charitytimes

August/September 2019

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Generation-Z
Do we need new funding models for the new breed of community networks and activists?

Fraud:

Reducing the risks
Fraud is costing charities over £2.5bn a year, but how can it be mitigated?

Fundraising:

The future
What does the future of fundraising look like for the charity sector?

Interview:

Kate Bratt-Farrar
The CEO of Heart Research UK on life, luck and the joy of running a small charity

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CHARITY PROPERTY ROUNDTABLE
Creating property strategies to enhance your charity's mission

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Sector and investment columns

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A SHINING LIGHT
FOR CHARITY
INVESTMENTS
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Subscription Rates (6 issues pa)
£79pa registered charities
£119pa rest of UK, £127pa EU
£132pa elsewhere

Printed by Buxton Press

ISSN : 1355-4573

Published by
Perspective Publishing
6th Floor, 3 London Wall Buildings
London EC2M 5PD

www.perspectivepublishing.com

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I was just wondering if…

I have just caught myself starting an e-mail with 'Hi, I was just wondering if you could...' and ending it with 'but don't worry if not'.

The worst part? I've sent e-mails that start and end with passive phrases like this more times than I could possibly recall. Spotting one of them in my sent items now gives me the same cringe-ridden feeling as listening to polystyrene slide out of a cardboard box.

But I didn't always feel this way. The realisation came in July, when I attended Ruby Bayley-Pratt and Yvette Gyles' presentation, *Asserting your power in the workplace*, at the Institute of Fundraising (IoF)'s Annual Fundraising Convention. The session was a huge wake-up call. It highlighted some fundamental flaws in the way people – especially women – soften their language to appeal to others when articulating messages or making requests.

"Language and not softening it is something I really struggle with," Bayley-Pratt said. "I found that keeping a tally of all the times I minimised myself or my points really helped to raise my awareness of how often I do it."

Language softening is an unconscious tool many of of use to get what we want. But the reason why involves some serious digging. Why do some of us soften our language more than others? Why do we feel the need to be overly polite when making a request? Why are we afraid of being assertive?

In this issue, our cover story (p.22) explores the issues around running hard-hitting campaigns in a time of heightened sensitivity and puts a spotlight on this problem that we, as a society, have with accepting assertion.

The feature focuses on the case of Cancer Research UK, which faced criticism for its recent obesity campaign. In the charity's instance, using assertive language around a sensitive topic caused a considerable amount of backlash, but research is already proving it's a tactic that worked.

During the production of this issue, almost every person I spoke to said the CRUK campaign had given them more respect for the charity than they had before. Why? Because assertion – without aggression – shows knowledge, courage and confidence. So next time you ask somebody for something, try asking without softening your language. Like CRUK, do your research and just stick to the facts – it's almost guaranteed to pay off in the long run.

But don't worry if not.

Lauren Weymouth, Editor

PERSPECTIVE PUBLISHING

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Average net circulation of 8,500 copies for July 15 – June 16

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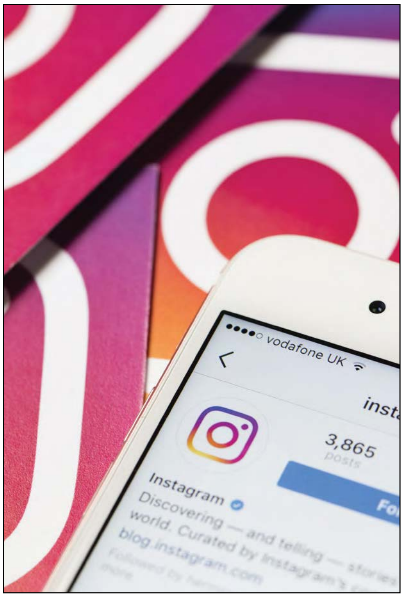

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INTERIM MANAGER APPOINTED TO CHRISTIAN CHARITY WHILE REGULATOR PROBES 'SERIOUS CONCERNS'

The Charity Commission has appointed an interim manager to a Christian charity whilst it addresses a number of financial concerns. Mountain of Fire and Ministries International, a London-based charity seeking to promote Christianity, is being investigated by the regulator after concerns were raised around late filing of financial information and a failure in the administration which resulted in significant losses to the charity. The regulator said it is concerned over the trustees' unwillingness to report serious incidents after it found two alleged incidents of fraud by former employees involving significant sums, both of which were not reported until a number of years after the frauds were discovered.

INSTAGRAM LAUNCHES NEW DONATIONS TOOL

Instagram has launched a new donation tool, enabling charities and donors to create a 24-hour fundraiser through the social media site. Eligible charities will be able to create an Instagram story, add a donation 'sticker' and start raising money for a cause, all as part of a new initiative announced by Instagram earlier this year. The one-click sticker is designed to encourage followers to click through to a charity or non-profit of their choice and donate to a good cause. The announcement of the tool was made at the Facebook Community Summit at the company's HQ earlier in the year. It followed an announcement made by Facebook – the owners of Instagram – in November last year, which said people had raised over $1bn for charities through Charitable Giving on Facebook.

CHARITIES REPORT LOSSES OF £8M TO FRAUD

Charities have lost almost £8m as a result of fraud, according to figures from Action Fraud, obtained by RSM via a freedom of information request. The figures, handed to RSM by Action Fraud, the UK's national fraud and cyber-crime reporting centre, revealed charities submitted 1,057 reports about fraud in 2018-19, with average losses per case totalling £7,428. Employee fraud accounted for the highest level of fraud losses (£1.685m), followed by abuse of a position of trust (£1.627m) and mandate fraud (£1.232m). The highest number of identified complaints were about mandate fraud (173), followed by employee fraud (95) and hacking (62).

REGULATOR APPOINTS INTERIM MANAGERS TO HEALTH CHARITY AMID MISMANAGEMENT CLAIMS

The Charity Commission has appointed interim managers to a health charity amid concerns of mismanagement of the charity's funds. Two new managers will oversee the Island Health Trust while the charity regulator examines some concerning activity at the charity,

"[The fundraising community] is predominantly made of women, but too many of them have experienced sexual harassment. We must get our house in order."

including the application of charitable funds and relevant decision making by the former trustees. The charity's primary cause is to promote the provision of primary healthcare within the London boroughs of Tower Hamlets and Newham.

CHARITY TAX RELIEFS NEED 'URGENT OVERHAUL', REPORT FINDS

Charity tax reliefs offered to UK charities 'urgently need an overhaul', according to a new report from the Charity Tax Commission. The Charity Tax Commission is an independent group led by the former chairman of the Inland Revenue (HMRC), Sir Nicholas Montagu. It was commissioned by the National Council for Voluntary Organisations (NCVO), to review the tax reliefs of charities in 2017. A report, *Reforming charity taxation: towards a stronger civil society*, published by the commission today, revealed a number of proposals that would drastically overhaul the existing tax relief system for charities. Its proposals include changes to the rules surrounding Gift Aid and other reforms that could incentivise giving and offer financial protection to UK charities.

CASS PROFESSOR APPOINTED DEPUTY LIEUTENANT OF GREATER LONDON

The director of Cass Centre for Charity Effectiveness, Paul Palmer, has been selected as a deputy lieutenant of Greater London. The Lord Lieutenant of Greater London, Sir Kenneth Olisa OBE, appoints deputy lieutenants who are well known for their service to the community through their public life, charitable activities, voluntary service or uniformed services. Professor Palmer has provided Sir Kenneth with a written assurance that he will continue to serve the community and that he will assist in the performance of any public duty which may be laid upon the Lord-Lieutenant.

BHF CHIEF EXECUTIVE TO RETIRE

The chief executive of the British Heart Foundation, Simon Gillespie, is set to retire at the end of the year after almost seven years in post. Gillespie joined the British Heart Foundation (BHF) in 2013, following seven years as chief executive of the Multiple Sclerosis (MS) Society. This year, Gillespie was honoured with an OBE in the Queen's Birthday Honours List, recognising his service to patients and medical research.

CHARITY SECTOR WARNED TO 'GET ITS HOUSE IN ORDER' ON SEXUAL HARASSMENT

The charity sector has been warned to get its 'house in order' on sexual harassment to make fundraisers feel safer in their working environments. Institute of Fundraising chair, Amanda Bringans, said "too many" women have experienced sexual harassment in the fundraising community and the sector must ensure safety is a priority throughout organisations. "We are a profession that is predominantly made of women but women are still not proportionally represented at senior levels. But more than that, too many of them have experienced sexual harassment," she said."We must get our house in order. Every single current and future fundraiser needs to be safe and feel safe in their working environments."

CO-OP FOUNDATION LAUNCHES NEW FUNDING FOR COMMUNITY-BASED CHARITIES

The Co-op Foundation has launched new funding to help young people advocate to improve community spaces. Grants form part of the Foundation's £3m extension to its #iwill Fund. Community organisations across England are being encouraged to apply for grants of up to £35,000 to help young people have a say in how community spaces are managed.

REPUTATIONAL RISK POSES BIGGEST THREAT TO FUTURE OF CHARITY, REPORT FINDS

Reputational risk poses the biggest threat to charities over the next five years, while funding remains the biggest concern to charity leaders in the short-term, a report has revealed. The inaugural *Charity Risk Barometer,* published by Ecclesiastical, surveyed 200 charity leaders about the biggest risks facing their organisations over the short- (12 months), medium- (1-3 years) and long-term (5 years). Survey results revealed that in the wake of the Oxfam safeguarding scandal, reputational risks are high on charities' agendas, with just over a quarter (26 per cent) of leaders claiming it poses the biggest threat to their charity over the next five years.

TRUSTEES SEE ECONOMIC UNCERTAINTY AS BIGGEST CHALLENGE

Charity trustees believe the economic uncertainty facing the sector in over next year will be significant, with 35% saying that navigating the current uncertain economic environment is the most significant challenge, closely followed by the risks of an unclear political situation in the UK (23%). According to a survey conducted by OLIM Investment Managers, the fears

surrounding the economic and political environment dwarfed operational concerns, such as the challenges of staff retention and recruitment (15%) and increased governance requirements (13%).

REGULATOR INQUIRES INTO FINANCIAL MANAGEMENT OF UNREGISTERED CHARITY

The Charity Commission has opened an inquiry into the financial management of an unregistered charity. Sikh Youth UK is not a registered charity, but the regulator has jurisdiction as its funds are held for charitable purposes. However, the regulator is examining whether those in control of the funds have properly exercised their legal duties and responsibilities. It will also look into the financial management of the charity as a whole; whether there has been private benefit to the trustees of the organisation; the organisation's partnerships with other charities; and the conduct of the trustees.

New research to investigate racism in the charity sector

A NEW SURVEY BY ACEVO AND VOICE4CHANGE WILL INVESTIGATE THE OCCURRENCE OF RACISM WITHIN CHARITIES IN A BID TO TACKLE WIDER INEQUALITIES WITHIN THE SECTOR

ACEVO and Voice4Change England have launched a new survey to investigate the occurrence of racism within the charity sector.

The survey comes as part of the joint project *Making diversity count in the charity sector*, which was launched by the organisations earlier this year.

BAME charity employees will be asked about their experiences of racism in the sector, with the view to catalyse a more equality-focused, diverse and inclusive charity sector and improve sector diversity by putting BAME voices at the heart of the conversation.

The survey forms part of the research phase of the project, and is open to BAME individuals who have been working in the sector for any period over the past five years, whether as staff, trustees or volunteers.

It will explore how race and ethnicity affect individuals' experiences of charities, in areas such as recruitment, personal development opportunities and incidents of racism.

The results from the survey, alongside findings from roundtable events and in-depth interviews, will help to re-energise the drive towards greater equality, diversity and inclusivity across the sector, the organisations said. The survey is open until 30 September 2019.

Making Diversity Count in the charity sector has been funded by a grant of over £67,000 from The National Lottery Community Fund.

Voice4Change CEO Kunle Olulode said: "If the charity sector is to fulfil its promise as an agent of progress, it needs to build diversity, equality and inclusion into its DNA.

"Change means that we listen to the voices, experiences and ideas of BAME employees in charities. Leadership in charities is also essential, which is why we are excited to be working with ACEVO to develop practical solutions charity sector a place where everyone is the 'right fit'."

ACEVO chief executive Vicky Browning added: "Despite widespread awareness in the sector of these facts, progress towards greater diversity has been slow and, too often, not inclusive of BAME voices."

The project is just one of many designed to address the sector's inequalities. In July, the Institute of Fundraising released a new strategy for equality, diversity and inclusion in the fundraising profession.

The new strategy sets out why change is needed – the business case for equality, diversity and inclusion – and the approach needed to be taken by the Institute and the wider charity sector, to ensure individuals from all backgrounds are recruited, retained and progressed within the sector.

Using evidence it obtained, the IoF and its board of trustees identified four key inequalities to be addressed in the strategy, including:

- Underrepresentation BAME fundraisers
- Underrepresentation of disabled fundraisers
- LGBT+ fundraisers are not always able to be open in the workplace
- Women form the majority of the profession but are not proportionately represented at a senior level.

The strategy takes forward the commitments set out in the IoF's Manifesto for Change, identifying 16 initial activities to deliver a more equal, diverse and inclusive profession. Key activities include:

- Commissioning research on the under-representation of BAME fundraisers in the profession, including on the barriers to entry and progression, and research on women in leadership roles.
- Developing an EDI Recruitment Toolkit to help organisations recruit more BAME, disabled and male fundraisers.
- Developing IoF's approach to Affinity Network and role models for BAME, disabled and LGBT+ fundraisers.

A new Equality, Diversity and Inclusion Committee has been formed by the IoF and will be chaired by IoF trustee, Carol Akiwumi.

Diary dates 2019

The latest events occurring across the charity sector

CHARITY TIMES AWARDS 2019
2 October 2019
Park Plaza Hotel, London
Now in their 20th year, the Charity Times Awards are free to enter and reward excellence across almost 30 categories. The best individual charities will be recognised, alongside specific areas including community involvement, corporate partnerships, fundraising, campaigning, use of technology, and many more. Shortlisted entries will be evaluated by an independent expert judging panel, and the winners announced at a black tie ceremony on 2 October 2019.
charitytimes.com/awards

CHARITY PENSIONS ROUNDTABLE
10 October 2019
Searcy's at the Gherkin, London
The Pensions Regulator will soon be consulting on a revised funding framework, following a number of high-profile cases of failing employers leaving behind underfunded pension schemes. But what does this mean for charities, and what will the regulator's new 'long-term funding targets' look like? Join Charity Times, together with Barnett Waddingham, to discuss some of these issues and more at this highly topical roundtable discussion for charity finance professionals.
charitytimes.com/roundtables

CHARITY INVESTOR'S FORUM ON CLIMATE CHANGE
22 October 2019
One Birdcage Walk, Westminster
In this hugely topical half-day conference, a selection of climate and investment experts will explore the huge challenges posed by global warming, and set out some of the simple steps charity investors can take to ensure they are creating an impact within a rapidly reducing time frame. The event welcomes finance directors, trustees and managers who are responsible for the charities investment portfolio for charities with an income of £1 million and over.
charitytimes.com/investorsforum

Not to miss...

NCVO TRUSTEE CONFERENCE
4 November 2019
The Brewery, London
ncvo.org.uk

SAVE THE DATE: CHARITY TIMES ANNUAL CONFERENCE
6 May 2020
Waldorf Hilton, London
charitytimes.com/conference

SAVE THE DATE: BETTER SOCIETY AWARDS 2020
14 May 2020
London
bettersociety.net

SAVE THE DATE: CHARITY PROPERTY ROUNDTABLE
Date TBC 2020
Searcy's at the Gherkin
charitytimes.com/roundtables

If you have any charity events to promote please contact linda.libetta@charitytimes.com

People on the move...

The latest appointments from around the charity sector

If you have any appointments to announce please contact lauren.weymouth@charitytimes.com

BARONESS BARRAN

Baroness Diana Barran has been appointed as the new minister responsible for civil society, under Nicky Morgan's Department for Culture, Media and Sport. Barran, who has extensive experience in the charity sector, takes on the role after Mims Davies announced she was moving over to the Department for Work and Pensions.

DEBORAH ALSINA

Independent Age, the older people's charity, has appointed Deborah Alsina MBE as its new chief executive. Alsina has been chief executive of Bowel Cancer UK for 10 years and will join Independent Age in October 2019. She has won a number of awards during her career in the sector, including Charity Principal of the Year at the Charity Times Awards 2018.

DAVID MCAULEY

Bath-based charity, **Julian House**, has announced the appointment of David McAuley as its new chief executive. He joins the charity after a career working in the commercial and voluntary sectors. His notable roles have included being CEO for Trussell Trust, whose countrywide reach has achieved a significant reduction to UK hunger.

KATE SILVER

The Royal Star & Garter Homes has appointed Kate Silver as its director of people. She will replace director of human resources Siobhan Creighton, who is retiring after almost two decades with the charity. The Royal Star & Garter Homes cares for ex-Servicemen and women and their partners living with disability or dementia.

GRETHE PETERSEN

Orchid Project has appointed Grethe Petersen as its new CEO. This follows the announcement that Julia Lalla-Maharajh OBE will be transitioning from her role as CEO & founder, to founder & ambassador. Grethe will bring her deep commitment to the rights of women and girls to Orchid Project's vision of a world free from female genital cutting (FGC).

PAUL REDDISH

Volunteering Matters, which enables people to participate in their community through volunteering and social action programmes, has appointed Paul Reddish as its new CEO. Oonagh Aitken, who has been CEO since 2012, will step down from the role this year. Reddish will join the charity from ProjectScotland, where he is currently chief executive.

CERI RITCHIE

CLAN Cancer Support has appointed Ceri Ritchie to its trustee board. Ritchie has joined CLAN after volunteering with Friends of CLAN Stonehaven for the past three years. She is a food and drink industry specialist and is currently a sector manager for food and drink at SAC Consulting. She is also a skills ambassador for the Food and Drink Federation Scotland.

ROSIE FERGUSON

The House of St Barnabas has appointed Rosie Ferguson as its new CEO. She was most recently chief executive at Gingerbread, and held the same role at London Youth. She is also chair of ACEVO and a trustee at the Centre for London. She will replace outgoing CEO, Sandra Schembri, who leaves the organisation after ten-years at its helm in July.

MARIE STAUNTON

Marie Staunton CBE has been announced as the new chair of trustees at **ActionAid UK**. She will take up her position in Autumn 2019. She joins the charity with 30 years' experience in the international development sector and has received a CBE for her humanitarian work with women and girls. She is also trained as a human rights lawyer.

ALEX HYDE-SMITH

Alzheimer's Society has appointed Alex Hyde-Smith as its director of fundraising. He brings a wealth of experience in the charity sector and joins from Marie Curie, where he where he spent eight years. He progressed from working in the individual giving team to becoming fundraising director with the charity. He started his career working in market research.

ANNA SMEE

UK Youth chief executive Anna Smee is joining **Youth Futures Foundation**, a £90 million endowment, as its first CEO. The foundation has been set up with the aim of removing the barriers preventing disadvantaged youths from getting jobs, with a particular focus on the ethic disparities in youth employment. It was established in February 2019.

Governance

"DOES GREAT POWER REALLY COME WITH GREAT RESPONSIBILITY, OR IS IT MORE ACCURATE TO SAY GREAT RESPONSIBILITY DOESN'T ALWAYS COME WITH THE POWER?"

CARON BRADSHAW IS CHIEF EXECUTIVE OFFICER OF THE CHARITY FINANCE GROUP

I was recently discussing the challenges of charity governance with a colleague and a quote from Spider-Man's Uncle Ben came to mind (I may not be the first person you'd associate with Marvel Heroes, but I do love a great quote). He said: 'With great power comes great responsibility.' I wondered – are power and responsibility really found in the same place in charities, and if so, is this a problem?

Our discussion covered common governance themes; paying trustees and unitary boards. In both cases, these proposals felt a bit like answers in search of a question. It made me wonder exactly what problem we were trying to solve and why charities have the governance structure they do.

Governance in charities grew out of trust law over many centuries. Our first charities emerged from wealthy and privileged individuals and establishments providing for the poor and needy. It was less about partnership and more about paternalism – and this extended to governance. Trustees decided and 'staff' executed their wishes. We've never really stopped and asked whether we would do it like this if we started again.

For a very long time, charities of all sizes have had boards of trustees with ultimate responsibility for everything, and in recent years – even as people have been growing ever busier – we've piled more and more responsibility on their shoulders.

Whilst some charities may struggle to recruit trustees, there are still large numbers of people willing to hold the position. But we have to ask ourselves whether great power really comes with great responsibility, or if it's more accurate to say that actually great responsibility doesn't always come with the power.

Is our current governance approach fit for purpose? Is it useful or appropriate for the board to carry the can for every action rather than the executive? Boards dip into an organisation circa four times a year and trustees' knowledge may be limited by what is put in front of them by the executive. They risk being held responsible for things they had no idea about. Have we spent enough time thinking about what governance is actually for, and what we want to get out of it?

Julia Unwin wrote about the five modes of governance: strategy, scrutiny, support, stretch and stewardship. Great governance gives you all of these – remove any one and a charity can become dysfunctional. Does the weight of ultimate responsibility for everything undermine a board's ability to deliver on all five? After all, it can be difficult to make the right long-term decisions, be supportive and stretch the performance of your charity if you're liable when the proverbial hits the fan.

Further, do we really want the same mode of governance at every charity? Do permanent endowments need the same governance as those which provide public service delivery? Do the tiniest charities need the same board structures as the largest?

My point is not that I have the answers, but more that we need to give them, as a sector, the consideration they deserve. Rather than saying 'we need to pay trustees' or 'we need unitary boards', it might be more fruitful to stand back a little further and ask what we want out of governance. If you were starting with a blank sheet what would you design for modern charity?

For me the answer to the first part is; well-run charities who balance risk and ambition – always acting in the public interest and always putting beneficiaries at the heart of what they do. For the second question, the answer will be very different for different parts of the sector, and this may mean some redesigning and investment in change. To not do so would be false economy. Few things are as expensive as bad governance.

Let's not get side tracked by whether trustees should be paid or whether staff should sit on boards and instead, let's ask: what governance structures do charities need to ensure those with the great power also have the great responsibility so together we can deliver great change? ■

Diversity

"WHEN PEOPLE FEEL INCLUDED, THEY FEEL VALUED. IF THEY FEEL VALUED, THEY GO THE EXTRA MILE. YOU WIN, THEY WIN, YOUR ORGANISATION WINS."

Most people accept that diversity and inclusion are both really good things. But how do you go about actually being more inclusive?

Here are four things you can do today to be a more inclusive leader:

1. Develop more diverse networks

All of us are driven by unconscious bias. We instinctively feel more comfortable with people like us. It's human nature. But research from Oxford University into racial diversity has shown that the more we come into contact with people who are different from us, the more tolerant of difference we become.

Look at the people around you: colleagues, friends, family, the people you engage with regularly on social media. Now ask yourself, 'how different are they from me?' If the answer is 'not much', brainstorm five ways to include people in your life who look different, think differently, are older/ younger, have different political views, come from a different culture – you get the picture.

The more you engage with people who are different from you, the more 'normal' difference will feel, which, in turn, will affect how you manage and include difference within the workplace.

2. Invite challenge

The next time you are solving a problem or making a decision, ask your team to pull apart your thinking and ask them to find the flaws or come up with different ways of approaching it from you.

'But I'm a team player,' I hear you cry. 'I always involve teams in discussions.' Trust me – that is not the same thing. If you are in a leadership role, there will always be a power dynamic at play, even if you are unaware of it. Whether that's about people feeling less able to challenge you or just leaving the thinking to you because you are the boss, is it there. Asking people to actively challenge your thinking can be uncomfortable but it will almost always lead to better solutions.

The important thing is to allow yourself to be influenced by different ideas and then act on them. If you invite challenge and then consistently ignore it, soon, people will just stop sharing their thoughts with you.

3. Listen – no really, listen

Be honest. In discussions, are you truly listening to what somebody is saying, or are you just waiting for your turn to speak? Do you listen to others to work out how to dismiss their points or how to convince them you are right? Do you prefer to talk to people who agree with you? Or, heaven forbid, do you interrupt people before they've finished speaking?

Next time you are in a conversation, step out of yourself and try and observe what is going on in your head. Are you really listening to what the person is saying? Or are you just formulating responses, distracted by other thoughts, or feeling that heat in your head when someone says something you disagree with?

If you catch yourself doing anything other than purely listening, stop and refocus all your attention on what is being said. This takes quite a bit of practice, but with time you will become a much better listener.

Let's face it: we all know when someone is smiling, nodding but isn't listening to us. Do you really want to be that 'someone'?

4. Say thanks

Thank people who challenge you and tell them how they changed your way of thinking. If you don't tell them, they won't know, and they may not share their killer ideas with you quite so freely in the future.

You know this already: when people feel included, they feel valued. If they feel valued, they will go the extra mile. You win, they win and your organisation wins. Pure and simple. ■

SRABANI SEN IS CEO AND FOUNDER OF FULL COLOUR AND CHAIR OF 38 DEGREES

Trading

"MANY TRADING STRUCTURES HAVE ADDED TO THE COMPLEXITY OF RAISING CHARITABLE FUNDS. PERHAPS IT'S NOW TIME FOR A RE-THINK."

GILLIAN MCKAY IS THE HEAD OF CHARITIES AND VOLUNTARY SECTOR AT THE ICAEW

A recent paper published by accountancy firm Crowe proposes that the existing limits on charity trading be radically reformed. The paper has garnered support of both Charity Finance Group and ACEVO.

Many charities may be unaware that they are in fact trading. There is no strict definition of trading, however HMRC often refer to the 'badges of trade' to determine whether an activity is a trade or not. The important point to remember is that it is a question of whether the activities fit with these badges - not whether the activity is carried out by a charity, which will determine whether the activity is trading or not.

There are currently a few concessions allowing charities to trade. These are primary purpose and ancillary trading concessions – trades carried out by the charity's beneficiaries or trading which falls below the small trade concession.

Charity trustees are under an obligation to protect the charity's assets from undue risk. Trading carries additional risks, and in order to protect the charity from this increased risk, many trustees opt to carry out trading through a non-charitable trading subsidiary. This also has the added advantage of not having to ensure the trading activities fit within the restrictions of the charitable trading concessions. Providing the subsidiary donates all its profits to the parent charity then it does not suffer corporation tax on these profits.

However, the use of subsidiaries adds to the charitable group's accounting, audit and legal fees. It also demands more from the governance structure, a separate board of directors and, potentially, sub-committees. Not all subsidiaries avoid a tax charge. The difference between accounting and tax treatments of profits may mean some profits remain taxable and some subsidiaries may not be in a position to gift aid all the profits as they need the working capital for the subsidiary's own purposes.

Furthermore, the assumed protection of charity assets achieved from the use of the subsidiary may in some ways be an illusion. Many trustees do not apply the same scrutiny to activities carried out within the subsidiary as they would those carried out within the charity, often from a belief that risk is somewhat ring-fenced once it is outside the charity. This may not be the case and therefore the use of subsidiaries may not provide the protection envisaged.

The new proposal suggests the current limitations on charity trading should be set aside and to permit charities to conduct all trades without the need for a subsidiary. This would in effect treat all trades as primary purpose with a proposed cap on the amount generated of up to 25% of total income.

The argument for this is compelling – it has the potential to save charities legal and accountancy fees on the set up and management of charity subsidiaries.

Further debate will probably be needed on this matter if it is to go forward, and potential problems will have to be addressed. All trading, by definition, cannot be primary purpose. The proposal will significantly increase the scope of non-primary activity that can take place. But, at present, losses on non-primary purposes constitute non-charitable expenditure. Income applied to non-charitable expenditure loses its charity tax exemption and the income used to make non-charitable expenditure would become taxable.

Therefore, it is perfectly possible that there could be an increased use of accountants trying to structure ways in which costs are allocated to ensure the non-primary trading remains profitable. Then, there could be additional legal fees in any circumstances where those structures are challenged by HMRC.

However, this is a very interesting proposition and hopefully one that will generate debate. Certainly many charities have developed trading structures they probably do not need and which have added to the complexity of raising charity funds. Perhaps it is now time for a re-think. ■

Taxation

"IT'S A PARTICULARLY APPROPRIATE TIME TO BE LOOKING AT CHARITY TAXATION. WE WANT A TAX SYSTEM THAT WORKS WELL FOR DONORS AND CHARITIES."

Across the country fundraisers are inspiring people to support the causes they care about. I see the passion, the commitment and the dedication among our profession constantly improve by looking at innovative approaches, building relationships, and delivering truly excellent fundraising.

But I also see there are opportunities for the wider public policy environment to do more to support and promote charitable giving. One of the big areas of potential is in improving the system for charity taxation, so I was really pleased to take part in the Charity Tax Commission, set up by the NCVO, and to see it publish its recommendations in July.

It's a particularly appropriate time to be looking at charity taxation. It's been 20 years since the last review of charity tax reliefs – not only is Tony Blair no longer PM, but the way fundraising happens and the way people give is very different now. Some tax-effective ways of giving have moved on, while others are being shoe-horned into a tax system that can sometimes struggle to keep up. At the same time, the economic challenges facing society, individuals and our sector mean that every single pound has to work as hard as it can to maximise value in making the world a better place.

The Tax Commission took a fundamental look at the charity tax system, and I was pleased to join the reference group for the work, chaired by Nick Montagu. The IoF and Remember A Charity team worked with our members to put forward recommendations on how charity tax could be improved.

We want a tax system that works well for donors and charities. That means: maximising the value of donations, directing tax reliefs towards charities wherever possible, and providing an incentive for people and companies to give.

Changes by government towards these objectives would act as a powerful signal in public policy: recognising that donating to charities is a positive social action to be encouraged, a strong behavioural nudge, and that the government supports charities by providing relief from tax where it can. At this point in time we also have a new government and getting new ideas and positive recommendations across their desks is a priority.

Among the recommendations included in the Tax Commission's report, I've picked out a couple that could make a real difference to the causes we serve:

• I'm really glad that the idea of introducing a VAT exemption to the cost of writing a Will where there is a charitable legacy has been included in the recommendations. It's something that the IoF and Remember A Charity have developed as one of the initiatives to promote legacy giving and make it a social norm. The driving purpose is that it embeds a charitable nudge in the will writing process – every solicitor, will-writer or even online platform would have to bring the exemption to the will-writers attention. When you consider that 40% of people say they would give a gift to a charity in their will, but only 7% currently do, you can see how this nudge might deliver millions for charitable causes.

• It should be easier for people to give the full value of tax relief to the charities they support by introducing a default that charities receive the benefit of higher rate tax through Gift Aid. Currently, charities only receive basic rate tax, with the rest of the tax relief available to individuals. While this might be an incentive for some higher rate tax payers, it also creates an innate unfairness in that it makes it cheaper for richer people to give. By making the default beneficiary of tax relief the charity, we are likely to get the most value to charitable causes while also making the system fairer.

As Peter Kellner said at the launch of the report, we don't do this kind of work to feel good about coming up new ideas, we do it to provoke real change.

At the IoF we'll be working with our members and partners to see how and where we can contribute to making these recommendations a reality. ■

PETER LEWIS IS CHIEF EXECUTIVE OF THE INSTITUTE OF FUNDRAISING

Property

"I HAD A PROBLEM WITH THE WORD 'PROPERTY'. ALL CHARITY ACTIVITY IS PLANNED AND DELIVERED IN BUILDINGS AND THAT'S WHAT WE SHOULD BE DISCUSSING."

ANTONIA SWINSON IS CHIEF EXECUTIVE OF THE ETHICAL PROPERTY FOUNDTION

Titles are important. They are a signal not just of content but of intent: they set the scene you want to paint; the angle of your arguments. Earlier this year I was asked to give a speech to a charity property conference. It was a great event, but I had a problem with the over-use of the word 'property'.

In my view, the word 'property' is a cool, emotion-free, people-free word, which describes an asset class; a commodity to be bought, sold and sweated; an income generating opportunity. The trouble is that our sector is all about people. And therefore, I argued that all voluntary sector activity is planned, administered, promoted and delivered in buildings and that's what we should be discussing. But what's new in the realm of buildings? So true to the title of my speech, here are the six fastest growing charity trends around buildings:

1. Brexit

However sick of the process, politics and the uncertainty we are, it has already proved a property game changer. Commercial rents are falling in many areas. A canny hard negotiating charity could really improve its address and office environment.

2. Systemic shifts in the work place

These three are arguably exacerbated by Brexit, but they have been building for a while, driving down the need for a dedicated desk space per employee.

i) Demographics: Given the old age pension changes, more 60-somethings are working longer and looking for flexible part-time working. There are also signs that the millennials and their younger siblings now enjoy working part-time for a work/life balance, which errs more on the life part. Experiences and time off to travel and study matter. Lots.

ii) Transport: Sky high transport costs – the highest in Europe – are driving working from home. It's a cheap way to retain, reward and motivate staff and save on office space.

iii) Cloud-based technology means we can work as if we are in an office and make easy conference calls.

3. The high street

Commercial landlords with empty retail premises are only just getting to grips with the concept that upward-only rent reviews may be history. Long term, this could mean charities start negotiating hard and one might even dare to imagine a more enlightened planning system driven by cash-strapped councils, with high streets transforming into hubs for civil society and moving beyond charity shops.

4. Change of landlords

We first flagged it up in 2018 in our *Charity Property Matters Survey* that not for profit groups are moving from being local authority tenants to the commercial office sector as local authorities sell or develop their estate or stick commercial rents onto community property. Get advice asap – commercial landlords just don't tick like us!

5. Cheap money

Low interest rates = good deals for charities seeking to borrow money to buy buildings. We have seen increasing interest in charities coming to us for training and support in becoming landlords to other charities. This can only grow with moves to cheaper outer suburbs.

6. Lots of micro markets

These are driving property acquisition, such as free schools and, as I wrote recently in CT, evangelical faith groups. Whatever the position charities find themselves in, we are seeing a much greater awareness of the role property plays in a charity's fate and future. Good news. There is also greater willingness to seek help more quickly than in previous years. The hardships of austerity economics have made us a much more robust, resilient and self-reliant sector. If, of course, our organisation has managed to survive.■

Profile: Kate Bratt-Farrar

A leader at heart

THE NEW CHIEF EXECUTIVE OF HEART RESEARCH UK TALKS TO DAVID ADAMS ABOUT LIFE, LUCK AND THE JOYS OF WORKING FOR A SMALL BUT MIGHTY CHARITY.

Kate Bratt-Farrar says, often, how lucky she has been in her life and career. Yet she may be living proof of the old adage that you make your own luck – and she has also suffered some very bad luck, in both her professional and personal life.

She grew up in Addingham, a large but picturesque village in West Yorkshire. When she was ten, her mother died of cancer, and she thinks this was the root cause of a period of bad behaviour that lasted several years, including "some issues with school attendance". She says she feels very lucky that she was bright enough to do well at school anyway.

She then took a degree in Social Policy and Women's Studies at the University of Bradford, which focused her social conscience. "By the third year of university I thought 'I'm going to work in a women's refuge'," she says. In fact, after a short spell running a restaurant, she entered the civil service, working at the Department of Health, which had moved about half of its staff to Leeds in the late 1990s.

There she spent a year and a half working on child protection and public health policies, but it became clear that if she wanted to keep working on these subjects while rising through the ranks of the DoH she would need to work in London. By now she was married to her husband, John, who also worked in Leeds, and they had no desire to move south, to what they felt sure would be a lower quality of life and a higher cost of living. Instead, in 2003, Bratt-Farrar stayed in Leeds but moved into the charity sector, as a policy officer at Save the Children.

It was tough – "my husband likes to remind me that I cried quite a lot in the first year…" – but she thrived, focusing on child poverty and children excluded from education. Between 2007 and 2008 she was acting head of policy, research and communications at the charity, giving her valuable experience of running a team. "It was a great place to work. I was really lucky," she says now.

Moving on

But by 2008 she felt it was time to move on – and this time she and John did leave Yorkshire, moving to Carmarthen in South Wales, where she become head of research and education at Cerebra, which supports children with medical conditions related to the brain.

This was a much smaller charity, but one with a national reach and Bratt-Farrar was soon sitting in on board meetings and reporting to the chief executive. "It was a great two years: I learned so much." But a return to Yorkshire to be closer to their families was always likely

sooner or later. In 2010, Bratt-Farrar saw the job of chief executive at Leeds Women's Aid advertised: an opportunity to lead an organisation that ran women's refuges and other services across the city.

"I thought, 'I haven't got a chance'," she says. "But I also thought, 'give it a go – you never know'."

It was luck that the right opportunity had arisen at the right time, but her ability, rather than good fortune, ensured she was offered the job. What she didn't know was that many of the refuge, outreach and children's services the charity ran were about to come up for tendering. Just a few months into her tenure most of those contracts had been lost and Bratt-Farrar found herself leading a rebuilding process. It would last more than five years, but she and her determined, close-knit team would eventually win back all the contracts they had lost.

During this period she also experienced another personal tragedy: after getting pregnant for the first time, her baby daughter was stillborn. "You've experienced the most horrible thing in the world, but aside from the grief, it changed me as a person in some positive ways," she says. "I came to think, if you don't try stuff, what's the point? The worst thing that could happen has already happened. I think that drove my leadership style."

As well as leading the renewal of the organisation, Bratt-Farrar also helped to create Women's Lives Leeds, a partnership of 11 organisations that supports at-risk women and girls in the city, which she then chaired for two years. She also served as a trustee for national Women's Aid and for the Women's Counselling and Therapy Service in Leeds.

Bratt-Farrar says there is a list of causes that are important to her for various reasons and in 2017 she had an opportunity to support another of them, when she was headhunted to become director of the Sue Ryder Wheatfields hospice in Leeds. "Because my mum had died of cancer it was on my list to contribute to the hospice movement," she says. "They are amazing places."

Taking the opportunity

She led the hospice for two years, helping to take its Care Quality Commission (CQC) assessment status from 'requires improvement' to 'good'. It is a large organisation, with over 100 staff working alongside at least as many volunteers; and Bratt-Farrar also worked alongside the national senior management team at Sue Ryder. But she missed being a chief executive.

"That's why I left sooner than I would have chosen – chief executive jobs of national charities do not come up often in Leeds." In 2019 one such post did become available.

Bratt-Farrar admits that before applying to become its chief executive she knew very little about Heart Research UK. But since its formation in 1967, the charity has played a major role enabling research and medical advances into the prevention and treatment of heart disease and related conditions. It funded six of the first eight successful heart transplant operations and the first implantation of a permanent artificial heart.

It's a small organisation, with only 25 staff, but distributes about £1.5 million in medical research grants each year. It has also developed resources designed to help people living with heart conditions or recovering from heart surgery, including Physical Activity Toolkits for adults and children. It runs masterclasses for surgeons, doctors, nurses and other health professionals; and through a partnership with Subway it offers Healthy Heart Grants of up to £10,000 to community projects all over the UK that promote a healthy heart and aim to prevent or reduce heart disease.

New challenges

Still a new recruit, Bratt-Farrar is already full of pride for the range of work the organisation supports, for its "passionate and dedicated" staff and its ethos, based on a personal approach to every beneficiary and supporter.

"They want to grow, but in the right way," she says. "Any changes and plans we make have to come from the voices of our staff, of our grant recipients and other stakeholders."

Her top priority is the same as for any charity: securing a sustainable income. Unlike some other medical charities' leaders she isn't currently very concerned about Brexit having an adverse impact on the organisation – while still at Sue Ryder disruption to the supply of medication was a major worry – although she is wary of the uncertainty related to it: "We just don't know how it may affect things: about the impact it may have on incomes, aside from anything else."

Away from the office, she and John now live in Bingley, with their five year old twins, Daisy and Lily. Bratt-Farrar is also now a trustee at the Morrisons Foundation. She applied for the post in 2018, despite the foundation stating it was looking for individuals with experience of working in grant-giving organisations, which she, at that stage, lacked. But she contacted the organisation and pointed out that it might benefit from the insight that someone with extensive experience of working inside small organisations applying for grant funding would be able to offer. The trustees seem to have realised pretty quickly that she would be an asset to the board. One suspects that plenty of other people will reach the same conclusion, at Heart Research UK and elsewhere, in future. ■


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SCAN ME

COVER STORY

Ruffling feathers

In an age of hyper-sensitivity, how can charities run hard-hitting campaigns that have impact without falling foul of mass criticism? WRITTEN BY BECKY SLACK

Early July 2019, posters displaying fake cigarette packets and the words 'obesity is a cause of cancer too' started to appear on billboards around the UK. TV and radio ads followed, as too did messaging across digital and social media. Shoppers were handed fake cigarette packets containing chips.

They were all part of a renewed campaign by Cancer Research UK (CRUK) to raise awareness of the link between obesity and cancer. Its first outing a year before had been greeted with a barrage of criticism, and this latest phase was no different.

It's a message that is proving difficult to land in some quarters. As the ads went live, so too did social media, with people accusing the charity of fat shaming and inappropriate – even inaccurate – advertising.

Adding further fuel to the fire was an open letter and a petition calling for an end to the campaign, featuring signatures from more than 60 scientists and health professionals. They claimed that the campaign was "harmful and misleading" and that CRUK was creating a culture of blame by implying that "individuals are largely in control of and responsible for their body size (and therefore cancer)". They also criticised the charity's partnership with Slimming World, saying there was a clear conflict of interest due to the company's commercial interests.

Yet despite the condemnation, CRUK stood firm. It was ready for the backlash. Its team engaged with debate on social media, issued counter statements and directed people towards its scientific evidence.

"Our campaign is not meant to make anyone feel bad about their weight or make anyone think negatively about people who are overweight or obese; it is based on scientific evidence that we have a duty to put in the public domain," a spokesperson for CRUK tells *Charity Times.* It's a strategy that has paid off – in the immediate-term at least.

"When the campaign first launched, public awareness of the link between obesity and cancer went from 17% to 43%, and we've

since seen a similarly dramatic increase among MPs. When we're not actively campaigning, that awareness falls – so although we don't want to cause any offence, ultimately the campaign is doing what it needs to do," the charity says.

However, for all the positive results, it would be remiss to forget there have also been negative consequences for the brand, with many people on social media claiming they would cancel their donations as a result of the campaign – something that has highlighted the often delicate relationship between awareness-raising and fundraising.

"A charity brand has many things to achieve. Raising awareness is one, inspiring people to give is another," says Dan Dufour of brand agency BrandDufour. "I'm sure CRUK wouldn't want one area of the work to negatively impact the other. But if I'm a supporter and CRUK have offended me, am I going to turn to Macmillan instead?"

Lessons for others

If you're a charity looking to run a hard-hitting campaign but are feeling a bit nervous about doing so after watching the response to CRUK's obesity campaign, what should you be thinking about with regards to your approach?

"The most effective campaigns are built on clarity about why you are doing it, what action you want to happen, who you are talking to and what will trigger their action, as well as clear messaging and well-chosen channels," says Adeela Warley, chief executive at Charity Comms.

CRUK agrees, advising charities to consider their messaging according to the channel and audience. "For example, posters can be a blunt tool, but blogs and social media can provide a platform to explain further detail and data," their spokesperson says.

The age and experiences of the audience should be factored into planning, too. For example, while people of a certain age will remember the hard-hitting government and charity campaigns of the late 80s and early 90s – such as the Barnardo's baby with the cockroach in its mouth, and the AIDs campaign featuring grave stones – millennials haven't been as exposed to that style of advertising.

"That's probably why people have got their knickers in a twist, because the CRUK campaign has been more controversial than they are used to, particularly in comparison to adverts such as Sport England's This Girl Can, which is very positive and uplifting," Dufour says.

Internal and external stakeholder engagement will also be critical. "Controversial campaigns must be supported by a commitment to have responsive, open and honest conversations with supporters and critics, particularly in our 24-hour news and social media environment", notes Warley, something CRUK reiterates: "Stakeholder engagement, both internally and externally, should be a priority throughout the campaign cycle – not only gathering views, but also making sure everyone is thoroughly briefed and regularly updated. Don't forget about internal communications as part of this, especially for senior staff who may take on media interviews and public-facing teams who may need to answer questions," it says.

Importantly, the pros and cons should be considered. "Consider the ramifications, plan for them and be prepared. Sense-check the work and use PR to ensure the intended message is not misunderstood. Always refer back to your original objective, and if the positive outcomes outweigh the negative, you can justify it. So go for it but be willing to pull it and apologise if needed," advises Linn Frost, a partner at the advertising, media and music agency, Truant London.

"IF YOU TRY TO PLEASE EVERYONE, THE WORK GETS DILUTED AND LESS IMPACTFUL"

Here research can and does help. For example, despite what others may infer, CRUK knew exactly what it wanted to say and how to say it – in part thanks to the extensive research it did beforehand. This included speaking to people with a range of body weights to find out how best to communicate the message to the public, running an online survey of 1,000 members of the public and holding focus-group-style discussions to get feedback from people with experience of obesity, as well as smokers and ex-smokers, and people affected by cancer, along with independent obesity experts and public health organisations.

"People told us that we have a responsibility to give them the facts about cancer risk. We know from previous campaigns that the comparison of obesity and smoking focuses attention on this important message. We used the comparison to show how policy change can help people form healthier habits, not to compare tobacco with food, and we use straightforward language to make it factual rather than personal,"

says the charity's spokesperson.

Branding aside, there are other similarities between this latest obesity campaign and previous anti-smoking campaigns. Just as this one has coincided with debates around body positivity, self-acceptance and mental health, the very first anti-tobacco campaigns took place at a time when smoking was viewed as empowering, individualist and symbolic of freedom.

"It was incredibly difficult for ad agencies to get the message out and for the public to accept that their smoking habits could risk cancer. It has taken decades of persistent and consistent advertising to create stronger awareness of the link between smoking and cancer and to promote deterrent behaviours," says Usha Sundaram, a senior lecturer in consumer and digital marketing from Norwich Business School at the University of East Anglia, suggesting that it could take many years before the obesity message really sinks in.

Crucially, hard-hitting campaigns of this nature require courage, says Warley. "Charities must not be afraid to be bold and innovative in their communications. Campaigning by its nature is designed to punch through and drive change and this will always divide opinion," she says.

However, this isn't always easy or achievable for charities. "Charities are usually run by a committee, making it difficult to get clear, bold decisions," Frost reflects. "If you try to please everyone, the work gets diluted and less impactful. A charity has a duty to support and protect its beneficiaries. This makes being brave much harder as the consequences of getting it wrong are far greater."

Regardless, there's no hiding from the fact that to have impact, acampaign needs to stand out. As CRUK's team confirm: "Research has shown that raising awareness of an issue, getting it talked about and making it part of popular opinion paves the way for effective public health policy; this approach underpins our whole campaign." This means charities wanting to run hard-hitting campaigns have to accept that some people won't like what's being said.

"Anyone who takes a stand on something has to be prepared for the fact they're likely to offend someone and that it will be magnified on social media", says Sundaram. "This can be incredibly powerful but it is a double-edged sword, which is something charities will have to manage as part of their strategy."

However, as Dufour points out, some of the best campaigns are a bit like Marmite. "There is no point putting something out that is vanilla as it won't get a reaction," he says. "After many years of charities being scared of putting their heads above water, its good to see something that's getting everyone talking," he adds. "Love it or hate it, fair play to CRUK for being brave." ■

2019 charitytimes Awards

Charity Times Awards: the shortlist

The shortlist for the 20th annual Charity Times Awards has been announced, but who made the cut?

Best Use of Technology
- Astriid
- Macmillan Cancer Support
- Medair UK (with Qlik)
- RNLI and Greenwood Campbell
- Save the Children and Pearson
- Stem4

Fundraising Innovation Award
- The Change Foundation
- Pilgrims Hospices

Fundraising Team of the Year
- Alzheimer's Research UK Regional Corporate Team
- FareShare
- Noah's Ark Children's Hospice

Best Social Media Presence
- Battersea Dogs & Cats Home
- Football Beyond Borders
- RightsInfo
- Versus Arthritis

Change Project of the Year
- Age Exchange
- FareShare
- Institution of Occupational Safety and Health (IOSH)
- St Mungos
- Thirtyone:eight

HR Management Award
- Humanitarian Academy for Development (HAD)
- Parentkind

PR Team of the Year
- Electrical Safety First
- Epilepsy Scotland
- Living Streets

Campaigning Team of the Year
- Meningitis Research Foundation
- North East Autism Society
- Ovarian Cancer Action
- Pancreatic Cancer UK

Corporate National Partnership with a Retailer
- Alder Hey Children's Charity and Matalan
- British Red Cross and Co-op
- CLIC Sargent and Morrisons
- FareShare, Trussell Trust and Asda
- Shelter and B&Q
- Teenage Cancer Trust and Dominos Pizza Group

Corporate National Partnership with a Financial Institution
- Age UK, Barnardos and Santander
- Earthwatch, WaterAid, WWF and HSBC
- Greenhouse Sports and Prudential
- Rays of Sunshine and Deutsche Bank

Corporate National Partnership Champion
- Citizens Advice Plymouth and EDF Energy
- The Country Trust and Warburton's
- FareShare and Honest Crust
- Sustain, the Sustainable Restaurant Association and Heathrow Airport

Cross-sector Partnership of the Year
- Alzheimer's Research and Alzheimer's Society
- The CareTech Foundation and EY Foundation
- The Cellar Trust and The Bradford District Foundation NHS Care Trust and Bradford Metropolitan Local Authority
- Glass Door Homeless Charity
- Mayhew and Crisis

Corporate Community Local Involvement
- Berkeley Foundation and Crisis
- CPSL Mind and Jagex
- IntoUniversity and Deloitte
- School Food Matters

Corporate Social Responsibility Project of the Year
- Aldi
- Breaking Barriers and IKEA
- Hogan Lovells and Barefoot College
- Living Streets and Phoenix Group
- Medair UK (with Qlik)
- OVO Energy and the Conservation Volunteers

Information Security Innovation Award – in partnership with Charities Security Forum
- British Heart Foundation
- Electric Umbrella

Property Innovation Award
- Andrews Charitable Trust
- Caudwell Children
- Commonweal Housing
- St John's Hospice North Lancashire and South Lakes

Rising CEO Star
- Joanna Bega, Child Rescue Nepal
- Charlie Hay, Afrikids
- Stephanie Maurel, Condordia
- Bev Messinger, IOSH
- Gemma Peters, Bloodwise

Supporting Executive of the Year
- Phillippa Chapman, Encephalitis Society
- Peter Laurie, Battersea Dogs & Cats Home
- Kate Sheldon, Trees for Cities

Charity Principal of the Year
- Lindsay Boswell, FareShare
- Justin Humphreys & Steve Ball, Thirtyone:eight
- Kate Lee, CLIC Sargent
- Kirsty Smith, CBM
- Sue Threader, Rochester Bridge Trust

Charity of the Year: with an income of less than £1 million
- FACT – Fighting All Cancers Together
- Football Beyond Borders
- Migrant Leaders
- Switchback
- upReach
- Working Chance

Charity of the Year: with an income of £1 million - £10 million
- The ClementJames Centre
- Clinks
- Excellent Development
- OPEN Youth Trust
- Young Citizens

Charity of the Year: with an income of more than £10 million
- Brooke
- CLIC Sargent
- Community Integrated Care
- Penny Appeal
- Versus Arthritis

Boutique Investment Management Award
- Aberdeen Standard Capital
- Eskmuir Properties
- James Hambro & Partners
- Mayfair Capital Investment Management
- Rothschild & Co

Investment Management Award
- Brewin Dolphin
- Cazenove Charities
- Newton Investment Management
- Quilter Cheviot Investment Management
- Rathbones Investment Management Limited
- Smith & Williamson Investment Management

www.charitytimes.com/awards

OPINION

How funders can help a new generation of changemakers

Do we need new funding and support models for the new breed of community networks and activists? WRITTEN BY

ESTHER FOREMAN, CEO OF THE SOCIAL CHANGE AGENCY

In the summer of 2015, a small group of friends in London decided they wanted to do something to alleviate the worsening situation for refugees in Europe. They started a crowdfunding campaign, with the aim of raising £1,000 and filling a van with donations to take across to Calais. Within one week they had raised £56,000 and were soon receiving 7,000 items every day. Help Refugees was born.

Help Refugees is not the only example of citizens creating movements that jostle for space within public philanthropy. From Extinction Rebellion to Me Too, technology has enabled everyday citizens to organise outside of traditional 'third sector' spaces.

In response, funders are asking themselves how they can help sustain them, while larger charities are asking how to support them or build their own. The challenge comes when these institutions attempt to apply traditional paradigms of philanthropy to these new forms of citizen led-power and end up forcing a decentralised social movement to behave like an organisation. The answer lies in understanding and adapting to the golden thread that runs through these new forms of power: collective leadership.

The traditional recipe for helping volunteer groups scale doesn't suit these collectively managed, non-hierarchical movements. After all, how does a group with a flat structure, no single figurehead, no bank account and no address accept a grant? How does a network with a loose governance structure pass a Foundation's charitable test?

Decentralised movements and members face the same growing pains as any new enterprise. But they're taking grants and support designed for charities and social enterprises, not social movements. If they look for sustainability grants from trusts and foundations, they're being forced to structure decision-making to fit into the charity sector mould, which is counter-cultural for them and frustrating for the foundation, the charity and in some cases, statutory organisations like the NHS.

In some instances, grants are given to individuals within a group, who then shoulder the risk themselves. Aside from the risk of burnout, it can upset the power dynamic in flat, non-hierarchical collectives, causing conflict and paralysis.

The administrative burdens and uncomfortable shifts in responsibility that can occur with grant giving can be avoided. Funders can get transparency and accountability from grantees without the need for a board of trustees and regular management accounts reviews. The focus should be on clear and transparent decision-making and less on traditional governance structures.

Another approach would be to enable social movements to make the most of the grants they receive but at an arms' length from their funders' governance. We've worked with the Lambeth Portuguese Wellbeing Partnership and the UK Student Climate Network (UKSCN) in this way through our Nest service.

Most citizen activists we have spoken to want new, flexible funding and support which are less about traditional service delivery. But crucially, this support must come in a way which keeps these networks' collective leadership cultures intact. So let's forget the idea of a single 'heropreneur' or building an organisation to deliver change.

With the rise of non-hierarchical networks, the sector needs to adapt to the new citizen-led, collaborative leadership model. ■

COMMENTARY

Do charities have a problem with pensions?

What impact do pension schemes have on the running of charities? WRITTEN BY DAVID AINSWORTH, SECTOR SPECIALIST, CHARITY FINANCE GROUP (CFG).

Do charities have a problem with pensions? Well, yes. For some, at least, pensions problems are serious enough to threaten the charity's very existence. And the lion's share of the problems come from a single issue: the multi-employer defined benefit scheme.

Several thousand charities, for one reason or another, have found themselves with staff in a multi-employer scheme. Some charities joined a federated scheme. Others enrolled in custom schemes as a way of reducing costs or spreading risk. And perhaps most commonly, charities have found themselves involved in public sector schemes – most often where they have taken on a local government contract, and been required to join the Local Government Pension Scheme.

Multi-employer schemes share the problems of all DB schemes: a high-cost cocktail of falling interest rates, rising inflation and increasing life expectancy, which markets have not kept pace with – leaving most schemes with spiralling payments, and historical deficits.

For individual schemes, the answer is often to close to new members, or even to further accrual, institute a lower-risk defined contribution scheme, and pay down historical deficits.

But it's not so simple if you're in a multi-employer scheme, because you cannot choose by yourself to close the scheme, only withdraw from it.

If a charity wants to withdraw from a multi-employer scheme, they cannot manage down the deficit.

CHARITIES ARE IN A CATCH 22 SITUATION. THEY CANNOT AFFORD TO CONTINUE, AND CANNOT AFFORD TO LEAVE.

Pensions

Most often, they must pay it immediately.

What's worse is that payments made on this basis – known as a cessation or buyout debt, or a section 75 debt – are usually considerably higher than those identified on a continuance basis. Too high to pay, in many cases.

So charities in multi-employer schemes find themselves in a Catch 22 situation. They cannot easily afford to continue, and they cannot afford to leave.

Charities also know that the choice may one day be taken away. A charity can arrive at a cliff edge, where the last remaining member of staff wishes to retire. Apocryphal stories tell of charity workers left unable to retire without financially destroying the very organisation they have given their lives to.

Charities also face the issue of covenants. Charities in the same scheme may have vastly different financial positions from each other, and certainly from a state-backed entity. And a charity's true viability may not be fully reflected in actuarial calculations. The ability to persuade the public to give you donations, for example, appears nowhere on a balance sheet.

Two further wrinkles make the issue worse in some schemes. One is the problem of accounting equitably for workers who shuttle between employers but remain within the same pension scheme. In LGPS, when a worker transfers, so does their whole historical pension liability. Usually the worker also comes with a substantial payment intended to cover the preceding years. But that only covers any debt on a continuance basis, not a buyout basis. So if the worker leaves or retires, the charity can find itself with a shortfall.

The other is the "last man standing" arrangement in some schemes, in which orphan debt from failed organisations transfers to the remaining employers.

An extreme example is the Wedgwood Museum, which participated in the Wedgwood Pottery scheme. When the various Wedgwood trading companies went bust in 2009, the charity discovered it was the last man standing. It inherited a debt of £134 million to add to its own rather modest £100,000 shortfall, and had to fundraise millions to save its pottery collection.

Measures are now afoot to try to address this unsustainable state of affairs. Last year the Department for Work and Pensions introduced the Deferred Debt Arrangement, which means that if a charity stops employing an active member in a scheme, they are no longer required to pay all the debt at once. LGPS schemes, which operate on slightly different rules, are developing similar regulations. In Scotland legislation has been implemented. In England and Wales, a consultation closes at the end of this month.

DDA could be a great boon. However implementation is at the discretion of each scheme, and uptake so far has been modest. Such arrangements will avail charities little, if schemes cannot be persuaded to use them. ■

This piece was originally published in *Pensions Age* magazine, from the publishers of *Charity Times*.

Property roundtable:

CREATING PROPERTY STRATEGIES TO ENHANCE YOUR CHARITY'S MISSION

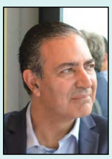
Sponsored by: Buzzacott BWB Bates Wells Braithwaite CLUTTONS

Roundtable

Panel:

Karli Hiscock is a partner at law firm Bates Wells

Jamie Huard is a partner at law firm Bates Wells



Socrates Socratous is charity VAT partner at Buzzacott

Antonia Swinson is CEO of the Ethical Property Foundation

Jamie Mccombe is head of investment management at Cluttons IM

Ralph Pearson is head of commercial agency at Cluttons

Investing your charity's funds in property – for occupational or investment purposes – can be hugely advantageous. Pumping money into the property market at the right time can help your charity to earn a considerable amount of income over both the long and short-term, and investing in prime locations is likely to earn you even more. But property can also come with a number of underlying issues that can have adverse effects on your charity's financial state and/or reputation, making careful planning absolutely essential.

Earlier this year, *Charity Times* held a roundtable discussion looking at what charity property strategies should look like during periods of economic uncertainty. The conclusion was that risk assessments and forward-planning were both fundamentally important.

But now, during a time of heightened sensitivity and reputational risk, property strategies are evolving. The need for careful planning is a given and investing in property runs the risk of being destructive if this planning doesn't take into account the ethical and societal issues involved. What is your charity for? What is its mission and what are its values? How will the property you are buying, renting or investing in complement that mission? Furthermore, how will it advance it?

Charity Times, in partnership with Cluttons, Bates Wells and Buzzacott, gathered a panel of property experts from across the charity sector to discuss how charities can include the answers to these questions in their property strategies; using property as a way of not only making an income – but of advancing their charitable mission, too.

Kicking off the discussion, Antonia Swinson, chair of the panel and chief executive of the Ethical Property Foundation, considers how property can sometimes trigger less than ethical behaviour. "Anyone who has ever played Monopoly will know that landing on property will often bring out the worst part of human nature," she says. "We make decisions for our beneficiaries and if

we are not careful, can forget the societal, environmental and community concerns that could be involved.

"What is our sector for? When decisions centre on property, they need to be aligned with our social mission. Charities do no exist in isolation. We are interconnected with our communities and society. " she explains.

A new generation

The good news is that there is a new generation of trustees and senior leaders who are looking at assessing whether the property they own is still fit for purpose, explains Ralph Pearson, head of commercial agency at Cluttons.

However, he notes how there are two common "blockers" that can prevent many of these leaders from taking societal and ethical issues into account. "Firstly: ownership," he says, "trustees in particular can find themselves wedded to buildings and can sometimes fail to objectively check on whether the accommodation is 'fit for purpose'. Legacy properties can add an extra layer of complexity, too."

The second blocker, Pearson explains, is restricted leases for tenants. "Charities that are renting assume they can't get out of their lease because alienation provisions are incredibly restrictive. But landlords are increasingly more open-minded. There are things you can do to unlock those restrictive causes. Can you take a longer lease? Pay a little bit more rent, perhaps? There are often solutions worth looking into."

"It really is just essential trustees

> *"Ask yourselves the question: is it appropriate for our charity to be doing that?"*

act in the best interests of their beneficiaries, keeping the purposes of the charity central to its decision-making," Jamie Huard, partner at Bates Wells adds.

"This means safeguarding assets and ensuring whatever decisions you do make surrounding property are made after asking yourselves the question: 'Is it appropriate for our charity to be doing that?'"

Community purposes

So how exactly is this carried out in practice? Huard provides an example of a situation where a charity and its trustees made an active decision to incorporate the charity's mission into its property strategy. "This particular charity was looking to sell the building they owned and had been looking at the Charities Act to understand whether price was the only consideration in relation to the disposal of the property".

However, there was an issue with affordable housing in the area – a problem that was exacerbated by low employment levels, with many people and key workers, in particular, unable to get into the property market, he says. "There were a number of community concerns involved for the charity."

"So, whilst they were going through a process of wanting to sell the property for the best price obtainable, they were also looking at whether there was a community element they could build into the process. They naturally felt a sense of responsibility to the community as this was part of their charitable objects," he adds.

"With this in mind, they sold the property subject to the buyer building a new community hall for the community to use and two keyworker flats and then selling the rest of the property for as much as possible," he continues. "But the point is that the trustees were clear they wanted to build a community element into their property strategy. They wanted to look at the ethics of just selling off the entire property for residential purposes, and weighed it out against the advantages of a more community-led approach and it worked well."

Tax and VAT implications

There are a number of ethical considerations to be made during a property transaction, especially for community-led charities, but the ethics of some of the more technical elements can often be forgotten. Socrates Socratous, charity VAT partner at Buzzacott, explains how "every charity has got an obligation to consider whether what they are doing can be frowned upon by HMRC".

"I am often asked about whether or not a particular structure, which has been designed to try and mitigate VAT, actually crosses the boundaries of tax avoidance," he says. "And when you're looking at utilising properties in different ways [as per Huard's scenario], this is something that needs to be carefully considered.

"Whatever structure you're looking at, you should always remember there are tax considerations, and that it's worth understanding how to cross that boundary carefully without too many negative implications."

Aligning your investment portfolio

For many charities, investing in property solely for investment –

> "Environmental and social issues are much, much higher on the agenda"

rather than occupational – purposes can be a huge source of investment income. Jamie McCombe, head of investment management at Cluttons IM explains how commercial property has generally outstripped other traditional asset classes like gilts and equities over the past 20 years.

"Over the last 45 years, UK commercial real estate has provided a real annualised return of 3.7 per cent, which amounts to 6-7 per cent per annum on a nominal basis. Looking forward, we're expecting returns of about 4-5 per cent per annum over the next five years. So, whilst we are within a lower return environment at present, the long run history is not dis-similar to what you're likely to be looking at going forwards," he tells the panel.

However, McCombe argues that the world has changed "quite considerably" in the last few years and even non-charitable organisations are now taking ethical investment much more seriously than they have done in the past.

"Environmental issues and corporate social responsibility are much, much higher on the agenda" he explains. "But when you're investing, that has to be balanced. Ultimately, you're investing for a good return and environmental considerations and corporate social responsibility can come at a cost, so it's a balance worth striking carefully."

Property can be a good solution to striking the balance, providing the property being invested in is being used for a purpose that doesn't detract from your charity's overall mission. Part of this is ensuring the property doesn't pose too many financial risks on the charity. "I meet lots of charities that tell me they own a single building in central London and it's providing all of the income for their charity," McCombe notes.

"As an investment manager, I feel there are just far too many risks involved with that. If something goes wrong with said property, what are you going to do? You're going to have all this capital wrapped up in one building.

"If you've got less capital available, mitigating single asset risk is vital and owners must ensure a proactive asset management plan is in place to do this. Diversification of risk should always be considered, particularly if limited capital is available for investment. Ultimately, whether a direct or indirect investment approach is adopted, it is all about maintaining income flow for the majority of charities whilst positioning capital so that is protected over the longer term," he adds.

"So, if you want to get into commercial property then great – the returns over the long-term are good – but just don't take too much specific property investment risk," he concludes.

Future-proofing

Whether your charity chooses to invest in a single property for occupational purposes, or chooses to invest in a portfolio of properties for investment purposes, the panel argues 'future-proofing' your property investments is essential for ensuring property doesn't pose any risks to your organisation over the long-term.

"On an occupational level, your permitted use is incredibly important," Karli Hiscock, partner at Bates Wells explains. "We're finding a trend with clients that want to use the relocation of their head office as an opportunity to bring some of their services in-house and provide a hub-style arrangement for example bringing their service users to their main office rather than have separate premises in various locations for various functions. However, there is an element of future-proofing for of your property strategy required here. Organisations may need less space than they used to due to an increase in technology and agile working, but organisations need to ensure they can maximise the use of that space whether for uses other than as an office or possibly subletting or sharing."

One panellist agrees that it's essential to ensure every property strategy aligns with the charity's overall strategy. "An issue for us has been assessing how we manage our property portfolio today, in relation to how we will need to manage it in the future. For example, we have got a really ambitious strategy, which is all about localism. It's about services and retail being in the same unit; about more people working from home and less office space.

"So we know the decisions we make with regards to our property now need to align with our overall strategy for the longer-term. Discussing this issue today has heightened the scale of the problem I have to solve."

Swinson concludes by highlighting the impact a mission-based property strategy can have on beneficiaries. "Many of our clients are working in very challenging parts of civic life. They need appropriate premises that will enhance the beneficiaries' experience. And if the property you invest in doesn't do this – is it actually helping you to deliver your mission? There are real opportunities to make a difference – through property as much as people. "

"Grenfell Tower was a terrible example of where property failed civil society and the repercussions for the property industry, the council and the community are going to be felt for a very long time," Swinson says.

"Every property decision we make has an impact on people's lives, so as charities we need to ensure our impact is as positive as possible." ■

ADVERTORIAL

Charity property investment: maximising income

In a climate of low returns, property can be a good investment for a sustainable income stream. WRITTEN BY JAMIE MCCOMBE, HEAD OF INVESTMENT MANAGEMENT AND MATTHEW PEAKE, SENIOR INVESTMENT MANAGER, CLUTTONS IM

Charities rely on income from their investments to fund grant giving and for other beneficial uses. One of the challenges in managing a portfolio of investments is to ensure a robust and sustainable income stream, particularly in the current economic climate of low returns. As such, property can play an important role in fulfilling these objectives and in recent months, investment managers have seen the benefits of an increased weighting to the asset class within the wider investment portfolio.

Protecting income

Limiting property rental vacancies is key. To achieve this, it is important to take a pro-active, 'front foot' approach to occupier liaison and to develop close relationships with your tenants. This is crucial when approaching critical lease dates such as rent reviews, break options and expiries. Early engagement with the tenants in your portfolio will increase the chances of securing future income and reduce the risk of losing it.

Each lease event is also an opportunity to add value by growing income through rental increases. At rent review, typically every five years, this growth might come from a fixed rental increase written into the lease, a rent linked to the growth of an index (such as the RPI or CPI) or by successfully arguing that the rent is below the prevailing market tone.

Alongside this, maintaining a rigorous approach to individual stock selection within the portfolio will ensure that any lost income is more easily replaced. Each asset in the portfolio should demonstrate the core fundamentals of location, building quality and income security. In the event of a vacancy, the period of rental void is significantly reduced with a high quality, well located building where there is plenty of underlying occupier demand.

"Managers have seen the benefits of an increased weighting to the property"

Diversifying income across the property sector, geographical region and tenant type will ensure that risk to your portfolio's income profile is further minimised. Maintaining a spread of lease expiry and tenant break option dates across your portfolio will avoid a 'bunching' of lease events in any one year, and will therefore remove the chance of a sudden reduction in income.

Finally, the quality and security of income in the portfolio should be regularly reviewed to ensure that your tenants remain financially robust and capable of meeting the rent demands. Persistent late paying or a request to pay more frequently is a sign of potential tenant default.

Achieving superior total returns

Whilst safe-guarding your portfolio income is paramount, so too is protecting and enhancing your capital through opportunistic asset management. This can take the form of physical improvements to the building or legal improvements to the lease or tenure, for example, to add value.

Prudent stock selection, active asset management and maintaining a defensive, high quality income stream form an important part of an effective investment management strategy to maximise risk adjusted total returns for charities whilst minimising investment portfolio volatility. ■

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ADVERTORIAL

Your mission, should you choose to accept it?

Using your charity's property strategy as a tool for change is a great way of advancing your mission. But there are a number of practical steps to consider. WRITTEN BY KARLI HISCOCK AND JAMIE HUARD, PARTNERS, BATES WELLS

We have been discussing with the senior management of several charities how their missions can have greater impact on the environment and society and how property strategy can assist with these objectives.

Out of these conversations came an interesting question: do trustees have a duty when implementing a property strategy to ensure that the strategy achieves the charity's objectives in a sustainable way?

If the answer to this question is "yes" or "possibly" then trustees will need to ensure that they have a strategy to use the charity's premises as a tool for change, to enhance the charity's mission and have an impact on society and the environment. Below are some initial suggestions for practical steps to consider:

Review:

Dust off your lease and review your outgoings. How much do you spend on energy and waste? Is your plant and equipment fit for purpose and running efficiently? With a little research beneficial changes can be made by working with suppliers who will proactively help you to reduce your outgoings whilst reducing your carbon footprint.

Negotiate:

If you want to change energy supplier or waste management company you might need to negotiate this with your landlord and/or involve other tenants in the building. Landlords are increasingly aware of their corporate social responsibilities and the impact real estate has on the environment. Seek to negotiate variations to your lease or a new lease to place obligations on your landlord to work with cost effective suppliers who proactively work towards a net zero carbon world.

Reshape:

Review your working practices and analyse the space you need and how you use it. Whilst this might result in having to negotiate with your landlord, it is an opportunity to consider how to occupy space in a more effective way so as to enhance productivity and reduce the impact on the environment.

Evaluate:

Once changes are made evaluate the impact of these. Cost savings can easily be monitored and there are also tools available to assess the environmental impact changes to energy consumption and waste disposal are having.

"Every little step is one step in the right direction"

Often trustees will be concerned that the charity's reserves are insufficient to implement the changes required in order to start to use the charity's premises as a tool for change. The points outlined above could save money rather than increase costs, at the same time as bringing about this change. Every little step is one step in the right direction, and whilst an entirely sustainable office fit-out is beyond the budget of most, there is a range of other actions which can be implemented to help make changes. The challenge for trustees is whether they can lead the way in forging that new collaborative relationship between landlords and tenants with sustainability at its heart, in order to achieve real, meaningful impact for the future. ■

ADVERTORIAL

Property development: VAT issues to consider

Property development and acquisition can be a rewarding, but there are a number of different VAT issues to consider before embarking on the process. WRITTEN BY SOCRATES SOCRATOUS, VAT PARTNER, BUZZACOTT

Any charity contemplating the development or acquisition of a property has a number of VAT issues to consider. In this article, Socrates Socratous, VAT Partner at Buzzacott, highlights some of these issues and the requirement to monitor the ongoing use of the building, as well as the adjustments that might be necessary if a charity hopes to mitigate the potential VAT cost of the project.

1. Property acquisition

The starting point for any charity is to consider whether it should be incurring VAT in the first place.

If a charity is acquiring an interest (freehold or leasehold) in a building, the first fact that must be confirmed is whether the vendor has exercised his option to tax (OTT) the building and is intending to charge VAT on the disposal. Many charities are unable to recover most of the VAT that they incur, so a VAT charge will add to the cost substantially.

A vendor's OTT can be 'disapplied' if the charity intends to use the building 'solely' for a relevant charitable purpose (RCP). Broadly, this means either used by a charity for a non-business purpose (not as offices), for use as a village hall or similarly in providing social or recreational facilities for a local community. The question of what constitutes RCP use has been the subject of numerous cases in the Courts and charities who are unsure of their position should seek advice as necessary.

There is no specific certificate to disapply the vendor's OTT, but the vendor must be notified before the supply (date of completion or payment of a deposit) is made. A vendor may not be willing to dispose of their property without charging VAT because of the effect on their VAT recovery position or the impact on any Capital Goods Scheme ('CGS') adjustments. In such circumstances, it is advisable to discuss the potential VAT cost with the vendor and to negotiate a level of 'compensation' if they agree to sell the property without a VAT charge.

2. Transfer of a going concern

If a property is acquired with existing tenants, the transaction might qualify as the transfer of a property letting business (TOGC) for VAT purposes. In such circumstances, the sale is outside the scope of VAT even if the vendor has opted to tax. The benefit is the saving of both VAT and Stamp Duty costs. If the vendor has OTT, in order for the transaction to qualify as TOGC, the charity must also OTT, notify HMRC before completion and meet the usual TOGC conditions.

3. Property development

(a) Construction services – new build: If a charity intends to refurbish an existing property, then aside from some specific zero-rate reliefs associated with the disabled, the works will likely be subject to standard-rate VAT.

However, if a charity is planning to construct a new building, then the construction services can be zero-rated provided that the building or defined parts are used 'solely' for a RCP. It is necessary to consider the use of the entire building and to certify to the contractor the charity's entitlement to the relief. HMRC accepts that the term 'solely' means at least 95%.

(b) Construction services – annexes: Works of conversion, enlargement or extension to an existing building will always be standard-rated. However, the construction of a charity annexe can be zero-rated. The critical tests for entitlement to the zero rate are that the annexe has its own independent main entrance and that it can function independently of the existing building.

(c) Professional services: Professional services will always be standard-rated. However, this VAT cost can be mitigated by the use of a design and build (D&B) structure, such that there is a single supply of construction services supplied by the D&B Co. There are a number of practical issues to consider with a D&B structure, including funding and providing any subsidiary company set up for this purpose, with the resources needed to fulfil its contract.

4. Ongoing obligations

It is necessary to continually monitor the use of a building, even once the project is completed. In particular:

(i) Change-of-use provisions: If the charity issued a zero-rate certificate, any change of use within 10 years

"Different charities have different capacity to deal with things"

can result in a VAT self-supply charge. This will represent a cost to the charity if the change is in respect of exempt activities

(ii) Capital goods scheme (CGS): If the property or construction services are standard-rated and the cost exceeds £250,000, the use of the building is monitored under the Capital Goods Scheme and the VAT initially recovered is adjusted each year over a ten-year period, according to the extent of taxable use of the building. This can result in payments to or from HMRC.

This article scratches the surface of some of the issues to consider and as always, it is also important to review in tandem the VAT legislation, HMRC's guidance and the case law that is constantly evolving in this area. Given the large sums that can be involved with capital projects, taking advice from the outset can prevent an unwelcomed VAT cost. ■

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FEATURE

Reducing your charity's risk of fraud

A new report has found fraud is costing charities over £2.5 billion a year, but how can charities better identify and mitigate their risk of fraud? WRITTEN BY ARUN CHAUHAN, DEPUTY CHAIR AND TRUSTEE, FRAUD ADVISORY PANEL

From the theft of assets and diverted payments through to ghost payrolls and cyber-enabled theft, charities and charitable trusts face a myriad fraud risks.

For charities, where reputation is everything, the trend of increased scrutiny for a variety of reasons demonstrates the fragile line between perceived success and failure. Integrity and mitigating the risk of fraud is essential part of the jigsaw of developing goodwill to aid pursuit of a charitable purpose.

But with so many stakeholders and contributors involved, it can be difficult for charities to implement controls or checks, which serve their purpose of mitigating the risk of fraud in the same way as other businesses might.

The extent of charity fraud is concerningly on the rise. The Annual Fraud Indicator's 2019 report indicates fraud is now costing charities and charitable trusts in excess of £2.5bn per year, up from £2.3bn in 2017.

Case study examples

Employees

- A senior social worker took vulnerable adults to cash machines to draw cash out from their account, taking the money for their own personal use
- A bookkeeper made payments to her personal bank accounts, paying some suppliers from there
- A financial controller forged second signatures on cheques, making them payable to her mortgage company
- An employee sent their charity false invoices from two fictitious companies they had set up themselves
- A bookkeeper collected cash from the charity's shop, only banking some of the takings
- An employee sold personal details of the elderly to aggressive, rogue builders

Trustees

- A trustee wrote cheques to themselves and their friends as 'wages'
- A trustee took personal benefit of hospitality from a concierge service procured to aid the charity at corporate events

Volunteers

- A charity store volunteer failed to register sales through the till, stealing the cash

'Other' parties

- A fraudster dressed up as a soldier, collecting funds from the public, claiming to be volunteering for a charity
- Another fraudster submitted tenders for grant funding pretending to be working on behalf of a charity

Evidence of charity fraud

In June 2019, the Charity Commission uncovered a significant fraud at RAF Honington charities, which saw a serious governance oversight result in an individual using charitable funds for self-gain over a sustained period of time. The reporting body also recently announced a class enquiry into eight linked charities with common trustees which are suspected of money laundering activities.

It's fundamental that, as a minimum, charities have a basic understanding and safeguards in place to uncover and respond to frauds such as these in a timely manner. A swift response is key to ensuring you are effectively managing and reducing the exposure of reputational damage.

However, even before understanding your approach to identifying and responding to fraud, focus on prevention is the

LEADERSHIP IS AN OVERLOOKED INFLUENCING FACTOR IN INSIDER FRAUD

critical factor to help protect your charity. That starts with identification of how your practical processes expose fraud risk to your organisation.

Understanding the risk

The first stage of preventing fraud within your charity is committing to understand which areas of your organisation, if exposed to a fraud event, would cause the most damage. In other words, the start of the fraud prevention journey is to gain an understanding of the areas you're most at risk.

Once you have prioritised which areas, if affected by fraud, are most susceptible to the risks you are concerned about, you can then start to embed a tailored prevention policy into your charity's culture which specifically targets these areas.

Who commits charity insider fraud?

As identified, there are a number of 'players' within a charity, from trustees and employees to fundraisers, volunteers and even donors. All these stakeholders have the potential to commit fraud but insider fraud is heavily and directly influenced by the leadership and culture of your charity.

- 43% of insider fraud within charities is committed by employees
- 33% is committed by trustees
- 10% by volunteers
- 10% by 'other' parties

What should you look out for? The common 'red flags'

To help you identify the key indicators of fraudulent activity, there are typically three areas of risk namely people, processes and transactions. Here are some of the common 'red flags' to look out for arising from these three areas:

- Any communication pushing for urgency/urgent transactions
- Domineering management
- Lack of delegation by a particular employee or trustee
- Overriding of internal controls to facilitate certain transactions
- Slow reporting when requested
- Loss of records
- Low team morale
- Unnecessarily long hours
- Conflict of interest

Red flags obviously are useful to be conscious of but if those people in your organisation entrusted and empowered to help trustees identify risk do not commit themselves to assist or understand the significance of their role in fraud prevention, your fraud prevention efforts can be wasted. The key to mitigation is therefore also about leadership.

Mitigating your charity's fraud risk through leadership and culture

Leadership is a fundamentally overlooked influencing factor in insider fraud within any business, organisation or charity.

Your charity's leadership sets the tone for your culture and defines employee engagement.

If your leadership is poor or disconnected, your culture is weakened and engagement may fall. Losing your team's engagement can prompt disenchantment with their role which encourages them to lose their moral compass.

It is often cited that pressure is the most significant factor in causing employees to identify the opportunity to act dishonestly so to alleviate that pressure (be it targets or personal financial pressures upon them for example). The employee may then use the pressurised environment to rationalise their actions. These factors make up the traditional fraud triangle.

The new fraud triangle – relevant across every sector – suggests this pressure is a direct result of your leadership and culture. A strong culture can be measured by how engaged a team is. A highly engaged employee, trustee or volunteer brings

Potential areas of risk

Although every charity is exposed to the risk of fraud, each differs in the particular type of jeopardy they face. Common risks include:

- Theft – theft of assets, stock, cash or equipment
- Payments – false invoices or diverted payments
- Suppliers – 'kickbacks' or inappropriate procurement arrangements or benefits in kind taken for personal benefit by employees
- Donors – using a charitable donation to launder funds illegally gained
- Payroll – overclaiming hours worked or inventing 'ghost' payrolls or employees
- Subsistence – overclaiming on expenses
- Personnel – false references or forged qualifications
- Sensitive information – misuse of information for personal gain
- Finances – accounting manipulation
- IT – cyber theft

Fraud

not only their mind and body but also puts their heart and soul into their work because they believe in what the charity's striving to achieve.

Why good people do bad things

Many charities have ambitious fund-raising and other targets. A supportive leader will enable their teams to achieve these – eg providing the appropriate resources and/or 'leading from the front'.

Problems arise when leaders pass this pressure on to their teams. This is where a culture can turn toxic.

The cauldron of pressure – often created through poor leadership - has been proven to influence otherwise good people to act dishonestly when it can be seen they have become disenchanted in their role.

Everyone's moral compass is susceptible to distortion. Poor leadership can throw a normally morally-conscientious person off their 'true north' to do something they never thought they would, especially as fatigue and pressure can lead to the decision to act out of character.

Great leaders create a positive working culture with high employee morale. Enthusiasm is infectious which lowers your charity's risk of fraud. Volunteers, trustees, employees or other stakeholders are clear on how your charity practices a zero-tolerance and proactive approach to fighting fraud.

Protecting your charity – a summary

Charities prosper or falter based on the strength of their leadership and, ultimately, their reputation.

Your charity's leadership defines your culture which must align with the majority of your team.

The first stage of combatting fraud is identifying where you might be at risk, then actively seeking to reduce your risk in these areas through sound leadership which is mindful of the impact on their culture.

Preventing charity fraud is all about instilling a positive culture of zero-tolerance (not a maximum tolerance) to any wrongdoings, a culture which promotes whistle-blowing and information sharing. ■

ADVERTORIAL

What does the future of fundraising look like?

The findings from the *Status of UK Fundraising 2019* benchmark report have been revealed and the future's looking bright. WRITTEN BY CASPER HARRATT, DIRECTOR OF MARKETING, BLACKBAUD EUROPE

When Blackbaud set out to create this year's *Status of UK Fundraising* benchmark report alongside the Institute of Fundraising, we were hoping to build on the success of 2018's survey and, in the process, discover some interesting insights into what's happening in the non-profit sector right now.

Over 1000 non-profit professionals from large, medium and small organisations across the sector took part this year. And the biggest insight we gained? Fundraisers are happy in their jobs!

Now this may not be the most controversial statement, and it may not be immediately headline-grabbing – but it should be, and it's something we should be really proud of.

What a fantastic piece of information to affirm – that those in our sector, working hard every day to achieve their missions and goals, love what they do. And moreover, despite numerous challenges they are feeling positive about the future.

In the *Status of UK Fundraising* 2019 report:

- 84% of respondents told us they enjoy their job
- 89% said they are motivated by the cause of the charity they work for
- 66% said they are positive about the future of the charity sector

In fact, as well as feeling content in their own role, many of those who took part in the survey told us that fundraising was a well-supported function within their organisation:

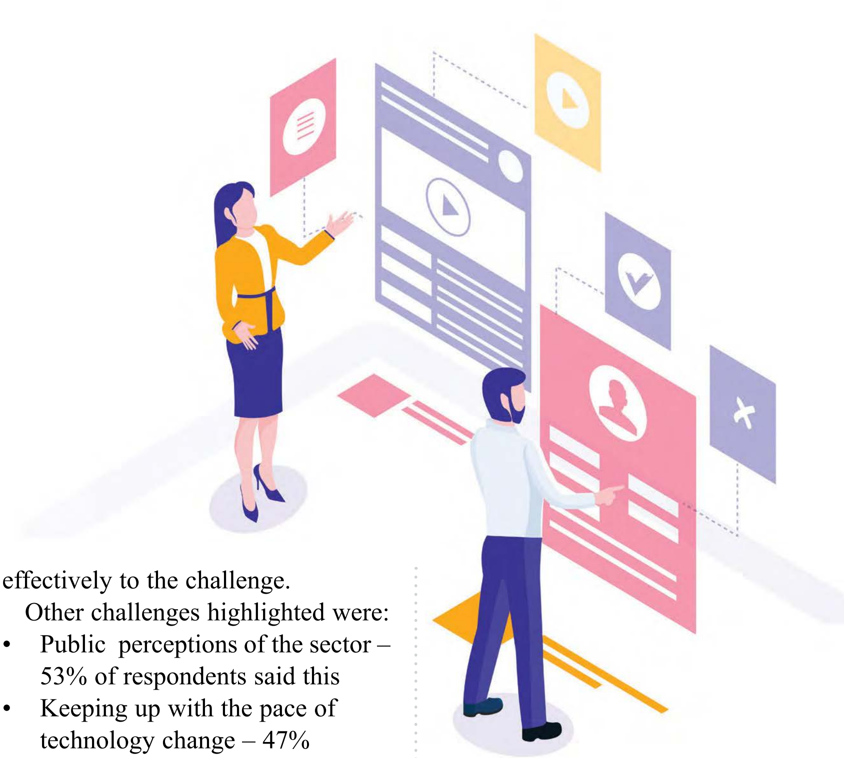
- 66% said that fundraisers within their charity are supported to try new or innovative approaches
- 60% said investment in fundraising is a key strategic priority
- 48% said they had effective systems and processes in place to support fundraising teams

I think it's worth acknowledging the importance of feeling happy and supported within a job and a career – this isn't something that everyone experiences. It's a real testament to everyone that works in this sector that the majority of people feel positive.

However, rather than resting on these optimistic laurels, we should always look to how we can improve further. As well as the positives, the survey did also uncover some areas that still require work.

67% of respondents to the survey told us that the main fundraising challenge the sector will face over the next three years is the economic environment leading to fewer donations. Overall, respondents said they were only 'slightly confident' in the sector's ability to respond

Fundraising



effectively to the challenge.

Other challenges highlighted were:

- Public perceptions of the sector – 53% of respondents said this
- Keeping up with the pace of technology change – 47% said this
- Retaining and recruiting fundraising talent – 42% said this

In terms of keeping up with how quickly technology changes, it was interesting to see that this was more of a concern for larger charities – with 55% of large charities naming this as a challenge. Although we can't say for sure why this is, perhaps we can assume that larger non-profits feel more pressure to keep on top of technological change and developments, whereas smaller organisations have to focus on the here-and-now, adopting new innovations once they are more established.

One thing to remember is that this is a challenge that can be relatively easily overcome – something that your organisation has more control over than say, perceptions of the public or the economic environment. If you work closely with a reliable technology provider, it's their role to keep you up to date and ahead of the curve with the latest tech. Their advice and assistance should take this worry off your shoulders, so you have one less thing to think about.

The report also uncovered other areas of concern in the sector, namely that most people believe that there are issues with diversity, equality and inclusion that need addressing.

Results of the survey found that:

- Only 8% of fundraisers are from minority ethnic groups
- Women hold 85% of entry level roles but only 61% of director level roles
- 50% of respondents think their organisation is taking appropriate steps to address these issues, but only 21% think the same of the wider sector

There is clearly a need to attract and employ more BAME fundraisers and the question remains, how do we do this?

The survey also uncovered evidence of a glass ceiling within the sector, with the majority of roles belonging to women, but only 61% holding director roles. This may seem high, but this is compared to a much lower number of men in the sector, with only 15% in entry level roles and 37% in director roles. Could it be that while the sector is a welcoming and flexible place for women to work initially, there is something that stops them from progressing to the more senior roles? If so, what can we do to address this?

With 50% of respondents telling us that their organisation is taking appropriate steps to address the issues, then perhaps moving forward we can all work towards doing a better job of communicating, sharing and celebrating our successes with one another. This way, the progress we feel our own organisation is making can be duplicated for the whole sector. We can learn from those who feel they have been successful and encourage each other to develop.

Overall, this year's report is positive and shows we as a sector as optimistic about the future, despite inevitable challenges. As one of the largest surveys the fundraising profession has ever seen in the UK, we're so immensely grateful to everyone who took part and shared their opinions to help us join forces in elevating our sector to even greater heights. ■

To read the full report, visit: hub.blackbaud.co.uk/npinsights/the-status-of-uk-fundraising-2019-report

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ADVERTORIAL

Expecting to be surprised

During economic uncertainty, investor sentiment is poor. But during chaos and confusion, there is always scope for some positive surprises.

WRITTEN BY JENNY RODGERS, FUND MANAGER, M&G

As recently as May 2019, forecasts for the global economy were broadly positive. When the Bank of England published its May inflation report, it noted expectations that economic growth would soon stabilise before recovering towards its "potential" rate by the middle of the year.

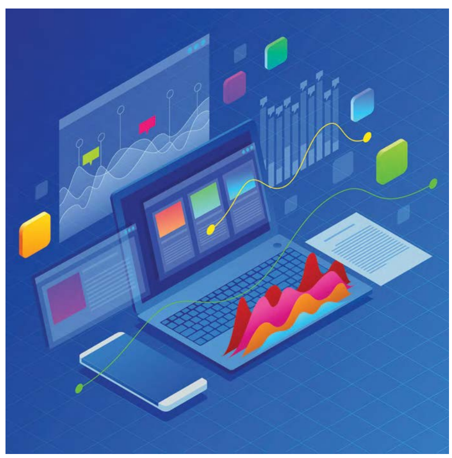
Since then, the news flow for investors has taken a turn for the worse. Trade tensions between the world's two largest economies, China and the US, business confidence and investor sentiment have all deteriorated.

The Bank of America Merrill Lynch fund manager survey in early June 2019 showed that fund managers were more worried about the outlook for the global economy than at any time since the financial crisis of 2008. Indeed, the upcoming "season" of company results in the US is likely to show profits falling year on year, representing the first "earnings recession" since 2016, according to the Economist.

Markets initially responded to this gloomier outlook by anticipating supportive policies from the world's central banks, including cuts to interest rates.

In light of expectations of lower interest rates, bond prices rose sharply during May and June.

Global stockmarkets also rose sharply in June, recovering from weakness in May. The S&P 500 index of the largest listed US companies' shares rallied by almost 10% between early June and the middle of July 2019, bringing total returns from the index to over 20% from 1 January to 18 July 2019. UK shares have not risen as strongly, but the FTSE 100 index was still up over 10% over this period.



Ascending share prices this year have confused many commentators since they have continued in spite of downgrades to corporate profit forecasts. In the UK, the outlook is particularly complicated by the uncertainties surrounding Brexit, with a change of prime minister heralding a greater likelihood of leaving the European Union without an agreement.

Mark Carney, the governor of the Bank of England, articulated concerns that UK asset prices and the value of sterling have "become increasingly inconsistent with the smooth Brexit assumption" that underpins the Bank's projections.

It is clear that both macroeconomic and political forecasts are constantly changing. Indeed, there is a surprisingly weak relationship over the short-term between financial markets and news flow.

But I believe there is one clear message from all the chaos and confusion. When investor sentiment is very poor – as in the UK today – there is more scope for positive surprises, and vice versa.

We know that UK assets will have to navigate Brexit developments this year but, with many concerns factored into prices already, there might be less scope for negative shocks. As ever, we must continue to expect to be surprised!

The views expressed by the author should not be taken as a recommendation, advice or forecast. ■

HOW TO

How to build a successful RI policy

A strong RI policy can be key to making your charity's funds go further. WRITTEN BY ISOBEL MITCHELL, NETWORK OFFICER FOR THE CHARITIES RESPONSIBLE INVESTMENT NETWORK

In 2018, charity invested assets totalled £108.4bn. Most of these are in public equities, or stocks in companies, which have a tangible impact on the world around us. But how much time does your charity dedicate to thinking about the impact of your invested assets? They have the potential to be a powerful tool for furthering your charitable mission. It is therefore worth putting in the time to develop a responsible investment policy for your charity, to ensure that you're making the best of your investments.

Here are five key steps for a successful RI policy:

1. Build consensus

Before you start writing your RI policy, you'll need the support of the trustees. Whether you're looking to educate yourself, or convince others, there is a strong business case for developing a responsible investment policy:

- By aligning your investments with your mission, responsible investment allows you to use a greater proportion of your resources to support your charitable objectives.
- With a number of environmental and social indices outperforming standard benchmarks, responsible investing can protect and enhance financial returns.
- Responsible investment can protect your charity's reputation and avoid accusations of hypocrisy, by demonstrating that ethical issues and the values of the charity have been considered in investment decisions.

2. Do the 'big picture' thinking

Many charities see responsible investment as an additional 'tool' in delivering their theory of change. The issues your policy addresses should therefore flow directly from your vision, mission and charitable objectives.

Depending on your mission, you may decide to address a broad range of responsible investment themes in your policy, or focus on one or two that are most relevant. Common themes include climate change, modern slavery and corporate lobbying.

3. Get into the nitty gritty

Having set the objectives and priorities of the policy, the tools you can use to put the policy into practice fall into two categories: asset allocation and engagement

Asset allocation is about moving your money away from companies or sectors which contradict your charitable mission (e.g. screening or divestment) and/or investing in companies or sectors which further it. Engagement involves talking with companies to convince them to change their practices in line with your charity's vision.

Asset allocation and engagement can also be used together – for example, divestment is often seen as a last resort for companies who repeatedly fail to respond to engagement.

4. Spread the word

Developing a responsible investment policy is exciting, so don't keep it a secret – shout about it. For example, don't keep your asset manager in the dark. They are responsible for implementing your investment policies. You may also wish to raise awareness among your staff and beneficiaries of the positive impact that the RI policy has on your charitable objectives.

5. Don't forget about it

After you've successfully drafted, signed off and implemented your policy, it may be tempting to breathe a sigh of relief and hope your asset manager will do the heavy lifting from there. However, your responsible investment policy should be a 'living document' – continually open to discussion and amendment to stay current. To ensure this, set regular dates to review both the policy and your asset manager's implementation of it, with your team and board. ■

ADVERTORIAL

Climate change – how can trustees respond?

As charities face increasing pressure to react to climate change, trustees are left with difficult decisions around divestment and engagement. But what are the solutions?

WRITTEN BY PAUL FAIRBROTHER AND KAMRAN MIAH, CHARITY TEAM, SARASIN & PARTNERS

Climate science has advanced significantly over the past 20 years: evidence for the warming of our planet is now unequivocal. Eighteen of the 19 warmest years in history have occurred since 2001 and the physical manifestations of climate change are now alarmingly acute. Against this backdrop and increasing public interest, it is deeply worrying that global carbon emissions actually rose by 2.7% over 2018 and CO2 concentration reached its highest level in ~2.5 million years.

Public sentiment has taken a sharp turn on climate issues, as reflected by the tone of David Attenborough's Blue Planet II and activist groups, such as Extinction Rebellion. It is clear that we have arrived at a pivotal juncture. Tackling climate change is a shared responsibility and the decisions we make today will have a ripple effect for decades, perhaps centuries, to come. As a charity, how should you respond and how can your investments affect the global effort to decarbonise the planet?

What are the implications for charity investments?

The first, and perhaps most obvious, is that their capital may be at risk. Climate change and the associated policy response will have a material impact on company earnings across a range of sectors. In the face of such peril, how are corporations behaving? According to analysis by the FT, the world's top 500 companies are set to miss Paris climate goals, with only 15% in line with its aims to limit carbon emissions. Companies that depend on fossil fuels may come to experience crises, such as falling sales and margins, while those that are aligned with the Paris Climate Accord may stand to benefit. Investors will need to 'stress test' their investments against the risks and opportunities presented by an acceleration in political and regulatory action.

What are your options?

Many public bodies have faced pressure to divest. As of July, more than 1,000 institutions, accounting for almost $9.4 trillion globally, had announced that they would sell some or all of their shares in fossil fuel companies, according to Fossil Free UK. The majority of these are faith-based organisations, philanthropic foundations, and educational institutions.

Certainly, divestment is a powerful statement, but to what extent can we truly 'divest' from fossil fuels? Where do we draw the line to determine who is to blame for carbon emissions? Do we also divest from the utilities that consume fossil fuels? What about airlines and auto companies?

Divestment alone does not mean decarbonisation and there is little evidence that it will raise the cost of capital, meaning that companies are unlikely to be deterred from their current levels of fossil fuel extraction and consumption. Fossil fuel companies need to be a part of the solution.

All companies that depend on fossil fuels, not just those which extract them, face the challenge of navigating to a new energy system. Investment managers must understand how different strategies and scenarios will impact each company's prospects, and hold management to account where necessary.

As stewards of capital, an investment manager has the scope to encourage companies to take action and align themselves to meet the challenges posed by climate change. They can push for change through meetings and active voting, as trustees delegate these powers to their investment manager to act on their behalf.

Divestment and engagement are not mutually exclusive – you can do both

In January this year, we published the Sarasin & Partners' Climate Pledge. This is a commitment to align the firm with Paris goals of "well below 2 C", and importantly, to press investee companies to align with the Paris Accord. This involves proactive engagement, active voting, policy outreach, public statements, and when appropriate, divestment. For companies that are vulnerable to climate change but have an opportunity to build resilience, there is scope for active engagement and investors are well positioned to make change happen.

If we find that a company is unresponsive or fails to align itself to the Paris Climate Accord, we may view this as a long-term risk to our clients' capital, and thus, could choose to divest. A recent example is Royal Dutch Shell: we had two years of active engagement with the Board and considerable progress had been made to consider climate risks. However, we were disappointed when at their June Strategy Day, Shell announced it would actually increase capital expenditure in fossil fuel activities to ~$28bn per annum over the next 5 years (more than 90% of its total capital expenditure budget). This will mean an increase in oil production from 3.7m barrels per day to ~4.7m in 2030. We believe that this runs contrary to the Paris goals and puts shareholder capital at risk. We have therefore divested from Shell for clients that follow our Climate Active Strategy and are currently reviewing our holdings across other strategies.

For those whose who believe inaction is still an option, it should be noted that it may come with considerable reputational risk. Charities that hold investments in fossil fuel companies may lose donors, find themselves the subject of unflattering news coverage and in particularly difficult discussions with stakeholders. Equally, those who have simply divested from the extractive industries may be challenged as to how these companies are worse (ethically or from an investment perspective) than those who consume fossil fuels inappropriately or inefficiently.

Expect a rapidly shifting policy response

Where science and public sentiment goes, public policy (eventually) arrives. The next President of the European Commission, Ursula von der Leyen, has been vocal in putting climate change at the top of her agenda. In a speech she delivered in parliament a few hours before her election, she said that she intended to make climate and the environment top priorities in all EU policy areas.

Here in the UK, the government has set a target to reach net zero emissions by 2050, the first major developed economy to do so. In addition, the Department for Work & Pensions has announced rules (which come into effect in October 2019) that require pension fund trustees to update their statement of investment principles to explain "how they take account of financially material ESG considerations, including specifically climate change".

Central banks are also beginning to focus on climate change risks. Mark Carney, Governor of the Bank of England, has warned about the threat climate change poses to the financial system. In May, the European Central Bank released a special feature on "Climate change and financial stability" and Canada's central bank has now also designated climate change as a financial risk.

Final thoughts

With this shifting landscape, what can charities do to ensure that their investments are being managed responsibly and in accordance with their objectives? As stewards of your capital, your investment manager should be carefully considering the impact that climate change may have on your charity's assets and its stated goals. It is now a timely moment to have a discussion with your manager on the risks and opportunities that lie ahead. ■

SARASIN & PARTNERS

COMMENTARY

Portfolio survivorship bias

Is consistency of the investment process a virtue, or is it merely a hallmark of the unimaginative? WRITTEN BY

BY MARK JEFFRIES, DIRECTOR, RESEARCH, ASSET RISK CONSULTANTS

The various ARC Indices are compiled from a universe of over 200,000 underlying portfolios supplied by over 90 discretionary investment managers who have elected to be data contributors. Conventional wisdom would suggest that it is highly probable that there is survivorship bias at the portfolio level. Why? Because private client and charity investors and with poorly performing portfolios are assumed to be more likely to close them down than investors with portfolios performing above expectation. So is conventional wisdom correct?

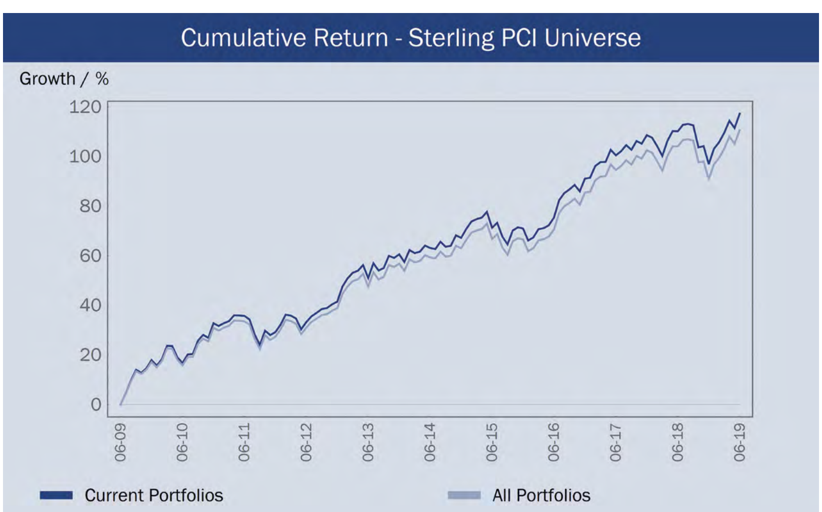
In our previous article entitled *Manager survivorship bias*, we investigated whether there was evidence that the voluntary nature of participation as a data contributor to the ARC Indices led to survivorship bias. Our analysis found that manager survivorship bias does appear in the ARC Indices, including the ARC Charity Indices (‘ACI’) in the order of 50 basis points per annum. However, there was little to any evidence that this was explained by discretionary investment managers seeking to ‘game the system’ by joining when their short-term performance numbers are strong and/or leaving when their performance numbers are weak.

The logical conclusion is that the survivorship bias being attributed to managers must originate not at the manager level but at the portfolio level. It is not discretionary managers that are “gaming the system” but investors responding to the relative performance of their portfolios.

Why does it matter?

Over the five years to June 2019, the return of the index was 35.8% compared the median return of 37.1%, while the 75th percentile return was 31.3%. The impact of survivorship bias is demonstrated by the fact that the ARC Sterling Steady Growth ACI Index return tends sits in the third quartile rather than on the 50th percentile. In theory, over longer time periods an ACI index could end up in the fourth quartile. We recommend that, as a result of this phenomenon, investors should evaluate their performance both against the relevant PCI series and the published quartile ranges. That will avoid incorrect conclusions being drawn regarding the quality of relative portfolio performance, particularly over time frames of five years or more.

Figure A



How does it occur?

Mathematically, survivorship bias occurs as the portfolios used in creating the ten year quartile ranges are axiomatically only those portfolios for which a ten year track record is held. However, each ACI has been calculated each month throughout the whole period using all portfolios that existed in that particular month. In other words, there are always more portfolios within the ACI index than are included in any quartile ranges except for the last month of the period being analysed. If as time passes, the portfolios falling out of the charity universe each month are, on average, underperforming those that stay, then the ACI index will gradually fall away from the median and evidence of survivorship bias will be observed.

To test whether this assertion is true, the relative performance of all portfolios that have been included in the ARC Sterling PCI calculation over the last ten years has been calculated for the first 12 months after inclusion in the index and the 12 months prior to ceasing to contribute. The PCI is used for the analysis given the depth of portfolios but the similar results are obtained for the ACI.

Around 55% of portfolios were 3rd or 4th quartile when leaving the peer group compared to 52% when joining, which suggests that taken individually short term performance is not a significant factor in deciding when a portfolio ceases to contribute. However, over a large sample, the differential results in a small but persistent survivorship bias.

What is the quantum of observed survivorship bias?

To investigate the quantum of the observed survivorship bias, consider chart A that plots two sets of data:

- All portfolios that, at some point over the last decade, were included in the ARC Sterling PCI calculation; and
- Only those portfolios that have been included in the ARC Sterling PCI calculation for June 2019.

The cumulative return chart shows there is a modest but steady pattern of outperformance by the current portfolios compared to all portfolios. The quantum of the performance differential is circa 70 basis points per annum.

Thus, on average, portfolios that are no longer in the ARC Sterling PCI universe tended to underperform those that have survived until June 2019 by around 70 basis points per annum.

Approximately what proportion of clients cite as the primary reason for…		
	…joining your firm?	…leaving your firm?
a) Change of circumstances	10%	48%
b) Overall Reputation	15%	2%
c) Client Service	18%	8%
d) Investment Performance	20%	18%
e) Investment Proposition	20%	4%
f) Costs and Charges	5%	6%
g) Other	12%	14%

Anecdotal support for the existence of survivorship bias

To test our findings that portfolios leaving the ARC Index Universe tend to have underperformed those that have survived in the ARC Index Universe by around 70 basis points per annum, we conducted a survey of data contributors. We invited them to identify the primary reasons why clients joined or left their firm. The results are summarised below.

Managers reported on average that around one fifth of clients cited performance as the primary reason for joining their firm, with similar proportions cited by clients as the primary reason for leaving. It is also noticeable that around half of those clients leaving a discretionary investment manager cite the reason as being a change of circumstances whereas only 10% of those selecting a new manager claim that as the reason for opening the account.

These figures support our empirical analysis that, whilst performance is not the dominant factor driving the decision by private clients to leave a particular manager, it is one of several drivers. Thus, anecdotally, we should expect a modest degree of survivorship bias created by flows of client portfolios into and out of the ARC Index Universe.

Conclusions

We find that both empirically and anecdotally there is evidence that the average performance of a portfolio leaving the ARC Index Universe is around 70 basis points per annum below the average performance of a portfolio that remains a constituent of the ARC Index Universe. So how should users of the ARC ACI react to this survivorship bias?

- As detailed in our previous article, there is no evidence of discretionary investment managers "gaming the system" to take advantage of the voluntary nature of ACI membership.
- Whilst, on average, portfolios that left the ARC ACI Universe underperformed, empirical and anecdotal evidence indicates that poor performance is not the dominant reason why investors change manager.
- QuickCheck allows portfolio performance to be placed into context quickly and simply to find out whether there are any performance concerns. ■

INVESTMENT

Multi-Asset Funds	Investment Manager	Fund Size (£m)	Cash %	Bond %	Equities	
					UK %	Intl %
Barclays Charity Fund	Barclays	224.7	5.9	10.3	45.5	28.7
Armed Forces Common Investment Fund	BlackRock	370.1	3.1	16.5	26.9	31.5
Charifaith	BlackRock	167.6	2.5	19.9	28.4	30.6
Charity Multi-Asset Fund2	Cazenove	607	4.4	1.3	21.8	42.9
CBF Church of England Investment Fund	CCLA	1542.6	4.8	2.9	16.7	52.1
COIF Charities Ethical Investment Fund	CCLA	831.6	7	3.3	16.9	51.1
COIF Charities Investment Fund	CCLA	2581.3	4.6	3.3	16.5	54.1
Amity Balanced Fund for Charities	EdenTree	23.8	2.6	23.1	43.8	24.7
National Association of Almshouses CIF	M&G	188.1	6.7	13	53.9	26.4
Newton Growth & Income Fund for Charities	Newton	752	4.3	13.7	43.5	38.4
Newton SRI Fund for Charities	Newton	109.9	4.1	16	35.5	44.5
Newton Growth Fund for Charities	Newton	61.6	10	15	29.6	44.5
Active Income and Growth Fund for Charities	Rathbones	204.4	6.1	19.1	26.4	32
Core Investment Fund for Charities	Rathbones	112.5	3	8.4	36.9	36.7
Charity Assets Trust	Ruffer	132.2	18.3	32.6	9.5	27.4
Sarasin Endowments Fund2	Sarasin & Partners	1660.1	3.1	13.9	20.3	49.8
Sarasin Income & Reserves Fund2	Sarasin & Partners	148.3	3	75.2	9.1	10.2

Peer Group Indices						
Sterling Cautious Charity Index	ARC		26.3	39.7	2.1	11.9
Sterling Balanced Asset Charity Index	ARC		12.3	23.1	16.3	25.2
Sterling Steady Growth Charity Index	ARC		6.5	15.3	28.3	33.7
Sterling Equity Risk Charity Index	ARC		2.3	7	38.2	38.2

Market Indices1	
UK Equities	iShares
International Equities	iShares
UK Sovereign Bonds	iShares
UK Corporate Bond	iShares
UK Property	iShares
Cash	-

INVESTMENT

Property %	Other %	Last Quarter	Last 12 Months	YTD 2019	Last 3 Years	Last 5 Years	Last 10 Years
4.7	5	5.1	7.5	13.7	36.2	44.8	-
9.2	12.9	3.5	5.2	12.6	29.6	48	151.3
4.6	13.9	4	5.7	11.5	34.4	49.4	143.6
7.8	21.8	3.1	2.2	8.8	23.3	31.2	109.9
4.3	19.3	7.3	12.8	15.2	45.8	72.8	211.5
5.5	16.3	7	11.9	15.6	42.7	65.9	-
5.2	16.4	7.2	12.2	15.5	42.8	67.9	197
-	5.8	3.8	4	9.7	20.2	32.9	-
-	-	3.6	3.5	12	27.1	37	160.4
-	-	7.1	9.9	15.1	35	63.9	206.5
-	-	6.4	6.4	13.7	33.9	47.4	-
-	1	6.8	9.6	13.8	33.1	55	-
6.9	9.5	4.6	4.1	10.9	32.1	43.2	-
5.6	9.4	4.1	4.1	10.9	-	-	-
-	12.2	1.1	-1.8	3.5	6.9	18.4	-
9.1	3.9	4.1	7	11.7	27.7	41.7	151.9
1.5	0.9	2.3	5.4	6.4	12.3	26	92.1

0.9	19.1	1.9	2.6	4.7	8.7	15	53.3
4.2	18.9	2.9	3.3	8.2	18.5	28	98.2
4.3	11.8	3.9	4.3	10.7	25.2	35.8	130.6
4.3	10	4.5	4.6	12.6	29.5	39.1	153.9

		3.3	1.4	13.1	28.8	33.7	154.6
		7.3	10.3	18	48.1	86	261.7
		1.3	4.7	4.7	5.5	30	64
		2.3	6.9	7.4	13.7	33.6	101.1
		-2.1	-6.7	8.7	10.5	18.7	162.3
		0.2	0.6	0.3	1.1	1.8	4.1

Source / Asset Risk Consultants

Key

[1] The asset allocations presented are based on estimates provided by ARC. The estimates are calculated using statistical methods that attempt to derive a model portfolio whose historical returns most closely match the actual ACI results.

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If you could borrow from a bank run for and owned by charities and social purpose organisations, would you be interested?

Every single one of our shareholders is either a charitable trust, foundation, or social purpose organisation: our mission is to support your mission.

You can apply for loans from £50,000 to £3.25 million and more in partnership with other lenders.

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BANKING

Triodos Bank

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Bristol BS1 5AS

T: + 44 (0)800 328 2181
E: contact@triodos.co.uk
W: www.triodos.co.uk

Triodos Bank offers a fresh approach to banking. Our mission is to make money work for positive social, environmental and cultural change.

We do this by only lending money to businesses and projects which benefit people and the planet, including charities and community groups.

This means our depositors know their money is used to make a positive impact, while still receiving a fair return. And the charities we lend to receive informed advice, based on our team's in-depth understanding of how to balance financial and ethical business objectives.

We offer a range of services for organisations of all sizes, including:
• Term loans and overdrafts • Deposit and current accounts • Corporate finance (capital raising)

Visit triodos.co.uk to find out more.

Unity Trust Bank plc

Nine Brindleyplace
Birmingham
B1 2HB

T: 0345 140 1000
E: us@unity.co.uk

Looking for a bank that **understands** your charity?

Unity Trust Bank was rated No.1 for Sector Knowledge in an independent charity banking survey (2014) and was also rated top for Relationship Managers, Fees and Charges and Meeting Expectations.

Currently, around 7,000 charities bank with Unity and over 50% of our lending last year was to charitable organisations.

Established in 1984, positive social impact and financial sustainability were part of our founding principles. Today, more than 30 years later, they remain core to what we stand for.

If you're a charity, look no further – **we're on the same page**.

FUNDING

PayPal Giving Fund
Whittaker House,
Whittaker Ave,
Richmond, Surrey
TW9 1EH, UK

W: paypalgivingfund.org.uk

PayPal Giving Fund is a registered charity (No. 1110538) that raises millions of pounds each year to benefit UK charities. We enable people to give through programmes operated by PayPal, eBay, Humble Bundle and other leading internet businesses. PayPal Giving Fund receives funds donated through these platforms and seeks to grant them to charities recommended by donors.

Contact us at: info@paypalgivingfund.org

HR & EMPLOYEE BENEFITS

CS Healthcare

Princess House, Horace Rd,
Kingston upon Thames KT1 2SL

T: 0800 917 4325
W: www.cshealthcare.co.uk/charitytimes

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Advertise your services directly to our subscribers using our Suppliers Directory

If you are a supplier to the charity and not-for-profit sector and want to maintain consistent visibility amongst potential customers then why not include your company within the suppliers section of Charity Times. Your entry would be listed for 12 months (print & online) and includes company logo, contact details and company description/products.

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Call us on **0207 562 2431**

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Ecclesiastical Insurance Office

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* In research conducted by FWD, an independent market research company, of those brokers and organisations who named an insurer in the survey, the majority voted Ecclesiastical as the best insurer for charity

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Stackhouse Poland Limited

Blenheim House
1-2 Bridge Street
Guildford
Surrey
GU1 4RY

T: 01483 407 440
F: 01483 407 441
W: www.stackhouse.co.uk

Stackhouse Poland look after 400 charities and "not for profit" organisations in the UK.

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The Company also arranges insurance for a large number of corporate clients and has a specialist private client division advising affluent and High Net Worth clients on their personal insurance needs.

Please see our website for the video outlining our services to the Charity sector or contact us to discuss our 10 point Charity checklist for Insurance.

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W: www.unityinsuranceservices.co.uk/charity-insurance

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INVESTMENT MANAGEMENT

Cerno Capital Partners LLP

34 Sackville Street, St James's
London W1S 3ED

For more information, please contact Mustafa Abbas, Nick Hornby, James Spence

T: 0207 382 4112
E: charities@cernocapital.com
W: www.cernocapital.com

Cerno Capital works closely with charities, helping them organise and manage their investment portfolios.

It is our view that the only way to obtain a reliable investment return is to identify the prevailing macro-economic themes and then follow a robust methodology for selecting investments. We take a real world approach to risk, concentrating on the risks of losing money and not just the measurement of volatility.

We invest globally, across multiple asset classes and take a long term outlook to wealth preservation and growth.

We act as both discretionary managers and advisors to charities.

Charles Stanley & Co. Limited
55 Bishopsgate London EC2N 3AS

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E: nicholas.muston@charles-stanley.co.uk
T: 020 7149 6610

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INVESTMENT MANAGEMENT

EdenTree Investment Management Ltd

24 Monument Street
London
EC3R 8AJ

Philip Baker
Head of Institutional Business Development
T: 0800 032 3778
E: charities@edentreeim.com
W: edentreeim.com

Profit with principles

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Epworth Investment Management Limited

9 Bonhill Street, London
EC2A 4PE

Mark O'Connor
Head of Business Development
T: 020 7496 3639
E: mark.oconnor@epworthinvestment.co.uk

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Lombard Odier (Europe) S.A.

Queensberry House,
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London, W1S 3AB

Contact: Tom Rutherford, Head of Charities
T: 020 3206 6156
E: t.rutherford@lombardodier.com
W: www.lombardodier.com/ukcharities

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M&G Investments,
M&G Charities Department

PO Box 9038, Chelmsford CM99 2XF

T: Richard Macey 020 7548 3731
or James Potter 020 7548 3882

E: charities@mandg.co.uk
W: www.mandg.co.uk/charities

With M&G, you're free to choose from two specialist pooled funds for charities, Charifund and Charibond, or alternatively, invest across our wide range of OEIC funds.

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*As at 31.03.2016. Issued by M&G Securities Limited who is the fund manager and registered in England No. 90776. The registered office is Laurence Pountney Hill, London EC4R 0HH. M&G Securities Limited is authorised and regulated by the Financial Conduct Authority. Charibond's charity registered number is 271815, and Charifund's charity registered number is 249958.

Newton Investment Management

Stephanie Smith
Newton Investment Management
BNY Mellon Centre
160 Queen Victoria Street
London
EC4V 4LA

T: +44 (0)20 7163 6377
E: stephanie.smith@newtonim.com
w: www.newtonim.com/charities

At Newton, our sole focus is investment management. We currently manage £46.7 billion for a broad range of clients, of which £3.9 billion is on behalf of charities (as at 31 December 2018).

We are a committed and trusted-long-term partner to charities, with a track record of helping them achieve their goals. But we do not stand still: innovation and thought leadership in the charity sector are fundamental parts of our business. We use a distinctive, global thematic investment approach, combined with rigorous analysis of environmental, social and governance issues, in our specially designed charity pooled funds, sustainable strategies, and segregated portfolio services.

www.newtonim.com/charities

INVESTMENT MANAGEMENT

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INVESTMENT MANAGEMENT

Smith & Williamson

25 Moorgate
London
EC2R 6AY

Contact: Sharon Hanshaw
T: 020 7131 8214
w: www.sandwcharities.com

Smith & Williamson is an independently-owned financial and professional services group, with 1700 people across 12 principal offices in the UK and Ireland. We are a leading provider of discretionary investment management services to private clients, charities and corporates and have around £20.4bn of assets under management and advice (as at 31 December 2017).

Smith & Williamson LLP is regulated by the Institute of Chartered Accountants in England and Wales for a range of investment business activities. Smith & Williamson Investment Management LLP is authorised and regulated by the Financial Conduct Authority.

UBS

5 Broadgate

London EC2M 2AN

Helen McDonald - Director
E: helen.mcdonald@ubs.com
T: +44 207 567 0241

W: www.ubs.com/charities-uk

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WAVERTON
CHARITIES

Waverton Investment Management

16 Babmaes Street
London
SW1Y 6AH

Contact: Isobel Fraser
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E: charities@waverton.co.uk

W: www.waverton.co.uk/charities

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SOFTWARE PROVIDERS

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BN43 5EG

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E: sales@asieurope.eu
W: www.advsol.com/UKFund

Advanced Solutions International (ASI) is a recognised global industry thought leader that focuses on helping not-for-profits and associations increase operational and financial performance through the use of best practices, proven solutions, and ongoing client engagement. Since 1991, ASI has served nearly 4,000 clients and millions of users worldwide, both directly and indirectly through a network of over 100 partners, and currently maintains corporate offices in the USA, UK, Canada, and Australia.

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bluQube

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Pill
Bristol
BS20 0DH

E: hello@bluqube.co.uk
T: 08456 44 77 88
w: www.bluqube.co.uk

Simply, bluQube is a comprehensive finance and accounting system designed to assist your charity in solving every day financial challenges in a practical and simplified way.

bluQube has been specifically developed to help charities challenge the way they think about finance.

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bluQube finance software is developed by Symmetry, based in Bristol.