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 2021 Third Quarter

Welcome to fall! The equity markets continued to climb in the early part of the third quarter as investors looked past a resurgence of COVID-19 and instead focused on the positive aspects of a resilient economic recovery. Unfortunately, markets turned in late September on concerns over potential tax changes and the threat of default by a large property developer in China. Fear of the potential for spread of economic fallout hit stocks in late September and equity markets suffered their first significant pullback in nearly a year. The performance of our equity portfolio for the quarter was -1.30% compared to -0.96% for the benchmark with a year-to-date return of 10.66% versus 12.23% for the benchmark. The current quarter also experienced a lower return due to growth stocks continuing to outperform value stocks as well as missing out on some highly performing, very large equity names that are excluded from the United States Conference of Catholic Bishops (USCCB) Socially Responsible Guidelines. The fixed income portion of the portfolio returned 0.04% for the quarter compared to a benchmark return of 0.02%, due largely to a continued shorter duration in the portfolio to help lessen the impact of rate changes. Interest rates rose slightly in the quarter, pressuring the value of bonds as the Federal Reserve moved closer to ending quantitative easing and potentially raising rates. Compliance with USCCB Socially Responsible Guidelines continued to be at over 97% for equities and nearly 100% for fixed income, and continually presents some challenge on performance when compared to the benchmark which is not adjusted for USCCB exclusions.

Ben Clouse
Chair, Investment Committee
www.cfnek.org/IPS.

Tower Wealth Managers (TWM), a wholly owned subsidiary of Country Club Trust Company, 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 TWM from the previous manager and repositioned to funds and assets used by 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. TWM's investment performance for the two Funds has an inception date of August 31, 2017.

One of the main 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 may change marginally due to fluctuations in the prices of individual assets and new additions to the USCCB noncompliance list. TWM 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 97.4%. The compliance ratio at quarter end for the Fixed Income Fund was nearly 100%. 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 third quarter a variety of adjustments were made to the stock strategies, primarily for allocation reasons, but also for USCCB purposes, including sales related to Alphabet/ Google. Of particular note was the liquidation of Nuance Mid-Cap Value and a material reduction of iShares Russell 1000 Growth with the addition of iShares Russell Mid-Cap Value.

An end of the third quarter "look-through" that classifies all the stock positions for the total Equity portfolio reflected the following allocation: U.S. Large Cap 59.8%; U.S. Mid/ Small-Cap 10.8%; International Large-Cap 14.0%; International Mid/Small-Cap 5.3%; Emerging Markets 8.4%. The remaining approximately 1.8% was in Cash Equivalents.

The total Equity Fund performance for the third quarter was -1.30% compared to -.96% for the blended benchmark and year-to-date has returned 10.66% versus 12.23%. For the 49 months of TWM measured performance, the Equity Fund's annualized return was 12.15% (12.41% excluding legacy alternatives) vs. 13.71% 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 US) which closely reflects the current make-up of the portfolio.

Although the portfolio underperformed its benchmark during the quarter and year-to- date, the last twelve months have been very competitive as the portfolio posted a return of 28.52% versus 29.49% for the benchmark. The short-term shortfall was primarily due to the fund's relative underweight within the mega-cap portion of the equity market, including particularly strong returns from Microsoft, Facebook and more recently Alphabet/Google (as mentioned above), large S&P 500 components which are on the USCCB Non-Compliant list. Additionally, although the value style of equities had a strong first quarter of 2021 in comparison to its growth counterpart, along with during a significant portion of the second quarter as well, growth ended up being the leader for the third quarter. The portfolio has historically had a slight tilt toward value-oriented equities, which have tended to underperform their growth style brethren for an extended period.

The TWM 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 third quarter was up .04% vs. .02% for the Barclays Intermediate Government/Credit Index; -.68% vs. -.87% year-to-date; and -.32% vs. -.40% over the last twelve months. For the 49 months of TWM management, the annualized return was 1.92% versus 3.02% for the index.

With a duration of approximately 3.4 years for the Fund (slightly below that at the end of 2020), mostly geared to protect the portfolio from a potential rising rate environment, and compared to 4.1 years for the relative benchmark, the portfolio slightly outperformed for the quarter. The rate on the ten-year U.S. Treasury Note closed at 1.53% at the end of September; the rate was 1.47% on June 30 and .93% at the close of 2020. While the rate on the 10-year increased slightly during the quarter, that of the two-year did as well to .29%, versus .25% at the end of June; and .13% on December 31, 2020.

In addition to the reinvestment of cash receipts, including proceeds from maturing and called bonds, the allocation to United States Government backed securities was reduced while corporate bond positions were increased.

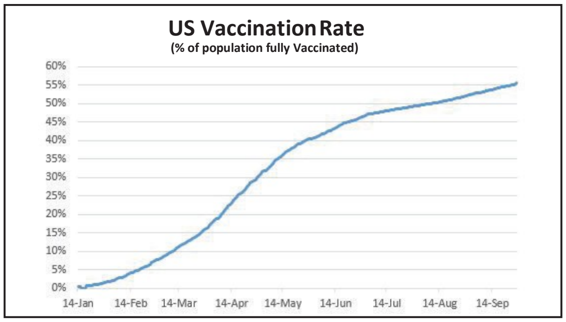
The TWM performance numbers presented in this section are stated net of fees.

General Market Comments

In 1849, French writer Alphonse Karr wrote: “The more things change, the more they stay the same.” For most of the third quarter, this quote seemed appropriate as stocks in general continued their seven-month march forward while bond prices continued to manifest some relative volatility from day-to-day. However, as tends to happen on occasion during the month of September, the equity market experienced some headwinds, putting a material dent in the returns for the quarter, while those on bonds were relatively flat overall.

The primary storyline remained focused on COVID-19, the Delta variant in particular, on both the health and financial fronts. That being said, during the quarter, the following were some key coronavirus specific related items:

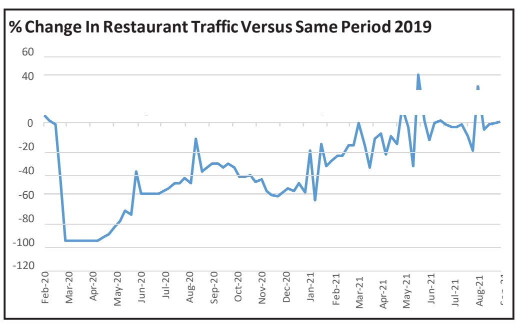
- Access to vaccines remained robust as the U.S. vaccination rate increased to 55% of the total population and significant progress was made toward the potential use by children from ages five to eleven; possibly in November. Recent talk focused on the debate of whether or not booster shots are needed, or even appropriate by some. A significant segment of the population still does not intend to avail itself of a vaccine, at least for the time being, for a variety of reasons, while pressure seemed to be building as case and hospitalization levels remained elevated.

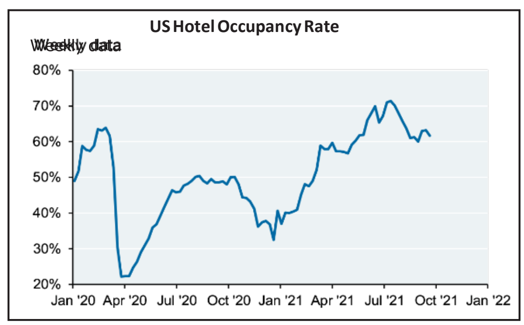


Source: Our World in Data

- "Re-openings" across the country continued with many facets of our lives, like outdoor sporting events, returning in full force. Additionally, most schools opened to full accessibility this school year, although not without some hiccups, including bus driver shortages in some districts.

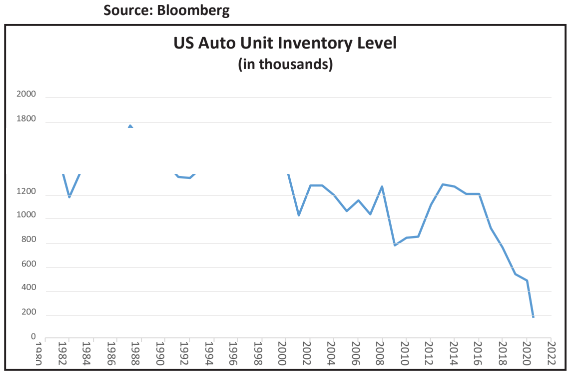
- In addition to the health-related aspects of COVID-19, the economic ones continued to be front and center as the Delta variant put a bit of a crimp in the monetary and fiscal policy fueled recovery. After shifting more to services than goods, which had been the focus during most of the pandemic, consumers somewhat pulled in the reins in regard to services, including leisure activities, i.e., travel and restaurants. Also, the ongoing inability of businesses across a host of industries to attract workers, for multiple reasons including wages competing with unemployment benefits, put a bit of a lid on the level of the rebound. Surging demand for goods, coupled with a decline in workers needed to maintain and operate various supply chains, has led to significant bottlenecks. The automobile industry specifically felt these headwinds as dealer lots in many cases had sparse inventory levels.





Source: Bloomberg

Source: STR. September 18. 2021

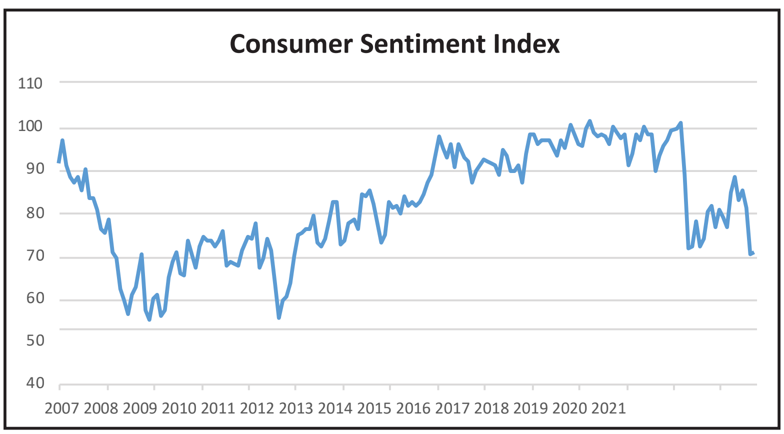


Source: Bloomberg, Bureau of Economics

As seems typical, there are several areas of concern in addition to those related to COVID. At this point, they are well publicized and include the following:

- Potential initiation in 2021 of Federal Reserve Bank tapering of bond purchases.
- Waning fiscal stimulus and feared related economic growth slowdown.
- Possible federal “debt ceiling” issues, along with Washington gridlock pertaining to the proposed spending and infrastructure packages.
- The risk of higher taxes: corporate; individual; capital gains; estate, etc.
- Continued supply chain shortages.
- Rising Interest Rates……Energy Prices……Inflation……Stagflation.
- In China, the potential Evergrande default/bankruptcy, plus the country’s regulatory crackdown seemingly aimed at technology companies.

These concerns may be leading to waning consumer confidence, as exemplified below; some- thing to keep tabs on.

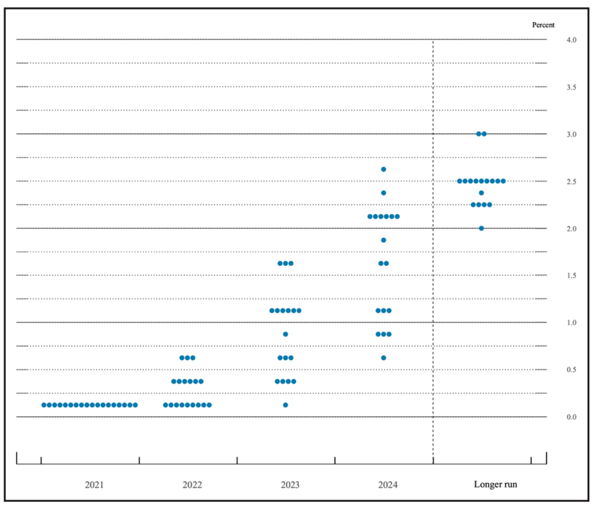


Source: University of Michigan

As referenced above, the Federal Reserve will likely play a central role as it deals with increased levels of inflation (transitory or not), along with the potential bond purchase tapering later this year. Regarding inflation specifically, the Federal Reserve has consistently maintained its position that it will be transitory, in essence a function of a relatively short-term imbalance between increased demand and lean inventories. As this dynamic subsides, the expectation is that inflation will drop back to a more typical, ongoing run rate. The latest statistics in this regard, for the month of August, actually came in below consensus expectations. However, Fed Chairman Powell shared his angst on this front while participating on a panel hosted by the European Central Bank, stating: “It’s also frustrating to see bottlenecks and supply chain problems not getting better, in fact at the margin apparently getting a little bit worse. We see that continuing into next year probably and holding up inflation longer than we had thought.” He also commented, “The current inflation spike is really a consequence of supply constraints meeting very strong demand, and that is all associated with the reopening of the economy, which is a process that will have a beginning, a middle and an end.”

Regarding tapering, subsequent to the Federal Open Market Committee (FOMC) September meeting, the published statement included: “If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted.” The vote on this topic was unanimous. Therefore, one would assume that although monetary policy will likely remain accommodative, tapering later this year is to be expected. However, it seems like the Committee is currently evenly divided as to whether they anticipate any interest rate hikes in 2022.

FOMC Participants’ Assessments of Appropriate Monetary Policy: Midpoint of Target Range or Target Level for the Federal Funds Rate:



Source: Federal Reserve

As we look at the remainder of the year, despite the laundry list above, the consensus is that economic growth in the U.S. will continue to be stellar as the headwinds are cast aside by the significant, continuing level of liquidity. Over the short-term, there are many prognosticators that seem to convey that they have very clear crystal balls. While past performance is no guarantee of future results, history would tend to tell a different story, one where the race is usually won by the investor focused on the long-term versus those chasing the illusion of "timing". Missing just a handful of market "best days" could result in a materially lower long-term, realized return. It is not unlike "The Tortoise and the Hare", the Aesop fable initially passed down by word of mouth in ancient Greece. "The more things change, the more they stay the same."

The performance data presented reflects past performance which is no guarantee of future results as investing involves risk of loss. Country Club Trust Company (CCTC) restructured its investment division by forming a wholly owned subsidiary, Tower Wealth Managers, Inc. (TWM), a Registered Investment Advisor, on July 11, 2007. The inception date for TWM investment management is 08/31/2017. TWM performance is calculated as a total return, which includes the impact of varying levels of cash held in the strategy.

Pre-TWM performance is calculated by using information provided to TWM by CFNEK from inception of their portfolio through 06/30/2017 (net of fees) and an internal rate of return for the months of July and August 2017. Performance is calculated gross of fees, unless other- wise stated.

Some information provided above may be from an outside source believed to be reliable, but no representation is made as to its accuracy or completeness. Please note that investments involve risk, and that past performance is no guarantee of future results. Commentary provided is for discussion purposes only and should not be considered a recommendation.