

The Vermont Community Foundation
Long-Term Pool Investment Performance/Strategy
As of September 30, 2018

Long-Term Pool Investment Performance vs. Benchmark- Through 9/30/18, 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	+2.9%	+7.4%	+10.6%	+7.5%	+9.6%	+8.3%
<i>Target Benchmark*</i>	+2.3%	+6.3%	+9.3%	+6.2%	+8.0%	+6.3%
<i>60% MSCI ACW/40% Barclays Capital</i>	+2.6%	+5.3%	+8.5%	+6.1%	+7.8%	+6.7%

* 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%	(14.5%)	Focused/Adage
U.S. Small Capitalization Equities	5.5%	(7.1%)	Champlain/Ashford
Global Equity	9.0%	(7.7%)	Generation/Gobi
International Equities	11.0%	(12.0%)	Marathon/Sanderson/Barker
Emerging Markets Equities	5.5%	(5.2%)	Westwood/Highclere
Hedge Funds	15.0%	(14.0%)	Various Direct Funds
Special Opportunities	8.5%	(7.9%)	Ashe/Cevian/Effissimo
Private Assets	8.0%	(4.8%)	Various Direct and Fund of Funds
U.S. Investment Grade Fixed Income	9.5%	(8.3%)	IR&M/Baird
TIPS	4.2%	(3.7%)	Vanguard
High Yield Fixed Income	3.0%	(4.6%)	Oak Hill
Global Fixed Income	4.8%	(4.8%)	Colchester
Vermont Investments	5.0%	(5.0%)	
Cash	0.0%	(0.4%)	

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

As of the end of September, calm continued to rule markets with both domestic stocks and the dollar producing solid returns thus far in 2018. Outside of the U.S., markets were considerably weaker as macroeconomic and political events have dominated the narrative. The list of issues is quite lengthy but is led by changes to U.S. trade policy and by the crisis of confidence occurring in various emerging markets.

Writing in October, a meaningful upward shift in global interest rates has altered market conditions on a global basis. While no one enjoys negative returns, periods of market stress and turmoil have long provided outsized opportunities for patient investors such as the Foundation. This time is no different with the largest challenge being the vast array of areas that now seem well on their way to becoming attractively priced.

Individual Asset Class Performance – 2018 Calendar Year to Date

<i>Large/Mid-Capitalization US Equity</i>	+8.8%	(-1.7% vs. <i>Russell 1000</i>)
<i>Small Capitalization US Equity</i>	+26.4%	(+14.9% vs. <i>Russell 2000</i>)
<i>Global Equity</i>	+6.6%	(+2.8% vs. <i>MSCI ACWI</i>)
<i>International Developed Markets Equity</i>	-3.0%	(-1.6% vs. <i>MSCI EAFE</i>)
<i>Emerging Markets Equity</i>	-5.0%	(+2.7% vs. <i>MSCI Emerging Markets</i>)
<i>Hedge Funds</i>	+5.3%	(+4.1% vs. <i>HFRI Fund of Funds</i>)
<i>Special Opportunities</i>	+4.1%	(+0.3% vs. <i>MSCI ACWI</i>)
<i>High Yield</i>	+2.5%	(+0.0% vs. <i>Merrill Lynch High Yield Bond</i>)
<i>U.S. Investment Grade Fixed Income</i>	-1.7%	(-0.1% vs. <i>Barclays Capital Aggregate</i>)
<i>Global Fixed Income</i>	-2.2%	(+0.3% vs. <i>Citigroup World Govt Bond</i>)
<i>Treasury Inflation Protected Securities</i>	-0.9%	(+0.1% vs. <i>Citigroup Inflation Linked</i>)

Produced by Colonial Consulting, LLC
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