



Endowment Fund – Investment Report Year 1/1/2018 to 31/12/2018

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 (the Manager) who was 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). The appointment of the Manager was subsequently extended to the end of 2019.

Governance

The CFI's Finance, Audit, Investment and Governance (FAIG) Committee is responsible for directing and managing the investment management of the Fund. It has developed a Statement of the Fund's Investment Policy Objectives and Guidelines reflecting the policy, mandate and performance objectives of the Manager, as well as specific investment constraints determined by the Board from time to time (for example currently the Fund may not invest in tobacco, pornography, nuclear or armament stocks or industries). This Statement has been approved by the Board and is available on the CFI website for inspection.

On an ongoing basis the FAIG Committee receives periodic reports from the 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. In particular, the investment performance of the Manager is reviewed, firstly, against the specific investment objectives for the Fund which are set having regard to its particular grant making requirements and, secondly, against what is considered to be an appropriate benchmark.

The FAIG Committee is also responsible for the preparation of this report for approval by the Board.

Financial Developments during Year

The audited Financial Statements for the year ending 31st December 2018 were approved by the Board of Directors on and the following financial information for the Fund has been extracted from these Statements.

FUND VALUE AT BEGINNING OF YEAR	€43,728,503	
Money Received during Year		
Donations and Legacies	€51,000	
Total	€51,000	
Money Paid Out during Year		
Grant Making	?	
CFI Admin Fees	?	
Total		(€2,522,944)
Investment Related		
Investment and other Income	€838,085	
Capital Depreciation	(€1,771,398)	
Manager's Fees	(€196,292)	
Total		(€1,129,605)
FUND VALUE AT END OF YEAR	€40,126,954	

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 2018.

BEGINNING OF	END OF	
<u>2018</u>	<u>2018</u>	%
		%
EQUITIES		
Eurozone (incl Ireland)	11.0	11.5
Non Eurozone	58.1	58.0
Total Equities	69.1	69.5
BONDS		
Eurozone (incl Ireland)	16.3	18.4
Non Eurozone	0.4	0.4
Total Bonds	16.7	18.8
PROPERTY		
Non Eurozone	6.4	5.9
Total Property	6.4	5.9
ALTERNATIVES		
Eurozone	0.0	1.0
Non Eurozone	6.0	3.3
Total Alternatives	6.0	4.3
LIQUID ASSETS		
Eurozone	1.8	1.5
Total Liquid Assets	1.8	1.5
OVERALL TOTAL	100.0	100.0
<i>EUROZONE (INC. IRELAND) TOTAL</i>	<i>29.1*</i>	<i>32.4*</i>
NON EUROZONE TOTAL	70.9	67.6

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*Currency Hedging is in place such that, in overall terms, the net exposure to Eurozone was 69.3% (beginning of 2018), 73.0% (end of 2018).

Some Investment Highlights

During the course of the year, the Manager reduced the Fund's exposure to US equity stocks (from 48.6% to 45.0% of total equities). At the same time, they increased exposure to European - excluding UK stocks (from 22.0% to 25.2%). The largest equity holding held in the portfolio was Mastercard (3.5% of total equities).

50.6% of the total Bond portfolio at year end was held in Corporate Bonds, with 34.2% held in Government Bonds. The average duration to maturity of the Bond portfolio was 7.0 years and the Bonds held had an average 'A' rating.

In the Appendix attached, the Manager has summarised their assessment of the performance of investment markets during 2018, and the economic backdrop which has influenced their investment strategy for the Fund going into 2019.

The Fund's Investment Performance

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. In a low inflationary environment this equates to a return of approx. 5% pa.

The Investment Manager's shorter term performance is measured against the following benchmarks.

Bonds	10.0% ICE BofAML Euro Government Bond Index 12.5% ICE BofAML Eurozone Corporate Bonds Index
Equities	47.5% MSCI AC World (Local Currency) 25.0% MSCI AC World Daily (Net Total Return)
Listed Property	5.0% S&P Developed Property (Net Total Return)

Total Fund The whole portfolio will be compared to a composite of the above weighted to the central points of the permissible ranges

During the year 2018, the return for the Fund, net of fees, was negative (-4.4%), broken down as shown. This compares with the benchmark return for the Total Fund of -4.9%.

Income	2.5%
Capital	(6.4%)
Manager's Fees	(0.5%)

Total (4.4%)

The following table summarises the performance of the Fund within each of the main asset classes, compared to the benchmark index outlined above

	Fund	Benchmark Index
Equities	-4.1%	-4.9%*
Bonds	-0.7%	-0.2%**
Property	-6.4%	-2.3%***
Alternatives	4.0%	n/a

* MSCI AC World Daily (Net Total Return) Index (34.48%), MSCI AC World (Local Currency) (Eur) (65.52%)

** ICE BofAML Euro Government Bond Index (44.44%), ICE BofAML Eurozone Corporate Bonds Index (55.56%)

***S&P Developed Property Net TR

The following is a summary of the Fund's longer term performance, compared to its benchmark (which has been in place since 2015), and price inflation.

Period to	Fund's Average %	Benchmark	Average Annual
End 2018	Annual Return		Increase in
CPI			
1 year	-4.4%	-4.9%	0.4%
3 years	3.7%	4.8%	0.3%
5 Years	5.5%		0.1%
10 Years	7.1%		0.0%

June 2019

APPENDIX

The following is a summary of the Manager's assessment of the performance of investment markets in 2018, and the economic backdrop which has influenced their investment strategy for the Fund for 2019

Overview

Equity markets had a very poor finish to 2018, the second worst quarter since the financial crisis in 2008 with most of the damage done in December. The end of Quantitative Easing (QE) and a tightening of monetary policy was always going to be a big test for financial assets. For equities to remain unscathed, profits and dividend growth were going to have to be strong to fill the void left by lower central bank support. So far this has been the case, particularly in the US where profits are likely to have risen by over 20% in 2018. However, there is a growing concern that economic growth in China, Europe and even the US is now slowing faster than central banks had budgeted for, and that profits will thus come under greater pressure in 2019 and beyond. The bears have been winning the argument most recently with some of the most highly rated sectors and companies falling heavily.

Outlook

Thanks to strong profits growth and falling share prices, global equities are not just better value than they were six months ago, but are now cheaper in Price/Earnings terms than at any stage since 2013. The World Index is on approximately 13x this year's expected profits, with the US on 14x, and the UK and Europe languishing on 11x and 12x respectively. Dividends rose well ahead of inflation in 2018 and when combined with lower share prices, yields look exceptionally attractive relative to government bonds, whose yields have fallen in recent weeks. This equity income story is further enhanced when one factors in the share buyback programmes.

However, there is no doubt that US /China trade relations are going to continue to have a big impact on investor sentiment and importantly the outlook for corporate earnings. The speed and magnitude of US interest rate rises will also have a bearing on the direction of markets. Our own expectations for US interest rates have been consistently lower than the market and our central forecast is for one further quarter point rise in 2019. This should be supportive for equity markets, especially given the more attractive valuations. Indeed, the most recent comments from Jay Powell on behalf of the Federal Reserve were noticeably more dovish than his pre-Christmas tone which sparked a bounce in US equities; clear evidence of the market's ongoing sensitivity to the outlook for interest rates.

Whilst 2019 might see a return to more benign markets our hunch is that volatility will persist as economic growth slows and central bankers continue to transition from quantitative easing to quantitative tightening.

June 2019