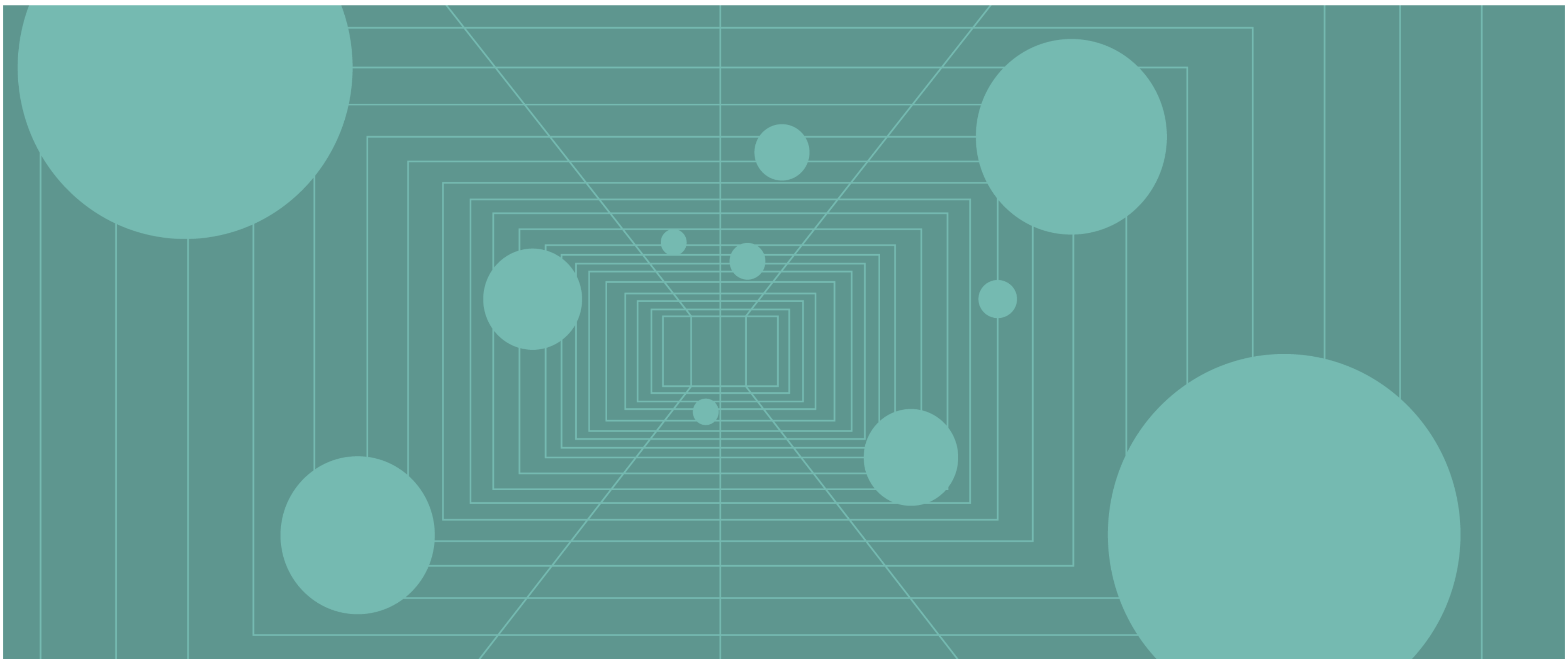
TACTICAL CA HOUSE VIEWS



CAMBRIDGE ASSOCIATES

JUNE 2022

Overview of Tactical CA House Views

May 31, 2022

Our house views are intended to generate excess returns over a three- to five-year horizon. Sizing of tactical positions should reflect an investor's risk tolerance, liquidity needs, and other holdings.

CURRENT POSITIONS

OVERWEIGHT	UNDERWEIGHT	RECOMMENDED SINCE
China All Shares Equities	**Global Equities**	**1/31/2022**
California Carbon Allowance Futures	**Global Equities**	**10/31/2021**
Developed Markets High-Quality Equities	**Developed Markets Equities**	**6/30/2020**
US Small-Cap Equities	**US Equities**	**4/30/2022**
Developed Markets Value Equities	**Developed Markets Equities**	**6/30/2020**
CLO Debt	**Hedge Funds**	**3/31/2020**

RECENTLY CLOSED POSITIONS

OVERWEIGHT	UNDERWEIGHT	CLOSED ON
Relative Valuation Equities Basket ▪ Global ex US Equities ▪ Developed Small-Cap Equities	**Developed Markets Equities** ▪ US Equities ▪ Developed Markets Equities	**4/30/2022**

C|A

Overweight China All Share Equities vs Global Equities

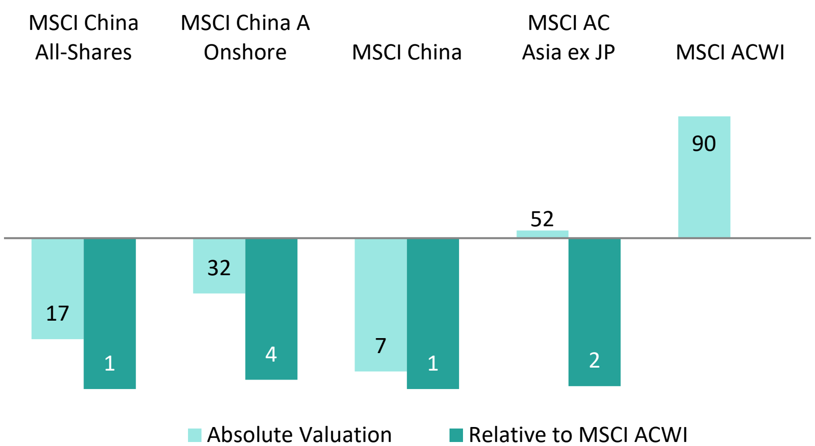
Recommended Since January 31, 2022

Chinese equities have been under pressure in 2022 due to three factors—the prospect of slowing growth due to increased COVID-19 lockdowns, US delisting concerns, and risks of global sanctions on China related to its support for Russia. Chinese equity valuations remain attractive relative to global equities and could outperform in 2022 as China eases policy while the rest of the world starts to tighten.

- China All Shares offer exposure to both onshore- and offshore-listed stocks. All Share valuations are below their historical median in absolute terms (17th percentile) and are near an all-time low relative to global equities, given recent underperformance, thus offering a compelling valuation discount.
- All Share performance relative to global equities peaked in February 2021 and the market fell 35% from peak-to-trough last year. All Share price momentum relative to global equities remains at oversold levels, offering significant upside potential. Indeed, Chinese equities may begin to outperform amid PBOC policy easing while the rest of the world begins to tighten policy in response to rapidly recovering economies and higher inflation concerns. China's corporate earnings growth are also expected to remain strong in 2022. However, the lockdowns in Shanghai represented a setback for Chinese stocks.
- Of the three risks, we view US delisting concerns as overblown given that most US-listed China stocks already have secondary Hong Kong listings or are eligible for one, and Chinese regulators have eased foreign audit restrictions, which could prevent most companies from facing forced delistings. China is also unlikely to risk global sanctions by aiding Russia, given its economic relationship with the US and Europe is multiple times of that with Russia. Lastly, while COVID-19 lockdowns may impact China's growth in the near-term, this is ultimately temporary and may be offset by further domestic stimulus.
- We believe an active management approach (via a dedicated A-share or an All-China mandate) may enhance returns over time given the inefficiency of this market. However, active managers may lag amid a sharp beta-driven rally.

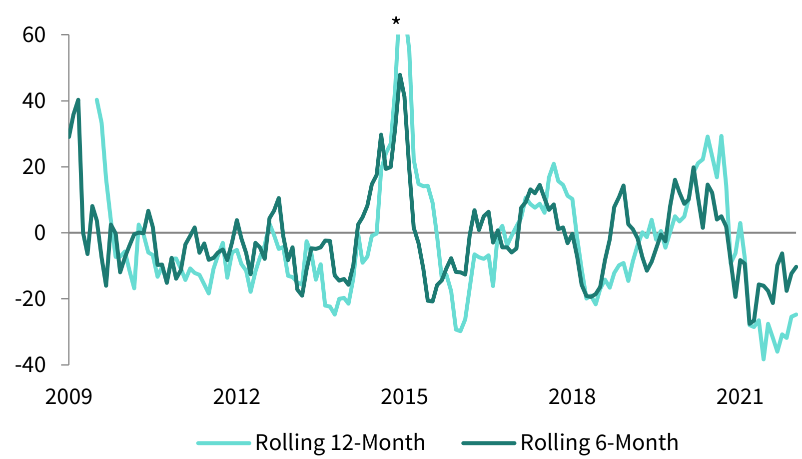
ROE-ADJUSTED P/E: PERCENTILE

November 30, 2008 – May 31, 2022



RELATIVE PERFORMANCE: MSCI CHINA ALL-SHARES VS ACWI

May 31, 2009 – May 31, 2022 • USD • Total Return • Percent (%)



* Axis capped for scaling purposes. Rolling 12-month relative performance of MSCI China All-Shares vs ACWI peaked in April 2015 at 72%.

Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.
Notes: Total returns are gross of dividend withholding taxes. Rolling 12-month relative performance begins in November 2009.

Overweight California Carbon Allowances vs Global Equities

Recommended Since October 31, 2021

California Carbon Allowances (CCAs) are issued to encourage emission reductions. Regulated entities are allotted free allowances for a portion of their emissions and must purchase additional credits to satisfy remaining obligations. CCAs look attractive relative to global equities, given expectations that CCA supply relative to demand will soon shift from an annual surplus to a deficit. This has historically resulted in significant repricing of carbon, which has already started in California.

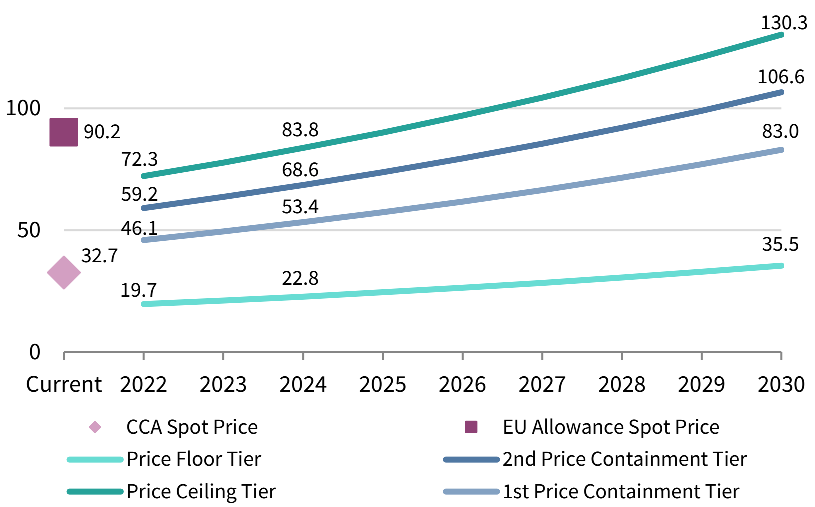
- California projects that its cap-and-trade program will be needed to reduce emissions by 20% through 2030 to meet its mandatory emissions target. Accordingly, the state must reduce CCA supply relative to demand, which we expect to lead to supply/demand deficits by year end and recurring through 2030. Such deficits have historically led to significant repricing in more mature carbon markets. More program tightening may be forthcoming as the California Air Resources Board is in the process of its five-year program review.

- Prices have increased significantly in the last year, but at $33, CCAs still trade at a discount to EU carbon prices. We expect convergence toward current EU pricing, to a price target of $65, which implies a 99% upside potential. The current CCA price floor is $19.70, 40% below current prices. We anticipate that relative to equities CCAs downside is comparable, while the upside is much greater. While estimates on the required carbon price to meet global net zero carbon goals by 2050 vary, a recent survey of economists showed a median estimated price requirement of $100.

- Investors should be aware that futures currently trade at a premium to physicals, negative roll yield is likely to be a 4%-5% drag on annual returns, and the market is illiquid. However, even after these costs, the position still looks attractive relative to global equities over a three- to five-year horizon. We prefer owning physical allowances, but implementation options are limited.

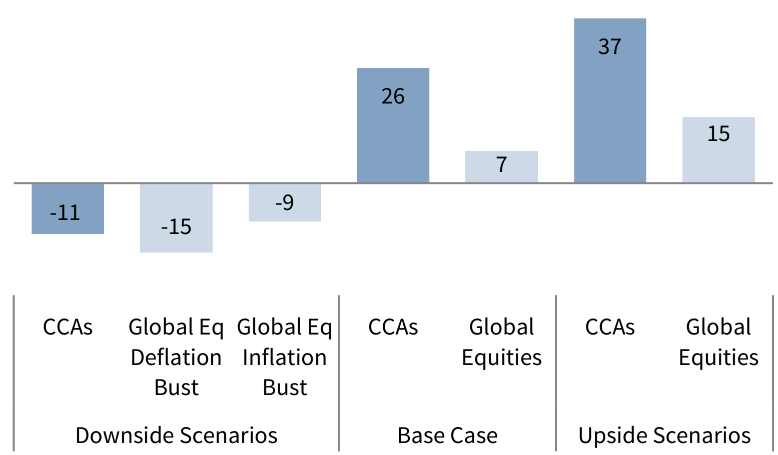
CCA PRICE COMPARED TO EU AND PRICE CONTAINMENT TIERS

As of May 31, 2022 • US Dollars



RETURN PROJECTION SCENARIOS: CCAs VS GLOBAL EQUITIES

As of May 31, 2022 • 3-Yr Annualized Average Compound Return (%)



Sources: Bloomberg L.P., MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: For the left-hand side chart, spot prices are based on December 2022 futures contract prices. Price tiers increase by 5% plus inflation per year. The inflation rate for 2022 is 6.2% and inflation is equal to US TIPS ten-year breakeven inflation thereafter. Price containment tiers are thresholds at which additional allowances are made available as a hedge against higher costs. For the right-hand side chart, for CCAs, the downside scenario assumes prices decline to the 2024 price floor; the base case assumes prices increase to $65, converging toward current EU ETS carbon prices; and the upside scenario assumes prices increase to the 2024 price ceiling. For global equities, the deflation bust downside scenario assumes that normalized P/E ratios decline by 50% and the nominal normalized earnings growth rate averages -2% YOY. The inflation bust downside scenario assumes the same P/E contraction with an average growth rate of 2.5%. The base case for global equities assumes today's normalized P/E is unchanged during the period and the growth rate reflects recent averages. The upside scenario assumes that normalized P/E increases by a decile (or to the all-time max if current P/E ratios are already above the 90th percentile) and an average growth rate of 6%.

Overweight Developed Markets High-Quality Equities vs Developed Markets Equities

Recommended Since June 2020

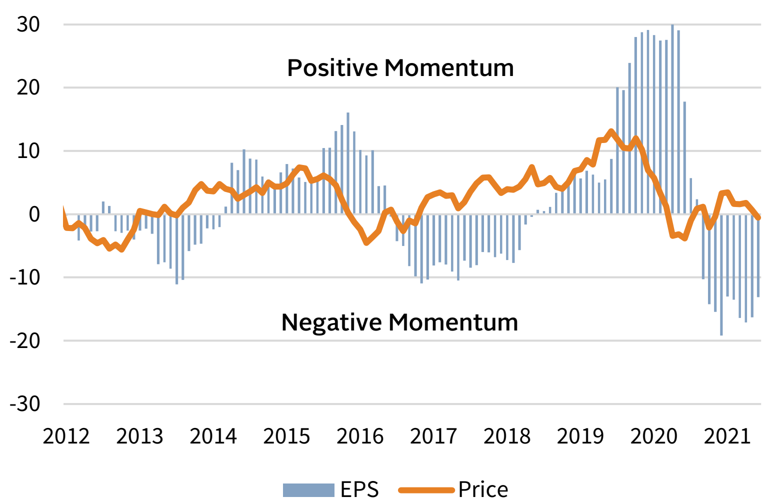
High-quality stocks—which are characterized by high profitability, stable earnings growth, and low leverage—tend to be defensive relative to the broad market. Despite an overall risk-on 2021, quality stocks outperformed broader indexes as investors favored less speculative tech stocks with stronger fundamentals amid news about tightening monetary policy and an easing of growth from elevated levels. We view this position as a good compliment to our pro-cyclical house views.

- We recommend a modest tilt to quality stocks compared to a relatively larger tilt to cyclicals (via the value equities and small-cap equities trades). We view the quality trade as a good complement to our pro-cyclical house views. Quality outperformed on a relative basis in 2021. However, quality has given up those gains year-to-date, especially struggling in January and February amid a pickup in inflation and a sharp rise in real interest rates.

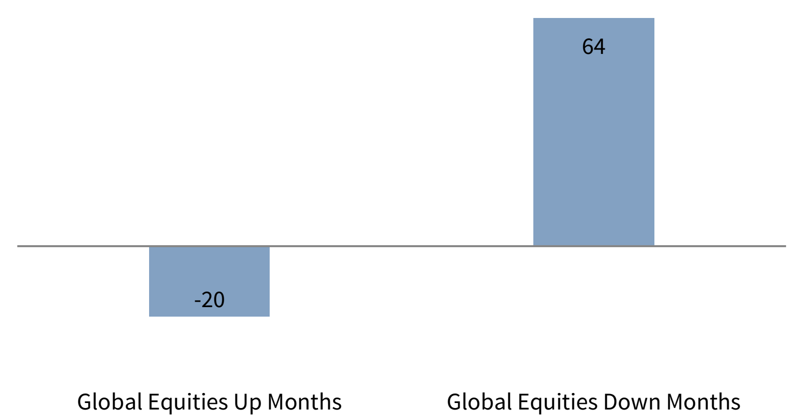
- Quality is overweight US stocks and the tech sector, both of which helped in 2021 but have contributed to underperformance this year. However, quality indexes screen out the most speculative names in tech—and therefore quality provides exposure to secular growth sectors at more reasonable valuations than pure growth. Quality also tends to outperform when financial conditions tighten enough to weigh on growth.

- Quality stocks may face headwinds if economic momentum accelerates and/or if commodity prices continue their ascent. Quality indexes are underweight pro-cyclical sectors like energy. Another risk is valuations—quality trades at around a 20% premium to the broad index using forward P/Es—a historically high relative valuation.

CHANGE IN PRICE AND EPS:
MSCI WORLD QUALITY RELATIVE TO MSCI WORLD
December 31, 2012 – May 31, 2022 • Trailing 12-Month Percent Change (%)



AVERAGE PERFORMANCE IN UP/DOWN EQUITIES MARKETS:
MSCI WORLD QUALITY RELATIVE TO MSCI WORLD
January 31, 1988 – May 31, 2022 • Basis Points (bps)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.
Notes: Global equities up/down months are based on MSCI All Country World Index total returns (gross of dividend withholding taxes prior to January 31, 2001, and net thereafter) in USD terms. Position performance data are net total returns in USD terms.

Overweight US Small-Cap Equities vs US Equities

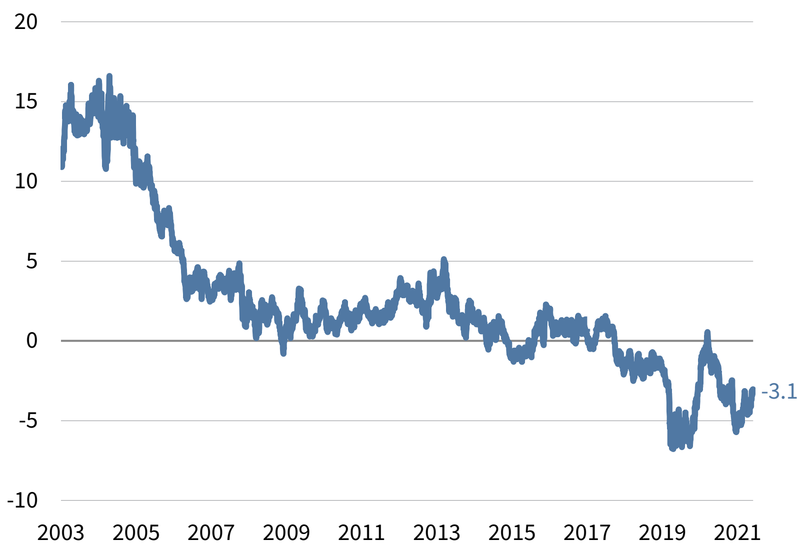
Recommended Since April 30, 2022

US small-cap equities have significantly underperformed large-cap equivalents in recent years, despite generating stronger earnings growth. The result is that a historically large relative valuation gap has opened between the two asset classes. Looking forward, US small caps should benefit from a sector mix favorable to the current macro backdrop including large exposures to financial firms and commodity producers.

- The S&P SmallCap 600® Index has underperformed the MSCI USA by around 640 basis points (bps) over the last 12 months and around 420 bps annualized over the last three years. A variety of forces may have driven this divergence, including investor demand for large-cap growth stocks and companies deemed to be beneficiaries of COVID-related growth in sectors like ecommerce, software, and consumer technology plays.
- US small caps have underperformed despite generating strong earnings growth, pushing their relative valuation discount to stretched levels. Based on normalized price-to-earnings (P/E), large caps now trade at a 35% premium to small caps compared to a median historical discount of 11%. Small caps seem to be receiving little recognition for their steady profitability and a sector mix (high weights for financials, energy, and industrials), which may perform relatively well given increasing inflationary pressures.
- Another wave of COVID-related lockdowns, a pause in the Federal Reserve's expected tightening path, or a decline in commodity prices may extend the time period over which small caps recoup some of their recent underperformance.

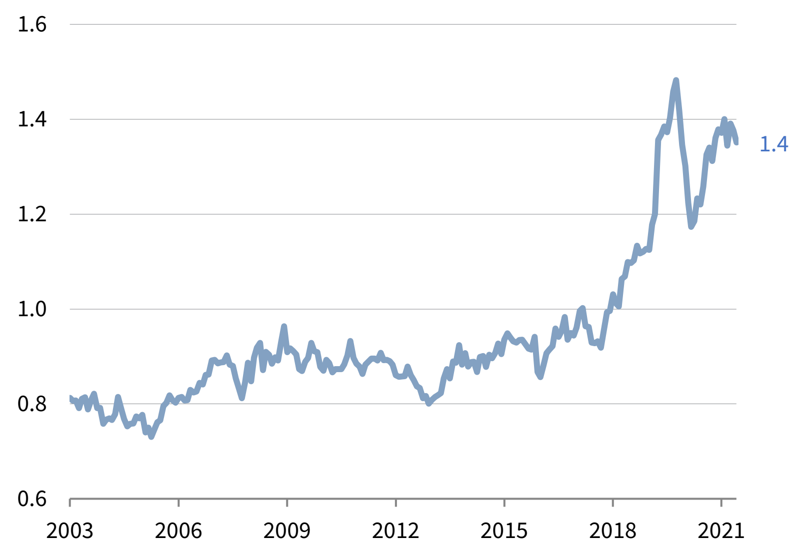
5-YR EXCESS RETURN S&P 600® VS MSCI USA

December 31, 2003 – May 31, 2022 • Rolling 5-Yr Relative AACR (%)



RELATIVE NORMALIZED P/E RATIO: S&P 600® VS MSCI USA

December 31, 2003 – May 31, 2022



Sources: Factset Research Systems, MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.
Notes: Excess return data are daily. The cyclically adjusted price-to–cash earnings (CAPCE) ratio is calculated by dividing the inflation-adjusted index price by trailing ten-year average inflation–adjusted cash earnings. Cash earnings are defined as net income from continuing operations plus depreciation and amortization expense. MSCI does not publish cash earnings for banks and insurance companies and therefore excludes these two industry groups from index-level cash earnings. S&P and Russell do not calculate a cash earnings metric; cash flow is used as a proxy.

Overweight Developed Markets Value Equities vs Developed Markets Equities

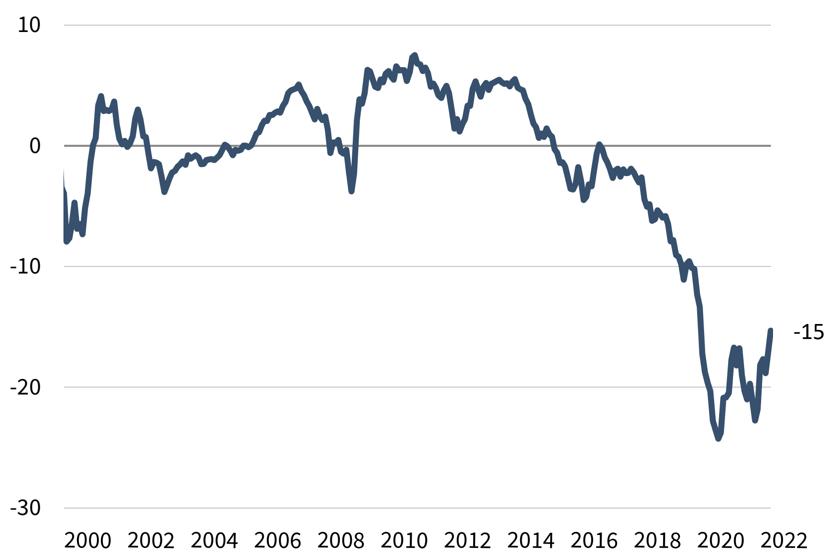
Recommended Since June 30, 2020

Value equities represent the least expensive segment of stock markets—based on price to various accounting fundamentals such as sales, earnings, book value, and cash flows. While, by definition, value always trades at a discount, the discount today is historically cheap, despite strong forward earnings expectations. Additionally, we see higher policy rates as a catalyst for further value outperformance, barring an economic downturn.

- Value equities have outperformed the broad market by 1,088 basis points since we began recommending this tilt in July 2020. We think value equities have more room to run given attractive valuations and catalysts in place. Relative to the broad market, normalized price-to-earnings (P/E) ratios for value equities remain historically cheap and imply permanent earnings impairment. This contrasts with consensus analyst expectations that earnings for value will grow at a historically fast clip relative to the broad market over the next three to five years.
- We see higher policy interest rates as a catalyst for continued value outperformance. Higher real yields are associated with lower P/E multiples and disproportionally impact the most expense stocks. Given that the Federal Reserve is expected to hike rates into 2023, we think it is sensible for investors to continue tilting to the least expensive segments of equity markets.
- Value is overweight cyclical sectors such as financials, energy, and materials. This cyclical exposure may be beneficial if inflation continues to run hot—especially if commodities prices remain elevated. On the other hand, this cyclicality presents a key risk to the trade, as value may underperform in the event of a global recession.

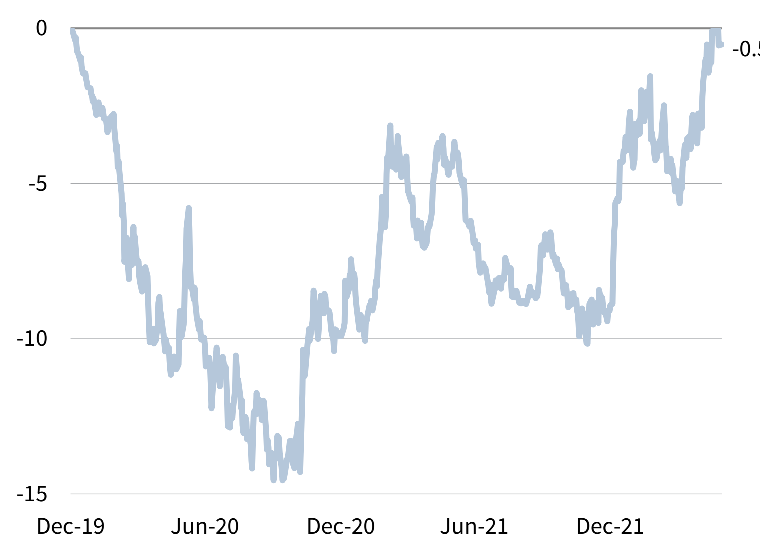
RELATIVE NORMALIZED P/E RATIO: PERCENT (%) FROM MEDIAN

January 31, 2000 – May 31, 2022



CUMULATIVE RELATIVE RETURN SINCE PRE-PANDEMIC LEVEL

December 31, 2019 – May 31, 2022 • Percent (%)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.
Notes: Relative normalized P/E ratio and relative returns are both based on the MSCI World Value Weighted Index versus the MSCI World Index. All data are in USD terms. Relative normalized P/E data are monthly and are based on a five-year cyclically adjusted price-to-cash EPS ratio. Performance data are daily and are based on total returns net of dividend withholding taxes.

Overweight CLO Debt vs Hedge Funds

Recommended Since March 2020

CLO mezzanine debt returned 11.2% in 2021, outperforming some hedge fund indexes, like the HFR Diversified Fund of Funds Index (5.9% in 2021), though CLOs have given up some of that outperformance YTD, lagging HF fund of funds by 3.1 ppts. Apart from the past month, CLO managers have benefited from the relatively strong performance of leveraged loans, given healthy corporate earnings and their floating rate nature. Meanwhile, high fees may continue to weigh on hedge funds.

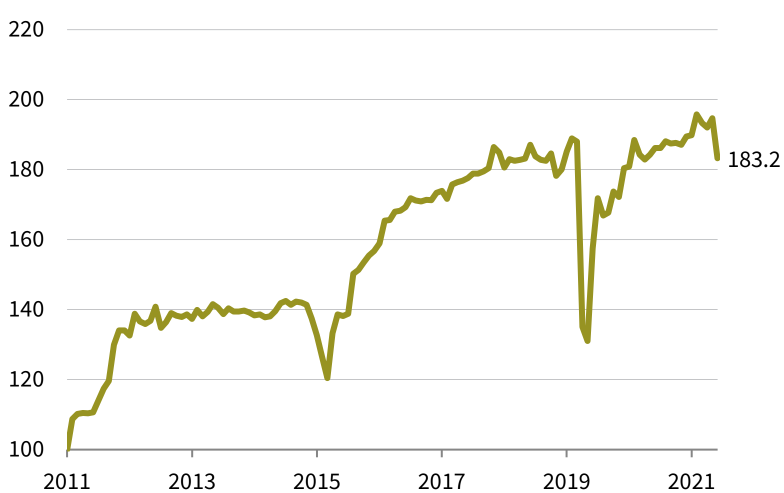
- Prices for CLO debt have fallen YTD, in line with a broader risk-off move in markets spooked by rising inflation pressures and the war in the Ukraine. The high carry of the index helped minimize losses, with the JPM CLOIE BB Index now offering a yield of nearly 12%. The current 893 bps discount margin is in the 82nd percentile of observed values and well above the spread on comparably rated high-yield bonds. Loan prices had outperformed in 2022, though saw some technically driven weakness in May as investor outflows accelerated. Overall, 2022 has still seen healthy retail inflows to the asset class.

- CLOs are not mark-to-market structures and are not forced sellers if loan collateral deteriorates. The CLO structure has held up well historically during periods of stress. For example, while equity distributions were cut off for a handful of deals in 2020, most proved temporary. Historical default rates for CLO liabilities are far lower than for similarly-rated corporate credit.

- CLO mezzanine debt (BB-rated) trades daily and thus pricing is more volatile than that for hedge fund vehicles. For example, CLO BB spreads widened in May as macro data deteriorated. Hedge funds also manage volatility via shorting and raising cash, while CLOs are a levered play on loans and can suffer from limited liquidity. A prolonged recession and multi-year period of elevated loan defaults would hurt distributions to CLO mezzanine tranches and weigh on their returns.

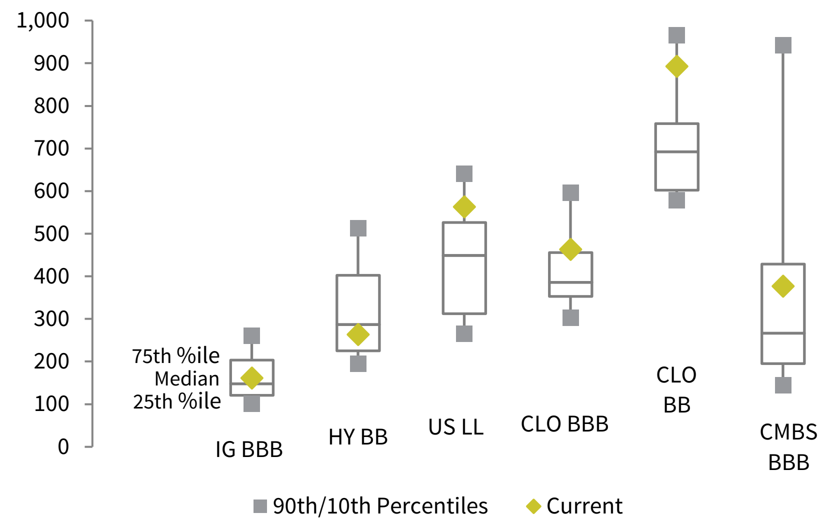
RELATIVE CUMULATIVE WEALTH OF CLO BB VS HFR FOF DIVERSIFIED

December 31, 2011 – May 31, 2022 • US Dollars • December 31, 2011 = 100



CURRENT CREDIT SPREADS IN HISTORICAL CONTEXT

As of May 31, 2022 • Basis Points (bps)



Sources: Bloomberg Index Services Limited, Credit Suisse, Hedge Fund Research, Inc., J.P. Morgan, and Thomson Reuters Datastream.
Notes: Relative cumulative wealth is based on total returns. "CLO BB" is the J.P. Morgan CLOIE BB Index and "CLO BBB" and "CLO B" are the BBB-rated and B-rated quality segments, respectively, of the same index; "IG BBB" is the Bloomberg BBB US Corporate Investment Grade Bond Index; "HY BB" is the Bloomberg BB US Corporate High Yield Bond Index and "HY B" is the B-rated quality segment of the same index; "US LL" is the Credit Suisse Leveraged Loan Index; "CMBS BBB" is the Bloomberg CMBS BBB Index. All spreads are option-adjusted spreads as calculated by Bloomberg except for US LL, which is the Discount Margin (3-year Life). All data are monthly. HFR data are as of April 30, 2022.