



## INVESTMENT POLICY

### 1. Introduction

The Community Foundation serving Tyne & Wear and Northumberland holds and continues to build a significant endowment fund, created to support our communities now and for generations to come. Although legally the endowment is expendable, it is held as a long-term capital fund in perpetuity to provide income for current and future grant-making, and to contribute to administration costs.

As an incorporated charity, the Community Foundation is unable to hold legally permanent endowment. The Community Foundation is sole trustee of two subsidiary charities that hold permanent endowed funds, Joseph Brough Charitable Trust and Tyne & Wear Foundation Trust. There is also a Community First Trust within Community Foundation which operates uniquely and is explained in further detail below. References in the policy will relate to the Community Foundation unless otherwise stated.

The Community Foundation (group) holds approximately £81m of investment assets (September 2018), including £336,000 in direct property holdings all of which were donated and are being held in line with the conditions of the gift. The remainder of the funds are invested on a discretionary basis with appointed fund managers. Clause 3 (n) of the Community Foundation's Memorandum of Association gives the Board of trustees wide powers to invest funds as it sees fit. The Board delegates this responsibility to an Investment Committee, chaired by the Treasurer and supported by other board members and co-opted individuals with investment experience. The current trustee members of the Investment Committee are Paul Farquhar (Treasurer), Anna Blackett, Andrew Haigh, Patrick Melia and Neil Warwick. Charles May and Jill Newton are co-optees of the Committee. Written terms of reference of the Committee are defined by the Board and included at appendix 1.

The Investment policy has been prepared with reference to the Charity Commission's recommended guidance, *Charities and Investment Matters: A guide for trustees (CC14)*. The guidance is based on trust law and does not directly apply to directors of charitable companies. However, directors of charitable companies act in a fiduciary manner in furthering charitable purposes and therefore have similar responsibilities.

### 2. Investment objective

The Community Foundation operates a total return policy which enables Investment Managers to invest funds for long-term growth. The objective is to produce as much total return as possible whilst seeking to maximise the long-term real value of the fund. The Board sets a level of cash to be withdrawn from the fund each year which may be taken from capital and/or dividends. The withdrawal level is reviewed annually to try to achieve long-term sustainability of the fund in varying market conditions and to produce as much as possible for distribution. In order to set the withdrawal rate, the Investment Committee

considers various forms of information (which may include past performance on funds, inflationary impact, future strategic modelling and the needs of the organisation and its beneficiaries) and then makes a recommendation to the full Board.

The Board has currently set 6% a year for withdrawal calculated on quarter-end market values. The Board is aware that this level of withdrawal in current conditions may result in some capital erosion.

Donors may choose to reinvest some, or all, of the withdrawn amount rather than award grants, although such an arrangement will not normally last for more than two years in accordance with the Community Foundation's Gift Acceptance Policy.

Joseph Brough Charitable Trust and Tyne & Wear Foundation Trust represent permanently endowed funds and as such are unable to spend capital. Therefore, only actual income from these funds is available for grant-making and administration. This is paid monthly into the relevant bank accounts.

### 3. Time horizon

The Community Foundation is expected to exist in perpetuity and can therefore adopt a long-term investment time horizon.

### 4. Risk

The Community Foundation relies significantly on the investment return to fund grant-making and administration costs. The key risk to the long-term sustainability of the endowment fund is inflation, so the assets are invested to mitigate this risk over the long term. The Board understands that this is likely to mean that investment is concentrated in real assets and that the capital value will fluctuate accordingly. The Community Foundation does not currently make programme related, social or mixed motive investments.

Funds can be invested widely (excluding the ethical policy below) and should be diversified by asset class. As a charity, Community Foundation does not wish to incur tax on investments and therefore only allows investment in approved charitable investments as defined in sections 558 and 561 of the Income Tax Act 2007.

The Investment Committee sets asset allocation ranges with the Investment Managers, excluding funds invested in COIF funds with CCLA. The current long-term asset allocation parameters agreed by the Committee are:

<b>Asset Class</b>	<b>Range</b>
Equities	Maximum 80%
Bonds	Minimum 10%
Property and Alternatives*	Maximum 15%
Cash	Maximum 10%

*\*Alternatives would include infrastructure and hedge funds.*

The only restriction set on funds is that no purchase of a single equity should result in a holding being more than 5% of investable assets excluding shares or units purchased in collective investment schemes, or where a single equity holding represents more than 5% of investable assets it should not exceed its benchmark weight by more than 2%.

The base currency of the investment portfolios is Sterling. Managers are permitted to deal in derivatives (including options, futures and contracts for differences) to support real assets only, and not to take speculative positions.

## **5. Liquidity requirements**

The Community Foundation calculates amounts to be withdrawn from funds using quarter-end valuations and apportions amounts between fund managers in proportion to the value of funds under management. Cash withdrawals are then made from funds in April, July, October and January. In exceptional circumstances, further withdrawals may be necessary but sufficient notice will be given of these requirements. Community First funds held with CCLA have a separate arrangement whereby income is withdrawn throughout the year, plus any additional total return above income and inflation is withdrawn after the year end.

## **6. Donated shares and ethical investment policy**

The Community Foundation accepts donations of shares which will be added to the relevant portfolio and managed on a discretionary basis by the Investment Manager. This means they will decide if or when to dispose of the holding.

Gift of shares to the endowment fund of AIM shares or shares listed on other stock markets than London are credited to a separate donated account, and proceeds of the shares are credited to the main endowment fund when sold. Donor funds are credited with units calculated at this point and valuation.

There are no ethical restrictions on the main portfolio, but donors may elect for their donation to be added to a separate ethical fund. These funds are invested in CCLA's COIF Charities Ethical Investment Fund. The ethical policy of this fund is defined by CCLA's Board in consultation with investing (charity) clients. The current ethical exclusions are:

- Companies that produce landmines, cluster bombs, chemical/biological weapons and/or nuclear weapons.
- Companies that have significant involvement (>10% of turnover) in alcohol, gambling, pornography, tobacco, high-interest rate lending, non-military weapons or strategic military sales. Also, those companies that do not meet the FTSE4Good Index screen for baby milk substitutes or MSCI's' standard screen for single-use abortifacients.
- Companies that have fallen behind in the transition to a low carbon economy, currently defined as companies that derive > 5% of their revenue from the extraction of energy coal or tar-sands, extractives or utility companies that have not achieved a CDP carbon Performance Band of "C" or lower or where productive engagement in these companies is not believed to be possible.
- Companies that test cosmetics on animals.
- Companies that have a FTSE ESG rating of less than 2, on any theme and have failed a subsequent CCLA 'comply or explain' assessment.

Full details of the policy can be found at [ccla.co.uk](http://ccla.co.uk).

## **7. Community First Trust**

The Community First Trust operates within the Community Foundation and holds donations and match challenge funds. It was a condition of the Government's Community First Endowment Match Challenge contract that all funds raised (by all community foundations) during the challenge, which ran from February 2012 to October 2014, were placed with CCLA. The contract does not allow for any community foundation to be able to change managers; this can only be done by the body appointed by the Government to have overall responsibility for the Community First endowment match challenge. This is currently our national membership body, UK Community Foundations (UKCF).

There continues to be a national Investment Committee set up by the responsible body with representatives from member community foundations (and other independent individuals), to monitor performance of CCLA and the asset allocation of the defined funds. The committee can recommend that the responsible body reviews CCLA, but only the responsible body can make decisions about their dismissal or re-appointment. The Community Foundation cannot define the asset allocation or request any investment restrictions of the general funds.

Actual dividend income from these funds is credited to Community Foundation quarterly. The funds are reviewed annually and any total return over inflation (using retail price index) is remitted to us.

## **8. Investment property**

The Community Foundation does not currently seek to hold physical property as investment. However, it has been gifted a number of properties with conditions which dictate when they can be disposed of. At the point the conditions are met, the Board will be able to decide on the timing of the disposal of the assets, the proceeds of which will be allocated in accordance with the original gift agreement.

## **9. Other investments**

The Community Foundation holds two other small investments which have been transferred as part of trust transfers, namely COIF Fund and Charifund, with a total value of under £15,000. The actual income generated from these investments is credited to the relevant funds when received.

## **10. Current asset cash holdings**

In addition to fixed asset investments, the Community Foundation holds a significant level of revenue funds at any time in cash. The majority represent fund balances that will in future be awarded in grants, or funds for grants that have not yet been paid (e.g. quarterly Henry Smith grants), with a very small proportion relating to general Community Foundation reserves. The total cash balance at any one time is usually between £9-£11m.

The nature of the cash means that the Community Foundation must ensure that it is held in accounts that have a very low level of risk. There is also a requirement to seek to optimise the amount of interest that can be earned from this short-term cash. Due to the nature of

the cash holdings (made up of over 300 different funds at any one time) cash flow predictions are based on historical patterns.

Deposits in excess of £50,000 will only be held at UK clearing banks plus the following named institutions: Nationwide; Leeds and Coventry Building Society. Funds over £50,000 to be placed with institutions with a long-term credit rating of at least A- (S&P ratings). A maximum of £4m will be held at any one bank. If the balance on any account does exceed this figure, e.g. if a large donation were received, funds would be redistributed within 30 days to redress the balance.

At any one time there must be a minimum of £2m of the cash funds available for instant access. Up to £3m can be placed on deposit of up to 3 months, up to £3m for up to 6 months and a maximum of £4m can be placed on deposit for up to one year, subject to funds available. Review of cash requirements are prepared at least monthly to monitor cash levels and deposits reaching maturity. No funds are placed on deposit for longer than 12 months without the approval of the Treasurer, Chair or Chief Executive. The Chief Finance and Operating Officer is responsible for managing funds on deposit but is allowed, with the approval of the Investment Committee, to outsource placing of funds in line with this policy.

## 11. Management, reporting and monitoring

The Board appoints professional investment managers to manage the investments on a discretionary basis and monitors their performance. The appointment of Investment Managers is reviewed at least every three years and alternative managers are considered if necessary. Fees are agreed within the investment mandates by the Committee. Details of the mandates held with the Investment Managers are shown in appendix 2.

The current Investment Managers are Rathbone Investment Management Ltd, Investec Wealth & Investment, Brewin Dolphin and CCLA. Investment Managers (excluding CCLA, see above) are given discretionary powers to select investments within an overall mandate agreed with the Community Foundation. The Investment Committee monitors Investment Managers' performance against the agreed bespoke benchmark noted below on a quarterly basis, and reviews asset class performance against market indices.

	Asset Allocation %		
	Range	Median weight	Index (total return)
Bonds	10-15	12.5	FTGilts All Stocks (and/pr Iboxx£ Corporate)
UK Equities	30-50	40	FT All Share
Overseas Equities	30-40	35	FTSE World ex UK
Alternatives	0-15	7.5	CPI + 3%
Cash	0-10	5	7 Day LIBID

The main investment managers (Rathbone and Investec) are normally required to present to the Committee at three out of the four quarterly meetings. Brewin Dolphin and CCLA are required to present annually. Monthly valuations of all funds are provided by each manager.

The Investment Committee reports to the Board each quarter, presenting minutes of meetings which summarise matters discussed, and decisions made.

## 12. Donations

Donations to the capital fund acquire a unit value in the month of the donation. The unit value is used to calculate income to each of the component funds within the portfolio and to ascertain the month end market value of each fund. The returns from both Investment Managers of the main fund are aggregated for distribution purposes.

Any new donations to the Community Foundation's main endowment fund are currently credited to Rathbone. However, the Committee has discretion to place new funds with other current investment managers. Ethical donations are credited to CCLA. Transfers of permanently endowed trust funds into Tyne & Wear Foundation Trust are added to the relevant fund at Brewin Dolphin.

The Community Foundation is a limited company with power to spend capital, but as noted above the endowment is a long-term capital fund to provide income to be used for current and future grant-making and supporting administration costs. Donations to the capital fund cannot therefore normally be withdrawn for distribution.

*For further information on donations to the Community Foundation refer to Gift Acceptance Policy.*

This version approved	November 2018
Date last updated	April 2019
Reason for last update	To align with changes in committee remits approved by the Board in March 2019
Next review due	March 2020
Owner	Sonia Waugh
Job title	Chief Finance and Operating Officer
Related procedures (if applicable)	

**Community Foundation serving Tyne & Wear and Northumberland**

**INVESTMENT COMMITTEE**

**Terms of Reference**

**Purpose:** To exercise delegated responsibility for the Community Foundation's investment policy and to ensure effective management of its assets.

**Status, membership and quorum:** A sub-committee of the Board, comprising the Treasurer and 3-5 other trustees with finance and investment experience, and up to two non-Board member co-optees with relevant expertise. The quorum for meetings is 2 trustees.

**Chair:** The Treasurer.

**Meetings and attendance:** Meets quarterly with the Chief Finance and Operating Officer who is the lead staff member. The Chief Executive attends as required. The Foundation's investment managers are usually invited to present at meetings on a rota basis.

**Reporting:** Minutes of meetings, and a summary of matters discussed and decisions taken, are reported to the Board.

**Remit**

- To ensure that Foundation's investments, cash holdings and other assets are properly managed and that appropriate policies and controls are in place.
- To appoint investment managers and monitor their performance.
- To review the investment portfolio quarterly and to agree asset allocation with the investment managers.
- To monitor and review the total return policy of the Foundation and make recommendations to the Board for any changes to the withdrawal rate.
- To have regard for equality and diversity matters in the Foundation's work.

## **Summary of mandates held with Investment Managers**

### **Rathbone Investment Management Limited**

Discretionary fund management agreement dated 29 October supported by appointment letter dated 22 October 2014.

### **Investec Wealth & investment**

Discretionary fund management agreements dated July and August 2015:

- Community Foundation serving Tyne & Wear and Northumberland
- Joseph Brough Charitable Trust

### **CCLA Investment Management**

Discretionary fund management agreements dated January 2012 and November 2014:

- Community Foundation serving Tyne & Wear and Northumberland – Community First funds
- Community Foundation serving Tyne & Wear and Northumberland – ethical fund

### **Brewin Dolphin**

Discretionary agreements (undated).

**Note original copies of the above agreement are stored in a locked cabinet in the Chief Finance and Operating Officer's office.**