STATERA
ASSET MANAGEMENT

Fourth Quarter 2020

YEAR IN REVIEW

Take out global viral contagion and the U.S. presidential election and we still had a bonkers year from an equity market return standpoint. Fixed income, too, as interest rates fell at one point to forever lows, reflecting grand concern that economies around the world would need tremendous support to weather the activity-destroying effects of the COVID-19 outbreak. Icing on the cake, the surge in stocks from the bottom saw those sporting our preferred characteristics lead the way. Those trends have continued as we've launched into 2021, a year during which we expect to hear echoes of 2020, but which we otherwise foresee furthering more optimistic trends of the prior few months.

Well, There Was a Plunge…

Not having experienced a global pandemic in modern times, the progression of the outbreak was unknowable back in March and in many ways remains so even to this day. That the market lost about a third of its value in the early days of the pandemic certainly can be attributed to that unknowability. On the flip side, as we collectively took a step back from the then present severity of trends in the virus and the broader economy, investors began to extend their perspectives to a point at which the world would resume normal activity, or at least something close to it. Markets in turn rebounded to reflect those assumptions about the future.

Eyes Shifted to the Future

Many object to the strength of the markets from the second half of 2020 onward, given the present, still tenuous state of pandemic affairs. But that otherwise seemingly confounding juxtaposition should seem more sensible when reminded of the market's natural tendency to focus well into the future. Market activity in February through August, and to a lesser extent market volatility around the U.S. presidential election, demonstrate its tendency to be overreactive to short-term surprises, but more rationale over longer stretches of time. The market's habit of seemingly shifting perspectives is one that remains among the more challenging for the average investor to tolerate. How not to get caught up in the moment when it seems everyone else is. To remain focused on the long term, while acknowledging near-term factors that might otherwise lead us to make poor decisions. But, that is very much the market's nature, a predisposition we believe all investors must come to recognize in order to achieve suitably optimal outcomes.

Emerged from Doldrums

While the full year 2020 results reflect little in the way of favoritism for our preferred equity factors, the fourth quarter saw a reasonably strong shift in fondness for smaller-capitalization and less-expensive stocks. Not only that, fairly robust local returns in international markets were boosted by the declining value of the U.S. dollar to see non-U.S. stocks turn in among their more positive relative gains in recent memory. Given the dramatic gap in relative performance we were pleased to see the stirring of a potentially more stable tailwind from investor interest in these left-behind flotillas of stocks.

Figure 1: Quarter Summary

Overall Take			
↑	↑	Equity: Stellar year for U.S. stocks, despite. International names caught a late-in-the-year tailwind	
	↑	Fixed Income: Yields dropped and spreads compressed. Income was light, but gains large	
Equity			
↑	Domestic Large-cap growth stocks dominated gains for the year, but their opposites found footing in Q4	↗	International Trailed domestic stocks, but managed a solid year nonetheless

Directions and colors of arrows reflect a subjective interpretation of the quarter's market events and performance; upward (downward) and angled-upward (-downward) arrows indicate relatively favorable (unfavorable) reviews in the aggregate. They are not indicative of any specific underlying data. SOURCE: SRCM

Equity Market Review

We doubt many thought back in March that equity markets would end up having the year they did. With mid- to high-teen gains most places one looked, global equity markets shook off the pandemic and other miseries and mysteries in a process that once again confirmed the notion that stock markets are "discounting" machines. That is, investors establish expectations for corporate fundamentals (e.g., revenue, earnings and assets) far in the future and bring those values to the present. That's the "discounting" bit, which reflects the idea that dollars in the future are worth less than they are at the present, because we know we can invest those dollars we have today, theoretically resulting in our having more dollars tomorrow.

Figure 2: Trailing Broad Equity-Market Performance

Best-performing index for each period is shaded in blue; worst-performing in grey. See index details at the end of this report

	3 Month	1 Year	3 Year	5 Year	10 Year
Global	15.70	16.25	9.72	12.15	9.09
World ex. U.S.	17.22	11.12	4.83	8.98	5.06
World ex. U.S. Large-Cap	16.98	10.74	5.04	9.00	4.82
World ex. U.S. Mid-Cap	17.16	10.30	4.22	8.62	5.34
World ex. U.S. Small-Cap	18.56	14.24	4.59	9.37	5.95
U.S.	14.75	21.02	14.55	15.46	13.86
U.S. Large-Cap	12.34	21.58	15.50	16.02	14.35
U.S. Mid-Cap	20.01	19.82	12.86	14.25	13.08
U.S. Small-Cap	30.45	19.18	10.12	13.12	11.81
Developed Markets	16.23	8.47	4.36	7.72	5.82
Emerging Markets	19.95	18.39	5.77	12.22	3.47

From 12.31.10 to 12.31.20. Total return data are annualized for periods greater than 1 year. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

Figure 3: Trailing Equity-Market Performance

The tables below display the relative performance of different indexes representing U.S. and international stock markets. Broad market performance is shown in the upper left of each group (3-month and 1-year periods). The remainder of the table displays the performance of various indexes, including large-, mid- and small-cap stocks, Value and Growth stocks, and combinations of each. Indexes that outperformed (underperformed) the broader market are shaded in blue (grey) in depth according to their respective relative performance.

U.S. Stocks

3-Month Period ended 12.31.20		Value	Growth
All Stocks	14.8%	15.9%	13.9%
Large	12.3%	13.2%	11.8%
Mid	20.0%	21.4%	18.6%
Small	30.5%	32.4%	28.8%

1-Year Period ended 12.31.20		Value	Growth
All Stocks	21.0%	1.1%	42.1%
Large	21.6%	0.7%	43.9%
Mid	19.8%	2.4%	37.1%
Small	19.2%	2.0%	36.9%

International Stocks

3-Month Period ended 12.31.20		Value	Growth
All Stocks	17.2%	20.5%	14.2%
Large	17.0%	20.5%	13.8%
Mid	17.2%	19.9%	14.5%
Small	18.6%	21.1%	16.2%

1-Year Period ended 12.31.20		Value	Growth
All Stocks	11.1%	-0.1%	22.4%
Large	10.7%	-1.1%	23.6%
Mid	10.3%	0.4%	17.0%
Small	14.2%	4.7%	23.7%

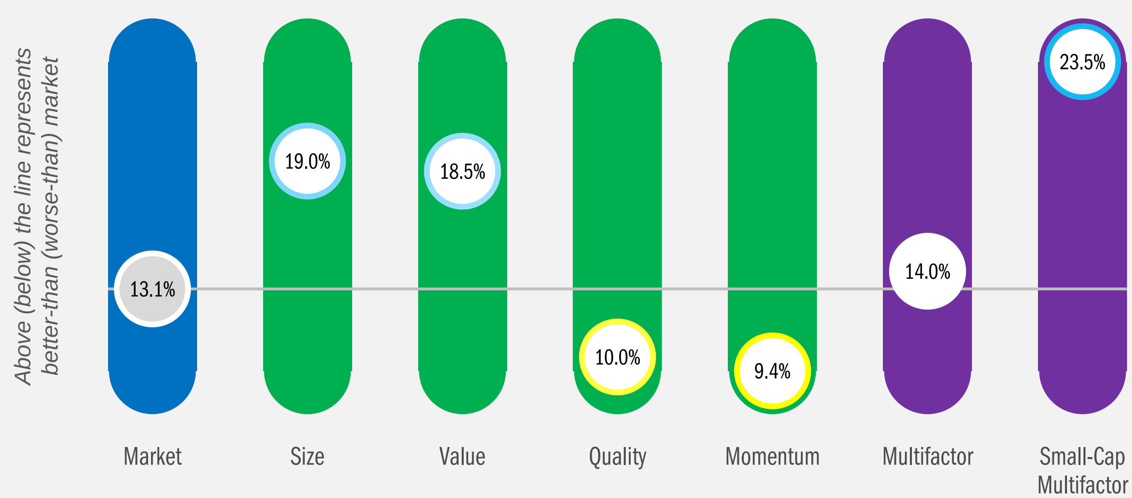
From 12.31.19 to 12.31.20. Data are total returns for the period shown. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

The math is pretty straightforward, even as the whole process is complicated by the challenges of accurately estimating corporate earnings far into the future. Still, despite the pandemic, one could argue that not much about the economy *as a whole* has likely changed in material ways. Sure, some industry's fortunes are likely to prove poorer over a longer period of time, but those lost fortunes are likely gains for others (e.g., we might not fly as much, but we might teleconference far more often, while spending more money on gadgets that make us prettier and sound better on our new computer monitors and speakers). Wrapping that idea up, investors likely concluded that the effects of the pandemic will prove ephemeral in the aggregate, such that the net impact on their collective estimations of the futures of all companies were little changed.

But, there were still shifts in thinking that occurred in the fourth quarter. Investors mayhap finally come around to the idea that some futures might not prove so rosy or dour. Value stocks started to outperform Growth stocks near the tail end of 2020, a trend that has mostly continued into 2021. As a reminder, Growth companies are defined not so much from past *actual* growth but by expected *future* growth that is reflected by a current stock price that is high relative to actual realized fundamentals (but not so high compared to those future estimates). That is, Growth companies are defined by investors having already "priced into" the stock more than a good bit of future growth. On the flip side, Value companies are those with stock prices that are relatively low in relation to the company's current fundamentals.

Smaller-capitalization stocks also began to strongly outperform as investor optimism for their prospects increased. That seemingly stronger optimism has been attributed to progress on the distribution of the COVID-19 vaccines, as well as prospects for a larger stimulus package from the incoming administration.

Figure 4: Market and Factor Performance (3 months ended 12.31.20)



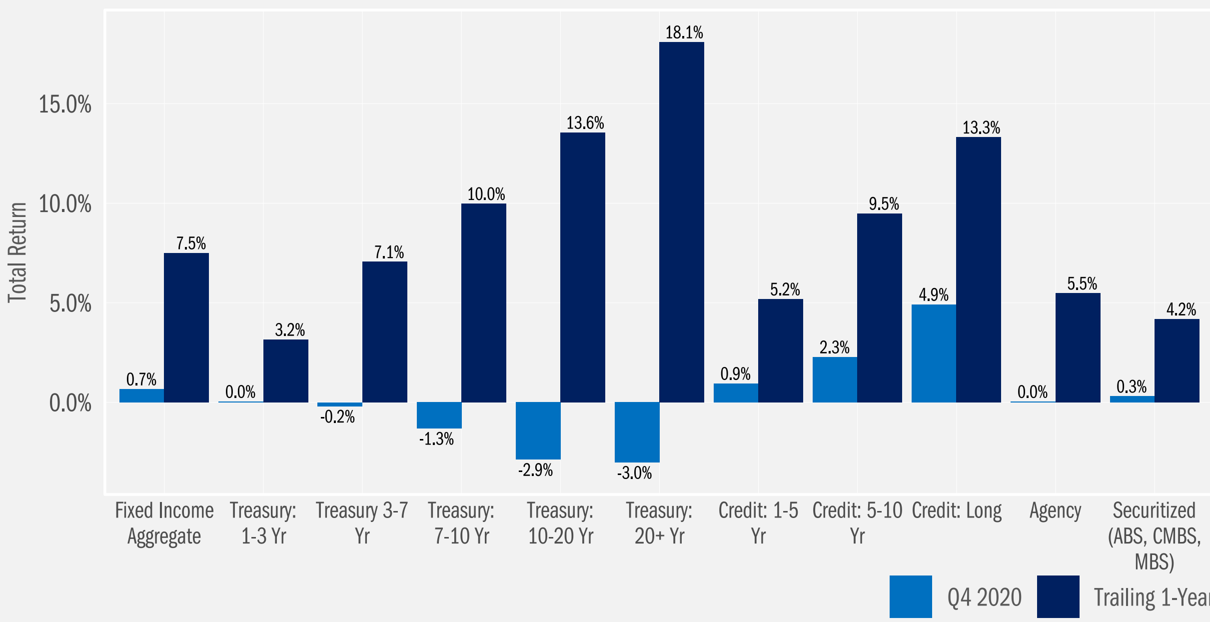
From 09.30.20 through 12.31.20. Market: MSCI USA Gross Total Return USD Index. Size: MSCI USA Low Size Gross Return USD Index. Value: MSCI USA Enhanced Value Gross Return USD Index. Quality: MSCI USA Quality Gross Total Return USD Index. Momentum: MSCI USA Momentum USD Gross Total Return Index. Multifactor: MSCI USA Diversified Multifactor Gross Total Return USD Index. Small-Cap Multifactor: MSCI USA Small-Cap Diversified Multifactor USD Gross Total Return Index. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report.

Fixed Income Market Review

Interest rates fell off a cliff in the first quarter as investors first began to react to what might have been expected to have been a macroeconomic slowdown focused on a small number of regions, later adjusting to the idea that a global recession might be coming. The Federal Reserve slashed its target interbank lending rate (the federal funds rate) from a range of 1.50 percent to 1.75 percent at the end of February to a range of 0 percent to 0.25 percent by mid-March. Treasury yields across the curve plunged (see Figure 6).

The dramatic shift lower in yields resulted in strong price gains across the fixed income space (bond prices rise as yields fall). Corporate bond spreads surged early on during the pandemic as investors demanded safety and liquidity, while also fearing the worst for the health of corporate balance sheets (spreads are the extra yield demanded an account of the potential for default). Bond trading in March was particularly tumultuous as sellers found few buyers for paper difficult to value in light of the dreadful outlook caused by the pandemic.

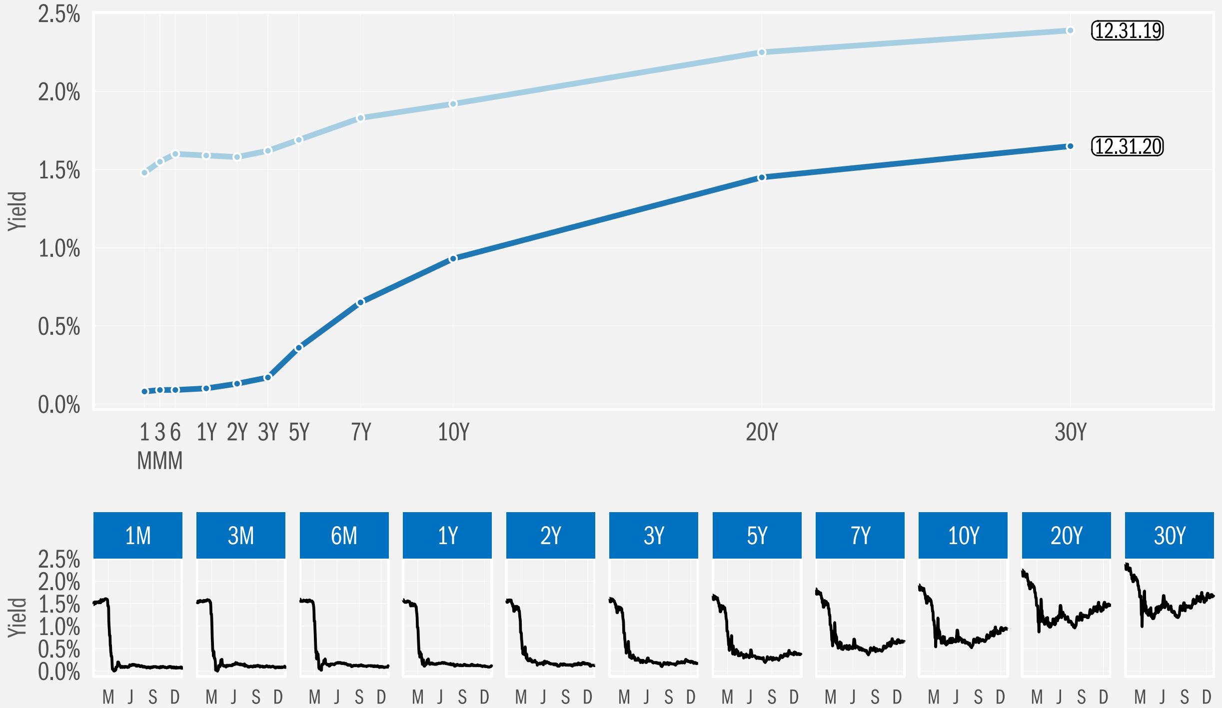
Figure 5: Bloomberg Barclays U.S. Aggregate Bond Index and Sub-Index Performance



From 12.31.19 to 12.31.20. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Components of the index include Treasury, Corporate, Agency and Securitized bonds. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

But, just as the stock market recovered, spreads tightened through year end as investors drew comfort from the Federal Reserve's intention to avert a default crisis through a suite of existing and novel policies. While rates as the year closed remained well below where they began 2020, the final quarter saw yields rising as the the world gained greater control over the pandemic and the macroeconmic recovery gained more steam. Those rising rates reversed some of the gains found earlier in the year among Treasuries. Corporate bonds, however, continued to benefit from a narrowing of spreads, and turned in gains despite the drift higher across the yield curve.

Figure 6: U.S. Treasury Yield Curve Shift



From 12.31.19 through 12.31.20. SOURCE: SRCM using data from Bloomberg

SRCM Portfolio Context

Our portfolios experienced a range of divergent forces during the tumultuous markets of 2020. We early on saw our favored equity characteristics underperform prior to and during the early stages of the market drawdown. Thereafter, though, those trends mostly reversed, with relatively more positive performance intensifying through year end. Similarly, somewhat more aggressive exposures to corporate bonds saw performance trail as the pandemic first emerged, but also changed course to the positive as the year moved on. Though performance across the board trailed the benchmarks for the full year 2020 both by way of underperformance in equity and fixed income, the final quarter saw generally stronger outperformance within both major asset classes within our portfolios. That outperformance set the stage for continued outperformance so far this year.

Historical performance details relevant to each model may be found on our Composite Fact Sheets. Past performance is not indicative of future results. Individual client portfolios may maintain exposures different from, sometimes materially so, the models for which performance is discussed above. Actual portfolio performance thus may differ from that shown on the Fact Sheets.

Important Information

Investing involves risks including the possible loss of principal. Past performance is not indicative of future results.

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Asset classes and their respective indexes mentioned in this report include the following:

Domestic (U.S.) fixed income (Fixed Income Aggregate): The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Components of the index include Treasury, Corporate, Agency and Securitized bonds. The Bloomberg Barclays U.S. 1-5 Year Government/Credit Bond Index is a broad-based benchmark that includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities with maturities between 1 and 5 years.

Global equity (stocks): The MSCI ACWI Investable Market Index (IMI) captures large-, mid- and small-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The index is comprehensive, covering approximately 99% of the global equity investment opportunity set. May be referred to as "global", "global equity" and/or "global stocks". "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below.

International equity (stocks): The MSCI ACWI ex USA Investable Market Index (IMI) captures large-, mid- and small-cap representation across 22 of 23 Developed Markets countries (excluding the United States) and 24 Emerging Markets countries. The index covers approximately 99% of the global equity opportunity set outside the U.S. May be referred to as "World ex. U.S.", "international equity", "international stocks" and/or "All Stocks" in a section specifically describing only international stocks. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below.

International large-cap equity (stocks): The MSCI ACWI ex USA Large Cap Index captures large-cap representation across 22 of 23 Developed Markets countries (excluding the United States) and 24 Emerging Markets countries. The index covers approximately 70% of the free float-adjusted market capitalization in each country. May be referred to as international large-cap stocks, "World ex. U.S. Large-Cap", and/or "Large" in a section specifically describing only international stocks. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below.

International mid-cap equity (stocks): The MSCI ACWI ex USA Mid Cap Index captures mid-cap representation across 22 of 23 Developed Markets (excluding the United States) and 24 Emerging Markets countries. The index covers approximately 15% of the free float-adjusted market capitalization in each country. May be referred to as international mid-cap stocks, "World ex. U.S. Mid-Cap", and/or "Mid" in a section specifically describing only international stocks. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below.

International small-cap equity (stocks): The MSCI ACWI ex. USA Small Cap Index captures small-cap representation across 22 of 23 Developed Markets countries (excluding the United States) and 23 Emerging Markets countries. The index covers approximately 14% of the global equity opportunity set outside the U.S. May be referred to as international small-cap stocks, "World ex. U.S. Small-Cap", and/or "Small" in a section specifically describing only international stocks. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below.

Developed markets equity (stocks): The MSCI EAFE Investable Market Index (IMI), is an equity index which captures large-, mid- and small-cap representation across Developed Markets countries around the world, excluding the United States and Canada. The index covers approximately 99% of the free float-adjusted market capitalization in each country. May be referred to as "Developed Markets". "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below.

Emerging markets (EM) equity (stocks): The MSCI Emerging Markets Investable Market Index captures large, mid and small cap representation across 24 Emerging Markets countries. The index covers approximately 99% of the free float-adjusted market capitalization in each country. May be referred to as "Emerging Markets". "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below.

Domestic (U.S.) equity: The MSCI U.S. Investable Market 2500 Index is designed to measure the performance of the large-, mid- and small-cap segment of the U.S. equity market. The index represents approximately 99% of the free float-adjusted market capitalization in the U.S. equity market. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below. May be referred to as "All Stocks" in a section specifically describing only U.S. stocks.

Domestic (U.S.) large-cap equity: The MSCI U.S. Large Cap 300 Index is designed to measure the performance of the large-cap segment of the U.S. equity market. The index represents approximately 71% of the free float-adjusted market capitalization in the U.S. equity market. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below. May be referred to as "Large" in a section specifically describing only U.S. stocks.

Domestic (U.S.) mid-cap equity: The MSCI U.S. Mid Cap 450 Index is comprised of the next largest 450 companies in terms of market capitalization of the U.S. equity market and designed to measure the performance of the mid-cap segment. The index represents approximately 16% of the free float-adjusted market capitalization of the U.S. equity market. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below. May be referred to as "Mid" in a section specifically describing only U.S. stocks.

Domestic (U.S.) small-cap equity: The MSCI U.S. Small Cap 1750 Index is comprised of the remaining smallest 1,750 companies in the U.S. Investable Market 2500 Index of the U.S. equity market and designed to measure the performance of the small-cap segment. The index represents approximately 11.5% of the free float-adjusted market capitalization of the U.S. equity market. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below. May be referred to as "Small" in a section specifically describing only U.S. stocks.

MSCI Value and Growth Indexes: The value investment style characteristics for MSCI index construction are defined using the following variables: book value to price, 12-month forward earnings to price and dividend yield. The growth investment style characteristics are defined using the following variables: long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend and long-term historical sales per share growth trend. The objective of the MSCI Value and Growth Indexes design is to divide constituents of an underlying market capitalization index into a value index and a growth index, each targeting 50% of the free float-adjusted market capitalization of the underlying index. The market capitalization of each constituent should be fully represented in the combination of the value index and the growth index, and, at the same time, should not be double-counted. One security may, however, be represented in both the value index and the growth index at a partial weight.

The MSCI USA Index is designed to measure the performance of the large- and mid-cap segments of the U.S. market. The index covers approximately 85% of the free float-adjusted market capitalization in the U.S. The MSCI USA Low Size Index is based on the MSCI USA Index, its parent index, which includes large- and mid-cap stocks of the U.S. equity markets. The index aims to represent the performance of low size strategy by assigning weights in the inverse proportion of natural logarithm of total issuer market capitalization of the constituents. The MSCI USA Value Index captures large- and mid-cap US securities exhibiting overall value style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. The MSCI USA Quality Index is based on the MSCI USA Index, its parent index, which includes large- and mid-cap stocks in the U.S. equity market. The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage. The MSCI USA Momentum Index is based on MSCI USA Index, its parent index, which captures large- and mid-cap stocks of the U.S. market. It is designed to reflect the performance of an equity momentum strategy by emphasizing stocks with high price momentum, while maintaining reasonably high trading liquidity, investment capacity and moderate index turnover.

The MSCI USA Diversified Multiple-Factor Index is based on a traditional market cap weighted parent index, the MSCI USA Index. The index aims to maximize exposure to four factors—Value, Momentum, Quality and Low Size—while maintaining a risk profile similar to that of the underlying parent index. The MSCI USA Small Cap Diversified Multiple-Factor Index is based on a traditional market cap weighted parent index, the MSCI USA Small Cap Index, which includes U.S. small cap stocks. The index aims to maximize exposure to four factors—Value, Momentum, Quality and Low Size—while maintaining a risk profile similar to that of the underlying parent index.

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