

The Vermont Community Foundation
Socially Responsive Pool Investment Performance/Strategy
As of December 31, 2019

Socially Responsive Pool 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>
Socially Responsive Pool	+6.6%	+19.8%	+10.0%	+7.4%	+ 8.4%	+ 7.7%
<i>Socially Responsive Pool Benchmark*</i>	+5.7%	+20.2%	+9.4%	+6.9%	+ 7.7%	+7.7%
<i>60% MSCI ACW/40% Bloomberg Agg</i>	+5.4%	+19.4%	+9.2%	+6.4%	+7.0%	+7.0%

* 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 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. Note that the elevated cash balance as of year-end is being deployed.

<i>Asset Class</i>	<i>Target/Actual Allocation*</i>		<i>Managers</i>
U.S. Large/Mid-Capitalization Equities	19.0%	(24.9%)	KLD iShares/Redwood Grove/Vanguard
U.S. Small Capitalization Equities	5.0%	(5.4%)	Aperio
Non-US Equities	24.0%	(25.2%)	Aperio/Boston Common
Global Equity	12.0%	(6.4%)	Generation
Fixed Income	24.0%	(20.0%)	Calvert/RBC
Global Fixed Income	6.0%	(2.9%)	Colchester
Private Equity	5.0%	(0.4%)	Lyme Forest
Vermont Investments	5.0%	(4.1%)	
Cash	0.0%	(10.7%)	

* Portfolio allocations are actively being shifted towards the Target Mix.

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 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>	+34.5%	(+3.1% vs. <i>Russell 1000</i>)
<i>Small Capitalization US Equity</i>	+23.5 %	(+0.7% vs. <i>Russell 2000</i>)
<i>Non-US Equity</i>	+22.3%	(+0.3% vs. <i>MSCI EAFE</i>)
<i>Global Equity</i>	+30.1%	(+2.4% vs <i>MSCI World</i>)
<i>U.S. Investment Grade Fixed Income</i>	+8.8%	(+0.1% vs. <i>Barclays Capital Aggregate</i>)
<i>Global Fixed Income</i>	+7.4%	(+1.5% vs. <i>Citigroup World Govt Bond</i>)

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