Inland Empire Community Foundation
where giving grows

# Investment Performance & Commentary
# September 30, 2023

## THE ECONOMIC CLIMATE

Real GDP increased at a 2.9% pace from a year ago in Q3 (4.9% QoQ annualized rate). The large uptick was driven by consumption, which continues to show resiliency. A combination of pandemic related excess savings and a strong decade of household wealth expansion is likely providing a cushion against an economic slowdown. The unemployment rate increased slightly during the quarter from 3.6% to 3.8%, though this appears to be due to more workers rejoining the labor force and seeking employment (a positive rather negative development). The total size of the U.S. workforce grew by 580,000 in Q3.

## MARKET PORTFOLIO IMPACTS

The U.S. consumer has shown resiliency, with ongoing moderate spending activity. However, personal savings rates are nearly the lowest on record. We believe depressed savings activity without a commensurate surge in spending, and very poor sentiment, suggests high inflation is squeezing household budgets. The Cboe VIX implied volatility index remained below average for most of the third quarter, before rising to 17.5 to end September. Market risk has been falling fairly consistently throughout the year, which may be at least partly attributed to the perception that certain risks, such as regional bank contagion and near-term recession, have eased.

## THE INVESTMENT CLIMATE

The 10-year U.S. Treasury yield increased during the quarter to 4.58% - a level not seen since 2007 – likely supported by higher for longer interest rate expectations. This led to a flattening of the yield curve. U.S. headline inflation ticked up from 3.1% to 3.7% year-over-year. Core CPI (ex-food & energy) continued to fall from 4.9% to 4.1%. Shelter costs jumped unexpectedly in September showing the largest rise since May, and along with rising energy prices have generated concerns of renewed inflation. A material weakening of the job market and U.S. economy will likely be needed to bring inflation down to a 2% level.

| Investment Portfolio | Quarter ended 9/30/23 | Year to Date ended 9/30/23 | 1 Year Return | 3 Year Return | 5 Year Return |
|---|---|---|---|---|---|
| **Inland Empire Community Foundation** | -2.6 | 6.9 | 14.4 | 5.3 | 4.5 |
| *Blended Benchmark* | *-3.2* | *6.0* | *14.0* | *3.6* | *4.2* |
| ***Market Benchmarks*** | | | | | |
| **Domestic Stocks -** *S&P 500* | *-3.3* | *13.1* | *21.6* | *10.2* | *9.9* |
| **International Stocks -** *MSCI ACWI ex US* | *-3.7* | *5.8* | *21.0* | *4.2* | *3.1* |
| **Bonds -** *Barclays Capital Aggregate* | *-3.2* | *-1.2* | *0.6* | *-5.2* | *0.1* |
| **Cash -** *91-Day Treasury Bills* | *1.3* | *3.6* | *4.5* | *1.7* | *1.7* |

***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.***

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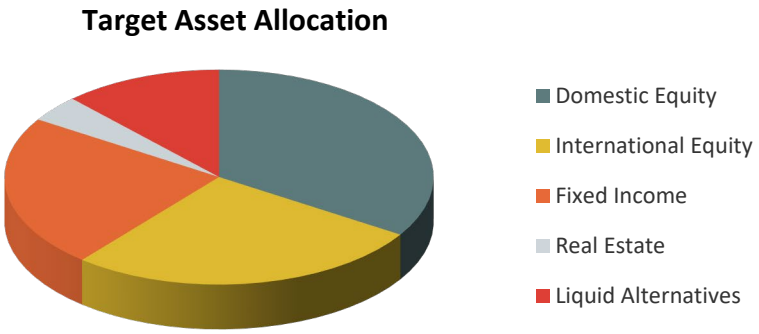
## Asset Allocation & Philosophy

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.