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Charity Investment Training online for CFG

Understanding your Investment Responsibilities
July 2020

If you are a private investor, you should not act or rely on this document but should contact your professional advisor.

Sarasin & Partners LLP

Our speakers: Melanie Roberts, Ruadhri Duncan & Tom Lindsey

Melanie Roberts, Partner, Charities

Prior to joining Sarasin & Partners in 2011, Melanie spent 16 years at Newton Investment Management as a fund manager of charity, private client and pension fund portfolios. She qualified with a degree in Modern Languages from Durham University and is an Associate of the Chartered Institute for Securities and Investment. Melanie is primarily responsible for the management of charity and pension fund portfolios and is the current Editor of the House Report.

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Ruadhri Duncan, Partner, Charities

Ruadhri has over 20 years in the fund management industry where he has operated as both a fund manager and a charity trustee. After leaving the Army he started work with Leopold Joseph and Sons where he completed his fund management exams. In 1999 he moved to Newton Investment Management, where he worked within the charities department for over 12 years, managing charitable funds. Ruadhri is an associate of the Chartered Institute for Securities and Investment and holds a number of charity trusteeships.

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Thomas Lindsey, Associate Partner, Charities

Prior to joining Sarasin & Partners in 2017, Thomas worked for Standard Life Investments managing multi-asset and absolute return portfolios for corporate pension schemes and institutions. He graduated from the University of East Anglia in 2011 with a degree in English Literature & Philosophy. Thomas is a CFA Charterholder®, a holder of the Investment Management Certificate (IMC), the CISI Capital Markets Program and is a member of the Chartered Financial Analyst Society of the UK. Thomas is also a trustee of the Jeevika Trust, an Indian poverty relief charity seeking to implement smart technologies to address rural food scarcity & mitigate the impact of climate change.

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The aims of this course

- To understand the **fundamental drivers of the return** from the main asset classes
- To look at the **risk and performance characteristics** of the asset classes
- Understand how they work in **a multi asset portfolio**, looking at future returns and income levels to be applied to your own charity's circumstances
- To enable you to help design/enhance your charity's **Investment Policy Statement**

The 4 training sessions

Session One

- Investment Powers
- Introduction to the Compendium of Investment
- The Investment Universe:
  - Bonds

Session Two

- The Investment Universe:
  - Equities
  - Private Equity
  - Property
  - Alternatives

Session Three

- Charity Investment in Practice

Session Four

- Building an Investment Policy Statement

01 Why charities own investments

Why do we own investments?

To grow capital ahead of inflation…

…whilst generating a (growing) income stream to carry out your objectives…

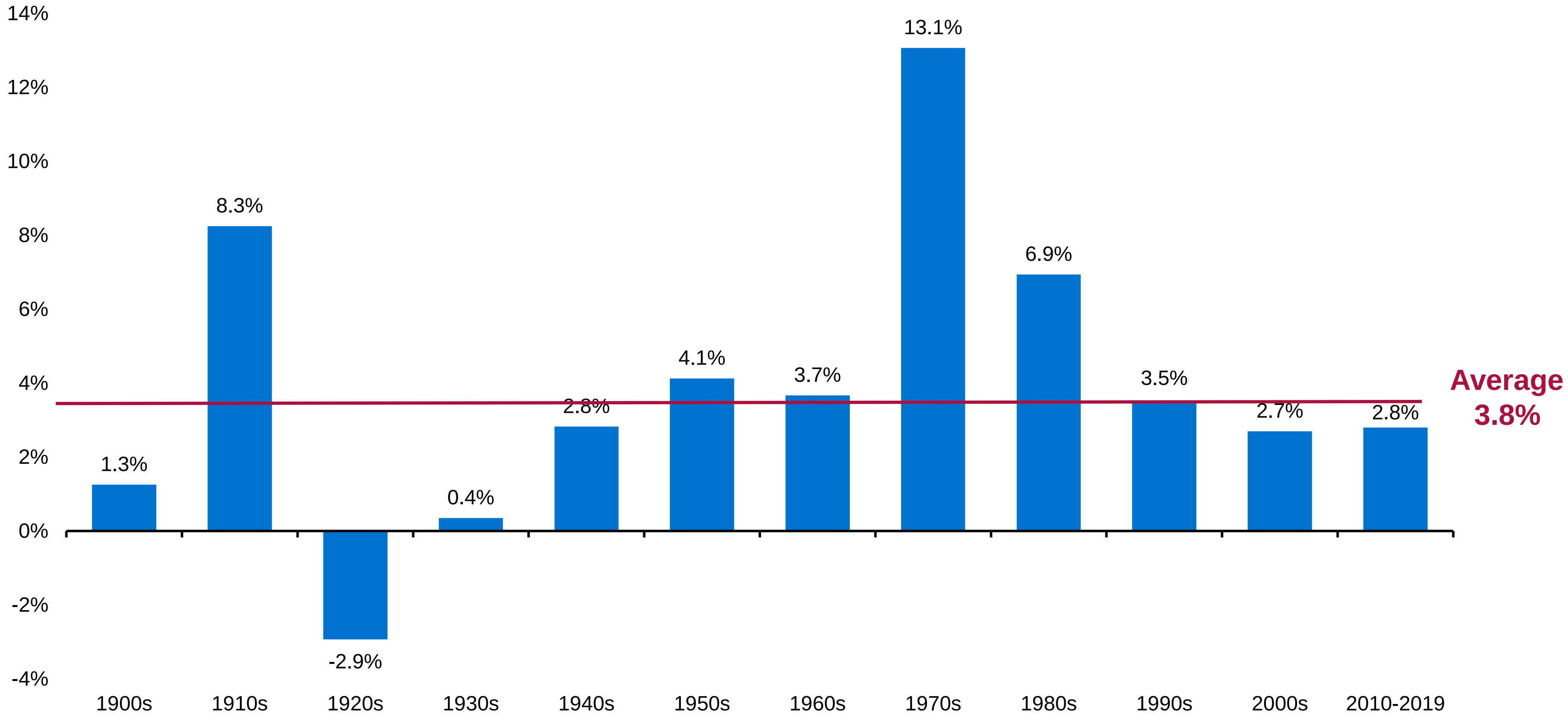
…through a diversified stream of assets

Source: Sarasin Compendium of Investment 31 December 2019

Why do long-term investors worry about inflation so much?

... because it is probably your biggest risk

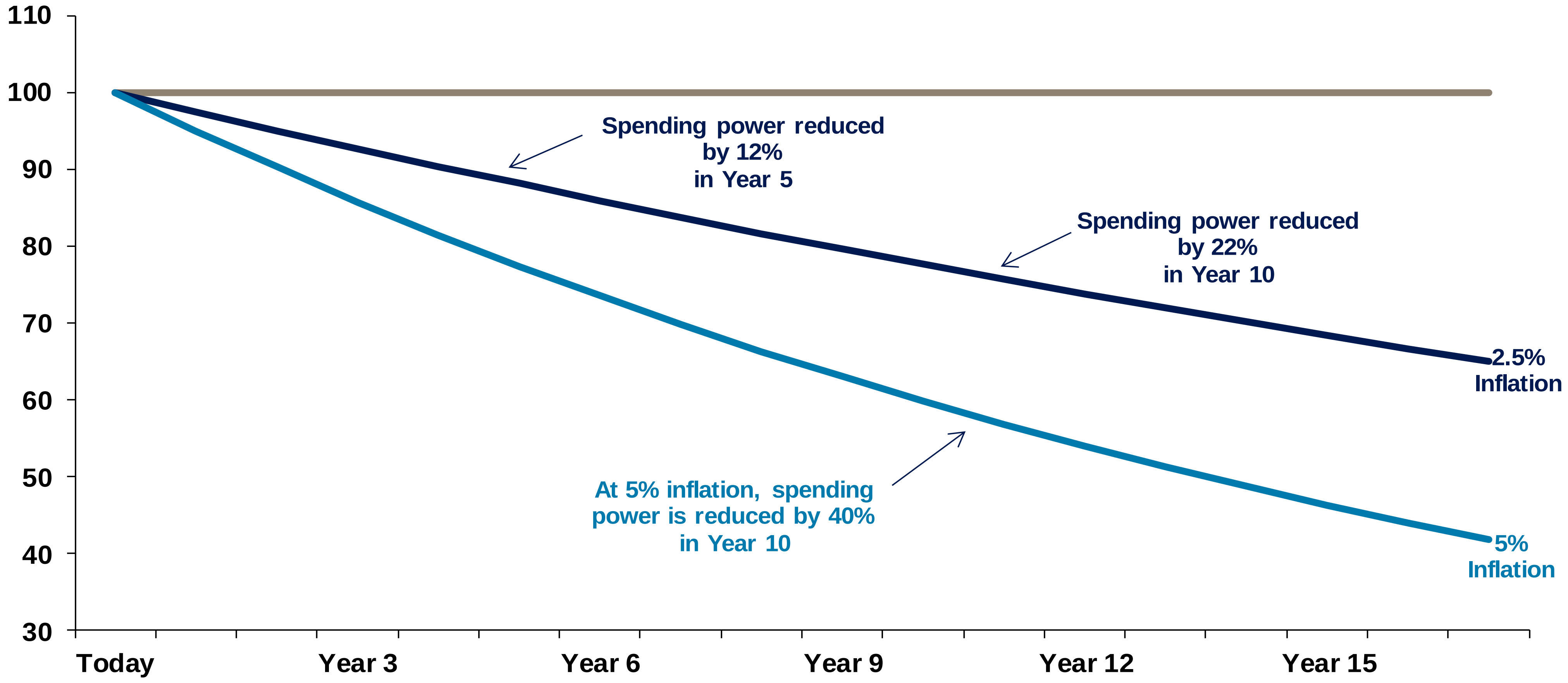
Average UK Retail Price Inflation Per Decade %



Source: Sarasin Compendium of Investment 31 December 2019

The impact of inflation

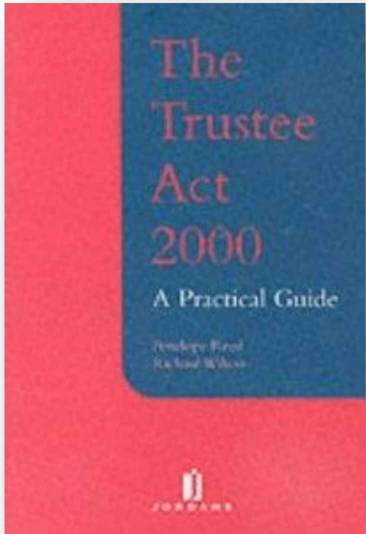
Inflationary impact

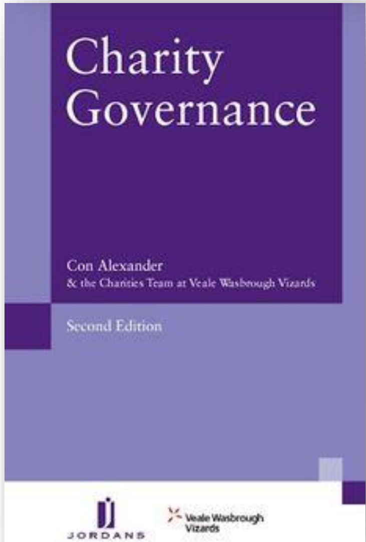


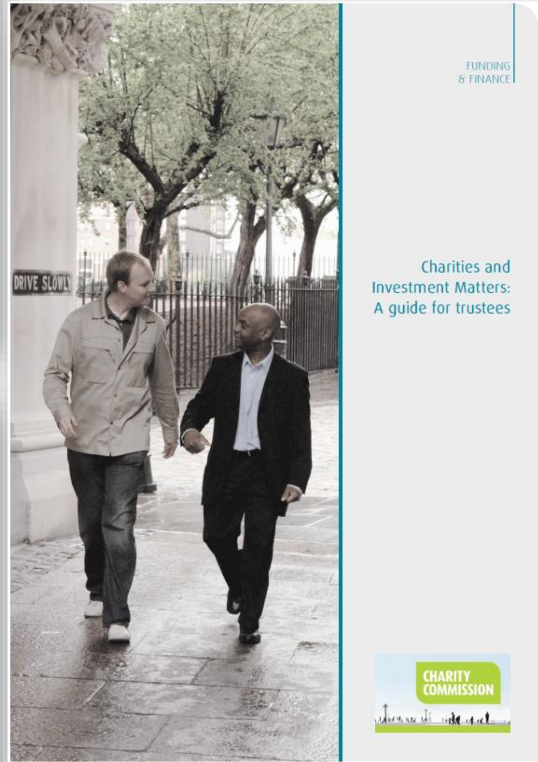
This chart is for illustrative purposes only.
Source: Sarasin Compendium of Investment 31 December 2019

Investment Powers

- The Trustee Act 2000 provided charities with wide investment powers via a 'general power of investment'
- Subject to a 'duty of care', trustees may now invest as widely and freely as they can with their own money
- But check your constitutional document to ensure this is true for your charity and that there are no restrictions, such as permanent endowment – if in doubt, ask your lawyer
- Trustees' Duty of Care:
  - Take proper advice
  - Apply the Standard Investment Criteria:
  - Are the investments suitable?
  - Are they sufficiently diversified?







www.charitycommission.gov.uk

The Investment Universe

The Sarasin Compendium of Investment

Our reference manual for Trustee Training

Updated with data to
31st December 2019

Your investment universe

Assets to consider when constructing a diversified portfolio

Core Asset Categories

- Cash
- Government bonds
- Corporate bonds
- Inflation-linked bonds
- UK equities
- Global equities
- UK property

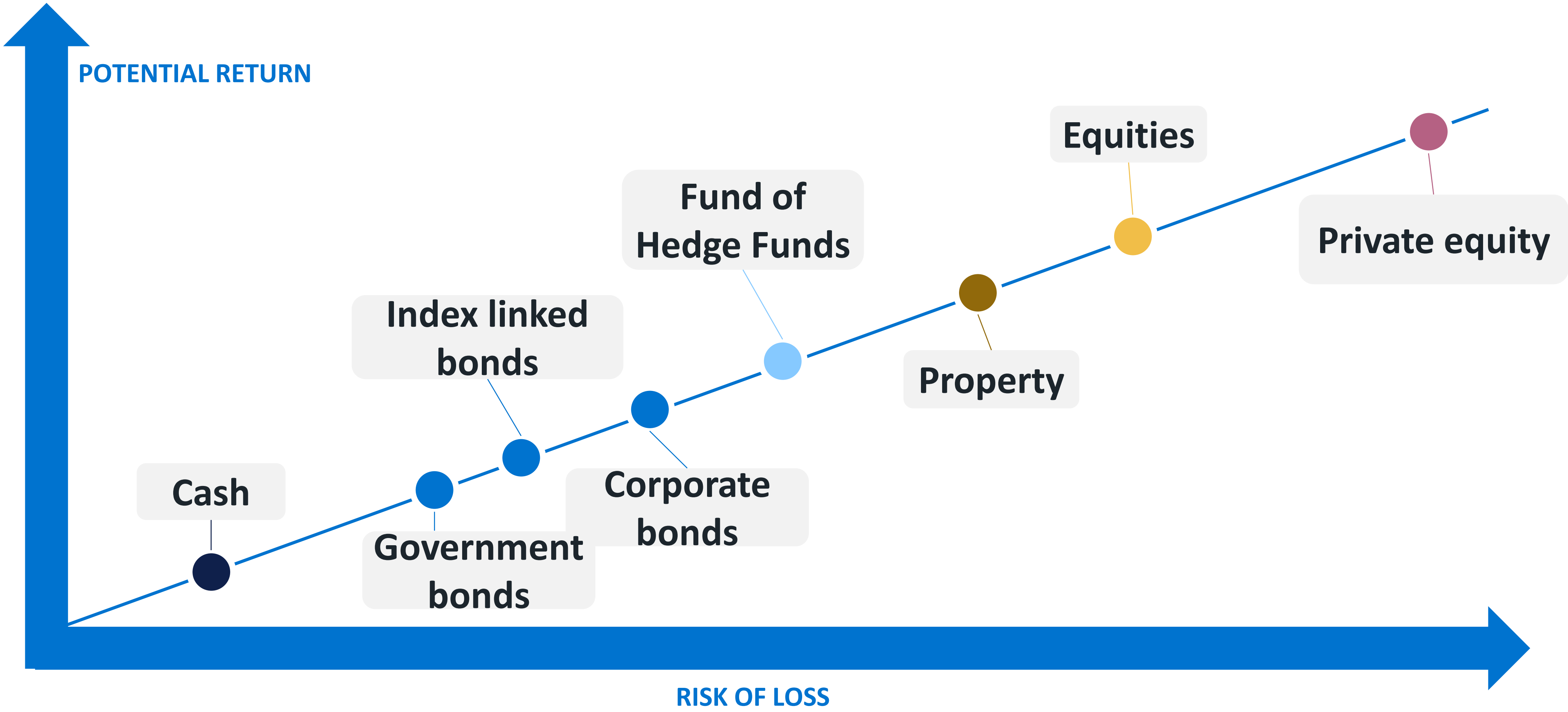
Peripheral Asset Categories

- Global property
- Private equity
- Hedge funds
- Commodities
- Infrastructure
- High yield bonds

Source: Sarasin Compendium of Investment 31 December 2019

Where to invest

The asset universe risk-return characteristics



Please note this is a diagrammatical chart and does not represent actual risk and return

Source: Sarasin & Partners LLP.

Average UK annual returns

COMPENDIUM Table 1.1

Average Annual Return (%)	Equities	Gilts	Cash	Inflation
Last 5 years	7.6	3.9	0.5	1.6
Last 10 years	8.1	5.4	0.5	2.2
Last 25 years	7.8	6.9	3.4	2.4
Since 1900	**9.3**	**5.2**	**4.6**	**3.7**

Past performance does not guarantee future returns.

Source: Sarasin & Partners LLP, Sarasin Compendium of Investment 2020

Long-term UK investment returns (£)

	Year	Equities	Gilts	Cash	Inflation
Wall Street Crash	1929	-10.4	-1.3	5.4	-0.6
	1930	-10.0	12.8	2.5	-7.2
Post World War 2	1947	0.5	-13.8	0.5	3.2
	1948	-1.2	0.8	0.5	4.9
	1949	-10.7	-8.5	0.5	3.5
1970s Oil Crisis	1973	-24.3	-6.7	9.0	10.6
	1974	-48.8	-10.5	12.6	19.1
	1975	145.6	34.0	10.8	24.9
Dot Com Crash	2000	-5.9	8.7	6.2	2.9
	2001	-13.3	3.0	5.4	0.7
	2002	-22.7	9.2	4.0	2.9
Financial Crisis	2008	-29.9	12.8	6.3	4.1
	2009	30.1	-1.2	1.6	1.9

Past performance does not guarantee future returns.

Source: Sarasin & Partners LLP, Sarasin Compendium of Investment 2020

The case for bonds

The case for bonds

- A loan to either a government or a company for which you receive:
  - Coupon: a fixed rate of interest
  - The return of your capital at a specified date: Redemption date

- Rate of Interest - the rate of interest the borrower pays reflects its ability to repay the loan
  - the higher the quality the lower the interest rate

- Default – inability to meet capital or interest payments

See pages 12 - 26

Jargon buster!!

Other words for bonds…..

- Fixed Interest / Fixed Income
- Gilts (UK government bonds)
- Bunds (German bonds)
- Treasuries (US government bonds)
- TIPs (US inflation-linked bonds)
- Linkers (UK index-linked bonds)
- Credit (corporate bonds)

Why own bonds?

- **To improve return on cash**

  to minimise risk to capital

- **Secure income stream**

  to match a known liability

- **Diversification within a multi asset portfolio**

  to stabilise more volatile investments

- **Perform well when interest rates are falling**

  often during times of economic stress and deflation

- **When not to own bonds?** Rising interest rates and inflationary environment

What matters to a bond holder?

- **The issuer**

  The lower the quality the higher the rate of interest one would expect to receive

- **The length of the bond – or maturity**

  The greater the time to maturity the more volatile the bond

- **The coupon and the underlying rate of interest set by the Bank of England**

  The price of the bond will vary depending on the current rate of interest available

- **Gross Redemption Yield**

  Expresses the capital gain or loss between the current market price and the redemption value together with the stream of income from the coupons

Understanding price and yield

- Most bonds are issued and **redeem at 100p,** otherwise known as **PAR**, but the bond price rarely trades at 100p during its lifetime

E.g. UK Treasury	4.75%	2030	140.78p
Issuer	**Coupon**	**Redemption Date**	**Current Price**

- Need to understand the concept of **YIELD**

When YIELD ⬆ PRICE ⬇ and vice versa

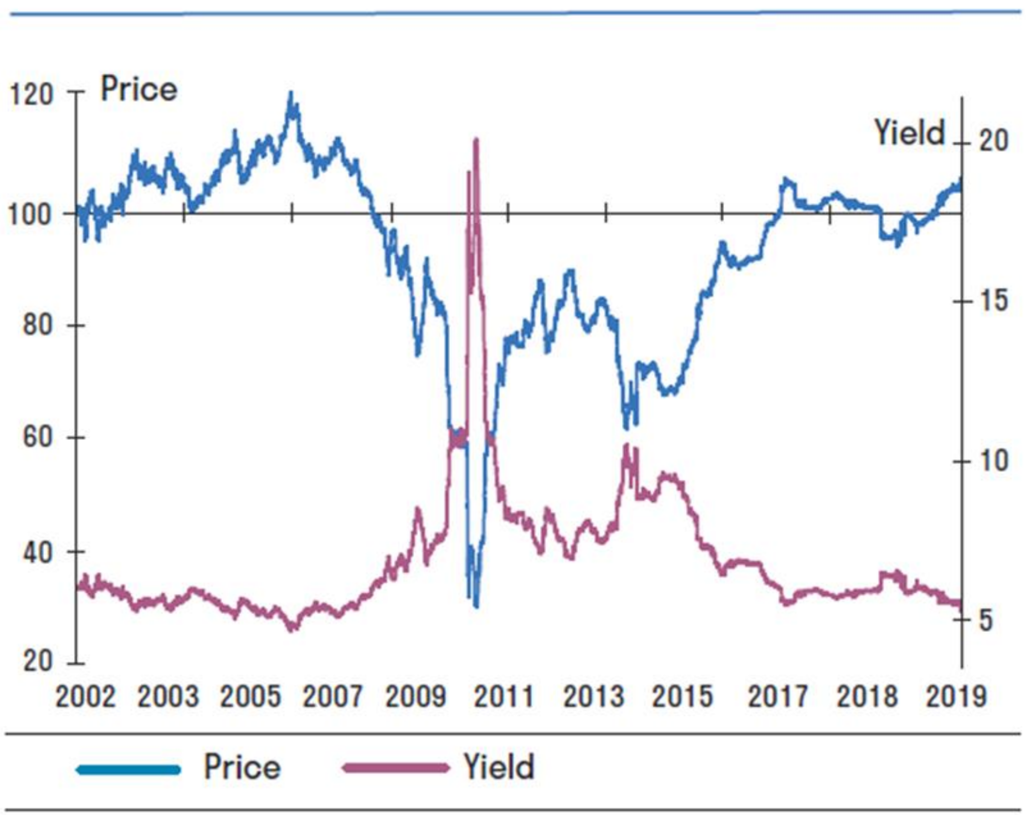
Running Yield = Coupon/Price	Indicates income, per pound of investment
Gross Redemption Yield	**Takes account of the bond price as it approaches maturity**

GRY in the example above **is 0.85%** i.e. you would expect to receive 0.85% per annum from the bond if you invested in it today at 140.78p

Barclays bank bond price and yield fluctuations 2002 to 2019

Graph 2.13 Compendium 2020

Barclays Bank Bond Issue: 6.000% perpetual



Source: Bloomberg L.P.

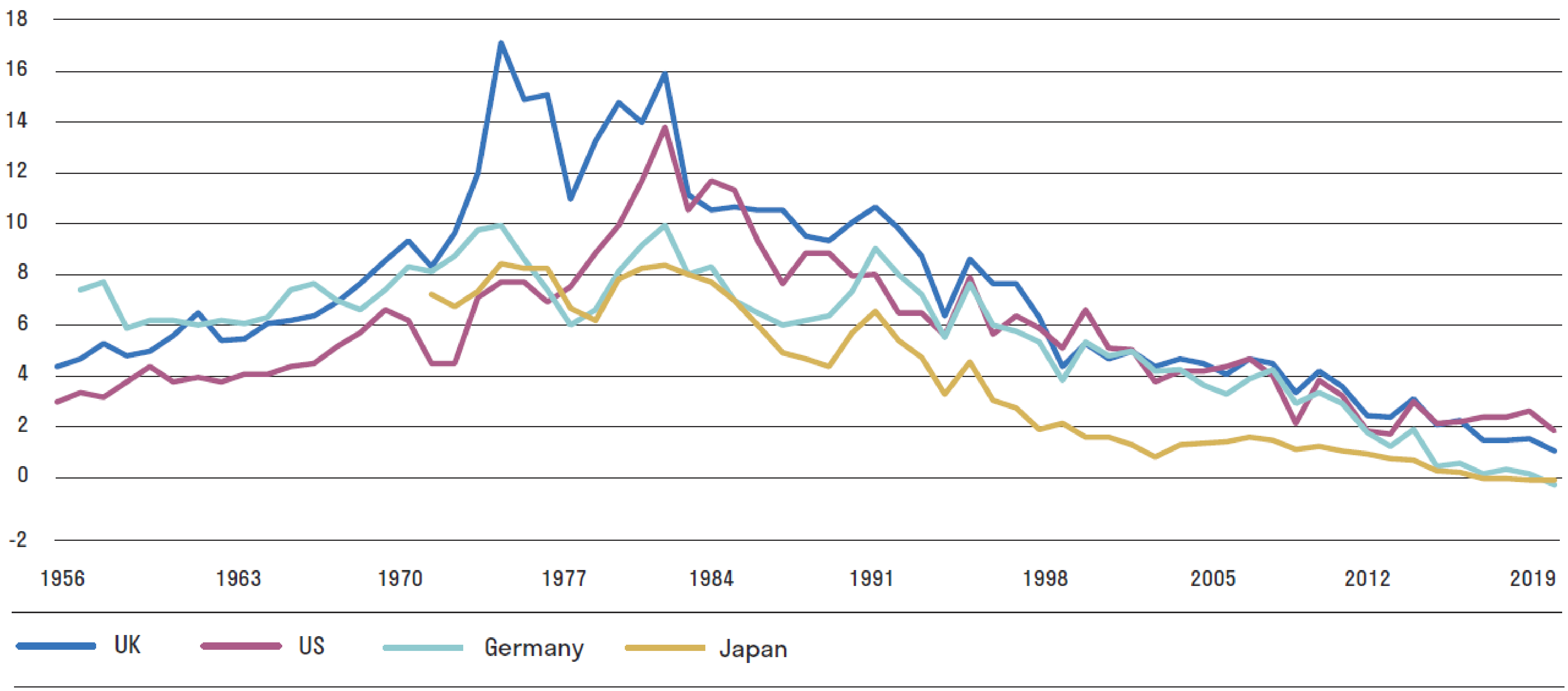
- Price: 120p down to 30p
- A ‘loss’ of **75%**... before recovering
- ...and redeeming at par (100p)

Source: Sarasin Compendium of Investment, 2020

Collapse in government bond yields

Graph 2.2 Compendium 2020

Global government bond yields



Source: Sarasin Compendium of Investment, 2020

Explaining duration

- **Duration** measures the sensitivity of a bond to a change in interest rates
- **Longer dated bonds** are generally more sensitive than shorter dated bonds

E.g. the price of a 10 year bond with a duration of 6 years would rise by approximately 6% if the interest rate fell by 1%

Corporate bonds and credit agencies

- Corporate bonds have similar characteristics to government bonds:
  - Typically higher risk, less liquid but safer than equities
  - Credit Agencies assess the risk of default and apply a credit rating

- AAA rated borrowers are deemed to be the lowest risk, investment grade

- BB+ and below are sub-investment grade, or JUNK : companies and highly indebted Governments pay higher rates of interest to compensate for the higher risk of default

Source: Sarasin Compendium of Investment 31 December 2019

How are bonds rated?

S&P Bond Ratings

Compendium 2020 – Graph 2.10 S&P Bond Ratings

	Investment grade
High	AAA
rating	AA+
	AA
	AA-
	A+
	A
	A-
	BBB+
Investment	BBB
grade	BBB-

	Sub-investment grade
High	BB+
yield	BB
	BB-
	B+
	B
	B-
	CCC+
	CCC
Low	CCC-
rating	CC

Source: S&P Dow Jones Indices LLC

Important information

Important Information

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