

The Vermont Community Foundation
Socially Responsive Pool Investment Performance/Strategy
As of December 31, 2016

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

	<u>Latest Quarter</u>	<u>Latest Year</u>	<u>Latest 3 Years</u>	<u>Latest 5 Years</u>	<u>Latest 7 Years</u>	<u>Latest 10 Years</u>
Socially Responsive Pool	-0.2%	+7.5%	+4.9%	+7.9%	+6.8%	+ 4.3%
<i>Socially Responsive Pool Benchmark*</i>	+0.1%	+7.4%	+ 3.7%	+7.5%	+7.0%	+4.3%
<i>60% MSCI ACW/40% Barclays Capital</i>	-0.5%	+5.9%	+3.3%	+6.6%	+6.1%	+4.2%

* Socially Responsive Pool 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.

<i>95% of Pooled Assets</i>		
<i>Asset Class</i>	<i>Target/Actual Allocation</i>	<i>Managers</i>
U.S. Large/Mid-Capitalization Equities	29.0% (29.2%)	Vanguard/KLD iShares
U.S. Small Capitalization Equities	9.0% (8.8%)	Ariel/Aperio
International Equities	19.0% (17.4%)	Boston Common/Generation
Emerging Markets	5.0% (4.6%)	DFA Emerging
Fixed Income	23.0% (21.2%)	Calvert Social Bond
Global Fixed Income	7.5% (6.9%)	Colchester
TIPS	7.5% (7.2%)	Vanguard
Cash	0.0% (4.7%)	
<i>5% of Pooled Assets – Vermont Investments**</i>		
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. equity 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 within the socially responsible universe who are expected to outperform 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>	+10.4%	(-1.7% vs. <i>Russell 1000</i>)
<i>Small Capitalization US Equity</i>	+19.3%	(-2.0% vs. <i>Russell 2000</i>)
<i>International Developed Markets Equity</i>	+4.8%	(+3.8% vs. <i>MSCI EAFE</i>)
<i>Emerging Markets Equity</i>	+13.2%	(+2.0% vs. <i>MSCI Emerging Markets</i>)
<i>U.S. Investment Grade Fixed Income</i>	+4.1%	(+1.5% 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>)

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