

The Vermont Community Foundation
Socially Responsible Pool Investment Performance/Strategy
As of September 30, 2022

Socially Responsible Pool Performance vs. Benchmark- Through 9/30/22, Net of Investment Management Fees

	Latest <u>Quarter</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>
Socially Responsible Pool	-6.1%	+1.9%	+3.4%	+ 5.6%	+ 5.9%	+4.2%
<i>Socially Responsive Pool Benchmark*</i>	-5.4%	+2.3%	+3.6%	+ 5.7%	+5.6%	+4.3%
<i>60% MSCI ACW/40% Bloomberg Agg</i>	-5.9%	+1.3%	+2.9%	+4.9%	+4.9%	+3.9%

* Socially Responsive 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 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	19.0%	(20.7%)	KLD iShares/Redwood Grove/Vanguard
U.S. Small Capitalization Equities	5.0%	(6.1%)	Aperio
Non-US Equities	22.0%	(24.9%)	Aperio
Emerging Markets Equities	6.0%	(5.7%)	Boston Common
Global Equity	12.0%	(7.2%)	Generation
Fixed Income	18.0%	(17.8%)	Calvert/RBC
Private Equity	7.0%	(1.4%)	Lyme Forest, At One
Vermont Investments	5.0%	(5.9%)	
Short Duration Bonds	6.0%	0.0%	New investment funded in Oct 2022 from cash
Cash	6.0%	(10.2%)	

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. equity 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 within the socially responsible universe 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

2022 continues to be a very difficult year for capital markets in general and traditional balanced investment strategies specifically. For the first time since the inception of the original Lehman Aggregate Index in 1976, the S&P 500 and what is now known as the Bloomberg Aggregate have posted negative returns for three consecutive quarters, with declines of 23.9% and 14.6% respectively thus far in 2022. Ports in the storm have been few and far between—commodities, a subset of the hedge-fund community, and private assets not being valued by the mood of public markets are notable examples.

The S&P 500 declined 4.9% for the quarter with communication services (-12.7%) and real estate (-11.0%) as the weakest sectors, while consumer discretionary (+4.4%) and energy (+2.3%) were the strongest. Continuing inflation pressures led to growing concern regarding the risk of recession, although aforementioned strength from the consumer sector once again proved that market pricing is not guaranteed to adhere to simple cause-and-effect relationships.

The impact of inflation and Federal Reserve policies cannot be understated. For the quarter, three-month treasury bill yields increased just under 170 bps, while long-term ten- and 30-year bonds saw their yields increase by 88 and 64 bps respectively. The changes underway are likely to reflect a durable shift in market conditions; while the adjustment process is difficult, it is both inevitable and ultimately quite healthy. Given the complexity of the world today, should we have any reason for optimism? Here, the picture is mixed.

First, higher interest rates boost the long-term return expectations for bonds—this will allow them to compete for capital with stocks for the first time in many years, providing much-needed returns for portfolios that must now overcome higher inflation.

In the mixed-bag category, we continue to believe prior monetary policy directly contributed to distorted equity-market pricing. While collapsing share prices for many smaller to mid-sized and global growth companies provided considerable drama over the last twelve months and has selectively created very interesting opportunities, the worst may be yet to come for most investors as a potentially slow and long-lasting revaluation of the S&P 500's largest companies produce an extended window of volatile and ultimately sub-par returns.

Oddly, a major crash from current levels may not be the worst-case scenario, as it could level the playing field from a prospective-returns perspective. However, this can only occur if the largest and most popular names fall far more than the names that have already fallen and/or already trade at low prices. Frankly, such a scenario, while logical, is quite farfetched given the deeply held beliefs investors have formed since 2009.

Far more likely is an extended period of purchasing-power-destroying sub-par returns from indices, which sadly represents a completely avoidable failure given the wide array of exceptional multi-year opportunities present today. If history is a useful guide, far too many will look back at what might have been had they been willing to tolerate some complexity, paid attention to the dangers of optimistic valuations, embraced contrarian thinking, and found comfort in the long view with a strong foundation of high-quality businesses with valuations that provide both high expected returns and a strong margin of safety.

Finally, as economic conditions, which are ultimately fleeting, capture greater and greater mindshare, a savvy investor recently noted we would be wise to focus less on the storms blowing in and more on the resilience of our vessel.

In Q3 2022, the Socially Responsible Pool fell 6.1%, a result that fell short of the custom benchmark's return by 70 basis points. This result is largely the product of the pool's public equity exposure.

Individual Asset Class Performance – Q3 2022

<i>Large/Mid-Capitalization US Equity</i>	<i>-6.0%</i>	<i>(-1.4% vs. Russell 1000)</i>
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<i>Small Capitalization US Equity</i>	<i>-5.0%</i>	<i>(+0.2% vs. Russell 2000)</i>
<i>Non-US Equity</i>	<i>-10.1%</i>	<i>(-0.7% vs. MSCI EAFE)</i>
<i>Emerging Markets Equity</i>	<i>-12.7%</i>	<i>(-1.1% vs. MSCI Emerging Markets)</i>
<i>Global Equity</i>	<i>-7.8%</i>	<i>(-1.6% vs MSCI World)</i>
<i>U.S. Investment Grade Fixed Income</i>	<i>-4.7%</i>	<i>(+0.1% vs. Barclays Capital Aggregate)</i>

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