

The Vermont Community Foundation
Long-Term Pool Investment Performance/Strategy
As of September 30, 2020

Long-Term Pool Investment Performance vs. Benchmark- Through 9/30/20, Net of Investment Management Fees

	Latest <u>Quarter</u>	Latest <u>Year</u>	Latest <u>3 Years</u>	Latest <u>5 Years</u>	Latest <u>7 Years</u>	Latest <u>10 Years</u>	Latest <u>15 Years</u>
Long-Term Pool	+4.6%	+2.7%	+3.5%	+6.9%	+5.8%	+7.0%	+6.5%
<i>Target Benchmark*</i>	+5.0%	+7.6%	+5.8%	+7.7%	+6.0%	+6.5%	+5.4%
<i>60% MSCI ACW/40% Bloomberg Agg</i>	+5.1%	+9.7%	+6.7%	+8.1%	+6.5%	+6.8%	+6.0%

* The market benchmark is a blended index using market benchmarks weighted based on the Foundation's asset allocation strategy

Investment Philosophy/Asset Allocation Strategy

The Vermont Community Foundation invests its assets to foster strong support of the community's current needs while also providing resources for future generations. The Foundation intends to achieve this objective via a well diversified asset allocation strategy executed using highly capable investment managers combined with index funds.

<i>Asset Class</i>	<i>Target/Actual Allocation</i>		<i>Managers</i>
U.S. Large/Mid-Capitalization Equities	11.0%	(12.3%)	Adage/FPR/Focused
U.S. Small Capitalization Equities	5.5%	(7.2%)	Ashford/Champlain
Global Equity	9.0%	(7.7%)	Generation/Gobi
International Equities	11.0%	(11.6%)	Barker/Marathon/Sanderson
Emerging Markets Equities	5.5%	(5.6%)	Highclere/Westwood
Hedge Funds	13.0%	(13.0%)	Various Direct Funds
Special Opportunities	10.5%	(10.0%)	Ashe/Cat Rock/Cevian/Effissimo
Private Assets	8.0%	(5.5%)	Various Direct and Fund of Funds
U.S. Investment Grade Fixed Income	9.5%	(7.3%)	IR&M/Vanguard
TIPS	4.2%	(2.9%)	Vanguard
High Yield Fixed Income	3.0%	(4.1%)	Oak Hill
Global Fixed Income	4.8%	(5.0%)	Colchester
Vermont Investments	5.0%	(5.6%)	
Cash	0.0%	(2.2%)	

The Foundation's portfolio was constructed with the following concepts in mind:

- Allocate the majority of the portfolio to asset classes with high long-term returns, i.e. equities/alternative asset classes
- Consistently utilize meaningful asset class diversification to achieve return objectives during a variety of economic and market conditions.
- Avoid attempts to predict short-term market behavior via market timing strategies.
- Retain world-class investment managers who are expected to out-perform index funds over most three to five year periods. In areas where the Foundation does not believe meaningful or reliable above benchmark performance is available, index strategies are used.

Current Market/Performance Commentary

Markets continued their solid recovery although for most of the quarter index gains were highly concentrated within a narrow group of technology and consumer stocks. There are two irreversible mistakes that even lengthy time horizons do not heal – unknowingly buying bad businesses or paying too much for even good or great businesses. Investors today are increasingly subject to the risk of falling prey to the latter.

The Foundation owns both quickly growing and significantly undervalued businesses with an emphasis on the latter. This has become an increasingly “out of touch” approach and there is a growing chorus of those who believe that value investing is dead or at least that it should be.

We admit that the case against owning low priced stocks is difficult to argue with in a world where interest rates stay at perpetually low levels while economic activity remains muted due to the pandemic plus the after-effects of extraordinary monetary policy and massive fiscal deficits. Layer on the fact that change and innovation are accelerating, and its case closed.

Across the course of our careers, we’ve always been struck by the fact that investing, like life, is filled with ironies. In this case, the strength of the story against value investing is in fact its greatest asset as investors increase their risk and lower their expected returns by increasingly embracing growth tilted strategies. Long-term investment excellence has never been built on doing what is comfortable and/or popular. At the moment, we seem to have reached yet another point in time where human nature is about to lead many astray.

Individual Asset Class Performance – 2020 Calendar Year to Date

<i>Large/Mid-Capitalization US Equity</i>	-2.9%	(-9.3% vs. Russell 1000)
<i>Small Capitalization US Equity</i>	+11.8%	(+20.5% vs. Russell 2000)
<i>Global Equity</i>	+5.3%	(+3.9% vs. MSCI ACWI)
<i>International Developed Markets Equity</i>	-5.5%	(+1.6% vs. MSCI EAFE)
<i>Emerging Markets Equity</i>	-15.0%	(-13.8% vs. MSCI Emerging Markets)
<i>Hedge Funds</i>	-11.1%	(-13.6% vs. HFRI Fund of Funds)
<i>Special Opportunities</i>	-12.0%	(-13.4% vs. MSCI ACWI)
<i>High Yield</i>	-0.3%	(-0.1% vs. Merrill Lynch High Yield Bond)
<i>U.S. Investment Grade Fixed Income</i>	+8.3%	(+1.5% vs. Bloomberg Aggregate)
<i>Global Fixed Income</i>	+5.3%	(-1.8% vs. FTSE World Govt Bond)
<i>Treasury Inflation Protected Securities</i>	+9.2%	(-0.6% vs. FTSE Inflation Linked)

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