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QUARTERLY NEWS

January 2015



WELCOME

Welcome to the first issue of our newsletter for 2015.

As we suggested 12 months ago, 2014 turned out to be a more volatile year for markets. We think this is set to continue and are therefore embracing diversification within client portfolios, where appropriate, as economic fortunes and monetary policy both continue to diverge. We are also very aware of the spectre of deflation. We are currently of the view that whilst the collapse in the oil price and other commodities will continue to lead to low levels of reported inflation, their fall will also support growth through this year. We therefore maintain a full weighting to real assets - notably equities and property.

Thank you for all of your supportive feedback and suggestions following our Charity Forum in early December, a report from the event is attached, and we very much look forward to seeing you at some of our events this year.

Wishing you all the best for 2015.

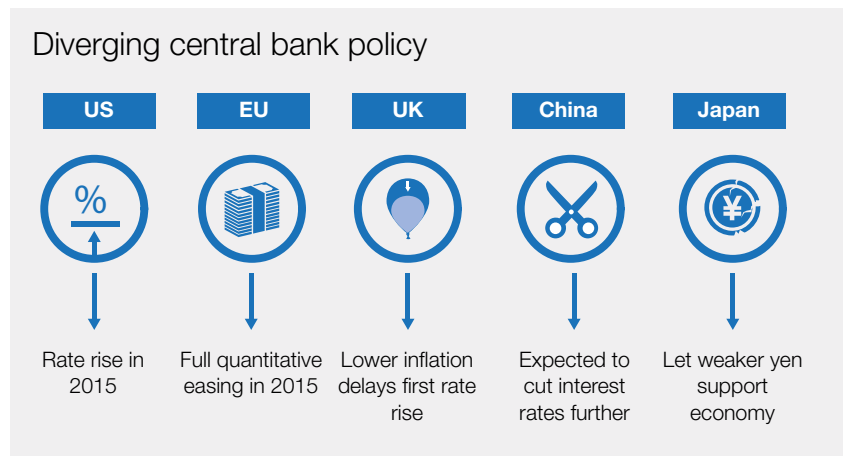
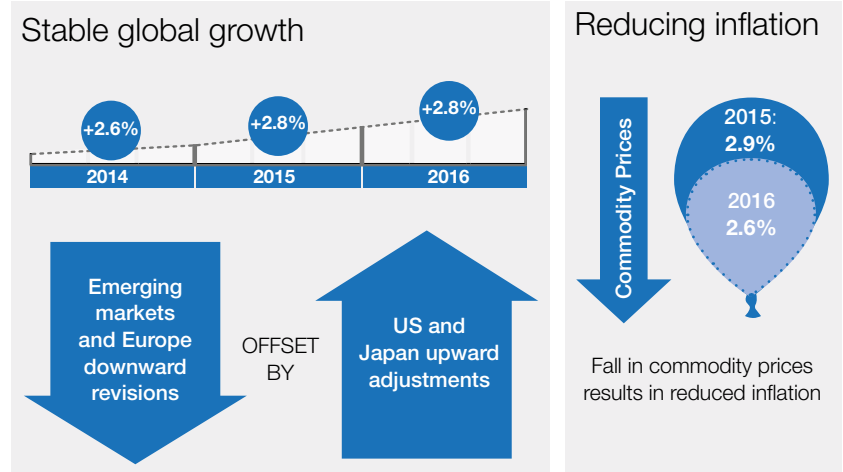
Giles Neville,
Head of Charities



SINCE LAST QUARTER

- UK CPI for Q3 measured +1.2% which was lower than expected - falling commodity prices over Q4 are amongst factors expected to keep inflation subdued.
- UK unemployment level reached 6.0% in October - the lowest since September 2008.
- Having unexpectedly entered recession in Q3, the Bank of Japan increased its target purchase level of Japanese government bonds, from an annual pace of 60 - 70 trillion yen to 80 trillion yen.
- An eagerly-awaited OPEC meeting at the end of November led to no cut in oil production and a sustained slump in oil prices.
- The second phase of the ECB's Targeted Long-Term Repayment Operation launched, seeing take up of €130 billion from eligible financial institutions.
- Late in December, the Greek parliament failed to elect a president, resulting in an early snap election called for 25 January.

ECONOMIC OVERVIEW



MARKET UPDATE

Diverging fortunes and monetary policy

Outperformance of the US economy and end of the Federal Reserve's government bond purchase programme helped drive the US dollar up and the US equity market to new highs in 2014. We expect the US to continue to lead the global economy through 2015, with UK economy also expanding. This should see central banks in these economies increase interest rates, although the deflationary impacts of the falling oil price has likely delayed these rises. Conversely Europe and Japan are struggling to generate sustainable growth, and we expect easing of monetary policy in these regions.

Lower oil prices: good or bad for the world economy?

Brent crude oil ended the quarter at \$51/barrel, a \$37 drop below its starting point at the beginning of October. We estimate that the drop implies a boost to global growth of around +0.5% and a reduction in inflation in 2015 of about -1%. Lower oil and energy costs act like a tax cut to consumers and could provide a welcome boost to spending and growth. Financial market reaction so far suggests that the world is headed in a

more deflationary direction, with equity markets and bond yields both declining. Debate continues around whether the benefit to consumption and growth will be removed by the energy industry cuts to capital expenditure. Nonetheless, we believe the benefits are set to outweigh these factors.

Implications for markets

Equities remain our favoured asset class, and we continue to see potential for earnings growth. Geopolitical risks and inherent volatility within Emerging Markets and disappointing economic data within Europe reinforce our preference for the UK and US, although we recognise that current valuations reflect the economic differences. We are also cognisant of election uncertainty on the horizon, which could add to UK volatility. Stronger corporate earnings should support property rental growth, following on from the yield compression seen in 2014. We remain cautious on bonds, which are susceptible to interest rate rises and are trading at unattractive valuations for medium to long-term investors unless the economy enters a period of deflation, an outcome that we do not expect. We prefer to hold absolute return strategies within portfolios where appropriate.

Equities



Bonds



Property



Cash



Note: These diagrams are indicative of our asset allocation preferences

CHARITY INVESTMENT FORUM - "IN TUNE"

Nick Bence-Trower, Portfolio Director, Cazenove Charities

The 2014 Cazenove Charity Investment Forum took place at the Guildhall School of Music and Drama. The theme for the day was 'In Tune' and centred on the School's music although Richard Stilgoe added drama with his brilliant contribution at the end.

Giles Neville, Head of Charities, opened the event, highlighting the successful integration of Schroders and Cazenove Charity teams since the move to 12 Moorgate in late 2013. As the largest investment management business in the charity sector, Cazenove Charities takes its responsibility in the sector very seriously, partnering and collaborating with sector bodies to publish research on relevant topics such as sustainable rates of expenditure for charities and responsible investment, about which there was a session later in the morning.

Given recent events in global economics, **Richard Jeffrey**, the Chief Investment Officer of Cazenove Capital Management, was introduced under the banner of 'Percussion'.

Richard described his 'wall of worry' and listed his concerns, ranging from the Russia/Ukraine and Middle East crises, to low productivity and faltering growth, and falling gold and oil prices.

He discussed how global growth had averaged 3% before the financial crisis and, between the years of 1994 and 2008, unemployment had never increased annually. Since the crisis however, global growth is more likely to be in the region of 2.5% per annum and this will make any dips in activity far more significant.

Richard expects interest rates to start rising in the UK and US in 2015 as Germany and France are still lagging and with Italy in recession, the ECB will have to take further action. Japan is now up to "three lost decades" and despite Mr Abe's best efforts, Richard believes the economy will continue to struggle. Similarly risks remain to the downside in both China and emerging countries, given their links to global growth and the transition of China to more domestically led growth.

Dominic Liversedge, a global equity manager at Cazenove Capital Management was confident that, despite the MSCI World Index being at an all-time high, long term investment opportunities remained in equities. Particularly when compared to global bonds, where half currently yield less than 1%. Even in economies such as the US, which appear to be more expensive than others, there are still cash-generating companies with high dividends, that offer the potential for enhanced returns.

Changing the focus from markets and economies to charities, **Fiona Hathorn** described the work and aims of Fight For Sight where she is a trustee and member of their finance committee, particularly in relation to the oversight and monitoring of their investments. Fiona debated the decision to award the mandate to one manager over three and highlighted monitoring issues such as risk and volatility, benchmarking options, the role of consultants and the difficulties involved with screening for ethical criteria.



After the break, we focused on Responsible Investment. **Kate Rogers**, Head of Policy at Cazenove Charities, and **Richard Jenkins**, Policy Advisor at the Association of Charitable Foundations (ACF), are currently researching a paper due to be published in Spring. They shared their initial findings, including results of the largest survey of its kind, examining responsible investment practices of charities. Richard concluded by suggesting charities start with the ambition to best achieve their mission and bear that in mind when designing any responsible investment policies.

Jessica Ground, Global Head of Stewardship at Schroders followed this session by discussing how good stewardship is integrated within our investment process. She described how the consideration of Environmental, Social and Governance (ESG) factors as part of an investment decision has become more commonplace over the past twenty years. There is more academic and practical research to prove that these factors can have a meaningful impact on both the sustainability and financial returns of companies. Disasters such as the BP oil spill in the Gulf of Mexico have shown how failures in governance can create significant loss of value. We believe that engagement with companies rather than confrontation or divestment is the best way to drive change and improve returns and a long-term approach to ESG is required, integrated within the investment process.

The Forum ended with all 290 delegates and the Cazenove team taking part in a song organised and conducted by **Sir Richard Stilgoe**. Sir Richard opened his talk with tales and examples of his work on musicals *Starlight Express* and *Aspects of Love*. He then went on to explain how, with proceeds of shows staged in the US, he had started a charity, the Alchemy Foundation. Subsequently he launched the Orpheus Centre in 1998, which is a specialist college for young people with disabilities. The school provides supported housing and a diverse curriculum of performing arts, independence, functional and life skills to over 40 disabled young adults every year.

Having gathered some words from the audience thirty minutes earlier, Sir Richard sang to us a piece composed for the occasion, the lyrics of which contained words including 'Total Return', 'Quantitative Easing', 'Dead cat bounce'. Impressively, he tied in the themes of the morning, with some typically witty rhyming couplets.

TEAM NEWS

Tom Montagu-Pollock and his wife, Sophia, welcomed their first child, Wilbur, in early December.

Cazenove Charities also welcomes **Caroline Hooft-Graafland** who joined the team as a Client Service Executive in November.

Andrew Sheaf made a 22,000 mile, 22 day journey with the Scott Polar Research Institute, University of Cambridge (SPRI) to Antarctica in late November, following the precise route of the Sir Ernest Shackleton 1914 "Imperial Trans Antarctic Expedition." Andrew kept us, via Satellite phone, up to date of his progress from Tierra Del Fuego, Argentina to south of the Lemaire Channel in the Antarctic Peninsula on the icebreaker Akademik Sergey Vavilov.

By emailing our Christmas greetings rather than posting cards we have been able to make a donation to the **Trussell Trust**, a charity chosen by the team. The Trussell Trust aims to combat the cycle of poverty and provides emergency food parcels for those in need - www.trusselltrust.org



INVESTING RESPONSIBLY

We are grateful to all who responded to the survey in 2014 on responsible investing that was conducted by the Association of Charitable Foundations and Cazenove Charities.

We received an impressive number of responses and Kate Rogers and Richard Jenkins are currently writing up their findings.

We will launch the report and run a series of workshops later in the year, so please look out for further information via email and on our website in the Spring.

CONTACT US

Contact details for the entire team are available on our website: www.cazenovecapital.com/charities/meet-the-team



Giles Neville
Head of Charities
Tel: 020 7658 6975

giles.neville@cazenovecapital.com



Kate Rogers
Head of Policy,
Charities
Tel: 020 7658 2480

kate.rogers@cazenovecapital.com



Alex Baily
Portfolio Director,
Charities
Tel: 020 7658 1108

alex.baily@cazenovecapital.com



Lucinda Napier
Portfolio Director,
Charities
Tel: 020 7658 1106

lucinda.napier@cazenovecapital.com

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UPCOMING EVENTS

FEBRUARY

26TH - COMMON INVESTMENT FUND LUNCH

An inaugural lunchtime event featuring presentations from our Common Investment Fund equity managers followed by the opportunity to catch up with the managers and fellow investors.

APRIL

1ST - NCVO GOOD TRUSTEE GUIDE LAUNCH

We have partnered with NCVO on the new edition of their best practice guide for trustees, to be published in April. Having contributed to the investment section, we host the launch of the Guide where the authors will present some highlights, followed by a drinks reception.

LATER IN 2015

Trustee Training

Please put the dates in the diary for our London-based sessions: Introductory **21st May** and Advanced **16th September**

Charity Lecture

Our Annual Charity Lecture is scheduled for **12th May**. We have an excellent speaker lined up, more information to follow soon...

For information about our events or to register, please visit

www.cazenovecapital.com/charities/events



Charity Times Awards Investment Manager 2014

"A clear focus on the sector and highly innovative."

For more information on any of the articles or to sign up to receive this newsletter regularly, contact:

Joanna Barton | email: joanna.barton@cazenovecapital.com
tel: 020 7658 3104