The Vermont Community Foundation
Long-Term Pool Investment Performance/Strategy
As of December 31, 2022

Long-Term Pool Investment Performance vs. Benchmark- Through 12/31/22, 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	**+6.6%**	**+1.8%**	**+3.2%**	**+5.9%**	**+6.1%**	**+5.2%**
*Target Benchmark**	*+6.9%*	*+3.4%*	*+4.3%*	*+6.2%*	*+5.8%*	*+4.3%*
60% MSCI ACW/40% Bloomberg Agg	*+6.6%*	*+1.6%*	*+3.5%*	*+5.4%*	*+5.4%*	*+4.3%*

* 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%	(12.5%)	Adage/FPR/Focused
U.S. Small Capitalization Equities	6.5%	(4.2%)	Ashford/Champlain
Global Equity	12.0%	(12.7%)	Generation/Gobi/Theleme/Barker
International Equities	11.0%	(7.3%)	Sanderson/Brown Capital
Emerging Markets Equities	6.0%	(6.5%)	Elephant/Westwood
Hedge Funds	5.0%	(9.2%)	Various Direct Funds
Special Opportunities	14.0%	(12.0%)	Ashe/Cevian/HCIF/Ichigo
Private Assets	12.0%	(12.2%)	Various Direct and Fund of Funds
U.S. Investment Grade Fixed Income	8.5%	(4.8%)	IR&M/Vanguard
TIPS	4.2%	(3.2%)	Vanguard
Global Fixed Income	4.8%	(4.8%)	Colchester
Vermont Investments	5.0%	(5.9%)	
Cash	0.0%	(4.7%)	Transactional

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

A solid, albeit uneven fourth-quarter rally provided welcome relief but did not completely erase the sting of significant market declines in 2022; the S&P 500 fell 18.1% for the year while the Bloomberg Aggregate Bond Index dropped 13.0%. A 60% equity/40% fixed-income blend of these indices dropped 15.8% during 2022.

After years and years of suffering, 2022 brought some reprieve for many value investors as the MSCI All Country World Value Index (-7.6% in 2022) outperformed its growth counterpart (-28.6%) by a whopping 21%.

Most major markets materially outperformed the US in local currency terms, although this advantage was forfeited by the US dollar's strength (until very recently, the US dollar was more overvalued relative to other major currencies than it has been in over 40 years).

Presently, a significant shift in market conditions is underway as more than a decade of experimental and market-distorting monetary policy appears to have ended. The US Federal Reserve has moved aggressively to combat inflation through both higher short-term borrowing costs and the early stages of unwinding its massive balance sheet.

Market losses leave everyone with a strong sense of unease—nevertheless, the details matter as they can have enormous significance.

- A return to the excessive level of capital availability from 2009 to 2021 is increasingly unlikely now that the bill has come due via higher inflation and, sadly, the unhealthy and predictable destruction of capital for investors and businesses that depended on these conditions to thrive or even survive.

- Our economic system works best when capital is rationally allocated—it is our hope that the Federal Reserve has noticed the degree to which its prior policies interfered with this mechanism.

- Disappointment likely awaits investors who expect a quick return to ebullient tech/growth-oriented market conditions once inflation cools and the Fed stops raising rates.

- Conversely, 2022 put only a small dent in the market distortions that became increasingly prevalent. This is a source of great opportunity.

Ultimately, 2023 is likely to be complex; many, but not all, who suffered most in the past year would be wise to forego optimism. What we consider a long overdue return to normalcy will create winners and losers, as has always been the case. Those who recognize this and do the hard work of not just removing bad ideas but also finding strong options should be quite optimistic as time-tested principles of long-term investing return to the fore.

This list includes rigor, patience, and risk awareness combined with the value of contrarian thinking and an appreciation of cyclicality and the fact that prices can become highly detached from value. Frankly, we live for times like these, in part because talented investors are more likely to win.

In Q4 2022, Long Term Pool gained 6.6%, trailing its custom benchmark's return by 10 basis points. The Pool's above target allocation to alternatives (hedge funds and private equity) detracted from results in a period in which global equities rallied sharply.

Individual Asset Class Performance – Q4 2022

Large/Mid-Capitalization US Equity	*+8.6%*	*(+1.4% vs. Russell 1000)*
Small Capitalization US Equity	*+7.9%*	*(+1.7% vs. Russell 2000)*
Global Equity	*+12.1%*	*(+2.3% vs. MSCI ACWI)*
International Developed Markets Equity	*+17.4%*	*(+0.1% vs. MSCI EAFE)*

Emerging Markets Equity	*+8.1%*	*(-1.6% vs. MSCI Emerging Markets)*
Hedge Funds	*+6.3%*	*(+4.4% vs. HFRI Fund of Funds)*
Special Opportunities	*+7.0%*	*(-2.8% vs. MSCI ACWI)*
U.S. Investment Grade Fixed Income	*+1.5%*	*(-0.4% vs. Bloomberg Aggregate)*
Global Fixed Income	*+8.2%*	*(+4.4% vs. FTSE World Govt Bond)*
Treasury Inflation Protected Securities	*+3.6%*	*(+1.6% vs. Bloomberg US TIPS)*

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