
The Vermont Community Foundation

Investment Strategy/Performance Update

November 28, 2022

Annualized Investment Results

Performance Ending 9/30/22 (Net Of Investment Management Fees)	Calendar Year to Date	Latest 3 Years	Latest 5 Years	Latest 10 Years	Latest 15 Years	Since 4/1/02
Long-Term Pool	-19.6%	1.9%	2.7%	5.6%	4.8%	6.4%
Long-Term Pool Custom Market Benchmark	-19.9%	2.4%	3.2%	5.1%	3.7%	5.2%
CPI + 5%	9.9%	10.3%	9.1%	7.8%	7.6%	7.7%
Socially Responsible Pool	-21.5%	1.9%	3.4%	5.9%	4.2%	N/A
SR Pool Custom Market Benchmark	-19.7%	2.3%	4.6%	5.6%	4.2%	N/A
Mid-Term Pool	-17.3%	1.3%	2.5%	N/A	N/A	N/A
Mid-Term Pool Custom Market Benchmark	-17.9%	1.0%	2.4%	N/A	N/A	N/A

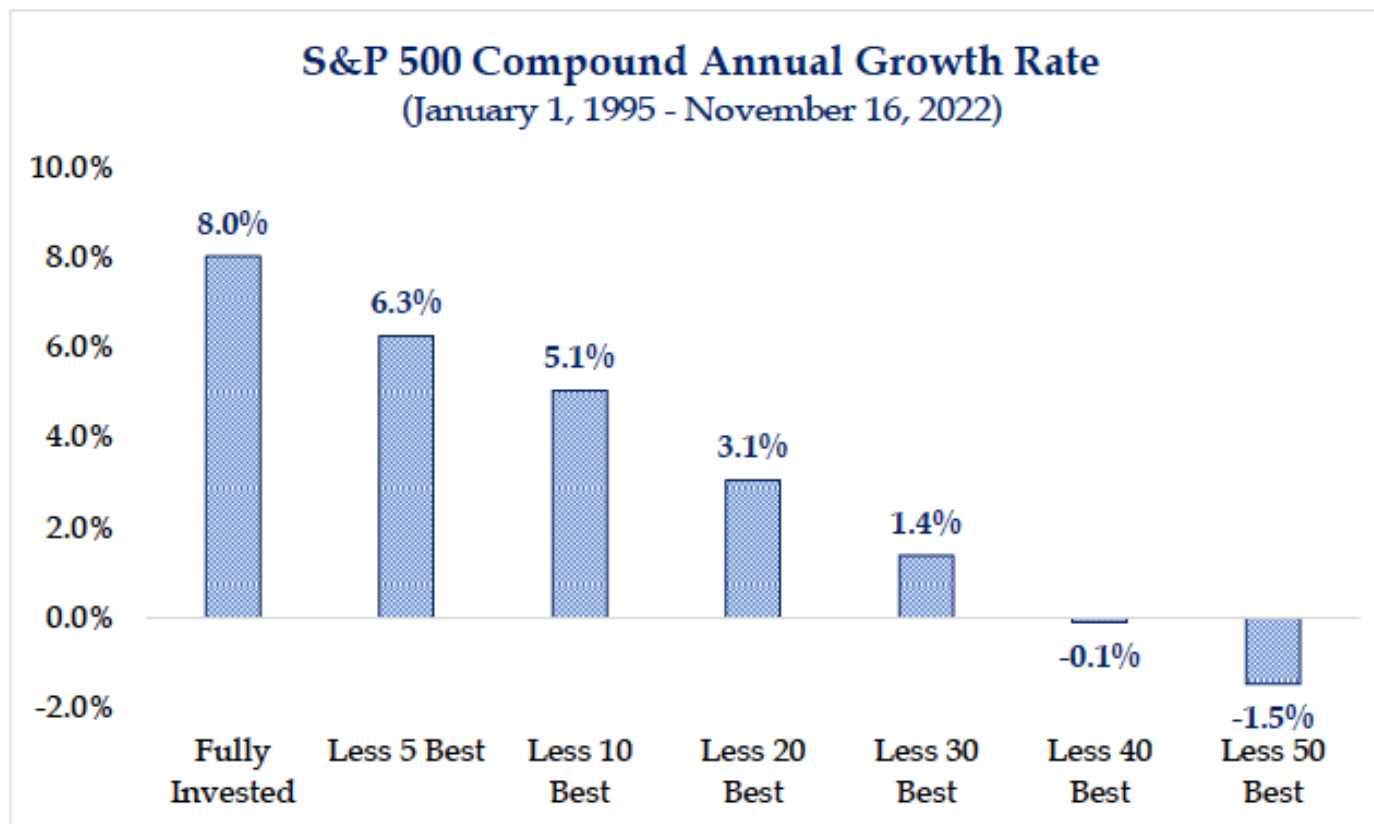
A Very Different Picture One Year Ago!

Performance Ending 9/30/21 (Net Of Investment Management Fees)	Calendar Year to Date	Latest Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	Latest 15 Years	Since 4/1/02
Long-Term Pool	10.5%	25.1%	8.9%	9.9%	9.4%	7.5%	7.8%
<i>Long-Term Pool Custom Market Benchmark</i>	7.6%	19.2%	9.8%	9.5%	8.5%	6.0%	6.4%
CPI + 5%	8.9%	10.8%	8.2%	8.0%	7.1%	7.2%	7.4%
Socially Responsible Pool	7.6%	20.4%	10.2%	10.0%	9.4%	N/A	N/A
<i>SR Pool Custom Market Benchmark</i>	6.4%	17.7%	9.9%	9.6%	9.2%	N/A	N/A
Mid-Term Pool	5.9%	14.4%	8.5%	7.8%	N/A	N/A	N/A
<i>Mid-Term Pool Custom Market Benchmark</i>	5.5%	14.5%	8.7%	8.1%	N/A	N/A	N/A

- Investment Outcomes are Cyclical
- Massive but Difficult to Discern Difference Between Temporary and Permanent Loss During Bear Markets

The Psychology of Bear Markets

- Recency Bias/Backwards Looking Analysis are Deceptive
- Markets Are NOT More Predictable During Complex Times



Source: Strategas Research Partners

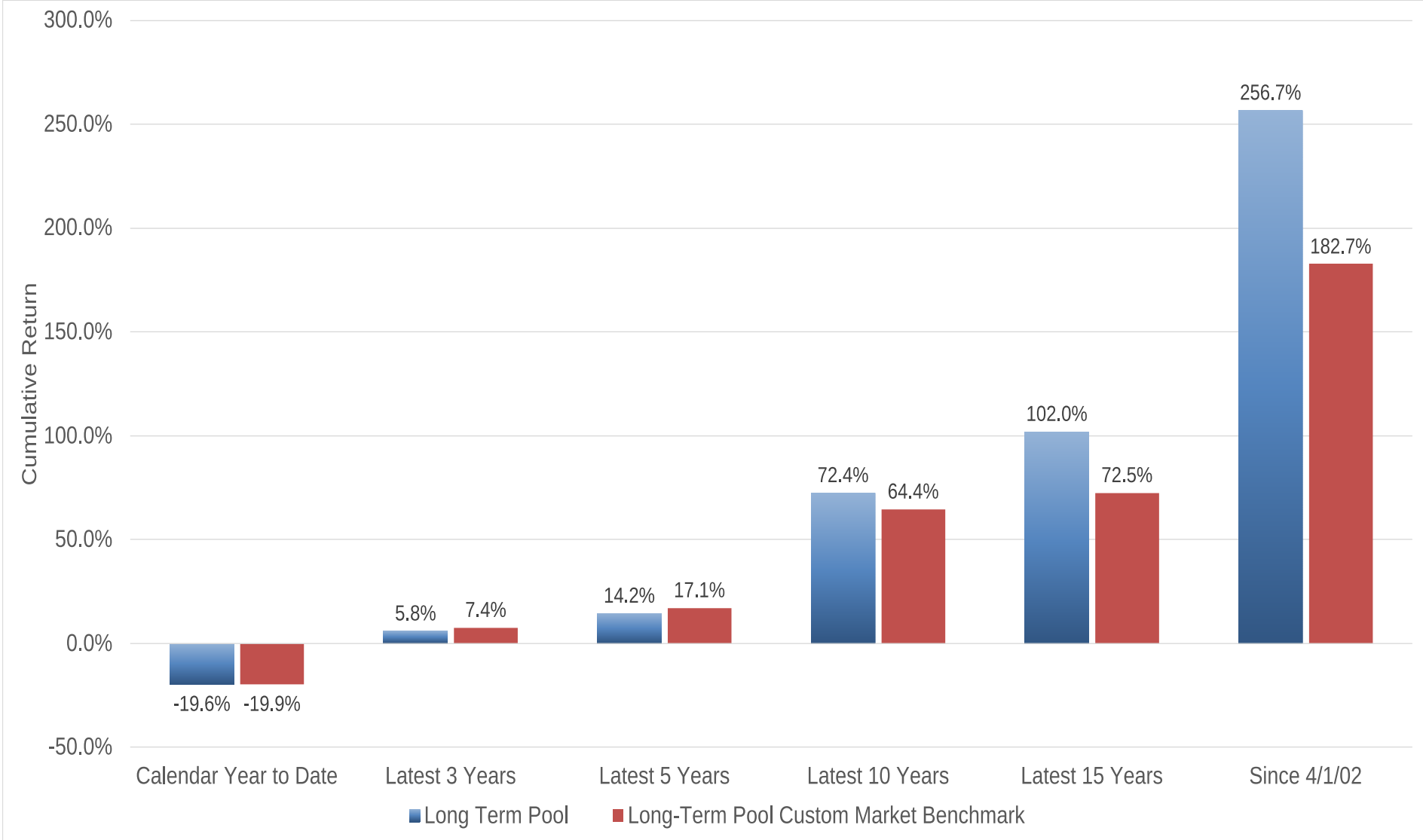
Temporary Losses

- Since April 1, 2002, the Long-Term Pool has lost 10% or more from its last peak 24 times
- For Nearly 20 Years, Subsequent Returns Were Positive

LT Pool RORs Following 10%+ Losses – 4/1/02 to 9/30/21

Annualized Return from ≥10% Drawdown	1 Year Forward	3 Years Forward	5 Years Forward	10 Years Forward
Median Outcome	19.5%	11.5%	11.6%	8.9%
Worst Case Outcome	5.4%	5.5%	9.0%	7.2%
Best Outcome	41.2%	19.0%	15.9%	10.7%

Decisions Focused on Long-Term Outcomes



High Batting Average & Positive Skew

Socially Responsible Returns Relative to Policy Benchmark – 6/30/10 to 9/30/22

Key Stats - Socially Responsible Pool	Rolling 3 Year	Rolling 5 Year	Rolling 7 Year	Rolling 10 Year
Batting Average	71.4%	87.5%	93.8%	85.7%
Median Outcome	1.1%	2.9%	4.7%	6.4%
Best Outcome	4.8%	6.7%	9.9%	9.6%
Worst Outcome	-5.9%	-5.4%	-2.6%	-4.8%

- Very High Batting Average – Not Perfect Though!
- Median Value Added is Meaningful
- Generally Strong Best/Worst Case Outcomes

High Batting Average & Positive Skew

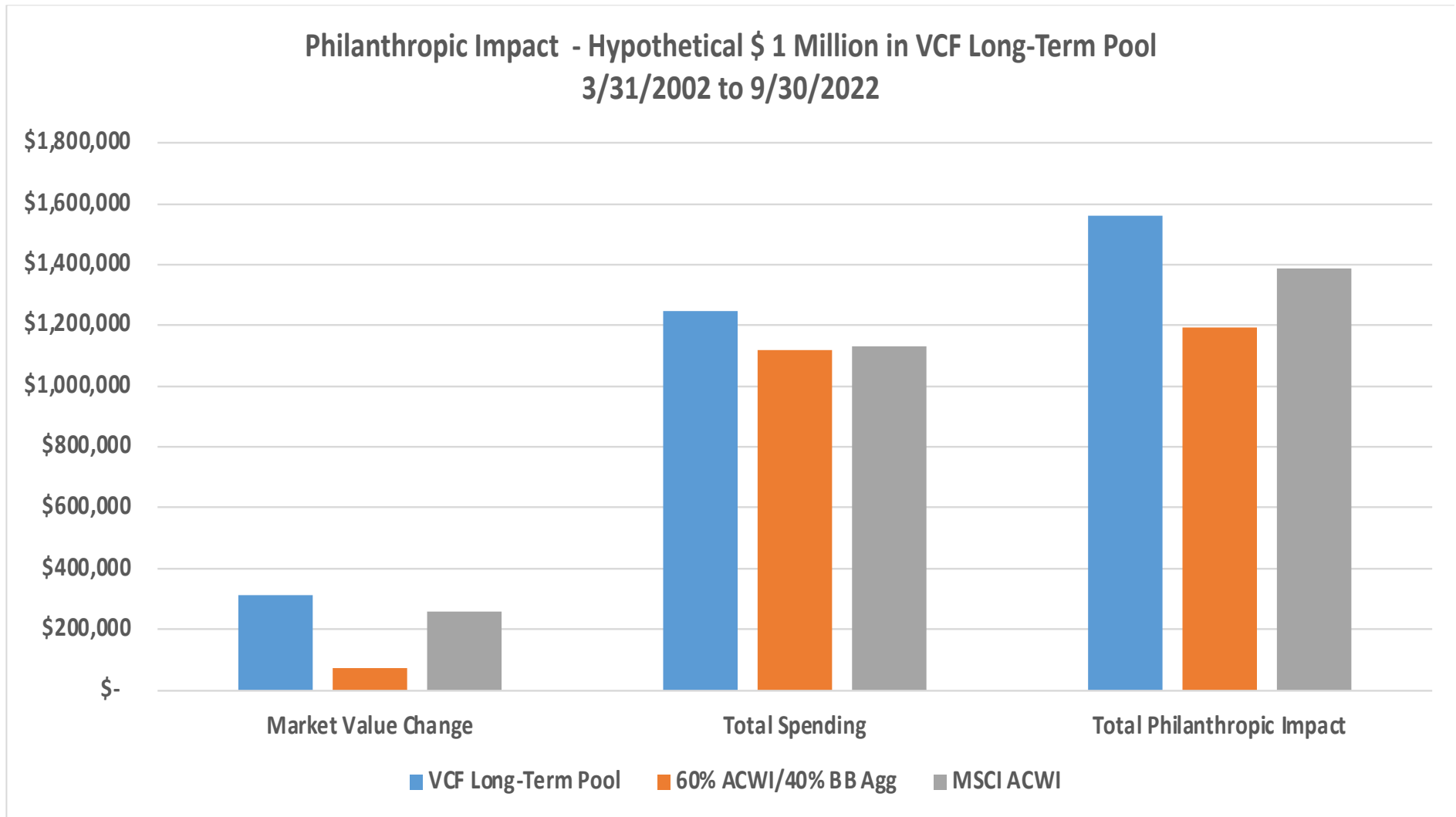
Long-Term Pool Returns Relative to Policy Benchmark 9/30/22

3/31/02 to

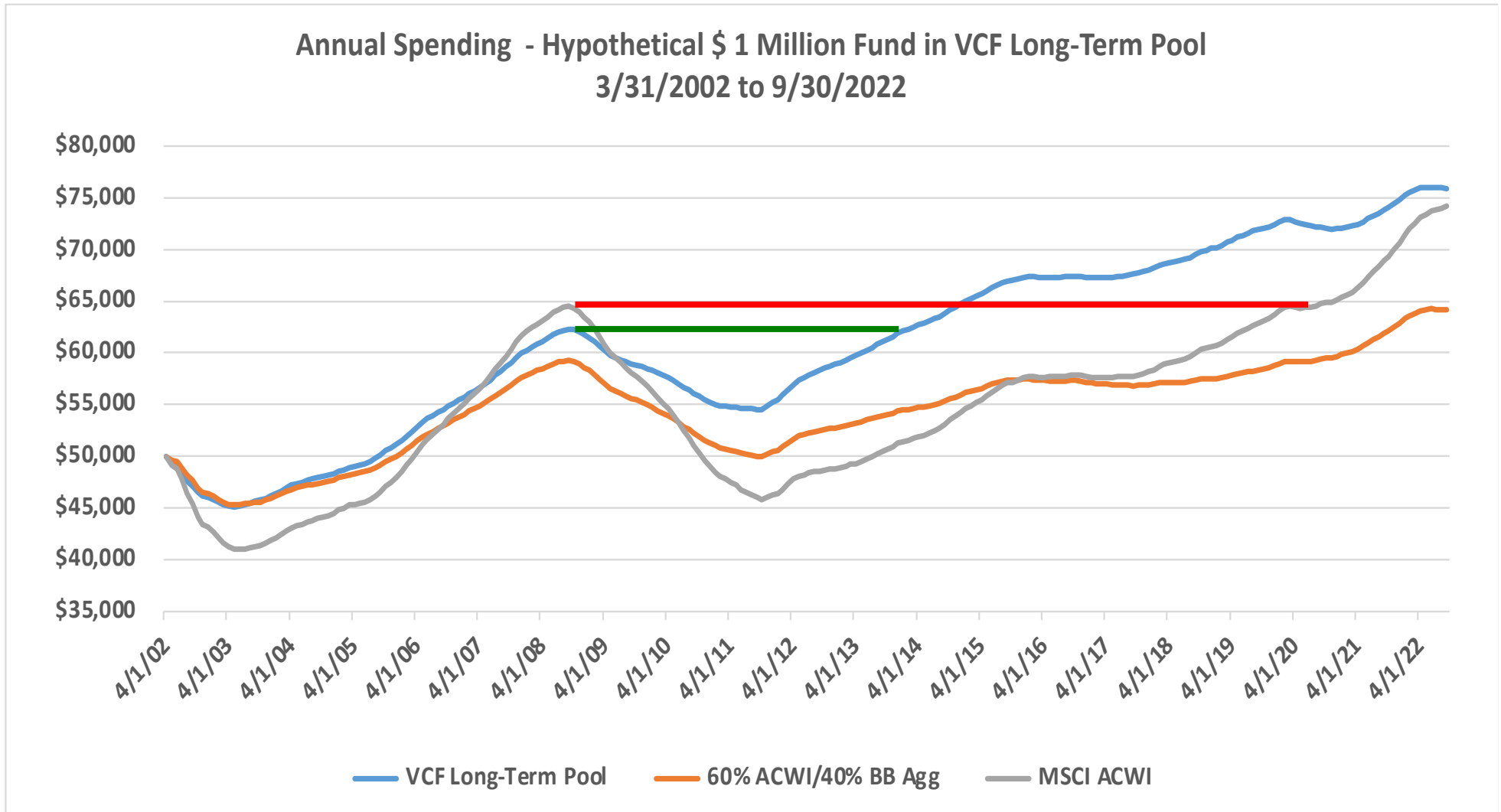
Key Stats - Long Term Pool	Rolling 3 Year	Rolling 5 Year	Rolling 7 Year	Rolling 10 Year
Batting Average	83.9%	87.2%	92.0%	100.0%
Median Outcome	5.3%	10.8%	18.3%	31.1%
Best Outcome	10.6%	19.8%	24.6%	39.2%
Worst Outcome	-7.1%	-5.4%	-2.7%	6.2%

- Very High Batting Average – Not Perfect Though!
- Median Value Added is Meaningful
- Very Strong Best/Worst Case Outcomes

Balance & Focus on Long-Term Outcomes



Even Long-Term Investors Must Worry About Volatility



The Community Foundation's Approach

- Establish a Strategic Asset Allocation That is Expected to Achieve the Foundation's Long Term Return Objectives (Preserve Foundation Purchasing Power Over Twenty Year+ Periods)
- No Attempt Made to Market Time or Change Strategy Based on Near Term Outlook – Does Not Preclude Opportunistic Allocations Whose Outcome is Not Driven by Timing
- Diversify Portfolio by Asset Class and Strategy. Increases the Likelihood of Achieving Return Objectives Under Different Economic/Market Conditions

Strategic Asset Mix

Asset Class Exposures (% of Total Portfolio)	Long-Term Pool Mix	Socially Responsible Pool Mix	Mid-Term Pool Strategic Mix
US Large/Mid Cap Equity	11.0	19.0	19.0
US Small Cap Equity	6.5	5.0	4.8
Non-US Developed Equity	11.0	22.0	17.0
Non-US Emerging Equity	6.0	6.0	6.8
Global Equity	12.0	12.0	0.0
Special Opportunities	14.0	0.0	0.0
Total Equity	60.5%	64.0%	47.5%
US Aggregate Bonds	8.5	18.0	23.8
Treasury Inflation Protected Securities	4.3	0.0	9.5
US High Yield Bonds	0.0	0.0	4.8
Global Bonds	4.8	0.0	0.0
Cash/Short Term Bonds	0.0	6.0	9.5
Total Fixed Income	17.5%	24.0%	47.5%
Hedge Funds	5.0	0.0	0.0
Private Assets	12.0	7.0	0.0
Total Alternatives	17.0%	7.0%	0.0%
Vermont Investments	5.0%	5.0%	5.0%

Manager Due Diligence

- Return always accompanied by risk
- Must understand the strategy, know key personnel, avoid needless complexity.
- Operational issues: independent custodian, credible auditor, outside administrator
- Ongoing – forward looking process

Manager Due Diligence – Qualitative Factors

INVESTMENT PROCESS

- Fundamental/valuation bias
- High conviction in investment ideas
- Defined buy & sell disciplines
- Uniqueness (edge)

ORGANIZATION

- Ownership structure
- Aligned interests & motivation
- Compensation structure & retention
- Succession plan
- Institutional Focus
- SEC violations & legal issues

INVESTMENT PROFESSIONALS

- Portfolio manager/analyst experience
- Assessment of manager/team skill
- Portfolio management/analyst coverage
- Team continuity & ethical concern

PORTFOLIO MANAGEMENT/RISK

- Assets in strategy/capacity
- Position exposure/risk
- Prudent use of leverage
- Hedging strategy
- Liquidity
- Transparency
- Appropriate diversification

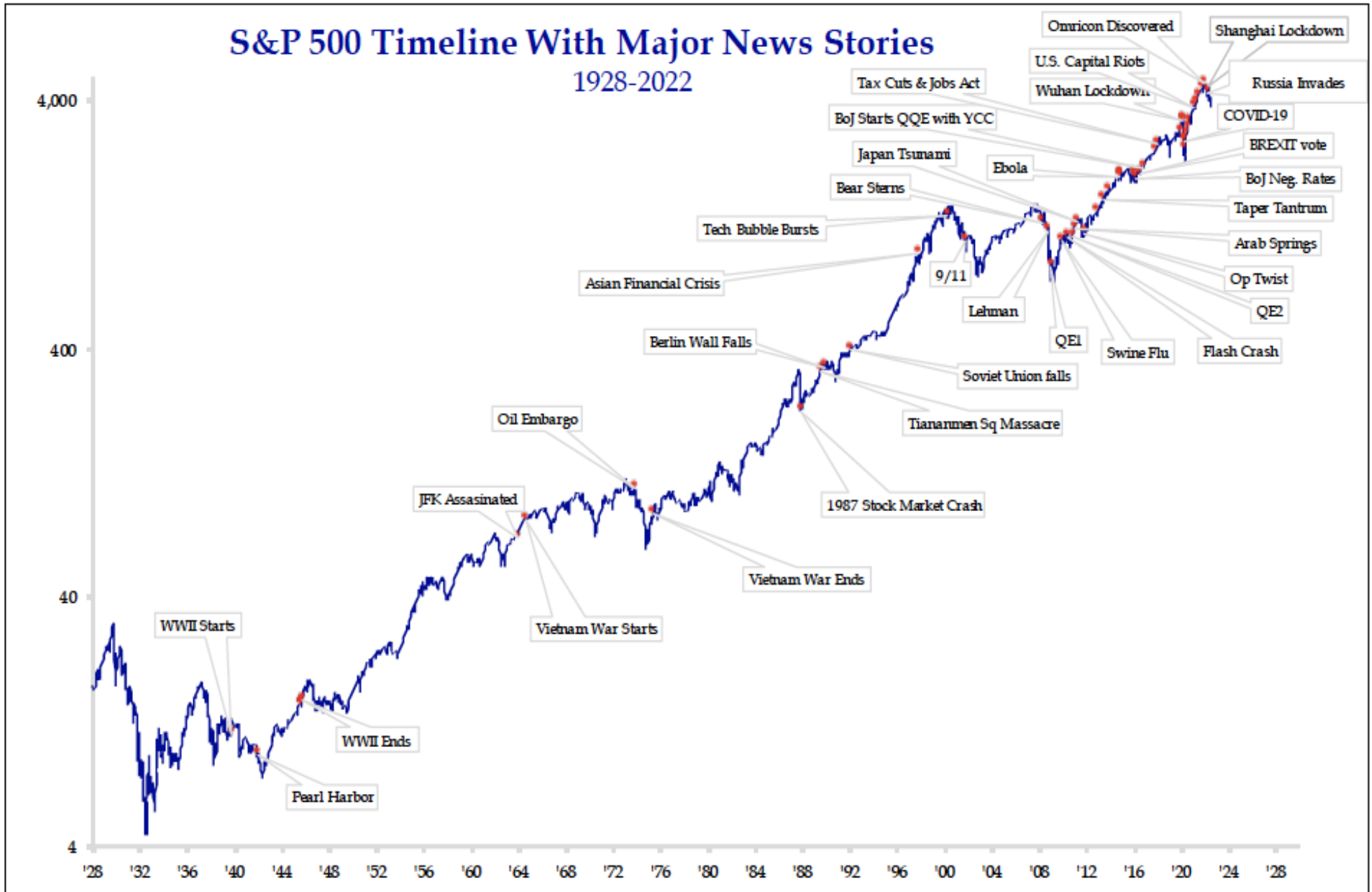
OPERATIONAL/BUSINESS RISK

- Prime broker exposure
- Counter party risk
- Financing/borrowing terms
- Client concentration risk
- Back office staffing & infrastructure
- Compliance procedures
- Trading systems
- Valuation procedures
- Disaster Recovery

Long-Term vs. Short Term Anxiety

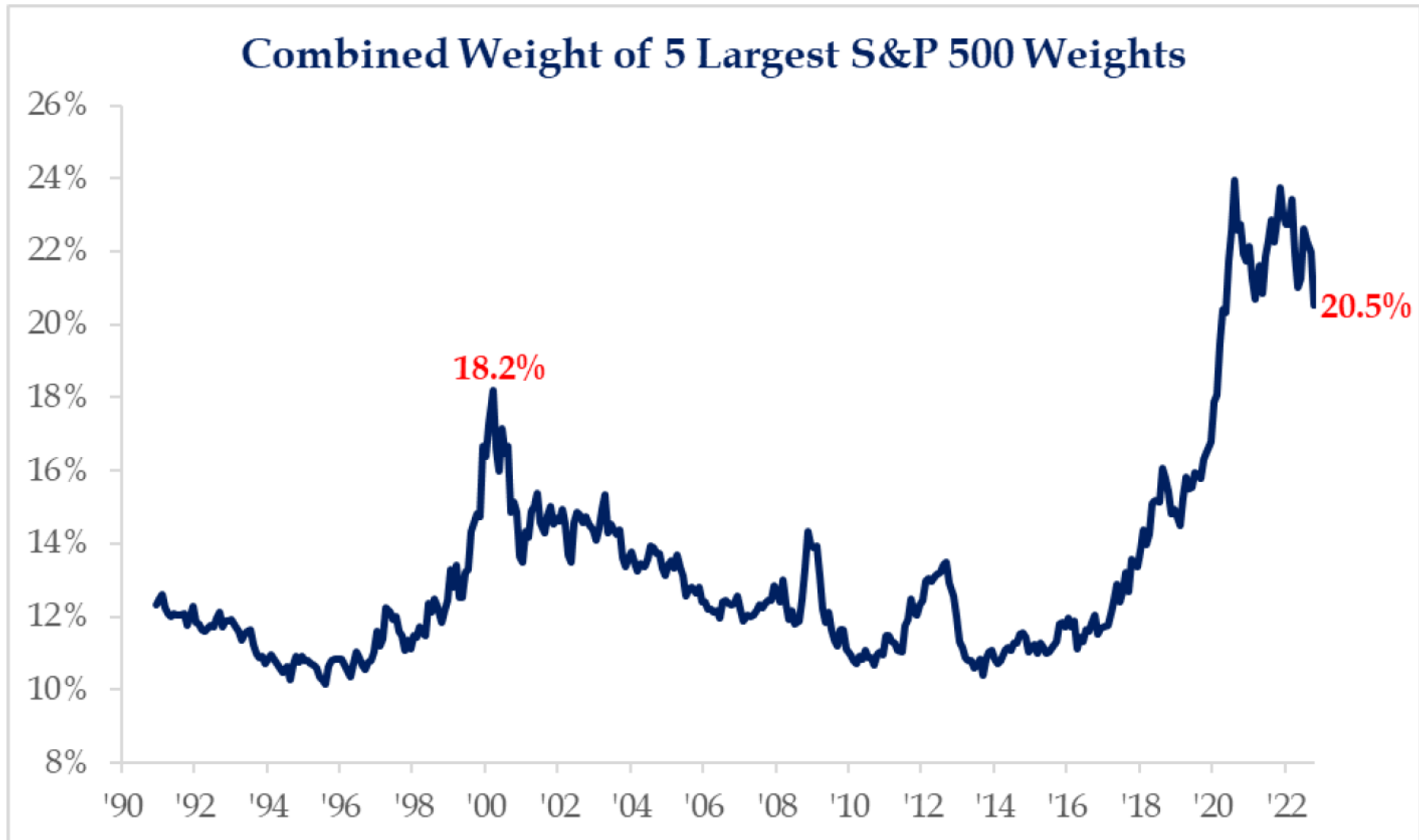
- Rising – Higher Sustained Inflation?
- Core/Growth Equity Indices Are Still Expensive
- Markets Tend to Change Following Volatile Periods

Time Heals Everything?



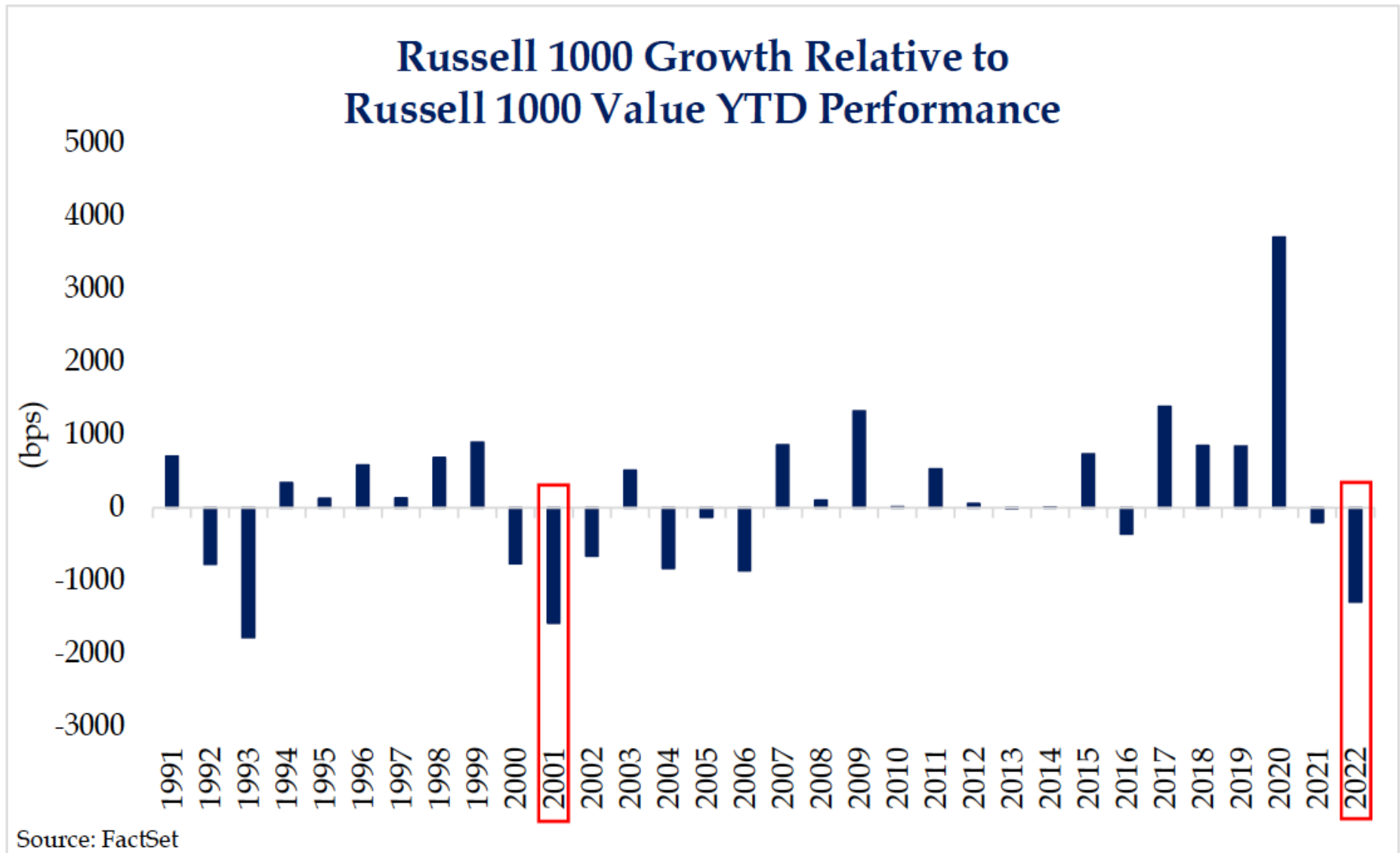
Source: Strategas Research Partners

Popularity And Concentration Are Dangerous



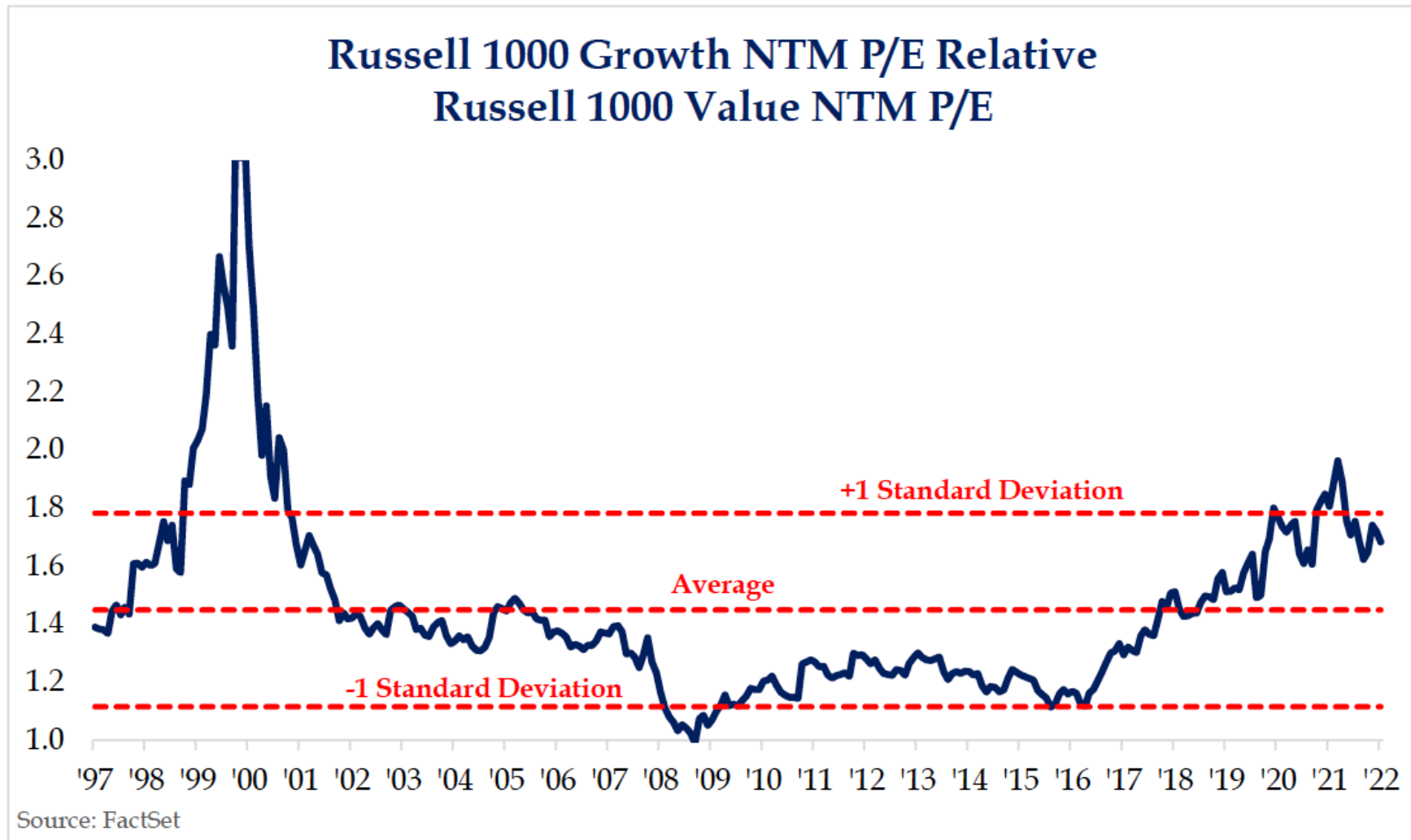
Source: Strategas Research Partners

Beginnings of Multi-Year Change?



Source: Strategas Research Partners

History/Logic Say Yes



Source: Strategas Research Partners

Timing

- Impossible to Know When or Why Markets Will Stop Falling
- Mismatch Between Investments and Appropriate Risk Level is a Major Problem
- For VCF Pools, Prospective Multi-Year Returns are Compelling Today

Strategy Looking Forward

- Strict adherence to a strategy that relies on decisions with a high probability of long-term success – time is on our side
- Utilize advantages of scale, stability and time horizon to access atypical investments – strong proponents of index funds balanced with compelling managers
- **Over long time periods, intelligently accepting volatility contributes to higher returns**

Crewcial Partners Profile

Location: New York, NY

Staff Size: 68

Number of Clients: 118

Founded: 1980

100% Employee Owned

Client Assets: \$ 30 Billion

Representative Client List:

The San Francisco Foundation

The Philadelphia Foundation

New Haven Foundation

Marin Community Foundation

Lasker Foundation