

NEWTON

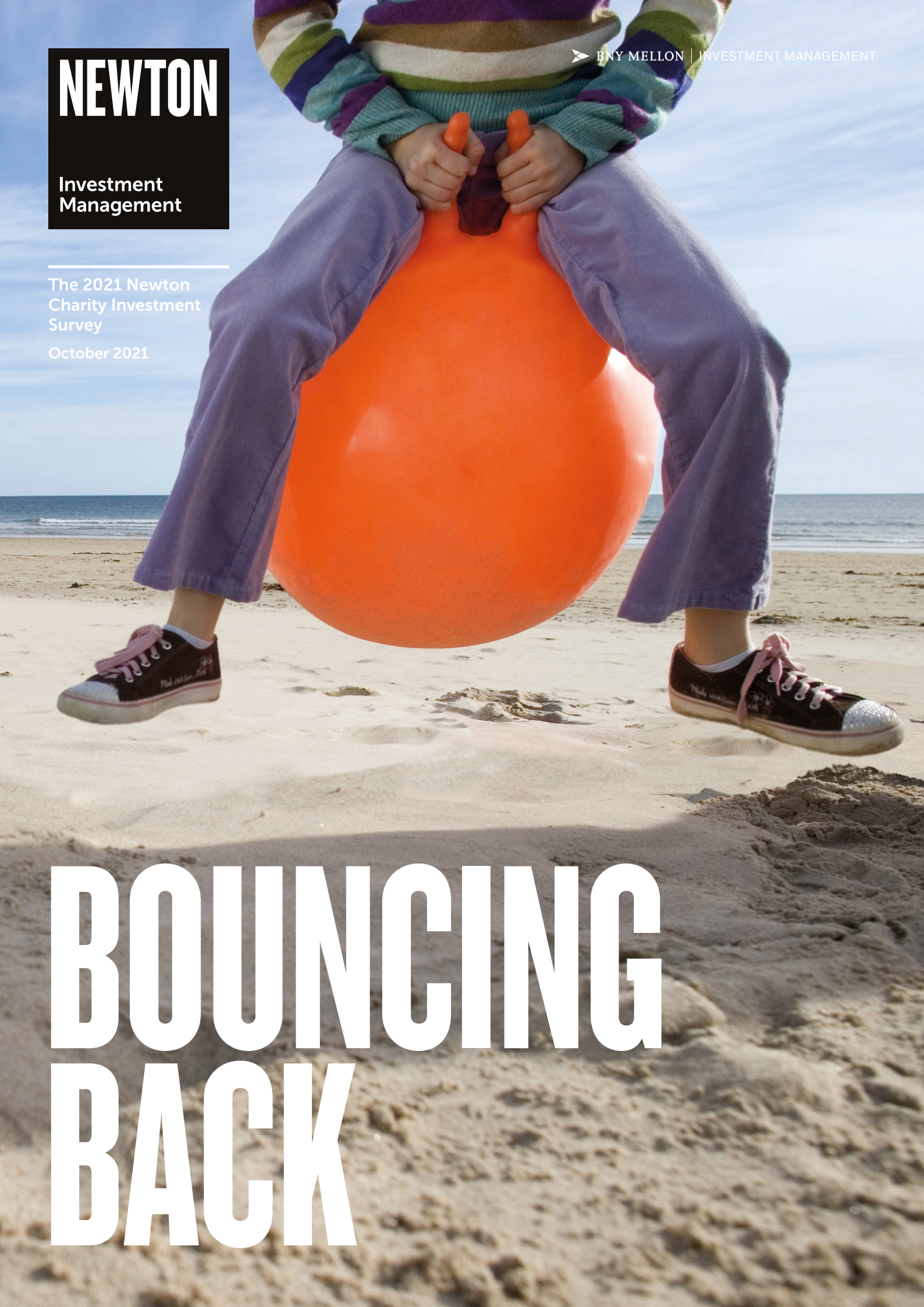
Investment
Management

▶ BNY MELLON | INVESTMENT MANAGEMENT

The 2021 Newton
Charity Investment
Survey

October 2021

**BOUNCING
BACK**



CONTENTS

INTRODUCTION

| | |
|---------------------|---|
| Welcome | 3 |
| About this research | 4 |

EXECUTIVE SUMMARY

| | |
|--------------------------|---|
| Resilient and recovering | 6 |
|--------------------------|---|

SECTION 1: THE EVOLUTION OF THE CORONAVIRUS PANDEMIC

| | |
|------------------------------------|----|
| Part 1: | 9 |
| The calm after the storm | |
| Part 2: | 11 |
| The lasting impact of the pandemic | |

SECTION 2: CHARITIES' INVESTMENT IN THE CORONAVIRUS CONTEXT

| | |
|--------------------------------------|----|
| Part 1: | 14 |
| Income-only vs. total-return targets | |
| Part 2: | 16 |
| Investment returns | |
| Part 3: | 19 |
| Asset allocation | |
| Part 4: | 21 |
| Alternative investments | |

SECTION 3: WIDER ISSUES

| | |
|--------------------|----|
| Part 1: | 25 |
| Ethical exclusions | |
| Part 2: | 28 |
| The environment | |

APPENDIX

| | |
|-----------------------|----|
| More about the survey | 32 |
|-----------------------|----|

CONTACT US

| | |
|----------------------|----|
| For more information | 34 |
|----------------------|----|



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 eighth successive year, Newton Investment Management has conducted a survey among leaders and decision-makers in the UK charity sector.

The survey explores:

- the evolving impact of the pandemic on charities' administration and fundraising abilities
- charities' perceptions of the likely long-term implications of the pandemic for investment policy
- the way in which investments have performed during these uncertain times, and the strategic changes being put in place by charities as a result
- changes to charities' asset allocation and the continued shift towards increasingly global asset portfolios
- the changing nature of charities' approaches to ethical and responsible behaviours, and a move beyond exclusion
- the growing prominence of climate change in the minds of charities, and the implications for investment in the future.

ABOUT THIS RESEARCH

This year's sample includes

82

CHARITIES

with a combined

£8.8BN

IN ASSETS

Fieldwork took place between 4 May and 1 July 2021, with 31 March 2021 representing the record date for annual investment performance data. It is clear that the events of 2020 and 2021 have had a significant impact on charities, particularly small ones, and this is reflected in the sample of this year's survey.

For the first time since 2016, the sample has shrunk in size – from 114 charities in 2020 to 82 in 2021 – with the average charity in the sample holding assets under management of £108 million, up from £54 million in 2020.

Conducting a survey of this length is incredibly helpful for the sector, but it is also time consuming, and with so many charities stretched in the wake of the pandemic, there has sadly been some attrition in the sample.



Following the unprecedented impact of the pandemic on charities in 2020, this year's Newton Charity Investment Survey tells a story of resilience and recovery, with the impacts of the pandemic drastically reduced compared to last year, and with the vast majority of charities remaining steadfast in their investment strategies.

The pandemic has been an incredibly disruptive event, and this has remained the case throughout 2021. The extent of the disruption, however, and its impact on the way in which charities function, has fallen significantly as charities have found stability in the midst of chaos.

75% of charities report that the majority of their staff are working from home – down from 80% in 2020 – and yet, despite the rapid shift to remote working, fewer than half of charities have seen their management affected by the pandemic in 2021 – down from 72% in 2020 – with just 39% stating that their fundraising has been affected, a 20% year-on-year decline.

These remain significant figures – the pandemic is not behind us yet, after all – but the extent to which charities have managed to reduce disruption in order

to continue their operations provides significant cause for optimism and evidence of a return to something approaching normal.

There has also been something of a return to normal this year when it comes to the things that charities would like to see their investment managers address over the next year, with a significant focus on economic issues following the turmoil of the pandemic and in the face of potential economic adversity.

Returns, inflation and income are the most prominent concerns in this year's survey, with growth, performance and stability also on the minds of a significant proportion of charities.

Beyond economic issues, wider societal concerns that have become increasingly prominent over the eight years of the survey have become more important, and more nuanced, in 2021. Environmental, social and governance (ESG) issues are the most notable non-economic issue, with words like sustainability, transparency and ethics prominent among the issues that charities want to see addressed in the next year.

Three main themes have emerged from this year's survey which we are using to structure this report: the evolution of the coronavirus pandemic and its impact on charities; investment strategy and performance in the context of the pandemic; and the wider issues that are likely to remain prominent well after the pandemic is behind us.

The sections in this survey report focus on:

The evolution of the coronavirus pandemic

- The coronavirus pandemic – the calm after the storm
- The lasting impact of the pandemic

Charitable investment in the coronavirus context

- Income-only vs. total-return targets
- Investment returns
- Asset allocation
- Alternative investments

Wider issues

- Ethical exclusions
- The environment

EXECUTIVE SUMMARY

RESILIENT AND RECOVERING

While charities continue to suffer significant disruption from the coronavirus pandemic, this year's survey tells a story of resilience and recovery, with the vast majority of charities remaining steadfast in their investment strategies.

Meanwhile, charities are attaching increasing importance to societal and environmental issues such as climate change, with the vast majority believing they are obligated to invest responsibly.

JUST 20%

of charities state that the pandemic has affected their investment strategy

52%

of charities reported performance gains of 9% or higher in 2021

Despite the upheaval caused by the global pandemic, investment strategy remains remarkably consistent, with just 20% of charities stating that the pandemic has affected their investment strategy.

Among charities with affected investment strategies, a drop in investment income is the most prominent issue, reported by 75% of affected charities. Other impacts include re-evaluation of reserves policies and a significant drop in returns.

Following the unprecedented disruption and low investment returns seen in last year's survey, charities have seen their investments bounce back in 2021, with the most significant performance gain in portfolio value since 2017.

The average percentage performance gain has more than doubled from 5% to 11% from 2020 to 2021, and the median percentage performance gain has increased drastically from 2% to 11% over the same period. 52% of charities reported performance gains of 9% or higher in 2021, a 35% increase on 2020.

From 2019 to 2021, use of income-only targets by charities has declined starkly, falling from 26% to 11% in just two years.

From 2017 to 2020, the average income-only target used by charities within the sample grew gradually every year, from 3.5% in 2017 to 4.8% in 2020. However, the average income-only target for charities this year has fallen to 3.1%. The particular income challenges of 2020, whereby pandemic-induced dividend cuts affected income levels sharply, are likely to have given impetus to this move away from a reliance on income towards a total-return policy.



The uncertainty about the future created by the pandemic in 2020 has subsided significantly, with far fewer charities this year feeling uncertain about the medium and long-term future of their investments.

In 2020, in the midst of the disruption caused by the pandemic, 11% of charities stated that they just did not know what level of return to expect over a 3–5-year timescale, with the figure reaching 13% with regard to the 10-year time horizon. 2021 has seen these figures return to their previous norms, with just 5% and 6% of charities unable to estimate their annual total returns over the next 3-5 and 10 years respectively.

42%

The proportion of equities and bonds held by charities in overseas assets

2021 represents the first year since the survey began in 2014 in which charities have held a greater proportion of their combined equity and bond allocation overseas than in the UK.

Since 2014, the proportion of equities and bonds held within the UK has fallen from 44% to 37%, while the proportion of equities and bonds held overseas has increased steadily from 29% in 2014 to 42% in 2021. This year, both overseas equities and bonds have seen an increase in allocation compared to 2020.

The proportion of charities using alternative investments in their portfolios has fallen for the sixth year in succession, with just 37% of charities using alternatives in 2021 compared to 70% in 2015.

High levels of perceived risk remain the most significant barrier to the use of alternatives, with 33% of charities citing this as the reason for avoiding them, while 27% of charities state that the main reason that they do not use alternatives is a lack of knowledge.

48%

The proportion of charities with policies that exclude fossil fuels

While the proportion of charities with ethical exclusion policies in place appears to have plateaued, the nature of these policies is becoming increasingly broad.

Tobacco remains the most commonly barred type of investment – excluded by 87% of those charities with exclusion policies. Armaments, gambling and pornography are also each excluded by a majority of policies, while 48% of policies now exclude fossil fuels, up from 36% in 2020.

85%

of charities feel that ESG factors are either very or quite important in the management of their portfolio

Charities have never felt it more important that environmental, social and governance (ESG) investment factors are considered in the management of their investment portfolios.

In 2021, 85% of charities feel that ESG factors are either very or quite important in the management of their portfolio. This represents a 3% rise year on year, but more striking is the growth over the longer term; from 2015 to 2021, the proportion of charities that feel that ESG factors are important has grown from 61% to 85%.

82%

of charities now believe that it is their responsibility to think about climate change specifically

Despite the adversity caused by the pandemic in the very near term, climate change has grown as an issue in the minds of charities.

82% of charities now believe that it is their responsibility to think about climate change specifically, a figure which has risen 18% over the last two years. Furthermore, 50% of charities in 2021 state that they are prepared to accept compromised levels or patterns of return in exchange for sustainable, responsible investment practices.

There has been a significant shift from engagement to divestment when it comes to ensuring that climate-change factors are considered in the management of portfolios.

From 2019 to 2021, the proportion of charities considering engagement to be the best approach has fallen from 70% to 54%, while the proportion believing that divestment is the best approach has increased from 24% to 35% over the same period.



SECTION I

THE EVOLUTION OF THE CORONAVIRUS PANDEMIC

PART 1:
THE CALM AFTER THE STORM

PART 2:
THE LASTING IMPACT OF THE PANDEMIC



NEW NORMAL



We remain in the midst of the coronavirus pandemic, but 12 months on from last year's report, the context for charities has shifted significantly. Whereas 2020 was defined by unprecedented disruption for the sector, 2021 is characterised by a steadying of the ship, with significant declines in the proportion of charities reporting disruption in their management, fundraising and activities.

Following a year of unprecedented disruption in 2020, it is clear that with time, flexibility and adaptation, many charities have found their feet over the last 12 months, with a significant reduction in the impact of the pandemic reported by charities in 2021.

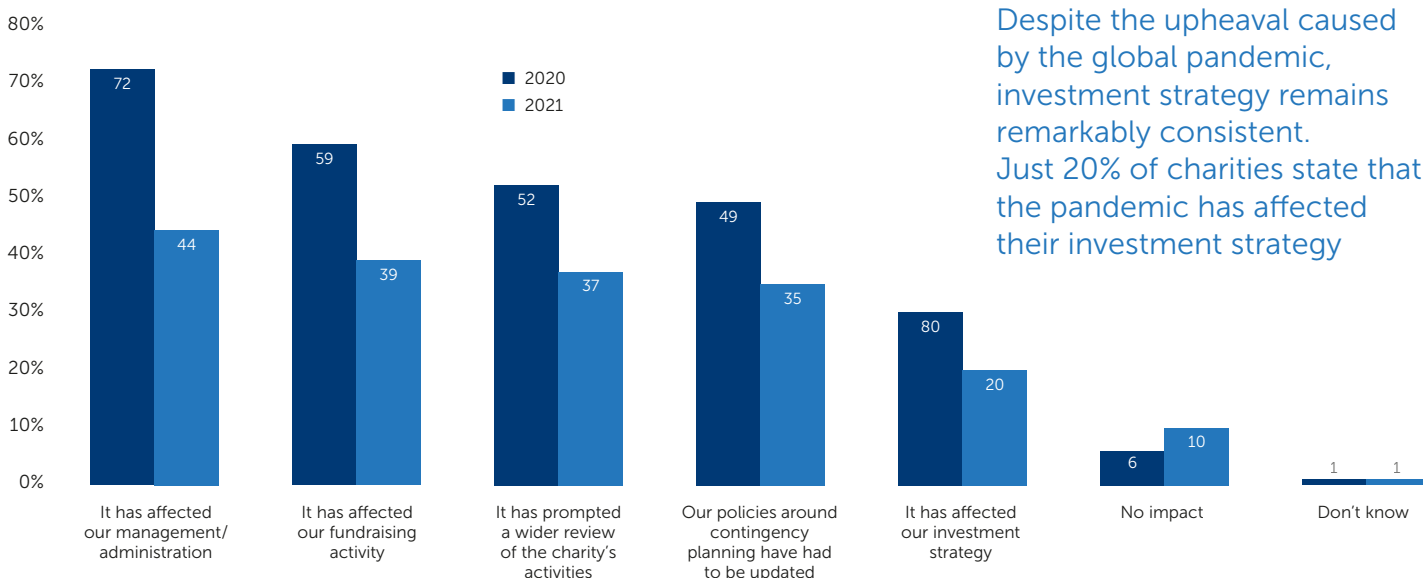
In 2020, almost three quarters of charities reported that the pandemic

had affected their management or administration, with 59% stating that the pandemic had affected fundraising.

For half of charities, the pandemic prompted a wider review of activities or updates to policies around contingency planning. In 2021, these issues remain prominent, but they are limited to sizeable minorities: 44% of charities state

that their management/administration has been affected, remaining the most frequently reported impact, with just over a third of charities reporting impacts to fundraising, or the prompting of wider reviews or updates to contingency planning. ¹

¹ Impact of the coronavirus pandemic on charities' activities



Despite the upheaval caused by the global pandemic, investment strategy remains remarkably consistent. Just 20% of charities state that the pandemic has affected their investment strategy

Data set: No. of respondents: 2020: 114; 2021: 82

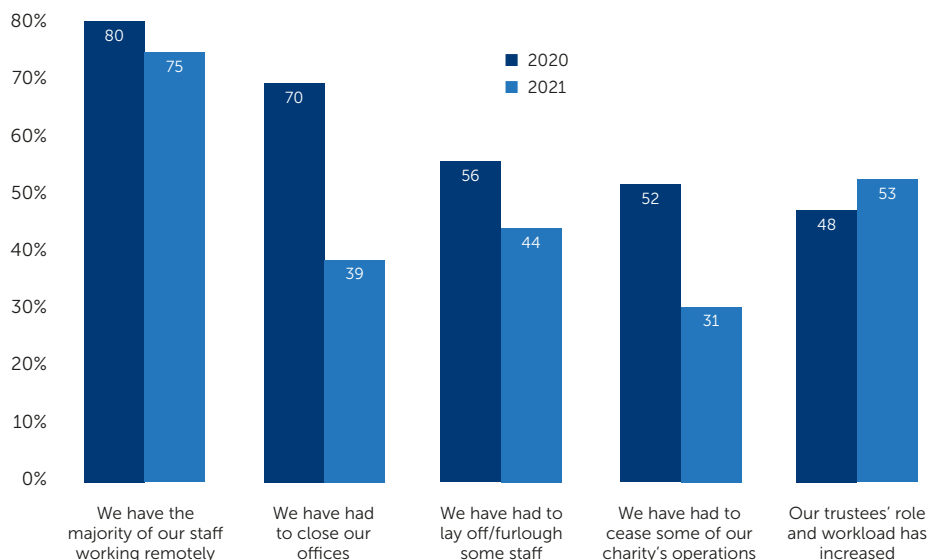
53%

of charities report that their trustees' workload has increased

For the second year in succession, the most prominent impact of the pandemic on charities has been the way in which it has affected the general functioning of a charity through its management and administration, and while the extent of these impacts has been greatly reduced, the strain that the pandemic continues to place on many charities remains clear.

Among charities with affected management or administration, 75% continue to have the majority of staff working from home, highlighting that charities that closed their offices in 2020 were unlikely to have reopened them when this year's survey was completed. However, in 2021 there have been significant reductions in the proportion of charities that have had to close offices, lay off or furlough staff, or cease operations.

2 Impact of the coronavirus pandemic on how charities function



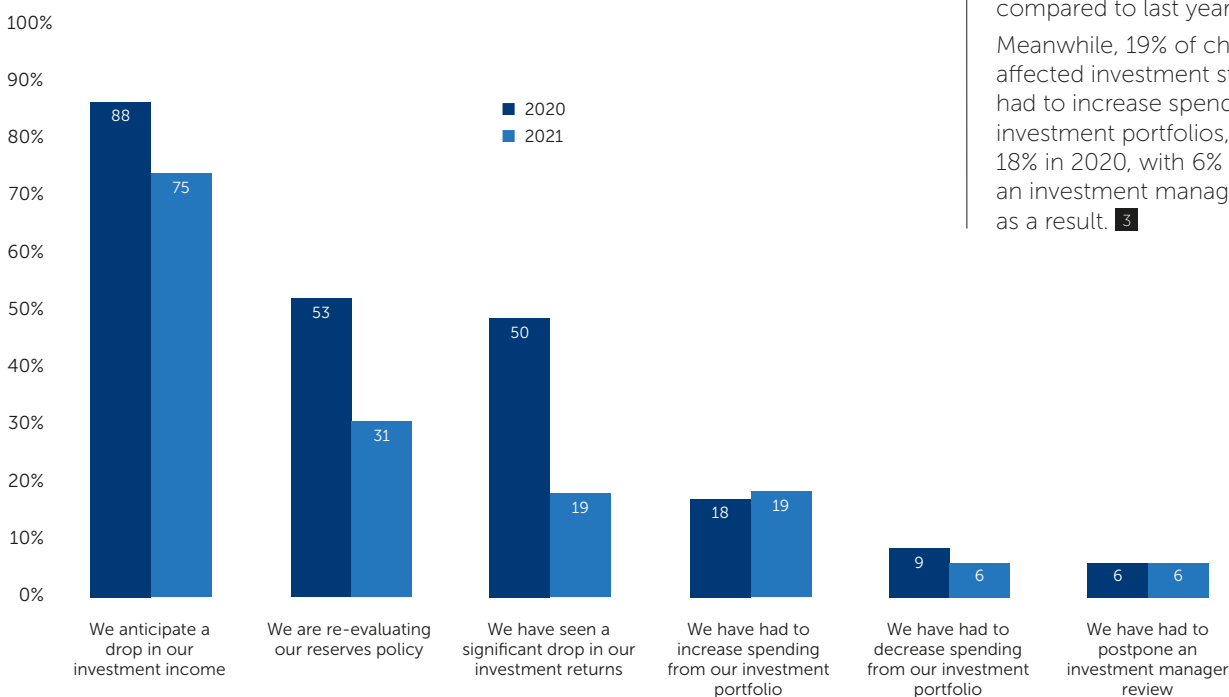
Data set: No. of respondents: 2020: 82; 2021: 36

The strain that the pandemic is placing on charities is evident in the workloads of trustees, with 53% of charities stating that the role and workload of their trustees has increased. Charities look to be trying to do more with less, and whether this is sustainable remains to be seen. ² Remarkably, just 20% of charities state that the pandemic has affected investment strategy, down from 30% in 2020.

Among charities with affected investment strategies, the nature of the impacts remain the same – a drop in investment income is the most prominent issue, followed by re-evaluation of reserves policies and a significant drop in returns – but they are all less frequently reported. 75% of charities with affected investment strategies also report a drop in investment income – down from 88% in 2020 – with 31% re-evaluating reserves policies and 19% reporting significant drops in their investment returns, both impacts significantly reduced compared to last year.

Meanwhile, 19% of charities with affected investment strategies have had to increase spending from their investment portfolios, up from 18% in 2020, with 6% postponing an investment manager review as a result. ³

3 Impact of the coronavirus pandemic on charities' investment strategy



Data set: No. of respondents: 2020: 34; 2021: 16

LONG COVID?



While a traditional economic cycle might ebb and flow over the course of a decade, the acute phase of the coronavirus pandemic looks set to be a relatively short, massively disruptive and highly volatile event, with the impact on charities shifting significantly in the space of the year. Over the long term, however, charities anticipate a relatively settled, if uncertain, future, with the majority anticipating no long-term impact on investment policy.

Much of the last two years has been defined by the disruption caused by the coronavirus pandemic. However, looking forward, it is clear that most charities do not see the effects of the pandemic having a lasting impact on their investment policies.

Just 18% of charities anticipate that the pandemic will have a lasting impact, with 65% believing that it will have no impact on investment policy over the long term.

Last year's survey saw levels of 'don't know' responses increase dramatically when charities were asked to make predictions about the future, and it appears that a significant level

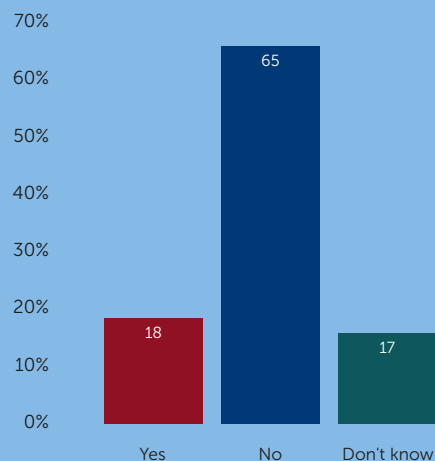
of uncertainty remains in 2021: 17% of charities state that they do not know whether the pandemic will have a lasting impact on policy or not, almost the same number as those that think it definitively will. ⁴

The 18% of charities that feel that the pandemic will have a lasting impact on investment policy see potential for significant shifts in the way in which they invest, with the pandemic and the disruption it has brought prompting a re-evaluation of a range of policy areas.

65%

of charities anticipate that the pandemic will not have a lasting impact on their investment policy

⁴ Do you think the pandemic will have a lasting impact on your investment policy?



Data set: No. of respondents: 2021: 82

40%

of charities report that they are in the process of re-evaluating their reserves policies

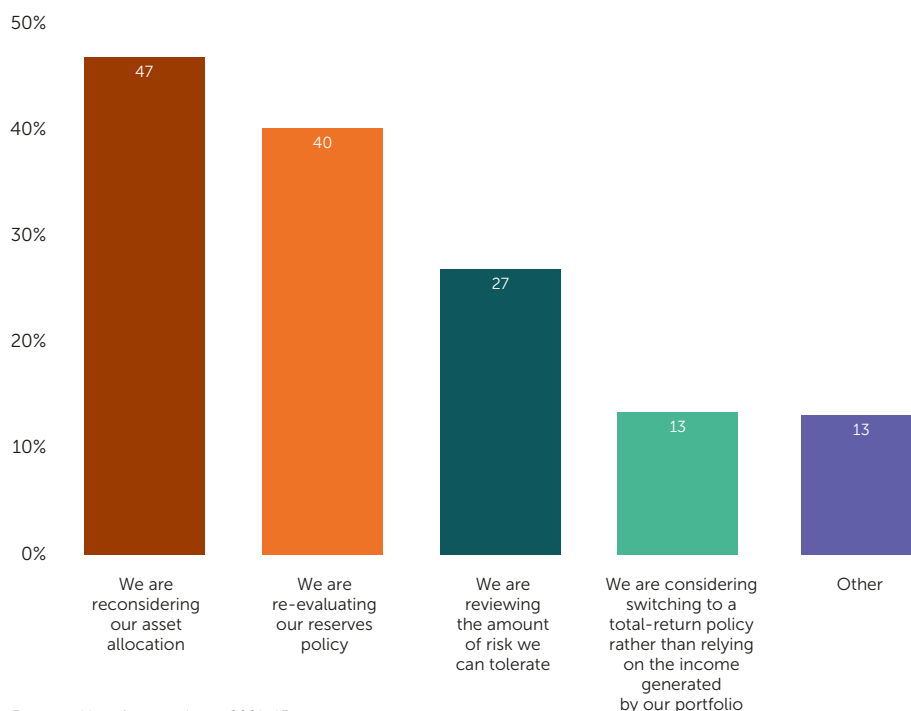
Almost half of charities that anticipate a long-term change in investment policy are currently reconsidering their asset allocation, with a further 40% in the process of re-evaluating their reserves policies. 27% of charities are in the process of reviewing the level of risk they can tolerate following a period of significant disruption that has seen many charities dip into their reserves, while a further 13% are considering a switch to a total-return policy, rather than relying on the income generated by their portfolio. ⁵

Around 10% of the charities surveyed for this year's report anticipate that the pandemic will have a lasting impact on their investment policy and are currently reconsidering their asset allocation as a result. This may represent a small section of the sample overall, but it represents a significant shift caused by the acute factors of a single event – in this case the pandemic.

43% of the charities currently reconsidering their investment policies, as a result of the pandemic state that they are considering alternative investments, while another 43% are currently reviewing the role of fixed-interest investments.

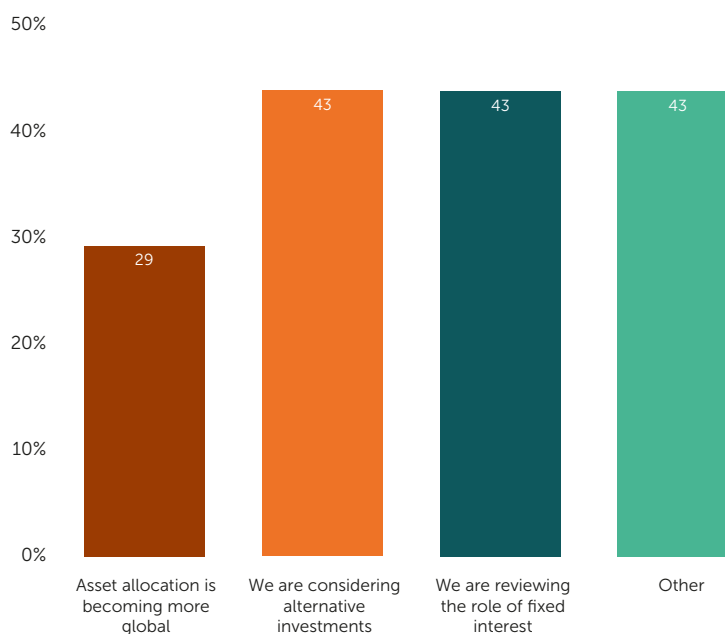
Almost a third of charities reconsidering their asset allocation are looking to make their asset allocation more global. ⁶

⁵ You said that the pandemic will have a lasting impact on your investment policy. Which of the following statements apply to your charity?



Data set: No. of respondents: 2021: 15

⁶ You said you are reconsidering your asset allocation as a result of the pandemic. Which of the following statements applies to your policy on asset allocation?



Data set: No. of respondents: 2021: 7

SECTION 2

CHARITIES' INVESTMENT IN THE CORONAVIRUS CONTEXT

PART 1:
INCOME-ONLY VS. TOTAL-RETURN TARGETS

PART 2:
INVESTMENT RETURNS

PART 3:
ASSET ALLOCATION

PART 4:
ALTERNATIVE INVESTMENTS



RETURN TARGETS

The majority of charities have not felt the need to change their investment strategies as a result of the pandemic, and the majority do not anticipate needing to do so in the future. For a sizeable minority of charities, however, the pandemic has served as a catalyst, and in looking at investment targets we can see the impact of the pandemic in accelerating the shift towards total-return policies.

From 2015 to 2019, the proportion of charities that used income-only targets relative to those that used total-return targets fluctuated slightly; between 2015 and 2019, use of income-only targets wavered between 21% and 30%, averaging 25%.

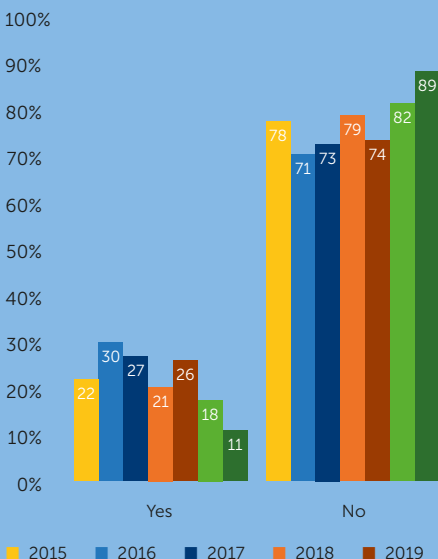
From 2019 to 2021, however, use of income-only targets has declined starkly, falling from 26% to 11% in just two years. Furthermore, as reported in the previous section of the report, 13% of charities that feel the pandemic will have a lasting impact on their investment policy state that they are considering switching to a total-return policy rather than relying on the income generated by their portfolio. ⁷

The particular income challenges of 2020, whereby pandemic-induced dividend cuts affected income levels sharply, are likely to have given impetus to the move towards total-return targets. ⁸

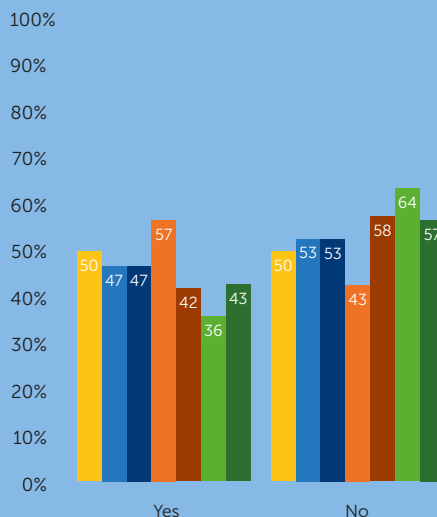
13%

of charities that feel the pandemic will have a lasting impact on their investment policy state that they are considering switching to a total-return policy

⁷ Do you set your fund manager an annual income-only target (incorporating dividends/coupons /interest)?



⁸ Do you set your fund manager an annual total-return target (incorporating income plus capital gain)?



Data set: No. of respondents: 2015: 94; 2016: 80; 2017: 93; 2018: 97; 2019: 102; 2020: 114; 2021: 82



84%

of charities using total-return targets felt that the returns of their investment portfolio were sufficient to meet the obligations and commitments of their charity

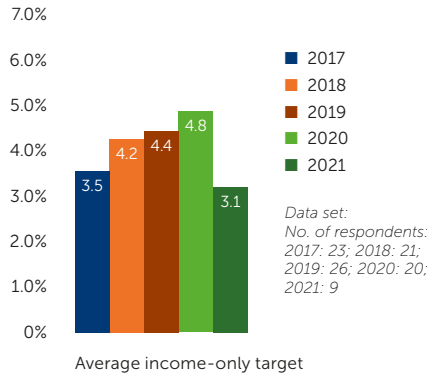
From 2017 to 2020, the average income-only target used by charities within the sample grew gradually every year, from 3.5% in 2017 to 4.8% in 2020. However, in the wake of the coronavirus pandemic, the average income-only target for charities this year has fallen to 3.1%. ⁹

Meanwhile, the average total-return target appears to have been almost unchanged despite the upheaval of the pandemic, shifting only very slightly from 5.2% in 2020 to 5.1% in 2021. ¹⁰

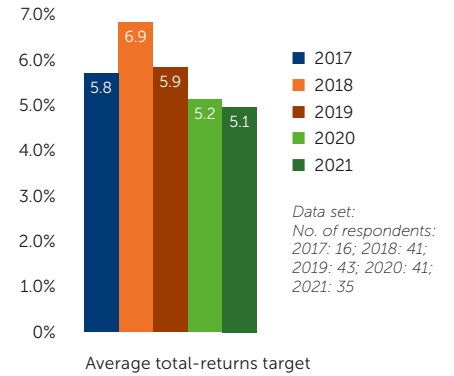
The latest figures appear to confirm a long-term decline in the sufficiency of the results generated by income-only investment portfolios. From 2016 to 2021, the proportion of charities using income-only targets that feel that the income produced is sufficient has fallen from 96% to 33%, albeit with a significant outlier in 2019. ¹¹

The perceived sufficiency of total-return targets remains far more stable, fluctuating between 73% and 97% at an average of 85% between 2015 and 2021, while increasing by 11% to 84% from 2020 to 2021. ¹²

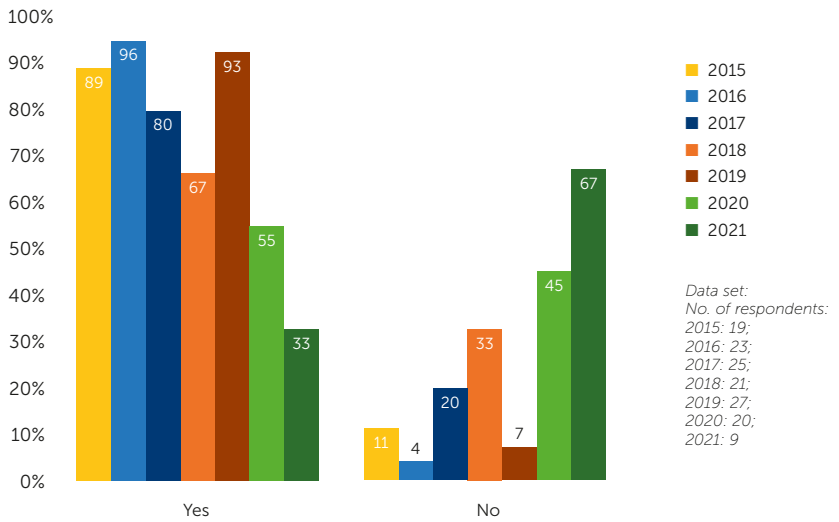
9 Income-only target as a percentage of portfolio value



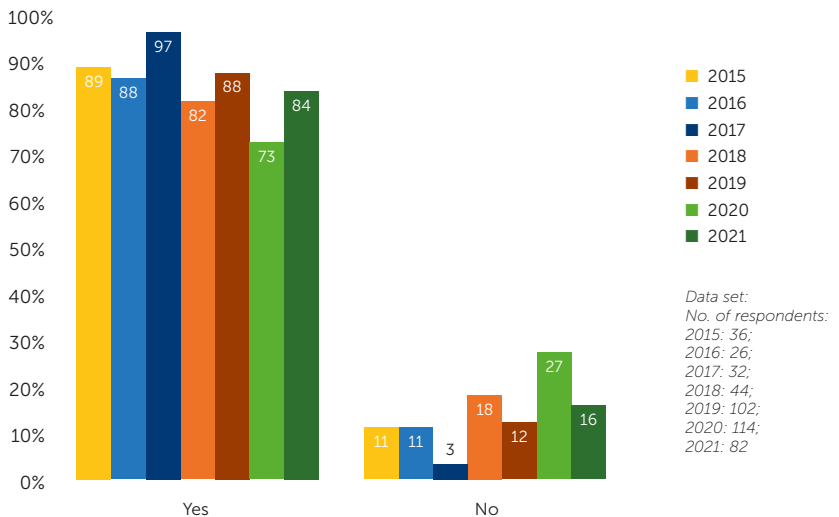
10 Total-return target as a percentage of portfolio value



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



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



INVESTMENT

Following a year of unprecedented disruption and low investment returns, charities have seen their investments bounce back in 2021, with the most significant performance gain in portfolio value since 2017. Perhaps more importantly, the uncertainty about the future created by the pandemic in 2020 has subsided significantly, with far fewer charities feeling uncertain about the medium and long-term future of their investments.

Investment performance has rebounded significantly in 2021 following the difficulties of 2020, with the average percentage performance gain more than doubling from 5% to 11% from 2020 to 2021, and the median percentage performance gain increasing drastically from 2% to 11% over the same period.

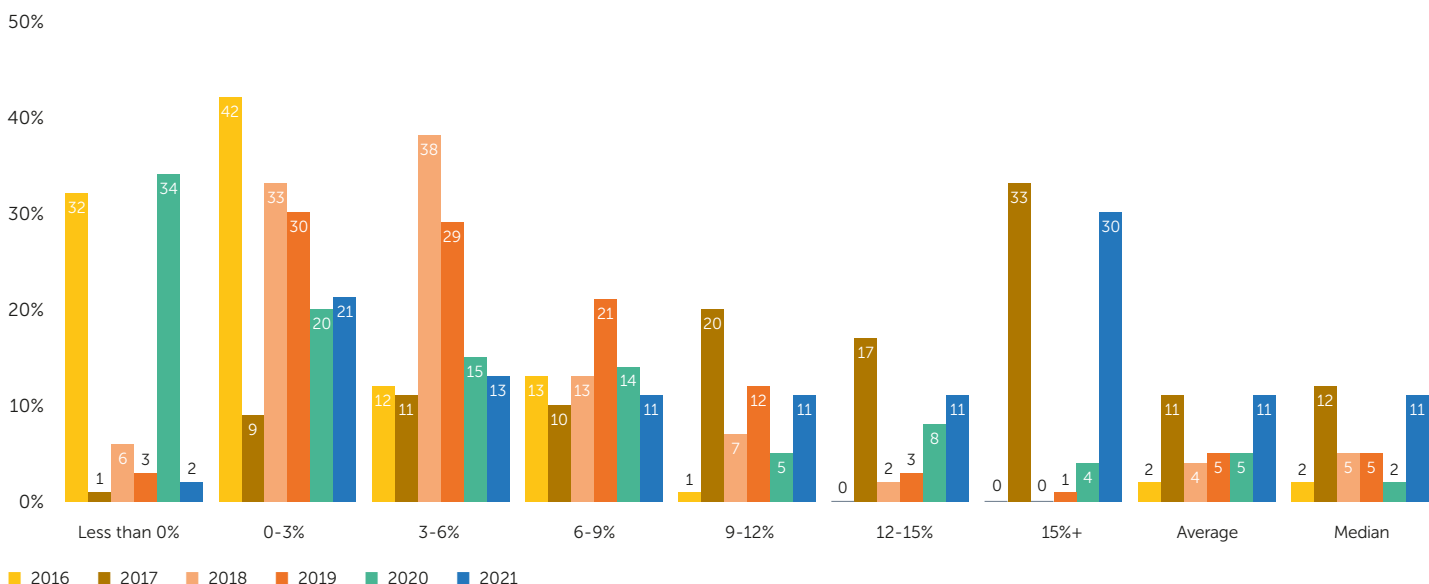
At the high end of performance, there have been significant increases in the proportion of charities reporting very high rates of return. 30% of charities report performance gains of over 15%

in 2021, up from just 4% in 2020, with an additional 11% reporting increases of 12-15% and another 11% reporting gains of 9-12%. In total, 52% of charities in this year's survey reported gains of 9% or more.

At the lower end of the performance scale there has also been a significant improvement, with just 2% of charities reporting a performance reduction in 2021; in 2020, this figure reached 34%. ¹³

52%
of charities reported performance gains of 9% or higher, a 35% increase on 2020

¹³ Approximate total percentage performance gain/reduction in portfolio value in the year to 31 March 2021



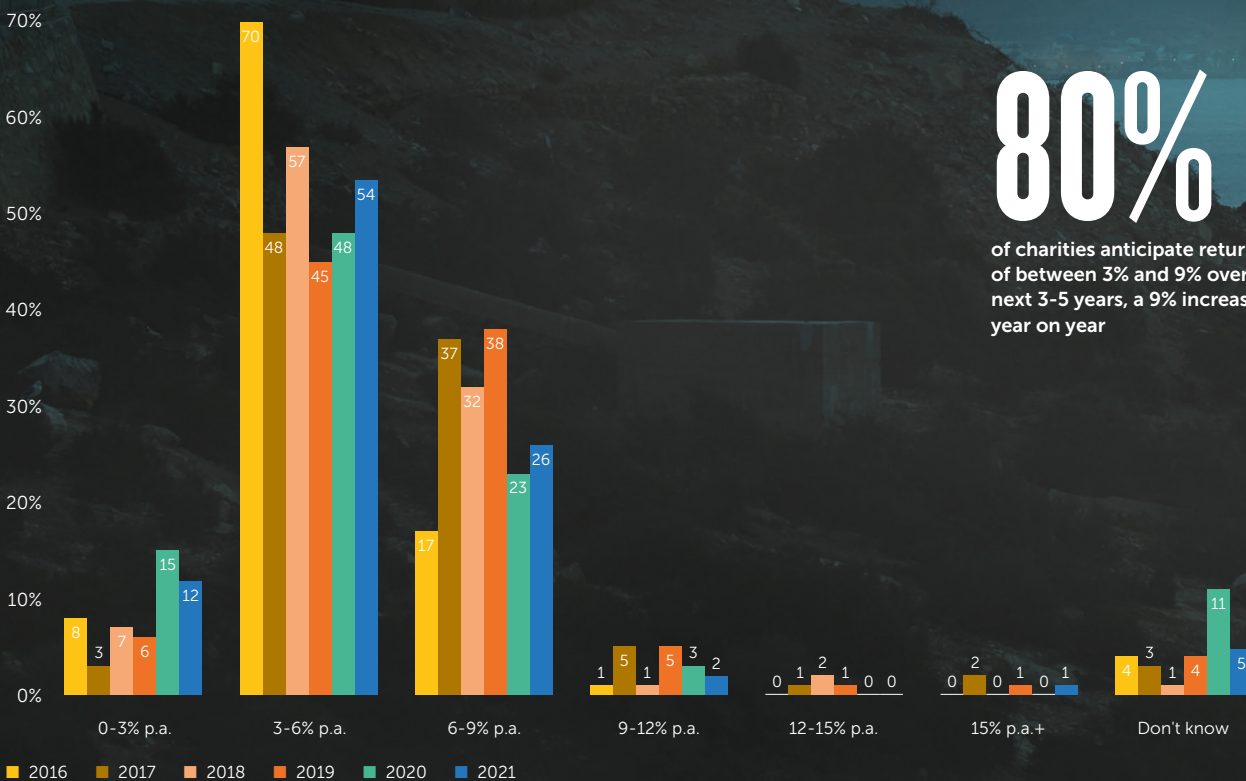
Data set: No. of respondents: 2016: 76; 2017: 92; 2018: 97; 2019: 102; 2020: 114; 2021: 82

OUTLOOK

Looking forward, there is a muted optimism among charities. On a 3-5 year time horizon, charities are more positive about their prospective returns than they were in 2020, while remaining far less bullish than they were prior to the pandemic.

80% of charities anticipate annual total returns of between 3% and 9% over the next 3-5 years, a 9% increase year on year, with 12% anticipating returns below 3%, a 3% reduction year on year. ¹⁴

¹⁴ Expected annual total return over the next 3-5 years



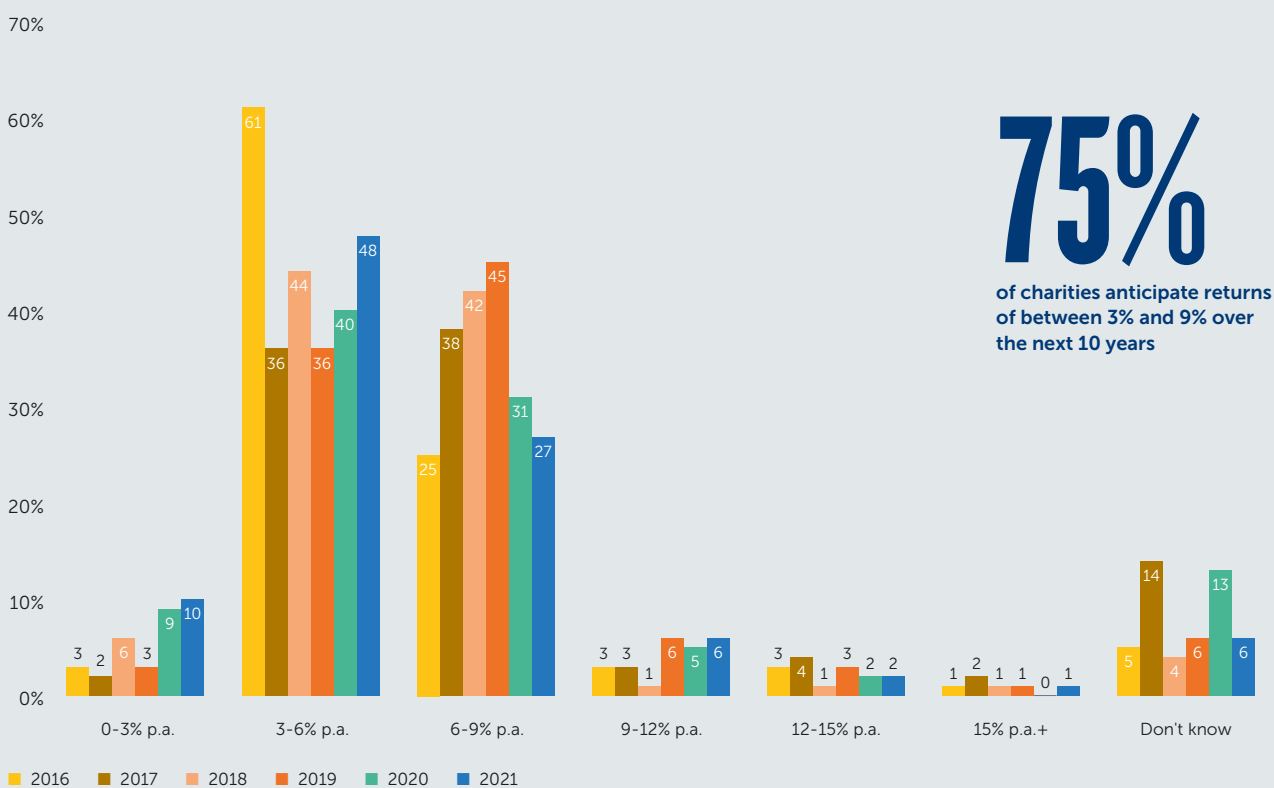
80%

of charities anticipate returns of between 3% and 9% over the next 3-5 years, a 9% increase year on year

Data set: No. of respondents: 2015: 94; 2016: 76; 2017: 92; 2018: 97; 2019: 102; 2020: 114; 2021: 82

10 YEAR OUTLOOK

15 Expected annual total return over the next 10 years



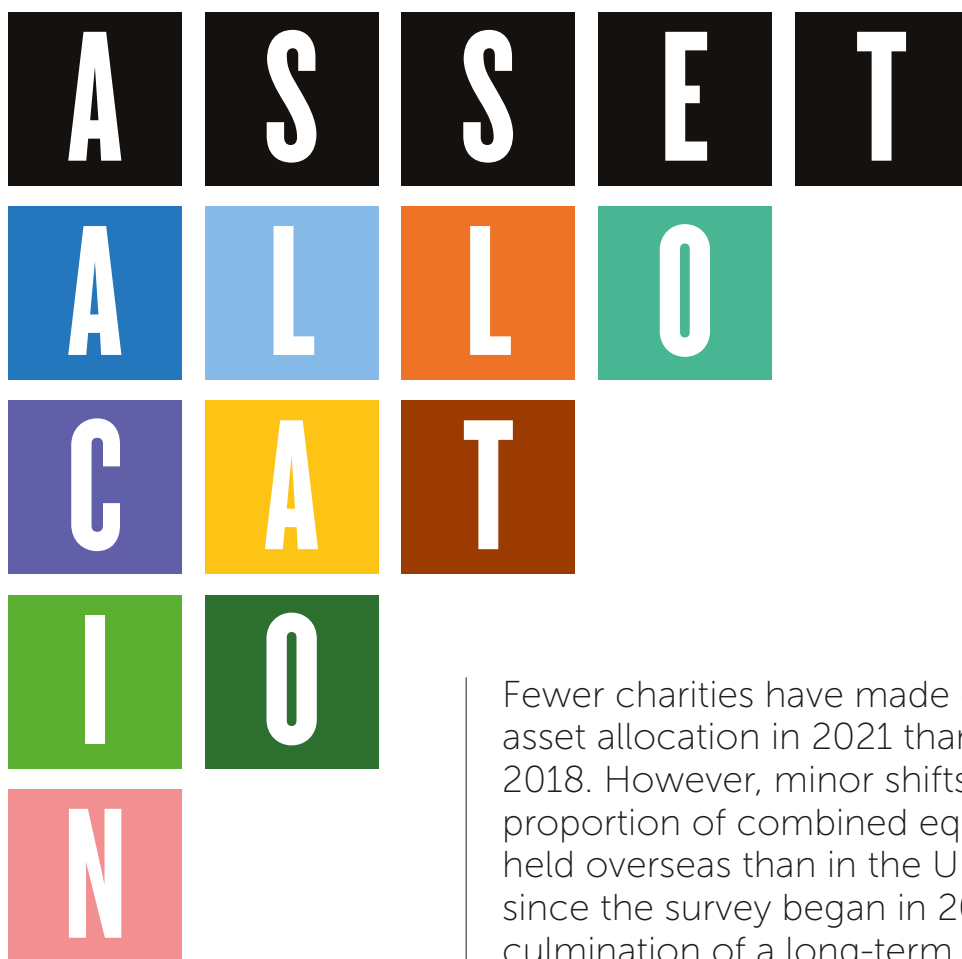
Data set: No. of respondents: 2016: 76; 2017: 92; 2018: 97; 2019: 102; 2020: 114; 2021: 82

Overall, charities are very slightly less optimistic about the next decade than they were last year. 48% of charities anticipate returns of between 3% and 6% over the next decade – an 8% increase – while the proportion anticipating annual returns of below 3% has increased to 10%. The proportion of the sample that anticipates returns of 6% or greater has fallen very slightly – from 38% in 2020 to 36% in 2021 – representing the lowest level observed in the survey since 2016. ¹⁵

While expectations of investment performance are muted, there is positive news regarding the long-term investment landscape within these charts. Last year, one of the defining features of expectations surrounding investment performance was the sharp increase in the proportion of respondents who simply did not know how their fortunes were likely to change in the coming years.

In 2020, in the midst of the disruption caused by the pandemic, 11% of charities stated that they just did not know what level of return to expect over a 3-5 year timescale, with the figure reaching 13% with regard to the 10-year time horizon. 2021 has seen these figures return to their previous norms, with just 5% and 6% of charities unable to estimate their annual total returns over the next 3-5 and 10 years respectively.

Part 3: Asset allocation



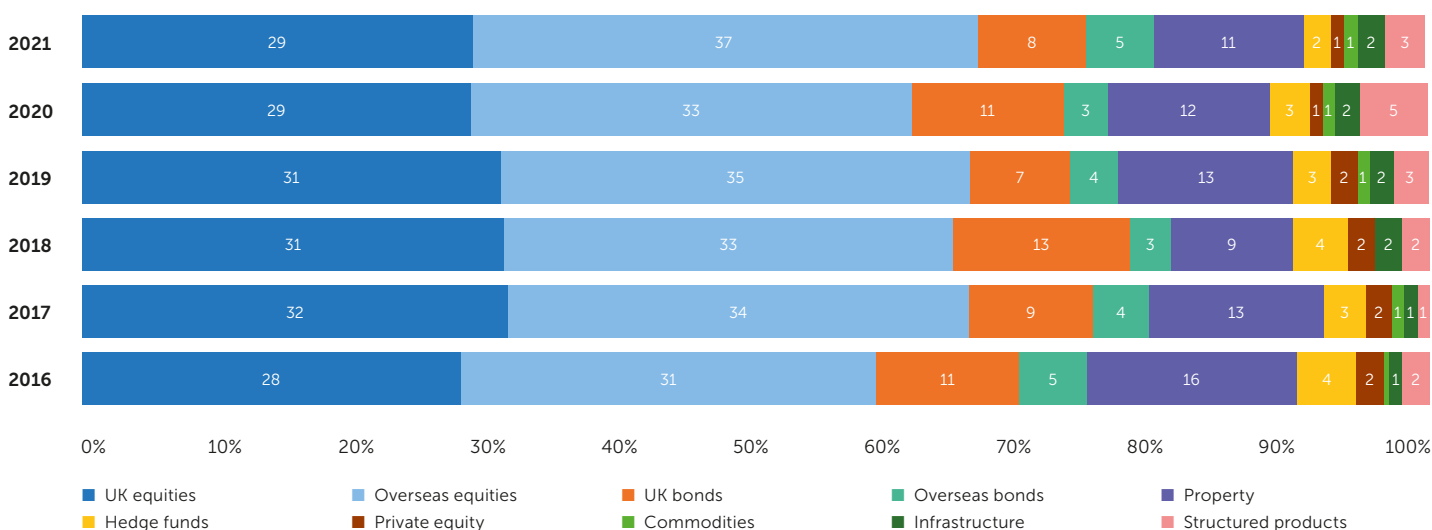
Fewer charities have made changes to their asset allocation in 2021 than at any time since 2018. However, minor shifts have seen a greater proportion of combined equities and bonds held overseas than in the UK for the first time since the survey began in 2014, representing the culmination of a long-term shift in asset allocation.

Overseas equities remain the most prominently held asset class in this year's survey, accounting for 37% of charities' portfolios on average – a 4% increase year on year – with UK equities the second largest asset,

having remained stable at 29% from 2020 to 2021. Elsewhere, there has been a 3% decline in the proportion of assets held within UK bonds, with a 2% increase in the proportion of assets held in overseas bonds. Property's share

of asset allocation has fallen by 1% to 11%, with a decline in the proportion of assets held in minority asset classes such as hedge funds, private equity, commodities, infrastructure and structured products.¹⁶

¹⁶ Approximate allocation across different asset classes (excluding cash) in percentage terms



Note: Figures may not sum to 100% owing to rounding. Data set: No. of respondents: 2016: 76; 2017: 82; 2018: 93; 2019: 98; 2020: 105; 2021: 77

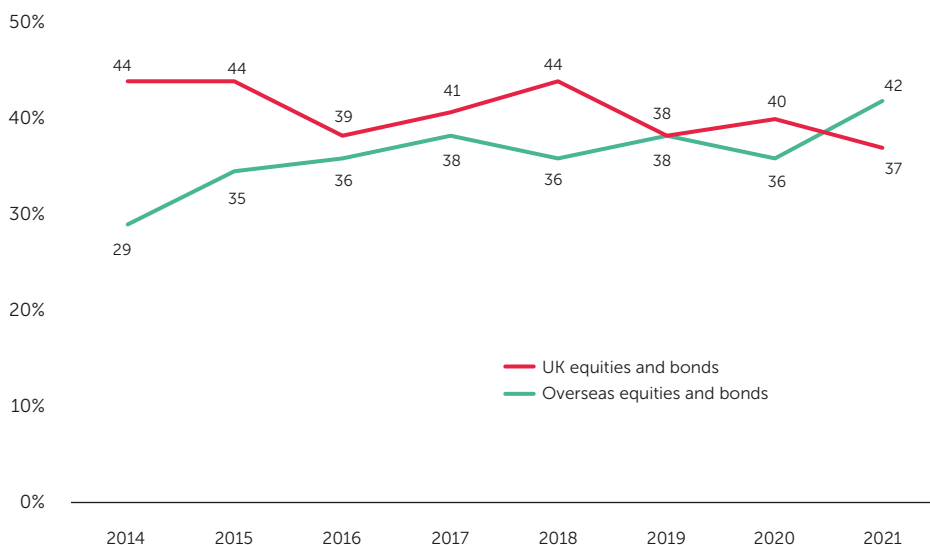
Part 3: Asset allocation

With both overseas equities and bonds seeing an increase in allocation, and UK equities and bonds decreasing their share while UK equities have remained stable, 2021 represents the first year since the survey began in 2014 in which overseas equities and bonds combined have represented a larger allocation than their UK counterparts.

This might be the first time that overseas equities and bonds have overhauled domestic ones, but it represents the continuation of a long-term trend.

Since 2014, the proportion of equities and bonds held within the UK has fallen from 44% to 37%, while exposure to overseas equities and bonds has increased steadily from 29% in 2014 to 42% in 2021. ¹⁷

17 Portfolios' approximate allocation across UK and overseas equities and bonds



Data set: No. of respondents: 2014: 52; 2015: 86; 2016: 76; 2017: 82; 2018: 93; 2019: 98; 2020: 105; 2021: 77

There was no dominant reason for a change in asset allocation in 2021, with a fairly broad range of explanations for a shift in allocation cited by respondents.

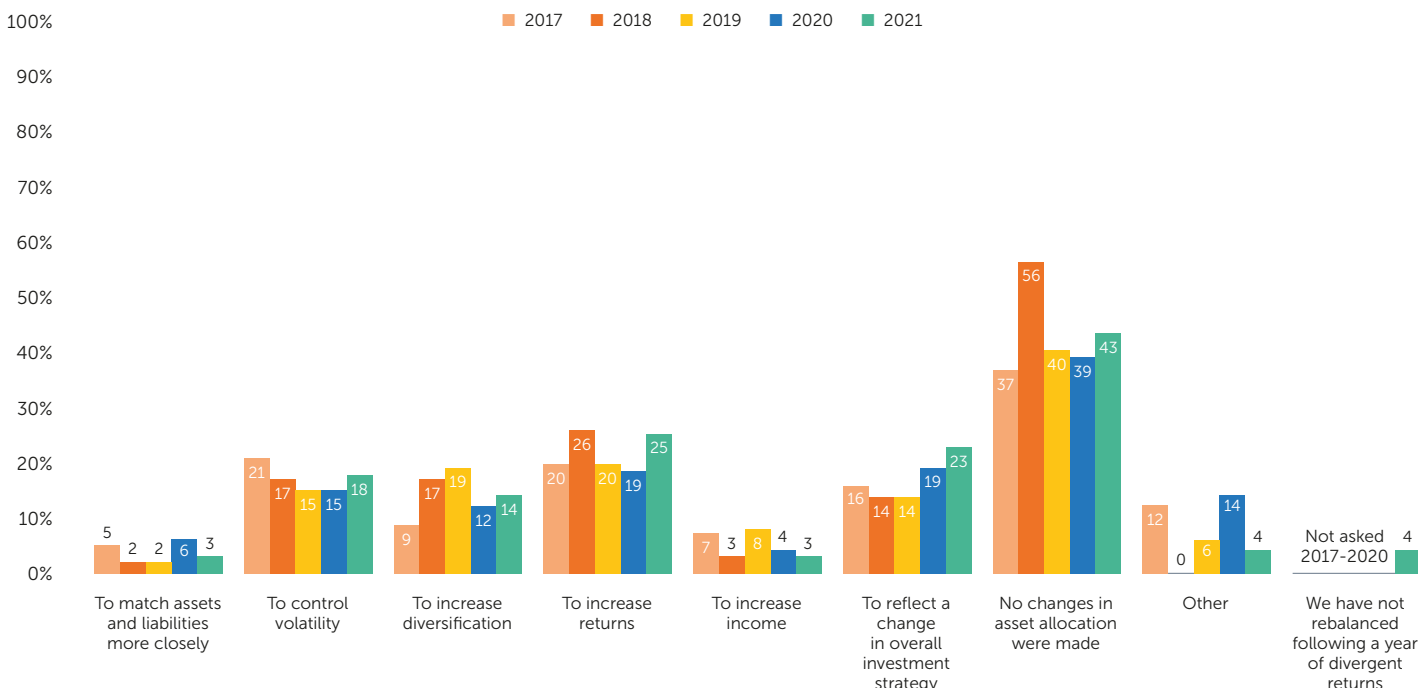
The most prominent reason for making a change this year was to increase returns, with 25% of charities altering their asset allocation in anticipation of a higher rate of return.

This represents a 6% increase compared to 2020. 23% of charities changed their asset allocation in order to reflect a change in overall investment strategy, with 18% of charities changing their asset allocation in order to control volatility in their portfolio. 43% of charities made no changes to their asset allocation this year, reflecting the slight increase in economic stability in 2021 relative to 2020. ¹⁸

25%

of charities made a change to asset allocation this year in anticipation of a higher rate of return, a 6% increase year on year

18 Reasons for changes to asset allocation



Data set: No. of respondents: 2017: 82; 2018: 93; 2019: 98; 2020: 105; 2021: 79

OFF THE BEATEN TRACK



The use of alternative investments has fallen for the sixth consecutive year, with charities concerned by the risk and complexity associated with them, as well as their own lack of knowledge about alternatives. While the decline in the use of alternatives is the headline, within those that continue to use alternatives there are interesting developments, with charities using broader, more diversified alternative portfolios than at any time in the last six years.



Part 4: Alternative investments

In 2021, the proportion of charities using alternative investments in their portfolios has fallen for the sixth year in succession, with just 37% of charities using alternatives. This represents a relatively rapid decline, with alternative investments transformed from common practice into one carried out by a shrinking minority over the course of just six years.¹⁹

There is no simple, singular explanation for the decline in the use of alternatives. For the second year in succession, high levels of perceived risk remain the most significant barrier to the use of alternatives, and the perception of risk has only increased in 2021.

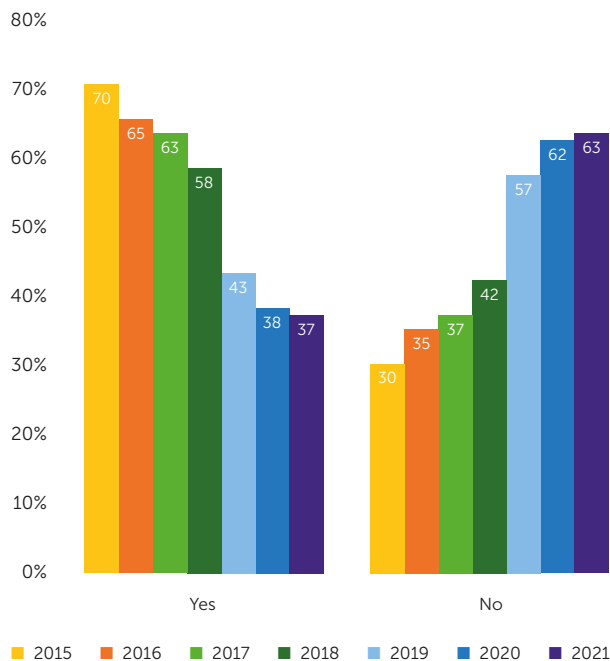
From 2020 to 2021, the proportion of charities that feel that alternatives are 'too risky' has risen from 27% to 33%.

Lack of knowledge remains a significant barrier, and it too has grown significantly as a reason for the avoidance of alternative investments: 27% of charities now state that the main reason that they do not use alternatives is a lack of knowledge.

Elsewhere, the complexity of alternatives represents the most significant barrier for 13% of charities, with lack of liquidity and cost the other distinct reasons for avoidance at 4% and 2% respectively.

The nebulous nature of reasons for avoiding alternatives is reinforced by the high level of 'other' responses to this question, with 21% of charities stating that the reasons that they avoid alternative investments were not covered by the survey.²⁰

19 Does your charity use alternative investments?



Data set: No. of respondents: 2015: 93; 2016: 80; 2017: 93; 2018: 97; 2019: 102; 2020: 114; 2021: 82

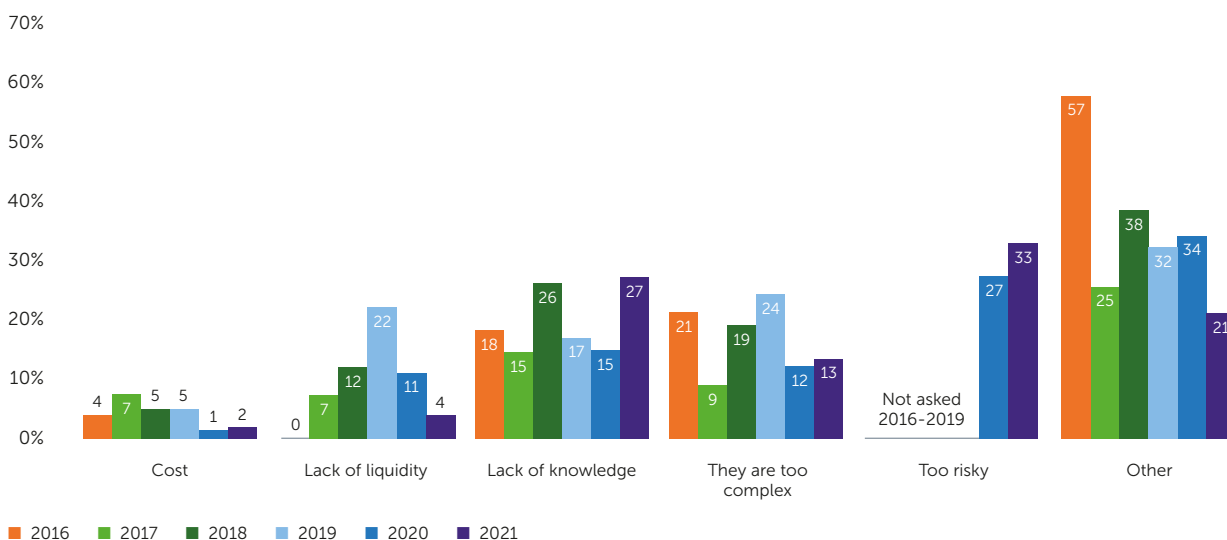
27%

of charities state that the main reason they do not use alternatives is a lack of knowledge

33%

of charities state that the main reason they do not use alternatives is that they feel they are 'too risky'

20 Reasons for not using alternative investments



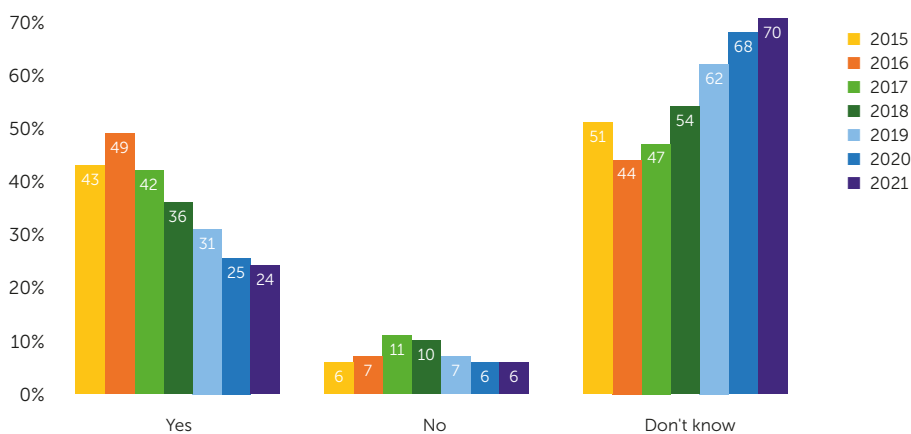
Data set: No. of respondents: 2016: 52; 2017: 59; 2018: 56; 2019: 44; 2020: 43; 2021: 30

High perception of risk and low levels of knowledge about alternatives among charities appear to be significant drivers in the decline of their use. 27% of charities that do not use alternatives state that a 'lack of knowledge' is their main reason for not using alternative investments, but when asked about the value for money offered by alternatives, the extent of this lack of knowledge across all charities becomes very clear.

While just 37% of charities use alternative investments, the proportion that believes that they offer value for money significantly outnumbers the proportion that does not. 24% of charities believe that alternative investments offer value for money, compared to just 6% that believe that they do not.

However, these figures are dwarfed by the proportion of charities that simply do not know whether alternatives offer value for money. 70% of charities do not know whether alternative investments offer value for money or not, a figure that has risen for the fifth year in succession. ²¹

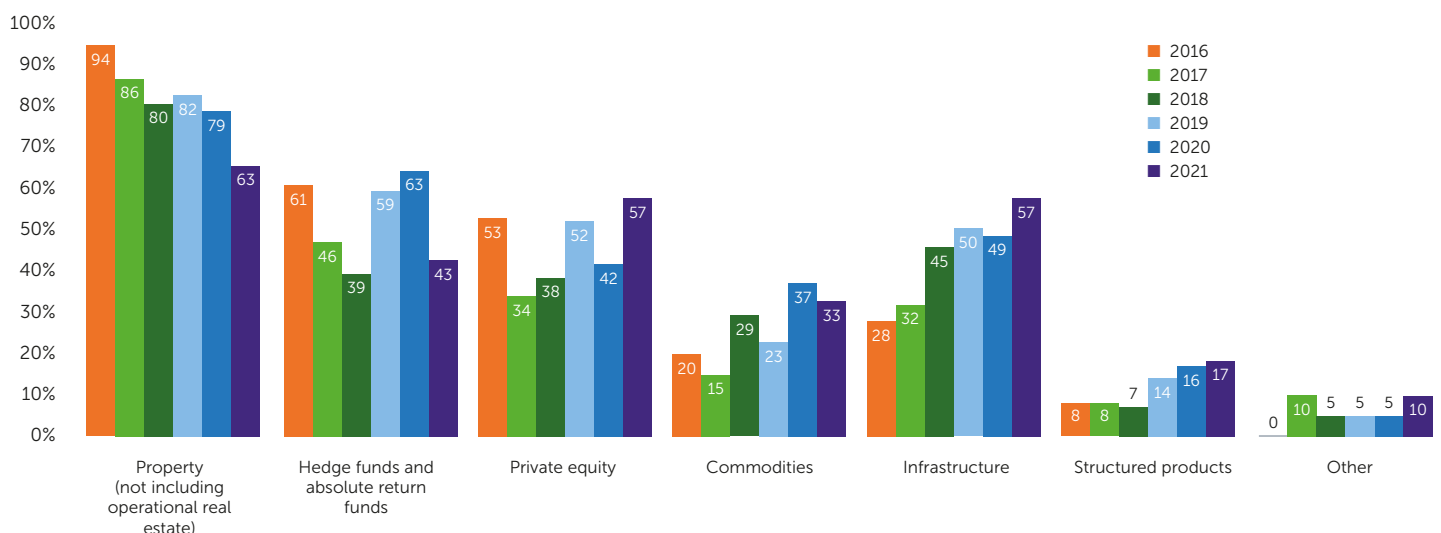
21 Do alternative investments offer value for money?



70%
of charities simply do not know whether alternative investments offer value for money or not

Data set: No. of respondents: 2015: 94; 2016: 80; 2017: 93; 2018: 97; 2019: 102; 2020: 114; 2021: 82

22 Use of different alternative asset classes



Data set: No. of respondents: 2016: 52; 2017: 59; 2018: 56; 2019: 44; 2020: 43; 2021: 30

While the most prominent finding when it comes to alternative investments is their long-term decline, within the proportion of charities that use alternatives there has been a distinct broadening and diversification of the types of alternatives being used.

The use of property has declined sharply, falling from 79% to 63% year on year, and from 94% to 63% from 2016 to 2021. In the same period, the use of private equity, commodities, infrastructure and structured products has seen long-term growth.

Alternatives are used by fewer charities, but those that use them are doing so as part of broader, more diversified portfolios. ²²

SECTION 3

WIDER ISSUES

PART 1:
ETHICAL EXCLUSIONS

PART 2:
THE ENVIRONMENT



The use of ethical exclusion policies appears to have reached a plateau in 2021, with the first small decline since 2017. There are nuances, however. Policies are getting broader, covering a wider range of investments, but plans for further expansion have fallen sharply compared to last year, with the potential for a shift in the way in which charities invest their money ethically.

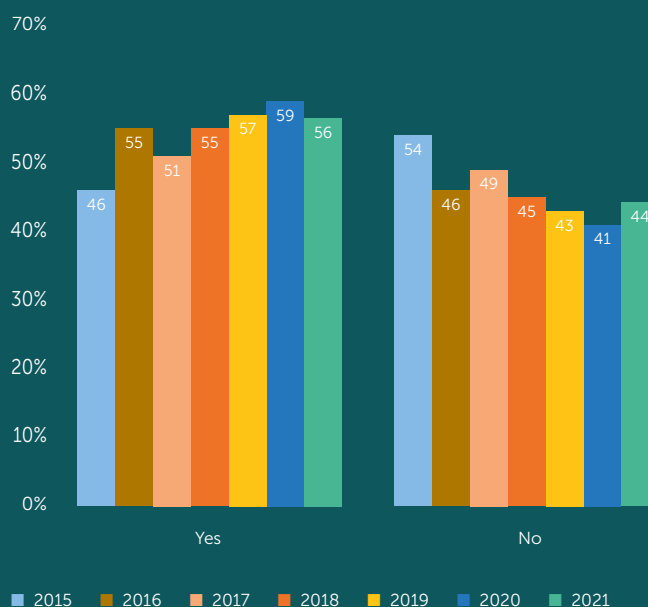
DROPPING OUT

For the first time since 2017, the proportion of charities that have an ethical exclusion policy has fallen. 56% of charities in 2021 have an ethical exclusion policy, representing a 3% decline year on year.

This decline comes in stark contrast to the previous trend in ethical exclusions, with the prevalence of exclusion policies increasing from 46% to 59% from 2015 to 2020. ²³

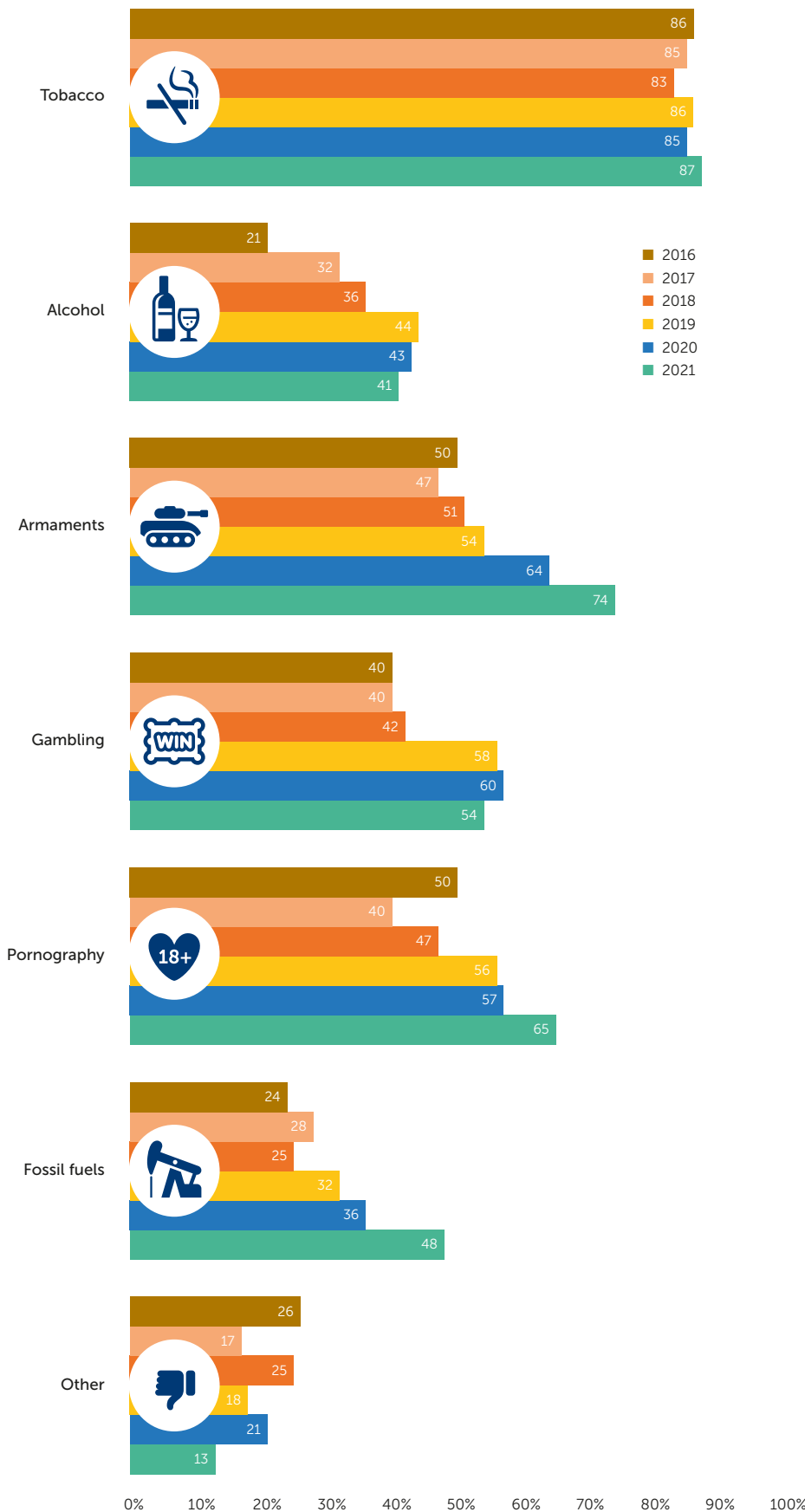
↓ 3%
decline year on year in charities that have an ethical exclusion policy

²³ Does your charity have ethical exclusion policies?



Data set: No. of respondents: 2015: 93; 2016: 73; 2017: 93; 2018: 97; 2019: 102; 2020: 114; 2021: 82

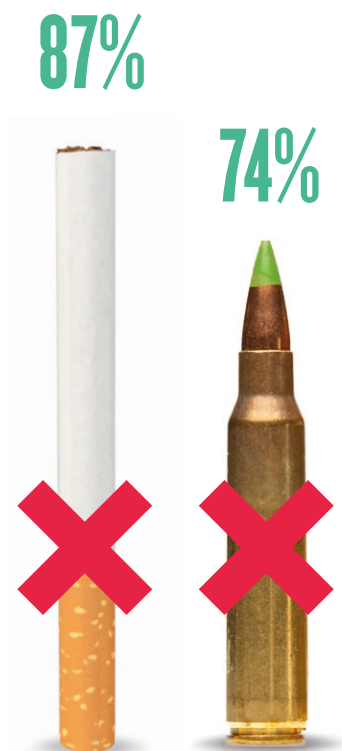
24 Areas covered by ethical exclusion policy



While the proportion of charities with ethical exclusion policies in place has plateaued over the last four years, the nature of these policies is becoming increasingly broad.

Tobacco remains the most commonly barred type of investment – excluded by 87% of those charities with exclusion policies – but significant growth in the exclusion of armaments, pornography and fossil fuels means that before long we could see a far wider range of investment areas banned ubiquitously.

Tobacco, armaments, gambling and pornography are each excluded by a majority of policies, with fossil fuels and alcohol not far behind on 48% and 41% respectively. 24



Data set: No. of respondents: 2016: 42; 2017: 47; 2018: 53; 2019: 57; 2020: 67; 2021: 46

In previous years, increases in the proportion of charities with ethical exclusion policies have come in tandem with increases in the percentage of charities that state they are looking to expand those policies.

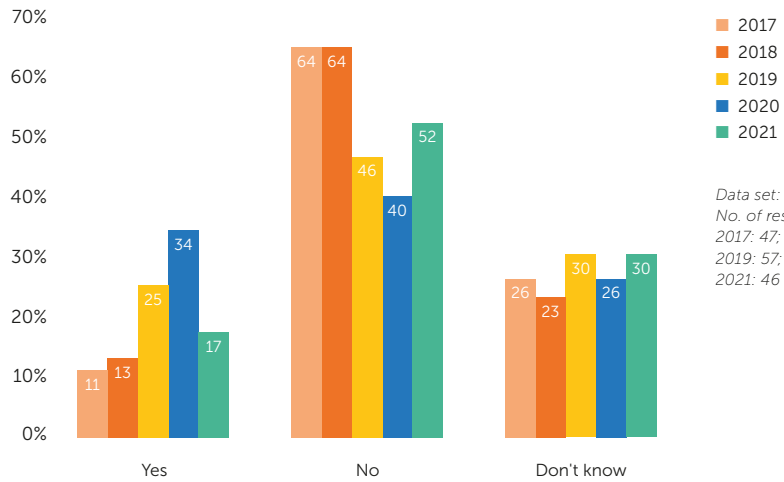
In 2021, however, there has been a marked shift, with the proportion of charities seeking to extend their exclusion policies falling from 34% to 17% year on year. This is the lowest level of planned expansion since 2018. ²⁵

The plateau in the adoption of ethical exclusion policies, combined with the stark decline in the proportion of charities looking to expand them, could be interpreted as the ethical investment movement running out of steam.

However, these shifts come at a time when charities have never felt it more important that environmental, social and governance (ESG) investment factors are considered in the management of their investment portfolios.

In 2021, 85% of charities feel that ESG factors are either very or quite important in the management of their

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



portfolio. This represents a 3% rise year on year, but more striking is the growth over the longer term; from 2015 to 2021, the proportion of charities that feel that ESG factors are important has grown from 61% to 85%.

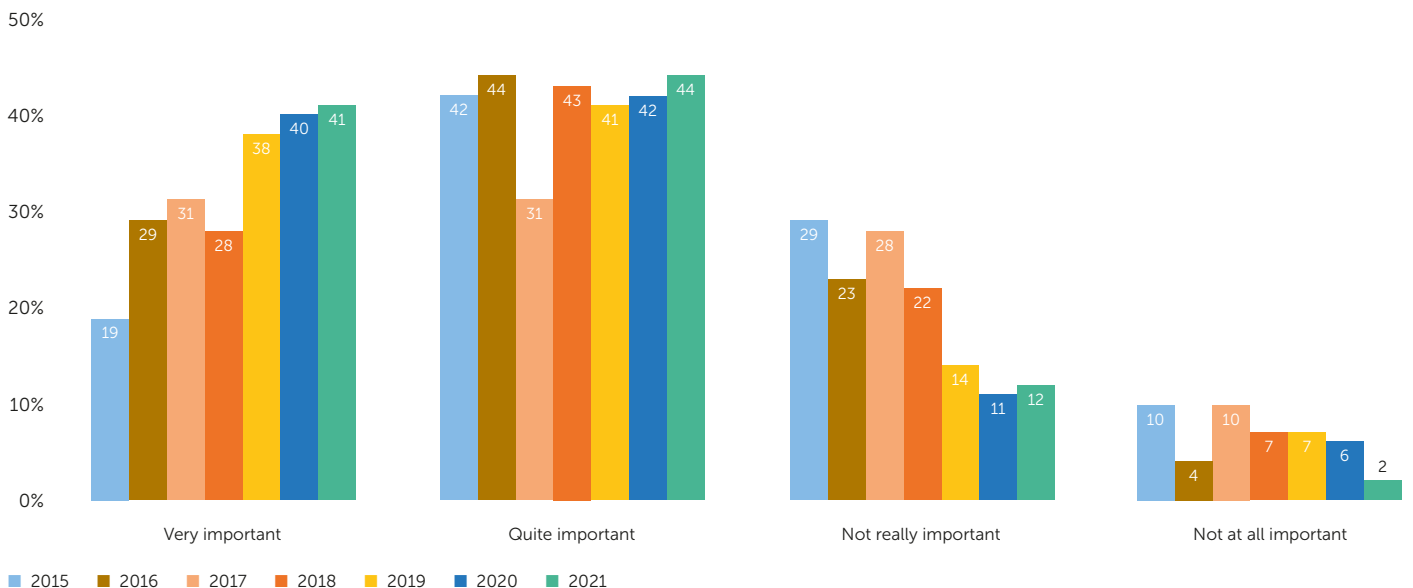
While growth in the use of ethical exclusion policies has stagnated, it is clear that the trend towards investment practices that are more mindful of both ethical and ESG factors remains strong.

As the environmental and social contexts shift relative to the investment landscape, the methods used by charities may begin to evolve in the near future. ²⁶

85%

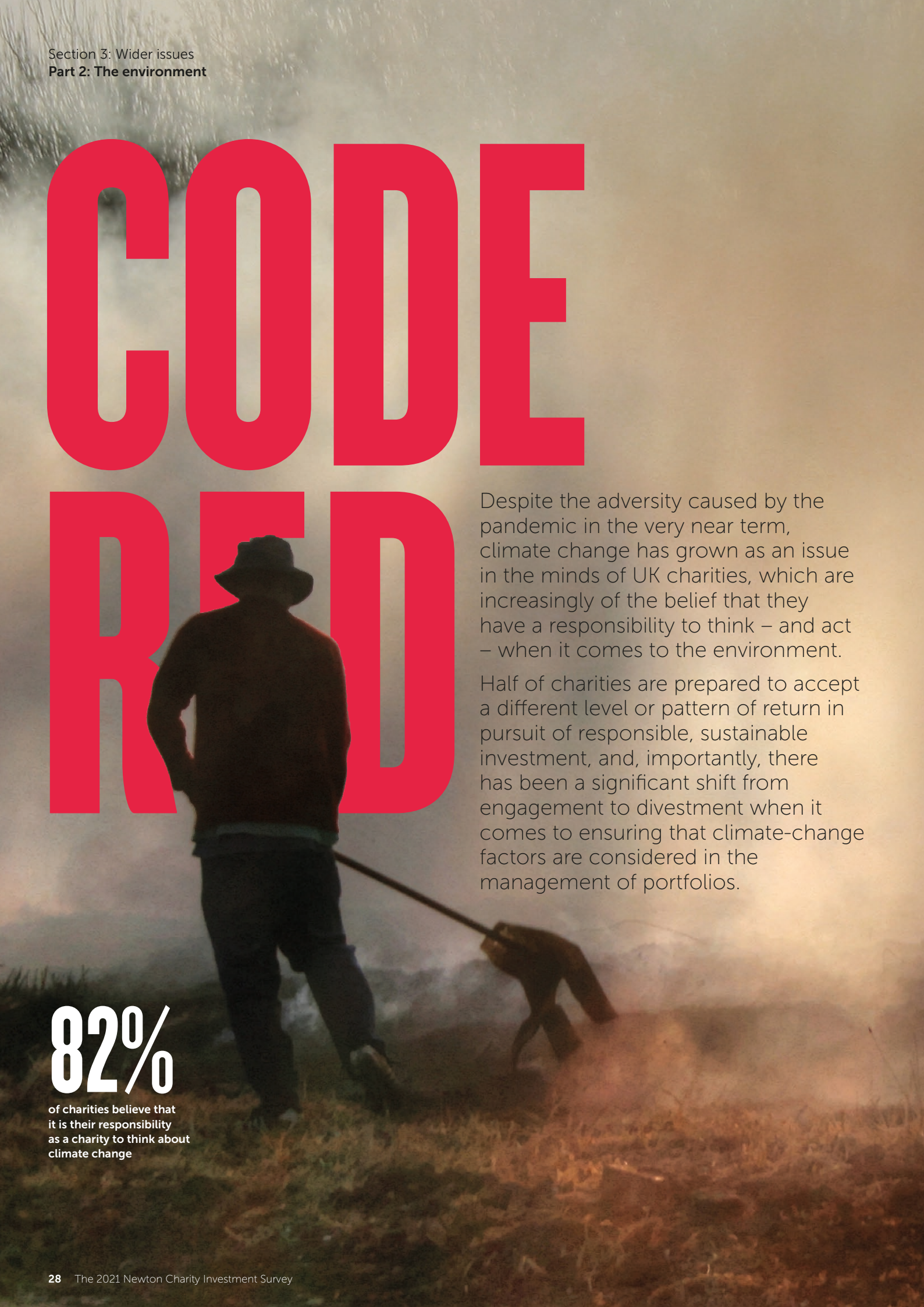
of charities feel that ESG factors are very or quite important in the management of their portfolios, a 24% increase over seven years

26 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: 2015: 93; 2016: 77; 2017: 93; 2018: 97; 2019: 102; 2020: 114; 2021: 82

CODE RED



Despite the adversity caused by the pandemic in the very near term, climate change has grown as an issue in the minds of UK charities, which are increasingly of the belief that they have a responsibility to think – and act – when it comes to the environment.

Half of charities are prepared to accept a different level or pattern of return in pursuit of responsible, sustainable investment, and, importantly, there has been a significant shift from engagement to divestment when it comes to ensuring that climate-change factors are considered in the management of portfolios.

82%

of charities believe that it is their responsibility as a charity to think about climate change

One of the driving forces behind the contextual shifts in ethical exclusion and ESG investment has been the increased prominence of environmental concerns among UK charities, and a growing belief that charities have a duty to invest responsibly.

The sense that beyond exclusions, it is a charity's responsibility to invest responsibly has become ubiquitous in 2021, with 94% of charities believing that they are obligated to invest responsibly – up from 85% in 2020.

Climate change is becoming an increasingly prominent aspect of this responsibility, with 82% of charities of the belief that it is their responsibility to think about climate change specifically. This figure has risen by 7% year on year and by 18% in the last two years.

Importantly, increasing concern and desire to take action with regard to climate change is not the result of external pressures; these attitudes are intrinsically held by trustees within charities.

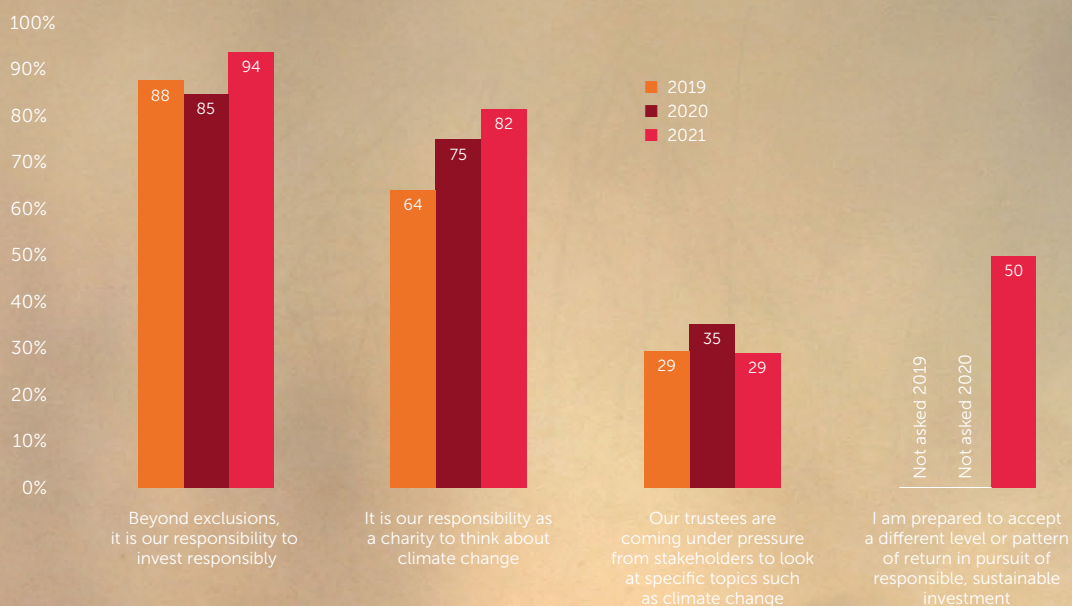
Just 29% of charities state that their trustees are coming under pressure from stakeholders to look at specific topics such as climate change.

These shifts do not represent charities succumbing to external pressures from the outside, but rather they are beliefs held within charities that are increasingly likely to be put into practice. ²⁷

JUST 29%

of charities state that their trustees are coming under pressure from stakeholders to look at specific topics such as climate change

²⁷ Statements about socially responsible investments



Data set: No. of respondents: 2019: 102; 2020: 114; 2021: 82



50%

of charities state that they are prepared to accept compromised levels or patterns of return in exchange for sustainable, responsible investment

66%

of charities feel that sustainable investment is predicated on a low-carbon portfolio

Furthermore, half of the charities in this year's sample are happy to put these beliefs into practice, even if it means accepting a different level or pattern of return in pursuit of greater sustainability and responsibility.

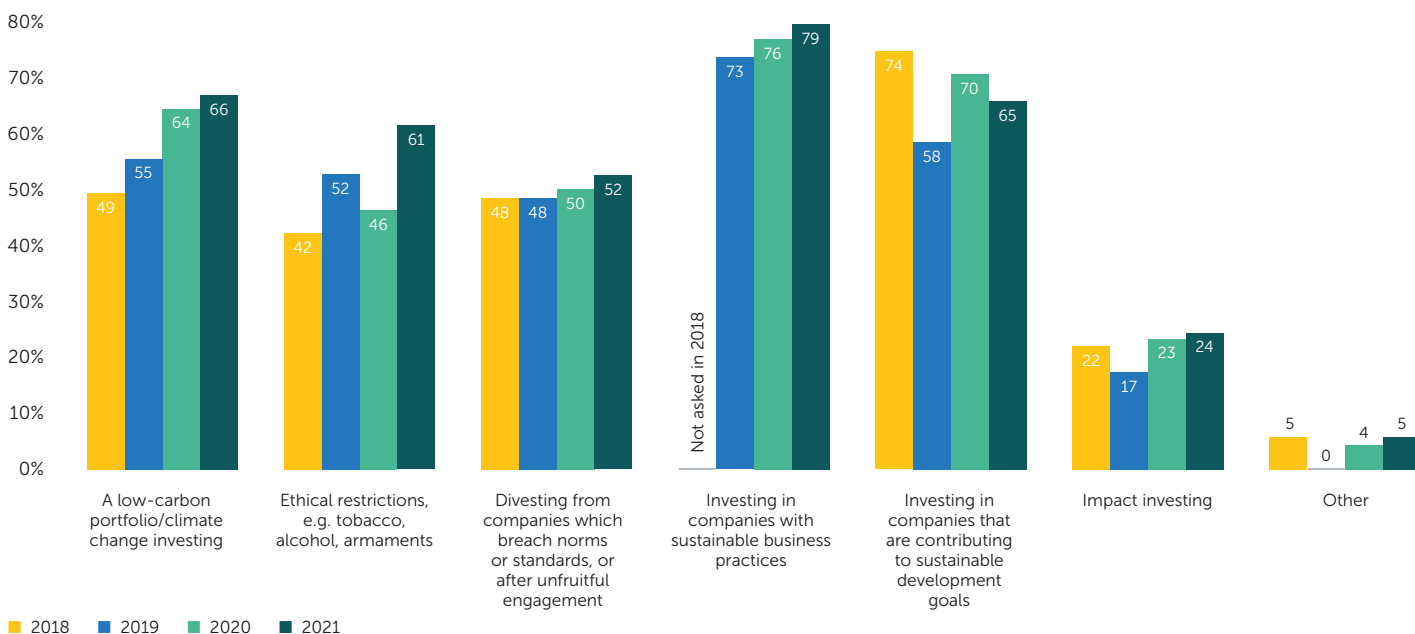
50% of charities in 2021 state that they are prepared to accept compromised levels or patterns of return in exchange for sustainable, responsible investment practices.

The increased prominence of climate change and environmental concern is apparent when charities are asked what sustainable investment means to them.

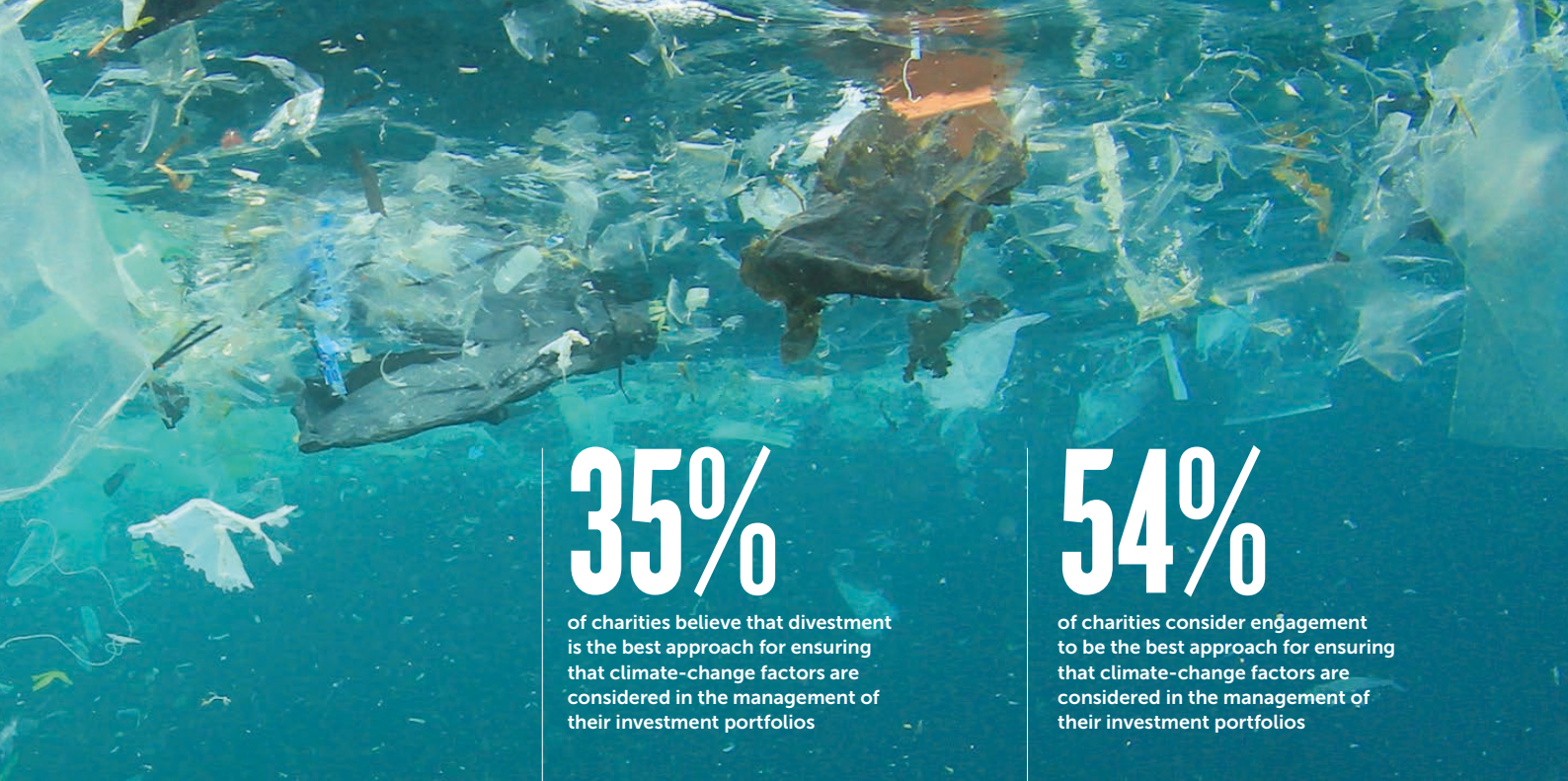
From 2018 to 2021, the proportion of charities that feel that sustainable investment is predicated on a low-carbon portfolio and climate-change investment has grown by 17%, reaching 66% in 2021.

This is now the second most frequently cited feature of sustainable investment – behind only 'investing in companies with sustainable business practices' – with strong growth coming in stark contrast to the stagnation of divestment, impact investing, and investment in companies that contribute to the pursuit of sustainable development goals over the same period. ²⁸

²⁸ What does sustainable investment mean to you?



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



35%

of charities believe that divestment is the best approach for ensuring that climate-change factors are considered in the management of their investment portfolios

54%

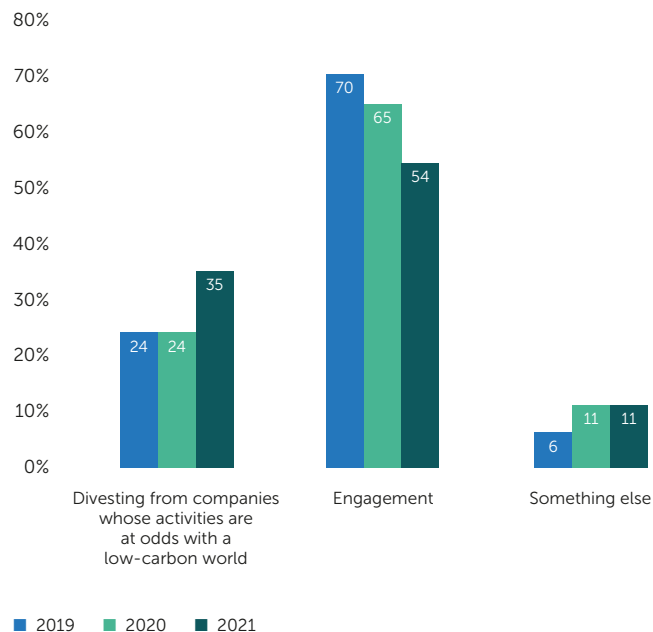
of charities consider engagement to be the best approach for ensuring that climate-change factors are considered in the management of their investment portfolios

Charities are concerned about climate change and feel a greater sense of responsibility for creating change, and their approach to creating change is changing too, with a sizeable shift from engagement to divestment when it comes to ensuring that climate-change factors are considered in the management of their investment portfolios.

From 2019 to 2021, the proportion of charities considering engagement to be the best approach has fallen from 70% to 54%, while the proportion believing that divestment is the best approach has increased from 24% to 35% over the same period.

Charities are increasingly concerned about the environment and increasingly empowered to do something about it, with significant implications for the way they invest and the way they engage with prospective investments. ²⁹

²⁹ 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: 2019: 102; 2020: 114; 2021: 82

APPENDIX – MORE ABOUT THE SURVEY

Methodology

In line with the previous seven years of the Newton Charity Investment Survey, data was collected using an online questionnaire. Fieldwork took place between 4 May and 1 July 2021 with a record date for annual investment performance data of 31 March 2021.

Sample details

While the number of responses to the survey increased for four years between 2016 and 2020, in 2021 the number of responses fell from 114 to 82.

The events of the last 18 months have been incredibly disruptive, and it is possible that this is a knock-on effect of the pandemic. Charities have furloughed staff or made them redundant, with trustees' workloads increasing in many charities, which may have led to participation in the survey being deprioritised. **A**

Despite there being fewer charities in the sample this year, the total investment assets held by charities within the final sample increased reaching £8.8 billion in 2021, up from £6.2 billion in 2020.

The charities within this year's survey are significantly larger when it comes to asset value. The average charity in the 2021 survey has assets of £108 million under management, double the 2021 figure, with the median assets under management increasing slightly from £8 million to £10 million. **B**

The 2021 distribution of charities by the size of their assets is: **C**

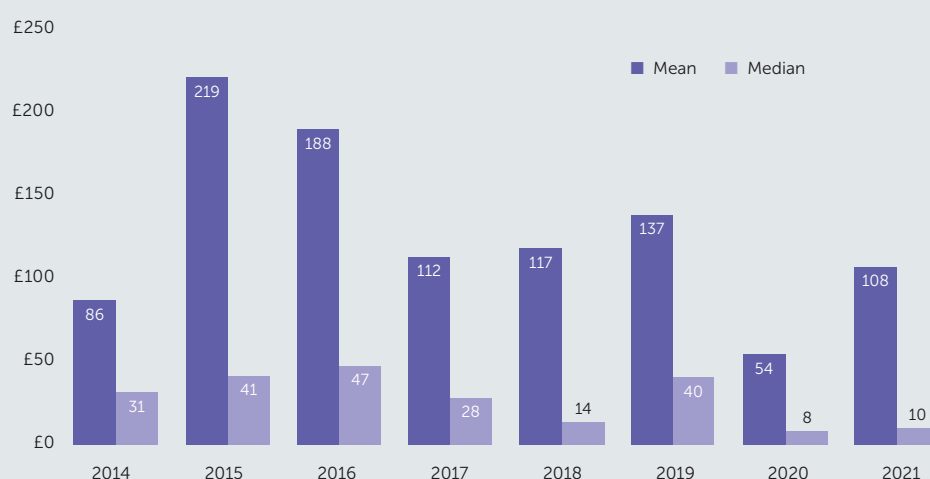
| | |
|----------------|-----|
| £20m and under | 56% |
| £21m-£100m | 28% |
| £101m-500m | 11% |
| £501m+ | 5% |

A Annual sample size



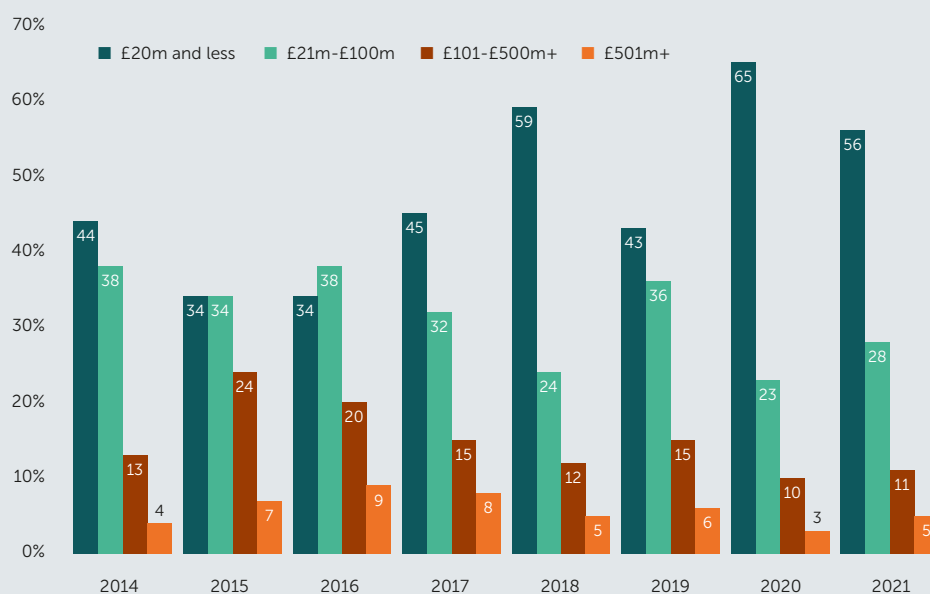
Data set:
No. of respondents:
2014: 68; 2015: 94; 2016:
80; 2017: 93; 2018: 97;
2019: 102; 2020: 114;
2021: 82

B Mean and median assets under management 2014-2021 (£ millions)



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

C Charity size distribution 2014-2021



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

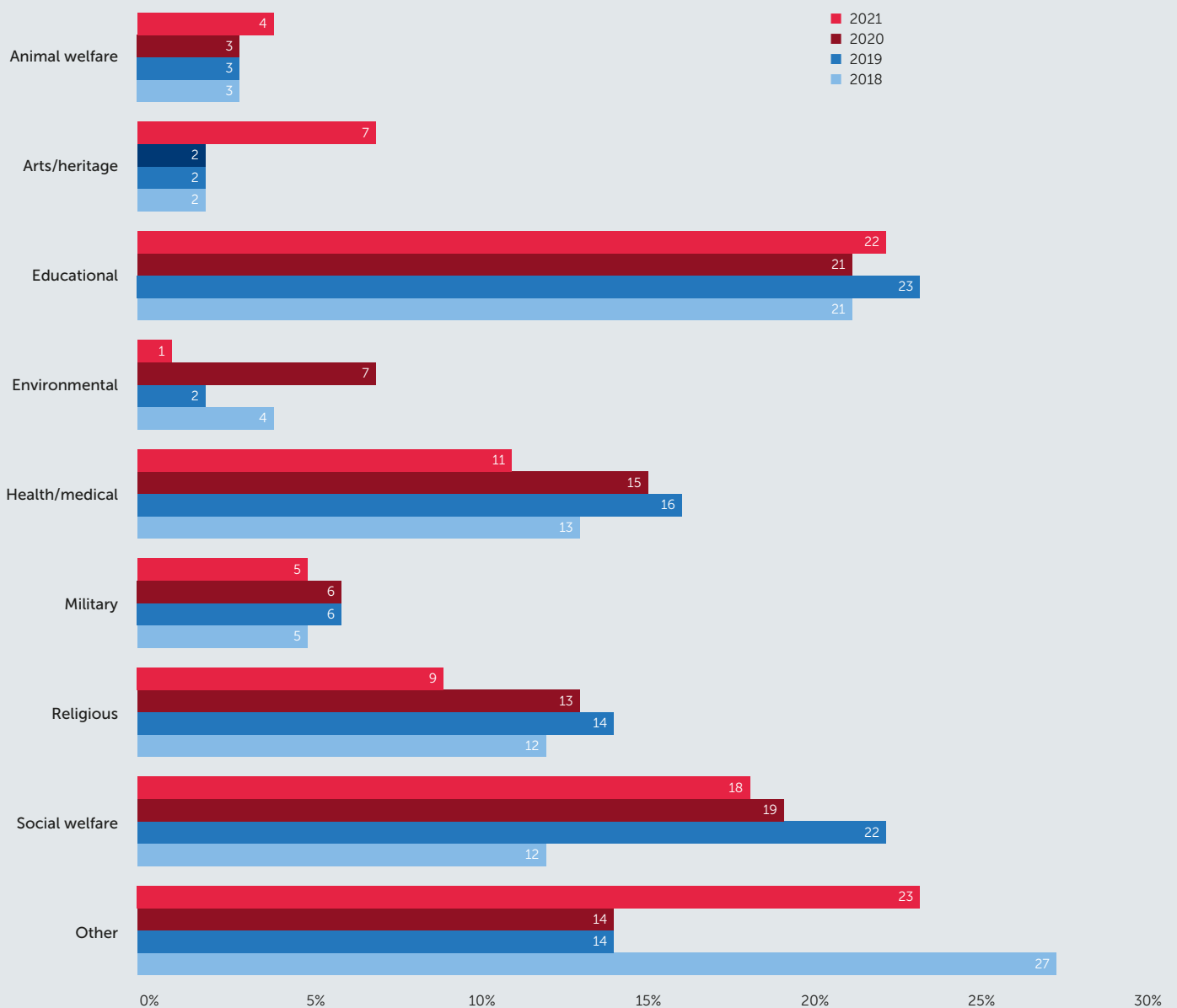
For the third consecutive year, educational charities are the most prominent in the survey, representing 22% of the 2021 sample.

Other charity types that have remained largely stable as a proportion of the survey year on year are animal welfare, military and social welfare charities, which have each seen a 1% shift in their share of the sample.

Elsewhere, environmental charities, health/medical charities and religious charities have seen significant declines, with 'other' charities that do not fit into these categorisations increasing by 9%, reaching 23% of the sample in 2021. **D**



D Charity type 2018-2021



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

CONTACT US

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



Alan Goodwin
Head of charities

T: 020 7163 4404

E: alan.goodwin@newtonim.com



Rorie Evans
Client director

T: 020 7163 4977

E: rorie.evans@newtonim.com

BOUNCING BACK

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.