CAMRADATA

Charity Conference

Keeping Values and Mission in Mind

12th September 2017

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BROOKS MACDONALD

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Introduction

Encouraging charities to pursue higher standards of good governance has become an ongoing theme for charity regulators and charities themselves. Additionally, many charities find themselves in a particularly challenging economic dynamic. On the one hand demand for their services is increasing as the recession continues to impact all aspects of society, but on the other hand government, public and private funding is falling.

Charities that fail to get to grips with the realities of the current economic climate face difficult times ahead… but it would be a mistake to think that the charity sector as a whole does not strive for best practice.

The demand on resources and squeeze on finances is creating uniquely tough pressures on the sector creating a very real issue for a significant number of charities. The risk is that many charities postpone key decisions around what needs to be done to secure a sustainable future until it's too late.

On the flip side, being aware of these signals can deliver significant gains and ultimately ensure a sustainable and long term future for this sector. This is the purpose of today's CAMRADATA Charity Conference, which we hope you find informative!

Agenda

Venue

Brewers' Hall, Aldermanbury Square, London, EC2V 7HR

Timing

8:30	**Registration and tea/coffee**
8:50	**Introduction**, CAMRADATA
9:00	**Hymans Robertson**, Andrew Elliot, Better outcomes – aren't down to chance
9:30	**Brooks MacDonald**, Jonathan Gumpel, In a flat/declining bond market what will attractive defensive assets look like?
10:00	**Square Mile Investment Consulting and Research**, Jamie Farquhar, The effective management of investment committees
10:30	**Break**
11:00	**Psigma Investment Management,** Andrew Wauchope, Innovative multi-asset strategies to grow the real value of your charity portfolios
11:30	**TPT Retirement Solutions**, Sarah Smart, Key risks facing a charities portfolio
12:00	**Closing remarks**
12.10	**Lunch**
14.30	**Finish**

Conference Sponsor

Brooks MacDonald
Company Profile

Brooks Macdonald Group is an independent company that specialises in providing investment management services in the UK and internationally. The Group, which was founded in 1991 and began trading on AIM in 2005, has discretionary funds under management (FUM) of £10.5 billion as at 30 June 2017.

Through its core divisions, Brooks Macdonald offers a range of investment management services and advice to individuals, pension funds, institutions, charities and trusts. The Group also provides offshore fund management and administration services and acts as fund manager to regulated OEICs, providing specialist funds in the property and absolute return sectors and managing property assets on behalf of these funds and other clients.

The Group has offices across the UK and the Channel Islands including London, Cardiff, Edinburgh, Guernsey, Hale, Hampshire, Jersey, Leamington Spa, Manchester, Taunton, Tunbridge Wells and York.

Jonathan Gumpel
Fund Manager and Investment Director, London

Jonathan is a co-founder of Brooks Macdonald and is jointly responsible for overseeing the company's investment management strategy. He is the lead manager of our Defensive Capital Fund, an absolute return fund that is rated highly by Morningstar. Jonathan is alternate chairman of both our asset allocation and investment committees.

Over the course of a career in asset management that began in 1986, Jonathan has been recognised by his peers and industry bodies on a number of occasions; most recently receiving the accolade of one of the 'PAM 50 Most Influential' members of the private asset management community in 2016.

Conference Sponsor

Psigma Investment Management
Company Profile

Launched in 2002, Psigma Investment Management is a discretionary wealth manager. We provide tailored investment solutions to private clients, pension schemes, trusts and charities and manage £2.74bn in assets at 30th June 2017.

We are an operationally independent part of the established and privately owned Punter Southall Group (PSG), which was established in 1988 and offers a unique combination of actuarial, pension consultancy, administration and investment services. As part of PSG, we are able to leverage their extensive investment expertise and ensure that we provide the innovative institutional-style investment solutions that benefit our clients.

Psigma was established 15 years ago as we believed that large banks struggled to hold their clients' best interests above those of the firm. We had then, and still do have, a very strong belief that inflation is the greatest threat to long-term investors. This proposition has helped Psigma grow at a rate that attracts and retains talented people but without compromising the high levels of personal service we aim to provide to our clients. Psigma now has 26 investment managers who maintain direct contact with their clients. They are supported by both systems and assistants which allow them to do their job, principally, managing client assets and providing quality client service.

Clients can access our investment expertise via our bespoke discretionary wealth management service or our Managed Portfolio Service (MPS). Our bespoke portfolio service is suitable for clients who have more sophisticated investment needs and value the access to a dedicated investment professional to design and manage their portfolio. Our MPS offers six highly-diversified managed portfolios that cater for a range of risk profiles.

Our main aim is to grow our clients' wealth with a return over inflation. We aim to achieve the optimum exposure to individual asset classes whilst maximising opportunities and reducing risk. Our investment team employ a flexible and forward thinking process that help us to anticipate market changes and protect our clients' wealth in extreme market conditions.

Building and managing an investment portfolio for a wide range of clients and their needs takes time and expertise. We work closely with trustees and their advisers to develop and implement tailored portfolios. We offer a multi-asset approach to portfolio construction, using a wide range of asset classes including alternatives depending on clients' goals and risk profile; we will maintain regular client contact to ensure that portfolios remain in line with their agreed objectives and we will a provide a reporting service that includes online access to portfolio valuations.

Andrew Wauchope
Senior Investment Director

Andrew obtained an Honours degree in History and Politics from Queen Mary College, London in 1983 and shortly after started as Constituency Assistant to The Rt Hon John Gummer MP. He has worked in the City since 1985 and worked at a number of companies including Quilter Goodison (now Quilter Cheviot), Gerrard Vivian Gray, Laing & Cruickshank and most recently was at UBS where he was an Executive Director and Head of Charities. He joined Psigma in April 2016, as Senior Investment Director and will have particular focus on building and managing charity portfolios. He is also a charity trustee and has worked with umbrella bodies such as the Association of Charitable Organisations and the Charity Finance Group. Andrew has over 30 years' experience of working with Charities and Private Clients to achieve their investment goals and is a Chartered Fellow of the CISI.

Speaker

Bios

Andrew Elliot

Lead Investment Consultant

Andrew is lead investment consultant on four local authority funds. He also advises a number of private sector clients. He takes great pride in building strong working relationships with Committees and his clients' broader pensions team, developing investment solutions that will support their long term objectives and which can be delivered within an established governance framework and budgets.

Passionate about bringing out the best in people, Andrew is responsible for supporting the career development of a number of individual team members in the Investment Practice providing guidance and mentoring for the next generation of investment consultants.

Andrew advises across the full spectrum of investment consulting, including setting strategic benchmarks, implementation of risk management frameworks, constructing efficient investment structures, procurement and selection of investment providers, manager research and transition management. In addition to a wealth of investment knowledge he has a clear understanding of pension liabilities enabling him to assist clients when considering strategic issues and managing both asset and liability risks.

HYMANS ROBERTSON

Jamie Farquhar

Director of Business Development

Jamie is responsible for business development, with a particular focus on our Managed Portfolio Service. He is a member of the Executive Management Team which provides input into the strategic direction of the business. Jamie joined Square Mile from JPMorgan Asset Management where he was Head of Strategic Relationships. He has more than 25 years industry experience, starting at F&C Asset Management in 1987 where he became Head of UK Retail. Jamie was also Head of Investments at Bankhall Investment Associates, part of the Skandia group and Head of Investment Proposition at Aviva Wrap.

Square Mile is an independent investment research business that works in partnership with regulated professional financial services firms. We help advisers to develop informed investment recommendations so that, with their support, their clients can make the decisions that are right for them.

Focusing first and foremost on in depth, qualitative fund research, we provide tailored support and investment services for financial advisers, institutions and asset managers.

SQUARE MILE
INVESTMENT CONSULTING & RESEARCH

Speaker

Bios

Sarah Smart

Chair of the Trustee Board, TPT Retirement Solutions

Sarah is an experienced Independent Trustee and qualified Chartered Accountant and is the current Chair of TPT Retirement Solutions.

Sarah has served as a trustee for a number of public and private sector schemes, including the London Pensions Fund Authority. Currently, Sarah is a Non-Executive Director at The Pensions Regulator, as well as Board member and Chair of the Audit Committee of UK Athletics. She is also a Board member of Big Society Capital and Chair's their Audit Committee and is an independent professional observer for the Lothian Pension Fund.

Sarah has worked in the investment management industry for 16 years, including nine years with Standard Life Investments, and was latterly responsible for developing and managing liability-driven and absolute return investment solutions for institutional investors. Sarah is highly respected within the pensions industry and has won many accolades for her innovative approach to pensions. In 2015, Sarah was voted Independent Trustee of the Year by her industry peers.

tpt
Retirement Solutions

BROOKS MACDONALD

"In the current environment, investors' mindsets may need to change. In particular investors may have to take a wider and more imaginative approach to asset selection."

Defensive investors have had a long free ride on the back of the 30 year bull market in bonds. At some stage in the future, possibly sooner rather than later, this bull market is likely to come to an end or even move into a long-term reversing cycle.

With some government and even some corporate bonds currently offering negative yields and most other quality or highly rated bonds offering very low yields, a flat market does not look likely to provide attractive capital returns and a reversing bond market could cause significant loss of capital value.

In these circumstances, defensive investors should already be considering their options and working out which assets could potentially provide both attractive and defensive returns. A simple option that some investors will already have considered will be to shorten term and duration to avoid or reduce the loss multiplier effect. However, with very low rates for short-term bonds this option can hardly be deemed to provide attractive returns and carries with it potential timing risks. Another alternative might be to go down the quality scale or the capital structure to seek out higher yields, although this could accelerate losses in capital value in the event of rising defaults in a rising interest rate environment. It would seem there is no simple solution.

In the current environment, investors' mindsets may need to change. In particular investors may have to take a wider and more imaginative approach to asset selection; one that may include focussing on finding the 'least worst' option rather than trying to find a potentially unrealistic best alternative.

Our view is that a balanced range of fairly good and 'least worst' assets is likely to provide some of the most attractive (least unattractive) defensive returns over the medium-term. Since this is our view it is no surprise that our fund, the Defensive Capital Fund, is invested across a broad range of these assets. I accept it may be an unusual promotional tactic to proclaim your fund has a range of the least-worst investments. However, this is not about promotion, but about preparing for a different world in which the interest rate tide is going out rather than coming in and in which different strategies need to be considered.

The assets the fund holds are generally relatively short duration and relatively senior in the capital structure. They tend to be well supported by relatively liquid capital assets ("pounds rather than promises") together with either high rates of capital return or with lower rates but scope for upside optionality due to inflation/interest rate linkage or corporate performance.

Jonathan Gumpel
Fund Manager and Investment Director, London

The specific assets we hold are:

- Senior bank debt, usually in combination with derivatives, whereby the bank is paying us to take excess risk sourced from client transactions off its trading books
- Secured lending assets and senior mezzanine loans including collateralised loan obligations, all of these pay high coupons relative to their risk
- Asset backed real investments, combining both infrastructure and defensive property assets, which offer the security of the cash flows from the underlying assets and attractive yields with low price volatility
- Convertible bonds, which offer the security of the assets of the company whilst providing optionality to the upside

The Defensive Capital Fund has built up significant exposure to these assets in the seven and a half years since it was launched. Once the tide turns, we believe that these assets will both remain well insulated from a downturn in bond and potentially equity valuations, whilst also becoming very attractive to a much wider audience seeking defensive returns in a post bond bubble world.

Risk warning:
The value of investments and the income from them may go down as well as up. Investors may get back less than they invested. Past performance is not a guide to future performance.

"[It's] about preparing for a different world in which the interest rate tide is going out rather than coming in and in which different strategies need to be considered."

BROOKS MACDONALD

IFSL Brooks Macdonald Defensive Capital Fund

Designed to provide investors with an opportunity to attain the stability of bonds while maintaining exposure to potential equity upsides.

The Fund invests in a range of defensive assets – investments that are generally lower risk and less volatile than equities, and do not rely on market growth to achieve returns – such as preference shares, convertible bonds and structured products.

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Notes

psigma investment management

> Before investing on behalf of a charity it is vital to start the process by first understanding exactly what it is you are looking to achieve.

Andrew Wauchope
Senior Investment Director

Reaching the port regardless of any storm – why investors must focus on real returns, not benchmarks

"If one does not know to which port one is sailing, no wind is favourable" Seneca the Younger.

All charity trustees look to investment managers to produce results which allow them to support their own charitable activities and meet future funding objectives.

However, much like the weather, investment markets can be almost impossible to predict. The best laid plans of many investors can quickly come unstuck in volatile and unpredictable markets, and indeed the more tumultuous conditions become, the harder it can be to stay your course.

That is why the investment goals for any charity must be carefully thought about and planned before embarking on the journey. Like a sailor preparing for a voyage, a solid plan – and a clear destination – are the most important stages of the whole expedition.

Real returns

Before investing on behalf of a charity it is vital to start the process by first understanding exactly what it is you are looking to achieve. For most charities, protecting gains and achieving a real return should be the core objective.

This is particularly true for charity trustees because donors will naturally want to see them being careful and responsible stewards of their capital. It means most investment committees should therefore be targeting an inflation plus return (known as a real return), rather than trying to achieve outperformance of an arbitrary benchmark or peer group. The idea being, to grow the real value of the charity's capital and therefore protect the future purchasing power of those assets.

It is important to realise that, in investment, there are no risk-free gains, so it is not possible to completely avoid the possibility of making a loss.

However, there are ways to manage this risk. Achieving an ongoing positive return, rather than the feast and famine we often see trustees having to cope with, requires a different approach to the one adopted by many investment providers, and arguably a more disciplined one.

For us the focus should be on volatility and managing the scale of performance highs and lows. One of the most well documented and established ways to do this is diversification. Put simply, this means investing in a portfolio or fund that has the ability to access a range of different types of assets.

In the same way a sensible sailor still packs wet weather gear even on a sunny day, in a portfolio you need a wide range of assets doing different jobs. By having assets which react differently to each other in different market environments, it means the overall return is hopefully smoothed, with violent swings in either direction avoided.

Inflation as your compass

Rather than trying to shoot the lights out one year, only to see returns head south the next, our ethos has always been about protecting gains and achieving a real return.

All charities need to protect assets and thus avoid spending more time than necessary making up lost ground. Protecting future purchasing power is, in our view, one of the best ways to achieve this is by benchmarking investment returns against inflation and targets that seek to beat it by varying degrees

Encouragingly, we are seeing that attitudes among clients are shifting, with long-term returns and protection from volatility increasingly becoming more of a focus. Although the individual target for every scheme will vary depending on specific objectives, we believe that aiming to deliver returns above the Retail Prices Index (RPI) inflation level is a prudent destination to aim for.

By targeting inflation specifically, schemes can ensure they are doing their best to keep pace with it. After all, it is no comfort to anyone to know a portfolio has fallen by as much as the benchmark in tough times. Instead, they want their portfolios to stay on course and achieve their goals; key to this success will be having the ability to adapt and diversify to market conditions, rather than being trapped in underperforming assets due to the benchmark they're tracking or measured against.

Incredibly, many advisers do not focus on this overall goal. Instead, they follow the mantra that relative performance is more important than real returns. This attitude needs to change. At the very least they should consider splitting their investments to use both approaches. This should mean that whatever the weather brings they are better prepared.

Multi-asset approach

Investors can aim to achieve an inflation-linked return, in a number of different ways but one thing is pretty consistent - they need to have access to a variety of different returns. Again, portfolio diversification is key.

Investing across the vast spectrum of assets available – from fixed interest securities such as gilts and bonds to global equities, and all the way to commodities such as gold – means investors will hold a spread of assets which offer different risk and reward profiles. Combined with an active allocation approach which regularly monitors and adjusts portfolios as markets shift, this collection of asset classes can help to reduce the impact of shocks in markets which can seriously harm portfolios.

As ever, it is the investment manager's job to make allowances for such shifts, and to manage the expectations of schemes when it comes to the risks and rewards on offer. As Seneca the Younger says, no wind is favourable if you don't know where you're sailing to. It is an investment advisers job to help charity trustees maintain focus on this end goal and overall investment destination.

Following years of benign inflation and soaring markets, the outlook has changed in 2017, with prices rising and many stock markets showing elevated valuations.

Certainly, the current environment presents some new challenges, but if investment managers can remain flexible and keep their eye on the end goals for their clients, they can still bring their ships into port safely.

> By targeting inflation specifically, schemes can ensure they are doing their best to keep pace with it.

Notes

DB Complete

How much time do you spend on your *defined benefit* pension scheme?

Investment strategy meetings, valuations, trustee meetings, board reports and more are all on the to do list. We estimate at least 10% of a Finance Director's time could easily be spent managing their defined benefit pension scheme – that's over **24 business days** a year. Not to mention Trustee obligations that can eat up wider business resource.

But there is a **solution**. Consolidate your defined benefit pension scheme in a Master Trust arrangement with **DB Complete**. With everything you need in one place, and your assets ring fenced, you can free up valuable time **and** reduce running costs.

TPT is a Master Trust with over 70 years' experience and more than £9bn of assets under management. We provide a complete service, combining professional trusteeship and governance with award-winning administration and investment services.

To find out more and use our Resource Checklist, visit:

www.tpt.org.uk/DBComplete

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Retirement Solutions

SQUARE MILE

Square Mile is an independent investment research business that focuses first and foremost on in depth, qualitative fund research, which is at the heart of what we do. Our research is distinguished by its depth and detail. Rather than just explaining what a fund does and how it is constructed, we seek to understand how a fund behaves, whether it will consistently deliver on its objectives, and whether it represents good value for investors.

We focus on identifying "best-in-class" funds and gaining the fullest possible knowledge and understanding of those funds. Our research process is fuelled by qualitative research that focuses on the fundamentals: manager and environment; investment philosophy and objectives; investment process; portfolio construction; management of risk; and value for money. Ultimately it is about enabling our clients to identify funds for their customers which deliver the required outcomes.

We make this research available in our Academy of Funds.

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