



Investment Strategy

INTRODUCTION

1. **Purpose.** The purpose of this investment strategy is to institute proper guidelines for the ongoing management of the investments held by CFIW and to clarify the role, responsibilities and functions of the Finance, Risk & Investment Committee (FRIC). The relevant governance aspects are:

a. **Investment Powers.** The Trustee Act 2000 gives Trustees a general power of investment to place funds in any kind of investment as though they were the absolute owner of those funds. However, whilst this act does not apply to a charitable company, the CFIW governing documents give Trustees such a power.

b. **Duty of Care.** Trustees have the following duties of care for investments:

- Exercise such care and skill as is reasonable in the circumstances (general duty of care).
- Consider the suitability of any investment for their charity – both the type and a particular investment of that type.
- Consider the need for diversification - to reduce the risk of losses resulting from concentrating on a particular investment or type of investment.
- Review the investments of the charity at appropriate periods.
- Obtain and consider advice from someone experienced in investment matters, unless there are good reasons for not doing so.

2. **Management and Administration.** The Board of Trustees has sole authority to approve and amend this investment strategy – which sets out how they will discharge this duty of care, including definition of powers delegated to the FRIC. The FRIC is responsible for implementing this strategy and supervising the management of the portfolio.

3. **Strategy Review Interval.** This strategy document should normally be reviewed every three years.

4. **Investment Requirements.** CFIW's requirements fall into two categories:

a. **Short-term:**

- Hold adequate funds to meet core liquidity and grant-making needs, and comply with reserves policy.
- Prudent custodianship of immediate income funds.

b. **Long-term.** Affordable long-term funding from endowment income/capital growth for payment of future grants and management fees.

5. **Short-term Aim.** The FRIC is to meet CFIW's needs through use of suitable bank accounts and term deposits that offer an appropriate balance of high return and operational convenience.

6. **Property.** CFIW holds a property inherited in 2009 that is tied to the Montgomery Intermediate Technical Education Fund. This property is the Old College, Newtown: a former school used by Powys County Council for offices under a lease till 2035 with pre-determined rent. This asset is classified as an investment property for balance sheet purposes, but cannot be regarded as part of the CFIW

diversified portfolio for performance measurement purposes. The FRIC has delegated responsibility for the discharge of freeholder and lease duties - seeking specialist advice as appropriate.

7. The remainder of this strategy document addresses CFIW's long-term financial investment requirement.

AIMS & OBJECTIVES FOR ENDOWMENT INVESTMENTS

8. **Aims.** The investment aims for the endowed funds (a mixture of permanent and expendable endowment) entrusted to CFIW's stewardship are as follows:

- To maintain the real value of the portfolio through an economic cycle.
- To maintain the real value of CFIW's endowment grant making and management fee generation from investment income on an annual basis.
- To have a moderate approach to risk. 'Moderate' means that medium volatility of asset value is expected.

9. **Expenditure of Capital.**

- Some expenses, such as property valuation fees, must be paid from capital.
- Any other depletion of capital that is not covered by an explicit client agreement is a Board-level decision. Such depletion would normally be the distribution of any capital gain above the portfolio's real value. Depletion of permanent endowment capital also requires Charity Commission permission.

10. **Objectives.** The aims are to be achieved through the following objectives:

a. **Diversification.** Hold a balanced portfolio across the following asset classes: UK/Overseas Equities, UK/Overseas Government Bonds and Corporate Bonds, Commodities, Alternatives, Commercial Property, and Cash. The portfolio shall be split between 2 or 3 investment managers with no one manager having less than one third of the portfolio's value. However, following due diligence trustees reserve the right to accept donor advised investments, with decisions made on a case-by-case basis by the FRIC and recommended to the Board for approval. Individual investment managers may have differing target asset allocations, such that the aggregate asset allocation of the composite CFIW portfolio lies within the parameters determined by FRIC.

b. **Risk.** Achieve a moderate risk profile through adequate asset, sector and stock diversification.

c. **Investment Pool for CFIW Endowed Funds.** To ensure that all endowed funds receive the pro-rata benefit of multiple manager diversification, CFIW is to operate an investment pool that gives each endowment fund a percentage share of the combined manager portfolios that is adjusted every time capital is added or withdrawn. Investment income is to be apportioned quarterly to each fund according to weighted average share; an income dilution levy is to be applied on capital addition to protect the income due to prior holdings. This does not apply to donor advised investments which remain separate to the investment pool.

d. **Delegation.** Delegate the management of the investment pool element of the portfolio to at least 2 and no more than 3 investment managers. Any delegation for directly-held securities as part of a segregated portfolio can be to only one manager; a segregated portfolio is expected to demonstrate superior benefits to a pooled fund. The delegation to all other managers must be for suitable pooled funds.

e. **Ethical Considerations.** The primary responsibility of the investment portfolio is to provide income and capital resources to support CFiW's current and future aims. However, following a review by the Finance, Risk and Investment Committee in December 2014 it was agreed that the investment portfolio should have no direct exposure to companies which have significant holdings in tobacco, arms, gambling and pornography investments.

f. **Investment Manager Appointments.** The appointment of Investment Managers is a Board-level decision on the recommendation of the FRIC. Whilst the continued tenure of the incumbent investment managers should be reviewed normally every 3 years along with this strategy, the appointments can be ended at any time.

g. **Advice.** CFiW's investment requirements are standard for an endowed grantmaking charity and therefore, assuming adequate FRIC familiarity with investing, there is no requirement for contracted professional investment advice. However, pro-bono advice from a suitably-experienced charity investment professional would be desirable. Furthermore, the investment manager of a segregated portfolio can provide strategy and asset allocation advice. Otherwise, or when the impartiality of any adviser may be in question, the Board must rely on the FRIC's interpretation of specialist press comment and the contrast of investment managers' reports and performance.

11. Control of Segregated Portfolio.

a. **CFiW Strategy.** The Investment Manager is to receive a copy of the appropriate aims and objectives.

b. **Management Agreement.** The contract with the Investment Manager, the fee structure and performance measurement index shall be reviewed at least every 3 years by the FRIC. The agreement is to contain an agreed absolute annual income target (reviewed annually) and agreed benchmarks for composite total return and yield, both of which the investment manager is expected to outperform by agreed annualised percentages over a rolling three year period.

c. **Asset Allocation.** The manager will have discretion to deliver, in accordance with the risk objective, an asset allocation within the ranges determined by the FRIC for authorised asset classes and to select stocks to achieve a diversified holding within each asset class. In the event of actual or foreseen major shifts in world financial markets, the investment manager may approach the FRIC for permission to vary the above percentages.

d. **Performance Reporting.** The Investment Manager will report to the FRIC every quarter. The report will consist of:

- A description of each investment including its percentage of the total portfolio, quantity, original cost, current market value, unrealised gain or loss, percentage yield and analysis of the current asset allocation by investment category.
- Comparison of portfolio performance with the benchmark performance measurement index.
- Comment on market outlook and likely future asset allocation.

e. **Ad Hoc Valuations.** To enable CFiW to track the value of individual funds within the common portfolio, the Investment Manager must provide a portfolio valuation on the date of every capital transaction (withdrawal from/addition to the portfolio) as requested by CFiW.

12. Control of Pooled Funds. For the purposes of this strategy, the term 'Pooled Funds' comprises both Common Investment Funds specific to Registered Charities, and regular retail funds and unit trusts. FRIC is responsible for:

- Scrutiny of the quarterly report from each fund for ongoing compatibility of the fund's investment objective and asset allocation, both with this strategy and evolving FRIC views.
- Engagement with the investment managers as appropriate on significant issues.
- Obtaining fund valuations on the date of every capital transaction (withdrawal from/addition to the portfolio).
- Adjusting the asset allocation between pooled funds as appropriate.

13. FRIC Monitoring and Reporting to Board. FRIC is to report to the Board quarterly on:

- For each investment manager and the aggregated CFIW portfolio: market valuation, yield, total return, asset allocation and performance against total return and yield benchmarks.
- Market conditions affecting performance and market outlook.

Approved by CFIW Board on 21 September 2012. Item 10e amended by Finance, Risk and Investment Committee September 2014. Items 10a, 10c and 10e amended by Finance, Risk and Investment Committee March 2016.