THE ECONOMIC CLIMATE
Real GDP increased at a 2.0% rate in Q1 (1.8% growth year-over-year). The slowdown from the prior quarter reflected weaker inventory buildups and slower business investment. An upturn in consumer spending was the greatest support to economic growth, as consumption has ticked along at a steady rate. The unemployment rate remained very tight at 3.6% in June. The workforce appears to be experiencing a healthy, and possibly low pain, rebalancing of resources. Many workers are returning to the workforce while fewer job openings are being posted. Both of these effects reduce the mismatch between workers available and available jobs.

MARKET PORTFOLIO IMPACTS
The U.S. consumer has shown resiliency. Household budgets have been strained by high inflation and a jump in interest rates; however, the boom in wealth over the past decade, fueled by a substantial bull market in stocks and in residential real estate, may provide a cushion in the next downturn. It remains unclear whether the U.S. will face recession in the near term. The Cboe VIX implied volatility index fell to a surprisingly low level, despite broad expectations of recession, regional bank risks, and other not-yet-known consequences of liquidity withdrawal from the financial system. The index fell from 18.7% to 13.6% during the second quarter.

THE INVESTMENT CLIMATE
The Fed implemented an additional rate hike to a new range of 5.00 – 5.25%, but longer-term U.S. interest rates remain anchored. This has resulted in the most deeply inverted U.S. yield curve since the early 1980s at -1.06% (defined as 10-year UST yield minus 2-year UST yield). Inflation fell further in the U.S., with June CPI coming in at a surprisingly low 3% year-over-year and Core CPI at 4.8%. Weakening energy prices have had a big impact on overall inflation levels, though prices appear to also be softening across many other types of goods and services, suggesting milder inflation is not solely an energy story.

<table>
<thead>
<tr>
<th>Investment Portfolio</th>
<th>Quarter ended 6/30/23</th>
<th>Year to Date ended 6/30/23</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>5 Year Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inland Empire Community Foundation</td>
<td>4.0</td>
<td>9.7</td>
<td>10.7</td>
<td>8.2</td>
<td>5.5</td>
</tr>
<tr>
<td>Blended Benchmark</td>
<td>3.8</td>
<td>9.6</td>
<td>10.6</td>
<td>6.8</td>
<td>5.4</td>
</tr>
</tbody>
</table>

**Market Benchmarks**

| Domestic Stocks - S&P 500 | 8.7 | 16.9 | 19.6 | 14.6 | 12.3 |
| International Stocks - MSCI ACWI ex US | 2.7 | 9.9 | 13.3 | 7.7 | 4.0 |
| Bonds - Barclays Capital Aggregate | -0.8 | 2.1 | -0.9 | -4.0 | 0.8 |
| Cash - 91-Day Treasury Bills       | 1.2 | 2.3 | 3.6 | 1.3 | 1.6 |

**Notes:** The above are the historical returns for The Inland Empire Community Foundation portfolio, net of investment management fees. These returns are compared to a blended benchmark of the underlying manager’s individual benchmarks. **Historical returns are not a predictor of future returns.**
Asset Allocation & Philosophy
Making sound strategic decisions on the structure of a portfolio has a profound influence on investment results which is why the Foundation has a diversified portfolio with a long-term time horizon. The portfolio is invested in accordance with a core principle of successful investing which acknowledges that a diversified portfolio across different asset classes should provide a sustainable rate of income while minimizing the volatility that affects all investments to varying degrees. The portfolio is periodically rebalanced to target allocations to maintain portfolio equilibrium, increase value and support donor’s spending over the long term. The pool will remain liquid and not include an allocation to illiquid alternative investments.

Process & Governance
The Foundation’s portfolio is reviewed at least quarterly by the Investment Committee and the Foundation’s investment consultant (Verus Advisory). On an on-going basis the Investment Committee and Verus Advisory review:

- Strategic Investment Opportunities
- Fund Manager Analysis
- Manager Searches (as needed)
- Market Environment
- Portfolio Allocations
- Investment Performance
- Education on Various Investment Topics
- Capital Market Assumptions

The Investment Committee and Verus Advisory recognize that we must avoid focusing on the short term which always plays out randomly and unpredictably and instead look forward over the long term where we can achieve a reasonable degree of certainty. We will continue to focus on a sound investment policy for the benefit of our donors and will continue to employ best practices as we oversee the Foundation’s investments.