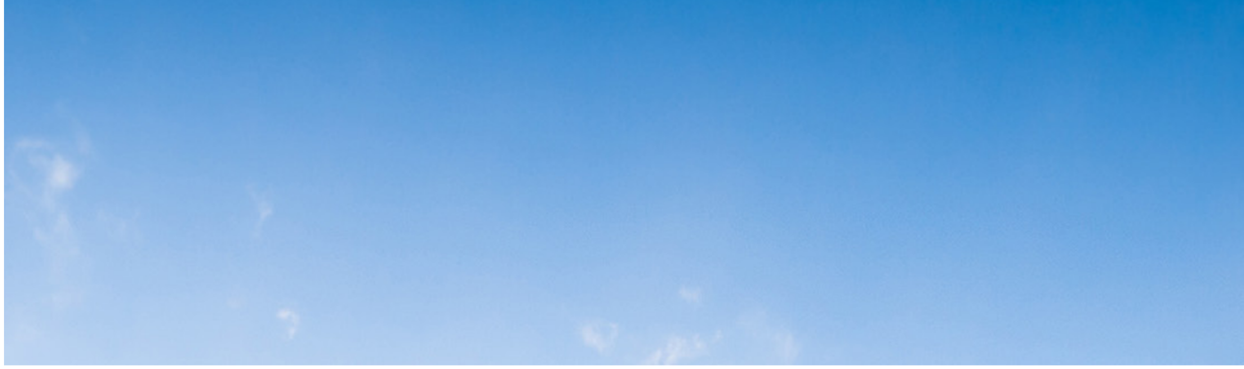
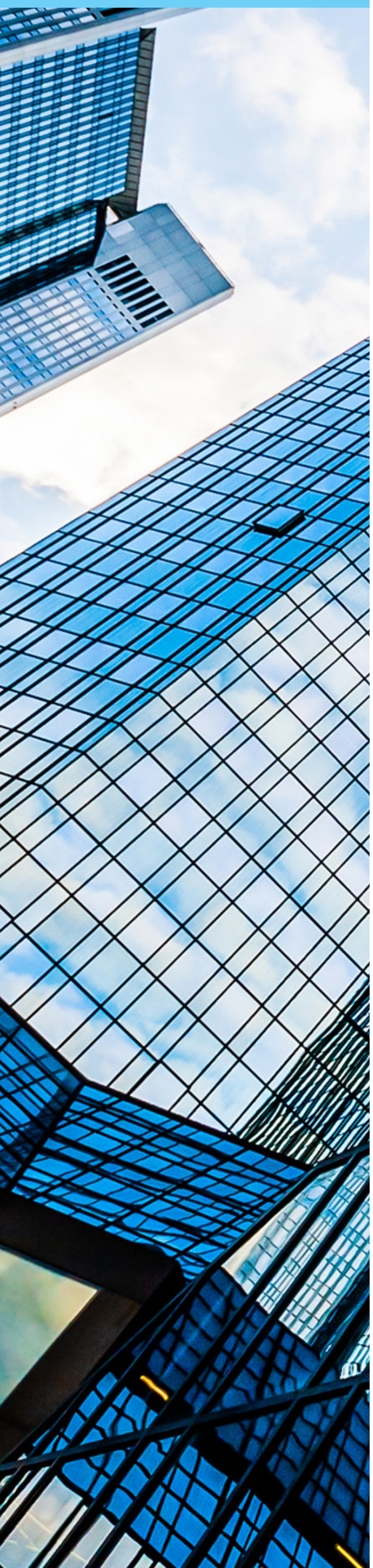


February 2023



2023 ANNUAL INVESTMENT LETTER

The Roadmap to the New Investment Landscape

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The new investment landscape is uncharted territory for many.

These terrains are especially unfamiliar to those who have invested primarily in times of easy money and a benign economic environment or, in other words, the last 15 years. Higher interest rates, elevated inflation and tightening monetary policy have rendered ineffectual the paths that were in place, and we believe investors will need to explore different approaches to reach their financial goals and objectives.

At NEPC, we tackle the investment landscape with minds open to fresh possibilities and the humility to assess the implications of a new investment regime, while leaning into approaches that have withstood the test of time and economic cycles.

We begin by acknowledging the distinct shift in markets in 2022, as rising inflation forced central banks to raise interest rates, a dramatic about turn from their emphasis on supporting investor sentiment and market liquidity. These changes not only triggered a broad re-pricing across all financial assets, but also are challenging the norms investors have become accustomed to over the last decade. The capital market structures that previously thrived are now hobbled by higher discount rates, new economic risks and tight monetary policy. The composition of these dynamics reflect certain stagflation trends in the U.S. while dimming the economic outlook. The full impact is yet to be seen as investors are still acclimating to these new terrains while grappling with their investment biases left over from the previous investment regime, fueling a prolonged lag effect flowing through the global economy and capital markets.

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To be sure, this awareness of our current surroundings is not accompanied by prescience or mile markers. However, it comes with the realization that we need to blaze different investment paths—unlike the ones traveled since the Global Financial Crisis—to traverse the new market environment. While we may not know how this investment landscape will evolve, we do know the way forward to help investors stayed grounded. Using these as your guide, we believe you will be better prepared for the new world economic order:

1. **Defensive beta exposure:** The last decade forced investors to push further out on the risk curve to reach for returns. Today's investment landscape offers different opportunities. The outlook for investment-grade bonds has rapidly improved and the risk-return profile of high-quality bonds is favorable relative to stocks. We encourage assessing the risk-return benefits of fixed income and diversifying assets as they offer improved efficiency and value for a

portfolio in a more volatile macro-economic environment. Defensive exposures also include the use of value in U.S. large-cap equity. Despite a strong year in 2022, the value spread relative to the overall equity market remains attractive and the earnings yield of value stocks is appealing relative to high-quality bond yields. We have high conviction in the use of value exposure and its ability to deliver strong relative gains in an environment of lower valuations and eroding profit margins.

2. **Active management's potential:** We encourage investors to consider the potential of active management in this new investment landscape. Passive management was a dominant trend of the last 10 years, benefiting from plentiful liquidity and a relatively stable macro-economic environment. With the end of quantitative easing, we see a potentially attractive opportunity set for active management, specifically in equity strategies focusing on higher quality. Furthermore, investors should capitalize on opportunities to move expeditiously when capacity becomes available in high-conviction investment strategies.

3. **Prioritize liquidity:** Liquidity is the lifeblood of an investment program. To that end, holding an appropriate level of Treasuries or safe-haven fixed income is critical to support an investment program's core mission. In addition, liquidity provides flexibility to exploit market dislocations and niche opportunities. We encourage investors to hold greater levels of liquidity and to be prepared for opportunities to rebalance equities that are likely to arise as markets find their place within the new investment landscape.

4. **Private markets discipline**: While private markets are not immune to the struggles currently facing the investment world, we remind investors that some of the most lucrative returns have been generated in vintage years marked by the current market dynamics. Private markets will continue to reset through 2023 and now, more than ever, it is important to employ best practices in the space. Whenever possible, maintain regular and consistent pacing of annual commitments, which is a critical portfolio and risk management tool. We encourage investors to continue to commit to their private equity managers, even if it means making smaller commitments. Like public markets, a liquidity-constrained market environment may offer an opportunity to gain exposure to previously inaccessible high-quality investment teams. In addition, we recommend investors review their overall portfolio liquidity profile to ensure the ability to meet capital calls in periods of market stress.

As we navigate these unfamiliar terrains, we urge flexibility in forging different paths and patience as we adapt to the new investment regime. An environment wholly different from the one we were accustomed to may require unlearning and shedding of biases that may have held us in good stead in the past but will likely be less relevant going forward.

We believe market forces that defined the prior regime, such as easy liquidity and low interest rates, have permanently shifted, and capital markets are only now beginning to reflect this reality. Embracing these changes and a willingness to explore new paths will better position investors to adapt to the current market environment. At NEPC, we are here to partner with you as we step into this investment landscape with an open mind, prepared to confront the shifting market forces that reveal the new world economic order.

IMPORTANT DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

This memo should not be considered customized investment advice. Please contact NEPC for advice specific to your investment program.

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