



## **Farmleigh Term Fund – Investment Report Year 1<sup>st</sup> January 2019 to 31<sup>st</sup> December 2019**

### ***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 the first of a number of Term Funds to receive donations from individuals, government organisations, businesses and other foundations. As with the Endowment Fund, these Funds are tax-exempt funds which are held in trust by the Board of Directors of CFI (the Board). The operation of these Funds is governed by the CFI's Constitution which also sets down the powers and responsibilities of the Directors in relation to the Funds.

These Funds 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.

This Report relates to one such Fund, the Farmleigh Term Fund (the Fund). 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

## *The Fund's Financial Development during Year*

The audited Financial Statements for the year ending 31<sup>st</sup> December 2019 were approved by the Board on xxxxxxxxxxxxxxxx and the following financial information for the Fund has been extracted from these Statements.

<b>FUND VALUE AT BEGINNING OF YEAR</b>	<b>€2,520,081</b>
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### **Money Paid Out during Year**

Grant Making	(392,365)
CFI's Admin Fees	(28,576)

<b>Total</b>	<b>(420,941)</b>
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### **Investment Related**

Investment Income/Capital Appreciation	440,200
The Manager's Fees and Expenses	(18,034)

<b>Total</b>	<b>422,166</b>
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<b>FUND VALUE AT END OF YEAR</b>	<b>€2,521,306</b>
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During the year 2019, the return for the Fund, net of investment fees and expenses was **17.8%**. Before fees the return was **18.3%**. This compares with the benchmark return for the Fund, before fees, of **19.4%**.

## *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 2019.

<b>ASSET CLASS</b>	<b>Beginning of 2019</b>	<b>End of 2019</b>
	<b>%</b>	<b>%</b>
Fixed Interest – Corporate	2.3	2.1
Fixed Interest – Diversified	17.6	9.8
<b>Total Fixed Interest</b>	<b>19.9</b>	<b>11.9</b>
Equities – UK	2.9	3.7
Equities – Europe ex UK	9.4	7.9
Equities – North America	12.2	14.9
Equities – Asia ex Japan	8.0	7.9
Equities – Japan	6.4	3.8
Equities – Global	14.9	22.2
Equities – Other Regions	3.9	4.3
<b>Total Equities</b>	<b>57.7</b>	<b>64.7</b>
<b>Property</b>	<b>4.8</b>	<b>5.7</b>
Absolute Return and Structured Products	0.0	0.0
Infrastructure	4.5	6.9
<b>Total Alternatives</b>	<b>4.5</b>	<b>6.9</b>
<b>Liquid Assets</b>	<b>13.1</b>	<b>10.8</b>
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

The holdings in the Equity Sector are predominantly held in Investment Trusts, UCITS and ETFs, with a small direct equity holding in the American multinational conglomerate holding company, Berkshire Hathaway Inc. (5.12% of the total portfolio).

39.8% of the total portfolio is in sterling denominated assets, 31.6% in sterling assets, and the remaining 28.6% 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 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 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 short term performance was measured was the same as that used to measure the performance of the manager of the Endowment Fund i.e.

<b>Bonds</b>	10.0% ICE BofAML Euro Government Bond Index 12.5% ICE BofAML Eurozone Corporate Bonds Index
<b>Equities</b>	47.5% MSCI AC World (Local Currency, Eur, Net Total Return) 25.0% MSCI AC World Daily (Net Total Return)
<b>Listed Property</b>	5.0% S&P Developed Property (Net Total Return)
<b>Total Fund</b>	The whole portfolio is compared to a composite of the above weighted to the central points of the permissible ranges.

It was subsequently 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

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

During the year 2019, the return on the Fund, net of fees, was 17.8%, broken down as shown. This compares with the benchmark return for the Fund of 19.4%.

<b>Benchmark %</b>	<b>Fund</b>		<b>%</b>
	<b>Before Fees</b>	<b>Net of Fees</b>	
	18.3%	17.8%	19.4%

## APPENDIX

The following is a summary of the Manager's 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.

### Market Review 2019

We saw a dramatic recovery in Q1 2019 after most equity markets witnessed falls in the region of 20%, in what most would call a bear market in Q4 2018. Investors feared a global recession, increasing geopolitical risks and trade war concerns. Additionally, the Fed's tightening of policy in the preceding period was seen by many as a mistake. For those who stayed the course and remained invested, 2019 proved to be very rewarding indeed. World equity markets returned c. 30% as the worst worries dissipated.

Indeed, in Q4 2019, many equity markets rose to new all-time highs. The positive performance was driven by strong signalling that the long-awaited 'phase one' trade deal between the US and China would be signed early in 2020, and a decisive UK general election victory for the Conservatives potentially reduced the risk of a hard Brexit. We also started to see evidence that the world economy was starting to improve. Perhaps the most important change over 2019 period has been the policy U-turn by the US Federal Reserve; they delivered three interest rate cuts in 2019. The Fed's move to a more 'dovish' stance was adopted by most other central banks.

### Q1 2020 and Outlook

All that changed utterly as we moved into 2020. The impact of the global pandemic has made all prior short-term forecasts redundant. It is not an overstatement to say that we are living through an extraordinary period, where people are having to make huge adjustments to their lifestyles and manage concerns around family and health. Of secondary, but hugely significant importance, are concerns around income, businesses, and investments.

The movements in financial markets in March were quite literally historic. We had 'record days' in both directions, as investor sentiment collapsed and uncertainty reigned. As the scale of the required social-distancing measures and resulting economic shutdown became apparent, we saw a period of panic-selling, where the only 'safe-haven' was the US dollar. Assets were sold indiscriminately, and there was evidence of 'forced' selling by leveraged investors.

By some measures, the recent level of panic hit extremes that only bear comparison with the Great Depression and the global financial crisis in 2008/9. We found it particularly striking to observe that, during this sell-off, the gap between the cash flow yield on equities and the yield on government bonds has approached the highest levels we have seen over the past 65 years. The fact that markets go through such periods from time-to-time is why we build portfolios that are diversified and hold high-quality assets – investors with a suitable long-term plan are far more likely to withstand such periods than those without.

However, the supportive responses from central banks (particularly the US Federal Reserve) were swift and enormous, with shades of Mario Draghi's "whatever it takes" stance being adopted by many. This huge monetary support was aligned with massive fiscal stimulus from governments, which provided much needed economic support and confidence to global economies and markets. Policy measures that took months during the 2008/09 crisis have been enacted in a matter of weeks this time around. Crucially, policymakers have gone materially further in terms of reach and scale compared with 2008/09.

Quite naturally, investors are wondering if the market has 'bottomed'. Obviously, nobody can answer that question with certainty. Market-bottoming is usually a process involving many factors, but these can be distilled down to one key element - the recovery of risk appetite. Some of the market's behaviour we observed recently is indicative that this process may have begun. Nevertheless, we cannot expect risk appetite to truly recover until we see evidence of containment of the virus - particularly in major economies as they re-open. Our advice has been to stick to your investment plan, provided you feel it remains appropriate after having experienced a real world 'stress test'. Longer-term, we don't believe that future growth will be materially impaired by this crisis and, with potential returns increasing from quality assets, we remain very comfortable with the composition of our portfolios. With the full weight of global fiscal and monetary policy being deployed, we believe that patient long-term investors can reasonably expect markets, the global economy, and their portfolios to recover and resume an upward trajectory.

*June 2020*

**June 2020**