Oregon State Investment Group

Quarterly Statement

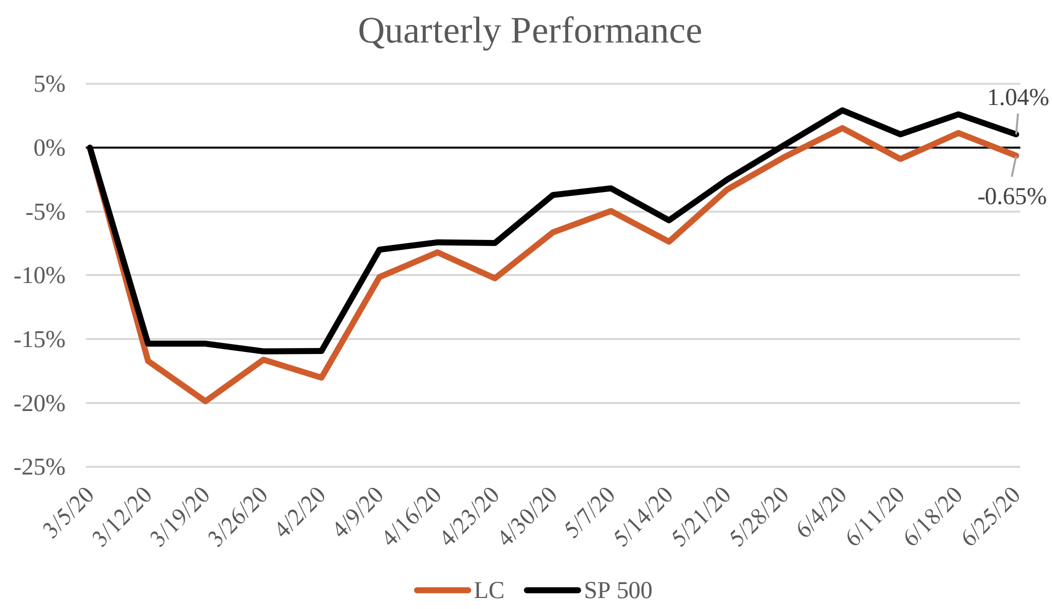
Spring | 2020

7/5/2020

This recap aims to give you all an insight into how we have done so far heading into the summer, and we hope that as the year progresses, 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.

Large-Cap Portfolio

My name is Parker Atkinson, and I am an Accounting & Finance Major from Medford, OR. I joined OSIG in Fall 2019, and have enjoyed researching companies in-depth, managing our large-cap portfolio, and connecting with both past and present members of the group.



During my first term as portfolio manager, I was tasked with the responsibility of the portfolio during a once in a lifetime pandemic. This allowed us to examine firsthand how a major macroeconomic event would affect our holdings in comparison to the S&P 500. As a student-led group, from April 2, 2020 to present, we have posted a +23.81% return, compared to the S&P 500 with a return of +22.41%. Due to our lower beta of 0.96, this allows us to capture a positive risk adjusted alpha of 2.23%, assuming the current risk-free rate is the 30-year treasury rate. Additionally, we currently have a 1-year Sharpe Ratio of 0.48, in comparison to the S&P 500 at 0.41. This means that we have outperformed the S&P 500 both over the quarter, and over the last 52 weeks.

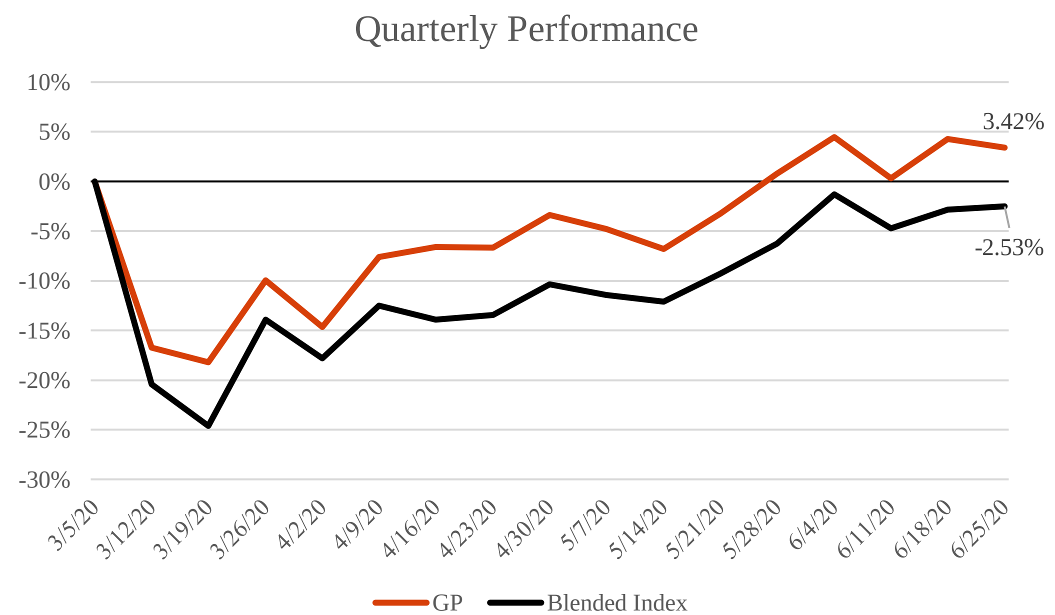
The strategy we have been aiming to implement in the Large-Cap Portfolio is by no means flashy or exciting. Personally, I expect some negative market effects due to coronavirus and unemployment, credit defaults, and overall economic downturn that comes with a global pandemic. As a result, we have been aiming to decrease our beta slightly so that we may weather the storm more effectively if it comes. Specifically, I have been increasing our cash position and adding securities that will prevail in the event of a recession. Many of the positions we decreased were over the 6% maximum weighting for our holdings, which allowed us to capitalize on the positive performance they have delivered in the past. I will look to further decrease positions in this manner, and we hope to continue to implement the overall strategy as 2020 continues.

Looking forward, in the event of a recession, we believe that we will continue to outperform the S&P 500 due to our lower beta and general balance sheet strength of our holdings. Many of the companies in our portfolio have the liquidity necessary to survive a recession and remain players in their respective industries. However, if the economy were to boom soon, we may lag the S&P 500 slightly. We are much more heavily invested in consumer staples relative to the S&P 500, and that sector does not tend to outperform during a bullish period. Overall, we are ecstatic with our performance as a student-led group and hope to continue to build on the earned alpha we have accrued thus far.

Global Portfolio

I'm Kobe Craig, a junior at Oregon State University pursuing a Bachelor of Science in Finance. I joined the group in Fall 2019 starting as a consumer goods sector analyst. I currently serve as the group's Global Portfolio Manager.

When the Global Portfolio was created, it was the group's goal to keep a higher cash position with a lower beta because of the strong uncertainty of the economy at the time. However now, it is my goal to build on the previous portfolio managers' strategies by tapping into emerging markets that are seeing rapid growth, building diverse exposure throughout the different sectors, and decreasing the cash position within the portfolios limits. Although there is uncertainty in the market, I have made it my goal to be more conservative with investments, ensuring that we are investing in companies with a clean balance sheet and a solid ROIC, ROE, and ROA history.



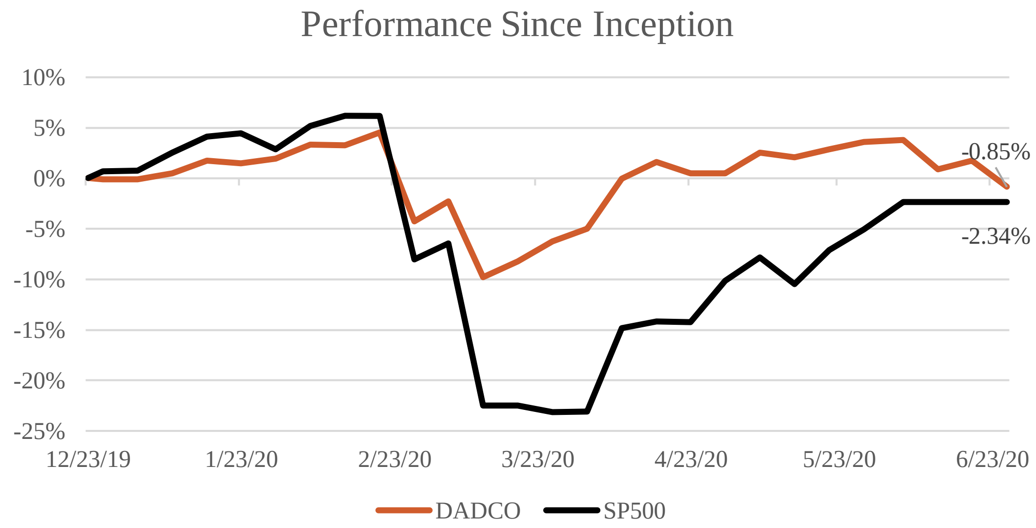
Since the beginning of my term as the Global Portfolio Manager, the market has certainly been very volatile. The effects of COVID-19 have had a major impact. However, since their low point, both the MSCI EAFE and the Global Portfolio have rallied with a year-to-date return of ~7% and ~3%, respectively. We are currently positioned to take on a little more risk than the market with a beta of 1.11. Due to our ability to continually beat the market and our high risk tolerance, the portfolio currently has a year-to-date alpha of 4.69% and a Sharpe ratio of 0.47.

I hope to see the portfolio reach positive territory before the end of the next quarter as we continue to tap into emerging markets and create more diverse exposure throughout the different sectors. I also hope to reduce the portfolio's beta slightly by taking on less risk in order to try and perform closer to the blended index. I would imagine we will continue to outperform the blended index when the market goes up however, I would expect us to lag behind the index when the market is going down.

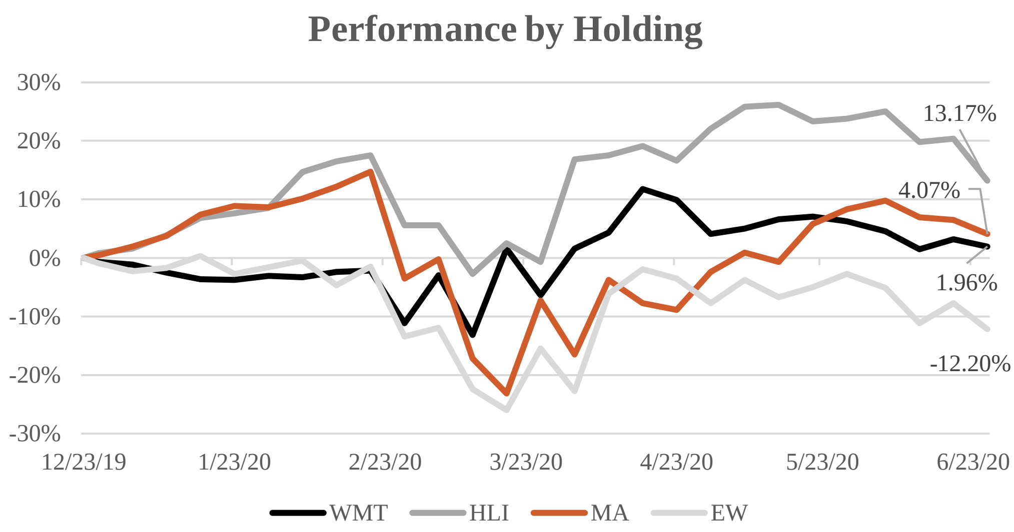
DADCO Portfolio

Hey guys! My name is William White, and I am a Junior studying Finance at Oregon State. I joined OSIG in the winter of 2019, and I have been working with the group ever since.

Because of the competitive nature of the DADCO portfolio, I wanted to implement a strategy that would immediately generate alpha in a short time horizon. With the prior year's portfolio focused heavily on small-cap equities with a value orientation, I decided to change it up and focus on a cash-based hedging strategy, emphasizing strong balance sheets with companies that perform well counter-cyclically to the market. This aligned well with the Group's ideas on the future performance of the markets, many of us foreseeing strong market headwinds in 2020. The conservative, low beta nature of the portfolio allows for modest returns when the market is strong, however generates exceptionally strong alpha when volatility and poor macroeconomic factors are realized.



While the initial startup lagged behind the S&P 500 at the beginning of the year, the DADCO portfolio started generating substantial amounts of alpha towards the middle of March, when COVID-19 coupled with harsh macroeconomic factors began to come into full effect. The DADCO portfolio was the top performer within our competitive bracket in the month of march, with restructuring Investment Bank Houlihan Lokey (HLI) and Walmart (WMT) performing unprecedentedly well with the downturn. As the market returns back to it's strong yet unpredictable performance, the DADCO portfolio now leads the S&P 500 by roughly 550 BPS.



The DADCO portfolio now sits at around a $51,500 value and contains 4 equities: Houlihan Lokey (HLI), Mastercard (MA), Walmart (WMT), and Edwards Lifesciences (EW). With the consistently turbulent market becoming the new normal, we hope to see the portfolio to continue to generate alpha against the S&P 500. As the competition begins to head towards a close, we are excited to implement a different strategy for this coming year's DADCO portfolio.

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