

Hywel Dda Health Charities Investment Update

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27th September 2021

The views expressed are those of the manager and are subject to change with no guarantee that forecasts will be achieved. 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 Compendium of Investment.



Executive summary

Portfolio value as at 31 st August 2021:	Permanent Endowment:	£2,413,909
	General Funds:	<u>£6,604,612</u>
	Combined value:	£9,018,521

- Very strong performance in 2020 and over 3 years; both in absolute & relative terms
- Short-term relative performance challenging in first half of 2021; improving more recently
 - Portfolio +8.2% for the year to date 2021 (total return, net of fees)
 - Behind composite benchmark (+10.5%) and ARC Steady Growth estimate (+9.6%)
 - Market rally has been driven by very low quality, cyclical sectors (oil & gas, metals & mining etc.)
- Income distributions maintained in 2020 (vs 2019); a cut of 7.5% will be effected in 2021
 - Income earned -2% lower in 2020, against UK dividend cuts of -40% and global dividends -15%
 - 7.5% cut will be spread over Q2, Q3 & Q4 2021 payments in order to allow for future growth

Hywel Dda Health Charities

Portfolio value and asset allocation

AS AT 31ST AUGUST 2021

Asset class	Value £	Portfolio %	Benchmark %	Difference %
Fixed Income	882,382	9.8	15.0	-5.2
Equities	6,525,483	72.4	70.0	+2.4
Property	352,239	3.9	5.0	-1.1
Alternatives	821,321	9.1	10.0	-0.9
Liquid Assets	437,097	4.8	0.0	+4.8
Total	9,018,521	100.0	100.0	

Portfolio benchmark (from 1-Jul-21): ICE BofAML Sterling Corporate (7.5%), ICE BofAML UK Gilts All Stocks (7.5%), MSCI AC World ex UK (Local Currency) (GBP) (10%), MSCI AC World ex UK (Net Total Return) (40%), MSCI All Balanced Property Funds - One Quarter Lagged (5%), MSCI UK IMI (Net Return) GBP (20%), 2% per annum above SONIA Interest Rate Benchmark - Alts (10%).

Hywel Dda Health Charities

Performance Summary

TOTAL RETURNS, NET OF FEES

Performance to 31 st August 2021	2021 YTD (%)	2020 (%)	2019 (%)	2018 (%)	Since Inception (ann. %)^
Hywel Dda Health Charities (Net of fees)	8.2	9.8	19.8	-4.1	8.7
Peer Group (ARC Steady Growth Charity Index*)	9.6	3.5	15.7	-4.9	6.2
Composite Benchmark (Gross of fees)	10.5	6.8	18.5	-4.9	8.3
Long Term Objective (UK CPI + 4%)	4.9	4.4	5.5	6.4	5.9

*Asset Risk Consultants Limited (ARC) Steady Growth Index is a composite of charity portfolios that have exhibited historic volatility of returns of between 60 - 80% of UK equities. ^Inception date: 28th June 2017; refers to Permanent Endowment.

Performance by Asset Class

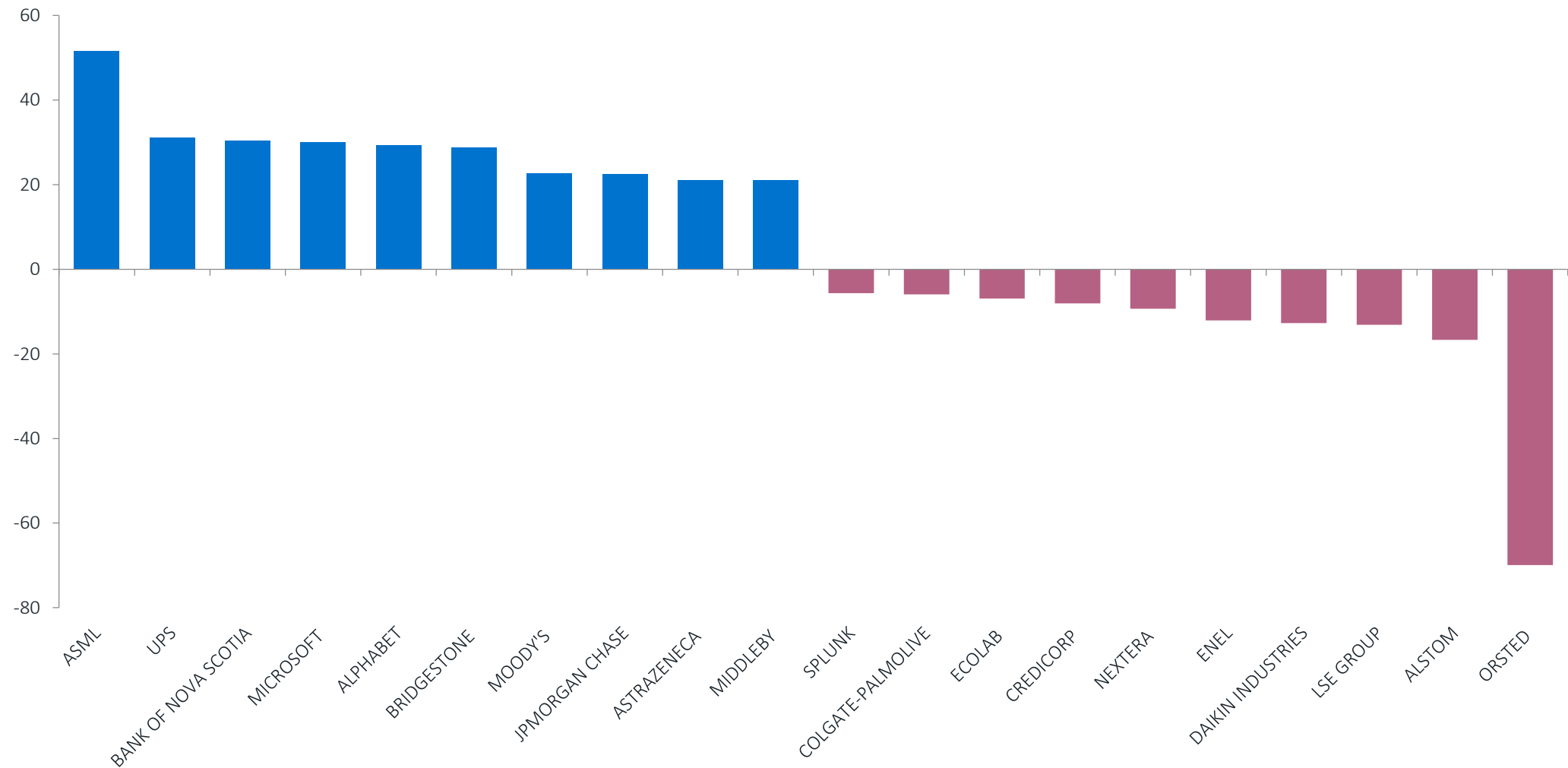
Sarasin Endowments Fund

Asset Type	30-Jun-21 to 31-Aug-21		Calendar Year to 31-Aug-21		Calendar Year 2020	
	Total Return	Index	Total Return	Index	Total Return	Index
	%	%	%	%	%	%
<i>Fixed Income</i>	2.0	1.6	-0.7	-2.6	10.0	8.6
Government Bonds	2.4	1.9	-4.5	-3.9	8.3	8.3
Non-Government Bonds	1.5	1.4	1.2	-1.2	9.4	8.7
Index-Linked Bonds	10.2	6.8	-	3.6	13.8	11.3
<i>Equities</i>	4.0	3.5	11.7	15.2	12.8	6.5
UK Equities	2.3	2.2	10.2	13.7	-8.4	-13.2
Global Equities	4.6	3.7	12.2	15.2	21.7	14.0
Property	1.9	-	8.4	4.3	-0.2	-2.2
<i>Alternative Investments</i>	2.4	0.3	1.0	0.4	12.9	0.2
Commodities	2.8		-5.1		20.5	
Hedge Funds	-1.3		-3.2		5.2	
Infrastructure	4.4		6.4		1.9	
Private Equity	-0.1		0.0		11.1	
Other Alternatives	3.1		14.0		13.6	

Equity contributors and detractors

H1 2021

 Contribution to performance in basis points



Sarasin passes FRC's UK Stewardship Code test

Results released 6th Sept 2021

- 125 passed out of 189 applicants, with some large names and smaller peers not getting through, e.g. Schroders, JPM, Cazenove, Rathbones, Goldman Sachs
- Process is pass/fail – so no grades awarded (unlike annual PRI survey)
- Areas of focus (and weakness for those that failed):
 - Inadequate evidence for implementation to back up policy statements
 - Weak review and assurance systems

Full list can be viewed here: [Investors I UK Stewardship Code I Financial Reporting Council \(frc.org.uk\)](https://www.frc.org.uk/investors-uk-stewardship-code)



“Following a rigorous review process which considered organisations’ investment styles, sizes and types, two-thirds of all applications (125) made the list...”

Company engagement update

Climate change & social supply chain



Engagement
actions

- Three letters since 2018.
- Collective investor call with Exec Chair Feb 2021.
- Promised TCFD and CDP Reports.
- Net zero commitment expected.
- Follow up letter June 2021 with CA100+ (>\$1.8tn).

NextEra



- Letters to Chair 2018 & 2019.
- IIGCC Net Zero Expectations for Banks sent April 2021.
- Call with Chair in June 2021: working on a net zero commitment.

Bank of Nova Scotia (not held)



Pressing for 2050 net zero alignment

- Seeking renewal of the Bangladesh Accord on fire safety.
- Monitoring supply chain issues in Myanmar, forced labour in Xinjiang, COVID-19 response, sustainable cotton and their approach to support the circular economy.

ABF (not held)



- Modern Slavery engagement – commitment to an external audit of workforce recruitment in the Middle East.
- Seek a public summary of the findings.

Compass



Social supply chain

01

Sarasin Global Strategy and Outlook

Global Outlook: Summary

1. **Global economy** continues to accelerate: Upside risk to US. Downside risk to China - EU / UK risks are balanced.
2. **Inflationary pressures to remain high in the US** for the next 18 months and then run at a moderately higher pace than the post GFC era – about 2.3%. **In the UK expect inflation to reach close to 4%** by end 2021 & gradually return to target – risks are to the upside.
3. **Monetary policy** to remain highly accommodative for the next 18 months. Even with taper Fed asset purchases over the next 12 months will total U\$1.23 trillion while ECB purchases will total € 1.1trillion
4. **Interest rate increases in the US** will likely be at a faster clip than currently priced. Expect rate hikes to begin Q1 2023 and to reach terminal rate of 2-2.25% by Q4 2025. **In the UK** expect the removal of emergency rate cut from 0.1% to 0.25% in Q3 2022 followed by 0.25% rate hikes every 6 months starting Q3 2023
5. **Overall financial conditions** to remain easy.

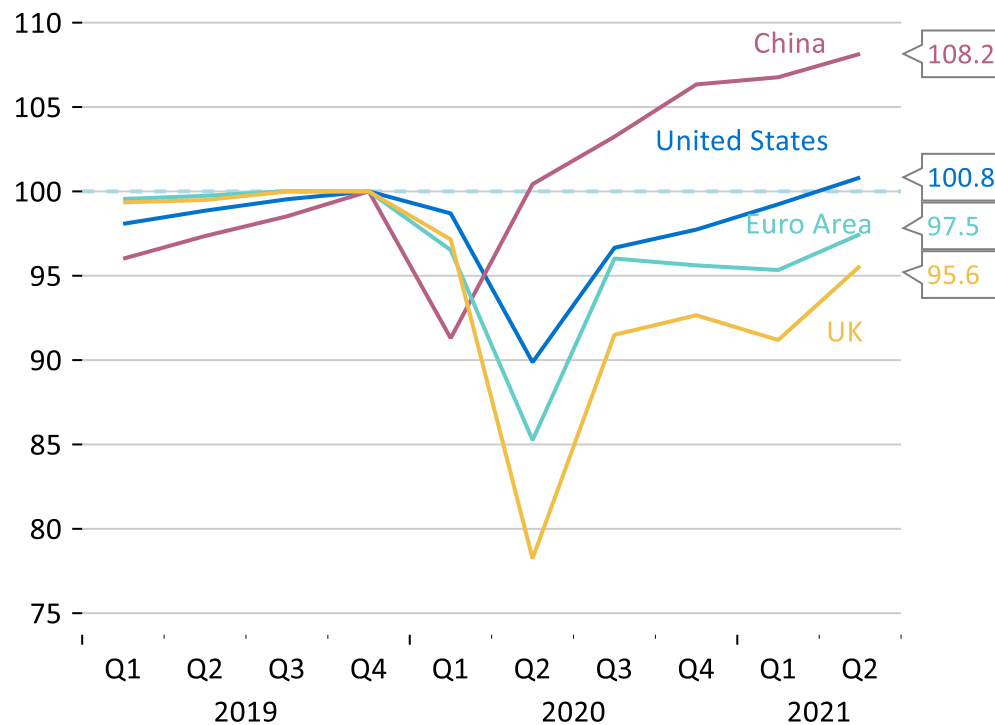
The Global recovery continues with GDP expected to be above pre-COVID levels by end 2021



The global economy has continued to recover

GDP in selected countries

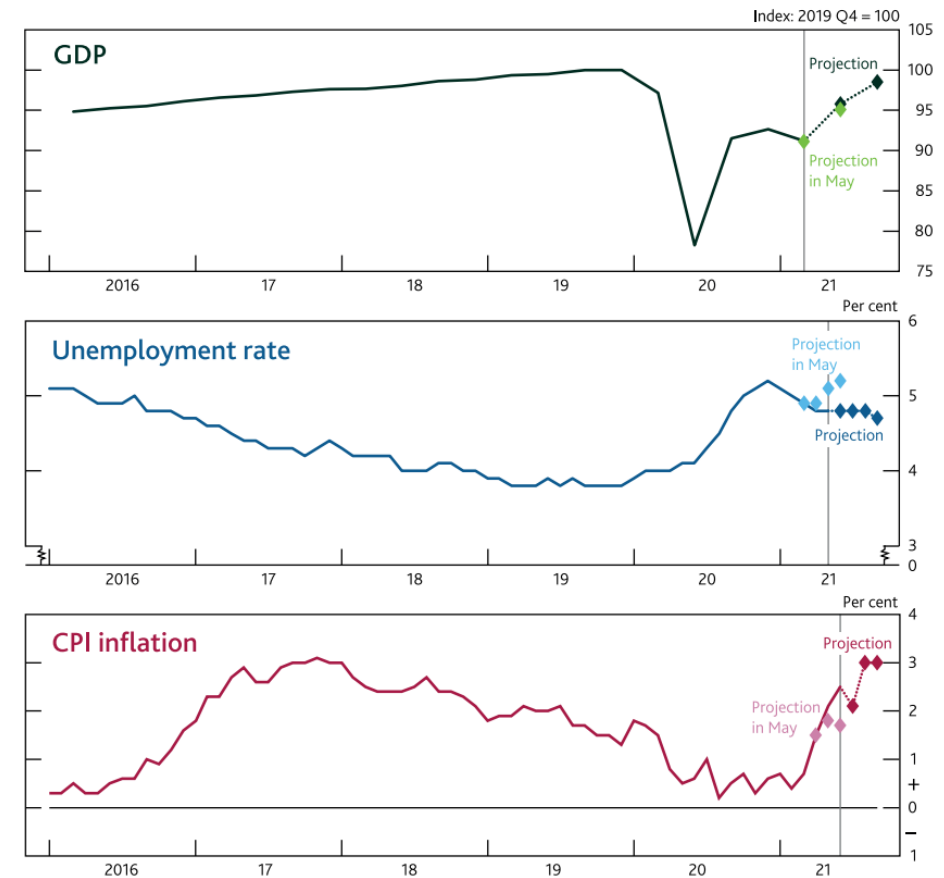
Indices: 2019 Q4=100 (the start of COVID)



Source: Macrobond, 08.09.21



UK recovery profile



Sources: ONS and Bank calculations.

Source: Bank of England August 2021

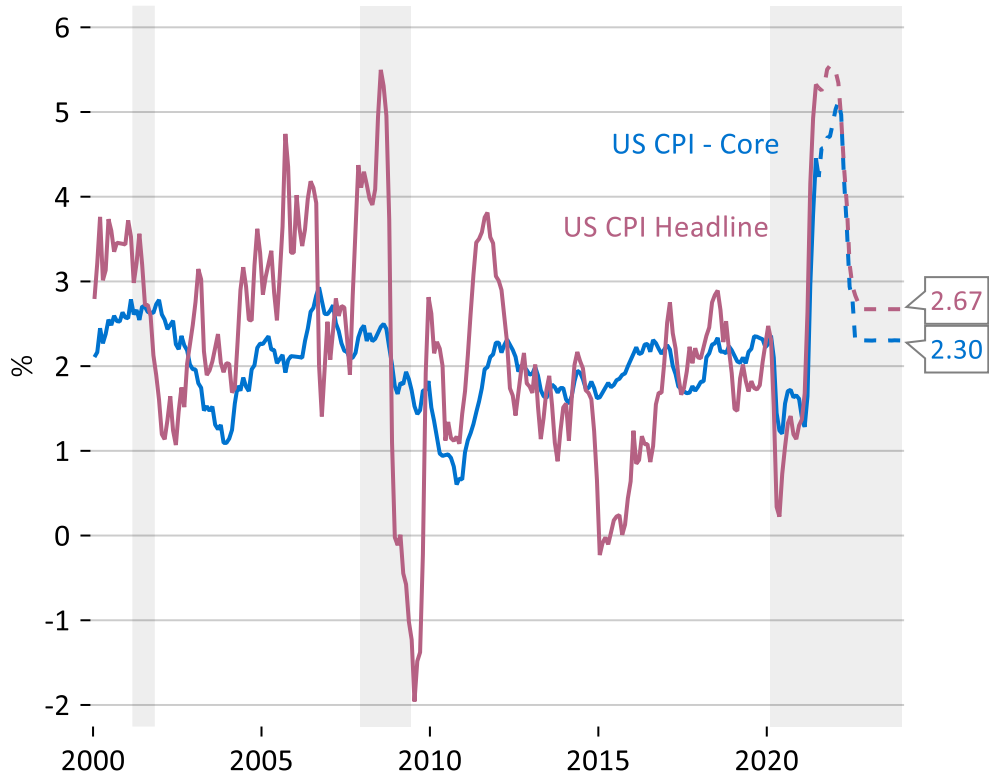
US inflation: Is it all transitory? Probably not...

Note today's *simultaneous* rise in core and headline rates – not seen in 20 years

 US Inflation to settle *modestly above 2%*

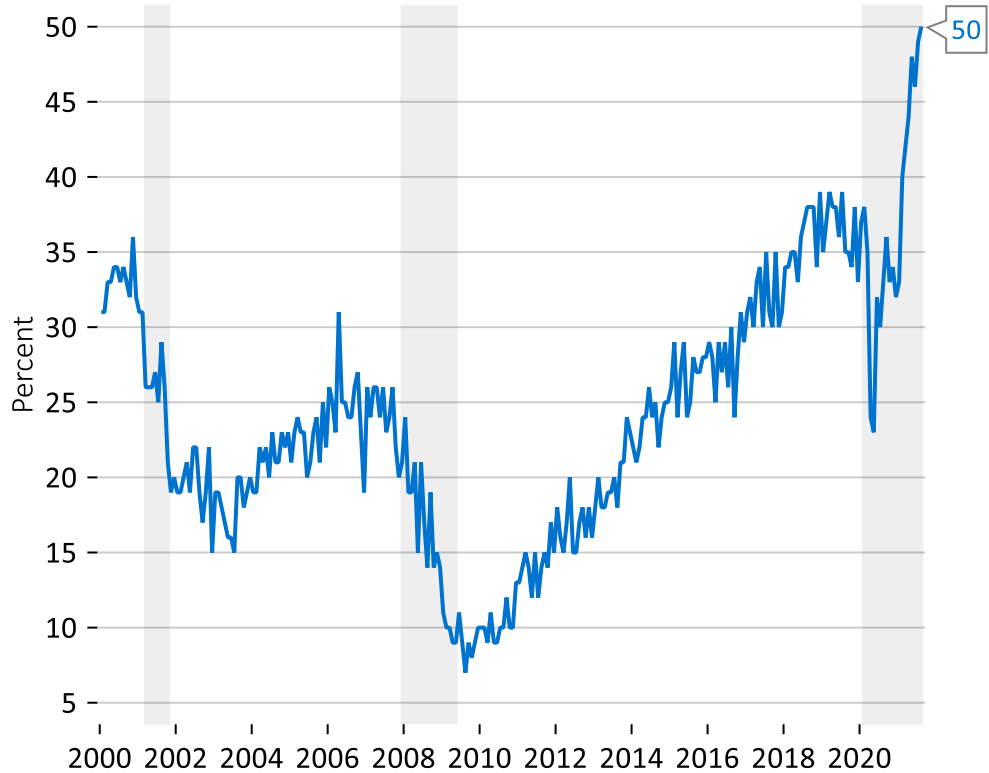
 Upside risks clear from a very tight labour market

US CPI



Source: Macrobond, 08.09.21

US Job Openings, Positions Not Able to Fill Right Now



Source: Macrobond, 08.09.21

Note: Shaded areas are US recessions

Strong economic momentum and generous financial conditions still favour risk assets



Global strategy update September 2021

Bonds	<p>Strong underweight</p> <ul style="list-style-type: none">• Strong UW Government Bonds – economies running ‘hot’ implies upside risks for yields• UW Investment Grade Credit – yield spreads narrow – UK charity & infrastructure issues offer social impact benefits
Equities	<p>Overweight</p> <ul style="list-style-type: none">• OW Global – continued QE by central banks and negative real bond yields supports valuations• OW UK – dividend support attractive – fund flows return as Brexit deal settles
Alternatives	<p>Overweight</p> <ul style="list-style-type: none">• OW Other Alternatives– infrastructure and renewables beneficiaries of fiscal spend - liquidity issues remain• OW Uncorrelated Alternatives – gold positions as hedge against policy error
Cash	<p>Overweight</p> <ul style="list-style-type: none">• Favour cash holdings rather than risk capital loss in bonds• No currency preference given similar macroeconomic policies/rates worldwide• Consider portfolio insurance
Risks	<p>Current: Unequal distribution of vaccines, disorderly bond markets, valuations stretched</p> <p>Longer-term: Inflation pressures become entrenched, central bank policy error, China tensions with US/Taiwan</p>

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Appendices

Key performance factors in Q2 2021

Asset Allocation / Stock Selection

- **Positives**

Tactical Asset Allocation - the portfolio has been correctly positioned, with a full allocation to equities

Asset class performance – outperformed within bonds, property and alternatives

- **Negatives**

Equities – underperformed the rise in the index, but over 3yrs have still outperformed (+44.8% vs +34.0%)

- **Value vs Growth**: holdings held are less cyclically orientated, and have a greater “quality” bias i.e. a greater *Return on Equity*, and higher *Net Profit Margin*
- **Stock**: Orsted shares fell -15% over the quarter, and are -31% YTD. (2020 +81%). This fall has accounted for a 1/3rd of the -3.8% relative equity underperformance since Jan.

Bond Allocation & Fundamentals

Bond Fundamentals

Coupon:	4.35%
Yield to Maturity:	2.30%
Maturity(Years)	14.9
Adjusted Duration (years):	
Total:	10.9
Excluding FRNs:	10.9
Spread to Government (bp)	
Total:	+100
Excluding Governments:	+186
Rating:	A


Index-linked bonds are excluded from the fundamentals

Bond Type

Government Bonds	39.6%
Corporate Bonds	38.7%
Asset Backed	13.9%
Government Agencies Supra	7.7%
Total	100.0%

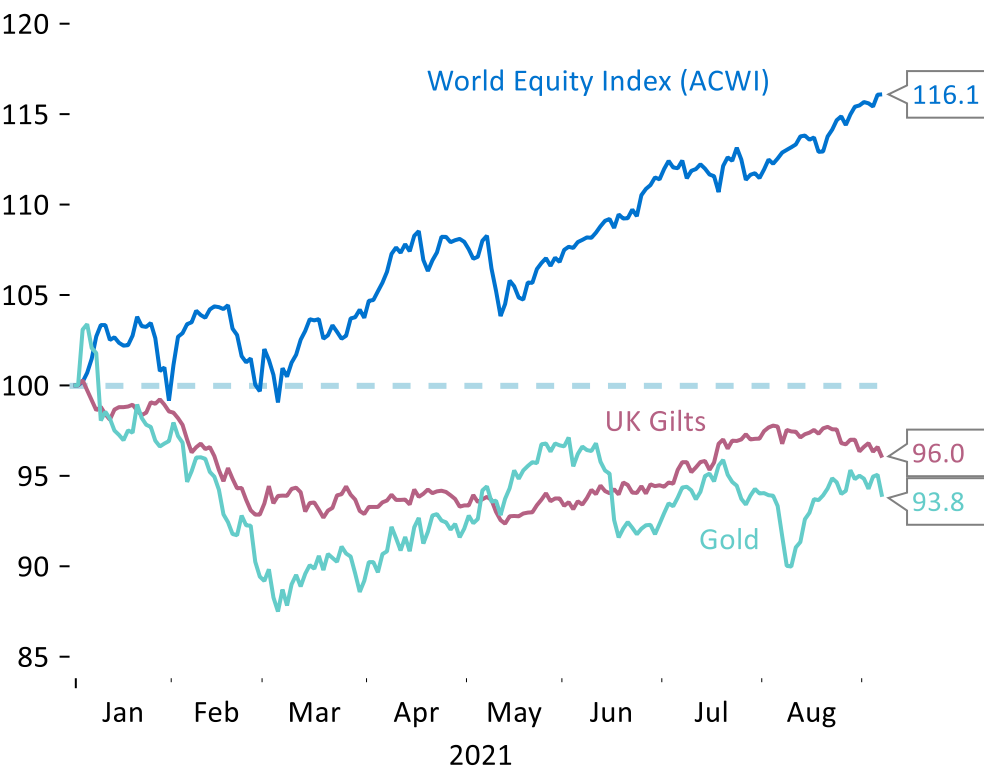
Equities: Market performance 2021-to-date

Equities lead global asset returns – growth style catches up – volatility falls

 Equities rally, bonds & gold decline

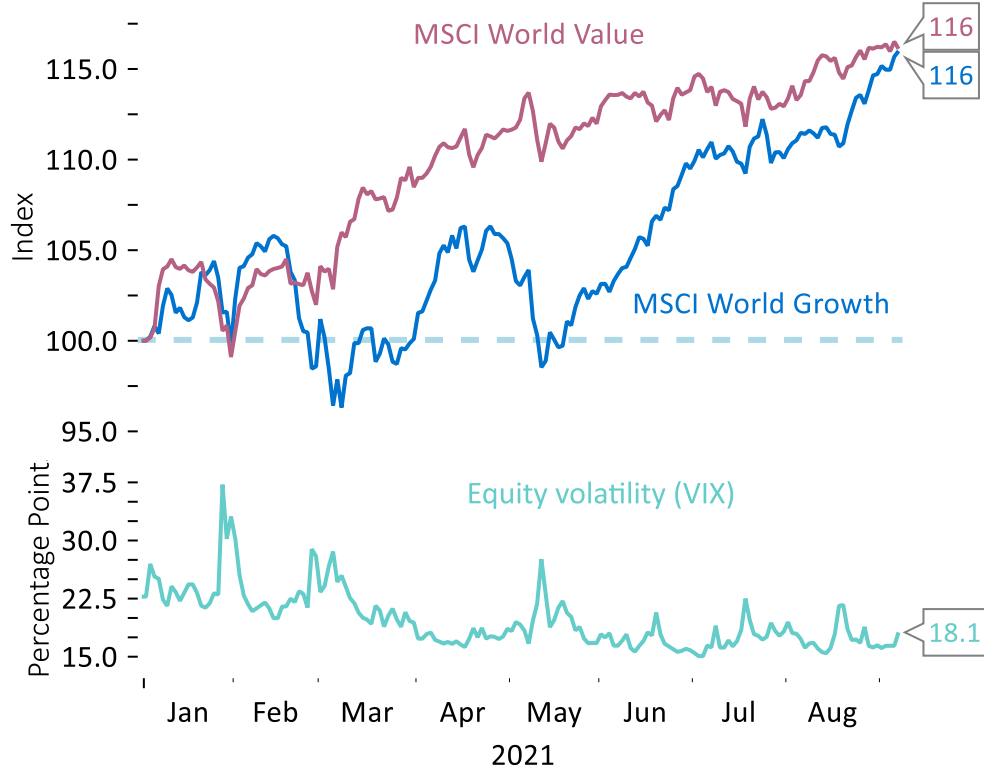
 Growth catches up to value as volatility falls

Global Asset Class Returns 2020 (£) to date



Source: Macrobond, 08.09.21

World Equity Style 2021



Source: Macrobond, 08.09.21

Strategic asset allocation considerations

	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, certificates of deposit and short dated government bonds	Reserves Strategy Predominantly bonds with some risk assets	Endowments Strategy Predominantly real assets with some defensive assets

Asset allocation

Risk and return characteristics



Strategic asset allocations

		Time frame: Target return:	Medium term (18m – 5yrs) UK CPI +1%	Long term (5yrs+) UK CPI +4%
Projected total return p.a. %			Income & Reserves Strategy (Asset Allocation %)	Endowments Strategy (Asset Allocation %)
0.8	Gilts		35.0	7.5
1.6	Corporate Bonds		30.0	7.5
6.3	UK Equities		10.0	20.0
	Global Equities		10.0	50.0
5.0	UK Commercial Property		0.0	5.0
4.5	Alternatives		10.0	10.0
1.0	Cash		5.0	0.0
Total fund			100	100
Projected returns	Projected income yield		2.8	2.4
	Trend total annual return		2.5	5.3
	Trend annual 'real' return		0.5	3.2
Key risk metrics (Based on historic index performance)	Maximum annual drawdown %*		-7.9	-24.9
	1 Year 5% Value at Risk (VaR)*		-6.0	-11.4
	Annualised Volatility %*		5.2	10.1

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

Source: Sarasin & Partners LLP. * Data since 31.12.05. As at 30.06.21. 95% 1 Year VaR of 10% means that there is a 5% probability that the portfolio will fall in value by 10% or more over any one year period. Therefore, a 10% loss is expected on this portfolio on one year in twenty.

Operating parameters

Sarasin Income & Reserves Fund

Asset Class	Low	Neutral	High	Benchmark Index
Cash	-	5.0	50.0	SONIA Interest Rate Benchmark
Government Bonds	5.0	35.0	95.0	ICE BofAML Gilts All Stocks Index
Corporate Bonds	5.0	30.0	95.0	ICE BofAML Sterling Corporate Bond
Total Bonds & Cash	50.0	70.0	100.0	
UK Equities	-	10.0	25.0	MSCI UK IMI
International Equities	-	10.0	25.0	MSCI All Countries World ex-UK
Total Equities	0.0	20.0	35.0	
Total Alternatives	-	10.0	20.0	SONIA Interest Rate Benchmark +2%
Total	-	100.0	-	
Sterling Weighting	75.0	90.0	100.0	

Sarasin Income & Reserves Strategy

Ten year net performance record



Performance net of fees (% growth), Sarasin Income & Reserves CAIF

Annualised returns to 30 Jun 2021	3 years	5 years	10 years	Since Inception^
Total portfolio return	5.2	4.4	5.3	4.9
ARC Cautious	3.4	3.2	3.6	3.9
Relative	1.8	1.2	1.7	1.0

12 months to 30 Jun 2021	30.6.20 to 30.6.21	30.6.19 to 30.6.20	30.6.18 to 30.6.19	30.6.17 to 30.6.18	30.6.16 to 30.6.17	30.6.15 to 30.6.16	30.6.14 to 30.6.15	30.6.13 to 30.6.14	30.6.12 to 30.6.13	30.6.11 to 30.6.12
Total portfolio return	4.5	5.9	5.4	0.7	5.8	6.7	5.2	6.1	8.5	4.4
ARC Cautious	6.1	1.5	2.7	1.0	4.8	1.6	4.2	4.4	7.4	2.9
Relative	-1.6	4.3	2.8	-0.3	1.0	5.1	1.0	1.7	1.0	1.5

ARC Charity Indices are based on historical information. Past performance is not a guide to future returns and may not be repeated. The value of investments and the income from them can go down as well as up and an investor may not get back the amount originally invested.

Asset Risk Consultants Limited (ARC) is an independent investment consultancy specialising in the analysis of private client and charity investment portfolio performance. Circa 30 investment houses supply ARC with performance data across their entire charity base. Portfolios falling into the Cautious risk category will have exhibited a historical variability of returns in the region of between 0-40% of UK equity markets. Portfolios in this category usually have an allocation to equities but also have material exposure to a range of other asset classes. For more information about ARC, please see 'Important Information' at the back of this document. Portfolios falling into the Balanced risk category will have exhibited a historical variability of returns in the region of between 40-60% of UK equity markets. Portfolios in this category usually have an allocation to equities but also have material exposure to a range of other asset classes. For more information about ARC, please see 'Important Information' at the back of this document. Source: Sarasin & Partners LLP and ARC (supplied quarterly by Asset Risk Consultants) as at 30.06.21. Data collected from The Sarasin Endowments Fund (formerly Alpha CIF for Endowments), a multi asset class Charity Authorised Investment Fund, regulated by the FCA and the Charity Commission and audited by Deloitte. ^Fund Inception: 30.12.2005.

Important information

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 or Ireland.

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