NEWTON
Investment Management

HOLD ON TIGHT

The 2018 Newton Charity Investment Survey

October 2018

Part of BNY MELLON

Contents

WELCOME

The Newton Charity Investment Survey covers diverse aspects of the management of charitable portfolios, and provides an industry benchmark to see how aligned your investment experience and intentions are with those of your peers.

For the fifth successive year, Newton Investment Management has conducted a survey among leaders and decision makers in the UK charity sector. As with previous years, the survey asked charities both repeat questions, to identify how charities' opinions and experiences are evolving through time, and new questions which explore emerging themes and issues in 2018.

Among other things, this year's survey looks at:

- **How charity portfolios have performed** over the last year, and what returns charities expect to see over the coming years
- **How charities are allocating their portfolios** across different asset classes, and where they are making changes
- What charities think about **environmental, social and governance (ESG) issues**, and their impact and effectiveness
- **Attitudes to ethical investment**, including fossil-fuel exclusions, and the emerging area of sustainable investment
- The impacts of **politics and regulation**, particularly the UK's impending departure from the European Union (EU)
- How charities are meeting the challenges of **diversity within their trustee boards**

About this research

A total of 97 charities, with investment assets of £11.4 billion, completed the 2018 survey. This makes the 2018 survey the largest year yet by number of respondents, with 50 of those respondents having also participated in the 2017 survey (compared to 35 charities that completed both the 2016 and 2017 surveys). The survey was conducted between late April and early July, with a record date for all data of 31 March 2018.

The average charity in the 2018 survey has investment assets of £117 million (compared to £112 million in 2017), while the median charity this year has investment assets of £14 million, down from £28 million in 2017. This smaller median size reflects the fact that 59% of charities that completed the 2018 survey have assets of under £20 million, compared to 45% in 2017. The size and variety of charities (by charitable purpose) gives the survey a broad and comprehensive view into the experiences and opinions of larger charities in the UK.

The results of the survey are presented in aggregate to maintain the confidentiality of individual survey participants' data.

We would like to thank all those charities that participated in this survey for their help in making it possible, and for adding to the wealth of data that has been collected and shared over the last five years.

Median and mean assets under management, 2014-2018

Averages (£ million)	2014	2015	2016	2017	2018
Mean	£86	£219	£188	£112	£117
Median	£31	£41	£47	£28	£14

Charity size distribution, 2014-2018

Assets	2014	2015	2016	2017	2018
Under £20m	44%	34%	34%	45%	59%
£21 - 100m	38%	34%	38%	32%	24%
£101 - 500m	13%	24%	20%	15%	12%
£501m+	4%	7%	9%	8%	5%

Charity type, 2017-2018

Distribution	2017	2018
Animal welfare	3%	3%
Arts/heritage	4%	2%
Educational	22%	21%
Environmental	2%	4%
Health/medical	12%	13%
Military	5%	5%
Religious	17%	12%
Social welfare	14%	12%
Other	20%	27%

HOLD ON TIGHT

Over the last few years charities have been on a rollercoaster ride with the investment returns from their portfolios. Meanwhile, more charities appear to be making withdrawals at a higher rate than they believe to be sustainable.

71%

of charities stated that ESG factors were important to them when considering the management of their investment portfolio

Charities see environmental, social and governance (ESG) factors as increasingly important when considering the management of their portfolios, and believe that engaging with companies can positively influence their behaviours.

71% of charities in the latest survey (compared with 62% in the 2017 survey) stated that ESG factors were important to them when considering the management of their investment portfolio. The vast majority of charities also believe that engaging with companies on ESG issues has some positive impact on company behaviours. However, perhaps surprisingly, 59% of charities felt that ESG engagement was likely to have a negative effect on investment performance.

Fossil fuels remain one of the six major ethical exclusions, and charities are leading the debate on how to evolve a fossil-fuel ethical policy

In 2016, the vast majority (92%) of charities with a fossil-fuel exclusion policy had adopted the Church of England's policy of excluding just coal, tar sands and shale oil and gas from their portfolios. In the latest survey this choice has fallen to 50%, with 35% of respondents having much wider exclusions.

While the UK charity sector leads the way on gender diversity at trustee board level, the survey results suggest diversity of ethnicity and age is less well represented

Women make up 37% of charity trustee board members, which compares favourably with the boards of FTSE 100 companies. However, just 4% of trustee board members are black and minority ethnic (BME), while only 7% are under the age of 40.

Charities' investment returns were significantly down on 2017's figures, and outlooks are also less positive than in last year's survey

Charities reported an average total return of 4.2% over the 12 months to 31 March 2018, significantly lower than the 10.9% obtained during the prior 12-month period. Looking ahead, 50% of charities expect returns of 6% or less over the longer term, compared to 38% in 2017. However, this renewed caution is much less stark than the pessimism expressed in the 2016 survey, after almost a third of respondents had suffered negative total returns in the immediate past.

4.2%

The average total return reported by charities over the 12 months to 31 March 2018

Charities with alternative investments are generally very satisfied with the returns achieved, and those not using alternatives seem more willing to contemplate using them in future

91% of charities were satisfied with their alternative investments' returns, the joint highest reading in the survey's history. Of those charities currently not using alternatives, 33% would now consider using these investments in future, up from 20% in 2017.

More charities appear to be making withdrawals at a higher rate than they believe to be sustainable

In 2018 there has been a jump in the proportion of charities taking a withdrawal of 5% or more to spend on their charitable activities. This has pushed the average withdrawal rate up from around 3% in 2017 to 4% in 2018. As the survey responses suggest a sustainable withdrawal rate is 3.4%, it appears many charities, faced with a period of lacklustre investment returns, have dipped into their investment assets to support their work.

33%

The proportion of charities increasing their allocation to overseas equities

Although overall asset allocation has remained stable, charities continue to reduce exposure to UK equities, while allocation to overseas equities and alternatives continues to drift higher

On average, charities' exposure to UK equities continues to be in decline (with 13% of charities reducing exposure in the year to 31 March 2018), as do allocations to both UK and overseas bonds. However, 33% of charities have increased allocation to overseas equities over the year to 31 March 2018, with property and other alternatives also continuing to drift higher. The most common reasons given for changing asset allocation were to increase returns and diversification.

26%

of charities believe that Brexit will not affect their portfolios

The anticipated impacts of Brexit on charitable portfolios are increasingly negative, while some charities also fear it could hinder their charitable work

26% of charities believe that Brexit will not affect their portfolios, and over 80% of those charities that believe Brexit will have an impact think it will negatively affect both capital and income. Charities also appear to be becoming a bit more nervous about the potential for Brexit to affect their charitable work, with a six percentage point drop in charities thinking the impact would be negligible (from 60% in 2017 to 54% in this year's survey).

Charities remain strong supporters of active management approaches, with smaller charities more likely to invest passively

The survey shows a growing proportion of charities only using active investment management strategies (70% in 2018, up from 66% in 2014), but also a rise in charities only using passive strategies (8% in 2018, up from 2% in 2014). Charities with assets of under £100 million are more likely to invest passively, with smaller charities (with portfolios below £20 million) the most likely, perhaps driven by the lower costs of passive approaches.

70%

The proportion of charities using only active investment strategies

Over the last five years, inflation/cash-plus benchmarks have significantly declined in popularity while peer group (relative-return) benchmarks have come back into fashion

While the most popular benchmark used by around half of all charities to judge the performance of their investment portfolios is a composite (relative-return) index, inflation/cash-plus benchmarks have significantly declined in popularity (from 29% in 2014 to 14% in 2018), and peer group (relative-return) benchmarks have come back into fashion (from 2% in 2014 to 14% in 2018). Strategies with inflation/cash-plus benchmarks, such as absolute-return and diversified-growth funds, have often struggled to keep up with the high equity-market returns seen in recent years, which may have undermined the popularity of these benchmarks among charities.

BEING RESPONSIBLE

71% of charities now see environmental, social and governance (ESG) factors as important when considering the management of their portfolios, compared to 62% in last year's survey. Charities also believe that engaging with companies can have a positive impact on company behaviours.

92%

The proportion of charities believing that engagement with companies on ESG issues has some positive impact on company behaviours

In each of the five surveys we have examined charities' attitudes towards socially responsible and ethical investing. We have also explored emerging areas of interest from an ethical perspective, and analysed how important these considerations are for different types of charity.

ESG INVESTING

This year we explored charities' views on the incorporation of ESG criteria in making investment decisions. ESG factors have risen up the agenda across the asset-management industry over the last 18 months, so we asked charities a number of new questions about ESG in this year's survey. 71% of charities in the latest survey (compared to 62% in the 2017 survey) stated that ESG factors were important to them when considering the management of their investment portfolio. On the whole, charities felt the issue was 'quite important' rather than 'very important', with 40-44% of charities across the size spectrum expressing this view. Larger charities, with portfolios of £101-£500 million, were the ones most likely to view the issue as 'very important'.

By type of charity, perhaps unsurprisingly, environmental charities were the most engaged with ESG factors (100% rating this 'very important'), with animal welfare, arts & heritage, educational and religious charities also scoring ESG factors highly. Health & medical and social welfare charities were the least engaged, perhaps because they felt ESG issues were more distant from their particular charitable missions. 1

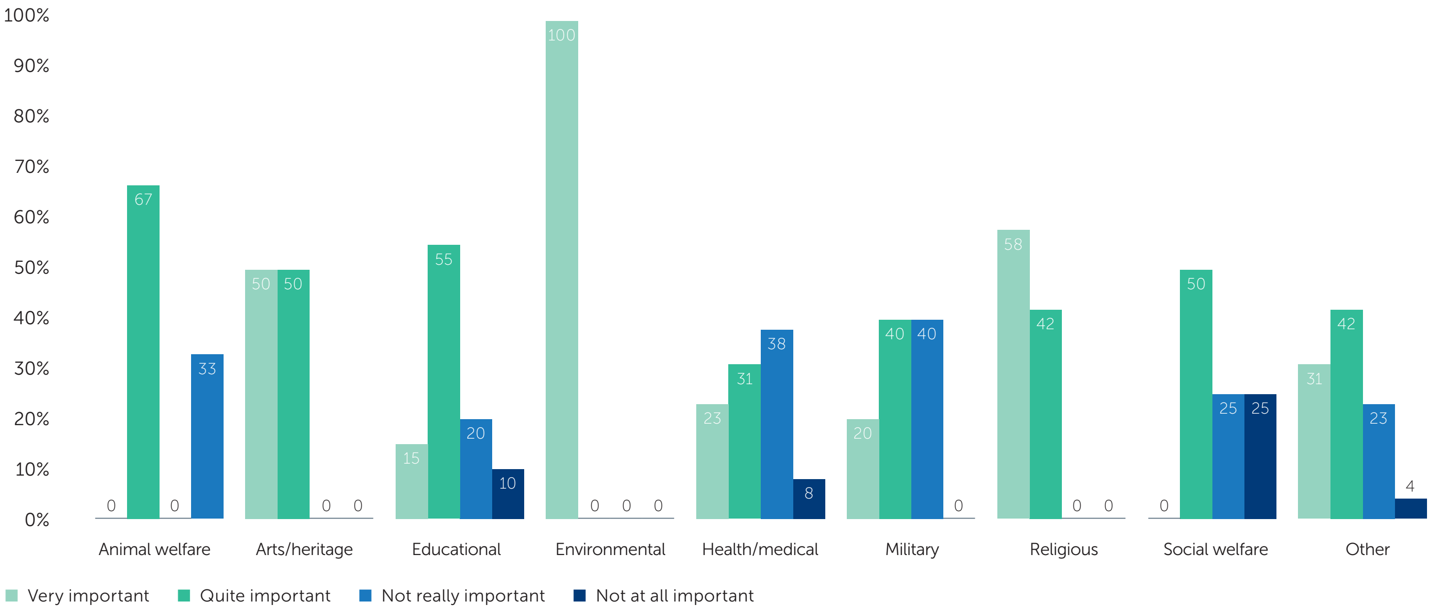
As charities have consistently stated over the years that ESG factors are important when considering the management of their investment portfolios, this year we included a series of questions about the effectiveness of engagement with companies on ESG issues. First, we asked charities whether they believed that engaging with companies on ESG factors had an effect on company behaviours. This, after all, is one of the principal reasons to incorporate ESG analysis into an investment approach. The vast majority of charities felt there was at least some impact on company behaviours resulting from ESG engagement: 68% felt there was a minor impact, and a further 20% felt the impact was major. As a follow-up question, we asked if the change in behaviour was generally positive or negative: again an overwhelming majority (92%) of charities felt the changes were positive. Clearly charities believe that engaging with companies to improve their ESG credentials works and is worthwhile.

In terms of investment performance, more than half (60%) of charities felt ESG engagement had a minor impact on the performance of their portfolios, with a further 10% feeling that there was a major effect. Perhaps surprisingly, 59% of charities felt the impact of ESG engagement on investment performance was likely to be negative, implying that while charities believe it is important to take ESG factors into account when investing, and to engage to change company behaviours, they feel this engagement may come at some investment cost. We also asked charities what they felt was the best approach to dealing with companies that score 'badly' on ESG criteria: by far the most prevalent response was to engage with/pressure a company to change its behaviour (73%), a response that was almost three times more popular than to exclude the company from an investment portfolio (27%).

73%

of charities felt it was better to engage with/ pressure a company to change its behaviour than to exclude it

1 How important is it that environmental, social and governance (or 'socially responsible') investment factors are considered in the management of your investment portfolio?



Data set: No. of respondents: 2014: 55; 2015: 93; 2016: 77; 2017: 93; 2018: 97

SOCIALLY RESPONSIBLE AND ETHICAL INVESTING

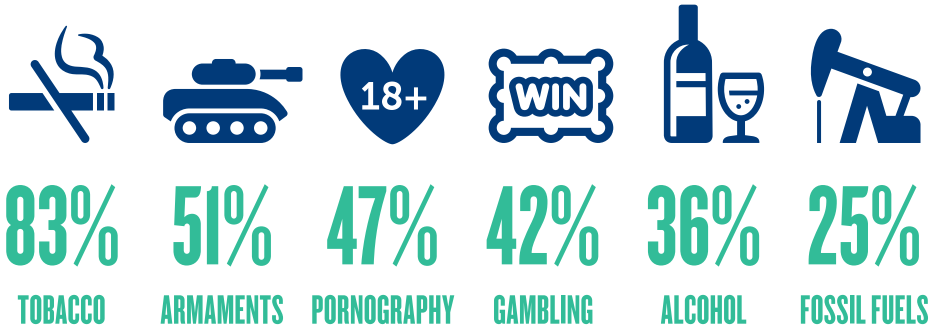
Charities have long been at the forefront of socially responsible and ethical investing thinking and practice. In the 2018 survey a little over half (55%) of respondents stated that they excluded some economic activities from their investment portfolios on ethical grounds. Over the last five years, we have noted a steady rise in charities' desire to see their ethical criteria applied to investments held in pooled funds as well as those held directly – from 53% in 2014 to 70% in the latest survey.

Charities have also been at the forefront of the fossil-fuel divestment movement, both in terms of debating the issue, and in adopting various policies and exclusions. We captured the emerging fossil-fuel debate for the first time in the 2015 survey, when just 4% of charities had adopted some form of fossil-fuel exclusion and only 29% had debated the topic. Fossil-fuel exclusions are now firmly entrenched as the sixth major ethical exclusion (25% in the 2018 survey), behind tobacco (83%), armaments (51%), pornography (47%), gambling (42%), and alcohol (36%).

But charities are also leading the debate on how to evolve a fossil-fuel ethical policy: over the last three surveys we have seen a substantial shift in the types of fossil-fuel investments charities are excluding. In 2016, the vast majority (92%) of charities with a fossil-fuel exclusion policy had adopted the Church of England's policy of excluding just coal, tar sands and shale oil and gas from their portfolios. In the latest survey this choice has fallen to 50%, with 35% of respondents having much wider exclusions. 2

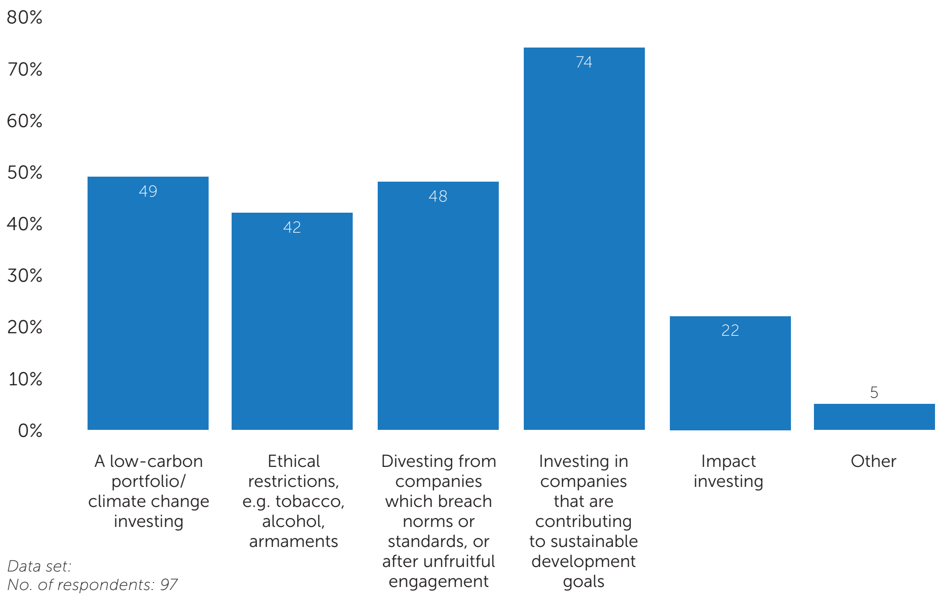
As we have already noted, charities are very interested in ESG engagement, and have been early adopters of the new concept of sustainable investment, which seeks to marry a positive and proactive engagement approach with some basic socially responsible foundations. However, the term 'sustainable investment' does not currently have a broadly agreed and accepted definition: we asked charities what they thought the term meant to them, and a wide range of definitions were put forward, including a focus on climate change, traditional ethical divestment policies, and investing in companies that contribute to sustainable investment goals. 3

TOP SIX ETHICAL EXCLUSIONS



2 Charities' fossil-fuel exclusion policies

3 What does sustainable investment mean to you?



DIVERSE MATTERS

While the UK charity sector leads the way on gender diversity at trustee board level, the survey results suggest diversity of ethnicity and age is less well represented.

37% of trustee board members are women

7% of trustee board members are under the age of 40

4% of trustee board members are black or minority ethnic

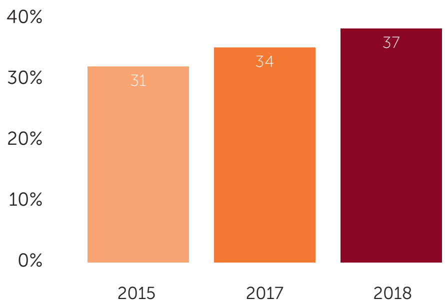
We have periodically asked charities questions around the diversity of their trustee boards, and we revisited the topic in the current survey, as diversity issues have been particularly prominent across society in 2018. In 2015 and 2017 we asked charities about the number of men and women on their trustee boards, and this year we asked charities what percentage of their trustee board is female. 4

The good news is that the UK charity sector continues to lead the way on gender diversity at trustee board level compared to other areas of UK civil society. Women make up 37% of trustee board members in the 2018 survey, up from 31% in 2015. This compares with the representation of women on the boards of FTSE 100 companies in the UK, which according to the latest data (from the 30% Club) currently stands at 28.9%.

Gender diversity and gender equality have attracted a lot of attention in 2018, but other aspects of diversity are also coming under greater scrutiny.

In 2017 we asked charities if they felt diversity, in a holistic sense, was adequately reflected on their trustee boards, and we revisited this question in 2018. 5

4 What proportion of your trustee board are women?



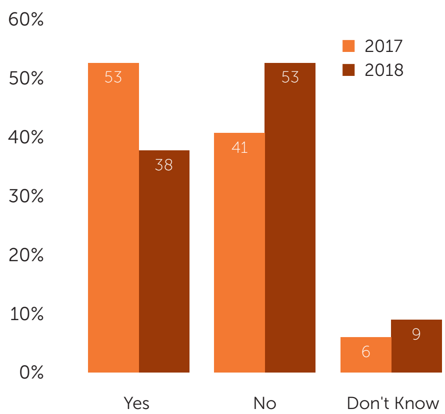
Data set: No. of respondents: 2015: 94; 2017: 93; 2018: 97

Over the last year, charities have become more concerned that overall diversity is not well reflected on their trustee boards. Over half of respondents (53%) in the latest survey stated that diversity was not adequately reflected, compared with 41% in 2017.

The larger the charity, the greater this feeling seems to be: 67% of charities with £101-500 million in assets said that diversity was not adequate, compared to 47% of charities with assets of less than £20 million. Charities' concerns in this area are justified by the responses to two new questions in this year's survey: just 4% of trustee board members in 2018 are black and minority ethnic (BME), while 7% are under the age of 40.

These wider aspects of diversity are likely to become increasing areas of focus for the UK charity sector, just as they are for the UK corporate sector, with the Parker Review setting targets for FTSE 100 companies to improve diversity.

5 Do you think diversity is adequately reflected on your trustee board?



Data set: No. of respondents: 2017: 93; 2018: 97

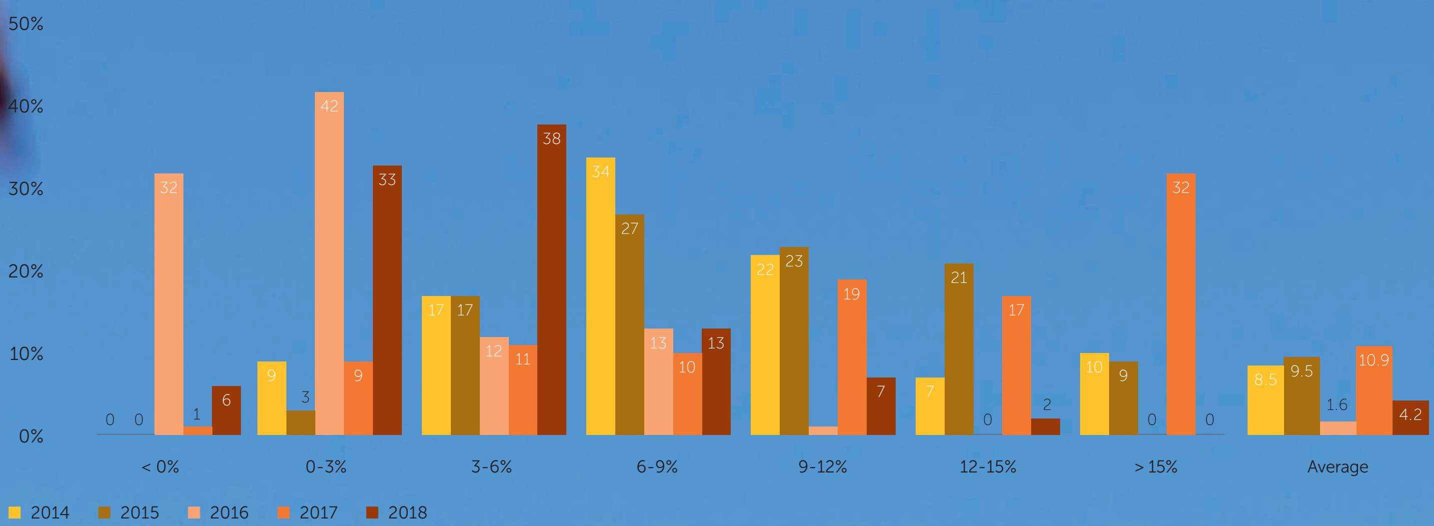
RIDING THE ROLLERCOASTER

After strong performance in 2017, charities have reported more meagre returns in this year's survey, and are more cautious about future prospects.

Over the last few surveys charities have been on a rollercoaster ride with the investment returns from their portfolios. In the previous four periods under review (with a record date of 31 March), charities experienced either an investment feast or an investment famine. After strong returns in 2017, when the average total return (income and capital return combined) for charities was 10.9%, returns reported in the 2018 survey were much more meagre, with an average of 4.2% over the 12 months to 31 March 2018. Within this average figure, there was a significant rise in the percentage of charities achieving a total return of 3% or less (39% in 2018, compared to 10% in 2017), and a corresponding significant fall in charities achieving a total return of more than 9% (9% in 2018, compared to 68% in 2017).

On average, charities in the survey achieved a higher total return than the sector as a whole (which returned 1.9% according to the Teknometry CIG Charity Fund Universe, weighted average), implying that surveyed charities outperformed overall. However, the 2018 average return still represents a more challenging investment environment. 6

6 Approximate total percentage performance gain/reduction in portfolio value in the year to 31 March 2018



Data set: No. of respondents: 2014: 58; 2015: 94; 2016: 76; 2017: 92; 2018: 97

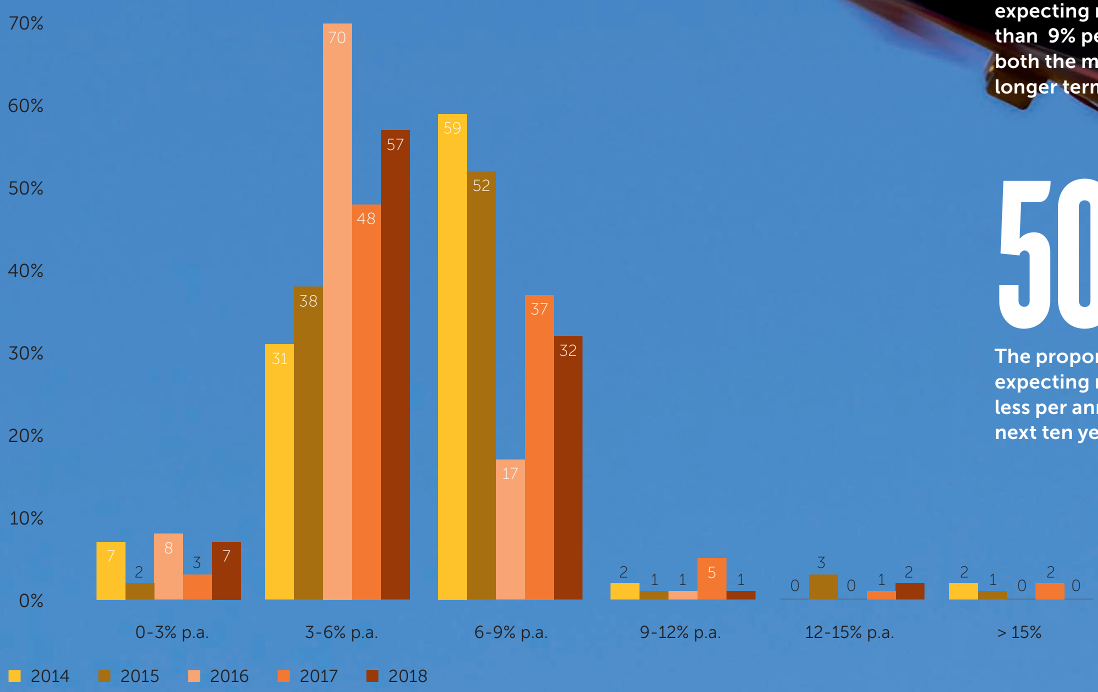
3%

The proportion of charities expecting returns of more than 9% per annum over both the medium and longer term

50%

The proportion of charities expecting returns of 6% or less per annum for the next ten years

7 Expected annual total return over the next 3-5 years



Data set: No. of respondents: 2014: 58; 2015: 94; 2016: 76; 2017: 92; 2018: 97

As we have noted in previous surveys, charities' expectations for future returns tend to vary somewhat according to their recent experiences.

This can be observed again in 2018, as expectations for future total return have declined from the optimism expressed in 2017. In 2017, 8% of charities expected total returns of 9% per annum or more over the medium term (3-5 years), and 9% of charities expected this level of annualised total return over the longer term (10 years). In the latest survey, total returns of 9% or more per annum are only expected by 3% of charities over both the medium and longer term.

At the more pessimistic end of the spectrum, 64% of charities expect medium-term total portfolio returns of 6% or less (compared to 51% in 2017), and 50% expect 6% or less over the longer term (compared to 38% in 2017). However this renewed caution in 2018 was much less stark than the pessimism expressed in the 2016 survey, after almost a third of respondents had suffered negative total returns in the immediate past. 7

Delving a little deeper into charities' underlying expectations for returns from individual asset classes within their portfolios also shows this renewed caution. Over the medium term the modal expectation from charities for bond returns is 0-3% per annum, and for most other asset classes it is a return of 3-6%. Over the 10-year horizon there is a little more optimism expressed for overseas equity returns (the modal expectation is 6-9% per annum), as well as slightly more hopeful views expressed for bonds and other asset classes.

ASSET ALLOCATION

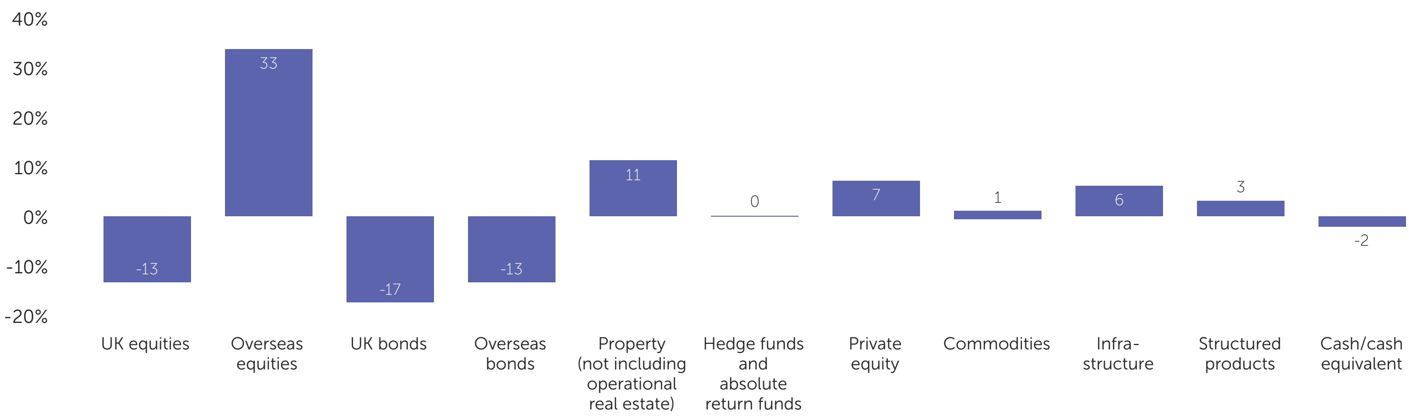
Although overall asset allocation has remained very stable, charities continue to reduce their exposure to UK equities, while allocation to overseas equities and alternatives continues to drift higher.

Given the volatility in returns experienced by charities over the last few years, overall asset allocation for charities within the survey has remained very stable.

At the headline level, overall exposures to UK and overseas equities are unchanged between 2017 and 2018. When asked whether or not they were making asset allocation changes, most charities in 2018 also indicated that they were not actively changing their policy. However, when net changes to asset allocation were analysed (the difference between increases and decreases in individual asset classes), the 2018 survey showed a continuation of asset-allocation trends identified in earlier surveys. 8

On average, charities' allocation to UK equities continues to be in decline (with 13% of charities reducing exposure in the year to 31 March 2018), as do allocations to both UK and overseas bonds. However, 33% of charities have increased allocation to overseas equities over the year to 31 March 2018, with property and other alternatives also continuing to drift higher. In the 2018 survey, the most common reasons given for changing asset allocation were to increase returns and diversification, while controlling volatility had been the most popular reason in 2017.

8 **Net changes in portfolio allocation over the year to 31 March 2018**



Data set: No. of respondents: 2017: 82; 2018: 93

58%

of charities use alternative assets

ALTERNATIVE ASSETS

Property remains the dominant alternative asset class, and charities remain very satisfied with the returns achieved from these investments.

91%

of charities were satisfied with the returns from alternatives – the joint highest reading in the survey's history

At the overall survey level, in 2018 there was a decline in the use of alternative assets (property, hedge funds, private equity, etc.), with 58% of charities saying they used alternative assets, down from 63% in 2017. This can very largely be attributed to the fact that a greater percentage of charities completing 2018's survey were smaller charities with assets under £20 million (59% of respondents), while only 45% of respondents in 2017 fell into this bracket. Analysing charities' use of alternative assets by size of charity over time gives a much more stable picture: each size cohort's use of alternatives has been broadly stable since we first explored this in 2015. 9

In terms of the popularity of individual alternative asset classes, property remains dominant, but infrastructure appears to be the fastest growing in terms of take-up, with 45% of respondents using the asset class in 2018, up from 17% in 2014. For charities not currently using alternatives, there seems to be more willingness to contemplate them in the future – 33% would consider using alternatives in future in 2018, up from 20% in 2017. The charities already using alternatives are generally very satisfied with the returns achieved: 91% were satisfied in 2018, the joint highest reading in the survey's history.

9 Use of alternative investments by size of charity

Data set: No. of respondents: 2015: 93; 2016: 80; 2017: 93; 2018: 97

A SUSTAINABLE TARGET?

More charities appear to be making withdrawals at a higher rate than they regard as sustainable, while both income-only and total-return targets are up year on year.

Charities exist to spend, so once again we asked them about how much they were withdrawing from their investment portfolios, as well as the sorts of targets they were setting for their investment managers to support their spending objectives.

In 2018 there has been a jump in the proportion of charities taking a withdrawal of 5% or more (from income and/or capital) to spend, with 23% of charities withdrawing such an amount compared to 13% in the 2017 survey. This pushed the overall survey average up from around 3% in 2017 to 4% in 2018. In spite of these higher actual withdrawals, charities' attitudes to what represents a sustainable withdrawal rate (from income and/or capital) from portfolios remains very stable: 3.4% in the latest survey, down from 3.6% in 2017.

23%

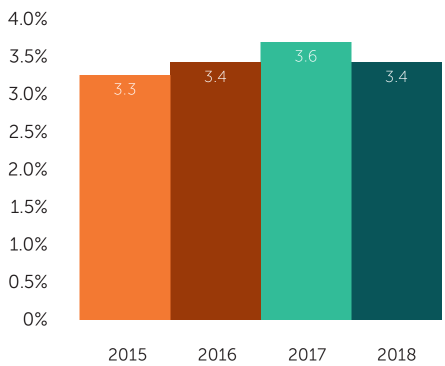
The proportion of charities taking a withdrawal of 5% or more (from income and/or capital) to spend

3.4%

What charities consider a sustainable withdrawl rate (from income and/or capital) from portfolios

Evidently, charities recognise they are currently withdrawing at a higher rate than they regard as sustainable, and, faced as they have been in the latest period with lacklustre investment returns, they have dipped into their investment assets to support their work. 10

10 Considered sustainable withdrawal rate (comprising income and/or capital) from portfolio over the long term to ensure that portfolio does not reduce in value in real terms



Data set: No. of respondents: 2015: 94; 2016: 80; 2017: 93; 2018: 97

4.2%

The average income-only target

Over the five years of the survey, there has been a steady rise in the number of charities stating they set their fund managers an annual total-return target (incorporating income and capital gain), from 41% in 2014 to 57% in 2018. By comparison, the trend among charities setting income-only targets is more stable, with a percentage in the low 20s.

11 Charities that set their fund manager an annual income-only target (incorporating dividends/coupons/interest)

Data set: No. of respondents: 97

6.9%

The average total-return target

The size of a charity does not seem greatly to affect the propensity to set an income-only target: 23% of charities with assets under £20 million set an income-only target, while 25% of charities with assets of £101-500 million also do so. Only for charities with portfolios above £501 million is there a notable difference: these very large charities are more likely not to set explicit targets for either income or total return, perhaps because they are under less spending constraints. 11 12

12 Charities that set their fund manager an annual total-return target (incorporating income plus capital gain)

Data set: No. of respondents: 77

33% of charities setting an income-only target felt income was inadequate in 2018, and 18% of total return-targeting charities were similarly concerned.

We asked charities setting targets to quantify these. Targets for both income only and total return were both up by around 20% year on year.

The average income-only target in the 2018 survey was 4.2%, while the average total-return target was 6.9%.

These higher targets perhaps reflect a growing concern among respondents that they do not have sufficient income/total return to meet the obligations and commitments of their charities: 33% of charities setting an income-only target felt income was inadequate in 2018 (up from 20% in 2017), and 18% of total return-targeting charities were similarly concerned (up from 3% in 2017). Again this suggests charities in 2018 have had to think about dipping into investment assets to support their work.

THE BREXIT QUESTION

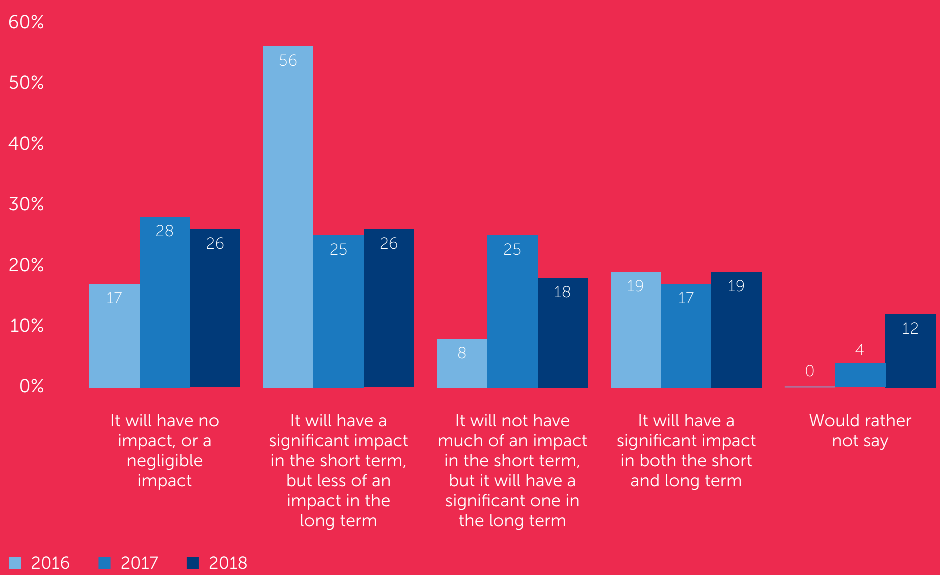
The anticipated impacts of Brexit on charitable portfolios are increasingly negative, while some charities also fear it could hinder their charitable work.

We have tracked charities' thoughts on Brexit since prior to the referendum in June 2016, to see how charities expect the UK's changed relationship with the European Union (EU) to affect their investments and their charitable activities.

Around the time of the referendum itself, charities were generally not expecting the Brexit result, and 83% of respondents to the 2016 survey expected Brexit would have an impact on their investment portfolio. In the last two years, as negotiations for the UK to leave the EU have progressed, we have continued to ask charities a number of specific questions around Brexit.

Since 2016, charities' views on the timing of any Brexit impact on their investment portfolio has stabilised, with three quarters of charities expecting an impact, and charities broadly evenly divided between whether the impact will fall in the short or long term, or both. 13

13 **Likely impact of the UK's vote to leave the EU on charity investment portfolios**



Data set: No. of respondents: 2016: 60; 2017: 92; 2018: 97

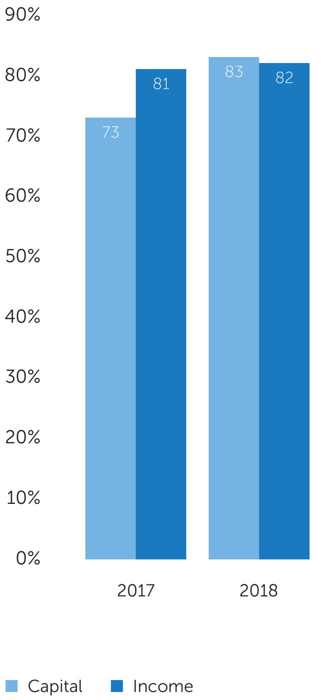
For those charities that do expect Brexit to affect their work, those expecting negative impacts far outweigh those expecting positive impacts

As we first highlighted in 2017, charities increasingly expect the impact on their investment portfolio to be negative for both capital and income. 14

For a second year we asked charities if they expected Brexit to affect their charitable work. Here charities seem to be becoming a little more nervous, with a six percentage point drop in charities thinking the impact would be negligible (from 60% in 2017 to 54% in this year's survey). Perhaps the slow progress of the negotiations, and the general lack of detail, has been sapping confidence.

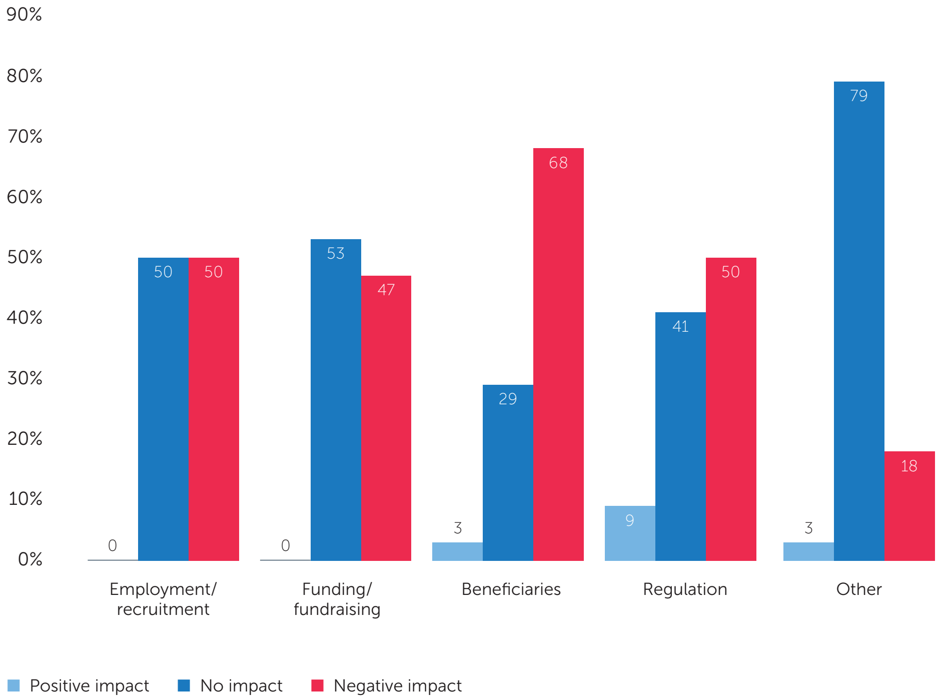
For those charities that do expect Brexit to affect their work, those expecting negative impacts far outweigh those expecting positive impacts. Areas viewed as likely to be affected include beneficiaries, employment, regulation and fundraising. 15

14 **Anticipated negative impact of Brexit on capital and income**



Data set: No. of respondents: 2017: 62; 2018: 60

15 **Likely impact of Brexit on charitable work**



Data set: No. of respondents: 2017: 30; 2018: 34

PORTFOLIO MANAGEMENT

Charities remain strong supporters of active management approaches, with smaller charities more likely to invest passively.

Since our first charity survey in 2014, we have been asking charities general questions about how their investment portfolios are managed: whether they use external fund managers; whether their portfolios actively or passively managed; what sorts of benchmarks they use to judge their portfolios by; how often they review their portfolio management arrangements; and whether they use the services of external investment advisors.

70%

of charities use only active portfolio management strategies

8%

of charities use only passive portfolio management strategies

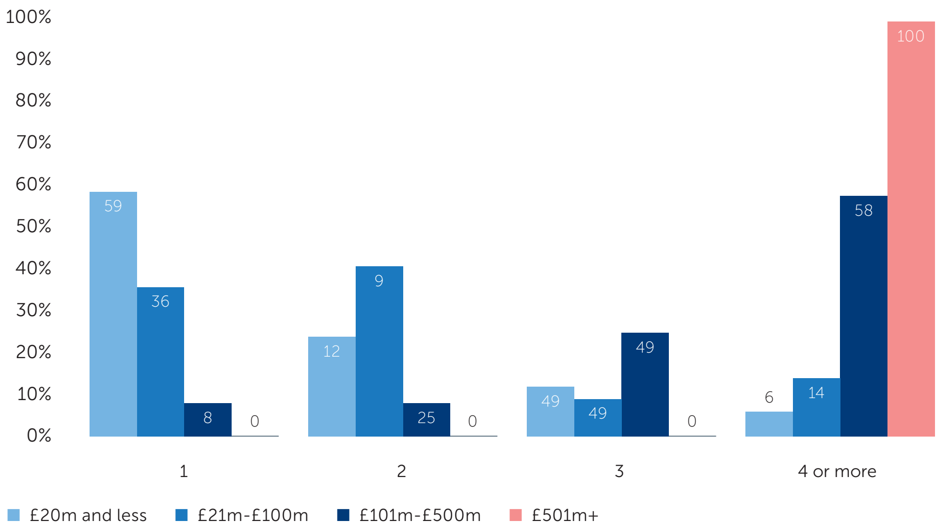
In general, charities use external fund managers to manage their investment portfolios (78% only use external fund managers), with the average charity using slightly over two external fund managers to manage its investment portfolio. The number of external managers used clearly rises as charities increase in size. 16

Charities remain strong supporters of active, rather than passive, investment management approaches. The latest survey shows a growing proportion of charities only using active investment management strategies (70% in 2018, up from 66% in 2014), but also a rise in charities only using passive strategies (8% in 2018, up from 2% in 2014).

Charities with assets of under £100 million are more likely to invest passively, with smaller charities (with portfolios below £20 million) the most likely, perhaps driven by the lower costs of passive approaches. 17

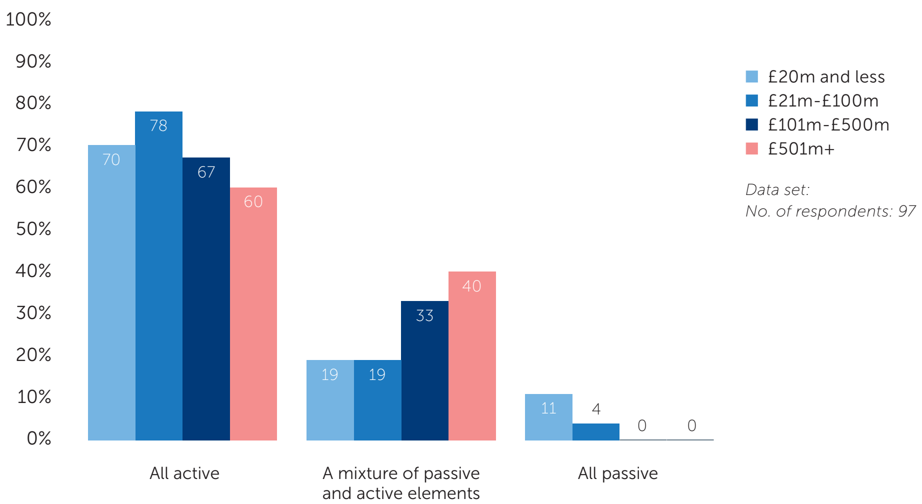
16 Number of external managers used

	2014	2015	2016	2017	2018
Average	2.29	2.15	2.15	2.06	2.09
Median	2.0	2.0	2.0	2.0	2.0



Data set: No. of respondents: 2014: 63; 2015: 94; 2016: 77; 2017: 86; 2018: 90

17 Active versus passive management



Data set: No. of respondents: 97

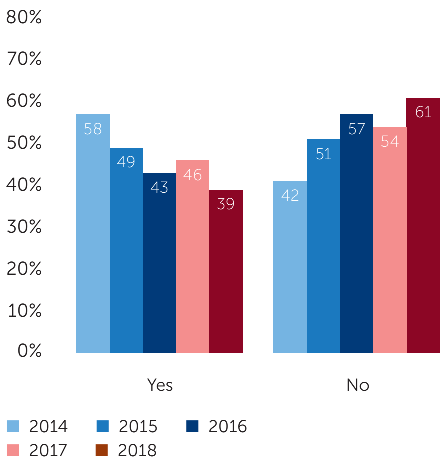
Management and reviews of investment portfolios

In terms of the benchmarks used by charities to judge the performance of their investment portfolios, the last five surveys have highlighted an interesting shift in preferences. While the most popular benchmark used by around half of all charities is a composite (relative-return) index, inflation/cash-plus benchmarks have significantly declined in popularity (from 29% in 2014 to 14% in 2018), and peer group (relative-return) benchmarks have come back into fashion (from 2% in 2014 to 14% in 2018). Strategies with inflation/cash-plus benchmarks, such as absolute-return and diversified-growth funds, have often struggled to keep up with the high equity-market returns seen in recent years, which may have undermined the popularity of these benchmarks among charities. 18

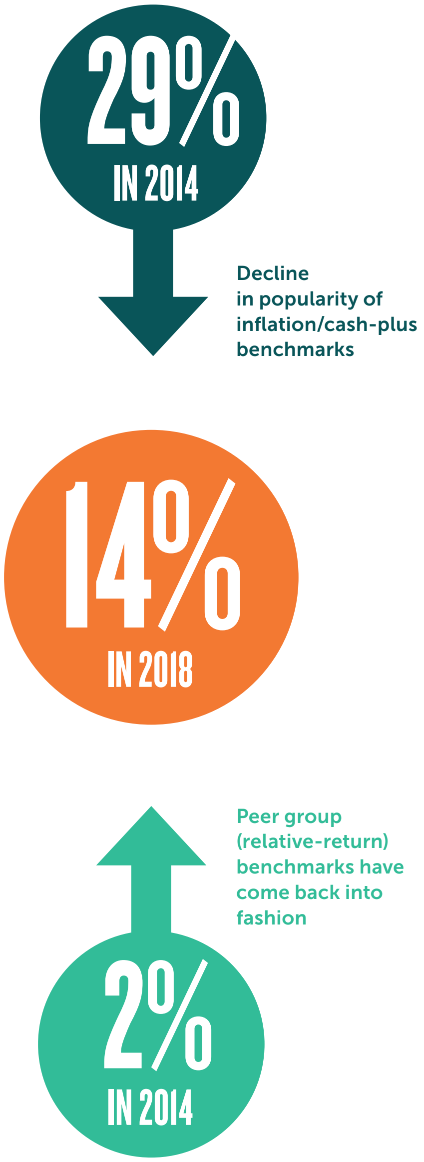
We have asked charities for the last five years about reviews of their investment managers. The surveys show charities have a well-established review cycle for their investment management arrangements, with 79% of charities in 2018 having reviewed within the last three years, and 83% intending to next review within the next three years. The evidence of the last five surveys is that charities are currently less likely to change (one of) their investment manager(s) than has been the case historically. 19

Around a third of charities in 2018 used an investment consultant to help them with their review process (broadly similar to prior years), with slightly less (31%) intending to use an investment consultant at their next review. Very large charities, with assets of £501 million and above, are much more likely to use the services of an investment consultant.

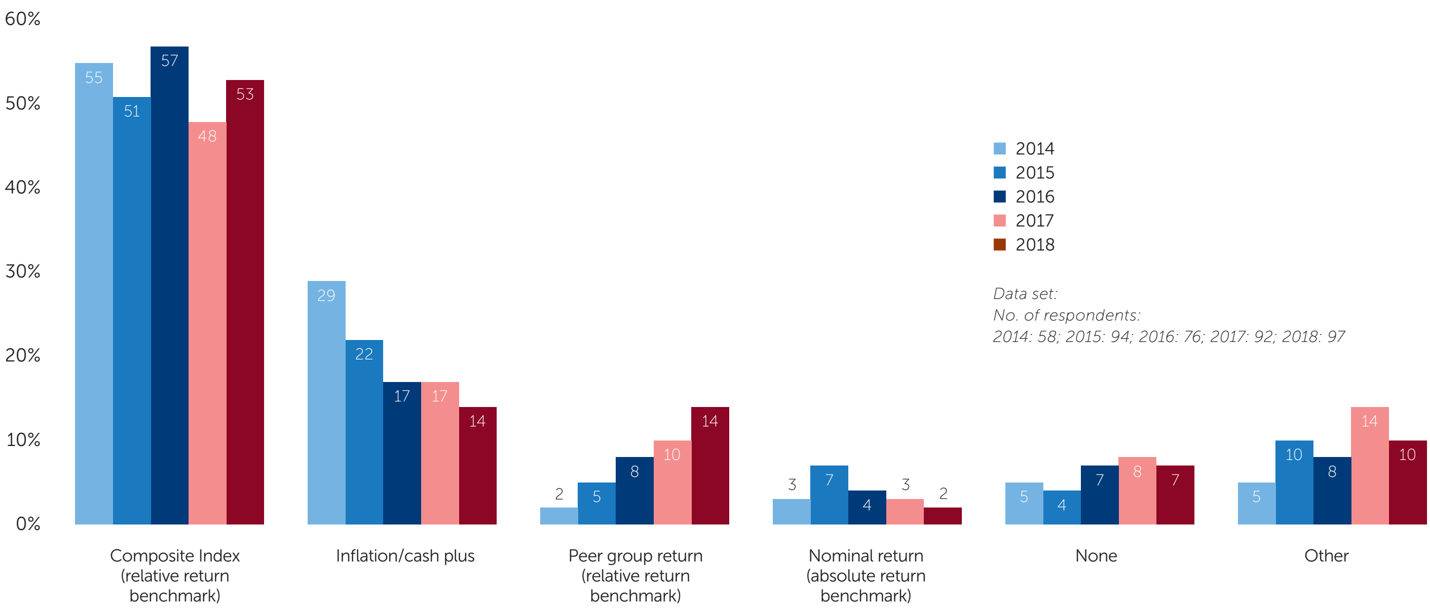
19 Change of investment manager(s) following last review?



Data set:
No. of respondents:
2014: 58; 2015: 93; 2016: 80; 2017: 93; 2018: 97



18 Type of performance benchmark used for comparison purposes



Data set:
No. of respondents:
2014: 58; 2015: 94; 2016: 76; 2017: 92; 2018: 97

REGULATION

38%

of respondents thought GDPR would have an impact on their fundraising

Over the last couple of years we have asked charities about the broad regulatory environment within which they operate, and how this has been evolving.

In the 2018 survey three quarters of charities felt the legal and regulatory environment had become tougher over the last 3-5 years (up from 61% in 2017), with 63% also saying that this tougher environment had increased their charities' costs.

The area where charities particularly identified regulatory change in 2018 was around security of personal information – with 85% of charities flagging this area (up from 51% in 2017) as they have had to work through the implementation of the new General Data Protection Regulation (GDPR). While this regulation has created extra work and cost for charities, 95% of charities felt their organisations were ready for the new data-protection regime. A significant minority of charities (38%) also felt that the new GDPR regime would affect their charity's fundraising in the future.

63%

of charities said that the regulatory environment has increased their costs

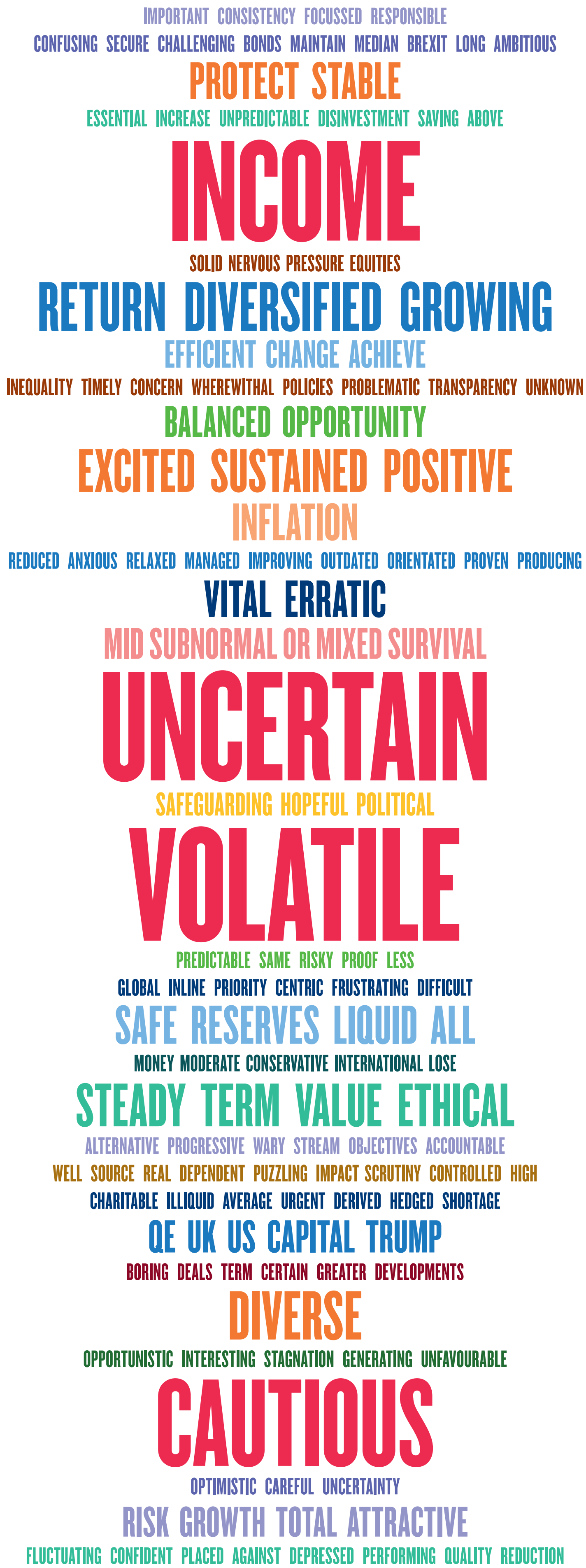
95%

of charities felt their organisations were ready for the new data-protection regime

KEY CONCERNS

We asked charities to sum up their feelings about their investments over the next three to five years in three adjectives.

Reflecting the rollercoaster ride that charities have been experiencing with their investment returns, the most common single response in 2018 was 'uncertain', with 'income', 'volatile' and 'cautious' all very prominent. More positive adjectives are less prominent this year than last, highlighting the more challenging environment charities have faced in this latest survey period.



CONTACT US

Now that you have read our review of the survey,
we would be delighted to hear your views.

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HOLD ON TIGHT

The Newton Charity Investment Survey provides insight into charities' investment practices and portfolios, including trend analysis of changes year on year. In particular, the data allows you to see how aligned your investment experience and intentions are with those of your peers.

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