ORCAS ISLAND COMMUNITY FOUNDATION

Investment Committee Notes | Q4 2020

Fostering philanthropy to enhance and preserve the quality of life on Orcas Island

Markets & The Economy

As we enter the new year, we still have a lot to "put behind us" including the Presidential transition, the Pandemic and the fiscal/monetary "experiment" that has taken place to forestall a deeper economic crisis. We should acknowledge that prices for broad equity market indices seem to already reflect an expectation of progress in overcoming those hurdles in 2021. The dispersion between asset prices and the current state of the economy creates a unique challenge for investors as they make portfolio decisions. While it appears that the worst of the pandemic induced economic impacts may be behind us, the challenge is whether the economy can recover robustly enough to support elevated asset prices.

Compared to last quarter we now have multiple vaccines being actively delivered to protect against COVID-19, we have removed much political uncertainty in the U.S. with a Democrat led government that suggests we are likely to see more fiscal stimulus and possibly infrastructure spending, likely offset by rising corporate and individual taxes. We anticipate that the economic recovery will make great strides in 2021. Pent-up consumer demand, the wealth effect from rising markets and continued fiscal/monetary support should make for a strong tailwind.

We do not anticipate that interest rates will rise meaningfully in the near term and therefore we expect there will be considerable force pushing investors to take risk in equity markets rather than sit on zero or negative yielding cash and bonds. There are some relative opportunities in credit markets, particularly if government support remains and likely more opportunities in Private Credit Markets where inefficiencies there lead to higher rates of return.

It is worth highlighting that in an environment of heightened equity valuations there can be much greater volatility as shifts in sentiment can be swift and powerful leading to doubts about the economic foundation. We will continue to monitor things closely as they develop and will proceed with some level of caution, but also patience to look beyond the near-term volatility.

Portfolio Overview (Approximate Funds; Year-to-Date Returns as of December 31, 2020 Net of Fees)

Mid- to Long-Term Fund ($12.9 million; +10.3%) – Most of OICF's corpus is invested in this diversified global strategic approach featuring a blend of active, passive and private investment funds.

Short-Term Funds ($2.6 million; +2.8%) – OICF holds two short-term accounts invested in a short-term bond fund managed by PIMCO, currently yielding between 2.5-3.0% annually.

Blue Marble Fund ($1.3 million; +13.9%) – A lower cost strategy comprised of ETFs and Mutual Funds focused on companies with best practices among environmental, social and governance attributes. This portfolio option incepted during the second-half of 2018 features a 60% stock, 40% fixed-income allocation.

OICF Index Fund ($88 thousand; +14.1%) – OICF provides this low internal-fund cost option for those who espouse the 'John C. Bogle' (founder of Vanguard) indexing approach to investing, characterized again by a 60% stock, 40% bond and other diversified asset allocation.