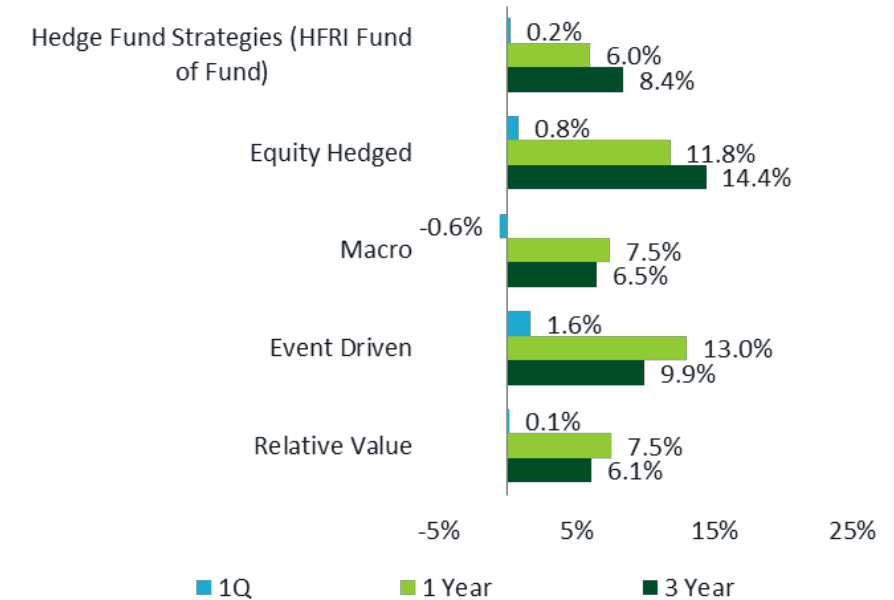
AS OF MARCH 31, 2022



Global Real Estate Returns



Hedge Fund Strategies Returns



Source: Morningstar, HFRI

INFLATION REMAINS IN FOCUS



Inflation Measures

	3/31/22	12/31/21	9/30/21
CPI	8.5%	7.0%	5.4%
Core CPI	6.4%	5.5%	4.0%
PCE	6.4%	5.8%	4.4%
Core PCE	5.4%	4.9%	3.7%
10 Yr TIPs Breakeven	2.8%	2.6%	2.4%
Hourly Wage Growth	4.3%	4.9%	4.8%
Fed Wage Tracker	6.0%	4.5%	4.2%
Fed Wage Prime Age	6.2%	4.9%	3.9%
Employment Cost Idx	4.0%	3.7%	2.9%

Core CPI and Wage Growth

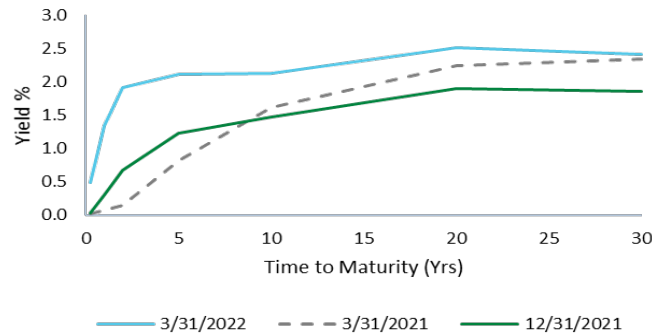


- **At least 148 current inflation rates remain at a 40-year highs.** Consensus expectations were for US inflation to increase to 8.4% on an annualized basis in March, while actual inflation came in at 8.5%. Inflation increases have been broad-based for both goods and services driven by price increases in food/energy as well as wage gains. Contributing factors include ongoing supply chain constraints, rising labor costs, and the ongoing war in Ukraine.
- We are seeing generally hawkish global monetary policies leading to an expected increase in global interest rates—except in China—to counter inflation. In the US, the probability of the US Federal Reserve (the Fed) raising the short-term target rate by 0.50% in May 2022 has increased to 90% from 78%.
- The markets are seeing a rise in commodity prices in oil, natural gas, and wheat, growth stock underperformance vs. value given the expectation of rising rates, and a sell-off in fixed-income.
- While our view remains, that inflation should peak in 2022 and moderate thereafter due to tightening monetary policy and loosening supply-chains, **the current dislocations stemming from the war in Ukraine and COVID-related lockdowns in China imply that the pace of moderation could be slower than many initially thought.** That said, we have positioned portfolios for a rising rate environment, acknowledging that the pace of rate hikes may be faster than originally expected.

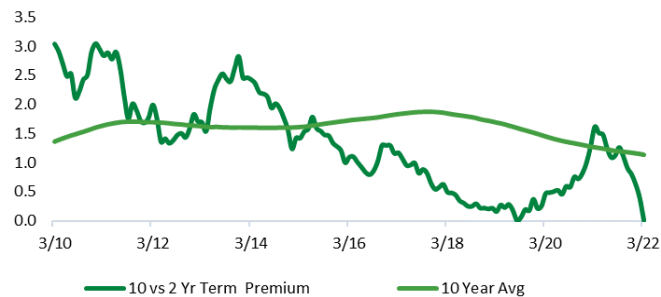
Source: Bloomberg, Syntrinsic

TIGHTENING MONETARY POLICY

US Yield Curve



US 10 Yr vs. 2 Yr Term Premium

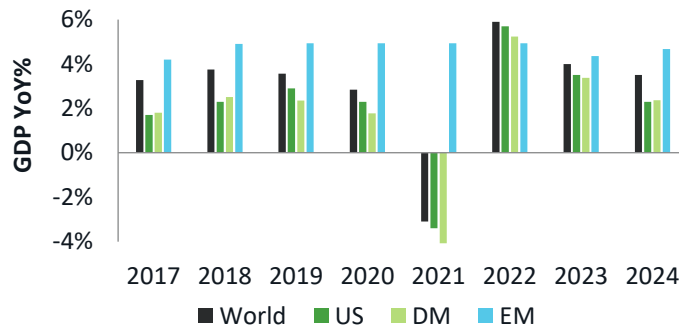


- In March, the US Federal Reserve concluded asset purchases and raised its policy rate 0.25% in response to ongoing inflation. Fed Chairman Powell indicated that subsequent 0.50% rate hikes and an expedited roll-off of the Fed's balance sheet may be necessary to combat inflation going forward. **The Fed also indicated it believes inflation risks materially outweigh the downside risks to growth.** The Fed's difficult task of moderating inflation without driving the economy into recession has become more challenging with the onset of war in Ukraine.
- Interest rates have risen significantly, particularly in short and intermediate maturities, essentially preempting future Fed rate hikes. **The US yield curve is now much flatter as a result and inverted for a brief period.** From these changes we can infer A) the market believes the Fed is behind the curve in responding to inflation, and B) the market believes the risk of recession is growing.
- Based on the Fed's comments, we expect continuing interest rate hikes at consecutive Fed meetings as the Fed tightens policy throughout the year. We expect heightened interest rate volatility as markets digest economic data and incorporate this into future expectations. **Historically an inverted yield curve often has been a precursor to recession; however, we find solace in the historic precedent that yield curve inversions also have coincided with a near-term peak in interest rates.**

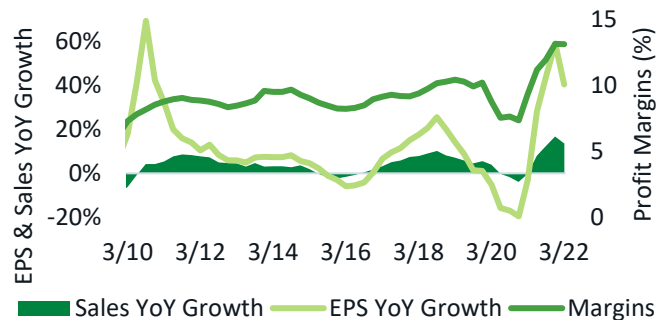
Source: Bloomberg, Syntrinsic

MODERATING GROWTH

Realized + Forecasted GDP Growth



S&P 500 Sales, EPS Growth, Margins



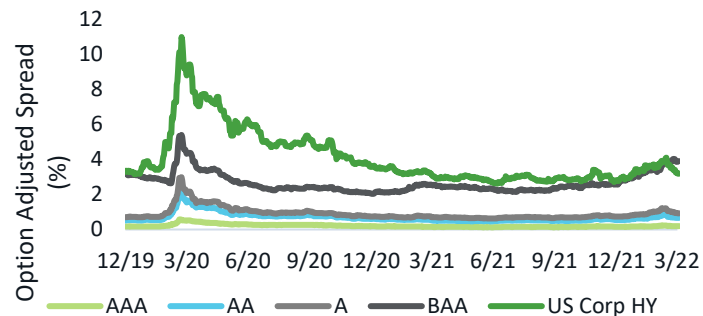
- Inflation has been elevated, notably in energy costs and wages, impacting corporate margins and reducing earnings. Earnings per share year-over-year growth declined to 39.8% in 1Q22 from an unusually high 58.3% at year-end 2021. Sales also have started being negatively impacted by higher prices, which are feeding through to the bottom line.
- GDP global growth is expected to slow in 2023 - 2024, notably in developed markets.
- Are we on the brink of recession? While signs of recession seem to be increasing (e.g., recent 2/10-year yield curve inversion, higher inflation), increasingly aggressive US Federal Reserve intervention and the strong probability that inflation will peak in 2022 reduce the likelihood of recession.
- A rising rate environment also is lowering the present value of future cash flows that underly equity valuations, reducing the potential for returns.
- Our view that these factors could cause returns in equity markets globally to moderate in 2022 is playing out. While this has resulted in value names outperforming growth stocks in 1Q22, we view this as a short-term circumstance given our expectation that inflation will moderate over time. **We recommend staying invested in quality names with strong balance sheets, good free cash flow, and manageable leverage, which should outperform long-term.**

Source: Bloomberg, Syntrinsic

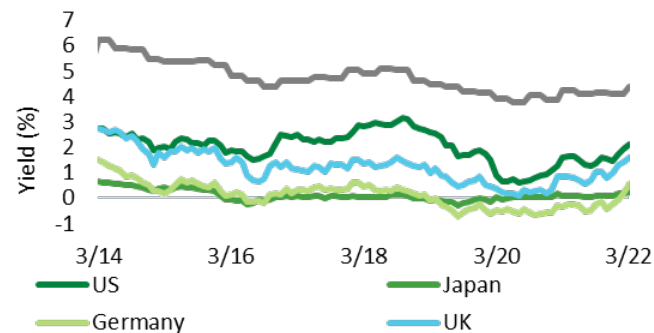
GLOBAL FIXED INCOME PERFORMANCE



US Credit Spreads



10 Yr. Sovereign Yields



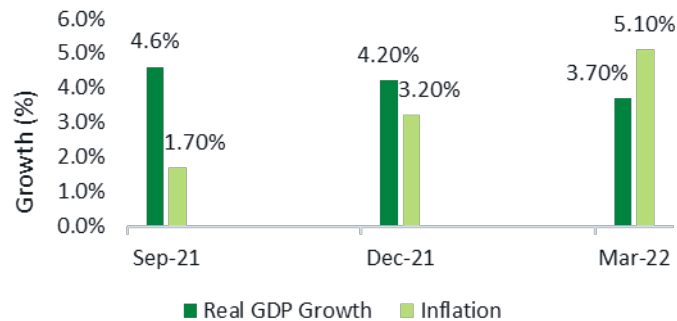
- Global fixed income markets were quite volatile during the quarter. While there was a short-lived rotation to safe haven assets as the war in Ukraine began, **investors overall appeared to focus more on inflationary pressures and the associated response(s) of global central banks.**
- Sovereign bond yields rose sharply during the quarter in response to central bank hawkishness and market participants pricing in a fast pace of monetary policy normalization.
- Corporate bonds saw significantly negative returns and wider spreads during the period, underperforming government bonds. High yield spreads widened further than did investment grade spreads, although absolute performance favored high yield due to higher coupon rates and income earned during the quarter.
- **We remain attracted to a shorter-duration posture within fixed income allocations amid ongoing and heightened interest rate volatility.** Corporate and household fundamentals remain strong; we therefore remain positive on both corporate and structured credit exposures to earn yield above US Treasuries. **We expect negative real yields to persist in the near term until inflation moderates.**

Source: Bloomberg, Syntrinsic

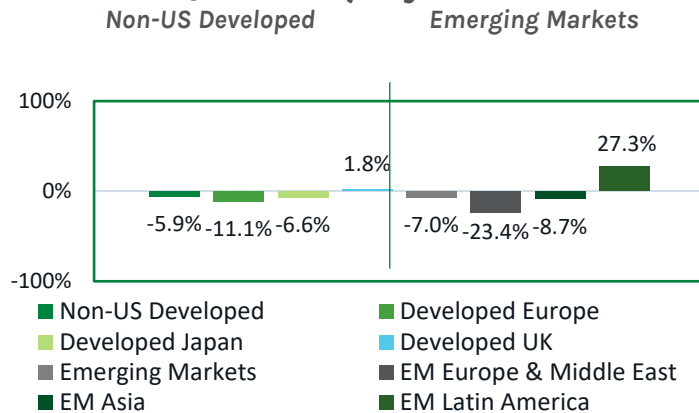
DIVERGENCE IN NON-US EQUITIES



ECB 2022 Economic Forecast Trend *



1Q 2022 Equity Returns



1Q 2022 was a difficult quarter for high quality growth strategies.

- Interest rate concerns weighed on higher multiple growth stocks with the MSCI All Country World Index ex-US Information Technology and Consumer Discretionary sectors decreasing 15.1% and 14.3%, respectively.
- Commodity-exposed sectors and regions such as Energy and Latin America, respectively, were in focus and led to a significant value rotation.
- As inflation and global economic growth moderates, however, high quality secular growth stocks should resume their long-term outperformance.

War in Ukraine negatively impacted Non-US Developed and Emerging Market equities.

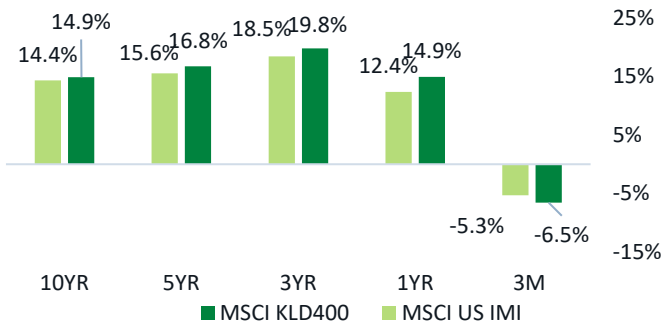
- EU equities underperformed as countries like Germany have outsized energy reliance on Russia. ECB 2022 growth forecasts have moderated, with more cuts likely as the conflict extends further into 2022.
- The March elimination of Russian securities from EM indices were a headwind.
- Chinese equities lagged due to foreign policy concerns, continued economic sluggishness, and US stock exchange regulatory issues.
- EM equities remain a vital piece of a diversified portfolio due to faster economic growth and significant valuation discounts relative to developed markets.

* Source: European Central Bank. An additional "adverse" scenario was provided in March 2022 based on increased sanctions on Russia which would lower 2022E GDP growth to 2.5% and increase inflation to 5.9%. Other sources: Bloomberg, Syntropic

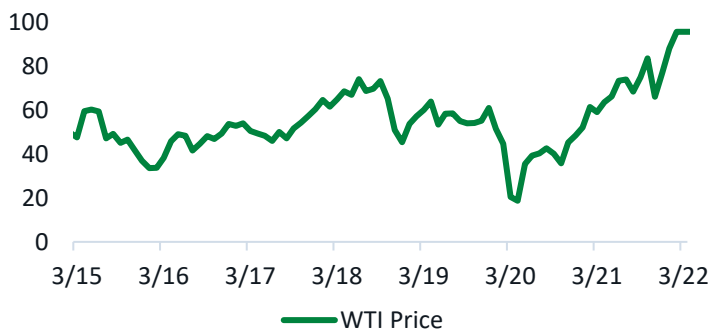
ESG FACES SHORT-TERM HEADWINDS



KLD Social vs. MSCI US IMI Return



WTI Crude Oil Spot Price



- After several years of relative outperformance, many Environmental, Social, and Governance (ESG) focused strategies underperformed non-ESG counterparts in 1Q22. **Underperformance was driven by strong returns in energy and other commodity-related names, which most ESG funds generally do not own or significantly underweight.**
- ESG funds also tend to be more heavily invested in technology and growth names than broader indices, and many of these names underperformed during the first quarter. For example, the IT sector in the S&P 500 declined 8.4% during 1Q22 vs. a 4.6% decrease for the broader index.
- **Short-term, ESG funds could face continued headwinds as the market grapples with energy and commodity price volatility stemming from the war in Ukraine, along with the rotation into more value-focused names resulting from inflation.** However, the move towards a low-carbon economy should benefit these strategies over the long-term, as will any potential cooling of inflation and resolution to geopolitical issues impacting energy and commodity markets.
- **Applied effectively, ESG investing continues to be a framework capable of mitigating risk and generating alpha.**

Source: Bloomberg, Syntrinsic

ALLOCATION IMPLICATIONS



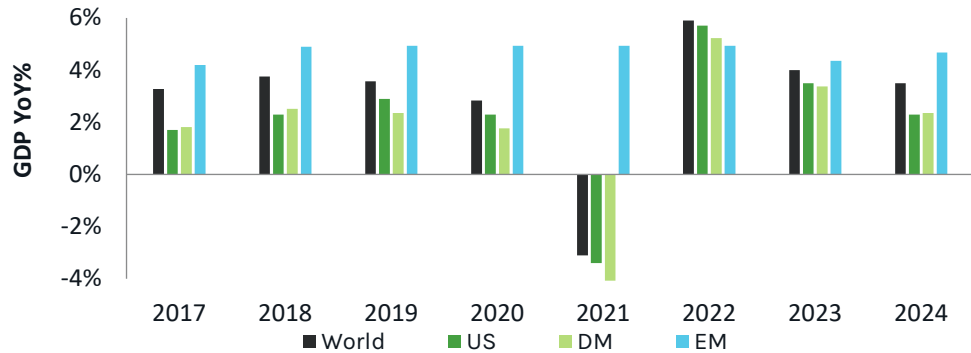
Risk/Opportunity	Syntrinsic Perspective	Allocation Effects
Inflation	Inflation should peak in 2022 and moderate thereafter driven by tightening monetary policy and loosening supply-chains. The current dislocations stemming from war in Ukraine and COVID lockdowns in China imply that this pace of moderation could be slower than initially thought.	• Focus on a quality orientation within equities longer term • Allocate to real assets with strong cash flows • Maintain an allocation to lower duration fixed income strategies
Tightening Monetary Policy and Global Fixed Income	With the Fed poised to tighten more aggressively and let maturing debt on the balance sheet roll off, liquidity, credit spreads, and bond prices could all be impacted. We expect heightened interest rate volatility as markets digest economic data and incorporate this into future expectations.	• Continue investing in lower duration managers • Remain positive on shorter-term corporate and structured credit • Invest in private debt where rising interest rates can enhance returns
Moderating Growth	Our forecast that growth could moderate and returns in equity markets globally could be impacted in 2022 is playing out. While this slowing of growth has resulted in value names outperforming growth stocks in 1Q22, we view this as a short-term trend given that we expect inflation will calm over time.	• Increase real estate allocations to enhance income-driven returns • Maintain a quality bias within equities • Invest in companies with higher growth profile in venture capital, private equity, or private debt markets
Divergence in Non-US Equities	As inflation and global economic growth moderates, high quality secular growth stocks should resume their long-term outperformance globally. Emerging market equities remain a vital piece of a diversified portfolio due to faster economic growth and significant valuation discounts versus developed markets.	• Maintain allocations to Non-US developed and emerging market equities to capture diversification benefits and attractive valuations • Focus on growth and quality names over the long-term
Environmental, Social, and Governance (ESG) Investing	ESG investing can be a long-term risk mitigator and driver of alpha due to the shift towards a low-carbon economy. In the short-term, ESG funds could face continued headwinds from energy and commodity price volatility, along with a rotation favoring value related to inflation. These trends should subside as geopolitical influences and inflation moderate.	• Invest in names benefiting from the low-carbon economy transition • Mitigate risk through strategies with “best in class” ESG policies • Focus on managers incorporating ESG-centered shareholder engagement into their strategies

MARKET OVERVIEW IN CHARTS

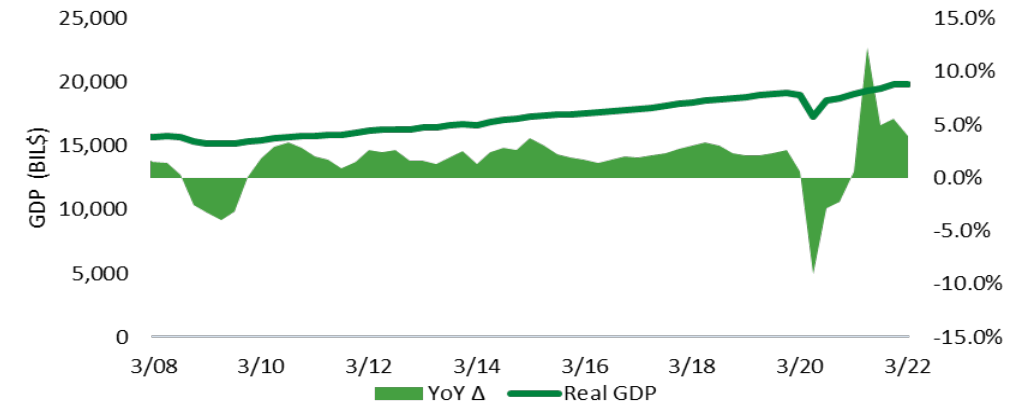
ECONOMIC GROWTH



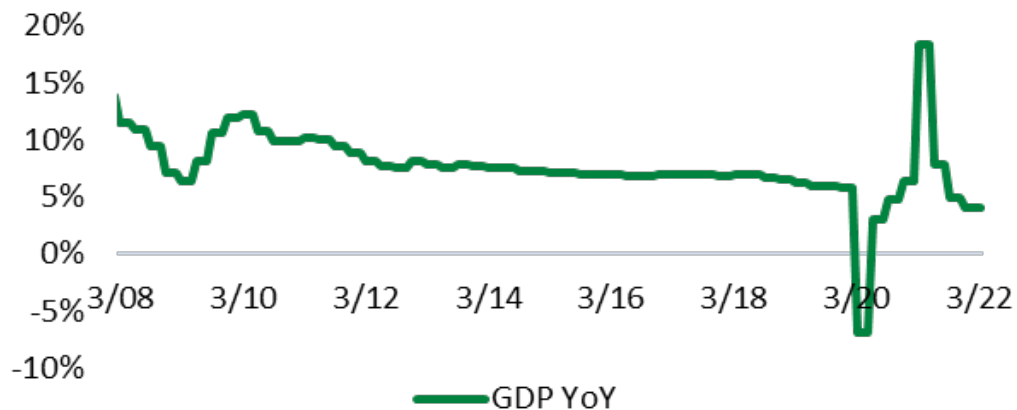
Realized and Forecasted GDP Growth



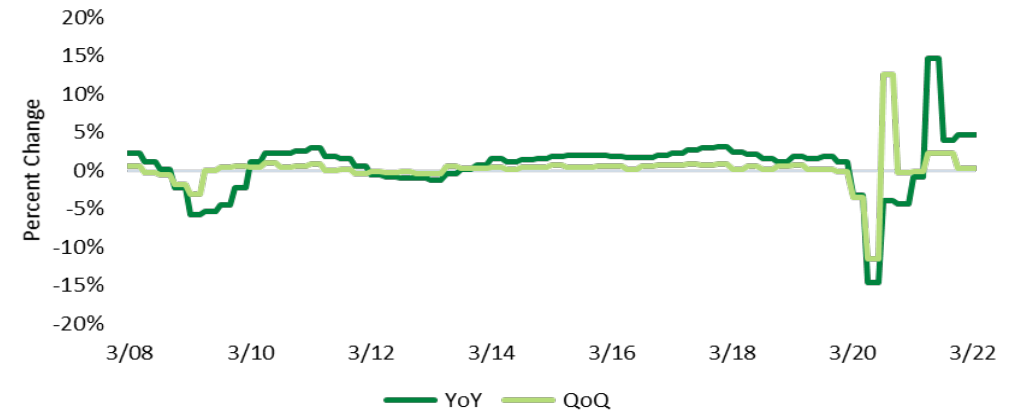
US GDP Growth



China GDP



Eurozone GDP Growth

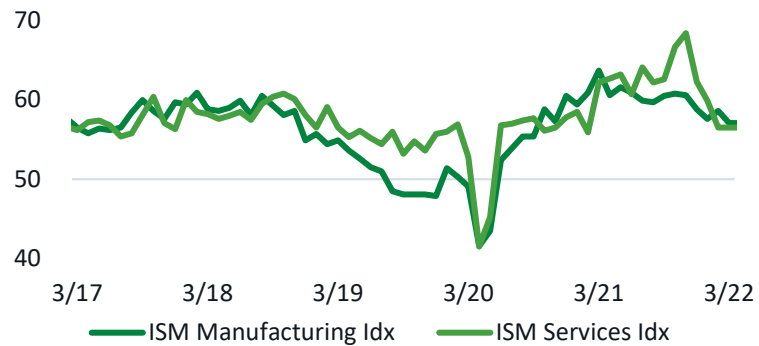


Source: Bloomberg

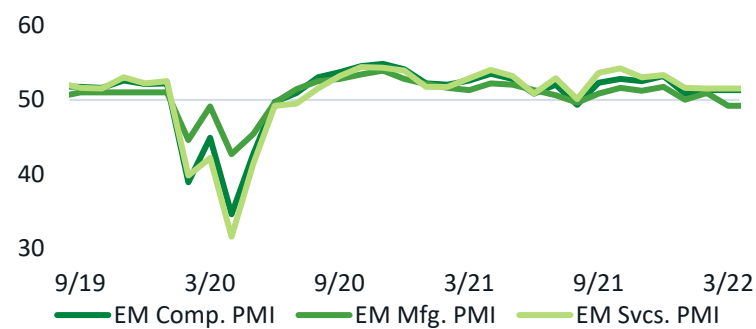
ECONOMIC GROWTH



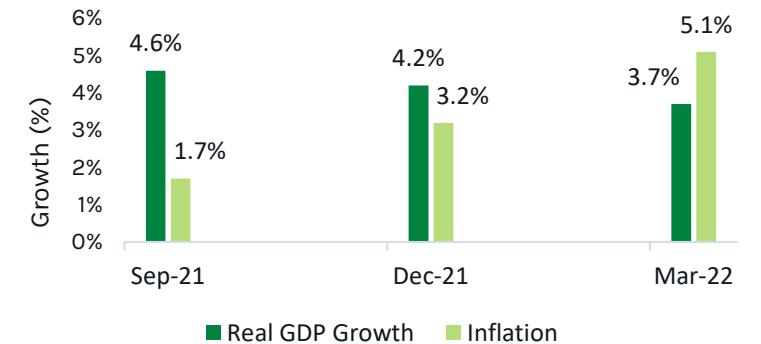
US Purchasing Managers Index (PMI)



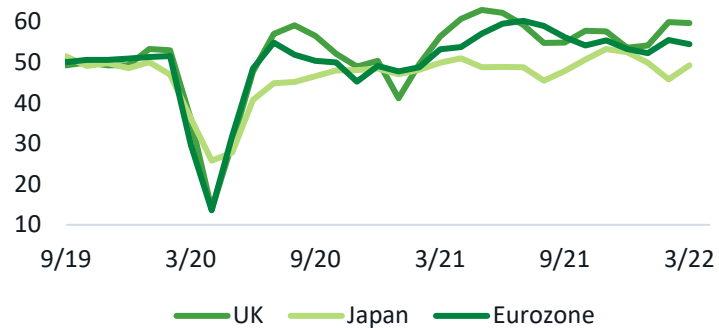
Emerging Markets PMI



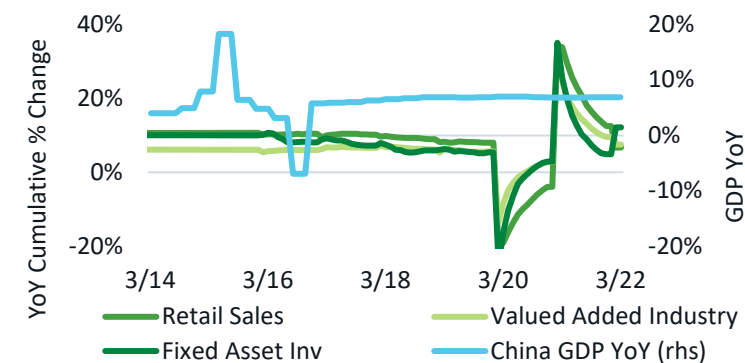
European Central Bank 2022 Forecast



Non-US Developed PMI



China's Economic Indicators

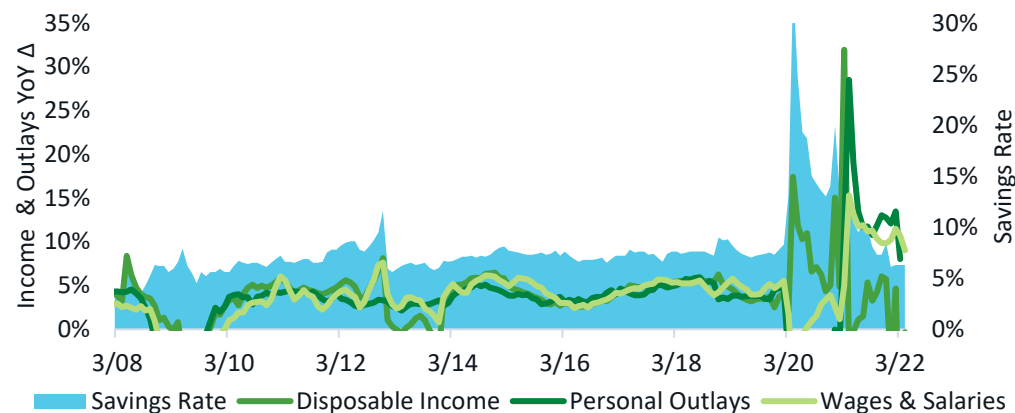


Source: Bloomberg, Markit

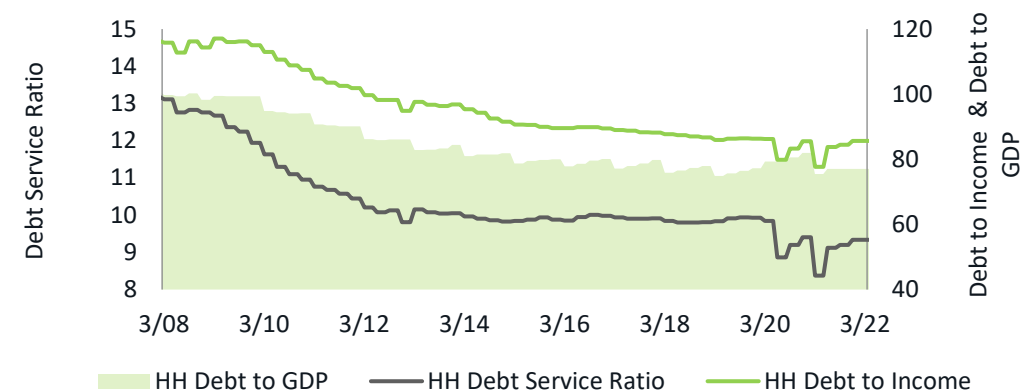
ECONOMIC GROWTH



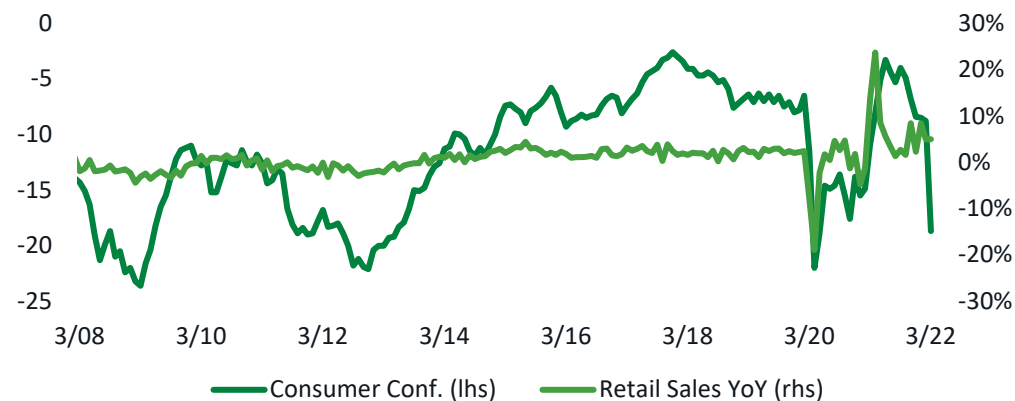
US Personal Income, Spending, and Saving



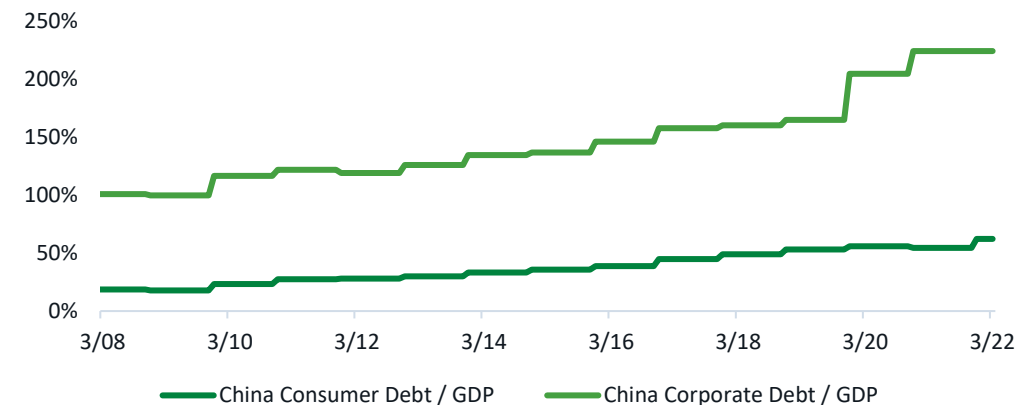
US Consumer Debt vs Net Worth



Confidence and Spending in Eurozone



China Debt/GDP



Source: Bloomberg

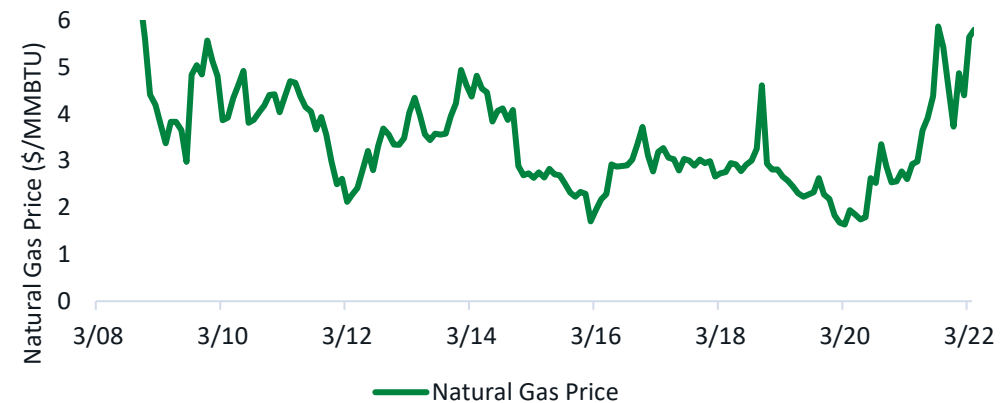
COMMODITIES



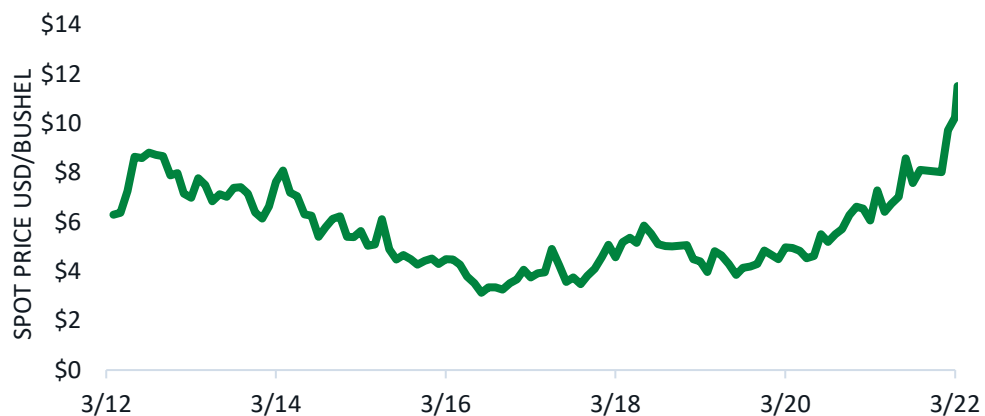
Gold and Silver Spot Price vs. US Dollar Index



Natural Gas Spot Price



Wheat Spot Price



WTI Crude Oil Spot Price

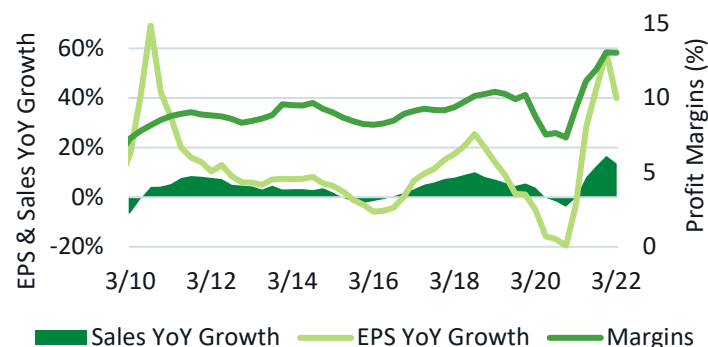


Source: Bloomberg

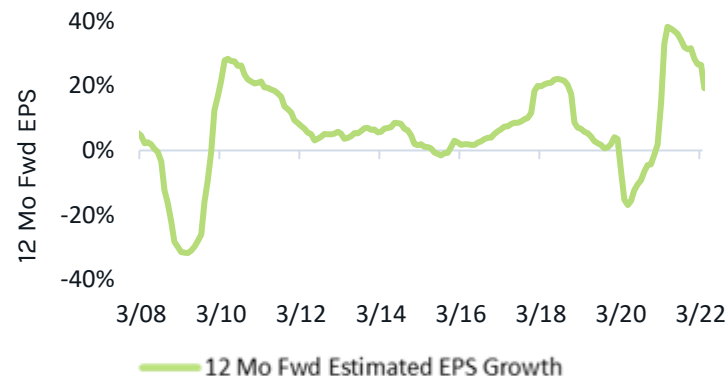
EARNINGS ESTIMATES



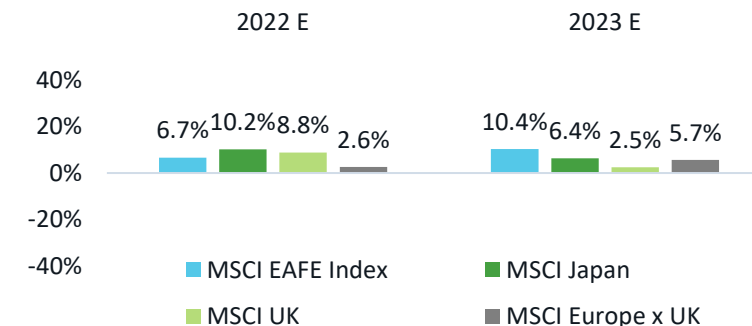
S&P 500 Sales, EPS Growth, and Margins



S&P 500 Forward EPS Growth Estimates



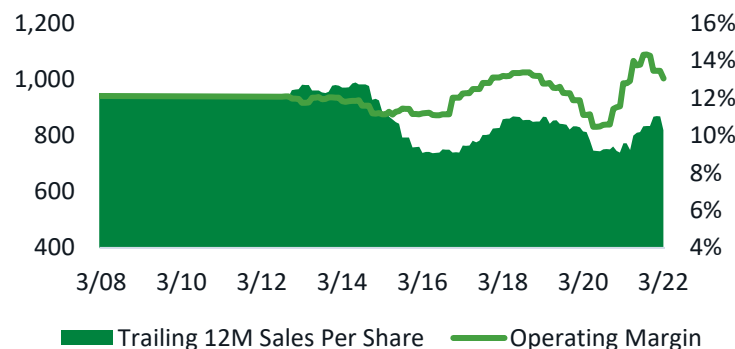
MSCI EAFE Consensus EPS Growth



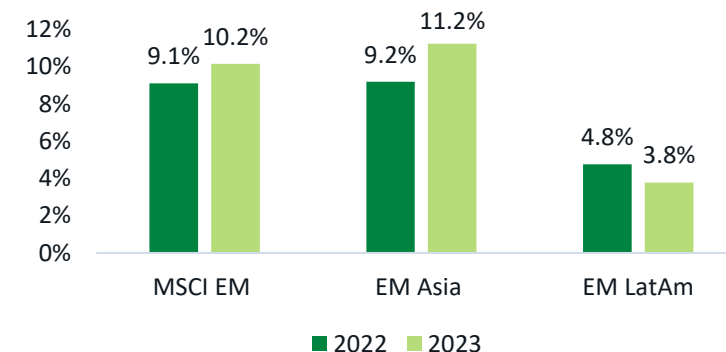
MSCI EAFE Index Forward P/E



MSCI EM Sales and Margins



MSCI EM Consensus EPS Growth

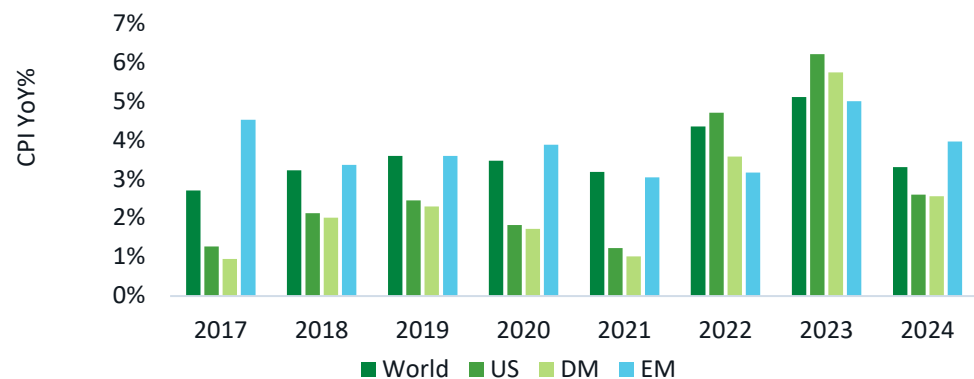


Source: Bloomberg

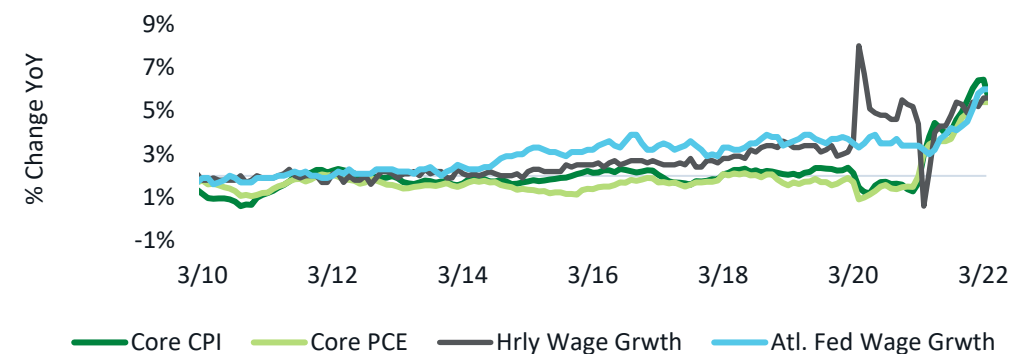
INFLATION



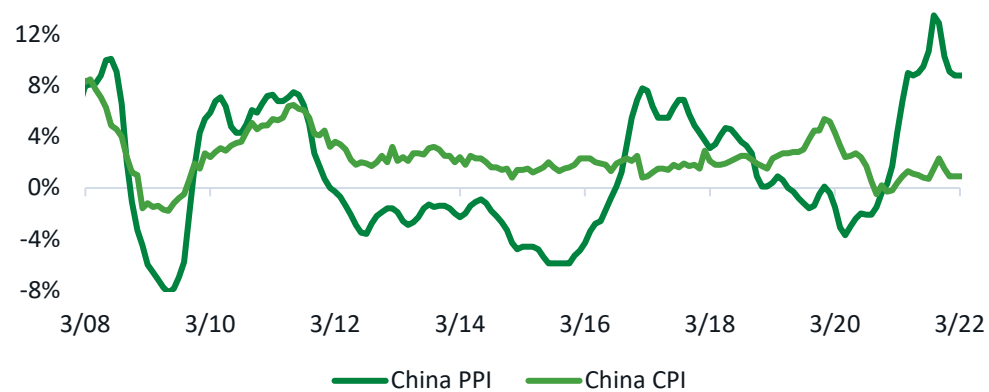
Realized and Consensus Forecasted Inflation



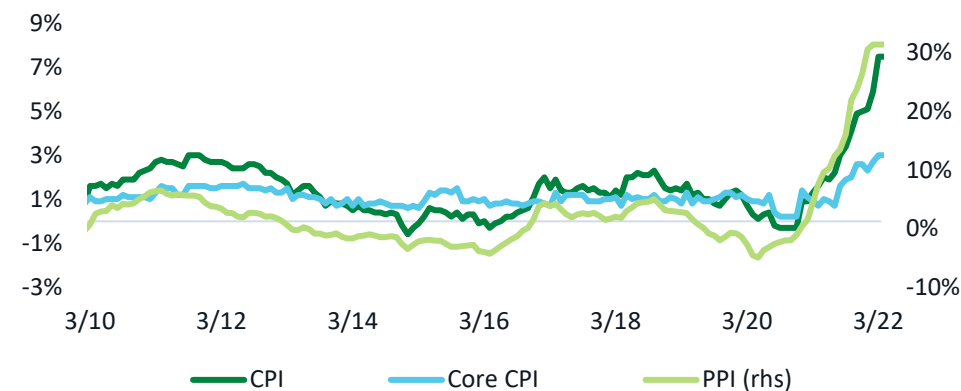
US Inflation



China Inflation



Eurozone Inflation

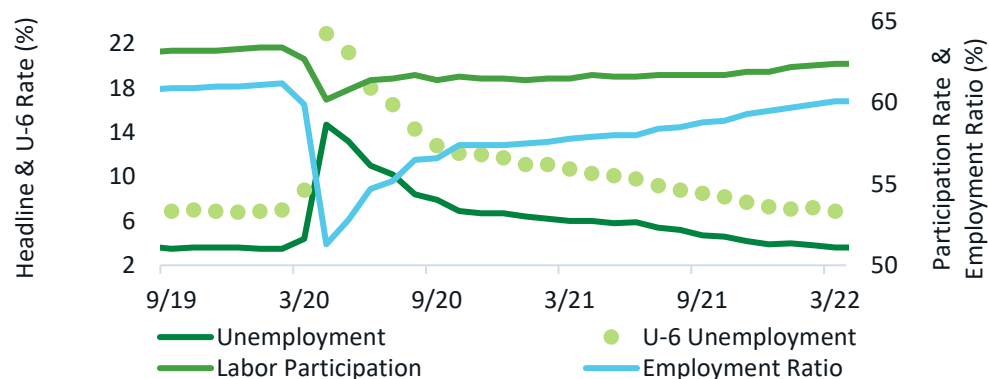


Source: Bloomberg

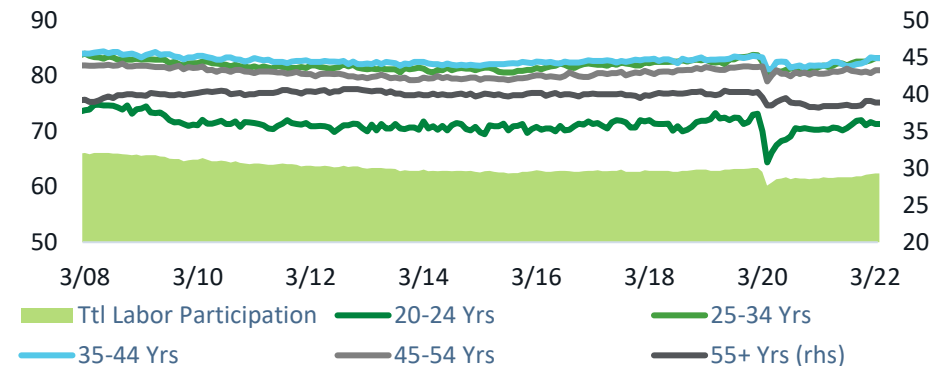
EMPLOYMENT



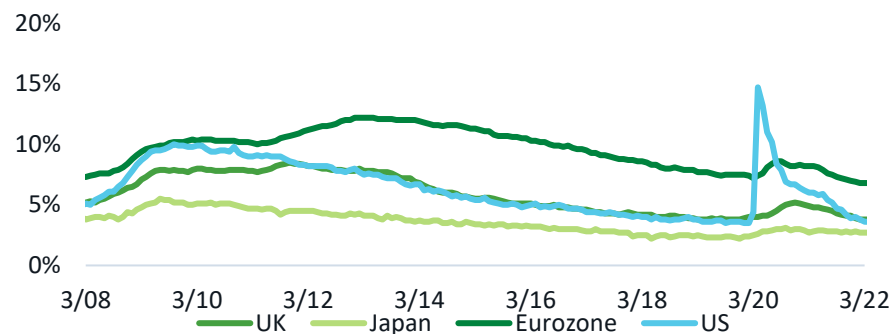
US Unemployment Statistics



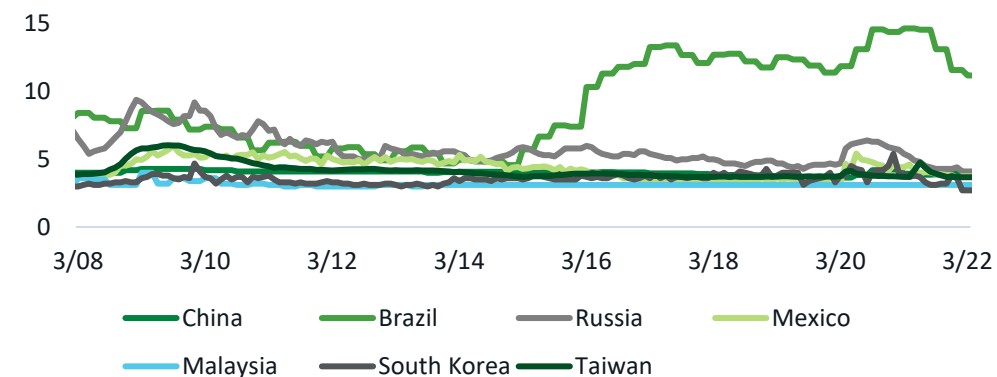
US Labor Participation



Developed Markets Unemployment



Emerging Markets Unemployment

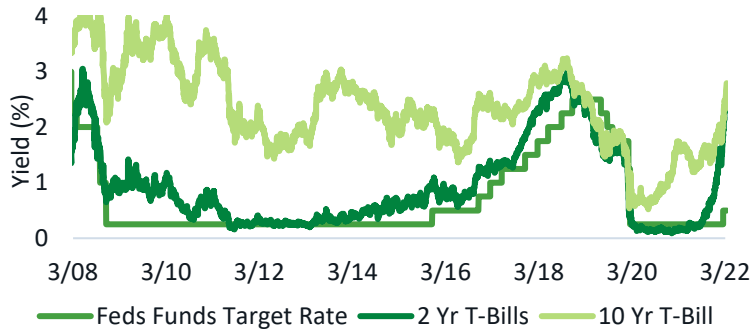


Source: Bloomberg

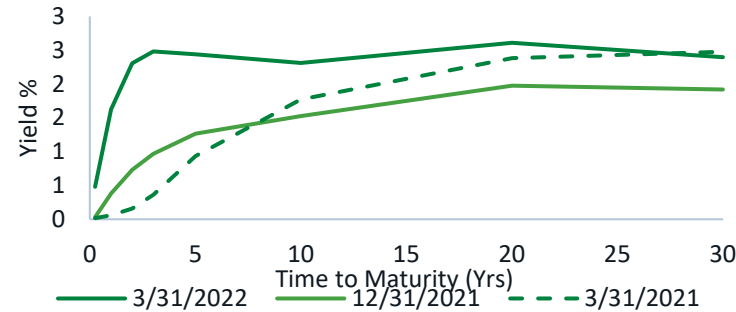
YIELDS



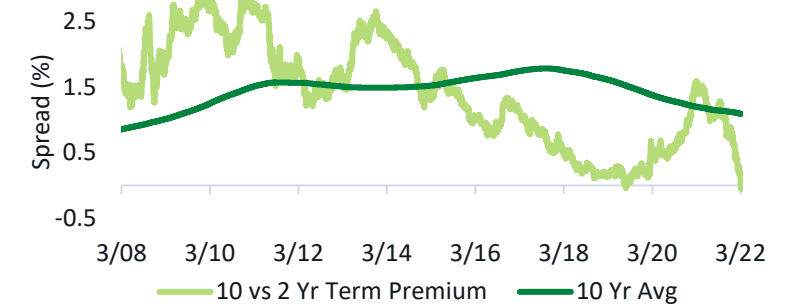
US Fed Funds Rate 2 Yr. and 10 Yr. Treasury



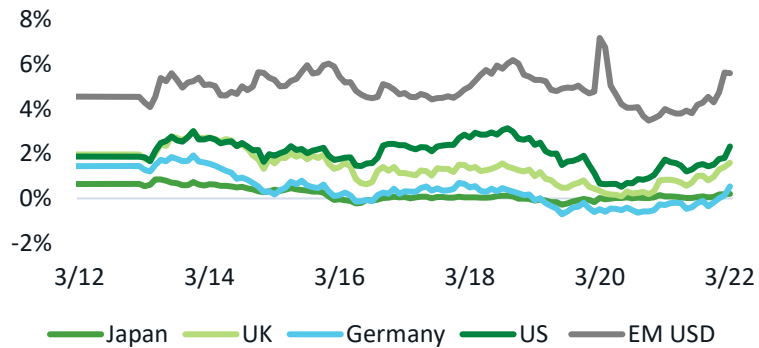
US Treasury Yield Curve



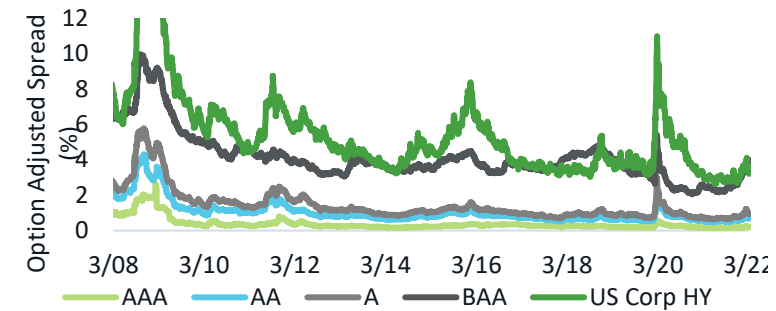
US 10 Yr. and 2 Yr. Term Premium



10 Year Sovereign Yields



US Credit Spreads by Rating



Source: Bloomberg, Markit

NON-US SMID CAP EQUITY

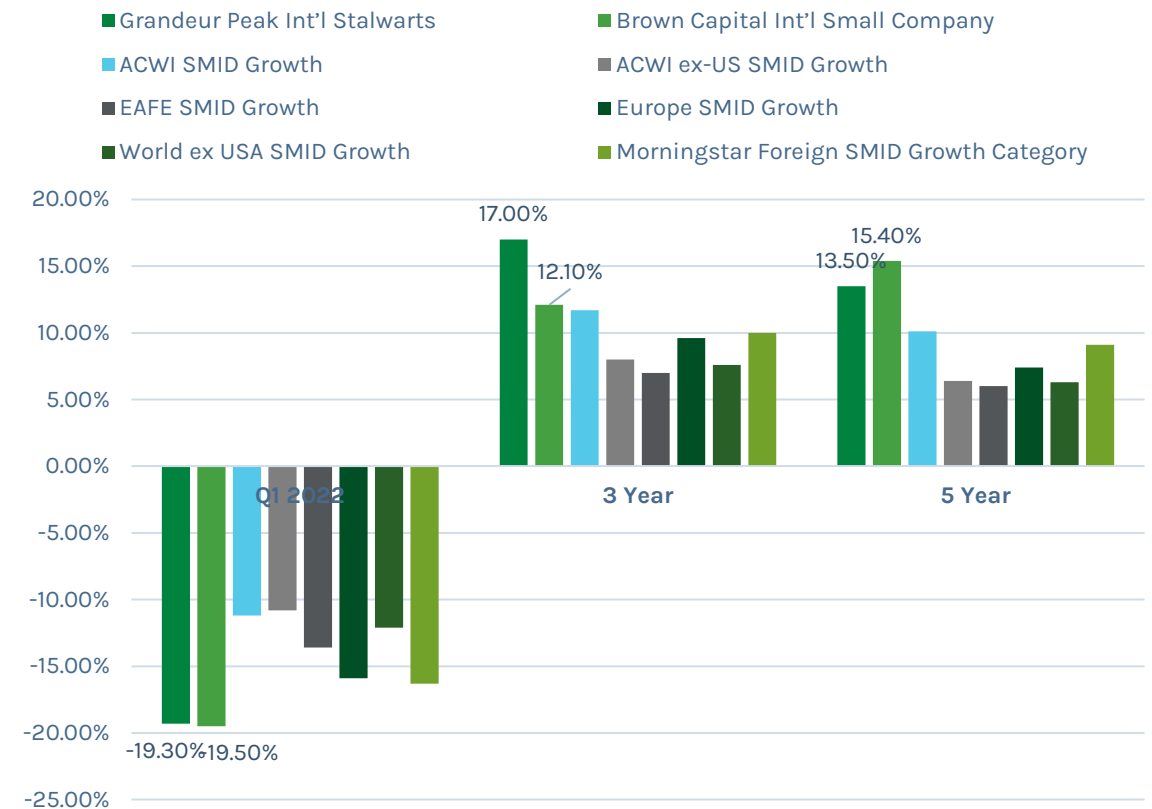
MANAGER V. INDEX PERFORMANCE



International SMID Growth Performance

	Q1 2022	1 Year	3 Year	5 Year
Grandeur Peak Int'l Stalwarts	-19.3%	-0.2%	17.0%	13.5%
Brown Capital Int'l Small Company	-19.5%	-7.1%	12.1%	15.4%
ACWI SMID Growth	-11.2%	-4.2%	11.7%	10.1%
ACWI ex-US SMID Growth	-10.8%	-5.1%	8.0%	6.4%
EAFE SMID Growth	-13.6%	-7.8%	7.0%	6.0%
Europe SMID Growth	-15.9%	-5.9%	9.6%	7.4%
World ex USA SMID Growth	-12.1%	-6.4%	7.6%	6.3%
Morningstar Foreign SMID Growth Category	-16.3%	-9.5%	10.0%	9.1%

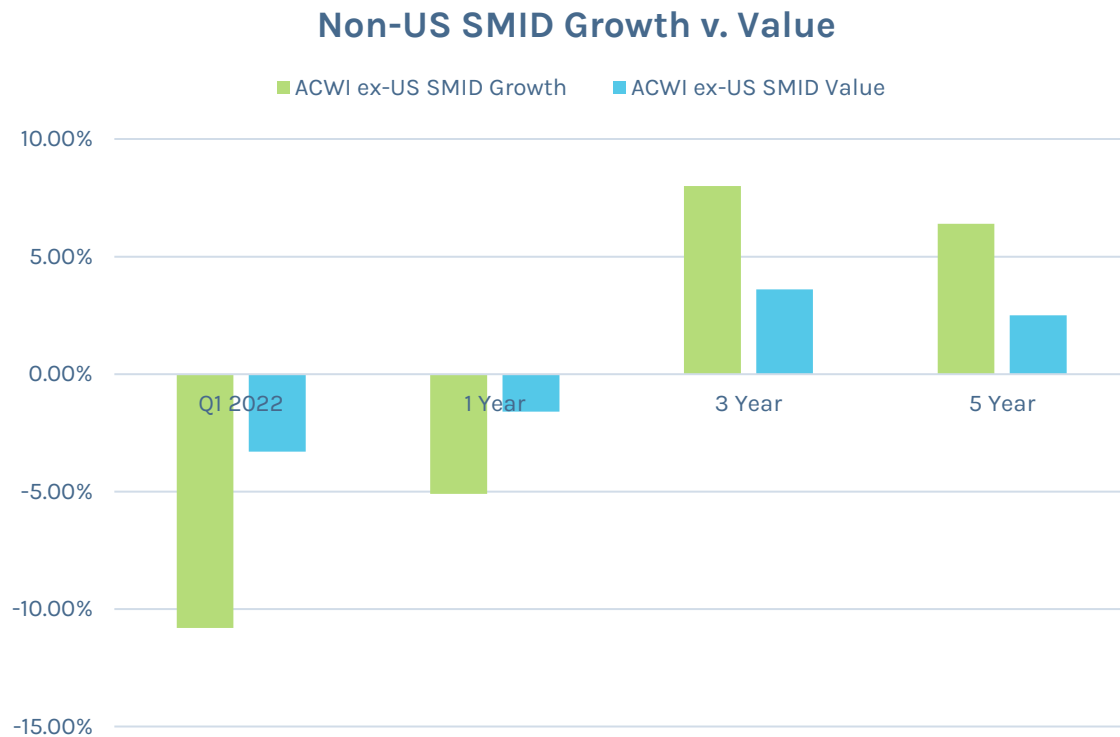
Manager v. Index Performance as of March 31, 2022



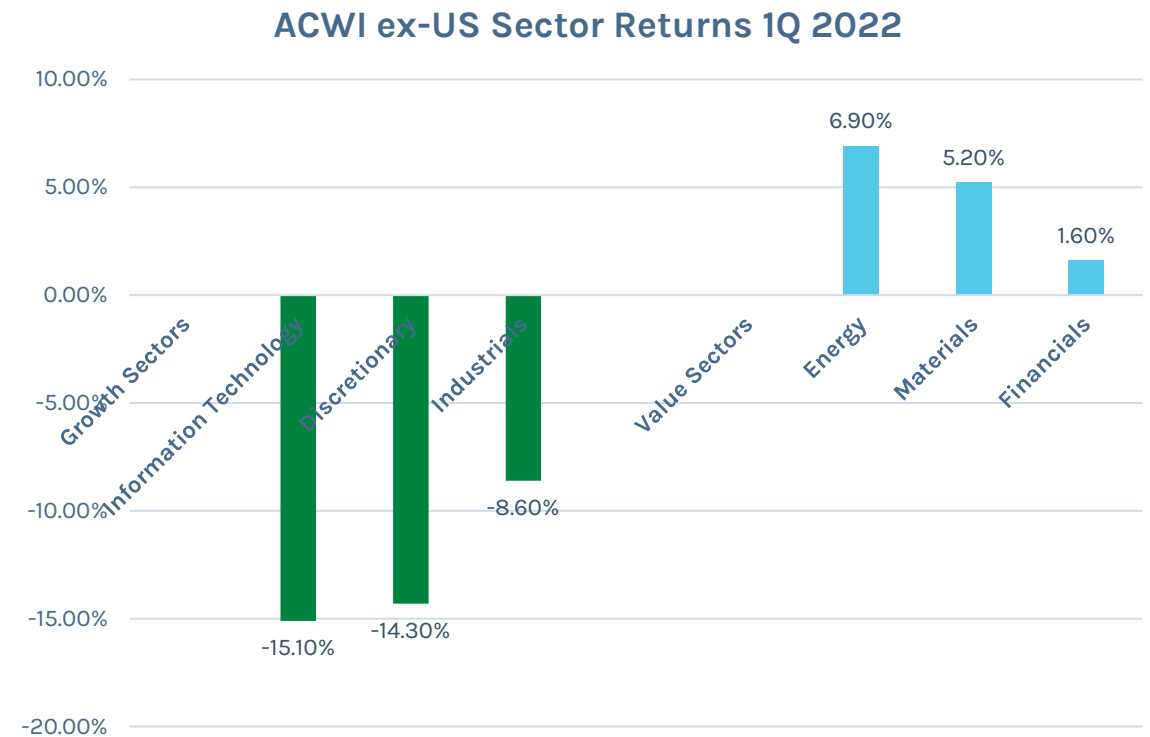
NON-US EQUITY RETURNS 1Q 2022



NON-US SMID GROWTH V. VALUE



NON-US GROWTH V. VALUE SECTORS





THANK YOU

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