

The Vermont Community Foundation
Socially Responsible Pool Investment Performance/Strategy
As of December 31, 2022

Socially Responsible Pool Performance vs. Benchmark- Through 12/31/22, 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>
Socially Responsible Pool	+8.1%	+2.4%	+4.3%	+ 6.3%	+ 6.5%
<i>Socially Responsive Pool Benchmark*</i>	+7.8%	+3.0%	+4.4%	+6.3%	+6.2%
<i>60% MSCI ACW/40% Bloomberg Agg</i>	+6.6%	+1.6%	+3.5%	+5.4%	+5.4%

* 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%	(20.1%)	KLD iShares/Redwood Grove/Vanguard
U.S. Small Capitalization Equities	5.0%	(6.0%)	Aperio
Non-US Equities	22.0%	(26.7%)	Aperio
Emerging Markets Equities	6.0%	(5.9%)	Boston Common
Global Equity	12.0%	(7.4%)	Generation
Fixed Income	18.0%	(16.4%)	Calvert/RBC
Private Equity	7.0%	(1.4%)	Lyme Forest, At One
Vermont Investments	5.0%	(5.6%)	
Short Duration Bonds	6.0%	(5.8%)	
Cash	0.0%	(4.9%)	

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

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 cyclical 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, the Socially Responsible Pool gained 8.1%, outperforming its custom benchmark's return by 30 basis points. This result is largely the product of the pool's public equity exposure which outperformed the broad benchmark.

Individual Asset Class Performance – Q4 2022

<i>Large/Mid-Capitalization US Equity</i>	+6.6%	(-0.7% vs. <i>Russell 1000</i>)
<i>Small Capitalization US Equity</i>	+8.2%	(+2.0% vs. <i>Russell 2000</i>)

<i>Non-US Equity</i>	+17.6%	(+0.3% vs. <i>MSCI EAFE</i>)
<i>Emerging Markets Equity</i>	+12.6%	(+2.9% vs. <i>MSCI Emerging Markets</i>)
<i>Global Equity</i>	+11.7%	(+1.9% vs <i>MSCI World</i>)
<i>U.S. Investment Grade Fixed Income</i>	+1.1%	(-1.8% vs. <i>Barclays Capital Aggregate</i>)

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