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

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

	Latest Quarter	Latest Year	Latest 3 Years	Latest 5 Years	Since 1/31/13 (Pool Inception)
Mid-Term Pool	**-5.1%**	**-3.4%**	**+4.6%**	**+3.8%**	**+4.8%**
*Mid-Term Pool Benchmark**	*-6.1%*	*-4.6%*	*+4.8%*	*+3.6%*	*+4.6%*
50% MSCI ACW/50% Barclays Agg	*-5.7%*	*-4.6%*	*+4.5%*	*+3.6%*	*+4.3%*

* Mid-Term Pool 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 largely through index funds. Note that the allocations differed from the targets at year-end due to a large cash flow involving the Pool.

Asset Class	*Target/Actual Allocation*	*Managers*
U.S. Large/Mid-Capitalization Equities	19.0% (11.8%)	Vanguard
U.S. Small Capitalization Equities	4.8% (3.3%)	Vanguard
International Equities	17.0% (11.9%)	Vanguard
Emerging Markets	6.7% (5.7%)	Vanguard
Fixed Income	33.2% (25.6%)	Vanguard
High Yield Fixed Income	4.8% (3.9%)	Harbor
TIPS	9.5% (7.4%)	Vanguard
Vermont Investments	5.0% (5.6%)	
Cash	0.0% (24.8%)	

The Mid-Term portfolio was constructed with the following concepts in mind:

- 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.
- Utilize index funds as an inexpensive and effective way to execute the strategy until such time as the Pool has sufficient capital to access top institutional managers as is done in other Foundation pools.

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).

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