Foundations and Endowments Specialty Practice

Second Quarter 2022 Review

Executive Summary

- **The second quarter of 2022 was marked by a bear market in large cap U.S. equities and other asset classes, as the S&P 500 posted a greater-than-20% loss from its January 3rd high.** Indeed, the first half of 2022 was the worst start to a year since 1970. Worries about a U.S. recession at the hands of potentially growth-crimping inflation and a more aggressive Federal Reserve have weighed heavily on financial markets.
- **Across the board, equity markets posted double-digit declines in the second quarter and year-to-date**. Attendant risks from growing recession concerns have fueled the ongoing sell-off in equity markets. Large Cap outperformed Mid- and Small-Caps while Value beat Growth for a second consecutive quarter. International developed equities outperformed U.S., taking a bit of a comparative breather after an oversold underperformance in the first quarter due to Russia's sudden invasion of Ukraine.
- **The Federal Reserve's singular focus shifted aggressively toward fighting inflation.** After a 50-basis point hike in May, the Fed raised its Fed Funds rate by 75 basis points (0.75%) in June, a move not seen since 1994, and offered guidance that further 50- or 75-basis-point hikes should also be expected near-term. With the Fed's goal of taming inflation comes concern of a hard economic landing. At its current lower-bound rate, the Fed Funds stands at 1.50% and, according to Fed projections, may hit 3.25% to 3.50% by year-end.
- **The bond market fell further in 2Q22; the Bloomberg Barclays Aggregate Bond Index fell -4.7%.** Just as equity markets deteriorated, so too did corporate bonds – spreads widened on similar concerns of an economic slowdown. Over the course of the quarter, bond yields rose; the U.S. Treasury 10-year yield reached 3.50% in mid-June. However, as slowdown fears took hold, that yield trended back below 3% by quarter-end. Going forward, bond returns will be in the recession-versus-inflation crosshairs.
- **There are many challenges facing financial markets**. Given the wide range of outcomes, we remain defensive in our clients' portfolios, emphasizing a U.S. bias and higher quality in stocks and bonds.

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Asset Class Returns Ending June 30, 2022

US EQUITY	2Q2022	YTD
Large-Cap (S&P 500)	-16.10%	-19.96%
Mid-Cap (Russell MidCap)	-16.85%	-21.57%
Small-Cap (Russell 2000)	-17.10%	-23.43%
Large-Cap Growth (Russell 1000 Growth)	-20.92%	-28.07%
Large-Cap Value (Russell 1000 Value)	-12.21%	-12.86%
All-Cap (Russell 3000)	-16.70%	-21.10%

NON-US EQUITY		
Developed Large Cap (MSCI EAFE)	-14.51%	-19.57%
Developed Small Cap (MSCI EAFE Small Cap)	-17.69%	-24.71%
Emerging Markets (MSCI EM)	-11.45%	-17.63%

US FIXED INCOME		
Core Taxable Bonds (Bloomberg US Agg)	-4.69%	-10.35%
US Government (Bloomberg US Govt)	-3.71%	-9.04%
Investment Grade (BofA US Corporate)	-6.71%	-13.93%
High Yield (BofA US High Yield)	-9.97%	-14.04%
US Mortgage-Backed (Bloomberg US MBS)	-4.01%	-8.78%
Non-US Developed Bonds (BBg Global Agg)	-8.26%	-13.91%

OTHER ASSET CLASSES		
REITs (FTSE Nareit All Equity REITs)	-17.10%	-20.59%
Commodities (Bloomberg Commodity)	-5.66%	18.44%
Gold (S&P GSCI Gold)	-7.62%	-1.53%

LEVELS	6/30/2022	3/31/2022
10-year U.S. Treasury Yield	2.97%	2.34%
Crude Oil	$107.76	$100.53
Gold/oz	$1,801	$1,949
CPI	9.1%	8.5%
CPI ex-Food/Energy	5.9%	6.4%

Key themes for our outlook and portfolio positioning

Economy & Equities: Range of outcomes wider

- We expect slower real economic growth in 2022 due to the impact of the Russia/Ukraine war, higher inflation, Central Bank monetary tightening, and receding fiscal stimulus. Odds of a global recession and negative earnings surprises have risen significantly.
- We maintain our bias toward U.S. large cap equities given the strong U.S. dollar, relative strength of the U.S. consumer, and likelihood that international and emerging market economies will be impacted more by the conflict in Ukraine and COVID-Zero restrictions in China.
- Our take: We expect volatility to remain high as policy makers and companies navigate this uncertain time. The future trajectories of inflation, rates, and the Ukraine war remain very unpredictable.

Inflation: Countervailing forces emerging

- Countervailing forces are beginning to emerge, with weakness in commodity prices potentially signaling a mitigation in inflationary pressures.
- Monetary policy must be evaluated with a lag time; data has to be evaluated within a longer-term timeframe and recognition that policy impact is not instantaneous.
- Ongoing geopolitical concerns introduce risk elements that may trigger periods of intense pressure in the future.
- Our take: In an environment of persistently high inflation, rising rates, and slowing growth, we cannot rule out the possibility of a global recession, especially in Europe and emerging economies. Markets already reflect a significant array of concerns.

The Fed & Bonds: Inflation vs. Slower Growth

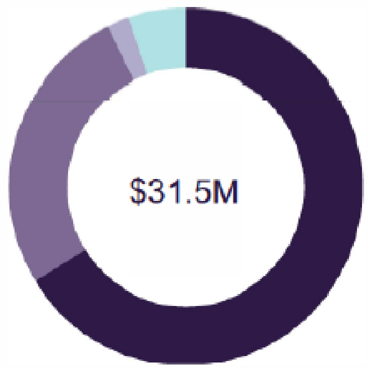
- The Federal Reserve's singular focus is bringing inflation down with aggressive monetary policy tightening. This, in turn, leads to economic growth concerns, and therein lies the tug-of-war for the bond market's outlook.
- The enormous amount of tightening that is underway works with a lag; while helping alleviate inflationary pressures, so too will it exacerbate an economic slowdown. Bond yields have already risen preemptively ahead of Fed tightening; the delicate balance between ideal inflation and ideal growth is likely to determine the future trend in interest rates and fixed income returns.
- Our take: Relative to our fixed income benchmark, we maintain a defensive posture of increased credit quality, modestly lower relative duration, and a barbell in the short and long parts of the curve.

Other factors and/or geopolitical concerns

- Russia's military operation in Ukraine has disrupted global commodity markets, leading to heightened inflation resulting in lower GDP growth, particularly in Europe.
- The economic impact of COVID has declined but new waves are still a risk to growth for the remainder of 2022.
- U.S. midterm elections will be contentious and hinge on economic, climate and social issues. The outcome will be difficult to handicap and will contribute to market volatility.
- Our take: For the first time in decades high inflation, rising rates, war in Europe, and slow growth are all happening at the same time; therefore, we are maintaining a cautious portfolio posture as we navigate through uncertainty and monitor ongoing developments.

Allocation

	% of Mkt Val
Total Equity	63.3
Fixed Income	26.6
Non-Traditional	4.8
Short Term	5.3
Total	**100.0**



Selected Period Performance

	2Q22	YTD	1 Yr	3 Yr	5 Yr	Inception 5/31/16
Episcopal Diocese *(Gross Return)*	**-10.73%**	**-16.15%**	**-11.65%**	**5.97%**	**7.12%**	**7.92%**
Episcopal Diocese (Net Return)	*-10.84%*	*-16.35%*	*-12.07%*	*n/c*	*n/c*	*n/c*
70% Total Equity /30% Fixed Income - Portfolio Benchmark	**-12.38%**	**-16.92%**	**-11.73%**	**5.64%**	**6.70%**	**7.60%**

Benchmark: 52.5% S&P 1500 / 17.5% MSCI EAFE / 30% Barclays Aggregate

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Portfolio Risk Measures

All figures are annualized since inception* Portfolios as of 6/30/22	Standard Deviation	Beta	Alpha	Sharpe Ratio	Upside Capture	Downside Capture
Episcopal Diocese DIT	**11.22%**	**0.92%**	**0.79%**	**0.53%**	**93.79%**	**89.37%**
DIT Benchmark (70% Equity/30% Fxd)*	*11.90%*	*1.00%*	*n/a*	*0.47%*	-	-

**Inception 6/1/2016; Benchmark 52.5% S&P 1500 / 17.5% MSCI EAFE / 30% Barclays Aggregate Bond*

Standard Deviation is a measure of the volatility and risk of the portfolio. A low Standard Deviation indicates a portfolio with less volatile returns and, therefore, less inherent risk.
- The DIT portfolio's Standard Deviation is below its 70/30 Benchmark

Beta is a measure of the portfolio's risk relative to a benchmark
- The DIT portfolio's Beta is below its 70/30 Benchmark, indicating less risk

Alpha is a measure of risk-adjusted performance based on its Beta
- The DIT portfolio's Alpha is a positive 0.79%

Sharpe Ratio is a measure of risk-adjusted return. This calculates the return per unit of risk, where risk is the Standard Deviation of the portfolio. A higher Sharpe Ratio indicates that the portfolio is being rewarded for the inherent risk it is taking.
- The DIT portfolio's Sharpe Ratio is higher/better than its 70/30 Benchmark

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Source: First Rate

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