PCCs and Investments

PCCs are often in the fortunate position to have funds to invest. If that is the case, then PCCs need to consider how to balance the benefit of generating additional income from the funds against the risk associated with different types of investment. Choosing to do nothing can also be a risk: if cash is left in a bank account for the long term then the real value of the capital is eroded as inflation rises, and therefore the amount which the cash could buy decreases each year.

This paper is for those PCCs who have surplus cash available for medium term or long term investment. It is not aimed at those PCCs who are holding cash for immediate financial needs or those who have future spending commitments. For example, if the PCC is holding cash for forthcoming building works, or other projects likely to take place within the next three to five years, then it is likely that the PCC will continue to hold the amount in a bank account rather than invest it.

As trustees of a charity, PCC members are all responsible, jointly and individually, for the finances of the PCC. This includes investment decisions. It may be appropriate to appoint a subcommittee to consider detailed proposals but any over-arching investment decisions should be made by the whole PCC.

The DBF is not allowed by law to provide investment advice to parishes. If parishes need specific advice then they will need to take independent financial advice from a firm that is regulated by the Financial Conduct Authority.

The purpose of this paper is to provide links to resources which may be useful and to provide some clarification on the types of investment products which are available to charities.

Resources:

Parish Resources – Guidance on Investing Your Reserves for PCCs – https://www.parishresources.org.uk/wp-content/uploads/investingreserves.pdf

The Charity Commission has issued guidance about investment matters for charities – see https://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14/charities-and-investment-matters-a-guide-for-trustees

The Charity Finance Group and Cazenove have published a guide to writing an investment policy – see https://www.cazenovecapital.com/uk/charities/publications/investment-policy-guide/

Charities Aid Foundation have produced some guidance about writing an investment policy: https://www.cafonline.org/charities/investments/writing-investment-policy

Church of England Statement of Ethical Investment Policy:
https://www.churchofengland.org/sites/default/files/2019-01/Statement%20of%20Ethical%20Investment%20Policy%20-%20October%202018%5B1%5D.pdf

Investment Policy:

Every charity considering investing money should have an investment policy statement. The following information is intended to supplement the resources listed above. Once agreed the PCC should be invited to confirm their investment policy on a regular basis – every three to five years would usually be deemed acceptable. Under the Charity SORP trustees should also include a summarised version of the investment policy in the PCC's annual report.

Purpose of Investments:

Before taking any specific decisions, all PCC members should be invited to debate some wider questions and must first come to some early conclusions. The first question is to agree the purpose of the funds available for investment. Investments are generally used to generate income while preserving the real value of the underlying capital (i.e. trying to grow capital at the rate of inflation). However there are different views about the how much income should be generated versus the amount by which capital should grow, and different assets will be preferred depending on the answer to this.

Risk Appetite

The second question is to agree how much risk the PCC collectively is willing to accept. This is a difficult question to answer because different people have different views of what constitutes a risky activity and also whether they are willing to engage in that activity. General wisdom dictates that the higher the risk the higher the probability of a gain or loss. It is this balance between risk and reward which needs to be discerned. As each individual is willing to take different levels of risk the challenge is to find the level of risk that the PCC is willing to take collectively.

It is important that the PCC document the decision about risk appetite along with the rationale for the decision.

Volatility

Volatility is a measure of the range by which the price of an investment may increase or decrease over a given period of time. It refers to the amount of uncertainty in the underlying value of an asset. The value of a bundle of bank notes does not vary and so the volatility is low. On the other hand the value of a share may increase or decrease dramatically depending on the economic climate, and news about that particular company. Hence the volatility is higher.

In general the higher the volatility the greater the risk, but also the higher potential for returns. Investors need to decide whether fluctuation in value is acceptable. If the money is likely to be needed in the short term, volatility in value is probably unacceptable. If, however the funds are a long term investment then volatility may be acceptable given the increased potential for capital gain.

Ethical Investment Policy

Best practice would be that the PCC should discuss and adopt an Ethical Investment Policy: this will vary from the "dark green" (strictly ethical) to the lighter touch of SRI (Socially Responsible Investment).

Dark green is an exclusive process whereby certain specific investments are excluded, such as armament manufacturers.

SRI is a more inclusive process, which incorporates "best in class" and a "permitted percentage" (in the case of a supermarket, for instance, a dark green policy might exclude the stock because it sells tobacco products, but it would pass the test of SRI because the tobacco business is incidental to the whole and only accounts for a fraction of the total.)

There is an option to say that the PCC has no specific view on ethical investing.

PCCs should ensure that they observe best current practice in relation to their policy

What is the available range of investments?

There are a large range of potential investments available and this is not an exhaustive list. Charitable funds are subject to more constraints than individuals' funds. For example, certain National Savings products are not available to charities. Investment Bonds and other Insurance based investment products are likewise excluded. The most common investment options open to charities are:

1. Fixed interest investments[i]
2. Equity including Common Investment Funds[ii]
3. Property assets[iii]

Common Investment Funds or Charity Authorised Investment Funds

Many fund managers offer collective investment schemes some of which are charities themselves and therefore available only to charities. These schemes are usually invested largely or totally in equities but offer a spread of investments that are professionally managed. They also have a declared ethical investment strategy.

Most PCCs will choose Fixed interest or Equities or a mixture of both. They should take expert advice as to what is most suitable for them including their appetite for risk and volatility

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[i] Fixed interest investments, often called bonds or gilts, are simply a loan from the investor to the issuer. The issuer of the bond undertakes to pay back the money to the bond-holder at a future specified date (maturity date) and to pay a fixed rate of interest (coupon) on the loan until then. Bonds and gilts can be freely traded. Bonds issued by the British Government are regarded as more secure then corporate bonds as they are deemed to be risk free in terms of default.

[ii] Equity, often called shares, represents the ownership of a business, by direct investment in a company whose shares are usually traded on a recognised investment exchange (e.g. London Stock Market). It is possible to hold shares in a private company but this can present practical problems. It also covers indirect investment, where typically Investment Trusts, Unit Trusts or other collective investments would be included. A range of returns from zero to 5% may be expected. Capital values are dependent on market movements as well as the influence of the performance of the individual business.

[iii] Property assets are less liquid than the other types of investment (i.e. it may not be easy to sell the asset to realise cash if needed). Income can be generated through rental income. Capital growth is dependent on the property market. There are also risks associated with ownership such as inability to find a tenant, insurance and ongoing maintenance costs. It is possible to gain exposure to the property market by investing in a property fund, some of which are specifically charity funds.