

Investment and Endowment Policy

Version Control

1. Full Document Number:	FINPOL003
2. Version number:	1.6
3. Superseded version number:	1.5
4. Document owner job title:	Senior Financial Accountant
5. Department / function:	FIN (Finance)
6. Approved by:	Finance & Investment Committee
7. Date of approval:	25.01.2024
8. Next review date:	January 2025
9. Date of Equality Impact Assessment (assessment enclosed):	January 2022
10. Accessibility checked: Yes/no	Yes
11. Does this policy apply to LSTM Group (LSTM and subsidiaries?) Yes / no	Yes
12. All policies will be added to the LSTM website unless an exception is provided here	-
13. If this policy has been reviewed, has this resulted in a minor or major changes?	Minor

Modifications from previous version of document

Version	Date of issue	Details of modification
1.1	18.01.2017	Update onto new policy template
1.2	10.07.2017	New policy
1.3	11.11.2019	<p>Update onto new policy template</p> <p>Section 10.2 - Time Horizon; added in that direction of Director of Finance required regarding time horizon being short, medium or long term.</p> <p>Section 11.2 - Ethical stance: clarified that the restrictions on investing apply to the disallowed behaviours occurring in directly in organisations or their subsidiaries.</p>
1.4	10.02.2020	<p>Section 3 – new section safeguarding</p> <p>Section 9.1/2 – updated to include HMRC approved qualifying investments</p> <p>Section 12.2 - include Fossil Fuels</p>
1.5	03.03.2021	<p>Section 7.5 & 13.1 – WM Charity Fund changed to ARC Charity steady growth index</p> <p>Section 12.1 - reworded</p> <p>Section 12.2 – addition of ‘Testing of cosmetic and non-pharmaceutical products on animals except where it is mandatory’</p> <p>Section 7.3 – changed from 3% target to agreed annual target with fund manager.</p>
1.6	24.03.2022	<p>Update onto new policy template</p> <p>Section 7.3 – date changed from February to June/July</p>

Contents

1. Introduction and Context	4
2. Equality and Diversity	4
3. Safeguarding	4
4. Scope	4
5. Roles and Responsibilities	5
6. Investment Powers	5
7. Investment Objectives	5
8. Risk Management	6
9. Assets	6
10. Liquidity Requirements	7
11. Time Horizon	7
12. Ethical Stance	7
13. Reporting Requirements	8
14. Review	8
Equality Impact Assessment: Section 1	9

1. Introduction and Context

- 1.1 The purpose of this policy is to outline the broad principles governing the managing the investments and endowments at LSTM.
- 1.2 It sets out the statutory responsibilities of the Trustees in terms of investments and endowments, outlines the aims of the investment portfolio, considers the business needs, types of allowable investments and asset classes and describes the reporting framework.
- 1.3 The majority of the funds are held for long term purposes and are invested in capital market investments in order to provide a consistent level of annual income sufficient to meet the requirements of donors and protect assets against inflation or deflation.
- 1.4 Endowment funds are categorised as one of the following:
 - Unrestricted permanent endowment – annual income is not tied to specific purposes and may be used for the general benefit of LSTM. The capital investment is to be retained in perpetuity and cannot be drawn upon to support expenditure.
 - Restricted permanent endowment – annual income must be used strictly in accordance with the terms of the fund. The capital investment is to be retained in perpetuity and cannot be drawn upon to support expenditure.
 - Restricted expendable endowment – annual income must be used strictly in accordance with the terms of the funds, but the capital balance may also be used.

2. Equality and Diversity

LSTM is committed to promoting equality of opportunity, combatting unlawful discrimination and promoting good community relations. We will not tolerate any form of unlawful discrimination or behaviour that undermines this commitment and is contrary to our equality policy.

This policy did not require an Equality Impact Assessment.

3. Safeguarding

In line with our safeguarding policy and procedures, LSTM's processes reflect our organisational commitment to keeping children and vulnerable adults safe.

4. Scope

The scope of this policy applies to:

4.1. Board of Trustees

- 4.2. Finance and Investment Committee
- 4.3. Finance Staff
- 4.4. Fundraising

Covering donations of cash made by individuals, trusts and foundations, companies or other charitable entities and surplus cash reserves.

5. Roles and Responsibilities

- 5.1 The assignment of responsibility for investment decisions at LSTM is with the Finance & Investment Committee.
- 5.2 The Finance & Investment Committee will
 - Determine the allocation of funds for investment
 - Consider new investments
 - Appoint Fund Managers and receive reports on performance
- 5.3 Delegate Officers of LSTM will participate in the formulation and execution of the investment policy, evaluating fund manager performance, measuring and reporting investment performance.
- 5.4 Fund Managers are designated external entities with discretion to purchase and sell, in LSTM's name, the specific securities that will be used to meet the investment objectives.

6. Investment Powers

- 6.1 Investment and surplus currency management has been vested to a number of Fund Managers to whom full powers within the terms of this policy have been delegated.
- 6.2 The following investment decisions can be made within this framework by:
 - The sale and purchase of investments within the boundaries of this policy of less than £1m - Director of Finance
 - The sale and purchase of investments within the boundaries of this policy of greater than £1m – Finance & Investment Committee

7. Investment Objectives

- 7.1 Investment and endowment funds are invested to produce the best financial return within an aggregate low to medium level of risk.
- 7.2 The primary objective is to balance income and capital returns. The assets should be managed to at least maintain real capital value, whilst generating a consistent and sustainable level of investment income to support the current investment and endowment fund activities.

- 7.3 The income target is agreed annually for the following year at the June/July Finance & Investment Committee. The recommended target can be an agreed cash amount or % return of the capital value based on fund manager advice on market conditions.
- 7.4 Investment of research funding received in advance should aim to achieve an annual income stream, which is greater than that which could be achieved on the money market.
- 7.5 The performance of the portfolios will be measured against the performance of the other brokers and the ARC Charity steady growth index.

8. Risk Management

- 8.1 The invest and endowment funds rely on investment income to fund current and future activities. The stability of income is therefore an important requirement, and the long-term capital value should be protected.
- 8.2 The key risk to the long-term sustainability of the fund is inflation or deflation and the assets should be invested to mitigate this over the long term.
- 8.3 The Finance & Investment Committee can tolerate volatility of the capital value of its investments and endowments if current expenditure can be met from investment income and occasional drawdowns of capital may be made to meet the needs of individual expendable endowments funds.

9. Assets

- 9.1 The investment and endowment assets can be invested widely according to the general power of investment and should be diversified by asset class and by security.
- 9.2 To comply with Charity Commission regulation, LSTM only invest in the following types of investments that are accepted as qualifying investments:
 - Any investment in a charity common investment fund, common deposit fund or similar scheme
 - Any interest in land (unless it is held as a security or a guarantee for a debt).
 - Shares or securities of companies listed on a recognised stock exchange
 - Units etc in a Unit Trust Scheme
 - Share in an Open-Ended Investment Company
 - Bank deposits – other than deposits made as part of an arrangement under which the bank makes a loan to somebody else (e.g. back to back loans)
 - Certificates of deposit

- Any loan or other investment made for the benefit of the charity and not for the avoidance of tax (whether by the charity or any other person)

9.3 The Committee may use more than one Fund Manager in which case a decision process must then be in place to deal with the addition of new investments.

9.4 The Committee may agree to invest in individual or fund-based equity and fixed interest holdings, composite charity funds, or any combination in order to achieve the overall long-term objective of balancing capital and income returns.

10. Liquidity Requirements

10.1 LSTM aims to balance the needs of current and future beneficiaries and as such aims to set a sustainable income target, whilst ensuring the capital is expected to grow in line with inflation or higher over the long term.

10.2 LSTM may draw down capital in respect of expendable endowments, and there may be a requirement for some short-term capital liquidity within the investment portfolio.

10.3 There is no requirement to hold a proportion of assets in cash in the medium to longer term portfolio, as there will be sufficient liquidity available by taking a balanced approach to the portfolio.

11. Time Horizon

11.1 The permanent endowments portfolios are expected to exist in perpetuity and investments should be managed to meet the investment objectives and ensure sustainability.

11.2 LSTM can adopt a short, medium, or long-term time horizon depending on the type of deposit and the direction of the Director of Finance.

12. Ethical Stance

12.1 LSTM is fully committed to investing its funds in a socially responsible manner. This section of the policy sets out the principles for responsible investing that includes consideration of Environmental, Social and Governance (ESG) issues relating to all investment decisions.

12.2 LSTM is particularly concerned about the following key ESG issues and will continue to adopt strategies that seek to eliminate direct investments in companies who are involved with the following behaviours:

- The manufacture or sale of armaments

- Contravening human rights standards
- The exploitation of the workforce
- Discrimination or any other conduct that is prohibited under the Equality Act 2010
- The manufacture and sale of tobacco products
- Fossil Fuel extraction
- Testing of cosmetic and non-pharmaceutical products on animals except where it is mandatory

13. Reporting Requirements

- 13.1 The Finance & Investment Committee is the formal subcommittee of the Board with responsibility for monitoring and reviewing investment performance. A standing report on investment progress and performance will be provided to each committee meeting which should include the following:
 - An analysis of return by fund manager
 - A monitoring of performance against other fund managers and the ARC Charity steady growth index
 - An analysis of fund manager fees incurred
- 13.2 The fund manager will provide LSTM with formal reports on the performance of the overall portfolio on a quarterly basis, inclusive of a yearend report to July.
- 13.3 They will also attend at least one committee meeting every 2 years to report on the progress of the portfolio and provide advice on asset allocation and fund selection.
- 13.4 A written legal agreement is in place with the external advisors to clarify deliverables and accountability.

14. Review

- 14.1 The fund manager performance will be reviewed against each other by the Finance & Investment Committee and reported to The Board.
- 14.2 The Finance & Investment Committee will review the performance of the fund manager and test the market as appropriate.

Equality Impact Assessment (EIA)

Equality Impact Assessment: Section 1

Title of policy/process:	<i>Investment and Endowment</i>
Policy owner job title:	<i>Senior Financial Accountant</i>
Date of EIA:	<i>21/01/2022</i>
Policy relevant to: Staff / students / visitors etc:	<i>Board of Trustees, Finance & Investment Committee, Finance Staff, Fundraising</i>
Summary of any consultation with stakeholders (e.g. date and type of consultation):	<i>N/A</i>
This policy has been checked for accessibility on: (date)	<i>February 2022</i>
I confirm that this policy does not impact people, and therefore does not require an EIA	<i>Yes, I can confirm that this policy does not impact people and therefore does not require an EIA</i>