COLONY
FAMILY OFFICES

Market Update and Portfolio Strategy Summary

March 19, 2020

MARKET UPDATE
Global Market Summary

- The past few weeks have witnessed a dramatic increase in volatility with falling interest rates, plummeting oil prices, and equity markets entering a bear market
  - Stock prices were at all-time highs about a month ago—this has become one of the swiftest bear market declines in history
  - Market volatility, measured by the CBOE Volatility Index, has reached levels last seen during the 2008 global financial crisis

- Clearly, the coronavirus (COVID-19) outbreak has caused a lot of uncertainty and financial markets continue to grapple with what it could mean for the global economy
  - Investor perception regarding COVID-19 has evolved from being a "China problem", to a "travel sector" problem, to a global problem*
  - Containment efforts, such as "social distancing" and school closures, should help address the public health concern, but will certainly cause an economic disruption in the intermediate term

- Complicating the narrative around the potential economic impact of COVID-19 was the decision by Saudi Arabia to significantly cut the price of oil
  - It was an act of retribution to Russia for refusing to limit production against the backdrop of lower demand
  - Historically, a drop in the price of oil was seen as a net positive as it represented savings to consumers, airlines, and other oil users—but the boom in US production has changed the economics
  - This move has prompted concerns about cash flow for highly levered energy companies and resulted in additional pressure on liquidity in the bond markets given the threat of higher defaults

*Note: Opinions above based on research as of March 19, 2020. Please see our disclosures at the end of this document. *Source: Rafael Resendes, Co-Founder, The Applied Finance Group.*

MARKET UPDATE
Global Market Summary (Continued)

- Financial markets now seem focused on assessing what policymakers can do to limit economic fallout

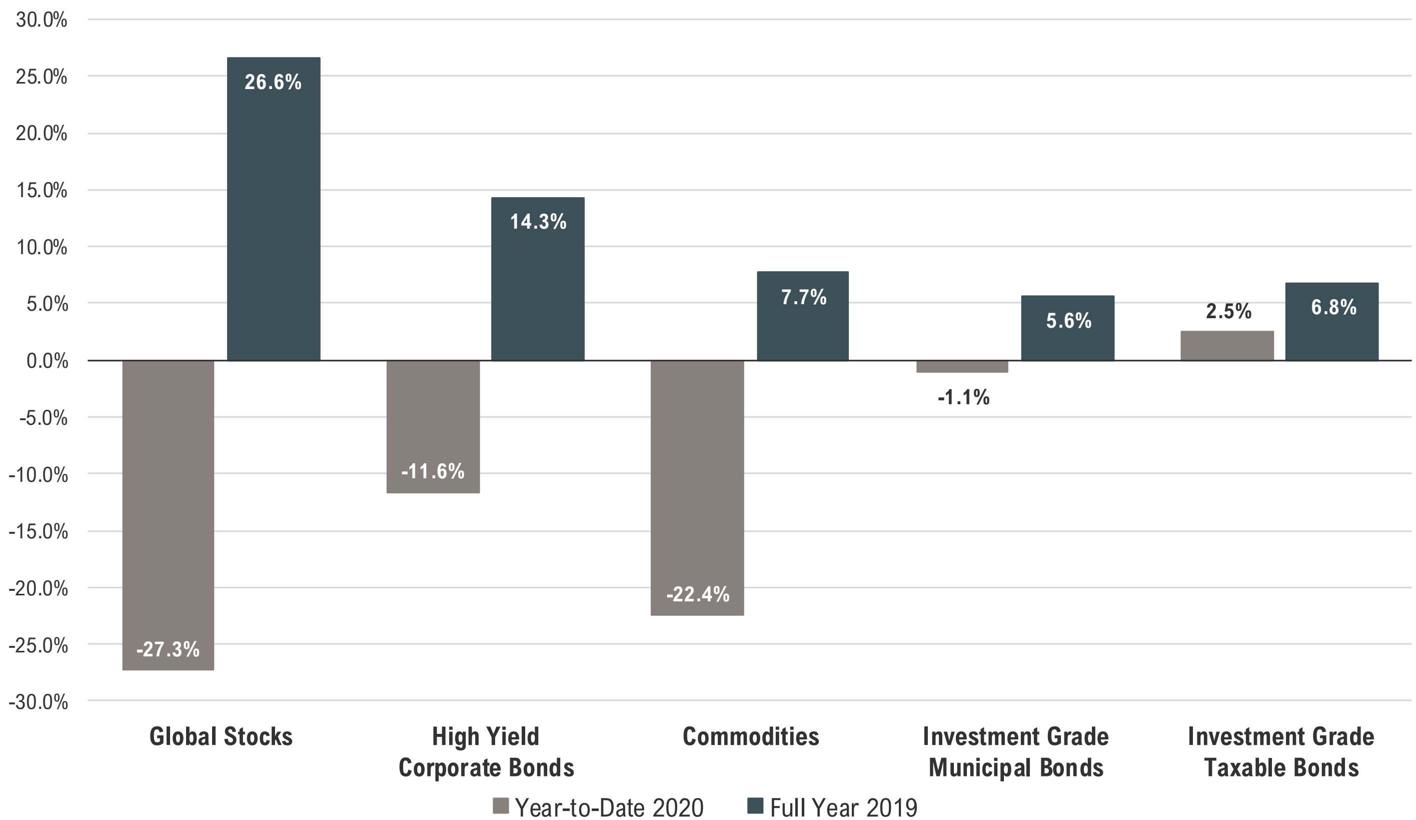
- In terms of monetary policy, the US Fed recently unleashed a series of additional moves to stabilize markets, slashing the benchmark interest rate to zero and launching a new round of quantitative easing
  - The Fed committed to purchasing $700 billion in Treasury and mortgage-backed securities and said it would establish a lending facility to help support short-term commercial debt
  - Many central banks globally have announced similar measures, demonstrating a commitment to ensuring liquidity in markets, and preventing what has so far been a public health crisis from turning into a financial one*

- Perhaps more important is the fiscal policy response as monetary policy alone cannot resolve some of the economic disruptions
  - Various spending packages have been announced across the globe
  - In the US, the Trump administration is discussing a stimulus package of up to $1 trillion that could result in emergency funds for individuals and assistance for small businesses and credit for industries hard hit by the reaction to the virus

*Note: Opinions above based on research as of March 19, 2020. Please see our disclosures at the end of this document. *Source: Lisa Shalett, Chief Investment Officer, Morgan Stanley.*

MARKET UPDATE
Broad Asset Category Performance

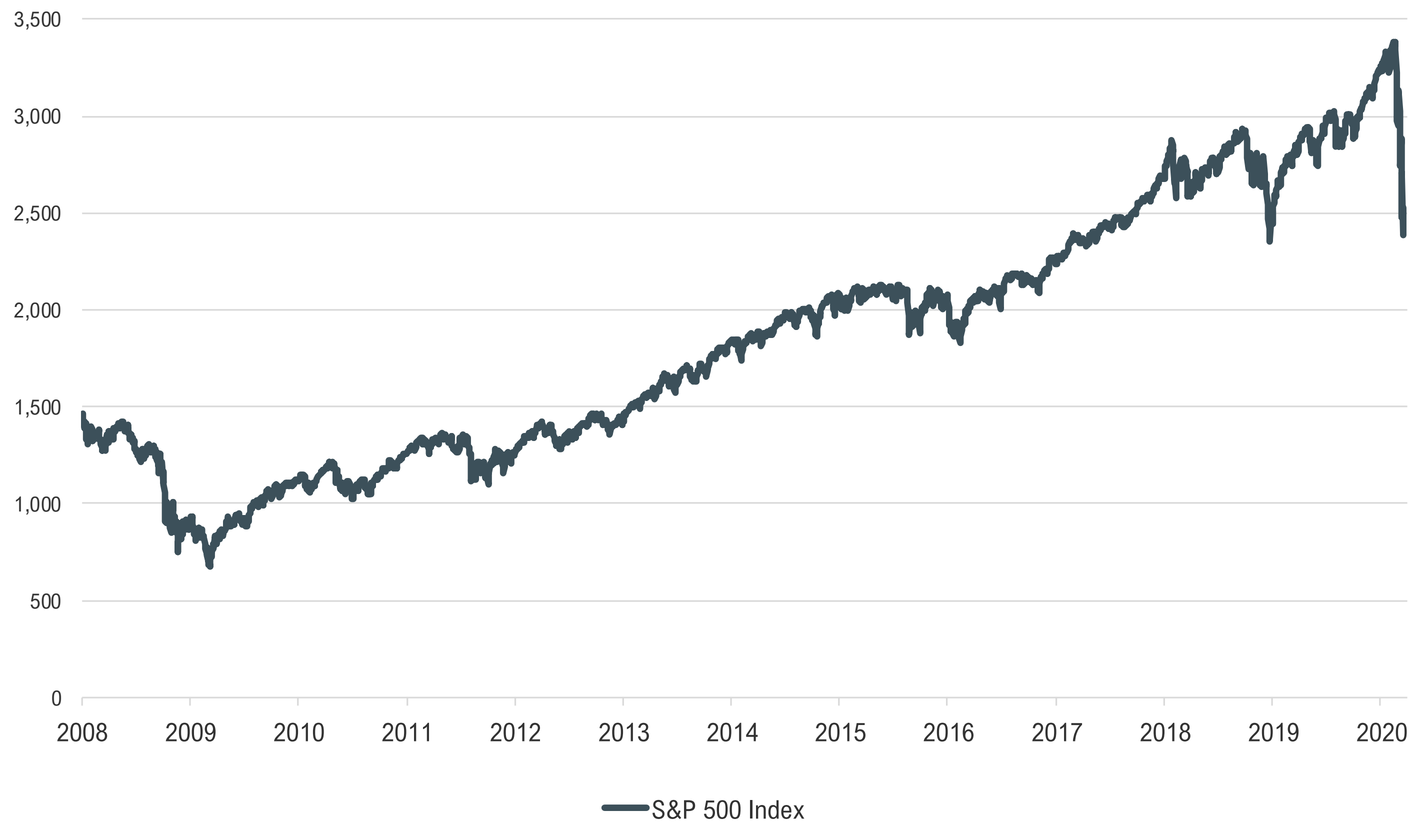
- In a stark contrast to 2019's broad-based gains, risk asset categories have sold off sharply thus far in 2020 with stocks entering a bear market
  - The chart below illustrates broad asset category performance defined by market benchmarks



Note: Performance data as of March 16, 2020. Benchmark data obtained from Addepar. Past performance is not indicative of future results. Global stocks (MSCI All Country World Index), high yield corporate bonds (Barclays US Corporate High Yield Index), commodities (Bloomberg Commodity Index), investment grade municipal bonds (Barclays 1-10 Year Municipal Bond Index Index), and investment grade taxable bonds (Barclays Intermediate US Government/Credit Index), and

MARKET UPDATE
Equity Market Performance

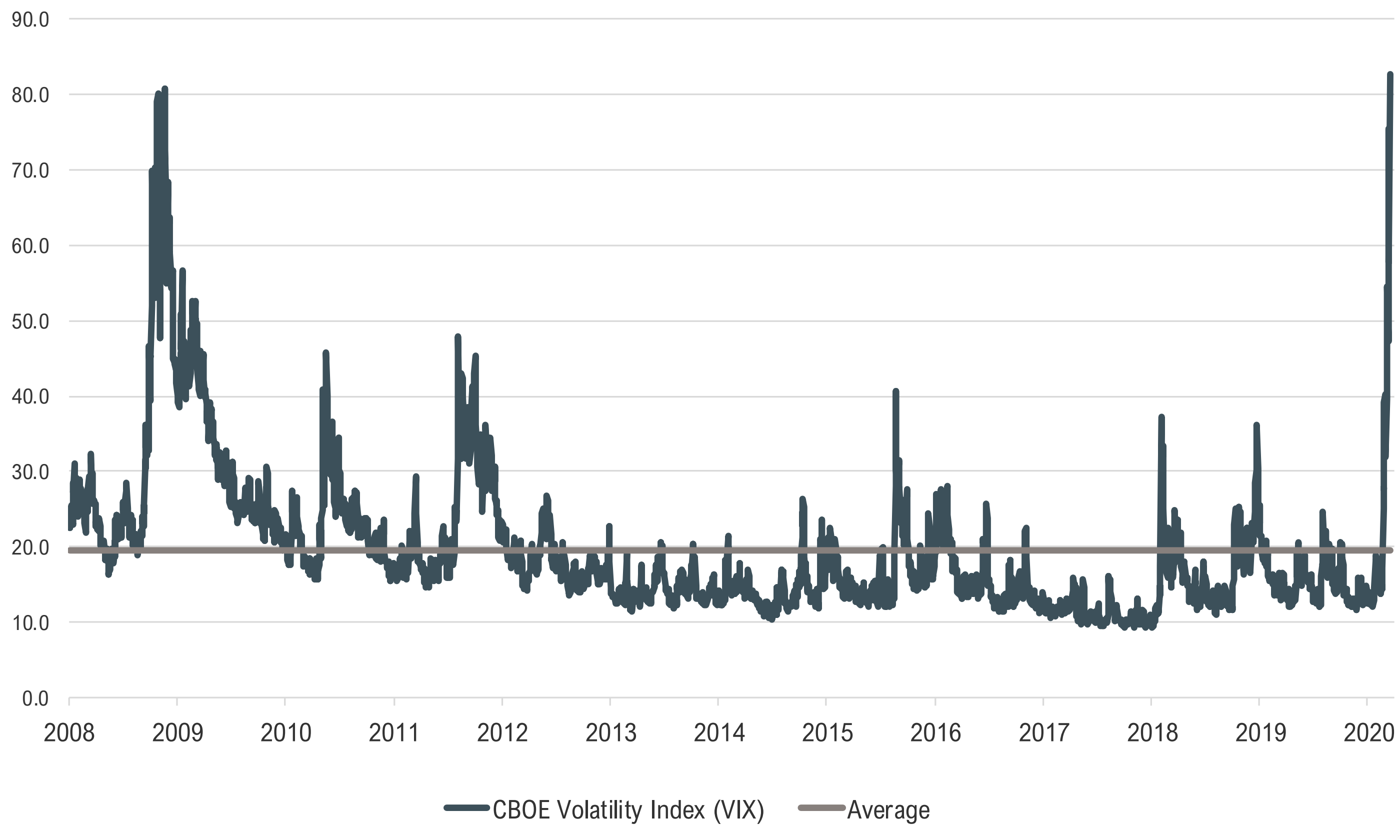
- The S&P 500 Index has fallen approximately -30% from the February 19th all-time high—one of the fastest falls into a bear market in history
  - The chart below plots the S&P 500 Index value since January 1, 2008



Source: Federal Reserve Bank of St. Louis, Economic Research Division as of March 16, 2020.

MARKET UPDATE
Equity Market Volatility

- Financial markets were relatively calm in 2019, but volatility has recently spiked to levels last seen during the 2008 global financial crisis
  - The chart below plots the CBOE Volatility Index, a gauge of equity market uncertainty, since January 1, 2008



Source: Federal Reserve Bank of St. Louis, Economic Research Division as of March 16, 2020. The CBOE Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

MARKET UPDATE
US Interest Rate Environment

- Demand for "safe haven" assets pushed bond yields even lower, though longer-term rates have recently increased as investors increasingly seek shelter in the shortest-term government debt and cash
  - The chart below plots both the 1-Year and 10-year US Treasury Yield since January 1, 2008

Source: Federal Reserve Bank of St. Louis, Economic Research Division as of March 16, 2020.

MARKET UPDATE
High Yield Credit Spreads

- Financial conditions have tightened significantly over the last few weeks due to stock market declines, a stronger US dollar, and wider credit spreads
  - The chart below plots the BofA US High Yield Index spread (relative to treasuries) since January 1, 2008

MARKET UPDATE
Economic Backdrop

- With little visibility on when the coronavirus will be contained, it is nearly impossible to determine the ultimate impact on the global economy
  - However, the deep and pervasive health measures to stem the spread of COVID-19 will have a major economic impact regardless of how widespread the illness becomes

- Most economists now seem to view a recession as inevitable, given the dual shocks of coronavirus and the collapse in the price of oil
  - Evidenced by the swift and furious sell off in equities and other risk asset classes, financial markets have aggressively moved to price in this outcome

- At this stage, we don't believe COVID-19's economic path will compare in intensity or duration to the 2008 Great Recession, but acknowledge a great deal of uncertainty and downside risks exist
  - Differences this time are that the banks are in much better shape and central banks are alert to the need to protect the financial system
  - Announcements of government support for business have been coming fast, and the White House is discussing an economic rescue plan even bigger than the Obama stimulus of 2009

- The potential exists for a so-called "V-shaped" economic recovery in the second half of the year
  - Prior to the coronavirus outbreak, there had been signs of economic "green shoots" while the US consumer had never been stronger to weather a recession (low unemployment, strong balance sheets, etc.)

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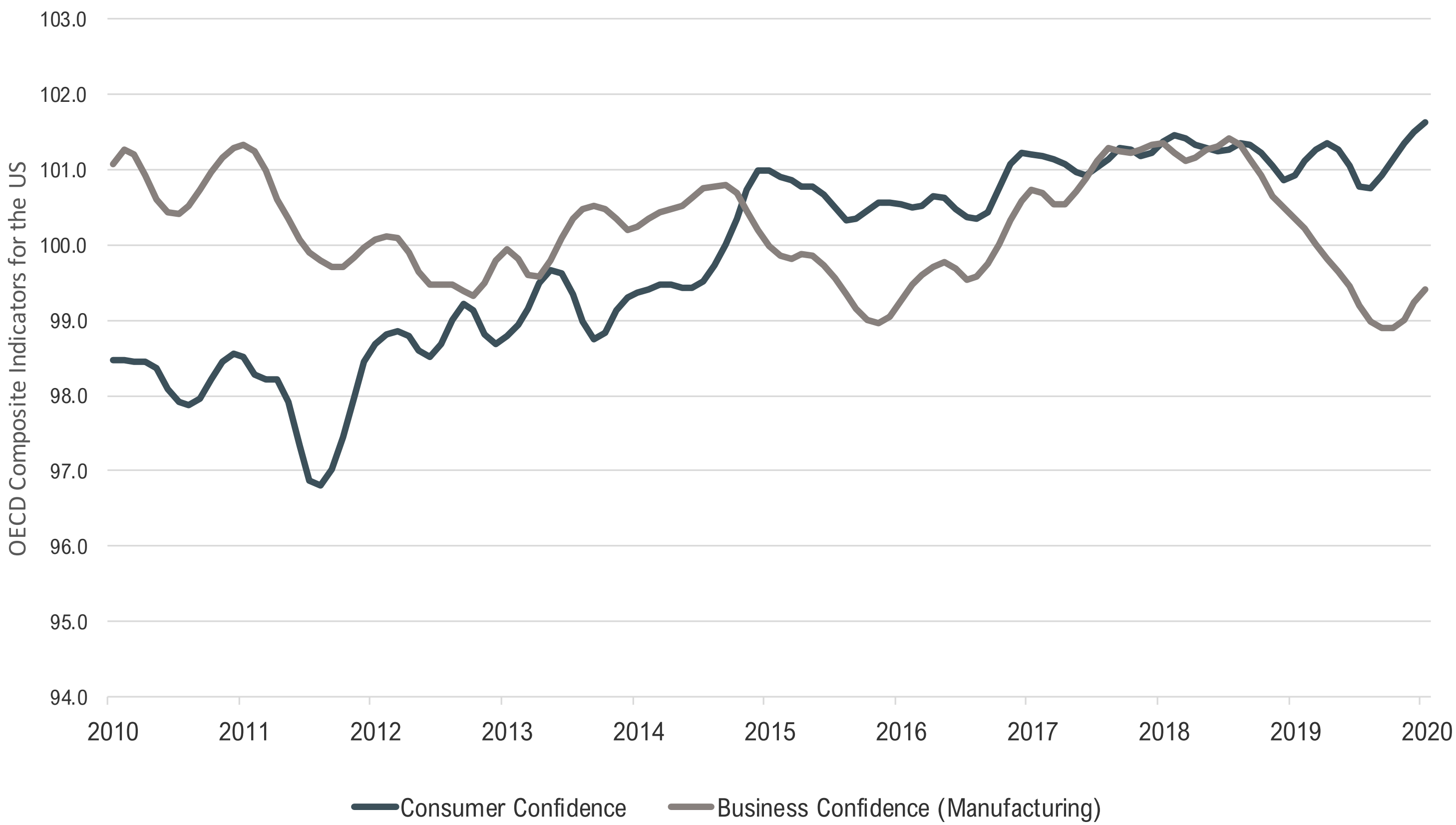
MARKET UPDATE
Leading Economic Indicators **Prior to Coronavirus Outbreak**

- Global economic growth decelerated in 2019, but leading indicators pointed to early signs of stabilization, particularly in China
  - The chart below plots the composite leading indicators (CLIs) for the United States, China, and OECD member countries as a whole

Source: Organisation for Economic Co-operation and Development (OECD) as of December 31, 2019. The composite leading indicator (CLI) is designed to provide early signals of turning points in business cycles showing fluctuation of the economic activity around its long term potential level. The components of the CLI are time series which exhibit leading relationship with the reference series (GDP) at turning points. The component series for each country are selected based on various criteria such as economic significance; cyclical behavior; data quality; timeliness and availability. The OECD CLIs are compiled and published on a monthly basis.

Confidence Measures **Prior to Coronavirus Outbreak**

- While consumer confidence remained elevated, the late 2019 de-escalation of the US-China tariff confrontation provided a modest boost to business sentiment
  - The chart below compares the OECD's composite indicators for consumer and business (manufacturing) confidence in the United States



Source: Federal Reserve Bank of St. Louis, Economic Research Division as of February 29, 2020. Both the OECD's consumer and business confidence indicators provide information on future developments based on opinion surveys. Numbers above 100 suggest an increased confidence, and numbers below 100 indicate pessimism towards the futures.

PORTFOLIO STRATEGY
Maintain Long-Term Perspective

- We recognize that experiencing recent market volatility has been highly unnerving—but we also know that panicked investing is never a good strategy

- History suggests that it's generally best to hold the course and remain invested to avoid missing the market's eventual upturn
  - The timing is uncertain as to when the coronavirus outbreak will be contained, but we believe the global economy will recover and equities will rebound
  - In addition, markets will likely have already started to recover well before the news flow turns positive

- Long-term investors can benefit from the current volatility by adding to equities as prices fall
  - As painful as it feels in the short-run, as stocks decline, they become more attractive over the long-run
  - Below is a useful quote from Seth Klarman of Baupost Group:
    - *"While is it always tempting to try to time the market and wait for the bottom to be reached (as if it would be obvious when it arrived), such a strategy has proven over the years to be deeply flawed. Historically, little volume transacts at the bottom or on the way back up and competition from other buyers will be much greater when the markets settle down and the economy begins to recover. Moreover, the price recovery from the bottom can be very swift. Therefore, an investor should put money to work amidst the throes of a bear market, appreciating that things will likely get worse before they get better."*

- Rely on asset allocation strategy for investment discipline and to inform rebalancing decisions
  - Each portfolio has an investment policy and strategic asset allocation designed to accomplish long-term financial objectives, while taking into consideration risk tolerance and other factors
  - Importantly, the strategic allocation provides a framework for rebalancing decisions and making tactical portfolio adjustments

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PORTFOLIO STRATEGY
Tactical Adjustments and Rebalancing

- With the move lower in yields, we recommend reducing exposure to investment grade bonds
  - We've maintained a slight underweight position to core/investment grade fixed income over the last couple of years given the already low yield environment (and therefore muted return expectations)
  - With the recent flight to safety and move lower in rates, we recommend further reducing exposure (and have been trimming positions over the last couple of weeks)
  - While high quality bonds play an important role in portfolio strategy, providing a source of stability and diversification of equity market risk, the predicable income component has shrunk

- Gradually start adding back to equity positions, but maintain targeted tactical underweight position
  - Over the last couple of years we've maintained a slight underweight to equities (US stocks in particular) due to elevated valuations—and actively rebalanced portfolios throughout 2019 by trimming equity positions
  - Although stock prices are now lower and valuations somewhat improved, we don't think equities have become cheap enough to become aggressive buyers or to move to an overweight position
  - However, given the magnitude of the declines thus far, we have gradually started adding back to risk-assets, seeking to bring equity positions back up to our tactical underweight position (about 90% of long-term strategic weight)

- Take advantage of tax-loss harvesting
  - We have been and will continue reviewing portfolios for opportunities to employ a strategy known as "tax-loss harvesting"
  - This enables an investor to recognize a loss for income tax purposes by selling a security and simultaneously purchasing a similar position to maintain targeted exposure

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Appendix

APPENDIX
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CFO-20-10