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# **The Vermont Community Foundation**

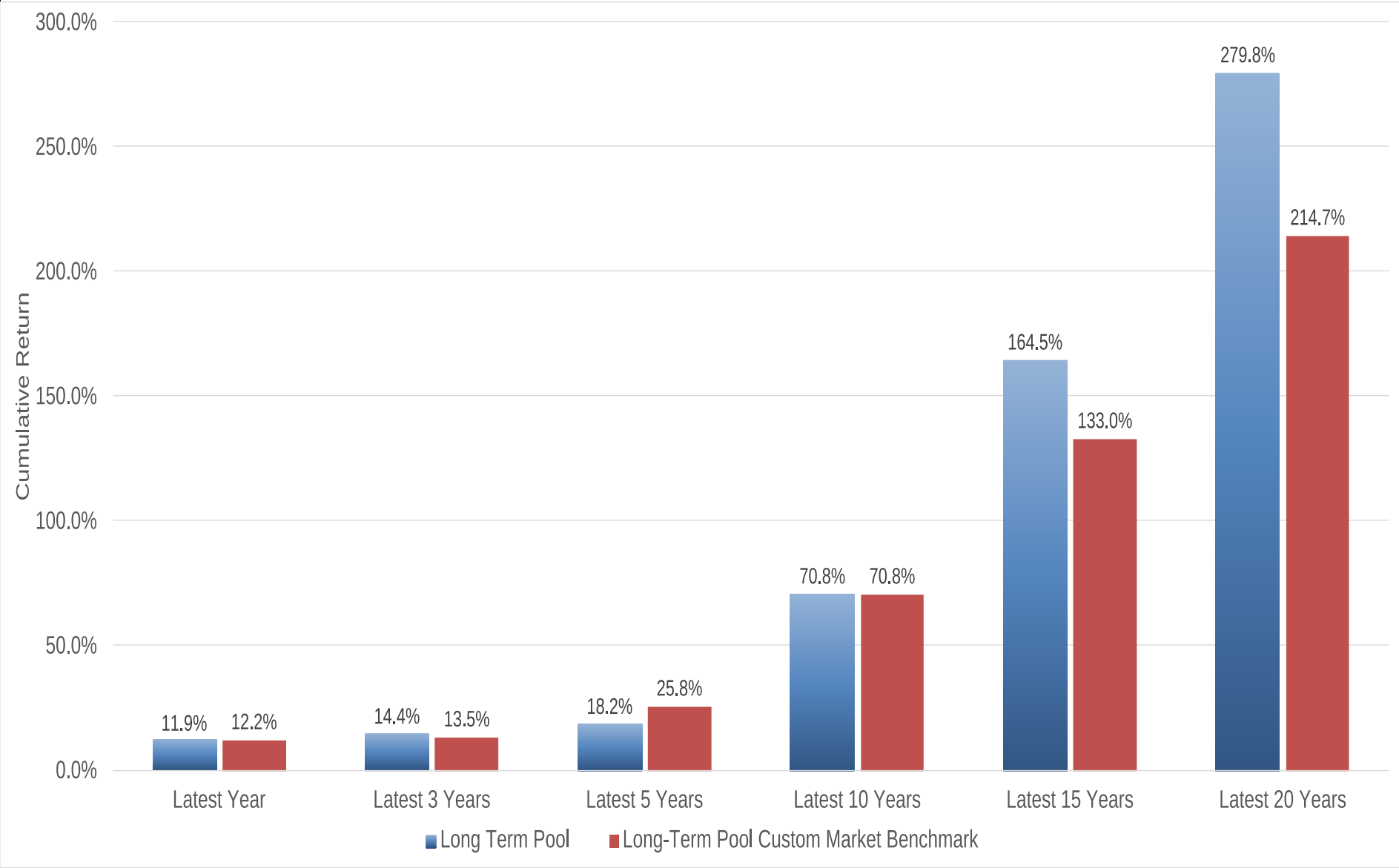
## **Investment Strategy/Performance Update**

**November 15, 2023**

# Annualized Investment Results

Performance Ending 9/30/23 (Net Of Investment Management Fees)	Calendar Year to Date	Latest Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	Latest 15 Years	Latest 20 Years
Long-Term Pool	5.1%	11.9%	4.6%	3.4%	5.5%	6.7%	6.9%
Long-Term Pool Custom Market Benchmark	5.1%	12.2%	4.3%	4.7%	5.5%	5.8%	5.9%
CPI + 5%	6.6%	8.8%	10.9%	9.1%	7.8%	7.3%	7.6%
Socially Responsible Pool	6.2%	15.1%	4.3%	4.8%	6.3%	6.4%	N/A
SR Pool Custom Market Benchmark	6.1%	14.4%	4.1%	4.9%	5.9%	6.4%	N/A
Mid-Term Pool	4.4%	10.8%	2.2%	4.5%	4.7%	N/A	N/A
Mid-Term Pool Custom Market Benchmark	4.4%	11.0%	2.2%	4.6%	4.7%	N/A	N/A

# Decisions Focused on Long-Term Outcomes



# High Batting Average & Positive Skew

## *Socially Responsible Returns Relative to Policy Benchmark – 6/30/10 to 9/30/23*

Key Stats - Socially Responsible Pool	Rolling 3 Year	Rolling 5 Year	Rolling 7 Year	Rolling 10 Year
Batting Average	71.8%	79.0%	90.8%	90.0%
Median Outcome	0.9%	2.7%	4.2%	6.3%
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 9/30/23*

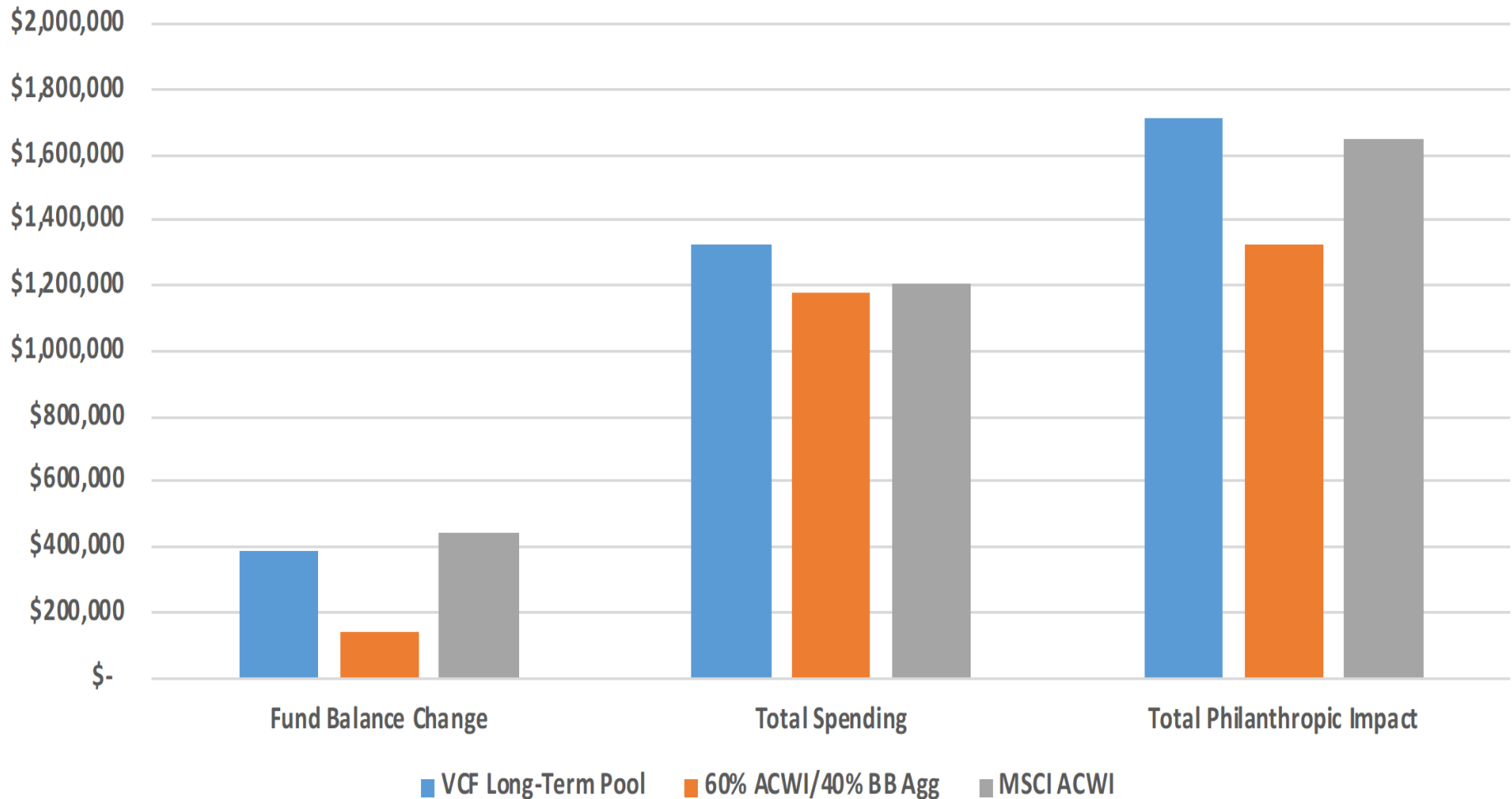
*3/31/02 to*

Key Stats - Long Term Pool	Rolling 3 Year	Rolling 5 Year	Rolling 7 Year	Rolling 10 Year
Batting Average	82.5%	81.9%	86.9%	100.0%
Median Outcome	5.2%	10.3%	18.0%	30.3%
Best Outcome	10.6%	19.8%	24.6%	39.2%
Worst Outcome	-7.1%	-7.1%	-2.7%	2.0%

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

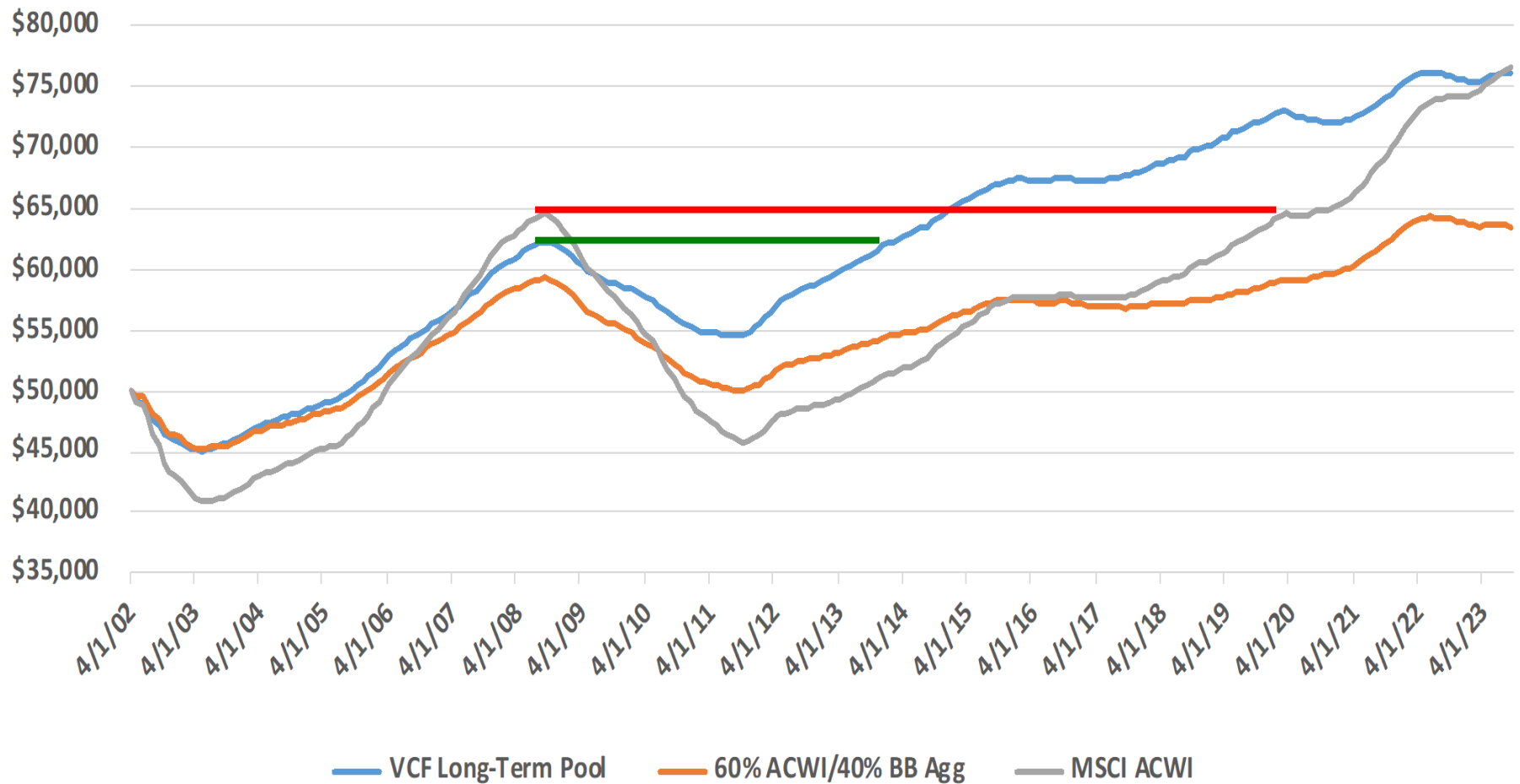
# Balance & Focus on Long-Term Outcomes

Philanthropic Impact - Hypothetical \$ 1 Million in VCF Long-Term Pool  
3/31/2002 to 9/30/2023



# Even Long-Term Investors Must Worry About Volatility

Annual Spending - Hypothetical \$ 1 Million Fund in VCF Long-Term Pool  
3/31/2002 to 9/30/2023



# 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

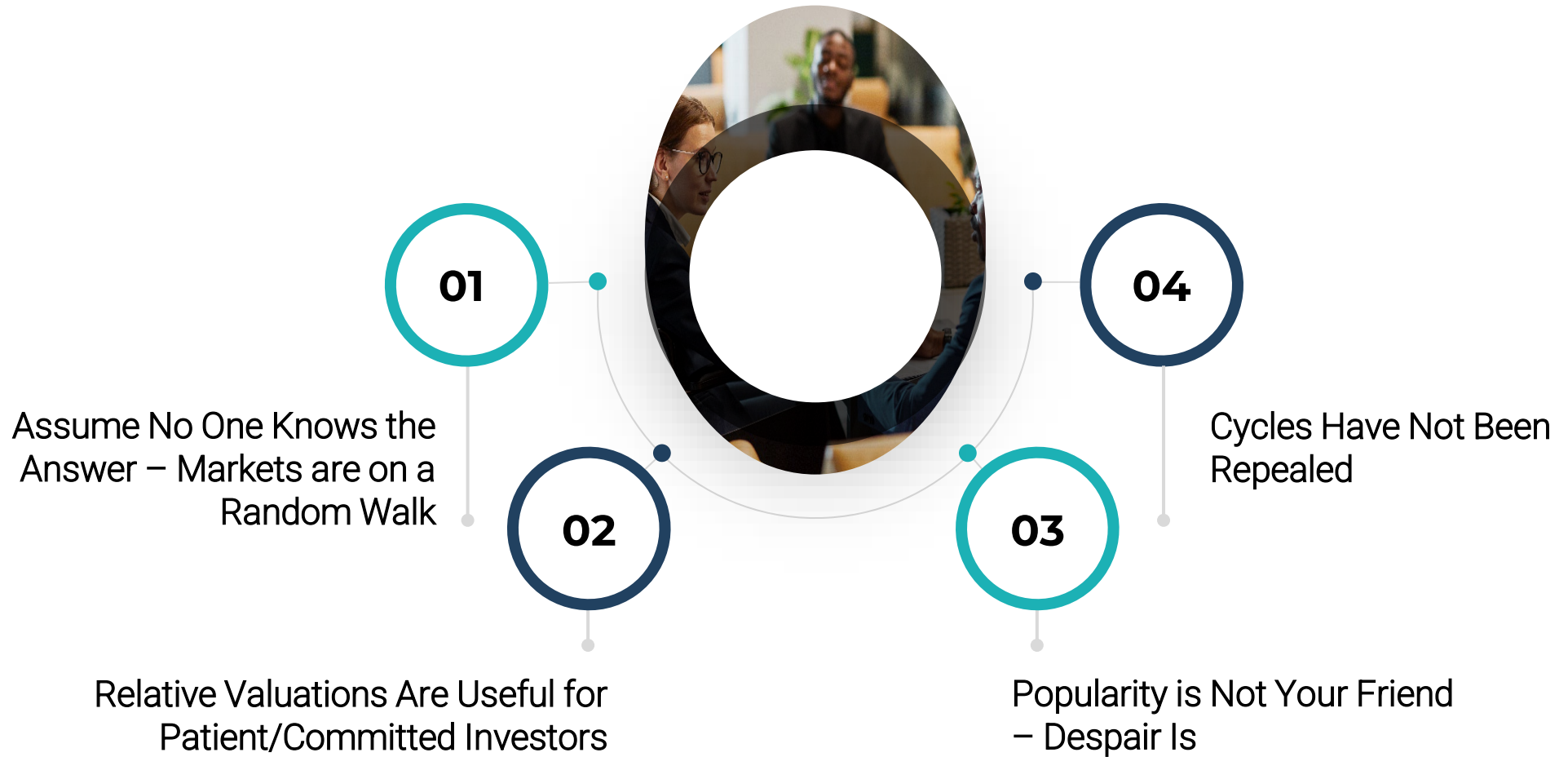
- Prime broker exposure
- Counter party risk
- Financing/borrowing terms
- Client concentration risk
- Back office staffing & infrastructure
- Compliance procedures
- Trading systems
- Valuation procedures
- Disaster Recovery

# We Live in a New World

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- Higher Inflation = Higher Cost and Competition for Capital
- Capital Scarcity is GAME CHANGING
- Capitalization Weighted Indices (S&P 500) are Increasingly Concentrated

# Rules of the Road

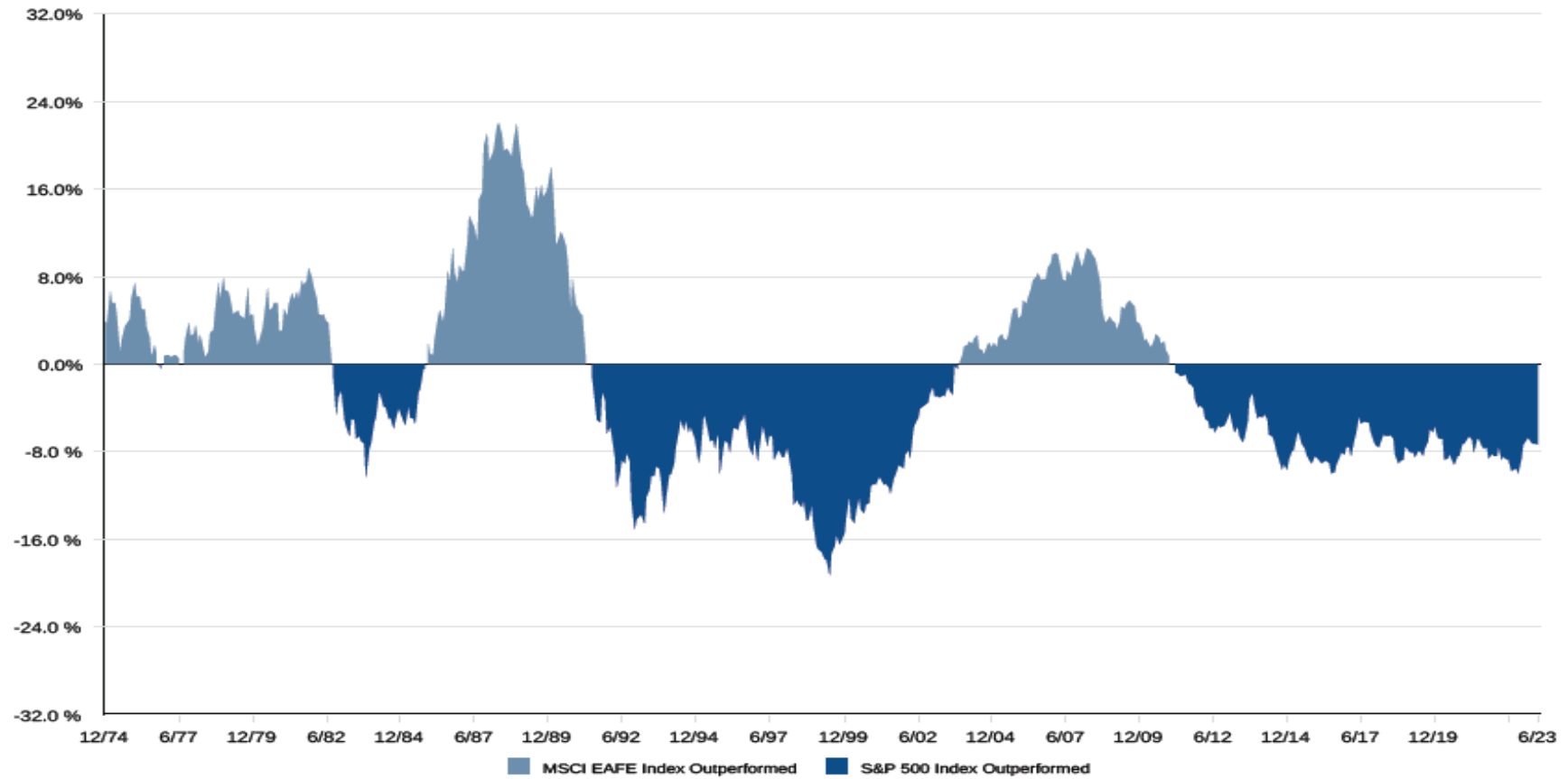


# Cycles: EAFE And The U.S.

Global Data

60 Months Rolling Periods From December 1, 1974 To June 30, 2023

Rolling Excess Performance



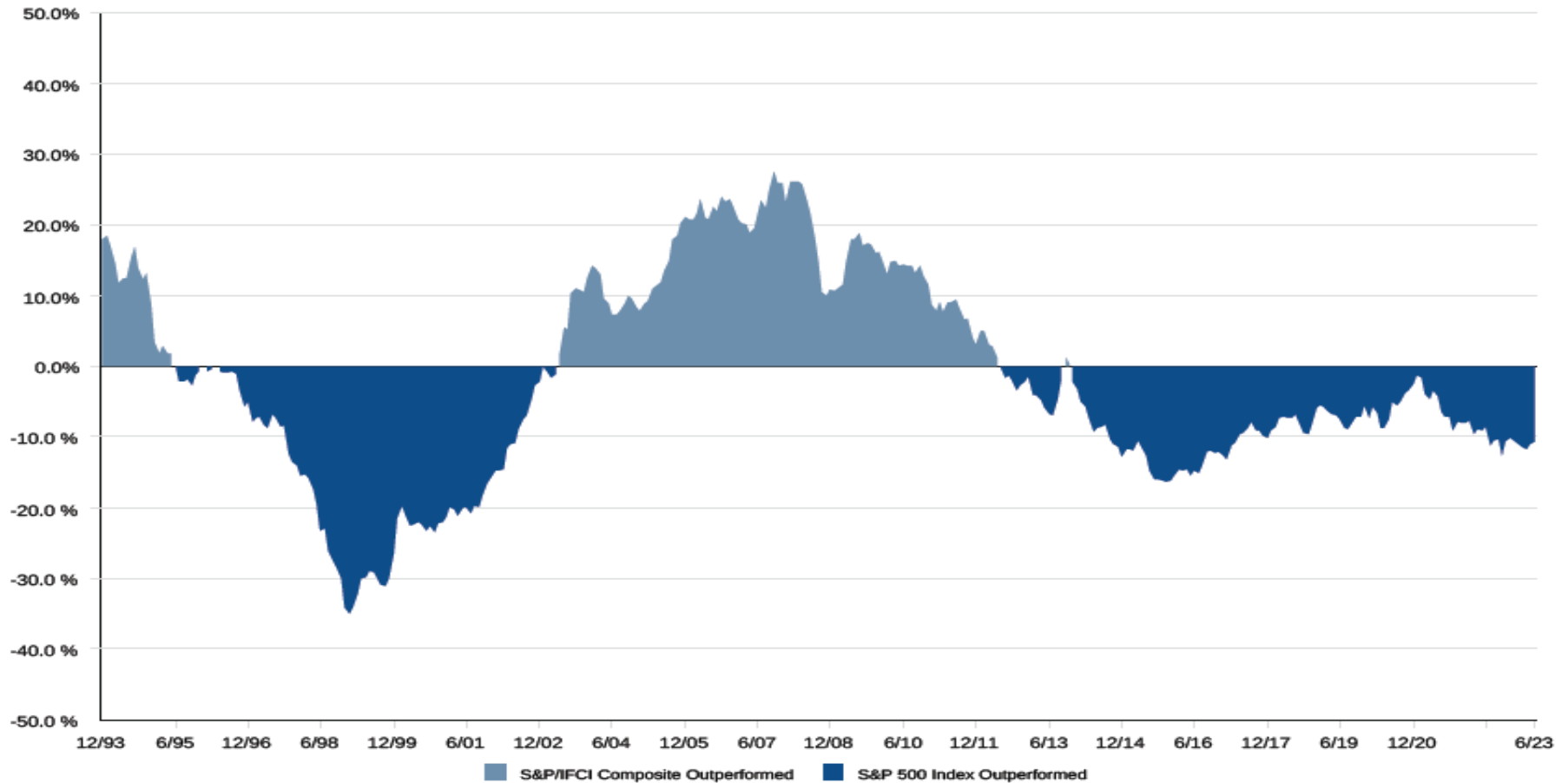
Investment Expertise To Help You Make A Difference

# Cycles: Emerging Markets And The U.S.

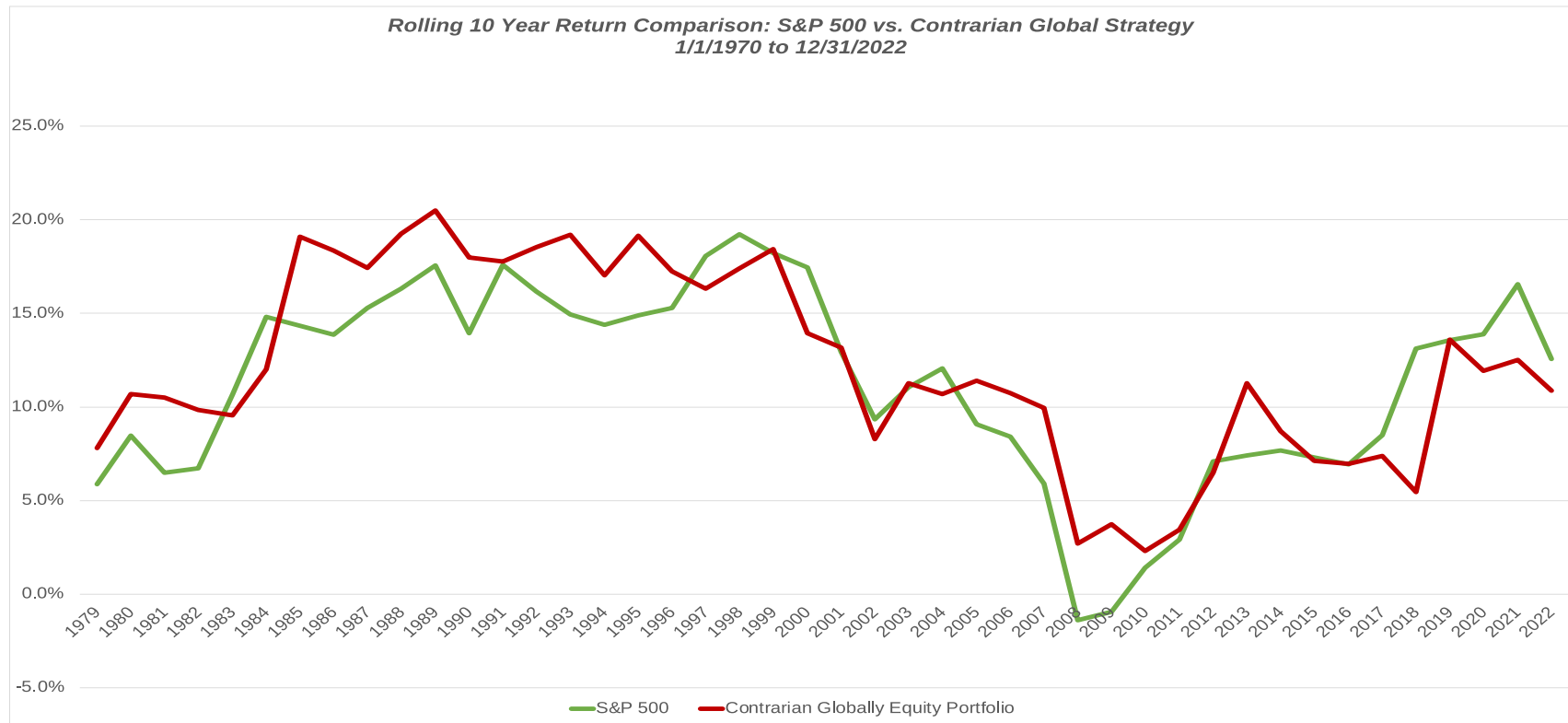
Global Data

60 Months Rolling Periods From December 1, 1993 To June 30, 2023

Rolling Excess Performance



# U.S. vs. Contrarian Global Strategy



Contrarian Global Strategy Utilizes S&P 500, EAFE and EM with initial target weight as defined on prior slide. Each year, it moves 5% (EAFE/S&P 500 or 2.5% (EM to S&P or EAFE) from the strongest performer to the weakest with min and max exposures of S&P 500 (50% to 80%), EAFE (17.5% to 45%) and EM (5% to 15%)



# Why Global?

## Hedging

Short Term Protection Against Losses  
International Equity (Developed or  
Emerging Markets) Can Not be Relied  
Upon in this Way.



## Diversification

Can be Assessed via Impact on  
Volatility

For Long-Term Investors, the Key Issue  
is the Probability that Public Equities  
Support Return Goals



### Frequency of 10 Year Returns >= 9% Per Year – 1970 to 2022

S&P 500	64%
Static Diversified Global Portfolio	59%
Diversified/Contrarian Global Portfolio	73%

# 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