ORCAS ISLAND COMMUNITY FOUNDATION

Investment Committee Notes | Q2 2021

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

Markets & The Economy

Global equity markets continued their positive run in the second quarter, capping off their fifth consecutive quarter of positive returns. The S&P 500 added another 8.5% during Q2 to bring the year-to-date total return to over 15%. Small caps and broad non-U.S. equity indices had another positive quarter as well, albeit with slightly lower returns. Over the past three months the Russell 2000 Index returned 4.3%, while the MSCI EAFE Index and MSCI Emerging Markets Index both returned just over 5%. On a year-to-date and trailing twelve-month basis returns remain impressive as risk assets have rallied sharply thanks to the tailwinds of recovering economic activity and a global economy that appears to be in much better shape today than compared to the state of the world several months ago.

In a reversal of events from the start of the year, interest rates fell over the past three months. The 10-year Treasury yield settled around 1.45% at the end of June despite positive economic growth and inflation trends. Declining interest rates and tight credit spreads helped the U.S. Aggregate Bond Index to return a modest 1.8% over the quarter. Although the positive return for the quarter wasn't enough to push the index back into positive territory for the year.

Halfway through the year it has been remarkable to reflect on how much has changed since the winter months. Here in the U.S., widespread vaccination efforts, fading restrictions, and abundant fiscal and monetary stimulus have allowed for a strong economic rebound and a sense that life is heading back towards "normal". Corporate profits have recovered sharply, consumer spending has surpassed pre-pandemic levels, and equity markets sit near all-time highs. However, the recovery is not yet complete. Unemployment remains elevated and the virus is still prevalent and limiting the speed at which the recovery can take hold in many parts of the world. Supply chain disruptions and countless uncertainties linger as we work to transition towards life on the other side of the pandemic. For now, we still see positive trends for a strong economic recovery through the second half of the year, which should be supportive of risk assets and improving corporate fundamentals. However, we recognize that we remain in a unique environment and must maintain a watchful eye on shifting dynamics and new developments that indicate a course correction may be warranted.

Portfolio Overview (Approximate Funds; Year-to-Date Returns as of June 30, 2021, Net of Fees)

Mid- to Long-Term Fund ($14.3 million; +7.6%) – 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 ($2.0 million; +0.2%) – OICF holds two short-term accounts invested in a short-term bond fund managed by PIMCO, currently yielding between 1.0-2.0% annually.

Blue Marble Fund ($2.2 million; +6.1%) – 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 ($132 thousand; +7.5%) – 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.