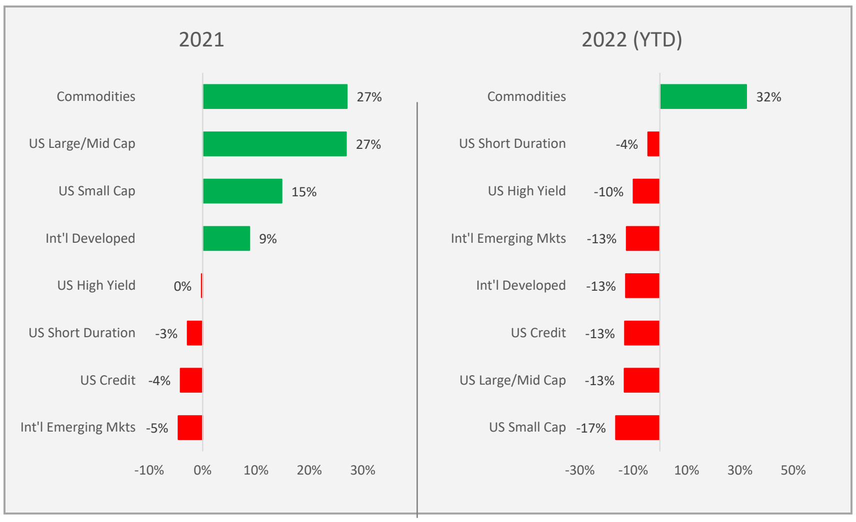
ECF Endowment Management | Second Quarter 2022

Return of Market Volatility

What a difference a year makes (see Table 1). After nearly two years of positive quarterly returns, some investors may have come to expect consistency while forgetting that volatility – the up and down movement of markets – is part of the path. In 2022, markets have not just been volatile but stuck in a rut of negative news that has affected performance for nearly two quarters. Nearly every asset class has participated in this downturn.

Table 1: Performances by Asset Class, 2021 vs 2022 (YTD)



Source: Refinitiv, as of 5/31/22

This time around, volatility is driven by concerns about inflation. Causes include:

1. **Supply chain disruptions** – Covid shutdowns in 2020 led to labor shortages, limited production, and delivery snarls as economies re-opened.
2. **Russia's invasion of Ukraine** – Further limits on raw materials and oil have exacerbated supply chain disruptions.
3. **China's zero-Covid policy** – China's strict shutdown policy during Covid surges closed all essential businesses, affecting both Chinese and foreign companies.

Although current inflation is caused primarily by limited supply rather than runaway demand, the Federal Reserve and other central banks globally have committed to fight inflation by raising interest rates to slow down spending.

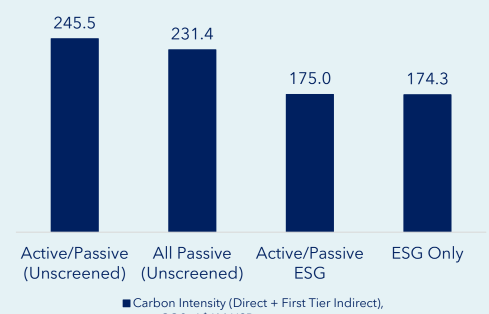
Cont'd on Page 2

Endowment Tip

Your investments provide funds for your organization's mission and ministry. Have you considered if the investments themselves could be part of that mission and ministry?

For churches seeking to respond to climate change, our new "active-passive ESG" and "ESG only" portfolios are less carbon intense than our other investment options. These portfolios include funds that screen companies based on a range of environmental, social and governance issues as well as those owning certain types of fossil fuels. Carbon intensity measures carbon emissions per unit of revenue. A company that produces more output with the same carbon footprint has lower carbon emissions per unit and therefore a lower carbon intensity score.

Carbon Intensity for 70/30 Portfolios (Equity Portion):



This measure may be important to all investors. For climate-focused investors, it may show an added benefit of aligning investments with mission. We encourage investment committees to set aside time at an upcoming meeting to consider any missional goals they may seek to add to other investment goals.

Return of Market Volatility—cont'd from Page 1

Invest for the Long-Term

The reminder that markets can be volatile is important. Investments often experience several 5-10% pullbacks during any given year and a recession approximately every decade. These factors have long been part of the investment environment.

Now, while future inflation and interest rates remain uncertain, short-term volatility (or Short Horizon Risk), as shown in Table 2, is elevated, driven by short-term surprises. However, long-term volatility forecasts (or Long Horizon Risk) remain lower. For endowments with long-term time horizons, markets have historically trended up over time, recovering relatively quickly from pullbacks. Indeed, a pullback can be a sign of a rotation that presents opportunities for long-term investors.

Table 2: State Street Global Advisors Forecasts by Asset Class

Asset Class	Short-Horizon Risk (Std Dev) (%)	Long-Horizon Risk (Std Dev) (%)
US Large Cap	15.3	4.6
US Small Cap	19.5	5.1
MSCI World ex US	15.3	5.1
Emering Markets	21.0	8.4
Global REITs	18.1	6.6
Commodities	15.4	5.4
US Government Bond	5.0	1.4
US Investment Grade Bond	4.4	1.3
High Yield	8.7	3.1
Emerging Market Bonds	13.4	3.5

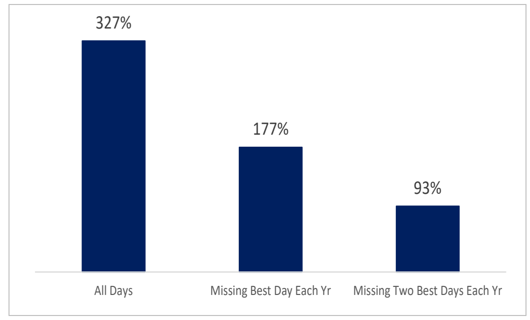
Source: State Street Global Advisors, as of April 2022

Long-term investment portfolios are designed to weather storms. They are built with strategic asset allocations based on long-term risk and return projections, seeing through day-to-day noise from the markets. They are broadly diversified. And tactical asset allocation shifts based on changing short term valuations are intended to carefully take advantage of the cyclical nature of markets.

Market Timing is A Tricky Business

Markets often react quickly when a crisis unfolds. These reactions are based on market sentiment, which oscillates between optimistic and pessimistic, overriding economic and market fundamentals. Over the medium to long term, however, markets typically revert to fundamentals, such as long-term growth. Quick, reactionary responses to headline news are tricky, and volatile markets move up and down unpredictably. Missing the single best performing day of the year has a significant negative impact. A portfolio invested in the S&P 500 from 2010 to 2021 showed a cumulative return of 327%, weathering the tapering of quantitative easing, the 2018 pullback, and a Covid-driven recession. A portfolio that was out the market on the best performing day each year resulted in a return of just 177%. Missing the two best performing days of the year would have resulted in a return of just 93% (see Table 3).

Table 3: Performance of S&P 500 (2010-2021)



Source: Refinitiv, as of May 2022

Diversification Is Your Friend

Volatility also reinforces the value of diversification in a portfolio. Often when one asset class struggles, another asset class shines. Indeed, when ranking returns by asset class, leadership often rotates each year. (see Table 4).

As the market moves, the best-performing asset class one year might be the worst-performing next year. Ensuring that a portfolio is allocated across asset classes is a key to dampening investment risk. This means spreading dollars across various asset classes based on long term goals, risk tolerance and time horizon. Typically, investors gain protection against wide swings in the market, and it is less likely that one investment alone will adversely affect the entire portfolio.

Opportunity to Align Endowment with Mission

Often during times of turmoil, an investment committee will reassess its long-term goals and review the risk and return

NEXT Quarterly Call

July 26th, 2-3pm (ET)
Please join us on 7/26 for the Q2 2022 quarterly call.

Guest Speakers include:
SSgA 's Chief Investment Officer
SSgA's Chief Global Economist

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Table 4: Annual Performances by Asset Class

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
R2000 26.9%	US TIPs 13.6%	Global REITs 27.7%	R2000 38.8%	Global REITs 15.0%	S&P 500 1.4%	R2000 21.3%	MSCI EM 37.3%	US AGG 0.0%	S&P 500 31.5%	R2000 20.0%	Global REITs 31.3%
S&P 400 26.6%	US AGG 7.8%	MSCI EM 18.2%	S&P 400 33.5%	S&P 500 13.7%	EM Debt 1.2%	S&P 400 20.7%	MSCI EAFE 25.0%	US TIPs -1.3%	S&P 400 26.2%	S&P 500 18.4%	S&P 500 28.7%
Global REITs 19.6%	US Int Credit 7.5%	S&P 400 17.9%	S&P 500 32.4%	S&P 400 9.8%	US AGG 0.6%	US HY 17.5%	S&P 500 21.8%	US Int Credit -2.2%	R2000 25.5%	MSCI EM 18.3%	Commodity 27.9%
Commodity 19.6%	EM Debt 7.4%	EM Debt 17.4%	MSCI EAFE 22.8%	US Int Credit 7.5%	US Int Credit -0.6%	Commodity 14.6%	S&P 400 16.2%	US HY -2.3%	MSCI EAFE 22.0%	S&P 400 13.7%	S&P 400 24.8%
MSCI EM 18.9%	US HY 4.4%	MSCI EAFE 17.3%	US HY 7.4%	EM Debt 7.4%	Global REITs -0.8%	S&P 500 12.0%	R2000 14.7%	EM Debt -4.3%	Global REITs 21.9%	US TIPs 11.0%	R2000 14.8%
US HY 15.2%	S&P 500 2.1%	R2000 16.4%	Global REITs 3.7%	US AGG 6.0%	MSCI EAFE -0.8%	MSCI EM 11.2%	Global REITs 10.4%	S&P 500 -4.4%	MSCI EM 18.4%	US Int Credit 9.8%	MSCI EAFE 11.3%
S&P 500 15.1%	S&P 400 -1.7%	S&P 500 16.0%	US Int Credit -1.5%	R2000 4.9%	US TIPs -1.4%	EM Debt 10.2%	EM Debt 10.3%	Global REITs -5.6%	EM Debt 15.0%	MSCI EAFE 7.8%	US TIPs 6.0%
EM Debt 12.4%	R2000 -4.2%	US HY 15.6%	US AGG -2.0%	US TIPs 3.6%	S&P 400 -2.2%	US Int Credit 6.0%	US HY 7.5%	R2000 -11.0%	US HY 14.4%	US AGG 7.5%	US HY 5.4%
US Int Credit 9.5%	Global REITs -6.5%	US Int Credit 10.4%	MSCI EM -2.6%	US HY 2.5%	R2000 -4.4%	US TIPs 4.7%	US Int Credit 6.5%	S&P 400 -11.1%	US Int Credit 14.2%	US HY 6.2%	US Int Credit -1.0%
MSCI EAFE 7.8%	Commodity -8.8%	US TIPs 7.0%	EM Debt -5.3%	MSCI EM -2.2%	US HY -4.6%	Global REITs 4.1%	Commodity 3.6%	Commodity -11.7%	US AGG 8.7%	EM Debt 5.3%	US AGG -1.5%
US AGG 6.5%	MSCI EAFE -12.1%	US AGG 4.2%	US TIPs -8.6%	MSCI EAFE -4.9%	MSCI EM -14.9%	US AGG 2.7%	US AGG 3.5%	MSCI EAFE -13.8%	US TIPs 8.4%	Commodity 1.4%	EM Debt -2.1%
US TIPs 6.3%	MSCI EM -18.4%	Commodity -0.4%	Commodity -9.1%	Commodity -15.2%	Commodity -23.5%	MSCI EAFE 1.0%	US TIPs 3.0%	MSCI EM -14.6%	Commodity 6.1%	Global REITs -9.0%	MSCI EM -2.5%

Source: ECF, Refinitiv, State Street Global Advisors, as of Jan 2022

characteristics of its portfolio. This review could be time to consider an additional goal – how to implement your values with the organization's mission and values.

Over the last 20 years, assets invested towards positive environmental and social change have grown. Europe has dominated the world in sustainable investing, with approximately 41% of managed asset invested in a sustainable, responsible or impact approach (Global Sustainable Investment Alliance, as of 2020). In Asia-Pacific, 37.9% of total managed assets in Australia and Asia were invested in a sustainability approach. Heightened awareness of issues such as climate change, corporate behavior, and workplace diversity have created momentum here in the U.S. as well. In 2014, just 16.6% of managed assets were invested sustainably, but by 2020 this had grown to 33.2%.

Over time, responsible investing goals have been met in a couple of different ways, including exclusionary screening and shareholder activism. Today a third option has emerged – inclusionary screening, or actively investing in certain companies with desired characteristics. Typically, these are companies showing environmental, social and governance (ESG) leadership. See Table 5 for details about the range of issues that fall within ESG. As committees consider the long-term goals of their endowments, aligning mission with investments may be an important consideration.

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Table 5: Current Issues in ESG

3 Pillars	10 Themes	35 Key ESG Issues	
Environment	Climate Change	Carbon Emissions Product Carbon Footprint	Financing Environmental Impact Climate Change Vulnerability
	Natural Capital	Water Stress Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green Building	Opportunities in Renewable Energy
Social	Human Capital	Labor Management Health & Safety	Human Capital Development Supply Chain Labor Standards
	Product Liability	Product Safety & Quality Chemical Safety Consumer Financial Protection	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing Community Relations	
	Social Opportunities	Access to Communications Access to Finance	Access to Health Care Opportunities in Nutrition & Health
Governance	Corporate Governance	Ownership & Control Board	Pay Accounting
	Corporate Behavior	Business Ethics Tax Transparency	

Source: ECF, MSCI