ELFT Charity

Investment Policy

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Version Control Summary

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1. Introduction

In line with the Charities Act 2011, and the Charity Commission publication 'Charity Governance Code' it is recommended good practice that trustees have a written investment policy. They are also required to be able to demonstrate that they review this policy, and the performance of investment advisors to ensure that charitable funds are being managed in the best interest of all connected parties.

This responsibility is included in the terms of reference of the ELFT Charitable Funds Committee.

ELFT Charity (Registered Charity no. 1198337) consists of a number of individual funds, which are identified as General and Restricted.

The Board of East London Foundation Trust are the Corporate Trustee of the Charity. The Trustees actively manage all the Funds within the Charity and the charity's financial affairs at all times.

Under the Trustee Act 2000, trustees are required to have a written investment policy. They are also required to demonstrate the policy and investments are reviewed periodically, to ensure that charitable funds are being managed in the best interest for the furtherance of the Charity's objectives.

2. Objectives

This document has been produced to detail current investment policy, and to ensure that East London Foundation Trust, acting as a Corporate Trustee, can demonstrate effective management of Charitable funds, whether these are invested or held as liquid assets to meet forecast current expenditure.

The investment policy should address the following considerations as set out in the Charity Commission guidance - Charities and Investment Matters a guide for Trustees (CC14).Charities and investment matters: a guide for trustees (CC14) - GOV.UK (www.gov.uk)

- the creation of sufficient financial return to enable the charity (together with its non-investment resources) to carry out its purposes effectively, and without interruption, where a charity sets out to provide its services over a period of time
- the maintenance and, if possible, enhancement of the value of the invested funds while they are retained.
- the management of risk
- the charity's stance on ethical investments (if any)

The objective of this policy is to set out what ELFT Charity is seeking to achieve through the investment of its funds.

This policy sets out the Trustees' requirements in relation to the type of investments they wish to make, the risks they are willing to take, investment income requirements and review requirements.

3. Responsibilities of Trustees

The Trustees have a duty to ensure that donations to the Charity are spent in accordance with the donors' wishes. Where the funds remain unspent, the Trustees have a duty to ensure that they obtain the best possible returns on those funds. The Trustees should have regard to the level of risk inherent in the investment decisions they make.

The Trustees should periodically review the investment strategy, monitor investment activities against policy and regularly review the performance of the fund managers.

4. Risk

Risk is part of the investment process and there are a number of risks that trustees should consider, before making any investment decisions. Trustees should consider what is the appropriate level of risk that they want to or are able to accept. As part of their duty of care, the trustees must be satisfied that the overall level of risk they are taking is right for the charity and its beneficiaries.

There are several risk considerations the Charity must be mindful of

4.1 Capital Risk

There are two main risks to capital:

- loss of capital: the main risk for charities arising directly from investments is that they could lose capital and/or investment income as the value of those investments change; all investments involve some degree of risk because their value can go down as well as up - generally speaking risk and return go together - the more risky the investment, the higher the possible return, but also the greater the possibility of losing money
- volatility risk: this is the existence of variability in the price of an asset like a share; some asset types are more volatile than others, which needs to be taken into account when selecting an investment and considering its place in the overall investment portfolio.

The Charity will mitigate these risks by ensuring funds are invested in a diverse portfolio.

4.2 Liquidity Risk

This is about whether the charity will be able to raise the cash to meet its obligations when they fall due or at short notice. Certain types of investment are inherently less liquid than others.

To manage liquidity risk the charity recognises some asset classes are more suitable as short-term investments and others are better for the medium or long term. The Charity will consider the time frame for investing and the characteristics of differing types of investments when making investment decisions.

4.3 Market Risk

There are various kinds of market risk and these include:

- inflation risk: if the investment does not at least keep pace with inflation, it will fall in value in real terms;
- interest rate risk: investments that pay a fixed rate of interest regularly may become unattractive if held for a prolonged period if interest rates available elsewhere rise above that fixed rate.

Other risks include counterparty risks, tax risks and environmental social and governance risks.

The Charity will ensure it is aware of the risks of potential investment strategies by seeking guidance from its appointed investment advisors to understand the level of risk associated with an investment strategy, balanced with the potential gains.

5. Reserves

This policy should be read in conjunction with the Reserves policy.

The purpose of holding reserves is to protect the organisation and its charitable activities by providing time to adjust to changing financial circumstances.

As a result of reviewing likely financial impact of key risks on reserves, a target level of reserves of £200,000 should be held as immediately accessible cash in a commercial bank account, is assessed as striking an appropriate balance between the need to spend donated income when received and maintaining operational integrity.

Reserves are made up of cash held at the bank and potential Charity investments. Cash held at bank should range between £200,000-£500,000.
In line with the reserves policy, cash over £500,000 will be considered for investment.

6. Investment Overview

Currently the general power of investment means the power of investment which is given to trustees by section 3 of the Trustees Act. This Act imposes a duty on those acting as Charity Trustees, when exercising their powers of investment, to consider the need for diversification, in order to reduce the risk of loss should an investment fail. The basic principle governing trustees' decisions about investing their charity's funds is that they must take a prudent approach.

The Trustee's consider the needs of the Charity on a short term (up to one year) medium term (2-5yrs) and long-term basis (> 5 years).

6.1 Investment Objective

Sufficient funds will be held in cash to meet the requirements of the reserves policy. Remaining funds which meet the overall reserves requirement as well as restricted and designated funds will be invested to achieve returns which will be utilised to meet charitable objectives.

The balance of funds held in cash and financial investments are subject to review and are managed in line with the short, medium and long term plans of the Charity.

Funds identified for investment will be placed with investment managers in a managed portfolio or Charities Official Investment Fund (COIF). Invested funds are to be managed on a total returns' basis, meaning it will have an objective of a balanced return of capital growth and income to maximise overall returns. Income in this context is defined as, the amounts paid to the Charity on a quarterly basis as a result of investments held in the investment portfolio.

The Charities (Protection and Social Investment) Act 2016 has introduced a statutory power for charities to make social investments. These can be either Programme Related Investments (PRI's) or mixed motive investments.

PRIs are projects which further the objectives of the charity. PRI allows a charity to directly further its aims and, at the same time, potentially achieve a financial return. In making a PRI, trustees are not bound by the legal framework for financial investment because their decision is about applying assets directly in furtherance of the charity's aims.

Where an investment cannot be wholly justified as either a financial investment or a PRI, it may be possible to justify it as a mixed motive investment. E.g. Projects where returns may be lower than that achievable through a managed investment portfolio, but however demonstrate a meeting of the charitable objectives as set out in the Articles of the Charity may also be approved by the Trustee. This form of investment which has both elements of a financial investment and a programme related investment.

Programme related or mixed motive investments will not be considered by the Trustee. Funds available for investment will be placed with the Charities appointed asset managers for investment in a managed investment portfolio.
The proportion of funds invested with Asset Managers will be contracted through a provider of good standing, assessed through a competitive tender process.

The Portfolio will include UK bonds, national and international equities and global investments, advice will be taken from the provider as to the composition of the investment portfolio and changes required to maintain the desired level of market risk.

The proportion of funds invested in other projects will be invested following approval by the Trustees of a business case, which will scrutinise, and risk assess any proposed investments.

6.2 Risks

Funds invested with asset managers are to be managed at a medium-high level of risk. This includes equities, gilts and cash.

The adopted risk profile has been assessed in the current economic climate as striking a balance between investment and market risks, in order to generate a return and to mitigate risks such as inflation.

7. Investment Restrictions

The Charity has adopted an ethical approach to investing. In line with the aims of the Charity to promote the overall health of services users of ELFT. Sums invested in companies whose activities which could be detrimental to health should be negligible.

The current investment fund seeks to have a positive impact on people and the planet. This is achieved by avoiding harm through ESG (Environmental, Social, Governance) integration and exclusions, benefiting society through responsible business activities and contributing to solutions through investing for impact.

8. Reporting and Valuation

8.1 Reporting

Meetings will be held as required with the Board as Corporate Trustees to review the overall performance and the investment objectives of the Trust.

The performance of all investments is to be measured against relevant market indices.

8.2 Valuations

Valuations are to be produced with a full investment report at the end of 31st March, together with ad-hoc valuations on request.

9 Payment of Income

Investment Income which is the quarterly payment made to the Charity as a result of the performance of the investment portfolio will be held centrally for distribution from time to time as the Charity Trustees see fit. Investment income may be re-invested if the cash balances held in commercial bank accounts exceeds the balance needed for the day to day running of the Charity as per the cash flow forecast.

10. Review and Approval

10.1 Review

This policy should be reviewed at least annually or at such time that there is a significant change in Charity strategy, operational requirements or significant changes to the economic environment which has an impact on investments held.

10.2 Approval

This policy is discussed and approved by the Charitable Funds Committee and ratified by the Board of Directors as Trustees.

The policy will come into effect when ratified by the Corporate Trustee and will be updated on the Trust website (or system managed and operated by the Trust for access and storage of policies) as well as the Charity Website.