Global Strategic
NextGen OCIO

YEAR END LETTER
2023

STRONG 2023 MARKET RALLY ERASES MOST OF 2022 LOSSES

Top 4 Takeaways

1. 2023 - A REBOUND YEAR

Public market returns were strong in 2023, offsetting a significant portion of 2022 losses. A balanced public only 60% global equity / 40% fixed income strategy returned 15.9%. US Equities gained 26.5%, driven by the Magnificent Seven, which accounted for more than 58% of the S&P 500 total return. Non-US equities rose 15.6% in a more orderly broad-based rally. Bond returns also bounced back after a horrible 2022, returning 5.5% for the Bloomberg Barclays Aggregate index and 6.4% for the Bloomberg Municipal Index.

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2. FEDERAL RESERVE MONETARY POLICY

The Federal Reserve raised the Fed Funds Rate by 1% point in 2023 to finish the year at 5.33%. The higher interest rates have reduced inflationary pressures. The Fed is expected (Fed Dot Plot) to lower the Fed Funds Rate by 0.75% in 2024 to prevent overtightening the economy. By contrast, the market is forecasting a 1.5% decline in the Fed Funds Rate. The market's expectation of a dovish Fed fueled a late year equity market rally.

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3. VALUATIONS

Global Equity valuations rose slightly (became more expensive) in 2023 driven by U.S. Large Cap Growth stocks. Market valuations in US Large Cap Value, US Small Cap, and International Markets are more favorably priced. Public fixed yields have once again become meaningful contributors to balanced portfolio expected returns. Bond valuations are slightly more attractive than equities for the first time since 2007.

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4. SEMI-LIQUID PRIVATE MARKETS

Semi-liquid private market returns were positive and delivered mid-single digit returns. Private Credit was the best performing asset class, boosted by its floating rate features, and produced +10% returns on average.

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1. 2023 – A Rebound Year

Stock and Bond markets produced strong returns in 2023, despite the concern around "higher for longer" interest rates.

+15.9% 2023 Return for a 60% Global Equity and 40% U.S. Core Bond Portfolio

60/40 BALANCED PORTFOLIO

A public only balanced 60% Equity and 40% Fixed Income portfolio returned +7.4% in November 2023, the 11th best single month return since 1950.

STOCKS

When we combine the last 2 calendar years, 2022 and 2023, global equities narrowly erased their 2022 losses, whereas U.S. Small Cap and Emerging Market stocks are still negative.

BONDS

All major bond indices were positive in 2023, but core taxable and non-taxable bonds are still in the red for the 2-year period.

PRIVATE MARKETS (GSIS MODEL WEIGHTS)

Were mixed in 2023 relative to their public market equivalents but have outperformed all other asset classes over the trailing 2 years.

2022 and 2023 Returns

	Asset Class	2022	2023	2 Years	Index
Public	U.S. Large Cap	-19.1%	26.5%	1.2%	Russell 1000
Public	U.S. Large Cap Value	-7.5%	11.5%	1.5%	Russell 1000 Value
Public	U.S. Large Cap Growth	-29.1%	42.7%	0.6%	Russell 1000 Growth
Public	U.S. Small Cap	-20.4%	16.9%	-3.5%	Russell 2000
Public	International Developed	-14.0%	18.9%	1.1%	MSCI EAFE
Public	International Emerging	-20.1%	9.8%	-6.3%	MSCI Emerging Markets
Public	Investment Grade Bonds	-13.0%	5.5%	-4.2%	Bloomberg US Aggregate
Public	Municipal Bonds	-8.5%	6.4%	-1.3%	Bloomberg Municipal Bond
Public	High Yield Bonds	-11.2%	13.4%	0.4%	Bloomberg US Corporate High Yield
Private	Private Credit	8.1%	11.1%	9.6%	GSIS Model Weight
Private	Private Equity	9.4%	6.7%	8.0%	GSIS Model Weight
Private	Private Real Assets	7.4%	-2.2%	2.5%	GSIS Model Weight
	60% Equity / 40% Fixed Income	-16.0%	15.9%	-1.5%	MSCI ACWI 60% + Bloomberg Aggregate 40%
	GSIS Semi-Liquid Private Markets	8.3%	5.2%	6.7%	GSIS Model Weight

Source: Ycharts | GSIS Calculations   Note: Private Market returns as of last NAV

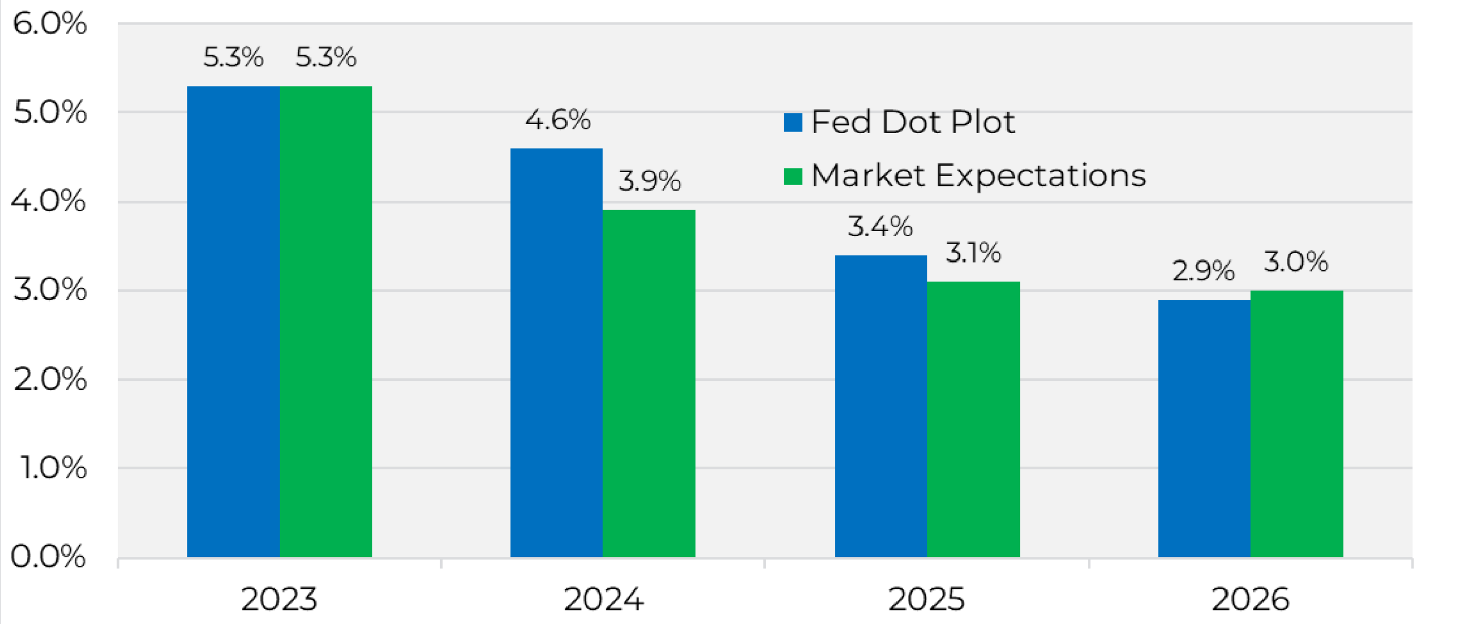
53% Of the U.S. Large Cap Growth Index has negative returns over the last 2 years.

2. Federal Reserve Monetary Policy

The Fed recently communicated their intentions to gradually reduce the Fed Funds Rate after the historic hawkish action in 2022-2023. The Fed Dot Plot, which tracks the projection of each Fed Governor for the Fed Funds Rate, is expected to drop by 0.75% (three standard cuts of 0.25% each) in 2024. The market is expecting a much more dovish Fed, which would lead an investor to assume that the economy will slow at a faster rate in 2024 and force the Fed to accelerate the pace of lowering the Fed Funds Rate.

Fed vs Market Expectations

The expectations (below) detail the difference between the Fed and the markets expectations for the Fed Fund Rate over the next few years.



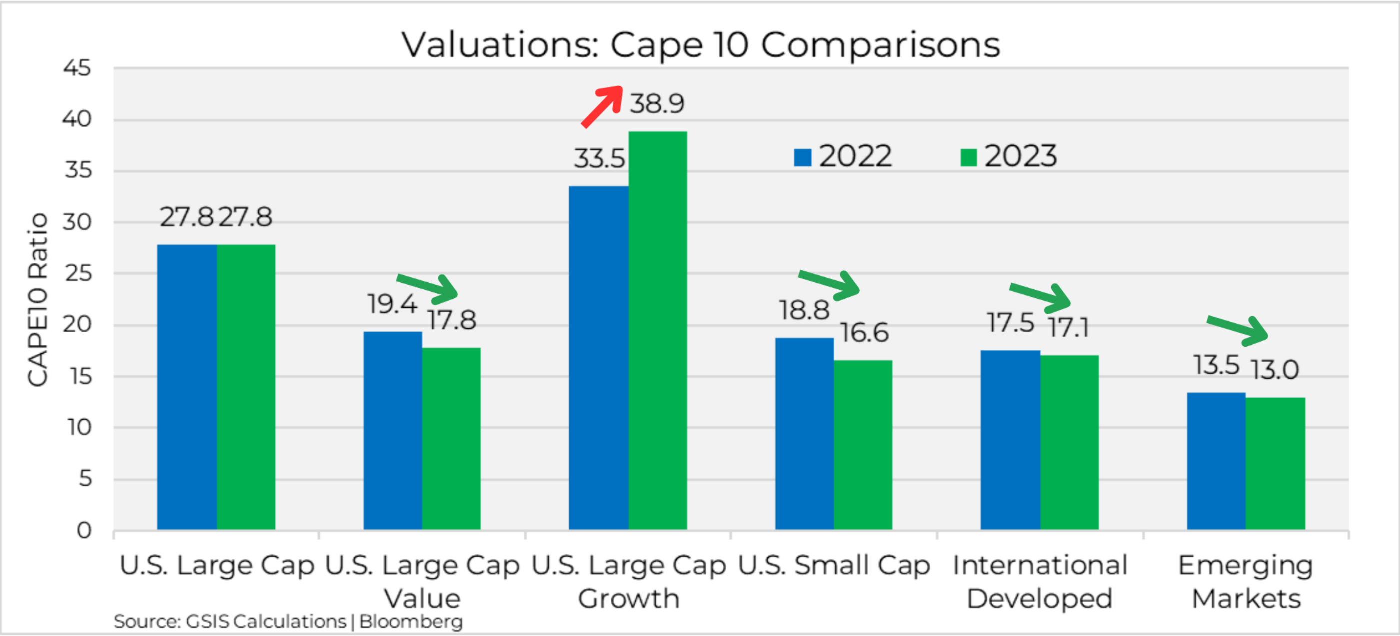
Source: https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html?redirect=/trading/interest-rates/countdown-to-fomc.html| Bloomberg

FEDERAL RESERVE CHAIR JEROME POWELL

Fed Chairman Jerome Powell has not declared victory just yet. In December he stated "It would be premature to conclude with confidence that we have achieved a sufficiently restrictive stance, or to speculate on when policy might ease" and that the Fed is "prepared to tighten policy further if it becomes appropriate to do so."

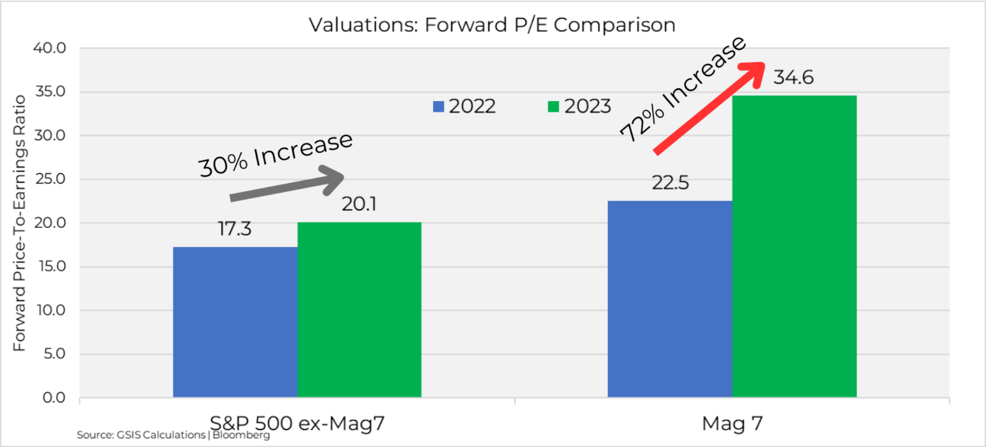
3. Valuations

Global Equity valuations rose slightly (became more expensive) in 2023 driven by U.S. Large Cap Growth stocks, which also had the largest year over year increase as prices outpaced improving fundamentals. Better valuation opportunities exist in US Large Cap Value, US Small Cap, and International Markets where valuations are pretty much unchanged in 2023 despite posting on average +14% returns.

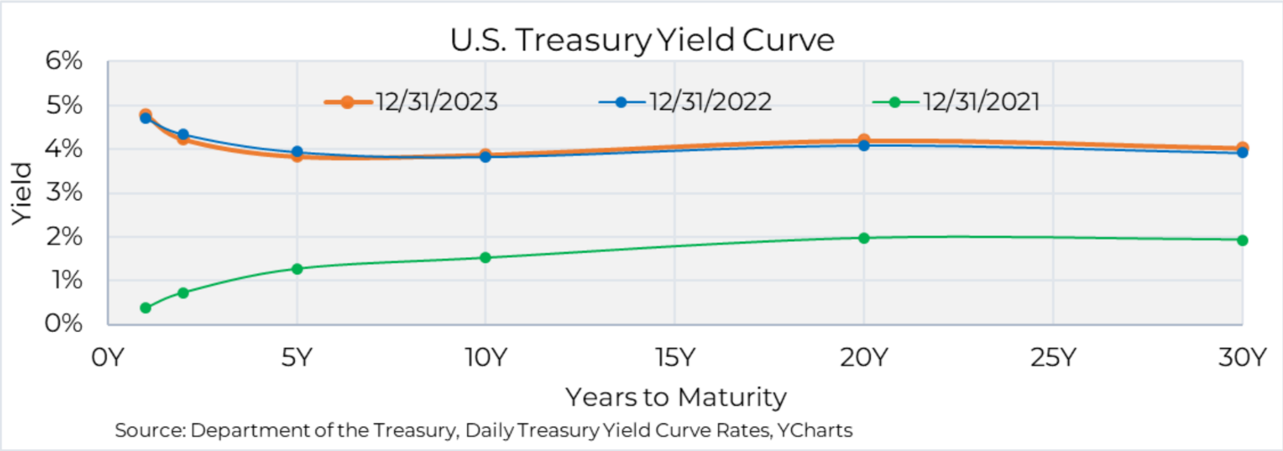


U.S. LARGE CAP VALUATION DISPERSION

Taking a closer look at the U.S. Large Cap valuation dispersion. The chart below details the significant rise in the forward price-to-earnings ratio of the Magnificent 7 ("Mag 7") valuations, whereas the rest of the U.S. Large Cap index had a much smaller increase in valuation.



- Buffered equity strategies continue to be a risk reduction strategy tool in client portfolios. These investments captured a meaningful portion of the returns of public market benchmarks in 2023.
- Public fixed income yields have once again become meaningful contributors to balanced portfolio expected returns. In the GSIS models, bond valuations are slightly more attractive than equities for the first time since 2007.



4. Semi-Liquid Private Markets

- Private Credit continued to significantly outperform public core fixed income with very little volatility during 2023. The market environment for this asset class has improved as traditional financing options for borrowers continue to decline, allowing private credit lenders to demand better loan terms from borrowers.
- Private Equity was mixed in 2023. The higher quality, later stage growth and buyout investments outperformed the late-stage venture capital allocations. Managers that focused on secondary purchases in 2023 took advantage of attractive pricing. The outlook for PE remains attractive relative to public markets, especially for later stage venture capital.
- After a strong 2021-2022, Private Real Assets had a slow year as real estate values were marked lower and interest rate hedges values decreased. The best performing real estate segment was data centers, which continues to benefit from the growth of artificial intelligence and the limited supply.

Looking Ahead

The Federal Reserve historic Fed Funds Rate increases in the past two years continue to show their impact on the economy.

CONSUMERS

Consumer spending came back with a vengeance as travel and other discretionary spending picked up over the last 3 years. Over that time, consumers have spent all of the excess savings created during 2020 and, at the same time, they have broken records for the amount of credit card debt utilized to fund spending. The consumer has been a driving force behind the economy. Low consumer savings and high debt levels put the broad economy at risk.

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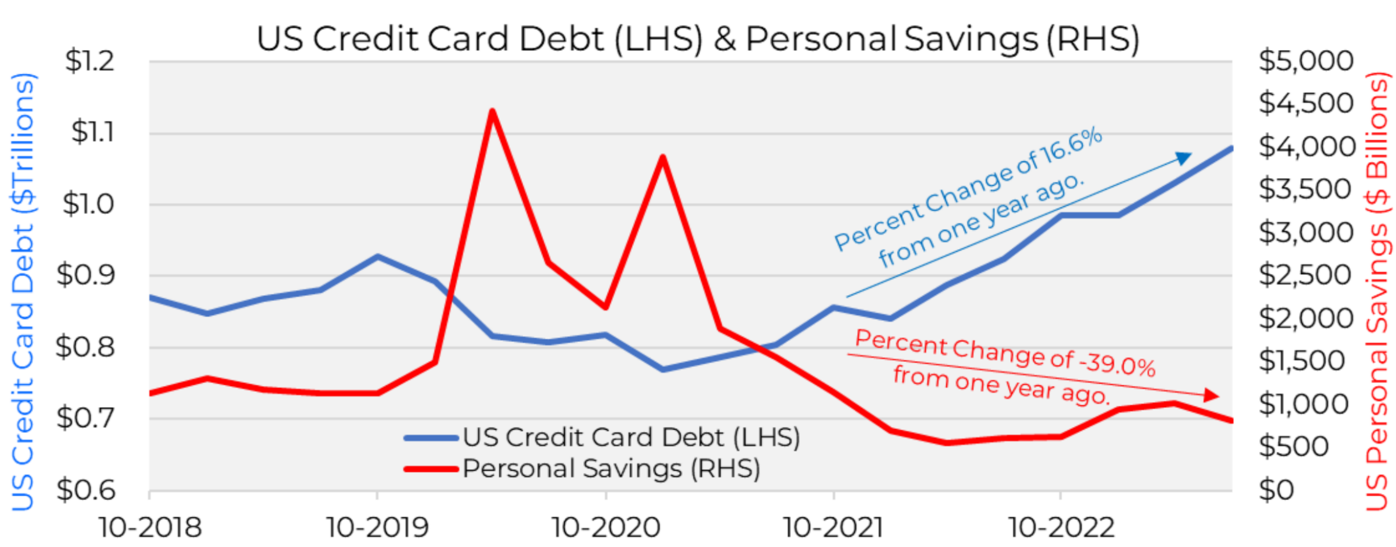
Record amount of credit card debt held by U.S. consumers.

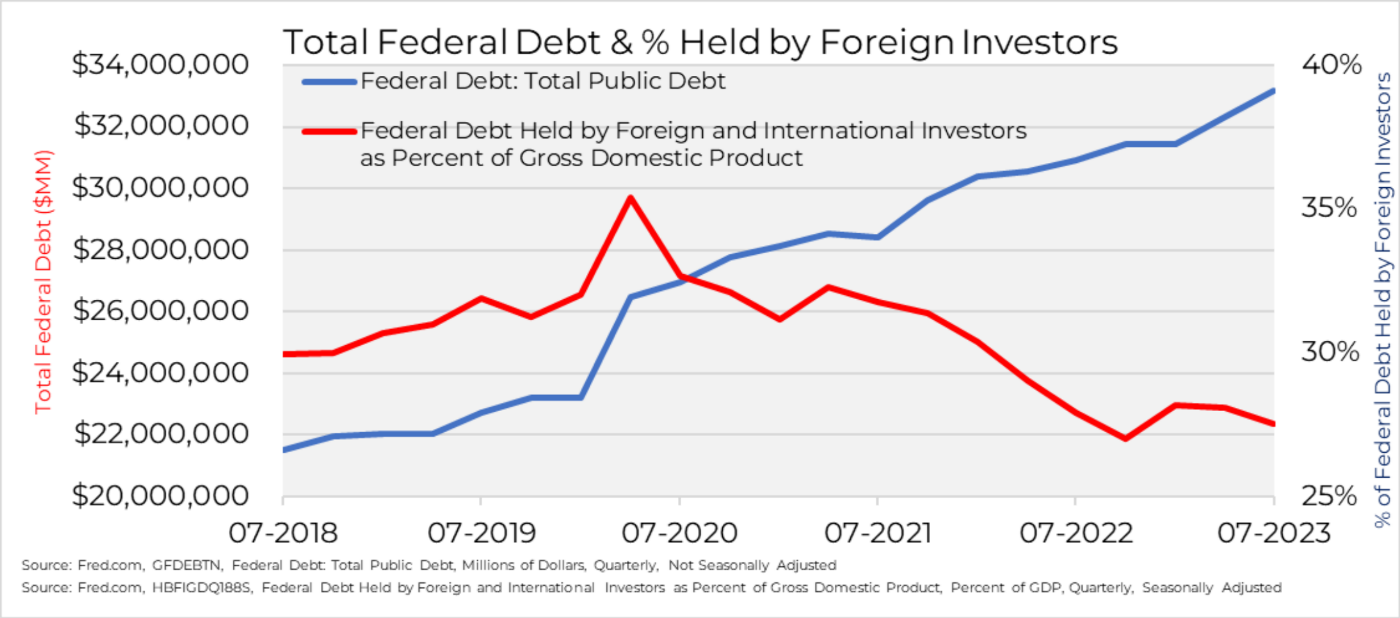


Source: US Credit Card Debt (LHS), I:USCCD, Federal Reserve Bank of New York, Household Debt and Credit Report, Quarterly, USD, 2023-09-30,
Source: Fred.com, PMSAVE, Personal Saving, Billions of Dollars, Quarterly, Seasonally Adjusted Annual Rate

Source: https://www.usdebtclock.org/

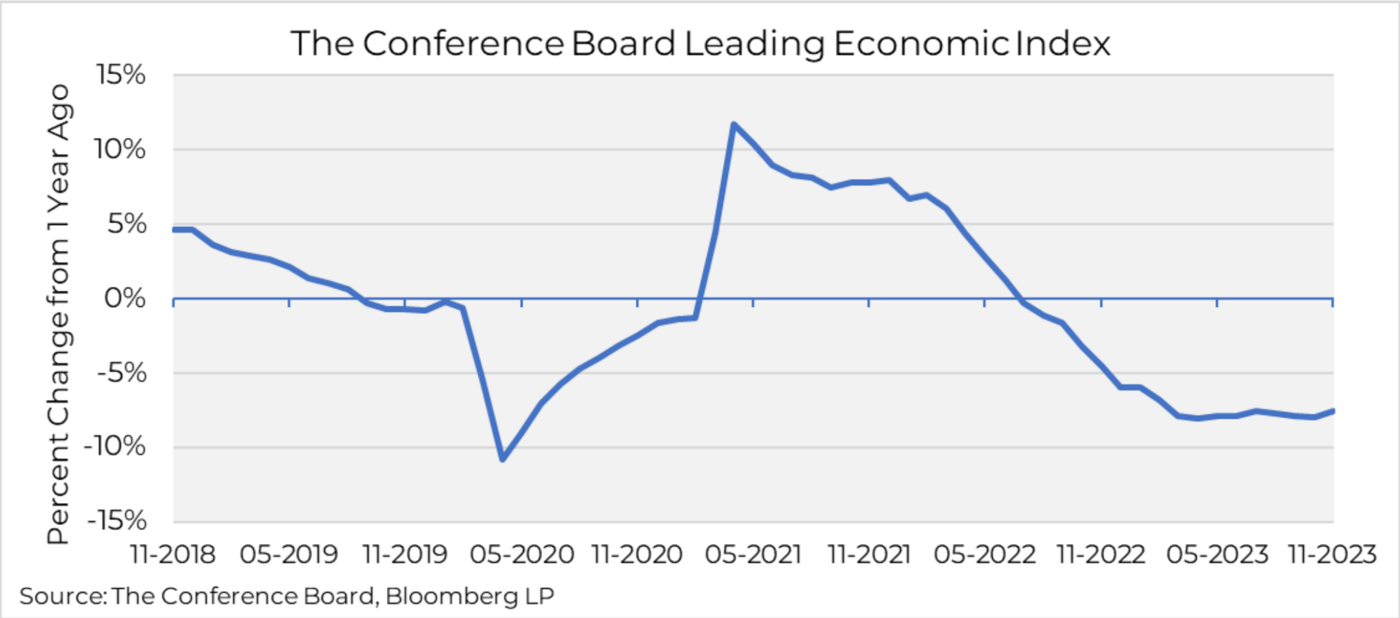
US FEDERAL DEBT

US Federal Debt will soon hit $34 trillion. Japan and China are the two largest foreign holders of US debt, but their purchases have not increased proportionally with the rise in the amount of US debt. Increases in US debt, with a softness in foreign purchases, could result in higher rates across the yield curve. In addition, this relationship could decrease the demand for the US dollar by foreign owners.



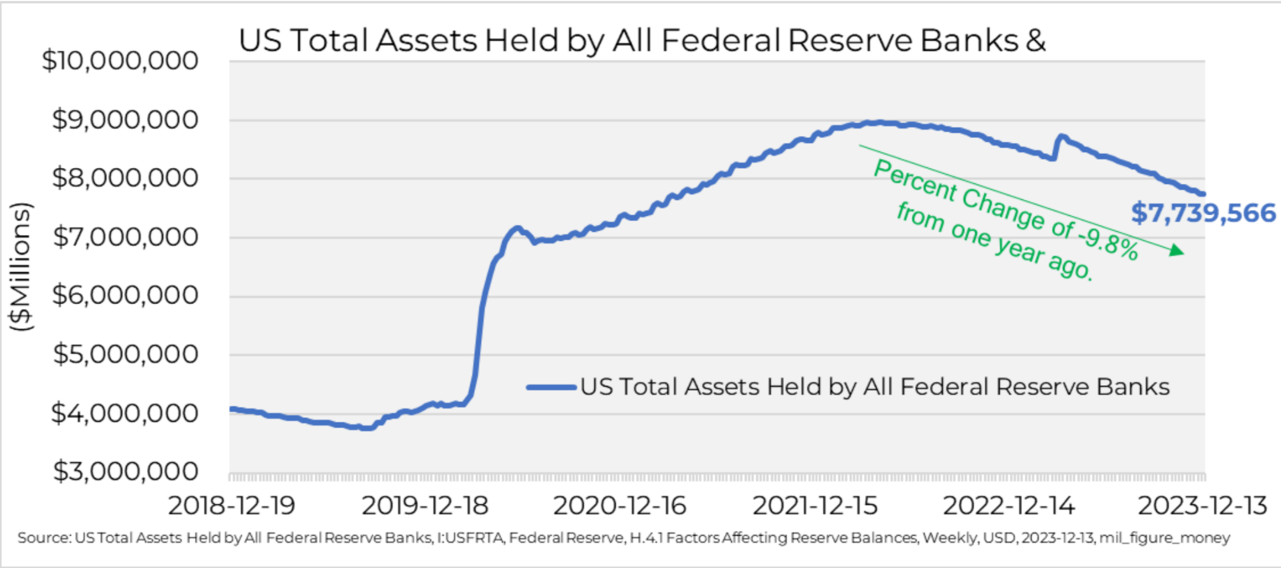
US LEADING INDICATORS

The Conference Board Leading Economic Index, which identifies early turning points in the business cycle, continues to forecast near-term weakness in the economy. The index experienced a sharp decline since Spring of 2021 before stabilizing the last couple of months. Most recently, housing and labor indicators weakened, while manufacturing new orders were flat, signaling a lack of economic growth. The only recent positive contributor to the index was stock prices. Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board recently stated that these trends in the indicators “forecasts a short and shallow recession in the first half of 2024.”



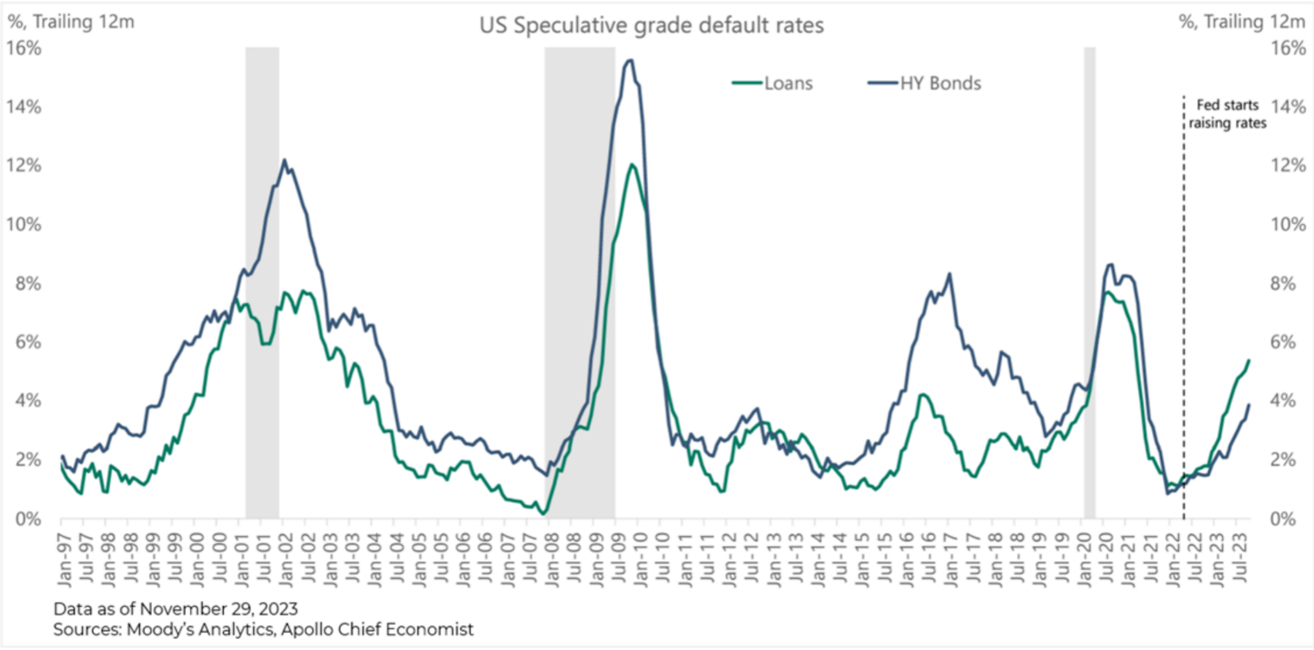
THE FEDERAL RESERVCE BALANCE SHEET

The Federal Reserve accumulated ~$5 trillion in assets starting with Covid stimulus and peaked at ~$9 trillion in the spring of 2022. The Fed has stopped re-investing proceeds, and the current value has declined to ~$7.7 trillion. The lack of Fed demand removes a previous tailwind to bond returns/prices.



THE FEDERAL RESERVCE BALANCE SHEET

A corporate default cycle began soon after the Fed started raising rates in 2022 and accelerated in 2023. This is an expected outcome of the Fed's hawkish policy to slow the economy. The current default rates, although higher than in 2022, are near the average relative to history. An elevated Fed Funds Rate could lead to even higher debt costs and default rates.



Thank you for your Trust and Confidence.

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Global Index Performance & Key Indicators as of 12/31/2023

Asset Class	Index	QTD	YTD	3 years	5 Years
Global Equity	MSCI ACWI	11.0%	22.2%	5.7%	11.7%
US Large Cap	S&P 500	11.7%	26.3%	10.0%	15.7%
US Large Cap Growth	Russell 1000 Growth	14.2%	42.7%	8.9%	19.5%
US Large Cap Value	Russell 1000 Value	9.5%	11.5%	8.9%	10.9%
US Small Cap	Russell 2000	14.0%	16.9%	2.2%	10.0%
International	MSCI EAFE	10.4%	18.2%	4.0%	8.2%
Emerging Markets	MSCI Emerging	7.9%	9.8%	-5.1%	3.7%
Commodities	S&P Global Natural Resources	3.5%	2.9%	12.3%	10.5%
Real Estate	CRSP US REIT	18.2%	11.8%	5.0%	7.3%
Muni Bonds	Bloomberg Municipal Bond	7.9%	6.4%	-0.4%	2.3%
Taxable Bonds	Bloomberg Aggregate Bond	6.8%	5.5%	-3.3%	1.1%
High Yield Bonds	Bloomberg High Yield Bond	7.2%	13.4%	2.0%	5.4%

Indicator	Metric	Last	12/31/2022	3Y Ago	5Y Ago
Yield	10 Year US Treasury	3.88%	3.88%	0.93%	2.69%
Fed Funds Rate	Effective Fed Funds	5.33%	4.33%	0.09%	2.40%
Unemployment	US Unemployment	3.7%	3.5%	6.7%	3.9%
Inflation	Core CPI	3.1%	6.5%	1.4%	1.9%
Inflation	Core PCE	3.2%	4.9%	1.6%	2.0%

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