



INVESTMENT POLICY

1. Introduction

- 1.1 The Community Foundation serving Tyne & Wear and Northumberland (the Foundation) is a registered charity and limited company. Our mission is to grow philanthropy by matching generous people with our region's important community causes. We hold and continue to build an endowment to support our communities now and for generations to come. The endowment is made up of component funds established with donations received and held in line with related donor agreements and our Gift Acceptance and Stewardship policy.
- 1.2 The investment of our endowment is governed by the Foundation's Articles which give our Board of trustees wide powers to invest as it sees fit. Although most of the endowment is legally expendable, we hold it all as long-term capital to provide income for grant-making and operating costs in perpetuity. This enables us to fulfil the wishes of past, present and future donors.
- 1.3 This policy covers:
 - Governance, management, and reporting
 - Financial objectives
 - Responsible Investment objectives
 - Other matters including policy related to some legacy assets
- 1.4 This policy meets the Charity Commission's guidance, [Investing charity money: 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. Governance, management and reporting

- 2.1 At present, and in keeping with common practice, the Board delegates management of its investments on a discretionary basis to professional Investment Service Providers (ISPs) who operate within the requirements of this policy. Details of the current ISPs and their mandates are shown in appendix 1.
- 2.2 Our ISPs must be signatories to the [United Nations Principles for Responsible Investment](#) and the [Financial Reporting Council's UK Stewardship Code](#).
- 2.3 Whilst maintaining active control of policy, strategy and any material decisions related to investment, the Board delegates responsibility for certain investment matters to its Investment Committee (IC) including on investment mandates and ISP fees. The IC is a sub-committee of the main Board and governed by terms of reference set by the Board (included as appendix 2). The IC reports back to the Board quarterly, including

on ISP performance. The Treasurer (who is also a member of the Board) chairs the IC and is supported by other trustees and co-opted individuals with appropriate investment experience alongside the Chief Executive Officer and Chief Finance and Operating Officer.

- 2.4 The Board takes a long-term view of performance as appropriate to its investment horizon. The IC monitors and reports on ISP performance based on rolling-average returns over a time-period appropriate to the ISP's strategy, taking into consideration, where relevant, benchmarks and asset class performance against market indices.
- 2.5 The Board regularly reviews ISP appointments and considers changes where appropriate; for example, if there is a material change to the team managing our investments, material long-term under-performance of the strategy, concerns around our responsible investment requirements, or material increase to ISP fees. A formal review of ISPs is undertaken at least every three years. It would be unusual for an individual incumbent ISP not to have to re-tender at least every 5 years (excepting arrangements for the Community First Trust as set out in paragraph 5.2).
- 2.6 The Foundation publishes this investment policy and, at least annually, our list of investments on our website www.communityfoundation.org.uk. The Foundation also provides an annual update on responsible investment including on climate change.

3. Financial objectives, risk, and liquidity

Financial objectives

- 3.1 The Foundation is a long-term investor and we aim for our endowment to exist in perpetuity. We believe long-term investors can benefit from seeking investments that grow their value over time.
- 3.2 Our financial objective is to produce a total return that meets our grant-giving goals and operational needs whilst preserving the long-term real value of the endowment. At present, the Board has set a target of 6% plus inflation (CPI) net of total ISP expenses over the medium term (3-5 years). The IC will re-confirm the target annually and may recommend it is reviewed by the Board in the event of material and sustained changes to circumstances such as in financial markets, demand for grants, donor satisfaction, regulatory requirements or other exceptional circumstances.

Risk and mitigation

- 3.3 We rely on the total return on the endowment to fund our grant-making and operating costs. The key risks to the long-term value of the endowment are permanent loss of capital or erosion of the real value by inflation, so assets are invested to mitigate these risks over the long-term. The Board understands that this may mean investment is concentrated in certain asset classes (such as equity and real assets) that may lead to higher levels of volatility in the value of the overall portfolio as compared to less concentrated portfolios.
- 3.4 The Board seeks to mitigate risk through diversification by ISP and asset class, and within asset classes by sector, geography, and issuer.

- 3.5 ISPs are permitted to use derivatives and other techniques for efficient portfolio management with the overall intention of reducing risk and costs, but not for investment purposes and particularly not to take speculative positions.
- 3.6 As a charity, the 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.

Liquidity

- 3.7 Donations acquire a unit value in the month we receive them based on the previous month-end market value of the endowment. We use this unit value to calculate the cash revenue accruing to, and month-end market value of, each component fund within the endowment.
- 3.8 The Foundation makes quarterly withdrawals of cash from the endowment in January, April, July, and October each year. At present these are c. 1.5% of the value of the endowment each quarter. In exceptional circumstances, further withdrawals and/or withdrawals at higher or lower levels may be necessary. As a long-term, total-return investor, there is no requirement for these withdrawals to be made from income such as dividends. The Board is aware that this approach may, in certain circumstances, result in some capital erosion, and will keep its policy under review.
- 3.9 The Foundation holds material levels of cash relating to revenue accrued against the component funds in the endowment which comprise grants committed and not yet paid, and money for future grant-making. A small proportion of cash relates to the Foundation's operating reserves which are held in line with the trustees' reserves policy published in their annual financial statements. Separate procedures exist for the management of cash.

4. Responsible investment

- 4.1 With this policy, the Foundation's Board of trustees takes a responsible approach to investment that aligns with our purpose, mission and values. Following consultation with stakeholders, our approach mainly focuses on integration of environmental, social and governance (ESG) factors into our investments alongside engagement via ISPs. However, our objectives also cover commitments on climate change, exclusions, thematic, ethical and impact investing. We aim to transition our full investment portfolio to meet our responsible investment objectives over the period to March 2025.

ESG

- 4.2 We (through ISPs acting on our behalf) will invest in entities that exhibit appropriate standards of behaviour and performance against a range of ESG criteria. We believe well-governed entities that take into consideration environmental and social matters alongside financial performance will generate more sustainable long-term financial returns. ESG covers a range of evolving issues; some examples are illustrated below:

Environmental	Social	Governance
<ul style="list-style-type: none"> • Climate change • Carbon emissions • Pollution • Biodiversity • Deforestation 	<ul style="list-style-type: none"> • Human rights • Slavery • Child labour • Health and safety • Employee relations 	<ul style="list-style-type: none"> • Bribery and corruption • Executive pay • Diversity • Transparency

4.3 We look for ISPs who integrate ESG matters into their investment process and practice and align with our thinking that ESG considerations can be a key driver of investment returns. We expect our ISPs to be able to report on ESG matters in line with our needs and in support of our approach.

Engagement

4.4 In addition to our ESG approach to selecting investments, the Foundation believes that engaging with entities to improve practices can be effective. Our preference is for collaborative engagement with like-minded asset owners and managers; we believe that this can be more efficient and effective than engaging alone. For the foreseeable future our engagement will be carried out by our ISPs and/or via networks of like-minded asset owners.

4.5 Our policy is to be active owners; we expect our ISPs to vote at company meetings, table resolutions, and engage with entities on matters that are important to the Foundation and our stakeholders. Our ISPs are also expected to disclose how and when engagement will be escalated if there is insufficient progress. Escalation could include public statements, voting against management-proposed resolutions, co-filing shareholder resolutions and, ultimately, divestment or refusal to purchase further investments. We believe that the credibility of engagement depends upon such policies and a willingness to oppose management when necessary.

4.6 We have specific requirements related to climate change (see 4.8 below).

Climate change

4.7 The Foundation recognises the impact of climate change, especially on poorer communities and vulnerable people, and our responsibility to support the global effort to transition to a low-carbon economy. Therefore, we seek to align with the United Nations Paris Agreement and commit to our investment portfolio being net zero by 2050 at the latest. Ideally, we wish to see credible early progress by supporting at least a 45% emissions reduction by 2030.

4.8 In line with our engagement approach, we expect our ISPs to vote in favour of shareholder resolutions on climate change, taking a 'comply or explain' approach.

Exclusions:

4.9 The Board of trustees recognises that ethical issues are not always clear-cut. In some cases, the degree of an entity's involvement in a questionable area, their positive activities in other areas, and their commitment to improvement need to be taken into account when making decision on the ethics of a particular investment. Therefore, we

keep absolute exclusions to a minimum, preferring to use a more progressive approach based on ESG, engagement and climate as set out above.

4.10 However, the trustees consider that certain types of investment must be excluded because they conflict directly with the Foundation's purpose, mission and values. The following entities will be excluded on those grounds:

- persistently failing the controversy process on non-conformance with the [UN Global Compact](#).
- generate a significant proportion of their revenue (in the region of 10% or more annually) from pornography or from tobacco production;
- produce landmines, cluster munitions, chemical, biological or nuclear weapons.

4.11 The Foundation seeks to have consistency between its gift acceptance policy and its approach to responsible investment. In line with this, we only include in our investments the following by exception and where there are strong ESG credentials:

- gambling businesses;¹
- high-interest rate lenders.²

4.12 The Board of trustees accepts that some historic gifts may have come from industries that the Foundation no longer considers an appropriate investment for its capital.

Thematic, ethical and impact investment

4.13 The Foundation is open to meeting its financial requirements through thematic investing in areas that align with our mission and values (for example: poverty, health, diversity, North East England etc.) or which support progress to carbon neutrality (see climate change below).

4.14 Some existing and potential donors may wish to see their donations invested according to a stricter set of ethical and environmental standards than those mentioned in this policy. The Foundation will offer an opportunity to direct donations to be stewarded under such criteria. Current arrangements are set out in appendix 3.

4.15 Subject to donor interest, we are also open to exploring impact investment opportunities.

5. Other matters including policy related to some legacy assets

Investment of permanent endowment and trusts

5.1 As an incorporated charity, the Foundation cannot hold legally permanent endowment. However, it is the sole trustee of two subsidiary unincorporated charities that hold permanent endowed funds: Joseph Brough Charitable Trust and Tyne & Wear

¹ Trustees recognise that the charity sector regularly engages in forms of gambling (raffles, tombolas, bingo etc.) as part of community fundraising and is a major beneficiary of funds from the National Lottery and other lotteries. But trustees also recognise that some people are harmed by their engagement with betting firms. So, in considering any investment in (and gifts from) for-profit gambling businesses, trustees would wish to see the highest possible commitment to safer gambling practice being demonstrated.

² Trustees recognise that financial inclusion requires appropriate access to credit for all. The Foundation aims to align with responsible organisations who provide affordable access to credit with interest rates priced commensurate with the risk of the service provided. The absence of these services can lead to people being forced to access credit from irresponsible and/or unregulated organisations that may provide unaffordable, over-priced and high-pressure credit which can lead to bad outcomes for their clients.

Foundation Trust. The terms of the trust deed stipulate that the Foundation may only spend income from these endowments. The Investment Policy governing these investments is as set out above, except for the financial objectives which are to produce long-term income to support the grant-giving and operational needs of the Foundation whilst preserving the nominal value of the endowment.

- 5.2 Within the Foundation is the Community First Trust which comprises donations and match from the Government’s Community First Endowment Match Challenge which ran from 2012 to 2014. 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. It was a contractual condition that all funds raised and matched as part of this challenge were placed with the asset manager CCLA. The contract does not allow us to review or change managers, or define the asset allocation; this can only be done by the Government-appointed body with overall responsibility for the Community First match challenge, currently UK Community Foundations (UKCF). UKCF appoints an Investment Committee with representatives from member community foundations and independent individuals to monitor performance and asset allocation. This committee can recommend review of the manager, but only UKCF can make decisions about their appointment.

Other investments

- 5.3 The Foundation holds two other small investments received as part of historic trust transfers, COIF Fund and Charifund, with a total value of under £15,000. The actual income generated from these is credited to the relevant funds when received.
- 5.4 The Foundation has been gifted several properties with conditions which dictate when they can be disposed of. When conditions are met, the IC will recommend to the board the timing of any asset disposal, the proceeds of which will be allocated in line with the original gift agreement.
- 5.5 The Foundation is an investor in the North East Social Investment Fund (NESIF) via the North East Social Investment Company. NESIF provides loans and other forms of repayable finance to charities and social enterprises in the region. The Foundation’s investment in NESIF is reported as a Programme Related Investment (PRI) in its annual financial statements.

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Owner	Sonia Waugh
Job title	Chief Finance and Operating Officer
Related policies and procedures (if applicable)	Cash management procedures

APPENDIX 1: INVESTMENT SERVICE PROVIDERS AND MANDATES AT AUGUST 2023

Rathbone Investment Management Limited

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

Cazenove Capital

Discretionary fund management agreement dated 21 March 2023.

CCLA Investment Management

Discretionary fund management agreements dated January 2012, November 2014 and April 2023:

- Community Foundation serving Tyne & Wear and Northumberland – Community First funds
- Community Foundation serving Tyne & Wear and Northumberland – ethical fund
- Tyne & Wear Foundation Trust
- Joseph Brough Charitable Trust

The only restriction 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%.

APPENDIX 2: 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.

Current membership

Paul Farquhar	Chair; CF Treasurer	Company finance director and chartered accountant
Michael Brodie	Trustee	Chief Executive, NHS Business Services Authority
Jonathan Brown	Co-optee	Wealth Management Consultant
Andrew Haigh	Trustee	CEO, Newcastle Building Society
Phil Moorhouse	CF Chair	Non-executive director and business director, qualified accountant
David Simpson	Co-optee	Business Development Consultant
Fiona Standfield	Trustee	Chief Operating Officer, Diocese of Hexham and Newcastle

APPENDIX 3: CURRENT ETHICAL FUND ARRANGEMENTS

For donors who have chosen the ethical fund option, we currently invest with CCLA in its [COIF Charities Ethical Investment Fund](#). Because this is a pooled fund, the ethical restrictions are defined by CCLA (in consultation with its clients), not directly by the Community Foundation. The current ethical exclusions are companies that:

- produce landmines, cluster bombs, chemical/biological weapons and/or nuclear weapons;
- have significant involvement (>10% of turnover) in alcohol, gambling, pornography, tobacco, high-interest lending, non-military weapons or strategic military sales;
- do not meet the FTSE4Good Index screen for baby milk substitutes or MSCI's' standard screen for single-use abortifacients;
- 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;
- test cosmetics on animals;
- have a FTSE ESG rating of less than 2, on any theme and have failed a subsequent CCLA 'comply or explain' assessment; or
- generate more than 10% of their revenue from the extraction of coal, oil or gas.