ORCAS ISLAND COMMUNITY FOUNDATION

Investment Committee Notes | Q2 2022

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

Markets & The Economy

The second quarter of 2022 was challenging for global financial markets and saw a continuation of many of the same themes that emerged early in the year. Risk assets globally were weighed down by rising interest rates and inflation, along with concerns about slowing economic growth. This "return to normal" in terms of interest rate policy and equity market multiples was not unexpected. These higher rates, along with expectations for further hikes, have pressured equity market valuations down to historical averages from extremely elevated levels. We believe this "normalization" sets the stage for long-term investors to experience more attractive and sustainable returns going forward.

In order to put some context around how difficult things were, the S&P 500 suffered its worst start to the year since 1970, down -20.6%. On a relative basis, value stocks significantly outpaced growth stocks and we saw modest outperformance from international and emerging market equities. During these rising interest rates, bonds were unable to provide much protection as taxable intermediate and long-term bonds lost over 5% for the quarter.

From an economic perspective, we saw a continued moderation in growth over the second quarter due to the negative side effects of higher interest rates and persistent inflation. Consumer spending, while still positive, is showing signs of slowing down with higher energy, food, and housing costs cutting into budgets. We are also seeing the beginning signs of a cooling in the once booming housing market. On a positive note, the job market remains resilient with steady monthly job growth and the unemployment rate holding near pre-pandemic lows. Additionally, corporate balance sheets are healthy, and earnings are still expected to grow steadily over the next year.

As we move into the second half of the year, there are several storm clouds on the horizon and the risk of a recession is rising. Our latest research reflects growing risk in markets and have led to a more defensive positioning across portfolios. Despite near team uncertainty, history has taught us that staying disciplined, maintaining a long-term view, and rebalancing opportunistically are the keys to investment success.

Portfolio Overview (Approximate Funds; Year-to-Date Returns as of June 30, 2022, Net of Advisory Fees)

Mid- to Long-Term Fund ($13.4 million; -8.8%) – 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; -1.2%) – 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 ($2.6 million; -17.3%) – 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 ($0.65 million; -15.4%) – 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.

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