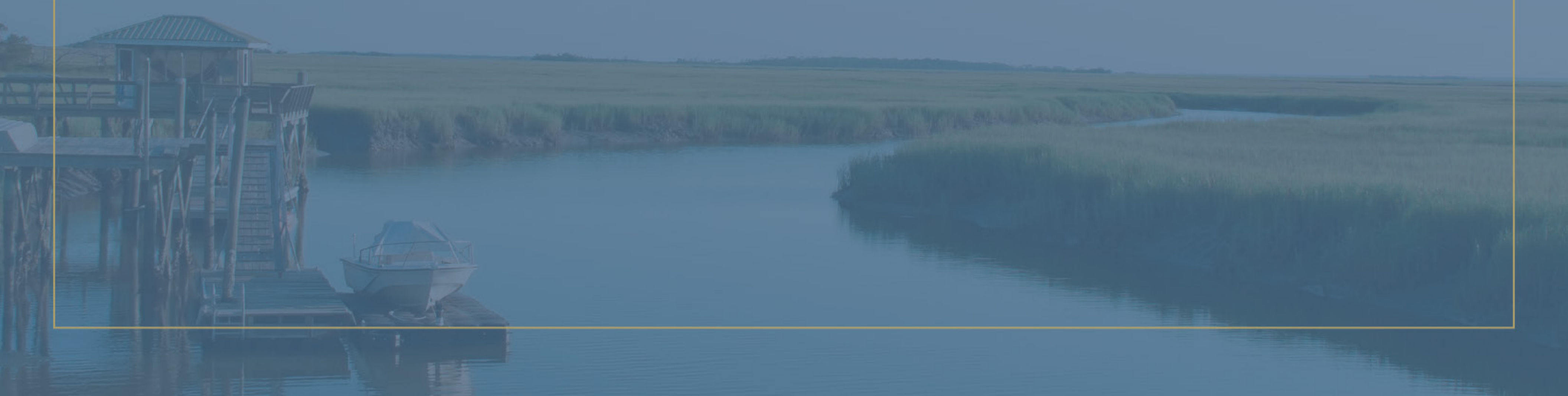
Investment Review & Outlook

December 31, 2023

CHATHAM CAPITAL GROUP

Dedicated to Client Success in Managing Wealth

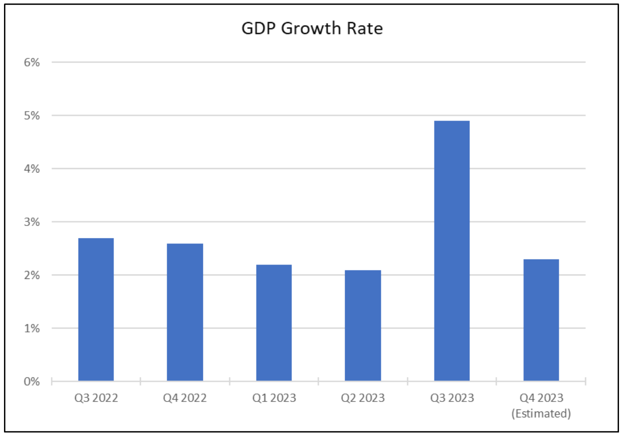
Contents

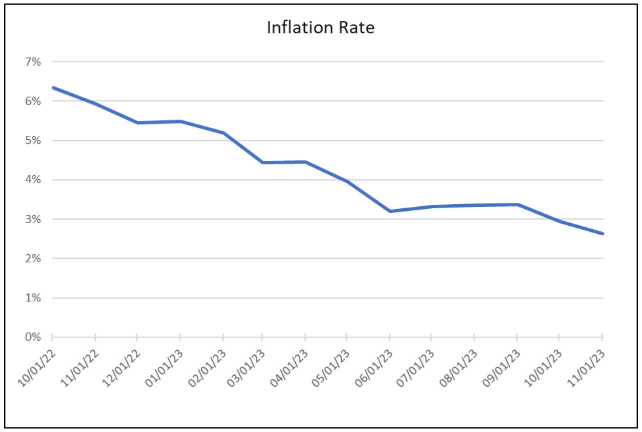


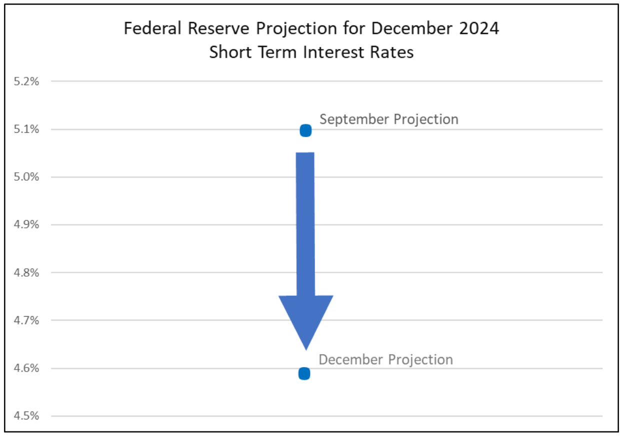
I. RECAP OF 2023

Economic Events

- The U.S. economic expansion persisted despite the swiftest series of interest rate hikes in more than four decades.
- Inflation, while still higher than desired, continued to moderate.
- The decline in inflation prompted the Federal Reserve to project lower interest rates in 2024.







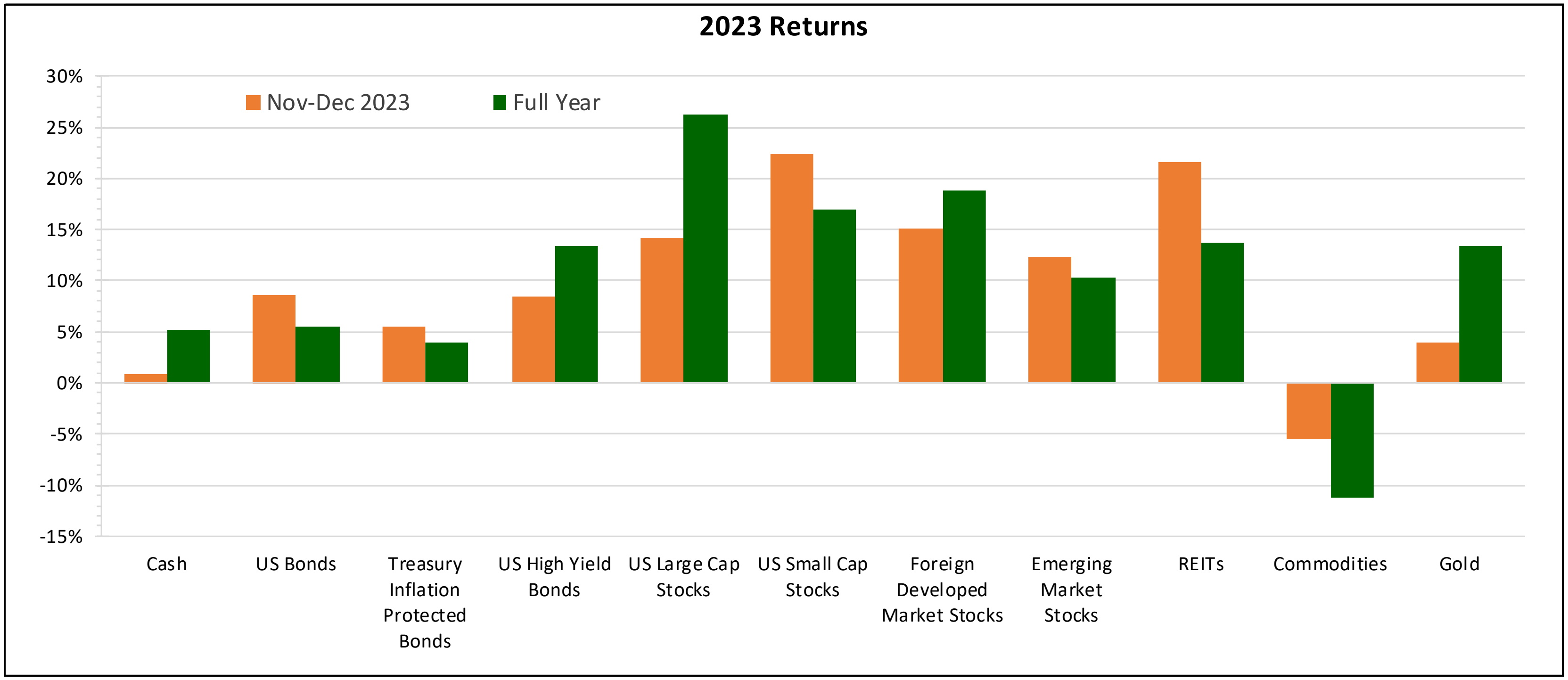
Sources: FRED | Federal Reserve

I. Recap of 2023

Capital Market Returns

- The combination of moderating inflation, continuing economic growth, and lower interest rates propelled asset prices higher.

- The returns over the last two months of the year accounted for almost all the gains in 2023. Peaking interest rates and improving sentiment drove the returns.



II. Review of Chatham's Investment Approach

Our Objective: To Meet Client Financial Needs

- Our objective is to generate compounded real returns (nominal returns less inflation) that are high enough to maintain purchasing power and to grow wealth.
- We believe this approach is superior to one that is focused on beating benchmarks.
- Benchmarking returns against indexes is indifferent to real-world consequences of multi-year periods of poor investment returns.

II. Review of Chatham's Investment Approach

<u>Characteristics of Our Investment Approach</u>

- We seek to:

    - Experience lower volatility of returns, especially in down markets, which disrupts the value of long-term compounding.

    - Participate meaningfully in rising markets.

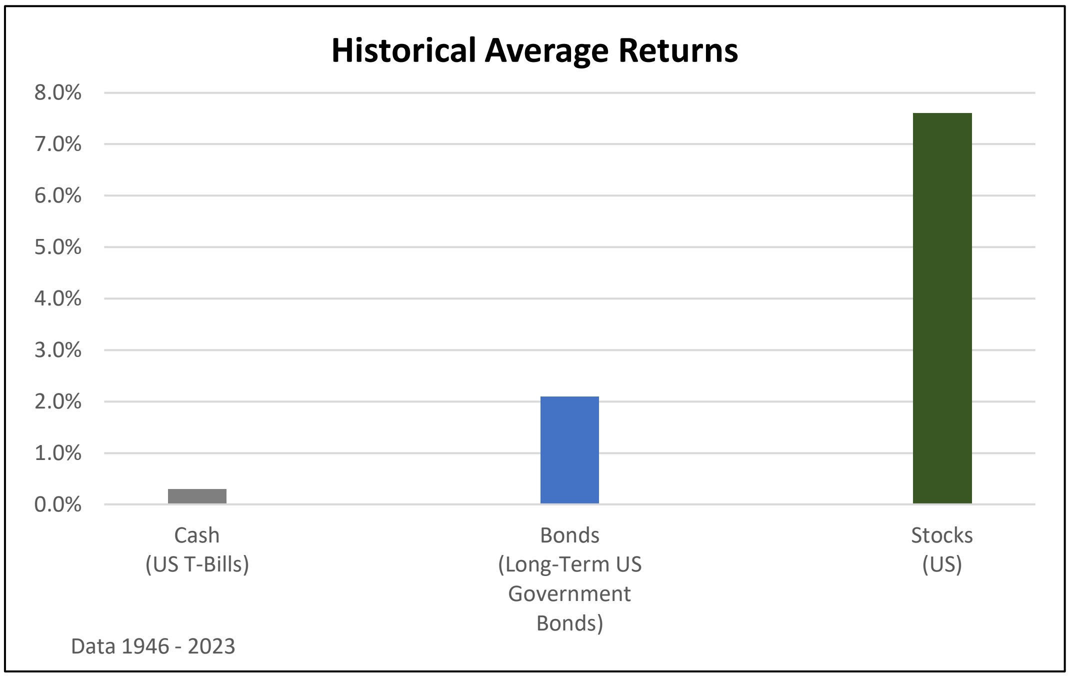
- The combination of less downside and participation in the upside:

    - Produces favorable risk-adjusted returns over time.

    - Reduces the strong behavioral tendency to make poor decisions, which investors are particularly prone to make during difficult periods.

Market History Informs Our Investment Approach

- Accounting for costs such as administration, management, taxes, and withdrawals, history indicates the only way to maintain and enhance the value of a portfolio over time is to allocate a substantial portion to stocks.

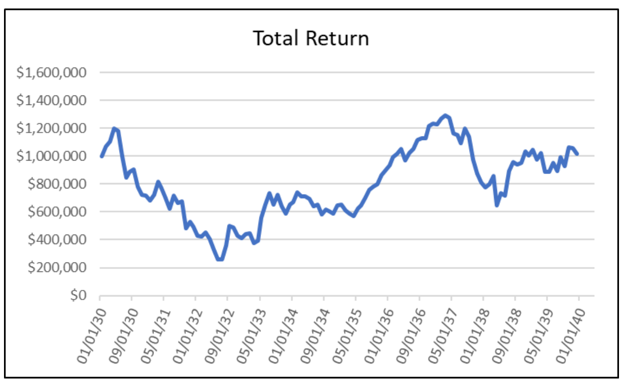


Returns adjusted for inflation.   Source: Ibbotson

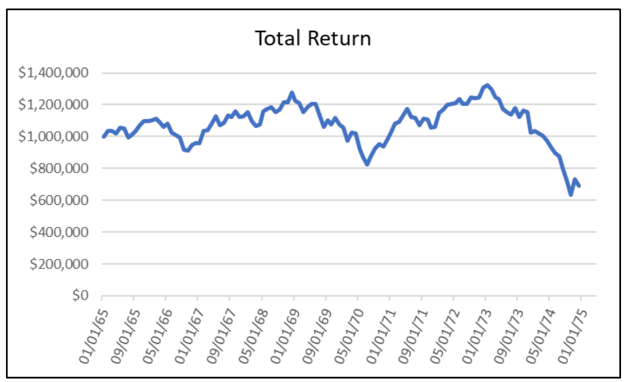
Market History Informs Our Investment Approach

- The daily fluctuations in stock prices cause worry but are inconsequential over time.
- The main risk with equities is the chance we get into an extended period of weak performance.
- Over the past century, the stock market has experienced poor returns lasting at least a decade on three separate occasions.

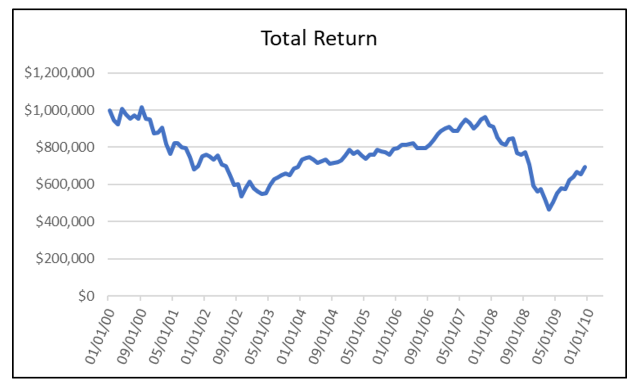
1930 – 1939



1965 – 1974



2000 - 2009



Returns adjusted for inflation to reflect purchasing power. Source: Ibbotson

Market History Informs Our Investment Approach

The financial consequences of living through these bad market periods are significant.

- After a "lost decade" of returns, a portfolio with a relatively conservative withdrawal policy of 3.5% loses more than 50% of its purchasing power. Even with no withdrawals, the damage can necessitate making significant adjustments to long-term financial plans.

- After a period of good returns, portfolio values significantly increase, but *the tangible effects in the real world are relatively minor when compared to the consequences of living through bad periods*.

Market History Informs Our Investment Approach

Multi-year periods of poor returns are most often caused by a combination of the items below:

- Major geopolitical events – These are typically associated with wars, such as Vietnam or the invasion of Kuwait in 1990. Events like OPEC's oil embargo in 1973 also qualify.

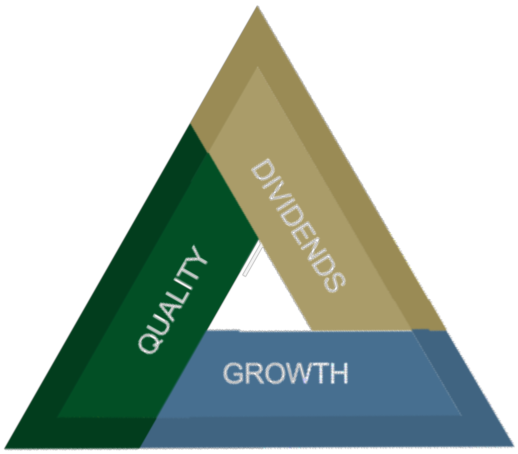
- Economic excesses that must be rectified:
  - Rising/problematic inflation and resulting Federal Reserve tightening – Such as occurred during the late 1950s, the late 1960s, and early the 1970s (when inflation was driven by "guns and butter" policy).
  - Speculative "bubbles" crashing – Such as occurred during the late 1990s dot.com bubble and the housing bubble of the mid-2000s.

- Demographics – Rapid population changes often lead to economic challenges:
  - From the late 1960s to the early 1980s in the US, baby-boomers entering adulthood led to a surge in the workforce, helping to feed persistently high inflation.
  - A shrinking workforce has coincided with ongoing deflation in Japan since 1995.

Mitigating the Consequences of Multi-Year Poor Periods

To increase the odds of meeting client needs, especially during prolonged periods of poor returns, Chatham uses high quality equities with growing dividends as the core of most portfolios.

- High quality companies that pay growing dividends over time are generally less impacted by general economic conditions.
- They are more likely to maintain their strength, and pay their dividend, in the inevitable down periods.
- For example, in the recession year of 2020, the dividends of Chatham portfolio companies increased an average of 7%. This compares quite favorably to a 9% decrease in the average stock's dividend.



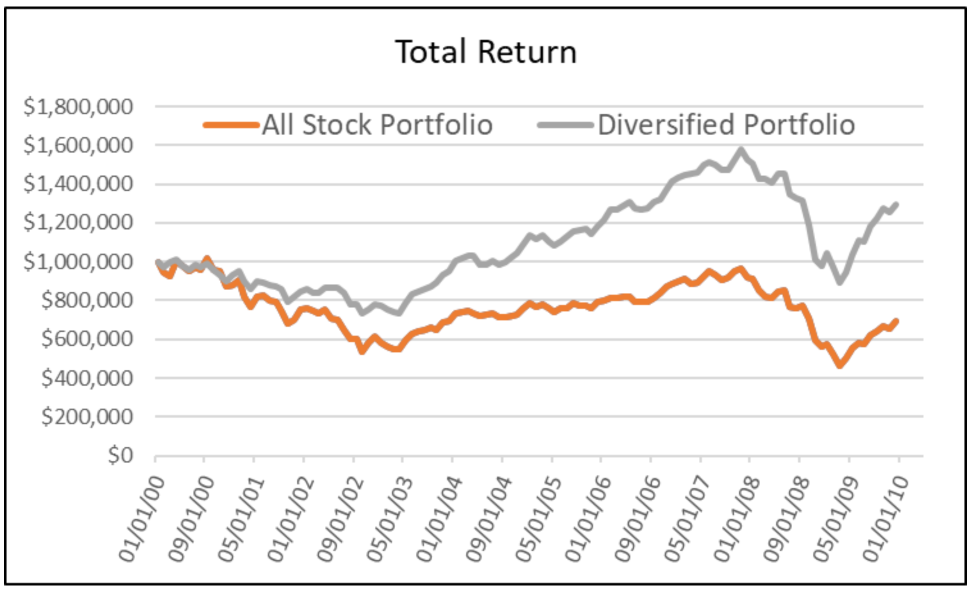
Mitigating the Consequences of Multi-Year Poor Periods

Diversification provides a significant benefit in meeting client needs through a prolonged period of poor returns.

- History shows that portfolios diversified across various asset classes experience less downside volatility than all-stock portfolios.

- Because the consequences of enduring an extended period of poor returns far outweigh the advantages of experiencing an extended period of good returns, diversification serves a critically important purpose.

2000 - 2009



Returns adjusted for inflation to reflect purchasing power. Source: Ibbotson

III. OUTLOOK

Evaluating the Odds of a Future Multi-Year Period of Poor Returns

Looking ahead, we think the likelihood of a multi-year period of poor returns is reasonably low based on our evaluation of major risks:

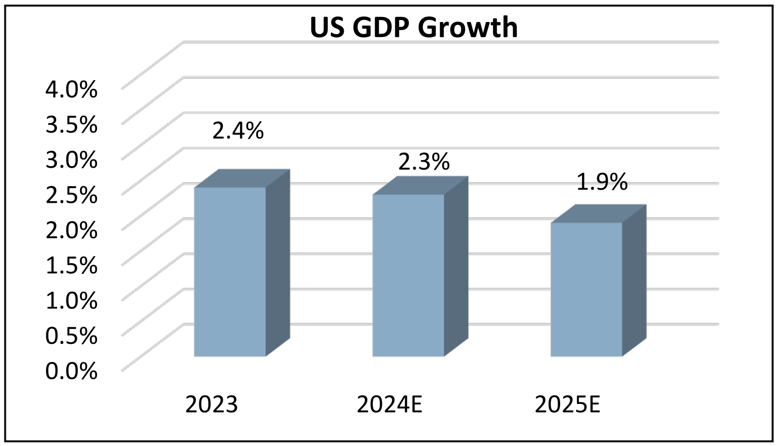
- Major geopolitical occurrences – The trend of rising hostilities around the world is a cause for concern. So far, the wars in the Middle East and Ukraine remain contained and tensions have not yet boiled over in the South China Sea.

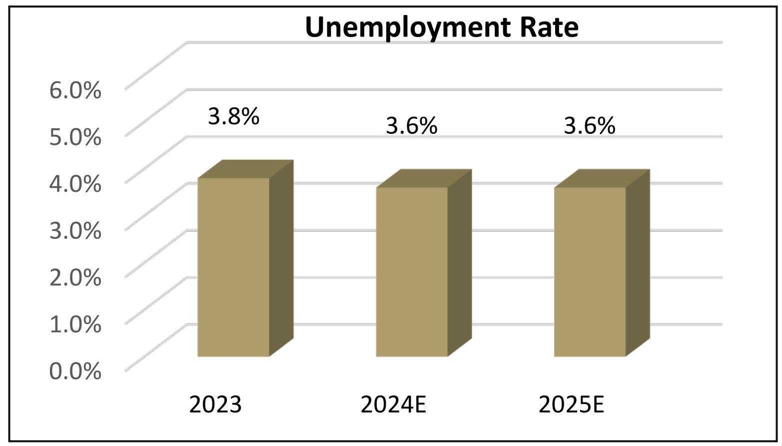
- Economic excesses –
    - US Federal spending is clearly on an unsustainable path. We are encouraged that this is finally being seriously discussed by policymakers, but this bears watching.
    - Private sector businesses continue to perform extremely well, especially in light of rapidly changing economic conditions since the onset of Covid. Ongoing advancements in artificial intelligence are quite promising, especially in terms of improving productivity.

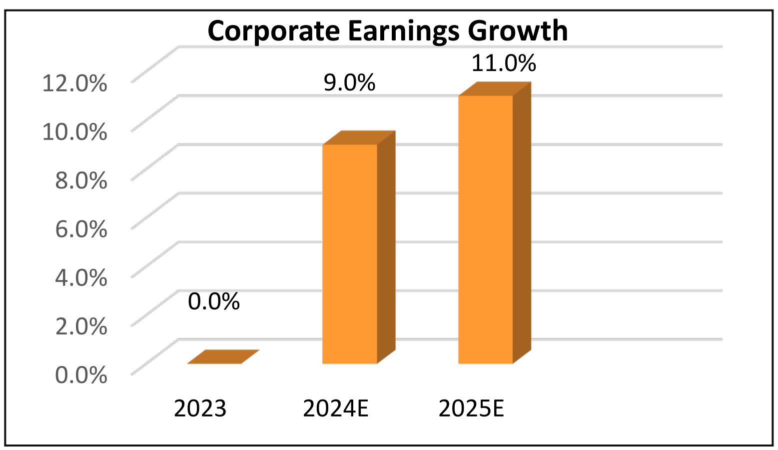
- Demographics – US demographics are improving for the first time in years, as the working age cohort is now rising again. China has a serious and worsening demographic problem. Slower growth in China would reduce global growth, but also inflationary pressures.

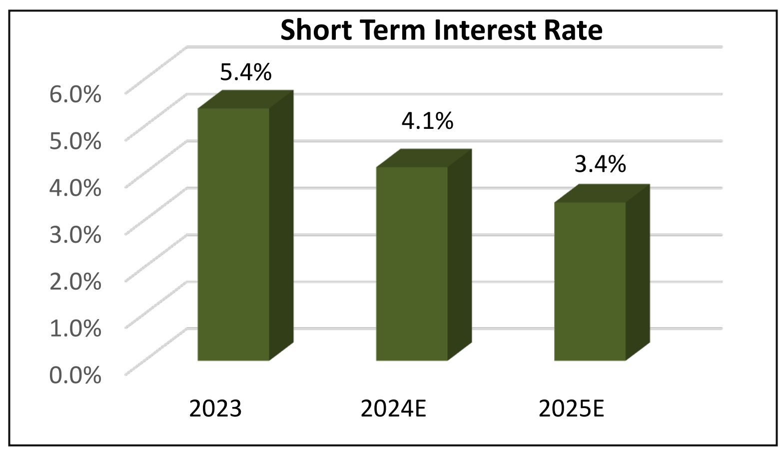
Our Observations on the More Immediate Future

- Consensus forecasts anticipate ongoing economic growth and lower interest rates.
- We believe the consensus is reasonable and presents favorable investment conditions for portfolios.









Policy Rate Forecasts % end of period

Source: Various

IV. Summary

Conclusions & Strategy

- Chatham's purpose-based approach is focused on compounding inflation-adjusted returns to maintain purchasing power and to grow wealth, and thus meet client needs.
- Stocks have historically been the only asset class to deliver returns high enough to grow long-term wealth. But they come with the risk of long periods of poor returns. High quality dividend growth stocks and portfolio diversification improve the odds of success in the face of this risk.

Looking ahead to 2024:

- The likelihood of ongoing positive economic trends and lower interest rates should limit potential portfolio downside.
- The substantial stock and bond rallies in the fourth quarter of 2023 limits upside potential.
- Balanced portfolios are invested around the midpoint of each client's equity ratio, with the intention of increasing the allocation as opportunities arise.
- Gold serves as a unique hedge against rising Federal debt and global conflict.

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