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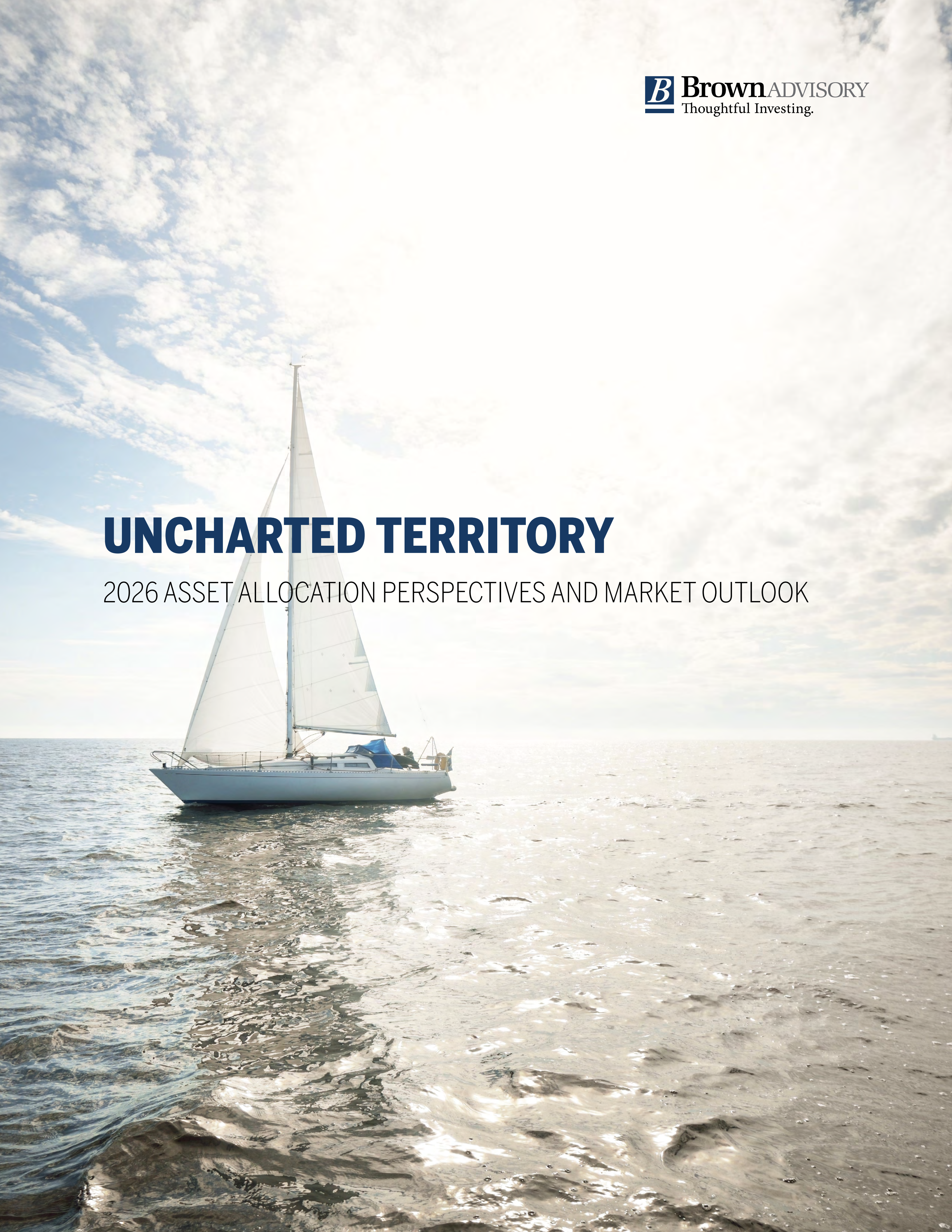
2026 ASSET ALLOCATION PERSPECTIVES AND MARKET OUTLOOK



KEY TAKEAWAYS

- The market environment appears to remain supportive of risk assets in 2026, underpinned by solid economic growth, lower interest rates, rising real wages and healthy consumer and corporate balance sheets.
- AI investment is growing more complex and capital-intensive, but improving models and expanding use cases suggest 2026 may mark a shift from experimentation to implementation, broadening the benefits and potential returns from AI beyond companies focused on the infrastructure buildout. We remain enthusiastic but cautious about the prospects of AI, closely monitoring returns on capital, valuation excesses and AI's implications for labor markets, energy and long-term growth.
- Despite recent challenges for quality stocks, we remain committed to this style of investing and are finding attractive opportunities outside perceived AI winners as valuations in quality stocks have fallen relative to the broader market.
- International markets and smaller companies remain key elements of diversification in our equity portfolios, given their more attractive valuations and distinct return drivers. Japan remains one of our highest-conviction positions outside the U.S., and we continue to identify high-quality global companies listed in Europe and Asia to complement our U.S. holdings.
- We construct portfolios to perform across a wide range of outcomes by complementing core equity exposures with fixed income, infrastructure, private investments and hedge funds to provide income, inflation protection and diversification benefits.
- Shifting tariff policies, geopolitical tensions, large fiscal deficits, historically elevated valuations and unprecedented market concentration underscore the importance of diversified portfolios. This is largely uncharted territory, with both economic growth and markets increasingly beholden to the success of AI.

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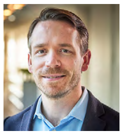

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2025 MARKET RECAP **& 2026 OUTLOOK**

Themes for the Ages

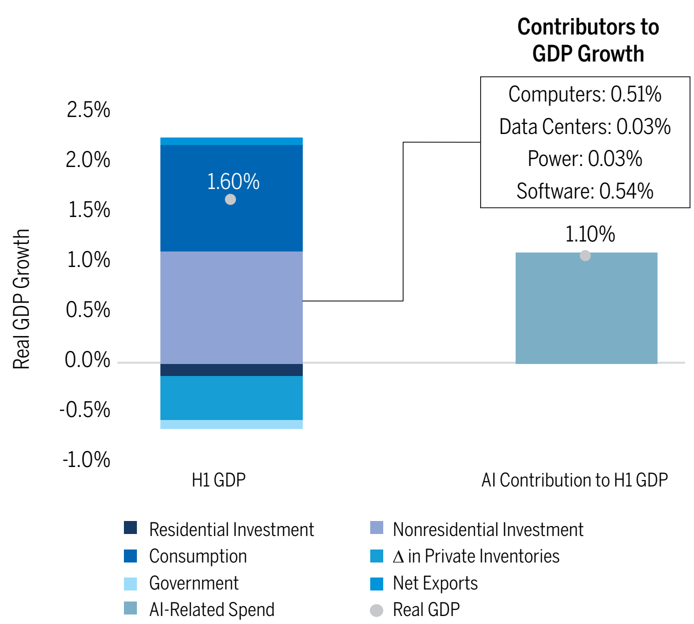
2025 was a year dominated by just a handful of investment themes. Early in the year, markets were unsettled by deglobalization concerns, as a flurry of policy decisions from the new U.S. administration began to redefine the country's relationship with the rest of the world. The most significant development was the introduction of "Liberation Day" tariffs, which forced investors to assess the winners and losers of the most dramatic shift in trade policy in 100 years. President Trump's tariff agenda triggered an about-face for a world that had been on a 50-year march towards globalization, multi-country supply chains and just-in-time delivery. Beyond the discussion of impacted companies and industries, investors struggled to quantify the implications for overall economic growth and inflation from such a draconian pivot. Yet, one of the year's greatest surprises was the speed with which investor focus shifted away from policy uncertainty, compelled by a combination of softening trade policies, continued positive economic momentum and growing enthusiasm for other powerful investment themes. Ultimately, 2025 proved to be a very strong year for financial markets, but underlying themes drove widely disparate outcomes beneath the surface.

Chief among these themes was artificial intelligence (AI), where usage at both the consumer and business levels accelerated and was further boosted by a massive increase in capital investment. A fundamental measure of AI utilization is the number of tokens (units of text) processed by an AI large language model (LLM). The use of tokens is growing exponentially, currently doubling roughly every two months. A 2025 study from Wharton Human-AI Research at the University of Pennsylvania noted that more than 80% of business leaders now use AI daily and roughly 75% of businesses report positive returns on investment from their adoption of AI. Nearly 90% of those business leaders expect to increase AI spending over the next year.[1]

AI-related capital expenditure (CapEx) from big tech companies rose from Q4 2024 estimates of $200 billion of spend in 2025 to around $350 billion spent by year-end 2025, marking a 75% increase on what were already considered lofty expectations and suggesting that supply is responding to rising demand. Corporate commentary indicates that any new computing capacity brought online is absorbed immediately, and planned CapEx is continuing to edge higher. At the same time, rapidly rising AI infrastructure investment is driving more complex financing structures. While these incremental commitments remain, broadly speaking, manageable relative to cash flows for the larger players, they heighten the imperative to demonstrate returns on investment — particularly as even larger sums of capital are projected to be needed in the years to come. For the time being, this market appears to be defined by shortages in both computing capacity and power.

AI ended up being the spring from which many market winners flowed in 2025, some fueled by rational and fundamental growth and others by pure speculation and retail trading frenzy. Semiconductors, power, infrastructure, memory chips and cloud providers all benefited. While the mega-cap tech companies continued to charge forward, it was some of the newly identified AI-winners that experienced the largest moves. This broadening out of the winners sharpened our focus on the AI landscape, resulting in increased research coverage and deeper partnerships with external firms that are AI domain experts and invest across the AI value chain in both the public and private markets.

The AI Infrastructure Buildout Provided a Major Boost to U.S. GDP in the First Half of 2025



Source: Bureau of Economic Analysis, Brown Advisory analysis; GDP for the period 12/31/2024 - 06/30/2025. Note: AI contribution to GDP determined via comparative historical analysis of growth by line item.

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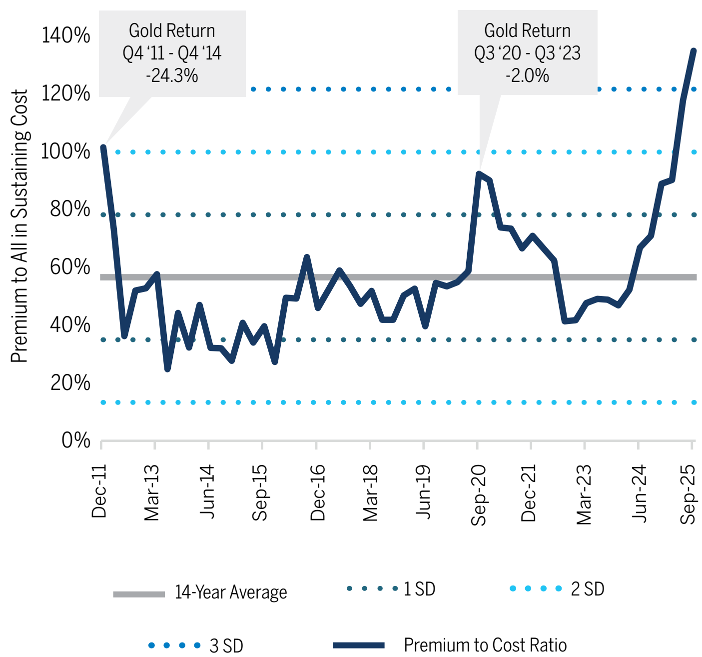
Meanwhile, there has been much debate over the extent to which AI capital expenditure has fueled the surprisingly strong economic growth in the U.S. Estimates vary widely, but the build-out of data centers, power infrastructure and related spending likely accounted for over half of recent U.S. GDP growth. AI-related growth has more than made up for any drags stemming from tariffs, the sluggish industrial economy, a weak housing market and falling consumption from lower-income individuals, who are increasingly feeling the pinch of the elevated cost of living and softening job market. We expect AI to remain a powerful growth driver in the coming year, although we acknowledge that the concentration of economic growth and ever-increasing investor expectations within this single theme present a growing risk to both the economy and the market.

Beyond AI, another area of strength in 2025 was aerospace and defense, where the recovery from COVID-19 lockdowns and increased government spending, particularly in Europe, created a situation where demand exceeded supply. We expect this theme will remain prevalent for years to come and will benefit many high-quality, well-run businesses like GE Aerospace, Safran and Airbus, which have built strong moats in the industry.

A combination of falling interest rates, lighter regulation and a strong credit environment drove bank stocks to outperform, representing one of the few areas where value investors have been able to register wins in a market dominated by growth. Many of these stocks in our view, still retain attractive valuations, and their underwriting standards and capital buffers have strengthened considerably. With the yield curve likely to steepen further in the coming year, the backdrop could continue to support the banking sector, assuming the credit environment remains favorable.

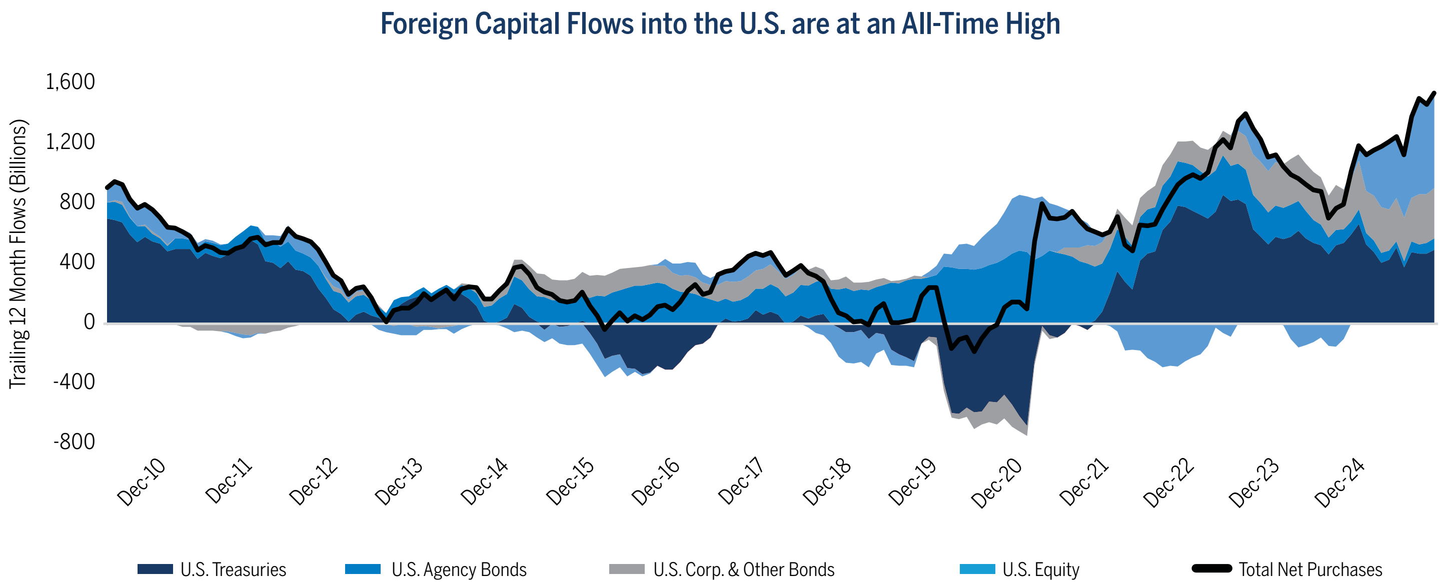
The so-called "debasement trade" — a play on the weakening purchasing power of fiat currencies, particularly the U.S. dollar — powered gold and many gold miners to new heights. Heightened inflation and large government deficits combined with a fresh interest rate-cutting cycle in 2025, resulting in surging prices for gold and a weaker U.S. dollar. Gold now trades at a large premium to the cost of mining it — it is three standard deviations more expensive compared to the last 14 years. While many central banks have increased their gold reserves in recent years, providing additional momentum to the trade, we have always preferred cash-flowing companies and assets over gold — and that is especially true given current prices.

Gold is Selling at a 3 Standard Deviation Premium to its Cost



Source: FactSet, Bloomberg. Note: All In Sustaining Cost is a comprehensive measure of all mining operations including gold production costs, site upkeep, exploration expenses and general & administrative costs. Gold miners used for analysis are Agnico Eagle, Newmont and Barrick. As of 9/30/2025, representing the most recent data available.

The weaker U.S. dollar also bolstered international stock performance in 2025, helping non-U.S. equities (as measured by the MSCI EAFE Index) outperform their U.S. counterparts (as measured by the S&P 500® Index) by the widest annual margin in the past two decades. While the dollar still appears somewhat overvalued relative to purchasing power, it has stabilized, and capital has resumed flowing back to the U.S. on the back of strong growth, AI leadership and attractive real interest rates.



Source: U.S. Department of Treasury, as of 08/31/2025, representing the most recent data available.

At the same time, international companies saw their valuations expand by more than those in the U.S. despite slower earnings growth in these geographies. On the margin, we are slightly less excited about non-U.S. investments than we were at the start of 2025; although, with valuations remaining more attractive outside the U.S., we continue to find idiosyncratic investment opportunities in high-quality companies trading at compelling prices across Europe, Asia and emerging markets.

We also remain particularly enthusiastic about deploying capital to Japan. The corporate governance reforms highlighted in last year's Asset Allocation Perspectives/ Outlook continue to gain momentum and have begun to manifest through increased dividend distributions, improved profitability and a growing propensity among firms to return capital to shareholders. Furthermore, Japanese equities remain significantly undervalued relative to other markets, and the number of active investors searching for opportunities in this sizable market is still quite low. This lack of competition gives our stock pickers lots of scope to identify mispriced assets.

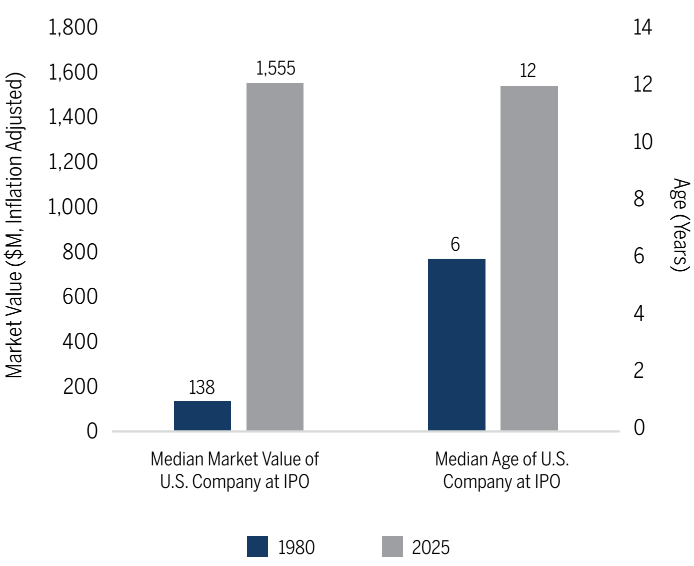
While we remain selective given strong recent performance, we still see non-U.S. investments as a valuable source of diversification, particularly amid the current technology concentration in U.S. markets.

A pair of intertwined trends in private markets also gained momentum in 2025. First, many companies have opted to stay private for longer, allowing them to leapfrog the small-cap segment of public markets and extending the timelines for private equity investors to realize liquidity. This trend has coincided with the increasing proliferation of private investment vehicles, particularly secondaries and so-called "semi-liquid" evergreen vehicles which offer mechanisms for ongoing liquidity in otherwise illiquid private market assets. The rise of these semi-liquid strategies exemplifies the push to "democratize" access to private investments and has provided a boost of new retail capital into private markets. Investors in these semi-liquid vehicles can benefit from structural features that allow for efficient portfolio construction, simplified cash flow management and continuously compounding returns. However, these evergreen vehicles generally have lower return targets than traditional private investment funds and represent a growing source of competition that could pressure industry-wide returns. Not all evergreen structures or strategies are created equally, and investors also have yet to test these liquidity mechanisms in more challenging environments — which could lead to increased volatility, cyclicality and negative headlines across the industry. We approach allocations to these structures with a high degree of discipline and selectivity, partnering solely with managers that can adeptly navigate the inherent challenges of these structures.

Private credit is the area where we have been most willing to use semi-liquid structures, given that the asset class naturally generates more consistent cash flows and each loan has a defined maturity. We view these semi-liquid private credit vehicles as a tool that can offer attractive risk-adjusted yields, but we remain discerning in our choice of managers as rigorous due diligence is essential in the loan underwriting process.

Overall, the growth of these markets has expanded access to private capital, providing sponsor-backed companies with a readily available source of financing and enabling companies to delay public listings until they are much larger and more mature. As a result, both the median market capitalization and the median age of companies at the time of their initial public offering (IPO) are now meaningfully higher than in prior decades, reflecting a structural shift in capital formation. We expect exit activity to continue normalizing from the exceptionally muted post-2021 levels as lower interest rates bring borrowing and transaction costs to more manageable levels.

U.S. Companies Are Entering Public Markets at Later, More Mature Stages



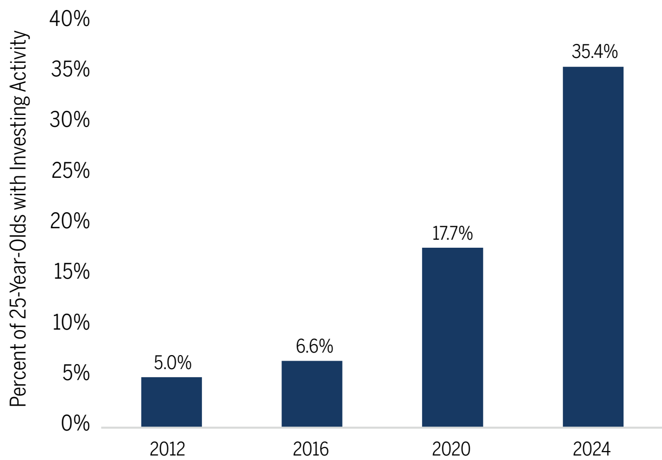
Source: Jay Ritter, University of Florida School of Business.

The K-Shaped Economy and the Rise of Retail Investing

The current economic dynamic in the U.S. has commonly been labeled "K-shaped," indicating that those with higher wealth and income (the top branch of the "K") benefit from rising asset prices and drive an increasingly large proportion of economic activity, while those on the lower end of the wealth spectrum appear to be struggling. Estimates from Moody's Analytics indicate that the top 10% of earners in the U.S. now account for ~50% of spending. However, those who haven't benefited from the rise in stock prices and home values are spending less, trading down in quality and increasingly financing their purchases using credit tools like "buy-now, pay-later." While some presume this is a sign of an unhealthy economy and is putting pressure on certain sectors, economic data suggests the lower branch of the "K" is actually shifting sideways rather than moving in a negative direction. In our view, such a dynamic could generate some short-term vulnerability for the economy, but we do not believe that it necessarily creates an unsustainable path for economic growth.

One potential silver lining in this K-shaped story has been the increased ownership of stocks among younger and lower-income households, a factor that was also a market driver in 2025. Over the past 12 years, we have seen a seven-fold increase in the percentage of 25-year-olds with brokerage accounts in the U.S., a trend that accelerated during the meme-stock craze of 2021 and has been further enabled by the rise of the online trading platform Robinhood. In our view, one of the best ways to solve growing wealth inequality is greater participation in the compounding of wealth over time through the ownership of assets such as stocks. This philosophy is being directly addressed by the recently passed Invest America Act, which seeds a $1,000 tax-advantaged investment account for every American child. Michael Dell, the founder of Dell Technologies, and his wife and philanthropic partner, Susan Dell, are also tackling this challenge by offering $250 investments to 25 million children at a cost of $6.5 billion. Increasing stock ownership, whether from birth through government programs and philanthropy, or post-college through enterprising minds and better accessibility, has the potential to be part of a long-term solution to address this fundamental societal issue.

Young Adults Are Beginning to Invest at Increasingly Earlier Ages



Source: JP Morgan Chase Institute, as of 12/31/2024, representing the most recent data available.

Rising retail participation is not entirely positive, however. We have seen an increased use of margin leverage, short-term options and the commingling of cryptocurrencies and stocks in accounts. Coinbase, a leading cryptocurrency exchange, offered up to 50x leverage to eligible accounts this year. We can't think of an asset class less deserving of such a structure. The resulting rise in volatility and the growing correlation between stocks and cryptocurrencies have led to a steady flow of headlines about retail losses and hard lessons learned. We have also seen some irrational moves in stocks related to popular themes, with shares of quantum computing companies, small modular nuclear reactor stocks and other perceived AI-winners soaring to nosebleed valuations upon highly unproven technologies. This rise in retail trading is exerting a growing influence on markets, with retail investors doubling their share of overall trading volumes over the past ten years, according to CoinLaw. In certain pockets of the market, it feels reminiscent of the meme-stock exuberance in 2021, a scenario that presents both opportunities and risks.

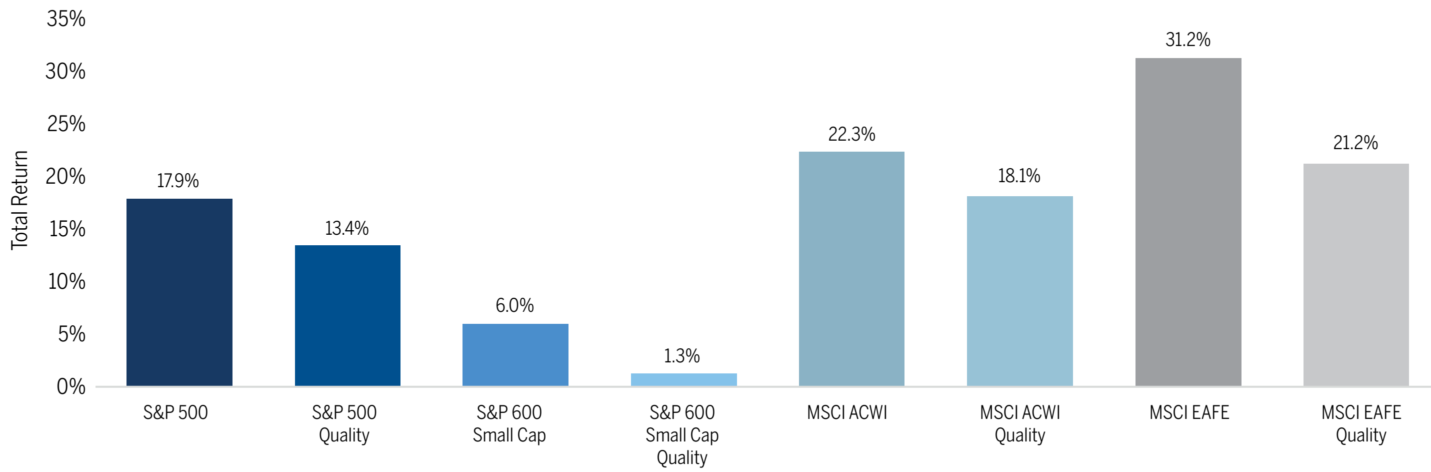
A Case for Quality

In part due to this resurgence by retail investors, many unprofitable, steeply valued and momentum-laden stocks drove a significant portion of market returns in 2025. Further, easing monetary policy and bullish sentiment fueled increased liquidity and speculation in the market, leading some investors to bid up unprofitable companies — many tied to AI themes — on expectations of improved balance sheets from lower borrowing costs. Notably, the S&P 500 Index constituents with the highest multiples generated the highest returns last year.

2025 was the second straight year of quality companies underperforming the broader market despite strong fundamental growth. As a result, quality-biased managers — those who prioritize fairly-priced companies with durable earnings, high return on invested capital (ROIC), positive cash flow, strong balance sheets and growing dividends — have generally lagged, trailing managers that invest more thematically or are more willing to invest in speculative businesses. While some of these companies will prove capable of fulfilling their perceived potential, others will struggle to meet growth expectations, with little in the way of profitability or balance sheet capital for investors to fall back on. This is the risk that quality investors seek to avoid. Encouragingly, many quality businesses are now trading at attractive valuations relative to the broader market, providing a robust opportunity set for quality investors.

While the market dynamic in 2025 could be characterized as momentum outperforming quality, as long-term investors we continue to emphasize a quality approach in constructing our portfolios. Historically, quality has delivered strong performance across market cycles, outperforming the broader market in most periods and providing valuable downside protection in the periods where equities are most vulnerable. Additionally, this past year, quality segments generally delivered strong total returns — in most cases exceeding the long-term returns we typically target — even though they did not keep pace with broader market indices.

Quality Stocks Lagged Across All Geographies in 2025



Source: Bloomberg, as of 12/31/2025.

A Precarious Position

As we start a new year, it is important to recognize that the global equity market, collectively, is more tied to the success of a single theme — artificial intelligence — than it has been in generations. We have far surpassed the levels of market concentration seen in the late 1990s and even the 1960s. Just a handful of companies, all largely tied to the same theme and increasingly competing and/or investing with each other, are driving more than half of the overall market volatility. While these companies continue to grow faster than the rest of the market and maintain high levels of profitability, they are now borrowing more and allocating a greater share of their free cash flow to finance further investments in AI infrastructure. Further, many of their most important customers, including OpenAI and Anthropic, are not yet profitable and remain reliant on private market funding to support continued buying.

AI-related capital expenditure-to-date appears to have generated attractive returns through cloud and advertising revenues, as well as efficiency gains in areas such as software development. However, the expected AI infrastructure spending in 2026 alone is projected to reach nearly that of the prior three years combined. Furthermore, the financing of these investments has become increasingly complex, with a growing use of leverage and cross-shareholding. Simply stated, the stakes are getting higher.

Thus far, the level of debt being added to balance sheets appears very manageable relative to the cash flow generation of the hyperscalers (Alphabet, Amazon, Meta and Microsoft) at the forefront of the infrastructure build-out. While these debt issuances are, in a broad sense, unlikely to endanger the AI bull market, they do put greater pressure on monetization, particularly for smaller companies that cannot lean on cash-flow generative core businesses. While guidance for AI infrastructure spending has continued to increase, it is unclear how CapEx spending will change over the next two to three years and whether power generation constraints will hamper the ability of the hyperscalers to build at their desired pace. The degree of infrastructure spend will ultimately depend on the continued growth of AI adoption and a commensurate improvement in productivity for users as a result. In our view, investors will need to see increasing value for both companies and consumers, as well as a greater willingness to pay for these products and services, in order for this AI bull market to continue.

For investors, this concentration around a single theme presents other associated, and often unintended, consequences. For most of the last one hundred years, an investment in an index like the S&P 500 or the MSCI ACWI offered diversified exposure to a broad range of companies and sectors, thereby limiting risk. This is not necessarily the case today. While many of the companies at the top of these indices offer attractive long-term prospects, and we continue to incorporate some index-linked strategies within our own portfolios, we do not believe that relying on a single source of growth aligns with the level of prudence required for fiduciaries of client capital. Our approach to constructing resilient portfolios emphasizes owning a broader mix of assets. This not only includes leading large-cap companies, but also smaller firms with attractive growth prospects, strategies focused entirely outside the U.S. and alternative investments such as private equity, credit and hedge funds. By incorporating diverse asset classes and geographies, we reduce our reliance on any single market or sector and enhance a portfolio's ability to capture opportunities wherever they arise.

This diversified approach serves several key objectives. First, it increases the likelihood of generating strong absolute returns that meaningfully outpace inflation — crucial for preserving and growing purchasing power, especially for endowments, foundations and private clients with multi-generational or long-horizon goals. Second, for taxable investors, thoughtful selection of asset classes, paired with the implementation of tax-sensitive strategies, helps ensure returns are captured in a manner that maximizes after-tax outcomes.

Where Do We Go From Here?

As we look ahead, our base case is a continuation of the relatively favorable environment for financial markets. While the budding re-acceleration of trade tensions and the tail risk of escalating conflict in contested regions present risks in the coming year, the global economy is showing positive momentum, and central banks are generally easing policy, which should help bolster the economic cycle. This year could also be an important one for the IPO market, with potential listings of leading venture-backed companies such as SpaceX, OpenAI, Anthropic, Stripe and Databricks. We continue to see upside from the strong adoption of AI as businesses find more use cases to increase productivity. We watched with interest as a logistics company, CH Robinson, suggested it had experienced over a 40% gain in productivity since 2022 after implementing AI, lowering operating expenses and expanding margins by 6% through the automation of routine tasks and by using AI agents for price quotes and order execution. These types of AI-related productivity gains could provide a catalyst for investors to transition away from the enablers of AI to companies that are tangibly improving profitability through its implementation. We believe that the volume of such anecdotal reports will increase in 2026. In addition to "real economy" companies reaping gains from AI, we could also see some of the companies currently deemed AI losers start to prove their doubters wrong. Valuations in certain high-quality businesses such as Visa, Mastercard, SAP and LSEG in areas including payments and enterprise software are approaching levels not seen in years. With each earnings report, they have an opportunity to dispel the rumors of their demise. These are fertile hunting grounds for quality investors such as ourselves.

Although optimistic overall, we are relieved to note that investors are starting to greet the landscape of AI infrastructure funding with healthy skepticism. We are similarly comforted by the fact that, while technology companies' valuations are not cheap, they are, collectively, a far cry from those of the late 1990s. Other indicators, such as the relatively low volume of initial public offerings and the manageable percentage of free cash flow being spent on capital expenditure, suggest that even if we are in a bubble, it is still at a relatively early stage. Still, that does not mean the winners of the next phase of AI adoption will be the same as the previous ones.

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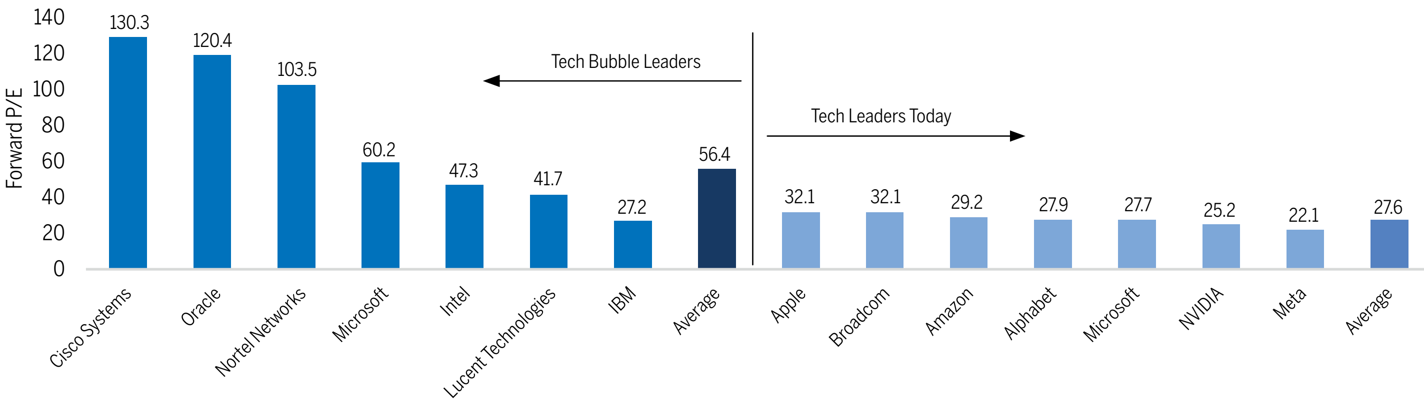
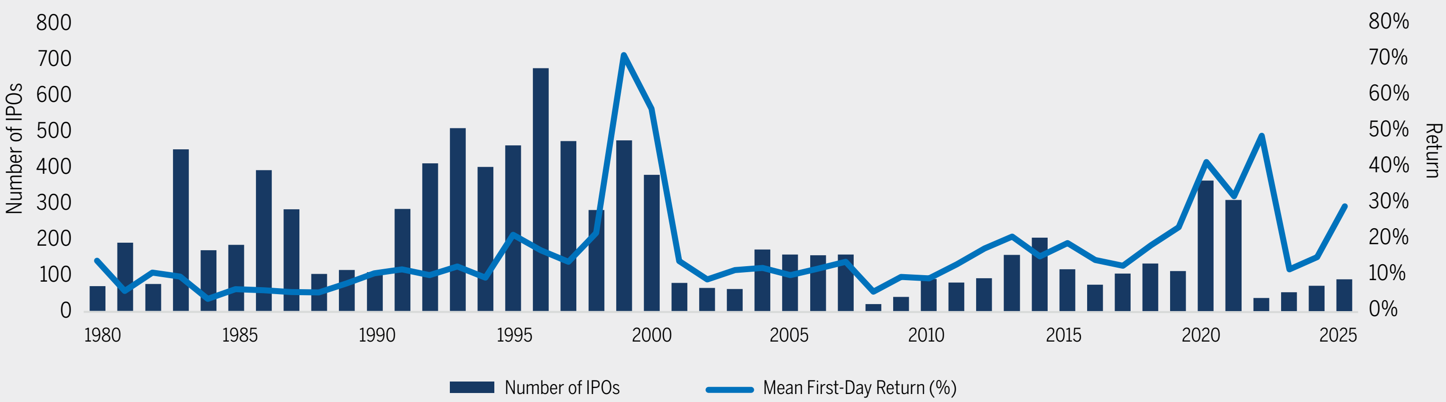
Forward P/Es of Today's Tech Leaders Remain Well Below Those in 2000



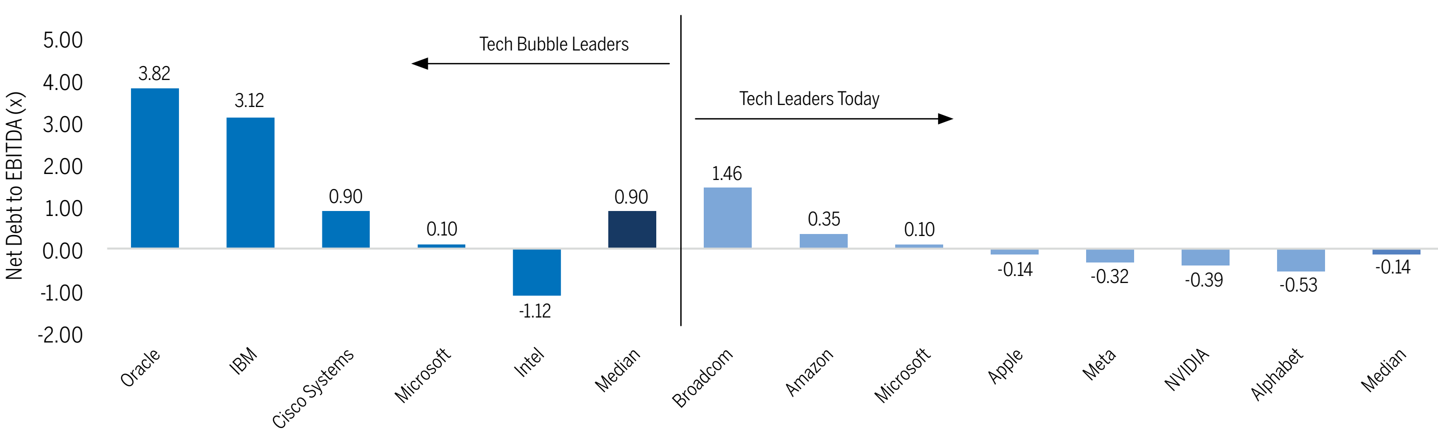
Source: FactSet. Tech Bubble Leaders data as of 3/24/2000, Tech Leaders Today data as of 12/31/2025.

IPO Activity Remains Well Below 1990s Levels, and the Average First-Day Return Remains Well Below the 1999 Peak of 71.2%



Source: Jay Ritter, University of Florida School of Business, data as of 12/31/2025.

The Balance Sheets of Tech Leaders Are Healthier Now Than in 2000



Source: Bloomberg. Tech Bubble Leaders data as of 3/24/2000, Tech Leaders Today data as of 12/31/2025.

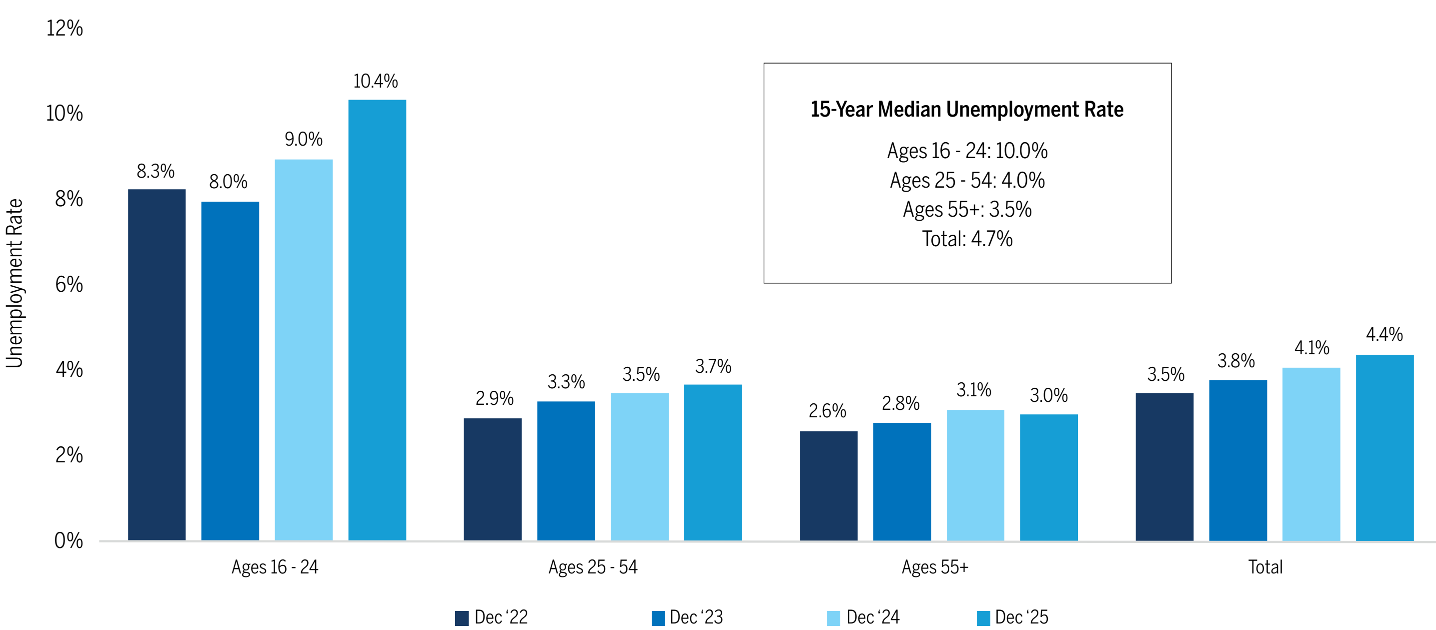
Separately, lower interest rates could spur growth in some downtrodden areas of the economy such as housing and homebuilding, and provide some relief to companies, homebuyers and consumers alike. 30-year mortgage rates have fallen by more than 1% from their 2025 highs and are now at their lowest levels since early 2023; any further declines could help revive activity in a segment of the economy that has effectively stalled in recent years. Although President Trump's nominee for Chair of the Federal Reserve (Fed), Kevin Warsh, has a history of hawkish comments, he has signaled a greater inclination to pursue lower rates than his predecessor, Chairman Powell.

The motivations of the Fed will be of particular focus given the vocal pressure from the administration that rates be lowered. Yet, even after Chair Powell is replaced, we think it is highly likely that interest rate policy will continue to follow the framework established over the last few decades, remaining relatively insulated from executive influence. Kevin Warsh was a part of the institution of the Federal Reserve in the past as a former Fed Board Governor, and, although he has received meaningful criticism, he appears to be a well-qualified and relatively traditional pick to lead the Fed. We will be watching how both Congress and the courts react to the administration's efforts to control the Fed, as well as the messaging and approach of Kevin Warsh, to assess whether our confidence remains well placed.

The recent rise in unemployment and slowdown in new job creation makes the Fed's motivation all the more important. While signs of labor market weakness warrant close monitoring, several confounding variables are at play. First, many companies overhired in the post-COVID-19 period, and we are now seeing some rightsizing of the workforce after a period of labor shortages and job hoarding. Second, the current administration has effectively shut down immigration, leading to slower workforce growth and reduced labor demand. Adding to this, AI-related impacts on the labor market are likely to continue gathering steam, making it possible that we could see fewer jobs created and higher unemployment without necessarily having a seriously negative impact on economic growth.

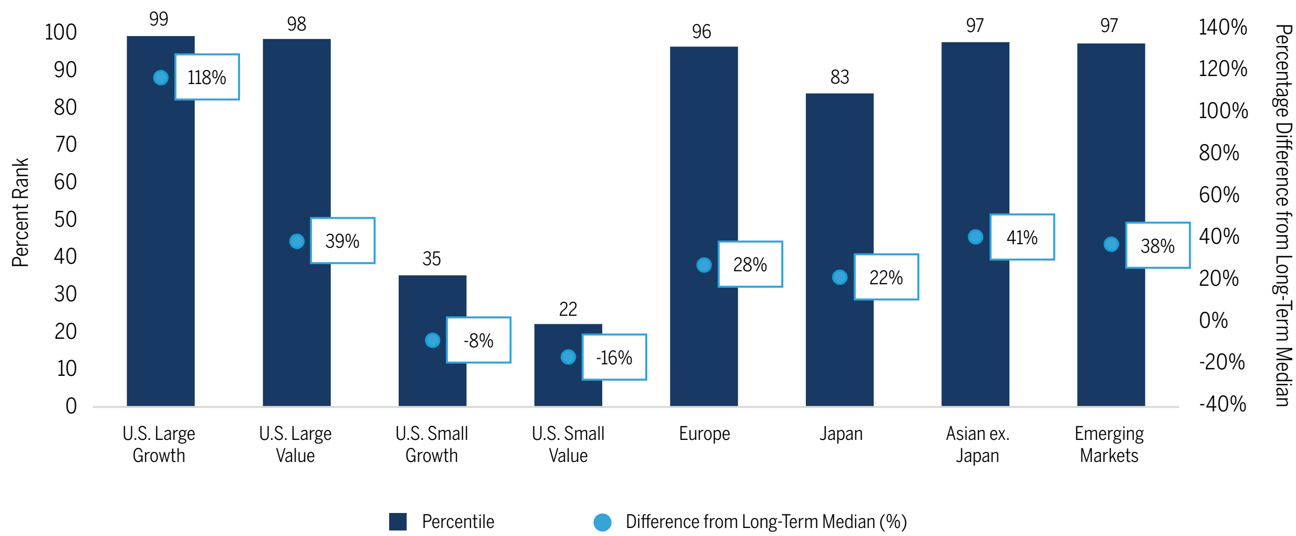
The prospects of continued economic growth are further supported by a seemingly favorable setup for the U.S. consumer, with wages rising faster than inflation and debt service levels remaining low, as mortgages — the largest source of debt — are widely locked in at low rates. In addition, company balance sheets and earnings seem healthy, with net debt levels a fraction of what they were in the 1990s and 2000s and profit margins at multi-decade highs.

The Employment Market Has Softened Recently, Particularly for Young Workers



Source: Bureau of Economic Analysis, as of 12/31/2025.

While Valuations Are Elevated Across Most Geographies, We Continue to Find Compelling Opportunities Beneath the Surface



Source: Bloomberg as of 12/31/2025. U.S. Large Growth using Russell 1000® Growth Index, U.S. Large Value using Russell 1000® Value Index, U.S. Small Growth using Russell 2000® Growth Index, U.S. Small Value using Russell 2000® Value Index, Europe using MSCI Europe USD Total Return Index, Japan using MSCI Japan USD Total Return Index, Asia ex. Japan using MSCI Asia ex. Japan USD Total Return Index, and Emerging Markets using MSCI Emerging Markets Net USD Total Return Index. All international equity segments calculated in local currency.

The economy is demonstrating notable resilience, but certain areas of vulnerability remain. The potential impact of tariffs has not fully materialized, as the gap between effective and statutory rates persists. We may also see further bouts of escalation in these trade wars. Inflation has remained above the Fed's target for nearly five years, with tariffs, government deficits and falling interest rates continuing to pose upside risks to prices. Rising populism as we approach the U.S. midterm elections threatens to increase uncertainty and market volatility. Lastly, geopolitical risks such as China's approach to Taiwan, while remote, could also reverse the recently positive economic momentum.

If the economy remains relatively strong and interest rates continue to decline in 2026, the backdrop should be supportive of solid returns across risk assets. That said, U.S. large-cap equity valuations are already at the very high end of historical ranges, and the current dominance of just a few companies and one key theme is unprecedented. This makes diversification especially important for portfolios.

For the coming year, we are focusing on maintaining healthy exposure to companies and markets where expectations and valuations are slightly less lofty, as well as deepening our focus on the less obvious winners from AI. While it seems unlikely that the U.S. market will see a fourth consecutive year of roughly 20% equity returns, something which has not happened since the late 1990s, we are cautiously optimistic about the prospects for 2026 and beyond. With proper prudence and diversification, we believe the future is bright. We are eager to see what's in store.

2026 ASSET ALLOCATION VIEWS

Overall, the goal of our asset allocation approach is to create a framework that aligns portfolios with our clients' long-term return objectives and risk tolerances. Given the marketplace's obsession with benchmarks, it is important to acknowledge that, while benchmarks can serve as a useful yardstick, we do not base our asset allocation approach on any particular benchmark. Instead, it is based on the investments we use to build portfolios and the efficacy of those investments to help fulfill our clients' goals. Given the unprecedented concentration of market benchmarks today, this approach is all the more important.

For many years, we have used a consistent process for communicating and adjusting a baseline asset allocation strategy for portfolio managers to use with clients. The approach involves developing broad estimates of return potential and risk to determine our long-term convictions about each asset class, along with an assessment of cyclical considerations that allows for adjustments as the market environment evolves.

Key drivers of our thinking are our expectations for baseline 10-year annualized returns, the maximum likely drawdown risk (expressed as the likely worst one-year outcomes over 10-year and 20-year periods) and the alpha opportunity we think can reasonably be achieved by our selection of adept managers. The key inputs for our long-term return estimates for equities are starting valuations, economic growth expectations (or potential GDP growth) and changes in interest rates; whereas for fixed income, the principal indicator of return is starting yields (incorporating both base government bond yields and spreads), with some influence from the slope of the yield curve and anticipated changes in yields. These expectations are outlined in the tables on the next page.

The medium-term targets shown express a typical allocation to an asset class for a tax-exempt portfolio with a strategic asset allocation similar to the risk profile of a 70% equity/30% fixed income portfolio. Intermediate-term adjustments are, appropriately, based on a disciplined look at various intermediate-term market scenarios that may play out in the next two to three years. These scenarios are discussed further on the following pages.

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		U.S. Equities	Europe and U.K. Equities	Japan Equities	Emerging Market Equities	Hedged Strategies*
	Targets & Asset Allocation Shifts	33 (–)	8 (–)	4 (↑)	4 (–)	8 (–)
Long-Term (10 years)	**Expected Baseline Return**	5.4%	5.0%	5.7%	5.6%	4.4%
Long-Term (10 years)	**Alpha Opportunity**	0-1%	1-1.5%	1-1.5%	1.5-2.5%	2-3%
Long-Term (10 years)	**Drawdown Risk (1 in 10 / 1 in 20)**	-27% / -44%	-27% / -48%	-27% / -48%	-44% / -60%	-13% / -23%
Factors – Medium-Term (2-3 years)	**Valuation**	Negative (Large Cap)/ Neutral (Small Cap)	Slightly Negative	Positive	Slightly Negative	Neutral
Factors – Medium-Term (2-3 years)	**Macroeconomics**	Positive	Neutral	Slightly Positive	Neutral	Neutral
Factors – Medium-Term (2-3 years)	**Most Favorable Scenario**	Productivity Renaissance	Moderating Inflation Brings Monetary Boost	Moderating Inflation Brings Monetary Boost	Productivity Renaissance	Moderating Inflation w/ Strong Rebound
Factors – Medium-Term (2-3 years)	**Least Favorable Scenario**	Crisis of Confidence	Economic Hard Landing	Economic Hard Landing	Economic Hard Landing	Economic Hard Landing

		IG Bonds	HY Bonds	Private Equity*	Real Estate*	Private Credit*
	Targets & Asset Allocation Shifts	24 (↓)	0 (↓)	8 (↑)	4 (–)	7 (↑)
Long-Term (10 years)	**Expected Baseline Return**	4.7%	5.3%	7.6%	7.3%	7.3%
Long-Term (10 years)	**Alpha Opportunity**	0-1%	0-1%	3-7%	3-5%	2-4%
Long-Term (10 years)	**Drawdown Risk (1 in 10 / 1 in 20)**	-6% / -12%	-13% / -28%	--	--	--
Factors – Medium-Term (2-3 years)	**Valuation**	Slightly Positive	Negative	Slightly Negative	Neutral	Slightly Negative
Factors – Medium-Term (2-3 years)	**Macroeconomics**	Neutral	Slightly Positive	Slightly Positive	Neutral	Slightly Positive
Factors – Medium-Term (2-3 years)	**Most Favorable Scenario**	Economic Hard Landing	Moderating Inflation Brings Monetary Boost	Productivity Renaissance	Moderating Inflation Brings Monetary Boost	Moderating Inflation Brings Monetary Boost
Factors – Medium-Term (2-3 years)	**Least Favorable Scenario**	Growth with Inflation	Economic Hard Landing	Economic Hard Landing	Economic Hard Landing	Economic Hard Landing

The hypothetical performance depicted in the charts above represents our long-term return estimates. Our long-term return estimates are derived by Brown Advisory's asset allocation team and are meant to represent where we believe returns in each asset class will tend to center around over the next 7-12 years. They are not meant to be precise forecasts and actual returns will differ, perhaps substantially, from these estimates. The main inputs for our analysis include various equity market valuations, economic growth expectations, demographic trends, bond yields, yield curves, credit spreads, interest rate expectations and inflation. Our analysis pairs the historical relationship between market returns and these variables by using statistical analyses such as linear regression. Our drawdown estimates are derived by Brown Advisory's asset allocation team and are designed to estimate the size of a market drawdown that would be expected every 10-20 years and are not designed to be a "worst possible outcome." Key inputs for these estimates include the size and magnitude of historical drawdowns of equity markets and historical volatilities. Our alpha opportunity estimates are derived by Brown Advisory's asset allocation team and are designed to estimate the potential for adept security selection to improve upon the risk-adjusted return of an asset class. They are not intended to estimate the return of any particular strategy or portfolio. Key inputs include the historical return of active managers in each asset class, the dispersion of underlying securities and qualitative assessments of the efficiency of asset classes. Further information on performance calculations as well as the risks and limitations of investing based on hypothetical returns is available upon request. *Alternative Investments may be available for Qualified Purchasers or Accredited Investors only.

OUR ASSET **ALLOCATION STANCE**

Long-Term Outlook (~10 Years)

Equity valuations have risen again across most major segments of the market. While U.S. mega-cap technology continues to have the most elevated valuations, many market segments are meaningfully above long-term historical norms. When we compare these valuations to interest rates, the equity risk premium appears to be near its lowest level since the early 2000s. Therefore, equities will require significant earnings growth over the next several years to validate today's valuations, with hopes pinned on new technologies, notably artificial intelligence, to deliver that earnings growth. Our approach has been to seek a balance between investments tied to these innovative technologies, those few segments of the equity universe where valuations remain attractive relative to history (such as Japan and smaller-cap U.S. stocks) and assets that offer more defensive qualities to portfolios, such as fixed income and select diversifying alternative strategies, which can provide long-term returns well above inflation expectations.

Medium-Term Outlook (18 to 36 Months)

Our framework for evaluating risk relative to return over the medium-term involves considering a wide range of scenarios, based on factors such as the economic cycle and geopolitical influences, and then estimating how various investments will perform in these scenarios. This approach helps gauge the risk/reward for individual investments, strategies or asset classes while also ensuring that an overall portfolio is well balanced and not overly vulnerable to any single outcome.

In contrast to long-term inputs like valuation, the cyclical environment appears favorable for equities. The global economy is still growing, and, despite some pockets of weakness, we think that economic momentum is more likely to accelerate than to materially weaken as monetary policy likely becomes more accommodative in some regions, fiscal policy remains supportive and productivity growth starts to pick up. Historically, periods in which the economy is growing while central banks are cutting interest rates have overwhelmingly been strong for equities.

However, this does not necessarily equate to an "all clear" signal. Geopolitical tensions and policy uncertainty (particularly in the U.S.) are still quite elevated and raise the risk of an exogenous shock. Additionally, economic growth has been uneven, with areas like data center buildouts having an outsized impact on recent gains. Furthermore, with valuations already quite elevated relative to history, the downside could be considerable if the economy were to be knocked off course.

As always, we strive to ensure our portfolios are well-prepared for a wide range of potential outcomes. Some specific changes we have made to our scenario analysis include:

- Given that central banks turned more dovish in 2025 despite inflation remaining above target in many major economies (most notably in the U.S.) and the policy uncertainty created by the upcoming changing of the guard at the Fed (even though President Trump's nominee for Fed Chair, Kevin Warsh, is a more traditional candidate than others that were on his short list), the probability of our "growth with inflation" scenario has risen.
- Rising nationalism, an expanding wealth gap, political intransigence, a paradigm shift in the U.S.'s position in the post-Cold War geopolitical order and the continued rise in sovereign debt levels have diminished confidence in some of the key pillars of the global financial system. So far, the impact on markets has been minor, but we believe there are risks of greater fractures forming in the system. Therefore, we have created a new "Crisis of Confidence" scenario.
- We are starting to see the first effects of the advancements in AI on the economy. While the eventual impacts are difficult to discern, both in terms of speed and scope, the unprecedented amount of capital being deployed into this area has the potential to drive a resurgence in productivity. We are calling this new scenario "Productivity Renaissance."

Base-Case Scenario

Economic Momentum Defies Policy Uncertainty

The global economy maintains positive economic momentum despite continued headwinds from trade policy and a diminished labor supply. Central banks remain biased to easing policy, and productivity gains offset labor issues and help fuel the economic cycle.

Most Likely Scenario

Bear-Case Scenarios	Bull-Case Scenarios
Globalization Receding Geopolitical tensions and rising nationalism lead to continually increasing protectionism and reduced immigration. Global trade suffers and demographic challenges are made worse, damaging global economic growth and putting upward pressure on prices. *Moderate Likelihood*	**Productivity Renaissance** Innovations in artificial intelligence lead to a more dramatic and quicker-than-anticipated boost to productivity. Economic growth surges, particularly in regions and sectors well-positioned to embrace innovations. *Moderate Likelihood*
Stubborn Inflation, Weak Growth Rising protectionism and labor shortages cause sustained inflationary pressures, leading central banks to turn hawkish and real interest rates to remain restrictive, dampening economic growth. *Moderate to Low Likelihood*	**Moderating Inflation Brings Monetary Boost** Inflation moderates rapidly, perhaps helped by successful court challenges to tariffs, to levels meaningfully below central bank targets, allowing interest rates to fall, fueling a broad and strong economic acceleration. *Moderate to Low Likelihood*
Economic Hard Landing The cracks in the labor market, consumer spending and real estate mix with falling trade to open into full fissures in the economy and spread to create a full recession. *Moderate to Low Likelihood*	**Growth with Inflation** Central banks accept higher levels of inflation and provide more accommodative policy, preventing a recession but with inflation remaining elevated. *Moderate to Low Likelihood*
Crisis of Confidence Sovereign debt levels, political intransigence and a loss of faith in institutions like central banks drive further fracturing of the global economic system. *Low Likelihood*	
Conflict Expanding Current geopolitical conflicts expand, causing significant disruptions in trade. *Low Likelihood*	

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OUR CURRENT POSITIONING
BY ASSET CLASS

Equities:

While many indices produced strong returns in 2025, it was really a handful of themes that drove performance: European aerospace/defense, banks and, of course, perceived AI winners, such as semiconductor manufacturers and independent power producers. This meant the rest of the equity market lagged significantly. Index concentration has placed more focus on exposure to AI-related companies, but as discussed earlier, the winners of the next phase may well differ from the winners thus far. Therefore, we strive to identify companies whose potential to benefit from AI adoption is underappreciated by the market, while avoiding overly speculative names where enthusiasm has created significant valuation risk. While aiming to maintain a prudent level of exposure to the AI theme, it is also important to remember that there is a wide market of opportunities beyond AI. We continue to look for opportunities across sectors where strong business models, healthy balance sheets and capable management teams can create long-term cash flow growth at valuations that enable strong shareholder returns. Within that vein, some specific areas of focus are:

- **Select International Exposure:** Non-U.S. markets offer far lower valuations than the U.S., often with good reason, as most major equity markets outside of the U.S. suffer from a combination of worse structural economic dynamics and/or a lower quality universe of companies. However, painting with broad strokes leads many investors to overlook potential opportunities. In particular, we still believe the structural reforms taking place in Japan present a tremendous opportunity. We observe steady progress in Japan's efforts to put deflation in the past and to increase corporate management focus on profitability, which is resulting in stronger earnings and rising valuations. We believe a significant runway remains, as these metrics still materially trail other developed markets. We are also finding opportunities in emerging markets, where many of the largest companies within the AI ecosystem reside. That said, we are maintaining a more limited exposure to China, given the country's inconsistent policy environment and the challenges this poses for long-term investors like ourselves.
- **Striking the Right Market Cap Balance:** We have historically been overweight U.S. small caps, based on the inefficiency of the space and the meaningful discount on valuations. Small caps continue to look attractive, as their historical sensitivity to easing monetary policy and increasingly wide valuation discounts suggest a more favorable outlook ahead. However, the space also carries meaningful risks, including greater sensitivity to economic cyclicality, higher debt loads (broadly speaking), less flexible supply chains and a lower capacity to invest in AI. Furthermore, the development of private markets has meant that many fast-growing companies no longer go public at small- or even mid-cap sizes, which has fundamentally changed the nature of the investable universe. Together, these factors have contributed to the significant underperformance of small-cap stocks over the past few years. To help balance these risks, we are focused on higher-quality small- and mid-sized companies that consistently demonstrate higher profitability, lower leverage levels, strong management and resilient business models. Importantly, these companies generally trade at lower valuations than the broader small-cap market, offering a more attractive risk-reward profile and an opportunity for active managers to add value in this relatively inefficient segment. Looking ahead, there are several credible catalysts for improvement over the next year: easing tariff uncertainty, faster earnings growth, rising M&A activity as borrowing costs fall, and further potential declines in interest rates. Small caps' greater domestic revenue exposure could benefit from a stronger U.S. economy, and their discounted valuations may prove overly pessimistic if earnings growth continues the positive trend of the last few quarters. Therefore, we remain committed to maintaining exposure to this area of the market, while acknowledging that elevated risks warrant keeping allocations at a modest size within portfolios.

Fixed Income:

Bond yields faced several crosswinds in 2025 as stubborn inflation, fiscal debt and deficit concerns pressured yields higher, while a slowdown in employment and a more dovish bias from central banks pushed yields lower. Despite some volatility, fixed income generated a solid return of 7.3% (as measured by the Bloomberg U.S. Aggregate Bond Index) on the back of steady yields, tightening credit spreads and a modest decline across the Treasury curve. Notwithstanding that decline, bond yields are still well above inflation expectations, making for a solid return outlook, and should still provide a robust defense in the event of a recession. For tax-paying investors, the longer end of the municipal curve has become particularly attractive, with an elevated supply of issuance keeping yields high. Under its new leadership, the Fed appears likely to continue lowering interest rates in 2026, but, barring a recession, the upside for bonds is likely to be limited by tight corporate credit spreads and oversupply challenges stemming from large deficits among most of the largest government bond issuers. Notably, central banks in Europe are less likely to continue their rate-cutting cycles, and Japan is likely to tighten policy further.

- **Muni Barbell:** Municipal bonds finally started to catch up to the rally in Treasuries towards the end of 2025, but longer-term bonds (beyond 10 years) lagged significantly. Therefore, we favor a barbell exposure, pairing very short-term bonds that keep overall duration in check with 10–20-year bonds that are trading at very attractive yields.
- **Maintaining Intermediate Duration:** While our base case expectations are for continued economic growth and moderating inflation, this is far from certain. An intermediate duration position should help balance capturing some upside potential in the event of a recession while maintaining modest downside protection should inflation reaccelerate. We are keeping our exposure to very long-term bonds relatively light given their sensitivity to deficit and public debt dynamics.
- **Favoring Securitized Credit Over Corporate Credit:** Spreads for corporate credit tightened to multi-decade lows for both investment grade and high yield in 2025. While a major reckoning seems unlikely given continued economic growth and relatively strong balance sheets, the opportunity for returns has clearly diminished. We see this most acutely within high yield credit — where spreads are more sensitive to perceived changes in the economic outlook — and have materially reduced our allocation as a result. Alternatively, spreads in securitized credit, such as residential mortgages and asset-backed securities, are still wide relative to history and exhibit the same strong underlying fundamentals.

Hedge Funds:

Hedge funds produced solid returns in 2025 and demonstrated strong capital preservation, with many strategies serving as a ballast for portfolios during the heightened equity market volatility early in the year. As interest rates continue to fall and the yields on cash decline, hedge funds are an increasingly compelling option for client portfolios. While inflation has moderated meaningfully from its 2022 peak, we expect it to remain more persistent moving forward than it was during the prior two decades. Given inflation's adverse impact on both fixed income and equities, hedged strategies can play a useful role in portfolios, particularly at a time when equity and credit market valuations appear elevated.

- **Equity Long-Short Managers:** 2025 presented a mixed opportunity set for equity long-short managers. Although equity market breadth modestly improved, thematic concentration — particularly within technology and biotech — created an uneven landscape for alpha generation. Specialists in these sectors generally delivered strong absolute and relative returns, benefiting from constructive beta tailwinds and solid stock selection. Conversely, managers operating outside these high-momentum areas faced greater difficulty generating long alpha, even as elevated single-stock dispersion offered a supportive environment for shorting. Moving forward, a more fundamentally driven market environment, with lower correlation among stocks, should provide a tailwind for long-short stock pickers. In addition, many of these managers are at the forefront of AI adoption, incorporating new technologies in their investment processes as a source of edge versus more traditional investors. As always, we are prioritizing partnerships with fee-efficient managers, avoiding strategies with full expense pass-throughs and exorbitantly high fees.

- **Index-Oriented Alpha Strategies:** We continue to see compelling opportunities in portable alpha, alpha extension and tax-loss-harvesting extension strategies as efficient tools for enhancing portfolio construction. These approaches enable investors to maintain passive market exposure while layering on active alpha generation, often improving capital efficiency or tax outcomes relative to traditional allocations. While operationally more complex, these strategies remain particularly well-suited for investors seeking to augment returns within large-cap equity allocations without materially changing their overall risk profile.

Private Markets:

Following several challenging years marked by limited activity and muted distributions, the private equity landscape began to show early signs of recovery in 2025, supported by an uptick in M&A activity and the reopening of the IPO market. Momentum around AI also extended into private markets, with OpenAI, Anthropic and xAI — model and application companies at the center of the AI supply chain — capturing significant attention alongside huge amounts of capital at fast-rising valuations. Investors continue to seek liquidity and are increasingly turning to secondary markets for solutions. On the other hand, investors deploying capital are generally in a favorable position, particularly in venture markets focused outside of AI, given the number of companies seeking equity capital. Meanwhile, the rapid growth of private credit has dominated headlines and provides companies with another funding route, but this has also raised questions about deal quality and the business fundamentals of borrowers as funds compete to deploy capital quickly. Across all segments, we remain disciplined and programmatic in our commitment pacing, partnering intentionally with high-quality managers. While skilled managers are well positioned to take advantage of the compelling opportunities ahead, and we see the supply-demand dynamics tilting in our favor, the backdrop calls for greater selectivity and a heightened focus on deal terms, valuations and return potential.

- **Venture Capital:** Investor appetite in venture markets remains centered on AI and, as with public markets, private market activity in 2025 has become increasingly concentrated among a small number of companies. Although AI-related companies represented just 38% of total deal count through Q3 of 2025, they captured nearly two-thirds of total deal value, underscoring the outsized influence of the AI theme on the venture landscape.[2] This concentration was especially evident in the third quarter of last year, when nine financings of $1 billion or more accounted for almost 40% of the quarter's invested capital.[3] As the development of and use cases for AI continue to evolve, we expect early-stage investments will be an important tool for gaining access to the most innovative AI-forward companies. While we have maintained a bias toward early-stage opportunities through targeted early- and multi-stage managers, we have selectively allocated capital to later-stage managers that provide access to more mature companies. These managers have become increasingly relevant for accessing parts of the AI ecosystem, where high-quality businesses command elevated valuations and require substantial amounts of capital.

- **Lower Middle Market Buyouts:** Buyout market conditions have become more attractive, particularly in the middle and lower middle market, where deals are closing at material discounts to prior peak valuations. Improved financing conditions, including lower interest rates and better access to leverage, have supported increased transaction activity. Our managers remain disciplined and selective, investing at a measured pace and actively preparing exit pipelines as buyer and seller valuation expectations continue to converge. Although exits remain somewhat lumpy, activity has picked up, with several managers completing multiple realizations and positioning additional portfolio companies for exits in 2026. We remain focused on the lower middle market where, in our view, there is more low-hanging fruit for hands-on, operationally-oriented managers to add value. There are also multiple paths to exit from this stage due to the growing amount of capital being raised by mid- and large-cap buyout peers as well as continuation vehicles.

- **Real Estate:** Real estate activity has remained somewhat constrained given elevated interest rates. However, as recent rate cuts are digested by the market and financing costs and cap rates continue to fall, we expect a gradual recovery in transactions. We continue to focus on sectors with durable tailwinds and compelling fundamentals. Our most recent investments in the senior living and self-storage sectors highlight this approach. Senior living benefits from improving operating performance, powerful demographic trends driven by the aging U.S. population and limited new supply after a prolonged pullback in construction. Self-storage offers an attractive cash-flow profile supported by a fragmented tenant base, low CapEx costs and the ability to reprice rents quickly due to short lease durations. Across these opportunities, we partner with vertically integrated teams whose local market expertise and hands-on management can drive meaningful value creation.

- **Private Credit:** Private credit delivered another strong year of returns in 2025, supported by elevated interest rates and resilient economic fundamentals. The asset class has also attracted significant investor attention as capital continues to flow into the space, driven in part by private credit's expanding role as an alternative to traditional bank lending. While rapid asset growth has intensified competition for deals, compressing spreads relative to public debt and raising concerns around capital deployment discipline, these pressures are most evident at the upper end of the market. Our focus remains on the lower and middle markets, where we partner with disciplined and experienced managers who prioritize underwriting rigor and covenant protection. Recent headlines raising concerns about private credit have stemmed from isolated, company-specific underwriting issues rather than a broader deterioration in credit fundamentals. While we continue to monitor key indicators for early signs of stress, we do not believe these defaults reflect systemic weakness in the private credit market and continue to view the absolute and risk-adjusted return profile of private credit as compelling.

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IN **CLOSING**

As we head into 2026, the economic backdrop remains generally supportive for risk assets. Easing monetary policy, resilient balance sheets, solid wage growth and strong productivity growth — including early signs of the benefits of AI — provide reasons for optimism and a potential catalyst for market leadership to broaden.

That said, the investment landscape is more complicated than it has been in years. Elevated valuations, a highly concentrated U.S. equity market, shifting policy dynamics and ongoing geopolitical risks call for a thoughtful and selective approach that prioritizes balance and diversification across asset classes, geographies and even currencies. We are in uncharted territory with respect to markets' concentration in just a handful of companies and a few technology-related themes. Historically, broad market benchmarks have provided diversified exposure across companies and industries; today, they do not.

We expect AI to remain a powerful theme driving markets in 2026, as we move from an era of experimentation to one of implementation. Importantly, we anticipate that an increasing number of companies across a wide range of industries will report efficiency gains from AI adoption. This evolution could lead to a new set of AI winners, apart from the AI infrastructure winners we have seen thus far.

As quality-oriented investors, we are seeing a growing opportunity set to buy great businesses at bargain prices, driven in part by the overwhelming flows into passive strategies and the market's hyper-focus on the potential impacts of AI. We believe 2026 will be a fruitful year for disciplined stock pickers who are able to sort through all the noise and focus on long-term fundamentals.

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1. Wharton Human-AI Research & GBK Collective, 2025 AI Adoption Report, Wharton School of the University of Pennsylvania (October 2025).
2. Pitchbook, as of 09/30/2025.
3. Pitchbook, as of 09/30/2025.

INDICES USED AND DEFINITIONS

The **Bloomberg U.S. Aggregate (Bloomberg US Aggregate Bond Index)** is a broad, flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including U.S. Treasuries, government related and corporate bonds, and securitized sectors such as agency MBS, ABS, and CMBS (agency and non-agency). "Bloomberg®", and the Bloomberg Indices used are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index. Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Brown Advisory. Bloomberg is not affiliated with Brown Advisory, and Bloomberg does not approve, endorse, review, or recommend Brown Advisory strategies. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to Brown Advisory strategies.

The **MSCI ACWI Index** captures large and mid-cap representation across Developed Markets (DM) and Emerging Markets (EM) countries. The Index covers approximately 85% of the global investable equity opportunity set. The **MSCI EAFE Index** is an equity index that captures large- and mid-cap representation across Developed Markets outside the U.S. and Canada, covering approximately 85% of the free float–adjusted market capitalization in each included country. **The MSCI ACWI Quality Index** is a factor index based on the MSCI ACWI that aims to capture the performance of quality growth stocks by selecting stocks with high quality scores driven by three fundamentals: high return on equity (ROE), stable year-over-year earnings growth, and low financial leverage. **The MSCI Japan USD Total Return Index** captures the total return of the Japanese equity market, including reinvested dividends, expressed in U.S. dollars (USD). **The MSCI Asia ex Japan USD Total Return Index** is a benchmark that tracks the performance of large and mid-cap stocks across developed and emerging markets in Asia, excluding Japan. It incorporates reinvested dividends, providing a comprehensive view of the total return of its constituents. This index is widely used by investors to evaluate the performance of Asian equities in USD terms. **The MSCI Europe USD Total Return Index** is a benchmark that measures the performance of large and mid-cap stocks across 15 developed markets in Europe. It includes reinvested dividends, providing a comprehensive view of the total return of the index constituents. This index is widely used by investors to track the performance of European equities in USD terms. **The MSCI Emerging Markets Net Total Return (USD) Index** captures the net total return of the emerging markets, accounting for both price performance and income from dividends, after deducting withholding taxes applicable to non-resident institutional investors. **The MSCI EAFE Quality Index** is a factor index based on the **MSCI EAFE Index** that aims to capture the performance of quality growth stocks, using the same three-variable quality framework: high ROE, stable year-over-year earnings growth, and low financial leverage. MSCI Indexes and products are trademarks and service marks of MSCI or its subsidiaries. MSCI Indexes and products are trademarks and service marks of MSCI or its subsidiaries.

The **S&P 500® Index** represents the large-cap segment of the U.S. equity markets and consists of approximately 500 leading companies in leading industries of the U.S. economy. **The S&P SmallCap® 600** is an equity index that seeks to measure the small-cap segment of the U.S. equity market, designed to track companies that meet specific inclusion criteria to help ensure constituents are liquid and financially viable. The S&P 500® Quality is a factor index that seeks to measure the performance of the top 20% of S&P 500 stocks ranked by a quality score (based equally on return on equity, financial leverage, and balance sheet accruals) and weighted by the product of quality score and market capitalization. **The S&P SmallCap 600® Quality** is a factor index that seeks to measure the performance of the top 20% of S&P SmallCap 600 stocks ranked by a quality score (based equally on return on equity, financial leverage, and balance sheet accruals) and weighted by the product of quality score and market capitalization. These trademarks have been licensed to S&P Dow Jones Indices LLC. S&P, Dow Jones Indices LLC, Dow Jones, S&P and their respective affiliates (collectively "S&P Dow Jones Indices") do not sponsor, endorse, sell, or promote any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices does not have the necessary licenses. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties.

The **Russell 2000® Index** measures the performance of the small-cap segment of the U.S. equity universe. The Index is a subset of the **Russell 3000® Index** representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. **The Russell 2000® Growth Index** measures the performance of the small- cap growth segment of the US equity universe. The Russell Midcap® Index measures the performance of the mid-cap segment of the US equity universe. **The Russell 1000® Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. The index was developed with a base value of 140.00 as of December 31, 1986. **The Russell 2000® Value Index** measures the performance of the small-cap value segment of the U.S. equity market. It's a subset of the broader **Russell 2000 Index**, which tracks 2,000 small-cap companies. **The Russell 1000® Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. **The Russell Midcap Index** is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell ® is a trademark of Frank Russell Company. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes and/or Russell ratings or underlying data and no party may rely on any Russell Indexes and/or Russell ratings and / or underlying data contained in this communication. No further distribution of Russell data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication.

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TERMS AND DEFINITIONS

Asset-Backed Securities (ABS): Bonds backed by pools of consumer or other receivables (e.g., auto loans, credit card receivables).

Alpha: Return attributed to active management or security selection beyond what is explained by broad market exposure.

Alpha Extension: A portfolio structure that seeks to add net long exposure (e.g., via a long/short framework) to enhance return potential without fully changing the core benchmark exposure.

Basis Point (bp): One hundredth of one percent (0.01%). Example: 150 bp = 1.50%.

Beta: Sensitivity of an investment or portfolio to broad market movements (systematic market exposure).

Capitalization Rate (Cap Rate): A real estate valuation metric typically calculated as net operating income divided by property value.

CAPE: A valuation metric that compares the current market price of an equity (or index) to the average of inflation-adjusted earnings over the past 10 years.

Capital Expenditures (CapEx): Corporate spending to acquire, upgrade, or maintain long-term assets (e.g., data centers, equipment).

Correlation: A measure of how closely two return series move together over time.

Credit Spread: The yield difference between a credit instrument and a comparable-duration government bond; often quoted in basis points.

Direct Lending / Private Credit: Privately negotiated loans (often to middle-market companies) made outside public bond markets and traditional banking channels.

Dispersion: The spread between individual security returns; higher dispersion can increase opportunities for security selection.

Duration: A measure of interest-rate sensitivity for bonds; higher duration generally implies greater price sensitivity to rate changes.

Downside Protection: Any feature of an investment, portfolio design, or strategy that aims to reduce losses when markets fall.

Drawdown Risk: The risk that an investment experiences a peak-to-trough decline over some period. It is the percentage drop from a previous high to a subsequent low.

Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA): A measure of a company's operating profitability that excludes financing costs (interest), tax effects, and non-cash accounting charges (depreciation and amortization).

Emerging Markets: Countries with developing economies and capital markets that may exhibit higher volatility and other incremental risks.

Equity Risk Premium: The excess return investors require for equities relative to a "risk-free" rate (often proxied by government bonds).

Forward P/E: Price-to-earnings ratio using forecasted (future) earnings rather than trailing earnings.

Free Cash Flow (FCF): The amount of cash that a company has left after accounting for spending on operations and capital asset maintenance.

Hedge Fund: An investment vehicle/strategy that may use long/short positions, derivatives, and/or leverage to pursue risk-adjusted returns.

Hyperscalers: Very large technology/cloud companies operating massive data center and computing infrastructure at scale.

Index: A statistical measure of market or segment performance. Indices are unmanaged and cannot be invested in directly.

Investment Grade / High Yield: Broad credit quality categories for bonds (investment grade typically higher credit quality; high yield typically lower credit quality and higher default risk).

K-Shaped Economy/Recovery: A dynamic where different segments of the population or economy experience divergent outcomes (some improving while others stagnate or weaken).

Leverage: The use of borrowing or derivatives to increase exposure; can amplify gains and losses.

Long/Short Equity: A strategy that holds long positions in expected outperformers and short positions in expected underperformers.

Net Debt: Measures a company's total interest-bearing debt net of its cash and cash equivalents.

Net Debt to EBITDA: A leverage ratio that compares a company's net debt to its EBITDA.

Portable Alpha: Maintaining broad market (index) exposure while adding a separate, potentially uncorrelated alpha source (often implemented with overlays/derivatives).

Prepayment Risk / Extension Risk: In securitized credit, the risk cash flows return faster (prepayment) or slower (extension) than expected, affecting returns and duration.

Real Interest Rate: An interest rate adjusted for inflation (often approximated as nominal rate minus inflation expectations).

Residential Mortgage-Backed Securities (RMBS): Bonds backed by pools of residential mortgage loans.

Return on Invested Capital (ROIC): A profitability metric measuring after-tax operating profit relative to the capital invested in a business.

Secondary Market (Private Markets): The market for buying/selling existing interests in private funds or private companies (often used to seek liquidity).

Standard Deviation: A statistical measure of variability; higher standard deviation typically implies higher volatility.

Tax-Loss Harvesting (TLH): Realizing investment losses to potentially offset realized gains and/or reduce taxable income, subject to applicable tax rules.

Token: A unit of text processed by a language model; token volume is sometimes used as a proxy for AI usage.

Upside Potential: The capacity for an investment to generate positive returns, often referring to the magnitude of gains possible if outcomes are favorable.

Volatility: The variability of returns, typically measured as the standard deviation of returns (daily, monthly, annual), often annualized.

Venture Capital (VC): Private equity investing focused on earlier-stage, high-growth companies.

Yield Curve: The relationship between interest rates (yields) and maturities for bonds (e.g., 2-year vs. 10-year government yields).

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