Inland Empire Community Foundation
where giving grows

Investment Performance & Commentary September 30, 2020

THE ECONOMIC CLIMATE

Real GDP contracted at a -9.0% rate year-over-year in Q2 (-31.4% quarterly annualized rate) — likely the most sudden economic recession in American history. Europe is experiencing a drastic second wave of COVID-19 which has been sweeping across the continent. The seven-day average daily case growth of the EU and the U.K. combined rose from 4,699 to 48,807 during Q3. The U.S. dollar fell -3.5% in Q3, continuing a downward trend since a sudden jump in March on safe-haven buying. The dollar has now completely unwound the gains experienced during the market sell-off. The U.S. labor market partially recovered from the recent shock. Unemployment fell from 14.7% in April to 7.9% in September. However, a report released in September indicated 60% of temporary business closures during the pandemic were now permanent.

MARKET PORTFOLIO IMPACTS

U.S. and emerging markets have recovered most losses year-to-date, while international developed remains negative. Global equities are now positive for 2020 despite an earnings recession and considerable economic uncertainty. According to FactSet, S&P 500 Q3 earnings are expected to be down -20.5%. However, earnings in Q2 beat expectations by 12.5% (-31.6% YoY vs. -44.1%). U.S. growth stocks beat value stocks during Q3, continuing an incredible run of market leadership (Russell 1000 Growth +13.2%, Russell 1000 Value +5.6%), while large cap stocks outperformed small cap stocks (Russell 1000 +9.5%, Russell 2000 +4.9%). U.S. core inflation increased to a more normal level, rising 1.7% year-over-year in August from 1.2% in June. Inflation expectations also normalized. The 10yr U.S. TIPS inflation breakeven rate recovered to 1.6%, from a low of 0.5% on March 19th. The breakeven rate of inflation is now on par with actual year-over-year inflation. Credit spreads fell across the board in Q3 but high yield led the way. Corporate investment grade spreads fell 14 bps through the quarter to 136 bps while high yield spreads fell 109 bps to 517 bps.

THE INVESTMENT CLIMATE

The Federal Reserve maintained an accommodative tone, and most members of the Federal Open Market Committee remained of the view that short rates are likely to stay near-zero through 2023, and eventually move toward 2.50% over the longer-term. The Fed repeated that while it has the power to lend, it does not hold the power to spend, and additional fiscal support will likely be required from Congress. The Federal Reserve also announced a notable change to its inflation targeting approach, now aiming to achieve “inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%.” This was a reversal from the prior goal of achieving 2% inflation.

Investment Portfolio	Year to Date ended 9/30/20	One (1) Year Return	Three (3) Year Return	Five (5) Year Return
The Community Foundation	*-1.4*	*4.6*	*3.9*	*7.3*
Blended Benchmark	*0.6*	*6.8*	*5.6*	*8.2*
Market Benchmarks				
Domestic Stocks - *S&P 500*	*5.6*	*15.1*	*12.3*	*14.1*
International Stocks - *MSCI ACWI ex US*	*-5.4*	*3.0*	*1.2*	*6.2*
Bonds - *Barclays Capital Aggregate*	*6.8*	*7.0*	*5.2*	*4.2*
Cash - *91-Day Treasury Bills*	*0.4*	*0.8*	*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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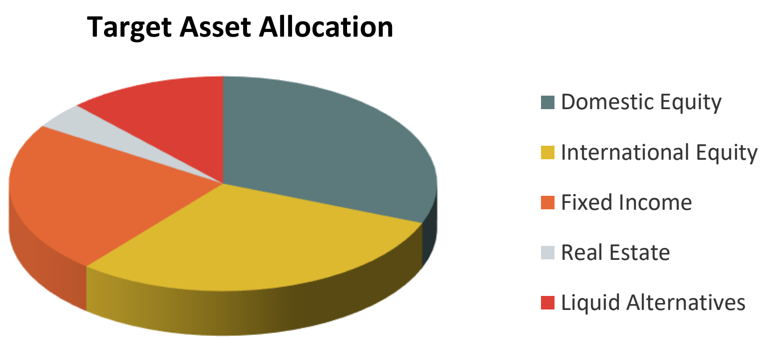
Asset Allocation & Philosophy

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	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.