# The Vermont Community Foundation

## Socially Responsible Pool Investment Performance/Strategy

## As of September 30, 2021

***Socially Responsible Pool Performance vs. Benchmark- Through 9/30/21, Net of Investment Management Fees***

| | Latest Quarter | Latest 3 Years | Latest 5 Years | Latest 7 Years | Latest 10 Years |
|---|---|---|---|---|---|
| **Socially Responsible Pool** | **-1.2%** | **+10.2%** | **+10.0%** | **+ 8.7%** | **+ 9.4%** |
| *Socially Responsive Pool Benchmark** | *-0.6%* | *+9.9%* | *+9.6%* | *+ 8.0%* | *+9.2%* |
| *60% MSCI ACW/40% Bloomberg Agg* | *-0.6%* | *+10.1%* | *+9.3%* | *+7.5%* | *+8.5%* |

* Socially Responsive 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.

| *Asset Class* | *Target/Actual Allocation* | | *Managers* |
|---|---|---|---|
| U.S. Large/Mid-Capitalization Equities | 19.0% | (21.6%) | KLD iShares/Redwood Grove/Vanguard |
| U.S. Small Capitalization Equities | 5.0% | (7.1%) | Aperio |
| Non-US Equities | 19.0% | (22.7%) | Aperio |
| Emerging Markets Equities | 5.0%. | (5.6%) | Boston Common |
| Global Equity | 12.0% | (10.1%) | Generation |
| Fixed Income | 24.0% | (23.6%) | Calvert/RBC |
| Global Fixed Income | 6.0% | (1.4%) | Colchester |
| Private Equity | 5.0% | (0.6%) | Lyme Forest, At One |
| Vermont Investments | 5.0% | (4.0%) | |
| Cash | 0.0% | (3.3%) | |

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***

As we all anxiously look forward to putting COVID-19's worst days in the rear-view mirror, it is worth considering the ways in which markets may react to what is likely to be a more complex climate. The third quarter of 2021 likely provided a preview of what lies ahead, as inflation, labor shortages, rising commodity prices, central bank policies, and the regulatory climate compete for attention. This list, plus countless other items are of considerable significance, begging the question, "What can be done to protect a portfolio from X, Y, and Z?"

In our view, it's important to consider possible transient risks alongside the potential long-term deterioration or destruction of purchasing power as the clearest existential threat to philanthropic capital. From this perspective, prioritization is simple—transient risks where hedging conflicts with the preservation of purchasing power should be approached with great caution.

Fortunately, the factors that drive future returns are complex and investment options exist that offer a variety of results. Equities are at the top of the list, with a broad opportunity set of businesses offering strong growth prospects and/or inexplicably pessimistic valuations. These factors are likely to drive strong long-term returns that address multiple risks – at the same time, subsets of this group can also provide protection against transient risks.

The bottom line is that we are entering a period with an expanded set of risks that cannot be ignored. This is further complicated by large pockets of optimistically priced securities that leave little margin for error. Despite the associated difficulty, investors would be wise to properly prioritize permanent risks over transitory ones, as long-term shortfalls are far more damaging than those over shorter periods.

***Individual Asset Class Performance – Q3 2021***

| | | |
|---|---|---|
| *Large/Mid-Capitalization US Equity* | *-1.3%* | *(-1.5% vs. Russell 1000)* |
| *Small Capitalization US Equity* | *-2.0%* | *(-2.4% vs. Russell 2000)* |
| *Non-US Equity* | *-0.8%* | *(-0.4% vs. MSCI EAFE)* |
| *Emerging Markets Equity* | *-10.5%* | *(-2.4% vs. MSCI Emerging Markets)* |
| *Global Equity* | *+0.3%* | *(+0.3% vs MSCI World)* |
| *U.S. Investment Grade Fixed Income* | *-0.1%* | *(-0.2% vs. Barclays Capital Aggregate)* |
| *Global Fixed Income* | *-1.7%* | *(-0.5% vs. Citigroup World Govt Bond)* |

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