

Overview

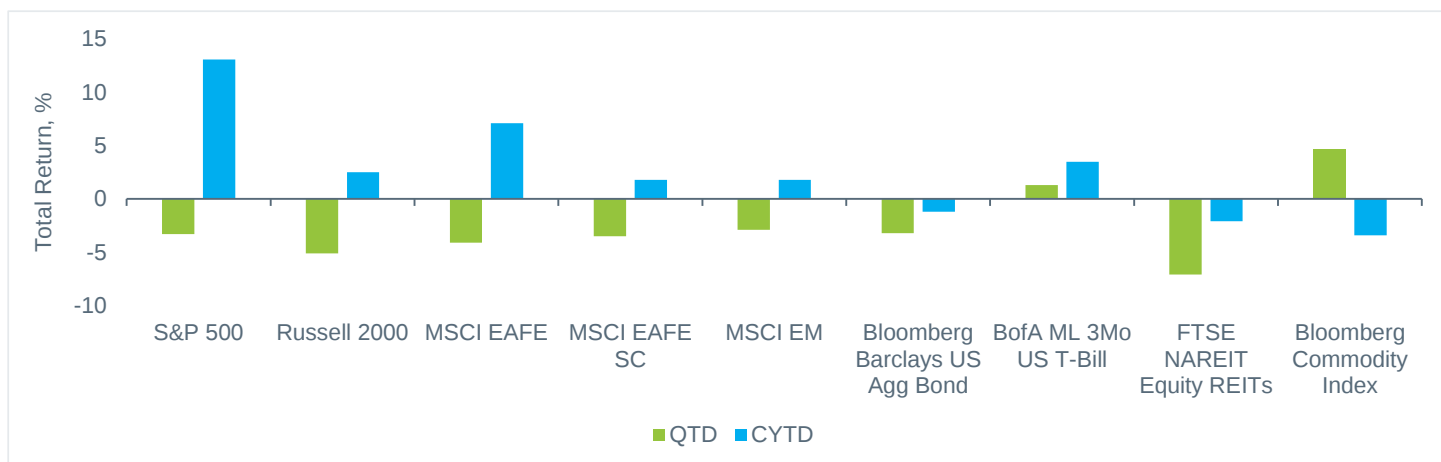
During Q3, investors grappled with mixed signals regarding the health of the economy and the direction of corporate profits. Several factors were at play, including an uptick in inflation, a downgrade to the US debt rating, ongoing labor negotiations and strikes, and uncertainty around the funding of the US government—all of which complicated the outlook for investors. As the prospect of a “higher for longer” outlook for interest rates was digested by investors, it led to increased volatility and negative equity market returns in the latter part of the quarter. Global equities, as represented by the MSCI All Country World Index, posted negative returns of -3.4% during the quarter, while global fixed income, as represented by the Bloomberg Global Aggregate Bond Index, also posted negative returns of -3.6%.

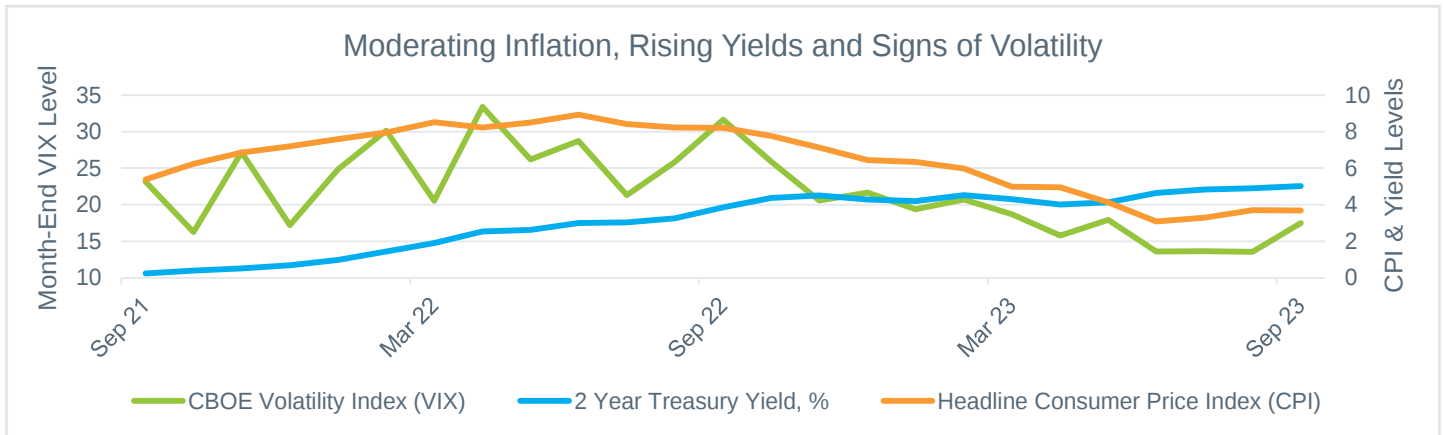
Among investors, there was an increasing focus on the behavior and financial health of the US consumer. Although labor market data releases, including wage growth, have exceeded expectations, rising energy costs and mortgage rates, as well as the resumption of student loan payments following a multi-year pause, raised concerns about a decline in consumer spending. According to forecasts from FactSet, expected Q3 earnings growth levels from S&P 500 companies have fluctuated between negative and positive based on preliminary data. Should Q3 2023 earnings finish lower than the Q3 2022 level, it would represent a fourth consecutive quarter of year-over-year negative earnings growth.

Global central banks and policymakers have continued to focus on the balance between maintaining downward pressure on inflation and avoiding significant disruption to economic growth. In its October World Economic Outlook, the International Monetary Fund noted that global headline inflation is projected to decelerate to 5.9% by the fourth quarter of 2023 and then to 4.8% by the end of 2024, compared to its 9.2% level in 2022. Within the US, rising energy prices drove the August and September readings of the Consumer Price Index (CPI) to 3.7% for consecutive months, higher than earlier in the year.

The Federal Open Markets Committee (FOMC) paused rate hikes during its September meeting—marking only the second pause since March 2022—but it also indicated that an additional rate increase should be expected before the end of the year. During their respective September meetings, the Bank of Japan kept policy rates unchanged while the European Central Bank (ECB) raised its policy rate to 4.0%. The ECB raised its rate for the 10th time over the past 14 months while indicating it was potentially *(continued on next page)*

3rd Quarter Performance





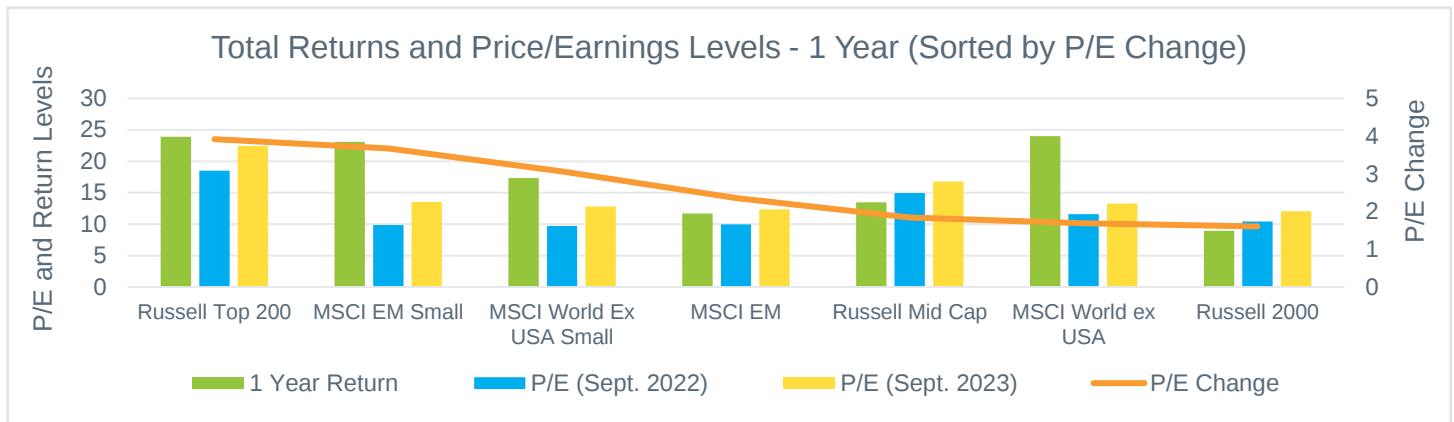
the final upward move given slowing economic growth. In contrast, the People's Bank of China cut rates in August in an attempt to boost economic activity but held them steady in September.

Global economic growth, as forecasted by the September Economic Outlook from the Organisation for Economic Co-operation and Development (OECD), projected moderating growth and elevated, albeit declining, inflation through 2024. GDP growth in the first half of 2023 rebounded from the second half of 2022, but the upward trend is not expected to persist. The OECD is currently forecasting global GDP growth of 3.0% in 2023 and 2.7% in 2024—representing a slight 0.3% increase to the 2023 forecast, and a slight 0.2% decrease for 2024, relative to prior forecasts.

However, the OECD cited multiple risks to these growth levels, including subdued growth from China, continued monetary policy tightening to combat inflation, and a lack of cooperation among the world's largest economies. In addition, the National Association of Business Economists' August survey found that more than two-thirds of the respondents were "somewhat to very confident" that a soft landing would be achieved, and 70% viewed a recession as further out than past expectations, with a low likelihood of a recession occurring within the next 9 months.

Expanded Review of Key Economic Indicators

	Q3 2023	Q2 2023	Q1 2023	10 Year Average
Federal Funds Rate	5.33%	5.07%	4.83%	1.14%
Treasury - 2 Year	5.03%	4.87%	4.06%	1.50%
Treasury - 10 Year	4.59%	3.81%	3.48%	2.27%
Treasury - 30 Year	4.73%	3.85%	3.67%	2.80%
Breakeven Inflation - 5 Year	2.25%	2.19%	2.49%	1.90%
Breakeven Inflation - 10 Year	2.34%	2.23%	2.33%	1.97%
Breakeven Inflation - 30 Year	2.40%	2.24%	2.25%	2.03%
BB US Corp: Hi Yld Index - OAS	3.94%	3.90%	4.55%	4.26%
Capacity Utilization	79.67%	78.90%	79.51%	77.39%
Unemployment Rate	3.80%	3.60%	3.50%	4.96%
ISM PMI - Manufacturing	49.00%	46.00%	46.30%	54.09%
Baltic Dry Index - Shipping	1,701	1,009	1,389	1,363
Consumer Confidence (Conf. Board)	103.00	109.70	104.20	107.97
CPI YoY (Headline)	3.70%	3.00%	5.00%	2.73%
PPI YoY - Producer Prices	2.50%	-3.10%	3.00%	2.78%
US Dollar Total Weighted Index	122.02	119.89	119.50	112.20
WTI Crude Oil per Barrel	\$91	\$71	\$80	\$64
Gold Spot per Ounce	\$1,834	\$1,914	\$2,004	\$1,473



US Equity

In Q3, US equity markets reversed into negative territory after an extended rebound earlier in the year. In the first half of 2023, US equity returns were driven primarily by growth-oriented companies, particularly the largest ones within the universe.

However, during the quarter, the performance of these mega-cap companies was mixed, with Apple, Amazon, and Microsoft each delivering negative returns, while Alphabet and NVIDIA provided some balance with positive returns. Among the sector returns, only the communications services and energy sectors provided investors with positive results, with the latter far outpacing other sectors.

By size, large-cap stocks fared better than mid- and small-cap stocks in Q3. From a style standpoint, there was no major dispersion between growth and value stocks among large- and mid-cap stocks. However, within small-cap, value stocks significantly outperformed growth stocks, with biotechnology stocks, which represent a significant portion of the small-cap growth space, experiencing a sharp decline during the quarter.

Compared to previous quarters, active large-cap managers generated higher excess returns on average due to reversals in some of the largest, best performing stocks and overall increased market volatility. Mid-cap and small-cap managers also generally performed well in Q3, with a majority outpacing their respective benchmarks.

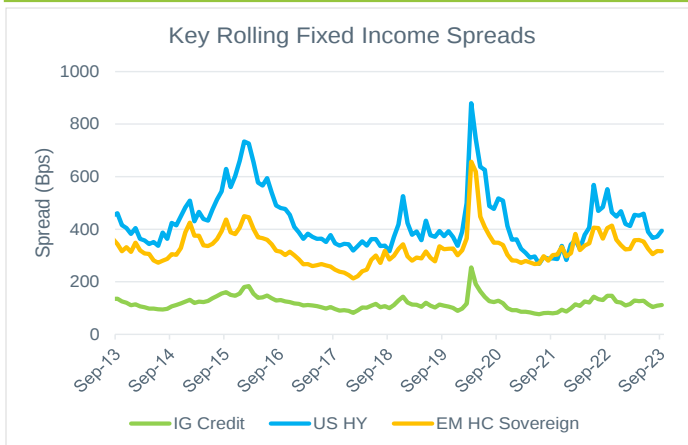
Non-US Equity

Developed international stocks lagged both US and emerging markets during Q3. On the style front, developed international value stocks outperformed growth stocks. Small-cap stocks outperformed large-cap stocks but not by a significant margin.

A key bright spot for international markets in Q3 was the energy sector, which was the only sector to end the quarter with positive returns which also drove the MSCI EAFE Value Index into positive territory. Production cuts that are supposed to last until the end of the year drove relatively positive sentiment around the energy sector. Despite the oil price spike, most European countries saw a slowdown in inflation. While the overall inflation rate in Europe trended lower and dropped to 4.3%, the ECB raised rates at its latest meeting.

Emerging markets equities outperformed developed markets for the quarter. Similarly, value outperformed growth due to a strong showing from the energy sector. Small-cap stocks outperformed large-cap by a sizeable margin. China continued to struggle but saw some improvement in retail sales and industrial production in August. Subsequently, the Chinese Communist Party continued to engage in stimulus, lowering reserve requirements and rates. However, consumer spending levels in China remain below expectations.

Results among active managers across developed and emerging markets were mixed. Generally, growth managers fared better against their benchmarks relative to their value counterparts.



Fixed Income

In Q3, the Fed increased rates by 25 basis points in July and paused in September keeping the target interest rate range unchanged. The FOMC reaffirmed its dedication to returning inflation to the 2% target and suggested the possibility of maintaining a more restrictive stance than previously anticipated. The latest “dot plot”, showing projections from FOMC members, suggest the potential for another rate hike in 2023 and a reduction in easing measures in 2024.

Treasury yields rose steadily, with the 10-year increase of 78 basis points ending at 4.59%. The yield curve became less inverted as investors sought higher income for longer maturities. The slope between 2-year and 10-year Treasury rates hit a low of -108 basis points in July and ended September at -44 basis points. Amidst this backdrop, the Bloomberg US Aggregate Bond Index returned -3.2% and the Bloomberg US Corporate Investment Grade Index returned -3.1%, while the Bloomberg US Corporate High Yield Index returned 0.5%, as lower-rated bonds outperformed during the quarter.

Emerging market debt remained vulnerable to increased US yields and a robust dollar. During the quarter, the JPMorgan EMBI Global Diversified Index, which tracks hard currency emerging markets, demonstrated relatively better performance with a return of -2.2%, while the JPMorgan GBI-EM Global Diversified Index, reflecting local currency markets, returned -3.3%.

Multi-Asset

Global Tactical Asset Allocation (GTAA) strategies that RVK follows closely generally posted negative returns in Q3. Long-biased strategies reported mixed performance, albeit with wide divergence, versus a static and less diversified blend of 60% US equity and 40% US fixed income (60/40 blend). The top-performing long-biased GTAA strategies, which managed to outperform US and global equities, featured greater exposures to emerging markets (ex China), Japan and value equity exposure, outpacing those that held larger US exposures with significant growth tilts.

Asset managers who targeted reduced correlations, low volatility, and limited market sensitivity again produced widely disparate absolute returns, with nearly all managers outperforming a static US-centric 60/40 blend with short energy positions being key detractors for some portfolios. Returns from Alternative Risk Premia strategies that RVK follows closely ranged from slightly positive to strongly positive over the quarter. The best performing managers in this peer group benefited from value stock exposure.

Diversified Inflation Strategy managers tracked closely by RVK reported mixed performance versus a US-centric 60/40 blend with manager performance ranging from strongly negative to slightly positive. Managers with larger exposures to long-duration fixed income, listed infrastructure, and real estate lagged peers most significantly while those with larger exposure to the energy commodity sector tended to outperform peers.

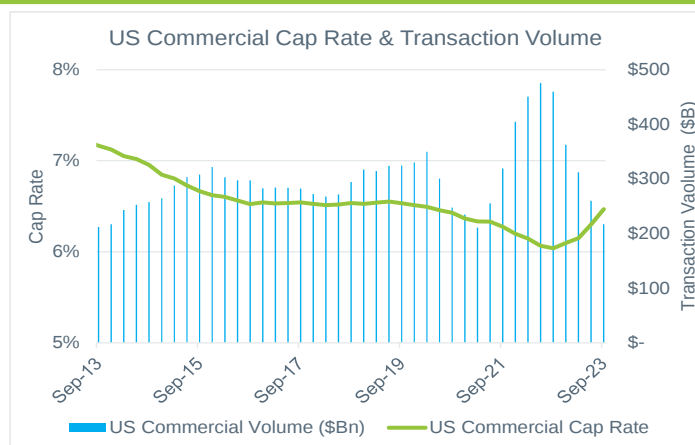


Diversified Hedge Funds

In Q3, hedge funds broadly delivered positive results amidst a backdrop of increased market volatility. The diversification benefits of these strategies were highlighted in September, with managers generally limiting downside capture to a fraction of the sharp equity market decline. The HFRI Fund-Weighted Composite Index reported a net return of 0.8% during the quarter.

Year-to-date, long/short equity strategies, directional quants, and event-driven managers focused on credit arbitrage and equity activism have been leading performers. While discretionary and systematic trend strategies have been more challenged in recent months, they exhibited a strong recovery in September driven by a macroeconomic backdrop of interest rate concerns. For multi-strategy and equity long/short managers, long alpha generation has been strongest in the communication services and industrials sectors while short alpha has been strongest in the communication services and financial sectors. In contrast, industrials and consumer discretionary shorts have been the key pain points across managers RVK follows closely.

Following a slow first half, event-driven strategies saw an uptick in activity during the quarter. Although the deal calendar and M&A activity continued to be slow overall, there has been a modest increase recently. However, recent high-profile IPOs have been met with sluggish debuts as market participants are being more judicious, prizing near-term profitability and lower debt levels.



Real Estate

Core private real estate returned -2.0% in Q3 (on a preliminary and gross-of-fee basis), as reported by the NFI-ODCE Index. The total return comprised of 0.9% from income and -2.9% from price appreciation. Income returns remained steady compared to Q2 but continue to trend at the lower end of historical levels while price appreciation remains negative with modest improvement over the Q2 level.

During the quarter, publicly traded real estate significantly underperformed private market counterparts by a meaningful margin with the FTSE NAREIT All REITs Index reporting returns of -8.0%.

In Q3, private real estate markets saw trends similar to the previous four quarters. Significant headwinds persisted due to disruptions in the capital markets from 2022. The industry remained volatile with increased borrowing costs resulting in resetting pricing expectations.

Transaction markets remained muted with wide bid-ask spreads as investors remained cautious, leading to limited liquidity. Generally, sectors with resilient underlying fundamentals have performed better compared to the ones that are more cyclically sensitive.

The office sector remains the most challenged as it relates to operating fundamentals with weakness in buyer interest, vacancy, leasing velocity, and the ability to refinance debt in the current environment.

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To read more about the Coalition Greenwich award, please refer to the following URL: <https://www.rvkinc.com/about/about.php>.