College of the Siskiyous Foundation
Investment Due Diligence
Meeting Minutes of
July 21, 2020
Zoom – Video Conferencing

Members Present:

- 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

College President: Dr. Stephen Schoonmaker

Item 1: **Call to Order and Introductions**
The meeting was called to order at 10:30 a.m.

Item 2: **Approval of Meeting Minutes – April 21, 2020**
Motion was made (Gault / Gross) to approve the April 21, 2020 meeting 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 Q2 2020. Highlights from the Portfolio Review:

- The ISM Manufacturing and Non-Manufacturing surveys suggest that a return to economic growth and expansion occurred during the months of May and June, and the economy continues to improve as we enter the third quarter.

- The unprecedented level of uncertainty that this pandemic caused resulted in many investors increasing cash levels, at precisely the wrong time. As more certainty regarding the overall disease state, as well as the health of the economy transpires, we would expect this cash to be redeployed into the stock market. This is especially true now that short-term interest rates are back down to zero and Treasury yields are at all-time lows across the yield curve.

- Even though infections in some parts of the country have risen, nationwide rates of hospitalization are still well below their peak and show a less dangerous outcome than previously thought.

- The healthcare industry has staged the most significant global effort to combat a disease in history. According to the Milken Institute, there are now an estimated

180 vaccines in development, with 13 in clinical testing phase and 257 treatments in development.

- While the timing of a potential breakthrough is unknown, there is a high likelihood that some progress will be made given the magnitude of the resources being devoted to finding an effective therapy or vaccine.

- We recently experienced what will likely be classified as the worst global recession in history. However, with the help of significant economic stimulus, trends began to improve at a faster-than-projected pace during the months of May and June, just three months after the recession officially began.

- The employment market has experienced its largest swings in history this year as the unemployment rate soared to a record high of 14.7% during April. By June it had fallen to 11.1%, but this is still roughly twice as high as the average level over the last 70 years.

- Significant improvement from current levels will depend on the continuation of the reopening process and how many of the job losses end up being permanent versus temporary furloughs.

- Earlier this year we had little confidence in the European Union's willingness to share the risk needed to ensure the region would be able to navigate the negative financial impact caused by COVID-19. However, an expanded quantitative easing program and a proposed Recovery Pan that is large and focused on grants that favor southern Europe is, in our view, a giant step in the right direction. Moreover, the virus appears to have been better contained, for now, than it has been in the U.S. As a result, Europe may be able to recover at a faster pace than the U.S.

- As the global economy begins to recover, both Europe and Japan could fare better than the U.S. Their financial markets remain relatively depressed and much of this is due to greater exposure to economically sensitive sectors than U.S. markets.

- China, which makes up 40% of the emerging market investable universe, has been coping with COVID-19 since early this year. While the immediate impact was significant with retail sales dropping a reported 20%, manufacturing falling into a deep contraction and millions of people losing their jobs, a recovery is currently underway. Furthermore, the Chinese government recently began encouraging stock ownership and this buying activity should support the market.

- Given that Asia now dominates the investable universe and is ahead of most of the world in the course of an economic recovery, we expect that investors will return to this asset class as valuations are low and china has turned a corner in terms of the level of unique innovation that is happening there in many sectors.

- 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. This is likely to change over the coming decade given the significant amount of additional liquidity being provided by central banks and fiscal stimulus programs.

- Oil prices experienced their most volatile period in history during the first half of the year driven by an OPEC+ price war that began in March and then sunk further as global demand came to a halt in response to COVID-19 shutdowns. Since April's lows, the oil market has recovered significantly on optimism of an economic recovery and as sentiment has been positively impacted by global output cuts.

- Mortgage rates continue to decline to historically low levels. However, mortgage rates have not declined as fast as interest rates due to capacity and confidence concerns of the mortgage originators. We believe that these factors will improve in the coming months.

- We expect investors to look to 2021, and possibly to 2022, which should be more normalized earnings years, when valuing the stock market. The current estimate for 2021 earnings for the S&P 500 is $163 per share and for 2022 it is $186. Looking to 2022 and applying an 18x multiple to current earnings estimates of $186 suggests that a level of $3,400-$3,500 could be achievable in 12 months time.

Quarter Two End Report (4/1/2020 – 6/30/2020) of the COS Foundation Investment Portfolio: Up a total of 14.12%

- Title III - Ending Market Value is $1,929,011.05
- Scholarship - Ending Market Value is $1,141,692.28
- Rainy Day Fund – Ending Market Value is $66,207.47
- General Endowment – Ending Market Value is $132,078.59
- Mercy Endowment – Ending Market Value is $229,431.33

COS Foundation Investment Portfolio combined portfolio balance for the second quarter is $3,498,420.72.

Item 4. **New Business**

No new business

Item 5: **Adjournment / Upcoming Meeting Date and Time**

The next meeting will be October 13, 2020 at 4:00 p.m. at the Yreka Campus. Meeting was adjourned at 11:19 a.m.