



## **Community Foundation for Ireland Funds ('the Funds')**

### **Statement of the Endowment and Term Funds' Investment Policy Objectives and Guidelines (September 2016)**

#### **1. Background**

The Foundation for Investing in Communities (a company limited by guarantee) was established in November 1998 by the private sector in response to a challenge from the then Minister for Social, Community and Family Affairs

- (a) to provide a vehicle to support, encourage and drive community philanthropy and grant making; and
- (b) to give increased recognition and support to businesses who are making Corporate Social Responsibility an essential part of their business practice.

A unique feature of the Foundation is the creation of the first ever nationwide community foundation, the Community Foundation for Ireland (CFI) whose aim is to unite the generosity of donors with the needs of communities. To enable it to achieve its objective of raising philanthropic donations and making strategic grants for the long term benefit of the community and voluntary sector, CFI has established permanent, independent, civic endowment funds.

Since inception, donations to the Endowment (in perpetuity) Funds have been received from individuals, government, organisations, business and other foundations and this has enabled the CFI to make grants during this period, see appendix for totals granted. Term Funds (funds invested and fully spent down over a period) have been established to receive donations from individuals, government, organisations, business and other foundations. Grants may be made either on a discretionary or donor advised basis.

The Funds' values are noted in the Appendix and it is planned to increase these values. A copy of CFI's audited accounts are available on the website at [www.communityfoundation.ie](http://www.communityfoundation.ie).

The Funds are tax exempt and are held in trust by the Board of Directors of CFI ('the Board') - a list of current Board Members is available on the website. The operation of the Funds are governed by CFI's Memorandum and Articles of Association which also sets down the powers and responsibilities of the Directors in relation to the Funds. A copy of these are available on request.

CFI's Finance Audit Investment and Governance Committee (the FAIG) is responsible for directing and managing the investment management of the Funds. Specifically it shall

- (a) develop for approval by the Board a statement of the Funds' investment policy and objectives incorporating appropriate investment guidelines and constraints,
- (b) select and recommend to the Board a professional Investment Manager to manage the assets of one or more of the Funds,
- (c) select and recommend to the Board a professional custodian, for each of the Funds,
- (d) set an appropriate investment performance objective for the Funds and meet with the manager to review performance relative to the objective at least annually,
- (e) report to the Board twice yearly on the performance of the Funds relative to the Investment Policy and Objectives, and
- (f) prepare Investment Reports for approval by the Board at least annually.

With effect from 1<sup>st</sup> January 2015, the Endowment Funds have adopted a 'total return' approach to investment i.e. no distinction drawn between income and capital returns. However, the main purpose and priority of the Funds are to deliver a consistent and sustainable amount each year from the Funds' income and/or capital for grantmaking. At the same time, the level of drawdown for grantmaking is set with the objective of protecting indefinitely the nominal value of the Fund's capital and providing a buffer against future inflation.

In addition at least 1% per annum of the Endowment Funds shall be deducted each year to cover the administrative and other overheads of CFI.

Donations to the Funds attract beneficial tax exemptions under Section 846A of the Taxes Consolidation Act 1997.

## **2. The Purpose of Investment Policy Statement**

The purpose of this Statement of Investment Policy is to

- (i) Establish a clear understanding of the Funds' investment goals and objectives.
- (ii) Offer guidance and set limitations for the Investment Manager(s) regarding the investment of available resources.
- (iii) Establish a basis for monitoring investment activity and evaluating investment results.

(iv) Establish the relevant investment horizon for which the available assets will be managed and investment performance evaluated.

In general, the purpose of this Statement is to outline a philosophy and strategy which will guide the management of assets towards the desired results. It is intended to be sufficiently specific to be meaningful, yet broad and flexible to allow the Investment Manager(s) sufficient scope to exercise their judgements on behalf of the Funds. In particular, it is the responsibility of the Investment Manager(s) to request a change in this Statement where it believes that it is inhibiting it in any way from carrying out its role or in achieving the investment objectives of the Funds.

### **3. The Investment Objectives**

With effect from 1<sup>st</sup> January 2015, the Board has decided to adopt a ‘total return’ policy for the management of the Fund(s) i.e. no distinction drawn between income and capital return. This approach defines net investment return over any period as the total change in the overall value of funds over that period, including both net current income (i.e. interest, dividends etc.) and net (un)realised capital gains and losses, less all investment related costs.

#### **a. Endowment Funds**

The primary long term investment objective of Endowment Funds is to seek to maximise the total net investment return having regard to the performance of stock markets generally, and the Funds’ tolerance for risk. More specific long term objectives are

(i) to make available for grants each year an amount of 4% of the average end of year market values for each of the previous 5 years, plus CFI administration fees of 1% pa of the Endowment Funds value; and

(ii) to protect the nominal capital of the Endowment Funds as well as providing a buffer against inflation in the long term.

#### **b. Term Funds**

The primary investment objective of the Term Funds is to seek to maximise the total net investment return having regard to the performance of stock markets generally, and the Funds’ tolerance for risk. More specific long term objectives are

(i) in agreement with the donor to make amounts available for grants each year after related charges and CFI administration fee are incurred by the Term Funds;

(ii) to invest in assets suitable for the expected life of the Term Funds.

### **4. Fund Investment Policy**

It is the present policy of the Board

(a) to delegate the investment management of the Funds’ Assets to recognised experts;

- (b) to delegate the management of the Funds to one or more nominated managers, (“the Managers”) the current nominated managers are listed in the Appendix;
- (c) to ask the Investment Managers to diversify the assets among asset classes and individual securities to minimise the risk of capital erosion, unless under the circumstances it is clearly inadvisable to do so;
- (d) to ask the Investment Managers to use a balanced investment approach i.e. within very broad guidelines and minimal investment constraints set out below the Investment Managers have total discretion both in the distribution of the Funds among markets and asset classes and the selection of stocks etc. within those classes;
- (e) to set investment guidelines and constraints designed only to exclude asset distributions which are totally unacceptable to the Board;
- (f) to set specific performance objectives which have regard to the investment guidelines/constraints set by the Board and the level of risk acceptable to them;
- (g) to delegate the custody and safe keeping of the Funds to a custodian arranged and endorsed by the Investment Managers.

## **5. Portfolio Investment Guidelines**

### *(a) Allowable Asset Classes*

- (i) Equity Securities which shall be restricted to readily marketable securities of companies traded on recognised exchanges.
- (ii) Fixed Interest Securities, including Sovereign, Corporate and Indexed Linked Bonds provided the issuer meets the minimum credit rating specified later.
- (iii) Cash and Cash Equivalents, including cash deposits, treasury bills and certificates of deposit.
- (iv) Alternative Asset Classes which for the purpose of this Statement are defined as investments other than equity securities, fixed interest securities, cash and cash equivalents (including unit funds that invest predominantly in these assets). Within this very broad category, property subject to 6(c), property funds (including real estate investment trusts) infrastructure funds, hedge funds, commodities, private equity and structured products are allowable subject always to the Investment Managers being satisfied that they have the potential to contribute to the net investment return targets, within an acceptable level of risk. Alternative Asset Classes other than those specified in this paragraph may only be included in the portfolio with the prior approval of the FAIG.

*(b) Allowable Asset Range–Endowment Funds*

<b>Market Value Basis</b>		
	<b>Minimum %</b>	<b>Maximum %</b>
Equity Securities	50%	85%
Fixed Income Securities	7.5%	45%
Cash and Cash Equivalents	0%	12.5%
Alternative Asset Classes	0%	20%

*(c) Allowable Asset Range–Term Funds*

The asset allocation is to be in accordance with the expected life of the Term Funds, anticipated grants profile and liquidity requirements of the Term Funds. Assets not less than one year's expected drawdown from the fund, are to be in cash and cash equivalent, or in readily tradeable assets. An increasing proportion of assets are to be in easily liquidated assets over the final 4- 5 years of the Term Funds.

*(d) Rebalancing*

Where on account of the performance of a market or markets or individual securities, a limit is exceeded, the Investment Managers are not required to sell assets to bring that category (or security) within the limits set. However, the Investment Managers shall notify the FAIG that the limits have been exceeded as soon as is reasonably practicable after it has occurred.

*(e) Liquidity*

Drawdowns from the Endowment Funds will generally be made at the end of each calendar quarter to cover outgoings for grant making and CFI fees. Term funds will have an agreed annual drawdown schedule.

*(f) Currency*

In selecting securities for the portfolio, and in deciding whether, and to what extent, to hedge the portfolio's non-Euro exposure, the Investment Manager(s) need to be cognisant of the fact that the Funds' outgoings are entirely Euro denominated. The Board would expect that, in normal circumstances, at least 50% of assets would be euro or euro hedged assets.

*(g) Risk*

In the view of the Board the major risk faced by the Funds is failure to meet the investment objectives specified above. The Board understands that risk is present in all types of securities and investment styles and that some risk and short term volatility is necessary to produce the investment results that are sufficient to meet

these objectives. However, the Investment Managers should take all reasonable steps to control these risks and to meet the objectives with the minimum amount of risk.

## **6. Portfolio Investment Constraints**

The Investment Managers shall have full discretion in investment decision making within the broad guidelines in Section 5 and subject to the following investment constraints:

- (a) no holding in any single company shall amount to over 5% of the Portfolio on the basis of market value;
- (b) short sales of securities and dealing on margins shall not be permitted;
- (c) the Investment Managers shall not invest directly in property without the prior approval of the FAIG.
- (d) no investment shall be permitted in any market where the Custodian does not accept liability for loss arising from
  1. Its negligence, wilful default or fraud of itself (the custodian) and any affiliated subcustodian or
  2. in the case of a non-affiliated subcustodian, failure to exercise the required care;
- (e) the Investment Managers shall not commit the Funds to underwriting any new issue or other offer of securities;
- (f) The average credit ratings of all bond holdings should not fall below A-. The Board would expect the fund manager to invest a majority (90%+) of the overall bond exposure in bonds with a credit rating of BBB- or better, as determined by the recognised credit rating agencies either individually or combined using the Bloomberg Composite methodology. Any holding downgraded below BBB- shall, if still held, be reviewed with the FAIG at the next meeting with the fund manager and no further purchases made until such a review.
- (g) the borrowing of any money on behalf of the Funds is not permitted other than temporary borrowing arising from the settlement of transactions which may not, in any event, exceed 5% of the value of the relevant Funds;
- (h) stock lending is not permitted without the written permission of the FAIG;
- (i) unlisted or illiquid venture capital investments shall not be held directly on behalf of the Fund. The fund manager may purchase holdings in listed vehicles where the underlying holdings (be they be bonds, equities or other assets) are themselves not listed;
- (j) the Fund shall only invest in a collective investment scheme where:

1. It is listed on a recognised Stock Exchange, or
  2. It has been established under UCITS legislation, or
  3. The fund or its manager is subject to regulatory supervision by a recognised regulatory authority within the OECD area.
- (k) The Investment Managers shall not invest in specific stocks or industries as determined by the Board and advised to the Investment Managers in writing from time to time. The current list of excluded stocks and industries is set out in the attached Appendix;

## 7. Investment Manager Performance Review and Evaluation

The Investment Managers shall report quarterly to the Board (through the FAIG) on the performance of the Funds in absolute terms and against the benchmarks specified below. Additionally the Investment Managers shall meet with the FAIG at least twice a year to consider the performance of investment markets and, against that background to review in detail its management of the Funds and, in particular, the investment return achieved by the Funds.

### (a) Endowment Funds

The primary long term investment objective of the Endowment Funds are specified above (i.e. to make available for grants each year an amount of 4% of the average end of year market values for each of the previous 5 years, plus CFI administration fees of 1% of Funds value, and to protect the nominal capital of the Funds as well as providing a buffer against inflation in the long term). However, the Board recognises that, whereas this is a reasonable long term investment objective for the Funds, with the volatility inherent in (particularly equity) markets the Investment Managers are highly unlikely to meet this objective on a year to year basis. Therefore, the Investment Managers' shorter term performance will be measured against the following benchmarks.

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

**Total Fund:** these component parts add to 100% and the whole portfolio will be compared to a composite of them.

In addition, to provide a measure of how the Fund had performed each year relative to the funds of other Irish long term investors, the performance of the Fund will also be

compared with the average return of Irish Pension Managed Funds (as measured by the Rubicon survey).

(b) Term Funds

The primary investment objective of the Term Funds are specified above (i.e. to make available pre agreed amounts for grant making on an annual basis, and provide funds to cover investment and CFI charges), within the expected lifetime of the Term Funds. The Investment Managers' shorter term performance of the invested Term Funds will be measured against the Endowment Fund benchmarks

(c) Review

Performance relative to the above benchmarks will be reviewed by the FAIG at least annually and shall be critically evaluated over rolling 3 year periods.

**8. Review of this Statement of Investment Policy Objectives and Guidelines**

The Board may revise this Statement of Investment Policy Objectives and Guidelines at any time but it will, in any event, be reviewed by the FAIG on an annual basis.

The Investment Managers may, at any time, request a change in this Statement of Investment Policy and Objectives or raise with the FAIG any problem arising therefrom. In particular it is the responsibility of the Investment Managers to request such a change where it believes that this Statement of Investment Policy and Objectives inhibits it in any way in carrying out its role or in achieving the objectives of the Funds.

September 2016

## **Appendix**

### **Current Value**

(March 2016)

The Endowment funds' current value is approximately €38.3m

The Term funds' current value is approximately €3m

### **Grants made**

(March 2016)

€26 million in total Grants made to date.

### **Nominated Manager**

(April 2016)

Endowment Funds: The nominated manager at present is Sarasin and Partners (from 2015)

Term Funds: The nominated manager at present is Investec (from 2016)

### **List of Excluded industries**

Tobacco	(manufacture)
Pornography	(manufacture, retail)
Nuclear	(manufacture)
Armaments	(make, sell)