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# **The Vermont Community Foundation**

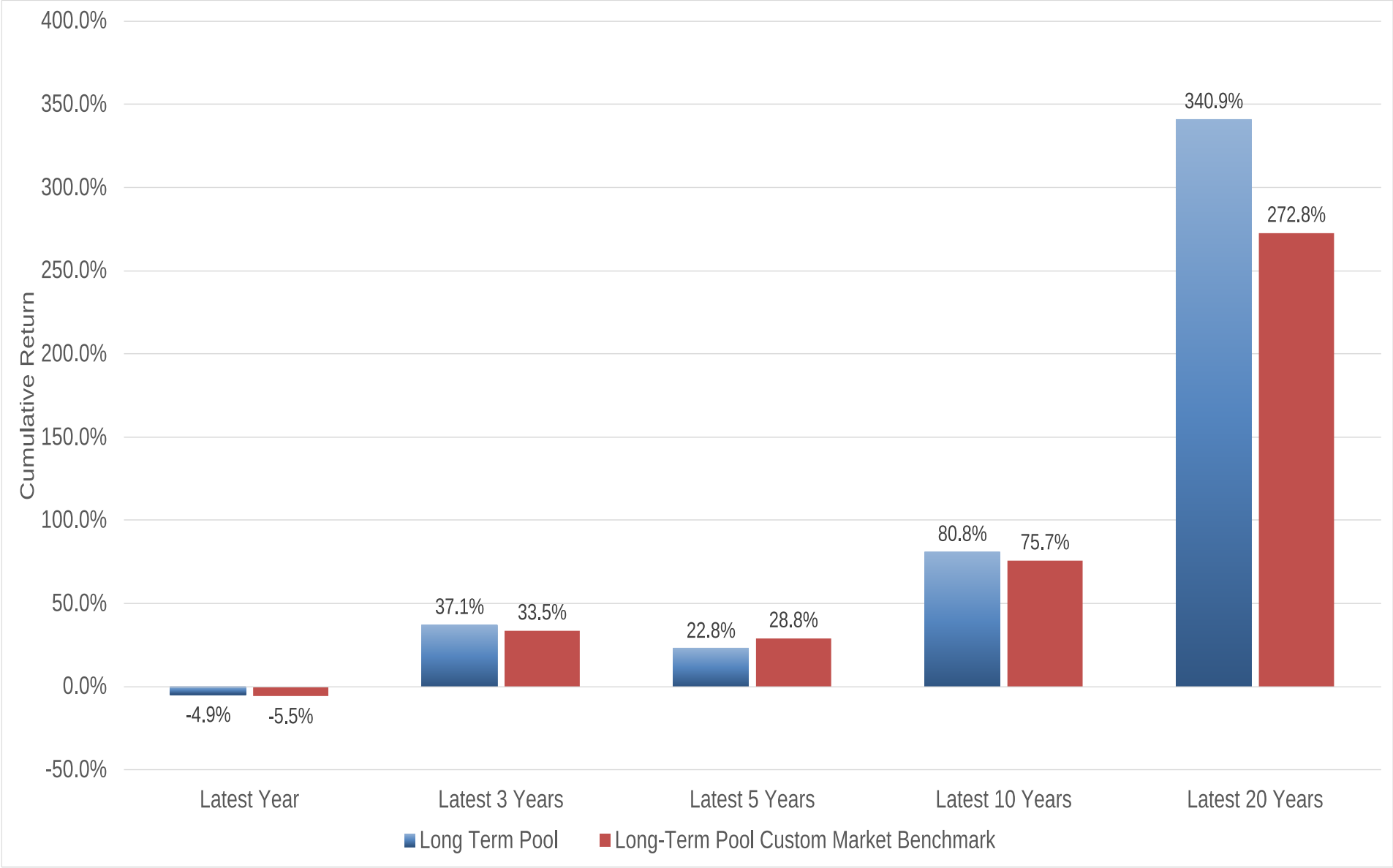
## **Investment Strategy/Performance Update**

**May 18, 2023**

# Annualized Investment Results

Performance Ending 3/31/23 (Net Of Investment Management Fees)	Calendar Year to Date	Latest Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	Latest 20 Years
Long-Term Pool	5.0%	-4.9%	11.1%	4.2%	6.1%	7.7%
Long-Term Pool Custom Market Benchmark	4.7%	-5.5%	10.1%	5.2%	5.8%	6.8%
CPI + 5%	2.2%	10.1%	10.5%	8.9%	7.7%	7.5%
Socially Responsible Pool	5.8%	-5.4%	10.1%	5.5%	6.6%	N/A
SR Pool Custom Market Benchmark	5.3%	-4.6%	9.8%	5.6%	6.3%	N/A
Mid-Term Pool	4.3%	-5.0%	7.5%	4.2%	5.0%	N/A
Mid-Term Pool Custom Market Benchmark	4.7%	-4.1%	7.1%	4.1%	5.0%	N/A

# Decisions Focused on Long-Term Outcomes



# High Batting Average & Positive Skew

## *Socially Responsible Returns Relative to Policy Benchmark – 6/30/10 to 3/31/23*

Key Stats - Socially Responsible Pool	Rolling 3 Year	Rolling 5 Year	Rolling 7 Year	Rolling 10 Year
Batting Average	68.6%	84.0%	92.9%	88.2%
Median Outcome	1.0%	2.8%	4.4%	6.2%
Best Outcome	4.8%	6.7%	9.9%	9.6%
Worst Outcome	-5.9%	-5.4%	-2.6%	-4.8%

- Very High Batting Average – Not Perfect Though!
- Median Value Added is Meaningful
- Generally Strong Best/Worst Case Outcomes

# High Batting Average & Positive Skew

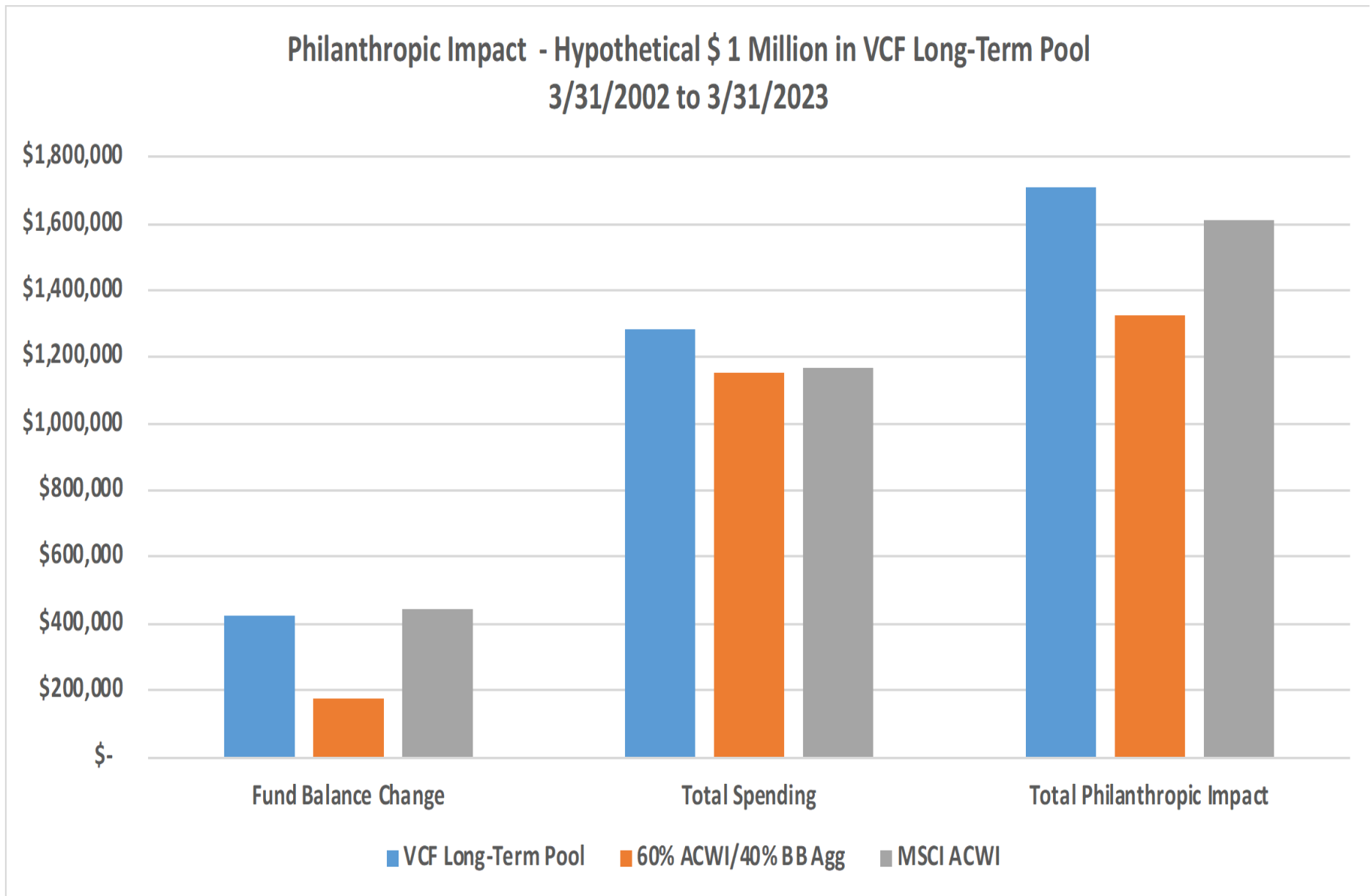
## Long-Term Pool Returns Relative to Policy Benchmark 3/31/23

3/31/02 to

Key Stats - Long Term Pool	Rolling 3 Year	Rolling 5 Year	Rolling 7 Year	Rolling 10 Year
Batting Average	82.0%	84.5%	89.9%	100.0%
Median Outcome	5.3%	10.6%	18.2%	30.7%
Best Outcome	10.6%	19.8%	24.6%	39.2%
Worst Outcome	-7.1%	-5.4%	-2.7%	5.6%

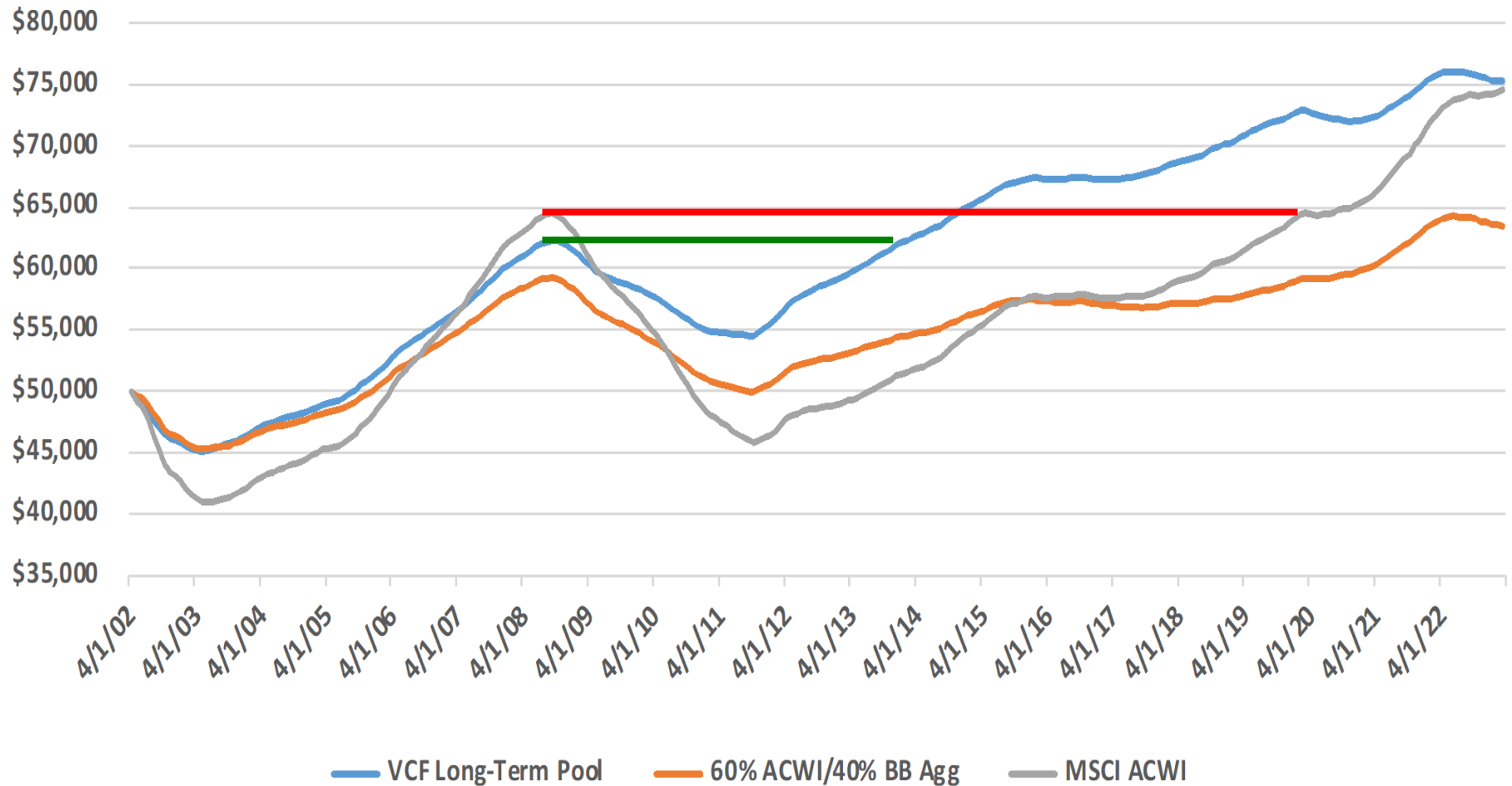
- Very High Batting Average – Not Perfect Though!
- Median Value Added is Meaningful
- Very Strong Best/Worst Case Outcomes

# Balance & Focus on Long-Term Outcomes



# Even Long-Term Investors Must Worry About Volatility

Annual Spending - Hypothetical \$ 1 Million Fund in VCF Long-Term Pool  
3/31/2002 to 3/31/2023



# The Community Foundation's Approach

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- Establish a Strategic Asset Allocation That is Expected to Achieve the Foundation's Long Term Return Objectives (Preserve Foundation Purchasing Power Over Twenty Year+ Periods)
- No Attempt Made to Market Time or Change Strategy Based on Near Term Outlook – Does Not Preclude Opportunistic Allocations Whose Outcome is Not Driven by Timing
- Diversify Portfolio by Asset Class and Strategy. Increases the Likelihood of Achieving Return Objectives Under Different Economic/Market Conditions



# Strategic Asset Mix

Asset Class Exposures (% of Total Portfolio)	Long-Term Pool Mix	Socially Responsible Pool Mix	Mid-Term Pool Strategic Mix
US Large/Mid Cap Equity	11.0	19.0	19.0
US Small Cap Equity	6.5	5.0	4.8
Non-US Developed Equity	11.0	22.0	17.0
Non-US Emerging Equity	6.0	6.0	6.8
Global Equity	12.0	12.0	0.0
Special Opportunities	14.0	0.0	0.0
<b>Total Equity</b>	<b>60.5%</b>	<b>64.0%</b>	<b>47.5%</b>
US Aggregate Bonds	8.5	18.0	23.8
Treasury Inflation Protected Securities	4.3	0.0	9.5
US High Yield Bonds	0.0	0.0	4.8
Global Bonds	4.8	0.0	0.0
Cash/Short Term Bonds	0.0	6.0	9.5
<b>Total Fixed Income</b>	<b>17.5%</b>	<b>24.0%</b>	<b>47.5%</b>
Hedge Funds	5.0	0.0	0.0
Private Assets	12.0	7.0	0.0
<b>Total Alternatives</b>	<b>17.0%</b>	<b>7.0%</b>	<b>0.0%</b>
<b>Vermont Investments</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>

# Manager Due Diligence

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- Return always accompanied by risk
- Must understand the strategy, know key personnel, avoid needless complexity.
- Operational issues: independent custodian, credible auditor, outside administrator
- Ongoing – forward looking process

# Manager Due Diligence – Qualitative Factors

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## INVESTMENT PROCESS

- Fundamental/valuation bias
- High conviction in investment ideas
- Defined buy & sell disciplines
- Uniqueness (edge)

## ORGANIZATION

- Ownership structure
- Aligned interests & motivation
- Compensation structure & retention
- Succession plan
- Institutional Focus
- SEC violations & legal issues

## INVESTMENT PROFESSIONALS

- Portfolio manager/analyst experience
- Assessment of manager/team skill
- Portfolio management/analyst coverage
- Team continuity & ethical concern

## PORTFOLIO MANAGEMENT/RISK

- Assets in strategy/capacity
- Position exposure/risk
- Prudent use of leverage
- Hedging strategy
- Liquidity
- Transparency
- Appropriate diversification

## OPERATIONAL/BUSINESS RISK

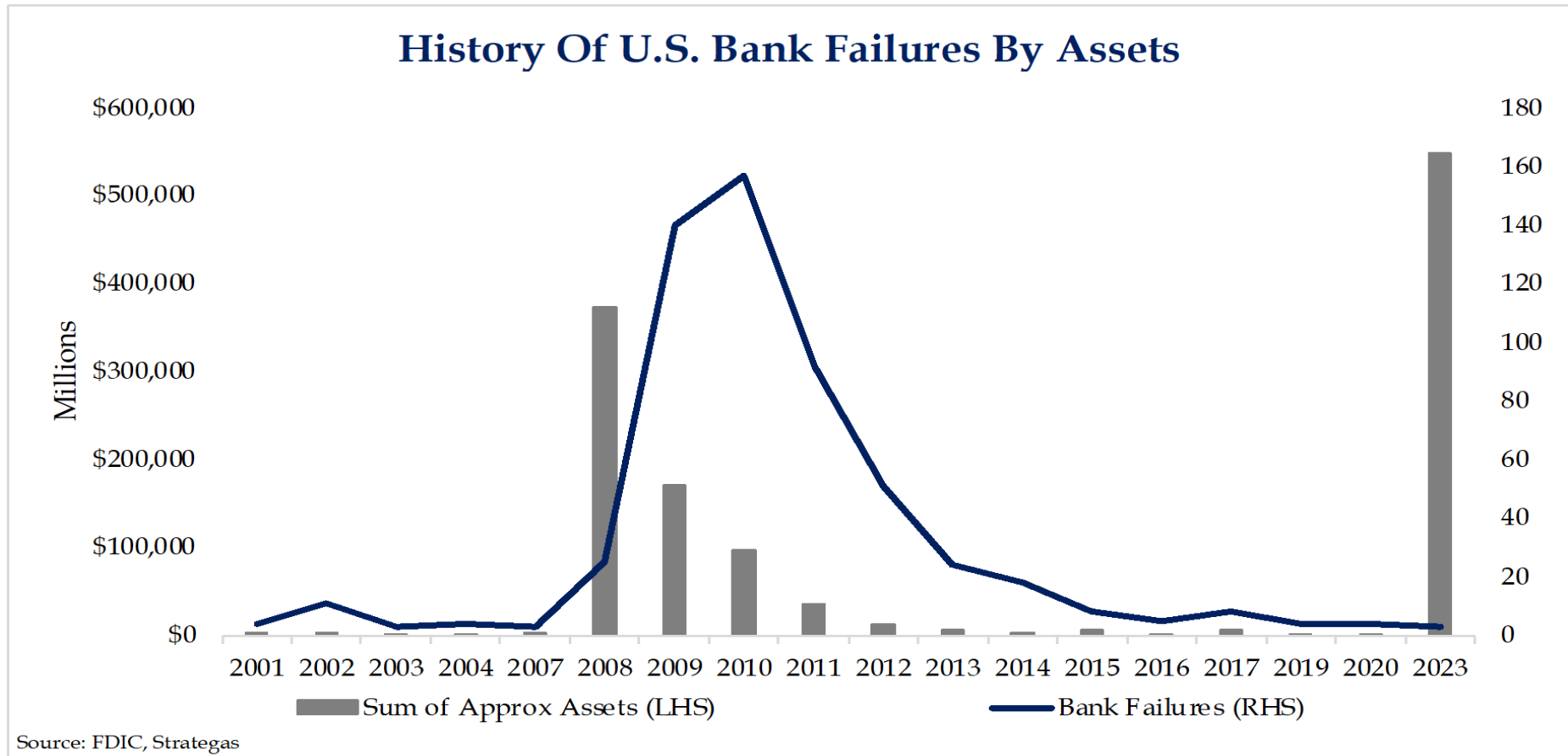
- Prime broker exposure
- Counter party risk
- Financing/borrowing terms
- Client concentration risk
- Back office staffing & infrastructure
- Compliance procedures
- Trading systems
- Valuation procedures
- Disaster Recovery

# We Live in a New World

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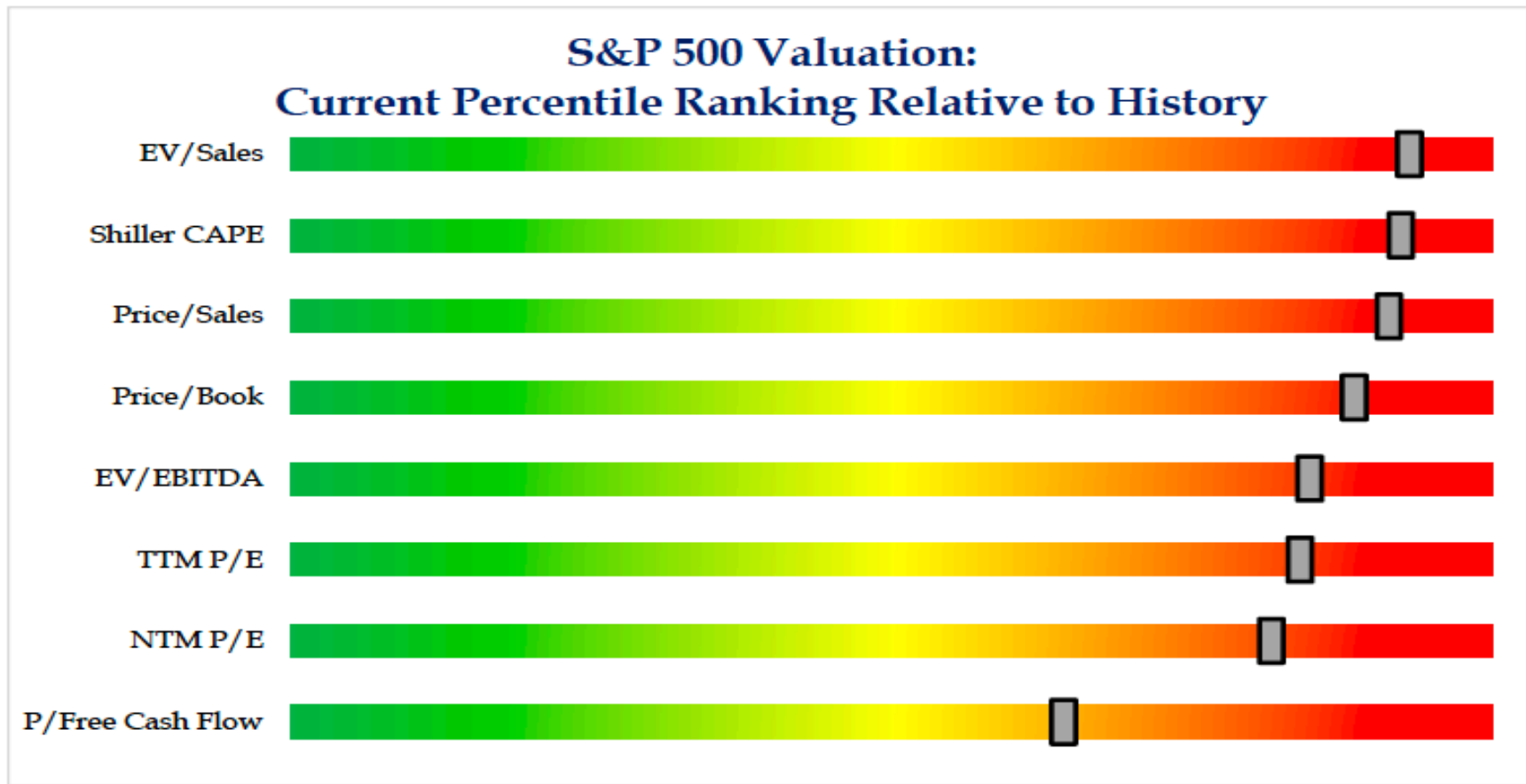
- Higher Inflation = Higher Cost and Competition for Capital
- Central Banks & High Risk Investors No Longer Aligned
- Vulnerabilities of a Complex System Have Greater Impact

# Fall-Out of Tighter Monetary Policy



- Rising Interest Rates Produced the Largest \$ Level of Bank Failures since 2008
- The Crisis Unfolded Very Quickly

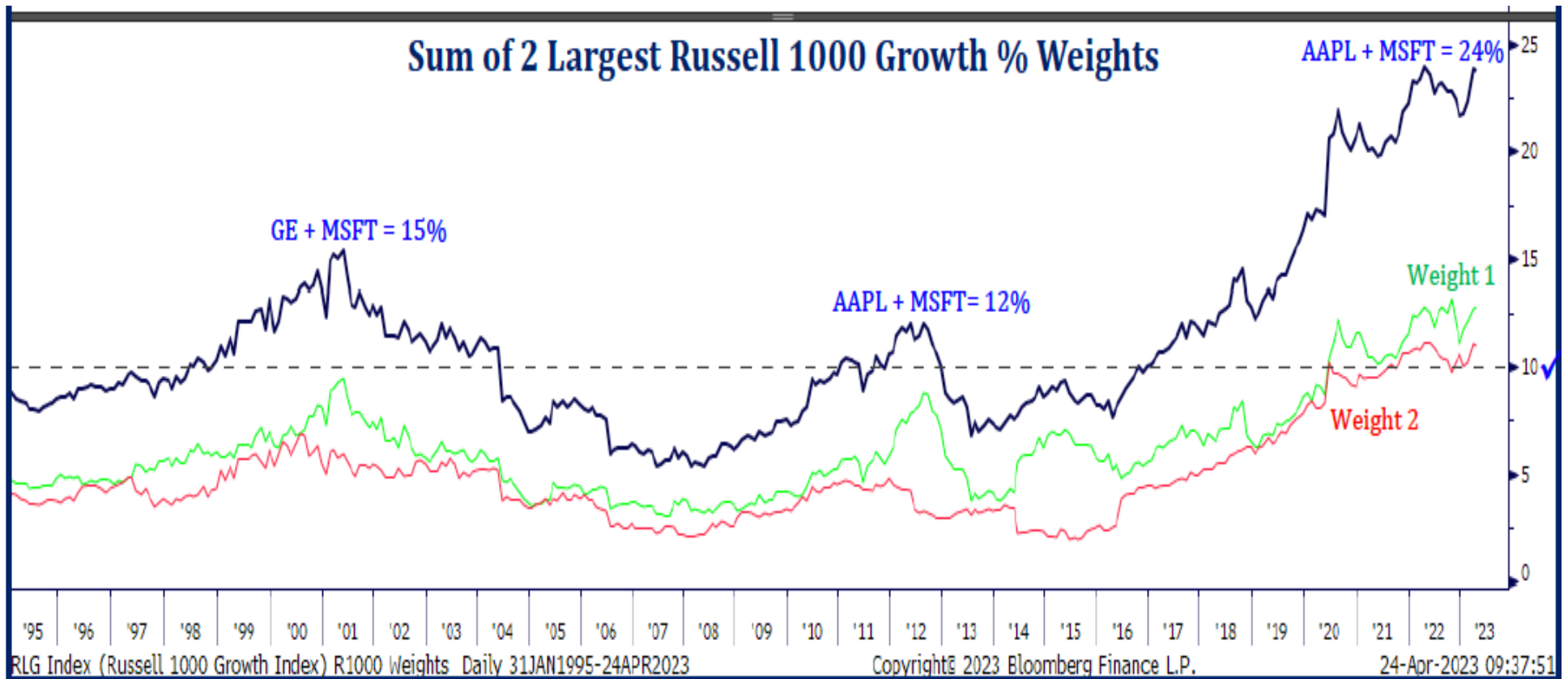
# Risk – Business Quality & Valuation



Source: Strategas Research Partners

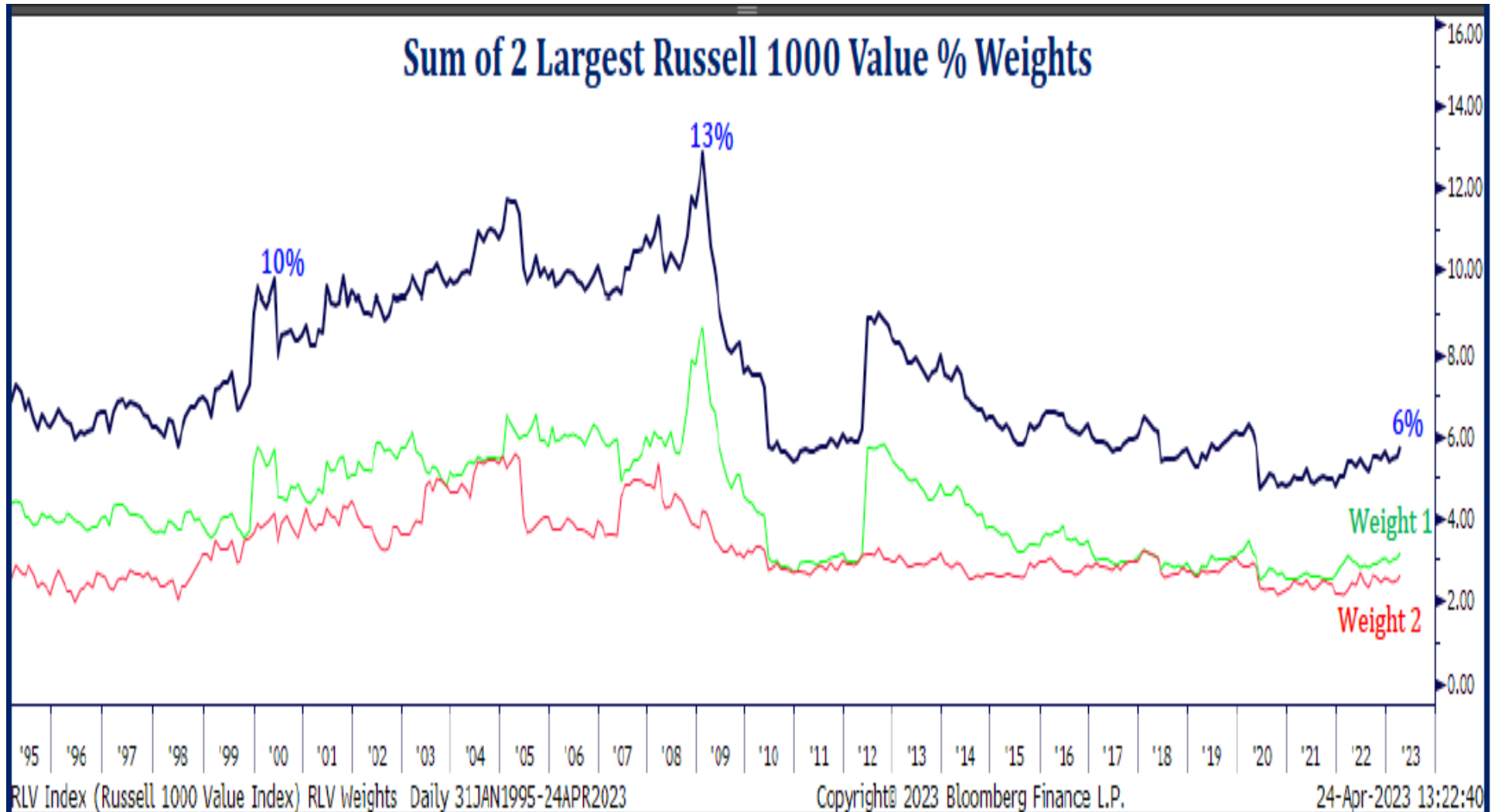
- Despite US and Global Complexity, the S&P 500 Remains Priced for Good Times Ahead
- This is not Sustainable

# Comfort → Concentration → Risk



- There is No Law that Business Quality and Stock Prices are Correlated!
- This is not Sustainable

# Not a Universal Problem





# Strategy Looking Forward

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- Strict adherence to a strategy that relies on decisions with a high probability of long-term success – time is on our side
- Utilize advantages of scale, stability and time horizon to access atypical investments – strong proponents of index funds balanced with compelling managers
- **Over long time periods, intelligently accepting volatility contributes to higher returns**

# Crewcial Partners Profile

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Location: New York, NY

Staff Size: 68

Number of Clients: 118

Founded: 1980

100% Employee Owned

Client Assets: \$ 28 Billion

## Representative Client List:

The San Francisco Foundation

The Philadelphia Foundation

Central NY Community Fdn

Marin Community Foundation

Lasker Foundation

WNET