

OPEB Discussion Guide

Town of Wilton
August 11, 2021

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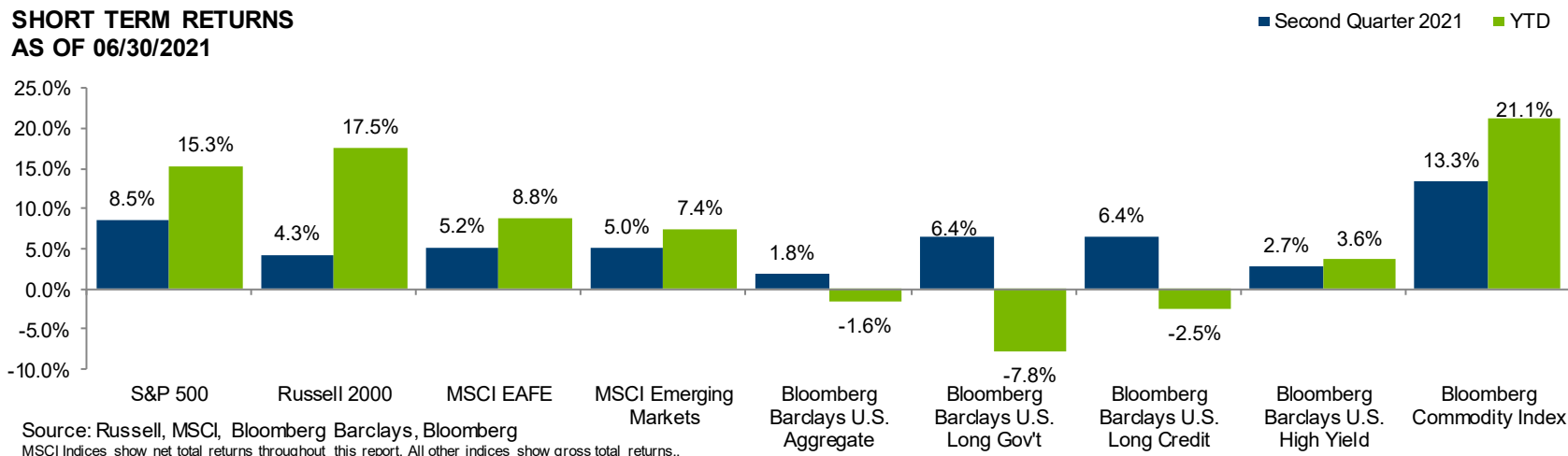
Appendix



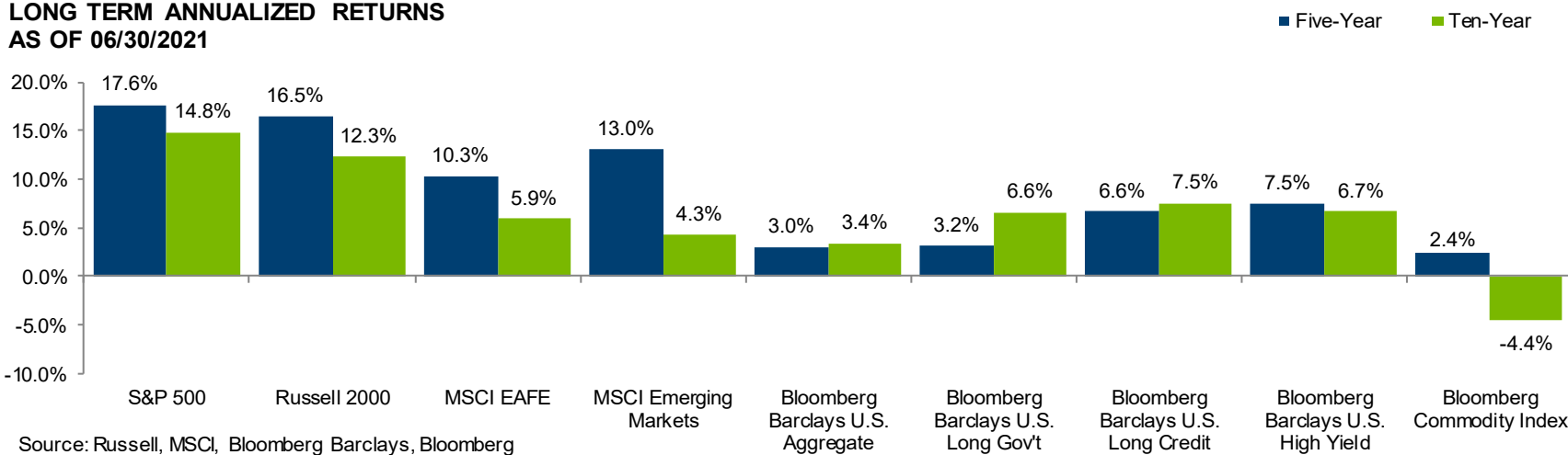
Executive Summary

Market Highlights

SHORT TERM RETURNS AS OF 06/30/2021



LONG TERM ANNUALIZED RETURNS AS OF 06/30/2021



Market Highlights

Returns of the Major Capital Markets

	Second Quarter	YTD	1-Year	3-Year ¹	5-Year ¹	Period Ending 06/30/2021 10-Year ¹
Equity						
MSCI All Country World IMI	7.18%	12.68%	40.94%	14.24%	14.55%	9.90%
MSCI All Country World	7.39%	12.30%	39.26%	14.57%	14.61%	9.90%
Dow Jones U.S. Total Stock Market	8.29%	15.27%	44.29%	18.69%	17.86%	14.66%
Russell 3000	8.24%	15.11%	44.16%	18.73%	17.89%	14.70%
S&P 500	8.55%	15.25%	40.79%	18.67%	17.65%	14.84%
Russell 2000	4.29%	17.54%	62.03%	13.52%	16.47%	12.34%
MSCI All Country World ex-U.S. IMI	5.60%	9.58%	37.18%	9.42%	11.20%	5.65%
MSCI All Country World ex-U.S.	5.48%	9.16%	35.72%	9.38%	11.08%	5.45%
MSCI EAFE	5.17%	8.83%	32.35%	8.27%	10.28%	5.89%
MSCI EAFE (Local Currency)	4.79%	12.75%	27.08%	7.53%	10.01%	8.09%
MSCI Emerging Markets	5.05%	7.45%	40.90%	11.27%	13.03%	4.28%
Equity Factors						
MSCI World Minimum Volatility (USD)	5.96%	7.43%	19.13%	10.68%	9.13%	10.33%
MSCI World High Dividend Yield	4.41%	11.08%	28.42%	10.21%	9.73%	8.66%
MSCI World Quality	10.85%	14.17%	37.98%	21.00%	19.04%	14.53%
MSCI World Momentum	6.95%	7.46%	32.26%	17.52%	18.05%	14.52%
MSCI World Enhanced Value	2.78%	16.85%	38.41%	6.51%	10.42%	7.26%
MSCI World Equal Weighted	5.78%	12.39%	40.50%	10.90%	12.62%	9.17%
MSCI World Index Growth	10.95%	11.27%	40.00%	21.54%	19.94%	13.89%
Fixed Income						
Bloomberg Barclays Global Aggregate	1.31%	-3.21%	2.63%	4.23%	2.34%	2.05%
Bloomberg Barclays U.S. Aggregate	1.83%	-1.60%	-0.33%	5.34%	3.03%	3.39%
Bloomberg Barclays U.S. Long Gov't	6.43%	-7.82%	-10.42%	7.97%	3.18%	6.62%
Bloomberg Barclays U.S. Long Credit	6.45%	-2.49%	4.32%	10.73%	6.65%	7.55%
Bloomberg Barclays U.S. Long Gov't/Credit	6.44%	-4.64%	-1.86%	9.92%	5.45%	7.30%
Bloomberg Barclays U.S. TIPS	3.25%	1.73%	6.51%	6.53%	4.17%	3.40%
Bloomberg Barclays U.S. High Yield	2.74%	3.62%	15.37%	7.45%	7.48%	6.66%
Bloomberg Barclays Global Treasury ex U.S.	0.63%	-5.33%	2.86%	2.80%	1.05%	0.80%
JP Morgan EMBI Global (Emerging Markets)	3.93%	-1.00%	6.81%	6.48%	4.44%	5.34%
Commodities						
Bloomberg Commodity Index	13.30%	21.15%	45.61%	3.90%	2.40%	-4.44%
Goldman Sachs Commodity Index	15.72%	31.40%	57.37%	-2.72%	1.73%	-6.48%
Hedge Funds						
HFRI Fund-Weighted Composite ²	4.02%	10.03%	27.43%	8.69%	7.93%	5.12%
HFRI Fund of Funds ²	2.68%	4.75%	18.07%	6.25%	6.09%	3.84%
Real Estate						
NAREIT U.S. Equity REITS	12.02%	21.96%	38.02%	10.10%	6.31%	9.41%
NCREIF NFI - ODCE	3.93%	6.10%	8.02%	5.52%	6.57%	9.60%
FTSE Global Core Infrastructure Index	2.81%	8.39%	20.44%	10.30%	9.22%	9.60%
Private Equity						
Burgiss Private iQ Global Private Equity ³			27.32%	17.72%	16.13%	13.88%

MSCI Indices show net total returns throughout this report. All other indices show gross total returns.

¹ Periods are annualized.

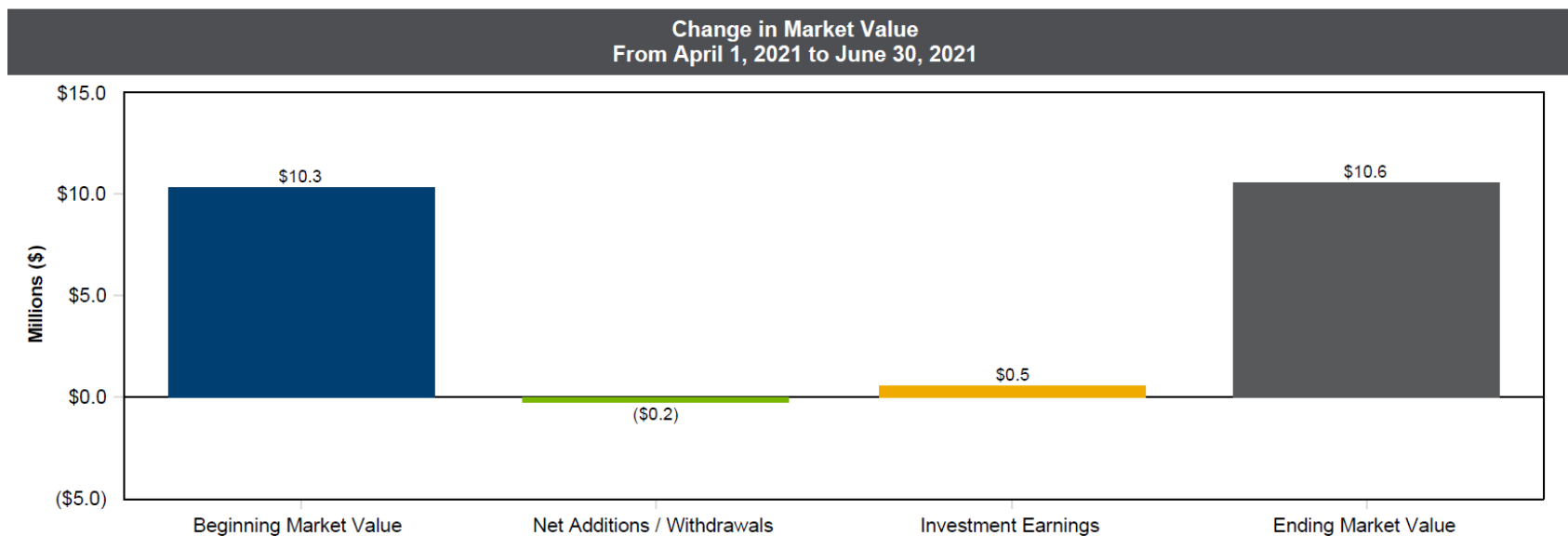
² Latest 5 months of HFR data are estimated by HFR and may change in the future.

³ Burgiss Private iQ Global Private Equity data is as at December 31, 2020



OPEB Performance Summary

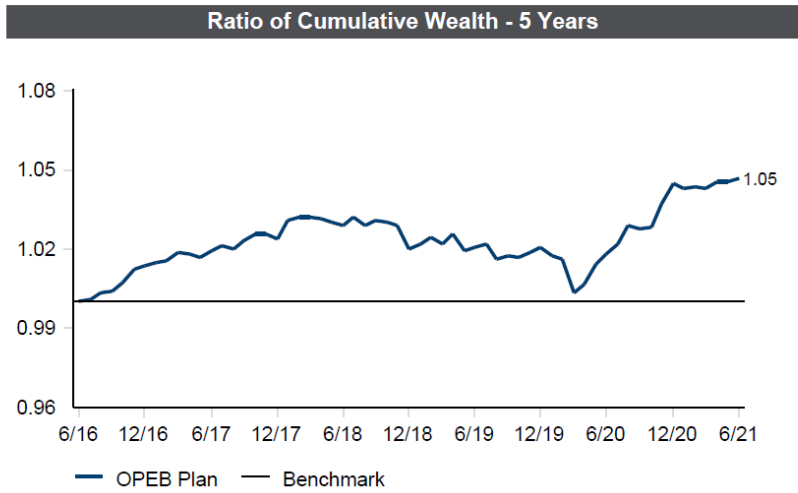
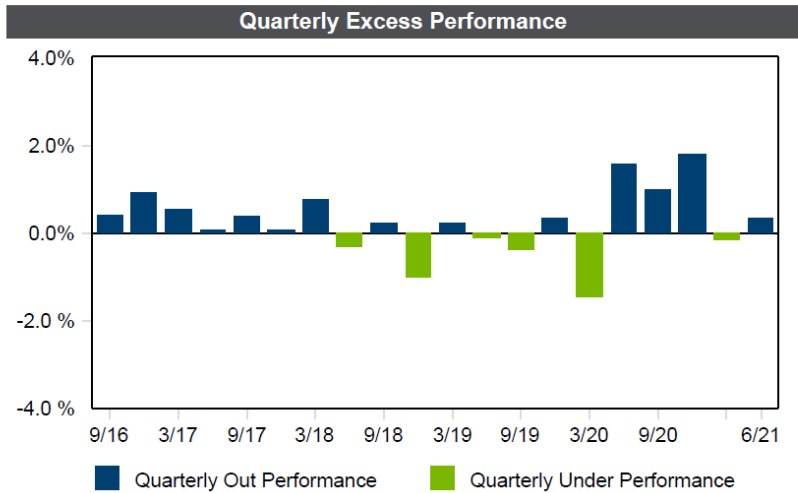
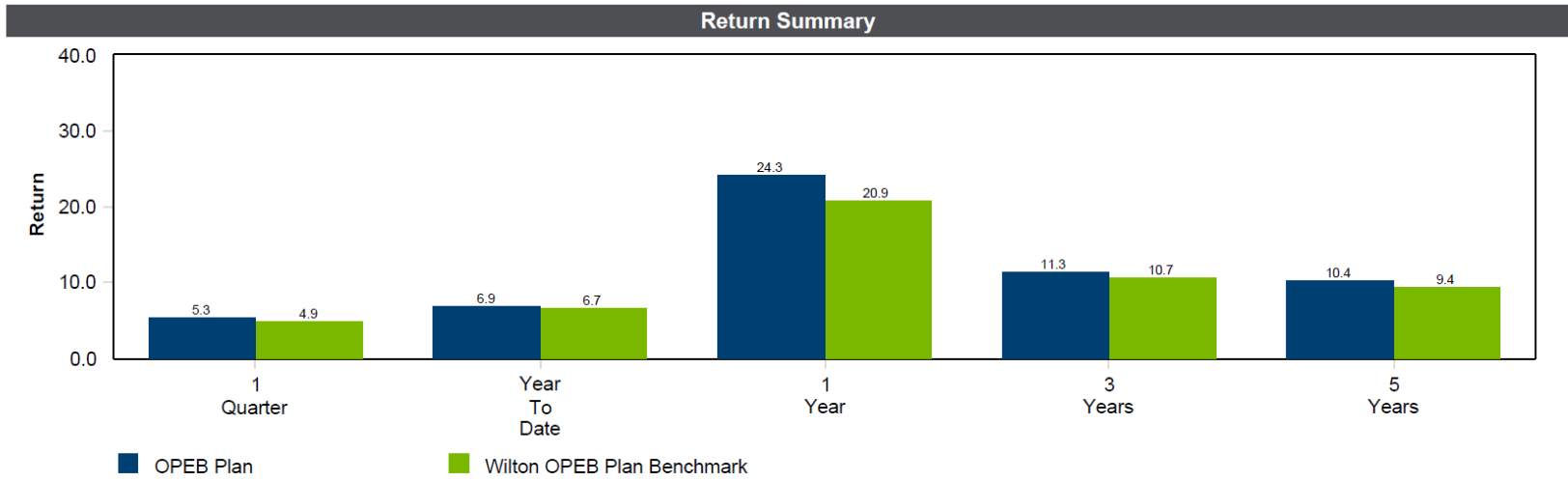
Total Plan Asset Summary



Summary of Cash Flow

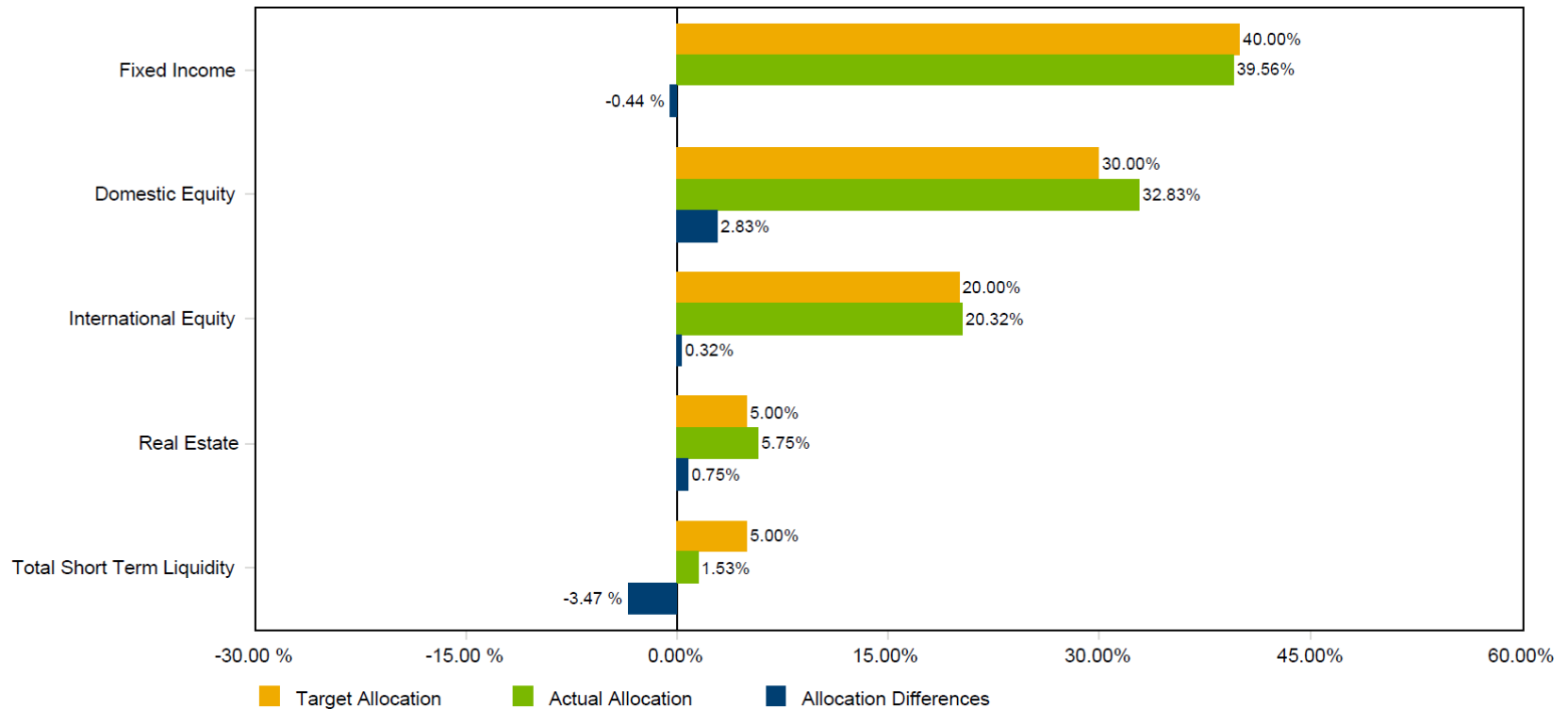
	1 Quarter	1 Year	Since Inception	Inception Date
Beginning Market Value	10,337,195	8,631,852	2,652,035	
+ Additions / Withdrawals	-237,281	-111,206	2,901,777	
+ Investment Earnings	547,311	2,126,579	5,093,412	
= Ending Market Value	10,647,224	10,647,224	10,647,224	

Total Plan Performance Summary



Asset Allocation as of June 30, 2021

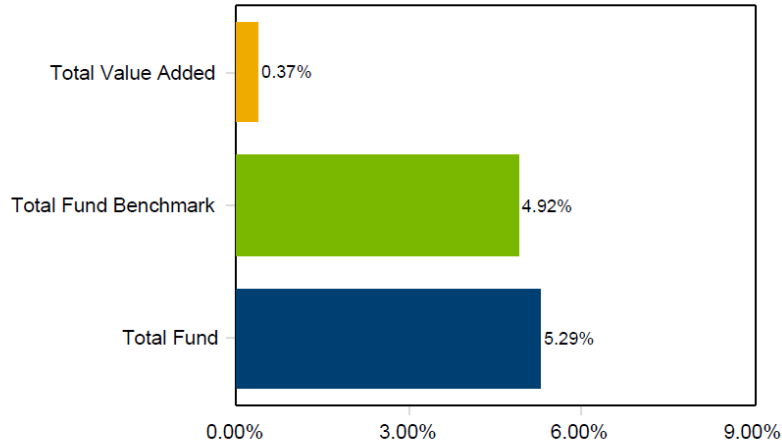
	Market Value (\$)	Current Allocation (%)	Target Allocation (%)	Differences (%)
OPEB Plan	10,647,224.49	100.00	100.00	0.00
Fixed Income	4,212,468.81	39.56	40.00	-0.44
Domestic Equity	3,495,948.56	32.83	30.00	2.83
International Equity	2,164,023.71	20.32	20.00	0.32
Real Estate	612,170.57	5.75	5.00	0.75
Total Short Term Liquidity	162,612.84	1.53	5.00	-3.47



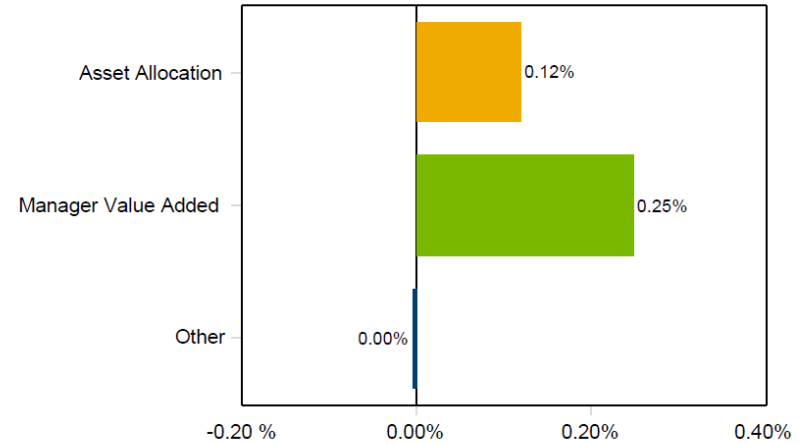
OPEB Total Fund Attribution: 1 Quarter as of June 30, 2021

OPEB Plan vs. OPEB Total Plan Attribution

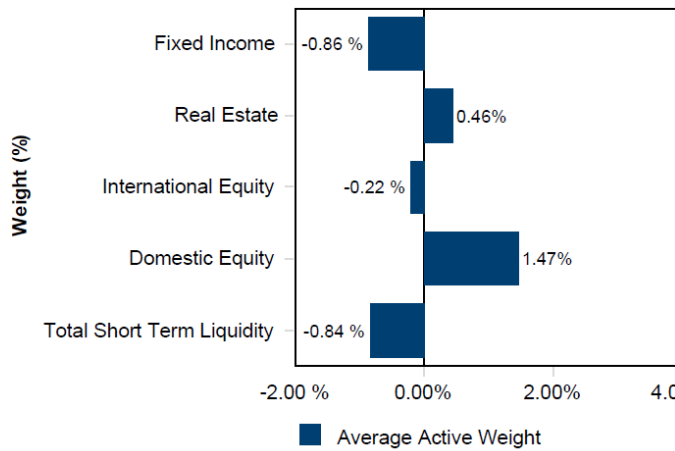
Total Fund Performance



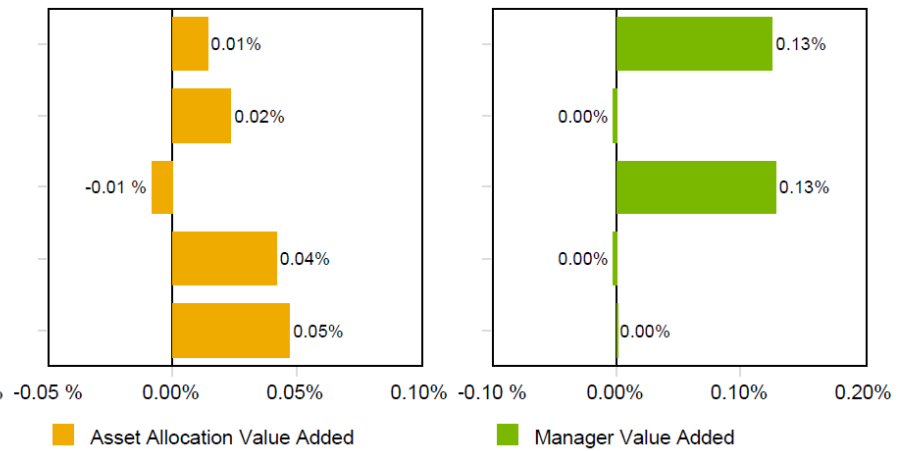
Total Value Added:0.37%



Total Asset Allocation:0.12%



Total Manager Value Added:0.25%



Performance as of June 30, 2021

	Allocation			Performance(%)							
	Market Value (\$)	%	Policy(%)	1 Quarter	Year To Date	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
OPEB Plan	10,647,224	100.0	100.0	5.3	6.9	24.3	11.3	10.4	7.9	8.4	05/01/2012
<i>Wilton OPEB Plan Benchmark</i>				4.9	6.7	20.9	10.7	9.4	7.3	7.8	
Fixed Income	4,212,469	39.6	40.0	2.1	-0.6	2.5	4.8	4.0	3.3	3.8	07/01/2010
<i>OPEB Fixed Income Composite Benchmark</i>				1.8	-1.6	-0.3	5.2	3.0	3.2	3.3	
Vanguard Total Bond Market Index Adm	1,066,987	10.0		2.0 (49)	-1.7 (85)	-0.4 (89)	5.4 (66)	3.0 (74)	3.3 (63)	4.6 (69)	06/01/2019
<i>Blmbg. Barc. U.S. Aggregate</i>				1.8 (63)	-1.6 (77)	-0.3 (86)	5.3 (68)	3.0 (70)	3.3 (60)	4.6 (70)	
IM U.S. Broad Market Core Fixed Income (MF) Median				2.0	-1.2	1.2	5.7	3.4	3.5	5.1	
Metropolitan West Total Return Bond PI	855,443	8.0		1.8 (89)	-1.1 (73)	1.4 (88)	6.2 (43)	3.7 (73)	3.6 (57)	5.6 (49)	06/01/2019
<i>Blmbg. Barc. U.S. Aggregate</i>				1.8 (87)	-1.6 (95)	-0.3 (100)	5.3 (86)	3.0 (96)	3.3 (83)	4.6 (89)	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				2.2	-0.8	3.0	6.1	4.0	3.7	5.6	
PGIM Total Return Bond R6	657,282	6.2		3.1 (8)	-1.4 (86)	2.7 (52)	6.2 (41)	4.3 (36)	4.3 (17)	4.9 (25)	12/01/2015
<i>Blmbg. Barc. U.S. Aggregate</i>				1.8 (87)	-1.6 (95)	-0.3 (100)	5.3 (86)	3.0 (96)	3.3 (83)	3.6 (93)	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				2.2	-0.8	3.0	6.1	4.0	3.7	4.4	
PIMCO Income Fund	1,632,757	15.3		2.0 (61)	1.8 (41)	9.6 (39)	5.7 (53)	5.8 (15)	5.2 (8)	1.5 (41)	02/01/2021
<i>Blmbg. Barc. U.S. Aggregate</i>				1.8 (65)	-1.6 (96)	-0.3 (99)	5.3 (60)	3.0 (91)	3.3 (75)	-0.9 (99)	
IM Multi-Sector General Bond (MF) Median				2.2	1.4	8.1	5.9	4.8	3.9	1.2	
Domestic Equity	3,495,949	32.8	30.0	8.3	15.2	44.3	18.8	17.9	14.0	16.2	07/01/2010
<i>OPEB Domestic Equity Benchmark</i>				8.3	15.2	44.3	18.8	17.9	14.0	16.2	
Vanguard Total Stock Market Index Adm	3,495,949	32.8		8.3 (25)	15.2 (52)	44.3 (37)	18.7 (17)	17.9 (16)	13.9 (10)	16.1 (15)	01/01/2012
<i>Vanguard Spliced Total Stock Market Index *</i>				8.3 (24)	15.2 (52)	44.3 (36)	18.8 (17)	17.9 (16)	14.0 (10)	16.2 (14)	
IM U.S. Multi-Cap Core Equity (MF) Median				7.3	15.3	42.8	16.1	15.9	11.8	14.7	

*Consists of Dow Jones U.S. Total Stock Market Index (formerly known as the Dow Jones Wilshire 5000 Index) through April 22, 2005; MSCI US Broad Market Index through June 2, 2013; and CRSP US Total Market Index thereafter. ** Total International Composite Index through August 31, 2006; MSCI EAFE + Emerging Markets Index through December 15, 2010; MSCI ACWI ex. U.S. IMI Index through June 2, 2013; FTSE Global All Cap ex U.S. Index thereafter. *** Consists of MSCI US REIT Index adjusted to include a 2% cash position (Lipper Money Market Average) through April 30, 2009; MSCI US REIT Index through January 31, 2018; MSCI US Investable Market Real Estate 25/50 Transition Index thereafter.

Performance as of June 30, 2021

	Allocation			Performance(%)							
	Market Value (\$)	%	Policy(%)	1 Quarter	Year To Date	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
International Equity	2,164,024	20.3	20.0	6.2	8.1	38.4	11.8	12.9	7.6	9.4	07/01/2010
<i>OPEB International Equity Composite Benchmark</i>				5.6	9.4	36.5	9.5	11.2	5.5	7.7	
Vanguard Total International Stock Index Adm	1,092,968	10.3		5.5 (20)	9.7 (48)	36.5 (56)	9.6 (17)	11.1 (7)	5.6 (15)	7.4 (38)	05/01/2012
<i>Vanguard Spliced Total International Stock Index **</i>				5.7 (15)	9.7 (49)	37.2 (53)	9.6 (17)	11.3 (6)	5.7 (11)	7.4 (28)	
IM International Large Cap Core Equity (MF) Median				4.5	9.6	37.8	8.2	9.9	4.4	7.3	
American Funds EuroPacific Growth R6	1,071,056	10.1		7.0 (1)	6.5 (96)	40.1 (18)	13.8 (1)	14.5 (1)	8.7 (1)	9.2 (1)	09/01/2014
<i>MSCI AC World ex USA Index (Net)</i>				5.5 (22)	9.2 (72)	35.7 (60)	9.4 (19)	11.1 (7)	5.3 (18)	5.5 (21)	
IM International Large Cap Core Equity (MF) Median				4.5	9.6	37.8	8.2	9.9	4.4	4.7	
Real Estate	612,171	5.7	5.0	12.0	19.6	32.3	11.3	6.7	8.6	11.1	07/01/2010
<i>OPEB Real Estate Benchmark</i>				12.0	21.3	32.8	12.0	8.1	9.6	12.3	
Cohen & Steers Institutional Realty Shares	612,171	5.7		12.0 (54)	21.6 (42)	36.0 (47)	14.2 (12)	9.4 (13)	10.5 (11)	22.4 (33)	02/01/2021
<i>FTSE NAREIT All Equity REITs</i>				12.0 (50)	21.3 (47)	32.8 (70)	12.0 (39)	8.1 (24)	9.6 (23)	21.4 (56)	
IM Real Estate Sector (MF) Median				12.0	21.2	35.6	11.5	7.1	8.6	21.7	
Total Short Term Liquidity	162,613	1.5	5.0	0.0	0.4	0.4	1.1	0.8	0.6	0.5	01/01/2012
Wells Fargo Government MM Fund	84,407	0.8		0.0	0.6	0.6	1.3	1.1	0.8	0.6	04/01/2012
<i>90 Day U.S. Treasury Bill</i>				0.0	0.0	0.1	1.3	1.2	0.9	0.7	
Webster Cash	78,206	0.7									

*Consists of Dow Jones U.S. Total Stock Market Index (formerly known as the Dow Jones Wilshire 5000 Index) through April 22, 2005; MSCI US Broad Market Index through June 2, 2013; and CRSP US Total Market Index thereafter. ** Total International Composite Index through August 31, 2006; MSCI EAFE + Emerging Markets Index through December 15, 2010; MSCI ACWI ex. U.S. IMI Index through June 2, 2013; FTSE Global All Cap ex U.S. Index thereafter. *** Consists of MSCI US REIT Index adjusted to include a 2% cash position (Lipper Money Market Average) through April 30, 2009; MSCI US REIT Index through January 31, 2018; MSCI US Investable Market Real Estate 25/50 Transition Index thereafter.



Aon Medium Term Views

Recommended actions

Total Return Cross Asset Class Views

---	--	-	=	+	++	+++
Equity view remains neutral but risks have risen			Equities		We still favor uncorrelated sources of returns from a risk-mitigation view	
		Core fixed income				
		Credit		Alternatives		

Relative Asset Class Views

Equity Regions

---	--	-	=	+	++	+++
Regional views unchanged as the global recovery reaches a pivotal point			USA			
		EAFE		Emerging		
					Improving virus containment and growth story is supportive for EM Asia	

Credit

---	--	-	=	+	++	+++
			USD EMD			
			Local EMD			
			Bank Loans			
				Selected ABS		
		High Yield				
					EM assets stand to benefit from the global economic recovery and our outlook of US yields rising only gradually means that we are upgrading our EM debt view	

Equity Styles

---	--	-	=	+	++	+++
Value preferred to growth but only moderately			Low Vol.			
			Quality			
			Value			
		Growth				

Core Fixed Income Duration*

---	--	-	=	+	++	+++
We still lean negative on duration			Treasuries			
			Inv. Grade			
			TIPS			
					No preference between nominal and inflation-linked bonds	

Alternatives

---	--	-	=	+	++	+++
Non-correlated alternatives still generally preferred			Commodities			
			Diversifying Hedge Funds			
			Global Infra.			
			Private Credit			
		Real Estate				

Currencies versus USD

---	--	-	=	+	++	+++
US dollar may be supported near-term by growth and interest rates, but we are less positive over the next few years			EUR			
			GBP			
			JPY			
			EM			

* Please refer to Page 11 for detailed global views
Please refer to the end of the document for interpretation guidelines

Equities

Conditions remain supportive from policy and recovery but risks have risen

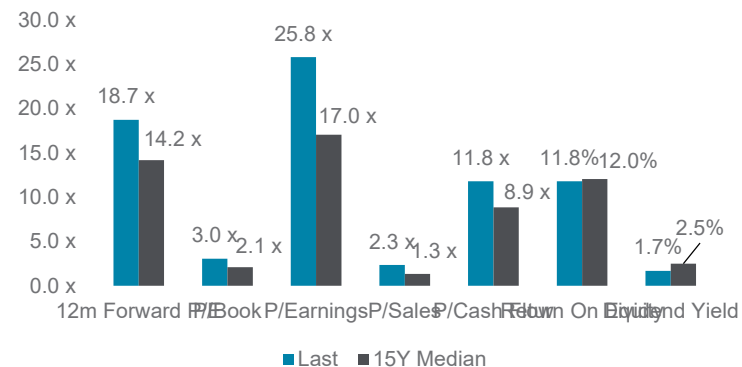
- Equity markets trended higher over most of the second quarter as continued monetary and fiscal policy support, coupled with the easing of restrictions in many key economies, have all been supportive. The exception came in mid-June, when a less accommodative tone by the US Federal Reserve shook confidence, triggering a wobble in markets. Along with inflation worries, risks from virus variants and peaking stimulus are also beginning to rise now.
- In terms of valuations, there is no doubt that equities remain expensive relative to history but, while bond yields have risen this year, they remain broadly supportive. Earnings expectations for this year are unsurprisingly strong – over 38% expected EPS growth – but they are much more moderate for 2022 and 2023.
- Looking ahead over the coming months, we see few obvious triggers to a significant setback for equities – economic activity is likely to continue recovering, as is demand, and monetary and fiscal policy stimulus will likely remain in place. However, although inflation worries look overblown at the moment, they cannot be ignored, while the threat of variants also mean the pandemic impact will linger. Overall, we continue to moderately prefer equities to fixed income.

Earnings revisions pause and markets wobble



Source: Factset, Aon

MSCI World valuations are very expensive



Source: Factset, Aon

Equities

Value preference remains but it is now a much closer call

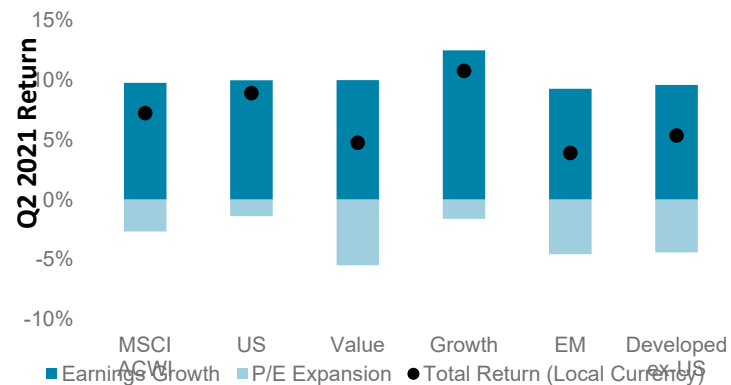
- The second quarter saw another rotation in equities, with US stocks outperforming, along with the technology sector and growth equities. The underlying drivers for this have been the prospect of huge US government stimulus at a time when further Covid waves were sweeping across Europe. The US equity market obviously has an outsized exposure to technology and growth, whilst Europe has higher exposures to the more traditional value sectors, such as financials, resources and industrials.
- In terms of future return drivers, vaccination rates in Europe have picked up and restrictions are being eased, boosting economic activity. Technology stocks are unlikely to suffer large declines in the near-term but are threatened by regulatory scrutiny and a new global taxation regime. We also note large valuation gaps between the major regions. On the negative side, we cannot see many tailwinds to equities once the recovery from the pandemic has run its course, which we expect towards the middle of next year.
- Overall, we have maintained our preference for value equities relative to growth, but the view is a marginal one. Equally, we have maintained our neutral stance on the major developed regions.

Large valuation gaps between markets



Source: Factset, MSCI, Aon

Value underperformed growth in Q2 but the catch-up is not yet over we believe



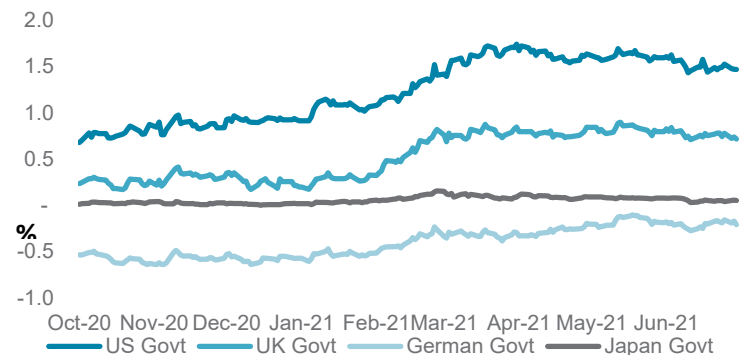
Source: Factset, MSCI, Aon. Changes in the 12-month forward P/E and earnings per share shown. Local currency returns and MSCI World Growth and Value indices shown.

Core fixed income

Inflation and peak Fed stimulus worries lead yields lower

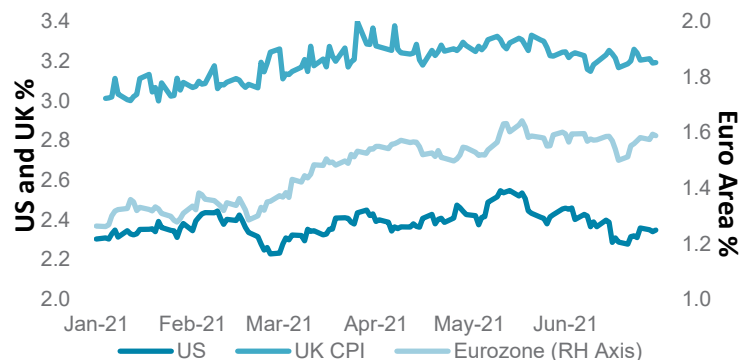
- We think Treasury yields will remain largely range-bound. We think inflation will remain elevated for now, keeping yields from going back to Q4 2020 levels, although further curve-flattening is likely.
- Medium-term inflation break-evens have fallen in the US, and we think they are around fair value now.
- We think the claims that there was a hawkish Fed "pivot" at the June FOMC meeting are overstated. Monetary policy will remain stimulatory over the medium term. Although asset purchases will be tapered, we still expect a slow pace of rate hikes. Fiscal policy could even potentially become contractionary after the 2022 mid-term elections if the Republicans regain control of Congress. However, with the further fall in yields over July, we think this is now priced in.
- The potential for new Covid-19 variants to prevent the global economy from normalising remains a risk and could also curtail activity in the US. We suspect that this would be more of a demand-side than supply-side shock and could also be a headwind for significantly higher yields.

Fall back in 10y yields has been small versus Q1 rise



Source: Bloomberg

US 5Y-5Y forward inflation break-evens have reduced



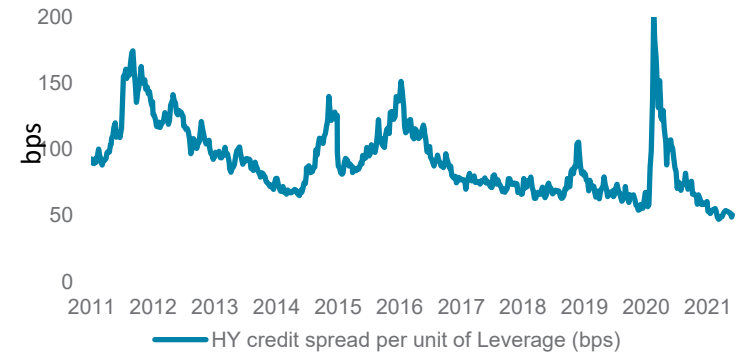
Source: Bloomberg

Credit

Downgrading high yield on precarious valuations, EM debt preferred

- In recent weeks, high yield (HY) bond yields have fallen to 3.8% (on a yield-to-worst basis) which is a 20-year low. We think that the prospect of reduced fiscal and monetary policy and flattening earnings as the economic recovery progresses leaves the HY pick-up in yield precarious. We are downgrading HY bonds to a single negative, meaning that we now prefer other areas of credit.
- For example, leveraged loans have a little more support from strong CLO demand and expectations that interest rates will rise at some stage so we are keeping our loan view unchanged at neutral.
- Meanwhile, EM debt continues to be pulled in two directions – boosted by the global economic recovery on the one hand but held captive by the risk of US treasury yield and US dollar rises on the other hand. EM debt has underperformed HY bonds over the last year and this is partly reflected in US\$ EM credit spreads that appear more attractive compared to history.
- As we do not expect US bond yields to rise significantly, we are upgrading EM debt and remaining neutral between local and US\$ EM bonds. Local debt is higher risk (more exposed to the dollar and any local EM worries) but also has more potential to benefit from the global economic recovery.

Tight HY spreads and high leverage leave HY bonds vulnerable



Source: BofA Securities

EM debt valuations less stretched than developed markets



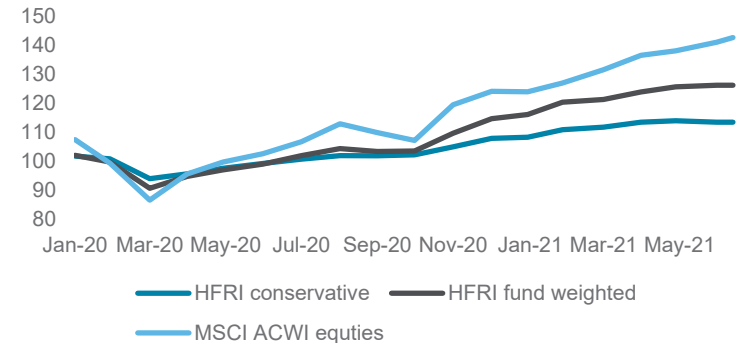
Source: Factset, JP Morgan

Alternatives

A diversifying hedge fund allocation continues to be recommended

- Hedge funds have lagged equities but have performed reasonably well in risk-adjusted terms since the start of the pandemic. The volatility of hedge fund returns is typically far lower than equity markets and this is so for the 2020/21 period where the diversifying hedge fund strategy basket's volatility (HFRI Conservative index) has been about a third of public equities.
- Our preference within the hedge fund universe is for manager funds that have lower average exposure to equity market beta and can therefore dampen portfolio volatility.
- Hedge funds will likely continue to face headwinds from central bank policy, which has kept yields low and had the added effect of suppressing overall market volatility and increasing cross asset class correlations. However, the likelihood of a divergent regional and sector recovery profile, based on vaccine roll-outs, government support and virus control, should present plenty of opportunities for the best hedge funds to shine.
- Overall, we believe that performance drivers look reasonable for hedge funds to deliver reasonable risk-adjusted returns, but as usual, manager selection is critical.

Hedge fund returns have been reasonable in risk-adjusted terms



Source: HFRI, Total returns shown

The hedge fund environment as we see it

Positives	Negatives
High economic uncertainty and divergent industrial/sector outlook	Central banks suppressing volatility
M&A activity buoyant, opportunities in merger arbitrage	Higher than average correlations across risky assets
Bifurcation in stocks and credit	High valuations and limits on price discovery
ESG trends creating new opportunities	

Source: Aon

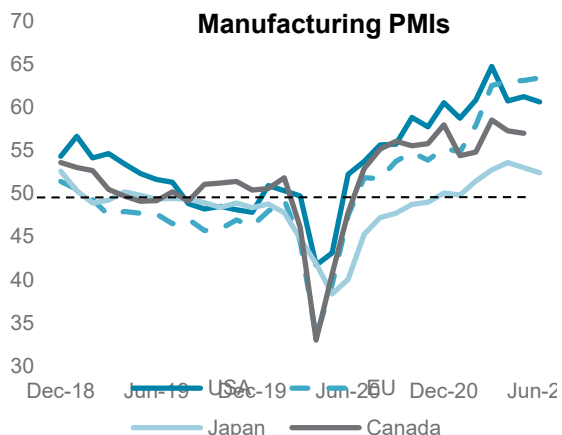


Appendix

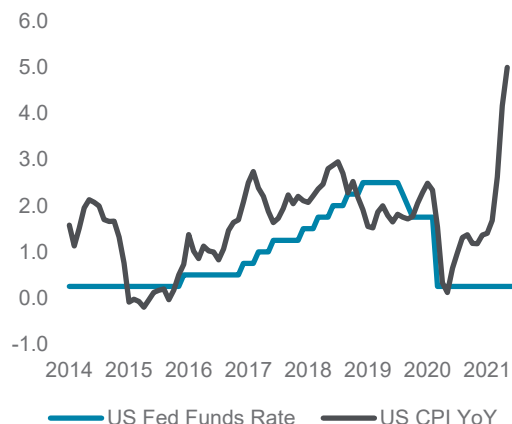
Economic highlights

Although economic activity continued to rebound in general over the past quarter, some worries began to emerge regarding the durability of the recovery. Firstly, inflation accelerated sharply and, although central banks have broadly been in agreement that this rise in prices is temporary, markets have become a bit more jittery. Secondly, this led to some minor tweaking of central bank language, implying that monetary policy would be tightened earlier than previous anticipated. Bond yields rose as a result. Also damaging to future growth expectations was the realisation that there would be a bill to pay for the extraordinary Covid support of the past year. Peak fiscal support and the subsequent clawback could create an important headwind. Finally, whilst vaccination programs have accelerated, new variants could lead to a difficult winter period and some further restrictions. We expect growth to return to moderate levels once the recovery has run its course.

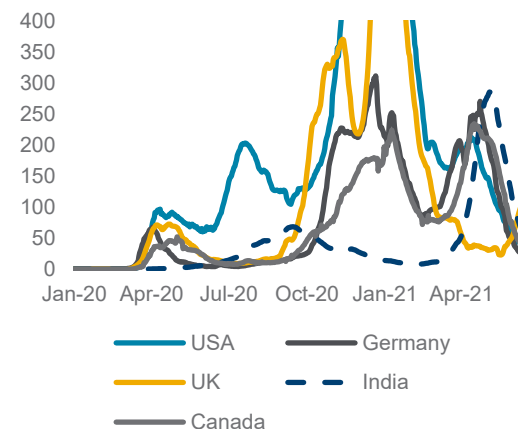
Economic activity continues to recover



...but inflation surges



Signs of another virus wave beginning?



Sources for charts: Factset

Economic highlights

USA

- The US economy continued to recover, with GDP growing at an annualized rate of 6.4% in Q1, compared with 4.3% in Q4 of last year. Meanwhile, the ISM indexes have remained strong throughout Q2.
- However, inflation indicators have also surged amid supply chain bottlenecks and signs that some sectors are struggling to find enough employees. The June ISM manufacturing prices paid index rose to an all-time high of 91.2 while the CPI measure for May was 5% - the fastest pace of inflation for nearly 13 years. Also notable was the rise in core inflation to 3.8%, which is the highest rate since 1992. Of course, an important driver of these high inflation figures is the comparison with the very weak data last year.
- The Fed has remained sanguine regarding inflation, stating that it thinks pressures will be temporary. However, it surprisingly indicated two rate increases in 2023 – earlier than previously thought – in their June meeting.
- Meanwhile, the government continued to discuss fresh stimulus bills, agreeing on a \$715bn infrastructure bill, which is seen as paving the way for further measures over the coming months.

EAFE

- European vaccination programmes have accelerated rapidly over the quarter and infections have declined enough for many countries to begin easing restrictions. As a result, activity has been rebounding swiftly in recent months – for example, the composite PMI rose to 59.5 in June, the highest since 2006. Looking ahead, the risk is clearly fresh virus waves triggered by new variants, which will test the efficacy of the current vaccines.
- In Japan, Covid restrictions have remained in place in many major cities as the government has continued to grapple with infections. The economy has struggled as a result – whilst the manufacturing sector has been expanding moderately, the service sector contracted for the 17th consecutive month in June.
- In the UK, activity was weaker than previously thought in Q1, due to the second nationwide lockdown. Since then, activity has picked up strongly as restrictions have eased. While the vaccination programme has continued at pace, the new Delta variant has triggered another strong wave throughout the country. However, the early data is showing much lower hospitalisation and death rates, which has given the government greater confidence.

Emerging Markets

- The Chinese economy surged at a record pace of 18.3% in Q1, but the dataflow since then has indicated a moderation. This is partly due to base effects but also due to a virus outbreak in Guangdong province, which triggered lockdown measures, and continued semiconductor shortages. Looking ahead, we expect healthy economic performance in China, which should be supported by the demand recovery in the rest of the world.
- Meanwhile, the hugely damaging infection wave in India has begun to ease and restrictions have been eased as well. Nonetheless, a relatively low proportion of the population remains fully vaccinated and the country is vulnerable to future variants.
- Indeed, whilst most emerging markets continue to benefit from higher productivity, supportive demographics and a fast pace of development, many will be particularly exposed to the pandemic through lagging vaccination programmes. The announcement of vaccination sharing from the major developed economies is promising but more will be required in order to make the whole world resilient, and the pandemic can truly come to an end.

View guidance

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<p>Large under-performance expected with highest conviction</p> <ul style="list-style-type: none">• Target larger underweight• Bring forward selling plans and defer SAA buying implementation• Do not rebalance to target weight yet	<p>More under-performance or stronger conviction</p> <ul style="list-style-type: none">• Target underweight• Bring forward selling plans and defer SAA buying implementation• Do not rebalance up to target weight yet	<p>More likely to underperform</p> <ul style="list-style-type: none">• Target small underweight to strategic weight• Prefer to avoid buying and selling on strength• Buying for SAA reasons fine, but add slowly or into weakness.• Consider partial rather than full rebalancing	<p>Weak conviction or no view on relative performance</p> <ul style="list-style-type: none">• Target benchmark or strategic weight• Buying/Selling both look ok coming from SAA changes or rebalancing	<p>More likely to outperform</p> <ul style="list-style-type: none">• Target small overweight to strategic weight• Prefer to accumulate• Selling for SAA reasons fine, but look to sell gradually• Slow rebalancing moves back to benchmark weight	<p>More outperformance or stronger conviction</p> <ul style="list-style-type: none">• Target overweight• Bring forward buying plans and defer SAA selling implementation• Do not rebalance down to target weight yet	<p>Large outperformance expected with highest conviction</p> <ul style="list-style-type: none">• Target larger overweight• Bring forward buying plans and defer SAA selling implementation• Do not rebalance to target weight yet

Appendix: Investment View Framework

Investment View

Fundamental

Analyze the core economic and underlying drivers of an asset class. For example:

- Economic Growth
- Earnings Growth
- Default Risk

Valuation

Establish if the asset class is cheap or expensive given our fundamental outlook. For Example:

- P/E Ratio
- Credit Spreads
- Yield Levels

Market Awareness

Establish if near-term drivers for the asset class are positive or negative. For Example:

- Technical Indicators
- Sentiment Surveys
- Futures/Options Positioning

Appendix: Index Definitions

MSCI All Country World Index - A capitalization-weighted index of stocks representing approximately 46 developed and emerging countries, including the U.S. and Canadian markets.

MSCI Emerging Markets Index - A capitalization-weighted index of stocks representing 26 emerging country markets.

MSCI US - A market capitalization-weighted index that is designed to measure the equity market performance of stocks in the USA.

JPM EMBI Global Diversified – Comprised of dollar-denominated Brady bonds, traded loans and Eurobonds issued by emerging market sovereign and quasi-sovereign entities. The Diversified version limits the weights of the index countries by only including a specified portion of those countries' eligible current face amounts of debt outstanding, providing for a more even distribution of weights within the countries in the index.

JPM GBI-EM Global Diversified - Designed to provide a comprehensive measure of local currency denominated, fixed-rate, government debt issued in emerging markets.

BofA Merrill Lynch High Yield - A market capitalization-weighted index that tracks the performance of U.S. dollar-denominated, below investment grade corporate debt publicly issued in the U.S. domestic market.

Trade weighted US Dollar (Federal Reserve) - A weighted average of the foreign exchange value of the U.S. dollar against a broad index currencies that circulate widely outside the country of issue.

VIX Index – Tracks the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

MSCI World Index - A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets, representing 24 developed market country indices.

Russell 1000 Index - An Index that measures the performance of the largest 1,000 stocks contained in the Russell 3000 Index.

Russell 2000 Index - An Index that measures the performance of the smallest 2,000 stocks contained in the Russell 3000 Index.

MSCI EAFE Index - A capitalization-weighted index of stocks representing 22 developed countries in Europe, Australia, Asia, and the Far East.

HFRI Fund Weighted Composite Index – The HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net of all fees performance in US 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.

S&P/LSTA Leveraged Loans Index – The S&P/LSTA Leveraged Loan Index is the first index to track the investable senior loan market. This rules-based index consists of US loan facilities in the syndicated leveraged loan universe.

Bloomberg Barclays Corporate Bond Index - An unmanaged index considered representative of fixed-income obligations issued by U.S. corporates.

Bloomberg Barclays Credit Index - An unmanaged index considered representative of fixed-income obligations issued by U.S. corporate, specified foreign debentures, and secured notes.

ML MOVE Index - The Merrill Lynch Option Volatility Estimate (MOVE) Index is a yield curve weighted index of the normalized implied volatility on 1-month Treasury options which are weighted on the 2, 5, 10, and 30 year contracts

ISM Purchasing Managers Index - The PMI® is a composite index based on the diffusion indexes of five of the indexes with equal weights: New Orders (seasonally adjusted), Production (seasonally adjusted), Employment (seasonally adjusted), Supplier Deliveries (seasonally adjusted), and Inventories. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change.

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