4Q 2021 MARKET UPDATE
The ongoing global economic recovery throughout 2021 was accompanied by historically elevated returns across most risk-oriented corners of the market, particularly domestic sectors. The concluding quarter of the year presented risk-seeking investors with notably strong returns, despite the initiation of quantitative easing (QE) tapering by the Federal Reserve (Fed) in November. Global equity performance for the fourth quarter and calendar year strongly favored domestic large cap, while smaller cap and internationally-based indices lagged. Emerging market equities underperformed domestic (S&P 500 Index) by more than 30 percentage points in 2021, representing the second sharpest calendar year underperformance, behind 2013, in at least two decades. Fixed income performance for the fourth quarter and calendar year overwhelmingly favored credit-based sectors versus those of more rate-sensitive nature, as rising inflationary pressures helped drive nominal interest rates higher. Real asset performance, in aggregate, was robust throughout the year, buoyed by a continued global expansionary bias, multi-decade high inflation rates, and expectations for a continuation of these tailwinds to performance over the near term.
• Last year was the 21st best year for the S&P 500 Index, which gained almost 29%, and the year had very few periods of weakness, providing one of the most minor intra-year drawdowns since the late 1980s.

• Historically, in years following returns above 20%, positive momentum continued providing returns comparable to the long-term historical average near 11%, but 30% of the subsequent years did witness negative returns.

2021 WAS THE S&P 500 INDEX’S FOURTH SMALLEST DRAWDOWN SINCE 1987
S&P 500 Index Intra-Year Drawdowns by Calendar Year

Data source: Strategas
ECONOMIC INSIGHTS

- In the second half of the year, a relatively robust domestic economic recovery called into question the continued need for near-zero policy rates and the previous COVID-era pace of monthly Fed asset purchases, which stood at $120 billion per month before the initiation of Fed QE tapering in November.

- The markets presented the Fed with evidence pointing to the need for a less-accommodative posture. The Fed’s preferred inflationary gauge, for example, accelerated to a more than 30-year high through November, to a rate nearly 300 basis points ahead of their 2.0% targeted level.

U.S. INFLATION MEASURING WELL ABOVE THE FED’S 2% TARGET
U.S. Core PCE Inflation, Year-over-Year

Data sources: BEA, NBER, Bloomberg, L.P.; Data as of November 2021
MAJOR ASSET CLASS RETURNS

Data sources: Lipper and Hedge Fund Research, data as of 5th business day following quarter-end
Global equity markets rose during the fourth quarter of 2021 due in part to strong earnings. Volatility increased in November as the highly infectious COVID-19 Omicron variant began spreading globally. Volatility quickly subsided, however, as emerging data suggested that the new variant was less severe than previous COVID-19 strains. Small cap stocks underperformed large cap stocks during the quarter due to a fear of weaker future growth prospects in the small cap universe. The Fed’s signaling of rising rates concerned investors who worried increased rates could adversely affect small cap companies that do not have strong balance sheets and need access to cheap capital for growth. Although high beta was the best-performing factor within the S&P 500 Index in 2021, its opposite factor, low volatility, was the best-performing factor for the quarter, which returned just below 10% for December.
Europe and the UK were areas of notable equity market strength with a rally in defensive equities to close the year. The European Central Bank announced its plan to taper bond buying, and the Bank of England increased its target interest rates as inflation approached 5% on the continent.

Europe faced an energy crisis during the quarter as the region’s limited supply of Russian gas began to dwindle. Limited supplies were coupled with falling investments in thermal energy and maintenance work on nuclear power plants. As a result, gas and electricity prices rose sharply across the continent, yet energy stocks lagged amid growth concerns.

Japanese equities fell despite increased industrial production following negative economic growth in the third quarter. Japan’s central bank announced that loose monetary policy would continue, but corporate debt purchases would be tapered.

Chinese equities significantly underperformed global equities due in part to the continued growth of COVID-19 resurgence concerns as well as market participants digesting the ramifications of China’s regulatory push. Renewed geopolitical tensions also weighed heavily on the country’s market. In turn, given China’s significant weight within the index, the Chinese market’s underperformance weighed on the overall emerging market index.
Private equity reports performance on a lag, and the latest data available are through September 30, 2021.

Median private equity returns for both venture capital and buyout funds have generally been 20% or better since the 2010 vintage year, with venture returns in recent years over 35%.

Median buyout fund performance exceeded that of venture funds for most of the 2000s through the 2009 vintage year. This dynamic reversed in the subsequent decade’s vintage years, with venture funds generally performing better than buyout funds. Recent vintage years for venture capital funds benefitted from a robust initial public offering (IPO) market and continued interest from investors.

Fundraising activity for venture capital and buyout funds was intense in 2021, though fundraising can be volatile quarter-over-quarter. Fundraising for buyout funds finished at near-record levels.

Data source: Thomson One; The most recent private equity return information available is through September 30, 2021

Data source: Pitchbook
An accelerated taper timeline and the spread of the Omicron variant captured the attention of market participants during the fourth quarter.

The 10-year U.S. Treasury yield remained unchanged at 1.52% during the quarter but traded within a 33 bp range. Rates rose in October and November as the taper was announced, and more hawkish Federal Reserve policy entered investors’ thoughts.

The discovery of the Omicron variant induced a “flight to quality” environment during the typically light trading volume period surrounding Thanksgiving. Rates bottomed in early December as fears over further potential lockdowns and softer economic growth abated.

December’s FOMC minutes revealed the Federal Reserve would accelerate the pace of the taper beginning in January. This accelerated timeline foreshadows rate hikes that may start as early as March 2022. Market-based expectations imply a >60% probability of the first-rate hike coming in March of 2022, with as many as two additional hikes priced in by the end of the year.
REAL ASSETS

- Despite concerns around the COVID-19 Omicron variant which emerged late in the year, U.S. REITs performed well during the fourth quarter and ended the year with a gain of over 40%. Property sector trends remained consistent relative to previous quarters, while sectors tied to the “re-opening trade” (e.g., lodging, healthcare, and office) underperformed. In contrast, sectors considered defensive or experiencing supply-demand imbalances, such as industrial and single-family rentals, continued to perform well.

- Although oil markets experienced significant volatility during the fourth quarter, prices finished the period relatively unchanged at near $75/bbl from the third quarter. Natural gas prices moderated with an approximately 36% decrease from the previous high. However, relative to year-end 2020, natural gas prices have increased roughly 46%. The U.S. recently became the largest exporter of liquid natural gas, overtaking Russia, and now supplies much of the demand from Asia and Europe, regions rapidly becoming more dependent on natural gas for heating and power generation.

- Listed infrastructure performance for the quarter was primarily driven by railroads, water, and electric utilities. Infrastructure names exhibited volatility on the quarter as investors grappled with concerns around COVID variants.

**PUBLIC REAL ASSETS – REAL ESTATE, COMMODITIES, MLPs, AND INFRASTRUCTURE**

Data sources: NAREIT, Bloomberg, L.P., and Alerian
DIVERSIFYING STRATEGIES, HEDGE FUNDS

- Hedge funds finished the year with solid performance across most of the strategies during the quarter. Event-driven and hedged equity strategies led performance to add to substantial returns for 2021.
- Within event-driven, activist managers enjoyed the most significant success rising over 5% in December. Special situations manager returns were also largely positive, as equity markets provided a tailwind to equity-oriented hedge fund strategies.
- Hedged equity strategies witnessed significant gains in the health care and technology/health care sectors. The largest detractor was the dedicated technology sector which faced pressures to end the year.
- Within the global macro space, discretionary traders fared better than their systematic counterparts. Although, both strategies generated positive performance at the index level.

HFRI INDICES PERFORMANCE RETURNS IN U.S. DOLLARS

<table>
<thead>
<tr>
<th>Index</th>
<th>Quarter</th>
<th>1 Yr</th>
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<tbody>
<tr>
<td>Fund Weighted Composite Index</td>
<td>0.6%</td>
<td>10.3%</td>
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<tr>
<td>Fund of Funds Composite Index</td>
<td>0.8%</td>
<td>6.5%</td>
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<tr>
<td>Event-Driven (Total) Index</td>
<td>1.6%</td>
<td>13.1%</td>
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<tr>
<td>Relative Value (Total) Index</td>
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<td>7.6%</td>
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<tr>
<td>Macro (Total) Index</td>
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<tr>
<td>Equity Hedge (Total) Index</td>
<td>0.9%</td>
<td>12.0%</td>
</tr>
</tbody>
</table>

Data source: HFRI
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All shown returns greater than one year are annualized.

All data as of December 31, 2021, unless otherwise specified.