Catholic Foundation of Northeast Kansas (CFNEK)

CATHOLIC FOUNDATION
OF NORTHEAST KANSAS

Investment Committee Responsibilities:

- Monitor appropriate risk posture and time horizon of both the Equity Portfolio (EP) and Fixed Income Portfolio (FIP)
- Monitor target allocation
- If allocation is not “in line,” understand why and take appropriate steps to correct
- Monitor rebalancing procedures
- Monitor investments according to the CFNEK Investment Policy Statements (IPS) guidelines, including Catholic value screens
- Perform reviews quarterly

CFNEK 2024 First Quarter

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2024 started off on a solid note with both the CFNEK Equity and Fixed Income Funds posting positive quarterly performance. The CFNEK Equity Fund matched its benchmark this quarter adding 8.4%. U.S. large-cap stocks continued to outperform other market segments and the Equity Fund is overweight this asset class. The USCCB compliance for the CFNEK Stock Portfolio continues to be above the 97% compliance level.
The CFNEK Fixed Income Fund outperformed its benchmark for the quarter, posting a positive 0.14% return. The portfolio is positioned to protect from rising interest rates, which helped it beat its benchmark for the period. The Fixed Income portfolio remains at 99.9% USCCB compliant.

Andrew Comstock
Chair, Investment Committee
www.cfnek.org/IPS.

Country Club Trust Company (CCTC) has been the investment manager for the CFNEK funds since mid-2017*. The first two months -July and August 2017 - were a transition period for the funds. During this time assets were received by CCTC/TWM from the previous manager and repositioned to funds and assets employed by CCTC/TWM. Due to the transition of the assets during the months of July and August, performance numbers are not available on the individual solutions in each of the Equity and Fixed Income Funds for these two months. Hence, we are only able to provide performance for the total Equity Fund and Fixed Income Fund during this time. CCTC's investment performance for the two Funds has an inception date of August 31, 2017.

One of the primary goals the CFNEK Board has for the management of these funds is a strict adherence to the United States Conference of Catholic Bishops (USCCB) Socially Responsible Guidelines. The Board set a target of 97.00% compliance with the USCCB Guidelines. The compliance ratio for the portfolios is subject to change due to fluctuations in the prices of individual assets and new additions to the USCCB noncompliance list. CCTC typically monitors the compliance ratio for all assets of the funds multiple times per month to help assure that the portfolio stays at, or above, the 97.00% level.

At the end of the quarter, the Equity Fund compliance level was 97.37%. The compliance ratio at quarter end for the Fixed Income Fund was 99.9%. A hypothetical balanced portfolio of 60% stocks and 40% fixed income therefore would have resulted in compliance of approximately 98.4%.

CFNEK Equity Fund (EF)

During the first quarter, a variety of adjustments were made to the stock strategies, primarily for allocation reasons, but contemplating USCCB compliance as well. Of particular note was an increase to the Fund's domestic large capitalization allocation and corresponding reductions in domestic small and mid-capitalization stocks, in addition to international equities.

An end of the first quarter "look-through" that classifies all the stock positions for the total Equity Fund portfolio reflected the following allocation: U.S. Large Cap 66.9%; U.S. Mid/Small-Cap 7.1%; International Developed 19.1%; and Emerging Markets 6.3%. The remaining approximately .6% was in Cash Equivalents. It should be noted that the Investment Policy Statement (IPS) for the Equity Fund underwent some relatively slight, but important upper and lower asset class limit modifications during the fourth quarter of 2023.

The total Equity Fund performance for the quarter was 8.40% compared to 8.41% for the blended benchmark. For the 79 months of CCTC measured performance, the Equity Fund's annualized return was 9.52% (9.68% excluding legacy alternatives) vs. 10.86% for the blended benchmark. The benchmark for the Equity Fund consists of 70% Russell 3000 and 30% MSCI All Country World Index ex-US (ACWI ex U.S.), which closely reflects the current and long-term make-up of the portfolio.

The Fund's performance for the quarter was in line with its benchmark. While overall stock market returns in 2023 were predominantly driven by what had been termed the "Magnificent Seven" (Apple; Microsoft; Nvidia; Amazon; Meta/Facebook; Tesla; and Alphabet/Google), first quarter performance had much broader participation characteristics beyond these key seven companies. While the S&P 500 returned 10.6% during the first quarter, an equally weighted version of this index grew by 7.4%; still a gap, but much tighter than last year. Additionally and relatedly, the Russell 1000 Growth index, within which the "Magnificent 7" are prominent, produced a 11.4% return, while its value counterpart was up 9.0%. The components of the Fund's benchmark (Russell 3000 and ACSI ex U.S.) posted returns of 10.0% and 4.7% respectively.
The CCTC performance numbers presented in this section are stated net of fees.

CFNEK Fixed Fund (FF)
The total return of the Fixed Income Fund during the first quarter was .14% vs. -.15% for the Barclays Intermediate Government/Credit Index. For the 79 months of CCTC management, the annualized return was .81% versus 1.22% for the index.

With a duration of approximately 3.5 years (up from 3.1 years at yearend), mostly geared to protect the portfolio from a rising rate environment, and compared to 3.8 years for the relative benchmark, the fund outperformed during the quarter as interest rates rose. The rate on the ten-year U.S. Treasury Note closed at 4.19% at the end of March versus 3.86% at the end of December. The yield on the two-year also increased during the quarter to 4.61% from 4.25% at yearend.

Due to overall asset allocation and distribution needs, plus relative interest rate spreads, the exposure to U.S. government bonds increased while the allocation to corporate bonds was reduced somewhat.

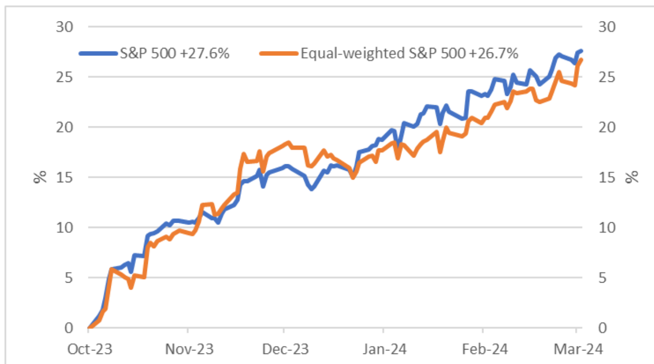
The CCTC performance numbers presented in this section are stated net of fees.

S&P 500 Sector Total Returns, %	QTD Sorted	1-Year
Communication Services	15.8	49.8
Energy	13.7	17.7
Technology	12.7	46.0
Financials	12.5	33.5
Industrials	11.0	26.7
Materials	8.9	17.6
Health Care	8.9	16.1
Consumer Staples	7.5	7.2
Consumer Discretionary	5.0	28.7
Utilities	4.6	0.4
Real Estate	-0.5	9.6

U.S. Index Total Returns, %	QTD Sorted	1-Year
Russell 1000 Growth	11.4	39.0
S&P 500	10.6	29.9
Russell 1000	10.3	29.9
Russell MidCap Growth	9.5	26.3
Russell 1000 Value	9.0	20.3
Russell MidCap	8.6	22.3
Russell MidCap Value	8.2	20.4
Russell 2000 Growth	7.6	20.3
S&P 500 Equal-weighted	7.4	17.0
Russell 2000	5.2	19.7
Russell 2000 Value	2.9	18.8

Rates, %	3/31/24	12/31/23
1-Month Treasury	5.36	5.40
3-Month Treasury	5.37	5.33
6-Month Treasury	5.32	5.25
2-Year Treasury	4.62	4.25
5-Year Treasury	4.21	3.85
10-Year Treasury	4.20	3.88
30-Year Treasury	4.34	4.03
US Corporate AA Rated	4.95	4.67
US Corporate A Rated	5.23	5.01
US Corporate BBB Rated	5.56	5.36
US Corporate CCC Rated	11.87	12.11

Source: Bloomberg, CCTC



Source: Factset, CCTC

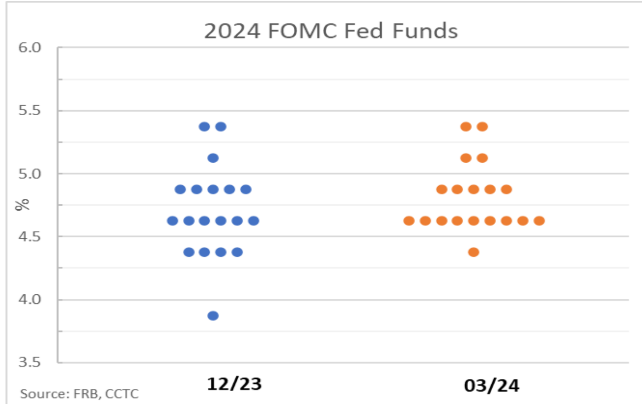
2024 got off to a strong start as the S&P 500 posted its fifth gain in six quarters; its second straight double-digit gain. While inflation news was somewhat mixed and the labor market continued to be tight, fourth quarter earnings results overall surprised to the upside and consumer confidence was a bright spot. During Q1, equity investors continued to prefer growth over value and mega-caps over smaller stocks. This has been a theme over the past 18 months as large technology and communications services stocks have benefited from current and perceived earnings growth from artificial intelligence (AI). We view the improvement in breadth, or how the average stock is performing, since the near-term bottom in October of 2023, as positive. The average stock in the S&P 500 (equal-weighted), has participated nicely versus the mega-cap names that dominate the capitalization-weighted S&P 500.

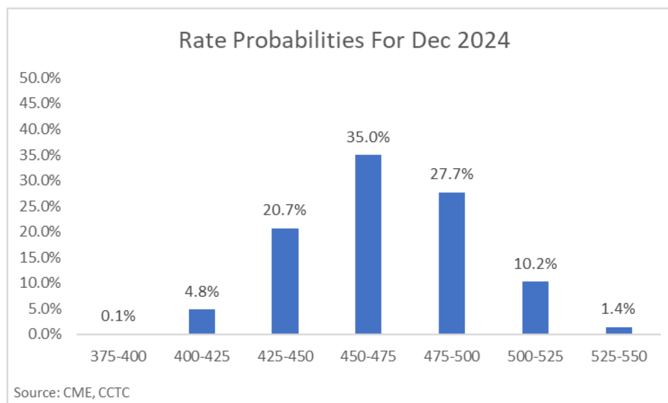
Treasury yields were significantly higher at the end of Q1 in all but the shortest maturities. Interestingly, investment grade yields were up, but not as much as Treasuries. This phenomenon is typically a sign that investors see less credit risk in owning corporate bonds. In total, price moves in bond markets during the first quarter suggests the economy is on sure footing and the path going forward may be less deflationary.

New Dot-Plot From the Fed

It was no surprise to market participants that the Federal Reserve's Open Market Committee (FOMC) left rates unchanged at its two-day meeting ending on March 20th. There were a couple of interesting tidbits, none-the-less. One, Chairman Powell confirmed that it's quantitative tightening program could slow "fairly soon." Second, in our opinion, markets did not judge changes to the Fed's dot plot, or end of the year (2024) Fed Funds rate, as significant.

Once a quarter, the FOMC releases a Summary of Economic Projections (SEP) at the conclusion of its regularly scheduled meeting. Both bond and equity market investors anxiously wait for what could be market-moving news. There was little new information contained in the March 20 SEP. However, that was a boon for markets as the 10-Treasury yield dropped 0.09 percentage points over the following two days. Over the same period, the S&P 500 gained 1.2%. Why? No news was good news. Both bond and equity investors had been hedging themselves for a Fed decision that took one of three expected 0.25 percentage point rate cuts off the table for 2024. Recent economic data had moved in a direction that implied both the economy and inflation were stronger than anticipated, which could cause FOMC members to pull-back on rate cut expectations. Instead, the Fed *barely* leaned in that direction. But lean, they did. The median level of the dot plot submitted in the March SEP was unchanged from the December 2023 forecast of a 0.75 percentage point reduction in Fed Funds in 2024. However, the December projection had five dots below the median while the March SEP had only one. Also, there was an additional dot higher than the median in March verses December. Although the significance is questionable, there was a slightly hawkish tone in the latest SEP. It is worth paying close attention to commentary from FOMC members over the coming months for signals that may affect near-term decisions on rate cuts. We believe most equity investors have penciled in three 0.25% rate cuts through 2024. Fed Funds futures are showing only a 35% chance of three cuts by December. Also, probabilities are skewed in a way that might leave equity investors somewhat disappointed at some point.

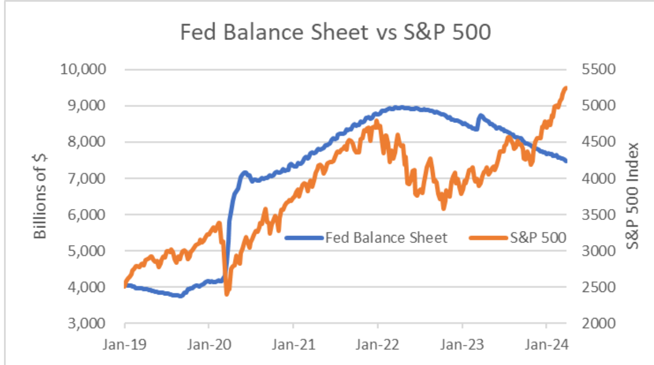




Most notably used during the Great Financial Crisis and Pandemic, quantitative easing (QE) is an unconventional type of monetary policy in which a central bank buys securities, mainly government bonds and mortgage-backed securities, from the open market. The process increases the size of the Fed's balance sheet with the aim of injecting liquidity into the economy, lowering interest rates and stimulating borrowing and spending. QE has also been widely cited to be a significant driver of higher equity prices. Quantitative tightening (QT), on the other hand, shrinks the Fed's balance sheet by letting securities previously purchased mature, or outright sales. QT should theoretically have the opposite effect of QE: withdraw liquidity from the economy, promote an increase in interest rates and discourage borrowing and spending. QT, or shrinking the Fed's balance sheet, began in the spring of 2022. This, along with raising interest rates, was used to combat high inflation by attempting to slow the economy. Logic would tell us that the withdrawal of liquidity via QT would tend to provide a headwind for equity markets, which has not seemed to have occurred so far.

The Economy Continues to Surprise

Despite considerable increases in interest rates and QT, the economy seems to be in good shape. The final estimate of Real GDP growth in Q4, 2023 came in at 3.4%, well above what most would consider potential growth of just below 2%. The Atlanta Fed's GDPNow model is currently predicting 2.5% growth for Q1, 2024. The economy continues to thrive on liquidity that the Fed has seemingly been trying to drain from the system.

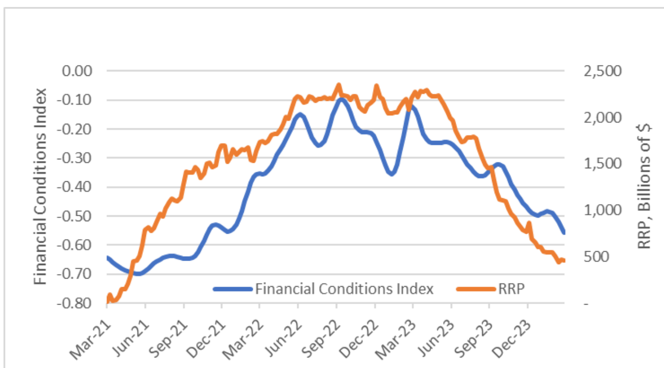


Source: STL Fed, CCTC

Although the relationship between liquidity and equity markets is not perfect, growth in the Fed's balance sheet does seem to be correlated with higher equity prices. Of course, other factors such as earnings, interest rates, etc. come into play. However, in the near-term, we would anticipate most market-pundits would agree with the rough relationship shown between the Fed's balance sheet and the S&P 500. However, there is an important caveat to the story. Market liquidity can come from sources other than the Fed. Notice that the relationship between the size of the balance sheet and the S&P 500 breaks down during the fall of 2023. Given the continued drawdown in assets on the Fed's balance sheet during Q4, 2023, we would have expected economic growth to soften and equity price appreciation a little more difficult to come by.

Liquidity, Liquidity Everywhere

As we wrote about in the Q4, 2023 View From the Tower, liquidity flowing into the economy out of the reverse repo program (RRP) at the Fed has been overwhelming the withdrawal of liquidity from QT. Without getting into too many specifics, the RRP serves as a facility money-market funds can park cash overnight and earn interest similar to Fed Funds. Over the last 9-months or so, it has been advantageous for these funds to exit RRP's and buy T-bills. It is astonishing that $1.8 trillion of liquidity has entered the system over the past year.

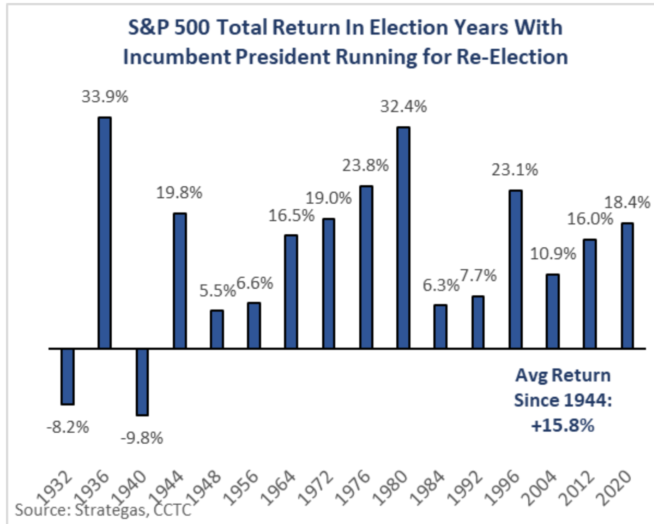


Source: Fred, CCTC

We can plainly see the effects of this liquidity deluge by looking at various financial condition's indices. A financial conditions index (FCI) is a measure designed to provide insights into the overall health of the financial system and its potential impact on economic growth. Although FCI's from various providers differ, they are typically a composite index including interest rates, credit spreads, market volatility, exchange rates and stock prices. Positive FCI values indicate tighter-than-average financial conditions, suggesting higher borrowing costs and a potential impact on an economy. Negative values of the FCI indicate looser-than-average financial conditions, implying easier access to credit and potentially stimulating economic growth.

Rate hikes from the Fed have obviously not been able to contend with this kind of liquidity entering the system. Although the flow of liquidity out of the RRP is not the only reason financial conditions are currently “loosey-goosey”, we believe it’s a primary driver. However, we believe the drawdown of RRP liquidity is ending.

A Short-term Pause, Then Go



We could be entering a short window of tighter liquidity conditions. Not only will financial conditions be affected by the RRP, but also April tax collections may create a short-term liquidity and fiscal drag. As we all know, equity markets performed well in 2023. It’s time for investors to pay-up! The Treasury is expected to receive a windfall in capital gains tax revenue this year. Analysis shows the Treasury to be sitting on $1 Trillion post-tax season, $270 billion greater than current levels. Pulling these dollars out of the economy, although briefly, should create some drag on the economy and possibly create market headwinds. However, Treasury could spend that down as we head toward November elections. Fiscal policy could provide some additional gusto as well. Spending associated with the Infrastructure Investment and jobs Act, passed in 2021, should also ramp-up into the elections. Incumbent Presidents do not like to lose when running for a second term and at this point the election seems like it could be historically tight. Greasing the wheels in an election year is commonplace. Equities typically enjoy the ride.

CFNEK portfolios are managed with risk tolerance and return objectives in mind and are built on a foundation of USCCB compliance. We truly believe that time in the market is key, as attempting to time the market is a fool’s errand. In our view, compounding returns of high-quality portfolios is key.