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Second Quarter Review
June 2024

Arcataur Capital Management LLC
A Registered Investment Advisor

High Quality Investment Management

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A Balanced Approach

Tale of Two Stock Markets

During the first six months of 2024, the S&P 500 index achieved 27 all-time high price levels propelled by a narrow number of companies that are primarily the largest weights in the index. The 5 largest weights produced 57% of the 15.3% gain, led by Nvidia (AI microchip leader), representing 30% of the year-to-date total return alone. With only 85 of the 500 companies achieving higher than index returns, the concentration bias is similar to that of 2017 to mid-2020. The ten-largest market capitalization companies in 1999 represented 26% of the index, while in 2020 it was even higher at 32%. Today this has reached 38% of the total market cap, making it even more top-heavy than in past peaks.

On the flip-side, nearly 100 companies, or 20% of the large capitalization index, have fallen into bear market territory, which means stocks have corrected by 20% or more. Companies with weaker financial conditions and burdened by larger debt levels, along with earnings disappointments, were a focus in such selloffs. These sell offs, coupled with small capitalization stocks producing a -0.7% total return, along with mid-capitalization domestic and international stocks lagging (averaging +5 to 6% total returns) for the first six months of the year, illustrate a bifurcated market between the largest weighted stocks in the S&P 500 and all other companies. The Dow Jones Industrial price weighted average fell by -1.3% in the second quarter, while rising only 4.7% year-to-date.

The valuation disparity between these leading mega-capitalization companies and the broader equity market has increased. However, while the momentum over the last year widened the valuation gap, it has not reached previous extremes. A broadening of stock performance would be a healthy development to support a continuation of the rise in equity prices.

The U.S. economy has been significantly more resilient and stronger than investors and economists predicted a year ago. A rolling pattern of strength and weakness in various segments of the economy has recently emerged. Service based industries are showing improvements, while manufacturing and consumer spending sectors are displaying signs of deceleration. As Covid related and other government stimulus have been exhausted, lower income and younger consumers are being more discerning, while older and higher income consumers have benefited by locking in low mortgage rates and have benefitted from higher returns in the financial markets and increased savings rates.

Solid employment trends have been a source of support to the economy; however, employers have shown a more conservative posture recently by not filling open positions or adding new hires. Wage growth has decelerated from the torrid pace in 2022 and 2023 as rising immigration offset recent labor participation declines of older workers. The most recent unemployment report of 4.1% was the highest in the last 31 months. However, a 4.1% unemployment is very low on a historical basis and economic trends support stable future job data.

Interest rates had been on the rise for most of 2024 and peaked at the end of April, as economic data was stronger than expected and investors pushed the potential Federal Reserve interest rate cut out into the fall. Interest rates did not eclipse the sixteen year highs achieved in late October and early November of 2023. Softer economic and inflation data reported in June pushed interest rates down slightly at the end of the second quarter.

European and Asian economies continue to struggle to regain solid footing with lackluster growth and stubborn inflation. In early June the ECB reduced short-term interest rates to support it's European economies seeing uneven economic progress. China continues to try and stabilize its economy without significant success as their continuing housing problem and slowing manufacturing trends continue. With no-end in sight to the Russian invasion of Ukraine, along with the ongoing Gaza-Israeli conflict, it is difficult to expect any resolutions in the near-term. The surprise of the first Iranian reformist candidate elected as President in last 20 years offers the potential for its oppressed electorate. The recent elections in England and France appear to be contentious and somewhat destabilizing as well. Fortunately for their citizens, the process is extremely quick and not drawn out as it is in America.

The U.S. is now entering the last four months of an election season with unique circumstances and with the majority of the electorate disappointed with the current state of affairs and candidate choices. National elections typically create elevated financial market volatility late in the summer and through election day in early November. For many reasons, the 2024 election can be viewed as anything but typical and a reason for proactive risk minimization over the next five months. Congressional balance of power will also be closely scrutinized by investors and the electorate, especially with record deficits and higher financing costs of the national debt.

While unemployment levels have risen, the rate remains historically low and, if stable, can support continued economic growth. More recently, sticky inflation data and slower wage growth raises the potential risk for some deceleration in the economy. However, if that occurred, expectations would be for a more accommodative Fed to reduce interest rates.

Economists currently forecast continued disinflation, but investors understand it will not be a straight line with a gradual rise in unemployment as the price level will remain elevated.

Tale of Two Stock Markets (cont.)

The cost of shelter in the U.S. (home ownership, rental and homelessness) could be the second most difficult economic challenge for the country, next to the rapidly rising national debt. Affordability has been onerous as record housing prices, mortgage rates at 13 year high levels, and high apartment rent costs impact younger and first time home buyers. Supply of new apartments has risen significantly, while supply of new affordable homes has lagged and current homeowners with historic low interest rate mortgages are unwilling to sell. Lower interest rates and a decelerating economic growth could provide incremental relief to normalize the impediments to broadening the American dream of home ownership.

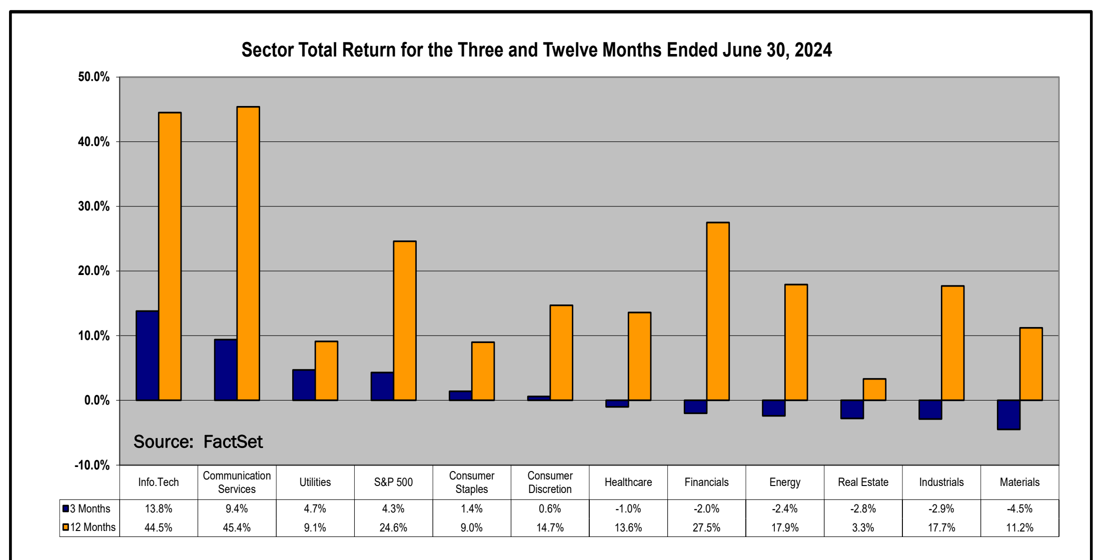
The current political candidates from both sides of the aisle have not focused on the runaway government spending and the ballooning national debt. On the bottom of page 4 is the first part of a two part discussion of government spending, with the second part planned for our 3rd quarter newsletter. In 2010, the National Commission on Financial Responsibility and Reform was the last serious attempt to negotiate a bipartisan plan to address rising U.S. fiscal spending and national debt, but it was not implemented.. Over the next 13 years, the problem was exacerbated significantly by COVID-related spending and rising interest rates.

Corporate profit expectations are a key determinant in valuing stocks. The second quarter 2024 reports due over the next seven weeks are expected to produce a 2.5% increase from the seasonally weaker 1st quarter of 2024, and more than a 9% rise when compared to the 2nd quarter of 2023 for the S&P 500. Current expectations are for all four quarters to be higher versus 2023 and up nearly 11% for the year. The large mega-capitalization technology stocks are expected to be leaders again in driving earnings growth. A broader base of companies producing earnings growth will be important to support elevated stock prices. The S&P 500 current price-earnings ratio, ranging between 22 and 23 times based upon current earnings estimates, is above the long term average as a result of the significant valuation premium of the largest technology stocks. The top 10 mega-capitalization stocks average over 28 times earnings, while the remaining 490 stocks average a more attractive multiple below 17 times. Small and Mid-Capitalization stocks trade at a discount at 15 to 17 times estimated earnings. Historically, Small and Mid-Capitalization stocks trade at a premium multiple higher than the S&P 500, however current expected earnings growth is subpar versus large cap stocks.

Oil prices have remained in a $70 to $90 per barrel trading range over the last 24 months. The decelerating economic data in early June and rising inventories pushed oil prices below $75. The start of the U.S. summer driving season and the completion of refinery upgrades typically increases inventories and reduce prices of gasoline. Currently, oil prices have recovered to above $80 and should remain in a narrow range until the start of the hurricane season. The ongoing Ukrainian/Russian war, along with Middle Eastern conflict, will continue to impact global supply and demand, along with prices and availability of oil and natural gas.

For the quarter, the S&P 500 (total return) was up 4.3%, while the Dow Jones Industrial Average fell by 1.3% . The technology-heavy NASDAQ Composite increased by 8.5% in the quarter. The S&P 600 Small Cap Index declined by -3.1%% and the S&P 400 Mid-Cap fell by -3.5% in the quarter. Developed international markets fell by -0.5% and emerging markets rose by 4.4% for the quarter.

Technology and communication services groups were the only meaningful outperforming sectors in the second quarter, while 6 of the 11 major sectors produced negative returns that included economic and consumer spending sensitive areas. On a twelve month basis, only the technology, communications, and financial sectors outperformed the index, with the remaining 8 sectors lagging the index. The financial sector outperformance was significant in the 4th quarter of 2023, impacting the positive 12 month returns. While such concentration of returns have been realized historically, it is not sustainable for longer periods of time. The chart below illustrates how all the sectors performed in the quarter and for the trailing twelve months.



	Info.Tech	Communication Services	Utilities	S&P 500	Consumer Staples	Consumer Discretion	Healthcare	Financials	Energy	Real Estate	Industrials	Materials
3 Months	13.8%	9.4%	4.7%	4.3%	1.4%	0.6%	-1.0%	-2.0%	-2.4%	-2.8%	-2.9%	-4.5%
12 Months	44.5%	45.4%	9.1%	24.6%	9.0%	14.7%	13.6%	27.5%	17.9%	3.3%	17.7%	11.2%

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Arcataur Large Capitalization Equity Portfolio - This portfolio offers investors a separately managed account consisting of high quality, blue chip stocks. Our strategy focuses on maximizing expected return through constructing diverse portfolios covering most major industry sectors. On average, this portfolio could hold 65 stocks; however, the largest 15 could account for as much as 45% of the portfolio.

Arcataur Investment Grade Fixed Income Portfolio - This portfolio offers investors a separately managed account focusing on Treasuries, Agencies, corporate bonds and municipal bonds, with an average portfolio credit rating of A or better. Our approach is to actively manage interest rate risk and credit risk while minimizing liquidity risk to generate conservative risk-adjusted total return.

Arcataur Managed Balance Portfolio - This portfolio offers investors a separately managed account which seeks to preserve capital during difficult market periods while allowing growth opportunity in good market conditions. Arcataur has developed a model that assists us in determining the relative attractiveness of stocks versus bonds. When our models and fundamental analysis indicate stocks are more attractive, we will be near our upper end of the range for stocks (75%). Conversely, when bonds are favored, we will be near the lower end of the stated range for stocks (45%).

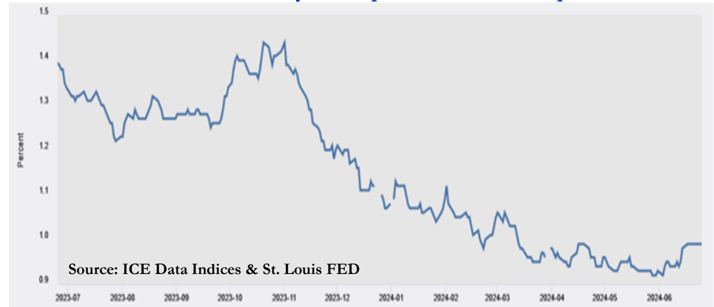
A Waiting Game For The First Fed Interest Rate Cut

Treasury bond yields continued rising until late April, with a peak of 5.03% for the 2-year maturity and 4.70% for the 10-year maturity. Yields then moved lower and ended up nearly flat in the second quarter. Sticky inflation and stable economic performance helped drive interest rates up about 0.75% from the start of 2024 across the yield curve before the April peak. In May and June, yields gave back some of these gains, with core inflation coming down and parts of the economy beginning to show some deceleration. While the yield curve remains inverted (short-term rates being higher than long-term rates), the spread between the 2-year and 10-year Treasuries did not change materially in the quarter. The 2-year Treasury began the quarter at 4.71% and ended at 4.72%, while the 10-year Treasury began at 4.32% and ended at 4.37%, with the spread of the two ending the quarter at 0.35% basis points, which is down significantly from its peak at 1.07% in March 2023. The Fed remains committed to getting inflation to their 2% target, and while inflation has cooled down a bit, there remains work to be done.

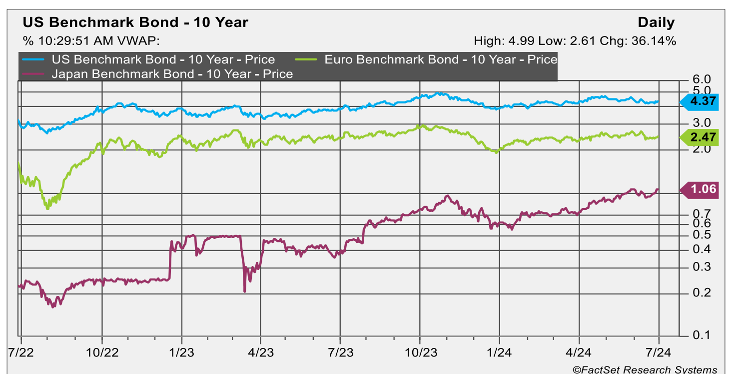
The Federal Reserve had two meetings during the second quarter and kept the Fed Funds interest rate steady at 5.25-5.50%. While the markets and many investors were expecting a series of rate cuts to occur this year, the Fed has been data dependent and has lowered their projections for the number of interest rate cuts. At the beginning of the year, the consensus view from investors was for six rate cuts to occur this year. These expectations dropped to three cuts in March. Now the Fed is projecting just one rate cut this year. In addition to the projected one cut for 2024, the FOMC released their Summary of Economic Projections (SEP) which showed four rate cuts in both 2025 and 2026 as inflation is expected to continue to moderate, with inflation projected to reach their 2% target by 2026. The unemployment rate, currently 4.1%, is not expected to change much from the forecasted 4.2% and 4.1% year-end rates in 2025 and 2026. This would certainly be the 'soft landing' that the Fed and majority of others desire. Fed Chair Jerome Powell noted that the labor market would have to be considerably worse for the Fed to speed up their interest rate cut projections. The Fed remains in a precarious position with the upcoming election and have stated that they will continue to make their decisions based on the data and not due to political pressures from either side of the aisle.

Corporate bond spreads (the yield premium required for taking on default risk in corporate bonds) remained relatively flat in the second quarter, after experiencing a narrowing in the first quarter that made new corporate bonds slightly less attractive. Corporate spreads, as seen in the following chart, were in a range of 0.92-0.99%, a level that is at the low end of history and stayed in a tight range throughout the quarter. The short-term rates continue to be higher than longer-term rates, and shorter duration Treasuries remain attractive. However, we continue to look for corporate bonds in the 3–7-year range to add bonds to balance portfolios and to provide additional yield above the Treasury interest rate in safe investments.

ICE B of A U.S. 5-7 year Corporate Bond Index Spread



Developed international markets continue to follow a similar path of the U.S. bond market with interest rates remaining steady. While some countries have begun cutting interest rates, the majority are keeping rates steady. The chart below illustrates the path of the EU and Japan's 10-year Treasury, which is similar to that of the U.S.'s 10-year Treasury bond. Japan has incrementally experienced more of an interest rise than their counterparts, but its interest rates remain near 1%. Battling inflation across the globe remains a focus for monetary authorities and they continue to the fight with the hope they can do so without inducing a recession. The U.S. economy, with a more resilient consumer, steadier employment levels and overall better economic activity continues to outperform versus the rest of the major economies globally. Such stability appears more difficult to accomplish for the rest of the world; however, the recent deceleration in consumer spending and some softness on the service side of the economy in the U.S. needs to be monitored.



During the second quarter, with interest rates remaining fairly steady, we were proactive in buying Treasuries, as the potential for a decline in interest rates could be expected to occur in a softer economy. With interest rates above 4.4% across the spectrum, investing excess cash to balance across the Treasury maturity ladder provides clients a reasonable return that is likely to exceed inflation when held to maturity. While the corporate bond yield spreads remain tight, we are actively considering high quality corporate bonds that provide an excess yield over the benchmark Treasury. The money market continues to yield over 5%, which is attractive as we wait for the right opportunity to put further cash to use. The overall quality of our fixed income portfolio is single-A, aggregate average duration is 3.7 years, with a yield to maturity of 5.2%, with sufficient liquidity to take advantage of future opportunities.

Third Quarter 2024 Investment Outlook

The uncertain and unique circumstances for the financial markets and economy heading into the second half of the year are challenging for investors. The U.S. economy has demonstrated significant resilience with near full employment allowing consumer spending to remain the engine of the domestic economy. Based upon current data, it is safe to expect the U.S. economy to decelerate; however, it is not likely to reach recessionary levels over the next 6 to 12 months. This may be the appropriate definition of the often-used description of a "soft landing".

Geopolitical conflicts, economic weakness in Europe and Asia, and the partial reversal of 40 years of increasing free global trade has impacted other regions more than North America. Europe and Asia have struggled to minimize recessionary forces which could impact the U.S. economy if global trends deteriorate. The rise in the U.S. dollar continues to reflect our relative strength versus other global economies.

The Artificial Intelligence (AI) potential and investments have propelled related companies to record stock price levels, somewhat masking benign performance of the broader market. While we do understand the transformative opportunity of AI, history has taught investors that perceived early beneficiaries of such new technology may not necessarily be the dominant companies in the future. Our clients have exposure to the current leaders, however our experience has taught us to tread carefully with elevated valuations and an uncertain timeline for the impact of a new technology's fundamental benefits to be realized.

Expectations are for increased broader market volatility over the next 3 to 6 months, continued disinflation that will lead to lower interest rates, and a less robust employment outlook which could cause a marginal rise in unemployment.

A broadening of the stock market performance would be welcomed and a healthy turn of events; however, it could be masked by meaningful declines of the technology leaders due to their the concentrated and elevated weights in the broader indices.

National elections can materially change the status quo. The recently completed French, UK, and Iranian elections have provided a glimpse of an unsatisfied electorate. The U.S. elections for the Presidency and Congress are showing similar signs of dissatisfaction. While there are many issues in focus that are driving the candidate's messaging and appeal, the rising national debt and bloated federal spending will require a bipartisan response for any improvement.

Unemployment trends have remained near historically low levels, resulting in higher wages over the previous three years. Expectations are for a modest rise in unemployment in 2024. Historically, full employment was considered to be 5%, so a modest rise from 4% would not be extreme. The recent the deceleration of wage growth and quit rate is indicating a shift in the balance of power back towards employers versus employees. A more significant or unexpected rise in unemployment would surely be a game changer for Fed policy and financial markets.

With the concentrated and strong rise in stock prices, valuations are elevated. Over the next 6-12 months, the trends in interest rates and corporate profits will be critical for investor expectations. Lower interest rates with a stable economy could support a broadening in performance towards lagging lower valuation segments of the equity market. Less robust earnings results from the higher valued leaders could accentuate a correction. This is not our base case, however many of these stocks are priced for perfection.

The differential between the largest companies and the rest of the market skews valuation analysis significantly. For the stock market to produce solid returns through year-end, a broadening of performance will need to be realized. Companies with lower valuations, including Small and Mid-capitalization stocks, are currently trading at attractive levels, but are more levered to the direction of interest rates and corporate profits. We would anticipate a normal 5 to 7% market correction; however, such a correction could be concealed if lower valued areas rise and more expensive stocks lead the correction. With stocks priced with richer valuations, they are incrementally more vulnerable to unexpected events and the normal election year seasonality.

International stocks offer somewhat attractive valuations as well; however, the economic outlook is less clear given challenges relating to the conflicts in the Middle East, Ukraine, and Russia. Trade disputes and currency impacts are important for global investors to monitor.

For our clients, total equity exposure remains slightly above average within targeted ranges. The Large Capitalization portion of stock exposure has been a source of funds by reducing into strength and is below the median of our diversified approach. Small and Mid-capitalization offer historical attractive valuations, however earnings quality and lower interest rates will be important for investors to pivot away from the large cap leaders. The current financial market dynamics continue to provide excellent opportunities to reposition total stock and bond exposure for client portfolios.

Interest rates have moved within a fairly narrow range which has provided more opportunities to buy and sell bond exposure where needed for client portfolios. Safe, liquid, and short-term fixed income investments are currently providing above average yields and are a reasonable holding for cash in the near term. Based upon current market conditions, overall asset allocation is well diversified and provides ample liquidity to take advantage of incremental opportunities that may arise.

U.S. Government Fiscal Financial Condition- Part 1: U.S. Government Spending

The Federal Budget Deficit, simply defined, exists when the government spends more money than it takes in from various taxes and fees during its fiscal year. The Federal government makes up the shortfall by issuing various types of debt (Treasury bills, notes, and bonds) to investors in the global capital markets. The reality of Medicare & Medicaid currently representing over 28% of all government spending, followed by over 25% for Social Security, makes these massive and growing social programs more than half of all spending. Defense spending is the third largest at more than 16%. The summation of annual spending deficits represents our national debt. Until 2001, budget deficits and national debt were not a big problem. In fact, as hard as it is to believe today, in 2001 the U.S. actually ran its last budget surplus, the last of several during the Clinton Administration. Things were so positive from a budget standpoint in this period that the Clinton Treasury Department issued several press releases outlining plans to eliminate our national debt (then $5.8 trillion) in the near future, for the first time since 1836. Shortly thereafter, priorities changed dramatically with the attacks on the World Trade Center and Pentagon on September 11, 2001, which initiated the Global War on Terror with its significant and enduring spending increases. In 2008, spending accelerated dramatically in response to the Great Financial Crisis as the Federal Reserve launched several waves of expensive interventions in capital markets, all of which increased budget deficits with dramatic increases in government outlays. The Federal Reserve also instituted a policy of near-zero interest rates which lasted for over a decade. These ultra-low interest rates made financing budget deficits essentially almost costless as government interest expenses plummeted. Budget deficits moderated somewhat from 2012-2017 as the economy recovered, but still remained quite high versus historical levels. The Tax Cuts and the Jobs Act of 2017 significantly increased the budget deficits by nearly $1 trillion in 2019. With the Covid-19 pandemic hitting in 2020, the unprecedented spending ballooned the deficit by $3.1 trillion in 2020 and an additional $2.78 trillion in 2021. As the risk of Covid receded and the economy recovered, government spending continued to rise. The inflation rise in mid-2021 and the Federal Reserve's delayed response forced interest rates to rise dramatically in 2022 to fight nearly double digit inflation. Currently, the U.S. is adding nearly $500 billion to our national debt each quarter, which is astounding given the relative tranquility in our capital markets and an economy at full employment. The total national debt is now approaching $35 trillion, with the cost to finance this debt at 16 year highs. Experts (economists, strategists and former politicians) have warned that uncontrolled spending and associated large deficits will force a "day of reckoning." Yet in this presidential election year, neither political party has shown a desire to sincerely discuss, leave alone provide a comprehensive plan to address the significant deficit spending and rising national debt. Thus far, global investors remain comfortable buying U.S. Treasury debt for its above average yields and perceived safety. Complacency is further evidenced by a strong U.S. Dollar, and U.S. equity markets trading at all-time highs. There is time to address these issues, but make no mistake, the clock is ticking.

Arcataur Composite Investment Performance for the 3 Months, 12 Months, 3 Years, 5 Years & 10 Years Ended June 30, 2024

Arcataur Composite Portfolio	Total Return				
	3 months	12 months	3 yr. annualized 6/30/2024	5 yr. annualized	10 yr. annualized
Large Cap Direct Stock Equity	4.0%	21.4%	8.7%	14.7%	11.8%
Large Cap Equity ETF	4.0%	23.4%	9.3%	14.6%	12.5%
Benchmarks					
Morningstar Large Cap Core Average	2.4%	21.4%	8.0%	13.3%	11.2%
Dow Jones Industrial Average	-1.3%	15.9%	6.3%	10.2%	11.1%
S&P 500	4.3%	24.6%	10.0%	15.0%	12.9%
S&P 100	7.1%	29.2%	11.9%	17.0%	13.8%

Arcataur Composite Portfolio	Total Return				
	3 months	12 months	3 yr. annualized 6/30/2024	5 yr. annualized	10 yr. annualized
Small Cap Equity	-3.3%	8.1%	-1.0%	7.5%	7.6%
Mid-Cap Equity	-3.7%	12.6%	3.4%	9.3%	8.5%
Benchmarks					
Morningstar Small Cap Core Average	-3.3%	10.4%	0.9%	8.1%	7.1%
S&P 600	-3.1%	8.7%	-0.3%	8.1%	8.2%
Morningstar Mid-Cap Core Average	-3.3%	13.2%	3.4%	9.4%	8.4%
S&P 400	-3.5%	13.6%	4.5%	10.3%	9.1%

Arcataur Composite Portfolio	Total Return				
	3 months	12 months	3 yr. annualized 6/30/2024	5 yr. annualized	10 yr. annualized
Fixed Income	0.5%	4.7%	-1.5%	0.8%	1.6%
Benchmarks					
Bloomberg Barclays 1-5 (T/G/C)	0.8%	4.7%	-0.2%	1.0%	1.4%
Bloomberg Barclays Aggregate	0.1%	2.6%	-3.0%	-0.2%	1.4%
Bloomberg Barclays 1-3 (T/G/C)	1.0%	4.9%	0.6%	1.3%	1.4%
Morningstar Core Bond Average	0.2%	3.1%	-3.0%	-0.2%	1.3%

Arcataur Composite Portfolio	Total Return				
	3 months	12 months	3 yr. annualized 6/30/2024	5 yr. annualized	10 yr. annualized
Developed International Equity	-0.7%	10.3%	1.7%	6.0%	4.0%
Emerging International Equity	5.0%	10.8%	-4.4%	3.0%	2.3%
Benchmarks					
EAFE	-0.4%	11.5%	2.9%	6.5%	4.3%
MSCI Emerging Market Index	4.4%	10.5%	-6.0%	2.2%	2.1%

Arcataur Composite Portfolio	Total Return				
	3 months	12 months	3 yr. annualized 6/30/2024	5 yr. annualized	10 yr. annualized
Total Equity*	1.4%	17.2%	5.2%	11.5%	9.8%

*Total Equity is not an actual composite portfolio; rather, Total Equity represents a weighted average return of the Large Cap, Mid-Cap, Small Cap and International composites, and is only shown as an indication of potential overall equity performance. Total Equity does not represent any actual portfolio because it is made up of a weighted average return of all equity classes. Please review complete disclosure information below.

Arcataur Composite Portfolio	Total Return				
	3 months	12 months	3 yr. annualized 6/30/2024	5 yr. annualized	10 yr. annualized
Managed Balance	1.2%	12.7%	3.2%	8.0%	7.1%
Benchmark					
Morningstar Balanced Fund Average	1.2%	12.6%	2.8%	7.1%	6.2%
60/40 Custom Index	1.5%	13.1%	3.6%	7.2%	6.9%

Appendix*:* Disclosure Information Regarding Composite Performance

General-Arcataur Capital Management LLC is an investment advisor. Arcataur has prepared this report. The information in this report has been developed internally and/or obtained from sources which Arcataur believes are reliable; however, Arcataur does not guarantee the accuracy, adequacy or completeness of such information nor do we guarantee the appropriateness of any strategy referred to for any particular investor. Index information has been taken from public sources. Past performance is not indicative of future results, as investment returns will vary from time to time depending upon market conditions and the composition of the composite portfolio. Returns for individual investors will vary based on factors such as the account type, market value, cash flows and fees.

Calculation Methodology- The composites reflect dollar-weighted returns of individual accounts. Arcataur composites may include some discounted or non-fee-paying accounts, which could cause the net return to be higher than it would be otherwise. Arcataur uses the time-weighted internal rate of return formula (i.e., returns that include reinvested dividends and other income) to calculate performance for the accounts included in the composite. Individual account returns are calculated on a time-weighted basis, linked daily, and include reinvestment of dividends and other such earnings. Total return (return) is defined as the percentage change in market value (including interest and dividend income) adjusted for any client-directed cash flows. A time-weighted, daily-linked method is used to calculate composite calendar quarter, annual, cumulative and annualized returns. No leverage or derivatives have been used. Cash is not included in the performance calculations for the Arcataur Large Capitalization Equity Portfolio Composite or the Arcataur Investment Grade Fixed Income Composite; Arcataur also does not allocate cash in the Arcataur Managed Balance Portfolio Composite to the equity or fixed income components when calculating performance for those components. Cash is, however, included in the overall performance calculation for the Arcataur Managed Balance Portfolio Composite.

Composites-Mutual fund holdings are not included in composite results. Exchange traded funds (ETFs) are included in composite results. Mutual fund holdings typically are "unmanaged assets" and, therefore, are not included in composite results. Exchange traded funds are designated as "managed assets" and, therefore, are included in the composite results.

The Arcataur Large Capitalization Equity Composite consists of portions of all client accounts invested in accordance with the Arcataur Large Capitalization Equity Portfolio strategy (including ETFs). The Arcataur Small & Mid-Capitalization Equity Composites consist of portions of all client accounts invested in small & mid-capitalization equity securities (including ETFs). The Arcataur International Equity Composite consists of portions of all client accounts invested in international securities (including ETFs). The Arcataur Investment Grade Fixed Income Composite consists of portions of all client accounts invested in accordance with the Arcataur Investment Grade Fixed Income strategy. The Arcataur Managed Balance Composite consists of portions of all client accounts invested in accordance with the Arcataur Managed Balance strategy.

Appendix: Disclosure Information Regarding Composite Performance (cont.)

Fees-The Composite performance figures shown above, are "net" of advisory fees based upon a standard client fee paid during the period including any brokerage fees or commissions that have been incurred within the account. Because the actual management fee paid by an individual client may have been higher or lower, the client's net return may have been higher or lower. The Arcataur Managed Balance composite is based on actual fees paid and may include some discounted or non-fee-paying accounts. The S&P 500® Index, S&P 100® Index, DJIA®, S&P 600® Index, the EAFE® index, the Bloomberg Barclays Investment Grade Index Treasury/Government/Credit (T/G/C) 1-5 Years, and the Bloomberg Barclays Investment Grade Index Treasury/Government/Credit (T/G/C) 1-3 Years returns do not include any fees; the Morningstar Large Cap Core, Small Cap Core, Balanced Fund and Bond Fund Averages are net of fees.

Indices and Benchmark Funds-The Indices and Benchmark Funds are referred to for comparative purposes only and are not necessarily intended to parallel the risk or investment approach of the accounts included in the composites. Arcataur believes that the Indices and Benchmark Funds selected for comparative purposes are appropriate measures given the investment approach. However, the investment portfolios underlying the indices are different from the investment portfolios managed by Arcataur. The Indices and Benchmark Funds shown are unmanaged, and investors are not able to invest directly in them. The Indices and Benchmark Funds are generally representative, in terms of risk and exposure, of the various components as follows:
Arcataur Large Capitalization Equity Portfolio - the S&P 500® Index, the S&P 100® Index, DJIA®, and Morningstar Large-Cap Core Average

Arcataur Investment Grade Fixed Income Portfolio –the Bloomberg Barclays Investment Grade Index (T/G/C) 1-5 Years, Investment Grade U.S. Aggregate, and Investment Grade Index (T/G/C) 1-3 Years and the Morningstar Core Bond Mutual Fund Average.

As of 12/31/22 the Custom Bond index (2/3 Bloomberg Barclays (T/G/C) 1-5 and 1/3 Bloomberg Barclays U.S. Aggregate) has been applied for comparison purposes to returns since inception. Prior to this change, for the period beginning 7/2020 through 12/2021, the custom bond index utilized 50% Bloomberg Barclays (T/G/C) 1-3 and 50% Bloomberg Barclays (T/G/C) 1-5, while periods prior to 7/2020 used the current index weightings. This change appropriately reflects the investment strategy and was also made in the historic bond weightings of the 60/40 custom index.

Arcataur Managed Balance Portfolio - Morningstar Balanced Fund Average and 60/40 custom total return index. Beginning 1/2022, the 60/40 custom index includes: Equities (60% S&P 500, 15% S&P 400, 10% S&P 600, 10% EAFE, 5% MSCI-EM), & Bonds (58% Bloomberg Barclays (T/G/C) 1-5, 30% Bloomberg Barclays U.S. Aggregate, and 12% Bloomberg Barclays 3-month treasury index). For the period 2/2003 through 12/2021, the 60/40 custom bond index includes: Equities (30% S&P 500, 30% DJIA, 15% S&P 400, 10% S&P 600, 10% EAFE, 5% MSCI-EM), & Bonds (58% Bloomberg Barclays (T/G/C) 1-5, 30% Bloomberg Barclays U.S. Aggregate, and 12% Bloomberg Barclays 3-month treasury index).

If a client's portfolio contains small-cap exposure, the small cap performance is measured against the S&P 600® Index and Morningstar Small Cap Core Average. If a client's portfolio contains mid-cap exposure, the mid-cap performance is measured against the S&P 400® Index and Morningstar Mid-Cap Core Average. If a client's portfolio contains international exposure, the performance is measured against the EAFE index. If a client's portfolio contains emerging market exposure, the performance is measured against the MSCI Emerging Market Index.

Except for the Morningstar Balanced Fund Average, the Morningstar Large Cap Core Average, the Morningstar Bond Mutual Fund Average, the Morningstar Small Cap Core Average, and the Morningstar Mid-Cap Core Average, indices and benchmark funds shown reflect the reinvestment of dividends and other earnings, but do not include transaction costs, management fees or other expenses of investing. The S&P 500 & S&P 100 are indices of Large-Cap domestic core companies as produced by Standard and Poor's, while the DJIA is produced by Dow Jones. The S&P 400 and S&P 600 are indices of Mid-Cap and Small Cap domestic core companies, respectively as produced by Standard and Poor's. The MSCI EAFE (Europe, Australasia, and Far East) Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. MSCI Emerging Markets ETF is an index composed of large- and mid-capitalization emerging market equities. Both are maintained by MSCI Barra.

Morningstar, Inc. provides mutual fund comparisons for similar investment profiles. The Morningstar Large Cap core universe of mutual funds represents large-cap blend discipline of domestic companies compiled by Morningstar, Inc. The Morningstar Small Cap core universe of mutual funds represents small-cap blend discipline of domestic companies compiled by Morningstar, Inc. The Morningstar Mid-Cap core universe of mutual funds represents mid-cap blend discipline of domestic companies compiled by Morningstar, Inc. The Morningstar Balanced Fund universe of mutual funds represents funds that include multi-assets including stocks and bonds compiled by Morningstar, Inc. The Morningstar Core bond universe of mutual funds represents funds that include investment grade taxable domestic bonds compiled by Morningstar, Inc.

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