
The Vermont Community Foundation

Investment Strategy/Performance Update

March 7, 2019

Investment Results

Performance Ending 1/31/19 (Net Of Investment Management Fees)	Latest Year	Latest 3 Years	Latest 5 Years	Latest 7 Years	Latest 10 Years	Latest 15 Years
Long-Term Pool	-3.4%	9.5%	5.8%	7.4%	9.9%	7.0%
<i>Long-Term Pool Custom Market Benchmark</i>	-3.6%	8.5%	5.0%	6.1%	8.5%	5.4%
70% MSCI All Country World/30% Barclays Aggregate	-4.5%	8.8%	5.6%	6.8%	9.2%	6.1%
CPI + 5%	6.9%	7.3%	6.7%	6.7%	7.0%	7.3%
Socially Responsive Pool	-2.7%	8.8%	6.4%	7.4%	9.3%	N/A
<i>SR Pool Custom Market Benchmark</i>	-3.5%	8.5%	5.5%	6.8%	9.2%	N/A
Mid-Term Pool	-2.2%	6.5%	4.9%	N/A	N/A	N/A
<i>Mid-Term Pool Custom Market Benchmark</i>	-2.6%	7.3%	4.8%	N/A	N/A	N/A

Performance Compared to Other E&Fs – Ending 12/31/18

Community Foundation Quartile Ranking - Ending 12/31/18						
Universe	Latest 1 Year	Latest 3 Years	Latest 5 Years	Latest 7 Years	Latest 10 Years	Latest 15 Years
MSCI InvestorForce E&F Quartile	2nd	1st*	1st	1st	1st*	1st**
VCF Long-Term Return	-5.4%	6.4%	4.5%	7.2%	9.0%	6.8%
MSCI InvestorForce E&F Median Return	-5.4%	5.2%	3.7%	6.6%	8.0%	5.7%

*Top 10%

** Top 5%

How Was This Accomplished?

- Strict adherence to a strategy that relies on decisions with a high probability of long-term success

- Collaborative approach:
 - > Investment Committee
 - > Foundation Management
 - > Colonial Consulting

- Utilize advantages of scale, stability and time horizon to access atypical investments – strong proponents of index funds when compelling managers are not available

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	8.5	0.0	0.0
Total Equity	50.5%	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	15.0	0.0	0.0
Private Real Assets	4.0	0.0	0.0
Private Equity	4.0	5.0	0.0
Commodities (Liquid Real Assets)	0.0	0.0	0.0
Total Alternatives	23.0%	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

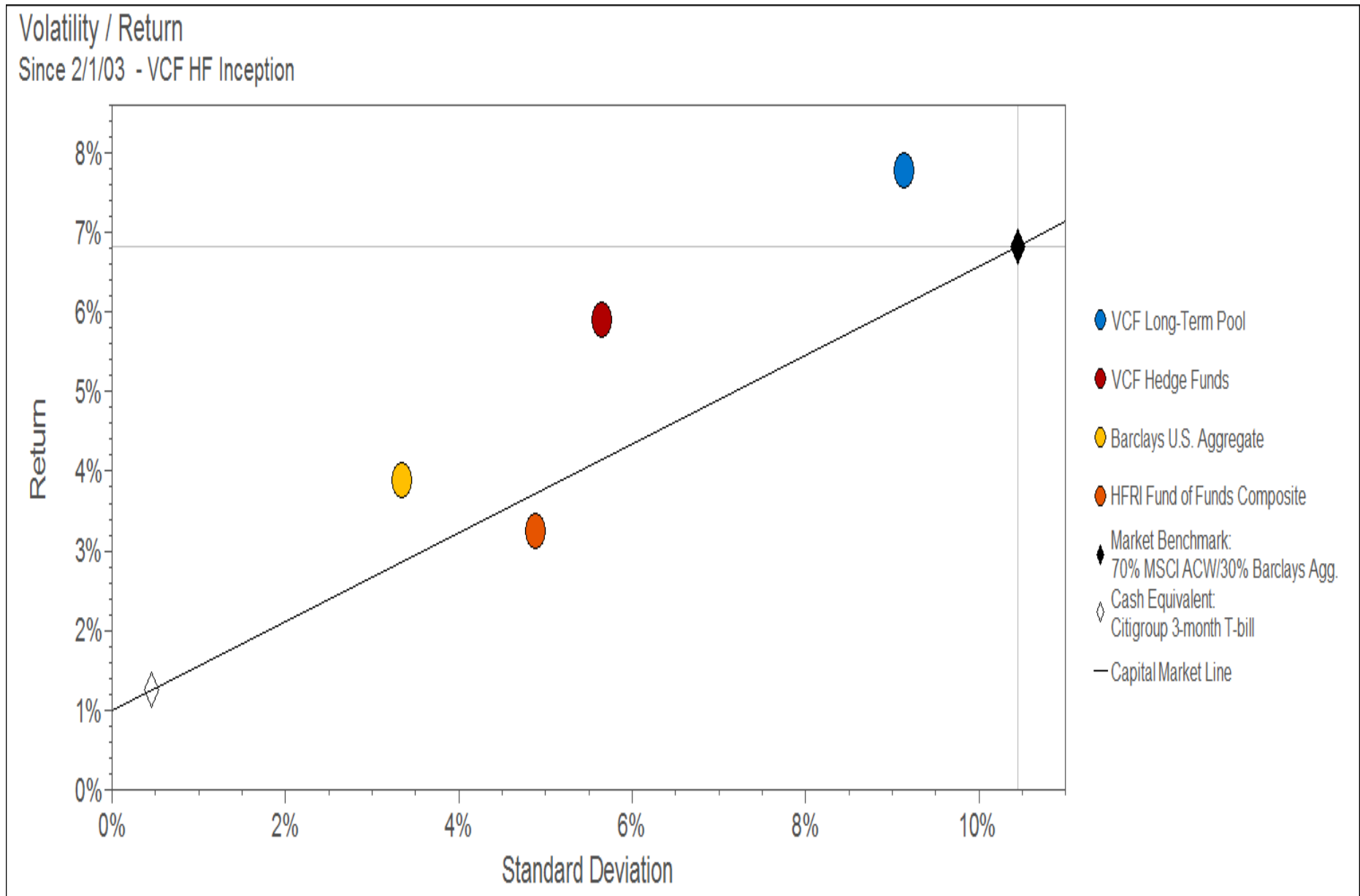
Keys to Manager Success

- High Bar – Expect large premiums to benchmarks – otherwise index strategies are preferable
- Edge – must have a clear advantage related to specialization, time horizon, concentration, ability to avoid emotional reactions and strength of client base
- Avoid - excessive leverage, excessive risk aversion, destabilizing liquidity structures
- Diversification by Strategy, Location, Age & Gender/Race

Hedge Funds – A Difficult Place to Invest

- High fees, complexity and limited liquidity are major obstacles
- The Foundation accepts these qualities in exchange for:
 - Compelling absolute returns NET OF FEES
 - Modest volatility compared to equities

Long Term Hedge Fund Results – Through 1/31/19



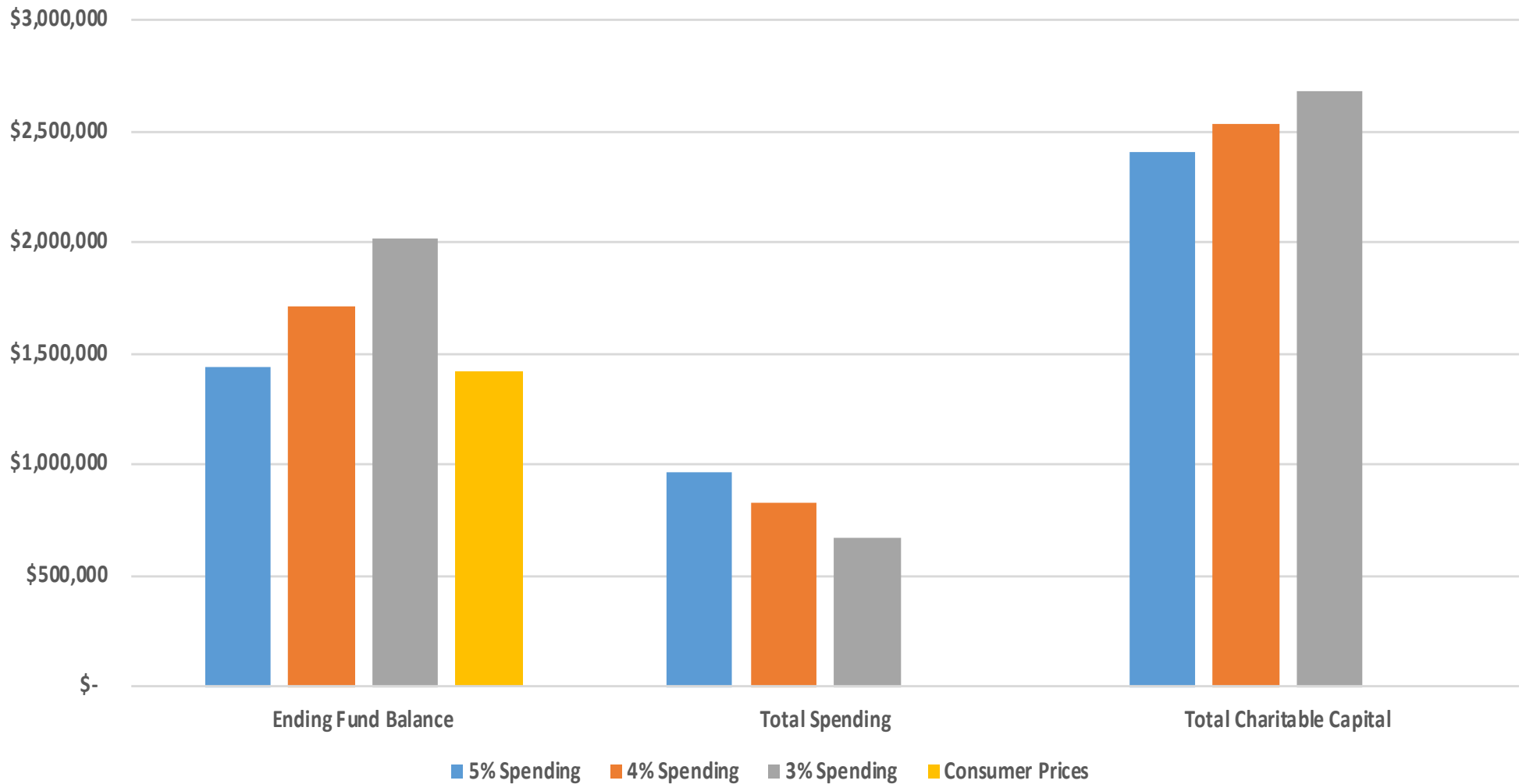
Long-Term Investing in 2018

- A confusing time – shifting global alliances, tariffs, etc.
- Should a defensive posture be adopted?
 - Ability to forecast world events/market reaction is not improved
 - Allocate to areas with a margin of safety
 - Ensure individual investments selected with climate in mind

Challenging climates are essential for generating strong long-term outcomes

Long Term Outcomes

Charitable Impact - Hypothetical \$ 1 Million in VCF Long-Term Pool
3/31/2002 to 1/31/2019

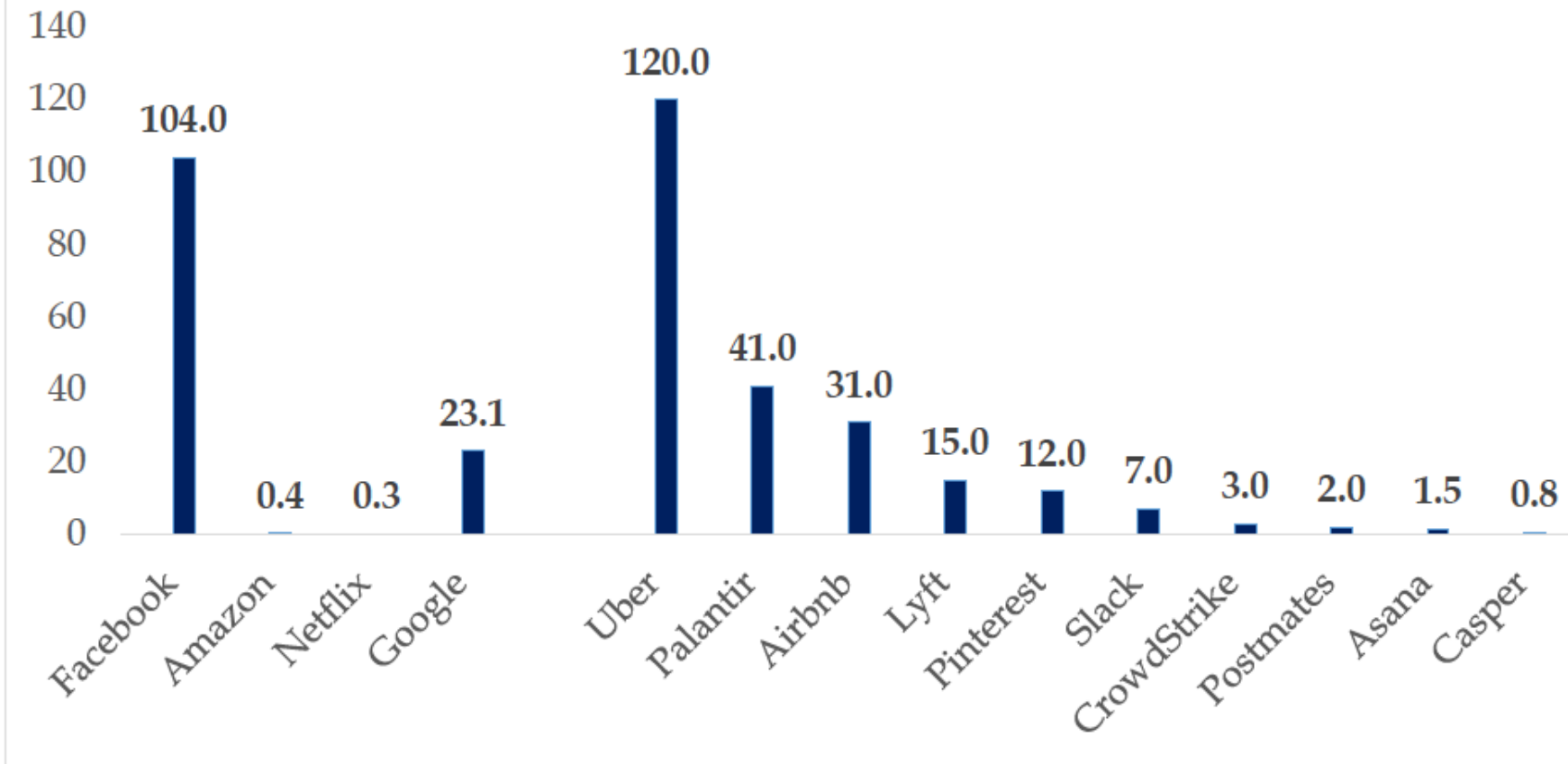


Strategy Looking Forward

- 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

Change is the Only Constant

Valuations of FANG When Going Public vs. Prominent Private Companies Today (\$Bn)



Source: Strategas Research Partners

Profile of Colonial Consulting

Location: New York, NY

Staff Size: 63

Number of Clients: 141

Founded: 1980

100% Employee Owned

Client Assets: \$ 38 Billion

Representative Client List:

The San Francisco Foundation

The Philadelphia Foundation

Silicon Valley Community Fdn

Medical College of Wisconsin

Marin Community Foundation

Lasker Foundation

The Milwaukee Foundation

Greater Buffalo Community Fdn