

College of the Siskiyou Foundation
Investment Due Diligence
Meeting Minutes of
April 13, 2021
Zoom – Video Conferencing

Members Present:

- Darlene Melby
- Bruce Deutsch
- Kent Gross
- Dawnie Slabaugh
- Barry Ohlund

Absent:

- Linda Romaine
- David Gault
- 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 4:03 p.m.

Item 2: **Approval of Meeting Minutes – January 12, 2021**

Motion was made (Gross / Melby) to approve the January 12, 2021 minutes as presented. 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 2021. Highlights from the Portfolio Review:

- The U.S. has become one of the world’s vaccination leaders. By the end of March, the CDC estimated that 30% of the population had received at least one vaccine.
- With a pace of 2.5m vaccines being administered daily in the U.S. the majority of the adult population could potentially be vaccinated by the end of April.
- Fiscal stimulus in the U.S. has been significant not only relative to other countries but also relative to the financial crisis.
- Leading economic indicators have rebounded significantly from their lows. As of the last reading, they haven’t yet recovered from pre-pandemic levels but may reach them shortly as the economy continues to reopen.
- In stark contrast to the full year of 2020 when technology and other COVID-19 beneficiaries led the market, more economically sensitive groups such as energy and financials are leading this year.

- During the early part of this year, the number of new COVID-19 cases, hospitalizations and deaths reached new highs. Yet, as time went on and the vaccine roll-out progressed, the disease outlook and the economic outlook improved notably. By the end of the first quarter, new stimulus had been enacted and a new infrastructure plan had been proposed.
- Since the beginning of the year, longer-term interest rates have begun to rise as the prospect of a strong economic recovery, and the potential inflation that may ensue as a result of excess stimulus, have risen. Meanwhile, the Federal Reserve has signaled a desire to keep short-term interest rates low through 2023 and expects near-term inflation to be transitory.
- Meanwhile, government stimulus efforts are still benefitting from the ability to issue Treasury bonds with historically low yields. This is likely to change as recovery progresses and the Federal Reserve ultimately decides to taper its asset purchases, putting upward pressure on interest rates.
- In March, the unemployment rate had dropped to 6%. Yet there is still more progress to be made to reach pre-pandemic levels which were around 3.5%.
- Corporate earnings have exceeded analyst's projection over the last four quarters, resulting in positive revisions to S&P 500 earnings projections for 2021 and 2022, which now stand at \$176/share in 2021 and \$202/share in 2022. This represents year over year growth of 26% and 15%.
- In many cases, companies in more cyclically-oriented groups such as energy, industrials and materials are projected to grow earnings at a faster pace than more traditional growth groups such as technology and parts of healthcare. This may contribute to a continuation of the shift in sector leadership that the market has experienced since the fourth quarter of last year.
- The European Union has experienced a slower than anticipated vaccine rollout. While this may mean the economic recovery is a quarter behind that of the U.S., we still anticipate a solid recovery as Germany and other manufacturing-dependent economies should benefit from a strong global economic recovery and tourists will eventually return to Southern Europe.
- Japan is also behind the U.S. in its vaccination schedule. Yet, a rebound in demand from China and other parts of Asia should support growth. The Bank of Japan has enacted stimulus measures but may have less economic leeway given that the country's deficit was already twice the size of its economy at the end of 2019.
- China, which makes up 40% of the emerging market investable universe, has been coping with COVID-19 since early 2020. Relative to other global economies, China has managed the pandemic better than any other major country. According to Chinese economic data, Chinese export growth grew by more than 150% year over year during the month of February 2021, and the Purchasing Manager Index (PMI) for manufacturing showed continued expansion.

- Inflation has remained below 2% for most of the last decade, a phenomenon that has been quite surprising given the significant liquidity that central banks have injected into the global economy. In the near-term, we expect that measures of year-over-year inflation growth will rise as we overlap a period of significant economic weakness that weighed on prices last year. While this should prove to be transitory, inflation remains a risk over the intermediate-term time horizon.
- Oil prices experienced their most volatile period in history during the first half of last year driven by an OPEC price war that was followed by COVID-19 shutdowns. Since April's 2020's lows, the oil market has recovered significantly, optimism of an economic recovery and as a sentiment has been positively impacted by global output cuts. This environment could persist as the overall level of economic activity is outpacing expectations and supply has still not caught up with demand.
- A large portion of the population has been working at home for a year now and this has driven a change in home-related spending habits. As companies continue to embrace 'work from home' policies, we believe there will be an ever-increasing housing demand as people transition from urban (apartment/condo) to suburban living and as they focus on better living, and working, arrangements at home.
- Mortgage rates have begun to climb slightly as the yield on the 10-year Treasury bond has risen. Over time, we expect that rising mortgage rates as well as rising home prices will eventually cause the market to slow.
- We expect investors to look to 2022, which should be a more normalized earnings year, when valuing the stock market. Furthermore, we expect that valuation multiples could remain high given that real interest rates are negative across the Treasury yield-curve. Valuation dispersion has been lessening as 2020's winners have underperformed the broader market and more economically sensitive sectors have led.

Quarter One End Report (1/31/2021 – 3/31/2021) of the COS Foundation Investment Portfolio: Up a total of 3.5% from last quarter

- Title III - Ending Market Value is \$2,317,263.58
- Scholarship - Ending Market Value is \$1,372,514.16
- Rainy Day Fund – Ending Market Value is \$79,328.07
- General Endowment – Ending Market Value is \$158,201.43
- Mercy Endowment – Ending Market Value is \$274,788.24

COS Foundation Investment Portfolio combined portfolio balance for the fourth quarter is **\$4,202,095.48**.

Item 4.

New Business

No new business

Item 5:

Adjournment / Upcoming Meeting Date and Time

The next meeting will be July 13, 2021 at 4:00 p.m. via Zoom. Meeting adjourned at 4:45 p.m.