UPLAND
Capital Management LLC

2023 THIRD QUARTER SUMMARY

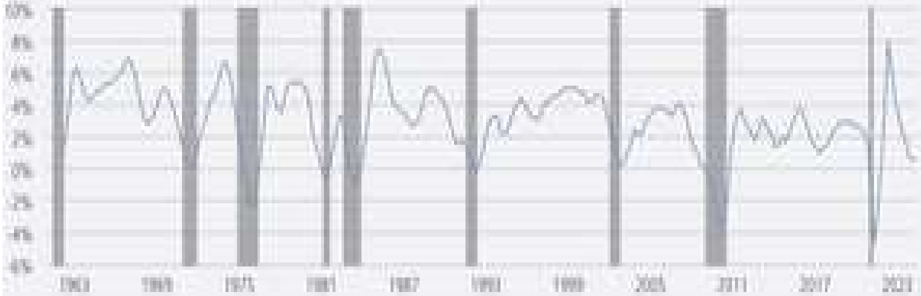
Monetary policy remained center stage in the third quarter, as rising yields weighed on stocks and bonds. Most developed and emerging markets showed negative returns for the quarter. Stalling dis-inflation, higher yields, and an uncertain global economic outlook set the stage for a choppy market backdrop, despite solid economic and corporate activity. The S&P 500 Index finished the quarter down 3.27% with nine of its 11 sectors ending lower. While the energy and communications sectors outperformed, the real estate and healthcare sectors were laggards. Market breadth remained extremely narrow. Large cap companies, less vulnerable to tightening financial liquidity, significantly outperformed mid and small cap companies. This is especially apparent in the YTD performances of the S&P 500's cap weighted (+13.1%) vs. equal weighted (+1.8%) Indexes. Energy prices surged; crude oil, gas and heating oil rose 29%, 41%, and 37% respectively. Rising oil prices pushed commodities and energy stocks higher. The FOMC hiked interest rates for an 11th time at its July meeting, raising its target range to 5.25-5.50%. Bond yields surged; 10-year Treasury yields touched 4.69%, their highest level since 2007. These higher rates led to substantial losses among all bond sectors. Notably, the Treasury yield curve became less inverted as investors, increasingly weighed the potential impact of financing huge fiscal deficits, demanded higher returns on longer duration bonds. On the currency front, the U.S. dollar continued its relative appreciation, reaching a new 2023 high. Based on purchasing power parity, the U.S. dollar appears significantly overvalued relative to most of its trading partner's currencies. *Stocks and bonds were positively correlated, challenging portfolio diversification.*

COMMENTS:

'GDP PLUS'

2023 has been the story of a U.S. recession deferred, while the tourniquet of tightening monetary policy has begun to bite elsewhere. Europe, with its manufacturing-led economy, more sensitive to interest rates, has spent much of the year on the edge of a recession. The U.S. service-oriented economy has remained remarkedly resilient through the year's first three quarters. This divergence may be all about timing, with Europe turning a few months ahead of the U.S. In the U.S., consumers and corporations entered the year with robust balance sheets that made them more resilient. However, savings depletion and renewed weakness among small-cap and regional bank stocks suggests that the U.S. economy may not be as strong as it has appeared. GDPPLUS, a measure tracking the value of products and services produced (GDP), combined with the income of those who manufactured them (GDI), may offer a clearer picture. It suggests the economy grew at a much slower rate.

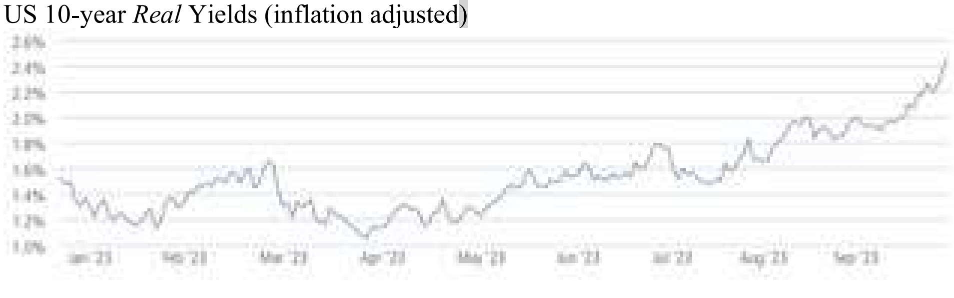
"GDPPLUS" is Approaching a Level Historically Associated with Recessions
Federal Reserve Bank of Philadelphia U.S. GDPplus, year-on-year growth, and NBER-defined U.S. recessions



Source: Federal Reserve Bank of Philadelphia, FactSet, National Bureau of Economic Research, Neuberger Berman. Data as of August 31, 2023

Recessionary tremors are often first felt among small companies. In the August 31st,2023 NFIB survey, 14% more small companies reported shrinking revenues in the prior three months than those enjoying top-line gains - a deterioration exceeded only twice in 49 years, both times during recessions. Lending standards continued to tighten across multiple loan categories, for the fifth consecutive quarter. *The recent rise in oil prices has demonstrated that the path back to the Fed's target 2% inflation is unlikely to be either smooth or rapid.* While headline inflation pressures, such as supply chain disruptions, continued to fade, other categories where price increases are more persistent such as shelter costs, accounted for the bulk of third quarter inflation drivers. The Fed is still projecting a policy rate above 3.5% at the end of 2025. The moderate bond market supply of the year's first half has been steadily climbing, boosted by quantitative easing as the Fed shrinks its balance sheet. *Most important, though, has been the increasing demand for more risk premium (increased yield) at the long-end of the yield curve that reflects not only supply-demand imbalances but also concerns about debt sustainability as deficits grow.* Core government bond yields have broken out of their 2023 ranges, potentially shaking a key support for equity markets.

US 10-year *Real* Yields (inflation adjusted)



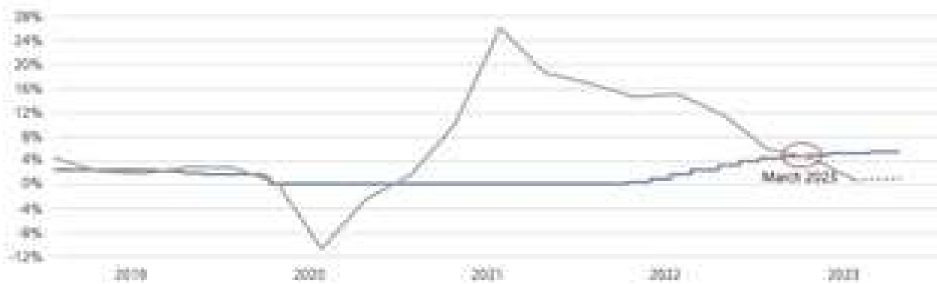
Source FactSet Data as of October 4, 2023

The bullish case for the market looks to a softening labor market reducing the urgency for further rate hikes, a recent two month rebound in the ISM manufacturing index and corporate earnings, as companies exert enough pricing power to offset still-rising input costs. However, current trends may undercut this exuberance. Both U.S. businesses and consumers appear increasingly stressed. Recent FactSet Data shows the average credit card interest rate hitting 21% (higher than recorded in this data's 29-year history) as delinquencies continue to climb. Company bankruptcy filings have been increasing;

meanwhile the Fed's rate hikes have pushed new home mortgage applications to a 28-year low. According to FactSet, growth in U.S. money supply (M1) has been contracting at the fastest rates since the 1960s, illustrating the extent of current monetary tightness. *As for near-term prognostications however, there is considerable disagreement – even within the Fed where real GDP third quarter growth forecasts among the branches range from 4.9% (Atlanta Fed) to 1.6% (St. Louis Fed).* While many observers have framed the year's equity rally as evidence of a resilient economy, falling inflation and a potential soft landing, the relative performance of different equity strategies challenges this narrative. Through September, growth stocks have trounced value stocks across all market caps. Historically, this pattern is the opposite of what happens in an economic re-acceleration and is more consistent with a sustained slowdown. In a truly rebounding economy, small caps, and value stocks – because of their greater sensitivity to economic growth – have taken the lead, but that has not been the case.

Below chart worth noting:

Capital costs now exceed revenue growth among the S&P 500



__ U.S. Fed Funds Rate __ S&P 500 Quarterly Sales (Y/Y)

Source: FactSet and Neuberger Berman Research. As of August 31st, 2023

The recent rise in oil prices has demonstrated that the path back to the Fed's target 2% inflation is unlikely to be either smooth or rapid. In fact, the Fed is still projecting a policy rate above 3.5% at the end of 2025. The moderate bond market supply of the year's first half has been steadily climbing, boosted by quantitative easing as the Fed shrinks its balance sheet. However, most important has been the increasing demand for more risk premium (increased yield) at the long-end of yield curves that reflects not only supply-demand imbalances but also concerns about debt sustainability as deficits grow.

We have kept our asset allocations near neutral, relative to our long-term strategic targets. While the year's final quarter often sees positive equity market returns, the Fed's tighter for longer policy, reduced liquidity, and slowing economic growth has kept us more cautious. Within equities, we have rebalanced our commitments toward a larger 'hedged equity' position, offering more diversified large cap exposure with downside protection. Although cash and ultra short-term bond proxies remain a haven with attractive yields, intermediate-term bonds and mortgage investments look increasingly attractive as we weigh opportunities to extend the duration among your fixed income proxies.