

Building a sustainable future for charities and endowments

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Every charitable organisation we speak to tells us sustainability is their number one priority.

In terms of a sustainable financial future, this means delivering a long-term, stable, growth and income to fund front line services and projects that doesn't risk support to those reliant on the charity now or the next generation that may be reliant in the future. This is where our approach differs from others, it has a clear focus on delivering long term sustainability to you and your stakeholders by engaging with you to understand your specific needs and constraints and deliver investment solutions to achieve them.



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When discussing our approach to delivering a sustainable future, our clients point to how different Hymans Robertson's approach is. Their past experience has often been with providers who market packaged solutions of volatile assets that do not have a clear link to charitable objectives, deliver stability of return or meaningful assessment of risk tolerance. We are not here to deliver fads, generic 'sausage machine' advice that has no relevance to your circumstances or just 'sell' the latest product. We're independent and our advice is there to specifically help you by unravelling all the unnecessary complexity.

Financial market risk and volatility is not a new phenomenon. In fact we would actually argue the benign period since the financial crisis (supported by loose monetary and fiscal policy) has been the unusual period. The unfortunate reality for many is the current uncertainty is a reminder of what 'normal' means and building resilient and sustainable solutions in this backdrop has real value.

Our over-riding objective is to work in a close and collaborative partnership with clients to build tailored solutions that focus on what resilient sustainability truly means for you. We focus on six key areas:

- I. Sustainability of investment returns/income to meet your specific funding needs
- II. Meaningful risk metrics and robust risk management to help you make sustainable decisions
- III. Contingency planning for when things go either well or badly
- IV. A truly integrated approach to RI/ESG and support in measuring effectiveness against measures such as the UK stewardship code so you are able to deliver a sustainable approach within the community you serve
- V. Evidence based analysis and tailored thinking to support decision making to deliver your specific objectives
- VI. Clear pre-agreed budgets that do not charge you for listening to your issues, but only reflect delivery of effective solutions

This is our key commitment to you, advice tailored to your needs without unsustainable fads, sausage machines that churn out generic advice or costs that do not deliver value.

In essence, what you will receive from us are better outcomes, delivered with more simplicity, more clarity and better focussed on your needs. You will be in control and have evidence-based analysis at your finger-tips that does not leave outcomes down to chance.



Our USP

All consultancies will claim clever analytics and clever people, as we do (and have!). What makes us truly different, and is our USP, is our culture and a focus on you and understanding your specific needs. We are here to support individual clients with individual solutions, and not deliver off the shelf advice or rehash market 'fads'.

At the outset of our relationship we will work with you to understand the approach that most effectively works for you, and tailor our approach to your needs. To give you a flavour of that approach, we work with clients to address three fundamental pillars:

1. Delivering your promises; we start with the specifics of what you need.
2. Know the investment landscape; what asset characteristics specifically meet those needs.
3. Building sustainability; how do we build a portfolio to ensure your requirements and risk tolerances are met in terms of asset return, income, risk and your commitments to wider society (RI/ESG).

This will mean you get:

1. A clear and granular break down of your needs
2. The full picture of assets that can deliver and are appropriate for your purposes
3. A clear sight to continued sustainability with evidenced analysis and a clear conscience

On the following pages, we provide an overview of each of those pillars, what they mean for you and the specific benefits you will receive. In the final section we provide examples in the form of case studies where we have implemented projects with charities and endowments – so you can be confident in our ability to deliver.

Backing our commitment


We understand from our discussions with clients and financial managers like yourselves, this approach is unique.



We have all the skills and expertise to partner with charities and endowments to support you to achieve your objectives.

What makes us different is our culture and focus on the specifics of your needs.

Matt Woodman



What makes us truly different is our culture, a focus on you and our understanding of your specific needs.

We start with you

Our approach begins by focusing on the specific outcomes you require, and then working with you to build the best approach to achieving them. We do this by working in partnership with you to address three fundamental pillars to achieving the investment success discussed in the section above.

'Working in partnership' is not just a phrase to us, it means you feeling fully involved and engaged in the process with regular open discussions around ideas, approach and solutions. At the outset we will want to get to know you, your requirements and constraints, and preferred way of working to understand:

- What income and growth do you need to support services or investments now?
- What is the right balance of risk to deliver that income and growth so that we can continue to deliver that sustainably into the future without compromising the health of the assets?
- What is the approach to Responsible Investment and Stewardship that best fits you so that not only the financial promises are delivered, but also the social promises?

What does this give you?

A clear vision of the requirements from your asset portfolio and criteria against which we can match the appropriate assets.



This is what we see as the key to our first pillar, **Delivering your promises.**

Understanding the terrain

As with any innovation, investing money involves a raft of options and variables, many of which are complex.

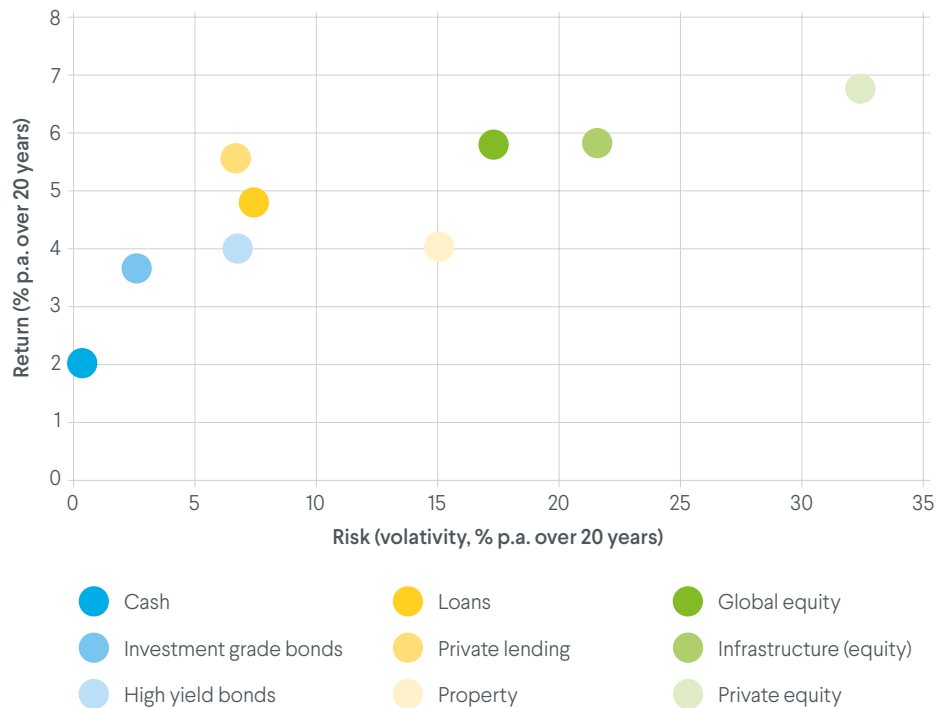
However, this complexity has been made worse through the use of investment fads such as Diversified Growth Funds (DGFs) and other vehicles. We do not think of these as either 'good' or 'bad' as they are only 'implementation approaches'.



This is the key to our second pillar, **Know the investment landscape.**

The key is to understand what assets underly these approaches and decide whether the characteristics of those assets meet the characteristics sought.

Stylistically, the investment universe is set out in the chart on the right.



Understanding the terrain (continued)

For some this 'menu' of investments can seem intimidating (especially when a full list is created) and this is why managers 'lump' them together to obfuscate this complexity. However, this need not be the case if we begin with the characteristics we are seeking and then translate them to the asset classes we should consider for the solution.

Requirement	Characteristics	Example asset classes
Growth	High expected return, based mainly on growth rather than steady income	Equity, private equity, development infrastructure, building projects, early stage 'impact' investing
Income	Medium expected return based on reliable steady income	Mature property and infrastructure and higher yielding bonds
Protection	Low volatility (lower return), secured income and easy liquidity	Investment grade debt, cash, asset backed securities

Building an effective investment strategy is then simply a case of matching those asset characteristics to the requirements of the charity's objectives.

What does this give you?

A clear understanding of the assets available and return/income/risk characteristics which we can match to your promises, without the need to consider packaged solutions that contain assets you both want and don't want.

Guiding the way

Focusing on what really matters in the context of your objectives and then matching that to the characteristics of the available asset classes leads to a better and more coherent result for you and your stakeholders. By keeping you in control, our role is to help you steer the appropriate path to meet your goals.

Once we have agreed well-defined investment objectives and constraints that clearly link to the charitable goals, we focus on getting strategic decisions right in the context of selecting from the available assets to meet those objectives and build a long term sustainable future.



This is the key to our third pillar, **Building sustainability**.

This pillar encompasses all the clever analytics and risk modelling to ensure that we build portfolios that not only meet your growth/income requirements, but are also manageable within your risk tolerances and governance structure.

This is absolutely critical to considering the overall sustainability of the agreed approach and keeping you within acceptable bounds of volatility and ESG factors. Some examples of that output are included in the next section.

What does this give you?

A clear understanding of how to make portfolios sustainable for the long term through robust risk analysis, contingency planning and embedded RI/ESG consideration.

By keeping you in control, our role is to help you steer the appropriate path to meet your goals.

Putting words into practice

The previous sections provide an overview of our approach to building robust, well thought-out, solutions. Below are a few examples of how we have put this into practice to demonstrate the value we can offer.

EXAMPLE 1

Key requirement for charities and endowments

A sustainable investment approach.

Our experience

Advising a military charity on building resilient income streams and sustainable risk exposures to meet their specific needs.

Benefit to charity/endowment

Clear experience in advising on sustainable investment approaches to meet clients' specific needs with well thought-out solutions and robust testing, focussed on clients' specific requirements.

What we did

- Worked with a military charity to understand granular income sources and outflow needs.
- Consult on growth/income targets to deliver a balanced budget.
- Define multiple investment strategy approaches to deliver the balanced budget with different approaches to the balance between growth and income.
- Scenario test portfolios against requirements and risk tolerances to determine the portfolio that provided the best balance of characteristics.
- Provide robust analytics and contingency planning for scenario testing.
- Provide recommendations for discussion around our views on the portfolio to best meet the charity's requirements.
- Provide clear audit trails of comprehensive options and discussions and rationales for final decisions.

EXAMPLE 2

Key requirement for charities and endowments

An 'impact investing pot' to support UK innovation.

Our experience

Advising an LGPS pool on setting up their own impact investment pot.

Benefit to charity/endowment

Clear experience in building impact investing approaches to deliver the promises and objectives desired.

What we did

- Worked with a Fund to establish their impact investing pot.
- Started with a series of workshops to determine their values and ambitions in regards to Impact investment.
- Worked with their investment manager to develop the parameters of the impact tranche and its expected risk/ return profile.
- Advised the Fund in order for them to understand where the impact tranche would sit within their broader strategic asset allocations.
- This will mean the new impact investment tranche will gain exposure to a broad range of asset classes (e.g. infrastructure, private equity and real estate) via several different means of implementation, which may include funds, direct co-investments or secondaries.
- Also supported the fund wrapper advice (with the investment manager) allowing for flexibility and futureproofing.
- Further we have advised how the impact investments can be tied to the United Nations Sustainable Development Goals.



EXAMPLE 3

Key requirement for charities and endowments

A focussed partner, continuing to invest in innovation of their approach (not a sausage machine of established thinking).

Our experience

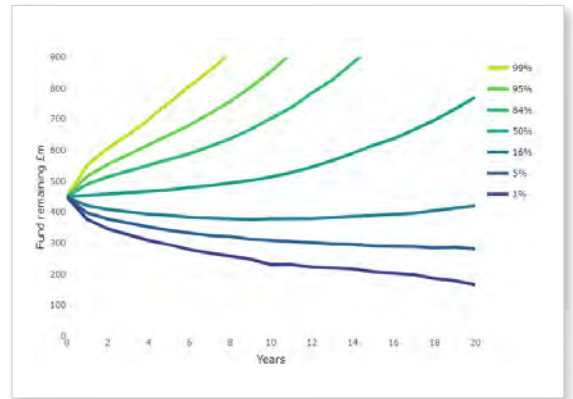
Our Insights and Analytics team has recently built a bespoke charities asset model that allows live consideration of portfolios, meaning interactive discussion and consideration rather than static presentation.

Benefit to charity/endowment

An innovative, growing consultancy committed to investing for the benefit of clients.

What we did

- As part of our commitment to the charities sector we have invested in additional modelling capabilities to specifically assist charity clients in assessing different portfolios and objectives.
- Key to this modelling is making live changes to requirements and asset strategies that are available for immediate discussion, without the need to undertake weeks of complex modelling.



Analysis downside risk metrics				
	Current Strategy	Strategy I	Strategy II	Strategy III
Short term metrics (after allowing for Fund income and outgo and returns on the Fund's assets)				
Probability of 20% fall in value in 2 years	1%	-1%	-1%	-1%
Probability of 20% fall in value in 3 years	10%	-1%	-1%	-1%
Worst 1% of Fund values after 3 years will be less than or equal to	£25m	£30m	£30m	£30m
Long term metrics (after allowing for Fund income and outgo and returns on the Fund's assets)				
Probability of 20% fall in value in 10 years	33%	12%	27%	25%
Probability of Fund falling in value after 10 years	50%	53%	50%	52%
Worst 1% of Fund values after 10 years will be less than or equal to	£1m	£25m	£23m	£20m

Analysis upside risk metrics				
	Current Strategy	Strategy I	Strategy II	Strategy III
Short term metrics (after allowing for Fund income and outgo and returns on the Fund's assets)				
Probability of Fund growing over 3 years	52.8%	60.0%	58%	56%
Best 1% of Fund values after 3 years will be greater than or equal to	£58.0m	£30m	£45m	£30m
Long term metrics (after allowing for Fund income and outgo and returns on the Fund's assets)				
Probability of Fund growing over 10 years	47.8%	50%	35%	48%
Best 1% of Fund values after 10 years will be greater than or equal to	£64.8m	£32m	£20m	£30m

EXAMPLE 4

Key requirement for charities and endowments

An integrated RI/ESG approach aligned with the charity's values.

Our experience

We have worked with a number of our clients on building bespoke RI/ESG approaches and facilitate this through a dedicated team. The example set out here is a project for a Scottish Local Authority client.

Benefit to charity/endowment

Clear experience in advising and implementing meaningful approaches to RI and ESG for clients, again focussed on their needs.

What we did

- The Local Authority had sought to consider potential opportunities to invest in products which positively support sustainability, with an emphasis on climate change mitigation and the decarbonisation of the global economy.
- They were interested in a listed equity approach but were keen to avoid investment in strategies which do not clearly align with their objectives, so called 'greenwashing'.
- They were also mindful of fiduciary considerations and wanted to ensure that the implementation of such strategies can be accomplished in such a manner so as to deliver levels of financial return, consistent with or in excess of comparable market returns.
- Our initial work with them focussed on what they were aiming to achieve and what they felt 'green washing' meant.
- Our analysis suggested that their objectives could be most cost effectively met through existing approaches (avoiding the additional costs of bespoke), but with implementation through boutique specialist managers (avoiding the bandwagon approach by some larger houses).
- We then provided manager research, analytics and recommendations both around RI and importantly investment capability from which the portfolio was then constructed.