

PUBLIC
AGENCY
RETIREMENT
SERVICES

PARS

TRUSTED SOLUTIONS. LASTING RESULTS.



CITY OF CUPERTINO

PARS 115 Trust – OPEB Prefunding Program &
Pension Rate Stabilization Program Plan Client Review
January 23, 2023

CONTACTS



Mitch Barker
Executive Vice President
(949) 310-4876
mbarker@pars.org

Rick Rosenthal
Vice President , Senior Portfolio Manager
(213) 359-7954
richard.rosenthal@usbank.com

Jennifer Meza, CEBS
Senior Manager, Client Services
(800) 540-6369 x141
jmeza@pars.org

Ryan Maxey
Vice President, Sr. Relationship Manager
(503) 464-3789
ryan.maxey@usbank.com

PARS TRUST TEAM

Trust Administrator & Consultant



- Serves as record-keeper, consultant, and central-point of contact
- Record-keeping/account valuations
- Monitors contributions
- Processes disbursements
- Handles all agency/participant inquiries
- Ongoing plan compliance

Corporate Experience

39 years (1984-2023)

Dollars under Administration

Over \$6.5 billion

Investment Manager & Trustee



- Safeguard and Oversight of Plan Assets
- Investment Fiduciary
- Manage Program Portfolios
- Investment Policy Assistance
- Open Architecture with Active and Index Investments

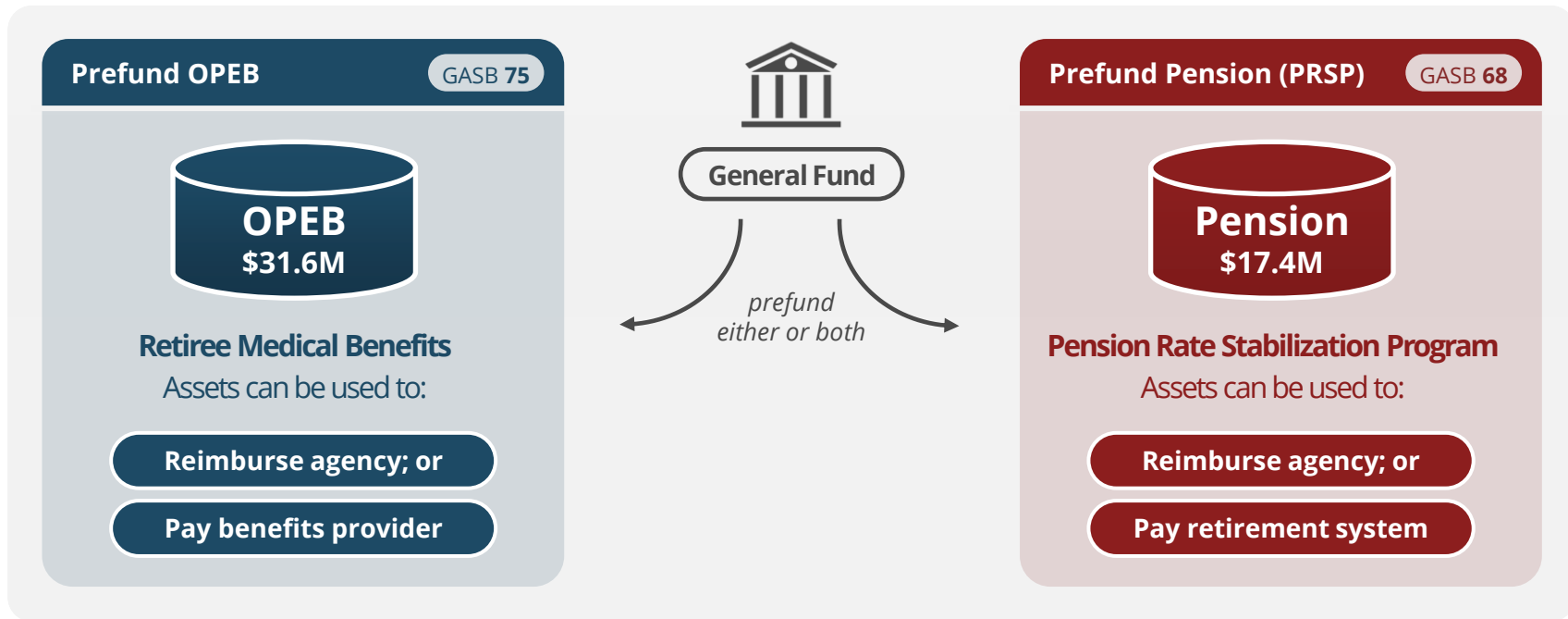
Corporate Experience

160 years (1863-2023)

Dollars under Trust Custody

Over \$9.0 trillion

PARS IRS-APPROVED SECTION 115 TRUST



Subaccounts

OPEB and pension assets are individually sub-accounted, and can be divided by dept., bargaining group, or cost center.



Financial Stability

Assets in the PARS Section 115 Combination Trust can be used to address unfunded liabilities.



Flexible Investing

Allows separate investment strategies for OPEB and pension subaccounts.



Anytime Access

Trust funds are available anytime; OPEB for OPEB and pension for pension.



Economies-of-Scale

OPEB and pension assets aggregate and reach lower fees on tiered schedule sooner – saving money!



No Set Up Cost or Minimums

No set-up costs, no minimum annual contribution amounts, and no fees until assets are added.



December 31, 2022

PARS/CITY OF CUPERTINO 115P

OPEB & PENSION ACCOUNTS

U.S. Bank Institutional Asset Management

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PORTFOLIO REVIEW



Account: XXXXXX9600

Holdings Method: Direct

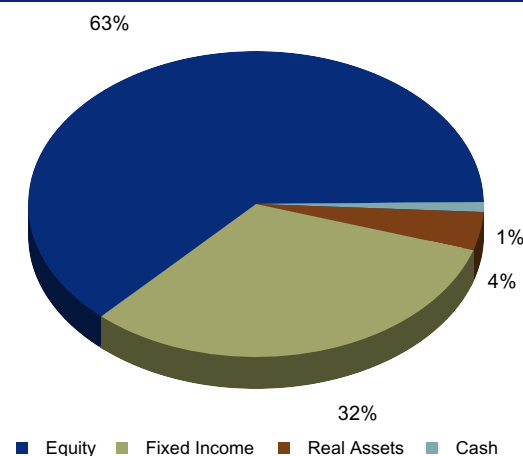
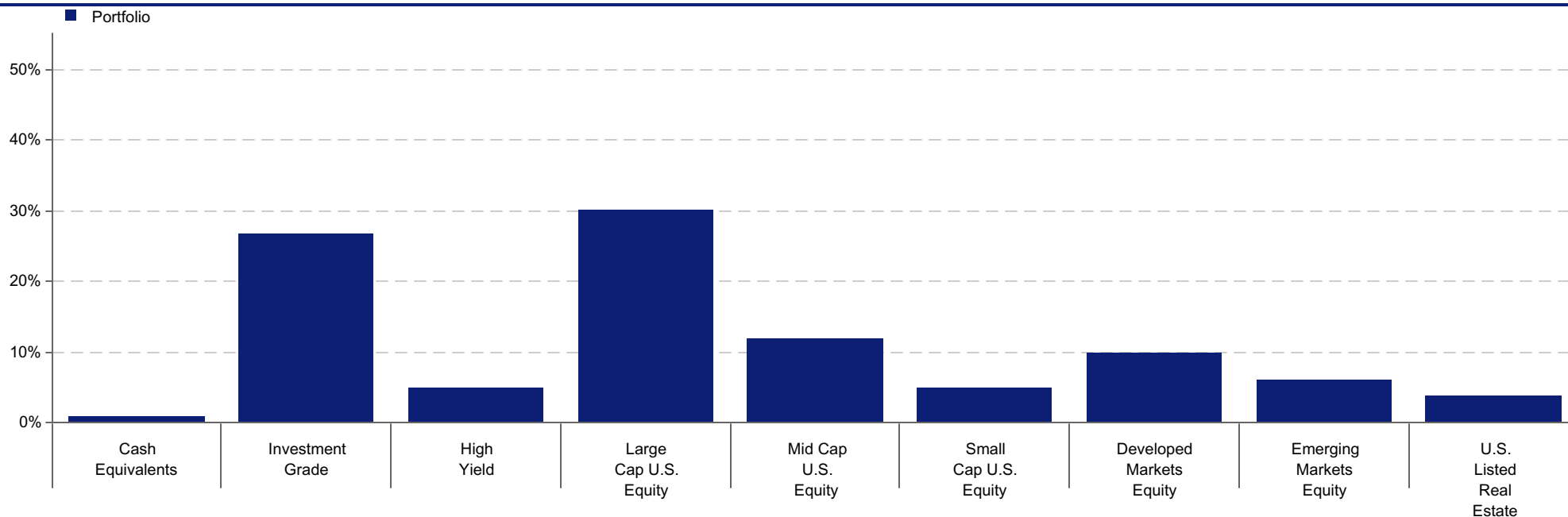
Report Date: 12/30/2022

Portfolio Summary

Inv. Objective	Balanced/Nontaxable-1
Total Portfolio Value	\$31,604,301
Net Realized Cap Gains YTD	\$352,076
Annual Income Projected	\$621,693
Current Yield	1.97%
Number of Securities	12
Portfolio Mgr.	Rick Rosenthal

Portfolio Asset Allocation

Equity	\$19,979,136	63.22%
Fixed Income	\$10,057,379	31.82%
Real Assets	\$1,263,942	4.00%
Cash	\$303,844	0.96%
Invested Total	\$31,604,301	100.00%


Portfolio Model Allocation




Account: XXXXXX9600

Holdings Method: Direct and Indirect

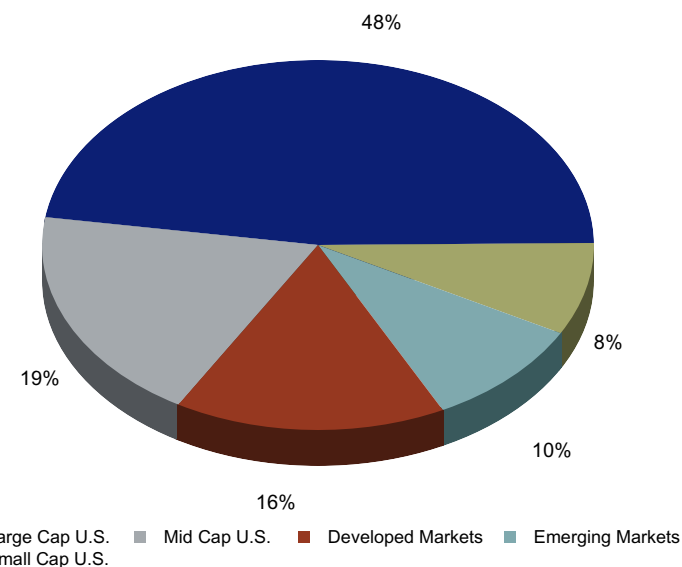
Report Date: 12/30/2022

Equity Summary

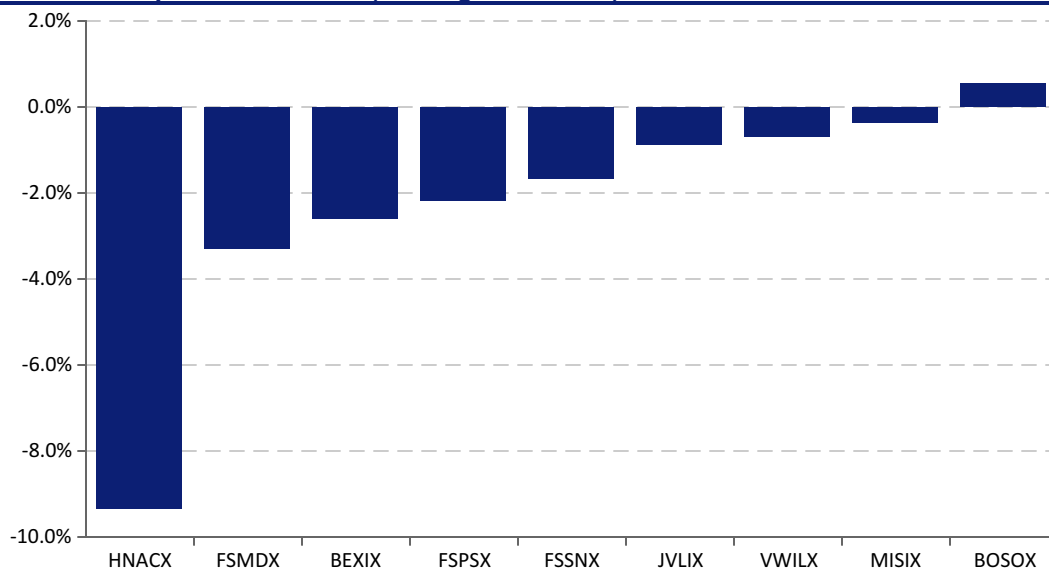
Inv. Objective	Balanced/Nontaxable-1
Total Equity Value	\$19,979,136
Current Yield	1.08%
Annual Income Projected	\$216,654
Number of Securities	6
Portfolio Mgr.	Rick Rosenthal

Equity Asset Allocation

Large Cap U.S.	\$9,514,340	47.62%
Mid Cap U.S.	\$3,800,350	19.02%
Developed Markets	\$3,166,643	15.85%
Emerging Markets	\$1,919,764	9.61%
Small Cap U.S.	\$1,578,039	7.90%



Bottom 5/ Top 5 Contributors (Trailing 12 Months)



Equity Global Distribution



Equity Country Distribution





Account: XXXXXX9600

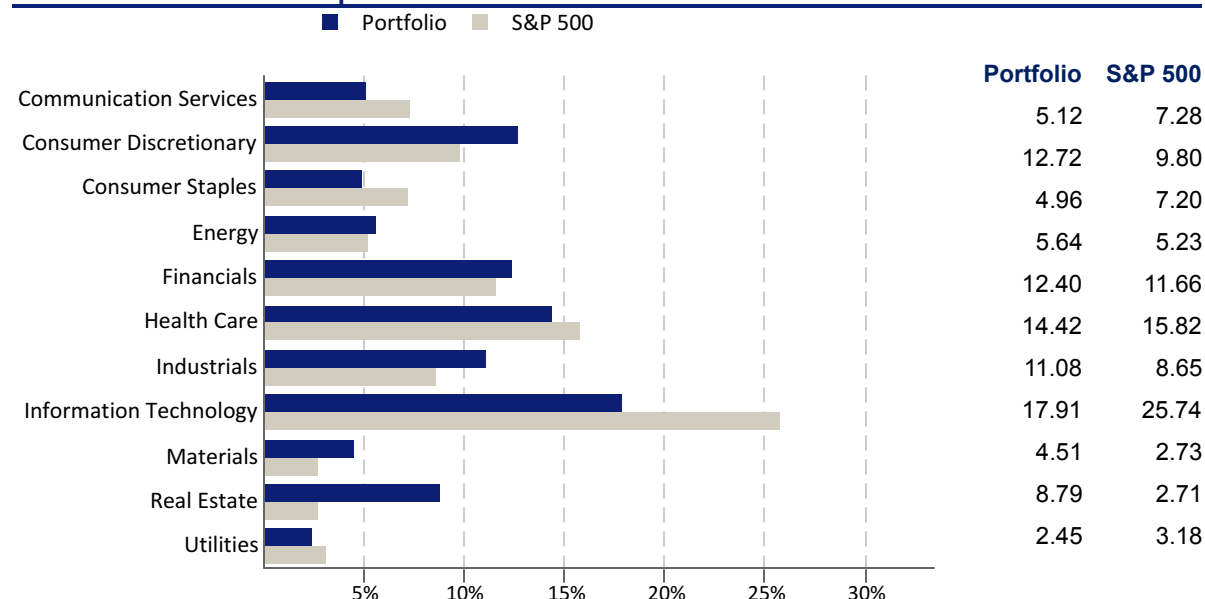
Holdings Method: Direct and Indirect

Report Date: 12/30/2022

Top 10 Common Stock Holdings

	Equity (%)	Port (%)	Yield (%)	YTD Return* (%)	52 Wk Return* (%)
Apple Inc.	1.56	0.99	0.70	-26.4	-26.7
Microsoft Corporation	1.48	0.94	1.10	-28.0	-28.7
Amazon.com, Inc.	1.19	0.76	0.00	-49.6	-50.2
Alphabet Inc. Class A	1.15	0.73	0.00	-39.1	-39.7
UnitedHealth Group Incorporat...	1.12	0.71	1.30	6.9	6.5
Tesla Inc	1.08	0.69	0.00	-65.0	-65.5
Eli Lilly and Company	0.95	0.60	1.20	34.2	33.7
LVMH Moet Hennessy Louis V...	0.94	0.60	1.50	-4.7	-5.1
Visa Inc. Class A	0.93	0.59	0.80	-3.4	-3.9
Schlumberger NV	0.90	0.57	1.20	81.2	82.0

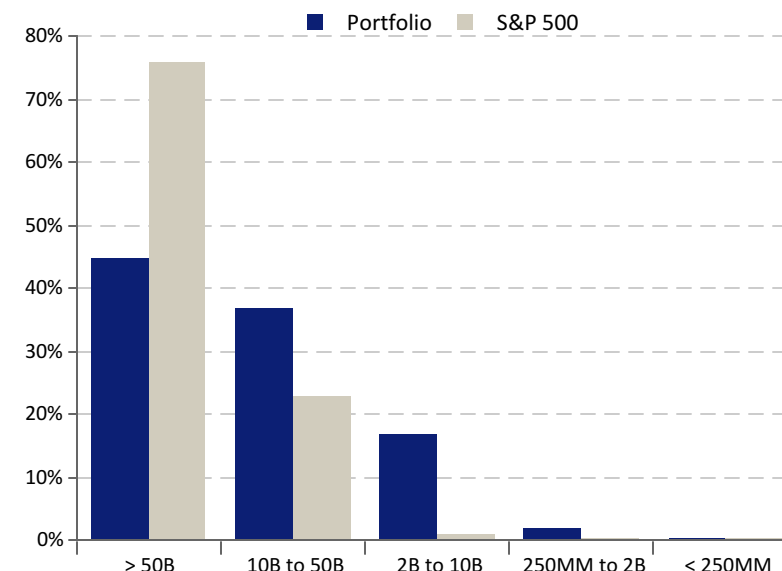
Common Stock Sector Exposures



Common Stock Characteristics

	Portfolio	S&P 500
Market Cap - Wtd Avg	\$176.6B	\$417.5B
Market Cap - Median	\$10.1B	\$29.6B
Dividend Yield (%)	1.89	1.76
P/E NTM	15.7	16.8
P/E LTM	17.0	19.0
ROE (%)	20.8	27.7
1 Yr Beta vs. S&P Composite	.85	.96
Est 3-5 Yr EPS Growth (%)	14.7	11.2
Hist 3 Yr EPS Growth (%)	16.8	18.6
Number of Securities	1928	503

Common Stock Market Cap Distribution



*Specific to the security - does not represent performance in the portfolio.

Account: XXXXXX9600

Holdings Method: Direct

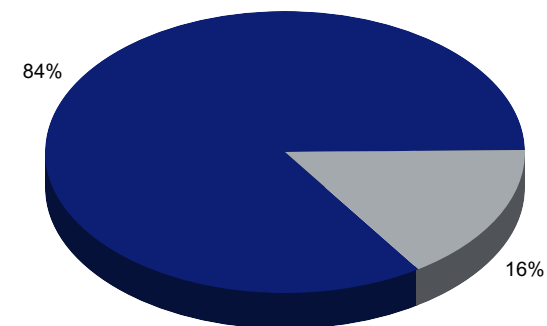
Report Date: 12/30/2022

Fixed Income Summary

Inv. Objective	Balanced/Nontaxable-1
Total Fixed Income Value	\$10,057,379
Current Yield	3.47%
Annual Income Projected	\$348,904
Number of Securities	4
Portfolio Mgr.	Rick Rosenthal

Fixed Income Asset Allocation

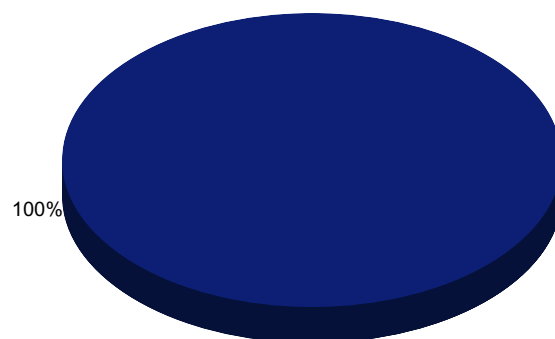
Investment Grade	\$8,489,853	84.41%
High Yield	\$1,567,526	15.59%



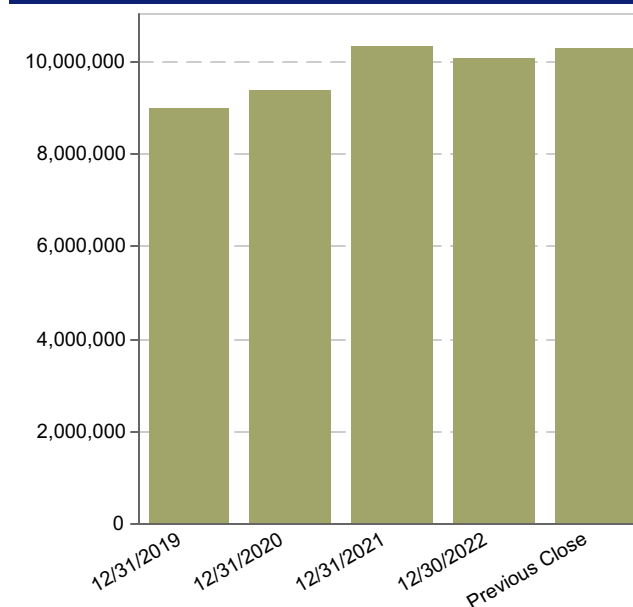
■ Investment Grade ■ High Yield

Fixed Income Sector Exposures

Mutual Funds & ETFs	\$10,057,379	100.00%
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■ Mutual Funds & ETFs

Fixed Income Market Value


Custom Benchmark

CITY OF CUPERTINO

Asset Class	Benchmark	Range	Target	Actual
Equities	MSCI AC World Free Index	50%-70%	63%	63.1%
Fixed Income	BBARC Global Aggregate Index	20%-40%	29%	31.9%
Real Estate	S&P Global REIT TR USD	0%-15%	5%	4%
Commodities	S&P GSCI Commodity Index	0%-10%	2%	0%
Cash	FTSE 3-Mo US T-Bill Index	0%-10%	1%	1%

Selected Period Performance

	Market Value	3 Months	1 Year	3 Years	5 Years	104 Months	Inception to Date 07/01/2010
Total Portfolio Gross of Fees	31,638,793	6.26	-17.96	.87	2.84	4.38	5.63
Total Portfolio Net of Fees	31,638,793	6.21	-18.11	.69	2.65	4.16	
City of Cupertino		8.04	-16.62	1.93	3.67	4.31	6.42
Total Equity	19,979,136	9.06	-20.40	4.51	5.43	7.42	10.28
MSCI ACWI (Net)		9.76	-18.36	4.00	5.23	6.45	8.84
U.S. Equity	14,892,729	7.15	-20.41	4.88	6.48	8.79	
S&P 500 Index (Total Return)		7.56	-18.11	7.66	9.42	10.66	13.31
S&P MidCap 400 Index		10.78	-13.06	7.23	6.71	8.67	12.04
S&P SmallCap 600 Index		9.19	-16.10	5.80	5.88	8.39	12.13
Developed Markets Equity	3,166,643	18.28	-17.00	7.50	5.99	5.67	
MSCI EAFE Index (Net)		17.34	-14.45	.87	1.54	2.69	5.79
Emerging Markets Equity	1,919,764	8.58	-25.82	-4.20	-3.47	-.13	
MSCI Emerging Markets Index (Net)		9.70	-20.09	-2.69	-1.40	1.98	2.78
Total Fixed Income	10,090,083	1.06	-11.52	-4.74	-1.36	-.05	1.24
BBARC Global Aggregate Index		4.55	-16.25	-4.48	-1.66	-.61	.89
BBARC US Aggregate Bond Index		1.87	-13.01	-2.71	.02	1.15	1.88
Total Real Assets	1,263,942	5.29	-24.46	-.34	2.29		
Real Estate	1,263,942	5.29	-24.46	-.34	2.85	5.21	
S&P Global REIT Index (Gross)		7.17	-23.60	-2.38	1.98	4.15	7.82
S&P GSCI Index		3.44	25.99	10.49	6.46	-4.06	-1.12
Total Cash Equivalents	305,632	.86	1.49	.62	1.09	.75	.53
ICE BofAML US 3-Month Treasury Bill Index		.84	1.46	.72	1.26	.87	.63
Pending Cash	0	.00	.00	.00	.00	.00	.00

For performance and rate of return methodologies, as well as other important information, please refer to the Appendix/Disclosures provided.

Investment products and services are:

NOT A DEPOSIT • NOT FDIC INSURED • MAY LOSE VALUE • NOT BANK GUARANTEED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY





PARS/CITY OF CUPERTINO 115P - OPEB

Portfolio Holdings

Account: XXXXXX9600

Holdings Method: Direct

Report Date: 12/30/2022

	Symbol	% of Port.	Price	Shares/ Units	Portfolio Value	Cost Basis	Unrealized Gain/Loss	Current Yield	Projected Annual Income
Total		100.0			31,604,301	30,193,427	1,410,874	1.97	621,693
Cash		.96			303,844	303,844	.00	4.06	12,350
Cash Equivalents		.96			303,844	303,844	.00	4.06	12,350
FIRST AM GOVT OB FD CL Z	31846V567	.96	1.00	303,844	303,844	303,844	.00	4.06	12,350
Fixed Income		31.82			10,057,379	8,974,995	1,082,384	3.47	348,904
Investment Grade		26.86			8,489,853	7,148,441	1,341,412	2.87	243,595
Mutual Funds & ETFs		26.86			8,489,853	7,148,441	1,341,412	2.87	243,595
DoubleLine Total Return Bond Fund Class I	DBLTX	8.91	8.77	321,221	2,817,105	2,496,939	320,166	3.87	108,894
Fidelity U.S. Bond Index Fund	FXNAX	8.95	10.18	277,707	2,827,054	1,738,442	1,088,612	2.40	67,760
TIAA-CREF Short-Term Bond Fd Institutio...	TISIX	9.00	9.82	289,786	2,845,694	2,913,060	-67,366	2.35	66,940
High Yield		4.96			1,567,526	1,826,554	-259,027	6.72	105,309
Mutual Funds & ETFs		4.96			1,567,526	1,826,554	-259,027	6.72	105,309
Artisan High Income Fund - Institutional Sh...	APHFX	4.96	8.41	186,388	1,567,526	1,826,554	-259,027	6.72	105,309
Equity		63.22			19,979,136	19,255,147	723,989	1.08	216,654
Large Cap U.S. Equity		30.10			9,514,340	10,979,658	-1,465,318	0.70	66,262
Mutual Funds & ETFs		30.10			9,514,340	10,979,658	-1,465,318	0.70	66,262
Harbor Capital Appreciation Fund - Retire...	HNACX	15.05	62.89	75,649	4,757,576	5,421,828	-664,252	0.00	0
John Hancock Fds III Disciplined Value Fu...	JVLIX	15.05	20.89	227,705	4,756,764	5,557,830	-801,066	1.39	66,262
Mid Cap U.S. Equity		12.02			3,800,350	1,466,435	2,333,915	1.59	60,553
Mutual Funds & ETFs		12.02			3,800,350	1,466,435	2,333,915	1.59	60,553
Fidelity Mid Cap Index Fund	FSMDX	12.02	25.92	146,618	3,800,350	1,466,435	2,333,915	1.59	60,553
Small Cap U.S. Equity		4.99			1,578,039	1,555,728	22,312	0.35	5,579
Mutual Funds & ETFs		4.99			1,578,039	1,555,728	22,312	0.35	5,579
Boston Trust Walden Small Cap Fund	BOSOX	4.99	15.56	101,416	1,578,039	1,555,728	22,312	0.35	5,579
Developed Markets Equity		10.02			3,166,643	3,607,802	-441,160	2.66	84,259
Mutual Funds & ETFs		10.02			3,166,643	3,607,802	-441,160	2.66	84,259
Fidelity International Index Fund	FSPSX	10.02	41.19	76,879	3,166,643	3,607,802	-441,160	2.66	84,259
Emerging Markets Equity		6.07			1,919,764	1,645,524	274,240	0.00	0
Mutual Funds & ETFs		6.07			1,919,764	1,645,524	274,240	0.00	0
Baron Emerging Markets Fd Inst Shs	BEXIX	6.07	13.04	147,221	1,919,764	1,645,524	274,240	0.00	0



Account: XXXXXX9600

Holdings Method: Direct

Report Date: 12/30/2022

	Symbol	% of Port.	Price	Shares/ Units	Portfolio Value	Cost Basis	Unrealized Gain/Loss	Current Yield	Projected Annual Income
Real Assets		4.00			1,263,942	1,659,442	-395,500	3.46	43,784
U.S. Listed Real Estate		4.00			1,263,942	1,659,442	-395,500	3.46	43,784
iShares Core U.S. REIT ETF	USRT	4.00	49.45	25,560	1,263,942	1,659,442	-395,500	3.46	43,784

Account: XXXXXX9601

Holdings Method: Direct

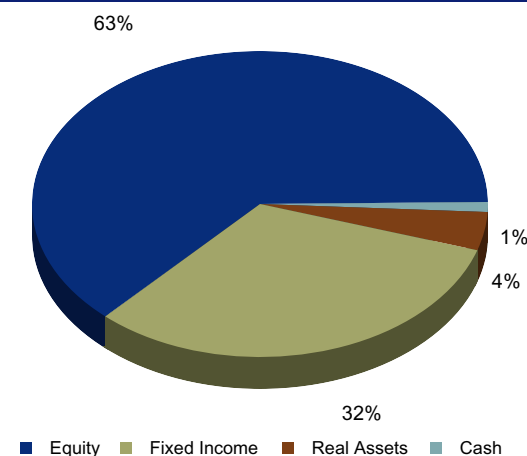
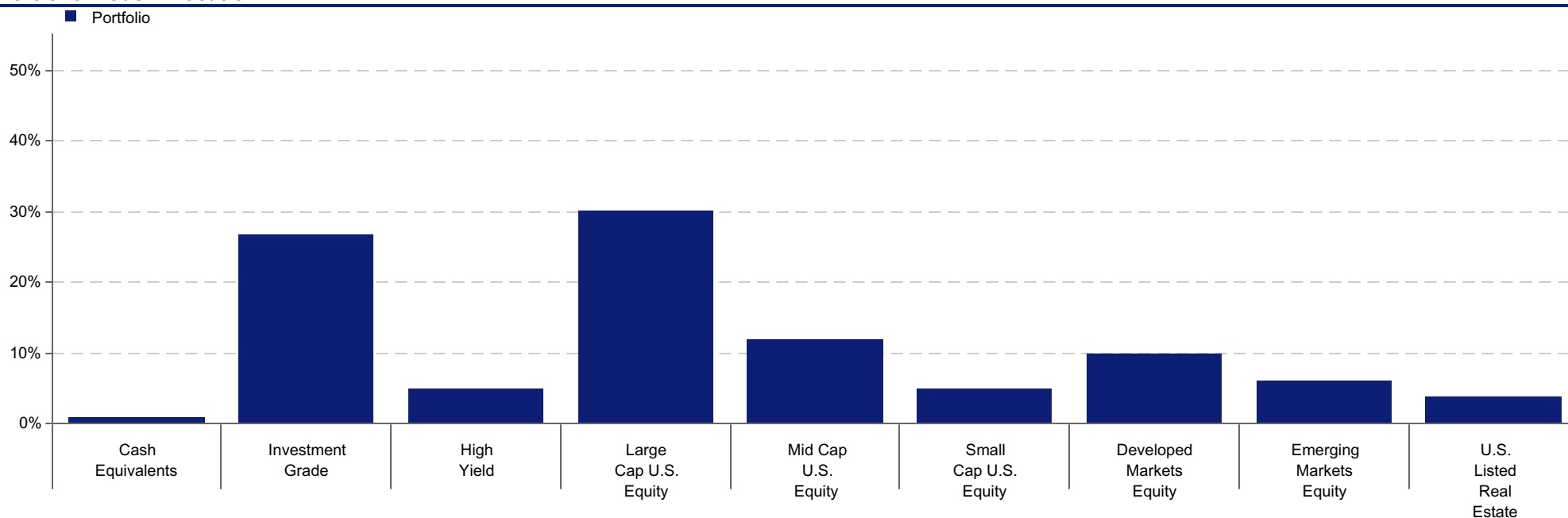
Report Date: 12/30/2022

Portfolio Summary

Inv. Objective	Balanced/Nontaxable-1
Total Portfolio Value	\$17,381,869
Net Realized Cap Gains YTD	\$118,233
Annual Income Projected	\$341,924
Current Yield	1.97%
Number of Securities	12
Portfolio Mgr.	Rick Rosenthal

Portfolio Asset Allocation

Equity	\$10,988,150	63.22%
Fixed Income	\$5,531,401	31.82%
Real Assets	\$695,119	4.00%
Cash	\$167,200	0.96%
Invested Total	\$17,381,869	100.00%


Portfolio Model Allocation




Account: XXXXXX9601

Holdings Method: Direct and Indirect

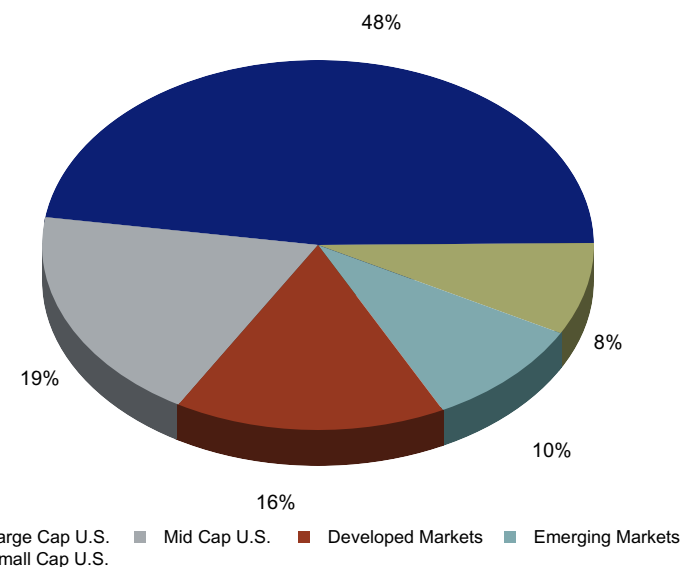
Report Date: 12/30/2022

Equity Summary

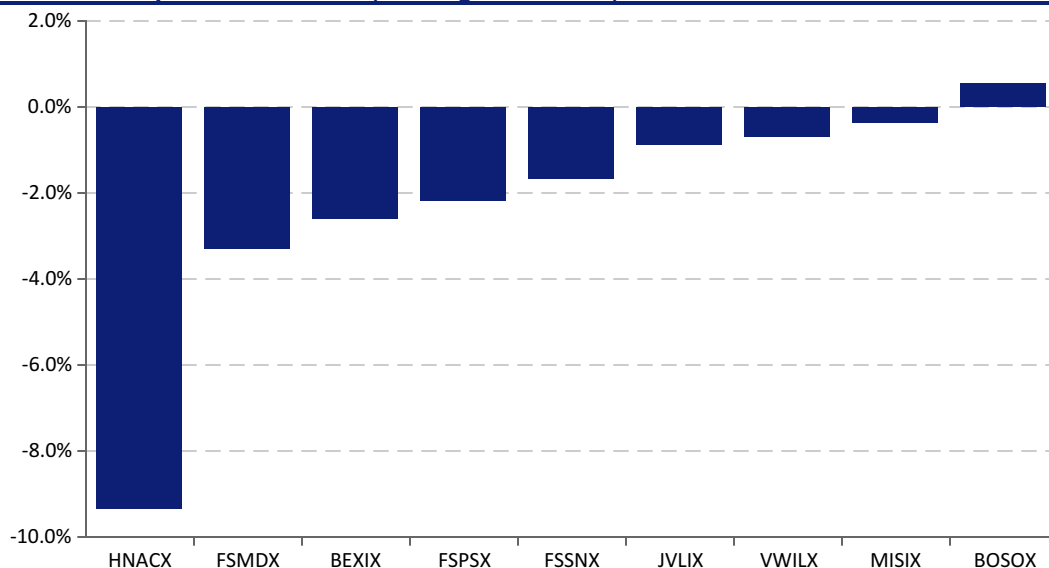
Inv. Objective	Balanced/Nontaxable-1
Total Equity Value	\$10,988,150
Current Yield	1.08%
Annual Income Projected	\$119,156
Number of Securities	6
Portfolio Mgr.	Rick Rosenthal

Equity Asset Allocation

Large Cap U.S.	\$5,232,738	47.62%
Mid Cap U.S.	\$2,090,133	19.02%
Developed Markets	\$1,741,604	15.85%
Emerging Markets	\$1,055,786	9.61%
Small Cap U.S.	\$867,890	7.90%



Bottom 5/ Top 5 Contributors (Trailing 12 Months)



Equity Global Distribution



Equity Country Distribution





Account: XXXXXX9601

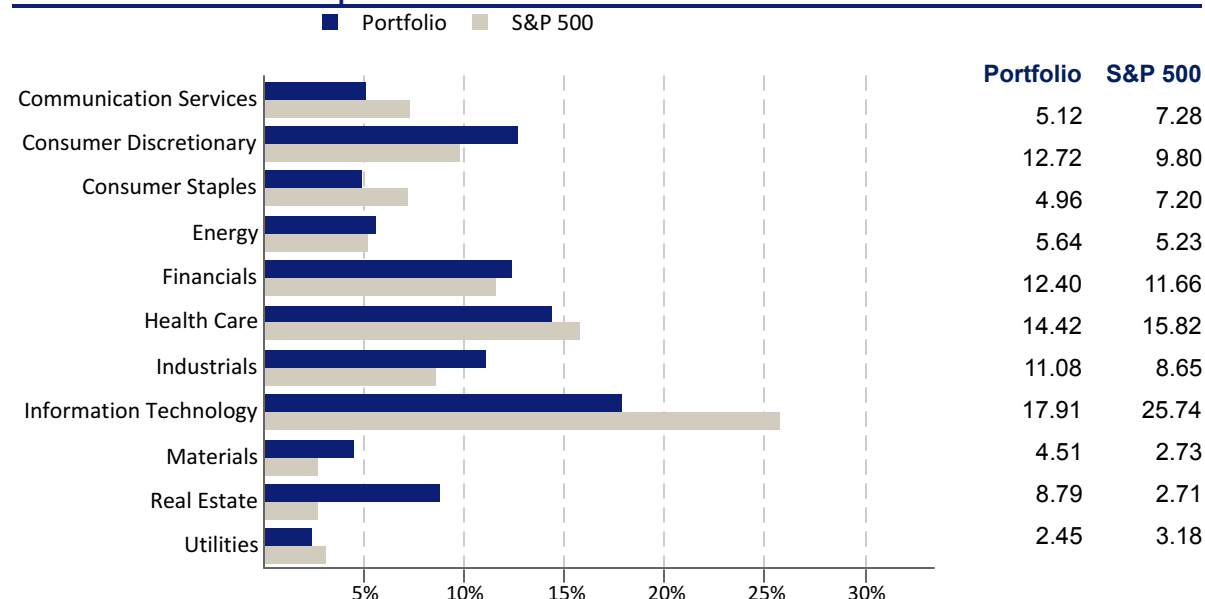
Holdings Method: Direct and Indirect

Report Date: 12/30/2022

Top 10 Common Stock Holdings

	Equity (%)	Port (%)	Yield (%)	YTD Return* (%)	52 Wk Return* (%)
Apple Inc.	1.56	0.99	0.70	-26.4	-26.7
Microsoft Corporation	1.48	0.94	1.10	-28.0	-28.7
Amazon.com, Inc.	1.19	0.76	0.00	-49.6	-50.2
Alphabet Inc. Class A	1.15	0.73	0.00	-39.1	-39.7
UnitedHealth Group Incorporat...	1.12	0.71	1.30	6.9	6.5
Tesla Inc	1.08	0.69	0.00	-65.0	-65.5
Eli Lilly and Company	0.95	0.60	1.20	34.2	33.7
LVMH Moet Hennessy Louis V...	0.94	0.60	1.50	-4.7	-5.1
Visa Inc. Class A	0.93	0.59	0.80	-3.4	-3.9
Schlumberger NV	0.90	0.57	1.20	81.2	82.0

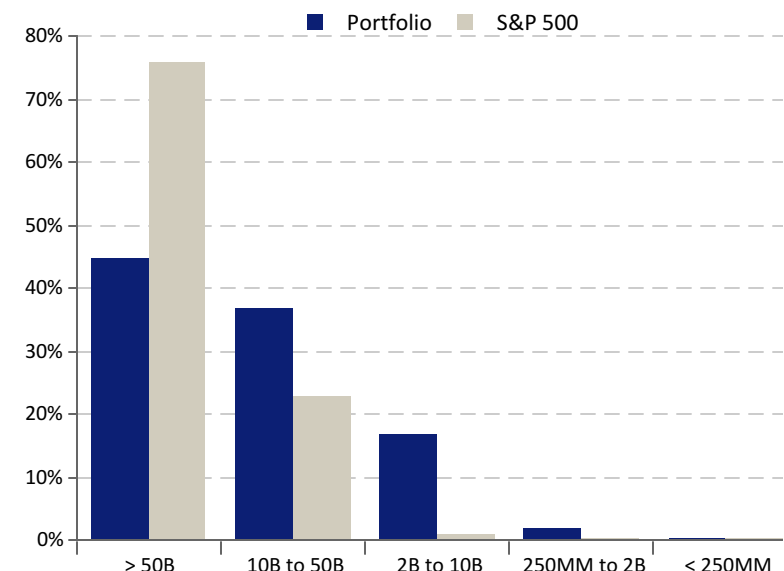
Common Stock Sector Exposures



Common Stock Characteristics

	Portfolio	S&P 500
Market Cap - Wtd Avg	\$176.6B	\$417.5B
Market Cap - Median	\$10.1B	\$29.6B
Dividend Yield (%)	1.89	1.76
P/E NTM	15.7	16.8
P/E LTM	17.0	19.0
ROE (%)	20.8	27.7
1 Yr Beta vs. S&P Composite	.85	.96
Est 3-5 Yr EPS Growth (%)	14.7	11.2
Hist 3 Yr EPS Growth (%)	16.8	18.6
Number of Securities	1928	503

Common Stock Market Cap Distribution



*Specific to the security - does not represent performance in the portfolio.



Account: XXXXXX9601

Holdings Method: Direct

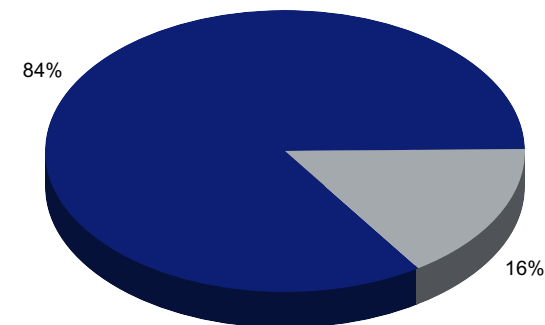
Report Date: 12/30/2022

Fixed Income Summary

Inv. Objective	Balanced/Nontaxable-1
Total Fixed Income Value	\$5,531,401
Current Yield	3.47%
Annual Income Projected	\$191,892
Number of Securities	4
Portfolio Mgr.	Rick Rosenthal

Fixed Income Asset Allocation

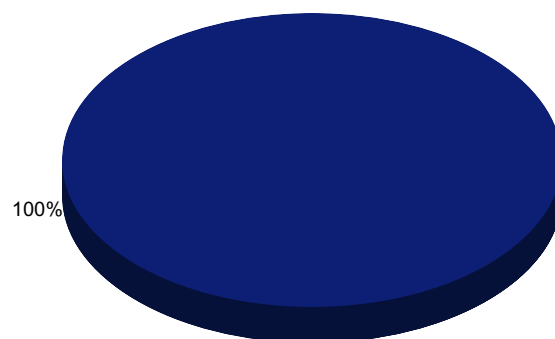
Investment Grade	\$4,669,286	84.41%
High Yield	\$862,115	15.59%



■ Investment Grade ■ High Yield

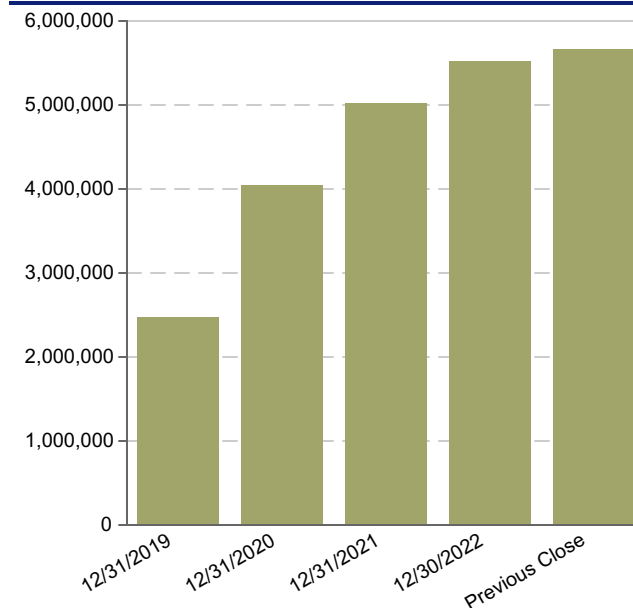
Fixed Income Sector Exposures

Mutual Funds & ETFs	\$5,531,401	100.00%
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■ Mutual Funds & ETFs

Fixed Income Market Value



Custom Benchmark

CITY OF CUPERTINO

Asset Class	Benchmark	Range	Target	Actual
Equities	MSCI AC World Free Index	50%-70%	63%	63.1%
Fixed Income	BBARC Global Aggregate Index	20%-40%	29%	31.9%
Real Estate	S&P Global REIT TR USD	0%-15%	5%	4%
Commodities	S&P GSCI Commodity Index	0%-10%	2%	0%
Cash	FTSE 3-Mo US T-Bill Index	0%-10%	1%	1%

Selected Period Performance

	Market Value	3 Months	1 Year	3 Years	Inception to Date 05/01/2019
Total Portfolio Gross of Fees	17,400,839	6.26	-17.88	2.05	3.70
Total Portfolio Net of Fees	17,400,839	6.21	-18.03	1.87	3.52
City of Cupertino		8.04	-16.62	1.93	3.74
Total Equity	10,988,150	9.06	-20.39	4.54	6.03
MSCI ACWI (Net)		9.76	-18.36	4.00	5.77
U.S. Equity	8,190,760	7.15	-20.40	4.88	6.32
S&P 500 Index (Total Return)		7.56	-18.11	7.66	9.34
S&P MidCap 400 Index		10.78	-13.06	7.23	7.56
S&P SmallCap 600 Index		9.19	-16.10	5.80	6.37
Developed Markets Equity	1,741,604	18.28	-17.00	7.50	8.74
MSCI EAFE Index (Net)		17.34	-14.45	.87	2.82
Emerging Markets Equity	1,055,786	8.58	-25.82	-4.19	-2.00
MSCI Emerging Markets Index (Net)		9.70	-20.09	-2.69	-.77
Total Fixed Income	5,549,387	1.06	-11.52	-4.70	-2.42
BBARC Global Aggregate Index		4.55	-16.25	-4.48	-2.43
BBARC US Aggregate Bond Index		1.87	-13.01	-2.71	-.77
Total Real Assets	695,119	5.29	-24.37	-.28	1.89
Real Estate	695,119	5.29	-24.37	-.28	1.89
S&P Global REIT Index (Gross)		7.17	-23.60	-2.38	.43
S&P GSCI Index		3.44	25.99	10.49	8.35
Total Cash Equivalents	168,184	.86	1.34	.56	.81
ICE BofAML US 3-Month Treasury Bill Index		.84	1.46	.72	.99
Pending Cash	0	.00	.00	.00	.00

For performance and rate of return methodologies, as well as other important information, please refer to the Appendix/Disclosures provided.

Investment products and services are:

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PARS/CITY OF CUPERTINO 115P- PENSION

Portfolio Holdings

Account: XXXXXX9601

Holdings Method: Direct

Report Date: 12/30/2022

	Symbol	% of Port.	Price	Shares/ Units	Portfolio Value	Cost Basis	Unrealized Gain/Loss	Current Yield	Projected Annual Income
Total		100.0			17,381,869	18,137,331	-755,462	1.97	341,924
Cash		.96			167,200	167,200	.00	4.06	6,796
Cash Equivalents		.96			167,200	167,200	.00	4.06	6,796
FIRST AM GOVT OB FD CL Z	31846V567	.96	1.00	167,200	167,200	167,200	.00	4.06	6,796
Fixed Income		31.82			5,531,401	5,778,309	-246,909	3.47	191,892
Investment Grade		26.86			4,669,286	4,786,200	-116,914	2.87	133,973
Mutual Funds & ETFs		26.86			4,669,286	4,786,200	-116,914	2.87	133,973
DoubleLine Total Return Bond Fund Class I	DBLTX	8.91	8.77	176,666	1,549,363	1,479,321	70,043	3.87	59,890
Fidelity U.S. Bond Index Fund	FXNAX	8.95	10.18	152,734	1,554,835	1,706,792	-151,956	2.40	37,267
TIAA-CREF Short-Term Bond Fd Institutio...	TISIX	9.00	9.82	159,378	1,565,087	1,600,088	-35,000	2.35	36,816
High Yield		4.96			862,115	992,109	-129,994	6.72	57,919
Mutual Funds & ETFs		4.96			862,115	992,109	-129,994	6.72	57,919
Artisan High Income Fund - Institutional Sh...	APHFX	4.96	8.41	102,511	862,115	992,109	-129,994	6.72	57,919
Equity		63.22			10,988,150	11,301,247	-313,097	1.08	119,156
Large Cap U.S. Equity		30.10			5,232,738	6,119,761	-887,023	0.70	36,443
Mutual Funds & ETFs		30.10			5,232,738	6,119,761	-887,023	0.70	36,443
Harbor Capital Appreciation Fund - Retire...	HNACX	15.05	62.89	41,606	2,616,592	3,114,299	-497,707	0.00	0
John Hancock Fds III Disciplined Value Fu...	JVLIX	15.05	20.89	125,234	2,616,145	3,005,462	-389,316	1.39	36,443
Mid Cap U.S. Equity		12.02			2,090,133	1,305,598	784,535	1.59	33,303
Mutual Funds & ETFs		12.02			2,090,133	1,305,598	784,535	1.59	33,303
Fidelity Mid Cap Index Fund	FSMDX	12.02	25.92	80,638	2,090,133	1,305,598	784,535	1.59	33,303
Small Cap U.S. Equity		4.99			867,890	855,569	12,321	0.35	3,068
Mutual Funds & ETFs		4.99			867,890	855,569	12,321	0.35	3,068
Boston Trust Walden Small Cap Fund	BOSOX	4.99	15.56	55,777	867,890	855,569	12,321	0.35	3,068
Developed Markets Equity		10.02			1,741,604	1,934,765	-193,161	2.66	46,341
Mutual Funds & ETFs		10.02			1,741,604	1,934,765	-193,161	2.66	46,341
Fidelity International Index Fund	FSPSX	10.02	41.19	42,282	1,741,604	1,934,765	-193,161	2.66	46,341
Emerging Markets Equity		6.07			1,055,786	1,085,556	-29,769	0.00	0
Mutual Funds & ETFs		6.07			1,055,786	1,085,556	-29,769	0.00	0
Baron Emerging Markets Fd Inst Shs	BEXIX	6.07	13.04	80,965	1,055,786	1,085,556	-29,769	0.00	0



PARS/CITY OF CUPERTINO 115P- PENSION

Portfolio Holdings

Account: XXXXXX9601

Holdings Method: Direct

Report Date: 12/30/2022

	Symbol	% of Port.	Price	Shares/ Units	Portfolio Value	Cost Basis	Unrealized Gain/Loss	Current Yield	Projected Annual Income
Real Assets		4.00			695,119	890,575	-195,456	3.46	24,080
U.S. Listed Real Estate		4.00			695,119	890,575	-195,456	3.46	24,080
iShares Core U.S. REIT ETF	USRT	4.00	49.45	14,057	695,119	890,575	-195,456	3.46	24,080

ECONOMIC OUTLOOK



Market analysis

January 17, 2023

This informational material is provided by U.S. Bank Asset Management Group who provides analysis and research to U.S. Bank and its affiliate U.S. Bancorp Investments. Contact your wealth professional for more details.

At a glance

Easing inflation data supported positive returns for bonds and stocks last week. The pace of Federal Reserve interest rate hikes remains a key factor for both bond and stock investors.

Number of the week

10

The number of S&P 500 sectors (out of 11) with positive returns so far this year.

Term of week

Valuation – The analytical process of determining the current (or projected) worth of an asset or a company. There are many techniques used for doing a valuation. An analyst placing a value on a company looks at the business's management, the composition of its capital structure, the prospect of future earnings and the market value of its assets, among other metrics.

“Broad market valuations are fair, neither at high nor low extremes. Consensus earnings projections for 2023 remain approximately \$226 per share; we expect this estimate to trend lower as more companies report fourth quarter results and offer forward guidance. At current levels, the S&P 500 trades at 17.7 times the current 2023 estimate, slightly above the historical average of 16.2, according to Bloomberg.”
- **Terry Sandven**, Portfolio Manager, Chief Equity Strategist, U.S. Bank

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[1] Important disclosures provided on page 4.



Global economy

Quick take: Inflation pressures continue to ease in the United States, but consumer and small business sentiment remain low. Reopening in China is sparking some inflation, while European data appears to be more stable than expected.

Our view: Our U.S. Health Check highlights positive but below-trend economic activity and decelerating momentum as the Federal Reserve (Fed) tightens monetary policy to combat elevated inflation. Our foreign scores are below median and slowing.

- **The Consumer Price Index fell 0.1% in December, slowing to a year-over-year rise of 6.5%.** Energy prices were the primary cause of the decline; oil and gas prices continue to ease on slower demand expectations. Core prices, which exclude food and energy, rose 0.3% for the month, though the year-over-year gain of 5.7% continues its slowing pattern. Used car prices fell, while housing and rent increased 0.8%. Overall, inflation pressures are on a slowing path, as the Fed hoped.
- **Consumer and business sentiment remains low.** The Michigan Consumer Sentiment Index rose to 64.6, up from the record low reading in early summer. However, the level is consistent with past recessions, reflecting ongoing concerns about high energy costs. Meanwhile, the National Federation of Independent Business Small Business Optimism Index slipped to its second-lowest level since 2013. Higher labor and materials costs and lower profits are key challenges.
- **Many economists expect Europe to experience growth challenges and perhaps a recession in 2023.** However, as we close the fourth quarter and enter the new year, the data is marginally better. The Eurozone sentix Investor Confidence Index improved to -17.5 in January from -21.0, and industrial production rose 1.0% in November. In the United Kingdom, retail sales rose 6.9% year-over-year in December, improving from 4.2% the previous month, and the gross domestic product rose 0.1% in November after a 0.5% gain in October, perhaps reversing the third quarter contraction.
- **China's Consumer Price Index accelerated in December,** rising 1.8% for the year, up from 1.6% in November. The adjustment in coronavirus policy may drive an increase in consumer demand.



Equity markets

Quick take: U.S. equities are trending higher in the new year following positive employment and inflation reports. Consensus earnings for 2023 face downward revisions, a potential headwind to equity prices.

Our view: At present, inflation remains elevated, interest rates are rising and consensus earnings projections for 2023 are subject to downward revision as fourth quarter earnings releases ramp up.

- **Early-year performance is superb and broad-based,** aided by slowing inflation. The popular U.S. indices are up between 3.5% and 7.1% for the year as of Friday's close. Ten of 11 S&P 500 sectors are in positive territory, with Real Estate, Materials, Communication Services and Consumer Discretionary up 7% or more. Healthcare is fractionally off, down 0.4%.
- **Fourth quarter results are trending modestly above expectations.** While early, with only 6% of S&P 500 companies having reported, sales are up 7.2% over year-ago levels, above expectations for growth of 3.7%. Earnings are -2.4%, modestly better than expectations of -3.3%. From the money center banks that have reported so far, consumers appear to be spending on both discretionary and non-discretionary items with minimal indications of financial stress. Travel demand remains robust, despite a weaker economic environment.
- **Broad market valuations are fair, neither at high nor low extremes.** Consensus earnings projections for 2023 remain approximately \$226 per share; we expect this estimate to trend lower as more companies report fourth quarter results and offer forward guidance. At current levels, the S&P 500 trades at 17.7 times the current 2023 estimate, slightly above the historical average of 16.2, according to Bloomberg.
- **Defensive sectors remain of near-term appeal due to recession fears.** Healthcare, Utilities, Real Estate, Consumer Staples, Financials and select Energy companies have defensive characteristics, offering relatively stable growth profiles throughout varying economic environments, with many associated companies offering compelling dividend yields.
- **Secular growth sectors remain well-positioned for longer-term growth.** While the near-term outlook remains unclear, the longer-term prospects for Information Technology, Consumer Discretionary, Communication Services and Industrials are compelling, particularly following the 2022 price declines. The interaction of artificial intelligence, machine learning, cloud computing, sensing, multichannel retail options and massive data sets provide a platform for new tools and outcomes that extend beyond the current economic cycle.



Bond markets

Quick take: Improving investor risk appetite and falling Treasury yields fueled positive returns across the bond market, with longer-term and riskier bonds outperforming. Inflation decelerated in December, reducing the Fed's urgency in tightening monetary policy.

Our view: Slowing inflation reduces the risk of large interest rate increases ahead. We favor higher-than-normal exposure to high-quality bonds for their attractive return opportunities and defensive characteristics. Large yield increases over the past year improve their income return, and high-quality bonds are typically less sensitive to fluctuations in the business cycle.

- **Fed officials voiced support for slowing policy tightening but reminded investors they plan to hold interest rates at high levels.** The Fed's 4.25% increase in rates over the past year has started cooling inflation, yet we anticipate additional rate hikes until the Fed becomes confident it has brought inflation under control. Recent Fed communication aligns with market expectations of 0.25% rate hikes going forward, as opposed to the larger 0.50% and 0.75% increases seen last year. The Fed's last interest rate projections from its December meeting indicate officials plan on holding the funding rate steady at 5.00% to 5.25% through the end of the year. However, investors expect the rate to peak just below 5% before the Fed begins *cutting* rates by 0.5% before the year's end.
- **The extra yield on riskier bonds fell as investor confidence recovered.** The incremental yield over Treasuries on corporate and municipal bonds fell slightly below long-term averages. This extra yield compensates for credit risk and falls when investors are comfortable investing in riskier bonds. We favor higher-than-normal exposure to high-quality bonds considering recent Treasury yield increases have improved return opportunities, while limiting incentive to increase credit risk.



Real assets

Quick take: Cash-producing real assets traded mixed last week, with Real Estate and commodities outperforming and infrastructure lagging.

Our view: We continue to see value in real assets' defensive sectors. We favor tangible assets with stable cash flows as we move past peak earnings growth in a year during which economic growth and corporate earnings could stagnate. Commodities remain vulnerable if expectations for falling inflation and decelerating economic growth come to fruition.

- **Real Estate beat the S&P 500 by 1.5% last week** as interest rates declined marginally. Cell towers and offices were the top-performing sectors while retail and residential properties lagged. Publicly traded real estate investment trust valuations incorporate likely future pressure on private property prices, providing some cushion against a challenging economic environment. However, still-higher interest rates could hamper investor returns.
- **Infrastructure trailed the S&P 500 by 1% last week.** Airports beat the broader market by 2.75%. Utilities and rail roads were the main detractors.
- **Crude oil prices rose 8% last week** on hopes that China re-opening spurs demand, despite a large increase in domestic supplies. We still see the crude market as undersupplied, which should be supportive for prices over a longer time horizon, but acknowledge downside exists if the economy continues to slow.

This information represents the opinion of U.S. Bank Wealth Management. The views are subject to change at any time based on market or other conditions and are current as of the date indicated on the materials. This is not intended to be a forecast of future events or guarantee of future results. It is not intended to provide specific advice or to be construed as an offering of securities or recommendation to invest. Not for use as a primary basis of investment decisions. Not to be construed to meet the needs of any particular investor. Not a representation or solicitation or an offer to sell/buy any security. Investors should consult with their investment professional for advice concerning their particular situation. The factual information provided has been obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness. U.S. Bank is not affiliated or associated with any organizations mentioned.

Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio. Diversification and asset allocation do not guarantee returns or protect against losses.

Past performance is no guarantee of future results. All performance data, while obtained from sources deemed to be reliable, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for direct investment. The **S&P 500 Index** consists of 500 widely traded stocks that are considered to represent the performance of the U.S. stock market in general. The **Michigan Consumer Sentiment Index** is a monthly survey of consumer confidence levels in the United States conducted by the University of Michigan. The survey is based on telephone interviews that gather information on consumer expectations for the economy. The **Consumer Price Index** is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is one of the most frequently used statistics for identifying periods of inflation or deflation. The **National Federation of Independent Business Small Business Optimism Index** is a composite of 10 seasonally adjusted components. It provides an indication of the health of small businesses in the U.S., which account of roughly 50% of the nation's private workforce. The **sentix Investor Confidence Index** rates the relative six-month economic outlook for the eurozone. The data is compiled from a survey of about 2,800 investors and analysts. A reading above zero indicates optimism; below indicates pessimism.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. **International investing** involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in **fixed income securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Investment in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. The **municipal bond market** is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issues of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in **real assets** such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults).

Important disclosures, definitions of terms and index descriptions

If you have questions regarding this information or wish to receive definitions of any additional terms or indexes used in this report, please contact your Portfolio Manager.

Important disclosures (page 1 of 4)

The information provided here is not intended to replace your account statement. Your account statement is the official record of your account.



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For use in one-on-one meetings/presentations.

This information represents the opinion of U.S. Bank. The views are subject to change at any time based on market or other conditions and are current as of the date indicated on the materials. This is not intended to be a forecast of future events or guarantee of future results. The factual information provided has been obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness.

U.S. Bank and its representatives do not provide tax or legal advice. Your tax and financial situation is unique. You should consult your tax and/or legal advisor for advice and information concerning your particular situation.

Past performance is no guarantee of future results. All performance data, while obtained from sources deemed to be reliable, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for direct investment, nor are they subject to fees and expenses.

Performance reports included may show performance results gross of fees and expenses. If fees and expenses were included, the performance would be lower. If you have any questions, please speak with your relationship manager for additional information.

Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio. **Diversification and asset allocation do not guarantee returns or protect against losses.**

Important disclosures (page 2 of 4)

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. **Stocks of small-capitalization companies** involve substantial risk. These stocks historically have experienced greater price volatility than stocks of larger companies and may be expected to do so in the future. **Stocks of mid-capitalization companies** can be expected to be slightly less volatile than those of small-capitalization companies, but still involve substantial risk and may be subject to more abrupt or erratic movements than large-capitalization companies. The value of **large-capitalization stocks** will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions. **Growth investments** focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends, which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments. **Value investments** focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or such stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments.

International investing involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility.

Investments in **real estate securities** can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults). There are special risks associated with an investment in **commodities**, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors.

Investments in **fixed income securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Investment in fixed income securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return, but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments.

Important disclosures (page 3 of 4)

The **municipal bond** market is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issues of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes, but may be subject to the federal alternative minimum tax (AMT), state and local taxes. **Treasury Inflation-Protected Securities (TIPS)** offer a lower return compared to other similar investments and the principal value may increase or decrease with the rate of inflation. Gains in principal are taxable in that year, even though not paid out until maturity.

Non-financial **specialty assets**, such as real estate, farm, ranch and timber properties, oil, gas and mineral interests or closely-held business interests are complex and involve unique risks specific to each asset type, including the total loss of value. Special risk considerations may include natural events or disasters, complex tax considerations and lack of liquidity. Specialty assets may not be suitable for all investors.

Alternative investments very often use speculative investment and trading strategies. There is no guarantee that the investment program will be successful. Alternative investments are designed only for investors who are able to tolerate the full loss of an investment. These products are not suitable for every investor even if the investor does meet the financial requirements. It is important to consult with your investment professional to determine how these investments might fit your asset allocation, risk profile and tax situation. **Hedge funds** are speculative and involve a high degree of risk. An investment in a hedge fund involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem or transfer interests in a fund. **Exchange-traded funds (ETFs)** are baskets of securities that are traded on an exchange like individual stocks at negotiated prices and are not individually redeemable. ETFs are designed to generally track a market index and shares may trade at a premium or a discount to the net asset value of the underlying securities. **Private equity** investments provide investors and funds the potential to invest directly into private companies or participate in buyouts of public companies that result in a delisting of the public equity. Investors considering an investment in private equity must be fully aware that these investments are illiquid by nature, typically represent a long-term binding commitment and are not readily marketable. The valuation procedures for these holdings are often subjective in nature. **Private debt** investments may be either direct or indirect and are subject to significant risks, including the possibility of default, limited liquidity and the infrequent availability of independent credit ratings for private companies. **Structured products** are subject to market risk and/or principal loss if sold prior to maturity or if the issuer defaults on the security. Investors should request and review copies of Structured Products Pricing Supplements and Prospectuses prior to approving or directing an investment in these securities.

Important disclosures (page 4 of 4)

Mutual fund investing involves risk and principal loss is possible. Investing in certain funds involves special risks, such as those related to investments in small- and mid-capitalization stocks, foreign, debt and high-yield securities and funds that focus their investments in a particular industry. Please refer to the fund prospectus for additional details pertaining to these risks. An investment in **money market funds** is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although these funds seek to preserve the value of an investment at \$1.00 per share, it is possible to lose money by investing in these funds.

Holdings of First American Funds: U.S. Bancorp Asset Management, Inc. is a registered investment advisor and subsidiary of U.S. Bank National Association. U.S. Bank National Association is a separate entity and wholly owned subsidiary of U.S. Bancorp. U.S. Bank is not responsible for and does not guarantee the products, performance or services of U.S. Bancorp Asset Management. U.S. Bancorp Asset Management, Inc. serves as an investment advisor to First American Funds. **Holdings of Nuveen mutual funds:** Firststar Capital Corporation (Firststar Capital), an affiliate of U.S. Bancorp, holds a less-than-10 percent ownership interest in Windy City Investments Holdings, LLC which was formerly the parent of Windy City Investment Inc. and the indirect parent of Nuveen Fund Advisors, LLC which is the investment advisor to the Nuveen Mutual Funds. On October 1, 2014, Windy City Investments, Inc. was sold to Teachers Insurance and Annuity Association of America. As a result of the sale, U.S. Bancorp no longer has an indirect ownership interest in Nuveen Fund Advisors, LLC. Depending on the outcome of certain factors, Firststar Capital might in the future receive an earn-out payment in respect of its interest in Windy City Investment Holdings, LLC, under the terms of the sale. **Non-proprietary mutual funds:** U.S. Bank may enter into agreements with other non-proprietary mutual funds or their service providers whereby U.S. Bank provides shareholder services and/or sub-transfer agency, custodial and other administrative support services and receives compensation for these services. Compensation received by U.S. Bank directly or indirectly from mutual funds does not increase fund fees and expenses beyond what is disclosed in the fund prospectuses. For more information, review the fund prospectus.

Definitions of report and statement terms (page 1 of 5)

Accredited Investor: Private placement securities generally require that investors be accredited due to the additional risks and speculative nature of the securities. For natural persons, the criteria is met by a net worth of more than \$1 million (excluding primary residence) or an income of more than \$200,000 individually (\$300,000 jointly) for the two most recent years and a reasonable expectation for the same in the current year. For other entities, such as corporations, partnerships, trusts and employee benefit plans, the criteria is met with at least \$5 million in assets. See full definition in Rule 501 of Regulation D under the Securities Act of 1933.

Alpha: A measure of risk-adjusted performance. A statistic measuring that portion of a stock, fund or composite's total return attributable to specific or non-market risk. Alpha measures non-market return and indicates how much value has been added or lost. A positive Alpha indicates the fund or composite has performed better than its Beta would predict (i.e., the manager has added value above the benchmark). A negative Alpha indicates a fund or composite has underperformed given the composite's Beta.

Alternative Investments: As used by U.S. Bank, an investment considered to be outside of the traditional asset classes of long-only stocks, bonds and cash. Examples of alternative investments include hedge funds, private equity, options and financial derivatives.

Annualized Excess Return: Shows the difference between the annualized linked returns of a portfolio and the model benchmark. Performance reports provided annualize only periods greater than one year.

Annualized or Annual Rate of Return: Represents the average annual change in the value of an investment over the periods indicated.

Batting Average: Shows how consistently the portfolio return met or beat the market.

Beta: A measure of your portfolio's risk relative to a benchmark. A portfolio with a beta of 1.5, for example, would be expected to return roughly 1.5 times the benchmark's return. A high Beta indicates a riskier portfolio.

Bond Credit Rating: A grade given to bonds by a private independent rating service that indicates their credit quality. Ratings are the opinion of Standard & Poor's or other agencies as noted and not the opinion of U.S. Bank.

Consumer Price Index (CPI): A measure of the average change in prices over time in a market basket of goods and services and is one of the most frequently used statistics for identifying periods of inflation and deflation.

Convexity to Stated Maturity: A measure of the curvature in the relationship between bond prices and bond yields that demonstrates how the duration of a bond changes as the interest rate changes. Convexity is used as a risk-management tool and helps to measure and manage the amount of market risk to which a portfolio of bonds is exposed. This version of convexity measures the rate change in duration of a bond as the yield to (stated) maturity changes.

Definitions of report and statement terms (page 2 of 5)

Cost basis/book value: The original value of an asset at the time it was acquired. This is normally the purchase price or appraised value at the time of acquisition. This data is for information purposes only.

Cumulative Excess Return: Shows the difference between the annualized linked returns of a portfolio and the model benchmark. Performance reports provided use unannualized returns in periods up to one year, but annualized returns for periods exceeding one year.

Downside Capture: The downside capture ratio reflects how a portfolio compares to a benchmark during periods when the benchmark is down. A downside capture ratio of 0.80 (or 80 percent) means the portfolio has historically declined only 80 percent as much as the benchmark during down markets.

Downside Deviation: The deviation of returns that fall below a minimum acceptable return (MAR). Although the numerator includes only returns below the MAR, the denominator includes all returns in the performance period. This risk statistic is similar to the downside standard deviation except the sum is restricted to returns less than the MAR instead of the mean.

Downside Standard Deviation: The deviation of returns that fall below the mean return. Although the numerator includes only returns below the mean, the denominator includes all returns in the performance period. This risk statistic is similar to the downside deviation except the sum is restricted to returns less than the mean instead of the minimum acceptable return (MAR).

Effective Maturity: The date of a bond's most likely redemption, given current market conditions, taking into consideration the optional and mandatory calls, the optional, mandatory and recurring puts, and the stated maturity.

Estimated annual income: The amount of income a particular asset is anticipated to earn over the period indicated. The shares multiplied by the annual income rate.

Gain/loss calculation: If an asset was sold, the difference between the proceeds received from the sale compared to the cost of acquiring the asset. If the value of the proceeds is the higher of the two numbers, then a gain was realized. If the value of the proceeds is the lower of the two numbers, a loss was incurred. This data is for information purposes only.

Information Ratio: The information ratio compares the average excess return of the portfolio over its associated benchmark divided by the tracking error.

M-Squared: The hypothetical return of the portfolio after its risk has been adjusted to match a benchmark.

Definitions of report and statement terms (page 3 of 5)

Market Value: Publicly traded assets are valued using market quotations or valuation methods from financial industry services believed by us to be reliable. Assets, that are not publicly traded, may be reflected at values from other external sources or special valuations prepared by us. Assets for which a current value is not available may be reflected as not valued, at par value, or at a nominal value. Values shown do not necessarily reflect prices at which assets could have been bought or sold. Values are updated based on internal policy and may be updated less frequently than statement generation.

Market Value Over Time: Many factors can impact the portfolio value over time, such as contributions to the account, distributions from the account, the investment of dividends and interest, the deduction of fees and expenses, and market performance.

Modified Duration to Effective Maturity: A formula that expresses the measurable change in the value of a security in response to a change in interest rates. This version of Modified Duration takes into consideration a “horizon date/price” that is, given current conditions, the most likely redemption date/price using the set of calls/puts, as well as stated maturity.

Modified Duration to Stated Maturity: A formula that expresses the measurable change in the value of a security in response to a change in interest rates. This version of Modified Duration uses stated maturity as the “horizon date/price” and ignores any potential call/put/pre-refunding, even if they are mandatory.

Price/Earnings Ratio (P/E): The P/E ratio of a company is calculated by dividing the price of the company’s stock by its trailing 12-month earnings per share. A high P/E usually indicates that the market is paying a premium for current earnings because it believes in the firm’s ability to grow its earnings. A low P/E indicates the market has less confidence that the company’s earnings will increase. Within a portfolio, P/E is the weighted average of the price/earnings ratios of the stocks in the portfolio.

Qualified Purchaser: Some private placement securities require that investors be Qualified Purchasers in addition to being Accredited Investors. For natural persons, the criteria is generally met when the client (individually or jointly) owns at least \$5 million in investments. For other entities, such as corporations, partnerships, trusts and employee benefit plans, the criteria is met with at least \$25 million in investments though there are other eligibility tests that may apply. See full definition in Section 2(a)(51) of the Investment Company Act of 1940.

R-Squared: Measures the portion of the risk in your portfolio that can be attributed to the risk in the benchmark.

Realized and Unrealized Gains/Losses: Are calculated for individual tax lots based on the records we have available. Some data may be incomplete or differ from what you are required to report on your tax return. Some data used in these calculations may have been obtained from outside sources and cannot be verified by U.S. Bank. The data is intended for informational purposes only and should not be used for tax reporting purposes. Please consult with your tax or legal advisor for questions concerning your personal tax or financial situation.

Definitions of report and statement terms (page 4 of 5)

Residual Risk: The amount of risk specific to the assets in a portfolio distinct from the market, represented by a benchmark.

Return: An indication of the past performance of your portfolio.

Sharpe Ratio: Measures of risk-adjusted return that calculates the return per unit of risk, where risk is the Standard Deviation of your portfolio. A high Sharpe ratio indicates that the portfolio is benefiting from taking risk.

Sortino Ratio: Intended to differentiate between good and bad volatility. Similar to the Sharpe ratio, except it uses downside deviation for the denominator instead of standard deviation, the use of which doesn't discriminate between up and down volatility.

Spread: The difference between the yields of two bonds with differing credit ratings (most often, a corporate bond with a certain amount of risk is compared to a standard traditionally lower risk Treasury bond). The bond spread will show the additional yield that could be earned from a bond which has a higher risk.

Standard Deviation: A measure of the volatility and risk of your portfolio. A low standard deviation indicates a portfolio with less volatile returns and therefore less inherent risk.

Time-weighted Return: The method used to calculate performance. Time-weighted return calculates period by period returns that negates the effect of external cash flows. Returns for periods of greater than one year are reported as an annualized (annual) rate of return. Returns of less than one year are reported on a cumulative return basis. Cumulative return is the aggregate amount an investment has gained or lost over time, independent of the period involved.

Tracking Error: A divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark. This is often in the context of a hedge or mutual fund that did not work as effectively as intended, creating an unexpected profit or loss instead.

Traditional Investments: As used by U.S. Bank, an investment made in equity, fixed income or cash securities, mutual funds or exchange-traded funds (ETFs) where the investor buys at a price with the goal that the investment will go up in value.

Top 10 Holdings: The 10 assets with the highest market values in the account.

Total Portfolio Gross of Fees: Represents all assets included in the calculation of the portfolio, before the deduction of trust and asset management fees, and is inclusive of all applicable third-party security fees and expenses. Details of those fees and expenses are provided in the security's prospectus or offering documents.

Definitions of report and statement terms (page 5 of 5)

Total Return: The rate of return that includes the realized and unrealized gains and losses plus income for the measurement period.

Treynor Ratio: Measures the performance of a sector relative to risk by dividing the return of the sector in excess of the risk-free return by the sector's Beta. The higher the Treynor ratio, the better the return relative to risk.

Turnover Percent: Indicates how frequently asset are bought and sold within a portfolio.

Turnover Ratio: The percentage of a mutual fund's or other investment vehicle's holdings that have been "turned over" or replaced with other holdings in a given year.

Unrealized gain (loss) — The difference between the current market value (at the end of the statement period) and the cost to acquire the asset. If the current market value is higher than the cost, a gain is reflected. If the current market value is lower than the cost paid, a loss is reflected. This data is for information purposes only.

Upside Capture: The upside capture ratio reflects how a portfolio compares to the selected model benchmark during periods when the benchmark is up. An upside capture ratio of 1.15 (or 115 percent) means the portfolio has historically beat the benchmark by 15 percent during up markets.

Yield: The annual rate of return on an investment, expressed as a percentage. For bonds, it is the coupon rate divided by the market price. For stocks, it is the annual dividend divided by the market price.

Frequently used indexes (page 1 of 5)

Bloomberg Barclays 1-3 year U.S. Treasury Index: Measures the performance of the U.S. government bond market and includes public obligations of the U.S. Treasury with a maturity between one year and up to (but not including) three years.

Bloomberg Barclays 1-5 year U.S. Treasury Index: Includes all publicly issued, U.S. Treasury securities that have a remaining maturity of greater than or equal to one year and less than five years, are rated investment grade and have \$250 million or more of outstanding face value.

The Bloomberg Barclays 1-5 year Municipal Index: Measures the performance of municipal bonds with time to maturity of more than one year and less than five years.

Bloomberg Barclays 7-year Municipal Index: Includes municipal bonds with a minimum credit rating of Baa that have been issued as part of a transaction of at least \$50 million, have a maturity value of at least \$5 million and a maturity range of four to six years.

Bloomberg Barclays Global Aggregate Index ex-U.S. Index: Measure of global investment grade debt from 24 local currency markets. This multi-currency benchmark includes Treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Global Treasury ex-U.S. Index: Includes government bonds issued by investment-grade countries outside the United States, in local currencies, that have a remaining maturity of one year or more and are rated investment grade.

Bloomberg Barclays High Yield Municipal Bond Index: An unmanaged index made up of bonds that are non-investment grade, unrated or below Ba1 bonds.

Bloomberg Barclays Intermediate Aggregate Index: Consists of one- to 10-year governments, one- to 10-year corporate bonds, all mortgages and all asset-backed securities within the Aggregate Index.

Bloomberg Barclays Mortgage-Backed Securities Index: Covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid adjustable-rate mortgages) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Bloomberg Barclays U.S. Aggregate Bond Index: Measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities.

Bloomberg Barclays U.S. Corporate Bond Index: Measures the investment grade, fixed-rate, taxable corporate bond market and includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Frequently used indexes (page 2 of 5)

Bloomberg Barclays U.S. Corporate High Yield Bond Index: Measures the U.S. dollar denominated, high yield, fixed-rate corporate bond market.

Bloomberg Barclays U.S. Municipal Bond Index: Measures the investment grade, U.S. dollar-denominated, fixed tax-exempt bond market. The index includes state and local general obligation, revenue, insured and pre-refunded bonds.

Bloomberg Barclays U.S. Treasury Index: Measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury.

Bloomberg Barclays U.S. Treasury Inflation-Protected Securities (TIPS) Index: An unmanaged index includes all publicly issued, U.S. TIPS that have at least one year remaining to maturity, are rated investment grade, and have \$250 million or more of outstanding face value.

Cambridge U.S. Private Equity Index: This index is based on returns data compiled for U.S. private equity funds (including buyout, growth equity and mezzanine funds) that represent the majority of institutional capital raised by private equity partnerships formed since 1986. Returns may be delayed by up to six months. Quarterly performance is prorated based on the cube root for the months of the quarter.

Citigroup 3-Month Treasury Bills: An unmanaged index and represents monthly return equivalents of yield averages of the last three-month Treasury Bill issues.

Citigroup 6-Month Treasury Bills: An unmanaged index and represents monthly return equivalents of yield averages of the last six-month Treasury Bill issues.

Credit Suisse Leverage Loan Index: Represents tradable, senior-secured, U.S. dollar-denominated non-investment grade loans.

Dow Jones Industrial Average (DJIA): The price-weighted average of 30 significant U.S. stocks traded on the New York Stock Exchange and NASDAQ. The DJIA is the oldest and single most watched index in the world.

Dow Jones Select REIT Index: Measures the performance of publicly traded REITs and REIT-like securities in the U.S. and is a proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.

HFRI Indices: The Hedge Fund Research, Inc. (HFRI) indexes are a series of benchmarks designed to reflect hedge fund industry performance by constructing composites of constituent funds, as reported by the hedge fund managers listed within the HFR Database.

Frequently used indexes (page 3 of 5)

HFR Equity Hedge Total Index: Uses the HFR (Hedge Fund Research) database and consists only of equity hedge funds with a minimum of \$50 million assets under management or a 12-month track record and that reported assets in U.S. dollars.

HFR Relative Value Fixed Income Corporate Index: Uses the HFR (Hedge Fund Research) database and consists of only relative value fixed income corporate funds with a minimum of \$50 million assets under management or a 12-month track record and that reported assets in U.S. dollars.

ICE BofAML 1-3 Year Corporate Index: Tracks U.S. dollar-denominated investment grade public debt issued in the U.S. bond market with maturities of one to three years.

ICE BofAML 1-5 Year Corporate and Government Index: Tracks the performance of short-term U.S. investment grade government and corporate securities with maturities between one and five years.

ICE BofAML U.S. 7-10 Year Index: Tracks the performance of U.S. dollar denominated investment grade rated corporate debt publicly issued in the U.S. domestic market and includes all securities with a remaining term to maturity of greater than or equal to seven years and less than 10 years.

ICE BofAML Global Broad Market Index: Tracks the performance of investment grade public debt issued in the major domestic and Eurobond markets, including global bonds.

ICE BofAML U.S. High Yield Master II Index: Commonly used benchmark index for high yield corporate bonds and measures the broad high yield market.

J.P. Morgan Emerging Markets Bond Index Global (EMBI Global): Tracks total returns for traded external debt instruments in the emerging markets.

London Interbank Offered Rate (LIBOR) 3-months: The interest rate offered by a specific group of London banks for U.S. dollar deposits with a three-month maturity.

London Interbank Offered Rate (LIBOR) 9-months: The interest rate offered by a specific group of London banks for U.S. dollar deposits with a nine-month maturity.

MSCI All Country World Index (ACWI): Designed to measure the equity market performance of developed and emerging markets.

Frequently used indexes (page 4 of 5)

Russell 2000 Value Index: Measures companies in the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Index includes the 2,000 firms from the Russell 3000 Index with the smallest market capitalizations.

Russell 3000 Index: Measures the performance of the 3,000 largest U.S. securities based on total market capitalization.

Russell Midcap Index: Measures the 800 smallest companies in the Russell 3000 Index.

Russell Midcap Growth Index: Measures companies in the Russell Midcap Index having higher price-to-book ratios and higher forecasted growth values.

Russell Midcap Value Index: Measures companies in the Russell Midcap Index having lower price-to-book ratios and lower forecasted growth values.

MSCI All County World ex-U.S. Index (ACWI, excluding United States): Tracks the performance of stocks representing developed and emerging markets around the world that collectively comprise most foreign stock markets. U.S. stocks are excluded from the index.

MSCI EAFE Index: Includes approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East.

MSCI Emerging Markets (EM) Index: Designed to measure equity market performance in global emerging markets.

MSCI World Index: Tracks equity market performance of developed markets through individual country indices.

NAREIT Index: Includes REITs (Real Estate Investment Trusts) listed on the New York Stock Exchange, NASDAQ and American Stock Exchange.

NASDAQ Composite Index: A market capitalization-weighted average of roughly 5,000 stocks that are electronically traded in the NASDAQ market.

NCREIF Property Index (NPI): Measures the investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

Russell 1000 Index: Measures the performance of the 1,000 largest companies in the Russell 3000 Index and is representative of the U.S. large capitalization securities market.

Frequently used indexes (page 5 of 5)

Russell 1000 Growth Index: Measures companies in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values. It includes the largest 1,000 firms in the Russell 3000 Index.

Russell 1000 Value Index: Measures companies in the Russell 1000 Index with lower price-to-book ratios and lower forecasted growth values. It includes the largest 1,000 firms in the Russell 3000 Index.

Russell 2000 Index: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index and is representative of the U.S. small capitalization securities market.

Russell 2000 Growth Index: Measures companies in the Russell 2000 Index having higher price-to-book ratios and higher forecasted growth values. and is representative of U.S. securities exhibiting growth characteristics. The Russell 2000 Index includes the 2,000 firms from the Russell 3000 Index with the smallest market capitalizations.

S&P 500 Index: Consists of 500 widely traded stocks that are considered to represent the performance of the U.S. stock market.

S&P Global ex-U.S. Property Index: Measures the investable universe of publicly traded property companies domiciled in developed and emerging markets excluding the United States. The companies included are engaged in real estate related activities such as property ownership, management, development, rental and investment.

S&P GSCI: A composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

S&P/Case-Shiller Home Price Indexes: A group of indexes that track changes in home prices throughout the United States. Case-Shiller produces indexes representing certain metropolitan statistical areas (MSA) as well as a national index.

Swiss Re Global Cat Bond Total Return Index: Tracks the aggregate performance of all U.S. dollar-denominated euros and Japanese yen-denominated catastrophe bonds, capturing all ratings, perils and triggers.

U.S. Dollar Index: Indicates the general international value of the U.S. dollar by averaging the exchange rates between the U.S. dollar and six major world currencies.

Wilshire 5000 Index: Composed of more than 6,700 publicly-traded U.S. companies and is designed to track the overall performance of the American stock markets.