

# Charity Investment Training online for CFG

Understanding your Investment Responsibilities  
July 2020

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The views expressed are those of the manager and are subject to change with no guarantee that forecasts will be achieved. Please note that some of the information is based on long-term historical returns and income streams and should therefore be cross referenced to the Sarasin & Partners Compendium of Investment.



# 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.

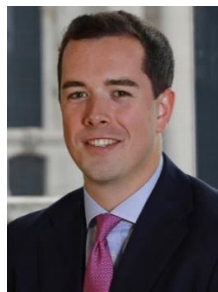
E: [melanie.roberts@sarasin.co.uk](mailto:melanie.roberts@sarasin.co.uk) T: 020 7038 7296



**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.

E: [ruadhri.duncan@sarasin.co.uk](mailto:ruadhri.duncan@sarasin.co.uk) T: 020 7038 7291



**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.

E: [tom.lindsey@sarasin.co.uk](mailto:tom.lindsey@sarasin.co.uk) T: 020 7038 7266

# The aims of this course

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- 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

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## 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

# 03

## Charity investment in practice

# Your investment universe

Assets to consider when constructing a diversified portfolio

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## Core Asset Categories

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

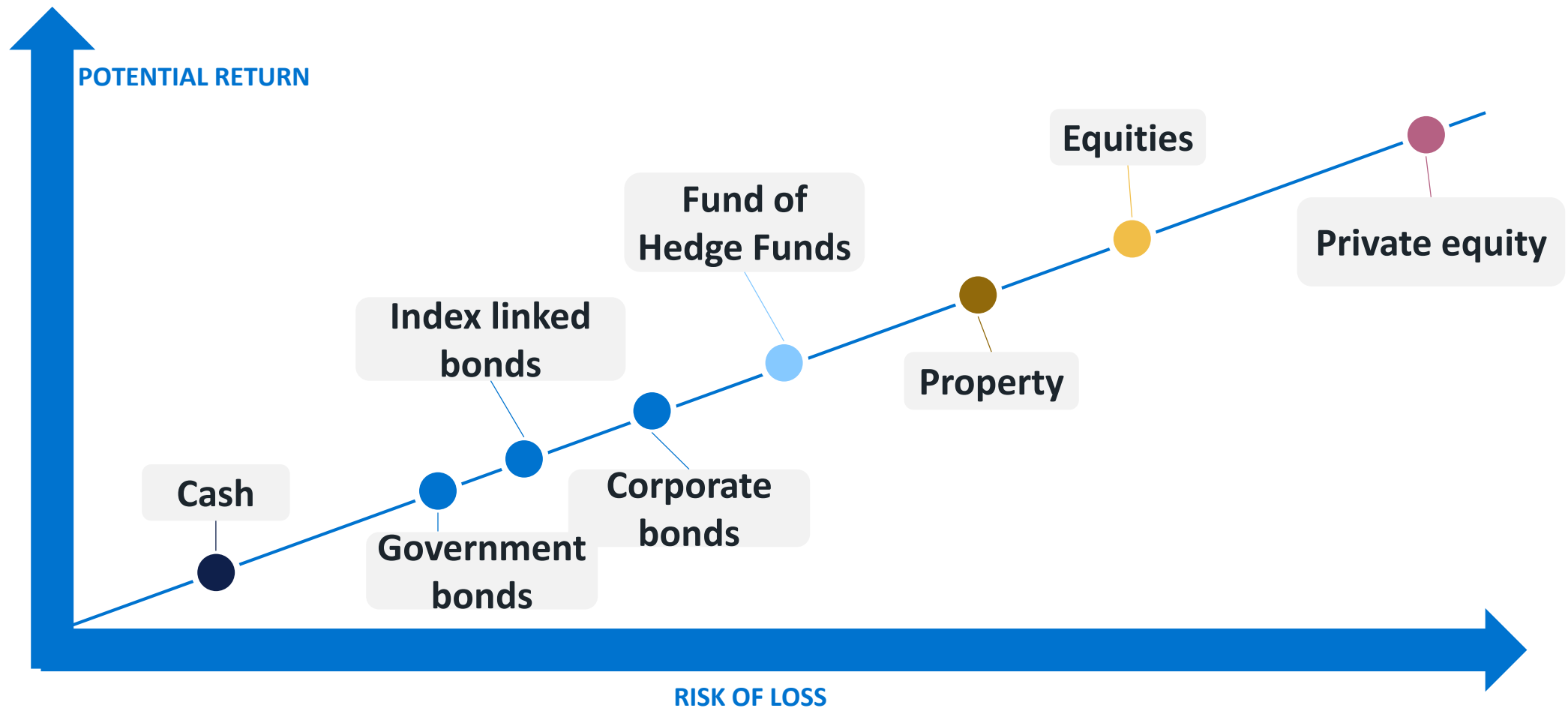
## Peripheral Asset Categories

- 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



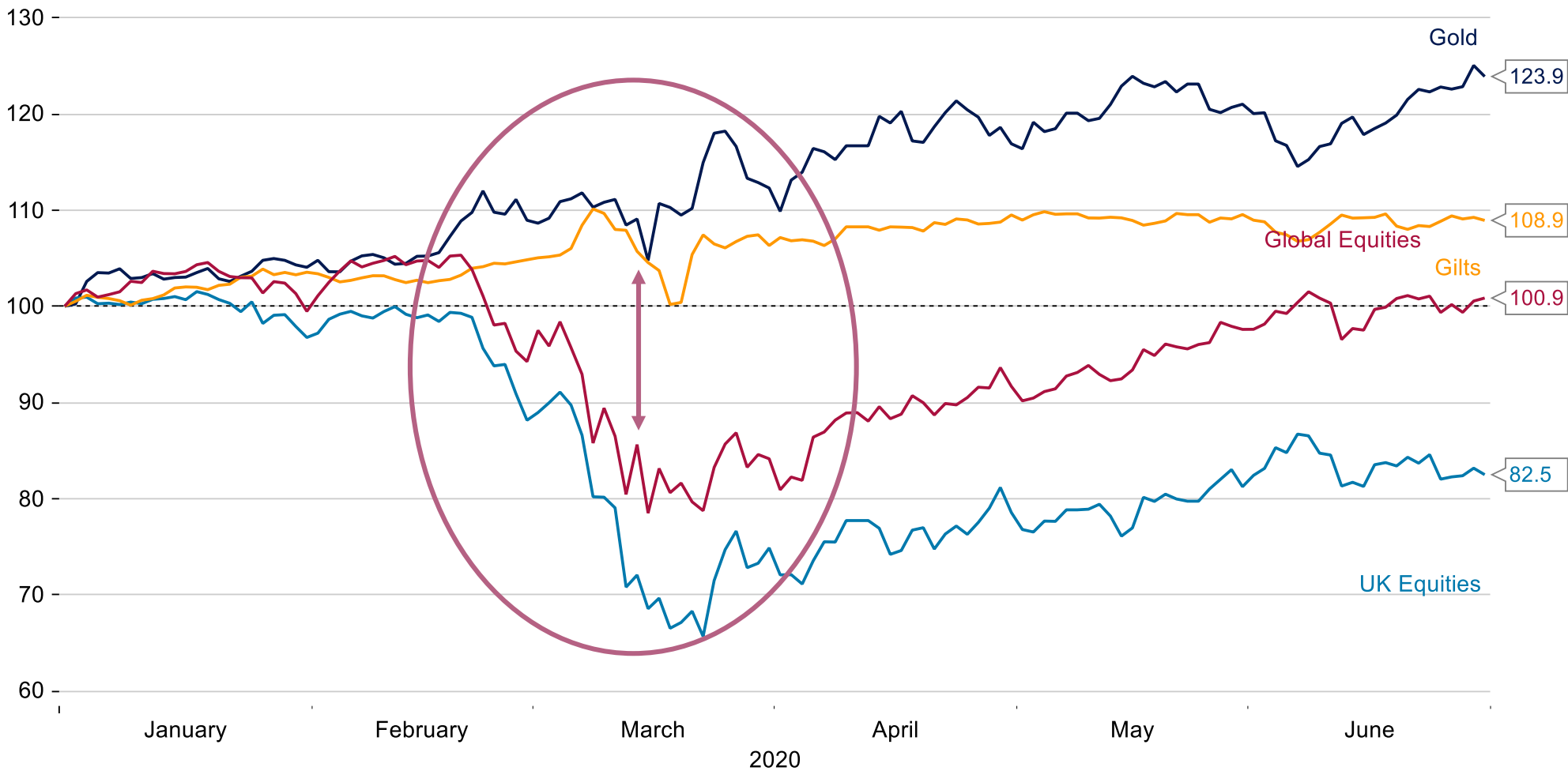
Please note this is a diagrammatical chart and does not represent actual risk and return

Source: Sarasin & Partners LLP 30 June 2020

# Benefits of diversification

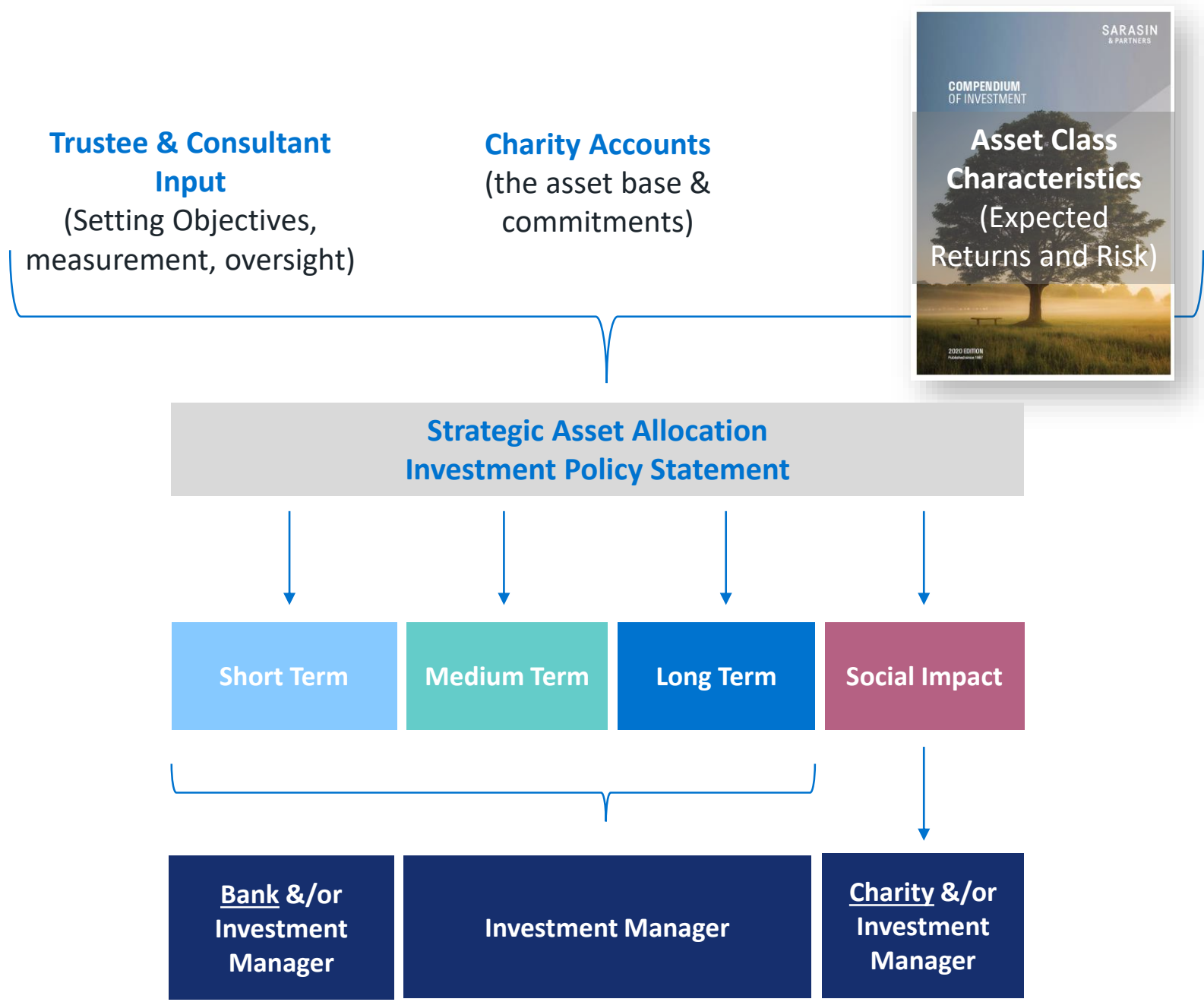
Defensive asset classes provide protection in times of stress

 Equities vs Defensive Asset Classes (Returns, H1 2020)



Source: Macrobond

# Building an investment strategy



# Your principal investment risks

## Inflation risk

Your spending power is eroded over time

### Solution

Ensure that the portfolio has sufficient 'real' assets (e.g. equities) which are globally diversified

## Volatility risk

The risk of being a forced seller at an inopportune moment

### Solution

Create appropriate balance between longer term and 'defensive' assets and ensure portfolio is sufficiently liquid

## Income risk

That we fail to generate sufficient returns

### Solution

Place emphasis on sustainable dividend and income growth. Ensure portfolio diversification

## Reputational risk

Investments are subjected to public scrutiny and conflict with the charity's aims

### Solution

Rigorous Environmental, Social & Governance (ESG) analysis is integral to investment process. Consider bespoke ethical screening.

# Strategic asset allocation considerations

	Short-term reserves	Medium-term reserves	Long-term reserves
Time frame	0 – 18m	18m – 5yrs	5yrs +
Investment objective	To improve on the returns from cash	A return that at least matches inflation	To maintain the real value whilst providing sufficient income
Greatest risk	The impact of <u>any</u> volatility	The impact of <u>some</u> volatility	The impact of <u>inflation</u>
Implementation	Cash, certificates of deposit and short dated government bonds	Reserves Strategy Predominantly bonds with some risk assets	Endowments Strategy Predominantly real assets with some defensive assets

# Strategic asset allocation

## Risk and return characteristics

Time frame:  
Target return:

Medium  
Term

UK CPI +1%

Long Term

5yrs+

UK CPI +4%

Projected total return p.a. %		Reserves Strategy %	Endowments Strategy %
0.4	Gilts	35.0	7.5
2.5	Corporate Bonds	30.0	7.5
6.3	UK Equities	10.0	20.0
	Global Equities	10.0	50.0
5.0	UK Commercial Property	0.0	5.0
4.5	Alternatives	10.0	10.0
1.0	Cash	5.0	0.0
Total fund		100	100
Projected returns	Projected income yield	3.2	3.5
	Trend total annual return	2.7	5.3
	Trend annual 'real' return	0.7	3.3
Key risk metrics (Based on historic index performance)	Maximum annual drawdown %*	-8.0	-25.1
	1 Year 5% Value at Risk (VaR)*	-5.7	-11.3
	Annualised Volatility %*	5.1	10.1

Please note that there are no guarantees that the projected returns will be achieved.

Source: Sarasin & Partners LLP. \* Data since 31.12.05. As at 31.03.20

# Explanation of risk statistics



		Medium Term	Long Term
Time frame: Target return:		UK CPI +1%	5yrs+ UK CPI +4%
Projected total return p.a. %		Reserves Strategy %	Endowments Strategy %
Key risk metrics (Based on historic index performance)	Maximum annual drawdown %*	-8.0	-25.1
	1 Year 5% Value at Risk (VaR)*	-5.7	-11.3
	Annualised Volatility %*	5.1	10.1

Source: Sarasin & Partners LLP. \* Data since 31.12.05. As at 31.03.20

# Additional risk & return characteristics

The last 120 years



	Reserves	Endowments
Return per Annum	6.3	8.5
Real return per Annum	2.5	4.6
St Deviation	11.1	16.2
Best Single Year	56.3	109.9
Worst Single year	-18.2	-37.9
Positive Years	91	89
Negative Years	29	31
Lost Money on a 3-year Basis	13	14
Lost Money on a 5-year Basis	8	7
Lost Money on a 10-year Basis	1	Nil
Lost More than 10% in single year?	4	9
Made more than 20% in single year?	10	21
Best 5 year return p.a.	22.3	32.2
Best real 5 year return p.a.	19.0	21.3
Worst 5 Year Return p.a.	-4.1	-3.9
Worst 5 Year real Return p.a.	-14.1	-13.2

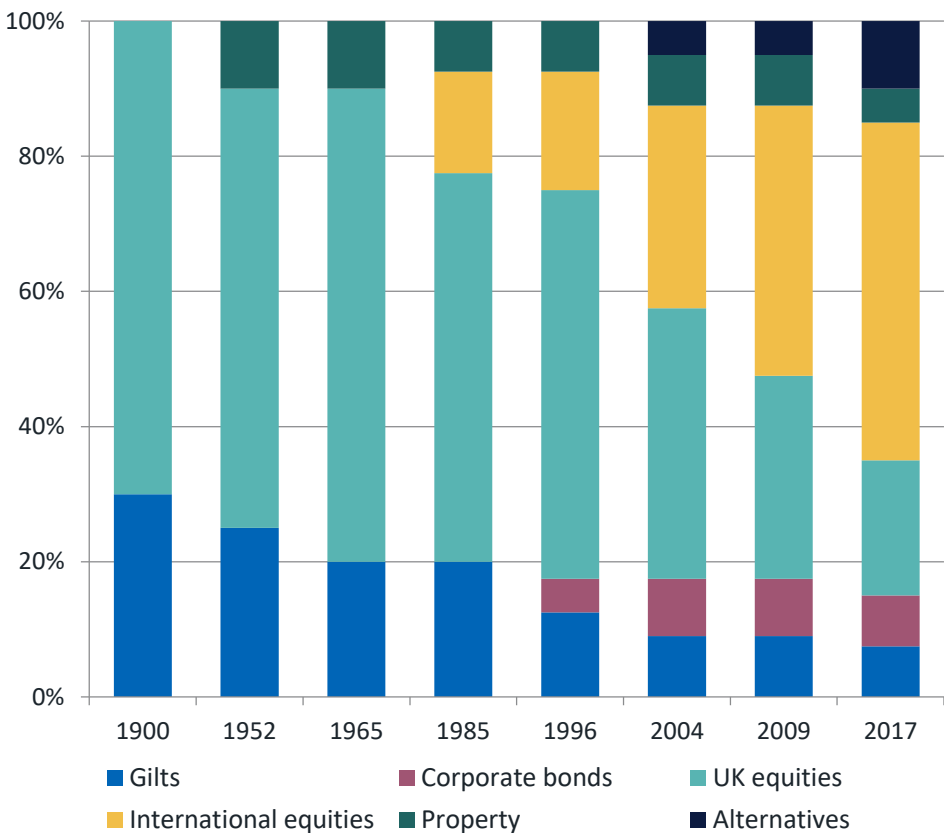
**Past performance does not guarantee future returns.** Endowments strategy as discussed in the Compendium of Investment 2020

Source: Sarasin & Partners LLP, Compendium 2020. Historical simulation of Endowment policy over long-term period

# Plausibility of future investment returns

How does a projected real return of 3.5% compare with the past?

## Endowments Strategy Evolution\*



Source: Sarasin & Partners LLP, Compendium 2020.  
\*Historical simulation of Endowment policy over long-term period.

## Long term real returns

	Inflation %	Endowment strategy real return %
5 years p.a.	1.6	7.5
10 years p.a.	2.2	7.0
25 years p.a.	2.4	5.7
Since 1900	3.7	4.6

A projected REAL return of about 3.5% is lower than long-term results

Please note: There are no guarantees that projected returns will be achieved.

Source: Sarasin & Partners LLP, Compendium 2020.

# Multi asset portfolio have never produced consistent returns

Distinct period of feast and famine



The investment returns generated by a typical Multi-Asset Portfolio have never been smooth

Decade	Total return % p.a.	Inflation% p.a.	Real return % p.a.	Comment
1900s	2.4	1.3	1.1	Bad
1910s	5.2	8.3	-2.9	Very bad
1920s	5.8	-2.9	9.0	Excellent
1930s	4.1	0.4	3.8	Weak
1940s	5.3	2.8	2.4	Bad
1950s	12.9	4.1	8.5	Excellent
1960s	8.7	3.7	4.9	Average
1970s	12.7	13.1	-0.3	Very Bad
1980s	20.7	6.9	12.9	Excellent
1990s	13.2	3.5	9.4	Excellent
2000s	2.7	2.3	0.3	Very Bad
2010s	9.3	2.2	7.0	Good
Since 1900s	8.5	3.7	4.6	The Average
Forecast 2020s	5.3	2.0	3.3	The Future: Weak?

Source: Sarasin Compendium of Investment, 2020

# Notable equity bear markets

Famine



## 23.3 A recent history of UK bear markets

	Months	Change %
31st January 1969 - 27th May 1970	16	-37
1st May 1972 - 13th December 1974	32	-73
30th January 1976 - 27th October 1976	9	-33
4th May 1979 - 15th November 1979	6	-23
17th August 1981 - 28th September 1981	1	-22
16th July 1987 - 10th November 1987	4	-37
3rd January 1990 - 24th September 1990	9	-22
11th May 1992 - 25th August 1992	3	-22
2nd February 1994 - 24th June 1994	5	-18
20th July 1998 - 5th October 1998	2	-25
September 2000 - 12th March 2003	30	-52
12th October 2007 - 3rd March 2009	17	-48
7th July 2011 - 4th October 2011	4	-18
27th April 2015 - 11th February 2016	10	-21
22nd May 2018 - 27th December 2018	7	-17
<b>Average</b>	<b>10</b>	<b>-31</b>

Source: FTSE International Ltd / Sarasin & Partners LLP

Source: Sarasin Compendium of Investment, 2020

Not forgetting:

**1929-1931:** -40% in UK and -60% in the US

**1937-1940:** about -50% in the UK in 'real' terms

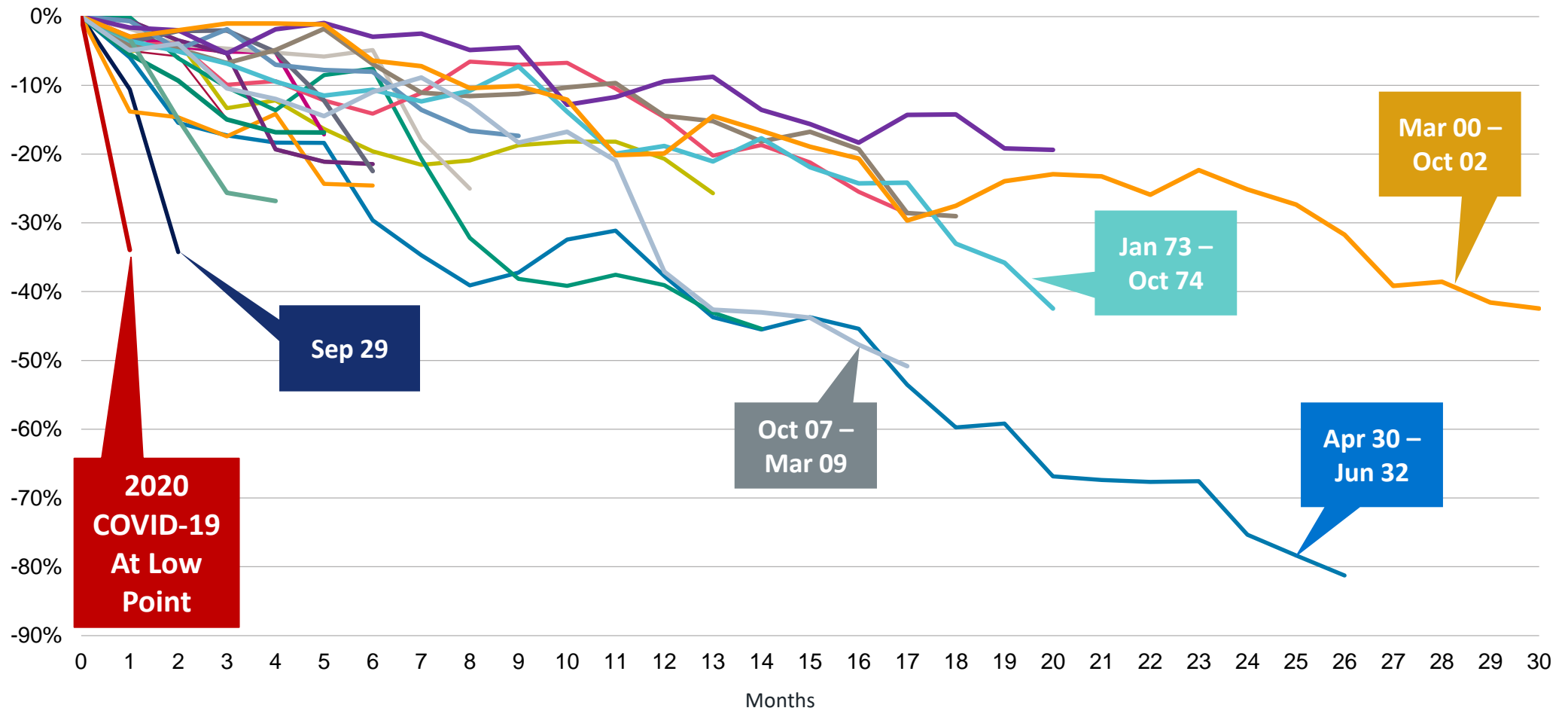
**2020 (at their low point):**

UK Equities: -33%

Overseas Equities: - 24%

# Duration and magnitudes of previous bear markets

The quickest bear market in history



Source: Sarasin & Partners, Yardeni Research Inc, Standard & Poor's, April 2020

# Primary Mitigation

Actions required prior to the next inevitable bear market

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*‘Planning for Bear Markets’ chapter: forms the foundations of our strategic work and is a hallmark of our approach to successful long-term investment.*

- **Education**: everyone should be aware that bear markets occur and that they will surprise
- **Cash flow, asset and liability matching**: equities should only be used for those with appropriate timeframes; ensure you will not have to withdraw from markets completely, near the bottom, in a ‘forced’ sale
- **Asset class/manager diversification**: it is easy by the end of a bull market to allow a portfolio to become less well diversified
- **Security diversification**: it is important to diversify within asset classes

*Typically, the best damage limitation is carried out prior to a crisis and the best mitigation, afterwards.*

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# SARASIN

& PARTNERS

Juxon House  
100 St Paul's Churchyard  
London  
EC4M 8BU

T: +44 (0) 20 7038 7000  
[www.sarasinandpartners.com](http://www.sarasinandpartners.com)

