CAPITAL ADVISORS

Key Points

- We believe now might be a particularly opportune time to restore balance to any portfolio that lacks it.
- The next eight weeks could be fascinating for its potential to disrupt key pillars of the recent market environment, as we expect important data readouts from at least one vaccine candidate, pivotal elections among blue and red candidates, and unfortunately, a very real possibility for a contested election.
- On September 16th, the Federal Reserve signaled its intention to hold its interest rate target at a zero through 2023.[1]
- This interest rate outlook has important implications for portfolio design because it compromises the utility of the fixed income asset class for investors with specific needs for income and total return.
- Meanwhile, the COVID pandemic has stimulated a massive divide between winners and losers among companies, industries, asset classes, and workers.
- The combination of ultra-low interest rates and a "COVID-economy" has been particularly helpful for platform growth stocks, as illustrated by the strong performance of the so called "FAANG" stocks (**Facebook (FB), Amazon (AMZN), Apple (AAPL), Netflix (NFLX)** and the **Google (GOOG)** division of Alphabet).
- We believe the stock market performance of the "FAANGs" has been justified by the capitalization of their growth potential in a zero-interest rate environment – we do *not* think these stocks are in a speculative bubble.
- Yet we also recognize that the cocktail of forces that has been promoting narrow stock market leadership during the pandemic will not last forever.
- The elections might also disrupt investors' expectations around possible haves and have-nots among industries and companies.
- The risk management disciplines within our *Managed Equity* and *Fixed Income* strategies seek to adjust to changing market conditions through security selection and weighting choices – our current positioning is described herein.
- We also believe certain diversifying assets like international equities and small-cap stocks might be particularly helpful for the road ahead – our tactical strategies deliver access to these markets, as described below.

[1] Source: Federal Open Market Committee (FOMC) press release dated September 16, 2020

The Next Eight Weeks (or so)

Stock market volatility picked up in September and we could have more of the same in the next several weeks as investors react to the news flow around the elections and digest interim read-outs from the clinical trials of potential COVID vaccines.

Vaccine News…

On the latter point, it seems reasonable to anticipate an interim readout for at least one of the most advanced vaccine candidates as soon as this month. Clinical trials for all drugs are monitored by an independent committee known as a Data and Safety Monitoring Board, or DSMB. The DSMBs can conduct an interim analysis after a certain number of people have been treated in a drug trial. Recent reports suggest the vaccine trials sponsored by **Pfizer (PFE)/BioNTech (BNTX)** and **Moderna (MRNA)** could reach the threshold for an interim analysis as soon as this month.[2]

Handicapping November 3rd…

Regarding the elections, opinion polls and prediction markets have been signaling a potential "blue wave" for the past several weeks. However, if the 2016 elections are any indication, the margin for error for these indicators may be quite large. We believe it is important to recognize there are multiple possible scenarios for the elections.

We find prediction markets particularly interesting for handicapping elections because they represent "betting odds" derived from real people exchanging real money. The latest contract prices from www.predictit.org are listed below for the congressional and presidential contests, ranked in order of implied probability based upon the contract price. For context, each contract pays $1.00 if the event in question comes to pass.

	Price to Buy a "Yes" Contract
Biden President	**$0.62**
D House / D Senate	**$0.60**
Trump President	**$0.41**
D House / R Senate	**$0.31**
R House / R Senate	**$0.17**
R House / D Senate	**$0.01**

Source: www.predictit.org as of 10-1-20

[2] Source: STAT News

Key Issues

We suspect certain issues may be part of the post-election landscape regardless of its outcome, including a push for a domestic infrastructure bill, and a continuation of America's adversarial posture with China. Priorities and tactics around these issues would differ, of course.

At the other end of the spectrum, investors' expectations for tax policy may be most contingent upon the election outcome, followed by expectations around the regulatory climate for certain industries. We highlight the following industries for potential volatility related to the elections:

- Banks: Prospects for increased regulation
- Health Care: Expectations around single-payor vs. roll-back of the Affordable Care Act
- Energy: Regulatory climate and potential extension of clean energy credits
- Defense: Uncertain budgetary priorities and restraints
- Infrastructure: Prospects for a post-election spending bill and priorities therein

Clarifying the Message

To be clear, the message we hope to convey now, and in August, is NOT that stocks are overvalued and due for a crash, including COVID-winners like the FAANG stocks. The potent combination of rock-bottom interest rates and the acceleration of secular trends like the digitization of the economy, robotics and medical innovation have propelled the gains in many of these stocks for fundamental reasons, in our opinion. We hope to continue participating in these secular growth trends for many years into the future through deliberate stock selection.

Rather, our intended message is about diversification and portfolio positioning for a less-narrow market environment on the other side of COVID, and a possible shift in the landscape on the other side of a pivotal election.

We also hope to convey the significance of today's interest rate environment for investors. With domestic yields on safe fixed income assets dropping below 1% far out on the yield curve for the first time in history, it is no longer possible to obtain a reasonable rate of return from the fixed income asset class sufficient to keep up with inflation. We believe retirees and endowment portfolios tasked with sustaining a specific spending requirement need to re-visit their asset allocation to make sure the commitment to fixed income is not *too high*. For many retirees and endowments, it may be necessary to tolerate greater portfolio volatility by limiting the allocation to fixed income to no more than five-year's worth of expected withdrawals – around 25% for common spending policies.

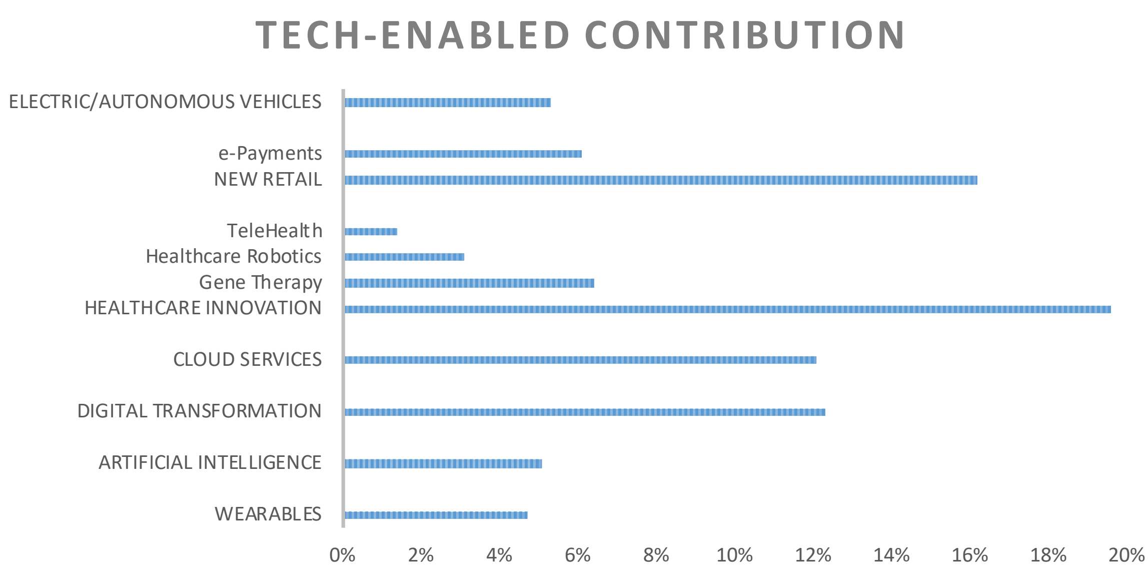
Current Design of Our Investment Strategies[3]

The remainder of this report addresses the current positioning of each of our investment strategies. Broadly speaking, the relative performance of both *Managed Equity* strategies has benefited substantially from their flexibility to adjust to this year's disruptive market climate. Our *Fixed Income* strategies have benefited materially from the pandemic-induced decline in interest rates, without needing to chase yield in long-duration bonds or oversized allocations to lower credit quality securities. We expect this posture to serve our fixed income strategies well if interest rates surprise to the upside, or the economy fails to gain traction as quickly as we all hope. Finally, the *Tactical Strategies* have fulfilled their intended role as a complement to our actively managed portfolios to enhance diversification (*Tactical Global Growth* and *International Focus*), or shift the relative weighting between equity and fixed income unemotionally (*Tactical Dynamic Allocation*).

Managed Equity Growth

We are using two key approaches to help maintain balance in this strategy. For one, we are focusing on a diversified set of leaders in what we believe to be some of the global economy's most attractive value creation trends. While some of these companies specialize in technologies that help converge market opportunities, others are leaders of attractive markets that are far from traditional "Tech." The second approach is a very deliberate use of cash as "risk management" and "risk capital."

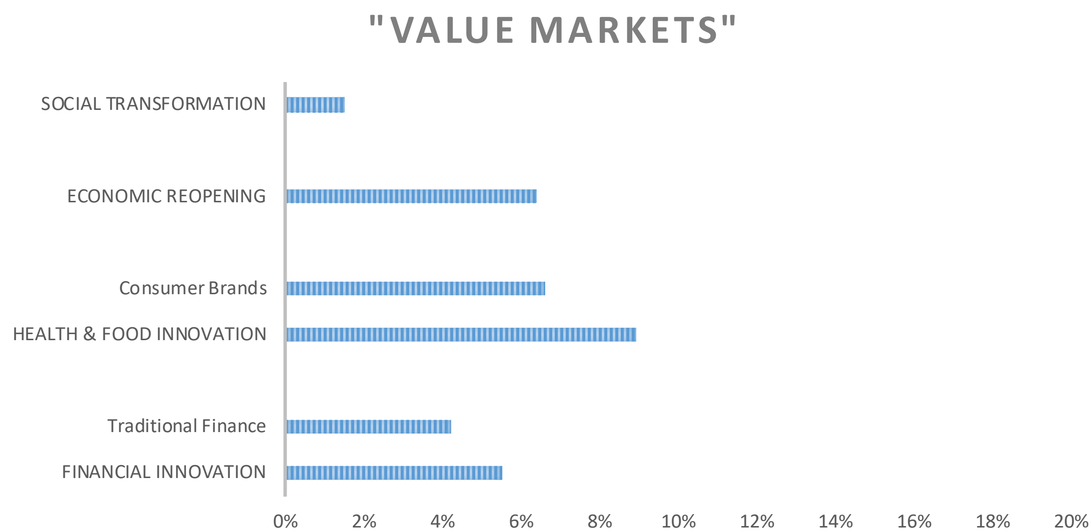
The following illustration shows *Managed Equity Growth's* holdings of companies we believe lead important Tech-enabled market opportunities such a Wearable Technologies and Artificial Intelligence.



Source: Orion as of September 30, 2020
The chart shows positions in companies we believe have leadership positions in the listed themes

[3] The portfolio strategy discussions in this section are supplemental to a compliant presentation. A complete list of Capital Advisors' portfolio models and compliant presentations are available by contacting Capital Advisors.

In addition to the above mega-trends, we have identified leaders in more traditional ("value-based") markets that are undergoing significant change. Such holdings include **Honeywell (HON), Ingredion (INGR), PepsiCo (PEP)** and **Waste Management (WM)**, among several others. This broad category accounts for over a third of the strategy's current investments.



Source: Orion as of September 30, 2020
The chart shows positions in companies we believe have leadership positions in the listed themes

The "factor" approach highlighted above helps diversify risk beyond traditional labels such as industry or company size. It also reduces any need for significant market-timing or chasing activities during highly volatile periods.

Active cash management serves a dual function in this investment strategy. In a "risk management" function, cash helps balance risk elsewhere in the portfolio according to the market scenarios we foresee. This approach has allowed the strategy to deliver lower volatility compared to common benchmarks,[4] while still participating in volatile investment opportunities with high potential reward such as telemedicine and gene editing.

In the "risk capital" role we can use cash to buy attractive opportunities during times of market volatility without having to sell other great companies at depressed prices. During the heights of the economic shutdown for instance, we bought **NVIDIA (NVDA**), a leader in cloud-based artificial intelligence (such as speech recognition) and high-end computer graphics. We also increased positions in selected established holdings such as **Amazon (AMZN)**, **PayPal (PYPL)**, a leader in the global trend towards secure electronic payments, and **Thermo Fisher (TMO)**, a cutting-edge innovator in healthcare equipment.

---

[4] Source: Morningstar; Measured over the 3-year period ending June 30, 2020, Capital Advisors' Managed Equity Growth composite showed lower volatility, as measured by standard deviation and beta, relative to the S&P 500 Index and its peer group of managed strategy composites.

Managed Equity Dividend

The strategy's flexibility really keyed its recent outperformance. During the downturn we pivoted away from companies that seemed most vulnerable to the economic shutdown to take advantage of compelling buying opportunities in companies with proven management, entrenched competitive advantages and strong balance sheets. These included **Home Depot (HD), Texas Instruments (TXN), Watsco (WSO), Unilever (UL)** and **Fastenal (FAST)**, among others. We recently exited the position in FAST with a gain of more than 40%.[5]

We have been careful to diversify across yield structures, business types and other value drivers. For instance, we initiated higher-yielding positions in very different businesses, such as **United Parcel Service (UPS), AGNC (AGNC)**, and **Ares Capital (ARCC).** In the case of **Ares,** we re-purchased the stock at a lower price than it was sold earlier in the downturn.

Our objective is the keep the strategy's cash yield at or above 4% during "normal" periods. Several positions we initiated at dividend yields well into the 3% area during economic shutdown, now yield in the 2% range (as prices rise, the percent of that price represented by cash dividends declines.) We recently shifted some of those gains into higher yielding securities, and may continue to do so over the near term without substantially changing the strategy's "balanced" mix.

Tactical Global Growth Strategy

The Tactical Global Growth strategy provides a strategic allocation to nine major risk markets globally. Broad diversification across multiple geographies, factors, asset classes and market caps helps to optimize the risk-adjusted return profile of the strategy. We stive to further enhance long-term returns by systematically adjusting the weightings among the nine sectors to overweight markets that demonstrate relative strength, while reducing the allocation to markets that exhibit relative weakness.

Asset Class	Current Weighting (10/1/2020)
Large-Cap Growth	Overweight (17%)
International Small-Cap	Overweight (17%)
Emerging Markets	Overweight (17%)
U.S. Mid-Cap	Neutral Weight (11%)
International	Neutral Weight (11%)
High-Yield Credit	Neutral Weight (11%)
U.S. Small-Cap	Underweight (5%)
Large-Cap Value	Underweight (5%)
Real Estate	Underweight (5%)

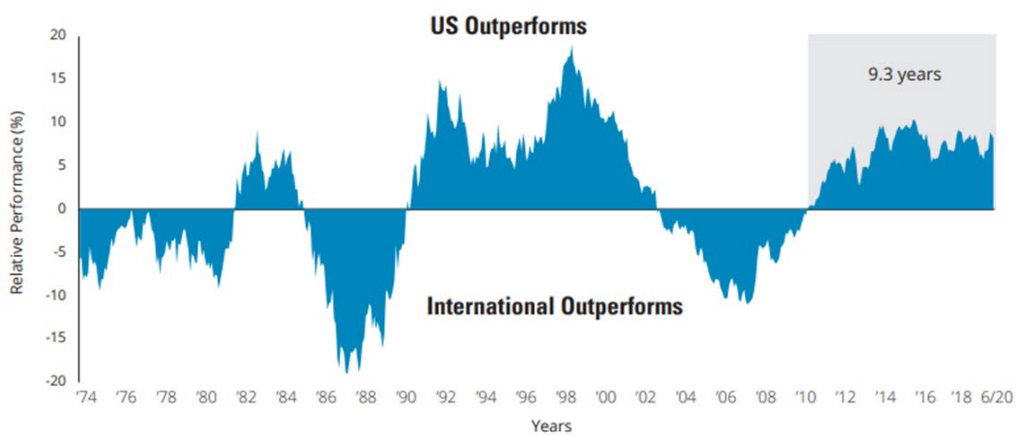
[5] Source: Orion; Bloomberg

The strategy is currently positioned to continue participating in important secular growth trends through its overweight allocation to Large-Cap Growth stocks, while diversifying into multiple asset markets that might have recovery potential when the global economy heals from its pandemic shock. It seems noteworthy that international equities gained “market share” during the latest quarterly rotation to account for nearly half of the total portfolio design. This shift reflects improving relative performance for these markets since the downturn.

We believe international equities may be particularly attractive right now due to lower valuation multiples, generous dividend yields, a downward-trending U.S. dollar exchange rate, and a historical tendency for the relative performance of domestic-vs.-international markets to reverse following recessions and major global shocks.

Recessions and Financial Shocks Have Frequently Marked the Turn
In Relative Performance Between U.S. and International Markets

US Equity vs. International Equity 5-Year Monthly Rolling Returns (12/31/1974-6/30/2020)



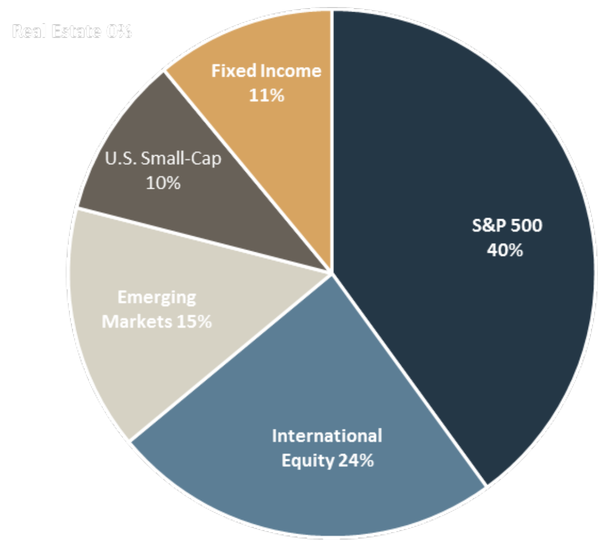
The chart shows the values of the S&P 500 Index's returns minus the MSCI World ex USA Index's returns. When the line is above 0, domestic stocks outperformed international stocks. When the line is below 0, international stocks outperformed domestic stocks.
Data Source: Morningstar and Hartford Funds, 7/20.

Dynamic Allocation Strategy

This strategy can be incorporated into a diversified portfolio to systematically adjust the equity-to-fixed income mix in the portfolio based upon prevailing market conditions. Portfolio changes are driven by a quantitative marker called a "moving average." Each of five risk market sectors is retained in the portfolio whenever they demonstrate a positive price trend, as measured by a moving average indicator, and they are removed when the trend turns negative. The strategy is designed to complement the core of a diversified portfolio by delivering tactical adjustments to market exposures unemotionally.

The historically rapid decline, and subsequent recovery in global risk markets between February and May was problematic for the quantitative process that directs changes within this strategy. Even so, the strategy managed to shift away from risk markets in time to sidestep the worst of the drawdown as of late-March, and it worked its way back into risk markets in time to participate in a strong third quarter. This strategy will enter the fourth quarter in a mostly "risk-on" posture, with approximately 90% of its assets committed to global equities and 10% in fixed income.

Current Allocation



Fixed Income

The third quarter proved to be a much less volatile period for bonds than what was witnessed in the first two quarters of 2020. Performance was modestly positive across various segments of the asset class as market rates continued their trend lower, albeit at a declining rate. Looking forward, with the outlook for the Fed to be unchanged for at least a couple years, we suspect interest rates will not move much higher (or lower), somewhat reducing the utility of bonds for income or total return. However, investors can still rely upon the asset class for capital preservation and a diversification from equities within the construct of one's overall portfolio allocation. Capital Advisors continues to prefer an "up-in-quality" bias across all bond portfolios and less interest rate risk than the benchmark.

Individual Bond Management

Our individually managed taxable (corporate focus) and tax-exempt (municipal focus) bond portfolios are customized according to three broad priorities – Liquidity, Income or an Aggregate of the two. A Liquidity portfolio invests exclusively in high credit quality securities and short-term maturities to ensure stability of principal and ready access to capital. An Income portfolio extends further out on the yield curve and includes a broader range of credit quality to generate a higher level of income. The Aggregate approach incorporates elements of both designs for a "core" exposure to the fixed income asset class.

By structuring bond portfolios in a "ladder" with maturities typically contained within the 1-to-10-year range, the cost of being wrong should be minimal unless rates rise significantly. If interest rates rise, the ability to reinvest nearer-term bond maturities into a higher rate environment helps to offset the negative price change among the longer-term bonds in the ladder (over time…. not month-to-month). When interest rates trend lower, price gains at the long end of the ladder serve to offset the lower reinvestment rate from maturing bonds, and the portfolio is supported by higher cash flows among the longer-dated bonds in the ladder.

We seek to enhance the benefit of the laddered portfolio structure with active management. By deliberately emphasizing certain maturities, and diversifying across different sub-sectors and credit profiles, we hope to optimize the risk and return profile of our fixed income strategies. In all cases we will not reach for yield unless the merits of the underlying strategy prove worthwhile relative to the risk.

Managed Credit Strategies

Within our *Managed Credit Strategies*, we have attempted to tilt the portfolios towards better credits, with on average ~70% of our clients' exposure to companies currently rated A- or better. Although the outlook looks less murky than originally prescribed for corporate America in the near term, we want to remain well balanced and under-exposed to lower quality credits. We do believe our BBB exposure has better balance sheets than the broad market, and we are willing and able to further reduce this exposure should we see specific situations worsen.

The investment grade corporate bond market continues to significantly benefit from the Fed's multiple bond-buying programs. The Fed continues to backstop Corporate America through the purchase of high-grade corporate bonds in the secondary market. In addition, with the Fed holding its own borrowing rate at near-zero, companies continue to rush to the new issue market to refinance debt along with increasing existing debt levels at very low borrowing costs. All that said, approximately 50% of this markets' issuers are still rated "BBB" by major rating agencies, the last rating level that is still considered investment grade. Ongoing fears of a wave of downgrades to sub-investment grade could continue to be cause for concern should we see another wave of economic volatility.

Municipal Bonds

Withing our *Municipal Bond* portfolios, we continue to focus on "A" and above credits with strong debt coverage and liquidity profiles. We have also intentionally over-weighted essential service revenue bonds (water & sewer, utilities, etc.) and general obligation bonds with an average portfolio credit quality of "AA."

An important ingredient for municipal borrowers is the debt service reserve fund designed to get issuers thru difficult periods. In addition, municipal borrowers usually have very wide debt distribution schedules, which tends to smooth out refinancing risks in the near term. Lastly, although not popular in tough times, municipal issuers have some revenue durability to increase tax rates, or other price-setting mechanisms, to ensure timely bond payments. This contributes to investment grade municipal bonds having some of the lowest default rates amongst major fixed income asset classes.

ETF Bond Models

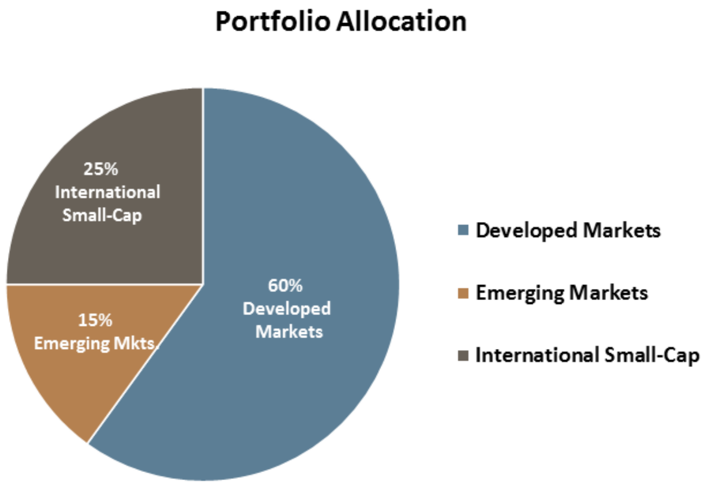
Within our *Aggregate Bond* (ETF) strategy we continue to emphasize "defined maturity", investment-grade corporate bond ETFs. As a reminder, these funds include all the features of a traditional fixed income ETF with one important difference: a specific maturity date. These funds are populated with bonds that all mature in the same calendar year. During that year, the ETF terminates, and the fund's net assets are distributed to shareholders as cash, like the experience when an individual bond matures. We have allowed our interest rate risk exposure to roll down the yield curve with a limited incentive to increase in yield through extending maturities. Today there is a relatively even laddered maturity structure ranging between 2022-2025.

Within our *Income Bond* (ETF) strategy we have focused on maximizing cash flows within the construct of "balancing risks." In the third quarter we added the **INVESCO Fundamental High Yield Corporate Fund (PHB: ~$18)** to the strategy, and reduced exposure to investment-grade corporate credit. This modest increase in credit risk increased the yield of the strategy while decreasing the interest rate exposure. However, the strategy still retains sector and quality balance with approximately 40% exposure in "AAA" government guaranteed agency mortgage bonds and Treasuries via our investments in the **iShares Mortgage Backed Securities ETF (MBB: ~110**) and the **SPDR DoubleLine Total Return Tactical ETF (TOTL: ~$49**).

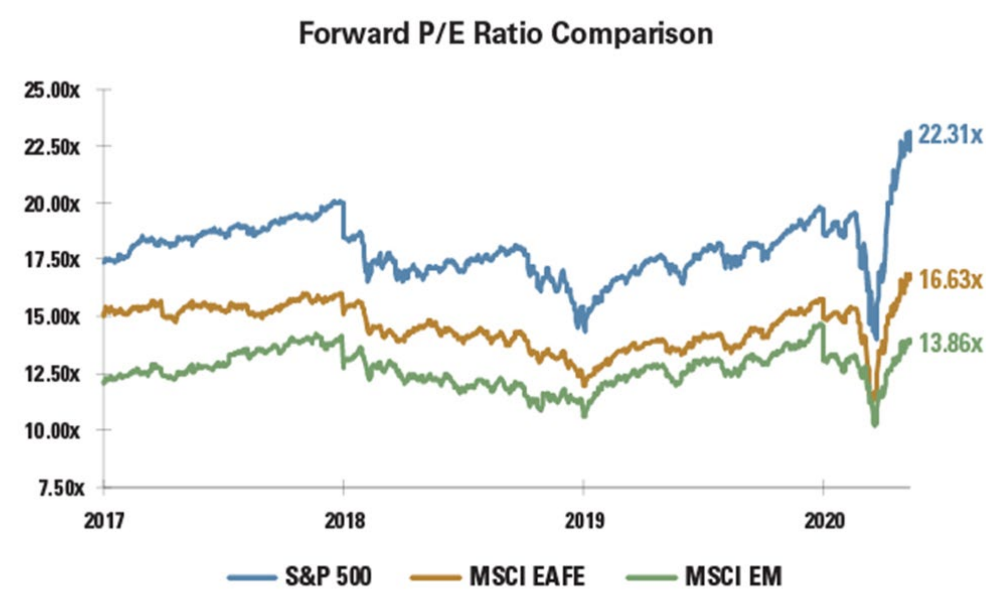
International Focus Strategy

The International Focus strategy provides a strategic commitment to international equities to expand the universe of companies for investment beyond the U.S. market. To enhance the potential diversification benefits of this expansion, the strategy seeks to capture a return premium relative to common international equity benchmarks through disciplined emphasis on three market factors that have demonstrated a long-term history of attractive risk-reward characteristics: Value, Momentum and Low Market Capitalization, or "small cap."

The process of systematically re-balancing the strategy toward these three factors occurs within the investment vehicles that comprise the portfolio, rather than buying and selling the funds themselves. This allows for low turnover and high tax efficiency for investors in the strategy.



We believe international equities may be particularly attractive right now due to lower valuation multiples, generous dividend yields, a downward-trending U.S. dollar exchange rate, and a historical tendency for the relative performance of domestic-vs.-international markets to reverse following recessions and major global shocks. These markets might also benefit disproportionately if/when medical science advances our ability to function more normally in a world that includes the COVID 19 virus. This is due to a heavier concentration of economically sensitive industries throughout international markets, compared to the more technology-heavy makeup of domestic markets.



Source: Bloomberg and BBH Analysis.

Data as of May 13, 2020.

Jan. 1, 2017 to April 30, 2020

DISCLOSURES

This presentation is not an offer or a solicitation to buy or sell securities. The information contained in this presentation has been compiled from third party sources and is believed to be reliable; however, its accuracy is not guaranteed and should not be relied upon in any way, whatsoever. This presentation may not be construed as investment advice and does not give investment recommendations. Any opinion included in this report constitutes the judgment of Capital Advisors, Inc. as of the date of this report, and are subject to change without notice.

This commentary does not purport to be a statement of all material facts relating to the securities mentioned. The information contained herein, while not guaranteed as to accuracy or completeness, has been obtained from sources believed to be reliable. Opinions expressed herein are subject to change without notice.

The investment return and principal value of an investment will fluctuate so that an investor's portfolio may be worth more or less than its original cost at any given time. Due to differences in portfolio timing and position weightings, the returns for any individual portfolio managed by Capital Advisors may be lower or higher than any performance quoted.

The **S&P 500 Index** is a stock market index based on the market capitalizations of 500 leading companies publicly traded in the U.S. stock market, as determined by Standard & Poor's. The index is calculated on a total return basis with dividends reinvested and is not assessed a management fee.

The **S&P 500 Value Index** is comprised of a subset of stocks within the S&P 500 that express value characteristics, including low price-to-earnings and price-to-book value.

The **MSCI EAFE Index** seeks to track the yield and price performance of publicly traded companies in developed markets outside the United States.

The **MSCI Emerging Markets Index** seeks to track the yield and price performance of publicly traded companies in emerging market countries outside the United States.

Estimated portfolio yield represents the 12-month run-rate of interest and/or dividend payments in a strategy divided by the market value of the securities and cash reserves invested in the strategy. Estimated interest/dividend payments and market values are calculated by a portfolio accounting system from *Orion* using a single client portfolio that Capital Advisors believes to be representative of clients' portfolios invested in the same strategy. The actual portfolio yield for any single client portfolio may be lower or higher than the yield quoted. The underlying holdings of any presented portfolio are not federally or FDIC-insured and are not deposits or obligations of, or guaranteed by, any financial institution.

Security Recommendations: The investments presented are examples of the securities held, bought and/or sold in the Capital Advisors strategies during the last 12 months. These investments may not be representative of the current or future investments of those strategies. You should not assume that investments in the securities identified in this presentation were or will be profitable. We will furnish, upon your request, a list of all securities purchased, sold or held in the strategies during the 12 months preceding the date of this presentation. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities identified in this presentation. Capital Advisors, Inc., or one or more of its officers or employees, may have a position in the securities presented, and may purchase or sell such securities from time to time.

Items of Note Regarding Exchange Traded Funds: An Exchange Traded Fund (ETF) is an investment company that typically has an investment objective of striving to achieve a similar return as a particular market index. The ETF will invest in either all, or a representative sample of the securities included in the index it is seeking to imitate. Like closed-end funds, ETFs can be traded on a secondary market and thus have a market price that may be higher or lower that its net asset value (NAV). If these shares trade at a price above their NAV they are said to be trading at a premium. Conversely, if they are trading at a price below their NAV, they are said to be trading at a discount.

The information provided is supplemental to a fully compliant presentation. A complete list of Capital Advisor's portfolio models and compliant presentations are available by contacting Capital Advisors at the number listed below. The actual return and value of an account fluctuate and, at any time, the account may be worth more or less than the amount invested.

Additional information, including management fees and expenses, is provided on Capital Advisors' Form ADV Part 2, available upon request or at the SEC's Investment Adviser Public Disclosure site, https://adviserinfo.sec.gov/firm/summary/104643

As with any investment strategy, there is potential for profit as well as the possibility of loss. Capital does not guarantee any minimum level of investment performance or the success of any portfolio or investment strategy. All investments involve risk (the amount of which may vary significantly) and investment recommendations will not always be profitable. The investment return and principal value of an investment will fluctuate so that an investor's portfolio may be worth more or less than its original cost at any given time. ***Past performance is not a guarantee of future results.*** Capital Advisors, Inc. does not provide tax or legal advice and recommends you consult with your tax and/or legal adviser for such guidance. Presentation is prepared by: **Capital Advisors, Inc.** Contact Capital Advisors for a list and description of all firm composites and/or copy of our most recent Form ADV Part 2: 1-866-230-5879 **www.capitaladv.com**