Volume 2023 Issue 1

First Quarter Review
March 2023

Arcataur Capital Management LLC
A Registered Investment Advisor

High Quality Investment Management
For Individuals and Institutions

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A Balanced Approach

Inflation Trending Lower, However Banking Disruption Creates Uncertainty

The difficult transition from fourteen years of suppressed interest rates by global central banks to a more market-based arbiter that reflects the true cost of capital hit a speedbump in the first quarter. Two regional banks failed in the U.S., and other banks needed to utilize the Fed's lending resources to maintain capital requirements. European banks have had similar issues as monetary authorities have aggressively raised interest rates to combat inflation leading to an erosion in capital, especially from the more risky and longer duration bonds held on bank balance sheets. Inflation peaked in July of 2022; however, the magnitude of the decline in inflation since then has not been sufficient to change Fed tightening policies.

Over the last nine months, the probability of a U.S. recession has gone from high last September, to low in February, and back to elevated odds with the recent bank concerns. Financial asset prices have reflected the shifting potential with increased volatility. Nonetheless, stock and bond indices achieved positive returns in the first quarter of 2023.

Financial markets are a discounting mechanism, which means that current prices reflect investor's expectations for the next 6 to 12 months. Given elevated uncertainties, asset prices will likely remain quite volatile in a broad trading range until more clarity is seen . Only when investors believe in a given outcome, either good or bad, with a significantly greater conviction, will financial assets make decisive moves. Historically, stock prices tend to rise as the Fed approaches an end of its interest rate tightening cycle or as a recession is confirmed by the National Bureau of Economic Research. Both or either are expected to potentially happen in the next 6 to 12 months.

The Fed's recent statement that the "U.S. banking system is sound and resilient," was followed by "recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation," with the added statement that the "extent of these effects is uncertain". We do not believe the current bank concerns are of the magnitude of the credit crisis of 2008 and the special section at the bottom of page 4 of this newsletter provides more details.

The Consumer Price Index is expected to be below 6% for March (reported on April 12th), declining from the 9.1% reading for June of 2022, which was the highest level in the previous 41 years. Commodity and raw material prices have led the decline, while selective food and shelter (housing and rent) and labor costs have remained elevated. Shelter is reported with a lag effect, so expectations are for future declines to be realized in this major component which accounts for nearly 40% of the CPI index. The Fed has kept the inflation target at 2% since 2009. Historically in the U.S., inflation has averaged between 3 to 4%, which may be a more realistic Fed target in the future.

The generational tightness in worker availability remains, however, it has become less acute as companies take a more conservative approach to employment needs. Early signs indicate that companies are more cautious with hiring, not filling vacancies, and reducing head count which is reflected in the recent job openings data and portends a less robust job market going forward. Demographics and the lack of a functional immigration policy could make this tough to resolve. Wage increases have somewhat diminished with the decelerating employment trends, which reduces inflation too.

Prior to the bank dislocation in early March, investors expected that the Fed would need to continue raising interest rates in March to address sticky inflation and to address the higher probability the economy would achieve a "soft-landing"- with slow but still positive economic growth.

After the announcement of trouble at Silicon Valley Bank (SVB), interest rates plummeted (bonds rallied) and stocks fell. Investors, in a flight to quality, moved into large capitalization technology stocks that had previously been lagging as expectations turned on a dime from hopes of a soft landing to fears of a normal to severe recession. In the following weeks in March, the broader banking outlook stabilized, which allowed stocks to recover somewhat, and interest rates rose modestly.

With the assumption that inflation continues to normalize and that the Fed is approaching a pause in future interest rate increases, investors will focus intensely on economic and employment data for clues for the coming months. Corporate profit expectations have decelerated and the upcoming first quarter reports will provide information and forward guidance that could provide either valuation support or further concerns for the market.

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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%).

Inflation Trending Lower, However Banking Disruption Creates Uncertainty

Prior to the banking concerns in early March, nearly 60% of economists were expecting a U.S. recession in 2023. Based upon the disruption and risk in the banks in March, future surveys are expected to show a higher probability of a recession, and incrementally deeper in magnitude. Employment trends remain stable as the most recently reported March unemployment of 3.5% stays at historical low levels. The March report included labor participation returning to pre-Covid levels, led by service and governmental job gains. Assuming the economy can avoid a significant rise in job losses, or another destabilizing financial event, a severe recession should be a more remote possibility in 2023. This report supports the Fed to incrementally raise interest rates at its May meeting to contain inflation.

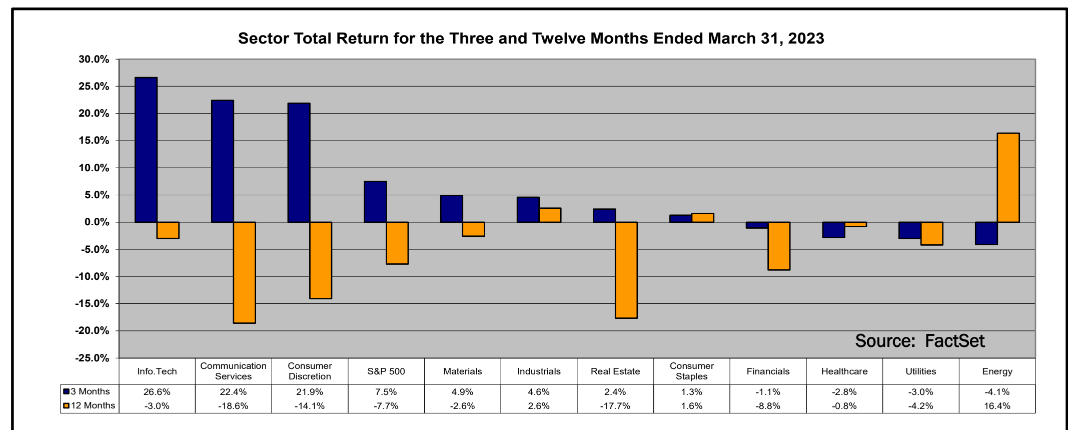
Escalating geopolitical risks, especially China's support for Russia, along with their attempts to ignore Taiwan's sovereignty to diminish U.S. influence globally is an important development and should not be ignored. With China being the second largest economy in the world, investors are also keenly aware of China's restrictive approach to Covid over the last three years which materially suppressed economic activity until recently. Economic activity has picked up in China, which could provide growth opportunities to Asia, Europe, and the entire world. For the last 30 years, China had modernized their communist country with broader open market principals. There has been a visible reversal with the unprecedented third term of President Xi, as the communist philosophy is now more obvious and highlights a growing challenge to the West and democratic free countries.

Corporate profit expectations, are a key determinant in valuing stocks. Investors are forecasting modest earnings growth for the S&P 500 of less than 3% in 2023 down slightly from the 5% growth realized in 2022. As was the case last year, outside of positive growth in the energy sector, the remaining S&P 500 sectors had a negative earnings growth. This year may bring a more material recovery in sectors such as technology, which is a larger component of the S&P 500, that could mask the underlying broader market weakness. The stock market's current price-earnings ratio ranges between 17 and 18 times based upon current earnings estimates, which is neither attractive nor expensive on a historical basis.

The mild winter in Europe and the U.S. allowed the countries to avert the concerns relating to winter heating cost due to the Russian invasion of Ukraine. Natural gas prices in the U.S., and more importantly in Europe, have fallen to pre-war levels, as storage levels are expected to be twice as high versus normal levels this spring. Global oil prices traded within a range between $65 and $90 per barrel in the last six months and are currently above $80 as OPEC+ unexpectedly reduced production in early April. This was advertised as a preemptive move in the event of a global recession. However the U.S. strategy of waiting for lower prices to replenish the strategic petroleum reserve hasn't panned out and pushed prices higher. U.S. gasoline inventories have declined recently and are near seasonal low levels related to refinery maintenance and seasonal formulation changes. With the higher cost of crude oil, the price at the pump is expected to be higher as Americans approach the summer driving season, which is an unwelcome inflation reminder nearly everyone experiences weekly.

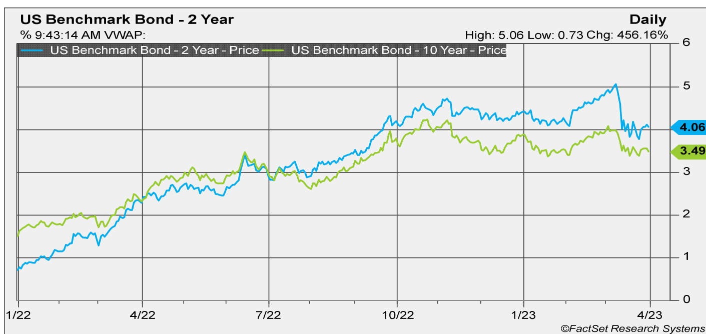
For the quarter, the S&P 500 (total return) was up 7.5%, and the Dow Jones Industrial Average lagged up only 0.9%. The technology-heavy NASDAQ Composite significantly outperformed the broader averages, up 17% in the quarter. The S&P 600 Small Cap Index increased by 2.6% and the S&P 400 Mid-Cap was up 3.8% in the quarter. Developed international markets rose 8.5% and emerging markets were up 4.1% for the quarter.

The lagging sectors in 2022, Information Technology, Communications, and Consumer Durables had a significant recovery in the quarter. The flight to quality in the mega-capitalization technology and communication stocks, along with a 68% recovery in Tesla, paced the Consumer Durable sector recovery. The laggards in the first quarter were the Financial sector with the March banking disruptions, and the defensive sectors of Healthcare and Utilities, along with the previous leader the Energy sector though it remains a top performing sector on a 12 months basis. The chart below illustrates how all the sectors performed in the quarter and for the trailing twelve months.



High Wire Act - Balancing Bank Risks vs. Continuing to Fight Inflation

The unprecedented bond bear market of 2022 may have ended as interest rates reached a peak in early March. Higher and stickier inflation drove the Fed to raise Fed Funds rates from near 0% to 5.00% in twelve months from March 2022 to March 2023. This was illustrated by the 2-year Treasury note yield rising from 0.73% on 12/31/21 to an above 5% peak in early March 2023, only to snap down near 4% to end this quarter. To say yields have been volatile of late is an understatement. Yields on both the 2 and 10-year Treasury bonds fell during January but rose significantly in February due to the Fed's actions and commentary on inflation. Yields on the 2-year Treasury bond fell dramatically from 5.06% on March 8th to 4.06% at the end of the month. The 10-year followed suit, going from a high of 4.08% on March 2nd to 3.49% at the end of the month. The spread between the 2-year and 10-year has been inverted (the 2-year yield being higher than the 10-year yield) for over a year now, which historically is a strong indicator of a recession. Before yields dropped in March, the spread between the two was at near historical highs over 1%. At the end of March, the spread narrowed significantly to 0.57%. While the inversion is now smaller, it still signals recession risk and the quick downward move in interest rates likely indicates slowing economic growth, which should also help lower inflation. While investors remain concerned with all the interest rate volatility, thus far, nominal economic growth has remained positive and is expected to be above 2% in the first quarter of the year. It typically takes time for an inverted yield curve to impact the economy.



The Federal Reserve was in the spotlight in the fixed income market during the first quarter. There were two FOMC meetings where their rate decisions were driving factors impacting yields. In the January meeting, the Fed raised the Federal Funds rate by 0.25%, emphasizing there was more work that needed to be done to tame inflation and bring demand back in line with supply. The committee stated that there would be further interest rate increases if deemed appropriate. Yet, six weeks later and prior to the March FOMC meeting, markets reacted quickly to the run on bank deposits on a few regional banks in the U.S. This heightened fears that the Fed was raising interest rates too much and was hurting the banking sector's ability to maintain safe capital levels. Despite this, the Fed decided to continue their interest rate hiking program and raised rates by another 0.25%, below the 0.5% expected prior to the stress in the banking system.

Fed Chair Jerome Powell, at the press conference after the March FOMC meeting, highlighted a weaker economic outlook for the remainder of the year, but continued to press the notion that we could still avoid recession. Bringing down inflation to the Fed's target of 2% remains its focus. He did acknowledge that banking stress could decrease loan availability and slow economic growth. Future Fed action would take that under consideration and could make them less likely to continue with more rate hikes. The FOMC will consider further increases depending upon inflation and economic conditions over the coming months.

In regard to the banking sector, Powell stated that both depositors and the banking system are safe. However, tighter financial conditions may cause additional stress to both consumers and banks, as well as leading to lower economic activity. This remains a precarious time for the Federal Reserve and weakening economic conditions could require the Fed to take a different course of action.

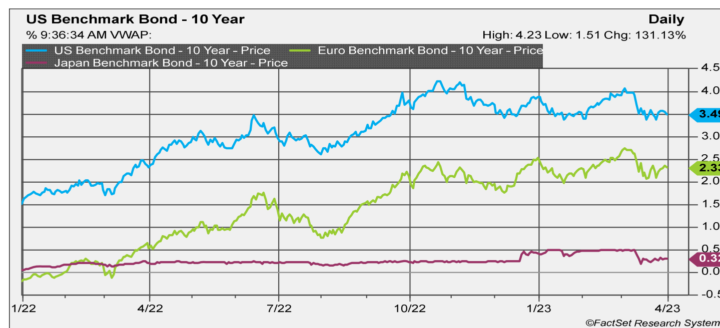
Although investment grade corporate bond yields ended the quarter essentially flat, significant variability occurred over the past 3 months. Corporate bond yields peaked in late fall of 2022, as both Treasury yields and corporate bond spreads (yield above Treasury bonds) rose in unison. From late fall 2022 to February of 2023, the decline in corporate bond yields was driven by a meaningful decline in corporate bond spreads and some decline in Treasury bond yields. As inflation surprised to the upside in January, investors required a quick rise in Treasury notes, which pushed corporate yields higher. When the Silicon Valley Bank and Signature Bank collapsed in early March, along with increased concerns about other regional banks, a flight to quality was created resulting in a quick decline in Treasury yields, along with a corresponding increase of corporate bond spreads for higher credit risk as illustrated in the chart below.

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

Source: ICE Data Indices & St. Louis FED

The combined decrease in Treasury yields and a smaller increase in corporate bond spreads led to a decline in corporate bond yields to finish a wild ride in the first quarter of 2023. If the economy slows, it is likely that corporate spreads would continue to increase, as the market has heightened concerns of credit risk. However, if inflation continues to fall, Treasury yields could decline more going forward. This give and take suggests that corporate yields could be relatively flat in the coming months and quarters.

Similar to the U.S., international monetary authorities have been aggressively fighting inflation by raising interest rates. As such, these economies are experiencing much higher bond yields versus the previous stance of negative nominal interest rates. The EU has mostly mirrored the U.S. moves in interest rates over the past two years, as highlighted in the chart below, but started off from lower levels. Japan's central bank was committed to a zero interest rate policy, but due to inflation, had to raise their limit to 0.5%. Yet, since banking troubles have emerged, yields in all three markets have dropped considerably, as highlighted by the far right of the chart below. Global recession fears remain high, as continued uneasiness with the ongoing war in Ukraine, China's rhetoric towards Taiwan, unrest in the Middle East, higher inflation expectations, and labor issues in Europe persist. We expect continued fluctuations in yields throughout the year, as the level of global uncertainty remains high.



Taking advantage of higher yields in the fixed income market has been beneficial to client's bond portfolios. Our patient approach has proved prudent, as investing in bonds with ultra-low yields in 2021 would have been detrimental to clients. We continue to take advantage of these higher yields to lock in Treasuries across the bond maturity ladder, making sure clients have adequate exposure to take advantage of the everchanging yield curve, one that continues to be inverted. Across corporate bonds, we continue to invest in solid investment grade bonds that we are comfortable holding for an extended period of time, earning yields above Treasuries to diversify client's portfolios while earning a significant rate of return in a safe investment. We will continue to be patient and prudent in the fixed income market, as the Fed's decisions and economic factors will continue to play a major role in interest rates going forward. The overall quality of the fixed income portfolio is single A, the aggregate average duration is 3.9 years, and liquidity and future maturities remains sufficient to take advantage of further opportunities going forward.

Second Quarter 2023 Investment Outlook

The stock and bond market displayed remarkable resilience by producing solid returns in the first quarter despite numerous challenges. The S&P 500 ended the quarter at the upper end of the trading range over the previous year. Investor sentiment and the economic outlook remain pessimistic looking towards the next 6 to 12 months relating to economic and corporate profit expectations.

This divergence between outlook and expectation is not sustainable for a long period of time. Upcoming economic data and corporate profit reports can be important in determining if the pessimistic outlook is warranted or if stability and a sustainable improvement is on the horizon.

The dramatic rise in interest rates over the last 16 months has provided improved real (inflation adjusted) yields from bonds not seen in the last 15 years. Maintaining a properly diversified and well-balanced portfolio is extremely important, especially with the current uncertainty.

Strong employment gains, Covid cash savings and higher wages have been a primary factor in supporting economic stability and a basis for continued growth. Resilient consumer spending has remained at levels supportive of a stable and growing economy thus far.

For the bond market, the concerns about the banking system reversed yields lower (bond prices rose), however with the banking concerns somewhat diminishing, inflation and economic trends will likely be the leading determinant for the direction of interest rates. The most recent reading of the PCE - Personal Consumption Expenditures Price Index - was slightly lower than expected. The PCE is one of the leading indicators for the Fed, which if other inflation readings in the coming weeks and months show lower inflation trends, the bond market could continue its recovery.

Corporate profits are critical for valuing equities. Current expectations are subdued for the coming quarters. Declines in corporate profits in 2023 are a concern for investors, especially if there is a significant slow down in economic activity and a recession can not be avoided. Higher inflation has supported nominal revenue growth and hiring employees; however as inflation falls, both could be negatively impacted. Sales growth has been significantly stronger than earnings growth, indicating building pressure on profit margins.

Currently, 2023 S&P 500 earnings growth forecasts are for less than 2% versus last year and are back-end loaded. The upcoming first quarter reports and forward guidance will be important. We would expect more conservative guidance in general.

Stocks have historically bottomed before corporate earnings troughs, even though volatility increases as companies reduce profit forecasts, especially in periods of rising unemployment. The recent decline in the U.S. dollar from high levels could be an incremental benefit to multinational companies' earnings. Stabilization in the weak domestic housing market and purchasing managers index could signal a better corporate profit outlook than anticipated as we move through the year.

Capital investment has increased significantly and is expected to continue to rise. This is unusual with the elevated recession risk. While global supply chain interruptions have improved, investments in domestic supply, automation, and new technologies are expected to remain at elevated levels for the foreseeable future.

With the clear evidence of inflation peaking, the challenge for investors remains the magnitude and timing of meaningful declines in economic growth and employment, and how that impacts the financial markets.

The geopolitical unknowns pose significant additional risks and are a wildcard in terms of how these risks play out over time. While the focus has been on Russia over the last year, China's aspirations of broadening its global influence and challenging the U.S. continues. China's partnering with unpredictable adversaries and using a more heavy handed communist rule after growing its economy over the last 30 years of pseudo-free market concepts are a concern. The U.S. relationships in the Middle East have also become incrementally more adversarial and the effects of the recent significant reduction in OPEC + oil production can be viewed as a direct message to the U.S.

The political divide within the U.S. continues to deteriorate. The slight division of power in Washington will have an incremental impact on the government's agenda. Financial markets tend to react favorably to a divided government, as it minimizes the probability of destabilizing or significant legislation. The looming debt limit political difference looks like it won't be settled before the 11th hour or later, which could be destabilizing to confidence in the short run.

Historically speaking, annual stock market returns have averaged +13% after inflation peaks. In those cases where no recession followed, stocks were up 17%. Even in those periods with a recession, stocks still rose by 9%. While the current period is obscured by the extraordinary monetary policy of the last 14 years and the rebound from the Covid pandemic, the historical data indicates that investor and consumer outlook tends to improve with a normalization of inflation.

For our clients, total equity exposure remains slightly above average within targeted ranges. Rising interest rates over the last 9 months allowed for new investment opportunities, especially in the bond market, with more attractive valuations and higher yields. Incremental new investments in stocks and equity allocation will be monitored closely with the expected volatility in the coming months.

How the Current Banking Dislocation is Different than Previous Bank Crises

Over the last twelve months, the risk of collateral damage from the aggressive ratcheting up of interest rates by the Fed has been a concern of investors. Although speculative bubbles in cryptocurrencies, SPACs, meme and pandemic stocks all popped in 2022, they were not large enough to impact economic and financial market function. In early March, as Silicon Valley Bank (SVB), Signature Bank (SBNY), and First Republic Bank (FRC) in the U.S., and Credit Suisse (CS) of Switzerland, all happened within a matter of days with rising interest rates exposing risk management and capital inadequacy problems. These entities were sufficiently large, especially SVB and CS, that investor confidence in other 'similar' regional banks was severely shaken. To restore some degree of calm and confidence the U.S. Treasury, Federal Reserve and FDIC were forced to intervene, while bonds rallied dramatically (interest rates fell), reversing several months of tightening, and sharply inverting the yield curve. Similar to the Great Financial Crisis (GFC) of 2008, the Fed created a new facility, the Bank Term Funding Program (BTFB), to increase available liquidity to all banks, especially those with significant amount of unrealized losses of long term government bonds, whereas customers looked to withdraw deposits would have forced selling bonds, realizing losses, and eroding capital. The current concerns of this banking problem are different from 2008 or the prior Savings and Loan crisis of the early 90's. Both earlier crises were caused by poor lending practices and required multi-year support to stabilize the banking system. The current banking problem involves deposit issues, along with mismatching assets on the bank's balance sheet that provides capital supporting normal bank operations. It is expected and hoped that the issues today may be resolved in a much shorter time frame. The three U.S. banks all shared the common attribute of sizable technology and/or cryptocurrency related business and very rapid growth in the boom times coming out of the pandemic in late 2020 and 2021. All attracted sizable deposits with many accounts in excess of the FDIC insurance limit of $250,000. All three extended the maturity of their investments to increase yields. They were highly exposed to rising interest rates and, as rates rose sharply in 2022, SVB's bond portfolio suffered significant unrealized losses. SVB sold bonds to Goldman Sachs and then attempted an equity offering to plug the capital hole. When customers and investors learned of the equity deal, panic ensued and the current banking crisis began. In the modern age of internet banking, investors can move money far faster than banks and regulators can react, thereby intensifying the situation. The largest 15 U.S. banks did not have similar problems due to more stringent regulatory requirements. This crisis has exposed regional and local banks to more scrutiny going forward and could tighten the availability of loans for consumers and businesses in the economy. However, given the differences discussed, this is not likely to be of the magnitude seen in the financial crisis of 2008-2009.

Arcataur Composite Investment Performance for the 3 Months, 12 Months, 3 Years, 5 Years & 10 Years Ended March 31, 2023

Arcataur Composite Portfolio	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
	Total Return 3/31/2023				
Large Cap Direct Stock Equity	7.07%	-6.15%	20.33%	11.40%	11.71%
Large Cap Equity ETF	7.30%	-8.06%	18.04%	10.85%	11.96%
Benchmarks					
Lipper Large Cap Core	6.40%	-7.70%	17.30%	10.10%	11.20%
Dow Jones Industrial Average	0.91%	-2.15%	17.11%	8.80%	10.99%
S&P 500	7.50%	-7.73%	18.62%	11.19%	12.24%
S&P 100	10.06%	-8.93%	18.04%	11.86%	12.32%

Arcataur Composite Portfolio	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
	Total Return 3/31/2023				
Small Cap Equity	2.50%	-9.47%	21.05%	5.71%	9.26%
Mid-Cap Equity	3.69%	-6.20%	21.02%	6.99%	9.38%
Benchmarks					
Lipper Small Cap Core	2.70%	-7.70%	21.60%	5.50%	7.90%
S&P 600	2.57%	-8.82%	21.73%	6.30%	9.87%
Lipper Mid-Cap Core	2.40%	-7.10%	20.00%	6.90%	8.70%
S&P 400	3.81%	-5.12%	22.12%	7.67%	9.80%

Arcataur Composite Portfolio	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
	Total Return 3/31/2023				
Fixed Income	2.59%	-3.26%	-0.23%	0.97%	1.32%
Benchmarks					
Bloomberg Barclays 1-5 (T/G/C)	1.82%	-0.33%	-0.79%	1.32%	1.13%
Bloomberg Barclays Aggregate	2.96%	-4.78%	-2.77%	0.91%	1.36%
Bloomberg Barclays 1-3 (T/G/C)	1.51%	0.26%	-0.38%	1.26%	1.01%
Lipper Bond MF Avg.	2.70%	-3.50%	0.14%	1.30%	3.40%

Arcataur Composite Portfolio	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
	Total Return 3/31/2023				
Developed International Equity	8.17%	-2.57%	12.93%	2.93%	4.46%
Emerging International Equity	3.56%	-9.57%	8.80%	-0.70%	1.38%
Benchmarks					
EAFE	8.47%	-1.38%	12.99%	3.52%	5.00%
MSCI Emerging Market Index	4.12%	-10.52%	7.04%	-1.84%	1.35%

Arcataur Composite Portfolio	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
	Total Return 3/31/2023				
Total Equity*	5.80%	-7.32%	18.35%	8.47%	9.95%

*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 3/31/2023				
Managed Balance	4.70%	-5.61%	11.58%	6.10%	7.12%
Benchmark					
Lipper Balanced	3.90%	-6.10%	9.61%	4.40%	6.54%
60/40 Custom Index	4.67%	-4.30%	9.91%	5.49%	6.62%

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

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