

# Investing your Charity's Money for the First Time

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# About WIM

WIM has been managing charity assets for over thirty years and we have learned a lot about working with charities to develop their investment strategies. WIM offers its clients:

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A dedicated charity team

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Extensive investment experience

3

A personal service

4

A transparent charging structure

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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.

## About this guide

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

This guide will take you through the key considerations.



# Rules & 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
- Act in good faith and only in the interests of the charity
- Exercise care and skill when making investment decisions
- 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
- 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

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.

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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:

- Loss of capital
- Volatility
- Market risk
- Valuation risk
- Liquidity risk
- Counterparty risk
- Tax risk
- Environmental, Social and Governance risk
- Reputational risk



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Acting in your charity's best interests means always doing what you decide will best help your charity to carry out its purposes, both now and for the future. It is not about preserving your charity for its own sake.

Charity Commission, CC14.

# Setting your Objective

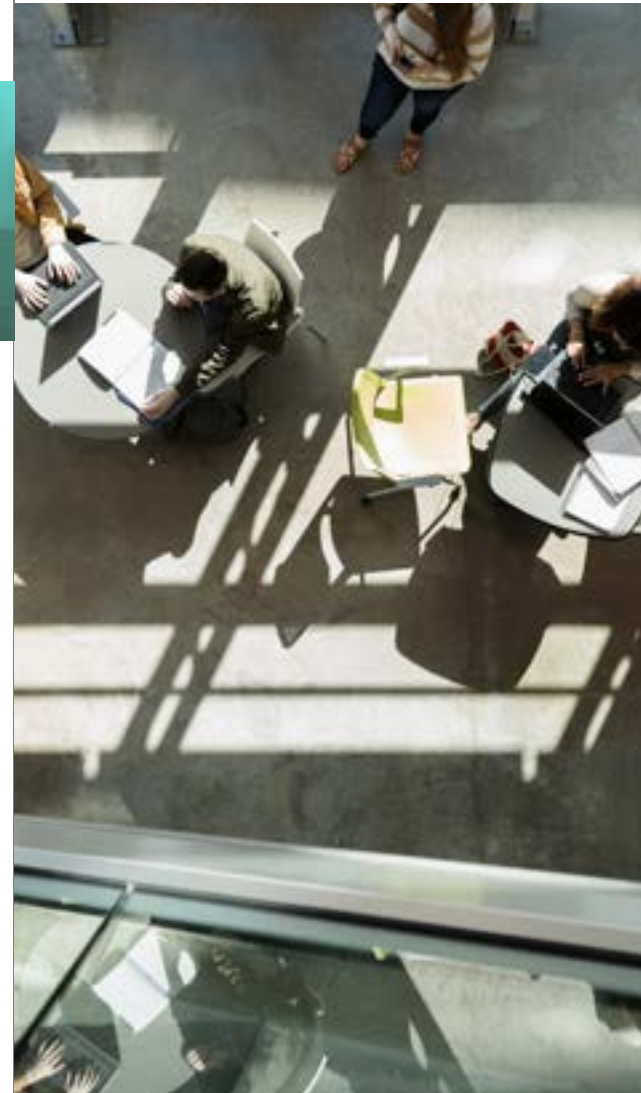
**Your investment needs and requirements are the starting point for determining an appropriate strategy, which will ultimately determine your objective.**

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?



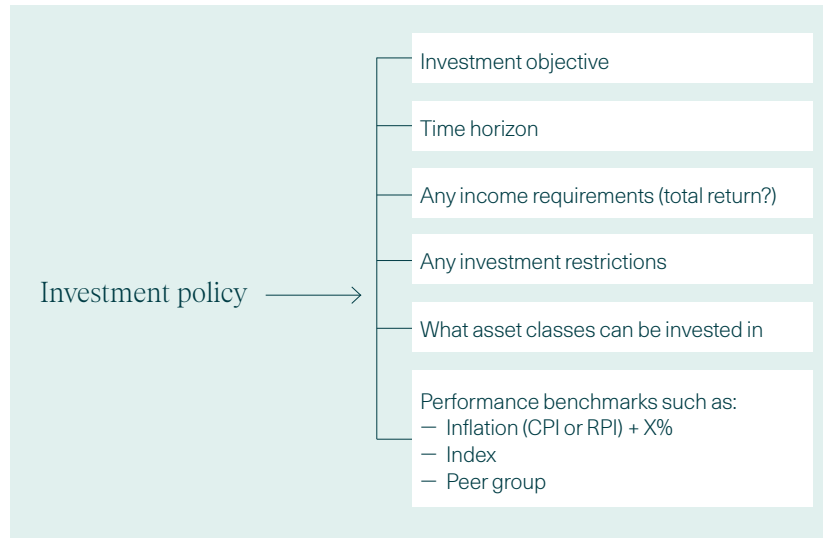
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By determining your return expectations and risk appetite, and setting them in an appropriate time-scale, you establish a framework for making decisions and demonstrating good governance.”



# Your Investment Policy

**A clearly written Statement 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 starting considerations that will determine your policy are listed below:



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 responsible investment requirements and investment restrictions laid out in your governing documents.

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

- The scope of its investment powers
- Investment objectives, including any relevant reputational and other non-financial factors
- Attitude to risk
- Your timeframe for investment
- Any sectors / organisations which are considered to be in conflict with the charity's purposes
- Approach, if any, to ESG factors and your engagement with the companies you invest in
- How much is available for investment, and how easily you need to access your charity's money
- Who can take investment decisions (e.g. trustees, an executive, an investment adviser or manager)
- How you will review and monitor investments, including benchmarks
- Reporting requirements for investment managers
- Who your investment advisers and managers are, their responsibility and remit and how you will work with them

Important to remember

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.

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

# Responsible Investing

We understand the challenges that trustees face when developing the responsible investment element of their policy. Trustees are required to act honestly, reasonably and responsibly in forming an appropriate policy that is in the best interests of the charity and its purposes.

## CC14

**CC14 states that Trustees may choose one or more of the approaches from the following (non-exhaustive) list:**

Aiming only for the best financial return you can achieve, within an acceptable level of risk; OR, alongside the financial return you are aiming for avoiding investments which may:

- Conflict with your charity's purposes
- Reduce support for your charity or harm its reputation, particularly amongst its supporters or beneficiaries
- Have poor practice on environmental, social and governance (ESG) factors

Trustees may also want to consider using their shareholder vote, or other opportunities that come with investment, to influence practice at companies that their charity is invested in.

Where there are difficult decisions to be made involving potential conflicts or reputational risk, Trustees should consider: all relevant factors to their charity's circumstances and investment decisions, along with the extent of the potential conflict and how serious it is and, importantly, any potential risk of financial detriment on excluding an investment.

# 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.**

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.



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Trustees need to be careful in relation to making decisions as to investments on purely moral grounds, recognising that among the charity's supporters and beneficiaries there may be differing legitimate moral views on certain issues.

Charity Commission, CC14.

# 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.

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

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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.

# 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 investment 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.

## Important Information

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