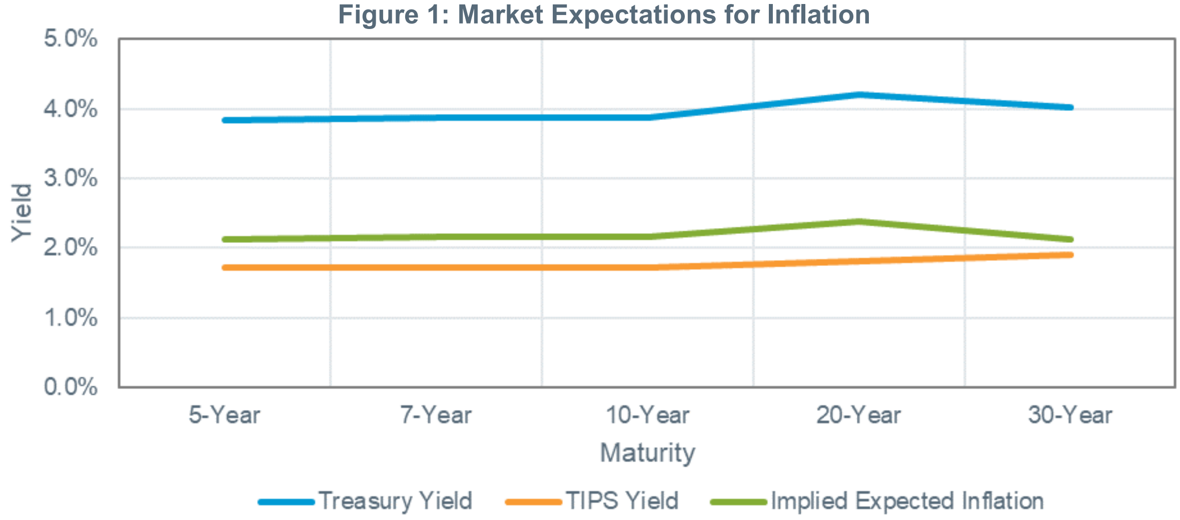
2024 Capital Market Assumptions

Every calendar year RVK produces long-term forward-looking capital market assumptions through a rigorous multi-step process that draws on both quantitative economic and financial inputs as well as qualitative comparisons and analysis. Our *return* estimates are generally based on return decomposition models, which consider factors such as income, future growth, valuation measures, inflation prospects, and economic conditions. The *volatility* and *correlation* assumptions are generally driven by an analysis of historical trends, adjusting for changes in volatility regimes, as well as triangulation considerations.

Summary: Our long-term (20-year) return expectations have decreased across equity markets following strong 2023 returns leading to elevated valuations. Most fixed income assumptions remained constant while a few decreased marginally, reflecting elevated current yields but expecting normalization of the yield curve. Most alternative asset class assumptions were unchanged, with the exception of assumptions that utilize a return premium or blended model. Fundamentals for many alternative investments remained relatively unchanged as well continuing to be attractive options for portfolio diversification, alpha generation, and inflation protection.

Inflation: RVK's 2024 inflation assumption remained constant compared to 2023. This reflects short- to medium-term inflationary pressures while also accounting for longer-term deflationary factors such as deficits, debt, demographics, automation, and globalization. Market expectations for inflation have slightly lowered as compared to expectations at the end of 2023 (as outlined in **Figure 1**).

Figure 1: Market Expectations for Inflation



As of December 29, 2023	5-Year	7-Year	10-Year	20-Year	30-Year
Treasury Yield	3.84%	3.88%	3.88%	4.20%	4.03%
TIPS Yield	1.72%	1.72%	1.72%	1.82%	1.90%
Implied Expected Inflation	2.12%	2.16%	2.16%	2.38%	2.13%

Source: FactSet and U.S. Department of the Treasury. Data as of December 31, 2023.

Fixed Income: The majority of domestic fixed income return assumptions were held constant, reflecting mostly mild reductions in yields and offsetting spread changes as well as the expectation that the inverted yield curve will normalize over time (**Figure 2 & 3**). Starting yields have historically been a reasonable starting point when forecasting future bond returns.

Figure 2: Bloomberg US Aggregate Bond Index Yield

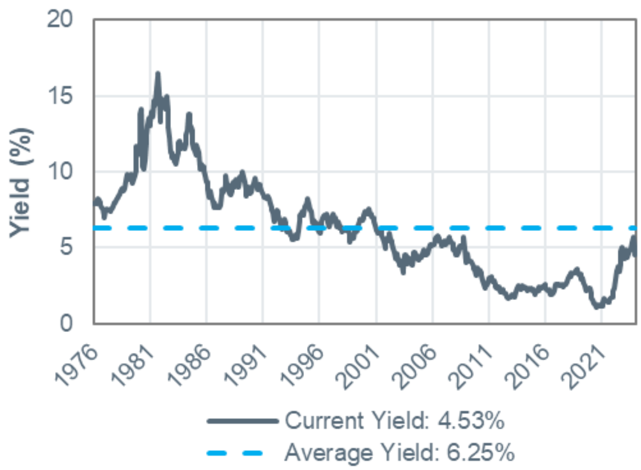
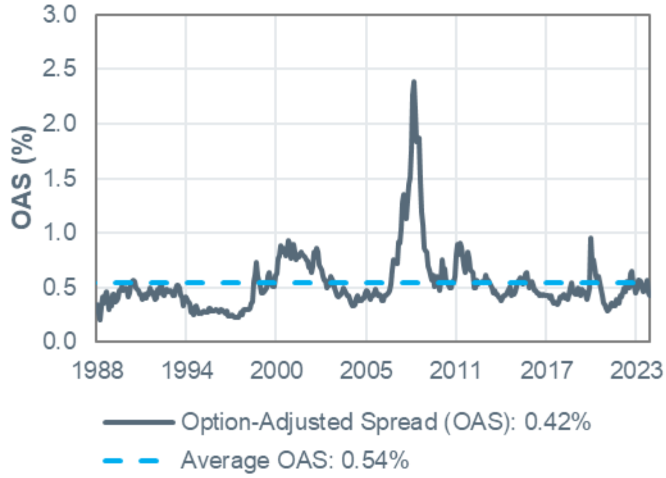


Figure 3: Bloomberg US Aggregate Bond Index Option-Adjusted Spread



Equities: Equity return forecasts decreased for most equity assumptions relative to 2023. The decrease was valuation driven (as shown below in **Figure 4**), as stocks increased significantly in 2023 driven by a group of the largest growth-oriented companies, the "Magnificent 7." The year-end valuation for large-cap domestic equities, as represented by the Shiller CAPE, ranked in the 94th percentile of historical values.

Figure 4: S&P 500 CAPE Ratio

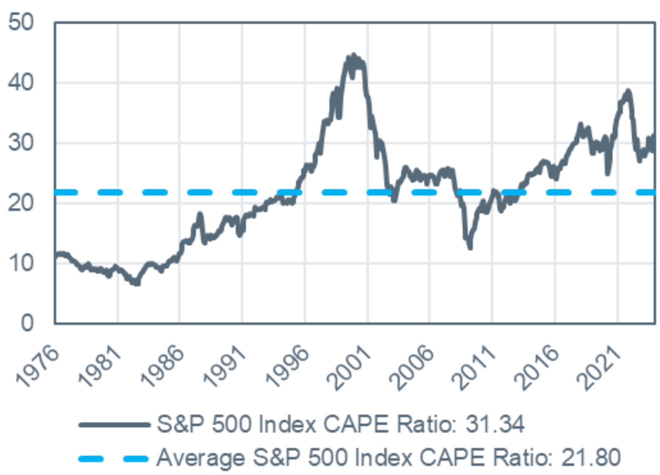
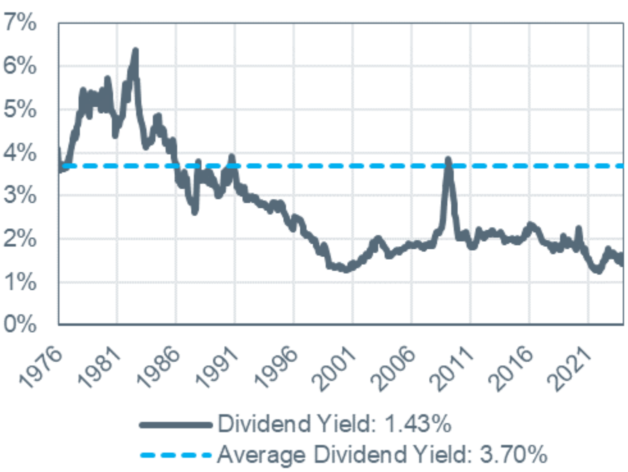


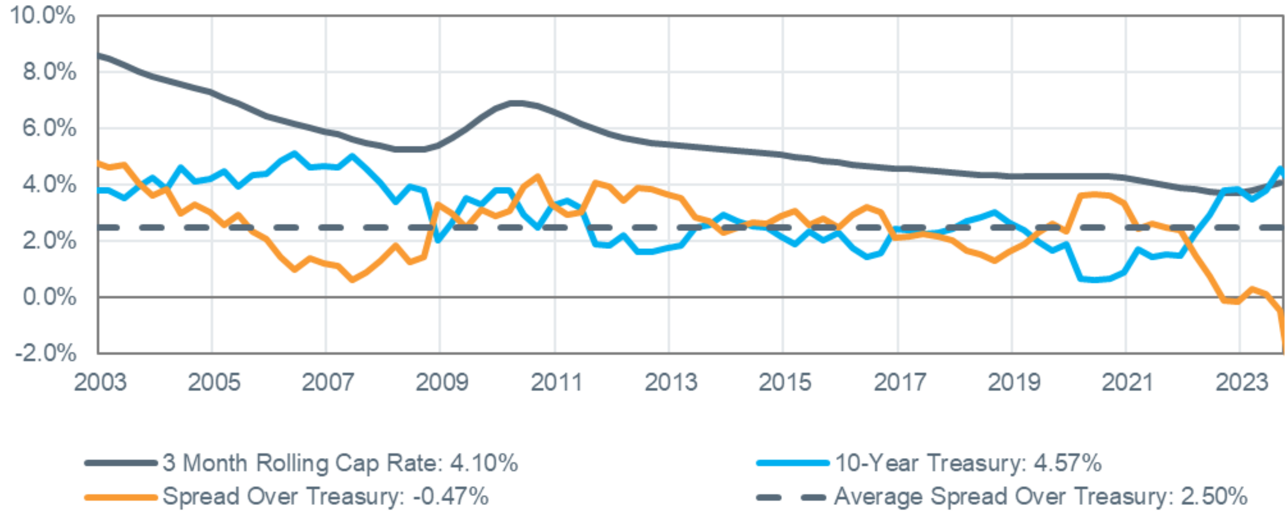
Figure 5: S&P 500 Dividend Index



Source: FactSet. Data as of December 31, 2023.

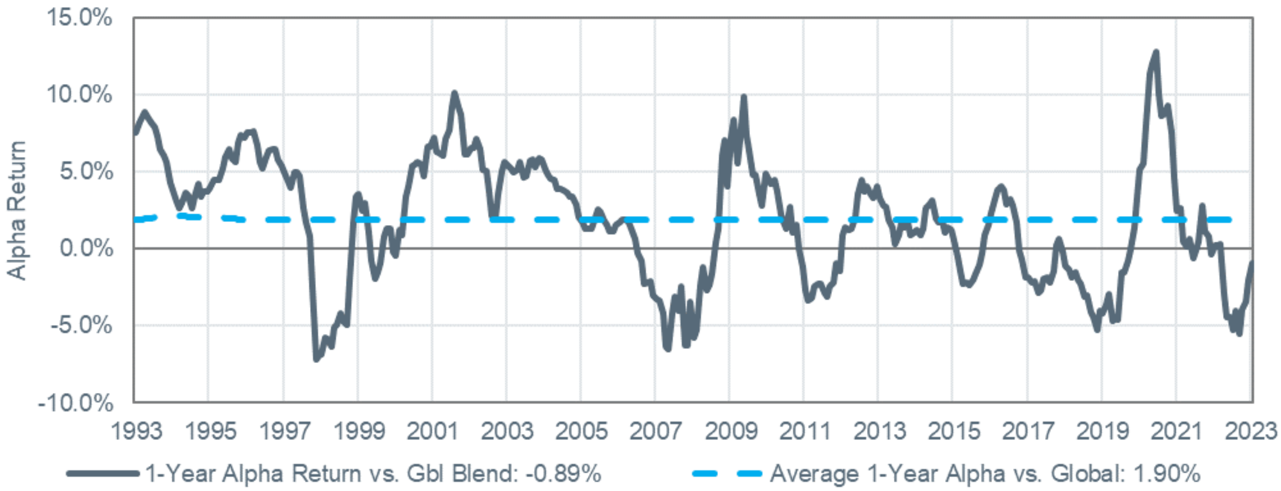
Real Estate: Our core real estate return expectation remained unchanged. On a relative basis—with Treasury rates materially increasing—income yields for core real estate assets are less attractive than in the historical average (**Figure 6**).

Figure 6: Cap Rates & Spreads
NCREIF ODCE Index



Hedge Funds: Hedge fund return assumptions remained unchanged from 2023 as decreased expected returns from beta were offset by higher expected cash returns. Alpha levels remain fairly robust since inception, post-GFC alpha levels are more muted (**Figure 7**).

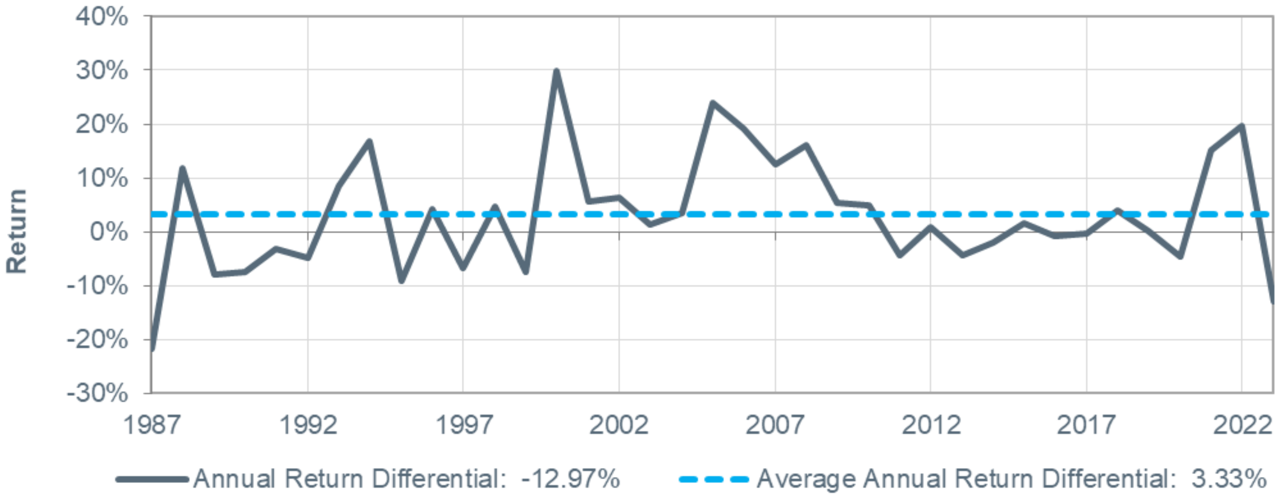
Figure 7: HFRI Multi-Strategy 1-Year Rolling Alpha



Source: NCREIF and FactSet. Data as of September 30, 2023.

Private Equity: The private equity return forecast was negatively impacted by the decrease in the underlying public market return forecast. The Large/Mid Cap US Equity assumption was decreased by 0.25% due to higher valuations. Our spread assumption remained constant at 225 basis points (geometric) above Large/ Mid Cap US Equities, similar to the historical spread differential.

Figure 8: Annual Return Differential
Cambridge US Private Equity Index vs. S&P 500 Index

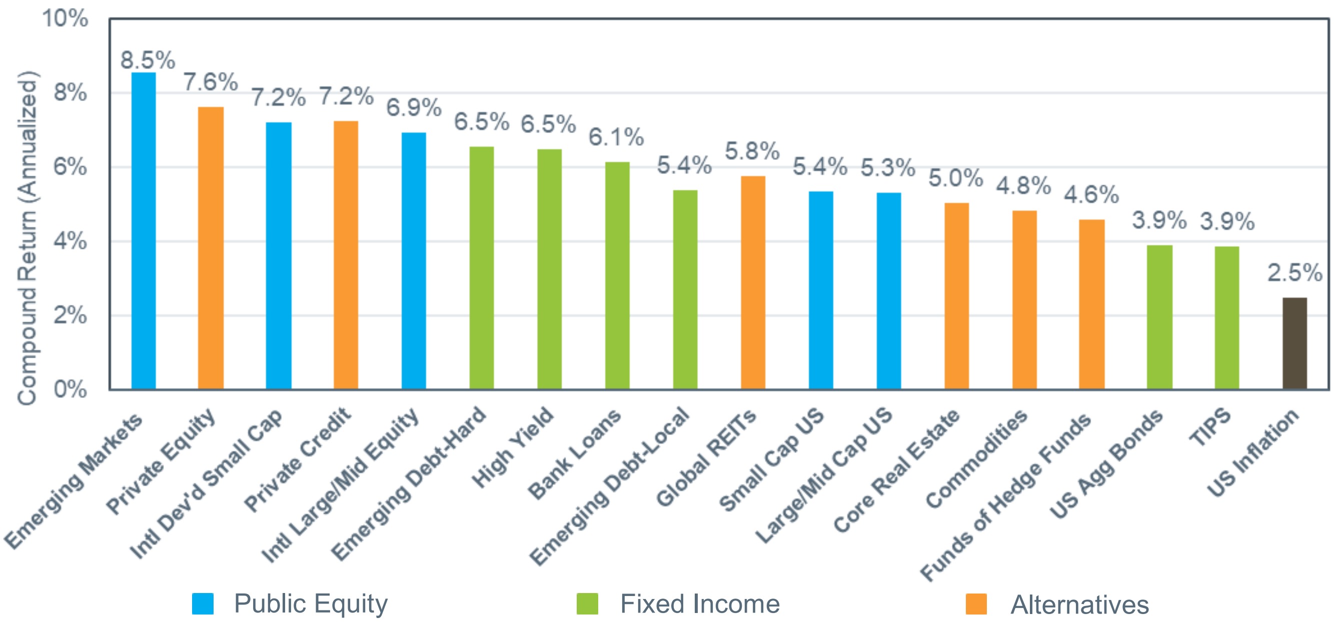


Private equity source: Cambridge Associates LLC and FactSet. Data as of June 30, 2023. Cambridge index is pooled horizon internal rates of return, net of fees, expenses, and carried interest.

2023 vs. 2024 Capital Market Assumptions

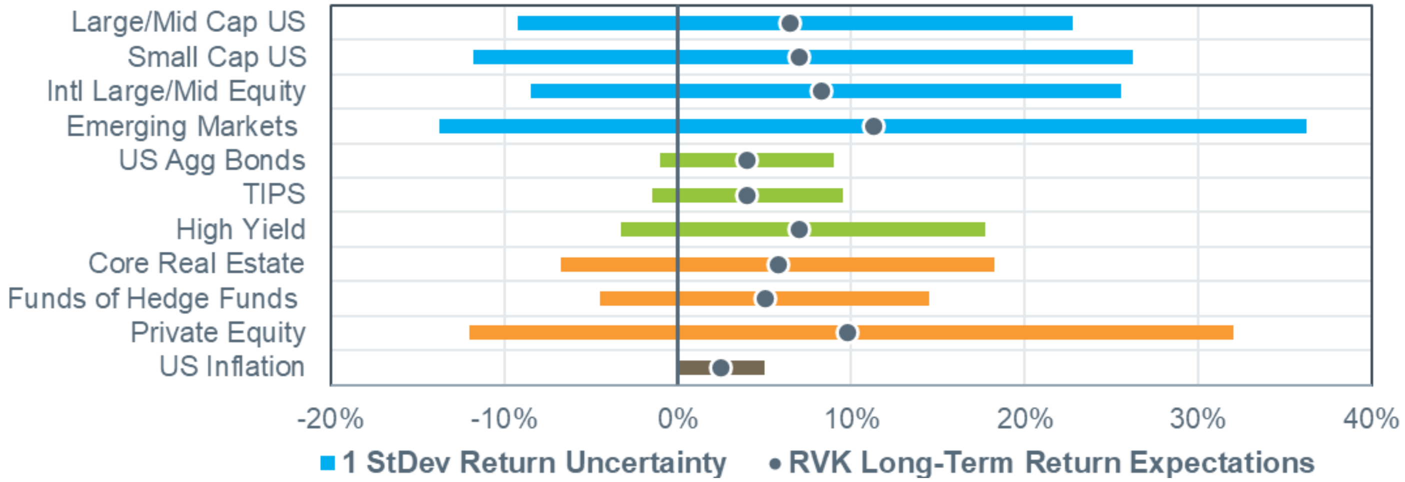
Asset Class	2023 Nominal Return	2023 Risk (St. Dev.)	2024 Nominal Return	2024 Risk (St. Dev.)	Change (2024 - 2023) Nominal Return	Change (2024 - 2023) Risk (St. Dev.)
Large/Mid Cap US	6.75%	16.00%	6.50%	16.00%	-0.25%	0.00%
Small Cap US	7.25%	19.00%	7.00%	19.00%	-0.25%	0.00%
Intl Large/Mid Equity	8.50%	17.00%	8.25%	17.00%	-0.25%	0.00%
Intl Dev'd Small Cap	9.25%	20.00%	9.00%	20.00%	-0.25%	0.00%
Emerging Markets	11.25%	25.00%	11.25%	25.00%	0.00%	0.00%
US Agg Bonds	4.00%	5.00%	4.00%	5.00%	0.00%	0.00%
Emerging Debt-Hard	7.50%	10.00%	7.00%	10.00%	-0.50%	0.00%
Emerging Debt-Local	6.50%	11.50%	6.00%	11.50%	-0.50%	0.00%
TIPS	4.00%	5.50%	4.00%	5.50%	0.00%	0.00%
High Yield	7.25%	10.50%	7.00%	10.50%	-0.25%	0.00%
Bank Loans	6.50%	8.50%	6.50%	9.00%	0.00%	0.50%
Core Real Estate	5.75%	12.50%	5.75%	12.50%	0.00%	0.00%
Global REITs	7.75%	21.00%	7.75%	21.00%	0.00%	0.00%
Funds of Hedge Funds	5.00%	9.50%	5.00%	9.50%	0.00%	0.00%
GTAA	6.00%	9.00%	5.75%	9.00%	-0.25%	0.00%
Private Credit	8.00%	13.00%	8.00%	13.00%	0.00%	0.00%
Private Equity	10.00%	22.00%	9.75%	22.00%	-0.25%	0.00%
Commodities	6.00%	17.50%	6.25%	17.50%	0.25%	0.00%
US Inflation	2.50%	2.50%	2.50%	2.50%	0.00%	0.00%

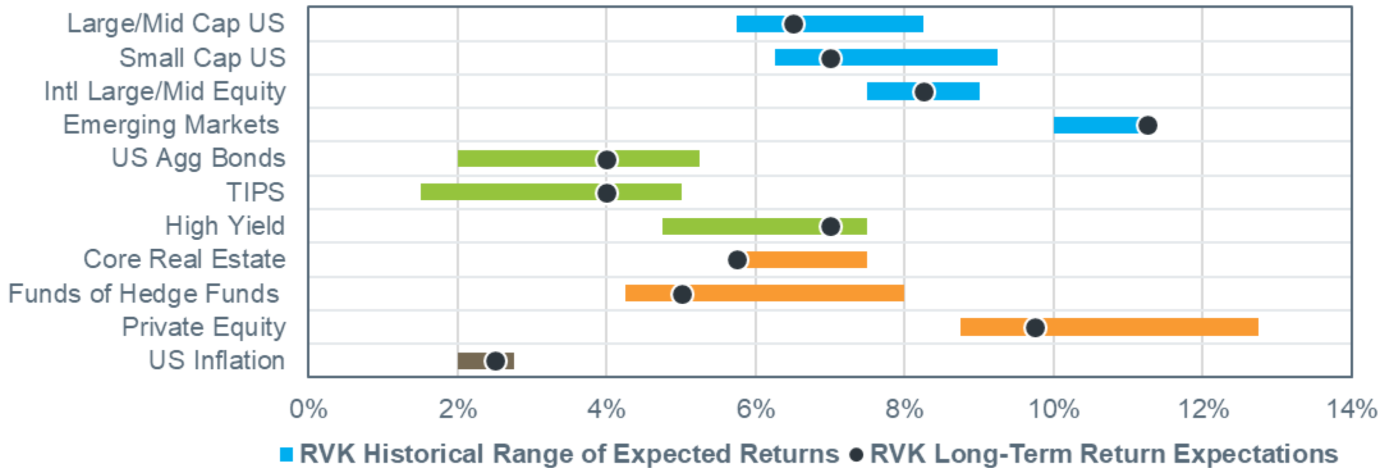
RVK 2024 Compound Return Assumptions



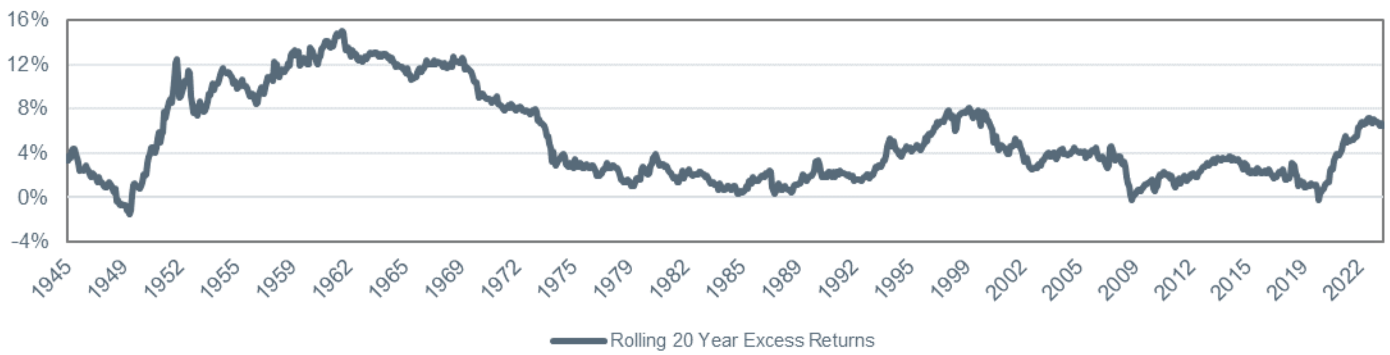
Note: The compound (or geometric) return assumptions account for the dampening effect of volatility on the asset classes' compounding of returns over time, and thus are less than their arithmetic counterparts over time.

2024 Long-Term Return Expectations and Uncertainty of Returns[1]





Historical Return Premium of Stocks vs. Bonds[2]



[1]StDev return uncertainty is based on the RVK 2024 CMA risk assumption for each asset class. Historical range of expected returns include 2006 through 2024 Capital Market Assumptions for selected asset classes.
[2]Stocks are represented by the S&P 500 Index, while fixed income is represented by the Bloomberg US Aggregate Bond Index and US Intermediate bonds prior to 1976.

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