

Investment Policy

Policy Owner: The Mercian Trust
Finance & Resources Committee

Approved / Ratified: March 2023

Date Adopted: April 2023

Review Dates: March 2024
March 2025

Increasing Opportunities
Improving Outcomes

1) Background

In line with the Academies Financial Handbook, the Board of Trustees may invest to further the Trust's charitable aims but must ensure investment risk is properly managed. When considering an investment, the Board must:

- act within its powers to invest as described in its Articles of Association;
- exercise care and skill in investment decisions, taking advice as appropriate from a professional adviser;
- ensure investment decisions are in the Trust's best interests;
- review the Trust's investments and this policy regularly.

The Board should follow the Charity Commission's guidance: CC14 Charities and investment matters: A guide for trustees. ESFA's approval must be obtained for novel, contentious and/or repercussive investments.

2) Purpose and scope

To set out the processes by which the Trust can invest funds surplus to day-to-day operational requirements and to ensure that investment risk is properly and prudently managed.

In doing so, Trustees must:

- Act within their Charity's power to invest
- Set investment objectives
- Set the parameters that deposit counterparties need to meet
- Consider the level of liquid cash required to be held either overnight or within current accounts
- Approve the type of products that the Trust can invest in and seek external guidance if required
- Define processes to manage and make investment decisions
- Monitor and review investments on a regular basis

3) Responsibility

The Trustees delegate the day-to-day responsibility of managing and implementing the investment policy to the **CFO** to ensure investments are managed in accordance with this policy and monitor regularly how the Trust's investments are performing.

4) Objectives

To identify a level of funds that can be placed on deposit to generate additional interest income for the Trust in order to support its on-going charitable objectives.

Any investment decisions must be supported by a cashflow forecast that reduces the risk of the Trust not having the liquidity required to carry out its day-to-day activities.

5) Counterparty risk

Following the Banking Crisis in 2008, The Bank of England have (through the FSA and latterly, the FCA) implemented changes to stress testing and capital requirements of UK FCA registered banks to ensure the stability of the UK Banking system.

As such, the Trust can only make deposits with Banks or Building Societies with a UK banking licence and regulated by the FCA and PRA.

The Trust will only deposit funds with bodies protected by the Financial Services Compensation Scheme.

6) Counterparty limits

For Institutions with an investment grade of “high” or better credit rating or implied credit rating (also known as Investment grade), the Trust will deposit a maximum of £10m in total (plus interest accrued) and a maximum of £2m in any one organisation. These ratings include:

A3 / P-2 or better (Moody’s) or B

A- / A-2 or better (S&P) or BBB-

A- / F1 or better (Fitch) or

An implied rating of A3 - or better

The Credit rating or Implied Credit Rating will be checked with the Trust’s approved investment broker who will confirm ratings and place the investment.

It is worth noting that Implied Credit Ratings are usually the ‘long term’ position, however, the Trust will only be depositing ‘short term’ in deposits with a maturity date or notice period of 12-months or less

It is recognised that our current account balance(s) may exceed the deposit limits stated above. For the purpose of this investment policy, current account balances are excluded from the counterparty limits detailed above. The Trust will operate an interest-bearing current account with a bank approved by the Trust Board (currently Lloyds Bank) and maintain sufficient balances to ensure there are adequate liquid funds to cover all immediate and forthcoming financial commitments, including maintaining a sufficient contingency for unexpected payments.

If an institution has a lower credit rating than that detailed above, the Trust will deposit a maximum of £85,000 or the equivalent of the current Financial Services Compensation Scheme limit (plus interest accrued).



Credit Rating and Implied Credit Rating Summary provided by Insignis (January 2022)

Overview:

Rating	Moody's		S&P		Fitch	
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
Investment grade: Highest (Triple A)	Aaa	P-1 (Prime-1)	AAA	A-1+	AAA	F1+
Investment grade: Very high	Aa1		AA+			
	Aa2		AA			
	Aa3		AA-			
Investment grade: High	A1		A+	A-1	A+	F1/F1+
	A2	P-2/P-1	A		A	F1
	A3	P-2/P-1	A-	A-2	A-	F2/F1
Investment grade: Good	Baa1	P-2 (Prime-2)	BBB+		BBB+	F2
	Baa2	P-3/P-2	BBB		A-3	BBB
	Baa3	P-3 (Prime-3)	BBB-	BBB-		F3
Speculative grade: Speculative	Ba1	Not Prime	BB+	B	BB+	B
	Ba2		BB			
	Ba3		BB-			
Speculative grade: Highly speculative	B1		B+	C	B+	C
	B2		B			
	B3		B-			
Speculative grade: Very high risk	Caa1		CCC+	C	CCC	C
	Caa2		CCC			
	Caa3		CCC-			
Speculative grade: Very near to default	Ca	CC	D	CC	C	
		C				
		C				
In default	C	SD/D	D	RD/D	RD/D	

7) Assessing liquidity needs

- The Trust should ensure that a sufficient balance must be held across accounts with instant access so that the Trust's financial commitments can be met without the risk of the current account going overdrawn.
- It should also allow enough flexibility to deal with reasonable, one-off events should they occur.
- The Trust's cash flow forecasts will dictate how much is available for investment and for how long.
- The cashflow forecasts should be reviewed monthly as part of the management accounts cycle and on maturity of fixed term deposits.

8) Investment Products

The Trust can only invest surplus funds in a mixture of interest-bearing accounts and money market facilities (where the capital is not placed at risk) including:

- Overnight (instant access)
- Notice accounts (typically from 30-days to 100+ days)
Fixed term deposits (typically from 1-month to 12-months)
- Investment maturity dates should not exceed 12-months in term.

9) Investment Decisions

- a) The **CFO** is responsible for ensuring reliable cash flow forecasts are produced as a basis for decision making.
- b) The **CFO** is responsible for making investment decisions that comply with this Policy.
- c) Investment decisions must be approved in line with the delegated financial approval limits
- d) The opening or closing of bank accounts should be authorised in line with the current Financial Regulations Manual.

10) Monitoring & Reporting

The **CFO** will report investments held and the performance of investments to the **FRC** for review **3 times a year or when requested to do so**. The reporting should include:

- Institution with which deposit placed.
- Date deposit placed
- Amount deposited.
- Date of maturity.
- Amount returned.
- Rate of interest.
- Interest earned.

- 11) **Review:** FRC should review the Investment policy to ensure it is still fit for purpose **annually**.