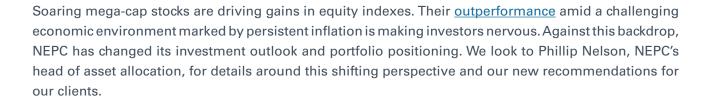


STREET SMARTS: HIGH YIELD AND CASH ARE IN, MEGA-CAP STOCKS ARE OUT

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1. Tell us about NEPC's recent shift in portfolio positioning, including our revised stance towards equities.

We have observed a significant rally in S&P 500—especially in the mega-cap names—and are increasingly concerned the markets are priced for perfection. We are also bothered by the lack of clarity around consumer spending trends and persisting inflation. We do not see the Federal Reserve pivoting towards rate cuts any time soon. This gives us pause towards the largest mega-cap names that are behind the bulk of the gains in the S&P 500.

As a result, we are shifting our outlook and portfolio positioning. We have identified a number of viable alternatives for clients to move towards. We are recommending our clients reduce their exposure to mega-cap names and the S&P 500. At the same time, we suggest a tilt towards value exposure to U.S. equity. We propose clients lean into more active strategies, especially those focused on global equity markets. We also advocate increasing exposure to high-yield bonds which we think are fairly priced.

2. Are you saying there is a bubble?

Not yet, but we think there are emerging signs of some names—especially some of the largest names in the S&P 500—having a frothy valuation profile. But as is the case with all market bubbles, they tend to last longer than you believed they would, and they correct themselves faster than you think they will.

3. What should investors do?

In light of our outlook, there are immediate steps investors can take: reduce exposures to mega-cap stocks and S&P 500 and increase portfolio liquidity. Today, we are more comfortable with investors holding cash than we have been in 20 years. We think high-yield bonds are fairly priced. We can see the U.S. economy experience a shallow recession and/or potentially sidestep a recession. We believe high-yield bonds will deliver returns in the 7%-to-8% range and will outperform the S&P 500 Index over the next few years.

In the longer term, we are asking investors to reassess strategic targets, specifically their exposure to

publicly traded fixed-income debt. In this market environment, we recommend resetting your exposure to fixed income in favor of more corporate-bond debt.

We encourage our clients to reach out to their NEPC consultant if they have any questions and to learn more about our shifting perspective.

IMPORTANT DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to 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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