

CHAIRMAN'S REPORT

TO THE BOARD OF THE AUSTRALIAN OLYMPIC FOUNDATION

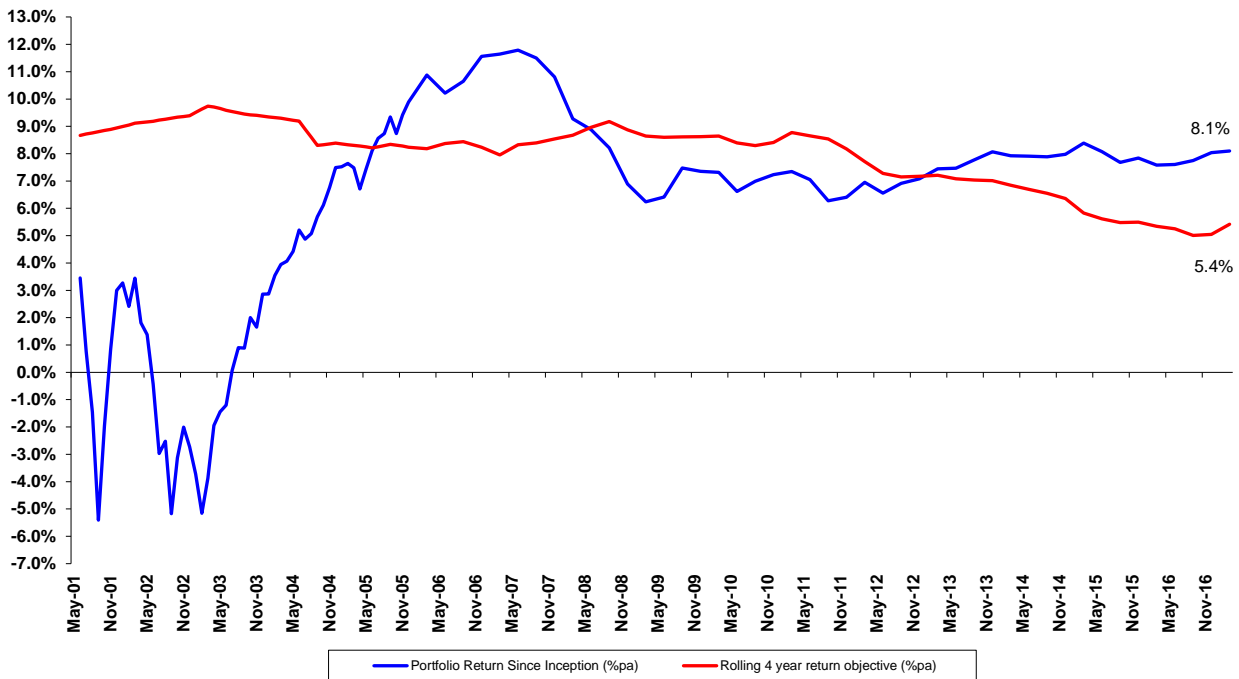
FRIDAY 5 MAY 2017

As advised in the 2016 Annual Report of the Australian Olympic Foundation (Foundation), net assets at 31 December 2016 totalled \$146.3 million.

Following rallying in equity investment markets in Australia and internationally in the March quarter net assets have increased to \$148.9 million as at 31 March 2017 after distributing \$1.562 million to the AOC for the March quarter.

After the March quarter distribution, cash contributions to the AOC since 1 January 2001 totalled \$106.76 million. A further interim distribution of \$1.562 million for the 2017 June quarter has been made in April 2017.

AOF Investment Portfolio Return (%pa) Since Inception



The above graph shows the composite return for the Foundation since inception to March 2017 which is 2.7% above its historic return target of rolling 4 year CPI plus the ten year bond rate. It should be noted that the Foundation's Investment Advisory Committee (IAC) has continued to review the investment target in light of the low interest rate and bond rate environment and will look to redefine the four year target to \$25 million plus CPI plus 1% for growth in the future.

Since inception to 31 March 2017 the Foundation's portfolio has returned 8.1% per annum.

Equity markets internationally and in Australia continued to be volatile through 2016. Since the US election the "Trump" effect has seen the market build in expectations of continued growth in the US economy off the back of announcements on tax cuts and infrastructure spending. The US economy has continued to improve as expansion picks up and employment improves, although more recent economic indicators would suggest that these growth

expectations are less than robust in reality and more scepticism is building in the market. Volatility may also be driven by geopolitical events.

Despite some concerns China still targets annual growth levels of 6.5%.

European economies continue to slowly improve with the index of manufacturing activity showing positive signs after many years of no growth. Forthcoming elections in France, Italy and Germany and Brexit continue to provide a background of uncertainty but market tensions have eased after the Dutch elections and the initial presidential voting round in France.

Australia remains in slow growth as it continues to transition from the mining boom. Housing prices and the capacity of consumers to spend are of concern to the Reserve Bank. The longer they hold interest rates at current levels will see a closing of the gap with US interest rates, resulting in downward pressure on the Australian dollar.

The Foundation's IAC met on February 7 and again on Monday 1 May 2017.

At the February Meeting presentations were made by our consultants, Mercer and an independent Fund Manager, Contango Asset Management.

At the May Meeting presentations were made by our consultants Mercer and Fund Manager, Schroder (Australian Equities).

Whilst noting that stock market prices in both the US and Australia have increased and now reflect high valuations we believe the Foundation with its balance and spread of funds is well placed going forward.

JOHN COATES AC
Chairman