# The Vermont Community Foundation
## Long-Term Pool Investment Performance/Strategy
## As of March 31, 2017

***Long-Term Pool Investment Performance vs. Benchmark- Through 3/31/17, Net of Investment Management Fees***

| | Latest Quarter | Latest Year | Latest 3 Years | Latest 5 Years | Latest 7 Years | Latest 10 Years |
|---|---|---|---|---|---|---|
| **Long-Term Pool** | **+4.5%** | **+13.2%** | **+5.0%** | **+7.4%** | **+7.9%** | **+5.9%** |
| *Target Benchmark** | *+4.3%* | *+10.9%* | *+3.9%* | *+6.0%* | *+6.2%* | *+3.9%* |
| *60% MSCI ACW/40% Barclays Capital* | *+4.4%* | *+9.0%* | *+4.3%* | *+6.1%* | *+6.3%* | *+4.5%* |

* The market 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 | 13.3% | (17.0%) | Focused/McClain/Adage |
| U.S. Small Capitalization Equities | 5.7% | (7.9%) | Champlain Partners/Ashford |
| Global Equity | 6.7% | (8.1%) | Generation/Gobi |
| International Equities | 12.4% | (12.6%) | Marathon/Sanderson/Barker |
| Emerging Markets Equities | 5.7% | (6.4%) | Westwood/Highclere |
| Hedge Funds | 10.0% | (10.3%) | Various Direct Funds |
| Special Opportunities | 6.8% | (7.1%) | Ashe/Cevian/Effissimo |
| Private Assets | 11.1% | (5.9%) | Various Direct and Fund of Funds |
| U.S. Investment Grade Fixed Income | 9.5% | (8.4%) | IR&M/Baird |
| TIPS | 4.2% | (2.3%) | Vanguard |
| High Yield Fixed Income | 4.8% | (4.6%) | Oak Hill |
| Global Fixed Income | 4.8% | (4.2%) | Colchester |
| Vermont Investments | 5.0% | (5.0%) | |
| Cash | 0.0% | (0.2%) | |

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. equities/alternative 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 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***

Early March marked the eighth anniversary of the U.S. equity bull market that began during the depths of the financial crisis. Thinking back to eight years ago, we do not recall widespread interest in large allocations to index funds such as the S&P 500. Instead, terrible economic conditions, pessimism about future conditions and seemingly endless equity market declines drove many to elevate concern regarding risk above the goal of generating return.

Today, at least as it relates to U.S. markets, returns are again the top priority. There is nothing inherently wrong with this as long as one does not lose sight of the critical role of price. While current economic conditions have clearly improved, the price one must pay to own an index such as the S&P 500 has done the same and then some. As a result, risk has risen considerably. While not surprising, the irony is inescapable – investors prioritize returns when their perception of risk is lower. Yet, their comfort and ability to think long-term is largely the product of improved economic conditions and stable/rising markets which in turn imply higher risk as prices are generally expensive more often than not.

***Individual Asset Class Performance – 2017 Calendar Year to Date***

| | | |
|---|---|---|
| *Large/Mid-Capitalization US Equity* | *+5.1%* | *(-0.9% vs. Russell 1000)* |
| *Small Capitalization US Equity* | *+4.1%* | *(+1.6% vs. Russell 2000)* |
| *Global Equity* | *+12.0%* | *(+5.1% vs. MSCI ACWI)* |
| *International Developed Markets Equity* | *+6.4%* | *(-0.8% vs. MSCI EAFE)* |
| *Emerging Markets Equity* | *+11.6%* | *(+0.2% vs. MSCI Emerging Markets)* |
| *Hedge Funds* | *+3.7%* | *(+1.4% vs. HFRI Fund of Funds)* |
| *Special Opportunities* | *+6.7%* | *(-0.2% vs. MSCI ACWI)* |
| *High Yield* | *+2.0%* | *(-0.7% vs. Merrill Lynch High Yield Bond)* |
| *U.S. Investment Grade Fixed Income* | *+0.9%* | *(+0.1% vs. Barclays Capital Aggregate)* |
| *Global Fixed Income* | *+3.3%* | *(+1.7% vs. Citigroup World Govt Bond)* |
| *Treasury Inflation Protected Securities* | *+1.4%* | *(+0.0% vs. Citigroup Inflation Linked)* |

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