Waverton Charities Team On:

INVESTING YOUR CHARITY'S MONEY FOR THE FIRST TIME

WAVERTON

INVESTMENT MANAGEMENT


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BACKGROUND

Waverton has been managing charity assets since its inception and we have learned a lot along the way about the barriers that trustees have to deal with before they are comfortable investing their money.

Many charities have been sitting with cash for a number of years; this may be due to unreliable funding streams and a need for short-to-medium term liquidity or, perhaps, a risk averse trustee board.

Whatever the reason, this guide will walk you through the following key considerations if you are investing your charity's assets for the first time:

- **Risks & Regulations**
- **Setting Your Objective**
- **Writing Your Statement of Investment Principles**
- **Choosing an Investment Manager**
- **The Tendering Process**
- **Review and Reflect**

RISKS AND REGULATION

Trustees have to comply with certain legal requirements as detailed in the Charity Commission's guidance on investment matters, CC14. Whilst our guide covers the main points that Trustees should consider, CC14 is a must-read before investing for a financial return.

TRUSTEES MUST EXERCISE CARE AND SKILL WHEN MAKING INVESTMENT DECISIONS AND TAKE ADVICE, UNLESS THERE IS A GOOD REASON NOT TO.

Inflation risk is one of the driving factors behind many of our conversations with charities: when coupled with low interest rates, remaining in cash could be the biggest risk to the real value of your capital and the perpetuity of your charity's funds.

However, investing doesn't come without risks and they need to be clearly understood within the context of the charity and its activities. Your attitude to the different types of investment risk will determine your investment approach, which we outline in the next section.

When it comes to choosing an investment manager, they should outline different types of investment risk and explain them to you. Documenting this discussion will provide clarity and accountability going forward.

SETTING YOUR OBJECTIVE

It is important to ascertain your charity's attitude to risk and capacity for capital loss. Your answers to the questions detailed below will help you to determine your risk profile, which will ultimately affect your investment approach.

- What is your money for?
- What are you trying to achieve with the money?
- What is your time-scale?
- How much cash may be required in the near future?
- How is your charity funded?
- What other assets do you have to call on?
- How important is the liquidity of your investment assets?
- What are your future spending plans and do you have sufficient cash to cover this?
- Would the charity cope if one of your funding streams dried up?
- What is the Board's tolerance for losses?

You need to determine your risk appetite and return expectations, and set them in the context of your time-frame. This provides a framework for making decisions and demonstrating good governance.

WRITING YOUR STATEMENT OF INVESTMENT PRINCIPLES

A clearly written Statement of Investment Principles (your investment policy) sets out what you aim to achieve.

When writing your policy you should also consider the following questions which will help you write your investment policy and ascertain the type of advice you might need, if any:

- What is the investment experience of the Board?
- Are you seeking a total return or income?
- Do you have any social or ethical criteria?

YOUR REPORT AND ACCOUNTS: AN OUTLINE OF YOUR INVESTMENT POLICY SHOULD BE INCLUDED IN YOUR REPORT AND ACCOUNTS ALONG WITH INVESTMENT PERFORMANCE AND WHETHER OR NOT THE INVESTMENT POLICY INCLUDES ANY ETHICAL REQUIREMENTS.

Your policy should include:

- Your investment objective
- Your time horizon
- Any income requirements (and are you taking a total return approach or not)
- Any ethical policy
- Any investment restrictions (ensure that you have checked your charity's governing document for any investment restrictions)
- What asset classes can be invested in along with any asset allocation ranges (if appropriate)
- Any specific performance benchmarks, such as:
    - Inflation (CPI / RPI) + your investment objective
    - Index
    - Peer group
- What are your reporting requirements?
- Who are your authorised signatories?
- Date the policy was agreed and the date of your next review

You need a policy that is right for your charity's objectives, your situation and your goals.

Your investment manager can help you to ensure that your policy is practical, realistic and appropriate, but the legal responsibility for writing and maintaining the policy lies with the charity.

CHOOSING AN INVESTMENT MANAGER

Your investment objectives and requirements are the starting point for your strategy and ultimately for your choice of manager. There is a myriad of choice and no one size fits all approach.

A discretionary agreement is the most common arrangement for the day-to-day management of a portfolio by an investment manager. This is a form of investment management where investment decisions are delegated to the portfolio manager.

There are a number of ways to meet prospective investment managers. Many rely on personal recommendations, or meet investment managers at conferences and events. Some use third party consultants, of which there are many to choose from and can be found in a similar way.

THERE ARE LEGAL REQUIREMENTS YOU WILL HAVE TO MEET IF APPOINTING AN EXTERNAL INVESTMENT MANAGER – THIS INCLUDES A WRITTEN AGREEMENT, WHICH WILL DETAIL THE REMIT AND RELATIONSHIP.

Consider the level of service and whether or not the manager is providing investment advice or not – this isn't always available from managers offering pooled funds.

You should feel at ease with the person, and the organisation, you entrust with your assets – trust is the foundation on which you build a relationship and good, clear communication is a vital part of this. Access to the investment decision makers can make all the difference in ensuring this happens.

Only Trustees can decide how best to utilise a charity's resources. Therefore, asking questions, no matter how simple they may seem, is an important part of ensuring that you have a clear understanding of how your assets are being managed.

THE TENDERING PROCESS

To ensure that you get a proposal that is suitable, the following information should be included in your request to prospective managers:

- Summary of your charity
- Amount available for investment
- Investment policy
- Link to latest report and accounts
- Deadline for proposal along with key dates for presentations
- Named contact and a deadline for any questions (if appropriate)
- How you want to receive the proposal (email / post – include number of copies if via post)
- Include any word or page limit for the document (do allow for risk warnings!)

BEFORE APPOINTING A MANAGER, YOU MAY WANT TO ASK FOR REFERENCES AS WELL.

The majority of charities provide investment managers with specific questions that they want answered, which allows them to compare responses more easily.

You can keep these questions as general or detailed as you want. We list some of the questions we most often get asked below:

- Provide a history and background of the firm
- What are your assets under management (total firm assets and charity assets)?
- Detail your charity clients (number of charity portfolios, broken down by size)
- Outline your investment process
- What is your approach to risk management?
- Recommendations for managing the mandate (including any benchmarks)
- How do you handle portfolio transitions (from another manager, from cash)?
- Past performance
- All fees and charges
- Who will be our point of contact – are they an investment professional or a relationship manager?
- What is your reporting process?

REVIEW & REFLECT

You must review your portfolio and performance regularly. This includes how your manager is doing against the investment objective and service agreement you have with them.

The frequency of review is up to you – most managers will provide quarterly reports and meet with your board of trustees at least annually.

There will be periods when the value of your portfolio goes down, quarter-on-quarter, or year-on-year. During these times it is important to focus on the objective you set for your manager and to remember the reason why you invested in the first place; it can be easy to focus on the short term.

However, ongoing, significant, poor performance or poor service are grounds for a formal review. It is also important to question significant out-performance of your target return in case the manager is taking more risk than is appropriate.

If you are content that your manager is still fulfilling the original brief, and there are not any substantial changes to the charity's financial circumstances that may affect this, then a formal review may not be necessary. Many charities will still do a review of the market every five or seven years, but this should not necessarily prompt a full beauty parade.

We think a lot about the needs and requirements of our charity clients. Devoting time at the outset of a relationship ensures that we are starting off on the right track – something that has resulted in productive, long term relationships and positive investment outcomes for our charity clients.

Waverton offers its clients;

- A dedicated team
- Extensive investment experience
- A personal service
- A transparent charging structure

To find out more about how we could work together, please contact Emma Robertson on:

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Important Information:

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell any investment. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon.

The use of this document should not be regarded as a substitute for the exercise by the recipient of his or her own judgement and you should take appropriate professional advice.

Past performance is no guarantee of future results and the value of such investments and their strategies may fall as well as rise. You may not get back your initial investment. Capital security is not guaranteed.

All materials have been obtained from sources believed to be reliable, and all information is correct as at May 2018, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.

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