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every trustee  
should ask...

...investments  
and money

A networking lunch and lecture

9th November 2007  
Venue: York Racecourse

Supported by:



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welcome

Michael Quicke,  
Chief Executive, CCLA

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James Bevan,  
Chief Investment Officer, CCLA

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## What we've learned and how we interpret the challenge

There's an ongoing demand for...

1. Increased income
2. Greater choice – and delivery of what's asked for
3. Improved performance
4. Investment advice
5. Enhanced reporting

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## Increased income...

It is clear that most charities want more income from their investments.

But they don't want this to be at the expense of capital or long term purchasing power.

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## Increased income...

We are inherently cautious of total return approaches with distribution policies, particularly where there is a high reliance on manager 'skill'

Instead we favour seeking sustainable economic rent.

We think that the real yield that can be sustained, based on current market levels, is around 4%.

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## Greater choice – and delivery of what's asked for

A one-size-fits-all fund may be ideal  
for many charities that want

- a well diversified spread of assets,  
offering
- a sustainable real return, with
- control of risks and
- simple administration.

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## Greater choice – and delivery of what's asked for

But some charities have very different requirements.

In particular some charities want to take more 'risk' because they observe that what pension funds and life companies call 'risk' may not be 'risk' at all.

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## Greater choice – and delivery of what's asked for

The demand for more choice is in part a reflection of the huge shift in the range and type of opportunities.

But 'more' can be 'less'.

And there is a sense that sometimes there's

- more of the same, and
- no real focus on what charities want, any why.

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## Improved performance

The demand for 'improved performance' might be seen as stating the obvious.

But the needs are real, they call both fair and appropriate...

...and responding to the challenge is essential.

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## Investment advice

Charities don't exist for the purpose of having investments.

A charity's investments must be positioned and managed to deliver against that charity's requirements.

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## Investment advice

Building a plan is about

- Matching 'assets' against 'liabilities'.
- Taking account of time horizons.
- Operating in a manner that accommodates risk attitudes and appetites.
- Optimising probable outcomes.
- Supporting informed decision taking.

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## Investment advice

Advice should address

- ideas, concerns and expectations.

Advice should illuminate

- options, implications and choices.

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## Enhanced reporting

Charities need to understand what's going on and why.

- Trustees require summary information and useful views and analysis.
- Finance departments need to have more detailed data in order to support their reporting functions.
- Reporting must support decision taking and good governance.

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John Kelly,  
Head of Client Investment, CCLA

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## Setting an investment strategy

The Questions every trustee should  
ask.....

What you need to know to set your fund on  
the right path

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## Finding the right fund manager and setting them on the correct path is fundamental

- Understanding objectives
- Finding the best way to meet them
- What to look for in an adviser
- How to control the relationship
- Issues to consider
  
- QUESTIONS

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## The first focus is on the objectives

- Start with the basic questions:
  - Is the objective achievable
  - What strategy is most likely to meet these goals?

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## The objective cannot be set in a vacuum

- Limits on using the assets
- Finding a balance between jam today and jam tomorrow
  - Impact on asset allocation
- Ethical considerations
  - Exclusive? Engagement?
  - How deep can you look?

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## Setting strategy – asking some difficult questions

- Set the mandate to meet the objective
- What balance of risk and return does that imply?
  - Is that comfortable?
- If not, do we need a rethink?
- What assets should we hold?
- How do we keep the balance under review?
  - time issues
  - knowledge

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## Setting mandate = working out the details

- Benchmarks – what are they?
- Performance targets
  - Reasonable?
  - Appropriate?
- How much risk is comfortable?
- If progress is not as you hoped what scope is there for a reassessment?
  - Keeping the trustees thinking as one
- Your manager can only deliver against the opportunities you give them
  - Think about constraints

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## Important questions

- Do you need a floor on capital values?
- Can you tolerate income fluctuations?
  - Insurance is expensive – is it worth the cost?
- Better to set up a reserve/ Adopt a different strategy?
- What if the unacceptable happens?

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## A portfolio which meets your targets

- Does it fit within regulation and constraints?
- Does it take all the opportunities available?
- As a whole what are the risk characteristics?
- Risk of what?
  - Capital loss
  - Capital or income fluctuations?
- What should you expect to see in good years and bad?
- Remember; return forecasts are probabilities only – will a bad outcome stop you doing what you need to do?

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## From plan to practice

- Buy a product?
- Look for bespoke?
- Chose what best suits your requirements  
– salesmen are happy to sell what they want you to buy
- Why do pension funds routinely use funds for £100m mandates whilst charities often seek bespoke portfolios for much smaller amounts?

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## Finding a fund manager stage 1

- Are they regulated to provide the service?
- Do they have adequate resources?
  - Fund managers
  - Back office
- Is business as crucial to them as it is to you?
- Can you work with them?
- How is the admin?

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# Finding a fund manager

## stage II

- Do they have an approach that makes sense
- How do they make their decisions?
- Does that really explain their performance record?
- The team – is it their record? will they stay?
- It's a changing world – does their approach have a shelf life?
- Costs are certain, returns are hoped for.....
  - Charges
  - Commissions & turnover

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## Recording the deal

- Expect an investment management agreement
- Make sure it covers:
  - What you need
  - What you will pay
  - What is expected of you

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## Think about reporting

- Expect an explanation of what's going on and why
- Expect statements to be timely, accurate, comprehensive
- Expect them to be written in a language you understand

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## Reality of monitoring your fund manager

- Short term performance data can be dramatic but it may have little significance
- Information will rarely be clear cut
  - Your decisions will be based on fact and judgement
- Break the monitoring process down – one step at a time!
- Take advice

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## Objective of the review

- Is the portfolio performing so as to meet your requirements
- Is the asset allocation still the right one?
- Is the manager the best choice?
- Look at performance comparisons
  - Benchmark
  - Peer group
- Look at the fund as a whole and in parts
- Common sense is a powerful ally
- The 'no surprises' rule

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## In the broader context

- See cash holdings as an integral part of the fund and try to maximise returns
- Review non financial constraints and objectives for effect and continued relevance
- Do not underestimate the importance of good governance – trustees are coming under increased scrutiny
- A good cause supported by good intentions is not sufficient

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## Issues to consider

- Appropriate trustee candidates can be hard to find
- Relying on the community gives strength from trust
- But does it provide skills?
- Managing time
- Training and skill audits against a changing background

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## The only constant in investment markets is change

- Tech boom and collapse
- Credit crisis
- Rising capital values but income shortages
- Rise of the global market
- Rise of the global manager

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## Globalisation: a challenging opportunity

- Increased investment choice
- Reduces the emphasis on the UK
- Impact on income?
- Requires increased reach
- A challenge for the smaller fund and busy trustees

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## Change in the financial industry – evolution or revolution?

- Financial innovation
- Pension funds – a new agenda
- Financial Advisers – new directions
- Charities – need for partnership

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## Summary

- Start from first principles and keep it simple
- Time spent understanding and agreeing what you really need, is an investment
- Find the right partner !
- Set the objectives as clearly as you can
- Review their appropriateness
- And the success in meeting them
- A time of change? – it always is .....

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