December 4, 2020

Willamette University
Atkinson Graduate School of Management
O'Neill Fund Executive Board

Dear Board members,

This year's third and fourth quarters have primarily been shaped by the external forces which have sustained the unique market environment we've observed throughout 2020. On a global level, investors have continued to navigate the persistent uncertainty stemming from the coronavirus pandemic. Our use of the word 'uncertainty' in regard to the virus extends beyond just science's epidemiological understanding of it. Market participants have also had to consider the implications that a public health crisis such as this has on employment trends, adaptive business practices, and the government's intervention via stimulus relief packages for households and individual businesses. Adding to the list of spectacles for investors to incorporate into decision making were key political phenomena: US presidential and congressional election results, and the ongoing debate over a renewal of a government relief stimulus package to combat the economic damage sustained from pandemic. The bit of certainty we did/do have is in regard to our coming interest rate environment for the near future. Commitment from the federal reserve to keep interest rates near zero for the foreseeable future has been a steadfast and consistent message preached since the time we came into management of the fund. Each one of these drivers can be broken down further, and have led investors globally (including OSIF) to arrive at different conclusions regarding the future direction of industry performance, and company stock prices. Let's explore each one.

Coronavirus

COVID-19 continues to create violent and aggressive price movements in the financial markets. Many sectors suffered due to the overall decrease in economic activity, while others have performed enormously well in markets that are designed to withstand stay-at-home orders and other pandemic mandates. We saw large declines in sectors such as manufacturing, energy, oil, travel and hospitality, while the share prices for tech, healthcare, and communication services companies became especially valuable. Our time spent managing the fund has never lacked taking the virus into consideration. Whether tracking the number of cases, rate of spread both domestically and abroad, or latest news on potential vaccines, each position we've bought or sold has been assessed with a coronavirus lens at hand. Our inheritance of the portfolio at the end of the summer came at a time when cases nationwide were relatively low. As schools reopened, pandemic mandates relaxed, and colder weather set in, we expected to see the rise in infections. This would explain our decision to invest in Abbott Laboratories (**ABT**), a medical device and COVID testing kit manufacturer, as well as our Health Care Select Sector fund (**XLV**).

Unemployment Trends

The pre-pandemic unemployment rate was steady at roughly 4%. When coronavirus infection rates began to spike, the labor market was hit especially hard as some businesses were forced closed, and ones that had survived would need to cut costs. In late April, unemployment numbers spiked as high as 15% and have now begun to reduce down to around 7% as of October. The effect that the unemployment rate has on the overall marco economy is substantial. If the workforce is low, that means that there are less employees out contributing to commodities and services, which overall hurts corporations revenue potential. Another factor the unemployment rate has on the overall economy is that individuals who are not working, will not be spending money which means that money will not be moving efficiently though the economy because households will begin to save for necessity goods and services. The unemployment rate when we initially inherited the portfolio was roughly 8%. One of the earlier positions the team took was decided on with employment numbers in mind, and future outlooks considered: our 36 share purchase of Automatic Data Processing, Inc. (**ADP**), an HR and accounting management software to whom businesses outsource payroll and administrative duties to. Optimistic that unemployment numbers should make strides in returning near pre-pandemic levels, we invested in hopes that their services would continue to be used and perhaps customer levels would rise as well.

Stimulus

The economy's rebound in the summer months was largely fueled by stimulus for the newly unemployed, and loans granted to certain businesses by the government. Without stimulus, many businesses would not have been able to reopen following lockdown orders, so the uncertainty around the arrival of the second stimulus package shaped a lot of our trade decisions to position the portfolio aptly. Throughout our time spent managing the fund, the debate within Congress to renew a stimulus deal that both sides can agree upon was (is)a driver that investors are particularly sensitive to. The longer that a new package deal got delayed, the more our eyes shifted focus to unemployment numbers and jobless claims reporting throughout September and October. Without a much needed increase to the money supply, we were eager to follow the amount of people that would have a serious impact on, and how the financial markets might react.

US Presidential Elections

The presidential election was one of our hardest events of the term for us to debate and predict, in terms of the effect it might have on the stock market. What are the implications of each outcome, and where might uncertainty arise? Will investors even care about that uncertainty? Is the uncertainty already priced in? Eventually we decided to err on the side of safety and low risk, perhaps given the already tumultuous ride that 2020 has been, and acknowledging the fact that our earnings are put towards scholarship opportunities for future students. Assuming a low risk position meant that we increased our holdings in bonds and safe commodities such as gold, which are known to be safe hedges in a market with high levels of uncertainty. We also know from historical data that years preceding a presidential election have on average lower yielding stock market returns while bonds tend to outperform slightly. (insert our decision on thursday for how to go forward with this). When it came to the specific investment decisions for our portfolio we purchased 57 shares of SPDR Gold Trust (**GLD**) in early October, and 30 shares of iShares 20 Plus Year Treasury Bond ETF (**TLT**) a week out from the election.

Low interest rates

In early September, the Federal Reserve announced their commitment to keeping interest rates around zero for the foreseeable future, in an effort to incentivize borrowing and long term investments while money is cheap. Low interest rates seemed to drive a lot of growth in the real estate market- we saw an uptick in the number of homeowners taking advantage of rates to refinance mortgage loans, as well as an increase in the amount of mortgages originated. This spurred our decision to purchase 87 shares of iShares US Home Construction ETF (**ITB**), and 184 shares of SPDR S&P Homebuilders ETF (**XHB**). We chose these two homebuilding ETFs because they gave us diversified exposure to both the construction companies themselves, and the consumer appliance space. Apart from real estate, the Fed's commitment to a low interest rate environment for the foreseeable future affected our outlook on bonds due to the decreased expected yields. Since the expectation is for interest rates to remain low for the next couple of years, bonds in general became a less attractive vehicle for means of generating return, although still useful in hedging risk.

Investment Policy Guidelines

We inherited a portfolio of cash, bonds, and ETFs with exposure to the S&P, healthcare, Europe, and Asia . We used this initial allocation as a baseline to construct our holdings according to policy guidelines we felt appropriate:

- US Equity (between 30 - 75%)
- International Equity (between 3 - 15%)
- Emerging Markets Equity (between 0 - 15%)
- Marketable Alternatives (between 3 - 15%)
- Fixed Income (between 20 - 50%)
- Cash (between 5 - 40%)

Individual stocks max allocation is 3.5% of total capital
MALTs include: REITs, Commodities, Gold, Currencies
20% of equity allocation should be considered 3-5 yr holds

Other Investment Decisions

- Invesco QQQ Trust Series 1 (**QQQ**), Nvidia Corporation (**NVDA**)
- Financial Select Sector SDR (**XLF**), Morgan Stanley (**MS**), BlackRock, Inc. (**BLK**), Goldman Sachs (**GS**)
- FedEx (**FDX**), United Parcel Service, Inc. (**UPS**), Domino's Pizza, Inc. (**DPZ**)

Performance vs Benchmarks

It is imperative that we review the performance of the OSIF fund, and in order to understand the overall performance of the fund a relevant benchmark must be measured against. Benchmarks like the S&P 500, NASDAQ, ACWI, and Russell 1000 are indexes that portray the performance of "the market" and are often the default for investors to evaluate their performance in terms of over/under performance of the market. The OSIF fund, as part of a learning environment but also as part of hedging against risk and volatility, operates under allocation parameters. These parameters as discussed previously restrict the fund from investing too heavily in certain asset classes (equities, marketable alternatives, fixed income, etc.). Because of these parameters raw comparison between the OSIF fund and the indexes does provide accurate comparison because the indexes are 100% equities and the OSIF fund operates such that only 30-75% of assets can be allocated to equities. In order to facilitate more accurate comparison weighted adjustments can be made in order to make more accurate comparisons. The OSIF fund over the semester allocated an average of 65% of assets to equities (both domestic and international), 25% to fixed-income assets (bonds), and 10% to other asset classes like marketable alternatives like gold and cash. In order to adjust the benchmark indexes to an allocation reflecting the OSIF allocation, each of the indexes returns are weighed to reflect 65% of each indexes respected returns, 25% in the market return of 10-year treasury bonds, and 10% in holding cash. Given these weighted adjustments the returns for the OSIF fund, S&P 500, ACWI, and Russell 1000 for the period of Sept. 4 - Nov. 30 (representing the length of the semester) are as follows:

OSIF	4.06%
S&P 500	3.89%
ACWI	5.23%
Russell 1000	4.99%

The table shows that the OSIF fund for the semester of Fall 2020 outperformed the S&P 500 but underperformed the ACWI and Russell 1000 when adjusted for asset allocation differences. Each of these indexes provided greater returns with 100% allocation but to compare the OSIF performance to the raw returns of them would be a disservice to the board and the class.

Future Outlook

We feel that financial markets, at least for the immediate future through 2021 rely on (not unfamiliar) events presently unfolding: developing news on successful vaccine trials for COVID-19, and the prospect of federal stimulus packages being renewed before or early into the new year. Presently, we've had vaccine producers report trials with efficacy rates above expected levels, and approval by regulators to begin production for distribution. While this is promising news, one thing management of the fund has taught us is to digest information from multiple perspectives. With distribution of the vaccine likely to extend into next year with critical levels being reached by the third quarter, financial markets in the meantime will continue to be influenced by the status of the virus and its impact on government mandates, employment, etc. But promising vaccine news does signal an eventual return to normal levels of economic activity. We're optimistic that the hospitality, manufacturing and energy sectors, whose stock prices plummeted at the onset of the pandemic, will rebound as the virus dissipates. This fueled some of our final investment decisions to pass along to next year's class in line with our expectations for 2021- 25 shares of airplane manufacturer Boeing (**BA**), and 105 shares of Oneok, Inc. (**OKE**) an established harvester, storer, and transporter of natural gas throughout North America. We expect these well established companies to regain losses in stock price as travel restrictions are eased and economic activity levels return to a fuller capacity.

A Note of Thanks

Finally, we'd like to thank you all - faculty advisors, executive board, the O'Neill family - for your contributions of time, energy, knowledge and expertise to the class and fund. We're honored to have held the fund under our management, and to have contributed to an initiative which serves future students through scholarships. As students, no better opportunity presents itself than when practical application of concepts learned in the classroom can be exercised in the real world. Your generosity has enabled that.

Signed,

OSIF Fall 2020 Management

Mason Cook
Caine Farmer
Bronson Kirchick
Ali Kostelecky
Peter Li
Charles Phocas
Quan Tran
Mako Ushijima
Tim Wagner
Ben Whitten

Contributing Assistant Professors

Chris Magaña
Alexander Russell