W1M Charities

Writing & Reviewing Your Charity's Investment Policy

Overview
Whether you are considering investing for the first time or due to undertake a review of your existing investment policy, this article sets out some key things to take into consideration when writing and reviewing your charity's investment policy.

Why have an investment policy?
An investment policy should be aligned with your charity's objectives and should set out what you want to achieve. It helps to guide both your Trustees and investment manager when making decisions around your organisation's portfolio, enabling you to manage your investable assets effectively. Furthermore, it demonstrates good governance.

Trustees are responsible for writing and reviewing a charity's investment policy; this cannot be delegated, although guidance can be sought from an investment manager or consultant to ensure the policy is workable and achievable, and advice should be sought where necessary.

Remember: If you have an investment policy, it is a legal requirement to explain it in your Trustee's annual report.

Key things to consider when writing your investment policy

1. Your investment objective
To begin with, you should be clear about what you are looking to achieve by investing your charity's funds.

- Do you need to maximise income?
- Are you focussed on capital preservation?
- Do you have any specific withdrawal requirements?
- Are you taking a 'total return' or 'income only' approach?

Investment return is directly related to risk, so it is also important to consider how much risk you are willing to take. This will, in turn, affect your time horizon. Further guidance on this is provided in point two below.

2. Time horizon and attitude to risk
There are a number of questions to ask yourself when it comes to specifying an investment time horizon.

- When is the capital needed?
- Can you be flexible with your time horizon?

If you are looking to maximise returns, you may want to be flexible with your time horizon, but this will depend on your charity's needs.

The longer the time horizon, the more risk can be taken, meaning the return objective can be higher. Ensure the time horizon is realistic with your return objective or vice versa. Generally, if you want to target a higher return, you need a longer time horizon to do so. The shorter your time horizon, the less volatility risk you can afford to take. You would therefore need a more cautious approach.

3. Responsible investment policies and other restrictions
Once the overarching objectives and risk appetite are set, restrictions should be considered. It is worth checking your charity's governing documents to inform this part of the policy. Restrictions may vary and can include: asset classes, specific security weightings and ethical restrictions.

As stated in CC14, the investment approach you decide on may involve one or more of the following approaches in relation to responsible investment:

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

Avoidance of companies / sectors:
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

Shareholder activism:
Alongside the financial return you are aiming for, using your shareholder vote, or other opportunities that come with investment, to influence practice at companies that your charity is invested in.

Where there are difficult decisions to be made involving potential conflicts or reputational damage, the trustees need to exercise good judgement by balancing all relevant factors in particular the extent of the potential conflict against the risk of financial detriment.

4. Asset classes and asset allocation
You may want to specify which asset classes can be invested in. For instance, if your organisation owns a lot of property, you may want to use your investment portfolio to diversify away from this asset class. You may also want to include some asset allocation ranges. This will affect the level of risk that can be taken. However, if you are looking to delegate the management of your investments to an investment manager, they will be able to determine suitable asset allocation ranges, in order to achieve the objective you have set.

5. Reporting requirements and benchmarks
It is important to review performance regularly and ensure that you have the right documentation and information to do so. It can be useful to include some specific reporting requirements in the policy. For instance, you may want to set a benchmark, e.g. a peer group or composite benchmark.

Next steps
Once your policy is set, it can be tempting to move on and forget about it. However, your policy should be reviewed regularly to ensure it is relevant. It can be useful to set regular dates to assess your policy and to ensure it is continually aligned with your charity's goals. In the document, include the date the policy was agreed upon and when the next review is due.

Key Tips:

1.

A total return approach gives you a greater level of flexibility in terms of the assets in which you can invest. This will help to guard against highly valued income producing assets, which may inhibit capital returns.

2.

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.

3.

You should regularly monitor how your charity portfolio is performing, but try not to overlook your time horizon; investments can be volatile and an objective is only realistic over a set number of years.

Contact us

W1M 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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