



CC14 investment guidance update

# How trustees can make the right decisions about investing charity funds

We welcome the [Charity Commission's updated investment guidance \(CC14\)](#), which was released at the start of August 2023.

It sets out trustees' important duties and responsibilities in relation to the investment and governance of charitable assets, aiming to improve investment outcomes and help charities better support their beneficiaries.





## Obtaining professional advice

Obtaining professional advice ensures you put invested assets to best use, in a suitable way for your individual circumstances and objectives. The Commission notes that trustees 'must take professional advice' before making and reviewing investments<sup>1</sup>.

As an independent advisor with no asset management products to sell, Barnett Waddingham are free to advise charities on the appropriate governance structure for their investment management delegation, and to help find suitable managers from across the market.

## Conflicts of interest

The guidance states that professional advice should be 'impartial' and 'given by someone experienced in financial and other matters relevant to your charity's investment approach'. It also requires trustees to 'identify and manage any potential conflicts of interest that affect an adviser'.

Traditionally, advice has come from an investment manager, investment advisor or trustee with relevant experience and ability. Investment managers generally recommend an approach they provide or funds which they manage or will earn a fee on. We have seen examples where this has meant:

- investing in poor performing or expensive fund; or
- significantly restricting the strategies to the areas where they have expertise or relationships with third party managers, meaning limited options for trustees.

The guidance requires trustees to know about any benefits the manager or anyone else will receive under your agreement with them which we welcome and is in line with our existing policies of transparency of fees.

## Advice by trustees

An individual on the trustee board with suitable investment experience can provide advice on investments to the charity. The guidance is clear that the individual providing the advice is 'responsible for its quality' and 'may be held responsible' if they don't meet investment objectives because of poor advice. Given the potential financial impact of this, we would expect trustees providing advice to have indemnity insurance. We also suggest other trustees carefully consider this approach and the risks involved with taking advice from non-regulated individuals. The guidance tells trustees to 'keep a record of your reasons if you decide not to take external professional advice'.

## Our approach

We believe in an independent approach to investment advice, from a regulated provider with the expertise and resource to appropriately support trustees and navigate potential conflicts of interest. This ensures you receive the support you need across a wide range of investment matters including determining an appropriate investment objective, developing a comprehensive approach to sustainability, the selection and monitoring of investment managers, and developing a detailed and robust investment policy.

<sup>1</sup> Unless you have a good reason not to – the Commission note this could include the value of your assets being low or having expertise on the Trustee board



# Sustainable, ethical and social investment

The most significant change to the guidance is how trustees can incorporate a sustainable investment approach, as well as ethical restrictions and other potential non-financial factors, into their investment strategy. There is also a welcome change in terminology to focus on financial and social investment, replacing lengthy wording relating to mixed motive and programme related investment. We have split the approaches noted in the guidance into three categories:

## Sustainable investment approach

This refers to integrating companies' practices on environmental, social, and governance (ESG) factors into the investment decision to protect/enhance the financial value of your investments over time.

We believe this approach can improve the risk-adjusted returns of your portfolio and is an important financial factor that needs to be considered when investing for return. The guidance also notes the important role that charities can play in stewardship, i.e. voting and engaging with investee companies and understanding how your managers are doing this on your behalf.

## Ethical investment approach

Alongside aiming for a financial return, with this approach trustees can:

- avoid investments that conflict with your charity's purposes, such as a health charity in respect of companies that produce alcohol and tobacco;

- avoid investments that may cause wider reputational risk to the charity, such as investment in fossil fuels if it would bring negative publicity; and
- avoid investing in companies with poor ESG practices such as climate policy, human rights, and board accountability. The main rationale is to avoid poor financial outcomes associated with these poorly managed companies.

## Social investment approach

This approach refers to investing with a view to both achieve your charity's purposes directly and make a financial return. The specific trustee duties are different for making social investments than for the approaches above.

The new guidance clarifies to trustees that they have a wide remit to invest their assets - not just purely to generate a financial return, but also in a way which is consistent with the wider aims of the charity. Your approach must be in the best interests of your charity, and you should be able to justify and document your reasoning as to why, and the analysis that led to this.

We have supported many charities through this process, from developing a policy to implementing it in the right way. Our tailored approach means we consider a charity's specific requirements and add value by bringing to light the benefits and risks of different responsible investment strategies.

## Manager selection and monitoring

Most charities will use external investment managers to select and hold their investments. This may be in either a segregated portfolio where the manager holds a bespoke portfolio on the charity's behalf or in pooled funds, where the charity's assets are combined with those of other investors in a single vehicle.

The guidance references running a formal tender exercise to select an investment manager or funds. When assessing manager proposals, trustees should consider the manager's fit for their investment policy and non-financial objectives, experience, expertise, fees and charges, as well as their adaptability to suit your needs.

You must also have a written investment policy statement setting out their responsibilities and a formal contract. The guidance states the manager should not prepare your investment policy and suggests independent expert advice on its content. Once appointed, the guidance tells trustees to regularly review the performance and service of their investment manager, independently from the manager themselves.

As an independent advisor, we can support trustees in selecting, monitoring and reviewing their investment managers – we provide comprehensive advice and reporting covering all aspects set out in the guidance.

## Investment policy

The Charity Commission is clear that charities should have a written investment policy (many charities are legally required to). The guidance refers to taking advice when setting the policy and specifically notes the need for trustees to 'identify and manage any potential conflicts of interest that affect an adviser'.

A compliant investment policy should be a clear, comprehensive living document with a robust framework for strong decision making. This provides clarity to key stakeholders on your charity's approach to investment strategy and governance, including your aims, beliefs, constraints and the rationale for your decisions.

The guidance tells trustees to 'keep your investment approach under regular review'<sup>2</sup> and extends this to the investment policy. We recommend an in-depth review of your strategy every three years. The Commission also notes other situations where you may need to revisit your strategy, such as significant changes in the economic outlook or your charity's financial position. A key benefit of our monitoring service is that this allows you to identify when your strategy needs reviewing and what the areas of focus should be.



## In conclusion

Overall, the updated CC14 guidance provides a clearer, more concise framework for trustees to help them develop their investment strategy, underpinned by strong governance.

Our key takeaways for trustees in respect of the Commission's guidance are:

- the importance of obtaining independent, experienced advice that you can rely on, which avoids potential conflicts of interest;
- clarity on navigating different responsible investment approaches;
- expectations in respect of selecting and monitoring investment managers; and
- the need for a robust and documented investment policy

## Get in touch

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If you would like to know more on this topic, please visit our investment consulting services page or you can contact Neil Davies directly.

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