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To: Community Foundation for the Fox Valley Region

From: Brian Crawford, CFA and Jonathan Goldberg, CFA

Re: Investment Update: September 2018

While equity markets have taken a downturn to start the 4th quarter of 2018, through September we witnessed continued growth in nearly all segments of the globe. Core Inflation remained relatively controlled and GDP growth exceeded 4% here in the U.S. Meanwhile, our unemployment rate dropped to 3.7%, reaching a low we haven't seen since 1969. The S&P500 gained 7.7% during the 3rd quarter while smaller companies (Russell 2000) gained 3.6%.

Furthermore, it's important to highlight that economic growth has not been solely a US-story. The European Union continues to yield positive GDP growth and reduced levels of unemployment. One indicator of an expansive economy, PMI (purchasing manufacturing index) identifies an expansive economy if this data point is greater than 50 and indicates a contracting economy if below that mark. All EU countries and the United Kingdom were at or above 50 as of the latest reading.

Even Japan, which has been beset with sluggish and often negative growth for decades, has consistently produced positive growth as of late under Prime Minister Shinzo Abe.

The exception through the first three quarters of 2018 has been emerging markets. As it became apparent earlier this year that global trade alliances would go through a period of upheaval as trade war rhetoric began to pick up, China and other emerging countries has suffered tremendous equity market losses. Emerging equities (MSCI EM) fell -1.1% in the 3rd quarter and are down -7.7% YTD. In the latest round of tariff declarations, the U.S. imposed a 10% tariff on an additional $200B of Chinese goods; in retaliation the Chines imposed tariffs on $50B of U.S. goods. While President Trump is making progress with other nations on trade (i.e. Mexico, Canada and the European Union), it appears the standoff with China may last for some time, creating disruption and uncertainty in equity markets.

The greater fundamental concern for domestic markets in 2018 has been interest rates. The positive economic data noted above has been noticed by the Federal Reserve ("the Fed") as well. The Fed has raised its discount rate three times thus far in 2018 and expectations are they will do so four more times between now and the end of 2019. These actions put pressure on fixed income but also put significant pressure on equity prices moving forward. The market has reacted with increased volatility and as of this writing, a market sell-off to start the 4th quarter.

As we have stated in past reports, volatility and inefficiency can create opportunity if we identify strong executors of our strategy. Yet, this is hardly a comforting or satisfying statement as short-term losses

are neither a source of joy nor an opportunity to momentarily appear wise by having built defensive portfolios that thrive in such climates. Nevertheless, when we shift towards the far more significant multi-year time frames that matter, difficult markets and their higher levels of emotion and short-term thinking provide the raw material needed to generate strong and at times asymmetric profit opportunities.

Turning to the portfolio, the Community Foundation returned 2.0% for the three months and 5.8% for the year ending September 30th, 2018. While emerging equities have been selling off, the portfolio benefited from its US-equity exposure over the latest 12 months.

The latest three months, 1-Year, 3-Year, 5-Year and 7-Year returns ending 9/30/18 are shown in the accompanying graph for the:

- Endowed Investment Portfolio (59% equity, 18% fixed income/cash, 23% 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)