

Australian Philanthropic Services Foundation

Investment report for the six months ended 30 June 2020

This investment report for Australian Philanthropic Services Foundation (APS Foundation) covers the six-month period from 1 January 2020 to 30 June 2020. The next report will be for the six-month period from 1 July 2020 to 31 December 2020 and will be available in February 2021. Previous reports are available to giving fund holders via the APS Foundation 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 fund is also updated and available via the portal.

Investment objective and strategy

APS Foundation's Investment Strategy document (also available to giving 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:

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 APS Foundation usually 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

As at 30 June 2020 APS Foundation had net assets totaling \$124 million¹ which comprised the following:

Growth-oriented investments (53.2%)

Australian shares (18.6%):

- > Unlisted managed funds/IMAs – Aberdeen Standard Australian Small Companies Fund, Auscap Long Short Australian Equities Fund, DS Capital Growth Fund, EGP Concentrated Value Fund, Frank Macindoe (Koda Capital) IMA, LHC Capital Australia High Conviction Fund, Netherfield Capital IMA, The Wattle Fund, Third Link Growth Fund, Totus High Conviction Fund, Wentworth Williamson Fund, 1851 Emerging Companies Fund
- > Shares directly held – comprising 5 securities listed on the Australian securities exchange

International shares (14.4%):

- > Listed investment companies/trusts – Future Generation Global Investment Company, Hearts and Minds Investments, VGI Partners Asian Investments, VGI Partners Global Investments
- > Unlisted managed funds/IMAs – Aoris International Fund, Hyperion Global Growth Companies Fund, L1 Capital International Fund, Magellan Global Fund, VGI Partners Master Fund
- > Shares directly held – comprising 3 securities listed on various international markets

Property (7.3%):

- > Unlisted property trusts - Portgate Estate (Port of Brisbane), Quintessential 036 Trust (39 Brisbane Avenue, Barton, ACT), IIG K5 Property Trust (25 King, Brisbane Showground), 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), M9 Property Trust (22 O’Riordan Street, Alexandria, NSW), Realside 388 Hay Property Fund (388 Hay Street, Subiaco, WA)

Alternative assets (12.9%):

- > Unlisted managed funds/IMAs – Adamantem Capital Fund, Affluence Investment Fund, AirTree Ventures 2019 Partnership, LP, Armitage Associates Funds II & III, Atrium Real Assets Fund, Champ IV Trust A, TDM Asset Management IMA, Samuel Terry Absolute Return Fund
- > Unlisted shares directly held – Tellus Holdings, Treadstone71
- > Listed investment companies – Global Value Fund

Income-oriented investments (46.8%)

Infrastructure assets with low gearing/development (2.0%):

- > Managed funds – Magellan Infrastructure Fund (hedged), ICAM Duxton Port Infrastructure Fund
- > Listed investment company – Argo Global Listed Infrastructure

Traditional Fixed interest (5.2%):

- > IMA – BGC Fixed Income Solutions

Private debt (30.5%):

- > 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, Causeway Wholesale Private Debt Income Fund, Ironwood Project Facility Notes, Income and Growth Fund (Pure Asset Management), LawFinance Limited Acquisition Facility Bond, LawFinance Lucerne Investments unsecured debt, RSG Nightingale Trust Loan Notes, PIMCO Tactical Opportunities Fund, Third Link Investment Managers Loan

Cash and near cash (9.1%)

- > Cash at bank, franking credits receivable and other receivables

¹ We note that the valuation of all assets are subject to independent audit at financial year end.

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 Foundation and relevant indices for various periods ended 30 June 2020 was as follows:

	Six months	One year	Three years	Seven years	Since inception
APS Foundation	-3.3%	2.9%	7.7% pa	9.4% pa	11.0%pa
Target return (being CPI + 4% pa after fees over rolling 7 year periods)	N/A	N/A	N/A	5.5% pa	5.6% pa
Australian shares (S&P/ASX300 Accumulation Index)	-10.5%	-7.6%	5.2% pa	7.5% pa	9.2% pa
International shares – currency unhedged (MSCI World ex-AUS Unhedged AUD Total Return)	-3.6%	5.2%	10.8% pa	13.0% pa	15.4% pa
Australian cash (Bloomberg AusBond Bank Bills Index)	0.3%	0.8%	1.5% pa	2.0% pa	2.2% pa

The 'since inception' date used is 1 July 2012. Figures greater than one year are expressed as annual compound returns.

The performance of APS Foundation for the six months ended 30 June 2020 has been materially impacted by the COVID-19 pandemic. During this period all major investment markets across the world have been severely impacted by economic and social 'hibernation' measures introduced to contain the impact of the virus. As shown in the table above, APS Foundation fell in value over the half year by 3.3%. This compares to falls in the Australian and international stock markets of 10.5% and 3.6% respectively. Although no one likes to see negative returns over any period, we consider the Foundation's investment performance a sound result in the circumstances. In particular, APS Foundation has benefited from the following factors:

- > a diversified portfolio (across different assets classes and securities, as shown on pages 2 of this report) which often leads to a less volatile result compared to a highly correlated portfolio;
- > no borrowings/leverage;
- > a long-term investment timeframe;
- > a very low need for short term liquidity which in turn influences the construction of the portfolio;
- > a very stable client base;
- > a realistic long-term target rate of return; and
- > a significant amount of unlisted assets.

The last point in particular is worth highlighting. About one third of the portfolio is held in unlisted assets (primarily private debt securities), the valuation of which is not as influenced by the short term fluctuations that we have seen in the valuations of securities in the listed markets.

It is also worth reiterating that the investment objective of APS Foundation is to achieve a return after fees at least equal to CPI inflation + 4% per annum, measured over rolling 7-year periods. The Foundation has been in operation a little

over 7 years and we have met this objective even after taking into account the falls over the last six months. The return since inception in mid-2012 is 11.0% compound per annum, compared to the return objective of CPI + 4% pa (equating to 5.6% compound per annum since inception).

We do not know how long it will take for the COVID-19 pandemic to pass or whether the various investment markets have reached their low points. However, we remain confident that the portfolio is well diversified and appropriately positioned for the eventual recovery.

Fees

APS manages all aspects of 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 giving 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 funds is 1.025% per annum.

Most of the assets of 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 APS Foundation. Such extra fees charged by the external fund managers are paid by APS Foundation and are in addition to the 1% fee paid to APS. Based on the assets of APS Foundation held at 30 June 2020, we estimate such extra fees to be approximately 0.27% per annum².

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 the APS Foundation team on 02 9779 6300 or foundation@australianphilanthropicservices.com.au.

² 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.

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 on a pro bono basis to assist with the management of APS Foundation. We sincerely thank the companies mentioned below for their kind support during the six months ended 30 June 2020.

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