NORTHERN TRUST ASSET MANAGEMENT ASSET ALLOCATION VIEWPOINTS & PORTFOLIO POSITIONING

Tactical decision: +2% Cash, +1% Inflation-Linked Bonds (TIPS), +1% Investment Grade (IG) Fixed Income, +1% Global Listed Infrastructure, -2% High Yield, -2% U.S. Equities, -1% Emerging Market Equities.

Northern Trust Asset Management's Asset Allocation Committee reduces equity beta exposure. The committee reduced equity beta exposure by pulling 2% from U.S. Equities, 1% from Emerging Market Equities and 2% from High Yield. The proceeds were allocated to Cash (+2%), TIPS (+1%), IG Fixed Income (+1%), and Global Listed Infrastructure (+1%). The trade is a continuation of the prior month's moves in which the committee slightly reduced U.S. exposure. However, unlike last month when the committee did not want to overly de-risk following a sell-off, after the ensuing equity market rebound the committee believes now is a better time to more notably reduce risk. With that said, there are potential upside catalysts that limit the degree to which the committee recommends reducing exposure for now. As such, rather than moving underweight, the tactical trade brings U.S. Equities, Emerging Market Equities and U.S. High Yield to strategic weights in favor of more defensive assets.

Recent developments have aligned with the Supply Restraint scenario. The committee maintains its baseline expectation that supply-side shocks lead to inflation and a mild recession in the U.S. that represents a sharper slowdown than other major economies. The committee expects some trade deals will be announced soon. However, following the tariff hikes on China and the 90-day pause on other reciprocal tariffs, the outcome of U.S.-China negotiations are most important from an economic perspective. While a pause should not be ruled out, there has been little progress so far and a meaningful trade deal is not expected between the world's two largest economies soon. There is an element of time dependency, meaning the longer tariffs remain high, the more likely we are to see adverse economic impacts. While aggregate economic data has remained okay overall, there have also not been many developments that suggest a better trajectory. U.S.-China shipments have slowed, consumer sentiment remains weak and business surveys continue to weaken. U.S. labor market risks remain elevated and reduced uncertainty is still needed for corporate spending decisions. The committee assigns 60% odds to U.S. recession, which is more likely to be a mild one rather than a deeper downturn. Economic downside is likely to be limited by a decent starting position for household and business activity. Other economic supports include lower oil prices, deregulation and potential tax cuts in the second half of the year.

A measured portfolio risk reduction. After declining 12% after the rollout of broad-based tariffs in April, the S&P 500 Index retraced all of that loss and U.S. high yield spreads contracted over 100 basis points. Relative to immediately after the sell-off, the committee believes U.S. markets more appropriately reflect the balance of risks, and may even be too optimistic on trade deal progress. U.S. earnings growth expectations are likely to come down, and while some air has come out of valuations, U.S. equities are still trading at a premium. In the event of a global slowdown, emerging market equities are also likely to decline. All-in-all, the committee believes it is a good time to reduce equity exposure and build more defensive positioning. However, given limited visibility into highly fluid trade negotiations, the committee thinks this should be done in a measured way as financial markets may remain susceptible to policy headlines in either direction.

High Level Summary:

Positioning Scenarios

Supply Restraint (45% probability): Supply-side shocks from higher tariffs in addition to broader policy uncertainty weigh on consumer and corporate activity while halting the disinflationary process until a recession takes shape.

Stagflation (15% probability): Initially similar to the Supply Restraint scenario, but the rise in inflation is more persistent. As a result of slower monetary policy support, the recession is deeper and longer.

Soft Landing (30% probability): Global growth slows but remains positive via two potential paths: i) tariff policy eases; ii) the U.S. economy is more resilient than expected and avoids a major deterioration in the consumer backdrop.

Reflation (10% probability): Policies of the U.S. administration have a net stimulative effect, leading to above-trend growth, persistent inflation and a pause in the Fed rate-cutting cycle.

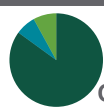
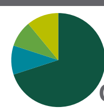
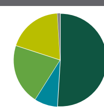
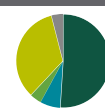
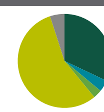
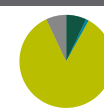
Risk Assets: For long-term capital appreciation.

Risk Control Assets: For reducing volatility.

Source: Northern Trust Investment Strategy

NORTHERN TRUST
ASSET MANAGEMENT

ASSET ALLOCATION WEIGHTS

	Maximum Growth Portfolio		Growth with Moderate Income Portfolio		Growth with Enhanced Income Portfolio	Growth with Income Portfolio		Income with Moderate Growth Portfolio		Income Portfolio	
Benchmark: Stock% / Bond%:	90% / 10%		75% / 25%		60% / 15% /25%	60% / 40%		35% / 65%		10% / 90%	
Current Portfolio Positioning	 Port. Weight	Over/ Under-Weight	 Port. Weight	Over / Under Weight	 Port. Weight	 Port. Weight	Over / Under Weight	 Port. Weight	Over / Under Weight	 Port. Weight	Over / Under Weight
Equity	85%	+2%	68%	+2%	51%	51%	+2%	32%	+2%	7%	+2%
U.S. Equities	52%	0%	42%	0%	25.5%	31%	0%	19%	0%	3%	0%
Dev. ex-U.S. Equities	24%	+2%	19%	+2%	25.5%	15%	+2%	10%	+2%	3%	+2%
Emerging Markets Equities	9%	0%	7%	0%		5%	0%	3%	0%	1%	0%
Real Assets	7%	-2%	9%	+1%	8%	7%	+1%	4%	+1%	1%	+1%
Natural Resources	1%	-2%	2%	0%	2%	2%	0%	1%	0%	0%	0%
Global Real Estate	2%	-1%	3%	0%	3%	2%	0%	1%	0%	0%	0%
Global Listed Infrastructure	4%	+1%	4%	+1%	3%	3%	+1%	2%	+1%	1%	+1%
High Yield Bonds	8%	0%	6%	0%	21%	4%	0%	3%	0%	0%	0%
Investment Grade Bonds	0%	0%	14%	-5%	19%	34%	-5%	56%	-5%	85%	-5%
U.S. Investment Grade	0%	0%	7%	-5%	12%	20%	-5%	35%	-5%	54%	-5%
TIPS (Inflation-Linked Bonds)	0%	0%	7%	0%	7%	14%	0%	21%	0%	31%	0%
Cash & Short-Term	0%	0%	3%	+2%	1%	4%	+2%	5%	+2%	7%	+2%

The Benchmark is a blend of MSCI ACWI and Bloomberg US Aggregate Bond Index. The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The Bloomberg US Aggregate Bond Index is an unmanaged index of prices of US dollar-denominated, fixed rate, taxable, investment grade fixed income securities with remaining maturities of one year and longer. An investment cannot be made directly in an index.

The Growth with Enhanced Income benchmark includes a 15% allocation to the Bloomberg US High Yield 2% Issuer Cap, which is an issuer-constrained version of the Bloomberg US Corporate High Yield Index that measures the market of US dollar-denominated, noninvestment-grade, fixed rate, taxable corporate bonds. The index limits the exposure of each issuer to 2% of the total market value.

Portfolio Weight represents the current target weights, given our most recent outlook for the capital markets over the next twelve months. These weights are subject to change. Actual client account weights may vary.

Over/Underweight represents the portfolio weight relative to the strategic asset allocation weights, which form the baseline portfolio allocations. The portfolio weights for Growth with Enhanced Income follow a slightly different allocation process.

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