The Vermont Community Foundation
Mid-Term Pool Investment Performance/Strategy
As of December 31, 2023

Mid-Term Pool Performance vs. Benchmark, Net of Investment Management Fees

	Latest Quarter	Latest 3 Years	Latest 5 Years	Latest 7 Years	Latest 10 Years
Mid-Term Pool	**+5.8%**	**+1.5%**	**+3.6%**	**+5.9%**	**+4.9%**
*Mid-Term Pool Benchmark**	*+7.9%*	*+2.1%*	*+3.6%*	*+6.5%*	*+5.1%*
50% MSCI ACW/50% Bloomberg Agg	*+8.9%*	*+1.3%*	*+3.6%*	*+6.6%*	*+5.1%*

* 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%	(14.3%)	Vanguard
U.S. Small Capitalization Equities	4.8%	(3.6%)	Vanguard
International Equities	17.0%	(12.3%)	Vanguard
Emerging Markets	6.8%	(4.0%)	Vanguard
Fixed Income	23.7%	(14.3%)	Vanguard
High Yield Fixed Income	4.8%	(2.3%)	Harbor
TIPS	9.5%	(6.3%)	Vanguard
Vermont Investments	5.0%	(4.1%)	
Cash/Short Term Bonds	9.5%	(39.0%)	

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

Whew – what a relief! 2023 proved to be a very profitable year for most public market investors across the geographical, size, and style spectrum. The dominance of the "Magnificent 7" has been well documented, although it is interesting to observe the degree to which a strong year-end advance left many areas with solid gains for the year.

A pessimistic mindset following 2022's losses was clearly the wrong perspective for the year ahead. Should we be similarly suspicious of any optimism born from 2023's gains?

Due to the simple fact that we base investment decisions on rigor, history, and patience to produce a high probability of longer-term success, engaging in the admittedly attention-grabbing matters of near-term market-direction speculation has never been of interest. To be blunt, we are afraid to risk making a forecast where our odds of success are at best the same as a coin toss.

When we reflect on the current market environment, we see a tale of two markets. On one hand, we have the Magnificent 7 priced at nearly 40x trailing earnings—this is the ultimate "what can go wrong?" valuation. On the other, we have scores of beaten-down stocks both inside and outside the US trading at what seem to be exceptionally low valuations.

On balance, we continue to believe that monetary policy is on a slow yet undoubtedly erratic path towards normalization thanks to higher structural inflation. This introduces many less familiar but well-documented risks that investors will have to face whether they like it or not. Given that everyone, including us, lack foresight into the future, the primary factor worth considering is the strong tendency of low valuations to create a wider array of scenarios in which equities produce acceptable returns.

In Q4 2023, the Mid Term Pool returned +5.8%, trailing its custom benchmark's return by 200 basis points. 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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