

Investment Policy

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FURTHER INFORMATION / GUIDANCE	<ul style="list-style-type: none">• Academy Trust Handbook• Finance Policy• finance@rhat.org.uk

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1 – PURPOSE AND SCOPE

The purpose of this policy is 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.

Definitions

- Executive Trust Board of Directors to also mean Board of Trustees
- Chief Executive Officer to also mean Accounting Officer
- Finance Director to also mean Chief Financial Officer

2 - ORGANISATION OF RESPONSIBILITY & ACCOUNTABILITY

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

3 - 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.

4 – 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.

5 – COUNTERPARTY LIMITS

For Institutions with a “good” or better credit rating or implied credit rating (also known as Investment grade), the Trust will deposit a maximum of £1,000,000 (plus interest accrued) within the deposit platform in products with maturity terms or notice periods of greater than 30 days. These ratings include:

Baa3 / P-3 or better (Moody's) or

BBB- / A-3 or better (S&P) or

BBB- / F3 or better (Fitch) or

An implied rating of BBB- or better

For products with Easy Access, the Trust may deposit up to £3,000,000 (plus interest accrued) in any one institution with the added caveat that the credit rating for these institutions need to be verified monthly. Further checks will be added to these institutions including annual review of financial accounts and Google Alerts for any signs of potential failure.

The Credit rating or Implied Credit Rating will be checked with Insignis at the time of placing a deposit with a new bank.

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

If an institution has a lower credit rating than that detailed above, the Trust will deposit a maximum of £85,000 (plus interest accrued).

Funds in the Trust's main bank account are excluded from these limits.



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		AAA	
Investment grade: Very high	Aa1		AA+	A-1+	AA+	F1+
	Aa2		AA		AA	
	Aa3		AA-		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-	F2/F1
Investment grade: Good	Baa1	P-2 (Prime-2)	BBB+	A-2	BBB+	F2
	Baa2	P-3/P-2	BBB		BBB	F3/F2
	Baa3	P-3 (Prime-3)	BBB-	A-3	BBB-	F3
Speculative grade: Speculative	Ba1	Not Prime	BB+		BB+	
	Ba2		BB		BB	
	Ba3		BB-		BB-	
Speculative grade: Highly speculative	B1		B+	B	B+	B
	B2		B		B	
	B3		B-		B-	
Speculative grade: Very high risk	Caa1		CCC+			
	Caa2		CCC		CCC	
	Caa3		CCC-			
Speculative grade: Very near to default	Ca		CC	C	CC	C
			C		C	
			C		C	
In default	C		SD/D	D	RD/D	RD/D

6 – 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.

7 – INVESTMENT PRODUCTS

The Trust can 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)

Investments should not exceed 12-months in term.

8 – INVESTMENT DECISIONS

The Finance Director is responsible for producing reliable cash flow forecasts as a basis for decision making.

The Finance Director is responsible for making investment decisions that comply with this Policy.

The opening or closing of bank accounts should be authorised in line with the current Trust Finance Policy.

9 – MONITORING AND REPORTING

The Finance Director will report investments held and the performance of investments against objectives to the Finance Committee for review each time it meets or when requested to do so. The reporting should include:

- Funds invested
- Maturity dates
- Interest rates
- Current market rates
- Latest cash flows showing 12-month liquidity requirements
- Recommendations for the next 3 months.

10 - REVIEW

Trustees should review the Investment policy to ensure it is still fit for purpose annually.