



Term Fund - Investment Report Year 1st January 2018 to 31st December 2018

Introduction

The Community Foundation for Ireland (CFI) operates a permanent, civic endowment fund with the aim of delivering a consistent and sustainable amount each year for grant making, in perpetuity. In 2016, the CFI established a second fund, a Term Fund (the Fund), to receive donations from individuals, government organisations, businesses and other foundations. As with the Endowment Fund, the Fund is a tax-exempt fund which is held in trust by the Board of Directors of CFI (the Board). 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 Fund differs from the Endowment Fund in that the amount originally donated by each donor, and the investment return earned, will be spent over an agreed period of years by making available for grant making, on a regular basis, amounts pre-agreed with the donor.

The Fund's current Investment Manager (the Manager) is Investec.

Governance

The CFI's Finance, Audit, Investment and Governance (FAIG) Committee is responsible for setting the parameters for the management and safe keeping of the Fund's assets as well as recommending to the Board a manager and, where appropriate, a custodian for the Fund and overseeing the performance of the selected manager and custodian. It has developed a Statement of the Fund's Investment Policy Objectives and Guidelines reflecting the policy, mandate and performance objectives of the Manager. This Statement has been approved by the Board and is available on the CFI website for inspection. It specifies that the asset allocation must have regard to the expected life of the Fund, as well as the anticipated grants profile and liquidity requirements of the Fund. Additionally, at least one year's expected drawdowns are to be held in cash and cash equivalents, or in readily tradeable assets and an increasing proportion of assets are to be held in easily liquidated assets over the final 4 or 5 years of the Fund.

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

Fund's Financial Development 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	€3,051,396
Money Paid Out during Year	
Grant Making	(378,450)
CFI's Admin Fees	(28,486)
Total	(406,936)
Investment Related	
Investment Income/Capital Depreciation	(109,013)
The Manager's Fees and Expenses	(15,367)
Total	(124,380)
FUND VALUE AT END OF YEAR	€2,520,080

During the year 2018, the return for the Fund, net of investment fees and expenses was negative (-4.83%). Before fees the return was -4.3%. This compares with the benchmark return for the Fund, before fees, of -4.4%.

The Fund's Assets

The following table summarises, in percentage terms, the principal markets and asset classes in which the Fund was invested at the beginning and end of 2018.

			Beginning of 2018	End of 2018
	%	%	ASSET CLASS	
Fixed Interest – Corporate			7.7	2.3
Fixed Interest – Diversified			18.2	17.6
Total Fixed Interest			25.9	19.9
Equities – UK			3.3	2.9
Equities – Europe ex UK			10.5	9.4
Equities – North America			12.5	12.2
Equities – Asia ex Japan			5.0	8.0
Equities – Japan			9.5	6.4
Equities – Global			14.6	14.9
Equities – Other Regions			2.8	3.9
Total Equities			58.2	57.7
Property			7.4	4.8
Absolute Return and Structured Products			0.0	0.0
Infrastructure			4.9	4.5
Total Alternatives			4.9	4.5
Liquid Assets			3.6	13.1
TOTAL			100.0	100.0

Practically 87% of the holdings in the Equity Sector are held in Investment Trusts and Unitised Funds, with smaller direct holdings in the Insurance and Technology sectors. The largest direct equity holding in the portfolio is the American multinational conglomerate holding company, Berkshire Hathaway Inc. (4.55% of the total portfolio).

38.0% of the total portfolio is in euro denominated assets, 37.9% in sterling assets, and the remaining 24.1% in dollar assets. It should be noted that many of the assets denominated in sterling are substantially invested in other currencies.

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 investment objective for the Fund is to seek to maximise the total net investment return having regard to the performance of stock markets generally, and the Fund's tolerance for risk and its liquidity requirements. More specific long term objectives are (i) in agreement with the donor to make amounts available for grants each year after deduction of investment related charges and CFI administration fee incurred by the Fund, and (ii) to invest in assets suitable for the expected life of the Fund.

Up to the end of 2017, the benchmark against which the Manager's shorter term performance was measured was the same as that used to measure the performance of the manager of the Endowment Fund i.e.

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, Eur, Net Total Return) 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 is compared to a composite of the above weighted to the central points of the permissible ranges

As was pointed out in last year's report, it was felt that this benchmark would not be appropriate on an ongoing basis in view of the unique characteristics of the Fund and, in particular, the need to have a higher and increasing liquidity requirement to meet drawdowns as the Fund is spent down. A review was carried out during 2018 by the FAIG in consultation with the Manager. Following that review it was agreed that a diminishing percentage of the Fund would be measured each year against the Endowment Fund benchmark, with the remaining (and, therefore, increasing) percentage measured against a Cash Index as follows

Year	2019	2020	2021	2022	2023	2024	2025	2026
% Measured against Endowment Fund benchmark	87.5	86.0	83.5	80.0	75.0	67.0	50.0	0.0
% Measured against Cash Index	12.5	14.0	16.5	20.0	25.0	33.0	50.0	100.0

If the above revised benchmark had been in place for the Fund 2018 (with an 89%/11% split) it would have compared with the Manager's performance as follows

Benchmark %	Fund		%
	Before Fees	Net of Fees	
	-4.3%	-4.8%	-4.4%

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

Following a strong 2017, 2018 was a more challenging year for asset markets, with over 90% of assets down for the year in USD terms, the highest number since 1920. So in many ways 2018 was a year when diversification didn't help, given the breadth of asset weakness, and the portfolio we manage for you declined by 4.83% for the year.

In terms of understanding last year's market weakness, we believe concerns over slowing economic growth, following a period of above trend growth, was the primary cause. Indeed, these concerns were well founded given rising trade tensions and less accommodative central banks. However, as the year progressed we felt that markets were 'over-reacting' to slower global growth and we believe it is fair to say that towards the end of the year investors were starting to panic, as captured in investment flow data. History tells us that periods of panic are often followed by very strong returns and given improving equity market valuations, we believed the stage was set for a strong recovery in the portfolio in 2019.

So far in 2019, we have seen de-escalating trade tensions and a significant change in central bank policy, allaying many investor concerns. Whilst economic growth indicators remain mixed, our view that global economy was more resilient than feared last year, has proved accurate and we have seen a strong recovery across investment markets in the first quarter of 2019.

Looking further ahead, we continue to believe that the backdrop is a supportive one. We continue to believe that equity market valuations are reasonable and that we can identify attractive higher income assets across infrastructure, property and fixed income.

Longer term we believe one of the greater surprises for investors will be for how long interest rates will remain below inflation. This, we believe, is one of the greatest challenges investors will face, as in order to generate a positive after inflation return investors will have to be able to tolerate and potentially embrace market volatility.

As we look forward to the balance of 2019 and ahead, we are confident that your portfolio can deliver good returns but, as we have seen over the past year and a half, volatility is to be expected along the journey.

June 2019