Volume 2021 Issue 1

First Quarter Review
March 2021

Arcataur Capital Management LLC
A Registered Investment Advisor

High Quality Investment Management
For Individuals and Institutions

Arcataur Capital Management LLC
826 N. Plankinton,
Suite 300
Milwaukee, WI 53203
414.225.8200

Ignatius L. Smetek - President
ISmetek@arcataur.com
414-225-8201

William C. Weber -Vice President
WWeber@arcataur.com
414-225-8207

Martin A. Moser -Vice President
MMoser@arcataur.com
414-225-8206

Jill M. Grueninger - Vice President
JGrueninger@arcataur.com
414-225-8203

Michael P. Johnson -Vice President
MJohnson@arcataur.com
414-225-8207

Scott Turza - Investment Associate
STurza@arcataur.com
414-225-8204

Helmut W. Hampel - Vice President
HHampel@arcataur.com
414-225-8205

Nancy M. Smetek - Vice President
NSmetek@arcataur.com
414-225-8202

William Hemp - Operations Associate
WHemp@arcataur.com
414-214-1057

Inside This Issue:

First Quarter Equity Markets: *Economic Snapback on the Horizon - Party Like it's 1999 or 1994?* 1

First Quarter Fixed Income Markets: Rise in Long-Term Yields Provides a Welcome Opportunity 3

Second Quarter 2021 Investment Outlook 4

Investment Impact of a Rising Interest Rate Environment 4

Arcataur Composite Investment Performance 5

A Balanced Approach

Economic Snapback on the Horizon - Party Like it's 1999 or 1994?

U.S. economic activity is accelerating as vaccinations rise and social distancing measures ease. However, the timing and duration of the recovery may face obstacles, as global vaccine rollouts are proceeding at a more variable pace. Stock prices are rising, and bond prices are falling as longer-term interest rates rise, reflecting investor expectation of stronger economic growth.

Regional social distancing requirements are easing and should increase mobility and a broader reopening of the economy. There is significant pent-up demand for travel, leisure, and entertainment, and consumers have money available to spend given the large build up in savings. Employment trends may impact how aggressively this spending will unfold. A rebound in services versus purchased goods could create an uneven or lumpy recovery trajectory.

Personal savings rates spiked above 20% after three government stimulus plans provided direct cash payments to individuals. Statistics show that a majority of these direct cash payments made to employed individuals were either saved or used to pay down debt. Purchases of houses and durable goods have reached pre-pandemic levels, which in turn has pushed manufacturing and purchasing indices to their highest levels since late 2018. This renewed demand has also fanned the flames of inflation, leading to surging materials cost, rising end-product prices, and record residential real estate costs. Recent supply chain disruptions may unleash additional inflationary pressure.

Stock prices, while incrementally more volatile of late, remain at or near all-time high levels. The rapid rise in longer-term U.S. Treasury yields in February created a 5% correction in stock prices, while the previous market leading technology stocks have lagged as markets rotated toward smaller and more economically sensitive companies. This type of rotation is normal coming out of recessionary periods, especially following the concentrated outperformance of the larger technology companies that benefited from the economic shut-down in the first nine months of 2020.

The rise in longer-term bond yields has produced negative total returns for fixed income investors as illustrated by the Bloomberg Barclays Aggregate Bond Index declining 3.35% in the first quarter. Real interest rates (adjusted for inflation) improved dramatically, but remain negative. Rising real yields reflect optimism about the economic recovery. The scientific response to COVID and massive fiscal stimulus are driving investors to expect a move to more normal interest rate levels over time.

Short-term interest rates are expected to remain near zero for the foreseeable future based upon the Federal Reserve's comments. A significant improvement toward full-employment (unemployment below 4% nationally) or an aggressive rise in inflation will be required before the Fed would consider changing its position.

In the coming quarters, fiscal and monetary policies are uniquely aligned to provide the economy with the largest boost to growth witnessed in decades. Risks to this booming growth include inflationary pressures which may increase intermediate and long-term interest rates, rising tax rates, and ballooning budget deficits. Investors and financial markets typically look six to eighteen months forward when evaluating opportunities and risks. The current dilemma for investors is determining if a sustainable and multi-year recovery is possible, similar to coming out of the 1993 recession, or if the current recovery is a brief respite from larger challenges to come, similar to the new millennium technology blowoff 21 years ago.

The pace of GDP growth is expected to accelerate in coming quarters when compared to the swift and significant GDP declines of the second and third quarters of 2020. Employment gains reported for March were significantly higher than expected and at the fastest pace since August, signaling a strong rebound. Unemployment fell to 6.0% with hiring gains evident in the most impacted segments (restaurants and hotels) of the economy.

Consumer confidence indicators continue to rise. Easter and spring travel is expected to produce the highest volume numbers in the last 12 months, but still significantly below 2019 levels. The pent up demand for the most impacted areas of the economy (airlines, hotels, vacations, live events, restaurants and other gathering places) will benefit when the public has confidence to move and gather again, most likely during the summer of 2021. Still, a complete recovery is not expected until 2022.

The pandemic pushed the U.S. economy and financial markets to perhaps the largest and swiftest boom to bust to boom reaction in history. As sentiment shifted later in the year, investor optimism increased. Previously lagging economically sensitive and broader market stocks (domestic mid and small capitalization, along with emerging market) assumed leadership over the last seven months.

Economic Snapback on the Horizon - Party Like it's 1999 or 1994? (cont.)

Globally, the rest of the world had a month or two head start versus North America in dealing with the virus, with economic trends in Asia initially indicating normalization and growth. However, the slower rollout of the vaccine versus the U.S. and the UK increases the risk in the rest of Europe and China of a delay in normalization. U.S. stock prices currently reflect optimism for the recovery and valuations appear to be elevated. Expectations for 2021 corporate profits continue to rise, but the unique aspect of recovering from a pandemic makes it difficult to handicap whether earnings estimates are currently aggressive or conservative.

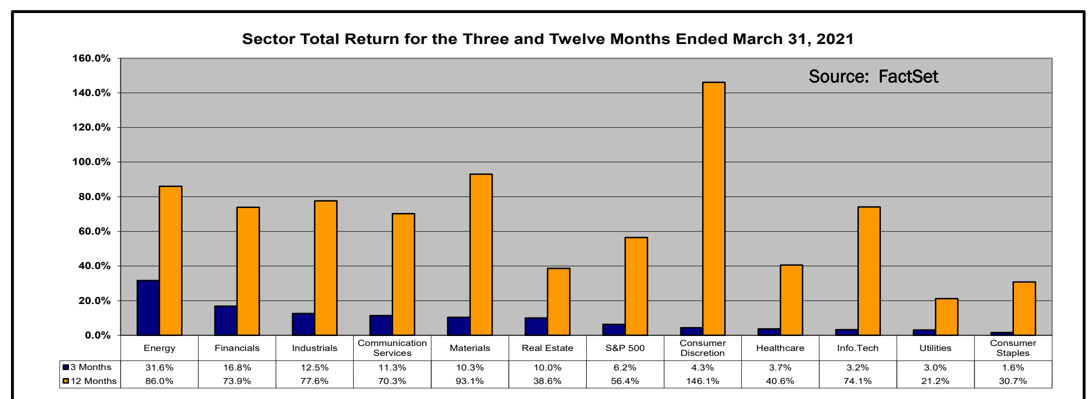
The political adage of not letting a crisis go to waste is being reflected in the first 100 days of the Biden Administration and effective control of Congress by the Democratic Party. While President Biden campaigned on unity and compromise, the aggressive fiscal spending plans ($1.9 trillion stimulus approved along party lines and the proposed $2 trillion infrastructure) and more recently the tax increase plan complicates the cost/benefit determination for the country and the lasting economic impact. Investors have taken these moves in stride initially, as financing these massive initiatives is reasonable at current or lower interest rates. Debt service on record national deficits at low interest rates is affordable currently, but increases the potential risk in a rising interest rate environment.

The timing and final details of the tax increases will be a focus for investors. The proposed structure during the campaign, which resembles the recent announcement by the President, is estimated to reduce corporate profits annually by 5-7%, but up to 10% for international-oriented companies. The magnitude of the earnings impact could force investors to reevaluate valuations with stocks at all-time high price levels. The timing and magnitude will become clearer in the coming quarters and will have a direct impact on the longevity of the economic and stock market recovery.

Oil prices have recovered to pre-pandemic levels above $60 per barrel. The response by producers, including OPEC, in initially reducing production and now paired with improving economic activity, has supported the improvement in global energy markets. The automotive industry continues to advance electric power and autonomous vehicle development. Investors have begun to discount this impact to the energy sector, in part because the potential effect is expected to be glacial based upon current technology and cost differential. The climate change discussion could incentivize more resources toward breakthrough developments. In the near-term, an expected and dramatic recovery in travel and the potential developments relating to Iran could allow oil prices to approach a five-year high of $75 per barrel. The recent announcements from OPEC to gradually increase production and Iran's agreement to return to the negotiating table with the U.S. may escalate oil price volatility in the coming months.

For the quarter, the S&P 500 (total return) was up 6.2%, and the Dow Jones Industrial Average rose by 8.5%. The technology-heavy NASDAQ Composite lagged, up 3.0% in the quarter, as investors rotated away from the well-capitalized technology mega-cap companies in favor of more economically sensitive and smaller companies poised to benefit from a normalizing economy. The S&P 600 Small Cap Index rose by 18.2% and the S&P 400 Mid–Cap was up 13.5%. Developed international markets rose by 3.5% and emerging markets were up by 3.2% for the quarter.

All eleven industry sectors rose for the second consecutive quarter, with the leading (energy, financials and industrial) sectors benefiting from the reopening of the economy and rising interest rates. The technology and more defensive (consumer staples, utilities and healthcare) sectors lagged in the quarter. The early 2020 concentration effect of the large mega-cap technology companies has been reversing over the last six months, but the technology sector remains one of the strongest performing sectors on a twelve month basis. The chart below illustrates how all the sectors performed in the quarter and for the trailing twelve months.



	Energy	Financials	Industrials	Communication Services	Materials	Real Estate	S&P 500	Consumer Discretion	Healthcare	Info.Tech	Utilities	Consumer Staples
3 Months	31.6%	16.8%	12.5%	11.3%	10.3%	10.0%	6.2%	4.3%	3.7%	3.2%	3.0%	1.6%
12 Months	86.0%	73.9%	77.6%	70.3%	93.1%	38.6%	56.4%	146.1%	40.6%	74.1%	21.2%	30.7%

Arcataur Capital Management LLC

826 N. Plankinton Ave.,

Suite 300

Milwaukee, Wisconsin 53203

414.225.8200

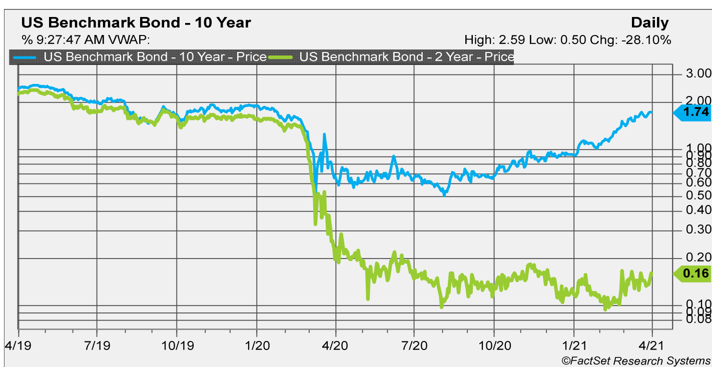
Arcataur Large Capitalization Equity Portfolio - This portfolio offers investors a separately managed account consisting of high quality, blue chip stocks. Our strategy focuses on maximizing expected return through constructing diverse portfolios covering most major industry sectors. On average, this portfolio could hold 65 stocks; however, the largest 15 could account for as much as 45% of the portfolio.

Arcataur Investment Grade Fixed Income Portfolio - This portfolio offers investors a separately managed account focusing on Treasuries, Agencies, corporate bonds and municipal bonds, with an average portfolio credit rating of A or better. Our approach is to actively manage interest rate risk and credit risk while minimizing liquidity risk to generate conservative risk-adjusted total return.

Arcataur Managed Balance Portfolio - This portfolio offers investors a separately managed account which seeks to preserve capital during difficult market periods while allowing growth opportunity in good market conditions. Arcataur has developed a model that assists us in determining the relative attractiveness of stocks versus bonds. When our models and fundamental analysis indicate stocks are more attractive, we will be near our upper end of the range for stocks (75%). Conversely, when bonds are favored, we will be near the lower end of the stated range for stocks (45%).

Rise in Long-Term Yields Provides a Welcome Opportunity

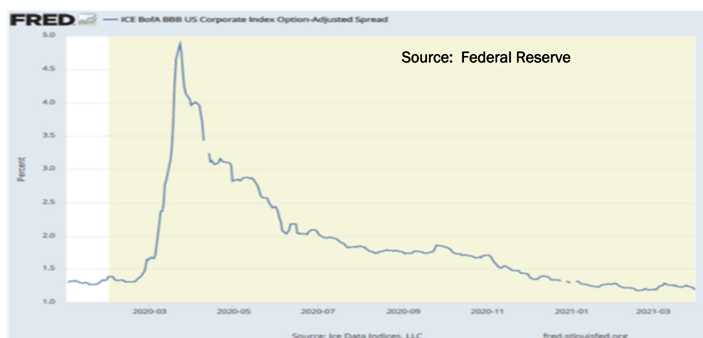
U.S. Treasury Bond yields continued to be a mixed bag throughout the first quarter of 2021. While the short end of the yield curve remained anchored near zero percent, the longer end of the yield curve continued its ascent off of the historic lows seen in August of 2020, when the 10-year Treasury bond yielded 0.51%. The 10-year Treasury yield nearly doubled during the quarter, beginning the year at 0.92% and ending the quarter at 1.74%, as it maintained a steady upward swing throughout the quarter. The 2-year Treasury yield followed a different path, as it trended lower during the first half of the quarter, then proceeded to rise thereafter, but ended up just 0.04% during the quarter, rising from 0.12% at the start of the year to 0.16% at quarter-end. With the 10-year Treasury bond yield climbing upward (bond prices decline), we have found opportunities to re-enter the bond market at more attractive entry points compared with the ultra-low rates offered nine months ago.



Since the beginning of the pandemic, all eyes have been on the Federal Reserve and Chairman Jerome Powell. The Fed's swift and aggressive response to the pandemic which injected much needed liquidity into the market by reducing the Federal Funds rate to a range of 0.0 – 0.25%, along with its asset-purchase program and other actions, has spurred stocks to rally from their March 2020 lows. Even though the economy has generally recovered, the Fed is not taking its foot off the gas pedal. In the most recent Federal Open Markets Committee (FOMC) meeting, the Fed maintained its stance on keeping the Federal Funds rate near 0% and does not anticipate hiking rates until late 2023 or 2024. In addition, the FOMC projected a 3.5% unemployment rate and a 2.1% core Personal Consumption Expenditures (PCE) inflation rate by the end of 2023. While this was more of a moderate stance than what investors were expecting, it still shows the Fed's commitment to stimulative policy until unemployment and inflation consistently exceed its targets.

While the 10-year U.S. Treasury bond yield moved significantly to the upside throughout the first quarter, the same cannot be said for the 10-year Euro bond and the 10-year Japanese bond yields. While both of these bond yields improved, they still remain at ultra-low levels. The 10-year Japanese bond remains near zero percent as it ended the quarter at 0.10%, up from 0.02% at the start, while the 10-year Euro bond yield remains negative, at -0.30%, but much better than the beginning of the year where it was -0.58%. This yield differential continues to attract foreign investors to the U.S. where yields remain positive on a nominal basis, versus the rest of the world where nominal negative interest rates continue to prevail.

After credit spreads (premium over government yields) significantly narrowed after the sharp rise at the onset of Covid-19, they are back down and close to historical pre-pandemic low levels. For the last six months, the rise in longer Treasury bond yields has led to improved yields on corporate bonds as well, but the fall in credit spreads has muted some of that benefit. It is not unusual for credit spreads to decline as the economy rebounds after a recession, and as illustrated by the chart below, this time is no different. With the swift action of unprecedented monetary and fiscal stimulus by the Fed and government last spring, credit defaults were dramatically reduced in 2020. The current stabilization in spreads is likely to continue at historically low levels, as corporate balance sheets are in better shape than feared at the onset of the pandemic. A continued increase in Treasury yields or a rise in credit spreads (investors requiring a higher premium for credit risk) would further improve new bond investment opportunities. While Treasury yields are still unattractive relative to inflation, yields on corporate bonds provide the potential for positive real returns for investors and allowed selective purchases of corporate bonds for clients this quarter.



For our established and seasoned fixed income client portfolios, we are incorporating slightly longer duration bonds (7 to 10-year maturities), as interest rates on the long end of the curve continue to rise relative to shorter-term rates. For our newer fixed income clients, we are also incorporating longer duration bonds to portfolios, but are continuing to be patient and prudent in our investment decisions as we establish the portfolios. With interest rates still at low levels, it remains important to be disciplined in our investment strategy. The overall quality rating of the fixed income portfolio is mid-single A. Aggregate weighted average duration remains short and liquidity is sufficient to take advantage of opportunities that arise.

Second Quarter 2021 Investment Outlook

Expectations for economic growth have ratcheted up as the availability of the vaccine has quickly expanded in the U.S. This has fueled the rise in stock prices and longer-term interest rates (bond prices falling). 2021 could be the fastest growth in U.S. GDP since 1984. While lockdowns and Covid-19 restrictions hit many countries last year in a similar fashion, early evidence shows that the exit from the pandemic globally could vary greatly.

The U.S. and other developed countries, along with some export-driven economies, are already experiencing the early fruits of successful vaccine campaigns and resurgent growth. The double-barreled impact of a swift rollout of the vaccine and significantly larger fiscal stimulus puts the U.S. on a trajectory for unparalleled growth globally.

For the American economy and financial markets, this appears to be a fortuitous position near term. However, the risk of an overheating domestic economy is on the rise. The experience from 2018, where the domestic economy was performing well while the rest of the world stagnated, was a lesson for Fed Chairman Powell who continued to increase interest rates based entirely on the strength of the domestic economy. Stocks subsequently corrected 20% in the 4th quarter of 2018 as investors feared the Fed was making a policy mistake by ignoring the weakness abroad.

The Fed quickly reversed direction in early 2019, which allowed stocks to recover and interest rates to decline significantly. As a result, this has instructed the Fed's current stance to allow inflation to run hotter and longer than normal before they will consider a shift in their zero interest rate target for the overnight Federal Funds rate.

Market-implied inflation expectations have moved substantially higher in recent months amidst a debate among economists and policymakers about the risk that the economy could seriously overheat and inflation could rise well beyond the 2% level that Fed officials are targeting.

These bifurcated forces—potential lagging global growth and rising inflation with an overheating domestic economy—make economic and financial forecasting for the next 24 months extremely difficult. Investors have started to consider the ramifications of this possible outcome.

The opportunity and risk for investors today lie in the concepts of time and magnitude. The U.S. economy may be approaching the third inning of the recovery, and the global economy could be facing a rain delay; however, the stock market has already priced in a significant recovery in 2021. The sustainability of the domestic recovery into 2022 and beyond is yet to be determined, but will drive stock market performance, along with inflation, interest rate trends, global growth, and corporate profitability.

Stock valuations are most difficult to evaluate during periods of recovery from a recession. This time it is magnified by the added challenge of recovering from a global pandemic. Using the S&P 500, the current consensus corporate profit estimates are for a rise of more than 26% in 2021, and an additional rise of 15% in 2022. At current prices, this would equate to a price-earnings ratio of 23 times for 2021 and 20 times for 2022. With inflation currently below 2%, these valuations are elevated, but not excessive. Any significant modifications of inflation expectations and corporate profits could change the equation.

The broadening of the market over the last seven months benefited appropriately diversified portfolios substantially which most impacted the Direct Large Capitalization Stocks and the Small and Mid-Capitalization Domestic Stocks portion of the portfolio. Total stock exposure remains slightly above average for our clients' equity ranges and somewhat reflects the less attractive valuation in new fixed income opportunities.

Experience and patience with new fixed income investments were rewarded in the first quarter. Valuations for new bond investments incrementally improved, and allowed us to add bond exposure for the first time in nearly ten months. Assuming the recent trends of higher longer-term bond yields (lower bond prices) continue, our investment team would expect improved opportunities to buy new bonds for clients. We remain committed to a disciplined investment approach.

Investment Impact of a Rising Interest Rate Environment

Bond yields have started to rise this year as the economy continues to recover. As bond yields increase, existing bond prices fall. The coupon payment and yield earned at the time of purchasing the bond remain the same over the life of the bond if held to maturity. For example, the U.S. 10-year Treasury bond issued in November 2020 (maturing in 2030) was priced with a yield/coupon of 0.875%, so it will pay out about $9 per year over 10 years for each $1000 bond. Currently, the 10-year Treasury bond yields near 1.70%. Owners of the 0.875% bond will still be getting the $9/year, but if they needed to sell the $1000 bond today, it would be worth $927, down 7.3% since November 2020. If the bond is held until maturity, they receive the original $1000 amount back. If interest rates would have fallen, the opposite would have happened, as the price of the bond would have risen. With interest rates falling dramatically at the onset of the pandemic and the Fed providing significant support for the bond market, these actions made new bond purchases at historically low interest rates extremely unattractive. Staying patient and liquid have been rewarded, as investment opportunities have improved with interest rates beginning to normalize. Bonds provide diversification and longer-term stability for portfolios. Recent yield levels have provided the best opportunities for new bond investments in the last ten months. If interest rates continue to rise, incremental opportunities to purchase bonds seem likely. When constructing bond portfolios, we continue to focus on quality and diversification, while being mindful of maturity, industry sector, and security type exposure to create a long-term balance for clients' portfolios. While these fluctuations in interest rates have affected the bond market, they also have a significant impact in the stock market. Higher rates give investors better returns in assets that are safer and provide a lower volatility of returns relative to stocks. Fundamentally, the valuation of any company's stock is the current value of future cash flows and dividends that each shareholder owns. Higher interest rates mean investors will lower the value (or discount) of the stream of future cash flows more as they can now lock in a higher interest rate on bonds. Historically, stock valuations decline as interest rates rise. In addition, it also can create an environment where value oriented and higher dividend stocks perform better versus higher priced growth stocks. With the recent rise in longer-term interest rates, the rotation from growth to value stocks has begun and this trend could continue if rates continue to rise. Client portfolios remain well diversified across market capitalization, growth and value stocks, market sectors, and geographies. The recent broadening of the market has rewarded this prudent long-term diversification. For those interested in a deeper understanding of bond investing, the Bond Basics piece located in the Client Resources section of Arcataur.com includes more detailed illustrations and information on the unique inverse relationship of bond prices and interest rates.

Arcataur Composite Investment Performance for the 3 Months, 12 Months, 3 Years and 5 Years Ended March 31, 2021

Arcataur Composite Portfolio	Total Return 3 months 3/31/2021	12 months	3 yr. annualized	5 yr. annualized
Large Cap Direct Stock Equity	9.16%	64.15%	17.38%	16.20%
Large Cap Equity ETF	5.96%	56.15%	16.70%	16.11%
Benchmarks				
Lipper Large Cap Core	6.40%	54.50%	15.40%	15.10%
Dow Jones Industrial Average	8.45%	53.60%	13.40%	15.85%
S&P 500	6.17%	56.35%	16.77%	16.30%
S&P 100	5.11%	53.94%	17.91%	16.73%

Arcataur Composite Portfolio	Total Return 3 months 3/31/2021	12 months	3 yr. annualized	5 yr. annualized
Fixed Income	-0.74%	6.50%	4.02%	2.88%
Benchmarks				
Bloomberg Barclays 1-5 (T/G/C)	-0.54%	1.93%	3.67%	2.33%
Bloomberg Barclays 1-3 (T/G/C)	-0.02%	1.59%	3.04%	2.01%
Lipper Bond MF Avg.	-1.00%	10.50%	2.70%	3.80%

Arcataur Composite Portfolio	Total Return 3 months 3/31/2021	12 months	3 yr. annualized	5 yr. annualized
Managed Balance	5.89%	41.70%	10.98%	10.75%
Benchmark				
Lipper Balanced	3.20%	33.90%	6.20%	9.20%
60/40 Custom Index	5.29%	35.74%	10.06%	10.24%

Arcataur Composite Portfolio	Total Return 3 months 3/31/2021	12 months	3 yr. annualized	5 yr. annualized
Small Cap Equity	17.70%	95.66%	13.38%	15.13%
Mid-Cap Equity	12.56%	82.01%	12.95%	13.91%
Total Equity*	9.06%	66.03%	14.60%	15.00%
Benchmarks				
Lipper Small Cap Core	15.90%	89.10%	11.40%	13.00%
S&P 600	18.24%	95.33%	13.71%	15.60%
Lipper Mid-Cap Core	11.00%	70.70%	11.70%	12.10%
S&P 400	13.47%	83.46%	13.40%	14.37%

Arcataur Composite Portfolio	Total Return 3 months 3/31/2021	12 months	3 yr. annualized	5 yr. annualized
Developed International Equity	4.16%	47.64%	5.83%	8.78%
Emerging International Equity	3.72%	57.55%	5.73%	11.06%
Total Equity*	9.06%	66.03%	14.60%	15.00%
Benchmarks				
EAFE	3.48%	44.57%	6.02%	8.85%
MSCI Emerging Market Index	3.23%	58.82%	5.68%	11.59%

*Total Equity is not an actual composite portfolio; rather, Total Equity represents a weighted average return of the Large Cap, Mid-Cap, Small Cap and International composites, and is only shown as an indication of potential overall equity performance. Total Equity does not represent any actual portfolio because it is made up of a weighted average return of all equity classes. Please review complete disclosure information below.

Appendix: Disclosure Information Regarding Composite Performance

General

Arcataur Capital Management LLC is an investment advisor. Arcataur has prepared this report. The information in this report has been developed internally and/or obtained from sources which Arcataur believes are reliable; however, Arcataur does not guarantee the accuracy, adequacy or completeness of such information nor do we guarantee the appropriateness of any strategy referred to for any particular investor. Index information has been taken from public sources. Past performance is not indicative of future results, as investment returns will vary from time to time depending upon market conditions and the composition of the composite portfolio. Returns for individual investors will vary based on factors such as the account type, market value, cash flows and fees.

Calculation Methodology

The composites reflect dollar-weighted returns of individual accounts. Arcataur composites may include some discounted or non-fee-paying accounts, which could cause the net return to be higher than it would be otherwise. Arcataur uses the time-weighted internal rate of return formula (i.e., returns that include reinvested dividends and other income) to calculate performance for the accounts included in the composite. Individual account returns are calculated on a time-weighted basis, linked daily, and include reinvestment of dividends and other such earnings. Total return (return) is defined as the percentage change in market value (including interest and dividend income) adjusted for any client-directed cash flows. A time-weighted, daily-linked method is used to calculate composite calendar quarter, annual, cumulative and annualized returns. No leverage or derivatives have been used. Cash is not included in the performance calculations for the Arcataur Large Capitalization Equity Portfolio Composite or the Arcataur Investment Grade Fixed Income Composite; Arcataur also does not allocate cash in the Arcataur Managed Balance Portfolio Composite to the equity or fixed income components when calculating performance for those components. Cash is, however, included in the overall performance calculation for the Arcataur Managed Balance Portfolio Composite.

Composites

Mutual fund holdings are not included in composite results. Exchange traded funds (ETFs) are included in composite results. Mutual fund holdings typically are “unmanaged assets” and, therefore, are not included in composite results. Exchange traded funds are designated as “managed assets” and, therefore, are included in the composite results.
The Arcataur Large Capitalization Equity Composite consists of portions of all client accounts invested in accordance with the Arcataur Large Capitalization Equity Portfolio strategy (including ETFs). The Arcataur Small & Mid-Capitalization Equity Composites consist of portions of all client accounts invested in small & mid-capitalization equity securities (including ETFs). The Arcataur International Equity Composite consists of portions of all client accounts invested in international securities (including ETFs). The Arcataur Investment Grade Fixed Income Composite consists of portions of all client accounts invested in accordance with the Arcataur Investment Grade Fixed Income strategy. The Arcataur Managed Balance Composite consists of portions of all client accounts invested in accordance with the Arcataur Managed Balance strategy.

Appendix: Disclosure Information Regarding Composite Performance (cont.)

Fees

The Composite performance figures shown above, are "net" of advisory fees based upon a standard client fee paid during the period including any brokerage fees or commissions that have been incurred within the account. Because the actual management fee paid by an individual client may have been higher or lower, the client's net return may have been higher or lower. The Arcataur Managed Balance composite is based on actual fees paid and may include some discounted or non-fee-paying accounts. The S&P 500® Index, S&P 100® Index, DJIA®, S&P 600® Index, the EAFE® index, the Bloomberg Barclays Investment Grade Index Treasury/Government/Credit (T/G/C) 1-5 Years, and the Bloomberg Barclays Investment Grade Index Treasury/Government/Credit (T/G/C) 1-3 Years returns do not include any fees; the Lipper Large Cap Core, Small Cap Core, Balanced Fund and Bond Fund Averages are net of fees.

Indices and Benchmark Funds

The Indices and Benchmark Funds are referred to for comparative purposes only and are not necessarily intended to parallel the risk or investment approach of the accounts included in the composites. Arcataur believes that the Indices and Benchmark Funds selected for comparative purposes are appropriate measures given the investment approach. However, the investment portfolios underlying the indices are different from the investment portfolios managed by Arcataur. The Indices and Benchmark Funds shown are unmanaged, and investors are not able to invest directly in them. The Indices and Benchmark Funds are considered to be generally representative, in terms of risk and exposure, of the various components as follows:
Arcataur Large Capitalization Equity Portfolio - the S&P 500® Index, the S&P 100® Index, DJIA®, and Lipper Large-Cap Core Average

Arcataur Investment Grade Fixed Income Portfolio –the Bloomberg Barclays Investment Grade Index (T/G/C) 1-5 Years and the Bloomberg Barclays Investment Grade Index (T/G/C) 1-3 Years and the Lipper Bond Mutual Fund Average.

Arcataur Managed Balance Portfolio - Lipper Balanced Fund Average and 60/40 custom total return index which includes: Equities (30% S&P 500, 30% DJIA, 15% S&P 400, 10% S&P 600, 10% EAFE, 5% MSCI-EM), & Bonds (Custom Bond Index consisting of 50% Bloomberg Barclays (T/G/C) 1-5 and 50% Bloomberg Barclays (T/G/C) 1-3).

If a client's portfolio contains small-cap exposure, the small cap performance is measured against the S&P 600® Index and Lipper Small Cap Core Average. If a client's portfolio contains mid-cap exposure, the mid-cap performance is measured against the S&P 400® Index and Lipper Mid-Cap Core Average. If a client's portfolio contains international exposure, the performance is measured against the EAFE index. If a client's portfolio contains emerging market exposure, the performance is measured against the MSCI Emerging Market Index.

With the exception of the Lipper Balanced Fund Average, the Lipper Large Cap Core Average, the Lipper Bond Mutual Fund Average, the Lipper Small Cap Core Average, and the Lipper Mid-Cap Core Average, indices and benchmark funds shown reflect the reinvestment of dividends and other earnings, but do not include transaction costs, management fees or other expenses of investing.

The S&P 500 & S&P 100 are indices of Large-Cap domestic core companies as produced by Standard and Poor's, while the DJIA is produced by Dow Jones. The S&P 400 and S&P 600 are indices of Mid-Cap and Small Cap domestic core companies, respectively as produced by Standard and Poor's. The MSCI EAFE (Europe, Australasia and Far East) Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. MSCI Emerging Markets ETF is an index composed of large- and mid-capitalization emerging market equities. Both are maintained by MSCI Barra.

Lipper, Inc., a subsidiary of Refinitiv (formerly Thomson Reuters), provides mutual fund comparisons for similar investment profiles. The Lipper Large Cap core universe of mutual funds represents large-cap blend discipline of domestic companies compiled by Lipper, Inc. The Lipper Small Cap core universe of mutual funds represents small-cap blend discipline of domestic companies compiled by Lipper, Inc. The Lipper Mid-Cap core universe of mutual funds represents mid-cap blend discipline of domestic companies compiled by Lipper, Inc. The Lipper Balanced Fund universe of mutual funds represents funds that include multi-assets including stocks and bonds compiled by Lipper, Inc. The Lipper taxable bond universe of mutual funds represents funds that include investment grade taxable domestic bonds compiled by Lipper, Inc.

This Newsletter is for informational purposes only, and is meant for one-on-one discussions between Arcataur Capital Management LLC and its clients and prospects. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this Newsletter will come to pass. Investors should not rely solely on the information contained in this Newsletter in making an investment decision, nor is the information in this Newsletter intended to be personalized investment advice. Investors should consult with their own investment advisers regarding their individual investment programs. Even though Arcataur Capital Management LLC uses its best efforts to compile its data from reliable sources, Arcataur does not warrant the accuracy, completeness or timeliness of any of the information it provides. The material in this Newsletter may include forward looking statements based on Arcataur's experience and expectations about the securities markets and the methods by which Arcataur expects to invest in those markets. Arcataur disclaims any intent or obligation to update these statements. The forward looking statements are not guarantees of future performance and are subject to many risks, uncertainties and assumptions that are difficult to predict. Moreover, there is no assurance that any projections, predictions, forward-looking statements or forecasts of investment performance will be realized. Prospective clients should carefully consider those risks, in addition to other information, before deciding whether to invest in securities. Actual investment returns could differ materially and adversely from those expressed or implied in any forward looking statements. Prospective clients must conduct their own investigations of the merits and risks of an investment in securities.

Copyright © 2021, Arcataur Capital Management LLC. All rights reserved. This material is proprietary and may not be reproduced, transferred or distributed in any form without prior written permission.