QUARTERLY REVIEW AND OUTLOOK
April 2021

- Global equity markets added to their gains as the world focuses on stronger economic growth post COVID.
- The US equity market, as represented by the S&P 500 index, finished the quarter up +6.2%, outperforming the international equity markets which finished up +3.5% (MSCI EAFE Index).
- Cyclical stocks and those that are reliant on a strong COVID-free world dramatically outperformed the companies that thrived during the COVID constrained economy over the past 12 months. As a result, value equity and small cap universes outperformed the growth and large cap universes significantly.
- Fear of higher inflation moved interest rates higher, driving the Bloomberg Barclays US Aggregate Bond Index, which represents taxable fixed income, to a -3.4% loss for the quarter. Tax exempt municipal bonds did relatively better, ending the quarter down -0.4%.
- Hedge funds in aggregate, as represented by the HFRX Global Hedge Fund Index, finished the quarter in positive territory, up +1.3%. There was wide dispersion between strategies and managers with some closing the quarter in the red while others were able to produce solid performance, outperforming global equity markets.
- The Federal Reserve pledged to maintain its easy monetary stance for an indefinite period of time, feeding investor appetites for risk assets.
- The US vaccine roll-out is expeditious, giving hope that we may see a more normal summer across the country.

Market Commentary

The first quarter of 2021 sustained the momentum from the end of 2020, with major equity markets and other risk assets delivering strong returns, building on the impressive recovery that began a year ago. Investors continue to anticipate a post COVID economic recovery that will allow for rapid corporate earnings growth. This, coupled with a commitment from both the Federal Reserve and government fiscal policy initiatives, provided the tailwinds for risk assets to move higher in the first quarter.

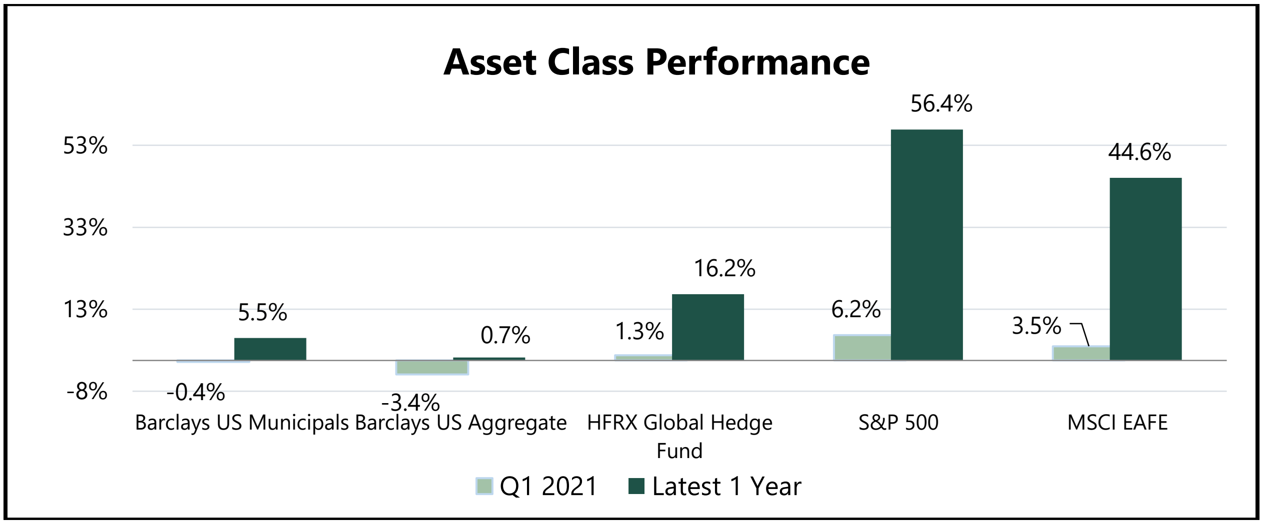
The S&P 500 Index flirted with the 4,000 mark in the first quarter (finishing above 4,000 for the first time on April 1, 2021). Again, a remarkable rebound and a testament to the broad-based strength of the US economy. That said, gains have been concentrated. Over 1/3 of the incremental move from 3,000 to 4,000 in the S&P 500 was accounted for by the fab-five AMAFA stocks (tech giants Apple, Microsoft, Alphabet, Facebook, and Amazon).

We have just witnessed a 75%+ rebound in the S&P 500 off its lows of March 2020, which is the largest 12-month bounce in percentage terms since 1936. But that is not even the half of it. It only took six months for the US market to retrace its all-time high in real terms. This compares to 5.3 years after the 2008 global financial crisis and a full 7.5 years after the tech stock swoon in the early 2000s.

Over this time, we have seen many things start to return to normal, but not entirely. The "new normal" for the US thus far has featured new remote/hybrid working arrangements, unprecedented government fiscal expenditures, and remarkably low interest rates. The interplay of these dynamics has produced winners and losers in markets and industries, with a reshuffling that will play out over years.

Geographically, the US leads international markets, outperforming both developed and emerging equities so far in 2021. In the US, market leadership seen among value and small cap stocks; more cyclical companies are garnering more attention from investors as they shift exposure from high growth tech names to industries such as materials, industrials, energy, real estate, and financials. While we continue to favor quality growth businesses, with an emphasis on technology and healthcare, this exposure underperformed these cyclical industries to start the year.

The bond market has started the year in negative territory as investors wrestle with inflation fears, as Treasury yields climbed from less than 1% at the beginning of the year to finish at 1.7% by quarter end. This rise in rates negatively impacted both taxable and tax-exempt bond markets, with taxable bonds declining -3.4% and tax-exempt issues ending closer to flat, but still down -0.4% for the quarter.



Source: FactSet and hfr.com. Not independently verified.

Our diversified portfolios ended the quarter up low single digits as equity and hedge fund allocations contributed to positive performance while core fixed income lagged.

WHAT WORKED AND WHAT DIDN'T?

Equity Strategies

Equities have had a wild ride thus far in 2021 as investor enthusiasm for "recovery" sectors and stocks caused those securities to rally significantly, while social media frenzy around heavily shorted stocks added an additional layer of market volatility. This created wide dispersion between sectors and across fund managers as some were forced to liquidate their portfolios, creating more losses for affected securities.

We continue to see large divergences across equities by capitalization, geography, and industry. Smaller stocks, and companies considered "value" plays, have attracted a lot of investment flows. The broad small cap US index outperformed the S&P 500 by over 6.5% this quarter alone.

The US market continues to look good, and as we noted earlier, the pickup in the US economy relative to other markets augurs for continued and sustained relative performance. This US outperformance has persisted for the last 13 years—the longest such stretch since the 1970s—and has produced outperformance of 217% over the non-US equity market.

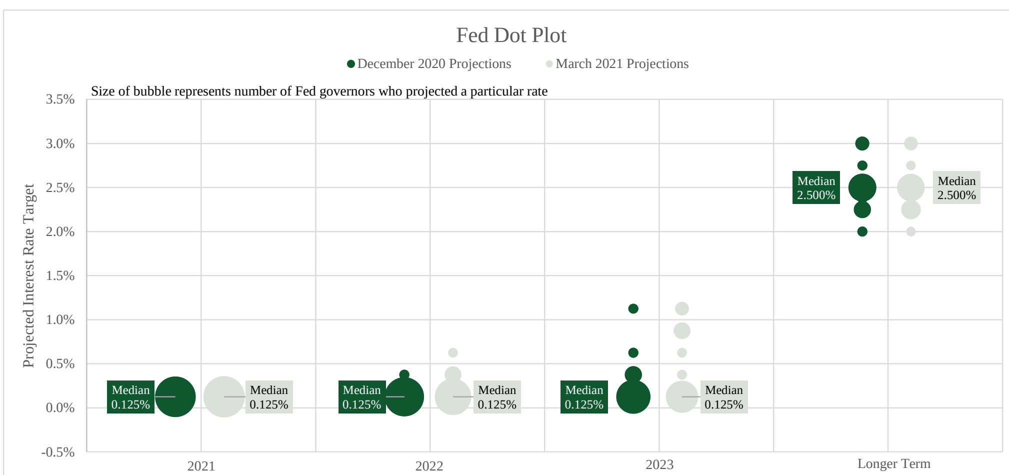
The SPAC train, and IPO market in general, keeps on chugging but not without some hiccups. Interestingly, at the end of March, roughly 80% of the pre-deal announcement SPACs are trading *below* their $10 IPO price. While this percentage has been almost this high in the past, it is up sharply from the end of 2020 when virtually no SPACs were trading at a discount. This fervor in the IPO and SPAC market does feel overdone and consistent with historically late market cycle excitement.

Fixed Income Strategies

Fixed income finally exhibited some of the stress that was inevitable given the interest rate risk embedded among the largest higher-grade issuers. The -3.4% decline in the Barclays Aggregate Index was primarily driven by the US Treasury bond declining significantly during the quarter. But the news was not all bad; many segments of credit, particularly levered loans, but even high yield broadly, performed reasonably well. As expected, issuers keep coming to the market, especially in convertible-land, as record low interest rates and yield hungry investors quickly consume new supply.

A strong non-farm payrolls number was released on the first Friday of April. This number was better than expected: 916,000 jobs were added in March, with leisure and hospitality leading the way at 280,000 of the total. This was followed by additions of 190,000 in education and 110,000 in construction—very strong indeed and evidence for investors that the economy is on its way to running on all cylinders.

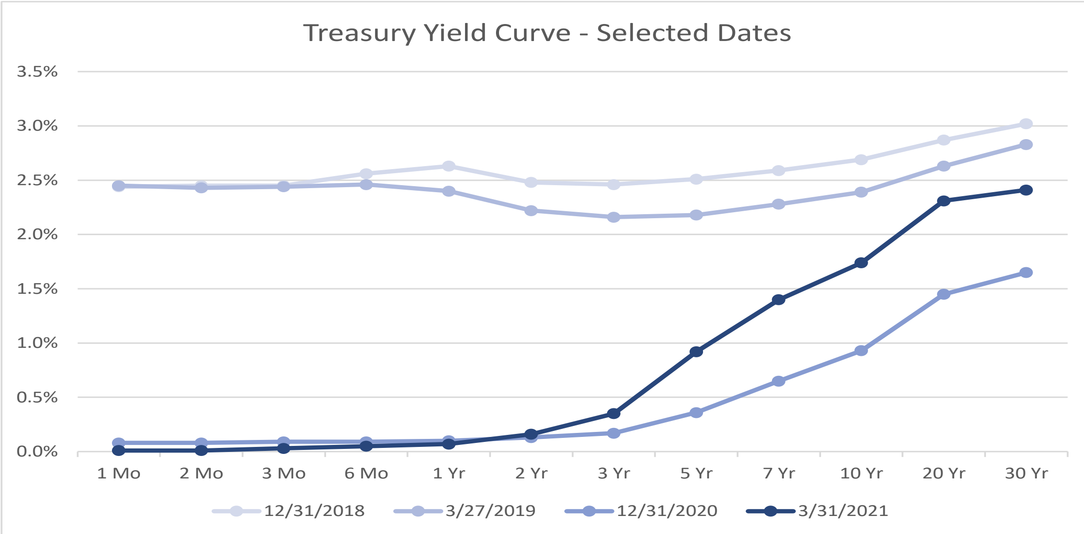
Accordingly, yields spiked again, with the 5-year Treasury almost to 1%, the highest level since the start of COVID. At the same time, the futures market is now signaling expectations of the first Fed rate hike since COVID being less than 20 months from now. Inflation is the fear. Some of that sentiment is hinted at in the Federal Reserve “dot plot,” below, where the expectations of Fed governors are collated.



Source: Bloomberg

While the average rate projection over the next few years did not change, some Fed governors revised their projections upward for 2022 and 2023—so the distribution has shifted incrementally higher. We can see the change in outlook quite clearly by looking at the current shape of the yield curve and the changes that have been “baked in” over the past year or two.

The Treasury yield curve (page 5) dramatically shifted down in 2020 as the Fed took measures to curb the economic effects of the pandemic but is now firmly exhibiting a more typical upward-sloping shape. Long-term yields jumped suddenly in recent months, but despite the jump, remain below pre-pandemic levels, suggesting in aggregate that the market still expects low future inflation and interest rates.



Source: US Department of the Treasury

Non-traditional Assets: Hedge Funds, Managed Futures

Hedge funds were up low single digits during the quarter (HFRX Global Hedge Fund Index up +1.3%) yet returns varied by sub-strategy and sector exposure. Directional strategies, such as event driven and long/short equity, outperformed the aggregate index given the move higher for equities. Additionally, added dispersion between underlying security performance provided a fruitful environment for market neutral managers, who generated a +2.7% return on average. It is worth noting that technology and healthcare focused managers struggled during the quarter as the broader market favored value-oriented investments over growth.

Within Managed Futures, our Global Trading strategy performed well, generating a +5.2% return during the quarter. As a reminder, we created this vehicle to serve as a core defensive allocation within our client portfolios, incorporating various long-volatility strategies including trend-following, global macro, multi-strategy, and tail hedges. We believe this combination of strategies will benefit portfolios during stressed periods, while materially outperforming bonds in a rising rate environment. Performance for the quarter was broad-based across manager styles and strategies led by powerful trends in equities (long), bonds/interest rates (short), and commodities (long) that continued to accelerate on the back of a strengthening economy.

Non-Traditional Assets: Commodities, Real Assets, and MLPs

While energy prices are imperfectly correlated with energy infrastructure assets, the ongoing strength of energy has undoubtedly been good for mid-stream energy plays. The MLP index gained over +21% for the first quarter and has rebounded more than +100% over the last 12 months. Notwithstanding those moves, MLPs still are offering robust yields of over 8% and maintain a very healthy spread to Treasurys suggesting persistent value in the asset class.

WHAT SHOULD YOU EXPECT GOING FORWARD?

Equity markets are currently at record levels, which obviously suggests caution as we move through the balance of the year. History has proven that record level and high valuations alone do not argue to aggressively lower equity risk in portfolios, particularly net of taxes on realized gains. We continue to hope for moderate sustained economic growth with controlled inflation. At the same time, the Fed has limited options if we were to hit an additional economic bump in the road.

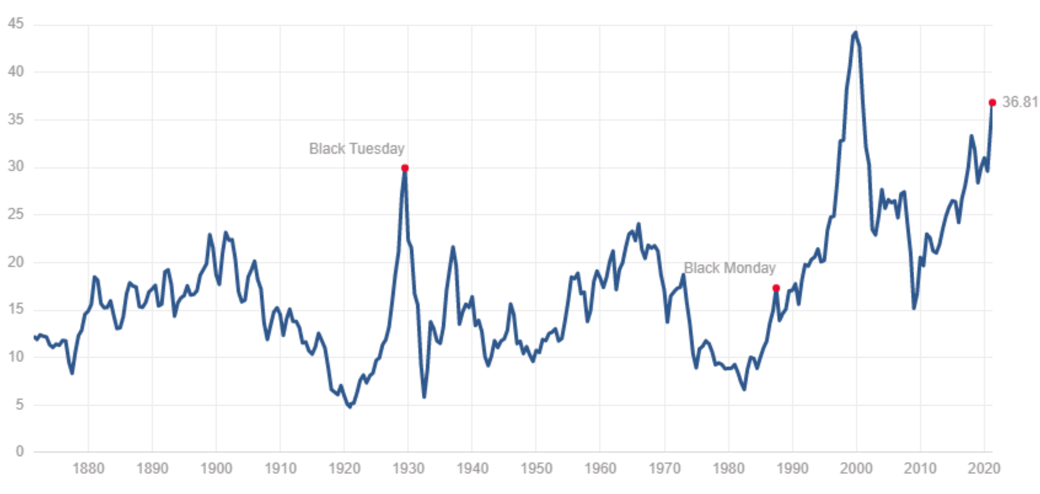
The tricky balancing act between monetary (rates) and fiscal policy (taxes and spending) is meant to provide a steady message to investors, consumers, and businesses to help maintain the status quo in the capital markets. This balance will certainly be tested if inflationary conditions change and the prospects of higher taxes for both companies and individuals here in the US are digested.

Currently, the financial markets are pricing in higher inflation, at least in the bond market: US Treasury yields have increased significantly despite the US Federal Reserve indicating that interest rates will remain low for an extended period. We will continue to watch this closely given the important catalyst (likely negative) of higher rates and higher taxes against rich equity market valuations.

Equities

High valuations are always a concern; they eventually adjust to a reasonable long-term multiple to own the earnings stream of a business in the future. As we know, in the short term markets often will "overshoot" on both the upside and downside of fair value. One of our jobs as advisors is to recognize when risk assets such as equities and credit investments are in one or the other extremes (over or undervalued) that are often associated with investor greed or fear.

There are a couple well known high valuation (or bubble) periods, such as the Nifty Fifty in the late 1960s/early 1970s, the tech bubble of the late 90s, and more narrowly, the real estate credit bubble of the mid-2000s. The following table illustrates where the current equity market ranks in terms of valuation relative to prior periods where equity markets peaked.



Source: https://www.multpl.com/shiller-pe as of 4/8/2021. CAPE Shiller PE Ratio Shown

We are also very mindful of the extreme difference in price performance and valuation between value stocks and growth stocks. We have focused our portfolios on more quality and growth-oriented equities over the last number of years, but today we acknowledge the dispersion between value and growth could be an area of opportunity moving forward. The following chart illustrates the relative value difference between growth and value in a historical context.

As of 2/28/21 | Source: GMO
Composite Valuation Measure is composed of price/sales, prices/gross profit, price/book, and price/economic book. Value and Growth groups are both sliced over 12 months.

While we do not know with certainty that this historically wide valuation difference will revert to a more normalized relationship, we must also weigh the impact of taxes when making tactical changes in equities. While we would expect the return to be higher, the portfolio risk does not change.

As you may recall, we did this last year at this time with a tactical move to small cap from large cap, and in that case the tactical change resulted in a positive contributor to portfolios even after tax.

Fixed Income

We continue to view liquid high quality taxable and tax-exempt bonds as “dead money” after taxes and inflation over the coming years. Today, portfolios hold these assets as 1) a defensive position that is unique to the client or, 2) as a source of dry powder for investment opportunities that may present themselves as we move forward.

The areas of interest and opportunity in the credit space remain in the less liquid areas including, but not limited to, direct lending, asset backed securities like RMBS and Freddie Mac K-deal loans, and CLO investments. We expect these areas to offer net double digit returns with high cash flow income during the life of the investment. We view the return expectation as attractive and fair compensation for the associated credit and liquidity risk.

Alternative Assets

Our current positioning in marketable alternatives continues to focus on diversified multi-strategy and global trading approaches which can serve as 1) an indirect hedge to our equity allocations, and 2) protection should the economic climate become more inflationary. We believe these allocations are extremely important from a diversification standpoint as well as a return driver, albeit with lower returns than equities during bull markets.

In the directional and market neutral equity areas, we continue to hold core positions in technology, healthcare, and biotech. The hedge fund manager talent focused in these sectors exploits the inefficiencies amid wide dispersion between corporate winners and losers, providing fertile area to deliver attractive risk adjusted returns to investors.

Asset Allocation Review and Guidance

Our asset allocation guidance, emphasizing an underweight to fixed income and international equities, continued to work as both fixed income and international equity underperformed US equity and our alternative investment allocations. We continue the underweight to international equity, but to a lesser extent relative to prior periods. On the fixed income side, we do not see much value in holding taxable fixed income, as the risks outweigh the expected return at the current yields in the bond markets.

Entering the second quarter, we are evaluating portfolios where public equity exposure has grown to an outsized position, weighing it relative to the tax impact of changes and opportunities elsewhere.

Asset Allocation Guidance

Asset Class	Underweight	Neutral	Overweight
Cash			✓
Taxable Fixed Income	✓		
Non-Taxable Fixed Income	✓		
US Equity		✓	
International Equity	✓		
Emerging Market Equity		✓	
Marketable Alternatives		✓	

Expectations on Tax Policy

We do not dwell on politics much, but the products of politics can have meaningful impacts on our families' situations and on the markets in the short and long term. We have recently written that the Trump Administration seemed to be a diminuendo of sorts of US tax policy, meaning historically low rates for individuals and families. While we noted that a still (almost) evenly divided Congress, albeit one with a blue tint, might dampen the more sweeping proposals from the Biden-Harris Administration, under the guise of ongoing COVID relief, we can at least start to see the contours of some meaningful changes.

The emergency stimulus and relief measures last year clearly did much to stabilize the economy and help the US turn the corner faster than many peers. However, it came with a heavy cost. The federal deficit as a percentage of GDP looks to be around 15% in 2020 and to remain sizable for the next two years. The latest spending proposals from the Administration would be funded by tax increases apportioned 2/3 towards corporations and 1/3 towards high income individuals, changes which would effectively reverse the savings from the 2017 tax cut.

Bear in mind, the latest US infrastructure bill proposal may never get across the finish line given the tendentious climate in DC, but if it were to be enacted as written, and funded with the aforementioned tax hikes, analysts suggest it could reduce S&P 500 EPS estimates by 8% to 9%, with technology, healthcare, and communication companies (the previous big beneficiaries of the Trump tax cuts) hurt this time around. Of course, the hope is that the spending would be stimulative, but the associated gains may lag the tax hikes as putative benefits from this sort of spending would not be realized all at once. Again, lots of assumptions are baked into this back-of-the-envelope analysis.

The longer-term, more pernicious impact of corporate tax hikes is a resurgence in the HQ-shopping motivation for global multinationals whereby companies opportunistically move their nominal headquarters to take advantage of lower tax regimes. It had eased a bit during the previous administration, but that may have been an artificial lull. Interestingly, Treasury Secretary Yellen has recently called for a global agreement on minimum corporate tax rates, which is likely to go nowhere.

Summary

We are very pleased to announce that the merger transaction between FWM Holdings, the owner of Forbes Family Trust and our related entities, LGL Partners and Optima Fund Management, and Stanhope Capital officially closed during the quarter. We are extremely excited to move forward together as a combined company, with leading investment talent, connectivity, and an enhanced ability to execute for our clients globally.

While this will not affect anything from a day-to-day perspective for our clients, we have been doing a tremendous amount of work behind the scenes. One of the areas in which we expect this combination to be especially impactful is with respect to accessing the world's best investment opportunities: our combined investment team has been working together to negotiate access to some of the leading venture capital platforms for our clients. This is an area of the investment world that has not been democratized or commoditized; rather there seems to be even great advantages (network effects, first-look opportunities, etc.) to a handful of funds or sponsors. With our combined buying power and relationships, we have the ability to open doors together that we would not have been able to separately. Soon these efforts will bear fruit: we are excited to deliver a solution to invest with some of these leading firms to all of our clients.

Another area where we expect to see increased benefit is in the area of investment manager fees. Working with our colleagues at Optima and now at Stanhope, we have been able to negotiate and secure better fees or terms and investment capacity for our clients from certain top-tier funds. Expect this to continue and deepen. Less tangibly, but not less importantly, this combination is just going to make our organization sharper. Now we literally span half of the globe and have highly experienced and credentialled professionals "eyes on" and in their seats most of the day. Our collective responsiveness just gets that much more effective.

All of these advantages aside, our success is predicated upon achieving results for our clients and to communicate those results personally and in a timely fashion. Everything we are doing is oriented at increasing efficiency and effectiveness so that we can redouble our efforts where it counts—being there when you want to speak with us—and when you do not, giving you the assurance that we are still working tirelessly on your behalf.

We hope you, your family, and your friends stay safe and healthy as we continue to recover from the COVID ordeal. A lot of challenges are behind us, some remain, but we are optimistic. We look forward to being with you every step along the way.

Respectfully,
The FFT Team

Appendix:

Disclosures

These materials are provided for informational purposes only and no portion of this commentary is to be construed as a solicitation to affect a securities transaction or the rendering of personalized investment, tax, or legal advice. Past performance is no guarantee of future results and there can be no assurance the views and opinions expressed herein will come to pass.

Investing involves risk, including the potential loss of principal.

Historical statements about FFT's portfolio weightings are reflective of aggregate client account holdings; however, individual account composition may have varied during the time periods stated. Any reference to a market index is included for illustrative purposes only, as an index is not a security in which an investment can be made.

Certain of the information discussed herein has been obtained from sources the Firm deems to be reliable, but FFT makes no representations about the accuracy, completeness or timeliness of any information prepared by a third party and assumes no liability for the reliance thereon.

FFT Wealth Management ('Forbes Family Trust') is a registered investment adviser. For additional information about FFT, please visit our website at www.forbesfamilytrust.com or consult the Firm's Form ADV disclosure documents, the most recent versions of which are available on the SEC Investment Adviser Public Disclosure website.

Ahli United Bank B.S.C.

Bahrain: *The views contained herein has been obtained from sources that Ahli United Bank B.S.C. ("AUB") deems to be reliable but Ahli United Bank B.S.C. makes no representation about the accuracy, completeness or timeliness of any information prepared by a third party and assumes no liability for the reliance thereon. The opinions and predictions expressed in the materials are subject to change without prior notice and has not been prepared by or with the involvement of Ahli United Bank B.S.C.; however, Ahli United Bank B.S.C. does not independently verify or guarantee its accuracy or validity. Subject to any contrary provisions of applicable law, Ahli United Bank B.S.C. and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only and derived from numerous sources, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. IMPORTANT – If you are in any doubt about the contents of this document you should seek independent professional advice. AUB will not act and has not acted as your legal advisor to you in connection with this, and/or any related transaction and no reliance may be placed on AUB for advice or recommendations and/or solicitation of any sort. Ahli United Bank B.S.C. is licensed as a conventional retail bank by the Central Bank of Bahrain ("CBB"). For additional information about Ahli United Bank B.S.C., please visit www.ahliunited.com/bh.*

Dubai International Financial Center: *Ahli United Bank B.S.C. (DIFC Branch) is an entity duly authorised and regulated by Dubai Financial Services Authority ("DFSA") with its registered office at 1402 Al Fattan Currency House Tower 2 DIFC, Dubai, UAE. This document is being distributed for general information only. It does not constitute research material, independent research, an offer, recommendation or solicitation to enter into any transaction or adopt any hedging, trading or investment strategy, in relation to any securities or other financial instruments. It does not take into account the specific investment objectives, financial situation or particular needs of any particular person or class of persons and it has not been prepared for any particular person or class of persons. Please note that Ahli United Bank B.S.C. (DIFC Branch) offers financial products or services only to persons qualifying as Professional Clients or Market Counterparties under the DFSA rulebook. This information may not be relied upon or distributed to Retail Clients.*

Egypt: *The views contained herein has been obtained from sources that Ahli United Bank (Egypt) S.A.E. ("AUBE") deems to be reliable but AUBE makes no representation about the accuracy, completeness or timeliness of any information prepared by a third party and assumes no liability for the reliance thereon. The opinions and predictions expressed in the materials are subject to change without prior notice and has not been prepared by or with the involvement of AUBE; however, AUBE does not independently verify or guarantee its accuracy or validity. Subject to any contrary provisions of applicable law, AUBE and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only and derived from numerous sources, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. IMPORTANT – If you are in any doubt about the contents of this document you should seek independent professional advice. AUBE will not act and has not acted as your legal advisor to you in connection with this, and/or any related transaction and no reliance may be placed on AUBE for advice or recommendations and/or solicitation of any sort. Ahli United Bank (Egypt) S.A.E. is licensed and regulated by the Central Bank of Egypt. For additional information about Ahli United Bank (Egypt) S.A.E., please visit www.ahliunited.com/eg.*