REVIEWING THE QUARTER ENDED MARCH 31, 2019

Klingman & Associates, LLC
An Independent Registered Investment Advisor

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- **Disclosure:** 30-34
"New year, new me" is an epigram uttered annually by many New Year’s resolution setters. Global financial markets joined in on the fun this year, rebounding quickly after a dreadful end to 2018. In some sense, the pace of change has been startling. Most of what the markets seemed to be worried about: the Fed tightening, slowing global growth, increased trade tensions, seemed to magically disappear on Christmas Eve as markets bottomed and started to climb. The growth rate of corporate earnings and our overall economy are definitely slowing. Both of these were widely expected given the declining impact of fiscal stimulus. What has changed is the outlook for the Federal Reserve, which was in full-on tightening mode in 2018 when it raised short-term fed funds rates four times and announced its balance sheet runoff was infamously on “autopilot”. In January, the Fed adopted a more neutral stance, indicating it would be patient and “data dependent” moving forward. While this may seem like a modest shift, we think it was a catalyst for financial markets. The Fed’s pause alleviated monetary policy concerns; allowing investors to shift focus back to fundamentals, which we think remain largely intact. The Fed to the rescue, once again.

The US economy, as measured by GDP, grew 3.0% year-over-year in the fourth quarter of 2018 (page 7). Looking to 2019, we believe growth will likely slow to 2% as the benefits from fiscal stimulus (lower taxes and higher government spending) fade. While 2% growth is slower than the 3% experienced in 2018, it is actually more in-line with the average growth rate of the current economic expansion. This keeps the US economy on course to experience its longest expansion in history (page 25). Strong employment gains and wage growth should continue to support consumer spending (page 9), which accounts for two-thirds of US GDP. We are not seeing overproduction and spending in cyclical sectors, which we take as a good sign given the way prior expansions have ended. And mortgage rates have come down nearly a full percentage point in the last several months, improving affordability in a slowing housing market (page 11). Ongoing trade negotiations are having negative impacts on the global economy, with manufacturing data and small business/consumer confidence numbers (page 12) giving mixed signals. We continue to expect the US and China will reach some type of agreement on trade. We believe the markets are already reflecting a positive outcome from the negotiations and we are hoping for no negative surprises in this area.
In the first quarter of 2019, US equities posted their best quarterly return in nearly a decade. This followed the worst December for US equities since 1931. The S&P 500 index returned +13.7% (including dividends) in the first quarter (page 14) and now trades at 16.4x forward earnings estimates. US Mid Cap Equities (S&P 400) and US Small Cap Equities (S&P 600) returned +14.5% and +11.6%, respectively, in the first quarter. With investors' focus temporarily away from the Fed and trade negotiations, corporate earnings should dominate the spotlight in the coming weeks. Analysts have lowered their first quarter earnings expectations (forecasting a 4% decline versus a year ago) given increasing cost pressures and moderating overall growth. But we expect companies to beat these lowered expectations, and narrowly avoid a decline in profits in 2019. The attractive entry point for long-term investors that we talked about in January has come and gone. But valuations remain reasonable based on historical averages (page 16), particularly when compared to the yields available on bonds and cash. We remain neutral-weight all US Equities (Large, Mid and Small Cap) in our models.

We continue to feel positive about Non-US Equities, both Developed and Emerging Markets, which have broadly underperformed US Equities in recent years. Fortunes reversed in the first quarter, with the MSCI EAFE index of Non–US Developed Market Equities and MSCI Emerging Market index both up 10%. These markets have weathered a constant battering of geopolitical and economic headwinds over the last several years. Today, ongoing trade disputes are fueling concerns of a broader economic pullback. While many of these headwinds persist, we see increasing clarity on some of these issues which should improve overall sentiment. Additionally, global central banks (including the European Central Bank, Bank of China, and the Fed) have made clear their intentions to maintain or increase pro-growth monetary policy. Valuations remain historically cheap versus US equities and relatively attractive versus long-term averages (page 28), which is why we remain overweight both of these asset classes in our models.

To the surprise of no one, the Federal Reserve held the fed funds target rate steady at its March meeting. We continue to believe the Fed will remain patient this year and successfully avoid tipping the economy into a recession in the near-term. But the current shape of the yield curve tells us that the bond market lacks confidence in the long-term growth of the economy (page 19). While short-term interest rates have remained steady with the Fed now on hold, longer-term interest rates have been declining since November. This continued to the point where certain short-term interest rates are now above long-term interest rates, a phenomenon known as an “inverted” yield curve. While historically this has not necessarily guaranteed that there will be a recession, an inverted yield curve has preceded the last seven recessions going back to the late 1960’s (page 29). Although a recession may very well be on its way, we think that the yield curve is simply telling us that the economy is slowing down, which most economists predicted would happen. Against this backdrop, we remain overweight Cash, neutral-weight high quality US Investment Grade Bonds, and underweight riskier Non–Investment Grade Bonds in our asset allocation models.

Continued
In the midst of slowing global growth, Real Estate Investment Trusts, or “REITs,” have outperformed broader global equity markets. Real Estate, as measured by the FTSE/NAREIT Global Developed Real Estate index, returned +14.9% in the first quarter. REITs also held up much better than broad equities in the fourth quarter of 2018 with a drawdown of -5.4% vs. -13.5% for the S&P 500. While REIT fundamentals remain attractive, valuations have steadily increased since we decided to overweight the asset class in our models in mid-2018. We believe the asset class is now slightly overvalued and have thus moved back to neutral-weight. We also remain neutral-weight on midstream energy Master Limited Partnerships (MLPs) and uncorrelated Absolute Return strategies.

As disciplined investors, our clients know how important it is to focus on long-term objectives and not get too discouraged (or elated) by violent short-term swings in global financial markets. The market movement we experienced in the last quarter of 2018 and the first quarter of 2019 was a great example of the importance of this core principle. Not surprisingly, in a recent study published by DALBAR, US equity investors lost over twice as much as the “market” in 2018 due to poor decision-making around market timing. We know that people like their advisors to be forecasters, and we take time and care to form our opinions around asset classes that we feel are under or over-valued. But we are financial planners first and foremost, and our investment philosophy for our client families will continue to be driven by the major principles of investing: diversification, tax efficiency, cost mitigation, rebalancing, and patience. It is our job to help our clients ignore the “noise” (which got pretty loud in the fourth quarter of 2018) and focus on the principles and actions that lead to long-term success.


### TACTICAL OVERLAY TO STRATEGIC ASSET ALLOCATION MODELS

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<thead>
<tr>
<th>CASH ALTERNATIVES</th>
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### FIXED INCOME

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<td>NON-US BOND</td>
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### US STOCKS

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### NON-US STOCKS

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<tr>
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<td>NON-US EMERGING MARKETS EQUITY</td>
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### ALTERNATIVES

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<th>REAL ESTATE</th>
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<td>MASTER LIMITED PARTNERSHIPS</td>
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<td>ABSOLUTE RETURN</td>
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Real gross domestic product (GDP) increased at an annual rate of 2.2 percent in the fourth quarter of 2018, according to the "third" estimate released by the Bureau of Economic Analysis. Compared to the fourth quarter last year, GDP grew +3.0 percent.

Source: Bloomberg, as of 12/31/2018
The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (PCE), nonresidential fixed investment, exports, private inventory investment, and federal government spending. Those were partly offset by negative contributions from residential fixed investment and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

Source: Bloomberg, as of 12/31/2018
Total nonfarm payroll employment increased by 196,000 in March, and the unemployment rate was unchanged at 3.8% with notable job gains occurring in health care and in professional and technical services. The number of unemployed persons was essentially unchanged at 6.2 million.

Source: Bloomberg, as of 3/31/2019
Health care, one of the leading job sectors, added 49,000 jobs in March and 398,000 over the past 12 months. Over the month, employment increased in ambulatory health care services, hospitals, and nursing and residential care facilities, reflective of an aging population.

Source: Bureau of Labor Statistics, as of 3/31/2019, a preliminary estimate of the net number of jobs in the various industries in the latest month.
U.S. home prices have recovered from post-financial crisis lows, driven by relatively low mortgage rates and lean inventory levels. However, home prices have started to show signs of moderation with mortgage rates moving higher. Affordability issues and lack of labor supply are keeping building permits and housing starts subdued.
"Consumer Confidence decreased in March after rebounding in February, with the Present Situation the main driver of this month’s decline. Confidence has been somewhat volatile over the past few months, as consumers have had to weather volatility in the financial markets, a partial government shutdown and a very weak February jobs report. Despite these dynamics, consumers remain confident that the economy will continue expanding in the near term. However, the overall trend in confidence has been softening since last summer, pointing to a moderation in economic growth.”

- Lynn Franco, Director of Economic Indicators at The Conference Board

Source: Bloomberg, as of 3/31/2019
The year-over-year PCE price index fell to 1.4% in January from 1.8% in December while the core PCE price index (excluding food and energy) dropped from 2.0% to 1.8%. Both inflation indicators continue to hover near the Federal Reserve’s target rate of 2%.

Source: Bloomberg, as of 1/30/2019. Personal Consumption Expenditure (PCE) is the preferred measure of inflation by the Bureau of Economic Analysis.
Most asset classes have recovered from the fourth quarter pullback, with US equities continuing to outperform their global counterparts.

Past performance is not indicative of future results. Please see slide 32-34 for asset class definitions. Source: Morningstar Direct, as of 3/31/2019
S&P 500 SECTOR RETURNS

Source: Morningstar Direct, as of 3/31/19. Returns are based on the GICS Classification model. Returns are cumulative total return for stated period, including reinvestment of dividends. Past performance is not indicative of future results. Please see slide 32-34 for asset class definitions.
## PRICE-EARNINGS RATIOS VERSUS HISTORICAL AVERAGES

<table>
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<tr>
<th>Current P/E vs. 20-year avg. P/E</th>
<th>Current P/E as % of 20 –year avg. P/E</th>
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<tbody>
<tr>
<td><strong>Value</strong></td>
<td><strong>Blend</strong></td>
</tr>
<tr>
<td><strong>Large</strong></td>
<td>13.9</td>
</tr>
<tr>
<td><strong>Mid</strong></td>
<td>14.2</td>
</tr>
<tr>
<td><strong>Small</strong></td>
<td>14.5</td>
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Source: FactSet, Standard & Poor’s, JPMorgan Asset Management. Most recent S&P 500 Index price, divided by consensus earnings in the next twelve months and is provided by FactSet. Data as of 3/31/2019.
CAPITAL MARKETS

PRICE-EARNINGS AND PRICE-BOOK RATIOS

The price-earnings ratio, or P/E, is a common measure of the value of stocks. It shows the relationship between a stock’s price and the underlying company’s earnings (or profits) per share of stock. In essence, it calculates how many dollars you pay for each dollar of a company’s earnings. In very general terms, the higher the P/E ratio, the more likely the stock is to be overpriced.

Price-to-book is a relative measure based on most recent price/accounting (book) value (quarterly, semiannual or annual data). Both price-to-earnings and price-to-book are accounting-based relative value measures.

Past performance may not be indicative of future results. Please see slides 32-34 for index definitions.
S&P 500 YIELDS VS. TREASURY YIELD

The 10-year Treasury yield continued to drop from its recent high in October last year, causing the spread between stocks and bonds to tighten. Still, bond yields are outpacing dividend yields, which has been the norm, historically.

Source: Bloomberg, as of 3/31/2019

Past performance is not indicative of future results. Please see slides 32-34 for index definitions.
U.S. TREASURY YIELD CURVE

Source: Federal Reserve, as of 3/31/2019

U.S. Treasury Yield Curve

Yield (%)

Maturity

Current (3/31/2019)  3/31/2018

Source: Federal Reserve, as of 3/31/2019
Past performance is not indicative of future results. Please see slides 32-34 for index definitions. Source: Bloomberg, as of 3/31/2019
Source: Bloomberg, as of 3/31/2019. This chart illustrates the highest and lowest monthly yields over the past 5 years as well as the current yield, represented by ♦.
Even though the Federal Reserve has paused future interest rate increases, the US Dollar has strengthened against global currencies as other global central banks remain very accommodative.

Source: Bloomberg, as of 3/31/2019
COMMODITY PRICES

Source: Bloomberg, as of 3/31/2019

Gold (London Bullion Market)  WTI Crude Oil
Investors cannot invest directly in an index. Past performance is not indicative of future results. See slide 32-34 for asset class definitions.
Q2 THEMES

US ECONOMY APPROACHING RECORDS

2.4%
2019 U.S. GDP Estimate

July 2019
Month U.S. Expansion Becomes the Longest in U.S. History

Source: Raymond James ‘10 Themes for 2019’, data as of 12.31.18
MAKING SENSE OF NOISY ECONOMIC DATA

HEADWINDS

2019 economic growth appears to be softer than expected

The impact of fiscal stimulus from tax cuts and increased government spending is expected to fade this year.

The partial government shutdown rattled confidence and consumer spending in January.

TAILWINDS

Fundamentals of the household sector remain in good shape.

While poor weather dampened job growth in February – the underlying trend remains moderately strong.

Wage growth has continued to pick up and lower gasoline prices have added to consumer purchasing power.

Source: Raymond James ‘10 Themes for 2019’
Q2 THEMES

IS VOLATILITY MAKING A COMEBACK?

Intra-Year S&P 500 Decline Above Average

Source: Raymond James
Q2 THEMES

INTERNATIONAL EQUITY

Equity Regions Attractively Valued

EM Has Higher Growth Estimates

13.4x
EM LTM P/E

9.5%
2019 Expected EM Earnings Growth

6.2%
2019 Expected EAFE Earnings Growth

Source: Raymond James
Q2 THEMES

THE YIELD CURVE

Source: Capital Group, Thomson Reuters, data as of 12.31.18. One year rates used instead of two year rates prior to 6/30/76. Start dates in table do not include periods when the curve was only invested at month end for one month. Shaded bars represent US recessions as defined by National Bureau of Economic Research.
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Data provided by Morningstar, Bloomberg.

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**Fixed Income**: subject to credit risk and interest rate risk. An issuer’s credit rating may impact their ability to pay the promised income and return of principal upon maturity. Generally, when interest rates rise, bond prices fall, and vice versa. Specific-sector investing can be subject to different and greater risks than more diversified investments.

**Consumer Price Index (CPI)**: a common measure of inflation which examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. Changes in CPI are used to assess price changes associated with the cost of living.

**Gross Domestic Product (GDP)**: a broad measurement of a nation’s overall economic activity. It is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, including all private and public consumption, government outlays, investments and net exports that occur within a defined territory.

**Price-to-Earnings Ratio (P/E)**: a ratio for valuing a company that measures its current share price relative to its per-share earnings.

**Price-to-Book Ratio (P/B)**: A ratio used to compare a stock's market value to its book value. It is calculated by dividing the closing stock price by the latest quarter's book value per share.

**Small-cap and Mid-Cap Equity**: generally involve greater risks, and may not be appropriate for every investor. International investing also involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility.

**High-Yield Fixed Income**: not suitable for all investors. Risk of default may increase due to changes in the issuer’s credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of your portfolio.

**Commodities**: trading is generally considered speculative because of the significant potential for investment loss.

**U.S. Government Fixed Income**: guaranteed timely payment of principal and interest by the federal government.

**U.S. Treasury Bills**: A short-term debt obligation backed by the U.S. government with a maturity of less than one year.

**Fixed Income Sectors**: Returns based on the four sectors of Barclays Global Sector Classification Scheme: Securitized (consisting of U.S. MBS Index, the ERISA-Eligible CMBS Index and the fixed-rate ABS Index), Government Related (consisting of U.S. Agencies and non-corporate debts with four sub sectors: Agencies, Local Authorities, Sovereign and Supranational), Corporate (dollar-denominated debt from U.S. and non-U.S. industrial, utility, and financial institutions issuers), and Treasuries (includes public obligations of the U.S. Treasury that have remaining maturities of one year or more).
Asset class and reference benchmarks:

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<th>ASSET CLASS</th>
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<td>Non-U.S. Equity</td>
<td>MSCI ACWI ex US NR</td>
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<td>U.S. Fixed Income</td>
<td>Barclays U.S. Aggregate Bond TR</td>
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<tr>
<td>Global Real Estate (prior to 2008)</td>
<td>NASDAQ Global Real Estate NR</td>
</tr>
<tr>
<td>Global Real Estate (2008-present)</td>
<td>FTSE EPRA/NAREIT Global Real Estate NR</td>
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<td>Commodities</td>
<td>Bloomberg Commodity TR USD</td>
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<td>Cash &amp; Cash Alternatives</td>
<td>Citi Treasury Bill 3 Mon USD</td>
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**Bloomberg Commodity Total Return Index:** Formerly the Dow Jones-UBS Commodity Index TR (DJUBSTR), is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 3 Month U.S. Treasury Bills.

**Barclays 10-Year Municipal:** A rules-based, market-value weighted index engineered for the long-term tax-exempt bond market. This index is the 10 year (8-12) component of the Municipal Bond Index.

**Barclays 10-Year U.S. Treasuries:** Measures the performance of U.S. Treasury securities that have a remaining maturity of 10 years.

**Barclays U.S. Aggregate Index:** Represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

**Barclays Global Aggregate ex-U.S. Dollar Bond Index:** Tracks an international basket of bonds that currently contains 65% government, 14% corporate, 13% agency and 8% mortgage-related bonds.

**Barclays High Yield:** Covers the universe of fixed-rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC-registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures and 144-As are also included.

**Barclays U.S. Corporate High Yield:** Composed of fixed-rate, publicly issued, non-investment grade debt.

**Citi 3-Month Treasury-Bill Index:** This is an unmanaged index of three-month Treasury bills.

**FTSE EPRA/NAREIT Global Real Estate Index:** Designed to represent general trends in eligible listed real estate stocks worldwide. Relevant real estate activities are defined as the ownership, trading and development of income producing real estate.
Global Financial Data: Index data has calculated for world ex US indices back to 1919. Since the Morgan Stanley World index was not calculated before 1970, an index has been put together to simulate how a World Index would have performed had it been calculated back to 1919. From 1970 on, the indices are capitalization weighted and include the same countries as are now included in the MSCI World Index.

MSCI All Country World Index Ex-U.S Index.: A market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. It includes both developed and emerging markets.

MSCI EAFE Index (Europe, Australasia, Far East): A free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. The EAFE consists of the country indices of 21 developed nations.

MSCI EAFE Growth Index: Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the growth style.

MSCI EAFE Small-Cap Index: An unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada.

MSCI EAFE Value: Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the value style.

MSCI Emerging Markets Index: Designed to measure equity market performance in 25 emerging market indexes. The three largest industries are materials, energy and banks.

MSCI Local Currency Index: A special currency perspective that approximates the return of an index as if there were no currency valuation changes from one day to the next.

NASDAQ Global Real Estate Index: The index measures the performance of real estate stocks which listed on an Index Eligible Global Stock Exchange. The index is market-capitalization weighted.

Russell 1000 Index: Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investible U.S. equity market.

Russell 1000 Value Index: Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 1000 Growth Index: Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell Mid-Cap Index: Measures the performance of the 800 smallest companies of the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index.

Russell Mid-cap Value Index: Measures the performance of those Russell Mid-cap companies with lower price-to-book ratios and lower forecasted growth values.

Russell Mid-Cap Growth Index: Measures the performance of those Russell Mid-cap companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2000 Index: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.


Russell 3000 Index: measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents 98% of the investable U.S. equity market.
Standard & Poor’s 500 (S&P 500): Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market.

S&P 500 Consumer Discretionary: Comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.

S&P 500 Consumer Staples: Comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

S&P 500 Energy: Comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

S&P 500 Financials: Comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

S&P 500 Health Care: Comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

S&P 500 Industrials: Comprises those companies included in the S&P 500 that are classified as members of the GICS® industrials sector.

S&P 500 Information Technology: Comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

S&P 500 Materials: Comprises those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

S&P 500 Telecom Services: Comprises those companies included in the S&P 500 that are classified as members of the GICS® telecommunication services sector.

S&P 500 Utilities: Comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.

S&P Mid Cap 400 (S&P 400): Provides investors with a benchmark for mid-cap companies. The index, which is distinct from the large-cap S&P 500, measures the performance of mid-cap companies, reflecting distinctive risk and return characteristics of this market segment.

S&P Small Cap 600 (S&P 600): Provides investors with a benchmark for small-cap companies. The index, which is distinct from the large-cap S&P 500, measures the performance of small-cap companies, reflecting distinctive risk and return characteristics of this market segment.

VIX is the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. It is a widely used measure of market risk.