

NEWTON

Investment
Management

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The 2022 Newton
Charity Investment
Survey

October 2022



SHIFTING PRIORITIES

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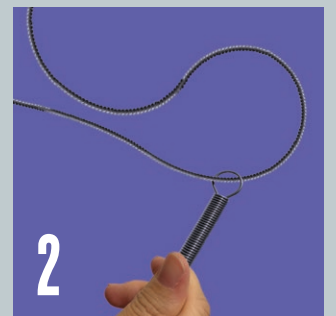
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WELCOME

The Newton Charity Investment Survey, now in its ninth 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 and still-evolving effect of the coronavirus pandemic on charities' administration and fundraising abilities and on demand for their services, as well as the lasting impact of the pandemic on the sector's investment policies
- the ways in which charities are adapting their investment strategies and expectations around investment returns in these uncertain times
- changes to charities' asset allocation and the shift towards more UK and equity-based portfolios
- shifts in both achievements and expectations around diversity within the charitable sector
- the changing nature of the sector's relationship with ethical exclusion policies, environmental and social responsibility, and sustainable investment

Introduction

ABOUT THIS RESEARCH



This year's sample includes

91 CHARITIES

with a combined

£7.3_{BN} IN ASSETS

Fieldwork took place between 3 May and 5 July 2022, with a record date for data regarding annual investment performance of 31 March 2022.

The experiences of the last three years are clearly still having a significant impact on charities – but the pandemic-dominated events of 2020 and 2021 are now part of a broader range of issues ranging from inflation to the conflict in Ukraine.

More than anything, 2022 is a year of change for the charity sector. For some issues, it presents a return towards pre-pandemic norms and trajectories after a difficult two and a half years – but for others, the challenges of inflation, a cost-of-living crisis, and the legacy of the pandemic are driving noticeable change. While the worst experiences of the Covid-19 pandemic may now be behind most charities, the longer-term impacts on management, fundraising and user demand are prominent. Meanwhile, widespread concern over inflation and investment returns is driving changes both in how charities are preparing for the future and how they are dealing with the present.

Looking to some of the broader areas of interest within the sector, there has been steady, albeit muted, progress around sustainable investment, environmental, social and governance (ESG) issues, and the use of ethical exclusions. There has also been some development in terms of diversity within the sector, though with all areas this progress finds itself outstripped by rising expectations from both trustees and within wider society.

Three main themes have emerged from this year's survey which we are using to structure this report: the legacy impacts of the coronavirus pandemic and the emergence of new concerns around the cost-of-living crisis, inflation and global events; investment strategy and performance in the context of these challenges; and the wider issues within both society and the charity sector itself that are continuing to affect how charities approach the world around them.

The sections in this survey report focus on:

Concerns, old and new

- The major issues facing charities
- The legacy impacts of the pandemic

Charitable investment in a complex world

- Investment strategy and returns
- Asset allocation
- Alternative investments

Wider issues

- Ethical exclusions
- Diversity
- ESG considerations and sustainable investment

EXECUTIVE SUMMARY

SHIFTING PRIORITIES



This year's survey suggests that 2022 is a year of change for the charity sector. Many charities continue to feel the longer-term impacts of the pandemic, while widespread concern over inflation, a cost-of-living crisis and geopolitical uncertainty have provided a challenging backdrop for investment strategy and performance.

Nevertheless, some trends remain unchanged – responsible investing and ethical considerations continue to be important topics for charities as they come under increasing pressure from stakeholders.

99%

of charities report that they are at least somewhat concerned about inflation

In 2022, inflation is now the main concern for charities, and by a significant margin.

Over 75% of charities state that inflation is very concerning, and a staggering 99% of charities are at least somewhat concerned about the subject. Rising costs, less generous donations and increasing demand from beneficiaries could present a major challenge for charities. The proportion of charities reporting increased demand for their services has risen significantly – from 45% in 2021 to 59% in 2022, and still well above the 46% reported in 2020.

53%

of charities report that management and administration have been affected by the Covid-19 pandemic

While the worst experiences of the Covid-19 pandemic may be behind us, 2022 has seen its impacts on charitable activities increase.

53% of charities report that management and administration have been affected, while the impacts on fundraising, reviews on charitable activities, and updated contingency planning have been felt by around 40%-50% of all charities surveyed.

94%

of charities feel that the income produced by their portfolio is sufficient to meet their needs

After a difficult couple of years, the majority of charities are now finding that the income produced by their investment portfolio is sufficient to meet their charity's obligations.

The rise in charities that feel that the income produced is sufficient to meet their needs, from 33% in 2021 to 94% this year, now takes us above the levels seen prior to the pandemic and is only just below the 96% seen back in 2016.

In 2021, we started to see some of the initial signs of recovery in investment returns, but these have been overturned by the events of this year.

12% of charities have seen their portfolio lose value over the period – a 10% increase compared to last year. Lower rates of return of 0% to 3% have also seen an increase, while the percentage of charities seeing a rise of more than 15% has declined from 30% in 2021 to just 3% this year.

OVER 80%

of charities expect an average return of above 3% over the next 3-5 years

Charities remain more positive over the medium and long term, with higher return expectations for the future.

Over 80% of charities expect an average return of above 3% over the next 3-5 years, while 36% expect returns of 6-9% per annum over the next 10 years, and the number expecting returns higher than this has also grown.

5%

The fall, compared to 2021, in charities that would consider including alternatives in their portfolio

The use of alternative investments in charity portfolios has continued to fall this year – the seventh consecutive year in which we have seen a decline – with only 31% of charities using alternatives in 2022.

The proportion of charities that would consider the use of alternative investments in the future has also declined. Only 35% of charities that do not currently use alternatives would consider including them in their portfolios in the future – a 5% fall compared to 2021.

JUST 36%

of charities feel diversity is adequately reflected on their board

2022 marks the second consecutive year in which the proportion of charities that feel diversity is adequately reflected on their board has fallen.

After rising from 38% to 44% between 2018 and 2020, it now stands at 36% – down 3% from last year. Charities are now also increasingly likely to demand that their partners demonstrate diversity within their own organisations. This has risen to 62% of charities in this year's report – up from just over half in 2021.

87%

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

Charities continue to acknowledge the importance of environmental, social and governance (ESG) investment factors in the management of their portfolios, as they come under increasing pressure from trustees.

In 2022, 87% of charities feel that ESG factors are either very or quite important in the management of their portfolio. Engagement is once again the most popular way of considering ESG factors – chosen by 59% of charities, compared to only 27% that prefer divestment.

29%

of charities exclude fossil fuels from their portfolios

Fossil fuels remain a key area of contention within sustainable investment, and 2022 marks a significant change in how charities are approaching the topic.

The proportion of charities excluding the area has remained relatively stable at 29% after last year's increase – but the number debating the issue and considering future action has risen to a third of charities.

SECTION I

CONCERNS OLD & NEW

PART 1:
THE MAJOR ISSUES CONCERNING CHARITIES

PART 2:
THE LEGACY IMPACTS OF THE PANDEMIC



HEADACHES, HEARTACHES HEADWINDS AND DRAGS

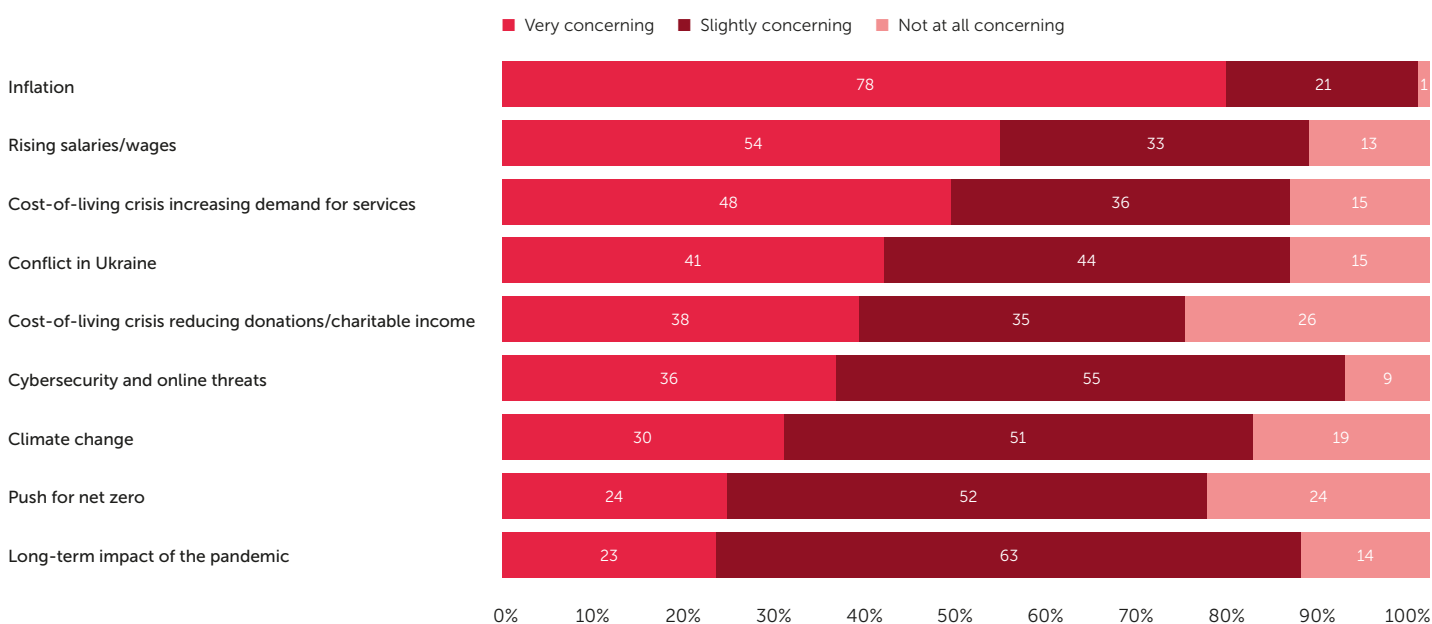
The coronavirus pandemic and its impacts on the charity sector have been a central focus for the last two iterations of this report – both in 2020, where lockdowns and pandemic impacts saw unprecedented disruption to charities and their beneficiaries, and in 2021, as the sector began recovering and dealing with the longer-term consequences of coronavirus.

In 2022, the charity sector is still feeling the effects of this period of disruption – the longer-term impacts of which will be discussed in more detail in the next chapter. However, the last 12 months have also seen a broader range of concerns being brought to the forefront for many charities as they have adjusted to what has been an increasingly complex and demanding period. High levels of inflation, the rising cost of living, geopolitical concerns (such as the war in Ukraine), and longer-term issues (including cybersecurity and climate change) are increasingly driving

the decision-making and planning of UK charities. Concerns about the long-term impact of the coronavirus pandemic have not gone away, but other issues are now of greater concern. Across the board, what is noticeable from this year's responses is the sheer number of issues concerning charities in 2022 and when thinking about the future. Across the nine issues explored, only one (regarding the impact of the cost-of-living crisis on donations and charitable income) saw more than a quarter of charities rating it as not at all concerning. The average level of

concern across all the issues surveyed stands at just below 85%. It is the long-term impact of the pandemic that sees the lowest level of serious concern, with fewer than one in four charities being very concerned – although overall concern remains high at 86%. As the UK has moved out of the acute period of the coronavirus pandemic, charities do remain apprehensive about its longer-term and legacy impacts. But for over three quarters of charities, it is no longer the defining issue this year. ¹

¹ How concerning are these issues to you when thinking about your charity?



Data set: No. of respondents: 2022: 91

Of the other issues, one stands well above the rest: inflation is now the main concern for charities, and by a significant margin. Over three quarters of charities reported that it was very concerning, with a staggering 99% of charities at least somewhat concerned about the subject. The associated impact of inflation on rising salaries and demand for wage increases among staff within charities themselves also ranks highly, with over half very concerned about the issue and a further third at least slightly concerned.

Inflation is also the major fear when charities think specifically about their investments. It was the most common response when charities were asked to note their greatest fears and concerns for their investment portfolio, and many of the other common responses such as 'recession', 'volatile', 'return' and 'loss' can be seen as spawning out of the wider concern over the impact that inflation is set to have – not just on the charity sector and its investments, but on UK society as a whole.

99%

of charities report that they are at least somewhat concerned about inflation

**VOLATILITY
 RECESSION
 INCOME
 INTEREST RATES
 VALUE
 GEOPOLITICS
 ETHICAL
 GLOBAL RECESSION
 REDUCED RETURNS
 UKRAINE
 WAR
 DOWNTURN**

**ESG
 INVESTMENT INCOME
 LOSS
 POOR PERFORMANCE
 SUFFICIENT FUNDING
 CONFLICT
 COST OF LIVING
 DEMAND
 GROWTH
 INVESTMENT
 LIQUIDITY
 LOW RETURNS
 PANDEMIC
 PORTFOLIO PERFORMANCE
 RETURNS
 RISING COSTS
 TOTAL RETURNS**

**ANNUAL RETURNS
 BANK FAILURE
 CAPITAL LOSSES
 CASH AVAILABILITY
 CENTRAL BANKS
 CHINA
 CLIMATE CHANGE
 COMMERCIAL RENTS
 CONFUSION
 CONSTRAINED RETURNS
 COST
 DECREASED PROFIT
 DIVERSIFICATION
 DONORS
 ECONOMY
 ENDOWMENT
 ENERGY
 EQUITIES
 FUNDING
 FUNDRAISING
 GLOBALISATION
 GOVERNMENT POLICY
 HIGHER FEES**

**INCOME RETURNS
 INSECURITY
 INTEGRITY
 INVESTMENT STRATEGY
 LOSING CAPITAL
 LOSS OF INCOME
 LOW RETURNS
 MISMANAGEMENT
 EXPANSION
 POLITICAL INTERFERENCE
 POLITICAL UNCERTAINTY
 POLITICS
 POOR MANAGEMENT
 REGULATION
 REPORTING
 RISK
 SAVINGS
 SECURITY
 SOCIAL IMPACT**

**SOMETHING NEW
 STABILITY
 STAGFLATION
 SUPPLY CHAIN
 TARGETS
 TRADE BARRIERS
 UNCERTAINTY
 WAGES**

INFLATION

91%

of charities are concerned about cybersecurity and online threats

The wider impacts of inflation and rising costs on society also feature highly in broader concerns within the sector. There is considerable anxiety that the cost-of-living crisis could see charities affected both in terms of demand for services and through a reduction in charitable income and donations, with 84% of charities concerned about increased demand and a further 73% concerned about reduced incomes.

The conflict in Ukraine, while relatively distant from most UK charities, is also a major worry for many of them, with around 40% very concerned about the issue. For some charities there may be very real and explicit impacts on demand for services and overseas operations, but for many the concern may be around the effects of the conflict on both the global and the UK economy, as well as the possibility of escalation and wider geopolitical instability.

85%

of charities are concerned about the conflict in Ukraine

Less immediate, but often longer-term, concerns are also prominent. These may be less pressing than the impact of inflation and the cost-of-living crisis but have the potential to have far longer-lasting consequences on the charity sector as a whole. Bar the long-term impact of the pandemic, these issues are ones that may have fallen out of prominence during the coronavirus pandemic but are now once again placing pressures on charities as they begin to think about the post-pandemic future.

Of the three longer-term issues, the greatest level of concern can be seen around cybersecurity and online threats – an area where some charities, especially smaller organisations, can be particularly at risk. Just over a third of charities are very concerned about this issue, with a further 55% finding it slightly concerning.

84%

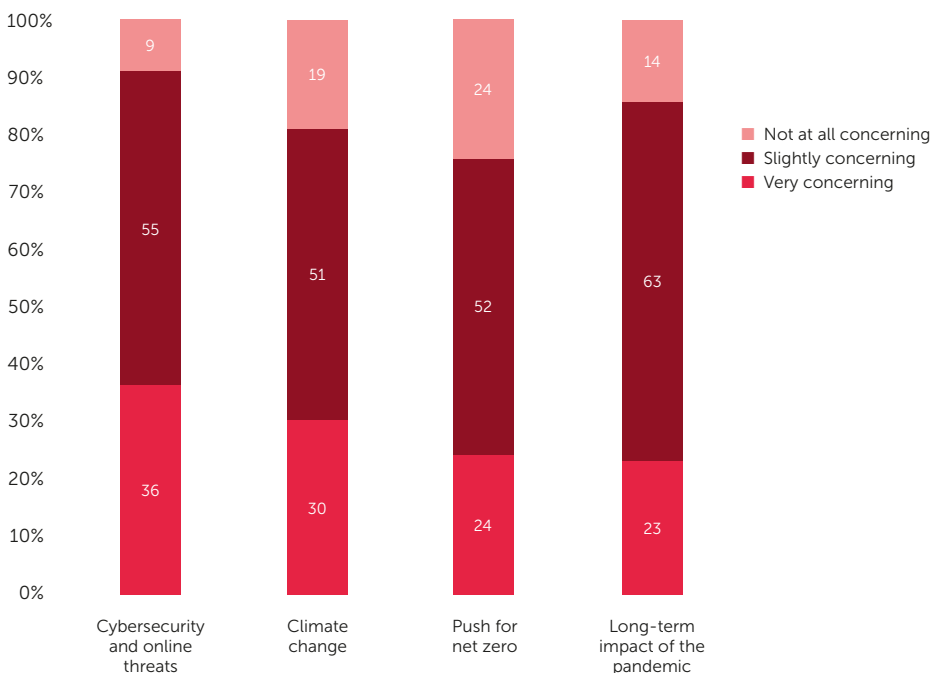
of charities are concerned about increased demand on their services

The impact of climate change was also a common worry, with over 80% of the charities that responded showing some level of concern here.

The UK's push for net zero is marginally less prominent, with only 24% of charities very concerned, but over three quarters of charities are worried about the impact of the issue on their organisation, with larger charities which have higher carbon footprints facing a sometimes-challenging adjustment.

The impacts of these longer-scale issues may not be as immediate or all-consuming for charities as those being driven by inflation and the cost of living, but nonetheless, they are still prominent in terms of their concerns for the future. Once the economic crisis abates, charities will still have worries about what the future holds. ²

² How concerning are these issues to you when thinking about your charity?



81%

of charities show concern about climate change

DISRUPTION

While the longer-term impacts of the coronavirus pandemic may no longer be the major issue concerning charities, the effects of the disruption are still being felt.

2021 saw many charities begin to find their feet after a very difficult 2020, with a number of the measures of the impact of the pandemic starting to decline and the resumption of normal service seeming to be a prospect in the months ahead. That trend has not, however, continued into 2022. ³

Almost across the board, 2022 has seen the impact of the coronavirus pandemic on charitable activities increase. The greatest rises can be seen in its consequences for management and administration and contingency planning, both of which saw 9% rises

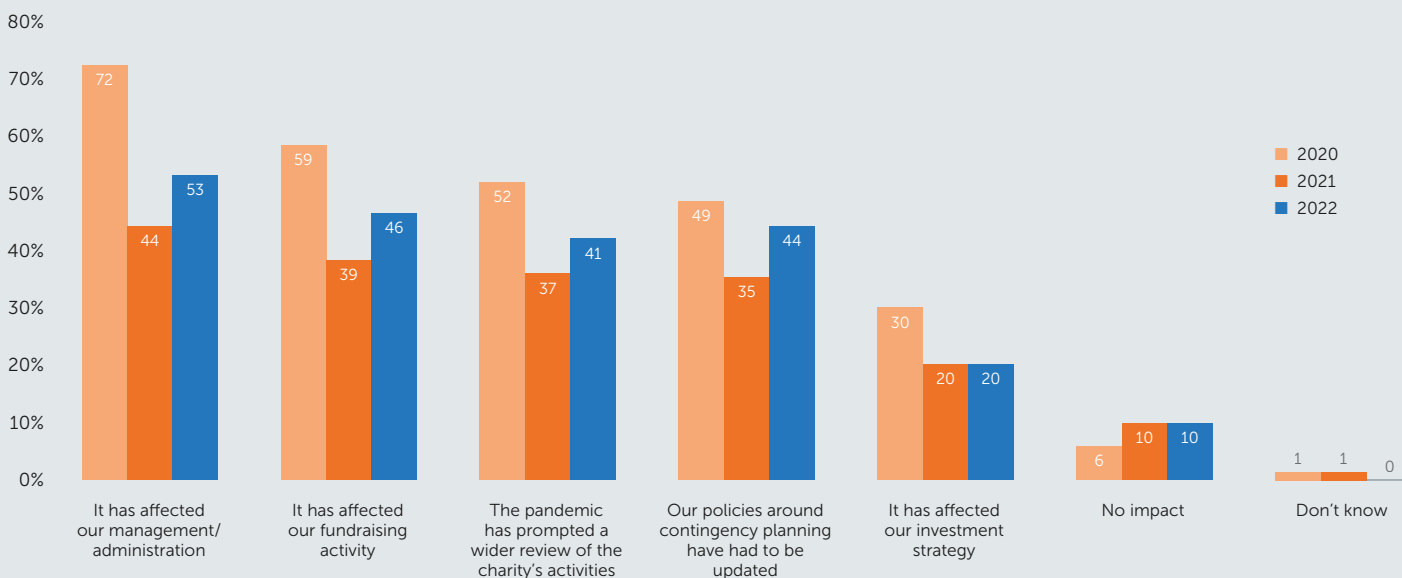
since 2021. All the impacts reported remain below their 2020 peaks, yet nine in ten charities are still seeing some form of impact from the pandemic. Of these, the impact on management and administration remains the most common issue, affecting just over half of charities.

Three other areas where charities continue to see disruption also appear as sizeable minorities, with effects on fundraising, reviews on charitable activities, and updated contingency planning all being reported by around 40%-50% of all charities.

The only outlier is the impact of the pandemic on investment strategy. This has remained stable since 2021 at 20%; it is likely that decisions around investment strategy are now being driven by broader economic concerns rather than being explicitly pandemic-related.

All the impacts reported remain below their 2020 peaks, yet nine in ten charities are still seeing some form of impact from the pandemic

³ What impact, if any, has the coronavirus pandemic had on your charity's activity over the last year?



Data set: No. of respondents: 2020: 114, 2021: 82, 2022: 91

The pandemic, alongside wider issues driving user need, is also having a continued effect on demand for charitable services this year. There is a large spike in the proportion of charities reporting that demand for their services has increased – rising from 45% in 2021 to 59% in 2022, and still well above the 46% reported in 2020. ⁴

59%

of charities have seen an increase in demand for their services

Of those charities that have been seeing increased demand for services, a large majority are seeing this growth come from a combination of both current and new beneficiaries – a figure which has risen from 65% among charities reporting increased demand in 2021 to 72% in this year's survey. ⁵

This increased demand is not being felt equally across the charitable environment.

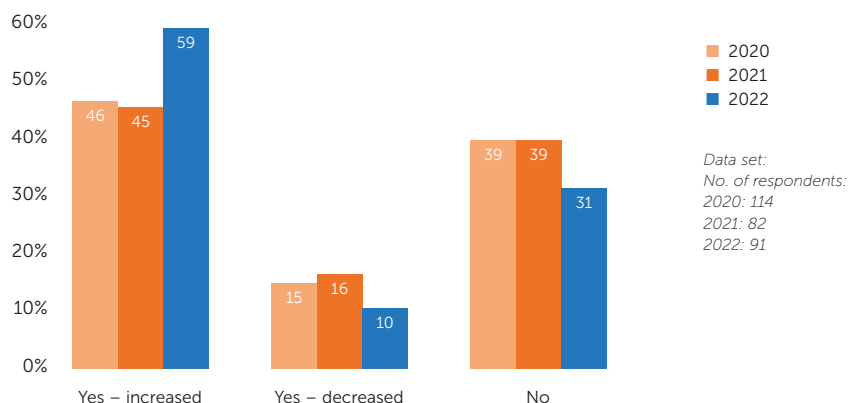
Much of the increase can be seen affecting smaller charities in our sample, with a rise in demand experienced by 68% of charities with assets under management (AUM) of £20 million or less and just over half of charities with an AUM of £21-100 million.

This compares to just a quarter of charities with an AUM of between £101-500 million, and none of the charities with an AUM of over £501 million reporting an increase.

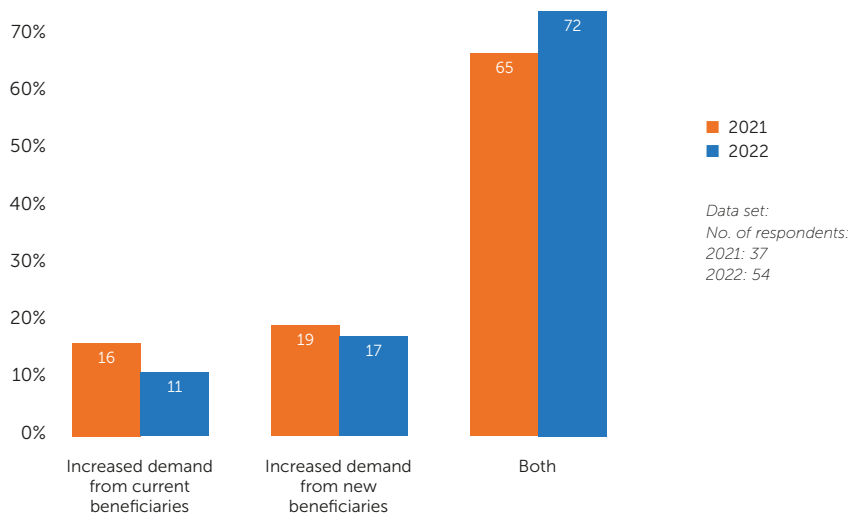
For smaller charities this increase in demand, combined with rising internal pressures from inflation and cost rises, presents a real challenge. ⁶

Much of the increase in demand can be seen affecting smaller charities in our sample, with a rise in demand experienced by 68% of charities with assets under management (AUM) of £20 million or less

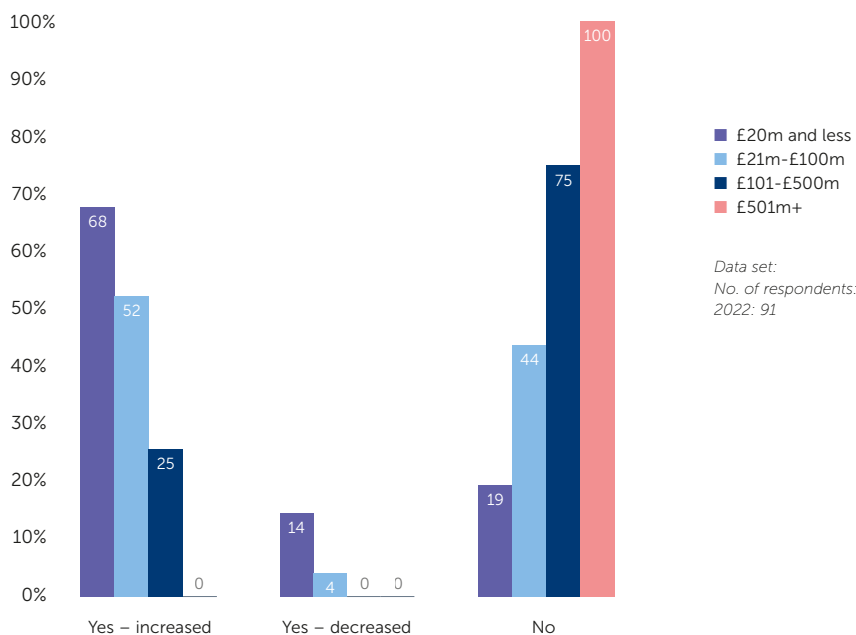
4 Have you seen a change in demand for your charity's services?



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



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

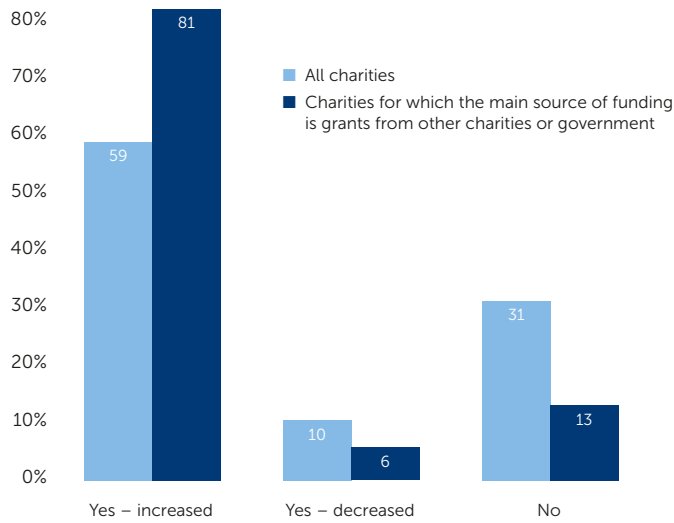


81% of grant-funded charities have experienced an increase in demand for their services

The question of why the sector is now seeing a rise in the impacts of the coronavirus pandemic, despite the UK having passed the acute stage of the health crisis, is a complex one. One explanation is that this may be a case of delayed challenges now flowing into the charity system as government pandemic-era support for both beneficiaries and charities themselves has been rolled back over the last 12 months. At the same time, external economic pressures from inflation and the cost of living have placed new strains on charity resources. This time lag in pandemic impacts leaves charities in a difficult position – still experiencing pandemic-era difficulties while also having to face up to emerging economic and social challenges. ⁷

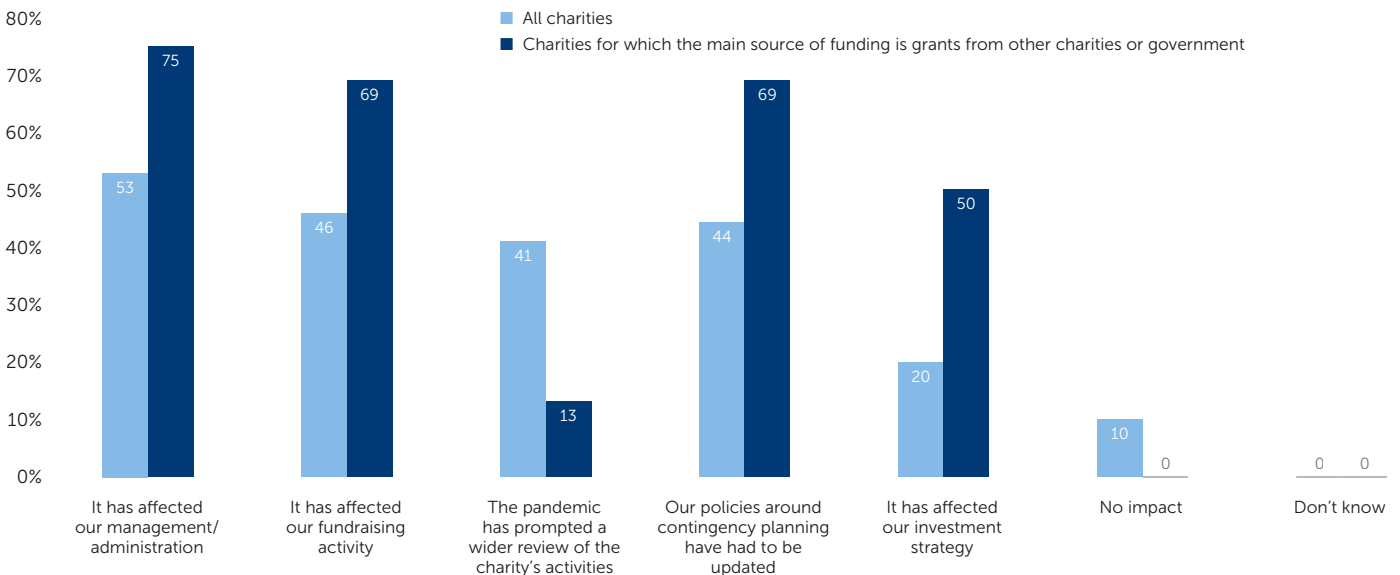
The sector could also see further knock-on effects down the line from the continued impact of the pandemic on charities for which the majority of funding comes from grants – either received from government or from other charities. These organisations, which make up just over a sixth of the sample, continue to bear the brunt of pandemic impacts in 2022. They are significantly more likely to report that the pandemic has had an impact on most of their charity’s activities over the last year and are also markedly more likely to have seen an increase in demand for their services, at 81% compared to 59% of all charities. ⁸

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



Data set: No. of respondents: 2022: All charities; 91 Charities for which the main source of funding is grants from other charities or government; 16

7 What impact, if any, has the coronavirus pandemic had on your charity's activity over the last year?



Data set: No. of respondents: 2022: All charities; 91 Charities for which the main source of funding is grants from other charities or government; 16

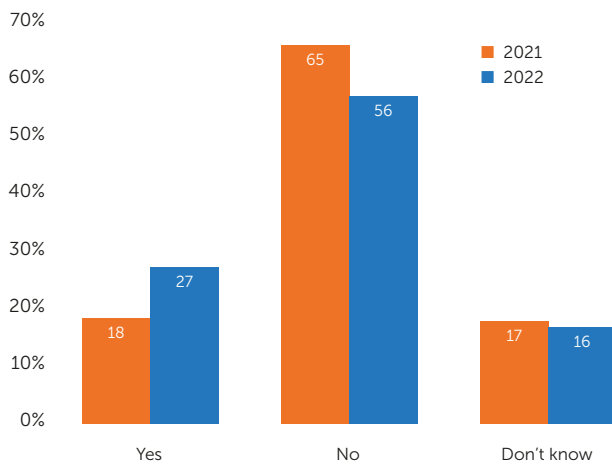
27%

of charities now think that the impact of the pandemic on their investment policy will be long-lasting

The risk is that the increased support these charities are likely to require will, at a time of wider financial concern within the charitable sector, either not be available or will begin to filter through to larger, grant-giving charities as demand for grants and support increases. Larger charities may need to prepare for an eventuality in which pressures on smaller and grant-receiving charities begin to filter through into the sector as a whole.

Looking out over the longer term, there is also an uptick in terms of the lasting impacts of the pandemic on charities' investment policies. 27% of charities now think that the impact on their investment policy will be long-lasting, up from 18% in 2021. This 9% increase has come almost entirely from a fall in the proportion of charities answering 'no' to the same question, with the level of 'don't knows' staying relatively stable. ⁹

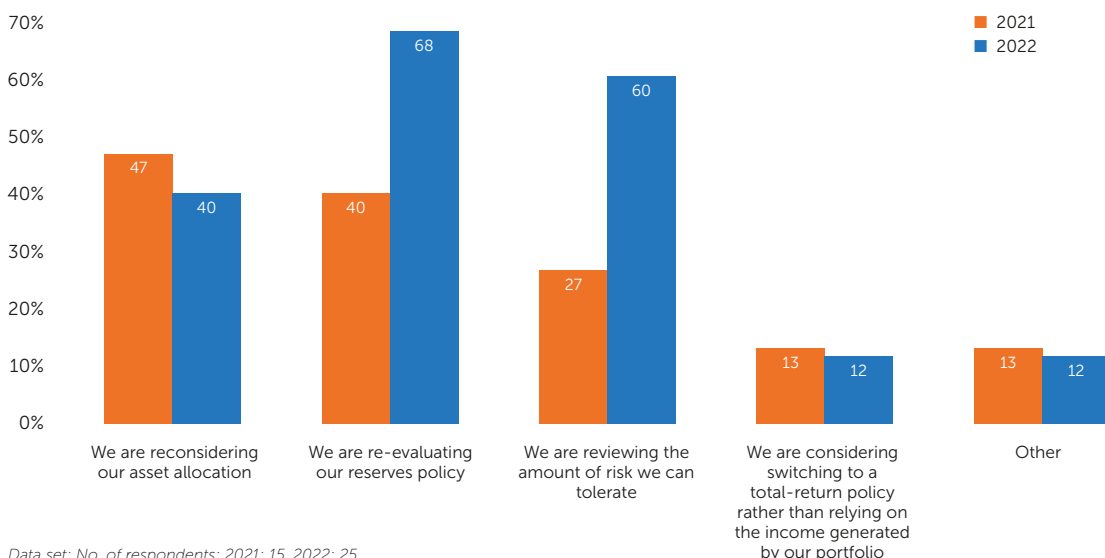
9 Do you think the pandemic will have a lasting impact on your investment policy?



Data set: No. of respondents: 2021; 82, 2022; 91

Of the charities that see the pandemic as having a lasting impact on their investment policy, some clear differences are emerging around what form that impact will take when we compare responses to those from 2021. Reconsidering asset allocation has become less common, falling from 47% to 40%, while the proportion of charities considering switching to a total-return policy has remained relatively stable, at 12% of respondents. Yet the share of charities re-evaluating their reserves policies and reviewing their risk toleration has risen dramatically, with the proportion reviewing the amount of risk they can tolerate doubling over the last 12 months. This reflects a broader shift across the global business and charitable environment as organisations move to reduce risk and build in resilience in response to the shocks of the last 36 months. ¹⁰

10 How will the pandemic have a lasting impact on your charity's investment policy?



Data set: No. of respondents: 2021; 15, 2022; 25

SECTION 2

CHARITABLE INVESTMENT IN A COMPLEX WORLD

PART 1:
INVESTMENT STRATEGY AND RETURNS

PART 2:
ASSET ALLOCATION

PART 3:
ALTERNATIVE INVESTMENTS

INVESTMENT STRATEGY AND RETURNS

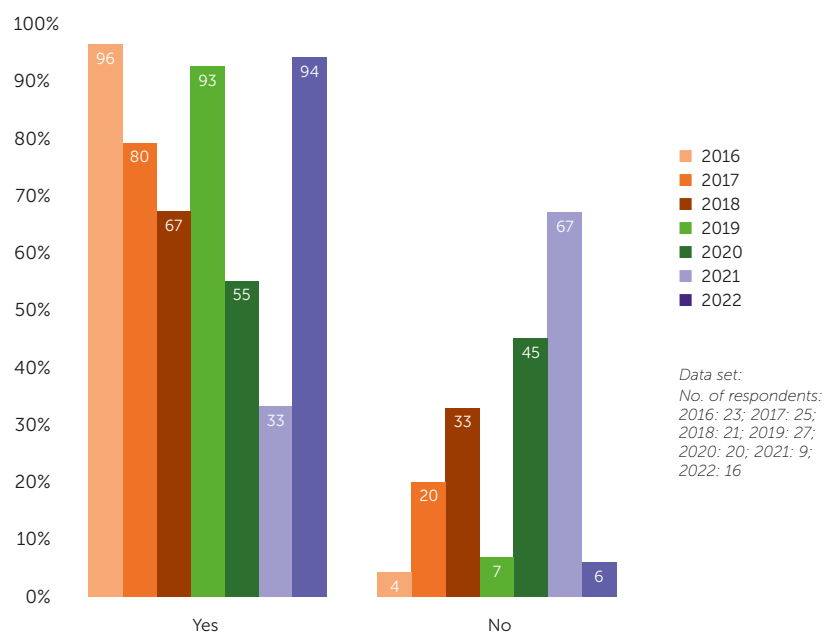
94%

of charities feel that the income produced by their portfolio is sufficient to meet their obligations and commitments

This year sees a significant increase in the proportion of charities reporting that the income produced by their investment portfolio is sufficient to meet their charity’s obligations.

The rise, from 33% in 2021 to 94% this year, now takes us above the levels seen prior to the pandemic and is only just below the 96% seen back in 2016. With the increasing financial and beneficiary demand-related pressures facing charities this year, the question is whether this return towards pre-pandemic heights is one that will be maintained. For the moment, strong investment performance appears to be strengthening portfolio income against rising costs in the sector. ¹¹

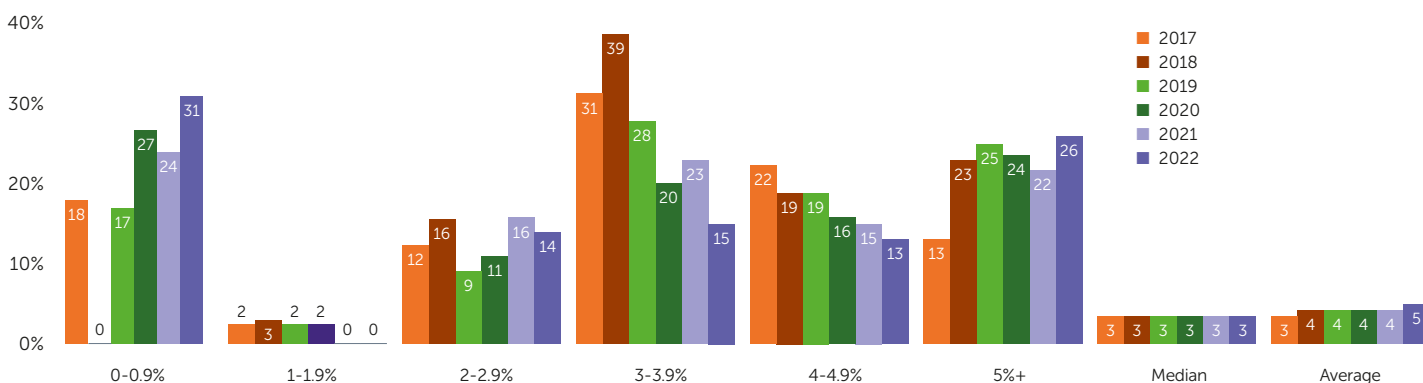
11 Do you feel that the income produced by your investment portfolio is sufficient to meet the obligations and commitments of your charity?



5% The average withdrawal rate across the sector

Withdrawal rates is another area that has seen sustained change. Middle-ground withdrawal rates of between 1% and 4.9% have continued to decline, now making up only 42% of all withdrawal rates. Instead, withdrawals have coalesced around the extremes. 31% of charities now present withdrawal rates of less than 1%, while a further 26% have rates of 5% or more. Across the sector, the average withdrawal rate now sits at 5%. ¹²

12 What approximate percentage of your investment portfolio (comprising income and/or capital) do you take out of your portfolio to spend each year (excluding any investment management fees that may be payable)?



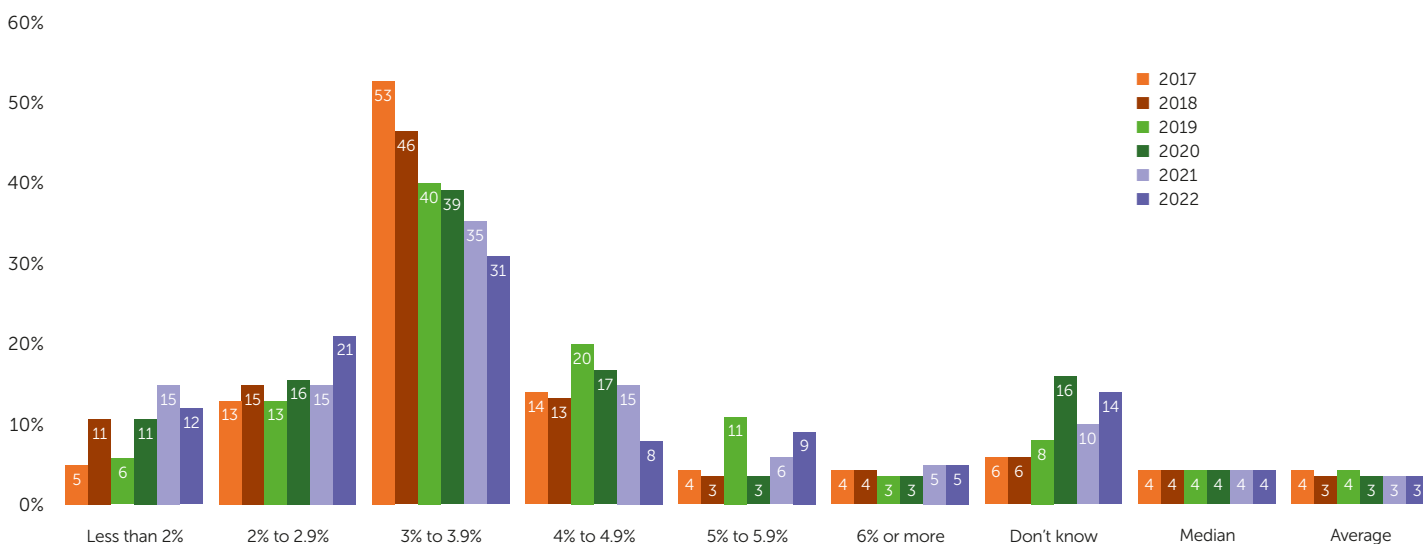
Data set: No. of respondents: 2017: 91; 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91

While average withdrawal rates are up this year, the view of what represents a 'sustainable' withdrawal rate is generally declining. The average response has fallen slightly to an annual rate of 3%, driven by an increase in charities that view a withdrawal rate of 2% to 2.9% as sustainable. ¹³

Importantly, however, this change in perception around sustainable withdrawal rates appears to be driven by a reaction to current economic circumstances, rather than by explicit plans to reduce withdrawals in the future. When we look at the number of charities that are actually considering

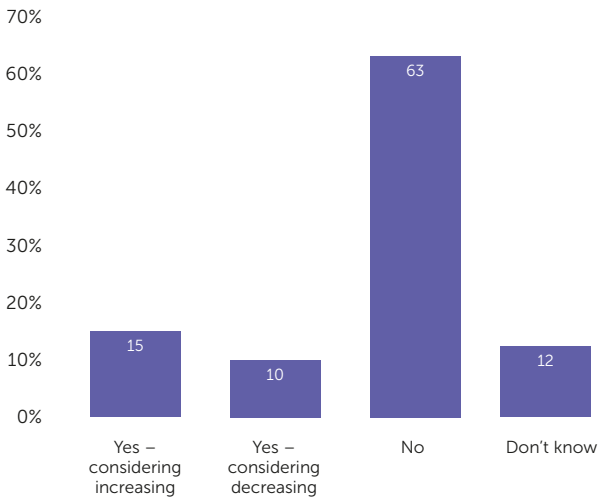
changing their withdrawal rate in the next financial year, the figure remains low. Only a quarter of charities are considering such a change, with 15% looking to increase withdrawals and a further 10% considering decreasing them. ¹⁴

13 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: 2017: 93; 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91

14 Are you thinking of changing your withdrawal rate?

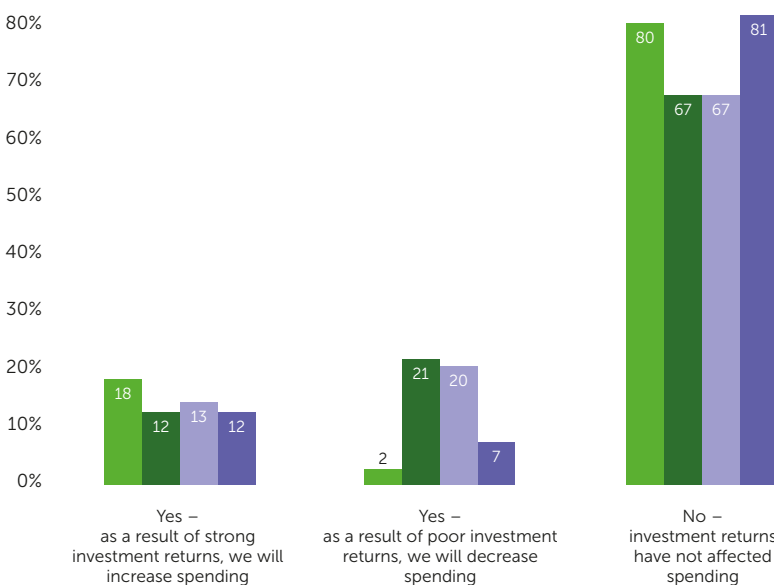


Data set: No. of respondents: 2022: 91

The continued ability of investment portfolios to meet any increased spending demands may help explain why the proportion of charities looking to change withdrawal rates remains relatively small; looking at how overall investment performance has affected spending in 2022 supports this.

The proportion of charities for which investment returns have not affected their spending has risen to 81%, with most of this increase coming from a significant fall in the number of charities for which poor returns have required reduced spending. **15**

15 Has your investment performance affected spending?

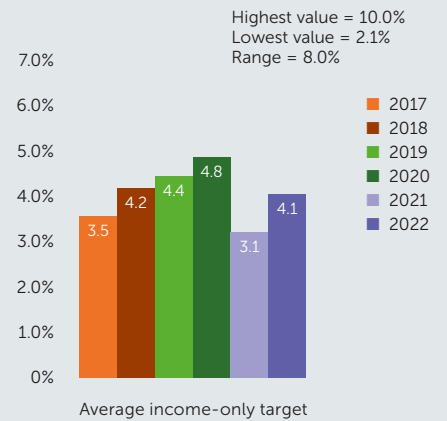


■ 2019 ■ 2020 ■ 2021 ■ 2022

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

In 2022, charities' views around annual return targets have remained relatively stable. Average income-only targets have risen slightly, from 3.1% to 4.1% of portfolio value, while total-return targets have seen an even smaller increase, from 5.1% to 5.2%. **16** **17**

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



Data set: No. of respondents: 2017: 23; 2018: 21; 2019: 26; 2020: 20; 2021: 9; 2022: 14

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



Data set: No. of respondents: 2017: 16; 2018: 41; 2019: 43; 2020: 41; 2021: 35; 2022: 38

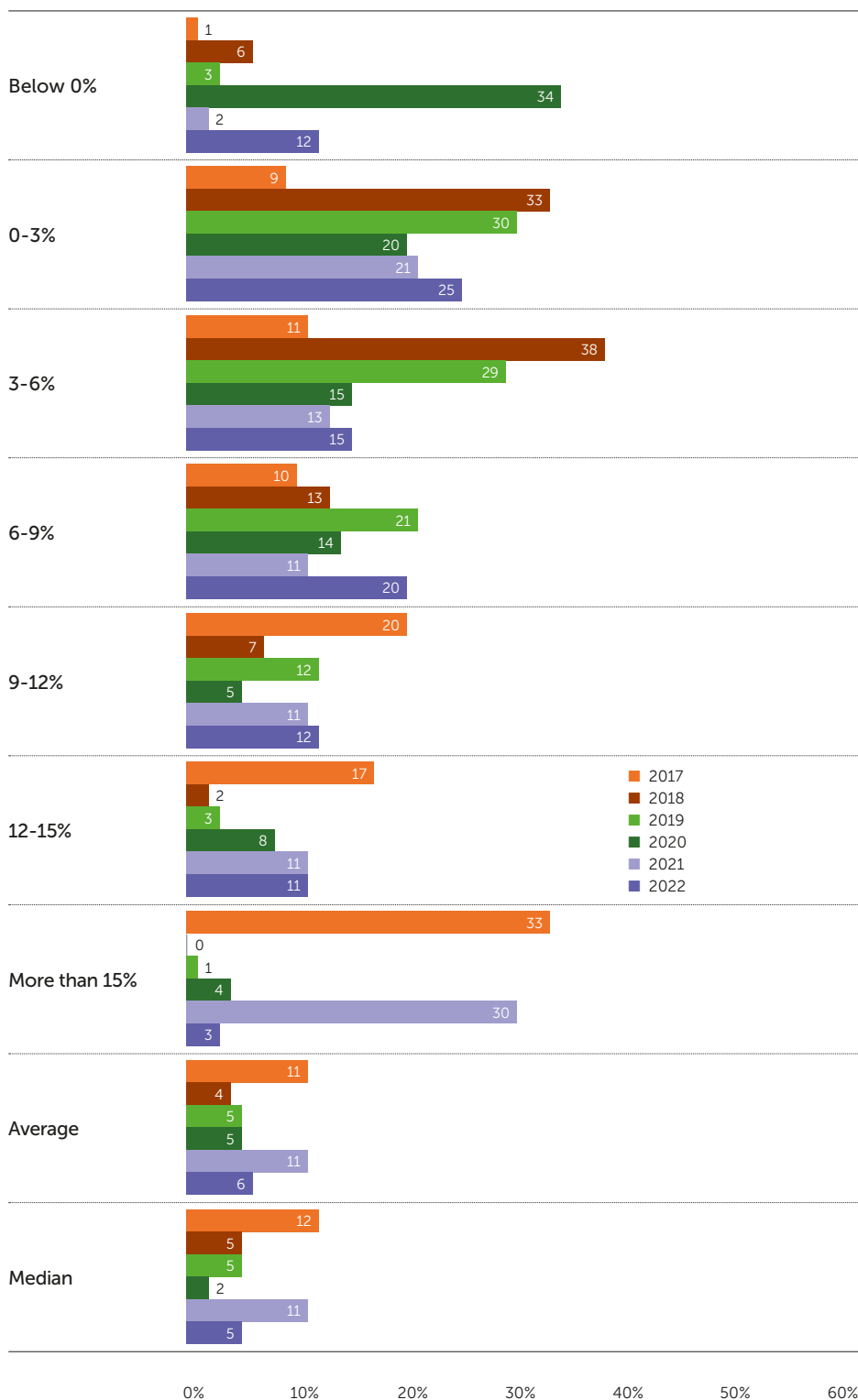
12-MONTH RETURNS

However, it is not all plain sailing. When looking at overall investment returns over the last 12 months, it is clear that some of the initial signs of recovery seen in 2021 have been overturned by the events of this year.

There has been a 10% increase in the proportion of charities that have seen their portfolio lose value over the period – now standing at 12% of charities.

Lower rates of return of 0% to 3% have also seen an increase, while the percentage of charities seeing a rise of more than 15% compared to last year has declined from 30% to just 3%. ¹⁸

¹⁸ What was the approximate total percentage performance gain/reduction in your investment portfolio's value – like for like – in the year to 31 March 2022 (i.e discounting any additions/withdrawals made in the period)?

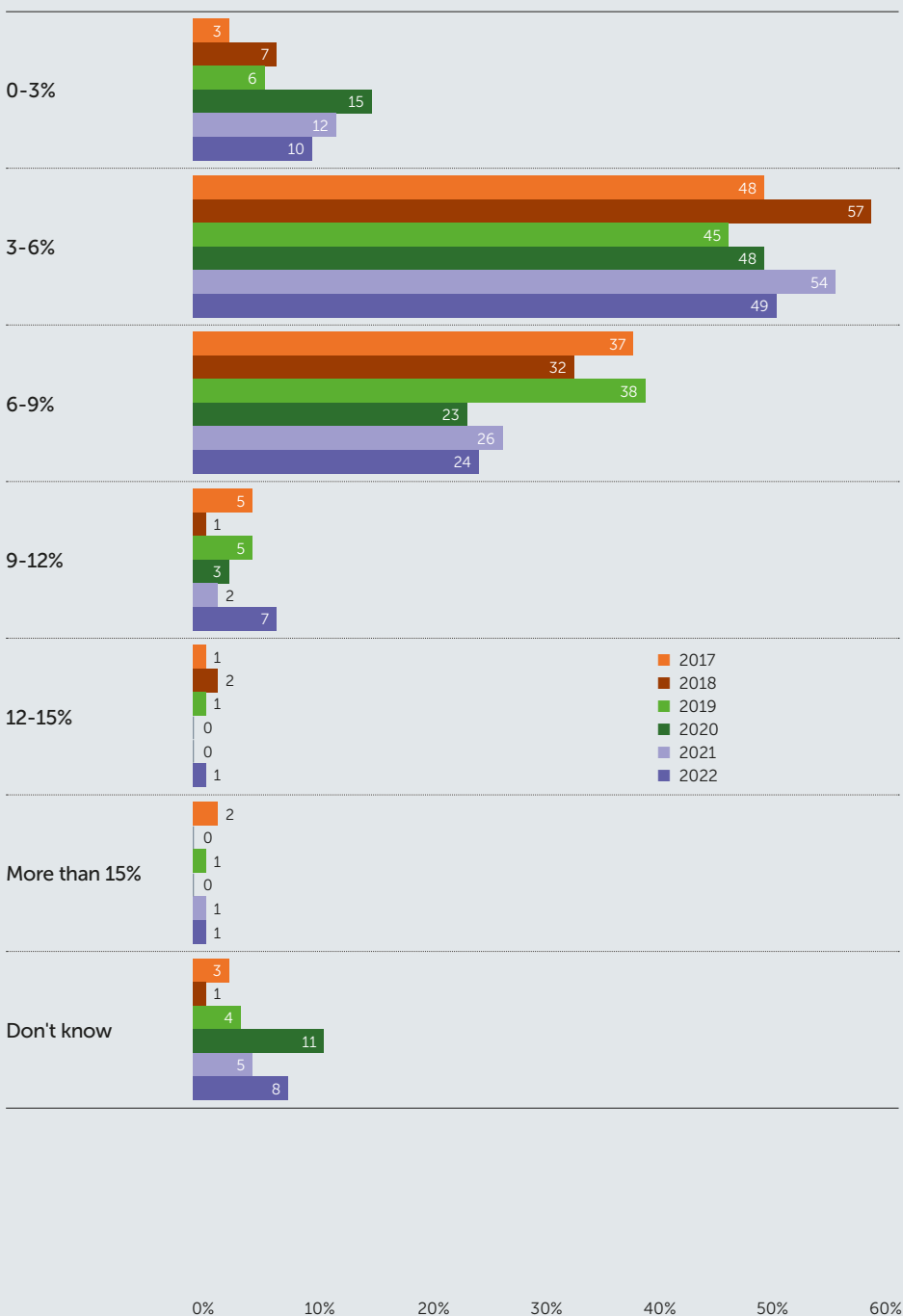


Data set: No. of respondents: 2017: 92; 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91

OUTL%K

Looking at a 3-5 year time horizon, expectations for annual returns are more positive. Over 80% of charities expect an average return of above 3%. Of the 10% that expect less than 3% return per annum, almost half feel that returns could be negative during this period. ¹⁹

¹⁹ What is the annual total return you would expect from your portfolio over the next 3-5 years?



Data set: No. of respondents: 2017: 92; 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91

Looking forward towards the end of the decade and beyond, expectations are more positive still.

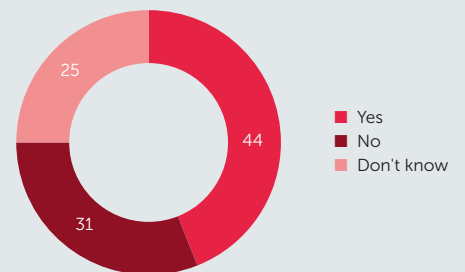
The proportion of charities expecting returns of 6-9% per annum over the next 10 years has risen by 9% to 36%, while the number expecting returns higher than this has also grown.

Even for charities expecting a rate of return lower than 3% over the time frame, the outlook is less negative.

Of the 7% that expect annual returns below that level, only a fifth are concerned that returns could be negative. ²⁰

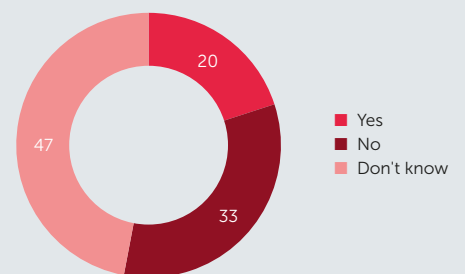
²⁰ Do you think there is a possibility that the annual total returns on your portfolio could be negative?

Over the next 3-5 years



Data set: No. of respondents: 2022; 16

Over the next 10 years



Data set: No. of respondents: 2022; 15

Part 2: Asset allocation



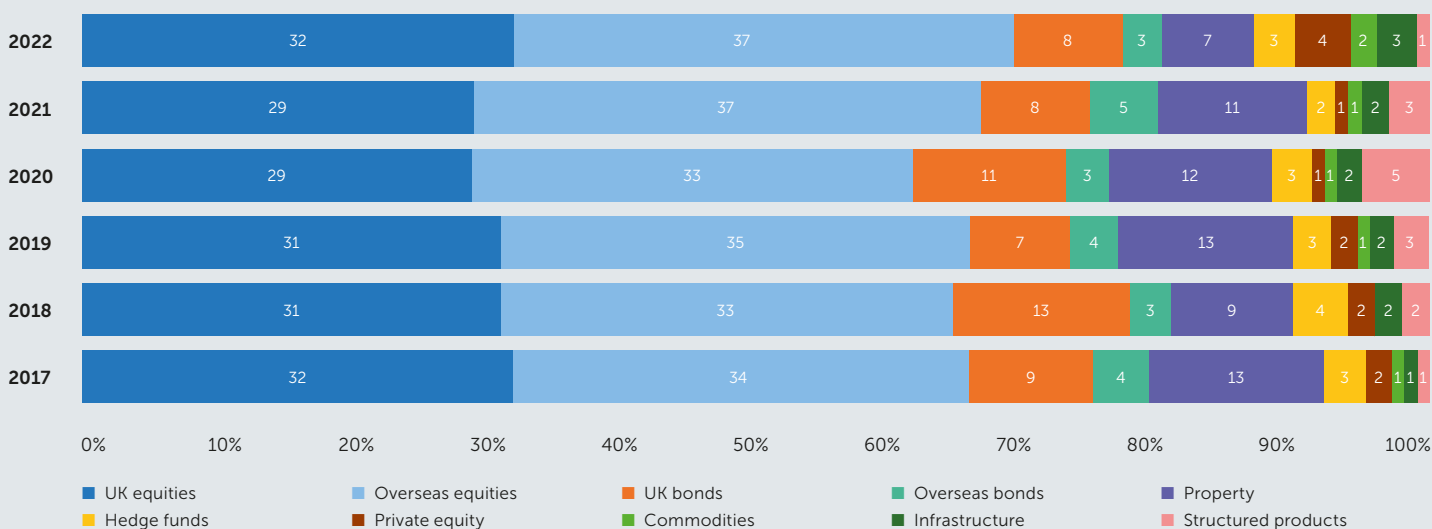
2022 has been a year of change within asset allocation among UK charities. 84 of the 91 charities in our sample have made some change to their asset allocation over the last 12 months.

Overseas equities remain the most commonly held asset across UK charities in this year's survey, accounting for an average of 37% of portfolios. Unlike 2020-2021, however, growth in this asset class has stalled, with overseas equities also accounting

for 37% of portfolios last year. UK equities have closed the gap over the last 12 months – these assets now account for 32% of the average portfolio, a 3% increase on 2021, and are comfortably the second-largest asset group. Elsewhere within

portfolios, there has been a significant decline in the holding of property – down from 11% to 7% – and a proportionally similar fall in overseas bonds – down from 5% to 3%. The proportion of assets held in UK bonds has remained stable at 8%.²¹

²¹ Approximate allocation across different asset classes (excluding cash) in percentage terms



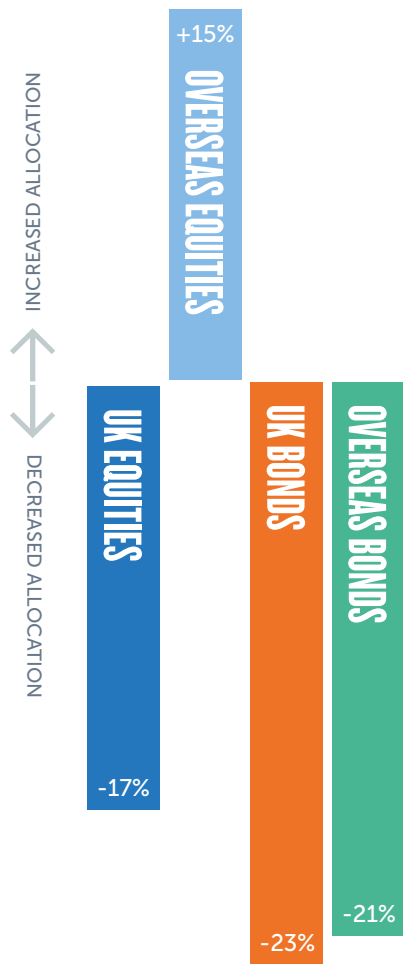
Data set: No. of respondents: 2017: 82; 2018: 93; 2019: 98; 2020: 105; 2021: 77; 2022: 86 Note: Figures may not sum to 100% owing to rounding.

Charities have moved away from bonds, both overseas and UK-based, and have instead placed a greater focus on equities, with UK and private equity both seeing increases in allocation in 2022 while the use of overseas equities has remained stable. Strong equities markets, both within the UK and at a global level, are the likely drivers of this change. As such, it may represent a market-driven adoption, with portfolios shifting to capture high-return investments, rather than an overall shift in long-term investment approach within the sector.

Net changes in allocation tell a more complex story, and a less positive one for the UK market. While the overall allocation to UK equities has increased in this year's sample, the average net change in allocation on a charity-by-charity basis shows that use of UK equities has declined more closely in line with that of UK bonds, seeing a -17% and -23% change respectively. ²²

It may represent a market-driven adoption, with portfolios shifting to capture high-return investments, rather than an overall shift in long-term investment approach within the sector.

²² Has there been any net increase or decrease in your portfolio's allocation to these asset classes in the 12 months to 31 March 2022?



Data set: No. of respondents: 2022: 84

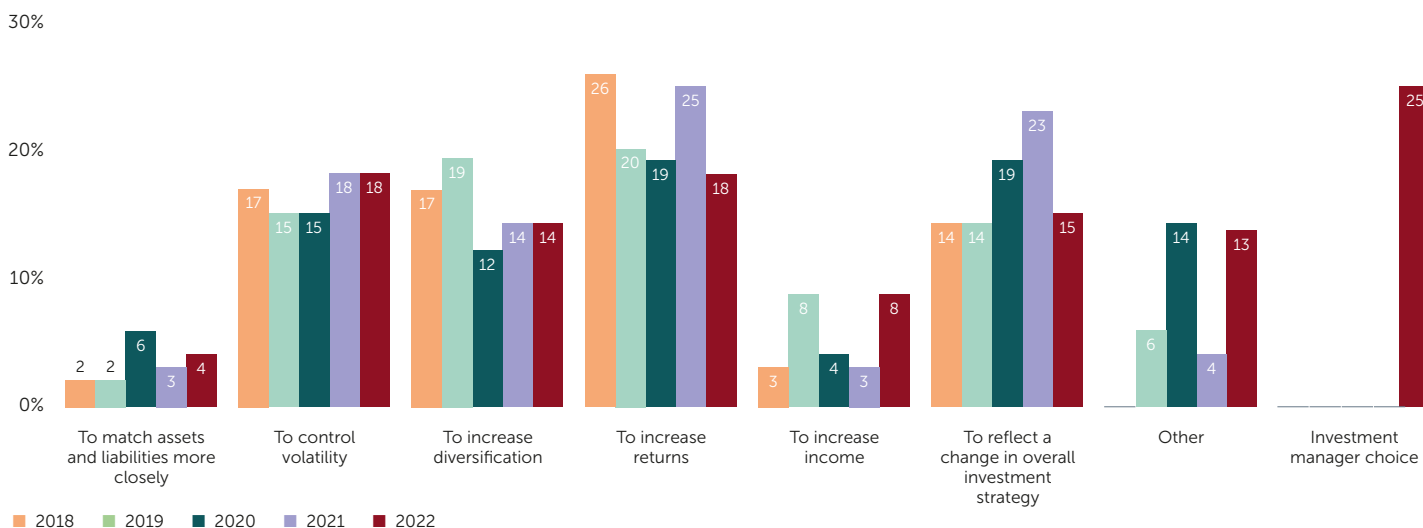
25%

The most common reason reported by charities for asset-allocation changes was investment manager decision-making

The reason for the different trends between overall allocation and net change could be a consequence of the higher proportion of smaller charities in this year's sample, which may be more likely to hold less diverse, UK-centric portfolios.

The most common reason for asset-allocation changes, with 25% of responses, was investment manager decision-making, but four other reasons were also selected by at least an eighth of respondents. Of these, only two reasons for allocation changes show declines compared to 2021: to increase returns and to reflect a shift in investment strategy. ²³

²³ If there were changes to your asset allocation in the 12 months to 31 March 2022, what were the reasons for this?

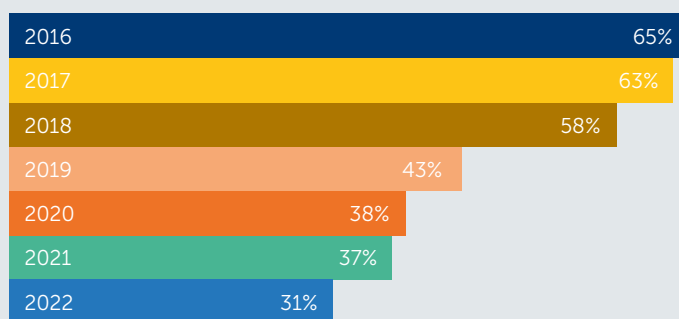


Data set: No. of respondents: 2018: 93; 2019: 98; 2020: 105; 2021: 79; 2022: 84

ALT



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



Data set: No. of respondents: 2016: 80; 2017: 93; 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91

The proportion of charities using alternative investments in their portfolio has continued to fall this year – the seventh consecutive year in which we have seen a decline – and now stands at 31%. It is also the largest year-on-year decline since 2018-2019 and continues the long trend away from alternative investments as common practice within the sector.

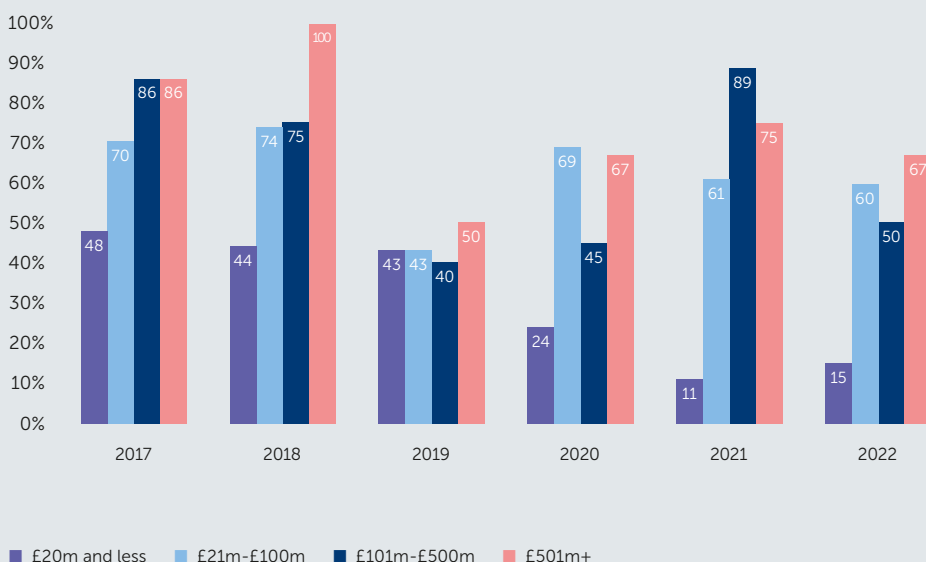
When examining the use of alternative investments according to the size of charities, the story is more complex, but remains one of overall decline.

The use of alternatives is more common among charities with AUM of over £20 million than with smaller charities.

Charitable organisations with AUM of over £501 million are now the most likely to use such types of investment, with alternatives used by 67% of these largest charities.

However, across all AUM bands, we see use of alternative investments decline compared to last year, with the greatest fall coming from charities with AUM of £101-£500 million. This group has seen use decline from 89% in 2021 to just 50% charities in 2022. ²⁴

²⁴ Charities using alternative investments (e.g. property, hedge funds, private equity)



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

Among charities not making use of alternative investments, there remains a broad range of reasoning behind the decision. Perceived risk around this form of investment remains a significant barrier to use, with 27% of charities viewing the option as 'too risky'.

This does, however, present a decline compared to 2021, where risk was a driver in 33% of the decisions to not use alternative investments. An even greater change can be seen for 'lack of

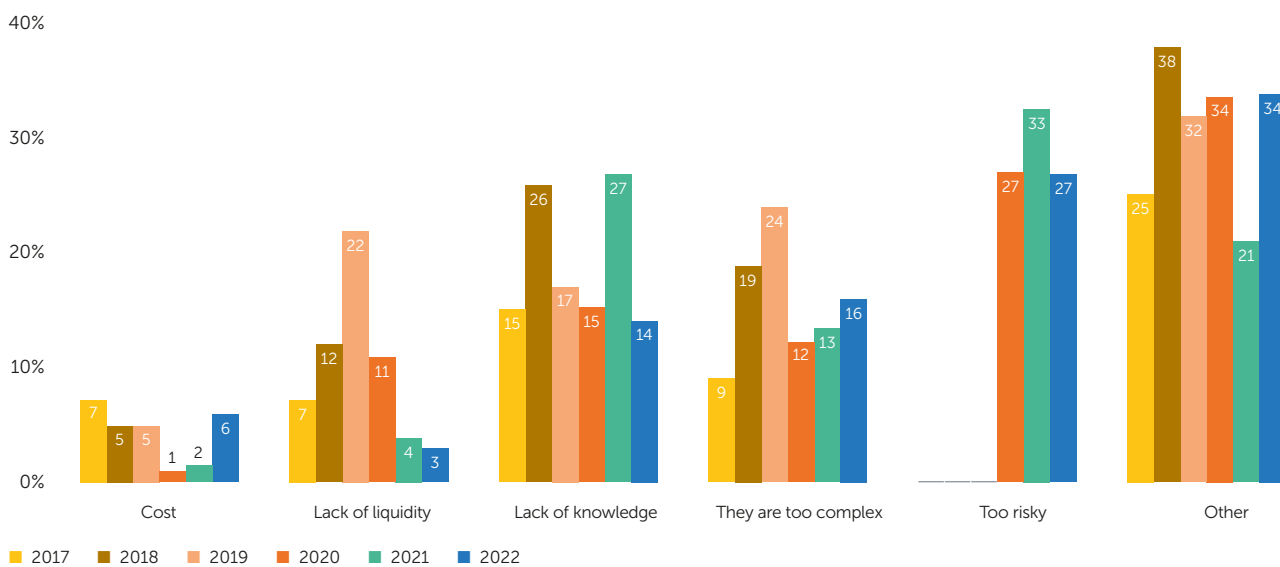
knowledge' – down from over a quarter of charities in 2021 to 14% this year.

The most common answer is now 'other', indicating that the reasons driving reduced alternative investment use are even broader than we are able to capture. ²⁵

The proportion of charities that would consider the use of alternative investments in the future has also declined. Only 35% of charities that do not currently use alternatives would

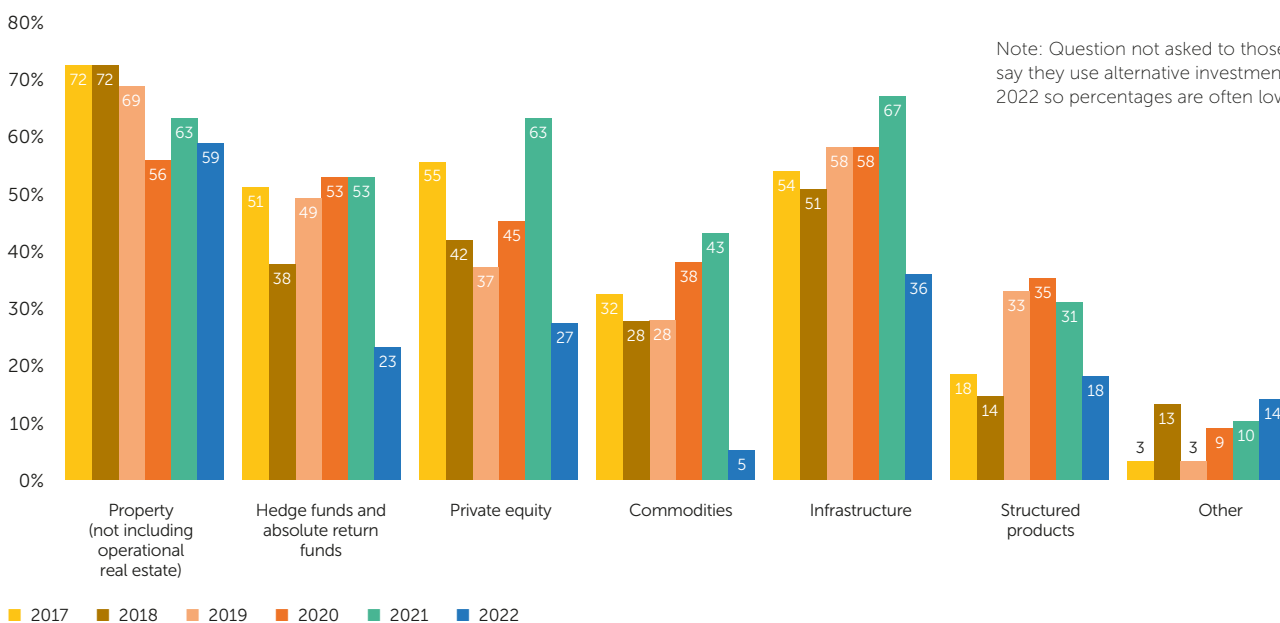
consider including them in their portfolios in the future – a 5% fall compared to 2021. Even among those charities that are currently engaged with alternative investments, the future trend looks set to decline further. All main sub-sections of alternative investments have seen reduced consideration this year, with commodities seeing a particularly substantial decline in consideration, down from 43% in last year's report to just 5% in 2022. ²⁶

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



Data set: No. of respondents: 2017: 35; 2018: 41; 2019: 58; 2020: 74; 2021: 52; 2022: 63

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



Note: Question not asked to those who say they use alternative investments in 2022 so percentages are often lower

Data set: No. of respondents: 2017: 65; 2018: 69; 2019: 67; 2020: 66; 2021: 51; 2022: 22

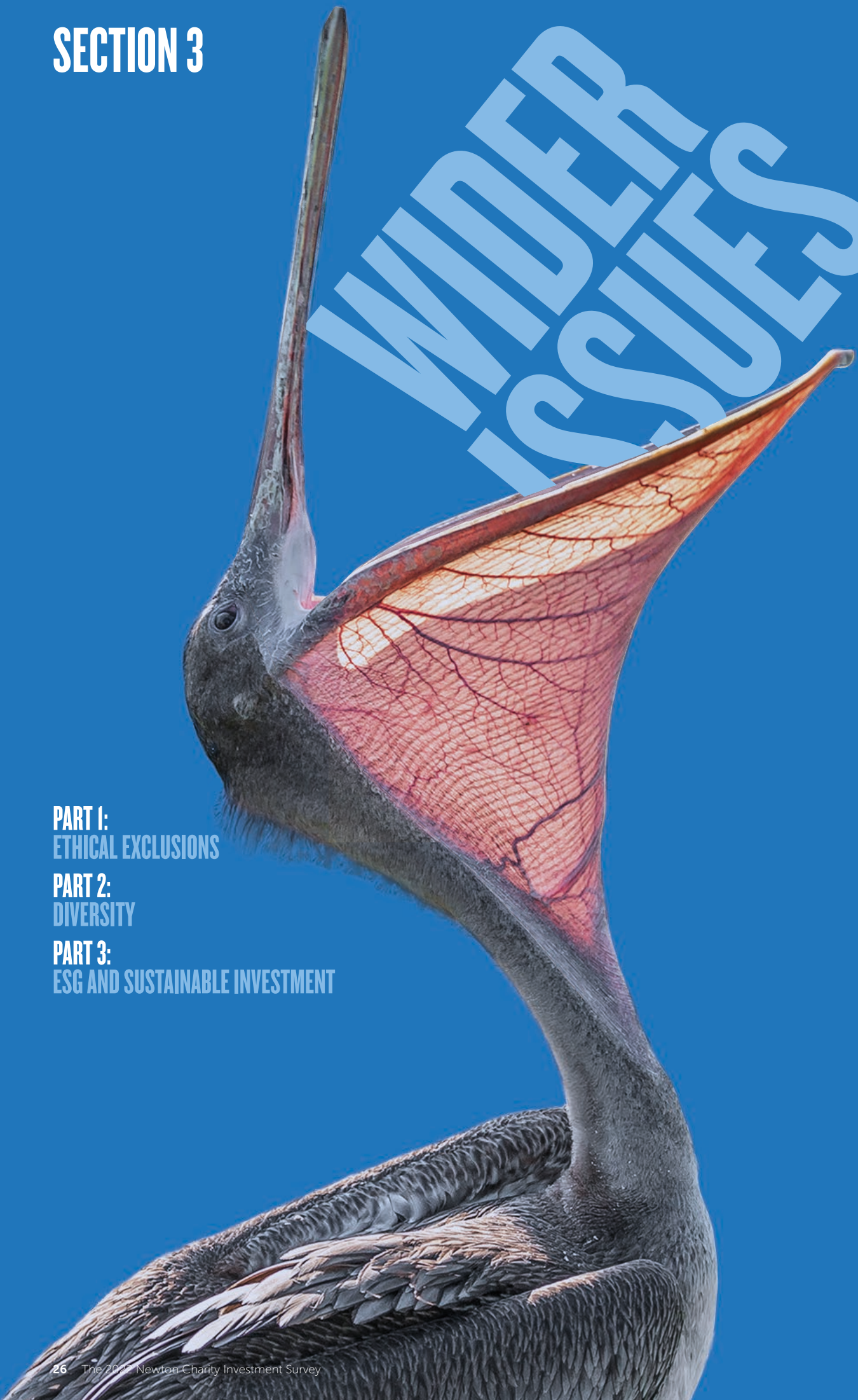
SECTION 3

VALUES

PART 1:
ETHICAL EXCLUSIONS

PART 2:
DIVERSITY

PART 3:
ESG AND SUSTAINABLE INVESTMENT

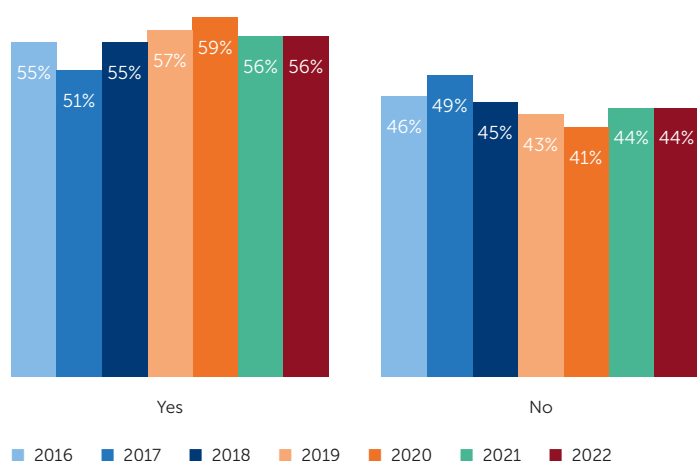


DELETE AS APPLICABLE



The use of ethical exclusion policies has remained stable this year, at just over half (56%) of charities. While the pre-2021 upward trend has not recovered, this stability has been accompanied by a broadening of the scope of those policies that are in place. Charities that do exclude investments are now ruling out more types of investment.

27 Does your charity have an ethical exclusion investment policy?

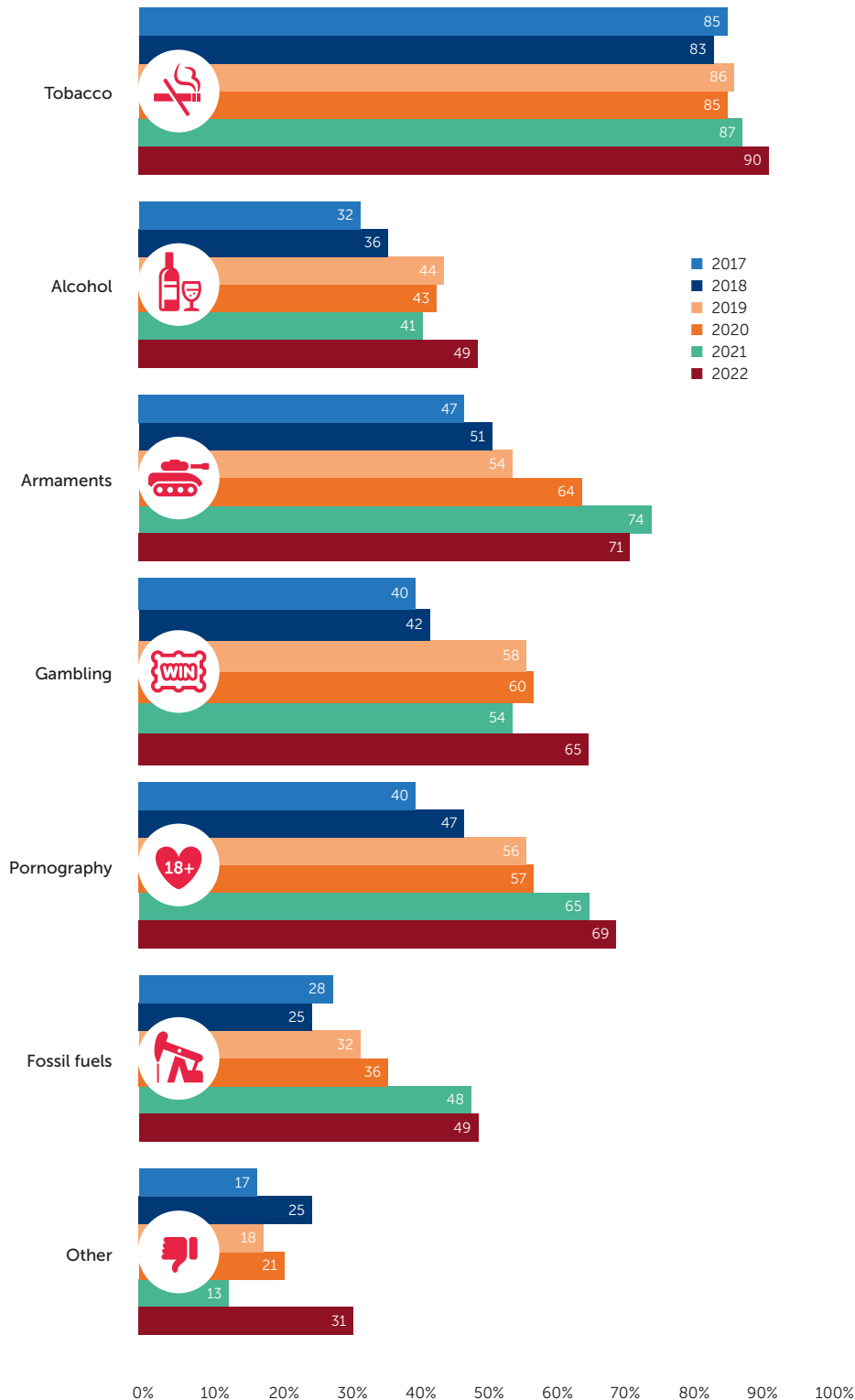


Data set: No. of respondents: 2016: 77; 2017: 93; 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91

Section 3: Wider issues
Part 1: Ethical exclusions

All but one type of commonly barred investment – armaments – have seen modest increases in their exclusion within the sector, with the largest increase seen in gambling, where exclusion rates have risen from 54% to 65% of all charities with an ethical exclusion policy. There may be an element of charities moving to ‘future proof’ their investment portfolios in light of broader societal changes, as well as shifts in the expectations of charitable organisations themselves, with these expectations feeding through into investment policy. ²⁸

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

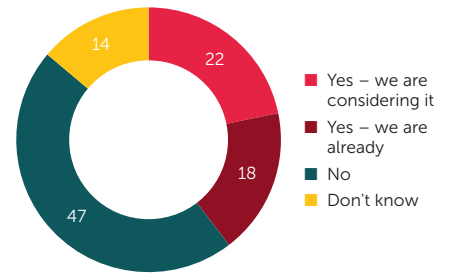


Data set: No. of respondents: 2017: 47; 2018: 53; 2019: 57; 2020: 67; 2021: 46; 2022: 51

It is not just business activities that are being excluded; of the 56% of charities that currently operate an ethical exclusion policy, 40% are also either already or planning to exclude specific national economies or state-owned businesses from their portfolios.

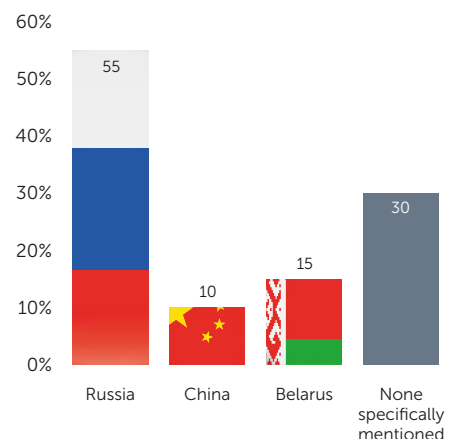
18% are already engaging in this form of ethical exclusion. The majority of these planned or existing exclusions are levied against Russia, with the conflict in Ukraine and broader geopolitical sanctions a likely driver, while the closely associated Russian-aligned nation of Belarus is the second most common response. 10% of charities with a policy that excludes specific countries also exclude Chinese investments. ²⁹ ³⁰

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



Data set: No. of respondents: 2022: 51

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



Data set: No. of respondents: 2022: 20

While the scope of many ethical exclusion policies is expanding, the areas of investment portfolios to which charities are applying them appears to be travelling in the opposite direction.

There has been a noticeable drop in the proportion of charities with an ethical exclusion policy that are applying it to their indirectly held investments – down from 72% in 2021 to 51% in 2022. ³¹

18%

of charities state that they plan to expand their ethical exclusion policy

The proportion of charities planning to expand their policy has remained relatively stable at 18%. ³²

However, these charities are taking a more holistic approach to expansion – looking to expand their policies to cover more areas of investment and more types of investment when compared to 2021. ³³

ONLY 10%

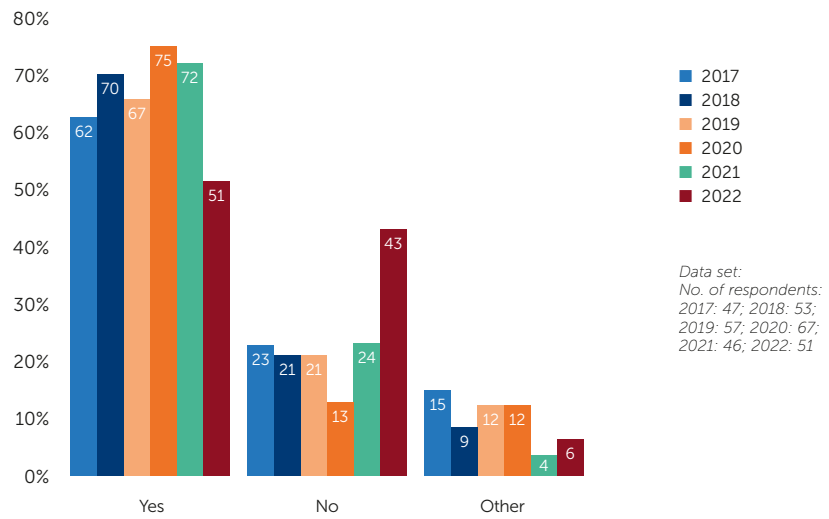
of charities with ethical exclusion policies have seen it affect returns

The impact of ethical exclusion policies on investment performance remains low – only 10% of charities with a policy have seen it affect their returns. Nevertheless, where that impact has been felt, it has been entirely negative.

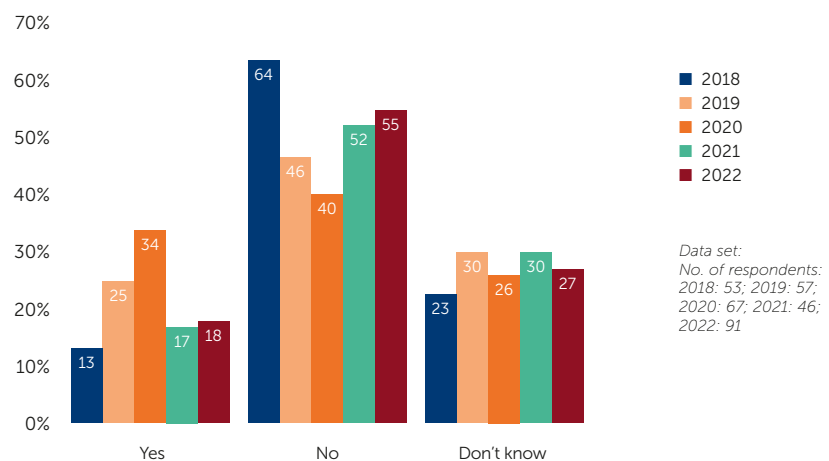
The strong performance this year of commonly excluded investment areas – including tobacco, oil and armaments – as a consequence of the conflict in Ukraine, is likely to be driving this impact.

Charities excluding these areas from investment may be missing out in the short term on possible returns, though it remains to be seen whether this will drive a shift in ethical exclusion policies over the next 12 months.

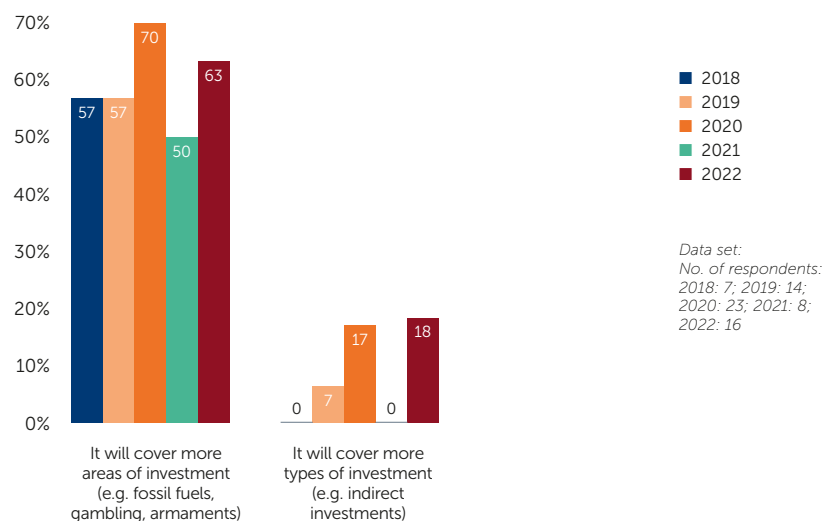
31 Does your ethical exclusion investment policy apply to investments that might be held indirectly, e.g. via pooled funds?



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



33 In what way do you plan to expand your ethical exclusion policy?



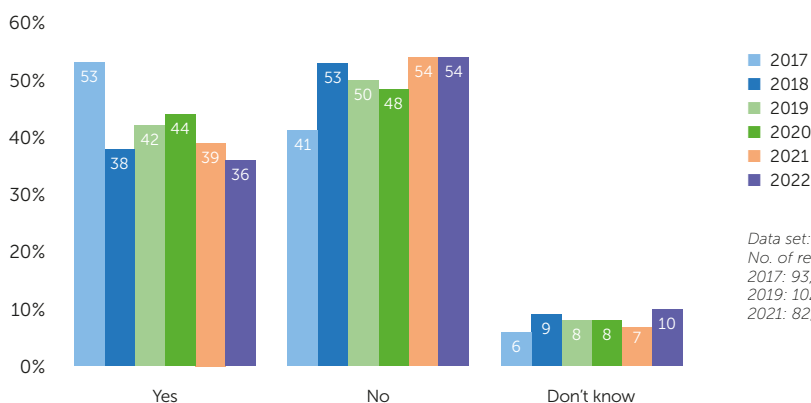
MIXED BAG



2022 marks the second consecutive year in which the proportion of charities that feel diversity is adequately reflected on their board has declined.

After rising from 38% to 44% between 2018 and 2020, it now stands at 36%, down 3% from last year. This shift is not reflected in the proportion of charities reporting that diversity is not reflected on their board, which has stayed stable at 54%, and is instead driving a rise in the number saying they 'don't know', indicating some rising uncertainty around what a desirable level of diversity may be. ³⁴

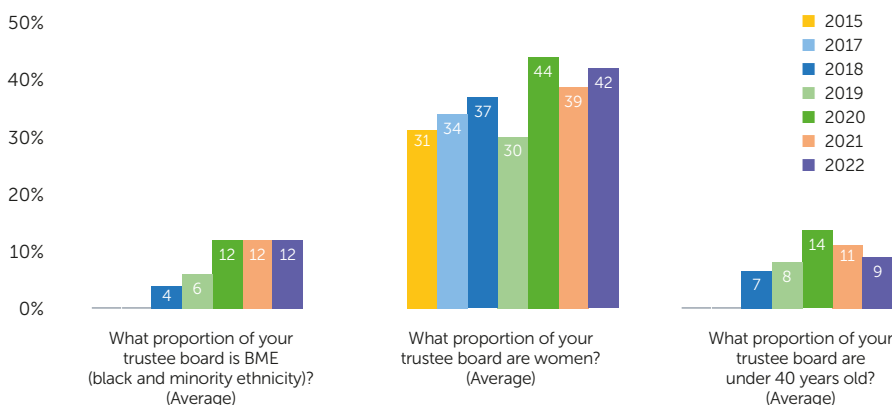
³⁴ Do you think diversity is adequately reflected on your trustee board?



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

Some progress has been made, with female representation seeing minor increases on last year, but it is not outstripping the increasing expectations around diversity and the desired speed of said progress. Certainly, rising expectations indicate there is still work left to do. ³⁵

³⁵ How diverse are charity trustee boards?



Data set: No. of respondents: 2015: 94; 2017: 93; 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91

62%

of charities are likely to demand that their partners demonstrate diversity within their own organisations

Another indication of the increased awareness around the importance of diversity in the sector can be seen in charities' expectations of diversity among their partners, especially their providers and investment managers.

Respondents are now increasingly likely to demand that their partners demonstrate diversity within their own organisations. This has risen to 62% of charities in this year's report, up from just over half in 2021.

CONFLICTING DEMANDS

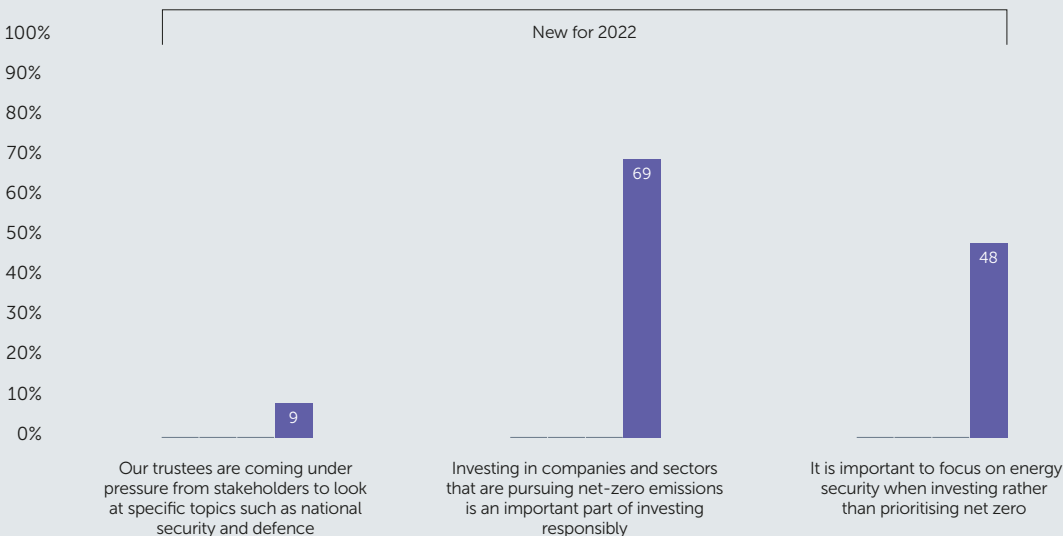
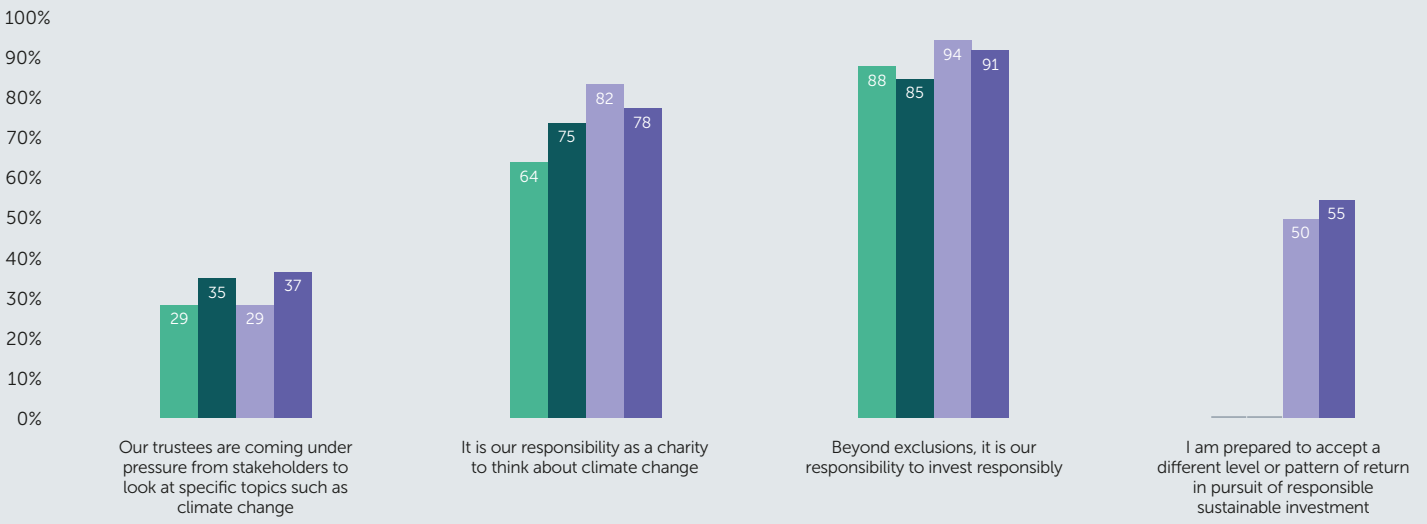
Longer-term upward trends in the consideration of environmental, social and governance (ESG) factors and sustainable investment appear to have stalled this year, as external pressures on charities have led to some reassessment in this area.

Pressure on trustees to engage with topics on this subject has risen this year – up to 37% from a low of 29% in 2021. However, the proportion of charities that think it is their responsibility to think about climate change and to invest responsibly has declined slightly compared to last year, though still remains high.

Broadly, these issues remain important to charities, but owing to increased energy costs and geopolitical events, there is an emergence of pragmatism over aspiration in this year's responses. Almost half of charities see it as important to focus on energy security rather than prioritising net zero – though the indication is that where

charities are engaging in sustainable investment, they are more willing to take a hit to their returns to invest sustainably. This may indicate that the stall seen here is a short-term reaction to global circumstances, rather than a reversion of the overall trend. ³⁶

³⁶ Statements about socially responsible investments (% agreement)



■ 2019 ■ 2020 ■ 2021 ■ 2022

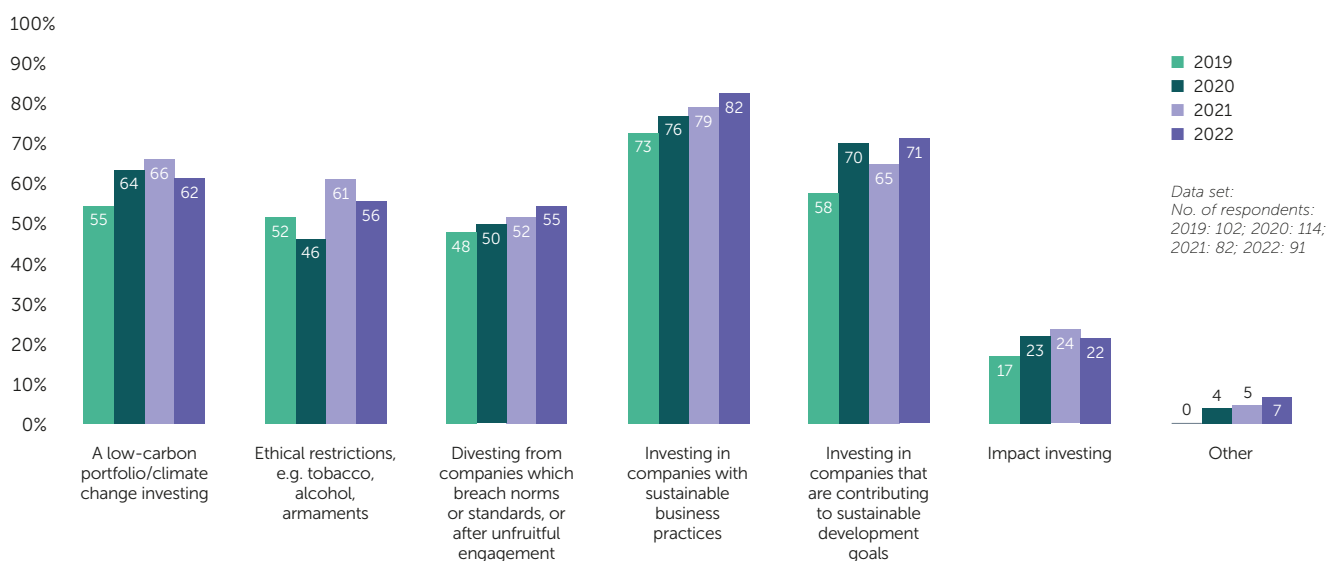
Data set: No. of respondents: 2019: 102; 2020: 114; 2021: 82; 2022: 91

When thinking about sustainable investment itself, charities have moved away from a focus on ethical restrictions and low-carbon portfolios, and are focusing on investing in

companies with broader sustainable business practices and goals. Again, wider global issues may be influencing this change, with charities more likely to view longer-term, slower-paced

sustainable shifts as preferable to more immediate or exclusionary approaches to investment. ³⁷

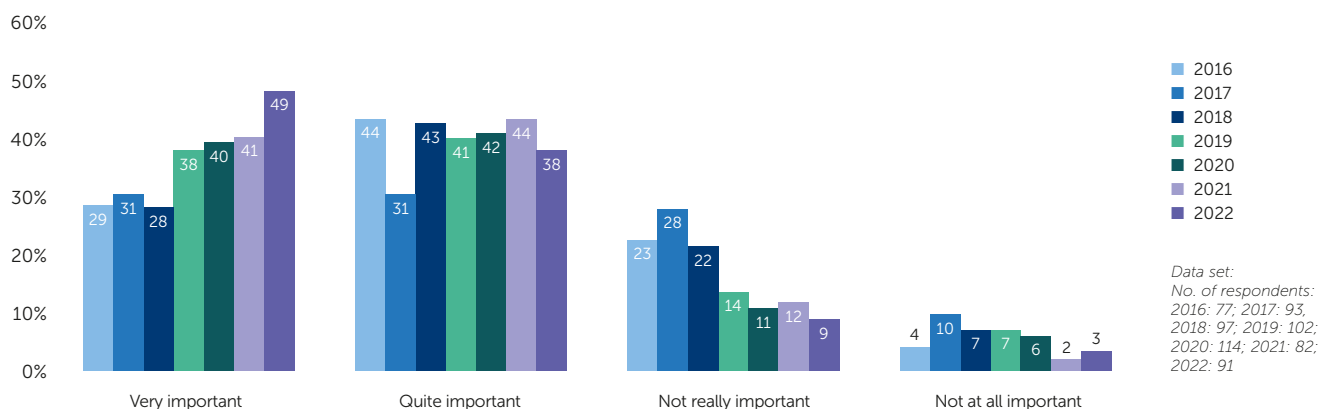
37 What does sustainable investment mean to you?



Previous years have marked a rising trend in the importance of ESG factors within the management of investment portfolios, and 2022 has seen this trend continue unabated. The proportion of charities rating this as 'very important' has risen significantly to almost half of all charities, and this climbs to 87% when including those which view it as 'quite important'. ³⁸

87%
of charities consider
ESG factors as important

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

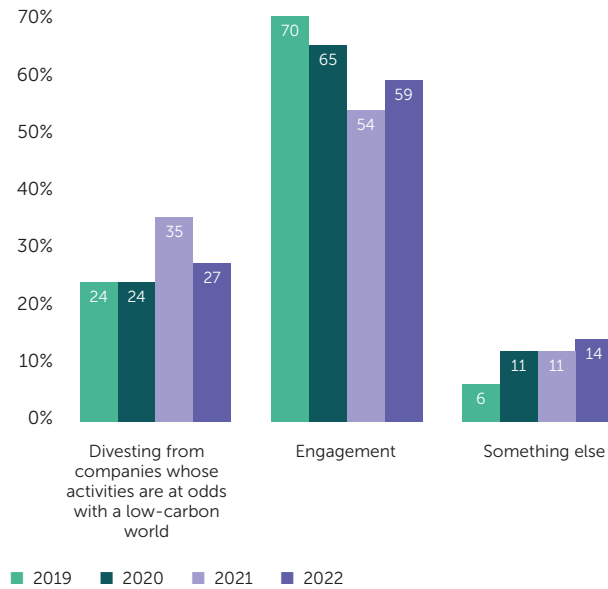


59% of charities consider engagement as the most popular way for charities to manage ESG factors in their portfolio

Engagement is once again the most popular way of considering climate-change factors in the management of portfolios, chosen by 59% of charities, compared to only 27% which prefer divestment. ³⁹

ONLY 27% of charities see divestment as the best way to manage climate-change factors in their portfolio

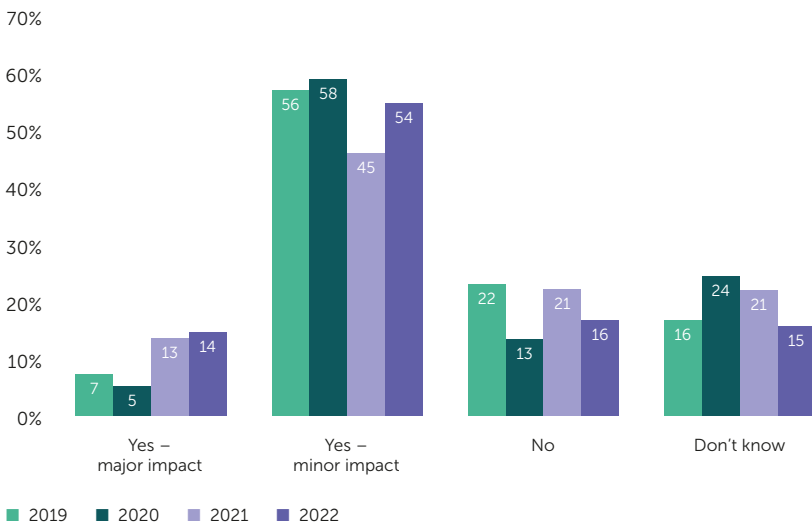
³⁹ What do you think is the best approach for ensuring climate-change factors are considered in the management of your investment portfolio?



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

While charities continue to view the consideration of ESG factors in the management of their portfolios as increasingly important, this year has seen the reported impact on performance of such investment decisions rise – though the largest increase is for 'minor impact'. ⁴⁰

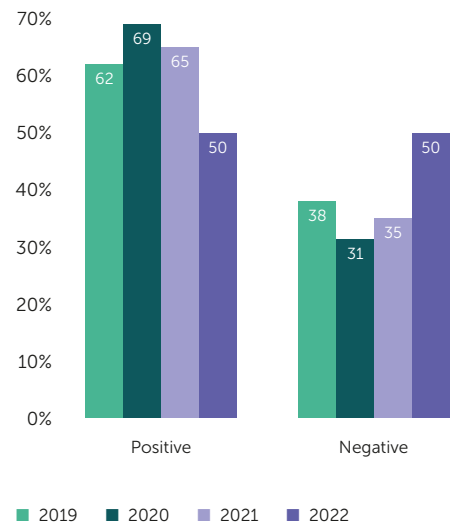
⁴⁰ Do you think ESG engagement has an impact on investment performance?



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

There has also been a significant shift in the form this impact takes, with an exact 50/50 split between reports of positive and negative impacts on performance. ⁴¹

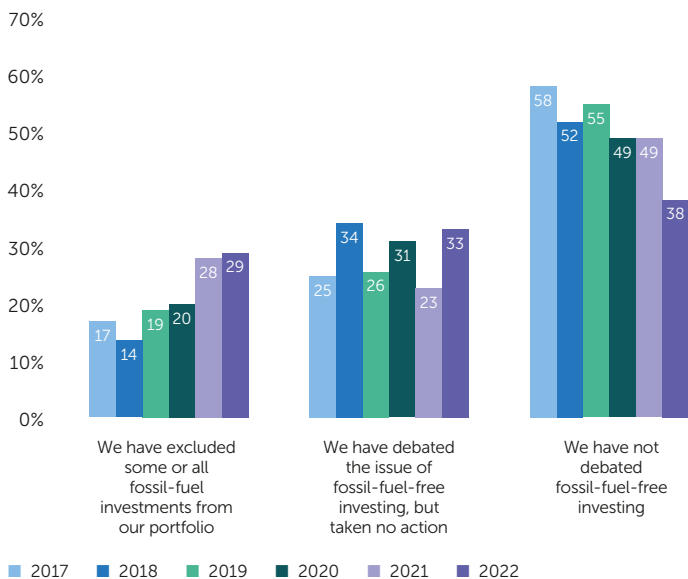
⁴¹ You said that ESG engagement has an impact on investment performance. Is this impact positive or negative?



Data set: No. of respondents: 2019: 64; 2020: 72; 2021: 48; 2022: 62

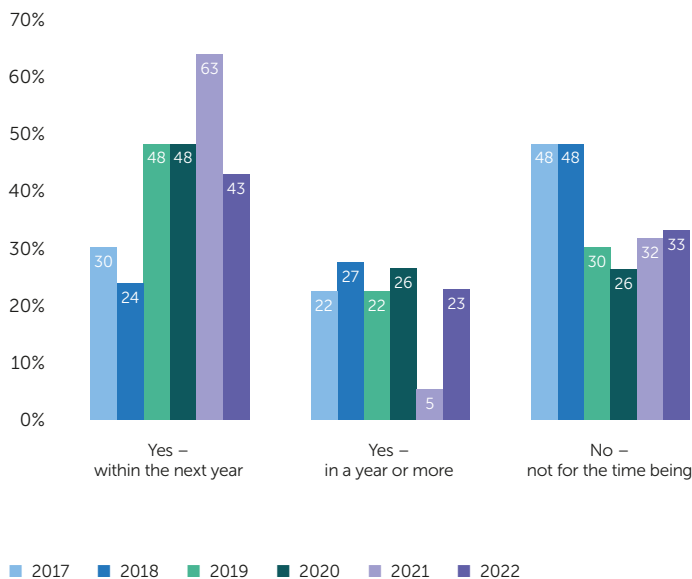
Fossil fuels remain a key area of contention within sustainable investment, and 2022 marks a significant change in how charities are approaching the topic. The proportion of charities excluding the area has remained stable after last year's increase, but the number debating the issue and considering future action has risen to a third of charities. Among those that have debated fossil-fuel-free investing but taken no action, there is a shift away from revisiting the topic in the short term. Nevertheless, two thirds do plan to revisit the matter at some point in the future. ⁴² ⁴³

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



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

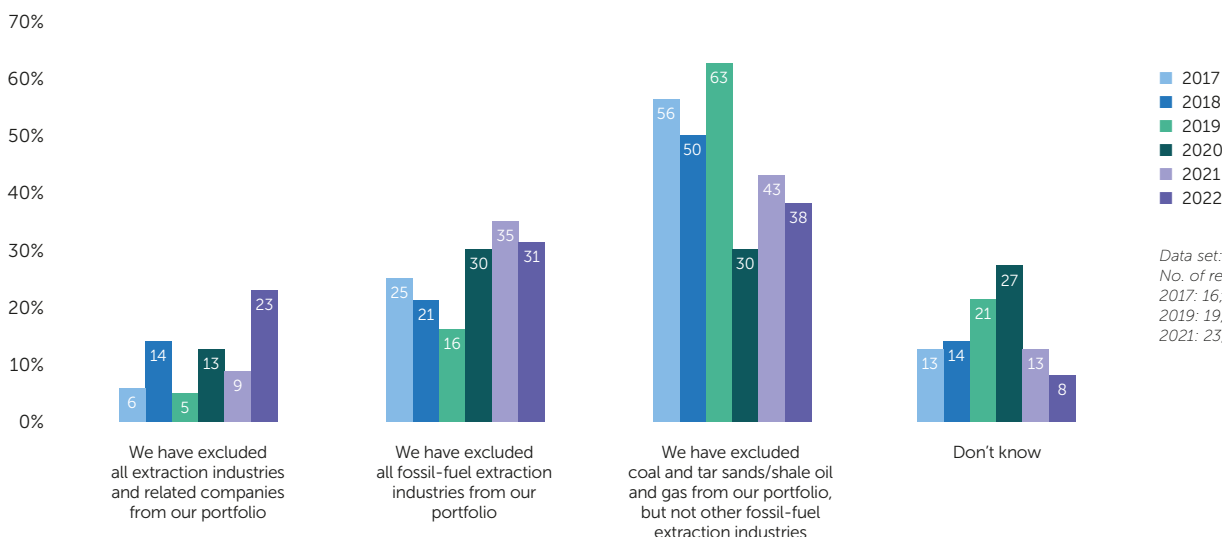
43 Do charities that have already debated fossil-fuel exclusions but taken no action plan to revisit the topic?



Data set: No. of respondents: 2017: 23; 2018: 33; 2019: 27; 2020: 35; 2021: 19; 2022: 30

Of those that are already excluding fossil fuels, there has been a significant expansion in the scope of those exclusions, in line with the trends seen within wider ethical exclusion policies in the sector. While the full prohibition of all extraction industries and related companies is still the smallest bracket of the three types of exclusion, it has seen significant growth this year, indicating that charities are now switching from partial to full exclusion. ⁴⁴

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



Data set:
No. of respondents:
2017: 16; 2018: 14;
2019: 19; 2020: 23;
2021: 23; 2022: 26

APPENDIX – MORE ABOUT THE SURVEY

Methodology

In line with the previous eight years of the Newton Charity Investment Survey, data was collected using an online questionnaire. Fieldwork took place between 3 May and 5 July 2022 with a record date for annual investment performance data of 31 March 2022.

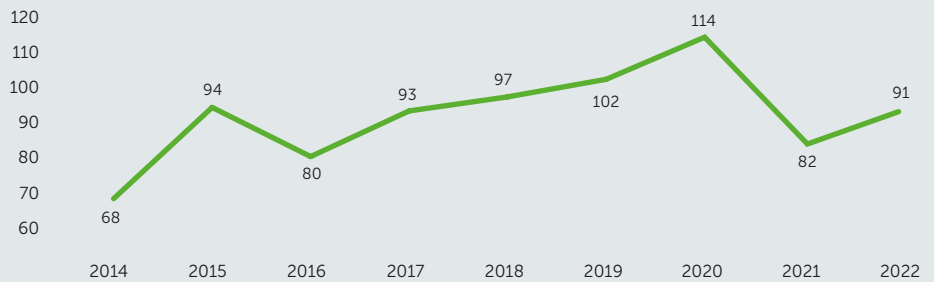
Sample details

The number of responses to this year's survey stands at 91 – an increase from the 82 responses seen in 2021, though still below the peak of 114 seen after four years of consecutive growth between 2016 and 2020. This recovery aligns with what we have seen within the content of the survey itself, with charities beginning to recover and transition away from the disruption of the pandemic but with external pressures still placing a burden upon trustee workloads and their capacity for participation. **A**

Despite the increase in the number of charities in the sample this year, the total investment assets held by charities within the final sample decreased to £7.3 billion in 2022, down from £8.8 billion in 2021.

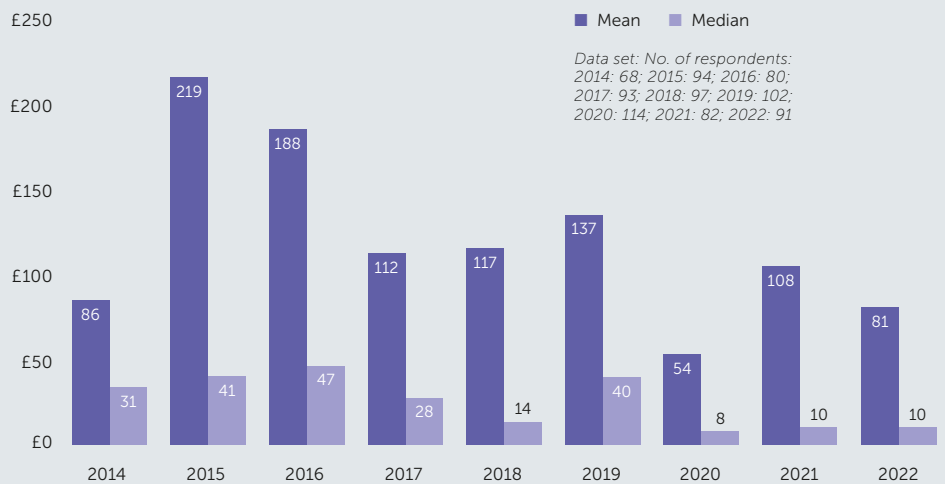
The charities within this year's survey are generally smaller when it comes to asset value. The average charity in the 2022 survey has assets of £81 million under management, down £27 million compared to the 2021 figure, although the median assets under management has stayed stable at £10 million. **B** **C**

A Annual sample size (number of charities)



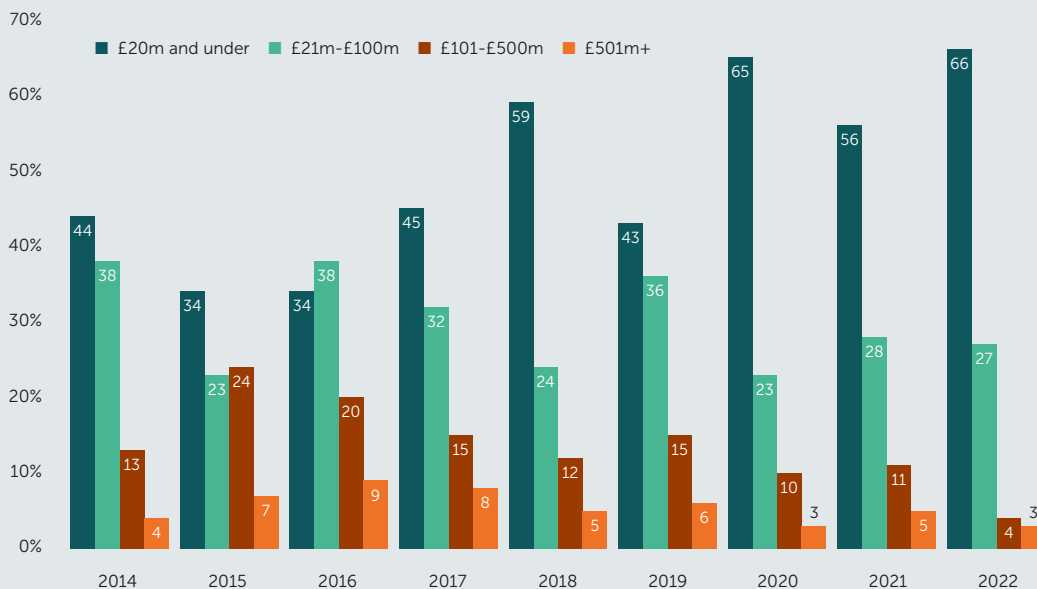
Data set: No. of respondents: 2014: 68; 2015: 94; 2016: 80; 2017: 93; 2018: 97; 2019: 102; 2020: 114; 2021: 82; 2022: 91

B Mean and median assets under management 2014-2022 (£ millions)



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

C Charity size distribution 2014-2022



The 2022 distribution of charities by the size of their assets is:

£20m and under	66%
£21m-£100m	27%
£101m-£500m	4%
£501m+	3%

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



This year, social welfare charities are the most prominent in the survey, representing 19% of the 2022 sample.

Educational charities, which had remained the largest single charitable group over the three previous surveys, have declined this year, though they remain prevalent.

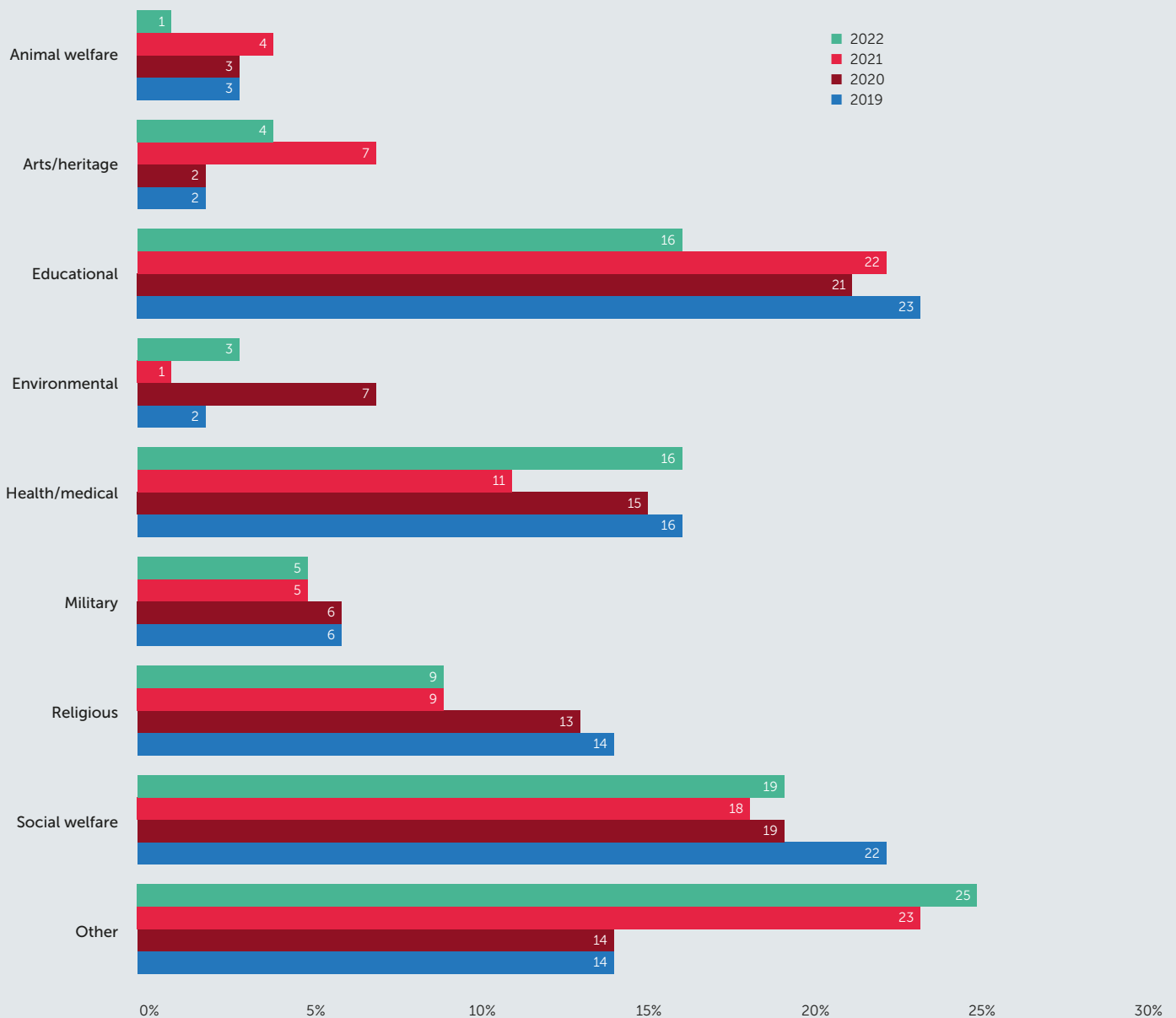
Other significant shifts include the increase in health and medical charities – now equal with educational charities at 16% of responses.

Elsewhere, there have been minor increases among environmental charities, while animal welfare and arts and heritage charities have seen minor declines.

Of the charity types taking part in the survey, only military and religious charity participation has remained stable, at 5% and 9% of the sample respectively.

The participation of 'other' charities that do not fit into these categorisations has increased once again, now accounting for 25% of the sample. **D**

D Charity type 2019-2022



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

CONTACT US

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



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Important information

These opinions should not be construed as investment or any other advice and are subject to change. This document is for information purposes only. Any reference to a specific security, country or sector should not be construed as a recommendation to buy or sell investments in those securities, countries or sectors.

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SHIFTING PRIORITIES

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.