Cazenove Capital

Part of the Schroders Group

Charity Bond Fund

30 September 2021

Marketing material for eligibile charities only.

Alex Smitten

Fund Manager

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 Fund 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.

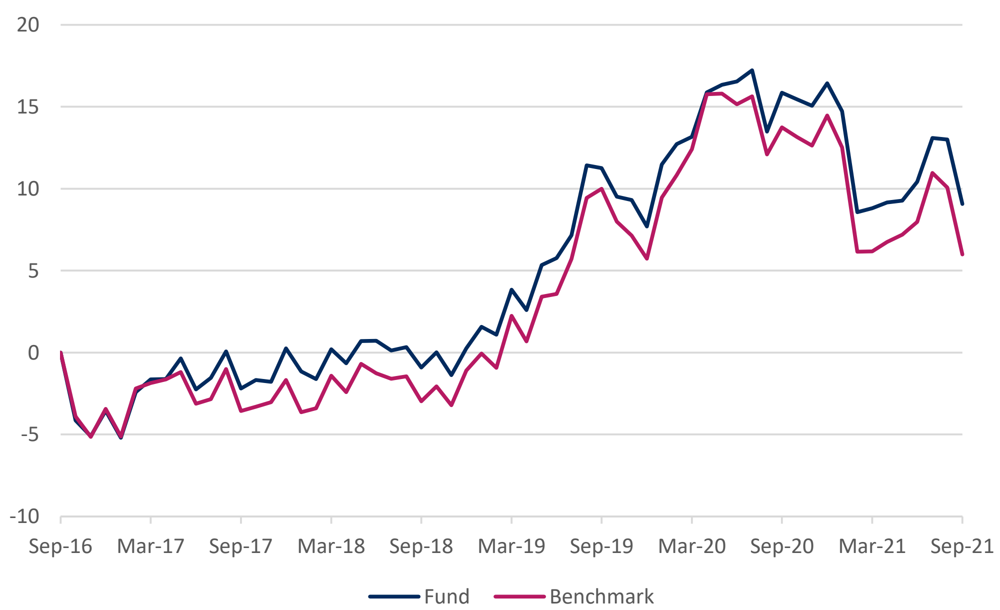
*On 15 June 2018 the fund converted to a Charity Authorised Investment Fund (CAIF) structure, the performance shown below has been obtained predominantly under the old Common Investment Fund (CIF) structure. The objective and strategy remain the same. However, the revised Ongoing Charges (OCF) no longer include VAT.

Performance analysis

Performance (%)	1 month	3 months	6 months	YTD	1 year	3 years	5 years	10 years
Fund	**-3.5**	**-1.2**	**0.2**	**-6.3**	**-5.9**	**10.1**	**9.1**	**53.3**
Benchmark	-3.7	-1.8	-0.2	-7.4	-6.8	9.2	6.0	43.3

Discrete yearly performance (%)	Sep 2020 - Sep 2021	Sep 2019 - Sep 2020	Sep 2018 - Sep 2019	Sep 2017 - Sep 2018	Sep 2016 - Sep 2017
Fund	**-5.9**	**4.1**	**12.3**	**1.3**	**-2.2**
Benchmark	-6.8	3.4	13.4	0.6	-3.6

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.

Technical information

Strategy launch date*	31 October 1997
Total fund size (£)	32.6 million
Total number of holdings	29
Unit price end of month (£)	66.57 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	0.31p
Distribution yield	1.7%
Ethical restriction	No coal and tar oil sands, alcohol, pornography, arms, gambling, high interest lending and human embryonic cloning companies

Financial information

Effective duration of fund in years	10.4
Effective duration of index in years	11.9
Average credit rating	A+

Purchase information

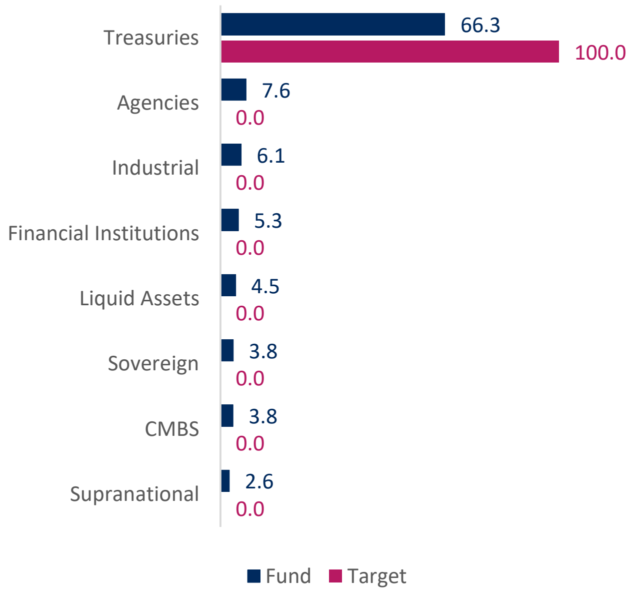
SEDOL	Acc: BF784B0 Inc: BF784C1
Bloomberg	Acc: SUTCCBA LN Inc: SUTCCAI LN
ISIN	Acc: GB00BF784B07 Inc: GB00BF784C14
Fund base currency	GBP
Dealing frequency	Daily (12:00 GMT)
Ongoing charges (OCF)	0.34%
Minimum investment amount	£10,000

Holdings analysis

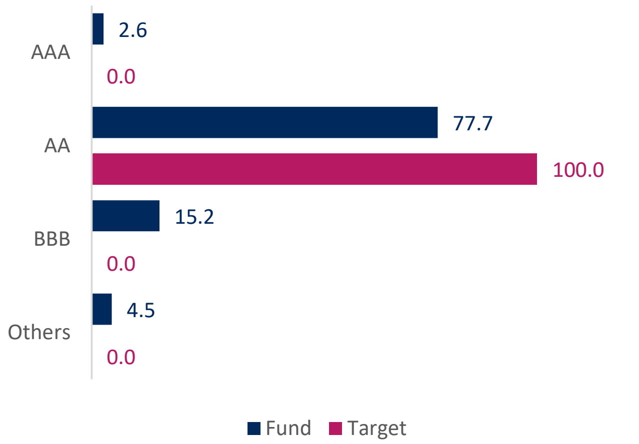
Top 10 Holdings	Sector	% NAV
UK Gilt 1.25% 22.07.27	Treasuries	9.3%
UK Gilt 5% 07.03.25	Treasuries	8.9%
UK Gilt 4.75% 07.12.38	Treasuries	7.7%
UK Gilt 4.25% 07.03.36	Treasuries	7.1%
UK Gilt 4.25% 07.12.40	Treasuries	6.1%
UK Gilt 4.25% 07.12.46	Treasuries	5.7%
UK Gilt 4.25% 07.12.55	Treasuries	5.7%
Network Rail Infrastructure 4.375% 09.12.	Agencies	3.9%
State of Guernsey Bond 3.375% 12.12.46	Sovereign	3.8%
UK Gilt 1.75% 22.07.57	Treasuries	3.7%
Total		**61.8%**

Asset allocation (%)

Sector



Credit quality



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

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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 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.

Performance and portfolio activity

Gilt yields rose over the quarter, as markets became more concerned with central bank policy tightening in the light of potentially more persistent inflation pressures. Yields had been falling for most of the period but central bank rhetoric became more hawkish in the UK as well as the US. Expectations for rate hikes in the UK were brought forward to early 2022. The challenge for central banks and market going forward is how to play the combination of higher inflation and potentially slower growth. UK gilt yields rose around 0.3% out to 10 year maturities and progressively less for longer ones with 50 year gilt yields rising just 0.1%. Returns were still the best for shorter maturities due to their lower sensitivity to yield moves.

As regards inflation, particular concerns emerged on the energy front with UK natural gas prices more than doubling over the quarter. The Bank of England raised their expected peak for CPI to around 4% at the end of this year. Sterling investment grade corporate bond spreads (yield premia) to gilts remained fairly stable at around 1.0% on average.

The fund outperformed the benchmark. This was largely the result of the maturity profile of the fund being shorter than the benchmark. Relative duration was further reduced to stand at 10.4 versus benchmark 11.9. The proportion of credit fell slightly to c.30% and cash was maintained at a higher than normal level in anticipation of higher yields.

Although Covid has obviously not gone away, markets are now concentrating more on inflation and central bank responses. Whilst there are many drivers of the spike higher in inflation that are likely to prove transitory, the danger lies in wages and inflation expectations becoming unanchored on the upside. The Bank of England has suggested that they will probably only be able judge the underlying state of the labour market some time next year once the distortions from the furlough schemes wash out. We would agree with that. At the time of writing, as yields have continued to rise, we have started adding back a little duration but remain significantly short to the benchmark. The imminent ending of gilt purchases by the Bank of England may bring about some further underperformance of the market. However higher rates and yields are not a solution to inflation brought about by energy price moves or supply bottlenecks.