

The Vermont Community Foundation
Long-Term Pool Investment Performance/Strategy
As of December 31, 2016

Long-Term Pool Investment Performance vs. Benchmark- Through 12/31/16, Net of Investment Management Fees

| | Latest <u>Quarter</u> | Latest <u>Year</u> | Latest <u>3 Years</u> | Latest <u>5 Years</u> | Latest <u>7 Years</u> | Latest <u>10 Years</u> |
|------------------------------------------|--------------------------|-----------------------|--------------------------|--------------------------|--------------------------|---------------------------|
| Long-Term Pool | +1.8% | +8.7% | +4.1% | +8.1% | +7.8% | +5.9% |
| <i>Target Benchmark*</i> | +0.5% | +7.1% | +3.0% | +6.5% | +6.0% | +3.7% |
| <i>60% MSCI ACW/40% Barclays Capital</i> | -0.5% | +5.9% | +3.3% | +6.6% | +6.1% | +4.2% |

* The market benchmark is a blended index using market benchmarks weighted based on the Foundation's asset allocation strategy

Investment Philosophy/Asset Allocation Strategy

The Vermont Community Foundation invests its assets to provide annual grants to foster strong communities while also providing resources for future generations. The Foundation intends to achieve this objective via a well diversified asset allocation strategy executed using highly capable investment managers combined with index funds.

95% of Pooled Assets

| <i>Asset Class</i> | <i>Target/Actual Allocation</i> | | <i>Managers</i> |
|----------------------------------------|---------------------------------|---------|----------------------------------|
| U.S. Large/Mid-Capitalization Equities | 14.0% | (18.0%) | Focused/McClain/Adage |
| U.S. Small Capitalization Equities | 6.0% | (10.8%) | Champlain Partners/Ashford |
| Global Equity | 7.0% | (5.1%) | Generation Investments |
| International Equities | 13.0% | (12.5%) | Marathon/Sanderson/Barker |
| Emerging Markets Equities | 6.0% | (6.1%) | Westwood/Highclere |
| Hedge Funds | 13.0% | (10.5%) | Various Direct Funds |
| Special Opportunities | 6.0% | (7.1%) | Ashe/Cevian/Effissimo |
| Private Assets | 12.0% | (6.5%) | Various Direct and Fund of Funds |
| U.S. Investment Grade Fixed Income | 10.0% | (9.1%) | IR&M/Baird |
| TIPS | 3.0% | (2.4%) | Vanguard |
| High Yield Fixed Income | 5.0% | (4.8%) | Oak Hill |
| Global Fixed Income | 5.0% | (4.3%) | Colchester |
| Cash | 0.0% | (2.8%) | |

5% of Pooled Assets – Vermont Investments**

| | | | |
|--------------------------------|-------|---------|----------------|
| High Quality Bonds | 29.0% | (30.4%) | Access Capital |
| Community Investments | 46.0% | (43.6%) | Various |
| Private Equity/Venture Capital | 25.0% | (21.0%) | Various |
| Cash | 0.0% | (5.0%) | |

** Note that actual portfolio differs from target levels due to the pace of investing commitments in private equity/venture capital and community investments. High Quality Bonds provide liquidity to fund the outstanding commitments in private equity/venture capital and community investments.

The Foundation's portfolio was constructed with the following concepts in mind:

- Allocate the majority of the portfolio to asset classes with high long-term returns, i.e. equities/alternative asset classes
- Consistently utilize meaningful asset class diversification to achieve return objectives during a variety of economic and market conditions.
- Avoid attempts to predict short-term market behavior via market timing strategies.
- Retain world-class investment managers who are expected to out-perform index funds over most three to five year periods. In areas where the Foundation does not believe meaningful or reliable above benchmark performance is available, index strategies are used.

Current Market/Performance Commentary

2016 provided a powerful example of market complexity as political turbulence on a global scale registered only briefly as a clearly significant factor. Does this suggest that these events were not meaningful or is the market merely having a delayed reaction to prospective political/economic conditions?

Unsatisfying as the answer may be, the fact is that we cannot know what will happen next. Fortunately, we do not need to know in order to allocate the Foundation's capital effectively. Far more important is to remain focused on strong underwriting of specific investment situations, on the long-term significance of the price one pays for securities and on intelligent diversification geared towards each Pool's objectives.

Individual Asset Class Performance – 2016 Calendar Year to Date

| | | |
|------------------------------------------------|--------|---------------------------------------------------|
| <i>Large/Mid-Capitalization US Equity</i> | +10.8% | (-1.3% vs. <i>Russell 1000</i>) |
| <i>Small Capitalization US Equity</i> | +30.9% | (+9.6% vs. <i>Russell 2000</i>) |
| <i>Global Equity</i> | +9.1% | (+1.2% vs. <i>MSCI ACWI</i>) |
| <i>International Developed Markets Equity</i> | +3.4% | (+2.4% vs. <i>MSCI EAFE</i>) |
| <i>Emerging Markets Equity</i> | +19.3% | (+8.1% vs. <i>MSCI Emerging Markets</i>) |
| <i>Hedge Funds</i> | +0.1% | (-0.4% vs. <i>HFRI Fund of Funds</i>) |
| <i>Special Opportunities</i> | +10.5% | (+2.6% vs. <i>MSCI ACWI</i>) |
| <i>High Yield</i> | +13.6% | (-3.7% vs. <i>Merrill Lynch High Yield Bond</i>) |
| <i>U.S. Investment Grade Fixed Income</i> | +3.3% | (+0.7% vs. <i>Barclays Capital Aggregate</i>) |
| <i>Global Fixed Income</i> | +3.7% | (+2.1% vs. <i>Citigroup World Govt Bond</i>) |
| <i>Treasury Inflation Protected Securities</i> | +4.6% | (-0.2% vs. <i>Citigroup Inflation Linked</i>) |