
The Vermont Community Foundation

Investment Strategy/Performance Update

February 28, 2018

Investment Results

Performance Ending 12/31/17 (Net Of Investment Management Fees)	Latest Year	Latest 3 Years	Latest 5 Years	Latest 7 Years	Latest 10 Years	Latest 15 Years
Long-Term Pool	16.7%	7.9%	9.0%	8.1%	6.2%	8.7%
<i>Long-Term Pool Custom Market Benchmark</i>	15.3%	7.0%	7.4%	6.4%	4.3%	7.1%
70% MSCI All Country World/30% Barclays Aggregate	17.5%	7.3%	8.2%	7.2%	4.8%	7.8%
Socially Responsive Pool	15.8%	7.6%	8.9%	7.7%	5.1%	N/A
<i>SR Pool Custom Market Benchmark</i>	15.5%	7.1%	8.1%	7.5%	5.1%	N/A
Mid-Term Pool	11.8%	5.9%	N/A	N/A	N/A	N/A
<i>Mid-Term Pool Custom Market Benchmark</i>	12.6%	6.2%	N/A	N/A	N/A	N/A

Performance Compared to Other E&Fs – Ending 12/31/17

Universe	Investment Pool Pool Quartile Ranking					
	Latest Year	Latest 3 Years	Latest 5 Years	Latest 7 Years	Latest 10 Years	Latest 15 Years
MSCI InvestorForce E&F Quartile	1st	1st*	1st	1st	1st	1st*
Long Term Pool Return	16.7%	7.9%	9.0%	8.1%	6.2%	8.7%
InvestorForce E&F Median Return	14.9%	6.5%	8.0%	7.2%	5.2%	7.4%

*Top 10%

How Was This Accomplished?

- Strict adherence to a strategy that relies on decisions with a high probability of long-term success

- Collaborative approach:
 - > Investment Committee
 - > Foundation Management
 - > Colonial Consulting

- Utilize advantages of scale, stability and time horizon to access atypical investments – strong proponents of index funds when compelling managers are not available

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

Asset Class Exposures (Total Portfolio)	Long-Term Pool	SR Pool	Mid-Term Pool
US Large/Mid Cap Equity	13.3	19.0	19.0
US Small Cap Equity	5.7	5.0	4.8
Non-US Developed Equity	12.4	19.0	17.0
Non-US Emerging Equity	5.7	0.0	6.8
Global Equity	6.7	17.0	0.0
Special Opportunities	6.8	0.0	0.0
Total Equity	50.6%	60.0%	47.5%
US Aggregate Bonds	9.5	19.0	23.75
Treasury Inflation Protected Securities	4.2	5.0	9.5
US High Yield Bonds	4.8	0	4.75
Global Bonds	4.8	6.0	0
Cash/Short Term Bonds	0.0	0	9.5
Total Fixed Income	23.3%	30.0%	47.5%
Hedge Funds	10.0	0	0
Private Real Assets	4.8	0	0
Private Equity	6.3	5.0	0
Commodities (Liquid Real Assets)	0	0	0
Total Alternatives	21.1%	5.0%	0.0%
Vermont Investments	5.0%	5.0%	5.0%

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

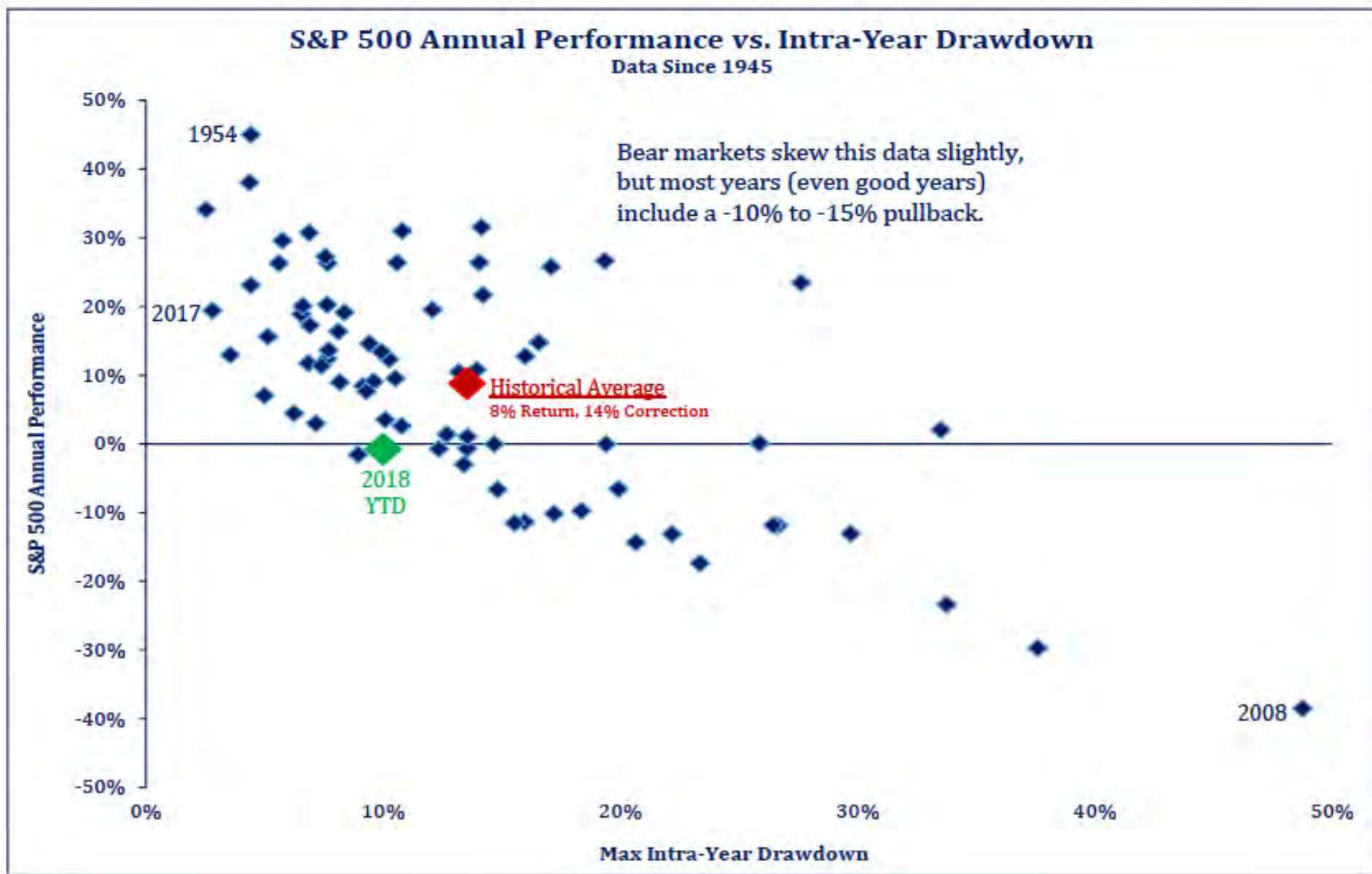
- Prime broker exposure
- Counter party risk
- Financing/borrowing terms
- Client concentration risk
- Back office staffing & infrastructure
- Compliance procedures
- Trading systems
- Valuation procedures
- Disaster Recovery

Fundamental Principles of Long-Term Investing

- Returns are correlated with risk
- Volatility is deceptive and not necessarily a reflection of risk
- Patience is the key to success

The World Muddles Through

A Return to Normalcy



Source: Strategas Research Partners

Does Time Cure All?

Some Mistakes Lead to Permanent Damage

- Poor underwriting
- Overpaying
- Volatile Philosophy- Embracing Flavor of the Month

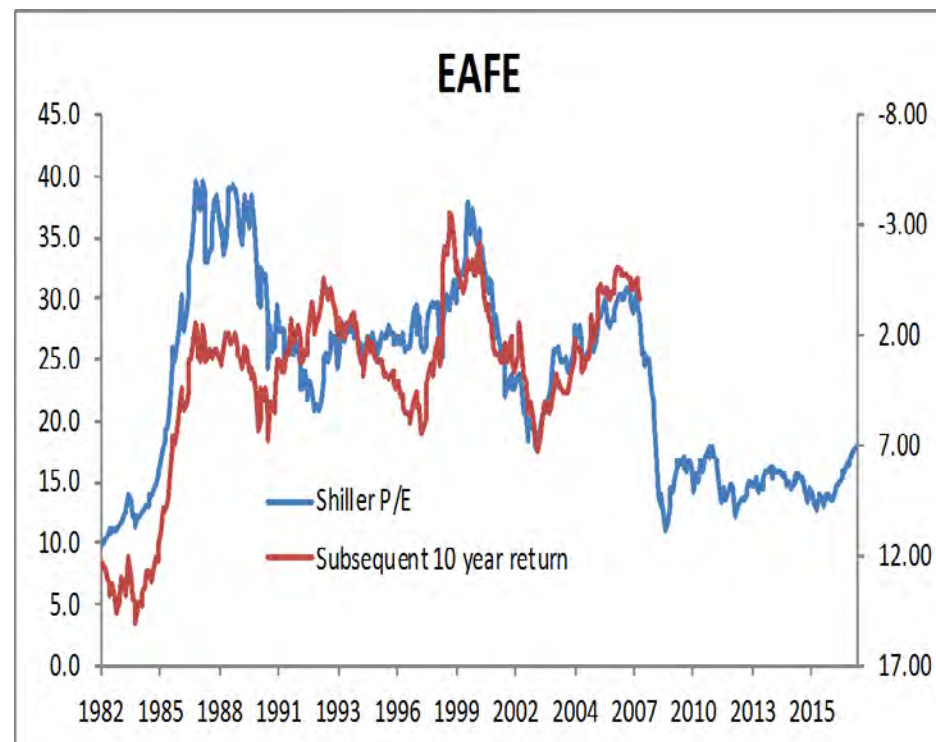
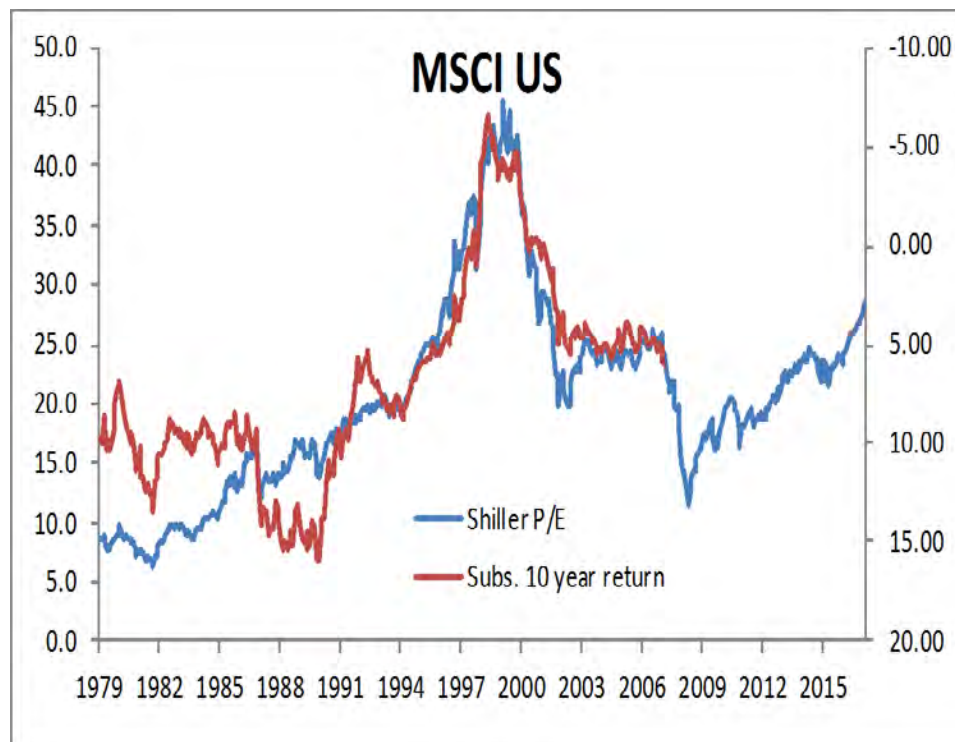
Where are Opportunities Today?

- Outside of the United States
- Sectors/Companies which are unpopular or subject to considerable negative news

Where are Risks Largest?

- Prices, particularly for U.S. indices such as the S&P 500 are high.
- Assuming that current conditions re interest rates, economic growth, tax cuts, etc. justify current prices – World muddles through
- Strategies/investments that rely on sedate capital markets

Price is Everything



**Long time horizon investors should not wait for a catalyst to invest
– paying a low price is sufficient when accompanied by strong
underwriting and capital structure.**

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

Keys to Manager Success

- High Bar – Expect large premiums to benchmarks – otherwise index strategies are preferable
- Edge – must have a clear advantage related to specialization, time horizon, concentration, ability to avoid emotional reactions and strength of client base
- Avoid - excessive leverage, excessive risk aversion, destabilizing liquidity structures

Profile of Colonial Consulting

Location: New York, NY

Staff Size: 67

Number of Clients: 137

Founded: 1980

100% Employee Owned

Client Assets: \$ 35 Billion

Representative Client List:

The San Francisco Foundation

The Philadelphia Foundation

Silicon Valley Community Fdn

Medical College of Wisconsin

Marin Community Foundation

Lasker Foundation

The Milwaukee Foundation

The Minneapolis Foundation