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Third Quarter Review
September 2022

Arcataur Capital Management LLC
A Registered Investment Advisor

High Quality Investment Management For Individuals and Institutions

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Inside This Issue:

A Balanced Approach

Ending 14 Years of Easy Money is a Difficult Transition

The high-wire act by global Central Banks of fighting inflation with higher interest rates without jeopardizing economic growth continued during the third quarter. By mid-August, volatile trading sessions cut year-to-date losses in half for both stocks and bonds as falling commodities (oil, lumber, metals, etc.) led to investor optimism that inflation had possibly peaked. However, at the Federal Reserve's annual symposium in late August Fed Chairman Powell acknowledged that they had incorrectly forecasted economic and inflation rates twelve months prior, which now necessitated continued aggressive tightening. In response to those hawkish sentiments the rally faltered, and markets returned to bear market levels.

The August inflation report in early September unnerved traders and investors, as sticky shelter (housing and rent) prices, increasing food costs, and rising wages more than offset falling commodity prices to produce a slight rise in the overall inflation rate. This triggered additional increases in both interest rates and the U.S. dollar.

Yields on U.S. Treasury bonds rose to 15-year highs, led by the 2 and 3-year Treasury note, which reached 4.4% in late September. The U.S. dollar rose to a 20-year high versus other major currencies as the Russian invasion and China's zero Covid policy fueled concerns of a more severe economic slowdown and recession risk in Europe and Asia. With the economy slowing, tight global monetary policy and war-induced energy supply issues, the odds of an outright recession in Europe and possibly the U.S. in the coming 6 to 12 months have increased.

While the continued strength in the U.S. jobs data and our relative energy independence provides more stability to the domestic economy, the stubbornly high rate of inflation and the economic dislocations abroad will be difficult for the U.S. economy to overcome.

The past fourteen years of extraordinary monetary policy which produced nearly zero short-term interest rates along with the bond purchases to suppress longer term interest rates via quantitative easing (QE) is now in the process of being reversed.

Having the cost of money at historical, near zero, low levels provided the necessary stimulus to recover gradually from the 2008 credit crisis. When the Fed attempted to reduce this stimulus in 2017 and 2018, global monetary authorities did not follow suit as their economies were on the brink of a recession. The violent market reaction in late 2018 to Fed tightening caused the Fed to sharply reverse course and markets recovered quickly.

In March of 2020 with the initial economic shutdown to minimize the spread of Covid, financial markets convulsed at the uncertainty and the Fed doubled down on aggressive quantitative easing. This easing, along with fiscal stimulus that followed, allowed the economy to stabilize and then begin a significant recovery. By the summer of 2021, the U.S. housing market was booming, but the Fed deemed that the spike in inflation was transitory and held short term interest rates near zero and continued to buy longer term bonds. Only one year ago, the 10-year Treasury yield was 1.2% and 30-year mortgages were below 3%, as compared to current rates of 3.75% and over 7% respectively.

The global difference today versus 2018 is that European inflation rates are even higher than the U.S. due to their dependence on foreign energy, as Russia weaponized natural gas, curtailing European flows in hope of acquiescence of their quest to take over Ukraine. Nearly all foreign monetary authorities (with the exception of Japan) are also following the reversal of easy money to combat inflation. The United Kingdom's new Prime Minister Truss recently proposed tax cuts to be financed by debt issuance, causing a short-term British currency and debt crisis. This required the Bank of England to temporarily step in and support their Gilts and the Pound. It is contradictory moves such as this that confound global investors.

Financial markets are a discounting mechanism which attempt to incorporate key financial data (interest rates, inflation, economic growth, corporate profits, employment trends, etc.) in order to establish asset prices. The fluid nature of inflation, geopolitical volatility and concerns of future corporate profits and economic stability has traders reacting and extrapolating short term data points instantly. While there is no significant financial stress of the magnitude of 2008 and 2020, market volatility remains elevated and the very short-term focus held by investors is expected to continue.

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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%).

Ending 14 Years of Easy Money is a Difficult Transition (cont.)

Higher inflation is incrementally putting pressure on economic growth. Wages and food prices are keeping inflation statistics high, while commodity prices have declined. Supply chain interruptions have improved somewhat, however we are not back to 2019 standards. China's zero Covid strategy with lockdowns has hamstrung supply chains for materials and finished products. China's support for Russia's territorial ambitions has also raised geopolitical concerns over possible Chinese direct control of Taiwan, a country with a significant and essential semiconductor manufacturing market share.

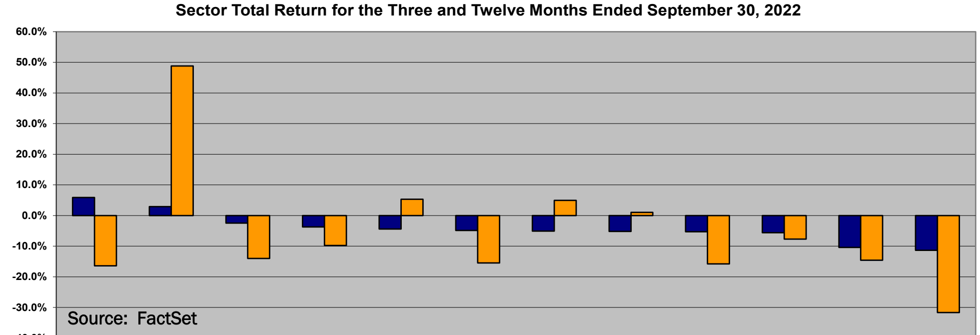
Global oil prices traded above $130 per barrel in early March, and fell below $80 in late September with stable supply and curtailed demand. In early October, OPEC + agreed to it largest production cut since 2020 of 2 million bpd (barrels per day). While the effective impact is actually closer to 1 million bpd, global oil prices moved up over $90 on the news. The new price caps on Russian oil complicates the supply/demand forecasts as well. Initial sanctions imposed on Russia have been circumvented by the willingness of China, India, and other countries to buy Russian oil. Passing the peak of the normal hurricane season without a major disruption to production and refining of oil and natural gas in the Gulf of Mexico has allowed for price stability as we enter the North American winter heating season. European winter natural gas storage is approaching normal levels, however below normal availability and colder weather in the coming 6 months is a major risk.

Employment trends and wage growth are likely to be primary determinants of the economic trajectory in the coming years. Employment gains have decelerated somewhat, but remain above historical levels currently with near record low unemployment of 3.5%. Early signs of companies being more conservative with hiring, not filling vacancies, and reducing head count is reflected in the recent job openings data and portends a less robust job market. While wages are growing fastest for lower paying jobs that were most impacted by the Covid shut down, demographics and skillset mismatches could still be evident in a rising unemployment environment that an economic recession would create.

For the quarter, the S&P 500 (total return) was down 4.9%, and the Dow Jones Industrial Average fell by 6.2%. The technology-heavy NASDAQ Composite declined by 3.9% in the quarter. The S&P 600 Small Cap Index fell by 5.2% and the S&P 400 Mid-Cap was down 2.5% in the third quarter. Developed international markets fell, down 9.4% and emerging markets were off, down 13% for the quarter.

Sector performance for the quarter was fairly uniform with the exception of the energy and consumer discretionary sectors which had positive returns; however the consumer discretionary sector was significantly boosted by its 2nd largest holding, Tesla, up over 18%. Defensive sectors (health care, utilities and consumer staples) and energy are the only areas with positive returns for the trailing 12 months. Those four sectors produced positive returns over the last year, with energy continuing to provide significant outperformance, but represent less than 5% of the S&P 500. Technology and Communication Services sectors have a combined weighting of nearly 30%, including some of the largest holdings in the S&P 500, and have been laggards due to being a source of liquidity and index selling pressure. Communications services remains the largest underperformer, as three of that sector's largest weights, Alphabet (Google), Meta Platforms (Facebook) and Disney, have been significant laggards. The chart below illustrates how all the sectors performed in the quarter and for the trailing twelve months.

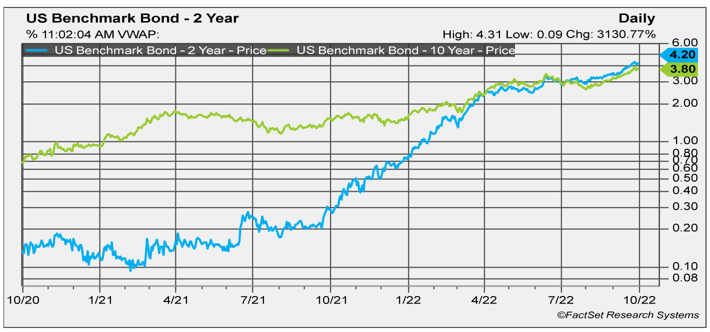
Sector Total Return for the Three and Twelve Months Ended September 30, 2022



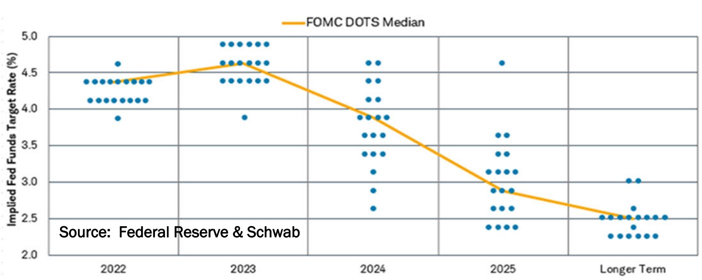
	Consumer Discretion	Energy	Financials	Industrials	Healthcare	S&P 500	Utilities	Consumer Staples	Info.Tech	Materials	Real Estate	Communication Services
3 Months	5.9%	2.9%	-2.5%	-3.7%	-4.4%	-4.9%	-5.1%	-5.2%	-5.3%	-5.6%	-10.4%	-11.4%
12 Months	-16.4%	48.8%	-14.0%	-9.8%	5.3%	-15.5%	4.9%	1.0%	-15.8%	-7.7%	-14.6%	-31.7%

Investors Need to Respect the Historical Lessons of an Inverted Yield Curve

The bond market continued to see significant increases in interest rates, repeating the trend over the last nine months. While a pause in interest rates is possible after the recent trajectory, the Fed has recently communicated further increases will be required if inflation remains persistent and higher than expected. The 2-year Treasury bond began the quarter at 2.93% and ended the quarter at 4.27%. To put this rise in perspective, at quarter-end one year ago, the 2-year Treasury bond was yielding 0.29%. The 10-year Treasury bond has seen a similar rise, but not to the extent seen on the short-end of the curve. The 10-year Treasury bond began the quarter at 2.98% and ended the quarter at 3.83%. The yield curve inverts when shorter maturities have a higher yield than longer maturing bonds. The inversion of the yield curve is becoming more pronounced as the shorter end of the curve is seeing much higher rates, causing the spread to widen. The current spread between the two is (0.44)%. This is important, as an inverted yield curve is typically an indicator of a recession over the next 6-9 months. The positive news is with the jump in interest rates new bond investment opportunities dramatically improved at yields not available for the past 15 years, which produces higher levels of interest income.



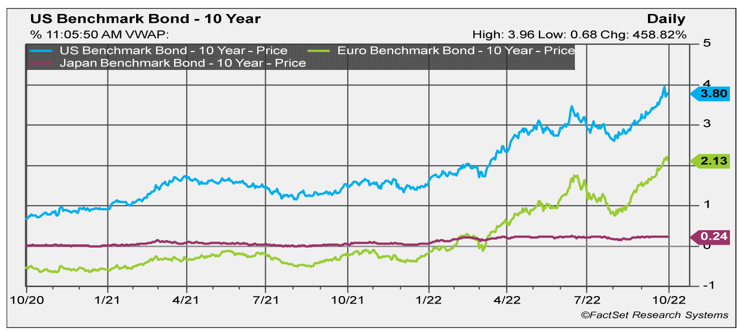
The Federal Reserve and the rate of inflation continues to be the focal point since early June. After convening in Jackson Hole in August, the Fed had their September FOMC meeting where they delivered another 0.75% interest rate hike of the Fed Funds Rate. Based on the FOMC's projections for bringing inflation down, they are projecting another 1.25% in interest rate increases for the remainder of 2022. This equates to another 0.75% hike at the Fed's November meeting (November 1-2) and then another 0.5% raise at their December meeting (December 13-14). The chart below highlights the Fed's projection or "Dot Plot", where each dot represents a FOMC member's projections for where the target Fed Funds rate should be going forward.



This highlights the fact that the Fed projects further interest rate increases will be required into 2023, then modest declines later in 2023. However, based on recent history and the state of the economy, these projections are subject to change. The Fed's biggest concern is bringing down inflation after the August CPI report produced a slight increase while a decline was anticipated. With a hotter-than-expected inflation report in August, the stock market declined precipitously, and interest rates rose to new highs (bond prices fell). This continuing trend led the Fed to deliver their Summary of Economic Projections (SEP) at the meeting, which included highlighting a 3.8% unemployment rate for 2022 – rising to 4.4% in 2023 – and a core PCI inflation of 4.5% in 2022 – dropping to 3.1% in 2023. One important aspect to note is that while the Fed's monetary actions operate on a lag in the economy and the decisions today might not be felt for another 2-3 quarters, the stock market discounts the actions immediately.

The Fed's aggressive push to raise interest rates to tame inflation likely makes it more difficult to achieve the 'soft landing' for the economy (slower growth, but not a recession) and does raise the risk of a potential recession as the higher funding costs will put pressure on economic growth. Currently, the Fed has more concerns about a long term inflation risk than a weaker economy. Volatility is expected to remain elevated in the bond market for the remainder of the year, especially near the next two Fed meetings.

The U.S. is not alone dealing with increasing interest rates. Nearly all developed markets (with the exception of Japan) are following suit and raising interest rates to attempt to reign in even higher rates of inflation. Europe is in a very difficult situation with the war in Ukraine creating a staggering rise in energy costs and without visible short-term solutions heading into winter. This will weigh on the economy across Europe and the rest of the global economy in the coming quarters. The change in interest rate policy has had a notable rise in the yields in Europe. The 10-year EU Bond yield was below 0% at the beginning of the year and is now above 2%. The Japanese 10-year bond has not moved as much, as Japan has been focused on keeping interest rates anchored near 0% for a considerable time. Rates on Japanese 10-year bonds are at 0.25%, which is still a strong rise off 0% considering their objectives. The chart below highlights the 10-year U.S. Treasury Bond compared to their EU and JPY counterparts.



Investment grade corporate bond yields have also been on the rise in 2022. Yields for corporate bonds that mature in 5-7 years started the year near 2% and are now yielding in the 5% range. (see chart below) The majority of this 3+% increase in was driven by the 2.5% increase in Treasury bond yields with the remaining 0.50-0.75% rise due to an increased in credit risk and spreads. Credit spreads are the incremental yield received to compensate for default risk when investing in corporate bonds.

When investing in bonds, it is important to remember that there is an inverse relationship between yields and price - when yields increase, bond prices fall and vice versa. As we continue to see this dramatic shift upwards in yields, bond prices have fallen, which have resulted in a negative return, or an unrealized loss, on paper. However, if held to maturity, the bond will pay off the original principal. Unless there is an unforeseen immediate need for liquidity, we generally hold bonds for clients until maturity. With the continued rise in yields, investing in both short-to-intermediate term Treasury bonds are delivering attractive yields that have not been seen in nearly 15 years. However, with the uncertainty surrounding both equity and bond markets and the economy, we remain prudent in finding bond investments, which provide reasonable returns and acceptable risk. The overall quality rating of the fixed income portfolio is single A, the aggregate weighted average duration is 4.1 years, and liquidity remains sufficient to take advantage of opportunities as they arise going forward.

Fourth Quarter 2022 Investment Outlook

Stock prices had a nearly 6% upturn in the first two trading days of October, somewhat recovering the drubbing in the last two weeks of September, but then gave back some of the gains quickly. Primary factors that support the stock market's earnings, cash flow, and interest rates are in a state of flux, and it is difficult to predict their trajectory over the coming quarters. Inflation trends and the reversal of 40 years of globalization by reshoring supply chains has the potential to pressure margins and cash flows. The Fed has set an aggressive course to contain inflation that has the capability to impact the strong employment trends. The lack of certainty and visibility has produced schizophrenic reactions by traders to the latest data and comments from the Fed.

So far, corporate profit growth has been stable this year, but the upcoming earnings reports for the third quarter are expected deliver more cautious guidance for the coming quarters. The ability to pass on rising costs for the most part have allowed profit margins to be maintained at the normal levels that have been reported over the past ten years for U.S. companies.

Capital investment has increased significantly this year and is expected to continue to rise. While supply chain interruptions have improved somewhat, investment in domestic supply, automation, and new technologies is expected to remain at elevated levels for the foreseeable future.

Many sources of inflation appear to be peaking, as a result of modest improvements in supply interruptions and falling commodity prices. However, the primary concern is the tightest labor market in the last 70 years which has been impacted by both the aging demographics and curtailed immigration that has fueled wage growth. The Fed's projection for a modest rise in unemployment from their recent rate increase guidance seems somewhat optimistic.

The timing and magnitude of meaningful declines in inflation and the resulting economic slowdown/recession impacts to employment is difficult to project. However, with quarter-end stock prices at 24 month lows and bond prices at 12 year lows, those with longer-term investment outlooks have improved risk and return potential.

The geopolitical unknowns pose significant additional risks and are a wildcard in terms of how these risks play out over time. Expectations for a quick victory at the outset of the Russian evasion of Ukraine did not materialize, and recent advancement by Ukraine increases the chance of drastic measures by Putin to save face.

China's position relating to Taiwan and the U.S.'s view in opposition has created another potential geo-political headwind. China's zero Covid policy, faltering real estate, and it's struggling Belt and Road investments have put pressure on the world's second largest economy. The U.S. relationships in the Middle East have become incrementally more adversarial as well. While the Biden Administration has attempted to reestablish the Iran nuclear agreement, this appears to be less likely, especially given the rising internal human rights protests within Iran.

A meaningful and sustainable decline in inflation could go a long way to stabilizing financial markets and providing an opportunity for a recovery from the current tandem bear market in both the global stock and bond market. Based upon current data, investors are not willing or prepared for a sudden shift in sentiment that has been particularly negative recently.

Historically, these dramatic declines in market sentiment provide investment opportunities, as risks are reflected in asset prices before future data starts to improve. Currently two significant determinates of market levels, inflation and corporate profit trends, need to be monitored closely to see if the current economic and market clouds pass to sunnier skies or if a more significant storm is on the horizon.

Annual stock market returns have averaged +13% after inflation peaks. In those cases where no recession followed, stocks were up 17%. Even 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, the historical data indicates that investor and consumer outlook tends to improve with a normalization of inflation.

The rise in the U.S. dollar can significantly impact multinational companies earnings, along with a contraction in overall economic activity relating to a recession. The duration and depth of a recession will have a direct impact on earnings and how to view current valuations for stock prices. We believe equity prices reflect a moderate to average recession today.

The mid-term elections November 8th are garnering less attention than normal by investors. Financial markets tend to react favorably to a divided government, as it minimizes the probability of destabilizing or significant legislation. Having more clarity on inflation, monetary policy, and geopolitics over the next 3 to 6 months could provide more direction in terms of economic growth, as well as risks and opportunities for financial markets.

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 repositioning towards small and mid-capitalization equities was a focus as opportunities arose.

Explaining the Extraordinary Monetary Experiment of QE and QT

Quantitative easing (QE) was first implemented by the U.S. Federal Reserve at the depths of the Great Financial Crisis (GFC) of 2008-09 when it appeared that even a drastic application of the Fed's primary monetary tool, lowering the Federal Funds (overnight bank lending) interest rates to near 0%, would not be sufficient to support the economy and fend off a deep recession. QE occurs when the Federal Reserve buys financial assets, usually treasury bonds and agency-backed mortgage securities, directly in the open markets. The dollars used to purchase these securities go directly onto the balance sheet of the seller that stimulate incremental economic activity and suppress longer term interest rates. Until 2008 the Fed maintained assets on its balance sheet at levels typically less than $1 trillion dollars. From November 2008 thru October 2014 the Fed did 3 rounds of QE totaling just over $3 trillion. As a result the asset side of the Fed's balance sheet grew to over $4 trillion. With the onset of the COVID 19 pandemic in early 2020 and the subsequent destabilization in global financial markets, the Fed implemented additional QE by purchasing $5.8 trillion of securities over the next 2 years as compared to the $3.1 trillion over 6 years in the wake of the credit crisis. Today the Fed's balance sheet has ballooned to nearly $9 trillion of securities, widely viewed as too high. The process of reducing the Fed's balance sheet is called quantitative tightening (QT). QT is the polar opposite of QE and is accomplished by allowing existing bonds to mature and roll off the balance sheet. This process reduces liquidity in the financial markets and is expected to push bond yields higher as the largest buyer in the market is no longer there. In the last 10 years the negative impact of QT has twice been experienced. In 2013 the aptly named "taper tantrum" occurred when then Fed Chairman Bernanke merely mentioned the possibility of QT and the stock market suffered a sharp, but short, sell off which ended with the Fed backing away from QT. As the U.S. economy stabilized by 2017, the Fed attempted to reduce assets held by $30 to $50 billion per month, but only achieved a small reduction to $3.5 trillion in 2018 before a weak global economy and a nearly 20% drop in the stock market forced new Fed Chairman Powell to end QT in early 2019. With the Fed's balance sheet now much larger at $9 trillion, the current QT plan is much larger starting at $47 billion in June 2022 and increasing to $95 billion per month in September. Given the markedly worse inflation situation we are now experiencing, the Fed is adamant that they will stay the course this time. At a $95 billion per month pace it will be a long time (about 4 years) until the Fed's balance sheet assets decline to pre-COVID levels below $4 trillion. As aggressive as the Fed has been over the last 15 years, it is fortunate that they didn't follow their European peers in driving interest rates below 0%. This caused great disruption in European capital markets while providing little, if any, stimulative effects on their economies. The Fed also did not follow the example of their Japanese counterparts who vastly expanded the range of assets they purchased with their QE efforts. The conclusion of the experiment of global extraordinary monetary policy is yet to be determined, however free market determination of interest rates is viewed to be healthier in the long run.

Arcataur Composite Investment Performance for the 3 Months, 12 Months, 3 Years, 5 Years & 10 Years Ended September 30, 2022

Arcataur Composite Portfolio	Total Return				
	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
			9/30/2022		
Large Cap Direct Stock Equity	-4.63%	-15.26%	8.68%	9.10%	10.89%
Large Cap Equity ETF	-5.09%	-16.11%	7.72%	8.88%	11.33%
Benchmarks					
Lipper Large Cap Core	-5.10%	-16.70%	6.50%	8.30%	10.60%
Dow Jones Industrial Average	-6.20%	-13.47%	4.20%	7.28%	10.30%
S&P 500	-4.88%	-15.47%	8.16%	9.24%	11.70%
S&P 100	-5.37%	-16.61%	8.90%	9.69%	11.44%

Arcataur Composite Portfolio	Total Return				
	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
			9/30/2022		
Fixed Income	-3.53%	-12.41%	-2.09%	-0.17%	0.98%
Benchmarks					
Bloomberg Barclays 1-5 (T/G/C)	-2.16%	-7.29%	-0.90%	0.55%	0.88%
Bloomberg Barclays Aggregate	-4.75%	-14.60%	-3.25%	-0.27%	0.89%
Bloomberg Barclays 1-3 (T/G/C)	-1.48%	-5.07%	-0.41%	0.70%	0.81%
Lipper Bond MF Avg.	-2.60%	-11.50%	-1.30%	0.30%	1.00%

Arcataur Composite Portfolio	Total Return				
	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
			9/30/2022		
Managed Balance	-4.66%	-15.27%	3.64%	4.47%	6.66%
Benchmark					
Lipper Balanced	-4.90%	-16.11%	1.90%	3.20%	4.00%
60/40 Custom Index	-4.51%	-13.25%	3.23%	4.46%	6.47%

Arcataur Composite Portfolio	Total Return				
	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
			9/30/2022		
Small Cap Equity	-5.13%	-19.70%	4.88%	4.20%	9.45%
Mid-Cap Equity	-2.72%	-16.66%	4.99%	5.24%	9.62%
Total Equity*	-5.59%	-17.90%	5.95%	6.39%	9.36%
Benchmarks					
Lipper Small Cap Core	-4.40%	-17.60%	4.30%	3.50%	8.10%
S&P 600	-5.20%	-18.83%	5.48%	4.84%	10.09%
Lipper Mid-Cap Core	-4.50%	-14.30%	5.00%	5.10%	9.00%
S&P 400	-2.46%	-15.25%	6.01%	5.82%	10.04%

Arcataur Composite Portfolio	Total Return				
	3 months	12 months	3 yr. annualized	5 yr. annualized	10 yr. annualized
			9/30/2022		
Developed International Equity	-10.67%	-25.87%	-2.20%	-1.33%	3.16%
Emerging International Equity	-11.42%	-25.06%	-1.31%	-1.43%	0.52%
Total Equity*	-5.59%	-17.90%	5.95%	6.39%	9.36%
Benchmarks					
EAFE	-9.36%	-25.13%	-1.83%	-0.84%	3.67%
MSCI Emerging Market Index	-13.02%	-29.14%	-3.07%	-2.79%	0.37%

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

Appendix: Disclosure Information Regarding Composite Performance

General

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

Calculation Methodology

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

Composites

Mutual fund holdings are not included in composite results. Exchange traded funds (ETFs) are included in composite results. Mutual fund holdings typically are "unmanaged assets" and, therefore, are not included in composite results. Exchange traded funds are designated as "managed assets" and, therefore, are included in the composite results.

The Arcataur Large Capitalization Equity Composite consists of portions of all client accounts invested in accordance with the Arcataur Large Capitalization Equity Portfolio strategy (including ETFs). The Arcataur Small & Mid-Capitalization Equity Composites consist of portions of all client accounts invested in small & mid-capitalization equity securities (including ETFs). The Arcataur International Equity Composite consists of portions of all client accounts invested in international securities (including ETFs). The Arcataur Investment Grade Fixed Income Composite consists of portions of all client accounts invested in accordance with the Arcataur Investment Grade Fixed Income strategy. The Arcataur Managed Balance Composite consists of portions of all client accounts invested in accordance with the Arcataur Managed Balance strategy.

Appendix: Disclosure Information Regarding Composite Performance (cont.)

Fees

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

Indices and Benchmark Funds

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

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

Arcataur Managed Balance Portfolio - Lipper Balanced Fund Average and 60/40 custom total return index which includes: Equities (30% S&P 500, 30% DJIA, 15% S&P 400, 10% S&P 600, 10% EAFE, 5% MSCI-EM), & Bonds (Custom Bond Index consisting of 65% Bloomberg Barclays (T/G/C) 1-5 and 35% Bloomberg Barclays U.S. Aggregate).

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

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

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

Lipper, Inc., a subsidiary of Refinitiv (formerly Thomson Reuters), provides mutual fund comparisons for similar investment profiles. The Lipper Large Cap core universe of mutual funds represents large-cap blend discipline of domestic companies compiled by Lipper, Inc. The Lipper Small Cap core universe of mutual funds represents small-cap blend discipline of domestic companies compiled by Lipper, Inc. The Lipper Mid-Cap core universe of mutual funds represents mid-cap blend discipline of domestic companies compiled by Lipper, Inc. The Lipper Balanced Fund universe of mutual funds