The Vermont Community Foundation
Long-Term Pool Investment Performance/Strategy
As of December 31, 2021

Long-Term Pool Investment Performance vs. Benchmark- Through 12/31/21, Net of Investment Management Fees

	Latest Quarter	Latest 3 Years	Latest 5 Years	Latest 7 Years	Latest 10 Years	Latest 15 Years
Long-Term Pool	**+1.0%**	**+12.7%**	**+9.7%**	**+8.0%**	**+8.9%**	**+7.1%**
*Target Benchmark**	*+3.3%*	*+14.1%*	*+10.2%*	*+8.2%*	*+8.4%*	*+5.8%*
60% MSCI ACW/40% Bloomberg Agg	*+4.0%*	*+14.3%*	*+10.2%*	*+7.9%*	*+8.4%*	*+6.2%*

* 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.

Asset Class	*Target/Actual Allocation*		*Managers*
U.S. Large/Mid-Capitalization Equities	11.0%	(14.1%)	Adage/FPR/Focused
U.S. Small Capitalization Equities	5.5%	(4.5%)	Ashford/Champlain
Global Equity	12.0%	(16.2%)	Generation/Gobi/Theleme/Barker
International Equities	11.0%	(8.7%)	Sanderson/Brown Capital
Emerging Markets Equities	5.5%	(5.6%)	Elephant/Westwood
Hedge Funds	7.0%	(7.7%)	Various Direct Funds
Special Opportunities	13.5%	(11.0%)	Ashe/Cevian/Effissimo/HCIF
Private Assets	10.0%	(7.9%)	Various Direct and Fund of Funds
U.S. Investment Grade Fixed Income	8.5%	(4.6%)	IR&M/Vanguard
TIPS	4.2%	(2.8%)	Vanguard
High Yield Fixed Income	2.0%	(2.9%)	Oak Hill
Global Fixed Income	4.8%	(4.3%)	Colchester
Vermont Investments	5.0%	(5.6%)	
Cash	0.0%	(4.0%)	Transactional, due to year-end redemptions

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

As we begin the third calendar year living through a global pandemic, asset prices continue to rise, led by the S&P 500, which gained 28.7% in 2021. Small-cap value stocks provided some competition, as the Russell 2000 Value Index advanced 28.3%. Interest rates remain low and within a narrow range, although the Bloomberg Aggregate Index posted its first calendar-year loss (-1.5%) since 2013.

Rising inflation was among the many noteworthy financial events of the year, as the CPI's 7.0% advance reflects the highest inflation rate since the early 1980s. With the ten-year Treasury yield hovering at just over 1.5% as of December 31st, then even moderately higher inflation is not a risk as far as fixed-income markets are concerned, or investors are now content to earn negative inflation-adjusted returns looking ahead. The less obvious implication is that S&P 500 investors have also signed up for negative real returns, as this is the implied forward return given the index's nearly 40x Shiller ratio.

Complexity and risk are constant themes for investors, with the combination of high asset prices and rising inflation presenting above-average challenges. Fortunately, there are ways to survive and perhaps even thrive in this climate.

1) Embrace volatility and uncertainty—it will occur whether we like it or not. The reality is that well-diversified portfolios with prudent spending policies are not likely to suffer tangible harm from even dizzying market declines.

2) Pursue out-of-favor/under-performing market segments—the time horizon of most investors is quite short, which provides a meaningful advantage for those with a longer view. The rise of index and thematic investing has enhanced the value proposition for thoughtful, in-depth fundamental analysis. This combination of rigorous analysis and patience is likely to be unusually effective in out-of-favor areas.

3) Remember that market cycles have not been repealed and conditions change without warning. It is best to never be dogmatic, but one should be particularly careful with areas that have been rewarding for extended periods of time, as these become the most fraught with future peril just as they appear to offer safety and certainty.

We look forward to the journey ahead. Conditions will not make it easy, but it seems likely to us that the increasingly lonely business of long-term-oriented, fundamentally driven, volatility-tolerant, and largely contrarian investing may be the difference between success and failure in the decade ahead.

Individual Asset Class Performance – Q4 2021

Large/Mid-Capitalization US Equity	*+8.1%*	*(-1.7% vs. Russell 1000)*
Small Capitalization US Equity	*-0.2%*	*(-2.3% vs. Russell 2000)*
Global Equity	*+1.2%*	*(-5.5% vs. MSCI ACWI)*
International Developed Markets Equity	*+1.8%*	*(-0.9% vs. MSCI EAFE)*
Emerging Markets Equity	*+0.8%*	*(+2.1% vs. MSCI Emerging Markets)*
Hedge Funds	*-3.7%*	*(-3.9% vs. HFRI Fund of Funds)*
Special Opportunities	*+0.0%*	*(-6.7% vs. MSCI ACWI)*
High Yield	*+0.6%*	*(-0.1% vs. Merrill Lynch High Yield Bond)*
U.S. Investment Grade Fixed Income	*-0.4%*	*(-0.4% vs. Bloomberg Aggregate)*
Global Fixed Income	*-1.6%*	*(-0.5% vs. FTSE World Govt Bond)*
Treasury Inflation Protected Securities	*+2.2%*	*(-0.2% vs. FTSE Inflation Linked)*

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