TIMONIER

Wealth Beyond Financial™

From the Engine Room

1st Quarter 2020

Quarterly Market Review

First Quarter 2020

This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.

"The best way to predict the future.... is to create it!"

Overview:

An Economic Cliff or a Pothole

***H**e said, "In the midst of hate, I found there was, within me, an invincible love. In the midst of tears, I found there was, within me, an invincible smile. In the midst of chaos, I found there was, within me, an invincible calm. I realized, through it all, that in the midst of winter, I found there was, within me, an invincible summer. And that makes me happy. For it says that no matter how hard the world pushes against me, within me, there's something stronger, something better, pushing right back."*

Albert Caymus

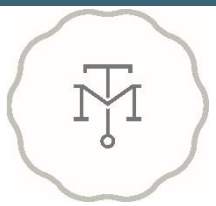
I began this year in Los Lobos, Chile attending a 10-day retreat with 13 other participants, each from different parts of the world learning the wisdom and ancient techniques for enhancing my experience in this human form and focusing on the mind, body, and spirit connections. There was added emphasis on the nutritional intake and natures' medicines that will support the quality of life that I desire. It was led by Dr. Alberto Villoldo, Cuban by birth, anthropologist by training who has lived and worked for more than six decades in jungles on most every continent of our planet. He is an author, a teacher, and a Shaman with his life's work. His latest book, "Grow a New Body," is what led me last May to schedule this experience.

We started our days with a pre-dawn hike into the local mountains followed by nature's breakfast at Dr. Villoldo's home located on the vast property of our retreat. It was a diet that I had been preparing for most of last year. I learned that the key to managing your health is to have a clean gut. Clean your gut and you renew and bring clarity to your brain and its functionality. The key element of a cleansed and healthy body is through having good flora in which to distribute the vital nutrients and enzymes to the 60 trillion cells thirsting for this energy. The critical ingredient to laying this clean foundation for vitality is Saccharomyces boulardii, which clears the bad bacteria of candida and its inflammatory markers that it produces. You are now ready to infuse your body with fresh clean food that our planet can provide.

Following our morning organic juices rich in green vegetables from the property, me and my new comrades participated in the movements of yoga. It was an eclectic array of individuals. Among them were a world-renowned clothes designer, a retired accountant and now owner of racehorses, a foreign diplomat, an architect of planned cities on coastlines of the Mediterranean Sea, a former international runway model and now mother of three, a naturopathic physician, an Ayurvedic physician, a microbiologist, and others. They ranged in age from 40 to 79 years young, all on a quest for self-evolution and wisdom. By the way, the gentleman who owned racehorses, won a race in England while on our retreat.

The balance of our days was filled with lectures from Dr. Villoldo and a microbiologist, vegetarian meals, healings from body workers, energy workers, shamans, meditations, and ending with Sat Sang during the late day sunsets. Being in the southern hemisphere in January, our sunsets were around 9 p.m. Oh, and have I mention the series of days with full sun and 90-degree temperatures? We ended our retreat with a fire ceremony led by a Shaman from the Andes engulfed in chanting and sacred rituals. I don't remember feeling so connected to life and nature…and the vibration of my own being.

While I know I have many years ahead of me at Timonier and beyond, I wanted the knowledge to best take care of this vehicle we call a body for the rest of my days. I want to live the one best life that I have in front of me and in the healthiest way. As with investment markets, while I know I can't control



circumstances outside of me, I know I can control how I respond to them. And I can control my choices, actions, and activities that will produce the outcomes I am desiring. As humans and multi-dimensional beings, we control far more than what we collectively give ourselves credit for. All I can say is that I appreciate my choices for being in the minority.

The First Quarter in Review

It was such a personal enriching start to my year and the world economies seemed primed for positive results as well. Most economists and Wall Street investment firms were forecasting an 8% to 10% growth in earnings for US stocks, a 10% to 12% growth in earnings for European companies, and a 14% earnings growth for emerging market economies, which now represent 40% of the worlds' gross domestic product (GDP), the largest segment of the world's traded goods and services. By comparison, the United States represents 24% of the world's GDP. The China trade wars were behind us and BREXIT had finally come to a resolution for its demerger with its European neighbors. It would be a year in which you felt Trump would be on best behavior to keep an American economy on track for economic success as he vies for another Presidential term. Through most of January publicly traded stock markets around the globe were trending in a positive direction.

And then the unknowable appeared as it so routinely does…COVID-19. As knowledge of a Novel Virus Pandemic reaching the U.S. shores crystalized and government intervention formulated, fear from institutional investors took hold. From February 19 to March 23, the U.S. stock market saw the quickest meltdown of prices in history. The S&P 500 stock index declined by a whopping 33.9%. In that moment, market participants found themselves in a panic with maximum uncertainty. This is a rare moment in time. There have only been five other occasions since 1937 that the S&P 500 stock index has declined more than 30%.

The pandemic has become the most significant public health crisis since the 1918 Spanish Flu which took the lives of over 50 million people around the globe. Unlike the current novel virus which inflicts the most casualty to more senior (70-year old's and up) of our citizens with compromised immune systems, the Spanish Flu attacked the young (20 to 35-year old's) and healthy. It was swift in its strike and deadly. **And our reaction to fend off *this* crisis has been to put the economy into a medically induced coma.** Capitalism has been sequestered into a strait jacket. Our government is attempting to replace lost wages and income by adding to the national debt and distributing these funds to its citizens. To say it is an unfair and imperfect process is to state the obvious. In this suspended animation of an economy, the Federal Reserve is providing massive liquidity to the financial system along with the lowering of Federal Funds interest rates to near zero percent. Simultaneously, our government is providing quick and massive fiscal support through SBA loan programs to businesses, checks to low- and middle-income families, and more than doubling the benefits for the unemployed. There is no way to know if the government will be able to match lost business activity (known as GDP) with its infusion of borrowed capital. Certainly, there will be widespread and indiscriminate economic winners and losers.

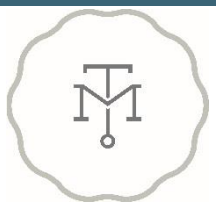
The policies are well intended but the implementation is massively flawed and misappropriated. In governments' panic to react to a crisis, this should be expected. Since we cannot influence current policies and procedures I will withhold from here, further criticism. It will serve no good as to the

principles applied of a wealth manager or the strategies considered for our clients. I've read many thought-provoking theses in the past weeks on how our country should handle this memorable event. My perspective is, if I cannot be part of the solution with my thoughts, words, and deeds, I am part of the problem with my complaints and critique. ***To say the least, the short to intermediate term outcomes of these policies and the path of this stealth disease are not merely unknown, but unknowable.*** There are NO experts in the room. And that's why the markets are currently priced as they are. Ultimately, there will be an end to this tragedy. Our financial plans and procedures are in place to weather the most dire predictions and will support an early resolution.

The hallmark of all lifetime, goal-focused, planning driven investment policy is ***the practice of rationality under uncertainty.*** I was working with a defined benefit retirement plan during the 2008 – 2009 Great Financial Recession. I scheduled an investment committee meeting in late February of 2009 to discuss the economic state of affairs concerning the plan. Global investment markets had declined more than 40% in value and I obviously had no knowledge of when the decline would end. By design, a defined benefit plan is managed quite conservatively. Our investment policy statement called for an investment allocation of 50% global stocks and 50% bonds. I reported to the board that due to the severe market decline, that the plan was now underfunded...and was overweight in bonds. I recommended that a larger employer contribution be made to the plan AND...I recommended not only rebalancing the portfolio but increasing the weighting of global stocks to 70% and thus decreasing the weighting of the bond holdings to 30%. This was during a time when an overwhelming majority of investors were increasing their weightings to bonds! I knew I would have push back to my recommendations at such a dire time in our economy and prices of global stocks. I could even see being asked to leave my position as advisor, but perhaps due to my resolve, the recommendations were accepted, and we implemented our reconstruction on March 16th of that year. By happenstance, the bottom of that particular stock market decline occurred on March 9th and by year end the plans' global stock weightings had risen to 80% due to the global market recovery. The following March, I was informed by this company that it was being sold and I was pleasantly able to inform the investment committee that due to following our investment policy statement guidelines, which were created to be an unemotional rulebook to portfolio management, the plan was back to being fully funded! And this is what we do for all of our Private Wealth Clients through the development of a financial plan. ***The plan IS*** our investment policy statement for each unique client and their goals.

While there is no direct precedent for the current pandemic in the lives of today's investors, there is ample evidence of other terrifying black swan events including but not limited to the Great Financial Recession of 2008 -2009, the Technology.com Bubble of 2000 -2002, Black Monday of 1987, and the deep recession of 1980 -1981. All of these, I not only know of, but have guided my clients through in my career as a wealth manager. Each one met the investor panicked, with unknowable circumstances and futures, and were creating a new Paradigm for the future of business and investment markets. All were also followed by great economic expansions, together with unprecedented episodes of rising stock values and dividend payouts. As a reminder, following its March 9, 2009 trough value, down 57%, the S&P 500 stock index compounded a return of more than 14% annually for almost 11 years. ***Until Capitalism itself is replaced with another structure to process the exchange of goods and services among people and businesses, there is NO new paradigm of investing, and returns will continue to be commensurate with risk accepted by the investor.***

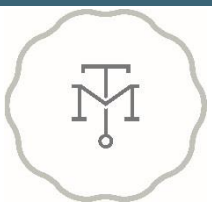
"If you have integrity nothing else matters...
If you don't have integrity...nothing else matters."
Tim Baker, Wealth Manager/Fiduciary



An investment colleague of mine, Howard Marks', recently wrote, "You may or may not feel there's still time to increase defensiveness ahead of potentially negative developments. But the most important thing is to be ready to respond to and take advantage of declines!" I've always said that there is no way to know in which direction the next 25% of the stock markets' value will go…up or down, but we know with clarity which way its next 100% move will be. And I encourage everyone to own a stake in that principle…in that outcome. And not capturing that economic value…is called risk. The journey of acquiring shares of businesses is one of a series of temporary declines in a permanent uptrend. ***The most valuable perspective that a successful investor can embody is to focus on the number of shares of the companies that she owns and not be concerned with their prices. Prices will fluctuate while the payments of dividends from these companies is based on the number of shares an individual owns. Not their prices.*** One only needs to practice the art of extreme global diversification in which to capture all of the returns needed for a life lived in freedom, wholeness, and self-expression.

I have identified that we have three major types of investors within our family practice. The first is the accumulators. These are the families still at work, providing goods and services to us all, earning wages to support their family's needs and current lifestyle and saving for the years where they rely on their savings, pensions, and social security to support their retirement income goals. For this group of investors, I say be thankful for times like these. I truly don't know of any reason why an accumulator does anything with their surplus saving other than buying ownership in companies and real estate around the globe. Investing in bonds may dampen short term volatility of an overall portfolio, but it also dampens the value of assets when the retirement income spicket is turned on. While bonds have an important role for short and intermediate term goals, they are financially unhealthy for a lifetime saver.

The second type of investor is an individual in retirement. This investor can fall into two categories of wealth advisement. The first investor, and most prevalent, is one that is receiving an income from her social security payments, perhaps a pension plan, and her investment assets located in taxable accounts and IRA accounts. She has a plan that provides for the after-tax income needs to meet a rising cost of living over a potential 25 plus year time frame. She will have to have her income increase more than two-fold during these years to keep pace of the rising costs of goods and services. Her advisors use a combination of financial appraisals to determine the amount of income that is appropriate and sustainable to meet these lifetime spending goals based on her portfolio asset allocation. Her risk is not that her investment portfolios will not temporarily decline in value, but that she will run out of money before she passes due to an overly conservative portfolio blend. Quite typically, the drawdowns are coming from her stock holdings. Stocks are typically rising faster in value than bonds. But in periods of temporary declining stock markets, such as the one we are now experiencing, the drawdowns will come from the bonds held in her portfolios. For most of our clients, we allocate at least 2 years' worth of income needs to bond holdings. We identify or refer to this strategy as our cash/bond reserve strategy. We do not want to sell stocks for the purposes of retirement income when their prices are in a decline. So, we turn to the bond portion of the portfolios, which hold steady their principle value in these periods, for these distributions. As markets and economies normalize as they always have, we then return to making drawdowns for distributions from the stock portfolios. It should be obvious that we



have already begun to implement this policy for those clients in their distribution years. No stock positions are being sold at this time for the purpose of a retirement drawdown.

A third type of client exists within our practice. That is the client in retirement who has been fortunate enough…wise enough…frugal enough…to have saved enough to live on the dividends provided by their global stock and real estate portfolios, along with any pension plan, and social security benefits. They don't need to sell any percentage of their assets to fulfill their retirement drawdown needs. In some cases, our clients don't need or want all of the dividends their portfolios produce. This client doesn't have a need to own bonds or have a cash/bond reserve strategy. Because they are never having to sell any of their stocks, at any price, to provide for their income needs. They simply live on an income stream that is consistent, persistent, and rising beyond the cost of goods and services (inflation).

No matter which stage of life you are in or which category of a retirement income recipient you fall into, as long as you have developed, and stress tested a financial plan exploring your unique desires...**you are in control**. Not the investment markets! Let the chaos around you exhaust its drama and return to you the wisdom of your response.

My Personal Story Update

I embarked on this quest for renewal, new knowledge, and wisdom last year about this time. Through my journey, I have had several personal and business changes take place. I don't share my personal life in writing and most often remain low key about it in person. It's just my personality. But in these times of not knowing, I'll share some of these changes now. My body weight went from 212 pounds to 180 pounds today. I wasn't focusing on a target weight. I was focusing on a way of living and this is what that looks like for me expressed in weight. I attended our Timonier Christmas Dinner at Graylyn this year in clothes that were 20 years old and still were too big. I don't own any clothes from last year now. I now sleep like a log after years of restlessness and often waking throughout the night. While I've lost muscle mass, my energy level and vitality match that of when I was in my 30's. I am grateful that I have no health issues, but my backhand needs to improve at Pickle Ball. Additionally, I sense there may be a round of golf on the horizon having been absent since the last Charity Event we sponsored which was four years ago. Oh yeah, I need a haircut...haha! I know you can relate to this one.

Other states of personal affairs are that I have purchased a home in Winston-Salem on Reynolds Drive. It was built by Don Hamrick in 2013 and named Ironhorse at the direction of the homeowner Admiral John Morgan and his wife Joanna. After some minor remodeling to this awesome property we'll also be renaming it to Lighthorse. I've sold my second home in Florida (it was on the market for 7 days) and my townhouse in Winston-Salem (also on the market for 7 days) and will be working full time from our offices in Reynolda Village. It feels good to be down to one toothbrush now. I should have more time now to complete my book which may require some input from you before completion this year. I gave Ironhorse the ultimate test this past weekend hosting my four grandkids and their parents and it remains standing! There will also be more morning coffee visits and after work socials with all of you when our COVID-19 departs from our social fabric.

"Courage is the first of human qualities, because it is the quality that guarantees all the others!"
Aristotle

Operations at Timonier

In-spite of our world's pandemic, I am pleased to report Timonier is and has been fully operational with all of its professionals attending to our clients and their needs. There is always at least one colleague and usually two in our offices during normal hours while maintaining our respected distances. Our other professionals are working remotely from their homes equipped with the same technologies availed at our offices. Each of us has an IP phone at our homes which assimilates the phones we have in our offices. Within our team, we use our intercoms as if we are all down the hall from one another. In addition to the daily calls and conversations around client affairs of wealth and well-being, we also continue to have more in-depth video conferencing meetings from our offices. With me working remotely from other locations for the past 10 years we've gotten proficient with this medium of communication. There is no doubt that moving forward, all levels of communicating ideas and information through technologies will become enhanced and available post the "shelter in place" era.

Additionally, TD Ameritrade, our custodian for holding client assets, has 100% of their 9,400-employee workforce working remotely from home. They were the first major custodian to achieve this and they have impressively completed their work for us without interruption. From our perspective, you would not know they were working remotely unless they told you.

In the meantime, our CPA, Mike Atkins appreciates the IRS extension to complete tax returns by July 15th. Taxes due on those returns are obviously extended as well. If you are due a refund, I'm sure that you will want to have your return completed sooner rather than later. And yes, Mike is very busy these days.

As you may imagine, Timonier's team and activities are a bit busier than normal. I would have to say that I am quite amazed at how our clients have managed their emotional impulses through this climatic period. Yes, we've had some phone calls and conversations from those feeling concerned and stressed about the economic and health environment. But they have not been at the magnitude and levels seen in other similar distressed periods (ie...the Great Recession of 2008 – 2009 or the Technology.com Collapse of 2000- 2002). There have been many more conversations held in a state of calm about the virus and our governments' reaction to this health crisis. We haven't had anyone needing to be talked off the ledge! In addition to the normal client meetings and conversations, our staff has had many more conference calls with all parties related to conducting the business of a wealth manager. Multiple conference calls now occur daily on economic, investment, tax, and government policy. Staying on top of the latest facts is paramount during these uncertain times.

Periods of severe market volatility also bring opportunity. And many of you will notice the work going on behind the scenes through our portfolio management systems. As your fiduciary, we have been and will continue to look to rebalance portfolios to target weightings when our rules based systems instruct us to, implement tax-loss harvesting strategies to offset portfolio gains that will certainly occur by years' end, and consider Roth IRA conversions where it makes sense. There are other strategies that are discussed among your advisory team on a daily basis and we look forward to covering our wealth

""Self-control is strength. Calmness is mastery. You have to get to a point where your mood doesn't shift based on the insignificant actions of someone else. Don't allow others to control the direction of your life. Don't allow your emotions to overpower your intelligence."

Nelson Mandela, former President of South Africa

management strategies with you during our annual reviews. Suffice it to say, that not only are the CEOs and managers of the businesses that you own in your portfolios doing all they can to navigate their companies through these troubled times, your team here at Timonier is laser focused on your interests as well and doing all we can to serve your needs.

I AM in gratitude each day of you allowing Timonier to be a part of your journey. We look forward to navigating the balance of this year with a healthy mind body and spirit…making conscious choices for an abundant and prosperous adventure. We are here only to serve!

Namaste'

Tim L. Baker, CIMA, GFS

"The main purpose of meditation is to remove your attention from the environment, your body, and the passage of time so that what you intend, what you think, becomes your focus instead of these externals. You can then change your internal state independent of the outside world."

Dr. Joe Dispenza, Neuroscientist-Author-Teacher

Quarterly Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1Q 2020	**STOCKS**				**BONDS**	
	-20.90%	**-23.26%**	**-23.60%**	**-29.02%**	**3.15%**	**0.51%**
Since Jan. 2001						
Avg. Quarterly Return	1.8%	1.2%	2.5%	2.2%	1.2%	1.1%
Best Quarter	16.8% **2009 Q2**	25.9% **2009 Q2**	34.7% **2009 Q2**	32.3% **2009 Q3**	4.6% **2001 Q3**	4.6% **2008 Q4**
Worst Quarter	-22.8% **2008 Q4**	-23.3% **2020 Q1**	-27.6% **2008 Q4**	-36.1% **2008 Q4**	-3.0% **2016 Q4**	-2.7% **2015 Q2**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]).

Long-Term Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	**STOCKS**				**BONDS**	
	-9.13%	-14.89%	-17.69%	-23.39%	8.93%	5.01%
5 Years						
	5.77%	-0.76%	-0.37%	-2.14%	3.36%	3.56%
10 Years						
	10.15%	2.43%	0.68%	5.12%	3.88%	4.17%

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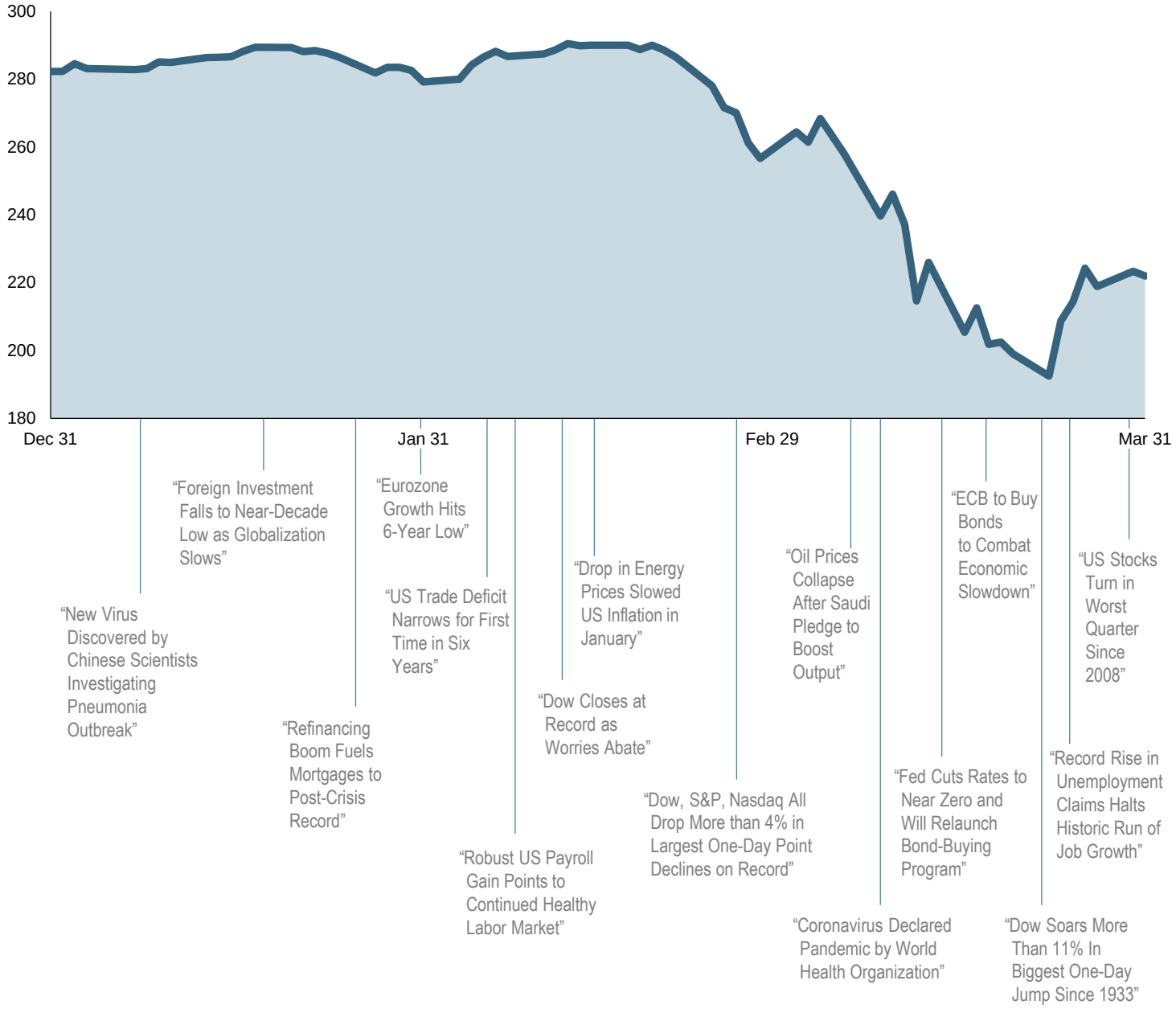
World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2020

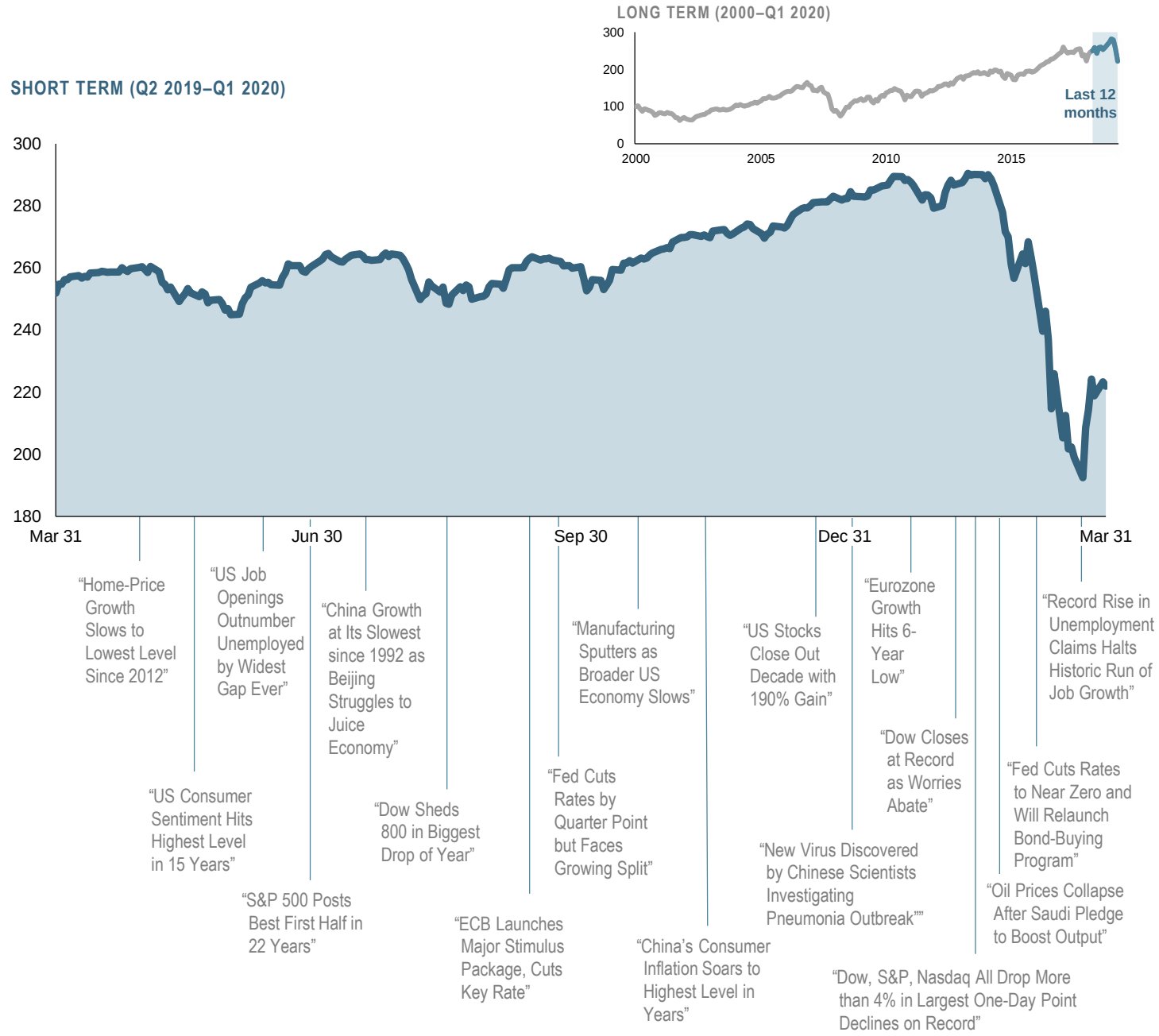


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.].
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



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Graph Source: MSCI ACWI Index [net div.].
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

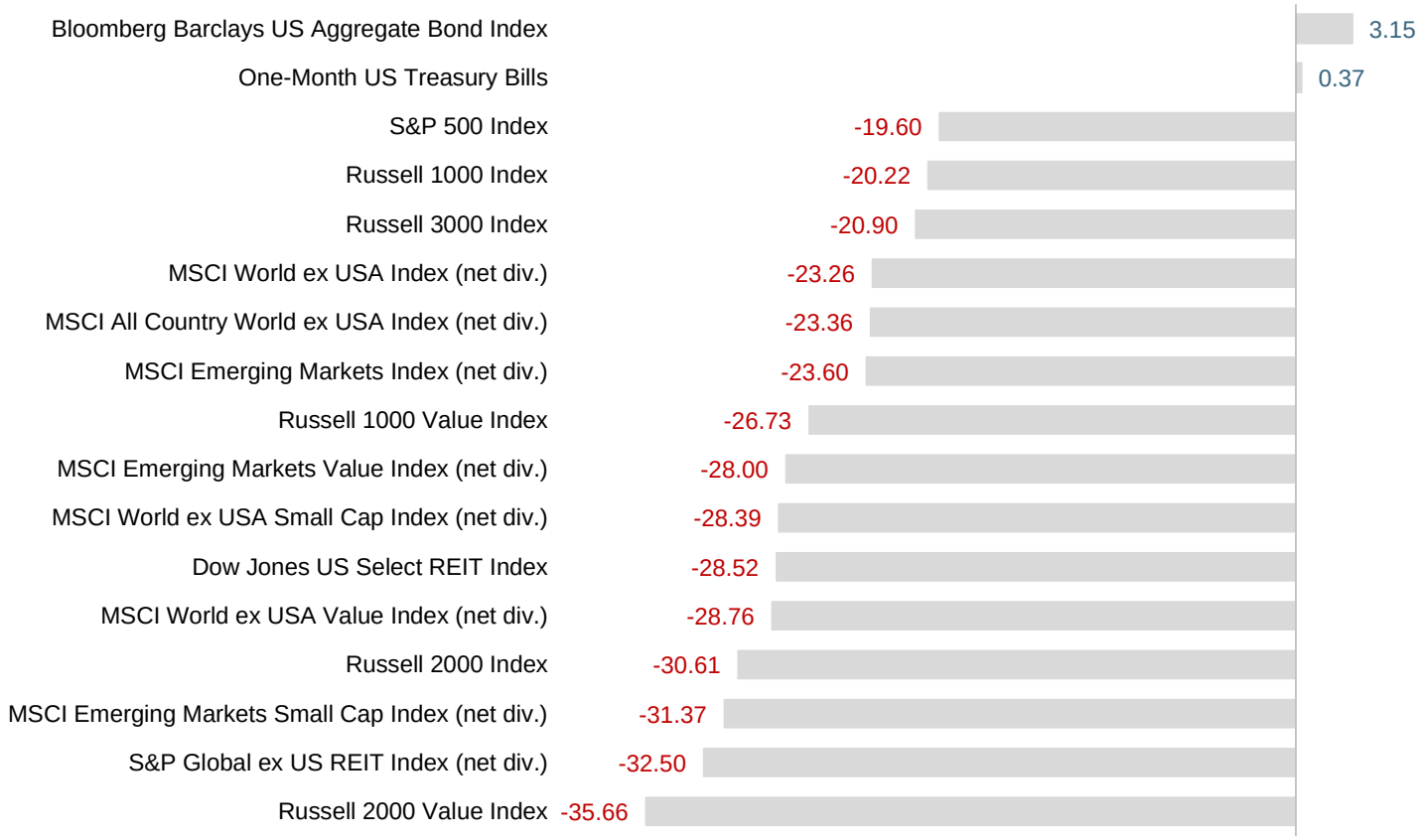
World Asset Classes

First Quarter 2020 Index Returns (%)

Equity markets around the globe posted negative returns in the first quarter. Looking at broad market indices, US equities outperformed non-US developed markets and emerging markets.

Value stocks underperformed growth stocks in all regions. Small caps also underperformed large caps in all regions.

REIT indices underperformed equity market indices in both the US and non-US developed markets.



US Stocks

First Quarter 2020 Index Returns

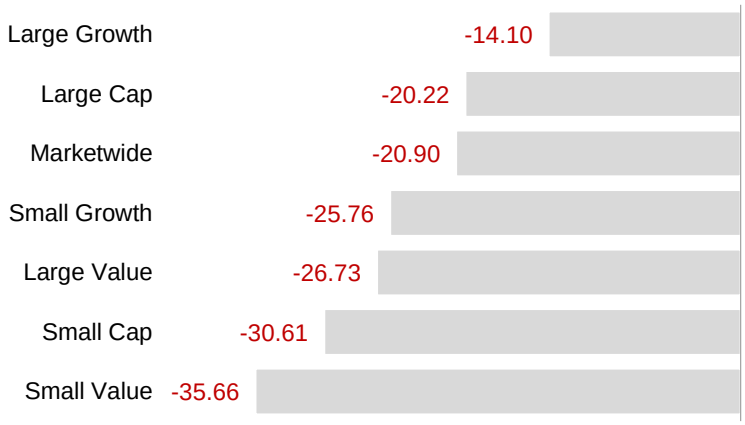
The US equity market posted negative returns for the quarter but on a broad index level outperformed non-US developed markets and emerging markets.

Value underperformed growth in the US across large and small cap stocks.

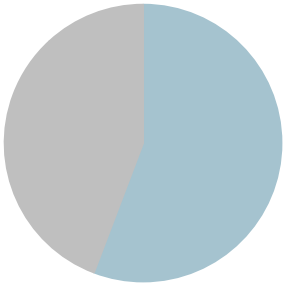
Small caps underperformed large caps in the US.

REIT indices underperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



56%

US Market
$24.9 trillion

Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	-14.10	0.91	11.32	10.36	12.97
Large Cap	-20.22	-8.03	4.64	6.22	10.39
Marketwide	-20.90	-9.13	4.00	5.77	10.15
Small Growth	-25.76	-18.58	0.10	1.70	8.89
Large Value	-26.73	-17.17	-2.18	1.90	7.67
Small Cap	-30.61	-23.99	-4.64	-0.25	6.90
Small Value	-35.66	-29.64	-9.51	-2.42	4.79

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. Frank Russell Company is source and owner of trademarks, service marks, and copyrights related to Russell Indexes. MSCI data © MSCI 2020, all rights reserved.

International Developed Stocks

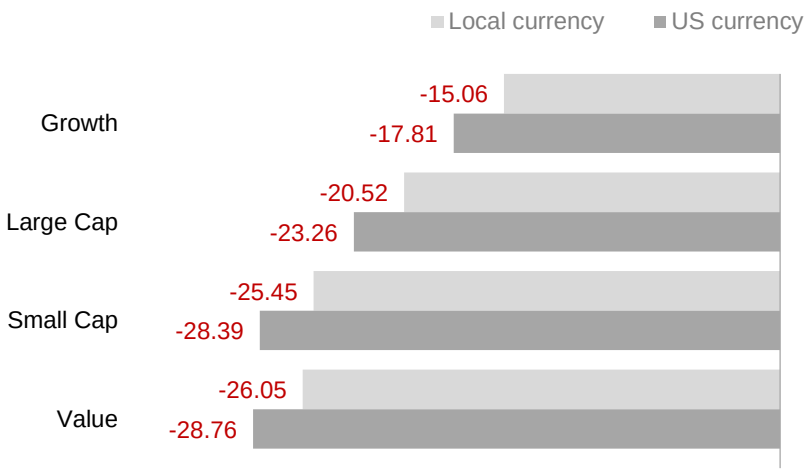
First Quarter 2020 Index Returns

Developed markets outside the US underperformed the US equity market but outperformed emerging markets equities during the quarter.

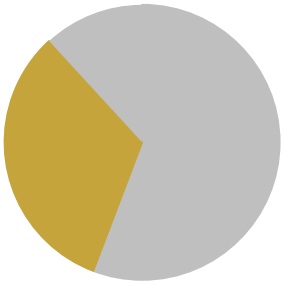
Small caps underperformed large caps in non-US developed markets.

Value underperformed growth across large and small cap stocks.

Ranked Returns (%)



World Market Capitalization—International Developed



32%

International Developed Market
$14.4 trillion

Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	-17.81	-6.47	2.55	2.05	4.25
Large Cap	-23.26	-14.89	-2.07	-0.76	2.43
Small Cap	-28.39	-19.04	-3.60	0.39	3.95
Value	-28.76	-23.16	-6.74	-3.70	0.51

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI World ex USA IMI Index is used as the proxy for the International Developed market.

Emerging Markets Stocks

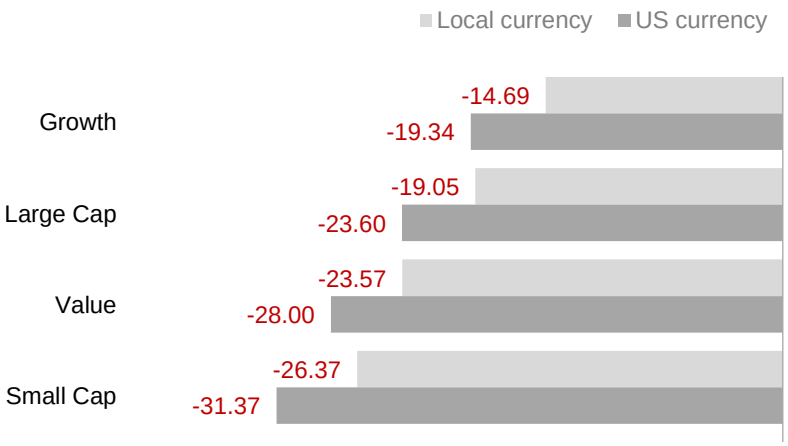
First Quarter 2020 Index Returns

Emerging markets underperformed developed markets, including the US, for the quarter.

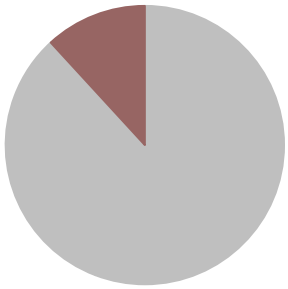
Value stocks underperformed growth stocks.

Small caps underperformed large caps.

Ranked Returns (%)



World Market Capitalization—Emerging Markets



12%

Emerging Markets
$5.3 trillion

Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	-19.34	-9.94	2.39	2.13	2.71
Large Cap	-23.60	-17.69	-1.62	-0.37	0.68
Value	-28.00	-25.26	-5.78	-3.00	-1.45
Small Cap	-31.37	-28.98	-9.64	-5.17	-1.34

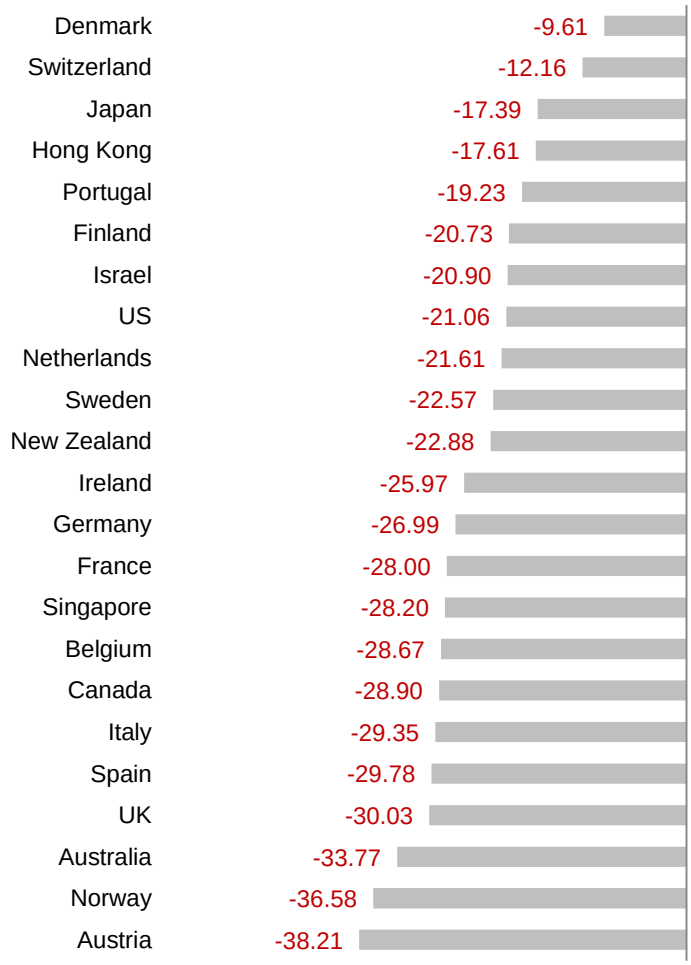
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market.

Select Market Performance

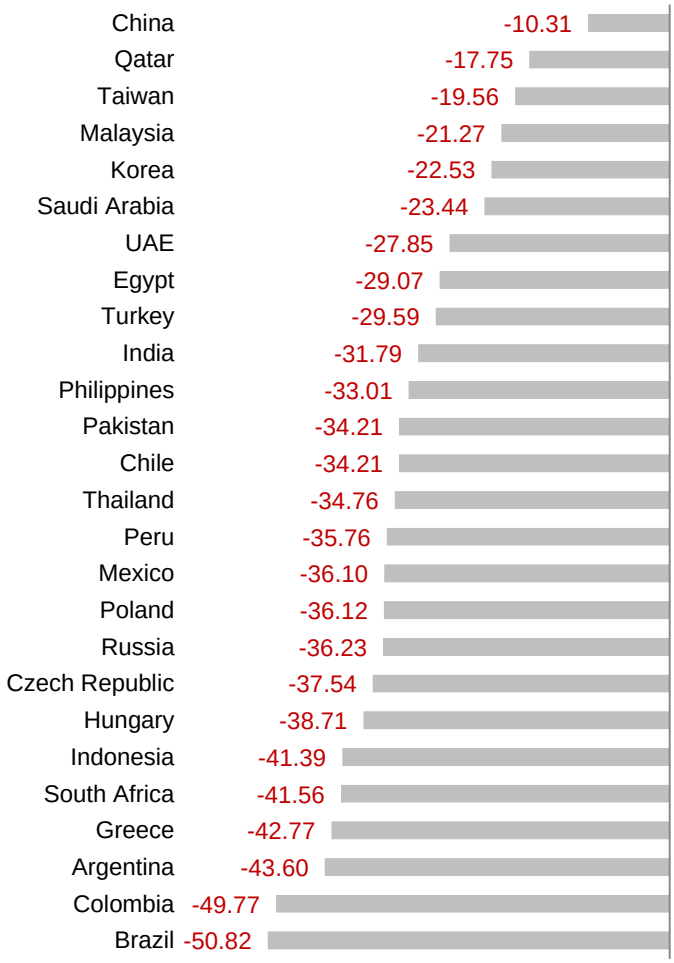
First Quarter 2020 Index Returns

In US dollar terms, Denmark and Switzerland recorded the highest country performance in developed markets, while Austria and Norway posted the lowest returns for the quarter. In emerging markets, China and Qatar recorded the highest country performance, while Brazil and Colombia posted the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



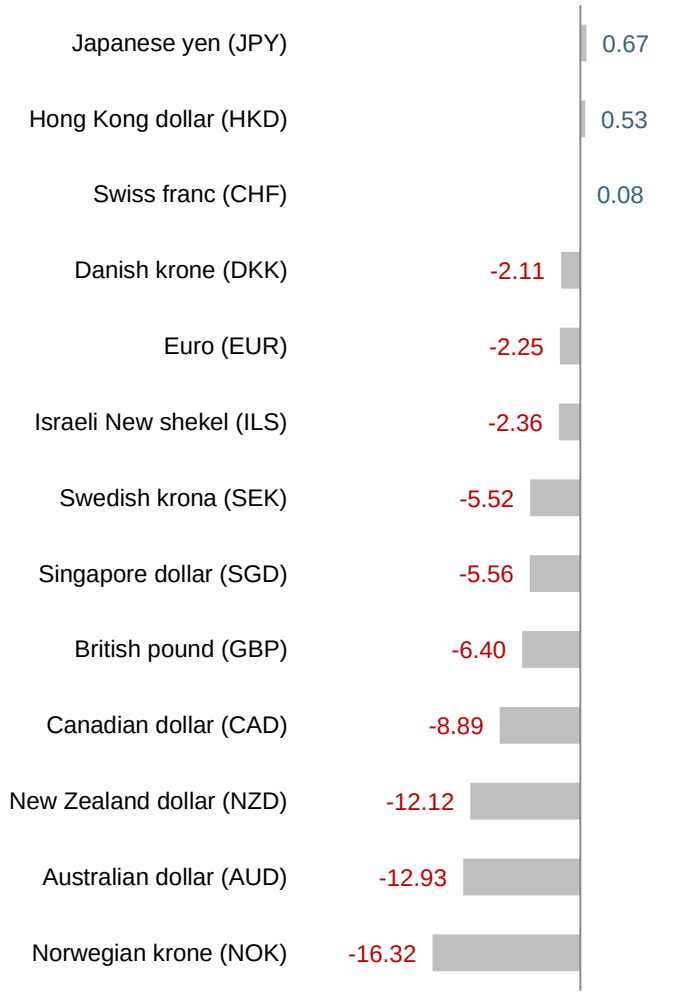
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), MSCI USA IMI Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014. Saudi Arabia and Argentina have been reclassified as emerging markets by MSCI, effective May 2019.

Select Currency Performance vs. US Dollar

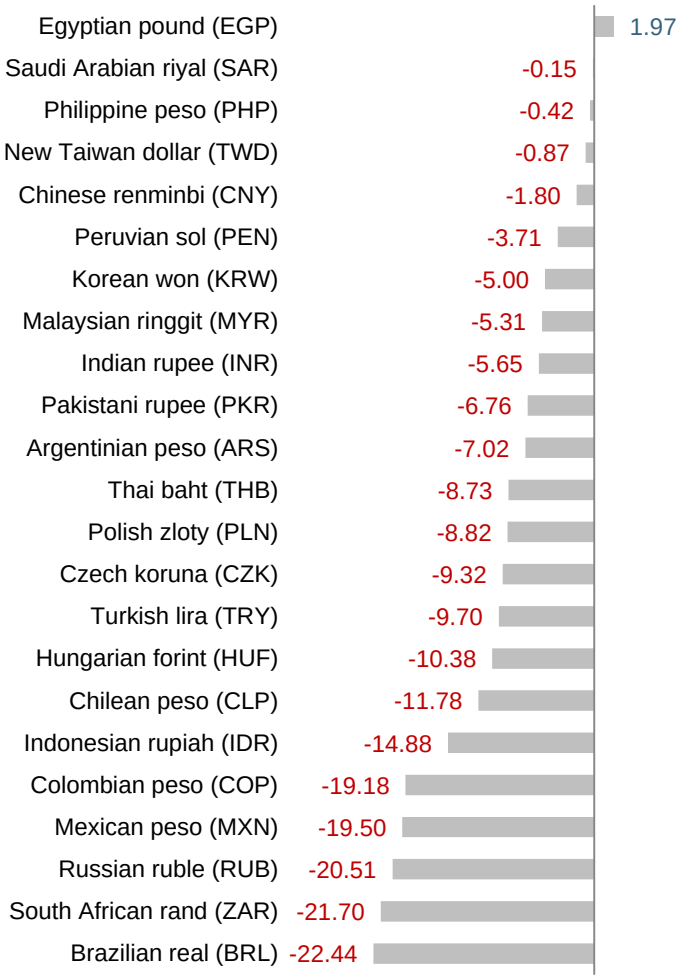
First Quarter 2020

In developed and emerging markets, currencies mostly depreciated vs. the US dollar with a few exceptions, including the Japanese yen and the Swiss franc.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



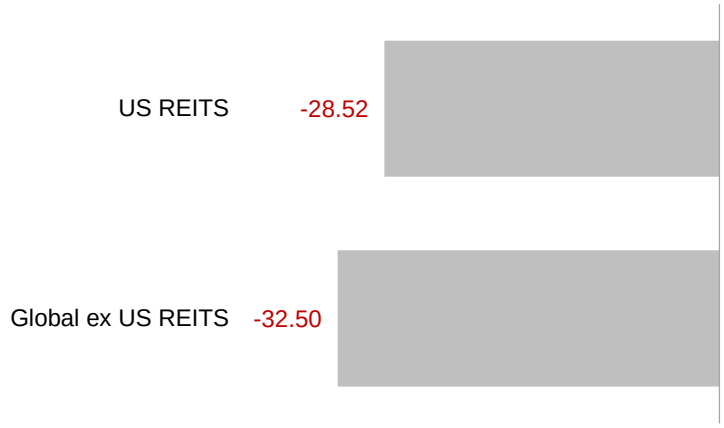
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Real Estate Investment Trusts (REITs)

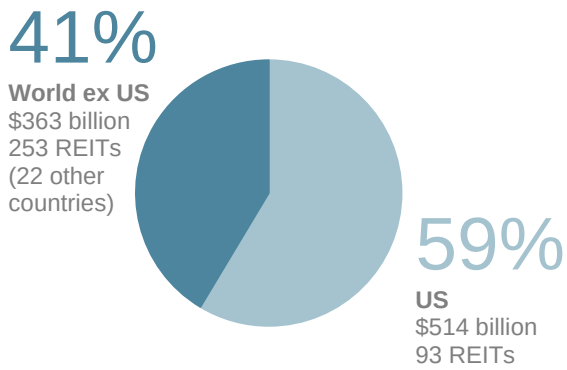
First Quarter 2020 Index Returns

US real estate investment trusts outperformed non-US REITs in US dollar terms during the quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITS	-28.52	-23.96	-4.28	-1.42	6.88
Global ex US REITS	-32.50	-25.34	-4.83	-2.76	3.61

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market.

Commodities

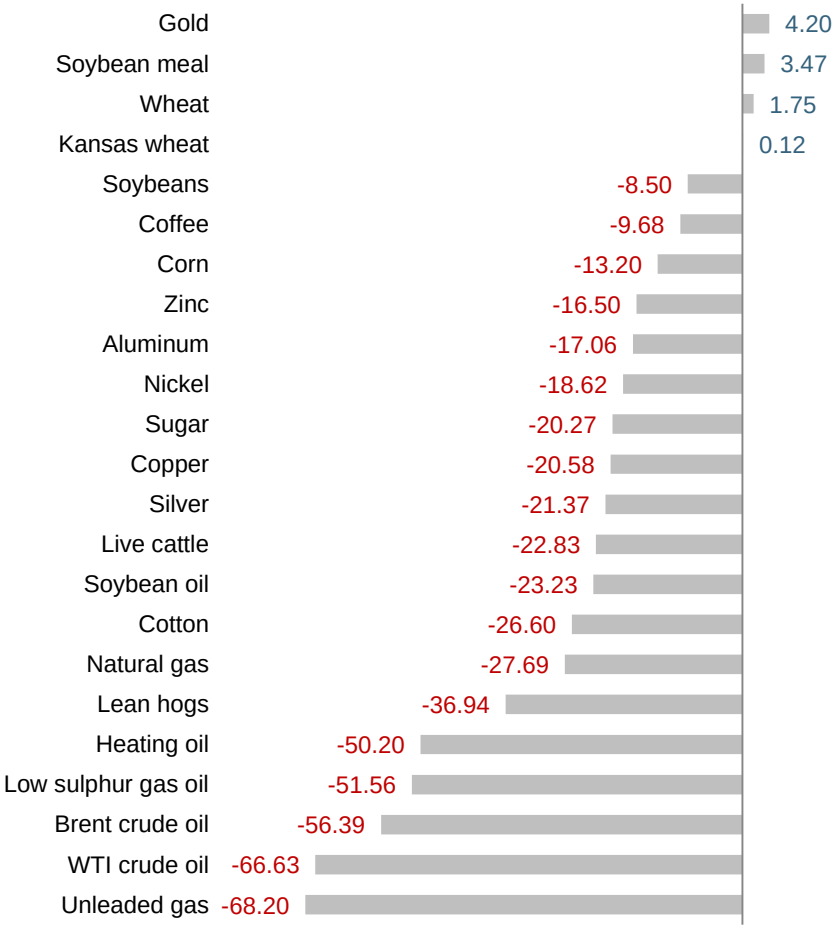
First Quarter 2020 Index Returns

The Bloomberg Commodity Index Total Return decreased 23.29% for the first quarter.

Unleaded gas and WTI crude oil were the worst performers, declining by 68.20% and 66.63%, respectively.

Gold and soybean meal led quarterly performance, returning 4.20% and 3.47%, respectively.

Ranked Returns (%)



Period Returns (%)

** Annualized*

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-23.29	-22.31	-8.61	-7.76	-6.74

Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

Fixed Income

First Quarter 2020 Index Returns

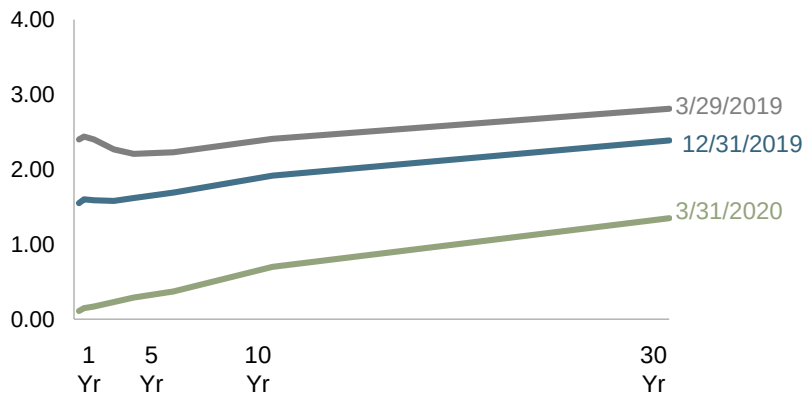
Interest rates decreased in the US treasury market in the first quarter. The yield on the 5-year Treasury note decreased by 132 basis points (bps), ending at 0.37%. The yield on the 10-year note decreased by 122 bps to 0.70%. The 30-year Treasury bond yield decreased 104 bps to 1.35%.

On the short end of the yield curve, the 1-month Treasury bill yield decreased to 0.05%, while the 1-year Treasury bill yield decreased by 142 bps to 0.17%. The 2-year note finished at 0.23% after a decrease of 135 bps.

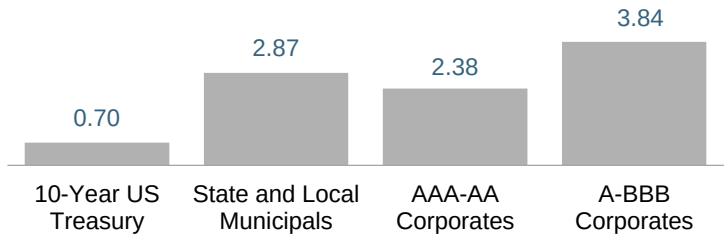
In terms of total returns, short-term corporate bonds declined 2.19%. Intermediate-term corporate bonds declined 3.15%.

The total return for short-term municipal bonds was -0.51%, while intermediate muni bonds returned -0.82%. General obligation bonds outperformed revenue bonds.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

*Annualized

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US Aggregate Bond Index	3.15	8.93	4.82	3.36	3.88
FTSE World Government Bond Index 1-5 Years (hedged to USD)	2.25	4.98	3.03	2.24	2.00
ICE BofA 1-Year US Treasury Note Index	1.72	3.85	2.31	1.57	0.98
Bloomberg Barclays US TIPS Index	1.69	6.85	3.46	2.67	3.48
FTSE World Government Bond Index 1-5 Years	0.69	2.79	2.12	1.55	0.40
ICE BofA US 3-Month Treasury Bill Index	0.57	2.25	1.83	1.19	0.64
Bloomberg Barclays Municipal Bond Index	-0.63	3.85	3.96	3.19	4.15
Bloomberg Barclays US High Yield Corporate Bond Index	-12.68	-6.94	0.77	2.78	5.64

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). FTSE fixed income indices © 2020 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2020 ICE Data Indices, LLC. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Global Fixed Income

First Quarter 2020 Yield Curves

Government bond interest rates in the global developed markets generally decreased during the quarter.

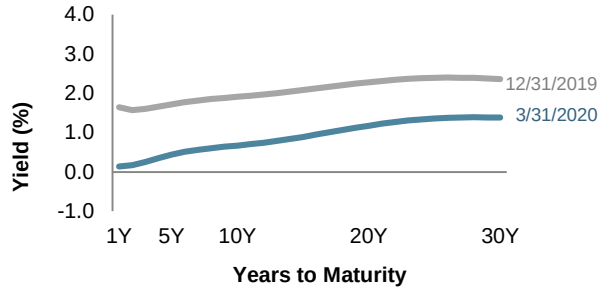
Longer-term bonds generally outperformed shorter-term bonds in the global developed markets.

Short- and intermediate-term nominal interest rates are negative in Japan and Germany.

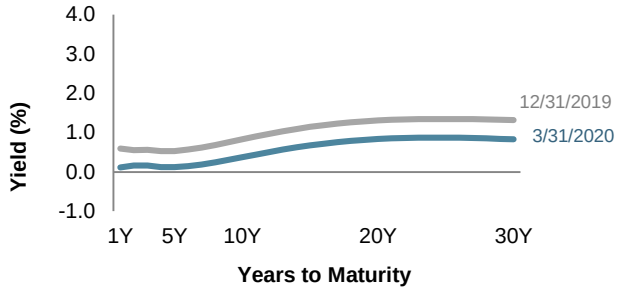
Changes in Yields (bps) since 12/31/2019

	1Y	5Y	10Y	20Y	30Y
US	-1.5	-1.3	-1.2	-1.1	-1.0
UK	-0.5	-0.4	-0.5	-0.5	-0.5
Germany	0.1	-0.2	-0.3	-0.3	-0.3
Japan	-0.0	0.0	0.1	0.1	0.0
Canada	-1.3	-1.1	-0.9	-0.5	-0.4
Australia	-0.7	-0.7	-0.6	-0.3	-0.3

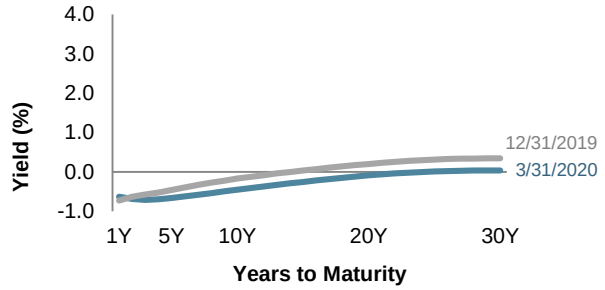
US



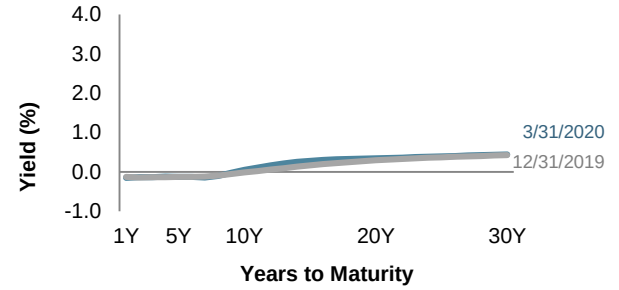
UK



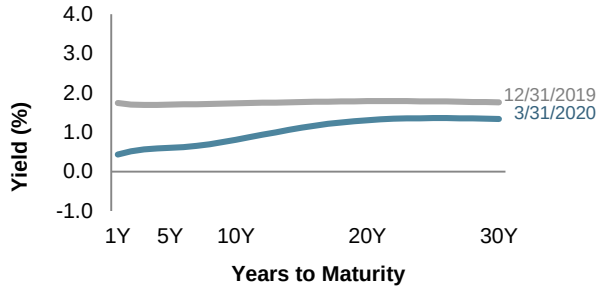
Germany



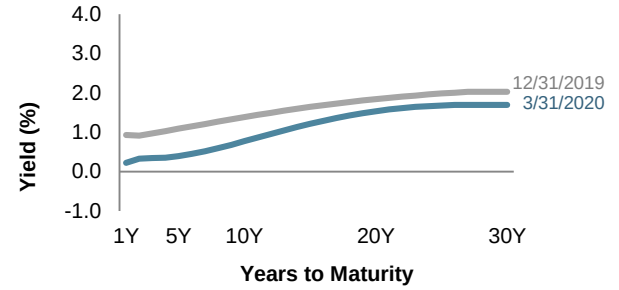
Japan



Canada



Australia



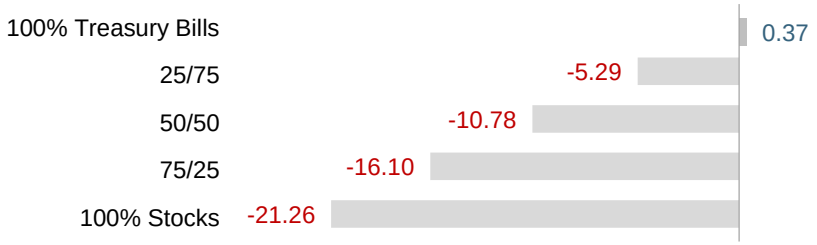
One basis point (bps) equals 0.01%. Source: ICE BofA government yield. ICE BofA index data © 2020 ICE Data Indices, LLC.

Impact of Diversification

First Quarter 2020

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Ranked Returns (%)

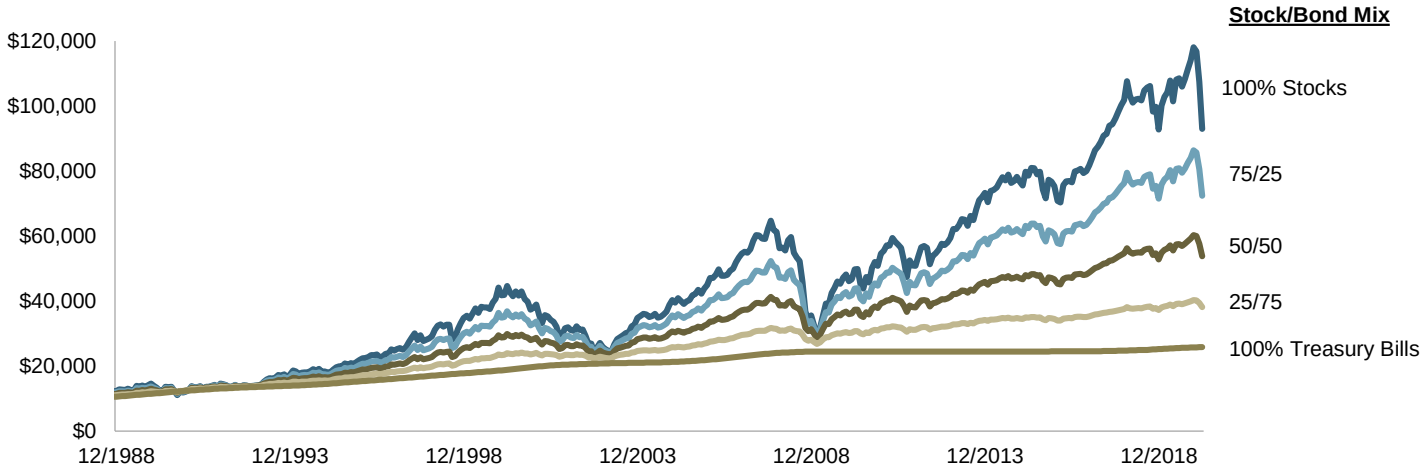


Period Returns (%)

** Annualized*

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV[1]
100% Treasury Bills	0.37	1.93	1.67	1.06	0.56	0.23
25/75	-5.29	-1.03	1.98	1.83	2.19	3.50
50/50	-10.78	-4.14	2.15	2.48	3.72	7.00
75/25	-16.10	-7.39	2.17	3.01	5.14	10.50
100% Stocks	-21.26	-10.76	2.05	3.41	6.45	14.00

Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2020, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

The Coronavirus and Market Declines

First Quarter 2020

The world is watching with concern the spread of the new coronavirus. The uncertainty is being felt around the globe, and it is unsettling on a human level as well as from the perspective of how markets respond.

At Dimensional, it is a fundamental principle that markets are designed to handle uncertainty, processing information in real-time as it becomes available. We see this happening when markets decline sharply, as they have recently, as well as when they rise. Such declines can be distressing to any investor, but they are also a demonstration that the market is functioning as we would expect.

Market declines can occur when investors are forced to reassess expectations for the future. The expansion of the outbreak is causing worry among governments, companies, and individuals about the impact on the global economy. Apple announced earlier this month that it expected revenue to take a hit from problems making and selling products in China.[1] Australia's prime minister has said the virus will likely become a global pandemic,[2] and other officials there warned of a serious blow to the country's economy.[3] Airlines are preparing for the toll it will take on travel.[4] And these are just a few examples of how the impact of the coronavirus is being assessed.

The market is clearly responding to new information as it becomes known, but the market is pricing in unknowns, too. As risk increases during a time of heightened uncertainty, so do the returns investors demand for bearing that risk, which pushes prices lower. Our investing approach is based on the principle that prices are set to deliver positive future expected returns for holding risky assets.

We can't tell you when things will turn or by how much, but our expectation is that bearing today's risk will be compensated with positive expected returns. That's been a lesson of past health crises, such as the Ebola and swine-flu outbreaks earlier this century, and of market disruptions, such as the global financial crisis of 2008–2009. Additionally, history has shown no reliable way to identify a market peak or bottom. These beliefs argue against making market moves based on fear or speculation, even as difficult and traumatic events transpire.

Dimensional also stands behind the important role financial professionals play in helping investors develop a long-term plan they can stick with in a variety of conditions. Financial professionals are trained to consider a wide range of possible outcomes, both good and bad, when helping an investor establish an asset allocation and plan. Those preparations include the possibility, even the inevitability, of a downturn. Amid the anxiety that accompanies developments surrounding the coronavirus, decades of financial science and long-term investing principles remain a strong guide.

1. Apple, February 17 press release. https://www.apple.com/newsroom/2020/02/investor-update-on-quarterly-guidance/
2. Ben Doherty and Katharine Murphy, "Australia Declares Coronavirus Will Become a Pandemic as It Extends China Travel Ban," *The Guardian*, February 27, 2020. https://www.theguardian.com/world/2020/feb/27/australia-declares-coronavirus-will-become-a-pandemic-as-it-extends-china-travel-ban
3. Ben Butler, "Coronavirus Threatens Australian Economy Reeling from Drought and Fires," *The Guardian*, February 5, 2020. https://www.theguardian.com/business/2020/feb/05/coronavirus-threatens-australian-economy-reeling-from-drought-and-fires; Ed Johnson, "Australia Says Economy to Take 'Significant' Hit from Virus," Bloomberg, February 5, 2020. https://www.bloomberg.com/news/articles/2020-02-05/australia-says-economy-to-take-significant-hit-from-virus
4. Alistair MacDonald and William Boston, "Global Airlines Brace for Coronavirus Impact," *Wall Street Journal*, February 26, 2020. https://www.wsj.com/articles/germanys-lufthansa-makes-cuts-as-it-braces-for-coronavirus-impact-11582712819