

College of the Siskiyous Foundation
Investment Due Diligence
Meeting Minutes of
January 21, 2020

Members Present:

- Greg Messer, Chair
- David Gault
- Darlene Melby
- Kent Gross
- Barry Ohlund
- Dawnie Slabaugh

Absent:

- Linda Romaine
- Denny Sbarbaro

Recording Secretary: Carie Shaffer

Consultants: Meghan DeGroot, Sand Hill
Brenda Vingiello, Sand Hill

Item 1: **Call to Order and Introductions**

The meeting was called to order at 4 p.m.

Item 2: **Approval of Meeting Minutes – September 17, 2019**

Motion was made (Ohlund / Slabaugh) to approve the September 17, 2019 meeting minutes. Motion passed.

Item 3. **Review Investment Experience / Areas of Possible Concern**

Consultants, Brenda Vingiello and Meghan DeGroot, reviewed the Foundation investment portfolio and also provided an overview of the current market forecast and economy for Q1 2020.

Highlights from the Portfolio Review:

- As we look to 2020, the consumer should remain strong as wage growth is outpacing inflation, the job market is tight, the housing market has stabilized, and interest rates are low.
- Global trade tensions and Boeing's 737 Max disruption have had a disproportionate impact on the manufacturing sector, which began to contract in August of 2019. A recent phase one trade deal is an encouraging sign of progress and as the Presidential election approaches, we expect more work to be done which should provide support for the sector. The complete halt of Boeing 737 Max production is estimated to have a potential 0.3% - 0.4% impact on Q1 GDP growth. This should reverse in subsequent quarters but will, nevertheless, cause a disruption.
- Looser financial conditions brought on by lower interest rates should support continued economic growth. Historically, this has led to inflation. While inflation has remained low throughout this economic cycle, a pickup would provide a strong reason for the Federal Reserve to raise interest rates.

- Despite some uneven trends in job growth, the labor market has continued to exhibit relative strength. As of November, the unemployment rate was 3.5%, the lowest rate since 1969. There were also about 1 million more job openings than job seekers.
- Wage growth has also picked up with earnings growing 3.1% over the past 12 months. Importantly, this rate is outpacing inflation, which is currently around 1.6%. This variance, along with lower interest rates, a stable housing market and rising financial markets, is contributing to the strength of the consumer.
- Following a year of outside earnings growth in 2018 that was primarily driven by lower corporate tax rates, growth in 2019 is projected to be flat. Meanwhile, expectations for earnings growth in 2020 are currently in the 8-10% range which could be optimistic if the U.S. dollar remains strong, wages continue growing and trade tensions continue to cause economic uncertainty.
- If global economic growth begins to reaccelerate, a trade resolution between the U.S. and China comes to pass and/or previously imposed tariffs are eliminated, the outlook for 2020 earnings growth projections could improve or, at a minimum, justify what appears to be optimistic expectations. Mr. Messer asked what impact global warming has on the market. Ms. Vingiello explained it is very difficult to measure.
- China's economy now contributes one third of the world's incremental GDP growth and thus it has an increasingly significant impact on the global economy. An economic slowdown tied to President Xi's efforts to de-risk the country's financial system was further compounded by trade tensions and this impacted the global economy last year.
- This low level of inflation was a significant factor in the Federal Reserve's decision to begin lowering interest rates. If looser financial conditions lead to an acceleration in economic activity, inflation may finally begin to rise above 2%. But for now, inflation trends remain muted.
- According to the U.S. Census Bureau, the rate of homeownership in the U.S. is on the rise as the cost of renting continues to escalate, making ownership more financially attractive. Catch-up new home constructions will likely unfold over time as millennial household formation finally takes hold, contributing to GDP growth.
- The U.S. equity market experienced a significant recovery last year that was primarily driven by multiple expansion. Earnings growth projections for 2020 are calling for 10% growth year-over-year and while this is possible, earnings expectations at the beginning of any year are usually too optimistic. A pick-up in global growth coinciding with a depreciation of the U.S. dollar and further clarity on global trade relations would serve to bolster these estimates.

Quarter End Report (10/1/19 – 12/31/19) of the COS Foundation Investment Portfolio:

- Title III - Ending Market Value is \$1,956,688.78 (QTD 4.75%/YTD 4.35%)
- Scholarship - Ending Market Value is \$1,237,663.90 (QTD 4.78%/YTD 4.35%)
- Rainy Day Fund – Ending Market Value is \$138,189.05 (QTD 4.49%/YTD 4.13%)

- General Endowment – Ending Market Value is \$135,078.59 (QTD 4.69%/YTD 4.08%)
- Mercy Endowment – Ending Market Value is \$126,521.27 (QTD 4.69%/YTD 4.40%)

The Committee requested the Consultants also provide a combined summary of accounts for review at the next quarterly meeting.

Item 4.

New Business

Mr. Messer asked about corporate debt and if it would affect the Foundation investments were interest rates to rise. Ms. Vingiello explained the Foundation investments are invested very conservatively and not a lot of the money is invested on the corporate side.

Committee members discussed drafting goals for each individual account based on spending and long-term need. An interim meeting with the Committee will be set in March to work on this project in preparation for the next quarterly meeting with the consultants.

Item 5:

Adjournment / Upcoming Meeting Date and Time

The next meeting will be April 21, 2020 at 4 p.m. at the Weed Campus Board Room. Meeting was adjourned at 4:55 p.m.