Endowment Fund - Draft Investment Report
Year 1/1/2014 to 31/12/2014

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 Memo and Articles of Association which also sets down the powers and responsibilities of the Directors in relation to the Fund.

The strategy of the Fund is to provide a reliable source of income for the primary purposes of grant making while maximising the long term value of the Fund. The strategy of the fund is implemented by active management of the fund by the Investment Manager. The appointed Investment Manager makes investments both in, large companies with strong franchises, attractive dividend yields and good potential for real capital growth and, sovereign and corporate bonds which provide a stable income return.

During 2014, a major review of the Fund was undertaken by the CFI's Finance, Audit, Investment and Governance (FAIG) Committee and the changes resulting from that review are outlined later in this report. The next sections of this yearly Investment Report, however, review the performance of the Investment Manager and Fund for the year 2014 prior to the implementation of these changes.

Fund's Financial Development during Year

At 1st January 2014, the total value of the assets held by the Investment Manager on behalf of the Fund was €34,070,535

During the year the Investment Manager received a further €649,830 representing donations received from donors for investment in the Fund. The Fund also received investment income during the year (including tax reclaimed) of €1,071,743. A total amount of €1,156,644 was made available to the Foundation to meet its grant making requirements and to cover its administrative costs. A further €130,192 was deducted to meet the Investment Manager's fees and other investment expenses.

During the year, the fund achieved a total capital appreciation of €3,233,623 (realised gains €1,827,215 unrealised gains €1,406,408).

The total value of the assets held by the Investment Manager on behalf of the Fund at 31st December 2014 was, therefore, €37,738,897.

SUMMARY

Assets at 1st January 2014	**€34,070,535**
New Donations Invested	649,830
Investment Income Received	1,071,743
Amounts Paid Out Grant Making/Admin Costs	(1,156,644)
Investment Manager’s Fees/Expenses	(130,192)
Capital Appreciation	3,233,623
Rounding	2
Assets at 31st December 2014	**€37,738,897**

The investment income received by the Fund, and its capital appreciation, during the year represented a total investment return of 12.5%, broken down as follows:

Income	3.1%
Capital Appreciation	9.4%
Total	**12.5%**

Asset Distribution of Fund at Beginning/End of Year

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 2014.

	BEGINNING OF 2014 %	**END OF 2014 %**
EQUITIES		
Irish	0.0	0.0
Eurozone	14.3	13.2
Non Eurozone	48.0	48.7
Total Equities	**62.3**	**61.9**

BONDS		
Irish	0.5	0.6
Eurozone	26.3	26.0
Non Eurozone	0.0	0.0
Total Bonds	**26.8**	**26.6**
CASH		
Eurozone	10.9	11.5
Total Cash	**10.9**	**11.5**
OVERALL TOTAL	**100.0**	**100.0**
EUROZONE (INC. IRELAND) TOTAL	**52.0**	**51.3**
NON EUROZONE TOTAL	**48.0**	**48.6**

Review of Fund's Investment Performance

The FAIG Committee meets with the Investment Manager on a regular basis to consider the performance of investment markets and, against that background, to review in detail their management of the Fund and, in particular, the investment return achieved by the Fund. The most recent such review meeting took place with Davy Asset Management Limited (previously Advance Investment Managers Limited) on 5th September 2014.

The following is a summary of the Investment Manager's assessment of the performance of investment markets in 2014, and the economic backdrop which has influenced their year end investment strategy for the Fund.

"Market Review

Equity markets were encouraged by a stabilisation in corporate earnings estimates and they benefitted from the continued supportive stance by the world's major central banks – this left yields on both bonds and cash at historically low levels and encouraged investors into equity markets where valuations were cheaper than historic averages.

The Eurozone bond market recorded a return of +20.6% on the Merrill Lynch Over 5 Year Index in 2014. The key factor in this performance was expectations of further ECB easing and particularly some form of Quantitative Easing (QE). Eurozone 10-year bond yields fell by between -1.3% (Finland) and -2.5% (Spain) over the course of 2014 – yields ended 2014 at less than half of what they were at the start of the year and in the case of Germany, Netherlands, Austria and France, yields were less than one-third of what they were at the start of 2014. Benchmark bond yields in the UK and US have fallen back from end 2013 levels in spite of a continuing flow of positive economic news in those economies and a tapering of QE – both the US Federal Reserve and the Bank of England have now ended their QE programmes.

Outlook

Over the last 5 years, we have seen equity valuation multiples re-rate from very low levels of around 8 times Price-to-Earnings multiple at the depth of the financial crisis, to close to 17times today. At current levels equities are close to 'fair value' and as a consequence further multiple expansion is unlikely to be a major driving force for returns going forward. Looking ahead, further gains must now come from earnings and dividends. The good news is that companies continue to deliver solid earnings growth. Although there are potential cross currents that could dampen earnings growth, such as lower oil prices for the energy sector, we expect companies to deliver mid-to-high single-digit growth rates again this year. In addition, company balance sheets remain strong with low levels of debt.

In the Eurozone, 10 year bond yields on AAA to BBB bonds currently range from 0.38% in Germany to 1.57% in Italy. Yields on German, Netherlands, Finland and Austrian 10 year bonds are all below 0.50% at the time of writing. The European Central Bank (ECB) launched a €60bn-a-month bond-buying programme, in a bid to revitalise the Eurozone economy and counter deflation and expectations are that Eurozone interest rates will not rise for a number of years – therefore Eurozone bond yields may stay low for longer than we had expected.

The Euro weakened significantly against most of the major currencies in 2014 as investors moved to recognise the Eurozone's slower growth and lower inflation dynamics relative to the US and the UK. We expect this trend of a weakening Euro to continue into 2015."

The investment performance of the Investment Manager is reviewed, firstly, against the specific investment objectives for the Fund which are set having regard to its particular requirements and, secondly, against the universe of comparator funds.

The specific investment performance objective which was set for the Manager was

(a) To generate an annual percentage income return each year which is not less than 75% of the average yield for that year on long dated Euro denominated Government Bonds, and

(b) In the longer term, to ensure that the underlying capital of the Fund increases at least in line with price inflation.

During the year the Investment Manager achieved an income return of 3.1% which exceeded the target set and enabled the Foundation to meet its grant making objectives for the year. 2013 was another strong year for global equity markets with most major equity markets showing strong gains and the index of global equities showing a gain of 19.3% for euro investors. This enabled the Investment Manager to achieve a capital return of 9.4% which was comfortably ahead of price inflation for the year.

The Committee also reviews the performance of the Fund against a group of comparator funds. In this context the Committee considered the Survey of 6 Ethical Managed Funds to be the most appropriate benchmark.

Over the 1, 3 and 5 year periods ending in December 2014, the following is a comparison of the total average annual returns achieved by the CFI Fund and the Survey average (net of investment management fees in each case)

Period	**CFI Fund**	**Survey Average**
1 year	12.1%	14.0%
3 years	11.5% pa	14.2% pa
5 years	8.7% pa	10.3% pa

Changes Resulting from Review of Fund by FAIG

Revised Investment and Distribution Policy

To date (31.12.2014) the Fund's strategy has been implemented by using the income generated by the Fund's investments to meet CFI's administration fees and the investment management costs with the balance being available for grant making. However, in the low interest rate environment that has prevailed in recent years, the gross annual income being generated by the Fund has been gradually reducing, such that the amount available for grant making (as a % of the total Fund) has reduced by almost 35% since 2009, as the following table illustrates.

Year	**Gross %**	**%Amount available for Grant Making (i.e. net of fees)**
2009	4.0%	2.6%
2010	3.7%	2.3%
2011	3.9%	2.5%
2012	3.8%	2.4%
2013	3.5%	2.1%
2014	3.1%	1.7%

During 2014 the FAIG undertook a review of the Fund to consider whether an alternative approach to investment and distribution might deliver a more consistent and stable fund for grant making without threatening the long term sustainability of the Fund. As part of this review approaches being used by community foundations in other parts of the world were examined. Following that review a series of recommendations were made to the Board of the CFI who decided that, with effect from 1st January 2015 (and subject to the agreement of donors (since received)), the Fund would adopt a 'total return' approach to investment i.e. no distinction drawn between income and capital returns. The main purpose and priority of the Fund would, however, be the delivery of a consistent and sustainable amount each year from the Fund's income and/or capital for grant making. At the same time, the level of drawdown for grant making would be set with the objective of protecting indefinitely the nominal value of the Fund's capital and providing a buffer against future inflation. Specifically, it was decided that the Fund, in normal circumstances, would make available for grant making each year (i.e. after fees) an amount of 4% of the average end of year values for each of the previous 5 years, regardless of the income or capital returns generated by the Fund in that year.

Review of Investment Manager

In conjunction with the review of investment and distribution policy, the FAIG Committee also reviewed the appointment of the Fund's Investment Manager (the mandate of the existing manager, Davy Asset Management Limited expired on 31st December 2014). Proposals were invited from a number of Managers, (including Davy Asset Management Limited) whom the Committee believed had the capabilities to manage the Fund within the new criteria which had been set for the Fund. Detailed written proposals were received from 10 Managers from which the FAIG Committee selected 4 for further consideration. The Committee met with each of these on 18th November so that they could make a presentation to the Committee and answer questions on their proposal. Following these meetings, the FAIG Committee unanimously recommended to the Board of Directors of the CFI that Sarasin and Partners be appointed to manage the Fund for a 3 year term and this recommendation was endorsed by the Board at its meeting on 3rd December 2014, and implemented with effect from 27th March 2015.

Statement of the Fund's Investment Policy Objectives and Guidelines

A revised Statement of the Fund's Investment Policy Objectives and Guidelines reflecting in more detail the changes outlined above (and other consequential changes) has been developed by the FAIG Committee and approved by the Board. This has been implemented with effect from 1st January 2015 and is available on the CFI website for inspection.

March 2015