Cazenove Capital

Time & Money

Building resilience for long-term charity investors

Richard Jenkins
Kate Rogers

CONTENTS

WHAT THIS REPORT IS ABOUT

WHY THIS REPORT

- The world is constantly changing. Global warming, demographics and technology are reshaping our economy and society, creating uncertainty for charities, both in their operations and their investments.
- History has shown that taking a long-term approach helps investors ride volatile markets, survive shocks, and maximise returns. This is a real benefit for charity investors with long-term missions.
- Previous research shows that charity investors with longer time horizons feel able to spend at a higher than average rate.
- However, behavioural, operational and governance time frames can hamper trustees in planning for the long term.
- This report seeks to explore what might impede long-term thinking and to suggest practical solutions.

RESEARCH APPROACH

Our research included:

- 236 respondents to a survey of charity investors
- Focus group discussions with charity practitioners including trustees and senior staff
- Consultation with charity practitioners at national sector events
- Input from an expert reference group
- Desk research
- Individual conversations, interviews and contributions by charity investment practitioners
- All quotations are from research participants unless otherwise indicated

OVER 250 RESEARCH PARTICIPANTS, WITH QUOTES THROUGHOUT

AUTHORS

RICHARD JENKINS

Richard is an independent researcher and consultant in the foundation sector including as an Associate of the Tudor Trust. He was previously Head of Policy for the Association of Charitable Foundations (ACF). He has been a trustee of a grant-making endowed charitable foundation, chief executive of an educational charity, and civil servant leading on funding policy for the VCS.

He is the author of numerous policy and research papers, including *The Governance and Financial Management of Endowed Charitable Foundations* (2012), ACF; *For Good and Not For Keeps* (2013), ACF, with Kate Rogers; *Intentional Investing*, (2015), ACF, with Kate Rogers; *Research Briefing: Charitable trusts and foundations' engagement in the social investment market*, with Nikki Jeffrey, (2013), ACF; *Giving Trends Top 300 Foundations Report*, and *Family Foundation Giving Trends,* with Cathy Pharoah and Keiran Goddard, (2014) ACF.

Richard has a degree in Scots and English law from the University of Dundee and has further graduate and post-graduate degrees from the Universities of Oxford and Leeds.

KATE ROGERS

Kate is Head of Policy at Cazenove Charities. She has 18 years' experience, specialising in charity investment, having joined Schroders Charities in 2005 after four years with the charity team at Kleinwort Benson Private Bank.

Kate is Chair of the Charity Investors' Group (CIG), recently working with HM Treasury, the Charity Commission for England & Wales and the Financial Conduct Authority on establishing the Charity Authorised Investment Fund structure first announced in the 2015 Budget. Kate regularly writes on charity investment in the sector press. With CIG and Charity Finance Group she produced a guide to written investment policies. In 2015 she co-authored with Richard Jenkins *Intentional Investing*, published by ACF, and in 2013 *For Good and Not For Keeps*, also with Richard Jenkins and published by ACF.

Kate is a CFA Charterholder and has a BSc (Hons) in Natural Sciences from the University of Durham. She sits on a number of charity boards, is a governor of the Cripplegate Foundation, Chair of her local community charity, and a governor of her local primary school.

ACKNOWLEDGEMENTS

Hundreds of people took part in this research through our survey, focus groups, interviews and during consultations at national and international sector events including the Cazenove Charity Forum, the Association of Charitable Foundation's Annual Conference, the European Foundation Finance and Investment Officers' (EFFIO) gathering, and the Charity Finance Investment Forum. The individuals are too numerous to name, but their voices are quoted throughout the report and we're grateful to each of them for their engagement and enthusiasm. These many conversations informed our thinking and inspired our findings.

We would, however, like to single out the five expert individuals who acted as a point of reference for our thinking, particularly in helping us to start out in what felt like the right direction as well as make sense of emerging findings. Their wisdom provided a firm foothold for our thinking, but if our destination in any way took us off course, that is entirely our responsibility. They are: Katie Blacklock, Trustee of Power to Change Trust; Andrew Hind CB, Executive Editor, Civil Society Media and Visiting Professor of Charity Governance and Finance at Cass Business School; Professor John Kay CBE, FRSE, FBA, FAcSS, Visiting Professor of Economics at the London School of Economics and Fellow of St John's College, Oxford; and Danielle Walker-Palmour, Director, Friends Provident Foundation. James Brooke-Turner, Investment Director at the Nuffield Foundation and Director of Yoke and Co deserves additional thanks for sharing his investment beliefs, as well as his ongoing enthusiasm and generosity throughout our research collaboration.

We would also like to name the following for their individual input. Their accumulated experience which they generously shared gave us essential insights. David Renton, Director of Finance and Investment at Guy's and St Thomas' Charity; Jackie Turpin, Head of Finance and Nick Perks, Trust Secretary at the Joseph Rowntree Charitable Trust; Neil Sanderson, Director, The York Minster Fund; Tim Cutts, Executive Secretary, The Allen Lane Foundation; Rob Williamson, Chief Executive, the Community Foundation serving Tyne & Wear and Northumberland; Matthew Cox, Investment Director, Esmée Fairbairn Foundation; Ian Lush, Chief Executive, Imperial Health Charity; Kristina Glenn, Director, Cripplegate Foundation; James Fitzpatrick, Director, Joseph Levy Foundation. Conversations with Christopher Graves, Director, Fiona Young, Head of Resources and John Wilson of the Tudor Trust have highlighted the importance of trust and principles.

We are especially grateful to Laura McCaffrey for her calm editorial support and crucial help in presenting our findings so vividly.

We continue to be grateful to ACF for its ongoing assistance with this research, particularly through extending our survey reach and for bringing our findings to the attention of the trust and foundation sector.

We must also thank Cazenove Charities for funding and facilitating the research. As the largest charity investment manager in the UK, the value of the network of charity investors and their collective experience should not be underestimated. Cazenove Charities has supported this, and previous reports, in the interests of increasing knowledge, improving governance and sharing best practice in charity investments.

EXECUTIVE SUMMARY

Charities that rely on investments to support their long-term mission can take advantage of their ability to make and spend more money and encourage good corporate behaviour. However, short-term thinking can get in the way.

We live in a world that is constantly changing. Factors such as climate change, demographic shifts, and technological development are reshaping our economy and society. For charities, having a long-term strategy is an advantage when faced with this degree of complexity, because trustees' approach can evolve in order to maintain an unwavering focus on their charitable goals.

Companies that think in the long term, and that exhibit allied environmental, social and governance behaviours, are more likely to generate sustainable financial and social benefits over the long term. For charities that rely on investments, history shows that a long-term approach also helps them to ride volatile markets, survive shocks and maximise returns. So there are financial as well as social advantages to investing in the long term. Our research has shown, however, that operational and governance time frames can get in the way of trustees' long-term goals.

This report explores these barriers and shares expert thinking and practice to help trustees avoid unnecessary short-termism.

LONG-TERM BENEFITS AND BUMPY RIDES

For charity investors, the long term holds the promise of sustained returns over time. But the journey is characterised by short-term ups and downs. For charities that rely on investments to support their long-term mission, this volatility can be alarming as the value of the underlying portfolio can swing. This volatility represents the risk that all investors take that the enterprises they back may fail as well as prosper. That is why those who are prepared to take on this risk are rewarded when things go well. History shows that those who take on risk by investing in stock markets and stick with it are able to spend more and for longer than those who do not. It's why endowments work, and it's why the real enemy for charity investors is not volatility but inflation that relentlessly erodes the value of donations. In addition, previous research shows that charity investors with longer time horizons feel able to spend at a higher than average rate.

So trustees with a long-term horizon can prudently take risks that others can't. However, doing so can run against behavioural instincts, and needs to be squared with a desire to continue spending. Our research shows that this doesn't just take nerve, but also forethought and that those who are best able to take advantage of volatile stock markets have principles, strategies and the wisdom to help them do so.

> **HAVE A STRATEGY THAT WILL GUIDE YOUR DECISIONS. GET ADVICE AND HAVE THE NERVE TO RIDE THE COURSE**

MAKING THE BEST OF THE JOURNEY

Investing in volatile stock markets can take nerve, but the following strategies can help trustees to minimise the impact of low points, take advantage of the ups and stay on track to meet their objectives and goals.

Diversify investments to ensure that when one type of asset class, industry, company or manager performs less well, the risk is spread. A diversified approach means that while some investments go down, others might perform better or stay stable and so the overall journey is smoother.

Set a range for the value of the investment portfolio. History shows that in any year the value of a portfolio of investments can swing up or down by as much as 20%. One way to deal with this 'noise' is to factor it into your strategy by setting upper and lower parameters within which trustees expect to tolerate variation.

Manage spending – research participants stated that the most significant thing for charities is not the fluctuation of the value of the endowment, but maintaining spend. To do that they frequently use policies to smooth volatile returns – usually spending less volatile income or basing their spending on some sort of rolling average market value across three to five years. They also maintain cash or liquid investments to enable them to keep spending in market downturns.

Taken together these tactics can have an accumulated impact, enabling trustees to be resilient through the peaks and troughs of market performance and to continue spending ambitiously.

CHARITY INVESTORS WITH LONGER TIME HORIZONS TEND TO SPEND AT A HIGHER THAN AVERAGE RATE

THE IMPORTANCE OF GOVERNANCE

When markets swing to extremes, it's tempting to buy or sell with the aim of softening losses or seizing opportunities. This can sometimes work, but if the strategy has been designed to reap long-term benefits, the most likely way for trustees to achieve their goals is to stay focused on the strategy rather than react to short-term events. The chief risk they face is making the wrong decision in bad markets, so governance is key to resilience.

If financial markets have their own cycles, charities have their own 'time signatures' too – and the two are difficult to align. Our research shows many charities take a similar approach to the timings of strategy reviews, trustee tenure, and the appointment of managers, and that these organisational time frames can both help and hinder long-term thinking. For example, long-term charities measure time in decades but trustees generally stay for shorter terms. For long-term charities with investments there is a balance to strike between keeping the board fresh and maintaining enough ballast in institutional memory to stick to long-term strategies in exceptional times. And cultures and practices of review that tend to come around every three to five years, while helpful operationally, also need to ask long-term questions.

Trustees are generally anxious to do well. But discharging anxiety by focusing on 'noise' or micro-managing delivery can be self-defeating. The remedy to anxiety is trust. Trust that the strategy is fundamentally right – and that it represents the forethought needed for testing times. And trust that the managers appointed are aligned to the organisation in terms of values and approach.

Making the most of the relationship with managers was a strong theme in our focus group discussions. Charity investors expressed frustration that reporting and meetings often seem to focus on short-term market performance or macroeconomic discussions, neither of which help them to understand the progression of their long-term strategy. There were strong messages for committees and managers alike to measure performance against the charities' long-term goals as expressed in the mandate and to focus discussion on the managers' decision-making and strategy rather than market prediction. In an industry where it is easy to be 'blinded with science' it was felt that transparency is key to building the sort of trust that gives real confidence.

THE CHIEF RISK IS MAKING THE WRONG DECISION IN BAD MARKETS

CONCLUSION

When considering the long term, our research highlights the different ways trustees can unwittingly be blown off-course, and the crosswinds and currents with which they have to contend. There is, however, a risk that the truth 'charities with investments can think in the long term' can create complacency. Complacency in any relationship is corrosive – and that is true for trustees and their beneficiaries. When it comes to mission, our discovery is that trustees should be committed and ambitious, not complacent, continually attending to the shifting context but never losing sight of the main charitable goal.

SIX RECOMMENDATIONS FOR TRUSTEES AND MANAGERS

- **Agree investment principles before setting strategy**
- **Build a trusting relationship between trustees and managers**
- **Keep a cool head and focus on mission**
- **Stick to the strategy because it represents forethought**
- **Focus board time on long-term issues not short-term 'noise'**
- **Take advice and improve trustees' knowledge and training**

SHARED LONG-TERM INTERESTS

Charities that rely on investments to support their long-term mission and the companies in which they invest have similar goals – to create value for beneficiaries and shareholders for as long as possible. But reacting to short-term pressures can undermine those goals.

Many charities rely on investment returns to support their activity, and most of those that do have long-term missions. 81% of respondents to our survey of charity investors reported that their charity was permanently endowed or trustees had voluntarily decided to maintain their endowment in perpetuity.

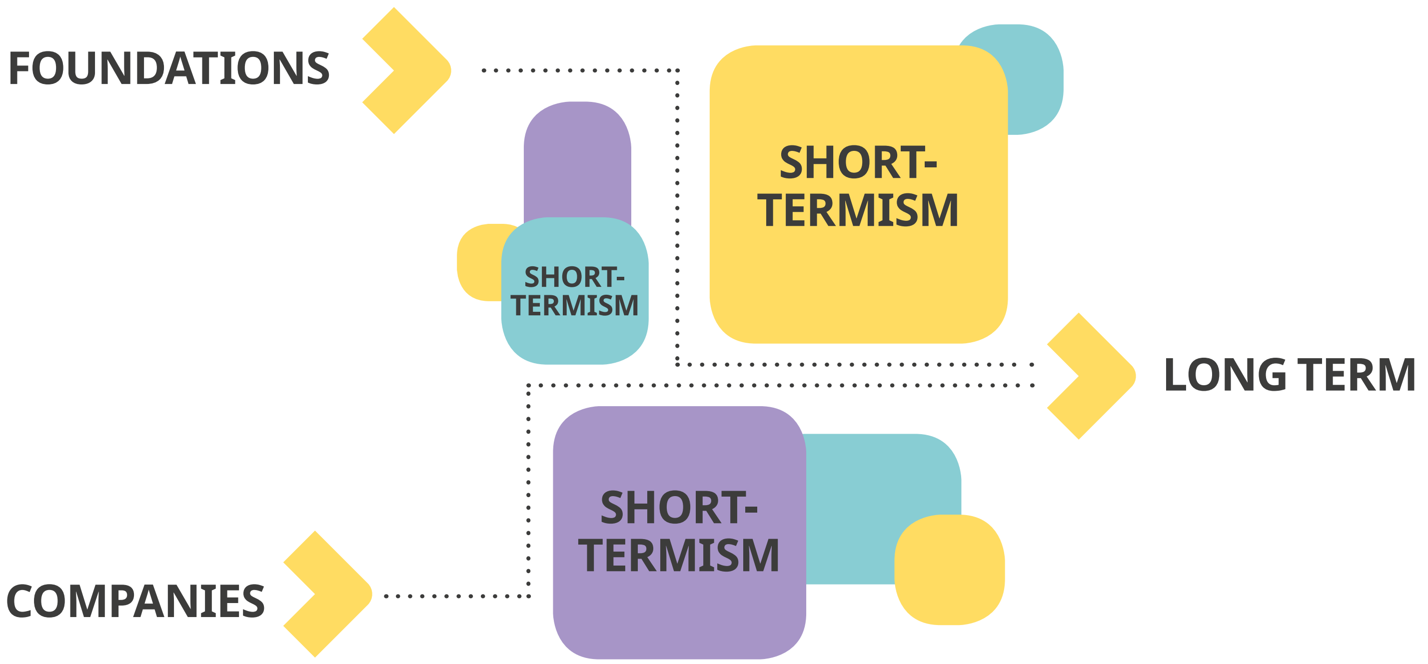
There are good reasons for taking a long-term view. Social problems are seldom quickly solved and some charitable needs require work across generations. 'Time' is one of the assets charities with investments have to offer and previous research shows that charity investors with longer time horizons feel able to spend at a higher than average rate.[1] Being long-term means trustees can therefore stay ambitious and committed to a charitable mission despite the ebb and flow of public opinion or the churn of the political cycle.

The companies that such charities rely on to generate returns also face shifts of consumer taste and economic cycles. Those that successfully weather these fluctuations usually do so by taking a long-term approach.

Research shows that companies that exhibit long-term behaviours perform better financially over the long term and demonstrate a better social footprint through job creation, environmental stability and more accountable governance.[2] Those who invest in such companies, including charity trustees, can take advantage of those long-term financial and social benefits, especially when they are attractively priced because the market has not yet recognised their underlying value.

So there are shared interests between companies and long-term investors. But while taking a long-term view is beneficial, short-term behaviours can get in the way. This seems to be on the rise both in the financial sector and in society at large with the desire for instant gratification amplified by consumerism, technology and social media. Research has consistently found that corporate leaders think short-term pressure is increasing to the detriment of long-term value.[3] It isn't just companies that are susceptible to short-term thinking – investors are as well.

After the 2008 credit crunch, Professor John Kay noted in his *Review of UK Equity Markets and Long-Term Decision Making*[4] that equity markets are structured to encourage investors to sell rather than remain as shareholders and engage. Investors are no longer behaving as owners, but instead more like short-



INVESTORS ARE HOLDING STOCKS FOR SHORTER TIME PERIODS
NYSE AVERAGE HOLDING PERIODS, 1960–2016
Source: Ned Davis Research, December 2016.

The average holding period for listed stocks has **fallen** from eight years in the 60s to nearer eight months today.

term renters of investments. This report aims to highlight those times when the temptation to act in the short term might be strongest and to gather wisdom from informed practitioners to help charity investors, whether trustees or managers, to stay focused on charities' long-term missions.

As we demonstrate in succeeding pages, the long term is composed of a series of short-term cycles – all of which need to be successfully negotiated. Yet when stresses arise our instinctive reaction isn't always the wisest. The charity investors we spoke to consistently advocated having a well-considered strategy that sets long-term aims while taking sufficient account of short-term ups and downs. We look at what techniques they use to create that resilience because, in times of stress, the key is not to abandon the strategy.

But if the short term can bring perils, does the long term have a downside? One distorting factor in our research is that we are dealing with survivors. Companies and charities go out of existence all the time, and their voices are lost to us. This survivor bias could engender a false sense of security, and there's a risk in the truth 'charities with investments can think in the long term' could create complacency. Complacency in any relationship is corrosive – and that is true for trustees and their beneficiaries.

Trustees of long-term charities are first and foremost entrusted with charitable objectives as well as the means with which to carry them out. Their fiduciary obligations mean that they must ensure that their investment approach is appropriate for their charity's needs.[5]

When it comes to mission, trustees should be committed not complacent, continually attending to the shifting context, but never losing sight of the main goal. In investment, the same holds true, as one research participant said: "Comparing our investments with our programmes, we don't experiment on our three-year programmes. We talk about investing in organisations that we fund and we invest for the long term."

MOST SIGNIFICANT SOCIAL PROBLEMS TAKE TIME TO SOLVE, A GENERATION TO CHANGE

RESPONSIBLE INVESTMENT AND THE LONG TERM

Research shows that companies that focus on sustainability in their environmental and social impact, that pay attention to good standards of governance, and are conscious of their need to invest in the skills of their current and future workforce, perform better financially over the long term. So 'responsible investors' tend also to be on the side of the long term.

Some charities are taking these environmental and social factors into account when they think of their impact as a charity, including explicitly using their investments for charitable benefit.

Danielle Walker Palmour of the Friends Provident Foundation says: "Our aim is to deploy our entire endowment. We no longer think of ourselves as a grant-maker, defining our function by our marginal spend. We see ourselves as a 'capitalised charity' and judge our impact by the use of our capital not grants, and we're increasing the staffing and governance resource we put into investment stewardship."

Engaging with companies to improve their environmental, social and governance behaviour can take time, but success rewards investors, companies and society. See our earlier report *Intentional Investing* (ACF)[6] for more information on whether and how to align mission and investing.

PRINCIPLES

- Trustees must consider the appropriateness of their investment strategy in relation to their charitable objectives, and should consider whether and how to align investments with their charity's mission and values.
- Companies that think in the long term and exhibit allied environmental, social and governance behaviours, are more likely to generate sustainable financial and social benefits over the long term.

LONG-TERM BENEFITS AND BUMPY RIDES

For charities that rely on investments to support their long-term mission, beating inflation over the long term is more important than avoiding short-term volatility.

Historical evidence demonstrates that stock markets tend to generate returns that, over time, outstrip the inflation that would otherwise erode the value of the initial sum. Investing over the long term can therefore deliver sustained benefits for charities and their beneficiaries.

This is the basis for the charitable endowment model; if trustees get their investment strategy and distribution rate right, they can increase the probability that their investments will maintain their real value in the long term, enabling trustees to go on spending from investment returns long after the time the original gift would otherwise have been exhausted.

Trustees of charities that aim to spend out within a specific time frame may also find it useful to invest some or all of their assets to protect against the effects of inflation and take advantage of any potential to increase value.

Although the long term brings opportunities, the journey will have its short-term twists and turns as the value of investments go up and down. This volatility over the short term is the risk investors take in return for the potential reward of better returns over the long term.

VOLATILITY AS 'NOISE' NOT RISK

Long-term investors are able to tolerate more volatility than investors with a shorter-term horizon and as a consequence be rewarded with better returns because they have the time to wait for the underlying value of their investments to rise. But being a long-term investor does not mean that all investments have to be held for decades – trustees can act to take advantage if prices rise more quickly than expected. However, some classes of assets, such as private equity, are only open to long-term investors because they involve money being tied up for a number of years.

In fact, for trustees who want to maintain their spending power over the long term, inflation is the biggest financial challenge. The way to combat inflation is to take on investment risk and the volatility that inextricably comes with it, and to resist the temptation to take money out at a low point and so 'bake in' losses.

FOR THOSE WANTING TO MAINTAIN SPENDING POWER, INFLATION IS THE BIGGEST CHALLENGE

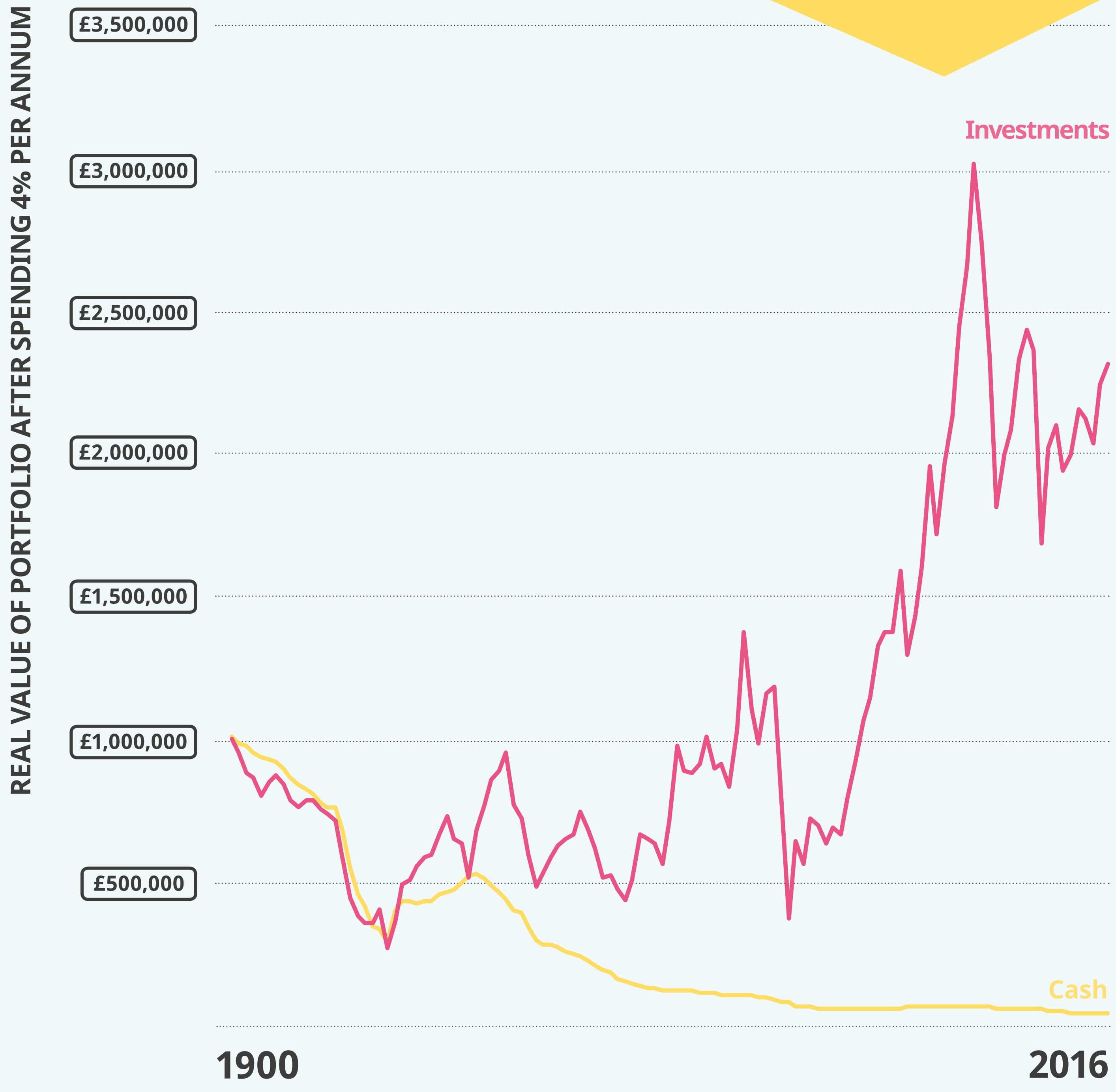
PRINCIPLE

Long-term investors are able to tolerate more volatility than investors with a shorter-term horizon and are likely to be rewarded with better long-term returns.

WHEN IS VOLATILITY A RISK?

While volatility need not be a risk to charity investors with long-term goals, it should still be taken into account when investment returns are required to meet expenditure in the short term. So charities that have foreseeable spending commitments need to make sure they have sufficient funds to meet them. Hence spending out charities often liquidate their investments to cash – or investments similar to cash – towards the end of their lifespan so that they, and crucially their beneficiaries, can have the certainty they need.

Investing over the long term beats inflation and **sustains** spending



REAL VALUE OF THE INVESTED PORTFOLIO SPENDING 4% PER ANNUM VS. THE REAL VALUE OF THE CASH PORTFOLIO SPENDING 4% PER ANNUM

Source: Using data from Elroy Dimson, Paul Marsh and Mike Staunton, *Triumph of the Optimists: 101 Years of Global Investment Returns*, Princeton University Press, 2002 and Datastream. Portfolio return based on 80% UK equities, 15% UK bonds, 5% cash. A sustainable rate of expenditure over this period was 4.7%, but this incorporates the strong returns of the 80s and 90s. Prior to that and since then, the sustainable rate of spend would have been closer to 4%. Past performance is not a guide to future performance.

EQUITIES – THE ENGINE OF LONG-TERM RETURNS

Equities are commonly used to provide sustainable long-term returns but exhibit considerable short-term volatility.

Most respondents to our survey see their charity's trustees as stewards both of long-term missions and of the assets that sustain those missions. But when asked what they thought constituted the long term the responses ranged from five to 10 years, to more than 30. When we compare that to the typical ups and downs of investment markets, we can imagine that those with shorter time horizons will find the journey much more alarming. But need they?

THE ASSET CLASS THAT MIGHT DROP MOST IN VALUE OVER THE SHORT TERM IS THE ONE THAT IN THE LONG TERM WILL ALLOW YOU TO SPEND MORE ON YOUR CHARITABLE OBJECTIVES. FOR CHARITY INVESTORS, WHAT LOOKS LIKE THE SAFEST OPTION IS THE OFTEN THE MOST DANGEROUS!

TIME & EQUITIES[7]

14 YEARS

Historically, investors would not lose money in real terms by investing in equities if they held them for at least 14 years.

30 YEARS

Investors holding equities for 30 years would have generated returns of at least inflation plus 4% per annum.

"IN THE SHORT TERM THE MARKET IS A POPULARITY CONTEST; IN THE LONG TERM IT IS A WEIGHING MACHINE"

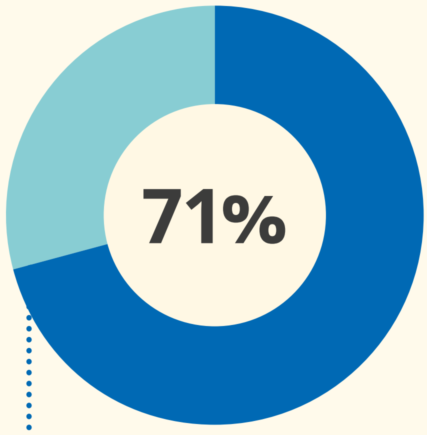
WARREN BUFFET

As we've seen, volatility is to be expected. To avoid any risk would mean staying out of the investment market altogether and holding cash.

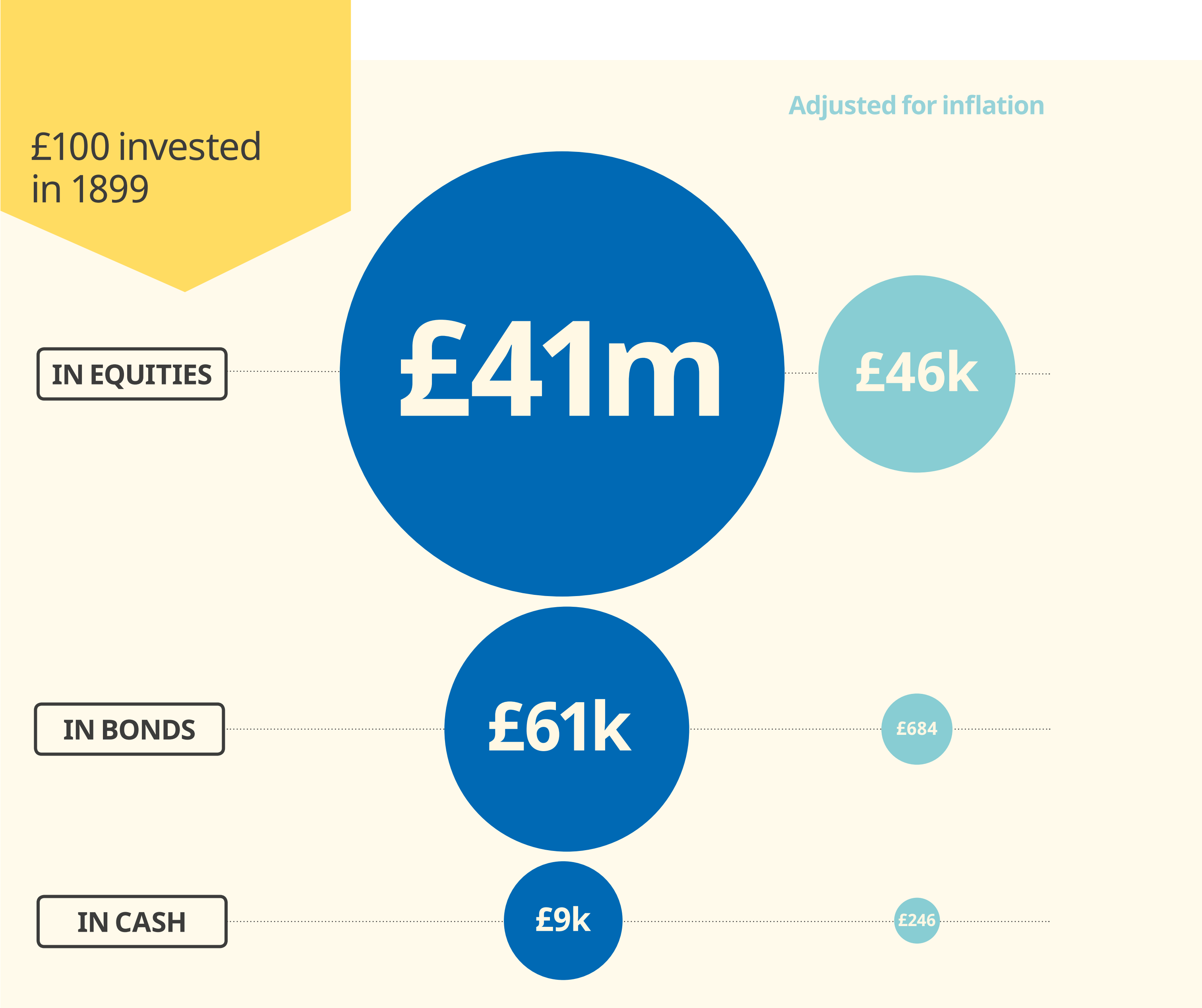
But the enemy then would be inflation, which for long-term charities could erode the value of a gift over a relatively short time. For example, at today's interest and inflation rates, a gift of £1 million held in cash would last just 19 years if trustees spent £40,000 each year (increasing with inflation).

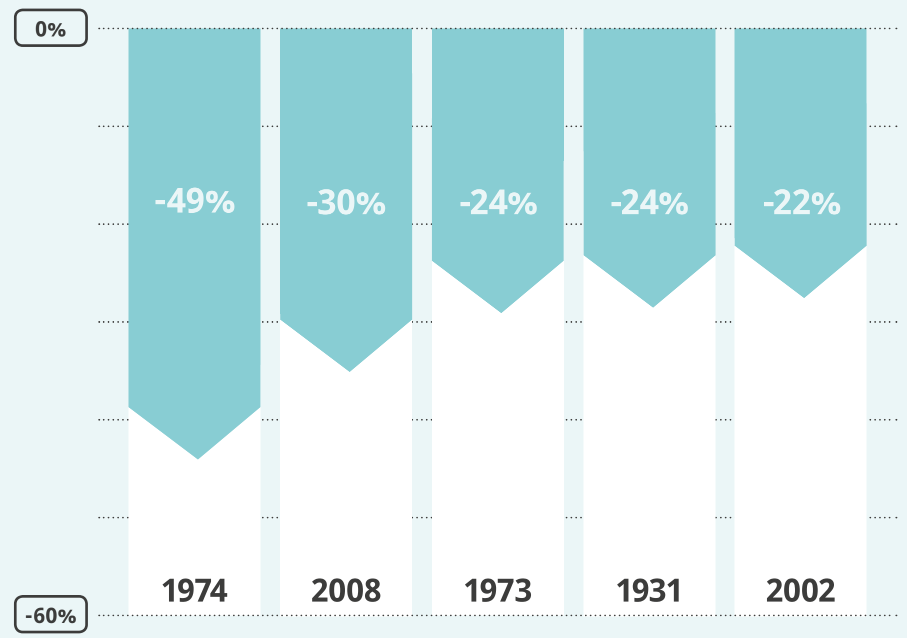
One of the paradoxes for long-term investors is that the most volatile class of assets – equities – provides the best returns over the long term.

All the same, there are things trustees can do to lessen the impact of volatility – technically in terms of managing their investments as well as strategically in terms of governance. We look at what those might be in the next section.



the average level of equity exposure in charity investment portfolios[8]





THE WORST FIVE YEARS FOR UK EQUITY RETURNS SINCE 1900s

Source: Using data from Elroy Dimson, Paul Marsh and Mike Staunton, *Triumph of the Optimists: 101 Years of Global Investment Returns*, Princeton University Press, 2002 and Datastream. UK equities, total return in GBP. Past performance is not a guide to future performance.

PRINCIPLE

Investing predominantly in higher returning assets will involve exposure to potentially greater volatility, but over the long term will provide the greatest probability of beating inflation.

MAKING THE BEST OF THE JOURNEY

Investing in volatile stock markets can take nerve, but there are things trustees can do to enhance their financial resilience, make the journey smoother and help them to more confidently stay with their strategy.

The short-term ups and downs associated with investment markets can seem alarming, particularly for organisations dependent on investment returns to fund their activity or for trustees with little investment experience. But even if it is difficult to predict when and by how much investment income or the value of the endowment will fluctuate, trustees can be certain that they will.

Here we look at two things trustees can do to help make the best of the journey:

- Diversification to spread risk
- Manage spending using policies to smooth returns

DIVERSIFICATION TO SPREAD RISK

Diversification means spreading risks. For most long-term investors, it remains an important way to smooth and sustain returns – increasing resilience in inherently uncertain markets.

To adopt a less diversified strategy trustees need to have the utmost confidence in their ability to choose the right investments and be able to tolerate the swings in value that come with it. Anecdotally, many of the charities that have ceased to exist or have seen their spending power vastly and permanently diminish are those that were reliant on investments in just one company (often donor stock).

There are three main ways to diversify.

DIVERSIFICATION

Diversification of assets
The portfolio includes asset types with different return and risk characteristics. Equities are commonly the main driver of returns over time, but other asset classes can provide counterweights.

Diversification within asset classes
Over-concentration in a few companies or sectors can be risky.

Diversification by manager
Fund managers can have different investment approaches, so there may be an argument to appoint more than one manager to look after a charity's investments.

VOLATILE RETURNS

DIFFERENT KINDS OF ASSETS

Equities (or stocks or shares)
Ownership of shares in a company that can be traded in public markets and that usually pay investors an income known as 'dividends'.

Property
Can be commercial or residential and generates income through rent.

Bonds (or fixed interest/income)
A debt investment in which the investor loans money, usually to a company or government for a fixed period of time and for a fixed return.

Private equity
Shares in a company that is not publicly traded. These can be start-ups, that pose greater risks and require money to be tied up for years, but with the potential for greater rewards.

STABLE SPENDING

MANAGING SPENDING USING POLICIES TO SMOOTH RETURNS

Although in 'live time' investment returns will fluctuate, most charities have spending commitments and goals that stretch years into the future.

Trustees therefore experience a tension between the desire for stable spending and fluctuating investment returns. To give confidence, charities often adopt a 'spending rule' that enables trustees to calculate in a predictable way the amount they will spend each year.

Given the long-term commitments many charities make, trustees also typically hold an amount of money in cash or other liquid reserves to cover their liabilities for one or two years should an exceptional market event impact their ability to draw down from their investments.

There are different ways of deciding how much to spend year-on-year, and there is no one right answer.

SPENDING RULE

Market value
A percentage based on the value of the endowment – often used by charities operating a 'total return' approach where revenue is generated both from the income that comes from investment and the capital gains accrued through the increasing price of the underlying assets. Unless smoothed, the spending is as volatile as the market value.

Smoothed market value
Using a rolling average market value over a number of years, typically three to five, to reduce spending volatility.

Income
Spending income from dividends, interest and rents only. The income from investments tends to be less volatile than the market value of the underlying assets.

Constant growth
Setting a fixed spending amount and using inflation to adjust spend year-on-year. This is the least volatile approach, but leaves trustees susceptible to forced selling in times when markets are falling unless they have a cash buffer to cover commitments.

Hybrid
Using a combination of approaches.

3–4%
SURVEY PARTICIPANTS' MEDIAN SPENDING RATE

CHARITY INVESTORS WITH LONGER TIME HORIZONS TEND TO SPEND AT A HIGHER THAN AVERAGE RATE

MAKING THE BEST OF THE JOURNEY

DIVERSIFICATION
to reduce the volatility of the endowment value

SPENDING RULE
to smooth spending

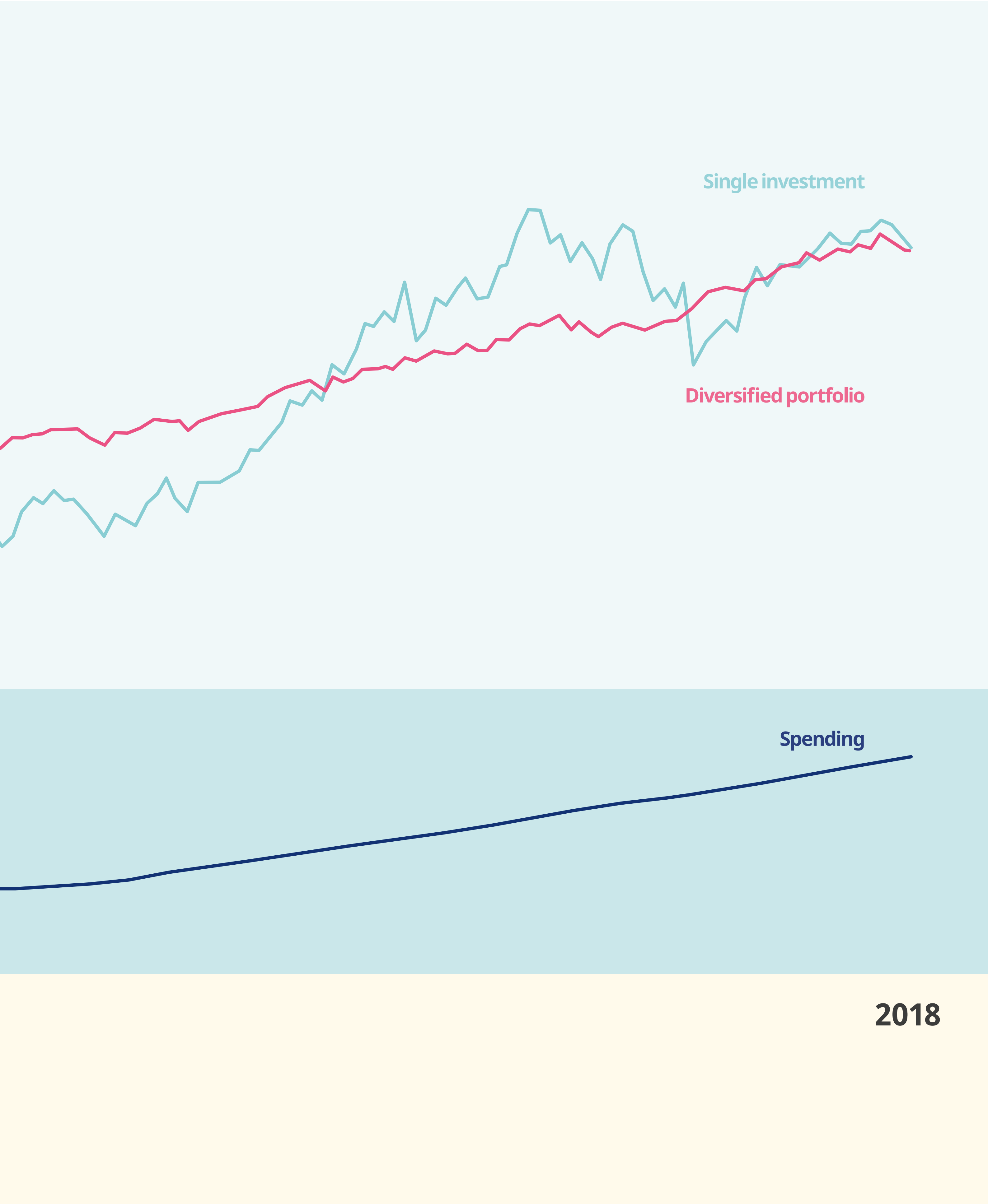
2006

THE 'NOISE' OF VOLATILITY CAN BE DAMPENED FOR CHARITIES THAT WANT PREDICTABLE SPEND OVER A NUMBER OF YEARS

Source: Datastream. Return in GBP from 1 January 2006 to 31 April 2018. Single investment is Legal & General (price), Portfolio is a portfolio of 60% UK equities, 20% bonds and 20% property (total return), Spending assumes 4% per annum payout rate, smoothed over three years. Past performance is not a guide to future performance.

PRINCIPLE

- Asset volatility can still be compatible with steady and consistent spending.



Single investment
Diversified portfolio
Spending
2018

THE SIGNIFICANCE OF THE VALUE OF THE PORTFOLIO

Although trustees can smooth spending, the market value of the portfolio will still fluctuate over time. For long-term charities, setting higher and lower boundaries for the value of the endowment can help reduce anxiety and allow them to set long-term goals.

Charity trustees' concern is mission and that generally involves using their resources to achieve their charitable goals. For charities with long-term missions, that includes ensuring that the investments continue to support spending over years.

PERMANENT OR INTENTIONAL PERPETUITY

For charities that are permanent or where trustees' intention is to aim for perpetuity, keeping an eye on the value of the investments can be helpful in steering a long-term course, as maintaining the value of the endowment in real terms over time will ensure that the charity can spend in line with inflation. As well as wanting to avoid the value dipping to a low that would permanently erode spending power in real terms, trustees will also want to consider whether they have accumulated gains over and above inflation which, if unspent, would favour future generations of beneficiaries over today's. Trustees ought not to make preservation of the value of the endowment an end in itself, without understanding why they are doing so – otherwise they could be unnecessarily holding back on spending.

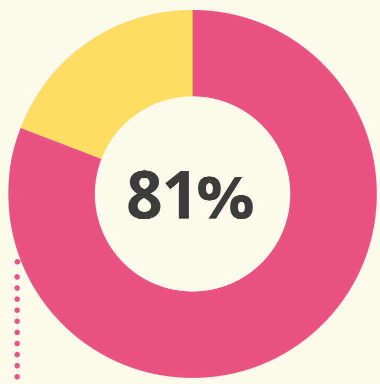
OPEN-ENDED CHARITIES

Our research revealed that an increased number of charities are taking an open-ended approach to their longevity, meaning that trustees consciously spend at a rate that could erode the value of their investments, while remaining open to existing for many generations – either because higher market returns may make that possible or because at some point trustees may change their approach to spending. Even these charities may wish to take account of the value of the investment portfolio, or endowment – for example, by setting a 'floor level' that might signal the point where trustees will want to make a decision about their approach to the future.

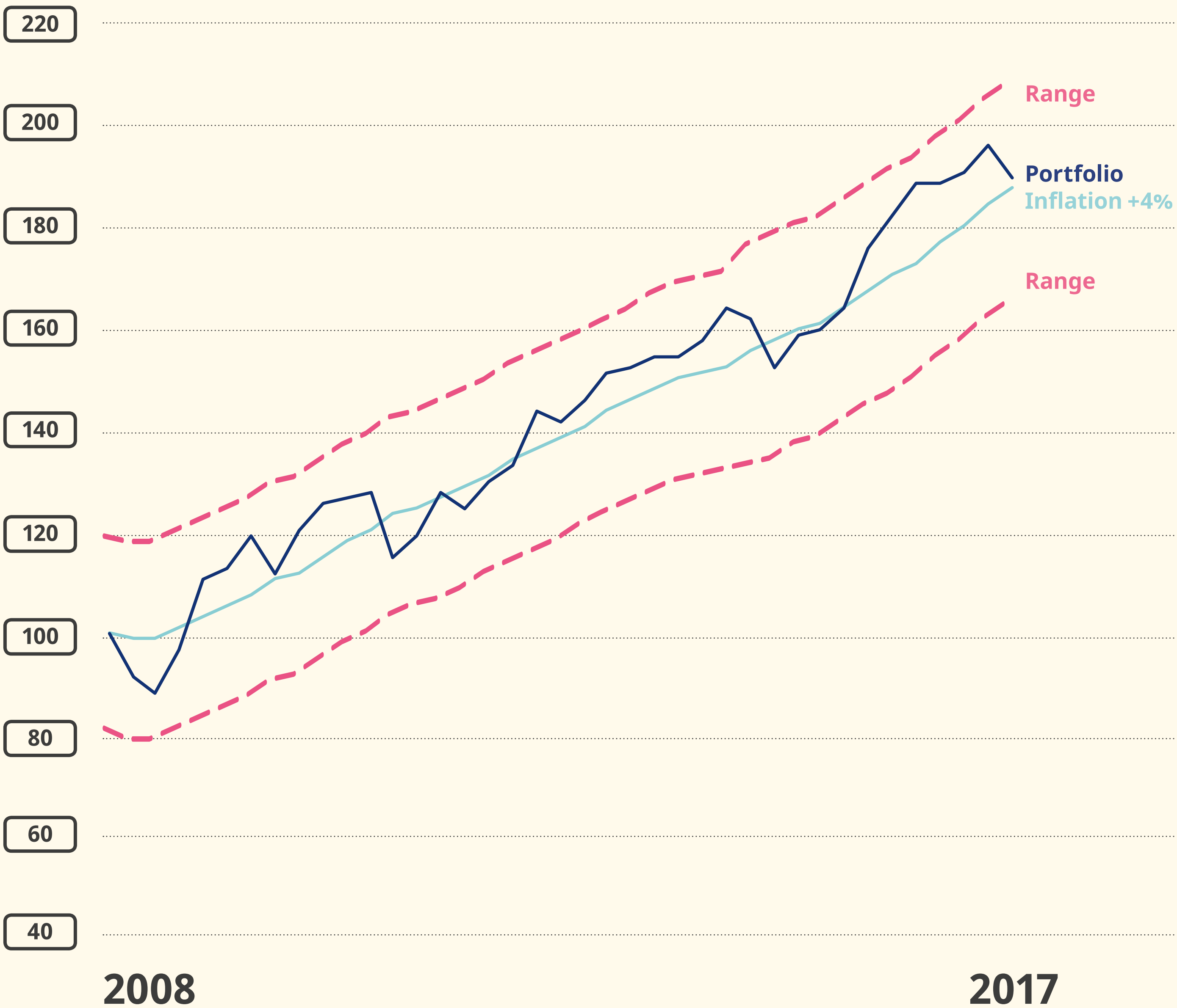
HAVE A STRATEGY THAT WILL GUIDE YOUR DECISIONS. GET ADVICE AND HAVE THE NERVE TO RIDE THE COURSE

SET A RANGE RATHER THAN A TARGET FOR THE ENDOWMENT

One helpful way of looking at the endowment is to calculate a 'normalised value' based on a time when investment markets were not expensive, nor cheap, and set a projected course that maintains it according to inflation. Then, because the actual value of the portfolio will fluctuate from that 'normalised value' at any one time, to set upper and lower levels within which trustees can expect to see the value change based on the expected level of volatility. Whatever their overall approach, trustees can then decide what action to take should the value of the endowment 'cross the line'. This should help trustees deal with the frequent rises and sudden falls in asset values that characterise investing.



of survey participants were aiming for perpetuity; 15% describe themselves as 'open ended'; 4% as 'spend out'.



SETTING EXPECTATIONS FOR THE VALUE OF THE ENDOWMENT

Source: Datastream, total return net of fees in GBP. Past performance is not a guide to future performance.

PRINCIPLE

Setting a range rather than a target for the value of the endowment helps to build resilience to cope with short-term volatility in asset values and divergence from any market or peer comparisons.

STRATEGY FOR PEAKS AND TROUGHS

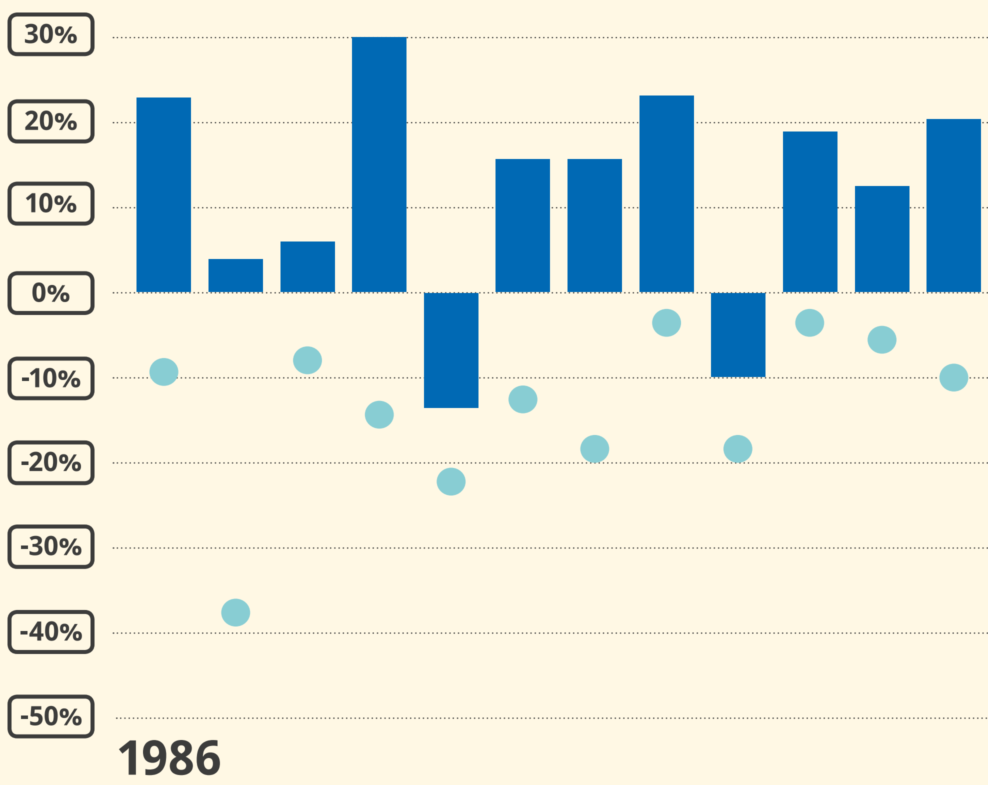
When markets swing to extremes, it's tempting to buy or sell to soften losses or seize opportunities. This can sometimes work, but usually the best way to achieve investment goals is to focus on the long-term strategy rather than reacting to short-term events.

Trustees understand their approach to the long term. They set strategy, articulate their ambition for long-term returns, describe the risks they are willing to take and allocate proportions of the portfolio among the different asset classes to achieve their goals. They delineate boundaries in terms of the value of the investment portfolio, and think through their approach to spending so that it supports the organisation's charitable aims.

And meanwhile, like the global weather system, markets unfold according to their own complex interplay of forces.

THE SHORT TERM IS IMPORTANT WHEN THERE'S A CRISIS IN THE MARKETS THAT AFFECTS YOUR SPENDING AND YOUR ABILITY TO MEET YOUR COMMITMENTS. YOU NEED TO HAVE A BUFFER FOR TIMES OF REDUCED INCOME

YOU HAVEN'T REALLY LOST MONEY WHEN THE MARKET IS DOWN. YOU ONLY LOSE MONEY BECAUSE YOU EXITED AND BAKED IN A FALL PERMANENTLY



Source: FactSet, FTSE, J.P. Morgan Asset Management. Returns are based on capital price only and do not include dividends. Intra-year decline refers to the largest market fall from peak to trough within a short time period during the calendar year. Returns shown are calendar years from 1986 to 2017. Past performance is not a guide to future performance.

THE CHIEF RISK IS MAKING THE WRONG DECISION IN BAD MARKETS

What do trustees do when a storm hits? And if a fair wind blows, can they accelerate progress?

In 24 of the last 32 calendar years, the UK equity market has fallen by more than 10% at some stage during the year. Trustees may ask themselves, 'if we act quickly, can we sell stocks before they lose too much of their value?'

A BAD MARKET EVENT HAS THE POTENTIAL TO CREATE SHORT-TERMISM

Short-term market timing is difficult. Where you protect on the downside – selling before a fall – you then need to invest quickly to capture the upside as markets rebound. Seasoned investors we spoke to said that 'stick' is usually the right answer and that believing you'll be able to time the markets by 'buying' or 'selling' seldom is. In the 20 years to the end of 2017 the FTSE All Share has generated 6.3% per annum. Missing the best 30 days each year would have turned your positive return into a loss of 1.1% per annum. The stock market is complex: while there are long-term trends, how they emerge is difficult to predict. For that reason, most managers don't try to generate their excess returns through attempting to predict market timings, but by selecting investments that will deliver long-term value and/or growth.

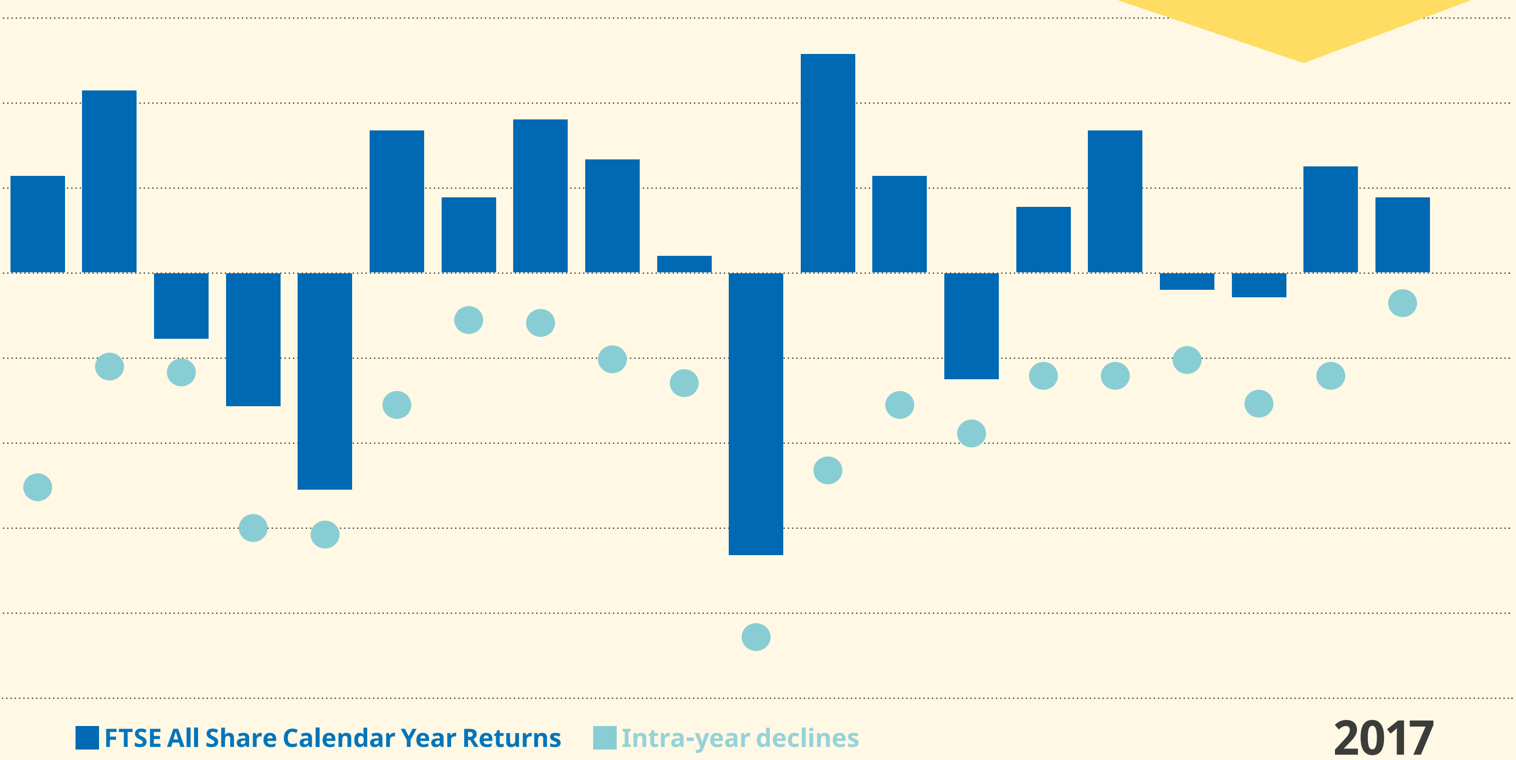
When should trustees worry? One experienced charity investor stated: "Most of the time you don't need to be anxious about market falls. Trustees only need to worry if it affects the charity's spending." In other words, only if the loss is sustained and impacts their ability to meet commitments in the long term do trustees need to revisit the strategy and decide what if anything needs to change.

In the short term, having a buffer of cash or liquid investments to draw on to cover commitments will help smooth periodic market crises so that trustees don't have to jeopardise their long-term goals.

PRINCIPLE

Any investment portfolio is likely to suffer short-term declines in value at some stage. The principal threat to a long-term strategy is to become a forced seller of assets, so having a buffer to cover commitments will help trustees to face short-term declines with resilience.

At some point in most years, equity investors will see a **decline** of at least a tenth of the value of their investments

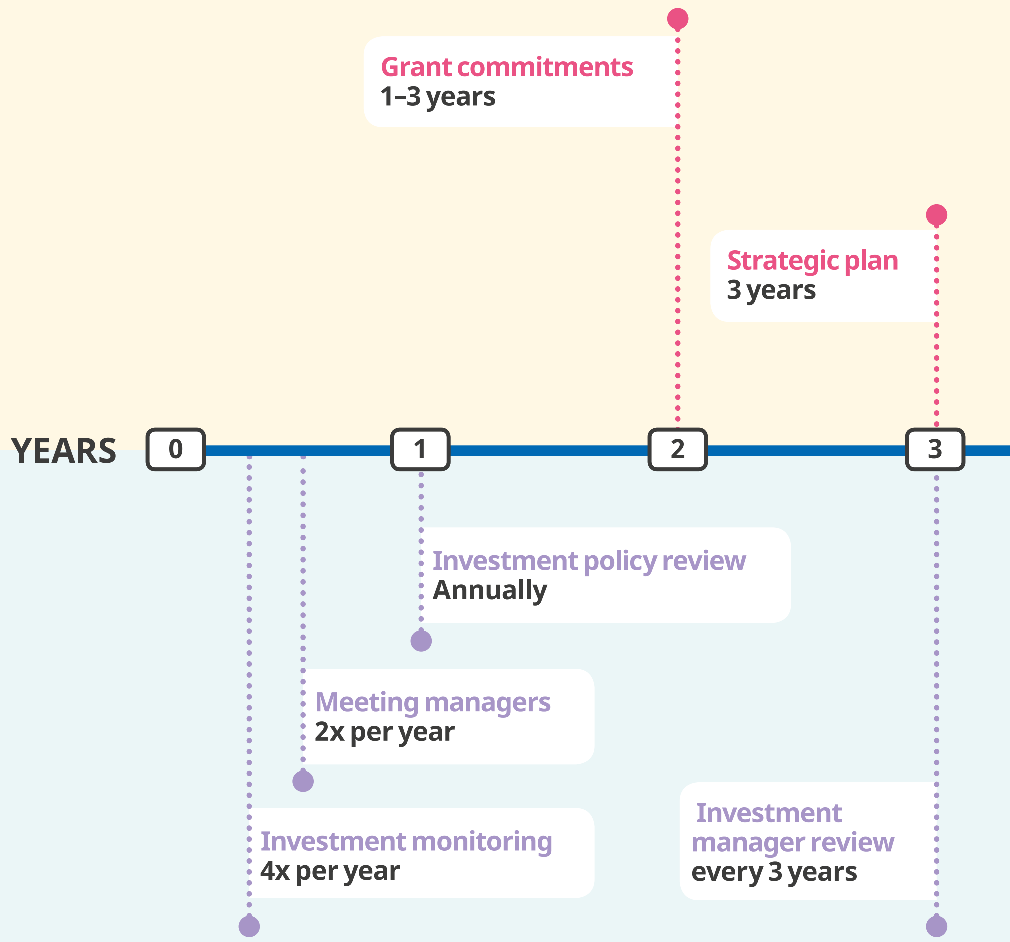


WHAT OTHERS DO

If financial markets have their own cycles, charities also have their own ‘time signatures’.

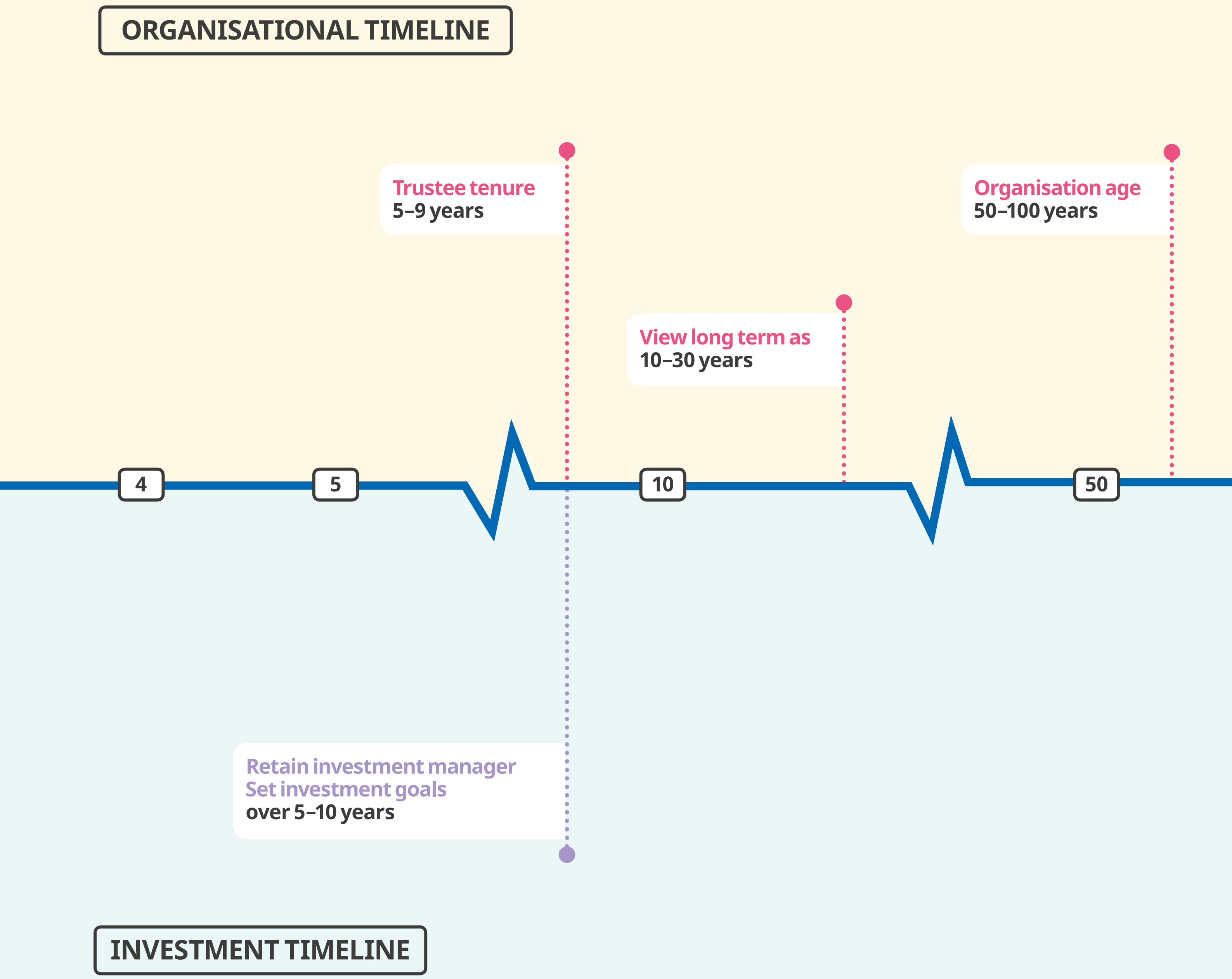
The majority of charities take a remarkably similar approach to the timings of strategy reviews, trustee tenure, and the appointment of managers. In the following sections we consider these timings in light of long-term goals.

Our survey said:



Source: Cazenove Charities, Time & Money Survey 2017. 236 respondents. Timeline shows median response.

236 people responded to our survey, predominantly representing charity investors who rely on investments to support their activity



TRUSTEES AND TIMESCALES

Organisational time frames can both help and hinder long-term thinking. Long-term charities measure time in decades, but trustees generally stay for shorter terms.

Trustees are under 'fiduciary obligations' to ensure that their investment approach is appropriate for their charity's needs.[9] But there is no 'one size fits all' for charities, so trustees must think through what is right in their situation. Discharging their obligations doesn't mean being risk averse; as we've seen, there are no returns without risk, so trustees need to take risks that are appropriate to their charity's goals and values and can take advantage of the opportunities their time horizon affords. But discharging their responsibilities means more than trustees keeping an eye on returns alone. Putting the charitable objectives at the heart of the investment strategy also means that trustees must think through their approach to longevity, spending, and whether and how to align their charitable purposes with the way they invest.

Our research has also revealed some more subtle ways in which board governance itself might get in the way of a charity's long-term ambitions.

TRUSTEE TENURE

Economic cycles are just that, cycles, but with no really predictable 'wavelength' – although historically investors who leave their money invested in equity markets for 14 years will see its real value increase.[10] The typical trustee tenure of five to nine years means that trustees will not necessarily experience the full market 'cycle' with all its ups and downs. When downturns happen, especially for trustees without investment experience, it could provoke greater anxiety than it might for those who have experienced something similar before. For example, at the time of writing a decade has passed since the last dramatic market fall – the credit crunch of 2008 – and trustees who began their tenure after that time may have been insulated from the acute challenges it presented at the time. The Charity Governance Code[11] recommends that trustees who have served office for more than nine years should only be re-appointed after a particularly rigorous assessment review, and stresses the need for a progressive refreshing of the board. For charities with investments, that sensible suggestion should be balanced with the need to retain trustees with sufficient investment experience or institutional memory to offer perspective of the investment journey. There is the risk that trustees with short-term experiences will think and act in short-term ways.

A LONG-TERM STRATEGY WILL BEAR FRUIT IF THE BOARD HAS A LONG-TERM CULTURE

ANXIETY AND TRUST

During our research participants frequently quoted trustees as saying 'not on my watch', meaning that, during their tenure, they didn't want to see the value of the investment portfolio shrink. But as we've seen, the investment markets might have other ideas. Investment growth is a long-term ambition but, particularly when their tenure is shorter than an economic cycle, trustees have little control over the external factors that determine the value of the investment portfolio.

Trustees naturally want to do the best they can. However, their inability to control or even predict with any certainty investment performance over the short term can create an underlying anxiety that trustees will wish to eliminate. One way to conquer anxiety is to feel that you are in control of something. This can lead, for example, to more frequent analysis of portfolio values or manager performance. In almost any case, trying to exert misplaced short-term control is likely to distort overall effectiveness – for example, by focusing on relatively short-term fluctuations in the value of the endowment at the expense of maintaining spend on charitable objectives.

Another antidote to anxiety is trust. Accepting that they cannot control external factors, thoughtful trustees instead place confidence in their investment policy to perform over the long term and appoint managers whose approach and expertise they trust.

CULTURE

The observation that 'organisational culture eats strategy for breakfast' is as true for charities as companies. If investment strategy represents forethought, that forethought must be in line with the whole board's style. If the organisation works in a series of short-term time frames then, when stresses come, it will be difficult to maintain the cool head needed to hold course. And even when there are no external pressures, to reap long-term rewards it is important to maintain a consistent approach. As one research participant shared: "There's a risk of change for change's sake, in order to be seen to be doing something." A long-term strategy will bear fruit if the board has a long-term culture in how it reviews its strategy, appoints managers, and the things it chooses to monitor. There is a remarkable consistency among the charities that responded to our survey, with most reviewing strategic plans every three to five years and investment policies each year.

Two points emerge consistently from research. The first, in relation to culture, is the need for investment strategies and operational goals to be aligned, with both serving the charitable objectives. That rests on the board itself being in agreement and all trustees understanding the underlying propositions and beliefs the strategy is based upon. The second point is the need for reviews to be asking the big and long-term questions.

BOARDS CAN BE FEARFUL ABOUT THEIR LEGACY

PRINCIPLE

The whole board must understand, and be confident in, the investment strategy.

Our survey said:

7-9 YEARS
AVERAGE LENGTH OF TRUSTEE TENURE

50-100 YEARS
AVERAGE AGE OF ORGANISTATION

PRACTICAL TIPS FOR TRUSTEES TO ENCOURAGE LONG-TERM THINKING

- Articulate and agree the principles underlying your approach.
- Get the right people – diversity of opinion prevents herd mentality.
- Dedicate more time to strategic discussions and long-term value creation.
- Analyse investment strategy and set expectations.
- Communicate consistently to maintain confidence – use proactive not reactive communication, encouraging dialogue not monologue.
- Invest in knowledge and training – take advantage of trustee investment training programmes.
- Test scenarios ahead of time – agree good governance behaviours in advance and test the appetite to persist during ups and downs.
- Consider performance over the long term; e.g. a minimum of five years for equity-related investments.
- Value and encourage stewardship activities such as engagement and voting.

MANAGING MANAGERS

Most charity investors pay professionals to manage their organisation's money. If the goals are long-term, what helps and what might hinder a productive relationship?

While trustees must take responsibility for agreeing their investment strategy, in the vast majority of cases they delegate day-to-day delivery to investment managers. If the investment strategy needs to set long-term goals, the relationship between the board and investment managers must also focus on the long term. However, our research highlighted a number of ways in which short-termism can creep in.

RELATIONSHIP – WHAT TO FOCUS ON

If one of the enemies of long-term thinking is anxiety, then making sure that trustees aren't distracted by information about short-term unavoidable and uncontrollable events is important. But the other remedy for anxiety is trust, and that depends on the relationship between managers and trustees.

MONITORING PERFORMANCE EVERY THREE MONTHS COULD BE FRETTING ABOUT 'NOISE'

It begins with trustees choosing managers whose approach they both understand and feel confident will align with their own values and long-term goals. This is the foundation for the relationship. Subsequent meetings and information exchange should therefore allow trustees to check that those things remain the case. Managers should be prepared to discuss their implementation of the mandate with trustees so that they can understand and continue to feel confident in the managers' ability to meet their investment goals, especially when things change.

If the relationship is right, in the sense that trustees trust that the managers' approach aligns with their own values and long-term goals, trustees may choose to reduce the frequency of monitoring and performance meetings.

REPORTING – WHAT TO FOCUS ON

As we've seen, volatility – the rapid rises and falls that markets go through in their journey – is of less concern to long-term investors. However, our survey revealed that most trustees receive quarterly reports from their managers, which could sit at odds with trustees' long-term time horizon. As one participant noted, monitoring performance every three months could potentially amount to 'fretting about noise' if trustees are only looking at market rises and falls over that period.

Of course performance is important. As one participant noted: "If the manager is persistently down against the market, then that's something we want to know about!" But over what time period do trustees need to know?

It's important in drawing up the investment mandate to set expectations for performance and performance measurement allowing enough time to ensure consistency. The average time a manager is retained is five to 10 years, with trustees reviewing their appointment every three years. However, the appropriate time horizon for review will depend on the investment strategy. Equity funds are often compared against market benchmarks on a three to five-year rolling average, which many feel represents a meaningful time span for managers to demonstrate their worth, while dampening the impact of short-term oscillations.

BEHAVIOURAL BIASES: WHY THE SHORT-TERM IS A LURE

Certainty is easier to find in the short term and immediate gains offer easy gratification. But if richer rewards come with patiently sticking to the strategy, investors need to develop a mindset that can seem counter-intuitive.

Some of the tendencies that need to be overcome include:

Herding – trustees can get reassurance from doing the same as others. Sticking to strategy and rebalancing assets can pull trustees in the opposite direction to short-term market movements.

Loss aversion – trustees naturally feel unhappy about losses compared with gains. But long-term investors need not avoid investments that will have periodic falls.

Recency bias – long-term investing takes the long view of history that runs counter to the tendency to believe that recent events are more important.

Action bias – trustees can think that doing something is better than doing nothing, when in fact from an investment point of view short-term reactions might hinder long-term goals.

PRINCIPLE

Managers' processes should be clear and aligned with your charity's values and long-term time horizon. Performance is best reviewed through dialogue with managers and at intervals that make sense in terms of your charity's specific mandate with them.

THE MORE YOU WANT SOMETHING SPECIFIC TO HAPPEN THE MORE YOU TRY TO CONTROL THE OUTCOME, AND THE MORE IT PUSHES YOU TO THE SHORT TERM. IF YOU WANT TO THINK IN THE LONG TERM YOU NEED TRUST

MONITORING CAN FEEL LIKE DISPLACEMENT ACTIVITY

WHAT'S THE PURPOSE OF MONITORING? IS IT TO REDUCE ANXIETY? IF NOT, WHAT IS THE DECISION-MAKING POINT?

PROFESSIONALS ARE USED AS A COMFORT BLANKET

GETTING MEETINGS RIGHT

Our survey found that most respondents are happy with the amount of time they spend in investment meetings, yet our focus group discussions highlighted discontent with the way trustees and managers interact. Our research reveals ways to ensure such exchanges focus on the charity's specific mandate and inform rather than obscure long-term thinking.

MEETINGS – WHAT TO FOCUS ON

Our survey showed no consistency in terms of how long trustees spent discussing investments, with the group of trustees most closely overseeing investments spending anything from 30 minutes to more than two hours at each meeting, and little correlation of that data with size of organisation or even frequency of meeting. What was consistent was that, however long they took, respondents generally felt that it was 'the right amount of time'. Our focus group research however revealed discontent about the content of meetings, suggesting that 'the right amount of time' might be because in some cases trustees could bear no more! What were people's difficulties?

INVESTMENT MEETINGS CAN BE LIKE 'GROUNDHOG DAY'

It seems that for many, meetings feel more like a monologue from the managers than a dialogue focused on issues trustees believe are relevant to their charity. There was a sense that the information provided and managers' input during the meeting could hamper rather than facilitate discussion and understanding.

TRUST IS ABOUT RELATIONSHIPS. SO WE LOOK FOR AN ALIGNMENT BETWEEN OUR INVESTMENT STRATEGY AND THE MANAGERS' STRATEGY, AND WE'RE CHECKING THAT THINGS ARE OKAY

Information and meetings that focus on 'macroeconomics and stock selection' were frequently identified as distracting. Macroeconomics are beyond managers' powers to control or even to predict in the long term, so some participants thought that discussions are interesting conversation pieces, but fail to offer any meaningful decision point for trustees. As one participant put it: "The information can be used as a proxy for understanding." Managers can find themselves in the business of 'entertainment', particularly if meeting on a frequent basis.

What is felt to be relevant are discussions that illustrate the managers' approach in practice, that draw attention to trustees' specific mandate, and that demonstrate that managers are making decisions that are consistent with their aims. For example, one focus group member whose charity had a strong responsible investment and stewardship approach focuses their managers' meetings on probing their activity around engagement with the companies they are trying to influence.

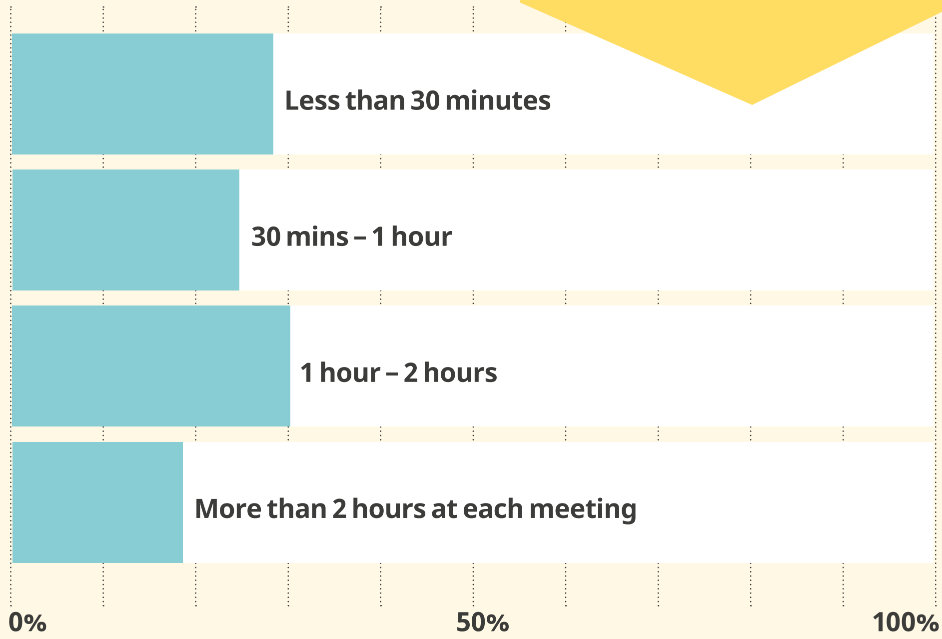
MEETINGS WITH MANAGERS SHOULD BE A DIALOGUE, BUT THEY'RE NOT AT THE MOMENT

PRACTICAL TIPS FOR MEETINGS TO ENCOURAGE LONG-TERM THINKING[12]

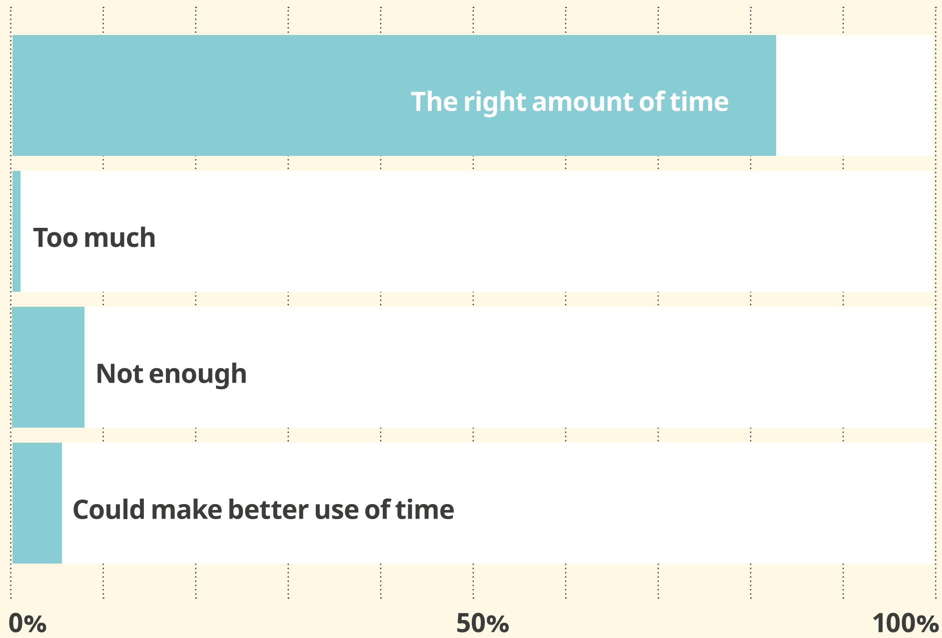
- Make the most of board time with clarity on the purpose of the meeting; is it monitoring and reassurance or are there decisions to be made?
- Reaffirm the delegation of roles – what trustees are responsible for and what is operational or outsourced e.g. asset allocation or stock selection.
- Ensure strategic discussion is prioritised over shorter-term or 'operational' matters.
- Receive papers in advance and encourage questions that promote dialogue not monologue.
- Focus on long-term performance – report first on rolling three or five-year performance rather than being distracted by quarterly numbers.
- Compare with relevant, meaningful benchmarks that make sense in relation to the long-term goals.
- Encourage discussions that illustrate the managers' approach in practice so that trustees understand the reasoning behind decisions, including approaches to responsible investment.

Our survey said:

On average, how long does the group of trustees that most closely oversees investment matters spend considering them at each meeting?



Which of the following best describes for you the amount of time spent considering investment matters at each meeting?



PRINCIPLES FOR SETTING LONG-TERM GOALS

Based on our research we have identified a set of fundamental principles for long-term investing to help trustees and managers of charities stay on track.

The charity investors we spoke to consistently advocated having a firm grasp of the fundamental principles underlying the organisation's approach and a well-considered strategy that trustees stick to that takes account of the expected ups and downs. Here we set out proposed principles based on legal duties and the accumulated wisdom from our research and conversations.

It is the role of trustees to find principles that suit their charity's individual context and to evaluate what they mean in practical terms.[13]

PRINCIPLES

- Trustees must consider the appropriateness of their investment strategy in relation to their charitable objectives, and should consider whether and how to align investments with their charity's mission and values.

PRINCIPLE

- Companies that think in the long term and exhibit allied environmental, social and governance behaviours, are more likely to generate sustainable financial and social benefits over the long term.

PRINCIPLE

- Long-term investors are able to tolerate more volatility than investors with a shorter-term horizon and are likely to be rewarded with better long-term returns.

PRINCIPLE

Investing predominantly in higher returning assets will involve exposure to potentially greater volatility, but over the long term will provide the greatest probability of beating inflation.

PRINCIPLE

Any investment portfolio is likely to suffer short-term declines in value at some stage. The principal threat to a long-term strategy is to become a forced seller of assets, so having a buffer to cover commitments will help trustees to face short-term declines with resilience.

PRINCIPLE

Asset volatility can still be compatible with steady and consistent spending.

PRINCIPLE

The whole board must understand, and be confident in, the investment strategy.

PRINCIPLE

Setting a range rather than a target for the value of the endowment helps to build resilience to cope with short-term volatility in asset values and divergence from any market or peer comparisons.

PRINCIPLE

Managers' processes should be clear and aligned with your charity's values and long-term time horizon. Performance is best reviewed through dialogue with managers and at intervals that make sense in terms of your charity's specific mandate with them.

Agreeing underlying principles is a crucial step in setting investment policy. They say this is the way things work, these are our values and what matters to this charity.

BUILDING RESILIENCE FOR THE LONG TERM

We conclude with six recommendations that we hope might assist trustees and managers to build resilience and adopt the right investment strategy for the long-term benefit of their organisations and beneficiaries.

In previous research we found that charity investors with longer time frames tend to spend at a higher rate than those with shorter time horizons. In this report we discovered how long-term investors build the resilience needed for that journey, helping them to be more confident and ambitious. This section brings together the strategy and behaviours that we think exemplify a long-term approach to investing.

AGREE INVESTMENT PRINCIPLES BEFORE SETTING STRATEGY

Before even deciding investment strategy, do trustees understand their fundamental approach to the long term? Do they believe that their mission requires them to carry on indefinitely or is it better to spend out within a specific time frame? Are they obliged to aim for perpetuity or can they take an open-ended approach? What do trustees agree about applying the mission and values to investment decisions? What is their approach to spending and what sort of buffer will they create to ensure that they are not forced to sell assets at the wrong time? Do they have a strongly-held investment philosophy – for example, a belief in active management, or an expectation that returns will revert to the average over time? Trustees need to understand their fundamental approach in order to find managers who will work well with them.

STICK TO THE STRATEGY BECAUSE IT REPRESENTS FORETHOUGHT

One of the most risky things trustees can do in turbulent times is to abandon the strategy. It represents the forethought trustees need for unpredictable times. Each time they make a short-term decision outside the agreed approach, trustees increase uncertainty and the probability of permanently losing the long-term rewards that patience can bring.

BUILD A TRUSTING RELATIONSHIP BETWEEN TRUSTEES AND MANAGERS

Trustees have a natural anxiety to do the best that they can. The best way of dealing with that anxiety is to ensure that trustees have a well thought out investment strategy and that they have managers whose approach trustees understand and which aligns to the charity's values and long-term goals.

FOCUS BOARD TIME ON LONG-TERM ISSUES NOT SHORT-TERM 'NOISE'

Managers and trustees need to take responsibility for not being diverted from long-term aims by short-term performance or reports that obscure trustees' understanding of how managers are implementing their mandate. Discussions need to engage trustees in a dialogue that illustrates how the managers' approach delivers on their specific goals. Rather than short-term benchmarks they should agree on appropriate and meaningful performance data.

KEEP A COOL HEAD AND FOCUS ON MISSION

The market will fluctuate and sometimes crises will occur, but charities with investments and long-term goals are at an advantage, which it is their privilege to pass on to beneficiaries. When fluctuations occur, the main question trustees need to ask themselves is 'can we sustain our spending?' If they have built in sufficient thought about how to smooth bumps and have set liquid assets aside to help in down times, then they are able to ride storms and support their beneficiaries.

TAKE ADVICE AND IMPROVE TRUSTEES' KNOWLEDGE AND TRAINING

Only trustees can decide what strategy is right for their charity but they can – and in some cases should – take advice to help them make their decisions. Consultants and advisers can help ensure board discussions are well facilitated, informed by relevant data, and test a range of scenarios. Good ongoing training will help all trustees to own and understand the strategy.

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7 Source: Cazenove Capital. Figures based on global equity total return (MSCI World) in USD using data from 1986 to 2018. Past performance is not a guide to future performance.

8 Teknometry CIG Charity Index as at 31st December 2017, using data from over 1,200 charity investment portfolios representing £14bn of charitable investment assets.

9 For a further discussion of fiduciary obligations see Richard Jenkins (2012) *The Governance and Financial Management of Endowed Charitable Foundations*, ACF, London, as well as Charity Commission Guidance CC14.

10 Source: Cazenove Capital. Figures based on global equity total return (MSCI World) in USD using data from 1986 to 2018. Past performance is not a guide to future performance.

11 www.charitygovernancecode.org

12 For more information on how to get the best from committees, see the Association of Chairs resources. http://bit.ly/AoCresources

13 To find out how principles can be used more generally to evaluate action, see Michael Quinn Patton (2018), *Principles Focused Evaluation, The Guide*, Guildford Press, New York.

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