

The Vermont Community Foundation
Long-Term Pool Investment Performance/Strategy
As of December 31, 2019

Long-Term Pool Investment Performance vs. Benchmark- Through 12/31/19, 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	+6.8%	+17.1%	+9.1%	+7.0%	+8.0%	+8.1%
<i>Target Benchmark*</i>	+5.8%	+17.9%	+8.8%	+6.5%	+6.9%	+6.8%
<i>60% MSCI ACW/40% Bloomberg Agg</i>	+5.4%	+19.4%	+9.2%	+6.4%	+7.0%	+7.0%

* 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 foster strong support of the community's current needs 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>Asset Class</i>	<i>Target/Actual Allocation</i>		<i>Managers</i>
U.S. Large/Mid-Capitalization Equities	11.0%	(16.1%)	Adage/FPR/Focused
U.S. Small Capitalization Equities	5.5%	(6.1%)	Ashford/Champlain
Global Equity	9.0%	(8.9%)	Generation/Gobi
International Equities	11.0%	(12.3%)	Barker/Marathon/Sanderson
Emerging Markets Equities	5.5%	(5.6%)	Highclere/Westwood
Hedge Funds	13.0%	(12.5%)	Various Direct Funds
Special Opportunities	10.5%	(9.7%)	Ashe/Cat Rock/Cevian/Effissimo
Private Assets	8.0%	(5.3%)	Various Direct and Fund of Funds
U.S. Investment Grade Fixed Income	9.5%	(5.8%)	IR&M/Vanguard
TIPS	4.2%	(2.3%)	Vanguard
High Yield Fixed Income	3.0%	(3.5%)	Oak Hill
Global Fixed Income	4.8%	(4.8%)	Colchester
Vermont Investments	5.0%	(4.8%)	
Cash	0.0%	(2.3%)	

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

In what now seems like a distant memory, it was only twelve months ago that plunging markets led us to observe – “This climate evokes two distinct reactions beginning with the anxiety that most experience in reaction to losses but soon shifts to one of enthusiasm as difficulties extend and deepen. Experience has taught us that such times are nothing less than a gift to long-term investors.”

It is now clear that the difficult conditions of late 2018 proved to be a gift to all investors as nearly every asset class advanced quite sharply. While we reject the idea of providing simple explanations, the fact that the financial system is awash in liquidity is likely to be an important contributor to the near universal nature of 2019’s gains.

Importantly, as markets rise seemingly continuously and signs of excessive optimism grow, it is important to distinguish between securities that have solid expected returns due to the intersection of quality, future cash flows and price versus those that have far weaker prospects as their most important quality is popularity. In our view, the Foundation’s Pools are heavily allocated to the former.

Individual Asset Class Performance – 2019 Calendar Year

<i>Large/Mid-Capitalization US Equity</i>	+30.7%	(-0.7% vs. <i>Russell 1000</i>)
<i>Small Capitalization US Equity</i>	+26.5%	(+1.0% vs. <i>Russell 2000</i>)
<i>Global Equity</i>	+26.4%	(-0.2% vs. <i>MSCI ACWI</i>)
<i>International Developed Markets Equity</i>	+21.4%	(-0.6% vs. <i>MSCI EAFE</i>)
<i>Emerging Markets Equity</i>	+13.6%	(-4.8% vs. <i>MSCI Emerging Markets</i>)
<i>Hedge Funds</i>	+13.7%	(+5.4% vs. <i>HFRI Fund of Funds</i>)
<i>Special Opportunities</i>	+25.8%	(-0.8% vs. <i>MSCI ACWI</i>)
<i>High Yield</i>	+11.0%	(-3.4% vs. <i>Merrill Lynch High Yield Bond</i>)
<i>U.S. Investment Grade Fixed Income</i>	+9.2%	(+0.5% vs. <i>Bloomberg Aggregate</i>)
<i>Global Fixed Income</i>	+7.4%	(+1.5% vs. <i>Citigroup World Govt Bond</i>)
<i>Treasury Inflation Protected Securities</i>	+8.2%	(-0.5% vs. <i>Citigroup Inflation Linked</i>)

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