Parry Family Charitable Foundation

Investment & Endowment Fund Policy & Management ©

19 October 2015

Updated 6 Feb 2019

Date of constitution: 24 October 2014

Charity registered in England and Wales No. 1159701

1. Overview

The Foundation is a grant making charity.

In the main it receives unrestricted donations and the trustees will use some or all of these donations to build an Expendable Endowment Fund (EEF) as defined by FRS 102 SORP 2.17 with the aim of providing a long term grant budget programme.

Use of the EEF is unrestricted and at the discretion of the trustees subject to the Foundation's Constitution and Charity Law. The trustees have reserved the "power to accumulate" in the EEF which they will exercise as deemed appropriate given the annual grant budget, level of donations and long term objectives of the Foundation.

The core investment objective is to produce the best financial return commensurate with agreed risk levels and long term objectives.

The management of the EEF and investment approach will embrace the following:

- act within the powers set out in the Foundation's Constitution and under current legislation and regulations
- set investment operational limits
- set a medium term fund size target
- set an investment risk profile.
- grow the fund from donations and capital growth and when appropriate from retained income
- invest long term in shares, securities and funds to deliver a long term targeted return
- regularly review direction, performance and appropriateness of the investment and endowment fund management
- regularly review all targets, risk profile and investment operational limits
- not to adopt Programme Related Investment (PRI) or Mixed Motive Investments but not to rule these options out
- not to have an overt ethical investment policy

2. Legal Requirements

- Trustees have a duty of care to use their skills, knowledge and expertise to manage the endowment fund's investments
- evaluate the suitability of investments taking account of the Foundation's objectives for the EEF and the agreed risk profile
- take, when and if appropriate, advice unless they have good reason for not doing so
- satisfy themselves about the portfolio's diversity, balance and mix
- know, and act within, their charity's powers to invest
- follow certain legal requirements if they are going to use someone to manage investments on their behalf
- if an ethical stance is taken on investments it can be justified
- regularly review investments for performance, policy and harmonisation with the Grant Programme
- explain their investment policy (if there is one) in the trustees' annual report
- See Appendix I for more details of qualifying investments

3. Investment Objectives

Grant Programme budgets are agreed based on available funds. Grant funding must be visible and not anticipated. There is a long term Grant Programme target of c.4% of the Expendable Endowment Fund. This broad structure informs the investment objectives and approach.

- the endowment fund is funded essentially from donations from supporters but over time capital appreciation/depreciation and undistributed dividends and interest affect its balance. Funds may be withdrawn, if needed, to meet the grant programme commitments.

- **Dividends and interest are normally automatically transferred to the Foundation's bank account and used to meet running costs and/or to fund part/all of the Grant Programme.**
- **a long term investment approach can be adopted given the Grant Programme structure**
- **restricted donations, if accepted, will be identified and held in the Foundation's bank account or by being placed temporarily on deposit until the grant is approved and funds transferred to the specified charity or organisation**
- **investments will normally be made in "pooled vehicles" such as unit trusts, OEICs, investment trusts, ETFs and similar constructions. Investments in individual shares can be made but in practice would only happen in rare circumstances**
- **the Investment Portfolio will be managed in accordance with the agreed risk profile**
- **investments will, in the main, be readily tradeable**
- **funds can be placed on deposit. Cash levels will be dictated by grant commitments and the expenses of running the charity. Some cash will from time to time be held in anticipation of investing in shares and funds. Cash will normally be placed on deposit with the Foundation's bank, regulated deposit taker and/or stockbroker. The balances will be kept at or below FSCS protection levels. It may be appropriate in the future to place cash in the money markets or similar.**
- **Foundation will not trade in securities but invest to create long term value meeting the charity's grant making objectives**
- **no investments will be made in organisations in which trustees are connected or unlisted private companies.**
- **Fund performance is about the overall value returned long term and therefore the fund is invested for capital growth as well as for income.**
- **Foundation can draw on capital in order to meet the annual grant target, if deemed appropriate.**

- Foundation's Grant Programme will normally have first call on new donations with any residual amount used for investment in the EEF.
- the drawing down of capital, other than modest levels, from the EEF would only be contemplated as a short term measure. Circumstances inviting this approach may be unplanned adverse economic and financial conditions and/or a temporary reduction in donations and/or to meet an extraordinary grant. Such conditions would invite a review of investment mix and/or the quantum of the Grant Programme. The Foundation's long term plans will not be sacrificed because of short term turbulence.
- currently funds are not invested in government securities or bonds or in corporate bonds. This decision will be kept under review.
- all fees and costs associated with the purchase and sale of investments are set against those securities. Stockbroker platform costs and advice are set against the EEF.
- In the early years when donations are expected to exceed the annual grant budgets, the investment priority will be growth and no dividend target is set. As the foundation's investment balances and grant budgets grow a long term dividend target may be appropriate.
- the investment portfolio current long-term total target return is 4% pa compound.
- all targets, as set out above, will be reviewed periodically

4. Risk Management

The Foundation's *Risk Management* document sets out the Foundation's broad approach to risk. It is useful to consider the following main risk categories:

- Capital – loss of capital and price volatility
- Liquidity – ability to convert investments into cash and to do so without significant penalty

- Market – inflation, forex, interest rate and unregulated markets
- Valuation – investments without a ready or substantial market making value difficult to assess
- Counterparty – third parties such as banks and stockbrokers who could default
- Tax – specific tax treatment of what would normally be seen as specialised investment instruments
- Environmental, social and governance (ESG) – much to do with reputational risk by investing in organisations that do not meet standards expected by supporters or indeed the reasonable view of the public at large

The Foundation has addressed these risks as follows:

- investing in funds and shares always carry risk but a long term approach tends to moderate the impact over time
- grant making policy is rooted in making commitments based on available cash and not to take account of potential future flows. This eliminates the need to realise investments for grant making and means adverse market conditions can be ridden out with falls in value remaining uncrystallised and allowing markets to recover.
- all deposits and investments will be made with organisations regulated in the UK carrying FSCS protection.
- stockbrokers/investment platforms retained will be both UK based and regulated using a nominee account approach to protect client funds
- the portfolio is diversified through investing largely in pooled vehicles but also through adopting a global market reach. Investment in property may improve diversification but invariably carries problems of liquidity and concentration. In balancing these risks it has been decided currently not to invest in property.
- not to invest in instruments that do not have a liquid market or are highly specialised in nature

- ESG is not considered a significant concern giving the investment vehicles embraced

5. Investment Operational Management

- trustees have decided to undertake investment management themselves and appoint a trustee as the lead manager.
- the current lead manager is trustee David Parry who the trustees believe has the knowledge and experience to fulfil this task.
- trustees will review the lead manager position regularly.
- Foundation's general approach is to make all documents and records readily available to all trustees taking advantage of a cloud based arrangement. In addition a full review of investment and endowment fund activities will be undertaken by trustees annually normally to coincide with the Annual Report & Accounts sign-off. This arrangement supports the internal check oversight.
- in overseeing investment and endowment fund activities, the trustees will consider:
  - share and fund performance against targets and relevant market benchmarks
  - proportion of funds held as cash taking account of grant commitments and operational costs
  - adequacy of records and documentation maintained
  - bank and investment portfolio statements
  - frequency of reviews
  - investment direction and strategy
  - risk profile and brief
  - effectiveness of current management of investments and endowment fund
  - whether they need independent advice

Appendix I

Section 511 CTA 2010 (for charitable companies) and section 558 ITA 2007 (for charitable trusts) list the 12 types of investments that are accepted as qualifying investments. These can be summarised as follows:

- **any investment in a charity common investment fund, common deposit fund or similar scheme**
- **any interest in land (unless it is held as a security or a guarantee for a debt)**
- **shares or securities of companies listed on a recognised stock exchange**
- **units etc. in a Unit Trust Scheme**
- **units in an Open-Ended Investment Company**
- **bank deposits - other than deposits made as part of an arrangement under which the bank makes a loan to somebody else (e.g. back to back loans)**
- **certificates of deposit**
- **any loan or other investment made for the benefit of the charity and not for the avoidance of tax (whether by the charity or any other person)**

The final category above (any loan or other investment made for the benefit of the charity) (type 12) relates, in part, to loans that are made by a charity as investments. However, a charity may make loans for purposes other than investment. Section 514 CTA 2010 and section 561 ITA 2007 provide rules in respect of these other types of loan.

Investments can be made in:

- **hedge funds**
- **commodities**
- **derivatives**
- **non traded equity in private companies**

- ❑ **interest bearing loans to a company or the government (bonds or gilts)**
- ❑ **ETFs and Investment Trusts quoted on a recognised stock exchange.**