

Our First Quarterly IC Newsletter

Welcome to the *Orcas Island Community Foundation's* inaugural quarterly *Investment Committee Notes*. In this regular report, we will summarize meetings with our advisers, commenting generally on markets and the economy, and more specifically on OICF's various portfolio performances, including any material changes, special notes, or new investment opportunities under consideration. Importantly, this report is an outcome of a recent review of constituent OICF fund holder opinions, advisor services, and on-going portfolio strategy suitability. Major findings and recommendations of that review are found on page two. Enjoy the Spring!

Markets & The Economy

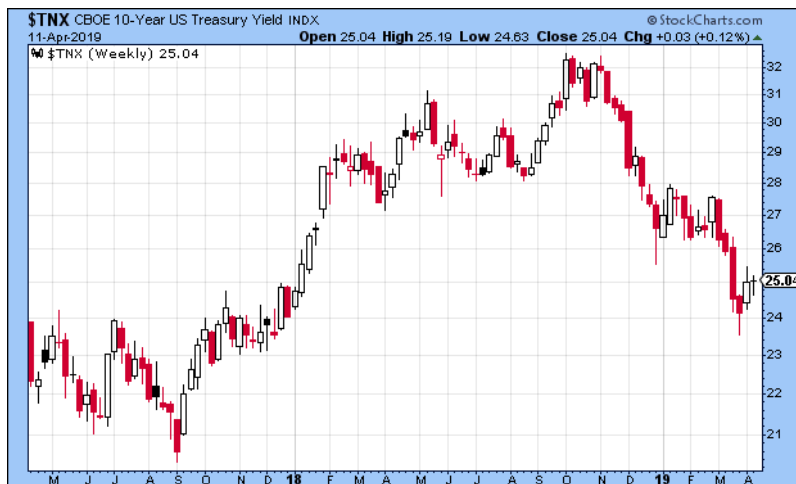
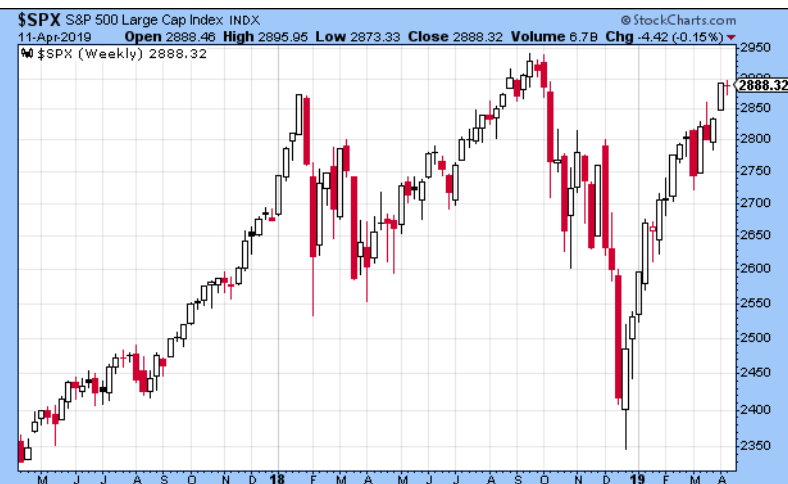
This winter, US stocks recovered nearly all of their waterfall losses from the prior fall that had left many major indices in or near bear market territory, defined as a 20% loss from previous highs. Reasons for the volatility were several fold, including concerns about an overly aggressive Federal Reserve, stalling US-China trade negotiations, a prolonged government shutdown, and worries about a global slowdown. Subsequently, a more accommodating Federal Reserve, Chinese stimulus, and the resumption of trade talks have provided all the salve needed for a significant recovery leaving the S&P 500 index up about 13.5% through March-end.

Portfolio Overview (As of March 31, 2019)

Mid- to Long-Term Fund (\$10.73M) – Most of our corpus is invested in this diversified global strategic approach featuring a blend of active, passive and private investment funds. In January of this year, a shift to incorporate more passive funds to better track market indices and reduce the total cost of investment was implemented at the advice of Cornerstone Advisors, our financial adviser. Gross of advisory fees, this fund was down about -5.13% for 2018, slightly better than the 60-40 global index, which was down -5.52%. The fund also performed favorably to other US community foundation peers of our size, which were reported down an average -7.7% by Colonial Consulting, Inc. Final first quarter results will be published soon, and incorporated in our next *Notes*.

Short-Term Fund (\$1.43M) – OICF holds two short-term accounts featuring a short-term bond fund managed by PIMCO, currently yielding between 2.5-3.0% annually.

Blue Marble Fund (\$261K) – A lower cost strategy comprised of ETFs and Mutual Funds focused on companies with best practices among environmental, social and governance attributes. This more recent portfolio option inceptioned during the second half of 2018, and features an approximate 60% stock, 40% fixed income allocation. We look forward to seeing it grow in the year ahead.



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Investment Committee Review

The OICF Investment Committee continually reviews our investment strategies, performances and advisory service levels. A more thorough review was recently conducted in our role as on-going fiduciaries towards the funds, including a fund holder opinion survey, review of current advisory fees and service levels, and detailed fund strategy analysis. In general:

- OICF strategies seek a moderate risk/ reward objective featuring approximately 60% global stocks and 40% diversified holdings;
- As of 3/31/2019, total aggregate account values custodied at Charles Schwab approximated \$12.43 million; and,
- Our long-standing financial advisor, Cornerstone Advisors, Inc., charges OICF an average 43-basis points per year.

Community Impressions

To gauge community impressions of OICF investment options, a survey was sent to fund holders. The average response as an overall impression was “satisfied but would like to see some changes.” In looking at the survey, it seems that there are two groups of respondents. There are those who are generally satisfied but may not pay much attention, and there are those who do pay attention and noted an apparent performance lag versus US indices at times.

Advisor Review

OICF’s investment adviser is Cornerstone Advisors, Inc. Bellevue based Cornerstone was founded in 1984, has 55 employees, and manages about \$3.4 billion. They are a fiduciary advisor with full discretionary oversight over OICF holdings. Our review concluded that they provide a high level of service for reasonably low fees for an active, high service manager. Special services include advice on OICF-specific issues, regular personal visits to Orcas, and frequent cash management assistance. No disciplinary events were noted on their most recent regulatory filings.

Fund Analysis

The Foundation’s longest standing strategy, the Mid- to Long-Term Fund, modestly underperformed benchmarks gross of advisor fees during the six-year period from 2013 through 2018. Notably, however, average annual gross performances were commensurate with peers during the latest three-year period. A performance attribution analysis revealed that:

- Internal fees associated with investment vehicles will always lag a benchmark that has no fees assessed;
- An outsized cash holding was held early on at the request of the Committee post the 2008 market crash and recession;
- A long runway to deploy assets reserved for alternative investment partnerships as part of the fund’s institutional ‘endowment’ approach to investing may have further moderated early returns;
- The selected approach features a conservative overall design preference to reduce downside risk versus upside capture; and,
- Stakeholder perceptions may be likely worse than reality due to “home market biases” relative to global investment inclusions in the approach, which underperformed US assets as a class during the subject period.

Committee Recommendations

- Adopt the reconstituted holdings recently recommended by Cornerstone for the Mid- to Long-Term Fund, featuring lower cost indices and a broader array of fund families;
- Consider an additional short-term mutual fund for the Short-Term Fund for diversification purposes;
- Develop a low-cost strategic indexing strategy as an additional option for fund holder investment; and,
- Develop a one-page communication for all stakeholders recapping market and program performances, including market commentary and any change in outlook or strategy. And – here this last piece is! Please feel free to ask us any questions about this review, whatsoever.0