
The Vermont Community Foundation

Investment Strategy/Performance Update

December 10, 2019

Investment Results

Performance Ending 10/31/19 (Net Of Investment Management Fees)	Calendar Year to Date	Latest 3 Years	Latest 5 Years	Latest 7 Years	Latest 10 Years	Since 4/1/02
Long-Term Pool	12.2%	8.6%	6.3%	7.7%	8.2%	7.2%
<i>Long-Term Pool Custom Market Benchmark</i>	13.5%	8.1%	5.6%	6.6%	6.9%	5.7%
70% MSCI All Country World/30% Barclays Aggregate	16.3%	9.0%	6.1%	7.5%	7.5%	6.4%
CPI + 5%	6.2%	7.5%	6.8%	6.7%	7.0%	7.3%
Socially Responsive Pool	14.5%	8.8%	6.8%	8.0%	7.8%	N/A
<i>SR Pool Custom Market Benchmark</i>	15.8%	8.8%	6.2%	7.4%	7.8%	N/A
Mid-Term Pool	11.1%	6.6%	5.1%	N/A	N/A	N/A
<i>Mid-Term Pool Custom Market Benchmark</i>	12.8%	7.2%	5.2%	N/A	N/A	N/A

Performance Compared to Other E&Fs – Ending 9/30/19

Universe	Community Foundation Decile Ranking - Ending 9/30/19					
	Calendar YTD	Latest 3 Years	Latest 5 Years	Latest 7 Years	Latest 10 Years	Latest 15 Years
InvestorForce E&F Decile	4th	2nd	1st	2nd	1st	1st*
VCF Long-Term Pool Return	9.9%	7.5%	6.2%	7.3%	7.9%	7.2%
InvestorForce E&F Median Return	12.1%	7.1%	5.3%	6.8%	7.3%	6.1%

* Top 4%

Fundamental Principles

- Maintain a mix of stocks, bonds and some alternative investments driven by each Pool's objectives
- Deploy fee dollars efficiently – focus on net outcomes and likelihood of success
- Control portfolio risk through diversification and rebalancing

Executed Through 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
Total Equity	52.5%	60.0%	47.5%
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
Total Fixed Income	21.5%	30.0%	47.5%
Hedge Funds	13.0	0.0	0.0
Private Assets	8.0	5.0	0.0
Total Alternatives	21.0%	5.0%	0.0%
Vermont Investments	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

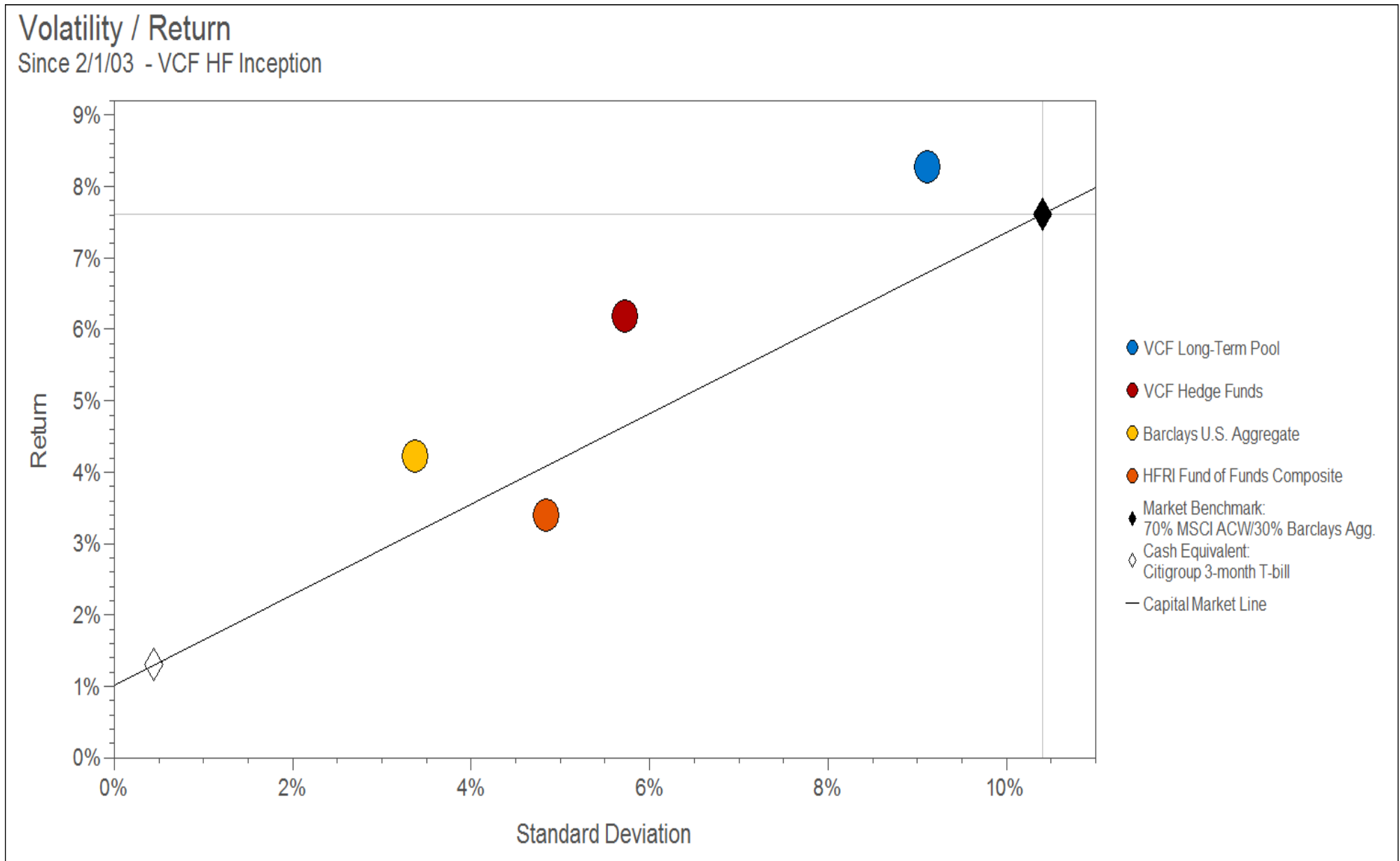
PORTFOLIO MANAGEMENT/RISK

- 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

Long Term Hedge Fund Results – Through 10/31/19



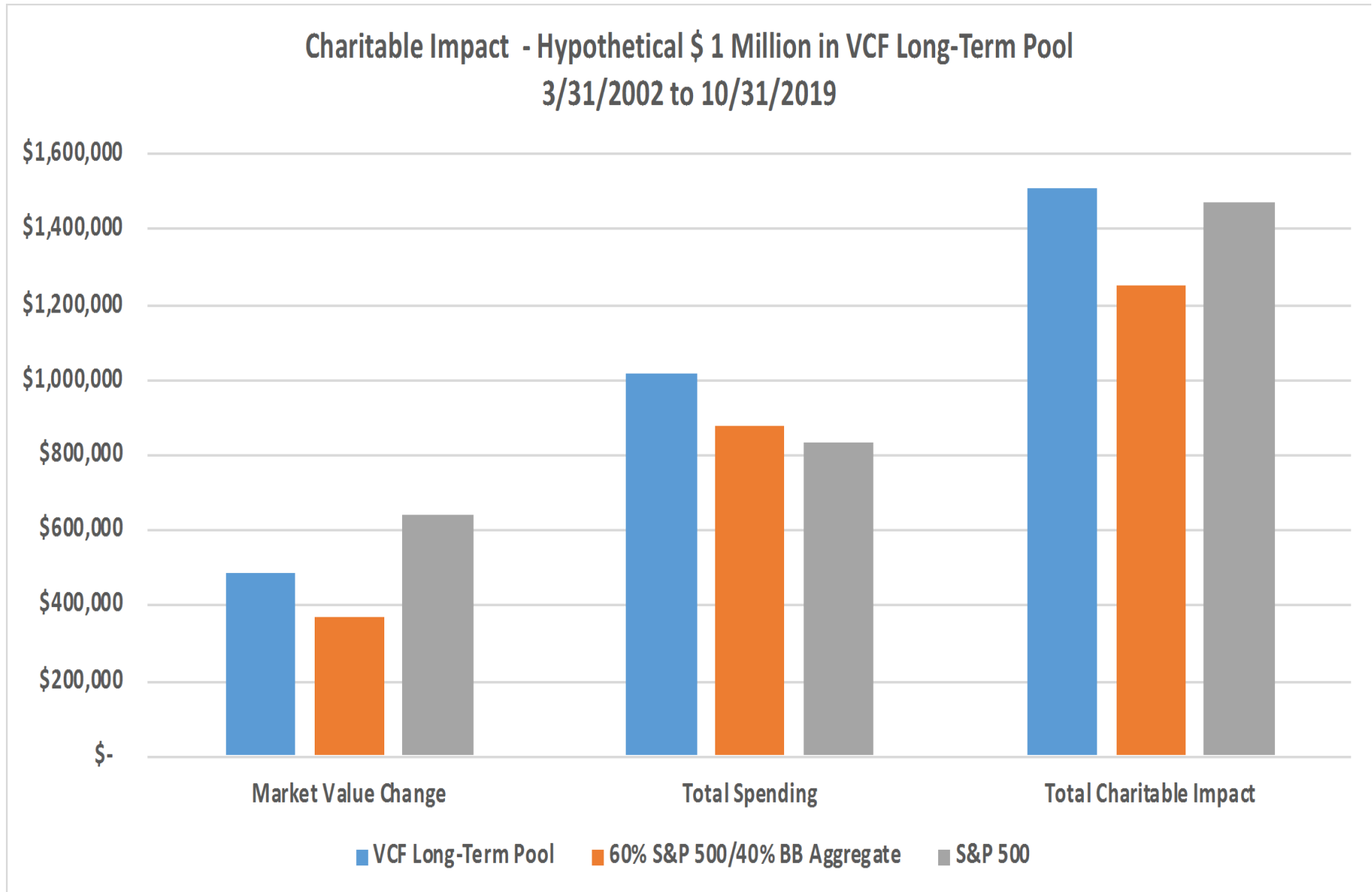
Balancing Risk

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

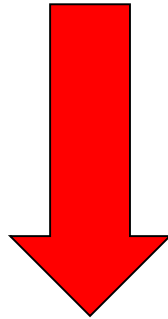
Impact of Higher Volatility on Charitable Outcomes



Higher Returns Are Not Always Better???

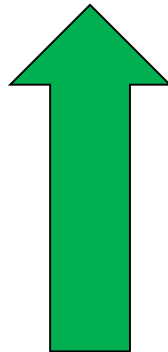
March 31, 2002 to October 31, 2019

Cumulative Net Returns



VCF 14.9% Less than S&P 500

Philanthropic Impact



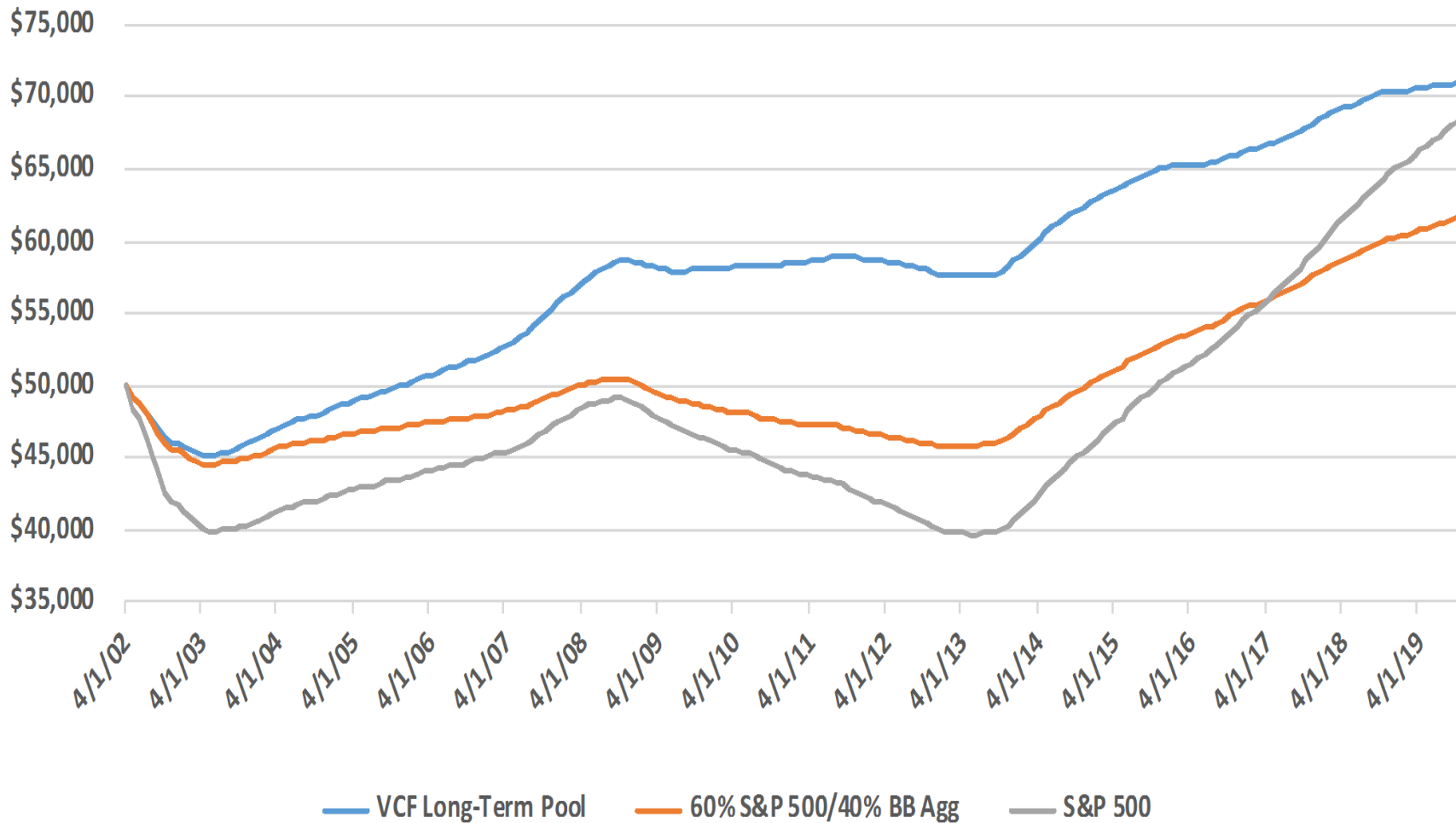
VCF 2.1% More than S&P 500

(Growth in Fund Balance Plus Spending)

VCF 17.1% More than 60% S&P 500/
40% BB Aggregate

Impact of Higher Volatility on Charitable Outcomes

Annual Spending - Hypothetical \$ 1 Million Fund in VCF Long-Term Pool
3/31/2002 to 10/31/2019



“Dinosaurs” vs. Machines

- 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

Most Traditional Active Management Suffers

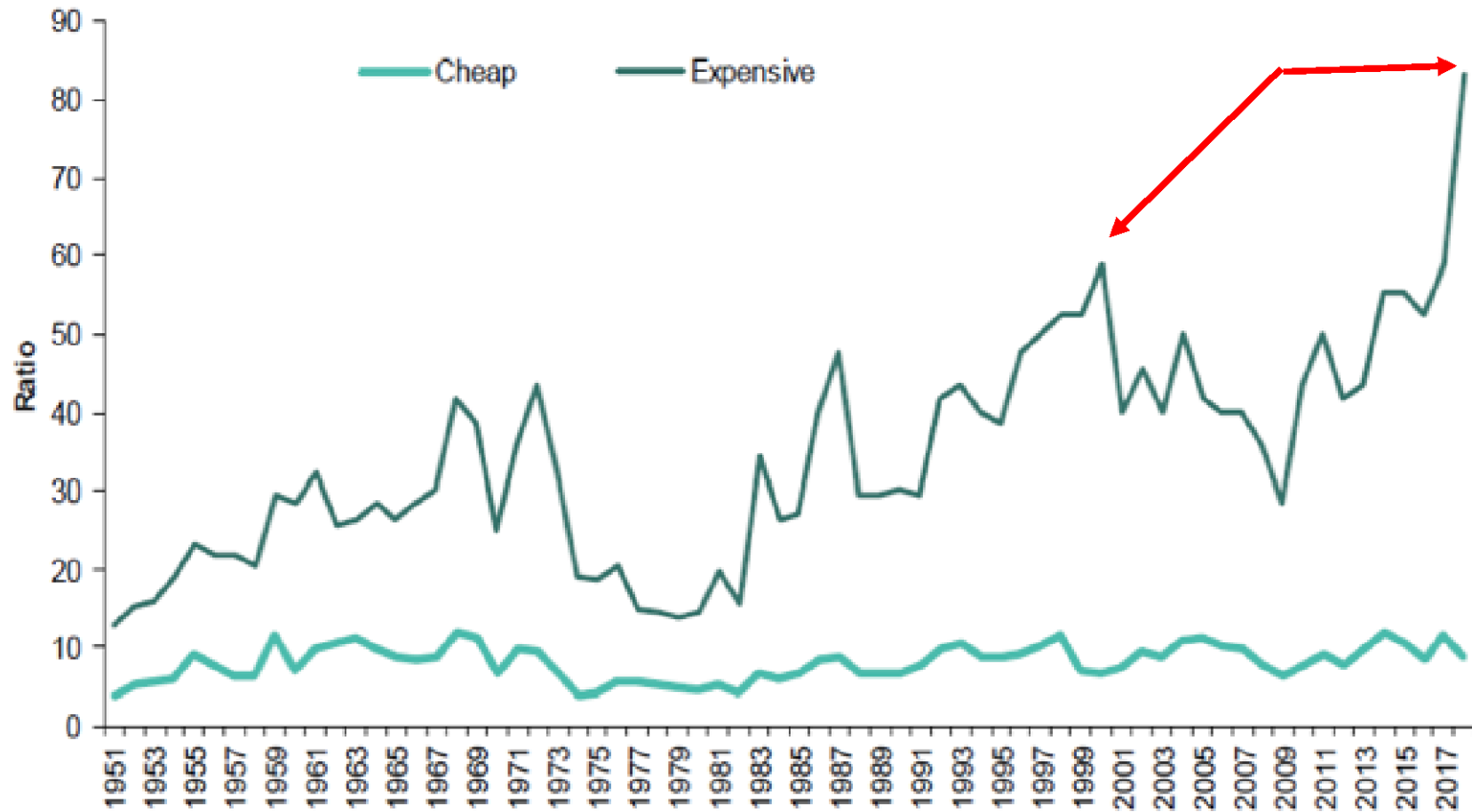
Does Everyone Lose?

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

Current Example of Distortion



The lines show the market cap weighted trailing PE ratio of the most expensive and cheapest quintiles of the US market. Data as of the end of 2018.
Source: Ken French Data Library, Bernstein analysis

Key Issues Today

- 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

Strategy Looking Forward

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

Profile of Colonial Consulting

Location: New York, NY

Staff Size: 63

Number of Clients: 144

Founded: 1980

100% Employee Owned

Client Assets: \$ 38 Billion

Representative Client List:

The San Francisco Foundation

The Philadelphia Foundation

Samuel H. Kress Foundation

Medical College of Wisconsin

Marin Community Foundation

Lasker Foundation

The Milwaukee Foundation

Greater Buffalo Community Fdn