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First Quarter Review
March 2024

Arcataur Capital Management LLC
A Registered Investment Advisor

High Quality Investment Management

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Inside This Issue:

First Quarter Equity Markets: ***AI & Stable Economy Fuels Stock Price Momentum*** 1

First Quarter Fixed Income Markets: ***Goldilocks Economy Has Financial Markets and Fed On the Same Page*** 3

Second Quarter 2024 Investment Outlook 4

Near and Longer Term Impact of Elections on Financial Markets 4

Arcataur Composite Investment Performance 5

A Balanced Approach

AI & Stable Economy Fuels Stock Price Momentum

The S&P 500 rose to all-time highs, fueled by the prospects and benefits of Artificial Intelligence (AI) and a continued improvement in earnings for technology and related companies. The valuation disparity between these leading mega-capitalization companies and the broader equity market has increased; however, while the momentum over the last nine months widened the valuation gap, it has not reached previous extremes.

During the first quarter of 2024, inflation data, with solid economic and employment trends reset investor's expectations to be more aligned with the Federal Reserve's outlook that additional time is needed before it begins to reduce the Federal Funds interest rate. At the March Federal Open Market Committee (FOMC) meeting, the Fed kept interest rates flat and projected the potential for three one-quarter point reductions in its target interest rate for 2024, matching investors expectations. In late December, investors expectations were for more than four cuts, indicating lower inflation and weaker economic growth.

Small Capitalization stocks lagged in the first quarter after outperforming in the fourth quarter of 2023 when lower inflation expectations and investors expectations for deeper Fed interest rate cuts in the New Year drove their relative performance. Smaller companies valuations are significantly lower and their earnings benefit more from declining interest rates. The continued pause by the Fed reduced investor's appetite for the lower valuations offered, which fueled the larger company momentum.

International stocks also lagged somewhat in the first quarter, as economic weakness, along with the two year anniversary of the Russian invasion of Ukraine and the ongoing war in the Middle East between Hamas and Israel, reduced confidence for investors. While valuations remain attractive, the geopolitical conflicts do not give investors the confidence that the valuation gap between US and foreign stocks will narrow in the near-term.

Presidential candidates for the U.S. national election in November have been set early, resulting in a rematch of the contentious 2020 race. Congressional balance of power will also be closely scrutinized by investors and the electorate, especially with record deficits and higher financing cost of the national debt. The election year financial market seasonality has been one of the most consistent and is the subject of the special section at the bottom of page four of this newsletter. Investors need to be prepared for increased market volatility late in the summer and through the election.

Stable and near historical low unemployment trends support continued economic growth. More recently, sticky inflation data and slower wage growth raise the potential risk for some deceleration in the economy. However, if that occurred, expectations would be for a more accommodative Fed reducing interest rates.

The American consumer has benefited from improved income, stable savings, and elevated spending, which are the main engines of the domestic economy. Investors are mindful of the upcoming challenges, including the depletion of pandemic savings, the resumption of student-loan repayments, and the lagged effect of higher interest rates on consumers, businesses, and the government. Most U.S. consumers are not over-indebted; however, rising energy and food prices are more noticeable with slowing wage growth. Initial signs of lower shelter (housing and rents) costs have not been significant. The concerns of over building of rental units nationally could provide some relief in the future.

The tightness in the labor market now appears less acute due to companies taking a more conservative approach to employment needs and an increase in immigration. Recent signals indicate that companies are being more cautious with hiring, not filling vacancies, and even reducing head count, which is reflected in job openings data. The U.S. unemployment rate declined to 3.8% in March with increased participation relating to increased immigration trends. Wage growth was up 0.3% which was inline with expectations over the last few months. This report supports the outlook of a stable and expanding domestic economy.

Geopolitical issues escalated when Hamas attacked Israel in October, which increases the possibility of a broader Middle East conflict. China's support for Russia in the Ukrainian war, and their desire to usurp Taiwan's sovereignty and thereby diminish U.S. influence globally, are ongoing developments which cannot be ignored.

China's manufacturing sector showed a modest expansion in March for the first time in the last six months. This provides signs of a stabilizing economy and positive reaction to recent stimulus measures. Factory activity edged up and was slightly higher than recent forecasts. Recent reports of flooding the world with cheap goods is raising the potential of trade sanctions. Chinese national data reflects a country mired in deflation, with subdued consumer spending and an unstable housing and property sector that may take decades to stabilize.

Historically, the property sector represented nearly 30% of China's GDP. As property investments represent 70% of wealth for Chinese households, future spending and consumer confidence are expected to decline. While the Chinese government has recently instituted incremental and targeted stimulus, heavy handed reinstitution of central Communist controls has significantly reversed the gains of 40 years of the move towards a global market-based economy.

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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%).

AI & Stable Economy Fuels Stock Price Momentum (cont.)

The aging of China's population, along with a declining birthrate, is a major long-term challenge. The significant unemployment (estimated to be above 20%) for the important 16 to 24-year old job seekers is creating long-term problems for future growth.

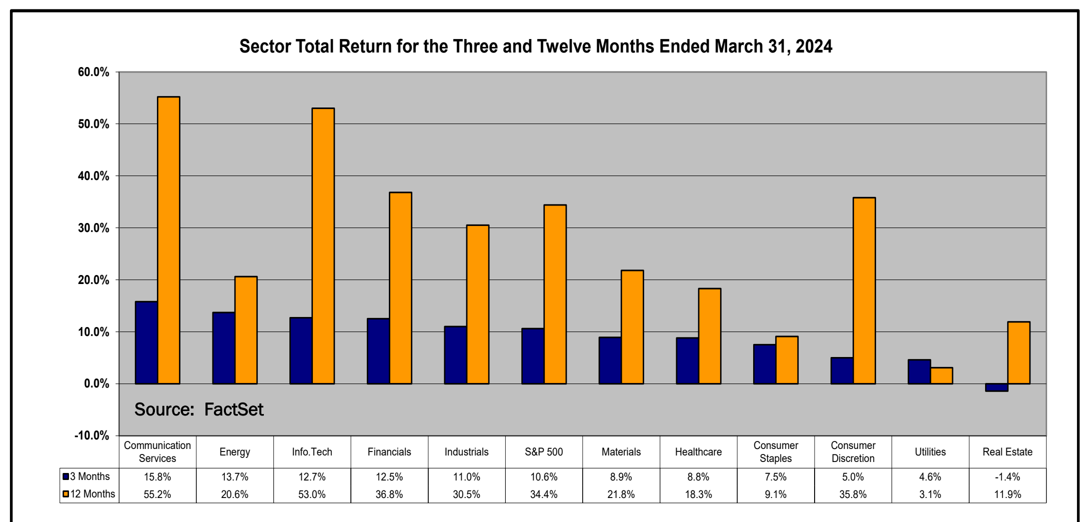
Europe's economy has disappointed over the last nine months due to negative effects from higher fuel prices, modest growth from trading partners like China, and fear of the ECB's unwillingness to lower interest rates. While a few European countries are experiencing negative economic growth, the overall picture is that growth is currently flat with the hope that in 2024 growth will pick up as headwinds abate, but still is likely to remain below trend. The euro-area unemployment rate declined to a recent low of 6% in March which remains significantly higher than in the U.S..

Corporate profit expectations are a key determinant in valuing stocks. The first quarter 2024 reports due over the next seven weeks are expected to produce a 1% decline from the seasonally stronger 4th quarter of 2023, but a 4% rise when compared to the 1st quarter of 2023 for the S&P 500. Current expectations are for all four quarters to be higher versus 2023 and up 11% for the year. The large mega-capitalization technology stocks are expected to be leaders again in driving earnings growth. A broader base of companies producing earnings growth will be important to support elevated stock prices. The S&P 500 current price-earnings ratio, ranging between 21 and 22 times based upon current earnings estimates, is above the long term average within a growing economy as a result of the significant valuation premium of the largest technology stocks. The top 10 mega-capitalization stocks average over 28 times earnings, while the remaining 490 stocks average a more attractive multiple below 17 times. Small and Mid-Capitalization stocks trade at a more significant discount at 15 to 17 times estimated earnings. Historically, Small and Mid-Capitalization stocks trade at a premium multiple higher than the S&P 500. Besides the technology concentration, the much smaller energy sector caused an outsized earnings swing in 2022 and into 2023, which is expected to normalize in 2024.

Oil prices have remained in a $70 to $90 per barrel trading range over the last 20 months. The mild winter in North America, along with ample supply of crude and refined products, kept prices near the bottom of that range. Increased economic activity and seasonal maintenance has curtailed inventories, which has moved oil prices to the upper end of that range, currently above $85. Refined products, such as gasoline and jet fuel, have crept up which is most noticeable to consumers and transportation related companies. Elevated prices should be expected for the next three to four months after spring maintenance is completed and inventories normalize into the summer driving season. The ongoing Ukrainian/Russian war, along with Middle Eastern conflict and shipping disruptions in the Red Sea, will continue to impact global supply and demand, along with prices and availability of oil and natural gas.

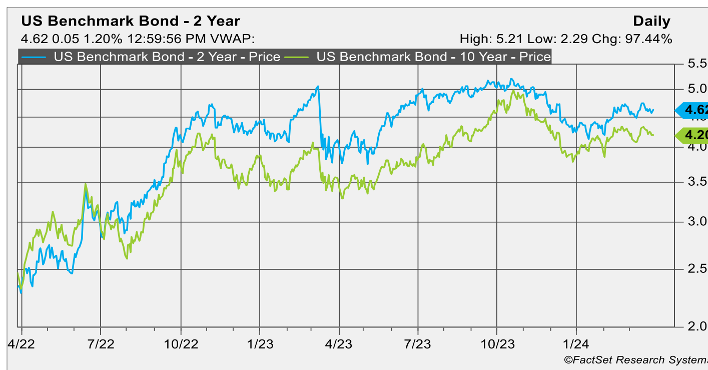
For the quarter, the S&P 500 (total return) was up 10.6%, and the Dow Jones Industrial Average rose by 6.0%. The technology-heavy NASDAQ Composite increased by 9.3% in the quarter. The S&P 600 Small Cap Index was up by 2.5% and the S&P 400 Mid-Cap rose 10.0% in the quarter. Developed international markets were up 5.8% and emerging markets increased by 2.2% for the quarter.

For the quarter, there was a broader mix of leading sectors including Energy, Financials and Industrials, along with Communication and Technology, as investors gained confidence that domestic economic growth was sustainable. Defensive sectors of Real Estate, Utilities, and Consumer Staples, along with Consumer Discretionary lagged, with Real Estate being the only sector that declined in the first quarter. The underperformance in Consumer Discretionary was impacted by the decline in Tesla, which is the largest weight and was a significant outperformer in 2023. Only four sectors outperformed the S&P 500 on a twelve month basis, which was dominated by the mega-capitalization technology related stocks along with Financials, which benefited by improved outlook for inflation and interest rate trends. The chart below illustrates how all the sectors performed in the quarter and for the trailing twelve months.



Goldilocks Economy Has Financial Markets and Fed On the Same Page

After seeing significant declines in Treasury bond yields in the fourth quarter of 2023, yields rebounded higher during the first quarter of 2024, as inflation remained 'sticky', economic growth was sustainable, and the Federal Reserve kept the funding rate range steady between 5.25 to 5.50%. However, Treasury bond interest rates have not reached the recent highs seen late last fall. While the yield curve remains inverted (short-term yields higher than long-term yields), the spread between the 2-year and the 10-year did not change materially during the quarter. The 2-year Treasury bond began the quarter yielding 4.25% and ended at 4.62%, while the 10-year Treasury bond began at 3.88% and ended at 4.20%. As we entered 2024, investors anticipated numerous rate cuts (possibly 5 or 6 0.25% reductions), as inflation was declining materially and there were some concerns about a slowing economy leading to a potential recession. Over the last three months, inflation stayed above expectations, the Fed commented that a "soft-landing" was likely, corporate earnings were improving, and the domestic economy held up. This pushed interest rates higher across the maturity curve during the quarter. The Fed has remained committed to their longer-term forecasts of a 2% inflation target, but with a soft landing rather than a recession, this will take time.

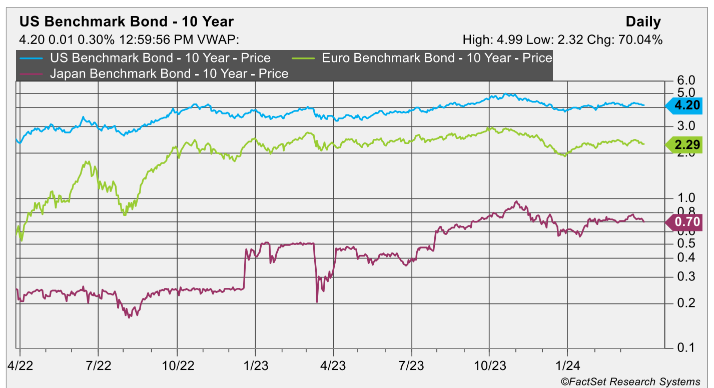


The Federal Reserve had two meetings in the first quarter, and at both meetings, they decided to keep the Fed Funds rate steady at 5.25-5.50%. The Fed has tempered investor's expectations for rate cuts from last year, as they are now anticipating three rate cuts of 0.25% basis points each during the year, with the first likely to happen in mid-2024. Based on the Fed's Summary of Economic Projections (SEP), the Fed is anticipating 0.75 % basis points of cuts in 2024, an additional 0.75% basis points in 2025, and in 2026, totaling 2.25% basis points reduction over the next three years. The Fed believes, based on the SEP, that the economy will continue to grow, with GDP expected to grow to 2.1% in 2024. Inflation remains above their 2% target at 2.6%, but has declined significantly from the 9.1% inflation reading back in 2022. In addition, the Fed also projects unemployment to remain at 4% throughout the next year. While the inflation rate has held steady during the first quarter of the year, Fed Chair Powell was not concerned about inflation ticking higher, as the FOMC will continue to monitor and make decisions based on prevailing economic data. The Fed remains patient in making their monetary policy decisions, while not overreacting to certain economic factors or pressures from the government on their rate cut plans.

Corporate bond spreads (the yield premium required for taking on default risk in corporate bonds) continued the steady decline experienced throughout 2023 into the first quarter. With the Fed holding rates flat and the expectations for a soft-or-no landing environment, spreads are at their lowest levels since early 2022. However, if we were to experience a macroeconomic shock and corporate balance sheets begin to falter, we would see a reversal and a widening in spreads further. Corporate spreads in the 5–7-year maturity range, as evidenced in the following chart, have been tight and have been between 0.95-1.12% so far this year. With the inverted yield curve, we have viewed that short to intermediate term Treasuries are more attractive of late. However, we will continue to opportunistically look to add 4–7-year corporates when they appear more attractive than their Treasury counterparts to fill out bond maturity ladders for clients where needed.

ICE B of A U.S. 5-7 year Corporate Bond Index Spread

Developed markets continue to follow a similar path to that of the U.S., as interest rates have remained steady and higher for longer. The chart below shows a similar path for the EU compared to the US, as well as the Japanese 10-year bond, albeit at a lower level. Inflation continues to be a concern across the globe, and developed countries have struggled to fully tame inflation but continued progress seems likely.



With quality bonds providing returns that should beat inflation, we continued to proactively put excess cash to work in the bond market for clients during the first quarter. As interest rate cuts are expected to drop yields lower going forward, putting excess cash into both corporate and Treasury bonds provides clients an opportunity for a higher return on their bond investments if held to maturity today. We continue to ladder our bond maturities for both corporate and Treasury bonds to give our clients more balanced cash flows and lock in real returns further out on the maturity curve. With the current money market annual yield above 5%, it provides a solid return as we patiently look to invest in high quality longer-duration bonds. The overall quality of our fixed income portfolio is single-A, aggregate average duration is 3.7 years, average yield to maturity is 5.1%, and liquidity remains sufficient to take advantage of future opportunities.

Second Quarter 2024 Investment Outlook

During the 61 trading days of the New Year, the S&P 500 closed in record territory 22 times and the quarter ended at an all-time high level. Inflation data stalled, which allowed interest rates to tick up modestly, but not near the highest levels in early November. Investors were comforted by improving earnings trends, solid economic growth, stable employment data, and most importantly by the Federal Reserve forecast of future interest rate reductions. The most recent data supports later and potentially less interest rate cuts in 2024.

The mega-capitalization stocks, which have been significant drivers of the U.S. equity market, are not exactly priced for perfection; but the elevated valuations reflect strong earnings, cash flows, and balance sheets, along with the expectations that artificial intelligence (AI) has the potential to reduce cost, increase efficiencies, and drive profit margin higher.

To put this into historical perspective, the S&P 500 companies produced on average a 3% free cash flow margin from 1950 to 2000. The internet and communication advancements allowed free cash flow margins to increase to 7% from 2000 to 2010, while over the last 13 years, it has averaged 9%. Investors are now attempting to estimate how AI will impact profitability in the future, with early prognostications being significantly higher than the internet and communication advancements in the previous 25 years.

Shelter (housing and rent costs) inflation represents more than 40% of the core-CPI and has been the primary deterrent to a more meaningful decline in broader inflation rates. Shelter inflation is based upon surveys reported with a lag and has significant seasonality which often creates distortion or mismeasurement of inflation trends.

The U.S. economy has demonstrated significant resilience with full employment allowing consumer spending to remain the engine of the domestic economy. Geopolitical conflicts, economic weakness in Europe and Asia, and the partial reversal of 40 years of freer global trade has impacted other regions more than North America.

Unemployment trends have remained near historically low levels, resulting in higher wages over the previous three years. Expectations are for a modest rise in unemployment in 2024. It should be noted that historically full employment was considered to be 5% so a modest rise from 4% would not be extreme. More recently, the decelerating wage growth and quit rate is now indicating that there is a shift in the balance of power back towards employers versus employees. A more significant or unexpected rise in unemployment would surely be a game changer for Fed policy and financial markets.

With the strong rise in stock prices, valuations are elevated based upon current corporate profit expectations that are higher this year versus last. Investors are projecting an 11% rise in earnings in 2024 for the S&P 500, which would equate to a price-earnings ratio of 21.5 times. The differential between the largest companies and the rest of the market skews valuation analysis significantly. For the stock market to produce solid returns in 2024, a broadening of performance will need to be realized. Companies with lower valuations, including Small and Mid-capitalization stocks, are currently trading at attractive levels and are over-weighted based upon our disciplined diversification approach.

International stocks offer somewhat attractive valuations too, however the economic outlook is less clear given challenges relating to the conflicts in the Middle East, Ukraine, and Russia. Trade disputes and currency impact are important for global investors to monitor.

The U.S. Government is facing higher debt funding costs and rising deficits will accelerate the problem. Not addressing budget issues could certainly impact creditworthiness for the foreseeable future. The immigration challenges and funding for Ukraine are also complicating a more comprehensive legislation that will most likely be deferred until after the election.

Improving economic data and corporate profit expectations, along with the potential for declining interest rates, have supported the recent equity rally. Based upon the powerful rise in stock prices over the last five months, we would anticipate a normal 5 to 7% market correction; however, such a correction could be masked if lower valued areas rise and more expensive stocks lead the correction. Stock prices are incrementally more vulnerable to unexpected events and the normal election year seasonality with richer valuations.

For our clients, total equity exposure remains slightly above average within targeted ranges. The Large Capitalization portion of stock exposure has been a source of funds and reducing into strength and below median of our diversified approach. Small and Mid-capitalization remain slightly above median exposure as they still offer more attractive valuation. The strong rise thus far in 2024 for stocks have provided excellent opportunities to reposition total stock and bond exposure for client portfolios.

The slight rise in interest rates provided more opportunities to increase income and bond exposure for client portfolios. While interest rates rose, corporate bond spreads provided a brief opportunity in January and February with reasonable premiums above Treasury yields. Safe, liquid, and short-term fixed income investments are providing the highest yields currently and are a reasonable holding for cash in the near term environment. Based upon current market conditions, overall asset allocation is well diversified and provides ample liquidity to take advantage of incremental opportunities that may arise.

Near and Longer Term Impact of Elections on Financial Markets

With 2024 being a national election year in the U.S., it may be helpful to review the historic impact Presidential elections have on stock market returns. It is certainly an issue that can elicit substantial investor angst, especially in our current polarized political environment. The election year trading seasonality has been most consistent in election years with a stable economic environment. Stock prices typically rise in the first 3 to 6 months (similar to this year), which gives way to increased volatility and the potential of a meaningful correction (10% or more) late in the summer and through election day. As election results are finalized, a meaningful recovery rally ensues into year-end and the New Year. On a longer-term basis, it is important to keep in mind that we are not dealing with a very large data set. There have been 24 Presidential elections since 1928. One could argue that in 6 of those election years, there were significant geopolitical or economic events which overwhelmed election results. Specifically, the Depression in 1932, World War 2 in 1940 and 1944, the dotcom crash in 2000, the Great Financial Crisis of 2008, and the Covid pandemic of 2020 are the 6 instances, which leaves 18 'normal' election cycles. There are a number of ways to look at the data. For example, in election years since 1928 with a Republican elected, the average S&P 500 return has been 15.3%, while for a Democrat it has been 7.6%, and for all Presidential years, the average return has been 11.3%. This data appears to favor Republicans, however the horrendous -37% decline achieved in 2008 skews the average significantly and more appropriately charged against the Bush Administration instead of the Obama Administration. Without this, the big variance in numbers largely disappears. The 11.3% average four year return is impressive; however, by year 3 of a given administration, it has historically outperformed year 4, typically by a significant margin of 4 to 5%. Digging deeper and incorporating additional years into the analysis by including the instances dealing with a unified government (one party controls both the Presidency and both houses of Congress), a divided Congress, or an opposition Congress (one party has the Presidency and the other party controls both houses of Congress), the stock market return data is amazingly consistent across almost all these combinations. In fact, in 4 of the 6 possible combinations, the returns are significantly positive and tightly clustered, which strongly implies that perhaps politics (both Presidential and Congressional) can be viewed as less important to market performance as many investors (and most politicians) think. With the apparent decline in the faith of elected officials, the beauty and strength of the unique American system of government is that power is diffused among multiple levels and branches of government and a flourishing private sector. This data supports the idea that other factors such as interest rates, earnings growth, GDP growth, employment trends, productivity growth, technological advancement, and more are actually more important for financial markets than politics. Essentially, maybe one could say that the stock market is nonpartisan in its outlook on Presidential elections. Investors should certainly be cognizant of political developments, but they should not allow their reactions to those issues to alter their investment plans or goals in the long-run.

Arcataur Composite Investment Performance for the 3 Months, 12 Months, 3 Years, 5 Years & 10 Years Ended March 31, 2024

Arcataur Composite Portfolio	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
Total Return 3/31/2024					
Large Cap Direct Stock Equity	9.2%	24.9%	9.8%	14.6%	11.9%
Large Cap Equity ETF	9.9%	28.8%	10.7%	14.6%	12.6%
Benchmarks					
Lipper Large Cap Core Average	10.8%	29.5%	10.4%	14.1%	11.9%
Dow Jones Industrial Average	6.0%	21.9%	8.4%	11.1%	11.6%
S&P 500	10.6%	29.9%	11.5%	15.0%	13.0%
S&P 100	11.1%	34.0%	12.7%	16.3%	13.6%

Arcataur Composite Portfolio	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
Total Return 3/31/2024					
Small Cap Equity	2.4%	15.6%	1.5%	8.6%	8.2%
Mid-Cap Equity	9.5%	22.5%	6.0%	10.8%	9.4%
Benchmarks					
Lipper Small Cap Core Average	5.9%	19.1%	4.0%	9.4%	7.6%
S&P 600	2.5%	15.9%	2.3%	9.1%	8.8%
Lipper Mid-Cap Core Average	9.2%	22.2%	7.4%	10.9%	9.1%
S&P 400	10.0%	23.3%	7.0%	11.7%	10.0%

Arcataur Composite Portfolio	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
Total Return 3/31/2024					
Fixed Income	0.2%	3.7%	-1.1%	1.1%	1.8%
Benchmarks					
Bloomberg Barclays 1-5 (T/G/C)	0.1%	3.2%	-0.4%	1.2%	1.4%
Bloomberg Barclays Aggregate	-0.8%	1.7%	-2.5%	0.4%	1.5%
Bloomberg Barclays 1-3 (T/G/C)	0.4%	3.5%	0.2%	1.4%	1.3%
Lipper Core Bond Average	-0.4%	2.3%	-2.5%	0.5%	1.5%

Arcataur Composite Portfolio	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
Total Return 3/31/2024					
Developed International Equity	5.4%	14.6%	3.8%	6.8%	4.3%
Emerging International Equity	1.6%	6.6%	-4.5%	2.2%	2.5%
Benchmarks					
EAFE	5.8%	15.3%	4.8%	7.3%	4.8%
MSCI Emerging Market Index	2.2%	7.0%	-6.2%	1.4%	2.2%

Arcataur Composite Portfolio	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
Total Return 3/31/2024					
Total Equity*	7.6%	22.5%	6.9%	11.9%	10.1%

*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.

Arcataur Composite Portfolio	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
Total Return 3/31/2024					
Managed Balance	5.0%	15.5%	4.3%	8.3%	7.3%
Benchmark					
Lipper Balanced Fund Average	5.2%	14.9%	3.3%	7.7%	6.8%
60/40 Custom Index	5.0%	15.7%	4.3%	7.5%	7.0%

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 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, Investment Grade U.S. Aggregate, and Investment Grade Index (T/G/C) 1-3 Years and the Lipper Core Bond Mutual Fund Average.

As of 12/31/22 the Custom Bond index (2/3 Bloomberg Barclays (T/G/C) 1-5 and 1/3 Bloomberg Barclays U.S. Aggregate) has been applied for comparison purposes to returns since inception. Prior to this change, for the period beginning 7/2020 through 12/2021, the custom bond index utilized 50% Bloomberg Barclays (T/G/C) 1-3 and 50% Bloomberg Barclays (T/G/C) 1-5, while periods prior to 7/2020 used the current index weightings. This change appropriately reflects the investment strategy and was also made in the historic bond weightings of the 60/40 custom index.

Arcataur Managed Balance Portfolio - Lipper Balanced Fund Average and 60/40 custom total return index. Beginning 1/2022, the 60/40 custom index includes: Equities (60% S&P 500, 15% S&P 400, 10% S&P 600, 10% EAFE, 5% MSCI-EM), & Bonds (58% Bloomberg Barclays (T/G/C) 1-5, 30% Bloomberg Barclays U.S. Aggregate, and 12% Bloomberg Barclays 3-month treasury index). For the period 2/2003 through 12/2021, the 60/40 custom bond index includes: Equities (30% S&P 500, 30% DJIA, 15% S&P 400, 10% S&P 600, 10% EAFE, 5% MSCI-EM), & Bonds (58% Bloomberg Barclays (T/G/C) 1-5, 30% Bloomberg Barclays U.S. Aggregate, and 12% Bloomberg Barclays 3-month treasury index).

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.

Except for 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 Core bond universe of mutual funds represents funds that include investment grade taxable domestic bonds compiled by Lipper, Inc.

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