

# Endowment Fund – Investment Report

## Year 1/1/2020 to 31/12/2020

### Introduction

The Community Foundation for Ireland ‘Endowment Fund – Investment Report 2020’ reflects a period which ended with the world equity index up 6.7% on the back of a strong final quarter of +9.9%. The first quarter was very weak as markets reacted to the COVID crisis, but from a low point in mid-March, the recovery was strong.

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. The operation of the Fund is governed by The Foundation’s Constitution which also sets down the powers and responsibilities of the Directors in relation to the Fund.

Its main purpose and priority are 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 Investment Manager for the period up to the end of 2020 was the UK based Manager Sarasin and Partners. Following the UK’s withdrawal from the EU single market from the end of 2020 Sarasin and Partners were no longer in a position to manage the Fund on a segregated basis. In anticipation of this change, in the final quarter of 2020 the FAIG (with the help of a consultant) undertook a full review of several investment managers who had the necessary expertise, resources and capabilities required to undertake the future management of the Fund. Following this review a decision was taken in January 2021 to appoint Banque J. Safra Sarasin (Luxembourg) SA (BJSS) as the Fund’s Investment Manager. At the same time the Fund’s custodian was changed from BNY Mellon to BJSS and the transfer of assets to BJSS was completed in July 2021.

This report sets out the governance and performance of the Fund during 2020 and confirms an end of year value of €49,976,334.

### Governance

The Finance, Audit, Investment and Governance (FAIG) Committee of The Community Foundation for Ireland 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.

On an ongoing basis, the 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. 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 31<sup>st</sup> December 2020 were approved by the Board of Directors on 9<sup>th</sup> August 2021 and the following financial information for the Fund has been extracted from these Statements.

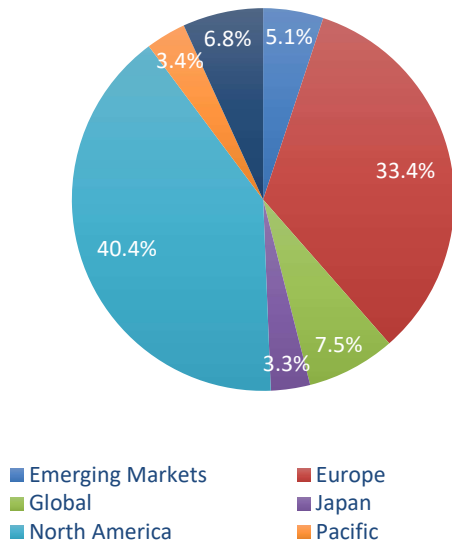
<b>FUND VALUE AT BEGINNING OF YEAR</b>	<b>€47,335,722</b>
<b>Money Received during Year</b>	
Donations and Legacies	€300,000
<b>Total</b>	<b>€300,000</b>
<b>Money Paid Out during Year</b>	
Grant Making	(€1,697,831)
The Community Foundation for Ireland Admin Fees	(€424,685)
<b>Total</b>	<b>(€2,122,516)</b>
<b>Investment Related</b>	
Investment and other Income	€838,378
Capital Appreciation	€3,831,807
Manager's Fees	(€207,057)
<b>Total</b>	<b>€4,463,128</b>
<b>FUND VALUE AT END OF YEAR</b>	<b>€49,976,334</b>

## The Fund's Assets

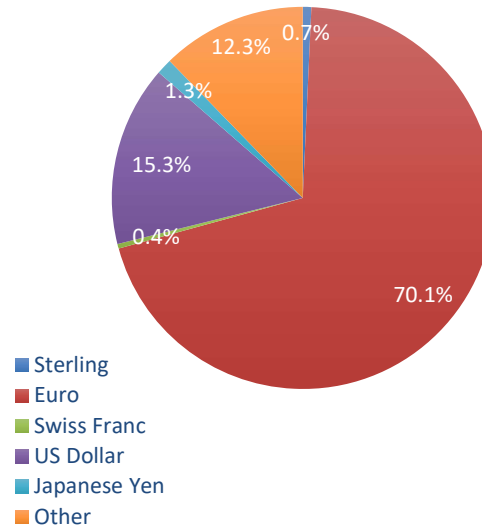
The following table summarises, in percentage terms, the currencies and asset classes in which the Fund was invested at the beginning and end of 2020.

	Start 2020	End 2020
<b>EQUITIES</b>		
Eurozone (incl Ireland)	8.8	9.4
Non Eurozone	61.5	61.1
<b>Total Equities</b>	<b>70.3</b>	<b>70.5</b>
<b>BONDS</b>		
Eurozone (incl Ireland)	15.4	15.6
Non Eurozone	0.2	0.0
<b>Total Bonds</b>	<b>15.6</b>	<b>15.6</b>
<b>PROPERTY</b>		
Non Eurozone	6.0	5.1
<b>Total Property</b>	<b>6.0</b>	<b>5.1</b>
<b>ALTERNATIVES</b>		
Eurozone	0.9	0.9
Non Eurozone	1.8	3.5
<b>Total Alternatives</b>	<b>2.7</b>	<b>4.4</b>
<b>LIQUID ASSETS</b>		
Eurozone	5.4	4.3
Non Eurozone	0.0	0.1
<b>Total Liquid Assets</b>	<b>5.4</b>	<b>4.4</b>
<b>OVERALL TOTAL</b>	<b>100.0</b>	<b>100.0</b>
<b>EUROZONE (INC. IRELAND) TOTAL</b>	<b>30.5*</b>	<b>30.2*</b>
<b>NON EUROZONE TOTAL</b>	<b>69.5</b>	<b>69.8</b>
* Note: Currency hedging is in place such that, in overall terms, the net exposure to Eurozone was 69% (beginning of 2020), 70% (end of 2020).		

## Geographic Allocation



## Currency Allocation



## Some Investment Highlights

During the course of the year, the Manager increased the Fund's exposure to US equity stocks (from 50.0% to 54.2% of total equities) and to European-UK stocks (from 18.0% to 20.0%). At the same time, they reduced exposure to UK stocks (from 12.2% to 8.8%).

At the end of the year, the 4 largest equity holdings held in the portfolio were ORSTED, an integrated energy company based in Denmark (3.6% of total equities), Taiwan Semiconductor (3.4%), Microsoft (3.3%) and ASML Holding, a Dutch company specialising in the supply of photolithography systems (3.2%).

3 of the 4 largest equity holdings were 'A' rated for ESG purposes, with the other (Microsoft) having a B rating. Furthermore, 80.1% of the total equity portfolio had either an 'A' or 'B' rating and the money weighted ESG equity score for the portfolio was 'B'.

54.9% of the total Bond portfolio at year end was held in Corporate Bonds, with 36.6% held in Government Bonds with the remaining 8.5% in a combination of Asset Backed Securities and Government Agencies Supra. The average duration to maturity of the Bond portfolio was 7.9 years and the Bonds held had an average 'A' credit rating.

In the Appendix attached, the Manager has summarised their assessment of the performance of investment markets during 2020, and the factors that are influencing their strategy as they look ahead at 2021.

## 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.

<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) Index 25.0% MSCI AC World Daily (Net Total Return) Index
<b>Listed Property</b>	5.0% S&P Developed Property (Net Total Return) Index

### Total Fund

The whole portfolio is compared to a composite of the above weighted to the central points of the permissible ranges.

During the year 2020, the return on the Fund, net of fees, was 11.0%, broken down as shown. This compares with the benchmark return for the Total Fund of 9.0%.

Income	2.6%
Capital	8.9%
Manager's Fees	(0.5%)
<b>Total</b>	<b>11.0%</b>

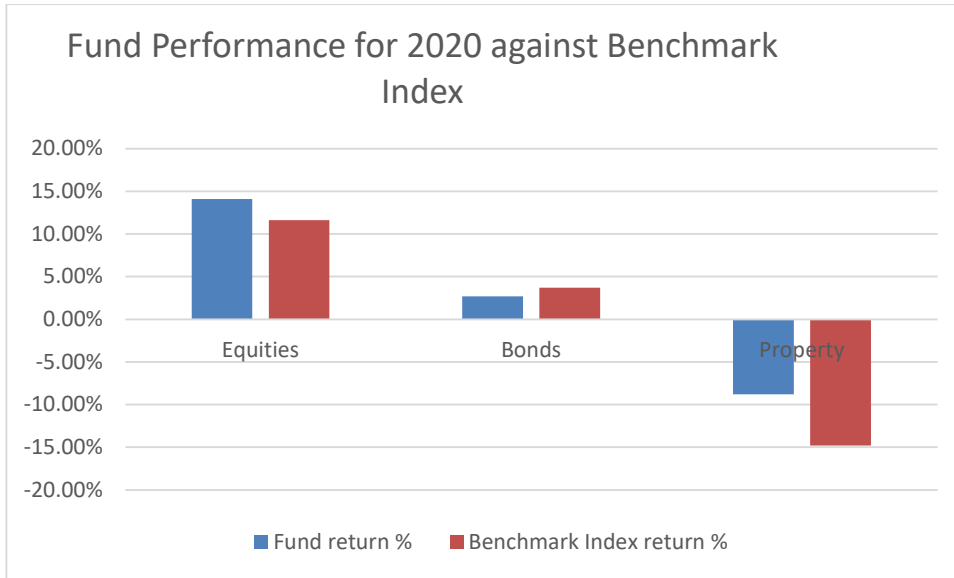
The following table summarises the performance of the Fund within each of the main asset classes, compared to the benchmark index outlined.

<b>Fund</b>	<b>Fund return %</b>	<b>Benchmark Index %</b>
<b>Equities</b>	14.1%	11.6%*
<b>Bonds</b>	2.7%	3.7%**
<b>Property</b>	(8.8)%	(14.8%***)
<b>Alternatives</b>	10.5%	n/a

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

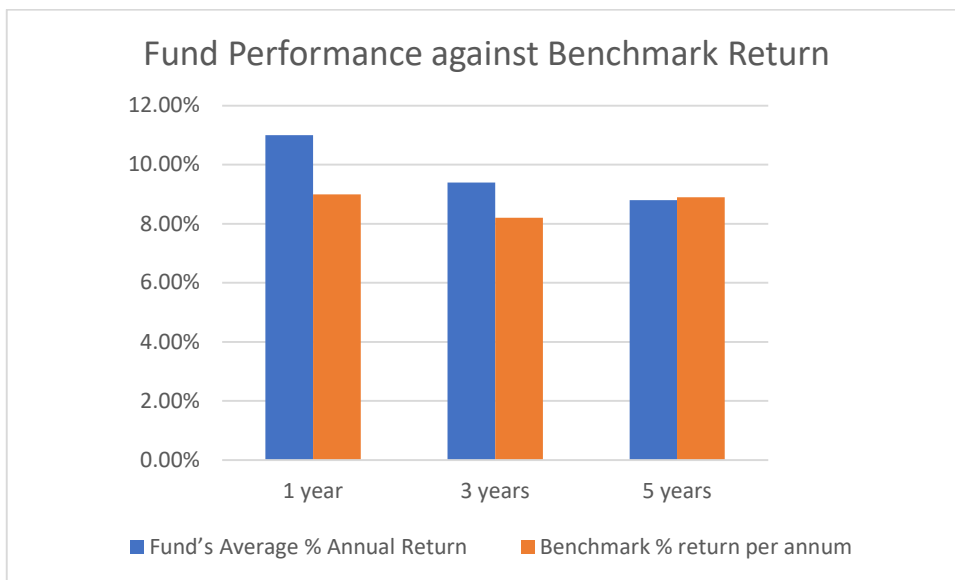
\*\* ICE BofAML Euro Government Bond Index (44.44%), ICE BofAML Eurozone Corporate Bonds Index (55.56%)

\*\*\*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	Fund's Average % Annual Return	Benchmark p.a to End 2020	Average Annual Increase in CPI
1 year	11.0%	9.0%	(0.2%)
3 years	9.4%	8.2%	0.6%
5 Years	8.8%	8.9%	0.5%
10 Years	8.6%	-	0.5%



## APPENDIX

The following is a summary of the Sarasin's assessment of the performance of investment markets in 2020, and the factors that are influencing their strategy as they look ahead at 2021.

### Overview

It is hard to believe we ended 2020 with the world equity index up 6.7% on the back of a strong final quarter of +9.9%. The first quarter was very weak as markets reacted to the COVID crisis, but from a low point in mid-March, the recovery was strong. From a relative perspective, the first nine months were completely dominated by the low yielding American technology sector. However, the final quarter saw a sharp rotation into those cyclical value stocks that had suffered most from Covid-19 (e.g. travel, hotels and leisure). The catalyst, of course, was the trilogy of positive vaccine announcements, all far better than expected, from Pfizer, Moderna and Oxford Uni/Astrazeneca.

The cyclical value end of the market is not our natural hunting ground for long-term investments. However, we did rebalance portfolios towards the end of Q3 gently in favour of some more cyclical exposure following strong performance from more growth-oriented and particularly technology-led companies. That said, we are not inclined to chase the rally into lower quality stocks where considerable uncertainty prevails and this did result in a degree of underperformance at the end of the year.

It wasn't all about equities: high quality bonds benefited from their safe haven status and falling interest rates early in the year and still managed to produce a positive return in the final quarter. An actively managed investment in alternative assets also proved its worth in 2020: your allocation produced a return in-line with equities but with a lot less volatility. Taking everything together, your portfolio produced an attractive total return net of all costs of +11.0% for 2020 as a whole. This was comfortably ahead of the benchmark return of +9.0%, with the relative return being driven by our equity stock selection: your allocation produced a total return of +12.0% against the MSCI All Countries World Index of +6.7%. Over the past 3 years, the portfolio return has been 9.4%p.a. which compares to the benchmark return of 8.2%p.a.

Looking ahead at 2021, political leaders are faced with the unenviable conundrum of keeping their electorate safe from Covid-19 while attempting to avoid the total destruction of their domestic economy and public finances. This is a challenge for long established democracies, whereas the pace at which the Chinese economy has recovered to register a positive GDP result for 2020 is remarkable. As investors, we are all facing a similarly tough examination, caught between the collapse in corporate profitability caused by global lockdowns and the powerful impact of the fiscal and monetary policy response from central banks and governments. Thus far, central bank policy and optimism are winning the day, but there are inevitably concerns about the permanent damage already done and/or the inflationary spike that is likely to follow such subdued economic conditions. Our own view is that abundant levels of private sector liquidity will continue to support sustainable earnings growth from quality companies in what will ultimately prove to be a multi-year phase of low growth, low inflation and zero interest rates after the initial recovery has played out.

From a thematic perspective, the final quarter dramatically underscored the credentials of our Climate Change theme. It started with the astonishing announcement from China of a net zero carbon emissions target by 2060, swiftly followed by similar commitments from Japan and South Korea. The Democratic victory in November has firmly realigned the USA with the Paris Climate Accord and you may have noticed Biden's Christmas appointments of Jennifer Graham to head the Energy Department and Gina McCarthy to a new role of Domestic Climate Tsar, overseeing the administration's agenda across myriad federal agencies. Both are long-term environmentalists and renewable energy advocates. In order to achieve the Paris Accord climate goals, the global investment required in research and implementation across multiple channels (e.g. energy generation/distribution/usage, construction, transport, consumption, recycling) looks set to create the greatest capital expenditure boom in economic history.

Date: August 2021