FPR Year 4: Why we are adjusting the investment criteria

In Short

The Charity Commission for England and Wales has issued updated guidance about 'investing charity money'. We know that other charity regulators apply in Scotland and Northern Ireland. The FPR is amending its criteria to reflect the Charity Commission changes as many of them are about embedding accepted good investment practice.

Most of the Commission's changes are small changes to the guidance that makes the language clearer. But it does add two new factors that foundations will need to adjust their future reporting to reflect. So this year, FPR will monitor how many foundations report about these but will not score foundations on them.

Also, a set of Charities' Investment Governance Principles developed by the Charity Finance Directors Group (CFDG) is due to publish in Autumn 2024. This will be too late for the FPR this year (2024/25: research is conducted in August / September 2024) so the Year Four criteria will not reflect that.

The New Investment criteria:

Q75: Does the foundation publish an investment policy?

Q76: Does the investment policy include: *(these come from the new rubric. Again, each is worth 1/8 of the point: the last two are only applied where relevant to the individual foundation.)*

a) what, if anything, the foundation's governing document says about how it must / can invest.

b) the foundation's investment objectives, including any relevant reputational and other non-financial factors.

c) the foundation's attitude to risk *(no change)*

d) how easily or often the foundation needs access to its money.

e) the timeframe for investment - short, medium or long-term. *(This is newly split-out to match the new guidance.)*

f) the foundation's approach, if any, to ESG factors and to engagement with the companies in which the foundation invests.

g) how the foundation monitors and reviews its investments, including key benchmarks.

h) who the foundation's investment advisers and managers are, their responsibility and remit, and how the foundation works with them.

In previous years, we only scored part (h) if it was relevant to a particular foundation - and not if a foundation had no investment manager, or was a company rather than a charity. We will adopt a similar approach this year: foundations will be exempt from the new (h) if appropriate.

We will also note the following items because the new guidance calls for them, but we will not score them this year. We may score them in future years:

Q77: Does the investment policy include / state:

i) the foundation's purposes and plans and how its investments fit with these. *(This comes from the new preamble.)*

j) any sectors or organisations which the foundation considers conflict with its purposes. *(This is a new factor.)*

The detail:

Changes to the criteria around foundations' investment policies
Context
The Charity Commission for England and Wales issued updated guidance about 'investing charity money' for charities in its jurisdiction. This followed a High Court ruling in 2022. The new guidance was published in August 2023, as we were doing the research for FPR Year Three. We did not amend FPR's criteria on investment policies for Year Three - because our research for those criteria uses foundations' annual reports for completed financial years, which obviously pre-dated this new guidance. However, we have now looked at the new guidance and are making some minor changes to our criteria as a result.

We realise that not all the foundations included in FPR are regulated by the Charity Commission for England and Wales: some are in Scotland or Northern Ireland. Again, we also realise that foundations' financial year ends, and their annual accounts, are written at different times; and that it will take time for investment approaches to alter, where they do, and still longer for investment portfolios to reflect that.

Criteria to date
Until now, FPR has had two criteria related to investment policies. Both sit in the Accountability domain:

Q75. Does the foundation have an investment policy? *(this is worth one point)*
Q76. Does this policy include the following (Please write down all that apply): *(this is also worth one point: foundations score ⅛th of a point for each item)*

a) the scope of its investment powers;

b) the charity's investment objectives;

c) the charity's attitude to risk;

d) how much is available for investment; timing of returns and the charity's liquidity needs;

e) the types of investment it wants to make; this might include ethical considerations;

f) who can take investment decisions (for example trustees, an executive, an investment adviser or manager);

g) how investments will be managed and benchmarks and targets set by which performance will be judged;

h) reporting requirements for investment managers (if applicable).

The eight items in FPR's Q76 were taken directly from the Charity Commission's then-current guidance on investment policies (called CC14). That is because FPR has an overall stance of using definitions from other relevant entities wherever possible. Also note that Charity Commission guidance is just that: guidance, rather than being mandatory. We wanted to avoid rating foundations on simply whether they adhere to legal requirements, since that is the regulator's role and would not add anything.

The Charity Commission also issues 'charity reporting and accounting' (CC15d). FPR does not use that because the relevant parts about investments are mandatory.

The new guidance
This has clearer language than previously, and also adds some items which should/may be stated in investment policies. Below, we compare the two sets.
For Year Four, FPR is again using the current CC14 (i.e., the updated version): this is to be consistent with previous years and minimise changes.

Former CC14 guidance (verbatim: numbering is ours)	Updated CC14 guidance (verbatim)	Comment

A charity's investment policy will normally contain the following:	Your policy should include your charity's purposes and plans and how your investments fit with these. It may also include the following, depending on the size and complexity of your charity:	Update uses plainer language and is more directive ('should' rather than just 'will normally'). So we add a criterion about whether the investment policy states the foundation's purposes and plans and how its investments fit with these; For Year Four, this factor will not contribute to scores.
a) the scope of its investment powers;	what, if anything, your charity's governing document says about how you must invest	Update similar but using plainer language: FPR will now use this.
b) the charity's investment objectives	your charity's investment objectives, including any relevant reputational and other non-financial factors	The updated guidance is expanded: FPR will now use this.
	any sectors or organisations which you consider are in conflict with your charity's purposes	This is new – the previous version mentioned positive, ethical choices (bullet below); this is about exclusions. FPR will use this. This year, this factor will not contribute to scores.
c) the charity's attitude to risk	your charity's attitude to risk	No change
d) how much is available for investment; timing of returns and the charity's liquidity needs	how easily or often you need access to your charity's money	These next two updated sections are split-out parts of the former bullet 'd'. Its first part – 'how much is available for investment' – has been dropped, and the two others split out. FPR will

		use the new version.
	your timeframe for investment - short, medium or long-term	The update has clarification of the previous item about 'timing of returns'. FPR will add this.
e) the types of investment it wants to make; this might include ethical considerations	your approach, if any, to ESG factors and to your engagement with the companies you invest in	Update drops the first part about 'types of investment'; is more explicit about licensing foundations to take ESG factors into account; and mentions engagement with investments too. FPR will now use this.
f) who can take investment decisions (for example trustees, an executive, an investment adviser or manager)		This former point 'f' is not replicated in the updated guidance. It is partly mentioned in the updated final bullet, 'who your investment advisers and managers are, their responsibility and remit, and how you will work with them'. Trustees'/executives' own decision-making on investments is not mentioned explicitly – often in previous FPR research, we looked for the foundations' investment committees to partly answer this point (and former point 'a').
g) how investments will be managed and benchmarks and targets set by which performance will be judged	how you will monitor and review your investments, including key benchmarks	These final two updated bullets each partially map onto the former bullets 'g' and 'h'. Although they don't cover precisely the same questions, the

		language is plainer, FPR will now use them.
h) reporting requirements for investment managers	who your investment advisers and managers are, their responsibility and remit, and how you will work with them	These final two updated bullets each partially map onto the former bullets ‘g’ and ‘h’. Although they don’t cover precisely the same questions, the language is plainer, FPR will now use them.