Quarterly Investment Perspective

Risks Rise, Opportunities Remain

Holly H. MacDonald
Chief Investment Officer

Executive Summary

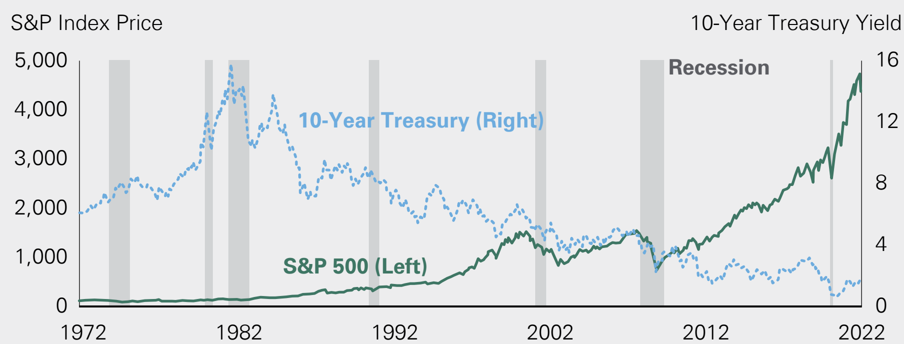
- **The first quarter of 2022 was one of the most volatile periods we've seen in decades, a result of continued elevated inflation, a Fed response that was more aggressive than expected, and Russia's invasion of Ukraine.**
- **While we have moderated our growth estimates for the economy, we continue to believe the U.S. will grow above trend this year and remain confident in our overweight to the U.S.**
- **The main risk to our outlook is the chance that the Fed causes a U.S. recession as it hikes rates and reduces its balance sheet. However, we expect the Fed to adjust its approach as needed.**
- **Within our portfolios, we continue to emphasize innovative technologies and high-quality businesses.**

The first quarter of 2022 was among the most volatile in recent decades, with intraday swings in both directions more notable than the year-to-date weakness in both bonds and stocks. Risks have risen and dominated the narrative. Inflation has remained elevated as anticipated, but the Fed's pivot to address it was more pronounced and sooner than we expected and than the market had priced in. Meanwhile, Russia's invasion of Ukraine has brought humanitarian concerns to the forefront and complicated the outlook for both growth and inflation given significant sanctions and implications for commodity markets and global trade. While the shifting tides can feel seismic in the moment, we note that the year-to-date pullback of 3.5% for the S&P 500 and the rise of 82 basis points in the 10-year Treasury are more modest in the context of gains of 94% in equities and 14.2% in bonds over the prior five years. Exhibit 1 helps put these moves in perspective over an even longer time horizon.

We devote this Quarterly Investment Perspective to sharing how recent developments affect our views on growth, inflation, and investment opportunities. Our unfortunate base case regarding the war in Ukraine is that it continues for many weeks, and that the humanitarian toll grows and continues to astound the world. There are several scenarios of what a "peace accord" or stalemate may look like; we will continue to discuss those in other forums as the situation evolves. We put a very low probability on Putin invading or otherwise attacking a NATO country and triggering Article 5 of the NATO treaty, which would pull NATO allies into a full war with Russia. As a result, as horrific as the situation is, the main medium-term implications for markets result from the sanctions and commodity channels, with Europe much more exposed than the U.S. There are clear longer-term geopolitical implications, and we have discussed the role of

Exhibit 1: S&P 500 Index Versus 10-Year Treasury Yield

Key Takeaway: Volatility appears less pronounced when looking at a longer time horizon.



As of February 28, 2022.
Source: Bloomberg

Exhibit 2: Top Oil Producers Over Time (Million of Barrels per Day)

Key Takeaway: The U.S. has far outpaced other oil-bearing nations to become the world's top producer.

Rank	2000		2010		2020	
1	Saudi Arabia	9,476	Russia	10,288	United States	18,609
2	United States	9,058	Saudi Arabia	9,748	Saudi Arabia	10,846
3	Russia	6,724	United States	9,698	Russia	10,496
4	Iran	3,765	China	4,558	Canada	5,235
5	Venezuela	3,461	Iran	4,272	China	4,873

As of December 31, 2021.

Source: EIA – U.S. Energy Information Administration

China as being particularly important. That said, and notwithstanding the economic implications, which we discuss in this piece, we believe this current episode is likely to follow the pattern of the vast majority of historical geopolitical events, in which the equity market first reacts negatively and then recovers over subsequent months.

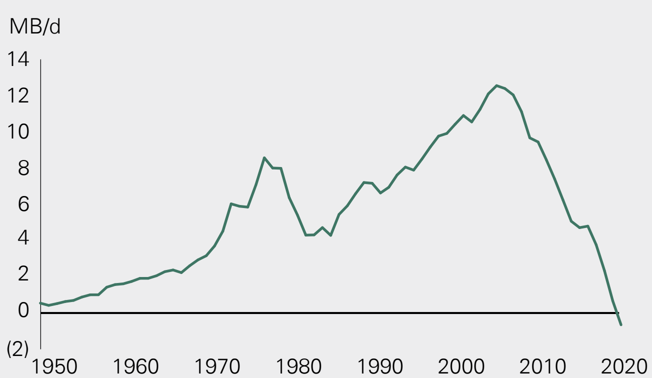
Compared with the views shared in our year-ahead outlook, we have moderated our growth estimates and pushed out the timing of expected improvement in inflation dynamics. The outlook for Europe is materially worse given its dependence on and attempt to move away from Russian energy. We maintain our expectations for the U.S. to grow above trend in 2022 given underlying strength in the economy and fairly limited direct exposure to Russia. More aggressive Fed hiking amid persistent inflation likely leaves growth closer to 3% than the 4% we expected at the start of the year. Higher commodity prices will keep inflation higher for longer, and improvements we had been witnessing in global supply chains at the onset of the year are now vulnerable both to disrupted shipping routes and intermittent shutdowns of ports and factories in China given a resurgence in COVID-19 cases; Bree Sterne examines this topic further on pages 9–11. We had expected goods prices to fall materially by midyear but now push that estimate out to later in the year.

While the outlook is complicated, several aspects of the U.S. economy lead us to believe that there is enough strength to withstand these challenges and continue to grow in 2022. Different than in prior crisis periods involving energy markets, the U.S. is now the largest producer of oil in the world (Exhibit 2) and also a net exporter of petroleum (Exhibit 3), which represents a marked shift from the oil crisis of the 1970s; rather than exporting capital abroad to import energy, the U.S. is now shifting capital domestically between energy consumers and energy producers. As a result, the economic impact is much more muted on an aggregate basis relative to history amid price increases. On pages 4–8, JP Coviello discusses in more detail the impact of higher energy prices on the short-term growth outlook and the longer-term investment outlook.

Additionally, net wealth and cash flow have improved materially for the U.S. consumer in recent years, providing a cushion to the impact of higher inflation and higher borrowing rates as the Fed hikes more aggressively this year. Savings accumulated in recent years combined with

Exhibit 3: U.S. Net Imports of Petroleum (Millions of Barrels per Day)

Key Takeaway: U.S. has become a net exporter of petroleum.



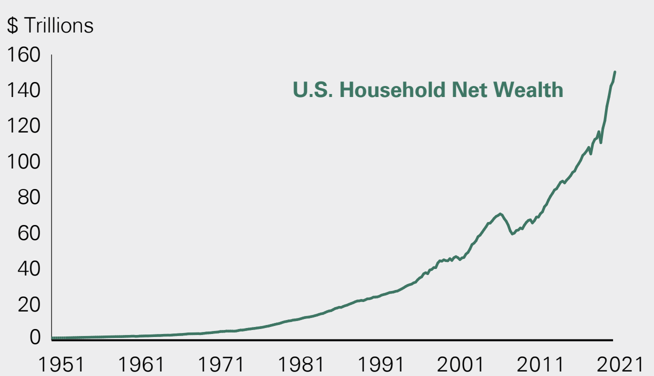
As of December 31, 2020.

Source: EIA – U.S. Energy Information Administration strong financial markets and a robust housing market leave the country's wealth at all-time highs and much higher than it was 10 years ago (Exhibit 4). Debt levels net of this wealth effect have also improved, suggesting strong balance sheets and the ability to increase leverage if needed. We note that the most vulnerable are those whose income falls in the bottom quintile (Exhibit 5). While wage gains and pandemic-related savings provide a cushion to this group as well, its members tend to spend 30% of earnings on energy and food, both of which are likely to face continued upward pressure. We have adjusted some portfolio positions that had benefited from robust spending from this group.

That leaves the main risk to our constructive outlook for the year on equity markets the same as the one we identified in our year-ahead outlook: a Fed policy mistake. In other words, there is a chance the Fed causes a U.S. recession as it hikes rates more aggressively this year and commences balance sheet reduction. Given the high level of headline inflation, currently at 7.9% as of the February reading, even if the Fed hikes beyond the 2.5% policy rate that is currently priced into markets, the policy rate will still be fairly accommodative in real terms at the end of the year. Further, we expect the Fed to be attuned to labor market dynamics and slow hiking or adjust balance sheet reduction should weakness emerge in the economy. The U.S. recovery has been swift yet short-lived since the pandemic, and the recent global market volatility is already tightening financial conditions. Inflation limits the Fed's degree of freedom, but we expect it to be somewhat flexible in this ever-changing environment.

Exhibit 4: U.S. Household Net Wealth

Key Takeaway: U.S. Households and Nonprofit Organizations net wealth has reached record highs driven in part by pandemic related savings, appreciating home prices, and rising market prices for tradable instruments.

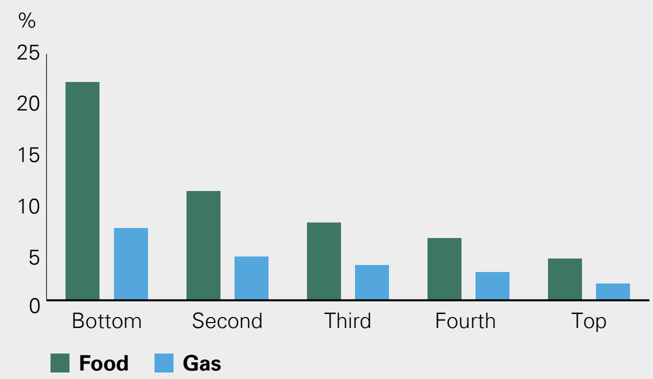


As of December 31, 2021. Also includes nonprofit organizations.

Source: Federal Reserve Economic Data (FRED)

Exhibit 5: Spending as a Share of After-Tax Income

Key Takeaway: Consumers at the lower quintiles spend a much greater percentage of income on food and gas relative to higher quintiles.

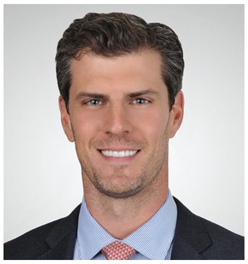


As of December 31, 2020.

Source: Goldman Sachs

Within portfolios, we have adjusted holdings at the security level to account for the changing economic landscape. Themes expressed in our year-ahead outlook, such as innovative technologies — including those in the cybersecurity space — remain core to our portfolio holdings. We believe equities will ultimately outperform bonds in this cycle, and hold an overweight overall and especially within the U.S. At the same time, we believe the high-quality businesses in our portfolios are well-positioned to endure various shocks such as those that have emerged this year. While this positioning has resulted in a lag in a representative balanced growth portfolio this year, we are confident in the longer-term outlook.

Over the past 20 years, equity markets have suffered a calendar-year pullback of 15% on average while annual returns have averaged approximately 9%. Selling at the time of a temporary pullback locks in losses and negates the benefit of compounding. Senior Investment Strategist Pat Boyle discusses the benefits of getting and staying invested in his "Getting Invested" Investment Insights (please reach out to your client advisor for more information). Maintaining our long-term focus amid periods of volatility is crucial to helping our clients meet their financial goals over time.



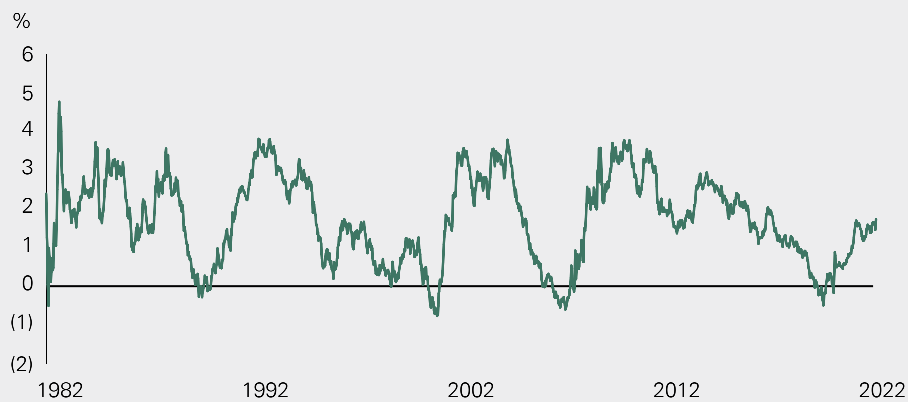
JP Coviello
Senior Investment Strategist

Recession in U.S. Unlikely Despite Geopolitical Uncertainty, High Energy Prices

While many market pundits like to cite various spreads across the interest rate curve and tie them to recessionary probabilities, our economic models suggest that the fed funds policy rate vs. 10-year spread and the three-month vs. 10-year spread have the highest predictive ability when analyzing recessions throughout history. While the two-year vs. 10-year spread has narrowed as the Fed has ratcheted up its hawkish rhetoric in response to rising inflation, pushing two-year yields higher relative to 10-year yields, the three-month vs. 10-year spread stands at the steepest levels seen since 2017 (Exhibit 6). Importantly, our models suggest a very low likelihood of recession over the next six months given the robust labor market, a manufacturing PMI (Purchasing Managers' Index) that remains in expansionary territory, and corporate bond spreads that remain contained, among other fundamental factors.

Exhibit 6: Spread Between 10-year Treasury and Three-Month Bill

Key Takeaway: The shape of the three-month bill to 10-year Treasury curve is consistent with a growing economy.



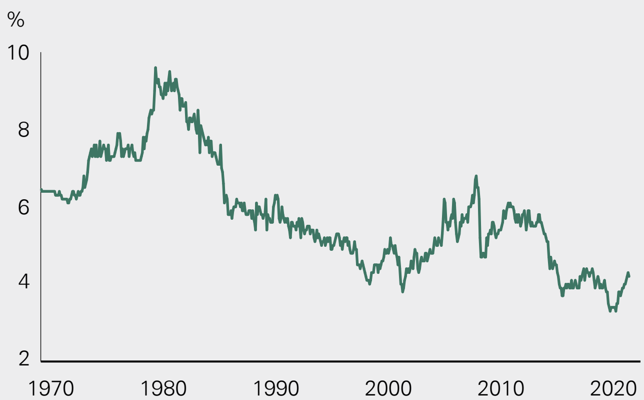
As of March 18, 2022.

Source: Federal Reserve Economic Data (FRED)

The recent rise in energy prices and our economy's heavy reliance upon traditional hydrocarbons raise concerns that higher prices will impact consumer purchasing power materially. Importantly, this impact varies across income quintiles, disproportionately affecting the lowest income segments in a negative manner. Nonetheless, it is important to note that consumer expenditures on energy stand near an all-time low when compared to the prior 50 years, which suggests that increasing energy prices should not be as much of a burden relative to history (Exhibit 7).

Exhibit 7: U.S. Consumer Energy Goods and Services Spending (% of Total Consumer Spending)

Key Takeaway: Spending on goods and services near historical lows.



As of December 31, 2021.

Source: RDQ

Specifically, the U.S. consumer spends, on average, roughly 4% of total expenditures on energy goods and services, roughly half of the proportion seen in the 1980s. Moreover, today's U.S. consumer spends disposable income on a variety of goods and services with healthcare representing 16%, rent and imputed rent comprising 15%, and food covering 8% of expenditures, on average.

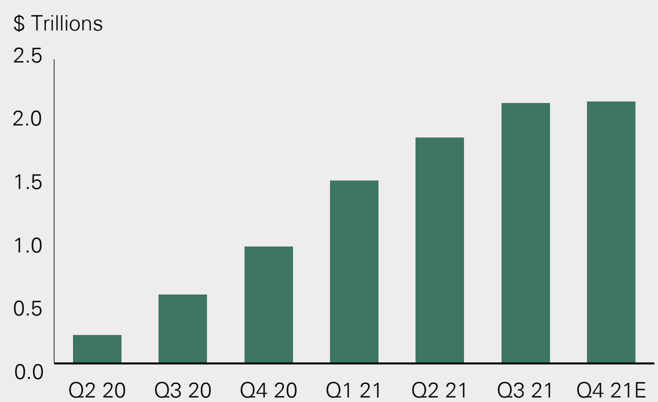
Further support for the U.S. consumer is demonstrated by the fact that U.S. household free cash flow stands at all-time highs (Exhibit 8). A combination of fiscal stimulus, rising wages, and rising asset prices produces one of the most exceptional savings surpluses in history. As a result, we feel that the U.S. consumer remains in a relatively strong position to weather higher prices at the pump or in the grocery store for some time. Additionally, the current situation stands in strong contrast to the stagflation seen in the 1980s; businesses continue to see strong sales despite reporting high levels of inflation (Exhibit 9).

Economic slowdowns do not guarantee recessions — defined as two consecutive quarters of negative real GDP growth — just as interest rate curve spreads do not guarantee recessions. Consider the period between 2010 and 2021; there were four instances where the U.S. Manufacturing PMI dipped into contractionary territory (below a level of 50) — 2012, 2015, 2019, and 2020 — with only one instance resulting in a recession due to the economic policy of COVID-related shutdowns. Note that the U.S. Manufacturing PMI stood at 58.6 in February.

To be clear, we had expected a growth slowdown to occur in 2022, following the robust levels of activity seen in 2021; recall real GDP growth of 5.7% in 2021. Considering recent developments, we now expect 2022 real GDP to come in closer to 3.0% rather than the 4.0% we had expected in our year-ahead outlook. As a result, we do not expect the U.S. Manufacturing PMI to move into contractionary territory. A crucial exception to our growth expectations, which we discussed in our year-ahead outlook, is the possibility that the Fed becomes exceedingly hawkish. This is a meaningful risk to the economy and markets, though it does not represent our base case given the Fed's stated goal of extending the economic expansion. Additionally, we are not positioning portfolios around the potential for an FOMC policy error.

Exhibit 8: Household Free Cash Flow Cumulative Excess Compared to the Normal Levels

Key Takeaway: U.S. consumer is flush with excess savings compared to historical levels.

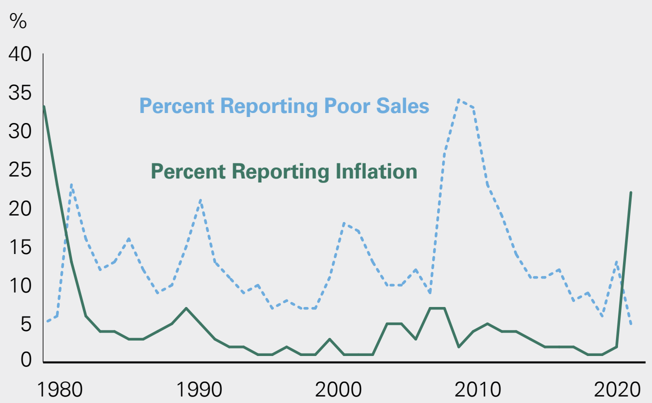


As of January 31, 2022. Free cash flow measures gross cash flow less expenditures for homes and durable goods.

Source: Empirical Research

Exhibit 9: The Most Important Problems for Small Businesses: Inflation and Poor Sales

Key Takeaway: While businesses cite inflation as a problem, the number citing poor sales is very low.



As of December 31, 2021.

Source: RDQ

Sustained Reopening to Support U.S. Economy

With the U.S. consumer serving as an important economic support, a large tailwind to the current economic expansion is the ongoing recovery of virus-sensitive sectors, which has been driven by increased consumer spending amid fading COVID concerns. This is particularly true in the U.S., where cases have continued to decline, even as cases have increased in Asia in particular (Exhibit 10). High-frequency data is supportive of the notion that the economic reopening is alive and well with real-time indicators showing a pickup after the Omicron slump.

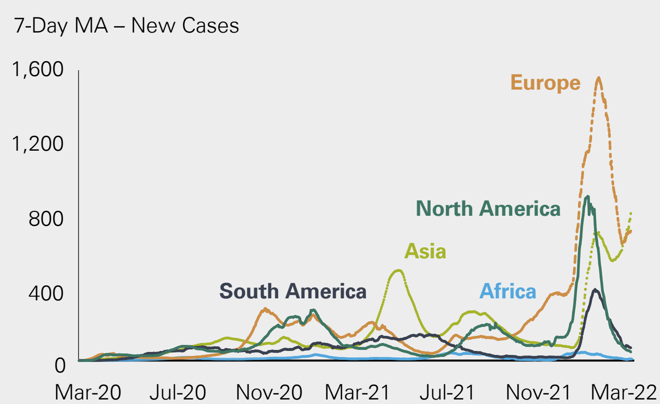
Consumers appear increasingly comfortable participating in virus-sensitive activities with OpenTable reservations and TSA passengers at or near pre-pandemic highs (Exhibit 11). OpenTable restaurant data indicates consumers are more eager to dine out than at any other time since early March 2020. At points during the last month, OpenTable bookings have outpaced their pre-pandemic levels.

With airport traffic on an upward trajectory so far this year, TSA passengers have now fully recovered from the Omicron dip and are currently at about 90% of pre-COVID levels. Assuming the virus situation does not materially deteriorate, we would expect an ongoing pickup in virus-sensitive service spending. Credit card data indicates U.S. consumers are ready to travel again with increases in the airfare and lodging away from home categories. American Express recently reported that "74% of respondents agree they are willing to book a trip for 2022 even if they might have to cancel or modify it later. This is up from 56% last year."

In particular, spending by older consumers is picking up as the Omicron wave recedes, which should help fuel continued economic growth in the months ahead. Ongoing virus fears had kept many older individuals on the sidelines in the earlier phases of the economic recovery as they refrained from dining and travel, so it is especially encouraging that they are now propelling service-oriented spending momentum. Older consumers have been key beneficiaries of pandemic increases in household net worth, especially given rising home values. The 65-plus consumer segment has ample ability to support additional spending by drawing on recent capital gains or "excess savings" gained from limited spending opportunities during the pandemic.

Exhibit 10: COVID Cases by Continent

Key Takeaway: While the U.S. has seen a sharp decline in COVID cases, there has been an uptick in Europe and Asia.

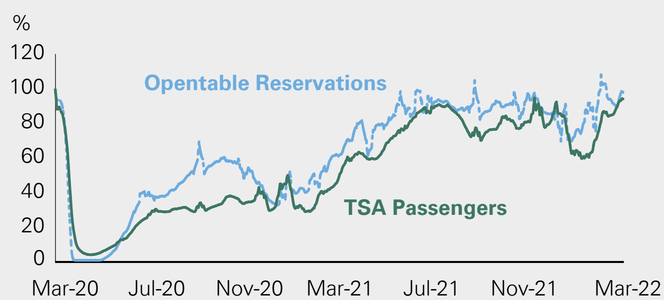


As of March 14, 2022. MA stands for moving average.

Source: Our World in Data

Exhibit 11: Reopening Metrics

Key Takeaway: As Omicron cases subside, TSA throughput and OpenTable reservations have reached pre-COVID levels.



As of March 21, 2022.

Source: Bloomberg

Paradigm Shift Likely to Accelerate Global Capital Expenditures

While there is a lot of focus on short-term negative growth dynamics resulting from the war in Ukraine and higher energy prices, the conflict is sowing the seeds for greater longer-term investment in several key areas, in our view. COVID-19 catalyzed the first round of discussions around supply chain security and natural resource reliability. We discussed this theme in our third-quarter 2021 Quarterly Investment Perspective. With the Russia-Ukraine conflict comes a second round of emphasis on the need for domestic production, where possible. As a result, we see the potential for the onshoring trend to continue and capital investment to increase, which should serve as further support for economic growth going forward. Additionally, the need to increase energy investment and defense spending should buttress growth expectations further. We discuss these longer-term themes in the sections below.

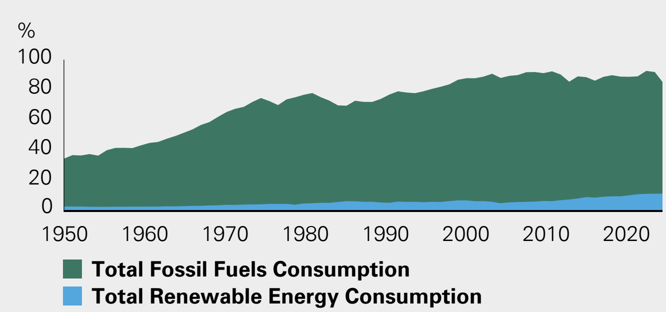
Energy Security and Transition Demands to Drive Investment

The Russia-Ukraine conflict is likely to serve as a catalyst that reinvigorates a global energy sector investment cycle due to a renewed focus on energy security, resilience, and diversification. The juxtaposition of the U.S. and Europe illustrates the differing degrees of urgency related to energy security. While many are pushing to “flip the switch” to renewable sources of energy given environmental, social, and governance (ESG) considerations and related political goals, the transition will take a long time. After all, fossil fuels — petroleum, natural gas, and coal — accounted for 79% of total U.S. energy consumption in 2020 with 21% coming from non-fossil fuel sources such as renewables and nuclear, according to the U.S. Energy Information Administration (Exhibit 12). Further, as the economy grows, more traditional energy is needed in an absolute sense even as its share of the economy declines.

We see potential for greater investment in both traditional and newer renewable energy sources as a result of heightened geopolitical uncertainty. The U.S. finds itself in an enviable position as the world’s largest energy producer and being relatively insulated from Russian supply. However, primary energy capital expenditures fell precipitously over the past decade, which hampers both long-cycle and short-cycle production potential. It is possible that investment in traditional energy sources picks up amid prices that may stay at high levels more sustainably than in the past 10 years. Europe, meanwhile, finds itself in the unenviable position of being highly reliant upon Russian oil and gas (Exhibit 13), which increases the urgency for energy diversification and should accelerate the push toward more sustainable, secure, and renewable

Exhibit 12: Primary Energy Consumption by Source

Key Takeaway: Fossil fuels make up the vast majority of energy consumption in the United States.

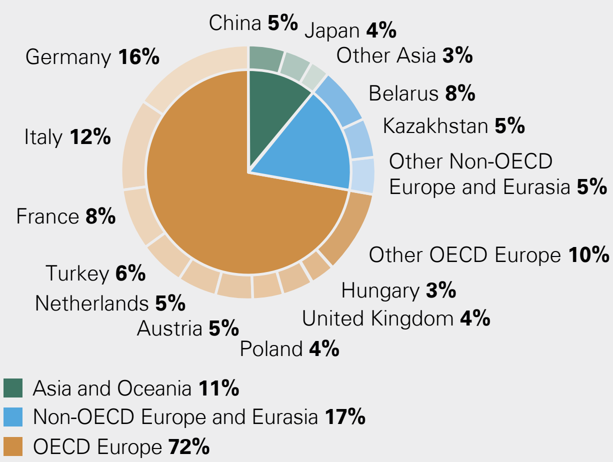


As of December 31, 2020.

Source: EIA – U.S. Energy Information Administration

Exhibit 13: Russia's Natural Gas Exports by Destination

Key Takeaway: While Europe is highly dependent on Russia for its natural gas supply, the U.S. is a net exporter of natural gas and does not import from Russia.



As of December 31, 2020. May not sum to 100% due to rounding.

Source: EIA – U.S. Energy Information Administration

sources of energy. Additionally, given the rapid increase in energy prices created by the conflict, especially in Europe's natural gas markets, we are likely to see increasing amounts of fiscal spending to counter the hit to consumer purchasing power. As a result, this should push European fiscal deficits into even more negative territory over the next year, especially in Germany, where German Chancellor Olaf Scholz has also said military spending will reach 2% of GDP, as we discuss below.

Moreover, broad-based support for decarbonization, which is leading to a higher cost of capital in traditional hydrocarbon industries, suggests that there will be a greater emphasis on renewable sources of energy going forward. Note that 2020 represented the first year in history when renewable investments exceeded upstream oil and gas, a trend that is likely to continue in coming years. Nonetheless, given renewables' higher capital intensity per unit of energy output and the need for natural gas to provide a more resilient and affordable energy transition, we would expect recent geopolitical events to simultaneously incite a revival of capital expenditures in traditional fuels.

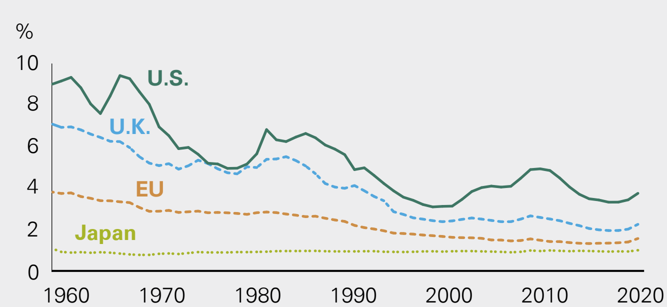
Homeland Security: Global Defense Spending Likely to Increase

It is also highly likely, in our view, that global defense spending will rise for years to come due to recent geopolitical events. In recent decades, defense spending has been low, creating a "peace dividend" allowing countries to allocate spending to other categories as a result of generally peaceful global conditions. Specifically, defense spending as a share of GDP remains very low relative to history in the U.S., the U.K., and the eurozone after falling dramatically following the collapse of the Berlin Wall in 1989 (Exhibit 14). On February 27, 2022, German Chancellor Olaf Scholz announced a paradigm shift in Germany's defense spending policies when he pledged to raise annual spending above NATO's target goal of 2% of national (nominal) GDP. Note that Germany's defense spending comprised EUR 46.6 billion (1.3% of GDP) in 2021; an additional 0.7% of GDP translates to another EUR 25 billion of spending per budget year. Notably, the pledge by Scholz now renders null years of contention with the U.S. over its military budget and participation in NATO.

In the U.S., military expenditures are down from the nearly 10% of GDP levels seen in the 1960s, standing at 3.5% of GDP in 2021 (Exhibit 14). Given a likely bipartisan push for higher defense spending following the Russia-Ukraine conflict, the $740 billion authorized for fiscal year 2022 may have upside potential.[1] We note that Bessemer portfolios hold exposure to the defense sector with holdings in Lockheed Martin and Northrop Grumman.

Exhibit 14: Military Expenditure as a Percentage of GDP

Key Takeaway: Military spending as a percentage of GDP has come down substantially since the Cold War days.



As of December 31, 2020.

Source: IMF

[1] Source: Strategas Policy Outlook, Dan Clifton, 3/22/2022.

Ukraine, China Developments Threaten Modest Improvements in Supply Chains

Bree Sterne
Investment Strategist

While there are some silver linings to recent developments as they pertain to medium-term economic growth, the negative near-term effects on inflation are more clearly pronounced. As Omicron faded, we were encouraged to see inflationary pressures related to supply chain disruptions improving modestly. For example, the containership backlog outside the ports of Los Angeles and Long Beach moved notably lower from a peak of 109 on January 9 to below 50 at present (Exhibit 15).

After broader supply chain improvement in February, recent data reveals a more mixed picture as the Russia-Ukraine conflict and Chinese COVID outbreaks have muddied the waters. February's PMIs showed global supplier delivery time improving and prices trending lower, while March's Philly Fed Manufacturing report unveiled an increase in delivery times, higher prices paid, and inventories falling. Also a mixed report, the Richmond Fed showed delivery times and prices paid declining modestly while order backlogs moved higher and inventories lower.

Exhibit 15: Ships Anchored Off the Ports of Los Angeles and Long Beach

Key Takeaway: The backlog of ships waiting to unload cargo at the ports of Los Angeles and Long Beach, which together process roughly 40% of imports in the U.S., has seen notable decreases from peak levels.

As of March 18, 2022.
Source: Piper Sandler

Russia-Ukraine War

The war in Ukraine has disrupted shipping routes with many ships blockaded from the Black Sea and dozens of cargo ships stranded at Ukrainian ports. At the start of the war, the Ukrainian government suspended commercial shipping from its major ports in the southwest of the country, and the Russian Navy blocked transit routes along the coast. While Russian and Ukrainian ports represent low single digits in terms of ocean container throughput, the knock-on effects for global trade will be felt worldwide. Northern European ports, like Hamburg and Rotterdam, are experiencing severe congestion and long wait times as a result of the conflict diverting cargo ships to other ports.

The effective blockade has disrupted key agriculture exports, like wheat and corn, from reaching global markets, and in turn agriculture markets are attempting to reroute products. In addition to agriculture, Ukraine and Russia are key suppliers of neon gas and palladium, two critical commodities used in chip manufacturing. Thus, the conflict has the potential to delay the improvement recently seen in semiconductor supply chains. European auto markets have also been affected as fighting has shut down car factories in Germany that rely on components made in Ukraine.

Beyond ocean shipping routes, air transportation has also been substantially impacted by Russia's retaliatory move to close airspace to the West. The lack of an ability to fly through Russian airspace has made several air cargo routes more expensive or, in some cases, uneconomical. The result could be constraints in air freight movement given that roughly 20% of global air freight moves between Europe and Asia.

Chinese COVID-19 Outbreaks

As we highlighted in our A Fresh Look webinar The Year-Ahead Outlook, ongoing COVID outbreaks paired with Chinese containment policies are a key risk to supply chain improvement. In our view, the current outbreak in China is one of the largest macroeconomic events in the country and is a key threat to global supply chains.

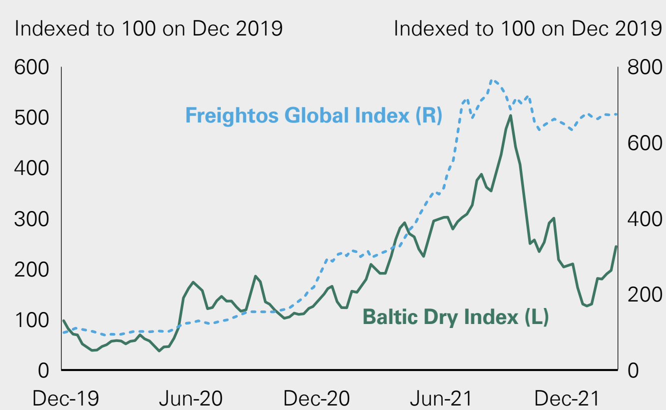
China is now at a critical juncture regarding its approach to COVID as it faces its largest outbreak since March 2020 and is undoubtedly weighing if and how much to shift its steadfast commitment to COVID-zero policies. These policies, which have served to stamp out COVID outbreaks through closed borders, citywide shutdowns, and mass testing, are becoming increasingly difficult to economically sustain amid the more contagious Omicron variant.

Currently, about half of China's exports are produced in — and roughly 75% of exports are shipped from — areas experiencing virus outbreaks. Congestion is increasing at some Chinese ports, which, if sustained, could reverse the gradual erosion recently seen in spot and short-term container freight rates (Exhibit 16) as rates across Chinese export lanes would start reflecting pent-up demand for increases in shipments.

Notably, the recent outbreak in Shenzhen has resulted in key ports and factories being shuttered. The port of Shenzhen, a key manufacturing and export port that handles roughly 20%-25% of Chinese exports to the U.S., saw its operations reduced by roughly 75% during a recent outbreak. Forced to comply with factory shutdowns aimed to contain the

Exhibit 16: Global Shipping Prices

Key Takeaway: While supply chain issues remain, global shipping costs plateaued in the latter half of 2021 and have come down from their highs.



As of March 11, 2022.

Source: Bloomberg

outbreak, major manufacturers — including Apple-supplier Foxconn Technology Group, Toyota, and Tesla — have cut production and begun warning of shipment delays. Additionally, lockdowns and restrictions in some of China's key manufacturing hubs could delay orders placed on global e-commerce platforms, such as Amazon and Walmart.

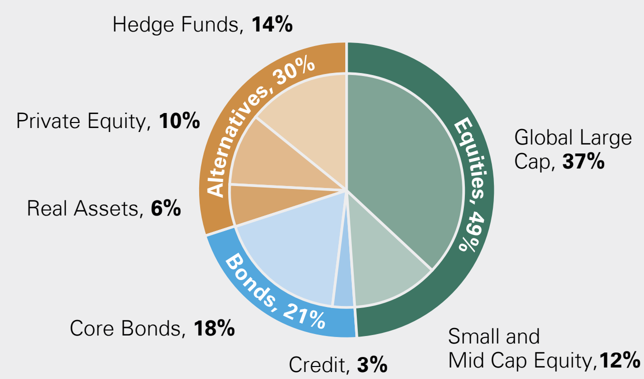
We have long worried about the endgame for China's COVID-zero approach, and whether China is able to execute a "soft landing" in its eventual pivot to reopen remains an open question. Prior to these COVID disruptions, global shipping companies, such as Maersk and Hapag-Lloyd, were estimating schedule and shipping rate reliability by the end of the year. However, we are cognizant that the COVID situation in China could get worse before it gets better and consequently unleash further pressure on global supply chains in the process, thus further delaying the return to some form of supply chain normalization.

Conclusion

Risks rose meaningfully in the first quarter of 2022, and yet ample investment opportunities remain. The U.S. economy has reopened and is resilient, in our view, which is an important consideration amid higher inflation and rising interest rates. As real income levels have become pressured to some extent due to the myriad challenges the world faces, corporations and consumers continue to have strong balance sheets. As we adjust portfolio holdings to account for the changing environment, we remain confident in our ability to outpace inflation and taxes over the long term to help our clients meet their financial goals.

Please contact your client advisor if you would like to discuss any of these topics in more detail.

Exhibit 17: Bessemer Portfolio Positioning



Positioning as of March 31, 2022. 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.

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