

An aerial photograph of a coastline with several waves breaking. The water is a deep teal color, and the white foam of the waves is prominent. Several surfers are visible, riding the waves. The overall scene is dynamic and captures the natural beauty of the ocean.

Litman Gregory

WEALTH MANAGEMENT

2022 Annual Outlook Webinar

Today's Speakers



Bill Thompson

Director—Endowments &
Foundation Group,
Senior Advisor



Jeremy DeGroot, CFA®

Chief Investment Officer
Asset Management US



Jack Chee

Director—Portfolio
Management, Head of
Fixed Income Strategies



Kiko Vallarta, CFA®

VP—Portfolio Management

Topics We'll Address Today

- Review of 2021
- Macro Outlook for 2022
- Financial Markets Outlook & Portfolio Positioning
- Litman Gregory's ESG Investing Approach

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Macro and Markets Update

with Jeremy DeGroot, CFA®

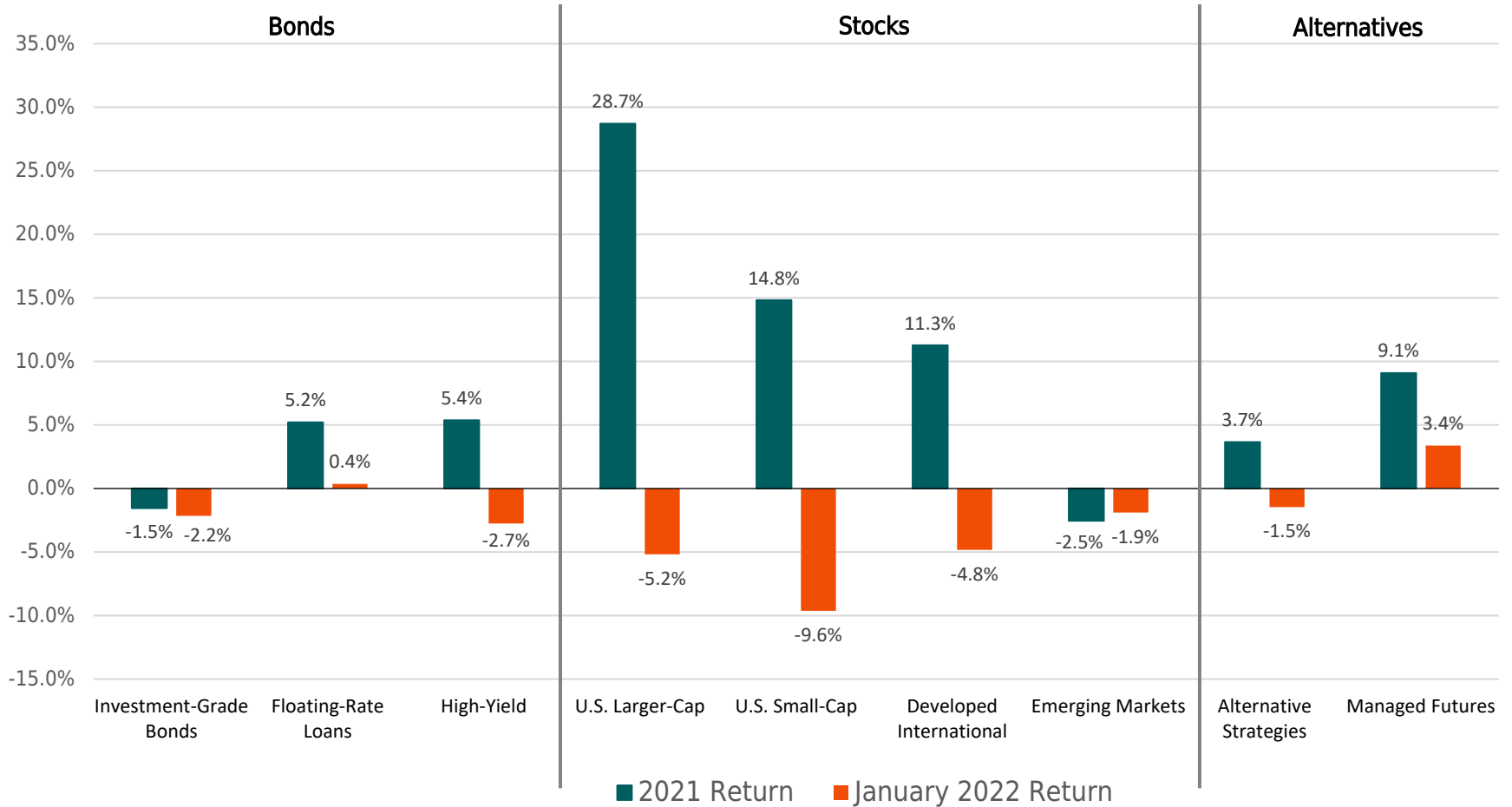


Market Review: Asset Class Performance in 2021



Source: Morningstar Direct. Data as of 1/31/2022.

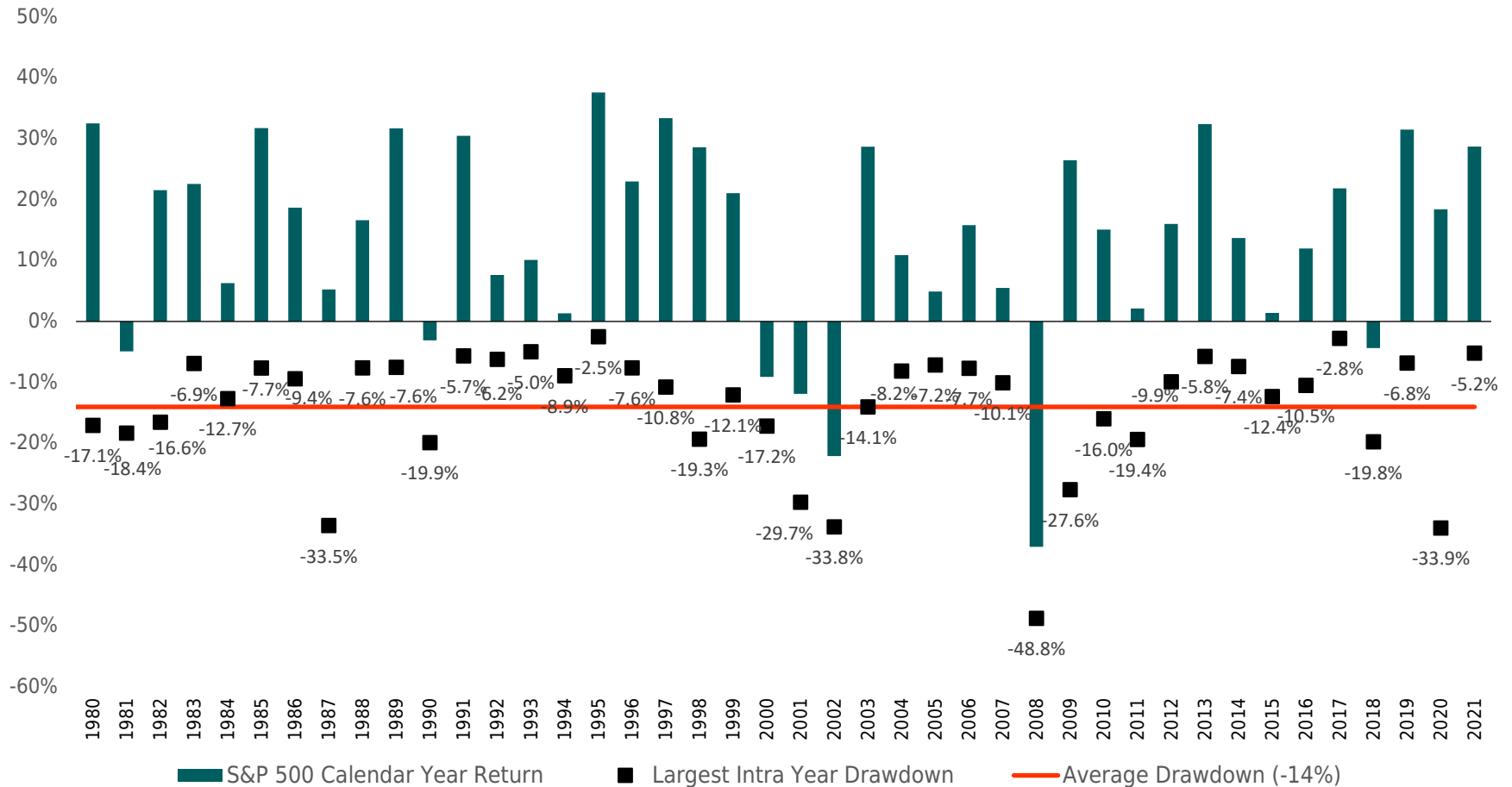
January 2022: A Rough Month for US Stocks & Core Bonds



Source: Morningstar Direct. Data as of 1/31/2022.

Stock Market Downturns are Normal (and Uncomfortable)

S&P 500 Index Max Pullback Per Calendar Year



Source: Morningstar Direct (1980-Current)

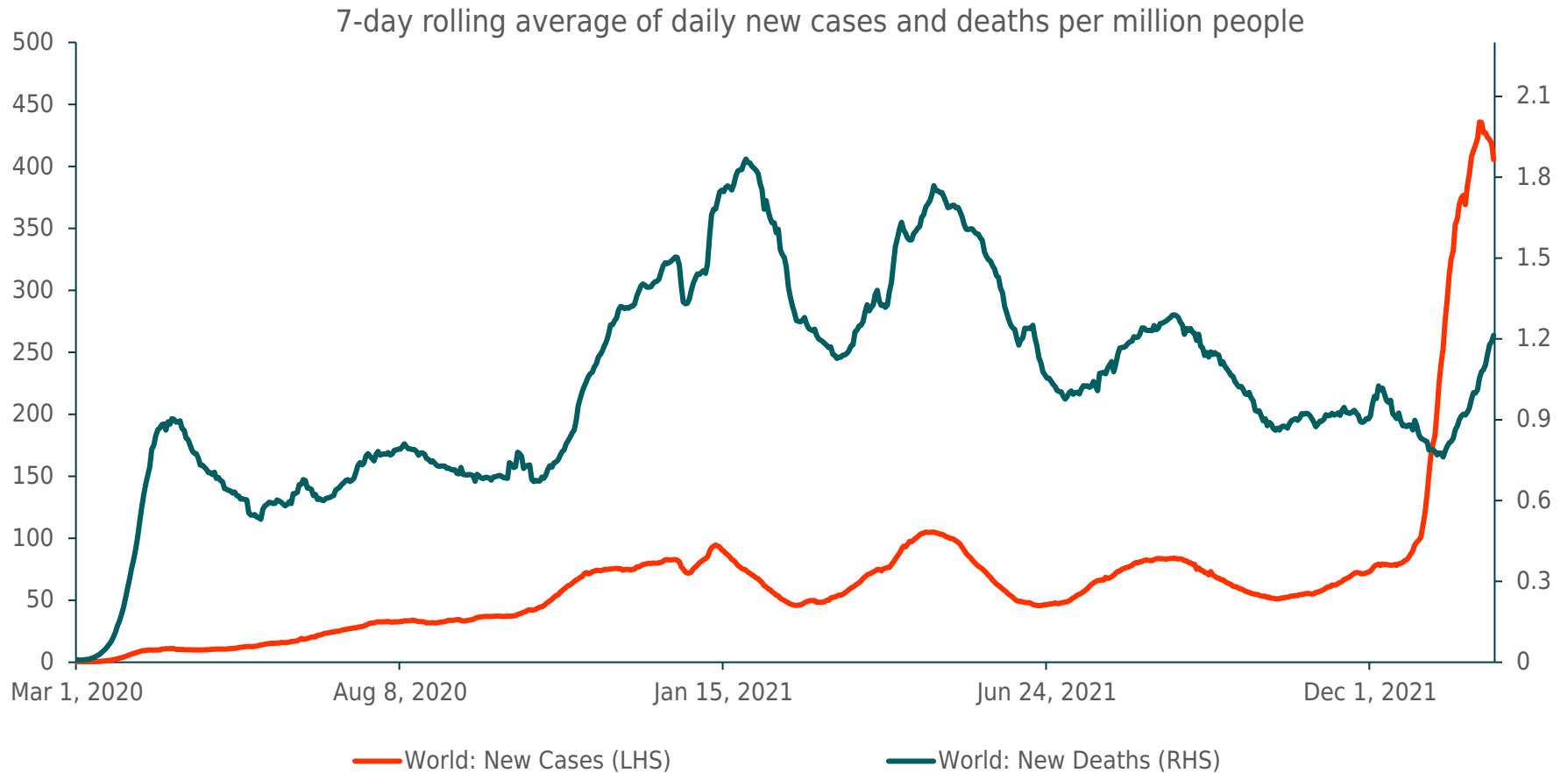
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

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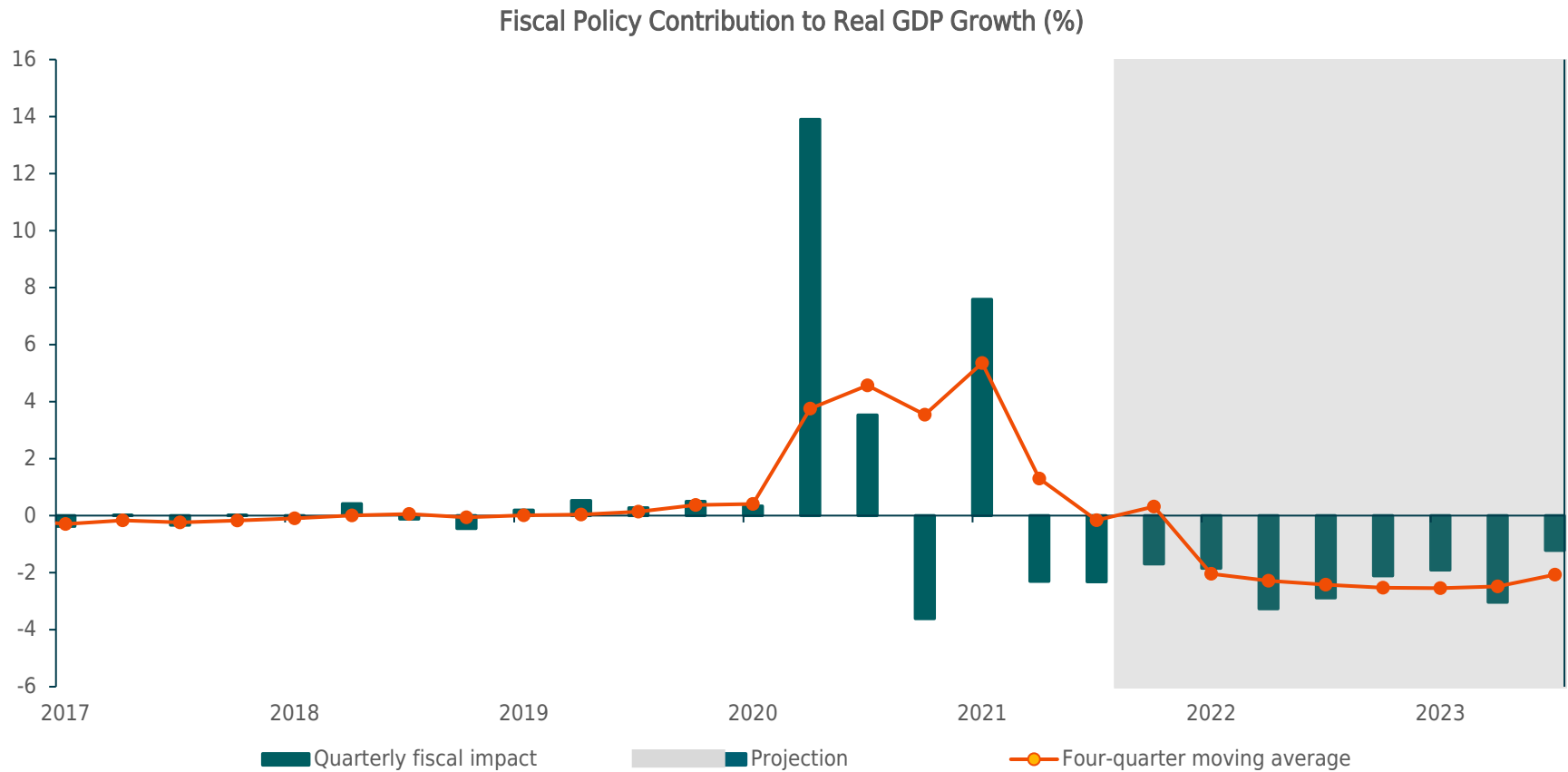
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2022 Macro Outlook

Will the Pandemic's Economic Impact Continue to Recede?

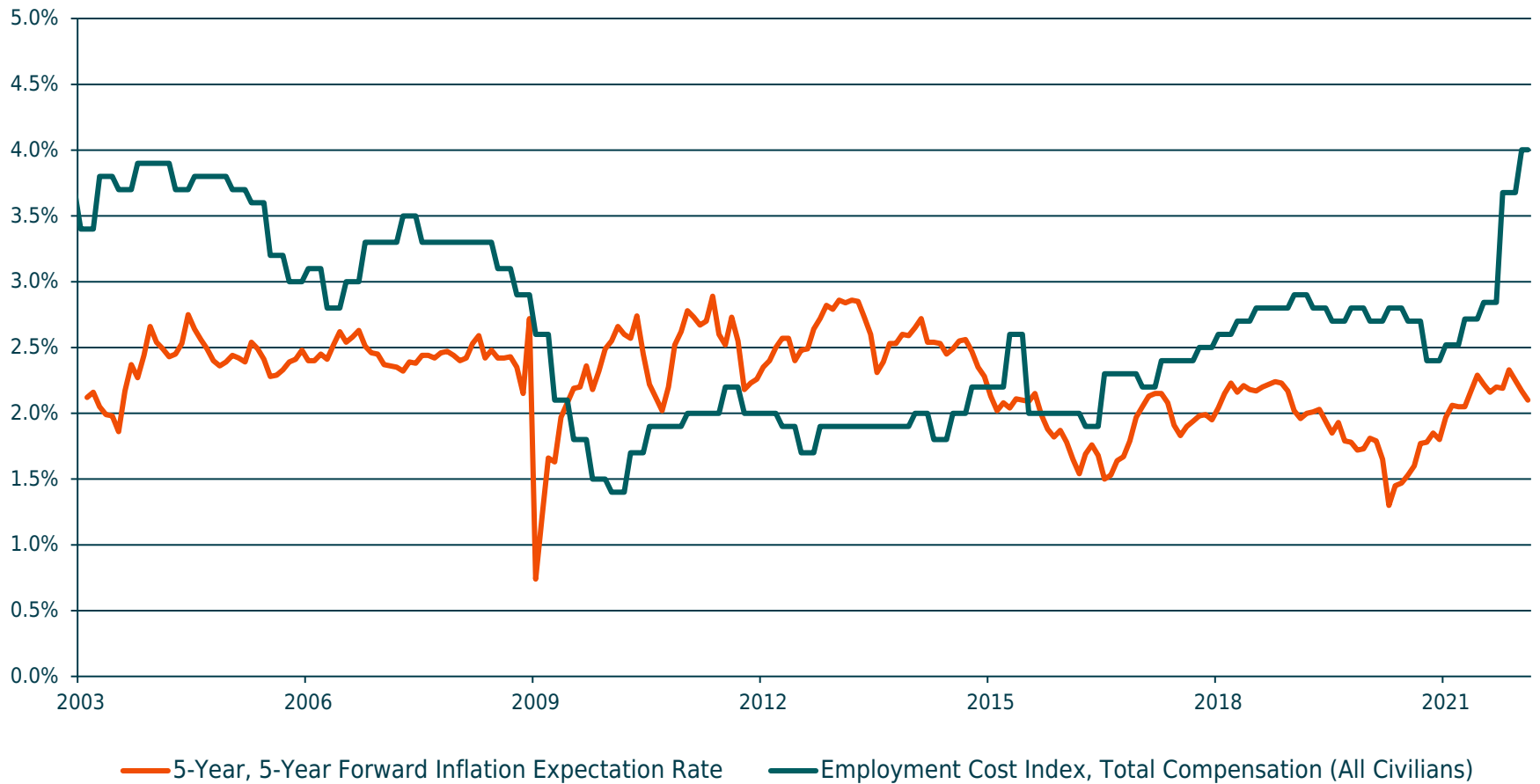


2022 Macro Outlook: U.S. Fiscal Policy Will Be a Drag on Growth



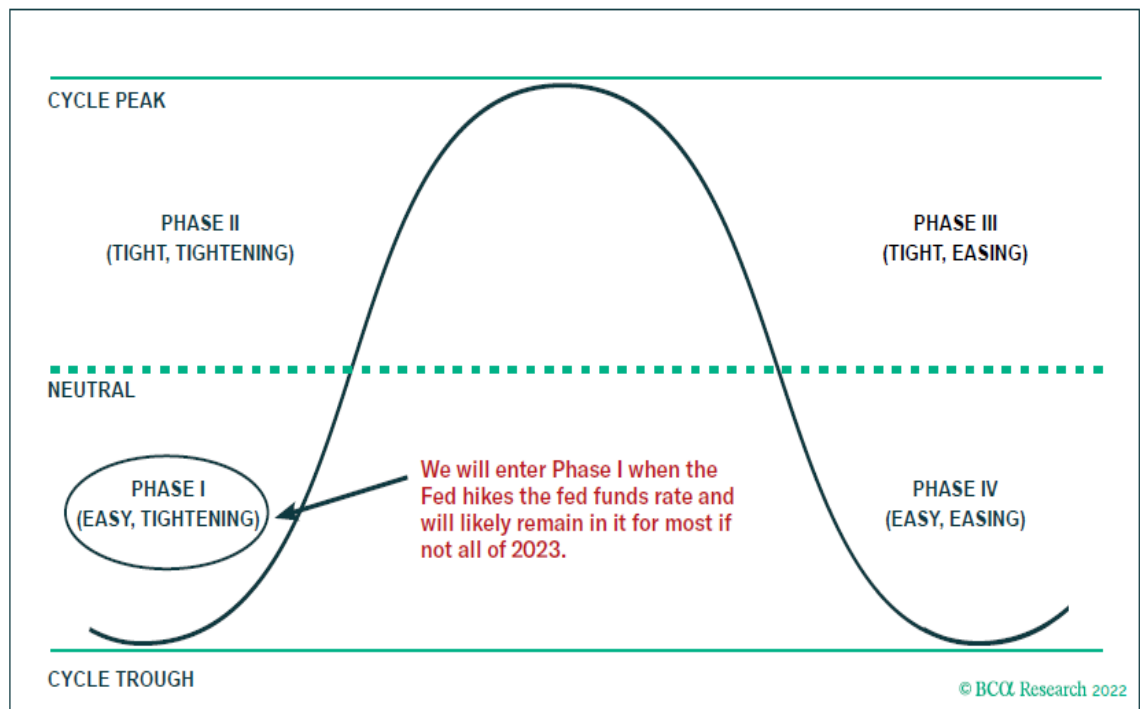
Source: Hutchins Center on Fiscal and Monetary Policy and Brookings Institution. Data as of 12/31/21.

The Fed is Focused on Wage Inflation and Inflation Expectations



Fed Monetary Policy: "Tightening, but Not Yet Tight"

The Fed Funds Rate Cycle



S&P 500 NOMINAL ANNUALIZED RETURNS BY FED FUNDS CYCLE PHASE*

	CAGR	# of Months
Phase I	8.1%	235
Phase II	-0.1%	126
Phase III	0.9%	101
Phase IV	12.8%	262
Easy (I & IV)	10.6%	497
Tight (II & III)	0.4%	227
Hiking (I & II)	5.1%	361
Easing (III & IV)	9.4%	363
All Phases	7.3%	724

* AUGUST 1961 THROUGH NOVEMBER 2021.

Key Macro Risks for 2022

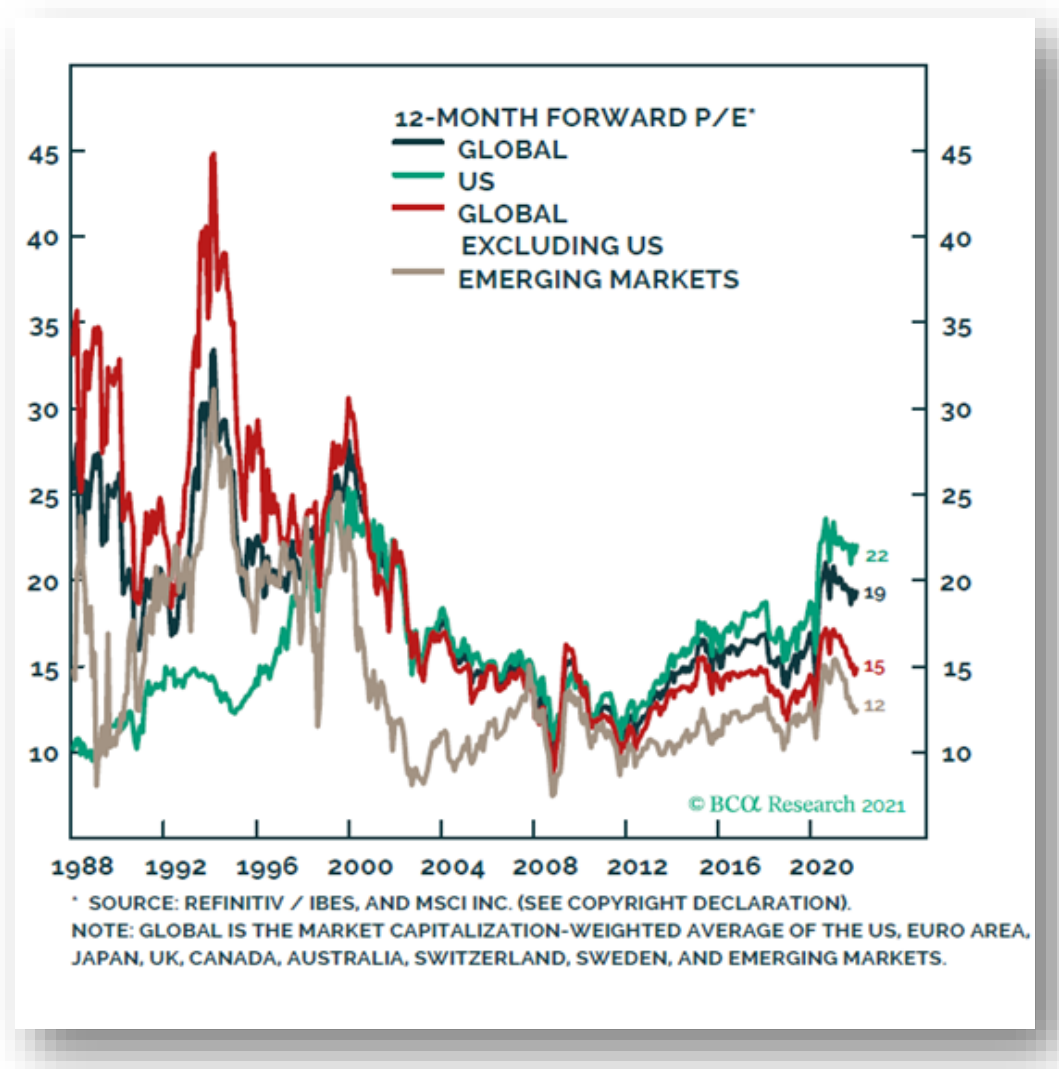
- **COVID-19:** a new highly infectious and deadly variant emerges. Omicron also poses a near-term growth risk
- **Inflation:** a wage-price spiral accelerates and/or longer-term inflation expectations become unmoored
- **Fed policy mistake:** either (1) the Fed tightens too much, or (2) the Fed allows inflation to become entrenched, facilitating a wage-price-expectations spiral
- **China:** China's economy has a sharp downturn, due for example to property market deleveraging and/or excessive policy tightening
- **Geopolitical or exogenous shock:** always a possibility (e.g., Russia/Ukraine war; China/Taiwan)

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Financial Markets Outlook & Portfolio Positioning

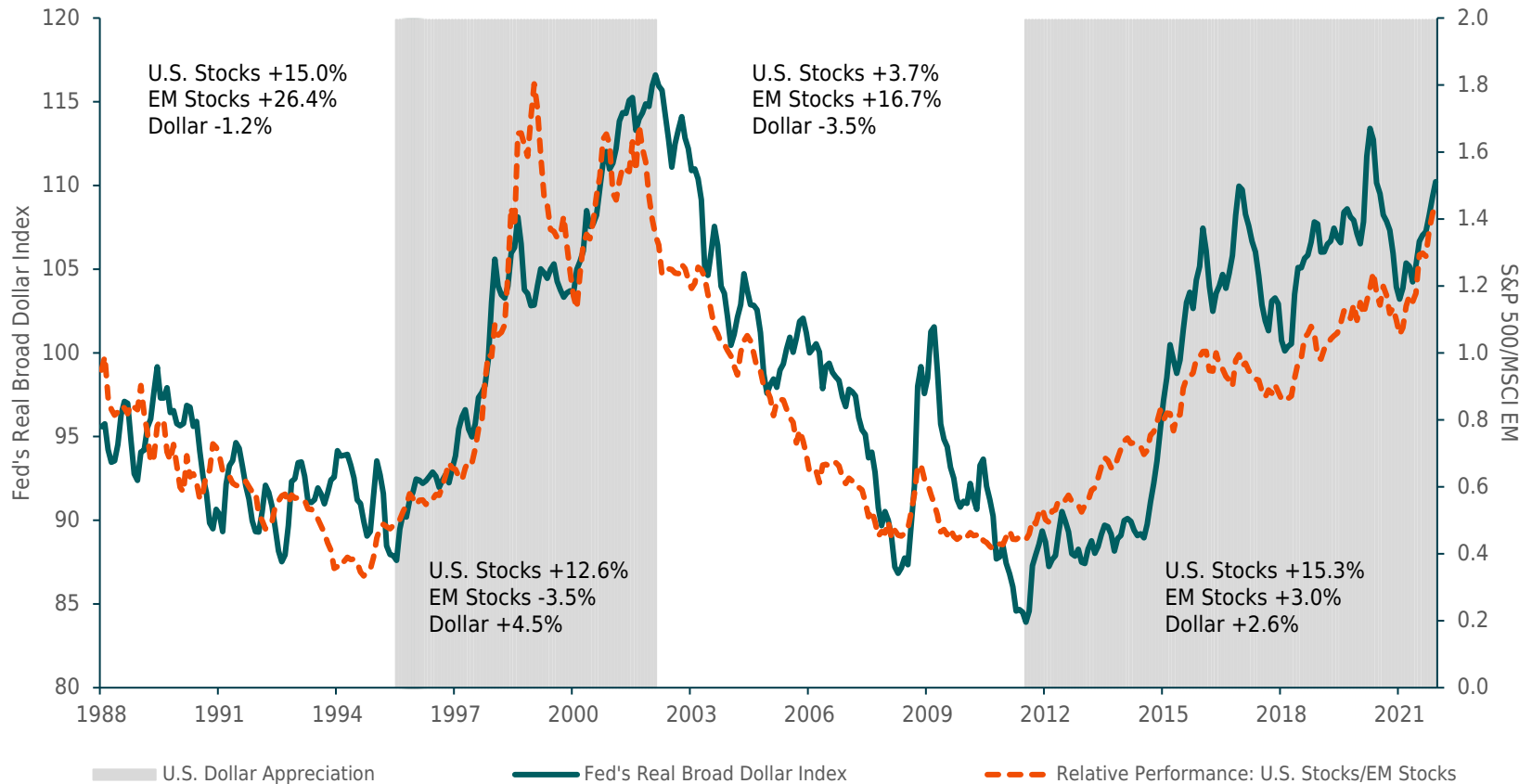
Absolute and Relative Valuations Favor Foreign Stocks



China's Monetary and Fiscal Policy is Loosening Again

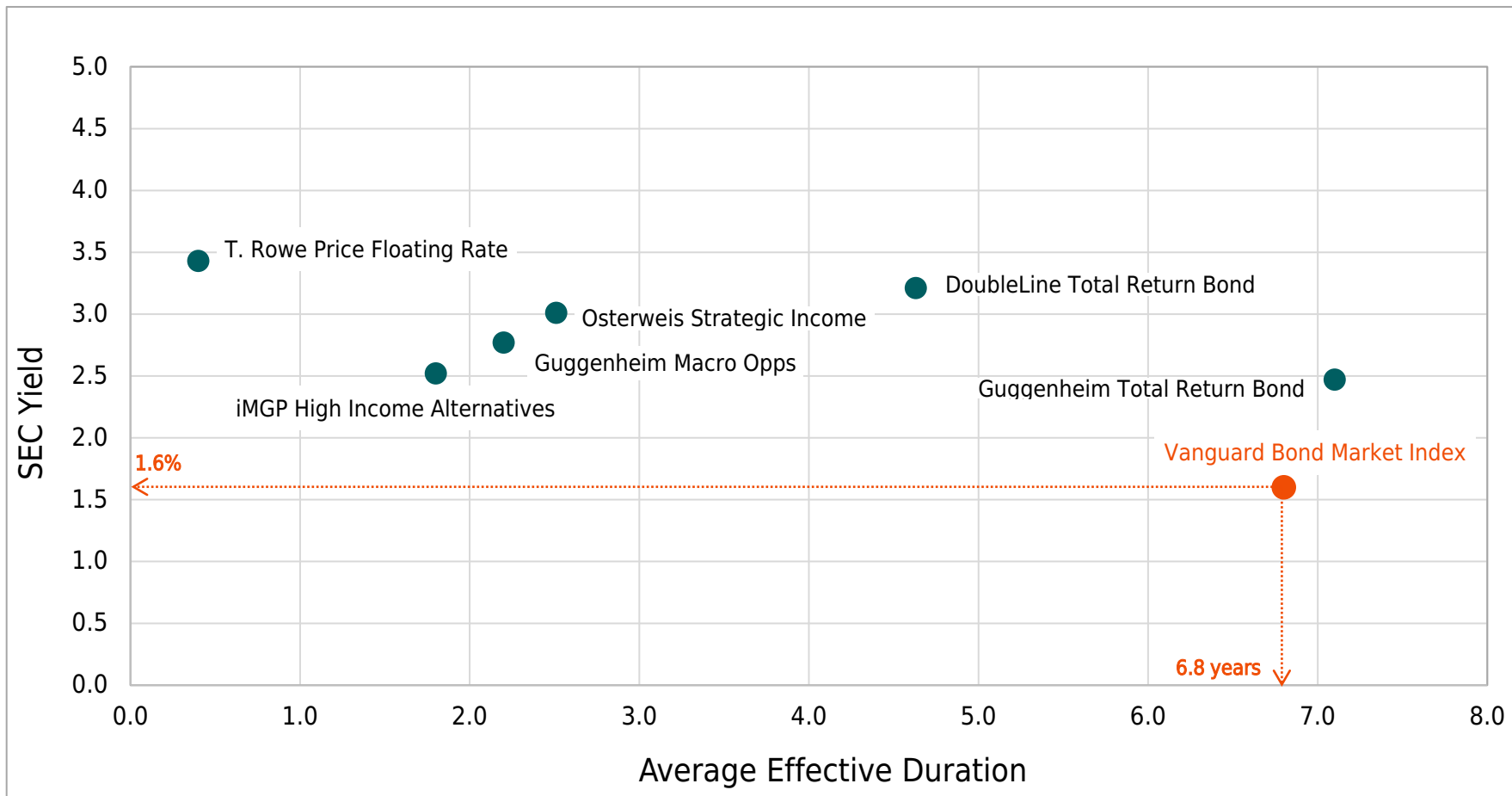


The U.S. Dollar Is a Key Variable for EM Equity Returns Over Time



Source: Board of Governors of the Federal Reserve System and Morningstar Direct. Data as of 12/31/2021. Returns are annualized.

Our Bond Positioning Is Well Diversified for Rising Interest Rates



SEC Yield is based on a 30-day period ending on the last of the previous month. Average Effective Duration measures the investment's interest-rate sensitivity. Source: Fund Companies. Data as of 12/31/21 for Vanguard. Data as of 11/30/21 for DoubleLine, Guggenheim, and T. Rowe Price. Data as of 9/30/21 for Osterweis.

Summary of Our Key Views on Financial Markets in 2022

Base Case

- **Stocks**: Barring a global macro shock/U.S. recession, we expect positive returns for risk assets (global equity and credit markets), driven by continued earnings growth and still-accommodative monetary policy.
 - US stocks should generate positive returns, but much lower than the double-digit gains of 2021, 2020 and 2019.
 - We expect international and emerging markets stocks to outperform US stocks due to:
 - Higher cyclical sensitivity to above-trend global economic growth
 - Larger potential for earnings acceleration and positive earnings surprises after lagging U.S. stocks the past several years
 - Much lower stock market valuations—more room for P/E multiple expansion
- **Bonds**: The 10-year Treasury yield is likely to rise, which means another poor year for core bond returns.
 - Flexible, actively managed fixed income funds and alternative strategies run by skilled managers are likely to outperform the core bond Index again

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Environmental, Social, & Governance (ESG): Litman Gregory's Approach

with Jack Chee and Kiko Vallarta



Socially Responsible Investing (SRI)

- Divestment, an approach to express values and achieve social goals
- Exclusionary screens often include the following areas:
 - Fossil Fuels
 - Guns/Weapons
 - Alcohol
 - Tobacco
 - Gambling
- Theoretically, divestment can make life more challenging for industries and companies.

ESG—A More Comprehensive Analysis

- Whereas SRI is excluding a sector or company based on involvement, ESG is based on evaluating a company across a wide range of non-financial ESG factors in investment decisions and active ownership.
- Three broad categories:
 - Environmental
 - Social
 - Governance
- Explicitly and systematically including ESG issues as part of investment analysis
- Generally, a peer-based analysis
 - How does a company's practices stack up (best practices or falling short)?

ESG Challenges and Misconceptions

The Responsible Investment industry is evolving rapidly, creating some confusion:

...it involves investing in a specific investment strategy or product

...it leads to lower investment returns

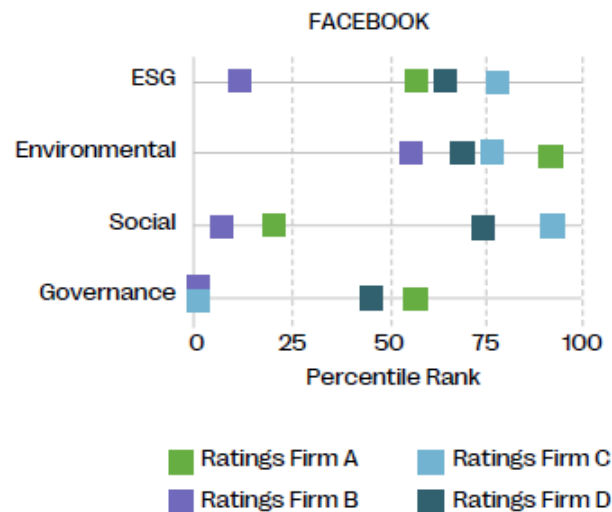
...it is the same as sustainable, ethical, socially responsible, and impact investing

....no clear-cut definitions of ESG

ESG Ratings: Facebook—FB

Example: Facebook's ESG ratings

Each square represents one ratings firm's assessment of Facebook



- Is Facebook at highly-rated ESG company or is it a poorly rated company?
- Does it even matter what its ESG rating is since there is no consensus?

Source: Engine No. 1. For Facebook analysis, ratings as of February 2019. Rating Agency 1 represents MSCI ESG ratings; Rating Agency 2 represents Thomson Reuters ESG ratings; Rating Agency 3 represents Sustainalytics ESG ratings; Rating Agency 4 represents Robeco ESG ratings. The ESG Rating Firms identified above have been selected by the University of Pennsylvania and QS investors based on a variety of objective and subjective criteria.

ESG Incrementalism

- The largest ESG strategies play a relative game that's stuck between active and passive
- Re-weighting positions to minimize tracking error and create a "greener" portfolio
- But will the relative game have a material impact in a time frame that's consequential?

Is there a REAL Difference?

The Three Largest Passive U.S. Large Cap Strategies

S&P 500			ESG Fund #1			ESG Fund #2			ESG Fund #3		
AAPL	Apple Inc	6.8%	AAPL	Apple Inc	6.7%	AAPL	Apple Inc	7.6%	AAPL	Apple Inc	6.8%
MSFT	Microsoft Corp	6.2%	MSFT	Microsoft Corp	5.8%	MSFT	Microsoft Corp	7.1%	MSFT	Microsoft Corp	6.3%
AMZN	Amazon.com Inc	3.6%	AMZN	Amazon.com Inc	3.5%	AMZN	Amazon.com Inc	4.0%	AMZN	Amazon.com Inc	3.6%
GOOGL	Alphabet Inc Class A	2.2%	TSLA	Tesla Inc	2.1%	GOOGL	Alphabet Inc Class A	2.4%	GOOG	Alphabet Inc Class C	2.3%
TSLA	Tesla Inc	2.1%	GOOG	Alphabet Inc Class C	1.9%	TSLA	Tesla Inc	2.4%	TSLA	Tesla Inc	2.1%
GOOG	Alphabet Inc Class C	2.0%	GOOGL	Alphabet Inc Class A	1.9%	GOOG	Alphabet Inc Class C	2.3%	FB	Meta Platforms Inc Class A	2.0%
FB	Meta Platforms Inc Class A	2.0%	NVDA	NVIDIA Corp	1.8%	FB	Meta Platforms Inc Class A	2.2%	GOOGL	Alphabet Inc Class A	1.8%
NVDA	NVIDIA Corp	1.8%	FB	Meta Platforms Inc Class A	1.7%	NVDA	NVIDIA Corp	2.0%	NVDA	NVIDIA Corp	1.7%
BRK.B	Berkshire Hathaway Class	1.4%	JPM	JPMorgan Chase & Co	1.3%	UNH	UnitedHealth Group Inc	1.3%	UNH	UnitedHealth Group Inc	1.2%
UNH	UnitedHealth Group Inc	1.2%	HD	The Home Depot Inc	1.2%	JPM	JPMorgan Chase & Co	1.3%	JPM	JPMorgan Chase & Co	1.2%

All portfolios as of 12/31/2021

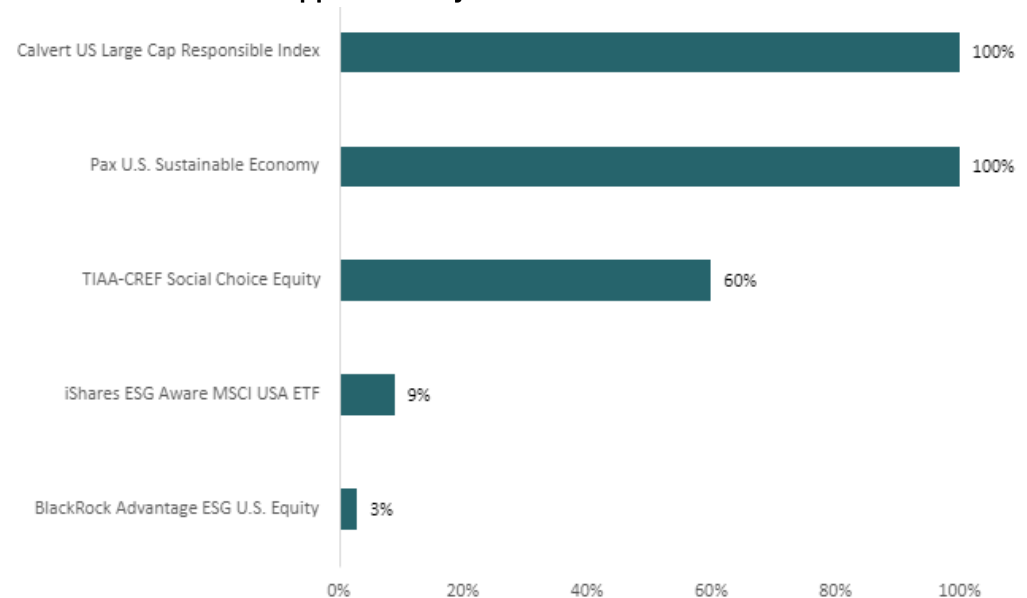
Actual Impact: Largest Asset Owners are Constrained by Their Size

- We have recently focused on more on the engagement aspect of ESG strategies
- The largest asset managers (e.g., BlackRock, State Street, and Vanguard) are largely passive on voting and engagement
- Largest asset managers are constrained: too big and conflicts of interest
- The result: status quo

Sustainable Fund Votes on Key ESG Resolutions in 2020, U.S. Large Cap

Strategy	Fund Size (\$mil)	# Votes	% Support
Calvert US Large Cap Responsible Index	\$3,354.5	41	100%
Pax U.S. Sustainable Economy	\$248.9	17	100%
TIAA-CREF Social Choice Equity	\$6,002.6	25	60%
iShares ESG Aware MSCI USA ETF	\$12,708.7	35	9%
BlackRock Advantage ESG U.S. Equity	\$164.4	30	3%
iShares ESG Advanced MSCI USA ETF			<i>data unavailable</i>

% Support for Key ESG Resolutions in 2020



Our Approach to ESG

- At the core of our ESG approach is the same Litman Gregory investment approach
 - Asset allocation and investment selection
- ESG requires an additional layer of analysis
 - We want to understand why they are interested in ESG; what's their motivation?
 - What is their methodology and approach to ESG?
 - How integrated is ESG into the investment process?
 - What are they trying to accomplish, and how will they evaluate success?
 - What level of resources are they dedicating to the ESG efforts
 - What are their long-term goals?


Our Commitment

1. Seek to deploy assets in a way that contributes to making a difference
 - A mix of doing good and not doing harm
2. Provide clients with solutions that align with their values
3. Deliver competitive returns
4. Continue to evolve/learn and draw from our unique position



Thank you for joining us today!

*For further questions, please contact your advisor directly, or the
Litman Gregory Client Services team at:*

 *415.526.4380*

 *information@lgam.com*

 *www.lgam.com*

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