

Hywel Dda Health Charities Investment Update

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9th March 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 19 th February 2021:	Permanent Endowment:	£2,253,618
	General Funds:	£6,166,045
	Combined value:	£8,419,663

Markets rally further on strong vaccine efficacy, US election result and BREXIT agreement

- Portfolio +9.8% for the full-year 2020 (total return, net of fees)
- Ahead of composite benchmark (+6.8%) and ARC Steady Growth estimate (+3.5%)
- Strong equity stock selection and alternative allocation boosted returns

Income distributions maintained in 2020 (vs 2019) against a dire dividend backdrop

- Income earned -2% lower in 2020, against UK dividend cuts of -40% and global dividends -15%
- Possible income reduction of 5-10% in 2021, to be confirmed

Hywel Dda Health Charities

Portfolio value and asset allocation

AS AT 19TH FEBRUARY 2021

Asset class	Value £	Portfolio %	Benchmark %	Difference %
Fixed Income	980,705	11.7	15.0	-3.3
Equities	6,226,113	74.0	70.0	+4.0
Property	209,278	2.5	5.0	-2.5
Alternatives	714,626	8.5	10.0	-1.5
Liquid Assets	288,941	3.4	0.0	+3.4
Total	8,419,663	100.0	100.0	

*Source: Sarasin & Partners as at 19.02.21 (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

Performance to 31 st December 2020	2020 (%)	2019 (%)	2018 (%)	Since Inception (ann. %)^
Hywel Dda Health Charities (Net of fees)	9.8	19.8	-4.1	8.0
Peer Group (ARC Steady Growth Charity Index*)	3.5	15.7	-4.9	4.6
Composite Benchmark (Gross of fees)	6.8	18.5	-4.9	6.9
Long Term Objective (UK CPI + 4%)	4.4	5.5	6.4	5.6

*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

Sarasin Endowments Fund

Asset Types	Quarter		2020		2019	
	Fund %	Index %	Fund %	Index %	Fund %	Index %
Fixed Interest	3.3	2.2	10.0	8.6	9.0	8.8
<i>Government Bonds</i>	0.7	0.6	8.3	8.3	5.9	7.0
<i>Non-Government Bonds</i>	4.6	3.9	9.4	8.7	11.7	10.8
<i>Inflation-Linked Bonds</i>	2.8	1.2	13.8	11.3		
Equities	7.8	9.5	12.8	6.5	24.9	21.6
<i>UK Equities</i>	10.1	10.6	-8.4	-13.2	22.6	20.1
<i>Overseas Equities</i>	6.9	8.4	21.7	14.0	25.9	22.0
Property	3.2	0.2	-0.2	-2.2	10.0	9.0
Alternative Assets	0.5	0.0	12.9	0.2	10.7	0.7
<i>Commodities</i>	-5.7		20.5		13.5	
<i>Hedge Funds</i>	0.7		5.2		-0.4	
<i>Infrastructure</i>	6.0		1.9		8.2	
<i>Private Equity</i>	10.1		5.6		56.6	
<i>Other Alternatives</i>	12.8		23.9		4.9	

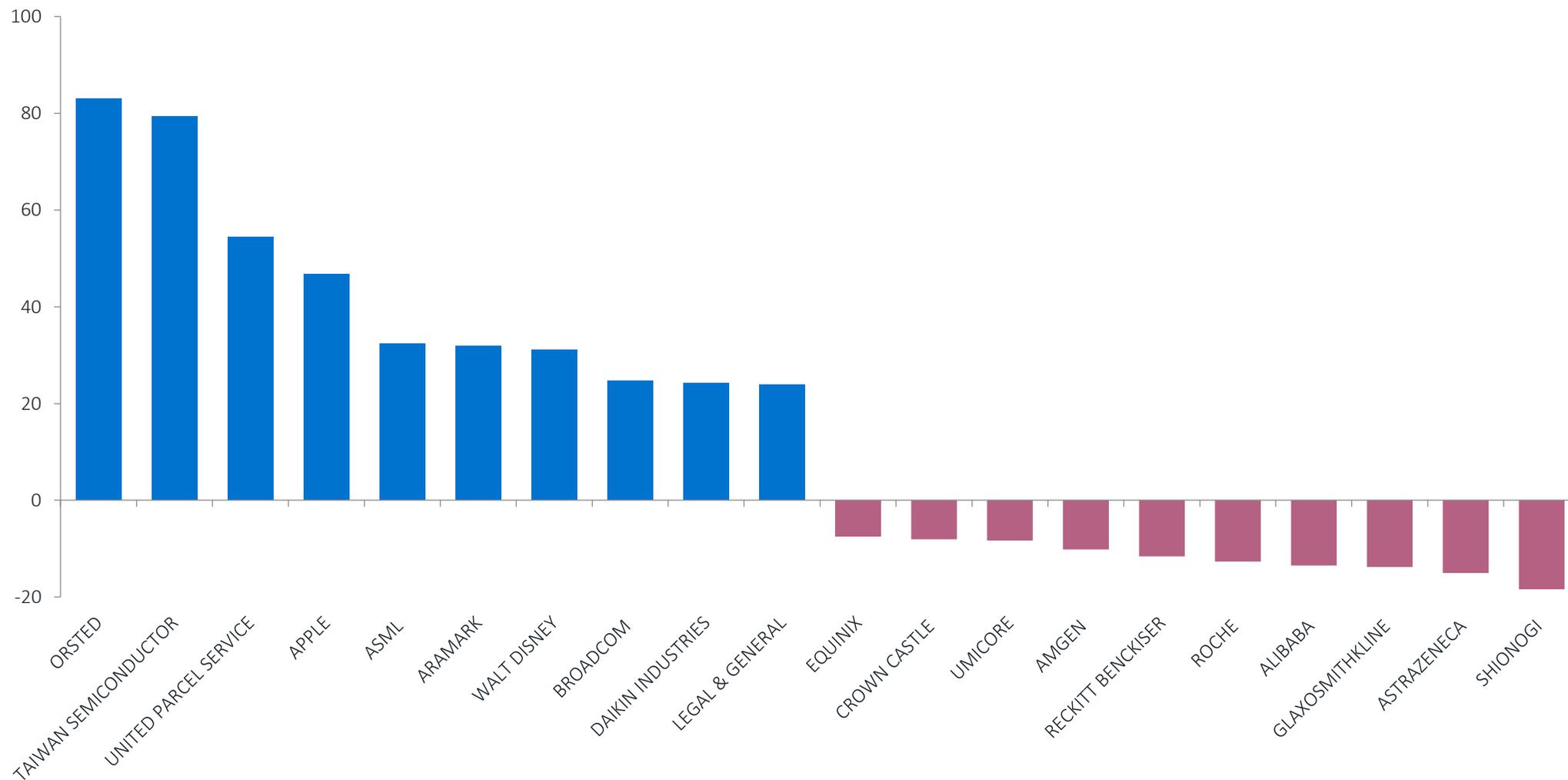
Source: Sarasin & Partners LLP: Sarasin Endowments Fund as at 31st December 2020

Contributors and detractors

H2 2020 contributors and detractors

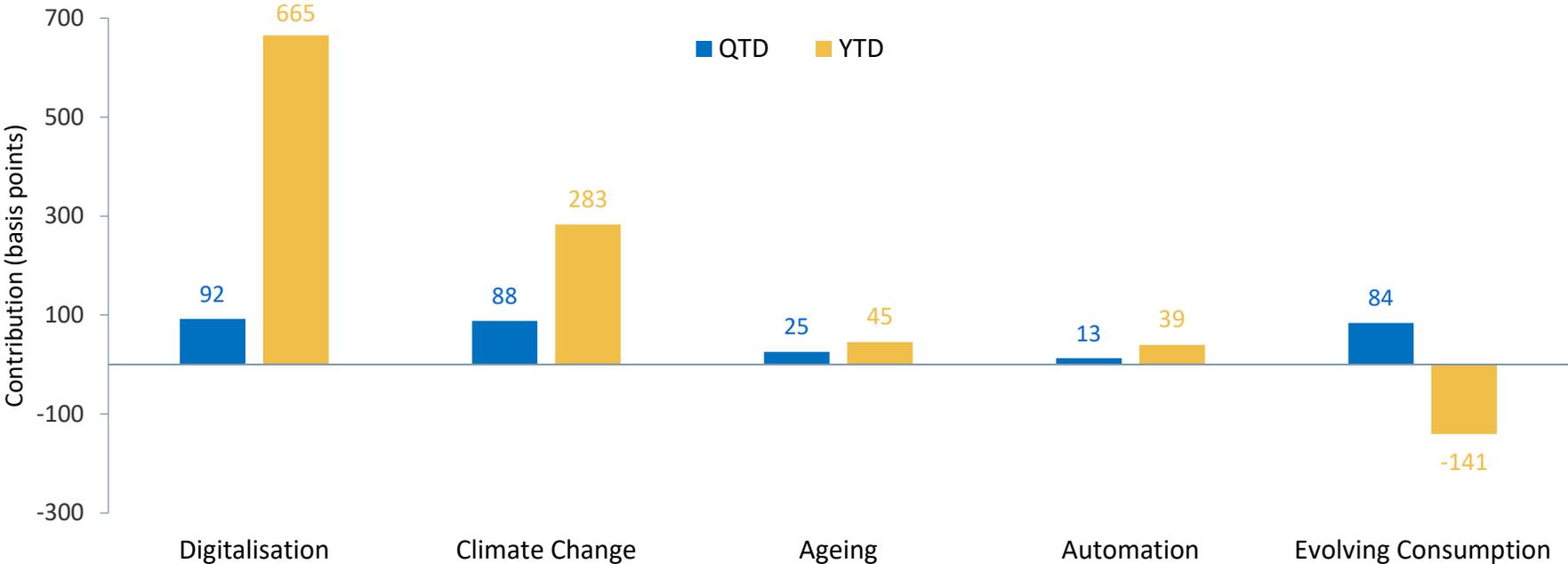


Contribution to performance in basis points



Sarasin Endowments - Thematic Equities

How our core themes have contributed to overall portfolio performance



Contributors YTD

-  Digitalisation – Apple, Microsoft, Amazon, TSMC
-  Climate Change – Orsted, Daikin, NextEra, Ecolab
-  Ageing – Sonic Healthcare, Amgen, AstraZeneca, Roche

Detractors YTD

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

Bond Allocation & Fundamentals

A shift to high quality corporates..

Bond Fundamentals

Coupon:	4.51%
Yield to Maturity:	2.50%
Maturity(Years)	14.0
Adjusted Duration (years):	
Total:	10.2
Excluding FRNs:	10.2
Spread to Government (bp)	
Total:	+121
Excluding Governments:	+198
Rating:	A

Index-linked bonds are excluded from the fundamentals

Bond Type

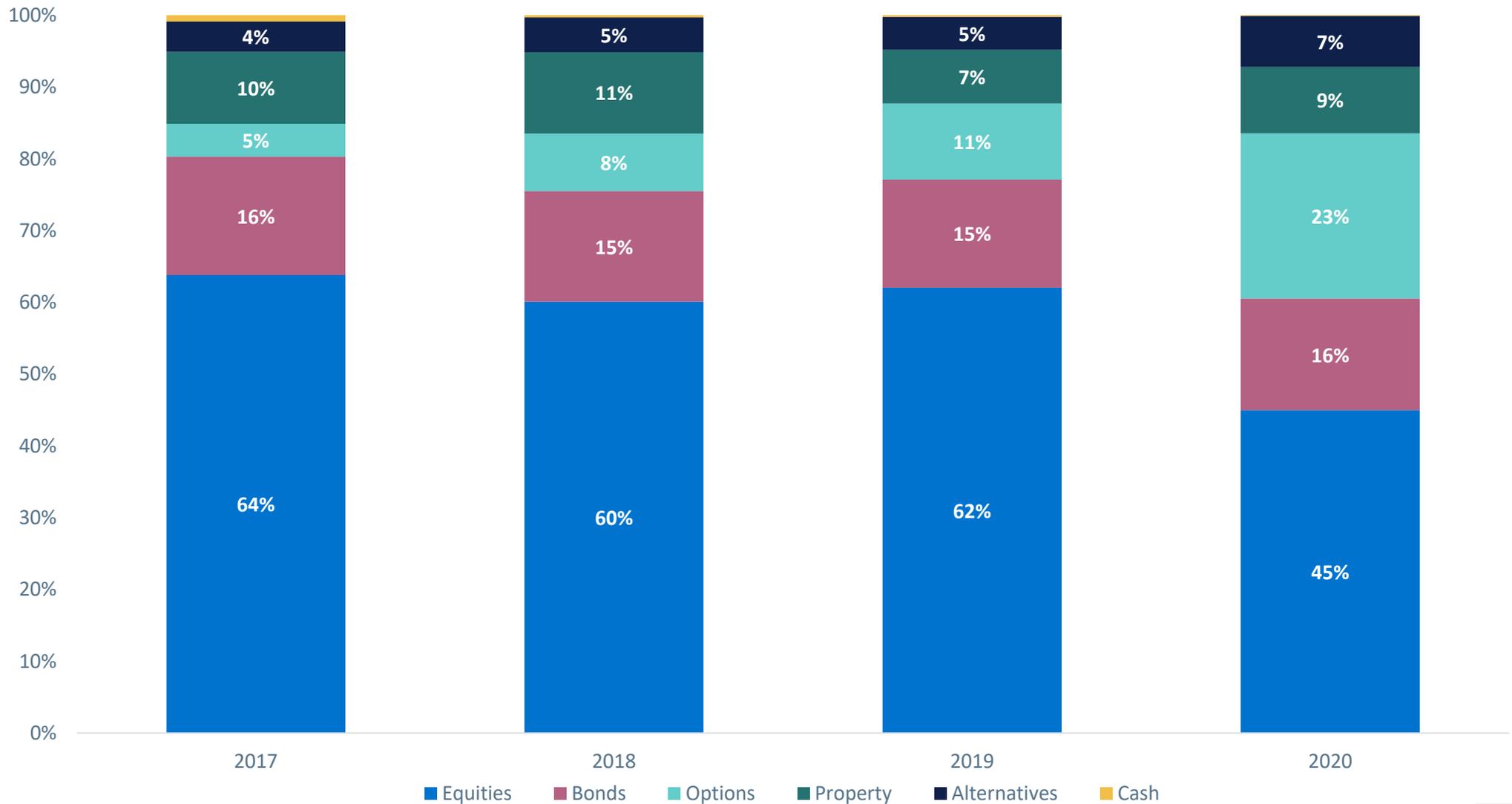
Government Bonds	31.9%
Corporate Bonds	42.5%
Asset Backed	14.5%
Government Agencies Supra	8.2%
Index-Linked Bonds	2.9%
Total	100.0%

A diversified income stream

Sarasin Endowments Fund

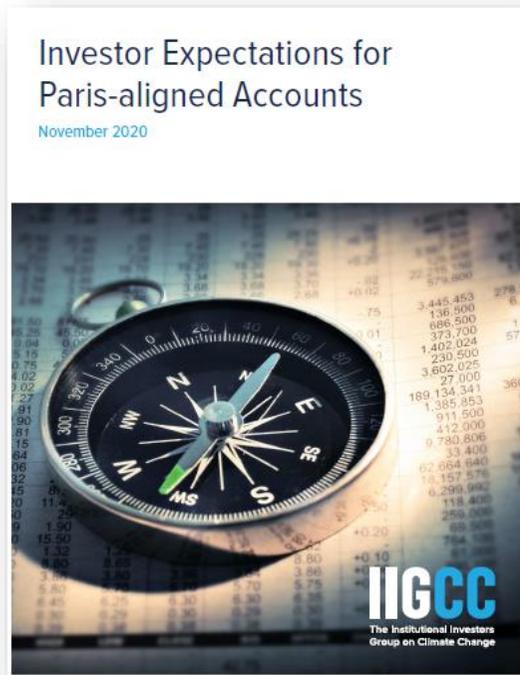


Sources of income over last 4 years



Paris-aligned accounting – investor expectations (IIGCC)

Rolling out to companies across energy, transport and materials sectors



- Sent to 36 European companies (Nov 2020)
- Supported by over \$9 trillion AUM

DIRECTORS:

01. Affirm that company's accounts align with Paris
02. Adjust critical assumptions for Paris
03. Produce sensitivity analysis
04. Ascertain dividend resilience
05. Ensure consistency between narrative and accounts

AUDITORS:

01. Test critical accounting estimates against climate risks
02. Call out where not Paris-aligned; disclose impact for financials
03. Report inconsistency between narrative disclosures and the financials.
04. Examine and report dividend resilience to a Paris pathway

Coverage: FT, Bloomberg, Reuters, Handelsblatt, Les Echo

CLEAR ASKS FOR
DIRECTORS &
AUDITORS

VOTING CONSEQUENCES
For directors and auditors

INVESTMENT IMPACT

Net Zero Asset Managers Initiative

Sarasin founding signatory December 2020

Key elements of a Net Zero investment solution:

- Invest: into climate solutions
- Press: Engagement & voting on company leadership where risks – Change the Board where not Net Zero
- Policy outreach: pushing for policies aligned with net zero
- Reporting outcomes & emissions pathway

Companies must follow Oxford Martin School Principles+

- Director commitment to Paris
- Credible plan to deliver
- Interim targets to measure and report progress
- **Net Zero accounting**

Source: Sarasin & Partners



Commitment:

- Support the goal of the Paris Agreement, and specifically delivering net zero by 2050 or sooner, in line with limiting warming to 1.5°C
- Focus on investee company emissions; all asset classes

HSBC: Shareholder resolution to drive net zero commitment



- **HSBC published Net Zero Ambition in October: lacked detail**
- **Co-filing shareholder resolution** with Amundi, Brunel pension scheme and others (15 institutions \$2.4tn) – ShareAction lead
- **HSBC: \$87bn to fossil fuels since Paris (2016-19) (RAN, 2020) – and continues to finance coal and tar sands**

- **Focus:**
 - Set strategy to reduce exposure to fossil fuel assets in line with Paris; start with coal
 - Short and medium term targets published
 - Reporting back in statutory Annual Report

- **Sarasin engagement to date:**
 - Letters to Chair in 2018 and 2019
 - Escalated voting

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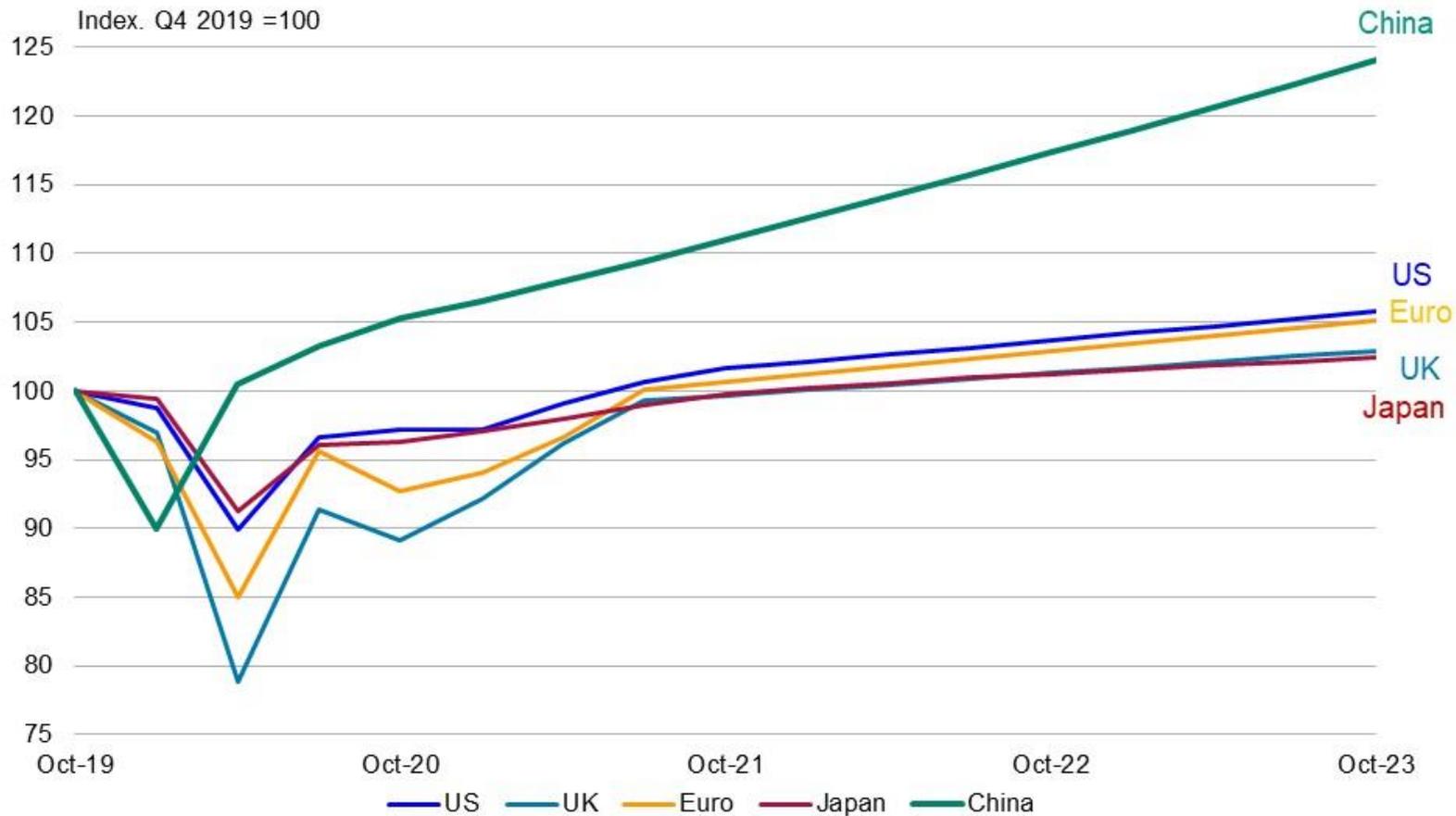
Sarasin Global Strategy and Outlook

Assessing the damage - finding the opportunities

Global Growth outlook – On average countries will take 2-3 years to heal - China completed this process in just 1 quarter



Global growth projections - an uneven recovery across regions



Source: Sarasin & Marcobond

Surging infections suggest a 'W' shaped in UK and Europe

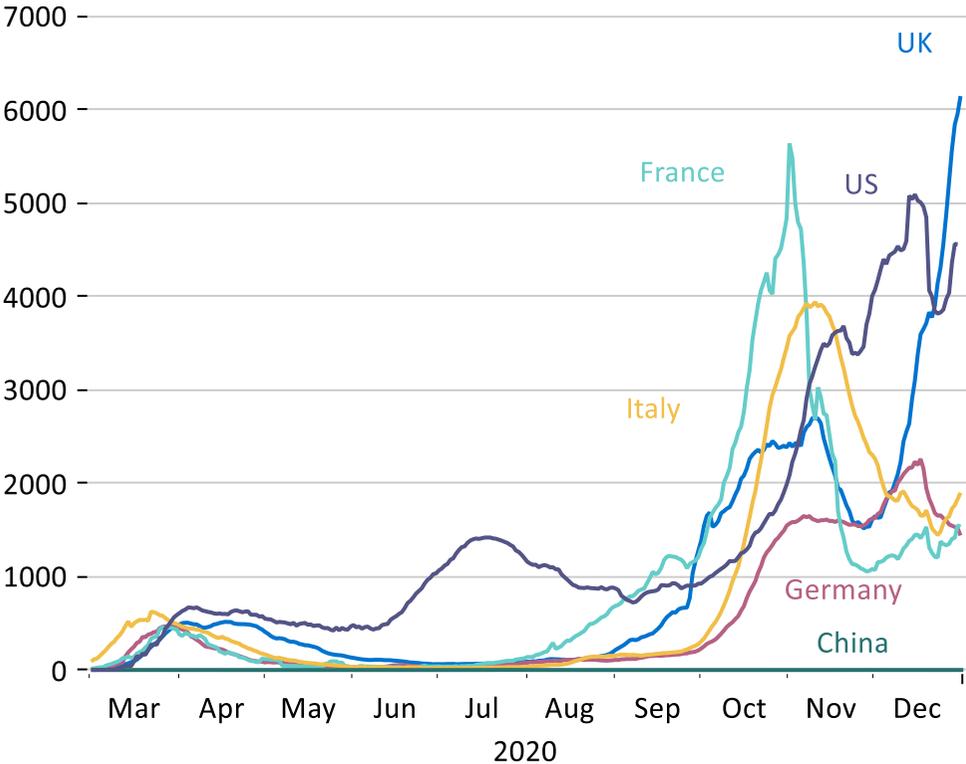


Surge in UK and US infections recorded



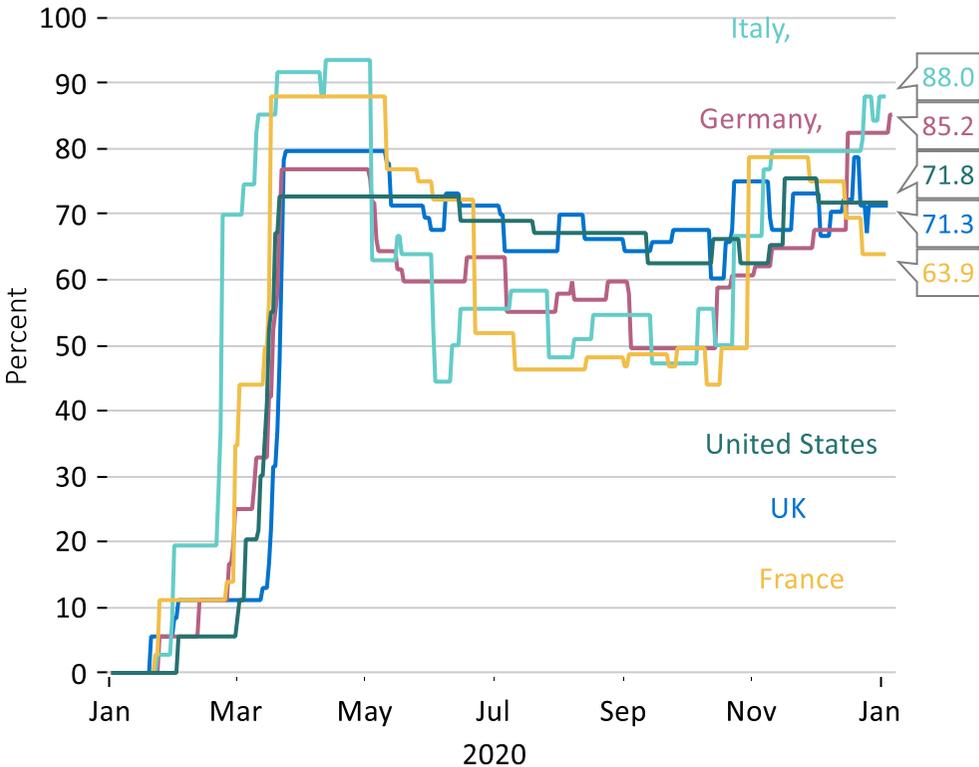
Lockdown tightening in Europe to Spring-2020 levels

Weekly Confirmed Cases (per 1mn people)



Source: Macrobond, 08.01.21

COVID-19 Global Stringency Index



Source: Macrobond, 08.01.21

The Post COVID Economy

1. Public debt above 100% of GDP - funded by Central Banks

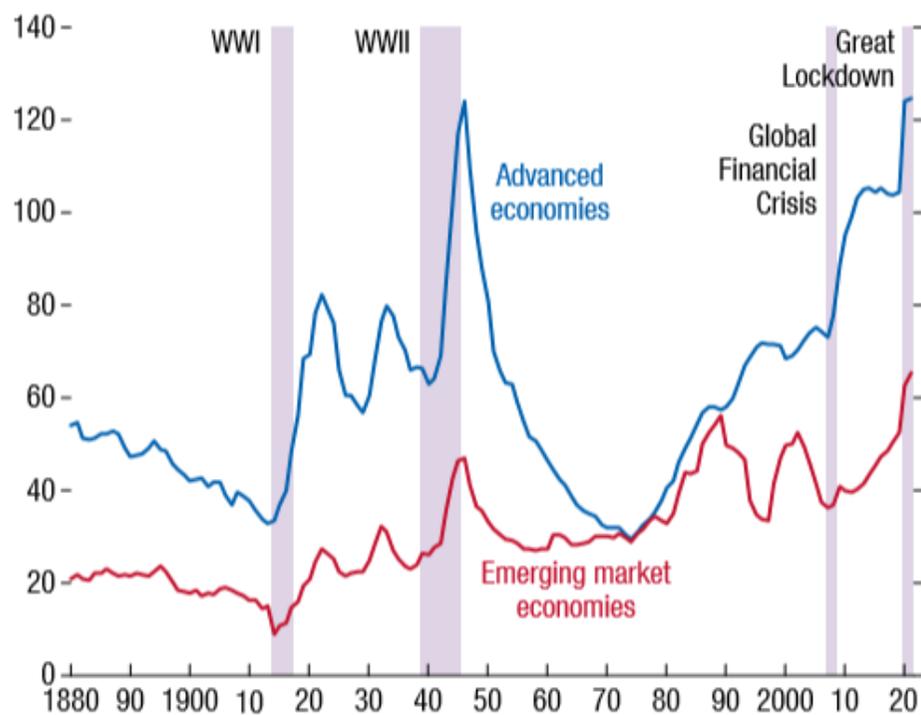


Government debt rising to near record levels



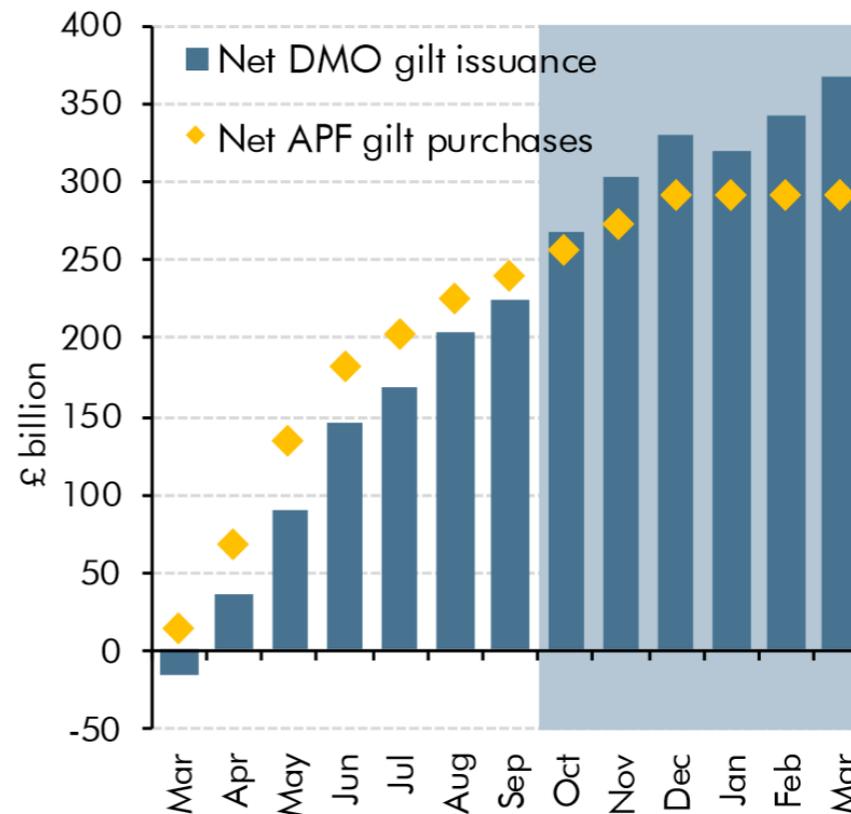
UK Gilt Issuance and QE Fiscal Year 2020/21

Figure 1.2. Historical Patterns of General Government Debt (Percent of GDP)



Sources: IMF, Historical Public Debt Database; IMF, World Economic Outlook database; Maddison Database Project; and IMF staff calculations.

Source: IMF Fiscal Monitor, October 2020



Source: BoE, DMO, OBR

Source: Office of Budget Responsibility Sept 2020



2. Global stimulus still continues on an extraordinary scale...

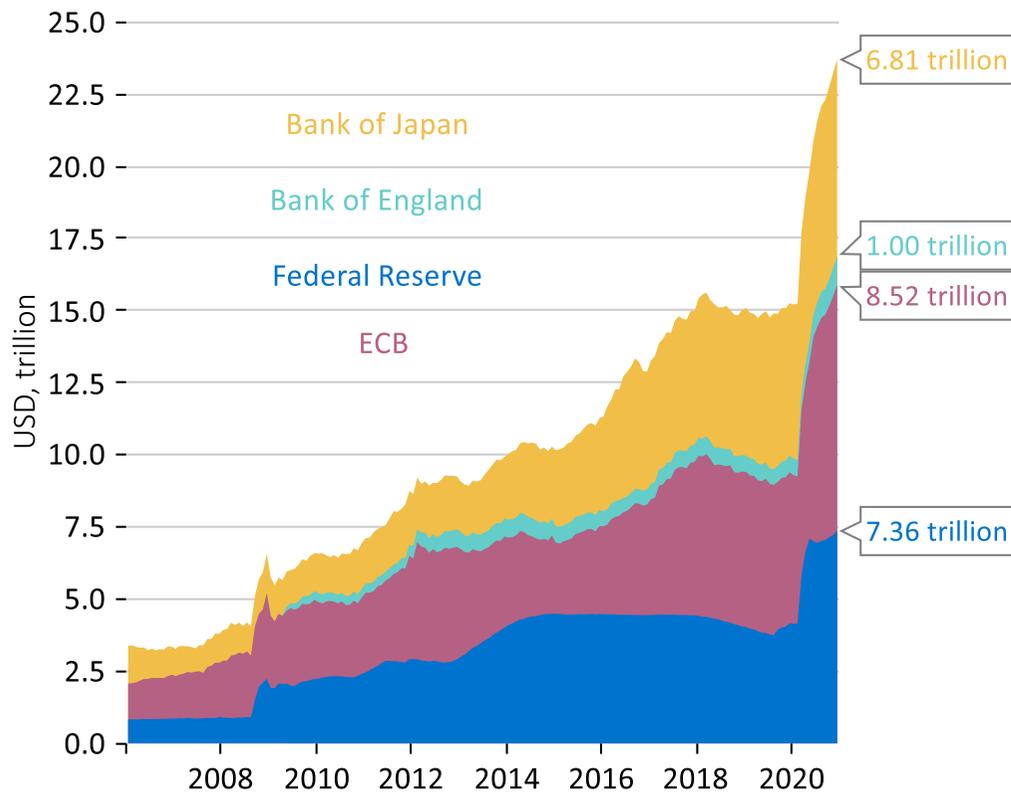


Major Central banks still ballooning



Global Climate commitments add to massive fiscal spend

Central bank balance sheets (USD)



Source: Macrobond, 08.01.21



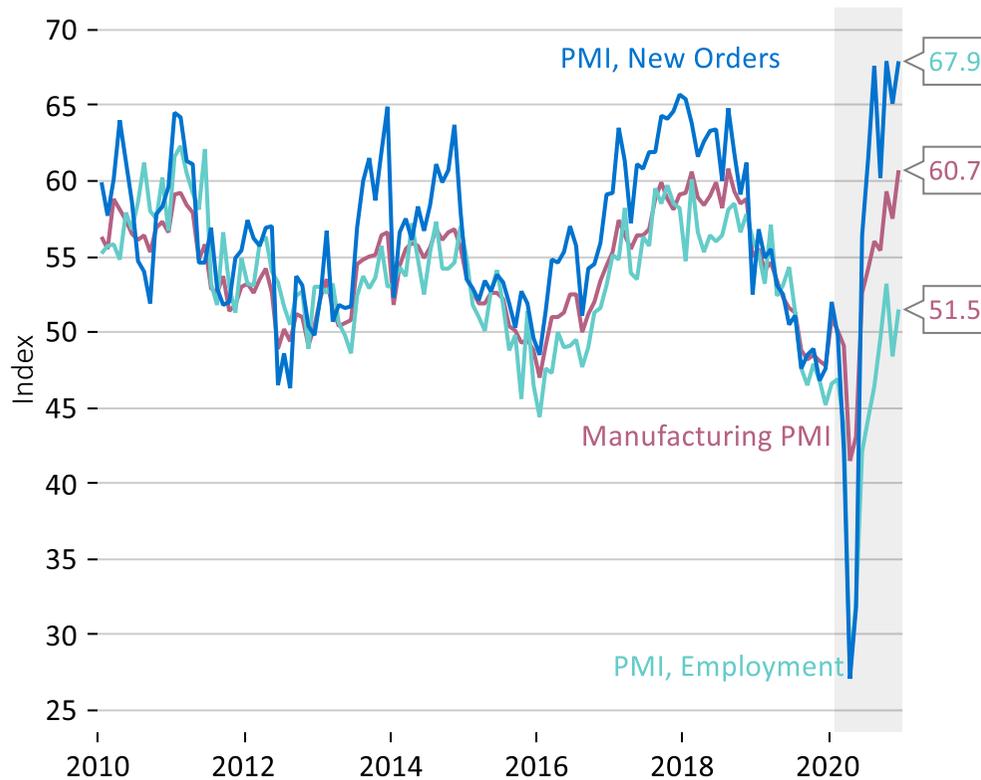
2020 Climate Pledges

3. COVID economy favours manufacturing over services...



Strong surge in US manufacturing

US - ISM Manufacturing



Source: Macrobond, 08.01.21

Comments from ISM respondents

Dec 2021

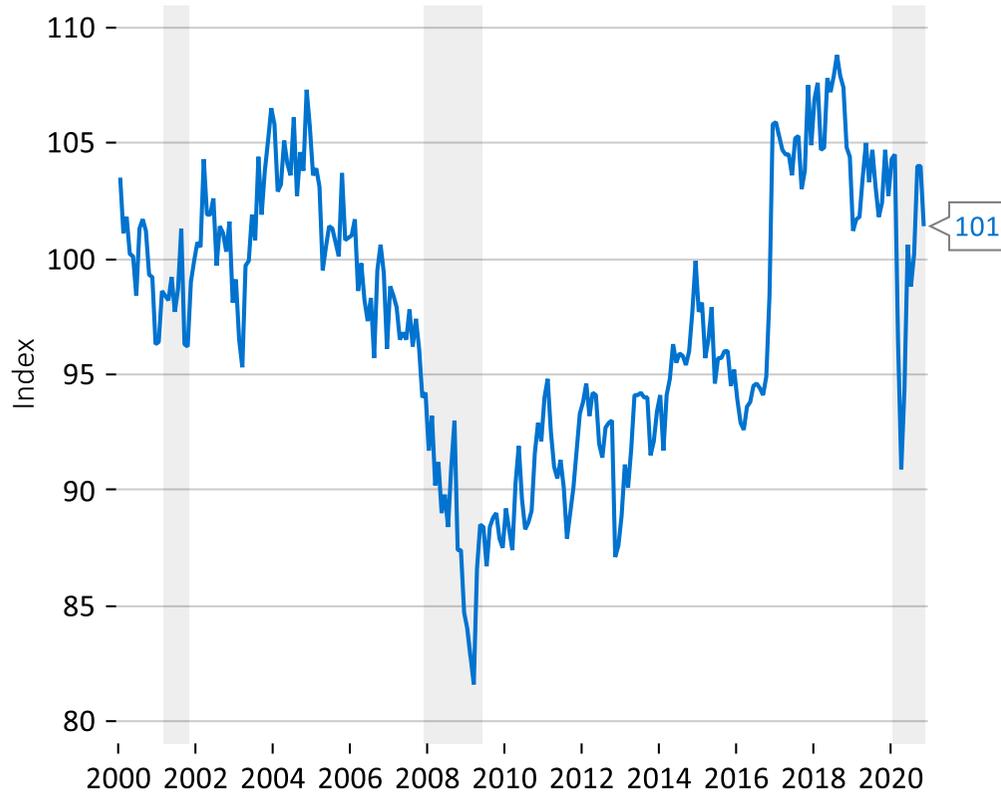
- "Business picked up for us in the last month — especially in China, where business growth is back on track." (Computer & Electronic Products)
- "Current business outlook is strong through the first quarter of 2021." (Fabricated Metal Products)
- "Sales are now slightly above pre-COVID-19 sales." (Machinery)
- "Suppliers are having difficulty finding and retaining labor leading to supply constraints." (Plastics & Rubber Products)

4. Green Shoots: Small business optimism is back to pre-COVID levels & new business formation has skyrocketed



Small business confidence rebounds

Small business optimism (NFIB)

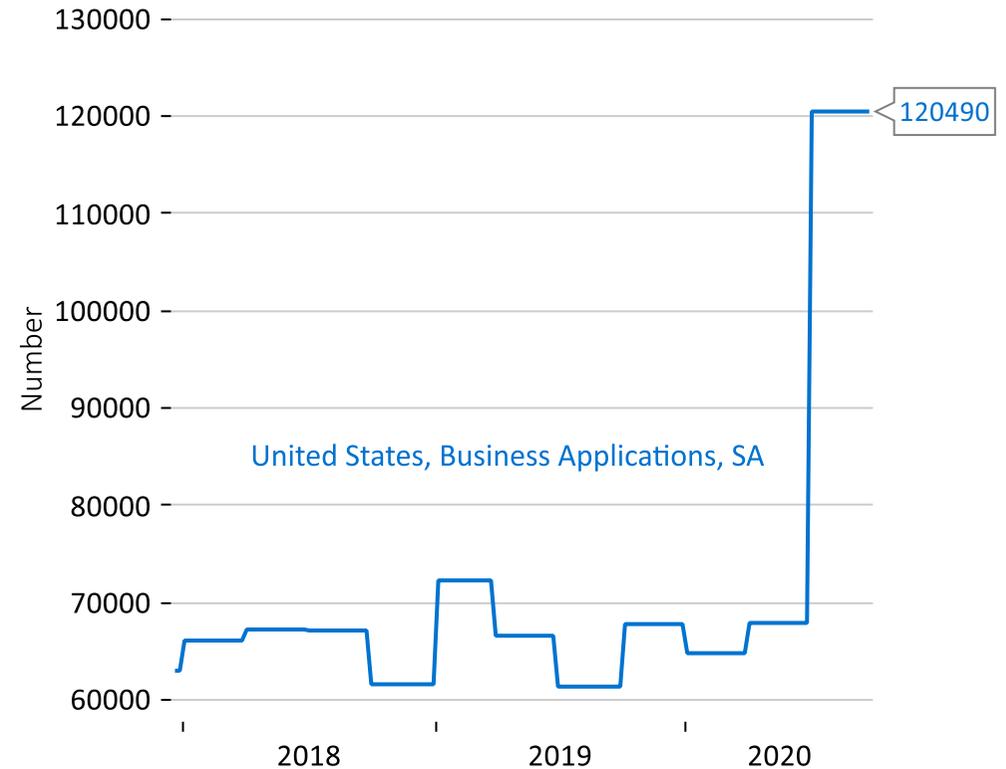


Source: Macrobond, 08.01.21



New business growth extraordinary

United States, Business Applications, SA



Source: Macrobond, 08.01.21

5. Thin Brexit Deal - largely priced in by Sterling

But reduced uncertainty could see unloved UK assets benefit from positive flows

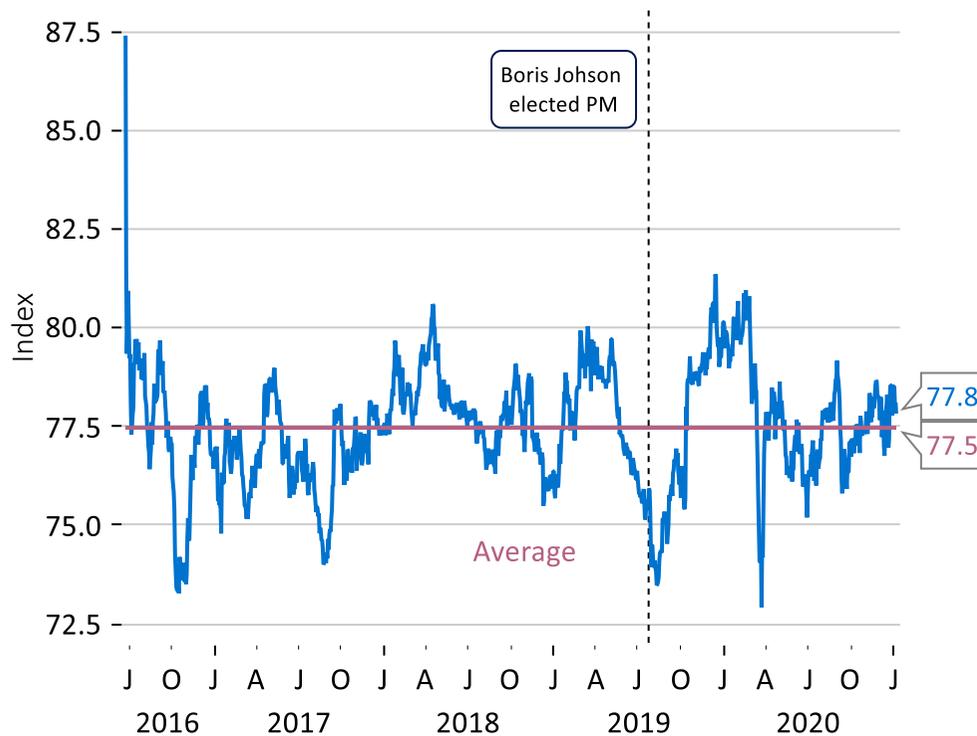


Sterling index remarkably stable



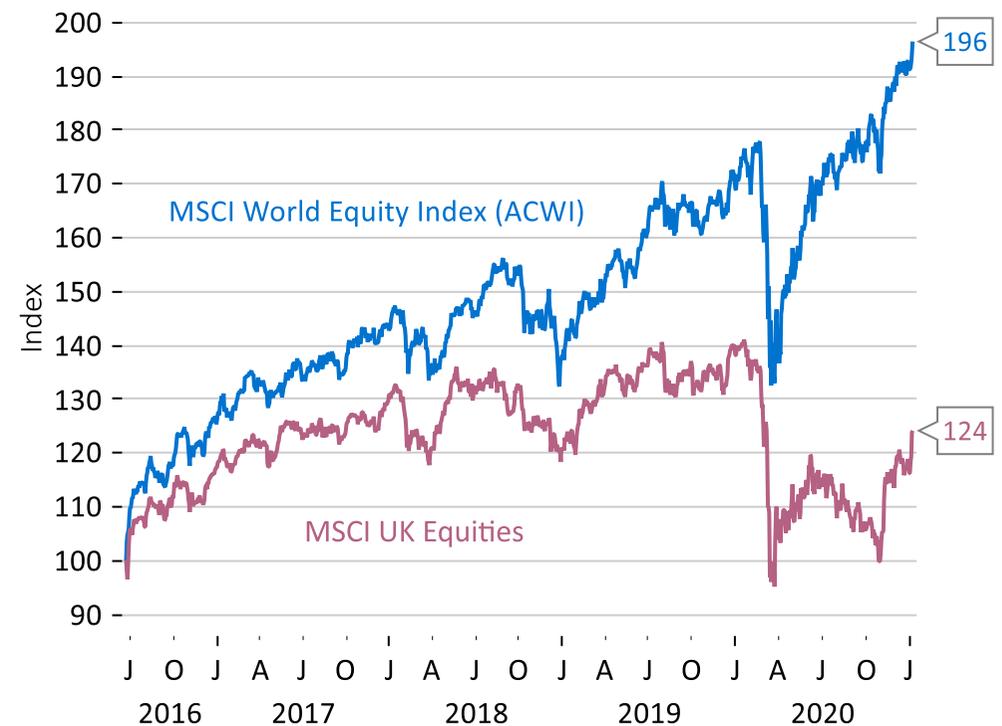
An astonishing underperformance of UK assets...

Bank of England Sterling index since Brexit Vote



Source: Macrobond, 08.01.21

UK and Global Equity & FX returns since Brexit Vote (23/6/2016)



Source: Macrobond, 08.01.21

Markets 2020

Gold just leads equities – UK rallies – Volatility close to post-COVID lows

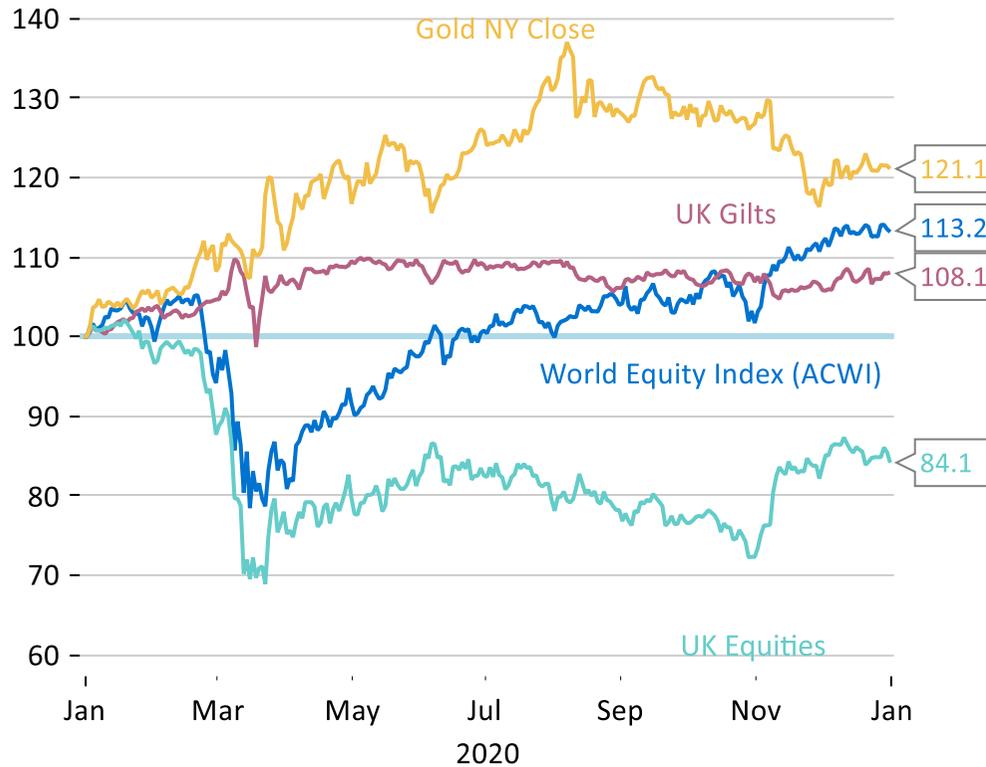


Equity rally continues on Election, Brexit and Vaccine news



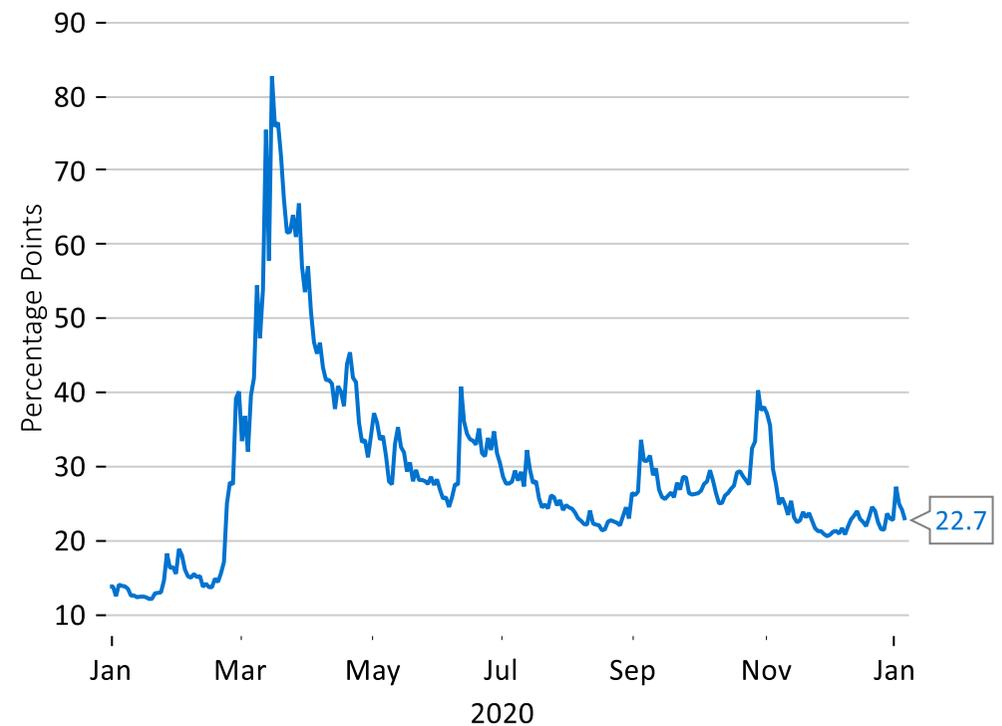
Volatility continues to moderate

Global Asset Class Returns 2020 (GBP)



Source: Macrobond, 08.01.21

US Equity Volatility Index (VIX) 2020 to date



Source: Macrobond, 08.01.21

Bond yields *Not yet* at levels that threaten equity markets

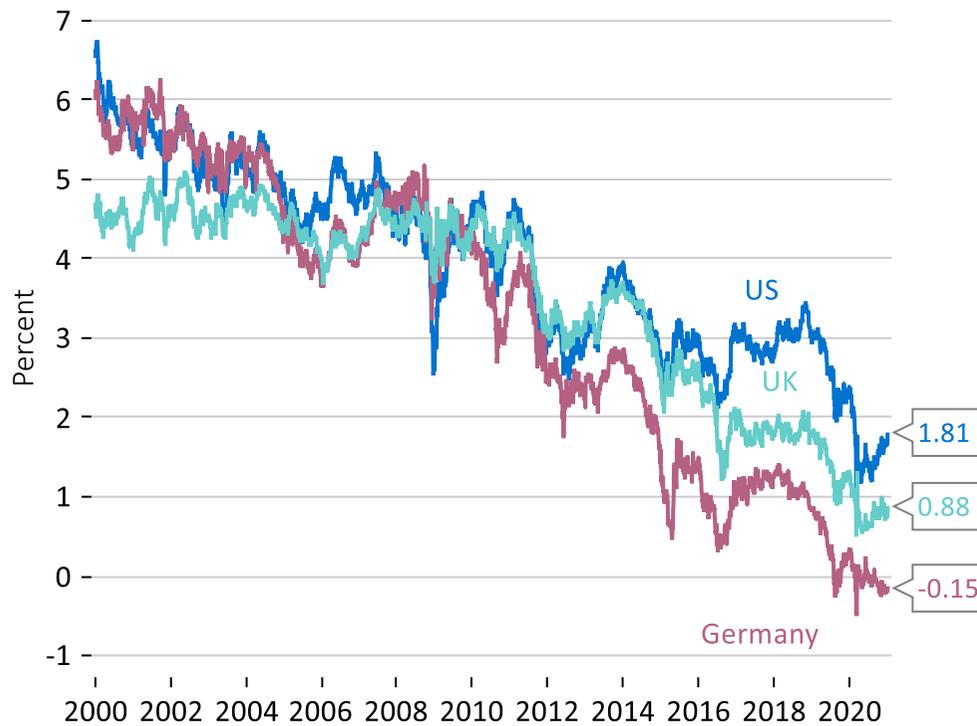


The time value of money has disappeared...



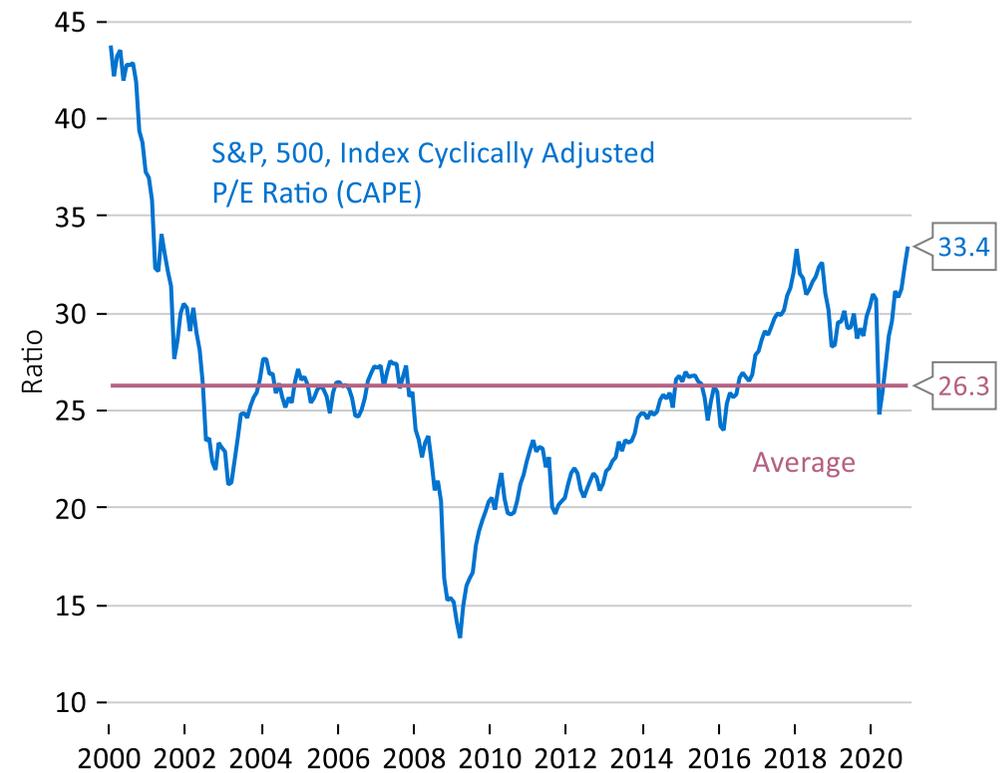
2020 market performance driven by multiple expansion

30 Year Bond Yields



Source: Macrobond, 08.01.21

CAPE Ratio



Source: Macrobond, 08.01.21

Vaccine aids recovery prospects - Central banks remain supportive

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



Global strategy update January 2021

Bonds	Underweight <ul style="list-style-type: none">• UW Government Bonds – upward drift in US and global yields in 2021 - US 10 Yr. Treasury fair value 1.2%• UW investment grade credit – after a strong H2 2020 spreads offer little compensation for post COVID risks
Equities	Overweight <ul style="list-style-type: none">• OW Global equities – equity risk premium attractive, earnings have scope to surprise on the upside in 2021• OW UK equities – valuations attractive, flow of funds back to UK probable on Brexit deal• OW EM equities – China centric Asia managed COVID well –commodity/energy rally supports other EM
Alternatives	Overweight <ul style="list-style-type: none">• OW Other Alternatives– infrastructure and renewables beneficiaries of fiscal spend - liquidity issues remain• Neutral Uncorrelated Alternatives - Gold a hedge against policy error but vulnerable to any reset in rates
Cash	Underweight <ul style="list-style-type: none">• Central Bank commitment to zero or negative yields for multi-year period• No currency preference
Risks	Current: Resurgence in virus in Q4 2020 accelerates, disorderly bond markets Longer-term: Economic and social scarring from lockdown, valuations stretched, balance sheet impairments only clear in 2021 and beyond

02 Appendices

Key performance factors in Q4 and 2020

Asset Allocation / Stock Selection

- **Thematic equity stock selection:**

Feb/March: risk reduction, equity exposure reduced, and stocks stress tested

Sold: *Union Pacific, Cinemark, BDO Unibank, Royal Dutch Shell, Samsonite and Marriott.*

Nov: rebuilding travel/leisure exposure after vaccine news

Bought: *Walt Disney, Marriott and Middleby.*

- **Alternatives:** allocation increased to 10%. Provided the strongest returns during 2020
Gold (+21%) and Gresham House Energy Storage (+24%)

- **Income:** income distribution maintained in 2020 vs 2019

Underlying earned income was only -2% versus 2019. Due to:

- I. Good stock selection
- II. Option premium income increasing (due to greater market volatility)

N.B. Option income provided 0.8% (or 23%) of the overall historic distribution yield of 3.56%.

UK Property

Key factors influencing charity property funds



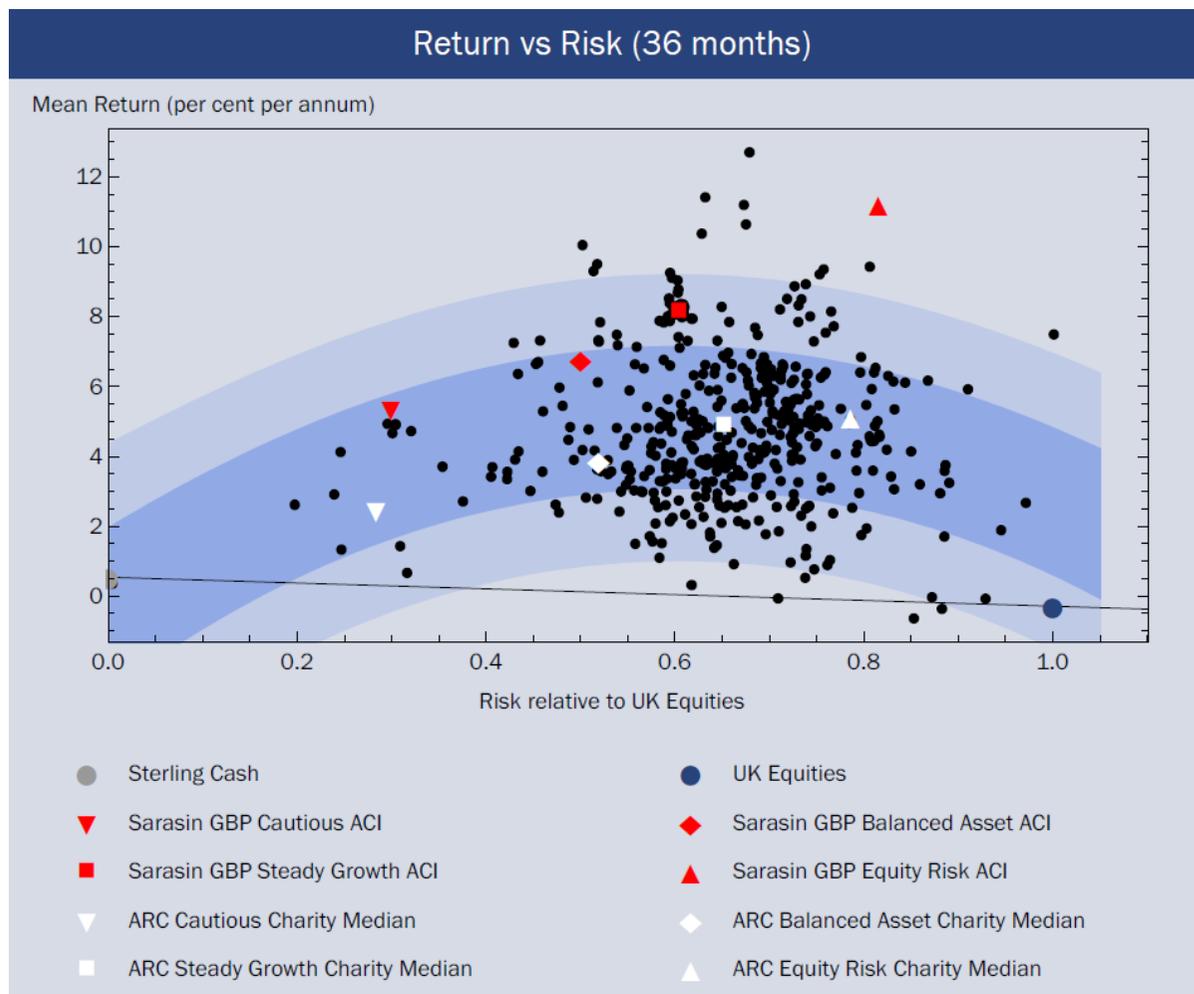
- **Performance:** Capital values typically -4% over the year, resulting in a total return of -1%. Cash held within the funds higher than average (3-10% of NAV).
- **Sector exposure:** The charity property funds have tended to focus more on *Logistics and Industrial* (circa 40%), with very limited exposure to the *High Street* (circa 1 – 5%).
- **Income:** rent collection has generally been improving, running at circa 85%+ vs 2019. This has led to income distributions to be down circa -10% for the year. Deferred rent collection expected in 2021, that could see a slight recovery in overall income, with yields back up to 4.8%.

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, 31 December 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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