

Writing a Responsible Investment Policy

Overview

A charity's responsible investment policy should sit within, and form a part of, the wider investment policy.

With new generations of trustees joining the ranks and an increased spotlight on responsible investing, continued education remains as important now as it ever has been. Charities are facing increased scrutiny and reputation is important, so where do you start?

Here are our top five tips for writing a responsible investment policy for financial investing:

1. What does the Charity Commission say?

The Charity Commission's guide for trustees on investment matters, also referred to as CC14, sets out the legal and good practice framework of the investment of charity funds.

CC14 states that trustees may take one or more of the following approaches when making a financial investment:

1. Financial return:

Aiming only for the best financial return you can achieve, within an acceptable level of risk for your charity.

2. Avoidance of companies:

Alongside the financial return you are aiming for avoiding investments that:

- Conflict with your charity's purposes
- Reduce support for your charity or harm its reputation
- Have poor approaches to environmental, social and governance practices.

3. Shareholder activism:

Alongside the financial return you are aiming to influence practice at companies that your charity is invested in, through using your shareholding vote or by taking other opportunities to influence management.

Where Trustees identify an investment that could conflict with the charity's purposes or harm its reputation, they must decide whether or not to make the investment, acting in compliance with their trustee duties and balancing the following:

1. All factors relevant to the charity's circumstances and investment decisions
2. The extent of any potential conflict and how serious it is
3. Any potential financial effect of a decision to exclude the investment and how material this may be.

Trustees can adopt any responsible investment policy that they believe will provide the best balance of risk and reward for their charity, but they should ensure that they outline their justification for the responsible investment policy; in particular why they consider it to be in the charity's best interest to invest in such a way.

2. What is your objective for the policy?

With the Charity Commission's guidance in mind, trustees should outline what they consider to be ethical in line with their charity's aims and objects. Linking mission to investments is not always clear and simple, so consider the following questions:

- Why do you want to invest ethically?
- What are you trying to achieve/say with your policy?

You can also consider the different approaches to responsible investing, including Social Investment whereby you could invest with a view to achieve your charity's purposes directly through investment whilst still making a financial return. Social investments can take a variety of forms such as loans, giving guarantees and investment in the equity of a private company. Further information can be found in CC14.

3. Start developing an outline of your policy

Each charity's policy, and the structure of it, will differ depending on their objectives. This process will take time and careful consideration. Trustees should take care when making investment decisions on purely moral grounds, recognising that among the charity's supporters and beneficiaries there may be differing legitimate moral views on certain issues.

4. What are the potential impacts of the policy on your investments?

Charities are operating in an increasingly demanding and accountable environment, therefore it can be important to consider whether or not the policy relates to direct and/or indirect investments.

Trustees need to evaluate the possible effects (both positive and negative) that the implementation of a responsible investment policy might have on investments and investment targets. It might be appropriate to take some advice at this stage, particularly if you have existing investments to allow you to assess whether or not your investment manager can accommodate or implement your policy.

5. Implement, monitor and review

Communicate with your investment manager and ensure that you agree on the definitions underpinning your policy. Once you have reached a decision, write it down and set out both the aims and any exclusions, which will demonstrate that it has been clearly thought through.

In our experience, this process takes time and careful consideration to ensure it is clear, consistent and understood. Do not be afraid to start small ensure that you review the policy on a regular basis. Weighing up these risks and considering this process can seem daunting, but with the right support you will be able to achieve the outcome you are working towards.

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Essentially, trustees are required to act honestly, reasonably (with all due care and skill) and *responsibly in formulating an appropriate investment policy for the charity that is in the best interests of the charity and its purposes.*

Charity Commission, CC14.

Contact us

WIM has been managing charity assets for over thirty years. We aim to achieve an in-depth understanding of our clients' requirements; an approach that results in long term, positive working relationships.

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