April 25, 2020

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

To the members of the Board,

The first and second quarters of 2021 have seen rapid changes to the investing landscape & the overall global & national economic climates. Many of the effects felt in 2020 have continued, with investors still navigating 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, the effects of the relief stimulus package, and the debate over the infrastructure bill & potential raises in the corporate tax rate. The rapid reopening of many economic sectors has stretched global supply chains in ways they were never intended, generating uncertainty over the ability of firms to create & provide their services. The bit of certainty we did/do have is regarding 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.

COVID-19: ILLNESS & IMMUNITY:

The start of 2021 added a new factor to the already complicated landscape wrought by the COVID-19 Pandemic. In December of 2020, pharmaceutical companies Pfizer & Moderna began announcing results from efficacy trials indicating their prototype vaccines were effective at halting the spread of COVID. The effect of these announcements and following announcements by other pharmaceutical companies on the market cannot be overstated. The immediate effect was to propel these companies to new highs, often pulling other pharma companies with them. Our **XLV** position & **Abbott Labs** shares experienced immediate upside to this news, although that upswing was only temporary. The spread of vaccination has the effect of lowering hospitalization, creating less demand for emergency services & expanding the pool of medical professionals available for elective procedures & non-emergency treatment. This thesis

has resulted in our continued investment in **Abbott Labs** & taking a position in **Bristol Meyer-Squibb**. As vaccine rollouts began & expanded to enormous scale, benefit has spread throughout the market. Travel & Airline companies stand to reap the benefits of this "return to normal" campaign, and we foresee pent-up demand driving sales in these sectors. These are sectors that we have been observing with much anticipation. The return in demand for travel services does not equal a return to pre-pandemic travel habits, & non-traditional service providers such as **AirBnB** are poised to become the new market standard. The timing of vaccination is a blessing to commercial airlines, although it is presumptuous to state the industry is in full recovery. Optimism around travel & pent-up demand must be balanced against the fact that COVID is still prevalent & infectious, indicating some level of precautions will continue soon. We have taken a small stake in **United Airlines** so that the portfolio may experience some upside of the uptick in travel numbers.

A facet that we focused on intently, especially in Q1, was the logistics of vaccine distribution. The MrNA vaccines, Pfizers' especially, required special cold storage units for transport. Companies such as **FedEx** and **UPS** possess this capability, & when coupled with their extensive distribution networks, made a compelling investment thesis. This has been a continuing trend for the semester, as the ability of these companies to scale makes them the ideal choice for mass distribution of all vaccines.

CHANGE IN ADMINISTRATION:

The results of the November election have been a major driver behind market movements & our investing perspectives. The Biden Administration has been extremely active in its first 100 days, with the COVID Stimulus & proposed Jobs & Infrastructure plans generating major ripples. The stimulus package appears to have had the desired effect of spurring consumer spending. One effect of this is visible in the steadily climbing prices of consumer assets, such as motorsport vehicles & interestingly enough, stock prices. Auto-makers have been experiencing major booms in demand, with the speed of the boom causing chaos in the lean-supply chains. This upsurge in spending is a constant topic of discussion, and our interpretation has been as a risk-on signal.

From its first day in office, the Biden Administration has been signaling their support for investment into clean energy & technology. From wind farms to EV to new material sciences, there is potential for large scale change to the foundations of our economy. While the administration & corporate leaders have been making the "right signals'' about investment in renewable energy & clean technology, we have approached this discussion with high degrees of skepticism. This sector of the market is highly speculative, with real potential for loss. While publicly traded, clean energy & tech companies are often still in their start-up phase and more suited for VC style investing rather than our value focused strategy. The administration has begun making moves to close US oil pipelines, a move we interpreted as an opportunity to invest in other methods of oil transport, such as **Union Pacific Railroads.** While the future of US pipelines is still highly uncertain, we interpreted this as a risk-on signal for midstream companies such as **ONEOK**. The overall market environment is becoming increasingly hostile to big oil & coal, although oil prices themselves have recovered somewhat.

The proposed infrastructure plan, titled "American Jobs & Recovery Act" will, if passed, have a major effect on the market. The size and scope of this package are large enough that even the potential of its passage is generating ripples in the marketplace. There are several key components to the plan. The first is the size of $1.9T, a sum unthinkable in decades past. Coupled with the previous spending on COVID stimulus, this plan has raised many fears of inflation (more in the next section). The potential raise of corporate tax rates adds a large degree of uncertainty to this plan's effect. The new tax rates' cut into Free Cash Flow will hurt firms & investors, but the degree of pain and which firms will experience it is unknown, hence the new degree of uncertainty. The meat of the infrastructure plan is where much of its market effect will likely come from. Major spending on roads, bridges, & municipal construction would have a substantial impact on firms exposed to construction & cross-state logistics. The ripple effect will spread this impact throughout the market, suggesting a risk-on strategy be taken as there will be value throughout the market to be captured, even where it may be least expected. Directly, companies such as **Fluor, MasTec, & Caterpillar** could be major winners. Overall, the new federal administration could lead to a dramatic shift in the markets away from the pandemic tech niche towards cyclical industrial sectors.

INTEREST

The actions of the federal reserve have been, and we believe will continue to a major driving force in the market. Federal Reserve Chairman Jerome Powell has confirmed that the FED does not intend to stray from their current strategy of loose monetary policy. Throughout the academic semester, we have seen the FED keep short-term borrowing rates at 0% while committing to $120 million in monthly bond purchases. This will likely continue to be the case for the foreseeable future. These actions by the Federal Reserve to help spur economic recovery gave us confidence as investors to adopt a "risk on" mindset when evaluating our investment strategy. Current inflation is running at about 1.6%, which is below the Federal Reserve's current target of 2%, indicating that the current level of government spending and coining of new currencies is leaving a smaller impact on inflation than we originally speculated. Chairman Powell has signaled that the Fed's plan of action will be to first cut bond repurchases before considering any changes to the real rates. We continue to hold the belief that the Fed will be forced to make changes to their policy but are confident that it will not be an event that catches markets by surprise.

SUPPLY CHAIN DISRUPTIONS

A multitude of supply chain disruptions have presented obstacles to the economic recovery. Events such as the Texas ice storm, traffic jam at the Port of Los Angeles and worldwide chip shortages have placed economic activity on a prolonged hold. As companies are attempting to resume production and expand operational capacity, limiters in the form of these supply chain disruptions will pose a challenge to the overall short-term economic outlook and investment decisions.

The shortage of silicon chips has highlighted the immense importance of semiconductors to the modern global economy. The Biden administration has recognized this & is aggressively pushing to expand US manufacturing capacity, although it will take many years to have an effect. Recognizing the importance of chips, we have taken positions in a few companies that stand to benefit. **Nvidia**, the maker of high-end graphics cards, is a position we continue to hold, as the importance of, and demand for their chips continues to grow. Anticipating the growth of 5G connectivity, we took positions in **Qualcomm** and **Skyworks**, as well as **AT&T**. Through indexes such as **EFA** and **EEM** we have exposure to **TSMC** & **ASML**, manufacturing & critical suppliers of chip making technology. Long lead times, high startup costs, & highly concentrated technical know-how makes semiconductors a hard market for disruptive startups, suggesting the current major players will enjoy a strong seller's market for the near future. We must also be mindful of the negative exposure we have to this market, as investments such as **Caterpillar** & **CrowdStrike** are likely highly reliant on specialized chipsets that are vulnerable to supply disruptions.

"Black Swan" events such as the Texas ice-storms and Suez blockage are unique circumstances with timing & effects that are impossible to predict. These events provide valuable education on the state of the world economy. While both events were quickly remedied, they demonstrated the incredible vulnerability of modern global supply chains. Pre-Pandemic "Just-in-Time" supply chains are highly effective but deeply fragile constructs, ones that cannot simply be switched off and on again without major disruption. With many firms supply chains shut down or operating at low capacity for over a year, these supply systems have atrophied & will continue to break as economic recovery pushes firms to rapidly rescale their operations. While it is impossible to predict when the next major disruption will occur, we are highly confident that 2021 has not seen the end of major disruptions.

INVESTMENT POLICY GUIDELINES

We inherited a portfolio of cash, bonds, and ETFs with exposure to relatively diverse industries. 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%)

MALTs include: REITs, Commodities, Gold, Currencies
20% of equity allocation should be considered 3-5 yr holds

PERFORMANCE VS BENCHMARKS

It is imperative that we review the performance of the OSIF fund, and 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 not provide accurate comparison because the indexes are 100% equities, and nearly entirely American. The OSIF fund operates such that only 30-75% of assets can be allocated to US equities, encourages investment in non-equity assets, and began the semester with a very large cash position, which was invested incrementally. To facilitate more accurate comparison, weighted adjustments can be made. The OSIF fund over the semester allocated an average of 87% of assets to equities (both domestic and international), 9% to fixed-income assets (bonds), and 3% to other asset classes like marketable alternatives like gold and cash.

OSIF	5.76%
S&P 500	9.96%
ACWI	6.37%
Russell 1000	10.19%

The table shows that the OSIF fund for the semester of Spring 2021 underperformed the S&P 500 as well as ACWI and Russell 1000 without adjusting for asset allocation differences. Due to these benchmarks being fully allocated to equity, their returns outperformed the OSIF fund, which is 87% allocated to equity. ACWI has the closest return as allocated internationally, whereas the Russell & S&P track US stock. This performance appears to match the overall trend of global economic recovery; highly uneven.

Outlook

It is our belief that financial markets, at least for the immediate future through the rest of 2021 rely on events presently unfolding; mass deployment of COVID-19 vaccines and reduction of COVID restrictions; and the prospect of at least one federal infrastructure package being passed by Congress before the fall. Presently, US vaccine production and distribution is in full swing, with nearly ½ the population having received a single dose by April 24th. This is promising news; however, management of the fund has taught us is to digest information from multiple perspectives. Internationally, vaccination rates are much lower, & with the appearance of new strains, total disappearance of COVID seems unlikely. This could continue the trend of highly uneven global recovery, with some economies enjoying the benefits while others struggle with continual lockdowns (The long-term effects of this disparity in recovery will likely

play a major role in the markets for years to come). With Covid-19 vaccination rates currently estimated at 51% of adults in the United States, we believe 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 continue to be optimistic that the hospitality & travel, manufacturing, and energy sectors, will continue to see strong gains as the economy continues its path to recovery. However, we do recognize the shared nature of this sentiment, & that most equities trading are at or near all-time highs, limiting our ability to make find meaningful value before the next market correction.

A Note of Thanks

Finally, we would 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 are 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,

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