



Endowment Fund - Investment Report Year 1/1/2011 to 31/12/2011

Introduction

The strategy of the Endowment 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 in large companies with strong franchises, attractive dividend yields and good potential for real capital growth. The performance of the Investment Manager and Fund is reviewed each year and the results of this review are shown in the yearly Investment Report. The review for the year 2011 is shown below as are the returns over the last 3 and 5 years.

The Fund and its Long Term Investment Objectives

The Fund is a tax-exempt fund and is held in trust by the Board of Directors of the Foundation. The operation of the Fund is governed by the Foundation's Memo & Articles of Association which also sets down the powers and responsibilities of the Directors in relation to the Fund.

The primary long term investment objective of the Fund is to seek to maximise its overall return having regard to the performance of stock markets generally and taking due cognisance of the Fund's income requirements.

More specific objectives are

- (a) To generate an annual income from the Fund's investments to enable the Foundation to meet its grant making requirements, and
- (b) At a minimum, to protect the capital of the Fund over the longer term but, ideally, to ensure that the value of the capital of the Fund keeps pace with consumer price inflation; if over any period the accumulated capital appreciation significantly exceeds price inflation for that period the Board may, at its discretion, authorise the use of part of the excess for grant making purposes.

The Fund's Investment Policy

It is the present policy of the Board to delegate the investment management of the fund to recognised experts. They have requested the Manager to seek to achieve the Fund's investment objectives (i.e. a combination of income return and capital growth) by maintaining a balanced investment approach. Investments bought on behalf of the Fund by the Manager shall be, for the most part, limited to widely held securities traded on

recognised markets. They have also instructed the Manager to maintain adequate diversification among asset classes and individual securities and that there should be a bias towards yield focused securities.

Although the Manager has substantial discretion both in, the distribution of the Fund among markets and asset classes and, the selection of stocks, some very broad guidelines and minimal investment constraints have been set by the Board. For example, not more than 65% of the Fund can be held in a single asset class (bonds or equities). Also, the Manager must not invest in specific industries on behalf of the Fund (tobacco, pornography, nuclear, or armaments).

During the year the Foundation's Finance Audit Investment and Governance (FAIG) Committee reviewed the appointment of the Fund's Investment Managers. Proposals were invited from a number of Investment Managers whom the Committee believed had the capabilities to manage the Fund within the criteria which had been set for the Fund. Detailed written proposals were received from 3 Managers and the FAIG Committee met with each of them on 15th November 2011 so that they could make a presentation to the Committee and answer questions on their proposals. Following these meetings the FAIG Committee unanimously recommended to the Board of Directors of the Foundation that AIB Investment Managers be reappointed to manage the Fund for a further 3 year term and this recommendation was endorsed by the Board at its meeting on 7th December 2011 and implemented with effect from 1st January 2012.

Fund's Financial Development during Year

At 1st January 2011, the total value of the assets held by the Investment Manager on behalf of the Fund was €26,832,765.

During the year the Manager received a further €430,665 representing donations received from donors for investment in the Fund. The Fund also received investment income during the year (including tax reclaimed) of €1,047,730. A total amount of €980,116 was made available to the Foundation to meet its grant making requirements and to cover its administrative costs. A further €108,108 was deducted to meet the Manager's fees and other investment expenses.

During the year, the fund realised gains of €33,985 but this was more than offset by unrealised losses of €439,397, resulting in a total capital depreciation of €405,412 during the year.

The total value of the assets held by the Manager on behalf of the Fund at 31st December 2011 was, therefore, €26,817,524.

SUMMARY

Assets at 1st January 2011	€26,832,765
New Donations Invested	430,665
Investment Income Received	1,047,730
Amounts Paid Out Grant Making/Admin Costs	(980,116)
Investment Manager's Fees/Expenses	(108,108)
Capital Depreciation	(405,412)
Assets at 31st December 2011	€26,817,524

The value of the assets in the final audited accounts was higher at €26,822,522, the difference, relates to cash in transit at the year end, not yet credited to the fund by the Investment Manager.

The income earned by the Fund, and its capital depreciation, during the year represented a total investment return of 2.4%, broken down as follows:

Capital Depreciation	(1.5%)
Income	3.9%
Total	2.4%

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 2011.

	BEGINNING OF <u>2011</u> %	END OF <u>2011</u> %
EQUITIES		
Irish	0.0	0.0
Eurozone	13.1	9.5
Non Eurozone	48.5	51.2
Total Equities	61.6	60.7
BONDS		
Irish	2.0	0.0
Eurozone	28.2	32.2
Non Eurozone	0.0	0.0
Total Bonds	30.2	32.2
CASH		
Eurozone	8.2	7.1
Total Cash	8.2	7.1
OVERALL TOTAL	100.0	100.0
EUROZONE (INC. IRELAND) TOTAL	51.5	48.8
NON EUROZONE TOTAL	48.5	51.2

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 AIB on 6th March 2012.

The following is a summary of the Manager's assessment of the performance of investment markets in 2011, and the economic backdrop which has influenced their current investment strategy for the Fund.

Market Review

The year started with economic growth continuing to strengthen, corporate profits increasing and equity markets making steady progress. However, between March and mid July markets traded sideways as both the earthquake and tsunami in Japan and the ongoing Eurozone debt crisis served to adversely affect investment sentiment. There were sharp market declines in July and August as emerging data served to further weaken investor confidence in the sustainability of economic recovery among the developed economies.

Markets rallied strongly, however, from October to year end as central banks implemented further measures aimed at both assisting Eurozone banks and further helping to stimulate the global economy. Additionally, major summits in October and December agreed on significant proposals to deal with the Eurozone debt crisis. For 2011 as a whole, however, the index of global equities declined by 3.4% in Euro terms.

Eurozone bonds performed well in 2011 with a return of +4% as slowing economic indicators and declining inflation provided a benign background. Within the Eurozone, bond yields differentials in certain peripheral countries such as Portugal and Greece continued to widen against those in the 'core' countries of Germany and France reflecting the perceived debt burden attaching to those economies.

Outlook

While economic growth forecasts have deteriorated in recent months, global growth is expected to be over 3% pa over the next few years. US leading indicators are consistent with modest growth while Eurozone leading indicators are forecasting recession for 2012. Emerging Market economies continue to be the major driver of global growth. Inflation remains at low levels in most economies and Central Banks are more concerned with boosting economic growth. As a result we expect that we will remain in a very low interest rate environment for a considerable period.

While the background for equities has improved in recent months, risks, such as the Eurozone debt crisis, remain. Valuations are attractive and investor sentiment has become more optimistic. Corporate earnings forecasts are still being revised downwards but this may be near an end. We remain positive on the outlook for equities.

The weaker global economy and an extended period of low interest rates should be a positive backdrop for bonds. However, with yields close to historic lows in most AAA rated markets we see current levels as unattractive. Our medium term outlook is for bond yields to move gradually higher from current historically low levels.'

The investment performance of the Manager is reviewed, firstly, against the specific investment objectives for the Fund which are set having regard to its unique 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 Manager achieved an income return of 3.9% which exceeded the target set and enabled the Foundation to meet its grant making objectives for the year. 2011 was a difficult year for global equity markets with most major equity markets showing negative returns and the index of global equities showing a decline of 3.4% for euro investors. In the circumstances, it was impossible for the Manager to protect the capital of the Fund and we saw a fall of 1.5% in the Fund's capital, giving a total return (income and capital) of 2.4%. Whilst the outcome was disappointing it was, nonetheless, significantly ahead of that achieved by comparator funds (see below).

The Committee also reviews the performance of the Fund against a group of comparator funds. In this context the Committee considered the Survey of 7 Ethical Managed Funds to be the most appropriate benchmark. Over the 1, 3 and 5 year periods ending in December 2011, 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	2.0%	-2.3%
3 years	6.5% pa	8.7% pa
5 years	0.5% pa	-2.2% pa

September 2012