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# The Vermont Community Foundation

## Investment Strategy/Performance Update

May 9, 2019

# Investment Results

Performance Ending 3/31/19 (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	1.6%	8.8%	5.7%	7.2%	10.3%	7.1%
<i>Long-Term Pool Custom Market Benchmark</i>	2.6%	7.9%	4.9%	6.1%	9.0%	5.5%
70% MSCI All Country World/30% Barclays Aggregate	3.4%	8.1%	5.5%	6.8%	9.7%	6.2%
CPI + 5%	7.0%	7.5%	6.7%	6.6%	7.0%	7.2%
Socially Responsive Pool	3.5%	8.0%	6.3%	7.4%	9.7%	N/A
<i>SR Pool Custom Market Benchmark</i>	3.6%	7.8%	5.5%	6.8%	9.8%	N/A
Mid-Term Pool	3.2%	6.0%	4.7%	N/A	N/A	N/A
<i>Mid-Term Pool Custom Market Benchmark</i>	2.9%	6.7%	4.8%	N/A	N/A	N/A

# Performance Compared to Other E&Fs – Ending 3/31/19

## 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
InvestorForce E&F Quartile	4th	1st	1st	2nd	1st	1st*
VCF Long-Term Return	1.6%	8.8%	5.7%	7.2%	10.3%	7.1%
MSCI InvestorForce E&F Median Return	2.7%	7.9%	5.0%	6.7%	9.4%	6.0%

\*Top 10%

# How Was This Accomplished?

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- 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

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- 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
<b>Total Equity</b>	<b>52.5%</b>	<b>60.0%</b>	<b>47.5%</b>
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
<b>Total Fixed Income</b>	<b>21.5%</b>	<b>30.0%</b>	<b>47.5%</b>
Hedge Funds	13.0	0.0	0.0
<b>Private Assets</b>	<b>8.0</b>	<b>5.0</b>	<b>0.0</b>
<b>Total Alternatives</b>	<b>21.0%</b>	<b>5.0%</b>	<b>0.0%</b>
<b>Vermont Investments</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



# Keys to Manager Success

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- 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

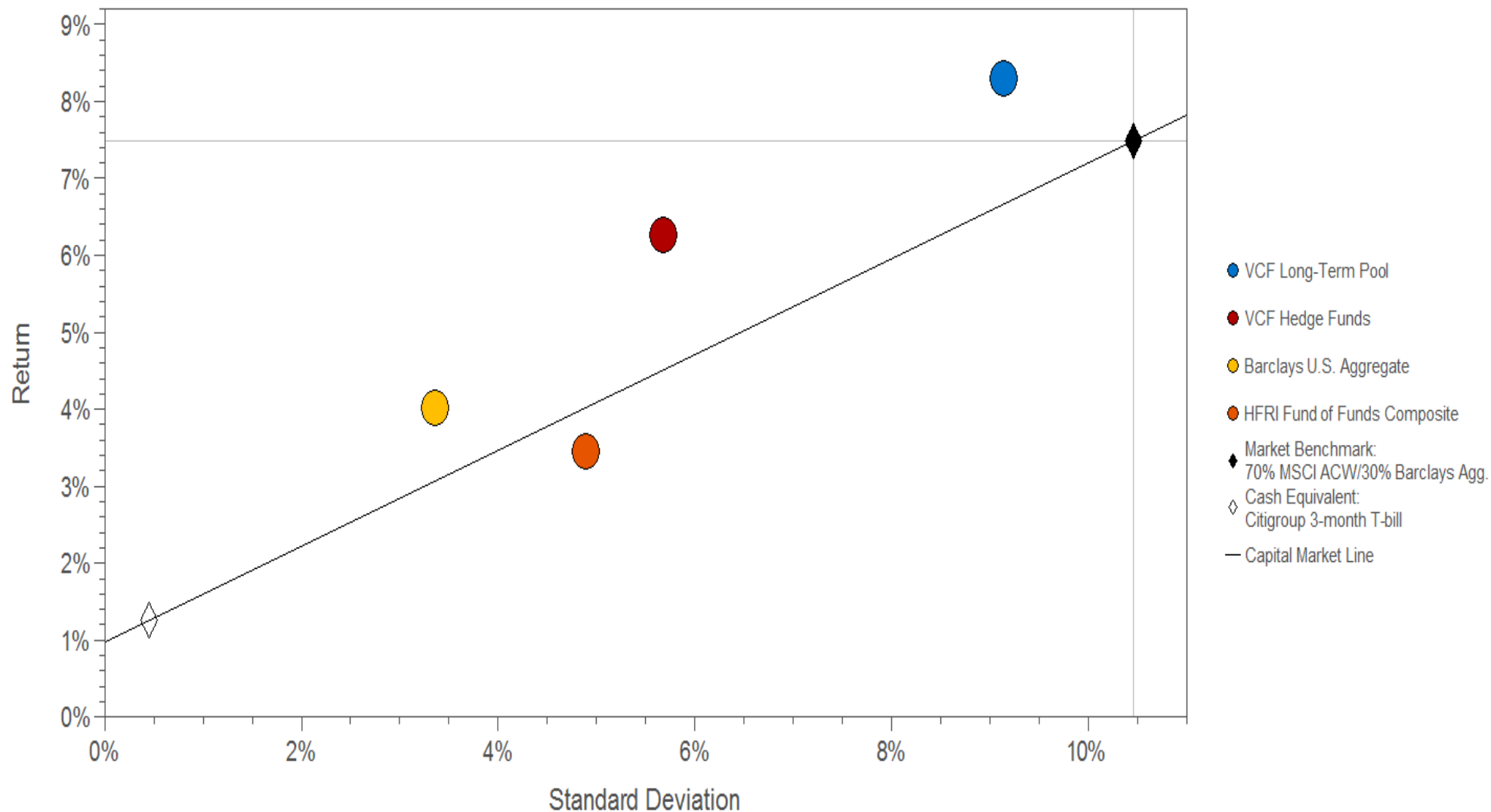
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- High fees, complexity and limited liquidity are major obstacles
  
- The Foundation accepts these qualities in exchange for:
  - Compelling absolute returns NET OF FEES
  - Modest volatility compared to equities

# Long Term Hedge Fund Results – Through 3/31/19

## Volatility / Return

Since 2/1/03 - VCF HF Inception

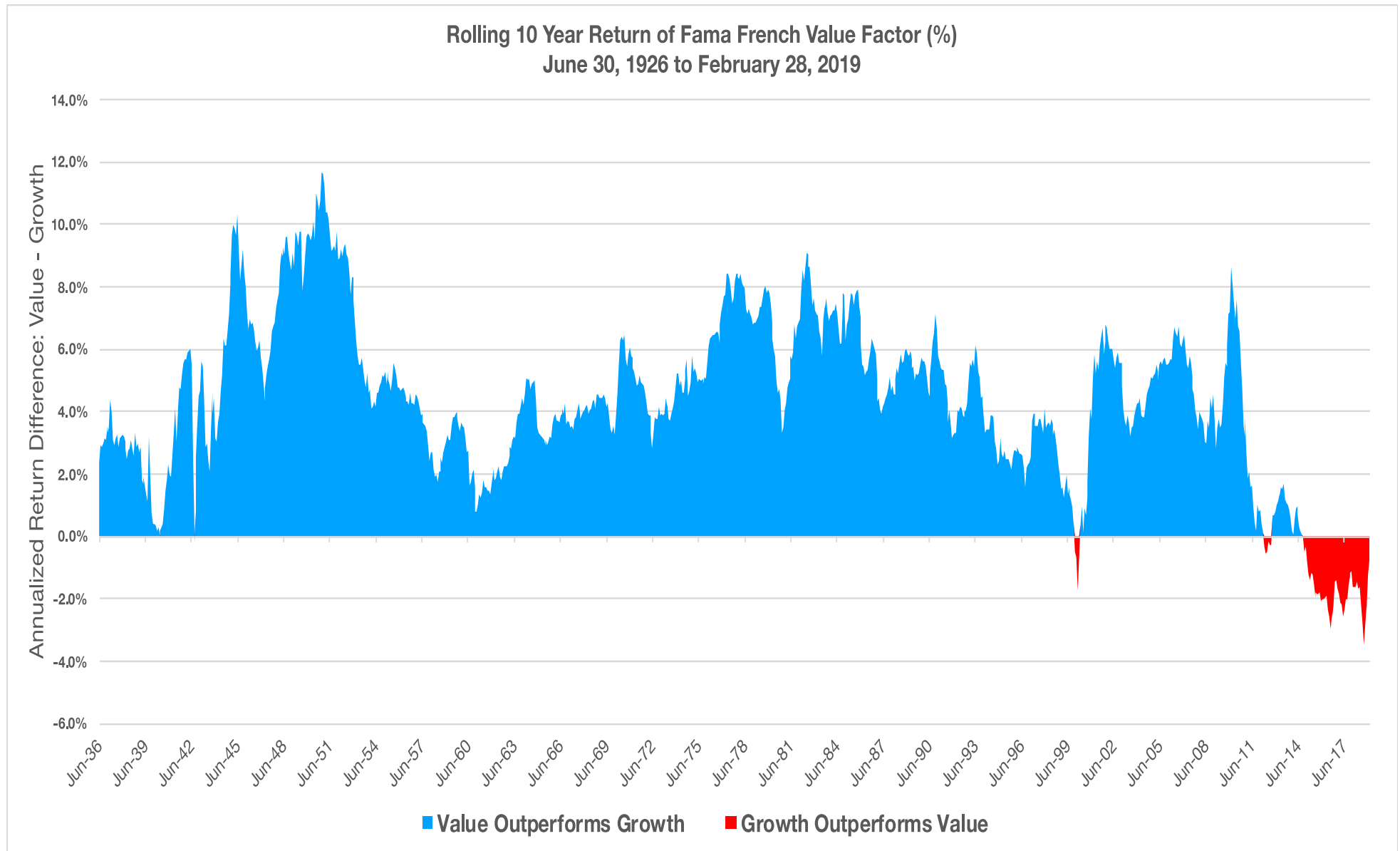


# Strategy Looking Forward

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- 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

# Does Price Always Matter?



# Profile of Colonial Consulting

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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

Silicon Valley Community Fdn

Medical College of Wisconsin

Marin Community Foundation

Lasker Foundation

The Milwaukee Foundation

Greater Buffalo Community Fdn