February 2023

SOL CAPITAL MANAGEMENT COMPANY

Client Investment Letter

Inside this issue:

2022 was a difficult year for investors. It was also an unusual year. Over the twelve months to December, U.S. equities declined 19% and non-U.S. equities declined 16%. Even the main benchmark of U.S. fixed income[1] provided no safe haven, falling 13% over the course of the year. Notably, in 50 years, 2022 was the only instance in which both equity and bond markets declined in the same calendar year.[2]

However, there is a silver lining. It was a year of multiple exceptional events that very rarely occur at the same time, or to this degree. Most noticeable was the start of the most aggressive policy rate hike cycle in history by the U.S. Federal Reserve. In response to sticky post-pandemic inflation, which was exacerbated by the shock to energy and food prices resulting from the Russia-Ukraine war, between March and December, the central bank raised the Federal Funds rate from 0.25% to 4.50%. This policy interest rate is not just used to price loans to borrowers, but also to value most asset classes from bonds to equities, where higher rates result in lower implied prices. Additionally, 2022 saw two sharp liquidity crises in critical global funding centers, Japan and the United Kingdom, which amplified volatility in global equity and bond markets.

The combination of events in 2022 was tough, but the market's "risk-off" reaction was broad, swift, and front-end loaded. In fact, if we take a step back for perspective, the sequence of market drivers illustrates a year of two very different semesters. Remarkably, most of the year's declines across equities, fixed income, and rates markets, occurred in the first semester with markets reaching the first key low in mid-June (the S&P 500 Index was down 22% year-to-mid-June). Then, after many global asset classes reached a second key low in October (at which point the S&P 500 Index was 2% below its June low), the worst stressors began to moderate (or resolve in some cases), and the second semester staged a robust rebound that has encouragingly continued into the new year.

Despite the negative year-end returns for 2022, most of our clients' diversified portfolios were, in aggregate, able to perform well and protect on the downside. Sizeable allocations to value stocks, non-U.S. equities, and most importantly lower-duration fixed income all helped soften the blow to portfolio returns. With both equity and bond markets recovering since mid-year, those that remained invested had a chance to quickly recoup some of the earlier declines.

That said, we do not have a crystal ball. While 2023 continues the recovery that began in the second half of 2022, there is no clear indication when markets will fully recover their declines, nor what magnitude of volatility we will experience this year. Already, we are seeing the impact of the Fed's rate hikes transition from the typical early-stage effects, such as housing and new orders, into later-stage effects on

[1] Bloomberg Barclays U.S. Aggregate Bond Index

[2] As measured by the S&P 500 and 10-year U.S. Treasury bond indices.

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"These are the moments when investors must be patient, remain disciplined, tune out the short-term noise, and take advantage of long-term opportunities. We have been in these situations before, and we continue to work hard to make our clients' portfolios more efficient and better positioned to meet their long -term goals."

company earnings and employment. Said another way, while uncertainty about inflation, central bank missteps, and geopolitical frictions remains pervasive, we believe we are nearer to the light at the end of the tunnel (and markets tend to recover before the real economy bottoms out). These are the moments when investors must be patient, remain disciplined, tune out the short-term noise, and take advantage of long-term opportunities. We have been in these situations before, and we continue to work hard to make our clients' portfolios more efficient and better positioned to meet their long-term goals.

Financial Markets Performance

Equity Markets

Exhibit 1

Total Return* for Selected Equity Indices	First Half 2022 (12/31/21 to 6/30/22) %	Second Half 2022 (6/30/22 to 12/31/22) %	Calendar Year 2022 (12/31/21 to 12/31/22) %	Year-to-Date (12/31/22 to 2/28/23) %
S&P 500 Index	-19.96%	2.31%	-18.11%	3.69%
S&P 500 Growth Index	-27.62%	-2.47%	-29.41%	3.57%
S&P 500 Value Index	-11.41%	6.98%	-5.22%	3.81%
Russell 3000 (Total U.S. Market) Index	-21.10%	2.40%	-19.21%	4.39%
Russell 2000 (Small-Cap) Index	-23.43%	3.91%	-20.44%	7.89%
Russell 2000 (Small-Cap) Growth Index	-29.45%	4.38%	-26.36%	8.76%
Russell 2000 (Small-Cap) Value Index	-17.31%	3.42%	-14.48%	7.02%
MSCI All Country World ex-U.S. Index (Net)	-18.42%	2.96%	-16.00%	4.32%
MSCI All Country World ex-U.S. Index Growth (Net)	-24.79%	2.31%	-23.05%	3.81%
MSCI All Country World ex-U.S. Index Value (Net)	-11.79%	3.63%	-8.59%	4.81%
MSCI EAFE (International) Index (Net)	-19.57%	6.36%	-14.45%	5.84%
MSCI Emerging Markets Index (Net)	-17.63%	-2.99%	-20.09%	0.90%
MSCI ACWI Commodity Producers (Net)	4.34%	16.04%	21.08%	-0.88%

Source: FactSet

Financial Market Performance Cont.

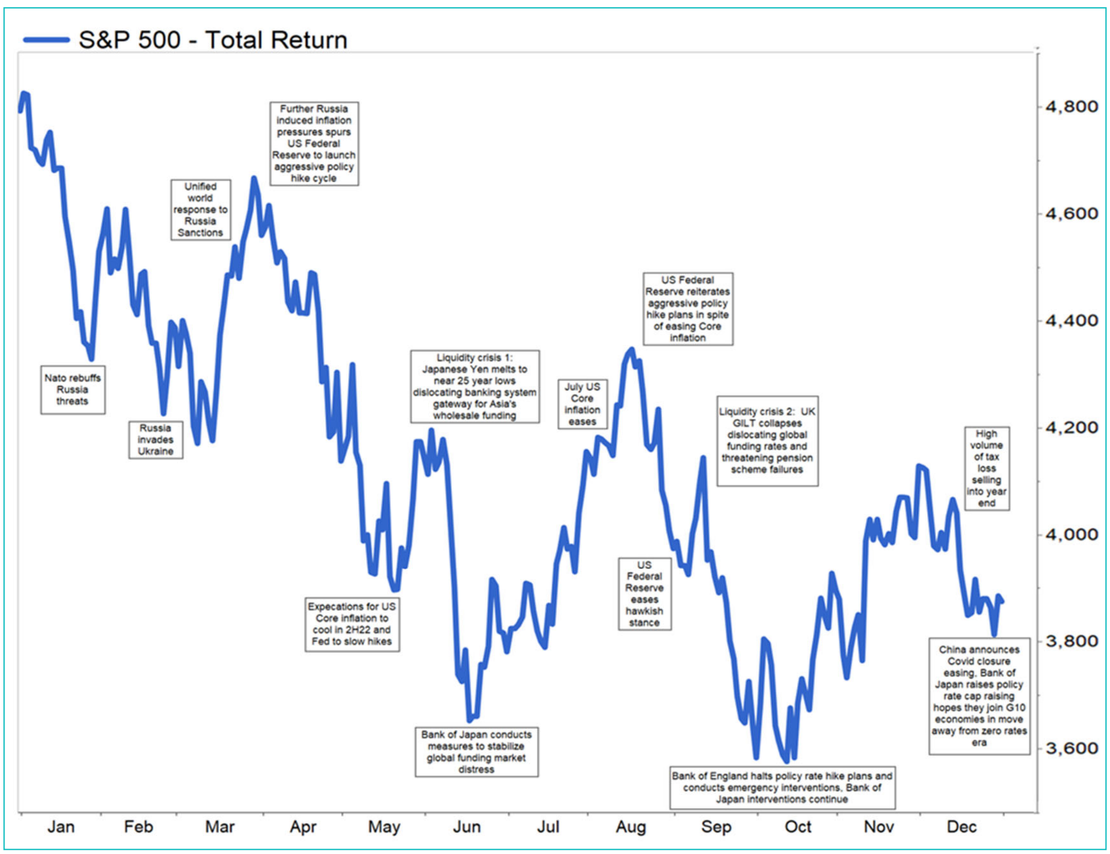
In 2022, equity market performance varied widely across sectors and styles. As Exhibit 1 shows, most of the declines occurred in the first half of the year. Even though many investors felt like markets were tough across the entire year, it is informative to observe that the second half of the year declined only marginally and then experienced a rebound.

Exhibit 2 annotates the full trajectory of a very unusual year. During the first semester, equity markets actually recovered to an interim high in March, after Russia's invasion of Ukraine. Markets then shifted sharply lower as investors re-priced virtually all asset classes once the Fed set out on its sharpest and steepest policy rate hike cycle in history. The re-pricing of U.S. assets following FOMC[3] rate hikes had the knock-on effect of re-pricing assets globally, in addition to the policy rate hikes that were also being enacted by other major central banks around the world. Half of the decline across global asset classes in 2022 was between March and May, as rates began moving higher globally and inflation intensified in the United States.

Then, markets headed sharply lower with a liquidity crisis heating up in Japan, discussed below. They reached a key low when this crisis eased in mid-June

"Even though many investors felt like markets were tough across the entire year, it is informative to observe that the second half of the year declined only marginally and then experienced a rebound. Exhibit 2 annotates the full trajectory of a very unusual year."

Exhibit 2



Source: SOL Capital Management Company, FactSet.

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[3] Federal Open Market Committee

Financial Markets Performance Cont.

"Given the very atypical backdrop in 2022, diversification provided significant downside protection and volatility offered the opportunity to rebalance and buy into equities at more attractive entry points."

and rebounded sharply toward a second interim high in August as core inflation in the U.S. also began to cool. Unfortunately, the excitement was cut short as a new liquidity crisis in the United Kingdom sent global funding markets into disarray for a second time before both situations improved in mid-October, allowing markets to recover strongly once more into a third interim high in November. Markets then gave up some of the gains in December, likely influenced by the high volumes of tax loss harvesting before year end.

Why is this chronology important to us as investors? Given the very atypical backdrop in 2022, diversification provided significant downside protection and volatility offered the opportunity to rebalance and buy into equities at more attractive entry points.

In the United States, value stocks significantly outperformed growth by 1,100 to nearly 2,500 basis points (depending on market capitalization) – the energy, industrial, material, and financial sectors, which broadly make up the value universe, all tend to do better in higher-interest rate environments. Consumer discretionary stocks were significantly weaker amid concerns about falling real wages and a possible recession. Technology stocks were also down for the year – many of the largest players were impacted by the trifecta of: high starting valuations, a reset in earnings growth expectations as sector-specific pandemic-era tailwinds dissipated, as well as heavy tax loss selling into the final month of the year. As we move further into 2023, value sectors as well as consumer and technology stocks have all continued their recoveries, though it is not yet enough to offset last year's declines.

Non-U.S. developed equities were initially hit harder in 2022 due to: the residual impacts of the war in Ukraine, energy price inflation, rate hikes by their own central banks, a slowdown in trade with China, and global liquidity crises. However, these markets recovered strongly during the fourth quarter, finishing the year down slightly less than U.S. stocks. Investors welcomed easing inflation in continental Europe and bought equities despite a still hawkish European Central Bank. A warmer-than-expected winter is also helping to keep the energy crisis contained, providing support for stock prices.

Importantly, Europe – and its counterpart trading economies in Asia – is highly reliant on wholesale funding to access U.S. dollars for trade and other financing. Two lesser known but critical disruptions to underlying funding markets took a toll on all markets (U.S. and international, developed and emerging) in 2022, as a stubborn surge in the strength of the U.S. dollar (see Appendix A) once again evidenced the extreme global shortage of U.S. dollar funding.

The two maelstroms began relatively quietly in Japan and the U.K. but then sharply hit global liquidity markets, coinciding with last year's two major lows in global equity, fixed income, and rates markets. In both cases, central bank emergency interventions improved conditions into the second half of the year, especially supporting the rebound in non-U.S. assets. For reference, despite

Financial Markets Performance Cont.

their smaller geographic size, Japan and the U.K. retain significant influence over global financial stability and liquidity, as their financial systems are the main funding gateways into Europe and Asia (particularly of U.S. dollars) for trade and other critical financing.

- Marking the first key market low in global equity, fixed income, and rates markets, Japanese equities languished for most of the year due to the progressively flagging yen which approached 25-year lows in June. While lifting pandemic-era border restrictions in October certainly aided Japan's economic story, it was a series of emergency interventions by Bank of Japan (BoJ) that helped to restore stability to Japanese and global funding markets. This in turn supported the sharp rebound in July in global financial markets. Japanese markets further recovered later in the year as the Governor of the BoJ gave fresh hope that Japan may consider joining the rest of the G10 countries in exiting the long era of extremely low global interest rates, by lifting the cap on its artificially (and chronically) low rates for the first time since 1995. This seminal move drove a late-year slump in the dollar, which provided a nice tailwind to returns for U.S. dollar-based investors (see again Appendix A).

- Marking the second key market low in global equity, fixed income, and rates markets, financial market stress in the United Kingdom suddenly roiled global liquidity markets in September. After several severe policy missteps, there was a drastic overnight collapse in the country's sovereign bonds and a spike in rates. The chaos culminated in the resignation of Liz Truss as Prime Minister, after just 49 days at the helm. Local and global markets began to recover in October after the Bank of England intervened to restore stability and liquidity.

Stabilization of global funding markets also helped emerging market equities post strong performance in the second half of the year, but 2022 returns were still weak. Chinese shares moved higher in early December after Beijing eased pandemic restrictions earlier than markets expected and stepped-up measures to support economic growth. Brazilian equities were volatile in the fourth quarter mainly due to political uncertainty, yet despite the change of leadership, the local market's heavy overweight to natural resources yielded positive annual performance.

"Global fixed income markets logged their worst annual return in over four decades (and by some measures, the worst in over two centuries4). A record pace of FOMC rate hikes in the U.S. caused interest rates for 10-year risk-free debt to more than double, while rates for three-month risk-free debt increased eighty-fold (see Appendix B)."

Fixed Income

Global fixed income markets logged their worst annual return in over four decades (and by some measures, the worst in over two centuries[4]). A record pace of FOMC rate hikes in the U.S. caused interest rates for 10-year risk-free debt to more than double, while rates for three-month risk-free debt increased eighty-fold (see Appendix B). It was hard to avoid the pain (see Exhibit 3), but shorter-term bond strategies outperformed as they were faster to benefit from coupons of new bonds and yields of existing bonds resetting upward.

[4] Deutsche Bank and Global Financial Data, using a total return index of the 10-year U.S. Treasury bond as a proxy, estimate that 2022 was the worst year for the U.S. bond market since the 1780s. Source: First Pacific Advisors.

Financial Markets Performance Cont.

While fourth quarter performance for the broad market was mildly positive (attributable to the deceleration of the global rate hiking cycles and stabilization of liquidity crises), it was not enough to recover from the significant downward pressure experienced in the first three quarters. The positive returns have continued year-to-date in 2023 as longer-term yields have come down slightly, providing a duration tailwind.

As with equities, it is important to observe that most of 2022's decline in fixed income markets reflected re-pricing due to sharply higher interest rates, which causes implied prices to be lower. The typical later stages of monetary tightening cycles, namely credit rating downgrades and increased default risk, are still ahead. However, the rapid and deep sell-off may already provide some cushion for those downside risks.

Global investment-grade bonds have also recovered as investors' risk appetite increased, with lower-quality corporate bonds outperforming across regional markets. Furthermore, high-yield (junk-rated) bonds, as well as emerging market bonds, posted strong returns in the fourth quarter and into the new year, as investors reached for yield and felt they were being sufficiently compensated for credit-related downside risks after such a sharp reset in 2022.

" After moving (roughly) in unison for a few years – from modest growth to an abrupt Covid-driven stall, and then to post-Covid progressive reopening – global economic cycles are now desynchronized (see Appendix C). "

Exhibit 3

Total Return* for Selected Fixed Income and Hedge Fund Indices	First Half 2022 *(12/31/21 to 6/30/22)* %	Second Half 2022 *(6/30/22 to 12/31/22)* %	Calendar Year 2022 *(12/31/21 to 12/31/22)* %	Year-to-Date *(12/31/22 to 2/22/23)* %
Bloomberg Barclays U.S. Aggregate Bond Index	-10.35%	-2.97%	-13.01%	0.41%
Bloomberg Barclays U.S. Government/Credit Index	-11.05%	-2.84%	-13.58%	0.34%
ICE BofAML 1-3-year U.S. Broad Market Index	-3.15%	-0.60%	-3.73%	0.10%
ICE BofAML U.S. High Yield BB-B Bond Index	-13.66%	3.53%	-10.60%	2.09%
JP Morgan Non-U.S. Global Bond Index (GBI) Hedged	-9.05%	-1.99%	-10.86%	0.89%
JP Morgan EMBI Global Index in USD (Emerging Markets)	-18.83%	2.93%	-16.45%	0.84%

Global Economic Outlook

After moving (roughly) in unison for a few years – from modest growth to an abrupt Covid-driven stall, and then to post-Covid progressive reopening – global economic cycles are now desynchronized (see Appendix C). We have seen this pattern before, following other major economic shocks, as countries choose different growth and recovery strategies.

China's "zero-Covid" strategy severely restrained its economy in 2022, while others were growing. China has eased

Global Economic Outlook Cont.

credit conditions by cutting its banking system reserve ratio 13 times since 2018, while most other major economies are aggressively raising rates to combat inflation. Now that the central government is abandoning its previous strategy, removing the risk of harsh lockdowns on people and businesses (not to mention global supply chains), there is the potential for a cyclical uptick as the economy can now better benefit from the easier access to credit. After an acute drop in spending in December as the initial waves of post-reopening Covid infections depressed spending, the Chinese consumer has rebounded strongly in 2023. Domestic flights are already back to 2019 levels and spending at movie theaters is 16% above 2019 levels.[5] Nevertheless, while the release of three years of pent-up consumer spending alongside easing monetary policy should be additive to the Chinese economy in the near term, structural headwinds (a rapidly aging population and a bloated residential property sector), will challenge the economy for the foreseeable future.

Meanwhile, European economies remain fragile. While a mild winter and improvements in the availability of energy have lowered the prospects of continent-wide rationing, the region's economy is still approaching (if not already in) recession. Many other major developed and emerging economies (e.g., Canada, Australia, South Korea, Japan, Mexico, Brazil, India) all appear to be in the later stage of the business cycle but are facing varying degrees of slowing growth, tightening credit availability, earnings pressure, contractions in monetary and fiscal policy, and rising inventories amid falling sales growth.

Turning to the U.S. economy, hope remains for a "soft landing" (the idea that the Fed can bring inflation down to its long-term target without triggering a recession), though the outcome remains far from certain. On the one hand, U.S. consumer inflation continues its steady decline but is likely to remain higher than pre-pandemic levels. Supply-chain disruptions, which caused a fair amount of inflationary pressure in the past, have eased significantly. Energy prices have also declined from their summer peaks, though uncertainty abounds in the commodity markets.

Meanwhile, the labor market remains historically tight. Even with job openings coming off all-time highs, there are still 1.9 job openings for every job seeker. Despite the headline-grabbing layoffs from large technology firms (which had doubled headcount over the past five years), layoffs in the overall economy remain well below the 20-year average and the unemployment rate is just 3.4%, a level not seen in over 50 years. Demand for labor remains strong due to the increasing need for domestic workers to fill (and comply with) multi-year infrastructure, manufacturing, and energy transition projects, many of which are being subsidized by the federal government. At the same time, the supply of labor remains constrained. The continued "Great Resignation," slower growth in the working-age population, less immigration, the lingering effects of long Covid, and rising disabilities are all contributing to a lower labor participation rate. All this leads to increased wages, particularly in the service sector where labor costs are a more significant part of the cost structure, which could keep overall consumer price inflation elevated for some time.

Typically, in the late stages of the business cycle, top-line sales growth may remain strong but rising input costs tend to eat into profit margins. Despite the negative performance of the stock market, 2022

"Turning to the U.S. economy, hope remains for a "soft landing" (the idea that the Fed can bring inflation down to its long-term target without triggering a recession), though the outcome remains far from certain."

[5] Source: JP Morgan Asset Management

Global Economic Outlook Cont.

was still a relatively strong year for profit growth. However, businesses may struggle to repeat such a feat in 2023. Market expectations for sales and profits have already been revised down, particularly for U.S. companies, but there may be more revisions to come.

Amid the late-cycle dynamics of the U.S. economy, much attention has been paid to the risk and timing of a recession. While depressed consumer sentiment may lead many to feel as though it has already arrived, many of the variables the NBER[6] analyzes when declaring an official recession are not yet flashing red (see Appendix D). Nevertheless, even if they do begin to contract, we do not expect a deep recession like we experienced in 2020 or 2008 given the lack of exogenous shocks (e.g., pandemic) and deep structural problems (e.g., financial crisis), not to mention the relatively solid financial position of the U.S. consumer.

Finally, note that the economy is not the market. Markets are forward-looking entities that price in future expectations for the economy. As such, for investors, the good news is that markets typically bottom out ahead of the economic bottom (see Appendix E).

"...the dramatic re-pricing that occurred in 2022 has created ample opportunities. One of our core investment principals is "Quality at the Right Price" and by the end of 2022, many of the high-quality companies that were too expensive at the start of the year looked like attractive buys."

Investment Strategy & Conclusion

After a painful start to 2022, the positive performance of the second semester and year-to-date in 2023 has been a pleasant relief. Still, the challenges and uncertainties facing the U.S. and other economies will likely keep volatility elevated, even if less than we have seen in recent years. Sticky inflation, geopolitical tensions, recession worries, and further downward earnings revisions could all be causes of equity market volatility. Higher interest rates mean that some unprofitable companies may cease to exist – further contributing to volatility.

Still, the dramatic re-pricing that occurred in 2022 has created ample opportunities. One of our core investment principals is "Quality at the Right Price" and by the end of 2022, many of the high-quality companies that were too expensive at the start of the year looked like attractive buys. Furthermore, we continue to perform periodic rebalancing in client portfolios, trimming the outperformers (e.g., value, energy, natural resources) and buying into areas of the market that now appear more depressed (e.g., growth, technology, consumer discretionary).

While continued interest rate rises by the Fed could cause more volatility in fixed income markets, we believe we have already experienced most of the pain. At current yields, bond investments (particularly the shorter-duration strategies we prefer in this environment) are earning enough to gradually recoup last year's declines and protect against a more hawkish than anticipated central bank in 2023. That said, our flexible-mandate managers, who kept their durations low during the pandemic and through last year, are beginning to add

[6] National Bureau of Economic Research

Investment Strategy & Conclusion Cont.

opportunistically to duration, as well as other areas of the fixed income market that were previously too expensive. Recession worries could keep high-yield bonds more volatile, but most of the fixed income market (regardless of credit quality) would benefit if the Fed decides to lower rates in the future.

Years like 2022 serve as a reminder of the importance of properly allocating and positioning portfolios in line with long-term goals and near-term requirements. If there are any changes in your risk tolerance, liquidity needs, and/or investment goals, please contact us so we may have a constructive conversation about any changes that may (or may not) need to be made to your investment portfolio. Additionally, if you have any questions or concerns about financial markets, please never hesitate to call us at +1 (301) 881-3727 or email us at client.services@sol-capital.com.

With our best regards,

SOL Capital Management Company

"Years like 2022 serve as a reminder of the importance of properly allocating and positioning portfolios in line with long-term goals and near-term requirements."

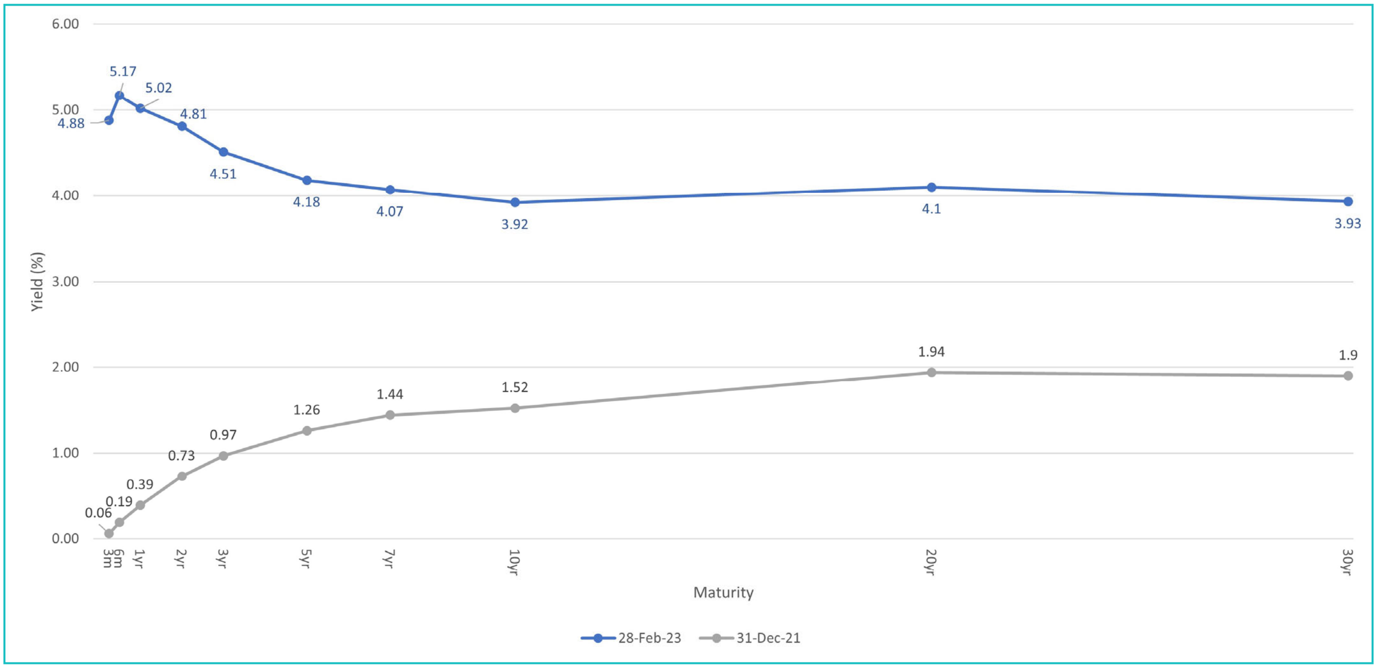
Appendices

Appendix A: The U.S. Dollar Index

Source: JPMorgan Asset Management. Data as of 28 February 2023.

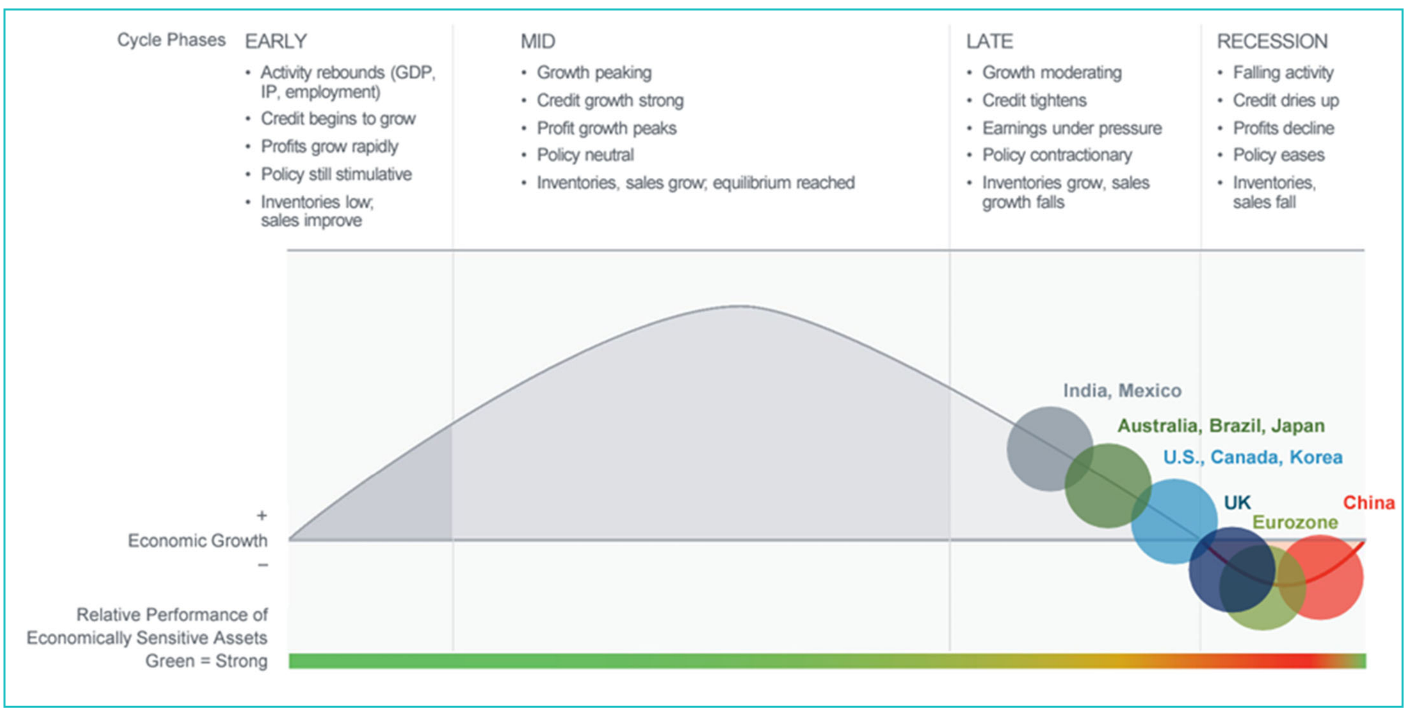
Appendices

Appendix B: The U.S. Treasury Yield Curve



Source: U.S. Treasury Department. Data as of 28 February 2023.

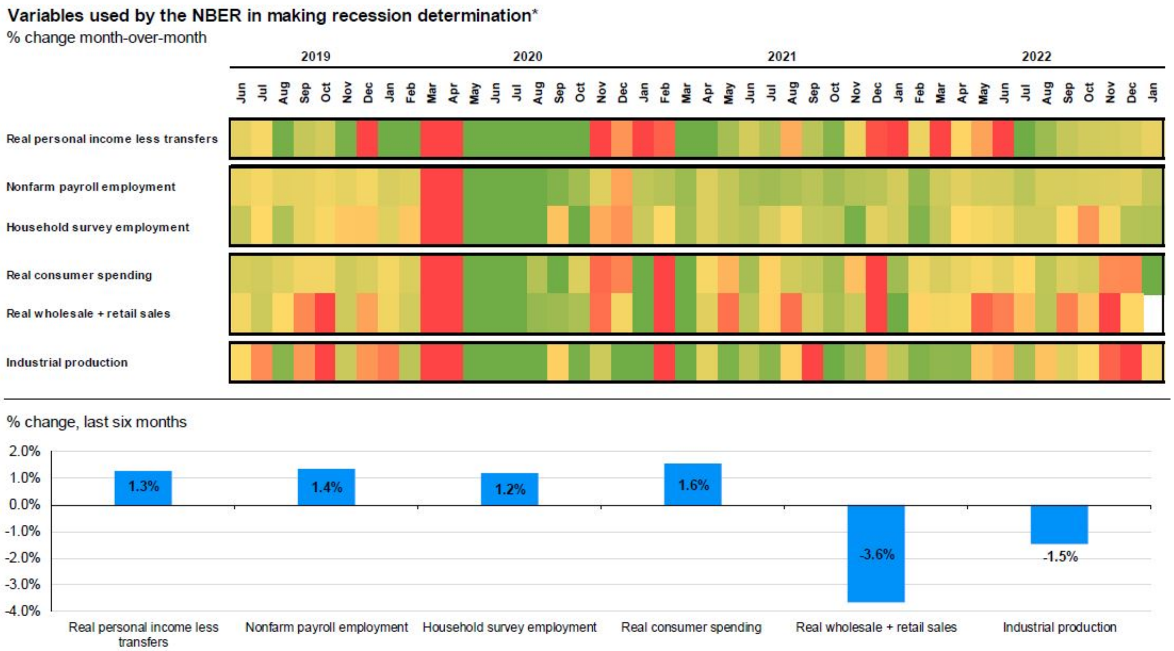
Appendix C: The Global Business Cycle



Source: Fidelity Investments. Data as of 31 December 2022.

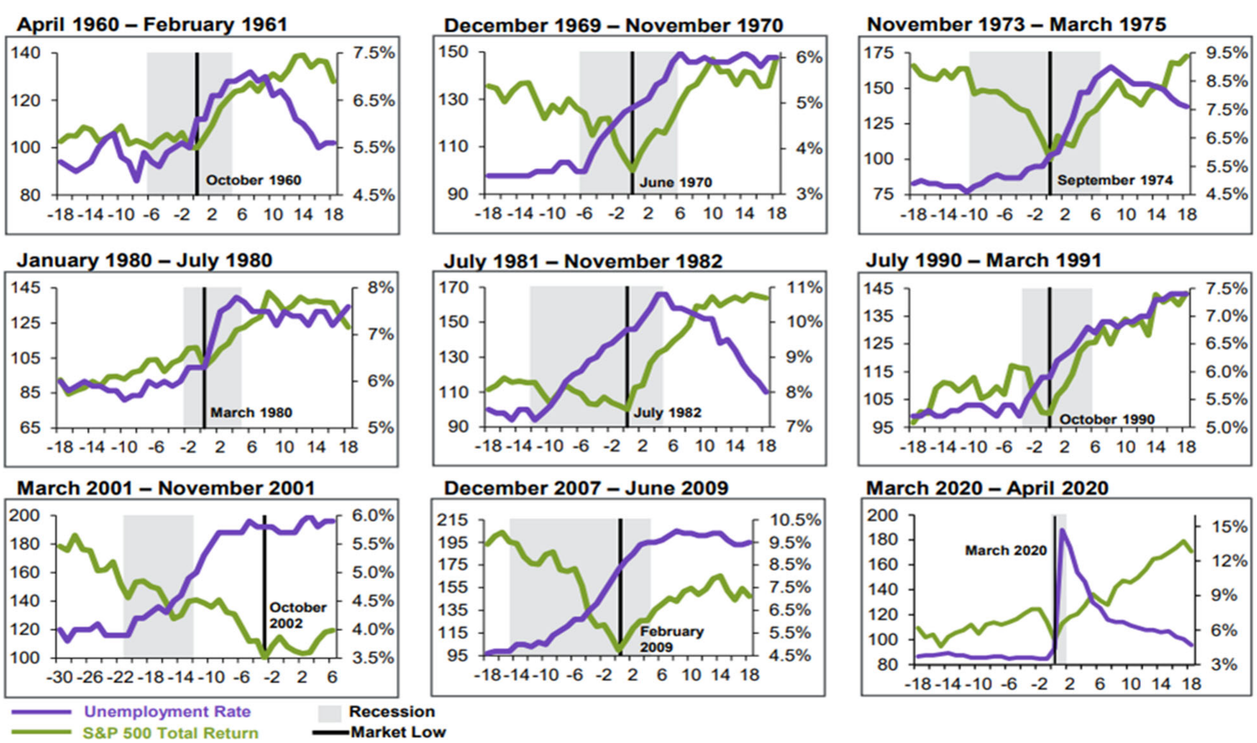
Appendices Cont.

Appendix D: Recession Determinants



Source: JPMorgan Asset Management. Data as of 28 February 2023. Heatmap shading reflects 10 years of data, with green and red reflecting a range of +/- 0.5 standard deviations from a baseline of 0% monthly growth. The NBER's definition of a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months. Because a recession must influence the economy broadly and not be confined to one sector, the committee emphasizes economy-wide measures of economic activity. There is no fixed rule about which measures contribute to the process or how they are weighted, but the committee notes that "in recent decades, the two measures we have put the most weight on are real personal income less transfers and nonfarm payroll employment."

Appendix E: Market Inflation Points versus Recessions and the Unemployment Rate



Source: JPMorgan Asset Management. Data as of 28 February 2023. Time zero represents the numeric low of the S&P 500 Total Return Index associated with the recessionary period defined by the shaded grey area; data shown in months. S&P 500 Index is rebased to 100 at time zero.

SOL CAPITAL MANAGEMENT
111 Rockville Pike, Suite 750
Rockville, MD 20850
Phone: 301.881.3727

3 Columbus Circle, Suite 2120
New York, NY 10019
Phone: 212.710.4698

www.sol-capital.com
E-mail: sol@sol-capital.com

Disclosures

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