Charities InFocus

Issue 3 Winter 2018

Strategic issues all charities must consider

4
How far are we away from driverless cars?
Is now the right time to invest in the makers of the Car of the Future?

7
What makes a good charity Chair?
Advice on how Chairs can lead their boards more effectively

10
What should charities do when things go wrong?
We take a look at the most important factors when dealing with problems

CHARLES STANLEY

Welcome

Welcome to the latest edition of InFocus, Charles Stanley's magazine for the charities sector. In this issue, we take a look at longer-term strategic issues that all charity trustees should consider. We also examine what needs to be done when things go wrong at a charitable organisation and look at the skills and behaviours needed to make a good charity Chair. Jon Cunliffe, Charles Stanley's chief investment officer, takes a look at current challenges facing investors seeking income, an issue many charities face.

John Redwood also takes a look at the impact of the current tensions between the US and China and assess its impact on markets. Garry White takes a look at the technology companies responsible for the development of driverless cars and Ben Johnson looks at the evolution of ethical investing, which is becoming more of a focus for investors.

We are always keen to hear what you think. If you have any thoughts on which aspects of the magazine you like and where you think we could do better, please email InFocus@charles-stanley.co.uk with your comments and questions

Nic Muston,
Director of Private Clients & Charities

Address for correspondence:
The Editor, InFocus Magazine,
55 Bishopsgate, London EC2N 3AS
T: 020 7739 8200
E: infocus@charles-stanley.co.uk

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CONTENTS

4 How far are we away from driverless cars?
6 Investing for income
7 What makes a good charity Chair?
8 Strategic issues all charities must consider
10 What should charities do when things go wrong?
12 Endowments can help provide sustainable income
13 Investing with a conscience
14 Awards Corner
15 Coal remains king, the aging UK and the changing language of the internet

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A personal view from our Chief Executive

Two major issues are fuelling fears within markets across the globe. These are Donald Trump's protectionist measures and related trade war, as well as the future of the European Union in light of the UK's decision to leave the bloc. However, I think fears around both these issues in terms of markets are exaggerated.

There is a large degree of focus on Brexit and trade because these are issues that can generate a high degree of emotion. Emotion is the enemy of investors – it can twist your arm into making irrational decisions. That's why one of Warren Buffett's most-quoted axioms urges investors to "be fearful when others are greedy and greedy when others are fearful." However, fear and greed are not the only two emotions that can cause behavioural bias. For example, "loss aversion" when an investor is reluctant to sell a poorly-performing investment and redeploy assets into a more promising opportunity is also an emotional issue.

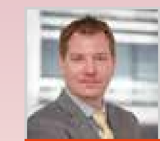
So, the way we approach the task of managing portfolios on behalf of clients is, by necessity, extremely rational. The only objective we have is to make sure we maximise the risk-adjusted return that delivers for clients' portfolios – and any opinion on President Trump or the merits of Brexit are irrelevant. Trade wars, although they have hit emerging markets hard and are likely to be negative for markets, do not yet threaten an overall economic downturn. For global investors with a diversified portfolio, the Brexit issue is unlikely to impact their overall wealth provided it is sufficiently diversified.

The main risk to the global economy actually relates more to the world adjusting to the withdrawal of the extraordinary monetary policy that was implemented following the financial crisis. Central banks cut interest rates to make borrowing – and therefore debt servicing – cheaper. It's a key way to stimulate spending and to keep the economy growing. However, that also led to households taking on a significant amount of debt so there is a fine balancing act for monetary policy authorities for when to raise rates. It's up to the world's central bankers to manage this process – and they will need to tread carefully.

However, we have seen an improvement in economic growth around the world – especially in the US – which aligns with strong revenue generation for companies. A pick-up in inflation has also boosted pricing power, something which is positive for earnings growth, so equity markets seem to be in better shape to weather tighter central bank policy, provided the withdrawal is managed effectively.

Paul Abberley,
Chief Executive,
Charles Stanley

How far are we away from driverless cars?



Garry White
Charles Stanley Wealth Managers

Driverless cars used to be the sort of thing that you'd see in science fiction films, but there are already vehicles being tested on UK roads. Is now the right time to invest in makers of the Car of the Future?

At the end of August, Toyota unveiled plans to invest $500m in ride-hailing service Uber as the two companies expanded a partnership to jointly develop self-driving cars. The Japanese car maker said this will involve the "mass-production" of autonomous vehicles that would be deployed on Uber's ride sharing network. Self-driving technology from each company will be integrated into purpose-built Toyota vehicles, with the fleet based on Toyota's Sienna Minivan model with pilot trials beginning in 2021. Sharing the burden – and research and development costs – is a positive for Uber's investors as it aims to float next year.

Companies including Tesla, Google, BMW, General Motors, Ford, Mercedes Benz and Samsung are all trying to develop self-driving vehicles. Even UK bus operator Stagecoach, which is listed in the mid-cap index, is planning to test a self-driving bus later this year. It will only be allowed to operate in autonomous mode in depots until UK laws change to allow it to carry passengers. A Stagecoach representative said that such a vehicle "could, in time, help improve safety and efficiency within our depots, and over the longer term, help transform bus travel in the future".

Stagecoach is right to explain that this is a long-term project. We are not about to see a wave of self-driving vehicles on Britain's roads any time soon. Whilst new technology in cars is certainly getting smarter and the technology is getting better and better, the day that you'll be able to buy a self-driving car, or even ride in one, is a lot further away than many think, given the level of coverage it is getting in the media.

The automotive industry has big hopes for self-driving cars because the industry is rapidly changing. Concerns about "peak car" have been building, particularly with the start of car sharing services in major cities and the popularity of ride hailing services such as Uber and Lyft. "Peak car" involves a plateauing of sales of private vehicles across the western world before a swift descent in the volume of vehicles sold. Indeed, fewer young people are driving. Earlier this year a government study showed that the number of British teenagers holding a driving licence has plummeted by almost 40% in two decades and a similar pattern is seen in German data.

> **Buying established technology and data companies is the best strategy for investors, as it is likely to carry less risk than investing via car manufacturers, which face a number of headwinds.**

The global population is also urbanising at a rapid rate – and city dwellers are more likely to question the financial sense of owning a personal vehicle. Ride-hailing services provide convenient, affordable transport for anyone with a smartphone and internet access. Car-sharing services also allow members access to vehicles on demand. So, do driverless cars offer a big hope for embattled vehicle manufacturers globally?

Fully-driverless tech is still at an advanced testing stage, but partially automated technology has been around for the last few years. Executive saloons like the BMW 7 Series feature automated parking, and can even be controlled remotely. Google's self-driving vehicle unit Waymo, appears to be ahead of the curve. The group is said to be months away from launching a paid robotaxi service. This is despite some concern and shock over a number deaths in testing vehicles from different manufacturers around the world.

By 2020, there is expected to be in excess of 10,000 autonomous cars equipped with lidar sensors, which bounce laser beams off objects to figure out where they are in three-dimensional space, according to an analysis by Bloomberg New Energy Finance. Self-driving cars typically use a combination of cameras, radar, lidar and ultrasonic sensors to navigate roads while avoiding pedestrians, vehicles and other objects.

However, the technology is very expensive and there is likely to be a significant amount of consumer resistance to the technology on perceived safety grounds. With so much investment and interest in driverless technology, many assume that self-operating cars are imminent, but they're much further away than we might think.

To see where professionals are investing in the sector, it is always interesting to look at the composition of exchange-traded funds that act as plays on the sector. A driverless car ETF was launched in the US earlier this year, so we can take a look at what companies look set to benefit. However, this is just for reference only and this fund is certainly not recommended by Charles Stanley as a purchase. That's because this ETFs is US domiciled and not recognised by the Financial Services Authority, plus the charges for this fund are particularly steep.

The top ten holdings in the fund are as follows:

Company	Holding
Microsoft	3.39%
Apple	3.35%
Texas Instruments	3.22%
Toyota Motor	3.2%
Alphabet	3.18%
Intel	3.1%
NVIDIA Corp	3.07%
Cisco Systems	3.06%
BHP Billiton	2.8%
Samsung Electronics	2.78%

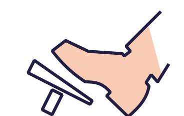
It is interesting to note that there is just one carmaker in the top ten holdings. The rest are technology companies – plus one miner that produces a substantial amount of copper, which is used in wring. In fact, 45% of the fund is invested in the Information Technology sector. Anyone who holds a Nasdaq tracker is likely to already hold a significant amount of these funds.

All of this implies that buying established technology and data companies is the best strategy for investors, as it is likely to carry less risk than investing via car manufacturers, which face a number of headwinds. It is also likely that you already have investments in technology companies that are regarded as being central to the development of the industry. The industry – quite rightly – looks likely to remain in the slow lane because of safety issue. However, you are probably already on board with driverless car investments in technology companies that are exposed to other sectors too. This seems like the best way to play this fascinating new trend.

Driverless car facts

61% The proportion of adult internet users who say they are not inclined to ride in a self-driving car. (Brookings Institution)

16% The proportion of respondents to a recent survey who would feel comfortable letting an autonomous vehicle drive them without the option of being able to take control. (Cox Automotive Evolution Study)



75% The proportion of US voters that want Congress to apply the brakes on driverless cars, citing serious safety and privacy concerns when it comes to driverless car technology. (US Public Policy Poll)

Investing for income

By Jon Cunliffe
Charles Stanley Wealth Managers

Ten years after the Financial Crisis we are still in a market environment where there is a structural shortage of assets that can throw off an attractive and reliable yield.

With UK base rates still only at 0.75% – and unlikely to rise much for the foreseeable future – cash is certainly not an option. Elsewhere, this low interest rate environment and the legacy of the Bank of England's quantitative easing programme have combined to keep ten-year gilt yields anchored around 1.5%. As a result, UK equities are the asset of choice for many investors looking for a reasonable income.

The yield on the FTSE 350 is currently 4%, which against ten-year UK government bonds is at an historically generous level (see chart below). This is viewed by many investors as a key valuation prop for the UK equity market. However, if we scratch beneath the surface for a moment, all is not what it seems.

The top ten dividend payers account for almost half of FTSE 350 dividends paid, with the top twenty responsible for roughly two thirds. This means that the remaining 330 companies are responsible for the remaining third of all dividends paid. Should this matter to investors?

In my opinion the answer is yes. As we have seen, even those investors seeking the market-neutral equity yield of 4% are exposed to a high degree of dividend concentration risk. However, there are some investors who expressly require a multiple (say 1.2 times) of the broad market yield. As the largest dividend payers tend to be those with the highest dividend yields these names are likely to comprise an outsized proportion of an equity income portfolio. This wouldn't be such an issue if the pay-out rate (the proportion of earnings paid out in dividends) was comfortably below 100%, but at least four out of the top ten dividend payers – Shell, HSBC, Vodafone and AstraZeneca – have uncovered dividends and a total of 38% of all FTSE 350 dividends are not backed by earnings.

All this highlights the vulnerability of FTSE 350 dividends to a more challenging economic or trading environment. A good example of this was the Deepwater Horizon disaster in the Gulf of Mexico in 2010 which caused BP to suspend dividend payments and reduced the overall dividend pay-out on the FTSE 350 by 10%.

Elsewhere, there are currency risks to the overall UK dividend pay-out. Large UK corporates derive the bulk of their earnings from overseas. For example, just 23% FTSE 100 earnings come from the UK. The substantial decline in trade-weighted Sterling since the EU Referendum in June 2016 (and the run up in the oil price) has been a tailwind for UK earnings and dividend growth over the last nine quarters. As a result, UK earnings and dividends would be vulnerable to a substantial and unexpected rally in Sterling. This is not our base case at the moment, given the current state of Brexit negotiations and the rising possibility of a "no deal", but investors holding UK equities need to bear this in mind.

For those who do need to invest in UK equities with a higher–than-average yield, we would suggest that you focus on companies which have experienced reasonable and steady earnings growth over the last 3-5 years, have a generous amount of interest cover to cushion against the effects of rising interest on the balance sheet and have been able to demonstrate that they can convert accounting-based earnings into physical cash, because, as we are acutely aware in a post Carillion world, profits are a matter of opinion and cash flow is matter of fact.

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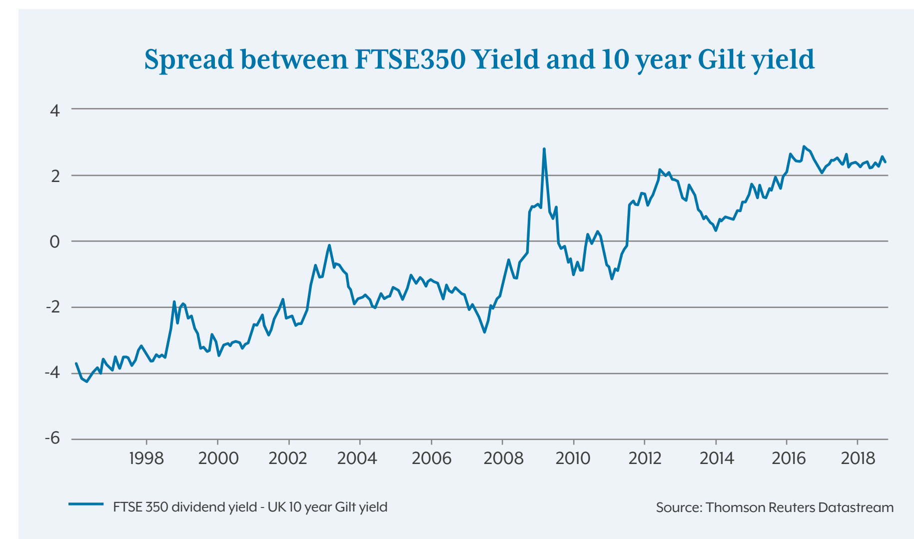


What makes a good charity Chair?

By Ros Oakley
Executive Director
Association of Chairs

The Association of Chairs champions good chairing in the voluntary sector. We support Chairs and Vice Chairs of charities and non-profit organisations to lead their boards effectively and so ensure delivery of the organisation's mission. Resources, training and support are designed specifically for Chairs and Vice Chairs to support them in their skilled and demanding roles.

Much is written for and about the role of charity trustees. Yet, before the Association of Chairs launched five years ago, very little was provided to support those who chair charity boards or management committees.

But chairing is a key leadership role and Chairs make a huge difference to their organisation, either for good or for ill. We are continually learning more about what makes a good Chair. We work with Chairs at different stages, who are leading non-profits of all shapes and sizes. These insights, combined with research have enable us to identify behaviours and practices that help and those that hinder.

Problematic behaviours

- **Authoritarian** – they micromanage, don't respect the CEO or board colleagues, have poor listening skills, are egotistical.
- **Create or avoid conflict** – a disruptive Chair contributes to confusion over the board's role, makes decision-making harder, increases turnover of valued staff and board members, and slows progress.
- **Does not focus on key issues** - they are unable to see the bigger picture, run unfocused or poorly managed meetings.
- **Not productive** – an effective Chair does not push the board to assess the performance of the organisation or itself, nor do they have or make use of external contracts, or focus enough on impact rather than process.

Helpful behaviours

In contrast, good Chairs demonstrate personal attributes which help them work well with people. They have also developed key skills which they use to get the best out of colleagues and the organisation.

1. Personal attributes
Successful Chairs are altruistic, have a good sense of humour, empower others, are friendly and humble. They often bright, confident, reflective, organised, focused and open.

They are also able to relate to others and bring good emotional intelligence. For example they are flexible, non-judgemental, calm, at ease with people of all types.

2. Skills and knowledge
More importantly, good Chairs do certain things. They have the capacity to lead which means that they are committed to the organisation and devote time to it. They are clear about their role and are able to see the bigger picture. They have spent time learning about the organisation and finding out how it really works.

They are able to deal with conflict and contentious issues. They have built a good team, including with the chief executive and understand group dynamics. They are also willing to use their personal connections to the benefit of the organisation.

In summary

A good Chair, whether new or highly experienced, is someone who regularly reflects on the role and how to do it better. They are aware of their own strengths and weaknesses and are willing to seek advice and support when needed.

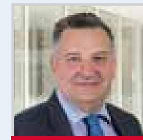
A good chair continually checks their preconceptions about the organisation, their colleagues and their own ability to lead in this context.

Support for Chairs

The Association of Chairs connects with its 600+ members through a regular eNewsletter and programme of events / training. Useful resources including A Chair's Compass about the role and a Question of Balance about the CEO relationship, share practical tips and exercises. The Beacon Programme for Chairs of smaller charities (with an annual income under £1m) offers a series of workshops in nine locations across England as well as webinars and online resources.

Find out more
https://www.associationofchairs.org.uk

Strategic issues all charities must consider



By Ian Mathieson
Partner, Charities and Not for Profit
Moore Stephens LLP

At our recent charity seminar for trustees, Ian Mathieson, Charity Audit Partner at Moore Stephens gave us a high level overview on the strategic issues that trustees should have on their radar. Focusing on effective leadership and governance, as well as some of the key regulators' recent work, a summary of his talk and some helpful tips are outlined below.

Effective leadership and governance

Ian started the session outlining the two maxims to keep in mind while undertaking your role as a trustee:

1. **Govern, don't manage**
2. **Delegate, don't abdicate**

Govern, don't manage

The most effective trustees don't get involved in day to day management – they understand the fine balance between governing and managing.

Effective trustees:

- Have the right balance between constructively challenging and providing support to the executive team;
- Are clear about the culture and values of their charity, ensuring these fully align with the charity's strategy. Culture and strategy are closely aligned and you cannot do either in isolation – culture is the key to the success of the charity and will always prevail over strategy;
- Oversee the stewardship of their charity. They'll monitor compliance with the established policy framework and ask balanced questions about the internal and external risk landscape and how these affect the charity's underlying business model and operations;
- Have oversight of stakeholder communications and clearly understand that the responsibility of the trustees' annual report in the financial statements lies collectively with them;
- Continually keep the needs of their beneficiaries at the centre of everything they do –constantly assessing the impact the charity is having in meeting these needs.

Delegate, don't abdicate

The most effective trustees don't abdicate responsibility to management or within the board of trustees – once a decision is taken, it's the board's decision.

Effective trustees:

- Understand their collective role and responsibility as a board;
- Are aware of the need for delegation to the executive leadership team, whilst recognising the ultimate responsibility rests with them;
- Have a framework in place for the executive leadership team to report back to the board – be that directly or through a sub-committee (for example, the audit or finance committee).

Being clear about your position

Continuing the theme of effective leadership and governance, Ian then highlighted the following areas around which charity trustees need to be clear about their and the charity's position:

- **The Charity Governance Code 2017**
  The Code is not compulsory, but many charities use it to reflect upon aspects of good governance and reporting in their trustees' report.
- **Transparency**
  Trustees need to ensure that they can justify, if challenged, everything published in their trustees' report. The report belongs to the trustees, so in situations where the first draft may come from the executive leadership team, the trustees need to ensure they plan sufficient time to comment upon and own it.
- **Related party transactions**
  Controls to identify and monitor any potential related party transactions are essential, such as each trustee and senior management team member signing a 'related party declaration' form every year and maintaining a central register of these signed forms.
- **Fundraising practices**
  The fundraising practices employed by the charity should be understood, overseen and owned by the board of trustees. Some good guidance can be obtained from the Charity Commission website.

The work of the regulators

Next, Ian touched on recent work of the Charity Commission, Information Commissioners Office and HMRC.

The Charity Commission

The Charity Commission issued updated Serious Incident Reporting guidance on 17 October, commenting in the supporting press release:

"We must work with charities to address systematic underreporting of serious incidents by charities."

In short, trustees need to understand what needs reporting and when, so they know how to fully discharge their responsibilities. With the update, the guidance now gives examples of what constitutes a 'serious incident' – it's a must read for all trustee boards.

The Charity Commission also recently released a welcome pack for all new trustees and, effective from 1 August 2018, have greater automatic disqualification powers which trustees need to be aware of.

The Charity Commission also recently released a welcome pack for all new trustees and, effective from 1 August 2018, have greater automatic disqualification powers which trustees need to be aware of. Again, there is clear guidance on the Charity Commission's website in relation to the automatic disqualification powers – but most notably, it's important to obtain a signed declaration for all trustees and senior leadership team members regarding their own status. Further, if an individual is disqualified from acting as a trustee, they're also disqualified from action as a member of the senior leadership or management team of a charity.

Finally, remember to plan enough time to collate the required information for the new questions introduced in the Annual Return 2018, including:

- Income generated from outside the UK;
- Expenditure incurred from overseas activities;
- Staff benefits and salaries.

The Information Commissioner

All trustees need to be clear about their responsibility for their charity's data and how it's held, used and secured. As mentioned above, understanding the fundraising and marketing practices used by their charity is vital – the ultimate responsibility for these, as well as cybersecurity, rests with the board. Whilst we're all relieved the 25 May General Data Protection Regulation (GDPR) compliance deadline has now passed, the challenge for boards and leadership teams now is to ensure post-implementation compliance. Putting data security and compliance as a standing agenda item on any audit committee or board meeting will help. There's also some useful practical guidance on the Information Commissioner's website, with a specific section dedicated to help charities.

HMRC

Quite simply, Making Tax Digital affects all charities with a turnover in excess of the VAT registration threshold (currently £85,000) and, with a few exceptions announced recently, 1 April 2019 is the current implementation date. Unless this is delayed further, boards and leadership teams need to have an action plan in place for compliance. This will be a challenge for many charities – and indeed for the commercial world as well.

Final thoughts

Ian wrapped the session up with a few final points for trustees to watch out for and remember:

- **Operational stretch of leadership**
  If papers start to become late for board or committee meetings, or agenda items are continually carried forward, there is normally a reason. Quite often, the executive team have too much to deal with and may need support and flexibility.
- **Fraud**
  Particularly insider fraud. Review the strength of counter fraud training and the level of staff awareness.
- **Sign up for updates**
  There's a raft of information sources out there to help trustees keep abreast of recent developments and the changing external landscape – regulators, sector umbrella bodies, and the websites and email alerts of specialist charity auditors, lawyers and investment managers. Sign up for them.
- **Utilise social media for updates**
  Social media, such as LinkedIn, can be used to receive updates too. Specialists like Ian share regular updates on sector developments that trustees and leadership teams will want to be aware of.
- **Horizon scanning**
  In light of the last two points, giving someone in particular the responsibility for horizon scanning the external environment to identify developments that may impact your charity helps to ensure nothing slips through the net.

To discuss any of the above, contact Ian at ian.mathieson@moorestephens or on 0207 167 3024 – or connect with him on LinkedIn for his regular charity updates.

What should charities do when things go wrong?

This may seem like a pessimistic title for a charity audience, but unless you are a particularly small charity, a relatively inactive charity or perhaps a very lucky charity, it is inevitable that at some stage something will happen that is outside your control.

By Alison Talbot
Head of Charities
Penningtons Manches LLP

This will almost certainly be the case despite your good planning and your effective policies and procedures, because problems arise within all organisations from time to time.

The charities lawyers at Penningtons Manches regularly advise on the best way to deal with problems such as financial irregularities, complaints about staff misconduct, data protection breaches, concerns regarding the welfare of beneficiaries through to more serious safeguarding concerns. These include everything from minor grievances within the charity through to advising charities in relation to Charity Commission Statutory Inquiries at the most serious end of the scale.

The important thing to remember, as a charity, is that the manner in which you respond to the problem is going to be the most important factor going forward. The consequences of not dealing with the issue appropriately may include serious damage to the charity's funding and financial position, intervention from either the Charity Commission and/or other regulators and potentially irreparable damage to the reputation of the charity. Perhaps somewhat unfairly, some might say, charities are often held to a higher level of accountability than other organisations and, within the last year, we have seen a number of newspaper articles in which the media have been highly critical of the actions of charities. Whilst the media has a primary interest in selling newspapers, it is clear that both the Charity Commission and other regulators have high expectations when charities are dealing with problems within their organisation.

The Charity Commission recently published their new organisational strategy in which they make it clear that they are going to have a keen focus on their role of "inspiring trust" within charities. It seems likely that as part of this role they will get tougher with charities that do not get things right.

Ideally, when dealing with crisis management, a charity should already have an action plan in place. This plan should be tailored to the individual organisation and set out in some detail the steps that will be taken in relation to incidents that occur within the charity. This plan is likely to include some of the following considerations:

Firstly, the plan should set out the immediate steps that would be taken to protect staff and/or beneficiaries from further harm or damage as a result of the incident or circumstances that gave rise to it.

Next, it is worth appointing one individual to oversee the charity's response to the incident to ensure that nothing gets missed.

The plan should set out a list of the third parties, donors and/or regulators that may need to be notified in the event of something going wrong. It may be useful to vary levels of reporting, depending on the severity or type of incident. In particular, the charity will want to consider whether it needs to notify the police if it is likely that a crime has been committed. This can be a difficult decision for a charity to take and we often support clients with some of the nuances around the obligations to report incidents to official bodies. For example, a victim of a crime may express a view that the crime should not be reported. In this instance the charity will need to weigh up the interests of the individual against the need to protect individuals from the offence happening again. Whatever the decision, the reasons for reporting or not reporting should be properly recorded and documented within the charity's internal records.

The important thing to remember, as a charity, is that the manner in which you respond to the problem is going to be the most important factor going forward.

Alongside the obligation to report to stakeholders, it is also important to ensure that trustees are advised of any significant incidents that occur within the charity, whether or not they satisfy the Charity Commission's definition of "serious incidents". If the problem does fall within the category of "serious incidents" then the charity trustees have a duty to report this to the Charity Commission and it is best practice to do this as soon as possible after the event.

A serious incident is an adverse event, whether actual or alleged, which results in or risks significant:

- Harm to a charity's beneficiaries, staff, volunteers or others who come into contact with the charity through its work
- Loss of a charity's money or assets
- Damage to a charity's property
- Harm to a charity's work or reputation

For the purposes of the Charity Commission's guidance on serious incidents "significant" means significant in the context of the charity, taking account of its staff, operations, finances and/or reputation. If charities are unsure about whether or not they have an obligation to report serious incidents they should take expert legal advice. In the current climate it is likely that the legal advice will be to err on the side of caution and report the incident. It is important that the report is presented appropriately and not only sets out the concerns about the event, but also the trustees' plans for responding to it.

As well as managing the formal reporting of any problems, the charity will also want to prepare for any engagement with the media. It is important to prepare as much as possible for any media interest and this may involve drafting press statements, as well as statements that would be appropriate for social media channels.

It is also usual to include a reminder in the crisis management plan to seek professional support where necessary. The need to do this can sometimes be overlooked in the rush to deal with the incident. It is important that a charity seeks support from specialist charity lawyers who have experience of handling crises within the charity sector if the charity is not experienced in dealing with such issues itself.

Once the dust settles and the immediate aftermath of the incident has been dealt with, the charity will want to carry out any necessary internal investigations and apply appropriate remedies. The charity will need to consider whether it has the requisite skills to carry out the investigation internally or whether it needs to seek external expert support with the investigation process.

It is important that external stakeholders are kept updated with progress reports on the way in which the incident is being handled throughout the process and it is essential that trustees are kept informed. The charity may well need to submit supplementary serious incident reports to the Charity Commission as the matter moves along.

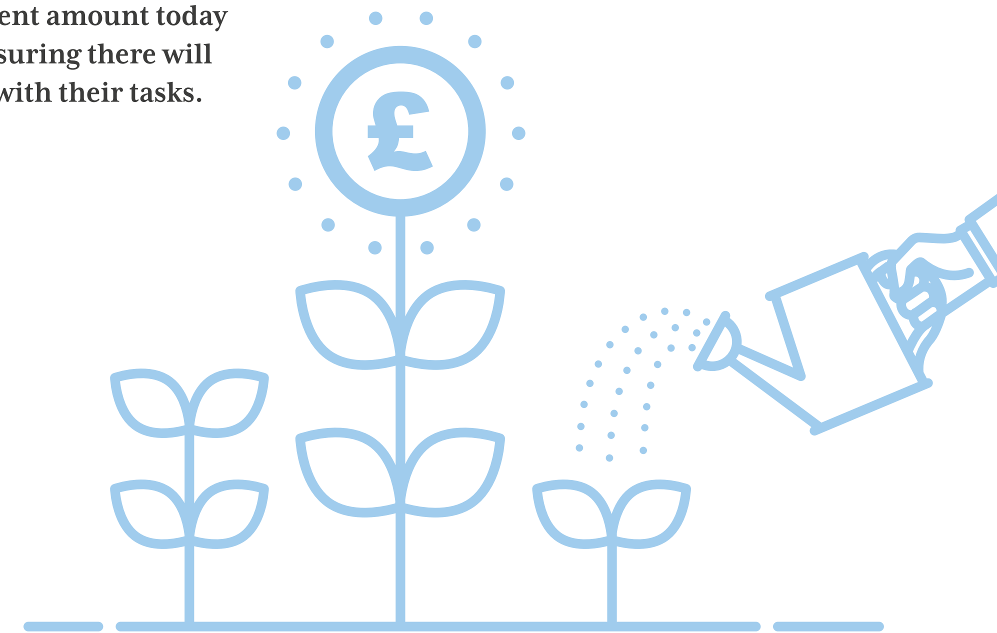
As a result of the incident, the trustees may consider it necessary for the charity to make either small or significant changes to its policies and procedures and/or to provide additional training to its staff in order to prevent future harm or damage to staff or beneficiaries.

If you would like further information on handling crisis situations within charities please contact Alison Talbot at Penningtons Manches LLP, alison.talbot@penningtons.co.uk.

Endowments can help provide sustainable income

By Christopher Aldous
Head of Asset Management
Charles Stanley

Charity Trustees want to know that the investments they hold allow them to spend a decent amount today on the charity's purposes, whilst ensuring there will be a bit more tomorrow to carry on with their tasks.



Building an endowment fund can provide more stability for a charity, and can help extend the range of scope of the work it does for its chosen cause. People are often willing to donate more generously towards building an endowment, as they like the idea of their gift have a lasting impact on the charity. Providing a one-off gift which the charity spends shortly after receipt may not be so attractive to the donor.

Many charities do already have endowment funds. Traditionally they spent the income that the funds generated, and retained the capital gain on investments as they rose in line with markets. Where they invested in shares or property they usually managed to spend a decent sum each year while still retaining enough to increase the real value of the fund for the future. In recent years the income on safer government bonds has fallen sharply and the dividend yields on shares have also reduced. This has made it more difficult for a charity to just rely on using the income from the endowment's investments to fund its objectives. Meanwhile, the capital values of most endowments have risen strongly, thanks to the long bull market in both bonds and shares.

This has led more charities to adopt the idea of 'sustainable income'. They decide how much they can spend each year from the endowment, recognising that this may include a bit of capital gain as well as the income on the investments. Typically longer term endowments think they draw down around 3% to 3.5% of the fund each year. Longer-term rates of return on share-based endowments after inflation ('real returns') are likely to be around 4%-5%, so drawing down just 3% of the value of the portfolio leaves the fund larger for the future at the end of each year. Sourcing good investment management can help the Charity Trustees improve the longer-term returns on the fund, whilst establishing a level of risk the Trustees are happy with.

Long-term endowments are more likely to invest in claims on real assets, typically by buying shares and property. Experience shows that, over the longer term, these assets do appreciate in value as well as delivering to the endowment a rising level of dividends or rent. To follow this path safely and effectively, the fund needs to hold a spread of investments, as any individual share can go to zero if the company fails, and any individual property can suffer from rent cuts or a tenancy void which undermines its income and value. There can also be occasions when shares in general or property as an asset class falls substantially in value. If the fund has not taken some protective action against these events, it needs to be able to hold and wait for better times. In these cases, a doctrine of sustainable income can mean the endowment still offers reasonable support to the charity despite the short term valuation losses of the assets. Only if the assets are permanently impaired owing to undue concentration would the charity have to cut its claims on the endowment.

Section 5 of the Charities Act 2011 requires Trustees to take 'proper advice' about how they handle their investments. Just putting the money into a bank account with tiny rates of interest would not be a good answer for endowment money. It needs to be put to work. Good professional advisers can help Trustees with how much risk they should run, and with deciding what mixture of assets is most likely to provide decent returns for the future and meet the charity's funding needs. This leaves the officers of the charity free to continue with the daily business of raising donations for immediate needs and the all-important work of deciding how to spend the money collected. Building an endowment fund can help smooth future outlays and add considerably to the charity's objective in terms of collecting new cash. With the right investment policy, the charity should be able to spend more in the future as the investments go up in value and generate more investment income.

> **Building an endowment fund can provide more stability for a charity, and can help extend the range of scope of the work it does for its chosen cause.**

Investing with a conscience

By Ben Johnson
Collectives Analyst

Ethical investing is evolving rapidly. Investors are actively looking to place money in companies that do good and bring a positive change to the world, rather than just avoiding investing in sectors deemed unethical. This trend is here to stay.

For a growing number of investors generating good returns from their portfolios is no longer enough. Increasingly, shareholders want to know that the companies in which they have a positive impact on the world, rather than maximising profits with no consideration of the impact of their activities. Many have linked this trend with the rise of the 'Millennial' generation and, whilst this isn't untrue, our belief is that this is a structural shift that is here to stay.

Fortunately for these ethically-minded investors, the field of "responsible" or "ethical" investment funds is a growing one. Such investments have actually been around for a while but, historically, funds simply excluded sectors with controversial business practises (think oil, tobacco, weapons etc.) and this was sufficient to classify yourself as ethical. However, we're now seeing a more pro-active approach to ethical investing.

A key milestone was reached in September 2015, when 193 countries agreed to seventeen goals referred to as the Sustainable Development Goals (SDGs) as part of the United Nations 2030 Agenda for Sustainable Development. These seventeen goals are wide ranging, from goals around eliminating poverty and providing clean water, to action on climate change and improving the state of the world's oceans.

What we're now seeing is funds going much further. Rather than just focusing on investments to avoid, they're now actively seeking out companies which make a tangible positive contribution through the product or service they provide and, in the process, addressing one or more of these seventeen UN Sustainable Development Goals. Funds that invest like this are known as "impact" funds, and this is where we anticipate a real growth in demand in the coming years.

The war on plastic is one theme that has really captured the public's imagination. David Attenborough's Blue Planet II has had a huge impact on public awareness of this issue, not just in the UK but all across the world.

One product of note that invests on this theme is **Impax Environmental Markets** investment trust, which has exposure to a number of companies that are providing solutions to these vital issues. It is important to note that the management team don't just hunt for the most exciting technologies; the companies they invest in must be viable at a commercial level, and capable of creating value for shareholders.

> **The war on plastic is one theme that has really captured the public's imagination. David Attenborough's *Blue Planet II* has had a huge impact on public awareness of this issue, not just in the UK but all across the world.**

We recognise that ethical preferences can vary hugely from person to person dependent on an individual's beliefs and preference. The Charles Stanley Collectives Research team spends a lot of time researching and analysing a wide range of ethical funds, from those that have a broad approach to those that seek to address one specific global challenge and are more thematic in nature. Ethical investments can form a core of an investor's portfolio, or can be used to supplement existing holdings as a means of taking exposure to highly-dynamic companies, many of which are leaders in their field and possess unique intellectual property. There is no single right way to invest ethically and our investment managers have a broad toolkit from which to choose.

Awards Corner

Investment and Wealth Management Awards 2018

Charles Stanley is extremely pleased to have been shortlisted in four categories at the prestigious FT/IC Investment and Wealth Management Awards including:

- Best Discretionary/Advisory Wealth Manager
- Best Full Service Stockbroker

In addition, our execution-only investment platform Charles Stanley Direct has also been shortlisted in two categories including:

- Best Investment Platform

The independent awards, which are voted for by readers of the *Financial Times* and *Investors Chronicle*, recognise those firms which provide the best value for money and excellent customer service and the managers who can deliver the best results for their clients.

Gary Teper, Charles Stanley's Head of Private Client Investment Management, said: "To be shortlisted for six awards alongside the wealth management industry's leading firms is testament to the quality of our people. The fact that these are reader-voted awards with a focus on excellence is a real endorsement of the fact that we continually strive to offer a best-in-class client service and deliver strong performance."

Power Women Awards

We are delighted to announce that we have been shortlisted in three categories for the Citywealth Powerwomen Awards 2019. Now in its seventh year, the Powerwomen awards champion women in the wealth industry and recognise individuals and companies who actively seek to maximise the potential of women within the sector.

In addition to being nominated for the Company of the Year for Female Leadership, Shelley Leaney, Director of Private Clients and Tsitsi Mutiti, Investment Manager, have both been shortlisted for the prestigious Woman of the Year award. Congratulations to Shelley and Tsitsi, both of whom would be deserving recipients of this accolade.

If you would like to support us in the awards, you can do so by voting online using this link: https://www.citywealthmag.com/awards/powerwomen-awards/voting.

Trees for Life

As a business, we recognise that our operations, and indeed those of all businesses, have an impact on the wider environment. We have therefore committed to reducing paper consumption and placed significant investment in our digital infrastructure to create a world-class client portal, providing clients with the opportunity to switch from traditional paper-based services to secure digital communications.

To support us in our efforts to reduce paper consumption and create a long-lasting and positive impact on the wider environment, we are delighted to be partnering with Trees for Life, who will plant trees in Charles Stanley's dedicated grove for those clients who opts to go paperless.

If you are interested in hearing more about our paperless options, please contact your investment manager or your usual Charles Stanley contact who will be delighted to assist.

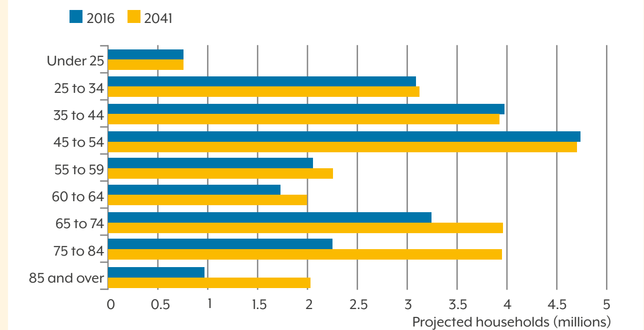
Coal remains king, the aging UK and the changing language of the internet

Demographics is destiny: Britain's ageing population

Households headed by someone aged 65 years and over are projected to increase by 54% by 2041, while those headed by someone aged under 65 years are projected to grow by just 3%. This means 88% of the total growth of households in England between 2016 and 2041 is for those headed by someone aged 65 years and over. This has major implications for the UK economy, including a decline in the working-age population, increased health care costs, challenging pension commitments and changing demand drivers within the economy. These issues could undermine the high living standard enjoyed in many advanced economies if not dealt with politically.

Projected households by age of head of household

England, 2016 and 2041



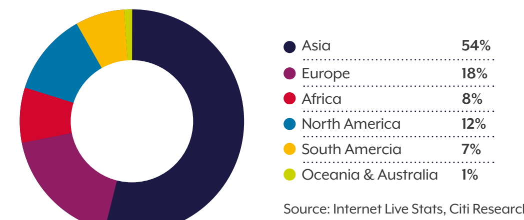
Household projections in England: 2016-based

Source: UK Office for National Statistics

Internet language changes ahead

At present, Asian language speakers dominate the Internet, but Internet content is heavily skewed towards English. Leading technology companies need to increase their focus on non-English languages, especially Asian languages and dialects, over the medium term. There is an underlying need for local content, which should increase the requirement for language resources going forward as companies try to attract consumers from these regions.

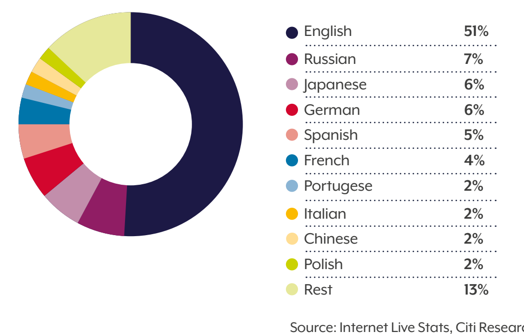
Distribution of Internet Users by Region (2016)



Region	Share
Asia	54%
Europe	18%
Africa	8%
North America	12%
South Amercia	7%
Oceania & Australia	1%

Source: Internet Live Stats, Citi Research

Breakdown of Websites by Language (2016)



Language	Share
English	51%
Russian	7%
Japanese	6%
German	6%
Spanish	5%
French	4%
Portugese	2%
Italian	2%
Chinese	2%
Polish	2%
Rest	13%

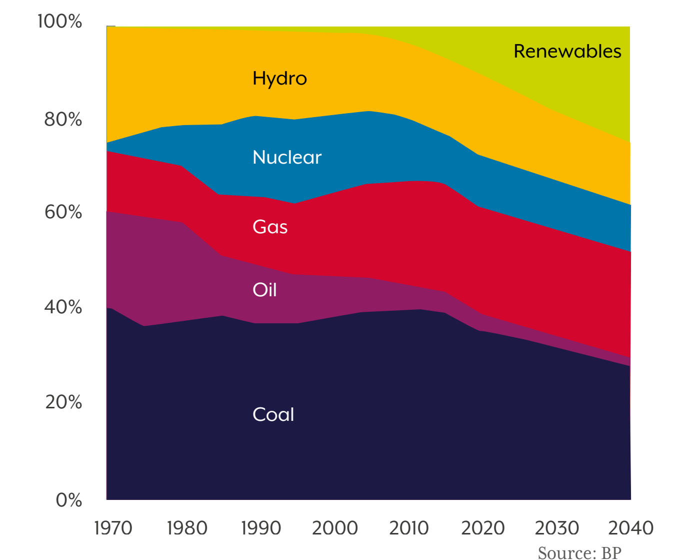
Source: Internet Live Stats, Citi Research

Source: Citi Research

Coal still a major energy source

The mix of fuels used in power generation is set to shift materially, with renewable energy continuing to gain in importance. However, coal looks set to remain the largest source of energy for power in 2040, with a share of almost 30%.

Shares of total power generation



Source: BP

What's your preference?

Following feedback you can now receive your copy of InFocus, via email. To update your preferences, please email infocus@charles-stanley.co.uk

CHARLES STANLEY

Private Client Survey

2018

The *close relationship* our investment managers build with our clients enables them to *listen to their needs* and *continually enhance the service we provide*.

SATISFACTION

95% of survey respondents are satisfied with Charles Stanley

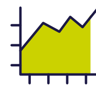
96% of survey respondents are satisfied with their investment manager

My family have worked with Charles Stanley *for 50 years.*

Client comment

DISCRETIONARY SERVICE

92% of survey respondents say they are satisfied with our products.



90% of survey respondents say they are satisfied with our investment performance.

87% of survey respondents say our service gives value for money.

94% of survey respondents are satisfied with our communication.

ONLINE PORTAL

84% of survey respondents are satisfied with our online portal 'My Charles Stanley'.

In response to feedback we have made improvements to enhance our clients' user experience and improve their satisfaction.

TRUST

-100% 0% 100%

+67.2% Net Promoter Score (NPS) for discretionary clients respondents 'likely' to recommend Charles Stanley.

Without doubt I would *recommend them* to family and friends.

Client comment

*NPS Score = Promoters% – Detractors

Investment involves risk. Investors may get back less than invested.

Focusing on you