

## **Investment Highlights of the Year 2006/2007**

Your Investment Committee conducted a review of our Investment Managers at the beginning of 2006 and subsequently appointed UBS Wealth Management (UK) Ltd. to manage our Endowment Funds from the beginning of the financial year. Their performance is monitored and guided by the Investment Committee who report to the County Durham Foundation Board members and donors.

Most global equity markets made strong progress throughout the second half of 2006 following the sharp downward correction seen in May with momentum gathering as the year drew to a close. Driven by strong economic activity, corporate profitability continued to increase through the period, highlighting the valuation appeal of equities and attracting the attention of the increasingly aggressive private equity industry. However, after five months of almost unbroken gains, markets became increasingly volatile at the end of February 07 with a correction triggered by a sell – off in Chinese equities. This was backed up by more fundamental concerns surrounding a slowdown in the global economy and in particular, the sharp deterioration in the US sub prime mortgage market

Although global markets slipped back in the first quarter of 2007, overall performance of the Foundation's endowment for 2006 / 07 was positive and ahead of relevant benchmarks with an overall increase of 9.1% compared to 8.7% for the WM 'Constrained by Income (including Property)' Index. UK Equities in particular performed well, up 12.5% compared with a gain of 11.1% for the FT All Share Index while in Overseas markets, Asia Pacific returns showed continued strength finishing 11.7% higher.

Looking forward, the target asset allocation for the Endowment remains set within ranges of 5% to 25% for Cash and Bonds, 45% to 85% in UK Equities and 10% to 30% in Overseas Equities. The Investment Committee has also approved a weighting of up to 5% in other investments such as Hedge Funds & Structured Products. Overall, the portfolio remains overweight in UK Equities that retain surety and visibility for prospective earnings, supported by solid dividends. However, UBS continues to seek to improve overall diversification through the introduction of investments focused on particular themes such as environmental sustainability and commodities.

The primary function of a Community Foundation is to distribute grants based on the income from its investment portfolio. By smoothing the effects of market fluctuations we are able to provide a continuous flow of grants in perpetuity. In good years this will mean distributing less than the total return on investments and in bad years distributing more.

Despite recent setbacks the Endowment Fund's total value remains comfortably above the inflation adjusted value of all donation's received to date and accordingly County Durham Foundation has implemented a grant distribution program of just under 6% of the value of our investment portfolio at year end for the 2007/08 financial year. Most endowment funds continue to show a substantial increase in value since their start whilst generating significant income for grants.