

Strategic implications for the next decade. What can we expect markets to produce from here?

James Hutton



SARASIN
& PARTNERS

COMPENDIUM
OF INVESTMENT

2022 EDITION
Published since 1997



History of returns



01 THE INVESTMENT UNIVERSE

A focus on historic investment returns of equities, government bonds, cash and inflation

- 12** Equities, government bonds and cash
- 14** Bonds
- 27** Equities
- 44** Comparing equities with bonds
- 48** Commercial property
- 58** Alternatives: Hedge funds
- 65** Alternatives: Private equity
- 70** Alternatives: Infrastructure
- 75** Alternatives: Commodities
- 80** Peripheral alternatives
- 87** Derivatives

Long-term UK investment returns (£)

	Equities %	Gilts %	Cash %	Inflation %		Equities %	Gilts %	Cash %	Inflation %
1900	1.3	1.1	4.0	3.3	1961	8.9	1.1	5.1	4.4
1901	-3.9	-1.0	2.5	0.0	1962	8.7	18.8	4.5	2.6
1902	3.3	1.9	3.0	3.2	1963	20.8	3.1	3.8	1.9
1903	-2.6	-2.5	3.4	0.0	1964	-3.8	-2.6	4.4	4.8
1904	12.3	3.5	2.9	0.0	1965	11.9	4.4	6.3	4.5
1905	6.3	3.7	2.2	0.0	1966	-2.0	3.1	6.1	3.7
1906	3.2	-1.0	3.0	-6.2	1967	37.8	2.2	5.9	2.5
1907	-0.9	0.3	3.8	10.0	1968	57.5	-2.8	7.4	5.9
1908	3.0	3.3	2.2	3.0	1969	-15.6	-0.4	7.9	4.7
1909	8.2	1.7	2.1	0.0	1970	-1.1	4.8	7.5	7.9
1910	6.6	-1.2	3.1	0.0	1971	36.1	26.0	6.2	9.0
1911	2.2	0.3	2.8	2.9	1972	18.6	-4.3	5.4	7.7
1912	4.1	0.7	2.0	2.9	1973	-24.3	-9.7	9.0	10.6
1913	1.2	-1.4	3.0	0.0	1974	-48.8	-17.4	12.6	19.1
1914	-7.2	-1.0	3.0	0.0	1975	145.6	35.8	10.8	24.9

Source: Sarasin & Partners Compendium of Investment, 2022

Past performance is not a guide to future returns and may not be repeated.

Long-term UK investment returns (£)

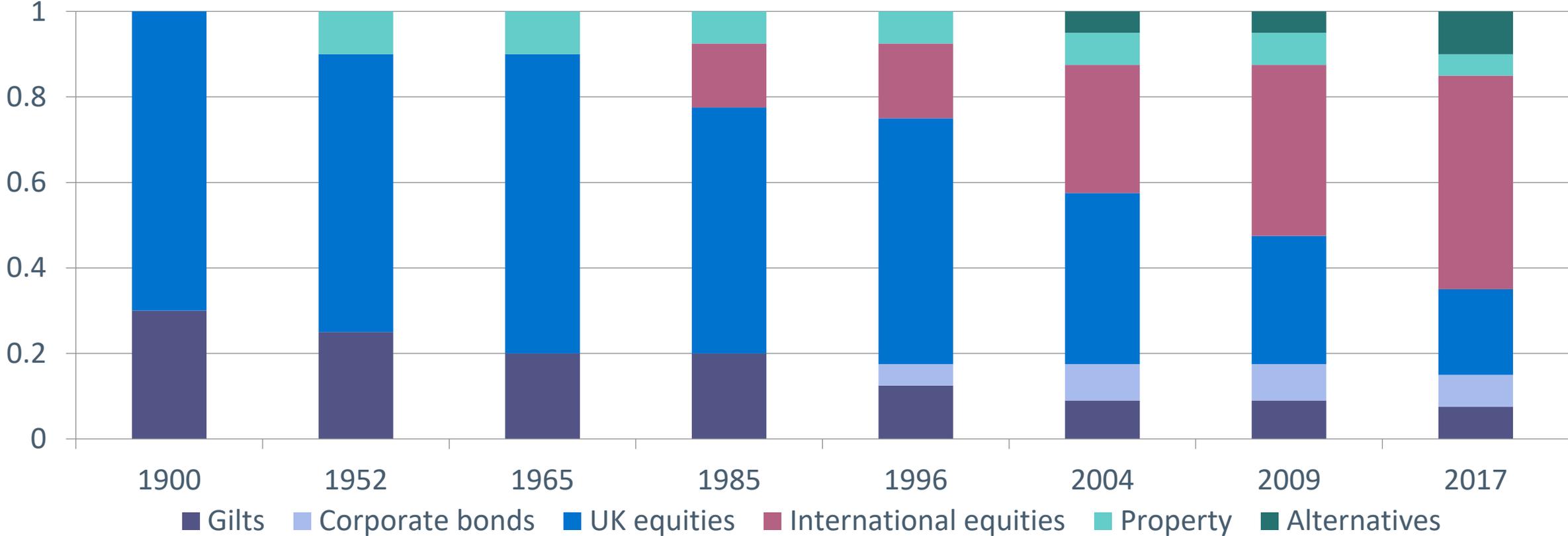
	Equities	Gilts	Cash	Inflation		Equities	Gilts	Cash	Inflation
	%	%	%	%		%	%	%	%
1950	10.7	4.1	0.5	3.2	2011	-3.0	15.7	0.7	4.8
1951	9.1	-9.5	0.5	12.0	2012	12.2	2.6	0.8	2.6
1952	1.2	-0.8	2.1	6.3	2013	20.5	-4.0	0.4	2.1
1953	24.2	14.0	2.4	1.1	2014	0.5	13.8	0.4	0.9
1954	52.3	6.1	1.9	4.0	2015	0.0	0.6	0.4	0.1
1955	11.3	-9.5	3.5	5.8	2016	17.4	10.2	0.4	1.6
1956	6.2	-3.7	5.0	3.0	2017	13.0	1.8	0.2	2.9
1957	-5.8	0.1	5.0	4.6	2018	-9.8	0.5	0.5	2.5
1958	40.4	11.8	5.1	1.8	2019	18.4	7.0	0.7	1.8
1959	50.2	7.9	3.4	0.0	2020	-11.8	8.3	0.4	0.6
1960	-2.9	-4.2	5.0	1.8	2021	18.7	-5.2	0.1	5.4
Average annual return									
5 years					4.8	2.4	0.3	2.6	
10 years					7.3	3.4	0.4	2.1	
25 years					6.0	6.3	2.9	2.1	
Since inception					9.1	5.3	4.5	3.7	
Volatility					21.0	11.4	3.9	6.4	

Source: Sarasin & Partners Compendium of Investment, 2022

Past performance is not a guide to future returns and may not be repeated.

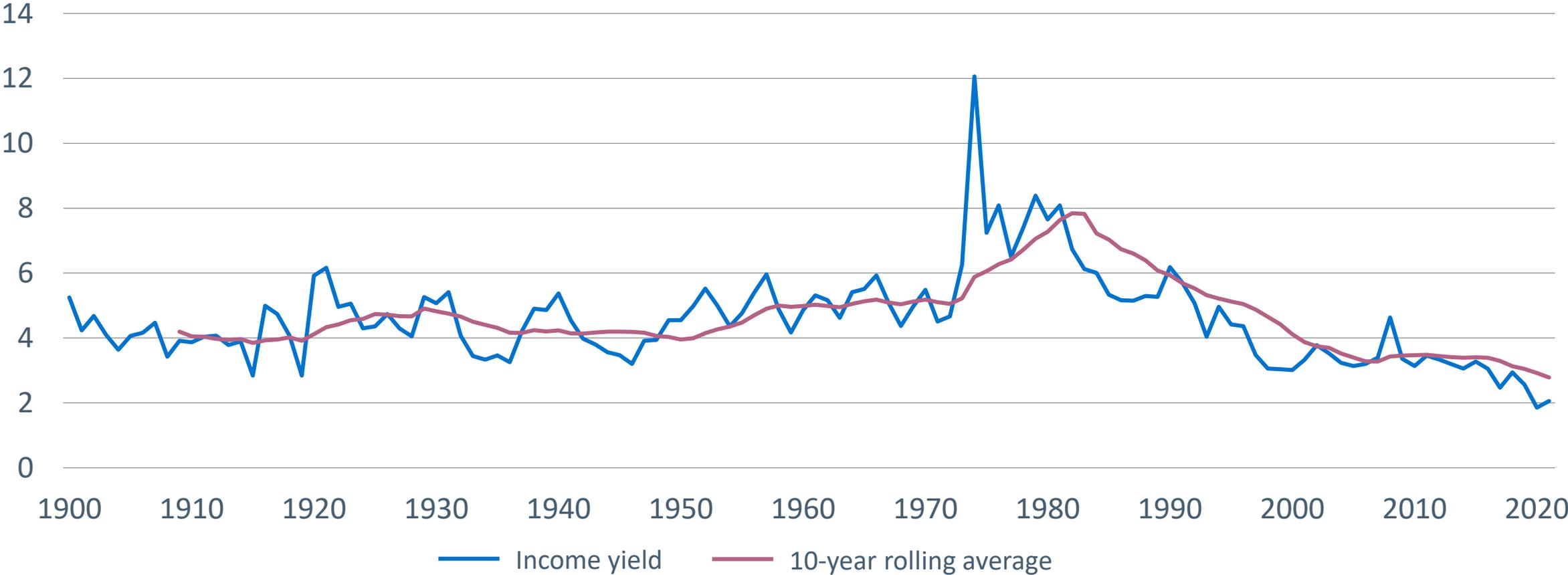
Endowments Model

 Evolution of the Endowments Model asset allocation (%)



Source: Sarasin & Partners Compendium of Investment, 2022

History of yields



Source: Sarasin & Partners Compendium of Investment, 2022

History of returns



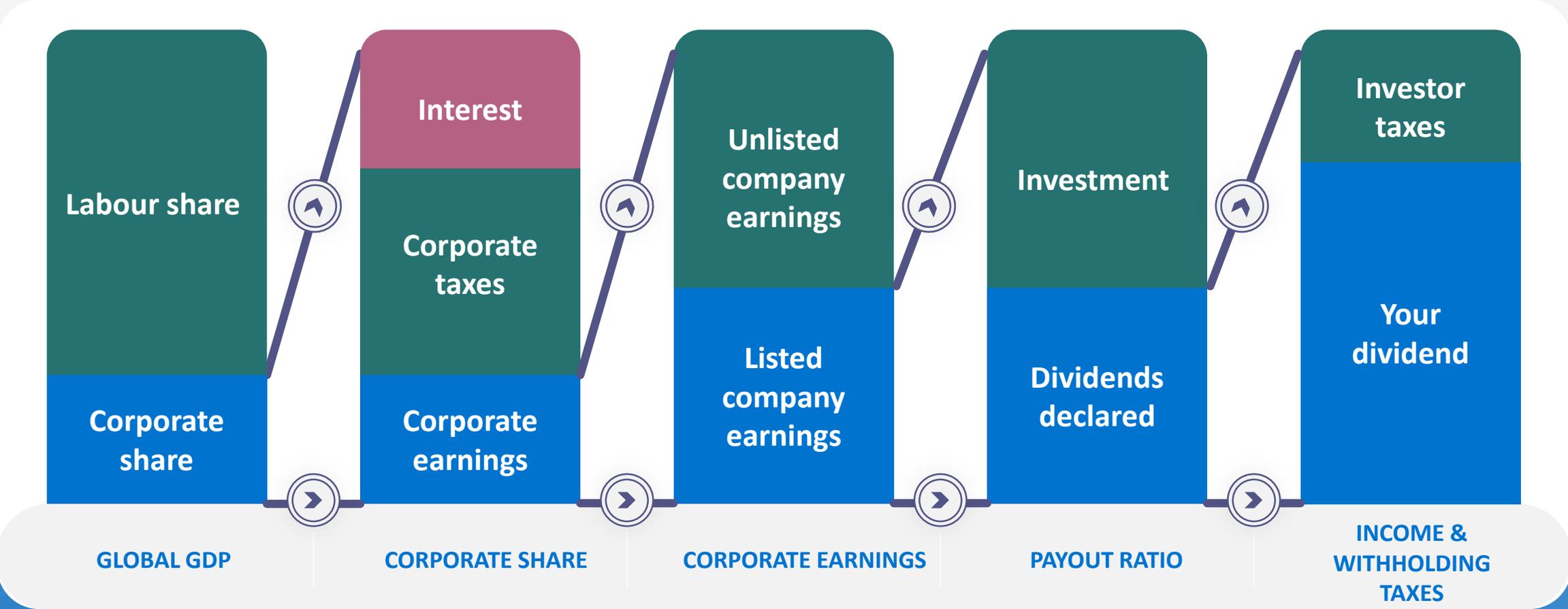
Time Period	Total absolute return	Inflation	Real return
Since 1900	8.5	3.7	4.6

Time Period	Total absolute return	Inflation	Real return
1900s	2.4	1.3	1.1
1910s	5.0	8.3	-3.0
1920s	5.9	-2.9	9.1
1930s	4.2	0.4	3.8
1940s	5.4	2.8	2.5
1950s	13.1	4.1	8.6
1960s	8.7	3.7	4.9
1970s	12.4	13.1	-0.6
1980s	21.1	6.9	13.2
1990s	13.1	3.5	9.2
2000s	2.5	2.3	0.2
2010s	8.9	2.3	6.5
2020s	10.4	3.0	7.2
Since 1900	8.5	3.7	4.6

Source: Sarasin & Partners Compendium of Investment, 2022

In theory

The path from economic growth to the dividend in your pocket



Source: Sarasin & Partners, 2022

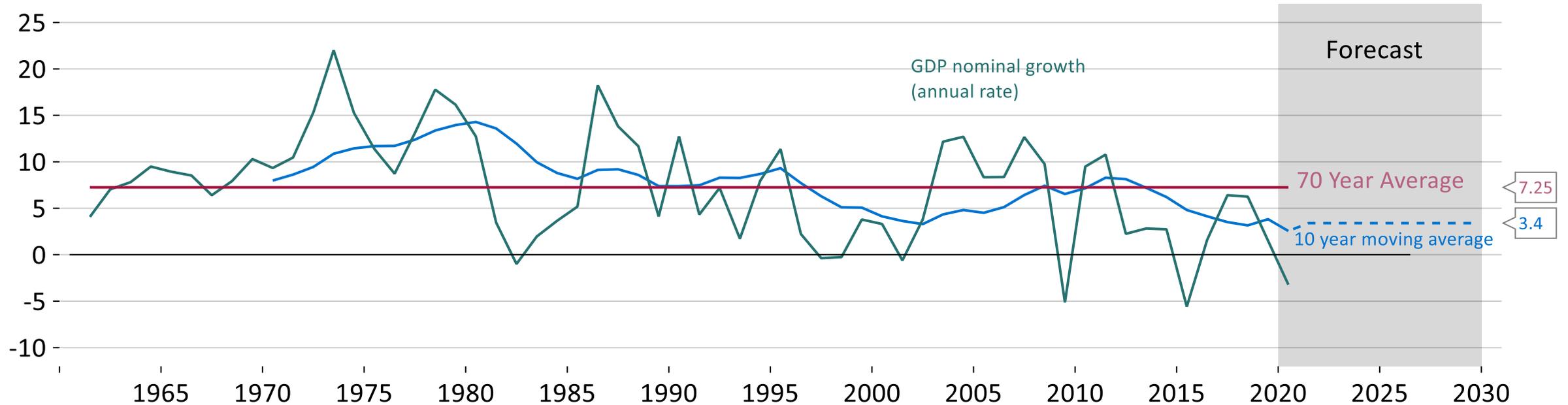
Global growth is slowing

Slower GDP growth than we have seen historically



World Nominal GDP Growth Rate

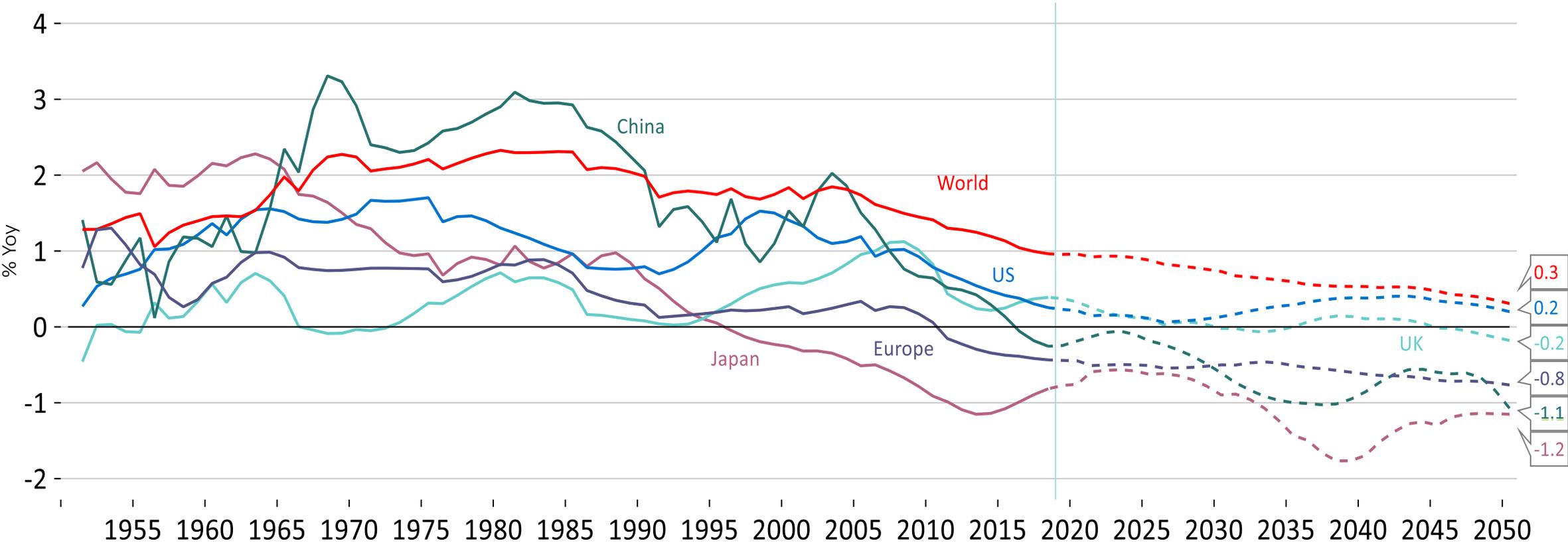
GDP at Current USD Prices, 10 Year Average Annual Rate



Source: Macrobond, 11.03.22

Largely due to population and productivity decline

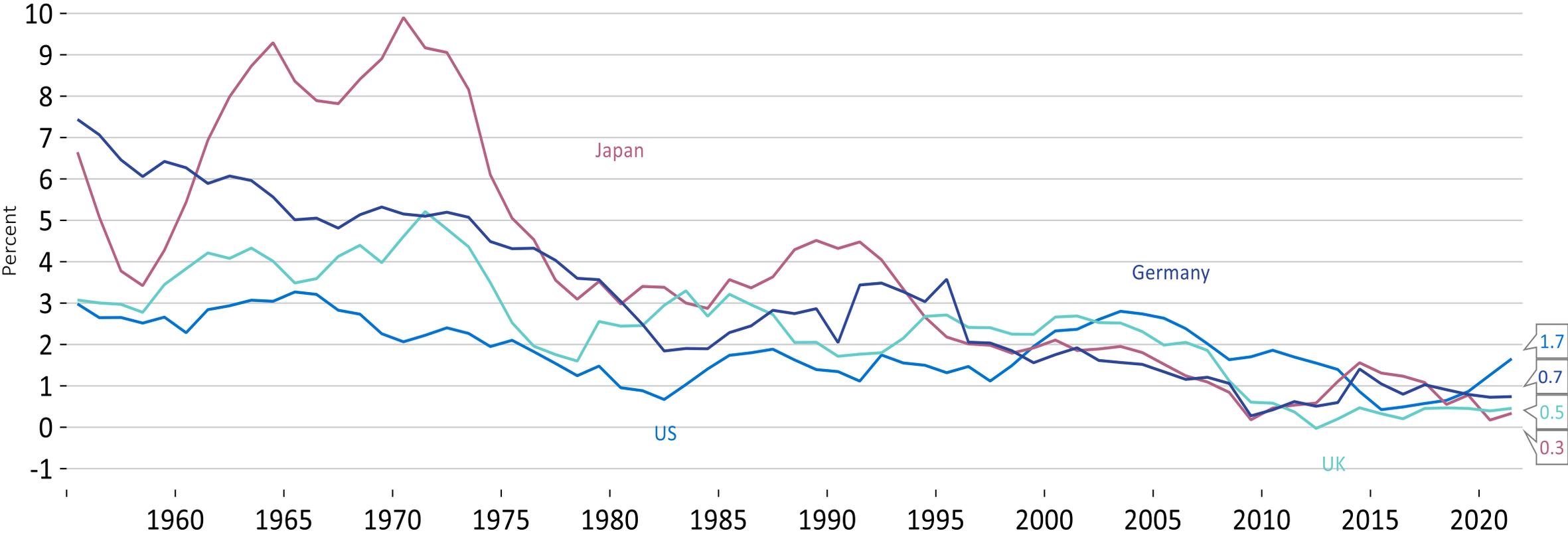
Working age population growth (16-64 years)



Source: Macrobond, 11.03.22

Largely due to population and productivity decline

 Productivity (per hour worked, 5 year moving average)



Source: Macrobond, 11.03.22

Forecasting equity returns



Projected long-term global equity return (%)

	Trend Return per annum
Starting Dividend Yield	1.8
x Global Inflation	2.4
x Real Dividend Growth	2.5
End Dividend Yield	1.8
Total Return Per Annum	6.8
UK Inflation	2.6
Real Return Per Annum	4.1

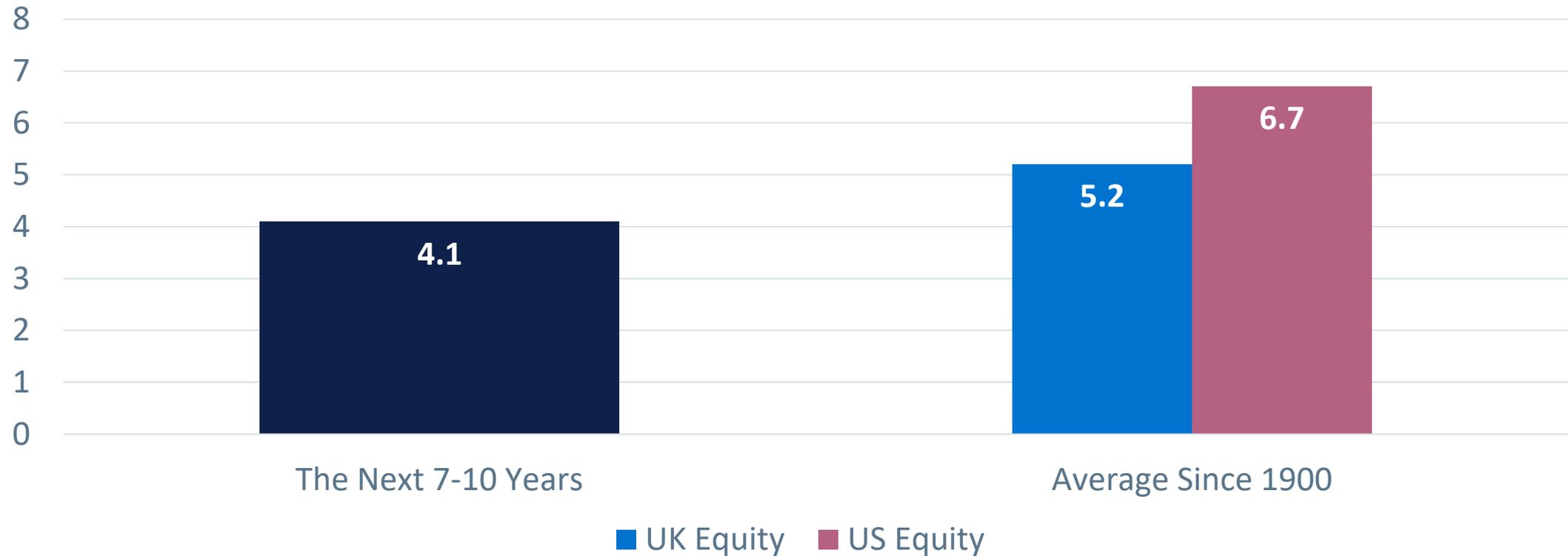
Source: Sarasin & Partners Compendium of Investment, 2022

Past performance is not a guide to future returns and may not be repeated.

In the context of history



Real US and UK equity return past and forecast (%)



Source: Sarasini & Partners Compendium of Investment, 2022

Please note there is no guarantee that the projected returns will be achieved.

Introducing other asset classes



Projected long-term investment returns (%)

Asset Class	Trend return per annum
Gilts	1.0
Corporate Bonds	2.2
Global Equities	6.8
UK Property	6.2
Alternatives	4.5
Sterling Cash	1.0

Source: Sarasin & Partners Compendium of Investment, 2022

Past performance is not a guide to future returns and may not be repeated.

Multi-asset portfolios



Endowments Model (%)

Asset Mix		Trend return per annum
7.5	Gilts	1.0
7.5	Corporate Bonds	2.2
70	Equities	6.8
5	UK Property	6.2
10	Alternatives	4.5
100	Total fund	5.8
Expected inflation		2.6
Projected real return		3.1
Last 10 Years real return		7.6



Reserves Model (%)

Asset mix		Trend return per annum
35	Gilts	1.0
35	Corporate Bonds	2.2
20	Equities	6.8
5	Alternatives	4.5
5	Cash	1.0
100	Total fund	2.8
Expected inflation		2.6
Projected real return		0.2
Last 10 Years real return		3.7

Source: Sarasin & Partners Compendium of Investment, 2022

Please note there is no guarantee that the projected returns will be achieved.

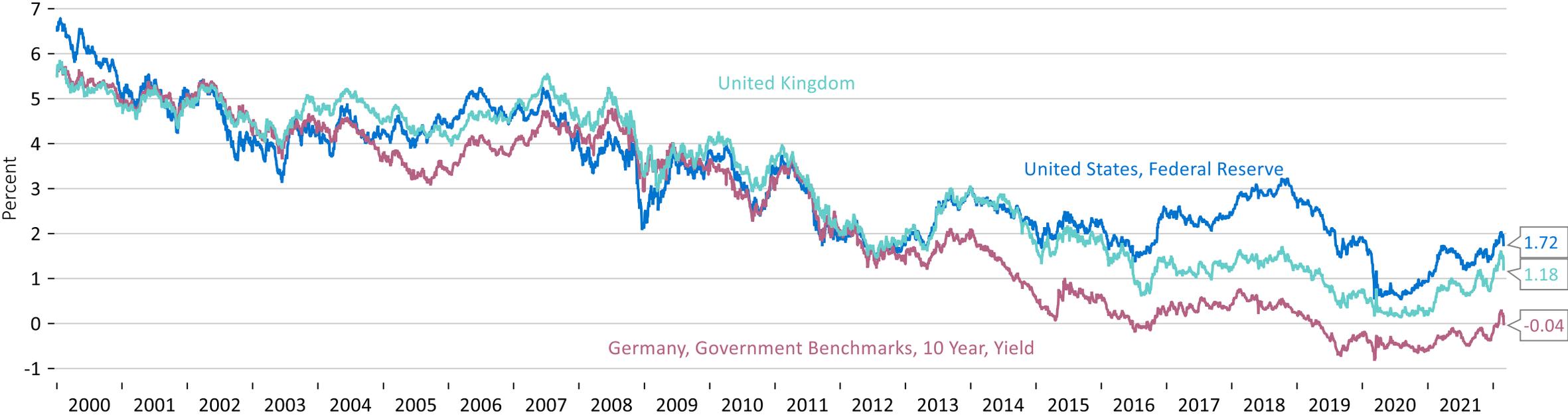
Fixed Income – a negative real return

Bonds unlikely to repeat the returns of the past two decades



Bond yields have collapsed over the past 2 decade

10 Year Govt Bond Yields



Source: Macrobond, 02.03.22

Sarasin Growth Fund



Asset class	Sarasin Growth Fund (Long-term target: CPI +4.5%) Asset allocation %	Tactical ranges
Equities	80.0	70 – 90
Alternatives	20.0	10 – 30
Property	-	0 – 10
Bonds	-	0 – 10
Cash	-	0 – 10
Total	100	

Trend total annual return	6.3
Trend annual 'real' return	3.7

Please note that there are no guarantees that the projected returns will be achieved. Source: Sarasin & Partners LLP, 31.12.21

Where does the risk lie?

Valuation



Drivers of US equity returns (%)

	Starting Yield	Dividend Growth	Valuation Change
1928 to 2021	4.4	4.7	1.3

Decade starting	Starting Yield	Dividend Growth	Valuation Change
1930	4.5	-4.3	-1.0
1940	5.0	6.4	-3.1
1950	6.9	4.8	8.3
1960	3.1	5.6	-1.1
1970	3.5	5.9	-4.0
1980	5.2	6.9	5.3
1990	3.1	4.0	10.9
2000	1.1	3.8	-6.3
2010	2.1	9.5	1.5
2020	1.8	1.6	19.6
Full period			
1928 to 2021	4.4	4.7	1.3

Source: Sarasin & Partners Compendium of Investment, 2022

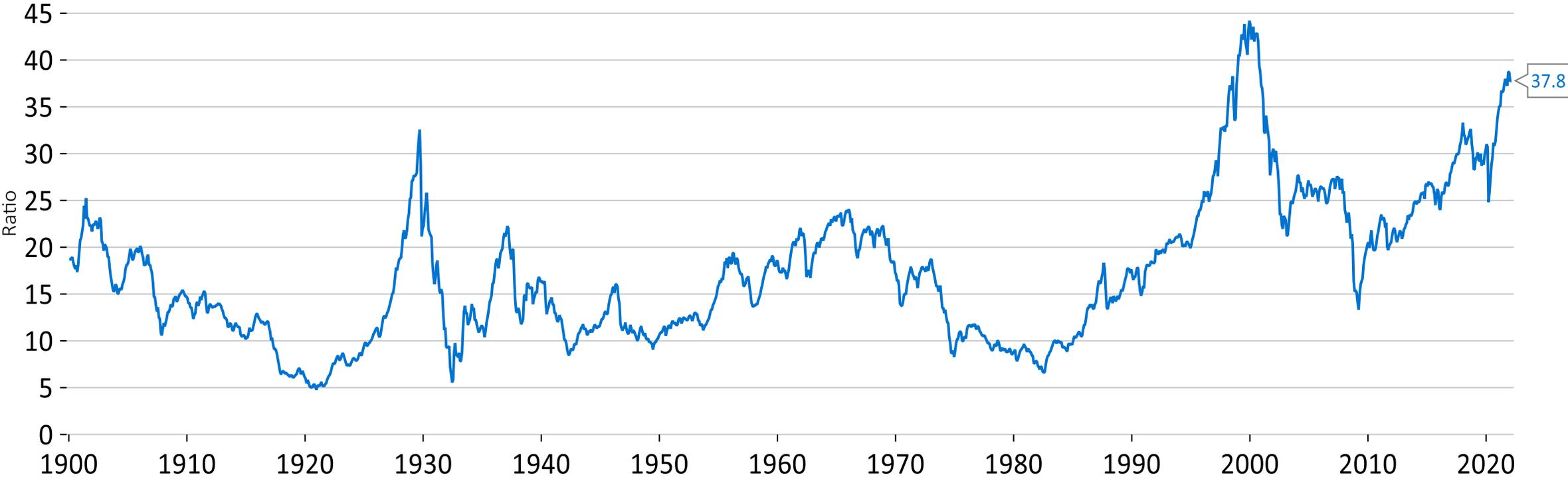
Past performance is not a guide to future returns and may not be repeated.

Excessive valuations



Long-term valuations have risen materially

Shiller Cyclically adjusted PE Ratio S&P500 (CAPE)



Source: Macrobond, 11.03.22

Impact on asset classes

What does a 3% yield on the bond market mean?



	Gilts	Corp Bonds	Equities	Prop
2022	-1.8	-0.9	-14.2	-0.9
2023	-5.8	-5.3	-8.5	-9.5
2024	-5.6	-5.0	-4.5	-8.0
Total Return	-12.7	-10.9	-25.0	-17.6
Capital Loss	-16.7	-18.1	-30.6	-29.0

Source: Sarasin & Partners Compendium of Investment, 2022

Past performance is not a guide to future returns and may not be repeated.

Asset class returns

10 Years



Source: Sarasin & Partners Compendium of Investment, 2022

Past performance is not a guide to future returns and may not be repeated.

Strategic asset allocation considerations

	Short-term	Medium-term	Long-term reserves	
Time frame	0 – 18m	18m – 5yrs	5yrs +	7yrs +
Objective	Improve on returns from cash	Return that at least matches inflation	Maintain the real value whilst providing sufficient income	Optimise for long-term total returns
Greatest risk	<u>Any</u> volatility	<u>Some</u> volatility	<u>Inflation</u>	<u>Inflation</u>
Implementation	Cash	Reserves Strategy	Endowments Strategy	Growth Strategy

Source: Sarasin & Partners, 2022

SARASIN
& PARTNERS

**COMPENDIUM
OF INVESTMENT**

2022 EDITION
Published since 1997

Important information

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

This document has been approved by Sarasin & Partners LLP of Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU, a limited liability partnership registered in England & Wales with registered number OC329859 which is authorised and regulated by the Financial Conduct Authority with firm reference number 475111.

It has been prepared solely for information purposes and is not a solicitation, or an offer to buy or sell any security. The information on which the document is based has been obtained from sources that we believe to be reliable, and in good faith, but we have not independently verified such information and no representation or warranty, express or implied, is made as to their accuracy. All expressions of opinion are subject to change without notice.

Please note that the prices of shares and the income from them can fall as well as rise and you may not get back the amount originally invested. This can be as a result of market movements and also of variations in the exchange rates between currencies. **Past performance is not a guide to future returns and may not be repeated.**

These Funds are designed for charities within the meaning of Section 1 of the Charities Act 2011 or as defined in paragraph 1(1) Schedule 6, Finance Act 2010 which are organised, incorporated or resident in the United Kingdom. This document has been approved by Sarasin & Partners LLP of Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU, a limited liability partnership registered in England & Wales with registered number OC329859 which is authorised and regulated by the Financial Conduct Authority with firm reference number 475111. The investments of the funds are subject to normal market fluctuations. **The value of the investments of the funds and the income from them can fall as well as rise and investors may not get back the amount originally invested.** If investing in foreign currencies, the return in the investor's reference currency may increase or decrease as a result of currency fluctuations. **Past performance is not a guide to future returns and may not be repeated.**

There is no minimum investment period, though we would recommend that you view your investment as a medium to long term one (i.e. 5 to 10 years). Frequent political and social unrest in Emerging Markets, and the high inflation and interest rates this tends to encourage, may lead to sharp swings in foreign currency markets and stock markets. There is also an inherent risk in the smaller size of many Emerging Markets, especially since this means restricted liquidity. Further risks to bear in mind are restrictions on foreigners making currency transactions or investments. For efficient portfolio management the Funds may invest in derivatives. The value of these investments may fluctuate significantly, but the overall intention of the use of derivative techniques is to reduce volatility of returns. The Funds may also invest in derivatives for investment purposes. All details in this document are provided for information purposes only and should not be misinterpreted as investment or taxation advice. This document is not an offer or recommendation to buy or sell shares in the funds. You should not act or rely on this document but should seek independent advice and verification in relation to its contents. Sarasin & Partners LLP and/or any other member of the J. Safra Sarasin Group accepts no liability or responsibility whatsoever for any consequential loss of any kind arising out of the use of this document or any part of its contents. The views expressed in this document are those of Sarasin & Partners LLP and these are subject to change without notice.

Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect of any such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.

Neither Sarasin & Partners LLP nor any other member of the Bank J. Safra Sarasin group accepts any liability or responsibility whatsoever for any consequential loss of any kind arising out of the use of this document or any part of its contents. The use of this document should not be regarded as a substitute for the exercise by the recipient of his or her own judgment. Sarasin & Partners LLP and/or any person connected with it may act upon or make use of the material referred to herein and/or any of the information upon which it is based, prior to publication of this document. If you are a private investor you should not rely on this document but should contact your professional adviser. © 2022 Sarasin & Partners LLP – all rights reserved. This document can only be distributed or reproduced with permission from Sarasin & Partners LLP.

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

T: +44 (0) 20 7038 7000
www.sarasinandpartners.com

