

Australian Philanthropic Services Foundation

Investment report for the six months ended 30 June 2018

This investment report for Australian Philanthropic Services Foundation (APS Foundation) covers the six-month period from 1 January 2018 to 30 June 2018. The next report will be for the six-month period from 1 July 2018 to 31 December 2018 which should be available by early February 2019. 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 online client access portal.

Investment objective and strategy

The APS Foundation's Investment Strategy document (also available to sub-fund holders via the online client access portal) sets the investment objective as aiming to achieve a return after fees at least equal to CPI inflation + 4% 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 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:

25% – 75%	Growth-oriented investments (e.g. shares)
25% – 75%	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 each year.

Investments held

As at 30 June 2018 APS Foundation had net assets totaling \$68.9 million which comprised the following:

Growth-oriented investments (48.3%)

Australian shares (19.4%):

- Unlisted managed funds/IMAs (17.7%) – Aberdeen Australian Small Companies Fund, Auscap Long Short Australian Equities Fund, DS Capital Growth Fund, EGP Concentrated Value Fund, The Level 18 Fund, Pengana Australian Equities Fund, The Wattle Fund, LHC Capital Australia High Conviction Fund, Wentworth Williamson Fund, Third Link Growth Fund
- Shares directly held (1.7%) – comprising 5 securities listed on the Australian securities exchange

International shares (9.9%):

- Listed investment companies/trusts (3.9%) – Future Generation Global Investment Company, Magellan Global Trust, VGI Partners Global Investments
- Unlisted managed funds/IMAs (4.6%) – Antipodes Global Fund, Magellan Global Fund, Paradise Global Small Mid Cap Fund, VGI Partners Master Fund
- Shares directly held (1.4%) – comprising 2 securities listed on various international markets

Property (5.3%):

- Unlisted property trusts - Portgate Estate (Port of Brisbane – industrial property), Quintessential 036 Trust (39 Brisbane Avenue, Barton, ACT – commercial property), IIG K5 Property Trust (25 King, Brisbane Showground - commercial property), Terra Australis Partners III Fund, Folkstone Sydney Airport Hotel Fund, Qualitas Food Infrastructure Fund (Allied Pinnacle mills and mixing facilities), M7 Property Trust (Piers 8 & 9, Walsh Bay, Sydney – commercial property), IIG Byron Beach Hotel Trust

Alternative assets (13.7%):

- Unlisted managed funds/IMAs (12.0%) – Atrium Real Assets Fund, Atrium Evolution Series - Diversified Fund AEF 7 Units, TDM Asset Management IMA, Champ IV Trust A, Armitage Private Equity Fund, Adamantem Capital Fund
- Unlisted shares directly held (0.7%) – Tellus Holdings
- Listed investment companies (1.0%) – Global Value Fund

Income-oriented investments (51.7%)

Infrastructure assets with low gearing/development (0.5%):

- Managed fund (0.1%) – Magellan Infrastructure Fund (hedged)
- Listed investment company (0.4%) – Argo Global Listed Infrastructure

Fixed interest (16.8%):

- Unlisted managed funds/IMAs (14.1%) – Morgan Stanley IMA, MINT Partners IMA, PIMCO GIS Income Fund, Western Asset Macro Opportunity Bond Fund, Invesco Zodiac US Senior Loan Fund, CLR Portfolio Note, Atrium Leppington Trust, Ventra Capital R&D Funds, Ventra Capital Supply Chain Finance Fund
- Directly held (2.7%) – comprising 3 fixed interest securities

Cash (34.4%)

- Being cash at bank, term deposits, BetaShares Australian High Interest Cash ETF, franking credits receivable & other receivables

Governance

The Trustee of APS Foundation is Australian Philanthropic Services Foundation Pty Limited, a wholly owned subsidiary of Australian Philanthropic Services Limited (APS). The directors of the Trustee are Chris Cuffe AO, 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

The performance (after fees) of APS Foundation¹ and relevant indices for various periods ended 30 June 2018 was as follows:

	Six months	One year	Two years	Three years	Since inception
APS Foundation	3.8%	10.0%	9.2% pa	9.5% pa	12.5% pa
Australian shares (S&P/ASX300 Accumulation Index)	4.3%	13.2%	13.5% pa	9.1% pa	11.9% pa
International shares – currency unhedged (MSCI World ex-AUS Unhedged AUD Total Return)	6.4%	15.4%	15.1% pa	10.0% pa	17.8% pa
Australian cash (Bloomberg AusBond Bank Bills Index)	0.9%	1.8%	1.8% pa	1.9% pa	2.4% pa
Australian inflation (ABS All Groups CPI index)	0.8%	2.1%	2.0% pa	1.7% pa	2.0% pa

Fees

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. APS Foundation is able to claim back 75% of GST paid and as such the final cost to sub-funds is 1.025% per annum.

Most of the assets of the APS Foundation are managed by external fund managers. To the extent possible, such services 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. Based on the assets of the APS Foundation held at 30 June 2018, we estimate such extra fees to be 0.15% per annum.²

¹ The performance of 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 is 1 July 2012. Figures greater than one year are expressed as annual compound returns.

² This only includes ongoing management fees of unlisted managed investment schemes or individually managed accounts. It excludes performance fees and out of pocket costs of third party managers as well as fees incurred by listed investment companies.

Further information

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

APS Foundation supporters

We are extremely grateful for the support we receive from a number of fund managers who provide us with some or all of their investment services pro bono to assist with the management of the APS Foundation. We sincerely thank the companies mentioned below for their kind support during the six months ended 30 June 2018.



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.



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.



Atrium Investment Management is a specialist manager of diversified portfolios for high net-worth clients, financial advisers, charities and institutions.



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



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.



Armitage Associates invests alongside outstanding owner operators of growing, profitable businesses across Australia and New Zealand. They actively partner with companies, working closely with founders and leveraging the extensive Armitage network to support growth. They have a long-term, patient capital and adopt a long-term ownership mentality.



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.



The primary investment objective of CHAMP is to achieve long-term capital appreciation in businesses located in, or otherwise having a material portion of their business plan centering on Australia and New Zealand.



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



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.



Fife Capital is an independent alternative asset manager with a 50 year history of owning and operating assets. They have two primary business areas: Fund and Asset Management and Investment Advisory.



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.



LHC Capital is a specialist investment management company combining a fundamental, research driven investment strategy and a strong capability in risk management with a clear aim of producing absolute returns that are uncorrelated to general market condition.



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.



Mint Partners has a strong research and relative value focus and targets predominantly investment grade bonds to produce truly diversified and liquid investment portfolios.



Morgan Stanley advises, originates, trades, manages and distributes capital for governments, institutions and individuals, and always do so with a standard of excellence.



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



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



VGI Partners is a high conviction global equity manager. VGI manages capital for high net worth individuals, family offices and endowment funds. VGI's Investment Team is based in Sydney and New York.



Wentworth Williamson is an independent, boutique value fund manager established by ex-Investec Bank executives in 2013. As a wholesale fund, they invest on behalf of high-net-worth individuals, families and charitable offices who have a long term investment time horizon.