SENIOR SOLUTIONS UPDATE

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SUBJECT: 3Q2020 INVESTMENT COMMENTARY
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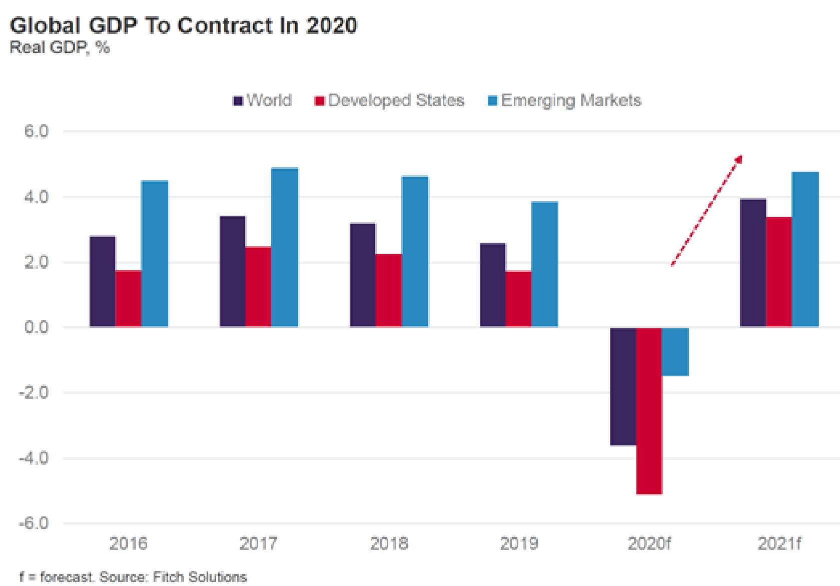
Review

Substantial market volatility will persist in the coming months. Government intervention has been significant. The longer-term impact is uncertain, especially in light of reoccuring Covid outbreaks. Previously, globalisation, technological change, and competition enabled global economic growth. It was efficient yet vulnerable to disruptive shocks. The shocks are likely to continue over for the year.

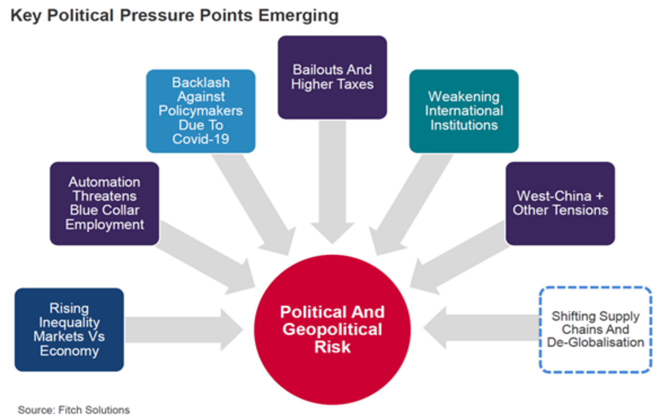
KKR is anticipating a possible retest of the US market bottom, historically it occurred 75% of the time. However due to the speed of the bounce and the nature of the crisis, the past might not apply to the future this time. On the other hand, a 'breadth thrust', tracked for years by Ned Davis Research, occurs when at least 90% of all S&P 500 stocks surpass their 50-day moving average. This threshold was reached May 26. In the prior 19 times this has occurred since 1967, the S&P was always up over the following year, by an average of 17%.



Over the next few weeks, corporations will be issuing 1Q20 earnings, which is likely to be one of the worst ever. The market is expected to remain buoyed for several more weeks. Near the end of August the markets may stall.

The 2020 GDP global growth was revised down sharply for the year to -4.3%. from +3.3% prior to the crisis according to the International Monetary Fund (IMF), The IMF forecasts a $9 trillion in lost global output over the 18 months. It will be a challenged period.

Economic dislocations and industries restructurings will impede growth over that period as the world struggles to deleverage. After the 2Q20 bounce, the econmic recovery will crawl back. A return to the 2019 levels will not be seen until the end of 2022. Average growth over the next decade of 2020-29 is expected to average 2.4%. As this decade begins, political risk remains high.



Market Overview

The U.S. stock market is again at high valuations. It has a less cyclical bias and has a better earnings profile than its global counterparts. Certain sectors with secural growth can continue to propel higher for an extended period of time. However, market returns do not reflect fundamental realities, due to the intervention by the stunning array of government stimulous programmes. The US has not yet exhausted its stimulous packages so support can carry-on for the rest of this quarter.

Growth and defensive stocks led the first rally in risk assets from the bear-market bottom in April. Since then, there has been a second rally with a rotation into value, cyclicals and small caps. Most equites remain down for the year-to-date. On the fixed income side, high yield corporates, senior loans and preferred securities all had double-digit returns for the second quarter. Fixed income will continue to benefit from the US quantitative easing (QE) purchases of corporate, mortgages, and now higher-yielding bond categories. Equities will lead recovery over the next 18 months or so.

Quarterly Market Performance Barometer

	Return %		
Equities	**Q2 2020**	**Q1 2020**	**1-Year**
U.S. Market	21.98	-20.57	6.96
Dividend Focus	14.71	-26.09	-10.49
Global ex-U.S.	16.96	-24.01	-4.51
Developed ex-U.S.	16.20	-23.66	-4.58
Emerging Markets	19.71	-24.63	-3.41
Fixed Income			
U.S. Core Bond	2.82	3.20	8.70
U.S. Government	0.22	8.50	10.45
U.S. High-Yield	10.29	-12.91	-0.27

	Return %		
Top Morningstar Sector Indexes	**Q2 2020**	**Q1 2020**	**1-Year**
Consumer Cyclical	36.20	-22.03	11.45
Energy	34.68	-51.94	-36.32
Technology	31.71	-12.27	35.85
Bottom Morningstar Sector Indexes			
Real Estate	14.60	-24.76	-7.39
Consumer Defensive	11.43	-14.00	5.67
Utilities	2.27	-14.02	-3.92

Source: Morningstar Direct. Data as of June 30, 2020.

For the interim, defensive sectors will guard against retests of the market bottom. Healthcare, Communicaton Services, as well as Technology infrastructures and services, have become more important as economic drivers and for national security. The Cyclical sector, Basic Materials, and Industrial sector will be bouyed by a 'catch-up' in manufacturing demand and inventory building. The 'Just-in-Time' inventories spread across the global will be replaced by a 'Just-in-Case' system with more reserves on-hand or manufactured nearby.

2021 S&P 500 EPS Growth Expectations

Operating EPS Y/Y % chgs.	2020					2021				
S&P 500 Sector	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
Communication Services	(10.5)	(32.9)	(17.9)	(12.0)	(18.3)	10.4	38.9	30.1	18.9	23.6
Consumer Discretionary	(50.6)	(106.9)	(43.6)	(14.7)	(54.7)	79.1	NM	78.0	34.9	116.3
Consumer Staples	4.9	(15.4)	(5.0)	(0.6)	(4.3)	2.8	17.7	10.4	8.8	9.7
Energy	(29.7)	(154.9)	(128.4)	(111.2)	(111.1)	(84.3)	NM	NM	NM	NM
Financials	(22.8)	(46.2)	(36.4)	(29.3)	(33.8)	5.1	47.5	38.5	38.2	30.5
Health Care	5.9	(18.0)	(4.4)	5.6	(3.0)	7.3	31.0	18.8	11.5	16.5
Industrials	(30.4)	(84.9)	(53.6)	(21.7)	(48.3)	18.7	478.6	90.7	38.9	77.1
Information Technology	5.2	(8.8)	(4.8)	0.9	(1.8)	10.6	25.6	22.7	15.6	18.2
Materials	(14.6)	(38.1)	(25.8)	(9.6)	(23.1)	14.0	58.0	42.0	27.3	34.4
Real Estate	10.2	(58.7)	(43.4)	(34.2)	(34.5)	(22.9)	50.2	44.9	33.7	19.0
Utilities	3.9	2.4	2.5	6.6	3.7	2.8	4.7	0.8	10.4	4.1
S&P 500	(11.4)	(43.5)	(25.6)	(13.0)	(23.6)	8.4	63.9	35.0	23.6	29.8
S&P MidCap 400	(28.7)	(72.6)	(35.6)	(17.4)	(38.7)	16.5	211.6	52.7	30.3	49.2
S&P SmallCap 600	(68.7)	(93.9)	(45.8)	(17.2)	(54.9)	206.7	1,223.5	77.6	29.5	91.9

Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data as of 5/18/20.

There is no indication of impending inflation after the huge global liquidity infusion. Disinflation or deflation remain the greater risk. Lower wages, lower oil prices, and rapid technological are driving that dynamic. KKR estimates that the shift to online in key industries such as healthcare, retail, education/learning and business services has likely been accelerated by five to seven years.

Equity Markets

Growth stocks outperformed during the drop and the recovery. Growth stocks are trading at multiples near the tech bubble in 2000, at 3.5 times over that of value stocks. That in part is a function of delivering three times the return on assets, according to ProShares. However it is important to scan for quality. Mid-cap stocks are cheap in comparison to mega-caps and offer value.

The S&P 500 (SPY) is less diversified than in the past, with 30.3% in Technology and 13.5% in Financials. The S&P tech sector plus FANG which include some Communications Sector companies– Facebook, Amazon, Netflix and Google parent Alphabet – now account for more than 40% of the S&P Index, dominated by three large tech stocks – Microsoft (MSFT) 5.66%, Apple (AAPL) 5.08%, and Amazon (AMZN) 4.27%. Such concentration is vulnerable to downside risk.

The dispersion in returns by sector is stark, with the top three performing sectors generating 40 points over the lowest three sectors. Retailing, Software, and Pharma/Biotech were the top sectors, whilst the lowest three were Autos, Energy, and Banks. This type of polarity is near the levels at 2009 peak, which was the turning point in the Great Recession. Yet it drove the fast recovery.

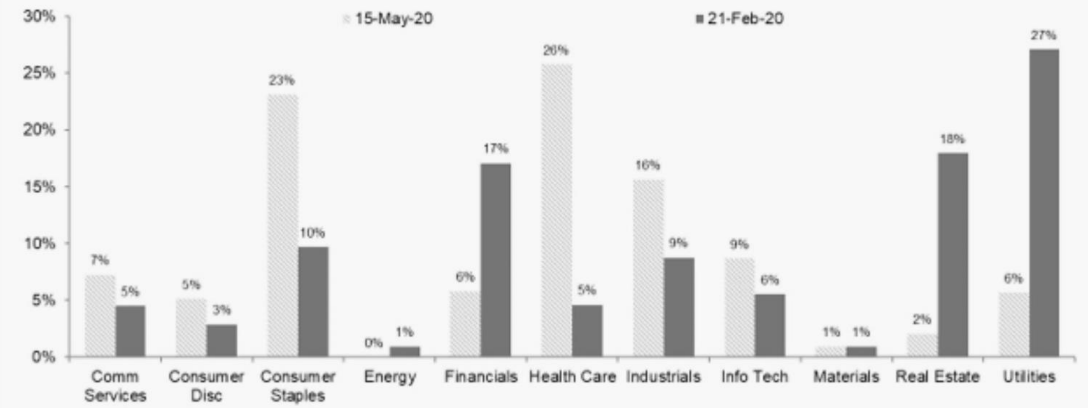
Technology-related company earnings have essentially represented 100% of profits for the last decade. Some 8 million or two-thirds of the new jobs since 2010 in the U.S. required medium or advanced levels of digital skills. A third of the US workers face occupational change and require new skills by 2030. Training programs can be online to meet the dynamic need for skilled employees.

On-line services will be in demand for 'nesting' consumers, as working at home become permanent, with a focus on cooking, home improvement, and equipping home offices. Home exercise and learning will also grow. Travel may become digital through Virtual Reality or be closer to home. Amongst these trends, personal financial services are growing in demand as savings are projected a 20% in 2Q20. That will remain a drag on economic expansion this year.

Dividends are challenged, as companies protect their sustainability. This will impact the returns from the dividend rich sectors of Energy, Utilities and Financials. In May, more S&P companies increased their dividend than cut them. Most of the cuts were from lower quality companies and the higher-yielding stocks. There are expected to be more cuts going forward as the reality of the new market conditions are clearer.

The recent market turmult has had unexpected impact on expected volatility from the hard stop in the economy. This lack of predictable volatility resulted in unexpected results the Low Vol sector. It affected the returns in the Minimum Volatility and the Russell Low Vol factors which had a higher drawdown in value. The S&P Low Vol approach was more macro or top-down and less impacted. A significant change in the underlying sector weights in the Low Vol is part of the regular rebalancing.

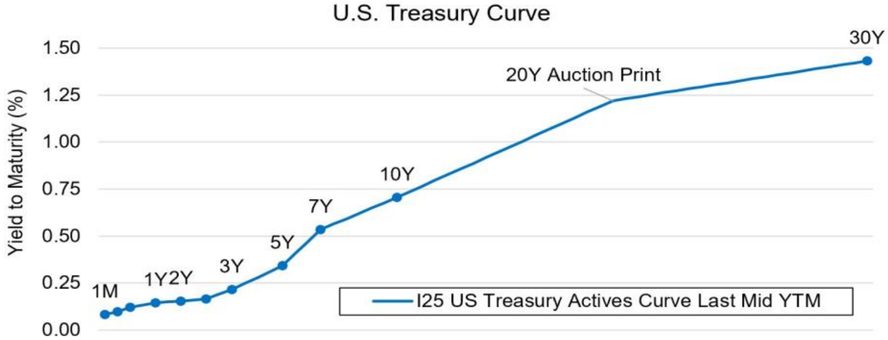
Exhibit 1: Sector Weight Changes at Most Recent Rebalance



Source: S&P Dow Jones Indices LLC. Data as of May 15, 2020. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Fixed Income Market

The yield curve is upward sloping, despite historic low interest rates. The US government has issued a new 20 year bond as a means of raising capital. Duration of the US Aggregate Index is increasing as a function of the low rates. Higher duration makes the market prices more sensitive to increases in rates, which are unlikely to happen soon. Market values decline when rates are increased. The low rate on US Treasuries leaves the FOMC with little room to cut further. It is when regulators cut rates that there are potential capital gains in principal if sold before maturity.



Source: Smith Capital Investors, Bloomberg, 5/20/2020

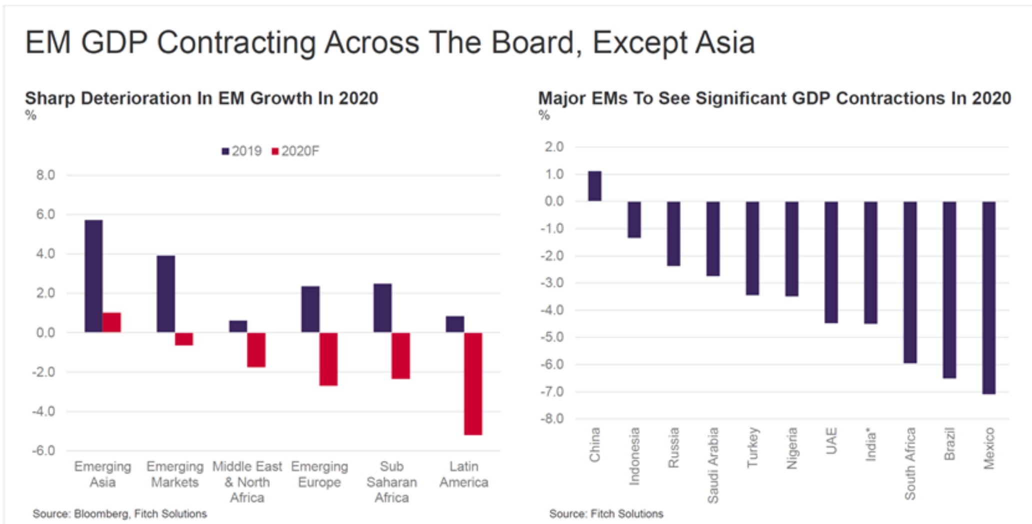
As compared to US treasury yield curve, both the curves for investment-grade and high-yield are steeper. There is a 150 bps (1.50 point) spread on the lowest category of investment grade bonds (BBB). This would reduce duration risk, because of the higher yield provides a counter-weight.

The rating agencies have been quicker to issue down grades to companies suspectible to default on interest payments. Many so called "fallen angels" are issuing new bonds with 7.5 to 10 year durations and with higher yield coupons. They are now eligible for Fed QE purchases.

Despite the lower yields, treasury and corporate bonds continue to play a role in building a diversified portfolio. Lower correlation to equities creates a counter-balance to support porfolio value in these volatile times. High-yield fixed income is more equity-like, so less of a diversifier and more a source of income. The Smart Beta ETFs navigate the complex and dynamic landscape of fixed income by utilizing selection screens that look for the positive features in today's market.

Emerging Markets

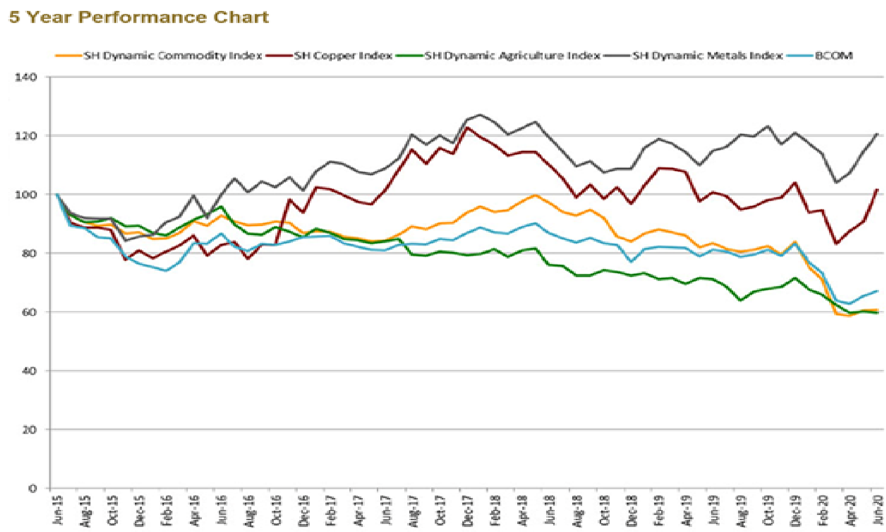
Emerging markets are facing a number of challenges, including Covid. Brazil and India are being unindated with Covid cases which will further disrupt their economy into the 4th quarter. Emerging countries are implementing stimulous packages for their economies. They are expected to eventually benefit from the policies implemented in the more advanced economies and the need for commodities as manufacturing resumes. This potential growth will enable those countries to offer higher bond yields and attract external capital as well. Emerging Asia is showing positive growth so far with China a significant contributor.



However, countries with higher foreign debt loads will remain vulnerable to swings in investment sentiment and in outflows of foreign investment. Mexico and Malaysia debt are vunlerable due to the high external debt levels and reliance on declining tourism. Tbe South African economy has been weak and is also tourism dependent. The MENA region is better positioned. While Russia has 'robust' sovereign reserves to buffer the GDP contraction from the Covid crisis. Appropriate ETF selection will manage the balancing of these dynamics.

Other Assets

Gold and Infrastructure appear to be the asset classes that can thrive in this environments. Gold is a safe-haven asset and is supported by low interest rates. Other precious metals such as silver, copper, platium and pallidum are in demand for medical and energy usages. Oil prices are recovering after the first quarter OPEC stalemate, the demand collapse, and then the lack of sufficient storage for what had been pumped. It has likely hit the bottom and is resurfacing slowly. It put downward pressure on the Bloomberg Commodity Idex (BCOM) and other broad indexes.



Agriculture had been anticipated to improve with uptake in purchases from China after trade disputes were settled. The challenge in the food production and distribution chain from the Covid crisis has been damaging to the agriculture industry as a whole. There are pockets of exceptions. Also, the markets are starting to normalize so the downward trend should slow and reverse.

With the changes in foreign investment and emerging market prospects, there is more volatility in foreign currency exchanges (FX markets). This should give more importance to currencies as an asset class. It will impact returns from international investments. Emerging Market currencies have depreciated quite significantly in the crisis. And many of them have become undervalued.

Empty malls/offices/hotels and higher delinquencies will hurt both commercial and residential real estate investments and REITs. There will be more out-sourcing or rental of parts of operational facilities to lighten the hard asset load of companies. This will give further boost to cloud based and digital companies. This will shift the emphasis in real estate returns from retail to industral sectors, as well as an increase in home expansions and purchases.

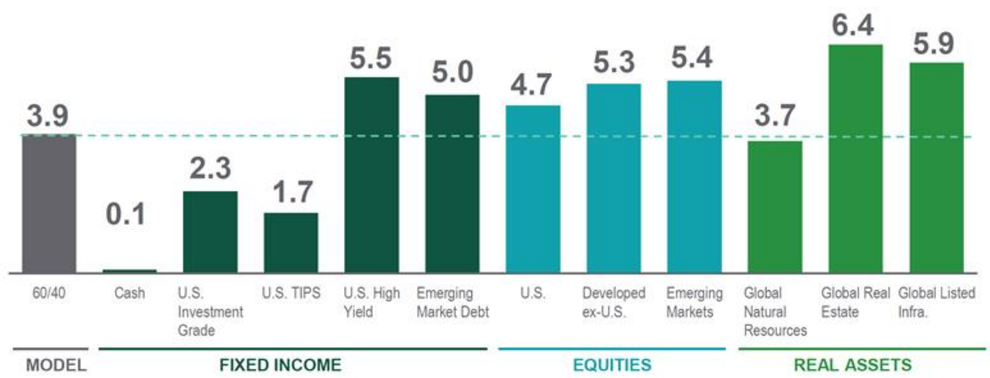
Asset Allocation

In previous downcycles, it was expected that prices would return to the average.
This 'mean-reversion' trade is not fool proof. Some stocks will remain lower.

Asset allocations will need to adapt to the new capital market realities. Return expectations will need to be dampened. Companies with the ability to defend their pricing power and to generate cash flow from low fixed costs will generate more stable equity returns.

Technology-oriented sectors are impacting business cycles like the industrial revolution. The high growth companies have continued scope to deliver the high earnings per share growth (EPS) that will justify the the Price/EPS mulitple. As mentioned earlier, there are value traps in that trade.

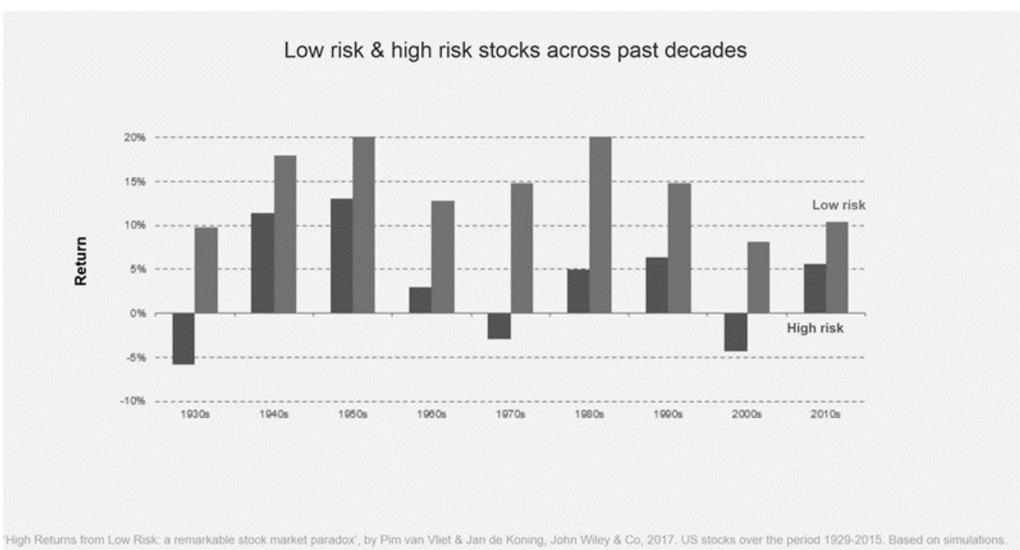
FIVE-YEAR ASSET CLASS TOTAL RETURN FORECASTS (%)



Source: Northern Trust. Data as of June 26, 2020. Pre-tax strategic, growth and income investor portfolio model. All figures in percentage terms. 60% MSCI ACWI Gross Total Return Local Index / 40% Bloomberg Barclays U.S. aggregate index. Past performance does not guarantee future results. Forward-looking statements could differ from actual results. For illustrative purposes only. CMA model expected returns do not show actual performance.

International and Emerging equities are expected to return slightly more than the US equities over the next five years. Continued or increased international allocation is recommended. Emerging Market Debt and US High Yielding Debt are also expected to return around 5% per year. They are to be considered more of the Equity allocation due to their high corrleation. Real Assets will play an increased role over the period, with metals and industrial real estate favored in the shorter term, along with single family housing.

A Quality discipline has proven to be sustainable in all market cycles. If viewed from the low risk vs high risk factor, there has been annual outperformance for the low risk over the decades. The Quality factor is a large part of the Low Volatility approach. This continues to be the favored approach for a solid foundation in a portfolio.



The Quality factor is very different than the Value factor in selection stocks. The Value factor looks more at low pricing multiples, not a variety of considerations in Quality stocks. Value investing remains challenged, as it has been for the last decade. This is due to structural changes in corporate assets, wherethere are more intangible assets such as intellectual property (IP) on the balance sheet. The Growth factor remains dominate.

Conclusion - *DON'T SELL IN MAY AND GO AWAY*

It may be an interesting Summer. There tends to be major rebalancing of sovereign and pension plans in August. That creates a disturbance in the market values as large blocks are sold and rebought. Also, based on history, there is a chance of a retest of the market low. Institutional asset manager KKR reports that 75% of the time (in 12 of 16 instances in their research), there was some sort of retest of initial market lows.

It is at 3,174 as of this writing, while the low was 2,237 on S&P 500 on March 23, 2020. That would be a 30% drop. The average peak-to-trough drawdown during a retest 13% and plays out in about 30 days according to KKR. There was a dip in July, but not that significant. The market are head of schedule visa vi previous recoveries. Scott Minerd, Global Chief Investment Officer at Guggenheim Partner expects the S&P 500 will retest its March 23 low over the next month. A 5-10% pullback is another scenario. None of these scenarios are a certainty.

A fact that counterdicts a serious downdraft is that the US Federal Reserve is prepared to buy stocks, according to a July 5th article by Real Finance in Seeking Alpha. The investment management agreement with BlackRock and the Fed included language to allow Blackrock to transact in stocks as part of the QE. Essentially, the Fed is ready to go and buy stocks if truly needed. Ongoing stimulous activities will continue to play a role in market returns.

A review of the SSL Model Portfolio is attached. A rebalance of holdings is in order due to the changes in ETF weights as a result of varying rates of change. A different tactical fixed income ETF is being selected. In equites, the mega-cap exposure is being reduced and there is a rotation into the Select Homebuilders ETF. Healthcare is well represented in the Consumer Stables selection. A small additon to Consumer Discretionary is being added to capture the pent-up demand. A change in Small Cap managers is being planned, to capture more international small cap companies. As well as a rotation to the Commodity Select Strategy, while the precious metal exposure is maintained. The current Real Estate ETF will be considered for replacement for underperformance to the index. All this changes will be analyzed in combination for stock, market cap, and regional diversification.

Please contact us to arrange a review of your portfolio holdings.