

Michigan Schools 403b/457 Retirement Group

Q1 2022 Summary

Markets

Developed equity markets experienced a poor quarter for returns due to the economic uncertainty throughout the world today. U.S. large-cap equities, as represented by the S&P 500 Index, lost 4.60% during the quarter. Developed international equity markets, as represented by the MSCI EAFE Index, fared even worse. That index finished the quarter down 5.91%. Real estate struggled as well. The Wilshire REIT Index lost 3.87% during the quarter.

Bond indexes were hit with relatively large losses, given what is typical for the category. This is because March saw a significant rise in intermediate term interest rates, which heavily influence bond prices. The Barclays U.S. Aggregate Bond Index and the Barclays Global Aggregate Bond Index lost 5.93% and 4.97% respectively during the quarter. Even the Barclays U.S. Inflation-Linked Bond Index was not immune, also losing 3.02% for the period.

Emerging markets also struggled given their more direct exposure to Russia. It is unclear when Russia will be investable for the West again. The MSCI Emerging Markets Index finished the quarter down 6.97%. Just about the only major asset class with positive return was Commodities, which benefited from the inflation spike in energy and other materials. The Dow Jones UBS Commodity Index gained 25.55% during the first quarter of 2022.

Outlook

Inflation and an unexpected war led to economic losses for most people during the first quarter of 2022. Of course, the human toll for Ukrainians has been far worse. Let's hope that there is a resolution to the conflict as quickly as possible.

Still, global markets had a very strong run over the last three years, even with a global pandemic going on for much of that time. Whatever the reason, in retrospect it should not be surprising that markets would pull back at some point as sentiment can turn quickly. Of course, that goes both ways. Market sentiment is negative right now but that likely won't last forever either. As always, we recommend a diversified portfolio containing a reasonable amount of equity exposure for any investor with a long enough time horizon.

Investment Offering

Watch List

Virtus Ceredex Large-Cap Value R6 (STVZX)

- The Virtus Ceredex Large-Cap Value Equity fund was added to the Watch List at the end of Q1 2022 due to performance.
- For Q1 2022, the fund has suffered from broad allocation and security selection issues; security selection in industrials, basic materials, and healthcare contributed significantly to the underperformance.
- In 2020 and 2021, the fund had middling peer rankings. For 2020, security selection in materials and energy dragged on performance; security selection in technology and financial services buoyed relative performance. In 2021, an overweight allocation to and security selection in industrials weighed heavily on performance, while security selection in technology and financial services balanced the fund.
- On November 1, 2021, longtime dedicated-analyst Jennifer Graff joined lead-PM Mills Riddick as a co-manager of this fund.

American Funds EuroPacific R6 (RERGX) - performance

- The American Funds Europacific Growth fund was added to the Watch List at the end of Q4 2021 due to performance.
- For Q1 2022, the fund outperformed the category average, security selection in basic materials and an overweight allocation to energy drove performance.
- In 2021, security selection in healthcare and technology weighed significantly on performance and an underweight allocation to and security selection in industrials also contributed to relative underperformance; an overweight allocation to Latin America and security selection in Japan further dragged performance lower.
- For 2020, the fund performed well with security selection in consumer cyclical, healthcare, communication services, and technology driving performance; security selection in industrials and financials detracted from performance.

Watchlist Exception

- Vanguard Intermediate-Term Treasury fund will flag for manager tenure but the fund is not on the Watch List. Effective December 31, 2021, Gemma Wright-Casparius, sole PM of the fund since 2015, retired from Vanguard. Brian Quigley and John Madziyire were added as co-managers in November 2021. Mr. Quigley has been with Vanguard since 2003 and Mr. Madziyire since 2017. Both are part of the Global Rates team at Vanguard. Brian Quigley manages the Vanguard Short-Term Federal fund and is also a portfolio manager for the Vanguard Core Bond fund making him well equipped to co-managing the Intermediate-Term Treasury fund. Vanguard takes a collaborative approach to their fixed income offerings, encompassing their top-down Sr. Investment "hub" coupled with bottom-up sector research satellite teams. Given the experience of the two newly named managers and the collaborative nature of the fund and process, the Investment Committee decided not to place the fund on the Watch List.

For consultant, broker-dealer, institutional investor or existing plan sponsor use only.

The Standard is the marketing name for StanCorp Financial Group, Inc., and its subsidiaries. StanCorp Equities, Inc., member FINRA, wholesales a group annuity contract issued by Standard Insurance Company and a mutual fund trust platform for retirement plans. Standard Retirement Services, Inc., provides financial recordkeeping and plan administrative services. Investment advisory services are provided by StanCorp Investment Advisers, Inc., a registered investment advisor. StanCorp Equities, Inc., Standard Insurance Company, Standard Retirement Services, Inc., and StanCorp Investment Advisers, Inc., are subsidiaries of StanCorp Financial Group, Inc., and all are Oregon corporations.

The material is not intended to constitute legal, tax, securities or investment advice, or an opinion regarding the appropriateness of any investment or solicitation of any type. This document was not created with any particular plan in mind. The Standard does not offer tax or legal advice. Employers and plan participants should contact their own legal, financial or tax advisors for advice based on their own unique circumstances.

SIACL3220405-223Q