

Markets and Coronavirus
New Haven Managed Pool
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As all are aware, we are in the midst of a sharp market correction and extreme market volatility driven at least in part by global fears over the long-term implications of the coronavirus and wanted to update our customers and donors at the earliest possible juncture.

First, a couple of facts with regard to the Foundation's Commingled Investment Fund: our early estimate shows a 3.4% -3.5% unrealized loss for the month of February, and approximately 3.9% loss thus far in 2020. Combining the fiscal/calendar 2019 and the start of 2020, the portfolio was up just over 12.0%.

As we look ahead, the sudden change in market behavior has significantly interfered with the high and growing levels of confidence some held with regard to future gains. What has not changed is the fact that the future is always filled with surprises and the best investment strategies are constructed with this in mind. When surprises do occur, most of us seek to develop some level of certainty regarding what happens next. When will markets stop falling? How far will the virus spread? How many people will be affected? What will be the economic impact? Unfortunately, most know that none of these questions can be answered and this forces a larger group of people to confront the uncertainties that are always present.

Yet, patient, long-term investors pursuing an appropriately allocated and risk-aware strategy are not as susceptible to the potentially destructive natural emotions that accompany difficult times. While geographic diversification and more conservative valuation strategies (i.e. value investing) were becoming increasingly unpopular by the day, many of the underlying principles that support these strategies emerge as critical tools during difficult times. The most important of these involves making investments based on a thorough understanding of fundamental value. There are many ways this can be estimated but regardless of one's approach, the key is to rigorously account for both risks and opportunities. This can be hard work with imperfect answers, but it is essential for those who seek long-term investment success.

Why is this so important? First, holding assets where market prices are below one's assessment of intrinsic value provides a margin of safety. When one pays for modest or pessimistic outcomes, difficult events are likely baked into the price to varying degrees and this protects intermediate to long term returns. Investors who pile into popular and expensive areas are essentially "paying for perfection", a

strategy that proves risky when the future disappoints on this score. Second, having a sense of the long-term value of assets provides a framework that can be used to maintain confidence during difficult times and to buy more of assets that are now even more deeply discounted. When investment decisions are made without regard to valuation, there are no objective measures one can use to stay the course when difficult conditions persist. We have no insights into the length or severity of the coronavirus. In the scenario where it persists for some time, the importance of balance, patience, and owning assets for less than their intrinsic value will prove more important by the day.

The Community Foundation's portfolio is not immune from market declines during periods of panic. Yet, when viewed through the lens of multi-year returns, diversification, contrarian thinking, and a relentless pursuit of investments that are attractively priced offer a high probability of generating returns that are commensurate with the risks involved.

Looking ahead, our game plan is as follows:

1. If the sell-off deepens, we will look for opportunities to rebalance and add to equity positions based on exceptionally compelling intermediate term return potential.
2. If this proves to be an extended period of falling prices, the investment opportunity set will become even more interesting. This will sporadically make previously closed/inaccessible managers available - we have our list of firms we would be thrilled to add to the portfolio if possible. This takes some time to play out.

Balance, diversification and a strategy built to thrive across good days and bad has been a source of great frustration over the last few years. These conditions created historic levels of market distortion and provided an unusually compelling opportunity set which time would have brought to light. A market panic and the process of re-introducing investors to risk may have accelerated this process but was not a precursor to success.

Finally, and perhaps most importantly, the Foundation's oversight process and portfolio are well positioned for more difficult conditions and to thrive once the current threat has passed. Our hope is that this will not take long to occur as reducing the impact of the coronavirus on human lives is paramount for all.

Thank you for allowing us to be your partner in these important matters, and we look forward to sharing updates as the situation dictates.

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