

Investment Update

Portfolio Adjustments



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Highlights

- We continue to navigate a highly unusual economic cycle as the pandemic and subsequent policy response have caused large swings in macroeconomic and market data.
- Our base case for 2024 remains that slower economic growth alongside easing inflationary pressures allow the Fed to cut rates, and a severe recession can be avoided.
- We are taking additional steps to adjust investments in Large Cap Strategies, especially within the emerging markets space.
- At the same time, we are focused on long-term platform enhancements and are launching a Short-Term Bond portfolio that will complement our approach to fixed income.
- We reiterate the importance of maintaining exposure to high quality managers and investments, which helps to provide insulation amid a complex macroeconomic backdrop.

is up 30% in the past few years relative to the prior 10 years, and the one-year rolling average return differential between growth and value factors has ranged widely from +45% to -23% in this period vs. the 10-year average of a relatively stable 7%.

2024 appears set to be another wave in this unique economic cycle as the market weighs economic growth and easing inflation alongside the Fed's evolving reaction function. We expect inflation to continue its decline (albeit in a nonlinear fashion), growth to slow (though a severe recession should be avoided), and the Fed to deliver on interest rate cuts. We discuss our macroeconomic and market views in more detail in our latest [Quarterly Investment Perspective](#).

Portfolio Adjustments

Given the current backdrop, we are adjusting allocations to investments within the Large Cap Strategies portfolio. Specifically, within the emerging markets space, we are adding a new external manager, Aikya Global Emerging Markets, and removing Sands Emerging Markets Growth and Baillie Gifford China Equities. Alongside these manager changes, the portfolio team has rebalanced exposures to other strategies with the aim of emphasizing stock selection more, in our view.

Bessemer's investment team continuously reviews external managers and reevaluates the managers' roles within the mandate. After thoughtful review and analysis, the team believes that the emerging markets mandate, including China, will be better served through Aikya's broad-based emerging markets strategy. Aikya's core style helps us avoid any relative return volatility associated with a more pronounced growth or value style, and a focus on downside protection should provide a margin of safety within an

Overview

The current economic cycle has been highly unusual, in large part due to the pandemic and subsequent policy response. Fiscal stimulus has been enacted at historic levels, particularly compared to other periods of economic expansion. The unusual nature of the current economic cycle has caused both market volatility as well as large swings in key economic indicators. For example, the median sector dispersion in the S&P 500

Portfolio Adjustments

asset class that may remain volatile.

As always, we prioritize tax implications when making shifts and anticipate only modest gains to be generated through the combination of these adjustments. We have maximized in-kind transfers as well as realized losses to offset gains with the aim of minimizing tax gains as much as possible.

Platform Updates

At the same time, we are continually focused on long-term enhancements to our platform to foster strong performance and flexibility for clients where possible. To that end, we have launched a Short-Term Bond portfolio that will complement our approach to the fixed income space. The Short-Term Bond portfolio offers clients a relatively low-risk investment vehicle that, on average, can provide a reasonable level of current income. The portfolio will hold a diversified mix of investment-grade bonds, including Treasuries, government agencies, corporate bonds, and asset-backed securities (ABS), among other asset types.

Our extensive research has shown that over an interest rate cycle, a portfolio of short-term bonds typically outperforms cash and other cash alternatives, such as Treasury bills and money market funds. The Short-Term Bond portfolio can benefit clients who are currently rolling Treasury bills for an extended period or who have large cash balances without commensurate near-term cash needs.

Federal Reserve members have signaled they are likely to cut rates this year, a move that could quickly diminish the yield premium on cash. The Short-Term Bond portfolio is structured to take advantage of higher yielding short-term investments while extending duration modestly versus money market options to lock in current yield levels for longer. This approach helps balance both reinvestment and duration risk. Please contact your client advisor if you would like more information about this new offering.

Conclusion

We believe recent portfolio adjustments and platform enhancements position us well for the coming period, and we remain confident in our ability to help our clients meet their financial goals over the long term. Bessemer portfolios are positioned close to their strategic targets with a slight overweight to equities and a continued bias to the U.S., and we continue to maintain a majority of portfolio exposure in high quality managers and investments. We think the higher-quality companies we predominantly invest in are best positioned to compound earnings in a slower growth environment. For situations where it is appropriate, we encourage clients to consider the alternative investments on our platform — private assets including real assets and private equity and hedge funds, which provide additional investment opportunities amid the current market dynamics.

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