Current Investment Strategy and Themes

- ***Portfolios were recently "de-risked" across the spectrum of equities, bonds & alternatives aligned with lower volatility targets.***
- ***Asset valuations and inflation remain high, combined with low real interest rates and lower rates of economic growth.***

The Markets in Review: March 2022

- There was no place to hide for investors during the 1st quarter of 2022, except for commodities and energy-related commodities. Historically, high inflation rates have not been kind to equities or bonds. Strong demand coming off several months of very little consumption or investment during the Covid -19 pandemic coupled with shocks to the supply chain has resulted in higher rates of inflation across the food and energy sectors. These inflationary regimes can remain intact as long as supply and demand are out of equilibrium.
- Longer-dated bonds were punished during the quarter as the yield curve slope moved markedly higher. The yield curve from the two-year Treasury note to the ten-year Treasury note has recently inverted, prompting cries of an oncoming recession. The past may not be prologue this time as the Federal Funds target rate remains low and the job market robust. Shorter-dated corporate credit (senior bank loans) appeared to survive much of the downturn during the quarter.
- Outside of energy-related stocks, bonds, and commodities, various non-directional asset strategies such as merger and arbitrage, hedged equity, and global macro and absolute return generated superior risk-adjusted results during the quarter.
- Based on high levels of fundamental investment risk in the market (elevated valuations and lower earnings for stocks and higher yields and higher inflation for bonds), we have targeted a lower level of volatility across all multi-asset class strategies.
- Macroeconomic and geopolitical risks are also elevated, given higher interest rates and inflation and their potential negative impact on future growth and capital investment.
- Monetary and fiscal levers are strained as the global economy has lived with zero interest rates and expansive debt levels for several years. We have positioned investors' portfolios to focus on managing downside risk while protecting invested capital.
- We are long-term investors and believe investing in disruptive innovation will yield long-term results. At the same time, we understand that the level of uncertainty has risen dramatically over the last several months, and history teaches us that markets do not like uncertainty!
- Despite the high level of uncertainty and associated higher market volatility, we believe there is still a premium to investing in equities, specifically high quality, dividend-paying, and low volatility companies. For bonds, now is not the time to have exposure to longer market duration or any other interest-rate-sensitive market segment. We believe most exposure should be in the short-term credit exposure segment of the bond market.

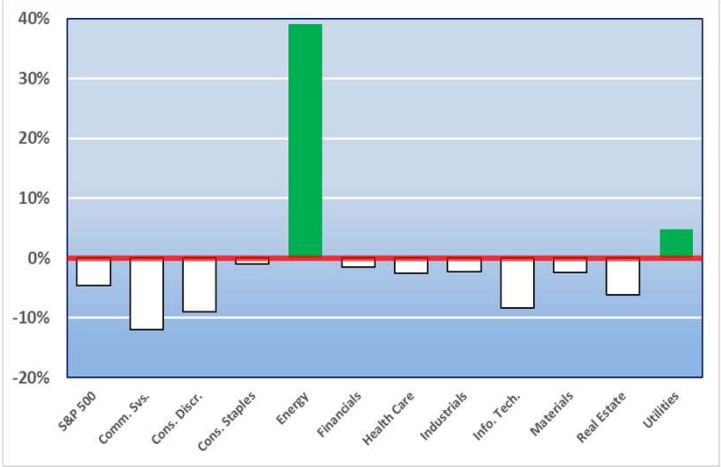
Key Market Indicators

Bullish	Favorable	Neutral	Cautious	Bearish

Equities	Mar 2022	Last 3 Months	Last 12 Months	Current View
U.S. Large Cap	3.71%	-4.60%	15.65%	Neutral
U.S. Small Cap	1.24%	-7.53%	-5.79%	Cautious
International Developed	0.64%	-5.91%	1.16%	Favorable
Emerging Markets Equity	-2.26%	-6.97%	-11.37%	Neutral
Fixed Income				
U.S. Aggregate	-2.78%	-5.93%	-4.15%	Cautious
U.S. Government	-3.09%	-5.53%	-3.69%	Cautious
U.S. Corporate	-2.51%	-7.42%	-4.16%	Neutral
U.S. High Yield	-1.15%	-4.84%	-0.66%	Cautious
Non-U.S. Developed	-3.62%	-7.12%	-10.16%	Cautious
Emerging Market Debt	-1.53%	-5.07%	-7.78%	Bearish
Alternatives				
REITs	6.55%	-3.86%	26.49%	Neutral
Commodities	8.19%	25.92%	50.72%	Favorable
Managed Futures	7.73%	13.54%	13.22%	Neutral
Hedge Funds	0.48%	-1.35%	0.94%	Favorable

Source: Morningstar, data as of 3/31/2022

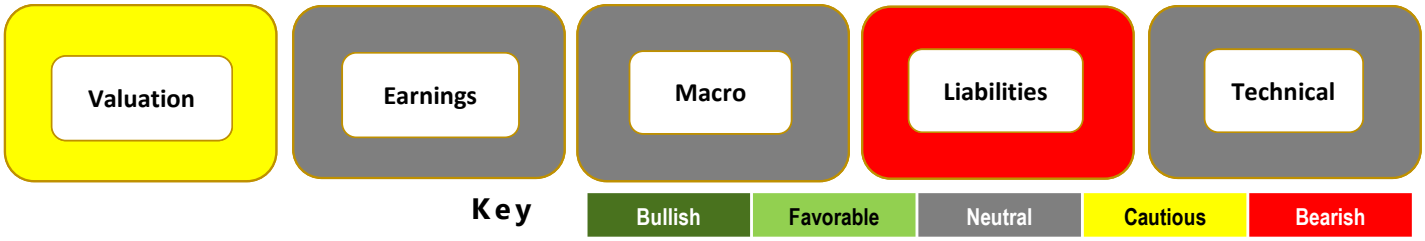
Sector Returns in the S&P500: 1st Quarter 2022



Source: Morningstar

Risk Examination – March 2022

A quarterly update on our views of the complex risk factors in global markets



Valuation

- Global asset valuations remain high in cap-weighted indexes with the majority of beta risk being driven by technology stocks. Superior earnings results were powered by large tech stocks during 2021 despite record valuations.

Earnings

- The quick bounce back in the economy from the initial COVID shock resulted in abnormally higher than normal earnings. The challenge now remains whether these same companies can continue to deliver superior earnings in the face of higher inflation and the economic effects of the new Omicron variant.

Macroeconomic

- Financial suppression resulting in negative real interest rates and an excessive debt burden has created even greater economic inequality, rampant asset inflation and little room for policy error moving forward. Growth should moderate from recent levels and real rates are most likely to remain negative with the burden of debt being pushed even further down the road.

Liabilities

- Liabilities have exploded on government and corporate balance sheets over the last cycle. Household borrowing rates are not far behind. The shift now should be on balance sheet repair and debt repayment and not on earnings growth and increased individual spending. This will likely place additional pressure on growth and governments to provide extra stimulus programs to re-start the global economy.

Technical/Sentiment

- The biggest driver of security price swings since COVID-19 has been investor psychology and sentiment, rather than investment or macroeconomic fundamentals. The radical uncertainty from the effects of the global virus pandemic and the crisis in Ukraine has resulted in highly volatile equity and credit markets.
- In our view, many market participants do not really understand market risk as many have never experienced a 25%-40% drawdown in stock prices.

2022-2023 Economic and Investment Scenarios

Our assessment of potential macro scenarios

	Recession Relapse	K – Shaped Recovery	Return to New Normal	Robust Recovery
Economy / Geopolitical	▪ Negative growth precipitated by extended effects of pandemic ▪ Civil unrest ▪ Labor market strain	▪ Weakness in consumer discretionary ▪ Strength in E-commerce/innovation ▪ Fed rate hikes & no room for fiscal stimulus	▪ Gradual recovery with radically different labor market ▪ Inward focus ▪ Steady growth/low inflation	▪ Inflation reverts to Fed target ▪ Job growth/higher consumption ▪ Infrastructure spend
Markets	▪ Prolonged sell-off in risky assets ▪ Rush to safe-haven assets such as digital currency, gold and cash	▪ Negative effect from inflation ▪ Volatility dominates ▪ Highly valued & concentrated markets ▪ Focus on risk	▪ Extended recovery puts focus on value, small cap & higher inflation ▪ Pressure on Big Tech	▪ Negative real rates, a flood of new money = continued asset inflation ▪ Alternative assets & equities prosper
Focus	▪ Flight to quality: U.S. Treasuries, U.S. Dollar, Crypto Currencies & Gold benefit	▪ Premium on asset diversification = liquid alts ▪ Commodities & non-directional investments	▪ Focus shifts from sentiment driven markets to fundamentals	▪ Fully invested, but highly diversified
Probability	**20%**	**40%**	**20%**	**20%**

< < < Downside < < < | **> > > Upside > > >**

Risks

- Pandemic variant emerges – more lockdowns
- Sustained high rates of inflation
- Civil unrest, supply chain disruptions and food shortages
- Runaway debt growth on pace to equal Japan
- Higher rates of poverty and social displacement
- Further job displacement – weak demand

- Effective use of fiscal stimulus spurs economic growth
- Globalization returns
- Labor market returns with shift in focus and higher productivity
- Strong real economic growth and productive use of credit
- Raises the wealth effect across multiple sectors
- Lower rates of inflation, above trend real growth

Portfolio Asset Class Positioning

PORTFOLIO SEGMENT / SEGMENT OBJECTIVE	SEGMENT CONSTITUENTS	SEGMENT COMMENTS
Equity *Diversified Exposure with premium on quality and lower volatility*	▪ Global exposure to high quality companies and innovators in their field ▪ Diversified across size, high quality, low volatility and rising dividend payers across global markets	▪ Higher exposure to U.S. mid cap and global small cap ▪ Emphasis on high dividend payers, low volatility and high quality across developed markets ▪ Continued emphasis on exposure to an actively managed bask of innovation stocks
Fixed Income *Seek to Preserve Capital, and Diversify Equity Exposure*	▪ Overweight low duration and high quality ▪ Reduced exposure to fallen angels ▪ Not a time to "reach for yield" ▪ Exposure to asset-backed & private mortgages, and senior loan	▪ Favor intermediate duration or less ▪ Favor quality credit over rates ▪ Selective, short duration high yield ▪ Issuer selection critical ▪ BBB segment is crowded
Opportunistic *Highest Conviction Ideas Based on 12-24 Month Proprietary Forecasts*	▪ Continued emphasis (but paired back) on disruptive innovation themes ranging from 3D technologies to immunotherapies ▪ Active core innovation portfolio with systematic over-weight exposures to E-commerce, medical instruments, cloud computing & cybersecurity	▪ Reflects Palladiem's shorter-term model (value and momentum) ▪ Seeking participation in select themes with attractive return potential based on innovative technologies such as 3D printing, gene therapies, digital wallets, renewable energy and AI
Alternative *Anticipated Risk Mitigation with Alpha Opportunities*	▪ Risk Managed Gold ▪ Hedged Equity ▪ Merger Arbitrage ▪ Global Macro – Credit ▪ Carbon Credits ▪ Commodity Dynamic Roll Strategy	▪ Lower than average return and higher risk expectations for equities and bonds presents the challenge of providing uncorrelated sources of risk and return. ▪ We favor exposure to risk-managed approaches to investing in liquid alternatives with an emphasis on M&A, Carbon Credits, Commodities, Absolute Return & Hedged Equity

All investments are subject to risk, including the loss of principal. For additional information about the Palladiem Investment Portfolios, please refer to the Disclosures at the end of this report.

Important Disclosures

The statements contained herein are based upon the opinions of Palladiem LLC (Palladiem) and the data available at the time of publication and are subject to change at any time without notice. This communication does not constitute investment advice and is for informational purposes only, is not intended to meet the objectives or suitability requirements of any specific individual or account, and does not provide a guarantee that the investment objective of any model will be met. An investor should assess his/her own investment needs based on his/her own financial circumstances and investment objectives. Neither the information nor any opinions expressed herein should be construed as a solicitation or a recommendation by Palladiem or its affiliates to buy or sell any securities or investments or hire any specific manager.

Palladiem prepared this Update utilizing information from a variety of sources that it believes to be reliable that may include, but is not limited to, custodians, mutual fund companies, investment managers, Morningstar, Bloomberg, other third-party service providers and in some cases as directed by the client or their representative.

It is important to remember that there are risks inherent in any investment and that there is no assurance that any investment, asset class, style or index will provide positive performance over time. Diversification and strategic asset allocation do not guarantee a profit or protect against a loss in a declining market.

Past performance is not indicative of future results. All investments are subject to risk, including the loss of principal. Portfolio positions referenced are subject to change at any time, your portfolio may not reflect the information referenced.

Palladiem has sole discretion to change allocations to styles and vehicles at any time.

Index definitions:

"U.S. Large Cap" represented by the S&P 500 Index.
"U.S. Small Cap" represented by the Russell 2000 Index.
"International" represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.
"Emerging" represented by the MSCI Emerging Markets Net Return Index.
"U.S. Aggregate" represented by the Bloomberg U.S. Aggregate Bond Index.
"U.S. Government" represented by the Bloomberg U.S. Government Bond Index.
"U.S. Corporate" represented by the Bloomberg U.S. Credit Bond Index.
"U.S. High Yield" represented by the Bloomberg U.S. Corporate High Yield Index.
"Non-U.S. Developed" represented by the S&P International Treasury ex U.S. Index.
"Emerging Market Debt" represented by the JP Morgan GBI-EM Global Core Index
"REITs" represented by the FTSE North American Real Estate Investment Trust (REIT) Equity REITs Index.
"Commodities" represented by the Dow Jones Commodity Index .
"Managed Futures" represented by the Credit Suisse Managed Futures Index.
"Global Macro" represented by the Credit Suisse Global Macro Index

Palladiem, LLC is a Registered Investment Adviser.

For more information about Palladiem, as well as its products, fees and services, please refer to Palladiem's website, www.palladiem.com or call us at 888-886-4122; 610-304-6529