Two Ridings Community Foundation

INVESTMENT POLICY

1. Purpose

1.1 The purpose of this policy is to provide a statement on how Two Ridings Community Foundation's (the Foundation) investment activities should be carried out.

1.2 The Charity Commission provides guidance in CC14 Investing Charity Money: a guide for trustees. This includes guidance on information to be included in the Investment Policy and trustee and Investment Manager's responsibilities. The guidance is based on trust law and states that although a corporate charity is not legally required to have a written investment policy unless the governing document requires it, it is a requirement of the Charity Commission that all charities that invest have a written policy.

1.3 The Charities SORP (FRS 102) effective 1 January 2019 also states that where a charity holds material financial investments, the investment policy and objectives set should be explained in the Trustees Annual Report

1.4 The policy statement therefore provides a written framework for a charity's investment strategy and should contain the investment objectives and principles that will govern the detail of the investment decisions taken by the investment manager.

1.5 The Foundation's investment policy statement covers the following areas:

- the Foundation's aim in investing its funds, including its position on risk
- an indication of the Foundation's asset allocation strategy
- the benchmarks and targets by which the performance of the manager will be judged
- the Foundation's stance on responsible investment
- the balance between capital growth and income generation which is sought by the Foundation
- the scope of the investment powers.

2. Introduction

2.1. The Foundation publishes this investment policy as part of its commitment to openness and transparency in its activities and to provide accountability to all its stakeholders.

2.2. Two Ridings Community Foundation was established in 2000 as an independent charitable trust. In 2016 it became a Charitable Incorporated Organisation (Charity registration no. 1166471) with a Board of Trustees.

2.3. The Foundation exists to benefit local communities by making grants to support charitable or voluntary organisations, that address needs identified by local people, meet unmet needs and reach those people who are most disadvantaged and isolated. It achieves this by building endowment, managing charitable funds and distributing grants on behalf of individuals, families, companies, trusts and public bodies (referred to as funds, fund holders, donors as appropriate, for the purpose of this document) to support communities now and for generations to come.

2.4. In the first 24 years of grant making, the Foundation distributed grants totalling more than £21m, ranging in size from £100 to over £80,000. Our priority is to support small grassroots community groups and our average grant is c. £3,000.

2.5. The Foundation's primary area of benefit is the local authority administration areas of York, North Yorkshire, East Riding of Yorkshire and Hull[1] (which we describe as North & East Yorkshire).

2.6. The Foundation is a Quality Accredited Community Foundation. Quality Accreditation is a programme run by our membership organisation, UK Community Foundations, and is based on a set of key standards. Two Ridings Community Foundation has successfully achieved Quality Accreditation (last awarded October 2021) which demonstrates our commitment to best practice and adherence to the key standards relating to the work of the community foundation. The Foundation has relevant policy documents and statements including those in relation to its investments, some of which will be referred to within this policy document.

3. Investment powers & governance

3.1. Under Clause 4(5) of the Two Ridings Community Foundation's Constitution (2016), the Trustees have the power to deposit or invest funds, employ a professional fund-manager, and arrange for the investments or other property of the CIO to be held in the name of a nominee, in the same manner and subject to the same conditions as the trustees of a trust are permitted to do by the Trustee Act 2000.

[1] It should be noted that the Foundation does have the power to distribute designated funds outside of York, North Yorkshire, East Riding of Yorkshire and Hull at the specific request of a fund holder donor.

3.2 The Foundation's trustees have ultimate responsibility for investment matters and, in particular, for the investment strategy, appointment of Investment Managers, and asset allocation. They have delegated to the Investment Committee the detailed execution of the strategy.

3.3 The Investment Committee receives and reviews quarterly performance reports from Investment Managers and meets at least twice per year to review performance and make recommendations to the Trustee Board on investment matters including the appointment of Investment Managers.

3.4 Investment Managers will be reviewed on a 5 year cycle unless performance or other priorities require an earlier review, at the discretion of the Investment Committee, such as 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 Investment Manager fees. A formal tender process will be undertaken with criteria agreed by the Investment Committee. Current investment managers may re apply and be considered as part of the tender process.

3.5 Individual endowment funds will be pooled for investment purposes* so that all long-term investments are held proportionally on behalf of the relevant endowment funds being administered by the Foundation. All realised or unrealised capital growth/losses, dividends and income received is apportioned to the relevant funds and all funds accounted for and reported individually in the Foundation's financial statements and to donors and fund holders.

*excluding funds held in the Community First programme which are held and invested separately and not as part of the main investment portfolio.

4. Investment objectives

4.1 The investment objective of the Foundation is to generate a stable and sustainable return on investment to fund grant making and to make a contribution towards the operational costs of the Foundation, whilst maintaining the real value of the assets.

4.2 The Trustees wish to optimise the total return from the investment portfolio whilst mitigating risk, as far as possible. They seek to achieve the best financial return consistent with balancing the interests of current and future beneficiaries of the charity.

4.3 The Foundation aims to draw down a percentage of the value of the assets each year, for grant making and to provide a contribution to core costs. The percentage is currently 5% and is reviewed and determined by the Investment Committee each year, based on current portfolio performance, long term performance criteria (See ARC Long Term Performance chart), assessment of grant making requirements and any other relevant factors.

4.4 Short term funds will be held in deposits with appropriate banks or other approved financial institutions. The Foundation holds cash relating to grants committed and not yet paid, funds for future grant-making and a small proportion of funds relating to the Foundation's core operating activities which are held in line with the reserves policy published in the annual financial statements. External advice is not required for these funds which are managed in accordance with the Foundation's Treasury Policy and any change in policy should be agreed with Finance & General Purposes Committee.

5. Attitude to risk

5.1 Trustees recognise the key risk to long term sustainability is inflation (as measured by the Consumer Price Index) and so assets should be invested to mitigate this risk over the long term, whilst seeking to add further risk aware growth in excess of CPI to maintain the long-term flexibility of the Foundation.

5.2 Trustees realise that there is a risk attached to any investment and accept that, even within a generally conservative investment approach, a moderate level of risk is necessary to achieve potentially higher returns. They also understand that (except in exceptional circumstances) this is likely to mean that investment will mainly be in the form of quoted securities and that the capital value will fluctuate.

5.3 Trustees review their attitude to risk on a regular basis and have agreed that the present risk profile of the Foundation's investments should be Medium Risk

5.4 The Trustees believe that the best returns can be achieved through a balanced and diversified investment portfolio with a mix of holdings in Cash, Fixed Interest securities, UK and Overseas Equities, Property and Alternatives.

6. Capacity for loss

6.1 The Foundation adopts a "total return" approach to investment and is happy for the investment return to be generated from income and capital growth. It is expected that if in any one year the total return is insufficient to meet the budgeted grant making expenditure, the trustees would have the power to decide to meet the budgeted grant making expenditure (if they wished to do so). However, Trustees have regard to the aim that in the longer term the real value of the assets shall still be maintained in accordance with the investment objective above. The Investment Committee will be required to test this sustainability at not less than annual intervals over rolling 5 year periods and report to the trustees in the event of any major (i.e. exceeding 10%) short term reduction of capital value or notable disparity between the Target Return and the return actually achieved (either overall or in the case of any one Investment Manager).

6.2 The Foundation has a limited capacity for absolute loss, in percentage terms, as it will not necessarily be able to easily to make up sustained/crystallised losses in the short term, or perhaps at all. This would damage its ability to continue to undertake grant making at a level that stakeholders might expect.

7. Asset allocation strategy & liquidity

7.1 Asset allocation is delegated to the investment managers although the Trustees would expect it to be similar to that on which the benchmark is based and in line with the norm for the not-for-profit sector.

7.2 Trustees expect that the overall asset allocation of the assets would be sufficiently liquid to cover any unforeseen circumstances. To that end the nominated investment managers will be advised to limit their exposure to illiquid assets to a maximum of 20% of the total portfolio threshold. This means any assets unable to be realised within three months, within a normal investment climate.

7.3 The Foundation requires adequate liquidity for grant making and a contribution to core operating activities. The Foundation receives investment income quarterly and makes further withdrawals as required (generally twice per year) in line with the agreed annual drawdown budget.

8. Time horizon

8.1 The Foundation's objective is to grow endowment to enable grants to be available to support communities now and for years to come. As the Foundation's time horizon is for the long term, it has been agreed that this should also be the case for the underlying assets. This does not limit the investment managers to the structure of the underlying assets and helps inform the trustees when considering the objectives of the assets, volatility and attitude to risk.

9. Performance Reporting

9.1 Performance will be monitored against the ARC Steady Growth index and agreed market benchmarks (as agreed with the Investment Managers) and against the target return over the medium term (ie. Over a rolling 5 year period in normal market conditions).

9.2 In line with good practice, we would expect that should a 10% fall occur during a formal quarter in any of our investments that we would be notified by our discretionary investment managers, and this would be discussed by the Investment Committee in a timely manner.

10. Responsible investment

10.1 The Foundation takes a responsible approach to investment that aims to ensure its investment activities are closely aligned to the charity's purpose, mission and values whilst at the same time recognising that financial returns must be sustainable to enable grant making over the long term.

10.2 Trustees aim to follow Charity Commission guidance and good practice in making investments and keep up to date with evolving guidance. Following the reissued

CC14 Investing Charity Money: Guidance for Trustees in August 2023 there is greater clarity that both financial and non-financial factors may be taken into consideration by trustees making investment decisions, such as Environmental, Social & Governance (ESG) factors, the reputational risk to the charity and potential conflicts of interest alongside the maximisation of financial returns.

10.3 The Foundation expects its investment managers to be signatories to the UN Principles for Responsible Investment and have an investment process that incorporates ESG considerations and investment in well managed companies. Trustees believe that well-governed entities that take into consideration environmental and social matters alongside financial performance will generate more sustainable long-term financial returns.

10.4 We value active stewardship and voting and believe that engaging with entities to improve practices can be effective and expect our Investment Managers to be proactive in this area and provide relevant updates.

10.5 The investment managers are aware of the charitable objectives of community foundations and will consider primarily those companies with the most positive policies and practices in relation to their communities, consistent with the overall investment policy.

10.6 Trustees recognises that ethical issues are not always clear-cut. In some cases, the degree of an entity's involvement in a particular area, their positive activities in other areas, and their commitment to improvement need to be considered when making decisions on the ethics of a particular investment. Therefore, we keep absolute exclusions to a minimum. However, trustees consider that exposure to certain types of investment should be avoided because they conflict with the Foundation's purpose, mission and values and may contribute to social harm in the communities we serve.

Investments should be avoided in companies with the following characteristics:

- Any tie to controversial weapons such as cluster munitions, landmines, chemical or biological weapons and depleted uranium weapons
- Generate over 10% of revenue from tobacco production
- Generate over 10% of revenue from alcohol production
- Generate over 10% of revenue from activities connected to predatory lending
- Generate over 10% of revenue from gambling operations*
- Generate over 10% of revenue from activities related to adult entertainment

Investment in conventional and unconventional Oil and Gas extraction companies is permitted, however the Foundation expects Investment Managers to apply appropriate monitoring of companies in this sector with investment limited to those with a proactive energy transition strategy. This also applies to any company with a high negative environmental impact.

*Trustees recognise that the charity sector regularly engages in forms of gambling (raffles, tombolas, bingo etc.) as part of community fundraising and Two Ridings Community Foundation and the wider charity sector are beneficiaries of funds from the National Lottery and other lotteries. 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.

10.7 As the investment landscape changes, trustees continue to explore new approaches to responsible, sustainable and impact investing.

Two Ridings use the United Nations Sustainable Development Goals (SDGs) to measure how we meet the needs of the communities in North and East Yorkshire that we support. Set in 2015 by the United Nations Member States, SDGs are a collection of interlinked goals – used around the world – which are a ‘blueprint to achieve a better and more sustainable future for all’.

SDGs are an urgent call for action by all countries to end poverty and deprivation working hand in hand with strategies to improve health and education, reduce inequality and create economic growth, all whilst tackling the climate crisis to preserve our world.

Because SDGs are recognised globally, we feel this is the best and simplest way for people to understand the impact our support makes to local people and places.

Trustees encourage Investment Managers to be aware of the aims of the SDGs and how these factors affect the communities of North & East Yorkshire that we serve. Where appropriate, Investment Managers should include in their investment strategy exposure to companies that create positive change and social impact such as contributing to energy efficiency or improved health outcomes.

10.8 Charities are facing greater demands for transparency about the sources of their wealth, and how it is invested and stewarded. The Foundation seeks to have consistency between its gift acceptance policy and its approach to responsible investment. However, trustees recognise that some historic gifts may have come from industries that the Foundation no longer considers an appropriate investment for its capital.

11. The scope of the investment powers

11.1 The investment managers appointed by the Foundation will have complete discretion to buy, sell, retain, exchange or otherwise deal in investments or other assets, consistent with the terms of this Investment Policy. This will be executed through an Investment Management Agreement entered into by the Foundation and its investment managers.

11.2 Any such agreement will set out the terms and conditions under which the investment manager shall operate on behalf of the Foundation, including any ethical restrictions imposed. This agreement will also state that the investment manager shall not, except with prior written consent of the Foundation:

- enter into underwriting commitments.
- enter into a transaction that may require the Foundation to supplement the portfolio.
- borrow money on behalf of the Foundation
- enter into derivative transactions or forward currency transactions except for the purposes of controlling and managing risks, including currency risks, associated with the investments held in the portfolio in a timely and cost effective manner.

DOCUMENT CONTROL:	
Version:	3.1
Responsibility for review:	Investment Committee
Ratified by:	Trustee Board
Date ratified:	18 November 2024
Next review date:	November 2025