The Vermont Community Foundation

Investment Strategy/Performance Update

March 4, 2020
## Investment Results

<table>
<thead>
<tr>
<th>Performance Ending 12/31/19 (Net Of Investment Management Fees)</th>
<th>Calendar Year to Date</th>
<th>Latest 3 Years</th>
<th>Latest 5 Years</th>
<th>Latest 7 Years</th>
<th>Latest 10 Years</th>
<th>Since 4/1/02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Pool</td>
<td>17.1%</td>
<td>9.1%</td>
<td>7.0%</td>
<td>8.0%</td>
<td>8.1%</td>
<td>7.4%</td>
</tr>
<tr>
<td><em>Long-Term Pool Custom Market Benchmark</em></td>
<td>17.9%</td>
<td>8.8%</td>
<td>6.5%</td>
<td>6.9%</td>
<td>6.8%</td>
<td>5.8%</td>
</tr>
<tr>
<td>70% MSCI All Country World/30% Barclays Aggregate</td>
<td>21.2%</td>
<td>10.0%</td>
<td>7.0%</td>
<td>7.7%</td>
<td>7.5%</td>
<td>6.6%</td>
</tr>
<tr>
<td>CPI + 5%</td>
<td>7.5%</td>
<td>7.4%</td>
<td>7.0%</td>
<td>6.8%</td>
<td>6.9%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Socially Responsive Pool</td>
<td>19.6%</td>
<td>9.9%</td>
<td>7.4%</td>
<td>8.4%</td>
<td>7.7%</td>
<td>N/A</td>
</tr>
<tr>
<td><em>SR Pool Custom Market Benchmark</em></td>
<td>20.2%</td>
<td>9.4%</td>
<td>6.9%</td>
<td>7.7%</td>
<td>7.7%</td>
<td>N/A</td>
</tr>
<tr>
<td>Mid-Term Pool</td>
<td>14.5%</td>
<td>7.3%</td>
<td>5.6%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><em>Mid-Term Pool Custom Market Benchmark</em></td>
<td>16.3%</td>
<td>7.7%</td>
<td>5.8%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
## Performance Compared to Other E&Fs – Ending 12/31/19

<table>
<thead>
<tr>
<th>Universe</th>
<th>Latest Year</th>
<th>Latest 3 Years</th>
<th>Latest 5 Years</th>
<th>Latest 7 Years</th>
<th>Latest 10 Years</th>
<th>Since 4/1/02</th>
</tr>
</thead>
<tbody>
<tr>
<td>InvMetrics E&amp;F Quartile</td>
<td>3rd</td>
<td>2nd</td>
<td>1st</td>
<td>2nd</td>
<td>1st</td>
<td>1st</td>
</tr>
<tr>
<td>InvMetrics Percentile (1 to 100)</td>
<td>67%</td>
<td>41%</td>
<td>20%</td>
<td>28%</td>
<td>24%</td>
<td>4%</td>
</tr>
<tr>
<td>Community Foundation Ranking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community Foundation Return</td>
<td>17.1%</td>
<td>9.1%</td>
<td>7.0%</td>
<td>8.0%</td>
<td>8.1%</td>
<td>7.4%</td>
</tr>
<tr>
<td>InvMetrics E&amp;F Median Return</td>
<td>18.7%</td>
<td>8.8%</td>
<td>6.2%</td>
<td>7.4%</td>
<td>7.6%</td>
<td>6.3%</td>
</tr>
</tbody>
</table>
Fundamental Principles

- Maintain a mix of stocks, bonds and some alternative investments driven by each Pool’s objectives

- Deploy fee dollars efficiently – focus on net outcomes and likelihood of success

- Control portfolio risk through diversification and rebalancing
### Executed Through Strategic Asset Mix

<table>
<thead>
<tr>
<th>Asset Class Exposures (% of Total Portfolio)</th>
<th>Long-Term Pool</th>
<th>SR Pool</th>
<th>Mid-Term Pool</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Large/Mid Cap Equity</td>
<td>11.0</td>
<td>19.0</td>
<td>19.0</td>
</tr>
<tr>
<td>US Small Cap Equity</td>
<td>5.5</td>
<td>5.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Non-US Developed Equity</td>
<td>11.0</td>
<td>19.0</td>
<td>17.0</td>
</tr>
<tr>
<td>Non-US Emerging Equity</td>
<td>5.5</td>
<td>0.0</td>
<td>6.8</td>
</tr>
<tr>
<td>Global Equity</td>
<td>9.0</td>
<td>17.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Special Opportunities</td>
<td>10.5</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td><strong>52.5%</strong></td>
<td><strong>60.0%</strong></td>
<td><strong>47.5%</strong></td>
</tr>
<tr>
<td>US Aggregate Bonds</td>
<td>9.5</td>
<td>19.0</td>
<td>23.8</td>
</tr>
<tr>
<td>Treasury Inflation Protected Securities</td>
<td>4.2</td>
<td>5.0</td>
<td>9.5</td>
</tr>
<tr>
<td>US High Yield Bonds</td>
<td>3.0</td>
<td>0.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Global Bonds</td>
<td>4.8</td>
<td>6.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Cash/Short Term Bonds</td>
<td>0.0</td>
<td>0.0</td>
<td>9.5</td>
</tr>
<tr>
<td><strong>Total Fixed Income</strong></td>
<td><strong>21.5%</strong></td>
<td><strong>30.0%</strong></td>
<td><strong>47.5%</strong></td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>13.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Private Assets</strong></td>
<td><strong>8.0</strong></td>
<td><strong>5.0</strong></td>
<td><strong>0.0</strong></td>
</tr>
<tr>
<td><strong>Total Alternatives</strong></td>
<td><strong>21.0%</strong></td>
<td><strong>5.0%</strong></td>
<td><strong>0.0%</strong></td>
</tr>
<tr>
<td><strong>Vermont Investments</strong></td>
<td><strong>5.0%</strong></td>
<td><strong>5.0%</strong></td>
<td><strong>5.0%</strong></td>
</tr>
</tbody>
</table>
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 Hedge Fund Results – Through 12/31/19

Volatility / Return
Since 2/1/03 - VCF HF Inception

- VCF Long-Term Pool
- VCF Hedge Funds
- Barclays U.S. Aggregate
- HFRI Fund of Funds Composite

Market Benchmark:
70% MSCI ACWI/30% Barclays Agg
Cash Equivalent:
Citigroup 3-month T-bill
Capital Market Line
Tenets of Strategy – Particularly Important in Volatile Markets

➢ Preparation – Maintain Diversified Approach Consistently

➢ Diligence – Make Sure Managers are Acting Rationally

➢ Opportunity – Press Increased Value of Patient/Disciplined Capital
Balancing Risk

The Foundation’s long time horizon pools seek to balance two competing priorities.

➢ Importance of preserving purchasing power over decades

➢ Sensitivity to current needs and importance of NOT converting market volatility into capital destruction.

*The key issue is to strike the right balance between these two issues as they can drive portfolios in opposite directions*
Impact of Higher Volatility on Charitable Outcomes

Charitable Impact - Hypothetical $1 Million in VCF Long-Term Pool
3/31/2002 to 12/31/2019

- Market Value Change
- Total Spending
- Total Charitable Impact

VCF Long-Term Pool, 60% S&P 500/40% BB Aggregate, S&P 500
Key Issues Today

➢ Balance and Patience are Essential

➢ Markets Offering Extraordinary Opportunities for Patient Capital

➢ Huge Trap Set for Those Who Ignore Price

➢ Ignore Noise – Bad News Delivers Asymmetric Opportunities
Strategy Looking Forward

➢ Maintain consistent risk exposure

➢ Utilize volatility/emotions of others as an asset

➢ Capitalize on Foundation’s scale to invest opportunistically and to access top managers across a diversified asset mix
### Profile of Colonial Consulting

<table>
<thead>
<tr>
<th>Location: New York, NY</th>
<th>Founded: 1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Size: 63</td>
<td>100% Employee Owned</td>
</tr>
<tr>
<td>Number of Clients: 144</td>
<td>Client Assets: $38 Billion</td>
</tr>
</tbody>
</table>

### Representative Client List:

- The San Francisco Foundation
- The Philadelphia Foundation
- Samuel H. Kress Foundation
- Medical College of Wisconsin
- Marin Community Foundation
- Lasker Foundation
- The Milwaukee Foundation
- Greater Buffalo Community Fdn