



Trust Company of Vermont Quarterly Update

April 2016

Brattleboro ♦ Burlington ♦ Rutland ♦ Manchester ♦ St. Albans

Employee-owned & Vermont-based

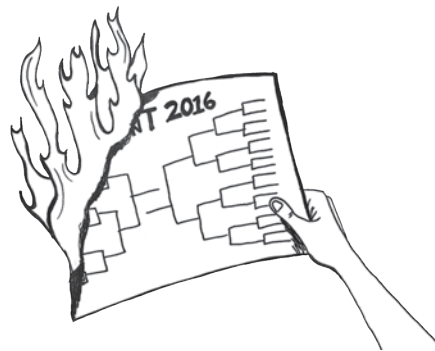
www.tcvermont.com

The Long View

or, What Do the NCAA Tourney and Portfolio Management Have in Common?

Greg M. McConahey, Trust Investment Committee

The men's NCAA basketball tournament is one of the great spectacles in sports. Every game can provide fans with an incredible finish. First round games, however, not only can provide incredible finishes but the many unexpected outcomes elevate the excitement and emotional response from the fans and have great impact on their brackets. This year's tournament has not disappointed. First round upsets by Hawaii, S.F. Austin, Arkansas Little Rock, Middle Tennessee State, Yale and Northern Iowa were unforeseen by all fans and wreaked havoc on everyone's bracket.



The first quarter of 2016 has offered investors many unexpected developments such as the weakness in the U.S. dollar, rebounding oil and metals prices, heightened European banking concerns and strength in many emerging markets. The S&P 500 has boomeranged from down 11% in the first five weeks to bouncing back over 13% in the next 5 plus weeks.

Reviewing the results of the NCAA tournament from a longer-term perspective yields somewhat-

more consistent outcomes. There are approximately 350 schools playing Division I basketball. In the last 15 tournaments, only 32 schools were represented amongst the 60 final four participants; led by Michigan State with 5 appearances and Duke, UConn, Kansas, and Kentucky with 4. The first 3 schools experienced this success over the course of the 15 years whereas Kentucky accomplished everything in the last 5 years, driven by a coaching change. The last 15 titles were captured by 10 schools, with UConn winning three titles and Duke, North Carolina and Florida winning two apiece. Great coaching, recruiting superior talent, discipline to consistently execute a game plan, and certainly a little luck play a role in these schools' abilities to sustain these superior finishes over many years.

After gaining a thorough understanding of our client's goals, risk tolerances, time frame and liquidity needs, we construct a portfolio with an asset allocation consistent with the client's characteristics. We look at a universe of approximately 250 fiduciary quality companies and reduce that down to roughly 80 names approved for purchase. Ultimately, 30 to 35 companies

are purchased to meet a client's goals. When we select companies for the equity portion, we are looking at a company's value relative to their earnings, revenue and cash flow. The quality and consistency of a company's earnings, as well as return on equity and operating margin are reviewed. In short, we strive to populate the portfolio with companies that have reasonable valuations relative to the overall market, their industry group and the company's historical averages.

These numbers are a by-product of a CEO's strategic vision and execution of the supporting business plan, the magnitude and sustainability of the company's competitive advantages and its ability to adapt to a changing market for its products and services. One of our widely held, long-term holdings is Walt Disney Co. Since 2005, under CEO Robert Iger, Disney has



ramped up returns from its studio division with acquisitions of Pixar, Marvel and Lucas film. The Disney brand is continually leveraged across film, theme parks and merchandise to sustain revenue. Another widely held, long-term holding is Accenture PLC. Accenture is a global provider of management consulting, technology services and outsourcing. A recent count indicated 80% of the Fortune Global 500 companies work with Accenture. The company's ability to stay ahead of trends impacting businesses has allowed it to deliver efficiency improvements, value and growth solutions to its clients. In turn, Accenture has sustained a long term relationship with its clients.

Disney and Accenture are worthy final four and champion contenders in any annual corporate tournament and have been wonderful long-term holdings in our portfolios. While we can't help you with your brackets, we are always happy to discuss your portfolio and how it serves your short and long-term financial goals.

We have a history of enthusiastic March Madness competition!



Past Winners

2009	Steve Singiser, Portfolio Manager
2010	Angie Freeman, Operations Manager
2011	Kathy Patenaude, Trust Clerk Chris Chapman, Trust Administrator
2012	Chris Cassidy, Portfolio Manager (and AAU Basketball Coach!)
2013	Butch Hebert, Portfolio Manager
2014	Lori Miller, Operations Ellen Lowery, Auditor
2015	Lori Miller, Operations

2016?

On the eve of the Final Four, the top contenders of those still in the running:

- 1 - Jack Davidson, with Syracuse
- 2 - Steve Singiser, Portfolio Manager, with UNC
- 3 - Todd Gray, Portfolio Manager, with UNC
- 4 - Chris Cassidy, Portfolio Manager, with Oklahoma

IS SMOKING GOOD FOR US?

JACK DAVIDSON

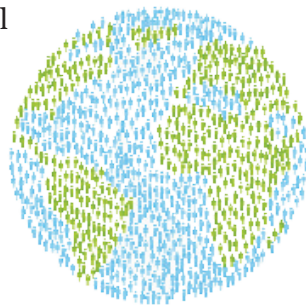


I remember “two packs a day”. Thank goodness that I gave up smoking. Based on the current cost of a pack of cigarettes, my yearly expenditure would be \$6,585 in Vermont. If I were still living in New York City,

it would cost me \$9,855 a year. So I think stopping smoking was a good financial decision.

But what about buying companies that sell tobacco? That could have been a good financial decision. If I bought Altria, the conglomerate that owns companies such as Phillip Morris, on May 8 of 1983, when I quit smoking, a \$1,000 investment would be worth approximately \$95,000 today. So I ask myself, why I do not see Altria on the list of my investments?

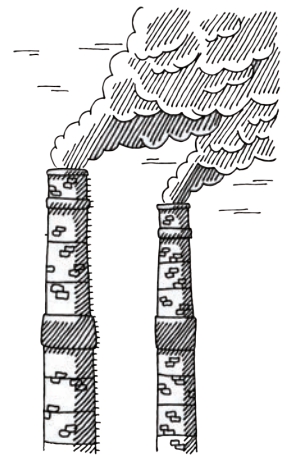
At the time it did not make much sense to invest in tobacco. The customer base was shrinking in 1983 and the legal system targeted the tobacco companies. What I did not see was an expanding base in population. It took 694 years for the world population to grow to one billion inhabitants. Now it takes 12 years. Lose a few million customers in the United States and gain 100 million worldwide (currently approximately 40 million Americans still smoke).



If I could see the future, would I have bought Altria? No! Why? I just gave up smoking. It took me a few years to quit smoking. I was a convert. So when I see smoke, I head for the door.

So I invested in other assets. Should I have considered Exxon-Mobil? Had I invested \$1,000 in Exxon-Mobil in May of 1983, according to Reuters, my investment would now be approximately \$18,500. The Dow on May 6, 1983 was 1,232. As of March 23, 2016, the Dow was 17,582.

Recently Vermont’s Governor Peter Shumlin and State Treasurer Beth Pearce clashed over a call by the Governor and some lawmakers for the state to divest its pension fund of stocks in coal companies and Exxon-Mobil as a way to encourage the fight against climate change. The Vermont



Pension Investment Committee has repeatedly voted against divestment as costly to the fund’s performance. Some, perhaps many, feel that the State’s investment performance will provide better returns if they divest now.

Exxon-Mobil currently provides an attractive dividend. For many investors, selling now will result in significant capital gains. There are persuasive arguments for the pros and cons of selling now, or later, or not for the foreseeable future.

At the core, we have two issues: financial sustainability and values. The role of our managers is to focus on financial sustainability. Our clients, on the other hand, may also want to incorporate their values into the decision making process.

At Trust Company of Vermont, we take pride in customizing portfolios. We do not have one size



that fits all. We do not have 5 sizes that fit all. We are old-fashioned tailors with up-to-date technology. So our portfolios have

stocks and bonds and funds designed for the client. We design portfolios based on the risk profile of the client. We even consider legacy stocks...those that the client would like to hold....and we will try to integrate our clients' values in buying and selling companies.

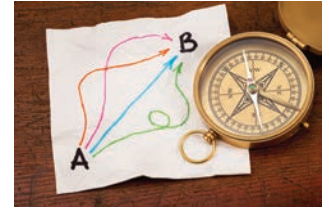
Although we have been asked to manage or bid on the management of institutional funds, it is rare that we will say yes. Why would we not pursue an attractive opportunity for our company? The reason is that it is



hard for us to customize a portfolio for a board. Our client may change when board members change. Customizing a portfolio long term, with an emphasis on risk, requires consistency and communication tailored to the individual. We do this best with individuals that age with us.

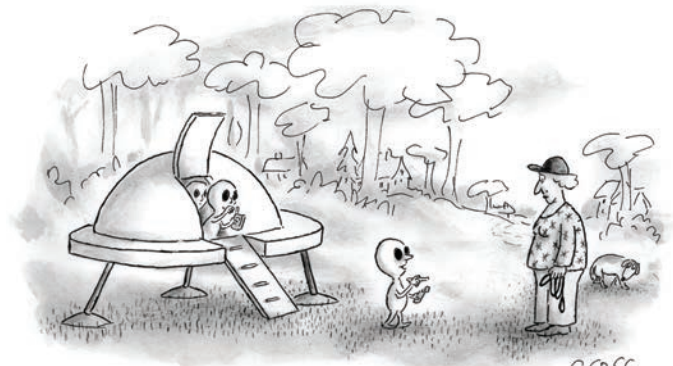
Our managers tailor the risk for the client knowing

that diversification is a core principle. They also factor in tax consequences in selling securities. They understand that managing is not a science, and that they can take different paths, and hopefully, achieve the same results.



So, if you don't like a stock based on your values, just tell us and, in most cases, we will re-design the portfolio to align with your values. At the Trust Company of Vermont, expect no smoke or mirrors. On second thought, we might consider mirrors.

Jack is not a registered investment advisor nor is he a portfolio manager with the Trust Company of Vermont (TCV). TCV manages over \$1.2 billion for investors in Vermont, in the care of 10 portfolio managers. Jack is not one of them. Jack's forecasts and opinions are purely his own and do not necessarily represent the views of TCV regarding anything that looks like smoke. None of his commentary is, or should be considered, investment advice. Anyone seeking individualized investment advice should contact a qualified investment advisor.



"We've come here to smoke."

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