The Vermont Community Foundation
Socially Responsible Pool Investment Performance/Strategy
As of December 31, 2018

Socially Responsible Pool 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
Socially Responsible Pool	**-7.7%**	**-4.0%**	**+6.1%**	**+5.1%**	**+ 7.2%**	**+ 8.3%**
*Socially Responsible Pool Benchmark**	*-8.6%*	*-5.6%*	*+5.4%*	*+4.0%*	*+ 6.6%*	*+7.9%*
60% MSCI ACW/40% Barclays Capital	*-7.1%*	*-5.5%*	*+4.9%*	*+3.7%*	*+6.0%*	*+7.3%*

* Socially Responsible 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 using highly capable investment managers combined with index funds. Note that the Pool received a large influx of gifts in December 2018 which resulted in an elevated cash balance as of year-end. This cash overweight is being invested early in 2019 in accordance with the Pool's target allocations.

Asset Class	*Target/Actual Allocation**		*Managers*
U.S. Large/Mid-Capitalization Equities	19.0%	(28.6%)	Vanguard/KLD iShares
U.S. Small Capitalization Equities	5.0%	(5.8%)	Ariel/Aperio
International Equities	19.0%	(5.1%)	Boston Common
Emerging Markets	0.0%	(3.6%)	DFA Emerging
Global Equity	17.0%	(9.0%)	Generation
Fixed Income	19.0%	(17.1%)	Calvert Social Bond
Global Fixed Income	6.0%	(4.9%)	Colchester
TIPS	5.0%	(4.8%)	Vanguard
Private Equity	5.0%	(0.2%)	
Vermont Investments	5.0%	(4.7%)	
Cash	0.0%	(16.3%)	

* The Target Allocation was recently adopted and the portfolio allocations will be shifted in this direction over time.

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. equity 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 within the socially responsible universe 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	*-5.2%*	*(-0.4% vs. Russell 1000)*
Small Capitalization US Equity	*-12.1 %*	*(-1.1% vs. Russell 2000)*
International Developed Markets Equity	*-13.9%*	*(-0.1% vs. MSCI EAFE)*
Emerging Markets Equity	*-14.9%*	*(-14.6% vs. MSCI Emerging Markets)*
Global Equity	*-1.7%*	*(+7.0% vs MSCI World)*
U.S. Investment Grade Fixed Income	*+0.1%*	*(+0.1% 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)*

Produced By Colonial Consulting, LLC
January 29, 2019