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First Quarter Review
March 2022

Arcataur Capital Management LLC
A Registered Investment Advisor

High Quality Investment Management
For Individuals and Institutions

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A Balanced Approach

3-Headed Monster: Inflation, Geopolitics & Economic Path Unnerve Investors

After the S&P 500 achieved an all-time high level on January 4th, trading action during the following three months produced one of the most volatile quarterly periods in recent history. While three 12% corrections and intermediate recoveries were registered during the quarter, the S&P 500 ended the first period of the year down a modest -4.7% in total return. The volatility was fueled by three broad areas of increased risks and uncertainty for investors: inflation, geopolitics, and economic growth.

The January decline in stock and bond prices was directly related to higher than expected inflation data, and commentary by Federal Reserve members indicating a significant shift in policy direction to combat the higher and stickier levels of inflation. Typically, investors react aggressively prior to the start of monetary tightening, and this time was no different. However, stocks recovered when Fed details were formulated and as fourth quarter corporate earnings reports and outlook generally supported stock valuations levels.

Stock prices corrected again in February, while bond prices rose (interest rates declined), after the Russian military invaded Ukraine as investors reacted in a flight to safety. After fighting began, the swift and united reaction of economic sanctions by NATO countries stabilized the markets. The resolve of the Ukrainian military and citizens changed the initial calculus of a swift rout by the Russian military.

Oil and natural gas prices shot up to a 14-year high and triggered more "higher for longer" inflation concerns among consumers, businesses, and investors. With continental Europe more dependent on Russian oil and gas, the potential for economic deceleration increased for Europe and for Asia. North America's economic outlook was less affected given its self-sufficiency in resources of natural gas and significantly lower demand for Russian oil.

Interest rates continued to rise despite the increased risk of recession in Europe and Asia over the upcoming year. The probability of a North American recession increased modestly from very low probabilities before the Russian invasion.

The Chinese stock market has been in a significant bear market, declining nearly 50% over the previous 12 months. In mid-March, China communicated a shift back towards an accommodative stance with an easing of financial market regulations. Expectations are for more domestic stimulative measures to come from the second largest economy in the world, which led to a 25% recovery move up from the lows and lifted global stock markets as well.

North American COVID-19 cases peaked in mid-January, while China has experienced an up-tick of the BA.2 Omnicom variant after hosting the February Olympics. China has implemented a staggered isolation plan for affected regions, which is aligned with their zero case policy. This is polar opposite from the U.S. and most other countries that have actually reduced restrictions recently. Entering the endemic phase of the virus is expected to provide continued normalization of human and economic activities.

In the upcoming quarters, data that either reduces or accelerates the magnitude of inflation rates, geopolitical issues, and economic growth rates are important factors that will drive financial markets. The next FMOC meeting in early May should provide more details about monetary policy. Interest rates currently reflect investor's expectations of a steady rise in the Federal Funds rates which impacts short-term interest rates. Updates on the pace of Quantitative Tightening (reducing bonds held on the Fed's balance sheet) will help determine the direction of longer term rates that affect borrowers the most. The 30-year mortgage rate in the U.S. has risen to 4.7% recently, up from 2.7% in August 2021.

Supply chain interruptions, rising commodity costs, and wage growth continue to be the source of the highest inflation readings in the last 40 years. Supply chains have improved modestly and expectations are for continued improvements throughout the year. Energy costs have been exacerbated by the Russian/Ukrainian war. Ending the war and the U.S. agreeing to return to the Iran nuclear agreement could change the trend in oil prices.

Geopolitical concerns are beyond just Russia, as the current U.S. administration deemphasized its relationship with Saudi Arabia and Israel in the Middle East. China's central control of not only their country, but the immediate region, has the potential for emerging conflicts as well. The coordinated response of NATO countries illustrates improved cooperation with allies. The trends of globalization and trade of the last 30 years are evolving quickly, and are becoming harder to navigate.

Economic growth is expected to decelerate in the coming quarters, however chances of a U.S. recession in the next 12 months have increased from around 10-15% to potentially 25 to 30%. Significantly higher and sustainable inflation is the biggest risk, while escalation of geopolitical conflicts is a secondary concern.

3-Headed Monster: Inflation, Geopolitics & Economic Impact unnerve Investors (cont.)

Employment trends and wage growth are likely to be primary determinants of the economic trajectory in the coming years. Employment gains remain strong and the most recent reading of 3.6% unemployment is approaching the pre-pandemic low of 3.1% in early 2020. Annualized wage increases of 5.6% reflect a tight job market, as labor participation continues to be impacted by the surge in self-employment, demographics, rising retirements, less women in the workforce, and declines in part-time workers. While this benefits workers in the short-run, if the cost of living continues to rise faster than wages, it becomes a net negative overall for consumers, especially for the most vulnerable at the lower to middle end of the income spectrum.

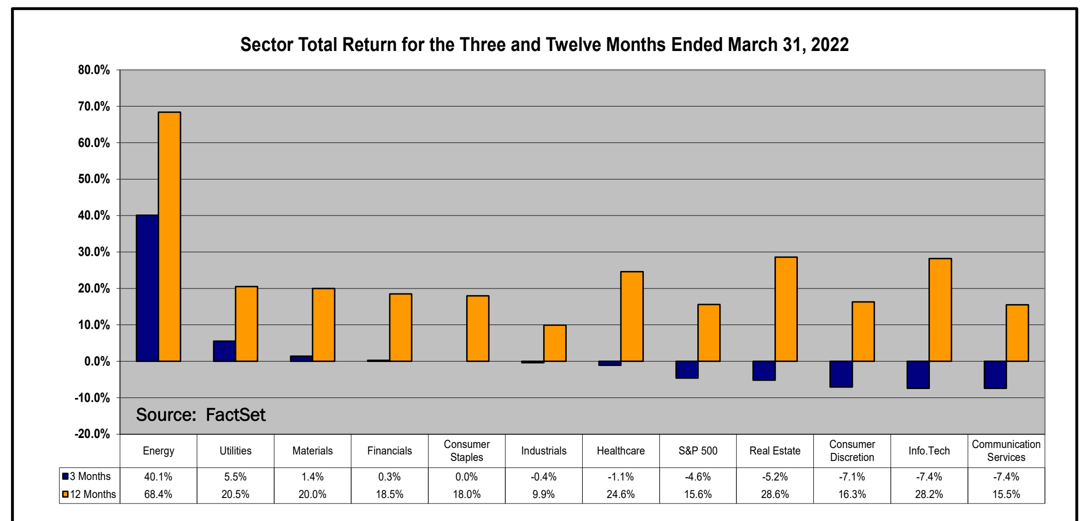
Equity valuations somewhat improved during the quarter as the declines in stock prices were offset by continued earnings growth. Small and mid-capitalization companies are currently trading at attractive valuations versus larger capitalization companies. Changes in earnings growth and interest rates expectations in the coming quarters will be a significant factor for investors.

At the March FOMC (Federal Open Market Committee) meeting, the Federal Reserve raised the Federal Funds rate (overnight rate charged to banks) for the first time since the start of the pandemic and indicated a more aggressive path of future interest rate increases. Investors are anticipating the Fed Funds rate could be at 2% by year-end after being essentially zero for the prior 22 months. The Fed is also expected to provide additional details of QT (Quantitative Tightening or reducing bonds held on its balance sheet), which could impact longer term interest rates and the shape of the yield curve. The risk of cost pressures becoming more permanent or structural is still considered unlikely. However, investor and consumer psychology is beginning to show signs of an incremental change to this stance.

Oil prices rose to a 13-year high of $130 per barrel in early March after ending 2021 below $80, and settled closer to $100 by quarter end. Transitioning from winter heating to summer driving season is beginning now, which will impact gasoline prices based upon supply and demand. The renegotiated Iran nuclear agreement has been stalled near the finish line. If all parties can come to terms, reintroducing Iranian oil to the market would provide a significant replacement for the sanctioned Russian oil. Europe's reliance on Russian natural gas is more significant and will be difficult to replace. Alternatives will be more costly if the sanctions remain in place in preparation for the next winter season. With a disruption in Iranian and Russian oil and natural gas for an extended period of time, we would expect energy prices to rise above the recent levels.

For the quarter, the S&P 500 (total return) was down 4.7%, and the Dow Jones Industrial Average fell by 4.1%. The technology-heavy NASDAQ Composite declined by 8.9% in the quarter. The S&P 600 Small Cap Index fell by 5.6% and the S&P 400 Mid-Cap was down 4.9% in the first quarter. Developed international markets fell, down 5.9% and emerging markets were off, down 7.6% for the quarter. While China is the world's second largest economy, it is still classified as an emerging market and its stock market was off more than 12% in the first quarter.

Sector performance for the quarter was impacted by inflation and the war pushing energy to significant outperformance, while more interest sensitive (financials) and defensive areas (utilities, staples and healthcare) outperformed the broader market. Consumer durable, communications and technology stocks lagged during the quarter, however the technology sector remains a leader for the last 12 months. The chart below illustrates how all the sectors performed in the quarter and for the trailing twelve months.



	Energy	Utilities	Materials	Financials	Consumer Staples	Industrials	Healthcare	S&P 500	Real Estate	Consumer Discretion	Info.Tech	Communication Services
3 Months	40.1%	5.5%	1.4%	0.3%	0.0%	-0.4%	-1.1%	-4.6%	-5.2%	-7.1%	-7.4%	-7.4%
12 Months	68.4%	20.5%	20.0%	18.5%	18.0%	9.9%	24.6%	15.6%	28.6%	16.3%	28.2%	15.5%

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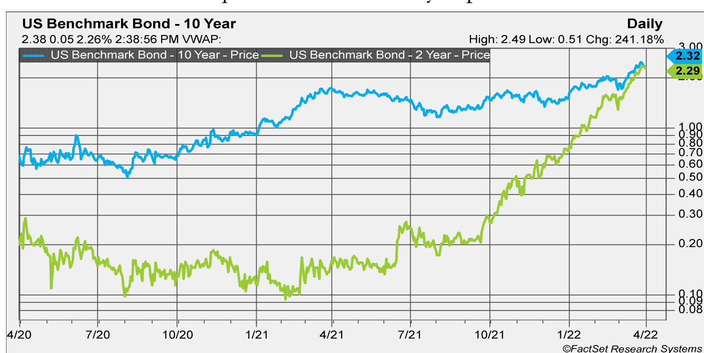
Arcataur Large Capitalization Equity Portfolio - This portfolio offers investors a separately managed account consisting of high quality, blue chip stocks. Our strategy focuses on maximizing expected return through constructing diverse portfolios covering most major industry sectors. On average, this 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 Trends Force the Fed's Hand to Tighter Monetary Policy

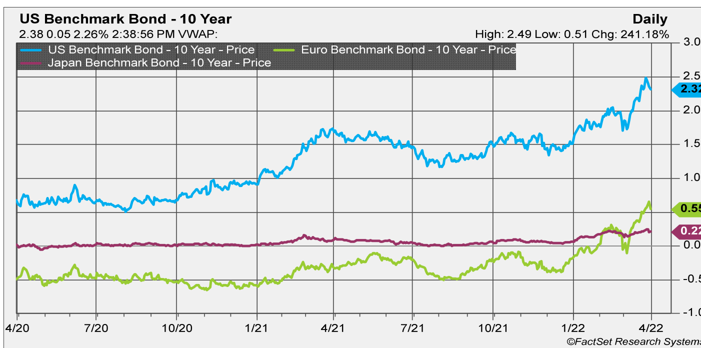
The confluence of higher inflation, the Ukraine war, Fed tightening, and recognition of risks embedded in global supply chains has contributed to material movements in the bond market. Yields have risen quickly, and when yields on bonds rise, the price of the bonds drop. The 10-year Treasury bond began the year at 1.51% and closed out the quarter at 2.32%, while the 2-year Treasury bond began at 0.73% and ended the quarter at 2.29%. As illustrated in the chart below, yields of shorter-maturity bonds have risen substantially over the past three months, with the bulk of the rise coming after the Fed's decision to raise interest rates. This first resulted in a flattening of the yield curve and recently a slightly inverted curve. A flatter yield curve is when short-term rates begin to converge on longer-term rates, while an inverted yield curve is when the short-term rate exceeds the longer-term rate. The spread between the 2- year and the 10-year maturities is the most widely viewed indicator of an inverted yield curve. Normally when the Fed raises interest rates, economic growth slows. As short-term rates move above the long-term rates, the risk of recession increases. The Fed plans to hike rates aggressively this year to address the significant inflation trends. If the yield curve stays inverted for a considerable amount of time, the Fed may choose to pause interest rate increases, particularly if the economy falters or inflation moderates quicker than currently expected.



After a prolonged period of keeping the Federal Funds rate at 0% to provide accommodative monetary policy to offset the negative impact of the pandemic, the Fed finally began their tightening policy in March by raising the Fed Funds rate to 0.25-0.50%. The 0.25% increase in rates was widely expected, as the Fed had been signaling this increase prior to the meeting. According to the Fed member's projection (Dot Plot) of interest rate increases, the median dot came in at 1.875%, which is equivalent to seven 0.25% interest rate hikes (or potentially a 0.50% move) in 2022, while projecting another four hikes in 2023. These estimates are also contingent on external factors affecting economic growth including the progression of the war, Covid, and inflation. After the March FOMC meeting, Powell stated that the Fed would "need to move expeditiously to return to a stance of monetary policy to a more neutral level", which indicates that a 50-basis point interest rate hike is certainly on the table for the May and June FOMC meetings, pushing up short term interest rates more quickly than markets had anticipated.

The median Fed forecast for annual inflation this year is 4.1%, up significantly from the past as the inflation rate has been well above Fed expectations over the past year. The Fed's goal is to provide price stability, while reaching maximum employment with moderate inflation. The Fed anticipated inflation of 2.7% in 2023 and 2.3% in 2024, up from 2.3% and 2.1% respectively from its December outlook. Unemployment is projected to come in at 3.5% this year, unchanged from previous guidance. The Fed also plans to reduce bond holdings of Treasuries, agency, and mortgage-backed securities by $80-100 billion per month held on its balance sheet. It is apparent that the Fed would like to tighten monetary policy and reach a neutral rate as quickly as possible, which could lead to continued financial market volatility.

European yields, while at lower levels than U.S. rates, have followed the upward trends seen here, as EU central banks have recognized and begun to address the high inflation that is occurring in their region as well. Japan, however, has continued to hold rates at exceptionally low levels. The chart below illustrates how the Euro bond yield is now above the corresponding Japanese 10-year rate with a nominally positive yield at this point.



Corporate bond credit spreads (the amount that investors demand above the government bond yield for default risk) have widened to a nearly 4-year high, the last time when government yields were materially rising. Much like in 2018, the current environment provides an opportunity to rebalance risks by adding high quality corporate bonds to portfolios.

The chart below shows the historic absolute yield for 5 to7-year corporate bond maturities. As these yields moved above 2% late last year and ascended to above the 3.5% level, it provided a reasonable return for new investment. Except for the very brief spike during the 2020 recession induced by the Covid shutdown, yields have not been at these levels for 3+ years. Bond yields have begun to normalize, however are still on the low end of longer-term historical yields and inflation levels. There are still numerous factors that could cause interest rates to continue upward, pause, or decline. Inflation and the Fed's ability to fight it will likely have the biggest impact on yields, but geopolitics surrounding the conflict in Ukraine and Covid are unique variables that will impact global growth and inflation expectations.

Inflation is expected to moderate as the year progresses and higher interest rates have improved bond attractiveness. Yields have now reached levels close to or above intermediate term inflation expectations, allowing new purchases of bonds for clients with 3-4 year maturities. We remain focused on finding bond investments that balance portfolios and provide reasonable returns and credit quality. We are long term investors and negative inflation adjusted yields over the recent years created a challenging environment to justify risk and return. We remain patient to find appropriate value in new investments. The overall quality rating of the fixed income portfolio is single A, the aggregate weighted average duration is 4.7 years, and liquidity remains sufficient to take advantage of opportunities as they arise.

Second Quarter 2022 Investment Outlook

The challenges of rising inflation, geopolitical conflict, and the resulting impact on economic trends is expected to continue for the foreseeable future, leaving financial market volatility elevated. Maintaining a well diversified portfolio and disciplined investment approach is extremely important with such uncertainty. Volatility can also produce long-term opportunities as well.

Handicapping how the Russian/Ukrainian conflict is resolved is difficult, but the longer-lasting changes to trade, supply chains, and international relationships appear to be diverting from the path of the past 20 years. China continues to attempt to exert its influence globally and territorially within the region. China's support of Russia's attempt to claim Ukraine territory raises concerns of its own desire for more direct control of Taiwan. The U.S. relationship with Saudi Arabia and Israel has deteriorated as well. We may have arrived at the crossroads of a future characterized by a structural increase in geopolitical risks, with Russia's invasion representing the tip of the iceberg.

Corporate profits are expected to increase 8% to 10% in 2022, which previously was considered conservative. However, depending on the trend of inflation, the conviction in those estimates in the second half of the year could wane. The mid-term elections could be an additional challenge for investors, as volatility typically increases in late summer through the November election. 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.

Global investors, consumers, and foreign governments have become accustomed to the U.S. Fed taking the lead in providing extraordinary levels of liquidity to support economic stability and calm financial markets during periods of stress. If the confluence of events leads to more sustainable inflation trends, investors are not certain that the Fed and global monetary authorities will have the fortitude to circumvent inflation at the expense of a recession. Based upon current data, however, this concern seems premature.

As the U.S. economy is still recovering from the pandemic, it does appear to be entering the endemic phase with the virus. European and Asian economies continue to lag but potentially have faster growth opportunities if the Russian/Ukrainian war can be resolved. Unfortunately, military experts are not currently expecting a swift end to the hostilities.

The potential for significant fiscal and tax related legislation before the mid-term elections appears to be remote. Investors will react to polls and potential changes that the upcoming election will bring. Historically, the majority party struggles to keep power, especially in off-year elections. The Democrats have an extremely slim majority and a significant number of incumbent retirements, so a small shift could lead to a loss of the Democratic control of Congress. Financial markets tend to react favorably to a divided government, as it minimizes the probability of destabilizing or significant legislation.

Broader U.S. bond averages produced a nearly -6% total return in the first quarter and over a 4% drop for the previous 12 months. Our patience with new bond investments has served our clients well. Investors have not needed to deal with significant interest rates increases (declining bond prices) for a long time.

Negative bond returns reflect the changes in market interest rates and would only be realized if bonds were sold in the current market. For our clients, we primarily hold bonds to maturity where the bond regular interest payments provide a consistent return over the life of the bond and have the potential to rise with new bond purchases. Our "Bond Basics" piece would be a good refresher to pull out and read as it reviews how bonds react to rising and falling interest rates. Bond Basics can be found at our website, Arcataur.com, Client Resources - Arcataur Investor Education Series.

The path of inflation going forward will matter. Yields should continue to move somewhat higher, as investors demand higher compensation for the increased inflation and as the Fed drains liquidity and the extraordinary support it provided to the economy. The best outcome would be a gradual rise in interest rates, so the economy can digest the increases and continue to grow.

There are multiple risks to this scenario. One is that rates rise too quickly, slowing economic growth. If the Fed makes a policy mistake, the housing market and consumers would have difficulty handling the interest rate increases, while government debt burdens might create market and fiscal deficit problems. An escalation in geopolitical conflicts beyond Russia may further disrupt the supply chains and lead to even higher inflation. But with current expectations of solid GDP growth, continued strong employment trends, and Fed actions, the more extreme outcomes appear to be a lower probability. While removing the excess monetary accommodations to fight Covid may lead to continued volatility for financial markets, a controlled rise in interest rates should be a sign of strength and a benefit for savers that has not been available to them in recent years.

For our clients, total equity exposure remains slightly above average within targeted ranges. Starting the year with significant cash liquidity was fortuitus to incrementally take advantage of 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 will be a focus as opportunities arise.

Historical Financial Market reaction to Fed Tightening

With the Federal Reserve pivoting towards neutral or restrictive monetary policy to head-off the most meaningful rise in inflation in the last 40 years, investors must wrestle with concerns of how this may impact the financial markets and the economy. Historically higher interest rates have several negative ramifications for equity prices. Stock valuations are a discounting mechanism, where higher interest rates act to both decrease the multiple investors pay for earnings, and potentially reduce corporate profitability. As yields rise for bonds and cash, their attractiveness as an alternative to equities in asset allocation decisions improves. Interest sensitive businesses, such as home builders and consumer durables that rely on financing for purchases, typically see reduced demand which then negatively affects earnings. Historically, stocks react negatively in anticipation of a new tightening cycle, similar to the reaction witnessed in the volatile start to 2022. However, if a recession ultimately can be avoided and corporate profit growth remains positive, longer-term equity appreciation should ensue. During the 2015-2018 Fed tightening cycle, although interest rates were raised 9 times, the S&P 500 produced an annualized return of 8.4%, while in the past 5 hiking cycles (since 1983), stocks produced an average annualized return of 9.5%. Investor's primary concern is that the Fed tightens too far sending the U.S. economy into a recession and corporate profits decline. Prolonged recessions have been minimized or avoided over the last 35 years due to aggressive monetary policy along with deficit spending on the fiscal side. From 1945-1982, there were 9 recessions or 1 every 4 years on average. Since 1982, there have only been 4 recessions or 1 every 10 years. A more ominous note is that history shows that periods of high inflation were only alleviated by a recession as the Fed had to raise interest rates substantially to cure inflation. More protracted bear markets in stocks typically accompany these developments. With this historical backdrop, it should not be surprising that markets have recently struggled. Major U.S. indices have touched correction (down more than 10%) territory, and more than 60% of individual stocks within the S&P 500 have fallen into bear market (greater than 20% decline) territory. How aggressively restrictive the Fed needs to be will depend on future inflation trends and the resilience of our economy to keep growing. Recessions, whether actual, or the rising risk of one, and declining markets are challenging for investors but are a necessary corrective process for all markets. The process cleanses the excesses, and sets the stage for the ensuing bull market.

Arcataur Composite Investment Performance for the 3 Months, 12 Months, 3 Years and 5 Years Ended March 31, 2022

Arcataur Composite Portfolio	Total Return			
	3 months	12 months	3 yr. annualized	5 yr. annualized
	3/31/2022			
Large Cap Direct Stock Equity	-3.26%	12.99%	18.97%	15.30%
Large Cap Equity ETF	-4.88%	14.47%	18.55%	15.64%
Benchmarks				
Lipper Large Cap Core	-5.60%	12.70%	17.50%	14.80%
Dow Jones Industrial Average	-4.11%	6.84%	12.41%	13.25%
S&P 500	-4.60%	15.65%	18.92%	15.99%
S&P 100	-4.56%	17.30%	20.42%	16.78%

Arcataur Composite Portfolio				
	3 months	12 months	3 yr. annualized	5 yr. annualized
	3/31/2022			
Fixed Income	-4.94%	-3.64%	1.62%	1.76%
Benchmarks				
Bloomberg Barclays 1-5 (T/G/C)	-3.45%	-3.88%	1.14%	1.42%
Bloomberg Barclays Aggregate	-5.93%	-4.16%	1.69%	2.14%
Bloomberg Barclays 1-3 (T/G/C)	-2.49%	-2.93%	1.02%	1.26%
Lipper Bond MF Avg.	-4.10%	-2.20%	2.55%	2.40%

Arcataur Composite Portfolio	Total Return			
	3 months	12 months	3 yr. annualized	5 yr. annualized
	3/31/2022			
Managed Balance	-4.54%	4.00%	10.85%	9.08%
Benchmark				
Lipper Balanced	-5.10%	3.60%	10.37%	7.90%
60/40 Custom Index	-4.29%	2.87%	9.56%	8.67%

Arcataur Composite Portfolio	Total Return			
	3 months	12 months	3 yr. annualized	5 yr. annualized
	3/31/2022			
Small Cap Equity	-5.88%	-0.01%	12.90%	10.28%
Mid-Cap Equity	-5.08%	3.68%	13.21%	10.69%
Total Equity*	-4.87%	7.61%	15.57%	12.85%
Benchmarks				
Lipper Small Cap Core	-5.30%	2.20%	12.20%	9.10%
S&P 600	-5.62%	1.23%	13.58%	10.89%
Lipper Mid-Cap Core	-4.50%	7.50%	13.50%	10.40%
S&P 400	-4.88%	4.59%	14.13%	11.10%

Arcataur Composite Portfolio	Total Return			
	3 months	12 months	3 yr. annualized	5 yr. annualized
	3/31/2022			
Developed International Equity	-6.02%	0.03%	7.58%	6.30%
Emerging International Equity	-6.47%	-9.69%	4.89%	5.26%
Total Equity*	-4.87%	7.61%	15.57%	12.85%
Benchmarks				
EAFE	-5.91%	1.16%	7.78%	6.72%
MSCI Emerging Market Index	-7.57%	-13.72%	3.89%	4.95%

*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.

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

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