



Q1 2020 Economic Outlook

By the LNWM Investment Strategy & Research Group

2020: Goldilocks vs. the Bear

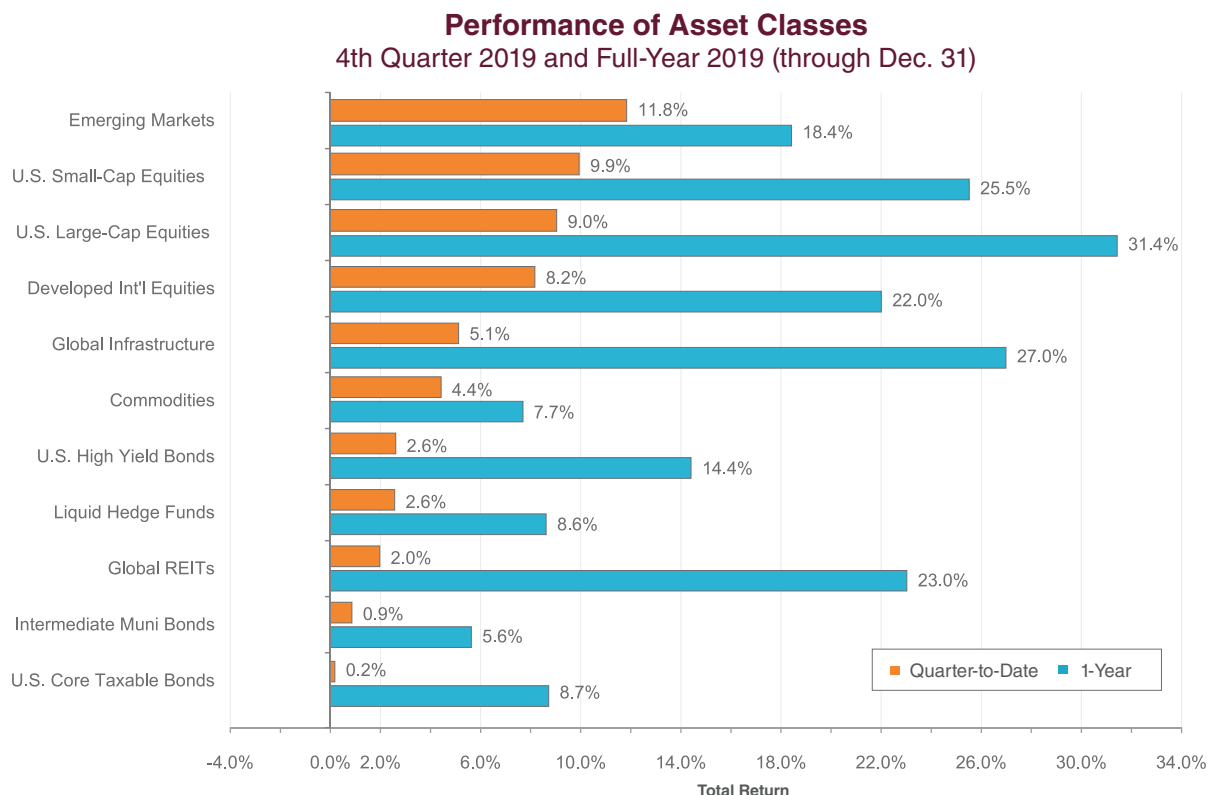
To say that 2019 market returns were a surprise is an understatement. As 2019 began, the US stock market had plunged (aka the 2018 Christmas Eve massacre), the US trade war with China was heating up, economic growth was slowing globally, and no-deal Brexit loomed. We don't know of a single asset manager or economist who predicted back then that US stocks would rally by nearly 30% and government bond yields (particularly in the US) would fall to the level they have.

“Thinking is easy, acting is difficult, and to put one's thought into action is the most difficult thing in the world to do.”

- Johann Wolfgang von Goethe

What was not all that surprising, at least to us, was the direction of markets in 2019. In our Q1 2019 Outlook, we wrote: *“Still, there is much that can go right in 2019, as well as wrong...We acknowledge that we are in the later stages of an economic expansion but feel the US consumer is the most likely catalyst to extend it. Along with that, it seems the Federal Reserve has reason to pause on their tightening of monetary policy, which should serve to calm markets.”*

It turns out “calm” was an understatement. A year later, the Fed had emboldened the markets, lowering interest rates three times in 2019 (after raising them four times in 2018). US equities are at record highs and the yield on 10-year US Treasuries remains firmly below 2%. What 2019 showed yet again is that it's wise not to focus too much on either the negative or the positive variables. Strategic long-term asset management is about weighing both to see what the net balance is.



Source of Data: Morningstar, Bloomberg, Hedge Fund Research. Please see the disclosure and definitions.

What is that balance as we head into 2020? We would say net positive. Our general outlook for 2020 is slowing US economic growth but not a recession. Most, if not all, of the issues we highlighted at the outset of last year are still in play. However, we have some key new developments in 2020:

- **The 2020 US presidential election**, which will increase in importance as the year progresses. Normally, we are loath to discuss politics; however, we don't believe we've ever seen such a broad spectrum of possible policy outcomes. The differences are so stark that they may warrant changes to portfolio asset allocations depending on which candidate wins out (see box on Economic Drivers).
- **US monetary policy.** Lower interest rates in 2019 all across the bond maturity spectrum (aka the yield curve) no doubt fueled the rally in stocks and other higher-risk assets. The big question: will rates stay low in 2020? We think yes, given what we know so far. Low inflation coupled with a healthy job market should allow the Federal Reserve to keep rates fairly steady in 2020. Recently, the futures markets were indicating only a 3% probability of a Fed rate hike this year. Further, the Fed has indicated they are willing to let inflation run a bit high in the future before hiking rates.

An economy with simultaneously low inflation, low interest rates, and low unemployment has historically been considered ideal — “a Goldilocks scenario” — for the markets. This is where the US is again now. But things can change. For one, a tight labor market (3.5% current unemployment rate) could cause wages to rise faster than they have been, driving up prices and eventually interest rates. We are keeping a close watch on both wage and price inflation data for indications that either is perking up. It is a situation that could turn quickly.

- **Progress in US-China trade.** Unlike 2019, it seems that the US and China are working to settle trade differences and just signed Phase 1 of a trade deal, which led the US Treasury to no longer label China a currency manipulator and put it on par with Japan and Germany regarding currency activity. While this will likely provide temporary relief to trade tensions, there are significant areas of disagreement that remain and could likely flare up in 2020, especially regarding intellectual property protections.

Looking Ahead

We enter 2020 much the way we entered 2019 from a macro perspective, expecting muted growth that will be enough to avoid recession. The strength of the US consumer continues to provide reason for optimism. Consumer spending is at, or near, all-time highs as a percentage of US GDP. And US consumer confidence is about as high as it was at the outset of 2019, indicating sustainability in the spending rates.

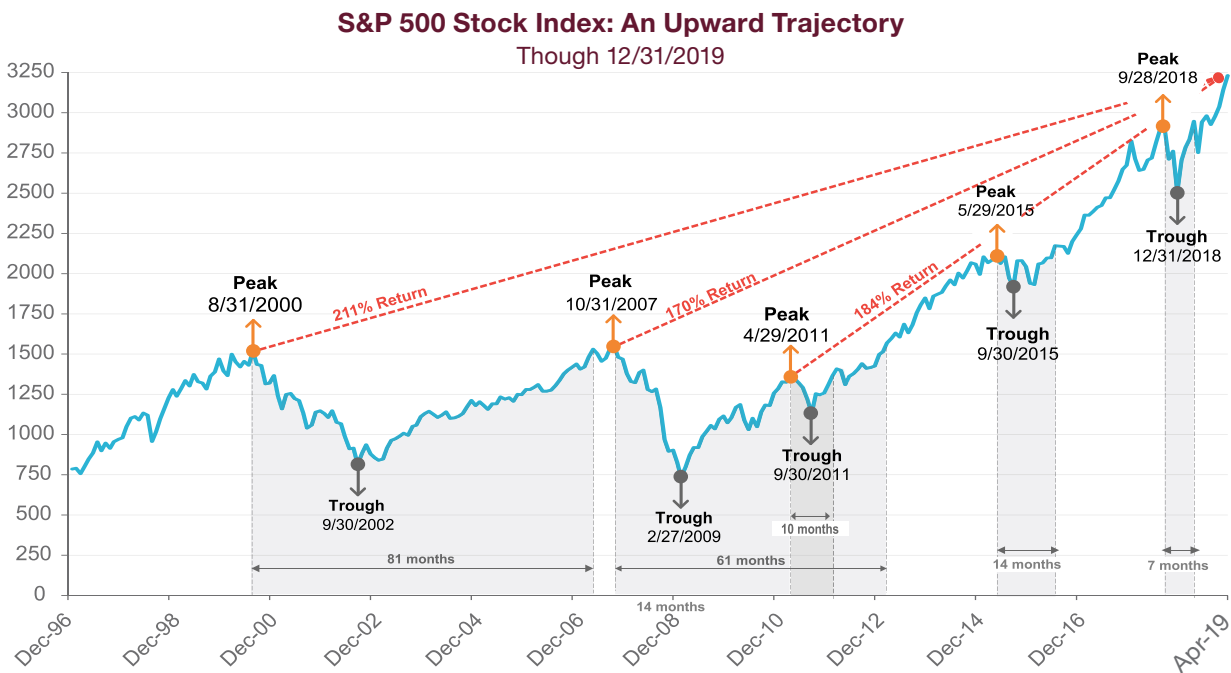
In meetings with clients, we most often hear three questions in various forms. We thought it worthwhile to answer those here.

Q: Are we near a stock market top?

We never try to time markets and don't think that we or anybody else has long-term, repeatable skill in doing so. However, as you can see from the chart below, had you bought the S&P 500 at every peak, you would still be in a profitable position today. We acknowledge that we are in one of the longest bull runs in



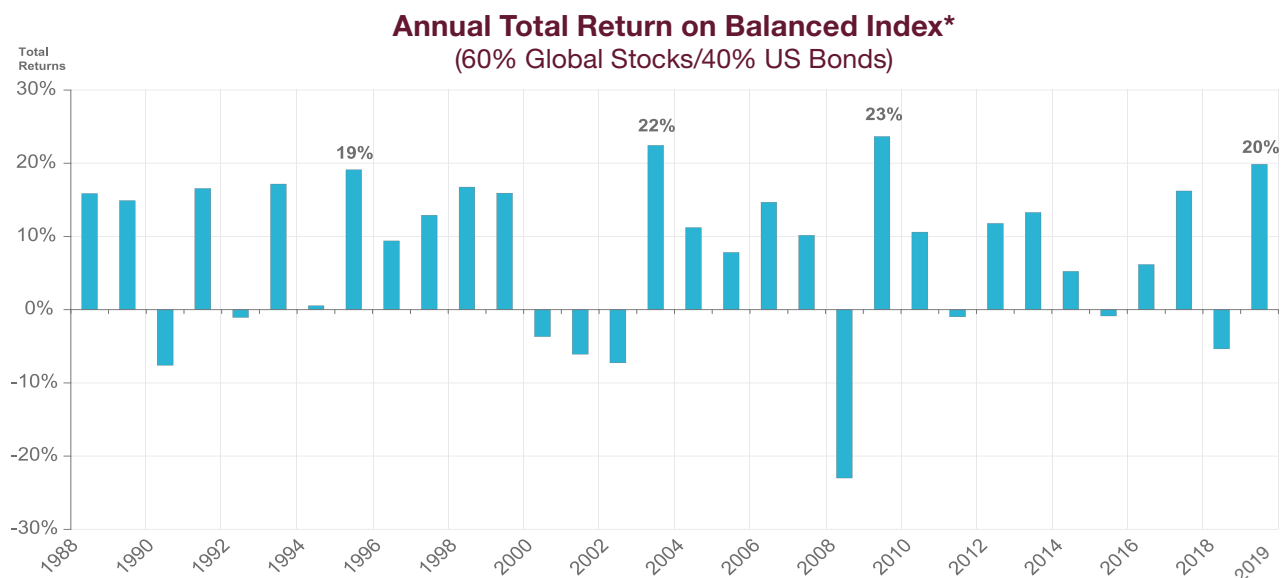
history. But we also don't see excesses like we had in 2000 and 2008, prior to big market drops from which it took years to recover.



SOURCE OF DATA: Bloomberg.

Q: Why not invest more in index funds?

2019 was a stellar year for index funds, with a “balanced” index of 60% stocks/40% bonds posting the best year since 2009 (see chart). We’ve already remarked on the uniqueness of the 2019 equity market rally as interest rates came down. As can be seen from the chart, such rallies are relatively rare. Our clients certainly benefitted from the 2019 market gains, and we invest in both indexes and actively management funds. However, it is the actively managed funds that are likely to shine should market volatility increase without another big drop in interest rates.



*60% MSCI ACWI Global Stock Index; 40% Bloomberg Barclays US Aggregate Bond Index.

SOURCE OF DATA: Bloomberg.



Q: Will the US go into recession in 2020?

While US economic growth could slow this year, that does not mean a recession is imminent. Recessions are usually caused by the Federal Reserve raising interest rates, shocks to the financial system (the 2008 financial crisis, the 2001 dotcom bubble bursting) or unexpected inflation (which also leads to rising interest rates). The Fed has been clear that it is unlikely to increase interest rates in 2020, particularly if inflation remains subdued and we don't see the imbalances that existed prior to the 2008 crisis (admittedly, few saw the banking crisis on the horizon).

Further, US consumers remain in healthy financial condition overall, with relatively low debt, rising net worth and wages. As long as unemployment remains low, and wages continue to rise albeit moderately, we think the US consumer will continue to spend.

We do not have a crystal ball, and a variety of things could push the US into recession. The most likely: 1) Escalation of the US-China trade war; or 2) Geopolitical tensions leading to war. Given recent events and subsequent reactions, we think both possibilities will be kept at bay, although they may drive market volatility.

What We're Doing

As we move into 2020, we have made modest portfolio adjustments to highlight what we think are the best return opportunities and improve the downside characteristics. Our adjustments to our equity positions have largely been about concentrating our positions in our best ideas. While international stocks could generally outperform in 2020 with the help of a weaker US dollar this year, emerging markets stocks offer the best opportunity in our view with fewer structural headwinds than Europe or Japan.

Within US equities, we have reduced our stake in small-cap stocks, which seem to have a few more headwinds going into 2020, including margin compression from steady wage growth.

Our allocation to global infrastructure equities has performed well, and we continue to add to that position in light of reasonable valuations, sizable dividends, the long-term trend toward infrastructure privatization and the downside protection provided during market downturns.

In fixed income, we have increased our holdings in longer duration bonds and core fixed income at the expense of short-term fixed income. We originally added short-term bonds early last year as a way to reduce risk at a time when interest rates appeared to be on the rise, and as a way to lock in some gains from the equity rally of early 2019. As yields have moved lower and the Fed has reiterated its "on hold" stance regarding interest rates, we feel more comfortable holding longer duration bonds, which should provide a ballast to portfolios in case of a weakening economy.

Minding the Middle East

Recent developments in the Middle East remind us of the great threat and unpredictability of geopolitical events. The US military killing of Iran's top commander and Iran's reaction have certainly heightened hostilities between the two countries. However, the market reaction has been muted. US Treasury yields and stock prices returned to where they were fairly quickly and oil prices rose less than 5%. We all should be concerned about increased tension between the US and Iran and their respective allies. However, economically speaking, markets are less susceptible to events in the Middle East. A major reason for this is that OPEC does not have the power it once did given the surge in US oil production.

In alternative assets, we are researching new hedge funds, private equity and real estate funds for client portfolios, and will propose some changes to our existing holdings as the year unfolds.

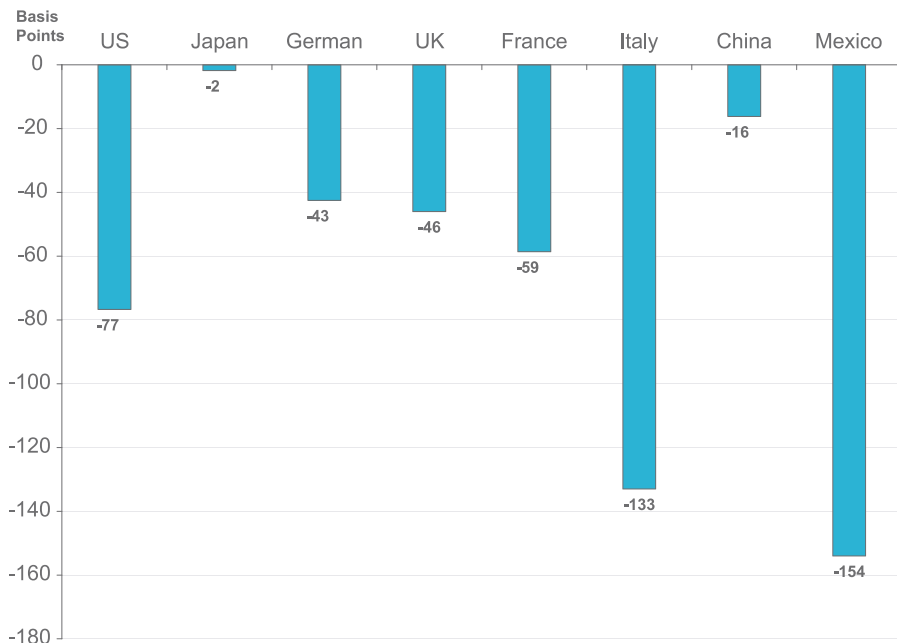
In Sum

Compared to last year, 2020 has more non-economic factors that could affect the direction of the markets. Last year was all about interest rates and US-China trade. In 2020, we have a US presidential election and geopolitical factors in play, whose outcomes are hard to predict. While we are keeping a close watch on the economy and the markets, we are not significantly changing our portfolio allocations until we see evidence of deterioration in key variables such as corporate profits, the US job market/wages, and liquidity in the fixed income markets.

Q1 2020 Key Economic Drivers

- **US Presidential Election.** We usually avoid discussing politics mostly because we believe politicians have less direct impact on capital markets than they would like us to believe. That said, there is likely to be increasing uncertainty as the election gets closer. We've already seen the impact on trade and tax policies, which any president has significant ability to change. Among the Democratic candidates, there are great differences, particularly on tax policy, although all call for higher taxes in some form. As we approach the election and get more clarity on the nominee, we expect markets to begin pricing in potential policy changes and intend to adjust our portfolios accordingly.
- **Inflation/Monetary Policy.** US monetary policy reversed course in early 2019, after the worst December for US stocks since World War II, greatly benefitting capital markets. Looking forward, we do not expect much movement in interest rates. Fed Chair Powell has made it clear that the Fed intends to keep rates steady, barring indications of higher US inflation or a significant economic downturn. The futures markets are pricing in one Fed interest rate cut in 2020, which we think is really just telling us that the market is more concerned about downside risks.
- **The US Consumer.** Consumer spending is by far the biggest driver of the US economy, as we've highlighted many times in the past. Up till now, the consumer, like the US economy, continues to march forward, but we will continue to monitor this closely. New jobs and wage growth are what allow consumers to spend more, and on both those counts the US economy is delivering so far.
- **Corporate Earnings.** Given that US equity performance was so robust in 2019, it may come as a surprise that S&P 500 earnings in 2019 were basically the same as in 2018. Improving global trade sentiment, falling interest rates and Fed policy support were what drove stock prices higher, with the latter two factors less likely to provide as much of a boost in 2020. Consequently, equity market performance this year is likely to rely more on the bottom-line successes of corporations. At this point, the earnings of the S&P 500 are expected to rise roughly 9% in 2020, which would suggest a continuation of the favorable environment for equity investors.
- **Trade Conflicts.** The US and China signed a Phase 1 trade deal on January 15. We think this is largely symbolic and the most difficult issues, such as intellectual property protections, are yet to be negotiated. We find it highly unlikely that the two sides will come to an agreement on broader terms before the US presidential election. Further, the US has fragmented trade agreements with more than just China, in particular the European Union. Threatened tariffs on European autos and auto parts could have a significant impact in 2020.

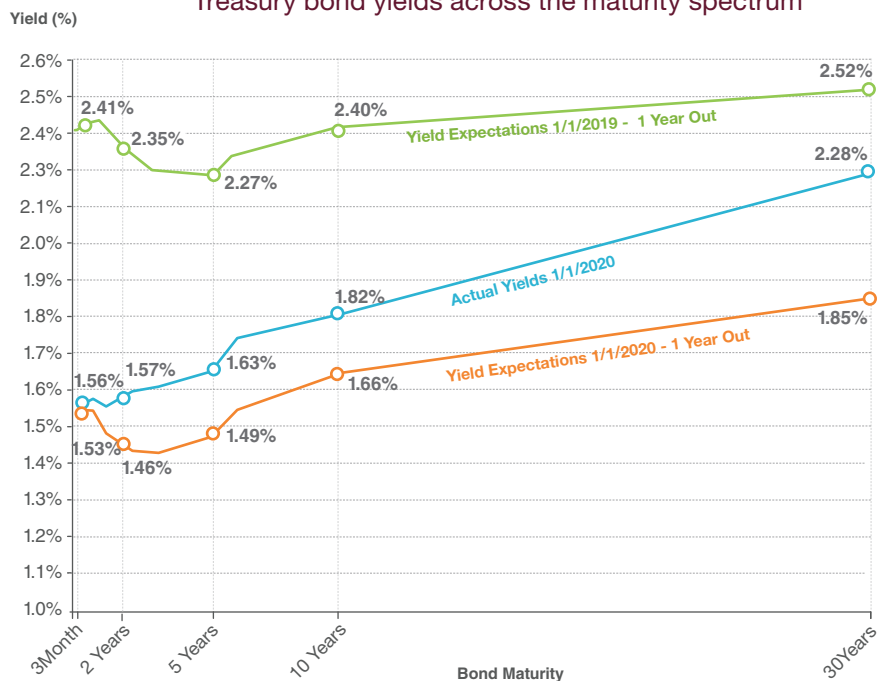
The 2019 Drop* in Government Bond Yields (On 10-Year Bonds Dec. 31, 2018 - Dec. 31, 2019)



*In basis points; 100 basis points = 1 percentage point.
SOURCE OF DATA: Bloomberg.

Arguably the most powerful force behind financial market performance in 2019 was the backdrop of falling interest rates that occurred both in the US and abroad. Lower interest rates have helped rationalize higher valuations for equities.

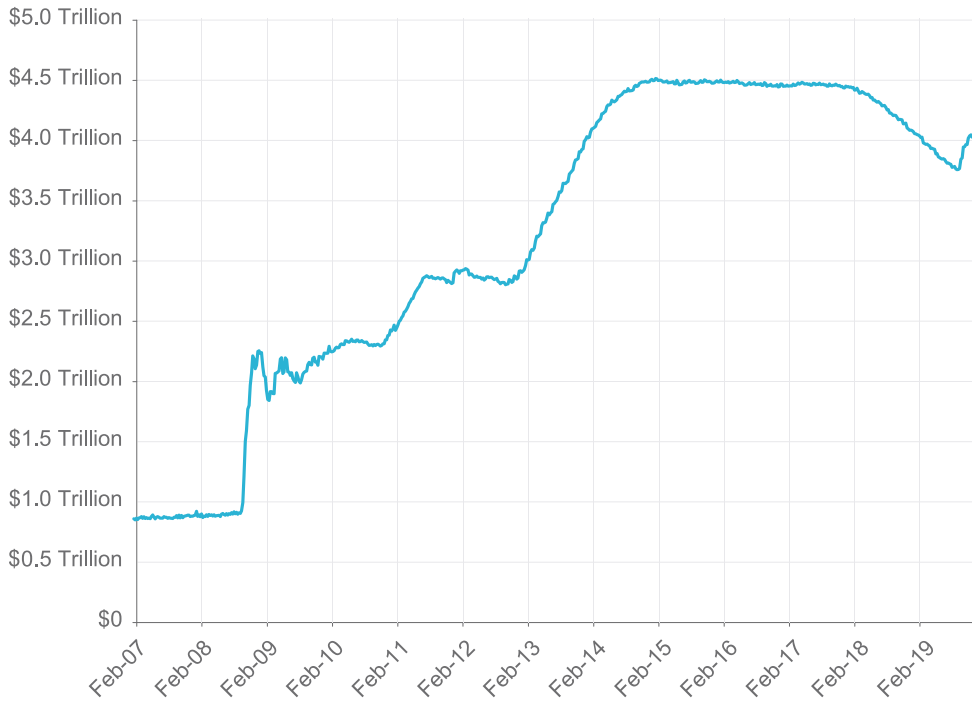
The US Yield Curve: Actual and Expected** Treasury bond yields across the maturity spectrum



*Yields as of Dec. 31, 2019. **Estimated yields based on pricing of derivative contracts.
Source Data: Bloomberg.

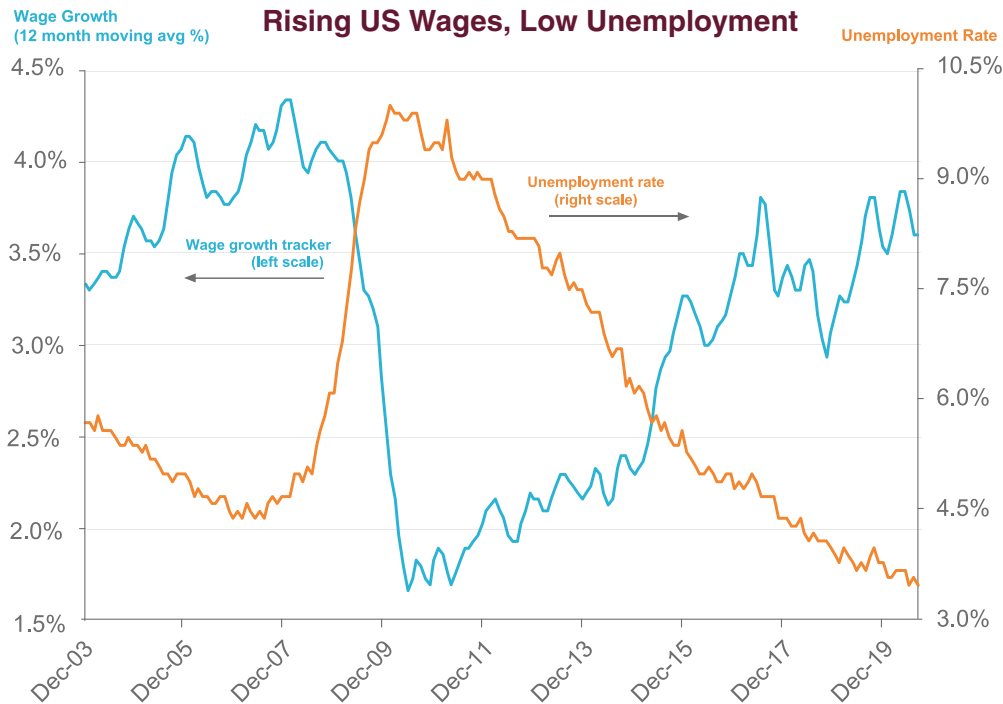
That US interest rates moved the way they did largely came as a surprise to investors. A year ago, forward markets forecast that rates would remain near where they were or possibly rise. As the chart shows, rates fell fairly dramatically and forward markets forecast a continued decline in 2020.

Size of Federal Reserve Balance Sheet



SOURCE OF DATA: Bloomberg.

The Federal Reserve lowered its key interest rate three times in 2019 and in September stopped selling fixed income securities from its balance sheet (or allowing them to expire). What's more, the Fed started buying short-term Treasury debt to provide liquidity to the overnight lending (repo) market. While we agree with Fed Chair Jerome Powell that this is not a type of Quantitative Easing, the ongoing Fed purchases further underscore the shift back to accommodative policy.



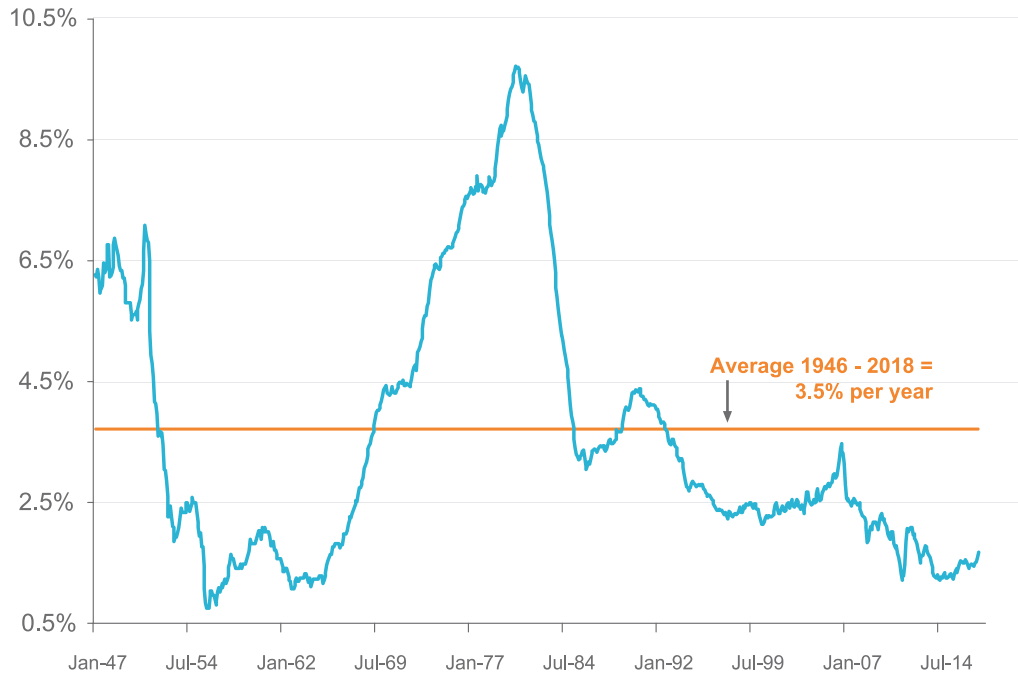
SOURCE OF DATA: Wells Fargo.

US consumer spending is the key driver of US economic growth. A healthy US job market suggests Americans will have jobs and more money to spend as indicated by extremely low unemployment and moderate wage growth. While low unemployment and rising wages have historically pointed to higher inflation, that has not materialized so far.



US Inflation: Historically Low

Annual % change in the Consumer Price Index (CPI) Rolling 5-year average

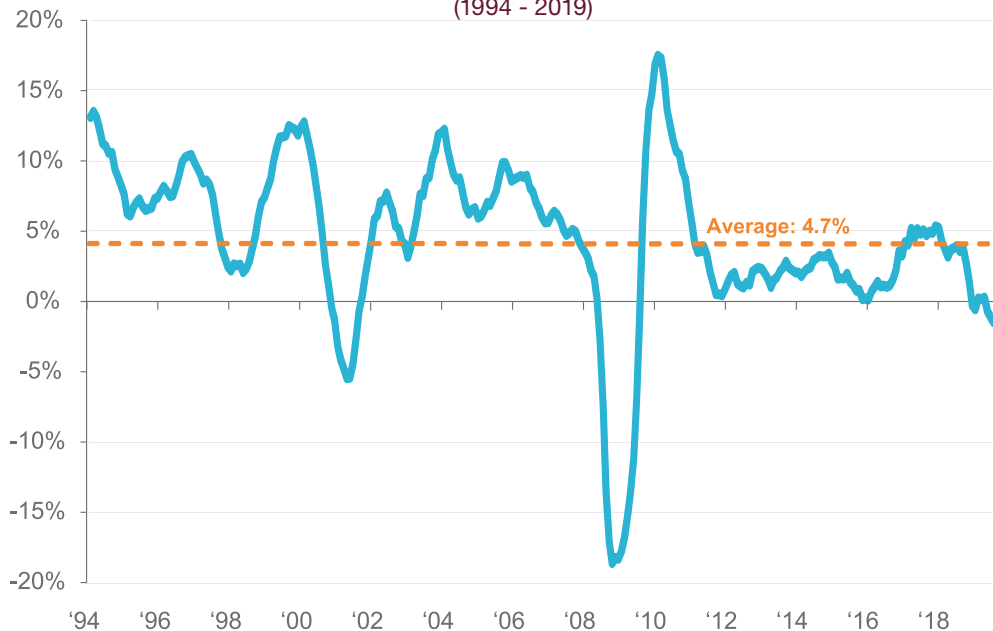


SOURCE OF DATA: Wells Fargo.

US inflation has not risen above intermediate or long-term historical averages. Multiple factors have kept the lid on price increases, including technology, globalization and changing demographics in the workforce. The forces are persistent and will give the Fed some flexibility in keeping interest rates low for a longer period of time.

Annual Growth in Global Trade Flows

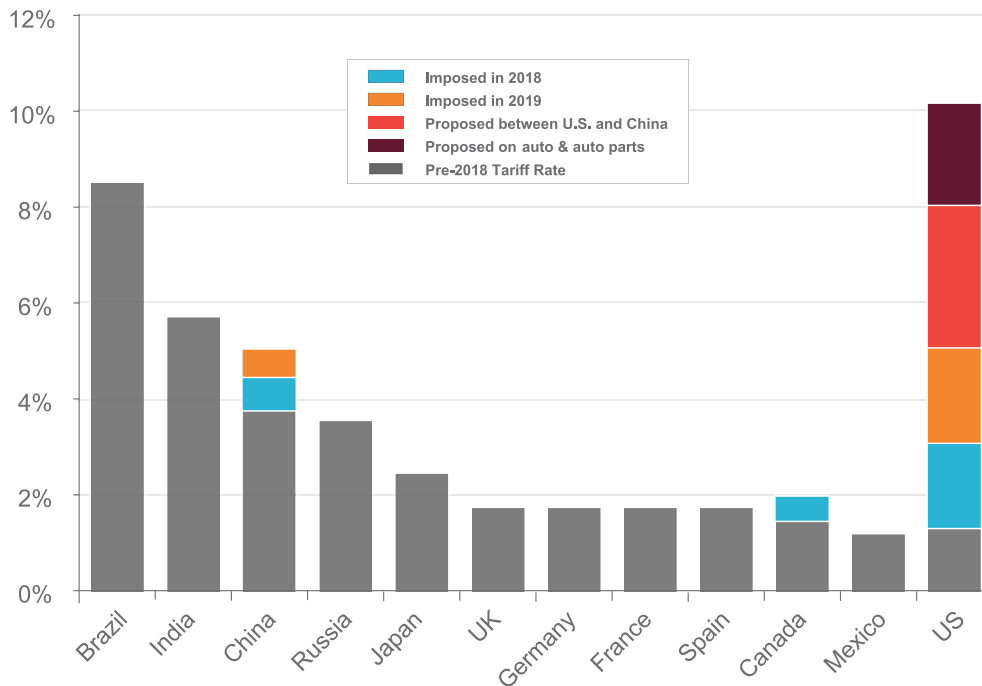
(1994 - 2019)



Source of Data: U.S. Department of Labor, Federal Reserve Bank of Atlanta.

There is no denying that the US-China trade war has had a negative impact on the global economy. The resulting uncertainty has dimmed the outlook of businesses, as evidenced by CEO expectations and business spending. Global trade growth has also fallen to a level typically seen in recessionary environments.

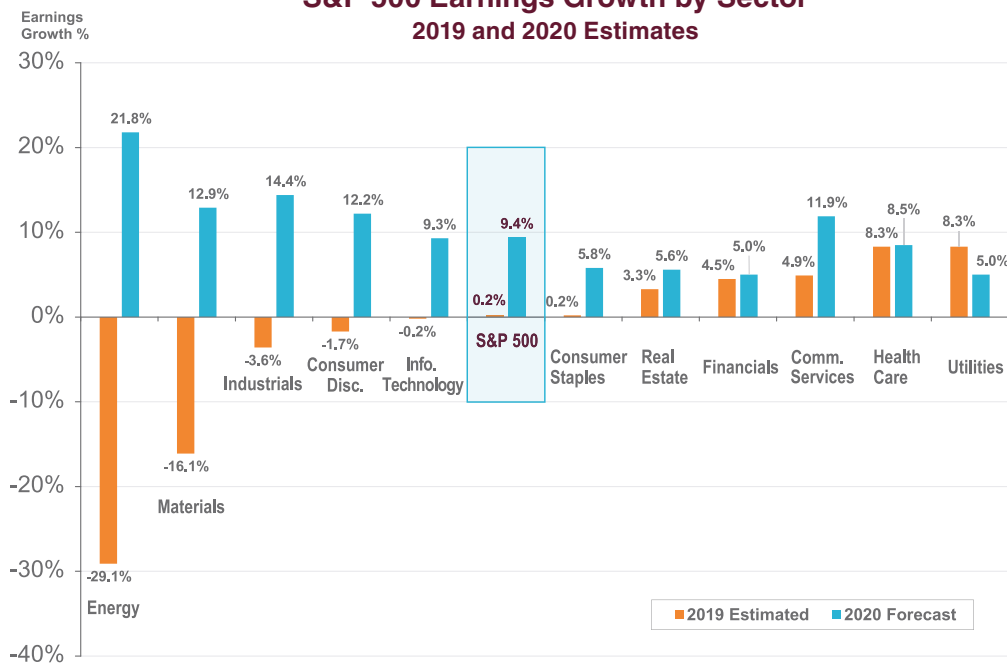
New Import Tariffs Since 2018: US Leads



SOURCE OF DATA: JPMorgan.

The belligerents in the global trade war over the last year have been primarily the US and China with other countries caught in the crossfire. If the US proceeds with proposed tariffs, this would be a further headwind to growth, but trade negotiations continue with tangible signs of progress already in 2020.

S&P 500 Earnings Growth by Sector 2019 and 2020 Estimates

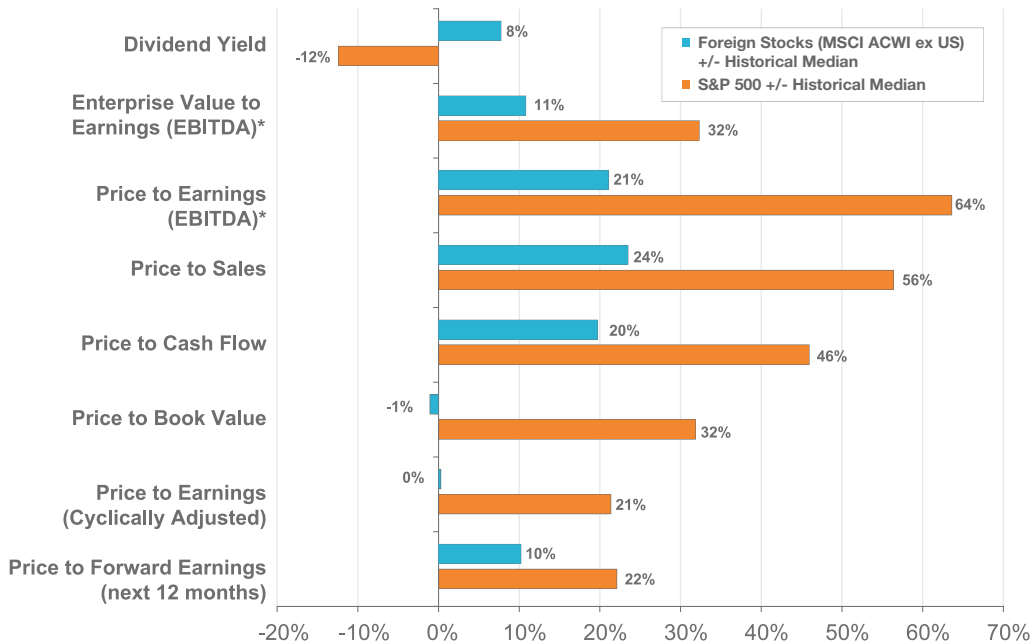


SOURCE OF DATA: FactSet.

While US corporate earnings are forecast to be flat after data is finalized through 2019, results were disparate across market sectors. The outlook is better for 2020, particularly in the more cyclical sectors, which will likely be the most significant fundamental driver of equity returns this year.



US vs. Foreign Stock Valuations Relative to Historical Median

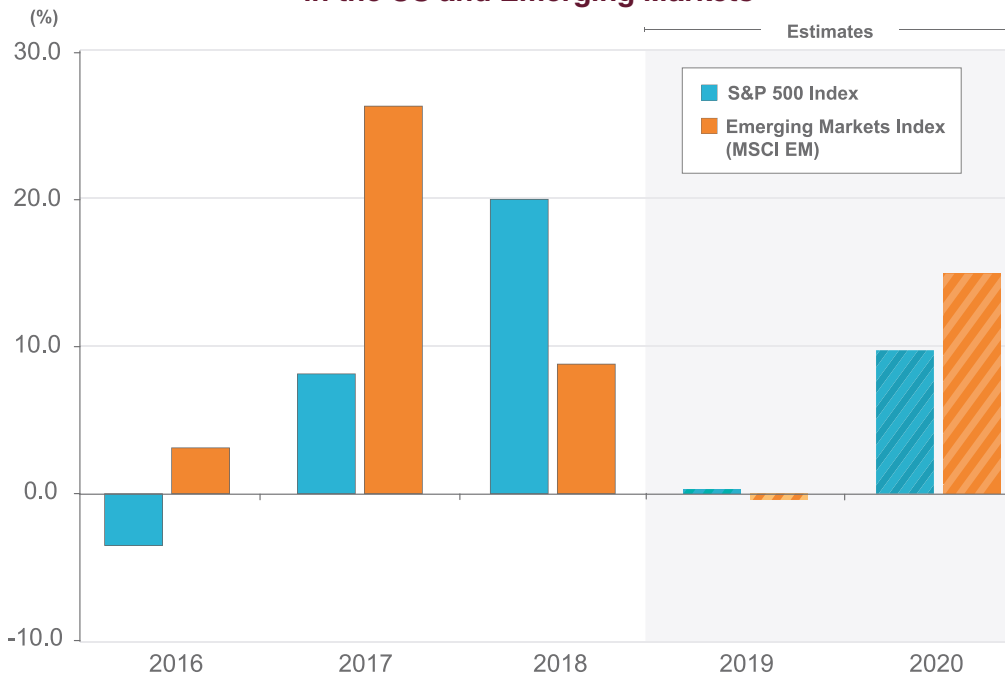


*EBITDA - Earnings before Interest, Taxes, Depreciation and Amortization.

SOURCE OF DATA: LNW, Bloomberg.

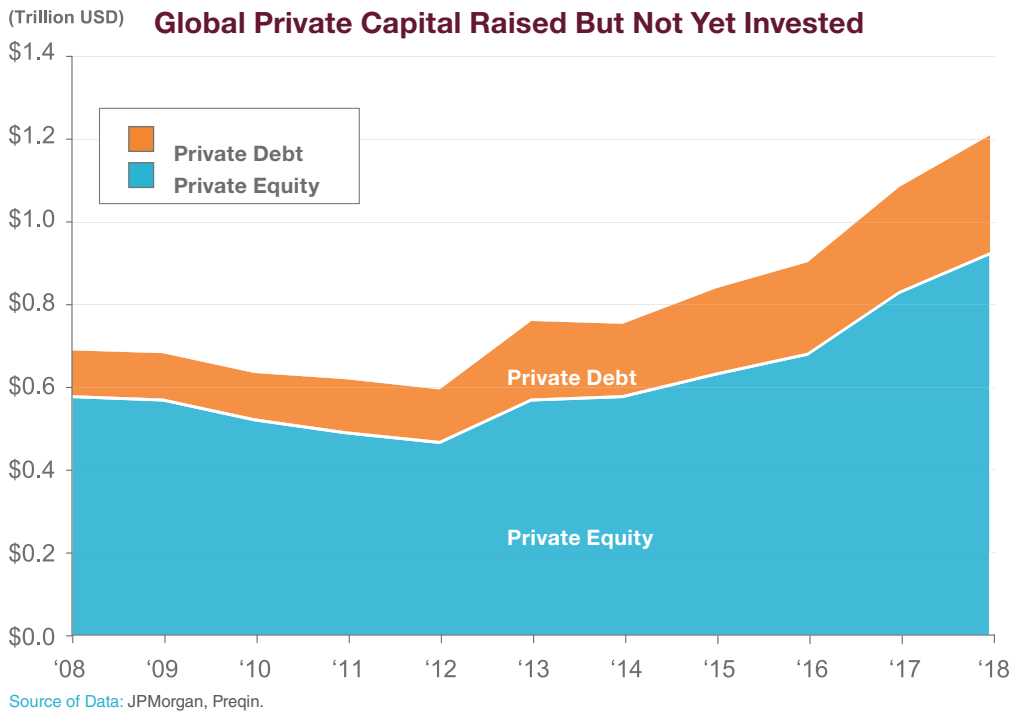
We have long advised global diversification in portfolio allocations to broaden portfolio risk-reward opportunities. Today, US stocks are generally more expensive than foreign equities relative to historical levels. This supports a significant allocation to foreign equities via actively managed funds that can take advantage of pricing differentials.

Corporate Earnings Growth: 2020 Rebound Expected in the US and Emerging Markets

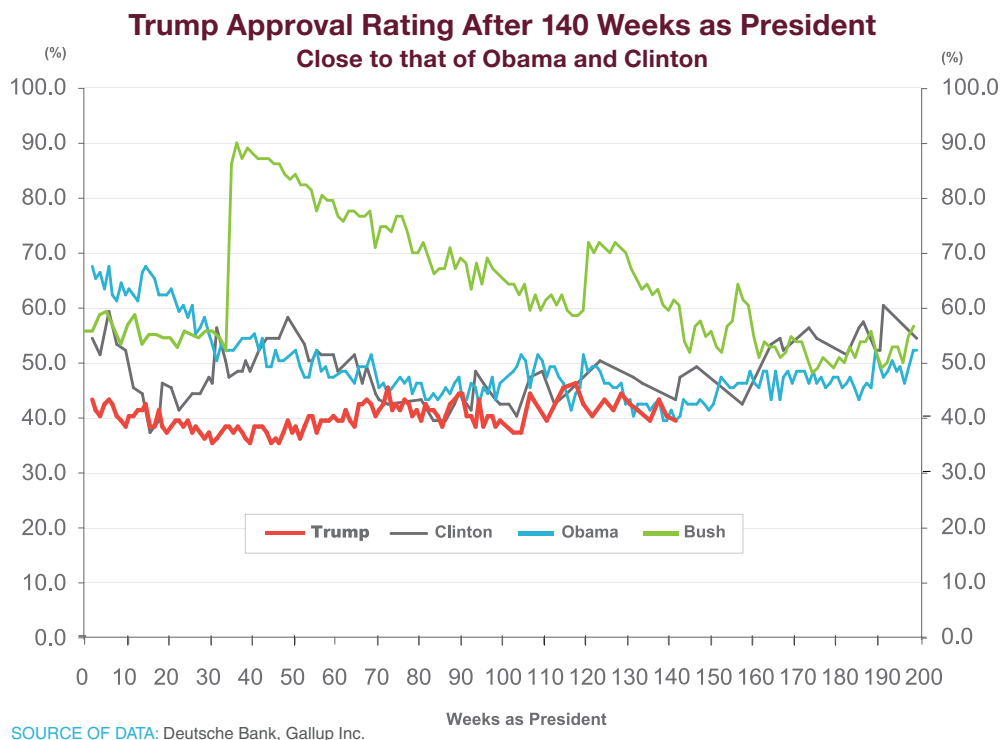


SOURCE OF DATA: Lazard.

In our view, emerging markets (EM) offer the best risk-reward opportunities overseas, sporting attractive equity valuations, faster economic growth and sensitivity to improved global trade, especially between the US and China. As in 2017, EM corporate earnings growth is expected to outpace that of the US in 2020. There is, however, greater risk and price volatility in emerging markets and we take that into account in determining an appropriate allocation for client portfolios.



Investors have been plowing money into private equity opportunities over the last several years while simultaneously paying higher prices for these investments. We believe private equity and real estate can contribute value to portfolios in the years ahead, but we are exercising caution and evaluating idiosyncratic deals less dependent on macroeconomic factors for success.



Uncertainty caused by the 2020 US presidential election is a wild card that could move markets this year, as investors digest what the likely victor's policies would mean for the markets.



THE BENEFITS OF DIVERSIFICATION

Total return by asset category relative to a diversified* allocation.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 YTD	15-Year Annualized Return	15-Year Annualized Volatility [#]
Best Performance	Global REITs 37.96%	MSCI EM 34.00%	Global REITs 42.35%	MSCI EM 39.42%	10yr Treas 20.06%	MSCI EM 78.51%	US Small Cap 28.85%	10yr Treas 17.15%	Global REITs 28.65%	US Small Cap 38.82%	Global REITs 15.89%	Muni Bonds 2.45%	US Small Cap 21.31%	MSCI EM 37.28%	Muni Bonds 1.64%	US Large Cap 31.43%	US Large Cap 9.12%	MSCI EM 21.38%
	MSCI EM 25.55%	COMM. 21.38%	MSCI EM 32.14%	COMM. 16.23%	US Bonds 5.24%	Global REITs 38.26%	Global REITs 20.40%	US Bonds 7.84%	MSCI EM 18.22%	US Large Cap 33.11%	US Large Cap 13.24%	US Large Cap 0.92%	US Large Cap 12.05%	MSCI EAFE 25.03%	US Bonds 0.01%	US Small Cap 25.52%	US Small Cap 7.92%	Global REITs 18.93%
	MSCI EAFE 20.25%	Global REITs 15.35%	MSCI EAFE 26.34%	MSCI EAFE 11.17%	Muni Bonds 4.23%	MSCI EAFE 31.78%	MSCI EM 18.88%	Muni Bonds 7.62%	MSCI EAFE 17.32%	MSCI EAFE 22.78%	10yr Treas 10.72%	10yr Treas 0.91%	COMM. 11.77%	US Large Cap 21.69%	10yr Treas -0.03%	Global REITs 23.06%	MSCI EM 7.48%	US Small Cap 18.55%
	US Small Cap 18.33%	MSCI EAFE 13.54%	US Small Cap 18.37%	Diversified 10.91%	Illiquid HF -19.03%	US Large Cap 28.43%	COMM. 16.83%	US Large Cap 1.50%	US Large Cap 16.42%	Diversified 15.60%	US Bonds 5.97%	US Bonds 0.55%	MSCI EM 11.19%	Diversified 17.29%	Global REITs -4.74%	MSCI EAFE 22.01%	Global REITs 6.89%	MSCI EAFE 16.39%
	Diversified 13.73%	Diversified 10.39%	Diversified 17.36%	Illiquid HF 9.95%	Liquid HF -23.25%	Diversified 27.48%	US Large Cap 16.10%	Diversified -3.56%	US Small Cap 16.35%	Illiquid HF 9.14%	US Small Cap 4.89%	Global REITs 0.05%	Diversified 7.11%	US Small Cap 14.65%	Illiquid HF -4.75%	Diversified 19.52%	Diversified 6.36%	COMM. 16.19%
	US Large Cap 11.40%	Illiquid HF 9.27%	US Large Cap 15.46%	10yr Treas 9.76%	Diversified -30.77%	US Small Cap 27.17%	Diversified 12.00%	US Small Cap -4.18%	Diversified 12.54%	Liquid HF 6.73%	Muni Bonds 4.66%	MSCI EAFE -0.81%	Illiquid HF 5.46%	Global REITs 11.42%	US Large Cap -4.78%	MSCI EM 16.42%	MSCI EAFE 4.84%	US Large Cap 14.04%
	COMM. 9.15%	US Large Cap 6.27%	Illiquid HF 12.88%	US Bonds 6.97%	US Small Cap -33.79%	Illiquid HF 20.01%	Illiquid HF 10.24%	Illiquid HF -5.25%	Illiquid HF 6.37%	Global REITs 4.39%	Diversified 3.79%	Illiquid HF -1.11%	Global REITs 4.99%	Illiquid HF 8.58%	Liquid HF -6.74%	Illiquid HF 10.40%	Illiquid HF 4.58%	Diversified 10.81%
	Illiquid HF 9.08%	US Small Cap 4.55%	Liquid HF 9.25%	US Large Cap 5.77%	COMM. -35.55%	COMM. 18.91%	10yr Treas 7.90%	Global REITs -5.82%	US Bonds 4.21%	Muni Bonds -0.32%	Illiquid HF 2.98%	Diversified -2.23%	US Bonds 2.65%	Liquid HF 5.98%	Diversified -7.07%	10yr Treas 8.91%	10yr Treas 4.19%	10yr Treas 6.90%
	10yr Treas 4.83%	Liquid HF 2.72%	US Bonds 4.33%	Muni Bonds 4.78%	US Large Cap -37.60%	Liquid HF 13.40%	MSCI EAFE 7.75%	Liquid HF -8.88%	10yr Treas 4.18%	US Bonds -2.02%	Liquid HF -0.57%	Liquid HF -3.64%	Liquid HF 2.51%	US Bonds 3.54%	US Small Cap -11.01%	US Bonds 8.72%	US Bonds 4.15%	Illiquid HF 5.75%
	US Bonds 4.34%	US Bonds 2.43%	Muni Bonds 3.74%	Liquid HF 4.24%	MSCI EAFE -43.38%	Muni Bonds 7.18%	US Bonds 6.54%	MSCI EAFE -12.14%	Muni Bonds 3.56%	MSCI EM -2.60%	MSCI EM -2.19%	US Small Cap -4.41%	MSCI EAFE 1.00%	Muni Bonds 3.49%	COMM. -11.25%	Liquid HF 8.63%	Muni Bonds 3.53%	Liquid HF 5.39%
Worst Performance	Muni Bonds 2.92%	10yr Treas 1.99%	COMM. 2.07%	US Small Cap -1.57%	Global REITs -47.72%	US Bonds 5.93%	Liquid HF 5.19%	COMM. -13.32%	Liquid HF 3.51%	10yr Treas -7.83%	MSCI EAFE -4.90%	MSCI EM -14.92%	Muni Bonds -0.10%	10yr Treas 2.07%	MSCI EAFE -13.79%	COMM. 7.69%	Liquid HF 0.86%	US Bonds 3.17%
	Liquid HF 2.68%	Muni Bonds 1.87%	10yr Treas 1.36%	Global REITs -8.96%	MSCI EM -53.33%	10yr Treas -9.71%	Muni Bonds 3.13%	MSCI EM -18.42%	COMM. -1.06%	COMM. -9.52%	COMM. -17.01%	COMM. -24.66%	10yr Treas -0.16%	COMM. 1.70%	MSCI EM -14.57%	Muni Bonds 5.83%	COMM. -2.55%	Muni Bonds 2.70%

*Past performance is no guarantee of future results. Data as of 12/31/2019. Returns are for period and index indicated (see Disclosures page for index definitions). "Diversified Allocation" returns assume quarterly rebalancing.

*Diversified allocation is: 10% US Municipal Bonds; 10% US Core Bonds; 25% US Large Cap Equities; 5% US Small-Cap Equities; 22% Int'l Developed Equities; 9% Emerging Markets Equities; 4% Global Infrastructure; 13% Illiquid Hedge Funds; 2% Commodities.

Annualized Volatility as measured by standard deviation (the dispersion of outcomes around "the mean," or average result). When the standard deviation is lower, realized results tend to be closer to expected results (and vice versa). Standard deviation is not intended to reflect the entire range of gains or losses possible from an investment.

The chart above highlights annual returns on a diversified portfolio consisting of the asset classes noted in the footnote, for each year from 2004 through 2019 (as of Dec. 31 2019). The last two columns show 15-year annualized returns and price volatility for the diversified portfolio as well as for the asset classes. Through 2019, we've seen the resurgence of large-cap US equities. No major asset class lost ground in 2019, and we remain most surprised by the magnitude of the returns.



ABOUT THE AUTHOR

Gino Perrina, Ph.D., CFA is the Chief Investment Officer at Laird Norton Wealth Management and has more than 15 years of experience in investment analysis, strategy and risk management. Prior to joining LNWM in November 2015, Gino was a Managing Director at BlackRock Inc. in New York City, responsible for managing risk in the firm's alternative asset portfolios (+\$100 billion in total investment). He was also Managing Director of Research and Risk Management at BlackRock Alternative Advisors (2006 to 2010), Head of Fixed Income Research at Russell Investments (2010 to 2012) and a fixed income analyst and portfolio manager at Microsoft and IAC/InterActive Corp.

ABOUT LAIRD NORTON WEALTH MANAGEMENT

With nearly \$5 billion in assets under advisement, Laird Norton Wealth Management is the Northwest's premier wealth management company. Founded in 1967 to serve the financial management needs of the Laird and Norton families, the firm now provides integrated wealth management solutions to more than 700 individuals, families, business leaders, private foundations and nonprofit organizations.

LNWM ASSET CLASS RETURNS CHART INDEX DEFINITIONS

Intermediate Municipal Bonds: Barclays Municipal Bond 1-10 Year Blend Index that measures the performance of municipal bonds with maturities between one and 10 years.

U.S. High-Yield Bonds: ICE BofAML US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

U.S. Core Taxable Bonds: The Barclays Capital U.S. Aggregate Bond Index covers the USD denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

U.S. Large-Cap Equities: The Russell 1000 Index is an index of approximately 1,000 of the largest companies in the U.S. equity market.

U.S. Small-Cap Equities: Russell 2000 Index, a measure of the performance of the 2,000 smallest companies in the Russell 3000 Index, representative of the U.S. small capitalization securities market.

Developed International Equities: MSCI EAFE Index, a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. As of June 2014, the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

Emerging Markets: MSCI Emerging Markets Index, a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2014, MSCI Emerging Markets Index consisted of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

Commodities: The Bloomberg Commodity Index is made up of 22 exchange-traded futures on physical commodities. The commodities are weighted to account for economic significance and market liquidity and weighting restrictions on individual commodities and commodity groups promote diversification.

Global REITs: FTSE EPRA/NAREIT Global Equity REIT Index, a measure that tracks the performance of listed real estate companies and REITs worldwide.

Managed Futures: The SG CTA Index provides the market with a reliable daily performance benchmark of major commodity trading advisors (CTAs). The SG CTA Index calculates the daily rate of return for a pool of CTAs selected from the larger managers that are open to new investment.

Hedge Funds – Liquid: HFRX Global Hedge Fund Index – A daily-valued index designed to be representative of the overall liquid hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

Hedge Funds – Illiquid: HFRI Fund Weighted Composite Index – A global, monthly-valued, equal-weighted index of over 2,000 single-manager funds that is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies. Constituent funds report monthly net of all fees performance in U.S. dollar and have a minimum of \$50 Million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.



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