Endowment Fund - Investment Report
Year 1/1/2016 to 31/12/2016

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 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 who were appointed to manage the Fund for a 3 year term from 1st January 2015 (the transfer of the Fund's assets to them took place on the 23rd April 2015).

A Statement of the Fund's Investment Policy Objectives and Guidelines reflecting the policy, mandate and performance objectives of the manager is available on the CFI website for inspection.

Fund's Financial Development during Year

The 2015 Investment Report showed a total value for assets held by the Investment Manager on behalf of the Fund of €40,346,918. Post year end adjustments of €45,529 increased this value (as per audited accounts) to €40,392,447

During the year the Investment Manager received €63,839 representing donations received from donors for investment in the Fund. The Fund also received investment income during the year (including tax reclaimed) of €1,075,952. A total amount of €1,220,465 was made available to the Foundation to meet its grant making requirements and to cover its administrative fees. A further €178,438 was deducted to meet the Investment Manager's fees and other investment expenses.

During the year, the fund achieved a total capital appreciation of €638,095.

The total value of the assets held by the Investment Manager on behalf of the Fund at 31st December 2016 (allowing for a rounding adjustment of €6) was, therefore, €40,771,436.

SUMMARY

Assets at 1st January 2016 (as per 2015 Investment Report)	**€40,346,918**
***Post Year End Adjustments**	**45,529**
Adjusted Assets at 1st January 2016 (as per audited accounts)	**€40,392,447**
New Donations Invested	63,839
Investment Income Received	1,075,952
Amounts Paid Out Grant Making/Admin Fees	(1,220,465)
Investment Manager's Fees/Expenses	(178,438)
Capital Appreciation	638,095
Rounding	6
Assets at 31st December 2016	**€40,771,436**

***Represents a cheque in transit at 31st December 2015 of €45,535 and other adjustments of (€6)**

The investment income received by the Fund, and its capital appreciation, during the year represented a total investment return of 4.3%, broken down as follows:

Income	2.6%
Capital Appreciation	1.7%
Total	**4.3%**

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 2016.

	BEGINNING OF 2016 %	**END OF 2016 %**
EQUITIES		
Irish	0.0	0.0
Other Eurozone	11.1	10.1
Non Eurozone	61.9	62.3
Total Equities	**73.0**	**72.4**
BONDS		
Irish	0.3	0.3
Other Eurozone	15.4	16.3
Non Eurozone	0.9	0.2
Total Bonds	**16.6**	**16.8**
PROPERTY		
Non Eurozone	5.0	6.0
Total Property	**5.0**	**6.0**
ALTERNATIVES		
Non Eurozone	3.2	3.9
Total Alternatives	**3.2**	**3.9**
LIQUID ASSETS		
Eurozone	2.2	0.9
Total Liquid Assets	**2.2**	**0.9**
OVERALL TOTAL	**100.0**	**100.0**
EUROZONE (INC. IRELAND) TOTAL	**29.0***	**27.6***
NON EUROZONE TOTAL	**71.0**	**72.4**

***Currency Hedging is in place such that, in overall terms, the net exposure to Eurozone was 65.4% (beginning of 2016), 67.3% (end of 2016).**

More than half of the Fund's Non Eurozone Equities at the end of 2016 (36.75% of total portfolio) was held in US stocks which was the best performing equity market for euro investors in 2016. The largest single equity holding in the portfolio is the US Bank, JP Morgan Chase & Co, (1.85% of total portfolio) and this holding contributed 0.5% to the Fund's overall performance during the year.

53.9% of the total Bond portfolio at year end was held in Corporate Bonds, with 36.5% in Government Bonds. The average duration to maturity of the Bond portfolio was 7.5 years and the Bonds held had an average 'A' rating.

The 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 Sarasin and Partners on 20th March 2017.

The following is a summary of the Investment Manager's assessment of the performance of investment markets in 2016, and the economic backdrop which has influenced their year end investment strategy for the Fund.

Market Review

'Equity markets entered 2016 in very weak fashion reflecting investor concerns that global growth might be faltering amid continuing weak global trade and a growing sense that the Chinese economy may be headed for a 'hard' landing. Significant oil price weakness and an increase in US interest rates (in December 2015) added to the poor market sentiment. Weak equity markets in January, however, started to recover in February as subsequent economic news from China proved not to be as bad as feared and the European Central Bank announced a cut in interest rates alongside its ongoing monetary stimulus (Quantitative Easing) programme. The second quarter brought political developments centre stage with Britain surprisingly voting by referendum to leave the European Union – a decisive moment in British and European history – creating a new uncertainty for the world economy and investors. The decision resulted in a significant devaluation of Sterling against the US Dollar whilst the price of bonds rose to new records. Political uncertainty again surfaced in November with the unexpected election of Donald Trump as the new US President. In not being part of the political establishment, Trump's victory has created a sense of the 'unknown' in regard to what such a victory could mean for stabilisation in the world economy and markets. His election might have been expected to result in a major pick-up in market volatility or a flight to safety. Not so, instead the markets have focussed for now on his plans to put US economic expansion at the top of his agenda causing bond markets to move lower and equity markets to move higher.

The Brexit result, Trump victory and also an Italian referendum vote against the prevailing government in December appear to reflect a combination of economic insecurity and dissatisfaction with low real income growth which in turn is driving a wave of populism and, with it, heightened geopolitical risks. The expected upshot is a shift in policy to fiscal stimulus and protectionism, which in turn may result in a reversal of hitherto *over-easy monetary policy. Indeed, a second interest rate increase of 0.25% was announced in the US in December 2016 following the prior increase in December 2015.*

Again, despite the surprising geopolitical developments in 2016, equities and property continued to deliver relatively better returns than those from bonds and cash deposits over the year as follows:

Fixed Interest	*BofA Merrill Lynch Euro Gov't Bond Index*	*+4.9%*
Global Equities	*MSCI AC World (Net Total Return) Index*	*+11.1%*
Global Property	*S&P Developed Property Index*	*+8.5%*
Cash	*Euribor 3 month*	*-0.3%*

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 what is considered to be an appropriate benchmark.

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. At the same time the Investment Manager's shorter term performance is measured against the following benchmarks.

Bonds	10.0% BofA Merrill Lynch Euro Government Index 12.5% BofA Merrill Lynch Eurozone Corporate Bond Index
Equities	47.5% MSCI AC World Local Currency 25.0% MSCI AC World
Listed Property	5.0% S&P Developed Property

Total Fund The whole portfolio will be compared to a composite of the above weighted to the central points of the permissible ranges.

In addition, to provide a measure of how the Fund has performed each year relative to the funds of other Irish long term investors, the performance of the Fund is also compared with the average return of Irish Pension Managed Funds (as measured by the Rubicon survey).

As previously pointed out, during the year 2016 the Fund achieved a return of +4.3%. This return fell marginally short of the Fund's long term investment objective (which in a low inflationary environment equates to a return of approx. 5.0%). However, the Fund's longer term performance remains significantly ahead of inflation.

Period to End 2016	Fund's Average % Annual Return	Average Annual Increase in CPI
1 Year	4.3%	0.3%
5 Years	8.8%	0.2%
10 Years	4.8%	0.5%

The Fund also underperformed the benchmark for 2016 (+ 8.5%). Within this overall performance, the manager outperformed the benchmark in Bonds and Property but within the equity sector, stock selection and, in particular, an overweight position in the poorer performing defensive stocks were primary contributors to the underperformance. The manager is confident that the quality of the stocks held in the equity portfolio will enable it to outperform its benchmark in 2017 (the opening months of 2017 have seen positive returns and an outperformance of the benchmark).

The average return of Irish Pension Managed Funds for 2016 was +5.8%.

June 2017