SECOND QUARTER 2021 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.

- **DCIIA:** "Incorporating ESG in DC Plans: A Resource for Plan Sponsors"
- Source Link

Summary: A white paper that provides tips for plan fiduciaries considering how to incorporate sustainable investing into a plan.

- **DCIIA:** "Plan Sponsor Views on Adopting Dynamic QDIAs"
- Source Link

Summary: A report detailing the outcomes of interviews conducted with 7 plan sponsors who had adopted a dynamic QDIA between January 2019 and April 2020.

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.

- **Recent Relative Strength Likely a Typical Countertrend:**
  As growth resumed leadership late in Q2, we believe the relative strength in value-oriented companies was likely a countertrend in a longer growth-led cycle.

- **Preference for Growth Equities:**
  Economic growth and inflation expectations likely continue to moderate as global economies reopen supporting our preference for growth equities.

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> "Investment grade 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 ."

Fixed Income

- **Investment Grade Corporates Remain Attractive:**
  Investment grade 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 a relatively benign interest rate environment. Credit spreads widened significantly in Q1 2020 tied to the COVID-19 pandemic, weighing on returns, but have narrowed since then to near pre-crisis lows. We expect spreads to remain relatively tight as improving corporate profitability, healthy corporate balance sheets, and warming sentiment typically further reduce the gap between corporate and sovereign bond yields.

- **Underweight Relatively Low Yielding Treasuries:**
  Portfolios only have limited exposure to longer-dated Treasuries at this time. With Treasuries trading near historically low yields, other fixed income investment opportunities are comparatively more attractive than Treasuries in our view. However, Treasuries are less correlated with stocks, thus having a limited allocation to Treasuries should help dampen shorter-term volatility.

Market Outlook

These are the general views and market outlook from the 2nd quarter 2021 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:**
  After a solid first half of 2021, global markets are on track for a strong year tied to equities' resilience, political clarity and continued vaccine development and distribution.

- **We Believe We are Late in the Market Cycle:**
  The 2020 downturn 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 will be key for investors in 2021.

Fixed Income

- **We Believe Inflation Likely Remains Tame:**
  Despite the rise in the 10-year Treasury yield this year, we expect long-term interest rates to remain relatively low - albeit with volatility along the way. Inflation expectations are a chief ingredient in long-term interest rate moves and many assume rapid inflation is inevitable as the economy reopens. However, inflation erupts from too much money chasing too few goods and services. With money changing hands at a historically slow pace, we believe inflation likely remains tame.

- **Foreign Demand for Treasuries is Robust:**
  Additionally, the Fed's ongoing quantitative easing (QE) program is putting downward pressure on yields across the yield curve. Meanwhile, competing forces from abroad including negative interest rates, QE and low global inflation support strong demand for Treasuries - also weighing on long-term rates. Portfolios are presently positioned with a similar yield and interest rate sensitivity as the benchmark.

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Market Outlook Commentary – Equities

Global equities enjoyed another good quarter rising 7.4% and seem on course for robust full-year returns.[i] Much in line with our expectations, growth outperformed value in Q2, displaying characteristics typical of a late stage bull market.[ii]

While market leadership will inevitably change, we believe growth will maintain leadership in the near future. While last year's downturn was a bear market by magnitude and cause, it behaved like a correction. The downturn didn't last long enough to reset the market cycle and user in long-running value leadership. Accordingly, equities are behaving as if we are in the late stages of the bull market that began in 2009.

Growth has led overall since March 2020's recovery started and continues to do so despite several value countertrends along the way. We are choosing to maintain our growth emphasis with select value exposure for diversification. This positioning helped mitigate the impact of the year's early countertrend.

Consistent with our outlook earlier in the year, we maintain the view that recent jumps in economic growth and inflation will likely be temporary. As opposed to previously, the consensus view now seems more in line with ours, which is normally concerning. But the facts and logic supporting our view still hold.

Specifically, pundits now cite the declines in lumber prices and long-term interest rates as signs inflation pressures are temporary. They also note the base effect from last year's pandemic-induced deflation in April and May. These are correct observations, if incomplete. Spiking resource prices due to supply shortages don't represent lasting inflation. We see this more as a false fear resolving and people realizing what the market already knew. While broad measures of money supply soared, most of the components aren't actually mediums of exchange. Note, we aren't arguing there is no inflation. Just that there is a big difference between the 1970s-style inflation many fear and the slow, pre-pandemic inflation rates we expect.

Pundits are also moderating on the infrastructure spending as stimulus, noting the slow rollout. Instead of overheating and a new Roaring Twenties, many now anticipate slow growth. We largely agree. After a temporary surge tied to reopening, we have long said pre-pandemic slow growth was likely to return. "Stimulus" was never likely to have the anticipated effect, considering shovel-ready infrastructure projects are largely a myth and households spent only a portion of their Covid-19 relief money. Regardless, government spending can aid growth when the conditions are right, but that isn't now. Most economic data are near or even above pre-pandemic levels. The notion the economy needs support from here strains credulity.

While some US legislation has passed under President Biden and other proposals could come to fruition, overall, we expect the Democratic Party's narrow edge in the House and Senate, alongside internal division, to make passing legislation difficult. Gridlock is blocking some ideas and diluting others. Tax hikes have already fizzled. The G7's vaunted global minimum corporate tax rate agreement will likely do the same. Further, we are three months away from the traditional start of US midterm campaigning. Politicians are already shifting gears. The rhetoric around a bipartisan infrastructure deal looks more like campaign talk than serious progress on legislation. Moreover, markets are familiar with all this. If major legislative disruption were likely, equities would show it.

Political risk remains benign in global developed markets, but several meaningful elections will draw attention in the second half of 2021. Germany will go to the polls in September and will replace Prime Minister Angela Merkel. We don't envision a successor with her political influence and believe it is unlikely for any single party to win a majority resulting in an inactive coalition government-positive for equities.

In Japan, Prime Minister Yoshihide Suga survived a no-confidence vote-an unsurprising outcome as his Liberal Democratic Party (LDP) and its coalition partner, Komeito, wield a huge majority in the lower house. Some speculate Prime Minister Suga may call a snap general election-a vote is due by October 22-following the Tokyo Olympics' conclusion in early August. A fresh mandate from voters may help Prime Minister Suga shore up support within his own party.

Additionally, rumors speculate that Canadian

Commentary – Equities Continued

Prime Minister Justin Trudeau may also call an early election attempting to capitalize on his vaccination campaign success and fiscal response. If he moves forward, it is too early to predict whether this will result in a majority government led by Prime Minister Trudeau.

Emerging Markets (EM) also rose in Q2, adding to a positive first half of 2021. Unlike global developed markets, growth narrowly trailed value over the quarter.[iii] However, that trend reversed in June as growth in EM led alongside developed markets, a sign of things to come in our view.

Brazil was EM's best performer in Q2. The likely reason why, in our view, is simple: The country is beating exceedingly low expectations. Between political uncertainty, slow vaccine progress and the reduction of direct aid payments in April, most observers expected Brazil to struggle for the foreseeable future. However, reality has proven better than feared.

China got a respite from its deep February - March correction as the MSCI China rose during the quarter. On the economic front, not much has changed. Data, while still showing recovery from last year's lockdowns, remain skewed by the base effect, making year-over-year measures of little use for investors right now. Most major economic indicators have been slowing in Q1, part of the slowdown likely attributable to the base effect, as China's recovery was accelerating last spring.

Further, markets have been reacting to recent news that Chinese government agencies are considering revising rules on overseas listings as part of broader capital markets reform. With this news, investor sentiment turned negative overlooking strong fundamentals, in our view. Potential regulatory changes appear aimed at strengthening domestic capital markets rather than a draconian move against foreign listed companies.

Halfway in 2021, global markets are well familiar with the pandemic's issues and setbacks-and are looking beyond them. We think they are pricing in the return to pre-pandemic growth trends. This still leaves further room for the bull market to rise this year, but rising optimism makes monitoring for euphoria and areas of excess paramount, in our view.

Commentary – Fixed income

Despite this year's rise in the 10-year Treasury yield, we expect long-term interest rates to remain relatively low—albeit with volatility along the way. With Treasuries still 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 vaccination uptake has accelerated. Looking ahead, we expect further easing of COVID-19 containment measures leading to a more normal pace of economic activity. With the economic recovery outlook improving, we expect corporate yield spreads over Treasuries to remain comparatively tight, reflecting an improved outlook for corporate profitability. Portfolios are presently positioned in investment grade corporate, muni bonds (for taxable accounts) and moderate exposure to Treasuries, with an overall higher yield than the benchmark and benchmark-like duration.

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 relatively higher yielding 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 06/30/2021, FI manages over $186 billion USD serving over 94,000 families and retirees on the private client side of the business and 154 institutional clients spanning across 32 countries.[iv] 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 30 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

i. FactSet, as of 07/01/2021. MSCI ACWI returns with net dividends, 03/31/2021.
ii. FactSet, as of 07/01/2021. Statement based on the MSCI ACWI Growth and Value Index returns with net dividends, 03/31/2021 - 06/30/2021.
iii. Source: FactSet, as of 07/01/2021. Statement based on the MSCI EM Growth and Value Index returns with net dividends, 03/31/2021 - 06/30/2021.
iv. As of 06/30/2021, FI and its subsidiaries manage assets valued over $51 billion across all FIIG strategies and over $135 billion for over 94,000 private clients.
All assets are as of 06/30/2021 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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Intended for use by employers considering or sponsoring plans and their advisors; not for use by plan participants.

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.