Volume 2024 Issue 3

Third Quarter Review
September 2024

Arcataur Capital Management LLC
A Registered Investment Advisor

High Quality Investment Management

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

Ignatius L. Smetek -President/CIO
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 - Managing Director–Investments
STurza@arcataur.com
414-225-8204

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

William Hemp - Managing Director – Investment Operations
WHemp@arcataur.com

Inside This Issue:

Third Quarter Equity Markets: ***Broader Equity Market Is Positive, But Risks Remain*** 1

Third Quarter Fixed Income Markets: ***Fed Actions Signal A Soft Landing Is Still Possible*** 3

Fourth Quarter 2024 Investment Outlook 4

U.S. Fiscal Financial Condition - Part 2: U.S. Government National Debt 4

Arcataur Composite Investment Performance 5

A Balanced Approach

Broader Equity Market Is Positive, But Risks Remain

After two meaningful but brief stock market corrections in July and August, the S&P 500 resumed its upward trend. During the first three quarters of 2024, the S&P 500 reached 43 all-time high price levels. The latest rise in stock prices in the third quarter was not dominated by the mega-capitalization technology and artificial intelligence (AI) focused companies as was seen the first six months of the year. The broader performance was welcomed by investors and supported by recent declines in interest rates in attempts to support decelerating economic activity. Investor's sentiment appears to imply potential for the historically elusive soft-landing of the U.S. economy.

The initial stock market reaction to the first Fed interest rate reduction in mid-September was positive pushing stocks up by 2 to 5%, with interest sensitive sectors (financials, real estate and utilities), along with mid and small capitalization stocks leading the way. This is an aberration as historically the average return for the U.S. stock market has been a decline of -8% in the first 6 months and nearly -14% in the following 12 months after the first Fed cut. However, the average result varies widely based on the economic and employment conditions that have triggered the need for the Fed to act.

The soft landing of 1995, only produced a -2.5% and -4.6% decline in stock prices over the following 6 and 12 month periods. Investor sentiment currently reflects this potential for a more muted reaction, assuming the U.S. economy and employment data remain stable. Most economists have a low probability of a recession in 2025. However, with the current elevated valuations of U.S. stocks, along with geopolitical conflicts, European and Asian economic weakness, and neither Presidential candidate articulating any credible plan to tackle the rising U.S. deficit and national debt, there is concern that optimism in the financial markets could be at risk.

The elevated valuations of the mega-capitalization technology, interactive media and artificial intelligence (AI) companies have been in focus by investors relating to dominance and size over the last five years. Historically, such positions do not last forever; however, these companies have pushed annual profit margin, return on equity, and free cash flow to unprecedented levels. The sustainability of this has allowed companies to return a significant amount of these earnings (more than 70%) to shareholders via dividends and share repurchases. The resilience in the equity market has been supported by this consistent rise in both profitability and the return of capital to shareholders. For now, expectations for these fundamentals to persist at the leading companies look feasible for the foreseeable future.

The U.S. economy is showing signs of decelerating with consumer spending softening and consumer credit delinquencies increasing. While lower interest rates have allowed mortgage rates to drift to the lowest level in the last 18 months, elevated housing prices have prevented a meaningful rise in home sales. With companies being less aggressive on new hiring, a conservative approach by employers and consumers would tend to support a less robust outlook. Wage growth has decelerated from the torrid pace in 2022 and 2023, but has been stable this year. The September jobs report maintained unemployment at 4.1% with higher than expected job growth and labor participation stabilizing. While the unemployment rate remains at the highest level over the last 33 months, it remains low on a historical basis and economic trends support stable future job data.

Interest rates peaked at the end of April and have had a steady decline as domestic and global economic data slowed. The September Fed interest rate cut was perceived as moving away from being focused on fighting inflation and towards supporting stable employment going forward. Future data will determine if the pace of interest rate moves can be gradual or more aggressive based on whether economic trends show any significant deterioration.

European and Asian economies continue to struggle to regain solid footing with lackluster growth and stubborn inflation. In early June, the ECB reduced short-term interest rates to support its European economies experiencing uneven economic progress. China most recently instituted a significant stimulus program to stabilize its moribund housing and manufacturing areas of the economy. The Chinese stock market rose 25% within four days after announcing the stimulus packages. Based upon the structural problems in China, this appears to be an emergency policy reaction.

Israel has broadened its response to Hamas' invasion last October, and has materially impacted the entire Middle East region. The U.S. has urged Israel to seek a diplomatic solution, but recent intensification has raised concerns of a longer and more extensive war. The Russian invasion is now in its 32nd month with no end in sight. Despite horrendous casualties and damage to Ukrainian infrastructure, Russian gains have been minimal since their initial gains in the Spring of 2022. The end game remains highly uncertain but there are clearly potential scenarios that would be problematic for investors.

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%).

Broader Equity Market is Positive, but Risks Remain (cont.)

There were dramatic results in elections in France and Britain in July, where Britain's center-left Labour Party swept away the long-ruling conservatives in a landslide. Whereas in France, in a blow to the far right, voters beat back a surge from Marine Le Pen's populist party National Rally. Fortunately for their citizens, the process is extremely quick and not drawn out as it is in America.

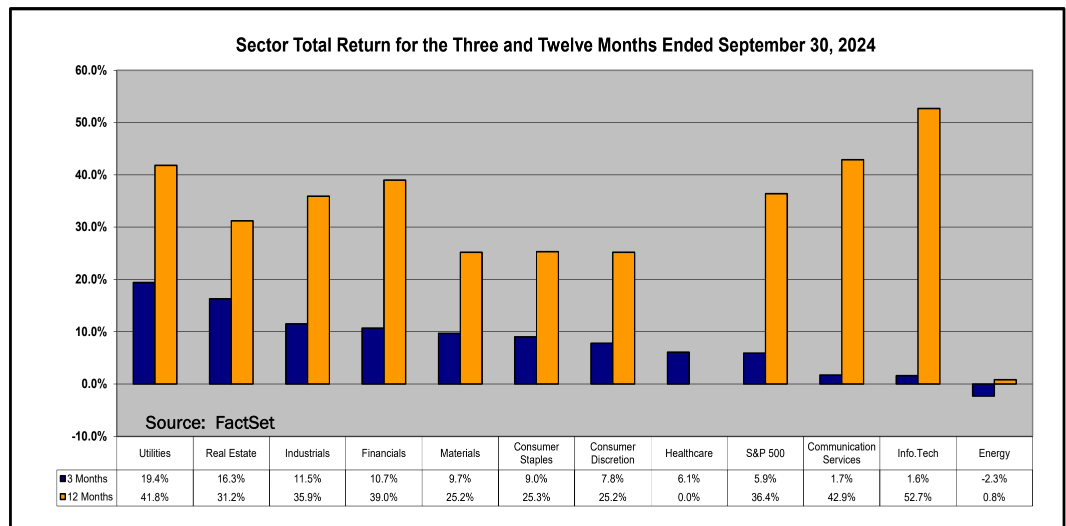
The U.S. is now entering the last four weeks of an election season with unique circumstances and with the majority of the electorate disappointed with the current state of affairs and candidate choices. National elections typically create elevated financial market volatility late in the summer and through election day in early November, which hasn't played out thus far. For many reasons, the 2024 election can be viewed as anything but typical and a reason for proactive risk minimization. Congressional balance of power will also be closely scrutinized by investors and the electorate, especially with record deficits and higher financing costs of the national debt.

Corporate profit expectations are a key determinant in valuing stocks. The third quarter 2024 reports due over the next seven weeks are expected to produce a 1.1% increase from the 2nd quarter of 2024, and more than a 4% rise when compared to the 3rd quarter of 2023 for the S&P 500. Current expectations are for all four quarters to be higher in 2024 versus 2023 and up 10% for the year. The large mega-capitalization technology stocks are expected to be leaders again in driving earnings growth. The S&P 500 current price-earnings ratio, ranging between 23 and 24 times based upon current earnings estimates, is above the long term average 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 discount at 17 times estimated earnings. Historically, Small and Mid-Capitalization stocks trade at a premium multiple versus the S&P 500, however current expected earnings growth is subpar compared to large cap stocks.

Oil prices reached a three year low in early September and have remained in the $70 to $90 per barrel trading range over the last 24 months and recently dipped below $70. The decelerating economic data globally and rising domestic inventories have kept oil prices lower. Gasoline prices peaked in late spring as refinery upgrades typically increase capacity and inventories. The lower price at the pump has extended into fall, which is helpful to consumers and transportation focused companies. There has been no disruptive weather events impacting the energy complex in the Gulf of Mexico to date. Hurricane season typically ends in late October/early November and brings us closer to escaping for a second year without any major disruption to the energy infrastructure. U.S. Natural Gas dipped below $2/mcf in April after near record warm winter season in North America. The price of U.S. Natural gas has only dipped below $2 three times within the last 25 years.

For the quarter, the S&P 500 (total return) was up 5.9%, while the Dow Jones Industrial Average rose by 8.2% . The technology-heavy NASDAQ Composite increased by 2.8% in the quarter. The S&P 600 Small Cap Index increased by 10.1%% and the S&P 400 Mid-Cap by 6.9% in the quarter. Developed international markets rose by 7.3% and emerging markets increased by 7.7% for the quarter.

To illustrate the broadening of performance in the quarter, 8 of the 11 sectors within the S&P 500 outperformed. While the Technology and Communication services groups lagged in the quarter, they remain performance leaders on a twelve month basis. The market value concentration of those two sectors impacts returns both ways for the broader index averages. The interest sensitive sectors of Utilities, Real Estate and Financials reacted positively to the decline in interest rates. The potential for reduced financing cost also allowed Industrial and Materials companies to outperform in the quarter. The energy sector was the only sector to decline in the quarter and has been marginally positive for the trailing twelve months driven by the price of oil near 15 month lows. The chart below illustrates how all the sectors performed in the quarter and for the trailing twelve months.



	Utilities	Real Estate	Industrials	Financials	Materials	Consumer Staples	Consumer Discretion	Healthcare	S&P 500	Communication Services	Info.Tech	Energy
3 Months	19.4%	16.3%	11.5%	10.7%	9.7%	9.0%	7.8%	6.1%	5.9%	1.7%	1.6%	-2.3%
12 Months	41.8%	31.2%	35.9%	39.0%	25.2%	25.3%	25.2%	0.0%	36.4%	42.9%	52.7%	0.8%

ARCATAUR CAPITAL

Fed Actions Signal A Soft Landing Is Still Possible

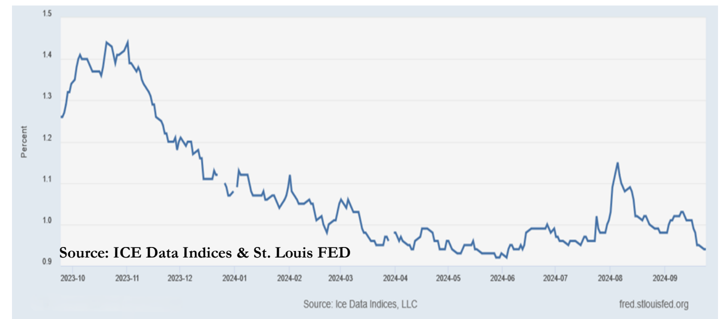
During third quarter, yields went on a wild ride in anticipation of potential Fed rate cuts and softer economic data. Shorter term yields moved down nearly 1.1% from the end of June while longer maturities yield declined by 0.7%. Bond yields are now down to levels not seen since the spring of 2023. The 2-year Treasury bond yielded 4.76% at the beginning of the third quarter and ended at 3.64%, while the 10-year Treasury bond started July yielding 4.48% and ended at 3.79%. When interest rates decline, like they did this quarter, bond prices rise producing solid positive returns in fixed income holdings. Typically, investors anticipate such moves as the bond market reacts much faster to economic data than the Fed. As such, the Fed 'officially' reduced the Federal Funds rate (overnight interest rates to banks) in mid-September, months after the declines in the fixed income markets.

The yield curve, which has been inverted (short term interest rates higher than longer maturities) since July 2022, normalized and is now steepening with longer maturity bonds, for the most part, having higher yields than shorter term maturities. The yield curve began to steepen in the 3rd quarter, and the 10-year yield is now above the 2-year yield. It is normal for investors to demand higher yields on longer maturities. This is known as a 'term premium', where investors account for taking inflation, economic, and financial risks while also requiring appropriate compensation to lock in yields for a longer periods. The normalization of the yield curve is welcomed, and we anticipate a continued steepening of the yield curve as the Fed continues to cut interest rates.

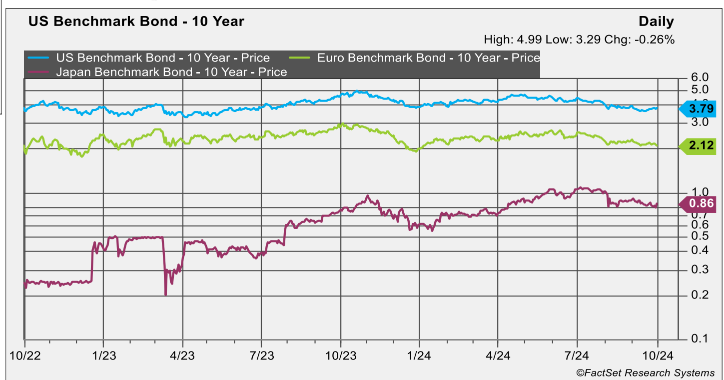
Global investors were anticipating that the Federal Reserve was going to start reducing interest rates at its September meeting. It was widely expected that the Fed would cut interest rates, but investors questioned whether the reduction would be 0.25% or 0.50%. Despite fairly resilient economic data, the Fed decided to cut the Federal Funds Rate 0.50 basis points to a range of 4.75 – 5.00%. The Fed stated in their comments that they continue to support maximum employment and an inflation target of 2%. Fed Chair Jerome Powell stated that the decision to cut by half of one percent was largely due to the softer July and August employment reports and payroll revisions. In the Fed's Summary of Economic Projections (SEP), the FOMC is forecasting an additional 0.50% of cuts in 2024, a full 1% in 2025, and 0.50% in 2026, lowering the Fed Funds Rate to 2.75%. The Fed also updated other economic projections, as they see unemployment rising to 4.4% in 2024, followed by fairly steady rates of 4.4%, 4.3%, and 4.2% from 2025-2027. They are projecting GDP to drop to 2% in 2024, 0.1% lower than they projected in June, and lower than the 2.2% GDP reading in the first half of the year. Future changes continue to be dependent on key economic data, such as inflation, unemployment, and GDP readings. However, given the current environment and forward expectations, the Fed has signaled a strong bias to continue to lower the Federal Funds Rate going forward.

Corporate bond spreads (the yield premium required for taking on default risk in corporate bonds) were relatively flat in the second quarter, but a bit more volatile in the third quarter. When Treasury bond yields began the rapid descent, corporate spreads increased slightly, but then declined and are currently at the levels realized at the end of the second quarter. The following chart illustrates the initial widening of spreads in late July and early August. With spreads declining back towards historical lows recently, corporate bonds are less attractive, however they do still provide incremental yield relative to treasury securities. With the economy slowing, there may be an opportunity for credit spreads to move higher from these low levels providing more incentive to own corporate bonds. We continue to focus on identifying quality corporate bonds that provide incremental yields and reasonable credit risks for clients relative to Treasury bonds or money market options.

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



A number of global monetary authorities started reducing interest rates prior to the U.S. that produced similar financial market reactions experienced after the Fed's move in mid– September. Yields in the EU and Japanese markets dropped in the third quarter, highlighted by the drastic decline in early August. The chart below highlights the movements in yields in Europe, Japan, and the U.S. The U.S. economy remains more resilient compared to other developed markets, with inflation continuing to decline, low unemployment, and a relative healthy consumer. At least for now, many developed global economies are struggling to avoid a real recession. There is a potential impact to the U.S. economy if weakness in larger foreign economies spillover. Finally, while inflation feels broadly under control, excessive government spending, demographics, and geopolitical disruptions could pose risks that could keep inflation above desired levels.



During the last three months, anticipating lower short-term interest rates, our team was proactive by investing cash in shorter Treasury notes to lock in safer and higher yields for clients. With interest rates currently hovering between 3.5% to 3.8% for maturities ranging between 2 and 10 years, we expect a steepening of the curve to incur over time, from a continuation of the decline in short-term interest rates, and a steadier climb in long-term interest rates. With the ever-changing yield curve, we are patient putting client's idle cash to work, investing in the money market which continues to yield near 4.7%, which will decline as the Fed cuts rates. Our expectations of higher bond yields for longer maturities could produce better investment opportunities for higher quality corporate bonds that offer a reasonable risk adjusted returns over Treasury securities. Despite the recent decline in bond yields, there is still the opportunity to exceed inflation in the bond market over most time horizons. The overall quality of established client fixed income portfolios is single-A, aggregate average duration is 3.5 years, with a yield to maturity of 4.3%, and with sufficient liquidity to take advantage of future opportunities.

Fourth Quarter 2024 Investment Outlook

Historically, October has been the most volatile month and produces the lowest average monthly returns for the U.S. stock market, especially for years including a national election. With the intensifying geopolitical conflict in the Middle East and organized labor exerting leverage for higher wages, investors should expect increased market volatility with equities near all-time high levels. The proposed agreement to avert the Port Workers strike minimizes the concerns of disruptions in the normal flow of goods and the potential impact on trade, product availability and inflationary pressures if agreed upon by January 15th.

Another reason for higher market volatility in the fall relates to investor's focus on future corporate profits and economic outlook for the next calendar year. Currently, consensus earnings estimates for the S&P 500 is a robust +15% rise in 2025 following a 10% expected increase for all of 2024, which is an acceleration from what we have seen so far this year. If there are events that would be destabilizing to the domestic economy, the corporate profit outlook would be an additional risk for investors.

The U.S. economy has demonstrated significant resilience with relatively stable employment allowing consumer spending to remain positive. The early outlook on holiday spending in the U.S. is for a 7% increase over last year. While there is a concern that a meaningful economic deceleration may occur in the New Year, it is not likely to reach recessionary levels.

Geopolitical conflicts, economic weakness in Europe and Asia, and the partial reversal of 40 years of increasing free global trade have impacted other regions more than the U.S.. Europe and Asia have struggled to minimize recessionary forces, which could impact the U.S. economy if global trends deteriorate. The rise in the U.S. dollar continues to reflect our relative strength versus other global economies.

History has taught investors that perceived early beneficiaries of new transformative technology, such as Artificial Intelligence (AI), may not necessarily be the dominant companies in the future. Our clients have exposure to the current leaders, however our experience has taught us to tread carefully with elevated valuations and an uncertain timeline for the impact of a new technology's fundamental benefits to be realized. It is interesting that the recent strikes by the Boeing machinists and Port union workers are focused around limiting automation opportunities that could reduce human labor.

Expectations are for an increase in market volatility over the coming weeks, continued disinflation that will lead to lower interest rates, and a less robust employment outlook, which could cause a marginal rise in unemployment. Concern around a weaker employment environment was a primary driver of the Federal Reserve's pivot to reduce interest rates by 0.5% in September.

National elections can materially change the status quo. The French, UK, and Iranian elections have provided a glimpse of a dissatisfied electorate. The U.S. elections for the Presidency and Congress are showing similar signs of dissatisfaction. While there are many issues in focus that are driving the candidate's messaging and appeal, the rising national debt and bloated federal spending will require a bipartisan response for any improvement.

Unemployment trends have remained near historically low levels, resulting in higher wages in the previous three years. Expectations are for a modest rise in unemployment in 2024. Historically, full employment was considered to be 5%, so a modest rise from 4% would not be extreme. The recent deceleration of wage growth and quit rate is indicating 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.

In the short run, lower interest rates with a stable U.S. economy supported a broadening in performance towards lagging lower valuation segments of the equity market. Less robust earnings results from the higher valued leaders could accentuate a correction. This is not our base case, however many of these stocks are priced for perfection.

The differential between the largest companies and the rest of the market still skews valuation analysis significantly. The probability of a normal 5 to 10% correction is elevated, with a potential of a recovery into year end and into the New Year. A stealth correction could ensue with continued outperformance by the broader market versus the larger mega-capitalization technology stocks. With stocks priced at richer valuations, they are incrementally more vulnerable to unexpected events and the normal election year seasonality.

International stocks offer somewhat attractive valuations, however, the economic outlook is less clear. The recent Chinese stimulus has invigorated investors, though the sustainability of the rally remains in question. Trade disputes and currency impacts are important for global investors to monitor.

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 by reducing into strength and is below the median of our diversified approach. Small and Mid-capitalization offer historical attractive valuations, however earnings quality and lower interest rates will be important for investors to pivot away from the large cap leaders.

The decline in interest rates/rise in bond prices have shifted the opportunities for bond investments. Client's well- diversified fixed income portfolios have performed well. Declining short-term and rising longer term interest rates can provide future investment opportunities. Based upon current market conditions, overall asset allocation is well diversified and provides ample liquidity to take advantage of incremental prospects that may arise.

U.S. Government Fiscal Financial Condition- Part 2: U.S. Government National Debt

Part 2 is focused on our thoughts relating to the U.S. deficit and record national debt along with possible ramifications if the problems worsen. It is important to note that neither candidate nor political party has been remiss to mention the budget deficit and growing national debt. This issue has been a central point of reference virtually every election since 1984, along with the mandate of discipline by the electorate relating to rising deficits and national debt. Furthermore, both candidates are advancing policies that will demonstrably increase budget deficits somewhere in the range of $4-6 trillion over their 4-year terms. The obvious and essentially only way to lower annual deficits is the need to reduce federal government spending and raise tax revenues or some combination of the two. With a Leviathan government there are many ways to do both of these things, but given neither presidential candidate nor political party is the least bit interested in enacting serious reform, it is only a matter of time before market and economic forces will require such action. Even if reducing deficits could be achieved, it will not reduce our national debt, but simply reduce the rate of increase in the national debt and the interest cost in the future to service the debt. The only way to reduce the national debt is to run actual budget surpluses, which was achieved in the mid-1990's and into the early 2000's. The most concerning aspect of rising debt and deficits involves the potential negative consequences that will surely result from excessive deficits and debt levels. These concerns have been recognized since the early 1980's with the dangers since the Reagan tax cuts in 1984 ushered in an era of "dangerous" deficits. Over the last 42 years, economists, financial market strategists and doomsayers have warned investors that deficits and excessive debt would be highly inflationary, crowd out private sector investment, and devalue our currency ultimately leading to the U.S. dollar losing its status as reserve currency that would lead to higher interest rates along with other challenges. The logical conclusion from much of such risks would impact financial markets (stocks and bonds) with a focus on alternatives such as gold or the push for cryptocurrency. More than 40 years later and an additional $30 Trillion in more debt have not created financial Armageddon, and financial assets continued to offer excellent investment returns. However, it would also be foolish ignoring the potential consequences from profligate government spending. Secular economic growth has diminished considerably over the last 40 years which is a reflection of a global reduction in population and birth rates and of the idea that increasing use of debt has diminishing returns as debt levels rise. There is also undoubtedly some crowding out of much more productive private investment as government debt balloons, as history teaches us that capital markets are a more efficient arbiter and allocator of capital than a government driven approach. As the Federal Reserve is approaching its 2% inflation target, there still has been significant reduction in purchasing power parity with the significant growth of government fiscal stimulus that continues long after when it was needed during the 2008 credit crisis and 2020 Covid shutdown. In fact, even on a worldwide basis, large budget deficits and massive government debts have not impacted global financial markets. As debt levels, and the interest cost to finance the debt, continue to rise as a percent of GDP, we are forced further into uncharted territory. What is the debt level "tipping point" that forces the government to get it's house in order? No one knows in advance, but the market's eventual consternation should provide an early signal and is something to monitor closely.

Arcataur Composite Investment Performance for the 3 Months, 12 Months, 3 Years, 5 Years & 10 Years Ended September 30, 2024

Arcataur Composite Portfolio	3 months	12 months	Total Return 3 yr. annualized 9/30/2024	5 yr. annualized	10 yr. annualized
Large Cap Direct Stock Equity	5.9%	34.6%	10.7%	15.5%	12.3%
Large Cap Equity ETF	5.7%	35.4%	11.2%	15.4%	13.0%
Benchmarks					
Morningstar Large Cap Core Average	5.9%	32.8%	10.1%	14.3%	11.8%
Dow Jones Industrial Average	8.2%	28.1%	9.7%	11.5%	11.8%
S&P 500	5.9%	36.4%	11.9%	16.0%	13.4%
S&P 100	4.7%	39.1%	13.3%	17.6%	14.0%

Arcataur Composite Portfolio	3 months	12 months	Total Return 3 yr. annualized 9/30/2024	5 yr. annualized	10 yr. annualized
Small Cap Equity	10.0%	25.8%	3.3%	9.6%	9.4%
Mid-Cap Equity	6.9%	26.4%	6.4%	10.8%	9.7%
Benchmarks					
Morningstar Small Cap Core Average	8.5%	25.0%	4.4%	10.2%	8.6%
S&P 600	10.1%	25.9%	4.0%	10.2%	10.1%
Morningstar Mid-Cap Core Average	8.3%	27.6%	6.7%	11.2%	9.9%
S&P 400	6.9%	26.8%	7.5%	11.8%	10.3%

Arcataur Composite Portfolio	3 months	12 months	Total Return 3 yr. annualized 9/30/2024	5 yr. annualized	10 yr. annualized
Fixed Income	3.9%	9.7%	-0.2%	1.3%	2.0%
Benchmarks					
Bloomberg Barclays 1-5 (T/G/C)	3.5%	8.1%	0.9%	1.5%	1.8%
Bloomberg Barclays Aggregate	5.2%	11.6%	-1.4%	0.3%	1.8%
Bloomberg Barclays 1-3 (T/G/C)	3.0%	7.2%	1.5%	1.7%	1.6%
Morningstar Core Bond Average	5.1%	11.6%	-1.4%	0.4%	1.8%

Arcataur Composite Portfolio	3 months	12 months	Total Return 3 yr. annualized 9/30/2024	5 yr. annualized	10 yr. annualized
Developed International Equity	7.0%	24.2%	4.6%	7.6%	5.2%
Emerging International Equity	9.6%	25.2%	1.1%	5.8%	3.6%
Benchmarks					
EAFE	7.3%	24.8%	5.5%	8.2%	5.7%
MSCI Emerging Market Index	7.7%	24.0%	-0.7%	4.7%	3.2%

Arcataur Composite Portfolio	3 months	12 months	Total Return 3 yr. annualized 9/30/2024	5 yr. annualized	10 yr. annualized
Total Equity*	6.9%	31.0%	8.1%	12.8%	10.7%

*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	Total Return 3 yr. annualized 9/30/2024	5 yr. annualized	10 yr. annualized
Managed Balance	5.7%	22.9%	5.3%	9.0%	7.8%
Benchmark					
Morningstar Balanced Fund Average	5.3%	22.0%	4.9%	8.0%	6.9%
60/40 Custom Index	5.6%	22.5%	5.7%	8.2%	7.6%

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 Morningstar 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 Morningstar 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 Morningstar 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 - Morningstar 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 Morningstar 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 Morningstar 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 Morningstar Balanced Fund Average, the Morningstar Large Cap Core Average, the Morningstar Bond Mutual Fund Average, the Morningstar Small Cap Core Average, and the Morningstar 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.

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

Copyright © 2024, Arcataur Capital Management LLC. All rights reserved. This material is proprietary and may not be reproduced, transferred or distributed in any form without prior written permission.