Volume 2021 Issue 2

Second Quarter Review
June 2021

Arcataur Capital Management LLC
A Registered Investment Advisor

High Quality Investment Management
For Individuals and Institutions

Arcataur Capital Management LLC
826 N. Plankinton,
Suite 300
Milwaukee, WI 53203
414.225.8200

Ignatius L. Smetek - President
ISmetek@arcataur.com
414-225-8201

William C. Weber -Vice President
WWeber@arcataur.com
414-225-8207

Martin A. Moser -Vice President
MMoser@arcataur.com
414-225-8206

Jill M. Grueninger - Vice President
JGrueninger@arcataur.com
414-225-8203

Michael P. Johnson -Vice President
MJohnson@arcataur.com
414-225-8207

Scott Turza - Investment Associate
STurza@arcataur.com
414-225-8204

Nancy M. Smetek - Vice President
NSmetek@arcataur.com
414-225-8202

William Hemp - Operations Associate
WHemp@arcataur.com
414-214-1057

Inside This Issue:

Second Quarter Equity Markets: ***Pouring Gasoline on the Pent-Up Demand Fire*** 1

Second Quarter Fixed Income Markets: ***Investors Stay the Course that Inflation Spike is Temporary, for Now*** 3

Third Quarter 2021 Investment Outlook 4

Is this the end of 30 Years of Disinflation? 4

Arcataur Composite Investment Performance 5

A Balanced Approach

Pouring Gasoline on the Pent-Up Demand Fire

Stock prices moved to record highs during the second quarter, fueled by rising corporate profit expectations and investors' benign expectations for a meaningful rise in interest rates. Stock valuations remain somewhat elevated versus historical measures yet have been fairly stable during the first six months of the year, with stock prices moving in lockstep with the higher earnings forecasts. The speed in which the outlook has changed over the past 15 months has been remarkable. The recovery from the pandemic is mostly reflected in current financial asset prices and global economic trends as corporate expectations accelerate from pre-Covid levels.

The shutdown of the world economy during much of 2020 clearly created pent-up demand for purchases of goods and services, and most notably, activities where social distancing was impossible. As a result of the re-opening relating to rapid vaccinations and approaching herd immunity in the U.S., a significant rise in spending for housing and more recently an increase in travel, leisure and entertainment is fueling the unprecedented economic recovery. Consumers are flush with cash, as personal savings rates spiked above 20% after three government stimulus plans provided direct cash payments to individuals.

While much of the economy has re-opened, and demand has accelerated, there have been obstacles to overcome in terms of restoring productivity and supply chains on a global basis. This has led to dislocations in availability of finished products like cars, to shortages of component supplies such as semiconductors. Transportation issues surfaced due to container ship availability, port disruptions and truck and driver shortages. Companies are having trouble re-hiring enough workers to satisfy the surge in demand across many industries. This divergence between supply and demand has led to a resurgence in inflationary pressures that have not been witnessed for several decades.

Investors are attempting to read the tea leaves by questioning whether this boost in inflationary pressure is temporary or if it will become more permanent or structural. The Biden Administration and the Federal Reserve primarily view the current inflationary pressures as "transitory", or temporary, due to the supply/demand imbalances of reopening the economy. It is difficult to predict how long it will take to quench consumers appetites before demand returns to normal, or how much of their previous behavior patterns, purchasing decisions, hobbies, and work habits have been significantly altered as a result of Covid.

While economic and corporate earnings comparisons versus last year are extremely easy this quarter, the rate of change of economic growth (quarter over quarter) is expected to peak in the U.S. in the coming months. In addition to the growth resulting from this pent-up demand, given the unprecedented level of fiscal stimulus funds that has flowed to consumers, it is difficult to judge how much demand might have been pulled forward from the future.

On the flip-side, the resolution and timing of supply-side issues also remain unknown. While trade and globalization have created many economic benefits, some of the imbalances that have popped up may take longer to resolve. The fight over intellectual property rights and technology dominance, which is reflected by the semiconductor shortages, impacts nearly all consumer and capital goods. With Taiwan being the dominant global supplier, its continuing independence is a significant risk. The rising tensions with China and its desire to gain more influence on the global stage has the U.S. and allies reassessing important supply sources for the ever-evolving economy as well as for strategic security.

Employment trends and wage inflation could be the primary determinant of the economic trajectory in the coming years, as the Fed looks to eventually normalize monetary policy. Employment gains reported for June were higher than expected and hiring somewhat reaccelerated from uneven employment reports in April and May. Unemployment rose to 5.9% with hiring gains evident from a broader reopening of the economy; however, rising participation pushed up unemployment from the 5.8% May report. Rising labor participation in June somewhat reflects the recent sunsetting of additional unemployment benefits in 21 states. Wages also increased 3.6% year over year which was in line with expectations.

Wage inflation is a good thing for society, providing individuals with rising income; however, recent increases in retirements could drive sustained lower labor force participation and take a toll on employers, profitability trends, and potentially increase volatility for financial markets. Many economists were surprised during the pre-pandemic environment when historically low unemployment and rising wages did not ignite a more significant rise in inflation. The continuing ageing of the workforce, rising demand, and incrementally more growth in Europe and Asia could produce a different result from 2019.

Arcataur Capital Management LLC

826 N. Plankinton Ave.,

Suite 300

Milwaukee, Wisconsin 53203

414.225.8200

Arcataur Large Capitalization Equity Portfolio - This portfolio offers investors a separately managed account consisting of high quality, blue chip stocks. Our strategy focuses on maximizing expected return through constructing diverse portfolios covering most major industry sectors. On average, this portfolio could hold 65 stocks; however, the largest 15 could account for as much as 45% of the portfolio.

Arcataur Investment Grade Fixed Income Portfolio - This portfolio offers investors a separately managed account focusing on Treasuries, Agencies, corporate bonds and municipal bonds, with an average portfolio credit rating of A or better. Our approach is to actively manage interest rate risk and credit risk while minimizing liquidity risk to generate conservative risk-adjusted total return.

Arcataur Managed Balance Portfolio - This portfolio offers investors a separately managed account which seeks to preserve capital during difficult market periods while allowing growth opportunity in good market conditions. Arcataur has developed a model that assists us in determining the relative attractiveness of stocks versus bonds. When our models and fundamental analysis indicate stocks are more attractive, we will be near our upper end of the range for stocks (75%). Conversely, when bonds are favored, we will be near the lower end of the stated range for stocks (45%).

Pouring Gasoline on the Pent-Up Demand Fire (cont.)

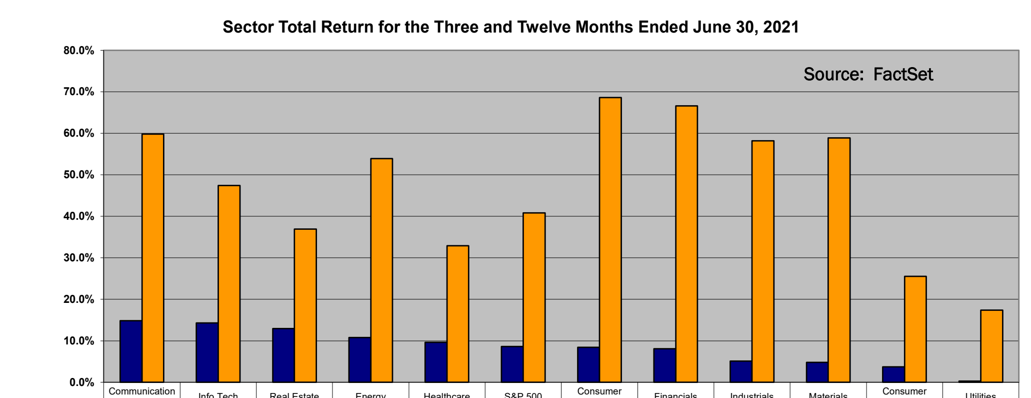
At the end of the June Federal Open Market Committee (FOMC) meeting, the Federal Reserve did not make any material changes to monetary policy; however its projections and commentary moved forward the possibility of changes to their bond purchase or quantitative easing (QE) program in the coming quarters and an actual Federal Funds interest rate increase before 2023. The communication of this slight change temporarily impacted both the bond and stock markets, however both recovered quickly. The yield spread, or differential between shorter and longer term bonds, narrowed and a recovery of the mega-capitalization technology stocks versus more economically sensitive issues were both noticeable reactions to the FOMC meeting.

The announcement of a political compromise on an infrastructure spending bill in the Senate was initially viewed positively by investors; however, the built-in obstacles of the legislative process and the extreme factions in both parties makes the passage of this bill still very uncertain. The aggressive spending agenda of the Biden Administration and the Democrats appears to have lost some momentum recently. However, investors are expecting a more contentious discussion from Washington on tax increases, additional spending and immigration when Congress returns in the fall. Rising deficit and debt concerns could grow with any material increases in interest rates and associated rise in the cost of debt service. Additional aggressive fiscal stimulus could ignite unsatiable demand and rising inflation concerns.

Oil prices have not only recovered to pre-pandemic levels above $60 per barrel, but recently rose to a 6 year high of $75. The response by producers, including OPEC, in initially reducing production, coupled with improving economic activity, has supported the rise in global oil prices. The recent announcements from OPEC to gradually increase production and Iran's agreement to return to the negotiating table with the U.S. may escalate oil price volatility in the coming months. Climate considerations and expansion of electric powered vehicles will have a growing, but glacial effect on the global energy markets.

For the quarter, the S&P 500 (total return) was up 8.6%, and the Dow Jones Industrial Average rose by 4.9%. The technology-heavy NASDAQ Composite increased 11.4% in the quarter, as investors rotated back towards well-capitalized technology mega-cap companies in the last six weeks of the quarter. The NASDAQ still lagged the broader averages on a year-to-date basis, reflecting investor preference for more economically sensitive and smaller companies in the first 6 months of the year. The S&P 600 Small Cap Index rose by 4.5% and the S&P 400 Mid–Cap was up 3.6%. Developed international markets rose by 5.2% and emerging markets were up by 3.9% for the quarter.

All eleven industry sectors rose for the third consecutive quarter, with the leading communication, and technology sectors benefiting from strong earnings and the recent rotation from economically and interest rate sensitive areas of the market. The energy sector has benefited from improved earnings related to rising oil prices. Defensive (consumer staples and utilities) sectors continued to lag in the quarter and the trailing twelve months. The uncertainty of the timing and magnitude of rising interest rates and global economic growth next year have recently impacted investor's conviction of sector performance. The recent rotation towards the mega-capitalization technology sector was driven by a comfort level of strong earnings, cash flow and balance sheets these companies provide to investors. The chart below illustrates how all the sectors performed in the quarter and for the trailing twelve months.

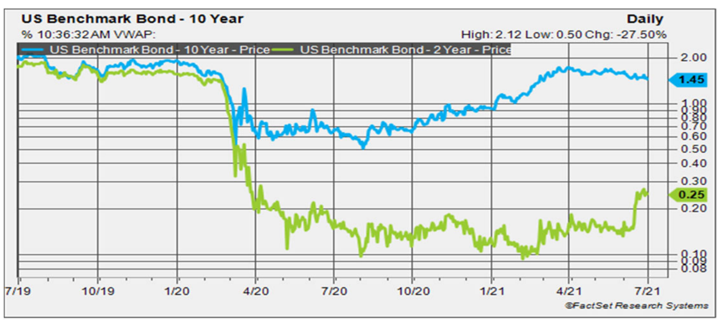


	Communication Services	Info.Tech	Real Estate	Energy	Healthcare	S&P 500	Consumer Discretion	Financials	Industrials	Materials	Consumer Staples	Utilities
3 Months	14.8%	14.3%	12.9%	10.8%	9.6%	8.6%	8.4%	8.1%	5.1%	4.8%	3.7%	0.3%
12 Months	59.8%	47.4%	36.9%	53.9%	32.9%	40.8%	68.6%	66.6%	58.2%	58.9%	25.5%	17.4%

Arcataur Capital Management LLC
A Registered Investment Advisor

Investors Stay the Course that Inflation Spike is Temporary, for Now

After a year of stability at very low levels, short-term yields rose in the second quarter. But as the 2-year U.S. Treasury bond yield crept up, the 10-year Treasury bond yields has declined slightly after a strong upward move in March. This narrowing of the differential between shorter and longer maturity yields is termed as a "flattening yield curve", which historically happens as the Fed raises short term rates to fight inflation or asset bubbles. Investors' standard economic predictor is the 10-year Treasury minus the 2-year Treasury yield. The recent narrowing of the yield curve was not triggered by a change in the Federal Funds rate target of 0 to 0.25%, but the communication by the Fed that this could happen before 2023, which is sooner than previous forecasts. Historical norms relating to monetary policy has been called into question based upon the significant and aggressive Fed maneuvers 15 months ago. The 2 to 10-year Treasury bond yield spread at quarter end was 1.2% which reflects a positive outlook for an expanding economy. The 10-year Treasury bond began the quarter yielding 1.69% and ended the quarter at 1.45%, while the 2-year Treasury bond began at 0.15% and finished the quarter at 0.25%. Given the decline in 10-year Treasury bond yields and a continuation of negative real (inflation adjusted) yields across the curve, it is prudent to be patient when considering new bond investments.



June's Fed meeting was closely watched to see if the Fed would deliver any commentary regarding interest rates, inflation, asset purchases, and tapering (reducing bond purchases which impact longer-term yields). While the Federal Open Markets Committee (FOMC) left the Fed Funds rate unchanged at 0.0 – 0.25% and made no policy changes at the meeting, Fed Chair Jerome Powell did mention that the Fed has discussed the option of reducing their bond buying program, which currently stands at $80 billion in Treasuries and $40 billion in mortgage-backed securities each month. The FOMC also highlighted their economic and interest rate targets or dot plots, which is a graph showing the opinions of the Fed Governors' thinking on potential interest rate changes. For the first time, it showed that two members believe interest rate hikes may come as early as next year and two more by the end of 2023. While Jerome Powell recommended using the dot plots with "a grain of salt", these indicators are meaningful as near-term inflation is now running above the Fed's 2% target and interest rate levels are still ultra-low. Understanding what the members of the Fed are thinking in regards to the timing and direction of interest rates remains important as investors look for any transition away emergency monetary policies.

The market interpreted the 'dots' and the discussion of cutting back on the emergency measures taken during the shutdown as an indication that the Fed thinking is evolving and potentially changing with

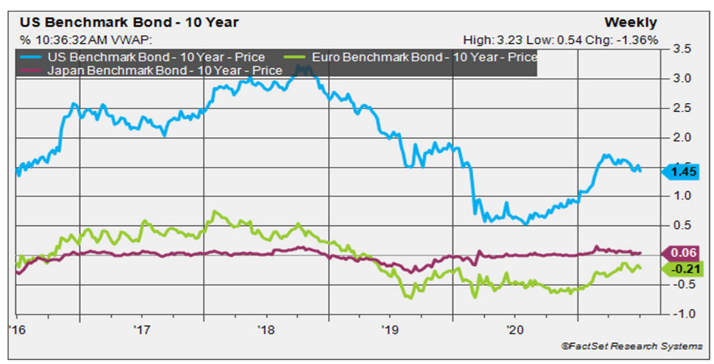
	2021	2022	2023	Longer Run
Real GDP (% 4Q/4Q)				
FOMC June SEP	7.0	3.3	2.4	1.8
FOMC March SEP	6.5	3.3	2.2	1.8
Unemployment Rate (4Q Avg)				
FOMC June SEP	4.5	3.8	3.5	4.0
FOMC March SEP	4.5	3.9	3.5	4.0
Core PCE Inflation (% 4Q/4Q)				
FOMC June SEP	3.0	2.1	2.1	-
FOMC March SEP	2.2	2.0	2.1	-
Fed Funds Target				
FOMC June SEP	0.125	0.125	0.625	2.500
FOMC March SEP	0.125	0.125	0.125	2.500

Source: FOMC June 2021 Summary of Economic Projections, Morgan Stanley Research

improving virus and economic data. The Fed revised their near-term economic forecasts, such as their projection for economic growth from 6.5% to 7% and the core PCE inflation rate from 2.2% to 3%. The Fed sees inflation at or above 3% for the remainder of the year, while still targeting a long-run average rate of 2% for inflation. The preceding chart illustrates the Fed's outlook change since March.

The large increase in debt around the globe and the near-term rise in inflation have investors extremely focused on interest rates and the Fed's actions. The Fed's view is that the visible inflation increases are 'transitory' (temporary) and that they will manage this process without raising interest rates too quickly as the economy recovers and growth normalizes. With the unprecedented increase in the money supply and a solid demand outlook for the economy, it is certainly possible that inflation will stay higher for longer and interest rates could rise as a result. The argument against a permanent shift in inflation includes offsetting factors such a technology, productivity, and demographics that have tampered inflationary forces for the past thirty years. The recent commentary by the Fed has raised investors' concerns that the current monetary policy is too rear-viewed focused (historically termed as being "behind the curve") and the bond market could be potentially reflecting a different scenario of inflation and economic impact versus the Fed's outlook.

While the 10-year U.S. Treasury yield declined slightly throughout the second quarter, the 10-year Euro bond yield remained in negative territory while the bond yield in Japan was marginally positive. The 10-year EU bond began the quarter at -0.33% and ended the quarter at -0.21%, while the 10-year Japanese bond began at 0.10% and ended at 0.06%. Overall, these yield differences highlight the unattractiveness of the global bond market and lack of reasonable returns on "safe" investments, which results in additional investment demand from foreign investors and continues to hold down yields in the US.



Bond investors desire yields that are high enough that savings can grow at or above inflation so they can maintain the same buying power for future needs. This is not the case today. Borrowers want rates as low as possible so they can buy more now and pay lower costs later. This is driving housing, car sales, and the financial markets. "Cheap" financing encourages leverage and often risk taking. This is a core reason that interest rates matter so much to the economy and financial markets. Interest rates are likely to rise as we move through the remainder of the year, but that is not a guarantee. March and April provided the opportunity to buy reasonably valued 10-year investment grade corporate bonds for our Fixed Income clients. As longer maturity yields declined and credit spread (premium over government yields) tightened, that opportunity faded. We continue to be prudent and diligent in our bond investment process in an effort to find safe and attractive yields in the current environment. The overall quality rating of the fixed income portfolio is mid-single A, while the aggregate weighted average duration remains short, and liquidity remains sufficient to take advantage of opportunities that arise.

Third Quarter 2021 Investment Outlook

Financial markets are guided by facts (economic and company data) and emotions or sentiment (fear and greed) about the future. Over the last 16 months, the facts and emotions have created polar extremes of results for global investors. It is important for investors to understand the facts and not allow the current emotions to influence the outlook for sound decisions.

The bust to boom cycle created by the virus-related shutdown and the current re-opening, along with extreme monetary and fiscal stimulus, has provided unique crosscurrents for investors. It is incrementally more difficult to truly discern the facts and forecast the future.

The U.S. economic growth rate is peaking versus the pandemic recession comparisons of last year and will slow, yet economic growth is expected to remain positive. Since it is difficult to predict how global central banks will manage rising inflation, investors will need to monitor the supply of goods and the influences of China's government on commodity prices. The recent calm in the Treasury bond market and pull-back in interest rates has comforted investors but could still be masking potential future risks.

Surging economic growth rates are being driven by consumer and business spending, which confirms the recovery from the virus related shutdown and the help provided by significant governmental stimulus. Consumer and business spending is expected to remain strong over the next 6 to 18 months. The Fed and the Biden Administration's assumption that current, higher than desired inflation, will prove to be transitory and will normalize at lower levels could be tested by the magnitude of improving employment trends and associated wage increases.

China's influence on commodity prices remains significant. Their growing aspirations and overt actions are impacting the global economic calculus. China's military posturing and play for control of their neighborhood are significant developments to monitor.

Investor's emotions have influenced the significant rise in stock prices, as illustrated by the S&P 500 achieving 34 new record high levels in the first 6 months of 2021. This has masked a significant rotation of growth versus value stocks that has occurred within the broader market. Some of this rotation relates to the swift economic snapback, while a contributing factor was correcting the extreme underperformance early in the pandemic of small-cap, mid-cap, and economically sensitive stocks.

Current valuation in both the stock and bond market provide little room for error or for the potential of destabilizing developments. Stock prices experienced two slight corrections in early March and late June, which were related to a change in interest rates, however both corrections were recovered quickly by investors with excess liquidity and a fear of missing out of more capital appreciation.

Primary risks that investors need to consider now are significantly higher interest rates, inflation, geo-political skirmishes, and any significant game changing impact on corporate profits. This includes higher taxes, input costs, and wages. Tax policy changes are expected to be a prominent focus of the Biden Administration and Congress in the second half of the year. Any meaningful resurgence in the virus related statistics appears more remote as the U.S. moves toward herd immunity.

Elevated stock and bond valuations, along with the potential risks make the current environment challenging. Based upon current data and lofty emotional sentiment, patience and discipline will generally be rewarded for long-term investors. A normal 5 to 10% market correction would provide a pause that refreshes a sustainable bull market.

The broadening of the market over the last ten months benefited appropriately diversified portfolios substantially. The recent narrowing of the market could be an early indication of a defensive trend change. The slight recovery in the U.S. dollar recently has incrementally impacted international stocks negatively. International equities have been multi-year underperformers, but offer potential value if sustainable growth can be achieved in Europe and Asia. Total stock exposure remains slightly above average for our clients' equity ranges and somewhat reflects the less attractive valuation in new fixed income opportunities. We remain committed to a disciplined investment approach.

Is this the End of 30 Years of Disinflation?

The primary focus and concern of investors and policymakers is the outlook for future inflation. Given the massive economic disruptions caused by the pandemic and the stimulus-fueled strong economic rebound we are currently enjoying, the Federal Reserve has become more tolerant of higher inflation, at least for the time being. The core Personal Consumption Expenditure (PCE) Index, the Fed's preferred inflation measure, is running at 3.4% year over year at the end of May which is the highest reading since 1992. The Fed's tolerance is being tested and its recent communication indicates concerns by the broader FOMC. The key question is whether these elevated inflation readings are temporary and return to the Fed's long-term target of 2% or lower in the coming quarters, or is the economy facing a sustained period of higher inflation? If the latter, the Fed will likely be forced to end its asset purchase program and start raising short term interest rates sooner than previously expected. Markets had a violent reaction with a 20% correction in the 4th quarter of 2018 when the Fed last reduced its balance sheet and began gently raising interest rates. The Fed backed off in early 2019 as global economic growth was stagnating outside of North America. With the prospect of significant inflation brewing and stimulus in Europe and Asia, inflation may be more of a risk. The question we must try to answer is how sustainable are these higher inflation readings? Given the publicity around sharply increasing lumber prices, rental car rates, used car prices, house prices, and numerous other items, it feels as if inflation is raging already, but in reality most of these are the result of temporary factors and dislocations, which will typically self-correct and potentially justify the Fed's transitory or temporary outlook. The longer term inflation outlook is driven by more secular, enduring issues such as debt levels, demographics, globalization, technology, productivity, and wages which are less clear. For the past 30 years, almost all of these secular forces have supported a low inflation environment, one where the Fed's 2% inflation target has been difficult to sustain in more recent history. Several of these factors, especially globalization and wages, along with demographics and technology considerations, are facing pressures which may well diminish future deflationary characteristics. Some of these trends were developing prior to the pandemic and the pandemic has hastened the process. There are still significant deflationary forces at play in the global economy which make it unlikely to experience 1970s-like inflation approaching 10% or anything close to that number. Our expectations are that inflation will moderate as the transitory issues are resolved, but it is unlikely to be as quiescent as it's been the last 12 years. Inflation of 2-3% with occasional spikes higher will ultimately lead to higher interest rates, which will not be devastating to the financial markets, but will create increased volatility and not support higher valuations.

Arcataur Composite Investment Performance for the 3 Months, 12 Months, 3 Years and 5 Years Ended June 30, 2021

Arcataur Composite Portfolio	Total Return			
	3 months	12 months	3 yr. annualized	5 yr. annualized
	6/30/2021			
Large Cap Direct Stock Equity	7.31%	46.71%	19.14%	17.54%
Large Cap Equity ETF	8.11%	40.36%	18.62%	17.44%
Benchmarks				
Lipper Large Cap Core	7.95%	39.58%	16.79%	16.35%
Dow Jones Industrial Average	4.88%	36.21%	14.82%	16.50%
S&P 500	8.55%	40.79%	18.67%	17.65%
S&P 100	9.38%	39.69%	20.05%	18.31%

Arcataur Composite Portfolio				
	3 months	12 months	3 yr. annualized	5 yr. annualized
	6/30/2021			
Fixed Income	1.55%	3.27%	4.54%	2.84%
Benchmarks				
Bloomberg Barclays 1-5 (T/G/C)	0.24%	0.40%	3.70%	2.18%
Bloomberg Barclays 1-3 (T/G/C)	0.02%	0.44%	2.95%	1.88%
Lipper Bond MF Avg.	1.70%	5.90%	4.89%	3.70%

Arcataur Composite Portfolio	Total Return			
	3 months	12 months	3 yr. annualized	5 yr. annualized
	6/30/2021			
Managed Balance	4.54%	29.81%	11.99%	11.27%
Benchmark				
Lipper Balanced	4.90%	24.10%	11.13%	9.80%
60/40 Custom Index	3.54%	24.91%	10.75%	10.64%

Arcataur Composite Portfolio	Total Return			
	3 months	12 months	3 yr. annualized	5 yr. annualized
	6/30/2021			
Small Cap Equity	4.23%	66.33%	12.02%	15.30%
Mid-Cap Equity	3.78%	52.04%	12.95%	13.90%
Total Equity*	6.32%	46.50%	15.99%	15.91%
Benchmarks				
Lipper Small Cap Core	4.12%	60.83%	10.94%	13.35%
S&P 600	4.51%	67.40%	12.20%	15.83%
Lipper Mid-Cap Core	5.25%	48.85%	12.46%	12.68%
S&P 400	3.64%	53.24%	13.16%	14.30%

Arcataur Composite Portfolio	Total Return			
	3 months	12 months	3 yr. annualized	5 yr. annualized
	6/30/2021			
Developed International Equity	5.47%	34.25%	8.48%	10.01%
Emerging International Equity	4.58%	39.22%	11.22%	11.47%
Total Equity*	6.32%	46.50%	15.99%	15.91%
Benchmarks				
EAFE	5.17%	32.35%	8.27%	10.28%
MSCI Emerging Market Index	3.85%	39.94%	10.71%	12.18%

*Total Equity is not an actual composite portfolio; rather, Total Equity represents a weighted average return of the Large Cap, Mid-Cap, Small Cap and International composites, and is only shown as an indication of potential overall equity performance. Total Equity does not represent any actual portfolio because it is made up of a weighted average return of all equity classes. Please review complete disclosure information below.

Appendix: Disclosure Information Regarding Composite Performance

General

Arcataur Capital Management LLC is an investment advisor. Arcataur has prepared this report. The information in this report has been developed internally and/or obtained from sources which Arcataur believes are reliable; however, Arcataur does not guarantee the accuracy, adequacy or completeness of such information nor do we guarantee the appropriateness of any strategy referred to for any particular investor. Index information has been taken from public sources. Past performance is not indicative of future results, as investment returns will vary from time to time depending upon market conditions and the composition of the composite portfolio. Returns for individual investors will vary based on factors such as the account type, market value, cash flows and fees.

Calculation Methodology

The composites reflect dollar-weighted returns of individual accounts. Arcataur composites may include some discounted or non-fee-paying accounts, which could cause the net return to be higher than it would be otherwise. Arcataur uses the time-weighted internal rate of return formula (i.e., returns that include reinvested dividends and other income) to calculate performance for the accounts included in the composite. Individual account returns are calculated on a time-weighted basis, linked daily, and include reinvestment of dividends and other such earnings. Total return (return) is defined as the percentage change in market value (including interest and dividend income) adjusted for any client-directed cash flows. A time-weighted, daily-linked method is used to calculate composite calendar quarter, annual, cumulative and annualized returns. No leverage or derivatives have been used. Cash is not included in the performance calculations for the Arcataur Large Capitalization Equity Portfolio Composite or the Arcataur Investment Grade Fixed Income Composite; Arcataur also does not allocate cash in the Arcataur Managed Balance Portfolio Composite to the equity or fixed income components when calculating performance for those components. Cash is, however, included in the overall performance calculation for the Arcataur Managed Balance Portfolio Composite.

Composites

Mutual fund holdings are not included in composite results. Exchange traded funds (ETFs) are included in composite results. Mutual fund holdings typically are "unmanaged assets" and, therefore, are not included in composite results. Exchange traded funds are designated as "managed assets" and, therefore, are included in the composite results.
The Arcataur Large Capitalization Equity Composite consists of portions of all client accounts invested in accordance with the Arcataur Large Capitalization Equity Portfolio strategy (including ETFs). The Arcataur Small & Mid-Capitalization Equity Composites consist of portions of all client accounts invested in small & mid-capitalization equity securities (including ETFs). The Arcataur International Equity Composite consists of portions of all client accounts invested in international securities (including ETFs). The Arcataur Investment Grade Fixed Income Composite consists of portions of all client accounts invested in accordance with the Arcataur Investment Grade Fixed Income strategy. The Arcataur Managed Balance Composite consists of portions of all client accounts invested in accordance with the Arcataur Managed Balance strategy.

Appendix: Disclosure Information Regarding Composite Performance (cont.)

Fees

The Composite performance figures shown above, are "net" of advisory fees based upon a standard client fee paid during the period including any brokerage fees or commissions that have been incurred within the account. Because the actual management fee paid by an individual client may have been higher or lower, the client's net return may have been higher or lower. The Arcataur Managed Balance composite is based on actual fees paid and may include some discounted or non-fee-paying accounts. The S&P 500® Index, S&P 100® Index, DJIA®, S&P 600® Index, the EAFE® index, the Bloomberg Barclays Investment Grade Index Treasury/Government/Credit (T/G/C) 1-5 Years, and the Bloomberg Barclays Investment Grade Index Treasury/Government/Credit (T/G/C) 1-3 Years returns do not include any fees; the Lipper Large Cap Core, Small Cap Core, Balanced Fund and Bond Fund Averages are net of fees.

Indices and Benchmark Funds

The Indices and Benchmark Funds are referred to for comparative purposes only and are not necessarily intended to parallel the risk or investment approach of the accounts included in the composites. Arcataur believes that the Indices and Benchmark Funds selected for comparative purposes are appropriate measures given the investment approach. However, the investment portfolios underlying the indices are different from the investment portfolios managed by Arcataur. The Indices and Benchmark Funds shown are unmanaged, and investors are not able to invest directly in them. The Indices and Benchmark Funds are considered to be generally representative, in terms of risk and exposure, of the various components as follows:
Arcataur Large Capitalization Equity Portfolio - the S&P 500® Index, the S&P 100® Index, DJIA®, and Lipper Large-Cap Core Average

Arcataur Investment Grade Fixed Income Portfolio –the Bloomberg Barclays Investment Grade Index (T/G/C) 1-5 Years and the Bloomberg Barclays Investment Grade Index (T/G/C) 1-3 Years and the Lipper Bond Mutual Fund Average.

Arcataur Managed Balance Portfolio - Lipper Balanced Fund Average and 60/40 custom total return index which includes: Equities (30% S&P 500, 30% DJIA, 15% S&P 400, 10% S&P 600, 10% EAFE, 5% MSCI-EM), & Bonds (Custom Bond Index consisting of 50% Bloomberg Barclays (T/G/C) 1-5 and 50% Bloomberg Barclays (T/G/C) 1-3).

If a client's portfolio contains small-cap exposure, the small cap performance is measured against the S&P 600® Index and Lipper Small Cap Core Average. If a client's portfolio contains mid-cap exposure, the mid-cap performance is measured against the S&P 400® Index and Lipper Mid-Cap Core Average. If a client's portfolio contains international exposure, the performance is measured against the EAFE index. If a client's portfolio contains emerging market exposure, the performance is measured against the MSCI Emerging Market Index.

With the exception of the Lipper Balanced Fund Average, the Lipper Large Cap Core Average, the Lipper Bond Mutual Fund Average, the Lipper Small Cap Core Average, and the Lipper Mid-Cap Core Average, indices and benchmark funds shown reflect the reinvestment of dividends and other earnings, but do not include transaction costs, management fees or other expenses of investing.

The S&P 500 & S&P 100 are indices of Large-Cap domestic core companies as produced by Standard and Poor's, while the DJIA is produced by Dow Jones. The S&P 400 and S&P 600 are indices of Mid-Cap and Small Cap domestic core companies, respectively as produced by Standard and Poor's. The MSCI EAFE (Europe, Australasia and Far East) Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. MSCI Emerging Markets ETF is an index composed of large- and mid-capitalization emerging market equities. Both are maintained by MSCI Barra.

Lipper, Inc., a subsidiary of Refinitiv (formerly Thomson Reuters), provides mutual fund comparisons for similar investment profiles. The Lipper Large Cap core universe of mutual funds represents large-cap blend discipline of domestic companies compiled by Lipper, Inc. The Lipper Small Cap core universe of mutual funds represents small-cap blend discipline of domestic companies compiled by Lipper, Inc. The Lipper Mid-Cap core universe of mutual funds represents mid-cap blend discipline of domestic companies compiled by Lipper, Inc. The Lipper Balanced Fund universe of mutual funds represents funds that include multi-assets including stocks and bonds compiled by Lipper, Inc. The Lipper taxable bond universe of mutual funds represents funds that include investment grade taxable domestic bonds compiled by Lipper, Inc.

This Newsletter is for informational purposes only, and is meant for one-on-one discussions between Arcataur Capital Management LLC and its clients and prospects. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this Newsletter will come to pass. Investors should not rely solely on the information contained in this Newsletter in making an investment decision, nor is the information in this Newsletter intended to be personalized investment advice. Investors should consult with their own investment advisers regarding their individual investment programs. Even though Arcataur Capital Management LLC uses its best efforts to compile its data from reliable sources, Arcataur does not warrant the accuracy, completeness or timeliness of any of the information it provides. The material in this Newsletter may include forward looking statements based on Arcataur's experience and expectations about the securities markets and the methods by which Arcataur expects to invest in those markets. Arcataur disclaims any intent or obligation to update these statements. The forward looking statements are not guarantees of future performance and are subject to many risks, uncertainties and assumptions that are difficult to predict. Moreover, there is no assurance that any projections, predictions, forward-looking statements or forecasts of investment performance will be realized. Prospective clients should carefully consider those risks, in addition to other information, before deciding whether to invest in securities. Actual investment returns could differ materially and adversely from those expressed or implied in any forward looking statements. Prospective clients must conduct their own investigations of the merits and risks of an investment in securities.