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

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

	Latest Quarter	Latest Year	Latest 3 Years	Latest 5 Years	Latest 7 Years
Mid-Term Pool	**+4.4%**	**+7.6%**	**+5.4%**	**+6.5%**	**+5.8%**
*Mid-Term Pool Benchmark**	*+4.3%*	*+7.6%*	*+5.5%*	*+7.1%*	*+5.8%*
50% MSCI ACW/50% Bloomberg Agg	*+4.4%*	*+9.4%*	*+6.6%*	*+7.5%*	*+6.1%*

* Mid-Term Pool 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 largely through index funds.

Asset Class	*Target/Actual Allocation*	*Managers*
U.S. Large/Mid-Capitalization Equities	19.0% (20.6%)	Vanguard
U.S. Small Capitalization Equities	4.8% (5.4%)	Vanguard
International Equities	17.0% (17.4%)	Vanguard
Emerging Markets	6.8% (7.4%)	Vanguard
Fixed Income	23.6% (23.4%)	Vanguard
High Yield Fixed Income	4.8% (5.3%)	Harbor
TIPS	9.5% (10.1%)	Vanguard
Vermont Investments	5.0% (4.7%)	
Cash/Short Term Bonds	9.5% (5.7%)	Vanguard

The Mid-Term portfolio was constructed with the following concepts in mind:

- 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.
- Utilize index funds as an inexpensive and effective way to execute the strategy until such time as the Pool has sufficient capital to access top institutional managers as is done in other Foundation pools.

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.

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