

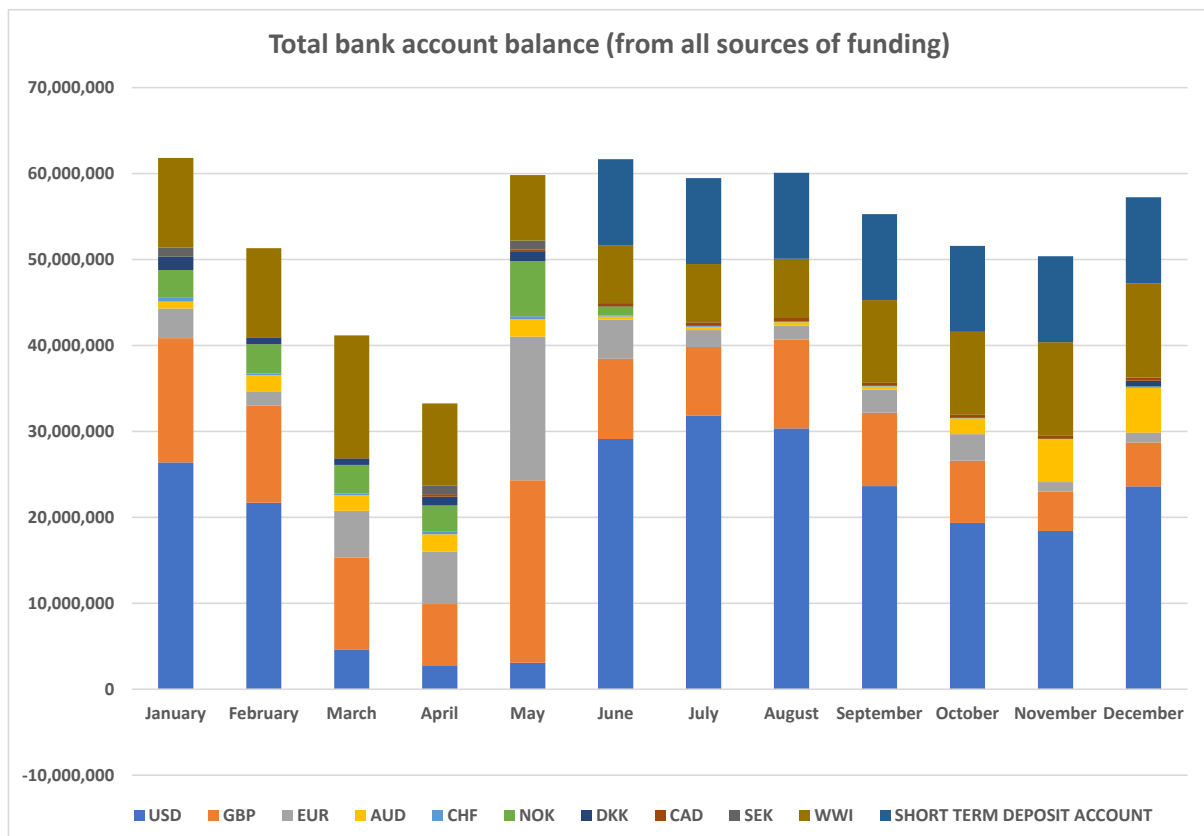
## Investment Policy background paper

### 1 Introduction

This along with the policy document outlines the background on why IPPF requires an investment policy, role of the trustees in approving and overseeing the investment policy, guidance and good practice from the Charities Commission to Trustees with respect to their role in investment oversight, risk appetite that IPPF is comfortable to take, investment strategy and reporting requirements to be adopted.

### 2 Why Investment Policy

In 2020, IPPF London maintained an average cash balance from all sources of funding (ie unrestricted, designated and restricted) of US\$53.6 million in its bank accounts in the UK and the USA and 32 day notice deposit account in the UK. The monthly cash balance (converted into US\$ equivalent) maintained by IPPF London, is provided in the chart below. The minimum balance held was US\$33.3 million in April 2020 and a maximum balance of US\$61.7 million in June<sup>1</sup>:



<sup>1</sup> 2020 was not a typical year for IPPF due to the COVID-19 pandemic which resulted in several anomalies from the usual cashflow pattern: some government donors paid their funding earlier than

An additional amount of circa **USD 7.6** million was held in cash by the London and other secretariat offices as designated / float funds, in their respective bank accounts as at 31.12.20.

In 2021, as part of the separation from IPPF, the Western Hemisphere Regional Office, who was holding an endowment fund on behalf of IPPF for the MA in Cape Verde, agreed to transfer this endowment fund amounting to US\$1.6 million to IPPF. Going forward, it is likely that IPPF would be tapping into similar opportunities available for furthering the Sexual and Reproductive Health and Rights agenda.

IPPF (London office) had the following liquid assets as at 31 December 2020:

Entity name	Bank	Country	Currency	USD value
IPPF	Barclays	UK	USD, GBP, EUR, AUD, CHF, NOK, DKK, CAD, SEK	36,242,120
IPPF	Barclays, 32 day notice deposit	UK	USD	10,000,000
WWI	Morgan Stanley	USA	USD	11,001,013
WHRO*	WHRO's investment advisors	USA	USD	1,665,401
				<b>58,908,534</b>

\*At 31.12.20 WHRO held an endowment on behalf of IPPF for the Cape Verde Member Association.

WHRO has subsequently liquidated the investments and will transfer the proceeds to IPPF as part of the settlement of the intercompany account.

At 30.11.20, the endowment was invested as follows:

Cash	6%
Bond funds	21%
Equity funds	39%
Exchange traded funds	34%
	<b>100%</b>

In April 2020, Barclays bank accounts stopped paying interest on current accounts when LIBOR interest rates fell to below 0.10%. In June 2020, US\$10 million was placed into a 32 day notice deposit account earning 0.25% interest with the objective of utilising the surplus cash balance to generate income. Looking at these returns, the funds that have been held in various bank/ deposit accounts (as provided in the table above), generate minimal returns, which if adjusted to inflation numbers, provide negative returns for IPPF.

Given the above background, IPPF requires a clear investment policy that would guide its investment actions, in relation to these funds providing it greater returns within the level of risk that the Trustees may consider to be acceptable.

### 3 Trustees' role

As per the guidance from the UK Charities Commission, the Trustees are responsible for making decisions about IPPF's investments. The UK Charities Commission has published a guidance document to support trustees in making investment decisions so that they can comply with their duties. This document provides legal and good practice considerations "[Charities and investment matters: a guide for trustees](#)" that Trustees may consider whilst taking decisions relating to a charities investments. As far as a **legal requirement** is concerned, it is the duty of the Trustees to:

- know, and act within, their charity's powers to invest.
- exercise care and skill when making investment decisions.
- select investments that are right for their charity; this means taking account of:
  - how suitable any investment is for IPPF.

- the need to diversify investments.
- take advice from someone experienced in investment matters unless there is a good reason the Trustees feel that have good reason for not doing so.
- follow certain legal requirements if they are going to use someone to manage investments on their behalf.
- review investments from time to time.
- explain their investment policy (if they have one) in the trustees' annual report.

## **4 Key Considerations**

### **4.1 Risk vs Return**

Whilst approving the Investment policy and strategy, the Trustees must be satisfied that the overall level of risk they are taking is right for IPPF.

Funds invested in the short and medium term should be relatively risk free to avoid any loss of the principal amount invested. Examples of low risk investments are:

- Bank savings accounts
- Money market funds (pools of short-term bonds, sold by brokerage firms)
- Treasury bills, notes and bonds (loans to a government, held for a set time, regular interest payments, can be traded)
- Corporate bond funds (loans to a company, subject to interest rate risk if held long term).

Low risk investments earn lower returns and over time, inflation can erode the purchasing power of the money invested in low-risk investments.

On the other hand, funds invested for the longer term (eg endowments) could potentially be invested in medium to higher risk assets which offer the possibility of a higher return. As they are held over the long term, if the capital value were to drop, the investments can be held until their value recovers. Examples of higher risk investments are:

- Equity (shares in a listed company)
- Invested Funds (money is pooled with other people's, managed by a fund manager, rated by risk, diversified,).

Including some element of medium to high-risk investments as part of an investment portfolio increases the potential return whilst the overall risk is reduced by diversification.

### **4.2 Other considerations**

Other considerations that the Trustees may take into consideration, whilst formulating and approving the investment policy and strategy include:

- 4.2.1 **IPPF's reserve's policy** which ensures IPPF has the resources in place to manage financial risk and short-term income volatility and continue to invest in initiatives to meet its goals set out in the current Strategic Framework<sup>2</sup>.
- 4.2.2 **Cash held at secretariat offices:** IPPF has adopted a new procedure in 2021 to provide quarterly cash advances to secretariat offices based on their cashflow forecast and adjusted to take into account the opening cash balance (if significant). Previously two different processes were followed: AWRO, ESEAOR and SARO were topped up to a predetermined float balance whilst EN, ARO, Bangkok and SROP received equal monthly transfers of cash of one-twelfth of their annual budget. The new process aims to facilitate centralising the investment of available pooled funds to generate higher interest whilst ensuring that a sufficient cash balance is always available at the country level.
- 4.2.3 **Investment property:** IPPF has an investment property on its balance sheet which is a residential flat above the London office which is let out. It has recently been valued at £840k.

## 5 Conclusion

IPPF could manage its cash more effectively as it has had a significant cash balance throughout 2020 earning very little return. This paper thus recommends that the Trustees may consider:

- approving an investment policy to achieve the best financial returns on IPPF's liquid assets within the level of risk that they may consider acceptable.
- approve appointment of investment manager(s) for both short and long term, investments.
- delegating the responsibility of oversight of implementation of investment policy to the C-FAR. This will include periodically reviewing the investment strategy, monitor investment activities against policy and regularly reviews the performance of the fund managers against benchmarks.

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<sup>2</sup> The Governing Council in May 2013 approved a risk-based target of general reserve level of between US\$18 million and US\$24 million.