The Vermont Community Foundation

Investment Strategy/Performance Update

December 10, 2019
## Investment Results

<table>
<thead>
<tr>
<th>Performance Ending 10/31/19 (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>12.2%</td>
<td>8.6%</td>
<td>6.3%</td>
<td>7.7%</td>
<td>8.2%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Long-Term Pool Custom Market Benchmark</td>
<td>13.5%</td>
<td>8.1%</td>
<td>5.6%</td>
<td>6.6%</td>
<td>6.9%</td>
<td>5.7%</td>
</tr>
<tr>
<td>70% MSCI All Country World/30% Barclays Aggregate</td>
<td>16.3%</td>
<td>9.0%</td>
<td>6.1%</td>
<td>7.5%</td>
<td>7.5%</td>
<td>6.4%</td>
</tr>
<tr>
<td>CPI + 5%</td>
<td>6.2%</td>
<td>7.5%</td>
<td>6.8%</td>
<td>6.7%</td>
<td>7.0%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Socially Responsive Pool</td>
<td>14.5%</td>
<td>8.8%</td>
<td>6.8%</td>
<td>8.0%</td>
<td>7.8%</td>
<td>N/A</td>
</tr>
<tr>
<td>SR Pool Custom Market Benchmark</td>
<td>15.8%</td>
<td>8.8%</td>
<td>6.2%</td>
<td>7.4%</td>
<td>7.8%</td>
<td>N/A</td>
</tr>
<tr>
<td>Mid-Term Pool</td>
<td>11.1%</td>
<td>6.6%</td>
<td>5.1%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Mid-Term Pool Custom Market Benchmark</td>
<td>12.8%</td>
<td>7.2%</td>
<td>5.2%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
## Performance Compared to Other E&Fs – Ending 9/30/19

<table>
<thead>
<tr>
<th>Universe</th>
<th>Calendar YTD</th>
<th>Latest 3 Years</th>
<th>Latest 5 Years</th>
<th>Latest 7 Years</th>
<th>Latest 10 Years</th>
<th>Latest 15 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>InvestorForce E&amp;F Decile</td>
<td>4th</td>
<td>2nd</td>
<td>1st</td>
<td>2nd</td>
<td>1st</td>
<td>1st*</td>
</tr>
<tr>
<td>VCF Long-Term Pool Return</td>
<td>9.9%</td>
<td>7.5%</td>
<td>6.2%</td>
<td>7.3%</td>
<td>7.9%</td>
<td>7.2%</td>
</tr>
<tr>
<td>InvestorForce E&amp;F Median Return</td>
<td>12.1%</td>
<td>7.1%</td>
<td>5.3%</td>
<td>6.8%</td>
<td>7.3%</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

* Top 4%
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>21.0%</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 10/31/19

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

Return vs. Standard Deviation Graph

- Plot points for different benchmarks and strategies
- Graph scale: 0% to 9% for Return, 0% to 10% for Standard Deviation
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 10/31/2019

Market Value Change
Total Spending
Total Charitable Impact

- VCF Long-Term Pool
- 60% S&P 500/40% BB Aggregate
- S&P 500
Higher Returns Are Not Always Better???

March 31, 2002 to October 31, 2019

Cumulative Net Returns
VCF 14.9% Less than S&P 500

Philanthropic Impact
(Growth in Fund Balance Plus Spending)
VCF 2.1% More than S&P 500
VCF 17.1% More than 60% S&P 500/40% BB Aggregate
Impact of Higher Volatility on Charitable Outcomes

Annual Spending - Hypothetical $1 Million Fund in VCF Long-Term Pool
3/31/2002 to 10/31/2019

- VCF Long-Term Pool
- 60% S&P 500/40% BB Agg
- S&P 500
“Dinosaurs” vs. Machines

- Quantitative funds are a Major Market Force
  - High Frequency Trading
  - Index/Factor Funds
  - Quantitative Investment Strategies

- Who Loses the Most?
  - Those Reliant on Information/Timeliness Advantage
  - Those Reliant on Consistency

Most Traditional Active Management Suffers
Does Everyone Lose?

*Price Distortion/Dispersion - Episodically More Extreme*  
*Creates Big Winners*

- Data/Speed Does Not Improve Quality of Market Pricing  
  - Quantitative Strategies Operate w/Similar Data Sets  
  - Differentiation Exists but Crowding/Momentum are Important

- Patient/Time Horizon Agnostic Fundamental Strategies  
  - Outsized Opportunity – Absolute and Risk Adjusted  
  - Very Small % of Investors Able to Capitalize
Current Example of Distortion

The lines show the market cap weighted trailing PE ratio of the most expensive and cheapest quintiles of the US market. Data as of the end of 2018.

Source: Ken French Data Library, Bernstein analysis
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

Location: New York, NY
Staff Size: 63
Number of Clients: 144

Founded: 1980
100% Employee Owned
Client Assets: $38 Billion

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