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# The Charity Funds Annual Review

November 2023

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# Navigating higher yields

Thomas Lindsey, Senior Associate Partner

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# 'There is no alternative'

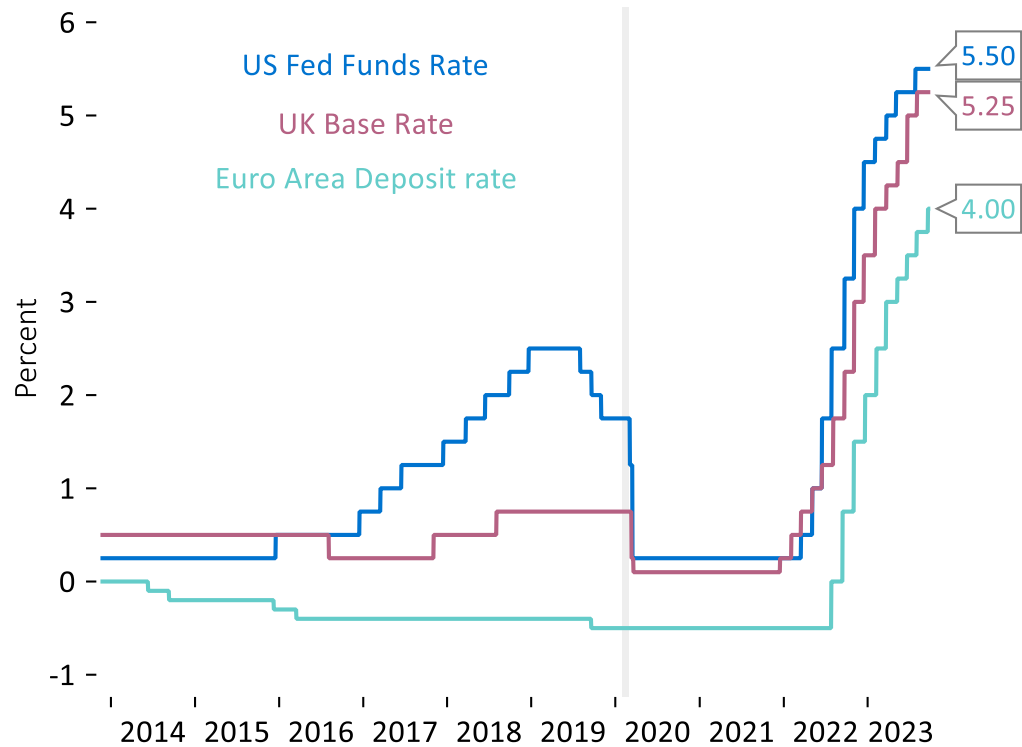
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**TINA**

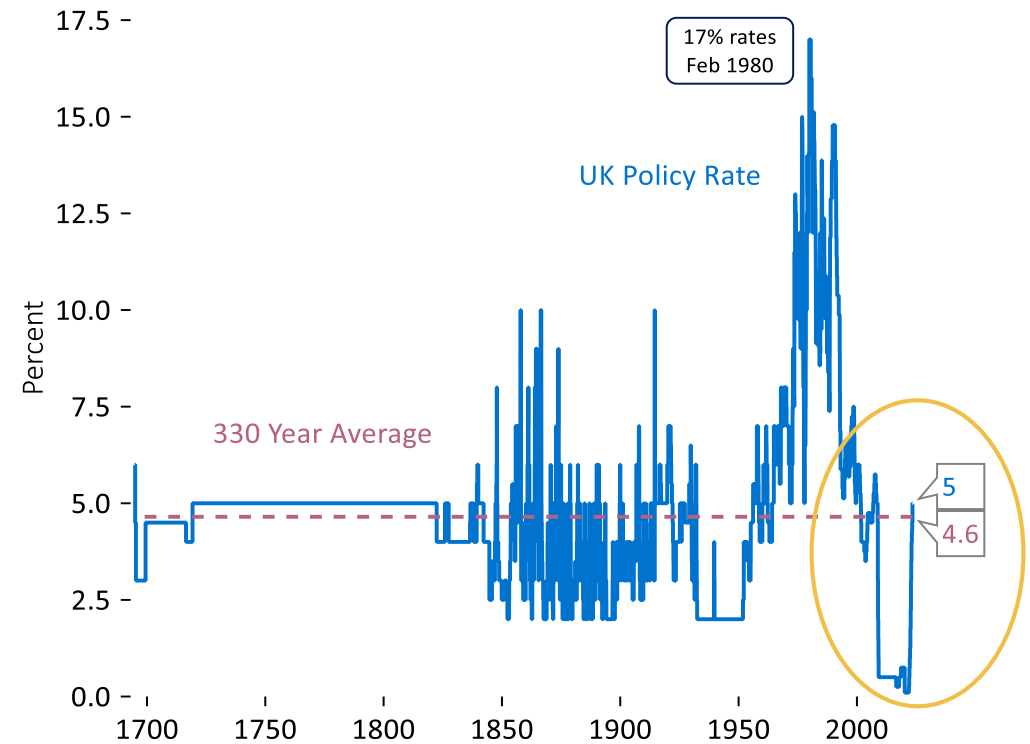


# Interest rate normalisation has been extraordinarily quick

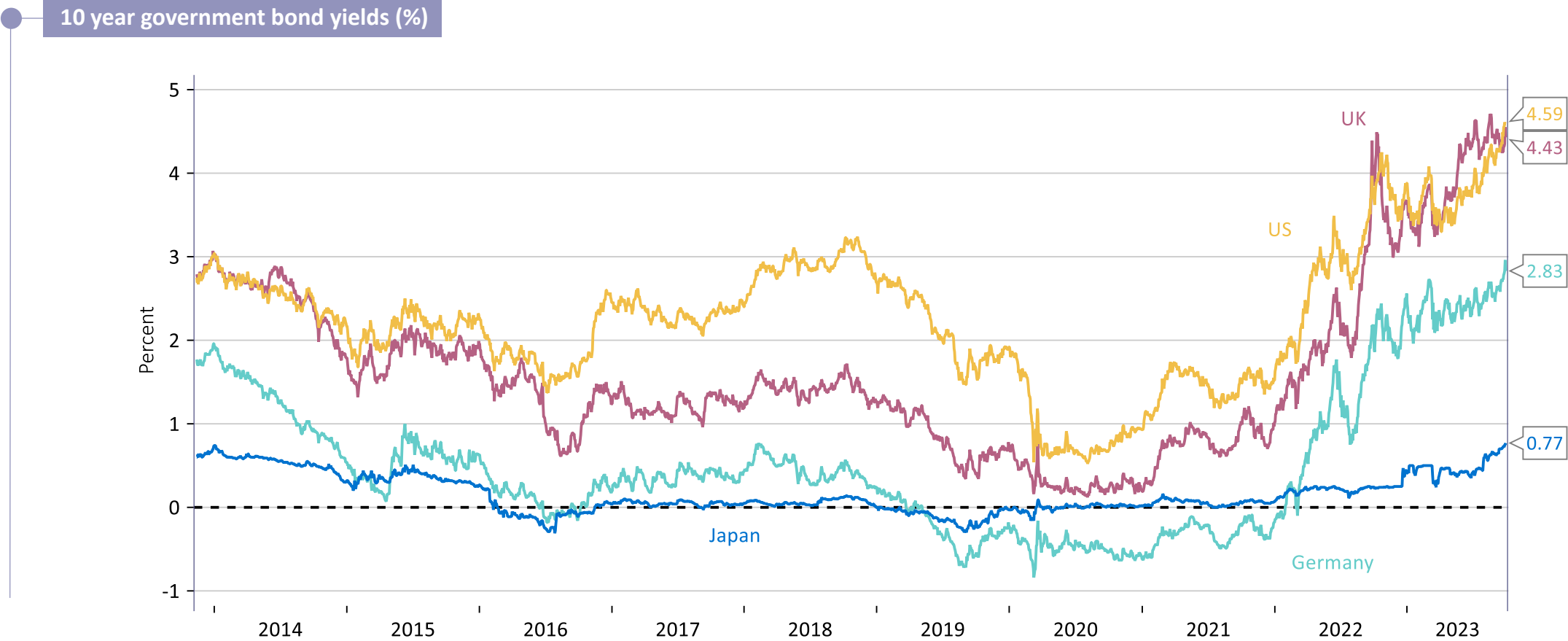
Global interest rates



Long-run Bank of England base rate



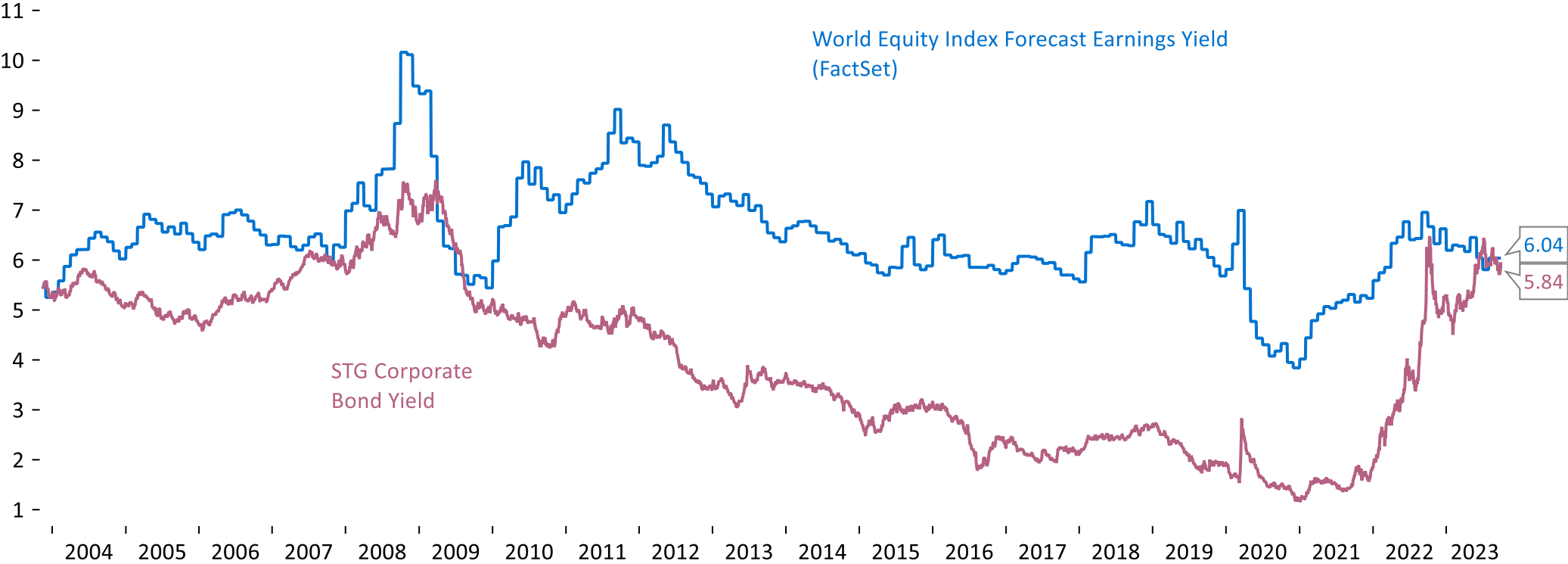
# Leading to a sharp increase in government bond yields



Past performance is not a reliable indicator of future results and may not be repeated.  
Source: Macrobond, 17.11.23

# Whilst there are now alternatives to equities...

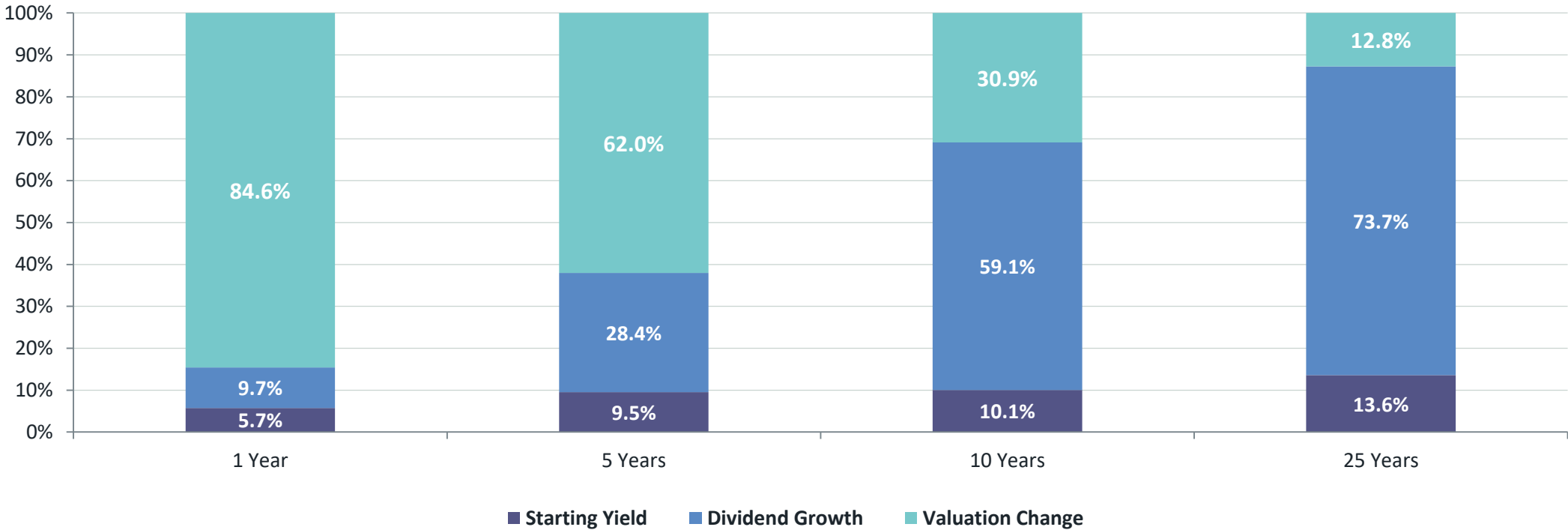
UK corporate bonds offer equivalent earnings yield to world equities



Past performance is not a reliable indicator of future results and may not be repeated.  
Source: Macrobond, 17.11.23

# Long-term dividend growth predominant driver of equity returns

Average contributions to returns from dividend yield, dividend growth and valuation adjustments, for the S&P 500

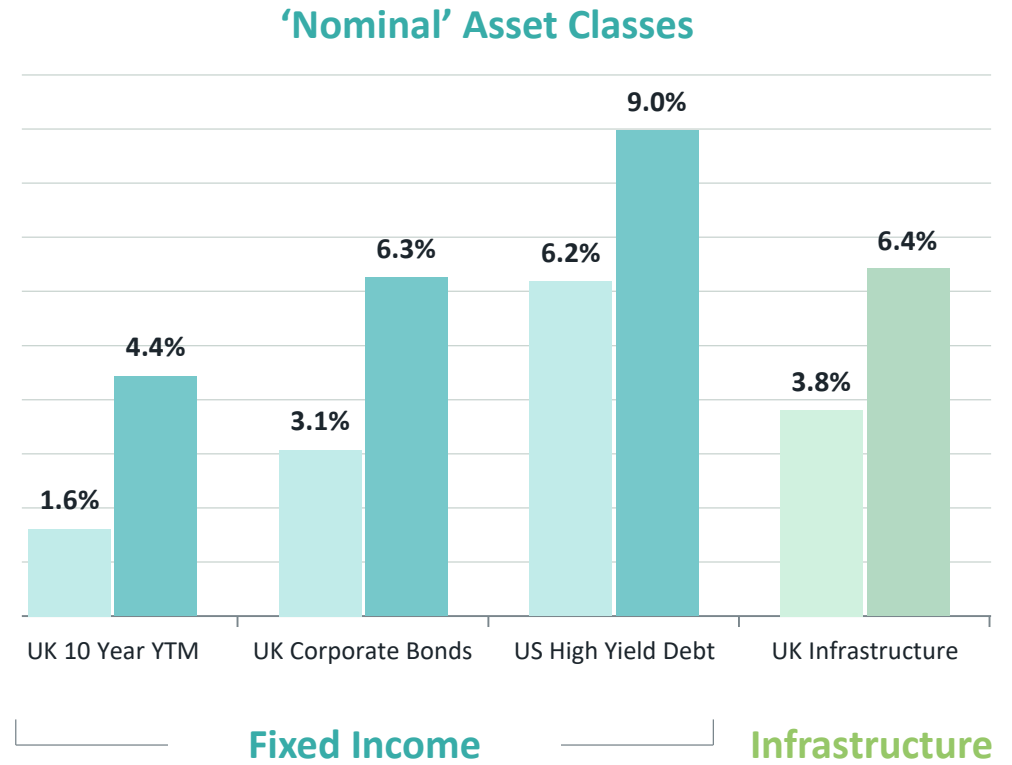
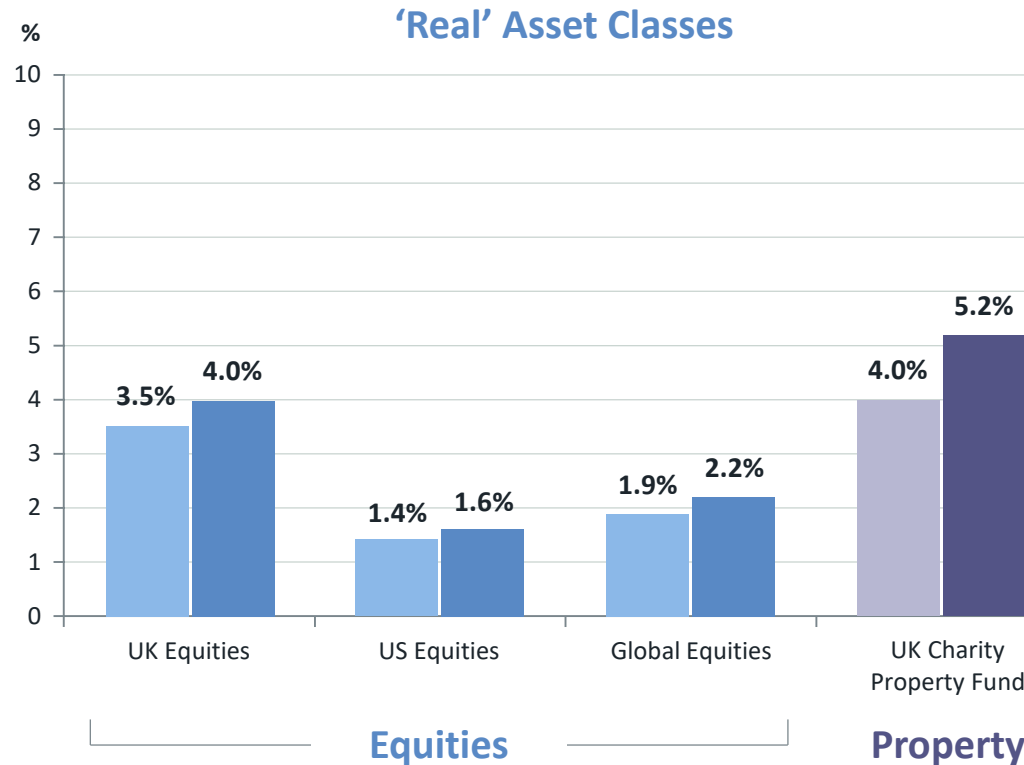


Past performance is not a reliable indicator of future results and may not be repeated.  
Source: Sarasin & Partners, Bloomberg. Data to 31 December 1996–2021

# Yields on nominal assets have re-priced materially

March 2022 vs October 2023

Dividend yield / Yield to maturity (%)

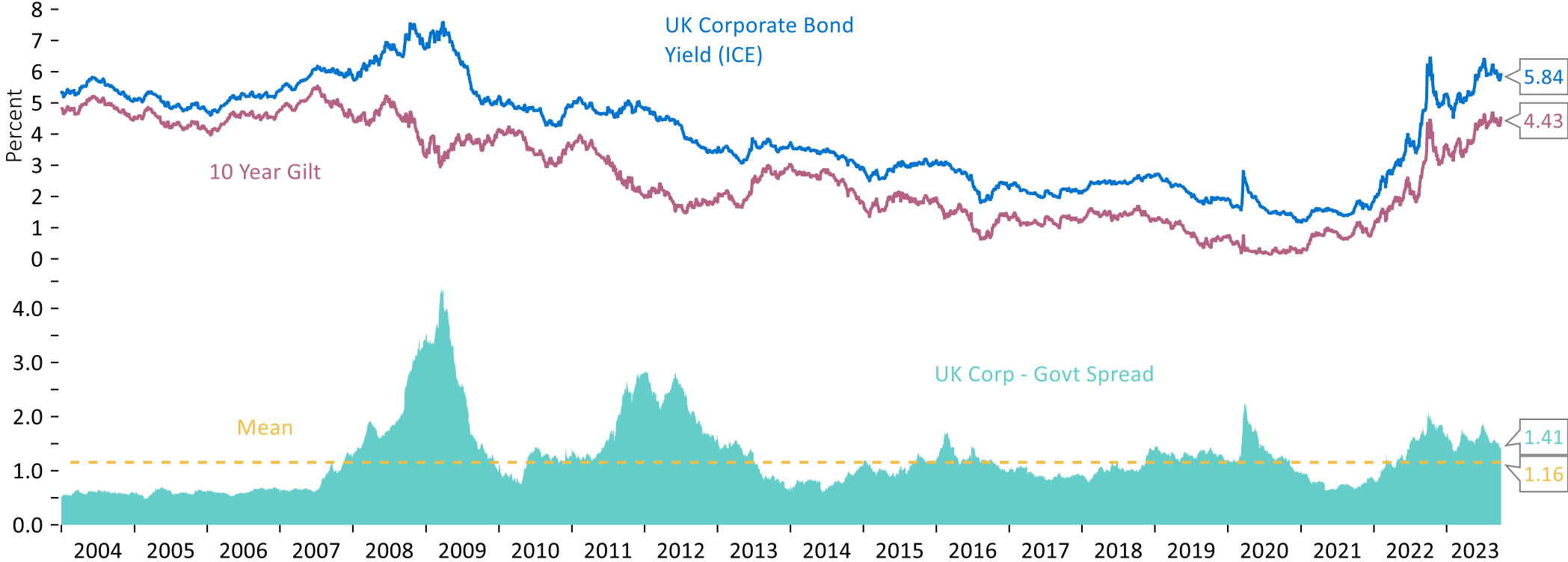


Past performance is not a reliable indicator of future results and may not be repeated.

Source: Sarasin & Partners, Bloomberg 31.03.22 - 31.10.23



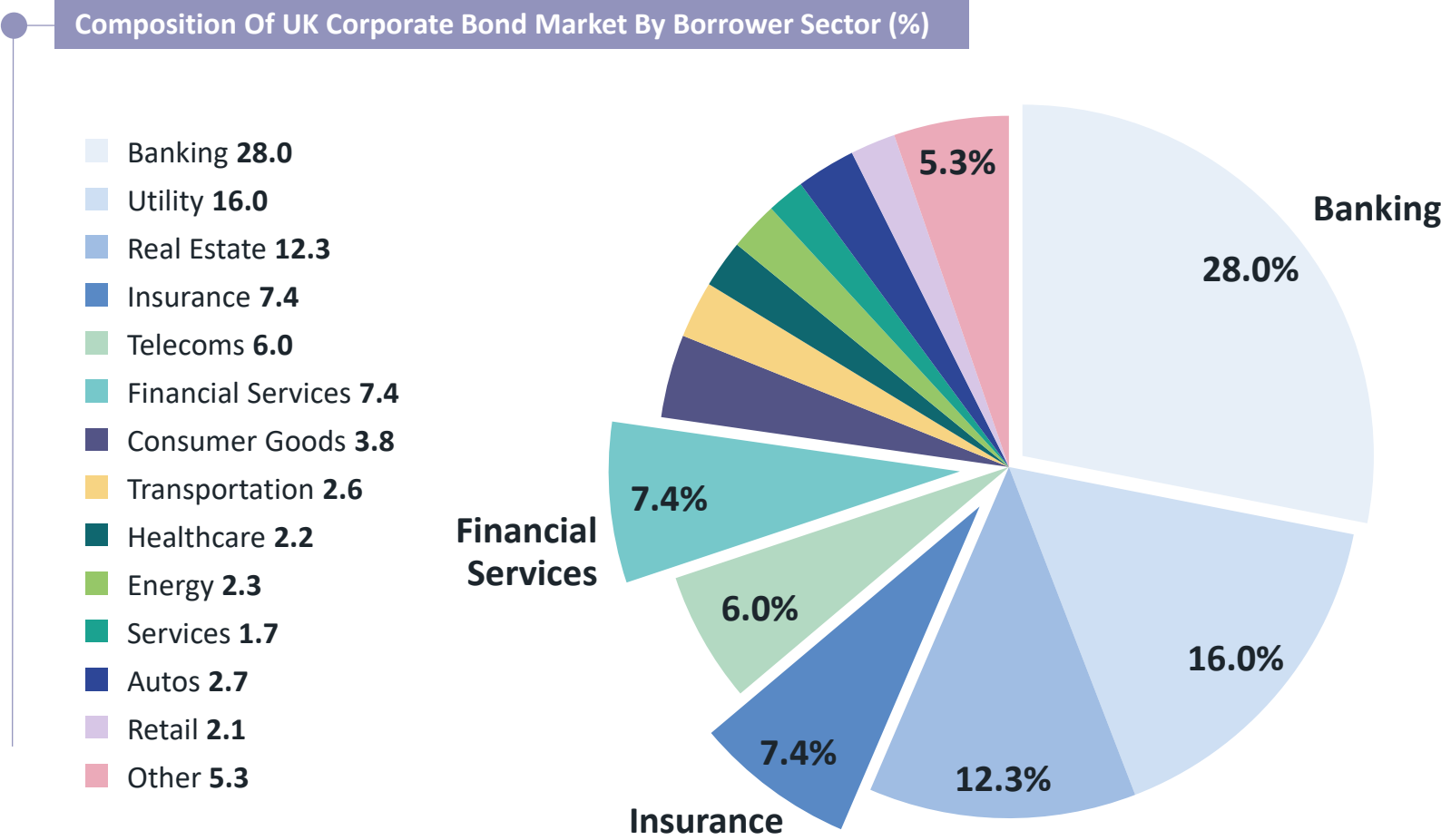
# UK corporate bonds attractive as inflation normalises



Past performance is not a reliable indicator of future results and may not be repeated.  
 Source: Macrobond, 17.11.23

# Composition of the UK corporate bond market

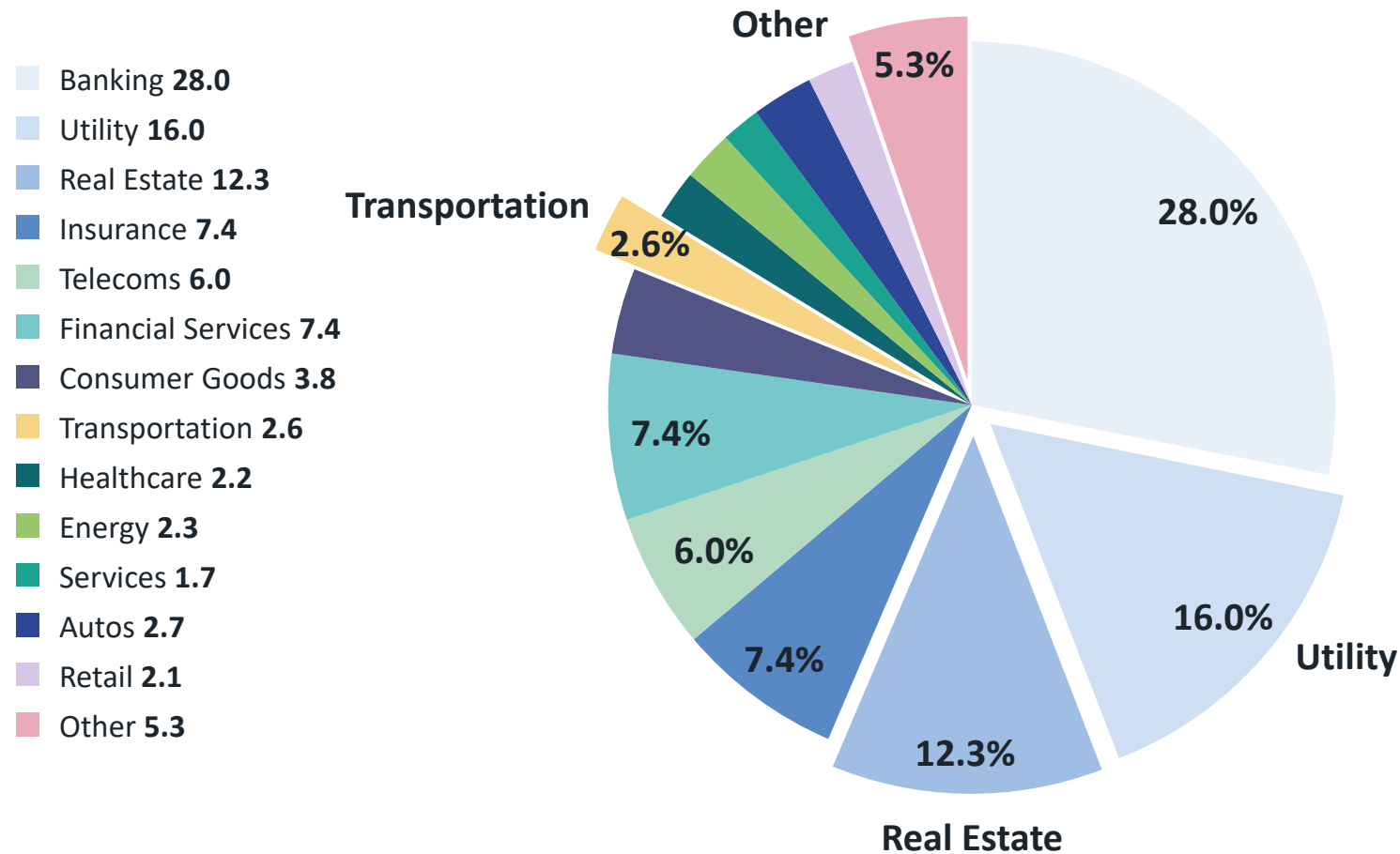
Financial services make up an outsized share



Source: Bloomberg, 10.11.23

# But there are many exciting opportunities for long-term charity investors

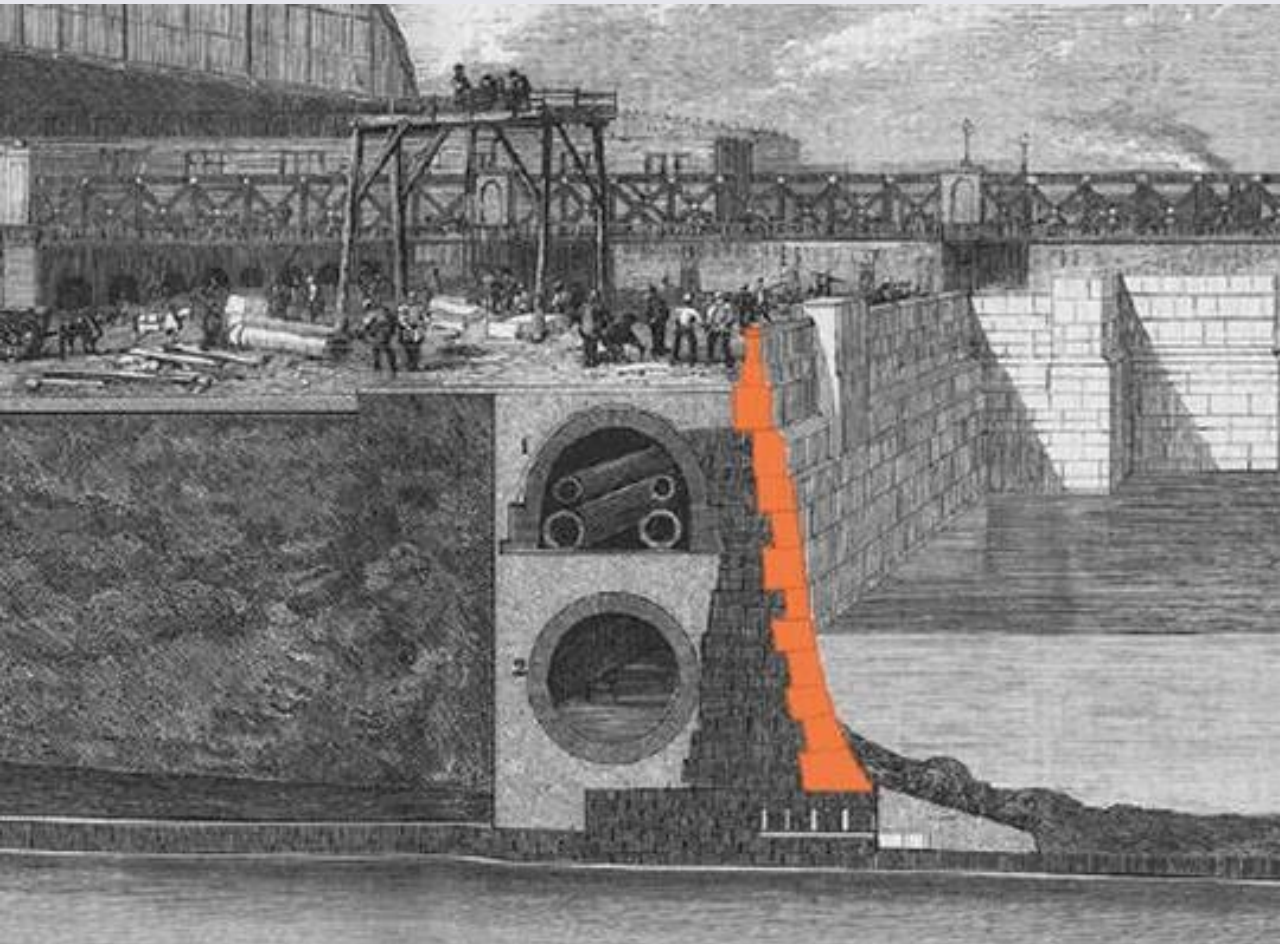
Composition Of UK Corporate Bond Market By Borrower Sector (%)



- Charitable Enterprises
- Education, Universities & Student Housing
- Government Social Housing Partnerships
- Housing Associations
- Public Transport
- Renewable Energy Infrastructure
- Green, Social and Sustainability (GSS)
- Not for Profit and Mutuals

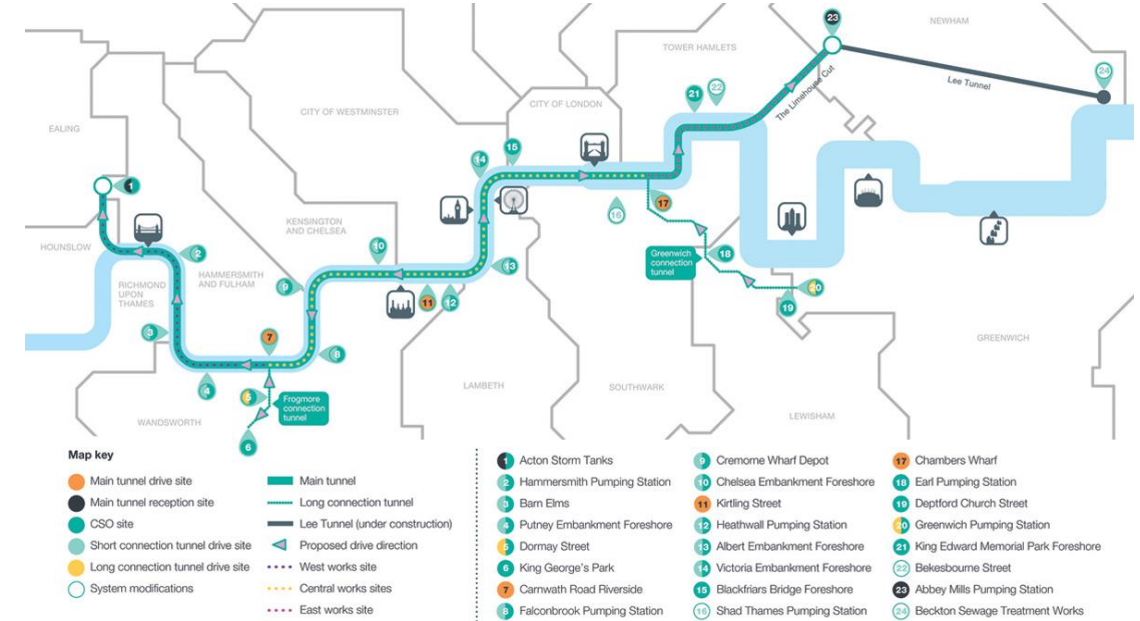
Source: Bloomberg, 10.11.23

# From the Thames to Eternity...



Source: <https://www.ucl.ac.uk/bartlett/architecture/events/2023/sep/thames-eternity-re-using-stones-thames-river-wall>

# Example corporate bond: Bazalgette Finance (green bond)



**Credit Rating**

Baa1 Stable / BBB+ Stable

**Maturity**

Nov 2027

March 2034

**Coupon**

2.4%

2.8%

**YTM**

5.6%

5.9%

Source: Bloomberg, <https://www.flickr.com/photos/mwmbwls/45013646924>

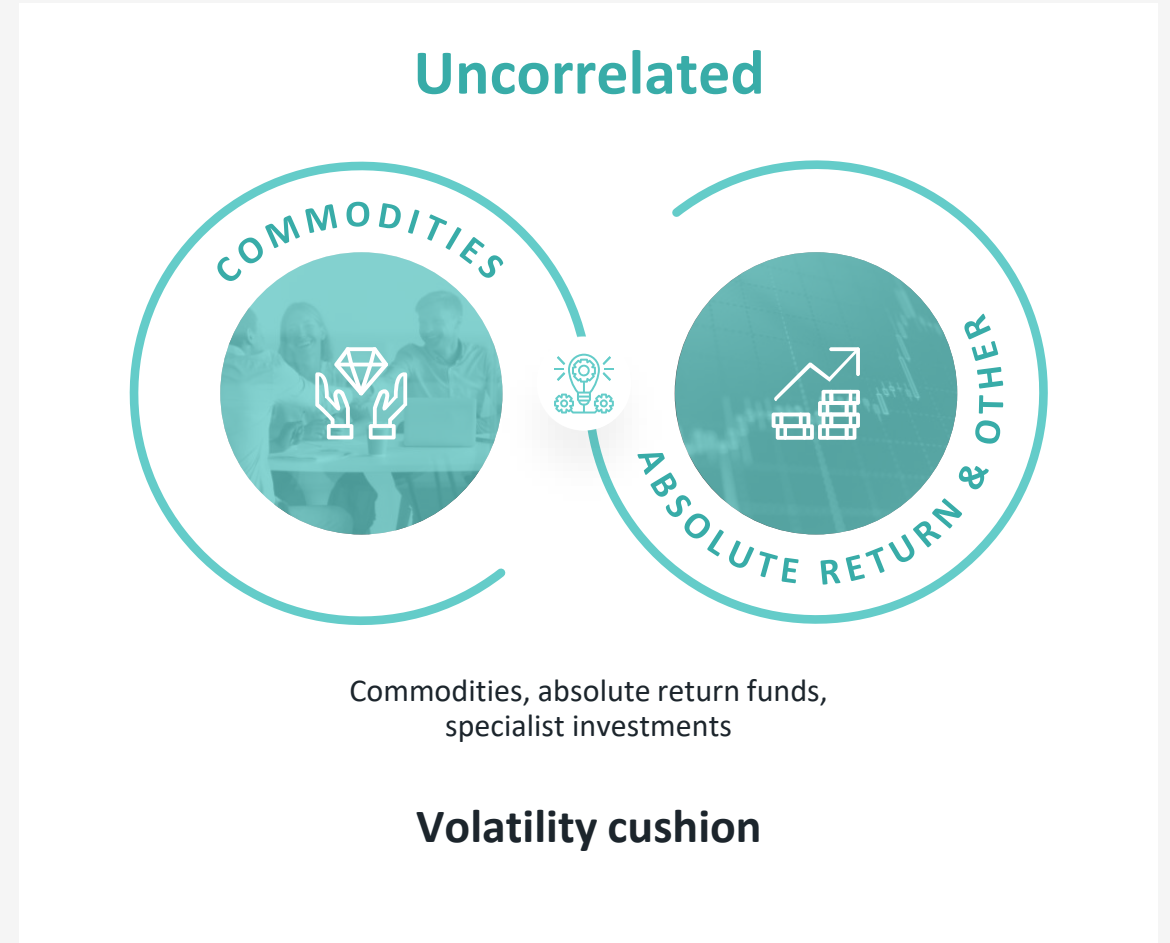
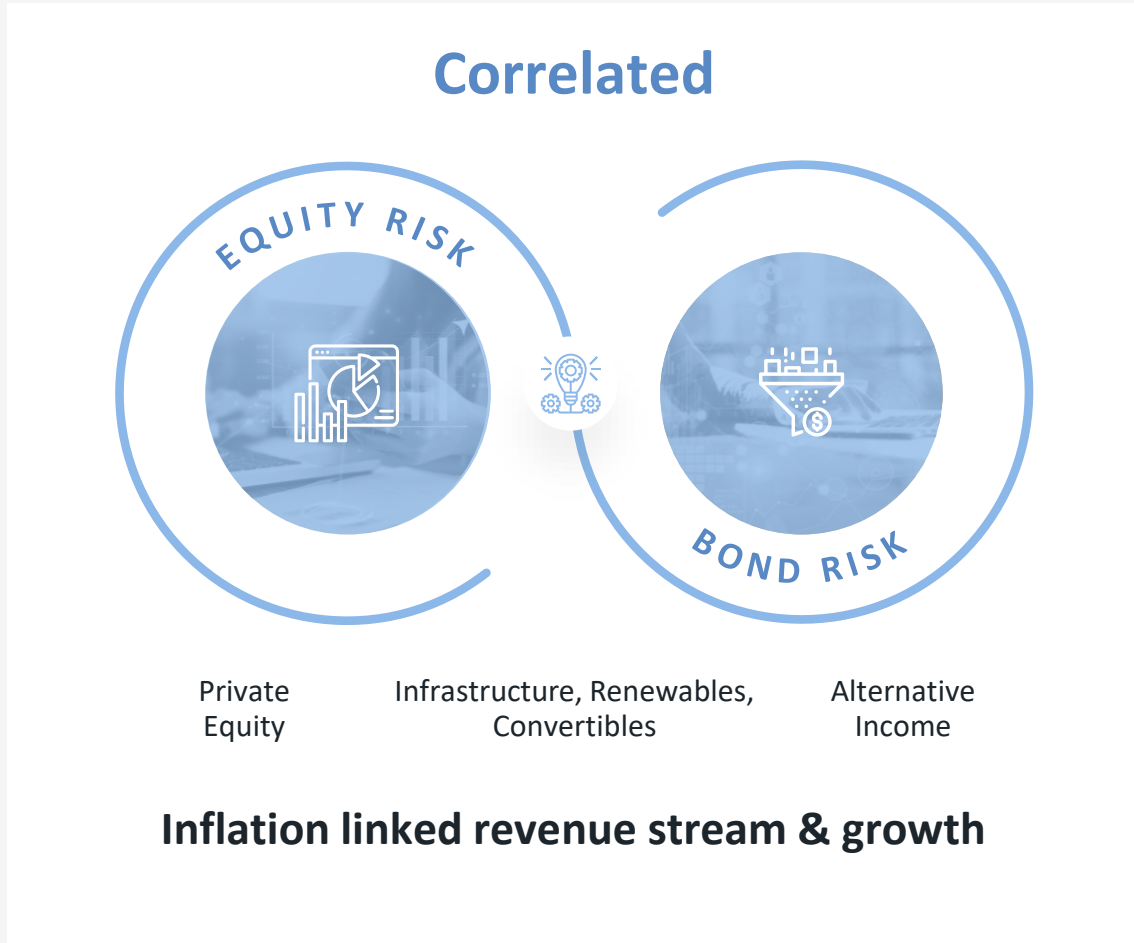
# Example corporate bond: Motability Operations Group (not-for-profit)



<b>Credit Rating</b>	A /A1
<b>Maturity</b>	Jan 2043
<b>Coupon</b>	4.8%
<b>YTM</b>	5.6%

Source: [https://commons.wikimedia.org/wiki/File:MAN\\_Volgren\\_bus\\_No\\_A1019\\_boarding\\_mobility\\_scooter\\_New\\_Farm\\_Park\\_bus\\_stop\\_Brunswick\\_St\\_New\\_Farm\\_P1150336.jpg](https://commons.wikimedia.org/wiki/File:MAN_Volgren_bus_No_A1019_boarding_mobility_scooter_New_Farm_Park_bus_stop_Brunswick_St_New_Farm_P1150336.jpg)

# How we think about alternative investments



Source: Sarasin & Partners

# Correlated alternatives have come under pressure in the short-term

## Correlated

### Infrastructure/Real Assets

- BBGI Global Infrastructure
- International Public Partnership
- 3i Infrastructure
- Sequoia Economic Infrastructure
- Cordiant Digital Infrastructure

### Renewables

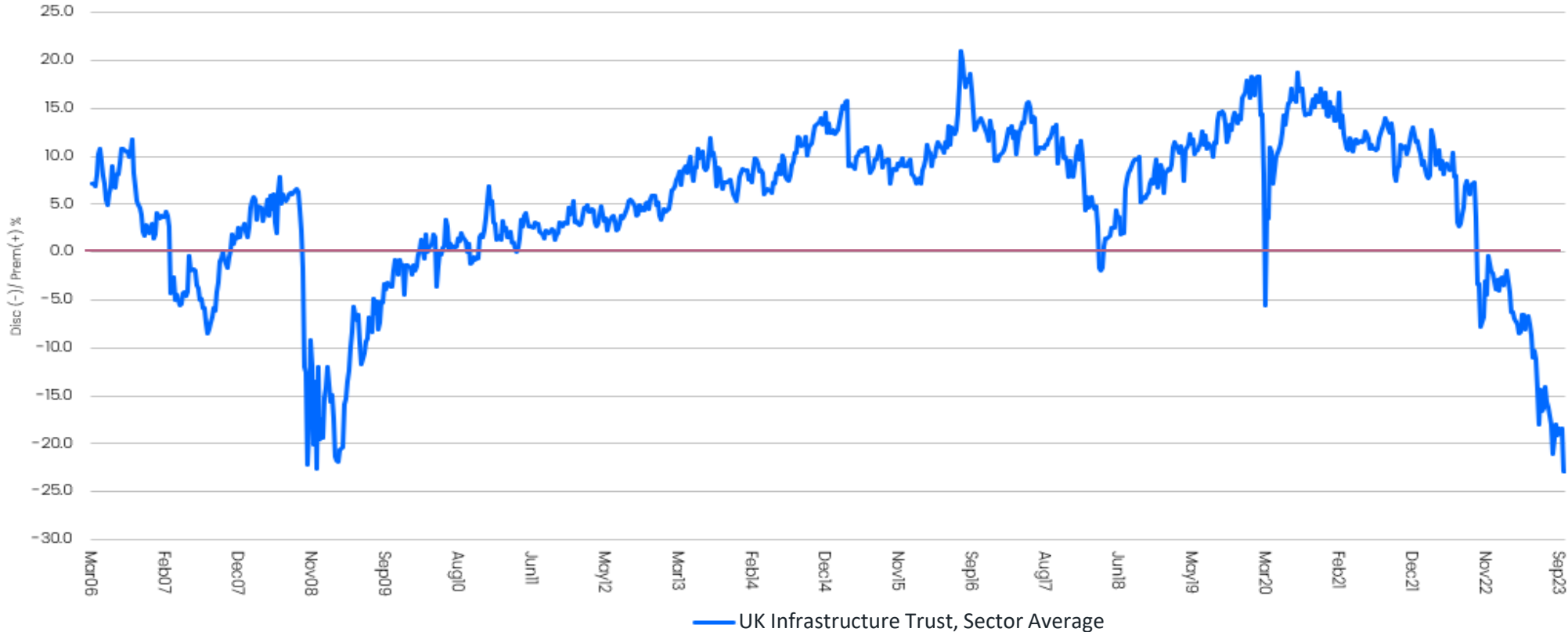
- Atrato Onsite Energy
- Octopus Renewables
- Renewables Infrastructure Group
- Gresham House Energy Storage
- US Solar Fund

Source: Sarasin & Partners, October 2023



# Infrastructure trust discounts have widened markedly

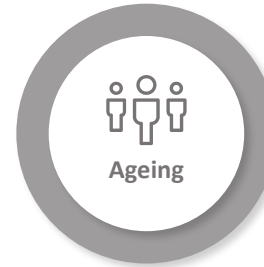
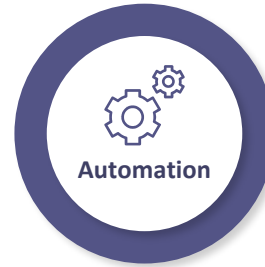
Listed infrastructure: discounts widen, shares underperform underlying assets



Past performance is not a reliable indicator of future results and may not be repeated.  
Source: NUMIS Research, 13 October 2023

# Example infrastructure holding: 3i Infrastructure plc

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**3i Infrastructure plc**

Digitalisation  
& Technology  
Disruption

Renewing  
Social  
Infrastructure

Demographic  
Change

Globalisation

Energy  
Transition  
– Low Carbon  
& Circular  
Economy

Source: 3i Infrastructure website

# 3i Infrastructure example investee company: ESVAGT



Source: Siemens AG – available for commercial re-use

# Income will remain a critical part of our long-term total returns

Asset Class	Neutral allocation (%)	7–10 year projected total return (%)	Yield (%)
Bonds	15.0	5.4	<b>5.4</b>
Equities	70.0	8.5	2.2
Property	5.0	6.5	<b>5.2</b>
Alternatives	10.0	7.5	<b>3.6</b>
Cash	0.0	2.5	5.1
<b>Total</b>	<b>100.0</b>	<b>7.8</b>	<b>2.9</b>
<b>Inflation</b>		<b>-2.7</b>	
<b>Target 'real' long-term return</b>		<b>5.0</b>	

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

Source: Sarasin & Partners LLP, 30.09.23

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These Funds are designed for charities within the meaning of Section 1 of the Charities Act 2011 or as defined in paragraph 1(1) of Schedule 6 of the Finance Act 2010 which are organised, incorporated or resident in the United Kingdom.

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).

Risks associated with investing in Real Estate Investment Trusts (REITs) include, but are not limited to, the following: declines in the value of real estate, risks related to general and local economic conditions, overbidding and increased competition, increases in property taxes and operating expenses, changes in zoning laws, casualty or condemnation losses, variations in rental income, changes in neighbourhood values, the appeal of properties to tenants, and increases in interest rates. In addition, REITs may be affected by changes in the value of the underlying property owned by the trusts or may be affected by the quality of credit extended. REITs are dependent upon management skills, may not be diversified and are subject to the risks of financing projects. The ability to trade REITs in the secondary market can be more limited than other stocks.

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 consider are restrictions on foreigners making currency transactions or investments.

The Fund may invest in derivatives for efficient portfolio management purposes. This means Derivatives can only be used to manage the Fund more efficiently in an attempt to reduce the overall risk of its investments, reduce the costs of investing or generate additional capital or income, although this may not be achieved and may create losses greater than the cost of the derivative.

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This document does not explain all the risks involved in investing in the Fund and therefore you should ensure that you read the Prospectus and the Key Investor Information Document, which contain further information including the applicable risk warnings. The Prospectus, the Key Investor Information document as well as the annual and semi-annual reports of the Fund are available free of charge from [www.sarasinandpartners.com](http://www.sarasinandpartners.com) or from Sarasin & Partners LLP, Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU, Telephone +44 (0)20 7038 7000 (telephone calls may be recorded).

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The Fund may invest more than 35% in government or public securities issued by any single issuer listed in the Prospectus. Such exposure will be in line with the investment policy of the Fund and in pursuit of the Fund's objective. It is currently envisaged that the Fund's exposure to such securities may be to those issued by the UK government, although this may vary and include securities issued by other governments and public issuers listed in the Prospectus.

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