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# **The Vermont Community Foundation**

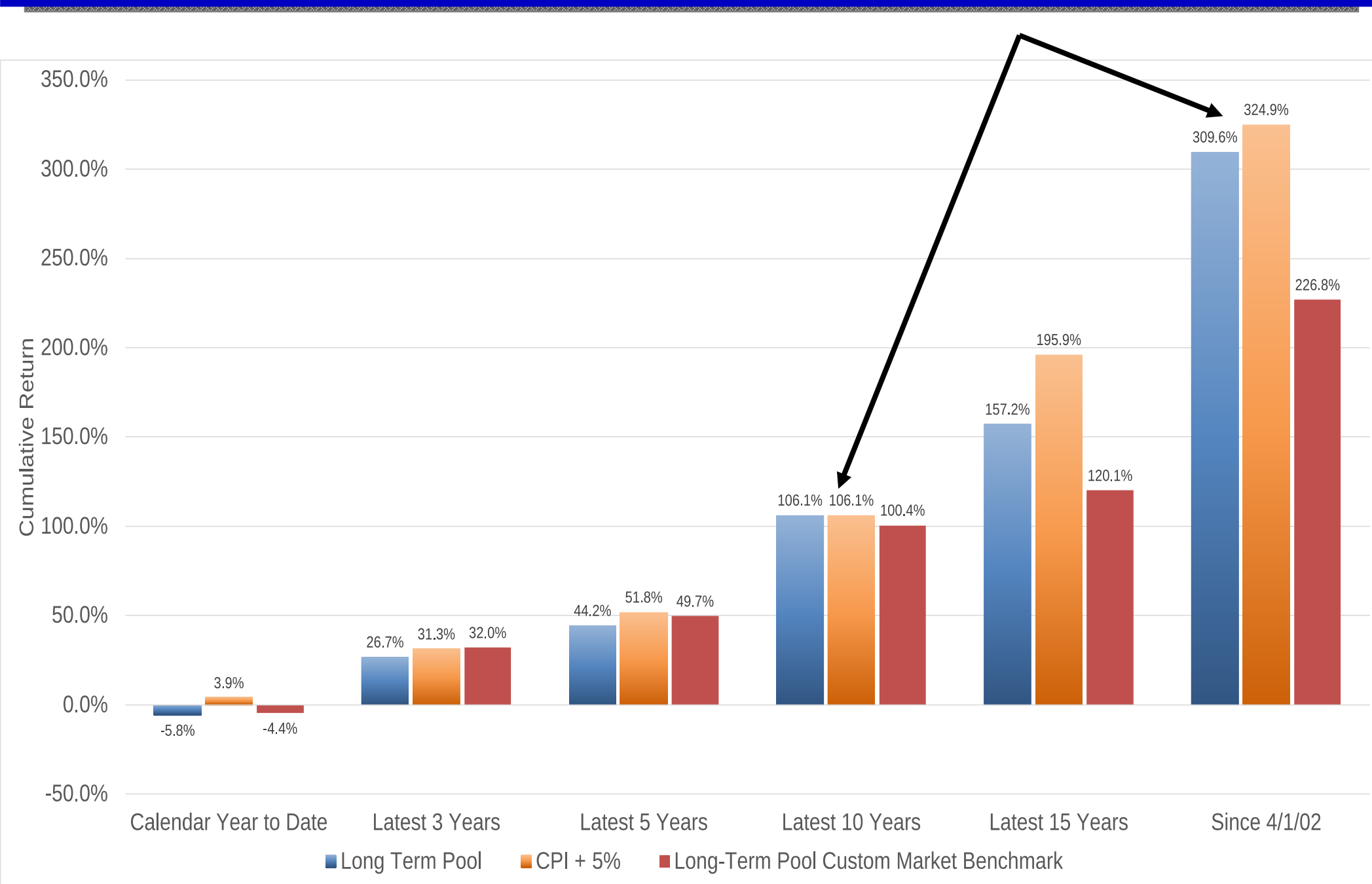
## **Investment Strategy/Performance Update**

**May 17, 2022**

# Annualized Investment Results

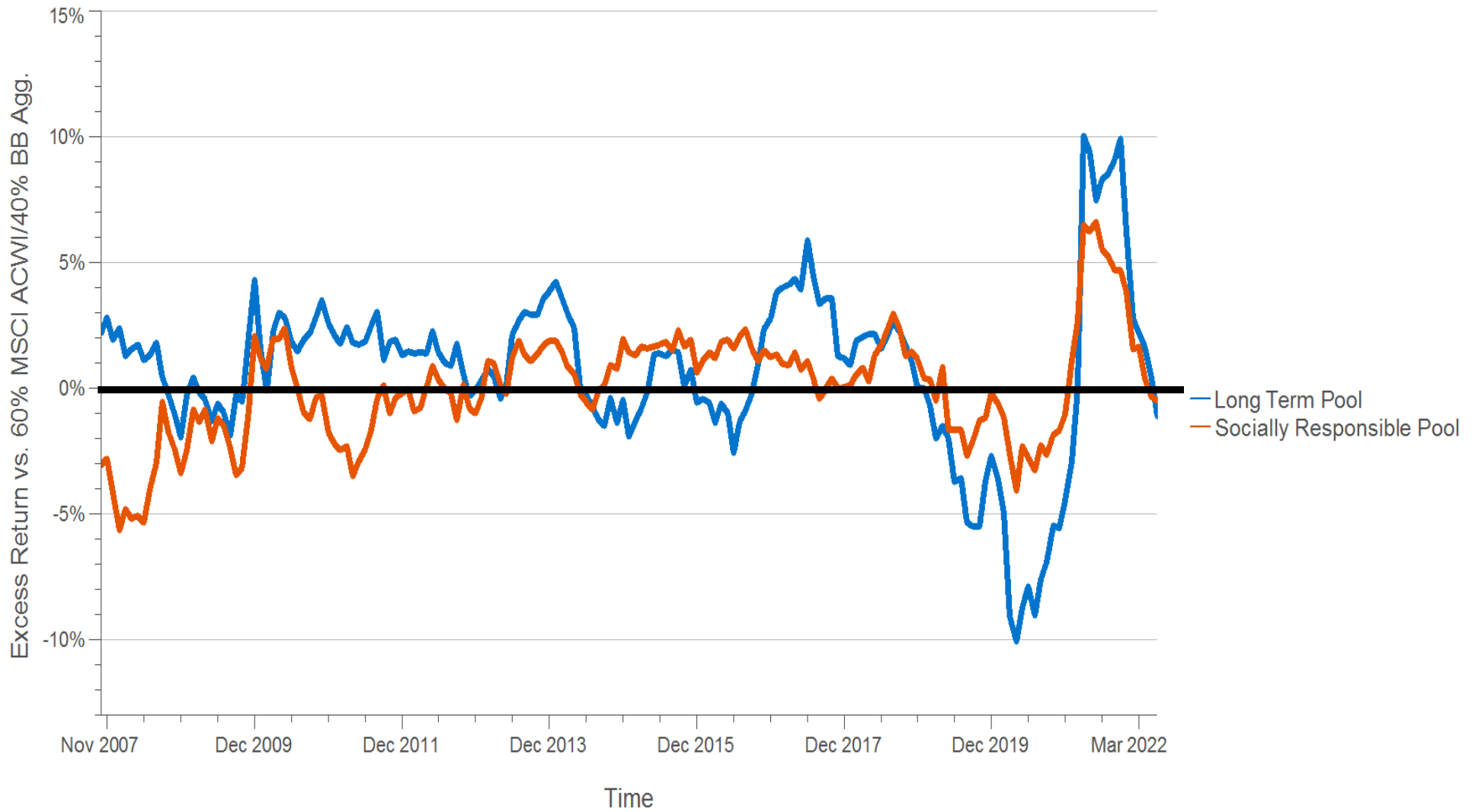
Performance Ending 3/31/22 (Net Of Investment Management Fees)	Calendar YTD	Latest 3 Years	Latest 5 Years	Latest 10 Years	Latest 15 Years	Since 4/1/02
Long-Term Pool	-5.8%	8.2%	7.6%	7.5%	6.5%	7.4%
Long-Term Pool Custom Market Benchmark	-4.4%	9.7%	8.4%	7.2%	5.4%	6.2%
CPI + 5%	3.9%	9.5%	8.7%	7.5%	7.5%	7.6%
Socially Responsible Pool	-5.0%	10.0%	8.8%	8.2%	5.9%	N/A
SR Pool Custom Market Benchmark	-4.9%	9.7%	8.6%	7.7%	5.8%	N/A
Mid-Term Pool	-3.7%	7.7%	6.8%	N/A	N/A	N/A
Mid-Term Pool Custom Market Benchmark	-4.7%	7.8%	7.1%	N/A	N/A	N/A

# Above Benchmark Outcomes Can Be Critical



# Performance is Cyclical

Excess Return vs. 60% MSCI ACWI/40% BB Agg. / Time  
December 2006 - March 2022 (12-Month Moving Windows, Computed Monthly)



# 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)	Prior Long-Term Pool Strategic Mix	Long-Term Pool Mix	Prior Socially Responsible Pool Strategic Mix	Socially Responsible Pool Mix	Mid-Term Pool Strategic Mix
US Large/Mid Cap Equity	11.0	11.0	19.0	19.0	19.0
US Small Cap Equity	5.5	6.5	5.0	5.0	4.8
Non-US Developed Equity	11.0	11.0	19.0	22.0	17.0
Non-US Emerging Equity	5.5	6.0	5.0	6.0	6.8
Global Equity	12.0	12.0	12.0	12.0	0.0
Special Opportunities	13.5	14.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>58.5%</b>	<b>60.5%</b>	<b>60.0%</b>	<b>64.0%</b>	<b>47.5%</b>
US Aggregate Bonds	8.5	8.5	24.0	18.0	23.8
Treasury Inflation Protected Securities	4.3	4.3	0.0	0.0	9.5
US High Yield Bonds	2.0	0.0	0.0	0.0	4.8
Global Bonds	4.8	4.8	6.0	0.0	0.0
Cash/Short Term Bonds	0.0	0.0	0.0	6.0	9.5
<b>Total Fixed Income</b>	<b>19.5%</b>	<b>17.5%</b>	<b>30.0%</b>	<b>24.0%</b>	<b>47.5%</b>
Hedge Funds	7.0	5.0	0.0	0.0	0.0
Private Assets	10.0	12.0	5.0	7.0	0.0
<b>Total Alternatives</b>	<b>17.0%</b>	<b>17.0%</b>	<b>5.0%</b>	<b>7.0%</b>	<b>0.0%</b>
<b>Vermont Investments</b>	<b>5.0%</b>	<b>5.0%</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

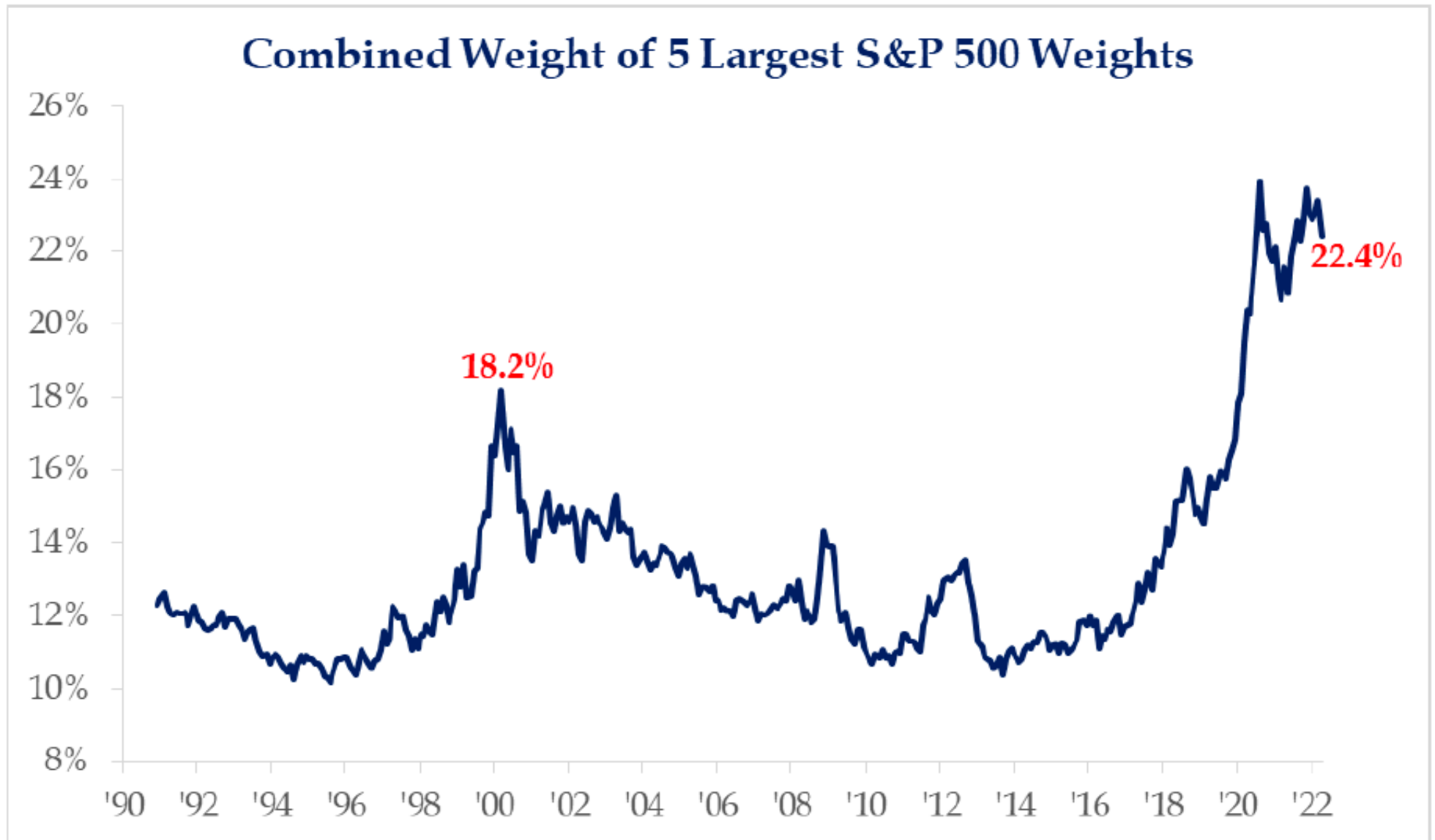


# Long-Term vs. Short Term Anxiety

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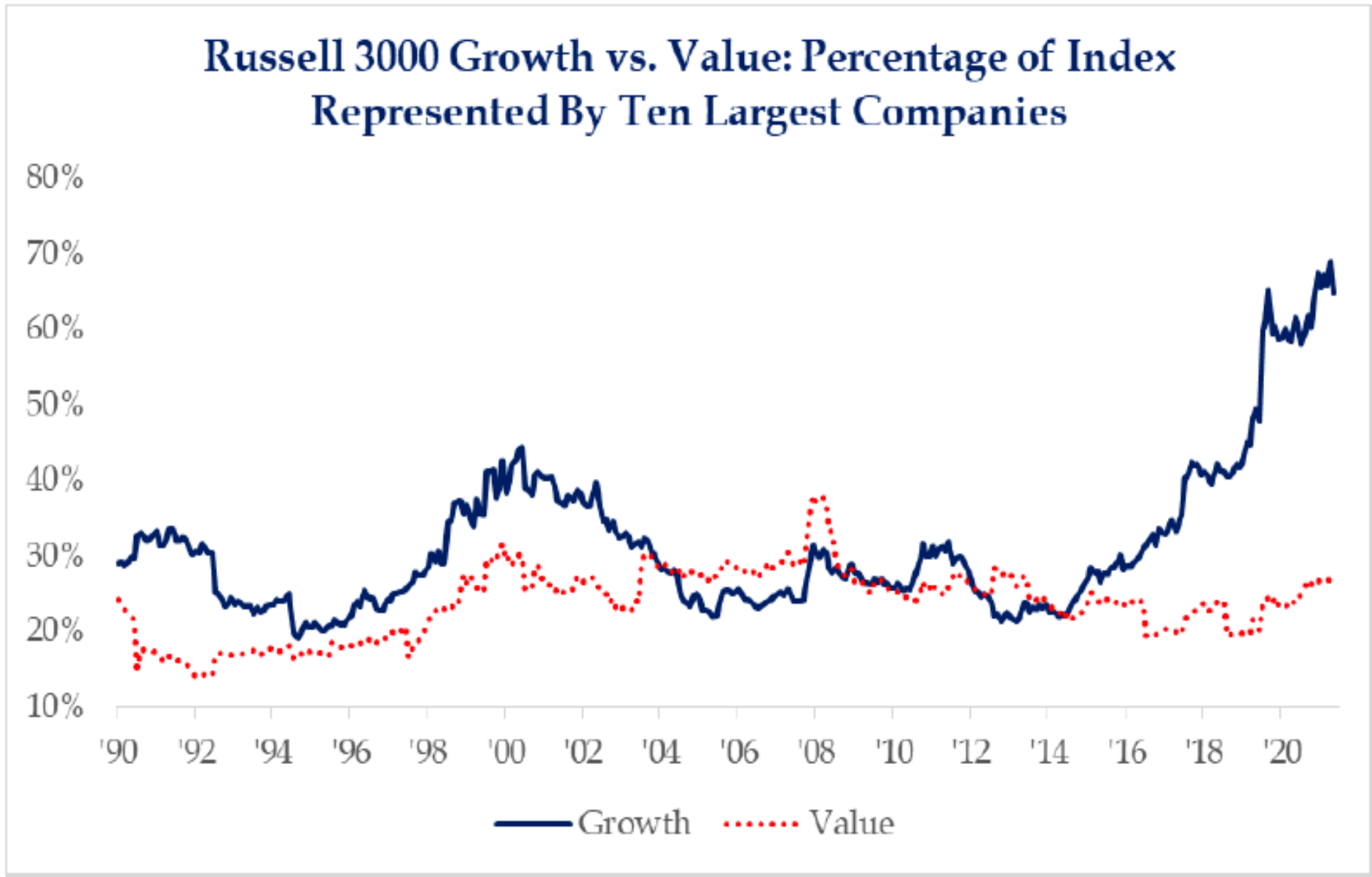
- Rising – Higher Sustained Inflation?
- Low Interest Rates and Very Expensive Equity Index Prices
- Huge Trap Set for Those Who Ignore Price

# Risks of Higher Concentration



Source: Strategas Research Partners

# The Problem is Not Universal



Source: Strategas Research Partners

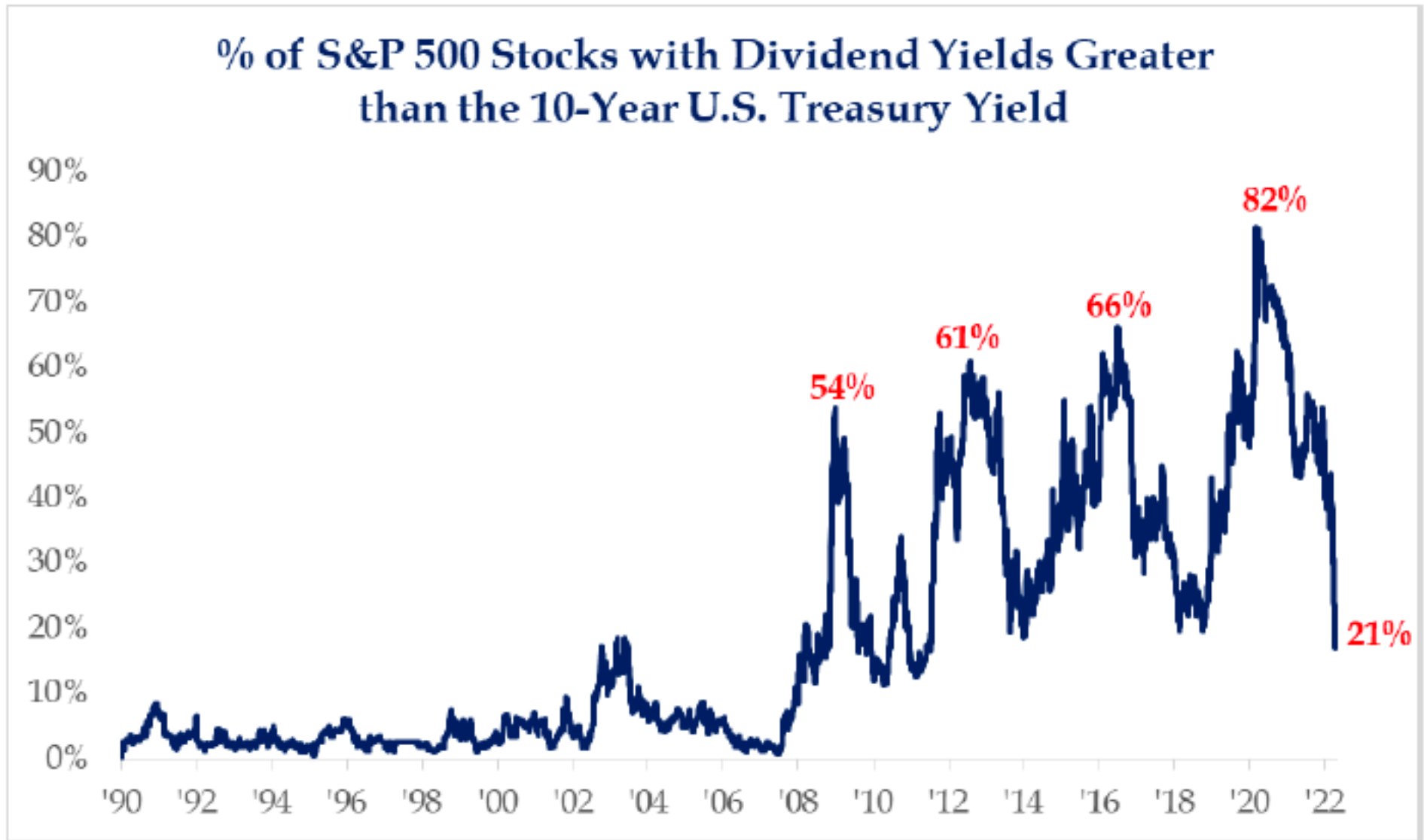
# The Top 5 Names Are Priced Very Optimistically\*

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<u>Company</u>	<u>Market Cap</u>	<u>P/E</u>
Apple	\$ 2.6 Trillion	25.7x
Microsoft	\$ 2.1 Trillion	29.0x
Alphabet	\$ 1.5 Trillion	20.8x
Amazon	\$ 1.3 Trillion	59.6x
Tesla	\$ 0.9 Trillion	117.7x

\* Information as of 4/29/22

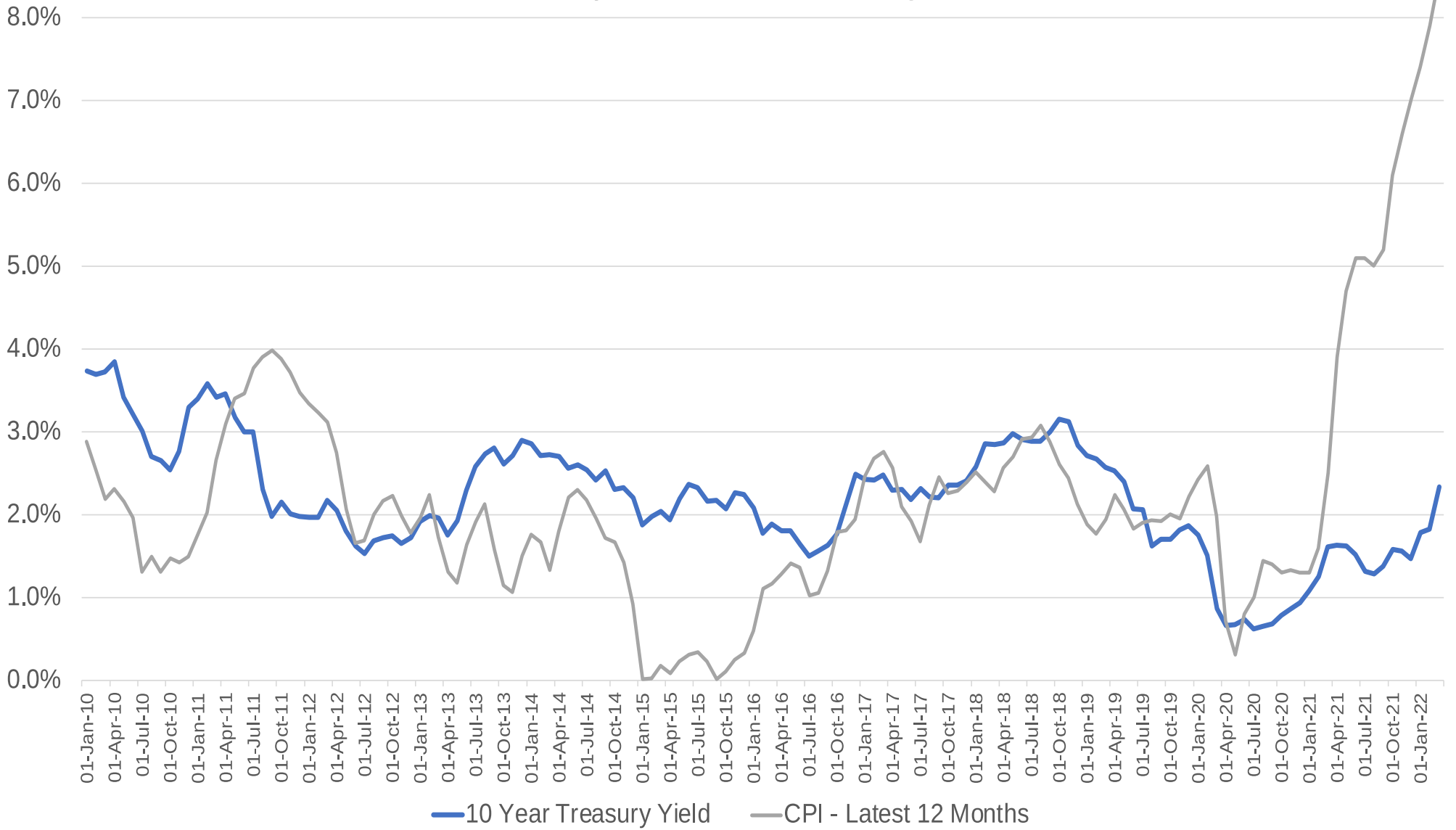
# Competition From Fixed Income?



Source: Strategas Research Partners as of 4/29/22

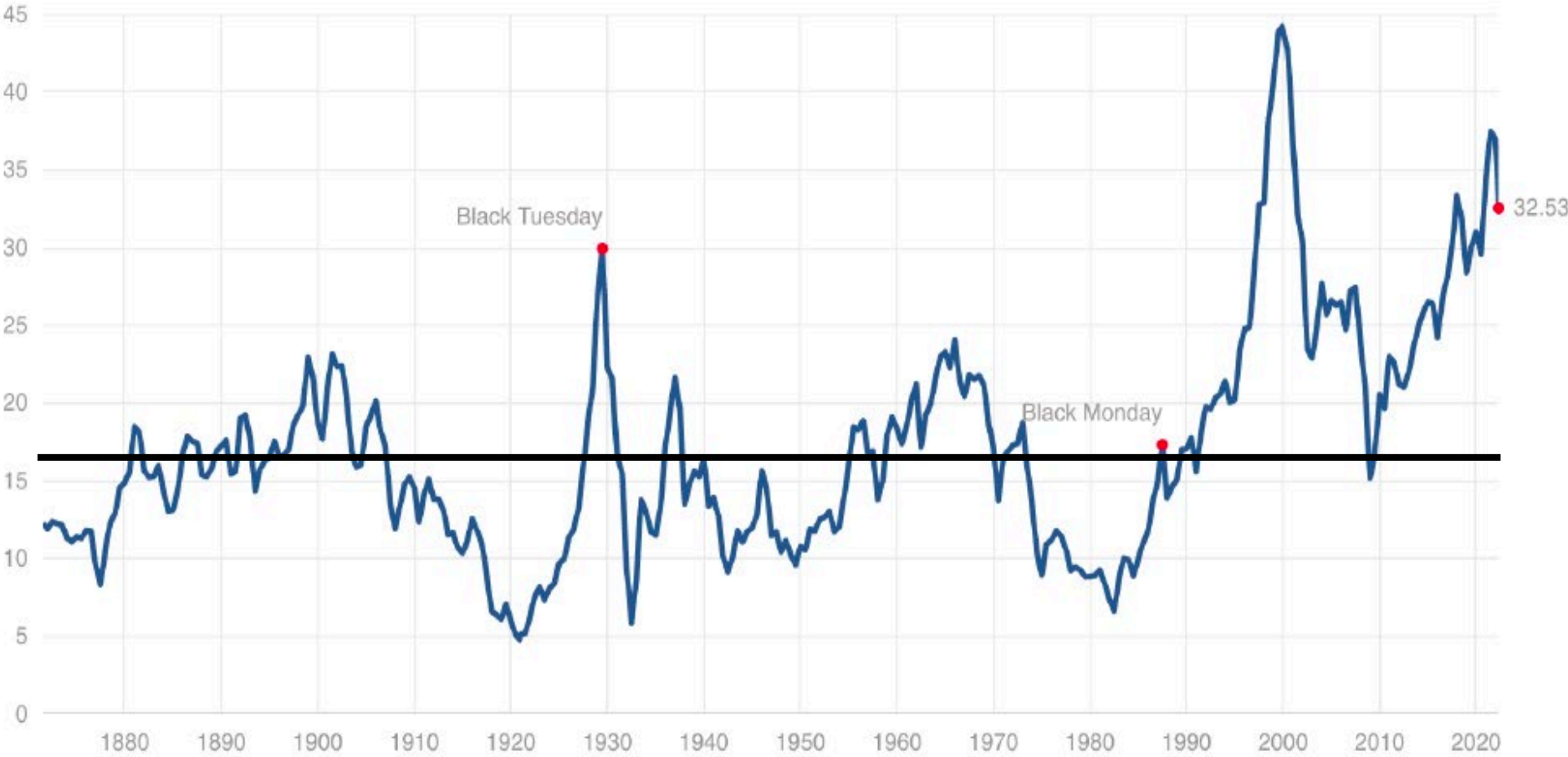
# Interest Rates & Inflation

10 Year Treasury Yields vs. 1 Year Change in Consumer Prices



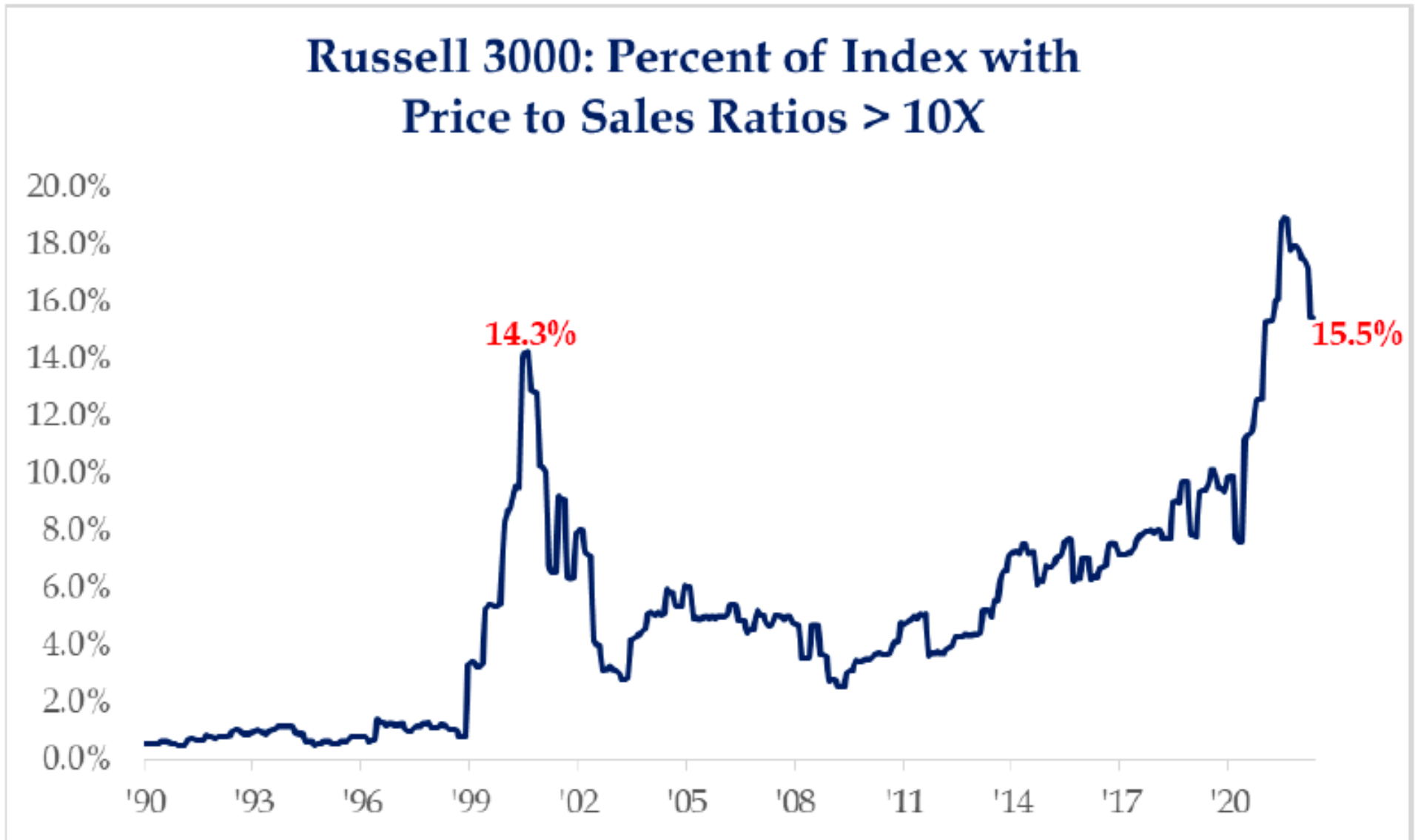
# A Long Way Down

## Historic Shiller Ratio Through April 29, 2022



Source: Robert Shiller & [www.muillpl.com](http://www.muillpl.com)

# A Lot of Optimistic Pricing Still Around



Source: Strategas Research Partners as of 5/13/22



# Strategy Looking Forward

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- 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

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Location: New York, NY

Staff Size: 69

Number of Clients: >120

Founded: 1980

100% Employee Owned

Client Assets: \$ 34 Billion

## Representative Client List:

The San Francisco Foundation

The Philadelphia Foundation

Greater Milwaukee Foundation

Marin Community Foundation

Lasker Foundation

New Haven Foundation