

Choice of investments

1. This note outlines the investment options available to churches for funds held for their benefit by URC Thames North Trust (“TNT” or “the Trust”). Guidance Note 10 on “Release of funds to churches” deals with the release by the Trust of investment income and invested capital.

Trustees’ responsibilities

2. There is a general obligation on trustees to consider the financial needs of a charity in making investments, and to take a prudent approach. This usually involves taking into account, and reviewing at regular intervals:

- ~~, and the~~ risks associated with different categories of investments;
- the desirability of having a range of ~~—appropriate investments—and~~ diversification;
- balancing the need for current income to help the ~~church-charity~~ carry out its purposes with the aim of maintaining, and if possible enhancing, the value of invested funds to meet future needs;

Further information about investment by charities can be found in Charity Commission publication CC14 “Investment of charitable funds”. This can be obtained from their website www.charitycommission.gov.uk/publications or ordered from 0845 3000 218.

3. The local church should be able to define the purpose of its investments, such as
- a stable income,
 - a growing income with the possibility of growth in capital,
 - sure return of capital,
 - growth of capital.

The Trust therefore looks to churches for instructions on the purchase, sale and change of investments which it holds on their behalf. The church ought to consider from time to time, at least annually, whether existing holdings are still appropriate. For legal reasons as well as the limited knowledge available within the Trust office, TNT does not give investment advice. The independent financial advisers who provide individuals with advice on investments have little or no interest in advising charities. Some assistance may, however, be available from individual fund managers (See Annex).

4. Sometimes, legacies are received in the form of shares in a single company. Unless there is a legal requirement for retention, the local church should consider the appropriateness of retaining the holding (see paragraphs 2 and 3 above) with consequent dependence on the performance of a single company. A decision to retain specific holding(s) should be reconsidered from time to time, preferably at least annually.

5. It is the responsibility of the local church, through the elders’ meeting, to ensure that income from investments, and any capital being expended, are used in accordance with the declared purposes of the specific source from which they derive.

Short term investment

6. Generally, where there is an identified relatively short-term need for expendable capital funds, it may be most convenient to keep the funds on deposit at the best rate

available for low risk instant access, or short notice, deposits. All of these in due course return the original capital and meanwhile pay or accumulate interest. The Trust has found that CCLA's COIF Deposit Account (details in the Annex) pays a competitive interest rate and is administered in a way which is convenient for the Trust and churches for this type of investment. This account will be used for deposits unless the church gives instructions for the money to be placed elsewhere.

Longer-term investment

7. As noted in paragraphs 2 and 3, a number of factors have to be considered when making investments for a longer period. The church will need to consider what its priorities are and whether there is an identified need to use any of the capital; in some instances the capital may not be spent ("permanent endowment").

8. Fixed interest stocks

These do not give any protection against the effects of inflation on the worth of the capital invested nor on the purchasing power of the income received. Fixed interest stocks without a repayment date fluctuate in value principally because of changes in market interest rates. Stocks with a known redemption date behave in much the same way except that, as their repayment date comes closer, the market value is influenced increasingly by the final repayment price. All provide a static income until replaced.

9. Index-linked stocks

These give some protection against the effects of inflation on capital and income. Income payments are made up of a low fixed interest rate plus an adjustment for the movement in the Retail Price Index since the stock was first issued. Capital values are influenced by the outlook for inflation. The final repayment value is the original issue price adjusted for subsequent movement in the Retail Price Index and consequently cannot be ascertained until shortly before the stock matures.

10. Ordinary shares in companies

Over the longer term, values of ordinary shares in general have risen (giving some protection against the erosion of value by inflation), but there can be large fluctuations in the shorter term. If the capital is needed at a particular time it may be necessary to sell the shares when they are at a low value. Moreover, some companies fail, making their shares worthless or nearly so.

11. Collective investment funds

To reduce the risks associated with holding a small number of specific investments, whether interest-paying or ordinary shares, it may be preferable to select one or more of the specialist funds available for charities. These are broadly similar to unit trusts available to the public. Their investment objectives vary, and are described in their literature. Many churches will want to be aware of the ethical stance of the funds investing in company shares; details can be found in the manager's reports on the funds and on their websites. The funds are invested in a considerable number of shares or fixed interest (including index-linked) stocks and pay their income without deduction of tax. (Churches cannot recover tax deducted on company dividends). Income is normally distributed quarterly and can be reinvested in the fund. The Annex lists some of the common investment funds which may be appropriate for churches; details can be obtained direct from their managers.

Practicalities

12. Investment performance and market fluctuations

In the time honoured words of investment literature, "past performance is not a guide to future performance". Values, especially of ordinary shares, can fluctuate, sometimes quite

sharply and quickly, and these movements are reflected in the value of units in collective funds. Investment in ordinary shares, whether direct or through collective funds, should therefore be regarded as for the longer term where short term fluctuations in value are unlikely to be of limited concern to the church.

13. Dealing arrangements

The Trust has established trading relationships with some companies specialising in investing for charities. Although these are not the only companies TNT will deal with, it can prove quite difficult and time consuming to open accounts with other fund managers for new investments because of anti-money-laundering procedures.

14. Investment statements

Annual transaction statements of deposit accounts and for investments are sent to the church by the Trust for the year ending 31st December. If a church wishes to receive a statement for a different date, because of the year end of its accounts, this can be provided on request.

Some Common Deposit Funds for Charities

| Manager | Account Name | Interest | Notice of withdrawal | Minimum investment |
|---|--------------|----------|----------------------|--------------------|
| CCLA Investment Management Ltd 020 7489 6010 www.ccla.co.uk | Deposit Fund | Variable | None | £1 |
| Charities Aid Foundation 01732 520 165 www.cafonline.org | CAF Gold | Variable | None | £1,000 |

Some Common Investment Funds for Charities

| Investment Manager | Share based/Mixed | Fixed Interest | Minimum investment |
|--|---------------------------|--------------------------|--------------------|
| Blackrock Merrill Lynch 0800 445522 www.blackrock.co.uk | Charishare | Charinco | £1,000 £ 500 |
| CCLA Investment Management Ltd 020 7489 6010 www.ccla.co.uk | COIF Investment Fund | COIF Fixed Interest Fund | £1,500 |
| Charities Aid Foundation 01732 520 165 www.cafonline.org | CAF UK Equity Growth Fund | CAF Bond Income | £1,000 |
| M & G Securities 0800 917 4472 www.mandg.co.uk | Charifund | Charibond | 1 share 1 unit |

Other charity investment funds have higher initial investment requirements and are not included. Charities Aid Foundation also has a "Socially Responsible Fund" for charities which does not invest in a number of activities (minimum investment £1,000).

Brochures about these funds are available from the investment managers.

The usual warning about investment applies – their value and the income can fall as well as increase. Current prices and yields for all these funds can be obtained from the investment managers or the websites.