Torfaen Voluntary Alliance
Your local county voluntary council

8. Managing money

8.14 How to write a good investment policy

Why do you need an investment policy?

Charity Commission guidance requires all charities that have investments managed by a discretionary manager (i.e. an investment manager that you have agreed has full discretion in making investment decisions on your behalf) to have an Investment Policy Statement. The policy provides a framework for making investment decisions. It is an aide for the effective management of resources and demonstrates good governance. If you have an external investment manager, the policy will set the parameters within which they are able to operate.

The Charity Commission's guidance on investment matters is set out in *CC14: Charities and investment matters: A guide for trustees*.

Who is responsible for the investment policy?

The trustees are responsible for the policy. External investment managers and advisers are able to assist in its preparation, but the policy is owned by the charity and should be signed off by the trustees and reviewed on a regular basis.

What should the investment policy cover?

Charity Commission guidance states that an investment policy should cover the following areas:

- The scope of its investment powers
- The charity's investment objectives
- The charity's attitude to risk
- How much is available for investment, how long it might be invested for and any likely need to withdraw funds
- The types of investment that are permissible, this may include ethical considerations
- Who can take investment decisions
- How the investments will be managed, and the targets and benchmarks that will be used to measure performance
- Reporting requirements for investment managers

How should an investment policy be developed?

The areas illustrated below provide a guide to the issues that trustees should be discussing when formulating their investment policy.

It is important to ensure that your investment policy fits with other policies (for example risk management and reserves) so that it is consistent with your wider financial plan. If you are a large charity you may wish to employ an external adviser, or consider appointing a trustee with investment experience, in order to help develop your investment policy.

The length of the policy will vary depending on the charity; however the crucial thing is that it contains enough information to make well informed investment decisions.

How should the investment policy be set out?

The format below highlights each of the major areas that are required by the Charity Commission. This is a suggested format only, further guidance can be found in *CC14: Charities and investment matters: A guide for trustees*

1. Introduction

1.1 General background and financial objective

- What is the amount available for investment?
- What role do investments play in your overall budget and financial plan?
- Are any parts of your assets permanently endowed?
- Are you looking to emphasise certainty of value, income or growth?
- Do you have any specific liquidity needs, for example do you have any plans that may involve withdrawing funds from your investment?

1.2 Investment powers

- What investment powers does your governing document give to trustees?
- Do you have any restrictions on your assets, such as being permanently endowed?

1.3 Governance

- How are investment decisions made?
- Do you have an Investment Committee?

2. Investment objectives

Considerations may include:

- Do you have an overall return target?

- Do you have an income target?
- Are you able to adopt a total return approach, seeking an overall return from capital and income; either of which can be spent
- Do you have a preference between returns generated from income or returns generated from capital?
- Are you looking to protect the assets in absolute terms or 'real' (after inflation) terms?

3. Risk

This section should outline the risks the trustees have considered and any policies in place to manage these risks. Considerations may include:

3.1 Attitude to risk

- Does your charity depend on its investments to fund its charitable work?
- What is the attitude of the trustees to volatility (the short term fluctuations in value of the market)?
- Are expenditure levels fixed or flexible?

3.2 Assets

- What asset classes can be considered, for example fixed income, equities, property?
- How do you ensure adequate diversification between asset classes?
- Are there any restrictions on the type or level of assets held (for example no hedge funds)?

3.3 Currency

- What is the base currency for the portfolio? Most UK charities will choose sterling as their base currency

3.4 Credit/counterparties

- Is there a minimum credit rating you wish to set?
- Are there any restrictions on the maximum amount held with any one investment party?

3.5 Other

Other risks highlighted here may include inflation risk, interest rate risk, valuation risk or ethical, social and environmental (ESG) risk - further guidance can be found in *CC14: Charities and investment matters: A guide for trustees*.

4. Liquidity requirements

Considerations may include:

- Do you wish to draw down on your investments on a regular basis?
- Do you intend to draw upon income only or will you draw upon capital also?
- Do you have any planned expenditure or cash flow requirements other than those highlighted above?
- Are you likely to need to access capital over a short time period?

5. When you intend to draw on the reserves

Considerations may include:

- Is your charity expected to exist in perpetuity?
- Would you describe your investments as short term, medium term or long term?
- Do you expect any significant changes to your financial plan in the future?

6. Ethical investments

Considerations may include:

- Do you have an ethical investment policy?
- Does the policy include negative criteria or positive criteria? Further guidance can be found in *CC14: Charities and investment matters: A guide for trustees*

7. Management, reporting and monitoring

7.1 Management

- If you have an investment manager, what are the arrangements? For example, the terms of the agreement and the length of the agreement
- How many investment managers do you have? (Some very large charities have several)
- What are the arrangements regarding custody of the investments? (for example, custody arrangements taken care of by your investment manager)
- How many signatories are required to authorise decisions?

7.2 Reporting and monitoring

- What are your reporting requirements?
- How often do you wish to receive reports from your investment manager?
- How often do you require investment managers to attend any committee/board meetings?
- What benchmark will you use to measure performance?

8. Approval and review

- When was this policy approved?
- How often will it be reviewed?

Further information

CC14: Charities and investment matters: A guide for trustees.
https://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14

Writing your charity's investment policy- CFG & Charity Investors Group
http://www.charityinvestorsgroup.org.uk/Charity_Investors_Group/Initiatives_files/Investment%20Policy%20Statement%20Final.pdf

This information sheet was kindly produced by Brewin Dolphin Limited:
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The above information is not exhaustive, is for illustrative purposes and is not intended as investment or legal advice. Trustees are responsible for ensuring that their investment policy statement meets the specific requirements of their charity.

For further information contact

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