BoT/06.21/5.1

INTERNATIONAL PLANNED PARENTHOOD FEDERATION

Refers to agenda item 5.1

BOARD OF TRUSTEES

02-03 JUNE 2021

Agenda Item: Draft Investment Policy

Summary

Given the large sums of liquid funds held by IPPF in 2020, ranging from US$ 33 million to US$ 61.7 million and the fact that IPPF is going to be receiving longer term funds from donors, including the funds held for the MA in Cape Verde, it is considered prudent that IPPF develops a strong and pragmatic investment policy, that can be acted upon to maximise returns within the level of risk that the Trustees may consider to be acceptable.

In line with this a draft investment policy was presented to the C-FAR on the 26th February, 26th March and 14th May 2021 and the Board of Trustees on the 4th March 2021. All the comments / recommendations received from the C-FAR and the BoT were incorporated in the draft investment policy presented in this paper.

Action Required:

On the recommendation of the C-FAR, the Board of Trustees to consider and approve IPPF’s draft investment policy.

1. Background and purpose

1.1. IPPF during the year holds surplus cash relating to its reserves/ designated funds and also funds on behalf of a Member Association that need to be invested in the most appropriate investment products to maximise returns commensurate with the level of risk that is considered to be acceptable to the Trustees.

1.2. This investment policy highlights the powers of the Trustees to invest (as per the IPPF Act 1977), investment objectives, level of risk considered acceptable and lays down as part of implementation, strategies to be adopted to achieve the set objectives and responsibilities of the Trustees to oversee investments at IPPF.

1.3. For clarity, IPPF is not aiming to build an endowment.

2. Scope of investment powers

2.1. The IPPF Act 1977 does not place any conditions or limitations on IPPF's power of investment. The subsidiary powers of IPPF in the IPPF Act 1977 include to:

> 5. (8) "appoint any person or persons (whether incorporated or not), being a bank, trust corporation or member of a recognised stock exchange or of a professional body to accept and hold in trust for IPPF any property belonging to IPPF or in which it is interested and to execute and do all such deeds, acts and things as may be requisite in relation to any such trust and to provide for the remuneration of such trustee or trustees".

2.2. To exercise the powers vested above, IPPF now wishes to set out this policy to provide directions in how it would like to manage its investments going forward.

3. Responsibilities

3.1. The Trustees' power of investment and their duties are defined by the Charity Commission. Legally, it is the duty of the Trustees to:

1) know, and act within, their charity's powers to invest.

2) exercise care and skill when making investment decisions.

3) select investments that are right for their charity; this means taking account of:

    a) how suitable any investment is for IPPF.

    b) the need to diversify investments.

4) take advice from someone experienced in investment matters unless the Trustees are of the opinion there is a good reason to deviate from this professional opinion, which is well documented and agreed upon through the relevant governance procedures.

5) follow applicable legal requirements if they are going to use someone to manage investments on their behalf.

6) review investments from on a periodic basis, at least twice a year.

7) explain their investment policy in the trustees' annual report.

4. Investment objectives

4.1. IPPF's investment objectives are to:

1) Maintain sufficient liquidity to manage day to day cash requirements.

2) Ensure cash is always available to meet immediate and short term (ie three months) financial needs.

3) Invest short term funds identified based on past patterns of inflows and outflows as set out in the future cash flow forecasts, in low risk short term products that maintain and enhance the value of the invested funds.

4) Invest longer term funds (such as those held on behalf of a Member Association) to maximise investment returns through interest, dividends, capital appreciation, etc as per the acceptable level of risk (as defined in this policy) on a longer-term basis.

5) Invest in simple products that can manage not only the financial risks IPPF takes, but also minimise the reputational risk that it takes, in terms of not investing in certain types of products/ companies, that may conflict with its own vision, mission and stated objectives.

5. Risk Definition and Policy Direction

5.1. It is recognized that risk is part of an investment process and needs to be managed. IPPF is mindful of the following risks and sets out its policy on each below:

1) **Counterparty risk** is the risk that a firm with which IPPF does investment business (eg a bank or investment manager) will default on its contractual obligations.

In order to protect itself against such risks, IPPF will only invest through banks[1] and fund managers that are properly regulated (ie fully compliant with their jurisdictional regulatory requirements).

[1] The Financial Services Compensation Scheme in the UK compensates an account holder up to £85,000 per bank if a UK- authorised bank fails.

2) **Investment risk** is inherent in any investment as it might generate a low return or some (or all) of the amount invested might be lost. *IPPF's overall appetite for risk is **low**. However, where IPPF invests longer term in an investment fund, certain medium to high-risk investments will be allowed to increase the potential for a higher return, but only where the risk is diversified as part of a balanced portfolio (in terms of security and level of return).*

3) **Currency risk** relates to the exchange rate risk of holding investments in currencies other than IPPF's functional currency.
IPPF will invest its assets in the currency in which they are originally denominated unless there is a requirement (e.g. from a donor) for a surplus cash balance to be held in another currency.

4) **Interest rate risk** can lead to the decline in the real capital value of an investment.
IPPF will minimise its exposure to holding long term fixed income products in the current environment of low interest rates to avoid a fall in value in real terms.

6. Risk appetite

6.1. The trustees define their risk appetite, within which the investments are to be made.

6.2. The risk appetite takes into account the risk categories as defined in article 5 of this document.

6.3. The risk appetite statement includes:

1) prioritization of risks, based on impact and likelihood.

2) the attitude of the Trustees (Meaning risk appetite) towards these risks.

3) the control procedures IPPF takes to mitigate those risks.

4) the capacity for loss, meaning IPPF's ability to absorb falls in the value of their investments.

5) the amount that is available to invest.

7. Investment strategy

7.1. IPPF will base its investment strategy on its liquidity needs as reflected in its consolidated cashflow forecast. Cash that is surplus to three months of cashflow requirements may be invested in low-risk short term products where the capital will be maintained. These products include:

1) Short term notice deposit accounts.

2) Bank secured fixed term funds (investment grade A- AAA).

3) Treasury bills and bonds issued by highly rated governments (investment grade A- AAA).

Appendix A explains the investment grade ratings and gives examples of the current ratings of products.

7.2. For longer term assets, IPPF may appoint an investment manager to invest in a portfolio with the objective of long term returns. In the event that instant access is required to the funds under investment, a margin and credit facility may also be opened against these funds. In order to remain within a balanced portfolio and allow some flexibility in managing the investment portfolio IPPF will target the following asset allocation:

Asset class	Strategic allocation	Allowed trading range
Cash	5%	+/- 5%
Equities	60%	+/- 10%
Fixed income and preferred stock	35%	+/- 10%

8. Social, environmental, and ethical considerations

8.1. Ensuring the overall investment range as listed in clause 6.2, IPPF Trustees, from time to time, may impose restrictions on and/ or suggest areas to invest in.

8.2. IPPF Trustees have decided not to own, directly or indirectly investments[2] in companies involved in businesses relating to:

1) the manufacture, distribution and sales of weapons and firearms,
2) Gambling,
3) Fossil fuel, such as coal, oil and gas
4) Tobacco.

8.3. IPPF Trustees have decided not to own directly or indirectly investments in companies that have been found to be involved in unethical practices such as:

1) Human trafficking
2) Child labour
3) Bribery and corruption
4) Money laundering
5) Terrorist financing
6) Supporting or dealing with restricted individuals/organizations/ countries as per specific financial sanctions

8.4. IPPF Trustees have also decided, where feasible, to actively search for and invest in companies that:

1) promote gender equality and specifically promote and include representation of women in leadership roles.
2) renewable energy.
3) other environment friendly business contributing to the reduction in greenhouse gas emissions.

8.5. IPPF will use its best endeavours to ensure the requirements listed in 7.2 to 7.4 are met. If breaches are detected, IPPF will divest as soon as possible and take corrective actions to avoid breaches to happen again.

9. Implementation

9.1. The Board of Trustees or its assigned committee

1) will review this investment policy on an -biennial basis.

2) will periodically review the investment strategy and monitor investment activities against policy.

3) will consider whether IPPF's staff has the specific skills to manage investments or whether it would be more effective to use an investment manager.

4) in case required, may oversee a formal tendering process to appoint one or more investment managers to act either in an advisory capacity or with discretion to make decisions about IPPF's investments on the Trustees' behalf within the investment policy framework.

5) will approve the policy statement in the event that any discretionary powers are given to an investment manager.

9.2. In line with the policy directions provided, the management will

1) coordinate the day to day management of investments including opening and setting up investment accounts, manage the tender and selection for selection of investment managers and take any other actions required with respect to investment management.

2) agree with investment managers appropriate benchmarks and targets against which to judge performance.

3) receive regular reports from the investment managers and will review how investments are performing. If investments are underperforming, the Trustees will seek to understand whether it is for an acceptable reason.

4) ensure adequate training is provided to staff to build in-house capacity.

5) provide regular updates to the Board of Trustees and/ or its assigned committee (s) about the performance of investments, returns received, opening or setting up of accounts, requirements of change of investment manager, etc.

[2] Investment could be in the form of equity, bonds, corporate papers, mutual funds and/ or any investment products that may be available as permissible investments to Charities in the UK.

10. Version Control

Version	Effective Date	Review Date	Owner	Approved Date
Version No. 1	03 June 2021 (subject to approval by IPPF Board of Trustees)	26th February 2021 26th March 2021 14th May 2021 *(by the Finance, audit and risk committee)*	Director – Finance and Technology	--- June 2021

Appendix A

Investment grade is a rating of fixed income bonds, bills and notes by credit rating agencies which signifies a low risk of default. The rating determines the creditworthiness of companies based on their financial strengths and structure, past data, and growth potentials. Companies with good levels of debt, debt repayment, good earning potential and growth will have good credit ratings.

The bond ratings are not fixed and keep changing due to many economic, industry and regulatory factors.

Standard and Poor's and Fitch use the following ratings for investment grade:

<table>
<tr><td>AAA</td><td>Prime</td><td rowspan="10">Investment grade</td></tr>
<tr><td>AA+</td><td rowspan="3">High grade</td></tr>
<tr><td>AA</td></tr>
<tr><td>AA-</td></tr>
<tr><td>A+</td><td rowspan="3">Upper medium grade</td></tr>
<tr><td>A</td></tr>
<tr><td>A-</td></tr>
<tr><td>BBB+</td><td rowspan="3">Lower medium grade</td></tr>
<tr><td>BBB</td></tr>
<tr><td>BBB-</td></tr>
</table>

Current examples are as follows:

AAA - corporate bonds issued by Johnson & Johnson and Microsoft

A - Barclays Bank fixed term fund

A- - RBS International fixed term fund

Bonds with low credit quality rating (BB+ to D) are junk bonds or non-investment grade.