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& PARTNERS

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

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04 Building an Investment Policy Statement

What is an Investment Policy Statement?

Your investment policy acts as an important framework to:

- Make investment decisions
- Help your trustees to manage your charity's resources effectively
- Ensure you're meeting your governance responsibilities

Who is it for?

- Trustees and employees
- Investment advisers or managers
- Beneficiaries and donors
- The Charity Commission

What does an investment policy include?

- Investment objectives
- Risk preferences and time horizon
- Ethical restrictions and responsible investment objectives

Creating and writing up an Investment Policy Statement

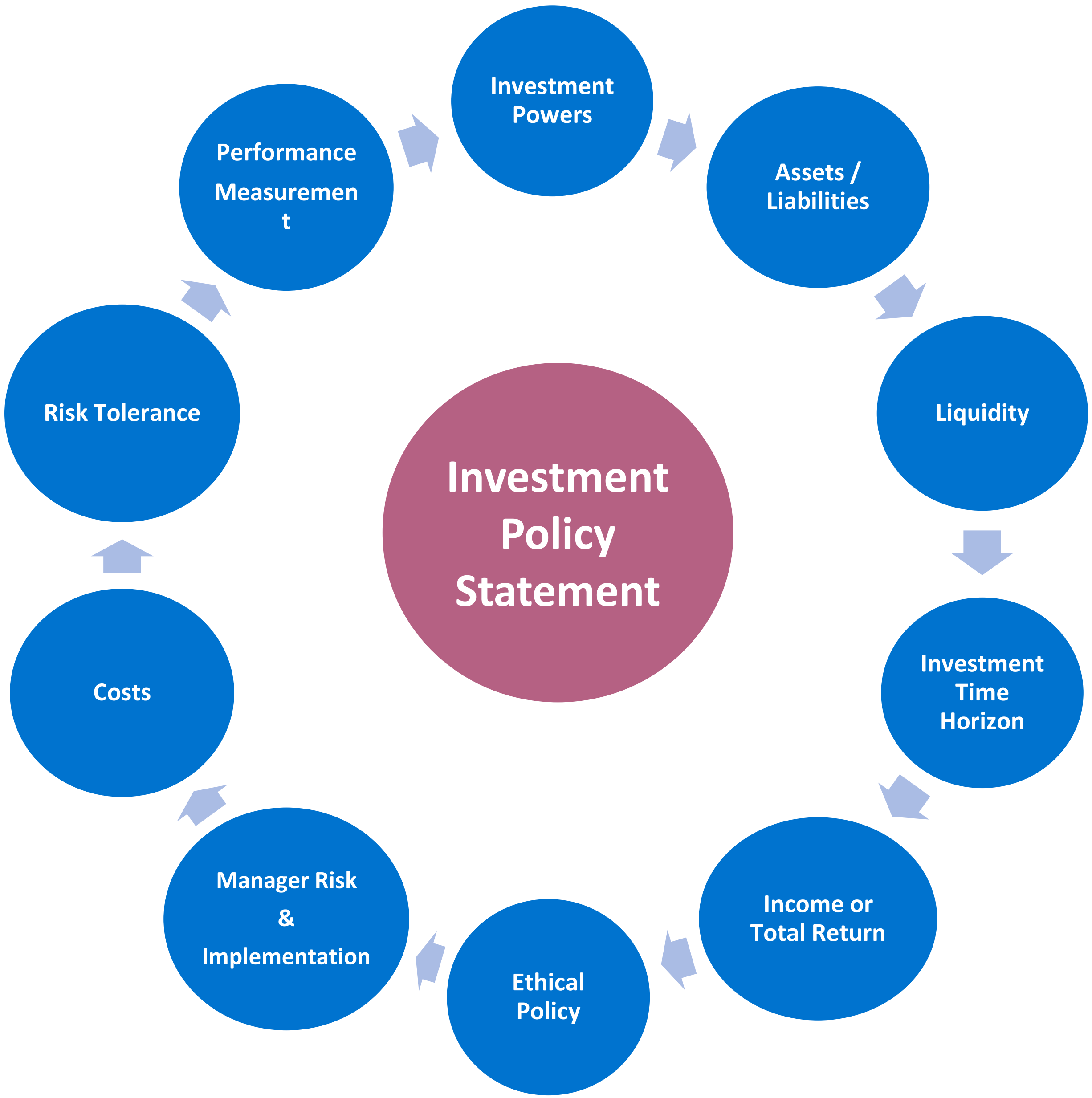
www.charityinvestorsgroup.org.uk

www.cfg.org.uk

Areas to cover:

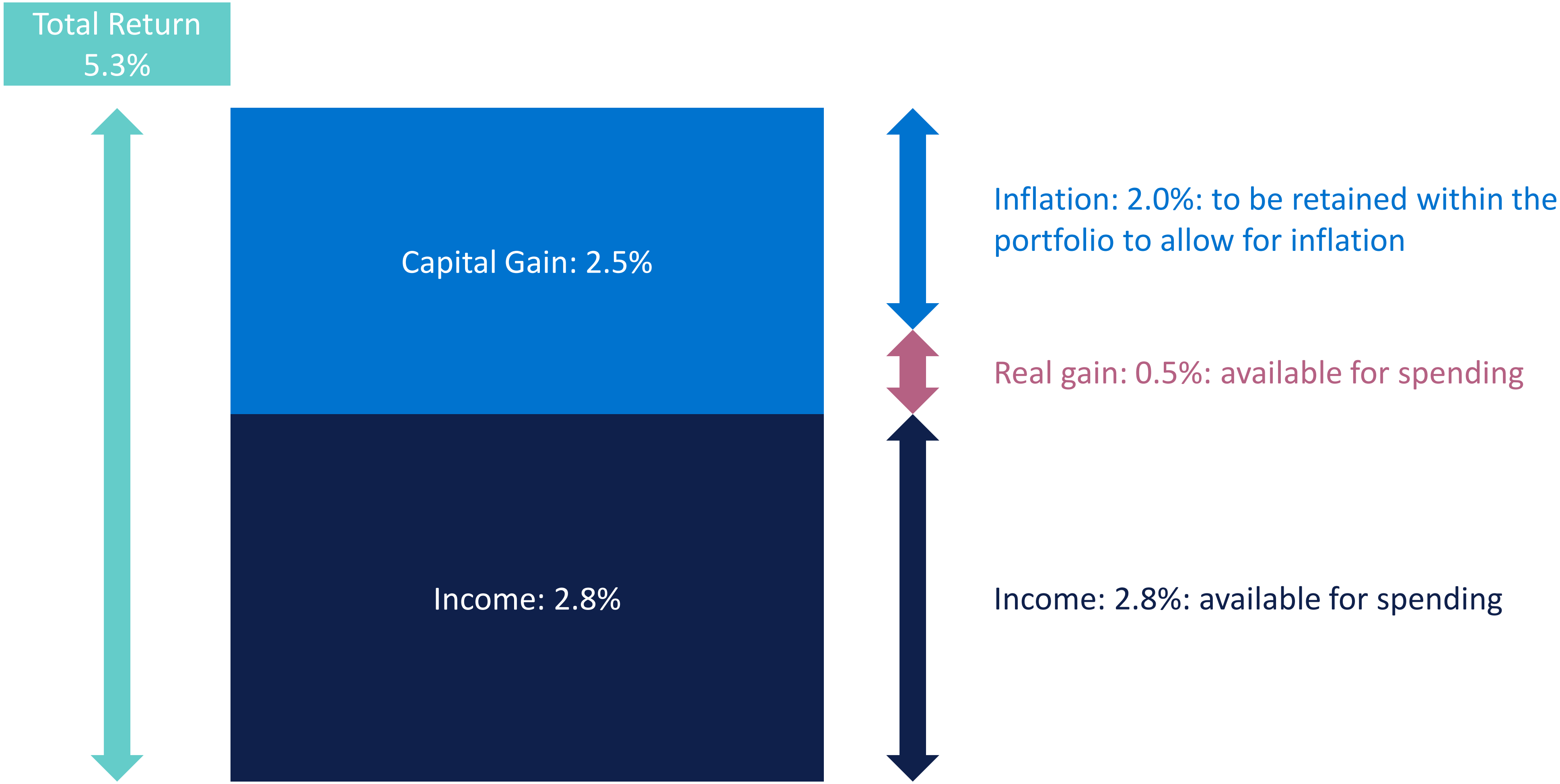
- Investment Powers
- Investment Objectives
- Risk
- Liquidity Requirements
- Time Horizon
- Types of Investments
- Management, Reporting and Monitoring

Checklist of things to consider before investing



Income or Total Return?

How much can you spend with a Total Return Policy



In addition to the income of 2.8%, it would be possible to spend 0.5% of the capital gain, whilst still maintaining the 'real' value of the capital

Source: Sarasin & Partners LLP, 31.12.19.

Income yields and sustainable withdrawals

% per annum	Expendable return	Average income yield	Re-invest or spend capital
Since 1900	4.0	4.6	-0.6
75 years	4.9	4.7	0.2
50 years	5.1	4.7	0.4
30 years	4.9	3.5	1.3
20 years	3.0	3.1	-0.2
10 years	6.4	2.9	3.4
5 years	6.9	2.7	4.1

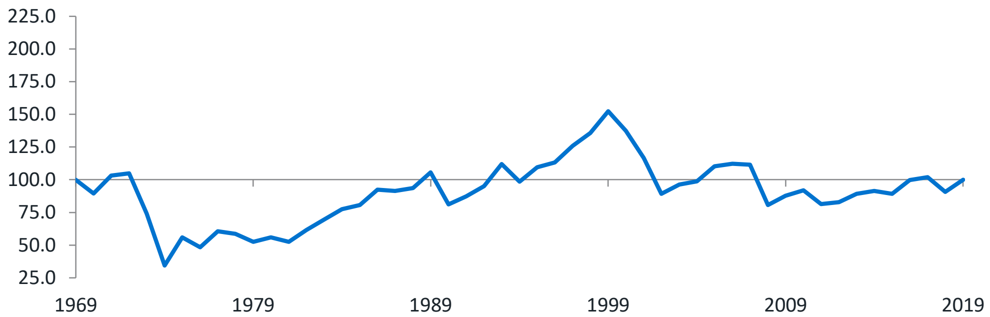
Source: Sarasin Compendium of Investment, 2020

What is the correct spending level?

Real capital value after costs* and spending x% per annum

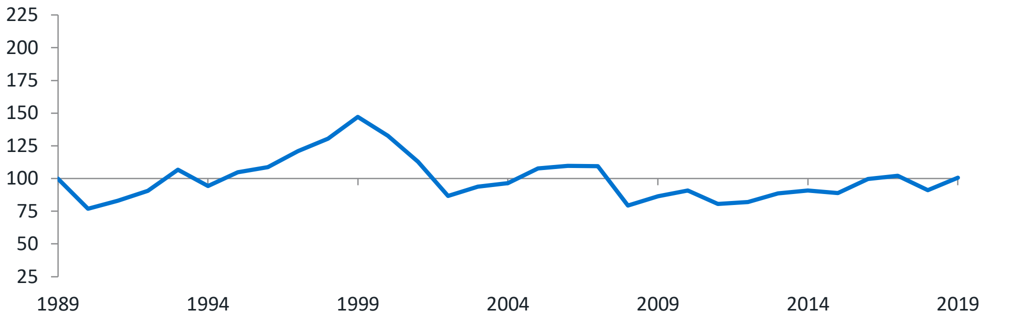
50 years

50 years: x = 5.0%



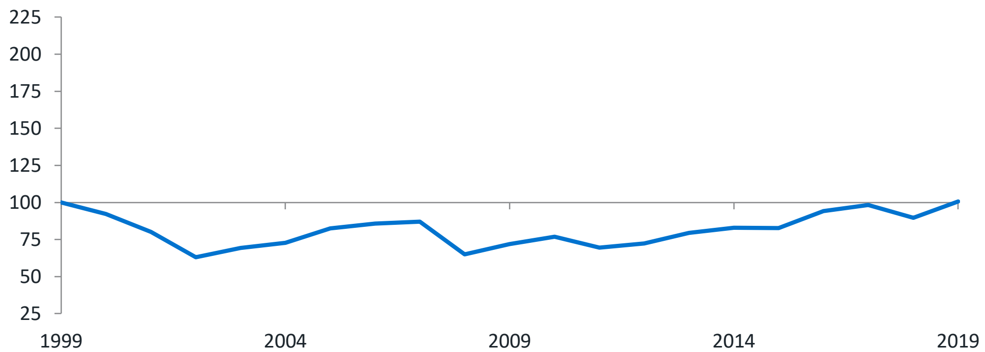
30 years

30 years: x = 4.8%



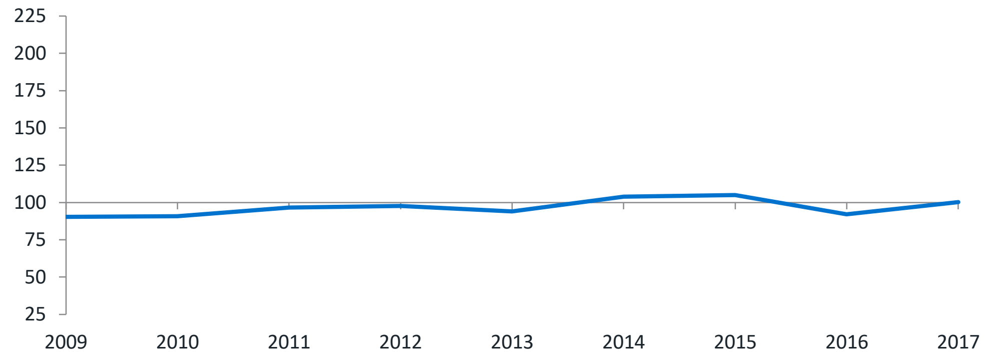
20 years

20 years: x = 2.9%



10 years

10 years: x = 6.3%



Source: Sarasin & Partners Compendium of Investment, 2020. Updated biennially
Portfolio is based on the average charity multi-asset endowment portfolio with *costs of 0.65% per annum.

Ethical policy: key drivers behind Environmental, Social and Governance (ESG) risks

Financial materiality & reputation an increasing focus

Up from 34% in 2018 survey

Just under 30% cite financial materiality or reputational risks as key drivers, up from 25% and 18% respectively in 2018

Source: Mercer European Asset Allocation Survey 2019 – 876 institutional investors with over $1trillion of assets

Ethical exclusions

Different charities will have different requirements from an Ethical Policy

Exclude investment in companies which are materially involved in the production and distribution of ethically unacceptable products, including but not limited to:

- Gambling
- Pornography
- Alcohol
- Tobacco
- Armaments
- Extraction of thermal coal or the production of oil from tar sands

Avoid investing in companies which are materially involved in ethically unacceptable practices, such as:

- Corruption
- Environmental degradation
- Poor labour practices
- Breaches of human rights
- Companies which persistently, knowingly and materially breach international legal standards

Stewardship

Integrating Environmental, Social and Governance factors into the analysis

Environmental impacts remain after making a profit

E

The Social contract is the core pillar of trust

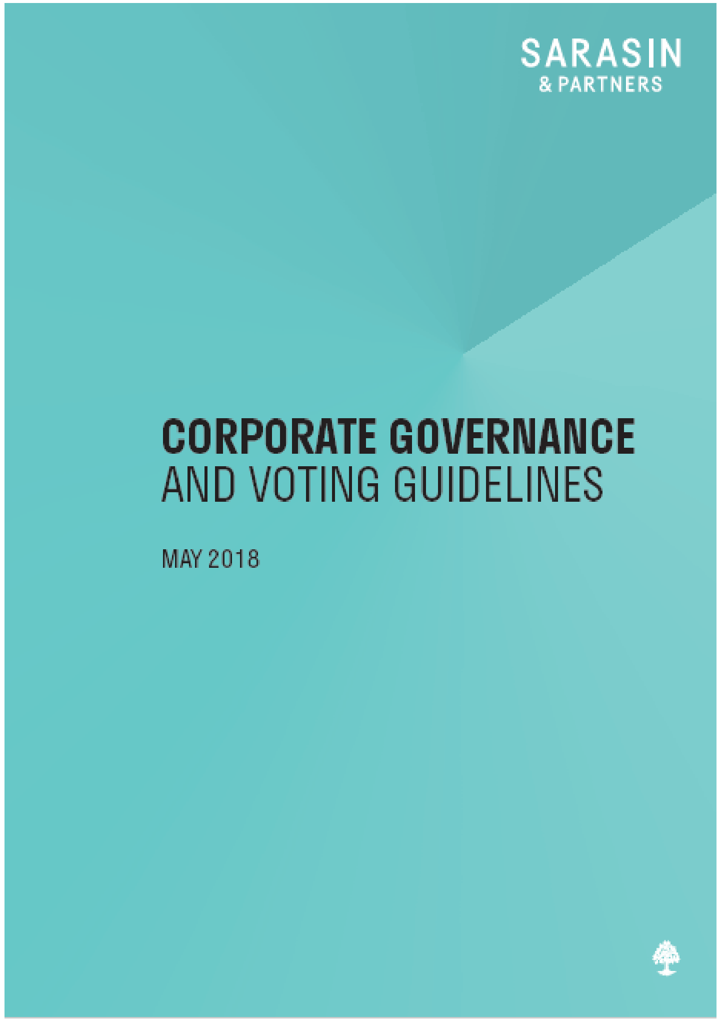
S

Governance is the foundation on which a company stands

G

ESG reporting

Disclosure and transparency are key



WHAT RESPONSIBLE STEWARDSHIP MEANS TO US

We believe that investment has the power to grow and protect money in a way that benefits society. Furthermore, because wealth creation at society's expense is likely to be ephemeral, sustainable companies make better investments. Our stewardship philosophy is built on three pillars:

- A robust, thematic, global investment process focused on long-term value drivers
- Active engagement with the companies we invest in and considered voting, to drive positive change on your behalf
- Policy outreach where we believe we can play a positive role in shaping markets and regulation

Our stewardship work and our thematic investment philosophy draw on each other. Our five megathemes mean we invest in long-term trends that have the power to improve societal welfare. We want to invest in ways that drive positive change, so we integrate ESG factors into our fundamental analysis.

- Principles for engaged ownership PDF
- Ownership Discipline PDF
- Engagement Policy - SRDII disclosure PDF
- Corporate Governance and Voting Guidelines PDF
- Disclosure of Commitment to the UK Financial Reporting Council's Stewardship Code PDF

Manager risk: Active or Passive Investing – Pros and Cons

Pros and Cons

Manager risk: do you want to try to beat the index by taking an active approach?

- Does this apply to asset allocation or stock selection, or both?
- How unconstrained should they be?

Index-tracking, or passive investing, seeks to match the performance of a given index by replicating its structure

- **Synthetic or Physical Replication** – wherever possible take the physical route rather than the 'promise' of the synthetic route – cost is a consideration
- **Asset Classes** – some asset classes are better suited than others to passive… (liquidity risks)
- **Choice of index** – choose your index carefully – strategy is crucial
- Exchange Traded Funds **(ETFs)** have made index-tracking more accessible
- **Cost** – is it as cheap as you think…?

Active versus passive

It all depends whether you think a market is efficient or inefficient

	Inefficient	Efficient
Market prices	Market prices deviate from intrinsic value	Market prices closely reflect intrinsic value
New information	Market prices do not correctly respond to new information	Market prices adjust instantly and correctly to new information
Potential to outperform	Skilled investors can consistently beat the market	Nobody can consistently beat the market
Focus	Identifying undervalued assets	Replicating an index and minimising costs
Objective	Outperform the market by more than the costs required to do so	Track an index as closely as possible
Investment strategy	**Active**	**Passive**

Implementation – segregated, funded or wrapped?

You have several choices

Highest | *Cost* | Lowest

Fully Segregated

All bonds and equities invested directly

Semi Segregated

A mixture of direct holdings (typically UK equities and government bonds) and externally managed pooled holdings (corporate bond funds, international equities, alternatives etc.)

Fully Funded

A blend of the internally or externally managed funds

Wrapped – Charity Authorised Investment Funds (CAIFs)

Funds designed for charities with different time horizons and objectives

Highest | *Administration* | Lowest

Specialist charity funds

www.suggestus.com

Multi-Asset Funds	Investment Manager
Barclays Charity Fund	Barclays
Armed Forces Charities Growth & Income Fund	BlackRock
Catholic Charities Growth & Income Fund	BlackRock
Charities Growth & Income Fund	BlackRock
Charity Multi-Asset Fund	Cazenove
Responsible Charity Multi-Asset Fund	Cazenove
CBF Church of England Investment Fund	CCLA
COIF Charities Ethical Investment Fund	CCLA
COIF Charities Investment Fund	CCLA
Amity Balanced Fund for Charities	EdenTree
M&G Charity Multi-Asset Fund	M&G
Newton Growth & Income Fund for Charities	Newton
Newton SRI Fund for Charities	Newton
Newton Growth Fund for Charities	Newton
Active Income and Growth Fund for Charities	Rathbones
Core Investment Fund for Charities	Rathbones
Charity Assets Trust	Ruffer
Sarasin Endowments Fund	Sarasin & Partners
Sarasin Income & Reserves Fund	Sarasin & Partners

ARC
ARC RESEARCH LIMITED

The Multi-Asset Charity Fund Review

Quarter 1, 2020

In association with

ACI
ARC CHARITY INDICES

How best to measure performance

Benchmarking

- **Long-term target**
  - Inflation (CPI) +2%, 3%, 4%
- **Short-term comparators**
  - Composite benchmark of indices e.g:
  - 80% MSCI All Countries World
  - 10% ICE BofAML Sterling Broad Market Index
  - 10% UK 3 Month LIBOR
- **Income yield or target**
  - Meets expectations and at least keeps pace with inflation
- **Peer group comparator**
  - ARC indices, Teknometry

Any combination or all of these are sensible measures to monitor performance

The cost of investment management

Caveat Emptor!

A £5m Charity Portfolio	Basis of Charging	Range	Comment
Invoiced Investment Management Fee	Flat Rate / Sliding Scale charged on value of portfolio	0.45 - 1%	Investment management fees, often including all custodial, nominee and administrative support. Might include a performance fee element
Performance Fee	A percentage of excess performance over an agreed benchmark of absolute return	10-25% of out performance	The norm within hedge funds and increasingly common within high performance and target return mandates too
VAT	Flat Rate	20%	VAT is chargeable on segregated portfolio and Common Investment Fund fees but not within unit trusts; n/a within Charity Authorised Investment Funds
Commission	Flat Rate / Sliding Scale charged on each transaction	zero - 1%	Increasingly being phased out by the industry
Investment in in-house funds	Flat Rate, possibly a performance fee and additional costs charged within fund	TER of between 0.8% and 4%	Double charging avoided by dropping the standard investment management fee or applying a rebate
Investment in funds managed by 3rd parties	Flat Rate, possibly a performance fee and additional costs charged within fund	TER of between 0.8% and 4%	Double charging, although investment managers may be able to negotiate discounts on published rates. Hedge Fund of Funds account for high top end of range
Brokerage	Flat Rate	Typically c0.2% on each segregated equity transaction	The commission paid to the intermediary who facilitates equity transactions
Cash	A proportion of the interest rate that any cash you have on deposit earns	Typically 0.25-2% of the interest rate available at the time	Can vary depending whether cash is held in income account, capital account or special deposit account

Foundation Course Conclusions

Conclusion

- Charities generally have wide investment powers
- ….but Trustees have an overriding **‘duty of care’**
- Over time, **investment returns have been good and have justified the risks taken**
- It is important to be clear about what you want from your charity’s reserves so….
- ....identify your charity’s **investment objectives** and **key risks** in order to help you create a….
- **Strategic Investment Policy…**which should be regularly reviewed
- Ensure your charity has the appropriate skills in place to manage and **monitor** your investments
- Select an investment manager whom you think will be able to deliver returns that meet your objectives and targets
- Set **clear targets** and have **regular meetings** to review progress

Summary

- Investment has the potential to boost a charity's financial resources significantly. However, it is a big decision to invest and it must command widespread support
- Trustees must plan and be able to cope with the inevitable short and medium-term volatility of capital and, to a lesser extent, income
- Trustees must create a proper decision-making infrastructure
- Trustees must create a Strategic Investment Policy to ensure that only genuinely long-term reserves are invested in the more volatile asset classes

Important information

Important Information

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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 LLP Compendium of Investment.

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