# Investment Policy

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## Contents

# 1.0 Introduction

### Purpose

1.1 To set out the policy on financial investments.

1.2 The power of investment is set out in rule F15, and states that "The funds of or monies borrowed by the Association may be invested by the Board in such manner as it determines". This power is wide but must be exercised in accordance with charity law principles as set out below.

1.3 This policy only applies to significant investment decisions and is not intended to prevent the exercise of the delegated authority in the Treasury Policy.

1.4 This policy is also distinct from the Treasury Policy which deals with the management and investment of funds in the shorter term. Funds dealt with under the Treasury Policy are those not yet required for their intended purpose.

### Application and Definitions

1.5 This policy relates to all financial investments. This is an investment in a pure sense, as the term might be used by an individual with some spare funds who would like to invest them for a financial return. This type of investment can be referred to as an outlay of funds for the purpose of obtaining a financial return consistent with commercial prudence.

1.6 This policy does not relate to the investment of funds in the provision of social housing or in furtherance of our charitable objectives. That kind of investment is "programme related investment".

1.7 It is possible to make mixed motive investments. These investments are made on the basis that they have elements of both financial investment and programme related investment. The investment cannot be wholly justified as either one or the other, i.e. it is not made for the highest possible financial return nor is it made for the primary purpose of achieving our charitable objectives. An example of a mixed motive investment would be an investment in a social impact bond.

## 2.0. Policy Statement

The association's objectives in making any financial investment will be as follows:

2.1. To invest to achieve a financial return.

2.2. Where possible, invest to maximise social value, but also bear in mind the need for any investment to provide a financial return.

2.3. When considering whether to carry out pure financial investments or mixed motive investments, consider the overall return balancing both the financial and social elements of the investment.

2.4. Financial investments will be chosen with a view to maintaining and if possible enhancing the value of invested funds while they are retained.

2.5. The board will consider the need for diversification when making investments. This will not prevent investing primarily in group subsidiaries, but it is a factor that the board will consider from time to time.

2.6. If presented with a financial investment opportunity, the board will take appropriate advice.

2.7. The board recognises that it does not support its main activities through the financial return on its financial investments. However, financial investments will be chosen with a view to achieving a sufficient financial return to bring real benefits in relation to these activities, as well as, ideally, other benefits.

2.8. In selecting financial investments, the board will apply a managed approach to risk. However, although the board recognises that charities must avoid speculation, it does not intend that all financial investments should be low risk. The board accepts that higher-risk financial investments may be appropriate when all other factors are considered and that in regard to the need to diversify financial investments a variety of risk levels will be beneficial.

2.9. In acknowledgment of its status as a registered provider of social housing, and bearing in mind the regulatory requirement to protect social housing assets, the board will not permit financial investment of any type where the proposed investment presents any undue risk to social housing assets or the social housing business.

## 3.0. Funds Available for Investment

3.1 The Board acknowledges that its financial investment powers extend only to the investment of money not immediately required for the furtherance of its objects, in other words, its surpluses (i.e. accumulated free reserves). Accumulated free reserves are different from cash balances, and are those reserves which are not:

- o Designated reserves;
- o Restricted reserves;
- o Pensions reserves; or
- o Revaluation reserves

3.2 The Board will be regularly appraised, through our routine financial reporting processes, of the amount of free reserves available for financial investments, to enable Board members to make prudent decisions about the type and size of particular financial investments in the context of the portfolio of financial investments.

3.3 The Board also notes that, subject to the safeguards set out in this investment policy, on occasions it may be appropriate to borrow money to make financial investments.

This may equate to making financial investments that exceed the size of the accounting reserves because the financial investment is partly funded through borrowed monies. However, any such financial investment (i.e. investment of borrowed monies) will be subject to very careful analysis and justification. When considering the return on any such investment, the Board will consider the costs of the borrowing to assess whether the financial investment offers an appropriate return and is both prudent and in its best interests. Any restrictions on lending or on lending in any of the loan agreements will also need to be considered.

## 4.0. Charity Law

4.1 The Board recognises that as an exempt charity, the Board members are deemed by law to be charity trustees. The Board members acknowledge that they have a duty of care in this regard.

4.2 The Board will have regard to the Charity Commission's guidance in relation to charitable investment.

4.3 The Charity Commission has published guidance outlining the principles of investment by charities. CC14 – Charities and Investment Matters sets out the key principles to be applied. CC35 – Trustees, Trading, and Tax is also useful in the context of investment in trading subsidiaries.

## 5.0. Advice, management, and review of financial investments

5.1 As part of the discharge of the duties of Board members when making investments, the board will take advice on all proposed financial investments. This advice may be taken from external advisers or from internal employees, as the Board sees fit in the circumstances and depending on the nature of the investment. The Board will minute any advice taken.

5.2 When considering financial investments, the Board will consider, amongst other things, the likely risk/reward equation (where projections are used, the Board will consider carefully how robust they are). The expected performance of financial investments will be incorporated into the annual budgeting process and actual performance will be reported through the regular financial reporting process.

5.3 When considering a financial investment opportunity, the Board will consider its suitability relative to other possible forms of financial investment.

5.4 Financial investments will be regularly reviewed, and arrangements will be amended as and where appropriate.

## 6.0. Investing in other parts of the Group

6.1 The Board acknowledges that the organisation may from time to time in accordance with this policy wish to make financial investments in subsidiaries, either by investing capital or by making loans.

6.2 The Board recognises that charities should be particularly cautious about making or retaining financial investments in companies that are wholly or substantially owned by the charity and notes the need for objectivity when making decisions in this area. Investing in a company that is not economically viable and has no real prospects of becoming so will never be in its best interests.

6.3 The Board accordingly recognises that in making such financial investments it should have regard to the principles outlined in this policy, and in the relevant Charity Commission guidance. In particular, the Board will consider suitability and diversification issues, and take appropriate advice as necessary.

More specifically, the Board will bear in mind the following principles when making a decision to invest in a trading subsidiary:

- that financial investments in a trading subsidiary should only be made where it is in the registered provider's best interests to do so,

- o that the relevant trading subsidiary's business prospects and financial viability,
- o should be objectively assessed, and appropriate advice is taken in relation to this assessment,
- o that consideration should be given to the length of time that funds may be tied up in the subsidiary,
- o that the option of obtaining independent funding for the subsidiary should be considered, and
- o arrangements should be made to monitor the performance of the trading subsidiary.

6.4 Board members will be scrupulous in identifying any potential for conflicts of interest when making investments in a subsidiary, and must take care that no personal benefit flows to any board members as a result of such investment.

## 7.0 Tax

The Board will ensure that appropriate tax advice is taken on financial investments so as to fully understand the implications of each investment, and to ensure that no investment increases the tax burden.

## 8.0 Loan Covenants

The Board will ensure that actions taken under this policy comply with loan covenants, taking legal advice where necessary.

## 9.0 Decision making

All investment decisions must be made either by the Board, with the Board's direct authority, or in accordance with established delegated authorities from it.

## 10.0 Monitoring and Review

The Board recognises that the investment policy must be kept under review. It will be reviewed once every three years, and more often if changes in the external environment, for example legal, tax, or market changes, mean it requires more urgent review.