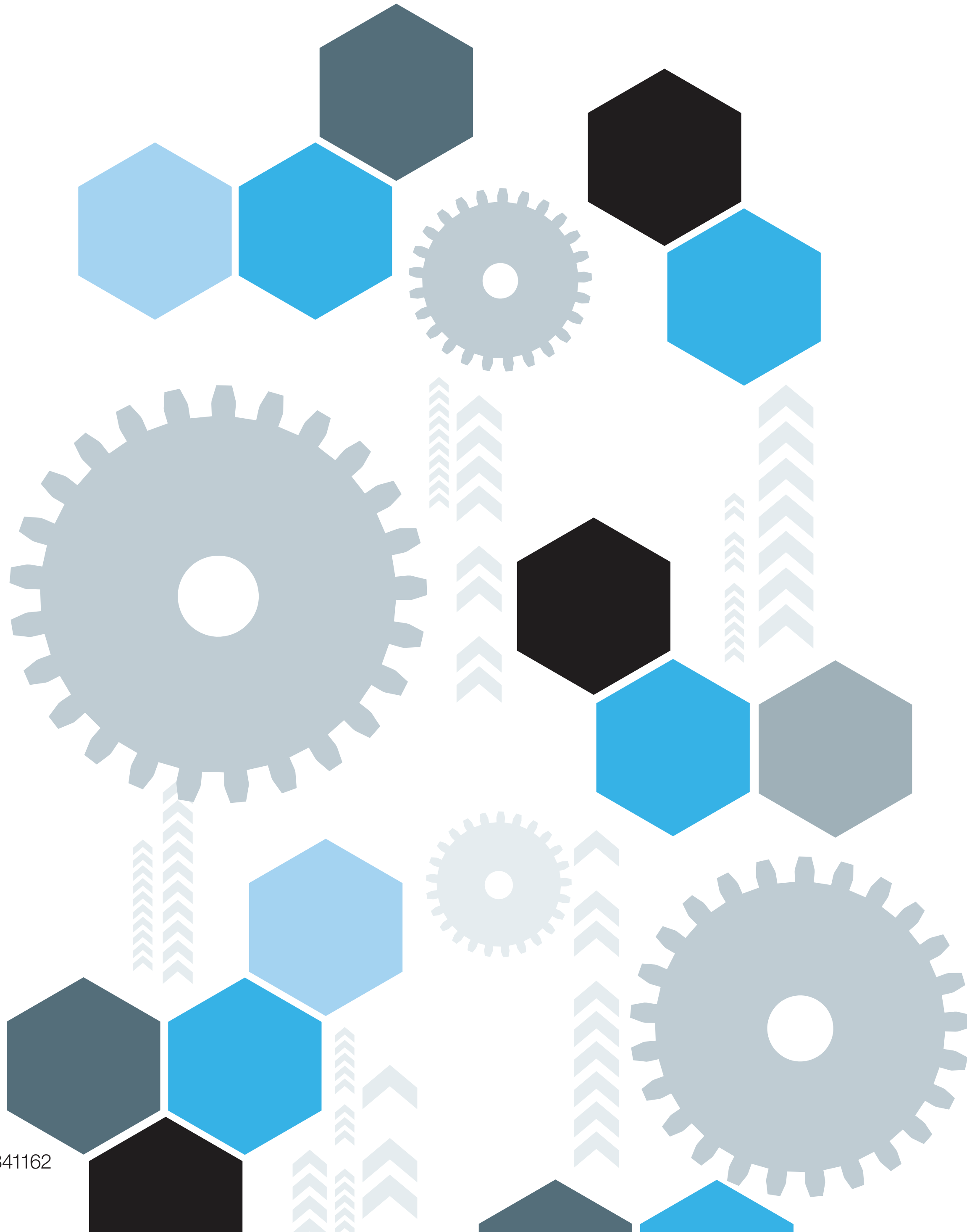
JBWere Charitable Endowment Fund Update

March 2017



Issued by JBWere Limited
ABN 68 137 978 360, AFSL 341162

A message from Shamal Dass

Shamal Dass

Head of JBWere Philanthropic Services

It is my pleasure to provide you with the March 2017 edition of the JBWere Charitable Endowment Fund (JBWCEF) Update.

Asset Allocation Changes

James Wright, JBWere's Chief Investment Officer (CIO) and a member of the JBWCEF Investment Committee, explains changes we have recently made to the Strategic Asset Allocation benchmarks of the JBWCEF to ensure it remains well placed to deliver on its investment return objectives.

Investment Update

Angela Manning, the Chair of the JBWCEF Investment Committee provides her update on the performance of the fund, the changes we have made to the portfolio and the investment outlook. I am pleased to again note that over the long term the CEF has returned 7.2% per annum before fees over the seven years to 31 December 2016, in line with the target return of Consumer Price Index All Groups (CPI) + 5% per annum before fees.

Charity profile

In this edition we profile Cancer Council Victoria (CCV). Since its establishment in 1936, CCV has established an international reputation for its programs and research-informed policies. The profile also covers the initiatives that make up the Forgotten Cancers Program, which aims to build knowledge for those cancers that are relatively rare or have high mortality, and generally low levels of comparative funding.

Additional Donations

As we approach the end of the financial year, many of our donors turn their minds to making further contributions to their CEF account. If you would like to make further contributions to your CEF account please complete the Additional Donation Form and return to us by June 20.

I hope you enjoy this edition of the JBWCEF Update.

Changes to Asset Allocation

James Wright
Chief Investment Officer (CIO), JBWere
Member of the JBWCEF Investment Committee

Historical Returns

The last thirty years have been an extra-ordinary time in investment markets. Since the adoption of inflation targeting by the central banks in the 1980s, there has been a relentless focus on achieving and maintaining low to moderate levels of inflation (and inflation expectations). This has resulted in falling cash rates and bond yields which has fuelled an increase in debt, and an appreciation in asset values.

These conditions created a unique environment across all investment markets, in which generating returns in excess of 7% was not overly difficult if you had a broadly balanced portfolio and a disciplined approach to long term investment.

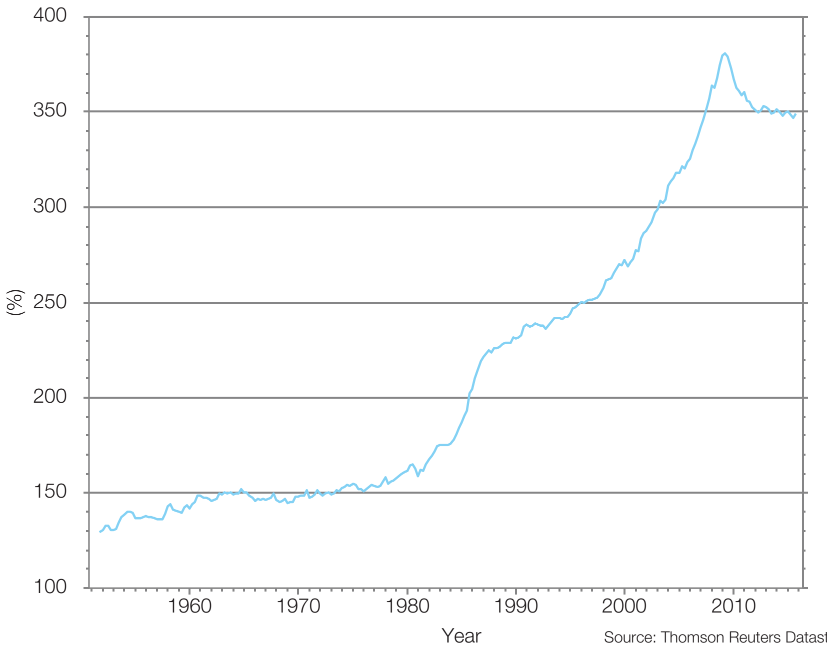
Will History Repeat?

As I write, cash and bond yields are close to all-time lows, whilst equity and property markets are close to all-time highs. Add to this the current geo-political shifts we are witnessing and long term demographic trends, and we find it difficult to build a logical argument that investment returns in excess of 7% over the long term will be easily delivered by adopting the approach that has delivered this outcome in the last three decades.

We believe that to deliver returns closer to 7% (such as the target of the JBWCEF) we need to consider alternative asset classes to improve diversification, effectively manage risks and set the portfolio with the best chance of achieving the investment return objectives.

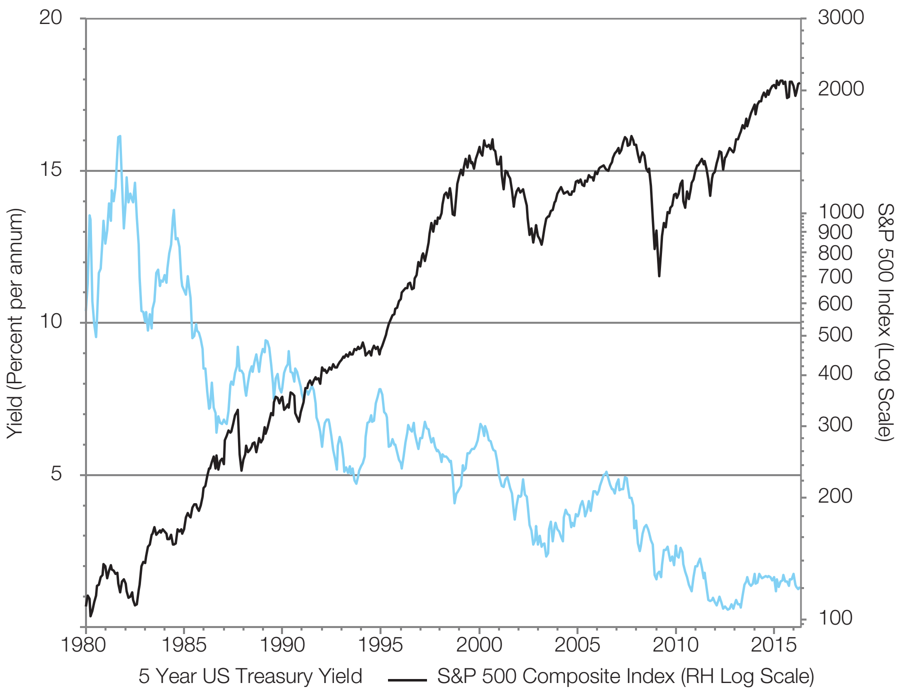
We share the view of the stewards of the Future Fund that 'without the tailwinds of ever increasing and cheaper debt and reliable economic growth…investments that do not rely on leverage or strong economic growth to achieve respectable returns are very valuable'.

US Capital Markets Debt Outstanding Percent of Nominal GDP



Source: Thomson Reuters Datastream

US Bond Yields and the S&P 500 Index



Source: Thomson Reuters Datastream

Changes to the Strategic Asset Allocation benchmarks

As such, after reviewing the longer term forecasts for each asset class, the JBWCEF Investment Committee has determined to change the long term strategic asset allocation benchmarks as follows to position the portfolio to deliver the long term investment objective of Consumer Price Index (All Groups) + 4% (net of fees).

Asset Class	Strategic Asset Allocation Benchmark (PREVIOUS)	Strategic Asset Allocation Benchmark (NEW)
Cash	5%	5%
Australian Fixed Interest	15%	0%
Global Fixed Interest	5%	0%
Alternative Assets – Defensive	5%	5%
Alternative Assets – Growth	0%	10%
Property	0%	5%
Australian Equities	50%	45%
International Equities	20%	30%
	100%	**100%**

As becomes apparent in comparing the strategies, we believe that to achieve the investment return objective consistently over the long term, the portfolio needs to have a higher allocation to growth asset classes (property and equities) and alternative asset classes, both defensive and growth. The table below provides a little more detail on the difference between defensive and growth alternative assets.

Category	Description
Alternative Assets - Defensive	Strategies with more moderate return targets around cash + 3%pa or lower; and a volatility profile likely to be around 3-5% pa (bond like volatility). These strategies aim to generate a low correlation with traditional assets classes.
Alternative Assets – Growth	These are strategies targeting cash + 5% pa returns or higher; with risk levels between bonds and equities, but may range up to equity like volatility. Once again our expectation is for a low correlation to equities, but there are some strategies which may have some equity correlations from time to time (equity long short / variable beta strategies).

We fully appreciate some investor's apprehension towards alternative assets. This may be a result of personal experiences, a lack of understanding, or a concern regarding the perception of heightened risks.

An allocation to alternative assets is not driven by a desire to increase risk, it is quite the opposite. The recommendation to allocate to alternative assets comes from a desire to seek a diversified range of investment opportunities, to reduce your overall risk and generate more consistent and superior risk adjusted returns.

Investment report

Angela Manning
Managing Director, JBWere
Chair of the CEF Investment Committee

CEF Investment Performance

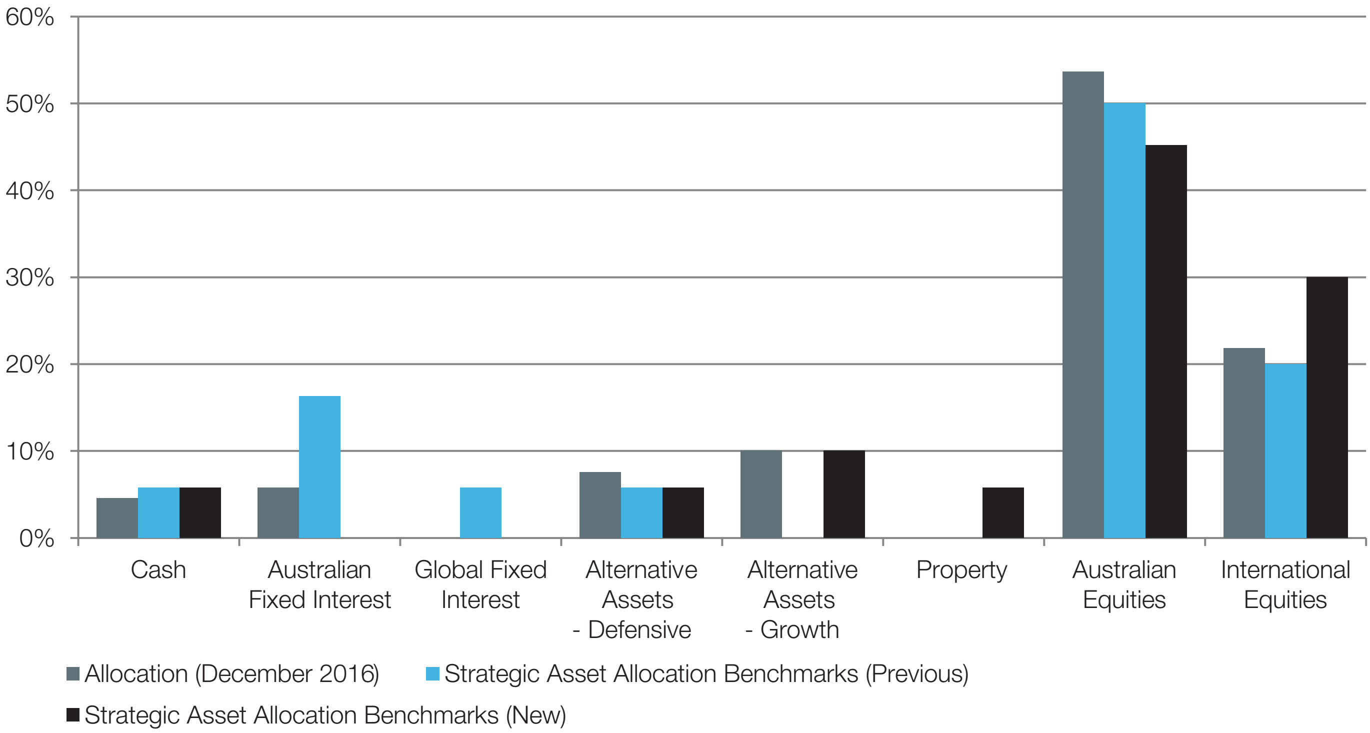
Performance Summary as at 31 December 2016[1]

For the year to 31 December 2016 the CEF returned 6.6% after fees. Over the long term, the CEF continues to deliver on its investment return objective of Consumer Price Index All Groups (CPI) + 5% per annum (p.a.) before fees over rolling five year periods. The JBWCEF has hit this target over the 7 year time horizon and outperformed the target by 3.6% p.a. over the 5 year period. From the next update we will show the performance against the long term investment objective of Consumer Price Index (All Groups) + 4% (net of fees).

	7 Year p.a	5 Year p.a	3 Year p.a	1 Year p.a
JBWere Charitable Endowment Fund (before fees)	7.2%	10.4%	6.8%	7.9%
JBWere Charitable Endowment Fund (after fees)	5.9%	9.2%	5.6%	6.6%
Composite Benchmark	7.5%	10.8%	6.9%	9.2%
IPS Target Return (CPI + 5%)	7.2%	6.9%	6.7%	6.3%
Outperformance vs IPS Target Return (before fees)	**0.0%**	**3.6%**	**0.1%**	**1.6%**

Note 1: Fund was established on 1 July 2007.
Note 2: Portfolio returns include refund of franking credits.
Note 3: Fees include investment management services, administration, compliance and custody.
Note 4: Composite benchmark consists of weighted average of six major underlying indices.

At the asset allocation level, we continue to have a bias to growth assets, with both Australian and International equities above their long term strategic asset allocation benchmarks. We have also added the new Strategic Asset Allocation benchmarks to the diagram to show the long term benchmarks the portfolio will rebalance to over the long term, keeping in mind tactical positions will be taken around the long term benchmarks throughout the cycle.



1 Past performance is not a guide to future performance.

The Australian equity managers we are invested with, as a group, underperformed for the year. There were a number of factors that contributed to the underperformance including the bias held to mid and small cap companies which underperformed large caps for a majority of 2016. The underweight exposure to resources and gold also contributed to the underperformance, with both sectors the strongest in the Australian market over the year.

We retain our preference for the current mix of Australian equity managers, which are demonstrating a subtle growth bias and skewed toward active stock picking strategies.

Global equity managers also found it hard to generate outperformance in the later part of 2016, where post the US election the financial sector lead the US market higher. A number of the global equity managers in the Fund had been underweight that sector for some time given concerns on the level of earnings growth potential, preferring technology, consumer related and healthcare companies. We continue to believe these sectors offer attractive opportunities and have maintained our global equity manager line-up.

The fixed interest component of the portfolio has been solid from both an absolute and a relative performance perspective. The defensive positioning within this segment of the portfolio was evident during the December quarter where the Australian bond market (as measured by the Bloomberg AusBond Composite Index) fell 2.9%, yet the Kapstream Fund remained flat.

The alternative asset component of the portfolio also generated solid outcomes. Whilst Winton, the CTA (Commodity Trading Advisers) manager was largely flat over the year, GMO was one of the better performing global macro managers globally returning 6-7%.

CEF portfolio as at 31 December 2016

Product	Portfolio weight	Benchmark weight (NEW)
Cash		
Term Deposit (NAB)	3.9%	
JBWere Cash Trust*	0.0%	
Total Cash	**3.9%**	**5.0%**
Australian Fixed Interest		
EQT Pimco Wholesale Global Credit Fund	4.5%	
Total - Fixed Interest	**4.5%**	**0%**
Alternative Assets (Defensive)		
Kapstream Absolute Return Income Fund	7.0%	
Total - Alternative Assets (Defensive)	**4.5%**	**5%**
Alternative Assets (Growth)		
GMO – Systematic Global Macro Fund	3.5%	
GMO – SGM Major Markets Trust	1.0%	
Winton – Global Alpha Fund	2.2%	
Ellerston Australian Market Neutral Fund	3.2%	
Total - Alternative Assets (Growth)	**9.9%**	**10%**
Australian Equities		
Ausbil Australian Active Equity Fund	13.3%	
Bennelong – Ex 20 Australian Equities	9.6%	
Cooper Investors – Australian Equities Fund	13.3%	
Greencape – High Conviction Fund	13.4%	
Fairview – Emerging Companies Fund	3.5%	
Total - Australian Equities	**53.1%**	**45%**
International Equities		
Magellan – Global Fund	0.8%	
Magellan – Global Fund (Hedged)	4.7%	
Walter Scott – Global Equity Fund	6.3%	
Walter Scott – Global Equity Fund (Hedged)	2.7%	
Zurich – Global Growth Fund	7.3%	
Total - International Equities	**21.7%**	**30%**
Total Portfolio	**100%**	**100%**

* There is a small cash holding in the JBWere Cash Trust to facilitate transactions.

Portfolio changes

In the six months ending 31 December 2016, the Investment Committee made the following changes to the portfolio:

- Full redemption of units in Platinum Asia
- Addition of Ellerston Australian Market Neutral Fund

This change effectively represented a move to reduce overall exposure to the Asian economies within the International Equities allocation and use the proceeds to increase exposure to Growth Alternatives towards its benchmark of 10%.

The Ellerston Australian Market Neutral Fund is a long short Australian equity fund made up of 25 to 50 pair trades. The manager selects the pair trades as a result of the relative share price of the two, based on the belief that over time share price relativity will revert back to the mean. This is a quantitative strategy complimented by the overview of the Ellerston fundamental analysis Australian equity team which also identifies special situation investment opportunities to compliment the pair trades.

The key attraction of this strategy is the low correlation with traditional asset classes. Whilst the strategy has only been available for 3 years it has generated 10% pa after fee returns, with less than half the volatility and a negative correlation with Australian equity markets.

Investment outlook

The equity rally that has been driven off the reflation mood since the US election has continued in January, albeit a slightly softer pace. There is a growing acceptance that a significant swathe of the pro-growth policies that the new US Administration is keen to implement will take more time to enact than the market had previously hoped. The confirmation of many of the senior US appointments has reinforced the pro-business agenda and helped in building confidence. To date, the market has largely ignored the increasing global trade tensions and heighted geopolitical risk which have emerged over the past year.

Commodities continue to hold onto price gains and inflation measures are rising as higher oil prices feed through supply chains. Fears of larger increases in core inflation have been leased by continued wage restraint. While the US Federal Reserve is likely to raise rates several times this year, the bond market has stabilised in recent months.

Reporting season for stocks has begun and the overall results have been broadly positive, both domestically and abroad. While there are lingering risks to the outlook, particularly around European politics and banking issues in Europe and China, the market has become more content that these issues will be managed.

Global growth continues to support international equities and the switch to more pro-growth fiscal policies is in its early days. While valuations are creeping up for many international markets, earnings are growing and should support valuations.

However, in Australia, the domestic economy has been showing signs of decelerating, with the softness in business conditions and credit growth, and moderation in building approvals, which is potentially signalling an earlier end to the housing construction boom, being key indicators. Worryingly, trend employment growth in the non-mining states is still showing signs of softness. Banks have rallied but their valuations are difficult to justify given the relatively soft revenue growth outlook. While miners will likely deliver upgrades and return capital through dividends and buybacks, industrial stocks remain relatively expensive.

The sell-off in global long term bonds has stabilised in recent weeks. This pause in the sell-off from the July 2016 lows has forced many investors to reassess the likely path of interest rates in 2017. While the risks to a more savage sell-off have abated somewhat, the outlook remains for yields to edge higher over the course of this year.

Domestically, there are still mixed opinions about the likelihood of further cuts to the cash rate. While the short end of the yield curve is likely to remain well-anchored, longer term Australian bond yields are likely to be dragged higher over 2017 in sympathy with global bond yields.

Markets are likely to remain volatile therefore maintaining an exposure to alternative assets is warranted. With valuations in traditional markets remaining elevated, and uncertainties around the political and policy landscape, investment strategies not correlated to market performance should help to reduce volatility.

Charity profile
Cancer Council Victoria

By Todd Harper, Chief Executive Officer

Our Mission

Our mission is to Prevent Cancer. Empower Patients. Save Lives. Our purpose is to reduce cancer deaths and improve quality of life for people living with cancer.

Why us?

Established in 1936, we have developed an international reputation for our research-informed policies and programs which deliver the biggest population impact in preventing and detecting cancer, and supporting the community. As a trusted organisation we are a highly valued collaborative partner, with a long history of delivering on high quality research with real impact.

In housing the Victorian Cancer Registry – the world's timeliest – we are in a unique position to be at the forefront of identifying trends and utilising data to inform our work. Our researchers are well-renowned and much respected. When choosing research to undertake and fund, we have stringent governance in place with leading experts in the field advising us every step of the way.

Finding the answers

Personalised medicine is changing the way we look at and respond to cancer through estimating individual risk and preventing more cancers. Cancer Council Victoria has a track record of undertaking high quality epidemiological research to help fill in the gaps of our knowledge and find the links that will improve cancer outcomes for future generations.

Established in 1990, our Health 2020 Study enlisted the help of over 40,000 Australians to investigate the role diet and lifestyle play in causing cancer. Producing almost 400 scientific studies, discoveries have included finding the link between a person's waist measurement and risk of developing cancer, and that a high level of Vitamin D is associated with a lower risk of cancer death.

Help us complete the jigsaw by supporting our Forgotten Cancers Program

To build on our knowledge of cancers, we are seeking your support and guidance in our commitment to dramatically improve survival for 'forgotten cancers' – those cancers that are rare or have high mortality.

While five-year survival has increased for many common cancers such as breast, there are some that have a less than 30% survival – cancers like pancreatic, stomach, brain, oesophageal and liver.

Our Forgotten Cancers Program comprises three initiatives to grow our understanding of these cancers in order to prevent them and improve treatment options for those diagnosed.

1. This includes our Forgotten Cancers Project, which has recruited more than 3,000 Australians who have had a less common cancer to provide information and DNA to help us find out more. The data we've collected is already being used in international research projects to increase our understanding and improve the way we prevent and treat these cancers.
2. Secondly, we fund some of Victoria's brightest scientists who are working on lab-based research to develop more effective treatments. We are currently funding projects looking at improved treatments for acute myeloid leukaemia, mesothelioma and pancreatic cancer. **We can fund more projects with the help of our philanthropic partners.**
3. Thirdly, we are working in collaboration with 10 other not-for-profit organisations as part of the High Mortality Cancers Alliance. The Alliance is concerned about the lack of funding for ground-breaking research into those cancers that have a less than 30% five-year survival.

Together with our Alliance partners and cancer researchers in this space, we are advocating for significant investment from Government and other funding bodies to help us provide a better future for those diagnosed.

For more information about how you can be part of the next cancer breakthrough, contact Head of Philanthropic Partnerships Anthony North on **03 9514 6513** or email **anthony.north@cancervic.org.au**. Find out more about Cancer Council Victoria at **www.cancervic.org.au**

Photo by Heath Holden

The JBWere Philanthropic Services team

Shamal Dass

Head of Philanthropic Services

Shamal joined the Philanthropic Services team in November 2012 and has led the team since December 2014. His responsibilities include the provision of specialist strategic advice to both non-profit organisations and private clients in areas ranging from the structuring of philanthropic giving, governance, capacity building, sustainability, donor relations and organisational strategy. Shamal also works in partnership with JBWere advisers to develop tailored investment management solutions that allow clients and non-profit organisations to fulfil their mission. Prior to joining JBWere, Shamal worked within the financial services and trustee industries where he has significant experience in advising high net worth individuals on their philanthropic structures, managing trusts and foundations (including PAFs), and constructing charitable foundation investment portfolios. Shamal is a Director of the Arts Health Institute, member of the Cure Cancer Australia Foundation Advisory Committee and a member of the Centre for Social Impact Advisory Council.

Qualifications

Bachelor of Economics (1st Class Honours); and
Fellow of Finance – Financial Services Institute of Australia

John McLeod

Senior Research Consultant, Philanthropic Services

John joined JBWere's Philanthropic Services team on its establishment in 2001 after 16 years in resource equity markets. His primary responsibilities are researching and analysing trends in the philanthropic sector; interpreting the findings to provide valuable insights for clients; and forging relationships between clients with a philanthropic interest and the not-for-profit sector. After retiring as a Principal and Executive Director of Goldman Sachs JBWere, John has been able to devote more time to both his family's interests in private philanthropy through a Private Ancillary Fund (PAF) established in 2004 and broader education through consultancy in the sector while still undertaking research and client advisory work for the Philanthropic Services team at JBWere. John serves on multiple Boards, including the Philanthropy Australia Council, in a fiduciary volunteer capacity and is the co-author of IMPACT – Australia: Investment for social and economic benefit and The Cause Report – 20 years of (r) evolution in the not for profit sector.

Qualifications

Graduate Diploma of Social Investment and Philanthropy - Swinburne

Bachelor of Commerce – Uni of Qld

Bachelor of Engineering – Uni of Qld

Josephine Paino

Director, Philanthropic Services

Josephine joined JBWere in 2008, managing a number of teams within the Client Services department before moving into Private Wealth Management. In 2012, she joined the Philanthropic Services team to provide specialist advice including strategic reviews for non-profit organisations, philanthropic and private clients. Josephine works closely with JBWere advisers to develop investment management solutions, enabling clients and non-profit organisations to achieve their mission. In addition, Josephine co-ordinates all of the wider Philanthropic Services teams insights and activities giving her a broad coverage and understanding of the sector. Josephine is a member of the JBWere Diversity Council and Cancer Council Victoria's Ambassadors Committee.

Qualifications

Bachelor of Business
(Accounting / Banking & Finance) – Victoria University

Securities & Managed Investments Accreditation
(RG146 Compliant)

Professional Diploma in Stockbroking

Certificate IV Financial Services (Superannuation).

Luke Branagan

Director, Philanthropic Services

Luke joined the JBWere Philanthropic Services team in March 2015. His responsibilities in partnership with JBWere advisers include the provision of strategic advice to not-for-profit institutions and individuals and their families with an interest in philanthropy. Prior to joining JBWere, Luke was the Executive Manager of the MLC Community Foundation, where he led the evolution of the strategic direction of the Foundation to focus on mental health outcomes. During Luke's tenure, the Foundation has been awarded as a philanthropic leader in measuring social outcomes, driven by innovative approaches to measurement and impact investment. Luke was also a member of NAB's Corporate Responsibility Leadership team. Prior to this role Luke led the community program at the Australian Securities and Investments Commission. Luke is a founding committee member of IMPACT100 Sydney.

Qualifications

Bachelor of Arts majoring in Social Science
- University of New South Wales (UNSW)

Graduate Certificate in Social Impact
- UNSW Australian School of Business

Graduate of the Australian Institute of Company Directors

Securities & Managed Investments Accreditation
(RG146 Compliant)

Fellow of Finance – Financial Services Institute of Australia

Further information

If you have any questions in relation to the JBWere Charitable Endowment Fund, please call the JBWere Philanthropic Services team on 1300 263 166 or email Charitable.EndowmentFund@jbwere.com

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