NEWTON

Investment Management

BNY MELLON | INVESTMENT MANAGEMENT

The 2023 Newton Charity Investment Survey

October 2023

REFLECTION POINT

CONTENTS

THE 2023 NEWTON CHARITY INVESTMENT SURVEY

WELCOME

The Newton Charity Investment Survey, now in its tenth year, covers diverse topics within 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.

As in each previous iteration, Newton Investment Management has conducted a survey among leaders and decision-makers in the UK charity sector.

The survey explores:

- the impact of major economic and geopolitical issues on UK charities
- the continued effect of the cost-of-living crisis on charities' operations, administration and fundraising abilities, demand for their services, and their short and long-term financial planning
- the ways in which charities are adapting their investment strategies and expectations around investment returns in a time of continued uncertainty
- changes to charities' asset allocation and the shift back towards more UK bond and international equity-based portfolios
- the role of alternative investments within charitable portfolios
- the changing nature of the sector's relationship with ethical exclusion policies, environmental and social responsibility, and sustainable investment
- expectations around and experiences of diversity within the sector, as well as the insights of faith-inspired charities

ABOUT THIS RESEARCH

This year's sample includes

86 CHARITIES

with a combined

£3.3BN IN ASSETS

ABOUT THIS RESEARCH

The sample in this year's survey includes 86 charities with a combined £3.3 billion in assets. Fieldwork took place between 2 May and 10 July 2023, with a record date for data regarding annual investment performance of 31 March 2023.

After a year of significant change for the sector in 2022, following pandemic-era challenges and burgeoning pressures from an inflationary and cost-of-living crisis, 2023 instead represents a period of smaller shifts.

The cost-of-living crisis is still affecting the sector, but we are seeing some reversions back towards the pre-2022 norm in addition to further divergence in how charities are approaching the world.

The cost-of-living crisis remains a key concern for charities in the UK, but while its impacts are broad, they are increasingly diverse, with no universal experience across the sector. Meanwhile, the impact of the crisis has been reflected in the sector's investments which have seen significantly lower returns.

However, the sector appears to be adapting, and holding out some muted hope for better returns in years to come.

Adaptation to another year of poor economic outcomes may also be driving the changes we're seeing this year around net zero, environmental, social and governance (ESG) concerns, and sustainable investing.

The trend towards a greater focus on ethical exclusions and sustainable investment continues, but now with more targeted and nuanced approaches.

With economic pressures continuing, charities are assessing their priorities with care.

More broadly, historical trends around diversity in the sector continue. There are noticeable improvements in female and under-40 representation among trustees and a greater emphasis on representation within the sector, though minority ethnic representation remains unchanged.

Our new series of questions about the role of faith in the charity sector provides insights into a well-established sub-set of UK charities for which faith-related values play a key role in their approach to investing.

The sections in this survey report focus on:

> "The sector appears to be adapting, and holding out some muted hope for better returns in years to come."

REFLECTION POINT

After a year characterised by considerable volatility for the charity sector, 2023 has seen a continuation of the challenging backdrop, resulting in some divergence in how charities are approaching the world. While inflation remains a universal concern and lower levels of returns are a widespread issue, charities are experiencing varying pressures as a result of the cost-of-living crisis.

Meanwhile, although charities are becoming more concerned about the threat of climate change, their views on environmental, social and governance issues in general are changing, with ethical exclusions becoming more commonplace, and approaches to net zero differing.

59%

of charities have seen an increase in demand from last year

The vast majority of charities are still experiencing some form of pressure or negative impact from the cost-of-living crisis.

59% of charities have seen an increase in demand from last year, with 63% stating that demand is coming from both new and existing beneficiaries. However, the form these impacts are taking varies.

52%

of charities do not think that the cost-of-living crisis will have a lasting impact on their investment policy

While the negative effects of the cost-of-living crisis are being felt widely, there is hope for the future within the sector, although uncertainty remains.

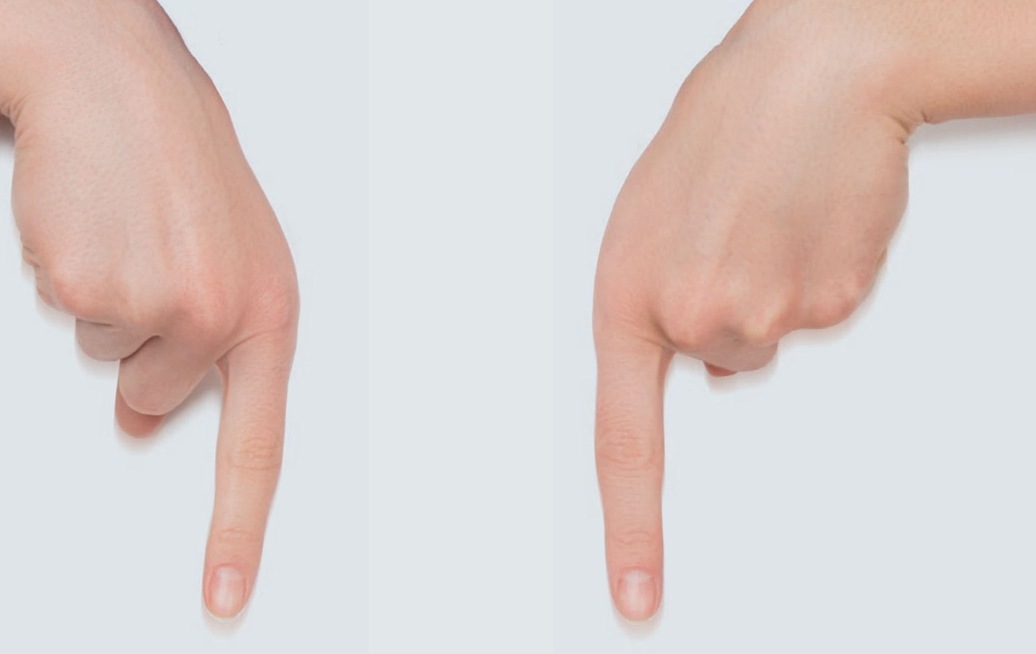
52% of charities do not think that the cost-of-living crisis will have a lasting impact on their investment policy, and a further 27% simply do not know. For those that do think there will be longer-term implications, two-thirds are re-evaluating their reserves policy.

ONLY 67%

of charities answered that their returns are sufficient to meet their obligations and commitments

This year, a growing number of charities are finding that the income produced by their investment portfolio is insufficient to meet their charity's obligations.

Only 67% of charities answered that their returns are sufficient to meet their obligations and commitments, down on the 85% which answered the same last year.



70%

of charities did not set any withdrawal rate this year

Charities are demonstrating uncertainty in terms of what they consider to be a sustainable withdrawal rate for their portfolio.

70% of charities had not set any withdrawal rate this year, and among those that had, there was no clear agreement on where it should be set. A growing proportion of charities are now unsure about what a sustainable withdrawal rate is likely to be over the long term – over a fifth of charities simply do not know where to set their rate.

35%

of charities have experienced negative returns

Charities have faced a severe downturn this year; however, they appear to be adapting to these lower levels.

35% of charities have experienced negative returns, and a further 35% have seen returns of between 0-3%. Nevertheless, the proportion of charities that say investment performance has not affected spending has remained relatively stable at just under 80%.

37%

of charities feel it is very important that ESG investment factors are considered in the management of their portfolios

While charities continue to recognise the importance of investing responsibly, attitudes around the consideration of ESG factors are changing.

The proportion of charities that feel it is very important that ESG investment factors are considered in the management of their portfolios has fallen from 49% in 2022 to 37% this year. Nevertheless, the proportion of charities that believe that ESG factors are either 'very important' or 'quite important' has remained roughly stable.

64%

of charities have an ethical exclusion policy

Ethical exclusion policies are becoming more commonly used by charities, but their approaches are increasingly targeted.

The proportion of charities with an ethical exclusion policy reached 64% this year – the highest we have seen over the last ten years of conducting the survey. However, the breadth of these policies has diminished, as charities are now focusing on more specific areas, rather than taking a blanket approach.

36%

of charities opt for engagement when dealing with companies that are underperforming in terms of ESG issues

Charities are divided on how best to approach companies that are underperforming in terms of ESG issues, with half believing that divestment is most suitable and 36% opting for engagement.

However, charities' approaches to climate change factors paint a different picture, with 66% of charities believing that engagement is the best approach to ensure that companies in their portfolios are aligned with their climate change values.

38%

of charities have no net-zero commitment

Net zero is growing in importance for charities, but they remain split in terms of their commitments.

38% of charities have no net-zero commitment, while for the 48% that do have some sort of commitment, the form it takes varies.

81%

of charities feel it is important for their trustees to reflect their beneficiaries and their requirements

2023 has seen notable growth in the proportion of charities that feel it is important for their trustees to reflect their beneficiaries and their requirements.

After falling to 66% last year, this figure is now up to 81% this year. However, there has been a 5% decline in the proportion of respondents that think it is important that investment managers demonstrate diversity.

SECTION 1

ECONOMIC PRESSURES AND CONCERNS ABOUT THE FUTURE

PART 1:
THE MAJOR ISSUES CONCERNING CHARITIES

PART 2:
THE COST-OF-LIVING CRISIS – TWO YEARS IN

THE MAJOR ISSUES CONCERNING CHARITIES

Our last three reports have focused on the direct, and then lingering, impacts of the Covid-19 pandemic on the charitable sector – and with good reason.

Even by 2022, two and a half years after the onset of the pandemic, the effects of that period of instability were still being felt. However, those pandemic-era issues were diminishing, having been replaced by broader concerns driven by economic pressures and geopolitical instability.

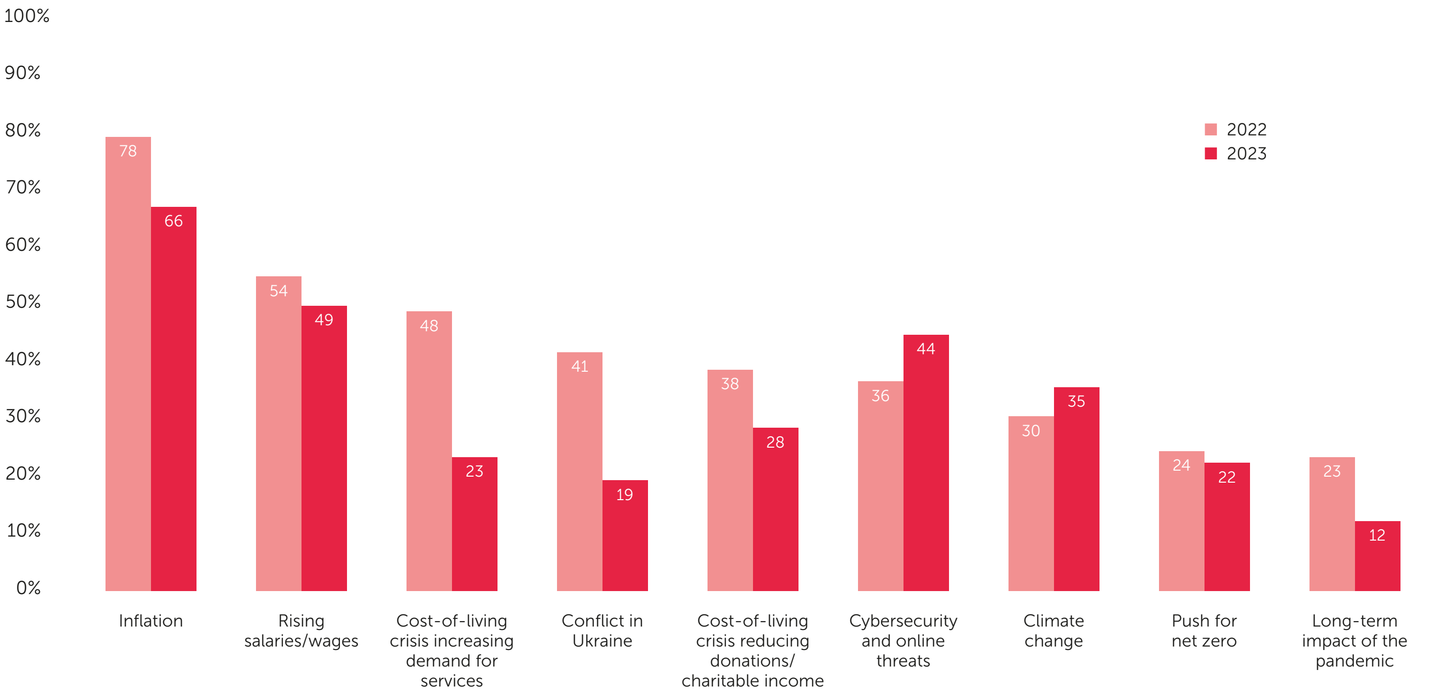
One year on, the sector's concerns have shifted once again. Inflation and its related economic pressures remain at the forefront, especially when it comes to charities' own investments, but elsewhere much has changed.

What are the greatest fears/concerns for your charity's investments?

INFLATION
INCOME
RETURNS
VOLATILITY
VALUE
WAR
UNCERTAINTY
GEOPOLITICS
GROWTH
ESG
INTEREST
ASSETS
CASH
CLIMATE
GLOBAL INSTABILITY
INTEREST RATES
INVESTMENTS
LIQUIDITY
RECESSION
BANK FAILURE
CAPITAL EROSION
CAPITAL GROWTH
CAPITAL RETURNS
CAPITAL VALUE
COST-OF-LIVING
ECONOMIC CRISIS
EROSION

INCOME RETURNS
MARKET FAILURE
PERFORMANCE
PROPERTY PRICES
REDUCTION
STABILITY
WITHDRAWALS
ADMINISTRATION
ASSET ALLOCATION
BANKS
BEAR MARKET
BENCHMARKS
BLACKSWANS
BOND PERFORMANCE
BREXIT
CAPITAL SPENDING
CASH RETURNS
CASHFLOW
CHURNING
CRASH
CSR
CURRENCY
DISBURSEMENTS
DIVERSIFICATION
DIVIDENDS
DRAWDOWN
ENDOWMENTS
ENGAGEMENT
EQUITIES
ETHICS
EUROPE
EXPENDITURE
EXPENSES
FAILURE
FEES
FINANCIAL STABILITY
FOSSIL FUELS
GLOBAL EQUITIES
GLOBAL WARMING
GOVERNMENT BORROWING
GOVERNMENT FUNDING
INCOME GENERATION
INFLATION-PROOFING
INFLATION
INFORMATION
INVESTMENT PERFORMANCE
LONG-TERM
LOWER RETURNS
NEGATIVE
NEGATIVE RETURNS
NON-FINANCIAL DRIVERS
OIL
OPERATIONAL COSTS
OVER-PRUDENT
POLITICS
POOR PERFORMANCE
PORTFOLIO
PRIVATE ASSETS
PRUDENT
PUBLIC INTEREST

1 How concerning are these issues to you when thinking about your charity? (Percentage saying 'very concerning')



Data set: No. of respondents: 2022: 91, 2023: 86

The most significant shift we have seen has been a decline, almost across the board, in charities' level of concern on most issues.

The long-term impact of the pandemic, once a major issue and still a concern for over a fifth of charities in 2022, has fallen further – now standing as the least concerning issue and rated as 'very concerning' by only 12% of charities.

Other issues which were major concerns for charities last year have seen similar declines. The impact of the cost-of-living crisis on demand for services and concern over the war in Ukraine have fallen significantly compared to 2022, and now rank among the least concerning issues for the sector, despite the continuation of economic challenges and the conflict in Ukraine.

What charities find most concerning has not changed – inflation and rising salaries remain the most selected issues at 66% and 49% of answers respectively. These continue to be pertinent concerns for the sector, reflecting continued inflationary pressure through late 2022 and into 2023.

Nevertheless, even these issues have seen a decline compared to previous levels of concern.

Charities appear to be adjusting to the new realities of this challenging longer-term economic backdrop.

That adjustment seems to have been more successful when it comes to the direct impact of the crisis on charity services – on demand and on donations.

But even regarding issues affecting core operations and budgets, in the form of inflation and wage pressures, the declines in concern this year demonstrate that, while they are still a worry, the sector is learning to operate within this 'new normal'.

Not all issues, however, are the same. While we have seen drops in concern across most areas, two stand out as the only issues for which there has been a rise in concern in this year's survey.

Cybersecurity and online threats, as well as climate change, have experienced an increase, with cybersecurity being selected by 44% of charities, up from 36% last year, and climate change now at 35%, up from 30% in 2022.

These now stand as the third and fourth most selected issues across the range of options and significantly outscore the direct effects of the cost-of-living crisis or the long-term impacts of the pandemic.

This may reflect the start of a shift away from short-term reactions to shocks – an understandable response to what has ultimately been almost three years of consecutive crises – and back towards longer-term planning within the sector.

"Charities appear to be adjusting to the new realities of this challenging longer-term economic backdrop."

These longer-term issues are here to stay, and as the shock of the initial impact of the cost-of-living crisis on the sector appears to be at least somewhat dissipating, these long-term concerns look to be regaining importance.

However, that is not to say that these long-term issues are purely conceptual.

With the evident and seemingly growing impacts of climate change, cautionary tales of cybersecurity failures, and concerning discourse about the future of artificial intelligence, these issues are significant for charities.

Economic pressure on operations remains the central concern for the sector, but charities now have a growing focus on the future. 1

STR£TCHED

Concerns about the impact of the cost-of-living crisis on the sector may have declined, but that does not mean that those effects are not still being felt.

While we are now two years on from the first surges in inflation and the initial decline in real incomes that came with them (both for individuals and for charities themselves), 89% of charities have still felt some impact on their activities over the last year.

However, while the impacts are broad, there appears to be no universal experience within the sector.

89% of charities have been affected by the cost-of-living crisis

Only 11% of charities have seen no impact whatsoever from the cost-of-living crisis, but among those charities that have been affected, no single impact was selected by more than 40% of our survey participants.

Effects on fundraising activity and staff policy were the most common answers but, even for these, a greater proportion of charities had not experienced the issue.

Other impacts affecting management and administration, investment strategy, and charity activities were each selected by roughly a quarter of charities. The least selected answer – the impact on contingency planning – was selected by a further 16%.

Charities are still feeling the effects of the cost-of-living crisis, but how those effects manifest differs significantly from charity to charity. 2

2 What impact, if any, has the cost-of-living crisis had on your charity's activity over the last year?

Data set: No. of respondents: 2023: 86

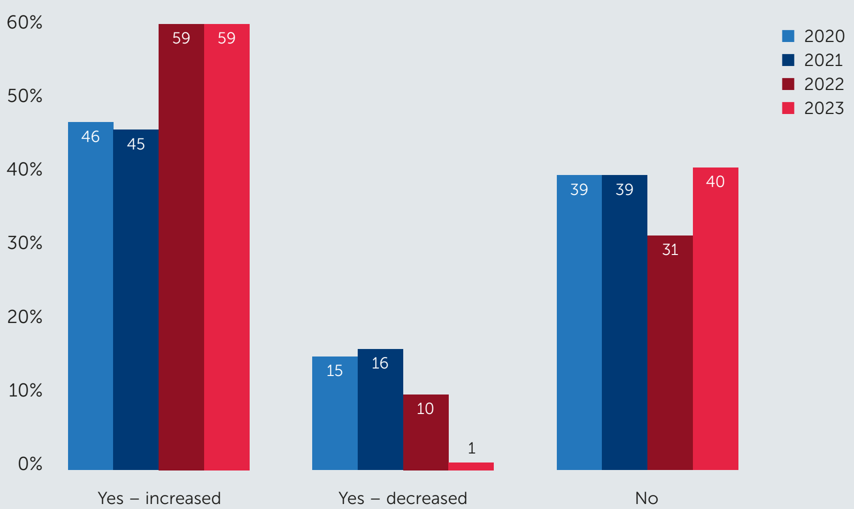
One area in which the impact of the cost-of-living crisis has stayed relatively consistent has been on the increased demand for charity services.

Demand is up once again, with 59% of charities reporting a further increase on last year. This figure remains stable compared to 2022, though of course reflects an additional increase in demand on the sector compared to last year, and is significantly higher than pre-2022 levels; however, we have seen changes elsewhere.

Unlike last year, the proportion of charities reporting a fall in demand has plummeted – from 10% to just 1% – while the number of charities reporting stability in demand has risen to 40%.

Where that stability exists, however, it will come after several years of increased demand for many of the charities in our sample. 3

3 Have you seen a change in demand for your charity's services?



*Data set: No. of respondents:
2020: 114; 2021: 82; 2022: 91; 2023: 86*

52% **of charities do not expect the crisis to have a lasting impact on their investment policy**

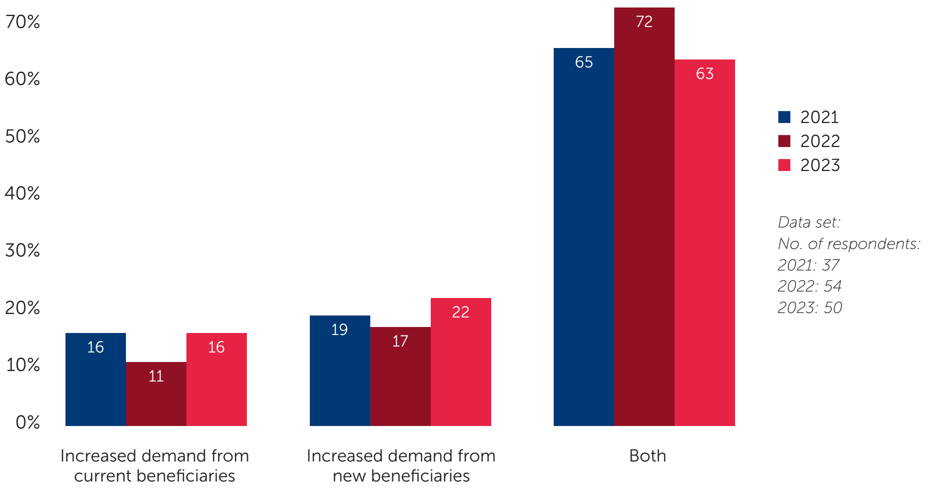
This demand, for the majority of charities (63%), comes from both new and existing beneficiaries. This is somewhat in line with the trend from recent years – only just below 2021 levels – but is reflected by what has been a notable increase in demand from new beneficiaries.

Demand driven solely by new beneficiaries has now risen to 22% of charities in our sample, which is likely to be a result of the particularly challenging effects of the cost-of-living crisis on a broader proportion of society. 4

Nevertheless, while the general experience of the cost-of-living crisis for the sector remains a negative one, there does appear to be some hope for the future among charities. Just over half (52%) of charities do not expect the crisis to have a lasting impact on their investment policy, though this should be caveated by the fact that uncertainty remains high. 27% of charities remain unsure, while for the 22% of charities that do expect a long-term impact, considerable concern remains. 5

The smaller group of charities that does expect long-term and lasting impacts on their investment policy is considering adjustments, whether because of a more negative future outlook or owing to the impacts of the crisis on their charity in the present.

4 Where has increased demand for your charity's services come from?



These changes appear relatively wide-ranging, with resilience the core focus. 68% of respondents are re-evaluating their reserves policy as they look to build a cushion for future shocks, while a significant proportion of charities are also reconsidering their asset allocation (47%) and their risk tolerance (42%).

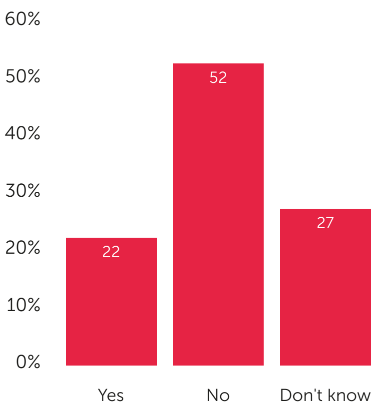
Moving to a total-return policy remains a relatively niche option, considered by just over a fifth of the sample.

There are signs of substantial concern here. The diversified, but widely felt, impacts of the cost-of-living crisis on the sector underscore a shift among charities themselves.

For some, better days look to be on the horizon or, at the very least, charities are managing to adjust to increased pressures and demands without significant change to their wider operations and investment policies.

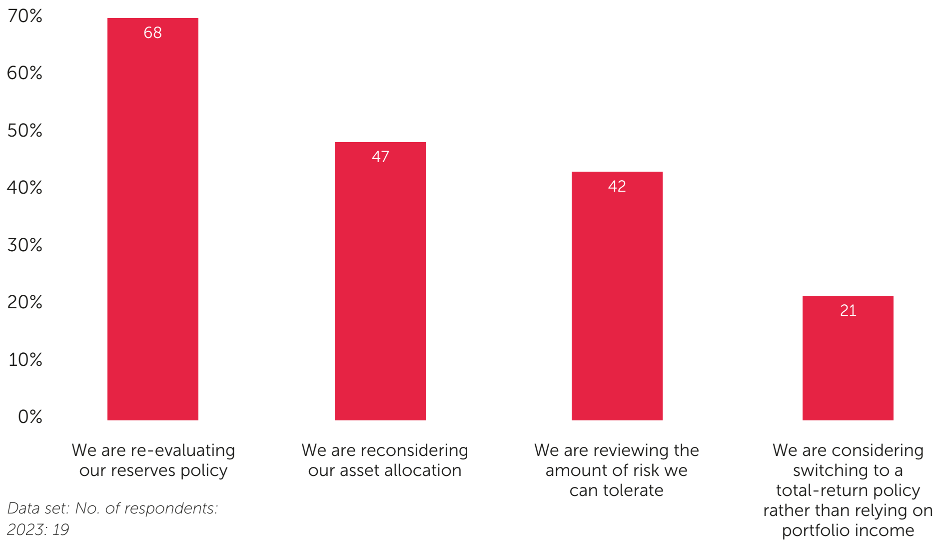
Nevertheless, for the 22% of charities that expect longer-term impacts, there may still be further adjustments to come. 6

5 Do you think the cost-of-living crisis will have a lasting impact on your investment policy?



Data set: No. of respondents: 2023: 86

6 How will the cost-of-living crisis have a lasting impact on your charity's investment policy?



Data set: No. of respondents: 2023: 19

SECTION 2

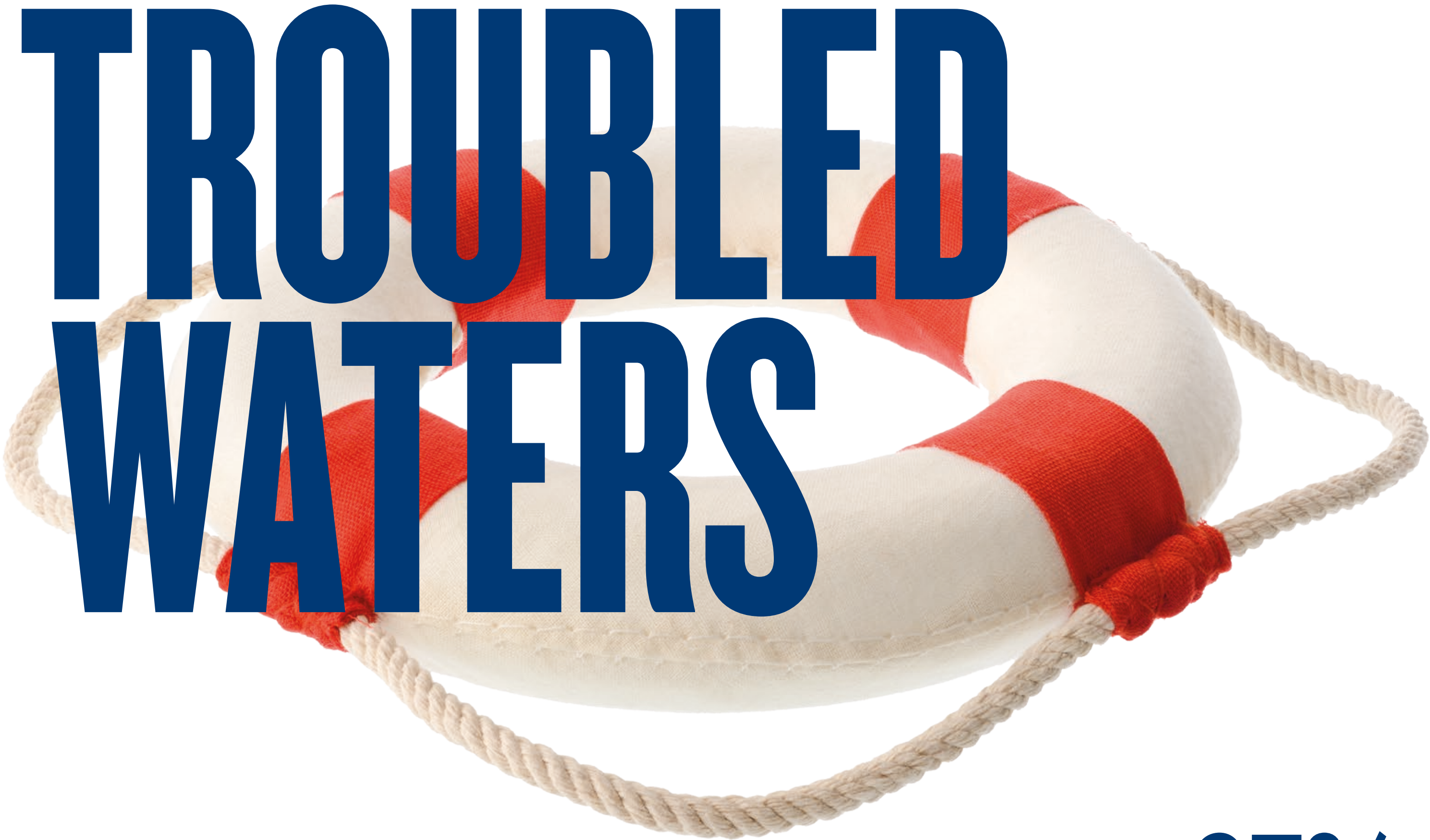
RESPONDING TO A CRISIS – CHARITY INVESTMENTS IN 2023

PART 1:
INVESTMENT STRATEGY AND RETURNS

PART 2:
ASSET ALLOCATION

PART 3:
ALTERNATIVE INVESTMENTS

TROUBLED WATERS



2022 marked a year in which the capacity of charities' investment returns to match obligations and commitments appeared to bounce back from a pandemic nadir, but the same cannot be said for 2023. A more negative picture has instead emerged.

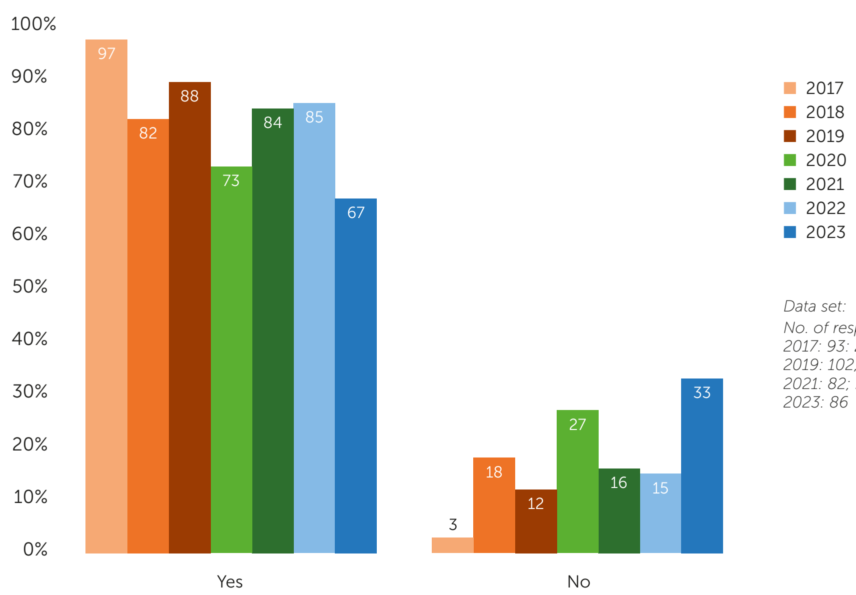
ONLY 67%

of charities answered that their returns are sufficient to meet their obligations and commitments

This year has seen the proportion of charities reporting that their total returns on investment were sufficient to meet their obligations and commitments fall by a significant margin.

Only 67% of charities answered that their returns are sufficient to meet their obligations and commitments, down on the 85% who answered the same last year, and significantly below the record response of 97% in 2017, and even below the 73% seen at the height of the pandemic. 7

7 Do you feel that the total returns of your investment portfolio are sufficient to meet the obligations and commitments of your charity?



Data set:
No. of respondents: 2017: 93: 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91; 2023: 86

> "After a period of 'battening down the hatches', adaptability now appears to be a far greater focus."

For those charities pursuing an income-only target, there has been a similar drop, from 94% in 2022 down to 70% this year. However, looking more broadly at the long-term trend, this fall is less significant.

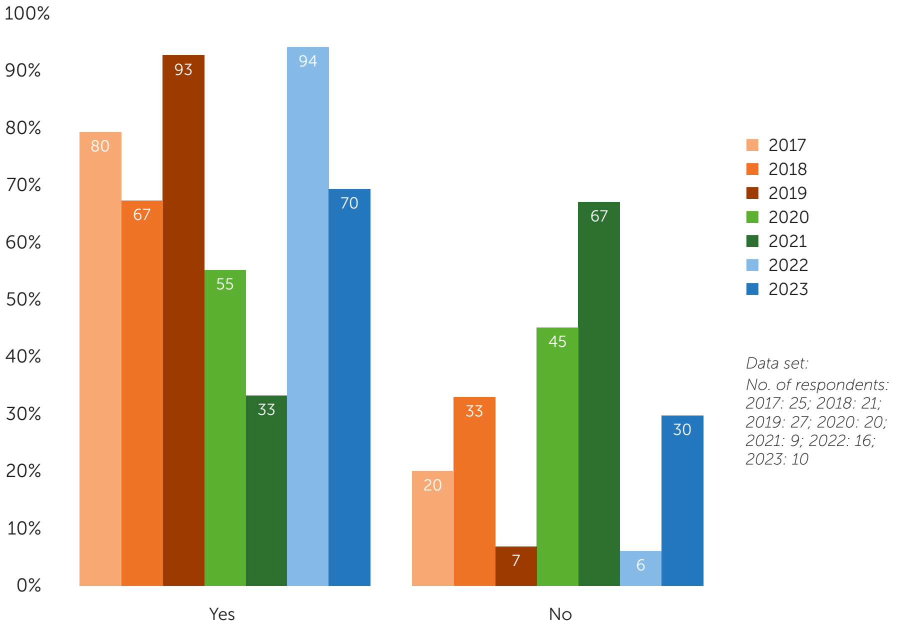
Returns on income-only targets have been far more volatile, and the proportion of charities that feel their income is sufficient remains above the levels seen in 2020 and 2021.

The coming year may paint a clearer picture of whether the instability felt in the wider sector's investments has truly filtered through to those with income-only targets. 8

94% ↓ **70%**

Drop in charities pursuing an income-only target whose income from investments is sufficient to meet their commitments and obligations

8 Do you feel that the income produced by your investment portfolio is sufficient to meet the obligations and commitments of your charity?

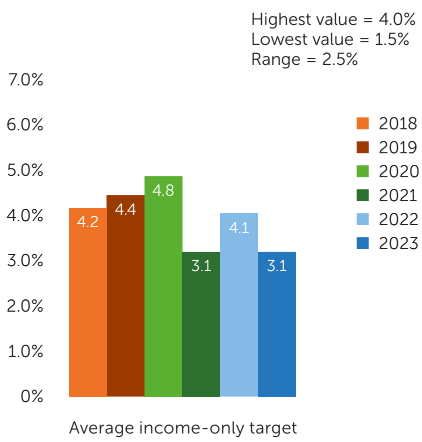


Despite the pressure on investment returns within the wider charitable sector, return targets have remained relatively stable across both income-only and total-return targets.

We have seen some minor declines, down from 4.1% to 3.1% of portfolio value among charities with income-only targets, and from 5.2% to 4.9% among those operating with total-return targets, but both declines are not significant compared to previous years.

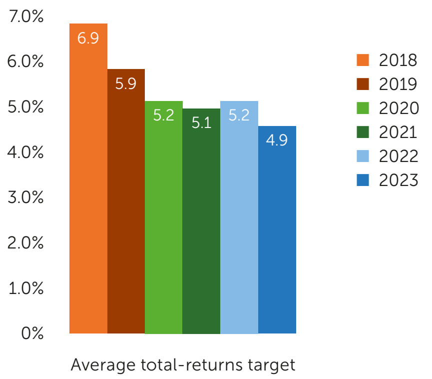
While there is pressure on investment returns for many in the sector, that does not appear to be feeding through into significant changes to targets yet. 9 10

9 What is the income-only target as a percentage of portfolio value?



Data set: No. of respondents:
2018: 21; 2019: 26; 2020: 20; 2021: 9; 2022: 16; 2023: 10

10 What is the total-return target as a percentage of portfolio value?



Data set: No. of respondents:
2018: 41; 2019: 43; 2020: 41; 2021: 35; 2022: 38; 2023: 29

22% of charities do not know where to set their withdrawal rate

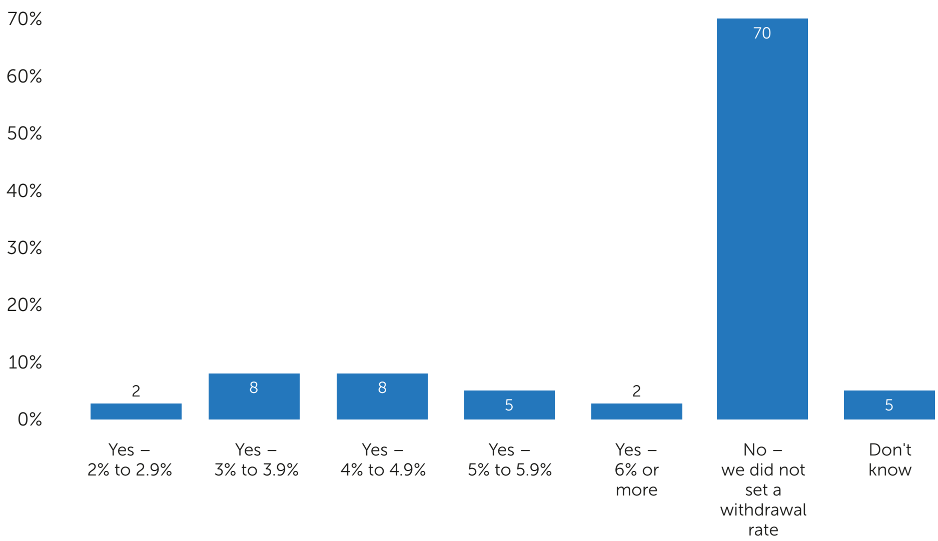
3% average withdrawal rate

Portfolio withdrawals have seen greater change. 70% of charities did not set any withdrawal rate this year, and among those that had, there was no clear agreement on where it should be set.

No single range was selected by more than 8% of the total sample, indicating a diverse range of views on withdrawal rates among those charities that set them in 2023.

After a period of 'battening down the hatches', adaptability now appears to be a far greater focus. 11

11 Did you set a withdrawal rate on your investment portfolio over the last year?



Data set: No. of respondents: 2023: 86

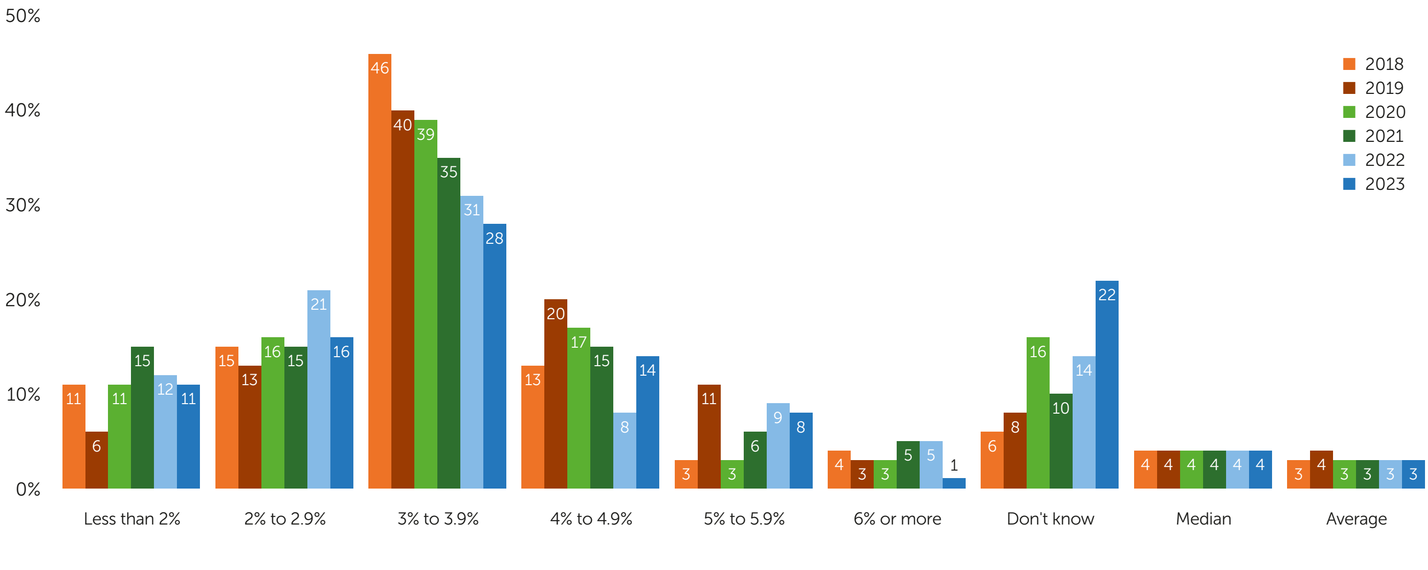
Looking further forward, a growing proportion of charities are now unsure what a sustainable withdrawal rate is likely to be over the long term.

Over a fifth of charities simply do not know where to set their rate – up from 14% in 2022.

For those charities that do have a view on what a sustainable withdrawal rate might be, the average level has stayed relatively stable at 3%, though we have seen a continued decline in the percentage of charities selecting rates below 4%, which is balanced by a mild increase in those selecting a rate of between 4% and 4.9%.

Divergence within the sector is once again evident, with less certainty and greater variance among charities when it comes to portfolio withdrawals. 12

12 What do you consider to be a sustainable withdrawal rate (comprising income and/or capital) from your portfolio over the long term to ensure that your portfolio does not reduce in value in real terms (i.e. after inflation is factored in)?



Data set: No. of respondents: 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91; 2023: 86

35%

of charities report returns between 0% - 3% on investments – up from 25% in 2022

35%

of charities report a negative return on investments – up from 12% in 2022

> "While there has been a rise in charities seeing a 3% to 6% return this year, the overwhelming outlook for returns in 2023 has been a negative one."

The news appears particularly negative when it comes to overall investment returns through to March 2023.

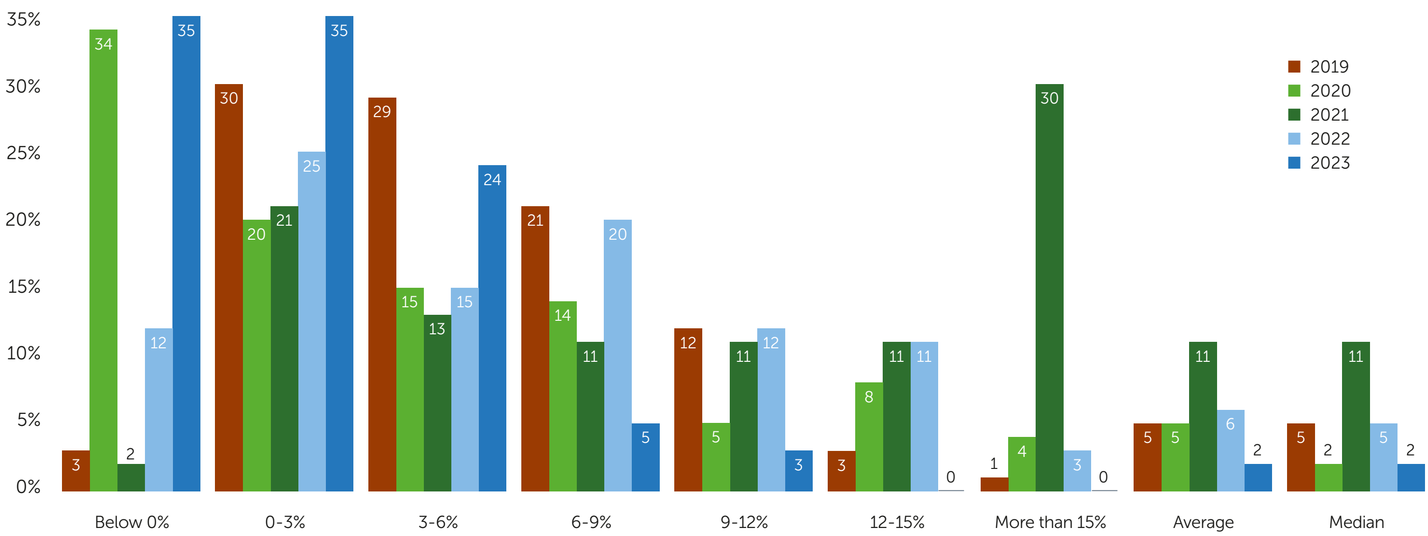
After a 10% increase in the proportion of charities seeing a negative return on investment in 2022, this year has seen that figure skyrocket – up from 12% last year to 35% – a level higher even than that seen during the first year of the pandemic.

Unfortunately, a further 35% have seen returns of just 0% to 3% – rising again from the 25% seen in 2022.

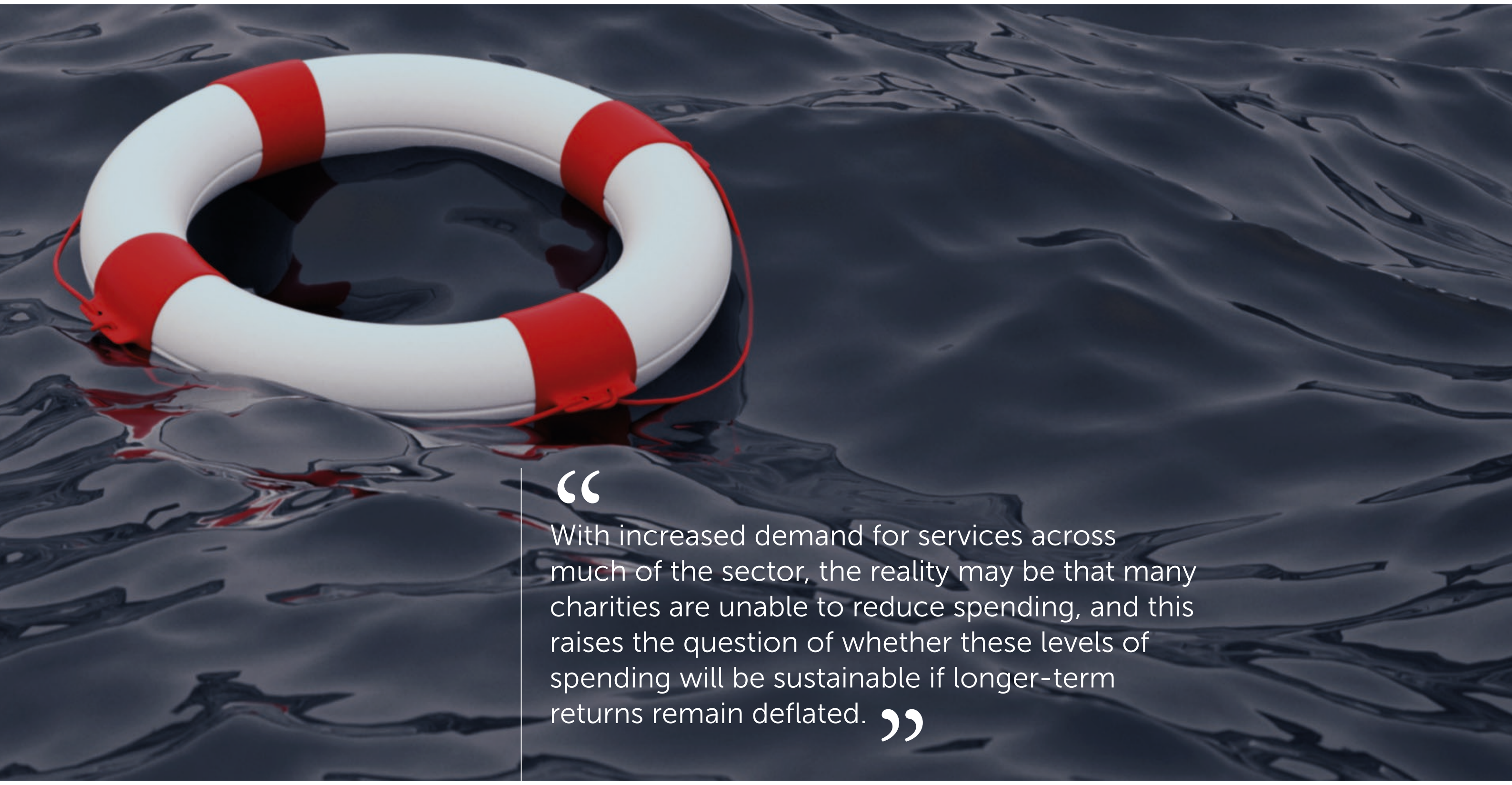
Higher returns of above 6% have almost disappeared completely, having accounted for 46% of the sample in 2022 to just 8% this year.

While there has been a rise in charities seeing a 3% to 6% return this year, the overwhelming outlook for returns in 2023 has been a negative one, and goes a significant way to explaining the decline we have seen in charities reporting that their returns were sufficient to meet their commitments. 13

13 What was the approximate total percentage performance gain/reduction in your investment portfolio's value – like for like – in the year to 31 March 2023 (i.e discounting any additions/withdrawals made in the period)?



Data set: No. of respondents: 2019: 102; 2020: 114; 2021: 82; 2022: 91; 2023: 81



> “With increased demand for services across much of the sector, the reality may be that many charities are unable to reduce spending, and this raises the question of whether these levels of spending will be sustainable if longer-term returns remain deflated.”

Despite the significant decline in returns experienced by the sector over the last 12 months, we are not yet seeing this reflected in charitable spending.

The proportion of charities stating that investment returns have not affected their spending has remained extraordinarily stable, declining only slightly from 81% in 2022 to 79% this year.

While we have seen an increase in the number of charities saying that poor returns have led to a decrease in spending (from 7% to 12%), the overall trend has been that spending levels are generally unaffected by lowering returns.

JUST 12%

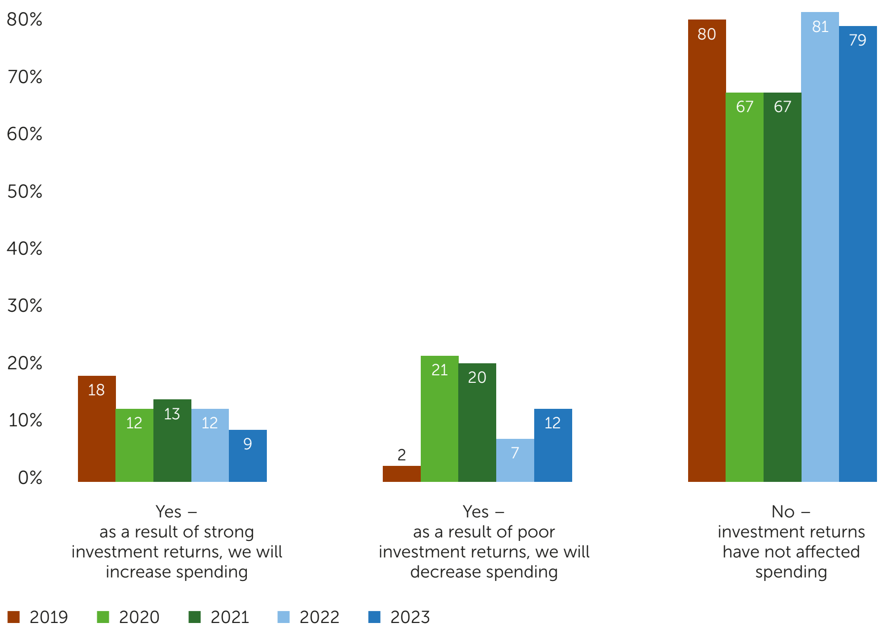
of charities state that poor returns have led to a decrease in their spending

With increased demand for services across much of the sector, the reality may be that many charities are unable to reduce spending, and this calls into question whether these levels of spending will be sustainable if longer-term returns remain deflated. 14

79%

of charities state that investment returns have not affected their spending

14 Has your investment performance affected spending?



Data set: No. of respondents: 2019: 102; 2020: 114; 2021: 82; 2022: 91; 2023: 86

Charities themselves appear relatively bullish about longer-term returns – at least when compared to the poor performance this year – and this could explain their rationale for not reducing spending over the last financial year.

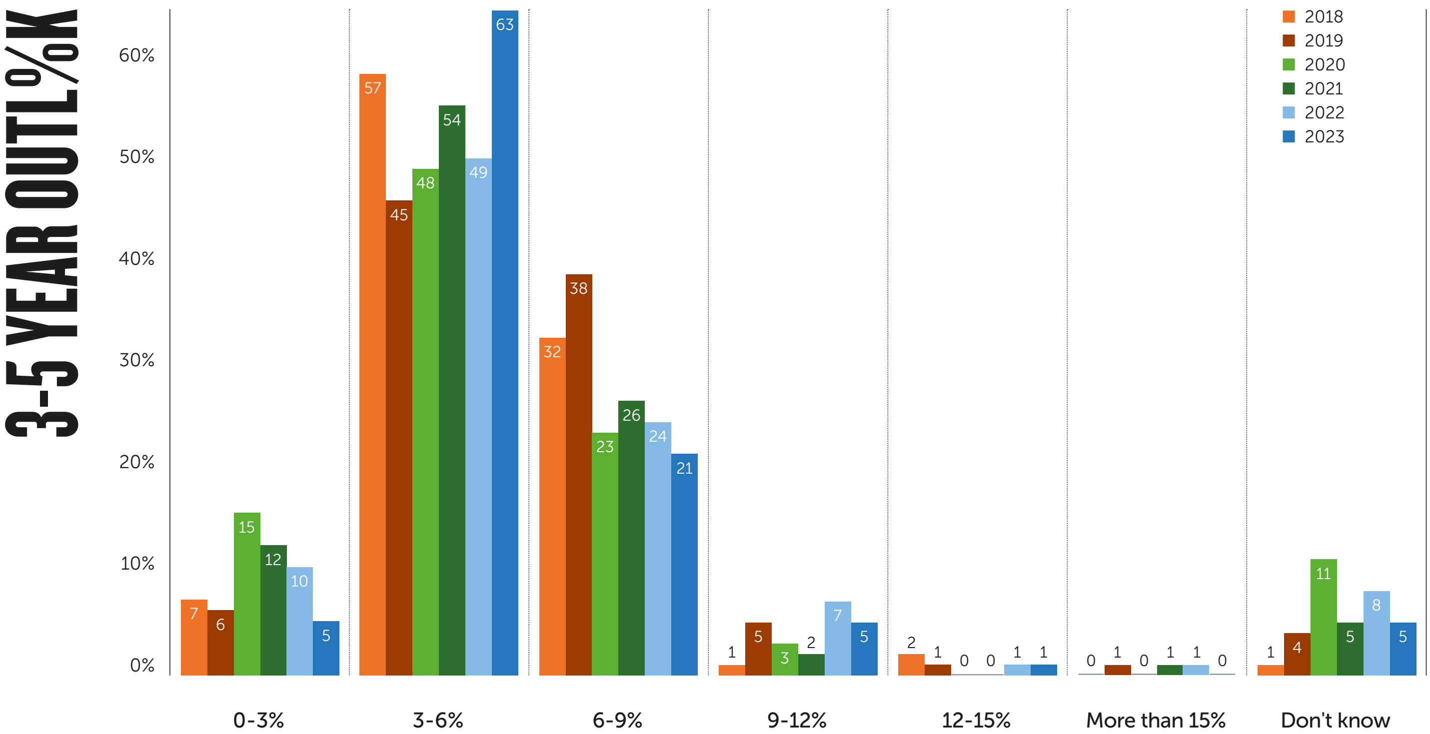
While we have seen some understandable declines at the higher end of expectations, the overall narrative on both the 3-5 year and 10-year horizon is a positive one. Expected returns are coalescing around 3-6% over the next 3-5 years, and around 3-9% for the longer time frame.

More positively still, the proportion of charities expecting low returns has fallen for the fourth consecutive year – representing only around 5% of respondents. For charities, the hope is that brighter times may be ahead. 15 16

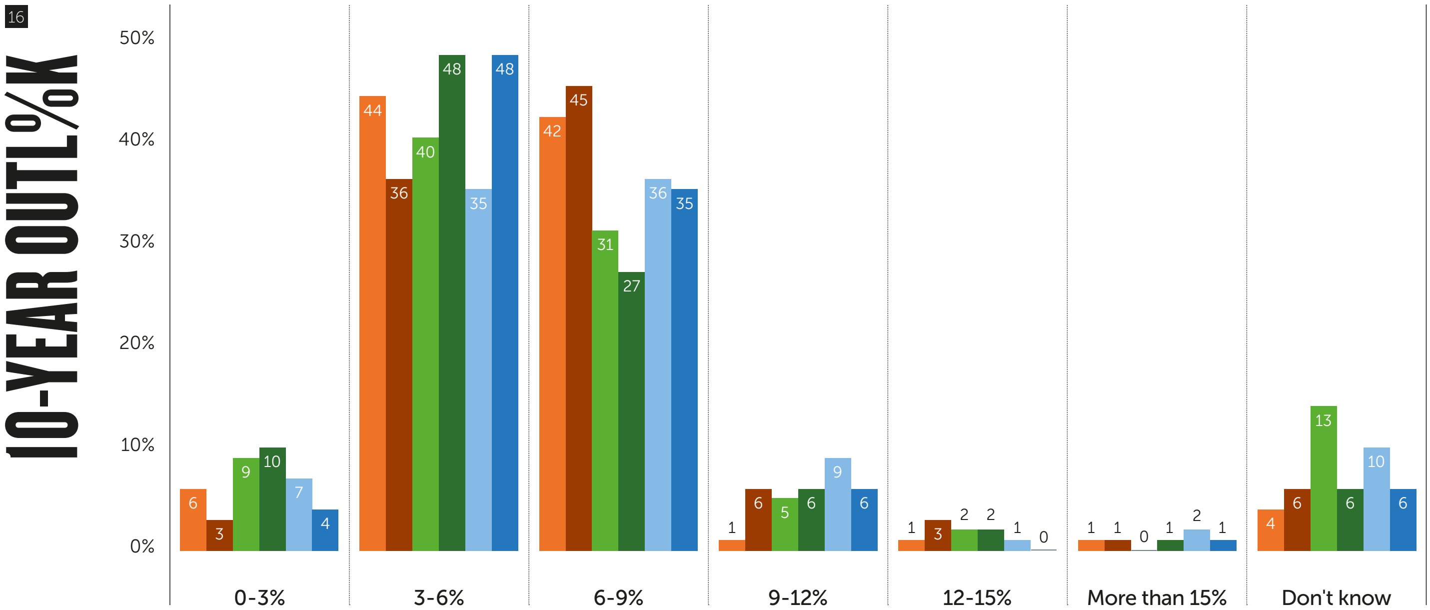
> "The hope is that brighter times may be ahead."

What is the annual total return you would expect from your portfolio over the next 3-5 years, and 10 years?

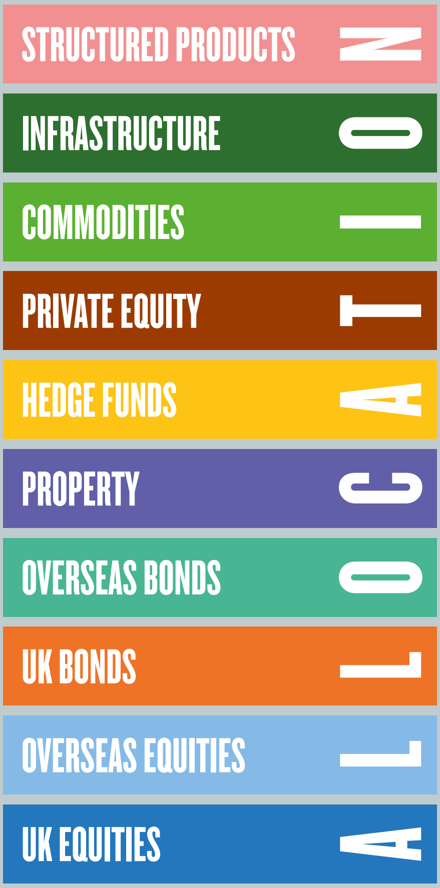
15



16



Data set: No. of respondents: 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91; 2023: 81



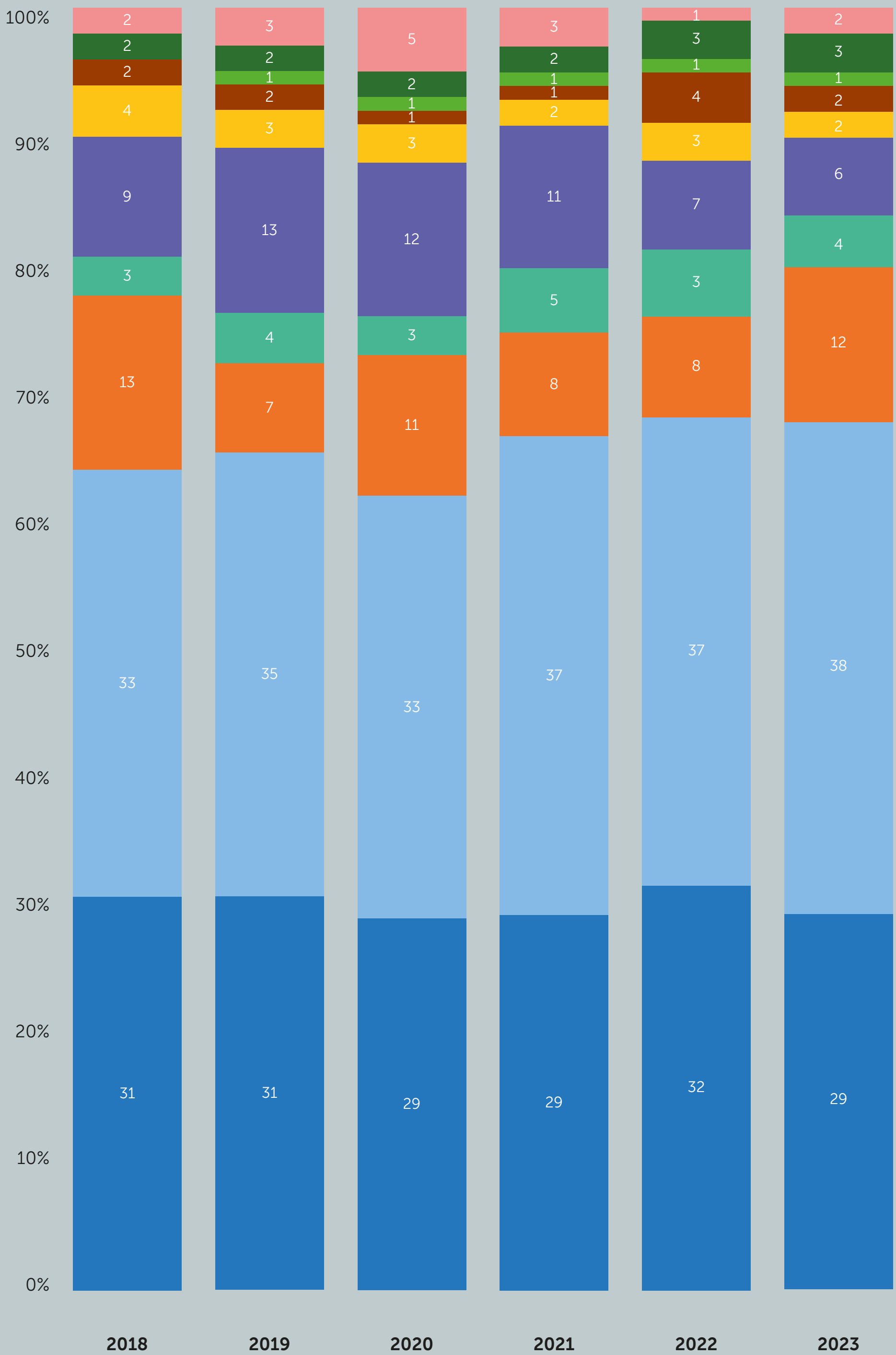
Overseas equities, overseas bonds and UK bonds have all seen increases in exposure this year, with a particularly notable rise in the use of UK bonds from an average of 8% of assets in 2022 to 12% in 2023.

Elsewhere, there has been a decline in exposure to UK equities (from 32% to 29%), property, hedge funds and private equity.

Rises in interest rates both in the UK and abroad, as well as the relative instability of UK property and private investments, are likely to have incentivised charities to move into more structured and secure, and now higher-returning, assets. 17

This year there has once again been considerable change within asset allocation.

17 **Approximate allocation across different asset classes (excluding cash) in percentage terms**



Data set: No. of respondents:
2018: 93; 2019: 98; 2020: 105; 2021: 77; 2022: 86; 2023: 75
Note: Figures may not sum to 100% owing to rounding.

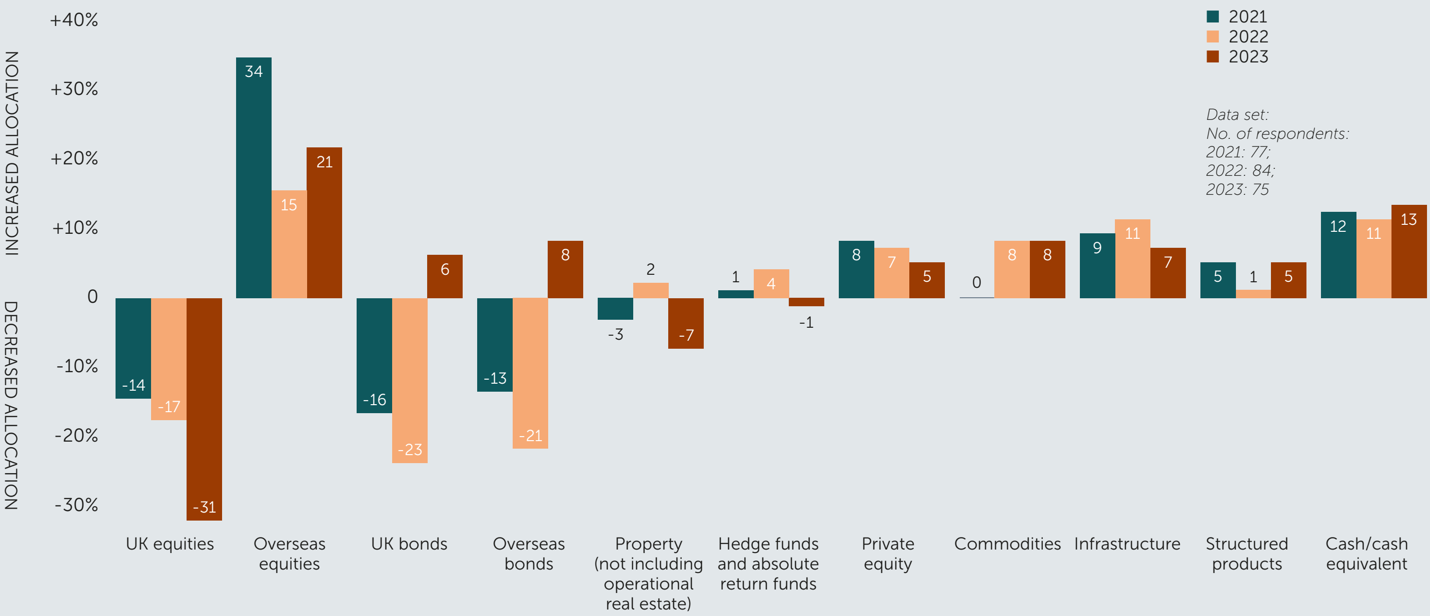
Net changes in asset allocation further underline the shift away from UK equities.

The net decrease is even clearer here, with the proportion of charities reducing their use of UK equities being 31% greater than those increasing it – a much more significant decline than that seen in 2022 or 2021.

Overseas equities appear to be the asset benefiting the most from this change, with charities moving their equity investments abroad. 18

-31% **net decrease in the use of UK equities in portfolios**

18 Has there been any net increase or decrease in your portfolio's allocation to these asset classes in the 12 months to 31 March 2023?



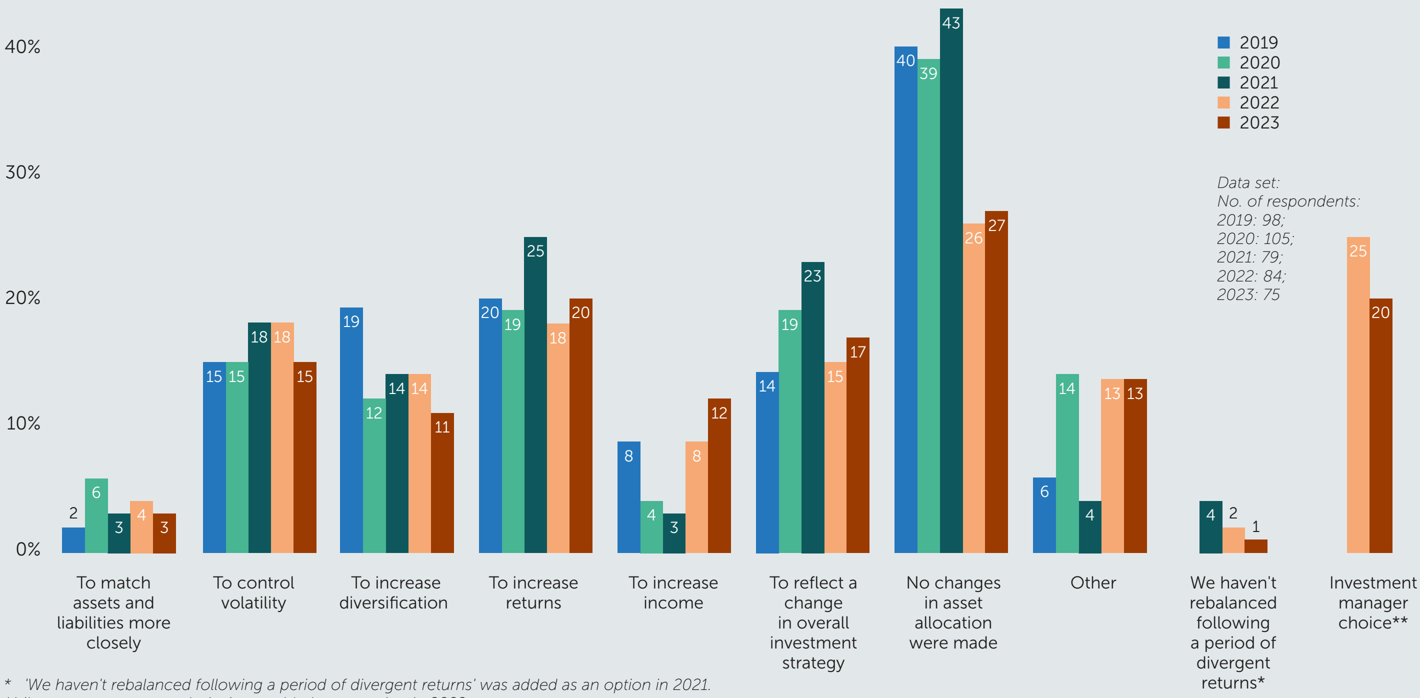
The rationale for these changes remains, as in most years, diversified, and no one reason for changes in allocation was selected by more than a fifth of charities.

Compared to last year, we have seen some minor increases in charities looking for higher returns (18% to 20%) or increased income (8% to 12%), but no clear picture emerges.

As with many of the other areas we have looked at in this report, change is present, but the reasons behind it are varied. 19

> "Change is present, but the reasons behind it are varied."

19 If there were changes to your asset allocation in the year to 31 March 2023, what were the reasons for this?



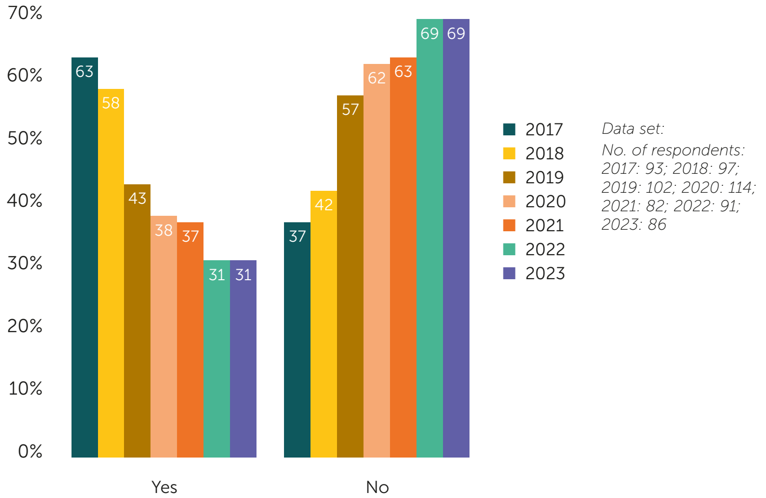
* 'We haven't rebalanced following a period of divergent returns' was added as an option in 2021.
** 'Investment manager choice' was added as an option in 2022.

ALTERNATIVE INVESTMENTS

After half a decade of decline in the use of alternative investments, this year has brought stability.

Use of alternatives within the sector has remained unchanged at 31%, though this is still well below levels seen prior to 2019 and under half of that seen in 2017. 20

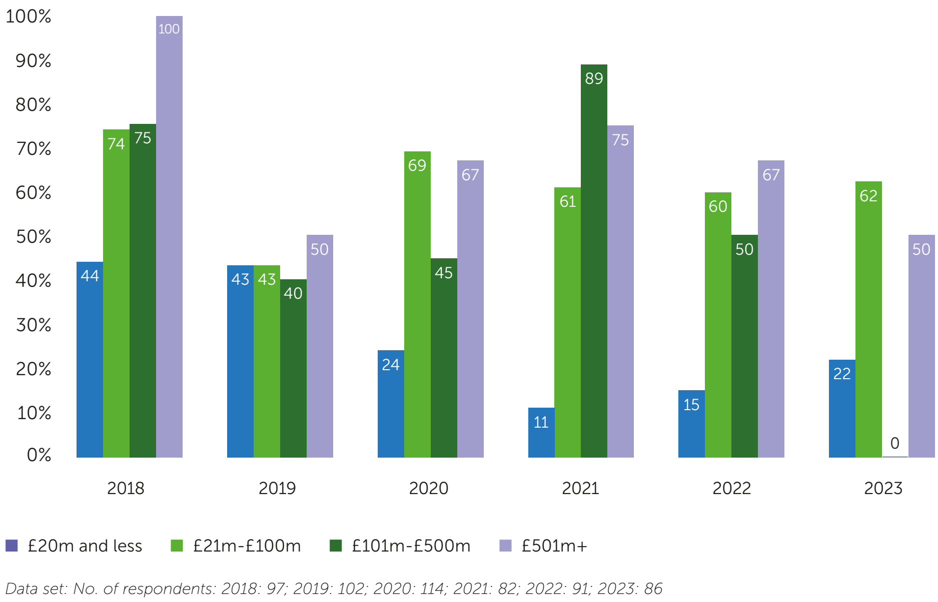
20 **Charities using alternative investments (e.g. property, hedge funds, private equity)**



As in previous years, the use of alternative investments is mainly being driven by larger charities with assets under management (AUM) of over £20 million.

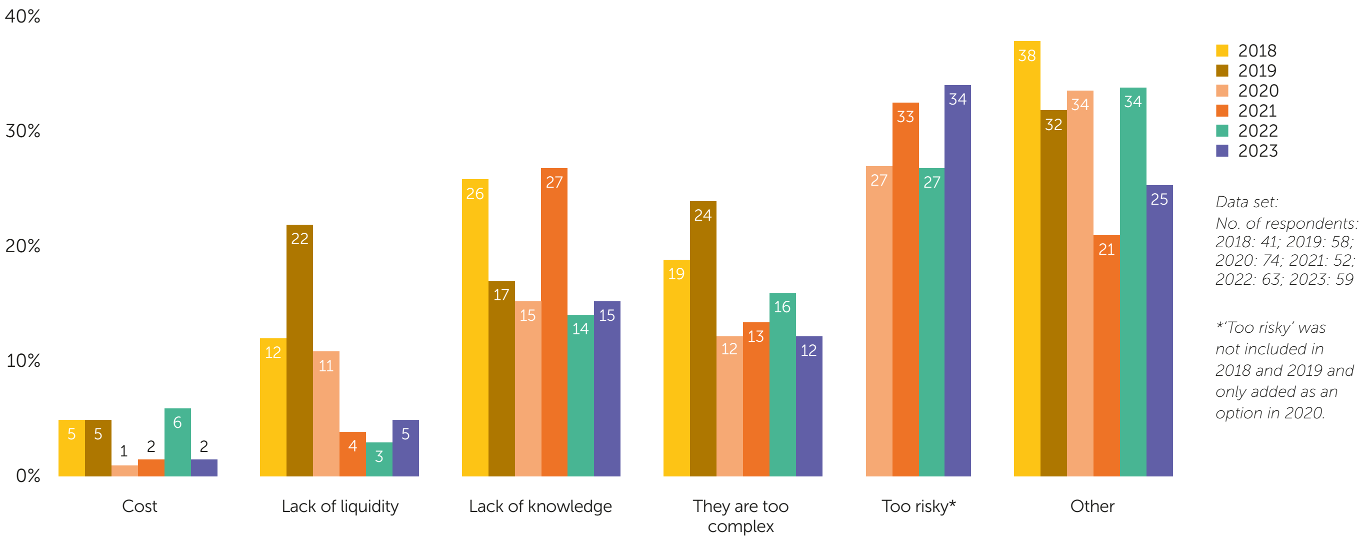
Just 22% of smaller charities (with an AUM of £20 million or less) used alternatives, though this does now represent the third year in which this figure has risen. 21

21 **Charities using alternative investments (e.g. property, hedge funds, private equity)**



Among the 69% of charities not using alternative investments, risk, complexity and a lack of knowledge remain the core reasons for their hesitation. Risk is yet again the main driver, with a record high of 34% of charities selecting it as at least one of the reasons for their lack of alternative investment use. 22

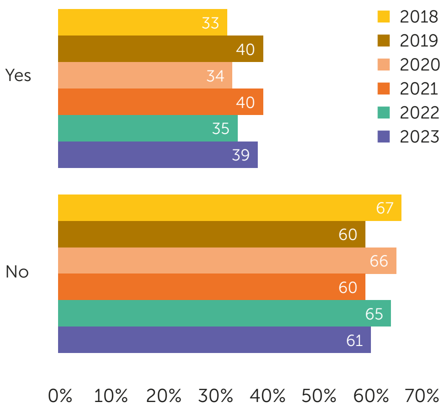
22 Which of the following best describes your reasons for not using alternative investments?



Data set:
No. of respondents:
2018: 41; 2019: 58;
2020: 74; 2021: 52;
2022: 63; 2023: 59

**'Too risky' was not included in 2018 and 2019 and only added as an option in 2020.*

23 Would you consider using alternative investments in future?



Data set: No. of respondents:
2018: 41; 2019: 58; 2020: 73; 2021: 52; 2022: 63; 2023: 59

This year there has been a minor uptick in the percentage of charities not currently using alternatives that would consider their use in the future – up to 39% compared to 35% last year – and taking us back closer to the levels seen in 2021. 23

What is really changing, however, is the type of alternative investment that these charities are considering.

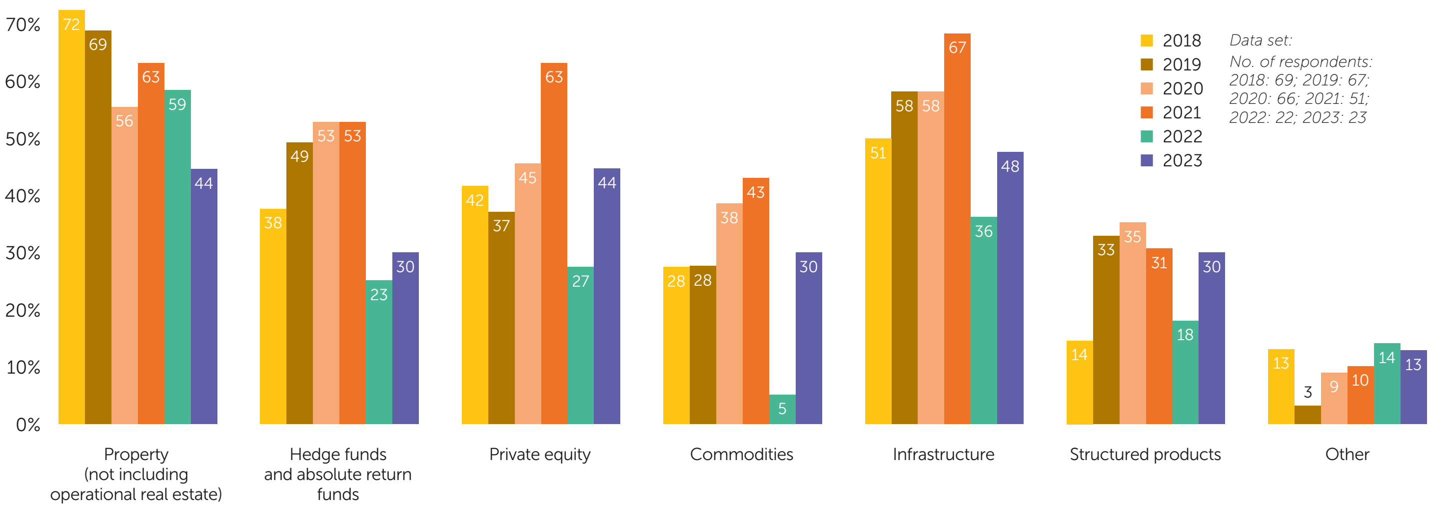
Property, previously considered by a large proportion of charities, has seen a marked decline in the proportion of charities that would consider using it in future - from 59% in 2022 to 44% of charities this year, with the appeal of infrastructure and private equity now matching or exceeding it.

We have also seen a significant rise in the consideration of commodities, up from 5% last year to 30% in 2023, which may reflect the inverse returns of the property and commodity markets over the last year. 24

30%

of charities would now consider including commodities in their investment portfolio

24 Which of the following alternative investments would you consider using in future?



Data set:
No. of respondents:
2018: 69; 2019: 67;
2020: 66; 2021: 51;
2022: 22; 2023: 23

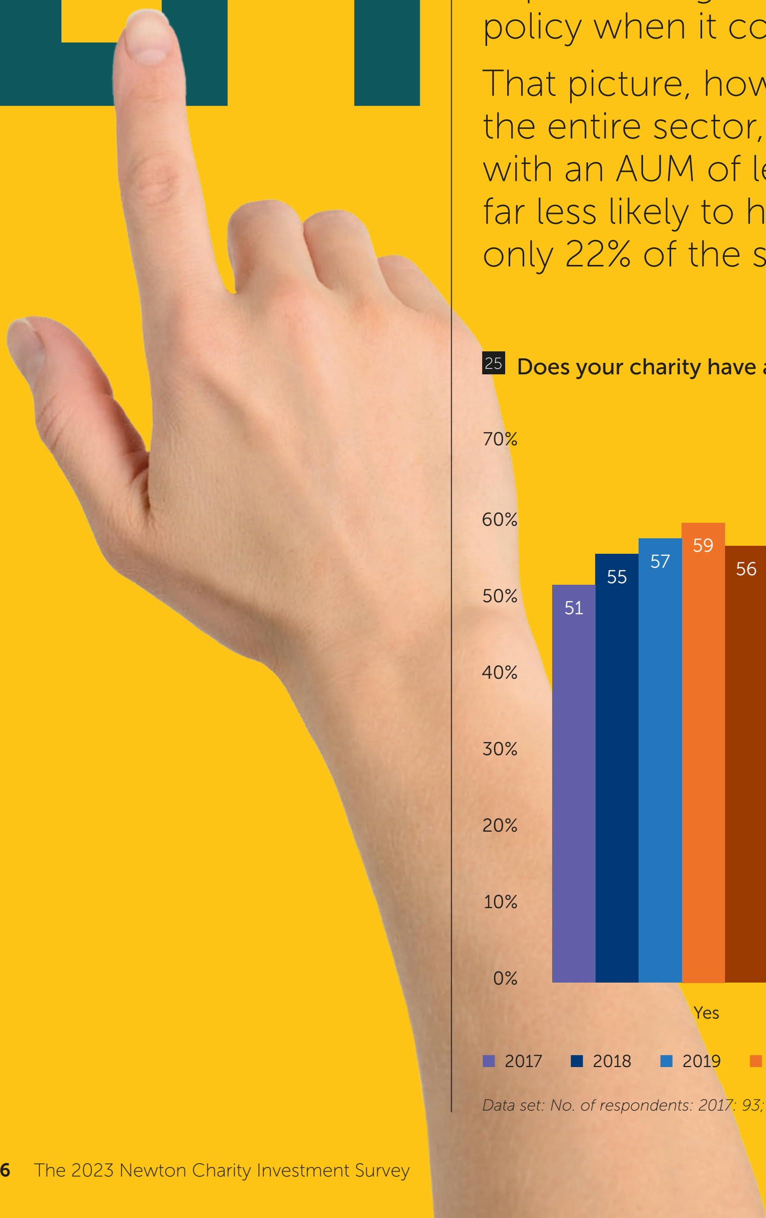
SECTION 3

INVESTING FOR A BETTER FUTURE?

PART 1:
ETHICAL EXCLUSIONS

PART 2:
ESG, RESPONSIBLE INVESTMENT AND NET ZERO

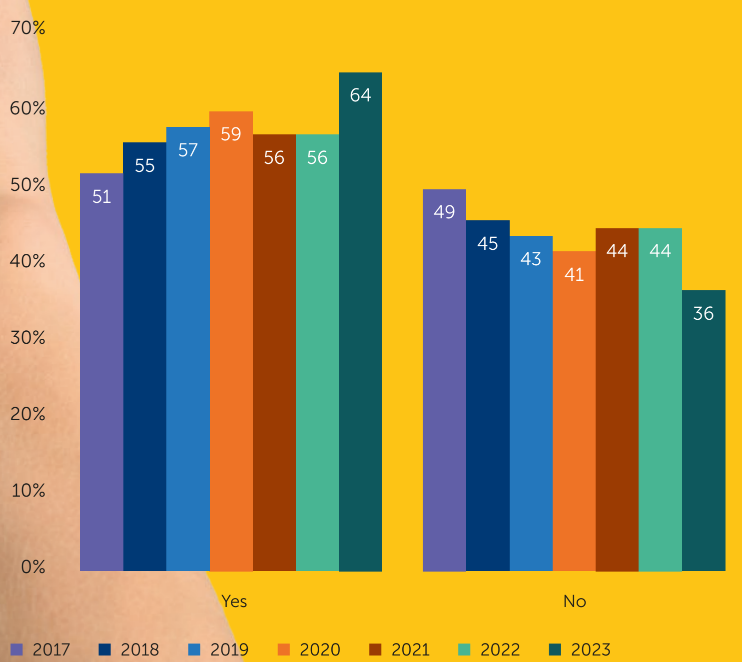
SWIPE LEFT



After several years of relative stagnation, the use of ethical exclusions has risen this year for the first time since 2020 and now stands at its highest ever level, with 64% of charities implementing some form of ethical exclusion policy when it comes to their investments.

That picture, however, is not the same across the entire sector, and the smallest charities with an AUM of less than £20 million are far less likely to have such a policy, at only 22% of the sub-sample. 25

25 **Does your charity have an ethical exclusion investment policy?**



Data set: No. of respondents: 2017: 93; 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91; 2023: 86

Although more commonly used, the exclusion policies themselves have changed compared to previous years. Once again, we are seeing greater variation within the sector in terms of how those exclusions are applied, with fewer blanket approaches and more specific targeting of sectors and industries.

Every area of exclusion, with the exception of alcohol, has seen a decline in the proportion of charities covering it within their policy. Fossil fuels and tobacco have seen the most significant drops – from 49% to 36% and 90% to 80% respectively.

With the overall increase in the use of exclusion policies in mind, this may reflect a reaction to external economic pressures, with charities now targeting specific areas for exclusion that clash with their values and expectations, rather than taking a broad approach that could reduce investment returns. 26

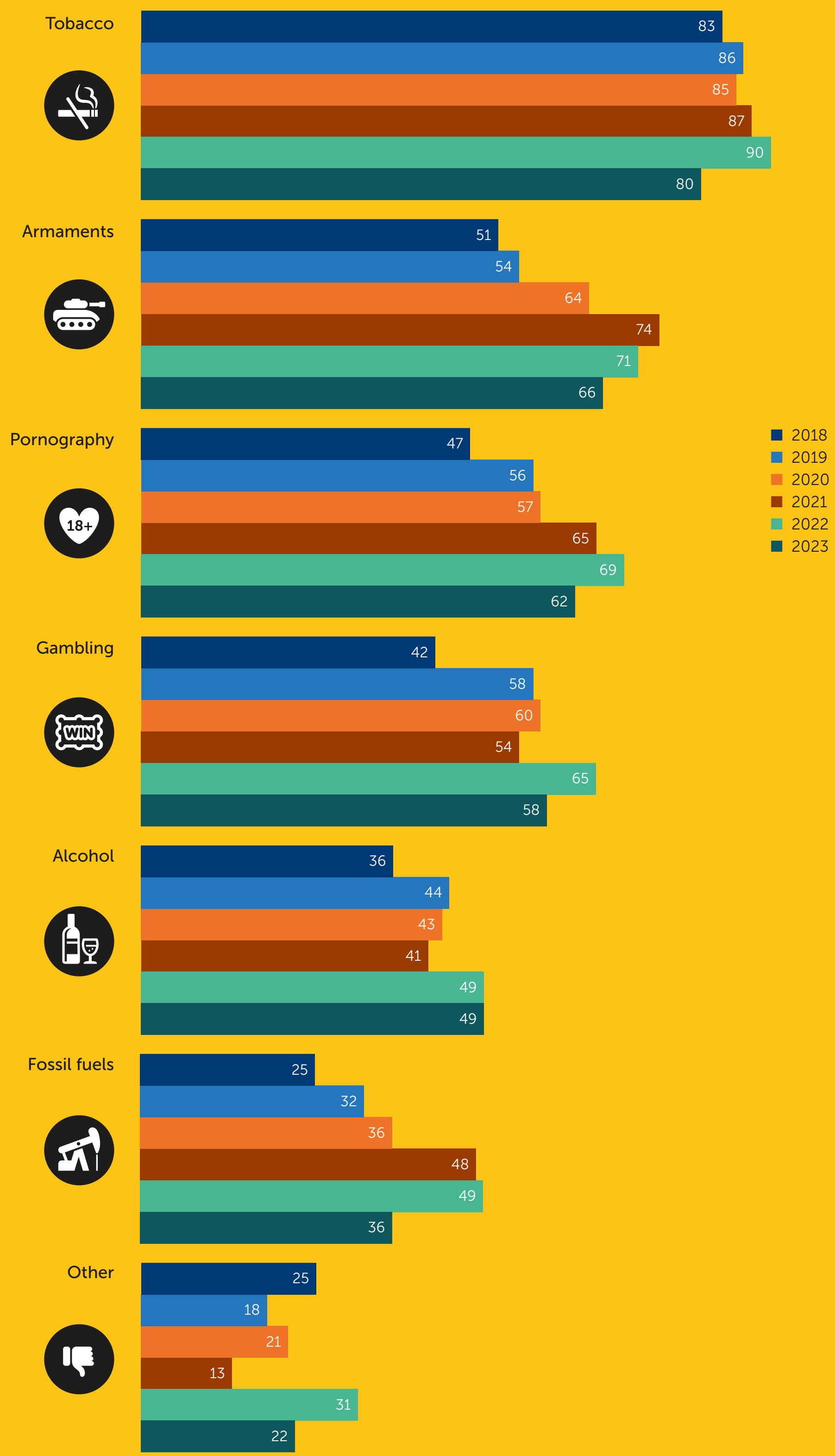
49%

↓

36%

Fossil fuels have seen the most significant drop in the proportion of charities incorporating them in their ethical exclusion policy

26 Which, if any, of the following areas are covered by your ethical exclusion policy?



Data set: No. of respondents: 2018: 53; 2019: 57; 2020: 67; 2021: 46; 2022: 51; 2023: 55

Specific exclusions of investments in particular countries or state-owned stocks have also fallen this year, with only 4% of charities currently excluding a specific nation, down from 18% last year. 27

18%

↓

4%

reduction in charities currently excluding investments in specific countries or state-owned stocks from their portfolios

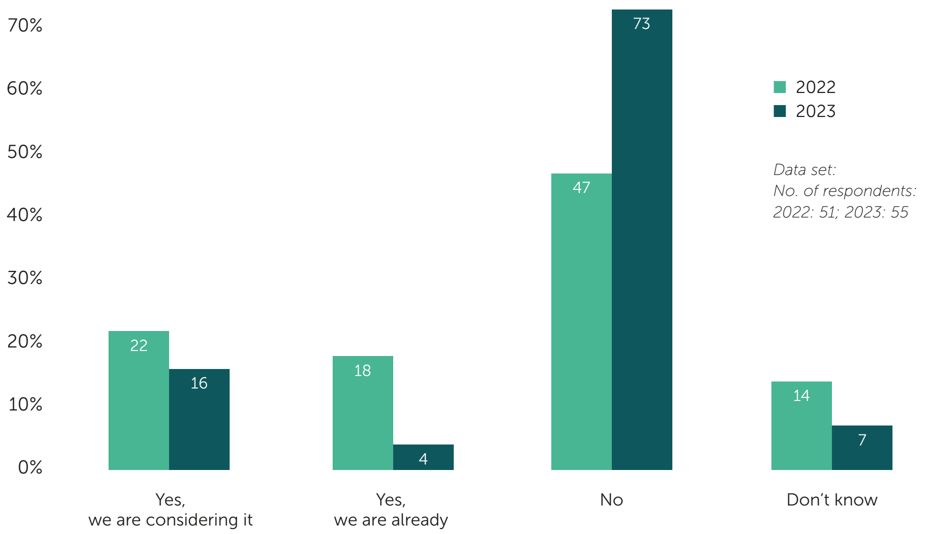
Of those with a national exclusion policy, Russia still remains the most commonly excluded country, no doubt as a result of the continuing conflict in Ukraine. 28

50%

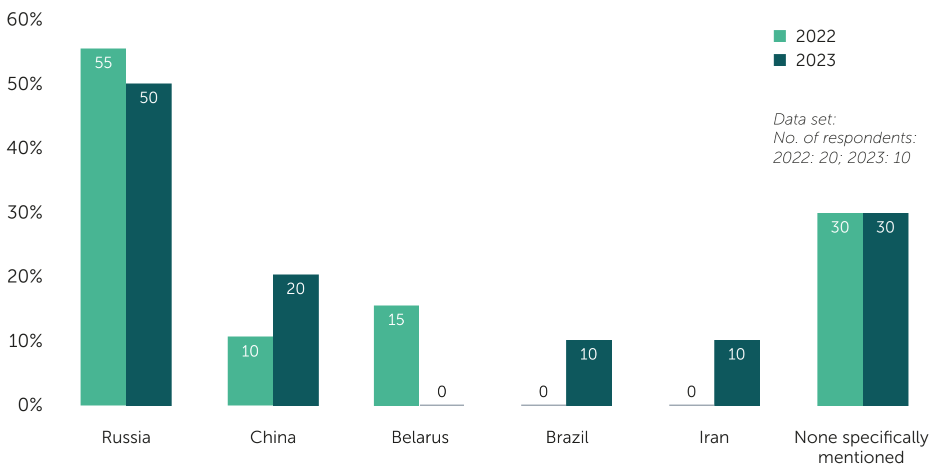
Russia remains the most commonly excluded country

Elsewhere, in a reversal of last year's fall, the application of ethical exclusion policies to indirectly held investments has risen to 62% from a record low of 51% in 2022, though this still stands well below the levels seen prior to 2022. 29

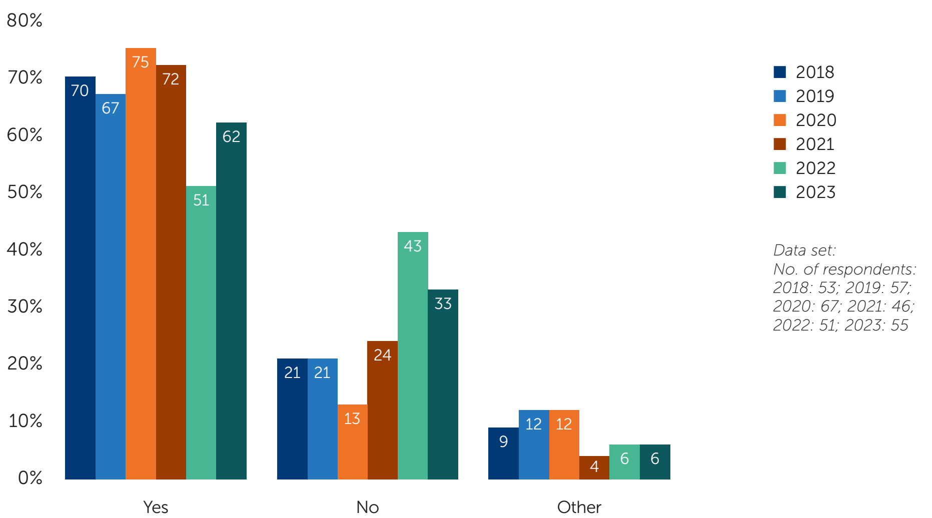
27 Are you considering, or are you already, excluding investments in any countries from your portfolio?



28 Which country or countries are you currently excluding or considering excluding in the future?



29 Does your ethical exclusion investment policy apply to investments that might be held indirectly, e.g. via pooled funds?



For charities with an ethical exclusion policy, there has been minimal change when it comes to the impact of such policies on investment performance.

The proportion stating that there had been no effect on performance as a result of their exclusion policy remained stable at 55%, though it should be noted that this is now the third consecutive year in which the minority that had seen an impact has risen, and this now stands at 13%. 30

55%

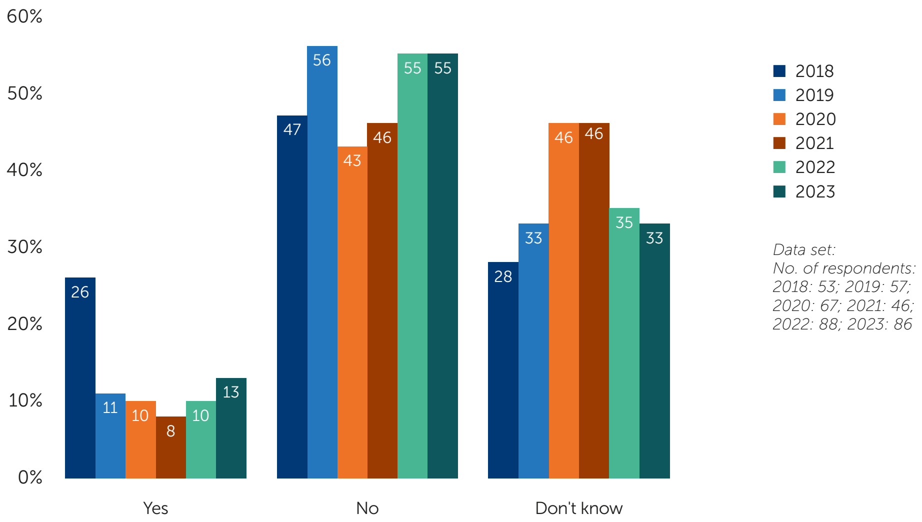
of charities report no impact on investment performance owing to ethical exclusions

The experience for those charities that have seen an effect on performance has been, for the second year in a row, an entirely negative one.

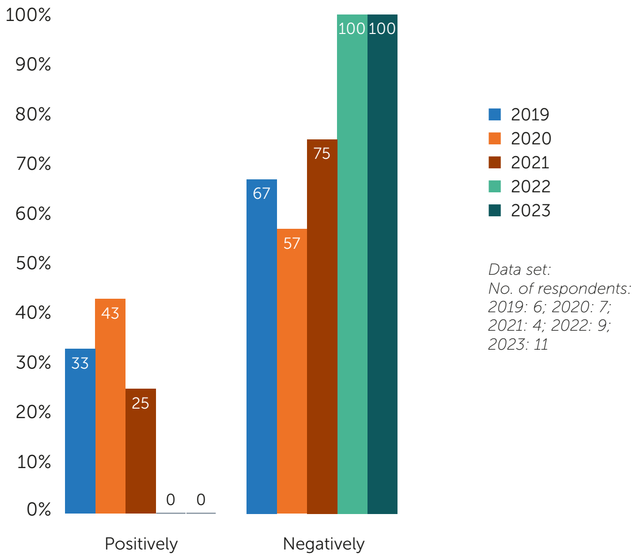
For the majority of charities, ethical exclusions are not affecting returns, but where they are, that impact is notably adverse. 31

In addition to the growth of charities already implementing an exclusion policy, we have also seen a minor increase from 18% to 20% in the proportion of charities that plan to implement or expand an ethical exclusion policy over the next year, but the majority (55%) still have no plans to do so. 32

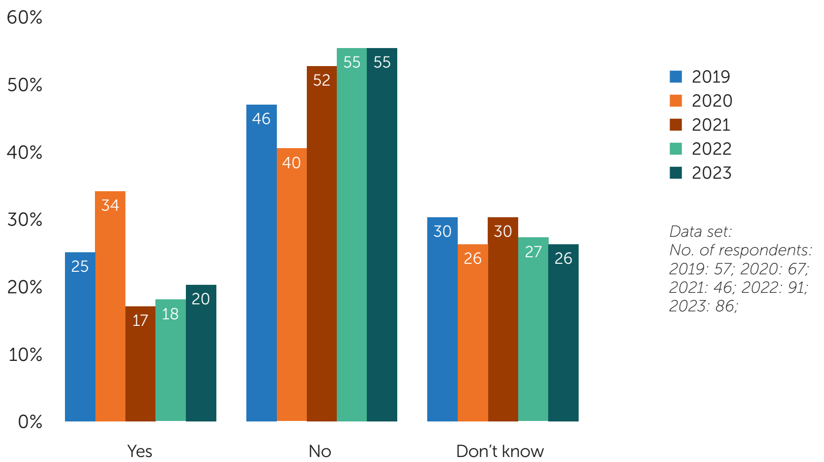
30 Have your ethical exclusions affected performance?



31 Have your ethical exclusions affected performance positively or negatively?



32 Do you have plans to expand your ethical exclusion policy?



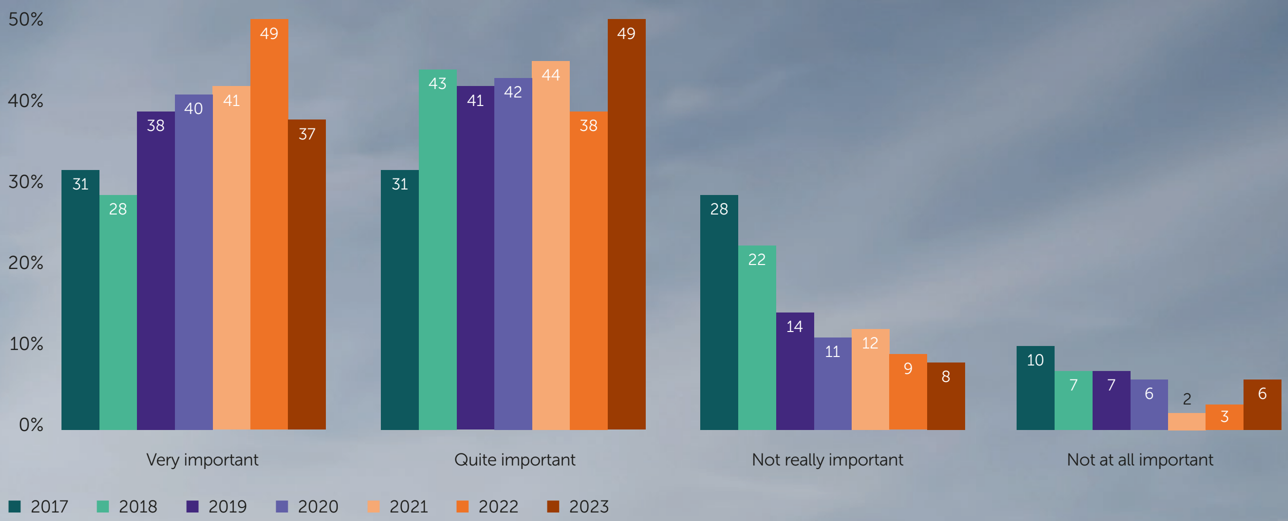
FREEZING POINT?

Environmental, social and governance (ESG) issues remain a key concern for charities in 2023, but as economic pressures continue to bite, this year shows the first decline since 2018 in the percentage of charities that think it is 'very important' that the management of their investment portfolios considers ESG factors. That figure now stands at 37% – lower than at any other point in the last five years, though still above pre-2019 levels.

86%

The total percentage of charities classifying ESG factors as 'very important' or 'quite important' has stayed relatively stable

33 How important is it that ESG (or 'socially responsible') investment factors are considered in the management of your investment portfolio?



Data set: No. of respondents: 2017: 93; 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91; 2023: 86

This does not mean charities have stopped caring about ESG considerations altogether; instead, there has been a shift in concern, with a higher proportion now rating ESG factors as 'quite important'. The total percentage of charities classifying ESG factors as 'very important' or 'quite important' has stayed relatively stable at a combined 86%. 33

When broken down by charity size, however, a clear gap does emerge in terms of the consideration of ESG factors.

Larger charities (with AUM of over £100 million) are significantly more likely to rate the consideration of ESG as 'very important', perhaps reflecting the greater scrutiny on the operations of larger charities. 34

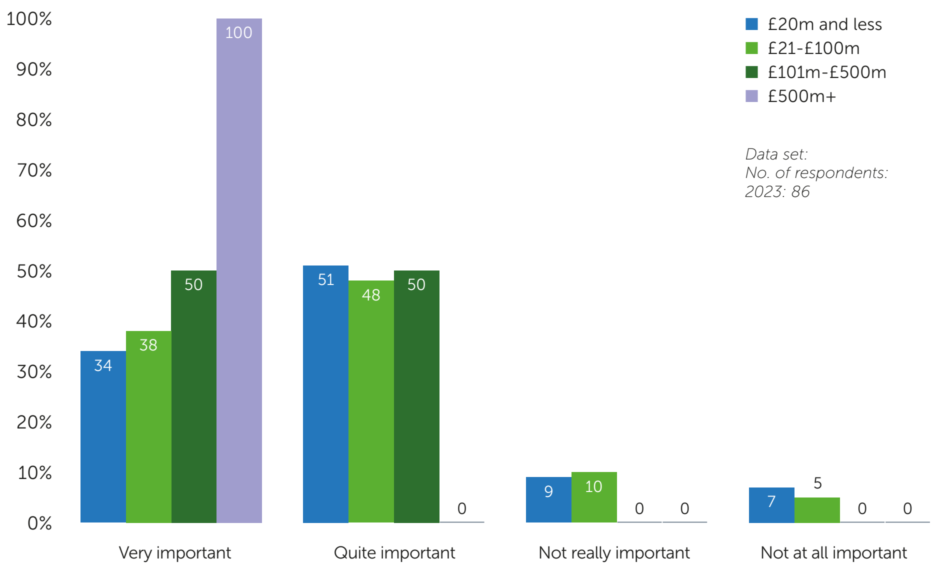
We have also seen a growing emphasis on ethical and responsible investment among charities that operate a passively managed investment portfolio – rising by 10% compared to last year, from 41% to 51% – and with only a small minority (13%) not reflecting such principles in their passive portfolio. 35

However, when it comes to the application of ESG and ethical principles, charities are divided on how best to approach companies that are underperforming on ESG criteria.

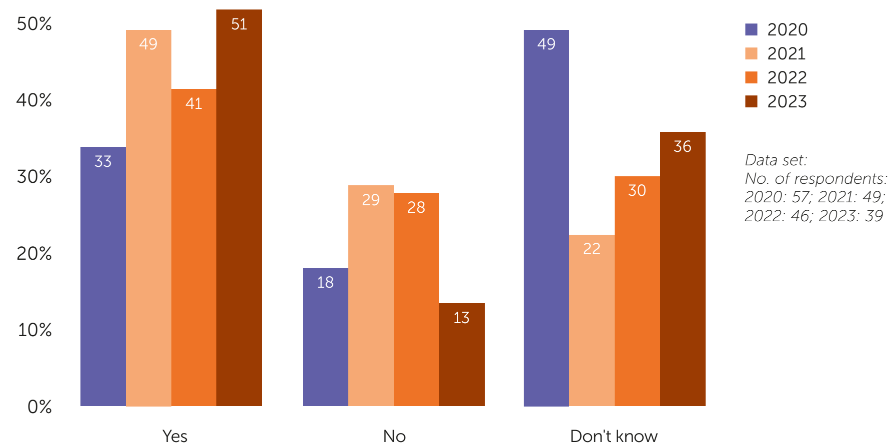
There is no clear single view within the responses; 'invest and engage' is the most common choice, selected by 30% of charities, but the combined results for the three forms of divestment represent half of all responses when grouped together.

Divestment appears to be the most common view in the sector, but with key differences between charities as to the motive behind that divestment. 36

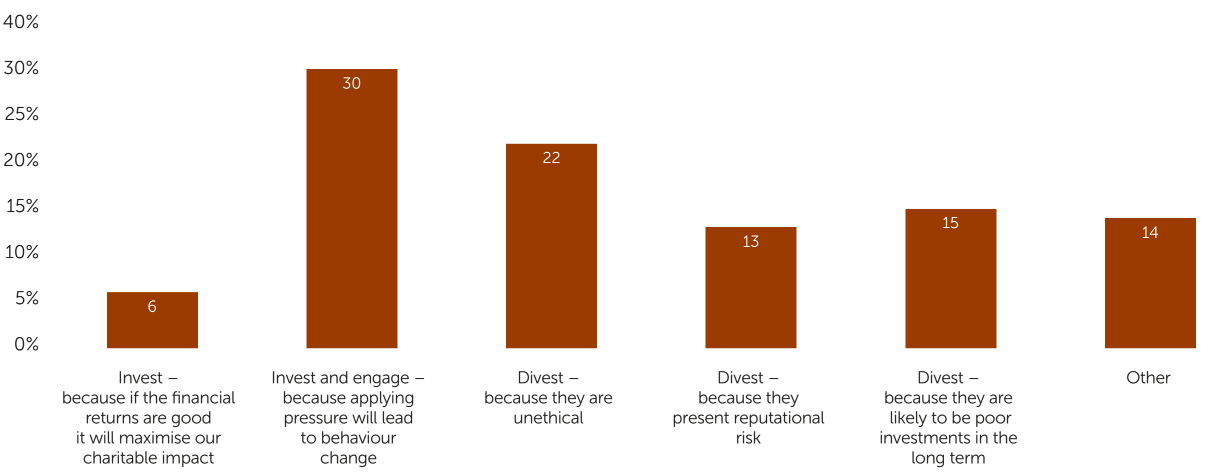
34 How important is it that ESG (or 'socially responsible') investment factors are considered in the management of your investment portfolio?



35 Are your ethical and responsible investment principles reflected in your passively managed portfolio?



36 What approach do you think you should take if a company scores 'badly' on ESG criteria?



Data set: No. of respondents: 2023: 86

66%

of charities selected 'investing in companies that are contributing to sustainable development goals', as their interpretation of 'sustainable investment'

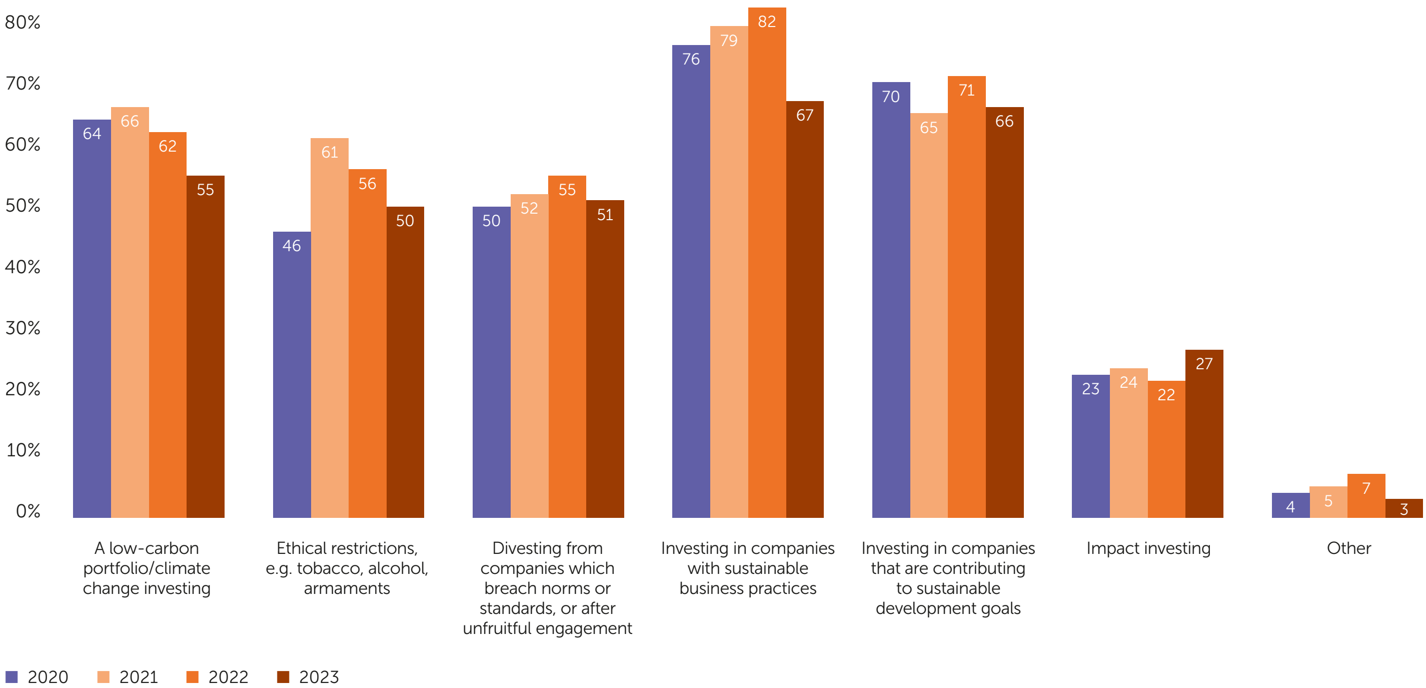
There is further divergence between charities when we look at their interpretation of sustainable investment and its meaning to their organisation.

All answers except 'impact investing' have been selected by a majority of charities, but no single answer has been picked by more than two-thirds of respondents.

They have also almost all seen a decline in selection this year, implying greater disagreement on the issue than has been seen in previous years. 37

> "All answers except 'impact investing' have been selected by a majority of charities, but no single answer has been picked by more than two-thirds of respondents."

37 What does sustainable investment mean to you?



Data set: No. of respondents: 2020: 114; 2021: 82; 2022: 91; 2023: 86

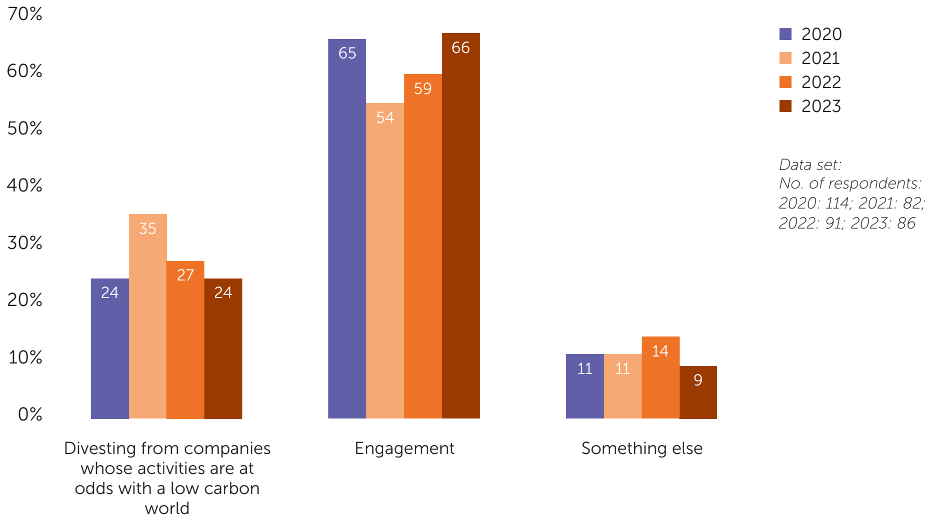
Where there is more agreement is on the best approach for ensuring that climate-change factors are considered within the management of charities' portfolios.

Engagement remains the most popular choice, and its selection has increased from 59% of charities in 2022 to 66% in this year's survey. 38

66%

of charities chose 'engagement' as the best approach for ensuring that climate-change factors are considered within the management of their portfolios

38 **What do you think is the best approach for ensuring climate-change factors are considered in the management of your investment portfolio?**



Data set: No. of respondents: 2020: 114; 2021: 82; 2022: 91; 2023: 86

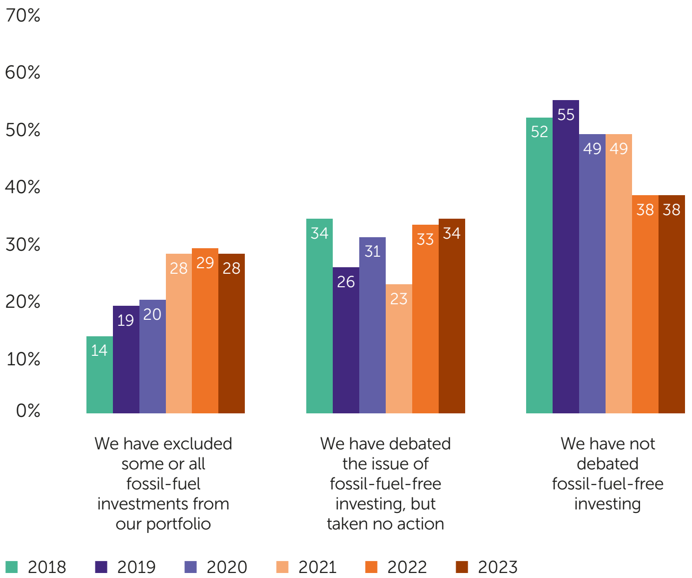
The sector's approach to fossil-fuel-free investing has seen further changes. At a high level, there has been little change in the proportion of charities with a fossil-fuel exclusion policy.

It now stands at 28%, down a single percentage point compared to last year, with a further 34% having debated the issue but not taken action. 39

Of those charities that have debated but not yet implemented a fossil-fuel-free investment approach, we are seeing some change.

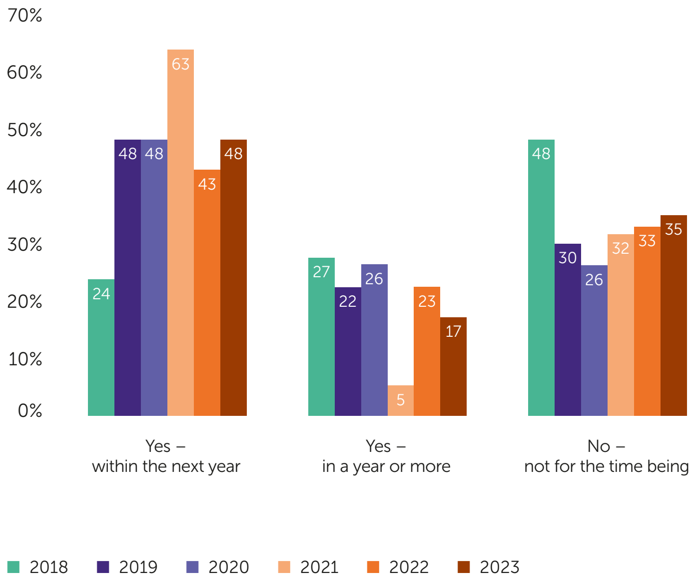
After a significant decline in 2022 in the proportion of charities that planned to revisit the topic in the next year, this year has seen that percentage return to 'normal' levels (excluding the 2021 outlier) at 48%. 40

39 **Which of the following best reflects your trustees' position on fossil-fuel-free investing?**



Data set: No. of respondents: 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91; 2023: 86

40 **Do charities that have already debated fossil-fuel exclusions but taken no action plan to revisit the topic?**



Data set: No. of respondents: 2018: 33; 2019: 27; 2020: 35; 2021: 19; 2022: 30; 2023: 29

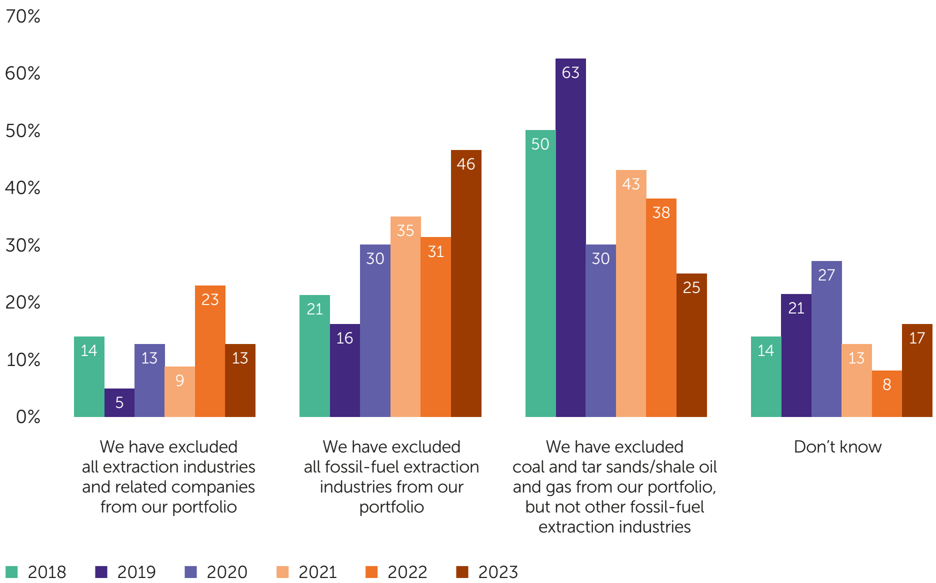
> “Fossil-fuel-free investing may not have seen wider uptake within the sector this year, but those charities that are pursuing it are doing so in a much more comprehensive manner.”

Where fossil-fuel-free investing is taking place, it has increasingly taken a ‘whole-sector’ approach. The exclusion of all fossil-fuel extraction industries is now an approach taken by a sizeable 46% of charities, up from 31% last year. When combined with those charities excluding all extraction industries and related companies, the proportion excluding all extraction now stands at well over half (59%). Fossil-fuel-free investing may not have seen wider uptake within the sector this year, but those charities that are pursuing it are doing so in a much more comprehensive manner. 41

46%

of charities exclude all fossil-fuel extraction industries and related companies from their portfolios

41 Which of the following describe how you have excluded fossil-fuel investments from your portfolio?



Data set: No. of respondents: 2018: 14; 2019: 19; 2020: 23; 2021: 23; 2022: 26; 2023: 24

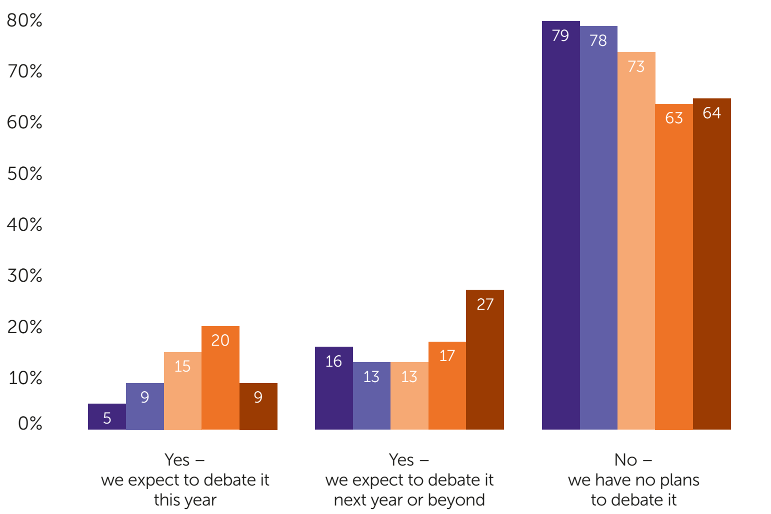
When we look at those charities that are yet to debate the issue, the picture is quite different.

Those with no plans to do so in the future have stayed stable, at just under two-thirds of the sample, but of the charities with plans to debate the issue in the future, we have seen a notable delay in the timeline.

The proportion of charities with a plan to debate it this year has fallen to less than 10%, with these planned discussions instead moved further into the future, with over a quarter (27%) now planning to debate it either next year or later.

This represents a significant rise from 17% last year, and indicates a broader slowdown in fossil-fuel-free planning within the parts of the sector yet to consider the issue. 42

42 Do charities that have not debated fossil-fuel-free investing have plans to debate it?



Data set: No. of respondents: 2019: 56; 2020: 56; 2021: 40; 2022: 35; 2023: 33

48%

of charities have committed to a net-zero target

The topic of net zero also shows evidence of divergence when we look at the charity sector's approach.

2022 saw the issue of energy security gain traction in light of an energy crisis and the war in Ukraine, and charities' views reflected this.

48% of charities last year stated that energy security should be prioritised over net zero, but this has shifted in the 12 months since.

Net zero has once again gained in importance for charities, with just 29% now agreeing that energy security should be prioritised over reducing carbon emissions. 43

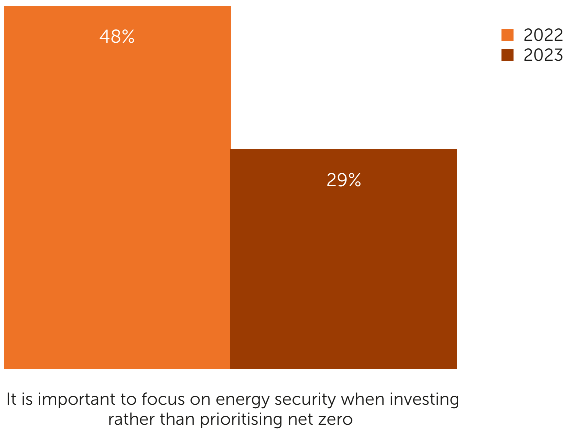
Nevertheless, there is still considerable variability when it comes to charities' own net-zero commitments.

Over a third (38%) of charities are yet to implement any commitments at all, with a further 14% uncertain.

Of the remaining 48% of charities with a commitment, a gap appears between the 29% with a simple net-zero commitment and the further 19% that have a science-based net-zero commitment.

The common theme among ESG, net-zero, and ethical investing considerations is that there is no one-size-fits-all approach within the sector. 44

43 Percentage of charities that think it is important to focus on energy security when investing rather than prioritising net zero

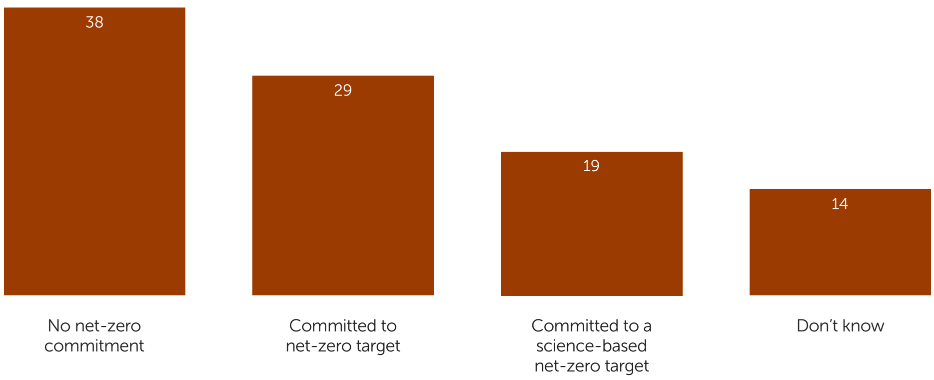


Data set: No. of respondents: 2022: 91; 2023: 86

JUST 29%

of charities now prioritise energy security over net zero

44 Which of the following most closely describes your charity's net-zero commitment?



Data set: No. of respondents: 2023: 84

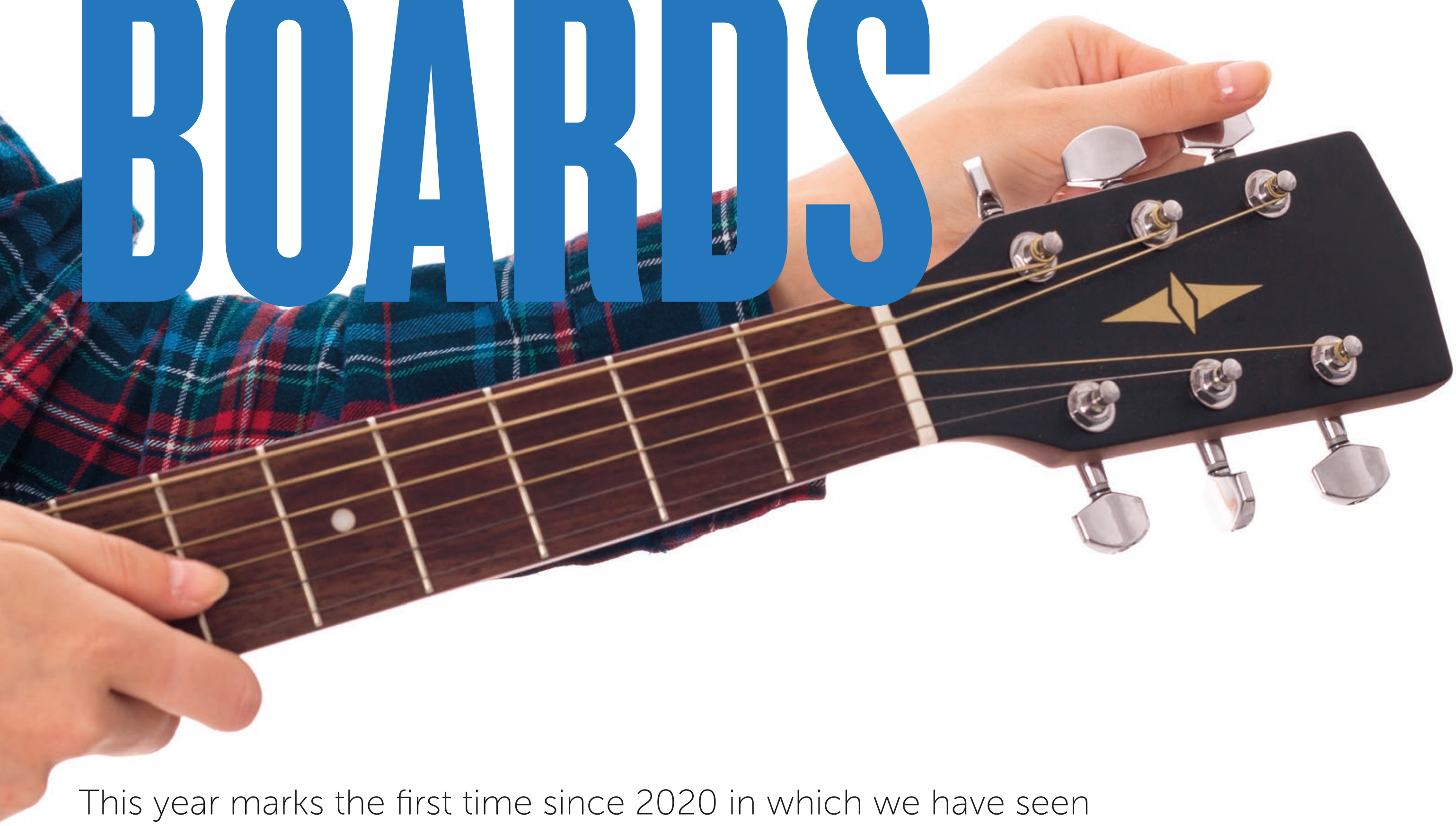
SECTION 4

DIVERSITY AND FAITH IN THE CHARITY SECTOR

PART 1:
DIVERSITY

PART 2:
FAITH

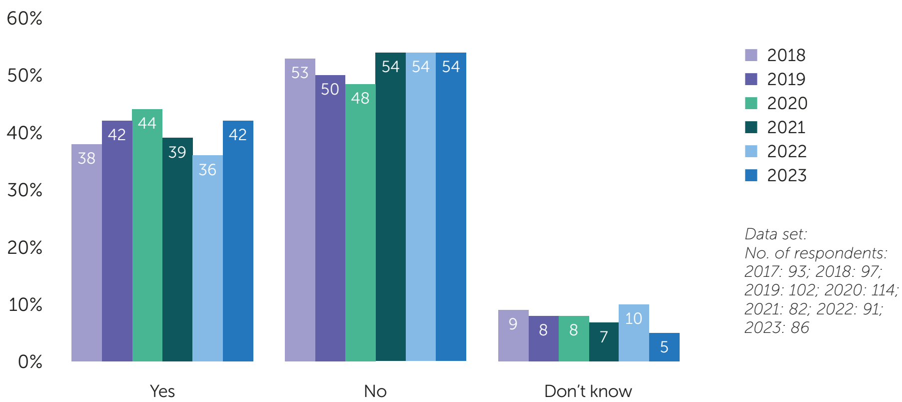
TUNING BOARDS



This year marks the first time since 2020 in which we have seen an increase in the proportion of charities that believe that diversity is adequately reflected on their trustee board, and is now back in line with the level seen in 2019 and 2020.

There also appears to be growing engagement with the issue, reflected in the falling percentage of 'don't know' answers, which now stands at its lowest level (5%) in this survey's history. 45

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



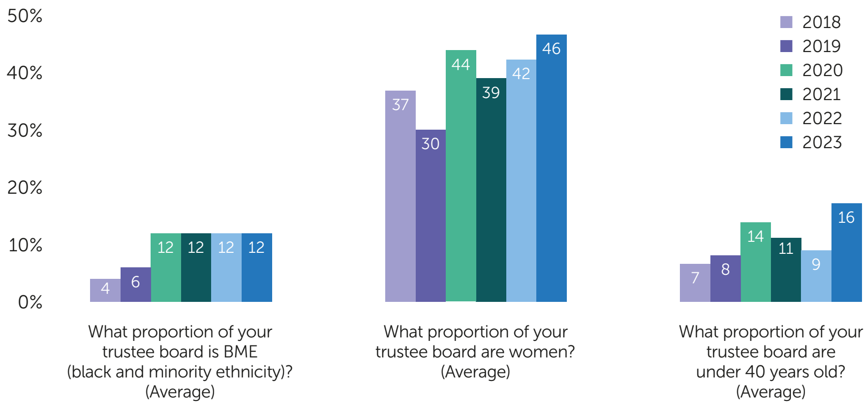
> We have seen record high representation for women and trustees under the age of 40.
> This younger cohort of trustees is particularly notable, reversing three years of decline.

However, when looking at representation on trustee boards, there appears to be significant progress in some areas, while others remain unchanged.

Minority representation on charity boards has remained at 12% for the fourth year running, but we have seen record high representation for women and trustees under the age of 40.

This younger cohort of trustees is particularly notable, reversing three years of decline. 46

46 Representation on trustee boards



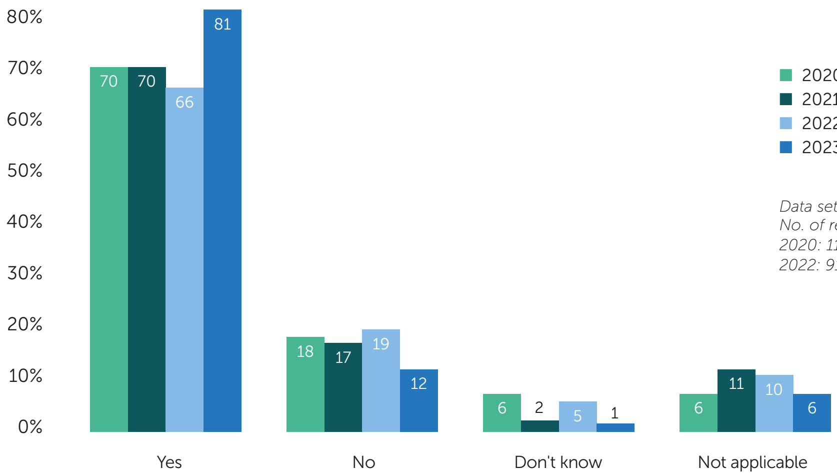
Data set: No. of respondents: 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91; 2023: 86

Keeping in trend with the growing awareness of diversity in the sector, this year there has been a major increase in the percentage of charities that deem it important that their trustee board accurately reflects their beneficiaries, having risen from 66% last year to a record level of 81% in 2023. 47

81%

of charities that feel it is important for their trustees to reflect their beneficiaries and their requirements

47 In your opinion, is it important that your trustee board reflects your beneficiaries and/or their requirements?



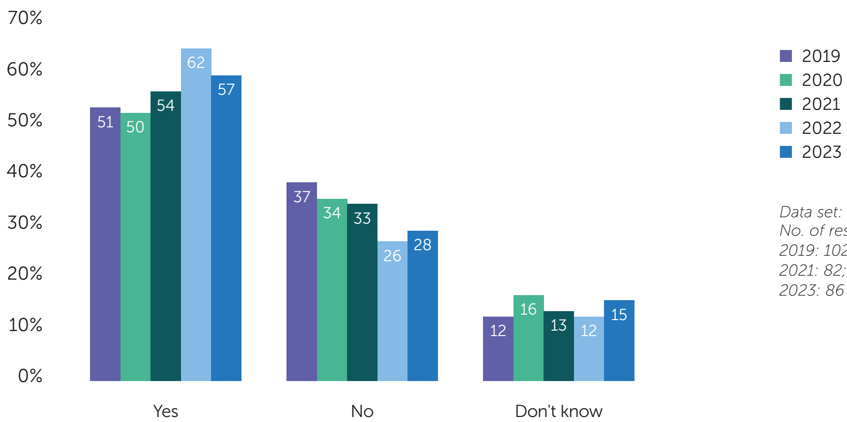
Data set: No. of respondents: 2020: 114; 2021: 82; 2022: 91; 2023: 86

On the other hand, we have seen a minor decline in the perceived importance of diversity elsewhere in charity operations.

The proportion of charities that believe it is important that their providers or investment managers demonstrate diversity has fallen from 62% in 2022 to 57% this year.

Importantly, however, this remains above the levels seen in all years other than 2022. 48

48 In your opinion, is it important that your providers or investment managers demonstrate diversity?



Data set: No. of respondents: 2019: 102; 2020: 114; 2021: 82; 2022: 91; 2023: 86

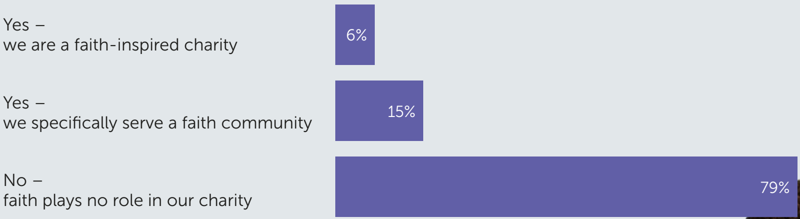
COMMUNITY SPIRIT

For this year's survey, we introduced a new set of questions exploring the role and representation of faith in the charitable sector.

Within our sample, 21% of charities described themselves as faith-inspired or otherwise directly serving a faith community.

This is notably higher than the 12% of charities that have described themselves as 'religious' elsewhere in the survey – reflecting the wider role faith can play for some charities. 49

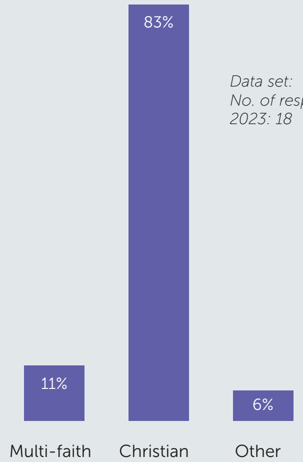
49 Does faith play any role in your charity?



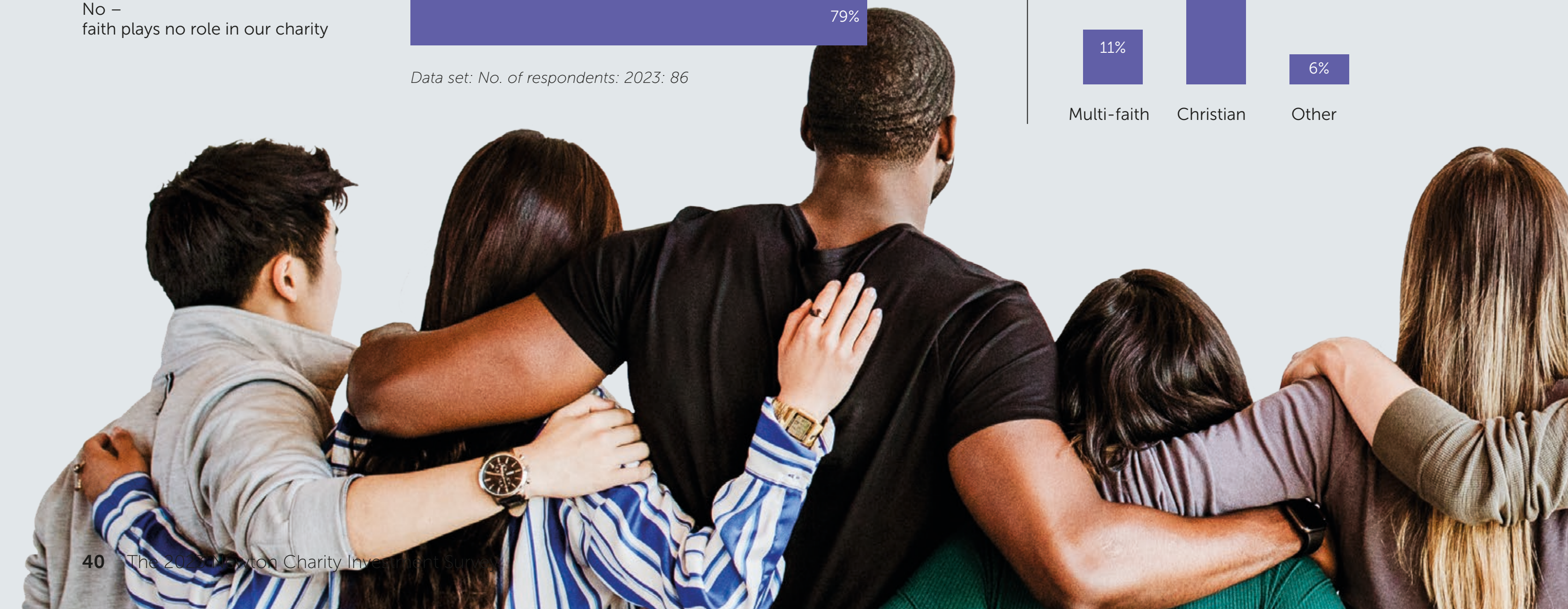
Data set: No. of respondents: 2023: 86

Of these charities, a significant majority (83%) represented the Christian faith community, with the remainder being made up of multi-faith charities (11%) or those serving 'other' religions or faith groups (6%). 50

50 What faith group or religious values does your charity represent?



Data set: No. of respondents: 2023: 18

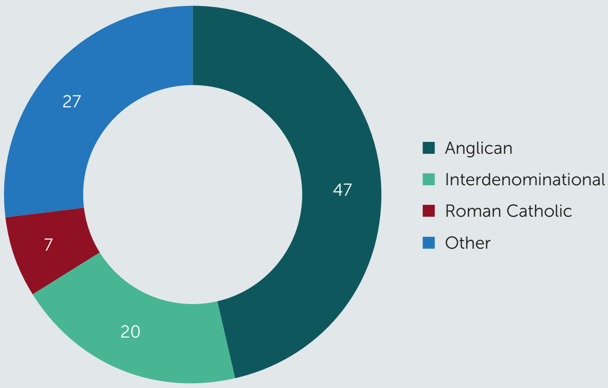


78%

of faith and faith-inspired charities reflect their religious principles, restrictions, or methodologies in their investment policies

Of the UK-based Christian charities, the largest group (47%) were those of Anglican faith – reflective of the religious make-up of the UK – but there was also significant representation from interdenominational Christianity (20%) and a minority representation of Catholic-inspired charities (7%). 51

51 Which subgroup best describes your charity's Christian faith group or religious values?



Data set: No. of respondents: 2023: 12

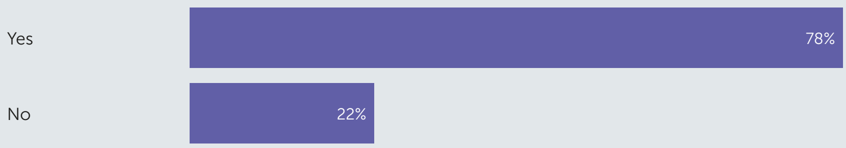
The vast majority of these charities are well established within the UK's charity network, with 89% at least 50 years old and the remainder being established between 11 and 50 years ago. 52

52 How old is your charity?

Data set: No. of respondents: 2023: 18

Faith and faith-inspired principles play an important role within these charities' investment approaches. 78% of the sub-sample reflect their religious principles, restrictions, or methodologies in their investment policies, and finding investment managers that can engage on these principles remains central to their investment approach. 53

53 Does your investment policy include principles, restrictions or methodologies consistent with your charity's faith?



Data set: No. of respondents: 2023: 18

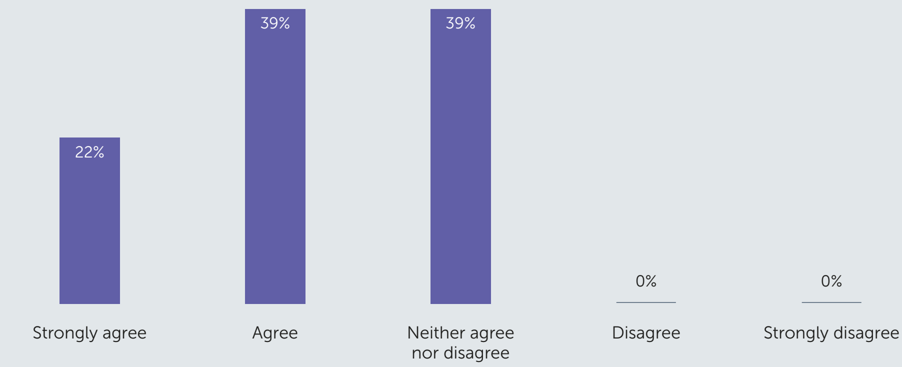
of faith-inspired charities either agree or strongly agree that the UK's investment management sector sufficiently caters for their faith-inspired requirements

The investment management industry itself appears to be meeting these expectations, with a positive view from among faith-inspired charities.

61% of these charities either agree or strongly agree that the UK's investment management sector sufficiently caters for their faith-inspired requirements.

More positively still, not a single charity in our sample disagreed. 54

54 To what extent do you agree that the UK investment management sector sufficiently caters for your charity's faith-inspired investment requirements?



Data set: No. of respondents: 2023: 18

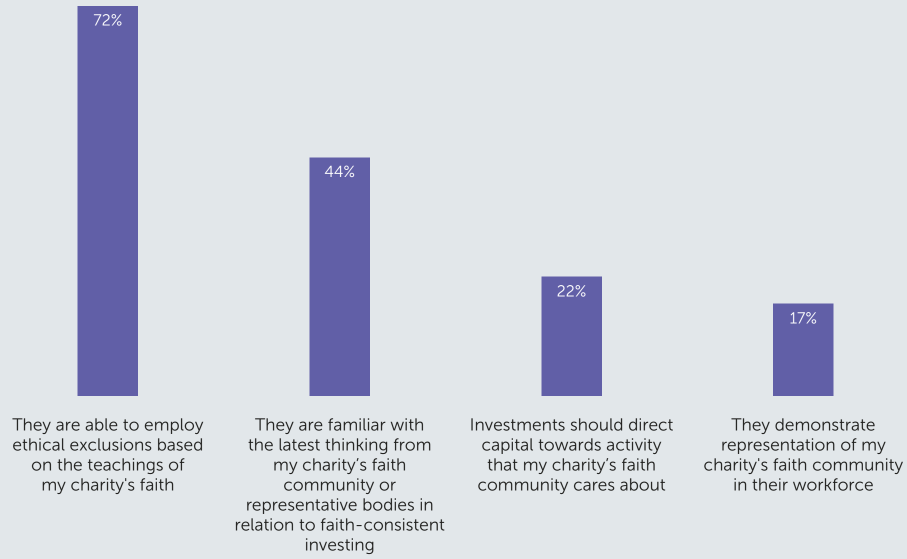
72%

The ability of investment managers to employ ethical exclusions that abide by a charity's faith was the strongest requirement for faith-based charities

The ability of investment managers to employ ethical exclusions that abide by a charity's faith was the strongest requirement for faith-based charities, selected by 72% of respondents.

Broader involvement with faith communities or religious bodies was also a common requirement (44%) among this group. 55

55 What are the most important requirements you have of your investment manager that are inspired by your charity's faith?



Data set: No. of respondents: 2023: 18

APPENDIX

MORE ABOUT THE 2023 SURVEY

APPENDIX – MORE ABOUT THE 2023 SURVEY

Methodology

In line with the previous nine years of the Newton Charity Investment Survey, data was collected using an online questionnaire. Fieldwork took place between 2 May and 10 July 2023, with a record date for annual investment performance data of 31 March 2023.

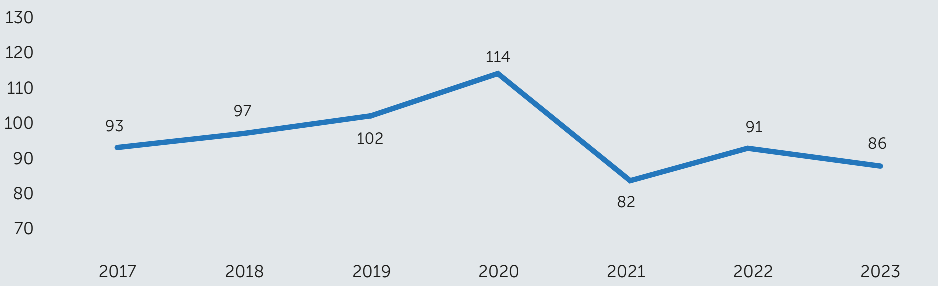
Sample details

The number of responses to this year's survey stands at 86 – compared with 91 responses seen in 2022, but still above the level seen in 2021. With the respondent level still below the pre-pandemic peak, this represents a further year in which external pressures appear to be placing a burden on trustee workloads and their capacity for participation. A

The total investment assets held by charities within the final sample was £3.3 billion in 2023, compared with £7.3 billion in 2022. While this drop is significant, it can be attributed to the absence of any single 'super large' charity (AUM of £1 billion or more) in this year's sample rather than any significant change in broader sample make-up.

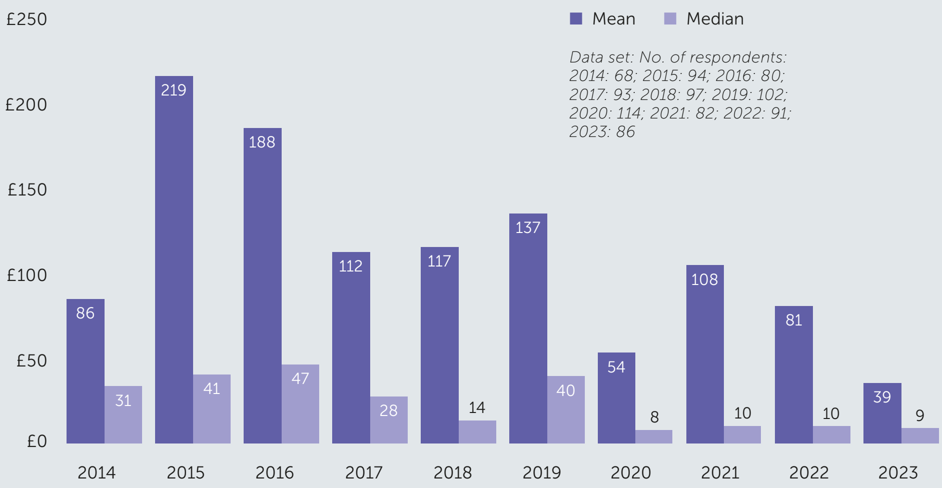
The average charity in this year's survey has assets of £39 million under management, down from £81 million in 2022. While the upper bounds of our sample have reduced, the median assets under management have remained largely in line with the last four years of surveys at £9 million. B C

A Annual sample size (number of charities)

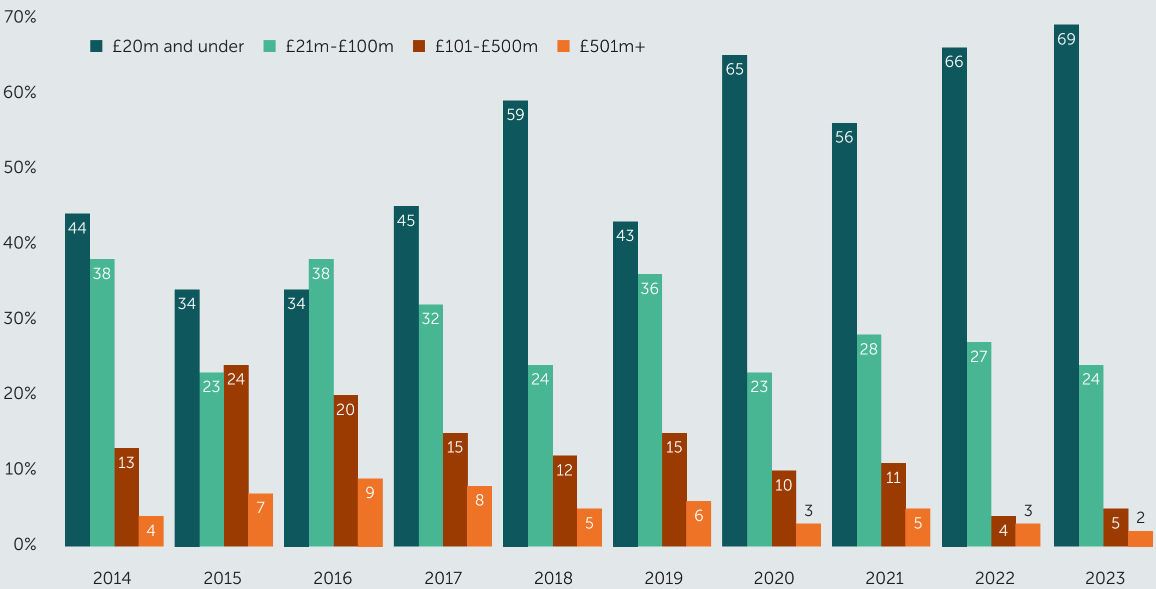


Data set: No. of respondents: 2017: 93; 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91; 2023: 86

B Mean and median assets under management 2014-2023 (£ millions)



C Charity size distribution 2014-2023



The 2023 distribution of charities by the size of their assets is:

£20m and under	69%
£21m-£100m	24%
£101m-£500m	5%
£501m+	2%

Data set: No. of respondents: 2014: 68; 2015: 94; 2016: 80; 2017: 93; 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91; 2023: 86

The breakdown within charity size has also remained largely consistent this year, with just over two-thirds of our sample holding assets of £20 million and under.

Charities with an AUM of between £21 million and £100 million make up a further quarter (24%) of the sample, with larger charities of £101 million or more in assets representing the remaining 7%.

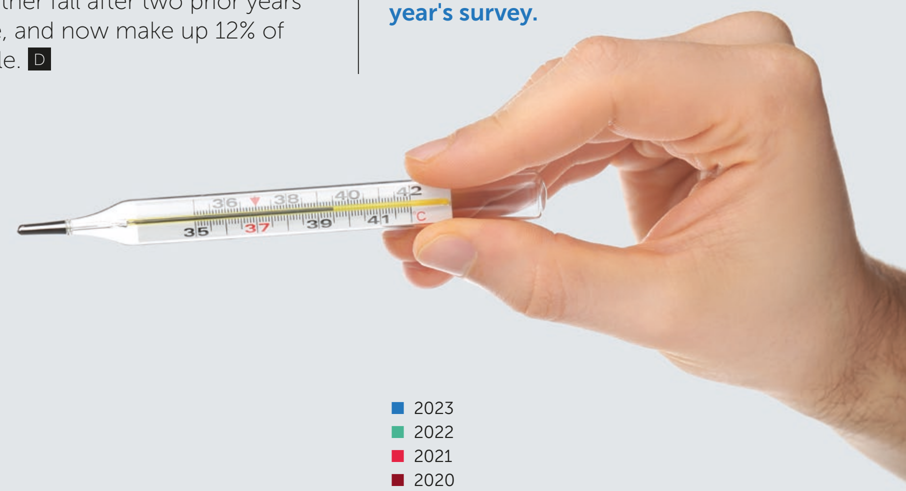
This year, health and medical charities are the most prominent in the survey, representing 17% of respondents.

Social welfare charities, which were the largest charitable group in the 2022 sample, have seen a minor decline (down to 15%).

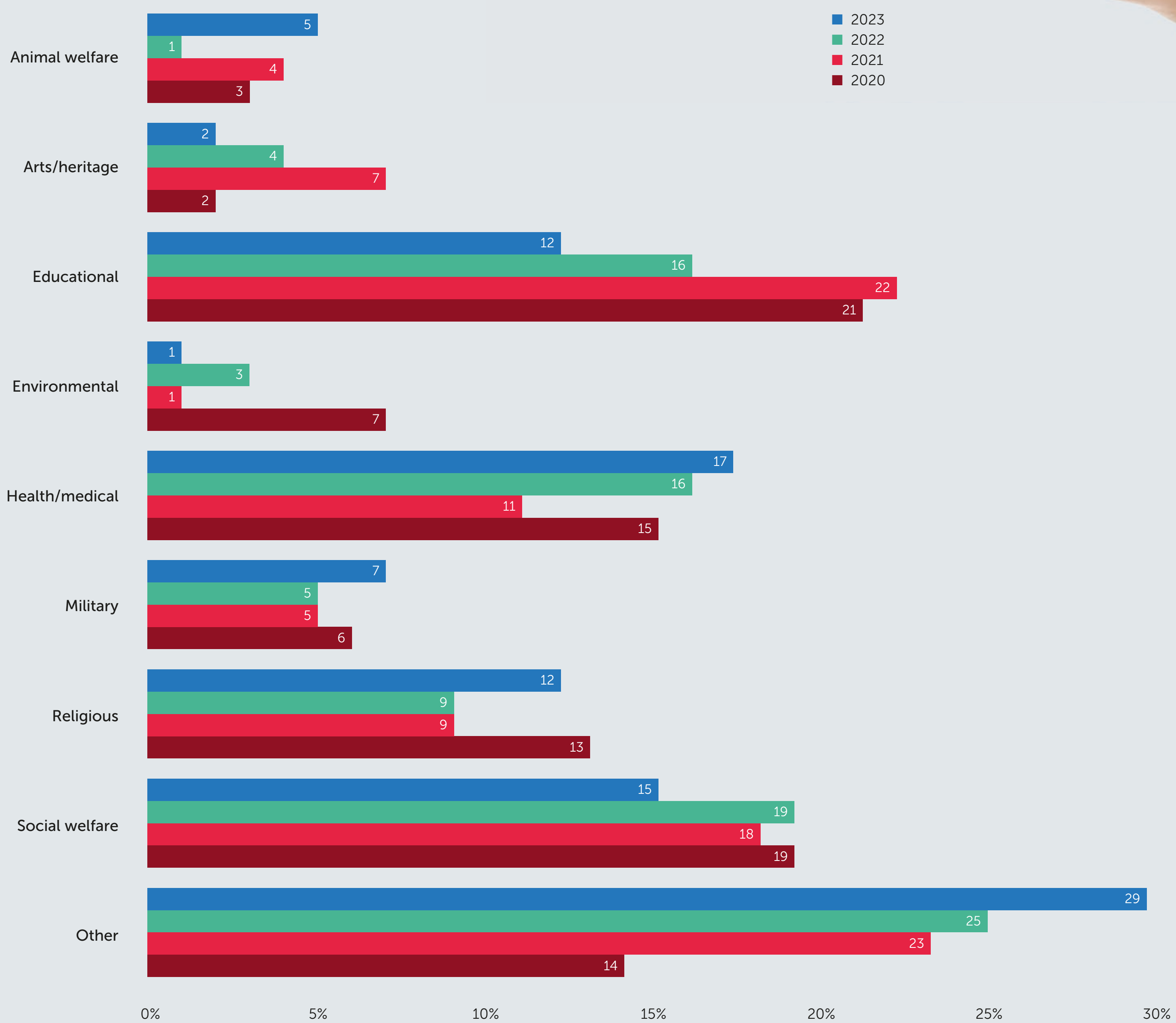
Elsewhere, educational charities have seen a further fall after two prior years of decline, and now make up 12% of our sample. D

17%

Health and medical charities are the most prominent respondents in this year's survey.



D Charity type 2020-2023



Data set: No. of respondents: 2020: 114; 2021: 82; 2022: 91; 2023: 86

CONTACT US

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

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Findings from previous years

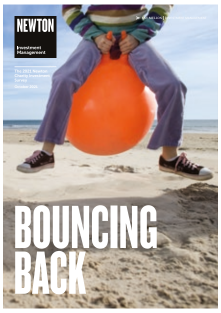
Available on request

2017

2018

2019

2020



2021

2022

Important information

newtonim.com/charitysurvey

REFLECTION POINT

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.

newtonim.com/charitysurvey