

Introducing the ‘Index Strategy’ Option

Welcome to the *Orcas Island Community Foundation’s* third quarterly *Investment Committee Notes*. Recently, your OICF board approved a new investment option for our donor/beneficiaries, the low-cost ‘Index Strategy’. Seeded with \$80,000, this diversified 60% stock and 40% fixed-income portfolio is invested in highly liquid exchange traded products with exceptionally low internal-fund costs, currently measured at 0.05% per year. This new option was designed by request for those of you who espouse a ‘John C. Bogle’ (the founder of Vanguard Group) approach of minimal cost portfolios that feature the simplicity of indexing over the added diversity and cost of alternative investments. With multiple investing options now available to our donor/beneficiaries, please be on the look out for OICF’s annual rebalance guidelines mailing in the month ahead to indicate your preferences for 2020.

Markets & The Economy

Despite a slowing global economy, global stocks remain near all-time highs, supported by a cycle of interest rate cuts globally. In the U.S., the Federal Reserve Bank cut the Fed Funds rate twice this quarter after raising rates a total of eight times between December 2015 and December 2018. The target rate range now sits at 1.75% - 2.00%. Much of the slowdown in global growth has been attributed to the ongoing trade dispute between the U.S. and several major trading partners, especially China. However, some disruption during the quarter must be credited to civil unrest in Hong Kong, the ongoing negotiations of the U.K. breaking ties with the European Union, and surprise Presidential election results in Argentina. In this environment, Global Stocks (as measured by the MSCI All-Country World Index) were flat 0.0% and bonds (as measured by the Bloomberg Barclays U.S. Aggregate Bond Index) rose 2.3%.

A positive resolution on trade and/or more aggressive monetary stimulus could be a catalyst for additional global stock returns; conversely, further disruption may propel the slowdown, currently isolated the manufacturing and industrial sectors, into the broader global economy.

Portfolio Overview (As of September 30, 2019)

Mid- to Long-Term Fund (\$13.02M) – Most of OICF’s corpus is invested in this diversified global strategic approach featuring a blend of active, passive and private investment funds. Net of all fees, the strategy finished the quarter higher by +9.34% year-to-date.

Short-Term Fund (\$846K) – OICF holds two short-term accounts featuring a short-term bond fund managed by PIMCO, currently yielding between 2.5-3.0% annually. At the advice of our advisor, we continue to use this PIMCO fund exclusively based on its favorable long-term risk-reward profile.

Blue Marble Fund (\$318K) – 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 incepted during the second half of 2018, and features an approximate 60% stock, 40% fixed-income allocation. Net of all fees, the portfolio finished the quarter higher by +12.90% year-to-date.