



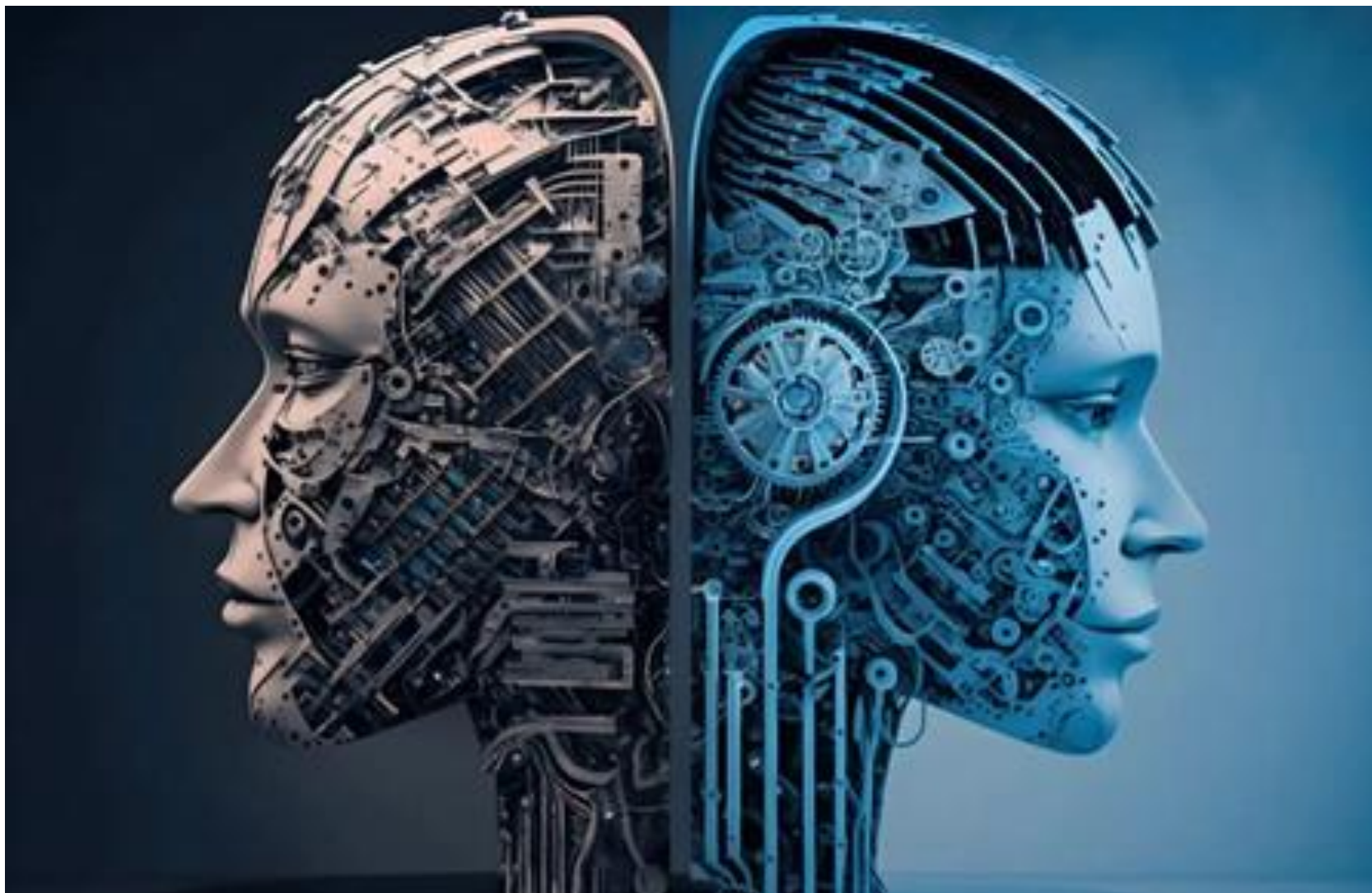
## **Reserves: *defining their purpose***

**Charles Mesquita**  
Charities Director  
Quilter Cheviot

**James Brooke Turner**  
Co-Founder  
Yoke & CO

*Approver: Quilter Cheviot Limited, 17 June 2024*

# Look no further than ChatGBT



Source: Yoke & Co

# What makes you charitable?

What makes you charitable is  
what you spend, not what you  
save.

It's not your money, it's for  
someone else.

What's best for them?



Source: Yoke & Co

# Reserves – are they an asset?

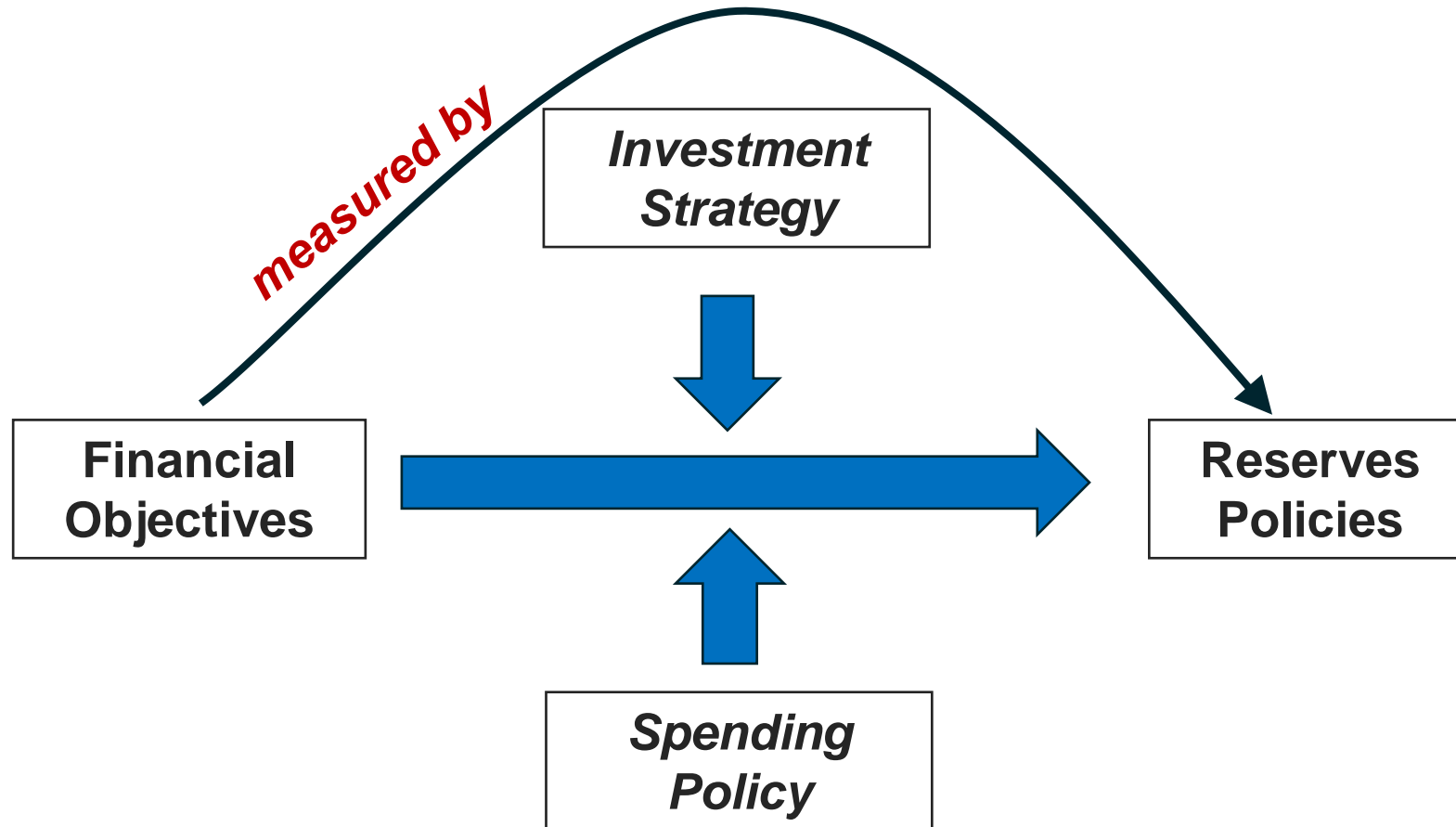


Or a wasting asset?

Source: Yoke & Co

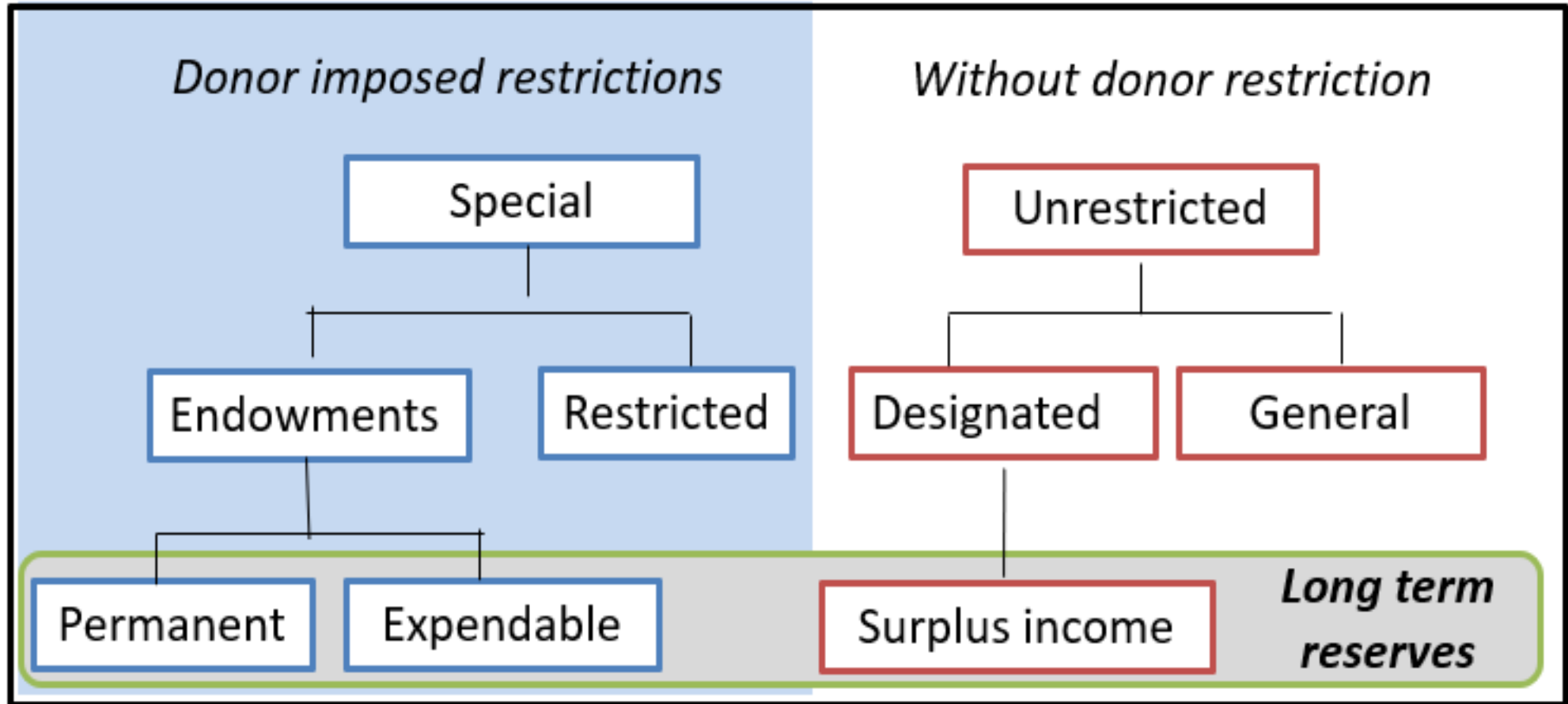


Source: Yoke & Co



Source: Yoke & Co

# Assets = reserves



Source: Yoke & Co

# But are they a wasting asset



Source: iStock



Risk      Uncertainty      Opportunity

Unpredictability

Caution

Loss

Volatility

Prudence

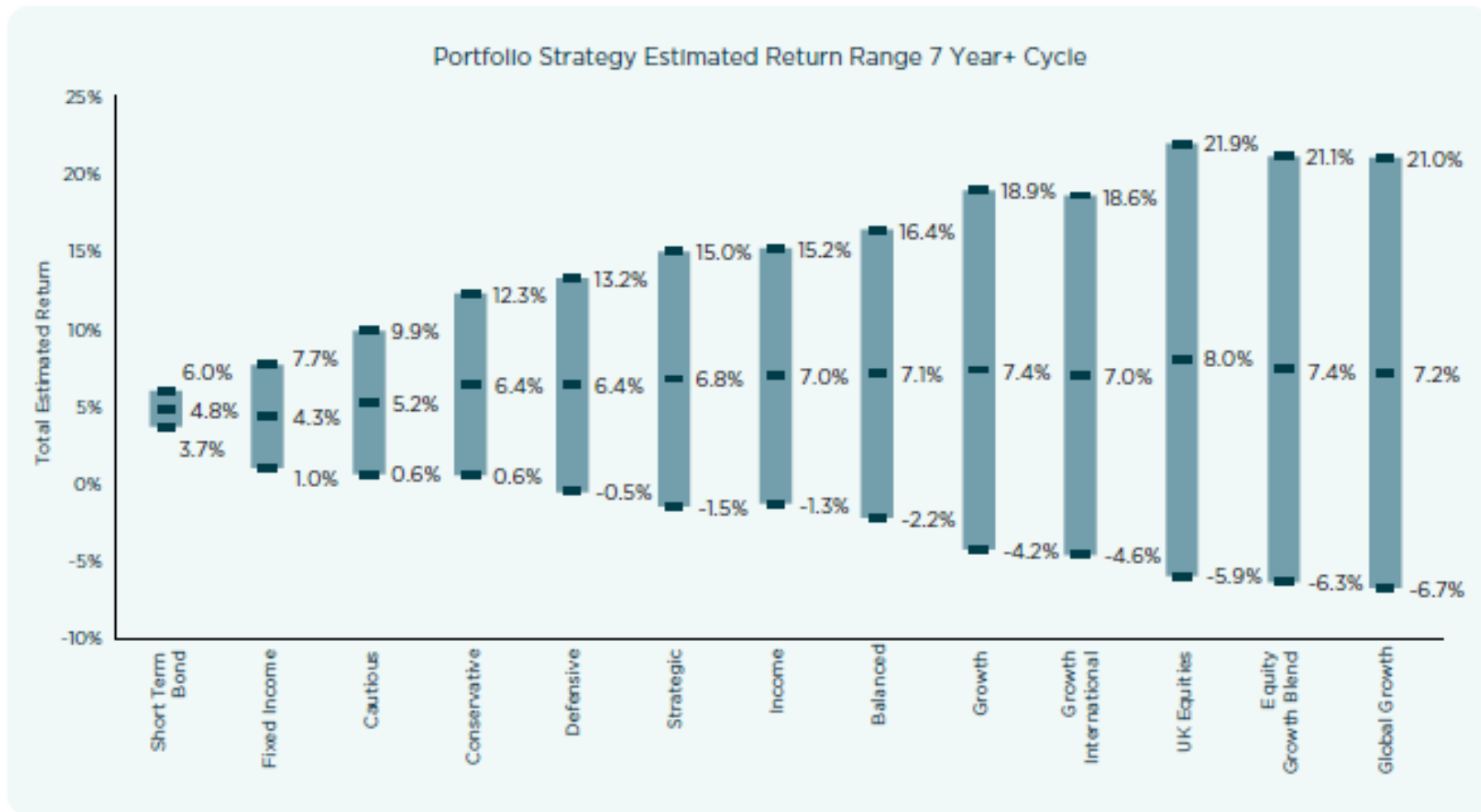
- Certain capital values
- Inflation protection
- A reasonable amount to spend

# Placing risk against expected return

Asset Class	Estimated nominal returns (%)
Cash & bonds	3.0% to 5%
Equities	7% to 8.5%
Property & other alternatives	5% to 6.5%

*Source: Quilter Cheviot as at November 2023. Estimated returns represent our estimate of long-term investment returns over a full cycle of seven years, or more. Any data shown is for illustrative purposes only. It does not and cannot constitute a projection of the future which is unknown. Past performance is no guarantee of future performance and the value of investments and income from them can fall as well as rise.*

# Risk is defined by your time horizon



Source of data Quilter Cheviot, 30/09/2023

# Risk is defined by your time horizon

	Short term	Long term
Safe assets	Cash/Bonds	Equities
Dangerous assets	Equities	Cash/Bonds

Source: Yoke & Co

## Risk is defined by your time horizon

---

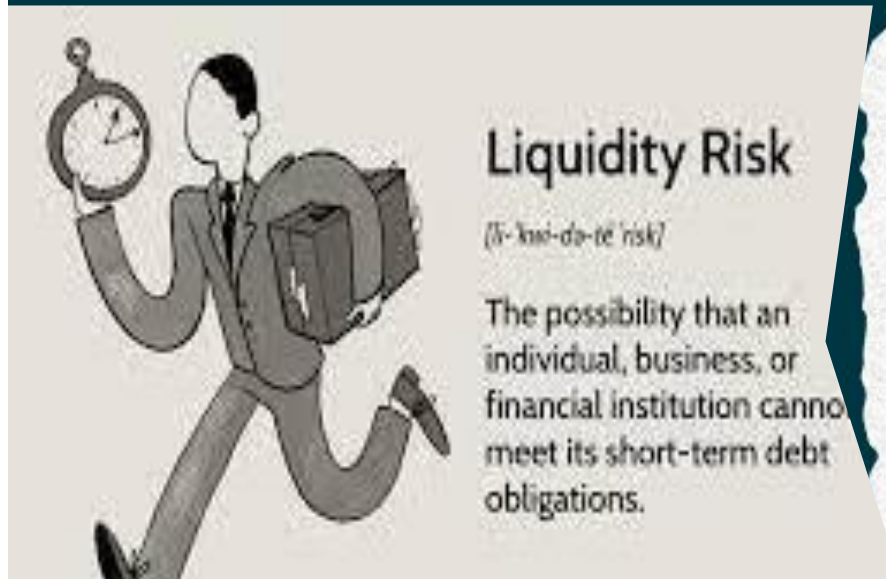
**Short-term:** the priority is financial security, as the money may be needed at any time. As such capital volatility cannot be tolerated: the aim must be to minimise the risk to capital, in most cases this means placing the money on deposit and any return such as interest is secondary albeit a welcome bonus.

**Long-term:** the primary objective must be to protect the money against inflation while getting greater return for taking the risk of investing. As such the aim is to invest for a reasonable time period (normally more than five years) as investment will be subject to capital volatility and you need the ability to ride out market turbulence.

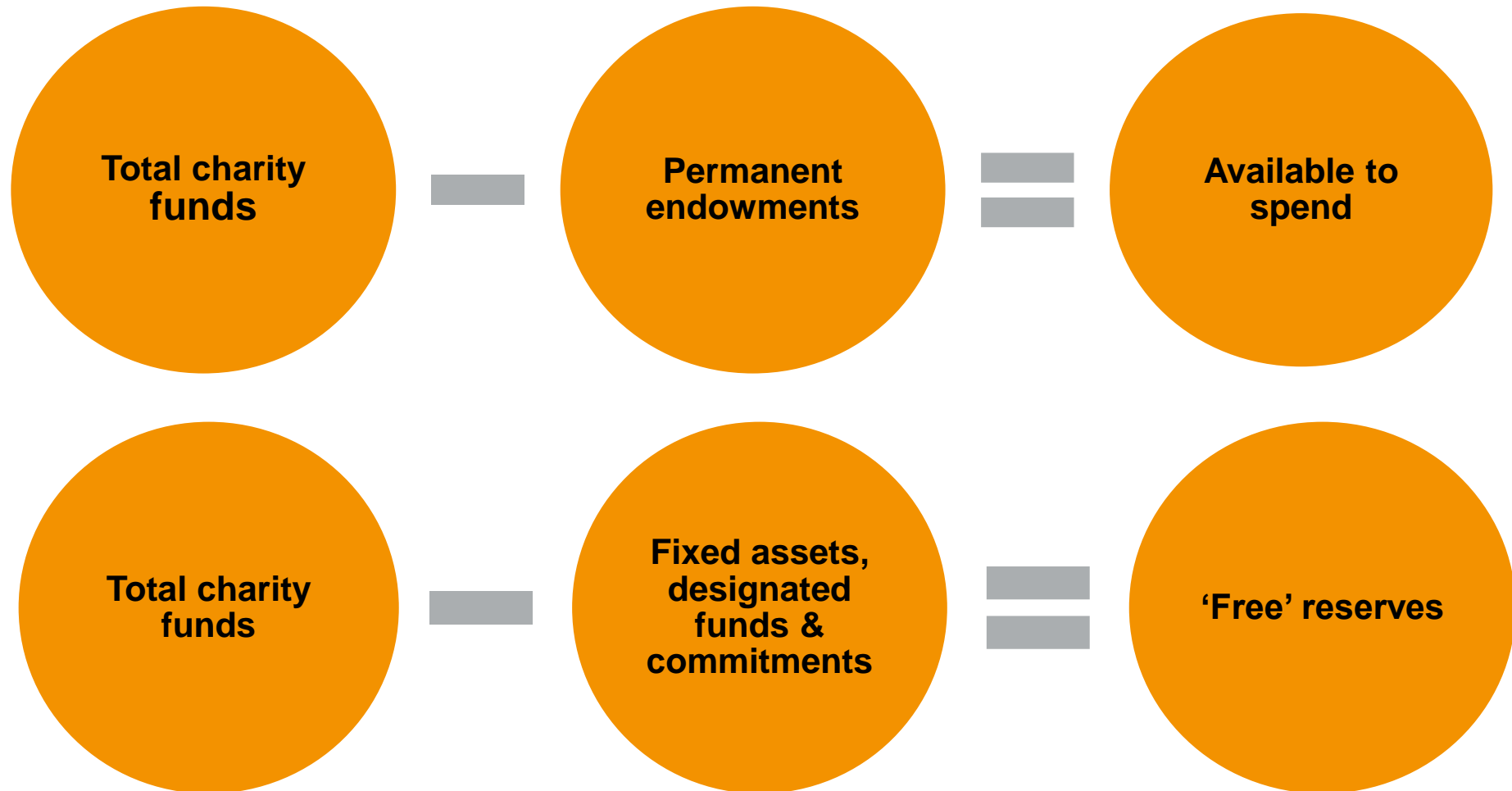
But are reserves....



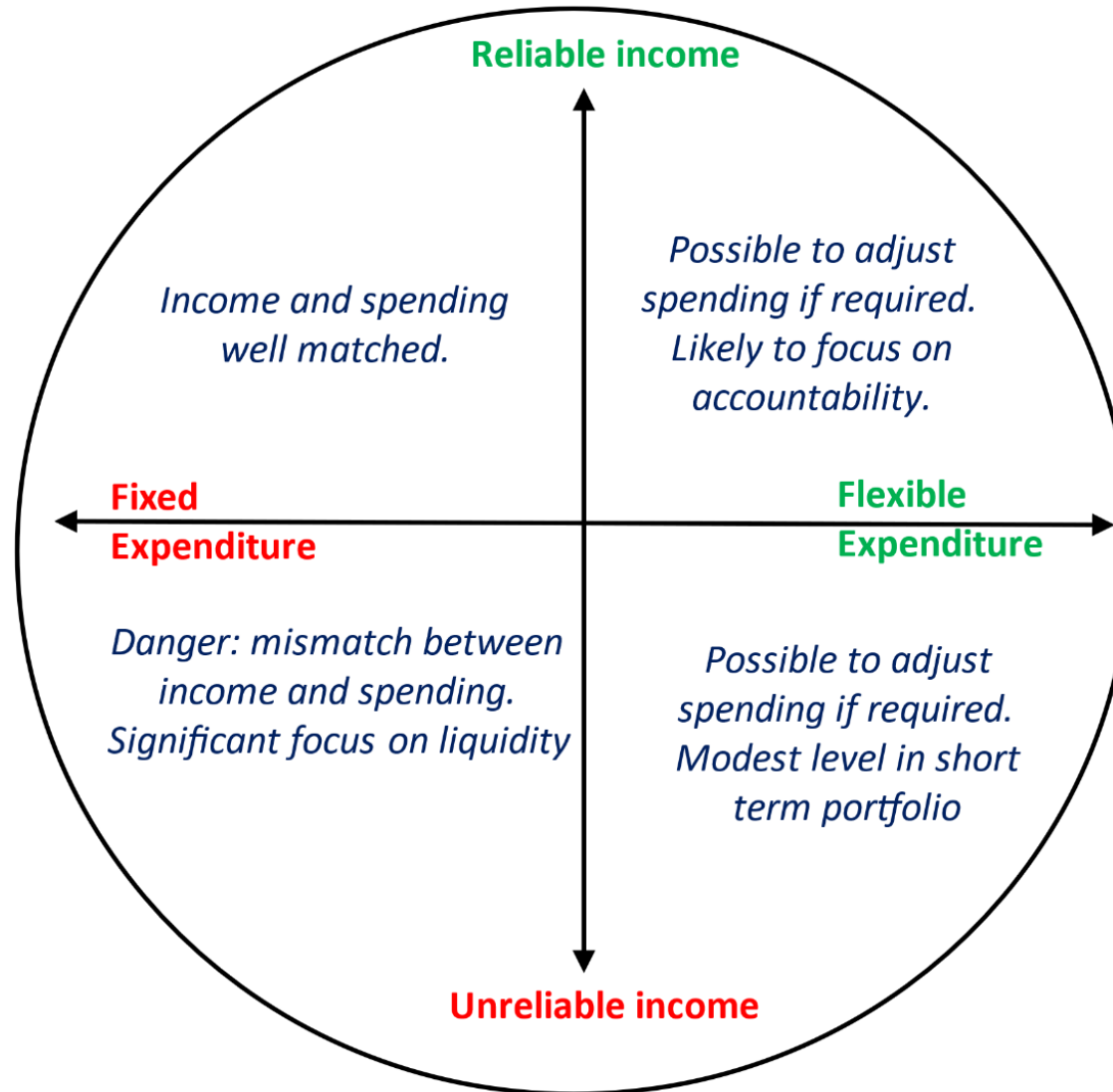
or



# Thinking about accounting reserves



# Do you need reserves





## Six key takeaways

---

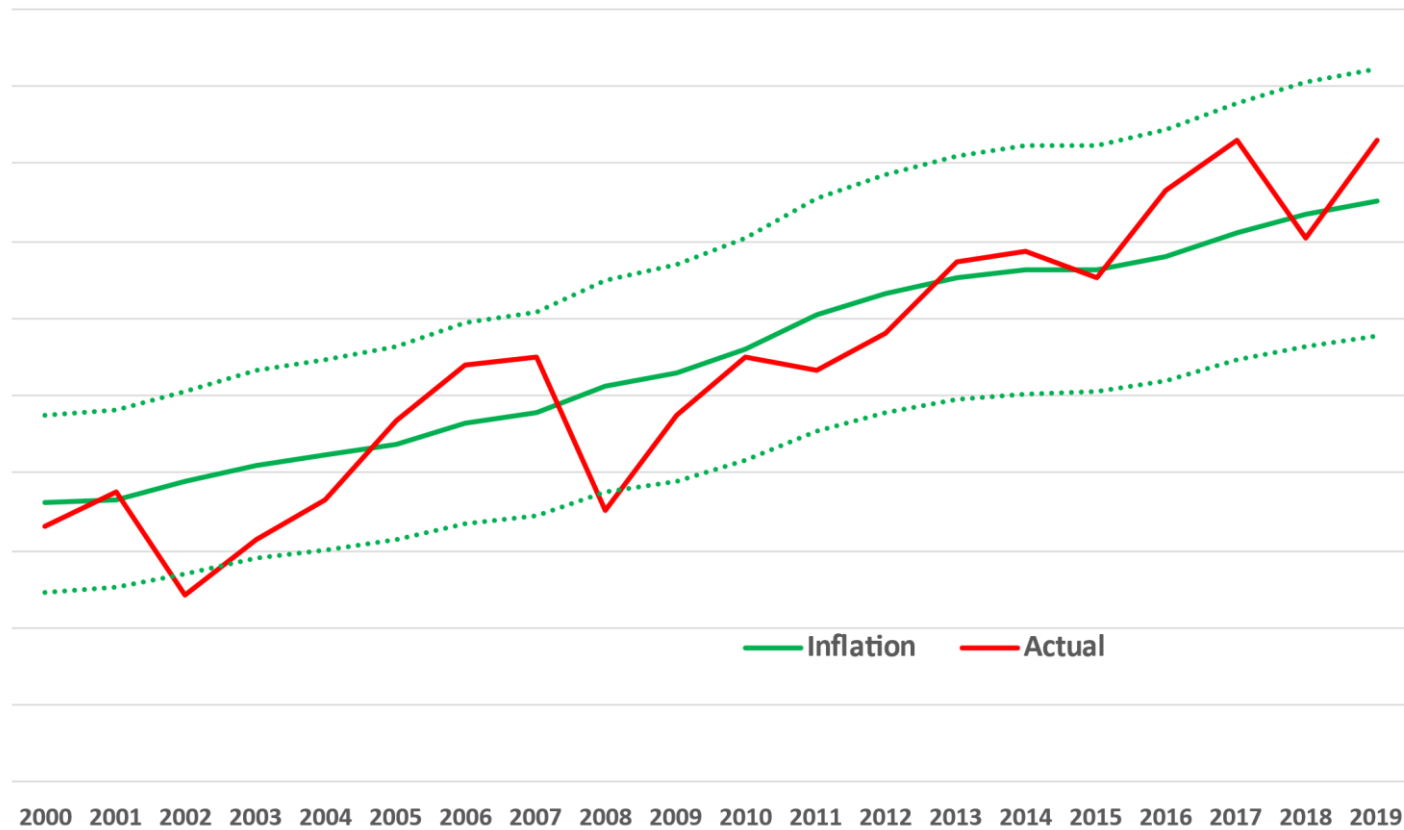
1. Are you saving for a particular target, spending out, or maintaining (against inflation)?
2. Are you thinking about liquidity (investment policy) or accountability (reserves policy)?
3. Separate your risk appetite into the long and short term
  - Rarely just one (medium - really?)
4. Accept some things cannot be planned for ('game over' scenarios)
5. For short term reserves set both a target level as well as a floor
  - know which you're talking about
6. Be prudent, not cautious.

## Questions previously asked

---

1. How do you work out what is the right level for reserves?
2. Is there a minimum level of reserves a charity should hold?
3. Should reserves be expressed in 3, 6, 12 months of operating cost?
4. Should reserves be calculated as a cost of winding up an organisation?
5. Should reserves be linked to your risk register?
6. Is risk defined by your time horizon?
7. Do reserves make it difficult for fundraising?
8. What does a successful charity look like in financial terms?
9. Are there any limits to what I can spend?
10. Is there a disconnect between how finance staff/charity executive and trustees look at reserves?
11. Is there any value in having an unrealistic target for reserves?
12. Should we look to have a range rather than a precise number?
13. Are there any circumstances when we do not need reserves?

# Keeping performance in perspective



Source: Nuffield Foundation

# DISCLAIMER

This presentation has been prepared only for the recipient and date shown on the front page. It is not intended for any other persons and should not be relied upon by other persons.

This presentation has been prepared for information purposes only and is not a solicitation or an offer to buy or sell any security. It does not purport to be a complete description of our investment policy, markets or any securities referred to in the material. The information on which the presentation is based is deemed to be reliable, but we have not independently verified such information and we do not guarantee its accuracy or completeness. All expressions of opinion are subject to change without notice. Any reference to the Quilter Cheviot Limited model portfolio, which is used for internal purposes, is purely illustrative and should not be relied upon. The figures quoted do not include charges.

Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future return. You may not recover what you invest. Changes in exchange rates may have an adverse effect on the value, price or income of foreign currency denominated securities. Levels and bases of taxation can change. Investments or investment services referred to may not be suitable for all recipients.

Quilter Cheviot and Quilter Cheviot Investment Management are trading names of Quilter Cheviot Limited. Quilter Cheviot Limited is registered in England with number 01923571, registered office at Senator House, 85 Queen Victoria Street, London, EC4V 4AB. Quilter Cheviot Limited is a member of the London Stock Exchange and authorised and regulated by the UK Financial Conduct Authority and as an approved Financial Services Provider by the Financial Sector Conduct Authority in South Africa.

# INVESTING for Charities



**dsc**  
directory of social change

James Brooke Turner

**Read more in James'  
new book**

**Available from the  
Directory of Social  
Change**

**Discount code: CFG15**

**QC** QUILTER  
CHEVIOT