

Q2 2025

HOUSE REPORT – CHARITIES

SECURITY

A thematic approach
to unlocking long-
term opportunity in
uncertain times

- **Markets: How we're positioning portfolios after the fall out from Trump's tariffs shock**
- **Stewardship: Why engagement is more important now than ever**
- **Private markets: Finding tomorrow's winners**
- **Total return investing: Is this the right approach for your charity?**

This document is intended for retail investors. You should not act or rely on this document but should contact your professional adviser.



**MELANIE
ROBERTS**

EDITOR

Welcome to the Charities edition of the Sarasin House Report, a collection of articles we believe to be most pertinent for charity trustees and executives, written by our colleagues from within the firm.

After a strong start to the year, the first quarter of 2025 became increasingly volatile as global markets reacted to President Trump's shift in emphasis from market-friendly deregulation and tax cuts to tariffs and global trade. The result was a setback in global stock markets for the quarter, immediately followed by a dramatic market reaction to the rapid escalation of Trump's global tariff agenda in April. In this edition our Charity Focus is written to help permanently endowed charities consider a total return approach to investing. Rather than limit spending solely to the income generated by a charity's investments, Octavia Thomson explains the many benefits of spending a proportion of the 'real' capital growth. Not always an easy topic, but one which both trustees and charity executives often debate.

At the time of writing, markets, politicians, and companies alike are reacting to a formalised programme of tariffs announced by President Trump on 'Liberation Day', 2nd April. Guy Monson and Subitha Subramaniam take a fresh look at their implications – particularly China's retaliatory tariffs – and the global response. We also consider Europe's stance, alongside broader analysis of the European Commission's new programme of fiscal expansion, in a piece written by our economist, Adam Hamilton.

It also seems an appropriate moment to discuss the broadening of the key themes that underpin our thematic investment approach – most recently with the addition of our sixth theme: Security. As global politics and economics become increasingly fragmented, security is emerging as a key driver of both investment risk and opportunity, as Colm Harney details in his contribution.

In turbulent times, it maybe easy to lose sight of the importance of embedding strong environmental, social and governance (ESG) analysis when managing charity portfolios responsibly. In her Stewardship article, Natasha Landell-Mills challenges the retreat from ESG by some companies, arguing that stewardship matters now more than ever.

We also welcome a contribution this month from Alex Barr and James Witter of our Bread Street team, who explain the role of private markets in long-term investment portfolios and explore some of the sectors offering the most attractive opportunities for growth, while setting out some of the most common ways of gaining access.

We hope you enjoy reading our team's insights, and we welcome your feedback and suggestions for future topics or issues you'd like us to cover. Please get in touch at housereport@sarasin.co.uk

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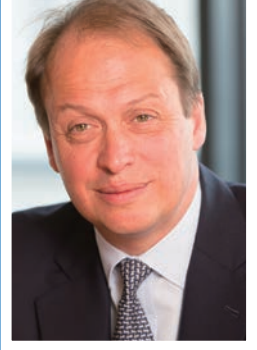
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**GUY
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SUBRAMANIAM**

CHIEF ECONOMIST
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Our strategy view

LIVING BY THE TARIFF

Key points

- The market reaction to President Trump's tariffs was extreme with sharp immediate falls across equity indices, while bonds rallied as recession fears have risen.
- With high cash positions, significant gold holdings, and equity and bond portfolios skewed heavily toward quality, Sarasin portfolios are well positioned to weather a possible US recession.
- Market volatility can create attractive valuations, though investors must tread with caution in such uncertain times.

President Trump has long extolled the virtues of tariffs. Until the first week of April, however, investors had largely been flying blind. The announcement in the White House Rose Garden of sweeping “reciprocal” tariffs has now brought clarity, of a sort. The rates and scope applied, to friend and foe alike, are more aggressive than even the most hawkish commentators had anticipated.

Financial markets reacted swiftly, with sharp equity declines, led ironically, by US indices. The S&P 500 had fallen 14% year-to-date at the time of writing (7 April) while the technology-heavy Nasdaq was down 19%.¹ European and Chinese equity indices saw smaller declines, but with volatility sharply higher. Bonds rallied as recession fears have risen, the dollar is weaker, while gold again emerged as the best-performing major asset class.

Our strategy response

We have been concerned about the tariff agenda and spent much of this year reducing risk across portfolios. We cut equity exposure from overweight to neutral in March, and further to underweight at the beginning of April. We also reduced our exposure to corporate bonds and continued our zero exposure to high yield debt. Across our equity portfolios we have been raising ‘quality’ for some months – this means adding to companies with typically lower leverage, higher return on equity, and with stable year-on-year earnings growth. Where appropriate we have also added to defensive dividend strategies. We also hold gold positions across all our balanced mandates.

As ever, in the face of sharp market declines, it is tempting to wish one had acted sooner or more drastically. Yet with high cash positions, significant gold holdings, and equity and bond portfolios skewed heavily toward quality, we believe our portfolios are well positioned to weather a possible US recession. Importantly, they continue to maintain exposure to companies at the heart of the AI revolution, alongside our long-term grouping of themes under Demographic Change and Future Security. These drivers of structural growth should underpin earnings despite the market correction – and are now available at more attractive valuations.

America’s tariff walls rise again

America’s tariff walls have not stood so high in more than a century. A year ago, the US had a trade-weighted average tariff of just 2.2%. Today, tariffs hover between 22% and 24%² – exceeding even the protectionist peaks of the 1930s and the infamous Smoot-Hawley tariffs.³ Although Smoot-Hawley lifted rates on dutiable goods to 59%, overall duties on total imports amounted to a lesser 20%.

As investors digest this extraordinary policy shift, four key questions arise. First, have tariffs now reached their peak, or will further escalation follow? Second, can the collapse in US business and consumer confidence be contained, or does it herald an inevitable recession? Third, how will the Federal Reserve respond to the inflationary pressures unleashed by rising trade barriers, given that core inflation remains uncomfortably high? Fourth – and perhaps most consequentially – can America’s vaunted system of political checks and balances restrain the executive branch, or must investors now permanently raise the risk premium they place on US assets?

Have we passed ‘peak tariff’?

In the near term, it is in everyone’s interest to strike bilateral agreements with President Trump and reverse at least some of his tariff hikes. On closer inspection the Administration’s tariff calculations, appear almost frivolous and largely devoid of serious economic analysis. That suggests they are intended at least partly as negotiating tactics to achieve other goals.

Yet for America’s trading partners, there are reasons for caution. The experience of Mexico and Canada is instructive. Despite agreeing a revised deal in Trump’s first term – the United States–Mexico–Canada Agreement (USMCA), successor to the North American Free Trade Agreement (NAFTA) – the White House is once again pressing for renegotiation. In this world, no settlement appears final. Agreements seem to mark not the end of negotiation, but merely the opening of a new stage in a longer contest.

If that is the lesson others draw, it may encourage a different strategy: to inflict more immediate economic pain on the US to strengthen their bargaining position. This already appears to be Canadian Prime Minister Mark Carney’s approach, and may explain China’s rapid retaliatory measures.

Will this trigger a recession?

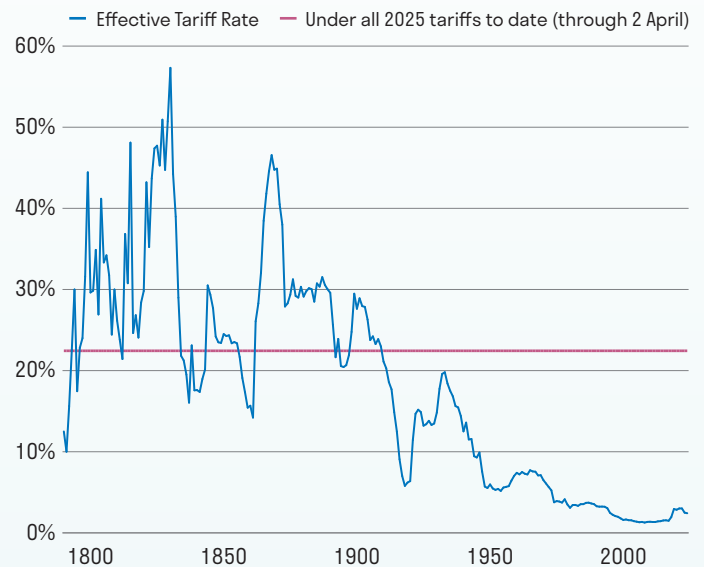
Survey data suggests the US economy is slowing, although it still retains momentum, as we saw from recent robust payroll figures.⁴ Assessing the true underlying trend will be difficult. Tariffs are already distorting imports and inventory data: consumers have rushed to buy goods, such as cars, ahead of anticipated price rises in April, a pattern likely to play out across a range of imports. It will probably be the third quarter before clean data emerge.

Nonetheless, the start of the second quarter of the year has clearly marked a change. Tariff-related uncertainty is starting to freeze business decisions. Even if negotiations succeed in rolling back some of the new tariffs, the process will be slow. Dealing with trade barriers on this scale will consume management time across corporate America, much as Brexit did in Britain, to the detriment of long-term productivity.

Meanwhile, deportations and immigration crackdowns suggest that even the modest 0.25% increase in population growth we had pencilled for 2025 may prove too optimistic.⁵

CHART 1.1 US AVERAGE EFFECTIVE TARIFF RATE SINCE 1790

Customs duty revenue as a percent of goods imports



SOURCE: YALE BUDGET LAB, 02.04.2025

This will reduce both the supply of low-wage workers and the demand for goods and services. More generally consumers are likely to start building precautionary savings and cutting back on spending, while higher inflation will eat into real wages.

But there are offsets that can still support US and global growth

Around the same time as Trump’s tariff announcements, there was also some more growth friendly news. In a surprise announcement, eight OPEC+ countries led by Saudi Arabia, announced an increase in output of 411,000 barrels per day.⁶ Oil prices fell sharply in response, and this will be welcome news for the White House (with President Trump always a keen believer in low US energy prices).

Meanwhile, bond yields fell sharply, in the face of the equity market sell-off. This should provide some relief to homeowners and other borrowers. Finally, the dollar has continued to weaken (the dollar index having fallen 5% year-to-date to 7 April), which tends to reduce the pressure on funding and liquidity conditions globally.

Putting this altogether we expect US GDP growth in Q2 and Q3 of around 0.5% to minus 0.5%.⁷ If there is escalation, retaliation or even disorderly currency flows then we could get a more meaningful drawdown. Conversely, the US economy had a lot of momentum so it might take some more time for the actual impacts to show up in the data. For the present we see the US just skirting recession – it would not take much though, to turn growth negative.



LIVING BY THE TARIFF

Guy Monson & Subitha Subramaniam

The Federal Reserve's dilemma

Chairman Jerome Powell was clear in his comments on the administration's tariff proposals.⁸ The new tariffs, he said, were "significantly larger than expected" and are likely to "raise inflation in coming quarters". He has also backed away from his earlier characterisation of tariff-induced inflation as transitory, acknowledging that "while tariffs are highly likely to generate at least a temporary rise in inflation, it is also possible that the effects could be more persistent".

In response, we have raised our US inflation forecast for 2025, with headline CPI now expected at 3.6%, up from 3.1%.⁹ This reflects an anticipated rise in core goods prices, a fall in energy costs, and a renewed uptick in food prices. Even this may prove conservative, given the scale of tariffs announced, though in a weakening economy, companies are likely to absorb at least some of the price shock.

How the Federal Reserve balances rising inflationary pressures against a slowdown in business and consumer confidence will be critical. Powell stated that the economy remains "in a good place", suggesting that a dramatic policy shift is unlikely for now. We continue to expect three rate cuts this year. However, if the demand shock deepens, these cuts could be accelerated. The months ahead will not be easy for the Federal Reserve – and a running commentary from the White House seems assured.

The erosion of checks and balances

The lack of an effective check on Trump's policies is our greatest concern. The US has historically thrived on a robust system of checks and balances – a system that now seems to be more fragile than we thought. The Democratic opposition has largely remained passive, Congress has surrendered much of its agency, and many law firms, facing existential threats, are reluctant to challenge even the most extreme policies.

Ultimately, the responsibility may fall to voters in the midterms. Yet here too there are obstacles. A recent executive order requires proof of citizenship to vote¹⁰ – potentially rendering a driver's licence insufficient. If popular discontent rises, particularly as voters see their 401(k) pension pots fall, there may yet be a response.

The absence of effective challenge, however, risks delaying any course correction. Investors must therefore consider whether a permanently higher risk premium on US assets is now required to reflect today's extraordinary policy uncertainty.

Policy summary

Larry Summers, the former US Treasury Secretary under Bill Clinton, reminded investors that the immediate post-tariff announcement market decline was the fourth-largest two-day fall since the Second World War.¹¹ The others were the 1987 crash, the 2008 financial crisis, and the Covid-19 pandemic. In retrospect, all proved to be long-term buying opportunities for global equities, though the timelines for recovery varied considerably.

Today, the opportunity is again clear. Some of the fastest-growing companies ever seen, built around a remarkable AI-led revolution, are now generating probably the most prodigious cashflows in market history. At the time of writing, they are currently trading 20–30% below their peaks from a month previous.¹² Meanwhile investors can also take comfort from falling bond yields, a weaker dollar, and a surprise collapse in oil prices – all factors that typically support US and global growth.

The worry, however, remains political risk in the Trump White House. The President inherited an economy in good shape and a public that placed trade low on its list of priorities. As *The Economist* recently noted, the "political constituency for new tariffs was extremely small" – yet the administration acted with extraordinary scale. Yes, value is starting to appear across markets but until we can gauge what the risk premium on US assets should be under a Trump White House, we must continue to move with care.

^{1,12} Bloomberg

² Yale Budget Lab: <https://budgetlab.yale.edu/research/where-we-stand-fiscal-economic-and-distributional-effects-all-us-tariffs-enacted-2025-through-april>

³ www.senate.gov/artandhistory/history/minute/Senate_Passes_Smoot_Hawley_Tariff.htm

⁴ US Bureau of Labor Statistics: www.bls.gov/news.release/empsit.nr0.htm

^{5,7,9} Sarasin & Partners forecasts

⁶ www.reuters.com/business/energy/saudi-arabia-outs-oil-prices-asia-four-month-low-2025-04-06

⁸ www.federalreserve.gov/newsevents/speech/powell20250404a.htm

¹⁰ www.whitehouse.gov/presidential-actions/2025/03/preserving-and-protecting-the-integrity-of-american-elections/

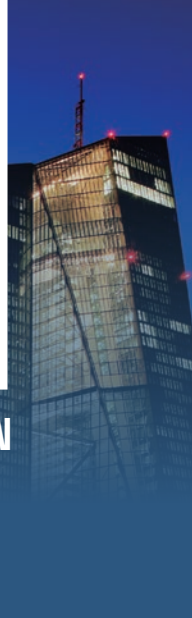
¹¹ <https://bloomingbit.io/en/feed/news/86131>

Economist outlook

EUROPE'S SPENDING SPREE: BIG BUDGETS, BIGGER QUESTIONS



ADAM HAMILTON
ECONOMIST



European leaders are looking to fiscal expansion, but structural problems in the region remain.

Europe has rediscovered the allure of big fiscal spending. After decades of cautious budgeting, European leaders are suddenly opening their wallets, committing billions for infrastructure improvements and a significant jump in defence budgets. Germany, typically conservative on public spending, is leading. Berlin plans a 10-year, €500bn infrastructure initiative¹ and promises substantial boosts to military outlays. Elsewhere, the European Commission proposes borrowing €150bn², potentially rising to €800bn, to fund defence across member states.

Is this the beginning of a new chapter of European economic exceptionalism? Can Europe turn the apparent loss of the US security guarantee into a productive defence industry? Or is all of this spending just adding to an already bloated government footprint in the economy? These big questions must be answered as the global trading environment becomes increasingly hostile.

Germany's infrastructure gap

Germany's roads, bridges, railways, and digital infrastructure suffer from years of neglect and underinvestment. Public investment net of depreciation has been zero for 30 years and well below other similar economies.

The German government's proposed €500bn infrastructure fund (about 1% of GDP per year if spent evenly over 12 years) addresses this very problem. Better infrastructure, in theory, boosts productivity by reducing transport and operating costs and by encouraging businesses to invest. Clearly it should be prioritised but we shouldn't overstate the long-run productivity benefits. Germany's current stock of infrastructure capital stands at around six times GDP. The planned investment might slightly lift this ratio to 6.1 times.

For reference, the Office for Budget Responsibility in the UK recently estimated that the UK public infrastructure spend announced in the October 2024 Budget of 0.6% of GDP³ (just over half the German amount in annual terms) boosted productivity growth for the UK by about 0.05 percentage points annually over the next five years.

The defence imperative

Europe is also facing increased pressure to strengthen its military capabilities. Russia's ongoing war in Ukraine, instability in the Middle East, and doubts about the reliability of America's NATO security umbrella have shifted priorities sharply. Defence spending, previously low across Europe, is now being excluded from government budget deficit calculations to loosen fiscal constraints. The European

Key points

- European leaders have recently committed significant sums to infrastructure and defence spending, though the economic impact of this is likely to be modest in the short term.
- A willingness to act now is encouraging, though this must be followed up with concerted efforts to tackle the continent's structural issues.
- Our strategic allocation is to show caution on government bonds, while equities are viewed through our thematic lens.

EUROPE'S SPENDING SPREE: BIG BUDGETS, BIGGER QUESTIONS

Adam Hamilton, Economist

Commission's proposed subsidised loans would help fiscally stretched countries up their spending.

Germany, a perennial NATO laggard, now spends 2% of its GDP on defence⁴. While no official target has been set, Germany and other European governments collectively will likely aim for defence spending of around 3% of GDP.

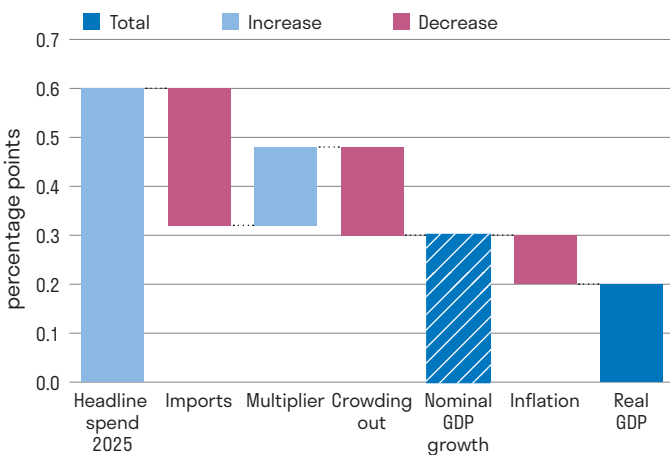
However, these ambitious spending plans run into practical obstacles. European defence sectors may struggle to quickly ramp up production, leading to significant import reliance, with a material proportion of defence spending thought to be flowing out of the continent. Moreover, with governments rushing to fulfil military contracts, negotiating positions weaken, increasing procurement costs and inflation pressures. Unlike infrastructure spending, defence spending is unlikely to directly translate to a boost in productivity.

Measuring the economic stimulus impact

What will all this extra spending mean for the economy in the short term? The impact for Europe as a whole is modest. Assuming spending is phased in over three years and after considering imports – 35% for infrastructure and around 50% for defence – the net domestic stimulus for the euro area amounts to roughly 0.3% of nominal GDP per year from 2025 to 2027. Assuming a generous multiplier effect (where spending leads to further economic activity), this equates to about a 0.5 percentage point increase in nominal GDP growth per year over the next two years.

Yet even this modest stimulus may be an overestimate. Europe no longer suffers from insufficient demand of the pre-Covid world when the German government could borrow at negative interest rates. Now inflation remains above the ECB's 2% target (the overall rate was at 2.3% in February⁵), and unemployment is low. To keep inflation in check, the

CHART 2.1 REAL GDP GROWTH IMPULSE 2025



SOURCE: MACROBOND, 24.03.25

ECB might counteract fiscal stimulus by maintaining higher interest rates, effectively limiting overall growth benefits. Bond yields have already risen in anticipation, and currency markets reflect this expectation clearly.

Sustained fiscal stimulus could be part of a strategy to run a “high pressure economy”, deliberately trying to coax the unemployed back into the labour force, boost productivity, and get wages on an upward path. The Biden administration in the US pursued a similar strategy following the Covid pandemic with some success, although the resulting inflation – worsened by the disruption to the global economy from the Russian invasion of Ukraine – proved unpopular with voters.

Distributional effects matter

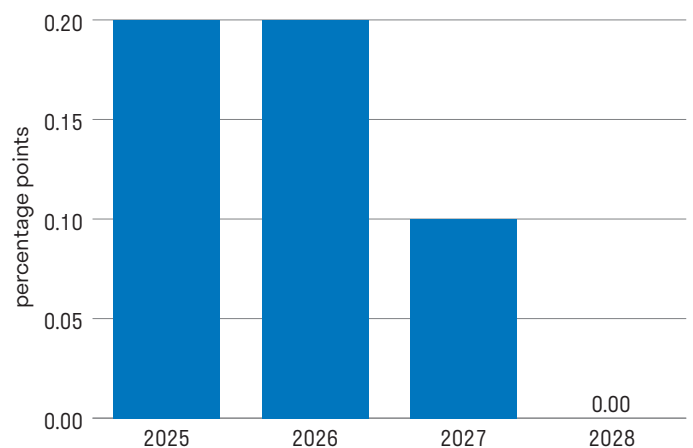
In a non-zero interest rate world, fiscal stimulus and associated higher interest rates mostly redistributes the economic pie. While supporting defence, construction and manufacturing, increased German government spending risks crowding out private-sector investment outside of these sectors. It will also crowd out spending in other sectors of the economy that been benefiting from the weak euro, for example tourism in periphery European economies.

More worrying is the fiscal stress it might cause. Higher bond yields in Germany could cascade into even higher borrowing costs for heavily indebted European economies like Italy and France and even the UK. This reinforces our strategic allocation to gold and suggests some caution on government bonds.

Not a cure-all: Europe's structural issues

Europe's recent fiscal announcements reflect overdue recognition of serious problems – crumbling infrastructure and insufficient defence capabilities. This seemingly joined-

CHART 2.2 REAL GDP GROWTH IMPULSE



SOURCE: MACROBOND, 24.03.25



up effort shows real willingness to redress some of these long-known concerns, though increased spending alone cannot solve all of Europe's fundamental economic problems. Weak productivity, ageing populations, inflexible labour markets, and outdated regulatory frameworks continue to hold Europe back. Infrastructure investment will help and should be done, and it is hard to draw any conclusions at this stage as to how successful this spending will be if the money is spent in the right areas.

The Draghi report on EU competitiveness⁶, published in September 2024, outlined a plan to combat a “self-fulfilling” lack of dynamism on the continent. Three key areas addressed by the former Italian Prime Minister: closing the innovation gap with the US and China, especially in advanced technologies; the need for a joint plan for decarbonisation and competitiveness; and for action in increasing security and reducing dependencies – the EU relies on a handful of suppliers for critical raw materials, especially China.

The recent Trump tariff announcement highlights the need to become more competitive, innovative and agile. The first-round effect of US tariffs may be a hit to EU exports. The second-round effect may be having to compete even harder with Chinese goods in global markets outside the US, and no doubt some pressure from the US to reduce reliance on Chinese inputs.

European financial markets have generally responded positively to the fiscal announcements. Defence stocks have been a particular beneficiary – and as my colleague Colm Harney highlights (pages 10–12), this aligns with our thematic view that higher defence spending globally will be an enduring theme.

Our global, thematic approach eschews a regional approach, and seeks to find quality companies with enduring thematic tailwinds, wherever these may be found. That said, our portfolios have significant exposure to companies listed in Europe. This has been a particularly fruitful hunting ground for

our Evolving Consumption theme, which contains a number of large, European-listed firms with a truly global footprint, which naturally insulates revenues from the ups and downs of the European economy. One example is LVMH, which is listed in France and benefits from worldwide demand for its luxury goods brands such as Louis Vuitton and Moët & Chandon – its clients tend to be brand sensitive, rather than price sensitive. Another Paris-listed company, eyewear specialist EssilorLuxottica, also has global reach and benefits from significant economies of scale, and the associated attractive levels of margins and returns on capital.

Our investment team will continue to identify these stock opportunities while we keep a close eye on the big picture events in Europe, and to understand the implications of the shift in fiscal policy at a company and industry level. While the US and the impact of its foreign policy has tended to dominate geopolitical discussion of late, Europe's role as a powerful and disparate voice on the world stage is anything but diminished.

The continent stands at a critical juncture, and if it can follow through with the structural reforms needed to turn fresh fiscal spending into genuine growth opportunity, then there's no reason why it can't flourish – even if trade and political relations with the US turn sour. However, should policymakers underestimate this critical juncture, defaulting to familiar complacency rather than ruthlessly pursuing the required reforms, Europe's hopeful outlook could fade.

¹ www.politico.eu/article/germanys-merz-secures-breakthrough-on-historic-spending-plan/

² European Commission proposes borrowing €150bn, potentially rising to €800bn

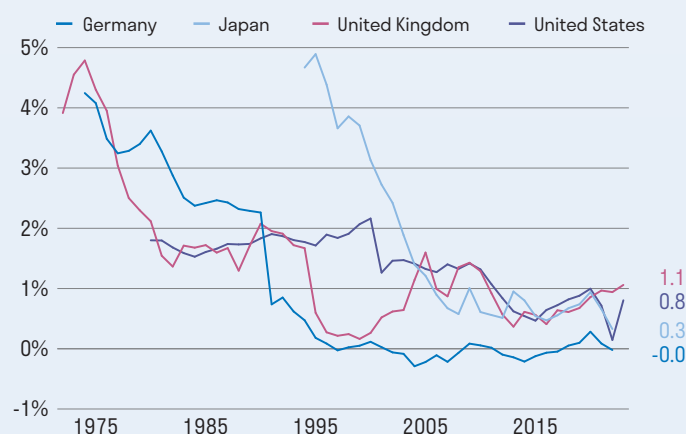
³ <https://obr.uk/efo/economic-and-fiscal-outlook-october-2024/>

⁴ www.reuters.com/world/europe/germany-met-nato-2-defence-spending-target-2024-sources-say-2025-01-20/

⁵ <https://data.ecb.europa.eu/main-figures/inflation>

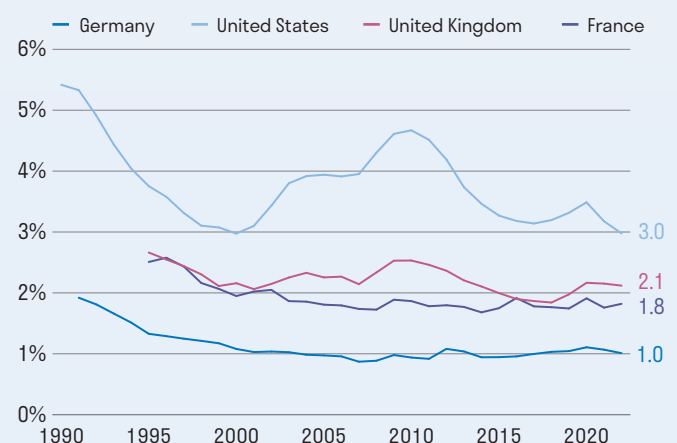
⁶ https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en

CHART 2.3 PUBLIC NET INVESTMENT (% OF GDP)



SOURCE: MACROBOND, 24.03.25

CHART 2.4 DEFENCE SPENDING (% OF GDP)



SOURCE: MACROBOND, 24.03.25



COLM HARNEY
INVESTMENT STRATEGIST /
PORTFOLIO MANAGER

Thematic investing

SECURITY: A NEW THEME SHAPING OUR INVESTMENT APPROACH

Key points

- We have reviewed our thematic framework and introduced a new theme: Security.
- Security is becoming a greater priority for governments, industries, companies, and individuals – and this trend will be increasingly impactful for financial markets over the coming years.
- This theme has been building for a number of years – and has been accelerated by the dramatic reshaping of international relations under the second Trump Administration.

In keeping with our global thematic approach to investing, we have introduced a sixth major theme: Security. Here we explain why we have done this, and what it means for our portfolios.

Sarasin & Partners has long used our framework of structural, long-term trends, or themes, to guide our approach to investment. As I outlined in our Q4 2024 edition¹, we are committed to identifying and capitalising on the market opportunities offered by these enduring themes, to deliver value to our clients.

The core of our thematic philosophy is that markets, by focusing too much on the short term, underappreciate the long-term impact of broad, inexorable themes like shifting demographics, technological developments, and the growing challenge of climate change. The existence of these themes is no secret. However, institutional pressures to deliver short-term performance and behavioural biases that oversimplify complex issues often prevent investors from accurately assessing long-term impacts – causing them to overlook significant risks and opportunities.

At Sarasin, we believe a deeper understanding of these themes is integral to delivering the desired investment outcomes to our clients. To achieve this, our framework must remain dynamic and forward-looking, continually focusing on the themes we believe will be most significant to financial markets in the coming years and decades.

Following a recent review of this framework, we have decided to introduce a new theme to the mix, Security. This sits alongside our existing five themes – Ageing, Automation, Climate Change, Digitalisation, and Evolving Consumption – all of which remain as valid today as when they were first identified.

Why security?

We believe we are living through a profound shift in the geopolitical landscape. At its heart is the growing strain from increased global population, economic growth, and resource consumption, which exacerbates issues such as climate change, resource scarcity, and geopolitical instability – challenges too complex for any one nation to manage alone. These challenges have exposed the increasing weaknesses in the post-Cold War order. Yet with no consensus on the ideal political or economic system, nor a sufficiently shared global identity, there is currently no realistic pathway to a single unified solution.

These fundamental shifts have recently become more pronounced, as evidenced by the foreign policy direction taken by the new Trump

administration in the US. As Subitha Subramaniam explored in our Q3 2024 edition², the relative stability of a unipolar, US-dominated world in recent decades has frayed, and is giving way to a 'multipolar' world. With the US redefining its relationships with both traditional allies and rivals, China and other "non-Western" countries too are seeking to reshape the international order in their favour, using protectionism, trade wars, and even the rising threats of military action to further their interests.

Increasingly, financial decisions made by organisations and individuals worldwide are driven by security concerns rather than purely economic or efficiency driven motivations. The definition of 'security' has expanded significantly, covering not only direct threats like cyber and military actions but also broader vulnerabilities in global food and energy supply chains. It now also encompasses rising unease about the reliability and sustainability of established global networks for trade, investment flows, information exchange, and the free movement of people.

From an investment perspective, we see the Security theme as impacting all aspects of financial markets, both across and within asset classes – and so we are ensuring our work in this area is considered when researching every current and future investment.

A timely addition to our framework

While the inherent tensions in the international order have been building for many years, the events of the early 2020s –including the pandemic, the Russian invasion of Ukraine, and the re-election of President Trump – suggest that the cracks in the system have widened beyond repair, and we have entered a new era – one in which security will play a major role.

The actions of the new Trump administration, most obviously the extraordinary levels of tariffs announced on 'Liberation Day', are the final nail in the coffin for the 'Pax Americana' – the era of relative peace and stability, underpinned by a US commitment to a rules-based world order. This has sharply accelerated the trend towards 'power politics' where international relations are dictated by power dynamics and national interests, rather than global institutions or frameworks based on common rules and values.

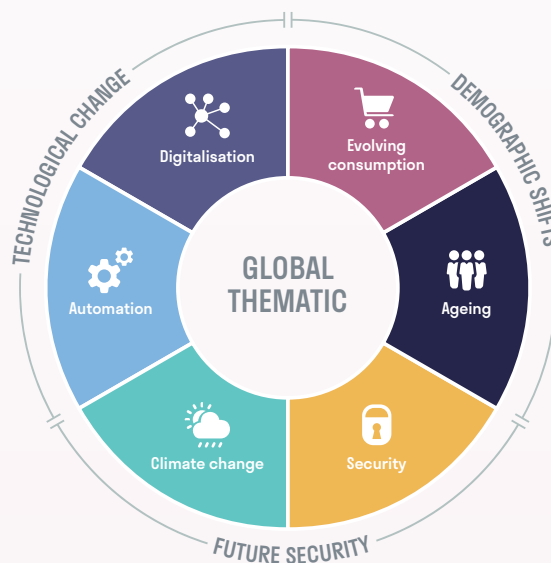
This environment comes with risks, but also opportunities. For example, companies like cybersecurity specialists Fortinet and Palo Alto Networks should benefit from increased spending on combating sophisticated cybercrime. Similarly, with businesses and governments prioritising supply chain resilience, this is creating opportunities for companies that provide reliable access to energy, food, and critical materials. This will benefit companies involved in natural resources, like Rio Tinto, and the food supply chain, like Deere.

While we see these geopolitical shifts as relevant for almost every large, listed company, some industries and businesses are naturally more resilient. This could be because they are more domestically oriented, serving a local rather than international client base. The nature of the business may also mean it has very simplified supply chains, or limited exposure to geopolitical disruptions, or could even benefit from a more sympathetic regulatory regime, as policymakers seek to protect and nurture homegrown champions. Financial services businesses, such as CME Group and J.P. Morgan

Chase, remain relatively resilient in this regard. Another example is the South America-based retailer MercadoLibre, which we view as comparatively well insulated against supply chain disruptions, potentially allowing it to benefit more from this environment than its peers.

How we group our themes

It's worth highlighting here how Security fits within our wider thematic framework. As illustrated below, you can see that our six themes are grouped into three pairs, reflecting their shared characteristics.



In brief, Technological Change covers the innovation driving enhanced economic productivity; Demographic Shifts addresses population dynamics, and evolving spending habits; while Future Security represents some of the big societal challenges facing us all. In practice, all six themes are interconnected; in the global economy, it is the complex and continuous interactions between technology, demographics, and governance that drives financial markets over the long term.

A framework for success

At Sarasin, we are firm believers that a focus on understanding the most important structural trends or themes is the best way to make sense of an ever-more complicated world. Our updated thematic framework gives us a solid foundation to explore these themes, and deliver strong returns for long-term investors.

By adding Security to our thematic framework, we acknowledge its growing importance in shaping financial markets and we equip ourselves to understand its effects thoroughly – both the challenges it creates and the investment opportunities it unlocks – as this structural change permeates the global economy.

Please do get in touch with us if you have any questions about Security, or anything to do with our thematic investment approach.

¹ <https://sarasinandpartners.com/think/why-thematic/>

² <https://sarasinandpartners.com/think/mapping-a-multipolar-world/>

KEY DRIVERS OF THE SECURITY THEME

Fundamental flaws have driven a transition from global integration to geopolitical fragmentation – reinforcing Security as a major investment theme.

Cracks in the system



Downsides of globalisation: Deindustrialisation, rising inequality and other negative externalities were left largely unaddressed in many Western democracies, fuelling populism and division.



Inflexible multilateral institutions: The UN, WTO and others failed to reflect the growing economic influence of rising powers like China and India.

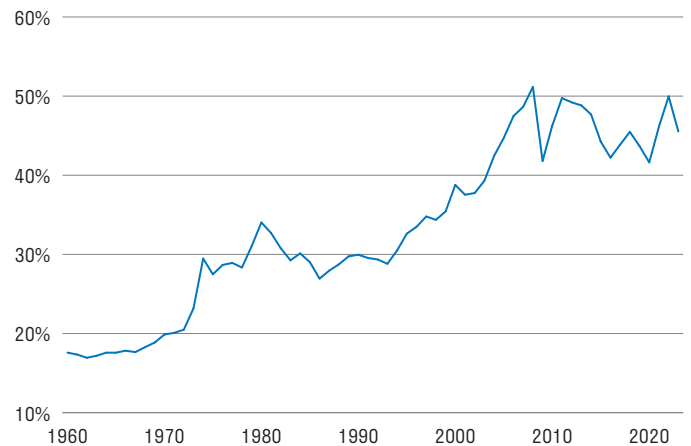


Loss of legitimacy: Collective failures – such as the global financial crisis and the pandemic – deepened scepticism towards international cooperation, particularly among younger generations grown complacent to the risks of conflict between major powers.

Pivotal events accelerating the shift

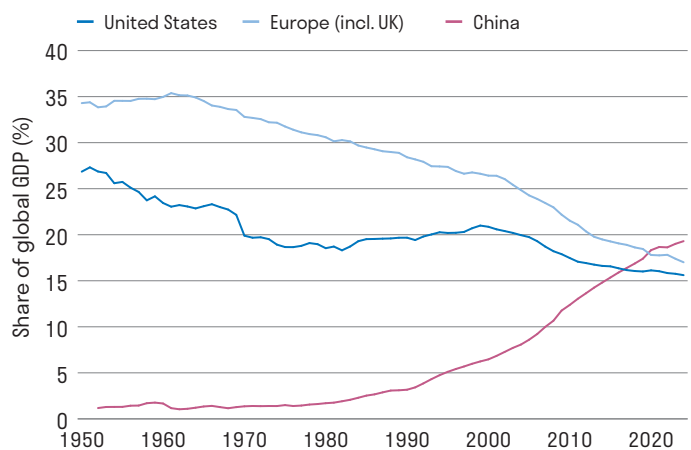
- 2003 — US invades Iraq without UN approval, undermining global institutional credibility
- 2008 — Global financial crisis exposes weaknesses in Western-led economic models
- 2009 — Failure of COP15 signals lack of global consensus on climate action
- 2013 — China's Belt and Road Initiative signals push for a new global order
- 2016 — Trump elected on a protectionist platform, challenging global norms
- 2018 — US-China trade war escalates with tit-for-tat tariffs
- 2019 —
- 2020 — Covid-19 pandemic exposes critical vulnerabilities in supply chains
- 2022 — Russia's invasion of Ukraine triggers geopolitical and energy realignments
- 2023 — Cybersecurity and defence spending reaches record highs globally
- 2025 — Trump re-elected, heightening uncertainty in international relations and trade

CHART 3.1: WORLD TRADE TO GDP RATIO 1970-2024



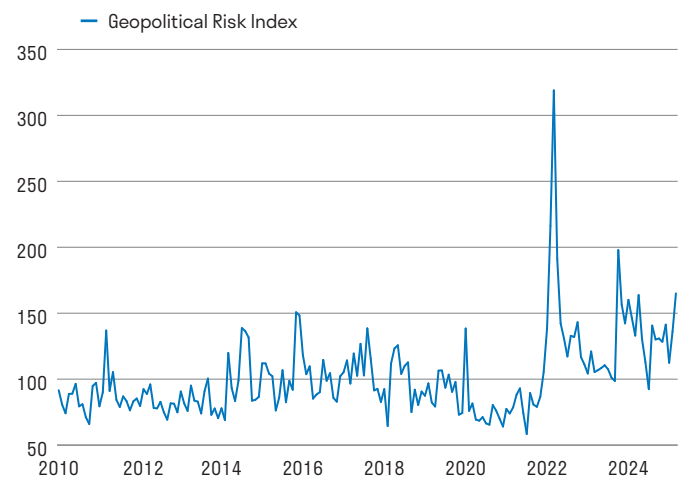
SOURCE: MACROBOND, 04.04.25

CHART 3.2: SHARE OF GLOBAL NOMINAL GDP (USD)



SOURCE: MACROBOND, 04.04.25

CHART 3.3: GEOPOLITICAL RISK IS RISING



SOURCE: MACROBOND, 04.04.25

Stewardship focus

WHY STEWARDSHIP MATTERS MORE THAN EVER



NATASHA LANDELL-MILLS
HEAD OF STEWARDSHIP

On 10 January 2025, Blackrock announced its withdrawal from the Net Zero Asset Managers' initiative (NZAM). Three days later, NZAM suspended itself, pending a review¹. Both decisions followed a letter from the US House Judiciary Committee in December to over 60 asset manager members of NZAM. It suggested that they were operating a "woke ESG cartel" by facilitating collusive action to promote "radical environmental, social and governance goals on American companies".

As we are witnessing across many industries, the ripple effects from President Trump's return to the White House are global. In asset management, proclamations of sustainability or net zero are being scrubbed from marketing material with little sign of regret. To some, it seems sustainability was often a convenient pastime that has run its course.

While greater accuracy in ESG claims has been long overdue, should we worry that the backlash against sustainability is giving way to a new era of 'anything goes'? Are asset managers quietly abandoning efforts to promote enduring economic prosperity by supporting action on climate change, biodiversity, or effective and accountable boards, because they fear unwanted scrutiny from anti-woke campaigners?

There is evidence to suggest that the pullback from ESG commitments is more than cosmetic. According to ShareAction's latest review of asset managers' voting in 2024², support for shareholder resolutions on environmental and social issues hit an all-time low. Just 1.4% of resolutions received majority support compared with almost a quarter in 2021. The shift is starkest among the four largest managers – Blackrock, State Street, Vanguard, and Fidelity (see figure 4.1). Vanguard supported no shareholder resolution last year. Together these managers accounted for an average 17% of the reviewed companies' shareholder base. They have the power to make a difference through their voting.

The fundamental forces are unchanged

The trouble with an approach of short-term self-preservation by asset managers is that it risks sowing the seeds of long-term client harm. This is because the fundamental forces shaping our lives have not changed; if anything, they are getting worse.

Climate change is accelerating. In January, the World Meteorological Organisation confirmed that we have breached the safety threshold of 1.5°C above pre-industrial times over the past 12 months. 2024 was the warmest year on record, making the past decade the hottest ever.³

Key points

- The global retreat from ESG, driven by political pressure and fear of scrutiny, risks short-term gains at the expense of long-term client value and economic resilience.
- Fundamental risks from climate change, biodiversity loss and weak governance are intensifying, making responsible stewardship more vital than ever.
- As others step back, we remain focused on supporting companies that deliver lasting value for society and challenging those whose actions threaten future prosperity.



WHY STEWARDSHIP MATTERS MORE THAN EVER

Natasha Landell-Mills, Head of Stewardship

While the consequences of our warming planet cannot be predicted with certainty, scientists at the Intergovernmental Panel on Climate Change (IPCC) are unequivocal in outlining the dangers: unabated climate change is likely to have dire consequences for humanity. It is worth reading the extract from the IPCC's most recent Assessment Report in 2022 in the box below.

IPCC summary for policymakers

The following is an extract from the IPCC's 6th assessment report, published in 2022:

Concurrent and repeated climate hazards occur in all regions, increasing impacts and risks to health, ecosystems, infrastructure, livelihoods and food (high confidence). Multiple risks interact, generating new sources of vulnerability to climate hazards, and compounding overall risk (high confidence). Increasing concurrence of heat and drought events are causing crop production losses and tree mortality (high confidence).

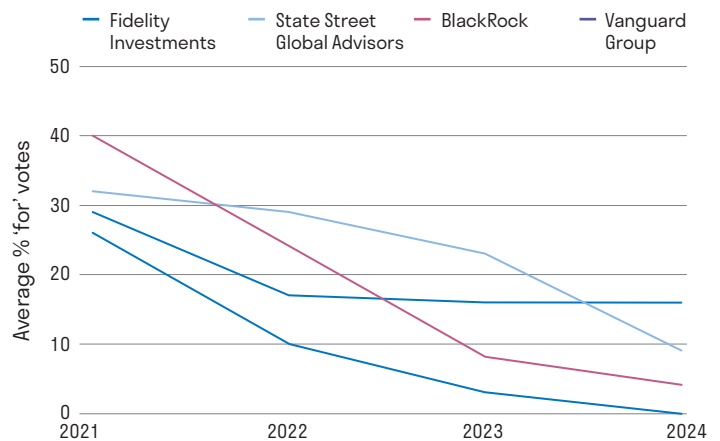
Above 1.5°C global warming increasing concurrent climate extremes will increase risk of simultaneous crop losses of maize in major food-producing regions, with this risk increasing further with higher global warming levels (medium confidence). Future sea level rise combined with storm surge and heavy rainfall will increase compound flood risks (high confidence).

Risks to health and food production will be made more severe from the interaction of sudden food production losses from heat and drought, exacerbated by heat-induced labour productivity losses (high confidence). These interacting impacts will increase food prices, reduce household incomes, and lead to health risks of malnutrition and climate-related mortality with no or low levels of adaptation, especially in tropical regions (high confidence).

Risks to food safety from climate change will further compound the risks to health by increasing food contamination of crops from mycotoxins and contamination of seafood from harmful algal blooms, mycotoxins, and chemical contaminants (high confidence).

SOURCE: IPCC.

CHART 4.1: THE FOUR LARGEST ASSET MANAGERS' SUPPORT FOR ENVIRONMENTAL AND SOCIAL RESOLUTIONS CONTINUES TO FALL



SOURCE: SHAREACTION, 18.02.2025

The World Wildlife Fund's latest report on biodiversity is equally alarming.⁴ Between 1970 and 2020, the average size of monitored wildlife populations shrank by 73%, with some regions more severely affected. Habitat degradation and loss, made worse by climate change, are raising the risk of irreversible tipping points. The Amazon rainforest, for example, could enter a 'doom loop' if 20% to 25% is destroyed – accelerating climate change as the 'lungs of the world' disappear. Currently, around 14% to 17% has been deforested.

Turning to social trends, polarisation and mental health problems are rising as technology increasingly shapes our lives. While the new Netflix series *Adolescence* highlights the issue (as did its 2020 predecessor *The Social Dilemma*), a growing body of research backs up the concerns. In June 2024, the US Surgeon General called for warning labels on social media platforms. In September 2024, the World Health Organisation underlined growing evidence of mental health consequences for children.⁵

This is not to downplay the many benefits of connectivity and digital tools – but the dangers increase when we are not alert to the risks.

When it comes to governance, the breakdown of established norms is eroding trust and raising the risk of conflict – not just between nation states but also between companies and their shareholders. A striking example was ExxonMobil's decision to sue its shareholder Arjuna Capital last year for filing a shareholder resolution on net zero alignment. The chilling effect on shareholder engagement has been palpable.⁶



Short-term gain raises risks of long-term pain

The problem is that turning a blind eye to these trends may feel liberating in the short term but does not make them go away. As investors roll back scrutiny, corporates feel emboldened to dial back their own environmental or social commitments. What began in the US is already spreading to Europe and beyond.

ExxonMobil may have gone further than peers in suing a shareholder, but European majors have hardly held the line on sustainability. Some big names have been accused of weakened climate targets under the guise of remaining competitive. Unilever, one of the largest global users of plastics, has delayed its goals – reducing virgin plastic use by 30% by 2026 instead of the previously stated 50% by 2025.⁷ Following the exit of US banks from the Net Zero Banking Alliance, HSBC announced in February it was abandoning its 2030 net zero operational target.⁸

In some ways the European playbook is worse. Many companies continue to promise sustainability, while providing false comfort and cover for inaction.

So, despite little change in the fundamental global trends, investors and corporates appear increasingly in lockstep – either abandoning core sustainability commitments or going silent; hunkering down until the dust settles. Either way, we believe the world and investors will be worse off.

FIGURE 4.2: SARASIN'S STEWARDSHIP PRIORITIES SEEK TO MITIGATE HARMFUL IMPACTS



SOURCE: SARASIN & PARTNERS

Supporting society, not harming it

Against this backdrop, our stewardship philosophy remains firm. Our long-term ownership mindset is rooted in the understanding that the world is interconnected. Activities that prosper by imposing uncompensated costs on others degrades the system, and this will ultimately undermine future prosperity. We believe that investing in a way that supports society, rather than harming it, offers the best path to long-term financial performance and better outcomes for our clients.

This does not mean every investment is perfect from a stewardship perspective. Critical to our approach is engagement with companies and others to support sustainable behaviour, while challenging harmful practices.

Stewardship suffers in silence

The post-war political order is breaking, and we do not yet know if, or where, a new equilibrium will be established. However, the future doesn't just happen to us – it is shaped by us. As investors, we have a key role and responsibility to act in ways that serve our clients' long-term interests. We believe that this will not be achieved by ignoring major social and environmental trends, or by neglecting good governance. As we see peers stepping away from stewardship, we want to reassure our clients that we remain committed to speaking out on the issues that matter.

¹ www.sarasinandpartners.com/stewardship-post/our-commitment-to-sustainable-investment-outcomes-net-zero-asset-managers-nzam-initiative/

² www.shareaction.org/reports/voting-matters-2024

³ <https://wmo.int/news/media-centre/wmo-confirms-2024-warmest-year-record-about-155degc-above-pre-industrial-level>

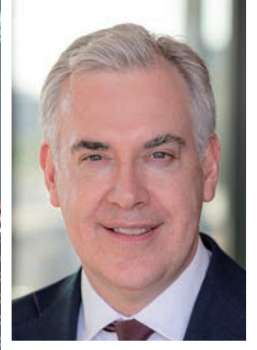
⁴ www.worldwildlife.org/publications/2024-living-planet-report

⁵ [www.europarl.europa.eu/RegData/etudes/ATAG/2024/762422/EPRS_ATA\(2024\)762422_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2024/762422/EPRS_ATA(2024)762422_EN.pdf)

⁶ You can read our statement on the Exxon case at <https://sarasinandpartners.com/stewardship-post/corporate-litigation-risks-weaker-board-oversight>

⁷ www.unilever.com/news/news-search/2025/unilever-sees-early-signs-of-progress-on-sustainability-goals/

⁸ www.hsbc.com/who-we-are/our-climate-strategy/our-net-zero-transition-plan



**ALEX
BARR**



**JAMES
WITTER**

PARTNERS,
HEADS OF SARASIN BREAD STREET

Investment focus

WHERE PRIVATE EQUITY IS FINDING TOMORROW'S WINNERS

For informative purposes only. Private markets investments are high-risk investments. Investors should seek appropriate advice before considering any investment into private markets.

Key points

- A shifting global landscape is creating new investment opportunities in key sectors such as technology and AI, industrial and business services, and healthcare and tech integration.
- There are several ways for investors to access private markets, with investment trusts being among the most popular.
- Private equity growth has been driven by a combination of fewer public companies, lower volatility, access to attractive differentiated investment themes, and strong historical performance.

Following the events of 2025's first quarter, and particularly President Trump's 2 April 'Liberation Day' announcements, it feels like we can safely say we find ourselves in a new era of global disruption and change.

With the World Uncertainty Index¹ already approaching January 2020 levels, we are navigating through extreme tariff rhetoric and volatile 'seesawing' on trade policy, a significant reset of the US's relationship with Europe, and growing concerns around Western economic confidence and growth. But that is just one side of the ledger; counterbalancing all this is a widely accepted view that artificial intelligence (AI), and its rapid impact on business efficiency and opening up of new ways of doing business, is likely to herald a long-term productivity boom that could be as consequential as the Industrial Revolution and the invention of the World Wide Web.

We see private markets as being in the vanguard of this wave of innovation and technological change, presenting exciting opportunities for investors. With private markets valuations remaining stable, robust deal activity levels and product innovation, this is a space worth exploring.

Understanding private markets

Following on from Alastair Baker's introduction to the sector in the Q4 2024 edition, it's worth recapping how private markets work and how they can be accessed. Private markets are made up of a variety of asset classes, including private equity, private debt, real estate, and more. We see these markets as akin to a spice market of old – rich with diverse and interesting opportunities. Just as traders would find a variety of flavours, investors in private markets can access different types of assets not always readily available in public markets. This diversity offers investors the chance to 'season' their portfolios according to their risk appetite and return objectives. It allows for customised strategies that match an investor's clearly defined investment goals, sitting in portfolios alongside traditional asset classes.

Private markets have undergone significant growth in recent years. Total assets under management (AUM) in private markets have more than tripled, climbing from \$4trn in 2013 to nearly \$15trn in 2023². To put this into perspective, in 2023, the total size of global public equity markets was approximately \$115trn, meaning private markets are about 13% of the size of public markets³. This expansion has been driven by multiple factors, including the increasing demand from institutional investors such as pension funds and endowments. These investors are attracted by a number of opportunities e.g. private credit for its high-yield opportunities, the stability of contractual returns offered by infrastructure assets and the potential for good profits generated by the active ownership model employed by private equity firms.

Key growth drivers in private equity

The largest asset class within private markets is private equity, which itself takes several forms, ranging from buyout to venture investing, and we highlight below four key drivers behind the growth of private equity:

1. Shrinking number of listed companies

The number of publicly listed companies, especially in the US, has been shrinking. Fewer high growth companies are opting to go public and instead are choosing to stay in the private realm, a phenomenon we call '*private for longer*'. They are financing their growth from the private equity and debt markets, while others are delisting and being taken private. This shrinking pool of public companies is not only contributing to the increasing concentration of public equity markets but also means that private equity firms are increasingly investing into high-growth companies at this phase of value creation – an opportunity set for investors that is now less readily available in public equity markets.

2. Lower volatility

Private markets exhibit less price volatility than public markets. Public markets are subject to rapid information flow, constant commentary and emotional reactions, often resulting in large price fluctuations – something that has been very apparent through this year's first quarter. In contrast, private markets, with their less frequent quarterly valuations and focus on long-term value creation, offer a more stable investing journey. While this doesn't mean there is less underlying risk, the smoothed valuation evolution can provide investors with a source of pricing stability in their portfolios. However, this does come at the cost of private investments being illiquid for extended periods.

3. Access to unique investment themes and talent

One area where private equity targets rapidly growing companies is in specialist sectors such as fintech and AI. These themes represent part of what will inevitably be the future of business and technology, and private equity investors are increasingly focused on these areas. Additionally, private equity firms often bring in turnaround CEOs with proven track records to revitalise established businesses and use their capital markets expertise to optimise capital structures and maximise returns for investors. This combination of attractive investment themes and high-quality talent and expertise has helped private equity to generate value over the long term.

4. Strong historical performance

One reason private equity has attracted capital is its strong historical performance both on an absolute basis and relative to public equity markets. For example, the aggregated growth of the Net Asset Values (NAVs) of UK listed global private equity investment companies shows a return of 15.4%⁴ per annum over the last decade – outperforming the MSCI AC World Index by 2.7% per annum⁵. While this past performance clearly shows the ability for private equity to outperform traditional public market investments, it does of course come with several caveats and there is no guarantee that this will be repeated over the next decade.

Emerging sectors for future growth

Looking ahead, we see several key sectors that have the potential to drive substantial future returns in portfolios. With the global landscape changing rapidly, major geopolitical events already underway, technological advancements, and demographic shifts creating new investment opportunities, here are some sectors to watch:

1. Technology and AI

The AI revolution is transforming industries across the globe. With global AI investment widely believed to already be at the \$200bn⁶ level, the potential for growth in this sector remains significant. Private equity firms are increasingly backing companies in AI and related fields. For example, Anthropic, an AI research company, is backed by private equity and is known for its work on large language models similar to OpenAI's ChatGPT. As such the continued advancements in AI present a transformative opportunity for private equity investors.

2. Industrial and business services

The industrial and business services sector offers stable, recurring revenues and significant consolidation opportunities. Private equity firms are investing in companies like Service Logic, a HVAC (heating, ventilation and air conditioning) provider, which is utilising cutting-edge technology to improve data entry by field engineers. Such innovations are driving efficiency and growth in an otherwise traditional sector, making it an attractive target for investment.

3. Healthcare and tech integration

Healthcare is a sector ripe for disruption, and technology integration is key to its transformation. One standout example is One Medical, a tech-enabled primary healthcare organisation that was previously backed by leading private equity manager Carlyle and later acquired by Amazon. With the healthcare industry facing increasing costs, the integration of technology to streamline service delivery presents a significant growth opportunity for investors.

Accessing private equity

Given the long-term and illiquid nature of private equity investments, many investors are unfamiliar with how to access this asset class. There are several potential routes, each offering varying levels of risk, liquidity, and return potential. Some of these routes include:

1. Listed investment companies

One of the most convenient ways to access private equity is through listed investment companies, more commonly referred to as investment trusts. These companies typically invest in a diversified portfolios of private equity investments and are traded on public exchanges. This structure offers a degree of liquidity and diversification, but comes with the risk that the shares may trade at a discount to the underlying NAV. While this can be advantageous when buying shares, it can be a serious disadvantage when selling and the discount has widened.

WHERE PRIVATE EQUITY IS FINDING TOMORROW'S WINNERS

Alex Barr and James Witter, Partners and Heads of Sarasin Bread Street

2. Semi-liquid private equity funds (evergreen funds)

A new route that has developed over the last two to three years is through semi-liquid private equity funds, also known as evergreen funds. These funds provide periodic windows for investors to redeem their investments, offering partial liquidity while still providing exposure to private equity. Some investors have concern over the possibility of redemption gating in the future and the potential for returns to be reduced by the need to hold cash to provide liquidity, and this is something to be aware of.

3. Traditional illiquid strategies

For more knowledgeable investors, traditional illiquid strategies like limited partnership funds offer direct access to private company investments. These funds typically require higher minimum investment amounts and can create operational challenges when incorporated into traditional listed equity portfolios. However, they do provide a long-term, illiquid investment that can be well suited to investors seeking significant capital growth over extended periods.

Attractive opportunities for suitable investors

Private equity offers attractive opportunities for growth, portfolio diversification, and long-term value creation. Despite the challenges of today's world, private equity has continued to grow at an impressive rate, driven by a combination of fewer public companies, lower volatility, access to attractive differentiated investment themes, and strong historical performance.

¹ The World Uncertainty Index is a measure that tracks uncertainty across the globe by text mining the country reports of the Economist Intelligence Unit

² Bain 2024 Global Private Equity Report, March 2024

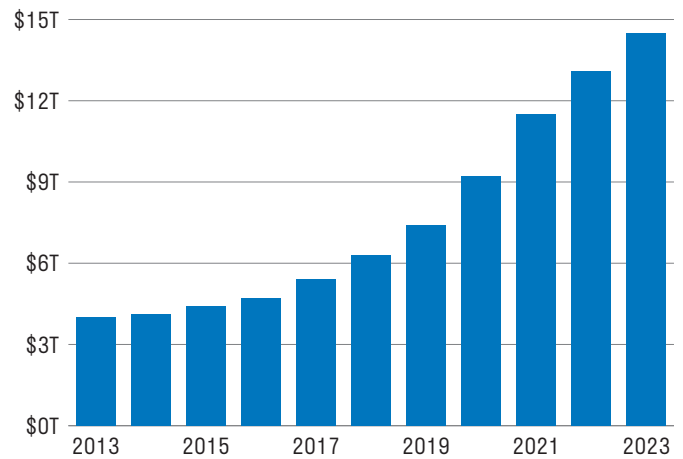
³ Various sources, Sarasin Bread Street research

⁴ Source, Numis, GBP, total return basis, as at 15/2/2025

⁵ ibid

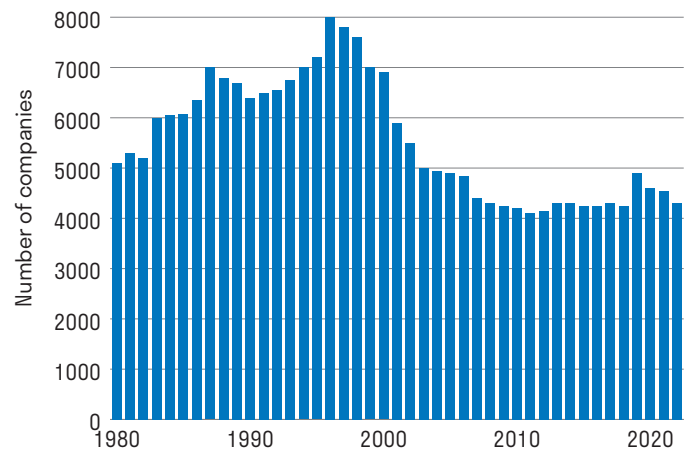
⁶ 2023 Goldman Sachs research forecasting \$200bn by 2025

CHART 5.1 PRIVATE MARKETS ARE GROWING



SOURCE: BAIN, Q2 2023

CHART 5.2 PUBLIC MARKETS ARE SHRINKING



SOURCE: WORLD BANK AND STATISTA, BLUETRUST, SEPTEMBER 2023

Charity focus

COULD YOUR CHARITY BENEFIT FROM TAKING A 'TOTAL RETURN' APPROACH?

Permanently endowed charities have the choice: whether to restrict spending to just income generated or to adopt a total return approach. In this article we outline the benefits of the latter.

Trustees face a balancing act to ensure they generate sufficient income for current beneficiaries, while growing income over time so that future beneficiaries have the same spending power, after the effects of inflation.

In the past, a charity with permanently endowed capital was restricted to only being able to spend its income. This put it at a disadvantage to unrestricted charities, where trustees had the flexibility to spend both the income and capital.

From a legal perspective, Section 4 of the Trusts (Capital and Income) Act 2013¹ amended the Charities Act 2011 to give permanently endowed charities the power to adopt a total return approach to investment, while preserving a charity's permanent endowment. In addition to spending income, trustees can spend some of the capital gains provided the initial capital value rises with inflation over the long term.

Embracing a total return approach to investing allows for a more diversified portfolio with less dependence on income-generating assets and potentially better overall performance, while giving trustees more flexibility as to how they meet their long-term spending requirements. This approach does not automatically skew a portfolio into low-yielding assets, but it provides the flexibility to invest in them.

Why choose a total return strategy?

Our experience in the sector tells us that an investment portfolio invested over multiple decades which had only spent its natural income would have likely generated excess capital. Moreover, most projections of total returns by fund managers and consultants suggest a 'real' return (after inflation) in excess of the income yield is likely. Consequently, many trustees opt to adopt a total return withdrawal or spending policy, recognising that the level of withdrawals required to meet the needs of both current and future beneficiaries often exceeds the income generated.

In our view, a total return spending policy will almost certainly be necessary if the charity's investment portfolio has a large allocation to international equities, private equity, commodities, or other asset classes where the lower level – or absence – of dividend distributions means that income yields are a small or negligible part of the overall total return.



**OCTAVIA
THOMSON**

INVESTMENT MANAGER

Key points

- With a total return approach, trustees can spend some capital gains, provided the initial capital value rises with inflation over the long term.
- This approach is helpful if a portfolio has large allocations to low or non-yielding assets, such as international equities, private equity or commodities.
- Trustees should agree a spending model in keeping with the absolute and real returns they expect their asset mix to generate over the medium to longer term.



COULD YOUR CHARITY BENEFIT FROM TAKING A ‘TOTAL RETURN’ APPROACH?

Octavia Thomson, Investment Manager

Long-term charity portfolios in our experience typically yield around 2% – 2.5%. That said, there are a variety of styles: some may yield only 1.5%, while others could yield 3.5% to 4%, depending on the investment philosophy, tactical approach, and methods employed by each investment manager.

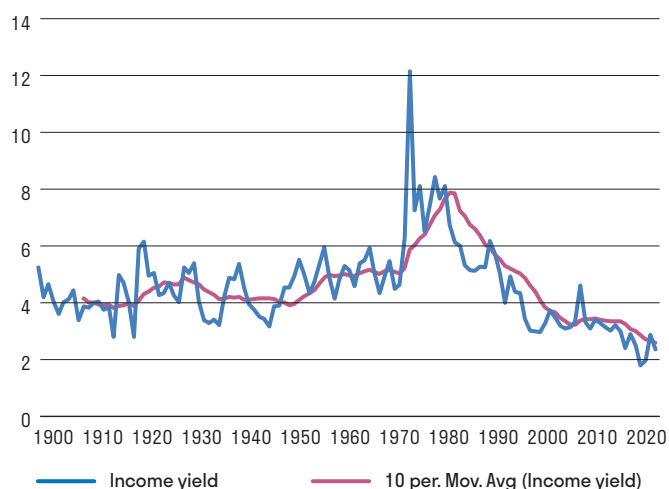
Ultimately, the extent to which capital can be spent beyond the natural income stream will depend on the total return generated by the portfolio and the proportion of that return made up of natural income.

For example, a portfolio may generate an expendable return of 4% per annum (after inflation and costs). But, if invested in-line with market averages, may only yield 2.5% in income.

- A total return investor could top up the 2.5% income, with 1.5% of capital.
- A permanently endowed charity not taking a total return approach, either has to generate a yield premium, such that the same asset mix yields 4% (taking on more concentration risk) or be satisfied to spend less on current beneficiaries.

If trustees choose to adopt a total return approach to spending before a capital buffer has been built up, they will need to fully understand 1) the absolute return that is likely to be achieved from their portfolio; 2) the expendable return that might be delivered after taking account of inflation and investment management costs; and 3) how the natural income will relate to the expendable return.

FIGURE 6.1 HISTORY OF INCOME YIELD ON THE ENDOWMENTS MODEL PORTFOLIO (%)



SOURCE: BARCLAYS EQUITY GILT STUDY, MSCI INC, SARASIN & PARTNERS

Past performance is not a reliable indicator of future results and may not be repeated.

What is the correct spending level?

There is no definitive answer, as it depends on a range of factors. A portfolio's asset allocation plays a key role in determining its long-term return, and historic trends show that higher levels of risk typically result in higher potential returns². Therefore, a portfolio with a sufficiently long investment horizon and the capacity to handle risk (or short-term volatility) should be able to support higher spending than a portfolio with a larger allocation to more defensive assets.

Another important consideration is inflation. The higher the inflation rate, the more capital must be reserved for the future, which in turn reduces the amount available for spending today. While global inflation has fallen from the heights of 2022, central banks remain cautious about cutting interest rates too quickly, given the persistence of inflationary pressures. In the UK, the headline Consumer Prices Index of inflation, came in at 2.6% in March, still above the Bank of England's 2% target.³

The premise behind adopting a total return policy is that it allows for the spending of some capital gains, in addition to the natural income flow. However, this has not always been the case. There have been periods in history when a portfolio's income exceeded its real return, and during such times, it would have been prudent to reinvest some of that income.

Figure 6.1, taken from Sarasin's *Compendium of Investment*, illustrates the income yield on a typical endowment portfolio with a long-term spending level of 4%⁴. It shows that there are periods when reinvesting some of the income is necessary (such as in the 1960s, 70s, and 80s), and other times – like the current period – when it is necessary to spend some of the excess capital in order to maintain the desired spending levels.

Figure 6.2 shows the returns produced by the same endowment model in each decade since 1900 from an absolute, real, and expendable (after costs) basis. It also shows the income yield that such a portfolio might have produced during each decade. It shows that there have been three decades when spending any element of the return would have resulted in a reduction in the real value of the assets over the decade: the 1910s, the 1970s, and 2000s.

In the 1900s, 1930s, 1940s, and 1960s, the average expendable return was about 2.4% per annum, which was typically lower than the income generated by the portfolio's natural asset allocation, requiring reinvestment of a portion of the income to maintain the real value of the portfolio. In contrast, during the 1920s, 1950s, 1980s, 1990s, and 2010s, the average expendable return was approximately 8.6% per annum, allowing for an additional 4% or so to be withdrawn from the portfolio's capital, beyond the income generated.



What this exercise draws out is a pattern of distinct feasts and famines. While it is interesting to note the discrete experience within each decade, it is also worth considering the experience of those who stayed invested through multiple cycles.

Taking the violent swings in markets, which are exacerbated by spending plans, we would make the following observations in terms of how this historic data can help us navigate the future. As other studies have shown, no formulaic spending plan guarantees success. You cannot assure year-on-year growth in expenditure in either absolute or real terms, nor can a formulaic spending model avoid overspending in a downturn.

This is the case whether one withdraws:

- just the natural income generated by the portfolio.
- an initial sum which is increased by inflation each year.
- a fixed percentage of the year-end capital value of the portfolio.
- a fixed percentage of the three or five-year rolling average year end capital value.
- any combination of the above.

We would recommend that investors operate a model for spending that is in keeping with the absolute and real returns they expect their asset mix to generate over the medium

to longer term. However, we would warn against applying such a model too rigidly, regularly reviewing the impact of withdrawals, fees, inflation and market returns on the real capital value of the portfolio. Moreover, given the volatility of markets, there will surely be moments when investors will need to hold their nerve and persevere. Markets have a strong self-righting mechanism and it can be seen that spending 3.5% to 4.5% per annum has, over the longer term, allowed investors to maintain the real value of their capital.

Delivering discipline

There is little doubt that adopting a total return policy provides charity investors with greater freedom and the ability to invest more widely in lower-yielding asset classes. While it might be easiest to have your investment manager take control of your spending policy, we would suggest that this is something that should be owned by trustees. On balance, we believe that a total return approach will yield better overall results. Please do get in touch with a member of our Charities team if you wish to discuss your options.

¹ www.legislation.gov.uk/ukpga/2013/1#

² www.foa.org.uk/investsmart/risk-returns

³ www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/march2025

⁴ <https://sarasinandpartners.com/compendium/>

FIGURE 6.2 ENDOWMENTS MODEL RETURNS, YIELDS AND EXPENDABLE WITHDRAWALS OVER DISCRETE DECADES (% ANNUALISED)

Time period	Total absolute return	Inflation	Real return	Expendable return	Average income yield	Re-invest or spend capital
1900s	2.4	1.3	1.1	0.5	4.2	-3.7
1910s	5.0	8.3	-3.0	-3.6	3.9	-7.5
1920s	5.9	-2.9	9.1	8.4	4.9	3.4
1930s	4.2	0.4	3.8	3.1	4.2	-1.1
1940s	5.4	2.8	2.5	1.8	4.0	-2.2
1950s	13.1	4.1	8.6	7.9	5.0	3.0
1960s	8.7	3.7	4.9	4.2	5.1	-0.9
1970s	12.4	13.1	-0.6	-1.2	7.0	-8.2
1980s	21.1	6.9	13.2	12.5	6.1	6.4
1990s	13.1	3.5	9.2	8.5	4.4	4.1
2000s	2.5	2.3	0.2	-0.5	3.5	-3.9
2010s	8.9	2.2	6.5	5.8	3.0	2.9
2020s	6.2	5.1	1.1	0.4	2.3	-1.9
Since 1900	8.3	3.7	4.4	3.8	4.5	-0.8

SOURCE: BARCLAYS EQUITY GILT STUDY, © ELROY DIMSON, PAUL MARSH & MIKE STAUNTON, SARASIN & PARTNERS LLP

ASSUMPTIONS: TOTAL RETURN GENERATED BY ENDOWMENTS MODEL. COSTS ASSUMED TO BE 0.65% PER ANNUM. INCOME YIELDS AND INCOME ASSUMED TO BE THE AVERAGE OF EACH ASSET CLASS EACH YEAR.

Past performance is not a reliable indicator of future results and may not be repeated.

PORTFOLIO PERSPECTIVES

In March, we launched a new video series for charity trustees, Portfolio Perspectives, which offers timely insights and updates from Sarasin & Partners' investment team. Each episode explores the key issues shaping our thinking and how they influence the way we manage long-term, multi-asset portfolios for charity investors.

In the first episode, Tom Santa-Olalla, Senior Associate Partner, sits down with Phil Collins, our Chief Investment Officer for Multi-Asset, to discuss how we're positioning portfolios in light of the latest developments in the US. With the return of a Trump administration, investors have been facing renewed uncertainty around tariffs, fiscal policy, and inflation.

Phil explains how we have responded to these shifting dynamics – increasing our focus on quality assets – as well as the rationale behind recent changes in our tech holdings. In particular, we have moved away from semiconductor manufacturers like Nvidia and Broadcom, and towards software providers such as Microsoft and Fortinet, which

we believe are better positioned to benefit from long-term AI-driven growth. The conversation also covers the wider investment landscape, including how we're thinking about opportunities beyond the US, and the role of alternative assets such as infrastructure, private equity, and gold in helping to build resilience within diversified portfolios.

With central banks carefully managing interest rates and navigating inflationary pressures, and global supply chains adjusting to new geopolitical realities, the discussion provides useful context for trustees considering how we balance risk and return over the long term.

Watch the full video at www.sarasinandpartners.com/think/portfolio-perspectives-trump-his-tariffs-and-how-were-tilting-portfolios-in-tech

Look out for the next episode in the series, coming this summer.



EVENTS

In 2025

Visit our website, sarasinandpartners.com for more information.

Spring Investment Seminars 2025

Over two days in March, we welcomed a number of you to our flagship event in London, which this year was built around the theme of 'Tearing up the Rulebook'.

A number of speakers from across the business examined the shifting global landscape, and how our thematic investment approach aims to cut through the political noise, positioning portfolios for opportunity amid complexity and change.

A huge thank you to all those who came to what proved to be an illuminating couple of days; we were very pleased to welcome you. Please do give us your feedback on the event, and look out for our future updates, training, and virtual events coming over the course of this year.

You can review the slides and watch video coverage on our dedicated web page at sarasinandpartners.com/event/spring-seminars-2025/



- 3 June** Charity Investment Training and Economic Update
Gonville Hotel, Cambridge
- 17 June** Charity Investment Training and Economic Update
Merchant Adventures Hall, York
- 16 September** Responsible Technology Seminar, Juxon House
- 1 October** Investment Dinner, Bowcliffe Hall, Wetherby
- 9 October** Charity Investment Training and Economic Update
Park Gate Hotel, Cardiff
- November (tbc)** Impact Investment, Workshop, Juxon House

Foundation Charity Investment Training

VIRTUAL SESSIONS

7 October

IN-PERSON SESSIONS – LONDON

17 June

14 October

Advanced Charity Investment Training

VIRTUAL SESSIONS

18 November

IN-PERSON SESSIONS – LONDON

1 May

9 September

4 November

How to register

To join any of our events or for more information, please scan below, visit our website, sarasinandpartners.com, or contact our events team at events@sarasin.co.uk.



Save the date

Charity Funds Annual Review – Virtual event

11 November

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