



Endowment Fund – Investment Report Year 1/1/2019 to 31/12/2019

Introduction

The Endowment Fund (the Fund) is a tax-exempt fund and is held in trust by the Board of Directors (the Board) 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 2020.

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 of 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, 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 Manger 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 2019 were approved by the Board of Directors on xxxxxxxx and the following financial information for the Fund has been extracted from these Statements.

FUND VALUE AT BEGINNING OF YEAR	€40,192,452	
Money Received during Year		
Donations and Legacies	€111,665	
Total	€111,665	
Money Paid Out during Year		
Grant Making	(€1,630,719)	
CFI Admin Fees	(€417,016)	
Total		(€2,047,735)
Investment Related		
Investment and other Income	€941,574	
Capital Appreciation	€8,164,440	
Manager's Fees	(€194,952)	
Total		€8,910,750
FUND VALUE AT END OF YEAR	€47,167,444	

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 2019.

	BEGINNING OF <u>2019</u>	END OF <u>2019</u> %
%		
EQUITIES		
Eurozone (incl Ireland)	11.5	8.8
Non Eurozone	58.0	61.5
Total Equities	69.5	70.3
BONDS		
Eurozone (incl Ireland)	18.4	15.4
Non Eurozone	0.4	0.2
Total Bonds	18.8	15.6
PROPERTY		
Non Eurozone	5.9	6.0
Total Property	5.9	6.0
ALTERNATIVES		
Eurozone	1.0	0.9
Non Eurozone	3.3	1.8
Total Alternatives	4.3	2.7
LIQUID ASSETS		
Eurozone	1.5	5.4
Total Liquid Assets	1.5	5.4
OVERALL TOTAL	100.0	100.0
<i>EUROZONE (INC. IRELAND) TOTAL</i>	32.4*	30.5*
NON EUROZONE TOTAL	67.6	69.5

*Currency Hedging is in place such that, in overall terms, the net exposure to Eurozone was 73.0% (beginning of 2019), 72.8% (end of 2019).

Some Investment Highlights

During the course of the year, the Manager increased the Fund's exposure to US equity stocks (from 45.0% to 50.0% of total equities) and to UK stocks (from 10.1% to 12.2%). At the same time, they reduced exposure to European - excluding UK stocks (from 25.2% to 18.0%). At the end of the year the 4 largest equity holdings held in the portfolio were Microsoft (3.3% of total equities), Taiwan Semiconductor (3.3%), JP Morgan (2.8%) and Apple (2.7%).

43.2% of the total Bond portfolio at year end was held in Corporate Bonds, with 33.5% held in Government Bonds and 9.7% in Index Linked Bonds. The average duration to maturity of the Bond portfolio was 7.1 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 2019, and the impact that the COVID-19 crisis has had on global markets, and the performance of the Fund, in the first quarter of 2020.

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, Eur, Net Total Return) Index 25.0% MSCI AC World Daily (Net Total Return) Index
Listed Property	5.0% S&P Developed Property (Net Total Return) Index

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 2019, the return on the Fund, net of fees, was 23.5%, broken down as shown. This compares with the benchmark return for the Total Fund of 22.2%.

Income	2.5%
Capital	21.5%

Manager's Fees	(0.5%)
Total	23.5%

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

	Fund	Benchmark Index
Equities	33.7%	27.1%*
Bonds	6.6%	6.5%**
Property	27.1%	23.9%***
Alternatives	11.7%	n/a

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

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

***S&P Developed Property Net Total Return Index

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
Increase in CPI	End 2019		Annual Return
1 year	23.5%	22.2%	1.3%
3 years	9.7%	9.1%	0.8%
5 Years	7.5%		0.5%
10 Years	8.3%		0.7%

Date: June 2020

APPENDIX

The following is a summary of the Manager's assessment of the performance of investment markets in 2019, and the impact that the COVID-19 crisis has had on global markets, and the performance of the Fund, in the first quarter of 2020.

Overview

In 2019, nearly all financial assets produced double-digit returns led by the US stock market, which recorded its second highest return in the last 20 years. Given the backdrop of political uncertainty and slower economic growth the returns are somewhat counterintuitive. The reason for the stronger than expected returns has been central bankers pivoting towards further monetary easing (lowering interest rates) through the course of the year as they tried to mitigate slowing economic growth. There was, of course, more than just one factor behind this impressive performance. Whilst political uncertainty was high, it was largely all 'bark' with little 'bite'. The resolutions found in December, in the form of a large conservative majority in the UK and a temporary reprieve in the US China trade dispute provided a degree of respite. We must also remember that equity markets started the year at relatively attractive levels given the sharp sell-off at the end of 2018. However, it was the global policy pivot — with more than 40 central banks, led by the US Federal Reserve, around the world cutting rates — that was the single most important driver of strong returns.

The CFFI investment portfolio performed well in 2019, producing a return net of all costs of 23.5% Vs 22.2% for the bespoke benchmark. Equity stock selection was the largest contributor to the both the absolute and relative returns, with this element of the portfolio generating a return of 33.7% Vs the MSCI AC World Index of 27.1%. Over the past three years, the portfolio has produced a return of 9.7%p.a. which is 0.6%p.a. ahead of the benchmark.

The onset of Covid-19 at the start of 2020 was a significant shock to the system, hitting virtually all sectors of the economy simultaneously. As a consequence, equities ended the first quarter down 19.2%. Within that, the European stockmarket fared poorly, down 22.6%. Even these numbers disguise the extraordinary volatility during March, with daily moves in both directions of close to 10% on several occasions: anything less than a 5% move during the month the market collapsed felt relatively banal and at its worst, European stockmarkets had fallen by more than a third. However, central bank intervention caused markets to rally hard from the low points reached in mid-March.

Outlook

Equity markets have continued to rally on the back of huge monetary and fiscal stimulus from the ECB and Federal Reserve (three times the amount of 2008/09); the falling infection rates in Europe and Asia giving way to increased economic activity and we are also starting to see a rebound in the US labour market. However, this recovery is a tentative one: the virus has not disappeared. If infection rates continue to grow in countries such as Brazil, India and Russia and the steady easing of the 'lock downs' in Europe, US and Asia result in a further wave of the virus, then this would be a further hammer blow to economic activity. We are currently factoring in a contraction in global growth of nearly 6%: approximately double the size of the recession we witnessed as a result of the global financial crisis in 2007-09. While we will come through this pandemic and new opportunities will present themselves, it is inevitable that there will be long-term scarring and the world economy is unlikely to be fully recovered until the end of 2022.

Against this backdrop, we will continue to make every effort to extract the best possible risk adjusted returns for you from whatever opportunities the market delivers over the next five years and beyond. We will continue to aim to add value through; the overall strategies we propose; the successful evolution of our

themes; the Environmental, Stewardship and Governance (ESG) work that is an integral part of our stock selection process and through tactical asset allocation. We have great confidence in our thematic equity process, which has been delivering a consistent stream of high conviction ideas and strong performance for several years and we sincerely hope this will continue to be the case.

June 2020