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Hywel Dda Health Charities Investment Update

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Managing the Assets of Charities, Foundations and Philanthropic Trusts

15th September 2020

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 31st August 2020:

Permanent Endowment:	£2,175,100
General Funds:	£5,951,214
Combined value:	**£8,126,314**

Robust, policy-induced recovery in risk assets *(performance to 31st August 2020)*

- Portfolio +3.8% over the year to date (total return, net of fees)
- Ahead of composite benchmark (-0.3%) and ARC Steady Growth estimate (-4.0%)
- Strong equity stock selection and alternative allocation has boosted returns

Income growth will be difficult over 12/24 month time horizon

- Dividend cuts expected; hope to ameliorate with stock selection, option writing & income reserve
- Estimated income of c.£252,000 for 2020, equivalent to a 3.1% income yield

Hywel Dda Health Charities

Portfolio value and asset allocation

AS AT 31ST AUGUST 2020

Asset class	Value £	Portfolio %	Benchmark %	Difference %
Fixed Income	1,195,607	14.7	15.0	-0.3
Equities	5,569,099	68.5	70.0	-1.5
Property	222,358	2.7	5.0	-2.3
Alternatives	809,385	10.0	10.0	0.0
Liquid Assets	329,865	4.1	0.0	+4.1
Total	8,126,314	100.0	100.0	

*Source: Sarasin & Partners as at 31.08.20 (UNAUDITED)

Portfolio benchmark (from 1-Feb-20): 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%), UK cash LIBOR 1 Month (Total Return) (10%).

Hywel Dda Health Charities

Performance Summary

TOTAL RETURNS, NET OF FEES

Period to 31st August 2020	YTD (%)	2019 (%)	2018 (%)	Since Inception (ann. %)^
Hywel Dda Health Charities	3.8	19.8	-4.1	6.9
Peer Group (ARC Steady Growth Charity Index*)	-4.0	15.7	-4.9	2.7
Composite Benchmark (Gross of fees)	-0.3	18.5	-4.9	5.3
Long Term Objective (UK CPI + 4%)	3.2	5.5	6.4	5.8

*Values provided for past two months are estimates. 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, as measured by the FTSE All-Share. ^Inception date: 28th June 2017

Performance by Asset Class

Long term portfolio

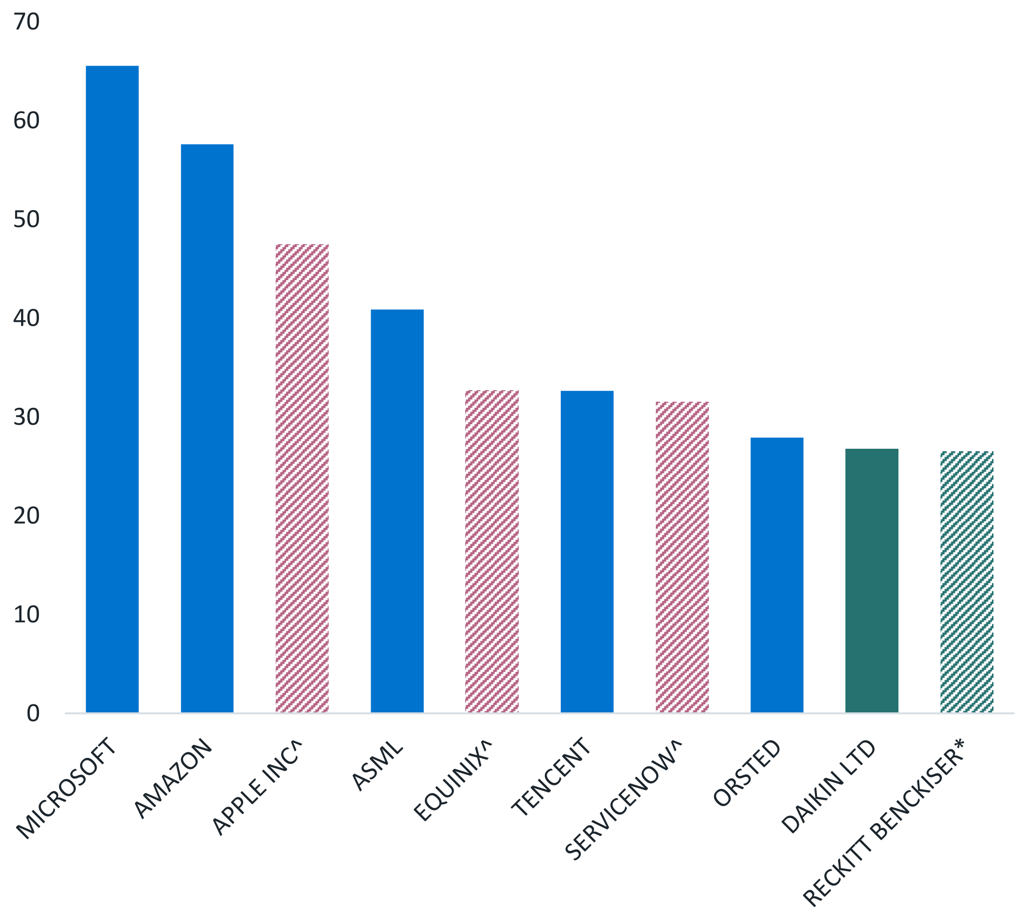
Asset Type	Calendar Year to 31-Aug-20 Total Return %	Calendar Year to 31-Aug-20 Index %	Calendar Year 2019 Total Return %	Calendar Year 2019 Index %
Fixed Income	*5.5*	*5.1*	*9.0*	*8.8*
Government Bonds	5.7	6.1	5.9	7.0
Non-Government Bonds	4.0	4.1	11.7	10.8
Index-Linked Bonds	8.9	8.1	-	6.5
Specialist Bond Funds	-12.8	5.5	4.4	8.0
Equities	*4.3*	*-2.6*	*24.6*	*21.6*
UK Equities	-15.8	-20.3	21.7	20.1
Global Equities	13.0	4.8	25.6	22.0
Property	-2.8	-0.4	6.1	9.0
Alternative Investments	*12.4*	*0.2*	*10.7*	*0.7*
Commodities	28.0		13.5	
Hedge Funds	3.7		-0.4	
Infrastructure	-2.5		8.2	
Private Equity	-9.8		56.6	
Other Alternatives	12.2		4.9	

Source: Sarasin & Partners LLP: Sarasin Endowments Fund as at 31st July 2020

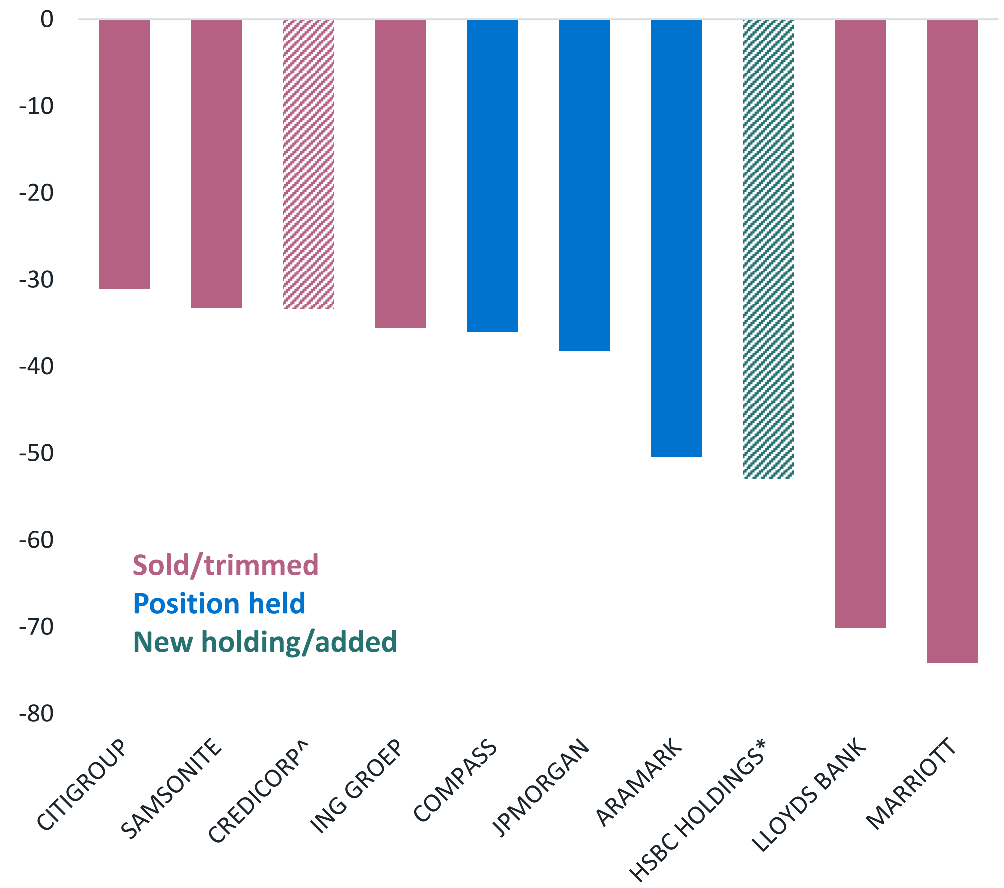
Contributors and detractors

Performance contribution – H1 2020

Contributors (basis points)



Detractors (basis points)

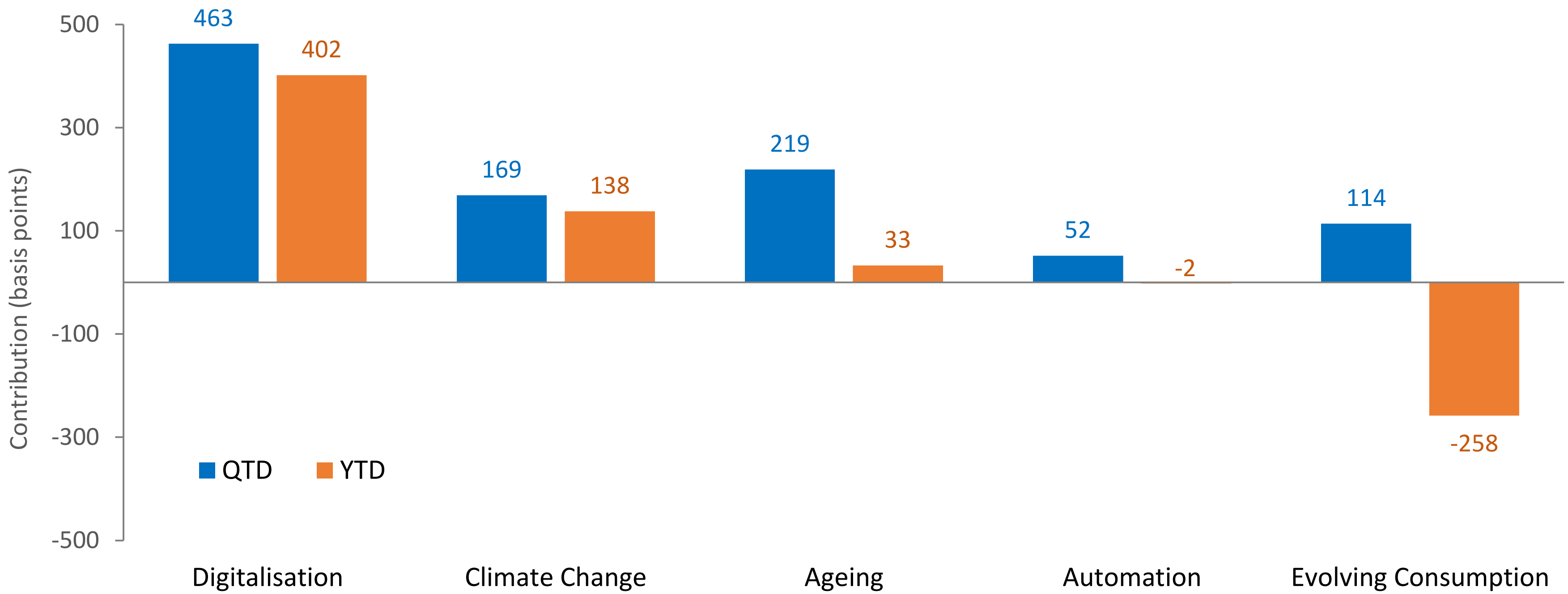


*Holdings in HSBC & Reckitt Benckiser increased over the period. ^Holdings in Credicorp, Apple, Equinix & ServiceNow reduced

Source: Sarasin & Partners LLP 30th June 2020

Sarasin Endowments - Thematic Equities

How our core themes have contributed to performance



Contributors YTD

- Digitalisation – Microsoft, Amazon, Apple, ASML
- Climate Change – Orsted, Daikin, Enel, Ecolab
- Ageing – Roche, AstraZeneca, Fresenius

Detractors YTD

- Automation – CME, IMI, Deere
- Evolving Consumption – Marriott, Aramark, Carnival

Bond Allocation & Fundamentals

A shift to high quality corporates..

Bond Fundamentals

Coupon:	4.37%
Yield to Maturity:	2.00%
Maturity(Years)	14.1
Adjusted Duration (years):	
Total:	10.4
Excluding FRNs:	10.4
Spread to Government (bp)	
Total:	+148
Excluding Governments:	+226
Rating:	A

Index-linked bonds are excluded from the fundamentals

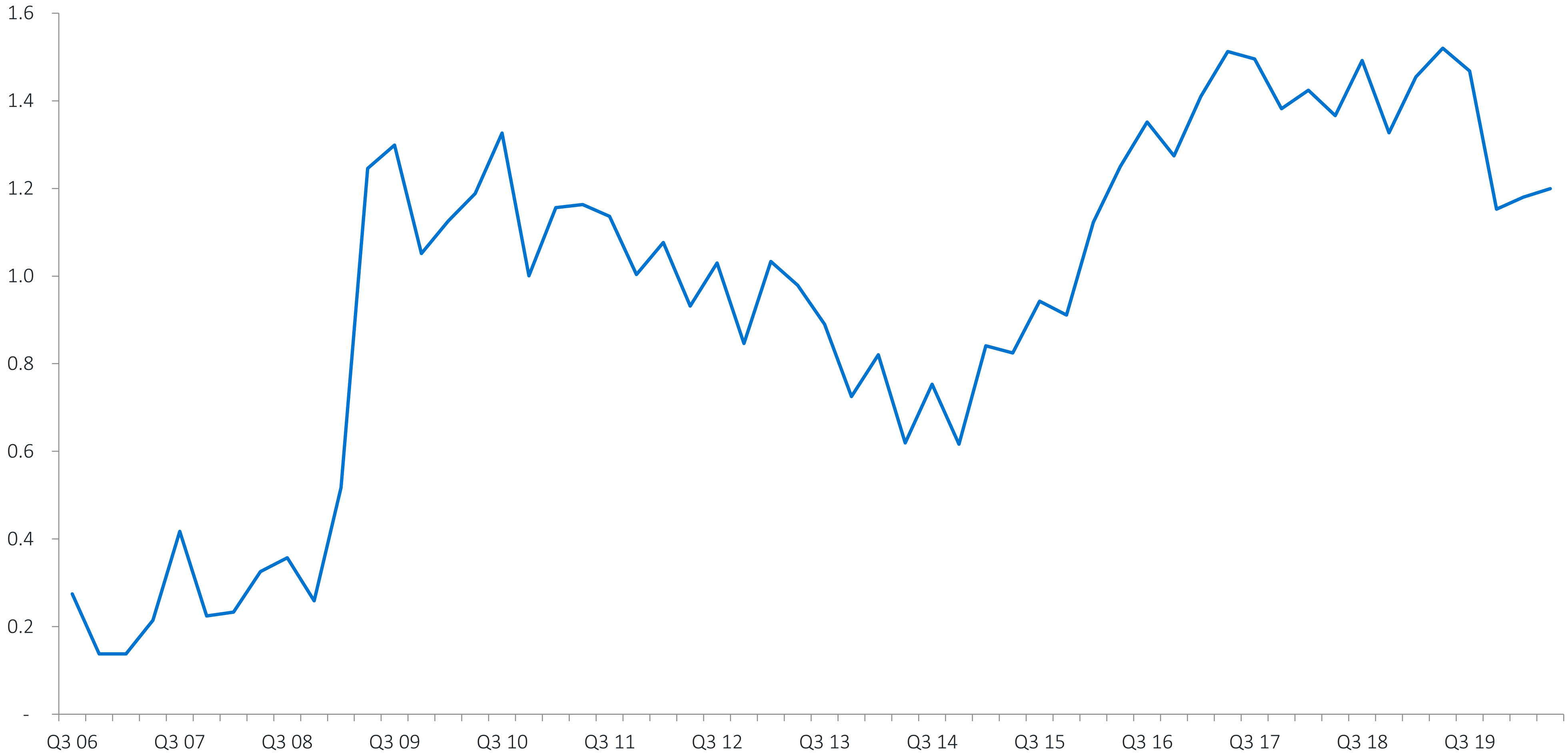
Bond Type

Government Bonds	29.3%
Corporate Bonds	45.8%
Asset Backed	15.9%
Government Agencies Supra	6.3%
Index-Linked Bonds	2.7%
Total	**100.0%**

Sarasin Endowments Fund

Income reserve still robust

Distribution for 2020 expected to be maintained



Source: Sarasin & Partners, 31.08.20

COVID-19 engagement framework

It's the interplay that matters

COVID-19 Stakeholder KPIs

Stakeholder	KPIs
Customers	Vulnerable (elderly/underlying health condition/poor) as % of customer base
Staff	% staff laid off % staff furloughed % staff with pay-cuts (% pay cut)
Suppliers	% suppliers terminated % suppliers not paid / partially paid
Senior Executives	Votes again remuneration in past Quantum red flag No /limited action taken to reduce pay (e.g. deferral not reduction)
Shareholders	Dividend cut Share buyback cut
Taxpayer/Government	Government support utilised – wage support; tax forbearance; subsidized loans; etc.

Priority Engagements

1. Aramark
2. Compass
3. ~~Marriott Hotels~~
4. Reckitt Benckiser
5. Amazon
6. ~~Disney~~
7. Booking
8. Sonic Healthcare
9. Associated British Foods

Example engagement

Associated British Foods

Stakeholder	RAG	KPI category	Issues
Customers		• Vulnerable (elderly/underlying health condition/poor) as % of customer base	• Vulnerable retail customers will need protection. No info yet.
Staff		• % staff laid off • % staff furloughed • % staff with pay-cuts (% pay cut)	• % layoffs not disclosed • 100% of UK Primark employees furloughed (c30,000). Unclear situation with international workforce.
Suppliers		• % suppliers terminated • % suppliers not paid / partially paid	• Primark cancelled all new orders. No commitment to pay outstanding orders. Severe impact on suppliers. Some mitigation with wage fund for garment workers. • Not disclosed but may be withholding rent. Discussions ongoing with landlords.
Executive pay		• Votes again remuneration in past • Quantum red flag • No /limited action taken to reduce pay (e.g. deferral not reduction)	• Voted against: lack of shareholder alignment predominantly • Quantum concern re FD pensions • Execs 50% salary cut & no bonuses (CEO, FD and Primark CEO). NEDs 25% reduction
Shareholders		• Dividend cut • Share buyback cut	• Likely to cut interim div declared end April
Taxpayer/Government		• Government support utilised – wage support; tax forbearance; subsidized loans; etc.	• Wage support

Further developments

- ❑ **20 April** – ABF announce they will now pay suppliers all outstanding orders, U-turning previous stance.
- ❑ **28 April** – we email ABF the ICCR investor statement.
- ❑ **13 May** – call held with John Bason, FD

Next steps:
Outreach to priority list: Amazon pending, all others complete
Write to the Board: Sent for Sonic Healthcare. ABF and Disney pending

Thought Leadership having an impact

Oil majors have finally revised long-term oil price targets and impaired $bns of assets

August 2018

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Are oil and gas companies overstating their position?

A review of long-term oil price assumptions underpinning company balance sheets

Natasha Landell-Mills, Head of Stewardship

August 2018

June 2020

Shell warns of up to $22bn hit on assets from oil and gas slump

Anglo-Dutch group is latest to slash forecast for energy prices

BP to take up to $17.5bn hit on assets after cutting energy price outlook

Oil major expects demand to stay lower for longer and the shift away from fossil fuels to accelerate

December 2019

Chevron to take $10bn writedown on shale gas glut

Spanish Energy Giant Repsol Writes Down Oil, Gas Assets

Along with warnings of a $5 billion impairment charge, the company said it aims to achieve net-zero emissions by 2050

COVID-19: We must "rebuild better"

What Covid19 can teach us about the climate crisis – and what we should do about it

by Natasha Landell-Mills, CFA | 29 Apr 2020

The world is at war with two invisible killers. The first – Covid19 – has infected over 2.5 million people, forced millions into lock-down, caused widespread job loses and led governments to requisition productive assets to an extent not seen since World War Two.

The second is climate change. The projections for human suffering from our current anticipated 4C of global warming are alarming. The Inter-governmental Panel on Climate Change warns that extreme weather events and sea level rise will likely lead to millions of deaths and terrible hardship[1] . A Call to Action by global health organisations in 2018 described climate change as the "greatest public health challenge of the 21st century"[2]. Climate change is slower moving than Covid19, but this does not make it less lethal.

Despite these twin threats, calls to delay action on climate change are becoming louder[3]. This is not a time for building windmills and solar farms, it is argued. Governments need to focus on battling the pandemic, protecting jobs and boosting growth.

These arguments are wrongheaded and dangerous. Of course, we must fight this pandemic. But this need not be – and must not be – at the expense of action to confront the climate emergency. To take such a pathway would only add to the human tragedy. Instead, Covid19 should act as a wake-up call to help galvanise more concerted action to protect the planet.

https://www.sarasinandpartners.com/global-home/insights/article/article-588-apr20-what-coronavirus-can-teach-us-about-the-climate-crisis

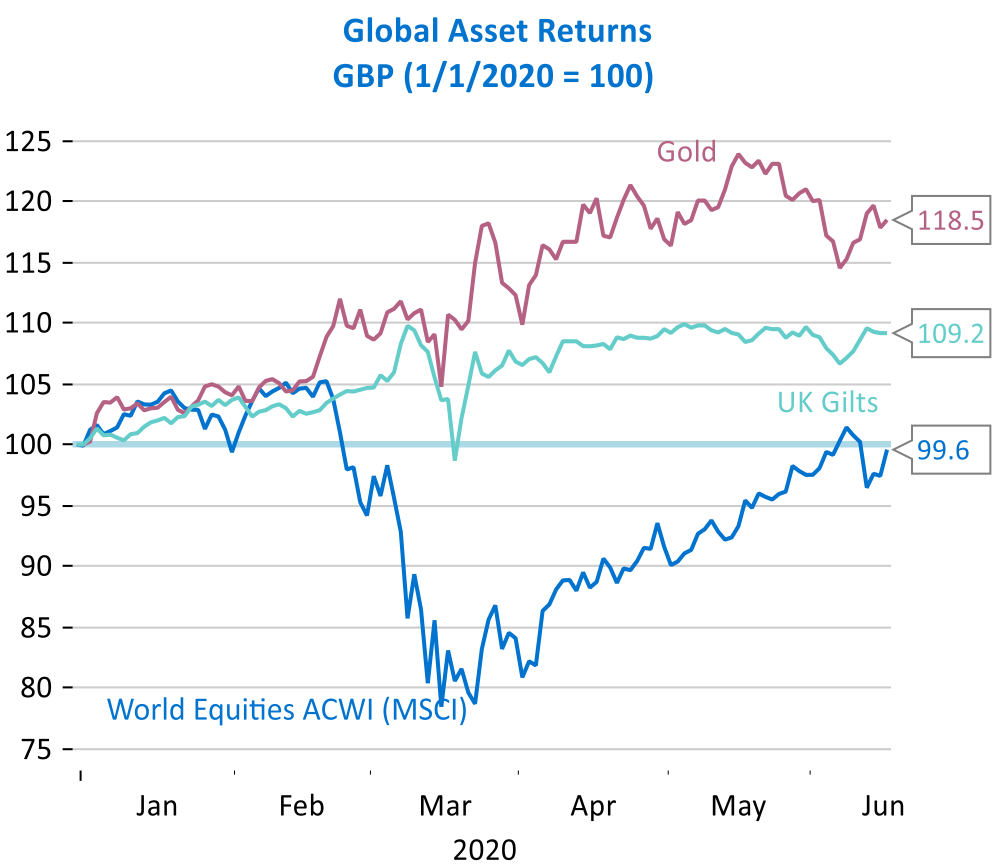
01

Sarasin Global Strategy and Outlook

A cautious recovery gathers momentum…

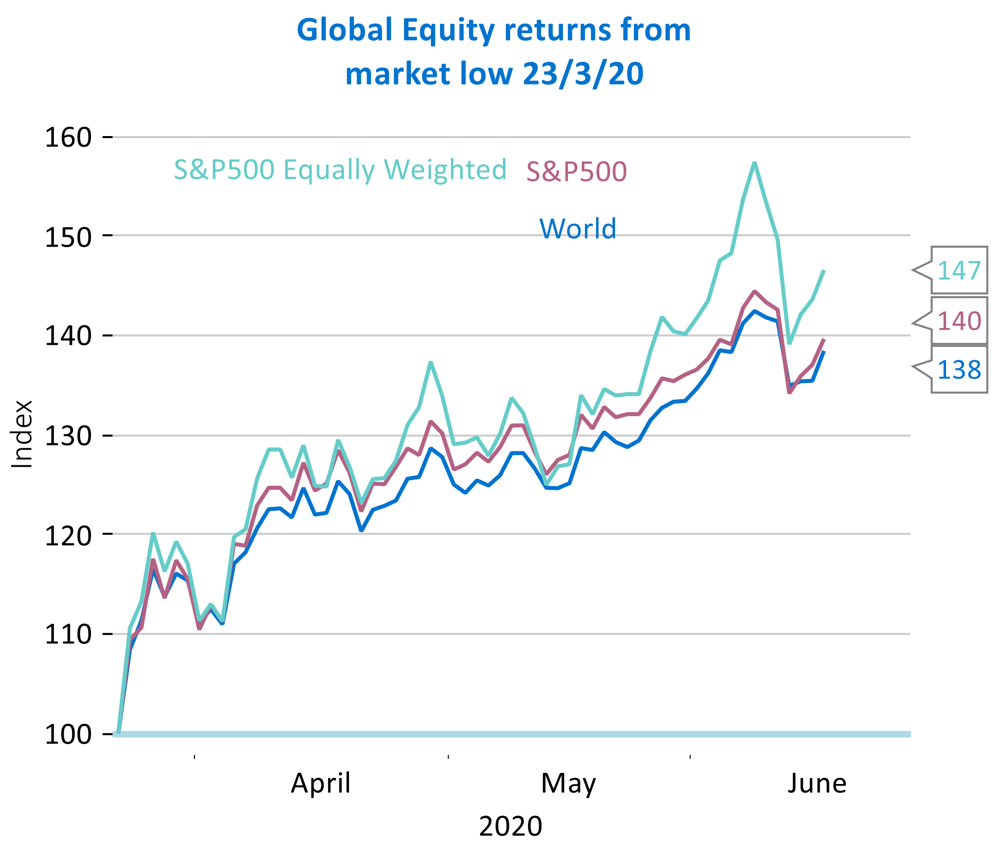
The global equity rally continues…

The 2020 US Bear market lasted just 34 days



Source: Macrobond

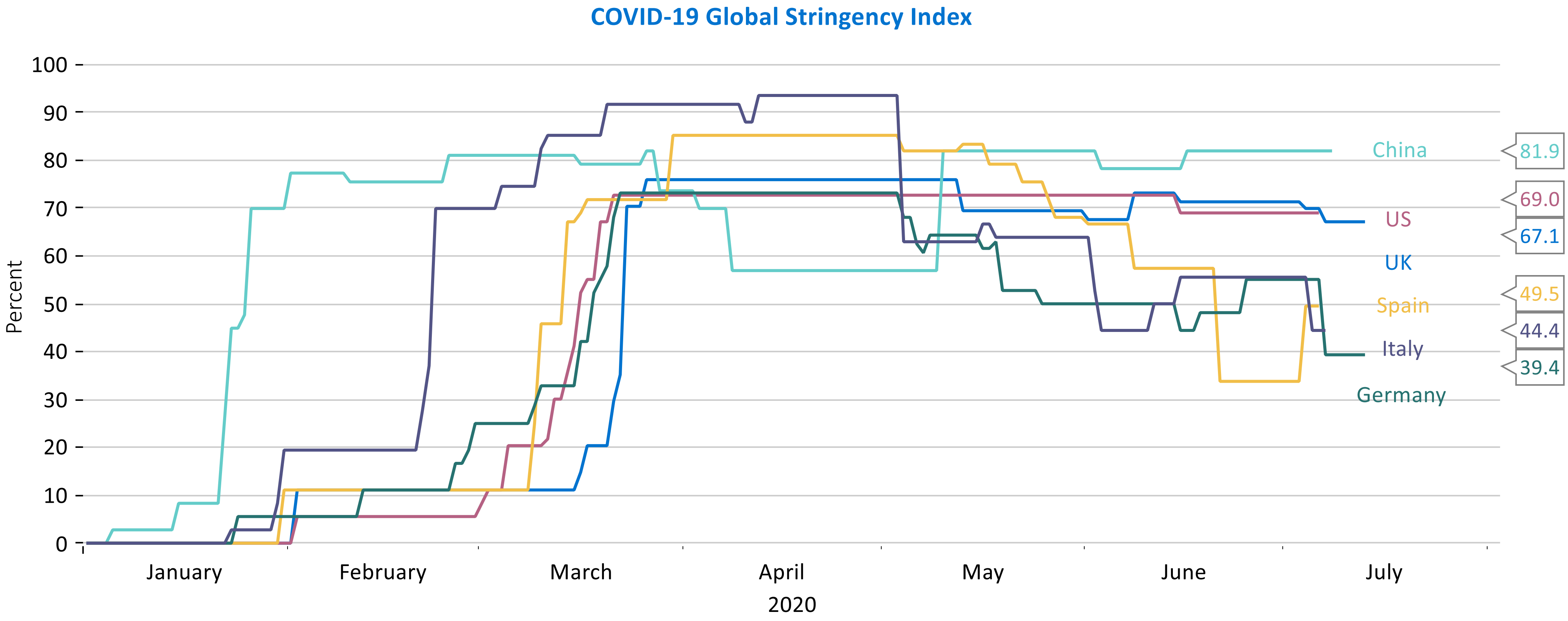
Extraordinary rally…a correction to be expected



Source: Macrobond

Government COVID restrictions are easing only slowly, with global infections still close to peak…

COVID-19 Government Response Tracker



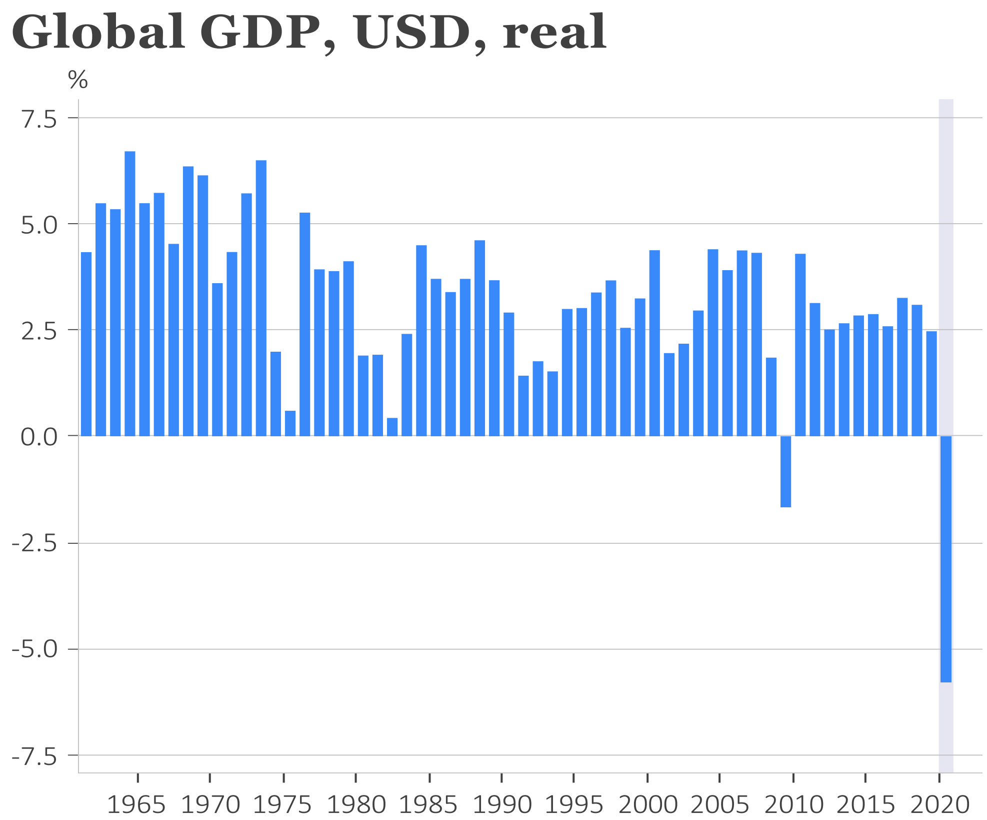
Source: Macrobond

The global Government Response Tracker records government responses worldwide and aggregates the scores into a common Stringency Index . Blavatnik School - University of Oxford.

Economic outlook: Depth of recession becoming clearer, but expect 'scarring' even when activity fully resumes

	2020	2021
China	1.0%	8.7%
US	-4.5%	3%
Eurozone	-9.5%	6.1%
UK	-10.3%	7.2%
Japan	-4.2%	1.4%
World	-5.8%	4.2%

2020 Recession is likely to be worse than 2008-09

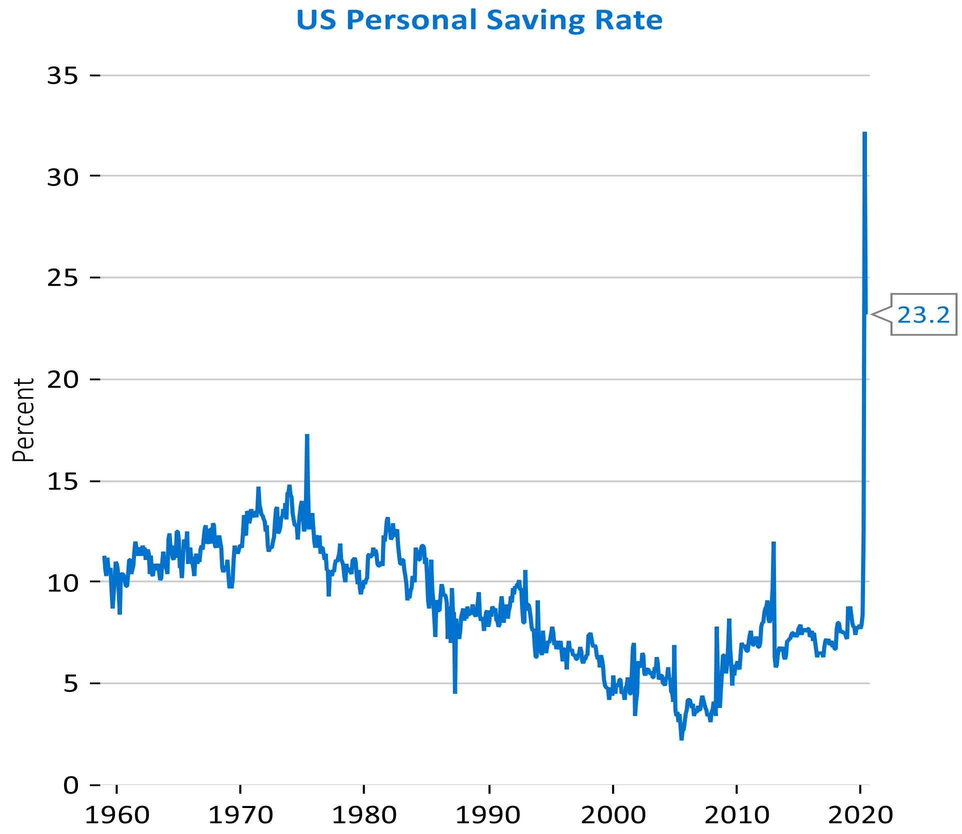


We assume that the economies will be shutdown by 25% - 40% across regions and countries don't fully resume by the end of the year with around 2.5%-5% still remaining closed

Source: Macrobond and Sarasin and Partners

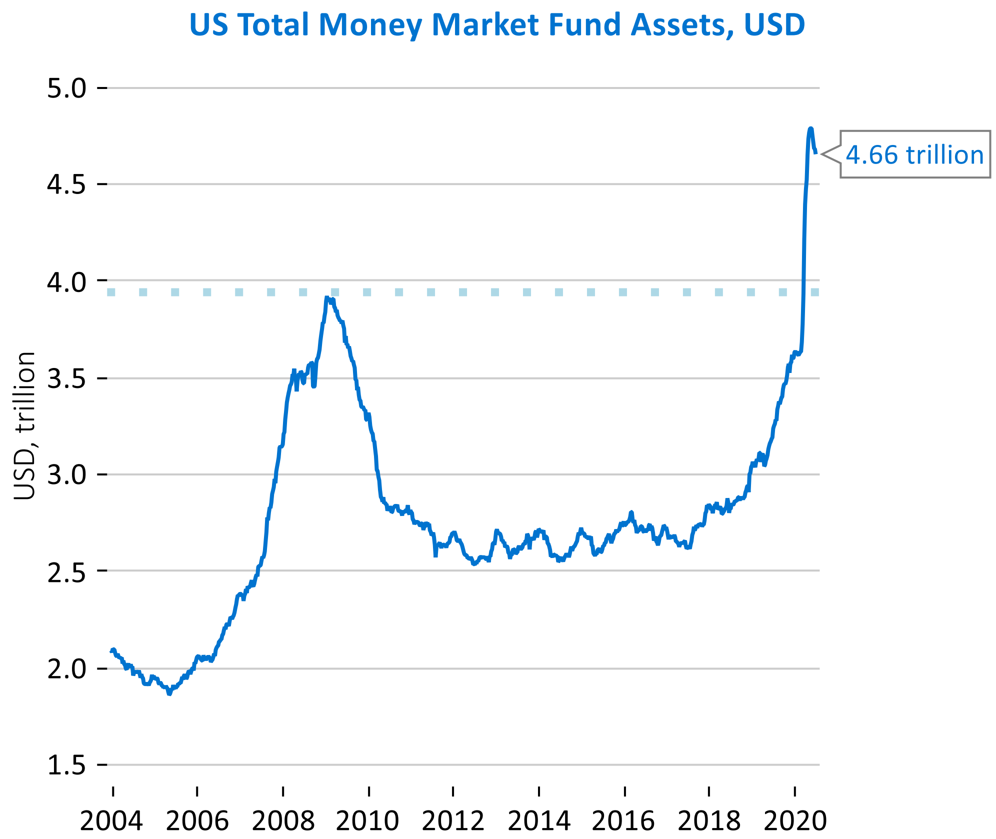
Higher savings and record money market fund levels support retail investment flows…

Lower spending & rising govt. payments lifts savings



Source: Macrobond

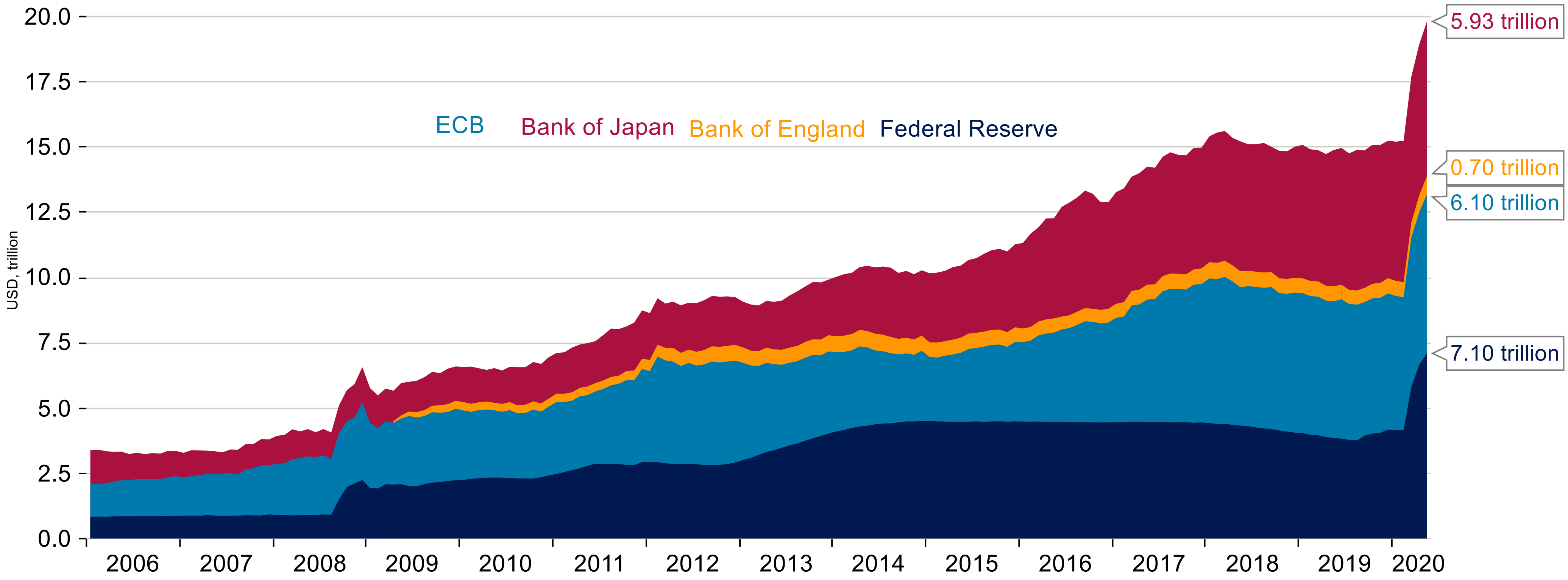
Volume of US Money Market Funds soars



Source: Macrobond

Central bank asset purchases have increased significantly

Central bank balance sheets (USD)



Source: Macrobond

Note: UK balance sheet data is lagging by 1 year, and so is proxied in the chart by assets purchased by the central bank reserves.

Crisis triggers a step towards European fiscal union?

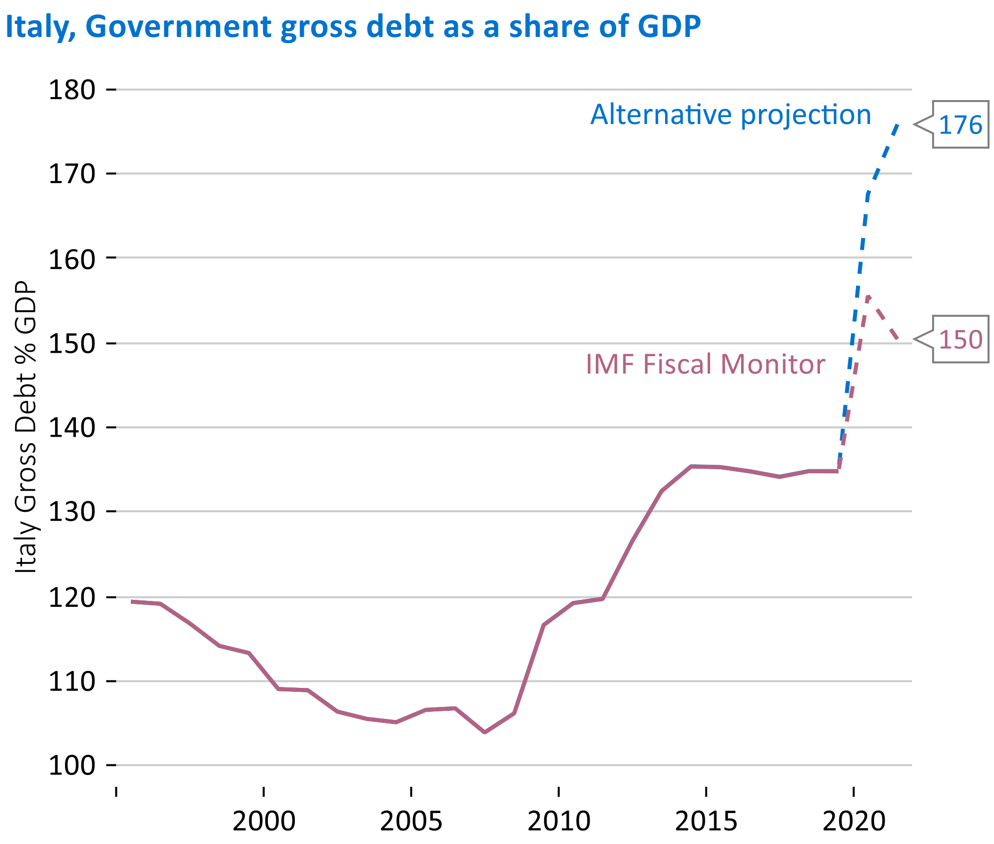
EU Recovery Fund

- **Size and composition:** €750bn (5.4% EU GDP) composed of €500bn Grants + €250bn Loans.
- **Funded:** New debt issued in financial markets 2028-2058
- Will the "frugal four" agree details?

ECB Pandemic Emergency Purchase Programme

- The ECB decision exceeded market expectations for bond purchases - PEPP package increased by **€600bn**, from €750bn - **total package to €1.35bn**.

Projections - Italy gross debt as a share of GDP

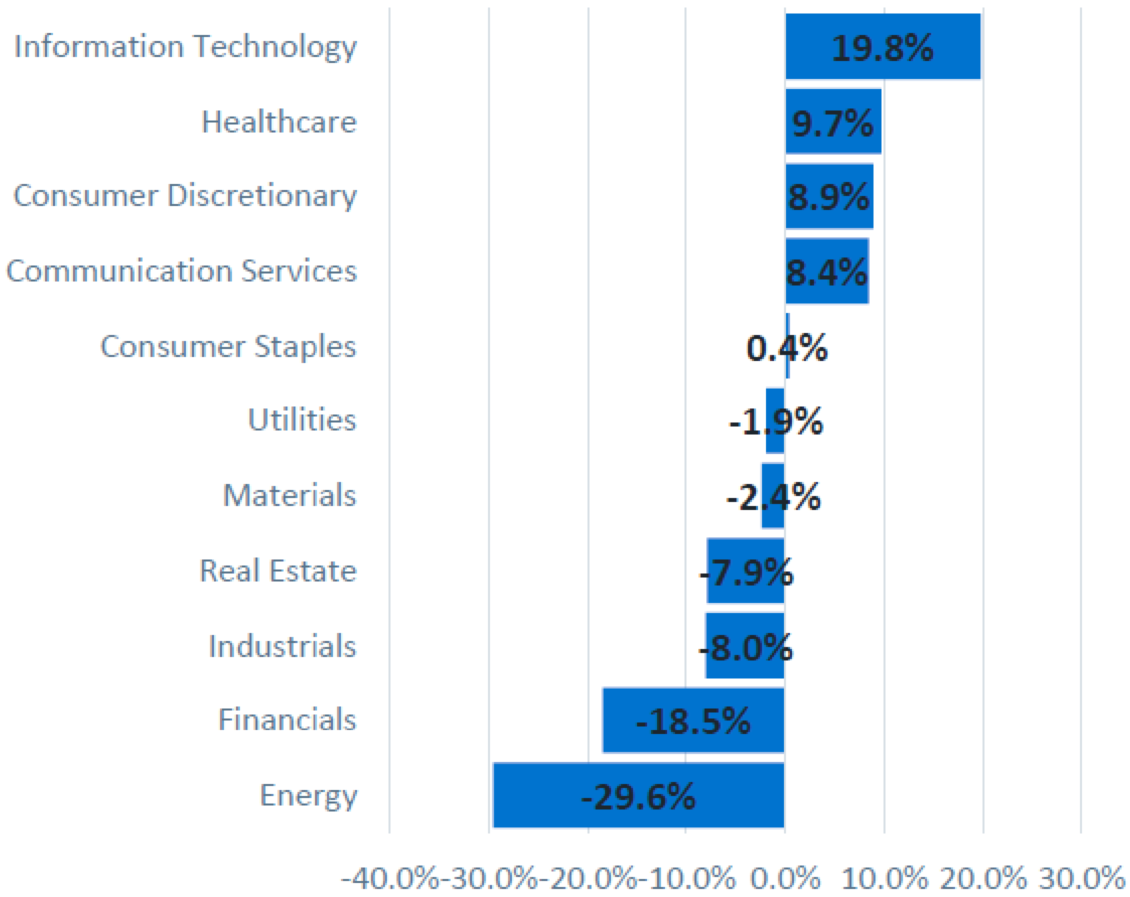


Source: Macrobond

Sector performance has varied

The recovery has been narrow – technology leads the way

Sector performance 01/01/2020 to 30/06/2020



Source: MSCI

Equity mega caps

- 4 companies with market caps >$1 trillion
- Each one has outperformed this year
- Increasing their weighting in MSCI ACWI from 8% to 11.3%

Five secular mega-themes remain resilient long-term

20-30 sub-themes – some emphasis may change

Digitalisation
- Analytics
- Cloud
- Digital media
- Digital commerce
- Connectivity
- Processing

Automation
- Food chain technology
- Safety & security
- Personal assistance
- Process efficiency

Ageing
- The Grey Dollar
- Health
- Wealth

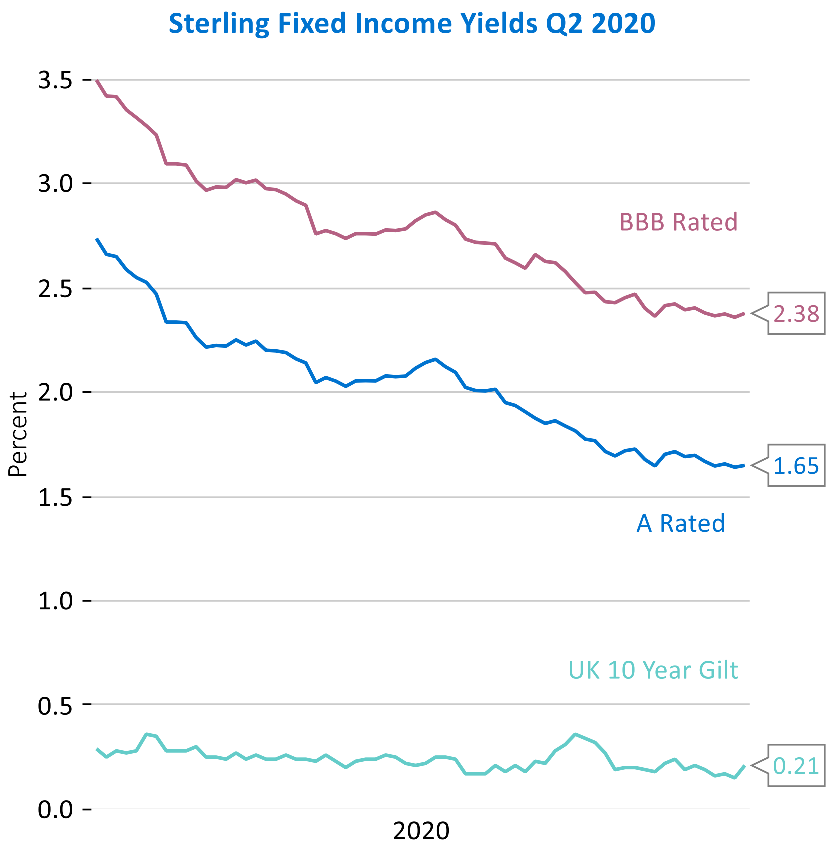
Evolving Consumption
- Health, wellness & diet
- Disruptive retail
- The circular economy
- Emerging Consumer
- Travel & experiences

Climate Change
- Environmental resources
- Infrastructure & buildings
- Low carbon power
- Resource efficiency
- Low carbon transport

Red type – Under review

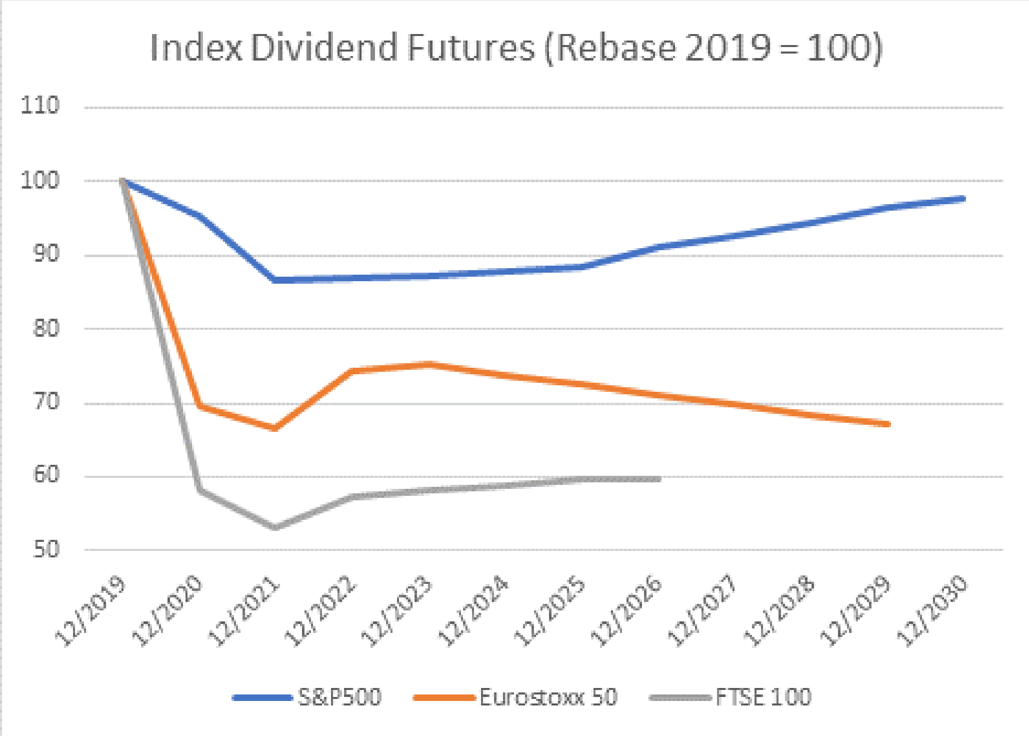
Income under pressure from falling credit spreads and lower dividends for several years ahead…

Credit spreads narrow sharply in Q2 2020



Source: Macrobond

Dividend Futures suggest a long climb back



Source: Bloomberg/Sarasin

Economic damage severe but a global recovery has begun

Fiscal and monetary policy the most expansionary in post-war history

Global strategy update July 2020

Bonds	Neutral – Corporate yields attractive with central bank support • UW Gilts – interest rates suppressed, yield curve management likely • OW investment grade credit – attractive yield premium plus central bank support • Caution High Yield and EM debt
Equities	Neutral – Earnings yield attractive, gradual improvement in earnings & dividend visibility • OW Global equities – thematic earnings still robust • Neutral UK equities – valuations attractive, discount still likely on UK assets • UW EM equities. Extent of economic and social damage from COVID-19 under estimated
Alternatives	Overweight – Long-term inflation plus returns attractive • Neutral Other Alternatives– infrastructure and renewables • OW Uncorrelated Alternatives - Gold to hedge against unprecedented policy stimulus & debt
Cash	Underweight – zero or negative yield in all markets • No currency preference
Risks	Current: Resurgence in virus in H2 2020, emerging world economic crisis, no-deal Brexit Longer-term: Damage to global trade linkages, balance sheet impairment for corporates and households, long-term rise in government debt, COVID19 damage to most vulnerable in society

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02 Appendices

Key factors that have influenced performance

Tactical Asset Allocation / Stock Selection

1. **Equity allocation**: prior to the COVID-19 crisis we were marginally underweight equities
2. **Thematic stock selection:** we held no airlines, restaurants, with retail exposure predominately limited to online and food retail (i.e. Amazon, Costco, Tesco and Alibaba)
3. **Energy sector:** we were under exposed to fossil fuel producers in 2019, and in early March sold RD Shell at £17.53 and before the shares halved. Now out of BP too.
4. **Portfolio insurance:** prior to the crisis the cost of buying equity index protection had been cheap (as volatility was low). We entered into the crisis with two Put Option strategies
5. **Sterling exposure:** last year we agreed to reduce the sterling policy exposure from 71.5% to 60%, and we implemented this in late January and before the fall in GBP
6. **Gold**: we doubled our exposure prior to the crisis to 5%, and the Invesco Gold ETC rose 25.5% in H1

UK Property

Allocation & Key characteristics

Allocation	%	Benchmark %
The Charities Property Fund	1.0	
Property Income Trust for Charities	0.9	
Other property holdings	0.8	
Total Property	**2.8**	**5.0**

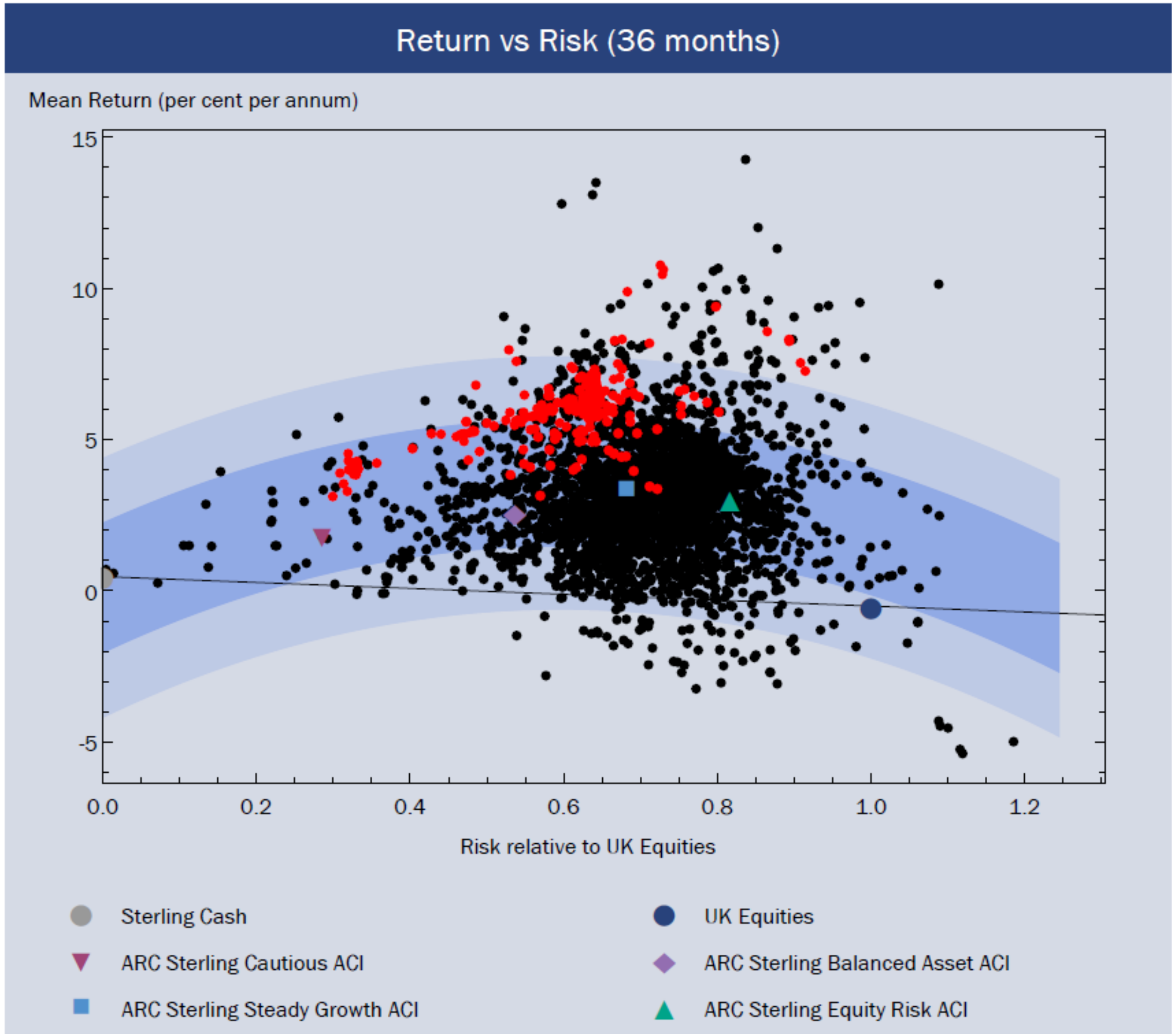
Outlook: negative, with a fall in rental yields

Key characteristics (Data as at Q1 2020)	Charities Property Fund	Property Income Trust for Charities
Fund size	£1.2bn	£683m
Debt held (% of NAV)	-	11.1%
Scale	127 properties	53 properties
Distributable yield	4.2%	5.4%
Vacancy rate	5.1%	5.9%
Risk – Retail exposure	24.2% (High St. 1.9%)	16.5% (High St. 4.7%)
Risk – Other	10.5% Hotels/Student Accom, 2.5% Leisure	12.2% via budget hotels/care home
Rental income outlook*	> Est. 70% of all rents collected in Q2, with 20% deferred and 10% in discussion > Est. dividend distributions in Aug and Nov -23% vs expected payments > Est. dividend distribution in Feb 2021 will be back to normal (i.e. 1.3 pence per unit)	> 82% of rents collected, with 18% deferred (from direct properties) >Income expectations, in terms of pence per unit distributions: 2018 4.95p, 2019 4.80p, 2020 4.00p (so -17% y-on-y) and then an est. increase to 4.5p in 2021

Sarasin & Partners Charity Peer Group

ARC Charity Universe: risk vs return

Sarasin & Partners portfolios (in red) vs ARC charity universe (36 Months). Mean return, risk relative to UK equities



Contributing firms include:

- Aberdeen Standard Capital
- Barclays, Wealth & Investment
- Baring Asset Management
- Cazenove Capital (Schroders)
- CCLA Investment Management Ltd
- Charles Stanley & Co Ltd
- James Hambro & Partners LLP
- M&G Investments
- Quilter Cheviot Investment
- Rathbone Investment Management
- Rothschild & Co Wealth Management
- Sarasin & Partners LLP
- Smith & Williamson
- Stonehage Fleming
- UBS AG
- Veritas Investment Management LLP
- Waverton Investment Management

Past performance does not guarantee future returns. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Source: ARC Research Ltd PCI www.suggestus.com, 30th June 2020.

ARC Charity Indices are based on historical information and past performance is not indicative of future performance. 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. For more information about ARC, please see 'Important Information' at the back of this document.

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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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. The index data referenced is the property of third party providers and has been licensed for use by us. Our Third Party Suppliers accept no liability in connection with its use. See our website for a full copy of the index disclaimers.

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This document does not explain all the risks involved in investing in the funds and therefore you should ensure that you read the prospectus and the KIID which will contain further information including the applicable risk warnings. The prospectus, the KIID as well as the annual and semi-annual reports are available free of charge from www.sarasinandpartners.com or from Sarasin & Partners LLP, Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU, Telephone +44 (0)20 7038 7000, Telefax +44 (0)20 7038 6850. For your protection, telephone calls may be recorded.

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