LNWM Quarterly Commentary – Q2 2022

THE LONG VIEW ON 2022

Signal vs. Noise: Signal is the meaningful information that you're actually trying to detect; noise is the random, unwanted variation or fluctuation that interferes with the signal.

RONALD G. ALBAHARY, CFA®

Ron is Chief Investment Officer at Laird Norton Wealth Management. He determines the firm's investment strategy, directs the investment selection process, and works in tandem with LNWM's client services teams to deliver investment solutions structured to attain each client's unique goals.

It's been a very "noisy" first quarter. By that I mean we've seen short-term market fluctuations that are driven primarily by the "noise" from financial and general media. As professional investors, our charge is to dig beyond the headlines and the data conveniently cited to look for meaningful and material "signals" derived from our broad range of sources. We would argue that the market regime shift we put forth as a thesis in the January 2022 Commentary is likely now fully with us, accelerated by Russia's invasion of Ukraine, a humanitarian crisis that is likely to have economic and geopolitical ramifications for many years to come.

While the fog of the war in Eastern Europe and the war against Covid cloud how a new world order may unfold, it is becoming increasingly clear we have exited an environment of relative geopolitical stability dating back to at least 1991 (marked by the fall of the Soviet Union). In this Commentary, I would like to frame what is happening by highlighting two aspects of our thought process: Perspective and Third-Order Thinking.

IN BRIEF

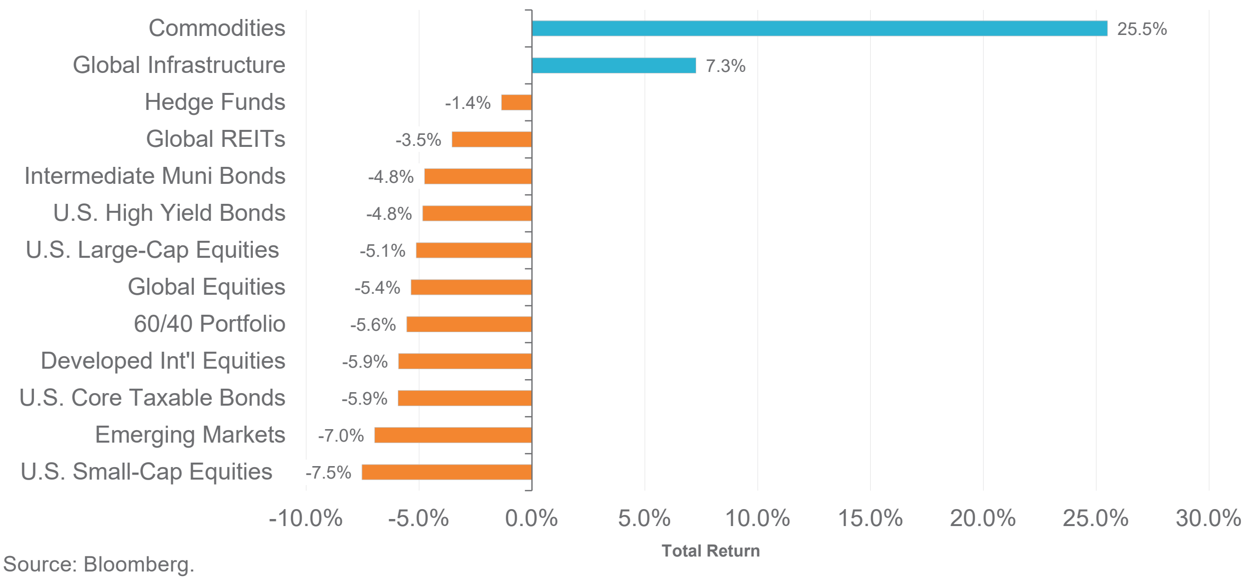
- Market volatility is likely to continue amid higher uncertainty, including market regime change to higher inflation, higher interest rates, geopolitical upheaval and continued challenges with the global supply chain.
- Market dislocations should continue to create opportunities.
- Bond exposures have been challenged by rising interest rates but look increasingly attractive.
- Our focus remains on portfolio ingredients that in combination can effectively address risks and opportunities: the classic balanced portfolio (60%stocks/40% bonds passively managed) had its worst performance in Q1 2022 since the pandemic-related drop in Q1 2020 – a reminder of the importance of extensive diversification.

PERSPECTIVE: As troubling as inflation is today, this bout with inflation appears different than in the 1970s. Back then, manufacturing was a material contributor to US GDP making our economy twice as dependent on oil versus today. Additionally, inflation was not only being driven by a shortage of oil but very strong consumer demand, as millions of baby boomers in their 20s and 30s formed households.

Q1 2022: OFF TO A ROCKY START

In the first quarter of 2022, the US stock market posted its worst performance in two years with good cause: Covid is still lurking if not as dangerous, Russia invaded Ukraine with no resolution in sight, and global inflationary pressures are mounting. Only commodities and infrastructure had positive results and we were glad to have both these exposures in LNWM portfolios.

Q1 2022 Asset Class Performance: Mostly Negative

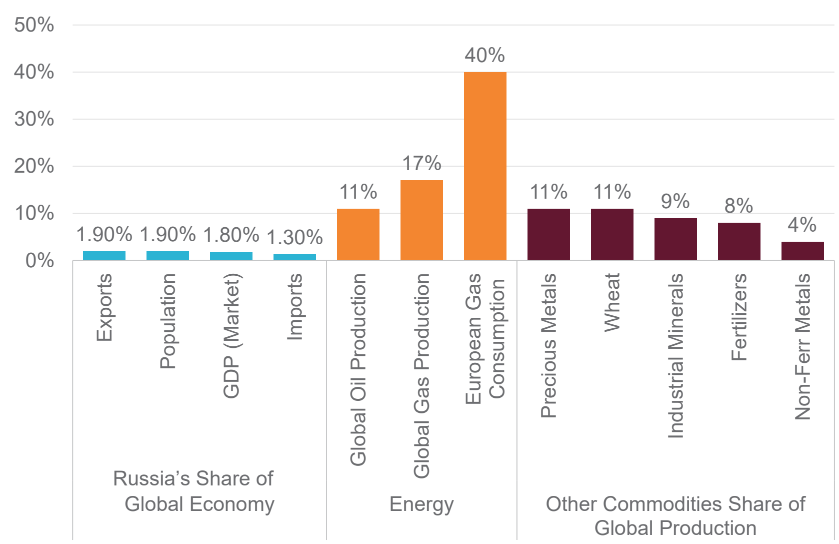


Source: Bloomberg.

It's important to remember that most of the world's major industrialized economies were battling long-term deflationary trends up until 2021, due to aging populations in the developed world (as well as China), technology/automation driving down production costs, and mounting debt levels just to name a few. These trends remain in place. In addition, today we are facing ongoing shortages in many goods, materials, and commodities due to the disruptions of the pandemic and the invasion of Ukraine, but it remains to be seen how the tug-of-war between inflationary and deflationary forces will end.

Russia provides a large share of the European Union's (EU) imports of critical goods: oil and natural gas, key metals used in a broad range of products as well as fertilizers and wheat. Add to that Ukraine, also a substantial provider of rare earth elements, including nearly 50% of the world's supply of semiconductor grade neon. Crucially, Ukraine is the "breadbasket" of Europe supplying much of their grain, vegetables, sunflower seeds, milk and meat. Considering that the EU is 23% of global GDP, the knock-on effects of

Russia's Outsized Share of Global Energy & Key Commodities



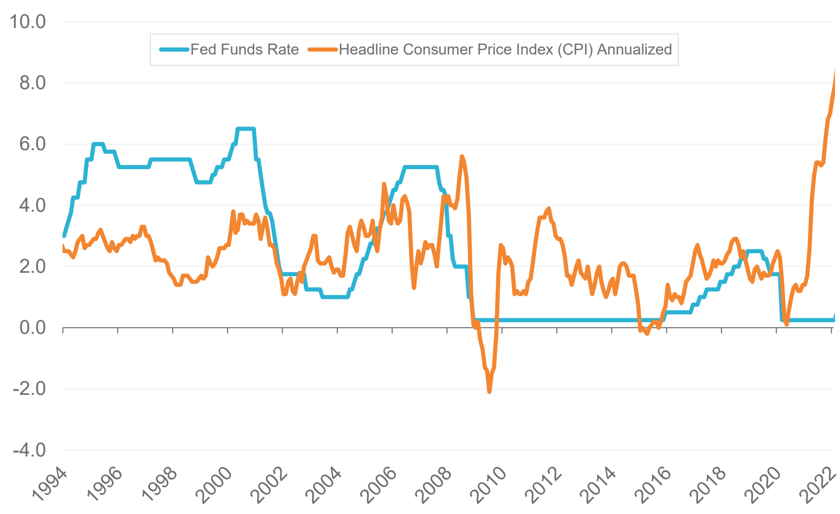
Source: IMF, Goldman Sachs Global Investment Research.

its slowdown should not be underestimated. And with commodity prices remaining elevated for longer, stagflation risks (high inflation and weak growth) have increased, not just for Europe but for the world at large. The US is relatively well-positioned, given that we are a major energy and food producer. But the US is not immune from stagflation or even recession.

A key question for the rest of 2022: Can US consumer spending, responsible for nearly 2/3rds of GDP, continue to rise without support from either fiscal or monetary stimulus? This year will see the largest one-year decline in the federal budget deficit in US history ($1.3 trillion drop expected as Covid relief lapses). At the same time, the Federal Reserve is raising interest rates and no longer buying billions in bonds and mortgages monthly. It's not surprising 30-year mortgage rates were recently near 5%, up roughly 25% in the past year.

Another drag on consumers: US wages are rising but they're not keeping up with inflation. Real wages (wages minus inflation) have been shrinking for six months running. When all is said and done, inflation is determined not by what companies want to charge, but by the willingness of customers to accept the price hikes. And now we are seeing customers balk for the first time in a while. This could be an inflection point — forcing businesses to either cut costs, improve productivity or reduce profit margins.

Fed Funds Rate and US Inflation: A Big Differential

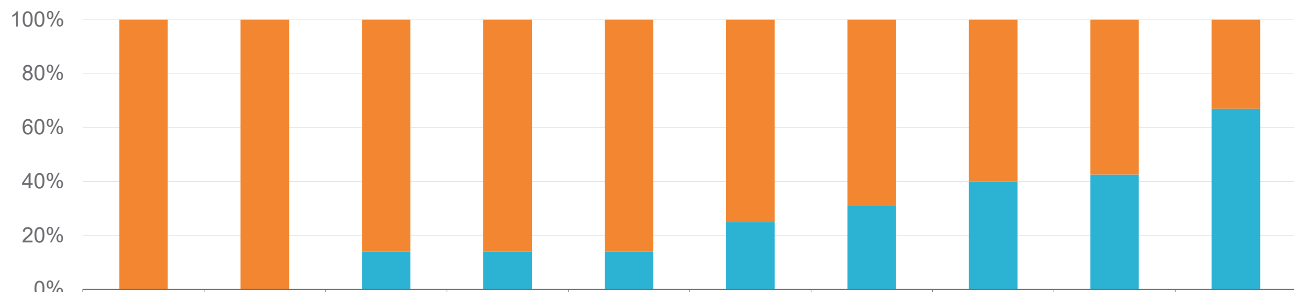


Source: Federal Reserve; Bureau of Labor Statistics.

While US corporations reported record profits and margins for 2021, analysts are now revising corporate earnings forecasts downward. There may be more downside in the months ahead as the reality of a challenging economic backdrop sets in. With this in mind, volatility in the major equity indices could well continue.

S&P 500 Earnings Estimates Are Being Revised Downward

Percentage (%) of S&P 500 Companies with Q1 Positive and Negative Guidance



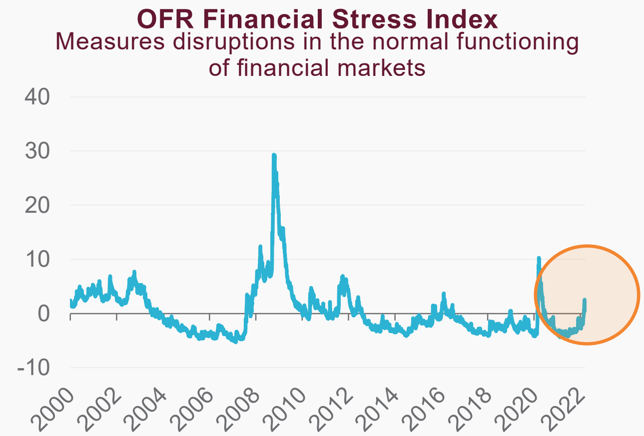
	Comm. Services	Consumer Staples	Industrials	Real Estate	Materials	Consumer Disc.	S&P 500	Health Care	Info. Technology	Utilities
negative	100%	100%	86%	86%	86%	75%	69%	60%	58%	33%
positive	0%	0%	14%	14%	14%	25%	31%	40%	43%	67%

Source: FactSet.

Could the economy experience a recession? The short answer is yes. As painful as recessions are, they are a natural and necessary part of the business cycle, despite the financial media making them sound like a death knell. For perspective, we look not to the stock market but to credit markets since they are the lifeblood of the economy (borrowing decisions that affect investment and spending). In the past month, the credit markets have started to indicate higher risk of recession. But if or when that might actually materialize is anyone's guess. The charts in the box below show two key indicators we monitor for signals related to the health of the economy and functioning of the capital markets.

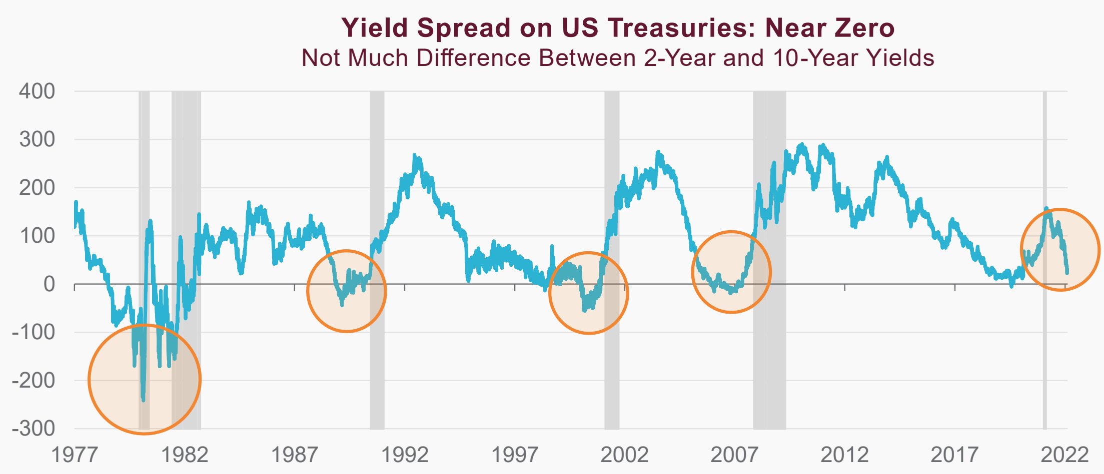
CREDIT MARKETS FLASHING ORANGE

OFR Financial Stress Index (OFR FSI). This is a daily, market-based snapshot of stress in global financial markets. It is constructed from 33 financial market variables, such as yield spreads, valuation measures, and interest rates. As you can see from the chart, those indicators are starting to edge upward, although not to an alarming degree with the context of recent history.



Source: Office of Financial Research, St. Louis Fed, ICE.

The yield spread between short- and long-term Treasury bonds. In the recent past, recessions have followed an "inverted yield curve" (2-year yields higher than 10-year). Currently, the yield on 2-year Treasuries is about the same as the yield on 10-year Treasuries. The Federal Reserve seldom raises interest rates when the yield curve is flat or inverted. One example of that is 1999. We all know what the next year, in fact the next four years, looked like for the market: sharp drop followed by stagnation. Still, over time there is a clear general pattern -- the Fed over-eases (1988, 1999, 2002, 2008-2014) and then course corrects by over-tightening (1989, 2000, 2004-06, 2018).



Source: Bloomberg LP.

THIRD-ORDER THINKING: Reporters on current events tend to apply first-order thinking: A is happening which will cause one outcome, B. Readers are then drawn into making conclusions based on very limited information. For the invasion in Ukraine, 1st order thinking might be: Russia is threatening not only Ukraine but Europe; the EU will respond by spending relatively more on defense and less on other priorities.

However, the world does not stand still when threats are on the rise; in fact, things can start moving faster. Second-order thinking attempts to look past the simplest cause-and-effect outcome by focusing on the various potential intermediate-term trajectories. EU defense spending can encompass more than just military spending and include an even stronger focus on developing renewable energy and sustainable, regenerative agriculture, both of which are in the interest of national security given the desire to eliminate reliance on Russia.

By the end of 2022, the EU is striving to be 67% less dependent on Russian gas and totally independent by 2030 as it works on developing renewable energy and new types of sources (bio-gas, green hydrogen). One major beneficiary of EU self-reliance are US infrastructure companies that liquify natural gas and transport it to Europe, where gas prices are 10 times what they are in the US.

Third-order thinking is strategic and long-term and very much aligned with our focus on managing wealth over multiple generations. Applying third-order thinking to the potential transformational impacts from the pandemic, as further amplified by the Ukraine invasion, we see the potential for a shift from globalization to regionalization.

Pain and Gain of Regionalization

Countries and companies across a variety of industries (pharmaceuticals, semiconductors, electric battery manufacturers, etc.) are starting to rethink their supply chains. A major focus is diversifying production away from one or two main suppliers often located across the globe to either onshoring (back to the US) or near-shoring (sourcing from Mexico and/or Canada).

NECESSITY AS MOTHER OF INVENTION

As was proved during the pandemic, companies in Europe, the US and elsewhere can deal with challenges in a variety of ways (restructuring workforces, changing packaging, switching suppliers and leveraging technological innovation as well as automation). Some examples:

- Tesla tweaked power steering and removed lumbar support from some car models to lower semiconductor use.
- FedEx installed a robotic sorting system in its Queens, NYC facility to sort through packages.
- Walmart created new "pop-up" e-commerce distribution centers to handle demand.
- Pepisco teamed up with Schneider Electric on "Pep+ Renew," an initiative to accelerate the use of electricity from renewable energy in food production.

Work-around efforts like these tend to give birth to new companies and industries, presenting new investment opportunities.

A shift to regionalism has the potential to make goods more expensive in the short-to-intermediate term, contributing to inflation at a higher level than we have seen prior to 2021. Eventually, though, supply chains that are closer, more reliable and secure could result in a resurgence in US manufacturing, broader regional economic prosperity, and possibly the offsetting of higher labor costs with lower cost shipping and transportation.

PORTFOLIO POSITIONING

As we turned the calendar to 2022, we cited a greater-than-usual level of uncertainty (aka risk) with many catalysts for higher volatility and a very wide divergence in opinion on Wall Street as to market direction. We do not place much value on Wall Street or economic forecasts because they are often wrong, but the disparity in outlook was telling.

With inflationary and deflationary forces in a tug-of-war, and potential outcomes especially wide, we spend our time and energy building and managing well-diversified portfolios that can navigate through periods of higher uncertainty, stress-testing them for a variety of market scenarios. At this time, we have populated portfolios with ingredients that we think can mitigate many of the risks (higher inflation, interest rates, and market volatility) as well as taking advantage of opportunities. On this latter point, it is important to recognize that the flipside of risk is opportunity—when the general market tone is marked by risk aversion, that's when our allocations to active managers (vs. index funds) in various parts of the portfolio can take advantage of the discrepancy between current asset prices and fundamental value.

Do we see any 3rd order effect opportunities? Possibly. Investments related to sustainable US agriculture and zero carbon were each intriguing to us prior to the Russian invasion of Ukraine. The spillover effects we are seeing from the conflict, including the impacts on markets for both food and energy, only strengthen the case for each of those opportunities.

Risk and Opportunities: LNWM Portfolio Exposures

Risks	Fixed Income / Cash	Alternative Diversifiers such as Hedge Funds	Global Equities - Public	Global Equities - Private	Real Assets - Public	Real Assets - Private
Downside Volatility	X	X				
Stagflation					X	X
Recession	X	X				
Impaired Supply Chains	X	X				
Extended Conflict / Cold War II	X	X				

Opportunities	Fixed Income / Cash	Alternative Diversifiers such as Hedge Funds	Global Equities - Public	Global Equities - Private	Real Assets - Public	Real Assets - Private
Volatility / Dislocation		X	X	X	X	X
Interest Rates Rise Too Far Too Fast	X					
Energy Transition			X	X	X	X
Innovation			X	X		
Regionalization			X			
Tax Management			X			

In Closing

The Russian invasion of Ukraine is a good reminder that geopolitics can lay to waste the best laid plans. History is rife with examples of participants and observers who have misjudged the duration of war, its course, the ultimate victors, and the ramifications. As such, we will continue to monitor rapidly evolving market and economic conditions relative to our clients' objectives and portfolios. In the meantime, we continue to hope for a speedy resolution and healing for the millions of families living in mourning and in fear.

TOTAL ASSET STRATEGIES

We are in times of higher market volatility. Extra care is warranted when it comes to investing/divesting and diversification. If you just had, or about to have, a liquidity event resulting in a significant amount of capital to reinvest, talk to your LNWM advisor about the optimal way to do that. If on the other hand, you need to raise cash for a major purchase or other need, market volatility can wreak havoc with how much you will net, not to mention taxes. So again, please consult with your LNWM advisory team about optimal ways to proceed.

We work to keep your investment portfolio at LNWM appropriately diversified. However, you might have concentrated equity positions outside of LNWM accounts – such as real estate, company RSUs/RSAs/stock options, etc. – that are not diversified and could increase risk in a volatile market. Now may be a good time to discuss with your LNWM advisor the level of diversification in your total asset base. As always, please feel free to reach out to your LNWM advisor or the investment team here with any issues or concerns.

ABOUT THE AUTHOR

Ronald G. Albahary, CFA® is Chief Investment Officer at Laird Norton Wealth Management. As the head of LNWM's investment team (see below), Ron determines the firm's investment strategy, directs the investment selection process, and works in tandem with LNWM's client services teams to deliver investment solutions structured to attain each client's unique goals. Prior to joining LNWM, Ron served as CIO or CEO at regional investment firms focused on ultra-high-net-worth families and foundations. Earlier in his career, he held leadership positions in the private client business of major global financial institutions, including Merrill Lynch and Northern Trust Private Bank. Ron has a degree in economics from the Wharton School at the University of Pennsylvania and currently serves as advisor to the Center for High Impact Philanthropy at the University of Pennsylvania.

The investment team resulting from the combination of Laird Norton Wealth Management and Wetherby Asset Management is comprised of 12 analysts and strategists working together to design and implement investment solutions for client portfolios. Six analysts at the firm hold the Chartered Financial Analyst® designation, with expertise spanning macroeconomics, public and private asset classes across the global capital markets, and impact investing. Collaborating with each other and with client advisors, the investment team's overarching goal is to help clients and their families preserve and grow their wealth over many generations.

ABOUT LAIRD NORTON WEALTH MANAGEMENT

Laird Norton Wealth Management ("LNWM") has long partnered with its clients to help them achieve their greatest impact through their investments, legacy planning and philanthropy. As both an RIA (registered investment advisor) and trust company, LNWM provides comprehensive and integrated wealth planning to more than 1,200 individuals, families, business leaders, private foundations and nonprofit organizations.

801 Second Avenue, Suite 1600, Seattle WA 98104   206.464.5100   800.426.5105   lairdnortonwm.com

Laird Norton Wealth Management is the business name of Laird Norton Trust Company, LLC, a State of Washington chartered trust company. The Trust Company and its wholly owned subsidiary, Laird Norton Wealth Management, LLC, an investment advisor registered with the Securities and Exchange Commission, together operate under that name. The Trust Company also owns Weatherby Asset Management, LLC, an investment advisor registered with the Securities and Exchange Commission. Such registrations do not imply any level of skill or expertise.

DISCLOSURE

All investments involve a level of risk, and past performance is not a guarantee of future investment results. The value of investments and the income derived from them can go down as well as up. Future returns are not guaranteed, and a loss of principal may occur. All investment performance can be affected by general economic conditions and the extent and timing of investor participation in both the equity and fixed income markets. Asset allocation, due diligence, and diversification do not guarantee a profit or protect against a loss. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations.

This presentation is not intended as investment advice; we offer investment advice only on a personalized basis after understanding the client's individual needs, objectives, and circumstances. The information presented herein does not constitute and should not be construed as legal advice or as an offer to buy or sell any investment product or service. Any accounting, business or tax advice contained in this presentation is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties. Any opinions or investment planning solutions herein described may not be suitable for all investors nor apply to all situations. All opinions expressed are those of Laird Norton Wealth Management and are current only as of the date appearing on this material.

A benchmark or index is an unmanaged statistical combination of securities designed to be representative of the performance of an asset class, sector or investment style. Indices are shown for informational purposes only and it is not possible to invest directly in an index. Indices are not subject to management fees. Comparisons between a composite or a portfolio and an index or benchmark are unreliable as performance indicators and should not be considered indicative of the performance that may be experienced in a particular managed portfolio.

Certain information herein has been obtained from public third-party data sources, outside funds and investment managers. All data presented is current only as of the date shown. Although we believe this information to be reliable, no representation or warranty, expressed or implied, is made, and no liability is accepted by Laird Norton Wealth Management or any of its officers, agents or affiliates as to the accuracy, completeness or correctness of the information herein contained.

The information contained in this document is the confidential and the proprietary property of Laird Norton Wealth Management. It is intended only for those to whom it is presented by the company and may not be copied or otherwise distributed without its express prior written permission.

INDEX DEFINITIONS

U.S. Core Taxable Bonds: Bloomberg US Aggregate Bond Index – Covers the US dollar-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds issued by the Treasury, Government Agencies, Corporate, MBS, ABS, and CMBS sectors.

Commodities: Bloomberg Commodity Index - A broadly diversified index of futures contracts intended to be representative of the commodities market. It currently includes 19 commodities in seven sectors.

Intermediate Muni Bonds: Barclays Capital Municipal 1-10 Year Index - Tracks the broad market performance of tax-exempt bonds with 1 to 12 years remaining to maturity.

Developed Int'l Equities: MSCI EAFE Index - A float-adjusted market-capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada. Consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

Emerging Markets: MSCI Emerging Markets Index - A float-adjusted market-capitalization index that is designed to measure equity market performance in the global emerging markets. Consists of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

U.S. Large-Cap Equities: Russell 1000 Index - Measures the performance of the large-cap segment of the US equity universe and represents approximately 92% of the U.S. market.

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

Hedge Funds: 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; includes but is 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.

Global REITs: FTSE EPRA/NAREIT Developed Real Estate Index - Tracks the performance of listed real estate companies and REITs worldwide.

Global Infrastructure: The S&P Global Infrastructure Index - Designed to track 75 companies from around the world chosen to represent the publicly traded infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities.

U.S. High-Yield Bonds: The Bloomberg US Corporate High-Yield Bond Index - Measures the US dollar-denominated, high-yield, fixed-rate corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

60/40 Portfolio: Theoretical balanced portfolio consisting of a 60% allocation to the MSCI ACWI Index of global equities and 40% allocation to the Bloomberg U.S. Aggregate Bond Index.

Global Equities: The MSCI ACWI Index -- Designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 24 emerging markets. As of June 2021, it covers more than 2,900 constituents across 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market.

DISCLOSURE

An index is an unmanaged statistical combination of securities designed to be representative of the performance of an asset class, sector or investment style. Indices are shown for informational purposes only and it is not possible to invest directly in an index. Indices are not subject to management fees. Comparisons between a composite or a portfolio and an index or benchmark are unreliable as performance indicators and should not be considered indicative of the performance that may be experienced in a particular managed portfolio.

The index information has been obtained from public third party data sources, outside funds and investment managers. Although we believe this information to be reliable, no representation or warranty, expressed or implied, is made, and no liability is accepted by Laird Norton Wealth Management or any of its officers, employees, agents or affiliates as to the accuracy, completeness or correctness of this information. The information is subject to change after the date of this report.