

For charity trustees and professionals

NOVEMBER 2023

INVESTMENTS

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Approver Quilter Cheviot 14 November 2023



QUILTER CHEVIOT
INVESTMENT MANAGEMENT

Investing for generations

AGENDA

- Understanding investments
- Risk and return and due diligence
- Socially Responsible Investments
- Monitoring, reporting and compliance
- Investment policy statement

LOOK NO FURTHER THAN CHATGPT



Source: istock

INVESTING CHARITY MONEY: GUIDANCE FOR TRUSTEES (CC14)



CHARITY COMMISSION
FOR ENGLAND AND WALES

Source: Charity Commission

STATEMENT OF INVESTMENT POLICY

XYZ Charity
Registered Charity No. [REDACTED]
Investment Policy Statement

Introduction

XYZ Charity (the Charity) is an incorporated grant making charity, whose purpose is to enhance and improve the experience of later life for people through delivery of first-class activities, services, [REDACTED] and advice designed to promote well-being for all.

Governance

The Board of Trustees is responsible for setting the investment policy and follow the Charity Commission guidance as set out in [Investing charity money: guidance for trustees \(IC14\)](#) and in accordance with the principles set out in the Trustee Act 2000.

Time frame

For the **short-term reserves**: the priority is financial security, as the money may be needed at any time. As such capital volatility cannot be tolerated: the aim must be to minimise the risk to capital, in most cases this means placing the money on deposit with a bank and any return such as interest is secondary albeit a welcome bonus.

For the **long-term endowment**: the primary objective must be to protect the money against inflation and produce a reasonable income. As such investments are long-term (more than five years) and capital volatility can be tolerated.

Investment Objectives

The main objectives for the investment portfolio are to:

- To deliver the best overall financial return within a risk profile that is in line with the organisation's financial objectives
- To provide a reasonable and sustainable level of income
- To maintain the real value of permanent endowment (i.e., to protect it against inflation)
- To invest for the long-term in a diversified portfolio
- The investments should be consistent with the values and ethos of the organisation

Total return target

The total return target for the investment portfolio has been set at inflation plus 3% p.a. net of fees. This implies a nominal target of 5% p.a. assuming inflation settles back to the Bank of England's longer-term inflation target of around 2%.

Income requirement

There is no specific income target. However, the Trustees expect the investments to generate a reasonable level of income.

Liquidity requirement

The Charity holds sufficient cash reserves to meet immediate cash-flow requirements.

The longer-term investment portfolio should be invested in assets that are easily realisable in normal market conditions.

Ethical and other constraints

The Trustees have set no specific ethical or geographic **restrictions. However**, the Trustees wish to be responsible investors. Environmental, social and governance (ESG) criteria are a set of standards to assess a company's operations that investors, such as charities, consider when reviewing their investments.

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Criteria consider how a company performs as a steward of nature, examine how it manages relationships with employees, suppliers, [REDACTED] and its. als with a company's leadership, executive pay, audits, internal controls, and its.

anager is expected to take account of ESG issues in their investment analysis and assesses and engage with company management when appropriate and produce [REDACTED] ESG issues.

anager has categorised the Charity's responsible investment preference is 'Aware' ie aim is to optimise financial returns for the given level of risk level, believing that aware of environmental, social and governance factors are important inputs.

If capital volatility within the investment portfolio is considered by the Trustees to the charity's risk and return objectives but the portfolio should be well diversified and individual investments should be in line with a standard medium risk profile.

We have a medium tolerance for risk and can accept modest variation or disruption to capital value or current income in order to meet the charity's longer-term objectives



Typical equity weighting - up to 75% Suggested minimum investment period - 5 years Estimated maximum peak-to-trough decline across investment period - 35%

in the portfolio should be such as to limit the downside risk in the portfolio. es accept there may be times of crisis when the downside risk might be larger as 've' peak to trough decline'.

oderate' ability to bear investment losses. In extreme circumstances, falls in the o of up to 35% would not have a material impact on the charity's overall financial tments.

as are in sterling therefore the manager is expected to be mindful of this fact when 's assets.

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Monitoring

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Assets, asset class ranges and benchmark indices

le below shows the strategic asset allocation, maximum and minimum [REDACTED] and benchmark against which performance of the portfolio will be monitored.

Asset	Long term asset allocation (%)	Range %	Benchmark Indices
Interest	17.5	10-30	
Government bonds	12.0		Boxx UK Gilt
Corporate bonds	5.5		Boxx Filtering Corporates
Equities	70.0	60-75	
UK	30.0		MSCI UK IMI
Overseas	40.0		MSCI AC World ex UK
Divs (including Divs)	10.0	0-20	50% Boxx UK Gilt 1-5 years/ 50% MSCI AC World Index (ACWI)
	2.5	0-15	Bank of England Base Rate

are determined to use a composite of 50% Boxx UK Gilt up to 5 years and 50% MSCI AC World Index for this portion as we are allocating to alternatives which we believe have the benefits of equity like returns and bond like volatility and therefore this most closely represents the nature of the underlying vehicles

Investment manager

ity appointed XXX to manage the assets on a discretionary basis, in accordance with the es set out in this statement and within the guidelines set down from time to time by the Trustees.

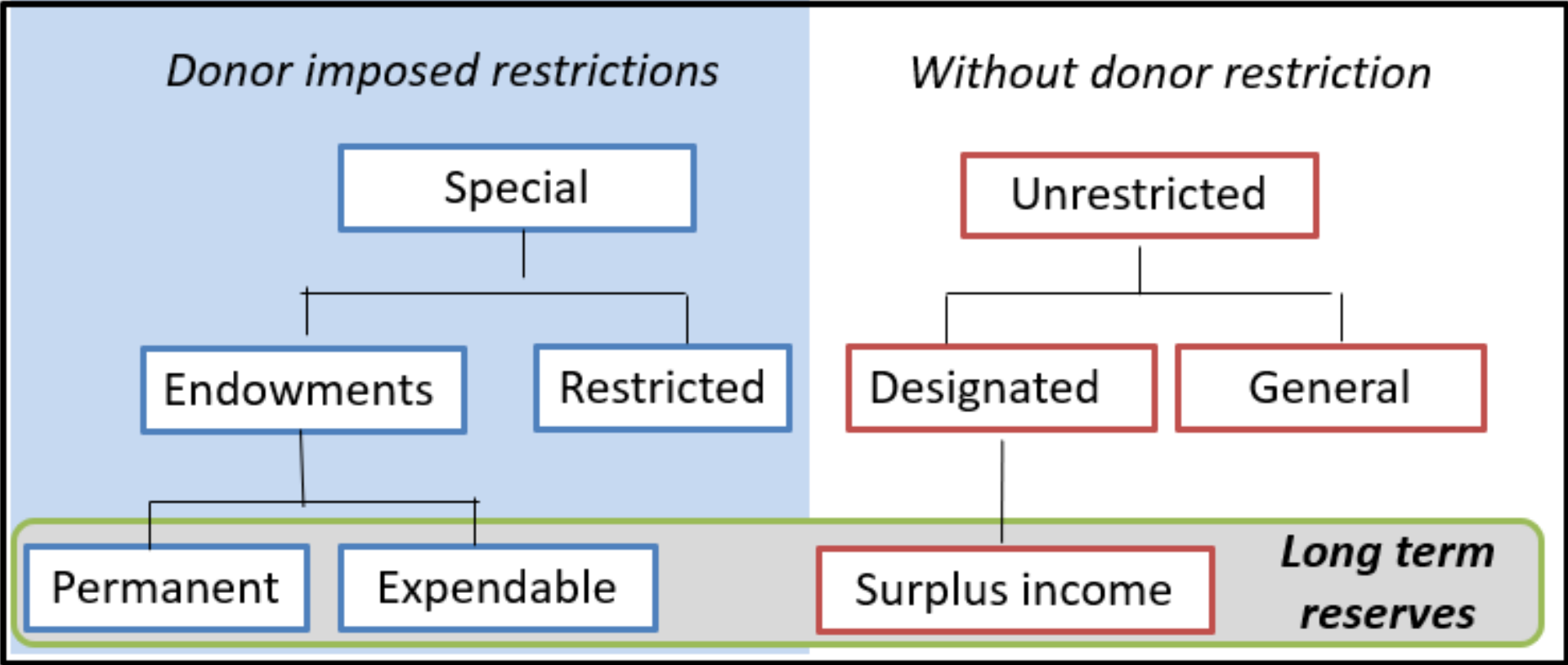
Location of assets

Money is held in accordance with the FCA client money rules. Cash held on deposit on behalf is in pooled client money bank accounts which are separate from Investment Manager's monies. Investments are held in Investment Manager's nominee company (or through a sub-custodian) in line with FCA rules and are held as client assets which are separate of any of Investment Manager's own assets. An independent assurance on internal controls (IAF 0106) report is issued periodically by Quilter Cheviot to demonstrate that effective controls are in place.

Issues to consider

- Governance
- Financial objectives
- Timeframe
- Liquidity
- Income requirement
- Risk tolerance custody
- Monitoring & benchmarking
- Policy review

ASSETS = RESERVES



Source: Yoke & Company

BUT ARE THEY A WASTING ASSET?



Source: iStock

TIME FRAME

Short-term: the priority is financial security, as the money may be needed at any time. As such capital volatility cannot be tolerated: the aim must be to minimise the risk to capital, in most cases this means placing the money on deposit and any return such as interest is secondary albeit a welcome bonus.

Long-term: the primary objective must be to protect the money against inflation while getting greater return for taking the risk of investing. As such the aim is to invest for a reasonable time period (normally more than five years) as investment will be subject to capital volatility and you need the ability to ride out market turbulence.

ETHICAL INVESTMENT: LEGAL GUIDANCE

BISHOP of OXFORD, 1991

*‘Most charities need money; and the more of it there is available the more the trustees can seek to accomplish’ **but** particular investments might hamper a charity’s work by making potential recipients of aid unwilling to be helped because of the source of the charity’s money, or by alienating some of those who support the charity financially.” **However** ‘Trustees must not use property held by them for investment purposes as a means for making moral statements at the expense of the charity of which they are trustees.’*

- A particular investment conflicts with the aims of the charity
- The charity might lose supporters or beneficiaries if it does not invest ethically
 - Where the trust deed so provides
 - There is no significant financial detriment

FUTURE RETURN EXPECTATIONS

Asset class	Estimated nominal returns (%)
UK government bonds	4.4
UK sterling corporate bonds	5.4
UK equities	7.0
Overseas equities	7.0
Private equity	8.0
UK property	6.5
Infrastructure	5.7
Commodities	4.5
Cash	4.5



If inflation averages at **4%** over the next **18 years** you will have needed to double the value of today's investments to maintain the same spending power

Source: Quilter Cheviot as at October 2022. Estimated returns represent our estimate of long-term investment returns over a full cycle of seven years, or more. Any data shown is for illustrative purposes only. It does not and cannot constitute a projection of the future which is unknown. Past performance is no guarantee of future performance and the value of investments and income from them can fall as well as rise.

'RISK' IS AS IMPORTANT AS RETURN

Lower to Medium			
Estimated range of annualised return*	I/We have a lower to medium tolerance for risk, I/We would only be comfortable with modest variation or disruption to capital value or current income		
	Typical equity weighting - up to 50% 	Suggested minimum investment period 3 years	Estimated maximum peak-to-trough decline across investment period*
Medium			
Estimated range of annualised return*	I/We have a medium tolerance for risk and can accept modest variation or disruption to capital value or current income in order to meet my/our longer-term objectives		
	Typical equity weighting - up to 75% 	Suggested minimum investment period 5 years	Estimated maximum peak-to-trough decline across investment period*
Medium to Higher			
Estimated range of annualised return*	I/We have a medium to higher tolerance for risk and can accept considerable variation or disruption to capital value or current income in order to meet my/our longer-term objectives		
	Typical equity weighting - up to 100% 	Suggested minimum investment period 5 years	Estimated maximum peak-to-trough decline across investment period*

Estimated nominal return (%)

6.4%

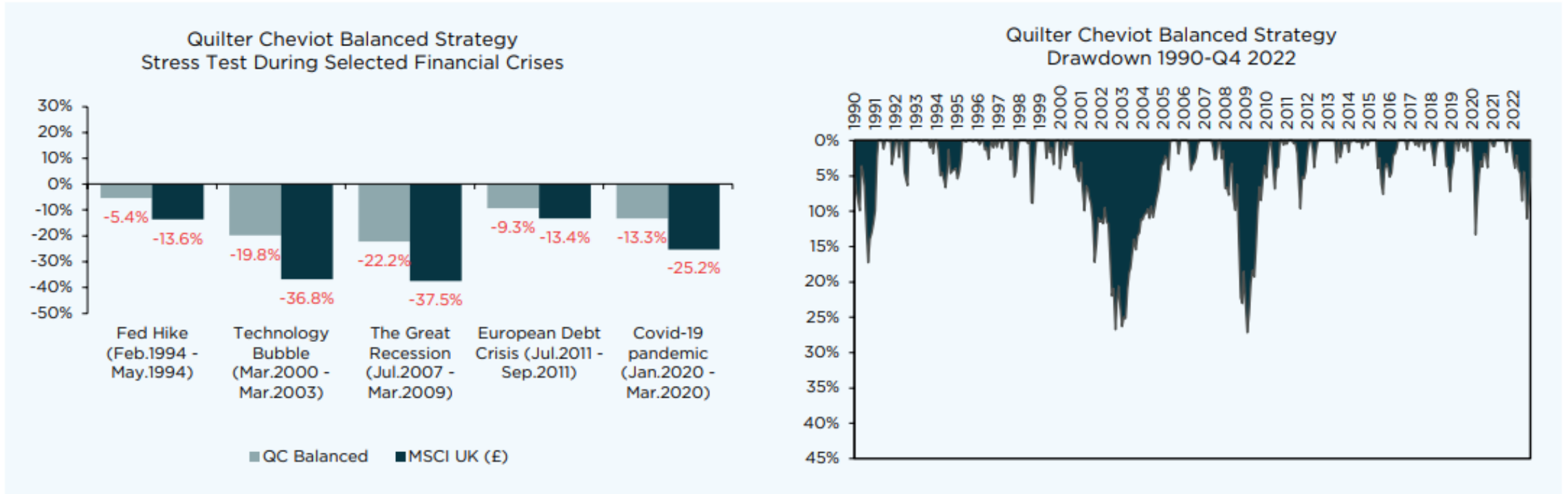
7.0%

7.4%

* Source: Quilter Cheviot

These figures are for illustrative purposes and represent estimated pattern of return for each risk profile. Past performance is not indicative of future performance and actual performance may vary.

PUTTING VOLATILITY INTO PERSPECTIVE

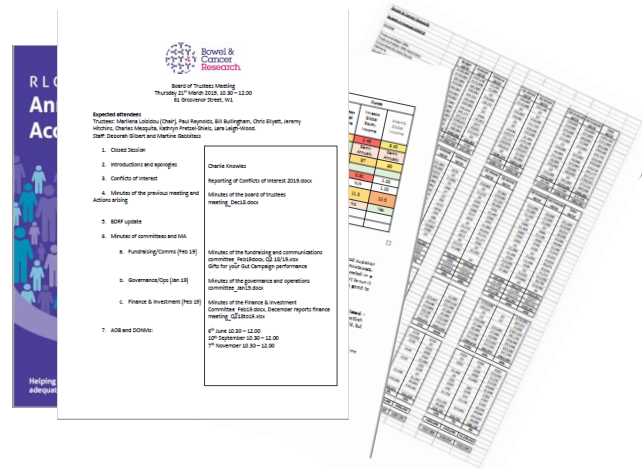


Source of MSCI data is Refinitiv Datastream, 31/12/2022

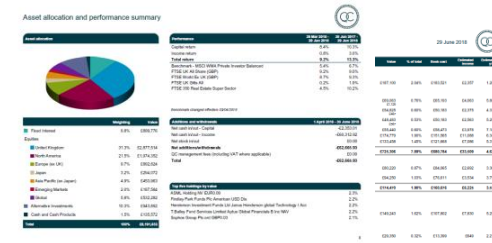
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MONITORING, REPORTING AND COMPLIANCE

Internal:
Sufficient insight?
Quick and easy to decipher?



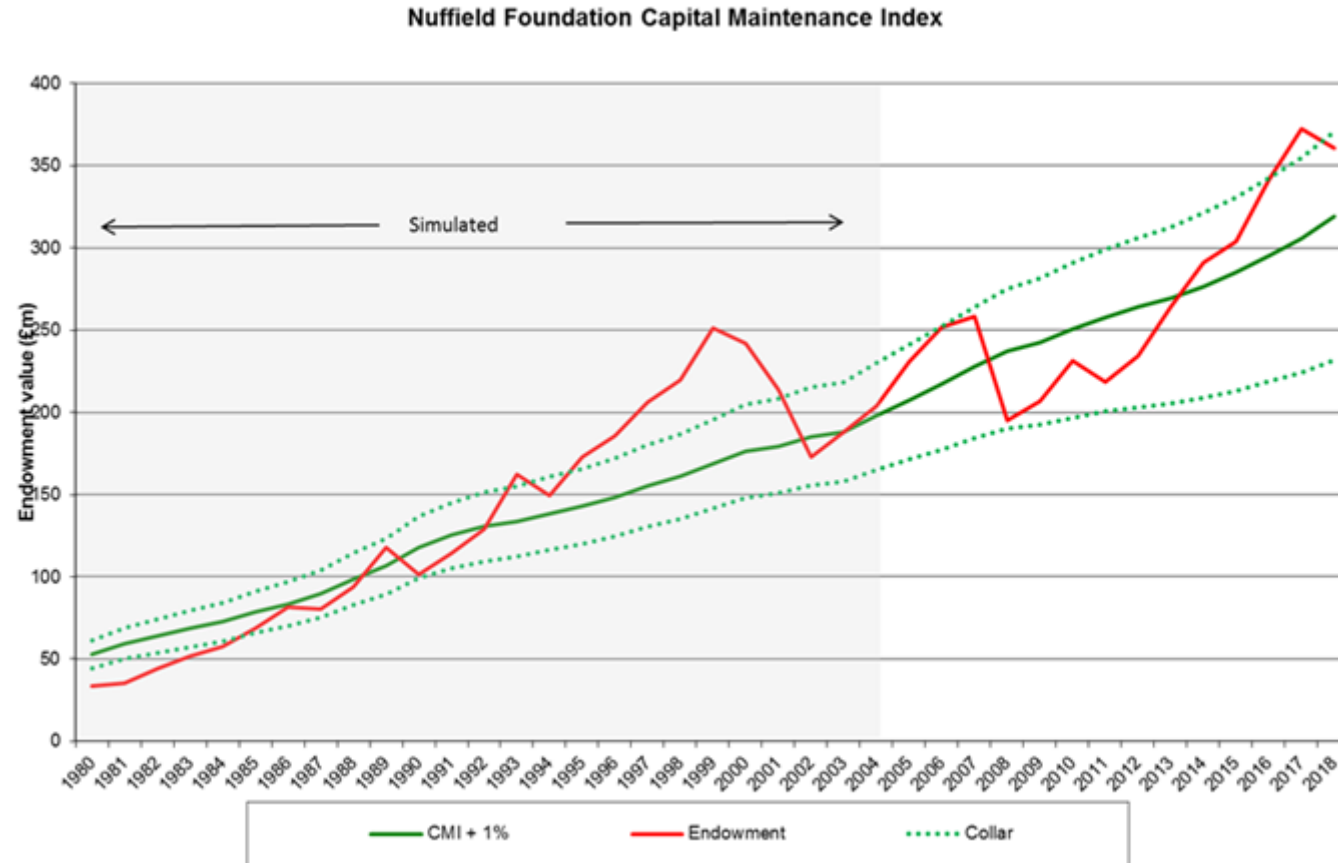
External: Performance
against the objective



Who attends?
How often?
Who sets the agenda?

Source: istock, RL Glasspool, Quilter Cheviot

KEEP DECISIONS IN PERSPECTIVE



Source: James Brooke Turner Investment Director Nuffield Foundation 2018

WHAT MAKES YOU CHARITABLE

What makes you charitable
is what you spend, not
what you save.

It's not your money, it's for
someone else.

What's best for them?



Source: Yoke & Co

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