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Investing for Charities Whitepaper

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Welcome to CAMRADATA's Investing for Charities Whitepaper

Unlike many large investors, who can rely on regular, relatively predictable income to fund investment activity, charities and non-profits often find themselves battered by the winds of the socio-economic climate.

In the US, more than a third of non-profits said the recent pandemic had put their viability in jeopardy, due to a fall in donations and other related issues.

But "money in" is just one part of the jigsaw for trustees and boards overseeing the management of their assets, with donations and "money out" taking up a considerable amount of the governance budget.

Inflation, cost of living pressures and changing demands due to evolving socio-economic and environmental factors mean charity assets are being squeezed at a time when making a return looks increasingly tricky.

Additionally, many organisations are run by team members, who may not be well-versed in portfolio management and setting of long-term investment objectives. Nor are they clued up on expectations of costs and outcomes that sit at the front-of-mind of many other institutional investors.

Ensuring sustainability of mission, along with resiliency of assets for future distribution is key to not-for-profit boards – this whitepaper will investigate how it can be achieved.

Meet the Team

Natasha Silva
Managing Director, Client Relations

Amy Richardson
Managing Director, Business Development

Sam Buttress
Associate, Business Development

Sarah Northwood
Marketing and Events Coordinator

Orin Ferguson
Associate, Business Development

Investing for Charities Roundtable

The CAMRADATA Investing for Charities Roundtable took place in London in July 2023

Charities and non-profits are often more affected by the socioeconomic climate than other institutional investors, so how is this group adapting to a world that demands they do more with less?

The trustee boards that oversee the management of charities' assets are finding portfolios are being squeezed by several factors including falling donations, higher inflation and other economic challenges, along with cost of living pressures and environmental issues.

Unlike other institutional investors, charitable organisations are typically led by conscientious professionals that are experts in their chosen field – but not necessarily financially experienced enough to run a substantial portfolio. Institutional investors need to balance day-to-day portfolio management with long-term investment goals while forecasting costs and outcomes.

CAMRADATA invited industry leaders and experts to discuss the emerging risks and considerations for charity organisations, the role of good governance and the challenges and opportunities of sustainable investment.

Weighing up the risks

The panel began by focusing on charities' and not-for-profit organisations' shift in attitude to investment risk.

"The old Trustee Act had tied up institutional investors over 30 years ago, mandating them to 70% bonds and 30% equities," said James Brooke Turner, investment director at the Nuffield Foundation. "The echoes of that have fed through and people have since been very cautious."

He added: "Risk is a real problem for charities. But the change in attitude is glacial, withmore of them only slowly becoming comfortable taking risks. However, the idea that you mustn't take risks with charity money is changing and their understanding is now slightly different."

Lisa Stonestreet, head of communications and charity impact at the EIRIS Foundation, agreed that the pace of change has been slow. Yet, she emphasised that there has been a rapid shift from focusing on financials to more holistically achieving outcomes.

"That is a huge shift," she said. "It's been an exponential change, coupling together many other factors that are having an impact. That concept of risk is being rethought so it is no longer only about financial risk but everything that really matters – such as the climate emergency."

Matt Woodman, head of charities investment at Hymans Robertson, added that when he speaks to

> *"Most charities have multiple points of funding. The question when managing assets is: how are they going to deliver during market volatility and, in combination with other funding sources, will the charity still be resilient if something goes wrong?"*

charities he finds there can be a disconnect in the way they think about risk and managing their assets, rather than thinking about how risks can interconnect across the organisation.

"Personally, I don't think there should be that disconnect," he said. "Most charities have multiple points of funding. The question when managing assets is: how are they going to deliver during market volatility and, in combination with other funding sources, will the charity still be resilient if something goes wrong? If you can apply a more holistic approach to your thinking you can start to have wider conversations about what is affordable and what should be the priority."

HSBC Global Private Banking has been working with organisations on managing risks during periods that are characterised by a steady pace of change.

"There can be reputational risks for charities when investing in assets that may lose value if markets come into difficulty. It can be a slow process to acknowledge this from a financial perspective," noted Rob Steward, charity investment counsellor at HSBC Global Private Banking.

"The charities that we usually deal with have a very long-time horizon, depending on how reliant the charity is on its portfolio returns. The pots of money that have been invested are often able to withstand volatility, however trustees may hesitate before adopting a riskier strategy because they feel a sense of responsibility."

Matthew Mahoney, charity relationship manager, charities and education at HSBC Global Private Banking, added that as well as the problem of trying to foresee risk there is also the issue of under-risking the portfolio. "One opportunity we are seeing charities increasingly consider is private equity, where partnering with best in class managers can provide the potential for double-digit returns over the long term."

Deciphering governance

For most charities and non-profits, the governance part of ESG has long been the trickiest to navigate. This is just as true when it comes to managing the governance of their investment portfolios.

"They really do struggle," said Woodman. "Larger charities – that utilise multiple asset pots – need to be thinking about governance very, very carefully.

He added: "There is a big disconnect between what the charity is trying to do and how the assets are invested. But we are seeing a lot more of the larger charities use professional and independent people to help them out, so there is a lot more professionalisation in the sector."

However, Christopher Querée, investment consultant and principal, charities and endowments investments at LCP, believes it's very hard to be black and white about whether governance has truly been established and there are many exceptions. "I help a charity that is young –

> *“There has been a shift in the last year or two. Charities have become more confident in the alignment of their mission and their money. They are confident enough to admit they’re not investment professionals but can still ask robust questions about governance.”*

about five years old and has a small endowment – but has a very strong and established governance structure,” he said.

Stonestreet explained that the EIRIS Foundation helps with governance, for example speaking to the trustee board about their approach to responsible investment when it is in the process of reissuing a mandate or rethinking responsible investment policies.

“What I always find interesting is that the type of organisation that aims to be objective already has fairly robust governance procedures,” she said. “There has been a shift in the last year or two. Charities have become more confident in the alignment of their mission and their money. They are confident enough to admit they’re not investment professionals but can still ask robust questions about governance.”

The speakers from HSBC Global Private Banking said there is increasing awareness among trustees and investment committees about the need for them to become more involved, to take a firmer stance on governance and build more robust structures.

“Trustees know they need to be in tune with the challenges of sustainability. Existing charity clients are updating their investment policies and creating a new set of requirements they want to uphold, and this is clearly linked to financial risks as well,” explained Steward. “We are seeing more focus on this as it often creates the opportunity for the charity to have more impact. From an asset management perspective, there are interesting opportunities in the different ways of meeting those requirements, such as impact private equity launches and SDG aligned Article 9 funds.”

The speakers then discussed how governance can be made more palatable and digestible.

“There isn’t a one-stop-shop solution for charities,” said Rachel Titchen, charities and investment director at Broadstone. “Fundamentally, the guidance needs to change. Regulators need to encourage charity trustees to take regulated advice from professionals. The market should also change to encourage the payment of trustees, so the board holds the right experience.”

She added that there also needs to be education within the sector so the board understands the benefits of paying for a consultant.

“Recently, there has been an influx of consultants coming to the market, but there needs to be understanding of what they provide and how they provide it,” said Titchen.

“It is really positive to be so engaged with your managers; they can help inform the questions that need to be asked and bring charities up to speed. They can also help break down responsibilities to establish who should be asking and answering questions. But using an independent consultant provides more breadth than that,” she added.

Sustainable investing

The panellists then turned their attention to the significance of sustainability in charities’ investment processes and strategies.

“There can be a lot of overlap between the approaches of charities and private individuals and institutions when looking at sustainable and responsible investment,” explained Steward. “It depends on where you want to sit on the spectrum. Within responsible investing and ESG, we find that charities increasingly want to be in the impact investing part of the spectrum. They want to focus on creating real-world impacts.”

Trustees have to come to a consensus internally about how they want to implement that kind of investment strategy in their portfolio.

“However, we do see that different charities want to implement different things in their portfolios. Some charity trustees just say to us that they want to invest in areas that are ESG aligned,” he added.

Titchen agreed that there are still many areas to be thought through in the topic of sustainable investing. “Education and discussion can enhance understanding, and this is where trustees should use their consultants and managers to help guide them on that road. I see a lot of charities put a mission policy in place, but they don’t create it on their own.”

Querée reflected on how innovation can create opportunities for returns. When considering the ‘E’ in ESG, he said finding opportunities is often about establishing links between factors.

While Stonestreet argued that there are already great opportunities in the market for sustainable investments, he said new ones are not appearing at the speed that institutional investors in the charities sector need.

“There is still quite a differentiation. On the one hand, more and more charities are thinking about sustainability and responsible investing. On the other, some things haven’t changed at all. So much has changed, but looking at pooled funds, for example, not enough has changed,” she said.

“Also, there are tools available that people don’t even use. At EIRIS, we coordinated and put together research into the Corporate Human Rights Benchmark (CHRB). But many charities have no idea it exists.

She suggested that the sector needs a new approach. “We need to think of money or endowments as part of a systematic approach to solving environmental problems. Many think they can solve these problems, but they face the financing risks in isolation and charities often operate in same, usual way without any concern for sustainable impact.”

Titchen agreed that a new direction is required and added: “Somebody has to make these changes. The charities sector is a huge powerhouse, the whole of society relies on them.

“I really believe that if we put more pressure on managers on specific elements of different portfolios, the entire industry can change. Consultants and managers need to put their heads together and iron out what they think will really make a difference. We can’t solve this straight away, but there’s movement and I think sustainable pressure will encourage more movement.”

Opportunities and returns

While recognising that challenges still dominate the sustainable investment landscape, the panellists focused on how mission-driven investment can be part of the solution for charities.

Brooke Turner said that impact investing remains a minority interest and the market is not yet large enough to tackle all sustainability issues.

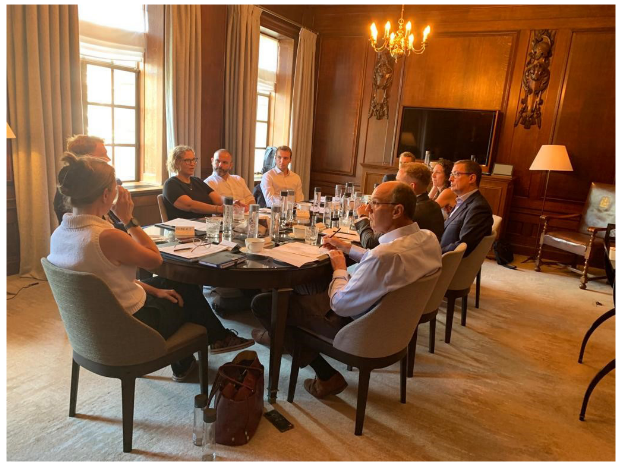
However, Titchen was more optimistic and pointed to the vast number of mission-aligned investment products available. “It’s all about education,” she added. “It’s about saying to consumers there are opportunities and getting them to think about whether that is what they want. It’s about identifying the opportunities that are out there.”

Brooke Turner responded that mission-aligned products are not the only opportunity and suggested it is worth considering whether investing directly in beneficiaries – such as a socioeconomic group in poverty – provides better holistic returns than investing in purely financial assets.

“When you’re thinking about different ways of investing, and the potential benefits you would be getting, you have to be very careful,” said Woodman. “It’s not just who you are investing in, it’s about how you’re investing in them that makes a huge difference to the impact that you would have.”

But Titchen added: “It’s about the way the charitable organisation works and how they put themselves into the public domain – that’s more the crux of it. Charities want to showcase what effect they’ve had and that isn’t just about financial returns – it’s about showing how they are making a difference and helping to encourage more fundraising.

“There are different ways for charities to get money. In fact, their main source of income is often nothing to do with investment returns. Rather than only thinking about percentages earned on financial assets, how they invest and the impact they have is far more important to their wider return,” she concluded.



Roundtable Participants

Rob Steward
Charity Investment Counsellor

Personal Profile

Rob provides investment advice to charity and private clients based in the UK. He joined HSBC Private Bank in 2019, having spent the previous four and a half years as part of the Discretionary Wealth Management team in HSBC Global Asset Management.

Before that, Rob worked in a private client stockbroking firm for five years, culminating in managing investments for clients on a discretionary and advisory basis, as well as undertaking equity research. Rob is a Chartered Fellow of the Chartered Institute for Securities and Investments, and graduated with a degree in History at the University of Nottingham.

Rob completed a 350km bike ride between Manchester and London in one day on behalf of Ambitious About Autism in 2016 and again in 2019.

Company Profile

HSBC Private Banking supports charities in the advancement of their long-term prosperity and achieving their charitable objectives. As part of the HSBC Group, we connect our clients to unique opportunities through our international network, breadth of solutions and unrivalled expertise.

The Charities & Education team at HSBC Private Banking are a specialist team working with charities, schools and universities on their investment management and provision of lending against investment portfolios. HSBC Private Banking manages £312bn of investment assets globally and £15.8bn in UK, including £1.6bn for UK charities (as at 31/12/2022).

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Global Private Banking

Matthew Mahoney
Charity Relationship Manager

Personal Profile

Matthew is a Relationship Manager within the Charities & Education team at HSBC Private Banking where he works with Charites to bring them the best of HSBC to enable them to meet their charitable objectives. Matthew joined HSBC in 2017, working within HSBC Asset Management, focussing on clients who hold discretionary investment portfolios before moving to HSBC Private Bank as a Relationship Manger in 2019.

Prior to joining HSBC, Matthew was an Investment Manager at Brown Shipley where he managed discretionary portfolios for charities and high net worth individuals.

Matthew graduated from Loughborough University with a degree in Banking, Finance & Management and is a Chartered Fellow of the Institute of Securities and Investment (CISI) and is currently studying for the Certificate in ESG investing.

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Roundtable Participants

Rachel Titchen

Charities and Investment Director

Personal Profile

Rachel is an enthusiastic and passionate Charities Investment Consultant with a drive to improve the way this sector is serviced. She has had clients ranging from £1m to £1bn and treats them all with the same level of care and dedication. Rachel's ability to see the wider picture and address each Board as a unique set of individuals gives her clients positive experiences and allows her to form trusted relationships.

As an Actuary, she also works with DB Pension Scheme Trustees as their Investment Consultant. Rachel has worked in consulting for over 10 years and is driven by a passion to deliver her advice in an easy to understand way and bring everyone around the table with her.

Broadstone

Lisa Stonestreet

Head of Communications & Charity Impact

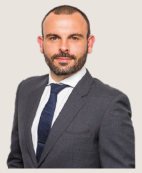
Personal Profile

Lisa's career to date has been focussed specifically on sustainable investment and finance. She is currently the Head of Communications and Charity Impact at the EIRIS Foundation, a charity working to pioneer the next steps in sustainable finance and drive the transformation to a more sustainable economy.

Lisa manages the Foundation's Charity Work Programme which helps charities and foundations adopt and shape responsible investment best practices. Lisa was previously a Programme Director at the UK Sustainable Investment and Finance Association (UKSIF), supporting the growth of UK market demand for responsible investment and other financial services that advance sustainability.

Lisa initially developed an interest in sustainable finance while studying Finance and Environmental Economics in South Africa. Lisa is a proud Trustee of The Orchard Project and a member of the Castlefield Investment Partners External Advisory Committee.

EIRIS FOUNDATION



Matt Woodman

Head of Charities Investment

Personal Profile

Matt joined Hymans Robertson in 2006 and has over 20 years experience providing strategic investment advice to a broad range of private, public and third sector institutions.

Following up his passion for working with charities, which he inherited from his family who all worked in the charitable sector, he heads Hymans Robertson's charitable sector investment team.

Matt firmly believes a more holistic, resilient, approach to investing will help deliver the beneficial impact the sector wishes to have.

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Christopher Querée

Principal

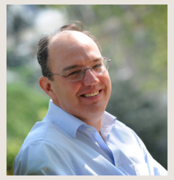
Personal Profile

Chris Querée is an Investment Consultant and Principal in the Charities & Endowments Investment Team at Lane Clark & Peacock (LCP).

Prior to joining LCP, Chris was an Investment Director & Head of Charities at Ruffer LLP. He has over thirty years' experience as a multi-asset investment manager including ten years as co-manager of the Charity Assets Trust. He has worked with a range of charities & foundations over the past twenty years and currently sits on a number of investment committees.

LCP powering possibility

Roundtable Participants



James Brooke Turner

Investment Director

Personal Profile

James Brooke Turner is the Foundation's Investment Director and is responsible for the management of the endowment. Prior to this, James was the Foundation's Finance Director, and was also responsible for the management of the financial administration.

Since joining the Foundation in 2001, James has also been involved in various projects exploring some of the distinctive features of investing charitable funds and what this means for charitable endowments in particular.

James previously worked for the Church Commissioners, the Church Urban Fund and the Muscular Dystrophy Campaign. James studied the History of European Art at the Courtauld Institute, and later Medieval Insolvency at Birkbeck. He has held a number of professional qualifications including the Yale Endowment Management Course.

He took part in Anthony Gormely's 4th Plinth project and the opening ceremony for the 2012 Olympic Games.

Nuffield Foundation

Moderator

Elizabeth Pfeuti

Chief Client Officer

Personal Profile

Former Dow Jones staffer Elizabeth Pfeuti is Rhotic's Chief Client Officer and a member of the Rhotic Media executive leadership team. A highly-decorated journalist, Elizabeth has been in financial journalism for around 15 years. At Dow Jones, she covered the asset management, investment banking and investor services beats for Financial News, where she also wrote on a wide range of regulatory themes

She was previously the European Editor for CIO Magazine and boasts an exceptional contact book of buy-side and in-house institutional CIOs and asset management executives. More recently she has worked on corporate briefs for pension consultants, investment banks and asset management groups.

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