Market Review Commentary

Fourth Quarter 2022

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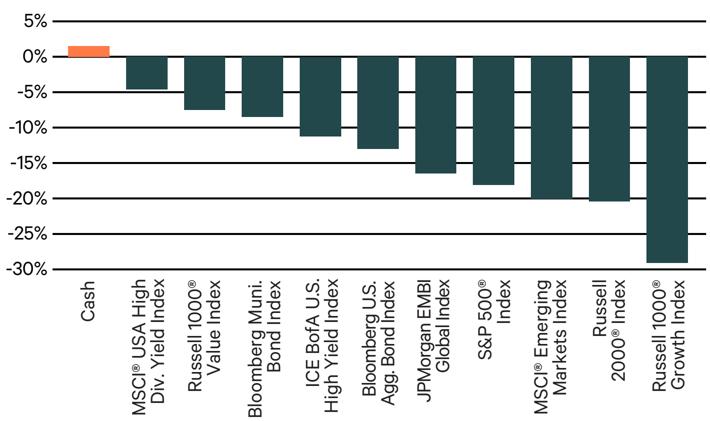
MARKET PERFORMANCE

2022 was a very volatile and difficult year for equity and fixed income investors. Unfortunately, there was no place to hide from losses in 2022 with investors losing money in both equities and fixed income for only the third time since 1926. The S&P 500 Index finished the year down 18.11% after rallying 7.56% in the fourth quarter. The Bloomberg U.S. Aggregate Bond Index declined 13.01% for the year after recovering slightly in the fourth quarter up 1.87%. Value stocks performed better than the hard-hit growth stocks with the Russell 1000 Value Index down 7.54% for the year compared to the Russell 1000 Growth Index which was down 29.14% for the same period. High dividend payers were a relative safe harbor declining only 4.60% for the year (as measured by the MSCI USA High Dividend Yield Index) after rallying 13.92% in the fourth quarter. Small capitalization stocks slightly underperformed large cap stocks with the Russell 2000 Index declining 20.44% for the year. Emerging market stocks, as measured by the MSCI Emerging Markets Index, also slightly underperformed U.S. large cap stocks declining 20.09% for the year.

Interest rates started the year at historically low levels and therefore did not provide the much-needed offset to equity price declines in 2022. High yield bonds outperformed the Bloomberg U.S. Aggregate Bond Index by declining 11.22% for the year (as measured by the ICE BofA U.S. High Yield Index). Municipal bonds, as measured by the Bloomberg Municipal Bond Index, also outperformed the broader fixed income market declining 8.53% for the year after rallying 4.10% in the fourth quarter. Emerging market debt, as measured by the JPMorgan Emerging Market Bond Index Global, underperformed declining 16.45% for the year. By contrast, cash was up 1.52% for the year.

FIGURE 1: INDEX PERFORMANCE

One Year Ending December 31, 2022

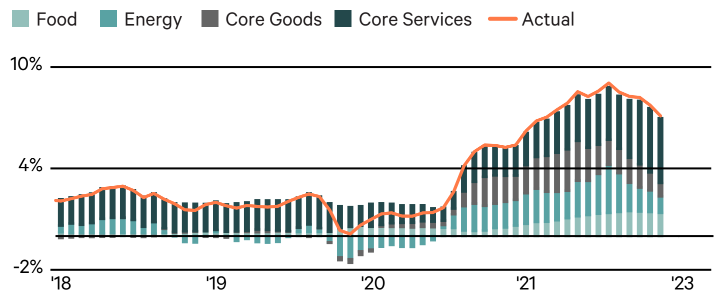


Data presented is as of December 31, 2022, is obtained from FactSet and is assumed to be reliable. ***Past performance is no guarantee of future results.***

GOOD NEWS, BAD NEWS

The good news is that inflationary trends which were unacceptably high in the first half of 2022 seemed to be clearly headed in the right direction over the last six months. All the major inputs (even rent) appear to be at least stable if not declining now which is much different than a year ago. The Federal Reserve's hawkish monetary policy combined with improving supply chain issues appear to be working in reducing the core inflation rate.

FIGURE 2: U.S. CPI BREAKDOWN



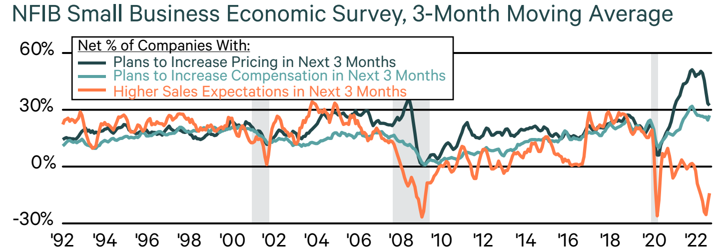
Data presented is as of January 3, 2023, is obtained from Strategas and the Bureau of Labor Statistics and is assumed to be reliable. ***Past performance is no guarantee of future results.***

However, the bad news is that inflation concerns have been replaced by impending recession fears in the market. In fact, we believe recession fears have replaced inflation fears as the dominant investor concern over the last six months. We certainly have witnessed a growth slowdown over the last year, and we are likely to see a continued growth slowdown over the next six-to-twelve months. The stock market seems to be already pricing in a moderate recession this year, but not a 2000 or 2008 type of more significant global recession. Importantly, CEOs and investors are not enthusiastic in their growth outlooks for 2023 and beyond.

This has to be the most anticipated recession in the history of corporate America. This does not mean that a recession cannot occur, but it does suggest a hard landing is less probable. Businesses certainly are not aggressively hiring workers and building inventory in anticipation of a robust 2023 outlook.

FIGURE 3: PRICING, WAGES & SALES EXPECTATIONS FOR BUSINESSES

NFIB Small Business Economic Survey, 3-Month Moving Average



Data presented is as of December 31, 2022, is obtained from Compustat, FactSet, NFIB, Standard & Poor's and J.P. Morgan Asset Management and is assumed to be reliable. All three data series are net and represent the % of respondents answering higher less the % of respondents answering lower. Data reflects answers to the following three questions: "What are your pricing plans in the next 3 months?," "What are your compensation plans in the next 3 months?," What are your sales expectations in the next 3 months?" ***Past performance is no guarantee of future results.***

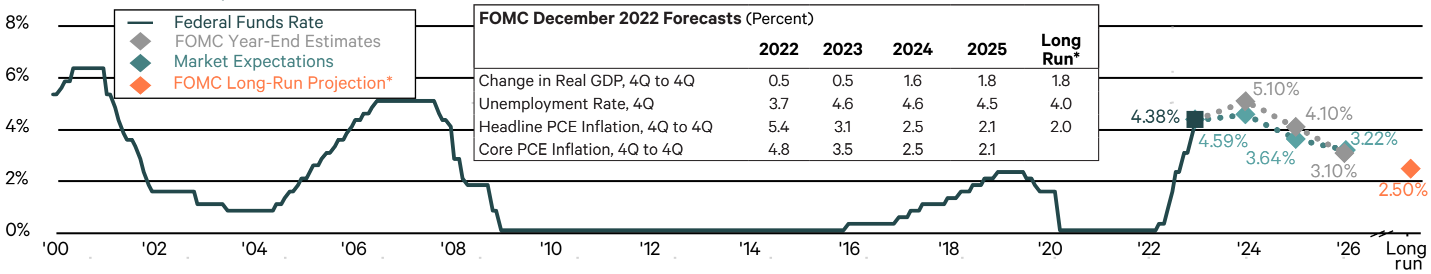
Bullish investor sentiment totally disappeared in 2022 as crypto, SPACs, IPOs, and meme stocks cratered dramatically. We believe this lack of speculation is only a positive for longer-term investors despite the short-term pain inflicted.

WHAT COULD GO RIGHT IN 2023?

Inflation reports could continue to come in better than expected in 2023 providing the Federal Reserve with more flexibility on rates than the market currently expects. The "higher for longer" interest rate outlook may change at some point this year to "stable to lower." Recall how poorly and quickly stocks started to perform in November of 2021 when the Fed changed its tune on inflation from "transitory to sticky." Significant losses were incurred in equities before the Fed even raised rates for the first time in March 2022.

FIGURE 4: FEDERAL FUNDS RATE EXPECTATIONS

FOMC and Market Expectations for the Federal Funds Rate



FOMC December 2022 Forecasts (Percent)

	2022	2023	2024	2025	Long Run*
Change in Real GDP, 4Q to 4Q	0.5	0.5	1.6	1.8	1.8
Unemployment Rate, 4Q	3.7	4.6	4.6	4.5	4.0
Headline PCE Inflation, 4Q to 4Q	5.4	3.1	2.5	2.1	2.0
Core PCE Inflation, 4Q to 4Q	4.8	3.5	2.5	2.1	

*Data presented is as of December 31, 2022, is obtained from Bloomberg, FactSet, Federal Reserve and J.P. Morgan Asset Management and is assumed to be reliable. Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment, and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections, and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections, or other forward-looking statements, actual events, results, or performance may differ materially from those reflected or contemplated.* ***Past performance is no guarantee of future results.***

WHAT SHOULD AN INVESTOR DO NOW?

We believe that stock selection in companies that experience growth in a slower growth environment will be important this year. The days of cheap beta driving large passive returns seem unlikely to return anytime soon. Additionally, the top-heavy S&P 500 companies, MAMAA (Meta, Apple, Microsoft, Amazon, and Alphabet) in particular, are having significant fundamental growth issues which has not been the case since 2008. In our view, this may bode well for many small and medium-sized companies, which can continue to grow in a lackluster economic environment.

We believe the market has stabilized reaching a double bottom in mid-June and September and started to recover somewhat in the fourth quarter. Avoiding a hard landing is key to positive equity returns in 2023 and beyond. Recession fears will not disappear overnight so investors should expect continued volatility in 2023 and will need to be patient.

At KAR, we will continue to invest in quality companies with defensible competitive advantages and strong balance sheets, which we believe should allow them to defend better if economic growth continues to falter and inflation continues to moderate.

We are grateful for your trust and confidence in managing your assets during this difficult period.

Douglas S. Foreman, CFA
Chief Investment Officer

Douglas S. Foreman, CFA is Chief Investment Officer, Portfolio Manager, and a member of the Executive Management Committee. He has approximately 36 years of investment experience.

Large-capitalization stocks are represented by the S&P 500® Index which is a market capitalization weighted index which includes 500 of the largest companies in leading industries of the U.S. economy. Growth stocks are represented by the Russell 1000® Growth Index which is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. Value stocks are represented by the Russell 1000® Value Index which is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. Small-capitalization stocks are represented by the Russell 2000® Index which is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. Emerging markets are represented by the MSCI® Emerging Markets (EM) Index which is a free float-adjusted market capitalization index tracking the equity performance of global emerging markets. The Bloomberg U.S. Aggregate Bond Index is a market value weighted index that tracks the daily price, coupon, pay downs and total return performance of fixed-rate, publicly placed, dollar-denominated and non-convertible investment grade debt issues with at least $250 million par amount outstanding with at least one year to final maturity. Performance is calculated on a total return basis with dividends reinvested. The ICE BofAML U.S. High Yield Index tracks the performance of U.S. dollar denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. The J.P. Morgan GBI EM Global Diversified Index tracks the performance of local currency debt issued by emerging market governments, whose debt is accessible by most of the international investor base. The MSCI® World High Dividend Yield Index (net) is based on the MSCI World Index, its parent index, and includes large and mid cap stocks across 23 Developed Markets (DM) countries. The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent. The index also applies quality screens and reviews 12-month past performance to omit stocks with potentially deteriorating fundamentals that could force them to cut or reduce dividends. The index is calculated on a total return basis with net dividends reinvested. The Bloomberg Municipal Bond Index is a market capitalization-weighted index that measures the long-term tax-exempt bond market. The index is calculated on a total return basis. This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities. ***Past performance is no guarantee of future results.***

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