Finance Operating Policy: Investments Policy

1. Investments

General cash refunds and reserves

1.1 The trustees recognise that cash reserves are primarily for use to fund the church general ongoing operations or to guard against unforeseen changes in operating conditions and as such, should generally be held in liquid form. Liquid form is either in cash or another form that can be readily accessed immediately or at very short notice.

1.2 Where cash reserves are held in excess of that which the trustees consider is required for our cash flow such funds will generally either be held in the form of bank current account balances or bank Time Deposits. Time Deposits being bank accounts that typically trade some form of access restriction for higher interest returns.

1.3 Where cash funds are held (including Time Deposits), the trustees will consider the levels held in any one banking group (a banking group may contain more than one bank) taking account of the current limits of the Financial Services Compensation Scheme (FSCS).

1.4 Where amounts are held in any banking group that exceed the current limit of the FSCS, the decision to hold a higher amount and the reasons for it should be noted at a formal trustees meeting.

Other investments

1.5 Where the church holds surplus funds above those required in our cash flow the trustees may consider alternative investments. Before undertaking such investments, trustees should consider:

- Whether investment is allowed by the church's governing document;
- The risk profile of the church;
- The extent to which the church wants to invest ethically;

- Whether the church wants to be exposed to social or mixed motive investments;
- The level of skill or expertise that the church has available.

1.6 Where the trustees decide to invest in areas other than bank Time Deposits, they should ensure that they have acquired (from third parties if necessary) sufficient knowledge and advice to understand the associated risks.

1.7 Where the services of external fund managers are utilised, the trustees should understand the investment philosophy of the manager and be sure that it matches the profile of the church.

1.8 All investments should be subject to a regular periodic review by the trustees, where returns, ethical considerations and the church's risk profile should all be discussed. At least one such review should take place each year.

Additional guidance and comments

(This section does not form part of the policy)

General

Stewardship is not authorised to give investment advice and neither does it have the necessary expertise to do so. As a result, nothing in the policy or this guidance should be considered to constitute investment advice.

For a more in depth exploration of the issues around investment, please see our briefing paper "looking after reserves" available in the resources section of the Stewardship website and also read the guidance provided by the Charity Commission.

1.1 Most churches and Christian charities are unlikely to be cash rich and generally are likely to be risk averse. This combination means that for most of the time churches and charities will want to invest in nothing more risky than a bank Time Deposit which trades instant access to funds with a higher interest rate. In a low interest environment, the advantage to be gained from holding Time Deposits is diminished but should not be ruled out altogether.

1.2 The FSCS is funded by levies on firms authorised by the PRA and the FCA. Where money is held in banks, the trustees or directors need to be aware of the limits of the scheme, and in particular to understand that a number of different banks could all be in the same group and that only one limit therefore applies across the whole group. Many of the money related consumer and comparison websites contain this information.

1.4 Where a church or charity holds funds in one banking group in excess of the current FSCS limits, the reasons for doing do should be discussed and noted in a trustees meeting. Administrative hassle in opening a new account and transferring money into it will not generally be a good reason to exceed the FSCS limit.

1.5 Other investments do have the potential to earn higher rates of return than Time Deposits, but will also tend to carry higher risk. Not all churches or charities will be allowed to undertake this type of investment and so before considering this route, the governing documents need to be checked to ensure that the church or charity has the power to invest.

It is unlikely that churches and charities will have internal access to the necessary level of financial expertise needed to understand this type of investment, and therefore the general expectation is that the trustees or directors will seek externally sourced expert advice before investing.

Various forms of ethical investment are available (see our briefing paper). Where the trustees or directors are considering investment in pooled funds, the requirement or desire to invest ethically should be considered. Ethical investing and screening is more a philosophy than a science, and the trustees or directors need to determine what is acceptable to the church or charity and then to ensure that any pooled fund used meets that philosophy.

1.7 Different fund managers employ different investment styles in order to target different outcomes. When using a fund manager, the trustees or directors need to understand what the goals of the manager are, and make sure that they are aligned with the desires and the risk profile of the church. A church with a low risk appetite is unlikely to want to be exposed to an investment fund trading volatile derivatives.

Agreeing benchmarks with the manager may not offer any additional protection to the church or charity, but does provide a measure to use when reviewing the performance of the fund.

1.8 It is important that investments are regularly reviewed. We would suggest that an annual review is the minimum that is acceptable. This frequency can be increased in the event of unexpected performance levels by the manager or by wider volatility or events in the financial sector or broader economy.