Capital Markets Review
December 31, 2023

STRATEGIC ASSET ALLIANCE
THE INSURANCE INVESTMENT SPECIALIST FOR 30 YEARS

REVIEW

Summary Capital Market Commentary – Q4/2023

- **It was a strong quarter for global shares as the US Federal Reserve signaled that interest rates may have peaked and that cuts may be on the way for 2024. Developed markets outperformed emerging markets amid ongoing worries over China's real estate sector. Crude oil prices fell despite some output cuts.**

- Equity Markets
  - US shares rallied strongly on expectations of imminent rate cuts. The S&P 500 index ended the year just short of its record high set in early 2022. Top performing sectors were those most sensitive to interest rates, including information technology, real estate and consumer discretionary. The energy sector posted a negative return with crude oil prices weaker over the quarter.
  - The final quarter of the year was a strong one for eurozone shares, boosted by expectations that there may be no further interest rate rises. Top gaining sectors included real estate and information technology, while healthcare and energy were the two main laggards, registering negative returns. However, higher interest rates have weighed on the eurozone economy. Eurozone GDP fell by 0.1% quarter-on-quarter in Q3, Eurostat data showed. The HCOB flash eurozone purchasing managers' index (PMI) fell to 47.0 in December. This suggests that the region's economy is likely to have contracted in Q4 as well.
  - Despite some weakness in October and December, the gain in November brought the positive total return of Japanese equity market during Q4 by 2.0% for the TOPIX Total Return index. Although the US market continued to rise in December, the Japanese equity market lagged as investors became concerned about yen appreciation. The overall macroeconomic conditions in Japan continued to improve. Somewhat sluggish Q3 GDP data was driven by higher inflation associated with slower wage growth. However, the Bank of Japan (BOJ) tankan survey released in December showed continuous improvement in business sentiment for both the manufacturing and non-manufacturing sectors. Capital expenditure plans also suggested that there would continue to be strong demand in machinery and IT service companies.
  - All markets in the MSCI AC Asia ex Japan index ended the quarter in positive territory apart from China, where shares fell due to investor concerns over weaker economic growth. There were fears that stimulus measures by the Chinese government may not be sufficient to spur growth in the world's second-largest economy. The ongoing real estate crisis and uncertainty over China's regulatory regime also weakened sentiment towards Chinese stocks. Taiwan, South Korea, and India were the strongest index markets in the quarter, with all three achieving robust growth. In Taiwan and South Korea, technology stocks and chipmakers gained as investor enthusiasm over artificial intelligence continued to accelerate.

Summary Capital Market Commentary – Q4/2023

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- Bond Markets
  - The final quarter of the year was a very positive one for fixed income markets, marking their best quarterly performance in over two decades, according to the Bloomberg Global Aggregate indices. The major driver of this performance was a perceived shift in monetary policy direction, from a "higher-for-longer" stance to prospective rate cuts. Government bond yields fell sharply, and credit markets rallied, outperforming government bonds.
  - The US Federal Reserve (Fed) kept rates unchanged throughout the quarter, with a much clearer shift to a more dovish tone in December accelerating the market rally. The revised dot plot – a chart plotting Federal Open Market Committee (FOMC) projections for the federal funds rate - indicated that three rate cuts are now anticipated for 2024, up from the previously expected two. With more encouraging news on PCE inflation (the Fed's most watched measure), the FOMC appears more comfortable with the progress made in bringing inflation back towards the target.
  - As markets priced in easing conditions, government bond yields fell across the board. The US 10-year Treasury yield fell from 4.57% at the end of Q3 to 3.87% at the end of Q4, while the German 10-year Bund yield ended the quarter 0.81% lower at 2.03%.
  - Despite a slowing growth outlook, the corporate bond market staged an impressive rally on hopes that a deep recession could be averted as financial conditions eased. High yield markets outperformed investment grade in both the US and Europe, with a tightening of spreads also marking significant outperformance over government bonds. In fact, U.S High Yield returned 7.08% for the quarter, the strongest calendar quarter return on record.

Source: Schroders & SAA

Capital Markets' Performance

Index	Asset Class	Oct-23	Nov-23	Dec-23	Q4-2023	2023	Trailing 2 Yr	Trailing 3 Yr	Trailing 5 Yr	Trailing 10 Yr
S&P Composite 1500 Growth	U.S. Equity	-2.61%	8.68%	4.10%	10.18%	**29.01%**	-4.06%	6.47%	15.85%	12.97%
Alerian MLP	Master Limited Partnerships	0.42%	6.86%	-2.17%	4.98%	**26.56%**	28.72%	32.43%	12.03%	1.90%
S&P 500	U.S. Equity	-2.10%	9.13%	4.54%	11.69%	**26.29%**	1.69%	10.00%	15.69%	12.03%
S&P Composite 1500	U.S. Equity	-2.38%	9.08%	4.98%	11.78%	**25.47%**	1.57%	9.83%	15.39%	11.76%
MSCI World Ex. US Index	World Equity	-2.88%	9.43%	4.94%	11.53%	**24.42%**	1.17%	7.79%	13.37%	9.18%
S&P Composite 1500 Value	U.S. Equity	-2.10%	9.55%	6.01%	13.70%	**21.64%**	7.23%	12.97%	13.98%	9.91%
MSCI EAFE (Net)	International Equity	-4.04%	9.30%	5.33%	10.47%	**18.85%**	1.09%	4.53%	8.69%	4.78%
MSCI World Index	World Equity	-4.21%	9.42%	5.49%	10.57%	**18.60%**	1.09%	4.97%	9.02%	4.85%
MSCI EAFE Index	International Equity	-4.05%	9.28%	5.31%	10.42%	**18.24%**	0.57%	4.02%	8.16%	4.28%
S&P MidCap 400	U.S. Equity	-5.34%	8.51%	8.72%	11.67%	**16.44%**	0.61%	8.09%	12.62%	9.27%
Dow Jones Industrial Average	U.S. Equity	-1.26%	9.15%	4.93%	13.09%	**16.18%**	4.02%	9.38%	12.47%	11.08%
S&P SmallCap 600	U.S. Equity	-5.73%	8.27%	12.80%	15.12%	**16.05%**	-1.32%	7.28%	11.03%	8.66%
Dow Jones U.S. Select REIT	U.S. Real Estate	-4.53%	10.77%	10.02%	16.35%	**13.96%**	-8.14%	7.18%	6.12%	7.00%
Barclays Capital U.S. Corporate High Yield	U.S. Fixed Income	-1.16%	4.53%	3.73%	7.16%	**13.45%**	0.38%	1.98%	5.37%	4.60%
S&P/LSTA US Leveraged Loan Index	U.S. Fixed Income	-0.02%	1.22%	1.65%	2.87%	**13.32%**	6.04%	5.76%	5.80%	4.42%
BofA Merrill Lynch US Convertibles	U.S. Convertible Bond	-4.40%	5.21%	6.17%	6.79%	**12.99%**	-4.16%	-0.78%	11.94%	8.90%
MSCI EM (Emerging Markets)	International Equity	-3.87%	8.02%	3.95%	7.93%	**10.27%**	-5.92%	-4.71%	4.07%	3.05%
Barclays Capital U.S. Corporate Investment Grade	U.S. Fixed Income	-1.87%	5.98%	4.34%	8.50%	**8.52%**	-4.39%	-3.29%	2.63%	2.95%
Citigroup WorldBIG Index	World Fixed Income	-1.19%	5.16%	4.20%	8.28%	**6.44%**	-6.09%	-5.86%	-0.48%	0.29%
Barclays Capital Municipal Bond	U.S. Fixed Income	-0.85%	6.35%	2.32%	7.89%	**6.40%**	-1.34%	-0.40%	2.25%	3.03%
Barclays U.S. Government/Credit	U.S. Fixed Income	-1.42%	4.33%	3.68%	6.63%	**5.72%**	-4.41%	-3.53%	1.41%	1.97%
Barclays Capital U.S. Aggregate	U.S. Fixed Income	-1.58%	4.53%	3.83%	6.82%	**5.53%**	-4.19%	-3.31%	1.10%	1.81%
Citigroup 3-month T-bill	Cash/Cash Equivalent	0.47%	0.46%	0.47%	1.41%	**5.26%**	3.36%	2.25%	1.91%	1.26%
Barclays Intermediate U.S. Government/Credit	U.S. Fixed Income	-0.46%	2.67%	2.32%	4.56%	**5.24%**	-1.73%	-1.63%	1.59%	1.72%
Barclays U.S. Treasury: U.S. TIPS	U.S. Fixed Income	-0.72%	2.71%	2.69%	4.71%	**3.90%**	-4.30%	-1.00%	3.15%	2.42%
Merrill Lynch US Treasury Master	U.S. Fixed Income	-1.32%	3.61%	3.41%	5.72%	**3.87%**	-4.86%	-4.04%	0.46%	1.34%
5-Year US Treasury	U.S. Treasury	-0.54%	2.62%	2.30%	4.41%	**3.73%**	-3.26%	-3.11%	0.64%	1.03%
10-Year US Treasury	U.S. Treasury	-2.22%	4.78%	4.04%	6.60%	**2.83%**	-7.22%	-6.05%	-0.03%	1.29%
S&P GSCI Crude Oil	Commodity	-8.68%	-5.76%	-5.59%	-18.75%	**-3.79%**	10.78%	25.80%	1.16%	-11.42%
S&P GSCI Commodities	Commodity	-4.18%	-3.64%	-3.31%	-10.73%	**-4.27%**	9.82%	19.18%	8.72%	-3.60%

Key Take Aways:

- **The "higher for longer" interest rate narrative that gained broader traction across markets for August, September, and October folded like a cheap lawn chair as economic data and the Fed's rhetoric in early November intimated peak rates were behind us. As a result, bond and equity markets rallied sharply during Nov/Dec on the expectations that rates would begin to head downward sharply in 2024.**

Indices sorted high/low by 2023 performance as of 12/31/2023.

Source: Zephyr StyleAdvisor

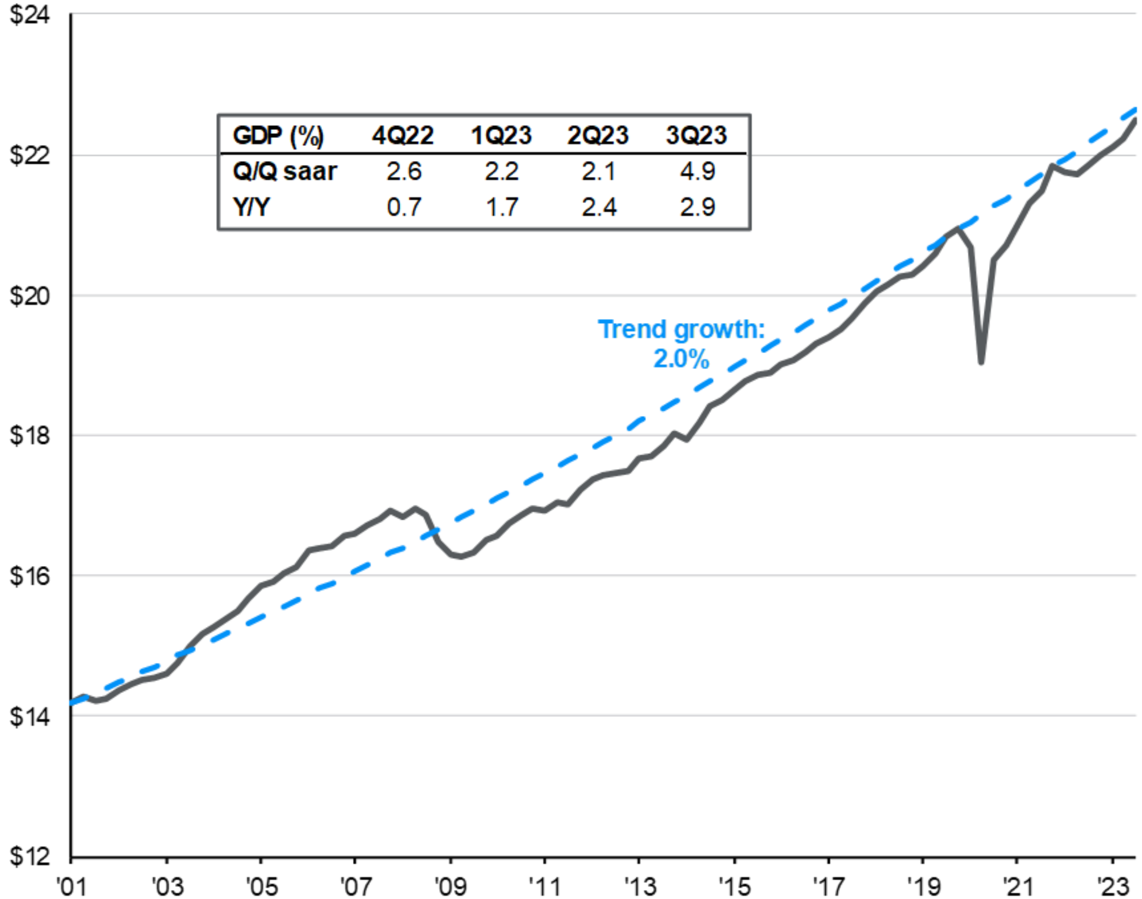
INTERMEDIATE OUTLOOK

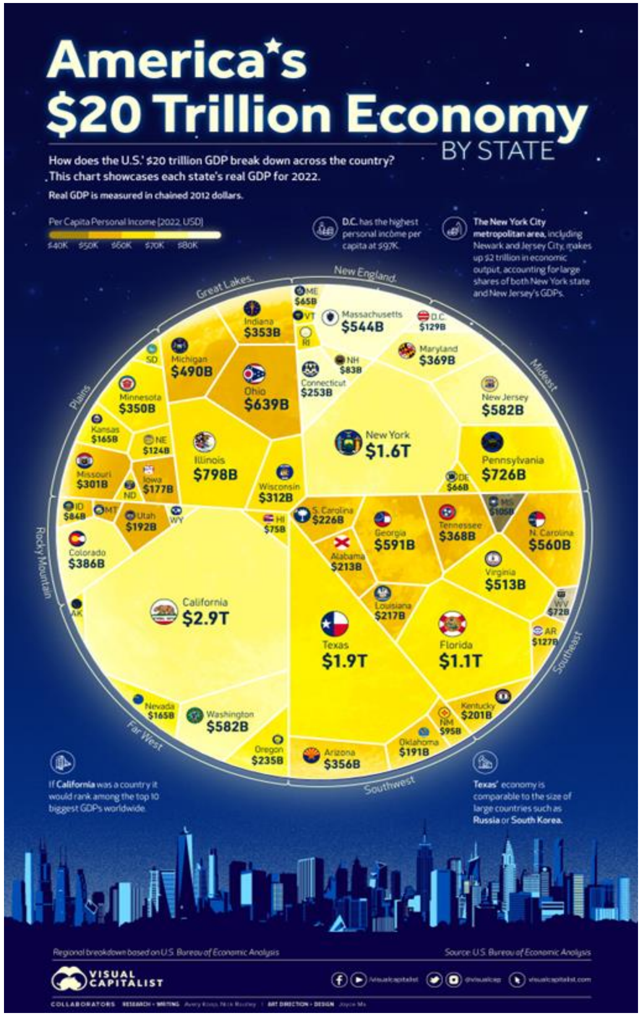
Economic Growth (GDP)

Real GDP

Trillions of chained (2017) dollars, seasonally adjusted at annual rates

GDP (%)	4Q22	1Q23	2Q23	3Q23
Q/Q saar	2.6	2.2	2.1	4.9
Y/Y	0.7	1.7	2.4	2.9



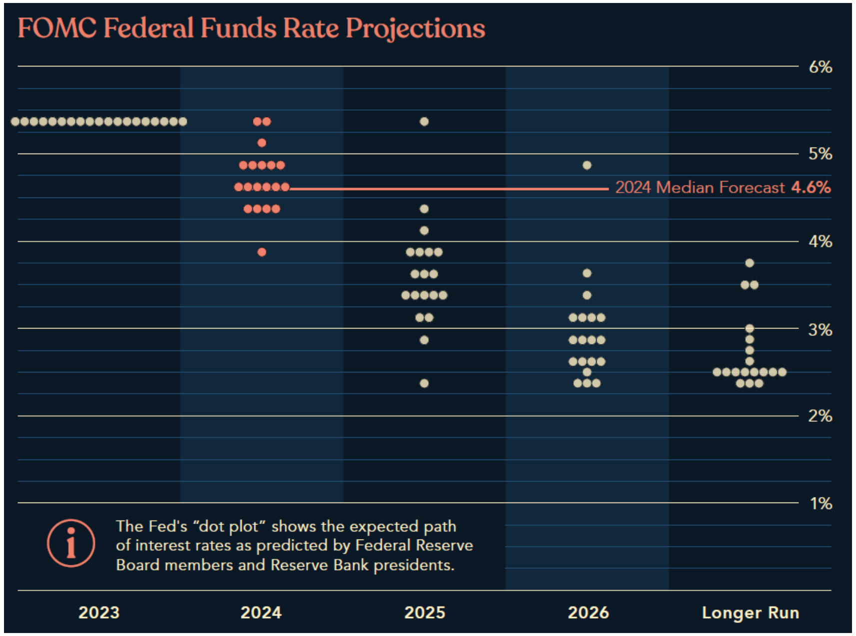


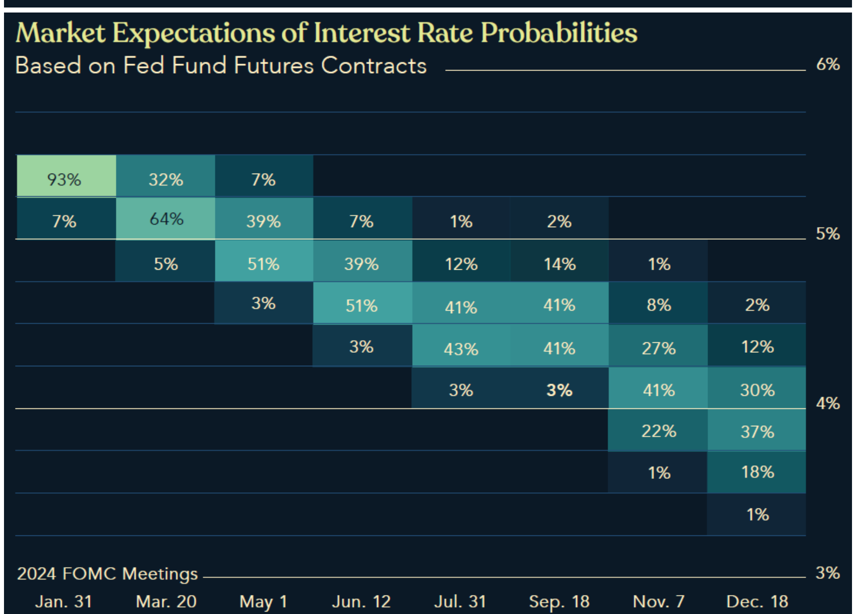
Key Take Aways:

- ❑ **Although consumer spending continues to slow as the rate hikes from 2022/23 continue to dampen overall demand, the U.S. economy remains remarkably flexible and resilient. Expect surprises as the world continues to emerge from the COVID pandemic and adapts to the changing consumer behavioral changes as a result.**

Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Trend growth is measured as the average annual growth rate from business cycle peak 1Q01 to business cycle peak 4Q19.
Guide to the Markets – U.S. Data are as January 9, 2024

The Fed & Interest Rates, Part 2





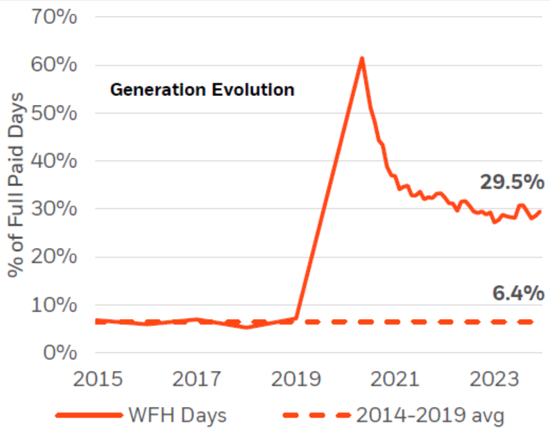
Source: The Virtual Capitalist (graphic), Federal Reserve, CME Fedwatch Tool (data)
As of January 5, 2024

Key Take Aways:

- ❑ (Top Chart) The FOMC dot plot shows the downward trend of the Fed Funds Rate as expected by the FOMC with modest variability amongst the members. Be warned, the dot plot poor history as a prognosticator.
- ❑ (Bottom Chart) Concurrently, the markets expect rates to end 2024 in the 3.25%-4.75% range with the highest probability assigned to the 3.75%-4.25% range (i.e. 4 to 5 cuts) (bottom chart).
- ❑ In the end, Fed policy decisions will remain data-dependent and have ample opportunities to positively or negatively surprise investors throughout 2024.
- ❑ So, don't fight the Fed and stick to your long-term, enterprise-aligned strategic asset allocation.

The Fed & Interest Rates, Part 4 (Labor Markets – The X-Factor)

Do traditional labor market models still work in the new regime? While WFH has fallen from COVID peaks, it is a large multiple of anything we've seen in history, which is likely a permanent change.



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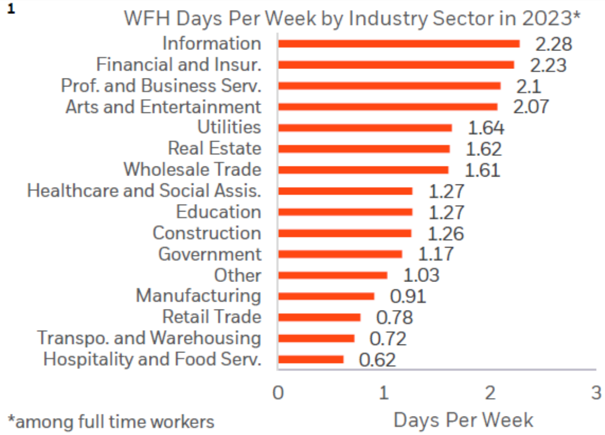
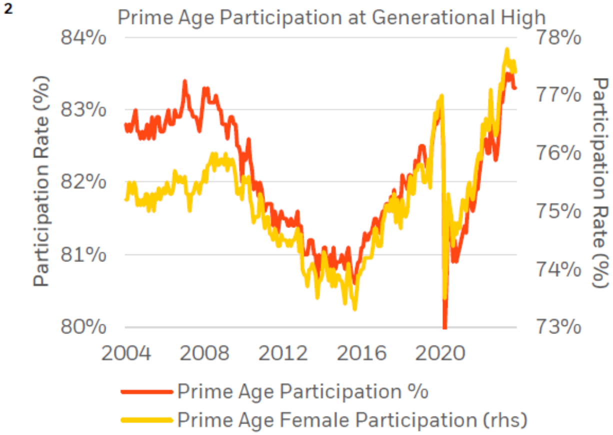
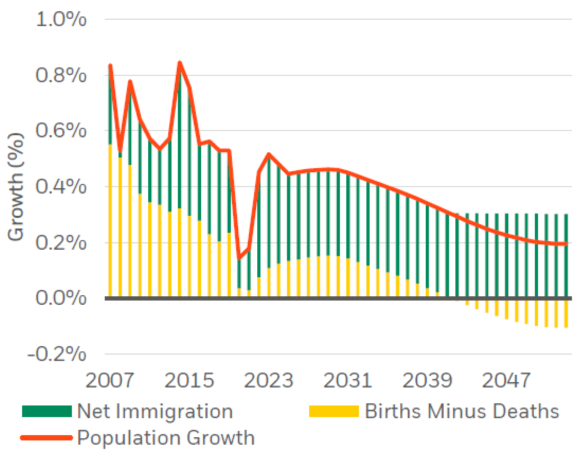


2

WFH has enabled a surge in participation, particularly for prime age females...[3]



There is also the large positive supply shock from foreign-born workers, which is presumably dampening wage costs on the margin (and the volatility of labor conditions)...



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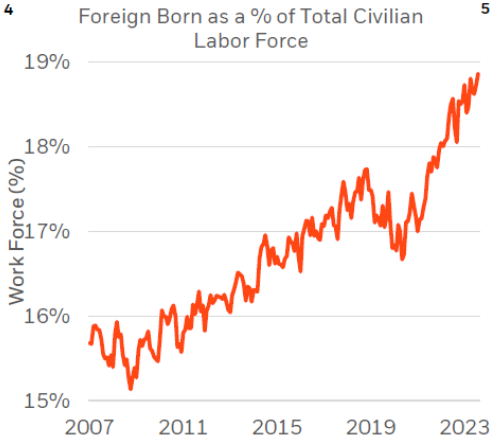


5

There could be anywhere from 0.25% to 0.50% of annual boost to projected US population growth from larger in-bound migration[6]

	Legal Immigrant, New Arrivals	Southwest Land Border Encounters	Combined	2012-2019 Trend	vs. 2012-2019 Trend	Cumulative vs. Trend
2012	484,072	356,873	**840,945**	954,168		
2013	457,601	414,397	**871,998**			
2014	479,170	479,371	**958,541**			
2015	505,031	331,333	**836,364**			
2016	613,247	408,870	**1,022,117**			
2017	573,774	303,916	**877,690**			
2018	523,884	396,579	**920,463**			
2019	453,718	851,508	**1,305,226**			
2020	268,153	458,088	**726,241**		(227,927)	(227,927)
2021	227,206	1,734,686	**1,961,892**		1,007,724	779,797
2022	464,143	2,378,944	**2,843,087**		1,888,919	2,668,716
2023E	464,143	2,733,123	**3,197,266**		2,243,098	4,911,814

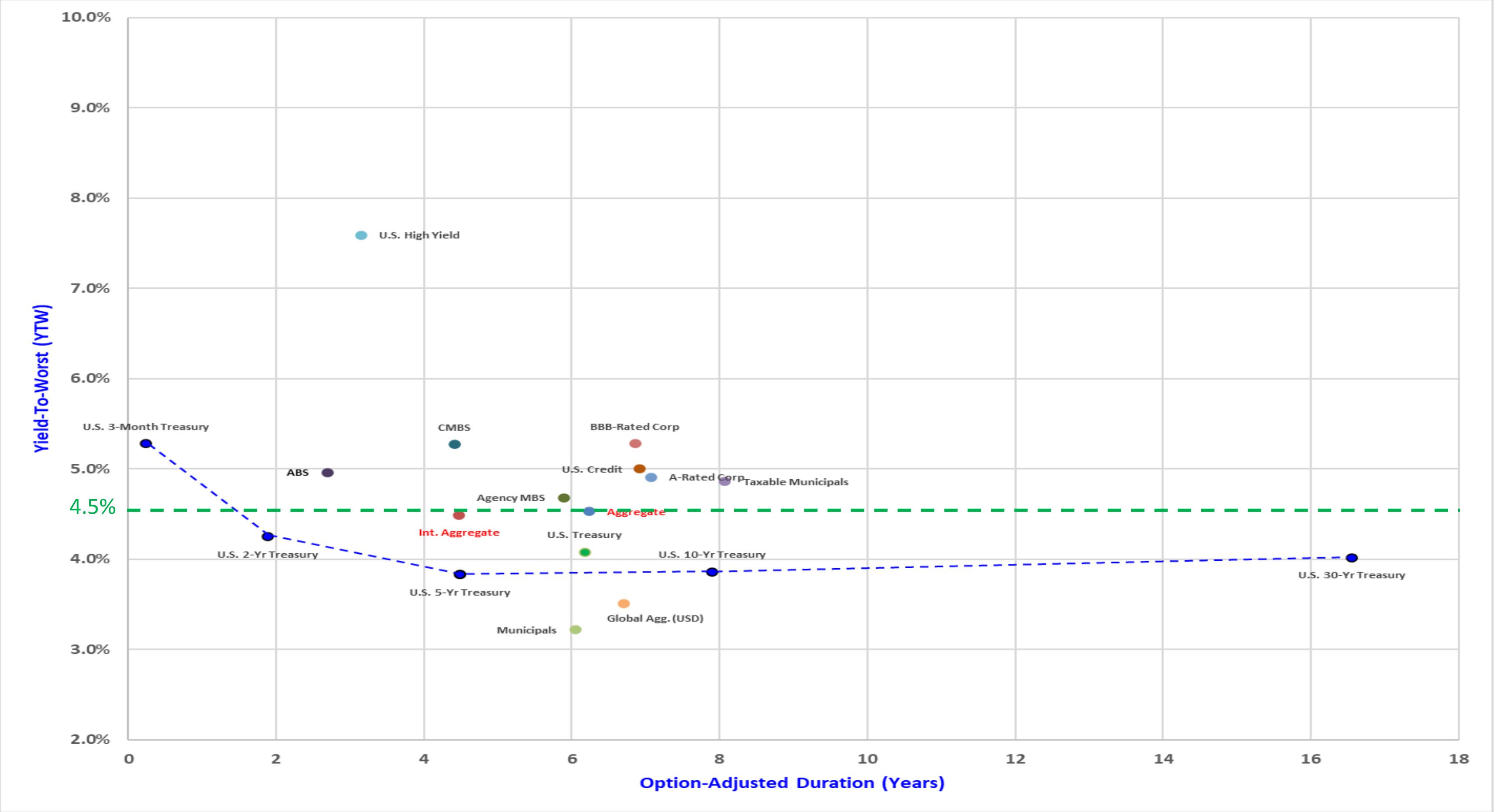
All of this contributes to more stability, more efficiency/productivity, and less unstable volatility; i.e. *more frequent periods of economic normality in 2024...*

Key Take Aways:

- **The impact of WFH has changed the dynamics of the labor market making monetary policy decisions more difficult for the Fed as the unemployment rate remains low despite the magnitude of rate hikes in 2022/2023. Additionally, and despite the politics of immigration, foreign-born continue to comprise an increasing percentage of the work force driven by behavioral and demographic trends.**

Source: BlackRock: 1) Barrero , Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731; 2) WFH Research, as of 1/3/2024; 3) BLS, as of 11/30/2023; Research, as of 1/3/2024; 3) BLS, as of 11/30/2023; 4) CBO, as of 1/24/2023; 5) BLS, as of as of 12/31/2023; 6) US Customs and Border Protection, as of 12/31/2022 and Homeland Security, as of 3/8/2023. Index definitions are found on slides 28 33. Forecasts are based on estimates and assumptions. There is no guarantee that they will be achieved.

UST Yield Curve & Expectations, Part 1

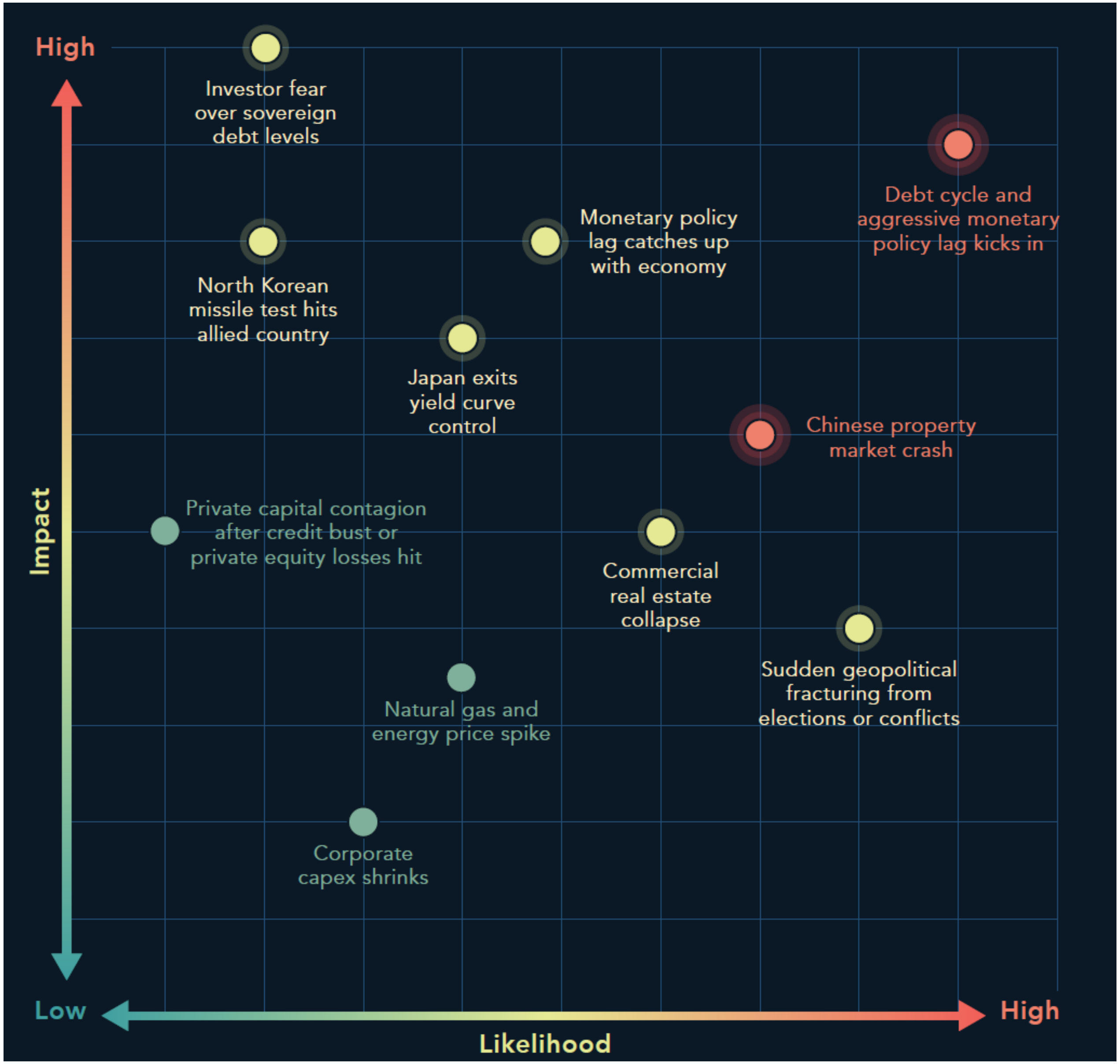


Key Take Aways:

- Despite the pullback from 16-year highs across the UST curve in October, rates remain considerably higher for reinvestment as compared to 12/31/2021 with reinvestment yields ranging from 4%-5.5% as opposed to 1.5%-2.5% pre-COVID.
- Despite the potential for lots of "noise" in 2024 (e.g. US Election, On-going geopolitical issues, etc.), the proceeds from any maturing bond purchased before 12/31/2021 will see reinvestment yields that are multiples higher for the same risk thereby driving earned investment income higher throughout 2024.

Source: BB 12/31/2023

Expectations & Impacts of Economic Risks for 2024

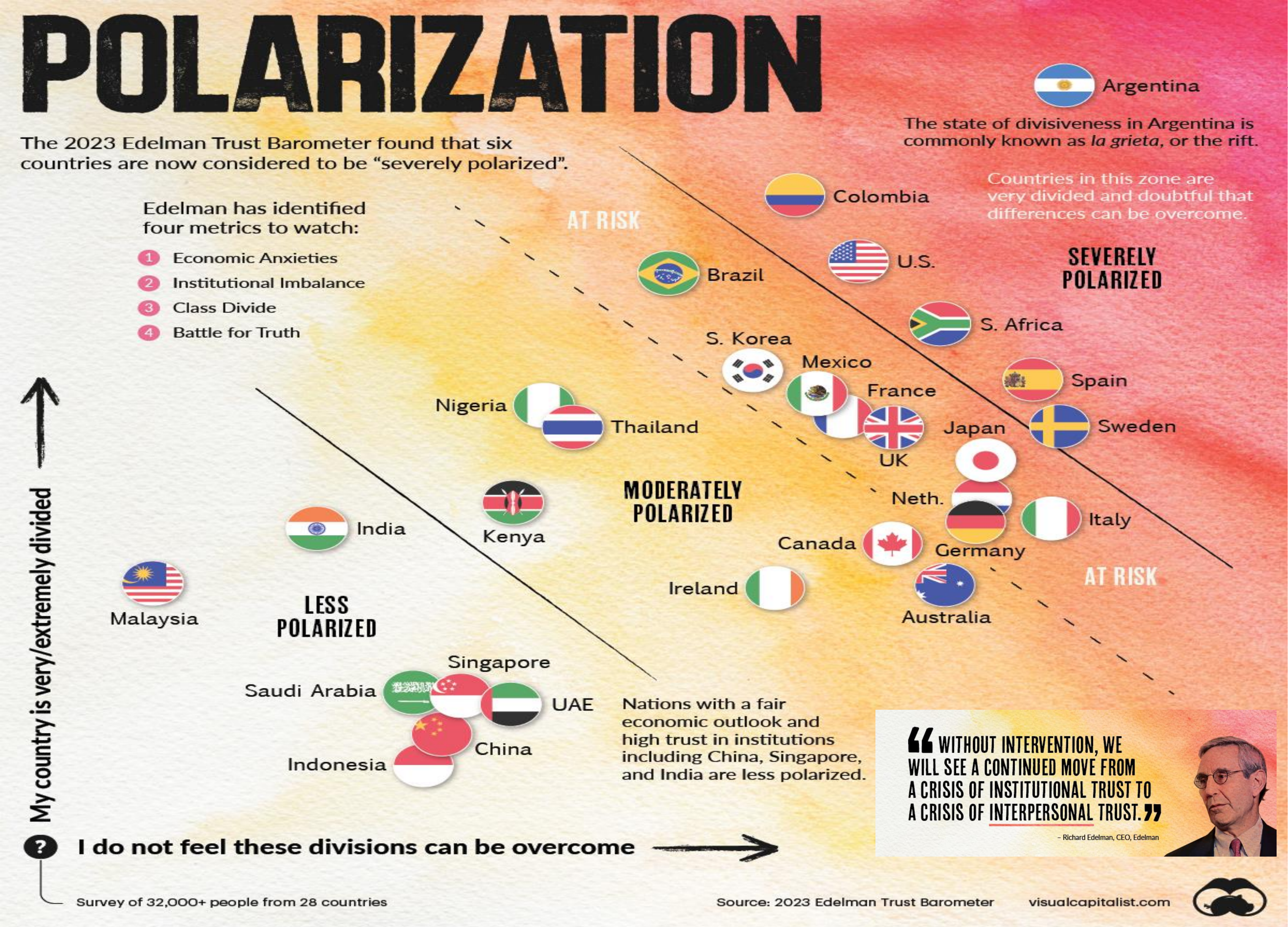


Top Overall Risks for 2024

1) **Election interference, results & geopolitical fallout.**
2) **Hard landing, sticky inflation, and no rate cuts.**
3) **Major cyber attack on U.S. infrastructure.**

Source: Deutsche Bank (data) & Virtual Capitalist (graphic)

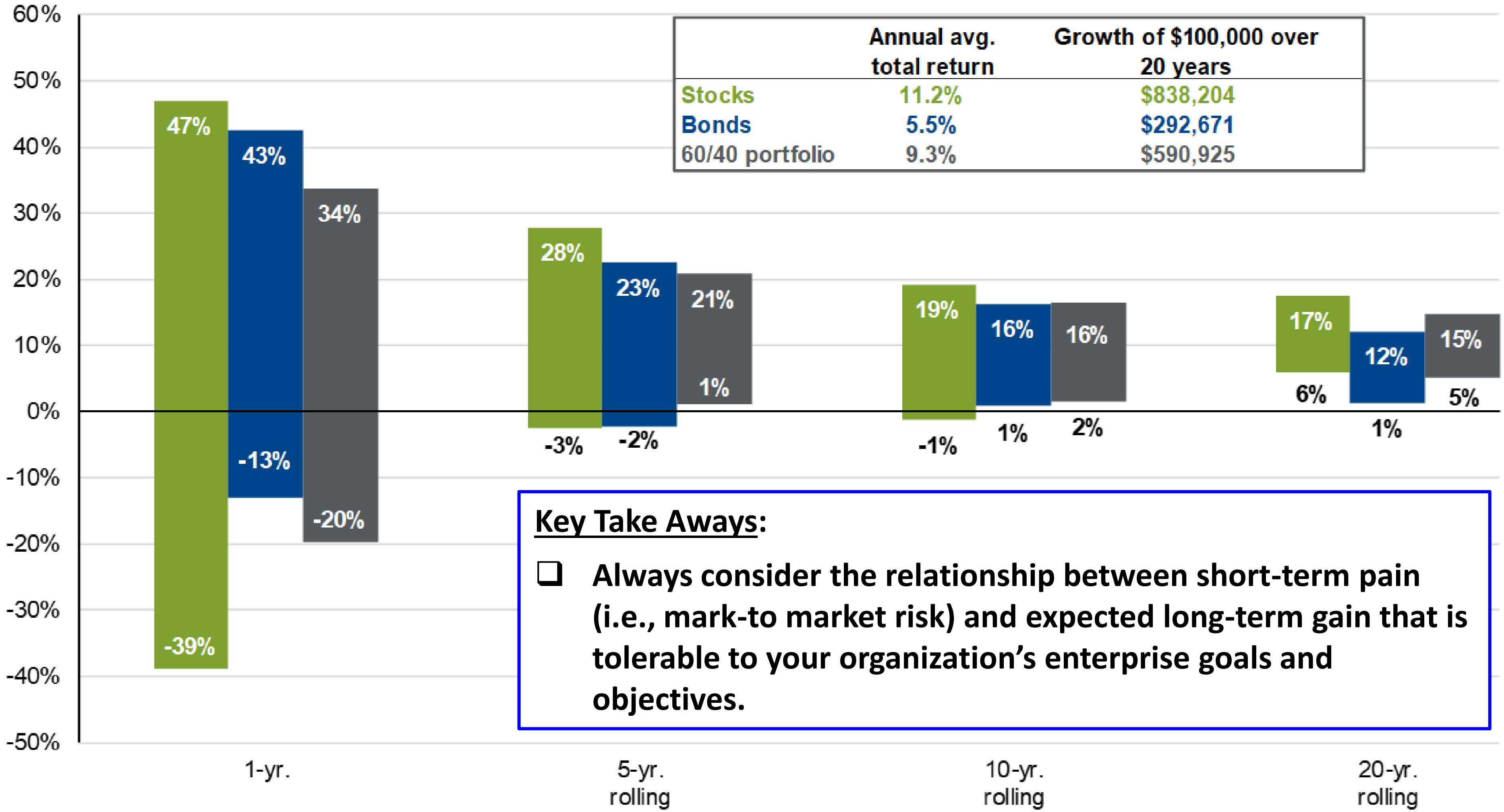
LONG-TERM CONSIDERATIONS


POLARIZATION
The 2023 Edelman Trust Barometer found that six countries are now considered to be "severely polarized".
Edelman has identified four metrics to watch:
1 Economic Anxieties
2 Institutional Imbalance
3 Class Divide
4 Battle for Truth
Argentina
The state of divisiveness in Argentina is commonly known as *la grieta*, or the rift.
Countries in this zone are very divided and doubtful that differences can be overcome.
SEVERELY POLARIZED
AT RISK
Colombia
U.S.
Brazil
S. Africa
S. Korea
Mexico
France
Spain
Sweden
Nigeria
Thailand
UK
Japan
Neth.
Italy
Germany
Canada
Ireland
Australia
AT RISK
MODERATELY POLARIZED
India
Kenya
Malaysia
LESS POLARIZED
Singapore
Saudi Arabia
UAE
China
Indonesia
Nations with a fair economic outlook and high trust in institutions including China, Singapore, and India are less polarized.
"WITHOUT INTERVENTION, WE WILL SEE A CONTINUED MOVE FROM A CRISIS OF INSTITUTIONAL TRUST TO A CRISIS OF INTERPERSONAL TRUST."
– Richard Edelman, CEO, Edelman
My country is very/extremely divided
I do not feel these divisions can be overcome
Survey of 32,000+ people from 28 countries
Source: 2023 Edelman Trust Barometer
visualcapitalist.com

Long Term Perspective - Patience Pays

Range of stock, bond and blended total returns

Annual total returns, 1950-2023



	Annual avg. total return	Growth of $100,000 over 20 years
Stocks	11.2%	$838,204
Bonds	5.5%	$292,671
60/40 portfolio	9.3%	$590,925

Key Take Aways:

- ❑ **Always consider the relationship between short-term pain (i.e., mark-to market risk) and expected long-term gain that is tolerable to your organization's enterprise goals and objectives.**

Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2023. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Aggregate thereafter.
Growth of $100,000 is based on annual average total returns from 1950 to 2023.
Guide to the Markets - U.S. Data are as of December 31, 2023.

ABOUT SAA

Who We Are

Independent Investment Consulting Firm
Founded in 1994 that Only Focuses on
Insurance Organizations and Governmental Risk Pools

64*
Insurance
Co. Clients

$10.6B*
Assets Under
Advisement

- Headquartered in Bellingham, WA with an office in Maine.
- Staff of six, including one CEO, one Managing Director and one Director.
- Clients span various segments, including:
  - Governmental Risk Pooling organizations
  - Commercial P&C
  - Commercial Life
  - Commercial Health
  - Captives

*As of 12/31/23
*Within 34 Client Relationships

Our Investment Philosophy

Investment Process

- Asset allocation drives the great majority of returns based on historical studies
- Accountability & Transparency is key within the overall process

Active Management Makes Sense for Fixed Income Mandates Due to:

- The less efficient nature of the asset class due to its over-the-counter structure
- The necessary customization involved in managing insurer fixed income portfolios

Passive Management Makes Sense for Developed Market Equity Mandates

- In general, passive management makes more sense for developed market equity mandates (Large Cap, Mid Cap, Small Cap) due to:
  - The greater level of efficiency in these markets
  - The higher level of fees associated with managing active equity mandates
  - The difficulty in outperforming benchmarks given the fee drag and adjusting for risk

In general, we don't believe alternatives (i.e. hedge funds), make sense for insurers due to:

- The high level of fees, potential lack of liquidity, agency problems and impact to capital ratios

What Services Do You Receive?

Summary of Deliverables

SWOT Analysis	|	Initial SWOT Analysis of the investment process, providing blueprint and priority ranking for improvement
Asset Allocation	|	Advice on the current investment asset allocation and risk profiles, subject to current insurance regulations
Policy Review	|	Review, consultation and recommendations about the client's investment policy and guidelines
Benchmarking	|	Advice on establishing benchmarks for the various investment managers
Ongoing Monitoring	|	Ongoing monitoring of investment portfolio holdings and risks
Manager Evaluation	|	Review, consultation and recommendations about the performance of the investment managers
Performance Reviews	|	Performance reporting and monthly/quarterly review with management
On-site Attendance	|	Attendance and performance reporting at Finance/Investment Committee meetings
Manager Selection	|	Recommendations and assistance in selecting outside investment managers, when/if necessary.
Peer Analysis	|	Development of an annual peer group analysis
Ad Hoc Analysis	|	Ad hoc investment related analysis as necessary