GRANT STREET ASSET MANAGEMENT, INC.

QUARTERLY LETTER

3rd QUARTER 2020

9/30/2020

As we reflect on markets overall since the start of 2020, investors have experienced new highs, recession lows, and one of the shortest bear markets in history. The third quarter, however, seemed to feel almost like a calm amid the storm when compared with the first half of the year. This recent tempering of markets seemed to coincide with society's acceptance of adjusting to a world with constant mask-wearing and social distancing within our daily lives. While the first two months of the quarter saw a continuation of the rally in risk assets that began in the second quarter, that momentum fizzled in September. Equity markets pulled back from their highs and investors were reminded of the uncertainties within the corporate, economic, and political landscapes that remain over the next few months of 2020.

By the numbers (summary below), third quarter returns across equity and fixed income asset classes were positive in the single digits. Despite a solid quarter across asset classes, year-to-date returns remain highly variable between asset classes, with the largest domestic stocks and highest quality fixed income outperforming smaller company and international stocks and fixed income of lower quality.

Equity Index	**1Q 2020**	**2Q 2020**	**3Q 2020**	**Year-to-Date**
S&P 500 (Large Companies)	-19.6%	20.5%	8.9%	5.6%
S&P 400 (Mid-sized Companies)	-29.7%	24.1%	4.8%	-8.6%
Russell 2000 (Small-sized Companies)	-30.6%	25.4%	4.9%	-8.6%
MSCI EAFE (Europe, Australia & Far East)	-22.7%	14.9%	4.8%	-7.1%
MSCI Emerging Markets	-23.6%	18.1%	9.6%	-1.2%
MSCI ACWI (All Country World Index)	-21.4%	19.2%	8.1%	1.4%

Fixed Income Index	**1Q 2020**	**2Q 2020**	**3Q 2020**	**Year-to-Date**
Bloomberg Barclays U.S. Aggregate Bond	3.2%	2.9%	0.6%	6.5%
Bloomberg Barclays 1-3 yr. U.S. Treasury	2.8%	0.2%	0.1%	3.1%
U.S. 3-month T-Bills	0.6%	0.0%	0.0%	0.6%
Bloomberg Barclays U.S. Corporate High Yield	-12.7%	10.2%	4.6%	0.6%
Bloomberg Barclays Municipal Bond	-0.6%	2.7%	1.2%	3.3%
Bloomberg Barclays Municipal 5-year	-1.0%	3.3%	1.3%	3.5%

In broad economic terms, there were a number of positive indicators released in the third quarter that supported a continued market recovery. The unemployment rate has continued to decline each month reaching just under 8% at the end of September, an impressive retreat from the 15% peak in April. There has also been promising improvement in the third quarter GDP estimate. While the second quarter showed its worst ever reading at a drop of just under 33%, the estimate for 3Q GDP is strongly positive at 34.6%

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annualized. This is an incredible recovery in a short period of time that has been buoyed by fiscal stimulus, strong consumer spending and a resilient job market. Lastly, the housing market has continued to strengthen as Americans look to move from the cities to the suburbs and to take advantage of all-time lows in mortgage rates. This increased demand coupled with historically low home inventory levels has pushed the median existing home price over $310,000 as of August 2020. For comparison, the median existing home price as of August 2019 (one year ago) was over $278,000. That represents an 11.5% year over year increase.

Taking a closer look at corporations, the second quarter showed a significant beat in earnings for the majority of large companies, which drove the S&P 500 to a new all-time high in early September. The earnings beat can mainly be attributed to continued strong consumer spending (supplemented by fiscal stimulus), an index concentration in COVID-resistant sectors such as technology and healthcare, and analysts' quarterly estimates proving overly pessimistic. As a result of the swift fiscal stimulus response and the success of certain phased reopening seen across the country, Americans showed their resilience and desire to continue spending even throughout the pandemic.

While some of the data points have provided support for a recovery in the markets, we have a long way to go before returning to the economic strength we enjoyed prior to COVID-19. If you take into account the number of people who have left the workforce during this recession, the unemployment rate would jump to nearly 11%, rather than the 8% being reported. Likewise, while 3Q GDP estimates are indisputably strong, for the year we are expecting around -3.1% and seemingly running out of momentum in the near term. Similarly, the solid employment picture and consumer spending that has propped up the recovery may be in jeopardy as the fiscal stimulus has recently run out. Anecdotally we are monitoring more businesses permanently closing through online sources such as Yelp.com and more corporations announcing layoffs and furloughs in recent weeks.

It is widely believed that there will be an agreement in Congress on an additional stimulus package over the coming months that should provide additional economic support. The primary question will be around the timing of this package, as the target beneficiaries of the package have been mostly agreed upon since May: additional direct stimulus to Americans, more support for state and local governments and a provision to address certain infrastructure needs. We anticipate an agreement will be reached after the election and implemented in the first quarter of 2021. We expect it will provide an additional boost to the markets if it meets investors' expectations.

Although we have noted a number of positive improvements in the data and hopefully await the next stimulus package, we remain cautiously positioned as we approach year end. In the third quarter we trimmed U.S. Treasury exposure and added to our equity technology theme, and that trade participated nicely as markets continued their climb into September. We have otherwise remained on pause with regard to additional buys into the equity markets at current levels given the roadmap we see ahead over the next 60-90 days. The outcome of the U.S. presidential election as well as any delay in a definitive winner may jostle markets in the near term. The recent increase in COVID cases in the U.S. and Europe as we enter flu season is another near-term concern. Also, an expectation for another round of fiscal stimulus could potentially disappoint investors if it is delayed further or does not have the measurable impact to address the challenges businesses and families continue to face. Our current positioning and diversification should stabilize portfolios from potential shocks, however we remain prepared to further engage equity markets when appropriate.

Historically, high quality fixed income has done most of the heavy lifting when it comes to absorbing equity market shocks. However, with interest rates and yields at such low levels, this hedge-like characteristic of bonds may be limited moving forward. To this end, we have already integrated some strategies into the portfolios throughout this year that may outperform bonds on the upside while still providing protection against falling stocks. Thus far, we have been pleased with their performance relative to traditional bonds while meeting these criteria.

GSAM Update

We wish to update clients with regard to our remote work arrangements and our plans for a return to the office. After many months of planning and the establishment of specific guidelines to keep employees and clients safe and healthy, we are pleased to share we returned to the office on October 12. We continue to offer staff the flexibility to work remotely due to special circumstances and as may be necessary per our guidelines. Our successful adjustment to working remotely as a team since March was a true testament to the quality of our people and our significant investment in technology over the years. We also wish to thank you for being open to meeting and connecting in new ways, whether via phone, video conference or outdoor meetings. We are meeting with clients in person when requested, and we plan to continue the use of the virtual meetings as well. We value your trust and confidence, and we wish you and your family health, wellness and happiness through the end of this extraordinary 2020.