College of the Siskiyous Foundation
Investment Due Diligence
Meeting Minutes of
October 13, 2020
Zoom – Video Conferencing

Members Present:

- David Gault
- Darlene Melby
- Kent Gross
- Dawnie Slabaugh
- Denny Sbarbaro
- Jeannine Greenslade

Absent:

- Linda Romaine

Recording Secretary: Carie Shaffer

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

College President: Dr. Stephen Schoonmaker

Item 1: **<u>Call to Order and Introductions</u>**
The meeting was called to order at 4:10 p.m.

Item 2: **<u>Approval of Meeting Minutes – July 21, 2020</u>**
No action was taken for the minutes.

Item 3. **<u>Review Investment Experience / Areas of Possible Concern</u>**
Consultants, Brenda Vingiello and Meghan DeGroot, reviewed the Foundation investment portfolio and also provided an overview of the current market forecast and economy for Q3 2020. Highlights from the Portfolio Review:

- The CARES Act transferred approximately $3.14 trillion to U.S. households. This was so significant that it caused disposable income to increase by an average of 15% even during a moment of extreme economic contraction.

- This, in turn, has supported consumption as well an increase in the savings rate and was a critical element that led to the stronger than expected economic recovery that began in May.

- While a spike in COVID-19 disease state continues to represent a material risk to the economic recovery and re-opening process, the fatality rate has fallen and has remained relatively stable for the last several months.

- The rapid increase in testing combined with better treatment protocols, improved preparedness of hospitals and more infections in a younger, healthier part of the population are all contributing to ongoing discovery of the true fatality rate.

- While jobless claims are still incredibly high, the labor market is showing signs of recovery with the unemployment rate falling to 7.9% in September. Continued improvement here will be dependent on the disease state and the resulting re-opening process. The critical question is how many of the lost jobs are temporary furloughs versus permanent losses.

- During election years, uncertainty is usually most pronounced during election primary season and markets have historically experienced high levels of volatility as a result.

- Political tensions are also notably higher this year which could result in a higher-than-usual level of market volatility. Once the uncertainty of this outcome is known, we would expect volatility to stabilize.

- While the timing of counting voles varies considerable by state, many of the large battleground states begin processing ballots well before election day.

- If the election is very close, it may take several days or even weeks before all of the ballots are counted. However, if the outcome is very clear in large states such as Florida, the likely winner may be more apparent during election week.

- This year, cash levels are very high as investors sought safety in the thick of the pandemic-induced recession and, as the election has approached, money market funds have grown to $4.6 trillion, the highest recorded level in history. As uncertainty subsides, we would expect that history may repeat itself and that money may flow back into the equity market.

- If this economic recovery continues, it is possible that this period will mark the shortest recession in history. In our view, the ongoing recovery will be dependent on our ability to manage the disease state as well as the government's efforts to provide support to the economy until an effective therapy or vaccine is available and businesses can re-open more broadly.

- The Federal Reserve has taken aggressive action by reducing the Fed Funds rate to zero and announcing an unlimited amount of quantitative easing with flexibility to include buying both corporate and high yield bonds.

- This incredibly low interest rate environment has significantly lowered the cost of funding fiscal spending initiatives. Rates have also fallen for consumers, companies and municipalities. However, bank lending standards have tightened which could offset the positive economic impact from lower interest rates.

- 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 September it had fallen to 7.9%, but the number of employed, as measured by the nonfarm employment report, was still 10.7m below where it was in February of this year.

- Corporate earnings growth is b3eing impacted this year by outright business closures, supply chain disruptions and a lack of demand for commodities. In our view, growth expectations have become reasonable but the pace of the re-opening process and development of an effective therapy and/or vaccine will determine when a true recovery might occur. For this reason, we feel that investors will look out to 2021 and possibly 2022, which should be more normalized earnings growth years, when valuing the overall market as well as individual companies.

- Earlier this year w 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 Plan 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.

- 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 our view, 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.

- We expect investors to look to 2021, and possibly to 2022, which should be more normalized and earnings years, when valuing the stock market. The current estimate for 2021 earnings for the S&P 500 is $167 per share and for 2022 it is $190. Looking to 2022 and applying an 18x multiple to current earnings estimates of #190 suggests that a level of $3,400-$3,500 could be achievable in 12 months time.

Quarter Three End Report (7/1/2020 – 9/30/2020) of the COS Foundation Investment Portfolio: Up a total of 14.12%

- Title III - Ending Market Value is $2,030,247.76
- Scholarship - Ending Market Value is $1,201,865.42
- Rainy Day Fund – Ending Market Value is $69,187.77
- General Endowment – Ending Market Value is $137,970.58
- Mercy Endowment – Ending Market Value is $239,609.43

COS Foundation Investment Portfolio combined portfolio balance for the third quarter is $3,678,880.96.

Item 4. **<u>New Business</u>**

No new business

Item 5: **<u>Adjournment / Upcoming Meeting Date and Time</u>**

The next meeting will be January 12, 2021 at 4:00 p.m. via Zoom. Meeting adjourned at 4:55 p.m.