



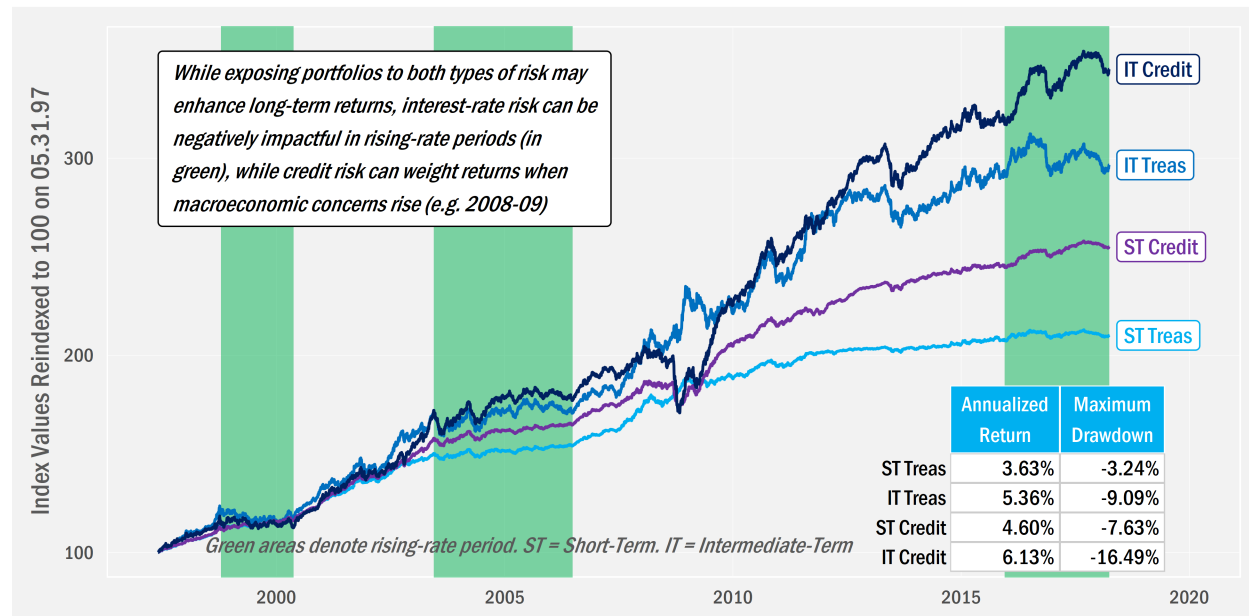
RISK IN CONTEXT

With interest in and media coverage of investible markets so expansive, market volatility has become much more of a shared experience. Actual exposure to that volatility need not be. The design of our portfolios acknowledges as much, with the range of exposures to investment risk they present offering flexibility to address specific needs of unique investors. While we utilize fixed income holdings to offset equity market risk, bonds are not without risks of their own. Still, the bond segments in which we invest generally are more stable than equity investments, offering the tools we seek to balance desired return with commensurate risk.

Term and Credit Where Due

As with all investing, to achieve higher expected returns from fixed income we generally must assume additional risk. For bonds, the two primary risks we evaluate are interest rate risk, a bond’s sensitivity to changes in interest rates, and credit risk, which is the potential for issuer default (e.g. bankruptcy). U.S. Treasury bonds may be considered free from default risk, though owning them may expose the portfolio to interest-rate risk. Both interest-rate and credit risk generally apply when investing in corporate bonds. With short-term U.S. Treasuries representing the least-risky bonds in our portfolios, we incrementally add interest-rate risk (and higher expected return) through intermediate-term Treasuries. Short- and intermediate-term credit bonds add credit risk over Treasury bonds of similar maturity.

Figure 1: Long-Term Bond Market Performance by Segment



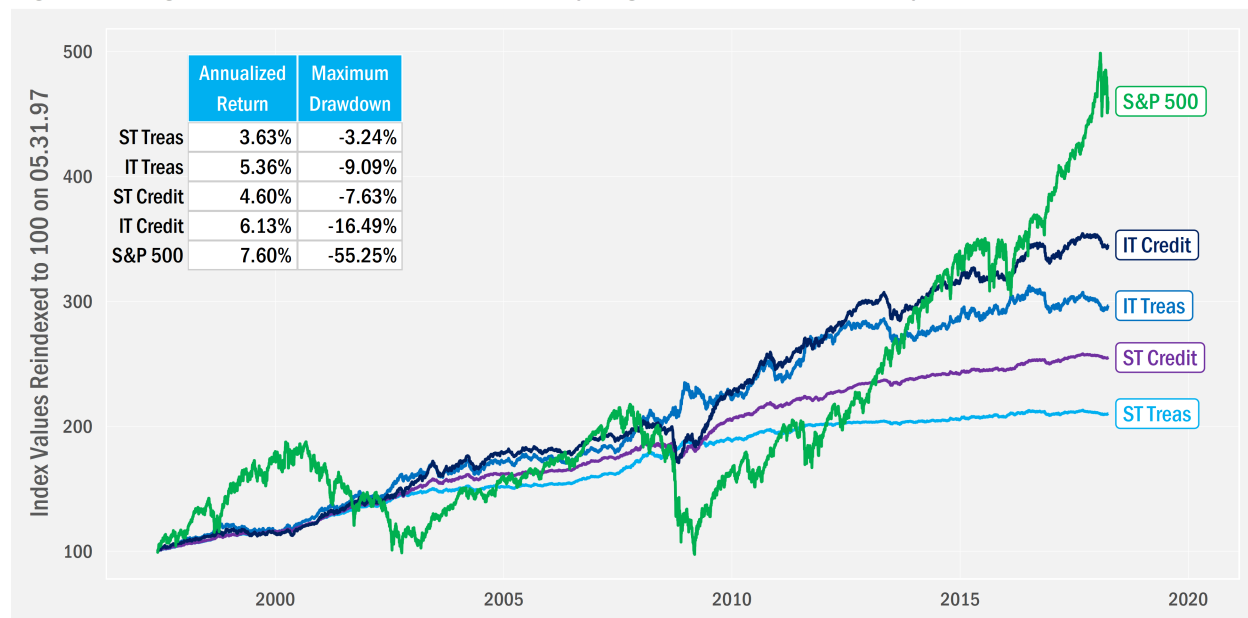
From 05.31.97 to 03.31.18. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. ST Treas = Bloomberg Barclays U.S. Treasury 1-5 Year Index. IT Treas = Bloomberg Barclays U.S. Treasury 5-10 Year Index. ST Credit = Bloomberg Barclays U.S. 1-5 Year Credit Index. IT Credit = Bloomberg Barclays U.S. 5-10 Year Credit Index. SOURCE: SRCM using data from Bloomberg

We have sought to optimize the mix of the fixed income holdings to these varied risks in a manner that acknowledges the overall risk profile of each portfolio. Focusing predominantly on U.S. Treasuries and U.S. corporate bonds, we have incorporated incremental exposure to bonds of longer durations and to credit bonds as we move up the risk tolerance spectrum. This emphasis acknowledges that the more we tilt portfolios in favor of both characteristics, we incorporate the potential for enhanced longer-term returns. At the same time, we might experience greater volatility from those more aggressive exposures. In the table within Figure 1, we see that long-term returns have been higher as we move up the interest-rate and credit spectra. But, the maximum drawdowns have been incrementally larger as well.

Bonds Relatively Boring

All that said, risks expressed in our fixed income holdings generally are modest, versus the additional risk added to the portfolio through higher levels of equity. To see what we mean, in Figure 2, we chart the same fixed income series we included in Figure 1, but this time we add the S&P 500 Index to represent U.S. equity. While the prior chart shows why we might like to diversify among fixed income holdings according to risk budgets, Figure 2 demonstrates both the relative potential promise and peril of equity ownership. Though the longer-term gains easily surpass those of even the more aggressive corporate bond index, the interim drawdowns have been commensurately large.

Figure 2: Long-Term Bond Market Performance by Segment, Versus U.S. Equity



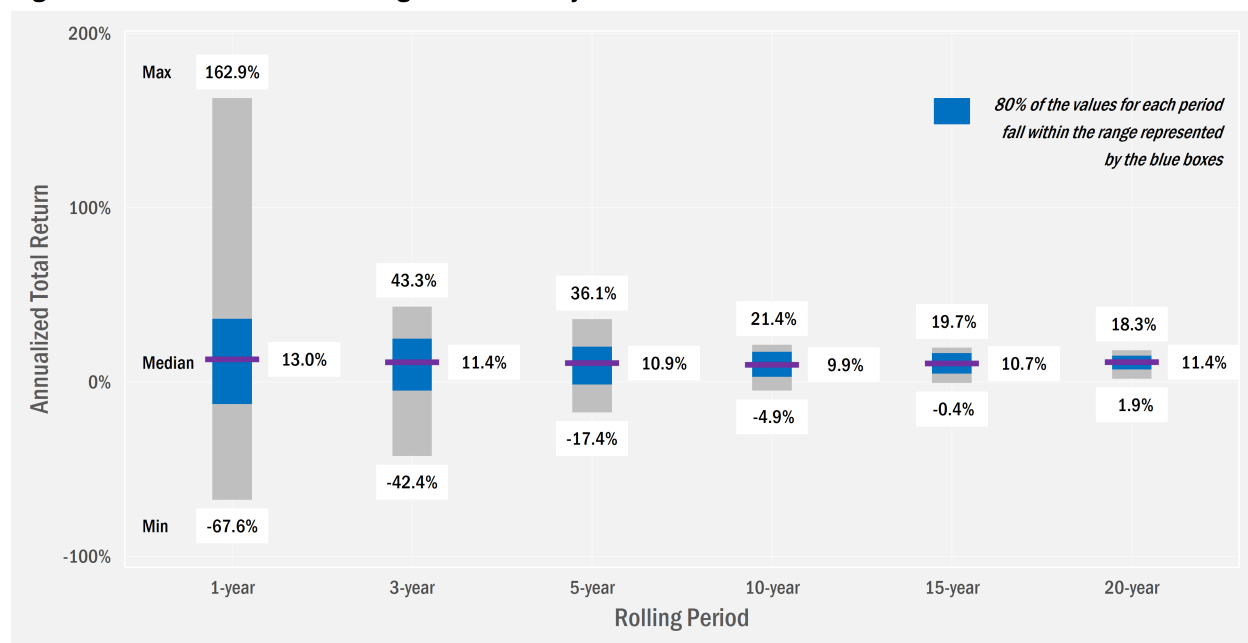
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Assess. Monitor. Repeat.

To experience anything like the relatively favorable historical returns seen by equity markets, one must have remained invested through the thick and the thin. As markets have become much more volatile over the past year, we will highlight the fact that the same will be true no matter what the future holds. Matching client

wherewithal to stomach inevitable market ups and downs should support that effort to hold fast to long-term-oriented plans. The key, we think, is to use market history to characterize the potential risk and return that exposure to equity markets presents to portfolios and attempt to determine what level of equity exposure clients may desire (from a return standpoint) and be willing to tolerate (from a risk standpoint). In turn, we wish to impress on clients the idea that time is our friend with regard to equity investing. Evidencing as much in Figure 3, the longer we may be able to expose our invested funds to the equity market, the greater the likelihood that the contribution to return from those exposures may prove favorable.

Figure 3: S&P 500 Historical Range of Returns by Time Horizon



Monthly data from 01.31.26 to 12.31.17. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. One cannot directly invest in an index. SOURCE: SRCM using data from Standard & Poor's Index Services Group via Dimensional Fund Advisors

Gauge. Review. Repeat.

Often, the more challenging balance to strike is that between a *financials-based* risk tolerance that may suggest a more substantial exposure to market risk may be warranted and an *emotions-based* tolerance that desires greater safety amidst fear of potential downside. Those believing an eventual rout will foster more regret than any upside foregone by reducing market risk may wish to bias the weight of those conflicting factors toward the behavioral desire for greater safety. Even so, we reiterate the guidance that time historically has been a friend to those patient with interim market volatility. Meantime, we make sure to check in with clients on a regular basis both through commentaries and in-person visits when possible to review past and present experience, as well as future expectations, in the pursuit of an appropriate fit of overall portfolio risk and return within the client's long-term financial plans.

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The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. In this report, we refer to this index as the U.S. Investment Grade bond market ("IG Bonds").

The Bloomberg Barclays U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury.

The Bloomberg Barclays U.S. Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. It is composed of the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supnationals and local authorities.

The S&P 500 Index represents 500 U.S. companies and captures approximately 80% coverage of available market capitalization.

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

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