
The Vermont Community Foundation

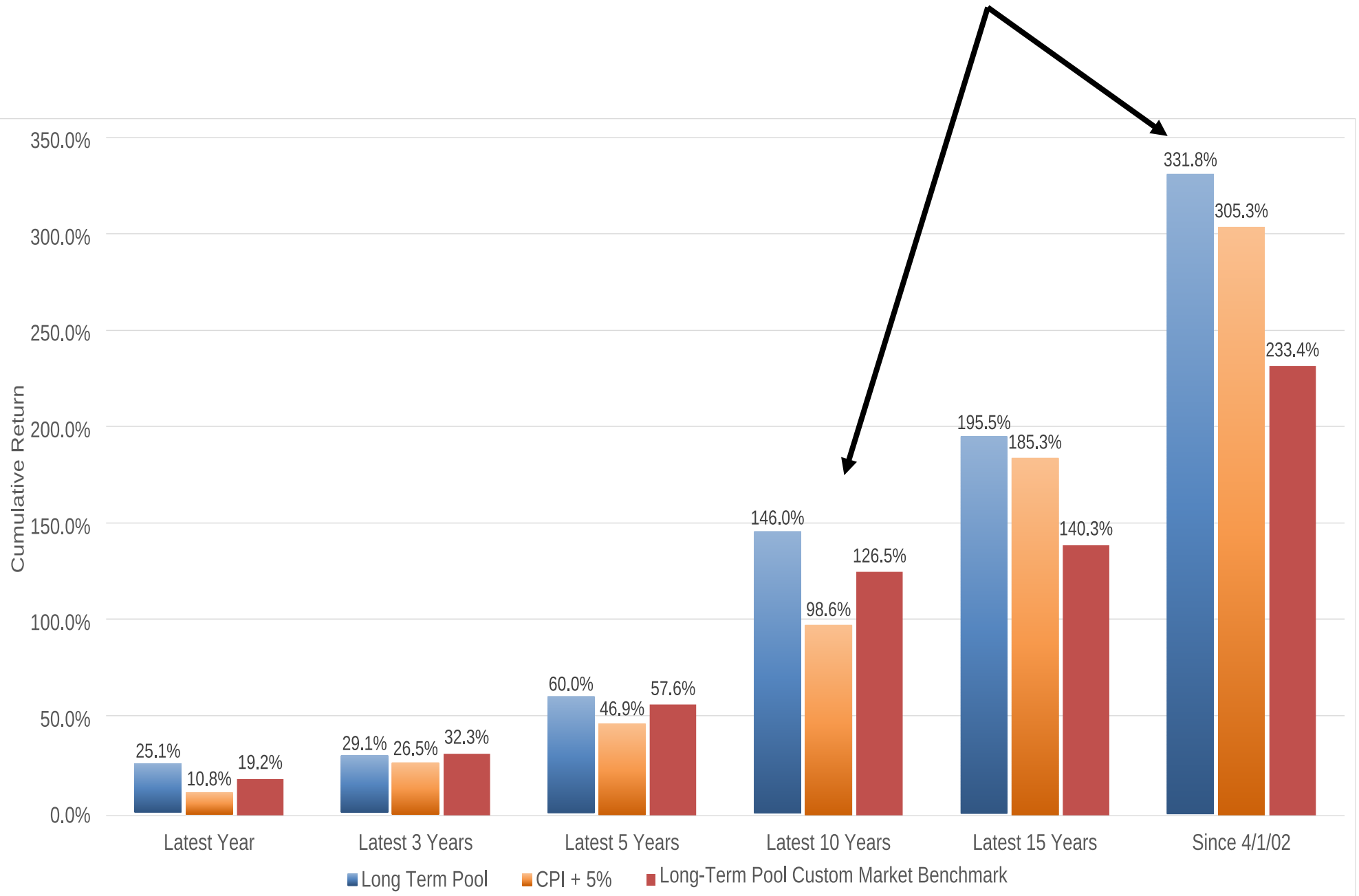
Investment Strategy/Performance Update

December 14, 2021

Annualized Investment Results

| Performance Ending 9/30/21 (Net Of Investment Management Fees) | Calendar Year to Date | Latest Year | Latest 3 Years | Latest 5 Years | Latest 10 Years | Latest 15 Years | Since 4/1/02 |
|---|--------------------------|----------------|-------------------|-------------------|--------------------|--------------------|-----------------|
| Long-Term Pool | 10.5% | 25.1% | 8.9% | 9.9% | 9.4% | 7.5% | 7.8% |
| <i>Long-Term Pool Custom Market Benchmark</i> | 7.6% | 19.2% | 9.8% | 9.5% | 8.5% | 6.0% | 6.4% |
| CPI + 5% | 8.9% | 10.8% | 8.2% | 8.0% | 7.1% | 7.2% | 7.4% |
| Socially Responsible Pool | 7.6% | 20.4% | 10.2% | 10.0% | 9.4% | N/A | N/A |
| <i>SR Pool Custom Market Benchmark</i> | 6.4% | 17.7% | 9.9% | 9.6% | 9.2% | N/A | N/A |
| Mid-Term Pool | 5.9% | 14.4% | 8.5% | 7.8% | N/A | N/A | N/A |
| <i>Mid-Term Pool Custom Market Benchmark</i> | 5.5% | 14.5% | 8.7% | 8.1% | N/A | N/A | N/A |

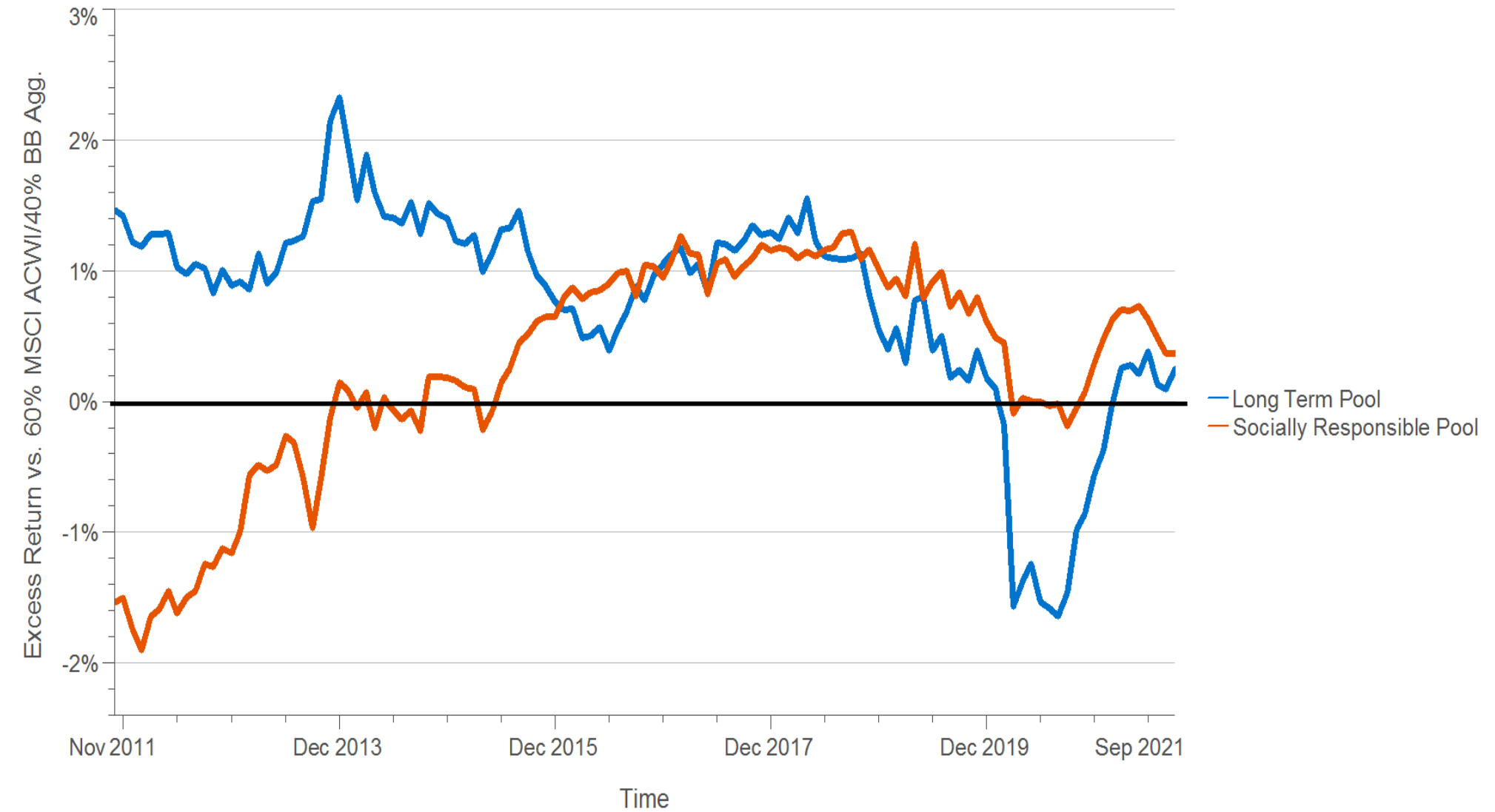
Cumulative Returns – Above Benchmark Outcome Critical



Performance is Cyclical

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

December 2006 - September 2021 (60-Month Moving Windows, Computed Monthly)



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

Strategic Asset Mix

| Asset Class Exposures (% of Total Portfolio) | Long Term Pool | Socially Responsible 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 | 12.0 | 17.0 | 0.0 |
| Special Opportunities | 13.5 | 0.0 | 0.0 |
| <i>Total Equity</i> | 58.5% | 60.0% | 47.5% |
| US Aggregate Bonds | 8.5 | 19.0 | 23.8 |
| Treasury Inflation Protected Securities | 4.2 | 5.0 | 9.5 |
| US High Yield Bonds | 2.0 | 0.0 | 4.8 |
| Global Bonds | 4.8 | 6.0 | 0.0 |
| Cash/Short Term Bonds | 0.0 | 0.0 | 9.5 |
| <i>Total Fixed Income</i> | 19.5% | 30.0% | 47.5% |
| Hedge Funds | 7.0 | 0.0 | 0.0 |
| Private Assets | 10.0 | 5.0 | 0.0 |
| <i>Total Alternatives</i> | 17.0% | 5.0% | 0.0% |
| <i>Vermont Investments</i> | 5.0% | 5.0% | 5.0% |

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

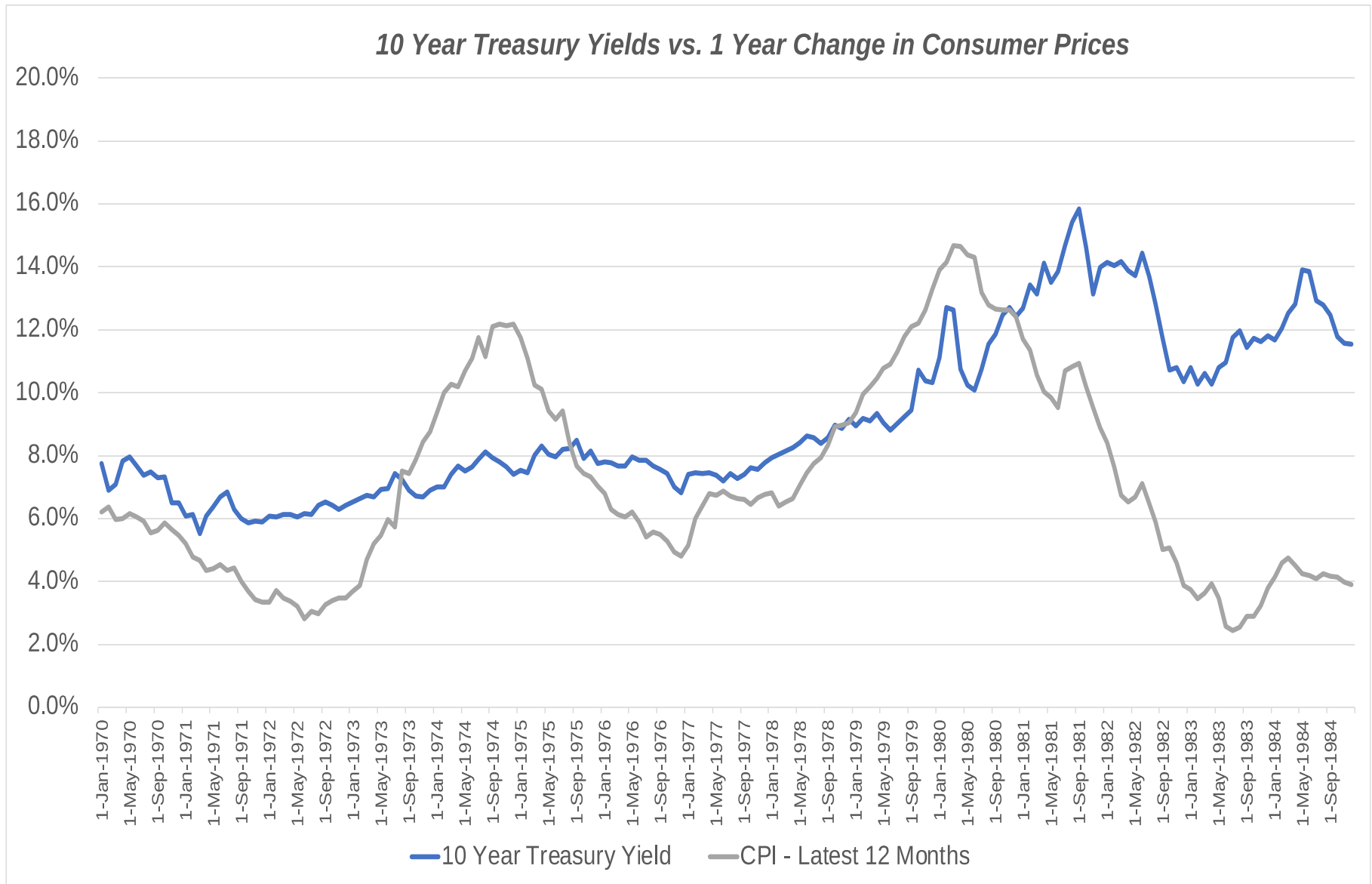
PORTFOLIO MANAGEMENT/RISK

- 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

What Will Lead to Changing Markets?



Returns are Cyclical

Compound Annual Rates of Return by Decade

| <u>Asset Class</u> | 1930s | 1940s | 1950s | 1960s | (sorted) 1970s | 1980s | 1990s | 2000s | 2010-2019 |
|-------------------------|-------|-------|-------|-------|-------------------|-------|-------|-------|-----------|
| Gold | 5.3 | 0.1 | 0.1 | 0.0 | 30.7 | -2.4 | -3.3 | 14.3 | 3.3 |
| Small-Cap Stocks | 1.4 | 20.7 | 16.9 | 15.5 | 11.5 | 15.8 | 15.1 | 6.3 | 12.4 |
| Inflation | -2.0 | 5.4 | 2.2 | 2.5 | 7.4 | 5.1 | 2.9 | 2.5 | 1.8 |
| Intermediate-Term Gov't | 4.6 | 1.8 | 1.3 | 3.5 | 7.0 | 11.9 | 7.2 | 6.2 | 3.1 |
| Treasury Bills | 0.6 | 0.4 | 1.9 | 3.9 | 6.3 | 8.9 | 4.9 | 2.8 | 0.5 |
| Long-Term Corporate | 6.9 | 2.7 | 1.0 | 1.7 | 6.2 | 13.0 | 8.4 | 7.6 | 8.0 |
| Large-Cap Stocks | -0.1 | 9.2 | 19.4 | 7.8 | 5.9 | 17.6 | 18.2 | -0.9 | 13.6 |
| Long-Term Government | 4.9 | 3.2 | -0.1 | 1.4 | 5.5 | 12.6 | 8.8 | 7.7 | 6.6 |

| <u>Style</u> | 1930s | 1940s | 1950s | 1960s | (sorted) 1970s | 1980s | 1990s | 2000s | 2010-2019 |
|------------------|-------|-------|-------|-------|-------------------|-------|-------|-------|-----------|
| Small-Cap Value | 1.80 | 21.3 | 20.3 | 15.8 | 15.3 | 21.6 | 16.4 | 11.3 | 10.7 |
| Large-Cap Value | -4.5 | 16.4 | 22.3 | 10.7 | 12.3 | 20.5 | 16.4 | 2.2 | 11.4 |
| Small-Cap Growth | 5.4 | 11.5 | 17.6 | 10.6 | 5.6 | 10.1 | 11.5 | -1.4 | 13.0 |
| Large-Cap Growth | 1.7 | 6.9 | 17.5 | 8 | 3.4 | 15.9 | 20.1 | -1.2 | 15.4 |

| <u>Region</u> | 1930s | 1940s | 1950s | 1960s | (sorted) 1970s | 1980s | 1990s | 2000s | 2010-2019 |
|---------------|-------|-------|-------|-------|-------------------|-------|-------|-------|-----------|
| Pacific | -- | -- | -- | -- | 14.8 | 26.4 | 0.5 | -0.3 | 6.6 |
| Canada | -- | -- | -- | -- | 11.0 | 11.7 | 9.9 | 9.2 | 4.3 |
| EAFE | -- | -- | -- | -- | 10.1 | 22.8 | 7.3 | 1.6 | 6.0 |
| Europe | -- | -- | -- | -- | 8.6 | 18.5 | 14.5 | 2.4 | 5.8 |
| World | -- | -- | -- | -- | 7.0 | 19.9 | 12.0 | 0.2 | 10.1 |
| United States | -- | -- | -- | -- | 5.9 | 17.6 | 18.2 | -0.9 | 13.6 |

Source: Strategas Research Partners

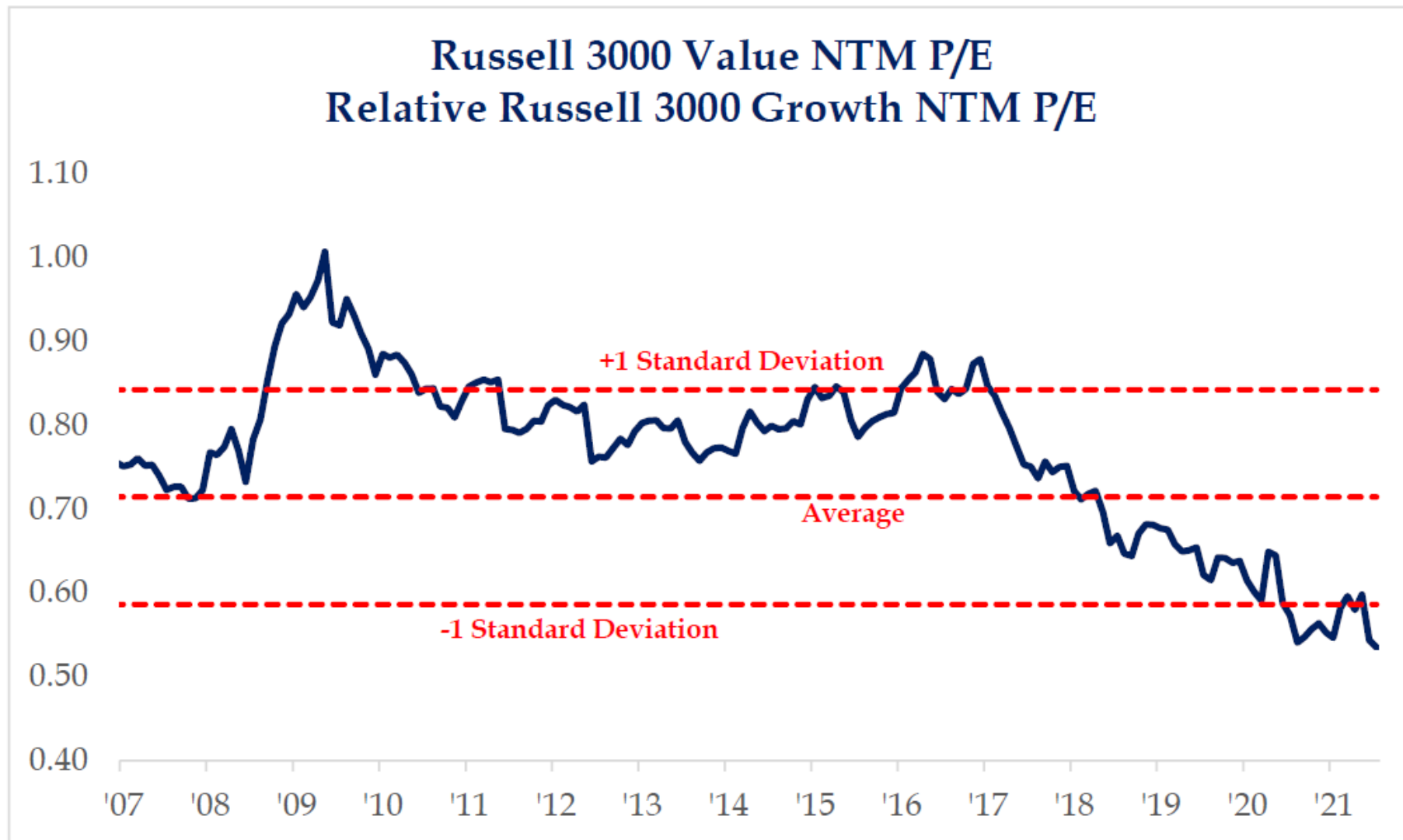
Conventional Wisdom Could be Destructive

| <u>Portfolio/Goal</u> | <u>1970s Return*</u> | <u>Impact on Purchasing Power**</u> |
|---------------------------|----------------------|-------------------------------------|
| US Large Cap Equity | + 5.9% | -65.1% |
| US Large Growth Equity | + 3.4% | -82.1% |
| US Large Value Equity | + 11.5% | -11.2% |
| US Small Cap Value Equity | + 15.3% | +42.1% |
| Non-US Equity | +10.1% | -27.1% |
| 10 Year Treasury | +6.0% | -64.4% |
| Inflation | +7.4% | |

* Annualized Rate of Return

** Cumulative Return Less Cumulative Return of Inflation + 5%

Nearly Perfect Conditions in the U.S.



Source: Strategas Research Partners

Why Not Pay More for Growth?

Annualized Returns: 12/31/86 to 12/31/19

| <u>Index</u> | <u>Price Appreciation</u> | <u>Earnings Growth</u> | <u>Total Return</u> |
|--------------|-------------------------------|----------------------------|-------------------------|
| R1000 Growth | 8.9% | 7.1% | 10.6% |
| R1000 Value | 7.2% | 5.8% | 10.3% |

Does it make sense to pay nearly twice for every dollar of earnings given the historical figures above?

The Foundation's Game Plan

- Overcome headwinds with a properly diversified portfolio oriented to long-term outcomes
- Recognize the ultimate importance of price/valuation and contrarian thinking
- Capitalize on access to top investors around the globe and the exceptional value of different perspectives.

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**

Crewcial Partners Profile

Location: New York, NY

Staff Size: 69

Number of Clients: >120

Founded: 1980

100% Employee Owned

Client Assets: \$ 38 Billion

Representative Client List:

The San Francisco Foundation

The Philadelphia Foundation

The Milwaukee Foundation

Marin Community Foundation

Lasker Foundation

New Haven Foundation