The Vermont Community Foundation
Long-Term Pool Investment Performance/Strategy
As of December 31, 2018

Long-Term Pool Investment Performance vs. Benchmark- Through 12/31/18, Net of Investment Management Fees

	Latest Quarter	Latest Year	Latest 3 Years	Latest 5 Years	Latest 7 Years	Latest 10 Years
Long-Term Pool	**-8.7%**	**-5.4%**	**+6.4%**	**+4.5%**	**+7.2%**	**+9.0%**
*Target Benchmark**	*-7.8%*	*-5.4%*	*+5.4%*	*+3.6%*	*+6.0%*	*+7.4%*
60% MSCI ACW/40% Barclays Capital	*-7.1%*	*-5.5%*	*+4.9%*	*+3.7%*	*+6.0%*	*+7.3%*

* 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.

Asset Class	*Target/Actual Allocation*		*Managers*
U.S. Large/Mid-Capitalization Equities	11.0%	(13.8%)	Focused/Adage
U.S. Small Capitalization Equities	5.5%	(6.0%)	Champlain/Ashford
Global Equity	9.0%	(7.6%)	Generation/Gobi
International Equities	11.0%	(11.7%)	Marathon/Sanderson/Barker
Emerging Markets Equities	5.5%	(5.3%)	Westwood/Highclere
Hedge Funds	15.0%	(14.1%)	Various Direct Funds
Special Opportunities	8.5%	(6.9%)	Ashe/Cevian/Effissimo
Private Assets	8.0%	(5.5%)	Various Direct and Fund of Funds
U.S. Investment Grade Fixed Income	9.5%	(9.2%)	IR&M/Baird
TIPS	4.2%	(3.7%)	Vanguard
High Yield Fixed Income	3.0%	(4.9%)	Oak Hill
Global Fixed Income	4.8%	(5.3%)	Colchester
Vermont Investments	5.0%	(5.5%)	
Cash	0.0%	(0.5%)	

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

Markets closed the year in a volatile state as prices fell sharply and, in our view, somewhat indiscriminately. Climates such as these evoke two distinct reactions beginning with the anxiety that most experience in reaction to losses. Yet, as difficulties extend and deepen, our mood shifts to one of enthusiasm as experience strongly suggests that such times are nothing less than a gift to long-term investors.

The key words in the prior sentence are "long-term" as great opportunities rarely look this way when they are most compelling. In fact, the popularity of the idea that falling markets create opportunities or that they are "good" or "healthy" is fleeting and tends to dissipate in concert with the length and depth of market weakness. In other words, truly exceptional opportunities are generally found where there is great pessimism and are widely viewed as quite unhealthy.

This concept is based on the principle that successfully allocating capital is a two-dimensional problem which combines economic value for shareholders and the price one pays for a particular outcome. As such, statements that rely heavily or exclusively on economic conditions to allocate capital are misguided as their true significance can only be understood in concert with valuation (i.e. what outcome is already in the price).

Individual Asset Class Performance – 2018 Calendar Year to Date

Large/Mid-Capitalization US Equity	*-5.4%*	*(-0.6% vs. Russell 1000)*
Small Capitalization US Equity	*-1.9%*	*(+9.1% vs. Russell 2000)*
Global Equity	*-4.7%*	*(+4.7% vs. MSCI ACWI)*
International Developed Markets Equity	*-15.6%*	*(-1.8% vs. MSCI EAFE)*
Emerging Markets Equity	*-11.5%*	*(+3.1% vs. MSCI Emerging Markets)*
Hedge Funds	*-2.9%*	*(+1.0% vs. HFRI Fund of Funds)*
Special Opportunities	*-16.2%*	*(-6.8% vs. MSCI ACWI)*
High Yield	*-0.9%*	*(+1.4% vs. Merrill Lynch High Yield Bond)*
U.S. Investment Grade Fixed Income	*-0.3%*	*(-0.3% vs. Barclays Capital Aggregate)*
Global Fixed Income	*-1.1%*	*(-0.3% vs. Citigroup World Govt Bond)*
Treasury Inflation Protected Securities	*-1.4%*	*(+0.1% vs. Citigroup Inflation Linked)*

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