KOVITZ INSIGHTS

A Framework and a Plan

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We have written for decades that broad market declines often end up being terrific opportunities to pick up great stocks at reasonable prices. In our decades of investing in equities, we have noticed countless examples where the market threw the baby out with the bath water. And of course, we didn't just notice them, we frequently acted on those declines and used them to bolster the positioning of our broadly diversified portfolios. The resulting purchases and sales have always been executed with the guiding principle to keep our Value tilt, even when other market participants are fleeing in different–sometimes opposite–directions.

This year's plunge in stock prices didn't impact all corners of the stock market equally. Growth stocks, represented by the Russell 3000 Growth index, plunged 26.4% through Halloween, while Value stocks (Russell 3000 Value index) managed "just" a 9.5% decline. Looking only at price action, it might be tempting to buy Growth stocks because they have fallen more from their highs than Value stocks. That's not necessarily a good idea.

Even though some subsets of U.S. stocks have been battered more than others, the top chart of Figure 1 shows Growth stocks have merely returned to their long-term average forward Price-to-Earnings (P/E) ratio, while Value stocks now trade at a discount. Certainly, the P/E is just one measure by which we can compare valuations, but other metrics tell similar stories. The Price-to-Book ratio remains markedly higher than the long-term average for Growth, while Value is at the average. Price-to-Sales ratios for Growth stocks have also plunged recently.

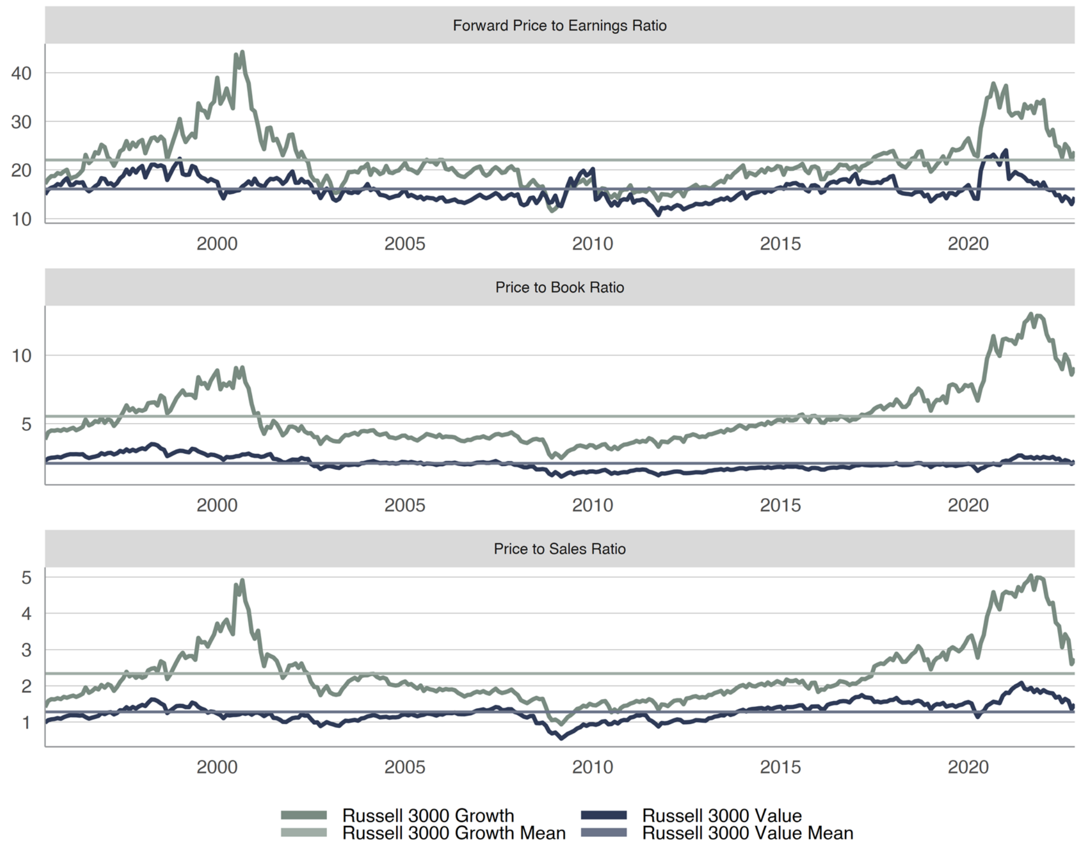


Figure 1: Growth Valuations Have Returned to Earth
From 05.31.1995 through 10.31.2022. SOURCE: Kovitz using data from Bloomberg Finance L.P.

CONTINUOUSLY WIDENING THE SET OF OPPORTUNITIES

Since investors hold undiluted disdain for uncertainty, which has ramped up amid a global market plunge this year, it comes as little surprise that U.S. fund flows data from Morningstar showed $77 billion of withdrawals in September. Reshuffling of portfolio exposures, plus suddenly attractive yields for cash and money market funds, left few investment categories unaffected by outflows. Additionally, third quarter earnings data from the big U.S. banks show that the period was another trading bonanza, reaffirming Morningstar's observation that money is on the move. Especially in volatile markets, it might be tempting to switch strategies because a newer trend is working better, or a historical trend is now underperforming.

Changing horses is difficult. In our study of the Morningstar rating system, we found that top-rated mutual funds tended to underperform in subsequent periods, indicating it's generally not a good idea to sell funds with one or two stars in exchange for funds with four or five. We think the solution to the temptation to chase performance is *persistency*, meaning an investor should pick a manager who sticks with their investment objective and has a repeatable process (i.e. a handful of successes picks shouldn't have an outsized impact on returns). It's challenging work in practice, but we think it's worth the effort.

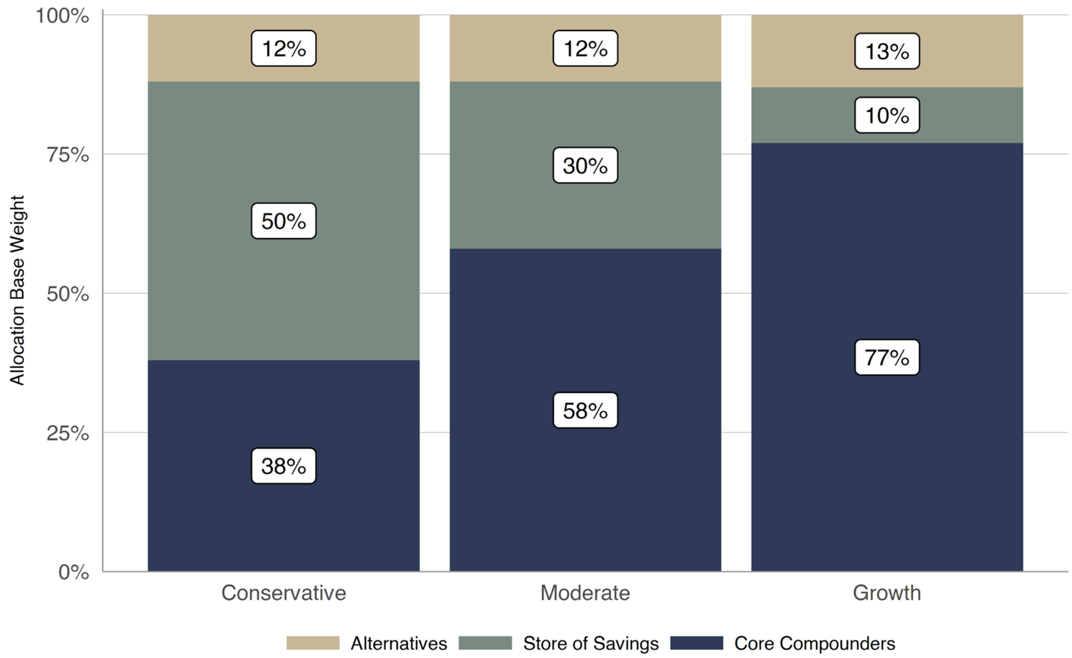
A constant focus on stock returns often goes hand-in-hand with the temptation to chase performance, making it easy to forget that picking a good manager only solves part of the return puzzle. The other part, which in many respects is more important than stock-picking, is an investor's allocation. It's an area in which Kovitz spends an exceptional amount of resources. We have continuously evolved the way we approach asset allocation since opening our doors in 2003, and we've been relentless in our pursuit of new opportunities to unlock value beyond the generic (and industry-standard) equity-and-bond blended allocations. Exposure enhancements available to Kovitz clients (subject to suitability requirements) include hedged equity, industrial real estate, diversified real estate and private equity asset classes. Especially in periods of market tumult, we believe our approach to allocation investing shines.

A STARTING POINT

We consider an allocation portfolio to be a group of assets that seek to balance risk and reward by investing in four classes: *Core Compounders* (stocks), *Store of Savings* (bonds), and Alternatives subcategories *Opportunistic* (real estate and private assets) and *Diversifiers* (hedges). By varying proportions of the quartet, investors seek to adjust risk and return characteristics to line up with financial goals, risk tolerance and timing. Experience tells us 1,000 clients will have 1,000 different ideal allocations. For this reason, Kovitz uses base allocations (in Figure 2) to illustrate benefits of allocation portfolios, but the implementation step uses custom proportions, frequently augmented with an expanded set of opportunities for each class.

Figure 2:
Simple Asset Allocations Serve as the Foundation

As of 10.31.2022. "Alternatives" includes Opportunistic and Diversifiers. SOURCE: Kovitz

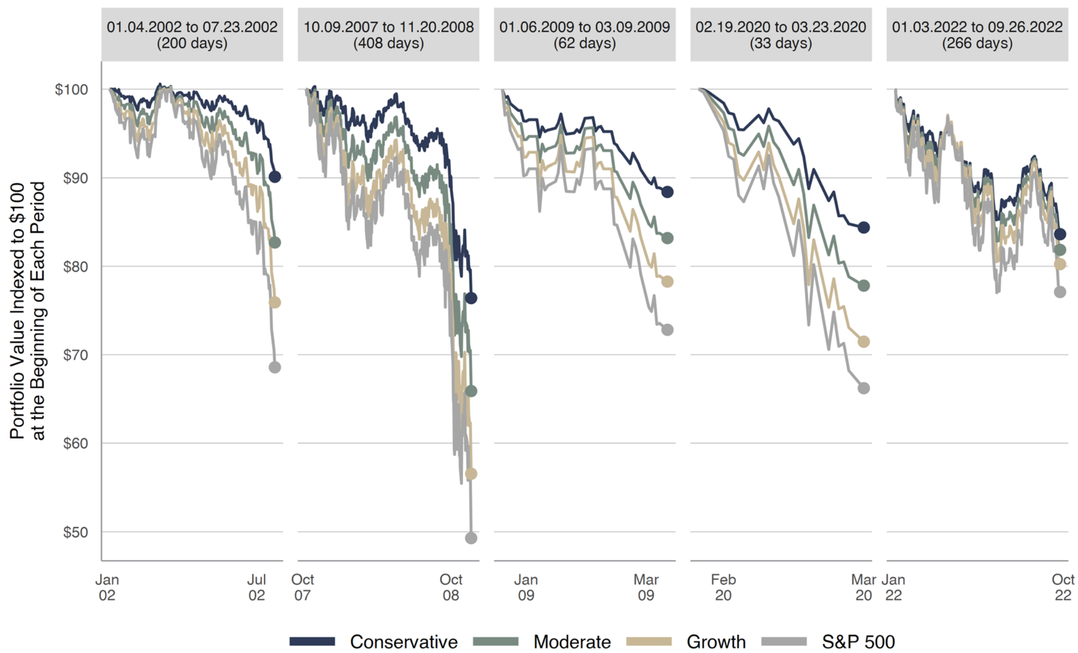


DOWNSIDE MITIGATION

This year's Bear Market (a quick recap: *Three Bear Markets in Five Years*) provided another reminder that allocation portfolios can help cushion downside. Figure 3 shows the concurrent drop in fixed income markets (as a result of soaring interest rates) this year didn't provide the padding the allocation had in previous Bear Markets. Even so, in the five Bear Markets below, the S&P 500 returned -32% on average, compared with -15% for Conservative, -21% for Moderate and -27% for Growth allocations.

Figure 3: Allocation Portfolios Have Cushioned Recent Blows

The allocation construction methodology is available at the end of this Insight. SOURCE: Kovitz using data from Bloomberg Finance L.P.

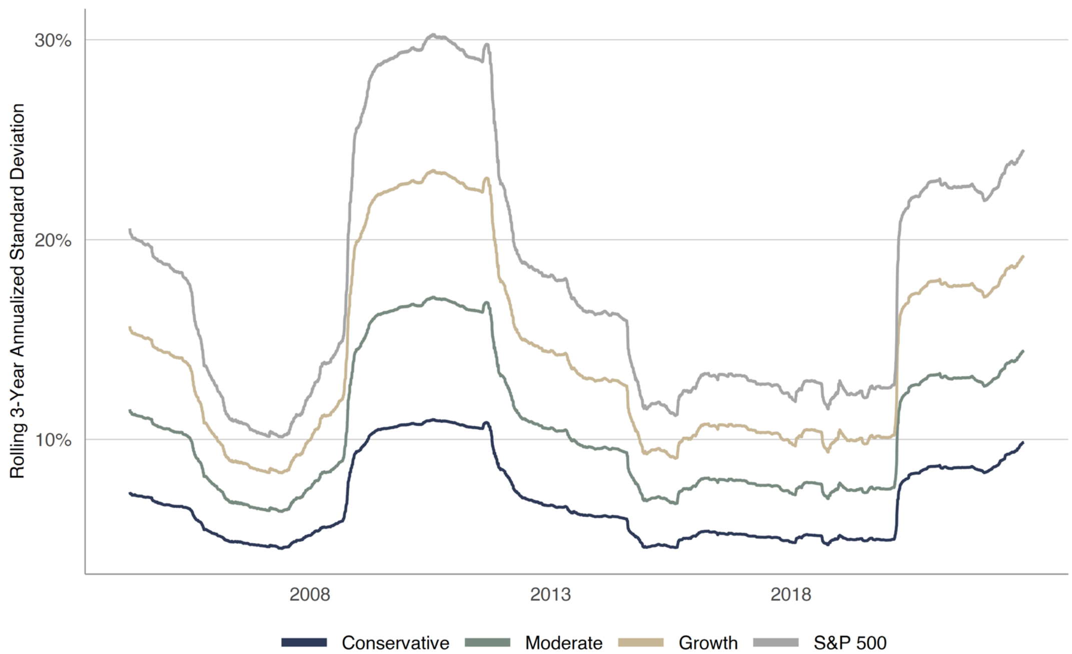


ITS OK TO SKIP A ROLLER COASTER RIDE

There are several ways to measure risk. One of the most common in finance is standard deviation, charted in Figure 4, which measures fluctuations in returns around the average. In practice, high standard deviations suggest a wide range of outcomes are possible. Exchanging higher returns for higher risk might not be acceptable to all investors, but it's an important metric to review during the allocation and financial planning processes, since the wrong amount of risk can lead to undesired outcomes.

Figure 4: Asset Allocations Have Reduced Volatility

From 03.31.2004 through 10.31.2022. The allocation construction methodology is available at the end of this Insight. SOURCE: Kovitz using data from Bloomberg Finance L.P.

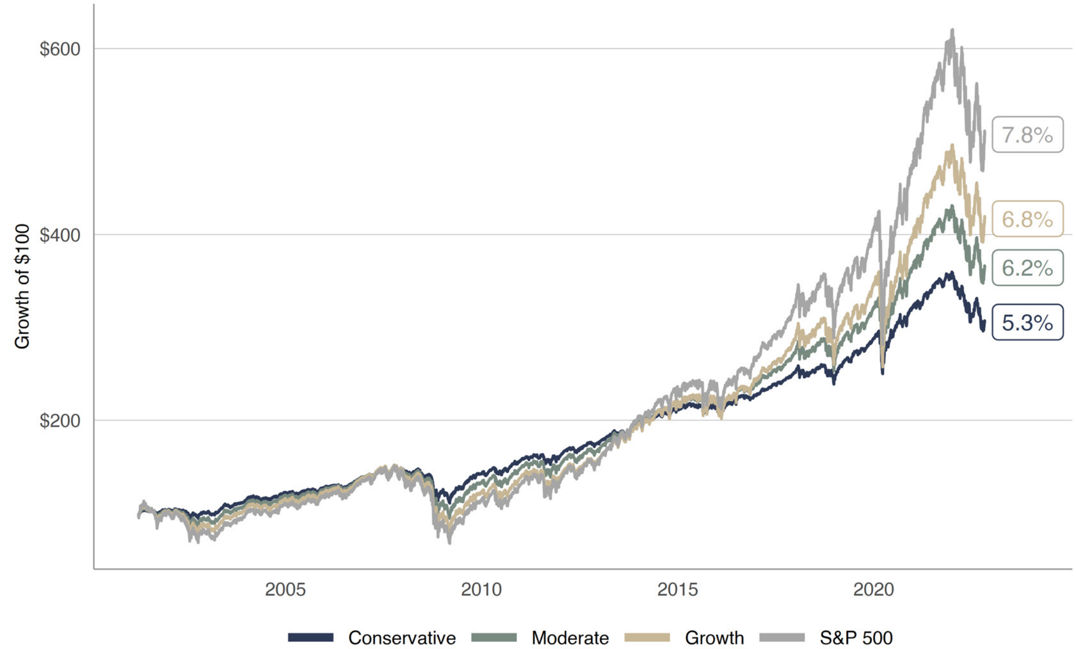


A STEADY RETURN CAN HAVE GREAT VALUE

In Figure 5, it's evident the growth trajectory of the hypothetical Conservative allocation (navy) is stable compared to the pure-stock S&P 500 index (grey), even if the Conservative allocation's return ends up a couple of points below the equity index over nearly 20 years. Of course, hindsight is 20/20 and it's easy to argue in favor of 100% equities knowing the returns were high, but it's hard to see (and even harder to feel) the impact of 29 drops of 10%+ that occurred over this timeframe.

Figure 5: Great Long-Term Returns Despite Bumps in the Road

From 03.31.2001 through 10.31.2022. The allocation construction methodology is available at the end of this Insight. SOURCE: Kovitz using data from Bloomberg Finance L.P.

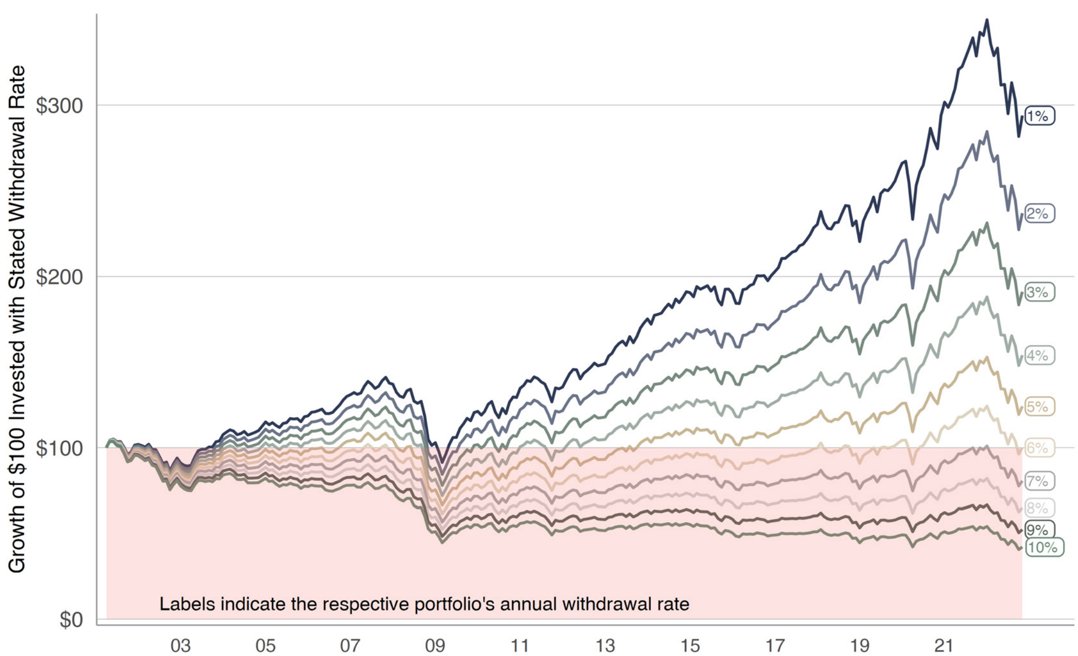


TIME HORIZON

Spending matters too. Figure 6 charts sustainable withdrawal rates for the Moderate allocation. Even though it's possible to withdraw in excess of 6% annually without exhausting the nest egg over a hypothetical retirement that started 20 years ago, the account has been drawn down by about half for the person that withdrew 10%. A cash flow plan can serve as a roadmap to ensure an optimal allocation between growth and capital preservation and identify an appropriate saving-spending balance.

Figure 6: Moderate Allocation Withdrawal Rate

From 03.31.2001 through 10.31.2022. The allocation construction methodology is available at the end of this Insight. SOURCE: Kovitz using data from Bloomberg Finance L.P.



THERE ARE MANY PATHS TO SUCCESS

There are certain inherent limitations in the aforementioned hypothetical Conservative, Moderate and Growth allocation portfolios. Chiefly, to reach far back and cast a fair picture of investment history, we've needed to exclude some of our more recently uncovered opportunities to unlock value. It's possible for allocation returns or risk profiles experienced by clients to be different from those indicated by the hypothetical blends. Plus, we build our allocations with an eye towards the future–some wealth managers build allocations entirely on historical data–a framework we think is improved by a broad slate of investment choices available to our clients, which reflects our commitment to grow wealth. While we are required to verify investor suitability before offering strategy-specific information (and therefore encourage you to reach out directly to your Kovitz Wealth Advisor or contact us at wealth@kovitz.com), we offer a sample set of enhancements to broad asset classes:

Core Compounders

- A diversified core stock portfolio with a Value tilt serves as the main growth engine for most investor allocations. Our *Core Compounder* approach is focused on multiplying capital efficiently, while keeping risk characteristics top of mind. We seek to bolster returns by opportunistically buying undervalued companies in any market environment and selling them when they've reached their appreciation potential.
- Factor-oriented strategies (such as dividend/income, small capitalization or international value) function as complementary allocations to core stock holdings. Investments in certain historically rewarded factors seek to enhance the risk-reward calculation, add income via dividends and diversify an allocation without watering down the return.

Store of Savings

- A portfolio of laddered fixed income securities is constructed with the primary goal of preserving principal, acting as a *Store of Savings*. Secondarily, it should produce a meaningful after-tax income yield. From an allocation perspective, the capital preservation goal seeks to provide a source of liquidity that supports active rebalancing in the event of market downturn.
- Frequently, a small portion of an investor's *Store of Savings* allocation is distributed into mortgage-backed securities, steepener structured notes or other opportunistic bond strategies. We target these areas of the investable fixed income market because they have the potential to produce enhanced income yields without sacrificing credit quality.

Opportunistic Investments

- Direct ownership of real assets, including real estate, offers the potential to compound at a rate similar to publicly traded equities (REITs, mostly), but without direct correlation to day-to-day stock market movements and in a tax-efficient manner. In addition to the capital appreciation potential inherent in *Opportunistic Investments*, direct real estate investments usually deliver periodic cash flow for investors in search of income and liquidity, while sector-specific and diversified offerings can enhance individual allocations in many ways.
- Private equity investments are frequently appropriate for investors with long investment time horizons and an appetite for growth. In exchange for longer lock-up periods, private equity placements (often in attractively priced, privately held companies) can offer returns well in excess of comparable stock market index returns, albeit with higher risk.
- In environments where uncertainty is pervasive, it can be attractive to add a conversion strategy to an allocation mix. The general goal of these strategies is to generate income via the purchase and sale of options. The 'conversion' part occurs when the value of the option drops below a certain level (perhaps 10% or 20%). Crossing the threshold forces the investor to purchase a basket of stocks. This type of niche strategy is intended for funds waiting to be invested in equities as part of a long-term asset allocation.

Diversifiers

- Equity hedges can function as an essential *Diversifier*, offering an enhanced risk-adjusted return in comparison to a traditionally balanced stock-and-bond portfolio. Hedged equity strategies utilize a sophisticated set of options to reduce stock market risk and offer investors potential to benefit from market volatility. Hedging strategies are frequently offered in mutual fund or hedge fund structures, depending on an individual investor's needs and preferences.

We believe having a robust framework is a critical part of the toolkit needed to achieve sustainable wealth generation. Our equity portfolio management teams have long tenures and replicable processes to unearth undervalued stocks. Our fixed income managers cover thousands of bonds in search of arbitrage opportunities and our alternative investment managers seek to enhance the risk-reward profile and offer stability in times of market stress.

Our broad suite of investment opportunities come together through our comprehensive financial planning capabilities, which are extensive and touch on a wide range of areas, dependent on client-specific needs. We provide an objective and long-term approach to constructing your customized financial plan. We work as a team and function as the "quarterback" between you and your existing attorneys, tax advisors and insurance agents. And, in cases where you aren't currently engaged with these professionals, we have a network to which we can connect you.

Our wealth advisors and financial planners are seasoned professionals who have spent much of their careers performing objective planning. Our process addresses investment management, estate planning and tax-related issues. Our process typically includes:

- A cash flow plan that serves as a roadmap to ensure you are optimally allocated between Core Compounders, Stores of Value, Opportunistic Investments and Diversifiers, and that you are saving appropriately to achieve your goals – including spending before and during retirement, as well as incorporating philanthropic and legacy goals.
- A comprehensive review – and recommendations on all other aspects of your financial life, including compensation & employee benefits, risk management (personal insurance) and tax planning.
- A review of your existing estate plans and a "coaching" call to prepare you for meeting with an estate planning attorney, once you are at that stage in your financial life.

Our experienced team of Kovitz Wealth Advisors would love to help you achieve your goals.

We offer a wide array of thoughts on the [Insights page] of our website. For more information on working with our financial professionals, contact us at [wealth@kovitz.com] or 312.334.7300.

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Definition of the Firm: Kovitz Investment Group Partners, LLC (Kovitz) is an investment adviser registered under the Investment Advisers Act of 1940 that provides investment management services to individual and institutional clients. From October 1, 2003 to December 31, 2015, the Firm was defined as Kovitz Investment Group, LLC. Effective January 1, 2016, Kovitz Investment Group, LLC underwent an organizational change and all persons responsible for portfolio management became employees of Kovitz. From January 1, 1997 to September 30, 2003, all persons responsible for portfolio management comprised the Kovitz Group, an independent division of Rothschild Investment Corp (Rothschild).

GIPS: Kovitz Investment Group Partners, LLC (Kovitz) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Kovitz has been independently verified for the periods January 1, 1997 through December 31, 2018. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. A complete list of firm composites and performance results is available upon request.

The description of products, services, and performance results contained herein is not an offering or a solicitation of any kind. Past performance is not an indication of future results. Securities investments are subject to risk and may lose value.

All returns are geometric average unless otherwise stated. The geometric average is calculated using the mean of a set of products that takes into account the effects of compounding.

The federal funds rate is the rate banks charge on loans to each other.

The quoted forward yield for the S&P 500 uses the iShares S&P 500 ETF (ticker: SPY) as a proxy. The quoted forward yield for the S&P Core Value uses iShares Core S&P U.S. Value ETF (ticker: IUSV) as a proxy. The quoted forward yield for the S&P Core Growth uses iShares Core S&P U.S. Growth ETF (ticker: IUSG) as a proxy.

The factor-based (book value-to-price) portfolio data is from Eugene F. Fama and Kenneth R. French. The dataset is broken into four groups: large value, large growth, small value and small growth. The aggregate Value and Growth portfolios are monthly averages of the two returns.

The Standard & Poors 500 index (S&P 500) is a broad stock market index based on the market capitalizations of the largest 500 companies listed in the U.S. Small company stocks, via Ibbotson Associates, are the bottom twenty percent of the New York Stock Exchange. Large company stocks, via Ibbotson Associates, are represented by the S&P 500 index. The S&P 500 Growth Index is a market capitalization weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices. Prior to 12/19/2005 this index represented the S&P 500/Barra Growth Index. The S&P 500 Value Index is a market capitalization weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices. Prior to 12/19/2005 this index represented the S&P 500/Barra Value Index.

The HFRX Equity Hedge strategies maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Equity Hedge managers would typically maintain at least 50%, and may in some cases be substantially entirely invested in equities, both long and short. Hedge Fund Research, Inc. (HFR) utilizes a UCITSIII compliant methodology to construct the HFRX Hedge Fund Indices. The methodology is based on defined and predetermined rules and objective criteria to select and rebalance components to maximize representation of the Hedge Fund Universe. HFRX Indices utilize state-of-the-art quantitative techniques and analysis; multi-level screening, cluster analysis, Monte-Carlo simulations and optimization techniques ensure that each Index is a pure representation of its corresponding investment focus.

The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Allocations in this presentations have the following construction: Conservative: 38% S&P 500 index, 50% Bloomberg U.S. Aggregate Bond index, 12% HFRX Equity Hedge index. Moderate: 58% S&P 500 index, 30% Bloomberg U.S. Aggregate Bond index, 12% HFRX Equity Hedge index. Growth: 77% S&P 500 index, 10% Bloomberg U.S. Aggregate Bond index, 13% HFRX Equity Hedge index.

Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index.

The Russell 3000 Index is composed of 3000 large U.S. companies, as determined by market capitalization. This portfolio of Securities represents approximately 98% of the investable U.S. equity market. The Russell 3000 Index is comprised of stocks within the Russell 1000 and the Russell 2000 Indices. Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell's methodology for their Value and Growth indexes is the following: For each base index (the Russell 1000 and Russell 2000, and the smallest 1,000 in Russell Microcap), stocks are ranked by their book-to-price ratio (B/P), their I/B/E/S forecast medium-term growth (2 year) and sales per share historical growth (5 year). These rankings are converted to standardized units, where the value variable represents 50% of the score and the two growth variables represent the remaining 50%. They are then combined to produce a composite value score (CVS). Stocks are then ranked by their CVS, and a probability algorithm is applied to the CVS distribution to assign growth and value weights to each stock. In general, a stock with a lower CVS is considered growth, a stock with a higher CVS is considered value and a stock with a CVS in the middle range is considered to have both growth and value characteristics, and is weighted proportionately in the growth and value index. Stocks are always fully represented by the combination of their growth and value weights.

The MSCI ACWI Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31 1987. It includes both emerging and developed world markets. The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. The DJ US Real Estate Index represents REITs & other companies that invest directly or indirectly in real estate through development, management or ownership, including property agencies. The index is a subset of the Dow Jones U.S. Index, which covers 95% of U.S. securities based on float-adjusted market capitalization. The S&P GSCI Total Return Index in USD is widely recognized as the leading measure of general commodity price movements and inflation in the world economy. Index is calculated primarily on a world production weighted basis, comprised of the principal physical commodities futures contracts.

From 1927 to present, we utilized the dividend-weighted portfolio data from Eugene F. Fama and Kenneth R. French. The dataset is broken into five groups: non-dividend paying, top 30% of dividend payers, middle 40% of dividend payers, bottom 30% of dividend payers and all dividend payers (weighted 30% of top dividend payers, 40% of middle dividend payers and 30% of low dividend payers).

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