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# **The Vermont Community Foundation**

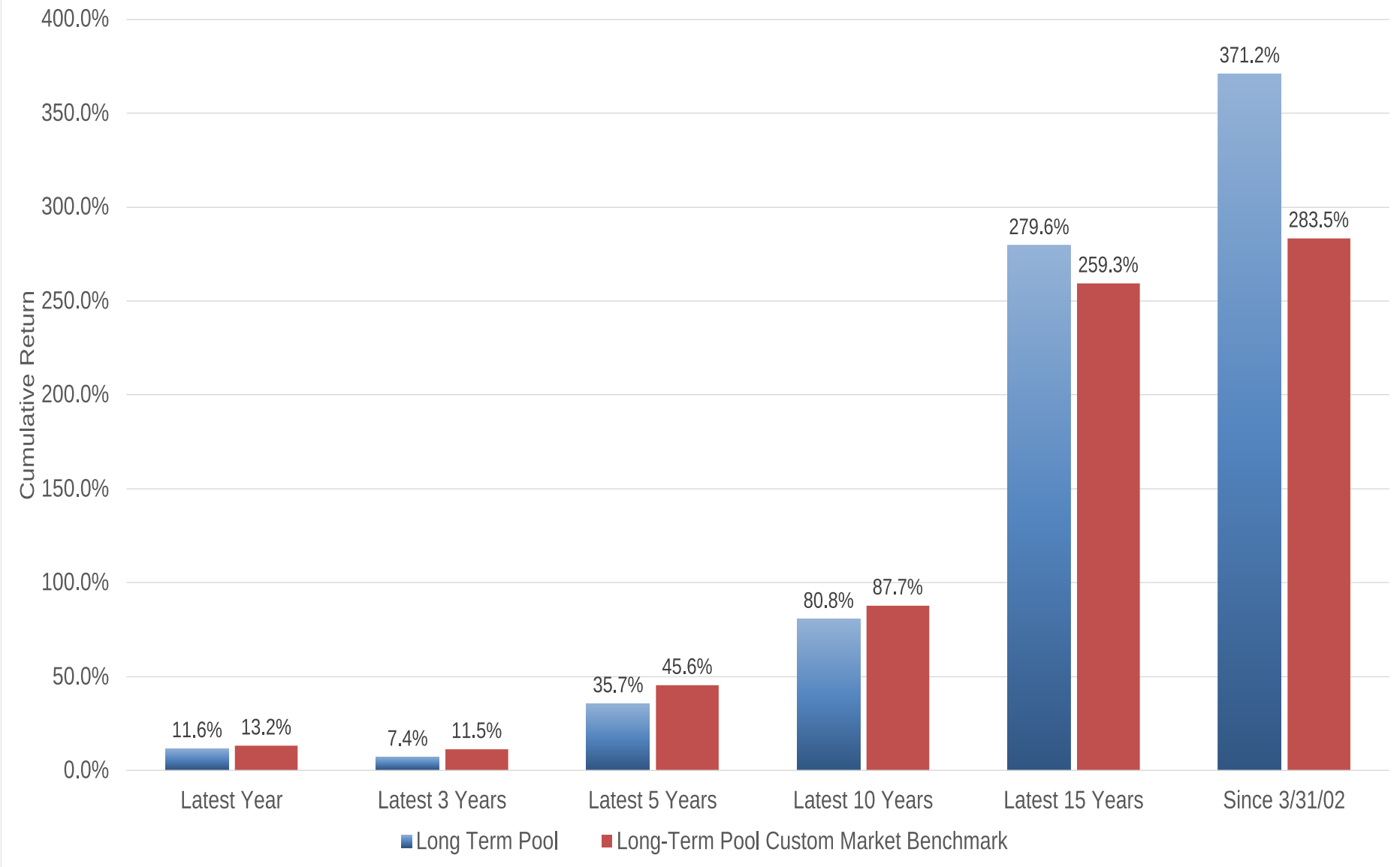
## **Investment Strategy/Performance Update**

**May 14, 2024**

# Annualized Investment Results

Performance Ending 3/31/24 (Net Of Investment Management Fees)	Latest Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	Latest 15 Years	Since 3/31/02
Long-Term Pool	11.6%	2.4%	6.3%	6.1%	9.3%	7.3%
Long-Term Pool Custom Market Benchmark	13.2%	3.7%	7.8%	6.5%	8.9%	6.3%
CPI + 5%	8.5%	10.8%	9.3%	7.9%	7.6%	7.6%
Socially Responsible Pool	15.1%	3.8%	7.9%	7.0%	9.2%	N/A
SR Pool Custom Market Benchmark	14.8%	4.3%	8.0%	6.8%	9.2%	N/A
Mid-Term Pool	9.8%	2.1%	5.7%	5.1%	N/A	N/A
Mid-Term Pool Custom Market Benchmark	11.3%	2.7%	5.8%	5.3%	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 3/31/24*

Key Stats - Socially Responsible Pool	Rolling 3 Year	Rolling 5 Year	Rolling 7 Year	Rolling 10 Year
Batting Average	69.2%	75.5%	87.8%	91.3%
Median Outcome	0.7%	2.4%	3.9%	6.4%
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 3/31/24

3/31/02 to

	Rolling 3 Year	Rolling 5 Year	Rolling 7 Year	Rolling 10 Year
Batting Average	79.9%	80.0%	80.7%	95.9%
Median Outcome	5.1%	10.1%	18.0%	30.3%
Best Outcome	10.6%	20.6%	25.1%	39.1%
Worst Outcome	-6.8%	-8.3%	-7.1%	-2.0%

- Very High Batting Average – Not Perfect Though!
- Median Value Added is Substantial
- Very Strong Best/Worst Case Outcome Ratio

# 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

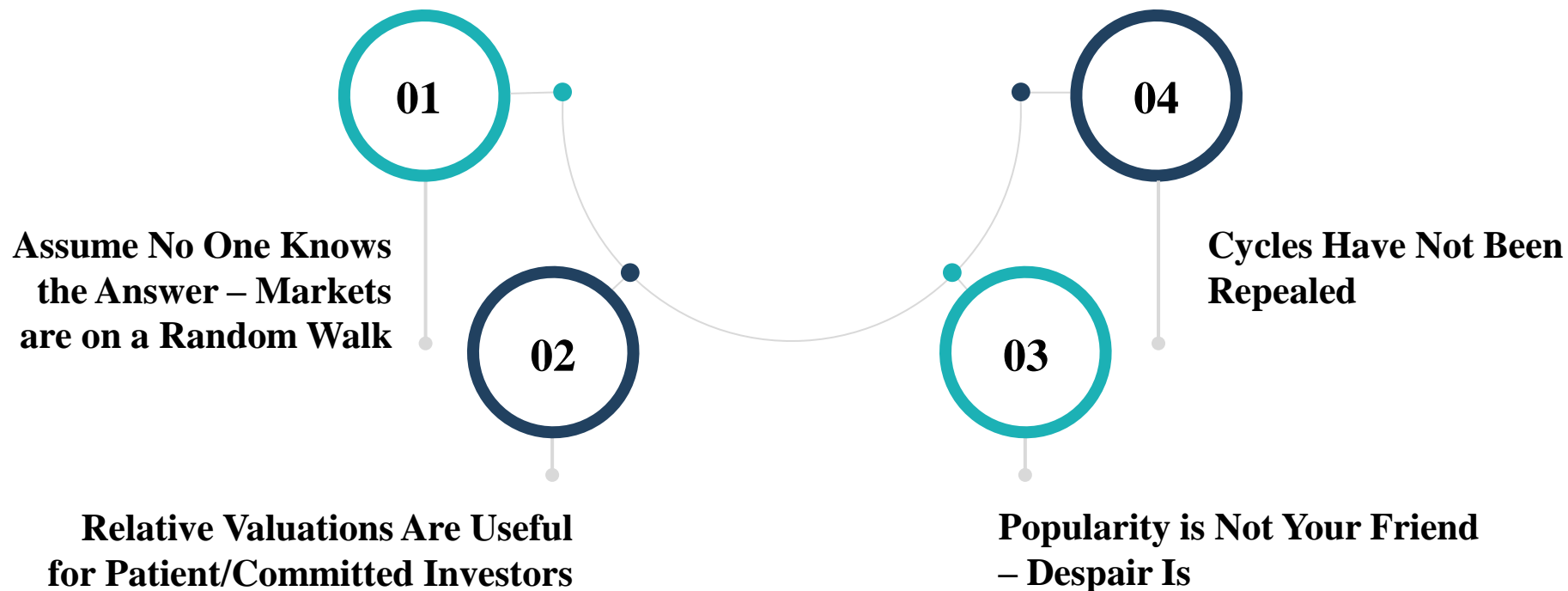
- Prime broker exposure
- Counter party risk
- Financing/borrowing terms
- Client concentration risk
- Back office staffing & infrastructure
- Compliance procedures
- Trading systems
- Valuation procedures
- Disaster Recovery

# 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



# Is the Reward Sufficient?

## S&P 500

Starting Shiller P/E Range	Number of Observations	Subsequent 10-Year Annualized Total Return (NOMINAL)		
		<u>Max</u>	<u>Min</u>	<u>Median</u>
40.1 - 45	21	-0.2	-3.4	-0.9
35.1 - 40	13	4.7	-1.4	2.6
30.1 - 35	23	7.1	-4.0	3.3
25.1 - 30	81	9.0	-3.4	7.5
20.1 - 25	253	16.5	-2.6	7.5
15.1 - 20	515	19.5	-0.4	8.1
10.1 - 15	465	19.8	2.6	11.9
4.8 - 10	226	21.2	-0.3	15.1

Current CAPE: 34.3

- History and Logic are Clear Regarding the Future
- Is it Prudent to Assume This Time is Different?

# Definitely Risk!



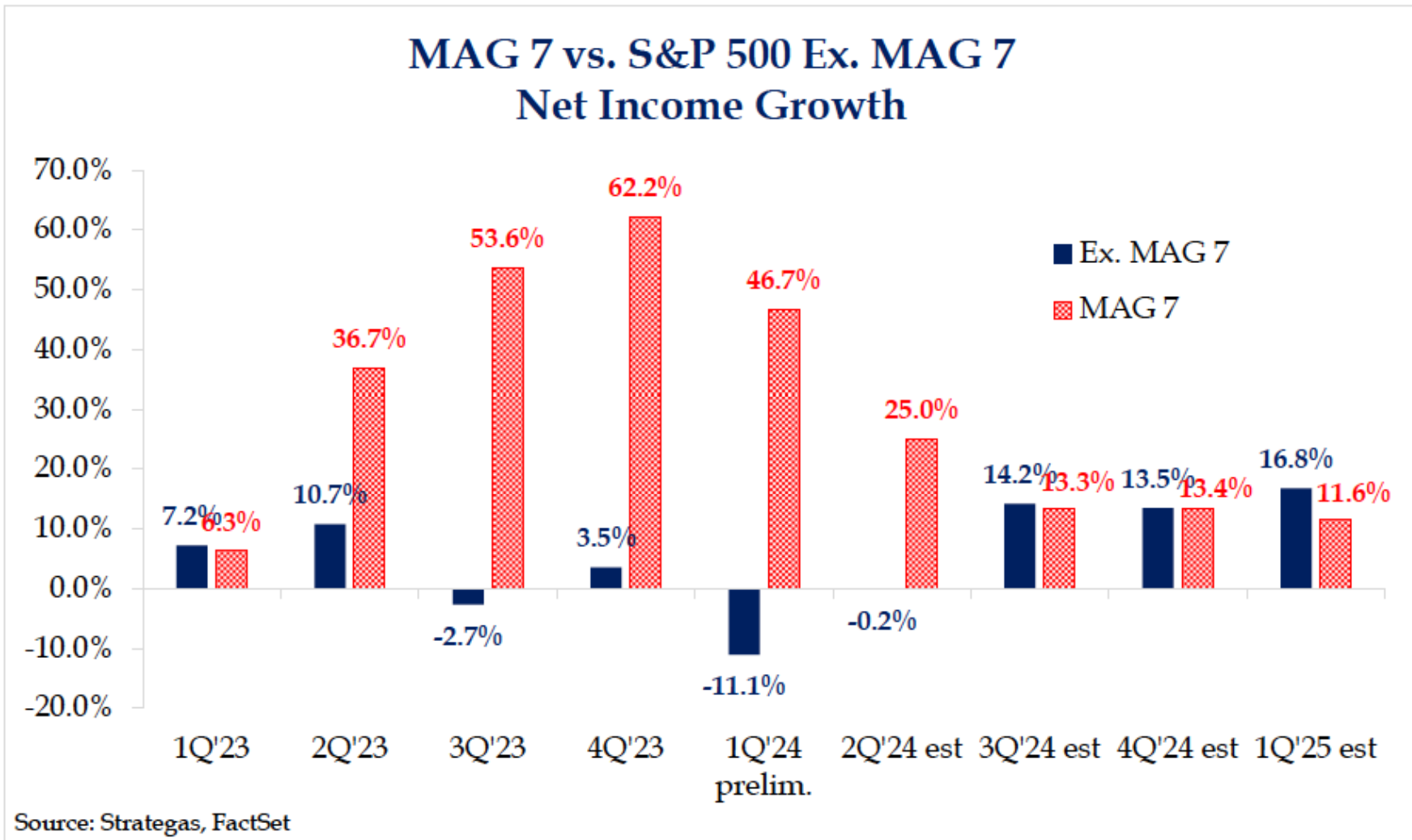
Source: Strategas Research Partners

# Opportunity? Risk?

	% of Mag 7	P/E (Trailing)	EBITDA - 3 Year Forecast Growth (Annl)	EBITDA - 5 Year Historic Growth (Annl)	2026 PEG w/Stock Appreciation
Apple	20.7%	29.3	5.7%	9.0%	5.1
Alphabet	12.8%	23.6	21.3%	19.2%	0.9
Amazon	13.8%	61.5	28.7%	25.2%	1.1
Meta	9.6%	33.8	25.4%	16.0%	0.9
Microsoft	23.1%	42.9	17.9%	18.0%	1.9
NVIDIA	15.1%	69.0	140.0%	15.9%	0.3
Tesla	4.8%	47.1	28.4%	52.7%	1.7
<b>Capitalization Weighted</b>		<b>43.5</b>	<b>37.0%</b>	<b>18.5%</b>	<b>2.0</b>

- A Lot of Optimism in the Forecasts – Will Reality be This Good?
- Two Ways for Long-Term Investments to Fail – Bankruptcy or Paying Excessive Prices – the Latter is More Dangerous

# Hmm....



➤ Why Pay Double for Similar Outcomes?

# 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**