CFG INSPIRING FINANCIAL LEADERSHIP

CHARITY INVESTORS' GROUP
THE FORUM FOR INVESTMENT DEBATE

Writing your charity's investment policy

A guide

www.cfg.org.uk

www.charityinvestorsgroup.org.uk

Contents

Introduction

What is this guide for?

This guide will help you to consider what to cover in your charity's investment policy. It includes a model template and good practice examples. However, it is not a prescriptive guide nor does it provide specific investment or legal advice.

The guide focuses specifically on your charity's written investment policy. More information about the wider legal and good practice framework for charity investments is set out in the Charity Commission's guidance on investments, *Charity and investment matters: A guide for trustees.*

Who is this guide for?

This guide is for

- those responsible for developing and writing their charity's investment policy;
- trustees, who have overall responsibility for the investment of their charity's funds.

How to use this guide?

The questions set out in the model policy statement are designed to prompt you to think through the areas you might include in your own charity's written investment policy. The examples provide an illustration of what a charity's investment policy statement might look like.

However, the content and exact structure will vary from charity to charity in order to reflect different investment objectives and needs. Not all of the questions will be relevant for every charity, or need to be addressed in the written policy. Similarly the level of detail, length and format may vary. And while we have reflected some the diversity of approaches in the examples attached, these are not comprehensive.

Why have a written investment policy?

If your charity has investments, it should have a written policy that sets out what it is aiming to achieve through its investments. A written policy provides a framework for making investment decisions, helping trustees to manage the charity's resources effectively and demonstrate good governance.

The Charity Commission's guidance on investments, *Charity and investment matters: A guide for trustees,* is clear that, regardless of size, having a written investment policy is important for all charities with investment assets.

Who owns and is responsible for the written investment policy?

The written investment policy belongs to your charity. It should be signed off by trustees and reviewed on a regular basis.

If you use investment managers you must, by law, also have a legal agreement with them. This agreement must require the manager to invest in line with your charity's investment policy. Your investment policy statement could be included in the agreement you have with your investment manager. Your investment manager or advisors might also assist in preparing it to ensure it is workable and achievable. However preparing your written investment policy cannot be delegated to your investment manager – this is your charity's own statement of its investment objectives and how it intends to achieve them.

The trustees of a charity have overall responsibility for the investment of their charity's funds and should sign off and keep oversight of the investment policy.

What should a written investment policy cover?

The Charity Commission's guidance says that a charity's investment policy will usually include the following information

- the scope of its investment powers;
- the charity's investment objectives;
- the charity's attitude to risk;
- how much is available for investment, timing of returns and the charity's liquidity needs;
- the types of investments it wants to make, this might include ethical considerations;
- who can take investment decisions (e.g. trustees, an executive, a manager);
- how investments will be managed and benchmarks and targets set by which performance will be judged;
- reporting requirements for investment managers.

For charities using investment managers, the investment policy must cover

- the responsibility and remit of the investment manager;
- the principles that any investment manager must follow when taking investment decisions on behalf of the charity.

This template and the examples included in this guide expand on these issues and include a series of more detailed questions that will help you to think through what this means in your own charity's circumstances.

How should you develop your investment policy?

Determining the right investment policy will take time and thought on the part of the finance team and trustees. The time spent developing a policy is likely to be dependent on the amount available for investment.

Your investment policy should be consistent with the charity's other policies, in particular risk and reserves, which together will help to deliver the charity's overall strategy. It should reflect your charity's values, accountability, attitude to risk, decision making and ethical considerations - all of which can help to attract potential supporters.

If there are significant funds involved, although trustees do not need to have specialist knowledge themselves, you may want to consider appointing a trustee with specialist investment knowledge to the board or an external investment adviser to your investment committee.

Getting your internal governance arrangements right, both for developing your policy and managing your investments, is crucial. It could be that you delegate to a small sub group who put the policy together for review and confirmation by the whole trustee board. Or more formally, you may decide to appoint an internal investment committee or sub-committee of trustees and officers to advise the trustee board on more detailed aspects of its policy. However you should be clear about the remit of any sub committees, their terms of office, what they can make decisions about and how decisions are reported to trustees. The full trustee board must be responsible for signing off the investment policy and reviewing it on a regular basis. New trustees should also be given an induction where they are shown the policy and a typical performance report.

What should an investment policy statement for a small charity look like?

The level of detail will vary in different charities and is not necessarily dependent on size. For many charities, the written investment policy is no more than a page or two long. For others, particularly if there are more complex considerations, it can be considerably longer. The crucial point is that it provides a sufficient steer to inform investment decisions.

What are the examples in this guide?

1. ABC Foundation: an example of a grant making foundation's written investment policy adopting a total return approach with direct property held outside of the investment portfolio. Investment management is delegated to two managers and monitored by an investment committee. A single page summary is included to illustrate how the statement can be condensed into an easily referenced document.

2. Operational Ethical Charity: an example of an operating charity's written investment policy that distinguishes between short term and long term reserves. The charity also adopts an ethical investment policy implemented through negative screening. Investment management is delegated to one investment manager and monitored by the finance committee.

3. Permanent Endowment: an example of a permanently endowed charity's written investment policy illustrating the importance of balancing the needs of both present and future beneficiaries. This approach includes an income target. Investment management is the responsibility of the investment committee who select and monitor investments within a specified asset allocation strategy.

4. Cash Charity: an example of a written investment policy for a charity holding cash. This charity does not have an investment committee or investment manager.

5. Pooled Family Charitable Trust: an example written investment policy for a small charitable trust that has a single investment in a pooled fund.

6. PRI Local Foundation: an example of a large charity with both financial and programme related investment portfolios.

Areas to cover in your investment policy statement

Name
Charity Registration Number
Date of Investment Policy Statement

1. Introduction

This section should set out the background to the investment policy and could include:

(i) General Background and Financial Objective

What is the overall total of your charity’s investment assets? (including any investment property or other assets held externally to the investment portfolio)
What role do your investments play in your balance sheet, and how important are they compared to your other financial activities?
Do you have any specific or general liquidity needs; if so what are they?
Do you look to your investments primarily to provide either income and growth, or certainty of value?
Are any parts of your assets permanently endowed?

(ii) Investment Powers

What investment power or restrictions does your governing document give the trustees?
Do you have any other restrictions on your assets?

(iii) Governance

How are decisions about investments made?
Do you have an investment committee or advisory group? Does this committee have

(i) Attitude to risk

Does your charity depend on the income, or total return of your investments to fund annual charitable expenditure?

Do you have flexibility in your expenditure levels? i.e. can you reduce expenditure if returns do not meet expectations?
What is the attitude of the trustees to capital volatility?

(ii) Assets
What asset classes can be considered?
How are the investments diversified?
Are there any restrictions on the level of exposure or type of investment assets held?

(iii) Currency
What is the base currency of the investment portfolio?
Are there any restrictions on exposure to currencies other than the base currency?

(iv) Credit/Counterparty
What is the minimum credit rating of a bond issuer or deposit taking institution that you are prepared to consider?
Do you have a maximum amount to be invested or deposited with a single counterparty or a minimum number of counterparties that should be used?

(v) Other
Other risks highlighted by the charity commission guidance that may be relevant to include here include inflation risk, interest rate risk, valuation risk and environmental, social and governance (ESG) risk.

4. Liquidity Requirements

This section should include any anticipated cash flow needs from your investments:
Do you wish to draw down a regular amount from your investments?
Is this the income that has accumulated or do you intend to draw down from the capital?
Are you aware of any planned spending above and beyond the regular cash flow needs described above?
Are you likely to need access to the capital in a short time period? If so, do you wish to limit the entire or a portion of the investment portfolio to investment in assets that can be liquidated within a set time period? (e.g. 3 months)

5. Time Horizon

This section should set out the expected time horizon of your investment assets.
Is your charity expected to exist in perpetuity?
Are your investment assets best described as long term/medium term/short term? (you may wish to split your assets to reflect different time horizons)
Do you have a long term financial plan or expect any significant changes in your capital, income or expenditure in the future?

6. Ethical Investment

This section should include any ethical investment policy adopted by your charity.
Do you have an ethical investment policy? Does the implementation of the policy include negative screening (do you wish to avoid certain investments?); positive screening and engagement (stakeholder activism and voting)
Does this policy relate to both direct and indirect (via a pooled fund) investments?

7. Management, Reporting and Monitoring

This section should include how the investments are managed, any reporting requirements and the process for monitoring performance.

(i) Management

If you use an investment manager, what are the arrangements in place? How many managers, what are their investment mandates and what are the custody arrangements? How many signatories are needed to authorise investment transactions or cash instructions?

(ii) Reporting and Monitoring

What are your reporting requirements?
Do the investment committee/finance committee meet regularly, are the investment managers required to attend?
What long term and short term performance monitoring is carried out? Is this relevant to the return and risk objectives stated above? Do you have a performance benchmark?

8. Approval and review

When was this investment policy statement approved by the trustees?
How frequently will the investment policy be reviewed?

ABC Foundation

Charity Registration Number: 1234567
Date of Investment Policy Statement: 9th March 2012

1. Introduction

1.1 ABC Foundation is an unincorporated grant making charity established by Trust Deed, whose purpose is to support literacy in the United Kingdom.

1.2 The financial objective of the Foundation is to at least maintain the real value of the assets whilst generating a stable and sustainable return to fund grant making. The inflation measure most relevant to the Foundation's expenditure is the Retail Price Index.

1.3 The Foundation has approximately £10m of investment assets, including £1m in direct residential properties. These are the bulk of the charity's assets and finance the grant making activities.

1.4 The Foundation aims to distribute grants of between £200k and £500k per annum but this can vary from year to year depending on grant making opportunities and investment returns.

1.5 The trustees of the Foundation have delegated decision making on investment matters to the investment committee.

2. Investment Objectives

2.1 The Foundation seeks to produce the best financial return within an acceptable level of risk.

2.2 The investment objective is to generate a return of inflation plus 4% per annum over the long term, after expenses. This should allow the Foundation to at least maintain the real value of the assets, whilst funding annual expenditure in the region of 4% per annum.

2.3 The Foundation adopts a total return approach to investment, generating the investment return from income and capital gains or losses. It is expected that if in any one year the total return is insufficient to meet the budgeted grant making expenditure, in the long term the real value of the Foundation will still be maintained in accordance with the investment objective above.

3. Risk

3.1 Attitude to risk

The Foundation relies on the investment return to fund grant making. However, grants are generally one off awards and the number and value of these may vary depending on circumstances. The key risk to the long term sustainability of the Foundation is inflation, and the assets should be invested to mitigate this risk over the long term. The trustees understand that this is likely to mean that investment will be concentrated in real assets and that the capital value will fluctuate.

The trustees are able to tolerate volatility of the capital value of the Foundation, as long as the Foundation is able to meet its short term grant making commitments through either income or liquid capital assets.

3.2 Assets

The Foundation's assets can be invested widely and should be diversified by asset class, by manager and by security. Asset classes could include cash, bonds, equities, property, hedge funds, structured products, private equity, commodities and any other asset that is deemed suitable for the Foundation.

The investment committee are charged with agreeing a suitable asset allocation strategy with the investment managers, which is set so as to achieve the overall Foundation investment objective.

The trustees do not wish to invest further assets in property, given the existing direct exposure.

3.3 Currency

The base currency of the investment portfolio is Sterling.

Investment may be made in non-Sterling assets, but should not exceed 40% of the total investment portfolio value.

Hedging is permitted.

3.4 Credit

The Foundation's cash balances should be deposited with institutions with a minimum rating of A- or invested in a diversified money market fund.

Deposits should be spread by counterparty, subject to a maximum exposure of £200k per institution.

Bond exposure should be focused on investment grade issuers.

4. Liquidity Requirements

4.1 The Foundation aims to distribute grants of between £200k and £500k per annum. This can be funded from both income and capital.

4.2 The trustees wish to keep at least 70% of the assets in investments that can be realised within three months.

4.3 To allow for volatility of capital values, the trustees wish to maintain at least 3 years worth of budgeted grant making in cash or lower risk liquid investments.

4.4 A minimum of 2% of the total assets should be kept in cash or near cash investments at all times.

5. Time Horizon

5.1 The Foundation is expected to exist in perpetuity and investments should be managed to meet the investment objective and ensure this sustainability.

5.2 The Foundation can adopt a long term investment time horizon.

6. Ethical Investment Policy

6.1 The Foundation assets should be invested in line with its aims. The trustees do not wish to adopt an exclusionary policy, but individual investments may be excluded if perceived to conflict with the Foundation's purpose.

7. Management, Reporting and Monitoring

7.1 The Foundation has appointed two professional investment management firms to manage the assets (excluding the direct property) on a discretionary basis in line with this policy. Investment managers provide custody of assets. Managers are required to produce a valuation and performance report quarterly. The Foundation has nominated a list of authorised signatories, two of which are required to sign instructions to the investment manager.

7.2 The investment committee has responsibility for agreeing strategy and monitoring the investment assets. The committee meets six monthly to review the portfolio, including an analysis of return, risk and asset allocation. Performance will be monitored against agreed market benchmarks, and against the investment objective of inflation plus 4% over the long term.

Each investment manager is required to present to the investment committee on a six monthly basis.

7.3 The investment committee is to report formally to the full trustee board on at least an annual basis. This report should include a review of asset allocation strategy, performance, risk profile and consistency with long term investment objective.

8. Approval and Review

This Investment Policy Statement was prepared by the investment committee of the ABC Foundation to provide a framework for the management of its investment assets. It will be reviewed on an annual basis to ensure continuing appropriateness.

Approved by the Investment Committee

Signed
Chair

Dated 9th March 2012

Noted by the Trustee Board

Dated

Reference Minute

ABC Foundation

Summary of Investment Policy

1. Introduction

The overall financial objective is:

- to at least maintain the real value
- to generate a sustainable return to fund annual grant making

2. Investment objective is

- to produce best financial return within an acceptable level of risk
- to produce a total return of at least RPI plus 4% over the long term

3. Risk

- inflation risk mitigated through investment in real assets
- capital volatility can be tolerated if consistent with expectations
- diversification of assets required, no further investment in property
- sterling base currency, maximum 40% non-sterling assets
- minimum A- credit rating for deposit taking institution, maximum £200k cash deposit per counterparty

4. Liquidity

- the Foundation aims to distribute grants of £200k - £500k per annum
- minimum 70% in assets realisable within 3 months
- minimum 2% in cash/near cash

5. Time Horizon

- long term

6. Ethical Policy

- invested in line with the Foundation aims

7. Management, Reporting and Monitoring

- the trustees have delegated decision making to the investment committee
- the investment committee appoints and monitors investment managers
- investment management is delegated to two professional investment managers
- performance is monitored against agreed market benchmarks and the investment objective of RPI +4% over the long term.

8. Approval and Review

- effective from 9th March 2012
- reviewed annually

Operational Ethical Charity

Charity Registration Number: 1234567
Date of Investment Policy Statement: 9th March 2012

1. Introduction

1.1 Operational Ethical Charity is an incorporated charity, whose purpose is to help people with a specific disease. Operational Ethical Charity does this by raising money to fund scientific research on treatments and to provide services and support to people affected by the disease.

1.2 Operational Ethical Charity has annual income from fund raising, corporate partnerships and legacies of c£20m. Annual expenditure is c£20m. The Charity's reserve policy is to hold four to six months of planned expenditure as reserves to ensure continued financial security and to provide for contingencies.

1.3 Operational Ethical Charity has approximately £10m of reserves for investment. A portion of these reserves has been identified as long term reserves (£6m), with the remainder being held as short term reserves, to meet unanticipated cash flow needs. The long term reserves should be invested to grow at least in line with inflation, the short term reserves should be invested emphasising certainty of value.

1.4 The Board of the Operational Ethical Charity have delegated investment decisions to the finance committee. Investment management is delegated to an authorised professional investment manager, regulated by the FSA.

2. Investment Objectives

2.1 The Operational Ethical Charity seeks to produce the best financial return within an acceptable level of risk.

2.2 The investment objective for the long term reserves is to generate a return in excess of inflation over the long term whilst generating an income to support the on-going activities of the Operational Ethical Charity.

2.3 The investment objective for the short term reserves is to preserve the capital value with a minimum level of risk. Assets should be readily available to meet unanticipated cash flow requirements.

3. Risk

3.1 <u>Attitude to risk</u>

The Operational Ethical Charity is reliant on fund raising and donations for its activities. Investment assets are held as reserves.

The key risk to the long term reserves is inflation, and the assets should be invested to mitigate this risk over the long term. The trustees understand that this is likely to mean that investment will be concentrated in real assets and that the capital value will fluctuate.

The short term reserves are held to provide financial security, and may be required at short notice. As such capital volatility cannot be tolerated and investment of these assets should be focused on minimising this.

3.2 Assets

The Charity's assets can be invested widely and should be diversified by asset class, by manager and by security. Asset classes could include cash, bonds, equities, property, hedge funds, structured products, private equity, commodities and any other asset that is deemed suitable for the Charity.

The finance committee are charged with agreeing a suitable asset allocation strategy for the reserves with the investment manager.

3.3 Currency

The base currency of the investment portfolio is Sterling.

Within the long term reserves, investment may be made in non-Sterling assets, but should not exceed 50% of the total investment portfolio value. Hedging is permitted.

Short term reserves should be held in Sterling.

3.4 Credit

The Charity's cash balances should be deposited with institutions with a minimum rating of A- or invested in a diversified money market fund.

Deposits should be spread by counterparty, subject to a maximum exposure of 25% of the total cash balance per institution.

4. Liquidity Requirements

4.1 Income from the long term reserves will be used to fund the Charity's activities. A target income will be agreed with the investment manager on an annual basis, to enable effective budgeting.

4.2 Due to the nature of the reserves, the board wish to keep at least 90% of the long term reserves in investments that can be realised within three months. All of the short term reserves should be realisable within one month.

5. Time Horizon

5.1 The Charity has divided its reserves into those expected to be held for a long term time horizon and those that may be needed in the short term.

6. Ethical Investment Policy

6.1 The Charity has adopted an ethical investment policy to ensure that its investments do not conflict with its aims. There is a proven link between the disease and the consumption of alcohol and tobacco.

6.2 The Charity's ethical investment policy precludes direct or indirect investment in companies that generate more than 10% of revenues from alcohol or tobacco.

7. Management, Reporting and Monitoring

7.1 The Charity has appointed a professional investment management firm to manage the assets on a discretionary basis, in line with this investment policy. The Charity has nominated a list of authorised signatories, two of which are required to sign instructions to the investment manager.

7.2 The manager will provide the following information on a quarterly basis: valuation of investments, transaction report, cash reconciliation, performance analysis and commentary

7.3 The finance committee have responsibility for agreeing strategy and monitoring the investment assets. The committee will review the information provided by the investment manager at each quarterly meeting. The investment manager will be required to present in person to the committee on a six monthly basis.

7.4 Performance of the long term reserves will be measured against inflation and agreed market indices. The return of the short term reserves will be monitored against benchmark cash rates. The level of capital volatility will be monitored to ensure the risk profile remains appropriate for the Charity.

8. Approval and Review

This Investment Policy Statement was prepared by the finance committee of the Operational Ethical Charity to provide a framework for the management of its reserves. It will be reviewed on an annual basis to ensure continuing appropriateness.

Approved by the Finance Committee

Signed Chair

Dated 9th March 2012

Noted by the Board

Dated

Reference Minute

Permanent Endowment

Charity Registration Number: 1234567
Date of Investment Policy Statement: 9th March 2012

1. Introduction

1.1 Permanent Endowment is an unincorporated exempt charity established by Trust Deed, which aims to further education in a specific subject. The Endowment has approximately £15m of investment assets. These are the sole assets of the Endowment and provide the income for current charitable activity.

1.2 The Endowment aims to balance the needs of current and future beneficiaries. The capital remains invested to provide for future beneficiaries and the income is spent on current beneficiaries.

1.3 The trustees of the Endowment are governed by the Trustee Act 2000 which sets out the general power of investment.

1.4 The trustees of the Endowment have delegated decision making on investment matters to the investment committee.

2. Investment Objectives

2.1 The Endowment is invested to produce the best financial return within an acceptable level of risk.

2.2 The investment objective is to balance income and capital returns. The assets should be managed to at least maintain the real capital value of the Endowment, whilst generating a sustainable level of investment income to support the current charitable activities.

2.3 The current income target is set at £450,000 per annum (a starting yield of 3%) and as such the overall investment objective can be quantified as inflation plus 3% per annum.

3. Risk

3.1 Attitude to risk

The Endowment relies on the investment income to fund current charitable activities. The stability of income is therefore important to the Endowment.

The key risk to the long term sustainability of the Endowment is inflation, and the assets should be invested to mitigate this risk over the long term. The trustees understand that this is likely to mean that investment will be concentrated in real assets and that the capital value will fluctuate.

The trustees are able to tolerate volatility of the capital value of the Endowment, as long as the Endowment is able to meet current expenditure from investment income.

3.2 Assets

The Endowment's assets can be invested widely according to the general power of investment and should be diversified by asset class, by manager and by security. Asset classes could include cash, bonds, equities, property, hedge funds, private equity, commodities and any other asset that is deemed suitable for the Endowment.

The investment committee have agreed a target strategic asset allocation as follows, which is set so as to achieve the overall long term Endowment investment objective to balance capital and income returns.

Equities	55%
Bonds	20%
Property	15%
Alternative Investments	10%

The Investment Committee are responsible for identifying and monitoring suitable investment managers and investment vehicles for the Endowment. Asset allocation will vary from this target, due to market movements. Formal rebalancing of the portfolio asset allocation occurs on an annual basis, unless the investment committee believe it is prudent not to do so.

3.3 Currency

The base currency of the investment portfolio is Sterling.

Investment may be made in non-Sterling assets, but should not exceed 60% of the total investment portfolio value.

Hedging is permitted.

3.4 Credit

The Endowment's cash balances should be deposited with institutions with a minimum rating of A- or invested in a diversified money market fund.

Bond exposure should be focused on investment grade issuers.

4. Liquidity Requirements

4.1 The Endowment aims to balance the needs of current and future beneficiaries and as such aims to set a sustainable income target, whilst ensuring the capital is expected to grow in line with inflation over the long term. The current income target for the Endowment is set at £450k per annum, growing with inflation.

4.2 The Trustees of the Endowment are unable to draw down capital and as such there is no requirement for short term capital liquidity within the investment portfolio.

5. Time Horizon

5.1 The Endowment is expected to exist in perpetuity and investments should be managed to meet the investment objective and ensure this sustainability.

5.2 The Endowment can adopt a long term investment time horizon.

6. Ethical Investment Policy

6.1 The Trustees of the Endowment do not wish to impose any specific ethical investment policy, however the Investment Committee is required to consider the congruence of potential investments with the aims of the Permanent Endowment.

7. Management, Reporting and Monitoring

7.1 The Endowment investment committee select investment managers and vehicles to implement the agreed asset allocation strategy. Managers are required to produce a valuation and performance report quarterly. The Endowment has nominated a list of authorised signatories, two of which are required to sign instructions to the investment manager.

7.2 The investment committee have responsibility for agreeing strategy, selecting managers and monitoring the investment assets. The committee meets six monthly to review the portfolio, including an analysis of return, risk and asset allocation. Performance will be monitored against agreed market indices, and at an overall level against a composite benchmark and the investment objective of inflation plus 3% over the long term.

7.3 The investment committee is to report formally to the full Trustee board on at least an annual basis. This report should include a review of asset allocation strategy, performance, risk profile and consistency with the long term investment objective.

8. Approval and Review

This Investment Policy Statement was prepared by the investment committee of the Permanent Endowment to provide a framework for the management of its investment assets. It will be reviewed on an annual basis to ensure continuing appropriateness.

Approved by the Investment Committee

Signed Chair

Dated 9th March 2012

Noted by the Trustee Board

Dated

Reference Minute

Cash Charity

Charity Registration Number: 1234567
Date of Investment Policy Statement: 9th March 2012

1. Introduction

1.1 Cash Charity is an unincorporated charity established by Trust Deed, which raises funds to spend on capital projects that further its aims.

1.2 The Charity has approximately £1m of assets, all of which are expected to be spent over the next three years.

1.3 The Trustees of the Charity are governed by the Trustee Act 2000 which sets out the general power of investment.

2. Investment Objectives

2.1 The Charity seeks to produce the best financial return within an acceptable level of risk. As the assets are expected to be spent over the next three years, capital preservation is of paramount importance.

3. Risk

3.1 The Charity holds assets to fund planned capital expenditure over the next three years. As such capital volatility cannot be tolerated and assets should be invested to minimise risk.

3.2 The Charity's assets should be held in cash or near cash investments denominated in sterling

3.3 The Charity's cash balances should be deposited with institutions with a minimum rating of A- or invested in a diversified money market fund.

3.4 Deposits should be spread by counterparty, subject to a maximum exposure of 20% of the total cash balance per institution.

4. Liquidity Requirements

4.1 The Charity will draw down the cash in line with the planned expenditure schedule. Maturities of cash deposits should match this timetable.

5. Time Horizon

5.1 The Charity will continue to fundraise to meet future capital projects. The entire asset base has a time horizon of less than three years.

6. Management, Reporting and Monitoring

6.1 The Charity will manage its own cash deposits and has nominated a list of authorised signatories, two of which are required to sign instructions to the deposit taking institution. The Finance Director will monitor the cash position and prospective cash flow schedule and report this to the Board of Trustees at each quarterly meeting.

7. Approval and Review

This Investment Policy Statement was prepared by the Finance Director of Cash Charity to provide a framework for the management of its assets. It will be reviewed on an annual basis to ensure continuing appropriateness.

Approved by the Trustee Board: Chair 9th March 2012

Pooled Family Charitable Trust

Charity Registration Number: 1234567
Date of Investment Policy Statement: 9th March 2012

1. Introduction

1.1 Pooled Family Charitable Trust is an unincorporated charity established by Trust Deed, which has general charitable aims.

1.2 The Trust has approximately £45,000 of assets, which are invested to provide an income for annual grant making. This represents the totality of the charitable assets and should be invested to grow at least in line with inflation to ensure sustainability.

1.3 The trustees are governed by the Trustee Act 2000 which sets out the general power of investment.

1.4 The Trust's assets are invested in a single multi-asset common investment fund.

2. Investment Objectives

2.1 The Trust seeks to produce the best financial return within an acceptable level of risk.

2.2 The Trust's investment objective is to for capital growth in excess of inflation (RPI) and a stable, growing income stream.

3. Risk

3.1 The Trust invests to mitigate long term inflation risk. Capital and income volatility can be tolerated if consistent with expectations.

3.2 The Trust's assets are diversified through investment in a multi-asset common investment fund.

4. Liquidity Requirements

4.1 The Trust distributes the income that is received quarterly.

4.2 The Trust is able to buy or sell units in the common investment fund daily, with settlement after four business days.

5. Time Horizon

5.1 The Trust can adopt a long term investment time horizon.

6. Management, Reporting and Monitoring

6.1 The Trust's asset value and income is monitored quarterly by the Trust secretary.

6.2 The trustees review the investment performance of the common investment fund against peers and the investment objective on an annual basis.

7. Approval and Review

This Investment Policy Statement was prepared to provide a framework for the management of the Pooled Family Charitable Trust's investment assets. It will be reviewed on an annual basis to ensure continuing appropriateness.

Approved by the Trustee Board: Chair 9th March 2012

PRI Local Foundation

Charity Registration Number: 1234567
Date of Investment Policy Statement: 9th March 2012

1. Introduction

1.1 PRI Local Foundation is an incorporated grant making charity established by Articles of Association, whose purpose is to relieve poverty in a specific area of the United Kingdom. The Foundation is governed by the Articles of Association which specifies a general power of investment.

1.2 The Foundation has approximately £50m of investment assets, of which £1m has been allocated to Programme Related Investment through the provision of loan finance to alleviate poverty in the local community.

1.3 The Foundation aims to distribute grants representing approximately 3.5% of the financial investments per annum but this can vary from year to year depending on grant making opportunities and investment returns.

1.4 The trustees of the Foundation have delegated decision making on financial investment matters to the investment committee and on programme related investment matters to the loan committee.

2. Investment Objectives

2.1 The Foundation seeks to produce the best financial return within an acceptable level of risk for the bulk of the assets, referred to as the 'financial investments'.

2.2 The investment objective of the financial investments can be quantified as to generate a return of inflation plus 3.5% per annum over the long term, after expenses. This should allow the Foundation to at least maintain the real value of the assets, whilst funding annual expenditure in the region of 3.5% per annum.

2.3 The Foundation adopts a total return approach to investment, generating the investment return from income and capital gains or losses.

2.4 The Programme Related Investment (PRI) portfolio is invested to directly further the Foundation's aims, through loan provision. In addition, the Foundation may gain a financial return through interest receivable and the return of loan capital. Any financial return is likely to be below market with higher risk characteristics but can be justified by the charitable impact.

3. Risk

3.1 <u>Attitude to risk</u>

3.1.1 The Foundation relies on the long term investment return of the financial assets to fund grant making.

3.1.2 The key risk to the long term sustainability of the Foundation is inflation, and the assets should be invested to mitigate this risk over the long term. The trustees understand that this is likely to mean that the financial investments will be concentrated in real assets and that the capital value will fluctuate.

3.1.3 The trustees are able to tolerate volatility of the capital value of the Foundation's financial investment portfolio, as long as the Foundation is able to meet its short term grant making commitments through either income or liquid capital assets.

3.1.4 The primary aim of the programme related investment portfolio is to further the Foundation's aims through the provision of loan finance in the local community. The trustees recognise that they may not maintain the capital value and that this portion of the assets is illiquid. The risk of this investment will be appraised by the loan committee to ensure that it is commensurate with the charitable impact and potential for financial return. The size of each loan is small, ensuring that the Foundation has a diversified credit exposure, albeit to individuals who are unable to raise alternative financing, residing in a specific geographical area.

3.2 Assets

3.2.1 The Foundation's assets can be invested widely and should be diversified by asset class, by manager and by security. Asset classes could include cash, bonds, equities, property, hedge funds, structured products, private equity, commodities and any other asset that is deemed suitable for the Foundation.

3.2.2 The investment committee are charged with agreeing a suitable asset allocation strategy for the financial investment portfolio with the appointed investment managers, which is set so as to achieve the overall Foundation investment objective.

3.2.3 The PRI portfolio will be used to provide small individual loans to alleviate poverty in the local area. Other types of programme related investment may be considered by the Foundation, but must be approved by the board of trustees prior to implementation.

3.3 Currency

3.3.1 The Foundation's base currency is Sterling.

3.3.2 Investment may be made in non-Sterling assets, but should not exceed 60% of the total financial investment portfolio value. Hedging is permitted.

3.3.3 Within the PRI portfolio, all loans are to be denominated in Sterling.

3.4 Credit

3.4.1 The Foundation's cash balances should be deposited with institutions with a minimum rating of A- or invested in a diversified money market fund.

3.4.2 Deposits should be spread by counterparty, subject to a maximum exposure of £1m per institution.

3.4.3 It is noted by the Trustees that there is a considerable level of credit risk within the PRI portfolio, however the trustees are comfortable that this level of risk is appropriate given the charitable impact.

4. Liquidity Requirements

4.1 The Foundation aims to distribute grants of 3.5% per annum. This can be funded from both income and capital.

4.2 To allow for volatility of capital values, the Trustees wish to maintain at least 3 years worth of budgeted grant making in cash or lower risk liquid investments.

4.3 It is noted that the PRI portfolio is illiquid.

5. Time Horizon

5.1 The Foundation is expected to exist in perpetuity and investments should be managed to meet the investment objective and ensure this sustainability.

5.2 The Foundation can adopt a long term investment time horizon.

5.3 The trustees are committed to on-going provision of loan financing in the community. Individual loans have a maximum duration of 12 months.

6. Ethical Investment Policy

6.1 The Foundation assets should be invested in line with its aims. The trustees do not wish to adopt an exclusionary policy, but individual investments may be excluded if perceived to conflict with the Foundation's purpose.

7. Management, Reporting and Monitoring

7.1 The Foundation has appointed three professional investment management firms to manage the financial investments on a discretionary basis, in line with this policy. Managers are required to produce a valuation and performance report quarterly. The Foundation has nominated a list of authorised signatories, two of which are required to sign instructions to the investment manager.

7.2 The investment committee has responsibility for agreeing strategy and monitoring the financial investment assets. The committee meets six monthly to review the portfolio, including an analysis of financial return, risk and asset allocation. Performance will be monitored against agreed market benchmarks, and against the investment objective of inflation plus 3.5% over the long term. Each investment manager is required to present to the investment committee on a six monthly basis.

7.3 The investment committee is to report formally to the full trustee board on at least an annual basis. This report should include a review of asset allocation strategy, performance, risk profile and consistency with the long term investment objective of the Foundation.

7.4 The loan committee has responsibility for agreeing strategy and monitoring the PRI assets. The committee meets six monthly to appraise and approve suggested new loans and to review the existing portfolio of loans, including an analysis of financial return, risk and asset allocation. The charitable impact of this PRI portfolio will be monitored using metrics such as the value of loans provided and the number of individuals helped, along with an appraisal of the impact of the loan portfolio on alleviating poverty in the local community. Financial returns will be monitored to ensure they remain consistent with expectations.

7.5 The loan committee is to report formally to the full trustee board on at least an annual basis. This report should include a review of charitable impact and financial risk and return.

8. Approval and Review

This Investment Policy Statement was prepared by the PRI Local Foundation to provide a framework for the management of its investment assets. It will be reviewed on an annual basis to ensure continuing appropriateness.

Approved by the Investment Committee

Signed Chair

Dated 9th March 2012

Approved by the Loan Committee

Signed Chair

Dated 9th March 2012

Noted by the Trustee Board
Dated
Reference Minute

Please note that the examples in this guide are for illustrative purposes only.
Charity trustees are responsible for ensuring that their investment policy statement meets the specific requirements of their charity.

INSPIRING
FINANCIAL
LEADERSHIP

CHARITY INVESTORS' GROUP

THE FORUM FOR INVESTMENT DEBATE

www.cfg.org.uk

www.charityinvestorsgroup.org.uk