Investment Portfolios 101
Agenda

• Brief Introductions
• Introduction to Portfolios
• Knowing What You Want from Your Money
• Choosing the Right Mix
  – Introducing the asset classes
• Ongoing Portfolio Management
• Appendix
  – Putting it All Together: The IPS
  – Selecting & Monitoring Investments
  – More Information on Diversification
Today’s Speakers

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Wetherby Asset Management

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Wealth Manager & Shareholder
Wetherby Asset Management
Managing an investment portfolio is an ongoing process, summarized below. We use the same fundamental approach when integrating impact.
Knowing What You Want from Your Money
It Starts With You

Your investment objectives should capture what you want your portfolio to do for you, your attitudes toward investing, and your time horizon.

• What is the purpose of your money?
• What do you want it to do?
• How much time do you have until you need this money?
• How much risk are you willing to take to achieve above-average returns?
• Do you want your money to grow or do you want to preserve its current value?
Common Investment Objectives

Once you know your investment objective, it will help you in determining the right mix of investments. Some basic examples are below:

<table>
<thead>
<tr>
<th>Income</th>
<th>Growth and Income</th>
<th>Growth</th>
<th>Capital Preservation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seek a maximum amount of income given their risk tolerance and are willing to forgo capital appreciation and growth of income in order to seek a higher level of current income.</td>
<td>Seek current income but also seek income and capital growth over time. These investors are willing to forgo a portion of current income in order to provide for potential future growth.</td>
<td>Do not seek account income; their primary objective is capital appreciation.</td>
<td>Seek to preserve capital and prevent loss in a portfolio</td>
</tr>
</tbody>
</table>
Integrating Impact Objectives

You can also identify your impact objectives at this stage. What social and or environmental change do you want to see? Some examples might include:

• **Access to Basic Needs & Services**: Providing the means to achieve long-term well-being including food, water, shelter, clothing, energy, and financial services.

• **Justice & Equality**: Supporting fair and equitable access to economic, political, and social rights and opportunities.

• **Renewability & Sustainability**: Developing and utilizing resources that are naturally replenished over time and in a manner that serves the needs of the present without compromising those of future generations.

• **And others!**
INVESTMENT OBJECTIVE:
Family seeks long-term principal preservation and capital growth. Long-term is defined as greater than a ten-year horizon.

Family has a total of $X in investable assets. Family expects to draw approximately $X a year to support current living expenses. In the near-term, Family expects to draw more from portfolio to fund renovation-related expenses for new home, estimated at an additional $X through 2021.

Adequate cash balance is one of Family’s primary considerations, not only for living expenses, but also gifts to family members and charitable donations.

IMPACT INVESTING SUMMARY:
The Family’s theory of change, focuses on transforming businesses into agents of positive change for all stakeholders, including workers. Notably, they want to address civil rights and inequality through investments in non-extractive business models that share value amongst all stakeholders.

IMPACT INVESTING OBJECTIVES:
• Access to Basic Needs & Services
• Better Business Practices
• Diversity & Empowerment
• Justice & Equality
• Livelihoods & Opportunity
• Values-Aligned Screening
Choosing the Right Mix
## Introducing Asset Classes

<table>
<thead>
<tr>
<th>Invest for Better Curriculum Categories</th>
<th>Invest for Better Asset Categories</th>
<th>Typical Risk Profile</th>
<th>Role in Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Cash Equivalents (including CDFIs)</td>
<td>Cash &amp; Cash Equivalents</td>
<td>Low to no volatility</td>
<td>More immediate cash needs.</td>
</tr>
<tr>
<td></td>
<td>Public Equities</td>
<td>Moderate to high volatility</td>
<td>Capital appreciation</td>
</tr>
<tr>
<td>Private Equity, Debt Funds and Angel Investing</td>
<td>Private Equities</td>
<td>Moderate to high volatility</td>
<td>Long-term capital appreciation</td>
</tr>
<tr>
<td></td>
<td>Private Debt</td>
<td>Low to moderate volatility</td>
<td>Income generation. Capital appreciation</td>
</tr>
<tr>
<td></td>
<td>Angel Investing</td>
<td>High volatility</td>
<td>Long-term capital appreciation</td>
</tr>
<tr>
<td>Real Assets</td>
<td>Real Assets</td>
<td>Moderate to high volatility</td>
<td>Diversifier and hedge against unanticipated inflation</td>
</tr>
</tbody>
</table>
Diversification: How it Works

Uncorrelated Assets, A Simplified Example: By owning a portfolio specifically designed to take advantage of asset categories with dissimilar price movements, an investor can minimize volatility while continuing to pursue positive returns.

What’s that?

• **Assets**: Something with economic value that you own and expect to provide a future benefit. In this presentation, we typically mean investments.

• **Asset Class**: Asset classes are groups of investments that exhibit similar characteristics and are subject to similar regulations.

[https://evidencebasedinvestingllc.com/diversification/](https://evidencebasedinvestingllc.com/diversification/)
The Importance of Diversification

The math of gains and losses is favorable to the notion of preserving capital rather than taking large risks to chase returns, a 50% loss requires a 100% gain to recover!

The Importance of Diversification

Diversification aims to maximize returns by investing in different areas that would each react differently to the same event.

Most investment professionals agree that, although it does not guarantee against loss, diversification is the most important component of reaching long-range financial goals while minimizing risk.

https://www.fidelity.com/viewpoints/investing-ideas/guide-to-diversification
https://www.investopedia.com/investing/importance-diversification/
Samples of Diversified Portfolios

Consider the investment objective outlined in the first section, what type of portfolio would be most appropriate to meet your needs and also minimize risk?

While there are many standard asset allocations, depending on the size and complexity of your assets you may benefit from a custom allocation.
Choosing the Right Asset Allocation for You

- Your ideal asset allocation is the mix of investments, from most aggressive to safest, that will earn the total return over time that you need.
- The percentage of your portfolio you devote to each depends on your investment objective, time frame and your tolerance for risk.
- This isn't a one-time decision. Revisit your choices from time to time to see if it is still meeting your needs and goals.

<table>
<thead>
<tr>
<th>How much do you plan to invest?</th>
<th>What is your investment timeframe?</th>
<th>What is your tolerance for risk?</th>
<th>What investment opportunities are available to you?</th>
<th>Can you afford illiquidity?</th>
</tr>
</thead>
</table>

Please see appendix for additional resources to help you choose an appropriate allocation.

https://www.fidelity.com/viewpoints/investing-ideas/guide-to-diversification
https://www.investopedia.com/investing/importance-diversification/
Sally puts $10,000 into a 529 investment account to support her 2-year-old granddaughter’s future college expenses.

The portfolio diversification starts with a higher allocation to riskier equities initially when there is a long timeframe to invest, but adjusts to hold more conservative assets over time as her daughter nears college age to better ensure the value is maintained.
## Integrating Impact Across Asset Classes

Impact options are available across most asset classes, and will be implemented when you choose the investments that comprise your asset classes. Note impact investing is an approach, not an asset class.

<table>
<thead>
<tr>
<th>CASH &amp; CASH EQUIVALENTS</th>
<th>FIXED INCOME</th>
<th>PUBLIC EQUITIES</th>
<th>PRIVATE EQUITY &amp; VENTURE CAPITAL</th>
<th>REAL ESTATE</th>
<th>REAL ASSETS &amp; INFRASTRUCTURE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Responsible Excl.</strong></td>
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<td></td>
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</tr>
<tr>
<td>Bank with ethical banks (no investments in sin stocks or fossil fuels)</td>
<td>Avoid bonds issued by companies involved with tobacco, firearms, fossil fuels, etc.</td>
<td>Avoid companies involved with tobacco, firearms, fossil fuels, etc.</td>
<td>Avoid companies involved with tobacco, firearms, fossil fuels, etc.</td>
<td>Avoid gentrification/extractive strategies</td>
<td>Avoid non-renewable commodities</td>
</tr>
<tr>
<td><strong>ESG Integration</strong></td>
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<td></td>
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</tr>
<tr>
<td>Buy bonds of best-in-class ESG issuers</td>
<td>Invest in best-in-class ESG companies • Active engagement on ESG issues</td>
<td>•</td>
<td>•</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Thematic</strong></td>
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</tr>
<tr>
<td>Bank with sustainable and/or community banks (investing in low income and marginalized communities or sustainable businesses)</td>
<td>Green bonds • Affordable housing • Microfinance • Other essential public services – e.g., hospitals, schools</td>
<td>Tilts toward companies generating revenues from beneficial products/services</td>
<td>Wide range of environmental and communities-based themes</td>
<td>Affordable housing • Green buildings • Community infrastructure</td>
<td>Environmental infrastructure (e.g., renewable energy, water) • Sustainable agriculture • Land and water conservation</td>
</tr>
</tbody>
</table>
Barriers to Diversification

With the importance of diversification, why might people not have a diversified portfolio?

• **Taxes:** Diversifying often involves selling appreciated positions and paying capital gains taxes.

• **Emotional Reasons:** Portfolio holdings may be inherited from a relative or originate from a family business. Investors may become attached to portfolio holdings that have generated strong returns over many years.

• **Behavioral / Psychological Biases:**
  – *The Endowment Effect:* The documented tendency for people to ascribe more value to things merely because they own them.
  – *The Status Quo Effect:* The general aversion to change and the association of change with risk.

• **The Expectation of Alpha:** An investor may have a high level of conviction about a small number of securities and choose to own a concentrated portfolio of these securities.

Ongoing Portfolio Management
Stay the Course with Rebalancing

- Over time, changes in the market will likely cause your portfolio to drift away from the asset allocation you want. This may make the portfolio riskier or, conversely, more conservative with lower potential gains.
- By rebalancing, you can bring your portfolio back into alignment with your risk tolerance and overall investing strategy.

You can choose to rebalance using a consistent schedule (calendar-based), or when the portfolio drifts beyond certain pre-determined limits (trigger-based).

[Diagram showing target allocation, drifted allocation, and rebalanced allocation]

https://us.etrade.com/knowledge/library/getting-started/what-is-portfolio-rebalancing
Re-assessing the Mix

You may also need to change your investment strategy and asset allocation if there is a change in your risk tolerance, financial situation, or the financial goal itself.

Examples include retirement, major wealth transitions, etc. Don’t forget to update your IPS with any changes!
We Welcome Your Questions

1. Define Investment Needs and Objectives
   - Define Core Values, Mission and Governance

2. Develop Investment Policy Statement
   - Incorporate Impact Goals and Role of Investment Capital

3. Design Appropriate Asset Allocation
   - Integrate Impact Allocation

4. Evaluate and Select Investments
   - Evaluate and Select Impact Investments

5. Implement Portfolio Strategy
   - Implement Impact Portfolio Strategy

6. Monitor, Analyze and Report Investment Results
   - Monitor, Analyze and Report Impact Results

7. Consider Changes in Objectives, Strategy and Managers

Traditional Process
- Integrated Impact

INVEST for BETTER
Women Lead the Way
Appendix
Additional Resources

Setting Your Impact Priorities
- Impact Reporting and Investment Standards (IRIS)

Surveys to Help Pick an Asset Allocation
- Index Fund Advisors Risk Capacity Survey
- Vanguard Investor Questionnaire
- TIAA Asset Allocation Evaluator

Roboadvisors to Help Manage Your Portfolio
- Ellevest
- WealthSimple
- OpenInvest
- Sustainfolio

Investment Data/Tools

Free
- Impact Assets
- Fossil Free Funds
- Deforestation Free Funds
- Weapons Free Funds
- Check with your custodian/where you currently invest

Subscription Fee
- FI 360
- Morningstar Advisor Workstation
- eVestment
- GIIRS Ratings / B Analytics
- SASB Navigator
- Sustainalytics
- MSCI ESG Integration
Putting it All Together: The IPS
A Guide To Your Portfolio

- Now that you have thought about your goals, chosen an appropriate investment objective and determined an asset allocation that is right for your needs – write it down!

- An investment policy statement (IPS) will help guide you in future decisions that you make for your portfolio.

- We recommend revisiting your IPS once per year, and updating if you have any major life changes or evolving needs to be met.

A sample investment policy statement is linked here: https://www.investopedia.com/articles/investing/060515/example-investment-policy-statement.asp
Selecting & Monitoring Investments
There are many types of investments to choose from, including passively managed funds like ETFs and mutual funds, as well as more sophisticated actively managed options.

<table>
<thead>
<tr>
<th>Invest for Better Curriculum Categories</th>
<th>Invest for Better Asset Categories</th>
<th>Examples of Types of Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Cash Equivalents (including CDFIs)</td>
<td>Public Markets</td>
<td>Public Fixed Income</td>
</tr>
<tr>
<td>• Cash</td>
<td>• Government bonds</td>
<td>• Large-, mid- and small-company stocks</td>
</tr>
<tr>
<td>• Treasury bills</td>
<td>• Corporate bonds</td>
<td>• Distressed capital</td>
</tr>
<tr>
<td>• Money market funds</td>
<td>• Municipal bonds</td>
<td>• Secondaries</td>
</tr>
<tr>
<td>• CDFIs</td>
<td>• International bonds</td>
<td>• Direct lending</td>
</tr>
<tr>
<td>• Bond ETFs and mutual funds</td>
<td>• Bond ETFs and mutual funds</td>
<td>• Distressed debt</td>
</tr>
</tbody>
</table>

Private Equity, Debt Funds and Angel Investing

<table>
<thead>
<tr>
<th>Private Equities</th>
<th>Private Debt</th>
<th>Angel Investing</th>
<th>Real Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Leveraged buyouts</td>
<td>• Direct lending</td>
<td>• Early-stage companies</td>
<td>• Real estate</td>
</tr>
<tr>
<td>• Distressed capital</td>
<td>• Distressed debt</td>
<td>• Infrastructure</td>
<td>• Infrastructure</td>
</tr>
<tr>
<td>• Secondaries</td>
<td>• Secondaries</td>
<td>• Commodities</td>
<td>• Commodities</td>
</tr>
<tr>
<td>• Equity ETFs and mutual funds</td>
<td>• Equity ETFs and mutual funds</td>
<td>• Natural resources</td>
<td>• Natural resources</td>
</tr>
</tbody>
</table>

Real Assets

<table>
<thead>
<tr>
<th>Real Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Real estate</td>
</tr>
<tr>
<td>• Infrastructure</td>
</tr>
<tr>
<td>• Commodities</td>
</tr>
<tr>
<td>• Natural resources</td>
</tr>
</tbody>
</table>
Evaluating Investments

You can use many criteria to evaluate investment managers, not just performance.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Strategy</th>
<th>Performance</th>
<th>Operations</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experience and reputation</td>
<td>Fundamental research</td>
<td>“Alpha” generation</td>
<td>Audited financials</td>
<td>Impact thesis and strategy</td>
</tr>
<tr>
<td>Alignment of interests</td>
<td>Competitive advantages</td>
<td>Risk adjusted performance relative to benchmark/peers</td>
<td>Verification of assets</td>
<td>Target beneficiary population</td>
</tr>
<tr>
<td>Disciplined growth</td>
<td>Repeatable process</td>
<td>Up market/down market capture</td>
<td>Compliance procedures</td>
<td>Commitment to impact integration in investment decisions</td>
</tr>
<tr>
<td>Ownership</td>
<td>Buy/sell discipline</td>
<td>After-tax, after-fee returns</td>
<td>Reporting/disclosure</td>
<td>Monitoring and reporting process</td>
</tr>
<tr>
<td>Longevity</td>
<td>Risk management focus</td>
<td>Luck vs. skill</td>
<td>Review of auditors</td>
<td>Track record</td>
</tr>
<tr>
<td>Cohesion</td>
<td>Sector limits</td>
<td></td>
<td>Review of fund legal documents</td>
<td></td>
</tr>
<tr>
<td>Succession planning</td>
<td>Position limits</td>
<td></td>
<td>Operations controls</td>
<td></td>
</tr>
<tr>
<td>Compliance aptitude</td>
<td>Environmental, social &amp; governance considerations</td>
<td></td>
<td>Legal counsel</td>
<td></td>
</tr>
</tbody>
</table>

There are also out of the box portfolio management options with impact options:

- Ellevest
- WealthSimple
- OpenInvest
- Sustainfolio
More Information on Diversification
Time, Diversification, and the Volatility of Returns

Range of stock, bond and blended total returns
Annual total returns, 1950-2020

<table>
<thead>
<tr>
<th></th>
<th>Annual avg. total return</th>
<th>Growth of $100,000 over 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks</td>
<td>11.3%</td>
<td>$854,025</td>
</tr>
<tr>
<td>Bonds</td>
<td>5.9%</td>
<td>$315,105</td>
</tr>
<tr>
<td>50/50 portfolio</td>
<td>9.0%</td>
<td>$558,890</td>
</tr>
</tbody>
</table>


Returns shown are based on calendar year returns from 1950 to 2019. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2020.


## Asset Class Returns

<table>
<thead>
<tr>
<th>Year</th>
<th>EM Equity</th>
<th>REITs</th>
<th>EM Equity</th>
<th>Fixed Income</th>
<th>EM Equity</th>
<th>REITs</th>
<th>REITs</th>
<th>Sm. Cap</th>
<th>REITs</th>
<th>Sm. Cap</th>
<th>EM Equity</th>
<th>Cash</th>
<th>Large Cap</th>
<th>Sm. Cap</th>
<th>Cash</th>
<th>Large Cap</th>
<th>REITs</th>
<th>Sm. Cap</th>
<th>EM Equity</th>
<th>Cash</th>
<th>Large Cap</th>
<th>Sm. Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>34.5%</td>
<td>35.1%</td>
<td>39.8%</td>
<td>5.2%</td>
<td>79.0%</td>
<td>27.9%</td>
<td>8.3%</td>
<td>19.7%</td>
<td>28.0%</td>
<td>2.8%</td>
<td>21.3%</td>
<td>1.8%</td>
<td>31.5%</td>
<td>20.6%</td>
<td>9.8%</td>
<td>23.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>21.4%</td>
<td>32.6%</td>
<td>16.2%</td>
<td>1.8%</td>
<td>59.4%</td>
<td>26.9%</td>
<td>7.8%</td>
<td>16.2%</td>
<td>23.3%</td>
<td>0.5%</td>
<td>12.0%</td>
<td>-4.0%</td>
<td>25.5%</td>
<td>18.4%</td>
<td>7.5%</td>
<td>22.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>14.0%</td>
<td>26.9%</td>
<td>11.6%</td>
<td>5.4%</td>
<td>32.5%</td>
<td>19.2%</td>
<td>3.1%</td>
<td>18.6%</td>
<td>6.0%</td>
<td>0.5%</td>
<td>12.0%</td>
<td>-4.0%</td>
<td>25.5%</td>
<td>18.4%</td>
<td>7.5%</td>
<td>22.6%</td>
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</tr>
<tr>
<td>2008</td>
<td>12.2%</td>
<td>18.4%</td>
<td>7.1%</td>
<td>-26.9%</td>
<td>16.8%</td>
<td>28.0%</td>
<td>2.1%</td>
<td>17.9%</td>
<td>0.4%</td>
<td>0.4%</td>
<td>14.9%</td>
<td>5.2%</td>
<td>11.8%</td>
<td>19.5%</td>
<td>18.8%</td>
<td>11.9%</td>
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<tr>
<td>2009</td>
<td>8.8%</td>
<td>15.8%</td>
<td>5.5%</td>
<td>-33.8%</td>
<td>27.2%</td>
<td>15.1%</td>
<td>0.1%</td>
<td>10.3%</td>
<td>7.3%</td>
<td>0.0%</td>
<td>5.2%</td>
<td>0.0%</td>
<td>14.6%</td>
<td>10.6%</td>
<td>6.7%</td>
<td>18.8%</td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>2010</td>
<td>4.9%</td>
<td>15.3%</td>
<td>5.5%</td>
<td>-35.6%</td>
<td>25.5%</td>
<td>14.8%</td>
<td>-0.7%</td>
<td>16.0%</td>
<td>2.9%</td>
<td>0.0%</td>
<td>2.0%</td>
<td>8.5%</td>
<td>10.4%</td>
<td>6.7%</td>
<td>5.0%</td>
<td>12.2%</td>
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</tr>
<tr>
<td>2011</td>
<td>4.6%</td>
<td>13.7%</td>
<td>4.8%</td>
<td>-37.0%</td>
<td>25.5%</td>
<td>13.3%</td>
<td>-4.2%</td>
<td>12.2%</td>
<td>6.0%</td>
<td>0.0%</td>
<td>2.7%</td>
<td>8.3%</td>
<td>11.0%</td>
<td>12.6%</td>
<td>7.0%</td>
<td>5.0%</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>3.6%</td>
<td>4.8%</td>
<td>3.2%</td>
<td>-37.7%</td>
<td>18.9%</td>
<td>18.9%</td>
<td>-1.1%</td>
<td>11.7%</td>
<td>2.0%</td>
<td>0.0%</td>
<td>2.6%</td>
<td>19.5%</td>
<td>12.6%</td>
<td>6.7%</td>
<td>5.0%</td>
<td>12.2%</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>3.0%</td>
<td>4.3%</td>
<td>1.6%</td>
<td>-43.1%</td>
<td>5.9%</td>
<td>5.9%</td>
<td>0.5%</td>
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Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor’s, J.P. Morgan Asset Management.


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