Taking a long term view

Charity investments during times of political uncertainty – the case for multi asset Charity Investment Funds

Ruadhri Duncan, Partner
Melanie Roberts, Partner

www.sarasin.co.uk/charities

27th June 2017
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   • Sarasin & Partners LLP
   • The Alpha Common Investment Funds

2. The Investment Landscape: where are we now?

3. The Future: where are we headed?
   • How to position long term charity portfolios in an uncertain world
   • Taking a thematic approach
Introduction to Sarasin & Partners LLP
About Sarasin & Partners LLP

A staff of 215 including 81 investment professionals*

Funds under management: c. £14.1bn*

A broad range of domestic and overseas private clients, charities, pension funds, institutions and retail investors

Combined local management team owns a significant portion of the equity of the firm

*A committed team of investment professionals in the foreground

*Source: Sarasin & Partners LLP as at 31.03.17 (updated quarterly)
Charity investment management

- £6.4bn of charity and not-for-profit funds under management
- Approximately 400 discretionary clients
- Charity team with average of over 20 years’ experience
- Commitment to the charitable sector: publications, seminars and events
- Investment training for over 4,000 trustees and finance directors in recent years
- Compendium of Investment
What is our ‘Endowment’ strategy trying to achieve?

A flow of income for today’s beneficiaries, while maintaining the ‘real’ value of the capital and income for future generations.

A sustainable distributable yield (after all costs) of 3.0% (as at 31.03.17).

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Neutral Allocation %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds (incl. cash)</td>
<td>17.5</td>
</tr>
<tr>
<td>Equities</td>
<td>70.0</td>
</tr>
<tr>
<td>Property</td>
<td>7.5</td>
</tr>
<tr>
<td>Alternatives</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

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

Source: Sarasin & Partners LLP, 31.03.2017
What is our ‘Income & Reserves’ strategy trying to achieve?

A consistently attractive level of income coupled with the potential for long term capital appreciation, whilst aiming to preserve the value of capital over the shorter term.

A distributable yield (after all costs) of **3.5%** (as at 31.03.17)

### RESERVES MODEL

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Neutral allocation %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>75.0</td>
</tr>
<tr>
<td>Equities</td>
<td>20.0</td>
</tr>
<tr>
<td>Cash</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

- Government
- Corporate
- Index-linked
- Overseas
- High yield

- 10% UK
- 10% Global

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

Source: Sarasin & Partners LLP.
The investment landscape: where are we now?
Will the changing political landscape continue.....?

A NUMBER OF SIGNIFICANT ELECTIONS OVER THE NEXT 12 MONTHS

The changing faces of global politics

Donald Trump

Mark Rutte

Francois Hollande

Paolo Gentiloni

Angela Merkel

A united Spain

Leaving NATO?
Build Mexico border wall?
New tax system?

Rutte (right-wing liberal VVD) forms multi-party coalition

Geert Wilders (far right PVV) wins a majority

Proportional Representation introduced to voting system

June elections?

Merkel (CDU) retains Chancellorship in Grand Coalition

Alternative for Germany (AfD) wins seats

A recognised, separate Catalonia?

Source: Sarasin & Partners
Inequality – increasingly imbalanced distribution of income

**US GINI COEFFICIENT**

![Graph showing the US Gini coefficient over time from 1970 to 2010, with a peak of 0.479.

**SHARE OF WEALTH BY TOP 1%**

![Bar chart comparing the share of wealth among the top 1% in different countries, including the US, Germany, Netherlands, France, UK, Canada, and Australia. The US has the highest share of wealth among the top 1%.]

Source: Macrobond

Source: Credit Suisse

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Central bank policies have pushed asset yields out of balance

Source: Macrobond

$7.5 trillion
A simultaneous (and surprisingly resilient) recovery is now a reality across the Developed World…

Source: Macrobond

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The maturity of the economic recovery differs expect more currency and interest rate divergence

"The economic upswing that we have expected for some time seems to be materialising," said Maurice Obstfeld, IMF Chief Economist, April 2017
China has done much of the heavy lifting of global growth over the last decade - can this continue?

CHINA AND ASIA ARE BIG DRIVERS OF GLOBAL GROWTH

Contribution to global GDP growth at purchasing-power parity, IMF estimates

Source: Macrobond, IMF World Economic Outlook
Equity prices have risen despite no growth in earnings per share

**EQUITIES DRIVEN BY RERATING, NOT PROFITS GROWTH**

**GBP Returns**

- UK Government All Maturities
- UK Corporate Bonds
- UK Equities
- Global Equities
- US Equities

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Profits Growth</th>
<th>Dividend/ Interest Income</th>
<th>Re-rating</th>
<th>Currency Gain / Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>-40.0%</td>
<td></td>
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<tr>
<td>-20.0%</td>
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<tr>
<td>0.0%</td>
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<td>20.0%</td>
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<tr>
<td>40.0%</td>
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<tr>
<td>60.0%</td>
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<tr>
<td>80.0%</td>
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<tr>
<td>100.0%</td>
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<tr>
<td>120.0%</td>
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<tr>
<td>140.0%</td>
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<tr>
<td>160.0%</td>
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</tbody>
</table>

Source: Bloomberg / Sarasin & Partners

**PRICES HAVE DEPARTED FROM FUNDAMENTALS**

**US Dollar Returns - Since 2011 profits have fallen**

**MSCI ACWI 2012-2017**

- Valuations up
- Earnings down

Source: Bloomberg / Sarasin & Partners

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And beware of assuming that falling volumes limit all investment returns. Tobacco is an extreme case of a declining industry with pricing power.
Despite weak earnings growth, equity dividend yields have held up well and are not far from their 10 year averages.

BEFORE THE FINANCIAL CRISIS BOND YIELDS WERE HIGHER THAN EQUITY YIELDS (RED LINE) – THEY ARE NOW LOWER

Asset Class Dividend and Interest Yields

Source: Macrobond

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Future: where are we headed?

• How to position charity portfolios in an uncertain world
• Taking a thematic approach
The principal investment risks for long-term charity endowments

**Inflation risk:** your spending power is eroded over time

**Volatility risk:** the risk of being a forced seller at an inopportune moment

**Income risk:** that we fail to generate sufficient returns

**Reputational risk:** investments are subjected to public scrutiny and conflict with the charity’s aims
When constructing our clients’ portfolios, we consider a very wide range of asset classes, as allowed by the Trustee Act:

<table>
<thead>
<tr>
<th>CORE ASSET CATEGORIES</th>
<th>PERIPHERAL ASSET CATEGORIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Cash</td>
<td>— Global property</td>
</tr>
<tr>
<td>— Government bonds</td>
<td>— Private equity</td>
</tr>
<tr>
<td>— Corporate bonds</td>
<td>— Target return strategies</td>
</tr>
<tr>
<td>— Real return bonds</td>
<td>— Hedge funds</td>
</tr>
<tr>
<td>— UK equities</td>
<td>— Commodities</td>
</tr>
<tr>
<td>— Global equities</td>
<td>— Infrastructure</td>
</tr>
<tr>
<td>— UK property</td>
<td>— High yield bonds</td>
</tr>
<tr>
<td>— + currency hedging</td>
<td>— + derivatives for EPM</td>
</tr>
</tbody>
</table>

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Higher prices across advanced economies

**CORE CONSUMER INFLATION RATES**

Source: Macrobond

- **UK core CPI:** 2.6
- **US Core PCE (Fed Measure):** 1.5
- **Euro area core CPI:** 0.9

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# Bonds: is the 4 decade bond bull market coming to an end?

## REAL ANNUALISED 10YR GOVT. BOND RETURNS BY DECADE SINCE 1940

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>-0.20%</td>
<td>-3.10%</td>
<td>1.70%</td>
<td>-2.90%</td>
<td>3.80%</td>
<td>10.40%</td>
<td>3.50%</td>
<td>6.20%</td>
</tr>
<tr>
<td>Austria</td>
<td>1.50%</td>
<td>2.70%</td>
<td>2.00%</td>
<td>4.80%</td>
<td>5.90%</td>
<td>3.90%</td>
<td>3.80%</td>
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</tr>
<tr>
<td>Belgium</td>
<td>-6.90%</td>
<td>2.20%</td>
<td>1.60%</td>
<td>-0.80%</td>
<td>6.90%</td>
<td>8.20%</td>
<td>3.90%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Canada</td>
<td>-1.00%</td>
<td>-0.90%</td>
<td>1.00%</td>
<td>-0.70%</td>
<td>6.80%</td>
<td>8.40%</td>
<td>4.60%</td>
<td>3.60%</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.30%</td>
<td>0.60%</td>
<td>-1.40%</td>
<td>0.50%</td>
<td>11.70%</td>
<td>9.00%</td>
<td>4.10%</td>
<td>5.00%</td>
</tr>
<tr>
<td>France</td>
<td>-22.40%</td>
<td>-0.80%</td>
<td>0.40%</td>
<td>-2.80%</td>
<td>7.50%</td>
<td>8.70%</td>
<td>4.00%</td>
<td>5.30%</td>
</tr>
<tr>
<td>Germany</td>
<td>3.60%</td>
<td>3.40%</td>
<td>3.00%</td>
<td>5.30%</td>
<td>4.50%</td>
<td>4.00%</td>
<td>4.70%</td>
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<tr>
<td>Greece</td>
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<td>2.00%</td>
<td>8.90%</td>
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</tr>
<tr>
<td>Ireland</td>
<td>1.80%</td>
<td>-4.10%</td>
<td>-0.90%</td>
<td>-6.70%</td>
<td>8.80%</td>
<td>8.00%</td>
<td>2.50%</td>
<td>9.30%</td>
</tr>
<tr>
<td>Italy</td>
<td>-29.80%</td>
<td>-0.60%</td>
<td>1.30%</td>
<td>-5.60%</td>
<td>6.30%</td>
<td>9.90%</td>
<td>3.40%</td>
<td>5.90%</td>
</tr>
<tr>
<td>Japan</td>
<td>-32.70%</td>
<td>3.00%</td>
<td>6.40%</td>
<td>-2.00%</td>
<td>6.70%</td>
<td>6.10%</td>
<td>2.10%</td>
<td>1.90%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-3.00%</td>
<td>-3.40%</td>
<td>-1.90%</td>
<td>0.30%</td>
<td>6.70%</td>
<td>6.20%</td>
<td>3.60%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Norway</td>
<td>7.80%</td>
<td>-8.20%</td>
<td>1.30%</td>
<td>-3.50%</td>
<td>3.40%</td>
<td>9.00%</td>
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<td>3.10%</td>
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<tr>
<td>Portugal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.40%</td>
<td>4.90%</td>
<td>4.10%</td>
<td>5.80%</td>
</tr>
<tr>
<td>Spain</td>
<td>-3.30%</td>
<td>-2.60%</td>
<td>-0.90%</td>
<td>-7.60%</td>
<td>5.90%</td>
<td>7.80%</td>
<td>2.60%</td>
<td>6.70%</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.40%</td>
<td>-3.00%</td>
<td>-0.20%</td>
<td>-4.20%</td>
<td>4.40%</td>
<td>8.60%</td>
<td>3.70%</td>
<td>3.80%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>-0.40%</td>
<td>1.50%</td>
<td>-0.30%</td>
<td>0.80%</td>
<td>0.60%</td>
<td>3.70%</td>
<td>3.30%</td>
<td>4.30%</td>
</tr>
<tr>
<td>UK</td>
<td>0.50%</td>
<td>-0.70%</td>
<td>1.30%</td>
<td>-3.20%</td>
<td>6.60%</td>
<td>6.50%</td>
<td>3.40%</td>
<td>1.90%</td>
</tr>
<tr>
<td>US</td>
<td>-2.50%</td>
<td>-1.80%</td>
<td>0.20%</td>
<td>-1.20%</td>
<td>7.30%</td>
<td>4.90%</td>
<td>4.00%</td>
<td>3.80%</td>
</tr>
</tbody>
</table>

Source: Deutsche Bank, Global Financial Data. Shaded areas represented negative real return decades.
Deconstructing equity returns and what to expect going forward

Source: Sarasin & Partners forecasts
Dividend growth is the key driver of returns

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

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Investment returns: Is the past a good guide to the future?

A projected REAL return of about 4.5% is in keeping with long-term results.

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

Source: Sarasin & Partners LLP, Compendium 2016
What is our ‘Endowment’ strategy trying to achieve?

A flow of income for today’s beneficiaries, while maintaining the ‘real’ value of the capital and income for future generations.

A sustainable distributable yield (after all costs) of **3.0%** (as at 31.03.17).

<table>
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<tr>
<th>Asset Class</th>
<th>Neutral Allocation</th>
<th>5 – 7 year trend on total return %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds (incl. cash)</td>
<td>17.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Equities</td>
<td>70.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Property</td>
<td>7.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Alternatives</td>
<td>5.0</td>
<td>4.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>5.2</strong></td>
</tr>
</tbody>
</table>

**The charity inflation rate?**  -2.0

**Target ‘real’ long-term return**  3.2

---

**ENDOWMENT MODEL**

- **Government Corporate**
- **Index-linked Overseas**
- **High yield**
- **30% UK**
- **15% Global £ Hedged**
- **25% Global**
- **UK & International**
- **Target return funds**
- **Private Equity**
- **Commodities**
- **Infrastructure**
- **Distressed debt**
- **Structured products**

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

Source: Sarasin & Partners LLP, 31.03.2017
The key: a sustainable income stream that grows
Alpha CIF for Endowments

**Distribution (pence)**

How much does capital volatility matter if your withdrawals are met by income?

The yields quoted have been calculated using price information as at the date of publication. They are not guaranteed.

What is our ‘Income & Reserves’ strategy trying to achieve?

A consistently attractive level of income coupled with the potential for long term capital appreciation, whilst aiming to preserve the value of capital over the shorter term.

A distributable yield (after all costs) of **3.5%** (as at 31.03.17)

### RESERVES MODEL

<table>
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<tr>
<th>Asset class</th>
<th>Neutral allocation %</th>
<th>5–7 year trend total return %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>75.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Equities</td>
<td>20.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Cash</td>
<td>5.0</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>3.1</strong></td>
</tr>
</tbody>
</table>

**The charity inflation rate?** 2.0

**Target ‘real’ long-term return** 1.1

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

Source: Sarasin & Partners LLP.
The World Equity Index: is too much faith vested in large US companies?

MSCI ACWI GEOGRAPHIC DISTRIBUTION AND WORLD POPULATION

As at 31.12.16


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Idea generation
Themes reveal an investable universe

Global Travel
- Diet Change
- Geopolitics
- Lower returns to scale
- Urbanisation
- Technology piracy
- News flow
- EPS
- Tax
- Policy
- FX
- Ageing

THEME UNIVERSE

Short term noise
Investable themes
Differentiated opportunities

| Source: Sarasin & Partners Forecasts |

**SARASIN FORECASTS FOR GROWTH OVER 10 YEARS – VARIOUS TRENDS**

- **Electric Vehicles**
- **Mobile Data**
- **Cloud - Remote computing & Storage (Infrastructure as a Service)**
- **Fixed Internet**
- **Global GDP**
- **Over 65 World Population**
- **Africa Population**
- **India Population**
- **Babies (under 1) World Population**
- **Russia Population**
- **Combustion-Engine Light Vehicle Sales**
- **Wildlife Population**
- **Software on-premises**
- **Computer Hardware ex-Devices**
- **Newspaper & Magazine Advertising**

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Demographics & Lifestyle
Inexorable shifts in population trends create predictable & stable growth

MAJOR THEMES

- The consequences of ageing
- New leisure spending
- Changing Working Patterns
- Population Change

- Diet change
- Emerging Middle Class
- Urbanisation

CURRENT INVESTMENTS

The consequences of ageing
- **AIA** - insurance products in Asia
- **Blackrock** - the largest manager of retirement funds

- **Amgen** - new medicines/biotechnology
- **Pfizer** - drugs for cardiology & oncology
- **CSL** – blood plasma & immunology

New leisure spending
- **Activision Blizzard** - electronic games maker
- **Shimano** - cycling equipment
- **Walt Disney** - films, TV and theme parks

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Smarter Planet
Rapid technological innovation is creating new openings for many businesses

MAJOR THEMES

Automation, Artificial Intelligence & Robotics
The Future of Transport
The Cloud & Dematerialization
Exploration
Implications of AI

Longevity & Human Performance
New Materials
Processing power
The Value of Data

CURRENT INVESTMENTS

Automation, Artificial Intelligence & Robotics
- **ASML** - machines to make semiconductors
- **Taiwan Semiconductor** - making semiconductors

The Future of Transport
- **Umicore** – Cathodes and recycling for EVs
- **SQM** – Lowest cost Lithium producer
- **Glencore** – strategic metals Copper, Cobalt and Nickel for Electric Vehicles

The Cloud & Dematerialization
- **Amazon** - Largest cloud host

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# How are we positioned today?

## A more cautious portfolio

<table>
<thead>
<tr>
<th>GLOBAL STRATEGY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Bonds:</strong> Underweight</td>
</tr>
<tr>
<td>Government and Corporate issues and maintain short duration.</td>
</tr>
</tbody>
</table>

**2. Equities:** Underweight
- Valuations are rich, expectations for growth and US profits likely to disappoint.
  - Neutral allocation between UK, Global and Emerging Markets
  - Advise caution on high US equity market valuations through a preference for non-US equities
  - US & Global Banks to enjoy tailwinds from regulatory easing as a hedge vs. rising rates
  - Global REITS: **Overweight.** Attractive after recent correction

**3. Alternatives:** Overweight
- UK and Global Infrastructure attractive as bond alternatives
- Gold attractive with interest rates in Europe and Japan negative and continuing QE
- Portfolio protection opportunities with equity volatility close to Decade lows

**4. Cash:** Overweight
- Exposure to **Sterling** should remain at neutral – drift toward Softer Brexit STG positive

**Risks:** Global Debt Levels, Poor Global Productivity, Trump policy uncertainty and governance, US Valuation and flow of funds.
Questions?