Endowment Fund - Investment Report
Year 1/1/2015 to 31/12/2015

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. Up to the end of 2014 the Fund's strategy was 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 was gradually reducing.

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. Following that review it was decided to 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, remain 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.

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). Following that review it was decided to appoint Sarasin and Partners to manage the Fund for a 3 year term from 1st January 2015 and the transfer of the Fund's assets to them took place on the 23rd April 2015. The details contained in this report cover both the period up to 23rd April 2015 when the assets of the Fund were managed by the previous manager (Davy Asset Management Limited) and the subsequent period when the assets were the responsibility of the current manager, Sarasin and Partners.

A revised Statement of the Fund's Investment Policy Objectives and Guidelines reflecting the changed policy and the mandate and performance objectives of the new manager was developed with effect from 1st January 2015 and is available on the CFI website for inspection.

Fund's Financial Development during Year

At 1st January 2015, the total value of the assets held by the Investment Manager on behalf of the Fund was €37,738,897.

During the year the Investment Manager received a further €2,248,543 representing donations received from donors for investment in the Fund. The Fund also received investment income during the year (including tax reclaimed) of €979,388. A total amount of €1,067,213 was made available to the Foundation to meet its grant making requirements and to cover its administrative costs. A further €183,041 was deducted to meet the Investment Manager's fees and other investment expenses.

During the year, the fund achieved a total capital appreciation of €630,344.

The total value of the assets held by the Investment Manager on behalf of the Fund at 31st December 2015 was, therefore, €40,346,918.

SUMMARY

Assets at 1st January 2015	**€37,738,897**
New Donations Invested	2,248,543
Investment Income Received	979,388
Amounts Paid Out Grant Making/Admin Costs	(1,067,213)
Investment Manager's Fees/Expenses	(183,041)
Capital Appreciation	630,344
Assets at 31st December 2015	**€40,346,918***

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%**

*Differs to Financial Statement due to funds in transit.

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 2015.

	BEGINNING OF 2015 %	**END OF 2015 %**
EQUITIES		
Irish	0.0	0.0
Other Eurozone	13.2	11.1
Non Eurozone	48.7	61.9
Total Equities	**61.9**	**73.0**
BONDS		
Irish	0.6	0.3
Other Eurozone	26.0	15.4
Non Eurozone	0.0	0.9
Total Bonds	**26.6**	**16.6**
PROPERTY		
Non Eurozone	0.0	5.0
Total Property	**0.0**	**5.0**
ALTERNATIVES		
Non Eurozone	0.0	3.2
Total Alternatives	**0.0**	**3.2**
LIQUID ASSETS		
Eurozone	11.5	2.2
Total Liquid Assets	**11.5**	**2.2**
OVERALL TOTAL	**100.0**	**100.0**
EUROZONE (INC. IRELAND) TOTAL	**51.3**	**29.0***
NON EUROZONE TOTAL	**48.6**	**71.0**

***Currency Hedging is in place such that, in overall terms, the net exposure to Eurozone is 65.4%**

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 Sarasin and Partners on 7th March 2016.

The following is a summary of the Investment Manager's assessment of the performance of investment markets in 2015, and the economic backdrop which has influenced their year end investment strategy for the Fund.

Market Review

"Whilst the return for the Fund for the year as whole was positive conditions in markets were quite volatile during the year. Despite huge central bank intervention over the last 5 years aimed at attempting to stimulate economic recovery in the developed world economies, growth, whilst positive and improving, has been far from robust. Confidence too in the China growth story, which has helped to offset weak growth in the developed economies in recent years, has also started to weaken and a small but significant devaluation of the Chinese currency against the US Dollar in August proved quite disconcerting for investors and caused a significant sell-off in global equity markets in the third quarter.

Despite the concerns over global growth, the US and UK economies continue to recover albeit modestly with improving wage and employment trends in the US causing the Federal Reserve Board to finally increase interest rates by 0.25% in December. Growth in the Eurozone and Japan, however, remains weak to elusive with their respective central banks having to continue to provide strong levels of supporting stimulus.

A key positive for economies has been the continued decline over the year of commodity and oil prices. Whilst such price declines will pose difficulties for many emerging economies, the huge transfer of wealth from oil producers to oil consumers must be a positive for growth globally. The weak growth environment and the decline in commodity prices has meant that continuing very low inflation is adding to fears that deflation rather than inflation may be coming the bigger issue.
Despite the volatile market conditions, equities and property delivered relatively better returns than those from bonds and cash deposit over the year as follows:

Fixed Interest	*BofA Merrill Lynch Euro Gov't Bond Index*	*1.4%*
Global Equities	*MSCI AC World (Net Total Return) Index*	*10.4%*
Global Property	*S&P Developed Property Index*	*12.4%*
Cash	*Euribor 3 month*	*0.0%*

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

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).

During the period since the revised mandate has been in place (23rd April 2015) the Fund achieved a return of – 5.5% compared with a benchmark return of – 5.7%. It has not been possible to compare the return over this period with that achieved by Irish Pension Managed Funds. However, over the full year the average performance of Irish Pension Managed Funds was 9.7% compared to the Fund's return of 4.3%.

May 2016