INVESTMENT GUIDANCE FOR PARISHES. Revised Sept 2021.

Preamble.

1. The DBF is not regulated to give financial advice. This document is designed to provide general guidance only on the investment options available to Parishes and the legal requirements set by the charity commission.

2. Members of PCCs should be aware that they are trustees of a charity and therefore subject to the regulation of the Charity Commission and to charity law.

   Charity Commission guidance on investments (CC14) can be found on the Charity Commission Website

   https://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14

   In order to act within the law, trustees must:

- know, and act within, their charity's powers to invest (legal requirement)
- exercise care and skill when making investment decisions (legal requirement)
- select investments that are right for their charity; this means taking account of:
- how suitable any investment is for the charity?
- the need to diversify investments (legal requirement)
- take advice from someone experienced in investment matters unless they have good reason for not doing so (legal requirement)
- follow certain legal requirements if they are going to use someone to manage investments on their behalf (legal requirement)
- review investments from time to time (legal requirement)
- explain their investment policy (if they have one) in the trustees' annual report (legal requirement)

The commission also recommends that trustees should:

- decide on the overall investment policy and objectives for the charity.
- agree the balance between risk and return that is right for their charity; this may include a wide range of factors that will impact on return including environmental, social and governance factors.
- have regard to other factors that will influence the level of return, such as the environmental and social impact of the companies invested in and the quality of their governance.
- be aware that some investments may have tax implications for the charity.
- invest any permanently endowed funds in a way that helps them to meet their short and long-term aims.
- decide whether to adopt an ethical, socially responsible or mission related approach to investment and ensure that it can be justified.

First Floor, Peninsular House, Wharf Road, Portsmouth PO2 8HB • 023 9289 9650 • portsmouth.anglican.org • @CofEPortsmouth

If trustees can demonstrate that they have considered the relevant issues, taken advice where appropriate and reached a reasonable decision, they are unlikely to be criticised for their decisions, or for adopting a particular policy.

The DBF in addition to the charity commission guidance believe that as Christians we are called upon to be good stewards of God-given resources, which means that we must strive to achieve the best possible investment returns compatible with the overall financial needs of the parish in order to facilitate the growth of God`s kingdom.

The need for an investment policy

3. Writing an investment policy is a good way of expressing the financial requirements of the PCC. If only cash is held a policy should still be written explaining why holding cash is the appropriate action,

   When writing the investment policy, the trustees should consider the following:

   - Investment Powers
   - Investment objectives
   - Attitude to Risk
   - Capacity for Loss
   - Timescale for Investment
   - Funds available and liquidity requirements
   - Investment restrictions
   - Future capital expenditure
   - Who can make decisions
   - A suitable measure of performance
   - Details of professional advice and delegation

The following are example questions a PCC may ask itself prior to establishing a Policy.

What investments do we have at present? Are they earning less than the rate of inflation and thus losing value in real-terms and/or not maximising our income?

Do we anticipate needing the capital in the near future, or could we invest on a medium/long term basis in order to achieve the best possible return?

Do we need to maximise income, or do we want to increase our reserves as much as possible, or adopt a “total return” approach being a mix of income and capital appreciation?

In the case of a bequest/windfall, is it in any way “restricted” in the charity law sense i.e., can it be spent only for a specific purpose, or for the general purposes of the PCC, or can only the interest and not the capital be spent?

First Floor, Peninsular House, Wharf Road, Portsmouth PO2 8HB • 023 9289 9650 • portsmouth.anglican.org • @CofEPortsmouth

Options

4. If the money will be required within say a year or for day-to-day purposes, the PCC will need to “shop around” to secure the best deposit/instant access interest rate. This might include the CBF Deposit Fund which is AAA rated and invested in the money market to produce the best possible “overnight” interest yield, or a bank or building society. A warning must be given that the highest interest rate may well be given by an institution that is less stable than others so before investing check their credit rating. Any rating below A should probably be avoided.

5. If the PCC decides to take a longer-term view and invest in order to protect its reserves against inflation and produce a reasonable income, then it might consider a pooled fund available exclusively to charities. These can have one of several legal structures such as Common Investment Fund (CIF), Charity Authorised Investment Fund (CAIF), Non UCITS Retail Scheme (NURS).

   A variety of these funds are available, and some are mixed funds providing a diversified portfolio of several asset classes, whilst others invest only in one asset class such as global equities, global bonds, UK property etc. Units in these funds can be purchased or sold on a daily, weekly, or monthly basis dependant on type, and parishes can deal directly with the fund manager.

Where can the PCC go to obtain appropriate investment advice

6. The Charity Commission recommend that you obtain advice “unless you have good reason not to” If you believe that the PCC has many years of experience in handling investments, or one or more members are qualified in investments then you can reasonably claim that you do not require advice. If you do decide that you need advice, then you should seek the help of an independent financial advisor (IFA) the following website is a good starting point: www.unbiased.co.uk.

7. The default investment manager for PCCs is CCLA (used by the diocese – see glossary below) Other companies that have faith-based ownership include Edentree Investment Management (owned by Ecclesiastical Insurance Group) and Epworth Investment Management (owned by the Central Finance Board of the Methodist Church).

Help! How do we start?

8. We do understand that this is a big step for a parish which has no investment experience or expertise. Whilst the DBF cannot give financial advice, individual lay members of the IAG will be happy to talk through the whole process of starting to invest or reviewing existing investments or devising a policy, with PCCs or treasurers. If a parish would like to take advantage of this offer, please contact Paul Mitchell, chair of the IAG, in the first instance, paul.mitchell59@aol.co.uk or Chris Parker, the diocesan stewardship adviser. chris.parker@portsmouth.anglican.org.

9. Whatever a parish does with its investments or cash in hand, it is now mandatory to have a "reserves policy" which states how the PCC intends to utilise the money to further its charitable purposes. There is guidance available at: https://www.parishresources.org.uk/pccs/managing-reserves/ and through membership of ACAT.

   As an example, the Policy might say:- "The PCC aims to maintain cash reserves sufficient to cover X months routine expenditure in case there should be an unexpected reduction in voluntary income and/or increase in expenditure. In addition, the PCC is setting aside money to finance (details of specific short-term major repair or project)"

And finally

10. We thought that you might like to know what the diocese does with its liquid reserves. In summary the DBF`s policy is to keep no more than about 6 weeks running costs on deposit and for this cash it looks around for the best current interest rates in terms of minimum risk and maximum yield. This might be CCLA or a clearing bank.

11. All other reserves (i.e., other than physical property) are invested long term in three CIFs which are aligned with the Church of England`s "Ethical Investment Policy". These CIFs invest in a mix of UK and global equities, gilts/fixed interest bonds, commercial property, and infrastructure, and currently provide the DBF with a yield of about 3.5%, and hopefully over time sufficient capital appreciation to combat inflation. These investments are monitored by the IAG to ensure that they are performing satisfactorily by comparison with recognised benchmarks and that they are deployed to meet the current policy aims and needs of the diocese. We are constantly mindful that investment values may go down or up and that we are investing for the long term.

Diocesan Investment Advisory Group
July 2021

Glossary:

ACAT:	*The Association of Church accountants and Treasurers. An invaluable source of advice*
***CBF**:*	*The Central Board of Finance of the Church of England.*
***CIF**:*	*Common Investment Funds. A pooled fund for use only by Charities such as PCCs The fund is regulated by the Charity Commission (not the FCA). The manager of the fund must be FCA regulated.*
CAIF	*Charity Authorised Investment Fund. A pooled fund for use only by Charities such as PCCs. The Fund is regulated by both the Charity Commission and the FCA.*
NURS	*Non UCITS Retail Fund. Can be structured to only allow charity investors. Is regulated by the FCA. The Charity Commission have no jurisdiction over the fund.*
Bonds:	*Issued by the Governments, public companies, housing associations, charities, and other organisations. paying a fixed or variable rate of interest.(Those issued by the Government are also called Gilts)*
***CCLA**:*	*Churches, Charities and Local Authorities. An investment Manager owned jointly by the CBF and various large charities and Local authorities which manages inter alia the various "CBF Church of England Funds" and the "COIF Funds".*
DBF:	*The Diocesan Board of Finance which is the body which holds all the Diocesan property and investment assets, manages the Diocesan finances, and is the employer of all Diocesan lay staff.*
Equities:	*Shares in Public Companies (PLC) listed on the principal Stock Exchanges.*
IAG:	*The Diocesan Investment Advisory Group (authors of this guidance note)*
Total return:	*A combination of the Dividends paid plus or minus the rise or fall in the market value of the Equity/Share, expressed as a % of the current market value.*
***Yield**:*	*The Dividend paid expressed as a % of the current market value of the Equity/Share.*
AAA:	*The highest credit rating awarded to a financial institution by the independent Bodies recognised nationally for the purpose (Moody's, Fitch & Standard & Poor's).*

First Floor, Peninsular House, Wharf Road, Portsmouth PO2 8HB • 023 9289 9650 • portsmouth.anglican.org • @CofEPortsmouth