# The Vermont Community Foundation
## Long-Term Pool Investment Performance/Strategy
## As of December 31, 2023

### *Long-Term Pool Investment Performance vs. Benchmark, 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** | **+7.4%** | **+2.7%** | **+6.8%** | **+6.4%** | **+5.7%** | **+8.3%** |
| *Target Benchmark** | *+7.6%* | *+3.3%* | *+7.9%* | *+7.0%* | *+5.8%* | *+7.6%* |
| *60% MSCI ACW/40% Bloomberg Agg* | *+9.4%* | *+2.2%* | *+7.7%* | *+6.7%* | *+5.7%* | *+7.4%* |

* 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 | 10.0% | (10.4%) | Adage/FPR/Focused |
| U.S. Small Capitalization Equities | 5.5% | (5.5%) | Ashford/Champlain |
| Global Equity | 11.0% | (11.3%) | Generation/Gobi/Theleme/Barker |
| International Equities | 10.0% | (9.5%) | Silchester/Brown Capital |
| Emerging Markets Equities | 5.0% | (6.9%) | Elephant/Westwood |
| Hedge Funds | 5.0% | (5.3%) | Various Direct Funds |
| Special Opportunities | 13.0% | (12.8%) | Ashe/Cevian/HCIF/Ichigo |
| Private Assets | 12.0% | (12.5%) | Various Direct and Fund of Funds |
| U.S. Investment Grade Fixed Income | 12.5% | (4.9%) | IR&M/Vanguard |
| TIPS | 4.2% | (3.3%) | Vanguard |
| Global Fixed Income | 4.8% | (3.6%) | Colchester |
| Vermont Investments | 5.0% | (5.8%) | |
| Cash | 2.0% | (8.1%) | 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*

Whew – what a relief!   2023 proved to be a very profitable year for most public market investors across the geographical, size, and style spectrum.  The dominance of the “Magnificent 7” has been well documented, although it is interesting to observe the degree to which a strong year-end advance left many areas with solid gains for the year.

A pessimistic mindset following 2022’s losses was clearly the wrong perspective for the year ahead.  Should we be similarly suspicious of any optimism born from 2023’s gains?

Due to the simple fact that we base investment decisions on rigor, history, and patience to produce a high probability of longer-term success, engaging in the admittedly attention-grabbing matters of near-term market-direction speculation has never been of interest.  To be blunt, we are afraid to risk making a forecast where our odds of success are at best the same as a coin toss.

When we reflect on the current market environment, we see a tale of two markets. On one hand, we have the Magnificent 7 priced at nearly 40x trailing earnings—this is the ultimate “what can go wrong?” valuation.  On the other, we have scores of beaten-down stocks both inside and outside the US trading at what seem to be exceptionally low valuations.

On balance, we continue to believe that monetary policy is on a slow yet undoubtedly erratic path towards normalization thanks to higher structural inflation.  This introduces many less familiar but well-documented risks that investors will have to face whether they like it or not.  Given that everyone, including us, lack foresight into the future, the primary factor worth considering is the strong tendency of low valuations to create a wider array of scenarios in which equities produce acceptable returns.

In Q4 2023, the Long Term Pool returned +7.2%, trailing its custom benchmark’s return by 20 basis points.  The Pool’s global equity and hedge fund allocations were the largest contributors to relative performance, while domestic large and small-cap equities were the largest detractors.

***Individual Asset Class Performance – Q4 2023***

| | | |
|---|---|---|
| *Large/Mid-Capitalization US Equity* | *+10.0%* | *(-2.0% vs. Russell 1000)* |
| *Small Capitalization US Equity* | *+10.5%* | *(-3.5% vs. Russell 2000)* |
| *Global Equity* | *+13.9%* | *(+2.9% vs. MSCI ACWI)* |
| *International Developed Markets Equity* | *+12.1%* | *(+2.4% vs. MSCI EAFE)* |
| *Emerging Markets Equity* | *+8.5%* | *(+0.6% vs. MSCI Emerging Markets)* |
| *Hedge Funds* | *+6.9%* | *(+3.3% vs. HFRI Fund of Funds)* |
| *Special Opportunities* | *+9.4%* | *(-1.6% vs. MSCI ACWI)* |
| *U.S. Investment Grade Fixed Income* | *+6.3%* | *(-0.5% vs. Bloomberg Aggregate)* |
| *Global Fixed Income* | *+9.9%* | *(+1.7% vs. FTSE World Govt Bond)* |
| *Treasury Inflation Protected Securities* | *+4.6%* | *(-0.1% vs. Bloomberg US TIPS)* |

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