Waverton Charities Team On:

INVESTING YOUR CHARITY'S MONEY FOR THE FIRST TIME

WAVERTON

INVESTMENT MANAGEMENT

ABOUT WAVERTON

Waverton has been managing charity assets since its inception and we have learned a lot about working with charities to develop their investment strategies. Waverton offers its clients;

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

Working with you to help you achieve your aims sits at the centre of our offering. We will devote time throughout our relationship to understanding your needs, however they evolve.

Contact us to find out more:

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BACKGROUND

We know that investing for a financial return in not a simple or quick decision for many charities.

This guide will take you through the following key considerations:

1. Risks & Regulations
2. Setting Your Objective
3. Writing Your Statement of Investment Policy
4. Choosing an Investment Manager
5. The Tendering Process
6. Review and Reflect

RULES AND REGULATION

When investing for a financial return, trustees have to comply with certain legal requirements as covered by the Charity Commission's guidance on investment matters, CC14. In simple terms it recognises that charities invest to achieve the best financial return for an acceptable level of risk.

Trustees must:

- know, and act within, their charity's powers to invest
- exercise care and skill when making investment decisions
- select investments that are right for their charity; this means taking account of:
  - how suitable any investment is for the charity
  - the need to diversify investments
- take advice from someone experienced in investment matters unless there is a good reason not to
- follow certain legal requirements if they are going to use someone to manage investments on their behalf
- review their investments from time to time
- explain their investment policy in the trustees' annual report

Trustees should also ensure that details of their investment approach and key decisions are recorded in writing; this will enable them to demonstrate that they have considered the relevant issues, taken advice if appropriate, and reached a reasonable and justified decision. Ultimately this is the duty of the trustees, alongside any ongoing monitoring.

"If trustees can demonstrate that they have considered the relevant issues, taken advice where appropriate and reached a reasonable decision, they are unlikely to be criticised for their decisions or adopting a particular policy" CC14

Whilst our guide covers the main points that trustees should consider, CC14 is a must-read before investing for a financial return.

UNDERSTANDING RISK

Investing for a financial return does not come without risk; we recognise that a lack of understanding of investment risk can be a major barrier for some charities.

Investment risks 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; you must be satisfied with the level of risk you have considered to be appropriate for your charity.

Some of the key investment risks to be considered are outlined below.

1. Loss of capital
2. Volatility
3. Market risk
4. Valuation risk
5. Liquidity risk
6. Counterparty risk
7. Tax risk
8. Environmental, Social and Governance risk

When it comes to choosing an investment manager, they should outline different types of investment risk and explain them to you.

SETTING YOUR OBJECTIVE

Your investment needs and requirements are the starting point for determining an appropriate strategy, which will ultimately determine your objective.

Your answers to the questions detailed below will help you to determine your risk profile, which will affect your investment approach.

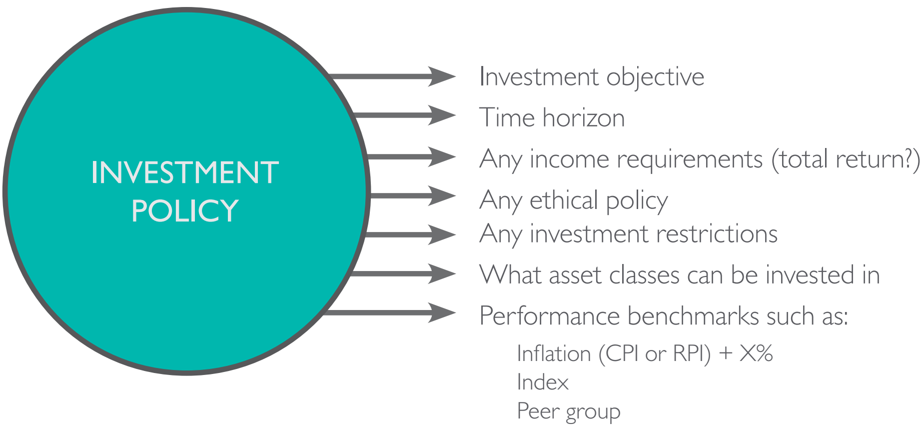
- How is your charity funded?
- What is the money you are investing for?
- What is your time-scale?
- Do you need an income from you investments?
- How much cash may be required in the near future?
- What are your future spending plans and do you have sufficient cash to cover this?
- What other assets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

By determining your return expectations and risk appetite, and setting them in an appropriate time-scale, you establish a framework for making decisions and demonstrating good governance.

YOUR INVESTMENT POLICY

A clearly written Statment of Investment Policy sets out what your objectives are and how you intend to achieve them.

You need a policy that is right for your charity's objectives, your situation and your goals. The diagram below lists the starting considerations that will determine your policy:



Some charities will have the answers to many of these points, particularly if they have an income or withdrawal requirement, but it is common for elements of the policy still to be unknown before approaching a manager. At the very least, you should know your time horizon, any income or withdrawal requirements, any ethical policy and investment restrictions laid out in your governing documents.

Your report and accounts: an outline of your investment policy should be included in your report and accounts.

CC14 lays out what a charity's investment policy will usually include:

1. The scope of its investment powers
2. Investment objectives
3. Attitude to risk
4. How much is available for investment, timing of returns and liquidity needs
5. The types of investment it wants to make, including any ethical considerations
6. Who can take investment decisions (e.g. trustees, an executive, an investment adviser or manager)
7. How investments will be managed
8. Benchmarks and targets set by which performance will be judged
9. Reporting requirements for investment managers

Preparing the policy statement cannot be delegated to the investment manager, but trustees can take independent advice on its content so might find it helpful to prepare it in consultation with the proposed investment manager to ensure its terms are workable and achievable. It is a legal requirement to have an investment policy in place if you delegate investment management and it should be reviewed regularly.

ETHICAL INVESTING

We understand the challenges that trustees face when developing the ethical element of their investment policy. Trustees of any charity can take the decision to invest ethically but must be able to justify why it is in the best interests of the charity to take this investment approach.

Charities wishing to adopt an ethical investment policy should note that there are additional regulatory considerations. Again, the basis of a charity's ethical investment policy should be the Charity Commission's guide for trustees on investing, CC14.

CC14 states that Trustees can decide to invest ethically for the following three reasons:

1. A particular investment conflicts with the aims of the charity

2. The charity might lose supporters or beneficiaries if it does not invest ethically

3. There is no significant financial detriment

CHOOSING AN INVESTMENT MANAGER

Your investment objectives and requirements can affect your choice of manager. There is a myriad of choice and trustees should consider a variety of firms. Most charities will undertake a tendering process that we cover in the next section.

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.

You should be satisfied that an investment manager can accommodate your investment policy. 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 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.

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.

THE TENDERING PROCESS

Charities will typically ask a long list of investment managers to submit a proposal, before meeting with a short list who will present their proposition.

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
- A named point of 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!)

For the presentation stage, ensure that investment managers know if there are any specific topics you want them to cover in their presentation and if there is a time limit.

Before appointing a manager, you may want to ask for references.

The majority of charities provide investment managers with specific questions that they want answered. Whilst not necessary, it does allow for easier comparison.

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)

Who will be your point of contact – are they an investment professional or a relationship manager?

What is your reporting process?

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

REVIEW & REFLECT

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

Most managers will provide quarterly reports and meet with your board of trustees at least annually. Reporting meetings are your opportunity to 'review' your manager against the objective and to engage with your manager, ensuring that you inform them of any changes.

You may wish to undertake a formal review of your investement arrangements and the market periodically. This should not necessarily prompt a full beauty parade so long as you are satisfied with your current manager.

Do remember that there will be time 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 be distracted by focussing on the short term.

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 would like to find out about how we could work with your charity, please email Isobel Fraser on ifraser@waverton.co.uk or call 0207 7484 7485

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.

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