

# THIRD QUARTER 2023

## MAXIMUM GROWTH

Global equities followed a choppy trajectory throughout the third quarter with July gains giving way to losses in August and September as interest rates pushed higher globally later on in the quarter. In the U.S., the broader economic narrative continued around resilient – but slowing – growth and moderating inflation, with both investors and the Federal Reserve interpreting these dynamics as more likely to lead to higher-for-longer monetary policy. Outside the U.S., Europe and to a greater extent, China, faced incremental growth headwinds. Central banks globally are approaching peak policy rates as policymakers have to carefully assess future growth concerns and the lagged impacts from their prior tightening with still-elevated core inflation. Overall, financial market returns were largely negative for the quarter with a few asset classes such as cash, high yield fixed income and natural resources seeing slight-to-modest gains.

We made one change in asset allocation in the quarter. In August, we increased municipal high yield fixed income and decreased developed ex-U.S. equities in conjunction with our annual strategic asset allocation update. The tactical changes were primarily designed to account for the strategic asset allocation update and slightly reduce the risk profile of the portfolio. Municipal high yield fixed income remains our largest tactical overweight, while developed ex-U.S. equities were decreased to more fully align with our existing underweights to U.S. and emerging market equities. Currently, the portfolio has overweights in municipal high yield fixed income and natural resources, funded by underweights across U.S. equities, developed ex-U.S. equities and emerging market equities. The portfolio ended the quarter with a moderately lower risk level than its strategic starting point (the strategic allocation is 100% risk assets).

The portfolio moderately outperformed in the quarter given benefits from strategic positioning and tactical positioning were somewhat offset by headwinds from fund implementation. Strategic positioning helped performance given stronger returns in natural resources relative to global equities, despite some drag from weaker returns in municipal high yield fixed income and global listed infrastructure. Tactical positioning modestly contributed to performance as benefits from the overweight to natural resources were somewhat offset by headwinds from the overweight to municipal high yield fixed income and the underweight to emerging market equities. Our global natural resources (GUNR), our municipal high yield fixed income (NHYMX) and our global quality real estate (GQRE) were the main detractors in terms of fund implementation, while our quality low volatility developed markets ex-U.S. equity (QLVD) was the main contributor.

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