

# Australian Philanthropic Services Foundation

## Investment report for the six months ended 30 June 2017

This investment report for Australian Philanthropic Services Foundation (APS Foundation) covers the six-month period from 1 January 2017 to 30 June 2017. The next report will be for the six-month period from 1 July 2017 to 31 December 2017 which should be available by early February 2018. All previous reports are available to sub-fund holders via the online client access portal. In the meantime, the assets of APS Foundation continue to be valued at the end of each month, at which time the value of each sub-fund is also updated and available via the APS website.

### Investment objective and strategy

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The APS Foundation's Investment Strategy (also available to sub-fund holders via the online client access portal) sets the investment objective to achieve a net return at least equal to CPI inflation + 5% per annum, measured over rolling 7 year periods. In arriving at this objective, the Trustee has taken into account the following:

- the need to donate a minimum of 4% per annum to eligible charities;
- the likelihood of inflation affecting the value of the investments and income generated;
- the risk of capital or income loss;
- the liquidity of the investments;
- the costs of investment alternatives and transactions; and
- the benefits of diversification of trust investments.

The Trustee believes that the best way to achieve the investment objective is to invest a significant portion of the assets in growth-oriented investments (such as shares) with a bias at most times to Australian listed shares because of the additional benefits from franking credits attaching to dividends. The Trustee also believes it would be prudent to have some exposure to income-oriented investments (such as fixed income securities, lowly geared infrastructure/property securities and/or cash), with an increased emphasis on such investments when share market valuations appear stretched or where there appears to be a better risk/return trade-off in the immediate future from holding such securities.

As such, the Trustee has decided that the broad investment ranges for APS Foundation should be as follows:

<b>25% – 75%</b>	Growth-oriented investments (e.g. shares)
<b>25% – 75%</b>	Income-oriented investments (e.g. fixed income securities, lowly geared infrastructure/property securities and/or cash)

The Trustee has up to three months from the date of receiving new money into APS Foundation to adhere to these broad investment ranges. This recognises that new money immediately alters the asset allocation and a prudent amount of time is required to invest new cash. The Trustee notes the APS Foundation receives considerable inflows in the month of June.

## Investments held

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As at 30 June 2017 APS Foundation had net assets totaling \$35.5 million which comprised the following:

### **Growth-oriented investments (51.9%)**

#### *Australian shares (26.3%):*

- Unlisted managed funds/IMAs (24.4%) – Aberdeen Australian Small Companies Fund, Auscap Long Short Australian Equities Fund, DS Capital Growth Fund, EGP Fund No. 1 Pty Ltd, The Level 18 Fund, Pengana Australian Equities Fund, TDM Asset Management IMA, The Wattle Fund
- Shares directly held (1.9%) – comprising 4 securities listed on the Australian securities exchange

#### *International equities (17.9%):*

- Listed investment companies (0.0%) – Future Generation Global Investment Company options
- Managed funds/IMAs (14.5%) – Antipodes Global Fund, Evans and Partners International Fund, Magellan Global Fund, Paradise Global Small Mid Cap Fund, TDM Asset Management IMA
- Shares directly held (3.4%) – comprising 9 securities listed on various international markets

#### *Property (2.2%):*

- Unlisted property trusts - Portgate Estate (Port of Brisbane – industrial property), IIG TAC Property Trust (60 Brougham Street Geelong – commercial property), Quintessential 036 Trust (39 Brisbane Avenue, Barton, ACT – commercial property)

#### *Alternative assets (5.5%):*

- Unlisted managed funds/IMAs (3.2%) – Atrium Real Assets Fund, TDM Asset Management IMA, Champ IV Trust A
- Unlisted shares directly held (0.7%) – Tellus Holdings
- Listed investment companies (1.6%) – Global Value Fund

### **Income-oriented investments (48.1%)**

#### *Infrastructure assets with low gearing/development (0.7%):*

- Managed fund (0.2%) – Magellan Infrastructure Fund
- Listed investment company (0.5%) – Argo Global Listed Infrastructure

#### *Fixed interest (21.4%):*

- Unlisted managed funds/IMAs (19.8%) – Morgan Stanley IMA, MINT Partners IMA, PIMCO GIS Income Fund, Lannock Sophisticated Investor No. 1 Unit Trust, Elstree Enhanced Income Fund
- Directly held (1.6%) – comprising 1 fixed interest security listed on the Australian securities exchange

#### *Cash, franking credits receivable & other receivables (26.0%)*

## Governance

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The trustee of APS Foundation is Australian Philanthropic Services Foundation Pty Limited, a wholly owned subsidiary of Australian Philanthropic Services Limited. The directors of the trustee are Chris Cuffe, David Ward and Antonia Ruffell.

The investments of the APS Foundation are overseen by all Trustee directors. Chris Cuffe has day-to-day responsibility for managing the investments, including engaging the services of external specialist fund managers.

## Performance

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The performance (after fees) of APS Foundation for various periods ended 30 June 2017 was as follows:

	Six months	One year	Two years	Three years	Since inception
Australian Philanthropic Services Foundation	3.3%	8.4%	9.3% pa	9.4% pa	12.8% pa
Australian shares (S&P/ASX300 Accumulation Index)	3.1%	13.8%	7.2% pa	6.6% pa	11.6% pa
International shares – currency unhedged (MSCI World ex-AUS Unhedged AUD Total Return)	4.5%	14.7%	7.3% pa	13.0% pa	18.2% pa
Australian cash (Bloomberg AusBond Bank Bills Index)	0.9%	1.8%	2.0% pa	2.2% pa	2.5% pa
Australian inflation (ABS All Groups CPI index)	0.6%	1.9%	1.5% pa	1.5% pa	2.0% pa

*The performance APS Foundation is calculated on a time-weighted basis from monthly valuations. APS Foundation commenced operation as a Public Ancillary Fund on 18 May 2012 and on 11 July 2012 the first investments were made. Before that time APS Foundation held cash on deposit. The 'since inception' date used above is 1 July 2012. Figures greater than one year are expressed as annual compound returns.*

## Fees

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APS manages all aspects of the APS Foundation (including administration, compliance, arranging investment management, and facilitating the yearly audit) and charges a single, all-inclusive fee of 1% per annum, excluding GST, on the amount held in each sub-fund. This fee is calculated and paid on a monthly basis. As the APS Foundation is able to claim back 75% of GST paid, the final cost to sub-funds is 1.025% per annum.

To the extent possible the services of external fund managers are secured on a pro bono basis. However, where a pro bono arrangement cannot be secured with a particular fund manager, the Trustee may still choose to use them where they believe the particular investment will produce an attractive post fees return for the APS Foundation. Such extra fees charged by the external fund managers are paid by the APS Foundation and are in addition to the 1% fee paid to APS. For the six months to 30 June 2017 we estimate such extra fees to be 0.10% of the average size of the Foundation over the period.

## Further information

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If you have any further questions or feedback about the investment objective, strategy, performance or current portfolio then please do not hesitate to contact Pennie Loane or Rachael Rofe on 02 9779 6300 or [foundation@australianphilanthropicservices.com.au](mailto:foundation@australianphilanthropicservices.com.au).

## APS Foundation supporters

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We are extremely grateful for the support we receive from a number of generous fund managers who provide us with their investment services pro bono, to assist with the management of the APS Foundation. We sincerely thank the companies mentioned on the following page for their kind support during the six months ended 30 June 2017.



Aberdeen Asset Management is a global asset management company based in the UK and listed on the London Stock Exchange. Operating out of 25 countries, their clients are typically large institutions, including central banks, national and corporate pension funds, insurance companies and sovereign wealth funds, as well as retail investors.



Auscap is a value-based Australian equities manager. Auscap manages the Long Short Australian Equities Fund which targets solid absolute risk-adjusted returns, looking to invest in companies that generate cash flows and are trading at attractive prices.



Commonwealth Securities Limited (CommSec) is an online trading platform that offers a range of industry products and resources.



Centennial Asset Management is an independent Australian asset management business, the manager of the Level 18 Fund – a long/short equity fund with a bias towards investing in smaller capitalised companies. Centennial is focused on building wealth over the long term by investing for absolute returns rather than for a return relative to any particular index



Impact Investment Group (IIG) is a leading Australian impact investment funds manager. IIG develops investments across various asset classes that not only generate social and environmental value and deliver attractive commercial financial returns for investors.



Magellan Financial Group is a specialist funds management business based in Sydney. Magellan Asset Management Limited ('Magellan') manages global equities and global listed infrastructure strategies for high net worth, retail and institutional investors.



Pengana was established with the goal of providing investors with strong long term absolute returns and reduced risk.



Anacacia Capital is an award winning Australian private equity firm focused on small-medium enterprises. Its Wattle Fund actively invests in small listed companies and its private equity funds invest in small private companies often managing ownership change, succession, management buyouts, growth and new acquisitions.



DS Capital is an independent equities fund manager established as a wealth creation vehicle to invest in a focused and disciplined way. DS Capital's aim is to deliver absolute returns comprising capital growth and distributions through a concentrated portfolio of listed investments.



EGP Capital is a Sydney based private investment company with an unconstrained investment mandate that currently focuses its investments in Australian listed businesses.



Evans & Partners is an Australian financial advisory group servicing private, not-for-profit, institutional and corporate clients with expertise in private wealth management, corporate advisory, institutional cash equities and debt, investment research and debt and equity capital markets.



Elstree

Elstree Investment Management Limited is an executive owned funds management business. Elstree funds invest in a diverse range of floating rate credit securities called hybrids, designed to deliver capital stable franked income returns on a consistent basis.



Paradice Investment Management was established in 1999 and manages over \$8 billion in assets for institutional and high net worth clients in Australian Small, Mid, and Large Cap equity strategies as well as a Global Small Mid Cap equities.



Antipodes seeks to take advantage of the market's tendency for irrational extrapolation around change, identify great businesses that are not valued as such and build high conviction portfolios with a capital preservation focus.