SARASIN
& PARTNERS

HOUSE REPORT

Q1 2021

A BRAVE NEW WORLD

THE JOURNEY BACK TO NORMALITY

INTRODUCTION

GUY MATTHEWS
CEO

Welcome to the Q1 edition of the House Report and Happy New Year.

We initiated new communications to clients, focused on staff wellbeing, and launched a new website as part of our brand refresh

It is hard to look back at 2020 without resorting to cliché, but it is safe to say it was a year few of us will remember fondly. While 2021 won't see an immediate return to normality, we are hopeful that many of the improvements we made to our business in 2020 will serve us well in the year ahead.

When the virus struck, our initial priorities were to ensure that all aspects of our business were able to operate remotely, to maintain our strong investment performance, and to look after our clients and staff. We increased our IT spend, an investment which enabled us to minimise disruption to our clients and which we think will serve us well in an ever-digitalising world. Against a backdrop of unprecedented market volatility, our investment performance was generally strong across all products and portfolios. We attribute this to our thematic approach, and the fact that coronavirus accelerated many of our long-term themes and reinforced the importance of our sustainable approach. We initiated new communications to clients (many of you report that Guy Monson's Six-Minute Strategy is particularly interesting and helpful), focused on staff wellbeing, and launched a new website as part of our brand refresh, for which we recently won an award from the Gramercy Institute. It is gratifying to have achieved these aims while strengthening our offering and implementing areas of potential growth, and these successes serve to remind us of our relative good fortune in a year that was difficult for so many.

In this issue, Guy Monson and Niloofar Rafiei share their thoughts on what the journey back to normality might look like. Our Head of Stewardship, Natasha Landell-Mills, outlines how your capital is making a difference through our stewardship activities, taking a look back at 2020's achievements, and looking ahead to 2021's focus. Our Head of Global Equities, Jerry Thomas, shares insights on how our funds performed in 2020 – and how we are positioning your portfolios for a year of recovery. Within our Charity Focus we share the results of our recent survey with you and identify what we have learned from many of our charity trustees.

As ever, we hope you find the House Report a useful and informative read. If you have any feedback on the report, or on anything else, please do send it to marketing@sarasin.co.uk.

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MARKET VIEW
A BRAVE NEW WORLD

GUY MONSON
CIO & SENIOR PARTNER

We cannot yet be sure how this pandemic will end, but with the mass deployment of vaccines now under way, today's high infection rates could be materially lower in a few months' time. Financial markets were quick to respond last year, scenting better times ahead despite the daunting economic challenges we still face today. After what was one of the shortest bear markets in history, asset prices climbed and volatility fell on an almost linear trajectory, right through to year end. Global equities posted a 14% return in 2020, despite what was, in Britain's case, the deepest recession in 300 years.

It was not only equities that prospered last year; government bonds, credit, hedge funds, commodities, residential real estate and infrastructure all showed positive gains, alongside windfalls for investors in gold, silver and the digital or crypto currencies. This near 'universal' asset appreciation is not hard to explain. In the face of economic lockdown, policy makers drew on their playbook from the 2008 Financial Crisis but this time with greater urgency and scale. They executed massive central bank bond purchases, direct market intervention and simultaneous fiscal programmes. While this succeeded in blunting the economic impact, it was also rocket fuel for financial markets. Bond yields collapsed, interest rates fell to zero or below (and central bankers committed to holding them there) while personal savings rates soared (triggering a wave of retail stock buying). The result was a higher equity risk premium as earnings yields on stocks looked attractive relative to bonds or cash – this led to a wholesale re-rating of risk assets.

THE GREEN SHOOTS OF A POST-COVID RECOVERY?

So where to from here? Reflecting on 2020, our focus is understandably on the human tragedy of the pandemic but that perhaps makes it easy to miss some surprising progress in other fields. Developments particularly in the political, environmental and regulatory space, most of them positive, will help shape our portfolios in the year ahead:

1. Politics

Perhaps historians will come to see 2020 as a moment of political rebirth. This was, after all, the year that America's political system corrected itself, ending its brush with the quasi-authoritarian populism of the right, but also rejecting a destabilising populism of the left (despite the recent Georgia Senate wins for the Democrats). In Europe it was also the year that Ursula von der Leyen and Angela Merkel under Germany's presidency of the EU council successfully brokered the 750 billion euro EU recovery fund, offering a ground-breaking mix of loans and grants, borrowed collectively. Arguably, this tentative first step along the road to mutualising part of Europe's debt, could never have taken place without the urgency brought on by the pandemic. Finally, of course there was Boris Johnson's Brexit deal – which, despite its modest ambitions, is still a remarkable achievement in the timescale and conditions under which it was negotiated. Yes, the deal is limited in scope but it offers a robust platform to build and deepen relations over time.

2. The environment

It is only the very beginning of a long journey, but new commitments to carbon neutrality by corporations and governments (including China, the UK, France and Japan) have been one of the most extraordinary achievements of 2020. COVID-19 appears to have accelerated efforts to shift to a savvier form of globalisation that prioritises climate, as a means to build post-pandemic resilience. The Chair of the EU Parliament's Environment Committee called it "the biggest green investment shock ever made." We at Sarasin have been active for some years on your behalf, voting and nudging our companies to embrace clear Paris goals – we will now spend many more years monitoring their execution.

3. Regulation

European authorities, who have long had big American tech companies in their sights, are likely to heighten their scrutiny in 2021. In the US, a new bipartisan consensus is emerging in favour of tougher antitrust enforcement of the largest players, whilst even China, the self-proclaimed architect of home-grown national monopolies, appears to be having second thoughts. Beijing is talking of a 'rectification drive' to bring Jack Ma's Ant Group more closely under its control, whilst also initiating monopoly investigations into Alibaba and other tech giants. We are a long way from a global consensus about how to regulate or tax big tech, but perhaps 2021 will mark the first serious attempt to set some boundaries – this is to be applauded.

4.Green shoots

Counterintuitively, 2020 has witnessed a surge in new business start-ups, initially in the US but also now in the UK, Germany, France and Japan. In the US, new business applications rose 70% in the three months to September, France registered 84,000 in October, up 20% from a year ago, while in the UK, online retailing was the driver of a surge in registrations last month. Mergers and acquisitions activity has also been robust with deal volumes globally only 6% below 2019 – an extraordinary achievement when you consider the freeze in activity in the first half of the year. In December for example we saw three of the largest global deals complete[1]; S&P's purchase of IHS Markit, AstraZeneca's purchase of Alexion Pharma and Salesforce's purchase of Slack Technologies. We should expect a very active M&A market again in 2021 as both COVID winners and losers reposition their business models.

THE RISKS

Our greatest worry as we look ahead to 2021 is rising inequality. The virus has tended to hurt the lower skilled (less able to work remotely), minorities and low-income economies (especially sub-Saharan Africa). Even in the US the Economist Magazine reports that 32%[2] of households earning less than $25,000 have been forced to miss meals. By contrast today's low interest rates and bond yields have lifted the value of stocks and other risk assets which are disproportionately owned by richer households. Governments need to respond with ambitious 'levelling-up' agendas and re-training policies alongside debt relief for poorer countries. Expect windfall and possibly wealth taxes to fund this. Against this backdrop we, as fund managers, will be monitoring how our companies support their workforces and their wider corporate supply chains as part of our governance process.

Our second key risk is the bond market - the orderly climb in US yields to 90 basis points (they bottomed at 50 basis points on 4 August) holds little risk as yet. But, in the face of a successful global vaccination plan, and a less constrained Biden spending programme it is possible that we see a surge in economic activity this summer. Yes, it may feel a world away, but imagine cash-rich consumers (US households received an additional USD one trillion[3] in personal income support in 2020), government infrastructure programmes and green investment all deployed simultaneously. A roaring 2020s, with central banks reluctant to step in, could see bond yields climb, possibly sharply, and equity valuations that will have to reset in response.

The active deployment of vaccines alongside still generous central banks, continues to be positive for risk assets

OUR POLICY

The active deployment of vaccines alongside still generous central banks, continues to be positive for risk assets. So, despite the daunting infection data seen today, we have raised our stock exposure to overweight, expecting much of 2021's returns to be front-loaded. Within this we have no strong style bias, seeing opportunities in both industrial holdings geared to climate and infrastructure spending but also in the digital winners that are not the main target of regulators. We also favour UK equities, noting attractive valuations and the likely return of foreign funds in the wake of the Brexit deal. Our caution comes in the bond markets where we have just reduced our credit exposure, after an extraordinary rally, and remain underweight government bonds. We may be early, but the brave new world we hope for in 2021 will at some stage need a new interest rate policy to go with it.

[1]Bloomberg
[2]The Economist Magazine January 2020
[3]US Bureau of Economic Analysis

ECONOMIST'S OUTLOOK

PREDICTION IS DIFFICULT – PARTICULARLY WHEN IT INVOLVES THE FUTURE

- MARK TWAIN

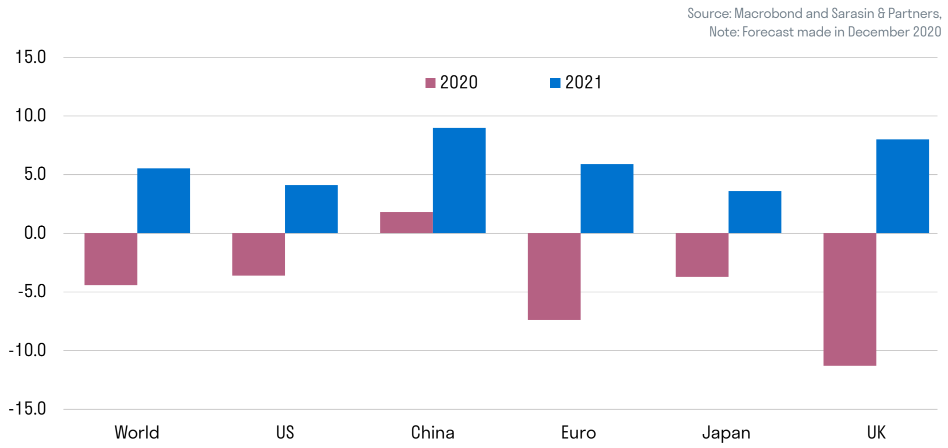
NILOOFAR RAFIEI
ECONOMIST

Outlier events can upend models and instantaneously trigger new inflection points. Oil price shocks, asset price bubbles and monetary policy tightening have historically been the events triggering economic recessions.

Low probability but high impact events, like a pandemic, were not on the typical risk monitor.

Yet, the health and economic calamity caused by the pandemic will continue to reverberate for years to come.

FIGURE 1 GLOBAL ECONOMIC OUTLOOK (GDP GROWTH, % ANNUAL)



HOW CAN WE START TO ASSESS THE DAMAGE AND THE LIKELY PATH FORWARD?

As a starting point, the damage is severe and tragically the human and economics costs continue to mount. The global economy is likely to have contracted by 4.4% annually in 2020 (Real GDP, in USD terms). By magnitude, that's more than double the fall seen during the global financial crisis in 2009 (-1.7%). By region, the differences are stark.

China, which implemented the most severe restrictions, managed to supress the virus in a relatively short span of time. We forecast the Chinese economy grew by 2% in 2020 – the only major economy to post any economic growth. Large advanced economies, like the US and Japan, are likely to see their economies shrink by around 4%. In the euro area, which is grappling with a further surge of infections and the prospect of a double-dip recession, the contraction is likely to be 7.5%. In the UK, where Brexit uncertainty has compounded the pandemic-related economic costs, the total economic contraction will be higher still, at more than 11%.

THE ROAD AHEAD

The vaccine provides a bright ray of hope and largely underpins our positive economic outlook for 2021. Crucially, it provides visibility for firms to make business investment decisions, and consumers with confidence to reduce high precautionary savings. Notwithstanding the logistical challenges for successful distribution, we expect the most vulnerable parts of society to be inoculated by the end of Q1 2021 in advanced economies, before the pace of vaccination accelerates to cover 75% of the total population by Q3 2021 – sufficient for herd immunity. As health outcomes improve, government restrictions will start to be rolled back from spring.

The mechanical re-starting of economic activity will see economic growth rates surge from Q2. But in comparison to the low base of 2020, this will generate statistical illusions that need to be carefully interpreted. The global economy is likely to record annual growth of 5.5% in 2021 – the fastest pace since the oil price shocks of the 1970s. However, this growth will reflect the fact that as much as 30% of the economy was forced to close during the height of the pandemic, rather than structural growth. Given the varying starting positions of countries, the time to fully regain lost economic ground will vary. The recovery will be uneven.

We expect the US economy, fuelled by fiscal-stimulus, will return to its pre-crisis size by Q3 2021, followed by the euro area and Japan towards the end of 2021, and the UK around a year later. So on average, countries will take 2-3 years to heal, while China completed this process in a single quarter.

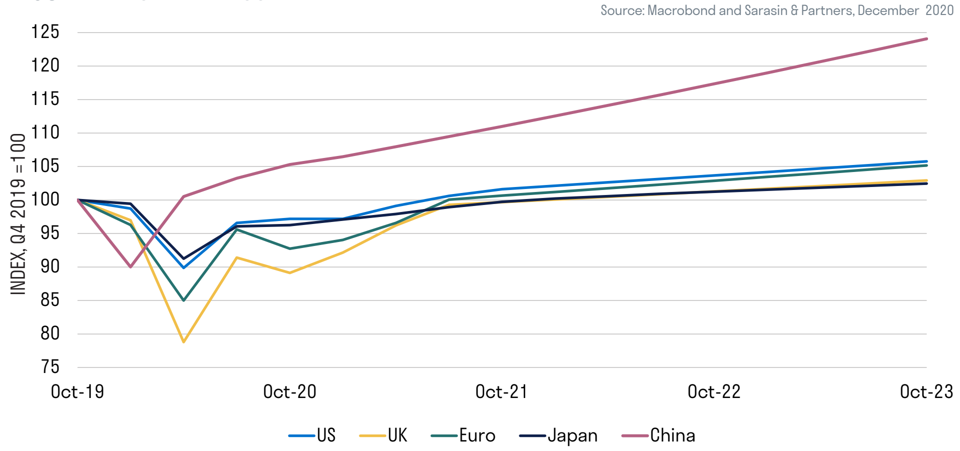
REGAINING LOST GROUND

Little discussed, but paramount to the economic outlook, is the permanent loss the pandemic will leave once mobility restrictions are withdrawn and a new normality gained. Permanent loss could amount to as much as 5% for some countries unable to catch-up to their pre-crisis GDP trajectory. There's also the issue of scarring or damage to long-term growth, caused by higher unemployment, destruction of firm-specific capital, weak investment, and a fall in the accumulation of human capital via education[1].

Policy makers in Europe have been particularly cognisant of the risk of long term unemployment, by subsidising workers' pay in short-time work and furlough schemes. At the height of the pandemic, these schemes covered up to a third of the total workforce in Germany, UK, France, Italy and Spain, providing 60-80% of original income. Yet, the full economic costs will only be seen when the fiscal policy band-aids are pulled off and we can examine the number and type of jobs left standing. In the US, where policy didn't try to protect jobs but rather protect household incomes with stimulus cheques, 10 million jobs have still not returned since the pre-crisis peak in February 2019. Similarly, in Europe unemployment rates are likely to surge when the job retentions schemes finally end. Europe faces the additional risk, however, that while job protection schemes are helpful in the short-term, they may prevent the necessary readjustment of the labour market and exacerbate long term structural issues, such as the inevitable decline of some industries and rise of others. This mismatch between the skills required and the skillset available takes time to unwind. Long-term unemployment was a chronic issue in Europe before the pandemic struck. According to the OECD at the end of 2019 the share of unemployed that had been long-term unemployed (defined as over 52 weeks) was 57% in Italy and 39% in France, compared to 12% in the US.

Another legacy of the crisis could be the general acceptance of high debt levels

FIGURE 2 AN UNEVEN RECOVERY



A NEW ERA FOR DEBT?

Another legacy of the crisis could be the general acceptance of high debt levels. The need for nimble policymaking saw fiscal prudence quickly give way to fiscal splurge as governments spent on health, income support, business support, and implemented various tax cuts. According to the IMF[2], government budgets surged by an average of 9% of GDP in 2020, and public debt reached 100% of GDP – even higher in advanced economies. This will be a far cry from the 60% debt-GDP threshold that was enshrined in orthodox economic thinking previously.

Given the synchronised rise in public debt across countries, the prospect of low for longer interest rates, and a paradigm shift to question the merits of fiscal consolidation in a low-growth environment, we are unlikely to see an immediate return to the previous days of austerity.

Although fiscal sustainability concerns will not disappear, and fiscal discipline and credibility will remain important, sovereign risk is likely to be assessed more broadly than benchmarked against simple debt thresholds. If spent wisely, it could provide governments opportunity to boost chronically low productivity growth.

THE NEW NORMAL

Uneven recoveries, higher unemployment, and higher debt are trends that will likely shape the new normal. Optimists suggest the pandemic has also provided the catalyst for enduring change by reorganising the production process. But early academic evidence from the Bank of England[3] suggests that productivity enhancements from creative destruction – whereby low productivity sectors and firms are replaced by high productivity ones - have thus far been limited and insufficient to offset the destruction caused. As for the study of the long-term social impacts, ranging from income and wealth inequality to intergenerational and gender imbalances – the research has only just begun.

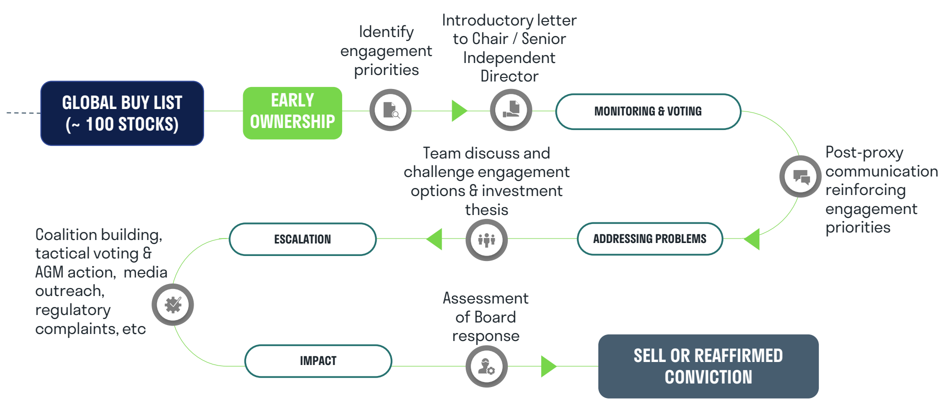
[1]The lasting scars of the Covid-19 crisis: Channels and impacts, Jonathan Portes – June 2020
[2]World Economic Outlook, October 2020: A Long and Difficult Ascent, The IMF – October 2020
[3]The impact of Covid-19 on productivity, Bank of England (Staff Working Paper) - December 2020

HOW YOUR CAPITAL IS MAKING A DIFFERENCE:

ACHIEVEMENTS IN 2020 AND SOME ASPIRATIONS FOR 2021

NATASHA LANDELL-MILLS
HEAD OF STEWARDSHIP

FIGURE 1 SCHEMATIC OF SARASIN & PARTNERS' OWNERSHIP DISCIPLINE



When there's still so much to achieve, it can sometimes be hard to see progress. Looking back on 2020 is particularly tough given the hardship and disruption imposed by the coronavirus pandemic.

But it offers us the opportunity to report on what difference your capital is making through our stewardship activities. That is, how we are helping to catalyse positive change in your companies and the broader market place, nudging wherever we can towards a more sustainable world, and thereby protecting and enhancing your capital.

ESG INTEGRATION STRENGTHENED

Our environmental, social and governance (ESG) analysis has taken a big step forward in 2020. With more resource deployed into improving our understanding of ESG value drivers, we have gained deeper insights into your companies. We have rolled out an enhanced ESG matrix, invested in increased ESG data gathering, and built ESG inputs into company valuation models.

CLIMATE STRESS TESTING - BUILDING PORTFOLIOS RESILIENT TO DECARBONISATION

An innovation we expanded in 2020 is our climate stress testing work. This involves bottom-up analysis of how your companies will be impacted by the world shifting onto a net zero carbon growth pathway. We evaluate which government policies are most likely to curb fossil fuel-based activities in a particular sector, and what this will mean for specific companies. Based on this analysis we have exited all of our oil and gas holdings, including Shell, BP and Total.

TAKING OWNERSHIP SERIOUSLY

Understanding ESG value drivers helps us invest better. It also provides the foundation for impactful engagements with companies. When we understand the inner workings of businesses, then we know when things aren't going smoothly. We bring an outsider's perspective, with an appreciation of broader stakeholder expectations for companies and their contribution to society.

In 2020, we engaged with 80 of your companies on a range of matters (as shown in the figure 2) from board structure and diversity, to auditor independence, to climate resilience, or treatment of staff during the coronavirus lockdowns.

We have voted at about 700 company meetings. As detailed in our Ownership Discipline above, we vote against management where shareholder interests are at risk. We voted against management or abstained at least once in 480 meetings held. The most frequent areas of dissent included non-independent directors, excessive or mis-aligned remuneration and auditor reappointment due to concerns over independence.

Most of our engagements are bilateral, but we also collaborate in broader initiatives, for example the Climate Action 100+ initiative, ICCR Coronavirus Initiative, Ellen MacArthur's Global Commitment on the Circular Economy, and ShareAction's Workforce Disclosure Initiative. We also lead our own collective engagements as we seek to escalate a concern.

MAKING OWNERSHIP MATTER

Paris-aligned financial statements at Shell, BP and Total

In 2020, we ratcheted up our effort to press fossil-fuel-dependent companies for Paris-aligned accounts: accounts that reflect the world moving onto a net zero pathway by 2050. Targeting BP, Shell and Total, we coordinated investor letters representing USD1 trillion in assets to the Audit Committee Chairs and lead audit partners. The impact was clear: all three companies' 2020 financial statements adjusted critical accounting assumptions for Paris, multi-billion-dollar impairments followed, and accelerated transition strategies were published.

Barclays becomes first European Bank to incorporate net zero ambition into its articles of association

Working alongside ShareAction, UK pension schemes and other investors, we co-filed a Shareholder Resolution at Barclays' 2020 AGM, calling for net zero commitment. In response, management filed its own Resolution for a Net Zero Ambition, covering all financing activities. This gained over 99% shareholder support. Attention is now turning to other banks.

Managing coronavirus responsibly

In 2020, we mapped your companies' exposure to mismanagement of key stakeholders during the pandemic. One company where we identified concerns was Associated British Foods. Specifically, we were not comfortable with Primark's initial decision not to pay for outstanding garment orders and non-payment of landlords. We sought discussions with the Finance Director, and were pleased to see the company reverse its stance on paying suppliers and set up a wage fund for garment workers.

RIPPLE EFFECT - PARIS-ALIGNED ACCOUNTS DRIVE PARIS-ALIGNED BEHAVIOUR

Sometimes our company engagements lock onto a broader market failure. This has been the case with our work on the need for Paris-aligned accounts. Companies are widely ignoring decarbonisation when they make critical accounting assumptions – which means their numbers may mis-represent their true economic health. The result: too much capital going into harmful fossil fuel activities.

Our company engagements with BP, Shell and Total have provided a platform to send a clear message to all companies, auditors and regulators. In partnership with IIGCC, we published "Investor Expectations for Paris-aligned Accounts", which was sent to 36 European-listed companies in the energy, materials and transportation sectors with the support of over $9 trillion in assets. We have made a submission to the Climate Change Committee, seen widespread press coverage, and presented at conferences.

FIGURE 2 COMPANY ENGAGEMENTS IN 2020

Source: Sarasin & Partners, January 2021

ENGAGEMENT TOPIC	NUMBER OF COMPANY ENGAGEMENTS
Board of Directors	35
Committees & reporting (e.g. auditors, financial statements)	33
Corporate structure	1
Remuneration	38
General governance (e.g. anti-takeover, auditors, shareholder rights)	4
Climate risk	24
Environmental (ex climate risk)	7
Social	12
Other	0
Total	**154**

Note: These numbers exclude broader engagement on IIGCC Paris alignment, which included a further 32 companies we do not hold.

WHAT WILL BE IMPORTANT IN 2021

First, climate change. We will be more focused than ever on the investment opportunities and risks the accelerating energy transition brings. We will be working hard to ensure that your companies act on the climate imperative. Above all, in the run up to the next international negotiations on climate change in November, we will further amplify the centrality of Paris-aligned accounting and audit.

Second on our list will be maintaining our focus on promoting robustly independent audits to deliver accounts that underpin long-term stewardship. We have had considerable traction over the past few years raising awareness on the importance of accounting for the manner in which capital is deployed and thus long-term economic growth. Above all, shareholders need to start holding auditors and Audit Committees to account.

A third priority for 2021 will be setting a vision for a responsible technology sector. Scrutiny is beginning to translate into action, whether over anti-competitive behaviour, questionable tax structures, inadequate content management or privacy controls. An unresponsive tech sector will raise risks to capital. Investors have been relatively silent on these trends; this needs to change. We will identify and pursue material threats.

A fourth priority will be pressing companies to develop a more sophisticated approach to their 'social supply chain'. Alongside our ongoing COVID monitoring effort, we will expand our scrutiny of how companies are ensuring fair treatment of staff and suppliers, and – above all – providing better disclosure on the human capital embedded in their businesses.

While we will need to remain flexible to respond to events as they unfold, our purpose remains clear: to grow and protect your capital in a way that benefits society, not at its expense.

FROM THE PORTFOLIO MANAGER'S DESK
NATURAL DISASTER, RELIEF EFFORT AND REOPENING

JEREMY THOMAS
HEAD OF GLOBAL EQUITIES

COVID-19 is a tragic natural disaster. For investors, a natural disaster is profoundly different to the typical end of cycle scenario that is usually precipitated by a tightening of monetary policy or a financial crisis. Understanding the massive coordinated government response, in an environment of no blame, has been crucial to successfully navigating market volatility in 2020.

Appreciating the impact of the rapid development of COVID-19 vaccines, and the behaviour of consumers as governments reduce mobility restrictions, will be key to theme and stock selection for 2021.

A NATURAL DISASTER

Natural disasters occur with little warning. The impact is rapid and devastating. The first known case of COVID-19 was confirmed on 10 December 2019. Initially we viewed a new strain of coronavirus at best as an isolated incident in Wuhan, and at worst, a repeat of the SARS outbreak in Asia in 2003. With hindsight, these were the early tremors of a global pandemic. Global equity markets peaked 64 days later on 12 February 2020, and fell 34% in just 29 trading sessions as they assimilated the shock of the pandemic's likely implications on public health and the economy[1].

Initially, investors fled to the defensive consumer staples and healthcare stocks, the familiar playbook when markets collapse. Although we had not anticipated the global impact of the pandemic, the Responsible Global Equity Fund proved relatively resilient to the market fall. The fund benefitted from its concentration in thematic growth stocks with sound finances, such as the flavour and fragrances business Givaudan and personal care company Colgate. The oil price fell from $66 at the beginning of 2020 to a low of $19 by mid-April; the portfolio had no holdings in the oil and gas industry, which dropped over 50% in a matter of weeks[2].

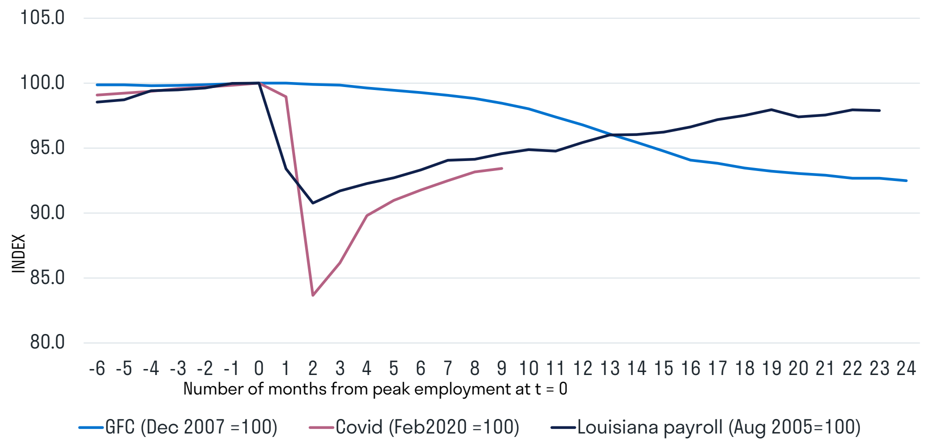
FIGURE 1 MSCI ACWI RETURNS BY PHASE

Source: Bloomberg & Sarasin & Partners, December 2020

As with any natural disaster, governments' role is to mobilise the resources needed for the initial relief effort, and to offset the immediate economic consequences

FIGURE 2 US NONFARM PRIVATE PAYROLL

Source: Macrobond, December 2020



THE RELIEF EFFORT

As with any natural disaster, governments' role is to mobilise the resources needed for the initial relief effort, and to offset the immediate economic consequences. This is not like an economic contraction caused by an increase in interest rates, where cooling the economy is necessary, or a financial crisis where moral hazard is perpetuated by bailouts. The shock and awe of aggressive monetary and fiscal policy in combination was immediate, sizeable and effective. By 15 March the US Federal Reserve had cut interest rates to zero. Through 2020, total global quantitative easing exceeded USD4 trillion, according to Morgan Stanley. Governments implemented furlough schemes to protect workers' incomes, reduced taxes, provided grants and loans for affected businesses, and funded a huge step-up in healthcare spending. The effect on global equity markets was immediate. From the market lows on 23 March 2020 it took just 111 trading days for the MSCI All Countries World Index to recover to pre-pandemic highs[3].

The 'relief effort' phase of the market recovery was initially led by a narrow group of companies that benefitted from large numbers of people working from home. The Responsible Global Equity Fund benefitted from the Digitalisation theme, with companies such as Amazon and the video games company Activision notable performers. In the early days, pantry loading by consumers dramatically increased sales at CostCo. Thereafter, Home Depot benefitted as people spent money on their homes and UPS enjoyed a surge in parcel volumes and better pricing.

Inevitably there were stocks in the portfolio that suffered from falling sales, as consumer and business behaviours changed in response to mobility restrictions. In our Evolving Consumption theme, we have long invested in travel and experiences stocks such as Samsonite and Booking.com, and food-away-from-home companies such as Aramark. The speed at which their share prices fell, and the knowledge that pandemics eventually pass, meant we were reluctant to sell long-term investments in good businesses if they were prudently financed. Our response was to model stress scenarios rapidly for a quarter of the companies on our global buy list – those most affected by the pandemic. This gave us the confidence to remain invested in the vast majority of these companies and crucially set us an indication of the prices at which they became compelling for additional investment.

RECOVERY

The 'post-pandemic recovery' phase of the market recovery is already underway. Markets discount the likely environment six to twelve months into the future and tend to be priced through a combination of probability and visibility. We were most fortunate to have Alex Hunter, who leads our Ageing theme, on the Global Equity team. Alex has analysed healthcare companies for many years and is currently studying remotely at Harvard Medical School. Alex followed closely the improvement in hospital treatment and the development and trial dates of multiple vaccine development programmes. Our insights suggested the market was overpaying for near-term certainty and was not positioned for vaccine success. This provided us with numerous opportunities to buy cyclical companies at attractive prices that would benefit from an eventual reopening of the global economy. The value of a company is, after all, the stream of its cashflows over 20 or more years and not just the coming 12 months.

THE ROARING TWENTIES

2021 will be a year of recovery and to some extent normalisation, even if new consumer habits have been formed and digitalisation has taken a giant bound forward. Markets move fast and the performance of the global equity market has already broadened out, with a rotation from defensives into cyclicals, or more correctly from COVID-19 winners into the losers that suffered the greatest profit attrition. There is more to come as the winter second and third COVID-19 infection waves abate.

Consumers have accumulated savings that will be spent in restaurants and bars, on transport, in hotels, on entertainment or for elective medical procedures

As the global roll-out of the vaccines accelerates, it will produce a non-linear decline in the reproduction rate. This will allow governments to relax social distancing measures and improve mobility faster than generally assumed. The relaxation of government restrictions will release enormous pent-up demand for consumer services. Many consumers have accumulated savings that will be spent in restaurants and bars, on transport, in hotels, on entertainment or for elective medical procedures. These service industries employ large numbers of low-skilled workers that will be re-hired as demand surges, reinforcing rising consumer confidence. A similar effect was seen after the First World War and the Spanish Flu with the Roaring Twenties.

THEMATIC RECOVERY STOCK OPPORTUNITIES

Companies in the sectors that suffered the greatest demand contraction have cut costs hard. Earnings expectations for the companies most impacted remain below pre-COVID levels in many cases. The operational gearing of a demand recovery is typically underestimated by consensus.

Over the last six months we have taken the opportunity to add high quality thematic stocks to the portfolio that will benefit disproportionately from the recovery phase, at attractive prices. These new investments were funded by the sale of companies that had been strong in the disaster phase such as Activision, Costco, Fresenius Medical Care, and Novozymes.

Medtronic is a US medical devices company that provides products and instruments for surgery. COVID-19 has led to a postponement of elective procedures; a catch-up phase is inevitable as many of these operations cannot be deferred indefinitely by an ageing population.

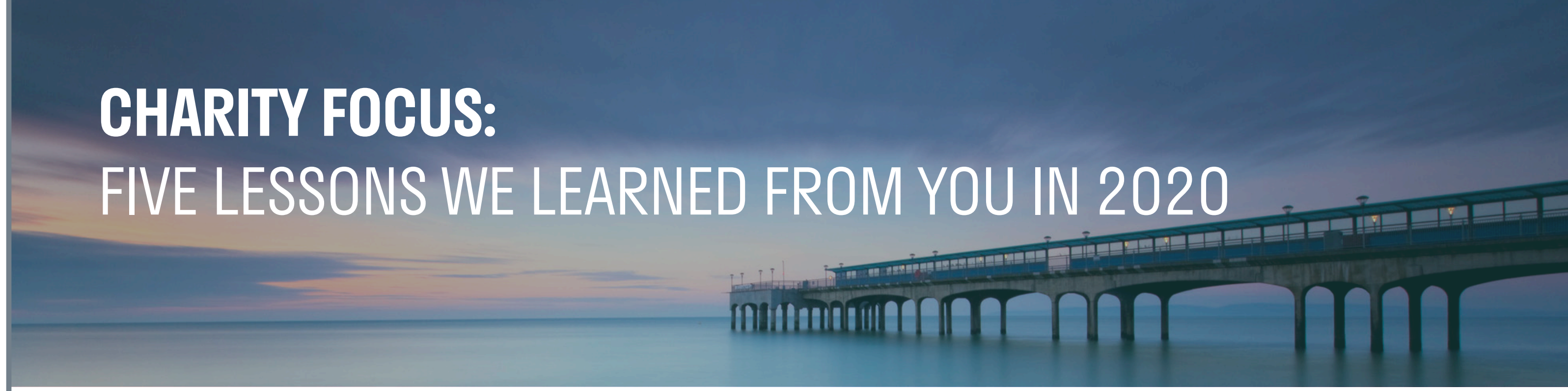
Middleby produces automated kitchen equipment for the restaurant industry. Their quick service restaurant customer base has proved resilient but there is an opportunity in full service dining and consumer markets as the industry recovers.

Alstom sells equipment for the passenger rail industry that was impacted by passengers working from home and a short-term hiatus in new contracts. Rail is a long-term industry supported by government financing, has an important part to play in reducing emissions from the transport sector, and is an effective conduit for fiscal stimulus.

NOT A SHIFT TO 'VALUE'

The Responsible Global Equity Fund has successfully navigated the volatility and rotations of the COVID-19 pandemic. The broadening out of markets we have seen since the Pfizer BioNTech vaccine trial data was released on 9 November has not led to the long-anticipated shift from 'growth' into 'value'. For such a fundamental regime change to occur would require a directional change in the outlook for inflation, something we would not forecast today. The opportunities taken in 2020 came from our thematic approach, preference for resilient companies, valuation discipline and a recognition that COVID-19 was a natural disaster and not a normal stock market event. We are now using our thematic framework to find sustainable companies that can thrive in a roaring 2021.

[1] Bloomberg, January 2021
[2] Bloomberg, January 2021
[3] Bloomberg, January 2021



CHARITY FOCUS:
FIVE LESSONS WE LEARNED FROM YOU IN 2020

KATHERINE HUSSEIN
INVESTMENT MANAGER

The global pandemic transposed many of us into the virtual world: charity investment reviews were suddenly conducted via Zoom, Teams and LoopUp (amongst others) and our conferences were delivered and attended from the comfort of our homes.

In September, to complement the feedback we receive directly from clients, we thought it would be helpful to work with an independent consultant to check in with our charity clients to ensure you were receiving all you needed from us. A big thank you to the 297 charity clients who responded, it has been incredibly helpful to see how we are doing and where you'd like us to focus in future.

69% of respondents had been invested with us for more than five years, of which 26% of clients had been with us for longer than 10 years. When asked how respondents first heard of Sarasin, we were delighted to learn that 70% were through referrals or word-of-mouth. We have set out below the key findings from our client survey together with some initiatives that are already underway to help us improve our charity offering.

EVENTS

Over the years we had started to see the rise of virtual events but the pandemic certainly accelerated that growth this year. Whilst we have all missed meeting our clients face-to-face we have continued to review how to achieve the most from the digital world we were now living in. We did not rest on our laurels!

Our calendar remained 'eventful' with 72 virtual gatherings carried out compared to the 95 physical events we put on in 2019.

In November we welcomed 180 of you who joined us online for our Sarasin Charity Funds Annual Review, where we discussed the performance of your charities' investment portfolios, how our digitalisation theme continues to impact the companies we invest in and the alternatives that have proved successful investments, diversifying and enhancing returns in 2020. Sadly, we were not able to host our regional or physical trustee trainings in person. Instead we partnered with several charity networks such as ACEVO and CFG to run online workshops and seminars with a high level of attendance and some thought-provoking questions from the participants. Many of you attended The Brilliant Breakfast we hosted one morning, again online. This was in partnership with The Prince's Trust to raise money for the Women Supporting Women initiative with guest speaker Holly Tucker MBE, co-founder of Not On The High Street. A huge success and a worthy cause.

In a post-pandemic world, we are, of course, looking forward to seeing our clients again in-person; however the option to attend events virtually will likely stay in the mix for those of you who enjoy the advantages they offer. As I write this article, we are busy in the process of planning the 2021 Spring Seminar. We intend to put to good use the lessons we have learned over the past nine months to make this a rewarding event, designed expressly for a virtual audience.

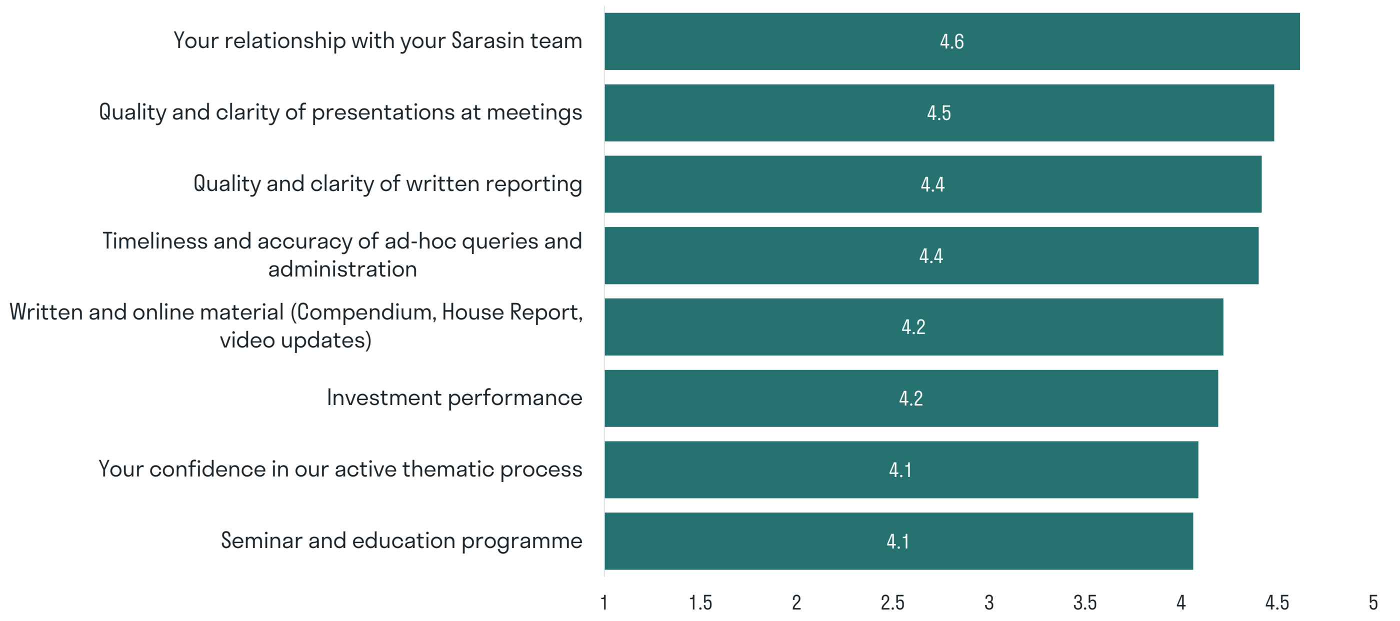
SOCIAL MEDIA

This is a much-debated topic and we continue to feel our way in a world of instant news and social networking. Our survey highlighted that, historically, our clients hadn't been aware of our presence across the various platforms, but that there was support for more market, charity-specific, stewardship-related and podcast material from us.

Early into the first lockdown, our CIO Guy Monson released a six-minute market strategy video each week, which was available across multiple platforms. Not only has he persevered in delivering this every week since on the back of excellent feedback from you, but it has also had the unexpected bonus of landing Sarasin & Partners on YouTube's Top 10 chart for our industry!

FIGURE 1 OUR OFFERING (RANKED OUT OF 5)

Source: Sarasin & Partners Client Survey, November 2020



Our Marketing team has worked hard this year to launch a rebranded website and kept our LinkedIn, Twitter and YouTube pages up-to-date with market updates, stewardship engagements and thought leadership. We are pleased that you continue to enjoy them and always welcome new ideas for articles.

We have plenty in the pipeline and encourage you to connect with us on our platforms to receive our timely content.

OUR INVESTMENT OFFERING

We are very pleased to hear that three quarters of respondents felt well-informed on stewardship activities and how Environmental, Social and Governance factors impacted their portfolios. 70% felt that Sarasin & Partners were market leaders in this area. We noted that a portion of you would be interested in co-filing shareholder resolutions and as a result, playing a more active part with our engagements, so we will be sharing these opportunities with you more actively going forward.

We understand that some of you would like to understand our thematic investment process and stock selection a little better. This will therefore be a focus of our Spring Seminar, which will be complemented this year by daily Breakfast Briefings. These 15-20 minute sessions will be a slightly deeper than usual review of each of our five core themes.

It has not been an easy year for managing investments, with extreme levels of volatility back in March, followed by stark outperformance of global equities versus UK-listed equities. Having thought that government bond yields could drop no further, fixed interest produced some of the best returns in 2020 together with some of the alternative investments, helped by the rally in gold. As we write, Sarasin's core Endowment Fund has been on the right side of these trends and performed well. We have been able to maintain our income distribution at the same level as 2019 and enter 2021 with a still robust reserve that amounts to c.25% of a full year's distribution. Whilst recognising that the real economy is some way off full recovery, we are delighted that our thematic investment process has kept us out of some of the hardest hit parts of the investment universe and that our charity offering has provided clients with strong absolute and relative returns as we head into 2021.

IMPACT INVESTING

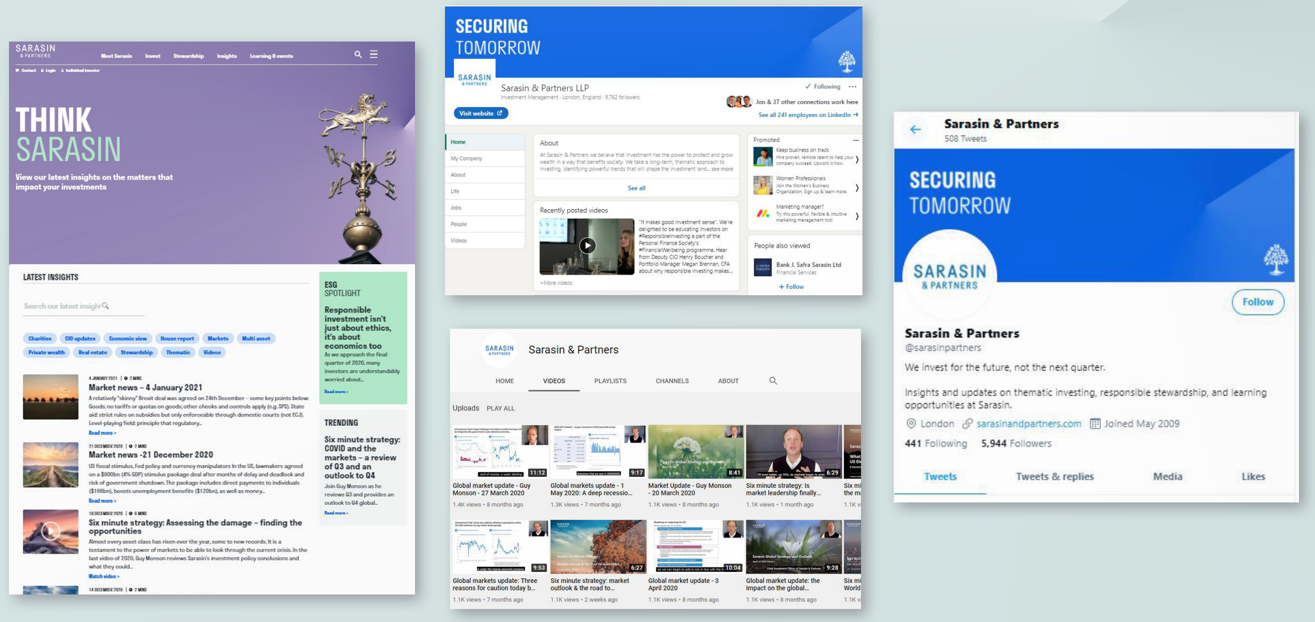
Over the last two decades we have seen the rise of sustainable investing grip the investment industry to the extent that for every £5 invested in the UK, £2 of those are managed with environmental, social and governance (ESG) integration[1]. 13 years ago[2], the term 'impact investing' was coined to represent a new paradigm evolving from ESG investing.

Impact investing is designed to help finance solutions to some of society's biggest challenges; essentially, your investments achieve more than just an attractive financial return. Impact investments can be used to deliver affordable and accessible housing, healthcare, education as well as initiatives such as renewable energy, conservation and microfinance. This is different from philanthropy as an attractive financial return can be expected alongside measurable social and environmental benefits.

Our client survey showed us that half of the respondents believed that their charity should invest part of its assets in social impact investments that are aligned with their charity mission. As a result, we have put together a working group to ensure we better explain the positive social impact our current investment portfolios are generating, together with seeking out additional social impact investments where that is appropriate. If this is of interest to you please do get in touch with your Sarasin contact.

CONNECTING WITH YOU

On our website, YouTube, Twitter and LinkedIn channels, we publish insights on thematic investing, macroeconomic commentary, updates on our stewardship work and learning opportunities.



CLIENT SERVICE

We were delighted to see an overall high ranking for the quality of our client service and strength of the relationships we have built up with you over the years. It was reassuring to see that 70% of respondents gave us a 5 out of 5 for the relationship with their Sarasin team and we received positive feedback on the quality and clarity of our presentations and written reporting. For those who access reporting via our online portal, the majority of users found our platform to be user-friendly with good functionality. That aside, we have a live project to improve this further so please watch this space for a much-enhanced experience in 2021!

The subject of investment management fees always causes considerable comment and our survey did not disappoint! Whilst most clients rated us highly for value and competitiveness, we must acknowledge that they are still not easily understood. Whilst MiFID II was meant to improve the client's experience with transparency enhanced, we know that the whole industry must improve and we intend to be at the forefront in terms of transparency, full levels of disclosure and ease of explanation. We are currently undertaking a firm-wide project which looks at our fees, the overall costs our clients bear and the best way we can report on them.

Although we have mentioned events already, much of the literature that accompanies these seminars and educational programmes such as the Compendium of Investment, the quarterly House Report and other written market updates were well-received with a 4.5/5 rating from our respondents. Again, these have continued to be distributed online and we always welcome your ongoing feedback.

We have learned so much from our client survey. The need to stay connected and up-to-date against a backdrop of everchanging newsflow has been more important than ever. Thank you for your ongoing support and as ever, if you missed the survey or have had further thoughts and ideas since you completed it, please do get in touch and tell us how we can improve your experience as a client with us.

[1] Investment Management in the UK 2019-2020, The Investment Association Annual Survey - September 2020

[2] Impact investment gains from improving measures of success and failure, Financial Times – October 2020

EVENTS

ONLINE ADVANCED TRUSTEE TRAINING

UNDERSTANDING YOUR INVESTMENT RESPONSIBILITIES

CFG are holding a bitesize series of online investment events to help you grow your understanding and explore what investment options could work for your charity.

The sessions will be hosted by members of the Sarasin & Partners charity team.

Further details are on our website: https://sarasinandpartners.com/event/advanced-trustee-training/

PORTFOLIO MEASUREMENT | 19 & 21 JANUARY
11:00 - 11:45

STEWARDSHIP AND ESG | 26 & 28 JANUARY
11:00 -11:45

SPRING SEMINARS | 8-12 MARCH 2021

We are pleased to announce that the Sarasin & Partners 2021 Spring Investment Seminar Week will be held Monday 8 March - Friday 12 March, with the main event taking place on Tuesday 9 March, 10:00 - 12:00, as a virtual conference.

Throughout the course of the week we will start each day with a 15-minute breakfast presentation, each focusing on one of our core investment themes.

Registration for the event is now open, please email events@sarasin.co.uk or visit our website for more information.

BRITISH UNIVERSITY FINANCE DIRECTORS GROUP CONFERENCE (BUFDG)

15 - 19 MARCH

The charity team will present at this conference and attendees can visit our virtual booth.

RESPONSIBLE INVESTMENT CONFERENCE

JUNE 2021

This one-day, multi-streamed conference will be a one-stop-shop for you to get to grips with the investment options and opportunities that are available without compromising on financial returns.

HOW TO REGISTER FOR OUR EVENTS

To join any of our virtual events or for more information, please visit our website, sarasinandpartners.com, or contact our events team at events@sarasin.co.uk

NEWS

FUNDRAISING

We believe that supporting communities is an important part of securing tomorrow. Despite needing to work from home for much of 2020, our employees have continued to support our Charity of the Year: Place 2 Be.

Place 2 Be is a charity that provides mental health support to children in school, which is needed now more than ever.

We have a 12-member fundraising committee, which organise a number of events throughout the year. Our Max Miles campaign, which encouraged employees to raise money through exercising, as well as other initiatives, including company-wide online quizzes, raised a total of **£20,288** for the charity.

IMPORTANT INFORMATION

If you are a private investor, you should not act or rely on this document but should contact your professional advisor.

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For efficient portfolio management the Sarasin Responsible Global Equity Fund may invest in derivatives. The value of these investments may fluctuate significantly, but the overall intention of the use of derivative techniques is to reduce volatility of returns. There is no minimum investment period, though we would recommend that you view your investment as a medium to long term one (i.e. 5 to 10 years).

The Sarasin Endowments Fund for Charities is designed for registered charities only. There is no minimum investment period, though we would recommend that you view your investment as a medium to long term one (i.e. 5 to 10 years). Frequent political and social unrest in Emerging Markets, and the high inflation and interest rates this tends to encourage, may lead to sharp swings in foreign currency markets and stock markets. There is also an inherent risk in the smaller size of many Emerging Markets, especially since this means restricted liquidity. Further risks to bear in mind are restrictions on foreigners making currency transactions or investments. For efficient portfolio management the Fund may invest in derivatives. The value of these investments may fluctuate significantly, but the overall intention of the use of derivative techniques is to reduce volatility of returns. The Fund may also invest in derivatives for investment purposes.

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