

# Charity Bond Fund

31 December 2019

Marketing material for eligible charities only.

## Investment objective and policy

The SUTL Cazenove Charity Bond Fund aims to provide a high and secure level of income through investing predominantly in United Kingdom Government and other fixed interest securities, or derivatives thereof. The Trust may invest up to 20 per cent of its net asset value on a currency hedged basis in bonds denominated in currencies other than sterling. The target for the Fund is a total return ahead of the FTSE Government All Stocks Index over rolling five-year periods.

\*On 15 June the fund converted to a Charity Authorised Investment Fund (CAIF) structure, the performance shown below has been obtained predominantly under the old Common Investment Fund (CIF) structure. The objective and strategy remain the same. However, the revised Ongoing Charges (OCF) no longer include VAT.

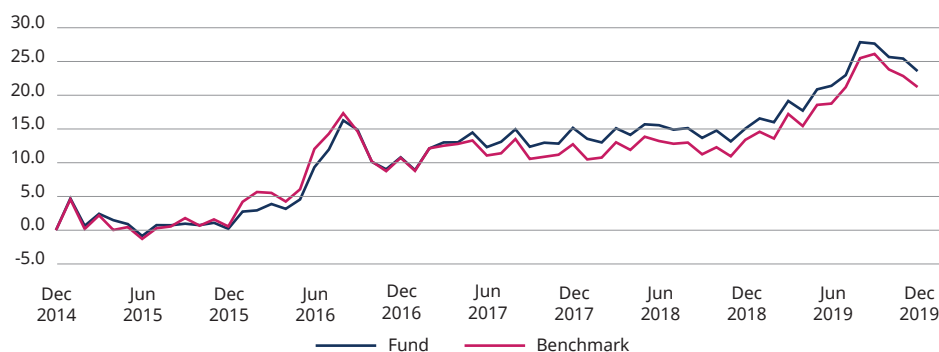
## Performance analysis

Performance (%)	1 month	3 months	6 months	YTD	1 year	3 years	5 years	10 years
<b>Fund</b>	<b>-1.5</b>	<b>-3.2</b>	<b>1.8</b>	<b>7.4</b>	<b>7.4</b>	<b>11.5</b>	<b>23.6</b>	<b>72.7</b>
Benchmark	-1.3	-3.9	2.1	6.9	6.9	9.5	21.2	68.7

Discrete yearly performance (%)	Q4/2018 Q4/2019	Q4/2017 Q4/2018	Q4/2016 Q4/2017	Q4/2015 Q4/2016	Q4/2014 Q4/2015
<b>Fund</b>	<b>7.4</b>	<b>-0.1</b>	<b>4.0</b>	<b>10.6</b>	<b>0.2</b>
Benchmark	6.9	0.6	1.8	10.1	0.6

## Performance over 5 years (%)



The return received may rise or fall as a result of currency fluctuations.

**Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get back the amount originally invested. There is no guarantee that the objective will be met.**

Some performance differences between the Fund and the benchmark may arise because the fund performance is calculated at a different valuation point from the benchmark.

Source: Schroders, mid price with net income reinvested, net of the ongoing charges and portfolio costs and, where applicable, performance fees.

## Risk considerations

The following risks may affect fund performance. Capital risk/negative yields: When interest rates are very low or negative, the fund's yield may be zero or negative, and you may not get back all of your investment. Counterparty risk: The counterparty to a derivative or other contractual agreement or synthetic financial product could become unable to honour its commitments to the fund, potentially creating a partial or total loss for the fund. Counterparty risk/money market and deposit: A failure of a deposit institution or an issuer of a money market instrument could create losses. Credit risk: A decline in the financial health of an issuer could cause the value of its

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Alex Smitten  
Fund Manager



## Technical information

Strategy launch date*	31 Oct 1997
Total fund size (£)	40.5 million
Total number of holdings	35
Unit price end of month (p)	67.79 GBX
Benchmark	FTSE A Government Securities UK Gilts All Stocks TR
Fund Manager	Alex Smitten
Ex Distribution Dates	31 Mar, 30 Jun, 30 Sep, 31 Dec
Payment dates	28 Feb, 31 May, 31 Aug, 30 Nov
Latest payment	0.4p
Distribution yield	2.6%
Ethical restriction	No coal and tar oil sands, alcohol, pornography, arms, gambling, high interest lending and human embryonic cloning companies

## Financial information

	Fund
Effective duration of fund in years	10.7
Effective duration of index in years	12.0
Average credit rating	AA-

The above ratios are based on mid price based performance data. These financial ratios refer to the average of the equity holdings contained in the fund's portfolio and in the benchmark (if mentioned) respectively.

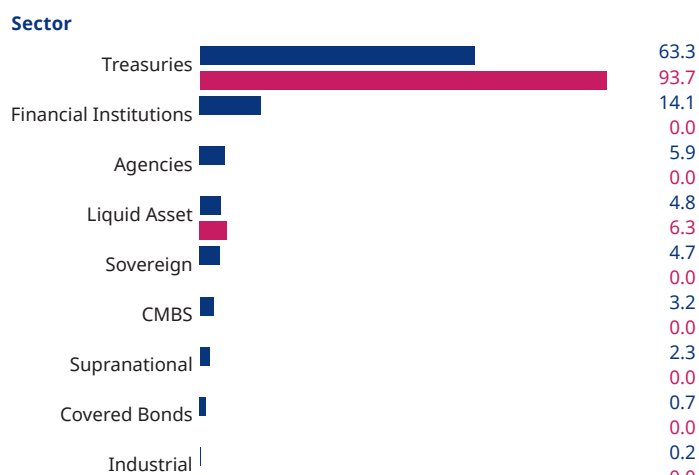
## Purchase information

SEDOL	Acc: BF784B0 Inc: BF784C1
Bloomberg	Acc: SUTCCBA:LN Inc: SUTCCAI:LN
ISIN	Acc: GB00BF784B07 Inc: GB00BF784C14
Fund base currency	GBP
Dealing frequency	Daily (12:00 GMT)
Ongoing charges (OCF)	0.35 %
Minimum investment amount	£10,000

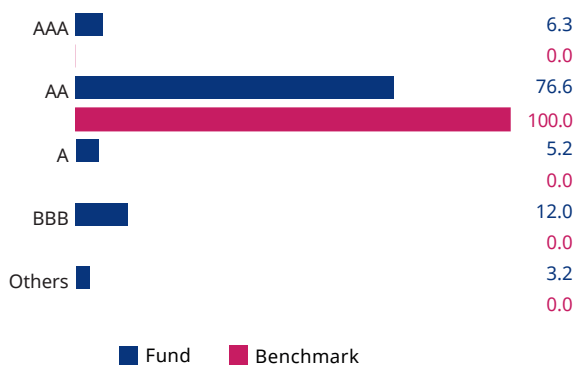
## Risk considerations continued

bonds to fall or become worthless. Currency risk: The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses. Derivatives risk: A derivative may not perform as expected, and may create losses greater than the cost of the derivative. High yield bond risk: High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk. Interest rate risk: A rise in interest rates generally causes bond prices to fall. Leverage risk: The fund uses derivatives for leverage, which makes it more sensitive to certain market or interest rate movements and may cause above-average volatility and risk of loss. Liquidity risk: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares. Operational risk: Failures at service providers could lead to disruptions of fund operations or losses.

## Asset allocation (%)



### Fixed income rating



Credit ratings are calculated using asset ratings from different rating agencies. Source: Schroders.

## Holdings analysis

Top 10 holdings	Sector	% NAV
United Kingdom Gilt Bond 5% 07/03/2025	Treasuries	7.9
United Kingdom Gilt Bond 4.25% 07/03/2036	Treasuries	7.3
United Kingdom Gilt Bond 4.25% 07/12/2055	Treasuries	7.2
United Kingdom Gilt Bond 4.25% 07/12/2040	Treasuries	7.1
United Kingdom Gilt Bond 4.75% 07/12/2038	Treasuries	6.7
United Kingdom Gilt Bond 1.25% 22/07/2027	Treasuries	6.6
United Kingdom Gilt Bond 4.25% 07/12/2046	Treasuries	6.1
United Kingdom Gilt Bond 0.5% 22/07/2022 REGS	Treasuries	4.9
States of Guernsey Bond 3.375% 12/12/2046	Sovereign	4.7
United Kingdom Gilt Bond 1.75% 22/07/2057	Treasuries	4.6
<b>Total</b>		<b>63.1</b>

## Performance and portfolio activity

The Value style bias of the Fund, with a domestic UK tilt, benefited from clarity over Brexit and the government at the end of the year. There was a strong rally in performance versus the index. Key holdings of note during the period were:

Gilt yields rose over the period in tune with other developed markets. This was more to do with the fact that economic data stopped deteriorating rather than actually improving and sentiment had got very poor at the end of September. Also some political clarity returned with the UK election returning the conservatives with a large majority. This backdrop produced a risk on market, with credit doing well relative to sovereign bonds. Ten year Gilt yields rose 0.33%, producing the worst quarter for at least 20 years in terms of index returns. This was despite the US central bank cutting rates again and the ECB embarking on another round of quantitative easing – buying European bonds from the market. This shows how well telegraphed these actions were. The typical sterling investment grade corporate bond saw its spread (yield premium) to gilts shrink by around 0.22% offsetting much of the rise in gilt yields.

The Fund's shorter duration compared to the benchmark drove most of the relative outperformance. The extra return from the corporate bond exposure also boosted relative performance. For the year as a whole, the Fund also outperformed the index.

The Fund lengthened duration a little as yields rose. This was achieved by buying Gilt futures in early November. A small holding in National Express was initiated at new issue. The Fund's duration was c. 11.1 years versus the index at 12.1 years.

As we suggested previously, with government bonds looking expensive, corporate bonds were the place to be on a relative basis. In the UK, the return of parliament will likely see increasing concerns over the impending trade deal with Europe creep back into our thinking. This may see renewed downward pressure on UK yields as tough talk from both sides could well emerge. In the short term there seems to be some upward momentum left for yields to rise a bit further so we are not likely to add to duration in the immediate future.

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