hospice UK

Aberdeen Standard Capital

How to write an investment policy statement for your hospice charity

About Aberdeen Standard Capital

Aberdeen Standard Capital is a discretionary investment manager with a specialist Charities Team dedicated to supporting charity clients across the UK. Around 20% of our charity clients are in the hospice/medical/health sector, giving us a depth of understanding of the issues arising for you, particularly in relation to responsible investment screening requirements.

Part of the service we offer to our hospice and other charity clients includes specialist workshop facilitation, to support your decision-making when it comes to responsible investment screening requirements. We know this can be a tricky area, and we're ready to help – get in touch.

About Hospice UK

Hospice UK is the national charity for hospice and palliative care. We work to ensure all adults and children living with a terminal or life-shortening illness receive the care and support they need, when they need it. Our vision is hospice care for every person in need.

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Welcome

This joint project involving Hospice UK and Aberdeen Standard Capital creates a new resource which we hope will be of practical use for hospices throughout the UK.

The task of writing a first investment policy statement (or updating an old one) can feel daunting. Figures from the Tipping Point research commissioned by Aberdeen Standard Capital show 38% of respondents said their investment policy statement could do with being updated, and help is at hand. This guide will take you through a step-by-step process to support your hospice charity in preparing a new investment policy statement. Trustees, Finance Directors, Chairs and Chief Executives will all find useful pointers in here to support discussions and policy decisions in relation to this aspect of a hospice's finances.

Hospices in the UK held £402 million of cash and £774 million of investments (and property) as at 31 March 2018. As a matter of good governance, trustees need to set a framework around how these assets are to be managed, in particular if external investment managers are being engaged. Using this guide will help hospices to be on the front foot in discussions about their investments. It will shed light on the role of ethical investing and associated issues which can support positive risk management and protection of a hospice's reputation among donors and the wider public.

We hope you find this guide helpful. If you have any questions about the guide or how to use it, do get in touch.

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1. When to use this guide

This guide is relevant for you if your hospice holds cash or stock market investments. If you are a trustee, this guide will also help you better understand how to fulfil your duties as a trustee, keeping in mind both law and guidance from the charity regulator in your jurisdiction.

Hospice UK has members across the UK. In Section 2, we cover different points which arise for trustees in England and Wales, Scotland, and Northern Ireland. In general terms, however, the process involved in creating an investment policy statement has a rather practical focus, and most of this guide is for use across the UK.

This guide is for use in the process which helps you arrive at your investment policy, as well as supporting how you document this in an investment policy statement. Discussions may take place at a sub-committee meeting (e.g. Finance or Investment Committee) and also at a meeting of the full board. This guide is intended as a useful reference for those discussions, as well as providing a template which illustrates a potential approach you may wish to consider for your investment policy statement.

The composition of a charity board changes over time, and as new trustees join, an investment policy statement can prove to be a useful way to help new trustees quickly get up-to-date on the framework which sits around this aspect of the charity's finances. In this way, an investment policy statement is also a useful aspect to trustee induction and training.

The finances of different hospices vary – most will hold cash, others will also own stock market investments. Different elements of this guide will be relevant for you depending on the nature of the assets held by your hospice charity. It's also worth emphasising that the template is only one suggested approach – trustees will want to tailor this for your own hospice's circumstances.

2. Setting the scene – the legal backdrop

Your trustee duties always involve acting with care and diligence and in line with the hospice's purposes. You also need to act in line with the powers you have as trustee, which means checking what the hospice's governing document says about trustee investment powers.

For trustees in England and Wales, the Charity Commission has a guidance booklet called *Charities and investment matters: a guide for trustees (CC14)*.

For trustees in Scotland, the Scottish Charity Regulator OSCR has a guidance booklet called *Charity investments: guidance and good practice*.

There is no specific investment guidance from the Charity Commission for Northern Ireland.

One of the reasons why an up-to-date investment policy statement is important is because it helps to evidence that you have fulfilled your trustee duties.

There are also circumstances when an investment policy statement is mandatory. In England, Wales and Northern Ireland, if the legal structure of your hospice involves a trust, the trustees must put in place an investment policy statement when delegating investments to an investment manager to look after. If your hospice has a different type of governing document (e.g. is a company limited by guarantee), an investment policy statement isn't mandatory but is certainly good practice.

There's no mandatory rule like this in Scotland, although OSCR's investment guidance makes clear that an investment policy statement is viewed as good practice.

The trustees' annual report

Your investment policy statement should be referred to in your annual report. The second edition of the Charities SORP (FRS102), published in October 2019, covers this at section 21.13, stating that *"investment policies must be explained in the trustees' annual report and the value of investments held in pursuit of particular ethical investment policies may be identified separately in the note to the accounts."*

3. Process and practicalities

This section deals with practical points, such as how to get started writing an investment policy statement and clarifies who is responsible for owning the policy.

The hospice trustees are always the owners of an investment policy statement, reflecting the overall responsibility they have as trustees in relation to the assets of the hospice charity. This does not however mean that all trustees will write an investment policy statement. This task may fall to a sub-group, such as a Finance Committee or Investment Committee. The Finance Director may be involved in providing support. You may seek external insight to access specialist input. However you choose to go about writing your investment policy statement, from a governance perspective the 'buck stops with the trustees' who are ultimately responsible for the policy.

A further practical point to cover in your policy statement relates to permissions and authority to give instructions on the investments. You should consider how many signatories you need for authorising transactions. You may wish to have a Board Minute to cover this specifically, so that it can be shared with your investment manager as evidence of authority, and also refer to this in your investment policy statement.

Case study

A hospice with an investment portfolio valued at £4 million has a governance structure involving a Finance Committee, which reports to the full board of trustees. A sub-group within the Finance Committee was tasked with writing a draft investment policy statement, which was then discussed by the Finance Committee. A draft investment policy statement was then put to the full board for discussion, amendment and adoption. The Finance Committee keeps the investment policy under review on an annual basis. It is seen by the full board on a periodic basis.

4. Goal setting and risk appetite

A critical role for your investment policy statement is to make the link between your cash/investments and how they help to deliver the hospice's strategy and goals. This will help you to address various questions, including:

- Do you have an income target? How much income do you need to generate, to continue to meet beneficiary needs?
- What proportion of the hospice's overall assets do the investments represent, to set things in context?
- What balance do you want to strike between income generation and capital growth?
- Can you adopt a total return approach (i.e. focussing on a combination of income generation and capital growth)? Can you make withdrawals from capital?

To illustrate another scenario, let's imagine your hospice plans to expand its services in the next five years, through building an extension to its existing property or indeed moving to a new site. This kind of capital project will have its own financial goals sitting around it – these need to be referred to in the investment policy statement, since this is likely to influence how cash or a particular 'investment pot' may be set aside with that specific capital project in mind. The timescales for accessing that 'pot' are likely to be shorter than for investments which are not immediately required and which are likely to be held for the longer term.

There is also a link between your reserves policy and your investment policy statement. You might have a target level for reserves held in cash, beyond which the trustees have identified that they are comfortable to invest.

You may find it helpful to group and separate your goals into short, medium and longer term goals.

Goal setting is an individual task for each hospice charity, depending on its own strategy and financial position.

Normal operational expenditure	Capital build project	Longer term investments
Short-term goals here are likely to include retaining a level of cash for normal operational expenditure.	You might have money set aside earmarked for an extension or building project. These are medium-term goals.	It's not unusual to see reserves being invested in the stock market, for example, after a cash buffer has been built up and there is an appetite to invest beyond that for protection against inflation. A typical time horizon here reflects an intention to leave funds invested for at least five years. An endowment might be listed here.

The concept of risk comes into discussions around each of these goals. One way to think about 'risk' is to think about how resilient your hospice finances would be if the investments went down in value – can you withstand the ups and downs of the stock market? For a hospice taking a longer term view, the answer could be 'yes', and it involves accepting a degree of risk of shorter term volatility in the value of your investments. A factor which may affect a hospice's attitude to risk is the importance of investments to its overall financial situation. Questions to consider here include:

- Does the hospice rely on the income generated from the portfolio?
- Is there flexibility in expenditure, in the event that investment returns fluctuate beyond certain levels?

5. Responsible investing

There are a range of ways in which a hospice charity can seek to align its investments with its charitable purposes and strategy. Some of these may be straightforward, others may prompt much discussion and debate. Such discussion and debate is a positive signal that trustees are fulfilling their duties through considering the merits of the options before them.

Acting in line with the purposes of the charity

Looking at trustee duties for a moment, there is a relevant consideration at this point. Trustees should not make decisions which conflict with the purposes of the charity. Applying this in practice, this underpins why hospices would tend to exclude investment in tobacco manufacturers, since tobacco causes cancer – a disease which creates beneficiary harm leading to the need for hospice care.

It is for trustees to identify what causes the medical conditions experienced by those being supported by your hospice, and to judge if the connection is material enough to apply a screening exclusion. Alcohol manufacturers are often a discussion point on which views may differ.

Maintaining donor confidence and reputation management

Once you have identified those areas which cause beneficiary harm and are in conflict with your charitable purposes, the next task is to identify any areas of concern in relation to reputation management.

Views will differ here. Above all, collective decision-making is a key concept to keep in mind. That is, all trustees share

responsibility for board policy decisions. What matters is that all trustees can stand behind the policy and feel ready to justify it if challenged.

Making the strategic link with your fundraising and corporate donor policies

The concept of 'alignment' is one which it is worth reflecting on, when considering whether to apply a negative screen.

For example, if your hospice charity would accept a donation of £1 million from a local alcohol manufacturing company, it may be odd to apply a screening exclusion on alcohol manufacturers from your investment portfolio. The same is true in reverse: if a hospice would decline a corporate donation from a company in a certain sector, yet at the same time its investment portfolio includes shares in companies operating in that same sector, that lack of alignment could prove harmful for the charity's reputation.

When setting the ethical criteria in your investment policy statement, it's worth cross-checking this with your fundraising and corporate donor policies.

Environmental, social and governance factors (ESG)

Some charities mention ESG in their investment policy statement, to highlight that they value an investment approach which takes account of these three research factors. This is not the same as applying ethical exclusions, and is more usually used to describe research which goes into an investment firm's investment process.

You may want to find out what activities your investment manager is involved with, in terms of ESG. 'Engagement' is one aspect to this, which involves the investment manager

discussing ESG-themed issues on your behalf with companies you are invested in, to seek to drive better outcomes or disclosures. Another aspect involves voting at AGMs. A directly invested portfolio may allow for greater control over how the votes connected to your shareholding are placed, if this is an area of particular importance for you. There are different approaches here, and you will get a better picture of the range of options during an investment manager review process.

At a global scale, a number of investment managers are signatories to the UN Principles for Responsible Investment (UNPRI). This global initiative seeks to drive best practice in this area, and its six principles may be of interest to your hospice when framing your investment requirements. Some charities specifically seek to work with investment managers who are UNPRI signatories and who undertake various 'active stewardship' activities.

6. Other restrictions

There may be other limitations you wish to add to your investment policy statement.

For example, some trustees set a policy which emphasises transparency and which excludes opaque investments or derivatives. Your hospice may want to set parameters around being able to access the majority of the investments within certain timescales, or limiting less liquid investments to a certain percentage of the portfolio. Requirements will vary here, depending on the overall financial position of the hospice.

7. DIY or outsource?

It is unusual to encounter many charities where trustees choose the investments and implement investment buy and sell decisions themselves. More often than not, this is an area where external help is sought and the expertise of regulated financial professionals tends to be favoured as a risk management step.

Once you have worked through Sections 5 and 6 above, your policy towards responsible investing and any other restrictions will be factors which determine the investment approach that might be a better 'fit' to deliver your policy. For example, if a hospice invests in a pooled fund, the hospice is unlikely to be able to implement its own tailored list of ethical screens, and it will have to take whatever list of ethical screens comes with the pooled fund (if any).

In contrast, if a hospice adopts a direct investment approach, this means its chosen ethical screens can be applied at a stock-specific level, a feature which offers greater transparency, but requires time to be spent arriving at a final view on ethical screening.

There are a range of possible approaches, and you may wish to request information from, and meet, several investment managers to compare options and decide what's best for your hospice. You will also want to ask about fees, making sure to find out about the total cost of investing, and not just the annual management charge (AMC), since the AMC alone is unlikely to give a full picture of the costs.

Looking at how to outsource, a well-run investment manager review process involves effective forward planning which allows for sufficient time at each stage. A rushed process will tend to reduce the quality of information provided to you.

This is one possible timeline and approach:

- Month 1 – the group tasked with leading on the investment manager review process (e.g. Finance or Investment Committee or sub-group) should meet to agree the questions to be asked in the invitation to tender (ITT). Appropriate enclosures to have ready to issue with the ITT include the hospice's investment policy statement (even if in draft) and last annual report and accounts.
- Month 2 – issue ITT to your long-listed investment firms. At this stage, it is extremely helpful to all parties if a potential date(s) for presentations has already been identified in Month 4, and specified in the initial ITT.
- Month 3 – review responses from firms to compile short list of firms you would like to meet.
- Month 4 – presentations held. A typical format might involve 45 minutes, of which 15 minutes is a presentation and the rest is Q&A. On conclusion of this stage, the preferred investment manager is identified.

The final stages of the process will depend on the governance arrangements in your hospice. For example, it might be that the Finance Committee has led on the process, met the shortlisted firms and then makes a recommendation to the trustees. The final decision is then made by the full board, which could be a number of weeks after the 'Month 4' stage mentioned above.

8. Monitoring and measuring performance

You will need to come to a decision on how to measure investment performance. Each of the goals you set at Section 4 could have their own benchmarks, to reflect the different timeframes and levels of risk.

Do keep in mind that a benchmark may not incorporate the ethical screens you are applying, which means you may be 'comparing apples and pears.'

Many charities have moved to an inflation-linked measure for their long-term investments. For example, this could be CPI+3%, or some other figure.

Another approach could be to look at a peer group comparison. Asset Risk Consultants (ARC) provides performance figures across four different risk categories. This helps trustees compare how their investment portfolio is performing compared to (broadly) similar investment portfolios run by other investment managers.

Finally, consider the timeframe in which you will be measuring performance. You might, for example, select a rolling three to five year period, which reflects the impact short-term volatility can have in specific shorter timeframes.

Another aspect to monitoring performance is to undertake a review exercise every few years. There is no set cycle here, and it may be that you conduct an investment manager review exercise every five years, or before then if serious client service or performance issues have arisen.

Appendix 1

This sample investment policy statement illustrates one potential approach for a hospice. You should tailor your investment policy statement to reflect the particular needs of your hospice.

1.	**Introduction** The XYZ Hospice was set up in 1991 as a company limited by guarantee. It is registered with the Charity Commission (registered number 123456). The trustees have wide powers of investment and can invest in stock market investments. The charitable purposes include provision of palliative care, respite care, funding research and other general health and wellbeing purposes. The investment portfolio was valued at £7 million as at 31 March 2020. Our strategic plan 2020 – 2025 includes expansion of our main site for which a capital appeal project is underway, with the goal of raising £5 million.
2.	**Key contact information** The key contact at the hospice in relation to investment matters is the Finance Director. The authorised signatories on the account are the Finance Director and the Chair of the Finance Committee, who is also a trustee, further to a board minute dated 1 June 2018. The Finance Director can be contacted at the following address: c/o XYZ Hospice, High Street, Anytown.

3.	**Goals** The XYZ hospice has two key financial goals in the period of the current strategic plan. Firstly, the capital appeal project involves a £5 million fundraising goal. As sums are received and spent over the next five years, we anticipate treasury management activity to seek a better return for the funds held in the capital appeal bank account. Secondly, we hold the sum of £7 million as long-term investments. This sum has increased in recent years further to a number of legacies received. We want to prioritise income generation from the portfolio, with some capital growth to protect against inflation. We have an annual income target of £210,000 (being 3% of the portfolio value) which we would aim to grow in line with inflation. Income should be paid to us quarterly.
4.	**Risk** The capital appeal project fund should be held in an accessible form to enable easy access to money as this is required within the next five years to fund the expansion of our services. This needs to be held in a lower risk solution. We do not anticipate making significant capital withdrawals from the long-term investments and expect these to remain invested for five years or more. The trustees are prepared to take some stock market risk in order to generate better returns.
5.	**Ethical screening and ESG** As a hospice caring for those with cancer, we have identified that tobacco manufacturers are companies that we do not wish to hold in our investment portfolio. From a reputation perspective, we also do not wish to make investments in companies whose major focus is armaments production or pornography. We would like our investment manager to take an active approach to stewardship, to hold companies to account on our behalf on a range of ESG issues.

6.	**Restrictions and liquidity** We do not want to invest in opaque investments, for example those typically associated with hedge funds or derivatives contracts. Moreover, we do not wish to invest in opaque tax structures, for example we will not invest in companies domiciled in high risk tax haven jurisdictions such as the Cayman Islands or the Caribbean. At least 80% of our portfolio should be invested in assets that can be realised within one week.
7.	**Currency** Our hospice is in England and all our spending is in sterling.
8.	**Reporting** Our Finance Committee meets quarterly and will review quarterly reports from the investment manager at each meeting. Our investment manager is invited to attend one Finance Committee meeting each year. We would like online access to view our portfolio, as well as receiving quarterly and annual reports.
9.	**Review** This investment policy statement is kept under review by the Finance Committee, and seen by the board for sign-off on an annual basis.
10.	**Approval** This investment policy statement was approved by the board on [date].

Notes

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