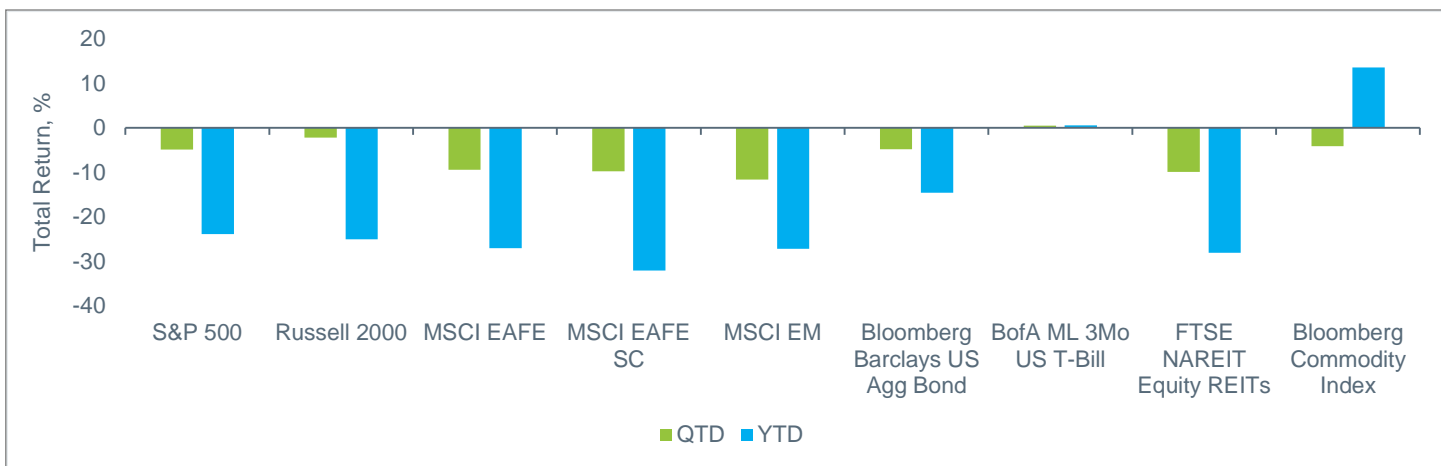


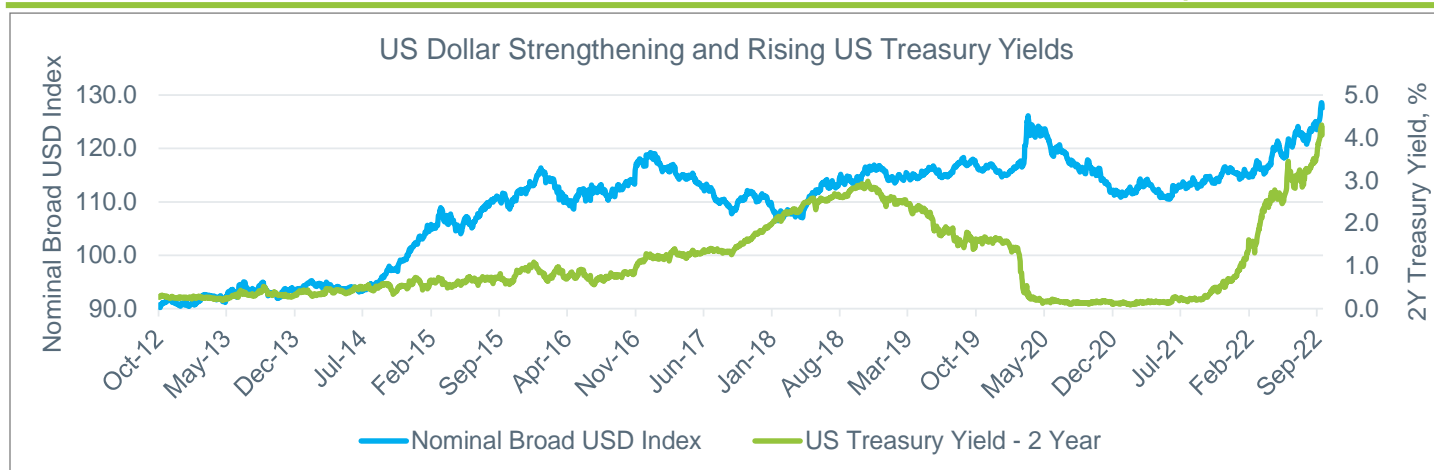
## Overview

In Q3, hopes for easing inflationary conditions and an eventual pivot to more accommodative monetary policy dominated investor sentiment in the first half, leading to strong gains for risk assets. As the quarter progressed, however, comments from Federal Reserve Open Market Committee (FOMC) members took an increasingly hawkish tone, at times admonishing market participants in public speeches for ignoring the Committee's stated resolve to tackle inflation. Jerome Powell's much anticipated speech at the annual Jackson Hole Economic Symposium on August 26<sup>th</sup> left little room for hopeful interpretation. Mr. Powell invoked the historical record of the 1970s, noting that prior Federal Reserve officials had erred historically in not taking seriously enough the threat of sticky inflation and its ability to disrupt economic activity. He further vowed to take "forceful and rapid steps to moderate demand" to keep expectations anchored and push inflation back toward the statutory target of 2%. Risk assets sold off following the speech and didn't catch relief for the remainder of the quarter as the September core CPI reading came in above expectations and exacerbated negative sentiment. From August 25<sup>th</sup> to the end of Q3, yields on the 2-year Treasury increased 0.87% and US equities declined -14.6%. Gains prior to the Jackson Hole speech were erased entirely as markets made new year-to-date lows. In aggregate for the quarter, global equities fell -6.8% as measured by the MSCI ACWI Index, with non-US markets underperforming as the US Dollar soared to multi-decade highs. Fixed income markets suffered significant losses as inflationary dynamics forced global central banks into further tightening monetary policy. Commodity markets priced lower as well, as cyclical dynamics related to a potential global growth slowdown weighed on sentiment for raw materials.

In the United States, economic activity proved relatively resilient to the changes in interest rates and tighter financial conditions. Labor markets cooled slightly but remain historically tight, with data broadly supportive of continued above-trend wage growth. The unemployment rate ended the quarter at 3.5%, while non-farm payroll growth averaged a robust 372,000 per month. At the same time, various official measures of aggregate wage growth continued to show annual rates of change in the range of 5% to 6%. Notably, there was one encouraging sign for those seeking a labor market softening. Total job openings trended lower through the quarter, with August data indicating job openings down 1.8 million from the record levels in March. On the GDP growth front, the Atlanta Federal Reserve's GDP Nowcast indicated (*continued on next page*)

## 3rd Quarter and Year-to-Date Performance



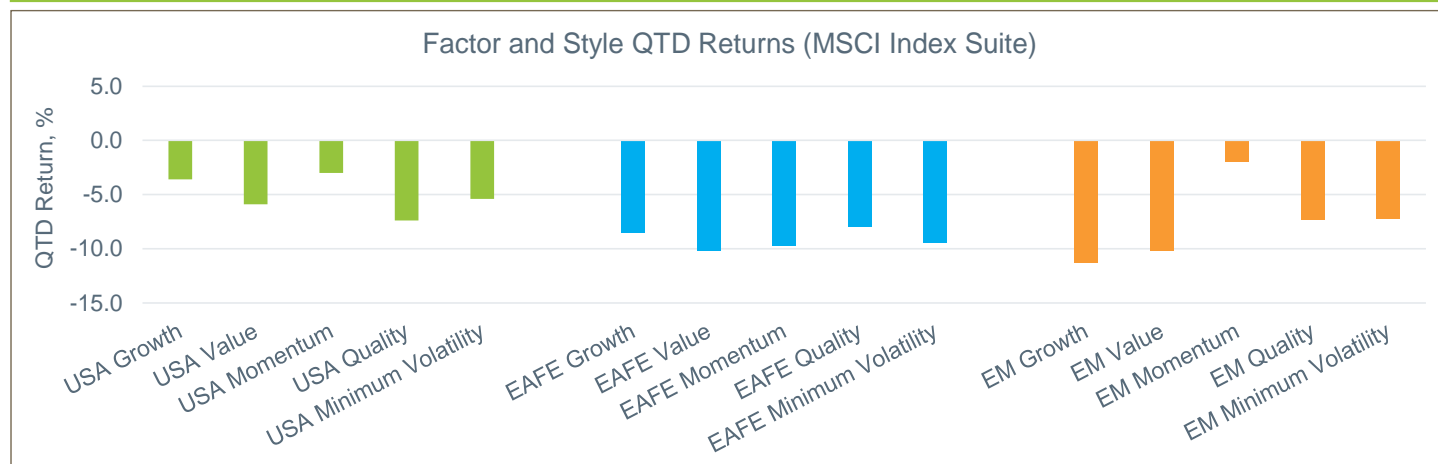


Q3 growth above 2%, with the Q2 inventory drag largely in the rearview mirror. Consumer activity remained resilient as well, with retail sales (excluding autos and gas) producing sequential growth each month of the quarter. The ISM Services Purchasing Managers Index remained firmly in expansionary territory as well, with a reading of 56.7 at the end of September. This positive data is contrasted to a degree by continued negative business and consumer sentiment surveys.

Global macro pressures have continued to grow throughout the year. Policymakers in Europe are contending with inflationary dynamics similar to those in the US while simultaneously providing support to their economies amidst an energy crisis due to the continent's shift away from reliance on Russian natural gas. In China, policymakers are balancing an effort to reduce speculation in the property sector and reign in the power of its largest technology companies against the country's otherwise aggressive growth objectives. Concurrently, China continues to periodically lock down large swaths of its population centers in an effort to enforce a strict zero-COVID policy, exacerbating supply chain issues globally. Global GDP growth forecasts continue to moderate as a result of these dynamics as well as the strong US Dollar. For instance, the forecast from the Organization for Economic Co-operation and Development for 2022 global GDP growth has declined from 4.5% in December 2021, to 3.0% at the end of Q3.

## Expanded Review of Key Economic Indicators

	Q3 2022	Q2 2022	Q1 2022	10 Year Average
Federal Funds Rate	3.08%	1.58%	0.33%	0.70%
Treasury - 1 Year	4.05%	2.80%	1.63%	0.89%
Treasury - 10 Year	3.83%	2.98%	2.32%	2.10%
Treasury - 30 Year	3.79%	3.14%	2.44%	2.73%
Breakeven Inflation - 5 Year	2.16%	2.62%	3.43%	1.87%
Breakeven Inflation - 10 Year	2.15%	2.34%	2.83%	1.98%
Breakeven Inflation - 30 Year	2.09%	2.21%	2.44%	2.04%
BB US Corp: Hi Yld Index - OAS	5.52%	5.69%	3.25%	4.30%
Capacity Utilization	79.96%	79.91%	79.82%	77.13%
Unemployment Rate	3.50%	3.60%	3.60%	5.37%
ISM PMI - Manufacturing	50.90%	53.00%	57.10%	54.57%
Baltic Dry Index - Shipping	1,760	2,240	2,358	1,338
Consumer Confidence (Conf. Board)	108.00	98.40	107.60	104.66
CPI YoY (Headline)	8.20%	9.10%	8.50%	2.35%
PPI YoY - Producer Prices	11.50%	18.30%	15.30%	2.50%
US Dollar Total Weighted Index	127.64	121.05	115.35	109.43
WTI Crude Oil per Barrel	\$79	\$106	\$100	\$66
Gold Spot per Ounce	\$1,661	\$1,807	\$1,937	\$1,438



## US Equity

US equity markets experienced continued elevated volatility in Q3 and followed the same downward trend as the first six months of the year. Following three consecutive calendar years with returns above 20%, the Russell 3000 Index has declined -26.4% year-to-date. In Q3, the consumer discretionary and energy sectors provided investors with positive returns, while all other sectors were negative. Most market cap and style groups declined. Large-cap stocks fell most sharply, followed by mid-cap stocks.

The only exception was small-cap growth stocks, which had slightly positive returns (as measured by the Russell 2000 Growth Index). Overall, in a reversal of the style trend during the first six months of the year, growth stocks outperformed value stocks during the quarter.

On average, active large-cap managers failed to provide downside protection during the first half of 2022, a trend that continued in Q3. During Q3, value-oriented managers had a higher success rate than core or growth managers, though peer group data indicated that relative returns were still flat to negative, on average.

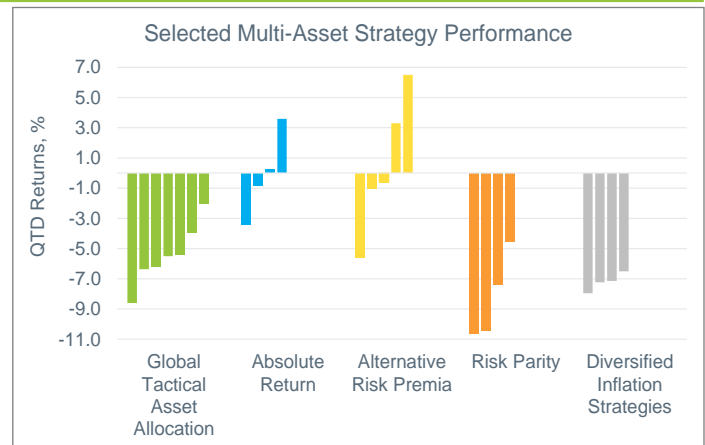
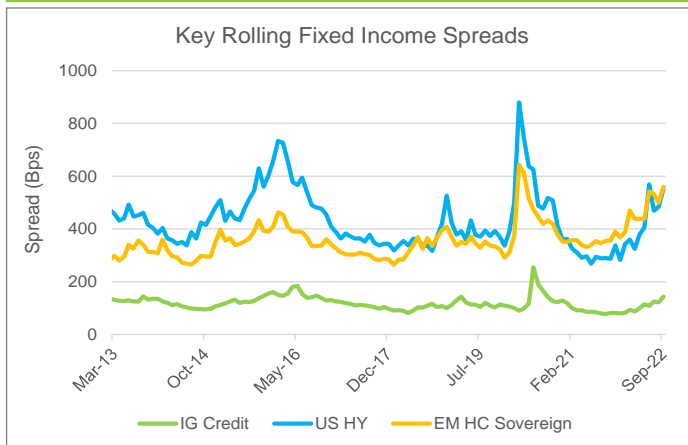
Mid- and small-cap manager success rates versus their respective benchmarks have been higher than large-cap managers, especially among value-oriented managers.

## Non-US Equity

Developed international stocks significantly lagged domestic stocks during Q3. Developed international growth stocks outperformed value stocks, and small-cap stocks marginally trailed large-cap stocks. European stocks slightly trailed other developed regions, although the returns of individual European countries continued to vary widely. Countries with the closest energy ties to Russia, such as Germany, faced significant sentiment headwinds. Japan, which has been largely unaffected by energy supply disruptions, was a relative bright spot among the largest developed international countries.

Emerging markets underperformed developed international markets in Q3. Unlike in developed international markets, value stocks outperformed growth, while large-cap stocks trailed small by a wide margin. Negative returns from China weighed heavily on emerging market equity results given its significant weight in emerging market indexes. The combination of continued pandemic-related lockdowns and the increasing geopolitical risks regarding Taiwan have clouded the country's economic outlook. On the other hand, Brazil delivered positive returns in Q3 with investors focused on its upcoming presidential election.

Active managers in the emerging markets space outperformed during Q3; however, results were mixed among active managers in the developed international space.



## Fixed Income

During Q3, negative performance continued across fixed income markets. The 10-year US Treasury yields rose 85 basis points from 2.98% to 3.83%. The Federal Funds rate was increased by 75 basis points twice during the quarter, as the FOMC continued to respond to inflationary pressures. However, long-term rates remained anchored to market expectations for an eventual curbing of inflation and the risk of recession. The Bloomberg US Aggregate Bond Index ended Q3 with a return of -4.8%.

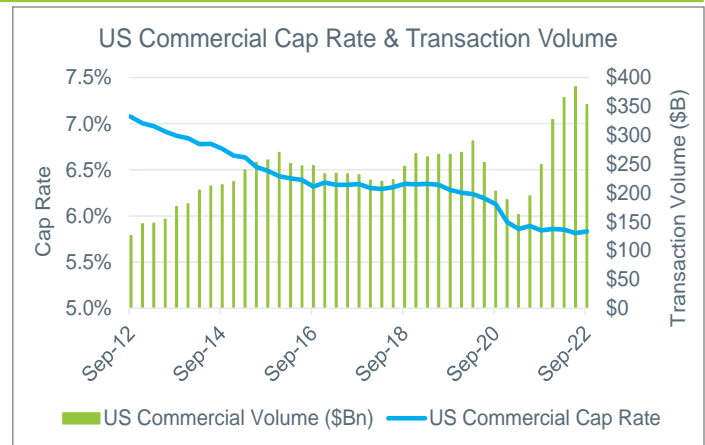
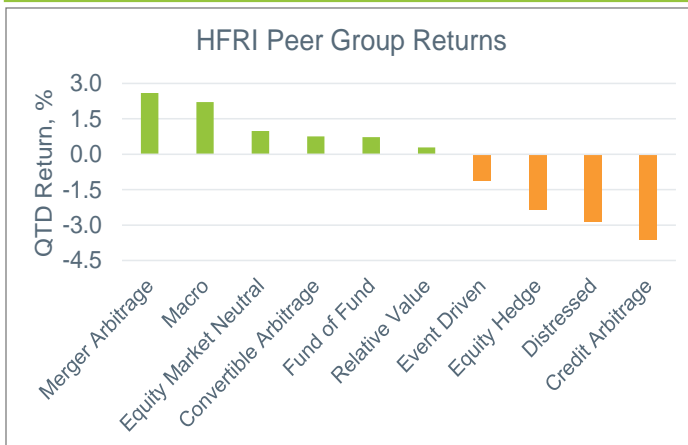
Within the US bond market, fixed-rate agency mortgage-backed securities (MBS) were the top detractor, declining -5.4% in Q3 as measured by the Bloomberg MBS Fixed Rate Index. MBS spreads widened amid the reduction of the US Federal Reserve balance sheet. Within credit, investment grade underperformed both high yield and bank loans, which have relatively less interest rate sensitivity.

Emerging market debt continued to experience headwinds from the ongoing Russia-Ukraine war and US Dollar strength. However, foreign developed debt markets experienced the most severe turbulence, primarily due to fiscal policy changes in the United Kingdom and a developing energy crisis in Europe. Hard currency emerging market bonds declined -4.6%, while foreign developed market debt declined -10.0%, as measured by the JPM EMBI Global Diversified Index and the FTSE Non-US WGBI (Unhedged) Index, respectively.

## Multi-Asset

Global Tactical Asset Allocation (GTAA) strategies that RVK follows closely posted losses for the second consecutive quarter. Given US Dollar strength and a relatively strong quarter for US equity, compared to other risk asset classes, nearly all active managers providing broader diversification underperformed a US-centric blend of 60% equity and 40% fixed income. The top-performing long-biased GTAA strategies were those that have been including meaningful market neutral, idiosyncratic relative valuation exposures. Underperforming strategies tended to hold larger allocations to non-US equity and non-USD fixed income. Multi-asset managers who target reduced correlations, low volatility, and limited market sensitivity produced less disparate and generally stronger absolute returns, especially in cases where relative value interest rate positioning and long-US Dollar exposures were incorporated.

Despite headwinds that have affected nearly all asset classes, Diversified Inflation Strategies (DIS) tracked closely by RVK have outperformed a US-centric blend of 60% equity and 40% fixed income for the quarter and year. After responding positively to record inflationary pressures in Q1, DIS again posted losses for the second consecutive quarter ranging from the negative mid-single digits to negative low double-digits. A key detractor has been the impact of significant interest rate increases combined with changing market estimates of future economic growth on allocations to inflation-sensitive asset classes.



## Diversified Hedge Funds

Dispersion continued to be the theme across hedge fund strategies during Q3. Consistent with the first six months of the year, Macro and Trend Following strategies produced positive results, taking advantage of continued upward trends in global interest rates and the US Dollar. The HFRI Macro Index returned 2.2% in Q3, while the SG Trend Index rose 5.1%. For the year, trend followers are now up 35.6%, massively outperforming the rest of the hedge fund industry.

In terms of the market neutral multi-strategy funds RVK follows closely, most managers were able to build on positive results in the first half of the year and add to net returns. Managers generally made money across both equity and fixed income trading, though volatility in rates markets in September caught some firms wrong-footed. Stronger performers in this group have posted double digit gains year-to-date.

Regarding equity-focused strategies, alpha generation across the industry recovered in Q3 from a difficult first half, as managers added alpha on both the long- and short-sides of portfolios. Managers have been positioned defensively in recent months, with net exposure levels remaining near historical lows dating back to 2009. Despite this aggregate defensive positioning, managers continue to maintain fairly high growth-oriented exposure, including allocations to the technology and healthcare sectors.

## Real Estate

Core private real estate generated a positive 0.5% return in Q3 (on a preliminary and gross of fee basis), as reported by the NFI-ODCE Index, with a return contribution of 0.8% from income and -0.3% from price appreciation. The income return continues to trend at the lower end of historical levels while price appreciation turned negative. Investors of publicly traded real estate significantly underperformed their private market counterparts. Publicly traded real estate delivered a return of -11.2% in Q3, as measured by FTSE/NAREIT All REITs Index.

In Q3, private real estate markets experienced significant challenges as a direct result of disruptions in capital markets. The current elevated inflationary environment, coupled with rising interest rates, is contributing to cap rate expansion, increased discount rates, and compression in real estate yields relative to BBB corporate bonds (a common measure of relative attractiveness of real estate investments). Investors are also finding it increasingly difficult to secure financing in most sectors as banks pare back lending.

While these factors are impacting most sectors, it is acutely apparent that the office sector is most negatively impacted. Specifically, there are indications of stress in urban central business district assets with significant near-term lease roll as forecasts are clouded by uncertainty around when or if there will be a reversal of the work-from-home or hybrid work model.



## Disclaimer

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RVK was founded in 1985 to focus exclusively on investment consulting and today employs over 100 professionals. The firm is headquartered in Portland, Oregon, with regional offices in Boise, Chicago, and New York City. RVK is one of the five largest consulting firms in the world, as reported by Pensions & Investments' 2021 Special Report—Consultants. Additionally, in April 2022, RVK received a notable award as a Coalition Greenwich Quality Leader among large US investment consultants, based on Greenwich's 2021 study. Coalition Greenwich is an industry-recognized third-party firm which asks plan sponsors to rank their consultants on a series of key metrics. Notably, RVK is the only firm among large US consultants to receive an award for a fifth consecutive year.<sup>1</sup> RVK's diversified client base of nearly 200 clients covers 30 states, and covers endowments, foundations, corporate and public defined benefit and contribution plans, Taft-Hartley plans, and high-net-worth individuals and families. The firm is independent, employee-owned, and derives 100% of its revenues from investment consulting services.

<sup>1</sup>Between July and October 2021, Coalition Greenwich conducted phone interviews with 811 individuals from 661 of the largest tax-exempt funds in the US—including corporate and union funds, public funds, and endowments/foundations with either pension or investment pool assets greater than \$150 million. Study participants were asked to provide quantitative and qualitative evaluations of their asset managers and investment consultants, including qualitative assessments of those firms soliciting their business and detailed information on important market trends. RVK is one of three firms recognized in the large investment consultant category. The ratings may not be representative of any one client's experience with RVK; rather they are representative of those clients that chose to participate in the survey. The results are not indicative of RVK's future performance.

To read the Greenwich press release, please refer to the following URL: <https://www.greenwich.com/institutional-investing/investment-consultants-strengthen-role-top-advisors-us-asset-owners>