Inland Empire Community Foundation
where giving grows

Investment Performance & Commentary December 31, 2019

THE ECONOMIC CLIMATE

Real GDP grew at a 2.1% rate year-over-year in the third quarter (2.0% quarterly annualized rate). Falling imports and weak fixed investment (-0.2% contribution) acted as a drag on growth, while personal consumption continued to be the greatest driver of growth. Internationally, growth of developed economies remains in a range of 0.5% to 2.0%, near the 2.1% growth rate of the slowing U.S. economy. In January, the IMF forecasted 2.9% global growth in 2019 and an acceleration to 3.3% in 2020. U.S. headline inflation increased 2.3% YoY in December, in line with the core inflation growth figure, and up from 1.7% in September. Although this is a notable jump in the inflation rate, investors appear more concerned about global deflationary forces. Cyclical price pressures remain surprisingly absent from the current environment. Inflation has remained subdued across international developed markets, and many pundits have viewed the mild inflation data as a cue for central banks to step in and attempt to bolster economic growth through more accommodative policy. Inflation remains muted in emerging economies, and most economies are experiencing CPI below the 5-year average. China's inflation rate has become an outlier, jumping to 4.5% as an outbreak of African swine fever resulted in a doubling of pork prices in the country during the year. This compares to a 5-year average inflation rate of 1.9%. Prices of other meats in China have also increased on heightened demand for pork substitutes.

MARKET PORTFOLIO IMPACTS

U.S. equities outpaced international in the third quarter (S&P 500 +9.1%, MSCI EAFE +8.2%) as domestic markets continued to lead. The S&P 500 delivered a 31.5% total return in calendar year 2019, while underlying corporate profits are expected to be flat at +0.3%. This means that performance was driven by higher stock multiples rather than fundamentals. International equity valuations remain elevated, but unlike in the U.S., they do not yet appear stretched. Emerging markets equities (+11.8%) outperformed both U.S. and international developed equities over the quarter, but still lagged over the full calendar year. In 2019, emerging market equities delivered a total return of 18.4%, and trailed the total return of international developed equities by 3.6%. Although risk assets appear to have rocketed higher in 2019, which may create concerns over valuations, it is important to note that much of this performance was due to assets recovering from a sharp fall in late-2018.

THE INVESTMENT CLIMATE

In October, the Federal Open Market Committee cut the range for its benchmark interest rate by 0.25% to a new range of 1.50 to 1.75% but the diversity of opinion among FOMC participants about the path of interest rates has faded. Most members now expect rates to remain flat in 2020 and move back toward 2.50% over the longer term. The global sovereign bond rally lost steam in Q4 as inflation and growth prospects mildly reflated. Central bankers at the European Central Bank and the Federal Reserve signaled that policy would likely remain on hold in the absence of significant economic developments.

Investment Portfolio	Year to Date ended 12/31/19	One (1) Year Return	Three (3) Year Return	Five (5) Year Return
Inland Empire Community Foundation	18.9	18.9	9.1	6.5
Blended Benchmark	*21.1*	*21.1*	*9.8*	*7.0*
Market Benchmarks				
Domestic Stocks - *S&P 500*	*31.4*	*31.4*	*15.3*	*11.7*
International Stocks - *MSCI ACWI ex US*	*22.1*	*22.1*	*10.4*	*6.0*
Bonds - *Barclays Capital Aggregate*	*8.7*	*8.7*	*4.0*	*3.0*
Cash - *91-Day Treasury Bills*	*2.1*	*2.1*	*1.6*	*1.1*

Notes: *The above are the historical returns for the Inland Empire Community Foundation portfolio, net of investment management fees. These returns are compared to a blended benchmark of the underlying manager's individual benchmarks.* ***Historical returns are not a predictor of future returns.***

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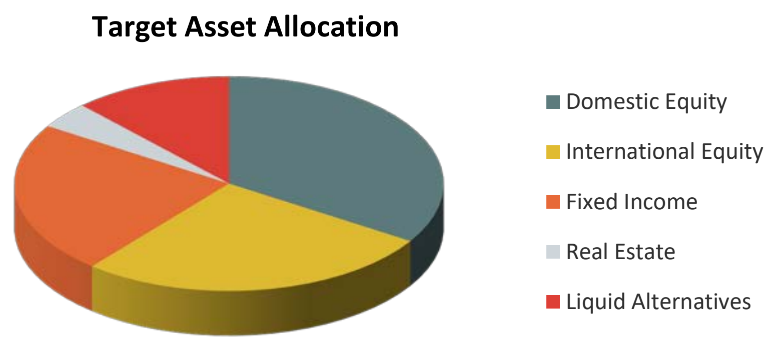
Asset Allocation & Philosophy

Making sound strategic decisions on the structure of a portfolio has a profound influence on investment results which is why the Foundation has a diversified portfolio with a long-term time horizon. The portfolio is invested in accordance with a core principle of successful investing which acknowledges that a diversified portfolio across different asset classes should provide a sustainable rate of income while minimizing the volatility that affects all investments to varying degrees. The portfolio is periodically rebalanced to target allocations to maintain portfolio equilibrium, increase value and support donor's spending over the long term. The pool will remain liquid and not include an allocation to illiquid alternative investments.



Process & Governance

The Foundation's portfolio is reviewed at least quarterly by the Investment Committee and the Foundation's investment consultant (Verus Advisory). On an on-going basis the Investment Committee and Verus Advisory review:

- Strategic Investment Opportunities
- Fund Manager Analysis
- Manager Searches (as needed)
- Market Environment
- Portfolio Allocations
- Investment Performance
- Education on Various Investment Topics
- Capital Market Assumptions

The Investment Committee and Verus Advisory recognize that we must avoid focusing on the short term which always plays out randomly and unpredictably and instead look forward over the long term where we can achieve a reasonable degree of certainty. We will continue to focus on a sound investment policy for the benefit of our donors and will continue to employ best practices as we oversee the Foundation's investments.