The Vermont Community Foundation

Investment Strategy/Performance Update

September 20, 2018
# Investment Results

<table>
<thead>
<tr>
<th>Performance Ending 8/31/18 (Net Of Investment Management Fees)</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>Latest 15 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Pool</td>
<td>8.9%</td>
<td>9.7%</td>
<td>8.2%</td>
<td>8.6%</td>
<td>7.3%</td>
<td>8.1%</td>
</tr>
<tr>
<td><em>Long-Term Pool Custom Market Benchmark</em></td>
<td>7.9%</td>
<td>8.6%</td>
<td>6.9%</td>
<td>7.0%</td>
<td>5.4%</td>
<td>6.4%</td>
</tr>
<tr>
<td>70% MSCI All Country World/30% Barclays Aggregate</td>
<td>7.6%</td>
<td>8.8%</td>
<td>7.6%</td>
<td>7.8%</td>
<td>6.1%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Socially Responsive Pool</td>
<td></td>
<td>9.6%</td>
<td>9.8%</td>
<td>8.5%</td>
<td>8.4%</td>
<td>6.5%</td>
</tr>
<tr>
<td><em>SR Pool Custom Market Benchmark</em></td>
<td>8.7%</td>
<td>8.9%</td>
<td>7.7%</td>
<td>8.0%</td>
<td>6.3%</td>
<td>N/A</td>
</tr>
<tr>
<td>Mid-Term Pool</td>
<td>5.8%</td>
<td>6.9%</td>
<td>6.4%</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>5.6%</td>
<td>7.3%</td>
<td>6.4%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
### Performance Compared to Other E&Fs – Ending 6/30/18

<table>
<thead>
<tr>
<th>Universe</th>
<th>Community Foundation Quartile Ranking - Ending 6/30/18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Latest 1 Year</td>
</tr>
<tr>
<td>InvestorForce E&amp;F Quartile</td>
<td>2nd</td>
</tr>
<tr>
<td>VCF Long-Term Return</td>
<td>7.8%</td>
</tr>
<tr>
<td>InvestorForce E&amp;F Median Return</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

*Top 10%

**Top 5%
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

<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>8.5</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td><strong>50.5%</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>15.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Private Real Assets</td>
<td>4.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Private Equity</td>
<td>4.0</td>
<td>5.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Commodities (Liquid Real Assets)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total Alternatives</strong></td>
<td><strong>23.0%</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
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

- Diversification by Strategy, Location, Age & Gender/Race
Hedge Funds – A Difficult Place to Invest

- High fees, complexity and limited liquidity are major obstacles

- The Foundation accepts these qualities in exchange for:
  - Compelling absolute returns NET OF FEES
  - Modest volatility compared to equities
Long-Term Investing in 2018

- A confusing time – shifting global alliances, tariffs, etc.

- Should a defensive posture be adopted? NO
  - Ability to forecast world events/market reaction is not improved
  - Allocate to areas with a margin of safety
  - Ensure individual investments selected with climate in mind

_Challenging climates are essential for generating strong long-term outcomes_
Macroeconomic Conditions and Long-Term Investing

S&P 500 vs. Shanghai Composite
Since Presidential Election
(Indexed to 100, 11/8/16)

Source: Strategas Research Partners
Why China May Be of Interest?

- Extremely Large/Quickly Growing Economy
- Disruptive/dynamic set of companies – inefficient markets
- Weak market returns – valuations are becoming interesting
- Is trade war with the U.S. THE long term issue?

Structure of markets, authoritarian government, fraud and other factors must be carefully weighed as well.
Allocating to China

- Decisions based entirely on manager opportunity set

- Prefer global portfolio strategy with a strong knowledge of China and Asia

- Investors must be highly skeptical and forward looking
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: 65
Number of Clients: 140

Founded: 1980
100% Employee Owned
Client Assets: $37 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
Greater Buffalo Community Fdn