

# College of Micronesia - FSM Endowment Fund

## Interim Unaudited Performance (Net of Fees) & Asset Allocation Status

as of September 15, 2021

Investment Manager	Investment Style Benchmark Index	Market Value		Period Return		Asset Allocation		AA Difference	
		06/30/21	09/15/21	\$	%	IPS	Actual	%	\$
U.S. Equity	Aristotle Capital Management <i>Russell 1000 Value</i>	\$ 2,538,794	\$ 2,625,381	\$ 86,587	3.41% 1.55%	23%	25%	2%	\$ 243,079
	ClearBridge Investments <i>Russell 1000 Growth</i>	\$ 1,303,686	\$ 1,369,435	\$ 65,749	5.04% 5.99%	12%	13%	1%	\$ 126,495
	Clarkston Capital Partners <i>Russell 2500</i>	\$ 615,680	\$ 586,115	\$ (29,565)	-4.80% -0.72%	5%	6%	1%	\$ 68,223
Non-U.S. Equity	Lazard Asset Management <i>MSCI EAFE</i>	\$ 1,469,017	\$ 1,490,679	\$ 21,662	1.47% 3.81%	15%	14%	-1%	\$ (62,996)
	Lazard Asset Management <i>MSCI Emerging Markets</i>	\$ 576,792	\$ 587,054	\$ 10,262	1.78% -4.73%	5%	6%	1%	\$ 69,162
Fixed Income	Pacific Income Advisors <i>Barclays Aggregate US</i>	\$ 1,874,653	\$ 1,890,536	\$ 15,883	0.85% 1.23%	20%	18%	-2%	\$ (181,031)
	BlackRock iShares <i>FTSE WGBI Non-US</i>	\$ 484,988	\$ 487,871	\$ 2,883	0.59% 1.09%	5%	5%	0%	\$ (30,021)
Alternatives	Lazard Asset Management <i>DJ Global Infrastructure</i>	\$ 561,199	\$ 572,807	\$ 11,608	2.07% 1.88%	5%	6%	1%	\$ 54,915
	Adelante Capital Management <i>Wishire REIT</i>	\$ 701,486	\$ 747,958	\$ 46,472	6.62% 5.42%	5%	7%	2%	\$ 230,066
	TBD <i>HFRI FOF</i>	\$ -		\$ -	NA 0.00%	5%	0%	-5%	\$ (517,892)
TOTAL FUND - FQTD <i>POLICY INDEX</i>		\$ 10,126,295	\$ 10,357,836	\$ 231,541	2.29% 2.03%	100%	100%	0%	\$ (0)
TOTAL FUND - FYTD <i>POLICY INDEX</i>		\$ 8,500,093	\$ 10,357,836	\$ 1,857,743	22.06% 24.08%	<b>RAYMOND JAMES®</b>			

The information on this report is provided for your convenience, but should not be used as a substitute for the account's monthly statements or trade confirmations. The prices and valuations provided in this report have been obtained from sources deemed to be reliable, and every attempt has been made to make it as complete as possible. Nevertheless, its accuracy is not guaranteed, and independent verification of its contents is recommended.

# College of Micronesia - FSM Reserves Fund

## Interim Unaudited Performance (Net of Fees) & Asset Allocation Status

as of September 15, 2021

Investment	Investment Style	Market Value		Period Return		Asset Allocation		AA Difference		
		Manager	Benchmark Index	06/30/21	09/15/21	\$	%	IPS	Actual	%
U.S. Equity	Boston Partners	Large Value <i>Russell 1000 Value</i>	\$ 484,292	\$ 485,361	\$ 1,069	0.22% <i>1.55%</i>	10%	13%	3%	\$ 110,412
	ClearBridge Investments	Large Growth (ESG) <i>Russell 1000 Growth</i>	\$ 616,076	\$ 647,788	\$ 31,712	5.15% <i>5.99%</i>	10%	17%	7%	\$ 272,839
Non-U.S. Equity	Lazard Asset Management	Large Value <i>MSCI</i>	\$ 393,243	\$ 399,522	\$ 6,279	1.60% <i>3.81%</i>	10%	11%	1%	\$ 24,573
Fixed Income	Western Asset Management	U.S. Core <i>BC Intermediate Bond</i>	\$ 2,211,227	\$ 2,216,815	\$ 5,588	0.25% <i>0.58%</i>	50%	59%	9%	\$ 342,072
Cash Equiv	Raymond James	Cash & Equivalents <i>Barclays 90-Day T-Bill</i>	\$ -	\$ -	\$ -	0.00% <i>0.01%</i>	20%	0%	-20%	\$ (749,897)
TOTAL FUND - FQTD <i>POLICY INDEX</i>			\$ 3,704,838	\$ 3,749,486	\$ 44,648	1.21% <i>1.43%</i>	100%	100%	0%	\$ -
TOTAL FUND - FYTD <i>POLICY INDEX</i>			\$ 3,407,121	\$ 3,749,486	\$ 342,365	10.05% <i>9.25%</i>	<b>RAYMOND JAMES®</b>			

Benchmark Index data is 1 day delayed. The information on this report is provided for your convenience, but should not be used as a substitute for the account's monthly statements or trade confirmations. The prices and valuations provided in this report have been obtained from sources deemed to be reliable, and every attempt has been made to make it as complete as possible. Nevertheless, its accuracy is not guaranteed, and independent verification of its contents is recommended.

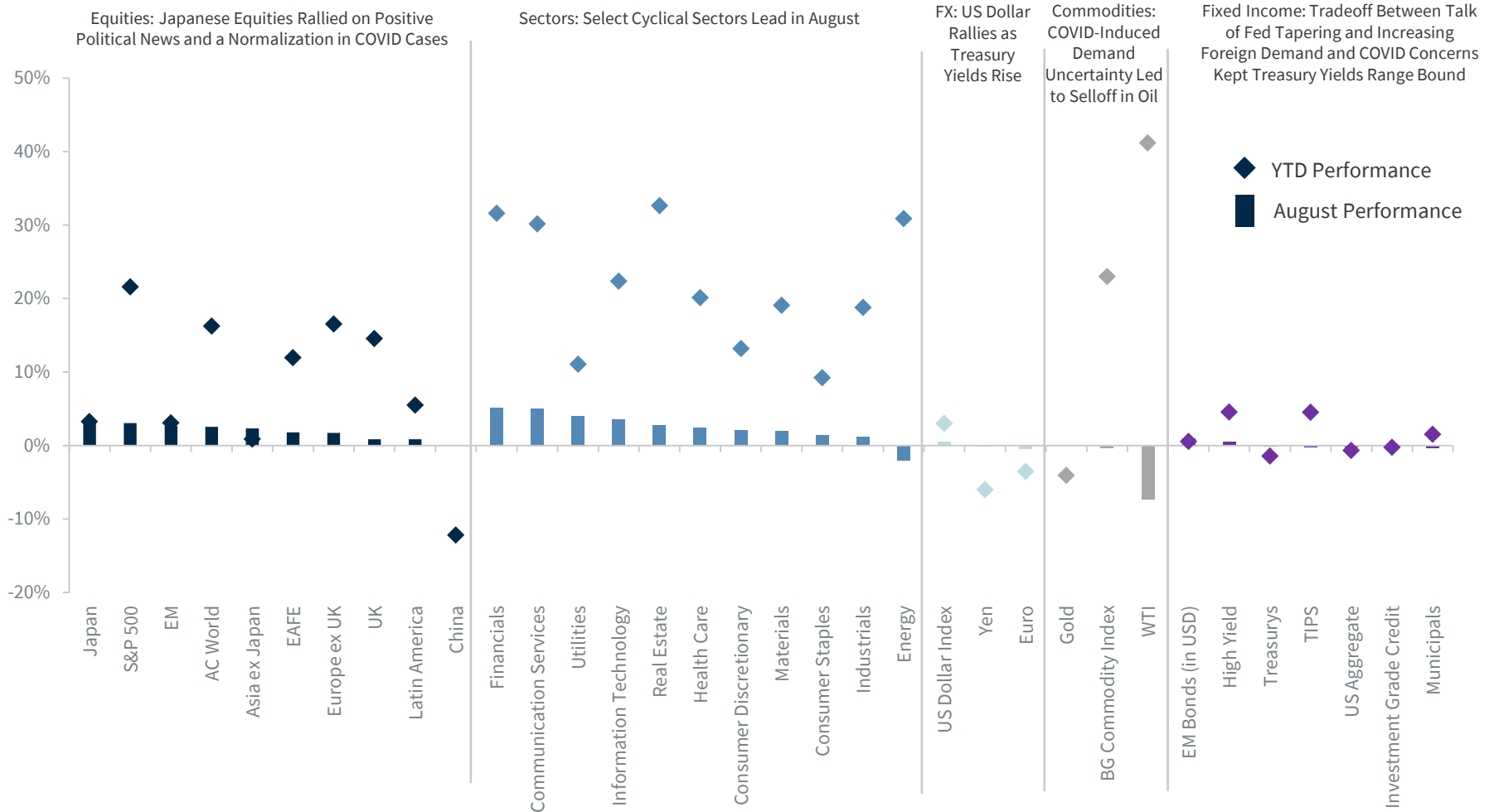


**CIO View**  
**Monthly Strategy Snapshot**  
September 2021

Lawrence V. Adam III, CFA, CIMA®, CFP®  
Chief Investment Officer

## Returns By Asset Class | Month and Year-to-Date Returns

### Returns by Asset Class



Data as of August 31, 2021. All international equity indices are MSCI indices and in USD. Diamonds represent the year-to-date total returns and bars represent monthly returns.

## Global Economy | Tapering Timeline Dominates Market Attention

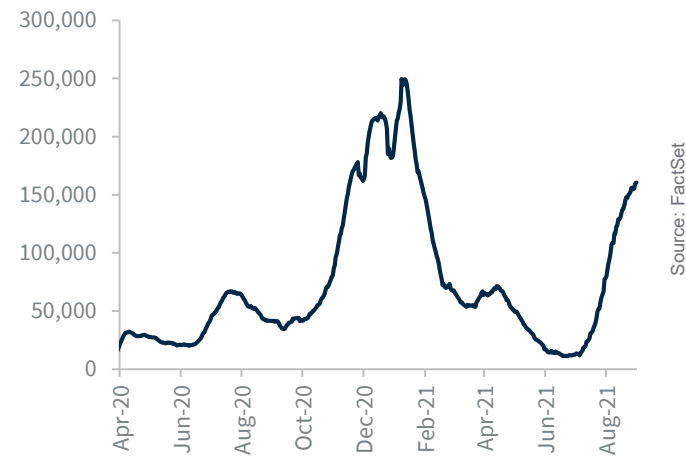
### Global Economy | Recent Trends

- **Global daily new COVID cases continued to grow throughout August**, reaching a 7 DMA of over 570k, though cases in the US appear to be reaching a peak. In an effort to reduce the spread of the virus, several cities and companies are implementing **vaccine mandates for in-person activity**. Importantly, Pfizer's vaccine receiving **full FDA approval** will likely increase vaccine acceptance.
- Chairman Powell struck a dovish tone at the Jackson Hole Economic Symposium, but **highlighted that the Fed will likely begin the tapering of asset purchases by year end or early 2022**. Although not official, the announcement of tapering will likely occur at the September FOMC meeting. While the Fed moves closer to tapering purchases, we do not expect **an interest rate hike until 2023 at the earliest**, as the Fed seeks further employment gains before raising rates.
- Although cases have surged in the US, **real-time activity metrics (e.g., mobility indicators, restaurant bookings) have remained resilient** unlike previous periods of increasing cases.
- **Consumer sentiment continues to be hampered by the outbreak** of the Delta variant, higher inflation and slowing real wage growth. This is evident as the U of M Consumer Sentiment Index declined for the second straight month **to the lowest level since December 2011**.
- A \$3.5T budget resolution was passed in late August; compromise will likely yield a **much smaller bill passed around mid to late October**. As the House is expected to vote on the **\$1T bipartisan infrastructure package by September 27**, September/October will be critical for policy.

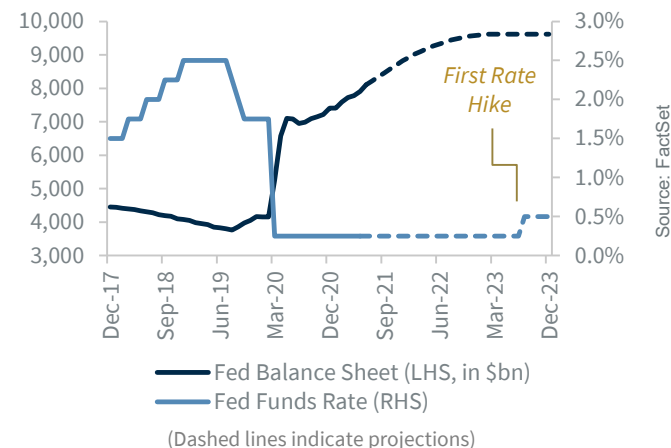
### Global Economy | 2021 Outlook

- **Global economic growth has been more robust than expected, but should moderate in the second half of 2021**. Advanced economies, where the vaccine rollout has been more successful, should see further normalization in activity as the year progresses. Emerging markets have had some near-term set backs, but should turn the corner in the months ahead.
- **We expect US GDP to grow at ~6% pace in 2021**, up sharply from our estimates at the beginning of the year. We expect consumer spending, the main engine behind growth, and solid corporate fundamentals to underpin growth for the remainder of the year. While the Delta variant remains a threat, we do not think it will derail the economic recovery.
- Supply chain bottlenecks, unfavorable year-over-year comparisons and surging demand have elevated price pressures in recent months. **Some of the factors pushing prices higher are beginning to abate, which should begin to ease price pressures in the months ahead**.
- Aggressive actions from policymakers (both from a fiscal and monetary perspective) remain supportive of economic growth. While **tapering remains on the horizon**, the Fed is expected to keep interest rates pegged at zero and continue its asset purchases well into next year.

### US COVID Cases Could Be Reaching a Peak



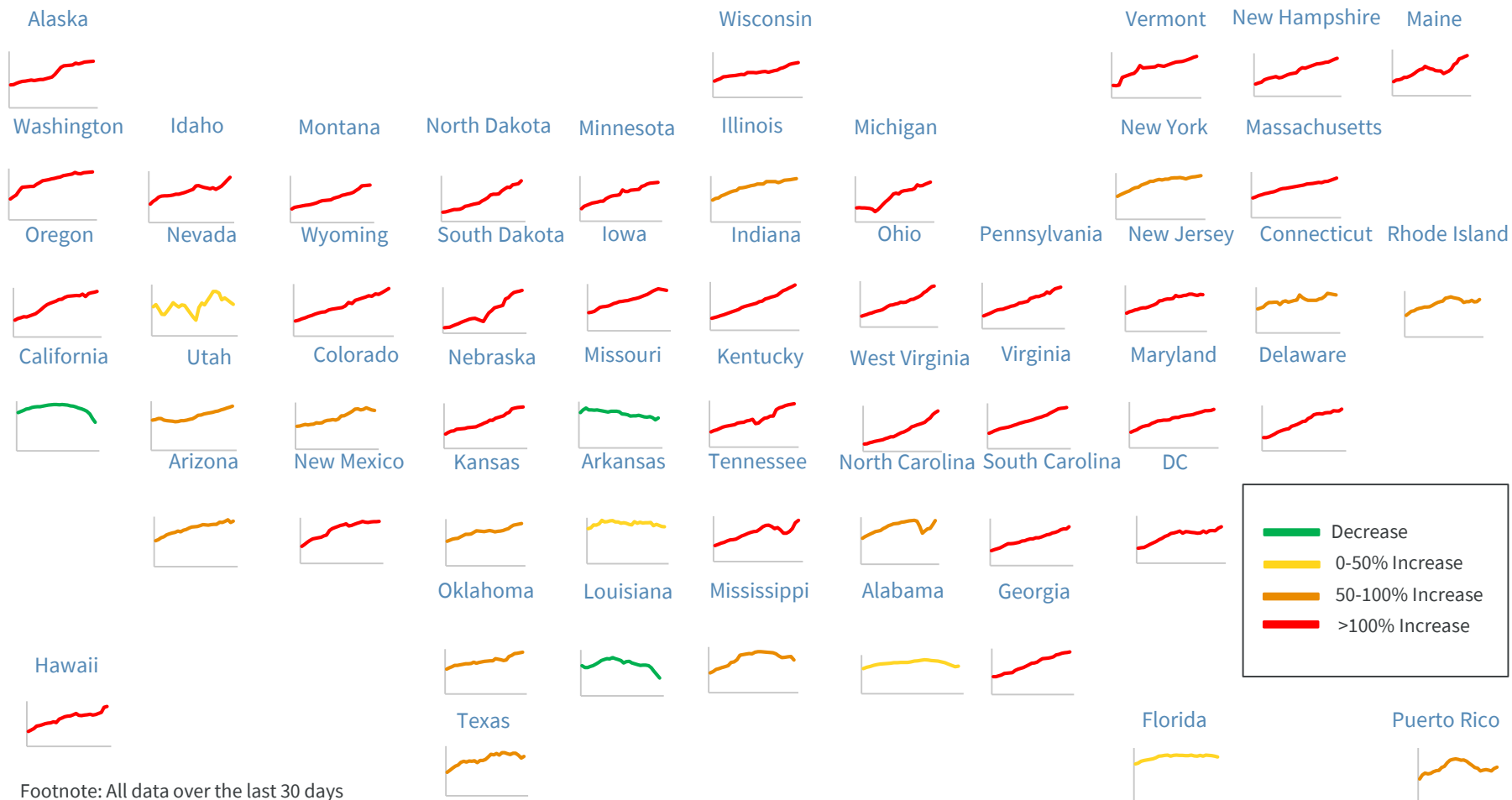
### Estimated Taper Timeline



## COVID-19 | Delta Variant Sparks Rapid Rise in Cases

### COVID CASES RISING ACROSS THE COUNTRY

- The Delta variant has caused a resurgence in COVID-19 with 94% of US states seeing an increase in daily new cases.



## Equities | Record Month for US Equities

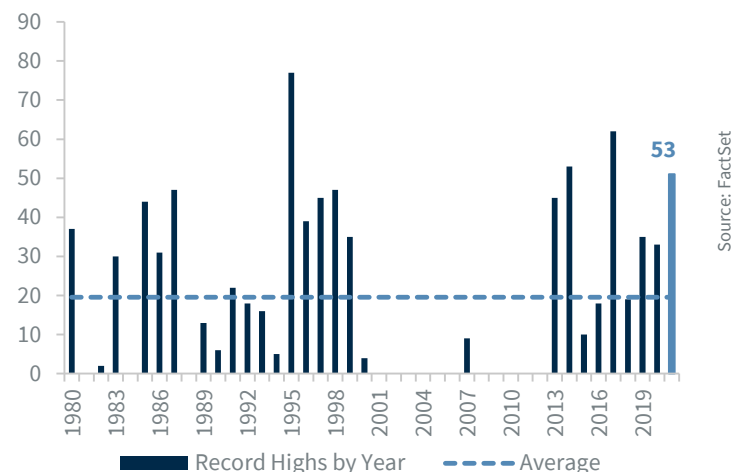
### Global Equities | Recent Trends

- August was a record month for equities, as the **Dow, S&P 500, and NASDAQ indices all reached new record highs** throughout the month. The S&P 500 rallied for the seventh consecutive month and has now notched **53 record highs since the start of 2021**.
- Despite this strength, we would not be surprised to see a minor pullback as we enter the **seasonally soft period of September-early October**. However, historically, **the average time to recover from a pullback of 5-10% has been only two months**, and as valuations and fundamentals remain favorable, we maintain our overall positive stance on equities.
- The Delta variant has been a recent headwind; however, as the pace of new cases slows and vaccinations pick up due to the full FDA approval of the Pfizer vaccine, **many of the 'reopening' sectors' (i.e., Consumer Discretionary and Energy) should rebound**.
- Q2 earnings season finished well ahead of estimates for the fifth quarter in a row. **86% of S&P 500 companies beat estimates by an aggregate 16.3%**, resulting in the strongest quarter of EPS growth (92% YoY) on record. Earnings calls were **largely optimistic** as companies expressed their expectations that many of the current headwinds, including the COVID-19 Delta variant, inflation, and labor shortages, **will be temporary**.
- The MSCI Emerging Markets Index was **up for the month (+2.6%)**, despite **weakness in Chinese equities** (flat in August and down ~12% ytd) that make up ~34% of the EM index.

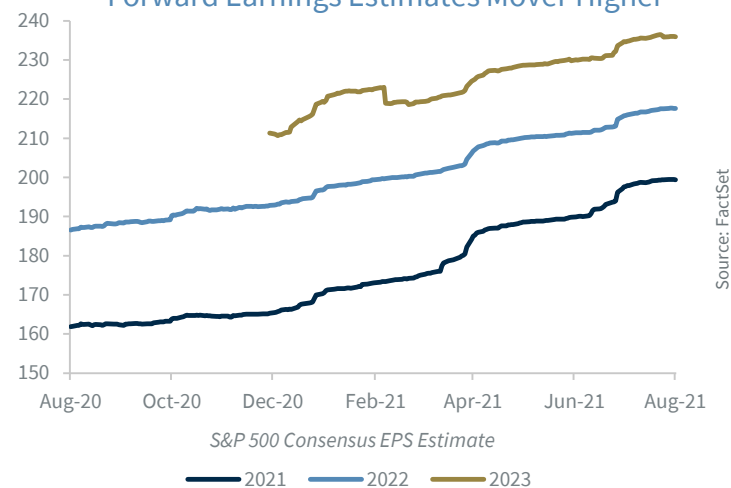
### Global Equities | 12-Month Outlook

- **We believe that equity prices will grind higher over the next 12 months** given the strong macroeconomic backdrop, solid momentum in earnings and favorable valuations vs bonds. However, we believe the pace of appreciation will likely slow, and believe the **S&P 500 will rise to 4,600 in 2022 (using a \$230 EPS and 20x P/E)**.
- **We continue to favor the Consumer Discretionary, Financials, Communication Services, Industrials and Energy sectors**. These pro-cyclical sectors are best positioned to benefit from strong pent-up demand, rising consumer confidence, and a further reopening in both the US and global economy.
- **Our longer-term bias toward domestic equities remains intact**. While US equities have strongly outperformed foreign developed markets over recent years, the trend will likely continue as economic growth and earnings momentum are more favorable for US equities relative to their foreign developed market counterparts.
- **Despite recent headwinds emanating from China, we remain constructive on emerging market equities over the medium to long term**. Valuations remain attractive on a relative basis, but selectivity within markets and sectors will be key.

### S&P 500 Reaches its 53<sup>rd</sup> Record High of the Year



### Forward Earnings Estimates Mover Higher



## Fixed Income | Treasury Yields Reverse Course

### Global Bonds | Recent Trends

- After falling ~50 bps from the year-to-date high (1.74%) in March, **the 10-Year Treasury yield was range bound in August and rose (+7 bps)** for the first time in five months.
- Supporting Treasury yields higher was increased Treasury issuance **and signaling from the Fed that it may begin tapering asset purchases by year end or early 2022, while concerns surrounding the Delta variant** and elevated foreign demand kept the rise contained.
- As shorter duration bond yields remained contained (as the Fed highlighted that we are still a long ways away from the first rate hike) while longer duration bond yields increased, **the US yield curve (10s-2s) steepened for the first time in five months.**
- The risk asset rally, improving economic activity and the continued global hunt for yield further supported credit-related assets in August. While credit spreads were either flat or rose modestly in August, **spreads in all major credit sectors remain near multi-year lows.** Emerging market bonds were particularly strong, as emerging market spreads posted the largest monthly decline (-16 bps) since December 2020.
- **Municipal-bond spreads (relative to the Treasury's) remain compressed relative to historical averages,** as healthy state budgets remain supportive of muni bonds.

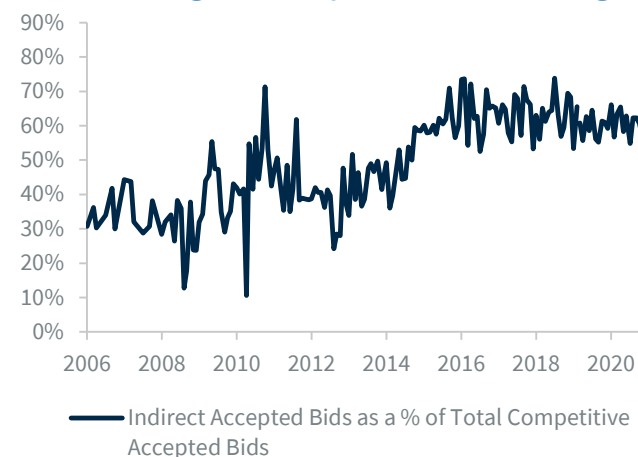
### Global Bonds | 12-Month Outlook

- As the market is pricing in robust economic growth in 2021 and 2022 and the potential for additional fiscal spending in an infrastructure package, **we forecast the 10-year Treasury yield to end 2021 at ~2.0%.** However, **we anticipate the rise in yields to be limited** due to transitory inflation, continued buying from global central banks, increased demand from foreign investors, and the overall interest rate sensitivity of the economy.
- While our forecasted rise in yields will likely lead to **limited, if any, capital appreciation for bonds in 2021, fixed income remains an important piece within investors' portfolios** as it limits/hedges equity market risk and provides increased diversification.
- Given our expectation for a modest rise in longer-duration interest rates while the Fed is set to leave policy rates unchanged for the foreseeable future (keeping shorter-term rates low), **we suggest a shorter than benchmark duration for bond portfolios.**
- From a credit perspective, while spreads have narrowed significantly to multi-year lows, **we expect them to tighten only modestly** in the next 12 months. We would favor holding higher-quality bonds and therefore **favor investment-grade over high-yield bonds.** In general, we would **prefer to add additional risk in the equity market over high yield** as we believe investors are better compensated for taking on risk in the equity market.

### High Yield Spreads Remain Near Record Lows



### Foreign Treasury Demand Increasing





## Commodities & Currencies | Commodity Rally Takes a Breather

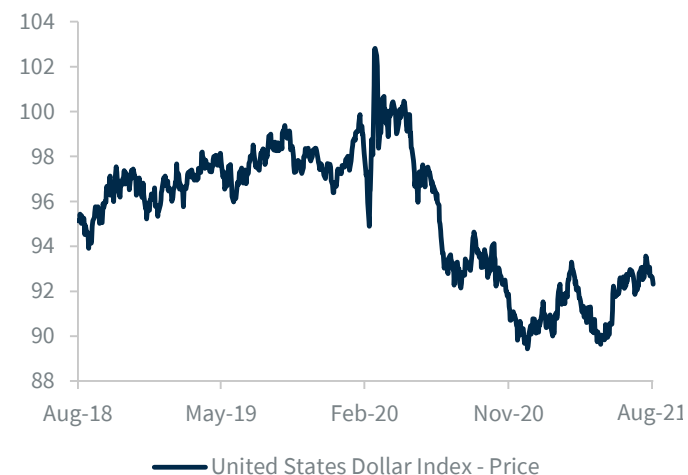
### Commodities & Currencies | Recent Trends

- The commodity rally took a breather in August as **the Bloomberg Commodity Index slightly declined (-0.3% MoM) for the first time in five months**. Despite the decline, **broad commodities remain up over 60% off of the lows of last April**.
- In a volatile month with significant swings in price, crude oil posted its first monthly decline (-7.4% MoM) since March. After declining 17% intra-month to the lowest level in three months **on the back of future demand concerns as a result of the Delta variant, a stronger dollar and a future increase in supply** as OPEC limits production cuts, **crude oil rallied strongly to close the month**. The rally was a result of increased geopolitical risk as the US pulled out of Afghanistan and as impacts from Hurricane Ida shut-down production in the US. Crude oil remains up ~40% year-to-date and 500% off of the 2020 lows.
- On the back of global growth concerns as a result of the Delta variant and widening interest rate differentials (particularly between the US/Europe), the US dollar rallied for the second time in three months and **rose intra-month to the highest level since November 2020**.
- Despite EM growth concerns (particularly in China) and a stronger dollar, **industrial metals continued their recent move higher** and have now rallied for nine out of the last 11 months. At a nine-year high, industrial metals have rallied 81% off of the 2020 lows.

### Commodities & Currencies | 12-Month Outlook

- As US economic activity recovers following the continued roll out of vaccines and reopening of the economy, **crude oil prices will remain strong over the next 12 months (year-end 2021 WTI target: \$75/barrel) due to improving global demand**.
- However longer term, as the price of crude oil is above current breakeven levels for US producers (thereby incentivizing more capital investment), **rising US crude oil production as well as increasing OPEC production will likely limit a substantial further rise in prices**.
- We expect the Dollar **to modestly weaken over the next 12 months**. Pressuring the dollar lower will be fundamental factors, as improving global economic activity, the reopening of global economies and falling global economic policy uncertainty (due to the counter-cyclical nature of the USD) will likely reduce demand for the dollar. Additionally, **aggressive US fiscal policy and Fed monetary policy easing**, leading to rapid money supply growth and widening fiscal deficits will also likely lead to a weaker dollar.
- While gold has been a solid hedge for investors throughout the COVID-crisis, **the demand for gold will likely continue to wane** as US economic activity remains strong in 2021 and 2022 and on the expectation that real interest rates will move modestly higher from current levels.

### US Dollar Rises Intra-month to YTD High



### Industrial Metals Rise to Multi-Year High



## Summary | Views and Key 2021 Year-End Targets

### 1 ECONOMY

2021 US GDP: ~6%

Despite recent softness due the Delta variant, we expect growth to be strong in 2021 and 2022 due to solid consumer spending, rebuilding inventories and strong business investment. Accommodative fiscal and monetary policy will continue to support economic growth, but will likely be less of a tailwind going forward relative to the prior 12 months.

### 2 BOND MARKET

2021 10-Year Treasury: ~2.00%

We forecast that the 10-year Treasury yield will be ~2.00% by year-end 2021, supported by robust economic growth, continued fiscal stimulus and a modest uptick in inflation. As we prefer higher-quality bonds, we prefer investment grade over high yield. Bond exposure should be viewed as a portfolio diversifier in mitigating the overall risk of a diversified portfolio and help in providing some stable income generation.

### 3 EQUITIES

2021 S&P 500: 4,400

Our expectation for robust economic growth in '21 and '22, rising EPS growth and continued stimulus should support equities. In contrast to recent years, we expect positive returns to be driven by EPS growth rather than P/E expansion. Use pullbacks as buying opportunities within our favorite sectors (Financials, Communication Services, Industrials, Energy, and Consumer Discretionary).

### 4 DOLLAR DIRECTION

2021 EUR/USD: 1.25

Our expectation is that aggressive fiscal and monetary policy and a burgeoning budget deficit may cause the dollar to modestly weaken over the next 12 months. Separately, narrowing interest rate differentials may weaken the dollar relative to other currencies. However, the potential for near-term volatility in riskier assets is likely to support the dollar.

### 5 OIL

2021 WTI: \$75/bbl

Over the next 12 months, crude oil will be supported by the reduction in social distancing measures, increasing economic activity and thereby improving demand. However, as prices rise above breakeven levels to a point that incentivizes US oil producers and OPEC to raise production levels, the rise in oil prices will likely be limited by increased supply.

### 6 VOLATILITY

Volatility: ↓

After a year of unpredictable events in 2020 (e.g., COVID crisis, 2020 election) we expect the overall level of volatility to decrease in 2021 due to the continued roll out of vaccines, improving global economic activity, still accommodative global central banks, and easing trade rhetoric (particularly between the US and Europe/China).

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## DISCLOSURES

Diversification does not ensure a profit or guarantee against a loss

**INTERNATIONAL INVESTING** | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

**SECTORS** | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

**OIL** | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

**CURRENCIES** | Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

**GOLD** | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

**FIXED INCOME** | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

**US TREASURIES** | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

**US DOLLAR** | The US Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies,[1] often referred to as a basket of U.S. trade partners' currencies.[2] The Index goes up when the US dollar gains "strength" (value) when compared to other currencies.

## DEFINITIONS

**AGGREGATE BOND** | **Bloomberg US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

**HIGH YIELD** | **Bloomberg US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

**CREDIT** | **Bloomberg US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

**MUNICIPAL** | **Bloomberg Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

**BG COMMODITY INDEX** | Bloomberg Commodity Index is calculated on an excess return basis and reflects commodity futures price movements.

**S&P 500** | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

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[EMERGING MARKETS EASTERN EUROPE](#) | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

[ASIA EX JAPAN INDEX](#) | **The MSCI AC Asia ex Japan Index** captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries\* (excluding Japan) and 9 Emerging Markets (EM) countries in Asia. With 983 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

[AC WORLD INDEX](#) | **The MSCI AC World Index** is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets.

[EMERGING MARKETS LATIN AMERICA](#) | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

[EMERGING MARKETS](#) | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

[JAPAN](#) | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

[EUROPE EX UK](#) | **MSCI Europe Ex UK Net Return Index:** The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

[MSCI EAFE](#) | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

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#### DATA SOURCES

FactSet as of 8/31/2021.

# RAYMOND JAMES

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