

The Vermont Community Foundation
Investment Performance/Strategy
As of September 30, 2009

Foundation Investment Performance vs. Benchmark- Through 9/30/09, Net of Investment Management Fees

	Latest <u>Quarter</u>	Calendar <u>Year to Date</u>	Latest <u>1 Year</u>	Latest <u>3 Years</u>	Latest <u>5 Years</u>
Vermont Community Foundation	+12.0%	+23.2%	+5.6%	+2.6%	+6.2%
<i>Target Benchmark*</i>	+13.0%	+20.9%	+1.2%	-0.1%	+4.3%
60% S&P 500/40% Barclays Capital Aggregate	+10.8%	+14.2%	+0.6%	-0.4%	+2.9%
S&P 500	+15.6%	+19.3%	-6.9%	-5.4%	+1.0%

* 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.

95% of Pooled Assets

<i>Asset Class</i>	<i>Target*/Actual Allocation</i>	<i>Managers</i>
U.S. Large/Mid Capitalization Equities	21.0% (24.1%)	Iridian/PIMCO/Prentiss Smith/Adage
U.S. Small Capitalization Equities	11.0% (10.9%)	Champlain Partners/Ashford
International Equities	17.0% (18.4%)	Generation/Gryphon/Artio/Sanderson
Emerging Markets Equities	6.0% (6.4%)	Westwood/Aberdeen
High Yield Fixed Income	5.0% (5.0%)	Post
Global Fixed Income	5.0% (3.8%)	Colchester
Absolute Return Funds	7.5% (10.1%)	The Investment Fund for Foundations
Hedged Equity Hedge Funds	7.5% (4.2%)	Forester Capital
Commodities	5.0% (2.7%)	PIMCO Commodity Real Return Fund
Private Equity	5.0% (0.8%)	The Investment Fund for Foundations
Fixed Income	12.0% (6.9%)	PIMCO/Baird
TIPS	3.0% (2.6%)	Vanguard
Cash	0.0% (4.0%)	BNYMellon (Custodian)

* Target allocations add up to 105% due to the slow pace of investment in private equity.

5% of Pooled Assets – Vermont Investments*

High Quality Bonds	40.0% (51.9%)	Access Capital/Cash
Community Investments	46.0% (40.1%)	Calvert Group
Venture Capital	14.0% (8.0%)	Borealis/CEI/Freshtracks

* Note that actual portfolio differs considerably from target levels due to the pace of investing commitments in venture capital and community investments. Once committed amounts are invested, the portfolio will be much closer to the targets listed above.

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

As markets continue their surprising rebound, it is both interesting and disconcerting to think about the way in which financial harm has been wrought both through changes in market pricing along with the closely related, destructive and expected "human" reaction that accompanies such a period. In essence, there are those who effectively multiplied their misery by selling perfectly good assets in late 2008 or earlier this year.

At the same time, those who were able to maintain patience with last year's losing strategies must now confront the sobering memories of how quickly and meaningfully market prices can change. To this point, there are many who believe that markets have risen too far and that a significant round of declines lies in wait.

While the next big market move is certainly an interesting topic, we have a difficult time viewing this as anything more than a minor issue as it relates to the ongoing investment strategy for endowment and long-term assets. Of course, as we have all witnessed during the past year, those who take the long view must accept the fact that day-to-day market prices are usually determined with a very different perspective and in that regard, ongoing short run appraisals of performance and market value have little connection with a portfolio's ability to achieve its multi-generational objectives.

Individual Asset Class Performance

Large/Mid Capitalization US Equity: 2009 YTD Performance: +4.5% vs. Russell 1000

- Performance has been led by enhanced index fund manager PIMCO as their strategy of combining futures contracts and short term bonds has profited from a sharp credit market rebound.

Small Capitalization US Equity: 2009 YTD Performance: +1.8% vs. Russell 2000

- Results were helped by a small overweight to growth-oriented companies although this result was tempered by a focus on high quality companies, which have lagged broad indices thus far in 2009.

International Equity: 2009 YTD Performance: +1.7% vs. MSCI EAFE

- Gryphon International pursues a growth at a reasonable price strategy focused on globally dominant companies. This approach has produced very strong gains thus far in 2009.

Emerging Markets Equity: 2009 YTD Performance: +1.8% vs. MSCI Emerging Markets

- This segment of the portfolio was restructured to utilize managers Aberdeen Asset Management and Westwood Global.

Absolute Return Hedge Funds: 2009 YTD Performance: +12.2% vs. T-Bills + 5%

- Fund of Funds manager TIFF has profited from solid allocations to both the credit and equity markets.

Hedged Equity Hedge Funds: 2009 YTD Performance: -8.5% vs. S&P 500

- The Foundation's equity hedge fund portfolio maintains approximately 50% exposure to the equity markets and this has held back returns during the strong market gains since March.

High Yield: 2009 YTD Performance: -10.0% vs. Merrill Lynch High Yield Bond

- High yield fixed income holdings tend to be of much higher quality in aggregate than those of the index. Thus far in 2009, markets are broadly higher with the largest gains in the highest risk sectors.

Commodities: 2009 YTD Performance: +16.2% vs. Dow Jones/AIG Commodity Index

- Solid returns have been the product of significant gains in the credit markets as there is exposure to this are due to the use of a futures based strategy with manager PIMCO.

Fixed Income: 2009 YTD Performance: +6.6% vs. Barclays Capital Aggregate

- Virtually all sectors of the bond markets have out-performed Treasuries thus far in 2009 and the Foundation maintains allocations to these areas that are larger than those in the Barclays Aggregate Index.

Foundation Investment Performance by Asset Class – Through 9/30/09, Net of Investment Management Fees

	<u>Latest Quarter</u>	<u>Calendar Year To Date</u>	<u>Latest 1 Year</u>	<u>Latest 3 Years</u>	<u>Latest 5 Years</u>
US Large/Mid Cap Equity	+15.1%	+25.6%	-0.5%	-1.4%	+3.5%
<i>Russell 1000</i>	+16.1%	+21.1%	-6.1%	-5.1%	+1.5%
US Small Cap Equity	+11.7%	+20.6%	-6.9%	-0.6%	+3.7%
<i>Russell 2000</i>	+19.3%	+22.4%	-9.5%	-4.6%	+2.4%
International Equity	+20.2%	+30.7%	+3.9%	+0.1%	+9.4%
<i>MSCI EAFE</i>	+19.5%	+29.0%	+3.2%	-3.6%	+6.1%
Emerging Markets Equity	+21.3%	+66.7%	+15.8%	+7.2%	NA
<i>MSCI Emerging Mkts Free</i>	+21.0%	+64.9%	+19.5%	+8.3%	+17.7%
Absolute Return Hedge Funds	+6.9%	+17.3%	+13.5%	+4.8%	+7.3%
<i>T-Bills + 5%</i>	+1.4%	+4.1%	+5.9%	+8.2%	+8.5%
<i>HFRI Fund of Funds Index*</i>	+4.4%	+9.8%	-1.2%	+0.1%	+3.5%
Hedged Equity Hedge Funds	+4.0%	+10.8%	+1.0%	+1.8%	NA
<i>S&P 500</i>	+15.6%	+19.3%	-6.9%	-5.4%	+1.0%
High Yield Fixed Income	+11.2%	+37.7%	+22.6%	+7.7%	+6.8%
<i>Merrill High Yield Bond</i>	+14.5%	+47.7%	+21.9%	+5.1%	+5.9%
Commodities	+9.4%	+25.3%	-20.4%	-4.2%	NA
<i>Dow Jones/AIG Commodity Index</i>	+4.2%	+9.1%	-23.7%	-4.9%	-0.7%
Fixed Income	+5.9%	+12.3%	+17.8%	+9.0%	+6.7%
<i>Barclays Capital Aggregate</i>	+3.7%	+5.7%	+10.6%	+6.4%	+5.1%
Global Fixed Income	+7.3%	NA	NA	NA	NA
<i>Citigrill World Govt Bond Index</i>	+6.2%	+4.6%	+13.8%	+9.4%	+6.6%

*The Foundation's benchmark for Absolute Return is T-Bills + 5%. The HFRI Fund of Funds index represents the average return of approximately 1600 fund of funds products and is included here as a second measure of the Foundation's results in this area.