Foundations and Endowments Specialty Practice

Third Quarter 2022 Review

Executive Summary

- **The third quarter of 2022 ushered in fresh lows in equity markets despite a strong rally in July.** Mid-September's FOMC meeting cemented the Federal Reserve's commitment to fighting inflation even at the cost of near-term economic pain.
- **Given the lag time before the full effect of higher interest rates filters through the economy, investors worried about the impact on corporate earnings and consumer behavior.** Against this backdrop, along with already slowing global economic growth, uncertainty seized investors during the quarter and financial market volatility surged.
- **With its singular focus on fighting inflation, the Federal Reserve raised its federal funds rate a fifth time, the most recent three moves at 75-basis-points each.** In addition, the Fed's projection for its year-end 2022 rate now stands at 4.4%, a full 350 basis points higher than its 0.9% projection that began the year.
- **Inflation fears dominated the bond market, resulting in further upward pressure on Treasury yields and another quarterly decline for fixed income returns.** On a year-to-date basis, the Bloomberg Barclays Aggregate Index is experiencing its worst return in its 45-year history.
- **Uncertainty continues to challenge financial markets:** Rising recession risks, global tightening policies, still-firm inflation, U.S. mid-term elections, and ongoing instability from Russia's invasion of Ukraine are high on the list. Given our expectation that markets will remain choppy, our up-in-quality and defensive positioning in our clients' portfolios is intact.

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Asset Class Returns Ending September 30, 2022

US EQUITY	3Q2022	YTD
Large-Cap (S&P 500)	-4.88%	-23.87%
Mid-Cap (Russell MidCap)	-3.44%	-24.27%
Small-Cap (Russell 2000)	-2.19%	-25.10%
Large-Cap Growth (Russell 1000 Growth)	-3.60%	-30.66%
Large-Cap Value (Russell 1000 Value)	-5.62%	-17.75%
All-Cap (Russell 3000)	-4.46%	-24.62%
NON-US EQUITY		
Developed Large Cap (MSCI EAFE)	-9.36%	-27.09%
Developed Small Cap (MSCI EAFE Small Cap)	-9.83%	-32.11%
Emerging Markets (MSCI EM)	-11.57%	-27.16%
US FIXED INCOME		
Core Taxable Bonds (Bloomberg US Agg)	-4.75%	-14.61%
US Government (Bloomberg US Govt)	-4.30%	-12.95%
Investment Grade (BofA US Corporate)	-5.11%	-18.33%
High Yield (BofA US High Yield)	-0.68%	-14.62%
US Mortgage-Backed (Bloomberg US MBS)	-5.35%	-13.66%
Non-US Developed Bonds (BBg Global Agg)	-6.94%	-19.89%
OTHER ASSET CLASSES		
REITs (FTSE Nareit All Equity REITs)	-10.83%	-27.93%
Commodities (Bloomberg Commodity)	-4.11%	13.57%
Gold (S&P GSCI Gold)	-7.90%	-9.31%

LEVELS	9/30/2022	6/30/2022
10-year U.S. Treasury Yield	3.79%	2.97%
Crude Oil	$79.91	$107.76
Gold/oz	$1,672	$1,801
CPI (August 2022)	8.3%	9.1%
CPI ex-Food/Energy (August 2022)	6.3%	5.9%

Market Outlooks: Risks, rewards, and elevated uncertainty

Equities: Choppy markets ongoing

- Heightened uncertainty stemming from deteriorating global growth, stubborn inflation, tighter monetary policy and financial conditions, higher bond yields, and ongoing geopolitical instability has contributed to a fragile state for the economy and equities.
- Leading economic indicators are moving lower and odds of a U.S. recession have risen significantly.
- Equity valuations are below historical averages, providing selective attractiveness, but are still vulnerable to lower earnings risk.
- *Our take*: The U.S. stock market has fallen in similar magnitude to average recessionary periods, but we're mindful that the market is still very data dependent with regard to the above-mentioned challenges. As such, we're maintaining our high-quality, defensive posture.

Inflation and The Fed: Who blinks first?

- The overall trend in inflation figures has been moving lower this year, but monthly data has been choppy especially in Core readings.
- The Federal Reserve has intensified its commitment to bringing inflation lower, increasing the likelihood of recession.
- Markets are hopeful, rightly or wrongly, that the Fed does not deliver on its rate path trajectory. Although this could energize a risk-on rally, it likely does not change the challenging economic backdrop over the medium term.
- *Our take*: Monetary policy impacts inflation and the economy with a lag, therefore the Fed and investors will be keenly data dependent in looking for evidence of monetary policy's impact and the ultimate rate path.

Bonds: Painful environment, better outlook

- The Federal Reserve's singular focus on bringing inflation down with aggressive monetary policy tightening had led to recession concerns. Therein lies the tug-of-war for the bond market's outlook.
- The attendant rise in bond yields has resulted in double-digit losses in fixed income returns this year, but has also positioned bonds to provide critical income and portfolio stability going forward.
- Indeed, for the first time in more than a decade, higher bond yields are giving stocks competition as an attractive asset class.
- *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. The total return outlook for bonds holds a modestly positive outlook.

Midterms and geopolitics: Adding to volatility

- As Russia continues to occupy much of Ukraine, global commodity markets – especially energy – continue to be severely disrupted. Europe is particularly vulnerable to a recession going into winter.
- A strong U.S. dollar and potential policy missteps in international economies support our ongoing U.S. bias in our equity holdings.
- U.S. midterm elections will be contentious. Historically, the stock market has shown positive returns under a variety of political control scenarios and this has been especially true following midterms. However, elevated recession risks will contribute to market angst.
- *Our take*: These concerns, along with global central bank tightening, are set to contribute to market volatility. We are maintaining a cautious portfolio posture as we navigate through the uncertainty and monitor ongoing developments.

Truist Performance Report

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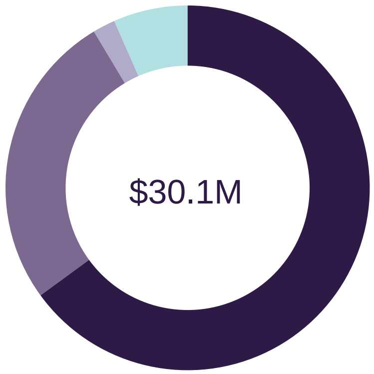
Reporting period: September 30, 2022

Managed since: June 01, 2016

Allocation

	% of Mkt Val
Total Equity	62.4
Fixed Income	26.4
Non-Traditional	4.6
Short Term	6.6
Total	**100.0**



Selected Period Performance

	3Q22	YTD	1 Yr	3 Yr	5 Yr	Inception 5/31/16
Episcopal Diocese *(Gross Return)*	**-4.97%**	**-20.31%**	**-15.95%**	**3.53%**	**5.11%**	**6.73%**
Episcopal Diocese (Net Return)	*-5.06%*	*-20.59%*	*-16.34%*	*3.14%*	*n/c*	*n/c*
70% Total Equity /30% Fixed Income - Portfolio Benchmark	**-5.49%**	**-21.49%**	**-16.72%**	**3.21%**	**4.77%**	**6.34%**

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 9/30/22	Standard Deviation	Beta	Alpha	Sharpe Ratio	Upside Capture	Downside Capture
Episcopal Diocese DIT	**12.08%**	**0.92%**	**0.57%**	**0.32%**	**95.34%**	**94.12%**
DIT Benchmark* (70% Equity/30% Fxd)	12.89%	1.00%	n/a	0.28%	-	-

**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 0.57%

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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