Barclays Charity Fund

Quarterly Update

Q3 2024

Restricted - External

Contents

Market Backdrop ... 3
Fund Performance ... 4
Portfolio Activity ... 5
Portfolio Asset Allocation ... 6
Direct Equity Portfolio ... 7
Looking Forward ... 8
Keeping up to speed with our research ... 9
Appendix – Historical Performance ... 10

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Market Backdrop

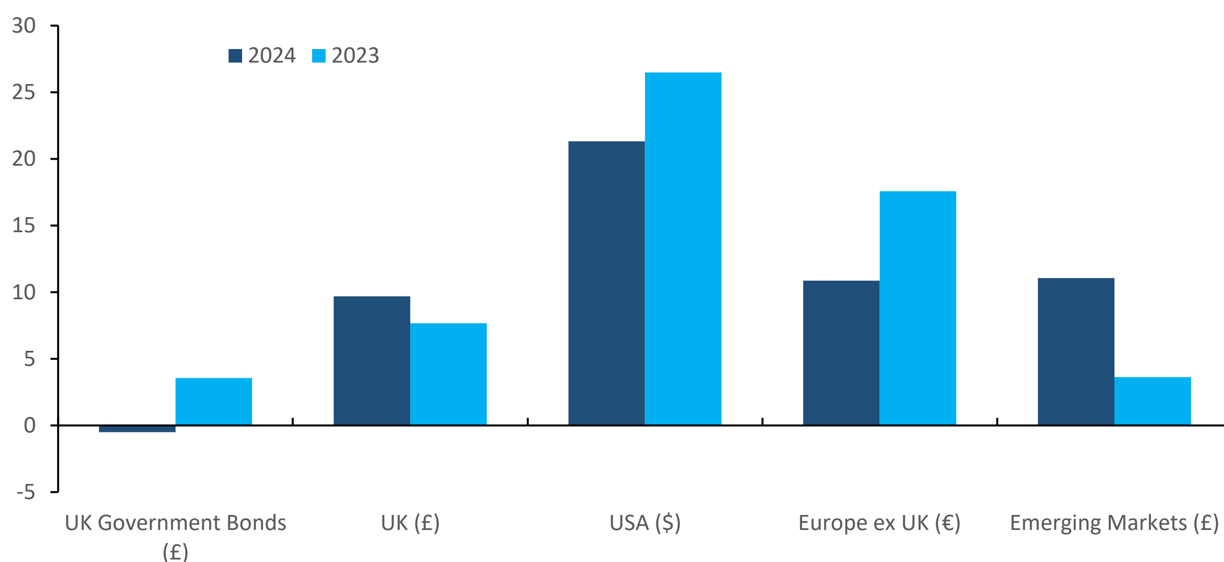

Fig 1: Market returns as at 30th September 2024
Past performance of investments is not a reliable indicator of their future performance. The value of investments and any income can fall.

For discrete 5-year performance of these indices, see page 10.
Source: Bloomberg. Indices used: Bloomberg Sterling Gilts, MSCI UK Net Total Return, MSCI US Net Total Return, MSCI Europe ex UK Net Total Return, MSCI Emerging Markets Net Total Return (GBP)

First US interest rate cut…

As we entered the third quarter, investor sentiment turned more cautious. Weaker US labour market data marked by unemployment rising to 4.3% and a slowdown in new hires revived concerns of a looming recession. Simultaneously, the Bank of Japan raised interest rates for only the second time in seventeen years which led to some market disruption with the US dollar weakening against the yen. While equity markets initially faltered, bonds provided a safe haven, reaffirming their value as a diversification tool.

However, as the quarter progressed, optimism returned. US economic data painted a more resilient picture with GDP growth of 3% dispelling immediate recession fears. In addition, commentaries from the Federal Reserve (Fed) moved to a much more accommodative tone expressing its readiness to support the economy as needed. True to their words, the Fed cut interest rates by 0.5% which solidified the equity market advance by the end of the quarter, with the MSCI World Index posting +6.5%.

…benefitting rate sensitive areas…

Beneath the equity returns, though market dynamics were shifting. The parts of the market that suffered most from high interest rates such as small cap and real estate outperformed. Also, Cyclicals began to gain favour as investors sought out opportunities beyond the crowded mega-cap technology names. Notably, the utility sector emerged as the strongest performer, buoyed by its attractive dividend yields, which shone brightly in the falling rate environment. The sector also benefits from increased demand for energy from the development of AI infrastructure.

… and China showing signs of life.

The quarter concluded on a hopeful note from China. The government unveiled a sweeping stimulus package aimed at reviving growth. This included interest rate cuts, injections into the stock market, but also cash incentives to stimulate consumer spending. The measured breathed new life into Chinese equities which helped emerging market equities to outpace their developed counterpart over the quarter.

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Fund Performance

2024 Q3 – Volatility going into the summer months

as end of September	2024 YTD	2023	2022	2021	3yr (p.a.)	5yr (p.a.)	10yr (p.a.)
Fund	**6.7**	**9.4**	**-7.8**	**12.4**	**3.5**	**4.8**	**6.3**
ARC Steady Growth*	7.4	7.5	-9.6	12.3	2.7	4.5	5.6
Relative	-0.7	1.9	1.8	0.1	0.9	0.3	0.7

Income Summary	
12m distribution yield	3.1%
Next distribution	1.19
Distribution date	30-Oct

Fig 2: Charity Fund performance to 30th September 2024
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For a description of the ARC Index and discrete 5-year performance of indices, see page 10.
* The most recent quarter for the ARC Steady Growth Charity Index is the estimated ARC number.

Q3 saw rotation into small cap companies

- The Fund returned 0.7% over the quarter, which was behind the estimated 1.7% return from the comparative ARC Steady Growth index. Year to date that leaves us at 6.7% which is behind the initial peer group estimate of 7.4%%. Longer-term numbers continue to show healthy outperformance over 3, 5 and 10 years.
- Equity markets had a volatile but in the end strong quarter as inflation data continued to decelerate. Over the period, we saw a sharp rotation into small cap companies on the hopes that lower interest rates will benefit this sector most.
- Both government and corporate bonds also finished the quarter strongly against the backdrop of easing monetary policy. Emerging market equities outperformed developed markets benefiting from the fall in dollar and positive news from China.

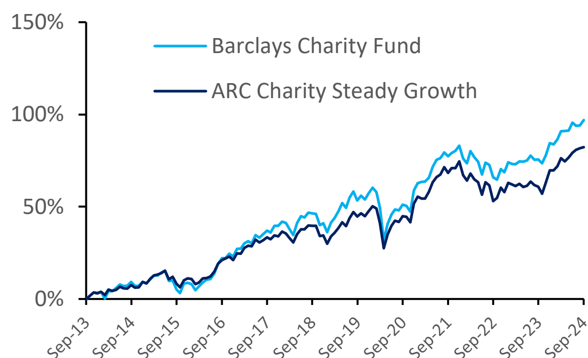

Fig 3: Barclays Charity Fund performance against ARC

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Performance contributors and detractors

- Our more recent additions Ashtead (+11%), Rightmove (+16%) and JD Sports (+29%) all benefitted from the rotational moves away from large cap technology names.
- However, our portfolio maintained its overall bias towards large cap as this is where we find the most companies that meet our quality criteria. We prefer less cyclical names which can be held throughout the cycle, although this can at times lead to temporary underperformance. Against this backdrop, Alphabet (-9%), Microsoft (-4%) and Amazon (-4%) all underperformed.
- The worst performer during the quarter was ASML (-23%) as the excitement around artificial intelligence has somewhat tempered. Shell (-11%) was also a weak performer due to increased uncertainty in the energy sector.
- Importantly, even though developed market equities were up over the quarter the weakness in dollar meant that in sterling terms performance was broadly flat.
- As China rebounded from its low, we saw strong performance in AIA Group which is one of the largest insurance providers in China and from our passive MSCI China investment.
- Rate sensitive funds within fixed income and real estate also performed well over the quarter with the iShares Developed Market Property Yield ETF up double digits.
- Gold continued its upward trajectory and was up 7%.

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Portfolio Activity

Increase real estate

Tactical equity trade

Fig 4: Transactional activities over the last quarter

Buy

- In the beginning of the quarter, we increased our exposure to real estate in anticipation of the commencement of the rate cutting cycle. We doubled our weight in the iShares Developed Market Property Yield ETF.

- During the sell-down in August, we saw an opportunity to increase our developed market equity weight. We added to Alphabet and Microsoft which both had fallen more than 13% in the weeks before that.

- The 2.75% UK Gilt Sep 24 matured and we re-invested the proceeds into the 5.5% European Investment Bank Apr 25 which we continue to see as an attractive income for the portfolio.

Sell

- After markets recovered quickly in August we brought our developed market equity weight back to neutral. We exited Loomis Sayles US Equity Growth and thereby reflect our US exposure purely through direct equities.

- We also exited SSE PLC which performed extremely well but where we see more limited upside from here.

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Portfolio Asset Allocation

Strategic blend of assets to generate long-term income and capital growth

Long-term focus on equities

- Our preference for equities over bonds is based on the Fund's longer term investment horizon and objective to generate returns through a combination of income and capital growth.
- We invest in direct companies globally whilst the UK serves as a useful dividend anchor.
- The Fund derives its alternatives exposure partly through property which provides a secure stream of income, as well as a structured note that delivers high levels of cash flow. Gold and alternative trading strategies are held to improve diversification.

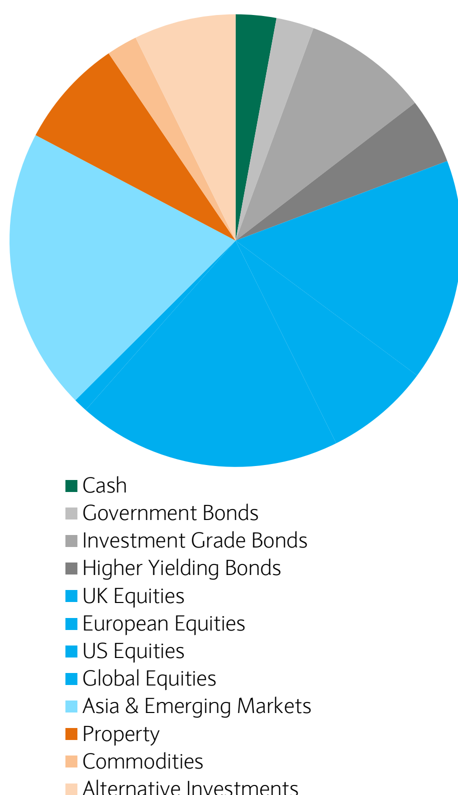

Fig 5: Broad Asset Allocation as at 30th September 2024

Our Current Portfolio

Holding	Weight
CASH & SHORT MATURITY	2.9%
5.5% EIB Bond April 25	
GOVERNMENT BONDS	2.7%
iShares USD Treasury Bond	
Bluebay Global Government Bond	
PIMCO Global Real Return Fund	
DIRECT INVESTMENT GRADE BONDS	9.0%
HIGHER YIELDING BONDS	4.7%
Global Access High Yield Bond	
iShares USD High Yield Corp Bond	
Global Access Emerging Markets Local Currency Debt	
iShares JPM USD Emerging Markets Hard Currency	
TOTAL EQUITIES	63.5%
UK Equities	15.9%
Direct Equities	
European Equities	7.5%
Blackrock Continental European Income Fund	
Direct Equities	
US Equities	18.9%
Direct Equities	
Global Equities	1.0%
Vanguard FTSE All World High Dividend	
Asia-Pacific & Emerging Markets	20.2%
Fidelity Asia Fund	
Henderson Asia Dividend Fund	
Robeco Emerging Conservative Equities	
xTrackers ESG MSCI Emerging Markets	
xTrackers MSCI China	
Direct Equities	
PROPERTY	7.8%
Mayfair Property Income Trust for Charities	
iShares Developed Market Property Yield ETF	
COMMODITIES	2.2%
WisdomTree Physical Swiss Gold	
ALTERNATIVE INVESTMENTS	7.3%
Barclays Phoenix Income Note	
Man AHL Trend Alternative	
Lyxor/Tiedemann Arbitrage Strategy	

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Direct Equity Portfolio

A focus on higher quality companies with international exposure

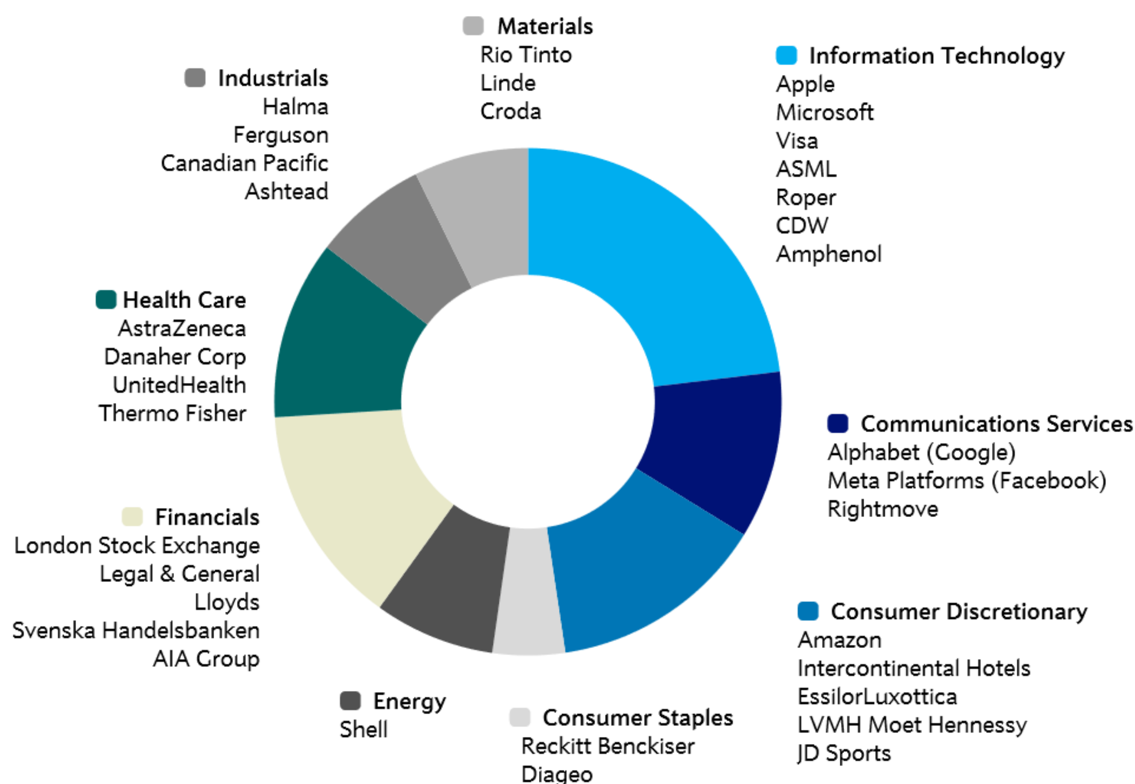

Fig 6: Charity Fund Direct Equity Sector Allocation

Small caps driving the market…

Equity markets ended the third quarter of the year with positive returns despite several bouts of increased volatility. The central bank in the US turned to a much more accommodative stance, explicitly stating that their focus lies now on the incoming labour data rather than the inflation figures which seem under control. The change in expectations helped sentiment in areas that suffered most from the high rates. We saw small caps up, value outperforming growth and also a bounce in real estate stocks. Lastly, the announcement of the stimulus package in China saw interest in its stock market revive with a rally towards the end of the quarter which made it one of the strongest performers of the year so far.

Unsurprisingly, our portfolio saw the strongest gains in companies that were more exposed to the economic cycle such as Ashtead and JD Sports or to China in general such as AIA Group. All of these were additions we made through the year in anticipation of rates coming down and because we identified a high intrinsic value.

However, we have been cautious in our approach because we appreciate the fact that the impact of the high interest rates we have seen over the last 2 years is still rippling through the economy.

Another name that was strong over the quarter was Rightmove (again a more recent addition) where the real estate company REA Group made an opportunistic bid, which despite being rejected demonstrated the potential undervaluation of the business.

… and profit taking in technology.

In other areas such as technology we have seen some profit taking with Amazon, Microsoft and Alphabet all down over the quarter.

ASML was our weakest performer (-23%) impacted by concerns that demand from China was perhaps artificially inflated due to pre-ordering in fear of further trade restrictions. However, the company continues to be one of our highest conviction names and is still up 10% year to date.

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Looking Forward

The impact of rate cuts is conditional on the economy

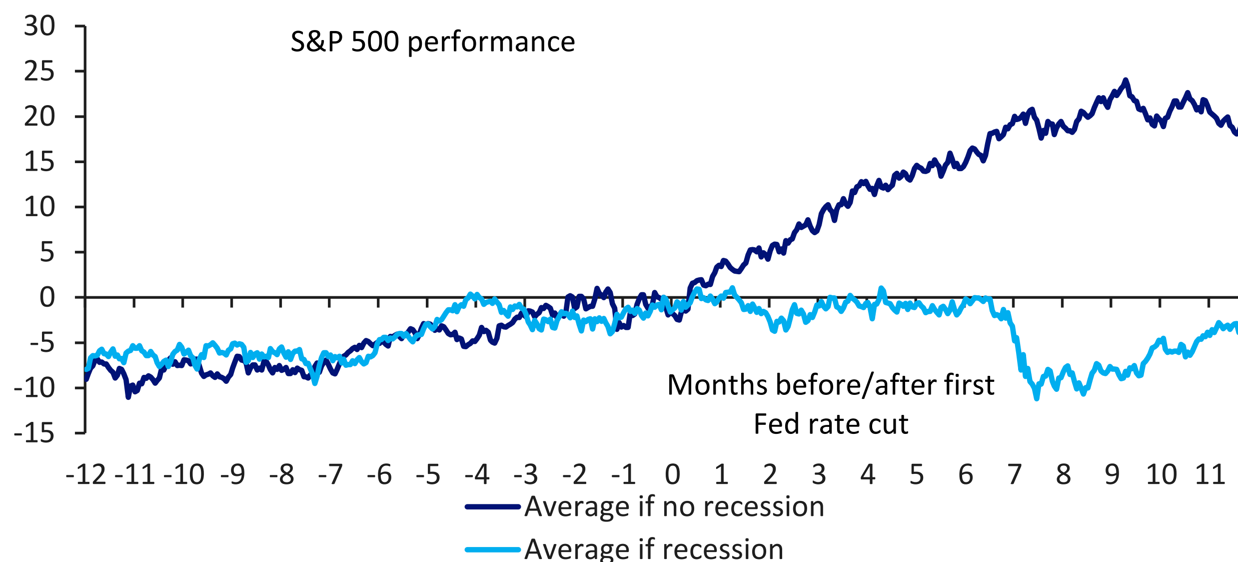

Fig 7: S&P 500 performance indexed to start of Fed cutting cycle with data since 1984

Source: Barclays Research.

Degree of uncertainty in the US…

The long-anticipated rate cut cycle in the US has finally commenced with the Fed delivering a somewhat surprising 0.5%. The Fed emphasized its dedication to supporting the economy, which investors embraced as a positive sign. However, the debate as to whether the Fed has been a bit slow to act remains fluid and data dependent.

US economic data presents a mixed picture. While unemployment has ticked up, this increase is largely driven by a rise in the labour force participation fuelled by migration. Key indicators of underlying growth, such as GDP and retail sales remain strong. The economy is slowing (an essential dynamic for bringing inflation under control) but continues to grow. With inflation nearing the Fed's target the central bank has some room for manoeuvre. As illustrated in Figure 7, stock market performance in the months following an initial Fed rate cut can vary significantly depending on whether the economy slips into recession.

Adding to the uncertainty are ongoing geopolitical risks in Ukraine and Israel, as well as the upcoming US election. The entry of Kamela Harris as the Democratic candidate breathed new life into the race, tightening the polls considerably. As highlighted in our last quarterly update, we believe the long-term impact of the election on asset returns will be minimal.

From an economic standpoint, the US continues to outperform Europe. Hopes for a cyclical recovery in Europe has been dampened, particularly in Germany, where weak manufacturing demand – exacerbated by low demand from China – paints a gloomy outlook. We expect more aggressive rate cuts in Europe, which should provide a floor to domestic demand.

…but new opportunities arising.

In China, a sharp market rebound followed the announcement of a government stimulus package. Even though the intent is probably more significant than the amount announced, we could still see further stimulus measures. Chinese valuations remain notably low with the index level - in contrast to other regions - remaining below pre-pandemic levels. Given China's still growing importance in the global economy, we believe maintaining a healthy exposure is prudent. However, we prefer an active management approach to avoid areas burdened by debt and poor profitability.

Looking ahead, we see performance broadening to sectors that stand to benefit from lower interest rates. Our current positioning with significant exposure to bonds, emerging market equities and gold remains well aligned with this outlook.

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Keeping up to speed with our research

In Focus

23 April 2021

From the Chief Investment Office

Market report

Incoming newsflow on the global economy has remained on the sunny side for the most part this week. Coincident and leading indicators continue to describe booming activity with both the government and private sector, somewhat unusually, surging in tandem. Pencilled-in numbers for the US economy point to the second fastest quarterly growth rate since 1978 (the winner being the third quarter of last year). However, capital markets have seemed a little dyspeptic in the last week or so, struggling to digest this persistently rich diet of better-than-expected data on the economy, and indeed incoming corporate earnings reports. The news in emerging markets remains considerably less positive at the moment, with surging infections in Brazil and India in particular forcing some reassessment of the near-term outlook.

Our perspective

The response of various markets to all of this incoming evidence of economic cheer has prompted many to wonder whether the amazing rally from the lows of last year has run far enough. Many of the economic indicators that tend to describe the near future can plausibly go no higher. Various measures of investor sentiment are warning of a degree of giddiness. All this as we approach the start of May and a period that has often (somewhat bizarrely) delivered lower returns in years gone by.

So some caution is likely warranted with regards to the near-term outlook for stocks and those parts of the credit complex more tightly related to the economic cycle. A likely pretty optimistic assessment of the range of potential futures ahead is already incorporated into market pricing. Disappointing such a consensus could conceivably be easier than exceeding it.

A word of hopefully familiar caution nonetheless. Investing to take advantage of any kinks in short-term market pricing should always be a low conviction activity. We have a team dedicated to the battle to scoop up the available basis points. However, even with the benefit of this concentrated focus, we constrain ourselves here to changes only to the fringes of our range of multi-asset class funds and portfolios. The bulk of your long-term returns will be decided by your broader mix of assets, that carefully selected and organised strategic asset allocation. The resulting, and admittedly self-serving, point is that today is still the best day to get invested for the long term.

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You can see our latest edition here.

Word on the street

Word on the street is our regular podcast, you can listen to our latest investment views here.

Quarterly Market Insights

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Appendix – Historical Performance

Discrete 5-year performance of gilts and equities across regions

Market	YTD	2023	2022	2021	2020	2019
Gilts (£)	-0.5	3.6	-25.1	-5.3	8.9	7.1
UK (£)	9.7	7.7	7.2	19.6	-13.2	16.4
USA ($)	21.3	26.5	-19.9	26.5	20.7	30.9
Europe ex UK (€)	10.9	17.6	-12.6	24.4	1.7	27.1
Emerging Markets (£)	11.1	3.6	-10.0	-1.6	14.7	13.9

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Index Source: Bloomberg. Indices used: Bloomberg Barclays Sterling Gilts, MSCI UK Net Total Return, MSCI USA Net Total Return, MSCI Europe ex UK Net Total Return, MSCI Emerging Markets Net Total Return (GBP). All returns include income reinvested and are in local currency apart from MSCI Emerging Markets which is in £.

Discrete 5-year performance for the Barclays Charity Fund

	2024 YTD	2023	2022	2021	2020	2019
Portfolio (net)	6.7%	9.4%	-7.8%	12.4%	1.6%	17.6%
ARC Steady Growth*	7.4%	7.5%	-9.6%	12.3%	3.5%	15.6%
Relative	-0.7%	1.8%	1.8%	0.1%	-1.9%	2.0%

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* Please note that the most recent quarter for the ARC Steady Growth Charity Index is the estimated number. Performance data is net of fees for the fund.

ARC Further information

The Manager compares the performance of the Trust against the ARC Sterling Steady Growth ACI (the "Index"), one of the ARC Charity Indices. The Trust is not constrained to, or managed in line with, the Index and it is relevant only for the purposes of comparing the Trust's performance.

ARC Charity Indices are specifically designed to be used by charity trustees and advisers in assessing the performance of discretionary charity portfolios. The Manager compares performance of the Trust with the Index to help investors understand how it has performed versus an appropriate peer group. The Index is used because portfolios included in it have comparable risk characteristics. The Index is compiled by taking the performance of each portfolio submitted by the data contributors where the historic volatility of that portfolio has been in the range of 60–80% of that experienced by UK equity markets.

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Disclaimer and Risk Considerations

Risk Factors

Investments of this type will be exposed to a variety of risk, including but not limited to:

- Investments Long Term: Investments should be regarded as long term and are not suitable for money which may be needed in the short term, you should always have a sufficient cash reserve.
- High Yield Bonds: The fund invests in high yield bonds. High yield bonds carry a greater risk of default than investment grade bonds, and economic conditions and interest rate movements will have a greater effect on their price. Income levels may not be achieved and the income provided may vary.
- Value of Investments: The value of investments, and any income, can fall as well as rise, so you could get back less than you invested. Neither capital nor income is guaranteed.

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