



Endowment Fund - Investment Report Year 1/1/2017 to 31/12/2017

Introduction

The Endowment Fund (the Fund) is a tax-exempt fund and is held in trust by the Board of Directors of the Community Foundation for Ireland (CFI). The operation of the Fund is governed by the CFI's Constitution which also sets down the powers and responsibilities of the Directors in relation to the Fund.

The main purpose and priority of the Fund is the delivery of a consistent and sustainable amount each year from the Fund's income and/or capital for grant making. The level of drawdown for grant making is set with the objective of protecting indefinitely the nominal value of the Fund's capital and providing a buffer against future inflation. Specifically, other than in exceptional circumstances, an amount of 4% of the average end of year values for each of the previous 5 years is made available each year for grant making, regardless of the income or capital returns generated by the Fund in that year.

The Fund's current Investment Manager is Sarasin and Partners who were appointed to manage the Fund for a 3 year term on 1st January 2015 (the transfer of the Fund's assets to them took place on the 23rd April 2015).

A Statement of the Fund's Investment Policy Objectives and Guidelines reflecting the policy, mandate and performance objectives of the manager is available on the CFI website for inspection.

Fund's Financial Development during Year

The 2016 Investment Report showed a total value for assets held by the Investment Manager on behalf of the Fund of €40,771,436. Post year end adjustments of (€25) reduced this value (as per audited accounts) to €40,771,411

During the year the Fund received €51,000 representing donations received from donors for investment in the Fund. The Fund also earned investment income during the year (including tax reclaimed) of €920,250. A total amount of €1,155,438 was made available to the Foundation to meet its grant making requirements and €416,259 was deducted to cover its administrative fees. A further €190,973 was deducted to meet the Investment Manager's fees and other investment expenses.

During the year, the Fund achieved a total capital appreciation of €3,748,512.

The total value of the assets held by the Investment Manager on behalf of the Fund at 31st December 2017 was, therefore, €43,728,503.

SUMMARY

Assets at 1st January 2017 (as per 2016 Investment Report)	€40,771,436
Post Year End Adjustments	(25)
Adjusted Assets at 1st January 2017 (as per audited accounts)	€40,771,411
New Donations Invested	51,000
Investment Income Earned	920,250
Amounts Paid Out Grant Making	(1,155,438)
CFI's Admin Fees	(416,259)
Investment Manager's Fees/Expenses	(190,973)
Capital Appreciation	3,748,512
Assets at 31st December 2017	€43,728,503

The investment income earned by the Fund, and its capital appreciation, during the year represented a total investment return (net of Investment Manager's Fees and Expenses) of 11.7%, broken down as follows:

Income	Earned	2.4 %
Capital Appreciation	9.8 %	
Manager's Fees	(0.5%)	
Total		11.7%

The Fund's Assets

The following table summarises, in percentage terms, the currencies and asset classes in which the Fund was invested at the beginning and end of 2017.

BEGINNING OF	END OF	
<u>2017</u>	<u>2017</u>	%
		%
EQUITIES		
Eurozone (incl Ireland)	10.1	11.0
Non Eurozone	62.3	58.1
Total Equities	72.4	69.1
BONDS		
Eurozone (incl Ireland)	16.6	16.3
Non Eurozone	0.2	0.4
Total Bonds	16.8	16.7
PROPERTY		
Non Eurozone	6.0	6.4
Total Property	6.0	6.4
ALTERNATIVES		
Non Eurozone	3.9	6.0
Total Alternatives	3.9	6.0
LIQUID ASSETS		
Eurozone	0.9	1.8
Total Liquid Assets	0.9	1.8
OVERALL TOTAL	100.0	100.0
EUROZONE (INC. IRELAND) TOTAL	27.6*	29.1*
NON EUROZONE TOTAL	72.4	70.9

***Currency Hedging is in place such that, in overall terms, the net exposure to Eurozone was 67.3% (beginning of 2017), 69.3% (end of 2017).**

During the course of the year, the Manager reduced the Fund's exposure to US equity stocks (from 54.8% to 48.6% of total equities). At the same time, they increased exposure to European - excluding UK stocks (from 19.1% to 22.0%), to UK stocks (from 8.6% to 11.6%) and to Emerging Markets stocks (from 8.4% to 10.8%). The largest equity holdings held in the portfolio were Taiwan Semiconductor and Mastercard (both 2.7% of total equities).

45.6% of the total Bond portfolio at year end was held in Corporate Bonds, with 37.1% held in Government Bonds. The average duration to maturity of the Bond portfolio was 7.3 years and the Bonds held had an average 'A' rating.

The Fund's Investment Performance

The CFI's Finance, Audit, Investment and Governance (FAIG) Committee receives periodic reports from the Investment Manager and meets with them on a regular basis to consider the performance of investment markets and, against that background, to review in detail their management of the Fund and, in particular, the investment return achieved by the Fund. The most recent such review meeting took place with Sarasin and Partners on 21st March 2018.

The following is a summary of the Investment Manager's assessment of the performance of investment markets in 2017, and the economic backdrop which has influenced their investment strategy for the Fund for 2018.

Market Review

'The global economy operated in a manner often referred to as 'Goldilocks' for much of 2017. This suggests low levels of inflation – 'not too hot' and an economy free from recession – 'not too cold', reflective of conditions where central banks tread cautiously. This backdrop allowed global equities to record another year of significant gains ahead of other major asset classes such as cash, bonds and global property.

Performance for the 12 months to 31.12.2017 was:

<i>Fixed Interest (Bonds)</i>	<i>BofA Merrill Lynch Euro Gov't Bond Index</i>	<i>+0.3%</i>
<i>Global Equities</i>	<i>MSCI AC World (Net Total Return) Index</i>	<i>+8.9%</i>
<i>Global Property</i>	<i>S&P Developed Property Index</i>	<i>-0.5%</i>
<i>Cash</i>	<i>Euribor 3 month</i>	<i>-0.3%</i>

It is worth noting that these returns were generated in an environment of the lowest levels of equity market volatility for many years.

The Brexit result and subsequent election of Donald Trump as US president in 2016 always had the potential to unnerve markets. Geopolitical tensions too had the potential to add to such nervousness. However, the markets were seemingly un-phased by the increasing aggression of North Korea, the independence campaign of

Catalonia as well as 'fragile' staff relations at the White House. Markets fared well despite the actions by central bankers to tighten monetary conditions and increase interest rates.

So, after a decade since the onset of the financial crisis, the US and UK are discussing increasing interest rates further and together with the European and Japanese Central Banks are beginning the task of bringing to an end the 'quantitative easing' experiment that provided liquidity to financial markets during this time. Whilst being very mindful of the consequences of getting this wrong, the process of moving interest rates up towards more normal levels is to some extent being constrained by a combination of low inflation and high debt piles globally.

2017 also saw the Euro strengthen relative to other currencies such as the US Dollar and Japanese Yen as the improving picture of European growth and the prospect of monetary tightening by the ECB provided support for the currency.

The advances in equity markets in 2017 bring into question the extent to which current equity valuations can be justified particularly with the prospect of rising interest rates. Continued global economic growth levels and the implementation of Mr. Trump's recently announced tax concessions will be supportive of corporate earnings growth but current valuations suggest a need for caution. The change in the Portfolio mix (as outlined on Page 3 of this report) reflects this caution with some lightening in the exposure to equity markets and an increase to both cash and alternative investments.

The investment performance of the Investment Manager is reviewed, firstly, against the specific investment objectives for the Fund which are set having regard to its particular requirements and, secondly, against what is considered to be an appropriate benchmark.

The primary long term investment objective of the Fund is to make available for grants each year an amount of 4% of the average end of year values for each of the previous 5 years, as well as its running expenses, and to protect the nominal capital of the Fund as well as providing a buffer against inflation in the long term. At the same time the Investment Manager's shorter term performance is measured against the following benchmarks.

Bonds	10.0% BofA Merrill Lynch Euro Government Index 12.5% BofA Merrill Lynch Eurozone Corporate Bond Index
Equities	47.5% MSCI AC World Local Currency 25.0% MSCI AC World
Listed Property	5.0% S&P Developed Property
Total Fund	The whole portfolio will be compared to a composite of the above weighted to the central points of the permissible ranges.

In addition, to provide a measure of how the Fund has performed each year relative to the funds of other Irish long term investors, the performance of the Fund is also compared with the average return of Irish Pension Managed Funds (as measured by the Rubicon survey).

As previously pointed out, during the year 2017 the Fund achieved a return net of fees of +11.7%. This return exceeded the Fund's long term investment objective (which in a low inflationary environment equates to a

return of approx. 5.0%). Additionally, the Fund's longer term performance remains significantly ahead of both its long term investment objective and inflation.

Period to	Fund's Average %	Average Annual
End 2017	Annual Return	Increase in CPI
1 Year	11.7%	0.4%
5 Years	8.8%	0.1%
10 Years	5.8%	0.1%

The Fund also outperformed its shorter term benchmark for 2017 (11.6%). This was principally due to its outperformance of its benchmark in equity markets and the Fund's strong exposure to the Euro through its strategy of currency hedging during a period of significant weakness in the dollar and sterling against the Euro. The Bond portfolio generated a return of 1.5% for the year as against a benchmark return of 1.4%

The average return of Irish Pension Managed Funds for 2017, net of fees, was +7.3%.

July 2018