F INVESTMENT POLICY

BACKGROUND

The Creative Lives Reserves Policy is to aspire to hold three-months operating costs with a minimum level equal to the amount required to discharge legal responsibilities in the worst case plus a contingency of £20,000. One result of this policy is that the Organisation has cash resources which are surplus to those required for its day-to-day activities. These cash resources are split into two categories:

1. Long term deposits. This represents cash resources which are not only surplus to day-to-day needs, but in excess of those resources required to meet the ‘peaks and troughs’ of daily, weekly and monthly activities. These long-term deposits are separately invested.

2. Short term deposits. This represents cash resources which while surplus to those required for day-to-day activities are nevertheless required to meet the ‘peaks and troughs’ of daily, weekly and monthly activities.

THE ROLE OF TRUSTEES

It is not the Organisations policy to speculate with these cash balances. (Speculation is defined as investing in any financial instrument, the principal value of which increases or decreases in accordance with the movement of market prices Examples of such assets are bonds, shares, foreign exchange contracts, contracts for difference, or unit trusts which invest in such assets) Any investment in such assets are prohibited.

It is part of Trustees’ responsibility for safeguarding the charity’s assets to ensure that surplus funds are invested in appropriate ways. The Charities and Trustee Investment (Scotland) Act 2005 stipulates a number of conditions and duties that must be followed by Trustees in the exercise of their extended powers of investment. These duties are that before making an investment trustees should:

- consider, as is appropriate for the trust, the need for diversification of the trust’s investments. Diversification may not be appropriate in all circumstances.
- consider the suitability to the trust of the proposed investments.
- consider whether they need to obtain appropriate advice on the way in which their power to invest should be used, or whether their investments should be changed.
- if they decide advice is required, obtain it from someone who they believe has the ability, practical experience and appropriate qualifications to provide proper advice (See ‘Guidance for Charity Trustees’ published by the Office of the Scottish Charity Regulator: https://www.oscr.org.uk/guidance-and-forms/accounts-and-finance-guidance/charity-investments-guidance-and-good-practice/

In order to discharge the duty to adopt a prudent approach to the investment of the charity’s funds, trustees must know their investment powers – examination of the Creative Lives Memorandum of Association (xvi) allows

F INVESTMENT POLICY

"To invest and deal with the moneys of the Company not immediately required in such manner as the Company may from time to time determine subject nevertheless to such conditions (if any) and such consents (if any) as may for the time be imposed or required by law and subject also as hereinafter provided."

POLICY

Investment strategy will be considered annually (as part of budgeting process) by the Trustees to decide on savings accounts used. In practice the detailed analysis of options may be delegated to the Finance Committee with its recommendations then presented to the Board for approval.

In considering investment strategy each year, the following rules will be adhered to:

Long Term Deposits.

- Amounts represented by long term deposits must be deposited in instruments.
  or with financial institutions which carry a triple A credit rating from either Standard and Poors or Moody's.
- Deposits should not be for periods in excess of three months, and ideally should be in instruments capable of immediate redemption at no penalty.

Short term Deposits:

- Invested in an instrument such as a Money Market Fund which carry a AAA rating from either Standard and Poors or Moodys and which have facilities for immediate redemption at no penalty.
- Maintained on interest bearing current accounts with a bank with an A1/P1 credit rating.

Any accounts used for either short- or long-term deposits should be monitored to ensure that they do not exceed the £85,000 limit protected by the Financial Services Scheme (FSCS).

Approved by the Creative Lives Board of Directors, 16 July 2020
Review by July 2023

APPENDIX: CREDIT RATINGS

What is a Credit Rating?

A credit rating is an independent, third-party assessment of the creditworthiness of an obligor with respect to a specific financial obligation. Credit ratings are provided by entities called credit rating agencies. \these agencies are independent of any government institution, investment banking firm or similar institution.

There are two agencies that which gained an international reputation over the last century: Moody's Investors Service \9moody's) and Standard and Poors (S&P). Because of their reputation debt investors tend to place great reliance on them. The advantage for the debt investor is that the assessment by the rating agencies is independent. It is important to emphasise that it is the financial obligation that is rated not the company.

Credit ratings can be either short or long term. Short term ratings are assigned to those obligations considered to be short term in the relevant market. In the United States, for instance that means obligations with an original maturity of no more than 365 days and would include commercial paper.

Ratings are typically based on a letter scale. The scale ranges from AAA (Aaa for Moody's)
for the highest credit quality through down to C or D (for default)

Long term rating scales for Standard and Poor's and Moody's

Standard and Poor's	Moody's	Meaning (summary)
AAA	Aaa	Top rating: best quality, fundamentally strong
AA	Aa	High quality: strong capacity to repay; margin of protection not as large as AAA (aaa)
A	A	Strong capacity to repay, but more susceptible to changing economic conditions
BBB	Baa	Adequate capacity for payment but protective elements may be lacking or unreliable

BB,B, CCC, CC,C	Ba B, Caa, Ca, C	Significant speculative characteristics, with BB (Ba) the least speculative
D	D	Default

Short term rating scales for Standard and Poor's and Moody's

Standard and Poor's	Moody's	Meaning (Summary)
A-1+	P-1	Highest grade: extremely strong capacity to meet. financial obligation
A-1	P-1	Strong capacity to meet. financial obligation
A-2	P-2	Ability to meet financial obligation is satisfactory
A-3	P-3	Adequate protection parameter
B		Significant speculative characteristics

Note: Issuers rated A-1/P-1 correlate generally with long term ratings of A or better

Long Term Credit ratings

Historical analyses of US corporate default statistics carried out by S&P demonstrate that over a 15-year timeframe, only 0.5% of issuers initially rated AAA defaulted on an obligation. Close to 305 of issuers initially rated B fell into default. The biggest change is between BBB and Bb where 15-year cumulative default rates have been roughly 4.5 per cent and 16.4 per cent. Hence a cut-off for investment garden at BBB.