Presentation to Charity Investors Group

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Agenda

Charity investment reviews – are you asking the right questions?

The aspects charities should consider when reviewing their investments and the implications for managers

- What is an investment review?
- Why carry out a review?
- Common problems that can arise
- Implications for investment managers

What is an investment review?

- Fundamental review of investment strategy
  - Strategic asset allocation
  - Responsible investment approach
  - Fund management arrangements

- Health check on current strategy and management arrangements

- Request for proposal and beauty parade
  - Part of a regular procurement process
  - Dissatisfaction with current managers

Why carry out a review?

- Good corporate governance
  - CC14 recommends regular reviews
- Change in personnel
  - Trustees or executive
  - Fund manager or key contact
- Change in circumstances
  - Objectives and constraints for the portfolio
  - Corporate activity/ownership change at the fund manager
- Breakdown in the relationship with the current manager/managers
- Disappointing performance

Key elements of a review

Investment strategy

- Main driver of returns
- Should be long term
- Achievable investment objectives
- Downside risk tolerance
- Benefits of diversification
- Liquidity requirements

Responsible investment policy

- Problem of definitions
- On most agendas
- Trade-off with financial return
- Alignment with charitable objectives

Manager review

- Performance versus benchmark, objectives and peer group
- Consistency and risk
- Asset allocation analysis
- Historic value added
- Ability to implement SRI policy
- Quality of team/firm
- Fee analysis

Red flags and other potential problems

Key warning signs

- Corporate activity
- High staff turnover
- Fundamental style or process change
- Poor administration or admin errors
- Change in market conditions
- Peculiar funds flow
- Excessively good performance
- Inappropriate strategy/risk profile

Other potential issues

- Change in client relationship team
- Ineffective communication
- Use of investment jargon
- Confusing reporting
- Inefficient custody arrangements
- Sloppy client service
- Benchmark mismatch

Common mistakes

- Focusing too much on short term performance
  - Sacking a manager at the bottom, appointing a manager at the top
- Focusing too much on the manager and management arrangements
  - Strategic asset allocation is arguably more important than manager selection
- Focusing too much on management fees
  - Good managers can more than justify their fees in terms of performance
- Following the latest fashion
  - Buying at the top: “hot” asset classes and managers can easily blow up

Potential beauty parade issues

- Time consuming for all involved – be certain you need to hold one
- What kind of manager do you want? How many? There is a vast choice!
- Danger of sending out confusing information and request for proposal
- Managers fail to answer the questions asked making comparison difficult
- Performance comparison often challenging with varying mandates/net of fees or not?
- Lack of transparency of proposed fee structures
- After the BP: manager appointed due to impressive presentation but a more junior team attend meetings

Check list for charities

- Is your investment strategy still appropriate? If not, carry out a review
- Is the manager capable of managing any new strategy?
- Does the current manager have the resources to implement your responsible investment policy?
- Has the manager performed poorly? If not, consider a desktop review of the manager rather than a full BP
- If you do decide to go ahead with a BP:
    - think carefully about the type of manager you need
    - how many managers you need
    - evaluate cost structures thoroughly

Golden rule: there is no one right answer in investment

Implications for managers

- Be honest and tell the charity if it has unrealistic investment objectives
- Differentiate your investment approach from your competitors as far as possible
- Demonstrate clearly that ESG is fully integrated in your investment process
- Ensure that you can implement the socially responsible investment policy and any ethical restrictions
- Answer the questions asked in the RFP and pay attention to the details (such as word limits)
- Ensure that the team identified in the RFP goes to the presentation and can attend future meetings
- Provide full transparency on fees
- Never present performance gross of fees
- Be open about any changes in personnel or problems that arise
- Avoid investment jargon as much as possible

Reporting

- Many investment manager reports are too long and complicated
- Reporting should be clear, relevant and punctual
- No need for lengthy standard theses/charts reviewing markets and the economic outlook!
- Trustees are mainly interested in the following:
    - Performance relative to benchmark/objectives and reasons for it
    - Asset/sector allocation relative to benchmark, if it has changed and rationale
    - Portfolio activity during period and reasons
    - Report on ESG activity/engagement with companies, possibly with recent case studies

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