Investment Policy

Lead Director: (Chief Financial Officer)

Reference: POL 05

Committee Review: Audit and Risk
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Ownership

1. Introduction & Aim

1.1 The aim of this policy is to ensure that the Association, its Board and its staff understand their responsibilities when exercising the Association's investment powers. It is important that any investment decision takes account of the matters that form part of the Association's overall treasury management approach, and these should be specifically considered in relation to any investment decision being considered.

1.2 Overall responsibility for approval of any changes to this Investment Policy rests with the Board, which will consider the views of the Audit and Risk Committee.

1.3 The Board recognises that the Investment Policy must be kept under review. It will be reviewed formally once every three years and more often if there are changes in the external environment, for example if the legal, tax or market environment changes, mean it requires more urgent review.

1.4 The Investment Policy will take effect following approval by the Board and any pre-existing policies will continue to have effect until such a date of approval.

2. Policy Statement

2.1 The Association is a housing association and an exempt charity and as such must ensure that its activities comply with its charitable objects. The Association's Rules do not permit it to undertake trading for profit. The Association's objects in place at the date of the adoption of this policy are set out below:

Objects

A2 *The Association is formed for the benefit of the community. Its charitable objects shall be to carry on for the benefit of the community:*

A2.1 the business of providing and managing housing (which may include social housing) and providing assistance to help house people and associated facilities, amenities and services for poor people or for the relief of aged, disabled (whether physically or mentally) or chronically sick people;

A2.2 any other charitable object that can be carried out from time to time by a registered society registered as a provider of social housing with the Regulator.

2.2 These charitable objects are the basis for the Association's registration as an exempt charity and its treatment as a charity for tax purposes.

2.3 The Rules also specify that:

i. The Association shall not trade for profit and any profits shall only be applied for the purpose of furthering the Association's objects and/ or in accordance with these Rules.

ii. Nothing shall be paid or transferred by way of profit to Shareholders of the Association.

2.4 The Rules specify the Association's investment powers. These include the powers to:

i. do anything that a natural or corporate person can lawfully do which is necessary or expedient to achieve its objects, except as expressly prohibited in the Rules; and

ii. invest the funds of the Association where this is necessary and expedient to achieve its objects.

2.5 The Rules give the Board the power to invest the funds of or monies borrowed by the Association in such manner as it determines. The financial returns from such investments must be used to further the Association's charitable objects.

2.6 If the Association's Rules are updated subsequently to the adoption of this policy, the Association shall review this policy to ensure it considers whether the new rules remain consistent with this policy.

2.7 Where compatible with its legal duties, the Association may invest surplus assets in a prudent way in three categories of investment as recognised by the Charity Commission in their guidance note CC14 "Charities and Investment Matters: a guide for trustees". These are:

i. Financial Investments

An investment made by the Association from time to time the purpose of which is to yield the best financial return for the Association within the level of risk considered by the Board to be acceptable. The balance between risk and return may include a wide range of factors that will impact on return including environmental, social and governance factors.

All Financial Investments must be "qualifying investments" for tax purposes and be in accordance with, and permitted by, the Association's Treasury Management Policy, financial strategy and business plan.

All returns generated will be used to further the Association's own aims.

ii. **Programme Related Investments (PRI)**

The Association may directly further its charitable objects by using its financial resources to support other organisations (both within and outside its Group) with similar objects to its own. This is commonly done by way of grants and financial gifts and accommodation (including guarantees) and it can also be done by way of loans and share subscriptions.

This differs from a conventional Financial Investment, in that the financial return, if any, is secondary to furthering the Association's charitable objects. Therefore, while Board Members must act prudently, they are not bound by the same charity law obligations in relation to risk and return as for a Financial Investment. The Board's primary intention in making a PRI will be to further the charitable purposes of the Association and Board Member's duties and obligations as charity trustees will need to be applied in this context.

The Association may choose to make a PRI in a non- charitable organisation (including a subsidiary as well as a third party) provided that, in doing so, the Association is still furthering its own objects and that any private benefit is necessary, reasonable and in the Association's own interests.

iii. **Mixed Motive Investments (MMI)**

Where the investment has elements of both Financial Investment and PRI and can demonstrate a sufficiently "dual" nature of the return (part financial and part justified by the investment's contribution to the Association's charitable objects). It is important that there should be no other reason for making the investment (for example, it does not create an unauthorised private benefit).

Exclusions

2.8 This policy does not cover the management of treasury deposits which is covered within the Treasury Management Strategy, however, treasury deposits will be relevant in respect of the Board's duty to consider the need to diversify investments.

2.9 This policy does not cover the appointment of an investment manager. In the event it is proposed to appoint an investment manager to manage the Association's investments specific professional legal advice must be sought to ensure that this is in compliance with charity law and regulation.

3. Policy Principles

3.1 The Board will seek to maintain a prudent, balanced and diverse range of investments. If presented with an investment opportunity, the Board will take appropriate legal and/or tax advice and will compare the risks and rewards of the investment opportunity with a range of other possible investments.

3.2 Investments may be made which fall outside the range of activities which the Association may itself undertake where such returns generated on its investments will then be used to further its charitable objects in accordance with its Rules. However, investments will be chosen with a view to achieving sufficient financial return to bring real benefits in relation to the activities of the Association.

3.3 In considering the suitability of any investment, the Board will apply a responsible and balanced approach to risk. The Board accepts that higher risk investments may be appropriate when all other factors are considered and that in having regard to the need to diversify investments a variety of risk levels will be beneficial. Similarly, the Board will need to take into account whether investments might be "overcautious".

3.4 The Association may borrow to fund investment activities, after careful consideration of the range of financial returns such investment may deliver, the level of risk associated with the investment and cost of servicing the borrowing.

3.5 The Association will take into account ethical investment considerations and will invest in a way that reflects its aims, values and ethos. When appraising investment opportunities, the Association will be clear about the reasons why certain investments, companies or sectors have been excluded or included.

3.6 In making investments, the Board Members owe duties to the Association, including a duty of prudence, which cannot be delegated. This does not mean that Board Members will personally carry out all of the actions necessary to ensure compliance, but they will make the ultimate decisions regarding any investment.

3.7 Board members obligations when making investment decisions are set out in detail in Appendix A. When making any investment of the Association's assets, the Association (acting through its Board Members) will:

i. know and act within the Association's power to invest;
ii. take and consider advice from someone experienced in investment matters before making investments (and when reviewing them). The adviser must be someone who is reasonably believed by the Board to be qualified to give advice by their ability in and practical experience of financial and other matters relating to the proposed investment;

iii. exercise prudence and care by taking legal advice from time to time from qualified advisers appropriate to the investments under consideration. This advice may be taken from external advisors or from the officers of the Association, as the Board sees fit in the circumstances and depending on the nature of the investment. The Board will minute any advice taken.
iv. consider carefully how robust any estimates or projections used are.
v. take appropriate tax advice to ensure that no investment materially increases the tax burden on the Association (including, for example, where an investment may be treated as "non-qualifying expenditure").
vi. consider the longer term organisational objectives and past patterns of expenditure and anticipated demand for support as an indication of future trends.
vii. consider the Association's immediate financial needs and future spending commitments
viii. exercise appropriate care and skill when making investment decisions and act in the best interests of the Association;
ix. select investments that are right for the Association, taking account of:
    - how suitable the investments are for the Association;
    - the need to diversify investments; and
    - the Association's overall strategy and its business plan and risk appetite.
x. satisfy themselves that it is in the Association's best interests to make the investment, having regard to the benefit it is expected to achieve by furthering the Association's own charitable purposes and/or achieving a financial return, as appropriate;
xi. ensure that there is no leakage of public funds or significant risk to the Association's social housing assets
xii. ensure any private benefit which arises from the investment is necessary in the circumstances, reasonable in amount, and in the Association's best interests;
xiii. consider any wider implications of the proposed investment arising out of the Association's funding documents, loan covenants and consent requirements and any other obligations to third parties;
xiv. review the investments from time to time to ensure they are continuing to meet their objectives, and act appropriately (whether this is to continue the investment on its current terms, change these terms to ones that are more appropriate, or to withdraw the investment altogether).
xv. Ensure that meeting minutes properly record the rationale for any investment decision

Programme Related Investment (PRI) Additional Considerations

3.8 When considering whether to invest in a PRI, the board should be satisfied that it is in the best interest of the charity and the level of risk being taken is appropriate, CC14 includes a checklist of the sort of questions that board members should ask themselves when thinking about making a PRI. This checklist is replicated at Appendix A.

3.9 Where the proposed investment is a PRI, the Board will satisfy itself (including by obtaining specific investment, legal and/or tax advice, where appropriate) on the following matters (being the "qualifying criteria" for PRI):

a. that the objects of the recipient of the proposed PRI are sufficiently similar to the Association's own charitable objects so that the making of the proposed PRI would advance the Association's charitable objects;
b. that the terms on which the proposed PRI would be made would be conditional on the PRI only being used in such a way as to advance the Association's charitable objects (and for no other purpose), and that the Association would be able to monitor this

appropriately;

c. if any private benefit would arise to any party or person other than the Association as a result of the proposed PRI, that:
    i. it would be incidental;
    ii. it could be justified as a necessary consequence of activities (carried out by the recipient of the proposed PRI) which would, in turn, fulfil the Association's charitable objects;
    iii. it would be reasonable in amount and, where appropriate, can be recovered by the Association; and
    iv. it would be outweighed by the public benefit arising as a result of the making of the proposed PRI.

d. that, in the event that any qualifying criteria cease to be true at any time, the terms of the proposed PRI would allow the Association at that time to:
    i. withdraw the PRI and terminate the investment; or
    ii. re-designate the investment as MMI or Financial Investment (as appropriate) and to change the terms of the investment accordingly so they satisfy the relevant requirements of such species of investment; and
    iii. recover from the recipient any unacceptable or inappropriate benefit (private or otherwise) arising from the PRI.

Mixed Motive Investments (MMI) Additional Considerations

3.10 Where the proposed investment is MMI, in addition to the matters set out in section 3.8 above, the Board must also satisfy itself that the the MMI can be justified by the combination of the anticipated financial return and the contribution the activities funded will make to the furtherance of the Association's charitable objects. This may require quantification of the proportion of the MMI that is rightly attributable to PRI and that rightly attributable to Financial Investment.

3.11 If the Board decides that the investment is in accordance with this policy, it will specify the terms of that investment, including any provisions allowing the Association to withdraw the investment or change its terms, should circumstances change.

Investing in Subsidiary Companies

3.12 At the time of the adoption of this policy, the Association has a single subsidiary company, Altview Living Limited. This company has been established to facilitate VAT efficiencies on development activities and it is anticipated that the company will commence trading in financial year 2021-22.

3.13 The Board acknowledges that the Association may from time to time in accordance with this policy wish to make investments into subsidiaries.

3.14 The Board recognises that the Charity Commission has advised that charities must be able to justify investments in companies which are wholly or substantially owned by the charity, and has stressed the need for objectivity when making decisions in this area.

3.15 The Board recognises that in making such investments it should have regard to the principles outlined in this Investment Policy, and in the CC14. In particular, the Board will consider suitability and diversification issues (including issues of conflicts of interest and private benefit) and take appropriate advice as necessary.

3.16 More specifically, the Board will bear in mind the following principles when making a decision to invest in a trading subsidiary:

a. That investments should only be made where it is in the Association’s best interests to do so and on an arm's length and commercial basis.
b. In assessing what is in the Association’s best interests, the investment ought to be compared with other forms of investment.
c. Appropriate advice taken on the suitability of the investment and on the financial viability and business prospects of the subsidiary.
d. That consideration should be given to whether the subsidiary is able to provide security and the appropriateness of such security for any proposed investment in it.
e. That consideration should be given to the length of time that funds may be tied up.
f. That the option of obtaining independent funding for the subsidiary should be considered.
g. That appropriate arrangements are put in place to monitor the performance of the subsidiary.

4. Risk Management

4.1 The key risk associated with non-delivery of this Policy is:

Risk Register Ref:	Risk:
ST 05 Governance Arrangements.	Ineffective governance leads to noncompliance with regulatory requirements, inappropriate decision making and a failure to achieve corporate objectives.
Risk Consequences:	**Management and Mitigation:**
• Breach of compliance with charity law and regulation requirements. • May not be "qualifying investments" for tax purposes. • Not in line with Association's Treasury Management Policy, financial strategy and business plan. • Have not considered the wider impact on return/investment including environmental, social, governance and reputational factors.	• Appropriate Investment and legal advice are taken before making investment decisions. • Business cases fully consider all investments requirements and impact consequences.

Key Risk Indicators and Control Limits

The board will establish appropriate key risk indicators and tolerances for its investments as they are made.

5. Regulatory & Legislative Compliance

5.1 This policy has been drafted to ensure compliance with:

i. The rules of the Association

ii. Charity law and the policy and procedure requirements of the Charity Commission

iii. The obligations on board members

6 Links to Other Key Documents

List any related Policies and external/internal reference material.

7 Governance of this Policy

Equality and Diversity	An Equality Impact Assessment was carried out on this Policy in March 2022. No adverse discrimination was identified.
Financial and Links to VfM	The policy sets out the key considerations to be made prior to investing Association funds including assessing the appropriate level of financial or non-financial return.
Privacy and Data Protection	This policy does not involve the collection or use of personal data from staff/customers or involve data processing.
Health and Safety	The policy has no impact on staff or customers' health and safety.
Development and Consultation	The policy is concerned with ensuring that any proposed investment activities are in accordance with the Association's legal powers and properly assessed. The policy has been reviewed by "Brabners".
Customer Profiles and Accessing Services Data	Not applicable.
Monitoring and Review	The Board will, at least annually, review the level of returns being made on any investments made from time to time by the Association with a view to assessing: i. in respect of any Financial Investments, the level of returns being made and the level of risk they carry, with a view to assessing whether the Financial Investments continue to provide an appropriate return balanced against the risk. In doing so, the review will give consideration to alternative methods of Financial Investment and instruments, and whether they might be used to increase the level of return on the Financial Investments, and it will include a comparison of the returns that could have been achieved by the Association with appropriate market comparators (bank deposit rate etc.), taking account of other relevant factors including transaction costs; ii. in respect of PRI, that the "qualifying criteria" set out in section 3.8 above continue to be met; and/or iii. in respect of MMI, the matters described in sections 3.16.1 and 3.16.2 above, appropriately apportioned in the manner described in section 3.9 above. A report on the findings of this review will be made to the Board with any recommendations for changes in the light of: i. whether the current Financial Investments (if any) continue to meet the necessary criteria for their species and demonstrate an appropriate return (financial or otherwise) for the Association; ii. whether the current PRI (if any) continue to appropriately further the Association's charitable objects (and to provide an additional financial return to the charity, where appropriate); and iii. whether the current MMI continue to demonstrate an appropriate "blended" return satisfying the requirement for this to reflect an appropriate apportionment of the overall investment to Financial Investment or PRI.

	Consideration will be given in the review to the suitability of maintaining the then-current investments on their current terms, or whether revising terms may be appropriate in some cases, or the withdrawal and/or replacement of specific investments in others, where this is in the best interests of the Association.
Roles & Responsibility	Board of Management – application and compliance with this policy when making investment decisions Director of Resources – monitoring and review of this policy. Head of Finance – monitoring and reporting on investment performance Head of Governance – monitoring compliance with policy.

8 Definitions

In this policy:-

"the Association" means Cobalt Housing Limited;

"Audit and Risk Committee" means the Association's Audit and Risk Committee;

"Board" means the board of management of the Association from time to time but shall also include, where appropriate, suitably constituted "Committees" of the Board;

"Board Member" means a member of the Board and shall also include references to Committee Members where appropriate;

"CC14" means the Charity Commission's guidance note CC14 "Charities and Investment Matters: a guide for trustees" and, until such time as the same is incorporated within CC14 or any successor guidance note, including the Charity Commission's Social Investment by Charities interim guidance (the "Interim Guidance");

"ethical investments" means investing in a way that reflects the Association's values and ethos and does not run counter to its aims;

"Financial Investment" has the meaning given to it in CC14, namely an

investment made by the Association from time to time the purpose of which is to yield the best financial return for the Association within the level of risk considered by the Board to be acceptable;

"investment"	means Financial Investment, PRI and/or MMI (as appropriate). This may include (on a non-exhaustive basis) any or all of the following – interest bearing cash deposits in bank or building society accounts, shares in a listed company, interest bearing loans to corporate bodies or the government (including bonds and gilts), buildings or land, common investment funds and other collective investment schemes, non-traded equity in private corporate entities, hedge funds, commodities and derivatives;
"Investment Policy"	means this policy (as amended or adapted from time to time);
"MMI"	has the meaning given to it in CC14, namely an investment comprising elements of Financial Investment and PRI;
"PRI"	has the meaning given to it in CC14, namely an investment the purpose of which is to directly further the Association's charitable objects but which may also provide some financial return for the charity;
"risk"	shall include (on a non-exhaustive basis) the following types of risk – capital, liquidity, market, valuation, counterparty, tax, environmental, social, governance and reputational risks;
"Rules"	means the rules, or constitution, of the Association from time to time;
"Shareholders"	means the Association's shareholders from time to time;
"Social Investment"	means social investment as described in section 292A of the Charities Act 2011, and includes a PRI and an MMI as described in the Interim Guidance.

Appendix A

Annex 2: PRI checklist

When considering whether to invest in a PRI, trustees should be satisfied that it is in the best interests of the charity and that the level of risk they are taking is appropriate.

This checklist sets out the sort of questions that trustees should ask themselves when thinking about making a PRI:

- **Does the PRI further the aims of our charity?**
  - Which of our charitable aims are we funding? A PRI must be made wholly in furtherance of one or all of them.
  - Is this the best way we can serve the needs of our beneficiaries in the context of the charity's operations as a whole?
  - How does the organisation we are investing in share or further the charity's aims?
- **What private benefit might there be?**
  - Have we considered what private benefit there might be to others as a result of the proposed PRI?
  - If there is any private benefit to a person or an organisation, is it necessary, reasonable and in the interests of the charity?
- **What advice do we need to take?**
  - Do we need to take advice about a PRI? For example, about the viability of a project, the terms of a loan, or whether we need to carry out due diligence checks?
- **Have we considered the terms of the agreement?**
  - Are the terms on which the PRI is made reasonable as far as we are aware?
  - How easily can the PRI be ended if circumstances change? For example, what will happen if the organisation we are investing in makes a significant change to the nature of its activities, there is poor performance or the objectives of the PRI are achieved earlier than expected.
- **What are the risks for our charity?**
  - How reliant is our charity on getting a financial return? The viability of a charity may be threatened if it is reliant on a predicted level of financial return that does not materialise.
  - What is the financial health of the recipient of the PRI?
  - What other factors may impact on the success of the project or the financial return (for example, the rate of inflation or exchange rates)?
  - What is the risk that a recipient will default on their contractual obligations and how will we manage this?
  - Under what conditions can the PRI be converted into a grant or written off?
  - Are there any potential reputation risks to the charity - for example, through private benefit to non-beneficiaries if the PRI is made to a commercial organisation?
  - What are the tax implications of the PRI? Some investments may be treated as non-charitable expenditure, with tax implications for our charity.