The Vermont Community Foundation
Mid-Term Pool Investment Performance/Strategy
As of June 30, 2022

Mid-Term Pool Performance vs. Benchmark- Through 6/30/22, Net of Investment Management Fees

	Latest Quarter	Latest 3 Years	Latest 5 Years	Latest 7 Years
Mid-Term Pool	**-9.2%**	**+3.4%**	**+4.2%**	**+4.5%**
*Mid-Term Pool Benchmark**	*-9.4%*	*+3.0%*	*+4.0%*	*+4.4%*
50% MSCI ACW/50% Bloomberg Agg	*-10.3%*	*+3.0%*	*+4.2%*	*+4.5%*

* 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.

Asset Class	*Target/Actual Allocation*		*Managers*
U.S. Large/Mid-Capitalization Equities	19.0%	(19.2%)	Vanguard
U.S. Small Capitalization Equities	4.8%	(4.0%)	Vanguard
International Equities	17.0%	(17.5%)	Vanguard
Emerging Markets	6.7%	(5.3%)	Vanguard
Fixed Income	23.7%	(19.5%)	Vanguard
High Yield Fixed Income	4.8%	(2.9%)	Harbor
TIPS	9.5%	(8.8%)	Vanguard
Vermont Investments	5.0%	(5.3%)	
Cash/Short Term Bonds	9.5%	(17.5%)	Elevated due to timing of donations

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

A meaningful and potentially lasting change in the disinflation regime of the past 40 years has led to a more difficult capital market climate thus far this year. While it is natural to focus on the recent damage to portfolio values, we believe the more meaningful issue is the risk that five, seven, or ten years of poor returns for major stock and bond indices has just begun. If true, the difference between one's theoretical time horizon (essentially infinite for endowments) and that of key decision makers will now have great meaning.

The bad news is that the strategies with which many have grown comfortable may now be taking their place in history as victims of the noxious combination of excessive capital and overconfident optimism. Yet, all is not lost, as great opportunities abound. While the journey will be undeniably rocky, time-tested fundamental and behavioral investment principles will provide the confidence and patience needed to persist and thrive in what too many will perceive as a difficult to disastrous period.

While the excesses of the current cycle may have already reached levels that would have led to their demise with or without the withdrawal of central-bank liquidity, rising and what appears to be durably higher inflation has introduced a new dynamic and narrative that suggests an important inflection point has arrived. The days of plentiful and inexpensive capital appear to be over for some time. While we're hesitant to forecast inflation rates or Fed policy decisions, it is useful to remember that capital-market activity and pricing is built on confidence. The last six to twelve months have introduced doubt regarding the mindset that became ingrained over the past five to seven years; this in and of itself is enough to meaningfully shift perception away from the highly speculative climate that had taken hold.

In Q2 2022, the Mid Term Pool fell 9.2% or 0.2% 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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