PERSONALIZED RETIREMENT OUTCOMES

FOURTH QUARTER 2020 MARKET OUTLOOK & INDUSTRY REVIEW

OVERVIEW

Retirement readiness for plan participants is heavily dependent on a healthy savings rate and appropriate asset allocations. As a retirement industry thought leader, Personalized Retirement Outcomes understands the need to stay abreast of the latest industry research and market trends.

With that in mind, this Quarterly Market Outlook & Industry Review seeks to provide readers with information and developments relevant to the retirement community.

In this document, we present information pertinent to the following topics:

- Recently published retirement industry papers and articles with hyperlinks to source files.
- Current Fisher Investments global portfolio themes for both equities and fixed income.
- A general market outlook and commentary for equities as well as fixed income.
- Summary description of Fisher Investments Personalized Retirement Outcomes (PRO).

Personalized Retirement Outcomes (PRO):

- Personalized Portfolios
- No Participant Action Required
- Actively Managed Investments
- A Highly Competitive Cost

A "Next Generation" QDIA is now available at Fisher Investments.

Fisher Investments plans to send proactive communications each quarter to update plan sponsors and their advisors of the latest industry research and trends.

RETIREMENT INDUSTRY RESEARCH

Highlighted below is a summary of recently published industry research that we have found particularly interesting.

- **Morningstar:** "Stop Guessing 2.0 | Extending the Framework: Using Participant Data to Select the Optimal QDIA"
- Source Link

Summary: Building upon the previous "Stop Guessing" white paper Morningstar published in 2018, this newer, 2.0 version, introduces five additional factors for plan providers to consider when selecting an appropriate QDIA for participants. Utilizing a data-driven approach, this paper proposes methodologies to quantify the cost-benefit of those factors.

Current Portfolio Themes

These are Fisher Investments' current broad views on Equities and Fixed Income.

Equities

- **Quality Tilt:**
  We continue to favor larger, high-quality companies as our assessment is that we remain in a late bull market cycle despite the technical bear in 2020.

- **Information Technology Holds Up Well:**
  Unlike many past cycles where the bull market's leading category underperformed in the subsequent bear, large Technology equities held up relatively well during the 2020 bear market and the initial recovery off the market lows.

- **Preference for Growth Equities:**
  In our view, fundamentals such as mild economic growth expectations, modestly positive yield curve, low market breadth, and limited signs of broad inflation support our preference for growth equities.

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Fixed Income

- **Investment Grade Corporates Remain Attractive:**
  Corporate bonds are a primary emphasis in our fixed-income portfolios, reflecting our belief they presently offer more attractive risk and return characteristics than US Treasuries. Investment-grade corporate bonds offer higher yields than Treasuries - attractive in the relatively benign interest rate environment we expect as the Fed continues large-scale bond buying - Quantitative Easing ("QE"). Wider corporate yield spreads early in 2020 due to the COVID-19 outbreak are now approaching pre-crisis lows tied to improving prospects for economic recovery as vaccines become more widely available. Furthermore, as the current economic recovery continues, we expect corporate spreads to continue narrowing. Notably, the outlook for improving corporate profitability in a growing global economy supports the prices of corporate bonds relative to Treasuries.

- **Expect a Tailwind from an Opportunistic Allocation to High Yield:**
  We also have a small, opportunistic allocation to high-yield corporate bonds. These bonds have the regular coupon payments of a fixed income security but can be more volatile, with occasional equity-like returns. Despite volatility early in 2020 tied to COVID-19, we believe high-yield spreads likely further tighten in 2021 as the global economy and corporate profits recover more quickly than many expect. While high-yield bonds are not contained in the benchmark, a limited allocation to high-yield bonds should benefit relative returns.

- **Underweight Relatively Low Yielding Treasuries:**
  We do not have any direct exposure to Treasuries at this time. With Treasuries trading near historically low yields as the Fed continues its large-scale bond buying ("QE"), we believe other fixed income investment opportunities appear to be comparatively more attractive in yield than Treasuries. Further, our outlook for better than expected economic growth implies a likely narrowing of credit spreads as COVID-19 fears ease further with vaccines - making the expected total return of other fixed income investment opportunities more attractive than Treasuries.

Market Outlook

These are the general views and market outlook from the 4th quarter 2020 written by Fisher Investments' Investment Policy Committee (IPC), a five person team of industry leaders with more than 130 years of combined industry experience, that collaboratively make all of the firm's strategic investment decisions.

Equities

- **Expect an Above-Average Year for Global Equities:**
We anticipate a strong year for global markets tied to equities' resilience, political clarity and continued vaccine development and distribution.

- **We Believe We are Late in the Market Cycle:**
The 2020 downturns behaved more like an outsized correction than a traditional bear so the market cycle did not reset. The vast majority of our sentiment and market indicators point to this being a late cycle bull market, yet many forecasters expect early-cycle leadership.

- **Investor Sentiment is Elevated but not Euphoric and can Remain High for a Long Time:**
Positive sentiment can reign for a while before equities reach a euphoric peak, with strong returns along the way. Monitoring sentiment should be key for investors in 2021.

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Fixed Income

- **Long Rates Should Remain Low Tied to the Fed's "QE" Policy:**
We expect long-term Treasury rates to remain relatively low in 2021, albeit with modest volatility along the way. We feel the Fed should continue its large-scale bond buying to foster economic recovery, keeping the likelihood of rising rates low this year.

- **Foreign Demand for Treasuries is Robust:**
Additionally, competing forces from abroad should continue to weigh on Treasury yields, including negative interest rates in Japan and Europe, low global inflation and continued strong foreign demand for the safety and liquidity Treasuries provide.

- **The Yield Curve is Positively Sloped, Favorable for Bank Lending:**
As the Fed has lowered its Fed funds policy rate to near zero as part of its "QE" policy, the yield curve is positively sloped. The ability for banks to borrow at near zero short-term rates and lend longer term supports ongoing bank lending as businesses emerge from COVID-19 constraints. Portfolios are presently positioned to benefit from comparatively higher yields along the curve, but slightly less interest rate risk to the benchmark.

Market Outlook Commentary – Equities

Global markets finished 2020 positively, increasing 14.7% in Q4 to bring full-year returns to 16.3%—a testament to markets' resiliency and forward-looking nature.[i] Tech, Tech-like and quality, growth-oriented equities have generally led the recovery from the March low despite several countertrend value rallies. We believe the bull market should continue in 2021, with rising optimism, increasing economic normalcy and a less political uncertainty delivering a great year for equities.

In our Q4 2019 Review, we forecasted a good 2020 for equities, and the year's returns matched those expectations. We didn't anticipate a global pandemic or governments locking down major parts of the global economy, forcing a sudden, deep economic contraction and lightning-fast bear market. The speed of the downturn was unprecedented, but matched by a remarkable rally following March 23's low.

On paper, this appears to be a young bull market that began after last March's pandemic induced trough. Most see it this way, presuming value equities will outperform as they normally do at the start of new bull markets, with equities potentially climbing for many years. However, from its March 23 start, we have observed something very different: Equities are acting as if 2020's bear market was a hugely oversized bull market correction. Growth equities led before the downturn, during and after—a traditional mature bull market feature. Q4's big rally tied to vaccine news and falling political uncertainty reinforced that viewpoint, as it caused rising sentiment.

As Sir John Templeton famously described: "Bull markets are born in pessimism, grow in skepticism, mature in optimism and die in euphoria." March introduced widespread pessimism stretching into early Q3. Now investor optimism abounds. Optimism can last for some time before potentially evolving into euphoria. But even euphoria's arrival doesn't trigger a bear market. It lingers first. Many of history's best bull market years came as late bull market sentiment warmed.

In our Q1 2020 Quarterly Review, we explained that equities' behavior in February – March's bear market was more like an oversized correction than a normal bear market. While big enough to qualify as a bear with an identifiable fundamental cause, its speed was correction-like. Unlike traditional bear markets, it didn't have a slow-rolling top. Sentiment did not slowly progress lower from hopeful dismissiveness to widespread fear. Instead, sheer panic ignited a sharp freefall that only lasted mere weeks.

Relatedly, the economic downturn didn't resemble normal recessions. It was a uniquely steep contraction. It came from governments forcing business closures aimed at containing Covid-19. By contrast, normal recessions develop when circumstances force businesses to work off previously developed excesses. There weren't excesses to correct this time. Businesses didn't have to get lean as they usually do—the cycle hasn't reset. Manufacturing has already recovered. Services businesses haven't yet recovered primarily due to continued Covid-19 related restrictions, not part of a normal economic cycle. Consumers' balance sheets are unusually healthy this close to the lows of a recession. Absent an economic and market reset, current equity leadership trends will most likely continue into 2021.

On the US political front fears remain, particularly with the Democratic party preparing to control both congressional chambers and the White House. Many US investors lean Republican and fear Democrats as anti-business, and the tense political environment has many especially on edge now. Contributing to the heightened emotions since the US election were multiple state recounts, legal challenges from the Trump administration and a riot that interrupted congressional hearings to certify Joe Biden as President-elect in the Capitol.

In response, the Democrats in the House of Representatives led efforts to impeach President Trump a second time on January 13 for his alleged involvement in the events at the Capitol. While historic, this effort seems largely symbolic to us as the Senate trial will not begin until after President Trump is out of office. Despite the abnormal circumstances surrounding the transition of power, President-elect Joe Biden took office on January 20 and emotions will likely wane as the year progresses.

US Politics is actually a reason to be bullish. Newly elected Democratic presidents' first years are

Commentary - Equities Continued

usually very strong. We believe relative gridlock in the US as we have now, despite Georgia's Senate results, should support global markets. The Democrats' House majority is its smallest since 1900. The Senate is 50-50 with Vice President-elect Kamala Harris casting the tie-breaking vote, the slimmest edge possible, and its slightest majority for any first-time Democratic president taking office since Grover Cleveland in 1885—136 years ago. This renders any single swing-state Democratic senator unusually powerful in determining if legislation lives, dies or is watered down. There are five senators, focused on 2022 re-election who barely won six years ago, who will negate almost anything controversial. Usually we don't get this relative gridlock until midterms. Its unprecedented arrival now should further boost 2021 returns.

As the UK moves into post-Brexit life, it continues finalizing trade deals with non-EU countries. Following its October free-trade agreement with Japan, the UK has reached agreements with countries including Canada, Turkey, Mexico, and Vietnam. With trade discussions ongoing with the US, Australia and New Zealand, the UK has strengthened its ties with the global economy—undercutting fears of a more isolated Britain post-Brexit. A no-deal Brexit scenario wasn't the negative so many feared, in our view. However, a deal removes uncertainty for businesses and likely boosts sentiment.

Emerging Markets also saw positive gains in 2020 overcoming widespread economic and political challenges throughout the year. Tech and Tech-like growth oriented equities within China, Taiwan and South Korea led the rally since the March trough. As economic data continues to improve, investor sentiment remains optimistic. Despite new lockdown measures taking place as Covid-19 cases increase, the markets have been largely insulated. With investors overall having expected a second surge—and returns to lockdown—globally, these new restrictions lack the surprise power that early-year lockdowns carried. At the same time, we believe the rally thus far has plenty of fundamental support, with global demand boosting large EM Tech firms and the recovery from lockdowns continuing. Yet returns do vary among EM countries, with those more heavily tilted toward value categories

Commentary - Equities Continued

experiencing a slower recovery than growth-heavy nations.

For now, enjoy what should be a great 2021. Volatility may return, but some of markets' best late-cycle years, including 1998 and 1999, featured big corrections or near-corrections.

Commentary - Fixed Income

We expect long-term Treasury rates to remain relatively low with modest volatility along the way. With Treasuries trading near historically low yields as the Fed continues its large-scale bond buying ("QE"), it is unlikely Treasury yields move materially higher in 2021. Additionally, inflationary expectations are likely to remain subdued following COVID-19 containment efforts, further dampening Treasury yields.

Corporate bond yield spreads, widening sharply early in 2020, have since tightened to near pre-crisis lows on an improving outlook for recovery as vaccines become more widely available. Looking ahead, we expect a gradual easing of COVID 19 containment measures that should lead to a more normal pace of economic activity. We believe Treasury yields may move modestly higher in the process, with fewer investors rushing to the safety of Treasuries. Further, we expect corporate yield spreads over Treasuries to continue narrowing, reflecting an improved outlook for corporate profitability. Portfolios are presently positioned in corporate, mortgage-backed, and muni bonds (for taxable accounts) with an overall higher yield but slightly lower interest rate sensitivity than the benchmark.

Meanwhile, government bond yields in most of Europe and in Japan are lower than similar maturity US government bond yields due to ongoing QE in both Europe and Japan. From a credit quality point of view, bond investors do not see a lot of difference between the risk of repayment on a US Treasury or in the repayment of a German bund, for example. However, given the ECB's likely ongoing negative interest rate policy this year tied to its QE program, investor expectations of higher sovereign yields in Europe remain muted. Against this backdrop, foreign demand for Treasuries should remain strong this year, a further counterweight to rising US Treasury yields.

Fisher Personalized Retirement Outcomes (PRO) Summary

Fisher Investments Personalized Retirement Outcomes (PRO) is a next-generation managed account created to help improve retirement outcomes for participants and their plan sponsors. Available to a retirement plan as either an affordable Qualified Default Investment Alternative (QDIA) or as an additional positive election option, PRO utilizes information automatically provided by the recordkeeper to implement and monitor personalized asset allocations for each individual participant without requiring engagement. PRO offers an easy-to-use online portal for participants who would like the option to better understand their retirement outlook and provide additional information (such as spousal age and outside income) that could further refine their personal asset allocations.

PRO participants receive the benefit of actively managed investment funds advised or managed by Fisher Investments' tenured Investment Policy Committee (IPC) allowing for cohesive and effectively communicated management, in addition to providing risk controls if we forecast a change in market conditions. PRO's streamlined approach to portfolio construction provides participants diversification without complexity and allows for plan sponsors and their retirement advisors easy benchmarking capabilities. As a service oriented organization with a strong background in delivering personalization to both high net worth individuals and institutions across the world, the Fisher Investment's PRO team works alongside retirement advisors and the plan sponsor to offer a customized service plan tailored to their needs.

About Fisher Investments

Fisher Investments (FI) is an independent investment adviser registered with the Securities and Exchange Commission (SEC). As of 12/31/2020, FI manages over $158 billion USD serving over 83,000 families and retirees on the private client side of the business and 148 institutional clients spanning across 31 countries.[ii] The firm was founded in 1979, serving both institutional and private retail investors including corporate and public defined benefit pension plans, and has evolved over the last four decades into a global business. The firm offers a broad array of global equity and fixed income strategies which are supported by its global research platform atop which all investment decisions are made by the firm's experienced and stable five member Investment Policy Committee (IPC) who average over 29 years of industry investment experience.

Contact Us

To set up time with a PRO team member or for any questions, please reach out to us at: FisherPRO@fi.com or call us at 888-803-1621. www.fi-inst.com/PRO

Disclosures

For use by plan sponsors and their retirement planning advisors only.

i. Source: FactSet, as of 01/06/2021. MSCI ACWI Index return with net dividends, 09/30/2020 – 12/31/2020 and 12/31/2019 – 12/31/2020.

ii. As of 12/31/2020, Fisher Investments and its subsidiaries manage assets valued over $47 billion across all FIIG strategies and over $110 billion for over 83,000 private clients. All assets are as of 12/31/2020 are preliminary and subject to final reconciliation of accounts. Assets are presented in USD Millions. Number of countries are represented in client location by FIIG clients only. The IPC are generalists and devote their efforts to all the firm's strategies.

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Investing in securities involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. Other methods may produce different results, and the results for individual portfolios or different periods may vary depending on market conditions and the composition of a portfolio or index. The value of investments and the income from them will fluctuate with world equity markets and international currency exchange rates. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Bonds and bond funds are subject to interest rate risk and will decline in value as rates rise. Intended for use by employers considering or sponsoring plans and their advisors; not for use by plan participants.

Fisher Investments requests that this information be used for your confidential and personal use.

Disclosures

AWE Collective fund disclosures

The foregoing information is based on the Fisher Investment All World Equity Collective Fund (AWE) benchmarked against the MSCI ACWI. This AWE Fund fiduciary authority is held by SEI Trust Company based on advice given by Fisher Investments. The AWE Fund is available to qualified retirement plans only, not a mutual fund. The AWE Fund will not pay a fee to Fisher Investments or the Trustee. Fisher Investments pays the Trustee for its services to the Fund. Participating plans pay Fisher Investments a separate fee for fiduciary services and fees to record keepers, administrators, and other service providers. If paid from plan assets, these fees reduce the net return to plan participants, but are not reflected in performance. The Fund does not pay many common expenses, but extraordinary circumstances (e.g., litigation) and certain investing activities (e.g., investing in another fund) may cause the Fund to have an expense ratio. The Fund will bear other expenses not covered by the expense ratio, including but not limited to commissions and costs relating to purchasing and selling Fund assets, brokerage fees and commissions, and other transaction expenses. Except otherwise noted, all values exclude cash held by the Fund. Investing in securities involves the risk of loss. Performance includes cash and reflects the deduction of all fees paid by the Fund and the reinvestment of dividends, interest and other income. Past performance is no guarantee of future results. In addition to the normal risks associated with investing, international investments may involve the risk of capital loss from unfavorable fluctuation in currency values, from differences in account principles or from social, economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. SEI Trust Company (the "Trustee") serves as the Trustee of the Fund.

US fixed income Collective fund disclosures

The foregoing information is based on the Fisher Investments US Fixed Income Collective Fund (US FI) benchmarked against the Bank of America US Broad Market Index. This US FI Fund fiduciary authority is held by SEI Trust Company based on advice given by Fisher Investments. The US FI Fund is available to qualified retirement plans only, not a mutual fund. The US FI Fund will not pay a fee to Fisher Investments or the Trustee. Fisher Investments pays the Trustee for its services to the Fund. Participating plans pay Fisher Investments a separate fee for fiduciary services and fees to record keepers, administrators, and other service providers. If paid from plan assets, these fees reduce the net return to plan participants but are not reflected in performance. The Fund does not pay many common expenses, but extraordinary circumstances (e.g., litigation) and certain investing activities (e.g., investing in another fund) may cause the Fund to have an expense ratio. The Fund will bear other expenses not covered by the expense ratio, including but not limited to commissions and costs relating to purchasing and selling Fund assets, brokerage fees and commissions, and other transaction expenses. Except otherwise noted, all values exclude cash held by the Fund. Investing in securities involves the risk of loss. Performance includes cash and reflects the deduction of all fees paid by the Fund and the reinvestment of dividends, interest and other income. Past performance is no guarantee of future results. In addition to the normal risks associated with investing, international investments may involve the risk of capital loss from unfavorable fluctuation in currency values, from differences in account principles or from social, economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. SEI Trust Company (the "Trustee") serves as the Trustee of the Fund.