THE Vermont Community Foundation

November 2022 Performance Summary

Capital markets continued to rally in November, with the S&P 500 posting a 5.6% gain for the month while the Barclays Aggregate core fixed income index returned 3.7%. While the steady climb of the U.S. dollar had been a meaningful headwind for non-US assets over the last couple of years, the dollar pulled back considerably during the month, which paved the way for significant appreciation of foreign investments in November - the MSCI EAFE posted an +11.3% return, MSCI Emerging Markets +14.8%, and Global Bonds +6.9%.

Markets have continued to trade around macro sentiment, with inflation and anticipation of fed policy action among the primary forces driving risk on/risk off behavior over the last several months. In November, the latest CPI print indicated a trailing inflation rate of 7.7%, which was below expectations, providing the market with optimism that inflation may have peaked, which fueled the ongoing rally in risk assets. Additionally, Chinese policy makers announced during the month that the government would ease some of its covid restrictions, providing market participants with an encouraging outlook for a recovery in Chinese demand, which caused Asian markets to rebound.

While the market may whipsaw in the short-term based on headlines and macro concerns, it is interesting to consider the ways in which macro/top down thinking largely ignore the fact that good or great management teams do not simply sit back and let things happen. In a complex world with inflation, normal economic cycles and the absence of free money and widespread speculation, the talent of management teams will matter more overall than we have seen in some time. The fact that the Foundation's managers have a strong bias in this area gives us yet another edge looking ahead, and we have already seen a handful of examples in the last couple of months of management teams engaging in savvy capital allocation to unlock value.

In November, the Long-Term Pool gained 4.2%, underperforming the policy benchmark by 140 basis points. For the month, the Pool's various public equity asset classes all generated positive results, however relative performance was mixed, with segments such as emerging markets and special opportunities falling short of their sub-benchmark return. Hedge Funds were the strongest relative contributor, with the Pool's hedge fund portfolio outperforming both its benchmark as well as the S&P 500 for the month. Thus far in 2022, the Long-Term Pool is down 12.8% or 140 basis points behind the benchmark. Returns across the portfolio's growth-oriented strategies have led to the shortfall year-to-date.

The Socially Responsible Pool gained 6.8% for the month, outperforming its policy benchmark return by 70 basis points. Positive absolute and relative performance was broad based for the month, with the Pool's three active equity managers all outperforming their respective benchmarks. Thus far in 2022, the Pool is down 13.1% or 110 basis points behind the benchmark. The pool's exposure to global growth stocks has been the largest detractor to results year-to-date.

The Mid-Term Pool gained 5.7% for the month, outperforming its policy benchmark by 40 basis points. Thus far in 2022, the Pool is down 10.2% or 100 basis points above its benchmark. As the Pool is largely invested in index funds, the return difference was primarily driven by cash movement in the Pool that resulted in temporary deviations from policy asset allocation targets.

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