Capital Markets Review | 1st Quarter 2022

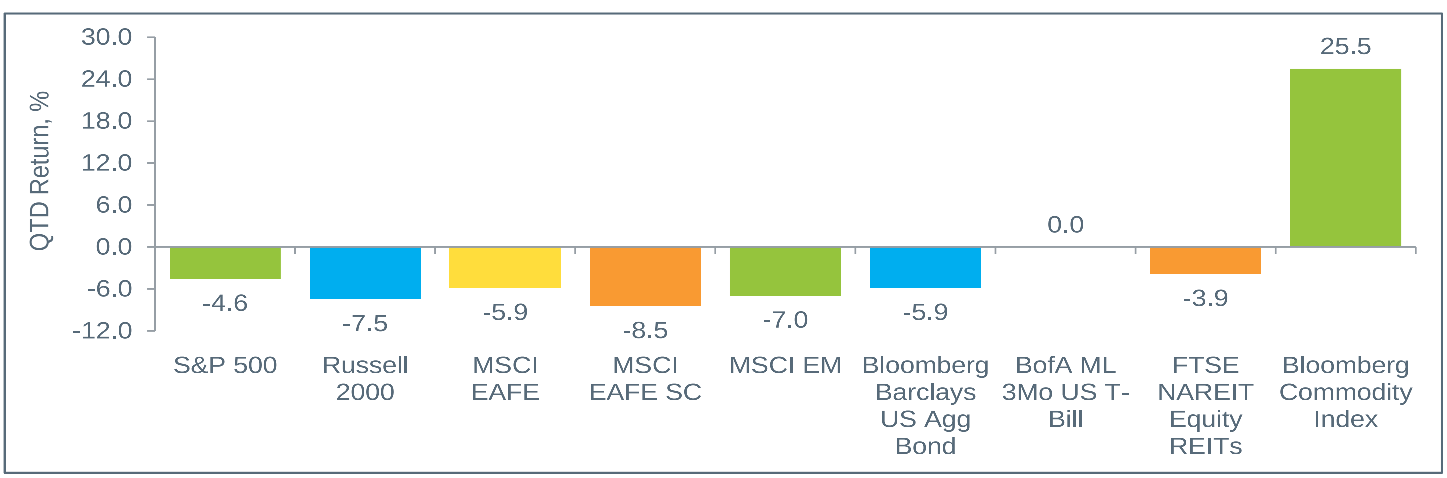
March 31, 2022

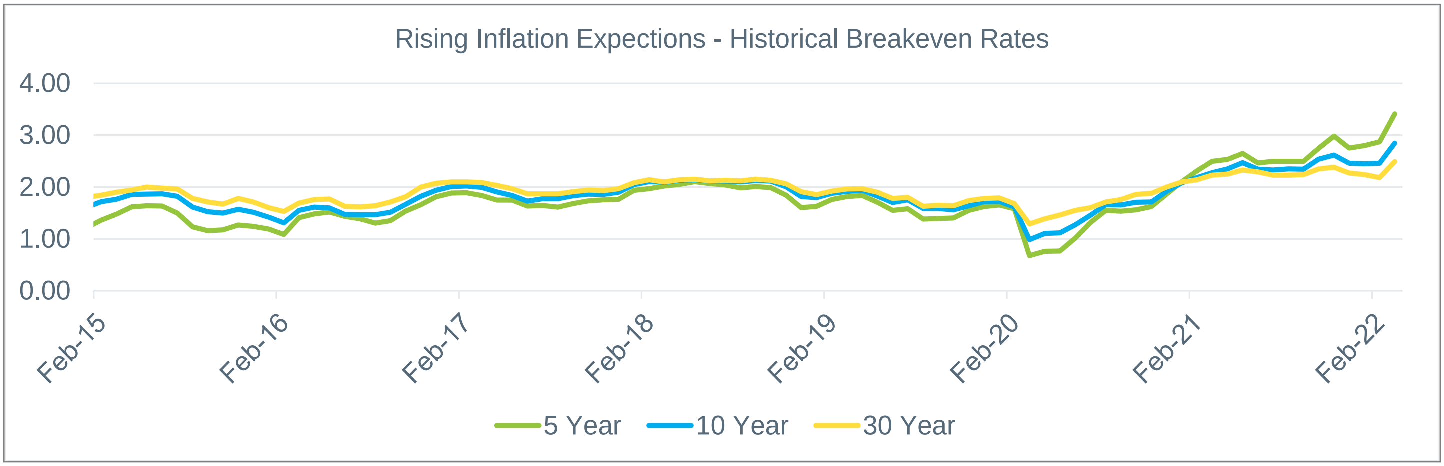
Overview

Markets entered the year amid economic conditions characterized by high and rising inflation, a strong and improving labor market, and robust economic growth fueled by persistent consumer goods demand. With this backdrop, developed market central banks began the year signaling a willingness to gradually tighten financial conditions to prevent the economy from overheating. As markets began to discount this tightening into asset prices, volatility increased as both global equities and fixed income instruments declined, while inflation-sensitive assets, like commodities, generally moved higher. The inflationary trends were exacerbated in late February and early March when the Russian Federation launched a full-scale military invasion of neighboring Ukraine. Russia is the world's largest exporter of natural gas, the second-largest exporter of crude oil, as well as an important global source of industrial metals and agricultural products. Given this, the invasion triggered a supply shock that roiled commodity markets and pushed central banks into increasingly hawkish stances on inflation, while raising the potential of a recession in Europe. Despite a brief rally in March, global equities finished the quarter down -5.4% as measured by the MSCI All Country World Index, and core bond prices fell -5.9%, the worst quarter for the Bloomberg US Aggregate Bond Index since 1980. By contrast, commodities produced outsized gains in Q1 with the Bloomberg Commodity Index returning 25.5%.

Though the Russian invasion of Ukraine grabbed headlines across traditional news outlets, inflation and global central banks were the principal drivers of market performance during the quarter. The most significant story for investors was accelerating inflation dynamics in the US amidst one of the tightest labor markets in history. The unemployment rate finished the quarter at 3.6%, while average monthly non-farm payroll growth exceeded 561,000. Quit rates and job vacancies remained near all-time highs, indicating elevated labor bargaining power, even as the labor force participation rate climbed to a pandemic-era high of 62.4% by quarter-end compared to 61.9% in December 2021. Labor market dynamics, though positive in isolation, present a challenge to policymakers as wage growth takes hold and supports a feedback loop to more persistent inflation. The Federal Reserve Bank of Atlanta's (Atlanta Fed) wage growth tracker indicated year-over-year wage gains of 6.0% in March, up from levels closer to 3.0% less than a year ago. Consumer prices accelerated in tandem, as inflation broadened out across a wider variety of goods and services. Headline CPI finished March at an annual rate of 8.5%, the highest level since 1981, *(continued on next page)*

1st Quarter Performance



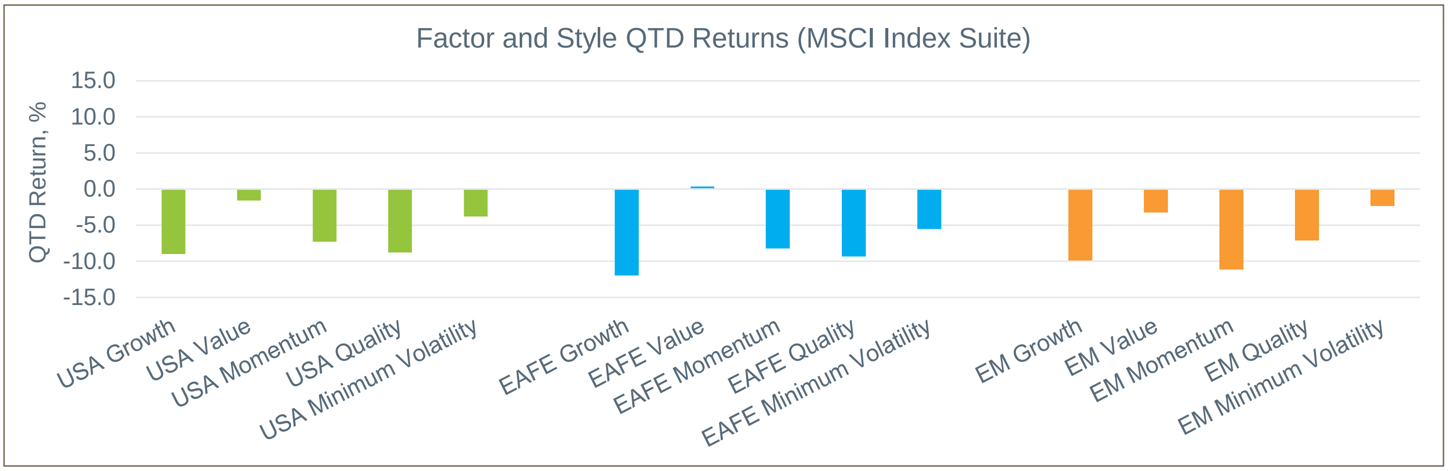


while core inflation increased to 6.5%. Fundamental economic conditions in the US remained solid, though economic growth appeared to moderate significantly from the pace set in 2021. The Atlanta Fed's GDP Nowcast forecasted Q1 growth at around 1.0% throughout much of the quarter, far below the annualized rate of 6.9% in Q4 2021. The slowdown in headline numbers was largely due to significant inventory builds during the second half of 2021, while the underlying trend in consumer spending growth remained largely intact. Recent readings of Purchasing Managers' Indexes (PMI) indicate continued US economic expansion, though at levels somewhat below that of the prior 12 months. Specifically, the ISM Manufacturing PMI finished the quarter at 57.1, while the Services PMI ended at 58.3, both well above 50 and firmly in expansionary territory.

Due to the changing economic conditions, the "dot plot" issued by the Federal Open Market Committee (FOMC) indicated an increase from the December estimate of three interest rate hikes in 2022 to seven hikes at the March meeting. Federal fund rate futures are pointing to more significant action occurring at upcoming meetings, implying a target rate in the range of 2.50% by year-end. The anticipated actions by the FOMC have substantial consequences for asset prices and the economy, as the rising risk-free rate puts downward pressure on equity prices through rising discount rates, while at the same time working to push financing costs higher across the spectrum of duration and credit assets.

Expanded Review of Key Economic Indicators

	Q1 2022	Q4 2021	Q3 2021	10 Year Average
Federal Funds Rate	0.33%	0.07%	0.06%	0.63%
Treasury - 1 Year	1.63%	0.39%	0.09%	0.76%
Treasury - 10 Year	2.32%	1.52%	1.52%	2.04%
Treasury - 30 Year	2.44%	2.08%	2.08%	2.71%
Breakeven Inflation - 5 Year	3.43%	2.91%	2.53%	1.82%
Breakeven Inflation - 10 Year	2.83%	2.59%	2.38%	1.96%
Breakeven Inflation - 30 Year	2.44%	2.38%	2.29%	2.04%
BB US Corp: Hi Yld Index - OAS	3.25%	2.83%	2.89%	4.38%
Capacity Utilization	78.30%	76.31%	75.09%	76.50%
Unemployment Rate	3.60%	3.90%	4.70%	5.60%
ISM PMI - Manufacturing	57.10%	58.80%	60.50%	54.45%
Baltic Dry Index - Shipping	2,358	2,217	5,167	1,278
Consumer Confidence (Conf. Board)	107.20	115.20	109.80	102.77
CPI YoY (Headline)	8.50%	7.00%	5.40%	1.96%
PPI YoY - Producer Prices	15.20%	12.20%	11.80%	1.80%
US Dollar Total Weighted Index	115.35	115.32	114.67	107.89
WTI Crude Oil per Barrel	$100	$75	$75	$66
Gold Spot per Ounce	$1,937	$1,829	$1,757	$1,430



US Equity

US equity markets declined in Q1, with each respective market cap and style index generating negative returns. The prospect of entering a rising rate environment for the first time since 2018, with multiple rate hikes expected by the end of the year, caused investors to revisit the elevated valuations within the equity market, especially among higher-growth companies. Volatility expectations, as measured by the CBOE Volatility Index, remained elevated in Q1 due to concerns over the pace of central bank action and Russia's invasion of Ukraine.

Growth stocks underperformed value stocks across all market capitalizations in Q1. The disparity between value and growth was heightened in small- and mid-cap stocks, with the Russell 2000 Value and Russell Mid-Cap Value outperforming their growth counterparts by 10.2% and 10.8%, respectively. The S&P 500 Index return of -4.6% marks just the seventh quarter in the last 10 years that the index has recorded a negative return.

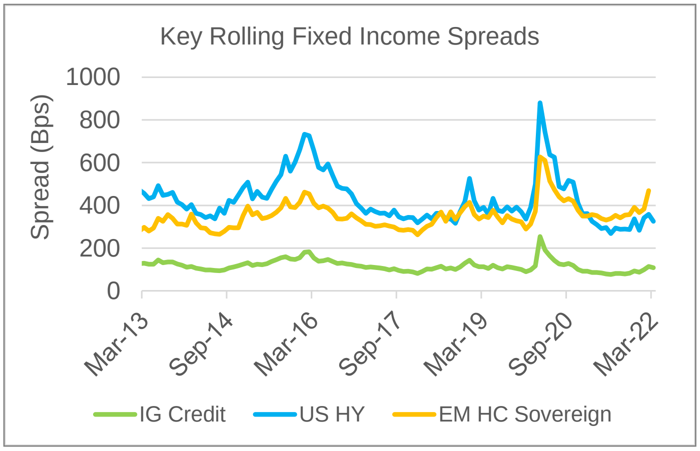
Active management had mixed results in Q1. Growth managers across the market cap spectrum struggled as top-performing stocks from previous years reversed sharply during the quarter. While value managers generally performed well, many small-cap value managers underperformed due to missing the rally among commodity-linked and energy companies that benefited from rising prices.

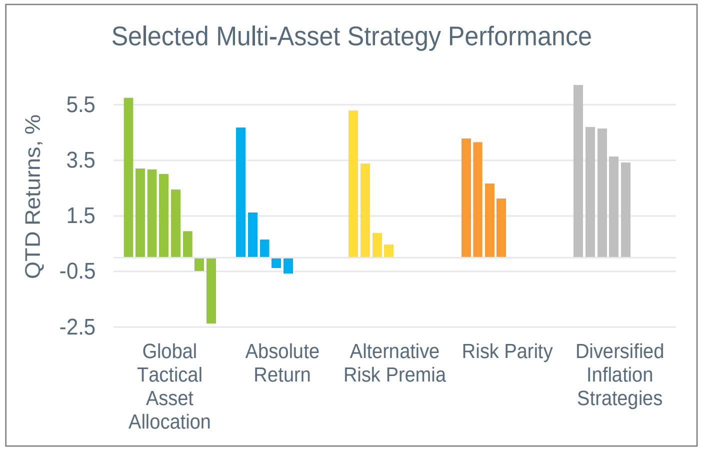
Non-US Equity

Developed international markets experienced negative absolute performance for the quarter, relatively in line with domestic markets. Value stocks were slightly positive for the quarter, significantly outperforming growth stocks, which saw double-digit negative returns. Small-cap stocks underperformed large-cap stocks due to the risk-off atmosphere. Given the inflationary environment, cyclical sectors performed best, with energy, materials, and financials positive and all other sectors negative. Most developed international country returns were negative, except for more commodity-rich countries such as Norway, Canada, and Australia.

Emerging markets underperformed developed markets during the quarter, with the invasion of Ukraine serving as a significant negative catalyst, as sentiment turned negative for the highest growth stocks within emerging markets. Value stocks outperformed growth stocks but were still in negative territory, and small-cap stocks lagged large-cap stocks. Cyclical stocks outperformed relative to most, although only financials and materials saw positive returns while energy was negative.

Specific to Russia, the country started Q1 with a 3.6% weight in the MSCI Emerging Markets Index—its removal was announced on March 9th following a ban on foreign trading within the country. Generally, exposure to high growth companies or Russia were significant headwinds for active managers that held allocations to either.





Fixed Income

During Q1, Treasury yields rose from 1.52% to 2.32% as measured by the 10-year US Treasury yield—an 80-basis point rise over a single quarter. The invasion of Ukraine represented an exogenous shock, which further heightened global inflationary concerns.

In response to the changing economic conditions, the FOMC increased the federal funds rate by 25 basis points—the first of an anticipated series of rate hikes in 2022. These rate increases are in addition to its previously announced tapering of its bond purchasing program.

The Bloomberg US Aggregate returned -5.9% for the quarter. US Investment Grade Credit declined -7.4% in Q1, while US High Yield lost -4.8%, as measured by the Bloomberg US Credit Index and Bloomberg US High Yield Index, respectively.

While lower quality issues marginally outperformed during the quarter, the increase in rates and widening spreads created headwinds for credit across the quality spectrum.

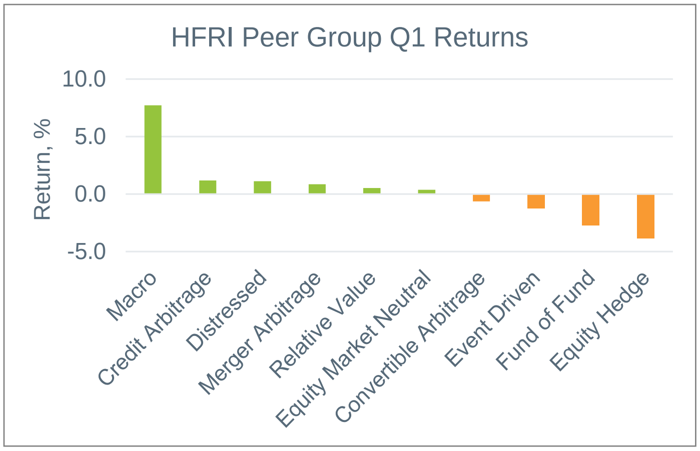
The war in Ukraine and humanitarian crisis prompted a multitude of economic sanctions against Russia, which precipitated an elevated risk-off sentiment among emerging market debt investors. As a result, the JPM EMBI Global Diversified Index declined -10.0% during the quarter.

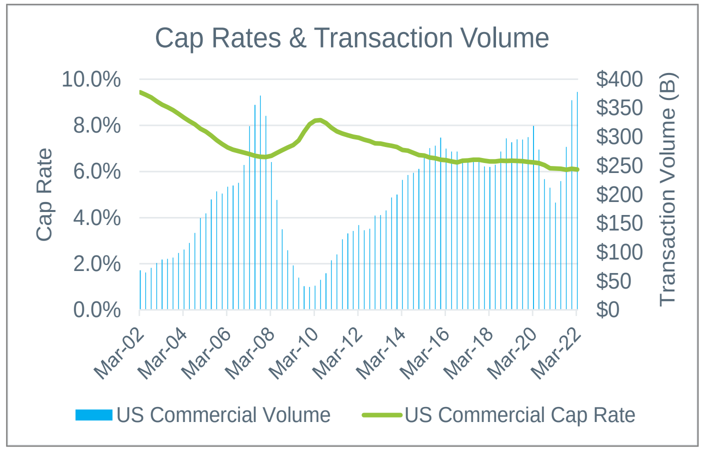
Multi-Asset

Global Tactical Asset Allocation strategies that RVK follows closely generated disparate performance in Q1. The top-performing long-biased GTAA strategies tended to emphasize measures of relative undervaluation in their asset allocation processes, while strategies that underperformed peers tended to hold larger allocations to developed market equity, particularly within specific sectors, such as technology, and smaller market capitalization equities.

Multi-asset managers who target reduced correlations, volatility, and market sensitivity also produced disparate absolute returns, with some providing attractive downside capture. However, some failed to deliver the desired diversification characteristics. Among this cohort, managers with the best performance generally held negative duration and relative value fixed income positions.

Diversified Inflation Strategies that RVK follows closely responded to high inflation and generated positive absolute performance, ranging from mid-single-digits to low double-digits. Managers with larger equity and commodity exposures to natural resources posted the strongest absolute returns during the quarter, while managers with larger exposures to global listed infrastructure, REITs, and TIPS underperformed peers. While headline and core inflation continued to climb, market-based measures of future inflation expectations remain around a more moderate 2.8%.





Diversified Hedge Funds

Hedge fund strategies exhibited significant return dispersion in Q1 depending on a strategy's level of equity beta. Hedged Equity managers produced returns of -3.9% during the quarter, significantly underperforming global equity benchmarks on a beta-adjusted basis. Underperformance generally resulted from long exposures lagging relative to indexes, particularly within the healthcare, technology, and consumer sectors, while shorts tended to add value.

The Market Neutral Multi-Strategy platforms RVK tends to favor produced returns, on average, ranging from slightly positive to over 5.0%. Such strategies tend to greatly reduce factor and crowding risks inherent in typical hedged equity strategies, and they are generally able to sidestep large market rotations as a result. Alpha was balanced across both equity and fixed income trading, with certain event-driven positions also adding to returns. The best-performing firms during Q1 generally had quantitative macro strategies.

The HFRI Systematic Diversified Index produced returns of 9.9%, and the SG Trend Index produced returns of 17.7%. Coming into the quarter, trend following firms were generally positioned with long exposure to commodities and short fixed income exposure amid developing inflationary pressures. The accelerating inflation dynamics in the US and Europe helped push rates higher, while the war in Ukraine generally led to price level increases across energy, metals, and grains.

Real Estate

Core private real estate generated a positive 7.4% return in Q1 (on a preliminary and gross of fee basis), as reported by the NFI-ODCE Index, with the total return comprising 0.9% income and 6.4% price appreciation. While the income return is trending at the lower end of historical levels, the price appreciation return remains elevated. Investors in publicly traded real estate significantly underperformed their private market counterparts. Publicly traded real estate delivered a negative Q1 total return of -5.2%, as measured by FTSE/NAREIT All REITs Index.

Positive performance from the industrial and apartment sectors drove overall real estate returns, while retail and office sector returns were flat to negative. The quarter showed some emerging signs of recovery within discretionary retail assets, with necessity-based and grocery-anchored formats continuing to hold up relatively well.

The longer-term impact to office demand remains uncertain, as the pandemic-induced adoption of remote and hybrid work appears unlikely to revert to pre-pandemic norms in the near-term. After two years of remote work, many employees remain reluctant to return to the office full-time and give up the flexible arrangements to which they have become accustomed. The national office vacancy rate is just below 15% and trending incrementally in a favorable direction, however public studies have shown that only approximately 40% of office space is occupied daily.

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RVK

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 2021, RVK received a notable award as a Coalition Greenwich Quality Leader among large US investment consultants, based on Greenwich's 2020 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 fourth consecutive year.[1] RVK's diversified client base of over 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.

[1]Between July and October 2020, Coalition Greenwich (formerly known as Greenwich Associates) conducted in-person and phone interviews and online surveys with 856 individuals at 704 of the largest tax-exempt funds in the US–including corporate and union funds, public funds, endowments and foundations, insurance general accounts, and healthcare organizations, 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.

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