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2026 Capital Markets Assumptions

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Executive Summary

- Our framework is anchored in global market equilibrium, with disciplined adjustments to reflect forward-looking views while preserving risk-based consistency.
- Hedge funds and private assets are modeled using strategy-specific and regression-based approaches to better capture their true economic risk.
- Single-point estimates can be misleading, so beginning in 2026 we will publish rounded return ranges to reflect the inherent uncertainty in long-term forecasts.

Capital market assumptions (CMAs) are forward-looking return, volatility, and correlation estimates for asset classes. In addition to serving as a signal about our view of the future, we use them for asset allocation and financial planning.

We construct our capital market assumptions with a time horizon of one market cycle, or about 10 years. This horizon lets us include expansions, peaks, contractions, and troughs as part of the analysis, and best reflects a reasonable horizon for making asset allocation and financial planning decisions.

Estimating Returns

Our overall approach is mostly quantitative with small nudges to incorporate our views about the future. We embrace the idea of a market equilibrium portfolio, which is the intuitive idea that the "market consensus" – the market weightings of all investment assets across the globe – provides useful information about investors' expected returns for those asset classes. We can then deviate from those consensus returns when and if we deem it necessary, but they keep us grounded in a sort of "risk-adjusted" reality where every asset offers fair

compensation based on the assets' overall risk characteristics.¹

We handle hedge funds and private assets a bit differently. Hedge funds are a legal structure, not an investment strategy, and there are literally thousands of different potential strategies that can be found within a hedge fund wrapper. We use regression analysis to model our CMAs for hedge funds based on the specific type of hedge fund strategy we're targeting for our investors.

Private assets are also treated differently because their reported risk does not fully capture their true economic risk. First, we use adjusted benchmarks² that attempt to better reflect the underlying risk inherent in private investments. Second, we run regression analysis, which simply links the returns of private assets back to public assets, to create return assumptions. Both of these steps are well supported by academic literature as best-in-class ways to handle alternative investments.

Insignificant digits

Capital market assumptions are statistical distributions, but they are not presented or understood as such by most investors.

For example, our current estimated return³ and estimated volatility for global public equity and private equity are 7.2% and 8.3%, respectively. Many investors see these estimates and assume it means we expect private equity to outperform the US with some high degree of confidence. They shouldn't. The implied probability of outperformance, over ten years, is only about 66%.

In order to better reflect the imprecise nature of capital market assumptions, we're changing how we publish them for 2026. Instead of a point return estimate, we've also included a return range that represents the central tendency for each asset class when simulated over 10 years (Fig. 1, next page). The proper interpretation is that we believe fundamentals point to a return within the published range of outcomes⁴, but also that there's a non-trivial chance the next decade will bring higher or lower returns (Fig. 2, next page).

¹ Asset covariances (their relationships with other assets) are a vital input to this analysis. We use an exponentially-weighted covariance matrix that includes 20 years of historical returns. Our choice of exponential weighting decays the influence of historical returns by half every three years.

² Adjusted for autocorrelation and heteroscedasticity

³ Annualized arithmetic return, which is the simple average of the expected periodic return.

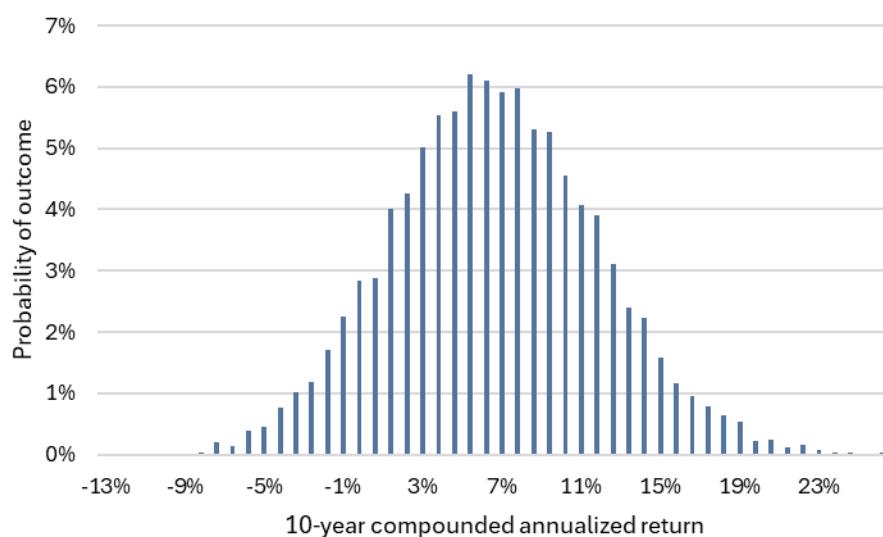
⁴ Our range represents the middle-third of outcomes.

Fig. 1: 2026 Capital Markets Assumptions

	Estimated Return	Central Tendency	Estimated Volatility	Sharpe Ratio
Cash	3.5%	3.5%		0.00
Fixed Income				
Municipals	3.0%	3-3%	3%	0.0
US Treasuries	3.9%	3-5%	5%	0.1
Corporate IG	4.9%	4-6%	7%	0.2
Securitized	4.3%	4-5%	4%	0.2
Global Equities				
US Large Cap	7.0%	4-8%	16%	0.2
US Small Cap	7.6%	3-9%	21%	0.2
International Developed	7.2%	3-8%	18%	0.2
Emerging Markets	7.4%	3-9%	20%	0.2
Alternatives				
Hedge Funds	10.0%	7-11%	14%	0.5
Private Equity	8.3%	6-10%	14%	0.4
Private Alternative Income	7.1%	6-8%	7%	0.5
Private Real Estate	11.3%	8-13%	15%	0.5
Private Infrastructure	8.7%	7-10%	10%	0.5

Source: Bloomberg, Mill Creek.

Fig. 2: Simulated 10-year CAGR for US Large Cap Equity



Source: Mill Creek. Based on 2026 CMAs.

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