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# The Vermont Community Foundation

## Investment Strategy/Performance Update

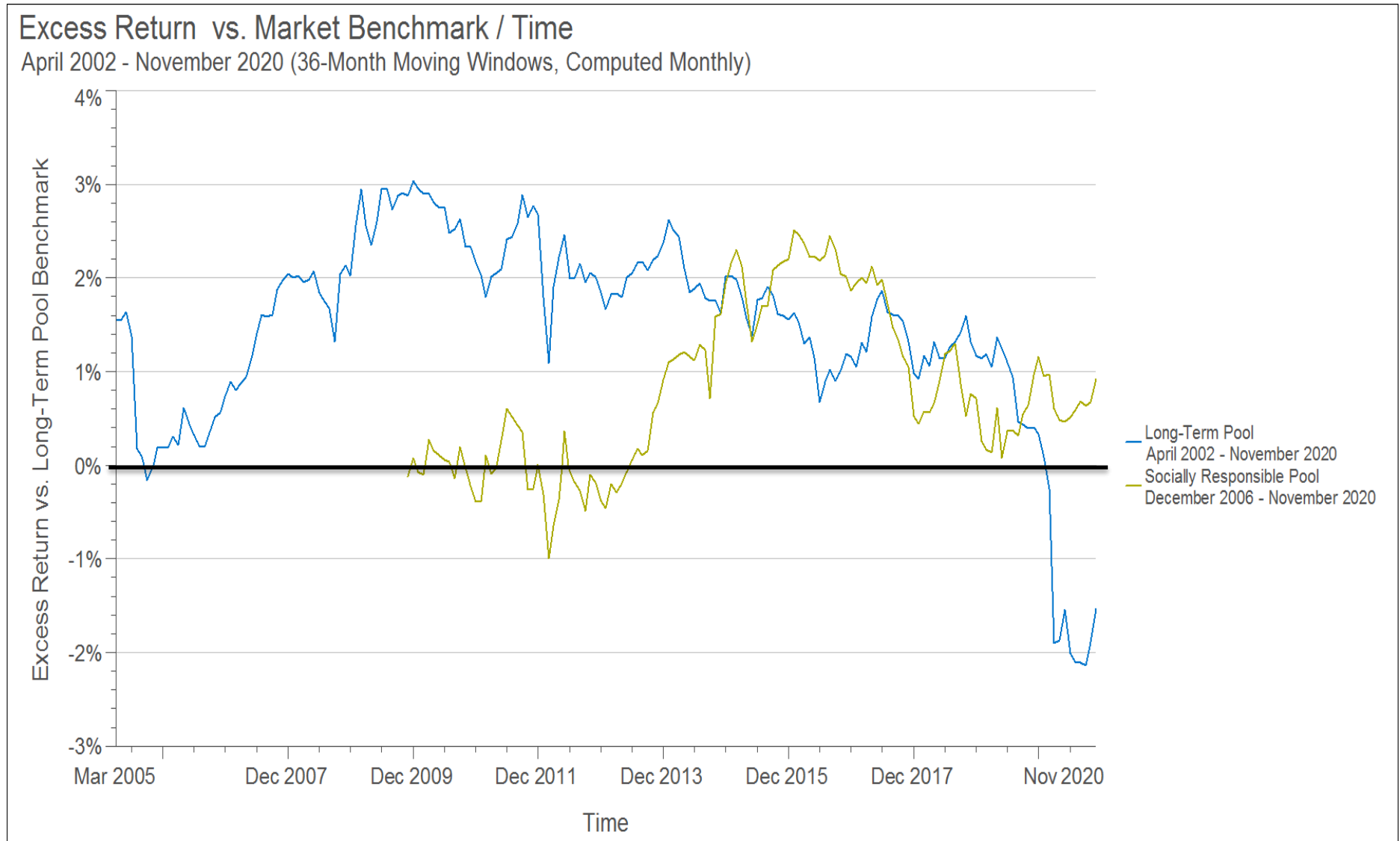
December 8, 2020

# Investment Results

Performance Ending 11/30/20* (Net Of Investment Management Fees)	Since 3/31/20	Calendar Year to Date	Latest 3 Years	Latest 5 Years	Latest 10 Years	Latest 15 Years	Since 4/1/02
Long-Term Pool	29.6%	4.6%	5.6%	7.9%	7.7%	7.1%	7.3%
<i>Long-Term Pool Custom Market Benchmark</i>	26.6%	9.0%	7.1%	8.2%	7.0%	5.9%	6.0%
Socially Responsible Pool	28.0%	9.0%	8.1%	9.0%	8.1%	N/A	N/A
<i>SR Pool Custom Market Benchmark</i>	25.4%	8.8%	7.7%	8.6%	7.9%	N/A	N/A
Mid-Term Pool	22.4%	8.5%	6.6%	7.0%	N/A	N/A	N/A
<i>Mid-Term Pool Custom Market Benchmark</i>	21.7%	8.6%	6.7%	7.5%	N/A	N/A	N/A

\* Preliminary Returns - Subject to Change

# Below Benchmark Returns Have Been Rare



# The Community Foundation's Approach

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- Establish a Strategic Asset Allocation That is Expected to Achieve the Foundation's Long Term Return Objectives (Preserve Foundation Purchasing Power Over Twenty Year+ Periods)
- No Attempt Made to Market Time or Change Strategy Based on Near Term Outlook – Does Not Preclude Opportunistic Allocations Whose Outcome is Not Driven by Timing
- Diversify Portfolio by Asset Class and Strategy. Increases the Likelihood of Achieving Return Objectives Under Different Economic/Market Conditions

# Strategic Asset Mix

Asset Class Exposures (% of Total Portfolio)	Long-Term Pool	SR Pool	Mid-Term Pool
US Large/Mid Cap Equity	11.0	19.0	19.0
US Small Cap Equity	5.5	5.0	4.8
Non-US Developed Equity	11.0	19.0	17.0
Non-US Emerging Equity	5.5	0.0	6.8
Global Equity	9.0	17.0	0.0
Special Opportunities	10.5	0.0	0.0
<b>Total Equity</b>	<b>52.5%</b>	<b>60.0%</b>	<b>47.5%</b>
US Aggregate Bonds	9.5	19.0	23.8
Treasury Inflation Protected Securities	4.2	5.0	9.5
US High Yield Bonds	3.0	0.0	4.8
Global Bonds	4.8	6.0	0.0
Cash/Short Term Bonds	0.0	0.0	9.5
<b>Total Fixed Income</b>	<b>21.5%</b>	<b>30.0%</b>	<b>47.5%</b>
Hedge Funds	13.0	0.0	0.0
<b>Private Assets</b>	<b>8.0</b>	<b>5.0</b>	<b>0.0</b>
<b>Total Alternatives</b>	<b>21.0%</b>	<b>5.0%</b>	<b>0.0%</b>
<b>Vermont Investments</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>

# Manager Due Diligence

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- Return always accompanied by risk
- Must understand the strategy, know key personnel, avoid needless complexity.
- Operational issues: independent custodian, credible auditor, outside administrator
- Ongoing – forward looking process

# Manager Due Diligence – Qualitative Factors

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## INVESTMENT PROCESS

- Fundamental/valuation bias
- High conviction in investment ideas
- Defined buy & sell disciplines
- Uniqueness (edge)

## ORGANIZATION

- Ownership structure
- Aligned interests & motivation
- Compensation structure & retention
- Succession plan
- Institutional Focus
- SEC violations & legal issues

## INVESTMENT PROFESSIONALS

- Portfolio manager/analyst experience
- Assessment of manager/team skill
- Portfolio management/analyst coverage
- Team continuity & ethical concern

## PORTFOLIO MANAGEMENT/RISK

- Assets in strategy/capacity
- Position exposure/risk
- Prudent use of leverage
- Hedging strategy
- Liquidity
- Transparency
- Appropriate diversification

## OPERATIONAL/BUSINESS RISK

- Prime broker exposure
- Counter party risk
- Financing/borrowing terms
- Client concentration risk
- Back office staffing & infrastructure
- Compliance procedures
- Trading systems
- Valuation procedures
- Disaster Recovery

# Balancing Risk

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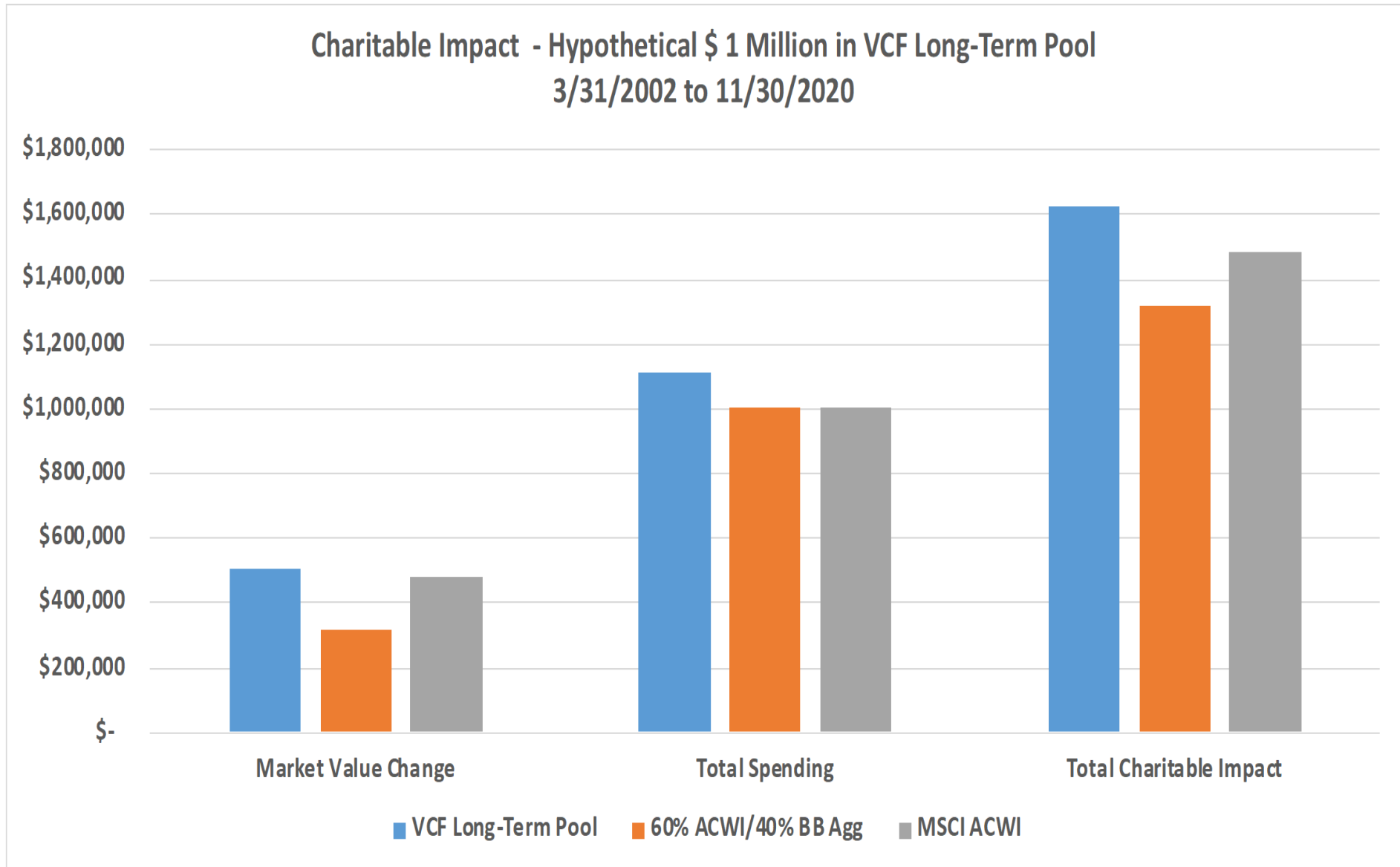
The Foundation's long time horizon pools seek to balance two competing priorities.

- Importance of preserving purchasing power over decades
- Sensitivity to current needs and importance of NOT converting market volatility into capital destruction.

*The key issue is to strike the right balance between these two issues as they can drive portfolios in opposite directions*



# Impact of Higher Volatility on Charitable Outcomes

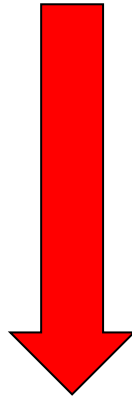


# Higher Returns Are Not Always Better???

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March 31, 2002 to November 30, 2020

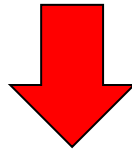
Cumulative Net Returns



VCF 31.6% Less than S&P 500

Philanthropic Impact

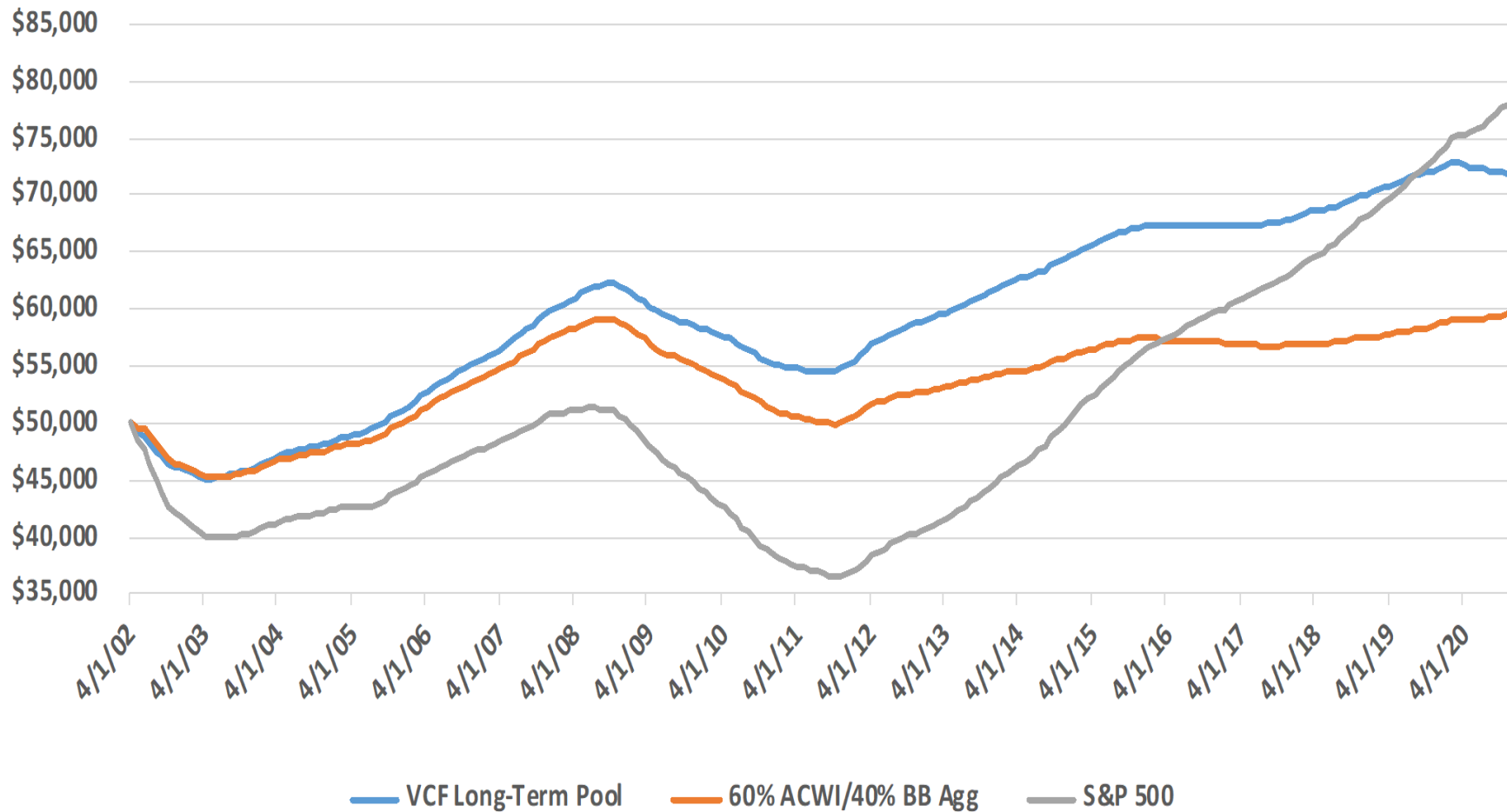
(Growth in Fund Balance Plus Spending)



VCF 11.6% Less than S&P 500

# Impact of Higher Volatility on Charitable Outcomes

Annual Spending - Hypothetical \$ 1 Million Fund in VCF Long-Term Pool  
3/31/2002 to 11/30/2020



# Key Issues Today

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- Balance and Patience are Essential
- Markets Offering Extraordinary Opportunities for Patient Capital
- Huge Trap Set for Those Who Ignore Price
- Ignore Noise – Bad News Delivers Asymmetric Opportunities

# An Unusually Risky Time



# History May Not Repeat but it Rhymes

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## *Five Largest S&P 500 Companies on March 31, 2000*

	3/31/00 -----P/E Ratio-----	Cumulative Performance <u>3/31/00 to 9/29/20</u>	EPS Growth <u>2000 to 2020</u>
Microsoft	65.9x	<b>+290.1%</b>	9.7%
Cisco	200.9x	<b>-49.5%</b>	10.1%
General Electric	44.1x	<b>-88.2%</b>	N/A
Intel	52.3x	<b>-22.4%</b>	6.5%
Exxon Mobil	36.8x	<b>-12.0%</b>	-2.1%
S&P 500 Index		+122.6%	

# “Dinosaurs” vs. Machines

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- Quantitative funds are a Major Market Force
  - High Frequency Trading
  - Index/Factor Funds
  - Quantitative Investment Strategies
  
- Who Loses the Most?
  - Those Reliant on Information/Timeliness Advantage
  - Those Reliant on Consistency
  - Quantitative Funds!

***Most Traditional Active Management Suffers***

# Does Everyone Lose?

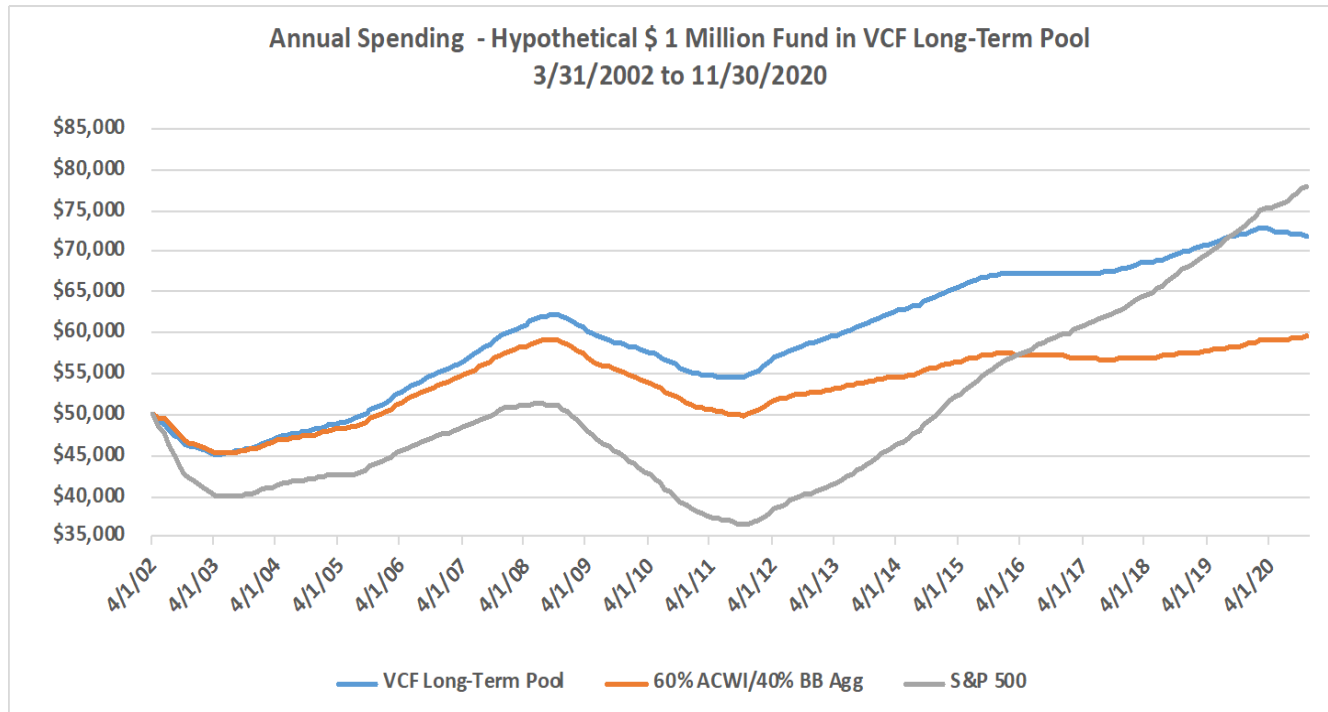
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## *Price Distortion/Dispersion - Episodically More Extreme Creates Big Winners*

- Data/Speed Does Not Improve Quality of Market Pricing
  - Quantitative Strategies Operate w/Similar Data Sets
  - Differentiation Exists but Crowding/Momentum are Important
  
- Patient/Time Horizon Agnostic Fundamental Strategies
  - Outsized Opportunity – Absolute and Risk Adjusted
  - Very Small % of Investors Able to Capitalize



# The Big Picture



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CPI + 5%	4.4%	5.5%	7.0%	6.8%	6.9%	7.0%	7.2%

# Long-Term Strategy

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- Maintain consistent risk exposure
- Utilize volatility as an asset
- Capitalize on Foundation's scale to invest opportunistically and to access top managers across a diversified asset mix