

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

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

	Latest <u>Quarter</u>	Latest <u>3 Years</u>	Latest <u>5 Years</u>	Latest <u>7 Years</u>
<b>Mid-Term Pool</b>	<b>+2.0%</b>	<b>+11.2%</b>	<b>+8.2%</b>	<b>+6.7%</b>
<i>Mid-Term Pool Benchmark*</i>	+2.9%	+12.1%	+8.6%	+7.0%
<i>50% MSCI ACW/50% Bloomberg Agg</i>	+3.4%	+12.7%	+9.2%	+7.2%

\* 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.

<i>Asset Class</i>	<i>Target/Actual Allocation</i>		<i>Managers</i>
U.S. Large/Mid-Capitalization Equities	19.0%	(13.6%)	Vanguard
U.S. Small Capitalization Equities	4.8%	(3.7%)	Vanguard
International Equities	17.0%	(12.0%)	Vanguard
Emerging Markets	6.7%	(4.2%)	Vanguard
Fixed Income	23.7%	(13.8%)	Vanguard
High Yield Fixed Income	4.8%	(3.4%)	Harbor
TIPS	9.5%	(6.8%)	Vanguard
Vermont Investments	5.0%	(3.2%)	
Cash/Short Term Bonds	9.5%	(39.3%)	Elevated due to donations, has been re-allocated

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***

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.

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