CICP

Charity Investment Consulting Partnership

Trustee guide to accessing Investment Advice

Charity Investment Consulting Partnership

Trustee checklist

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What is investment advice?

- Investment advice is any **written recommendation** or **proposal** to Trustees to invest in a specific way, having taken into account the charity's specific circumstances, requirements and risk tolerances. This can be **strategic** (i.e. a recommendation on a specific asset class or type), or **specific** (i.e. a recommendation to invest in a specific fund or range of funds).

- Investment **advice** and **management** are **different**. An investment manager "manages portfolios in accordance with mandates given by clients".*
- Investment advice should be **formally documented**.
- Some advice is **FCA-regulated**. The FCA notes this "includes any communication with the customer which, in the particular context in which it is given, goes beyond the mere provision of information and is objectively likely to **influence the customer's decision** whether or not to **buy or sell**".
- Decisions about liquid and free capital (i.e. cash held in the bank) should be considered investment related decisions.

*Source: FCA. Note that some Trustees may hire an investment manager on an advisory basis and receive regular advice on specific individual stock purchases, but this is now less common.

When should you take investment advice?

- The Trustee Act 2000 states that "…before exercising any power of investment… a trustee must… obtain and consider **proper advice** about the way in which…the power should be exercised". It is clearly important therefore that Trustees take advice before making **material changes** to (and indeed any **review** of) their investment arrangements*.
- As a result, we consider it best practice for Trustees to take professional advice when **devising/reviewing** their investment policy (not just later on when documenting this formally or selecting an investment manager or fund). This assists Trustees in considering and setting their **investment objectives** and **attitude to risk**, before then supporting them in choosing an investment **strategy** and appropriate **implementation** for their charity.
- You should review your charity's investments on a **regular** basis.
- The Charity Commission notes that "there are **other ways** of investing cash, particularly for larger charities. Take advice about your options."
- If you don't get *external professional* advice, the Charity Commission expects you to **keep a record** of your reasons not to.

*For some charity legal structures, you *must* take professional advice *before* making and reviewing investments, unless you have a good reason not to. The Charity Commission, however, expects <u>all</u> charities that make investments to do this.

From **where** should you take advice?

- Advice needs to come from someone **experienced** in investment matters. Their knowledge should be **current** and **relevant**.
- Some investment advice is **regulated**. For this you *need* an *FCA-regulated adviser.* Some advisers/managers and most individuals are not regulated to provide advice – ask if you are not sure.
- Regulated or not, advisers are **responsible** for advice **quality** and may be held **responsible** for sub-optimal outcomes. If advice is coming from a Trustee or other individual, this should be **understood** by *both* parties and **formally documented**.
- Professional advice should be **impartial**. Some firms provide both investment advice *and* management. If you use these firms, understanding the scope of their advice, **identifying** and **managing** potential conflicts of interest is critical.
- **Regular review** of the investment manager should happen **independently** of the manager. This should cover their management *and* any advice they provide. The Charity Commission also notes that your investment manager should **not prepare** your investment policy.
- A number of **investment consultancies** offer **independent, specialist** investment advice to charities. This enables you to receive a "whole of market" review to construct a bespoke strategy for your charity for a transparent fee.

Why should you take investment advice?

- **Proactive, professional** and **tailored** advice can improve the likelihood of achieving your aims as a charity through improved financial outcomes.

- Taking advice can help to ensure that investment management costs are **reasonable** and manage potential **conflicts of interest**. It can also guide you towards the most suitable asset classes and investment products that are **aligned** with your charitable mission.

- An **expert, impartial** view on your investments can provide **comfort** that selected managers are appropriate to manage your charity's assets, for example through access to the adviser's detailed research. **Independent oversight** can enable a better understanding of the value that your managers are providing.

- Taking advice can **improve governance** and help enable **purposeful** trustee decisions. The Charity Commission says, "*When you take advice, you remain responsible for the decision you make, but if you have considered and acted on appropriate advice, this is likely to protect you*".

Who should take advice?

- Charity Commission guidance expects trustees of **all charities** that **invest assets** to take professional advice unless there is a good reason not to; for example, if there is current and relevant expertise on the trustee board.
- If you take advice from a trustee, you must consider the advice **objectively** and identify any **conflicts** of interest.
- Before you make any **social investments**, you should consider taking advice on the suitability of the investment from both a **charitable impact** and **financial return** point of view.
- You must keep a **record** of your reasons for not taking external professional advice.

What is the CICP?

The Charity Investment Consulting Partnership (CICP) is a collaboration between investment consulting firms which aims to drive better investment practices across the charitable sector.

The CICP's main objective is improve the outcomes of the charitable sector and ultimately improve the outcomes for the beneficiaries of charitable funds.

The group will work with the Charity Commission, membership organisations, asset managers and stakeholders of the charitable sector to achieve its purpose. The CICP will promote best practices, facilitating joint training, promoting information sharing, and supporting collaboration and will provide education and clarity on the role of independent advisers for charities.

The CICP will publish articles to be widely accessible to inform the market of our recommendations on best practice. Membership of the CICP is open to all independent investment consulting firms who provide a full range of regulated advisory services to charities.

The Charity Investment Consulting Partnership is a Group formed to support better outcomes for the charity sector in the UK.

The Group is formed of market leading independent Investment Consultants.

This document is provided by the members of the Group, namely:

Broadstone, LCP, XPS Group, Barnett Waddingham, PMCL, ARC, Aon