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Greetings,

As of the end of the 3rd quarter of 2023, net of fees, the returns of the fund models are:

As of 9/30/2023	3rd Qtr 2023	Year to Date	Last 1 Year†	Last 3 Years†	Last 5 Years†	Last 10 Years†
Aggressive Fund	**-4.24%**	**8.63%**	**19.34%**	**6.40%**	**7.01%**	**7.39%**
Agg. Climate	-3.78%	11.13%	20.53%	5.00	n/a	n/a
benchmark*	-3.53%	8.85%	18.95%	6.69%	6.54%	7.40%
Moderate Fund	**-3.20%**	**6.25%**	**13.68%**	**3.72%**	**5.22%**	**5.56%**
Mod. Climate	-2.73%	7.83%	14.49%	3.20%	n/a	n/a
benchmark*	-2.61%	6.60%	13.83%	4.09%	5.13%	5.87%
Conservative Fund	**-1.99%**	**4.05%**	**8.69%**	**0.97%**	**3.20%**	**3.58%**
Con. Climate	-1.87%	4.53%	8.45%	0.67%	n/a	n/a
benchmark*	-1.74%	4.21%	8.78%	1.15%	3.36%	4.11%

*"Benchmark" is a blend of benchmarks for the fund's underlying portfolios of stocks and fixed income, relative to the portfolio allocations within the fund's model. †Rates of return (1+ years) are annualized. See the monthly performance reports online: https://midwestmethodist.org/investment-performance-reports/

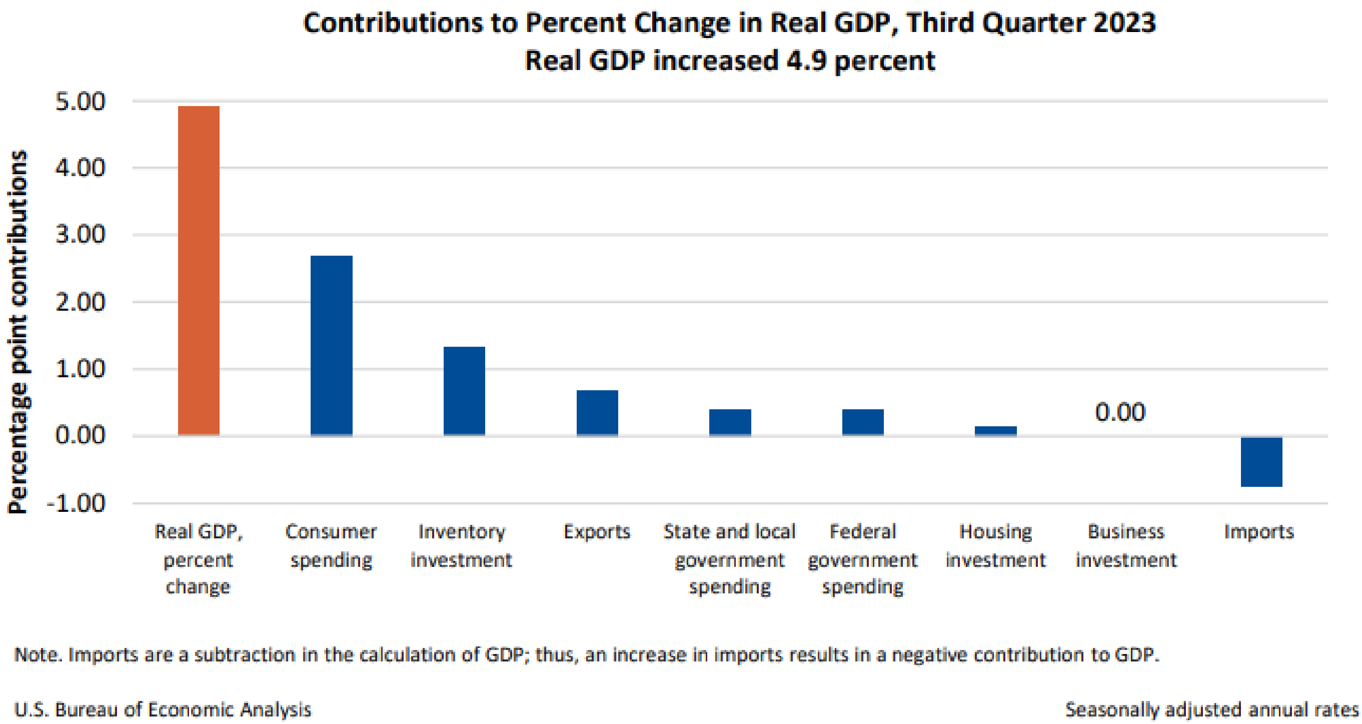
Market Commentary from Envestnet | PMC

Brandon Thomas, Co-Founder and Chief Investment Officer, Envestnet, concluded their "Economic and Market Overview: Third Quarter 2023" report with the following observations and commentary:

> "The economy has so far been resilient in the face of the FOMC's series of interest rate increases to battle inflation. However, there are signs that the increases are having an effect on growth, and many economists expect the economy to weaken substantially in the coming quarters. Rising interest rates are not the only headwind being faced by the economy. The potential government shutdown, the fallout from the banking crisis, the recent surge in oil prices, and a slowing in consumer spending as student loan repayments begin again are all issues weighing on the economy. Despite these hurdles, many economists believe the economy will end up slowing but not falling into recession. However, the risks that could tilt the economy into recession include an extended government shutdown, oil prices remaining high for a long period, a monetary policy misstep, continued fallout in the banking sector, and geopolitical tensions. In addition, investors will begin to pay increasing attention to the 2024 presidential election campaign."[1]

"there are signs that the [interest rate] increases are having an effect on growth"

As I write this Thursday, October 26, 2023, the U.S. Bureau of Economic Analysis released their Q3 estimate of GDP growth this morning at an annual growth rate of 4.9%.[2] Consumer spending, by far, was the biggest contributor to growth:[3]



The GDP data this morning stands in contrast to Mr. Thomas's commentary that rate "increases are having an effect on growth." A GDP growth rate of 4.9% is quite healthy. We appear to be in one of those weird "good news is bad news" market cycles. The stock market has dipped lower in September and October, fearing, as the common narrative goes, the Fed's "higher for longer" interest rate policy.

"Rising interest rates are not the only headwind being faced by the economy."

I have written about this before. Low unemployment, decent economic growth, healthy consumer spending, these reasons and more are all reasons in a traditional market environment to be optimistic about the economy. But the dynamic currently at work appears to be that continuing indicators of economic health compel the Federal Reserve to keep rates "higher for longer." Higher interest rates should tap the brakes on consumer spending, making it more expensive to buy stuff with credit cards and loans, which should, in turn, help keep inflation in check. Persistent inflation should be avoided, hence the "higher for longer" policy stance of the Federal Reserve.

Mr. Thomas listed a handful of other concerns: "potential government shutdown, the fallout from the banking crisis, the recent surge in oil prices, and a slowing in consumer spending as student loan repayments." He probably wrote his paragraph before the October 7th attacks on Israel by Hamas terrorists and the subsequent unprecedented bombing of Gaza by Israel, killing thousands more people.

The macro view I describe above is just one view from the fly over level of 30,000 feet. It can seem to the casual observer that there are storm clouds looming on the horizon. A more prudent view is that the economic headwinds are bearable and should not provoke us to evacuate.

The three model portfolios offered by the Foundation–Aggressive, Moderate, Conservative–automatically adjust within preset ranges of their overall target allocations among the major asset classes, freeing you up to trust the dynamics of the market environment rather than fear them.

We created the "Investment Allocation Decision Matrix" to help you think about your church's or organization's investment allocation strategy:[4]

Spending Time Frame

Tolerance of Volatility	2-5 years	6-9 years	10+ years
High	50% Con, 50% Mod 45% stocks, 55% bonds	75% Mod, 25% Agg 65% stocks, 35% bonds	100% Aggressive 85% stocks, 15% bonds
Average	75% Con, 25% Mod 40% stocks, 60% bonds	100% Moderate 60% stocks, 40% bonds	25% Mod, 75% Agg 80% stocks, 20% bonds
Low	100% Conservative 30% stocks, 70% bonds	25% Con, 75% Mod 55% stocks, 45% bonds	50% Mod, 50% Agg 75% stocks, 25% bonds

Allocations within models may drift from their targets. Percentages are rounded to nearest 5%.

One major component of investment success is controlling what we *can* control, namely asset allocation.

Consider the matrix above. First, time frame is most important. What is the time frame for spending the whole amount or a large portion of the assets? Second, what is the collective tolerance within the organization for market volatility? A longer time frame should correspond to having a higher tolerance of volatility to optimize total return while mitigating downside risk.

Here are some questions to ask yourselves about *money over and above what is needed for operations*:

- Has the money been in the checking account for more than two years? Then your collective tolerance of volatility is "low." The money is actually long term money and should be invested.
- Has the money been partially in the checking account and partially invested? Then your collective tolerance of volatility is "average."
- Has the money been fully invested? Then your collective tolerance of volatility is "high."

The next step is matching your time frame with your tolerance.

For example, your organization may have been invested 100% in the Conservative model for several years, but by being invested conservatively for years your organization missed increased mission opportunity from higher returns resulting from a higher allocation to stocks. Your actual long-term experience with investing in this hypothetical should stretch your collective self-understanding of tolerance of volatility. Metaphorically speaking, you were surfing waves the whole time, but had you surfed waves that were a bit bigger in the Moderate model, you would have traveled more distance.

Another hypothetical may be the church or organization that has kept the same $50,000 cash buffer in the checking account year-after-year when revenues and expenses have been consistently in balance. This indicates your collective tolerance of volatility is very low, but your time frame is long. Again, your experience with your time frame should stretch your tolerance. Invest 100% of the buffer in the Conservative model to surf the waves as a beginner, and then go from there.

A third hypothetical is more common than you think. A beloved member of your church dies and leaves $100,000 to the church, unrestricted and with no specific designated purpose. Unless there is some immediate need to fix the broken boiler, for example, this money should be invested 100% right away. We have seen money sit uninvested many times in this scenario for months or even years while the church learns the "Importance of Policies, Procedures, and People"[5] involved in managing bequests.

In the third example, churches would be better off putting policies, procedures, and people in place to anticipate such a gift. By doing so, churches also communicate to members that they are prepared to manage such gifts responsibly and prudently. These three "P's" are important to help encourage members to create a legacy through the church, but even more important is communicating the possibilities of what the church can do with such legacy giving and then celebrating the resulting ministries and mission!

Your church's or organization's investment success will come from your collective commitment to an asset allocation strategy and endurance through the bearable headwinds of the macroeconomic environment.

Respectfully,

Chris Walters

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[1] https://www.investpmc.com/sites/default/files/documents/PMC_QuarterlyMarketEnvironment.pdf

[2] https://www.bea.gov/news/2023/gross-domestic-product-third-quarter-2023-advance-estimate

[3] https://www.bea.gov/news/blog/2023-10-26/gross-domestic-product-third-quarter-2023-advance

[4] https://midwestmethodist.org/investment-overview/

[5] https://midwestmethodist.org/resources/ (see the bottom part of the Resources page for this PDF and others)