

Back to the future

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Back to the future...

-
- Review of the past
 - Project future returns across the asset classes available to you
 - Consider the options for charity portfolios with different risk profiles

A look at the past

Assets available back in 1900

Excludes land held by charities

Charity portfolios were limited to:

- Cash
- Government bonds
- UK Equities

Long-term annualised returns

UK



Average Annual Return (%)	UK Equities	Gilts	Cash	Inflation
Since 1900	9.3	5.4	4.6	3.7
Last 5 years	7.2	3.9	0.5	1.6

Past performance does not guarantee future returns.

Source: Sarasin & Partners LLP, 2020

Your investment universe today?

Assets to consider when constructing a diversified portfolio

Core Asset Categories

- Cash
- Government bonds
- Corporate bonds
- UK equities
- Global Equities
- Commercial property

70 – 80% of a charity portfolio



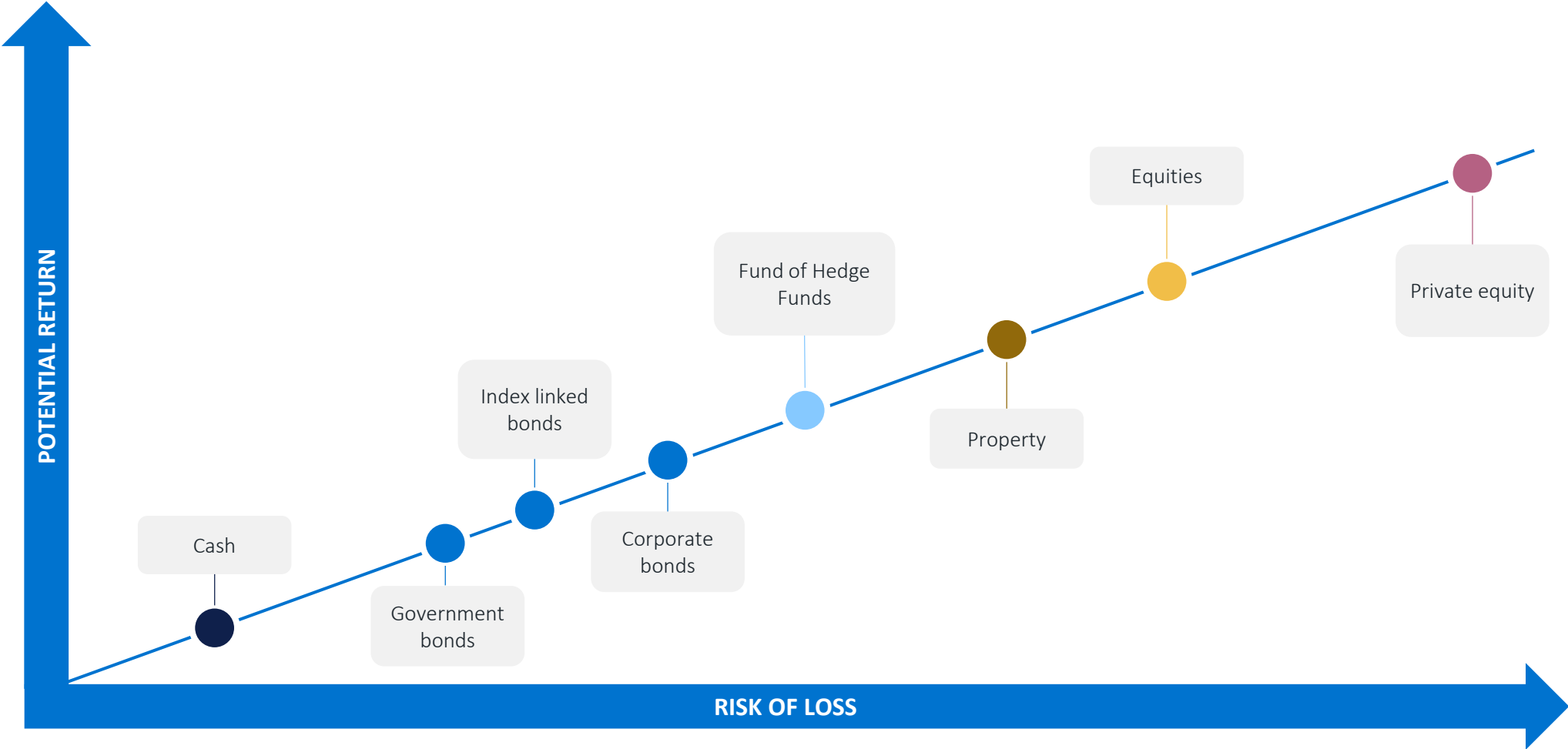
Peripheral Asset Categories

- Private equity
- Hedge funds
- Gold
- Infrastructure
- High yield bonds

- Fine wines
- Fast cars
- Cryptocurrencies

Risk vs return

The asset universe risk-return characteristics

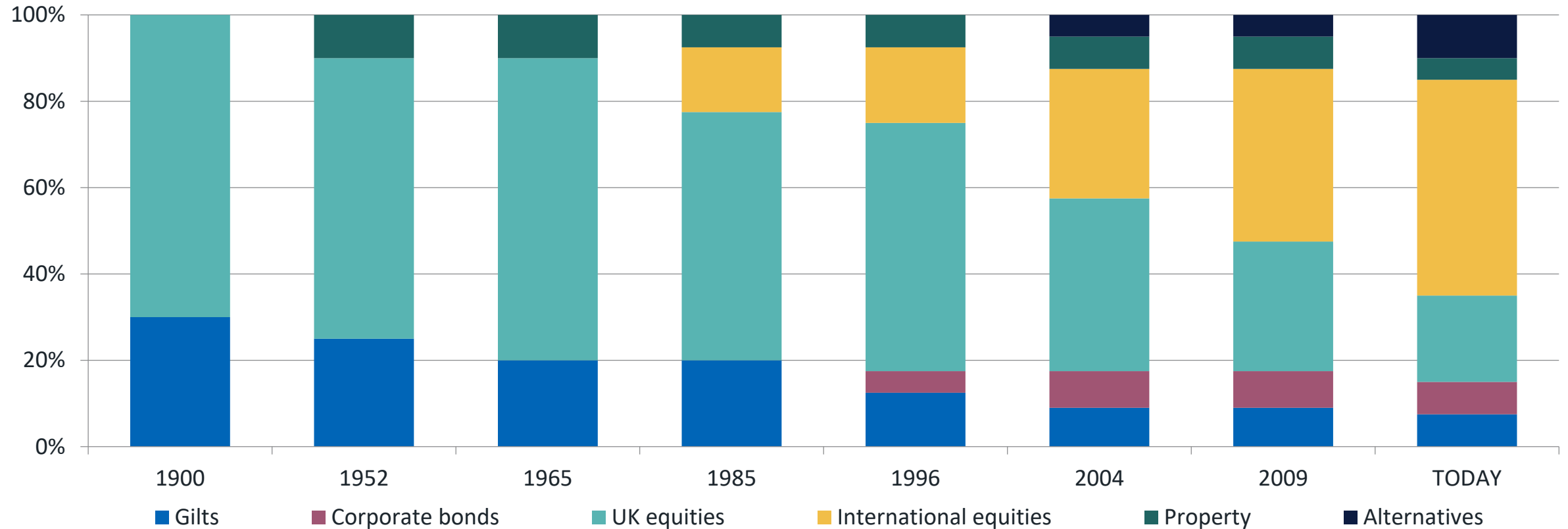


Please note this is a diagrammatical chart and does not represent actual risk and return

Source: Sarasin & Partners LLP, 2020.

Our own time machine – the Endowments strategy

Evolution since 1900



Source: Sarasin % Partners, 2020

How has the Endowment strategy performed?



	Total Return %	Inflation %	'Real' Return %
Since 1900	8.5	3.7	4.6
Last 5 years	9.3	1.6	7.1

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

Source: Sarasin & Partners LLP to 31.12.19. *Historical simulation of Endowment policy over long-term period.

Distinct periods of 'feast and famine'

Multi asset portfolio have never produced consistent returns



Decade	Total Return % p.a.	Inflation % p.a.	Real return % p.a.	Comment
1900s	2.4	1.3	1.1	Bad
1910s	5.0	8.3	-3.0	Very Bad
1920s	5.9	-2.9	9.1	★ Excellent
1930s	4.2	0.4	3.8	Weak
1940s	5.4	2.8	2.5	Bad
1950s	13.1	4.1	8.6	★ Excellent
1960s	8.7	3.7	4.9	Average
1970s	12.4	13.1	-0.6	Very Bad
1980s	21.1	6.9	13.2	★ Excellent
1990s	13.5	3.5	9.7	★ Excellent
2000s	2.6	2.3	0.3	Very Bad
2010s	8.9	2.2	6.6	Good
Since 1900	8.5	3.7	4.6	The Average
Forecast 2020's	5.3	2.0	3.3	The Future: weak?

Source: Sarasin & Partners LLP, 2020

Back to the future

Projecting portfolio returns – by asset class

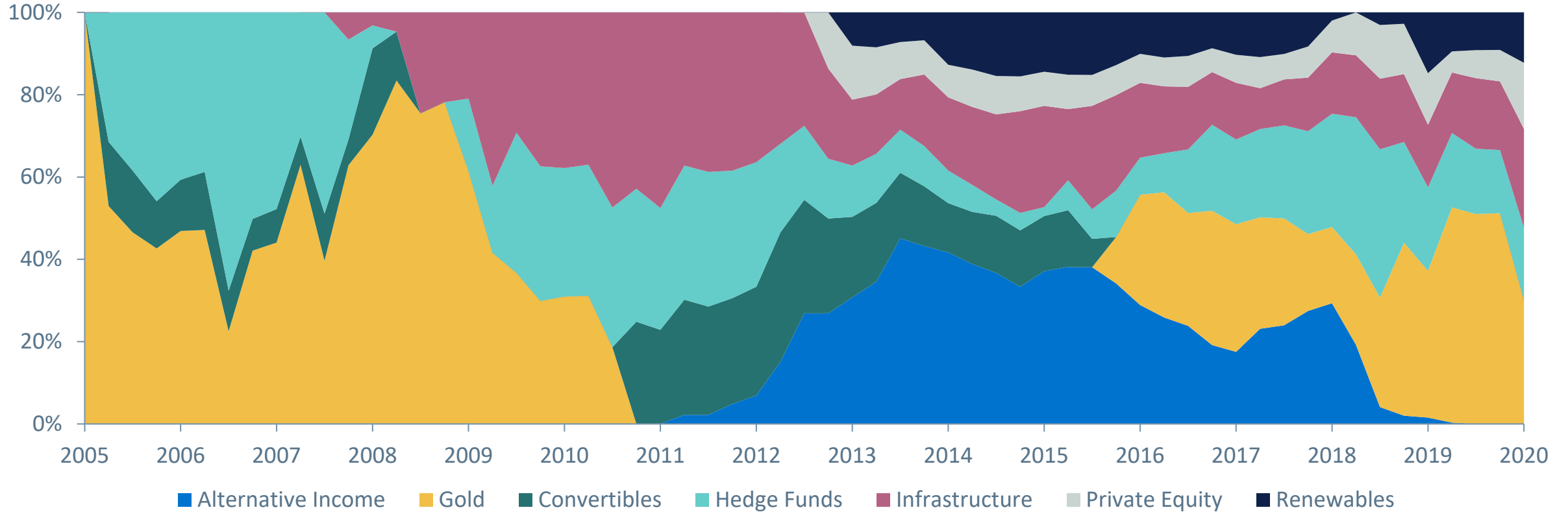
- **Fixed Income** interest rates and yields to remain lower for longer
- **UK Property** a real income yield – with some potential for growth in the future as UK economy recovers
- **Alternatives** diversification, volatility management and reasonable returns
- **Equities** still expect the highest return – but just not what we have been used to

Active management of alternatives

The benefits of liquidity



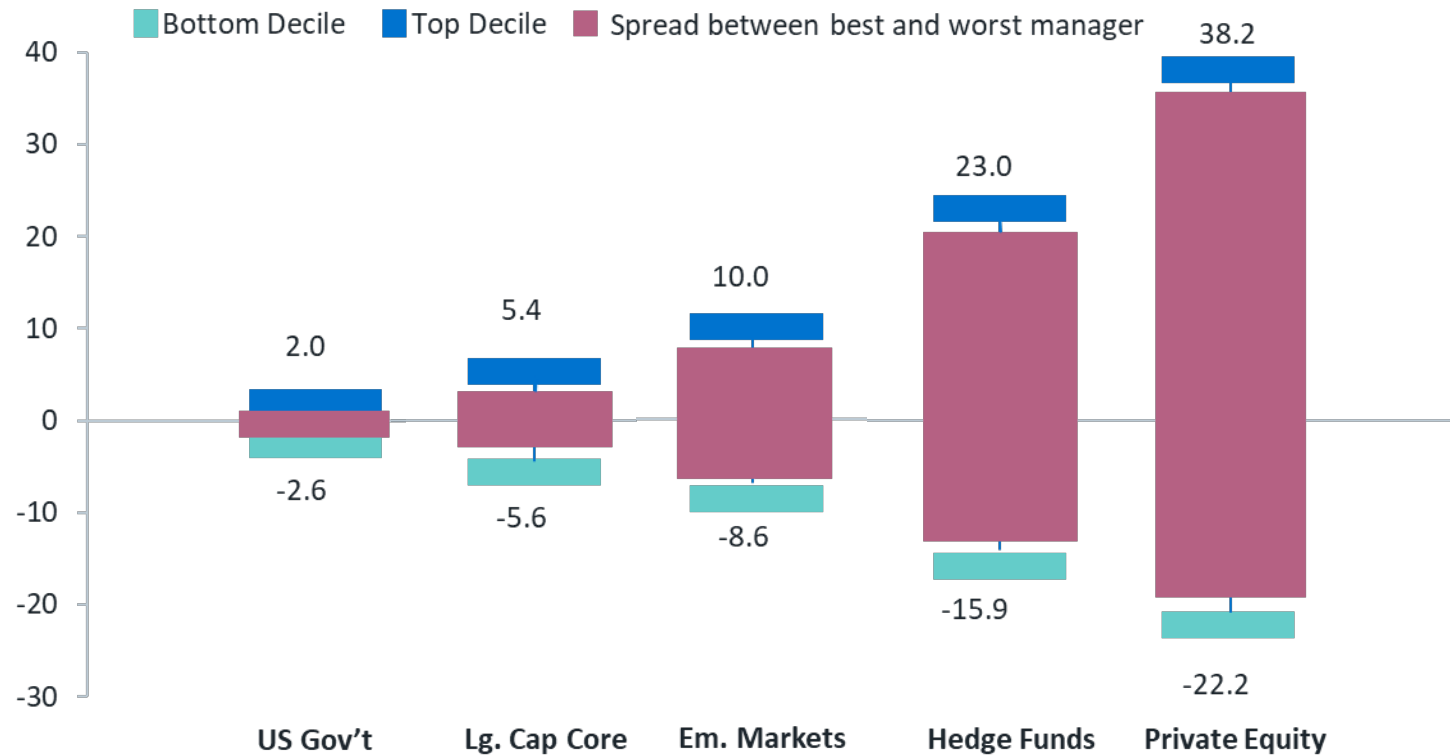
The Sarasin endowments fund has owned an array of alternative investments over time



Source: Sarasin & Partners LLP, 31.12.20, updated annually

Selection matters

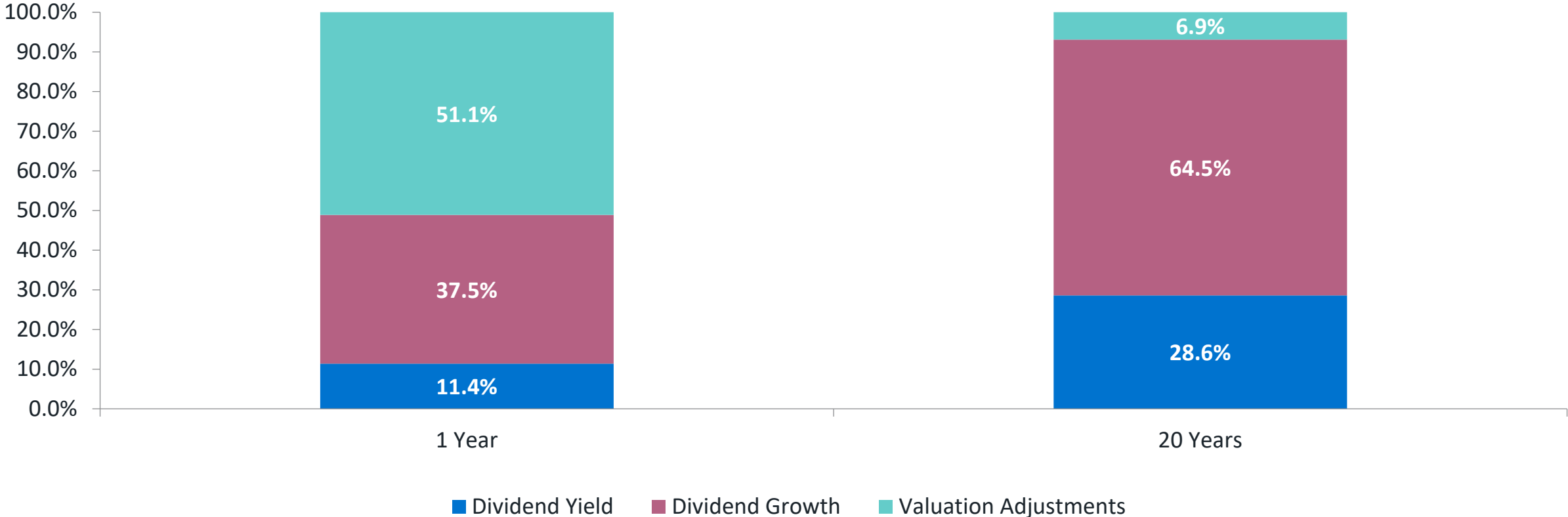
High spread between performance of managers (2003-2012)



Source: Morningstar, 31.12.2012. Please note date range (2003-2012). This chart represents latest data available and has not been updated since 2016.

Dividend growth is the key driver of equity returns

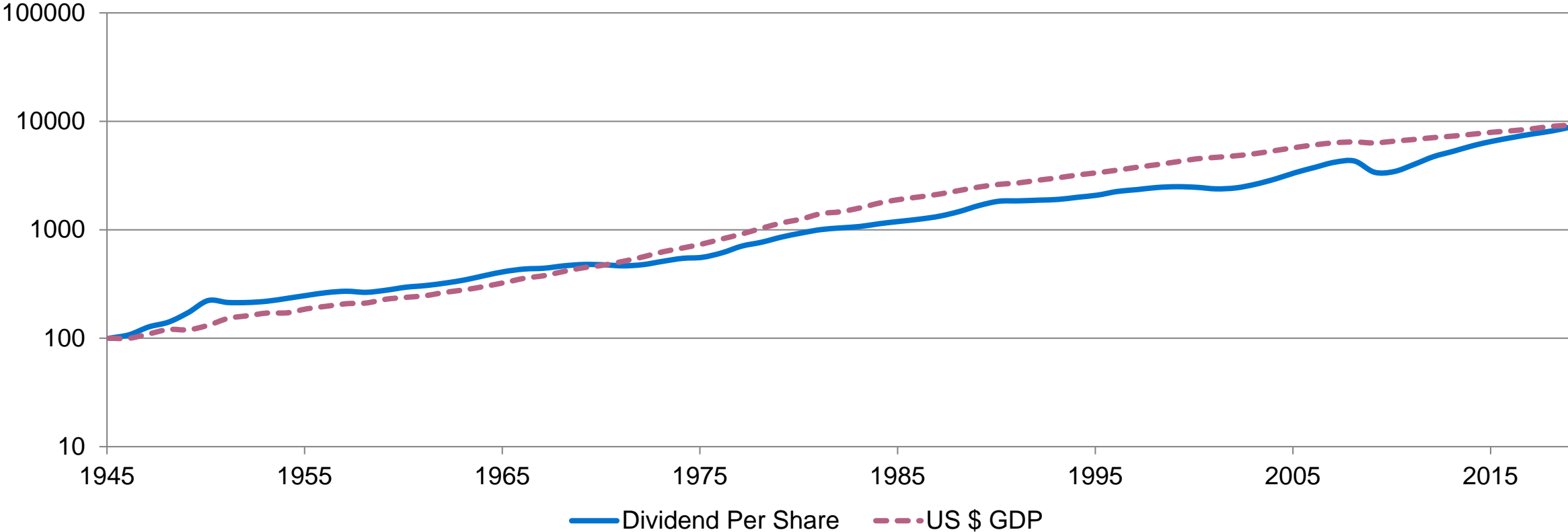
Decomposition of equity returns



Data is for period Dec 1994 - Sep 2015 MSCI All Countries World Index. Source: MSCI / Sarasin & Partners

Close correlation between GDP and dividends

US dividend growth versus US GDP growth



Source: World Bank / Robert Shiller, 31.12.19

Summary of asset class projections

The next investment cycle

- **Fixed Income** 1 - 2% per annum Yields to maturity
- **UK Commercial Property** 5% per annum Initial yield + some capital growth
- **Alternatives** 4.5% per annum
- **Equities** 6.3% per annum Starting yield x inflation x income growth

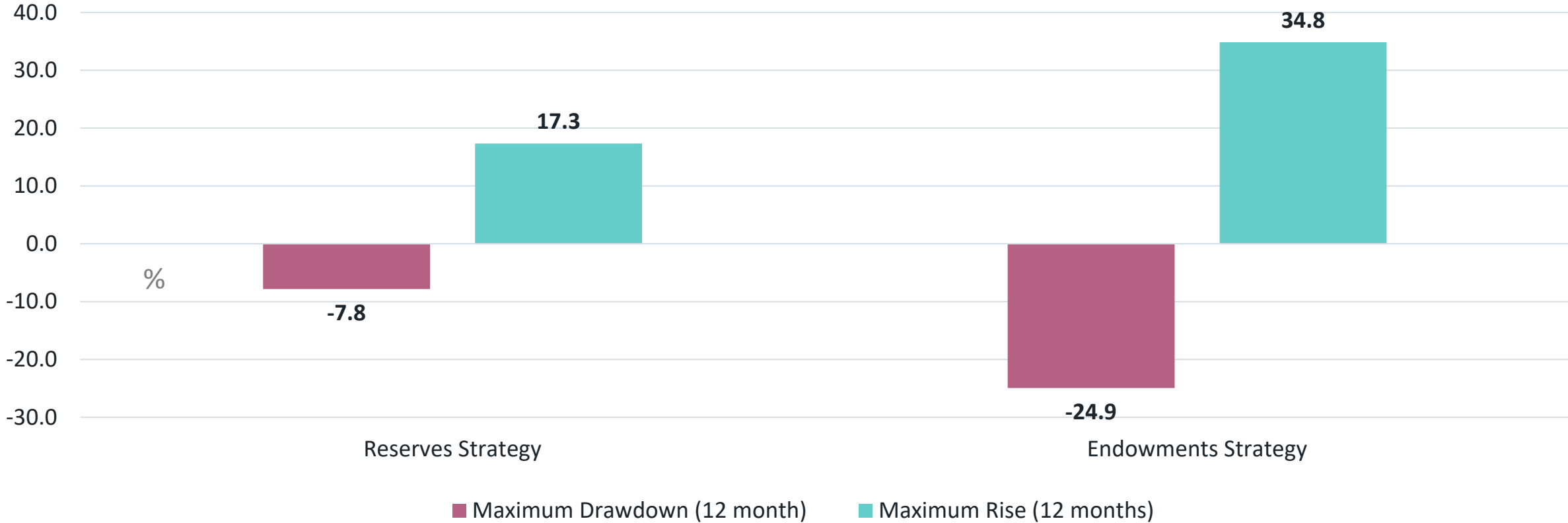
What choices do you need to make?

Considerations – the three ‘pots’

	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	Reserves Strategy	Endowments Strategy

How much volatility are you prepared to withstand?

Returns don't come without risk



Source: Sarasin & Partners LLP, data from 31.12.2005 to 31.12.2020

Strategic asset allocations



Time Frame	Medium Term		Long Term
	Reserves Strategy	Endowments Strategy	Growth Strategy
Fixed Income	65.0	15.0	~
Equities	20.0	70.0	80.0
UK Commercial Property	~	5.0	~
Alternatives	10.0	10.0	20.0
Cash	5.0	~	~
Total	100.0	100.0	100.0
Inflation (CPI) + target	1.0%	3.5%	4.5%

Source: Sarasin & Partners LLP. As at 31.12.2020

Back to the Future

Conclusions

- Set a clear strategy
 - Cash flow projections, time horizons, risk parameters & return expectations
- Accept lower returns?
- Be prepared to take more risk
 - A more growth oriented fund

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