The recent market meltdown in response to the Covid-19 pandemic may have resulted in clients receiving one or even two “10% drop letters”, under the MiFID II requirement for firms to report a 10% decrease in portfolio value within 24 hours. Although not a pleasant experience for either sender or recipient, some charities see the benefit of these notifications even if they may not like their content.

In fact, these 10% drop letters are a good opportunity for wealth managers to reach out to clients. It is always advisable for them to contact clients to explain any losses, arrange regular conference calls and send out short notes to update them on events. Such actions are very much appreciated by clients and are especially important at the present time, not just because they are required under MiFID.

It may seem like a distant memory after the events of the last two weeks, but 9 March 2020 marked the 11th anniversary of the longest-ever bull market (defined as a period of time in financial markets in which prices are rising or expected to rise). Many charities will probably admit that this made them a little complacent in reviewing their investments as they dealt with many apparently more pressing matters such as Brexit, GDPR, MiFID II safeguarding requirements and pension changes. Carrying out a proper review and – should it prove to be in the charity’s best interests – retendering for professional services, including investment management, is time-consuming for trustees, sometimes daunting and may involve an expense. However, given the present market correction, prudent trustees, especially those who have delegated their investment decision-making, should now revisit their investment policy statements and reconsider their appetite for risk. They should also re-familiarise themselves with Charity Commission guide CC14 (“Charities and investment matters: a guide for trustees”), particularly section 7.1 regarding what trustees must do to assess the performance of their charity’s investments.

Protecting a charity’s assets is now more important than ever. In the context of wealth management, this means having (and maintaining) an investment policy and portfolio that are responsive, resilient and fit for purpose. In difficult and uncertain times such as these, a charity needs an investment manager that provides a high level of service, is responsive, ensures that the portfolio continues to meet the charity’s financial objectives and helps it adapt quickly.

The table below is a good starting point for discussions between a charity and its wealth manager:

Investment Strategy	
Currency	What is the appropriate currency for the charity, GBP, USD or EUR?
Objective	Has the charity thought about the appropriate level of annual withdrawals? Is this achievable in the short term and does it protect the charity’s capital over the long term?
Investment horizon	Are the charity’s investments compatible with its time horizon?
Risk tolerance	What is the charity’s attitude to risk? Too often, charities say they have a low risk tolerance but expect high returns.
Special instructions	Does the charity have any ethical restrictions? Is it familiar with ESG and Impact Investing?
Restrictions	Are there any other considerations the wealth manager should take into account, such as liquidity or leverage? Are there any relevant restrictions contained within the charity’s governing document?

It is well worth trustees re-reading Charity Commission guide CC3[1], which details and explains the fundamental legal duties owed by a charity trustee when making decisions. In particular, trustees must take special care when investing or borrowing, make sure they are sufficiently informed, taking any advice they need, and be aware of their responsibilities when it comes to delegating powers to others.

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[1] https://www.gov.uk/government/publications/the-essential-trustee-what-you-need-to-know-cc3

With this in mind and in light of recent events, charities should be asking their discretionary investment managers basic questions such as why the portfolio has fallen in value and what are the short-term and longer-term implications. If a charity was unaware that the value of its portfolio could fall so sharply, it should ask whether its investments really reflect its risk appetite. Other potential questions include what steps the investment manager has been taking over the past couple of weeks as markets have fallen, what signs could show when markets have bottomed, what changes to its financial objectives should the charity be considering and making now in order to protect its portfolio, and how the charity can ensure it is in a strong position when the markets begin to recover.

If a charity is not satisfied with the answers to these questions, it may feel duty-bound to consider changing its objectives and its risk appetite. In any event, as mentioned above, investment managers should have been in regular contact with charities over the last two weeks. That regular contact – in the form of good, clear, practical advice and information – may not only be welcome, whatever the message; it may also prove vital in helping the charity review its investment strategy with more confidence and clarity and make the best decisions it can to protect its portfolio in a volatile and distressed market.

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