Richard Bernstein Advisors

The Leaders In Pactive® Management

Quarterly Commentary

Q4-2022

Global Risk-Balanced Moderate ETF Strategy

Q4 2022 Performance Highlights (%)

Portfolio (gross)	7.17
Portfolio (net)	7.07
Style Index	5.80

Annualized Performance (%)

as of Dec 31, 2022

	1YR	3YR	5YR	10YR	Since Inception
Gross	-11.49	2.73	3.02	6.00	6.60
Net	-11.85	2.34	2.58	5.35	5.89
Style Index*	-14.69	1.32	3.08	4.74	5.48

Annual Performance (%)

	2016	2017	2018	2019	2020	2021	2022
Gross	9.00	17.42	-8.06	16.44	12.23	9.14	-11.49
Net	8.63	17.06	-8.34	15.62	11.86	8.71	-11.85
Style Index*	5.35	13.21	-4.52	17.16	12.58	8.31	-14.69

** Style index is 50% MSCI ACWI Index net of dividend taxes, 45% Bloomberg US Aggregate Bond Index and 5% Bloomberg 1-3 month T-Bill Index.*
*** Net of dividend taxes*
Inception date: 9/30/2011

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RBA employs a macrodriven, top-down style to construct global tactical equity and asset allocation portfolios. The investment team uses quantitative indicators and the firm's macro-economic analysis to invest in global equity, fixed income asset classes, sub-asset classes and sectors using only US-listed ETFs. The firm currently has $14.6 billion collectively under management and advisement as of 12/31/2022.

Investment Committee: Richard Bernstein; Dan Suzuki, CFA; Michael Contopoulos; Malvika Dhingra; Matthew Griswold, CFA; Lisa Kirschner; Matthew Poterba, CFA; Henry Timmons, CFA.

For investment minimums, please contact your financial advisor. Performance information included in this factsheet is as of current quarter-end and subject to change. Prior period returns may have been restated to conform to this presentation. All other information is as of the most recent quarter end. See disclosure at the end of the factsheet for further information.

Past performance is no guarantee of future results.

The Global Risk-Balanced ETF Strategy outperformed its benchmark in 4Q22, posting a return of 7.17% compared to a 5.80% return for its style index.*

Equity Positioning

The Strategy was underweight equity over the period, holding an average weight of 45.1% (4.9ppt underweight) in 4Q22. The equity sleeve posted a return of 14.59%, outperforming the 9.76% return of its benchmark, the MSCI ACWI Index**. The outperformance was driven by the underweights in technology, consumer discretionary and communication services stocks. The overweights in energy, aerospace & defense, consumer staples, health care and China stocks further contributed.

Fixed-Income Positioning

The Strategy was overweight fixed income during 4Q22, holding an average weight of 49.4% (4.4ppt overweight). The fixed income sleeve underperformed the 1.87% return of its benchmark, the Bloomberg US Aggregate Bond Index. The main detractor was the portfolio's overweight in long-term US Treasury bonds as interest rates rose. The strategy was underweight cash & cash equivalents, holding an average weight of 3.3%.

Commodities Positioning

The 2.3% average weight in gold contributed positively to performance this quarter.

Changes in Portfolio

As we approach the upcoming earnings recession and liquidity continues to tighten across most markets, we further reduced the cyclicality of our portfolios. Specifically, we reduced our financials exposure while adding to defensive sectors such as consumer staples and health care. Additionally, we increased our overweight to China. Overall, our portfolios remain underweight stocks and overweight duration and cash-like investments.

2022 Performance Review

For the full year, the Strategy outperformed its benchmark, posting a return of -11.49% compared to -14.69% for its style index*. Nearly all the equity sector positionings benefitted the portfolio. Notably, the overweight in energy and underweight in technology, consumer discretionary and communication services were major drivers of performance. Our fixed income holdings outperformed their benchmark as the underweight in duration and overweight in US credit in the first half of the year offset the drags from being overweight emerging market credit in the first half, while being underweight US credit and overweight duration in the second half.

Outlook & Positioning

3 Investment Themes for '23

2023 may be another difficult year for investors who hope to relive the speculative markets of 2020 and 2021. Consensus seems poised for a signal from the Fed that they will lower interest rates and reignite investors' interest in more speculative investments. But with inflation the highest in 40 years and the entire credibility of central banking being challenged, the odds seem to favor too much tightening of monetary policy rather than too little. We focus on three themes going into 2023:

1. Play defense and worry later about playing offense;
2. Diversify geographically; and
3. Accept that the world is changing.

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Theme #1: Play defense. Worry later about playing offense.

Investment discussions continue to highlight a false dilemma of growth vs. cyclicals and omit the third option of defensive sectors despite their consistent history of outperforming during profits recessions. There are two main inputs to equity valuation: 1) earnings and 2) interest rates. Investors have so far seemed to focus on #2 (the Fed and interest rates) and relatively ignore #1 (earnings). The US, and many other countries, are in the early stages of profits recessions, yet both equity and fixed-income markets have been very slow to anticipate the potential falloff in corporate profits. The chart below shows corporate bond spreads through time. Although spreads have widened a bit in anticipation of corporate cash flows coming under pressure and an increasing probably of default or bankruptcy, the spread remains very low relative to historical recession periods.

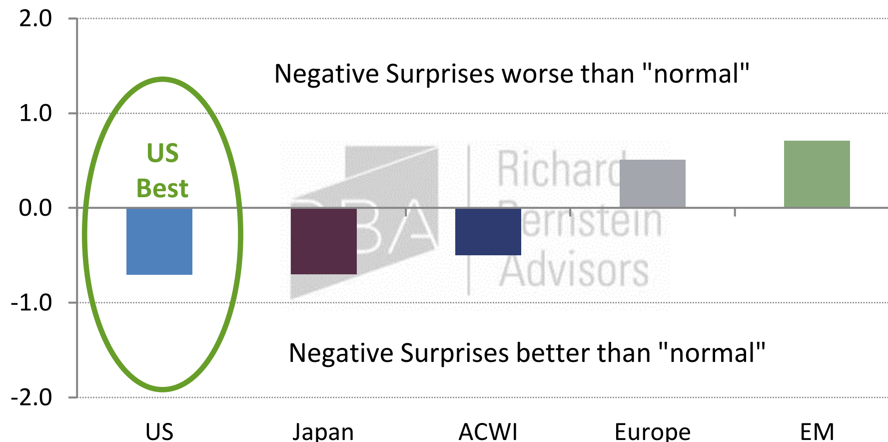
Chart 1: US Corporate BAA 10-Year Bond Spread
(Jan. 1987 – Dec. 2022)

Source: Bloomberg Finance L.P.

Theme #2: Diversify geographically.

Investors should consider increasing geographic diversification. Ten years ago, emerging markets were investors' favorites, but global profit fundamentals signaled the potential for long-term US outperformance. Today, consensus favors US equities, but profit fundamentals for the US are among the worst of the major regions. Charts 2 and 3 examine negative earnings surprises by region today and from 5 years ago. In 2017 the US had the best profit fundamentals when using this gauge, but today they are the worst. In addition, the US equity market is dominated by the most speculative sectors: Technology, Communications Services, and Consumer Discretionary. We continue to have lower-than-normal exposure to US equities within our portfolios because of the combination of the combination of US sector weights and the deterioration in US profits fundamentals.

Chart 2: Negative Surprises by Region (z-scores)
3Q 2017



Source: Bloomberg Finance L.P.

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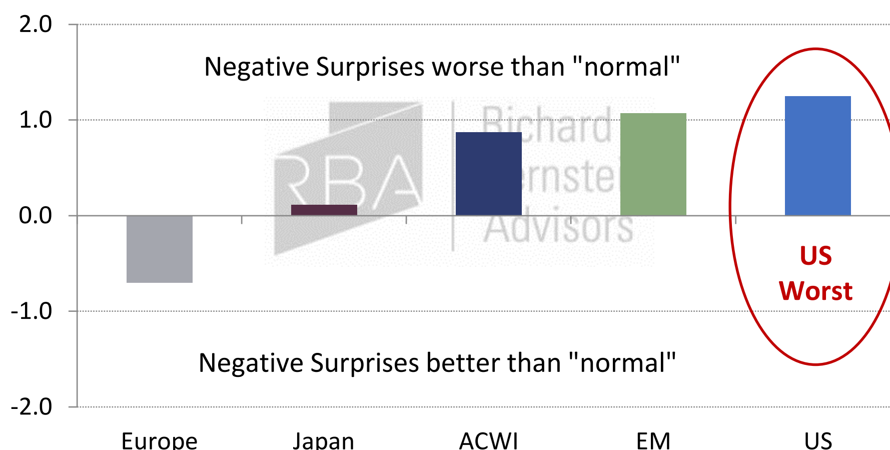
Chart 3: Negative Surprises by Region (z-scores)
3Q 2022



Source: Bloomberg Finance L.P.

Theme #3: Accept that the world is changing.

Growth investors should not become mired in the old growth themes and should be on the lookout for new ones. Consensus is still focused on the leadership of the last 5-10 years. However, the global economy is changing and leadership within the financial markets is likely to reflect that changing economy. Investors missed the first 5-10 years of the bull market in US equities, and they seem poised to miss the first 5-10 years of new opportunities in non-US markets and real productive assets.

Investors should probably never invest purely for short-term or long-term opportunities. Every secular theme can be influenced by the cycle, and every cyclical theme can be influenced by secular forces. Our portfolios at RBA attempt to balance the cyclical AND the secular economic influences.

IMPORTANT DISCLOSURE

The performance was calculated by Richard Bernstein Advisors LLC (the "Adviser") for the Global Risk Balanced Moderate ETF Strategy ("Strategy") as described below. The Strategy's asset allocation recommendations are subject to guideline allocation limitations at the major asset class level (i.e., equity, fixed income and cash) that may change over time.

The Strategy has an inception date of September 30, 2011. The Strategy seeks risk-adjusted long-term growth by employing a top-down style to construct a global tactical asset allocation portfolio with flexible guardrails. Accounts in this Strategy obtain desired exposure via ETF vehicles.

The Strategy returns represents the all-asset composite return from October 1, 2011 until December 31, 2015 and thereafter represents the composite returns of the Global Risk Balanced Moderate ETF strategy maintained by RBA. The Global Risk Balanced Moderate ETF strategy is presented after December 31, 2015.

The benchmark is composed as follows: 50% MSCI ACWI USD Net, 45% Bloomberg US Aggregate Index Unhedged USD, and 5% Bloomberg US Treasury Bills: 1-3 Months Index Unhedged. The benchmark is rebalanced daily. The firm's complete list of composite returns are available upon request.

Past performance is no guarantee of future results. Performance is shown in USD and includes reinvestment of dividends and other earnings. Results are shown on a "gross" and "net" basis. Gross-of-fee returns are reduced by actual trading costs incurred and platform fees but are before deduction of any advisory or other fees. Net performance is shown net of a model annual advisory fee of 0.40% deducted on a monthly basis, the highest fee charged by the Adviser. Taxes have not been deducted.

Index and portfolio data herein have been supplied by outside sources, including, Richard Bernstein Advisors LLC, and are believed to be reliable as of the date indicated. The source for ETF returns is Richard Bernstein Advisors LLC. The source for risk measures is Morningstar.

About Risk: Any investment is subject to risk. ETFs are subject to risks similar to those of stocks, such as market risk, and investors who have their funds invested in accordance with the model portfolio may experience losses. Additionally, fixed income (bond) ETFs are subject to interest rate risk, which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates. Foreign investments may be subject to greater risk than domestic investments. Investments in foreign instruments or currencies can involve greater risk and volatility than U.S. investments because of adverse market, economic, political, regulatory, geopolitical or other conditions. In emerging countries, these risks may be more significant. The value of commodities investments will generally be affected by overall market movements and factors specific to a particular industry or commodity, including weather, embargoes, tariffs, or health, political, international and regulatory developments. An imbalance in supply and demand in the income market may result in valuation uncertainties and greater volatility, less liquidity, widening credit spreads and a lack of price transparency in the market. As interest rates rise, the value of certain income investments is likely to decline. Investments in income securities may be affected by changes in the creditworthiness of the issuer and are subject to the risk of non-payment of principal and interest. The value of income securities also may decline because of real or perceived concerns about the issuer's ability to make principal and interest payments. Smaller companies are generally subject to greater price fluctuations, limited liquidity, higher transaction costs and higher investment risk than larger, established companies. Derivatives instruments can be used to take both long and short positions, be highly volatile, result in economic leverage (which can magnify losses), and involve risks in addition to the risks of the underlying instrument on which the derivative is based, such as counterparty, correlation and liquidity risk. If a counterparty is unable to honor its commitments, the value may decline and/or the portfolio could experience delays in the return of collateral or other assets held by the counterparty. Investing in an exchange-traded fund (ETF) exposes the Strategy to all of the risks of that ETF and, in general, subjects the Strategy to a pro rata portion of the Strategy's fees and expenses.

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