Oregon State Investment Group

Quarterly Statement

Fall | 2020

A word from the President

This recap aims to give you all an insight into how we have done so far heading into the winter, and we hope that as the new year begins, we continue to see our portfolios excel. Our board of directors is very excited for the road ahead, despite these troubling times, and we hope that we can continue to propel our group to its highest potential.

The end of Oregon State University's fall term marks the end of our management's second term in charge of OSIG. Despite the difficulties we faced regarding the remote environment, I'm proud to say that we were still able to accomplish a lot this term.

As with the previous spring term, OSIG continued to hold weekly meetings via Zoom. We were fortunate enough to have some excellent guest speakers, including: Francis Thelen, Nikki Frydenlund, and Steph Miller. Each of these guest speakers were previous OSIG alumni, making their appearance all the more meaningful. Similar to when OSIG was in-person, our group continued to have weekly pitch updates. These pitches helped refine our actively-managed portfolios and set our group up for long-term success in the stock market.

Our group also welcomed a new class of new analysts. Despite the difficulties of getting up to speed remotely, each of these analysts persevered and produced some top-quality pitches for our group. We are incredibly proud of each of these analysts that were able to join us this term.

Our portfolios were able to achieve some incredible results this fall. Our Large-Cap Portfolio notched its highest ever market value, with the portfolio reaching $3.5M during the term. This is a terrific achievement considering the initial $1.0M market value of the portfolio back in 2008. Our Global Portfolio continued to outperform the global index, highlighting the prestige and caliber of our group even when compared to professionals in the financial industry. Finally, we employed our new strategy for the D.A. Davidson & Co. Competition Portfolio. For the first time in OSIG's recent history, we are employing a high-risk high-yield strategy towards this portfolio, with a focus on growth investing.

While this coming winter term will be remote again in accordance with Oregon State University policy, I look forward to working with management to continue delivering exceptional learning opportunities for everyone involved with the group. This winter will mark our last term before we pass positions onto a new set of OSIG members, so all of us in management will continue to give it our best to make it a term to remember for everyone in OSIG.

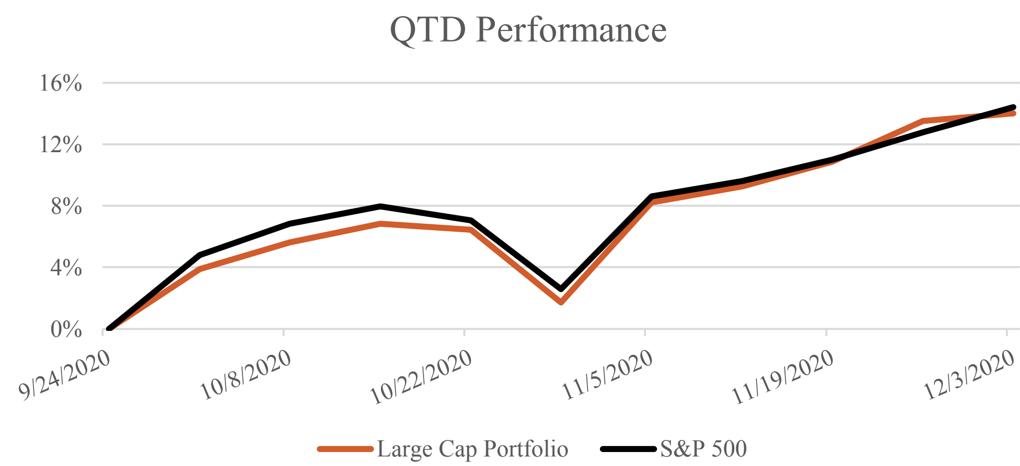
I look forward to continuing to lead this group with Mackenzie Thibault, OSIG's Vice-President, to preserve the prestige of the group in this virtual setting. We certainly have had our difficulties leading the group in this virtual setting, but we have embraced these challenges and are determined to leave the group in a better place than when we started.

Best,

Patrick McGrath
President of the Oregon State Investment Group

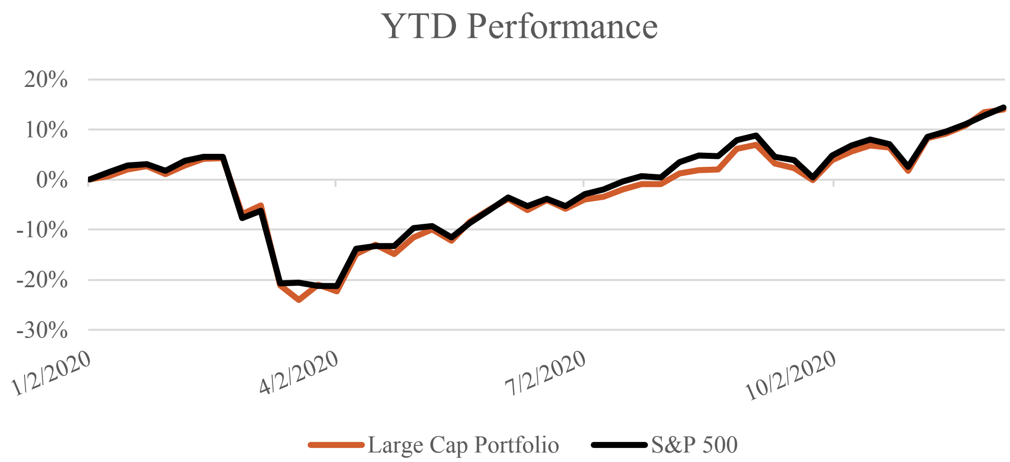
Large-Cap Portfolio

My name is Parker Atkinson, and I am the Large Cap Portfolio Manager for the Oregon State Investment Group. During my time as PM, I have tried to implement a balanced strategy in which our group holds a mixture of companies that have positive growth prospects for the future, as well as some companies that will remain strong during a recession. This way, we can be well exposed to the current rapid growth of technology within all industries but remain competitive to the S&P 500 in an economic downturn due to our lower beta of 0.97.



Over the Summer, the market experienced quite a rebound from the first few months of the pandemic. In my last quarterly update of the portfolio, I expected us to lag the S&P 500 if the market rebounded due to our slightly lower beta, but we did better than expected. When we left for break, the portfolio had a YTD alpha of -0.51%, with the Large Cap and S&P posting returns of -6.05% and -5.30% respectively. In the three months leading up to the first week of Fall Term, both the Large Cap and the market jumped to -0.05% and 0.45% returns respectively, leaving us with a YTD alpha of -0.49%. This means we gained ground on the market over the Summer but ultimately ended up in nearly the same position as when we left for break. Market movement was dominated by COVID-19 news, stimulus updates and any big election updates.

So far, my strategy has not performed as favorably for the portfolio as I would have hoped. We have been in a gridlock with the S&P 500 for most of my time as PM. For example, in the last two months we have been within 1 percent alpha wise with the market which is consistent with most of the year. Our current YTD alpha is -0.89% and a Sharpe ratio of 0.82 vs the S&P's 0.86, which shows that we lost ground on the market over Fall term. My original management thesis was that I wanted to keep the beta lower than 1 so that we may capitalize on a downturn in the economy. However, I had not expected the stock market to rebound as quickly as it did after March, which negatively affected the portfolio in the long run evidenced by our loss in alpha. If the portfolio would have had higher exposure to the information technology sector over the year, we likely would have performed better. We hold around 15% less weight in information technology than the S&P 500 and that sector performed particularly well over the year. This likely led to our suboptimal performance. Looking forward, we may rethink our thesis on how risky technology stocks are in the current market climate, as the high beta of IT stocks may not be as reasonable in the future.



My strategy and mindset with the portfolio changed relative to the last quarterly update. Originally, we were looking to the consumer staples sector to provide some stability in a downturn, but that got upended by the global pandemic. Now, the concept of a stable company in the market is a company that is technologically savvy and particularly well positioned for a recession, rather than just the latter. We are still focused on companies with superior liquidity and reasonable debt relative to their size, but technological innovation is now a key part of any company that we investigate. With the current market landscape, innovation drives growth both in revenue and in the all-important investor sentiment. This change in strategy can be evidenced by the addition of Lockheed Martin (LMT) and Axon Enterprises (AAXN), and the strengthened Marathon Petroleum (MPC) position. Both added companies are in our IMEU sector and are keenly focused on technological innovation within defense. MPC is a company that was hit particularly hard by COVID-19 and has not seen the rebound that tech and other stocks enjoyed this year. We still believe MPC to be a fundamentally sound company that is undervalued by the market for the year of 2020, so we bought more shares at a discount of our original trade price. We also sold General Dynamics (GD), Simon Property Group (SPG), and TJ Maxx (TJX). With the negative outlook on malls and retail, we did not feel comfortable staying invested with Simon and TJ Maxx, as both companies were reluctant to offer potential pivots with their current real estate. For this reason, we believe they will perform poorly over the long-term as brick and mortar sentiment has crumbled. Additionally, General Dynamics is a smaller defense contractor relative to Lockheed Martin, and we believe that the longstanding strength and size of Lockheed Martin will serve us better than the potential growth of GD. Finally, look for Axon to perform well as city governments invest in the cloud and nonlethal devices for their police departments worldwide.

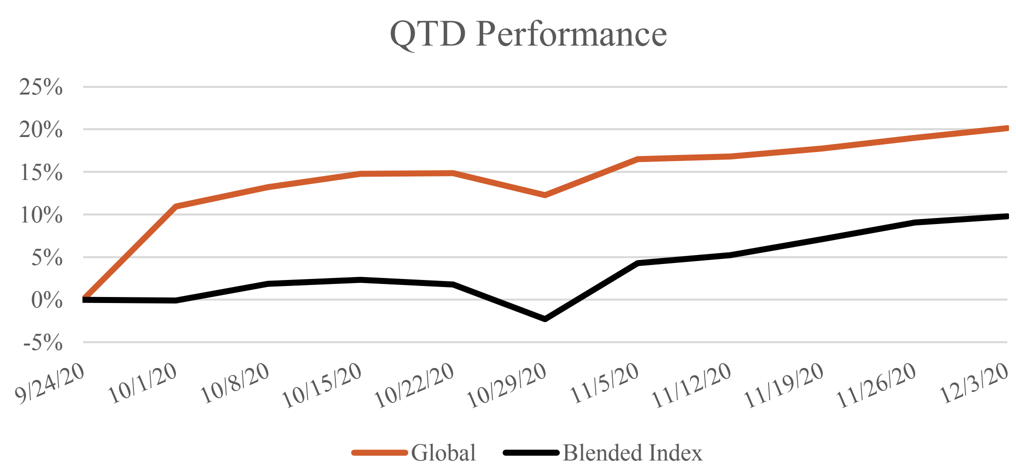
For Winter 2021, I expect the portfolio to be well positioned for the gradual rebound of the economy. We are slightly overweight in energy and industrials relative to the S&P, so I would expect those sectors to rebound as oil/energy consumption grows to pre-pandemic levels over the next year. Also, I do not expect tech stocks to have the same run they did this year, because I do not see a macroeconomic event that perfectly highlights the necessity of technology happening two years in a row. We are still bullish on technology, but believe other sectors are likely to catch up as we develop a vaccine. The portfolio is likely to see some changes during Winter because we are no longer exposed to real estate. I would like to investigate a REIT that is better positioned for the future than SPG, and I would also like to find information technology companies that fit the investment thesis as well. I believe that industry is paramount to the success of the economy in the long run and being underweight in that sector puts us at a disadvantage. In any event, we will look to build off this term’s performance and beat the market for Winter 2021.

Global Portfolio

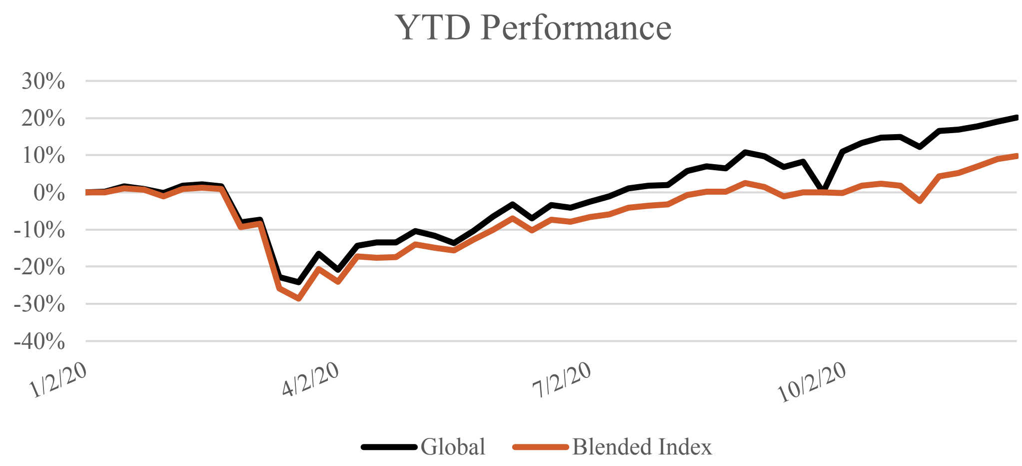
My name is Kobe Craig, I am currently a fourth-year student at Oregon State University pursuing a Bachelor of Science in Finance. I am currently the group's Global Portfolio Manager. When I took over the Global Portfolio in the winter of 2020 it was my goal to build off of what the previous portfolio managers had created. I wanted to tap into emerging markets that are seeing rapid growth, grow diverse exposure throughout various sectors, and decrease the overall cash position in order to increase our exposure to the market.

However, as we all know 2020 has been a year that no one could have seen coming. In the spring and over the summer of 2020 we saw the wave of coronavirus cases take over the world leaving a lasting impact on many people's lives. We saw investors begin to scramble due to the uncertainty within the markets. We first saw the S&P 500 hit a low of 2237.40, the U.S. then received an economic relief bill worth $2 trillion, we saw oil prices turn negative for the first time in history, day trading grew at an all-time high, all while the race for a vaccine was underway.

As of now it seems that the strategy has fit the portfolio really well as we continue to outperform the blended index that we use to measure the portfolios performance. We have also done a great job at continuing to diversify the portfolio and increase its exposure into emerging markets that are seeing strong growth even through the current pandemic. Although during this past quarter we deemed our ASML Holding (ASML) to be overvalued in the portfolio due to both qualitative and quantitative factors that no longer justified holding the position, so it has since been sold.



Due to the recent sell of ASML my strategy has slightly changed because of the increase in our cash position. As I mentioned it was originally my goal to shrink our cash position as much as possible to maintain exposure to the markets but considering the uncertainty we have recently seen I now plan to maintain the cash position until we can identify an industry leader with strong growth potential that is a better fit in the portfolio than ASML. We plan to analyze: Lam Research (LRCX), Taiwan Semiconductor (TSM), and Texas Instruments (TXN) as possible replacements. Also due to the unforeseen effects of the coronavirus I have worked to apply more emphasis on both my quantitative and qualitative approaches. As for quantitative I have recently put more emphasis on maximizing the portfolios alpha, beta, and Sharpe Ratio by reweighting various positions and only initiating companies that fit well into the portfolio. From a qualitative perspective I have tried to make it my goal to examine just how macroeconomic trends can affect the performance of the portfolio and the companies that are specific to it. Whether it is the coronavirus, a stimulus package, or even possible delisting of various foreign companies from the U.S. stock exchange.

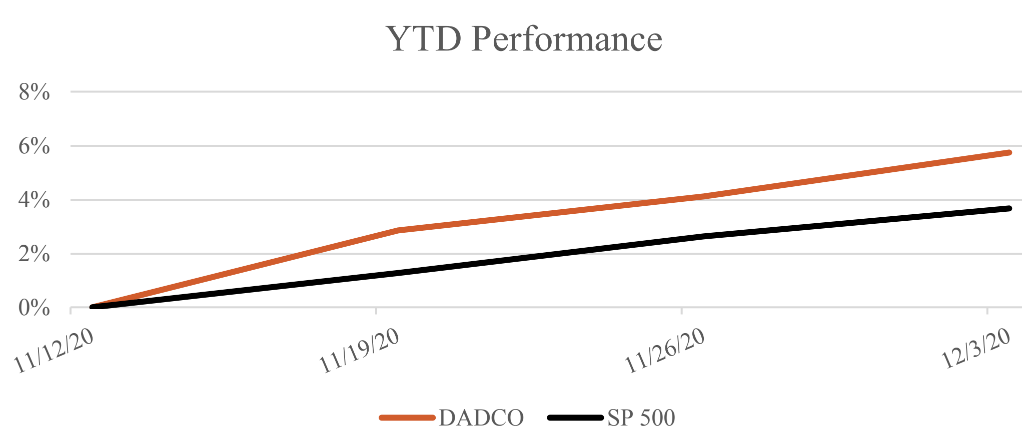


Over my time as a Portfolio Manager, the Global Portfolio has outperformed our blended index including the MSCI ACWI ex U.S. ETF and the S&P 500, on a nominal basis by 1,036bps. When looking at the end of this quarter the portfolio currently has a beta of 1.03, helping us generate a year-to-date risk-adjusted alpha of 10.06%, and a Sharpe ratio of 0.87. These indicators show that as an investment group we have been able to outperform our index by a substantial amount both year-to-date and on a quarterly basis as shown in the graphs.

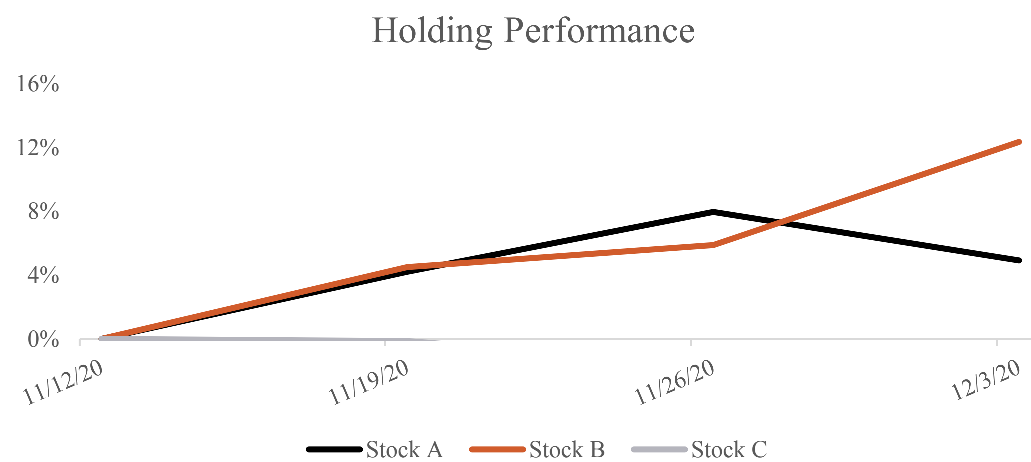
DADCO Portfolio

My name is Braeden Kuether, I am a senior at Oregon State University majoring in computer science and minoring in economics. For the 2020-2021 DADCO portfolio, I proposed to implement a high-risk strategy that increases our odds at having the highest total returns. The main pillars of this strategy include investing all cash holdings, only holding a few positions, picking stocks with high volume and volatility, and more generally prioritizing stocks with momentum and favorable short-term qualitative factors. We also consider including small cap stocks as a method of increasing risk due to their growth potential and uncertainty.

To choose which stocks would be in the DADCO portfolio, members of the group proposed options that best fit the portfolio strategy. Those were then narrowed down to the top five options and pitched to the group for voting. The group then voted to select the three best positions out of the ones pitched. This led us to enter positions in Stock A which operates in the defense industry, as well as Stock B and Stock C which are both in the semiconductor industry. Including these equities in our portfolio helps increase the portfolio's risk by reducing industry and sector diversification.



The first two months of the 2020-2021 DADCO included the previous year's positions because the new positions had not been voted on by the group yet. The current holdings were acquired part way through the month of November and have outperformed the S&P 500 by more than 2% since being added. The current value of the DADCO portfolio is $51,984 - a 4% return with respect to the starting portfolio value of $50,000. This has slightly outpaced the S&P 500 return over the same time period by approximately 0.7%. The following is a look at the performance of the portfolio since the new positions were acquired, as well as the performance of each position in the portfolio over that time span.



Since the strategy chosen for this year is set, the most important thing to do now is to pay close attention to the movement of the positions we selected and potentially revisit those positions if they do no perform well. I image one very important storyline to follow will be the potential trade conflict with China and how that could affect the semiconductor industry. The group will continue to monitor those trends and will look at other options for the DADCO should they become unfavorable.

OSIG

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