THE FREEMASONS' FUND FOR SURGICAL RESEARCH

MINUTES OF A MEETING OF THE INVESTMENT GROUP OF THE FREEMASONS' FUND FOR SURGICAL RESEARCH TRUSTEES THURSDAY 25TH MARCH 2021 AT 9.15 am

Trustees present:
Mr Justin Ash (Chairman), Mr Jolyon Berry, Mr Paul Copsey, Mr Jon Randall, and Mr Julian Soper.

Also in attendance:
Mr Michael Messent (Secretary to the Trustees), Mr Stephen Finch (Assistant Secretary) as observers and Mr Jeremy Barker for Cazenove Capital Management.

The Chairman welcomed those attending the Zoom meeting and invited Mr Jeremy Barker (JB) to highlight the most important matters in his report, which he duly did, as follows: -

- The portfolio details page had been updated to reflect a number of changes made at the October meeting, and management of the fund in recent months had been adjusted to reflect those changes. In particular, UK equity exposure had been reduced, income generating assets had been reduced and investment had been made in the Responsible Multi-Asset Fund.
- He suggested that given the move away from UK equities it might be appropriate to benchmark equities by reference to MSCI global as to 50% and FTSE 20%. A debate followed. Mr Copsey said that given the changes why not make the only benchmark the MSCI global forthwith. It was noted that 66% of this index was US stock and the portfolio was moving to that distribution anyway. In response it was suggested that it be taken in stages so as to see if the change had any impact on fund management behaviour. Further that any change might make it more difficult to assess performance in the long term. It was decided on balance that it would be desirable to implement a stepped change and review the matter one year later.

Action

JB to prepare and insert in the May presentation a comparison between the existing and proposed methods of indices benchmarking

RECOMMENDATION to TRUSTEES

Adopt the suggestion made by Cazenoves and substitute for the existing FTSE all stocks benchmark index a combination of 50% MSCI global and 20% FTSE (to make up to the 70% global equities benchmark) and review in 12 months.

- The benchmark for alternatives and cash was also reviewed. Mr Copsey thought that 7-day LIBID was no longer appropriate. JB suggested Sonia + 2% or CPI + 2%. It was agreed that change was desirable.

Action

JB to prepare note on most appropriate option to adopt.

RECOMMENDATION to TRUSTEES

Change the benchmark for alternatives and cash.

- The debate about benchmarks for various asset classes lead on to a discussion as to whether benchmarks were necessary at all given the overriding objective to achieve CPI + 4%. On balance it was felt that some external check was desirable.
- JB reviewed the slides dealing with the sharp fall and swift rise in the markets. UK equities had not performed well in 2020 but had recovered in 2021. Overall the portfolio had held up well and was standing at £7m with a 12 month performance of 6.6% against a target of 4%. The Chairman proposed that in future a slide should show the year end market value for, say, the last 7 years together with the annual distribution in order that Trustees could see clearly the success of the Fund (or otherwise) and the money produced from it.

Action

JB to produce such a chart in future presentations.

- The performance of the different asset classes was reviewed. JB acknowledged that Trojan Income had been a significant drag on overall success but it was in the portfolio as a defensive stock because it had a bias towards larger established consumer companies. The biggest returns had come from technology and emerging markets.
- JB drew attention to the unusually large number of transactions in the preceding 12 month period, mainly caused by the agreed shift away from UK stock and reducing income generating assets.
- Liquidity was likely to remain supportive in 2021 and while core inflation should remain flat, headline inflation will rise as the impact of reduced fuel and food costs 12 months ago feeds in to the figures.
- Relative to fixed income, equities should continue to offer value and it is thought that markets will not be derailed, although many dangers remain a threat. Trade wars, vaccine disappointment and higher than expected inflation could all cause an upset.
- While reviewing the holdings in the main portfolio it was noted that there was a direct investment in Chinese Bonds of 1.5% and a Chinese Equity fund which represented 1.7% of the portfolio. The Trustees expressed concern, given the activities of the Chinese government which could be said to just as reprehensible as commercial activities recently excluded from direct investment, such as gambling and predatory lending. In the course of discussion, it was considered that there was a distinction between direct investment in the Chinese government via their Bonds and investment in equity but it was a matter which should be debated at the next Trustee meeting and kept under regular review. Consideration should also be given as to whether to introduce a tolerance limit for indirect investment.

Action

JB to prepare a note on implications of restricting direct investment in Chinese equity and, if there is to be a restriction, a recommendation with regard to a tolerance limit.

RECOMMENDATION to TRUSTEES

Restrict direct investment in Chinese Bonds and consider restricting investment in Chinese Equity, subject to tolerance for indirect investment.

- The Responsible Multi-Asset Fund had performed well, indeed it had outperformed other benchmarks since inception last autumn.

The Chairman closed the meeting and thanked those attending for their contributions to a very useful debate on the issues which has arisen

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Chairman