Quarterly Investment Perspective

Reopening, Recovery, and Growth: Not Yet Too Much of a Good Thing

BESSEMER TRUST

Holly H. MacDonald
Chief Investment Officer

Executive Summary

- **While inflation concerns are increasingly widespread, the key issue for us is whether price increases will be large enough to end the economic recovery.**
- **We believe much of the pickup in inflation is likely to be transitory, a result of the release of pent-up demand and temporary supply bottlenecks as the economy reopens. The Fed is aware of this dynamic and is unlikely to alter its accommodative stance in a way that derails the reopening, recovery, and growth theme.**
- **We have adjusted some exposures to account for our economic outlook. Our highest-conviction positions are an overweight allocation to equities, with a continued focus on the U.S., and an allocation to private markets.**

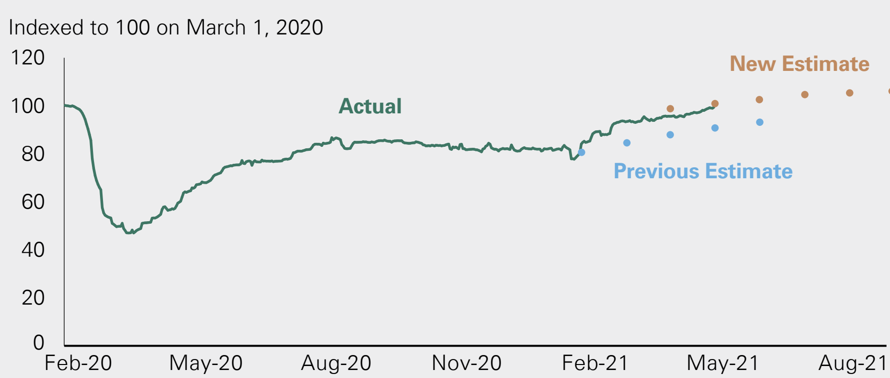
Money is only valuable to the extent that it can be used to meet an individual's goals, needs for today, or desires for the future — housing, food, a tuition payment, a donation to a charity, an inheritance to family in the hopes that they will be able to do something productive with it. In this context, as long-term investors focused on preservation of capital, inflation is always top of mind for us. As Milton Friedman said, "Inflation is the one form of taxation that can be imposed without legislation." Alongside our colleagues in Wealth Planning, we aim to overcome the cost of taxation and inflation over the long term through planning and investing, and we have a strong track record of doing so to help clients achieve their goals in *real* terms.

At the same time, in recent decades, the U.S. has always experienced inflation in some form. Even in the aftermath of the great financial crisis, amid concerns of deflation, the purchasing power of a dollar continued to decline, often in the background, but persistent nonetheless. Put in tangible terms, as popular American commentator Sam Ewing remarked, "Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair." Or, to put it in a different context, the cost of college tuition has increased by approximately 2000% for private institutions and 3000% for public institutions in the past 50 years.[1]

The situation is not as dire as it may appear when we take into account that the economy has grown significantly over this period and that some sectors and companies have grown at much faster rates than the overall economy, returning

Exhibit 1: U.S. Bessemer Reopening Index (BRI)

Key Takeaway: The U.S. economy is recovering faster than our optimistic expectations.



As of May 30, 2021.
Source: Bessemer Trust

[1] National Center for Education Statistics. Reflects price change from 1969 to 2019.

capital to shareholders at a rate that has exceeded the rate of inflation. The key question for us now is not whether inflation is picking up — we think it is clear that it is — but whether price increases will be meaningful enough to force an end to the cycle of reopening, recovery, and growth.

In this Quarterly Investment Perspective, we revisit the basic tenets of our 2021 outlook from this perspective. Our conclusion is that while inflation is increasing and bears watching more so than in recent years, the economy is growing and not overheating, allowing for many public and private companies to outpace inflation in the medium term and justifying our investment in growth-oriented assets above long-term strategic targets. We have adjusted some security and sector exposures to account for our economic outlook, which we detail on pages 10-11. Meanwhile, while we recommend holding less in traditional bonds than long-term targets, bonds continue to play a defensive role in portfolios for most downside scenarios.

Open for Business and Charging (Somewhat) More

Our expectations for stronger economic growth than consensus forecasts were realized in the first half of 2021. Specifically, we have seen our forecast for the Bessemer Reopening Index to surpass 90% of pre-COVID-19 activity over the first half of the year confirmed (see Exhibit 1 for the latest BRI). The lagged impact of monetary and fiscal accommodation catalyzed tremendous strength in the real economy, even without many businesses being fully reopened. A pickup in vaccinations in the April time frame accelerated activity and distinguishes the strength in the U.S. from the mixed growth outlook abroad, particularly in emerging markets.

The strength of our reopening index is mirrored in activity readings of the services and manufacturing sectors. The ISM, Markit Services, and Markit Manufacturing PMIs reached all-time highs in May and have been well above a reading of 50, which indicates an expansion in business activity since last summer. In addition, companies are reporting worker shortages as the reopening continues across the country, particularly in certain occupation groups.

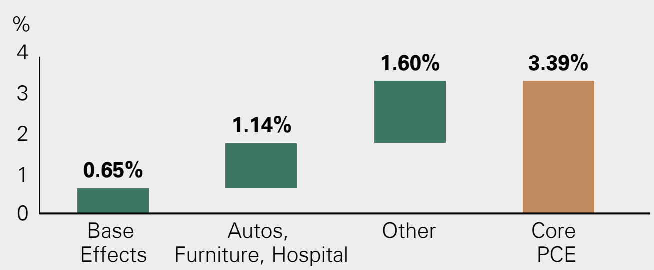
As we discussed in our Q1 2021 Quarterly Investment Perspective, "2021 Outlook: Reopening, Recovery, and Growth," cyclical recoveries tend to produce the highest inflation readings historically. So far, this cyclical recovery is no different. As the U.S. government sought to combat a surge in unemployment with exceptional fiscal firepower, the consumer saving rate hit a record high. With pent-up demand being released into a reopening economy, many businesses have had to adjust to demand that exceeds their inventory supply. Of note, semiconductor shortages have plagued car production, oil demand has outstripped supply, and goods prices across these industries have adjusted accordingly.

Looking forward, service sector price pressure is likely to return as fully reopened economies see increased demand for travel and leisure, people return to densely populated urban areas, and rents (39% of core CPI) rise. As the economic recovery continues and weather improves over the summer months, we expect monthly price gains to reflect elevated levels above the Fed's 2% target, closer to 3%. We will be carefully watching the transition from summer to fall to see how sticky these price gains are.

At the same time, many of these gains are tied to "base effects" and acute COVID-19-related bottlenecks that are unlikely to persist through the end of the year. The disastrous levels of activity and price readings from the early days of the economic lockdown will roll over as comparison points to this year's readings in the coming months and supply chains are adjusting to their kinks. A closer look at the recent reading of core PCE, the Fed's preferred measure of inflation, suggests that base effects and bottlenecks accounted for a good portion of the headline-grabbing 3.39% reading. See Exhibit 2.

Exhibit 2: Decomposition of Core PCE Year-Over-Year

Key Takeaway: Base effects and bottlenecks have accounted for a good portion of recent inflation readings.

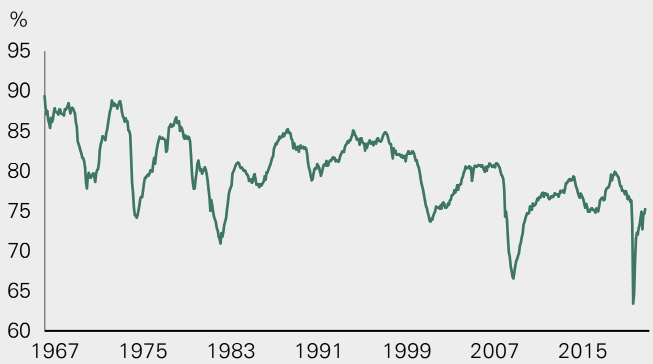


As of May 31, 2021. Other includes the remaining 117 categories in the core PCE deflator, which represent 81% of the consumption basket by weight.

Source: Bloomberg, U.S. Bureau of Economic Analysis

Exhibit 3: U.S. Capacity Utilization

Key Takeaway: The U.S. is not near full capacity.



As of May 31, 2021.

Source: Bloomberg, Federal Reserve

Taking a step back from the month-to-month data, we keep in mind that the U.S. is far from full capacity; when this number is high, sustained inflation readings are most likely to occur. When viewing the labor market and productivity, the U.S. is at roughly 75% of capacity, which indicates there is room to grow without hitting limits from a big-picture perspective. The mechanics of this calculation are complicated and beyond the scope of this paper; we would mainly compare these readings to history and note that the U.S. has not recovered to pre-COVID-19 levels and is far from the levels reached in the 1970s, when inflation was the main issue of the day. Put another way, there are still approximately seven million fewer people employed in the U.S. than in February 2020, and technological gains have continued to accelerate over this time, suggesting that growth can continue without a major inflation surge.

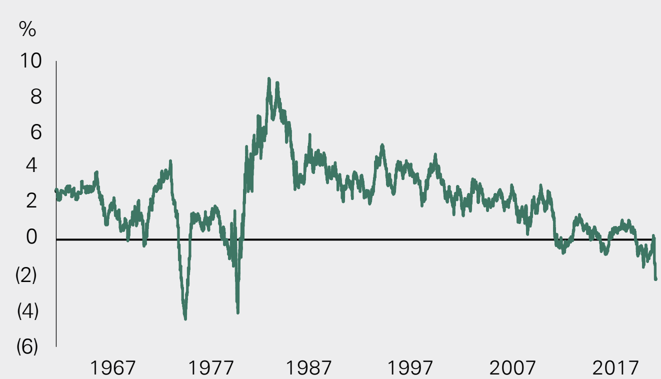
Fed Unlikely to Remove the Punch Bowl: Inflation Expectations Are Key

Our assessment is that the Fed is focused on these "transitory" factors even more than we are and that it is inclined to keep policy easy even if its thesis is compromised to some degree. There is more unison between monetary and fiscal policy, with the expansion on the fiscal side very complicated if borrowing costs were to increase in the near term. We use "real yields," or the level of interest rates net of the inflation rate, to get a sense of the actual policy stance affecting businesses and consumers. If the Fed continues to purchase debt through quantitative easing and maintains front-end rates at a low level, nominal interest rates would need to increase more rapidly than the rate of inflation to prove contractionary in real terms within the economy. As is clear in Exhibit 4, which shows real interest rates over time, even modest increases in rates would likely keep policy accommodative from a historical perspective.

The most negative confluence of events would be an unmooring of inflation expectations alongside or resulting from continued unabated government spending and a Fed unwilling to change its tune. We are highly focused on developments in inflation expectations from this perspective. At the same time, we are carefully monitoring the ebbs and flows of tax policy and fiscal policy. For more information on this subject, please see our recent A Closer Look, "The Changing Tax Landscape." Future updates on these developments and shifts in Fed policy are anticipated in the coming weeks. With that said, developments since that piece was published have indicated some degree of compromise and likely more moderate changes than envisioned in President Biden's initial proposals. In sum, while inflation is picking up, we are confident in the outlook for continued robust growth, which informs our overweight positioning in equities and an allocation to private markets.

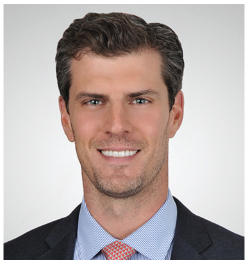
Exhibit 4: U.S. 10-Year Real Yield

Key Takeaway: Modest increases in interest rates would keep policy accommodative from a historical perspective.



As of May 31, 2021. Reflects a 30-day moving average and is the 10-year nominal rate minus the core CPI rate.

Source: Bloomberg



JP Coviello
Senior Investment Strategist

Usual Equity Market Dynamics Amid the Unusual Recovery

Positioning portfolios for increasing prices during economic recoveries depends upon the level of inflation. As can be seen in Exhibit 5, low inflation, or inflation below 4.0%, during an economic expansion tends to result in equities providing the highest returns with commodities in second place. On the other hand, high inflation, or inflation above 4.0%, during an economic expansion tends to see commodities deliver the strongest returns. If one knew that inflation would be high and continue to rise, commodities would be the top choice. Since World War II, commodities have performed the best — possessing the highest returns and highest hit ratios for positive returns — during all periods of high and rising inflation. However, commodities exhibit the highest volatility, and should inflation increases fail to materialize, commodities would likely head lower. Equities, meanwhile, provide the most consistent positive returns across a number of economic backdrops and only tend to drop in a sustained fashion in recessions.

As a result, while commodity producers are generally not included in our universe of high-quality and growth-oriented businesses, Bessemer portfolio managers have increased holdings of cyclical businesses and commodity producers on the margin in case inflation does rise above consensus expectations in the coming quarters (see page 10 for more details).

We are seeing similar dynamics play out this time around from a market perspective. The unusual COVID-19 recession has seen an unusual economic recovery; many service sectors have remained impaired while manufacturing and goods-producing sectors have experienced a rapid recovery. Despite the shape of the real economic recovery differing from prior post-recession playbooks, the breakdown of equity sector returns has exhibited similarities to prior recoveries where monetary and fiscal stimulus were enacted concurrently. Most notably, interest-rate-sensitive sectors (financials) and those tied to a

Exhibit 5: Asset Performance Across Economic Regimes

Key Takeaway: Equities and commodities tend to exhibit strong returns when the economy is growing and low inflation is rising.

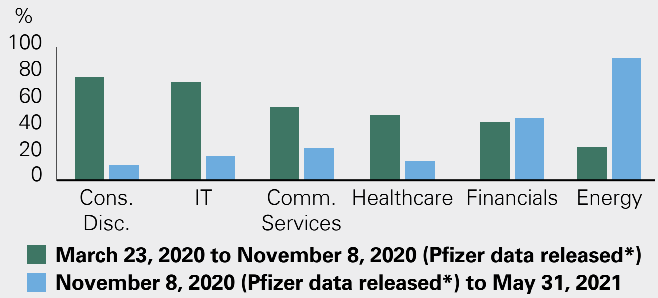
	Periods of Economic Growth			
	High Inflation (>4%)		Low Inflation (<4%)	
	Rising	Falling	Rising	Falling
Total Number of Months	77	57	138	213
Average Duration (Months)	8.6	8.1	13.8	23.7
S&P 500	5.3%	5.3%	13.7%	14.6%
U.S. Treasuries	4.6%	10.1%	3.3%	7.8%
Commodities	24.0%	(9.4%)	11.0%	(2.3%)

As of March 31, 2021. Returns reflect compound annualized monthly returns since 1973. High and low inflation thresholds are based on headline CPI. Rising and falling inflation are based on the smoothed inflation trend series that blends headline CPI and PCE.

Source: Bloomberg

Exhibit 6: S&P 500 Sector Performance Over Two Periods

Key Takeaway: More cyclical sectors are outperforming, while sectors with companies that exhibit more structural growth characteristics are lagging.



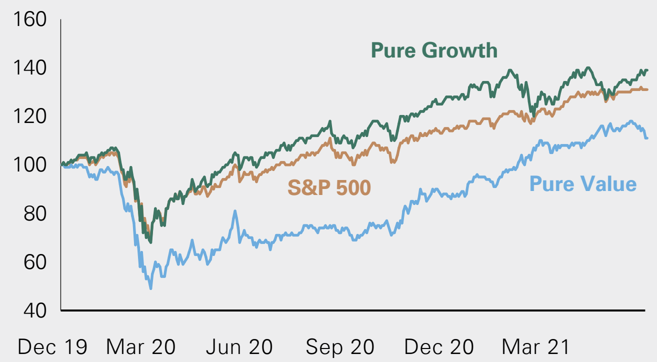
As of May 31, 2021. Reflects the total return. *Pfizer's interim analysis of its Phase 3 clinical trial of its COVID-19 vaccine released before the U.S. stock market opened on Monday, November 9. Past performance is no guarantee of future results.

Source: Factset

Exhibit 7: S&P 500 Growth vs. Value

Key Takeaway: Growth has outperformed value over a longer time frame.

Indexed to 100 on December 31, 2020



As of May 31, 2021.

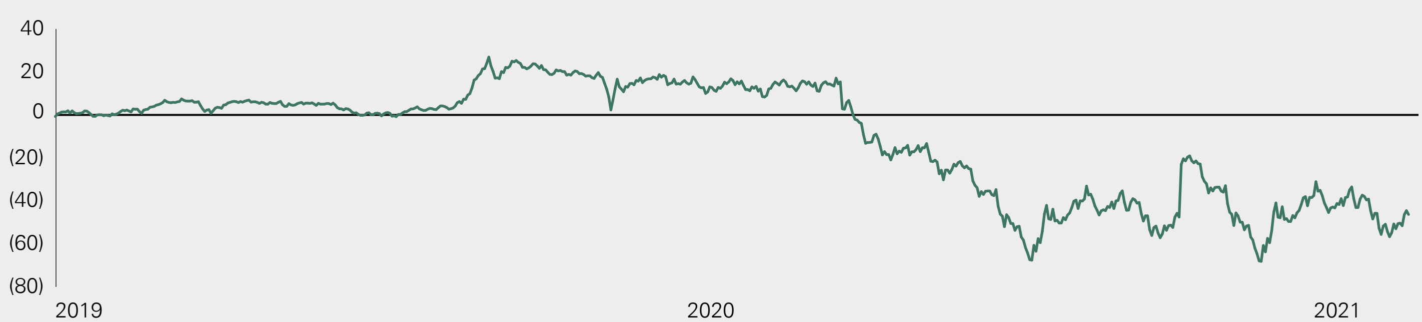
Source: Bloomberg

recovery in consumption demand (energy) have fared the best. We note that the moves have likely been exacerbated because cyclical sectors were under owned after 10 years of falling bond yields and limited inflationary pressure (see Exhibit 6). Over longer time periods, since late 2019 and particularly when the prior decade is included, more growth-oriented styles have outpaced value-oriented styles and the S&P 500 Index (see Exhibit 7). Additionally, at the time of this writing, there are signs that the growth-oriented styles again are gaining traction.

Moreover, the cyclical rebound seen since the November 2020 vaccine announcements has benefited "low-quality" over "high-quality" businesses. Using a combination of three-year sales growth trends, debt-to-equity ratios, two-year rolling volatility, and return on equity, we can rank the Russell 3000 constituents in order of quality. In Exhibit 8, we can see that, since November 2020, the lowest 15% of the Russell 3000 index have outperformed the top 15% of the Russell 3000 index when ranked by quality.

Exhibit 8: Relative Performance of High-Quality to Low-Quality Companies Within Russell 3000

Key Takeaway: The recent cyclical rebound has benefited low-quality over-high quality businesses.



As of June 21, 2021. A lower reading indicates that low-quality companies are outperforming high-quality ones. Quality is measured using a combination of three-year sales growth trends, debt-to-equity ratios, two-year rolling volatility, and return on equity, and then these companies within the Russell 3000 are ranked in order of quality.

Source: Morgan Stanley

Kenneth Grimes
Senior Investment Strategist

Equity Market Valuations: Opportunities Persist Despite Market Highs

Of course, to the extent that our reasonably optimistic view of the world is fully discounted in equity valuations, investment opportunities would be much more constrained. We turn to that topic now and find that as of midyear 2021, additional gains continue to delight most U.S. equity investors. Most U.S. equity indexes continued their upward trends with the S&P 500 index posting year-to-date gains of 15.3%. The Dow Jones Industrial average (+12.7%), technology heavy NASDAQ (+12.9%), small-cap bellwether Russell 2000 (+17.5%), Russell 1000 Value (+16.7%), and Russell 1000 Growth (+13.2%) are also at or near record highs.

Not surprisingly, valuation multiples are also near record levels. As Exhibit 9 illustrates, the NTM (next twelve months) price/earnings multiple for the S&P 500 Index reached levels in the first quarter of 2021 that had not been seen since October of 2000. No matter which way one slices and dices the market, valuation metrics and measures across several dimensions appear elevated.

While several traditional valuation metrics may suggest market overvaluation, it's useful to decompose aggregate measures and examine specific sectors' contributions to the market's overall multiple. Information technology and consumer discretionary, in particular, are playing an outsized role in contributing to today's high multiples. Note in Exhibit 10 that the valuations for these two sectors comprise almost 39% of the S&P 500 Index's weight but contribute to approximately 48% of the NTM price/earnings multiple. Technology giants have garnered much

Exhibit 9: S&P 500 Next Twelve Months Price-to-Earnings Multiple

Key Takeaway: At 22.4x, the NTM P/E multiple for the S&P 500 Index (along with other valuation multiples) is near the top end of historical averages as markets have continued to rally into 2021.

Source: Factset

Exhibit 10: S&P 500 Sector Valuations

Key Takeaway: Richer valuation multiples in technology and consumer discretionary sectors are supported by higher, more consistent earnings growth.

	Utilities	RE	Materials	Energy	Cons. Staples	Industrial	Comm. Services	Financials	Cons. Disc.	Healthcare	IT	S&P 500
Weight in S&P 500 Index (%)	2.6	2.7	2.7	2.9	6.0	8.7	11.1	11.7	12.1	12.9	26.6	
FY1 P/E	20.1x	51.0x	19.3x	19.1x	21.8x	23.1x	23.7x	14.5x	32.1x	17.2x	27.3x	22.2x
FY1 P/E 20-Yr Avg	14.9x	30.1x	17.1x	17.0x	19.5x	15.9x	18.6x	13.7x	18.8x	17.9x	21.4x	17.3x
FY2 P/E	12.7x	18.1x	14.4x	19.2x	23.9x	15.7x	23.0x	15.8x	16.5x	27.3x	27.4x	19.8x
FY2 P/E 20-Yr Avg	14.1x	27.9x	14.3x	14.3x	17.8x	13.9x	16.8x	12.0x	16.3x	16.1x	18.5x	15.1x
3–5 Yr EPS Growth (%)	5.4	8.1	14.9	12.5	8.0	13.4	21.6	16.2	35.6	10.8	15.5	16.9
Lt Avg 3–5 Yr EPS Growth (%)	5.4	9.9	11.2	9.5	9.3	11.0	12.1	10.7	16.8	10.9	14.9	13.6

As of June 11, 2021. FY = Fiscal Year.

Source: Factset

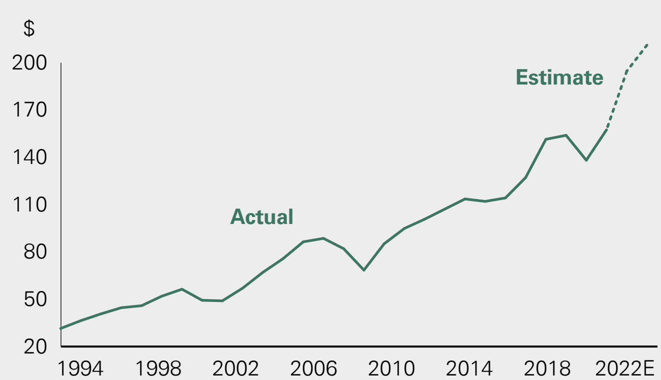
attention given the perception of frothy valuations, particularly the FAANMGs (Facebook, Amazon, Apple, Netflix, Microsoft, and Google). While their valuations are rich, they are also incredibly profitable, dominate their market verticals, and have become so influential that regulators are looking to rein in some of their power. Consumer discretionary heavyweights Home Depot and Lowe's have crafted an almost duopoly in the home improvement space and are greatly benefiting from a robust consumer and strong housing market. These trends provide support and tailwinds for continued earnings growth for such market leaders.

Balancing Skepticism With Enthusiasm and Patience

Sentiment may drive short-term market moves, but over the long term, results play more of a role, and earnings have been exceptionally strong. Recent strong results also help allay some valuations concerns. As highlighted in Exhibit 11, S&P 500 earnings are at an all-time high, and consensus calls for 2021 earnings of $189 and 2022 earnings of $211. For the second quarter of 2021, the S&P 500 Index is forecast to have the highest year-over-year growth in earnings since the fourth quarter of 2009 due to a combination of higher earnings for 2021 and the base effect from weak earnings in the second quarter of 2020. For the first quarter of 2021, 86% of companies reported better-than-forecast earnings, and 77% reported a positive revenue surprise. These positive trends look poised to continue. According to Factset, second-quarter 2021 earnings estimates mark the largest increase in the earnings per share (EPS) estimate during the first two months of a quarter since it began tracking this metric in 2002. Finally, Factset also reports that, for the 102 companies

Exhibit 11: Annual S&P 500 Earnings

Key Takeaway: More cyclical sectors are outperforming, while sectors with companies that exhibit more structural growth characteristics are lagging.



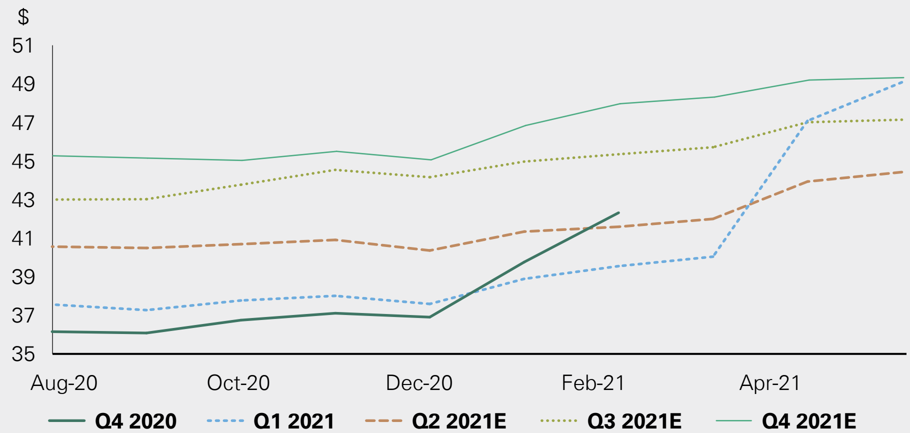
As of June 28, 2021.

Source: Factset

We continue to expect businesses with strong fundamentals to outperform over the long term and serve client portfolios well.

Exhibit 12: S&P 500 Actual and Expected Quarterly Earnings

Key Takeaway: S&P 500 actual and expected earnings are rising.



As of May 31, 2021.

Source: FactSet

that provided earnings guidance (as of June 4, 2021), 62% have issued positive EPS guidance, well above the five-year average of 35%. Exhibit 11 illustrates the annual earnings growth for the S&P 500 while Exhibit 12 highlights the trend for actual results to exceed expectations.

Over time, strong U.S. equity market returns have handsomely rewarded patient investors, especially those who were steadfast during the turmoil of early 2020. Investors are now seeking insight and comfort that future gains are also on the horizon, especially since key markets and indexes are at or near all-time highs. Quarterly revenue growth, earnings forecasts that have seen broad upward revisions, and favorable macro conditions point to continued opportunities for equities to deliver positive gains. We know, however, that markets can be volatile and temperamental for a variety of reasons. Attempting to forecast exogenous market shocks, timing the markets, or selling indiscriminately because of rich valuation multiples are not particularly prudent or useful long-term investment strategies. On the other hand, identifying companies that will grow into and ultimately surpass their current valuations by exceeding investors' expectations for growth, profitability, and durability has proven to be effective — something our internal portfolio management and external managers focus on achieving. While Bessemer equity portfolios have experienced modest relative underperformance year-to-date due to our high-quality focus, we continue to expect businesses with strong fundamentals to outperform over the long term and serve client portfolios well.

Portfolio Positioning

Asset Allocation — Overweight Equities

Peter Langas
Chief Portfolio Strategist

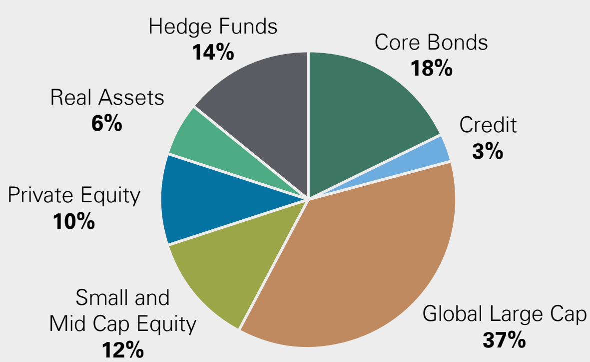
One of the biggest drivers of performance is overall asset allocation strategy — how much we allocate toward risk assets, such as equities, versus more protective assets, such as bonds. Earlier in the year, with greater confirmation of a path to recovery, we reduced our target weights to high-quality bonds and shifted to an overweight position in equities. Since then, earnings have significantly beat expectations, and we expect earnings forecasts and results to continue to rise over the course of the year. Given our current outlook of continued recovery, strong earnings growth, rising but transitory inflation, and low bond yields, we are confident maintaining an overweight to equities.

Sticking With High-Quality Bonds

As the market and economic landscape continue to evolve, we expect pockets of equity market volatility. Therefore, for balanced portfolios, we believe it is important to maintain an allocation to bonds as they provide a foundation of stability. Since peaking at 1.74% at the end of March, the yield on the 10-year U.S. Treasury bond has stabilized around 1.60%. We expect this stability to persist as the market has discounted the success of vaccines and the reopening of the economy. As a result, our core fixed income portfolios maintain a slightly longer duration than their benchmarks.

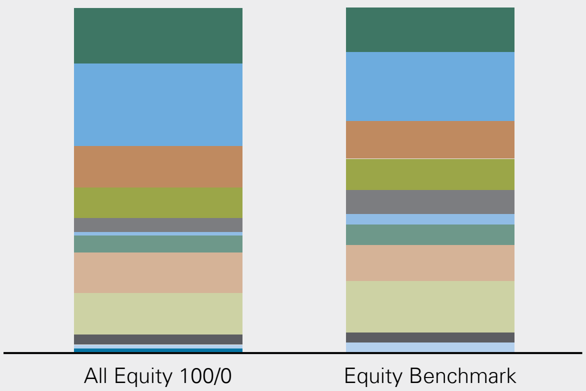
Credit quality overall continues to be solid. Further reopening, government support, strong investor demand, and in the case of municipalities, resilient tax revenues create a constructive outlook for both corporate and municipal bonds.

Exhibit 13: Bessemer Portfolio Positioning



Positioning as of June 30, 2021. This model displays Bessemer's Balanced Growth with Hedge Funds and Private Assets target portfolio allocation guidelines. Each client situation is unique and may be subject to special circumstances, including but not limited to greater or less risk tolerance, classes, and concentrations of assets not managed by Bessemer, and investment limitations imposed under applicable governing documents and other limitations that may require adjustments to the suggested allocations. Model asset allocation guidelines may be adjusted from time to time on the basis of the foregoing or other factors. Alternative investments, including Bessemer private equity, real assets, and hedge funds of funds, are not suitable for all clients and are available only to qualified investors.

Exhibit 14: Bessemer All Equity Portfolio Sector Weightings vs. Benchmark



	All Equity 100/0	Equity Benchmark	
Growth	**59%**	**53%**	Consumer Discretionary, Information Technology, Healthcare, Communication Services
Defensives	**5%**	**9%**	Consumer Staples, Utilities
Cyclicals	**34%**	**38%**	Materials, Industrials, Financials, Energy, Real Estate
			Cash & Equivalents

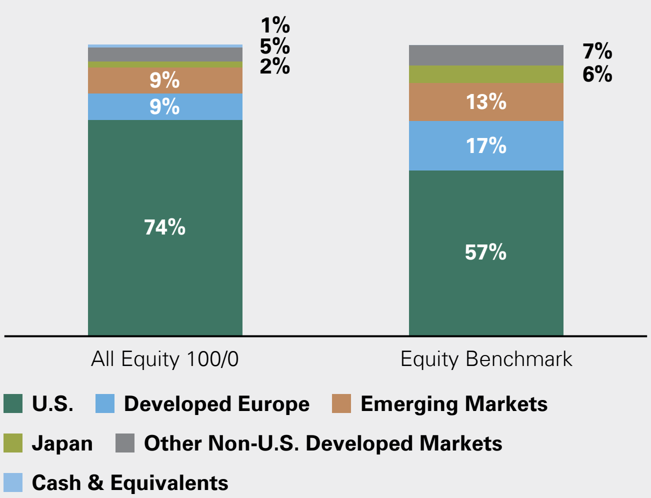
Reflects positioning based on current weights as of May 31, 2021. Figures may not sum to 100% due to rounding. The Equity Benchmark represents the MSCI All Country World IMI.

Source: Bessemer Trust, FactSet, MSCI

The extra yield over Treasuries is narrow. However, we believe the strong fundamentals will keep spreads stable with a low probability of substantially widening spreads.

Although fundamentals are solid, diligent fundamental credit research on individual bonds is critical to avoid issuers that could run into trouble and to find ways to prudently enhance portfolio income. Our municipal credit research team sees opportunities in transportation and healthcare revenue bonds as both sectors have been beneficiaries of the macroeconomic recovery. Using detailed research, we have also added selectively in states that were more displaced by the downturn last March, such as California, New York, New Jersey, and Connecticut. In taxable bond portfolios, we have taken advantage of opportunities to swap within maturities of the same issuers, such as swapping from a three-year General Motors bond to a four-year General Motors bond, adding 0.60% of yield — which is significant in a low-yield environment. To further enhance portfolio yields, the Credit Income mandate provides exposure to non-agency mortgage-backed securities, high-yield corporate bonds, and other higher-yielding credit instruments.

Exhibit 15: Bessemer Country/Region Weightings vs. Benchmark



Reflects positioning based on current weights as of May 31, 2021. Figures may not sum to 100% due to rounding. "Other Non-U.S. Developed Markets" includes Canada, Israel, and Asia Pacific ex Japan. The Equity Benchmark represents the MSCI All Country World IMI.

Source: Bessemer Trust, FactSet, MSCI

Maintain Growers — Adding to Cyclicals

The equity markets have displayed some interesting dynamics this year with frenzies in areas such as cryptocurrencies, SPACs, and meme stocks. We have avoided the speculative froth and remain committed to investing in quality companies with strong business models and enduring earnings growth. We believe these earnings "compounders" are the best opportunities for long-term capital appreciation, and sectors with these characteristics — such as technology, communication services, consumer discretionary, and healthcare — represent the largest weights in our equity portfolios. Specific themes across our portfolios for this part of the market include cloud computing and digital transformation. In consumer, we have exposure to e-commerce, and within consumer discretionary, we are finding recovery plays — retailers, restaurants, and hotels. While we build portfolios from the bottom up, such themes have been prevalent across all of our portfolios, which maintain a quality and growth bias.

To capture more of the cyclical upside, our teams have trimmed some growth holdings on the margin and added to energy, financials, and industrials holdings, such as Chevron, Eaton, Union Pacific, and Bank of America. They have also added selectively to companies that may not be traditionally cyclically sensitive. These are durable companies that were hurt in the COVID-19 shutdown and whose prospects are now turning up, such as US Foods, which distributes food to restaurants, and Cooper Industries, which manufactures contact lenses.

Our teams have also added exposure to companies such as aggregates manufacturer Vulcan Materials and miner Freeport-McMoRan that have strong businesses and would benefit from commodities inflation. With 34% of our equity portfolios invested in cyclical sectors, we believe we have ample exposure to complement investments in exciting growth industries, an area we continue to focus on.

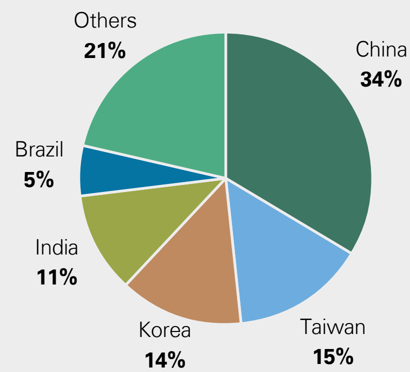
Shifting in Emerging Markets

As our managers search for companies with the best fundamental prospects, we continue to find a preponderance of the best companies in the U.S., which remains by far Bessemer's greatest allocation.

Outside the U.S., emerging markets equities have always been an asset class with disparate fundamentals and growth by country and region. The differences have become even more pronounced as China's technology sector has developed many innovative, dominant companies and has grown to represent over one-third of the emerging markets universe (Exhibit 16).

To take advantage of the opportunity, the Large Cap Strategies mandate recently added external manager Baillie Gifford's dedicated China strategy. At this time,

Exhibit 16: Breakdown of Emerging Markets Equities by Countries



As of June 21, 2021. Top five countries by market cap listed, while all others are grouped in the "Other" category. "Other" includes all emerging markets listed in the index that have less than a 5% individual weighting.

Source: FactSet, MSCI

we anticipate maintaining our China exposure and may look for opportunities to increase exposure over time, particularly as a percentage of emerging markets. Baillie Gifford has a long history of growth investing globally and in China (see China: The Investment Landscape).

Private Markets Capitalizing on Public Markets

One of the best ways to capture strong growth trends is to invest in innovative companies in their early stages as private companies. In our private equity program, we continue to invest the majority of capital through our managers in technology themes (such as enterprise software, financial technology, and e-commerce) as well as healthcare themes (such as novel therapeutics, digital health, and advanced diagnostics, to name a few). The fervor around the IPO market and SPACs is quite beneficial for private companies looking to go public as investors are willing to pay high valuations. This has provided a great opportunity for many of our private equity companies to tap the public markets with 18 companies going public through IPOs and SPACs since February with more to come as we look at the coming months.

Conclusion

Overall, we feel confident that our portfolios are well positioned with diversified strategies to capture attractive investment opportunities as the investing landscape unfolds and the theme of reopening, recovery, and growth persists.

With special thanks to Investment Strategist Bree Sterne and Associate Portfolio Manager Anthony Wile for their contributions.

Our Recent Insights

China: The Investment Landscape — Investment Insights (June 2021)

Tracking the Reopening — Investment Insights (May 2021)

Investment Deep Dive: A Roundtable With Bessemer's Equity Portfolio Managers — Investment Insights (May 2021)

The Changing Tax Landscape — A Closer Look (May 2021)

Labor Market Recovery — Investment Insights (May 2021)

The Future of Money — Quarterly Investment Perspective (Second Quarter 2021)

Sustainable Investing: The Evolution and Bessemer's Approach — Investment Insights (March 2021)

Asset Allocation: Increasing Cyclical Exposure — Investment Update (March 2021)

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