



BREWIN  
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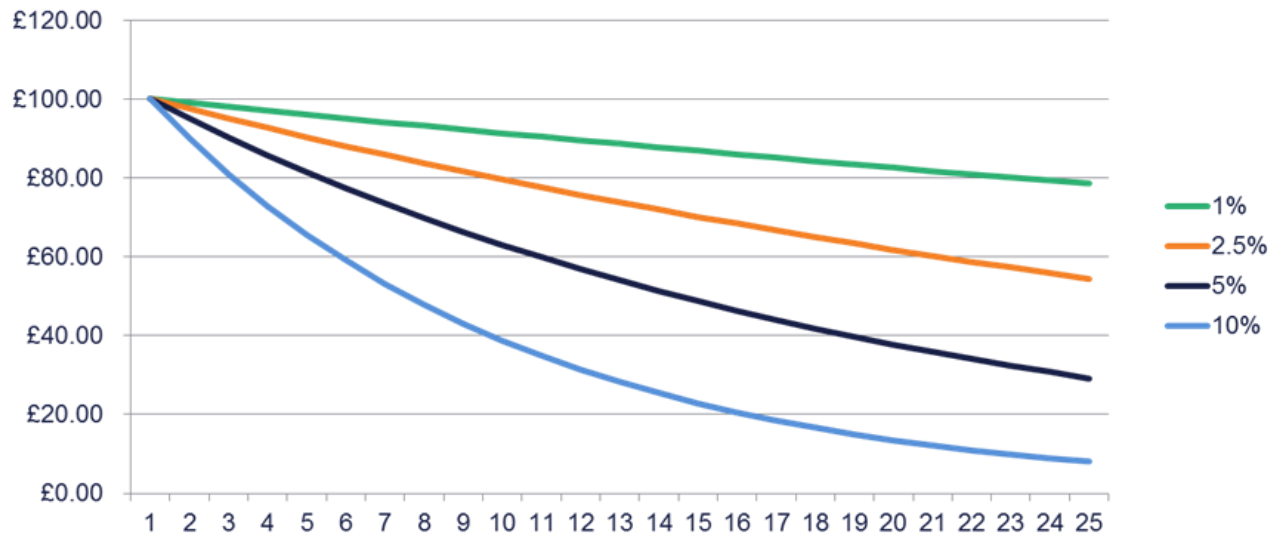
# *Learning Across Sectors*

Wednesday 13<sup>th</sup> November 2019

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# Why is risk necessary?- inflation



Basket of goods:  
200 years of  
inflation

Item	1914	1964	2014	2064	2114
Loaf of bread	1p	6p	£1.36	£5.47	£22.13
Pint of milk	1p	4p	46p	£1.86	£7.54
Kilo of sugar	3p	9p	91p	£3.68	£14.92
250g butter	4p	11p	£1.58	£6.40	£25.90
Pint of beer	1p	11p	£2.94	£11.90	£48.19
Total shop	10p	41p	£7.25	£29.31	£118.68

Source: ONS Retail Prices and Cost of Living Index (1914-2014), future prices assume yearly inflation of 2.8%  
The value of your investments can fall and you may get back less than you invested

# Little interest

- BoE Inflation Report (August 2018): “any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent.”
- Market expectations of the path for the Bank Rate:

2019	0.9%
2020	1.0%
2021	1.1%
- Market expectations of the path for RPI:

2019	3.1%
2021	3.3%
2028	3.4%



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# Trustee duties in respect of reserves

- Act in the interests of beneficiaries - today's and those in the years to come
- Manage resources effectively - protect and safeguard assets
- Be accountable; justify why reserves or other assets are held rather than spent today
- Duty to act with care and skill in responsibly managing assets
- General duty to spend income within reasonable timeframe

Charities and Trustee  
Investment (Scotland)  
Act 2005

## Additional Guidance

Charity Commission publications:

- CC14 – Charities and Investment Matters
- CC19 – Charity Reserves
- OSCR – Charity Investments: Guidance and Good Practice

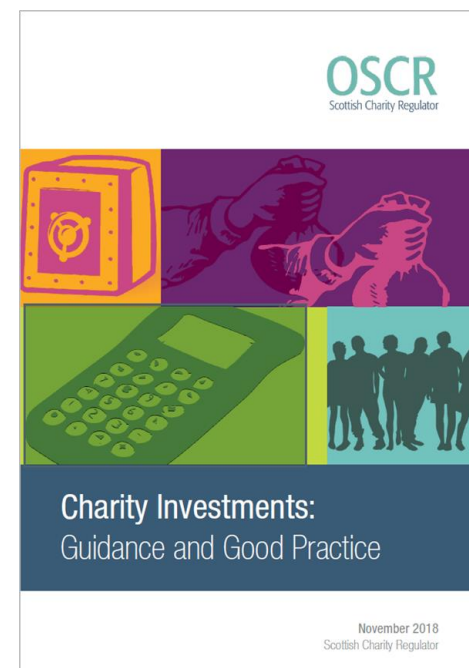
# Important to review investment rationale & objectives

- Why do charities invest - generate return

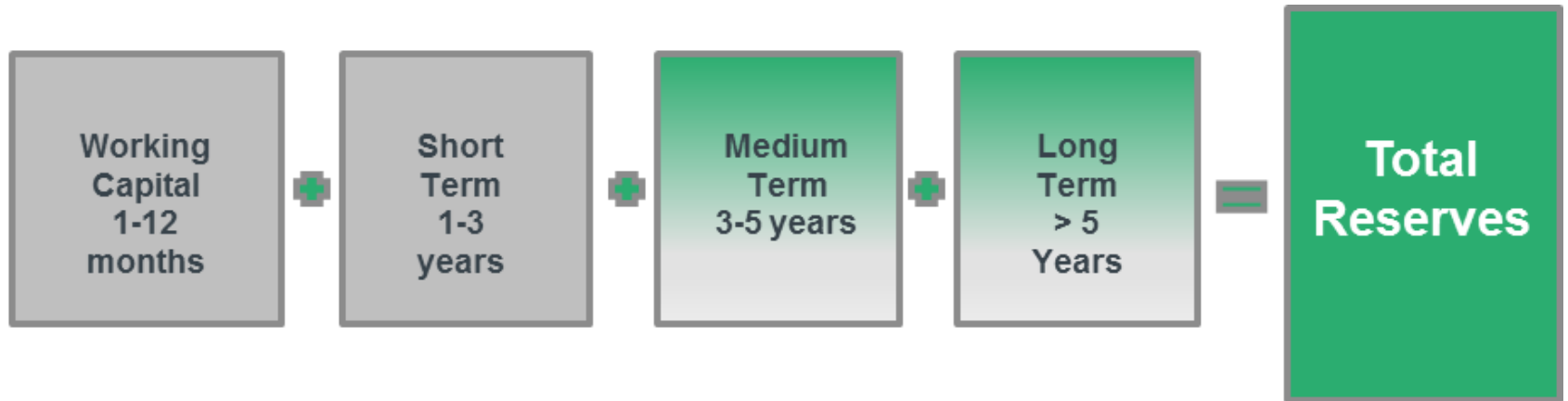
- Protect capital against inflation to maintain spending power
- Generate income to support charitable causes and further purposes
- Has anything changed?

- What guidance is out there?

- OSCR guidance provided November 2018
- Charity & Trustee Investment Act (2005) Scotland
- Charity Commission (CC14)
- Professional Advisors



# Developing an appropriate reserves policy



- Establish what is an appropriate level to hold given overall financial circumstances
- Be clear about income, return aspirations & timescales
- Align the investment objectives to the reserves policy
- Consider restricted funds and endowments as part of this

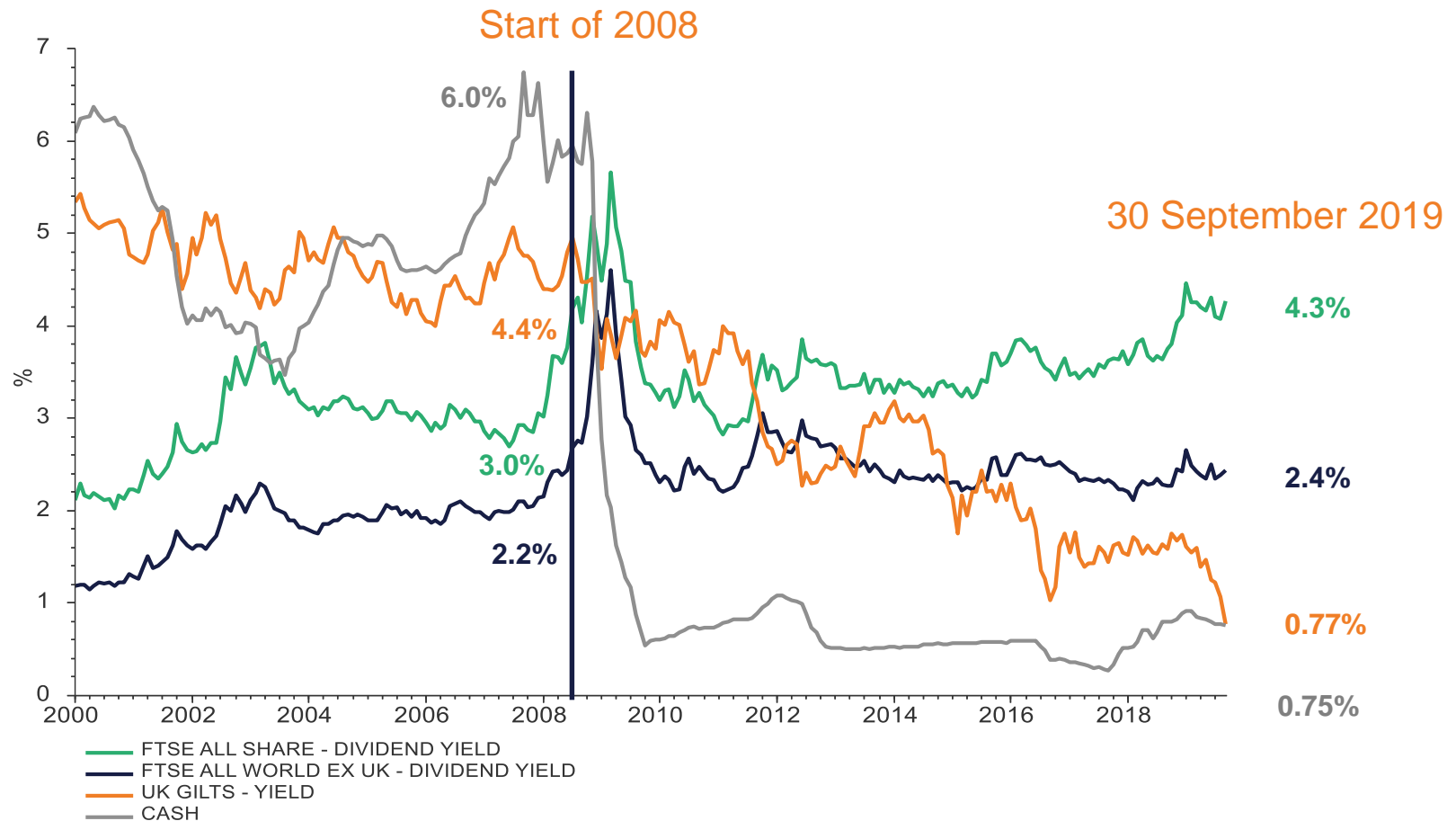
Every organisation is different – cashflows, requirements, liquidity constraints

# What do we need to consider?

- Overall financial circumstances of the organisation
- Relevant level of inflation?
- Desire for income – target, plans for distribution?
- Timing and extent of future additions/withdrawals of capital
- Acceptance of short term risk in pursuit of long-term gain – capacity for short term losses
- Term of investment
- Impact of ethical considerations or restrictions
- Diversification of assets
- Prevailing market conditions & Accounting SORP
- Investment of cash in to markets

Balancing of all objectives is important

# How much income is it reasonable to expect?



Source: Refinitiv Datastream

Past performance is not an indication of future performance. Performance is shown before charges which will have the effect of reducing the performance illustrated. Any investment mentioned is for illustrative purposes only and is not intended as investment advice. The value of investments and any income from them can fall and you may get back less than you invested. If you invest in currencies other than your own, fluctuations in currency value will mean that the value of your investment will move independently of the underlying asset.



# Relevant Investment Policy Statement is key



- Focal point for charity trustee discussions
- Means of recording decisions
- Useful for induction of new trustees
- Collective responsibility
- Useful reference point for annual accounts
- Need for regular review

An invaluable document, different for every charity, things do change!

# Why is such an approach important?

- Assures funders and donors you are well-managed
- Assure beneficiaries (and staff) of a sustainable future
- Assures trustees they have exercised duties well
- Helps in budget planning
- Can supplement income as well as increasing the asset base

# Given potential risks why invest at all?

## Example objective:

*“to generate a total return from a combination of income and capital and to maintain the real value of the capital in the long term from a diversified portfolio taking a medium approach to risk”*

### Investment considerations

Inflation expectation*	2.0%
Income target	3.0%
Fees and costs*	0.6%
<b>Total Return desired</b>	<b>5.6%</b>

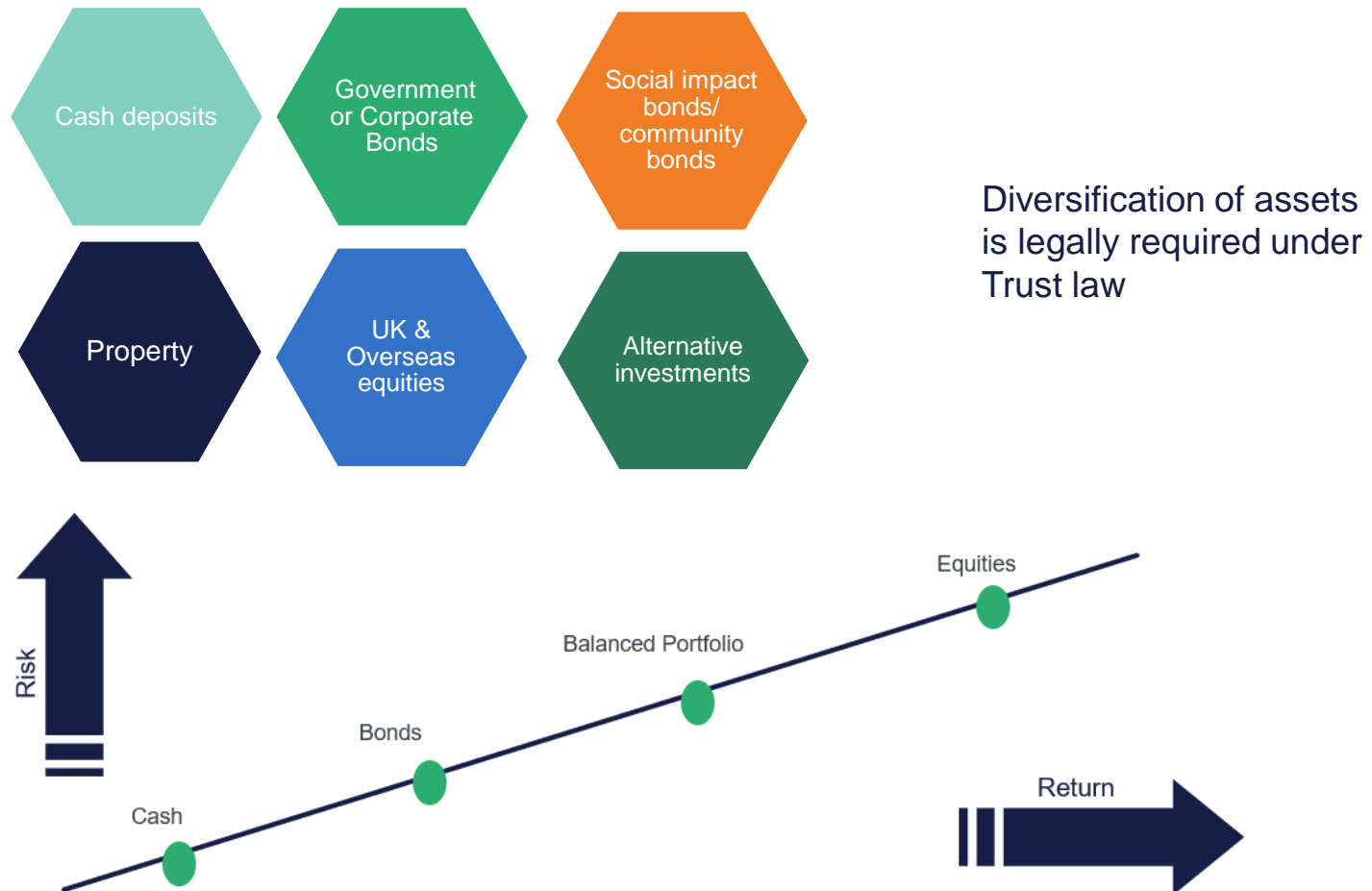
### Investment Returns (as at 30/10/19)

UK Govt. 10 year bond	0.7%
UK Cash Interest rates	0.75%
UK CPI	1.7%

\* estimate

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# Return aspirations will determine mix of assets



The above is for illustrative purposes only to inform on potential risk return characteristics of potential assets based on past historic returns and is no guide to future risk or performance. Performance is shown before fees which will have the effect of reducing the performance illustrated.

# Are investments aligned to purposes?

**Environmental, social & governance (ESG) factors** means investing in a company taking a responsible approach to its impact on the environment, its employment practices and how its board operates

**Engagement** means exercising votes to reflect values/concerns or influence change

**Programme-related investment (PRI)** using charity funds to further its aims with potential to also generate a return; the level of this return need not be competitive with other investments

**Ethical** generally means avoidance of area of conflict

**Social & Environmental Return** may be non-financial but help charity further its purpose

Medical charity	may avoid investment in companies producing tobacco or alcohol products	negative screening
Religious charity	may avoid investment in companies making weapons or involved in the production of abortifacients	negative screening
Environmental charity	may want to invest in alternative energy companies	positive screening
Human rights charity	may wish to vote its own stock to try and influence corporate governance issues at AGM	engagement
Homelessness charity	may invest in a development, to provide affordable housing may receive a financial return on their investment as well as having furthered its charitable aims	programme-related investment

# Get it right whilst not giving up on return potential

## Determine Issues for consideration

- Defining the policy
- Clarifying the individual criteria
- Considering extent of market restrictions (financial impact)
- Balancing Trustees' concerns with ability to assure compliance

## Implementation

- Discuss policy
- Assess criteria as capable of being implemented
- Brewin Dolphin utilises EIRIS ethical screening database
- Generate screening lists for fund managers

## Monitoring

- Updates received to ensure no change to investment universe or underlying company fundamentals
- Regular portfolio reviews undertaken to ensure ongoing suitability

Align your policy to your charitable objectives

# Do we need to take any action?

## Decisions are not just made once

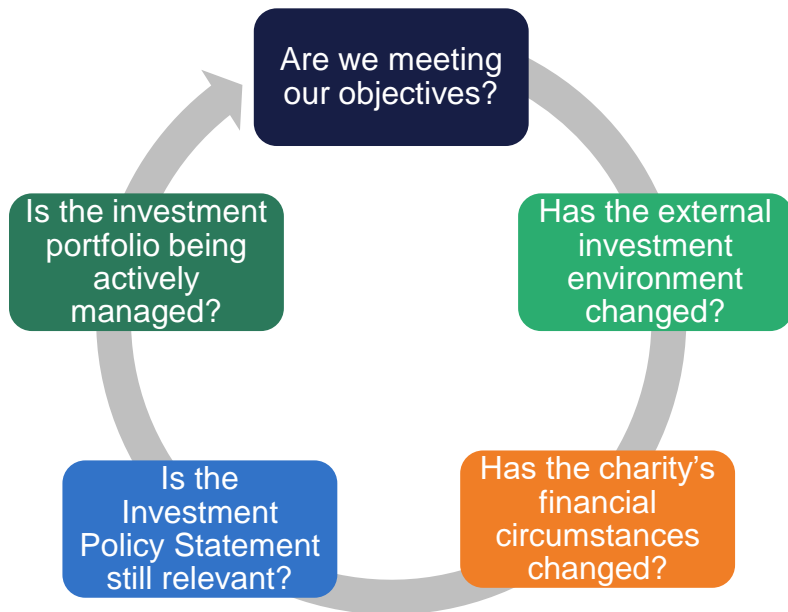
Investments need to continue to support charity's goals through time

Financial circumstances of the organisation will change though time

Market and economic conditions will vary

Financial Conduct Authority (FCA) requirement to ensure suitability of assets to a clients particular circumstances. We must:

- Know our clients
- Make appropriate recommendations
- Ensure ongoing suitability



# Conclusions

- Recognise there will be times of both positive and negative capital returns
- Communicate the long-term strategy to Trustees and Stakeholders
- Diversification, active management and investment in quality holdings is essential
- Income returns will be more dependable but unrealistic targets can impact returns
- Need to be realistic in expectations
- Need to ensure ongoing suitability of investment strategy on an ongoing basis.
- Many uncertainties in external environment only certainty is that market volatility will continue



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