

Investment for Charities: Trustees' duties and the role of an independent advisor

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Charity Trustees have ultimate responsibility for any investment of charity funds. Whilst Trustees might delegate the day to day management of investments to a relevant professional, they only act on the instructions of the Trustees. The responsibility of ensuring that the investment approach remains appropriate stays with the Trustees, as does the responsibility of ensuring that the investment management has been delegated to a suitable professional to meet the charity's requirements.

Working with an Independent Adviser regulated by the Financial Conduct Authority can help alleviate some of the Trustees' responsibilities. This is done by the Independent Adviser ensuring that there is a suitable and efficient process in place to access the marketplace of investment managers without bias and, critically for the Trustees, that there is evidence of a transparent, repeatable and robust procedure.

Investment Policy – When was the last time you reviewed yours?

Regardless of size, where a charity invests its Trustees must have an investment policy that provides the framework to guide investment decisions. This must be reviewed periodically to ensure it meets the needs of the charity and reflects the potentially changing objectives and landscape.

An Independent Adviser can help Trustees consider important aspects of that policy such as:

a) The objective of the investment

Perhaps the investment needs to produce a cashflow stream, perhaps it is only to be invested for a fixed period before it will be required, or perhaps there is more than one objective or class of beneficiary, so more than one strategy is required.

The objective can fundamentally change what investment strategy should be considered and so it is very important to understand the purpose from the outset or as it changes.

b) The time frame for the investment

The time horizon for the investment can have significant impact on the amount of risk to be taken. It will also affect the type of investments that should be considered, potentially ruling out certain less liquid assets that may be more difficult to sell when funds are required.

Investment Risk and Asset Allocation – How do you decide what is appropriate?

Translating the investment policy into an appropriate risk mandate requires an understanding of investment assets, potential for loss or gain from those assets and how different assets correlate to each other.

Trustees should consider what level of risk is appropriate and how a diversified range of assets could suitably balance the tolerance for risk, whilst maximising the potential to meet the objectives of the investment policy.

It may be appropriate to have a long term '*Strategic*' asset allocation but provide flexibility for more '*Tactical*' deviations, when it might pay to be more defensive or aggressive.

Investment Manager Selection – How frequently and by what measures do you review your investment manager?

There are many factors that may influence the selection of a suitable investment manager, but the task of reviewing every potential manager in order to select the right one is a significant duty.

An Independent Advisor will be able to offer a robust process which quantifies how investment managers will be reviewed and compared, ultimately producing a short list to consider in finer detail. Factors that will likely want to be considered will be:

- a) Risk controls
- b) Returns versus an appropriate benchmark or against their peers
- c) Investment processes that are defined and repeatable
- d) The resources of the company to support operations
- e) The reputation of the company
- f) The fees and expenses applicable

There may well be circumstances where no single investment manager meets all of the Trustees' requirements and so it may be necessary to consider how best to blend a number of managers, utilising their individual strengths and specialisms and thereby ensuring greater diversity and risk is not compounded.

Truly Independent Advice

An Independent Adviser can be appointed to provide ongoing oversight and monitoring of the charity's holistic investment strategy and the appointed investment managers. Alongside regular reviews with the Trustees, the Independent Advisor can help ensure that the investment policy remains up to date and that the strategy and manager mandates reflect the ongoing objectives of the charity.

Consistent and ongoing independent oversight of the investment managers appointed versus their peers, will help the Trustees ensure their selected manager(s) are not only acting within the agreed parameters but will provide the Trustees with the reassurance that their investment management selection is regularly checked for performance and appropriateness from the whole marketplace.

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