



## COVID-19

### *Company Reaction*

- Segal Marco maintains and updates a business continuity plan to enable the firm to continue to provide services to clients in the event of a natural disaster, including a global health crisis like COVID-19
- As a result of the firm's significant investment in technology, our transition was seamless, delivering uninterrupted services to our clients since March 16, 2020
- Senior management, business operations, including our information technology and information security professionals met regularly to (i) coordinate our response to the changing operating environment and (ii) to ensure that we were able to meet our contractual obligations to clients
- Our commitment to our employees and our clients remains firm and the financial strength of our company allows that without requiring outside support

**Remote Unless Necessary – Extended To July 31, 2021**



# COVID-19

## *Lessons Learned*

- We learned that we can work in a remote environment, which lays the foundation for future remote and flexible work arrangements
- We learned how to communicate in a different manner with each other and while it cannot replace the personal connection, it did in many ways enhance our interaction with one another
- We learned how to service our clients in a different manner, which allowed for more opportunities to show the depth and expertise of our staff
- We learned that sometimes you have to make decisions with imperfect information — and that's OK
- We learned to be vulnerable by letting people inside our personal world, and supporting and being more compassionate with each other

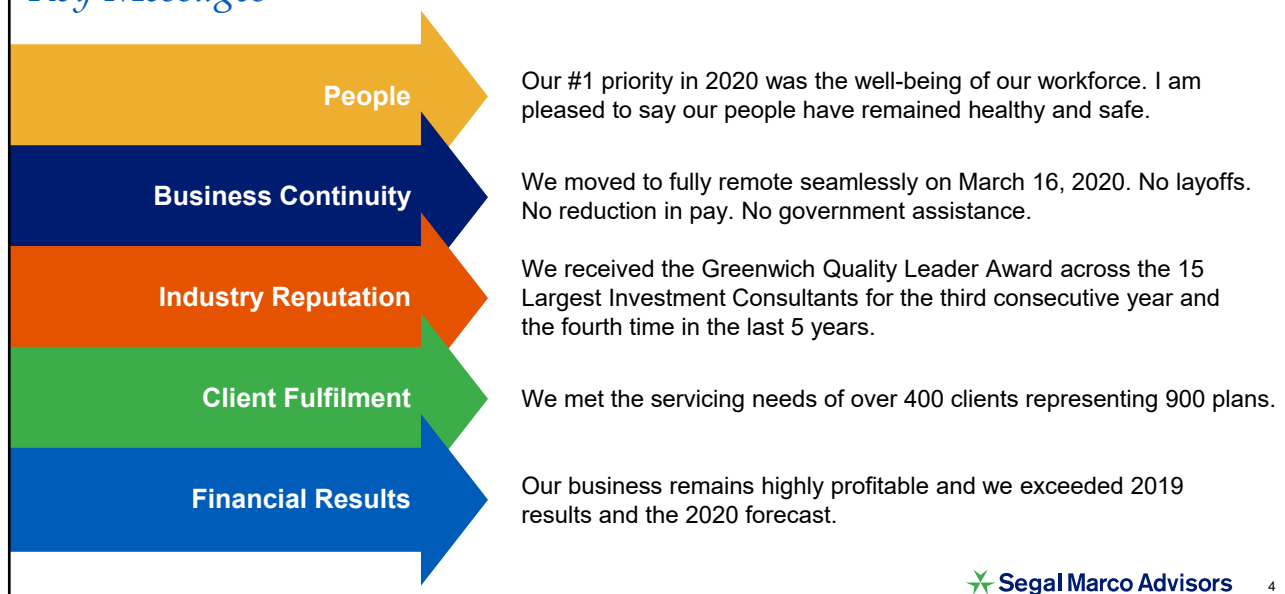


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# 2020 Year in Review

## *Key Messages*



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# Staff Announcements



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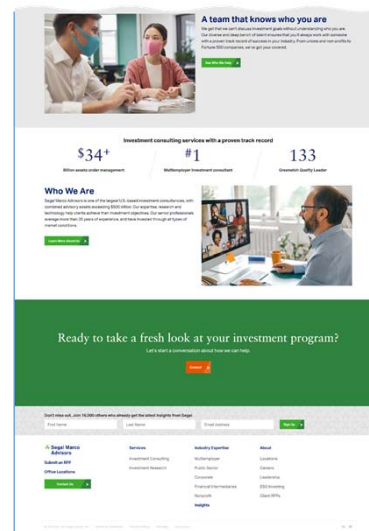
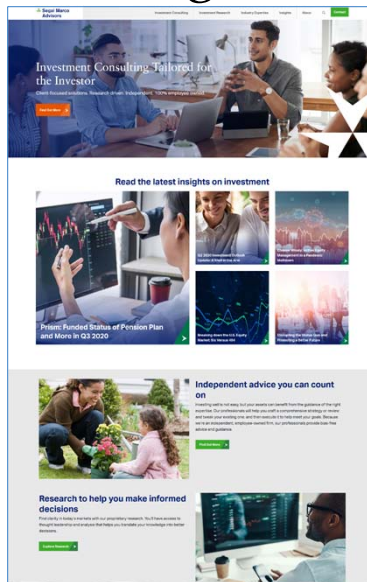


**Michael St. Germain**  
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**Vanessa Vargas Guijarro**  
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# Website Redesign



# New Logo

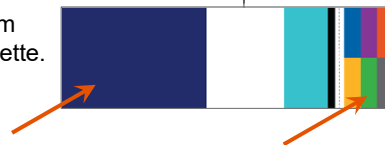
Current



New



The colors originate from  
the new Segal color palette.



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## Greenwich Quality Leader *3 Years in a Row!*



For the 3<sup>rd</sup> consecutive year, Segal Marco was named a Greenwich Quality Leader among Large U.S. Investment Consultants overall among the top 15 consultants\*, placing 1<sup>st</sup>, 2<sup>nd</sup> or 3<sup>rd</sup> in 13 out of 14 criteria.



Understanding clients' goals and objectives  
Capability of consultant assigned to fund  
Advice on DC plan structure and design  
Credibility with investment committee  
Usefulness of personal meetings



Communication of philosophy  
Advice on long-term asset allocation  
Provision of proactive advice/innovative ideas  
Satisfaction with manager recommendations  
Usefulness of written investment reviews



Timeliness of Providing Written Reports  
Sufficient professional resources to meet needs  
Reasonable fees (relative to value delivered)

\* Top 15 based on 2020 P&I Investment Consultants Special Report  
Source: Greenwich Associates, U.S. Institutional Investors Study

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## 2020 Corporate Sustainability Report



## Survey of Investment Managers on Internal ESG Policies

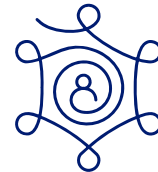
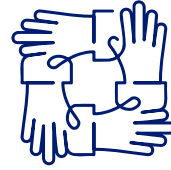
### Snapshot of topics surveyed in May Report

- Gender and racial composition of work force by job category
- Human capital management practices
- Environmental stewardship policies
- Governance framework
- Operational flexibility



# Diversity, Equity and Inclusion at Segal Marco

- Business Resources Groups
  - Women's Leadership Council
  - Pride @Segal
  - CARES (Caregiver Resources, Engagement and Support)
- Employee Development & Retention Programs
  - Training on Bias Awareness and Prevention of Discrimination
  - Mentorship Program, Talent Management and Succession Planning
- Recruitment
  - Internship Program (Heartland)
  - Targeted Campus Program
  - Business Plan Goal and Objectives
- Supplier Programs
- Diverse Asset Manager Initiative and Annual Outreach Event
- Proxy voting and corporate governance practice advocates for racial and gender diversity at publicly traded firms
- Our Diversity Investing Working Group is dedicated to research, advocacy and incorporation of small, emerging and minority owned business in our client portfolios



## 2021 Business Initiatives



- Professional Development
  - Knowledge Empowers You @ Segal Marco Advisors (KEY)
  - National Exposure & Cross Training (NEXT)
- Business Practices
  - Investment Manager Refresh
  - Alternatives Pipeline
  - Future of Work
  - Defined Contribution
  - Performance Reporting
- New Focused Initiatives
  - Client & Quality Team
  - Growth Team
  - Operations Team
  - Vision Team





## Agenda

### **Next 12-18 Months / Known and Unknown**

#### Market Environment:

- Economic Backdrop
- Fixed Income Backdrop
- Equity Backdrop

## Knowns

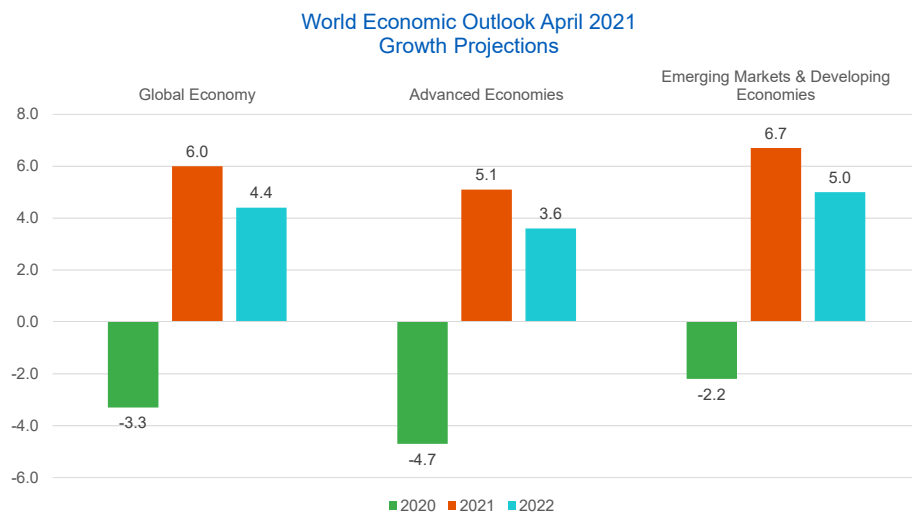
**Both fiscal and monetary support provide strong basis for global growth**



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## Leads us to Expectations for Global Growth



Source: IMF World Economic Outlook, April 2021

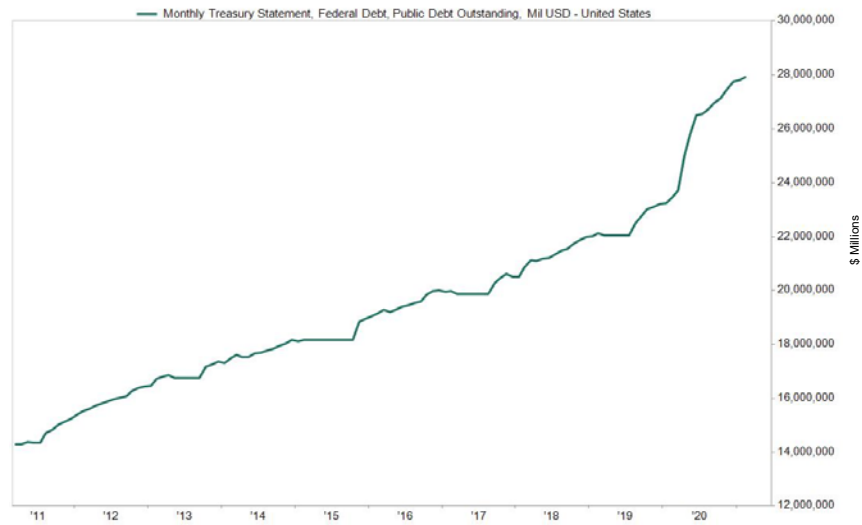
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# Federal Debt: Fiscal Support

Largest Federal Debt Levels since WWII



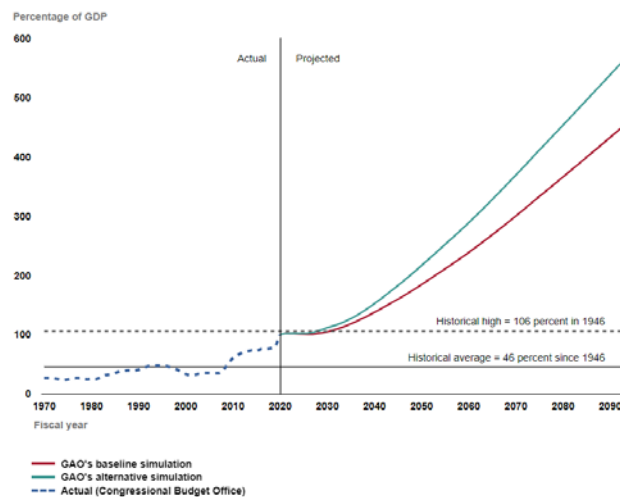
Source: FactSet

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# Implications Near Term vs. Long Term

Debt Held by the Public under Two Policy Simulations



Source: GAO and GAO analysis of Congressional Budget Office data

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# Monetary Support: Global Central Banks



## Other Knowns

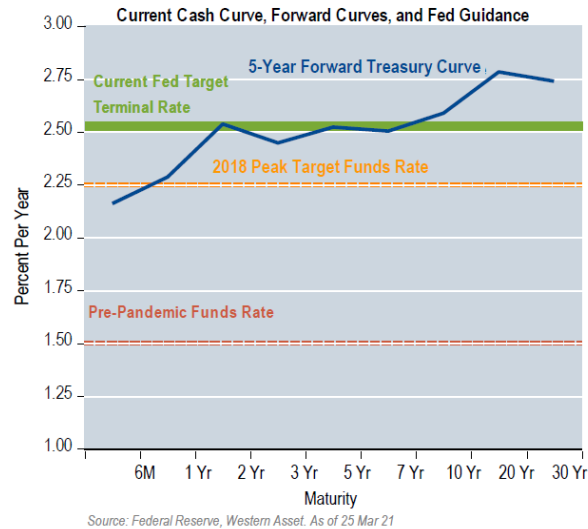
### Supporting Growth and adding to Benign Backdrop

Interest Rates

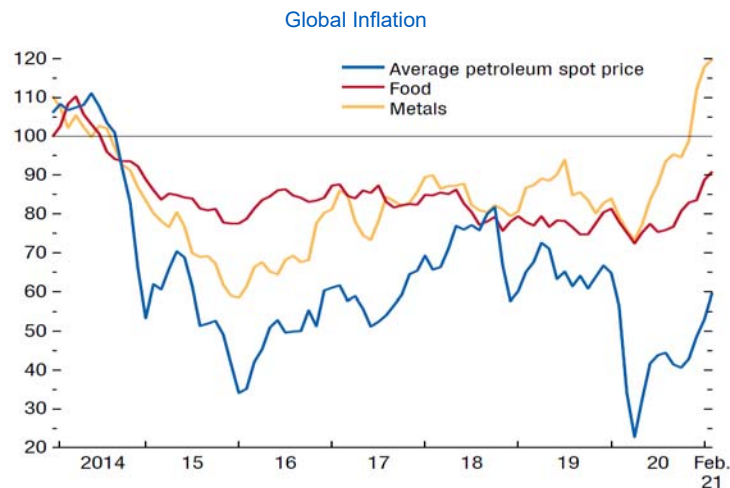
Consumer

Inflation? Dollar?

# Forward Rate Curves

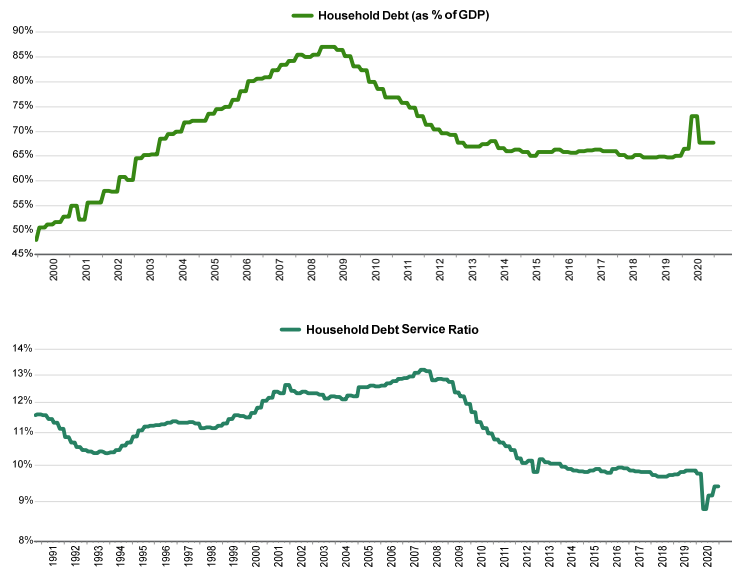


# Inflation Higher, but not High



Sources: IMF Primary Commodity Price System; and IMF staff calculations.

# Consumer Strength



Source: FactSet as of 3/31/2021; most recent data available

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## Unknowns: *What Could Go Wrong?*

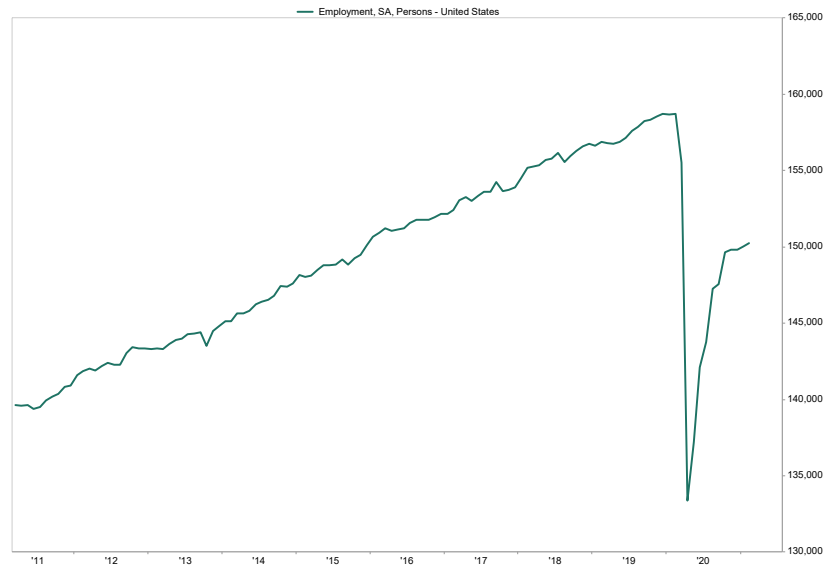
- Tax Policy
- Debt
- Inflation/dollar
- War
- Income inequality



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## U.S. Employment

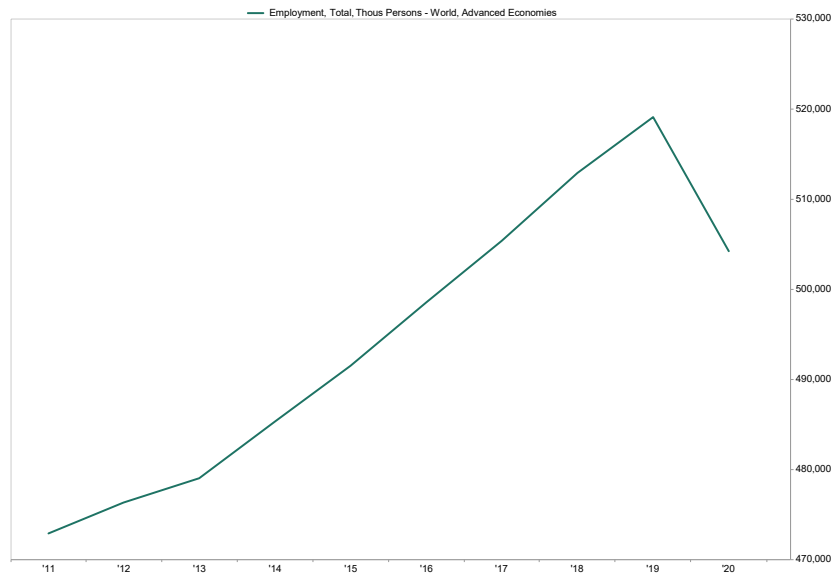


Source: FactSet

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## Global Employment



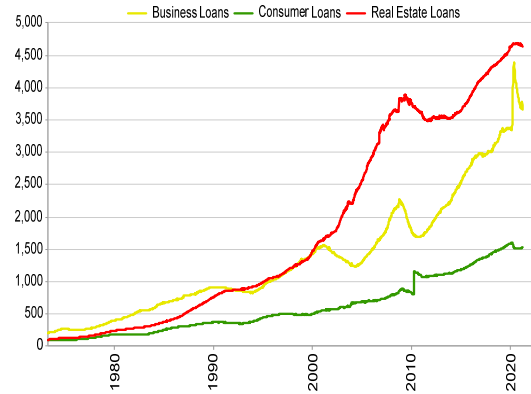
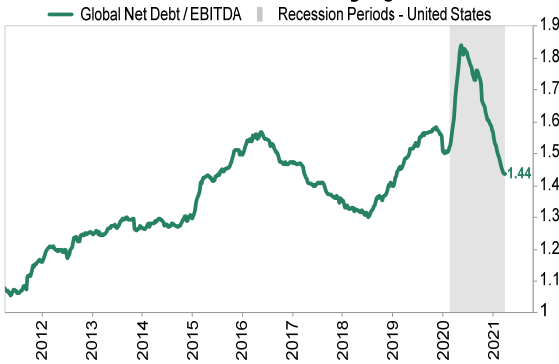
Source: FactSet

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# Debt Outstanding in the Economy

**Global Debt to EBITDA Levels Reaching Highs**



Source: FactSet as of 3/31/2021, most recent data available

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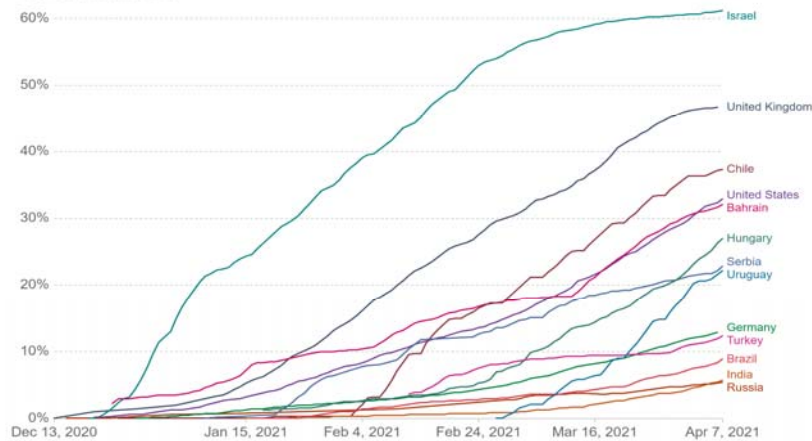
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# The Great Unknown: Global Vaccination Rates

**Share of people who received at least one dose of COVID-19 vaccine**

Share of the total population that received at least one vaccine dose. This may not equal the share that are fully vaccinated if the vaccine requires two doses.

Our World  
In Data



Source: Official data collated by Our World in Data

CC BY

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## | And the Markets?

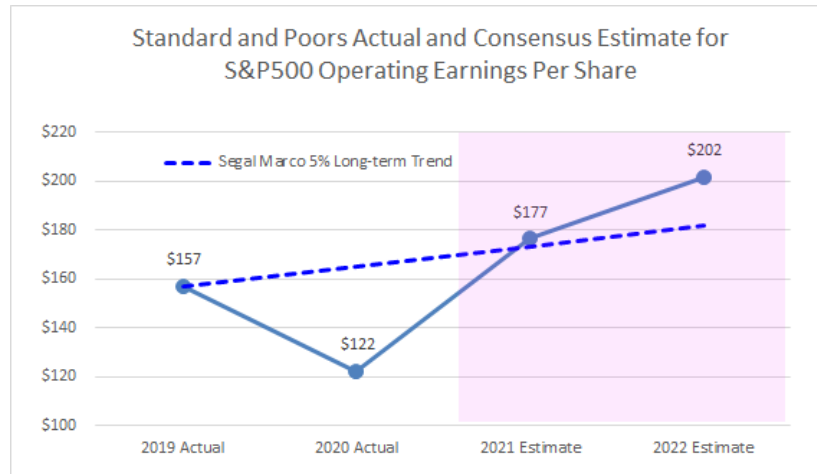
## Over the Next 18 Months, US Equities and Interest Rates Most Important Drivers

- High equity valuations hinge on:
  - Strong earnings recovery over the next 18 months
  - Maintenance of low interest rates ~ TINA
  - Sentiment
- Low interest rates hinge on Fed's monetary policy:
  - ZIRP (Zero Interest Rate Policy)
  - Forward guidance
  - Quantitative Easing
- Fed's monetary policy hinges on dual mandate:
  - Maximum unemployment, primary over next 18 months
    - with a focus today on lower income wage earners
  - Stable prices, secondary over next 18 months



# US Earnings Forecasts are Very Positive

- Strong 18 month earnings recovery priced into the market



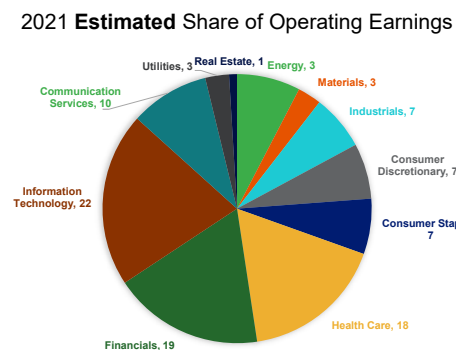
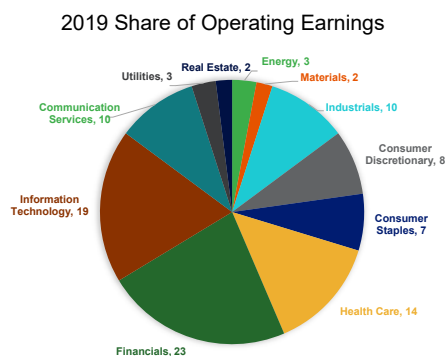
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## How is the Market Getting There 2019 → 2021

### What is the change in the breakdown by sector share of?

- **Big estimated winners**
  - **Info Tech** 19% (2019) → 22% (2021)
  - **Health Care** 14% → 18%
- **Big estimated losers**
  - **Industrial** 10% (2019) → 7% (2021)
  - **Financials** 23% → 19%



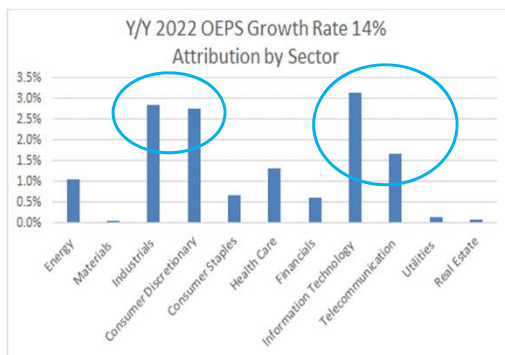
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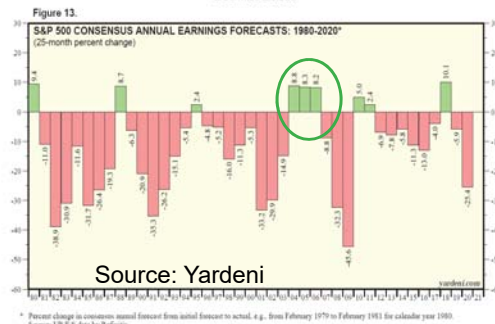
## 2022 Realistic or a Pipe Dream

- Markets have a robust (back to normal plus) priced into 2022
  - Other than industrials, winners keep winning
- Street analysts have been historically optimistic with actuals revised down – note the 3 beats occurred during the 'great moderation'

Estimates of Operating Earnings

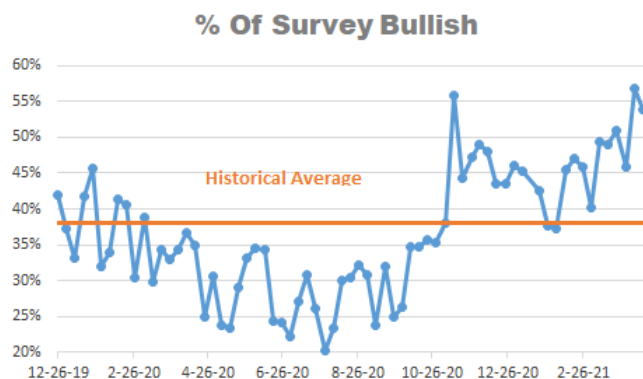
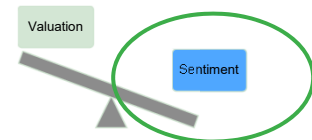


Earning Revision for 25 month life cycle of estimate to actual Revisions



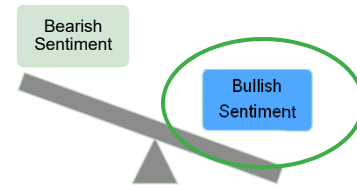
## Sentiment 18 Month Horizon vs. Valuations Long-term

- Sentiment has a stronger influence than valuations in the short-term
- AAll survey of bullish vs. bearish



# Risk-on or Risk-off Sentiment

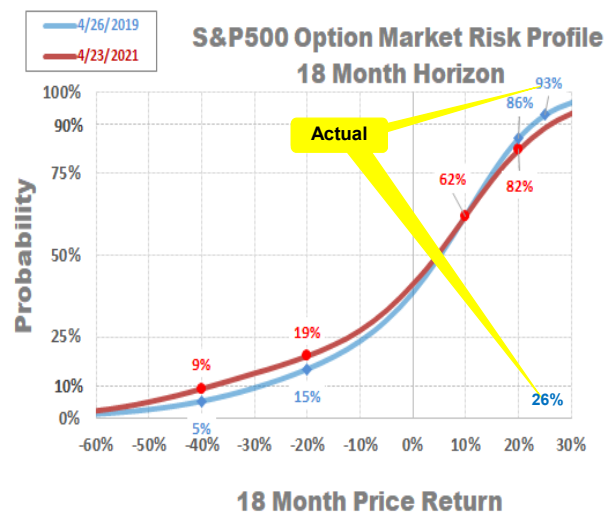
- Things that make you go hmmm... (Grant Williams)
  - SPACs
  - Tesla's market cap
  - Robinhood's account growth, call buying, GameStop, Bitcoin and many others...



## BUT

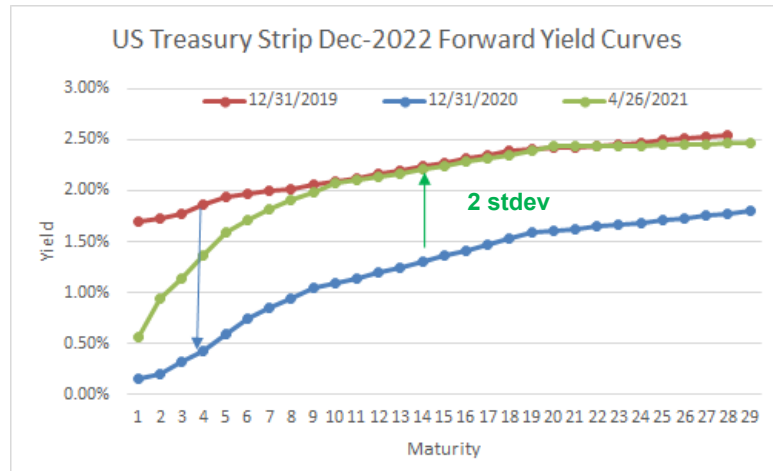
- 18 month Option pricing:
  - Today (Dec-2022 expiration) versus
  - Pre-pandemic April-2019 (Dec-2020 expiration)
- Probability of a 10% or less ROR has a 62% probability ~ both time periods (*greater than 10% has a 38% probability*)

18 Month Options Scenario	Probability	
	Today	Apr-2019
(20)% Bear Market	19%	15%
(40)% Crash	9%	5%
20% Continued Rally	18%	14%



## Fixed Income – What's priced in?

- Yields are endemic to the economy and risk asset valuations:
  - Equity market's PE ratio,
  - Commercial Real Estate cap rate,
  - Residential real estate mortgage payment, etc.
- With the 2 standard deviation change year to date; Dec-2022 forward curve back to pre-pandemic level
- Dot plot suggests ZIRP through December 2022

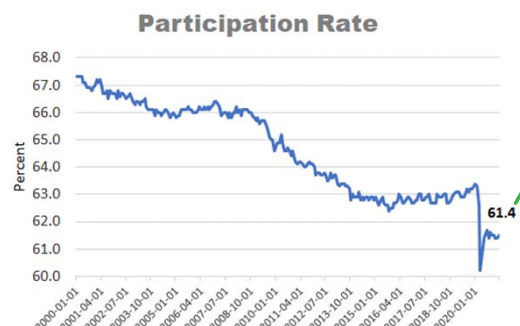
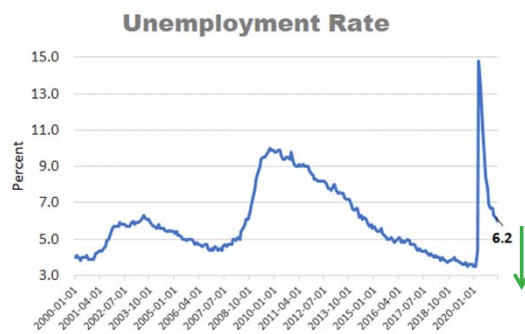


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## What will the Fed be Looking at over the next 18 months – Primary

Headline unemployment rate will not be enough to begin tightening – Fed will be watching labor force participation rate especially for lower wage earnings



Source: FRED

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# What will the Fed be Looking at over the next 18 months – Secondary

- Inflation fears will take a backseat to 'maximum employment' in our timeframe
- **5-Year, 5-Year Forward Inflation Expectation Rate** is a market measure which removes short-term inflationary / disinflationary shocks

Year/year and month/month Core PCE prints will not be the focus given:

- Base effect of pandemic 2020
- Transitory nature of re-opening:
  - supply bottlenecks
  - pent-up demand



Source: FRED

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## So... Next 12-18 months

Known knowns:	Known unknowns:	Unknown unknowns:
<ul style="list-style-type: none"> <li>• Strong tailwinds for growth</li> <li>• Growth is priced into the current markets</li> </ul>	<ul style="list-style-type: none"> <li>• Tax Policy</li> <li>• Inflation</li> <li>• Interest Rates/Dollar</li> <li>• Sentiment</li> </ul>	

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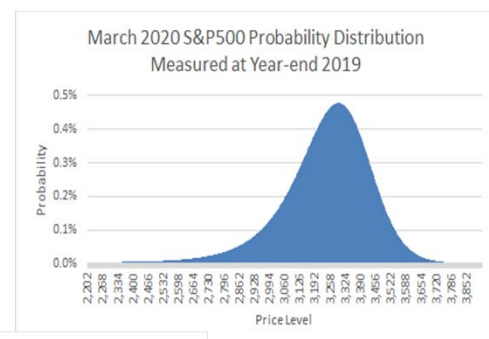
40



# Appendix

## BUT...

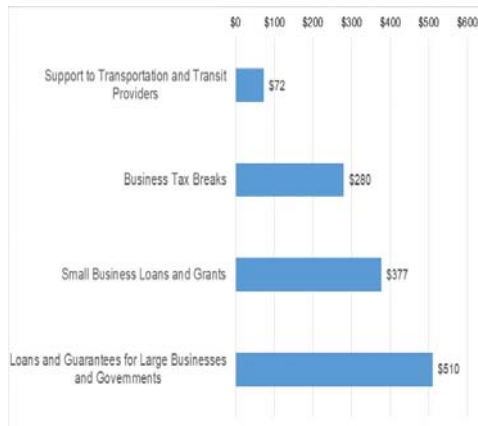
- Equity risk is real
- A look back to 2019
- You could have bought a put option with a premium of \$7 and a strike of 2,700 with a 3/20/2020 expiration
- 2432 was final settlement price
- Profit of  $2700 - 2432 - 7 = \$261$  on a capital outlay of \$7



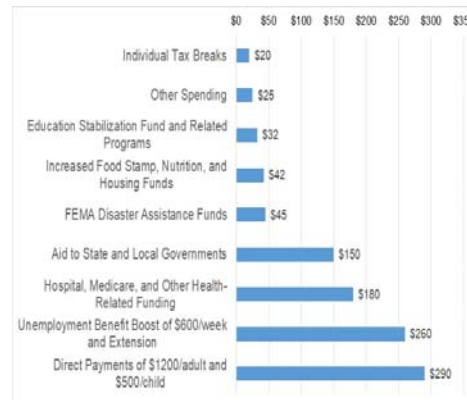
# CARES Act Breakdown:

## *\$2 Trillion to Fight Pandemic and Economic Issues*

Business Related Provisions (\$ Bil)



Household Provisions (\$ Bil)



Source: FactSet

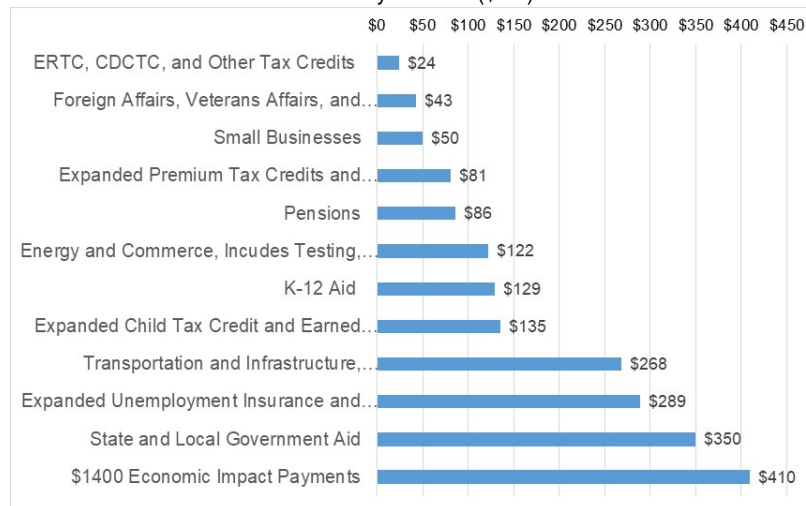
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# American Rescue Plan Act Breakdown:

## *\$1.9 Trillion Injected into the Economy*

Summary of Relief (\$ Bil)



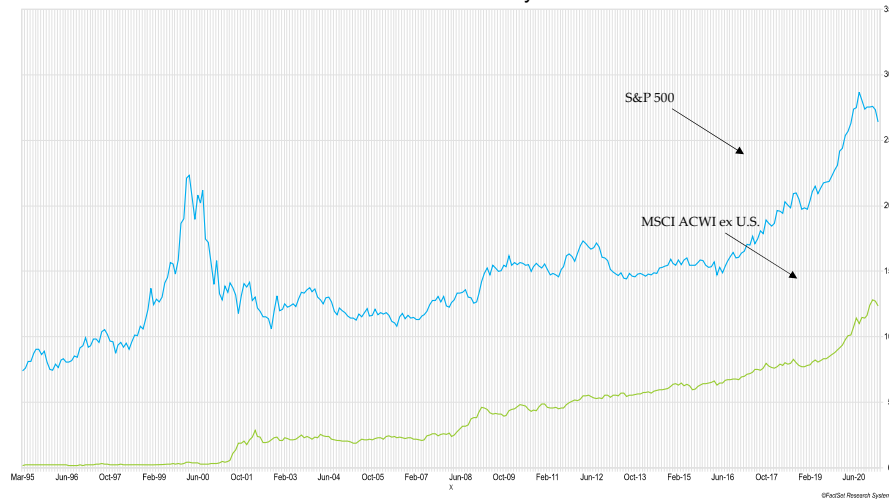
Source: FactSet

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# Will Technology or Health Care Continue to Dominate?

March 1995 – February 2021



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## Longer Term Perspective

Segal Marco Advisors Virtual Client Conference  
May 4, 2021 / Tim Barron / John Marco / TJ Kistner

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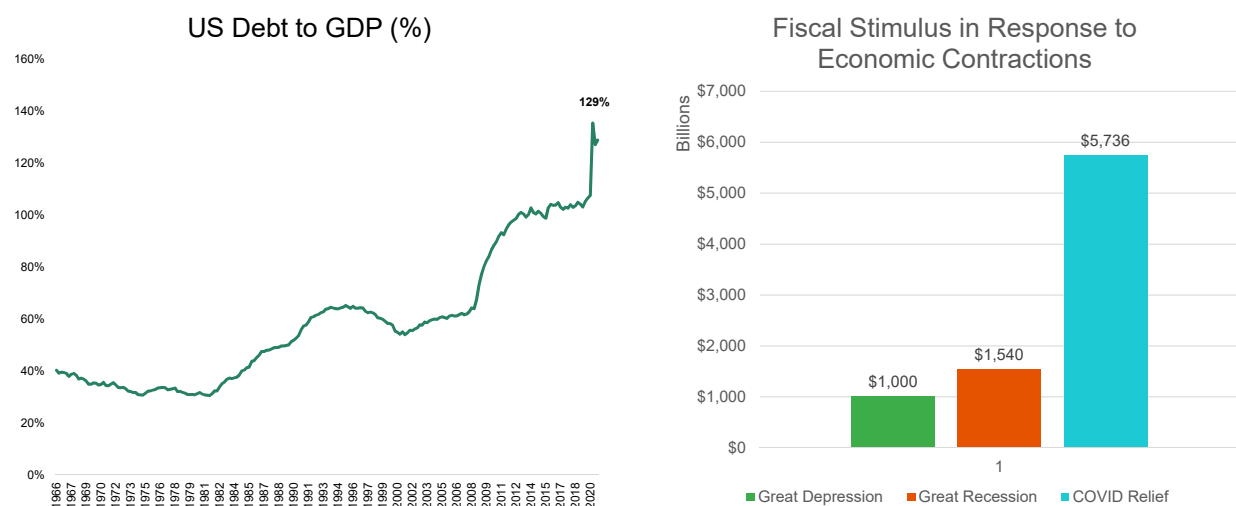
# Agenda

## Debt, Role of Government, Demographics, ESG

- Risks to our Long-Term Outlook
- Potential Impact on Markets
- Long-Term Trends Shaping our World
- What We Think the Future of Investing Looks Like

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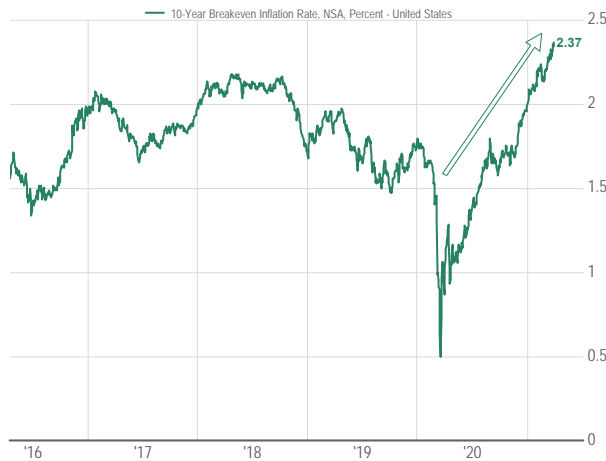
## Debt Levels in the U.S.



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# When the Debt Becomes a Risk

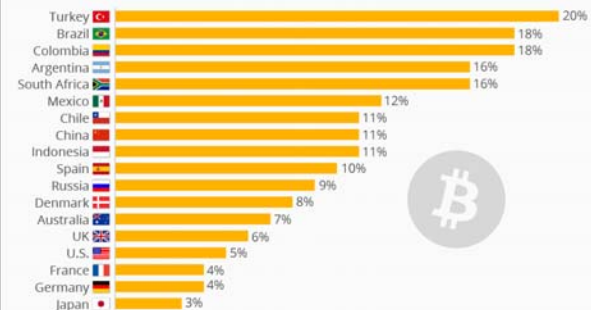
Inflation



USD's Reserve Currency Status

## How Common Are Crypto Currencies Around the World?

Share of respondents who said that they used or owned crypto currencies



Selected countries, around 1,000 respondents per country surveyed in 2019  
Source: Statista Global Consumer Survey

statista

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# Government Participation in Markets

## Increased Significantly Post-2008

### Quantitative Easing

- Began as goal to keep rates low by providing liquidity and demand
  - 2008 Fed Carried Approximately \$750B on Balance Sheet
  - By 2010, Fed carried \$2.1T on Balance Sheet
    - Primarily 10-year Treasury and MBS
      - Kept interest rates low to spur growth
  - 3 original rounds of QE
    - QE3 has been called QE-Infinity
      - \$40-50B purchases monthly



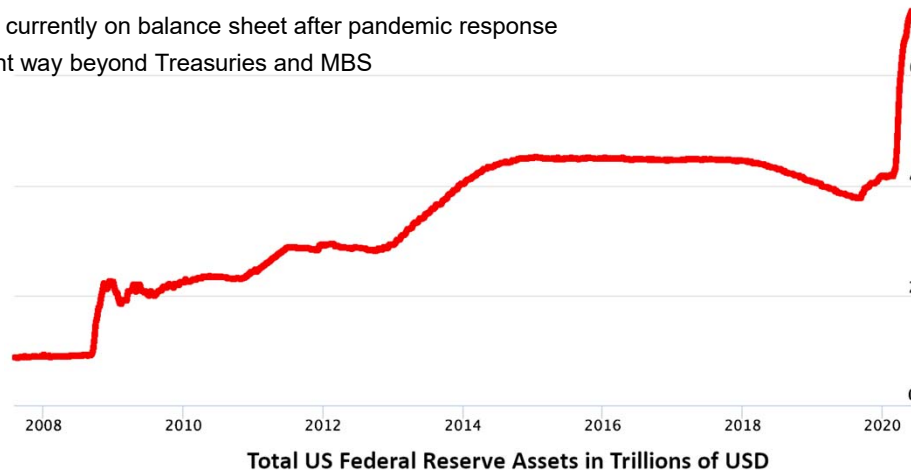
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# Government Participation in Markets

## 2019 QE

- \$6T currently on balance sheet after pandemic response
- Went way beyond Treasuries and MBS



# Government Participation in Markets

## Looking Forward

### What's Next?

- Unwind QE?
  - Challenges with reducing demand
- U.S. Government Debt
  - Position as default currency
    - Challenged by Euro in the past
    - Crypto
    - China
- Don't Fight the Feds!
  - Direction of Interest Rates
    - Full Employment vs Inflation
- Tax Policy, Universal Basic Income, Other Transformative Policy

*"We have raised debt, we are raising debt and we will continue to raise debt"*

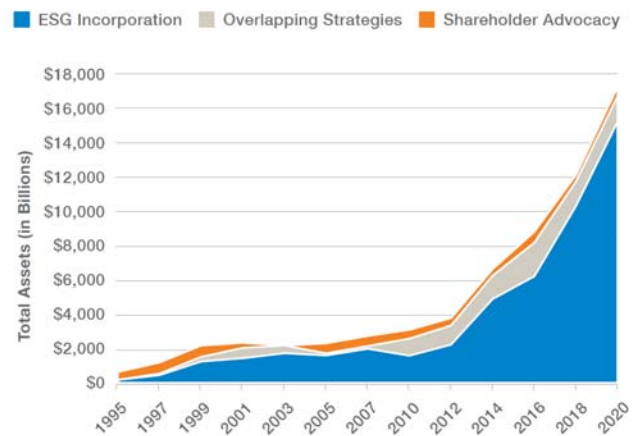
- Draghi



## ESG – Not a Fad

- Sustainable assets, including ESG, have more than quadrupled since 2012
- 2 forms of Socially Responsible / ESG Investing
  - Divesting (exclusionary)
  - Investing (engagement)
- Investors across the globe have led the Sustainable and ESG-focused investment shift, and now publicly traded companies are noticing

**FIGURE A**  
**Sustainable Investing in the United States 1995–2020**



SOURCE: US SIF Foundation.

## Poll Question

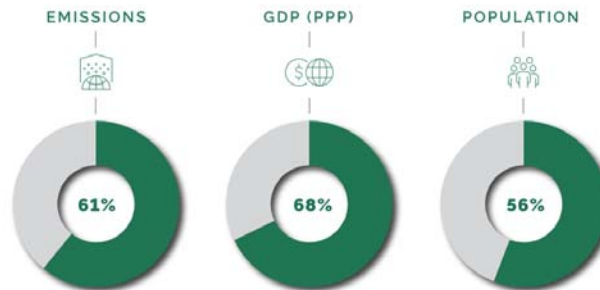
**What % of the world's GDP is represented by the countries who have committed to net zero emissions?**

- A. 35%
- B. 52%
- C. 68%
- D. 90%

## Poll Question

**What % of the world's GDP is represented by the countries who have committed to net zero emissions?**

- A. 35%
- B. 52%
- C. 68%
- D. 90%



Answer: 68%

## Corporate Response

Over 20% of the world's 2,000 largest public companies have committed to net zero emissions, representing annual sales of \$14T

- **Apple:** carbon neutral by 2030
- **Amazon:** investing \$12B to develop climate-focused technology to help themselves and others achieve net zero
- **BP:** cutting oil and gas production by 40% over the next decade to help meet its net zero emissions goals by 2050
- **General Motors:** transitioning to an all-electric fleet by 2035
- **Ford:** net zero emissions by 2050 by investing \$11.5B to electrify its nameplate vehicles
- **CEMEX:** Mexican-based cement company committed to delivering net zero CO<sub>2</sub> concrete by 2050



amazon



# Long-Term Demographics

## Baby Boomers → 21% of U.S. Population

- Aging population
  - Living Longer
    - Redefining Retirement
  - Transfer of personal wealth
    - Third level
  - Health Care & Assisted Living Trends



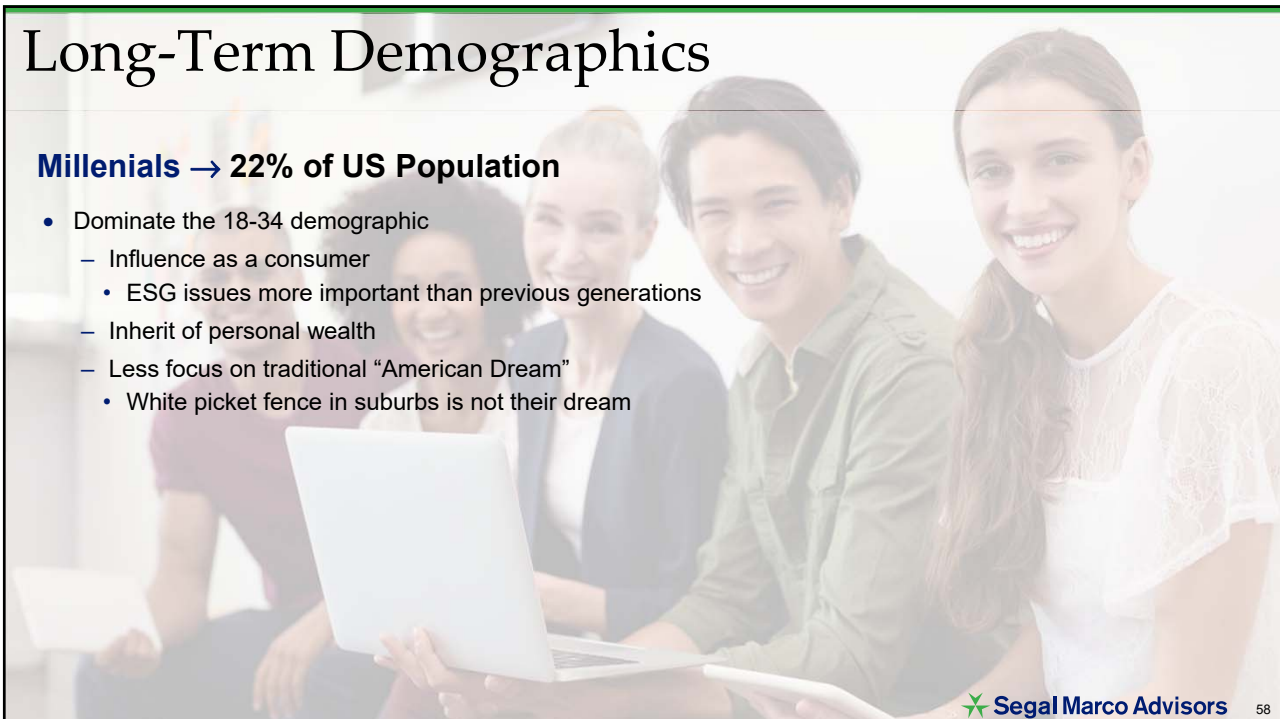
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# Long-Term Demographics

## Millennials → 22% of US Population

- Dominate the 18-34 demographic
  - Influence as a consumer
    - ESG issues more important than previous generations
  - Inherit of personal wealth
  - Less focus on traditional “American Dream”
    - White picket fence in suburbs is not their dream



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# Summary

There are a number of important factors and themes that impact our long-term outlook on the markets, as well as shape the future of our industry and our world

- Debt levels in the U.S. and the dollar's status as the world's reserve currency
  - “Fed Dilemma”
  - The government's influence on the markets
    - Will Uncle Sam always be there? Can he be?
- ESG/Sustainability
  - Investors have put their money where their mouths are and the corporate world has taken notice
  - No longer just a box to check, corporations are investing in sustainability as a means of driving shareholder value
- Demographics
  - The U.S. is on the precipice of a massive generational inheritance of wealth from the Baby Boomers to the Millennials
  - The tastes, preferences, and macro and socioeconomic events that shaped these two generations vary greatly
  - Likely to further solidify society's focus on corporate responsibility and sustainability



## Agenda

### **Capital Asset Pricing Model (CAPM) and Asset Allocation – What Does it Tell Us for Returns**

- Evolution of Asset Class Assumptions – A Ten Year Perspective
- How Does Segal Marco Filter and Utilize Information for the Assumption Methodology?
- What are the Key Takeaways for Clients and Asset Allocation Decision Making?

## Evolution of Asset Class Assumptions – A Ten-Year Perspective

	# of Asset Classes	20 Year Compound Return Range	Volatility Range (Standard Deviation)	Time Period	Methodology
2011	26	2.5% to 11.0%	2.0% to 26.0%	20 Year	Equity Building Block, Qualitative

Source: SMA

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## Evolution of Asset Class Assumptions – A Ten-Year Perspective

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2021	40+	1.8% to 10.2%	2.0% to 30.0%	Time Varying	Equity Building Block, Qualitative, Yield Curve, CAPM

Source: SMA

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## How Have Return Projections Changed?

Asset Class	2011 Compound Return	2021 Compound Return	Difference
Cash	2.5%	1.9%	-0.6%
Core Fixed Income	4.3%	2.4%	-1.9%
U.S. Equity	7.3%	7.1%	-0.2%
Emerging Equity	9.2%	8.6%	-0.6%
Core Real Estate	6.2%	5.0%	-1.2%
Private Equity	11.0%	10.2%	-0.8%
Commodities	4.9%	3.8%	-1.1%

Source: SMA

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## New Asset Classes Since 2011

CREDIT	EQUITY	ALTERNATIVES	REAL ASSETS
<ul style="list-style-type: none"> <li>• Short Duration</li> <li>• Intermediate Duration</li> <li>• Bank Loans</li> </ul>	<ul style="list-style-type: none"> <li>• U.S. Large, Mid, Small Cap</li> <li>• International Small Cap</li> </ul>	<ul style="list-style-type: none"> <li>• Multi-Asset Class Strategies (MACS)</li> <li>• Private Credit</li> <li>• Hedge Fund Sub-Strategies</li> </ul>	<ul style="list-style-type: none"> <li>• Real Estate—Value Add</li> <li>• Real Estate—Opportunistic</li> <li>• Real Estate Debt</li> </ul>

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# New Asset Classes 2021 ??

## **GOLD – The Old New**

Limited supply (physicals)

Diversifier, historically

Liquid/easily tradeable

History as store of value

No future cash flows – current value

Can be volatile

# New Asset Classes 2021 ??

## **GOLD – The Old New**

Limited supply (physicals)

Diversifier, historically

Liquid/easily tradeable

History as store of value

No future cash flows – current value

Can be volatile

## **CRYPTOCURRENCY – The New New**

Limited supply

Diversifier (theoretically, too early to tell)

Exchangeable/tradeable

Short history

No future cash flows – current value

Extremely volatile

- Cryptocurrency:
  - Volatility
  - Regulatory risks
  - Limited buying potential
  - Early

## Evolution of Asset Class Assumptions – A Ten-Year Perspective

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- Capital markets have and will continue to change, returns have compressed, risks have increased
- Our assumption methodology, necessarily, has evolved

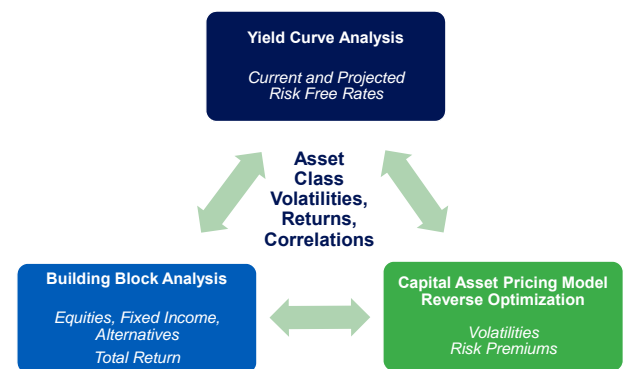
Source: SMA

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## Assumption Methodology: Collaboration and Triangulation

- Our assumption methodology contemplates a triangulation approach, where component inputs and outputs serve as a system of checks-and-balances



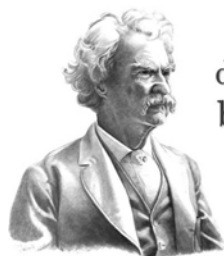
Risk Free Rate + Risk Premium = Asset Class Total Return

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## How Does Risk Management Filter and Utilize Information for the Assumption Methodology?

## How Does Risk Management Filter and Utilize Information for the Assumption Methodology?



History  
doesn't repeat itself,  
but it does rhyme.

Mark Twain

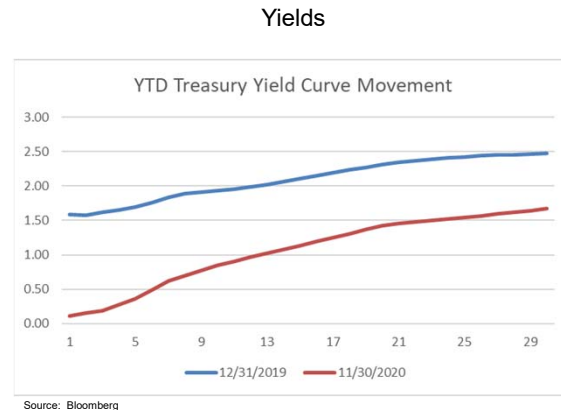
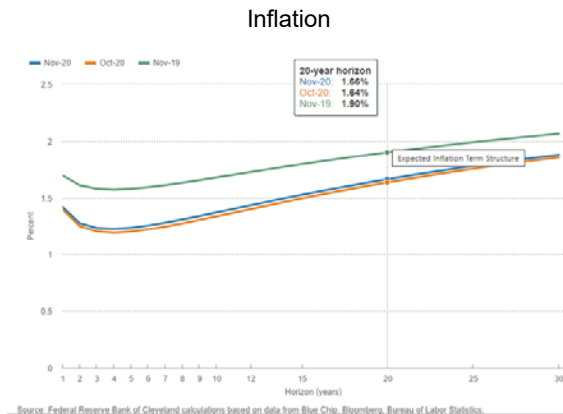
## How Does Risk Management Filter and Utilize Information for the Assumption Methodology?

- Forward looking (projections) focus with historical perspective
- Assumptions formally updated annually, however it is an ongoing process



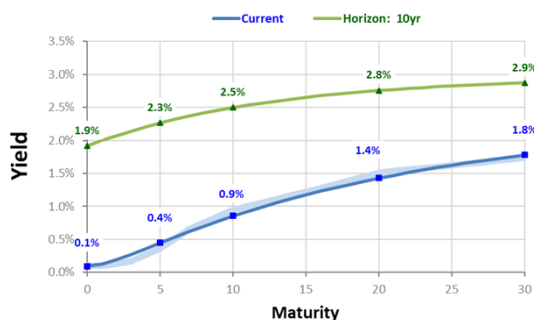
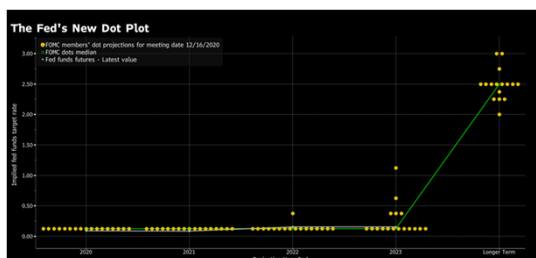
## 1/3 Historical, 2/3 Forward Looking Projections

## 1/3 Historical (Inflation, Cash Example)



## 2/3 Forward Looking Projections

Fed Dot Plot – 12/2020



Historical Yields vs. Projected Returns



### SMA Yield Curve Projection

- Replicate actual yield curve
- Project several yield curve shift scenarios
- Focus on most realistic median projection
- Time Varying Returns

# 1/3 Historical (U.S. Equity Building Blocks)

$$\text{Inflation} * \text{Dividend Yield} * \text{Real Earnings Growth} * \text{Valuation Adjustment} = \text{Compound Return}$$

S&P 500

Periods Ending 09/30/20	Nominal Return	Dividend Yield	Inflation	Real Earnings Growth	Valuation Adjustment*
10 Years	13.8%	2.0%	1.8%	1.4%	8.1%
20 Years	6.3%	1.9%	2.0%	1.0%	1.1%
30 Years	10.4%	2.0%	2.3%	2.8%	2.9%
40 Years	11.3%	2.5%	2.9%	2.0%	3.5%
50 Years	10.8%	2.9%	3.9%	2.1%	1.6%

\* The Valuation Adjustment that solves for the nominal return

Periods Ending 12/31/19	Nominal Return	Dividend Yield	Inflation	Real Earnings Growth	Valuation Adjustment*
10 Years	13.3%	2.0%	1.8%	8.7%	0.5%
20 Years	6.1%	1.9%	2.1%	3.3%	-1.3%
30 Years	9.9%	2.1%	2.4%	3.7%	1.4%
40 Years	11.7%	2.6%	3.1%	2.6%	2.9%
50 Years	10.5%	2.9%	3.9%	2.6%	0.8%

\* The Valuation Adjustment that solves for the nominal return

Periods Ending 12/31/18	Nominal Return	Dividend Yield	Inflation	Real Earnings Growth	Valuation Adjustment*
10 Years	13.7%	2.1%	1.8%	22.2%	-10.5%
20 Years	5.9%	1.9%	2.2%	4.2%	-2.4%
30 Years	10.0%	2.1%	2.5%	3.3%	1.7%
40 Years	11.5%	2.7%	3.3%	2.7%	2.3%
50 Years	9.7%	2.9%	4.0%	2.4%	0.1%

\* The Valuation Adjustment that solves for the nominal return

Source: Bloomberg



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## 2/3 Forward Looking Projections

Historical Annualized Return (Nov/Nov)	90 Day T-Bills	S&P 500 (US Large Cap Equity)	Premium	Realized Volatility (Annual)
1980-2020	4.3%	11.3%	7.0%	15.0%
1990-2020	2.6%	10.7%	8.1%	14.6%
2000-2020	1.5%	7.3%	5.8%	15.0%
2010-2020	0.6%	14.2%	13.6%	13.6%
2021 CMA Long-term				
20-yr horizon	1.9%	6.9%	5.0%	18.0%

- Our equity risk premium is conservative vs historical
  - Inflation and dividend yields are lower than historical averages
  - Valuations higher than historical average
  - Projected real GDP growth muted
- Market implied volatility is about 21% - directionally, an increase to volatility assumption is appropriate

Inflation	Dividend Yield	Real Earnings Growth	Valuation Adjustment	Long-term Compound Return
2.1%	1.9%	2.9%	-0.1%	6.9%

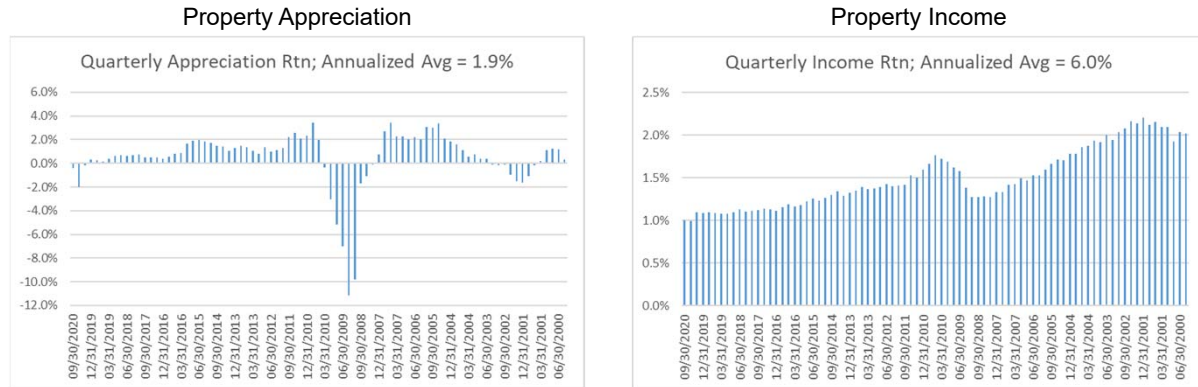
- 6.9% long-term median return with 18.0% annual volatility implies a mean annualized arithmetic return of 8.4%
- With long-term cash assumption of 1.9%, the implied arithmetic risk premium for US large cap equity is 6.50% (a 100bps increase over last year)
- Expected long-term returns for US Large Cap Equity up ~25bps (arithmetic), and ~10bps (geometric) year-over-year

Disclaimer: All numbers represent Segal Marco Advisors' forward looking asset class assumptions, and as such, reflect estimates as of a certain date. These assumptions are not a guarantee of future performance, do reflect high levels of uncertainty and are subject to change without notice.

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## 1/3 Historical (Real Estate Example)



## 2/3 Forward Looking Projections

- Impact of the pandemic to private real estate, overall, has not been disastrous; sector specific challenges
  - Retail and lodging sectors suffered the biggest declines, outlook challenging
  - Industrial and apartments resilient
  - Office real estate faces the greatest uncertainty
- 'COVID discount' vs. 'COVID premium'
- On balance, risk premium for core real estate to remain the same as last year, nominal return expectations lower in line with reduction to risk free rate

Core Real Estate	Total Return	Income	Appreciation
2020 Nominal Rtn Assumption	6.50%	4.50%	2.00%
2021 Nominal Rtn Assumption	5.75%	4.00%	1.75%
2021 Cash	1.90%		
2021 Risk Premium	3.85%		

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# What Are The Key Takeaways for Clients and Asset Allocation Decision Making?



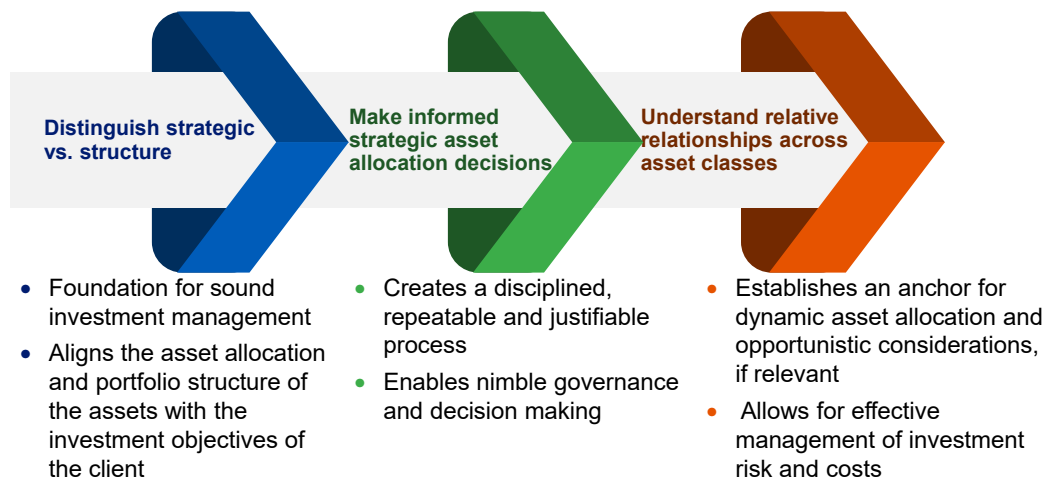
- Foundation for sound investment management
- Aligns the asset allocation and portfolio structure of the assets with the investment objectives of the client

# What Are The Key Takeaways for Clients and Asset Allocation Decision Making?



- Foundation for sound investment management
- Aligns the asset allocation and portfolio structure of the assets with the investment objectives of the client
- Creates a disciplined, repeatable and justifiable process
- Enables nimble governance and decision making

# What Are The Key Takeaways for Clients and Asset Allocation Decision Making?



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## Asset Class Dive Down

### Adding Returns to Your Fixed Income Portfolio

Segal Marco Advisors Virtual Client Conference  
May 4, 2021 / Rick Pietrzak / Francois Otieno / Don Sheridan

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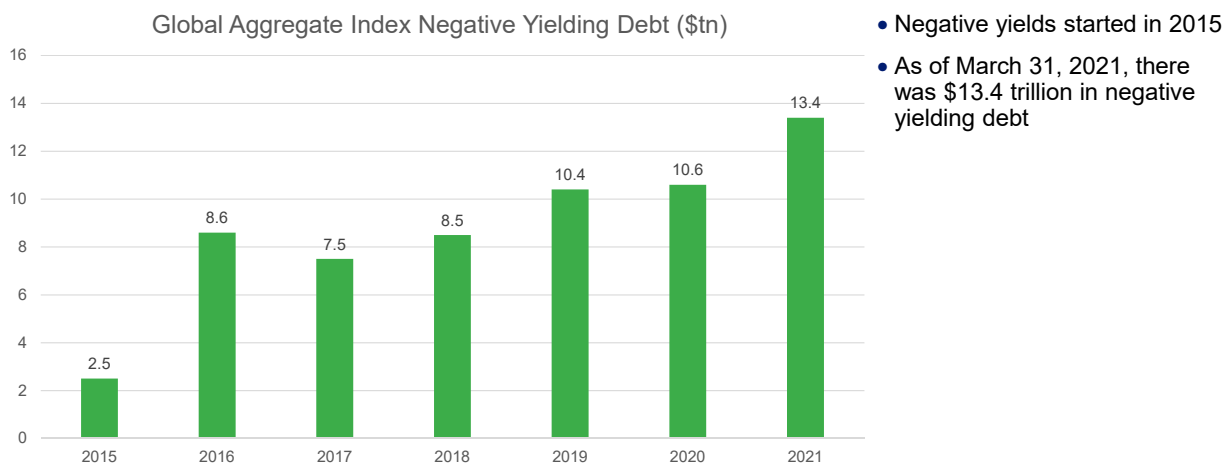
## 10-Year US Treasury Yields



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## Global Negative Yielding Debt at All Time Highs



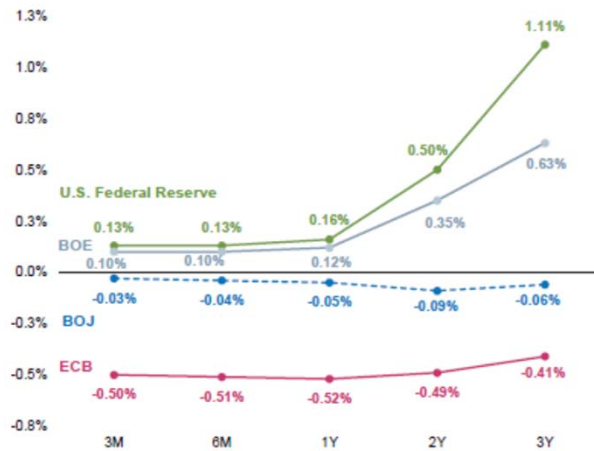
Source: Barclays Live

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## Future Rate Expectations are Lower

Market Expectations for Future Central Bank Rates



Source: www.cbrates.com

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- The low rate environment is not expected to change any time soon
- Central Bank actions in 2020
  - 207 rate cuts
  - 9 rate hikes

## 2019 and 2020 were Banner Year for Fixed-Income Returns

2019 was the best calendar year return in a decade for the BB U.S. Aggregate Index, BB U.S. Credit Index and BB U.S. MBS Index. The global pandemic and extraordinary fiscal and monetary response in 2020 fueled another year of unexpected outsized returns. 1Q 2021 was a “release valve” for fixed income.

	Returns – 1 Year (2020)	Returns – 3 Years	Returns – 5 Years	Returns – 10 Years	Returns – YTD (03/2021)
Bloomberg Barclays U.S. Aggregate	7.51	5.34	4.44	3.84	-3.37
Bloomberg Barclays U.S. Credit	9.35	6.80	6.44	5.40	-4.45
Bloomberg Barclays U.S. Government	7.94	5.17	3.76	3.26	-4.14
Bloomberg Barclays U.S. MBS	3.87	3.71	3.05	3.01	-1.10
ICE BofAML U.S. High Yield	6.17	5.89	8.43	6.62	0.90
FTSE Non-U.S. WGBI	10.78	4.63	5.17	1.88	-6.42
JPM EMBI Global Diversified	5.26	5.05	7.08	6.22	-4.54

Source: eVestment

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## Yield as a Predictor of Returns



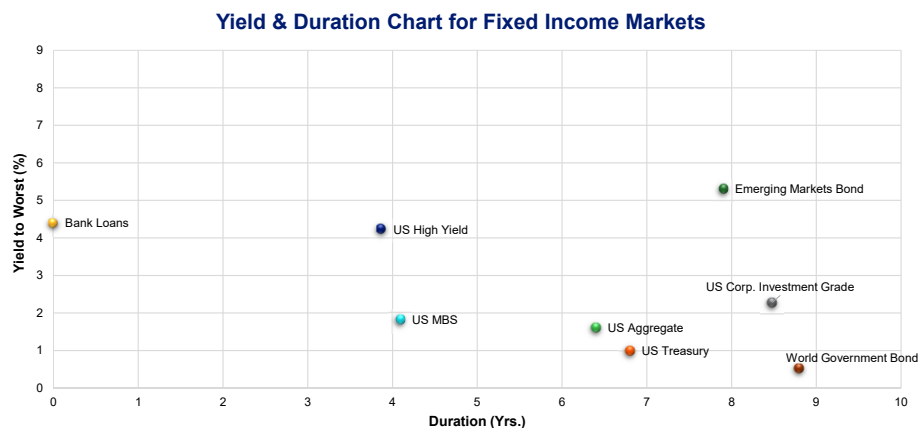
Source: Segal Marco Advisors and Factset

- In fixed income, yield is a strong predictor of future returns
- Historically, yield has accounted for ~90% of forward 10-year returns in the Bloomberg Barclays Aggregate Index, and also shows a high correlation in the 6.5 year forward return
- As of 3/31/21 the yield on the Index was 1.62%

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## Yield/Duration Chart (as of March 31, 2021)

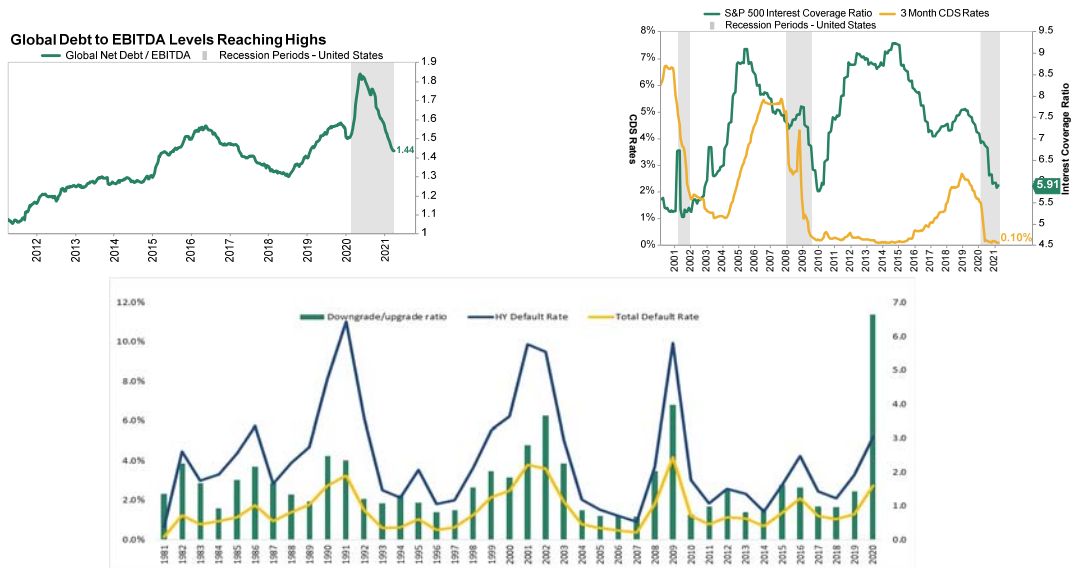


Source: Segal Marco Advisors and FactSet

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# Back to Late in the Credit Cycle?

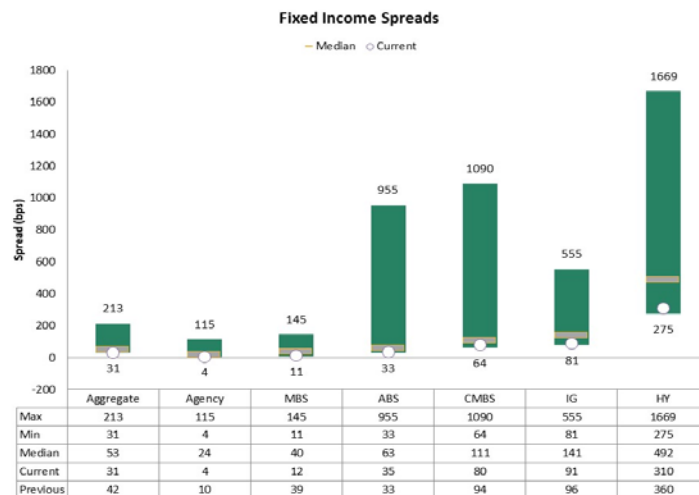


Sources: S&P (top); Securities Industry and Financial Markets Association (SIFMA) (bottom), as of 2/28/21.

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# Credit Spreads are Near Lows



Source: FactSet as of 3/31/21

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## Opportunities in Traditional Fixed Income

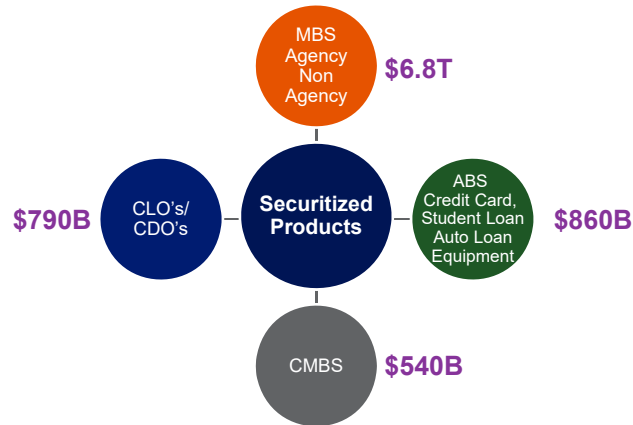
Global Multi Sector  
Securitized Credit Opportunities  
Emerging Markets Debt

## Global Multi-Sector



- The Manager has the ability to invest across fixed-income sectors on a global basis
- Dynamic allocation across the sectors based on where they see value and opportunities
- Multi-Asset Credit is a sub-set

# Securitized Credit Opportunities



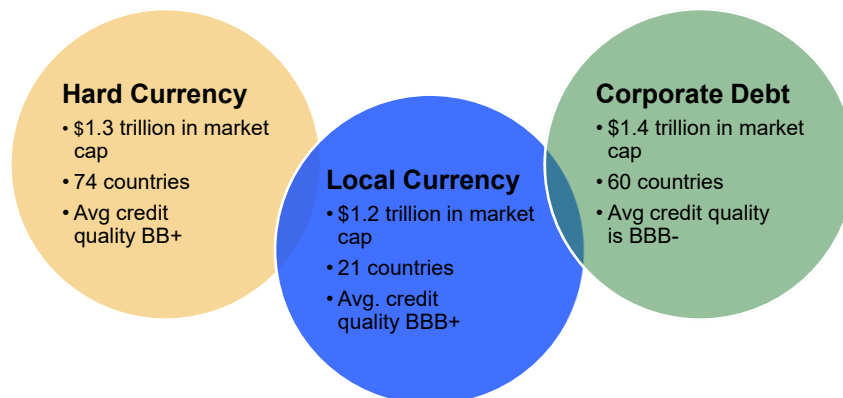
- Strategies that look for opportunities across securitized credit
- Offers higher yield with lower duration
- Growing type of securitized sub-asset classes
- Provides uncorrelated risks and diversification
- Complexity of the market provides an opportunities for active managers to source alpha

Source: Ellington Capital, Barclays Live

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# Emerging Markets Debt – Universe



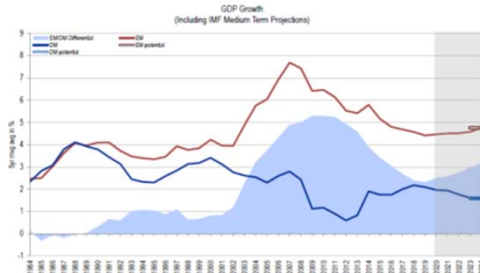
Source: Stone Harbor and JP Morgan

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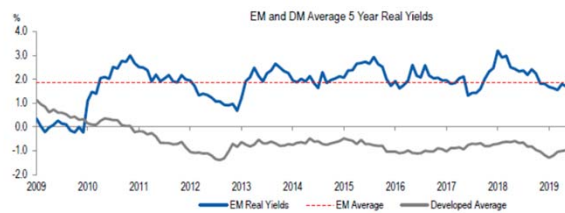
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# Emerging Market Debt – Growth and Yield Advantage



The EM/DM growth differential has started to widen again with EM outperforming DM



EM debt offers more attractive real yields relative to DM

Source: Stone Harbor and JP Morgan

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## The Role of Fixed Income in Client Portfolios

Diversification  
Rebalancing  
ALM

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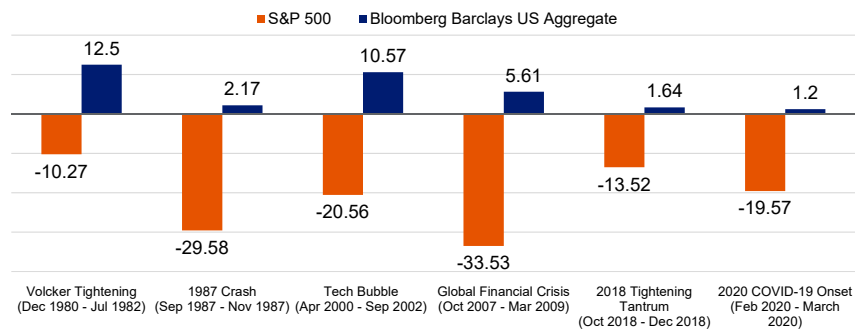
# Diversification

Segal Marco Advisors' Correlation Assumptions

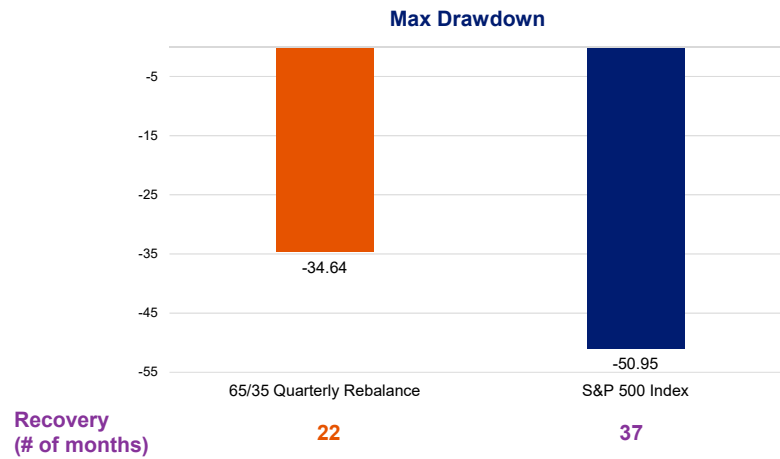
	Core Fixed Income	High Yield	Emerging Market Debt	US Equity	International Equity	Emerging Market Equity	Core Real Estate
Core Fixed Income	1.00						
High Yield	0.19	1.00					
Emerging Market Debt	0.35	0.71	1.00				
US Equity	-0.09	0.78	0.53	1.00			
International Equity	-0.05	0.78	0.69	0.86	1.00		
Emerging Market Equity	0.08	0.75	0.79	0.75	0.84	1.00	
Core Real Estate	-0.14	-0.02	-0.19	-0.03	-0.01	-0.12	1.00

# Diversification

Downside Protection in Periods of Market Distress



# Rebalancing



Source: Morningstar Direct, 01/01/00 to 03/31/21

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# Asset Liability Management

- Matching the Duration of Assets and Liabilities
- Reduce a Plan's Funded Ratio Volatility – Improves Balance Sheet Stability
- Glidepath: As funded ratios improve, plan sponsors can “lock in” incremental gains and shift more assets to long-dated traditional fixed income securities and away from return-seeking assets



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