UK COMMUNITY FOUNDATIONS
GIVING FOR LOCAL GOOD

UKCF Investment Policy

1. Introduction

1.1. UKCF's strategy is to build and hold a significant endowment fund, created in order to support Community Foundations and their communities now and for generations to come. Although legally the endowment could be treated as expendable, it will be held as a long-term capital fund in perpetuity, to provide income for current and future grant-making and to contribute to administration costs. As an incorporated charity, UKCF is unable legally to hold a permanent endowment.

1.2. UKCF is looking to build its endowment over the coming years, primarily as the result of trust transfers. All of these funds will be invested with appointed fund managers ('Investment Managers'), currently CCLA. Clause 4.1 of UKCF's Memorandum of Association gives the Board wide powers to invest funds as they see fit. UKCF and the network rely significantly on the investment return to fund grant making and administration costs.

2. Investment objectives

2.1. UKCF operates a total return policy which enables Investment Managers to invest funds for long-term growth. The objective of the fund is to produce as much total return as possible whilst seeking to maximise the long-term real value of the fund.

3. Time horizon

3.1. UKCF and the Community Foundation network are expected to exist in perpetuity and can therefore adopt a long term investment time horizon.

4. Risk

4.1. The key risk to the long term sustainability of the endowment fund is inflation and the assets should be invested to mitigate this risk over the long term. The Board understands that this is likely to mean that investment is concentrated in real assets such as shares and that the capital value will fluctuate accordingly.

4.2. The funds can be invested widely (excluding ethical policy below) and should be diversified by asset class. Currently, they are held in CCLA COIF funds, which are themselves diversified. As a charity, UKCF does not wish to incur tax on investments and therefore only allows investment in approved charitable investments as defined in sections 558 and 561 Income Tax Act 2007.

5. UKCF Board approach to investment management

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5.1. At its meeting on 7 December 2017, the Board agreed that until its endowment fund had grown to a level of £10m, it would be preferable to invest the funds in a unit based fund which was able to invest in a range of assets with the objective of meeting the investment objectives. The Board noted that the Community First endowment fund, which it oversees through the CF Investment Committee, has the same investment objectives.

5.2. The Board did consider the alternative of selecting its own investment fund manager, of developing its own asset allocation approach, and monitoring the performance of the fund. It concluded that, given the current and anticipated level of endowment fund, this was an unduly burdensome option which in all likelihood would also incur additional management time and expense.

5.3. The decision of the Board therefore was that the endowment should be invested into the unitized COIF funds of CCLA. The Board recognized that in pursuing this option it does not have any direct influence over the composition of the COIF funds and so cannot set the asset allocation. It also acknowledged that it was not able to determine the withdrawal rate from the fund as this was determined by the COIF Board.

5.4. The Board agreed that when the endowment fund reached £10m this approach to investment would be reconsidered and that the mandate to CCLA would be reviewed.

6. Liquidity requirements

6.1. As the funds will (for the time being) be held with CCLA, there will be a separate arrangement whereby income is withdrawn throughout the year. In addition, the Board of UKCF will have the option (but not the obligation) to withdraw any total capital return above RPI on an annual basis. The UKCF Finance Audit and Operations ('FAO') Committee will make recommendations to the UKCF Board in this regard.

7. Transfers of shares and ethical investment policy

7.1. UKCF may, but is not obliged to, accept donations of shares (or other securities) which can be added to the relevant portfolio and managed by the Investment Manager or can be sold and the proceeds added to the relevant portfolio. The FAO Committee will make recommendations to the UKCF in the event that the assets to be transferred under trust transfers include shares.

7.2. Donors (or trustees of trusts to be transferred to UKCF) may elect for their donation to be invested in a separate ethical fund. These funds will for the time being be invested in CCLA's COIF Charities Ethical Investment Fund. The ethical policy of this fund is defined by CCLA's Board in consultation with investing (charity) clients.

8. Investment property

8.1. UKCF does not seek to hold physical property as investments. Normally, subject to the decision of the UKCF Board (advised by the FAO Committee), it would dispose of the property and invest the proceeds as set out above. However, it is possible that UKCF may be gifted real estate with terms attached which dictate when it can be disposed of. At the point the conditions are met the UKCF Board will be able to decide on the timing of the disposal of the assets, the proceeds of which will be invested as above.

9. Management, reporting and monitoring

9.1. Management of UKCF's assets is one of the main responsibilities of the Board. The Board has decided initially (see above) to delegate this responsibility to the Community First Investment Committee ('CFIC'), which oversees the endowment created by the Community First Match Challenge Programme. The CFIC is chaired by the Treasurer, who is supported by other UKCF Board members and co-opted individuals with investment experience. Currently there are 2 UKCF board members on the CFIC. Written terms of reference of the CFIC have been approved by the Board and are included at appendix 1.

9.2. The Board will appoint professional investment managers to manage the investments and monitor their performance with the help of CFIC. The appointment of Investment Managers will be reviewed at least every three years and alternative managers are considered if necessary. Fees are agreed within the investment mandates by the CFIC.

10. Charity Commission Guidelines

10.1. The Investment policy has been prepared with reference to the Charity Commission's recommended guidance, Charities and Investment Matters: A guide for trustees (CC14). The guidance is based on trust law and does not directly apply to directors of charitable companies. However, directors of charitable companies act in a fiduciary manner in furthering charitable purposes and therefore have similar responsibilities.

Appendix 1

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Community First Investment Committee Terms of Reference (2021)

The Supplier (UKCF) has established the Joint Investment Committee (JIC) for the Community First Programme (Programme), now known as the Community First Investment Committee (CFIC).

The CFIC will monitor the investment management and administration arrangements for the Programme. It will keep the Supplier's Board/Trustees informed about the arrangements and advise them of any changes that the CFIC believes are appropriate, including the replacement of the fund manager.

The CFIC is advisory, having influence but without delegated authority. It will provide a written report for the Supplier's Board/Trustees once a year covering its deliberations and recommendations for the year ending 31st March. This report will be made available to the CFIC members.

The CFIC will have a minimum of 4 and a maximum of 7 members made up of:

- 2 members appointed by the Supplier's board of trustees (1 of which to be the Chair of the CFIC);
- Up to 3 members, appointed by the Supplier's board of trustees, and drawn from staff or trustees of community foundations eligible to be nominated to the Supplier's Board (this means that staff need to be employed and trustees need to have been on the Board of a community foundation for a continuous period of at least six months within the last three years);
- 2 independent members with relevant investment expertise but who are not eligible to stand for the Supplier's Board, appointed by the above committee members.

The quorum for the CFIC shall be 4 members, including at least 1 independent member.

The CFIC will meet at least twice a year timed to coincide with investment and administrative reports provided for the periods ending 31st March and 30th September. The Chair of the CFIC will call other meetings as appropriate. There is an expectation that the fund manager will attend the CFIC at its request, but there is no right of attendance.

The CFIC will be responsible for monitoring, assessing, interpreting and challenging the following:

1. The various funds used in the Programme. This will include an assessment of their total return performance, income performance and risk.

2. The level of funds raised and overall asset allocation of the Programme, and summary of the position for local Community Foundations and target areas.

3. Any limitations placed on the flexibility of Community Foundations to invest in the funds (such as maximum or minimum percentages, and time to achieve those limitations).

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4. The specification of investment reporting for local Community Foundations and the Programme as a whole.

5. After 31st March each year, for the Programme and local Community Foundations, the CFIC will assess the appropriate level of transfer from capital to distribution accounts, of the capital returns greater than Retail Price Index (RPI) to be paid. For the avoidance of doubt, this assessment does not preclude individual Community Foundations to determine the percentage of any capital gain in excess of the original value of the Fund and applicable match funding, indexed by RPI, to be paid.

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