

To: Community Foundation for the Fox Valley Region

From: Brian Crawford, CFA and Jonathan Goldberg, CFA

Re: Investment Update: December 2017

The fourth quarter of and 2017 as a whole proved to be a remarkable period as improving global growth, a profit rebound and tax cuts combined to result in strong market gains with little volatility. For the 4th quarter the S&P500 gained 6.6% while Non-US developed equities (MSCI EAFE) gained 4.2% and emerging equities (MSCI EM) gained 7.4%. For the year emerging equities led all equities with a return of 37.3%, followed by Non-US developed equities (+25%) and the S&P 500 (+21.8%).

The first major tax reform in over 30 years was passed during the quarter as the President signed the “Tax Cuts and Jobs Act” into law. The law which cuts corporate tax rates (permanently, from 35% to 21%), individual tax rates, and nearly doubles the standard deduction, was passed after months of negotiations and uncertainty within Congress.

Economic data outside of the US has continued to be strong. In the Eurozone, unemployment has fallen to its lowest level since January 2009 and over the last 12 months GDP growth in the region has outpaced the US. Monetary Policy within Europe and Japan remains stimulative as central banks in both regions have maintained their policies of low interest rates and quantitative easing programs. This is in stark contrast to the US Federal Reserve which raised rates three times in 2017 with expectations of further tightening in 2018.

Chinese GDP growth remained on track to meet authorities’ growth targets, as growth in services outpaced industrials. There still remains significant concern regarding the increase in household debt and use of leverage within the economy. In October, President Xi Jinping began his second five-year term making a speech outlining his vision for the country which emphasized a focus on the quality of growth, addressing this structural risk.

Turning to the portfolio, we continue to see strong absolute results. For the three months ending December 31st, the portfolio returned 3.6% and over the past year the portfolio has returned 16.5%. Throughout 2017, the portfolio benefited from the Committee’s decision at the beginning of this year to increase its exposure to Non-US equities as both developed and emerging market equities outperformed the broad US stock indices.

As we have stated in past reports, volatility and inefficiency can create opportunity if we identify strong executors of our strategy. The Community Foundation has been successful in this regard over the past year and the Committee is continually focused on ensuring that success continues.

The latest three months, 1-Year, 2-Year, 3-Year, 5-Year and 7-Year returns ending 12/31/17 are shown in the accompanying graph for the:

• Endowed Investment Portfolio (60% equity, 19% fixed income/cash, 21% alternative)

• Non-endowed Short Term Portfolio (100% short-term fixed income/cash)

• Non-endowed Intermediate Term Portfolio (39% equity, 61% fixed income/cash)

• Non-endowed Long Term Portfolio (65% equity, 25% fixed income, 10% alternative)

