The Vermont Community Foundation

Investment Strategy/Performance Update

August 22, 2022
## Annualized Investment Results

<table>
<thead>
<tr>
<th>Performance Ending 6/30/22 (Net Of Investment Management Fees)</th>
<th>Calendar Year to Date</th>
<th>Latest 3 Years</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>-15.5%</td>
<td>3.4%</td>
<td>4.4%</td>
<td>6.6%</td>
<td>5.4%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Long-Term Pool Custom Market Benchmark</td>
<td>-15.3%</td>
<td>4.4%</td>
<td>5.2%</td>
<td>6.2%</td>
<td>4.2%</td>
<td>5.5%</td>
</tr>
<tr>
<td>CPI + 5%</td>
<td>8.0%</td>
<td>10.3%</td>
<td>9.2%</td>
<td>7.8%</td>
<td>7.6%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Socially Responsible Pool</td>
<td>-16.4%</td>
<td>4.3%</td>
<td>5.4%</td>
<td>5.9%</td>
<td>7.0%</td>
<td>N/A</td>
</tr>
<tr>
<td>SR Pool Custom Market Benchmark</td>
<td>-15.1%</td>
<td>4.5%</td>
<td>5.5%</td>
<td>5.7%</td>
<td>6.7%</td>
<td>N/A</td>
</tr>
<tr>
<td>Mid-Term Pool</td>
<td>-12.6%</td>
<td>3.4%</td>
<td>4.2%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Mid-Term Pool Custom Market Benchmark</td>
<td>-13.6%</td>
<td>3.0%</td>
<td>4.0%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Short Term Pain for Long Term Gain

Cumulative Return

-15.5% -15.3% 10.7% 13.7% 24.0% 28.5% 89.3% 81.8% 118.8% 85.4% 260.0% 186.3%

Latest Year Latest 3 Years Latest 5 Years Latest 10 Years Latest 15 Years Since 4/1/02

Long Term Pool Long-Term Pool Custom Market Benchmark
### Assessing Returns – Batting Average & Asymmetry

#### Long-Term Pool – 4/1/2002 to 6/30/22

<table>
<thead>
<tr>
<th>Key Stats - Long Term Pool</th>
<th>Rolling 3 Year</th>
<th>Rolling 5 Year</th>
<th>Rolling 7 Year</th>
<th>Rolling 10 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Batting Average</td>
<td>85.1%</td>
<td>88.6%</td>
<td>93.8%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Median Outcome</td>
<td>5.4%</td>
<td>10.8%</td>
<td>18.4%</td>
<td>31.2%</td>
</tr>
<tr>
<td>Best Outcome</td>
<td>10.6%</td>
<td>19.8%</td>
<td>24.6%</td>
<td>39.2%</td>
</tr>
<tr>
<td>Worst Outcome</td>
<td>-7.1%</td>
<td>-5.4%</td>
<td>-2.9%</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

#### Socially Responsible Pool – 6/30/10 to 6/30/22

<table>
<thead>
<tr>
<th>Key Stats - Socially Responsible Pool</th>
<th>Rolling 3 Year</th>
<th>Rolling 5 Year</th>
<th>Rolling 7 Year</th>
<th>Rolling 10 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Batting Average</td>
<td>72.5%</td>
<td>89.4%</td>
<td>93.4%</td>
<td>84.0%</td>
</tr>
<tr>
<td>Median Outcome</td>
<td>1.2%</td>
<td>2.9%</td>
<td>4.9%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Best Outcome</td>
<td>4.8%</td>
<td>6.7%</td>
<td>9.9%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Worst Outcome</td>
<td>-5.9%</td>
<td>-5.4%</td>
<td>-2.6%</td>
<td>-4.8%</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Asset Class Exposures (% of Total Portfolio)</th>
<th>Long-Term Pool Mix</th>
<th>Socially Responsible Pool Mix</th>
<th>Mid-Term Pool Strategic Mix</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>6.5</td>
<td>5.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Non-US Developed Equity</td>
<td>11.0</td>
<td>22.0</td>
<td>17.0</td>
</tr>
<tr>
<td>Non-US Emerging Equity</td>
<td>6.0</td>
<td>6.0</td>
<td>6.8</td>
</tr>
<tr>
<td>Global Equity</td>
<td>12.0</td>
<td>12.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Special Opportunities</td>
<td>14.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td><strong>60.5%</strong></td>
<td><strong>64.0%</strong></td>
<td><strong>47.5%</strong></td>
</tr>
<tr>
<td>US Aggregate Bonds</td>
<td>8.5</td>
<td>18.0</td>
<td>23.8</td>
</tr>
<tr>
<td>Treasury Inflation Protected Securities</td>
<td>4.3</td>
<td>0.0</td>
<td>9.5</td>
</tr>
<tr>
<td>US High Yield Bonds</td>
<td>0.0</td>
<td>0.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Global Bonds</td>
<td>4.8</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Cash/Short Term Bonds</td>
<td>0.0</td>
<td>6.0</td>
<td>9.5</td>
</tr>
<tr>
<td><strong>Total Fixed Income</strong></td>
<td><strong>17.5%</strong></td>
<td><strong>24.0%</strong></td>
<td><strong>47.5%</strong></td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>5.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Private Assets</td>
<td>12.0</td>
<td>7.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total Alternatives</strong></td>
<td><strong>17.0%</strong></td>
<td><strong>7.0%</strong></td>
<td><strong>0.0%</strong></td>
</tr>
<tr>
<td>Vermont Investments</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</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
Long-Term vs. Short Term Anxiety

➢ Rising – Higher Sustained Inflation?

➢ Low Interest Rates and Very Expensive Equity Index Prices

➢ Anchoring is Dangerous

➢ Markets Tend to Change Following Volatile Periods
A Long Way Down

Historic Shiller Ratio Through June 30, 2022

Winners and Losers

Russell 3000 Growth vs. Value: Percentage of Index Represented by Ten Largest Companies

Source: Strategas Research Partners
Some Things Never Change

ARK HAS FOLLOWED THE DOT.COM SCRIPT… BOUNCES CAN BE VICIOUS

**Nasdaq 100 vs. ARK**
Indexed to 100 at Respective Highs - March 2000 & February 2021

- QQQ indexed to 100 at March 2000 high.
- ARK indexed to 100 at February 2021 high.

54% Rally for the QQQ over 33 Trading Days. This was followed by another -47% decline and a “lower-low” 76 trading days later.

Later in 2001, a 59% rally over 53 trading days followed. The subsequent -54% decline would take you to the October ’02 lows.

Both QQQ and ARK roughly doubled in the 6 months leading up to their tops.

Initial -36% decline, followed by a sharp rally, sideways, and then a major drawdown for both ARK and QQQ.

Source: Strategas Research Partners
Timing

➢ Impossible to Know When or Why Markets Will Stop Falling

➢ Mismatch Between Investments and Appropriate Risk Level is a Major Problem

➢ For VCF Pools, Prospective Multi-Year Returns are Compelling Today
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: 68
Number of Clients: 118

Founded: 1980
100% Employee Owned
Client Assets: $ 30 Billion

Representative Client List:

The San Francisco Foundation
The Philadelphia Foundation
New Haven Foundation

Marin Community Foundation
Lasker Foundation