Deloitte.

Investments
Surveying investment in the charity sector

Contents

Foreword

This is our second survey of investments in the charity sector. Following on from last year, we have examined trends in both investments and reporting and we hope that this survey will provide a benchmark guide for charities so as to enable them to compare themselves with their peers. This survey and the appendices contain not only these results but also challenge charities to consider their investment environment and options.

Investments continue to be prominent within charities' asset management and charities are now beginning to explore social impact bonds and other social investments. Impact measurement has become an increasingly important activity for charities and therefore we examine and discuss how organisations should measure their impact and the associated opportunities and challenges of impact measurement in the sector. In addition we are delighted that Sarasin's Head of Charities Richard Maitland has provided a view on the outlook for future returns.

As with any survey please note that the results are based on a sample and therefore should be treated with care.

Treat investments with care and ensure you take professional advice at every step.

Reza Motazedi
National Head of Charities and Not for Profit Group
Deloitte LLP

Section 1 – Executive summary

Last year we recommended that charities should make the best use of their resources with a holistic view considering charity's reserves, investments and future objectives and we again make this recommendation. Liquidity and cash security is perceived as key for many charities; cash and investments account for almost 60% of gross assets. However, some charities are beginning to push the boundaries with social impact bonds and other social investments, and notably a couple of smaller charities talk about becoming investment ready. It is the duty of trustees to make the best use of resources within their acceptable risk tolerance, and as the markets develop there may be new and innovative ways of achieving this.

As in the prior year we continue to emphasize that not all investments need to be financial investments. Investments can range from the traditional cash, stocks and shares, to loans given to support other charities whose activities directly further the lending charity's aims. Each investment should be made for a purpose to support the activities of the charity. These objectives may range from creating an income out of which charitable expenditure can be made, achieving the charitable aim through the investment itself, financial security or liquidity aims. Whilst the Trustees' obligation is to make investments in the best interests of the charity within its governing documents, the definition of best interests to the charity ought to be debated and agreed by the trustees. The purpose of this survey is not to give investment advice, but to analyse the various practices within the sector and provide points for challenge and discussion.

The Charity Commission guidance[1] makes clear that all investment decisions ranging from cash to programme related investments are valid forms of investment at the discretion of the trustees, but that each should be supported by a policy which reflects the risk attitude and decisions of the trustees as to the purpose of each investment and how it will be used to further the charity's aims.

In 2014, the Law Commission issued a consultation and recommendations,[2] one conclusion was that the uncertainty of trustees over their powers to make social investments was holding back development and that a new statutory power should be created for trustees to make social investments.

Deloitte's review of investments looks at the annual reports of 100 charities to understand the types of investments that are being made and the explanations given in the annual reports regarding investment policies.

The survey found that over the charities sampled there were still few charities (11% (2013: 10%)) with programme related investment and even fewer (5% (2013: 3%)) where investment had been made in the charity through a loan, bond or other social investment. Cash balances, on balance sheet and within investment portfolios, were similar to the prior year with cash accounting for 8% of gross assets held by the charities sampled and about a fifth of the investment balances.

1 *Charities and Investment Matters: A guide for trustees* (CC14)

2 *Social Investment by Charities* published by the Law Commission 24 September 2014

An investment policy of some description was included in 83% of accounts; an improvement from the prior year 74%, the investment objectives were described in 63% (2013: 64%). The performance against those objectives was reported clearly in only 23% of accounts, low but an improvement on the prior year 14%. A further 35% (2013: 33%) providing some discussion of performance but not in the context of objectives and therefore achievements.

There is no 'one size fits all' answer to any charity question and particularly not in relation to investments and the variety of practices, investments and objectives are clear from the survey. However, each trustee will need to assure themselves that they understand not only the reasons behind their investment choices but also the contribution that each one makes and the impact on the profile and results of the charity.

In our first investment survey we highlighted the need for a better understanding of the impact of a charity's investments and reserves. The idea of the social investor and social investment is gaining momentum and will become common parlance in the corporate and charity world and there remains the opportunity for charities to lead the way.

If you would like more detailed information or are seeking advice on the application of the principles of the SORP, please contact Reza Motazedi (rmotazedi@deloitte.co.uk or 020 7007 7646) or any of the contacts listed in Appendix 6.

Section 2 – Investment framework

This section summarises the framework for managing and reporting investments applicable to charities subject to statutory audit in the United Kingdom.

A charity's trustees have a general power to invest in the best interests of the charity and within any framework or rules laid out in the governing document. This framework provides scope to charity trustees to make decisions balancing risk and reward.

The Charity Commission published comprehensive guidance, *Charities and Investment Matters: A guide for trustees* (CC14)[3] which makes it clear that in order to act within the law, trustees must:

- Know, and act within, their charity's powers to invest;
- Exercise care and skill when making investment decisions;
- Select investments that are right for their charity, including the suitability of and the need to diversify investments;
- Take advice from someone experienced in investment matters unless they have good reason for not doing so;
- Follow certain legal requirements if they are going to use someone to manage investments on their behalf;
- Review investments from time to time; and
- Explain their investment policy (if they have one) in the trustees' annual report.

Investment can be approached in two directions and it is important to consider both investment by charities and investment in charities. More consideration has typically been given to investment by charities although this may be changing as more organisations get involved in social investment. Big Society Capital estimates that 56% of the Voluntary and Community Sector in England (VCSEs) have expressed interest[4] and 71% of charitable now see social investment as an appropriate source of financing for their activities.[5]

Investment by charities

There are two main categories of investment commonly made by charities:

1. financial investment; and

2. programme related investment.

Financial investment can be further broken down to include ethical and mission connected investment. The duty of trustees with regard to financial investments[6] is to seek a maximum financial return consistent with the level of acceptable risk. Appendix 4 includes further insights on financial investment decisions.

Programme related investments are funds used for the furtherance of the charitable purpose which may also give rise to a financial return but must be justified in terms of whether the decision to use the funds in this way was a reasonable way to further the charity's objectives.

Investment in social sector organisations (charities & social enterprise)

Social investment, that is investment in social enterprises, continues to be an expanding but young market. Big Society Capital was established by the government in 2012 to make sure that charities and social enterprises can find appropriate and affordable repayable finance to meet their capital needs. Social investment is the use of repayable finance to achieve a social as well as financial return, it is the use of finance to tackle entrenched social issues.

A social enterprise has no legal definition but encompasses the concept of a viable trading business with social aims that reinvests its profits. Although a social enterprise need not be a charity and can be established and run through many legal forms, in many cases a charity fits neatly within that description.

Social investors are driven by not only creating a financial return but a social return.

3 *A legal underpinning Charities and Investment Matters (CC14)* was also published to accompany the guide with more information about the case law supporting some of the guidance

4 *Social Investment Compendium – Portfolio of research and intelligence on the social investment market 2014 edition* Big Society Capital

5 *In Demand: the changing need for repayable finance in the charity sector* CAF Venturesome March 2014

6 Duties as described within the power of investment referred to in the Trustee Act 2000

The Charity Commission report[7] states that charities must be sure that they are clear with investors regarding their unique charitable status characteristics and that trustees must fully understand their responsibilities.

- If making a programme related investment, charity trustees must ensure that the investment directly furthers the charity's aims.
- Any private benefit arising from charitable investment must be carefully considered and assessed by trustees.
- Charities cannot distribute profits and there are strict rules surrounding the payment of interest on share capital.

Over the past decade there has been increased effort by social sector organisations (SSOs) to identify and measure the impact of their services and activities. There has been a noticeable shift towards outcomes based commissioning and an increased focus on more intensive performance regimes leading to new demands for evidence; as a result SSOs report increased pressure to demonstrate the impact of their services. More recently, the Public Services Social Value Act (2012) aims to encourage via legislation bother commissioners and SSOs to consider and evidence the wider social impact of their services. The G8 Social Impact Investment Force set up in June 2013 to help catalyse the development of the global social impact investment market by agreeing key principles and common frameworks, building a global community and developing and sharing practices also showcases their increased push towards social investment, as evidenced by David Cameron's push towards the growing social investment market at Davos 2013: "We've got a great idea here that can transform our societies by using the power of finance to tackle the most difficult social problems – the potential for social investment is that big". Furthermore, socially motivated investors are increasingly demanding evidence of social outcomes and to help make informed investment decisions underpinned by impact. Impact measurement is a tool to embed and integrate outcome based performance measures into the day-to-day activities of SSOs, it should not be seen as a fringe activity.

It is a powerful tool to not only quantify effects of interventions, but a tool to understand how to use resources effectively to have most benefit, assist with organisational planning and learning and secure funding. Appendix 5 defines impact measure and discussed the challenges and opportunities behind impact measurement.

Investment reporting

The SORP lays out the requirements for reporting and disclosing investments and investment policies which are summarised in Appendix 1. It is important to note that having an investment policy can apply equally to all charities whether they are investing in property, stocks and shares or merely holding cash deposits. Making a decision not to invest or to maintain assets in a very liquid form is as much of an investment policy as investing in a portfolio and should be explained in the context of the charity's activities and attitude to risk.

Future accounting and reporting developments

Social investment, Programme Related Investment, the use of loans and mixed motive investment remains unconventional and in many cases ground breaking.

Lord Hodgson touched on social investment in his report[8] commenting that until 2005 such a thing was unheard of as it has been deemed primarily the responsibility of trustees to generate a return from investments that they could then use for their charitable purposes: any outlay primarily intended to deliver a social benefit was therefore part of the charity's spending on achieving its purposes rather than an 'investment'. Lord Hodgson notes the Charity Commission guidance (CC14) as welcome but that it does not have the force of statute law. Therefore his report identified a number of barriers to social investment. These include:

- lack of distinct legal forms;[9]
- uncertainty over investments' tax status;
- uncertainty over due diligence, process and establishment costs; and
- uncertainty over how to value such investments.

7 Charities and social investment: A research report for the Charity Commission

8 Lord Hodgson's review published in July 2012 *'Trusted and independent: giving charity back to charities – review of the Charities Act 2006'*

9 Social Investment Tax Relief guidance is available on http://www.hmrc.gov.uk/sitr/for social enterprises and investors

Lord Hodgson's report identified a number of recommendations to increase clarity and promote social investment, which include:

- amend the Trustee Act 2000 to draw attention to the distinct responsibility placed on charitable trusts to further charitable purposes as opposed to private trusts that must simply preserve capital;
- develop a standard social investment vehicle to allow funding from different sources to be invested, and maintained separately (reflecting tax and other requirements), in the same product;
- re-word the requirement around private benefit from 'necessary and incidental' to 'necessary and proportionate';
- develop a standard system for valuing social investment; and
- HMRC should provide clear guidance on the tax treatment of different types of social investment.

The Law Commission produced its own consultation on social investment and published the results of that consultation in September 2014[10]. Although it concluded that most charities already had sufficient powers to make social investment it identified that trustees appeared uncertain and therefore potentially reluctant to use their existing powers. The main recommendations were to:

- create a new statutory power for charity trustees to make social investments (which will apply unless excluded or modified by the charity's governing documents);
- make clear that charity trustees are permitted to use permanent endowment to make social investments, provided they expect the capital value of the endowment to be preserved;
- introduce statutory duties specific to social investment (which, in the case of trustees of charitable trusts, will replace the investment duties imposed by the Trustee Act 2000);
- improve certain aspects of the Charity Commission's guidance on social investment in Charities and Investment Matters: A guide for trustees (CC14); and
- improve relevant tax guidance issued by HM Revenue and Customs, including a system for charities to receive prior approval on the tax treatment of social investments.

These elements are not dissimilar to those originally aired by Lord Hodgson.

We continue to wait to see if and when the above recommendations are acted on.

10 *Social Investment by Charities* published by the Law Commission 24 September 2014

Section 3 – The survey's objectives and basis

The main objective of the survey was to consider the quality of investment information presented in the annual reports of a sample of charities and how that information compares across the sector.

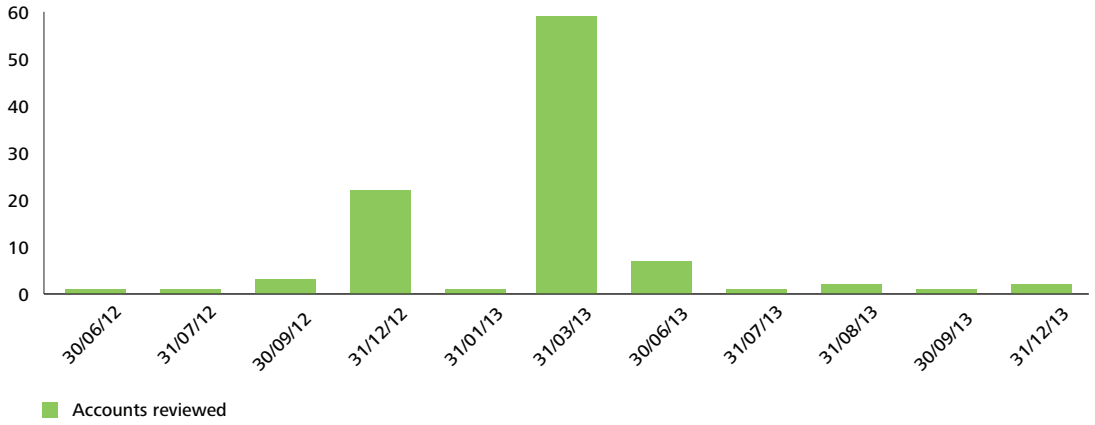
In addition, we have considered the varying types of investment held, investment managers fees (where disclosed) and portfolio information which will enable us over a period of time to develop some trend analysis of investments held and made in the sector.

The survey was conducted by obtaining a list of the Top 1000 charities by income in the United Kingdom from the Top 3000 Charities 2013/14 publication produced by CaritasData. The sample selected comprised 100 charities from the list of the top 1000 charities by income. Of the 100 charities, 20 were randomly selected from the top 100 charities, 20 from charities ranked 101 to 200 and the remaining 60 from other charities in the top 1000. The recent publicly available accounts have been used. The sample selected was wherever possible consistent with that of the prior year so that developing trends could be highlighted.

The split of the charities surveyed by year end, based on available accounts at the time of sampling, was as follows:

In certain instances, we have provided results split by top 100 charities, charities ranked 101-200 and other charities in the top 1000 for the interest of the reader.

We have included at Appendix 1, a list of trustees' annual report disclosures required for investments (based on Accounting and Reporting by Charities: Statement of Recommended Practice (revised 2005)) and noted also the requirements under the new SORP in Appendix 2. In Appendix 3 we have listed some considerations for trustees. This is not an exhaustive checklist of considerations with respect of investments but served as a starting point in helping us design some of the questions posed in this survey.



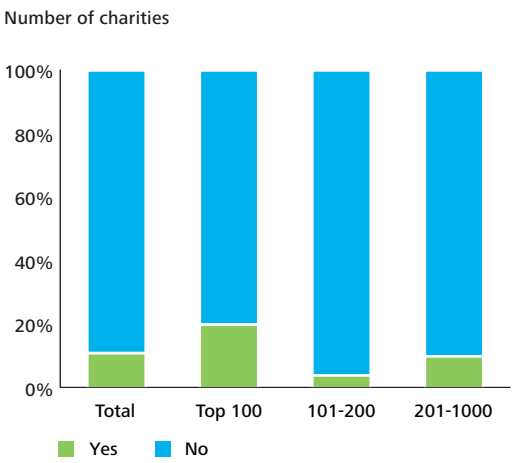
Section 4 – Survey results

This section sets out our survey findings in respect of investments referred to in the trustees' annual report and compliance with reporting guidelines.

4.1 Types of investments

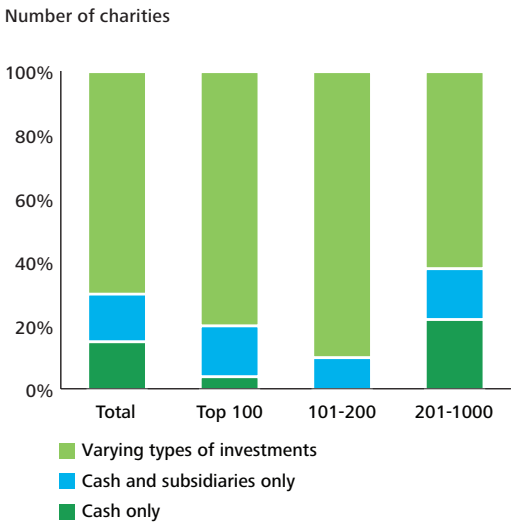
We have discussed the main types of investment in section 2. However, as we can see from figure 4.1a in our sample there were few (11% (2013: 10%)) charities holding anything other than financial investments. As the social investment revolution picks up speed it is important to remember that it is not just corporate, financial and government groups that can make social investment. Charities themselves can make social, programme related, investment to further their aims. As could be expected the largest charities are contributing most in this type of investment with 20% (2013: 20%) of charities within that group having some type of programme related investment.

Figure 4.1a. Does the charity have programme related investments?



However in our sample there were a number of charities whose investment holdings may be considered basic with almost 30% (2013: 30%) of the sample holding investments in cash balances and subsidiaries only.

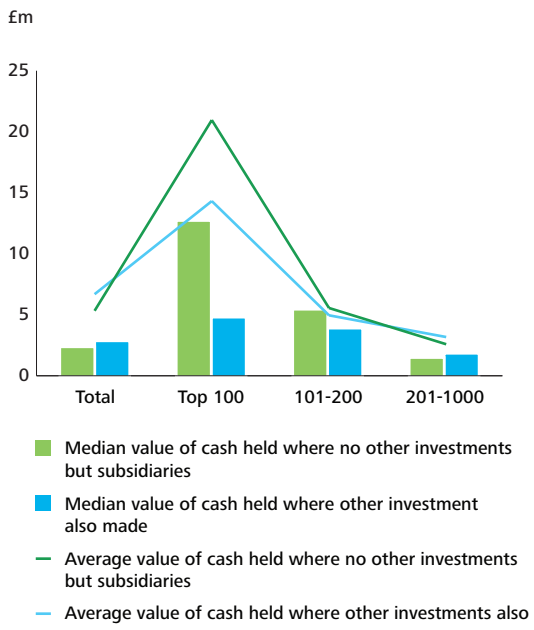
Figure 4.1b. What type of investments are held?



As perhaps expected the greatest number of charities with basic investments holdings, cash or cash and subsidiaries only, are in the smallest charities segment. As in the prior year the middle sized charities sampled were the most diverse investors.

Across the charities sampled the cash balances held were relatively high with an average balance of £5.9m (2013: £8.5m) being held. In the top 100 charities cash balances were high even where other investments were held, suggesting a conscious decision to maintain high cash balances. This was reflected in a number of accounting policies that focused on the need for liquidity and short term deposits to manage charity activities and being ready for potentially short notice cash calls. As a percentage cash accounted for an average of 12% (2013: 12%) of reserves with smaller charities holding proportionately higher cash balances at 20% (2013:19%) of reserves.

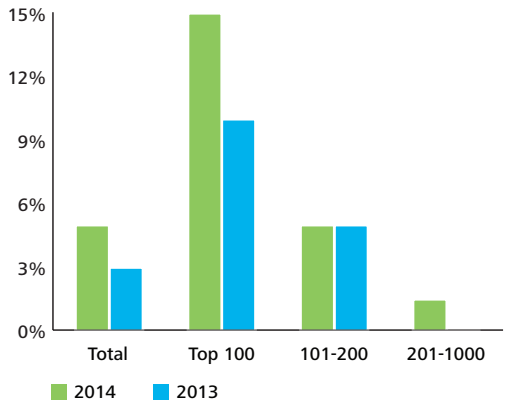
Figure 4.1c. What is the average value of cash held?



4.2 Outside Investment in charities

Outside Investment in charities is discussed in section 2. However this type of funding directly in charities remains in the minority, with only 5% (2013: 3%) charities within our sample having that type of investment in their accounts: two being a bond issue; the others loans. As in the prior year, it is the larger charities who are most involved in this type of finance. One charity sampled (in the 201-1000 group) held an investment in a charitable bond. One charity had appointed a social investment manager to understand the 'investability' in their programmes and the potential for social investment and another was developing an inward investment programme.

Figure 4.2. Number of charities with outside investment

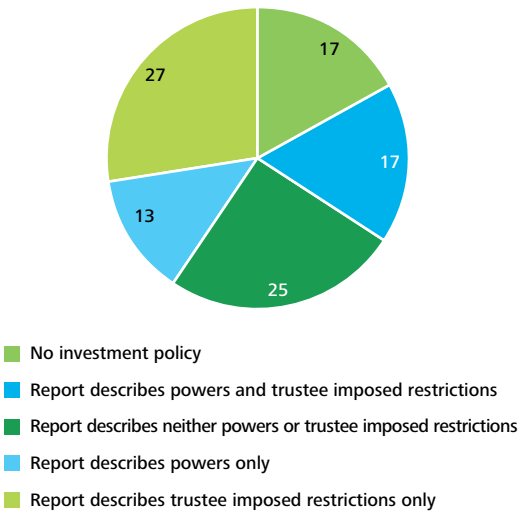


4.3 Investment powers

Trustees' powers to invest are broad. Some restrictions are found within governing documents, but many restrictions are imposed by trustees within their ethical investment policies or based on their judgments over investment risk, focus on investment mix and liquidity requirements. The SORP does not specifically require charities to clarify their investment powers but they are required to give details of their investment policy and any other considerations are taken into account. 31% (2013: 35%) of charities surveyed did give information on their investment powers, many as part of their investment policy explanations, some as part of their governance arrangements. This information is useful to the reader as it allows the reader to distinguish between restrictions imposed by law and those imposed trustees reflecting the ethics and risk approach of the charity. Of those charities disclosing investment powers 90% stated that there were no restrictions.

Restrictions that were enshrined in trust deeds required trustees not to make investments conflicting with the aims of the charity or restricted the delegation of the management of funds to third parties.

Figure 4.3. What do charities disclose regarding investment powers and restrictions in their reports? (%)



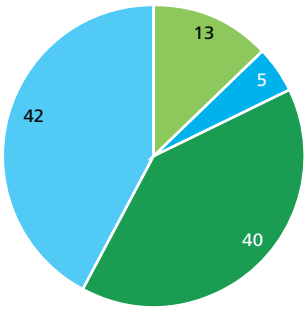
4.4 Investment policy

The SORP requires that where material investments are held, the investment policy and objectives, including any social, environmental or ethical considerations are disclosed. It should also be noted that significant cash balances are a form of investment.

83% (2013: 74%) of charities sampled included an investment policy in their Trustees' annual report. Of those charities with no investment policy 18% had significant investments. However, one of those charities did specifically state that they had no investment policy and decisions were made on an investment by investment basis. 53% of our sample having investments in cash and subsidiaries only, with no other types of investment, included an investment policy statement which, in the main, explained the charity's need for cash and very liquid deposits.

44% of charities surveyed disclosed information on investments and restrictions in their policy whereas only 31% made a specific statement on investment powers. Of the total number of charities surveyed, 25% had no discussion of any restrictions.

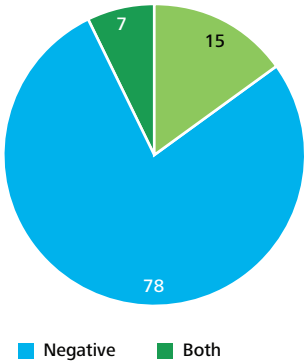
Figure 4.4a. Restrictions employed by charities (%)



44% of the charities sampled disclosed restrictions (2013: 44%). Similar to the prior year 40% of the restrictions related to ethical policies and 42% were regarding the balance of the portfolio between the type of investment held with trustees setting guidelines within which investment managers were expected to operate. This portfolio type of restriction frequently specified liquidity restrictions, investments in cash, but also included prohibitions on derivatives and unlisted investments.

When charities are wording their restrictions they can be positive or negative. 15% of those with restrictions made positive statements such as screening their investments for certain outcomes and only investing in environmentally friendly businesses; or seeking through their investments to help underdeveloped countries. However, the majority (78%) of restrictions were phrased in a more negative way, for example, they do not invest directly in tobacco products. The remainder had both positive and negative statements.

Figure 4.4b. Wording of restrictions (%)



4.5 Investment objectives

The SORP requires a charity to state its investment objectives as part of its policy. Whilst 83% (2013: 74%) of charities disclosed a policy, only 63% (2013: 64%) of charities were clear about their objectives. One of the reasons for this divergence is the increasing number of charities with cash only investments which are disclosing an investment policy regarding their decision to hold cash but, in some cases, not including objective or performance data.

Figure 4.5a. Does the charity disclose their investment objectives?

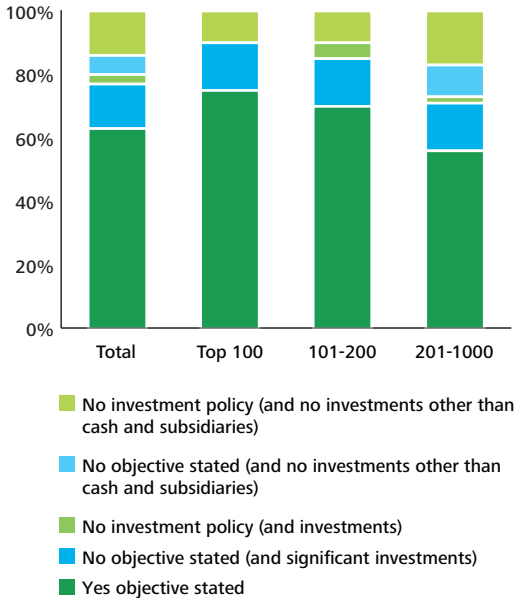
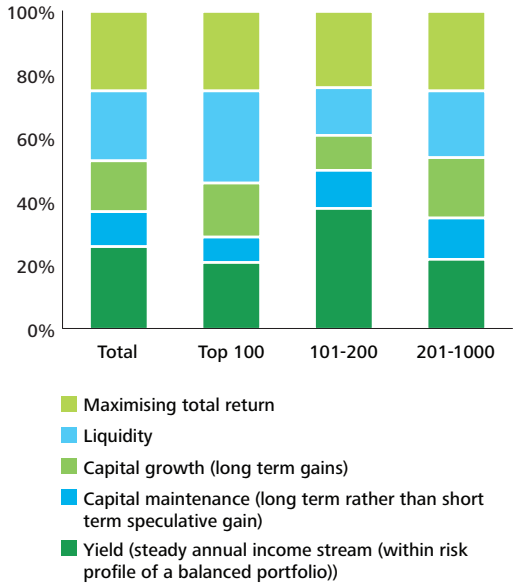


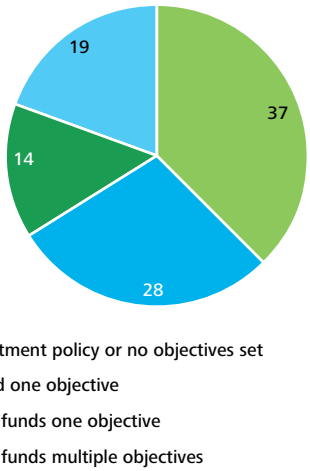
Figure 4.5b. Investment objectives?



Of those charities including an objective there was variety in both the objective and the clarity with which it was expressed. Many charities disclosed more than one objective, for example yield and maintenance. Many expressed their objectives in the context of risk, for example a capital growth strategy referring to the charity's risk appetite. The importance of liquidity and creating a steady income are the predominant targets with emphasis placed on total return.

As in the prior year there continues to be an emphasis on yield and liquidity and meeting obligations remains important, with liquidity particularly key in the largest charities. The focus on yield and capital maintenance was most significant for the charities ranked 101-200.

Figure 4.5c. How many objectives are described?

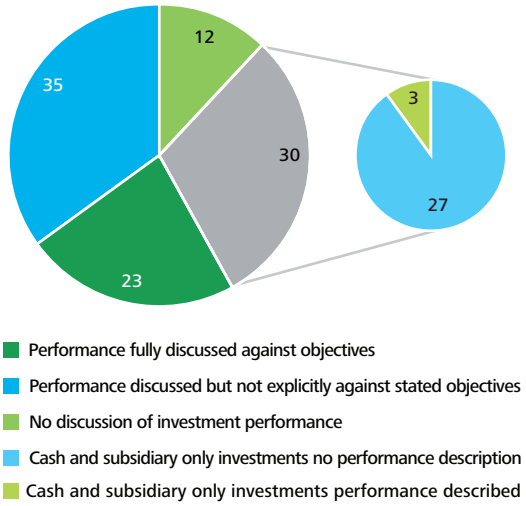


Allowing for some lack of clarity in investment objectives and descriptions of the funds used, 19% charities surveyed had more than one fund targeting their investment objectives particularly those with liquidity and capital gains objectives. This did not consider the analysis of the investment portfolio (asset allocations) but looked at charities holding strategically different types of investment, for example an investment property and a managed portfolio of listed investments, or a unit trust and activity managed cash taking advantage of overnight rates. A smaller number (14%) diversified their portfolios across different investment managers but had the same fund objectives, for example to maximise income. A few set and explained different targets set based on the underlying investment.

4.6 Investment performance

The SORP requires that where material investments are held, the performance should be compared to the objectives set. 83% (2013: 66%) of those charities surveyed with financial investments other than subsidiaries and cash included discussion of investment performance. Of those charities with only cash and subsidiary investments 10% included a description regarding their cash management.

Figure 4.6a. Does the charity's annual report include discussion of investment performance?



Discussions of investment performance frequently stated the gains or losses in the year, commented on the type of benchmark used and discussed asset allocations within the portfolio. Only 23% of those surveyed directly assessed or commented on their performance against objectives; 24% included a discussion of targets set and performance against those targets; and 28% concluded on whether they had achieved their targets, though not all described what the targets were.

Of the charities surveyed that included numerical analyses the smaller charities were more forthcoming with their specific targets and results. A reason for this may be the simpler or singular nature of the funds and investments making a target easier to describe and summarise. However overall reporting fell slightly with only those charities ranked in the top 100 showing an improvement in reporting.

Figure 4.6b. Charities with financial investments (i.e. not just cash or subsidiaries) who reported on investment objectives and performance (%)

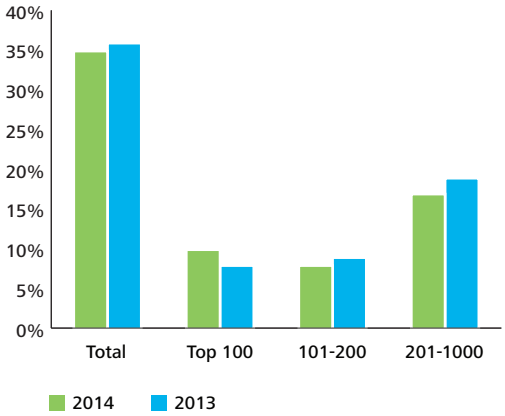
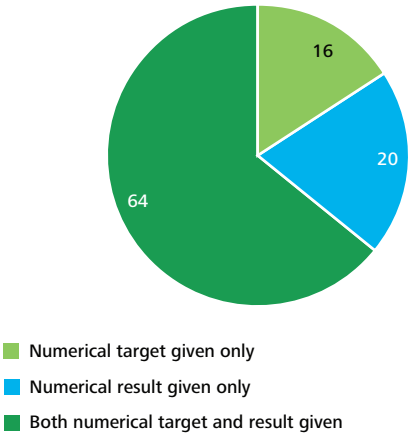


Figure 4.6c. How many charities reporting results report numerically? (%)



Targets ranged from 14.8% to 0.5% (2013: 14.5% to 0.3%) return for the various types of funds. Given the markets over the period of the report results ranged from 15.7% to 0.49%. Figure 6d shows that of those who reported a result (narrative or numerical) 68% declared their targets to have been met or exceeded compared to 56% last year.

Figure 4.6d. Did the charity meet its target (% of those reporting results against targets)?

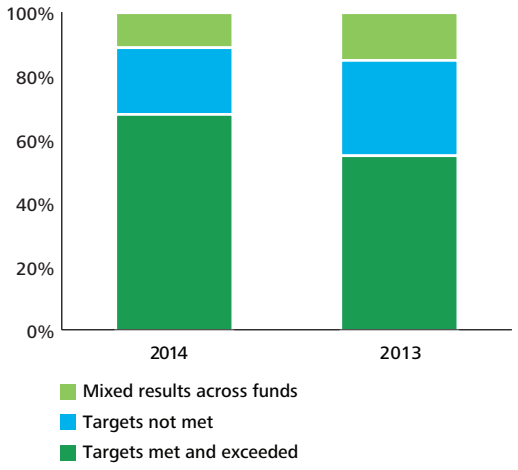
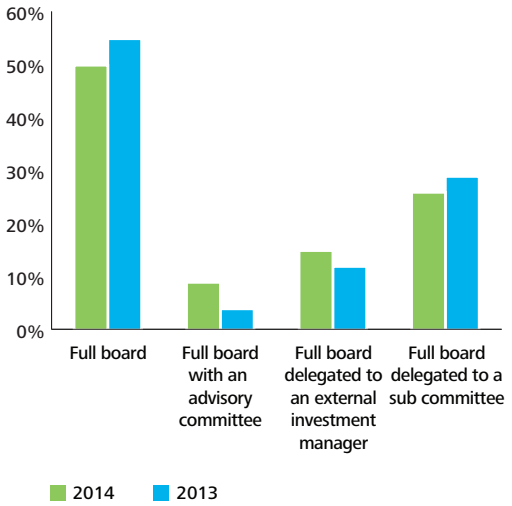


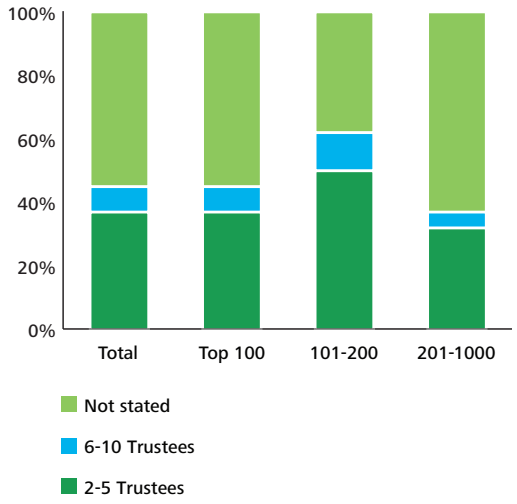
Figure 4.7a. Who manages investments?



4.7 Details of trustees, responsibilities for investments and investment managers

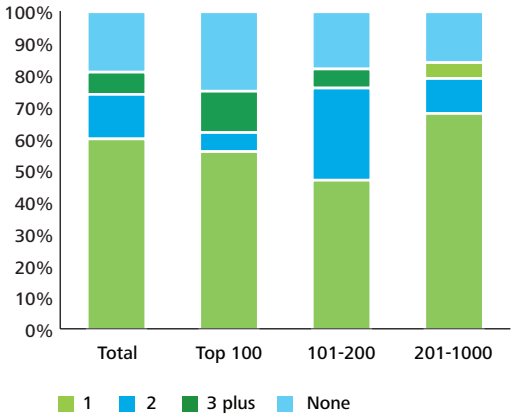
The SORP also requires charities to disclose details about the names of the trustees and other members of the senior management team to whom day to day management is delegated. Trust law allows trustees to delegate their responsibility for investments either through a committee or to an investment manager. Where such a delegation is made trustees retain responsibility for establishing a contract and/or terms of reference and monitoring performance against that contract or terms. Of the charities surveyed 59% (2013: 59%) retained the power over the management of investments with the full board (50%), or board supported by an advisory committee (9%) (or did not describe arrangements in their accounts). 26% (2013: 29%) explicitly stated that they had a subcommittee with delegated power to manage investments and 15% (2013: 12%) delegated directly to an investment manager.

Figure 4.7b. Number of trustees on the investment or investment advisory subcommittee



45% (2013: 49%) of the charities who referred to an investment or advisory subcommittee gave further details about membership of the subcommittee (this does not include finance or audit committees who were given a role in investments monitoring but only where a specific investment subcommittee was identified). 82% (2013: 75%) of investment committees (where the number of members was stated or listed) had 2-5 trustees. No committees had just one trustee and the remainder had six to ten trustees. In many cases trustees with specialist knowledge were included or were trustees who also sat on the finance committee.

Figure 4.7c. Number of investment managers



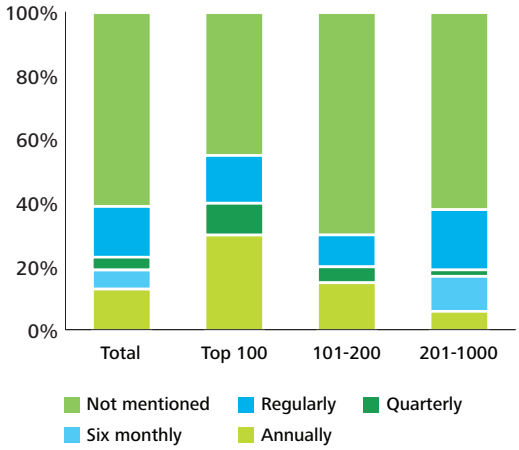
Many charities with financial investments (81%, (2013: 76%)) have at least one investment manager, and as in the prior year 7% have over 3 investment managers. Those with the higher number of investment managers tended to have segregated types of investment or portfolios with varying objectives. 19% (2013: 24%) of charities did not disclose an investment manager. Although this is not required by the SORP, in many cases significant investment management costs were disclosed and this additional information is likely to have been of interest to the reader.

4.8 Investment monitoring

As part of the responsibility of managing investments, or indeed the arising from the delegation of investment responsibilities, it is important that trustees maintain some control over their investments. This includes monitoring performance against targets and against any investment rules set out in their policy. Further it includes a regular review and reassessment of the policy, the aims of holding investments, the objectives in light of their importance to the charity's mission and assessment of the investment managers themselves.

Only 40% (2013: 39%) of charities surveyed included information on how regularly they monitored or reviewed investment managers and policies. The most commonly used phrase was 'regularly' which was not always defined. Similarly the distinction between reviews of performance and reviews of policy were not always made. This lack of clarity meant that it was not generally possible to distinguish between what was effectively a management review against annual targets and how often trustees in a more strategic role reviewed the policy and who should be carrying out that policy (for example by tendering investment management services).

Figure 4.8. How regularly does the charity review its investment manager and policy?



Section 5 – Benchmarking investments

This section sets out our survey findings in respect of the investment information reported.

These figures arise from our sample based on charity size by income and do not represent any other grouping that may be used for benchmarking the activities of an individual charity. However they do indicate the prominence of investments and the importance of investment decisions; particularly the conflict between obtaining the best return and seeking to maintain liquidity. The figures are obtained from reported accounts and the analyses below have been based on required SORP disclosures. Where disclosures have been incomplete or insufficient to allow full analysis of investments between SORP categories, the balance of unanalysed investments has been included in "other". Investment management fees are again only as disclosed in the accounts. Where charities did not disclose their fees they have been removed from the analyses provided relating to fees in figures 5.6a to 5.6c, accordingly these charts are based on a smaller sample than originally selected.

5.1 Cash and investments

On average cash and investments contributed to almost 37% (2013: 40%) of the value of the gross assets of all charities sampled. This demonstrates the significance of the decisions being made by trustees around cash and investments.

Figure 5.1a. Average composition of gross assets

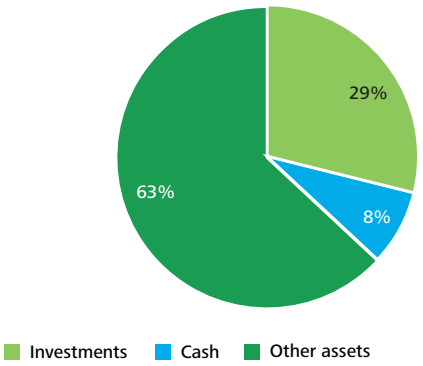


Figure 5.1b. Average composition of gross assets by size of charity – average

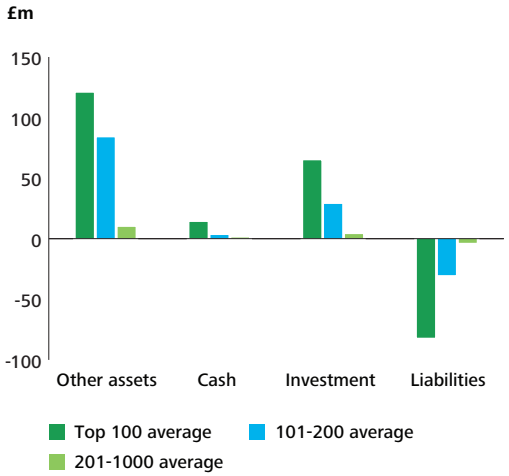
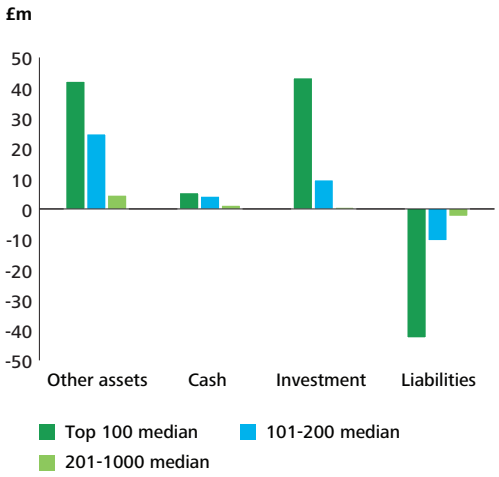


Figure 5.1c. Average composition of gross assets by size of charity – median



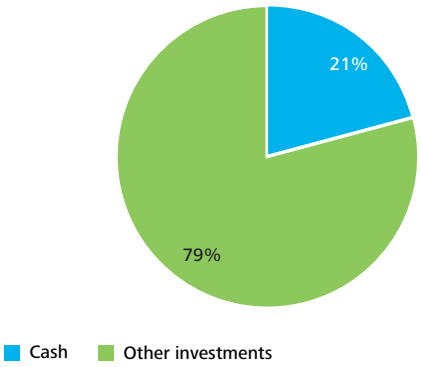
Investments account for 30% (2013: 30%) of the top 200 charities gross assets. In the prior year investments were 42% of charities gross assets in the 201-1000 banding, but this year only account for 28% of assets of those charities which is more in line with the charities in the top 200. This swing was created by two significant changes: firstly a charity with an atypically high holding of investments has fallen out of the sample reducing investment levels; and secondly one charity has chosen to carry its historic buildings at valuation rather than historic cost, the result of which was a significant increase in the value of fixed assets. Excluding the effect of these two changes would give a prior year comparative of 26% and an increase in the general levels of investment among the charities sampled.

Other significant assets held in the sample were tangible assets (including housing association property) and heritage assets.

5.2 Portfolio cash

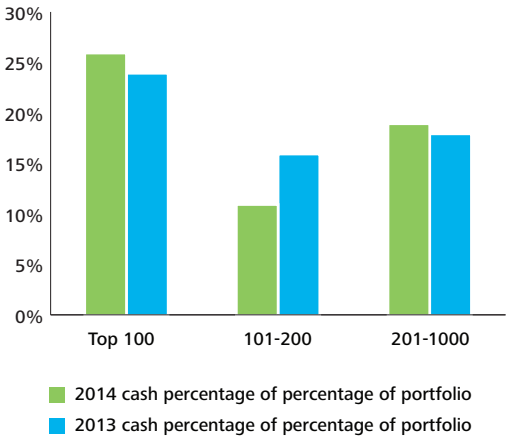
Within reported investment balances in the prior year there were substantial cash balances and the emphasis placed on liquidity was noted in section 4. There remains an emphasis on liquidity with cash held within investment portfolios being approximately 21% (2013: 20%) of the total portfolio value.

Figure 5.2a. Cash holding within investment portfolios



Cash holdings within a portfolio are significant reflecting perhaps the uncertainty surrounding equity investments since the stock market falls during the financial crisis of a few years ago. However, interest rates and investment returns for such balances remain comparatively low in line with the Bank of England base rate. The need for liquid assets is mentioned in a number of reports in terms of investment requirements and strategy (see also 4.5 and 5.4 below) and the results in figure 5.2b below shown that the largest charities sampled are holding significant cash balances compared to other charities.

Figure 5.2b. How does the cash holding within portfolios vary by size of charity?



5.3 Portfolio mix

We have noted from the annual reporting survey[11] that there is a trend to disclose more information regarding the portfolio mix, or intended mix in the trustees report.

The average mix from the charities surveyed was biased towards equities, UK and overseas, cash and fixed interest securities.

11 *New Challenges Ahead – surveying trustees' annual reports in the charity sector* Deloitte October 2014

Figure 5.3a. Average mix within an investment portfolio (fixed and current) (%)

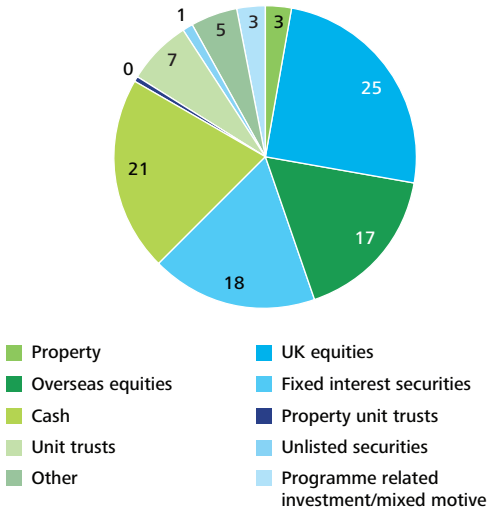
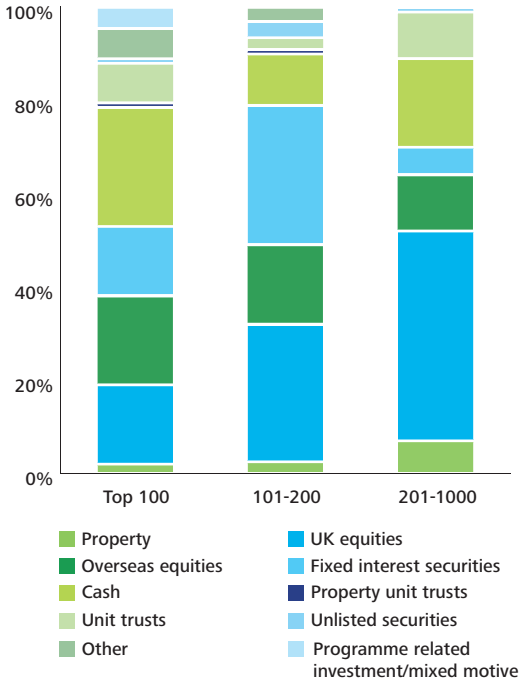
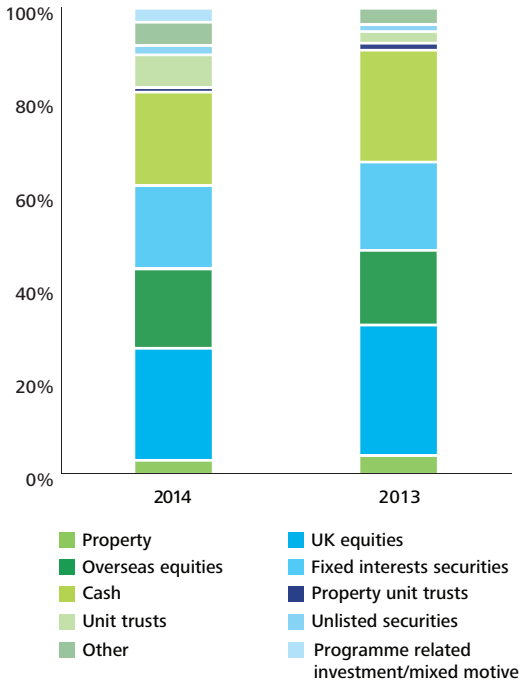


Figure 5.3b. Mix of the investment portfolio (fixed and current) by charity size



The significance of the cash balances particularly to the top 100 charities is clear with 26% (2013: 34%) of cash held within the investment portfolios. Other includes a variety of investments from 'Alternative Investments' to gold, woodland and works of art. UK equities 46% (2013: 53%) still dominate in the portfolios of the charities ranked 201-1000.

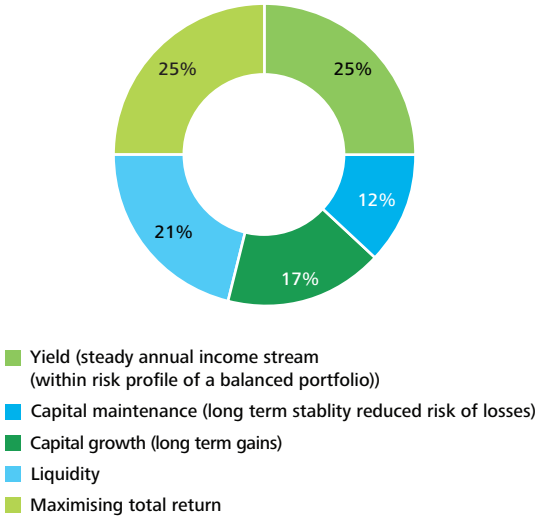
Figure 5.3c. Mix of the investment portfolio (fixed and current) by year



5.4 Investment strategy

Figures 4.5b and 4.5c in section 4 demonstrate the variety of investment strategies declared in the accounts. These investment strategies represented below have two opposing focuses of liquidity, short term, and capital maintenance and growth, looking to the longer term. The results are recapped in figure 5.4.

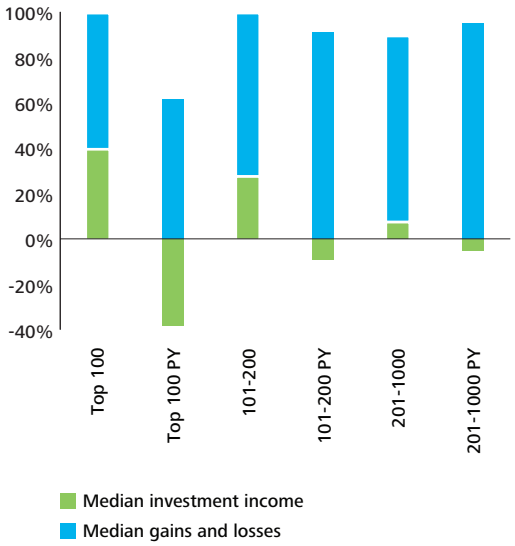
Figure 5.4. Investment strategies



5.5 Investment return

The return on investment can be judged many ways and of course is dependent upon the investment strategy and the mix of investments. The return is made up of gains and income. Where charities hold investments for the long term unrealised losses reflect the market movements but may not be significant to charities as those losses only crystallise if the asset is sold. In the prior period the result was mixed with significant losses identified in the portfolios of the largest charities sampled. However, the 2014 results (generally based on 2012/2013 accounts) indicate a more stable situation across all charities sampled with income accounting for approximately 29% of the total return using average values and 21% considering the median values. In the prior year income returns outweighed the losses creating a positive total return. The movement between years can be seen in Figure 5.5a.

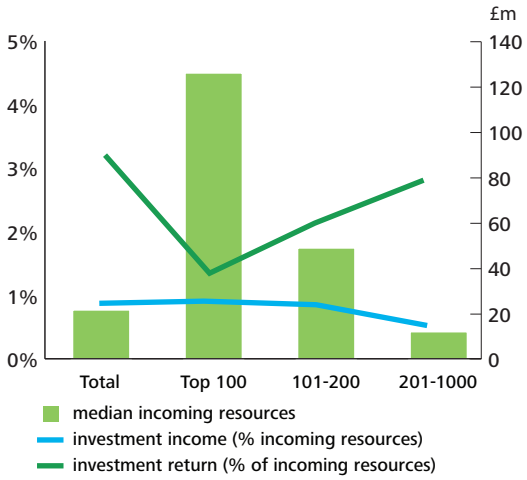
Figure 5.5a. Split of investment return



High investment balances may come from endowment or restricted funds or unrestricted funds in accordance with trustees' plans giving long term security. However, income generated from those assets may be relatively low compared to the income generated from the other activities of the charity.

Figure 5.5b shows the return on investments is more significant to charities outside the top 100 as a proportion of their income: investment return is nearer 3% of income rather than 1% for the top 100 charities.

Figure 5.5b. Percentage of incoming resources relating to investment income and gains



Figures 5.5c and 5.5d compare the return on investment (as a percentage of the assets invested) compared with the portfolio mix and objective. In the prior year the charities outside the top 200 were generating a higher return at 7% (falling in 2014 to 5%) compared to the larger charities which had relatively larger unrealised losses in the prior year which affected their total return. This year the results across all charities sampled are more even, although those charities ranked 101-200 have the highest returns 8.5% (2013:3%).

Figure 5.5c. Total return compared to objective

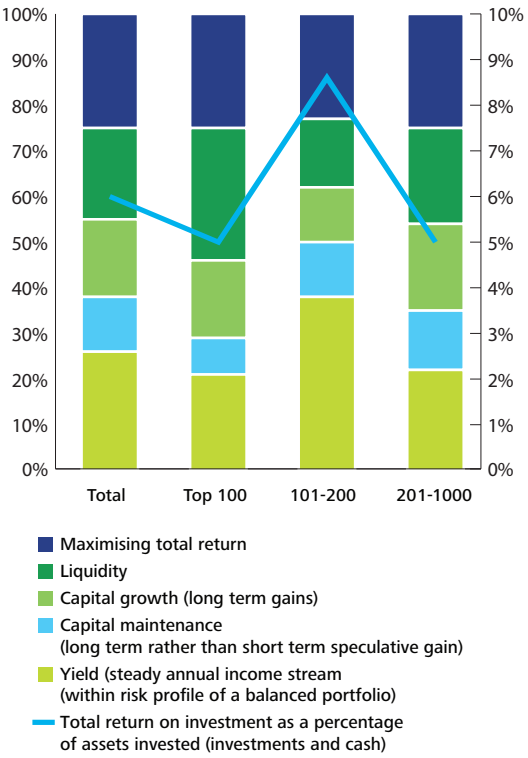
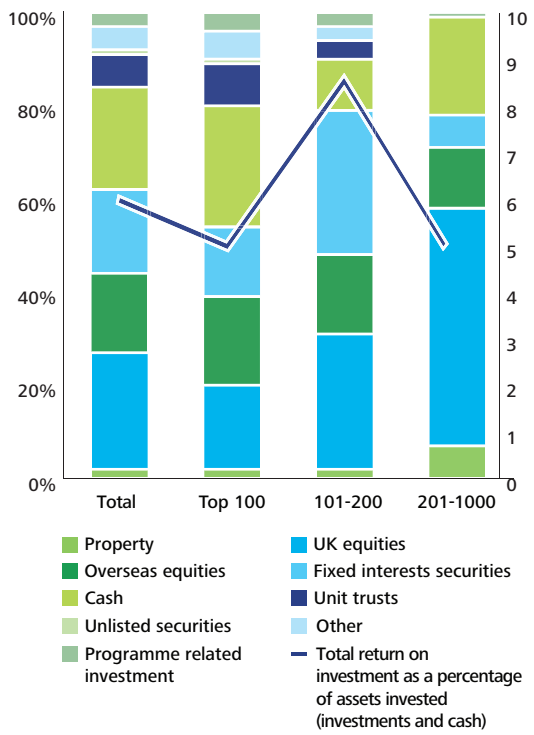


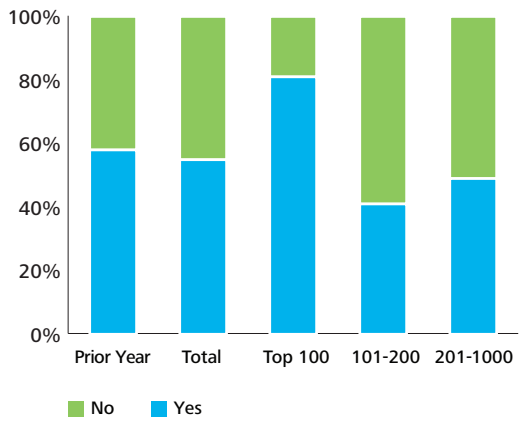
Figure 5.5d. Average return compared to portfolio mix



5.6 Investment managers' fees

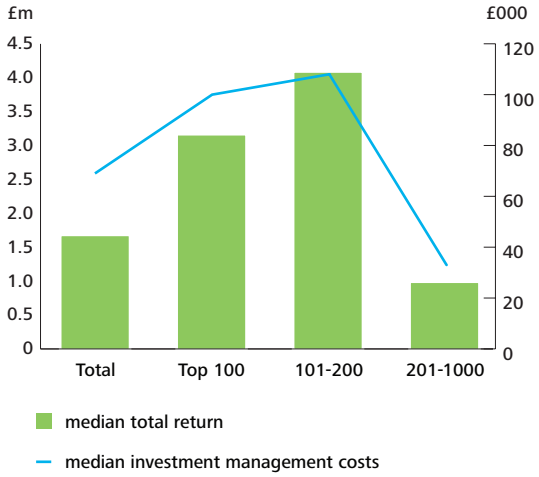
The SORP requires charities to disclose their investment management costs. 46% (2013: 42%) of charities within our sample did not make clear what their cost of investment was. The Top 100 charities sampled were the most compliant and the 101-200 group the least.

Figure 5.6a. Investment managers fees



However, even with the fees disclosed there are potential issues of comparability as these may be a combination of the fees paid to the investment manager and any additional costs associated with the underlying funds themselves depending on the level of detail available and monitored by the charity. The analyses below are only for those charities disclosing investment costs.

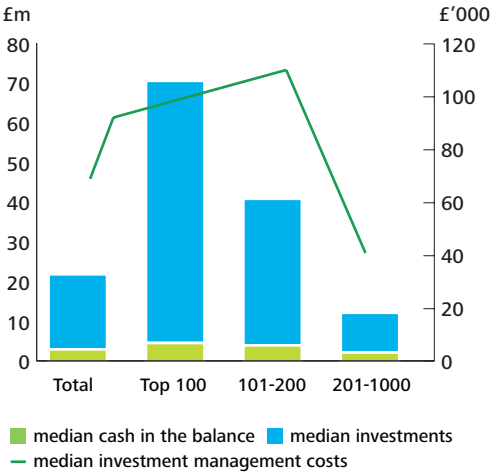
Figure 5.6b. Investment returns compared to costs



Investment management costs for all charities have a median £69,000 (2013:£50,000). For the charities outside the top 200 the median is £33,000 (2013: £31,000). The top 100 charities' costs are on par with the prior year with median fees disclosed of £100,000. Those in the 101-200 banding have a median of £108,000 (2013: £95,000).

Those fees were approximately 4% of the total return and 13% of income received based on the median amounts. Note for the top 200 charities the fees were approximately 3% of total return and 7% of income.

Figure 5.6c. Investment costs compared to total investments



On average fees were 0.31% of investment balances (excluding cash balances as many of these were held outside portfolios) (2013: 0.25%), with charities in the top band paying the least approximately 0.14%.

Appendix 1 – Trustees' investments disclosure checklist

The list below summarises the main narrative and disclosure requirements as at 31 October 2014 relating to investments[12] and is based on the Charities SORP which was published in 2005 together with, where applicable, the Companies Act 2006 and the relevant accounts and reports regulations.

The tax implications of investment, what constitutes charitable investment and what may be considered trading have not been considered here and any questions in relation to these matters can be directed to your tax team or the tax contacts highlighted in Appendix 6.

Charities SORP requirements (Although charities that fall outside of the audit threshold are exempt from certain disclosures it is considered best practice to include them)	**Ref.**	**Yes**	**No**	**N/A**
Objectives and activities Where social or programme related investment activities are material in the context of charitable activities undertaken, the trustees report should explain the policies adopted in making such investments.	SORP 2005 Para 50			
Charities that are not subject to a statutory audit requirement need not provide this disclosure.	SORP 2005 Para 52			
Achievements and Performance The trustees' report should contain information that enables the reader to understand and assess the achievements of the charity and its subsidiary undertakings in the year. It should provide a review of its performance against objectives that have been set. The report should provide both qualitative and quantitative information that helps explain achievement and performance. The report should contain: c. Where material investments are held, details of the investment performance achieved against the investment objectives set.	SORP 2005 Para 53			
Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to providing a summary of the main achievements of the charity during the year.	SORP 2005 Para 54			
Financial review The trustees' report should contain a review of the financial position of the charity and its subsidiaries and a statement of the principal financial management policies adopted in the year. The report should explain the charity's: d. Where material investments are held, the investment policy and objectives, including the extent to which social, environmental or ethical considerations are taken into account.	SORP 2005 Para 55			
Charities that are not subject to a statutory audit requirement need not provide the disclosure set out in paragraph 55(d) above.	SORP 2005 Para 56			
Financial statements disclosure requirements The investment asset note to the accounts should disclose separately: a. investments held primarily to provide an investment return for the charity; and b. programme related investments (Glossary GL 47) that the charity makes primarily as part of its charitable activities.	SORP 2005 Para 299			
Where values are determined other than by reference to readily available market prices (Glossary GL 41), the notes to the accounts should disclose who has made the valuation, giving: a. the name and qualification (if any) of the valuer and whether they are a member of staff or a trustee or external to the charity; and b. the basis or bases of valuation.	SORP 2005 Para 300			
In the rare case where the size or nature of a holding of securities is such that the market is thought by the trustees not to be capable of absorbing the sale of the shareholding without a material effect on the quoted price, the trustees should summarise the position in the notes to the accounts. If they are able to do so, the trustees should give an opinion in the notes to the accounts on how much the market price should be adjusted to take this fact into consideration.	SORP 2005 Para 301			

12 For a disclosure checklist summarising the complete Charities SORP requirements as at 31 August 2014 please refer to Appendix 1 of our survey *the Challenges Ahead… Surveying trustees' annual reports in the charity sector* published in September 2014.

Charities SORP requirements (Although charities that fall outside of the audit threshold are exempt from certain disclosures it is considered best practice to include them)	**Ref.**	**Yes**	**No**	**N/A**
The notes to the accounts should show all changes in values of investment assets and reconcile the opening and closing book values. This information may be provided in a table format as set out in Table 9.	SORP 2005 Para 302			

Table 9. Analysis of Movement of Investments	£
Carrying value (market value) at beginning of year	
Add: Additions to investments at cost	
Less: Disposals at carrying value	
Add/deduct Net gain/(loss) on revaluation	
Carrying value (market value) at end of year	

The notes should also show the total value of investment assets at the end of the financial year divided between distinct classes of investment. This would normally include: a. investment properties; b. investments listed on a recognised stock exchange or ones valued by reference to such investments, such as common investment funds, open ended investment companies, and unit trusts; c. investments in subsidiary or associated undertakings or in companies which are connected persons (Glossary GL 50); d. other unlisted securities; e. cash and settlements pending, held as part of the investment portfolio; f. any other investments.	SORP 2005 Para 303			
Items in categories (a) to (f) of paragraph 303 above should be further analysed between: i. investment assets in the UK (see paragraph 305 below); ii. investment assets outside the UK.	SORP 2005 Para 304			
The total value of shares or investment schemes (including common investment funds, open ended investment companies and unit trusts) relating to companies listed on a UK stock exchange or incorporated in the UK are treated as investment assets in the UK and no further analysis is required of whether such entities invest their funds in the UK or outside the UK.	SORP 2005 Para 305			
Further details should be given in the notes to the accounts of any particular investment that is considered material in the context of the investment portfolio.	SORP 2005 Para 306			
The notes to the accounts should indicate the value of investments held in each category of fund. This may be included in the overall analysis of assets held in the different category of funds.	SORP 2005 Para 307			
Where the use of programme related investments forms a material part of the work of the charity, or the amounts form a material part of the investment assets of the charity, the notes to the accounts should show all changes in carrying values of programme related investments, including any impairment losses, and reconcile the opening and closing carrying values of such investments.	SORP 2005 Para 311			
The notes should also analyse programme related investments held between equity, loan and other investments and indicate the charitable objectives, programmes or projects the investment supports.	SORP 2005 Para 312			
Investment management costs are defined in the Glossary (GL38:). Where investment management fees are deducted from investment income by investment managers, the charity should show as investment income the gross investment income before fees and report the fees within this cost category. [SOFA heading B1c: investment management costs]	SORP 2005 Para 187			
Companies act 2006 directors' report requirements				
There are no specific references to investments in the directors report requirements. However, directors must report on the use of financial instruments by the business, which would include investments held.	Acc Regs Sch 7:6(1)(2)			
Companies act 2006 strategic report requirements				
There are no specific references to investments in the strategic report requirements. However, information on significant investment movements would be captured by the performance review requirements.	s414C			

Appendix 2 – Changes under the new SORPs

For accounting periods commencing on or after 1 January 2015 charities will be required to adopt a new SORP, either the FRSSE SORP or the FRS102 SORP depending upon which accounting framework they follow. There are no significant disclosure differences for investments between the FRSSE SORP and the FRS102 SORP, the main exceptions being that the costs of investment must be shown on the face of the SOFA (there is not an option to include them in the notes) and less disclosure is required on investment properties and financial instruments for those adopting the FRSSE SORP.

The comparison below gives guidance on additional and reduced reporting elements based on the SORP 2005 and the FRS102 SORP ('SORP 2015'). The main changes reflect the clearer terminology of SORP 2015 with 'must' for required disclosures and 'should' for recommended disclosures. Many of the disclosures phrased as 'should' in SORP 2005 are now 'must'. Changes have been highlighted in bold.

Charities SORP requirements			
Reference	Title	FRS 102 SORP requirements	SORP 2005 requirements
SORP 2015 1.38 SORP 2005 Para 50	**Objectives and activities**	1.38 The report must include an explanation of the use the charity makes of the following: • Social investment, when this forms a material part of its charitable and investment activities. In particular, the report **must** provide an explanation of its social investment policies and explain how any programme related investments contributed to the achievement of its aims and objectives. The report must also explain how any programme related investments contributed to the achievement of its aims and objectives.	50 Where social or programme related investment activities are material in the context of charitable activities undertaken, the trustees report should explain the policies adopted in making such investments.
SORP 2015 1.40 – 1.42 SORP 2005 Para 53	**Achievements and Performance**	1.40 Good reporting sets out how well the activities undertaken by the charity and any subsidiaries performed and the extent to which the achievements in the reporting period met the aims and objectives set by the charity for the reporting period. Good reporting provides a balanced view of successes and failures along with the supporting evidence, and demonstrates the extent of performance and achievement against the objectives set and the lessons learned. 1.41 In particular, the report **must** review: • investment performance against the investment objectives set where material financial investments are held; 1.42 The report should provide a balanced picture of a charity's progress against its objectives. For example, it may explain progress by reference to the indicators, milestones and benchmarks the charity uses to assess the achievement of objectives.	53 The trustees' report should contain information that enables the reader to understand and assess the achievements of the charity and its subsidiary undertakings in the year. It should provide a review of its performance against objectives that have been set. The report should provide both qualitative and quantitative information that helps explain achievement and performance. The report **should** contain: (c) Where material investments are held, details of the investment performance achieved against the investment objectives set.
SORP 2015 1.46, 1.47 & 1.48 SORP 2005 Para 55	**Financial review**	1.46 The report must also comment on the significant events that have affected the financial performance and financial position of the charity during the reporting period. In particular the report must explain: • where the charity holds material financial investments, the investment policy and objectives set; 1.47 The financial review should also explain: • where the charity holds material financial investments, the extent (if any) to which it takes social, environmental or ethical considerations into account in its investment policy. 1.48 The review of the charity's reserves should identify the amount of any fund that can only be realised by disposing of tangible fixed assets or programme related investments.	55 The trustees' report should contain a review of the financial position of the charity and its subsidiaries and a statement of the principal financial management policies adopted in the year. The report should explain the charity's: (d) Where material investments are held, the investment policy and objectives, including the extent to which social, environmental or ethical considerations are taken into account.
Charities that are not subject to a statutory audit requirement need not provide the disclosures above in their trustees' report.			

Charities SORP requirements			
Reference	Title	FRS 102 SORP requirements	SORP 2005 requirements
SORP 2015 10.53 &10.54 And 11.35 Financial instrument disclosures SORP 2005 Para 299, 303 – 306	**Financial statements disclosure requirements**	10.53 The notes to the accounts **must**: • state the accounting policies for investments, including the basis on which investments are measured; • provide an analysis of investments **by class** of investment identifying the amounts held within each class, with those investments held at fair value differentiated from those held at historical cost less impairment; and • provide an analysis reconciling the opening and closing carrying amounts of each class of fixed asset investment held. 10.54 The classes of investments disclosed in the note will vary from charity to charity reflecting the differing nature of the investments held. This SORP requires that the analysis must as a minimum identify material amounts held in the following classes of investment: • cash or cash equivalents; • listed investments; • investment properties; • **loans to group undertakings**; • equity investment in group undertakings; • **social investments; and** • other investments. Charities must also refer to the SORP module 'Accounting for financial assets and financial liabilities' for the further disclosures that apply to investments as financial instruments. 11.35 Charities with basic financial instruments must disclose: • the measurement bases and the accounting policies used for financial instruments; • the carrying amount of financial assets measured at fair value through income and expenditure (termed profit or loss in FRS 102); • the carrying amount of financial assets measured at amortised cost; • the carrying amount of financial liabilities measured at fair value through income and expenditure (termed profit or loss in FRS 102); • the carrying amount of financial liabilities measured at amortised cost; • the carrying amount of financial liabilities measured at cost less impairment; • information about the significance of financial instruments to the charity's financial position or performance, for example the terms and conditions of loans or the use of hedging to manage financial risk; • for all financial assets and financial liabilities measured at fair value, the basis for determining fair value, including any assumptions applied when using a valuation technique; • if the charity or its subsidiary has provided financial assets as a form of security, the carrying amount of the financial assets pledged as security and the terms and conditions relating to its pledge; • the income, expense, net gains and losses, including changes in fair value, for financial assets and financial liabilities measured at fair value, and financial assets and financial liabilities measured at amortised cost; • the total interest income and expense for financial assets and financial liabilities that are not measured at fair value; and • the amount of any impairment loss for each class of financial asset.	299 The investment asset note to the accounts **should** disclose separately: c. investments held primarily to provide an investment return for the charity; and d. programme related investments (Glossary GL 47) that the charity makes primarily as part of its charitable activities. 303 The notes should also show the total value of investment assets at the end of the financial year divided between distinct classes of investment. This would normally include: a. investment properties; b. investments listed on a recognised stock exchange or ones valued by reference to such investments, such as common investment funds, open ended investment companies, and unit trusts; c. investments in subsidiary or associated undertakings or in companies which are connected persons (Glossary GL 50); d. other unlisted securities; e. cash and settlements pending, held as part of the investment portfolio; f. any other investments. 304 Items in categories (a) to (f) of paragraph 303 above **should be further analysed between**: i. investment assets in the UK (see paragraph 305 below); ii. investment assets outside the UK. 305 The total value of shares or investment schemes (including common investment funds, open ended investment companies and unit trusts) relating to companies listed on a UK stock exchange or incorporated in the UK are treated as investment assets in the UK and no further analysis is required of whether such entities invest their funds in the UK or outside the UK. 306 **Further details should be given in the notes to the accounts of any particular investment that is considered material in the context of the investment portfolio**.

Charities SORP requirements			
Reference	Title	FRS 102 SORP requirements	SORP 2005 requirements
SORP 2015 10.44, 10.48 – 10.49 & 10.56 SORP 2005 Para 296 & 300 – 301	**Valuation and disclosure**	*Investments listed or traded on a recognised stock exchange* 10.44 Fixed asset investments in quoted shares, traded bonds and similar investments must be measured initially at cost and subsequently at fair value (their market value) at the reporting date. This treatment is in accordance paragraph 11.14(d) of FRS 102. *Investment properties* 10.48 Investment properties must be measured initially at cost and subsequently at fair value at the reporting date. This SORP does not permit charities using FRS 102 to subsequently measure investment properties at their cost less accumulated depreciation and any accumulated impairment losses. Depreciation is not provided on investment property. *Unlisted investments* 10.49 Unlisted equity investments must be measured initially at cost and subsequently measured at fair value unless fair value cannot be measured reliably in which case it is measured at cost less impairment. Where the charity holds an interest in subsidiaries, associates and joint venture entities, it should refer to the relevant SORP module(s). 10.56 Charities holding investment property must also disclose: • the methods and significant assumptions applied in determining the fair value of investment property; • the extent to which the fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the property being valued (or if there has been no such valuation this fact must be disclosed); • the existence and amounts of any restrictions on the ability to realise investment property or on the remittance of income and proceeds of disposal; • any contractual obligations for the purchase, construction, or development of investment property or for repairs, maintenance or enhancements; and • in the analysis (see paragraph 10.15) the additions resulting from acquisitions through business combinations, if any.	296 All investment assets other than programme related investments (see paragraph 308), should be shown in the balance sheet at market value or at the trustees' best estimate of market value as described below. Market value best represents a true and fair view of the value of these assets to the charity, given the duty of the trustees to administer the portfolio of investment assets so as to obtain the best investment performance without undue risk. Investment assets should not be depreciated. All changes in value in the year, whether or not realised, should be reported in the "gains and losses on investment assets"section of the Statement of Financial Activities (see paragraph 219). 300 Where values are determined other than by reference to readily available market prices (Glossary GL 41), the notes to the accounts should disclose who has made the valuation, giving: c. the name and qualification (if any) of the valuer and whether they are a member of staff or a trustee or external to the charity; and d. the basis or bases of valuation. 301 In the rare case where the size or nature of a holding of securities is such that the market is thought by the trustees not to be capable of absorbing the sale of the shareholding without a material effect on the quoted price, the trustees should summarise the position in the notes to the accounts. If they are able to do so, the trustees should give an opinion in the notes to the accounts on how much the market price should be adjusted to take this fact into consideration.
SORP 2015 10.15 SORP 2005 Para 302		10.15 For each class of fixed assets, including as a requirement of this SORP, fixed asset investments and heritage assets, the following analysis of their cost or valuation must be provided in the notes to the accounts: • Cost or valuation at the beginning of the reporting period; • Acquisitions during the reporting period; • Revaluations during the reporting period; • Disposals during the reporting period; • Transfers to or from that class of item during the reporting period; and • Cost or valuation at the end of the reporting period.	302 The notes to the accounts should show all changes in values of investment assets and reconcile the opening and closing book values. This information may be provided in a table format as set out in Table 9. Table 9. Analysis of Movement of Investments — £ Carrying value (market value) at beginning of year **Add:** Additions to investments at cost **Less:** Disposals at carrying value **Add/deduct** Net gain/(loss) on revaluation Carrying value (market value) at end of year

Charities SORP requirements			
Reference	Title	FRS 102 SORP requirements	SORP 2005 requirements
SORP 2015 2.29 SORP 2005 Para 307	**Analysis by unrestricted, restricted and endowment funds**	2.29 In particular, this SORP requires that notes to the accounts must disclose: • a summary of the assets and liabilities of each category of fund of the charity, if not provided by presenting this information in a columnar balance sheet;	307 The notes to the accounts should indicate the value of investments held in each category of fund. This may be included in the overall analysis of assets held in the different category of funds.
SORP 2015 21.32 & 21.40 – 21.43 SORP 2005 Para 311 & 312	**Programme related investment (and mixed motive)**	21.32 Must be assessed for objective evidence of impairment at the end of each reporting period. 21.40 This SORP requires that the accounting policy note must disclose: • the measurement bases used for programme related investments and mixed motive investments; and • any other accounting policies that are relevant to understanding these transactions in the accounts. 21.41 This SORP also requires that the notes to the accounts must present programme related investment and mixed motive investment as separate classes of investment in the relevant note, if not separately disclosed on the balance sheet, and disclose: • those details required by the SORP module 'Balance sheet' for the relevant classes of fixed asset into which the investment falls; • details and amount of any guarantee made to or on behalf of a third party; • the name of the entity or entities benefiting from those guarantees; and • an explanation as to how the guarantee furthers the charity's aims. 21.42 The applicable disclosures set out in the SORP module 'Accounting for financial assets and financial liabilities' must also be made. (see 11.35 above) 21.43 Section 34 of FRS 102 sets out the accounting treatment and disclosures relating to concessionary loans. Charities must disclose: • the carrying amount of concessionary loans made or received (multiple loans made or received may be disclosed in aggregate, provided that such aggregation does not obscure significant information); • the terms and conditions of concessionary loan arrangements, for example the interest rate, any security provided and the terms of repayment; • the value of any concessionary loans which have been committed but not taken up at the reporting date; and • separately amounts payable or receivable within one year and amounts payable or receivable after more than one year.	311 Where the use of programme related investments forms a material part of the work of the charity, or the amounts form a material part of the investment assets of the charity, the notes to the accounts should show all changes in carrying values of programme related investments, including any impairment losses, and reconcile the opening and closing carrying values of such investments. 312 The notes should also analyse programme related investments held between equity, loan and other investments and indicate the charitable objectives, programmes or projects the investment supports.

Charities SORP requirements			
Reference	Title	FRS 102 SORP requirements	SORP 2005 requirements
SORP 2015 4.46, 4.47 & 4.48 SORP 2005 Para 187	**Investment management fees**	4.46 Investment management costs include the costs of: • portfolio management; • obtaining investment advice; • administration of the investments; • costs of licensing intellectual property; and • rent collection, property repairs and maintenance charges. 4.47 Where investment management costs are material, these costs should be presented as a separate heading on the face of the SoFA or in the notes to the accounts. 4.48 Costs associated with acquiring and disposing of investments would normally form part of the acquisition cost of the investment or reduce the return on disposals. These costs are therefore not part of investment management costs. Where investment managers deduct management fees from investment income, the charity should report the gross investment income before fees and report the management fees charged in this cost category. However, charities are not expected to prorate investment management fees charged to a collective investment scheme to identify the notional cost attributable to its own holding in the scheme.	187 Investment management costs are defined in the Glossary (GL38:). Where investment management fees are deducted from investment income by investment managers, the charity should show as investment income the gross investment income before fees and report the fees within this cost category. (SOFA heading B1c: investment management costs).
SORP 2015 4.37 – 4.38 SORP 2005 para 140 & 142	**Investment income**	4.37 Investment income is earned from holding assets for investment purposes and includes dividends, interest, and rents from investment property. Where income from investments is material, it must be presented as a separate heading on the face of the SoFA. 4.38 While income must be presented gross in the SoFA before the deduction of any costs incurred, it is often not practicable for charities to identify the investment management costs incurred within collective investment schemes, such as unit trusts or common investment funds, prior to the distribution of income. Where it is not practicable to identify the investment management costs incurred within the scheme with reasonable accuracy, the investment income should be reported net.	140 Investment income includes incoming resources from investment assets, including dividends, interest and rents but excluding realised and unrealised investment gains and losses. 142 The notes to the accounts should show the gross investment income arising from each class of investment shown in paragraph 303.

Charities SORP requirements			
Reference	Title	FRS 102 SORP requirements	SORP 2005 requirements
SORP 2015 10.71 – 10.73 SORP 2005 313	**Current Asset Investments**	10.71 To be classified as a current asset, the charity should not intend to hold the cash or cash equivalents as part of its on-going investment activities for more than one year from the reporting date. However, cash and cash equivalents that are held from time to time as part of a fixed asset investment portfolio should be presented as part of fixed asset investments. Current asset investments must be valued at their fair value except where they qualify as 'basic' financial instruments. 10.72 The notes to the accounts must explain, within the disclosure of accounting policies, the basis on which current asset investments are measured and how the charity has defined any short-term, highly liquid investments as current asset investments. 10.73 This SORP requires that the notes must provide an analysis of amounts, including comparatives for the previous reporting period, of the following items included within current asset investments: • cash equivalents on deposit; • investment properties held for sale (charities may opt to include any properties previously classified as investment properties which have been redesignated as held for sale); • investment in group undertakings held for sale; • listed investments; and • other investments.	313 Current assets other than current asset investments (see paragraph 296 (above)) should normally be recognised at the lower of their cost and net realisable value.
SORP 2015 10.74 – 10.75	**Cash**	10.74 Cash at bank and in hand is held to meet short-term cash commitments as they fall due rather than for investment purposes and includes all cash equivalents held in the form of short-term highly liquid investments. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. A cash equivalent will normally have a short maturity of, say, three months or less from the date of acquisition. 10.75 The notes to the accounts must explain, within the disclosure of accounting policies, how the charity has defined any short-term, highly liquid investments included as cash at bank and in hand	
SORP 2015 13.7	**Non-adjusting events**	The disclosure of non-adjusting events provides useful and relevant information about the charity to users of the accounts. Examples of non-adjusting events that may occur after the reporting date that should be disclosed include: • a material decline in the market value of investments;	Included in appendix 2: application of accounting standards as 'equally applicable to charities'.

Appendix 3 – Trustees' investments powers

The list below highlights some of the considerations arising from the Charity Commission guidance CC14 which draws together into one document the legal underpinning relating to charities and investment matters. This was published in October 2011. The list should not be considered exhaustive and appropriate advice, legal or otherwise, should always be taken where there is concern over an investment issue. The tax implications of investment, what constitutes charitable investment and what may be considered trading have not been considered here and any questions in relation to these matters can be directed to your tax team or the tax contacts highlighted in Appendix 5.

Investment powers – some considerations for trustees	Ref	Notes
Do you understand your investment powers? The Trustee Act 2000 confers a general power of investment on trustees. This is stated to be that *'a trustee may make any kind of investment that he could make if he were absolutely entitled to the assets of the trust'.* Trustees have to exercise their powers in the interests of the charity. This power applies only to financial investments. Note: The general power of the Trustee Act 2000 does not permit trustees to make an investment in land other than loans secured on land. However section 8 of the Trustee Act gives trustees the power to acquire freehold or leasehold land in the United Kingdom as an investment.	Trustee Act 2000	
Does your constitution or governing document restrict those investment powers? Under section 24 of the Charities Act 1993 the powers of investment of a charity include power to participate in common investment funds and common deposit funds unless the power is excluded by a provision in its governing document specifically referring to common investment funds or common deposit funds. Charities may choose to invest in a narrower range of investments either because their objects justified the restrictions or because the charity trustees considered investment was appropriate on financial considerations. Such ethical restrictions may be imposed by the governing document or by the Trustees themselves. Investment powers may be limited by the governing document or by the constitution. Endowments or other bequests may come with investment conditions that trustees would need to be aware of.	Charities Act 2011 para 96 et seq	
How do you exercise those powers? The Trustee Act 2000 imposes specific duties on trustees with regard to the exercise of their investment powers. In particular trustees must review the charity's investments from time to time and, having regard to the standard investment criteria, vary them if appropriate. These standard investment criteria are: (a) The suitability to the trust of investments of the same kind as any particular investment proposed to be made or retained and of that particular investment as an investment of that kind; and (b) The need for the diversification of investments of the trust, in so far as is appropriate to the circumstances of the trust. Typically it is not permitted for trustees to borrow in order to invest. There are a number of decisions that trustees need to make with regard to investments and that are typically set out in the investment policy. Policy considerations should take into account at a minimum the following questions • **How often do you review your investment policy (strategy and objectives)?** • **What is your appetite to risk? Does your policy reflect that?** • **What targets suit your objectives (does that charity want income or gains)?** • **Which benchmarks are most applicable?** • **What are your criteria for the selection of investment options and minimum performance requirements that each option must reach?** • **How and how frequently do you assess/monitor the return on different types of investment assets?** • **How do you assess, determine, change the portfolio mix?** • **How often do you review/monitor return against targets?** • **What interventions would and could you take if necessary?**	Trustee Act 2000 Section 4	
Are you imposing any further restrictions? Where the trustees impose an ethical investment policy this should still be consistent with the principle of seeking the best returns. Case law has identified three situations where trustees can allow their investment strategy to be governed by considerations other than the level of investment return. 1) Where the particular type of business would conflict with the aims of the charity – **practical** conflict with the charity's aims and activities and not just moral disapproval. 2) A charity can avoid investments which might hamper its work through alienating supporters or making potential beneficiaries unwilling to become involved, however it must balance this risk against the risk of financial underperformance. 3) Trustees can accommodate the views of those who consider investments inappropriate on moral grounds if they are satisfied that this would not involve 'a risk of significant financial detriment'. Trustees need to make clear in their policy what their restrictions are and why they feel those restrictions are necessary and can be justified. Approaches to ethical investments may involve either negative screening (excluding certain types of industry/companies from their portfolio) or positive screening (only including companies that promote similar ideas or activities as fit with the charity's aims). Trustees must also determine how strictly any restriction should be adhered to, for example do they apply to direct investments only, or do trustees require that any funds they invest in will reflect the same ethical or economic policies.		

Investment powers – some considerations for trustees	Ref	Notes
Do the trustees have access to appropriate advice? A trustee must obtain proper advice, where he considers it necessary, from a person who is reasonably believed by the trustee to be qualified to give it by his ability in and practical experience of financial and other matters relating to the proposed investment. The level of advice and experience immediately available to a charity will vary depending on the composition of the Board and management. Therefore each charity will need to audit the skills available to them and consider how to bridge any gaps.	Trustee Act 2000 Section 5	
Are any of the trustees powers delegated? Trustees have powers to delegate management of their investments which are in addition to any powers stated in a charity's governing document. A person authorised by a charity's trustees to exercise the general power of investment is subject to the duty to have regard to the standard investment criteria when exercising any power of investment. Trustees must ensure that any delegation of powers is clearly documented through terms of reference or contract and processes are established for review, and arbitration should that become necessary.	Trustee Act 2000 Section 11 Trustee Act 2000 Section 13(1)	
Have the trustees considered programme related investment as a way of furthering the charities objectives? Programme related investment (PRI) is justified as furtherance of the charitable purpose not as an exercise of the investment power. These are not considered to be financial investments and therefore not subject to the same legal restraints. Trustees must be prepared to justify their use of resources to meet and continue to be able to meet their charitable objectives. This may include making decisions between financial investments, programme related investments and immediate charitable expenditure. To successfully make PRI, be it through loans, investment in shares, guarantees or indemnities, the charity: • Must be able to show that PRI is wholly in furtherance of the charity's aims; • Should make sure that any benefit to private individuals is necessary, reasonable and in the interests of the charity; and • Should consider reasonable and practical ways to exit from a PRI if it is no longer furthering the charity's aims. The advantage of loans, for example, is that repaid capital can be recirculated and the funds used many times, the risks include needing to undertake due diligence in loan assessment and active portfolio management. Indemnities and guarantees can support smaller charities and organisations in obtaining their own finance and does not diminish a giving charity's reserves, however the guaranteeing charity must ensure that, if called upon, it can both stand the payment and remain within its charitable objectives by doing so.		
Has any investment in subsidiaries been evaluated? Many charities have trading companies which may be held for either income generation or for conducting activities which further the purposes of the charity. In late 2012, the Companies Act 2006 was amended to provide a new exemption from audit for subsidiaries[13] with an EEA parent that is willing to guarantee the subsidiaries' debts and liabilities. Dormant subsidiaries with such a guarantee are additionally exempt from preparing and filing financial statements. Following that announcement the Charity Commission issued guidance to clarify that a charity cannot give such a guarantee to a non-charitable subsidiary because it risks charitable funds being used for a non-charitable purpose were the guarantee to be called upon. The Charity Commission has also stated that although a parent charity can give such a guarantee to a charitable subsidiary, the charitable subsidiary would still require an audit or independent examination under the Charities Act 2011 where it exceeds the relevant thresholds. Trustees must be prepared to justify any provision of funds to its trading company by either the financial return or the activities it undertakes.		
Has the tax impact of investments been considered? Where a charity, or charitable company makes investments or loans that are not approved charitable investments or loans as defined in law[14], it may be treated as incurring non-charitable expenditure. The tax impacts of the various types of investment are outside the scope of this survey. Please contact your audit partner, or a member of our tax team would be happy to discuss a particular situation.		

13 These changes take effect for accounting periods ending on or after 1 October 2012.

14 Under section 543(1) of the Income Tax Act 2007 a charitable trust is treated as incurring non-charitable expenditure if it makes any investments or loans that are not approved charitable investments or loans as defined in sections 558 and 561 Income Tax Act 2007 respectively. Under section 496(1) of the Corporation Tax Act 2010 a charitable company is treated as incurring non-charitable expenditure if it makes any investments or loans that are not approved charitable investments or loans as defined in sections 511 and 514 of the Corporation Tax Act 2010 respectively.

Appendix 4 – Opining on future returns

The year to 30th September 2014 should have brought charity investors another 12 months of attractive returns: we would expect long-term, multi-asset portfolios designed for endowment-type assets to have produced total returns of 7% to 9%. More conservative and bond-oriented portfolios designed to protect medium-term reserves will also have done well, producing returns of 5% to 6% depending on the precise mix of government and corporate bond and other assets.

This is the third year of attractive returns: endowment portfolios should have produced over 12% per annum since September 2011 and due to the strength of bond markets, we would expect reserve portfolios to have produced as much as 8% per annum. Against this backdrop, it shouldn't be a surprise that the Deloitte's survey shows that of those who reported; approximately two thirds of charities met or exceeded their targets.

Indeed, despite the horror show of 2007-09 and the short but sharp setback in 2011, the last 10 years have produced returns in keeping with longer term results and what we expect charities to be able to achieve in the future. A long-term endowment portfolio should have produced a return of about 8% per annum after costs since 30th September 2004, equating to a 'real' return after the effects of inflation of about 4.5% per annum.

Trustees who relied on their investments to produce all or a large part of their spending should be looking back at a successful decade. Portfolios should have been able to withstand withdrawals of up to 4.5% per annum, while retaining their spending power for future generations.

None of this is to suggest that the past decade has been a smooth ride. It hasn't: we have witnessed extraordinary economic events, with the near collapse of the banking sector, the euro on the verge of breakup and levels of debt not witnessed since the end of the Second World War.

For many, it will have seemed like we have lived through the eye of an almost perfect storm and witnessed events unique in the history of investment.

However, we would suggest it has been a rather typical decade of economic boom, bust, market collapse and recovery, with a good dose of ugly geopolitics and local political wrangling thrown in to spice up the mix. That bear markets invariably surprise us and that bull markets climb a wall of worry really should come as no surprise to anyone who has studied economic and investment history. If one looks back over the past 115 years, we can see a range of economic and political events that have sprung up to unsettle investors. 'Man' has a quite extraordinary ability to try and ruin a good thing and capitalism has been bought to the brink of collapse on occasions too numerous to mention.

While the causes and effects vary across the decades, we seem to have short memories and are remarkably poor at learning from our mistakes. We seem entirely capable of recreating past crashes: witness the re-occurrence of banking collapses every 30-40 years from the 1930s to the 1970s and then once again in the late 2000s.

However, while the end result is a depressingly familiar collapse in market confidence, the recoveries that follow bear witness to the ability of free markets, entrepreneurs, governments and central banks to consolidate, rebuild and grow once again.

What this has meant is that one single golden rule stands out in investment: don't lose your nerve and ensure you never become a forced seller of illiquid or volatile assets at an inappropriate moment. Charities that have agreed clear strategic objectives and created investment policies to match should be able to weather even the fiercest investment storms. 84% of the respondents to this Deloitte's survey included their policies within their Report & Accounts, allowing interested parties to review their approach and perhaps learn something from them.

Looking ahead, we see no reason for markets to behave any differently to the way in which they have behaved over the past 10 years.

In 2024, we expect trustees to be looking back at investment returns of about 7% per annum, which we expect to turn into real returns of about 4% to 4.5% per annum. Given the costs associated with investment, we suspect this will mean trustees will have been able to spend about 3.5% per annum, while retaining the long-term spending power of their assets. This is a little lower than has been the case over the very long-term, but within the 3% to 5% bandwidth that sustainable spending levels have typically ranged between over the last 114 years.*

In conclusion, if there were 5 bits of advice we would suggest trustees and finance directors embrace to best ensure success in their future, what might they be?

1. **The key to long-term success is strategy, not clever tactics.** Do not predicate your success on trying to be unusually clever. Organise your assets in such a way that you are able to seek higher levels of return with genuinely long-term monies, while ensuring you have enough safe and secure short-term assets to meet short to medium term demands. The way in which the charities surveyed by Deloitte have clearly defined their shorter and longer term reserves is testament to this approach and should allow charities to navigate through the volatility we fully expect to see over the years ahead.

2. **Review these strategic decisions annually.** Make sure nothing has changed, or if circumstances have changed, ensure they are managed within the overall strategy as soon as they appear on the horizon. Top up cash and defensive/reserve allocations at a time of your choosing when markets have been strong.

3. **Keep costs to a minimum.** This first means analysing what your costs of investment actually are and then reporting them. This latest Deloitte's survey shows that only 50% of charities are reporting their investment costs. Moreover, Deloitte's hint at and our own review of over 125 Reports & Accounts over the past 9 months confirms that what is being reported varies significantly. This is an area for improvement – and the investment industry can do its part by improving their reporting of investment costs, which at times is very poor and results in unnecessary work for charity executives.

4. **Diversification.** This survey shows a significant bias to UK equities, with overseas equities making up just 20% of overall equity allocations. We feel this is too low, given the global nature of companies and markets in 2014. We would suggest Investment Committees consider further diversification away from UK listed companies, quite possibly implemented alongside currency hedging strategies that reflect where their liabilities reside.

5. **Governance.** Deloitte's survey shows that 40% of charities have some form of ethical investment policy. However, we would like to see more commentary on wider stewardship issues and specifically, a commitment to ensuring that their investment managers have high standards of corporate governance and interaction with company executives. Securing high levels of corporate governance will be a crucial element in ensuring that investment returns are attractive over the years ahead.

In conclusion, we welcome this survey and look forward to reading future editions and watching how charities and charity reporting develops over the years ahead.

Richard Maitland
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For further information please see the 18th edition of the Sarasin & Partners Compendium of Investment available at www.sarasinandpartners.com/compendium

Appendix 5 – Impact measurement
What it is. Why it matters.

This appendix is targeted specifically at charities, social enterprises, and more generally impact investors interested in creating a positive social impact. The objective of this appendix is not to recommend a particular impact measurement tool, but to walk you through the key stages involved in the process of impact measurement.

Impact Market Trends

Impact investing has captured the hearts and minds of leaders in finance, philanthropists, business, and government seeking innovative ways to help solve society's most challenging market failures. Impact investments are those that intentionally target societal and/or environmental impact along with financial return through specific measureable outcomes. The term 'Impact' is somewhat fluid, with differing definitions across borders and investments making it difficult to measure. Until recently there has been a large amount of debate on the definition of impact investing and a lack of cohesiveness towards impact measurement approaches – however, on the 20th June 2014 the European Commission announced the approval by the GECES of the standards for measuring and reporting social impact. EU Commissioner for Employment, Social Affairs and Inclusion, László Andor, said: *"the new standard will help social enterprises to access EU financial support, and sets the groundwork for social impact measurement in Europe".* As impact investing has grown so too has pressure on social sector organisations (SSOs) to demonstrate and articulate impact of their services and activities evidenced by a shift towards outcomes-based commissioning. More recently, the Public Services Social Value Act (2012) aims to encourage via legislation both commissioners and SSOs to consider and evidence the wider social impact of their services. The G7 Social Impact Investment Force set up in June 2013 to help catalyse the development of the global social impact investment market by agreeing key principles and common frameworks, building a global community and developing and sharing practices also supports this increased push towards social investment. The GECES standard outlines a universal five-step process towards measurement. Importantly GECES highlights that a "one size fits all" approach towards measurement is a non-starter. We continue by defining social impact and providing an overview of the GECES five-step process.

Definition of social impact

Social impact as defined by GECES is "the reflection of social outcomes as measurements, both long-term and short-term, adjusted for the effects achieved by others (alternative attribution), for effects that would have happened anyway (deadweight), for negative consequences (displacement), and for effects declining over-time (drop-off)".

Impact measurement is a tool to embed and integrate outcome based performances measures into the day-to-day activities of SSOs, it should not be seen as a fringe activity. It is a powerful tool to not only quantify effects of interventions, but a tool to understand how to use resources effectively, assist with organisational planning and decision-making, and secure funding.

When considering social impact it is useful to think of it as an Impact Value Chain (IMV). The IMV has become a popular starting point for defining social impact as it clearly sets out the differences between inputs, outputs, outcome and social impacts.

As with all definitions, they are most effectively demonstrated through the use of an example. Let us look at an organisation that focuses on increasing access to personal development programmes to support young people to re-engage with learning, increase confidence and employability skills. The theory of change for this organisation is that lack of access to such programmes is a key factor in preventing disadvantaged young people from gaining future employment or gaining qualifications. In the context of such a programme the SSO inputs the money invested and the people employed to educate the young people. The output is the development of the personal development programme, whilst the outcome may be the change arising in confidence, self-esteem levels in the lives of the beneficiaries. The overall impact of such an intervention is the change or effect on society that follow from the change in the young person.

Five-step Impact Process

Impact measurement should be underpinned by a common process based on setting objectives, identifying stakeholders, setting relevant measurement metrics, measurement and validation of results and finally reporting.

Step 1 – Setting objectives

Setting realistic, measurable and attainable objectives is a vital step in any impact measurement process. It is important that the SSO sets realistic boundaries for the assessment based on available resources and the SSO's overall objectives of the assessment.

Step 2 – Stakeholder engagement

SSOs should engage with stakeholders to prioritise the impact objectives set out in Step 1 build a hypothesis of the SSO contribution to addressing social market failures and finally test the development hypothesis with stakeholders.

Step 3 – Measuring direct and indirect impacts

To transform the objectives set in Step 1 into measureable results, a SSO must consider outputs, outcomes and impact. Once the SSO has set a coherent theory of change in place, the next step is to identify relevant indicators to measure the extent of the SSO impact.

Step 4 – Measuring and valuing impact

In this step, the SSO should seek to verify whether the claim made on having positive impact is true, and if so, to what extent (i.e. to what value). It is during this step in the process that a system for data collection is set up. Measurement and validation is a continuous process over the life-time of an intervention, as such data collection should be integrated into everyday operational systems and should not be considered as an afterthought.

Step 5 – Report impact

Reporting impact through a stand-alone impact report, sustainability report or as part of your corporate social responsibility report is a key final step towards transparent impact. Distributing impact performance coherently is an effective tool for informing stakeholders of performance. An independent review or social assurance can be carried at this point to validate impact performance.

Conclusion

Impact investing is an evolving space, it has the power to harness entrepreneurship, unlock private capital for public good and create innovative solutions to solve some of society's most entrenched social issues. If underpinned effectively by an appropriate impact measurement framework, philanthropists, businesses, and SSOs alike can create real social change by combining profit with purpose.

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Appendix 6 – Deloitte's Charities and Not For Profit Group

Our dedicated Charities and Not For Profit Group is made up of specialists with expertise and a passion for working with clients in the sector. Please visit www.deloitte.co.uk/charitiesandnotforprofit for more information about the Group.

With access to a group of specialists spread across the country, we will provide truly local expertise and service, backed up by the resources of a National Team.

Please feel free to contact any of the team members if you would like more detailed information and advice or would like to meet with us to discuss any current issues for your charity.

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Notes

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