Inland Empire Community Foundation

where giving grows

Investment Performance & Commentary June 30, 2020

THE ECONOMIC CLIMATE

U.S. GDP grew at a -9.5% rate year-over-year in Q2 (-32.9% quarterly annualized rate). The contraction consisted of decreased consumer spending, exports, inventory investment, fixed investment, as well as state and local government expenditures. Federal government spending partly offset the slowdown. The U.S. labor market experienced a historic shock in Q2, as unemployment jumped from 4.4% in March to 14.7% in April, then recovered partially to 11.1% in June. Recent labor market data have beat expectations materially, but the severity of the shock is notable. A majority of the unemployed have reported their job losses as temporary. It will be important to watch what portion of these losses are indeed temporary rather than permanent. It has been reported that 8.6% of all mortgages in the U.S. are in forbearance. To put this number into perspective, during the 2008-2009 housing crisis the mortgage default rate reached approximately 10%. If a large portion of loans in forbearance later face foreclosure, this could put significant pressure on the housing market.

MARKET PORTFOLIO IMPACTS

U.S. equities delivered an incredible comeback, following the sudden sell-off in March. The S&P 500 rallied +20.5% in Q2, bringing year-to-date performance to -3.1%, and positive +7.5% over the past twelve months. International developed equities (MSCI EAFE +12.9% QTD, -5.1% YoY) and emerging market equities (MSCI EM +18.1% QTD, -3.4% YoY) lagged the domestic market. Most major equity benchmarks are within 15% of all-time highs, despite major damage that COVID-19 has inflicted on the global economy. Some of this damage has been mitigated by government support, but some damage is likely yet to be felt. U.S. core inflation fell steeply from 2.1% in March to 1.2% in June, while food prices have risen. COVID-19 has led to a significant rise in at-home meal preparation (greater demand for certain items), while reportedly negatively impacting food processing facilities (less supply).

THE INVESTMENT CLIMATE

The Federal Reserve continued to roll out the litany of support programs that were announced in the first quarter. The Fed's balance sheet grew from $5.3 trillion to $7.1 trillion over the second quarter. Moves in the CBOE VIX Index moderated in June. The long-term average of the index is near 19. It has remained above that level since February, reaching a high point of 85 on March 18th, and closing June at 30. The Fed expanded the list of eligible securities for purchase to include corporate debt. While the Fed will primarily target investment grade debt securities, it will also buy some non-investment grade debt from "fallen angels" which were investment-grade prior to the pandemic. The European Central Bank increased the size of its Pandemic Emergency Purchase Programme from the initial €750 billion to a total of €1.35 trillion. The ECB will now be able to deploy the funds in a "flexible manner over time, across asset classes and among jurisdictions" through June 2021, which may help reduce borrowing costs.

Investment Portfolio	Year to Date ended 6/30/20	One (1) Year Return	Three (3) Year Return	Five (5) Year Return
The Community Foundation	-6.5	-1.0	3.5	4.6
Blended Benchmark	*-5.2*	*1.0*	*4.9*	*5.4*
Market Benchmarks				
Domestic Stocks - *S&P 500*	*-3.1*	*7.5*	*10.7*	*10.7*
International Stocks - *MSCI ACWI ex US*	*-11.0*	*-4.8*	*1.1*	*2.3*
Bonds - *Barclays Capital Aggregate*	*6.1*	*8.7*	*5.3*	*4.3*
Cash - *91-Day Treasury Bills*	*0.4*	*1.3*	*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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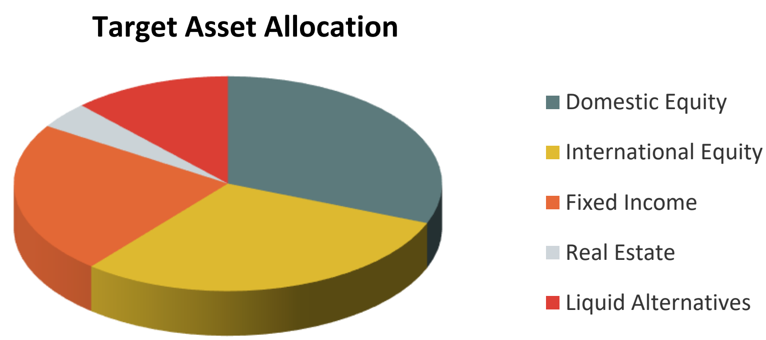
Asset Allocation & Philosophy

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
- 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.