

# Australian Philanthropic Services Foundation

## Investment report for the six months ended 30 June 2019

This investment report for Australian Philanthropic Services Foundation (APS Foundation) covers the six-month period from 1 January 2019 to 30 June 2019. The next report will be for the six-month period from 1 July 2019 to 31 December 2019 which should be available in February 2020. All previous reports are available to giving (sub) fund holders via the online client 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 giving (sub) fund is also updated and available via the online facility.

### Investment objective and strategy

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The APS Foundation's Investment Strategy document (also available to giving (sub) fund holders via the online facility) sets the investment objective which is 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:

<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 each year.

Given APS Foundation is a perpetual foundation the investment objective is being measured over rolling 7-year periods. As such, the Trustee is able to take a genuine long-term approach to constructing the investment portfolio. This means the Trustee is less concerned with short term performance and is satisfied to hold investments that may not pay regular income or be valued on a regular basis, even if this results in returns not being smoothly recognised over time. This also means that the Trustee is comfortable holding unlisted and/or illiquid investments at a higher level than traditional investment portfolios.

## Investments held

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As at 30 June 2019 APS Foundation had net assets totaling \$102.9 million which comprised the following:

### **Growth-oriented investments (59.4%)**

#### *Australian shares (23.8%):*

- Unlisted managed funds/IMAs – Aberdeen Standard 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, Prime Value Opportunity Fund, The Wattle Fund, LHC Capital Australia High Conviction Fund, Wentworth Williamson Fund, Third Link Growth Fund, Netherfield Capital IMA, Frank Macindoe (Koda Capital) IMA
- Shares directly held – comprising 6 securities listed on the Australian securities exchange

#### *International shares (16.4%):*

- Listed investment companies/trusts – Future Generation Global Investment Company, Magellan Global Trust, VGI Partners Global Investments, Hearts and Minds Investments
- Unlisted managed funds/IMAs – Antipodes Global Fund, Magellan Global Fund, Paradise Global Small Mid Cap Fund, VGI Partners Master Fund
- Shares directly held – comprising 3 securities listed on various international markets

#### *Property (7.0%):*

- 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, Charter Hall Direct Sydney Airport Fund, Qualitas Food Infrastructure Fund (Allied Pinnacle mills and mixing facilities), M7 Property Trust (Piers 8 & 9, Walsh Bay, Sydney – commercial property), M9 Property Trust (22 O’Riordan Street, Alexandria, NSW), IIG Byron Beach Hotel Trust, Realside 388 Hay Property Fund (388 Hay Street, Subiaco, WA)

#### *Alternative assets (12.2%):*

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

### **Income-oriented investments (40.6%)**

#### *Infrastructure assets with low gearing/development (1.0%):*

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

#### *Traditional Fixed interest (9.4%):*

- Unlisted managed funds/IMAs – BGC Fixed Income Solutions IMA, PIMCO GIS Income Fund, PIMCO Capital Securities Fund, Western Asset Macro Opportunity Bond Fund

- Directly held – comprising one fixed interest security

*Private debt (16.5%):*

- Unlisted securities/funds – CLR Series 2 Notes, Atrium Leppington Trust, various Ventra Capital private debt funds (financing things such as R&D grants receivable, supply chain finance, and legal disbursements), Revolution Private Debt Fund 1, Smartpay Convertible Note, Wentworth Williamson Stable Income Fund, Atrium Indigo Trust, Atrium Essential Trust, Pure AM Income and Growth Fund, Causeway Wholesale Private Debt Income Fund, LawFinance secured and unsecured loans, Ironwood Project Facility Notes, Medicines Development Ltd Loan, Third Link Investment Managers loan

*Cash and near cash (13.7%)*

- Cash at bank, BetaShares Australian High Interest Cash ETF, BetaShares Australian Bank Senior Floating Rate Bond ETF, franking credits receivable and other receivables

## 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 (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

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The performance (after fees) of APS Foundation<sup>1</sup> and relevant indices for various periods ended 30 June 2019 was as follows:

	Six months	One year	Two years	Three years	Since inception
APS Foundation	9.0%	9.3%	9.6% pa	9.2% pa	12.0% pa
Australian shares (S&P/ASX300 Accumulation Index)	19.8%	11.4%	12.3% pa	12.8% pa	11.8% pa
International shares – currency unhedged (MSCI World ex-AUS Unhedged AUD Total Return)	17.3%	11.9%	13.7% pa	14.0% pa	16.9% pa
Australian cash (Bloomberg AusBond Bank Bills Index)	1.0%	2.0%	1.9% pa	1.9% pa	2.3% pa
Australian inflation (ABS All Groups CPI index)	0.6%	1.6%	1.8% pa	1.9% pa	1.9% pa

## 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 monthly. APS Foundation can claim back 75% of GST paid and as such the final cost to giving (sub)funds is 1.025% per annum.

<sup>1</sup> 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.

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 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 2019, we estimate such extra fees to be approximately 0.2% per annum.<sup>2</sup>

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<sup>2</sup> *This only includes ongoing management fees of unlisted managed investment schemes or individually managed accounts. It excludes performance fees, out-of-pocket costs of third-party managers, fees incurred by listed investment companies and any other costs a direct investor would ordinarily incur themselves.*

## 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 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 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 2019.



# MARKHAM



Morgan Stanley

