Inland Empire Community Foundation

where giving grows

Investment Performance & Commentary March 31, 2020

THE ECONOMIC CLIMATE

Real GDP grew at a 0.3% rate year-over-year in the first quarter (-4.8% quarterly annualized rate). Personal consumption expenditures shrunk -7.6%, resulting in a -5.3% hit to headline growth. Forecasts of Q2 GDP growth have varied between -15% to -35%. The United States fiscal and monetary response to COVID-19 is unparalleled. The first response was from the Federal Reserve, swiftly cutting interest rates to zero, though 0% was not far away from levels at the time. The administration then rolled out the Families First Coronavirus Response Act, which guaranteed sick days to full-time workers, prorated for part-time workers. Next was an expansion of the Family and Medical Leave Act, which provided paid leave for employees of businesses with fewer than 500 staff. For workers requiring more than two weeks of leave, the act covered those employees for up to 14 weeks. The most recent CARES Act was the largest in modern history, at $2.2 Trillion in size. It included up to $1,200 payments to every American, a $600 increase in weekly unemployment benefits, expansion of unemployment to many of those not previously eligible, $350 Billion in loans to small businesses, $500 Billion in aid to corporations, and additional funding to individual states and government programs.

MARKET PORTFOLIO IMPACTS

U.S. equities experienced an unusually sudden and significant sell-off in March as investors grew fearful of the health and economic impacts of COVID-19 spread. During Q1 the S&P 500 fell -19.6%, international developed equities (MSCI EAFE) fell -22.8% and emerging markets (MSCI EM) fell -23.6%. Value stocks severely underperformed growth stocks during the first quarter (Russell 1000 Value -26.7%, Russell 1000 Growth -14.1%). Small cap stocks underperformed large cap stocks by a similar magnitude (Russell 2000 -30.6%, Russell 1000 -20.2%). Value and size factors continue to experience a surprisingly long period of relative underperformance. The energy sector faces a perfect storm – sharply falling demand due to a global economic slowdown, and potentially significant oversupply due to oil producers' decision to ramp up production in an oil war. The energy sector experienced a loss of -50.5% in Q1.

THE INVESTMENT CLIMATE

After a positive start to the year following the completion of phase one of the US-China trade deal, the impacts of the COVID-19 pandemic struck fear into credit markets, causing a broad-based sell-off and liquidity crisis in early March. U.S. investment grade credit spreads widened from 93 bps at the end of 2019 to 272 bps at the end of the quarter after reaching highs of 373 bps in March. Similarly, high yield credit spreads spiked from 336 bps to 880 bps over the quarter, after March highs of 1100 bps. High yield ex- Energy spreads increased from 295 bps to 749 bps over the same period. Investment grade bond issuance boomed in Q1 as companies tried to shore up liquidity for the coming recession. This was particularly pronounced in March, which saw a record $262 Billion in investment grade issuance, which is 3.0x the four year average of $88 Billion per month. Q1 also saw $73 Billion in high yield volume and loan issuance spike to $199 Billion.

Investment Portfolio	Year to Date ended 3/31/20	One (1) Year Return	Three (3) Year Return	Five (5) Year Return
The Community Foundation	-19.6	-12.6	-0.4	1.5
Blended Benchmark	*-18.2*	*-10.0*	*1.0*	*2.3*
Market Benchmarks				
Domestic Stocks - *S&P 500*	*-19.6*	*-7.0*	*5.1*	*6.7*
International Stocks - *MSCI ACWI ex US*	*-23.3*	*-15.1*	*-1.5*	*-0.2*
Bonds - *Barclays Capital Aggregate*	*3.1*	*8.9*	*4.8*	*3.4*
Cash - *91-Day Treasury Bills*	*0.4*	*1.9*	*1.7*	*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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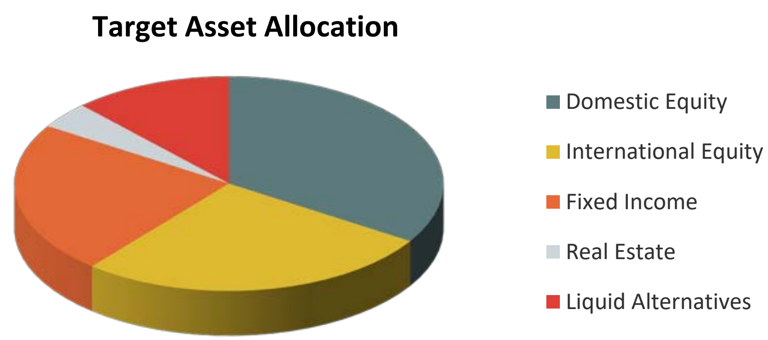
Asset Allocation & Philosophy

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	Portfolio Allocations
Fund Manager Analysis	Investment Performance
Manager Searches (as needed)	Education on Various Investment Topics
Market Environment	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.