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Your policy asset allocation

Spanning investment time horizons from 0 to 25 years in the future

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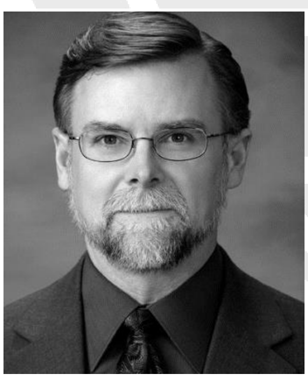

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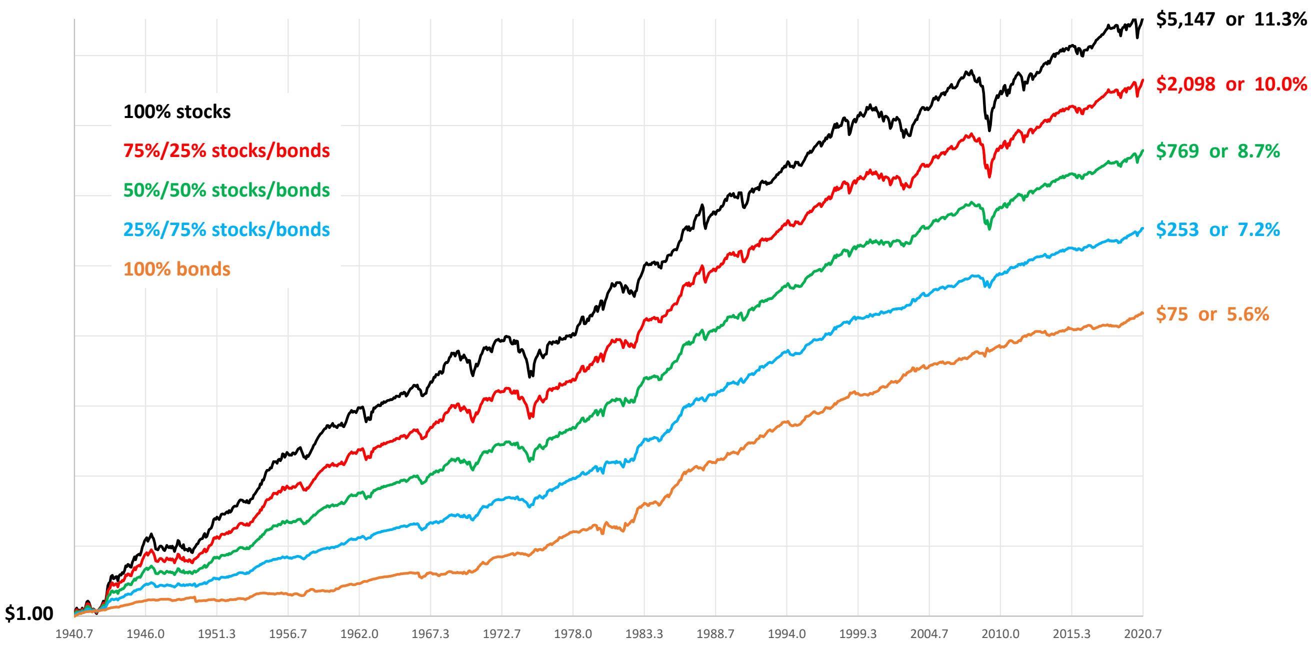
1. Concept of your policy asset allocation

Your policy asset allocation is the average percentage mix of stocks and bonds that your account will experience during its investment life. For example, if you have a very long investment time horizon, perhaps more than 20 years, then a prudent asset allocation might be 100% stocks and 0% bonds. In contrast, if you have a short investment time horizon, say eight, nine, or ten years, you might adopt a more conservative asset mix consisting of 25% stocks and 75% bonds.

It is important to keep in mind; your policy asset allocation is only the average asset mix you experience over the investment life of your account. It may be appropriate to temporarily deviate away from your policy stock/bond mix for short periods of time. However, such deviations should avoid "market-timing" based on subjective human guesses about what the future will bring.

The following graph and table show how different policy asset allocations performed over the last 80 years[1].



	Last 20 years		Last 40 years		Last 60 years		Last 80 years	
	Return per year in %	Worst ever, 12-month period in %	Return per year in %	Worst ever, 12-month period in %	Return per year in %	Worst ever, 12-month period in %	Return per year in %	Worst ever, 12-month period in %
100% stocks (use for years 21 and greater)	6.6	-50.4	10.3	-50.4	10.1	-50.4	11.3	-50.4
75%/25% stocks/bonds (use for years 16-20)	6.7	-40.2	9.9	-40.2	9.5	-40.2	10.0	-40.2
50%/50% stocks/bonds (use for years 11-15)	6.6	-28.5	9.4	-28.5	8.7	-28.5	8.7	-28.5
25%/75% stocks/bonds (use for years 6-10)	6.3	-15.0	8.7	-15.0	7.8	-15.0	7.2	-15.0
100% bonds (use for years 0-5)	5.8	-5.8	7.9	-7.0	6.7	-8.2	5.6	-8.2

Statistics for time periods ending at the close of markets on August 31, 2020

2. Implementing your policy asset allocation

Investment risks and opportunities change with the passage of time. Today's investment landscape is remarkably different from what was available a dozen years ago. Similarly, the risks and opportunities available a dozen years in the future, may be unlike anything available today.

Consider how the current yield[2] on a 10-year U.S. Treasury bond was 16% back in 1981. But today, this same bond, yields next to zero. The opportunities and the risks are profoundly different, and so should the specific implementation that you adopt for your policy asset allocation. A successful[3] long-term investment journey requires that the approach you adopt for your policy asset allocation be in strong alignment with today's investment landscape. Failure, is often experienced by those investors who execute based on what worked in the past, playing to bygone risks and opportunities that are no longer pertinent for today's and tomorrow's realities.

The following eight factors are used by our most successful high-net worth and institutional investors to determine which approach for implementing their policy asset allocation is in greatest harmony with today's investment environment:

> **Cost.** How expensive is the investment strategy? Sometimes cost is very important and at other times it can be virtually irrelevant.
>
> **Taxes.** Tax minimization is always desirable. But it is possible to place too much emphasis on this factor, particularly when a bear market or recession is imminent.

Bear Market Mitigation. Historically, bear market declines have been both severe and long lasting. As a consequence, the partial mitigation of bear market loss can be a major contributor to long-run investment success.

Passive Buy & Hold. There are market conditions that lend themselves to passive buy & hold strategies. Certainly, not in all cases and at all times. Nevertheless, such an approach usually finds a place in most investor's implementations.

Active Asset Allocation. Active asset allocation can be a major contributor to long-run investment success. But market-timing decisions based on subjective human predictions of the future are generally best avoided.

Active Risk Factor Management. There are generally periods when the active management of risk factors (for example value versus growth or small cap versus large cap) can be a major contributor to long-run investment success.

Active Individual Security Selection. Many asset categories remain remarkably inefficient. Such markets can present compelling opportunities for the patient investor who is willing to implement a strategy relying on active individual security selection.

Bear Market Proximity. If a bear market has just recently finished, an opportunity may present itself to adopt a temporarily more aggressive posture than would normally be the case. Similarly, if it has been more than ten years since the last bear market, a slightly more conservative posture may be warranted.

Important Disclosures

1. Stocks are defined as 50% S&P 500 Index, 12.5% Russell 2000 Index, 12.5% MSCI EAFE Index, 12.5% MSCI Emerging Markets Index, and 12.5% Fama French Real Estate Industry Subsector Index. This stock portfolio of indices is rebalanced monthly at month end. Bonds are defined as an equal-weighted portfolio consisting of the following five bond indices: USA 5-year Government Note Total Return Index, Dow Jones Corporate Bond Return Index, GFD Indices World x/USA Countries Government Bond GDP-weighted Return Index, GFD Indices USA Total Return AAA Corporate Bond Index, and GFD Indices USA 10-year Government Bond Total Return Index. This bond portfolio of indices is rebalanced monthly at month end. Balanced portfolios that consist of both stocks and bonds use the prior definitions and are rebalanced monthly at month-end. Both the graph and the table show results for periods ending at the close of markets on August 31, 2020. All data and statistics were provided by Global Financial Data, Inc. at www.globalfinancialdata.com on September 4, 2020.
2. All data and statistics were provided by Global Financial Data, Inc. at www.globalfinancialdata.com on September 4, 2020.
3. The term "Successful" is not a promise. Investors might be successful and they might not be successful. But it is important to identify what a successful outcome actually looks like, so that we can discuss with clients and have then come to appreciate what we are attempting to achieve. Although, the future is unknown, and therefore anything can and will happen. Success is not assured and in fact it might even be problematic.

It is not possible to invest in an index or a package or portfolio of indices directly.

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