Finance Investment Policy

Introduction

Cheshire Community Foundation (CCF), supported by UKCF, has developed its investment policy as recommended by the Charity Commission and to give stakeholders confidence that investments are safeguarded and managed appropriately to further the aims of the charity. CCF is required by the Charity Commission to adopt a prudent approach to investment with this policy setting out the approach taken.

Investment of CCF's assets is one of the main responsibilities of the Foundation's Board with the Trustees responsible for reviewing the investment policy on a regular basis. The Board delegates this responsibility to a Finance and Risk Committee, chaired by the Treasurer, who is supported by other Board members with investment experience and external advisors.

Investment Powers

Under Clauses 9 and 10 of the Appendix to the Articles of Association ("Powers of the Charity), CCF can employ a professional fund manager and review the use of professional fund managers at periodic intervals, to be determined by the directors (Trustees). The Trustees have wide powers of investment, to manage permanent endowment funds alongside short-term investment and deposit accounts, which can include cash, bonds, equities and property.

Investment Restrictions

Under the terms of the Community First Matching, endowment monies arising from matched endowments must be invested with CCLA. CCLA is one of the largest UK charity fund managers. No such constraints apply to donations received outside the Community First matching.

The Aims of the Charity and its Beneficiaries

Central to CCF's mission is the development of endowment funds, providing sustainable support for local communities in the long term. Our aim is to achieve a balance between meeting current needs and developing the endowment to meet the needs of future generations.

Investment Objective

The objective will be to sustain investment fund growth at a level above inflation using a commensurate risk investment strategy and generating a spendable annual return of 3% Total investment returns are viewed with a long-term horizon of at least 5 years.

Day to day responsibility for investments will be delegated to CCF's appointed investment managers who shall report to the Finance and Risk Committee.

CCF is restricted to CCLA as the investment manager for Community First Funds. The investment manager for non-Community First endowment funds and any other investment funds is formally reviewed at 3 yearly intervals (e.g. 2020; 2023)

Risk Considerations

The Board has a Finance and Risk Committee consisting of at least 3 Trustees, external advisers and is attended by the Chief Executive. This committee oversees the management of funds to ensure an appropriate investment policy with regard to risk and the need to balance capital and income return.

The Foundation seeks to support its work with the returns generated from an investment portfolio. Inevitably the portfolio is exposed to a number of potential risks, these include:

- Risk of permanent loss: The portfolio may be invested in assets which fail, leading to a permanent and substantial loss of the sum invested.
- Market fluctuations: The value of investments may fall or rise over time. Sales at depressed valuations could result in a loss of capital. Fluctuations can occur in the broad investment market, in sectors or in individual securities.
- Income risk: Income from the portfolio might decline. This could be the result of a general or broadly-based decline in income payments or as a result of lower payments from an individual asset or group of assets.
- Interest rate risk: Changes in prevailing interest rates or in expectations for future interest rates could affect the value of assets held. Fixed interest investments may be particularly exposed to this risk. If interest rates are expected to rise faster or further than previously, then fixed interest investments may fall in value. Conversely, if interest rates reduce more than expected, fixed interest investments may rise.
- Currency or foreign exchange risk: Investment in overseas investment markets may result in exposure to foreign currencies. Changes in exchange rates may have an effect on the value of the assets as reported in sterling.
- Liquidity risk: The portfolio may invest in assets where liquidity, the ability to buy and sell, deteriorates making it difficult to liquidate the position should that be desired.
- Inflation risk: The real value of the assets will be affected by the rate of inflation.
- Costs and charges: Costs and charges will erode value and excessive costs could have a detrimental impact on values over time.

To mitigate these risks, we will follow a prudent investment policy and monitor the progress of investments on a regular basis. The portfolio will be actively managed by expert advisers who will be asked to operate in a clear risk framework with holdings diversified by asset type, geographic location, sector and individual security. All assets considered for investment will be individually assessed and regularly reviewed to ensure that they are and remain of an appropriate high quality. Assets held will be a strong match to the Foundation's investment objectives and notwithstanding the inevitable risk exposures involved with any investment strategy, are reviewed to ensure that over time they provide investment returns which support the Foundation's work.

As further endowment monies are raised, the Trustees will keep the investment policy under review, possibly adding additional fund managers.

Funds derived from revenue donations for grant-making and core costs are retained in bank accounts term deposits and the COIF Charities Deposit Fund, considering the risk associated with security of the Foundation's surplus funds and ensuring that the risks associated are spread.

Asset Allocation

Day to day responsibility for investment will be delegated to the Foundation's appointed investment managers, who shall work with the Finance Officer and Treasurer and report to the Finance and Risk Committee.

Our policy is to be invested in Ethical funds which are targeting above inflation total returns.

Investment Criteria

The extent to which social, environmental or ethical considerations are taken into account in decisions that may affect the value of the fund will be left to the discretion of the Investment Managers. The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the Investment Managers.

Benchmarks

The investment manager(s) will provide quarterly comparator indices of investment performances of comparable funds (the 'comparator') and of other asset classes.

Review and Monitoring

The Investment Policy will be reviewed annually and the endowment performance and Investment Manager performance will be reviewed quarterly.

The Investment Managers will report to the Trustees as follows:

- A quarterly portfolio valuation.
- Regular contact and reporting on performance between the Investment Manager and the Foundation's Finance Officer and Treasurer.

The Trustees will review the Investment Manager's appointment after three years, and subsequently at intervals not exceeding three years, as they see fit.

Investment– Endowment Funds Retention and Maintenance Policy

Income arising is transferred on a quarterly basis to the Revenue account.

In the case of Community First endowments, capital growth only in excess of the chosen index of RPI can be transferred to the Revenue account at the discretion of each endowment fund holder. In the case of other endowments, whereas any capital growth can be transferred to Revenue account at the discretion of the endowment fund holder the policy is nonetheless to retain RPI indexed gains.

Income generation and capital return transferred to the Revenue account by the endowment funds is to be used towards grants for charities and community organisations, or for other charitable purposes approved by CCF's Grants Committee, that benefit communities in CCF's area of benefit (Cheshire East, Cheshire West and Chester and Warrington) and which are direct charitable activities as defined by SORP.

CCF apply a Total Returns Accounting model that enables capital growth above RPI to be re-distributed. Fund Holders are consulted and have discretion on the re-distribution of capital growth above RPI. For the Funds where decision-making responsibility is held CCF Trustees then CCF's policy is to retain a minimum 10% of the excess above RPI capital growth in the fund to minimise the risk of a loss to the capital value being incurred if the market is subject to significant movement.

RPI is considered to be the appropriate indexation as the alternate CPI is more geared to the consumer.

Investment Policy – Revenue Funds

Revenue funds for grants and unrestricted funds held to meet staffing/support costs are retained in cash deposits including bank accounts, money market deposits and Common Deposit Funds. The investment period and the requirement to safeguard against any fall in value is considered too short to invest in other asset categories.

CCF aims to spread the cash deposits over a number of banks and institutions to reduce risk. CCF uses a third-party platform "Flagstone Investment Management" to manage cash deposits with third party banks and building societies. The aim is to enable the movement of monies between bank accounts on funds maturity to be straightforward administratively, and to optimise the return within the first two overriding objectives.

The Finance Officer, with the support of the COO, manages the deposits on the Flagstone Platform to minimise risk and optimise interest rates. The FO considers the timing that cash funds should be re-fixed for, based on the expected cash flows, rates available and the spread and credit rating of the institutions.

Cash deposit reports are discussed and monitored at Finance, Risk, Operations and Grants Committee Meetings which take place four times each year.

Donations to endowment funds will be held in CCF's bank account at Santander Bank prior to transfer to the investment managers. Donations to endowment fund will be held in the bank account until such time as all administrative requirements including a fund agreement are met. The funds are then transferred to the Foundation's Investment Managers for investment.