



Northern Ireland Central Investment Fund for Charities Statement of Investment Policy

December 2023

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1. Introduction

- 1.1 The purpose of this Investment Policy Statement is to establish best practice guidelines for the management of the Northern Ireland Central Investment Fund's investment portfolio (the "Fund"). The statement includes accountability standards that will be used for monitoring the progress of the Fund's investment strategy and for evaluating the performance of the investment manager(s) contracted on behalf of the Fund and its stakeholders.
- 1.2 The Department, with advice from the Advisory Committee will review the Investment Policy Statement at least annually. Changes to the Investment Policy Statement will be communicated to the Investment Manager of the Fund as soon thereafter as is practical.

2. Role of the Department

- 2.1 The Department for Communities ("the Department"), advised as to investment policy by the Advisory Committee (hereinafter called "the Committee") appointed under section 25(10) of the Charities (Northern Ireland) Act 1964, acts as Trustee of the Central Investment Fund for Charities.

3. Role of the Advisory Committee

- 3.1 The Committee is bound by the Charities (Northern Ireland) Act 1964, whereby it must advise the Department on financial policy and investment matters relating to the Fund.

- 3.2 The Committee's main objective is to monitor the Investment Manager's performance against the stated contractual requirements and advise the Department accordingly. Such advice being given at the quarterly meetings (February, May, August & November) or by email or telephone, as and when required.

3.3 Additional Duties include:

- i. Considering and assessing the investment advice provided by the investment manager and stating its views thereon.
- ii. Advising on dividend policy.
- iii. Advising on the Dividend Equalisation Reserve.
- iv. Advising generally on matters affecting the operation and management of the Fund to promote the best interests of the investors.

4. Role of the Investment Manager

- 4.1 The Department relies on a third party Investment Manager for the day to day management of the Fund's assets in line with this Investment Policy Statement. The Investment Manager is regulated by the Financial Conduct Authority and is responsible for the investment portfolio construction.

5. Investment Objectives

5.1 The primary objective of the Fund is to generate income and thereafter long-term capital growth in real terms. The recommended investment timeframe is 5 years and over. The Fund aims to achieve an annual return of 3.5% (net of fees and charges) above the UK rate of inflation as measured by CPI, over the medium to long term through a combination of the returns on income and capital. The fund aims to distribute an income of 3% per annum to investors.

6. Asset Allocation

6.1 The Department recognises that the strategic allocation of Fund assets across broadly defined financial asset and sub-asset categories with varying degrees of risk, return, and return correlation will be the most significant determinant of long-term investment returns and fund asset value stability.

6.2 Cash investments will, under normal circumstances, only be considered as temporary Fund holdings and will be used for Fund liquidity needs or to facilitate any planned programme of pound-cost averaging into investments in either or both of the equity and fixed income asset classes.

7. Benchmark

7.1 The investment managers are responsible for the day-to-day management of the actual portfolio, but the Fund's investment policy is guided by the Charities Advisory Committee. Expected returns on investments held by the Fund are to match or exceed CPI +3.5% per annum, measured over a 3 year rolling period.

7.2 The expected returns described in para 7.1 constitute the agreed benchmark. The Charities Advisory Committee will also take account of asset class index returns and peer group performance in assessing the investment manager.

8. Investment Restrictions

8.1 The Department has specified a number of restrictions, which the Investment Manager must adhere to:

- No more than 5% of the portfolio to be invested in any single issue (excluding Government Gilts and AAA rated Corporate Bonds)
- No direct investment* in tobacco production (i.e. exclusion of the tobacco sector) and no direct investment in companies that derive more than 10% of turnover from tobacco production
- No investment in securities that are not readily realisable
- No own company products without prior written approval
- The Investment Manager will be responsible for the day-to-day management of the portfolio, but the Charities Advisory Committee shall provide guidance on investment strategy
- Transactions shall not be subject to soft commission arrangements

8.2 We require our investment manager to support the principles in both the Convention on Cluster Munitions 2008 and the 1997 Convention on Anti-Personnel Mines, which ban these weapons as defined by the conventions; and as such will not knowingly invest in companies producing or selling these weapons.

8.3 All ethical restrictions are implemented on a best endeavours basis. If an existing holding is found to be unacceptable under the restrictions detailed, now or in the future, the investment manager will review the holding and if deemed appropriate, highlight the discrepancy to the Department, who may then consult the Committee on a suitable response to the matter.

* Direct investment is defined as investing in an equity or bond directly rather than via a pooled fund. The term indirect investment applies to any holdings (equities or bonds) via a pooled fund.

9. Risk Profile and Risk Mitigation

- 9.1 Based on the long term strategic asset allocation and its alignment to the current Investment Manager's risk definitions, the Fund adopts a 'medium high' risk approach to the overall portfolio of holdings. It is accepted that this may increase the risk of greater fluctuations (a medium high risk approach is quantified as a potential peak to trough fall of up to 30%) in the value of the investments but this is viewed in the context of the prospects for better long term returns.
- 9.2 Diversification across and within asset classes is the primary means by which the Department expects the Fund to avoid undue risk of large losses over long time periods. To protect the Fund against unfavourable outcomes within an asset

class due to the assumption of large risks, the Investment Manager should take reasonable precautions to avoid excessive investment concentrations including but not limited to the individual stock, sector and geographical region.

10. Distribution / Equalisation Policy

10.1 Paragraph 20(3) of the Charities Central Investment Fund Scheme (Northern Ireland) 1965 makes provision for the retention of such amount of income the Department thinks fit in a Dividend Equalisation Reserve (DER) in order to avoid or reduce fluctuations in the amounts distributed as dividends. The DER is held by the investment manager in an account separate from the main Fund.

10.2 It is worth noting that the legislation states that contribution to the DER should not exceed 10% of the net income of each six-month distribution period and that at no time should the balance in the DER exceed 2% of the capital value of the Fund. The distribution of Fund assets will be permitted to the extent that such distributions do not exceed a level that would erode the Fund's real assets over time. The Department will review its distribution assumptions annually, for the purposes of deciding whether any changes therein necessitate amending the Distribution Policy, its target return, or both.

11. Performance Monitoring and Reporting

11.1 The Committee will monitor the Fund's investment performance against its stated investment objectives, as outlined in Section 3. The Committee will formally assess the Fund and the performance of its underlying investments four times a year, as follows:

11.2 The Fund's composite investment performance (net of fees) will be judged against the following standards:

- i. A total return of CPI +3.5% per annum, monitored over a 3 & 5 year rolling period.
- ii. An income yield of 3% per annum.
- iii. The Committee will also consider asset class index returns and peer group comparison, from time to time, if available.

11.3 On behalf of the Department, the Committee will evaluate investment manager performance in line with the Department's Monitoring Guidelines.

11.4 Investment reports shall be provided by the investment manager on a (calendar) quarterly basis or more frequently as requested by the Committee. The investment manager is expected to be available to meet with the Investment Committee at least once per year to review portfolio structure and strategy, in addition to the regular investment performance review meetings.

11.5 An annual United Nations' Principles for Responsible Investment (UNPRI) assessment report for the investment manager will be provided as an external reference point on performance and activity in this area.

11.6 A quarterly Environmental, Social and Corporate Governance (ESG) report will be provided by the investment manager to inform of ongoing engagement with companies, voting and thematic updates.

12. Socially Responsible Investing

12.1 The Department's overriding obligation is to fulfil its fiduciary responsibilities and act in the best interests of the Fund investors. In this fiduciary role, the Department believes that environmental, social and corporate governance (ESG) issues can affect the performance of investments. Accordingly, the Department believes that these factors should be taken into account when managing the Fund's assets, subject to the overriding fiduciary duty to maximise the financial return on investments.

12.2 The Department is committed to working with an investment manager who:

- Is a signatory of the UN Principles for Responsible Investment.
- Embeds ESG factors into their investment process.
- Considers the transition to a lower carbon economy and society within their investment approach.

13. Climate Risk

- 13.1 The Department recognises climate risk as an investment risk. As a global investor the risk arises due to the level of greenhouse gas emissions around the world, therefore it supports the goals of the Paris agreement to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C.
- 13.2 At a portfolio level the Department will explore how it can measure the carbon intensity of the fund and compare it to relevant benchmarks.
- 13.3 The Department will only appoint a fund manager which will take into account climate risk, and the transition to a low-carbon economy, when making stock selections. The manager must also be a signatory to the United Nations Principles of Responsible Investment.
- 13.4 The current manager, LGT Wealth Management has set out its own specific policies on climate change and investing which can found at <https://www.lgtwm.com/uk-en/about-us/sustainability>. LGT Wealth Management is a signatory to the UN PRI and is a supporter of the Task Force on Climate-related Financial Disclosures.

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