

## Endowment Fund – Investment Report for 2022

### Executive Summary

The Community Foundation Ireland Endowment fund at 31.12.22 was valued at €46.2 million.

In 2022, the Endowment Fund

- Provided €1,910k for grant-making
- Contributed €452k to CFI admin costs.
- Received €455k in donations & legacies.

Sarasin & Co, London are the fund investment managers. Fund management costs are 0.4%. The asset allocation at 31.12.22 was: -

- Equity 74%,
- Bonds 12%,
- Alternatives 9%
- Cash 5%

For 2022 Fund investment performance was compared to a benchmark comprising: -

- Equities 72.5% MSCI AC Net Total Return Index Euro
- Bonds 10.0% ICE BofAML Euro Government Bond Index  
12.5% ICE BofAML Eurozone Corporate Bond Index
- Listed Property 5.0% S&P Developed Property (Net Total Return) Index

Five-year Endowment Fund performance:

Year	2018	2019	2020	2021	2022	Total
Value (€ m's)	40,192	47,335	49,976	55,337	46,160	
New donations (€000's)	51	110	300	100	455	1,016
Drawdown for grantmaking (€000's)	1,203	1,599	1,663	1,760	1,909	8,134
Drawdown for admin. costs (€000's)	416	452	459	490	452	2,269
Return earned %	-4.40	23.50	11.00	15.00	-12.70	32.40
Benchmark return %	-4.90	22.20	9.00	19.50	-14.20	31.60

## **Background**

Community Foundation Ireland has an Endowment Fund (“the Fund”), the operation of which is governed by the company’s Constitution which also sets down the powers and responsibilities of the Directors in relation to the Fund. As the Fund is for qualifying charitable purposes, it’s income and gains are exempt from Irish tax.

The main aim of the Fund is to deliver a consistent and sustainable amount each year for grant making and operating costs. The primary long term investment objective of the fund is to seek to maximise the total net investment return having regard to the performance of investment markets generally, the tolerance for risk, the Foundation’s policies concerning the impact and ethics of its investments, and the requirements to withdraw money from the Fund periodically.

The level of drawdown for grant making is set with the objective of protecting indefinitely the real value of the Fund’s capital. 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. In addition, 1% per annum of the Fund is deducted each year to help cover the operating expenses at The Community Foundation.

The Board has adopted a “total return” policy for the management of the fund i.e., no distinction is made between income and capital return. This approach defines net investment return over any period as the total change in the overall value of the Fund over that period, including both net current income and net realised and unrealised capital gains and losses, less all investment related costs.

During late 2022 the Investment Committee recommended to the Board that Sarasin and Partners be appointed as the investment Managers in place of Banque J Safran Sarasin (Luxembourg) (‘BJSS’). This recommendation was approved by the Board and implemented in December at which point the securities switched to being held in Sarasin and Partners’ custodian account at Bank of New York Mellon. As part of the discussions around the change in managers the investment mandate was revised with the major change being in relation to currency hedging which is now at the manager’s discretion rather than being embedded in the benchmark.

This report sets out the governance and performance of the Fund during 2022 and confirms an end of year value of €46.2M.

## **Governance**

The investment committee (‘IC’) has nine members and met five times in 2022. As set out in its terms of reference (which were approved by the Board) the IC has the responsibility to set parameters for the management of the Community Foundation

Ireland's portfolio of funds and to consider any other related activity at the request of the Board. On an ongoing basis, the IC receives periodic reports from the Investment Manager and meets with them on a regular basis to consider the performance of investment markets and to review in detail their management of the Fund. In particular, the investment performance of the Manager is reviewed, firstly, against the specific investment objectives for the Fund which are set having regard to its particular grant making requirements and, secondly, against what is considered to be an appropriate benchmark.

The Investment Policy Objectives and Guidelines document which is available on the Company's website incorporates appropriate investment guidelines and constraints including those reflecting the Company's values and is reviewed annually by the IC. For instance, the policy specifically excludes investment of the Funds in any equities in the tobacco, armaments, gambling or pornography space.

### Financial Developments during Year

The audited Financial Statements for the year ending 31<sup>st</sup> December 2022 were approved by the Board of Directors on 28<sup>th</sup> June 2023 and the following financial information for the Fund has been extracted from these Statements.

	€'000's
<b>Fund value at beginning of year<sup>1</sup></b>	55,337
<b>Donations and Legacies</b>	455
<b>Total Received during the Year</b>	<b>455</b>
<b>Grant Making</b>	(1,910)
<b>Community Foundation Ireland Admin Costs</b>	(452)
<b>Total Money Paid Out during Year</b>	<b>(2,362)</b>
<b>Investment and other Income</b>	759
<b>Unrealised Losses</b>	(7,767)
<b>Manager's Fees including administration and custodial costs</b>	(262)
<b>Fund value at end of year at Sarasin and Partners</b>	<b>46,160</b>

<sup>1</sup> The fund value shown here as at January 1<sup>st</sup> 2022, includes €50,000 which was in transit to BJSS as at that date

## The Fund's Assets



The following table summarises, in percentage terms, the currencies and asset classes in which the Fund was invested at the beginning and end of 2022.

	Start 2022	End 2022
	%	%
<b>Equities</b>		
Eurozone (incl Ireland)	9	8
US Equities	46	45
Other	22	22
<b>Total Equities</b>	<b>77</b>	<b>74</b>
<b>Bonds</b>		
Eurozone (incl Ireland)	12	12
Non Eurozone	0	0
<b>Total Bonds</b>	<b>12</b>	<b>12</b>
<b>Cash</b>		
Eurozone (incl Ireland)	3	5
Non Eurozone	1	0
<b>Total Cash</b>	<b>4</b>	<b>5</b>
<b>Alternatives (incl Real Estate)</b>		
Eurozone	1	0
Non Eurozone	6	9
<b>Total Alternatives</b>	<b>7</b>	<b>9</b>
<b>Overall total</b>	<b>100</b>	<b>100</b>
<b>Eurozone (inc. Ireland) total</b>	<b>25</b>	<b>25</b>
<b>Non eurozone total</b>	<b>75</b>	<b>75</b>

### Equity holdings

Of the 46 equity holdings in the portfolio, the top 20 holdings accounted for 54.2% of its equity exposure. The table below sets out the ten largest equity holdings held in the portfolio at December 31<sup>st</sup> 2022:

	Security Name	% of equities	Sarasin's score	ESG
1	Service Corp	3.1	B	
2	Microsoft Corp	3.1	B	
3	London Stockmarket Exchange	3.1	B	
4	Aramak	3.0	B +	
5	Air Liquide SA	3.0	B	
6	Reckitt Benckiser group plc	3.0	C	
7	Aia group ltd	2.9	A	
8	Shiseido co ltd	2.9	B	
9	Mastercard inc	2.8	B	
10	Thermo Fisher Scientific Inc	2.8	B	

ESG ratings allow investors to understand a company's exposure to, and management of Environmental (E), Social (S) and Governance (G) issues.

Sarasin and Partners use an investment approach that is aligned with the values of the Foundation, by investing in a manner that supports sustainable economic progress and helps protect the interests of future generations.

By identifying companies which demonstrate responsible behaviours, they aim to create more durable economic value for the Foundation. Their process includes the analysis of environmental, social and governance (ESG) factors. They rate each of the E, S and G pillars individually, and then assign stocks with an overall rating from A (excellent ESG performance) to D (poor ESG performance) before investing in a company.

Where issues are identified, they seek to actively engage with companies and vote to encourage positive change. They also drive broader policy outreach where they can positively influence market behaviour and regulation.

The money weighted ESG equity score for the portfolio is 'B' – this reflects companies that demonstrate improving and sustainable management in line with ESG factors with no significant governance concerns. 72% of the equity holdings had an allocated ESG score of B or higher.

## Bond holdings

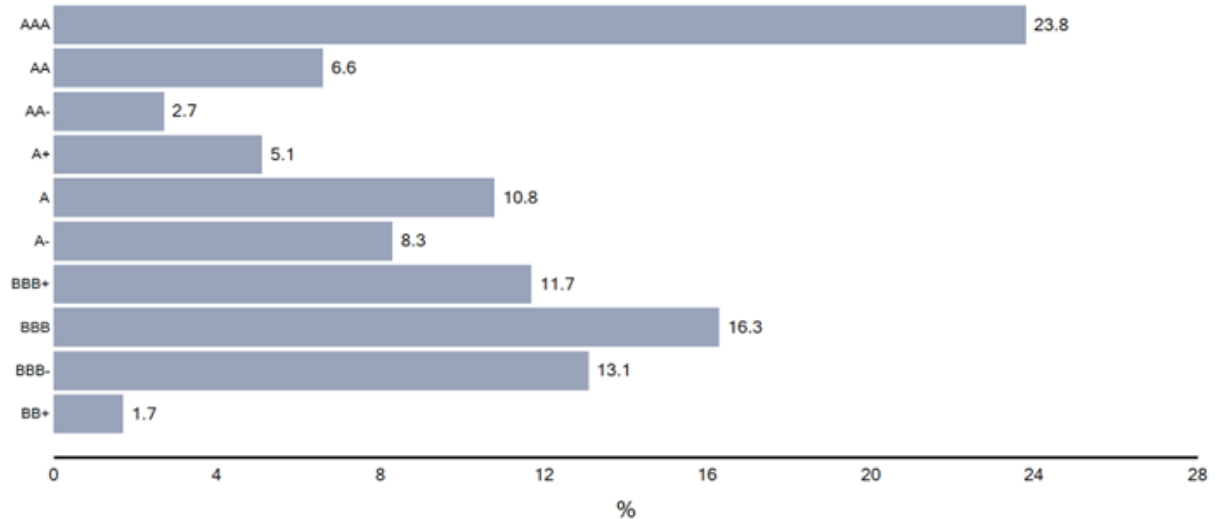
For change. For better. For all.

There were 42 bonds held in the portfolio at a total value of €5.4m at December 31<sup>st</sup> 2022 of which 100% were denominated in Euros. Excluding inflation-linked bonds, the yield to maturity was 3.9% with duration of 5.9 years.



57.3 % of the Bonds held had ratings from -A to AAA with 24% of the holdings being rated AAA. All bonds rated at BBB- or higher are considered 'investment grade'.

### Credit rating Allocation



### Market Background

The year was a difficult and unusual one in financial markets with almost all the major asset classes posting significant losses. The root cause was the resurgence and resilience of inflation; once it became clear that this was not a temporary (largely COVID-related) phenomenon, central bankers were forced to raise interest rates at a pace which seemed unimaginable months previously. The war in Ukraine also had an impact on inflation and much higher energy prices increased the probability of economic slowdown in Europe.

The inflation background weighed heavily on bond yields, which rose sharply from what had been close to historical lows. Rising yields caused the values of bonds to fall, with those of longer duration being worst hit. Much higher bond yields and interest rates presented a challenge to the value of equities which had come into 2022 on the back of a strong run.

The returns on the major asset classes were:

Asset Class	Index	2022 € Return (%)
<b>Global Equities</b>	<i>MSCI World Net</i>	-12.8
<b>Eurozone Equities</b>	<i>MSCI EMU Net</i>	-12.5
<b>Emerging Market Equities</b>	<i>MSCI Emerging Markets Net</i>	-14.9
<b>Eurozone Government Bonds</b>	<i>ICE BofA ML Euro Sovereign &gt; 5 Yr</i>	-24.4
<b>Eurozone Inflation-Linked Bonds</b>	<i>Barclays Euro Govt Inflation-Linked</i>	-9.7
<b>Eurozone Corporate Bonds</b>	<i>iBoxx Euro Corporates</i>	-14.1
<b>Commodities</b>	<i>Bloomberg Commodity Index Total Return</i>	23.8
<b>EUR vs USD</b>		-5.8

### The Fund's Investment Performance

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 capital of the Fund as well as providing a buffer against inflation in the long term. In a low inflationary environment this equates to a return of approx. 5% pa.

**For 2022, the Investment Manager’s performance was measured against the following benchmark:**

<b>Equities</b>	72.5% MSCI AC Net Total Return Index (euro)
<b>Bonds</b>	10.0% ICE BofAML Euro Government Bond Index
	12.5% ICE BofAML Eurozone Corporate Bond Index
<b>Listed Property</b>	5.0% S&P Developed Property (Net Total Return) Index

These benchmarks were set from the central points of the permissible ranges;

Following a strong performance in the years 2019-2021 (where the fund earned a cumulative refund of 49.8%), the return on the Fund in 2022, was -13.1% net of costs and charges which compares to a benchmark of -14.2%. The negative return experienced by the endowment fund was reflective of the market background and the volatility resulting from rising interest rates and inflation, exacerbated by the war in Ukraine.

<b>Summary of returns 2022</b>	<b>%</b>
<b>Income</b>	1.4
<b>Capital</b>	-14.1
<b>Manager’s Fees including administration and custodial costs</b>	-0.4
<b>Total</b>	<b>- 13.1</b>

## Summary

2022 was a very challenging year – The root cause was the resurgence and resilience of inflation forcing central banks to aggressively increase interest rates, while the war on Ukraine triggered heightened geopolitical fears, with sanctions on Russia impacting energy supplies and pricing of same. This had a very negative impact on both equity and bond markets, leaving the portfolio down by -13.1%.

2023 has seen markets recover, with the portfolio up by +7.6% (as at 30<sup>th</sup> June 2023) – this has largely been led by equities, which have benefited from resilient corporate earnings and a view that peak interest rates are now within sight, as inflation appears to be softening.