

Charity investments

A guide for trustees



Introduction

For many charities, the investment of available assets is a crucial aspect of their operations in support of the charity objectives.

The responsibility for this lies with the charity's trustees, who must ensure their investment decisions and approach are in line with the Charity Commission's expectations.

Trustees can meaningfully support their charity's objectives and reflect its values through a considered investment approach.

This requires a certain level of expertise and may also necessitate independent advice, which not only ensures the trustees meet their legal duties, but also allows the charity to plan its future finances with confidence.

Whether you are a charity investing for the first time, or have existing investment assets, your charity may benefit from an independent review of your arrangements combined with a clear policy for investing.





The impact of CC14

The Charity Commission sets out what it expects from trustees through its CC14 guidance. This helps to provide clarity in relation to best practice and good decision making.

Updated in 2023, the guidance states that trustees have the freedom to take an investment stance that aligns with their objectives, as opposed to simply maximising returns.

This affords your charity additional flexibility and avoids a one-size-fits-all approach to investing.

Furthermore, it allows you to put more emphasis on avoiding investments that conflict with your charity's purpose, those which may detrimentally impact its support or reputation, or that conflict with its charitable aims and objectives.

Whilst increased choice can be seen as a positive in terms of greater investment freedoms, it also means there is potentially a greater chance of poor decision making. As such, it is important to use the CC14 guidance to set suitable parameters within your investment policy and demonstrate prudent decision making.

Where should you start?

Before you begin looking at your charity's investment options, it is important for your trustees to first create a suitable framework around which to base your investment decisions.

An investment policy allows you to do just that. Alongside your other governing policies and procedures, this document outlines the key information that you need to consider before committing your charity's assets. Whilst an Investment Policy is not a legal requirement for all charities, the Charity Commission expects all charities to have one in place.

There are several key considerations that should make up an Investment Policy.



Objectives

It is important to define what your charity is trying to achieve. If your charity has specific requirements for investment returns, or a preference between capital growth and income, you must set this out clearly. Likewise, if the purpose of your investments is to meet particular spending requirements, make sure this is clear. Consider your investment objectives against your existing policies and overarching objectives to avoid a conflict.





Investment timelines

How long are you looking to commit assets for? This can be broken down into short (E.g. one year), medium (E.g. five years) and long-term (E.g. 10 + years). This consideration will have a knockon impact on other factors, such as the amount of risk your charity can afford to take.



Risk tolerance

This is the level of risk your charity is capable of taking, whereby a significant loss would not impact your charity's ability to operate and meet its objectives.



Asset allocation

What asset classes should your charity consider investing in? There are a range to consider but not all will be suitable for your charity. If there are restrictions within your governing documents, these must also be factored in. You should also take into account the need to diversify your investments across different asset classes and markets, in order to spread the investment risk - unless you have good reason not to.



Ethical and sustainability considerations

If your charity has objections to investing in certain asset classes, markets, or industries it is important to note these within the document. Any decisions made here should not conflict with your charity's overarching values, mission or objectives. Similarly, these decisions must not be influenced by any trustees' personal views.



Performance benchmarking and reviews

Set out how often you intend to review the performance of you charity's investments against its objectives. It is important to determine what the benchmark is for each review period. You will also need to factor in reviews of your overarching strategy when there are changes to your charity's circumstances.



Liquidity

What access do you require in terms of investment income or capital? If this is likely to change over time, then this should be listed too. Equally, you must consult your Reserve Policy to determine the level of cash reserves that are required.



Investment solutions to consider

There are multiple investment solutions available to charities, each with their own benefits, and trustees should understand how each of these solutions will enable them to achieve their investment objectives and conform with their investment policy.

The options most suitable for your charity will depend on its circumstances, objectives and the other parameters set out in the investment policy and your governing documents.

Collective investment funds

These are pooled investments where many investors all contribute to the same fund, which is managed by a Fund Manager on behalf of all investors.

They will have a specified objective for the fund and can be open to all investors, including individuals, or some are structured so that only charities can invest.

Regardless of the collective investment fund that you invest in, and you may

invest across a portfolio of several collective investments, the Charity Commission expects trustees to consider how suitable any investment is for the charity and the need to have a mix of assets to diversify risk.

Often with most pooled investments, charities will not receive investment advice alongside the fund and so trustees should strongly consider seeking independent financial advice when pursuing this option to satisfy their legal requirement as trustees.

Discretionary Portfolio Services

These can be in the form of 'model' portfolios which, similar to collective investment funds, offer an 'off the shelf' solution that fulfils an investment objective and can be accessed by a range of investors. This helps to minimise costs for the investment manager and so the management fees incurred by the charity will be less.

Discretionary portfolios can also be managed by investment managers on a bespoke basis. When appointing an investment manager, trustees need to follow certain legal requirements and ensure that the portfolio being constructed for the charity follows the investment remit provided.

Delegating investment decisions to an investment manager who can act on a discretionary basis means that trustees do not have to authorise day-to-day investment management decisions that the investment manager takes, provided they are acting within an agreed mandate.

Irrespective of this delegation of investment management, trustees will remain responsible for directing the overall investment policy and reviewing suitability of any portfolio in accordance with their prescribed benchmarks.

Bespoke portfolios provide greater access to a dedicated investment manager who can help advise on investment decisions. Selecting the right manager and reviewing their performance against the agreed mandate requires performing rigorous due diligence, investment knowledge and expertise.

Even where trustees are working with an investment manager, we still recommend trustees appoint an independent financial planner where the board has insufficient skill to fulfil this requirement and will be able to ensure that a charity's full circumstances can be accounted for, long term plans considered, and an appropriate discretionary investment manager or managers are selected for your charity and kept under review.



Seeking suitable financial advice

Once your charity has its policies and procedures in place, it is time to decide what financial advice will be required. Whilst trustees may decide to make investment decisions independently, this should only be done where trustees have a suitable level of investment knowledge and experience.

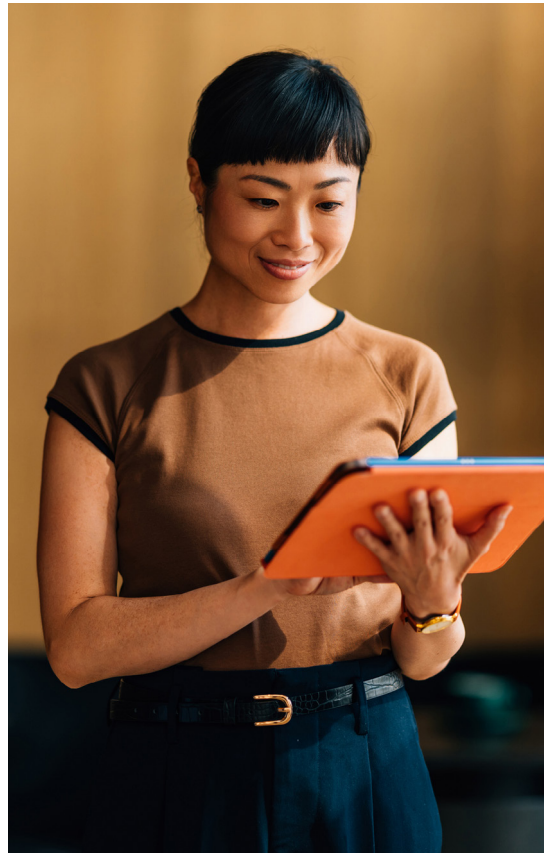
Whilst the assistance of an investment manager will be necessary to oversee your investment portfolio, you also have the option to seek additional support from a financial planner. They act independent of the investment manager and provide independent oversight to your charity, including regular reviews of your investment manager's performance.

Investment manager

An investment manager's role is to manage your charity's investments, working with your trustee board to put together a portfolio that achieves suitable returns over an agreed period.

They will use your charity's investment policy and other information to help formulate your investment strategy, and the trustees will receive reports concerning investment performance periodically, whereby you can make any necessary adjustments.

Should your charity have certain investment preferences, for example ethical and sustainability considerations, they can take this into account as part of your investment strategy. If your charity would like them to be present at trustee board meetings, this can also be arranged. They cannot provide financial planning advice.



Financial planner

A financial planner assists charities in a more comprehensive way, helping trustees to review wider financial circumstances and ensuring everything is in place to achieve your charity's objectives and the longevity of the organisation. Oftentimes, they will work alongside your investment manager(s) to ensure your charity's arrangements remain suitable.

There are two types of financial planner, restricted and independent. Whilst the former is typically tied to certain investment products or providers, independent financial planners are not and can therefore access a much wider variety of investment solutions to meet your needs.

A financial planner can:

- help your charity agree objectives, timescales and expected returns;
- review your investment policy;
- provide ongoing investment reviews against agreed benchmarks and overarching objectives;
- advise on recommended changes to your charity's investment strategy, where necessary;
- recommend strategies that take tax planning considerations into account;
- provide a cash flow forecast to illustrate longevity considerations;
- make an initial investment manager recommendation and conduct ongoing reviews of their performance against your charity's benchmarks;
- conduct thorough due diligence on the wider range of investment managers in the marketplace, assessing performance, fees etc so that any incumbent investment manager is benchmarked against their peers; and
- attend trustee board meeting, upon request.

Ongoing oversight from a financial planner ensures your charity's arrangements remain appropriate at each review point. This independent third-party expertise is often valued in the absence of suitable experience on the board of trustees.



Next steps

Now you understand the framework your charity needs to put in place and your options concerning financial advice, what are your next steps?

- 1 Review your charity's circumstances and requirements
- 2 Ensure all policies and procedures are up to date
- 3 Consider what third-party support is required



How we can help you

Whether your board of trustees require expert oversight before committing to investing your charity's assets, or simply wish to review the suitability of existing investment arrangements, we can help you.

As chartered independent financial planners, we have access to the whole market and can build an investment strategy tailored to your charity's objectives and preferences. The philosophy we believe in emphasises long-term commitment to create a well-rounded strategy for your charity.



Important information

The contents of this guide do not constitute financial advice.

The impact of taxation (and any tax relief) depends on individual circumstances.

This has been prepared based on our current understanding of UK Law, Taxation and HMRC practice, all of which could be subject to change in future.

The value of investments can fall as well as rise and it may not always be possible to receive back the sum initially invested. Past performance is not necessarily a guide to future investment returns.

Reach out to our expert financial advisers for a complimentary, no-obligation consultation.



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The contents of this guide do not constitute financial advice. The impact of taxation (and any tax relief) depends on individual circumstances. The value of investments, and the income from them, may go down as well as up and neither is guaranteed. Investors could get back less than they invested.

Tax treatment depends on individual circumstances and may be subject to change in the future. We do not provide tax advice and independent professional advice should be sought.

Past performance is not a reliable indicator of future results. The information on this page does not constitute advice or a recommendation and investment decisions should not be made on the basis of it.

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