The Vermont Community Foundation

Investment Strategy/Performance Update

March 11, 2021
# Annualized Investment Results

<table>
<thead>
<tr>
<th>Performance Ending 2/28/21* (Net Of Investment Management Fees)</th>
<th>Since 3/31/20</th>
<th>Latest Year</th>
<th>Latest 5 Years</th>
<th>Latest 10 Years</th>
<th>Latest 15 Years</th>
<th>Since 4/1/02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Pool</td>
<td>36.9%</td>
<td>17.9%</td>
<td>10.3%</td>
<td>7.6%</td>
<td>7.1%</td>
<td>7.5%</td>
</tr>
<tr>
<td><em>Long-Term Pool Custom Market Benchmark</em></td>
<td>32.9%</td>
<td>20.4%</td>
<td>10.4%</td>
<td>6.7%</td>
<td>5.9%</td>
<td>6.2%</td>
</tr>
<tr>
<td>CPI + 5%</td>
<td>6.5%</td>
<td>6.6%</td>
<td>7.3%</td>
<td>6.9%</td>
<td>7.1%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Socially Responsible Pool</td>
<td>35.3%</td>
<td>21.3%</td>
<td>11.1%</td>
<td>8.1%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><em>SR Pool Custom Market Benchmark</em></td>
<td>30.8%</td>
<td>19.2%</td>
<td>10.6%</td>
<td>7.6%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Mid-Term Pool</td>
<td>26.4%</td>
<td>16.0%</td>
<td>8.4%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><em>Mid-Term Pool Custom Market Benchmark</em></td>
<td>26.1%</td>
<td>16.4%</td>
<td>9.1%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

* Preliminary Returns - Subject to Change
Cumulative Investment Results

- Since 3/31/20: 35.3% for Socially Responsible Pool, 36.9% for Long Term Pool, 29.6% for 60% MSCI ACWI/40% Bloomberg Aggregate, 6.5% for CPI + 5%
- Latest Year: 21.3% for Socially Responsible Pool, 17.9% for Long Term Pool, 18.9% for 60% MSCI ACWI/40% Bloomberg Aggregate, 6.6% for CPI + 5%
- Latest 5 Years: 169.3% for Socially Responsible Pool, 163.3% for Long Term Pool, 164.7% for 60% MSCI ACWI/40% Bloomberg Aggregate, 142.2% for CPI + 5%
- Latest 10 Years: 216.9% for Socially Responsible Pool, 207.4% for Long Term Pool, 202.7% for 60% MSCI ACWI/40% Bloomberg Aggregate, 194.9% for CPI + 5%
- Latest 15 Years: 278.2% for Socially Responsible Pool, 260.8% for Long Term Pool, 277.8% for 60% MSCI ACWI/40% Bloomberg Aggregate, 394.9% for CPI + 5%
- Since 4/1/02: 359.6% for Socially Responsible Pool, 376.5% for Long Term Pool, 394.9% for 60% MSCI ACWI/40% Bloomberg Aggregate, 394.9% for CPI + 5%
Performance is Cyclical

Excess Return vs. Long-Term Pool Benchmark / Time
December 2006 - February 2021 (60-Month Moving Windows, Computed Monthly)

Excess Return vs. 60% MSCI ACWI/40% BB Agg.

Time


Long Term Pool
Socially Responsible Pool
The Community Foundation’s Approach

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

- 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

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
Key Issues Today

- Markets Offering Extraordinary Opportunities for Patient Capital
- Huge Trap Set for Those Who Ignore Price
- Market Speculation is Frightening
Difficult Days Ahead for Long Term Investors

- Low expected returns for US core indices and bonds
- How will portfolios earn 7 to 8% annualized returns?

<table>
<thead>
<tr>
<th>Starting Shiller P/E Range</th>
<th>Number of Observations</th>
<th>Subsequent 10-Year Annualized Total Return (NOMINAL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>40.1 - 45</td>
<td>21</td>
<td>Max: -0.2 Min: -3.4 Median: -0.9</td>
</tr>
<tr>
<td>35.1 - 40</td>
<td>13</td>
<td>Max: 4.7 Min: -1.4 Median: 2.6</td>
</tr>
<tr>
<td>30.1 - 35</td>
<td>23</td>
<td>Max: 7.1 Min: -4.0 Median: 3.3</td>
</tr>
<tr>
<td>25.1 - 30</td>
<td>81</td>
<td>Max: 9.0 Min: -3.4 Median: 7.5</td>
</tr>
<tr>
<td>15.1 - 20</td>
<td>513</td>
<td>Max: 19.5 Min: -0.4 Median: 8.1</td>
</tr>
<tr>
<td>10.1 - 15</td>
<td>465</td>
<td>Max: 19.8 Min: 2.6 Median: 11.9</td>
</tr>
<tr>
<td>4.8 - 10</td>
<td>226</td>
<td>Max: 21.2 Min: -0.3 Median: 15.1</td>
</tr>
</tbody>
</table>

3/8/21 CAPE: 34.6

- Low expected returns for US core indices and bonds
- How will portfolios earn 7 to 8% annualized returns?
Another Challenge

Source: Pinnacle Data, Haver Analytics and Citi Research - US Equity Strategy
The Big Picture

Cumulative Return

Latest 5 Years: 163.3% (Long Term Pool)
Latest 10 Years: 207.4% (CPI + 5%)
Latest 15 Years: 278.2% (Long Term Pool), 277.8% (CPI + 5%)
Since 4/1/02: 394.9% (Long Term Pool), 376.5% (CPI + 5%)
How This is Achieved Matters

Annual Spending - Hypothetical $1 Million Fund in VCF Long-Term Pool
3/31/2002 to 2/28/2021

- VCF Long-Term Pool
- 60% ACWI/40% BB Agg
- S&P 500
Good News - There are Plenty of Opportunities

Russell 3000 Value NTM P/E
Relative Russell 3000 Growth NTM P/E

-1 Standard Deviation
Average
+1 Standard Deviation

Growth Cheap
Value Cheap
Strategy Looking Forward

- Strict adherence to a strategy that relies on decisions with a high probability of long-term success – time is on our side

- Utilize advantages of scale, stability and time horizon to access atypical investments – strong proponents of index funds balanced with compelling managers

- **Over long time periods, intelligently accepting volatility contributes to higher returns**