1 Introduction

1.1 Foundation Scotland [FS] is a grant making charity which seeks to build endowment funds and distribute funding for the benefit of communities in Scotland. FS invests cash surplus to its immediate requirements in several ways to ensure that it can sustain its distribution activity. However, it recognises the risks that investing brings and the importance of ensuring these are properly managed.

1.2 This document sets out FS's Investment Policy which ensures that it:

1.2.1 Manages the risks associated with investment activity.

1.2.2 Provides the basis on which the mandate for the management of its investments are delegated to others.

1.2.3 Complies with legal and regulatory requirements.

1.2.4 As a charity, FS does not wish to incur tax on investments and therefore only allows investment in approved charitable investments as defined in sections 558 and 561 of the Income Tax Act 2007. Under current HMRC guidelines, FS is not liable for either Capital Gains Tax on its investment portfolios and will pursue an investment policy to ensure this status is maintained

1.3 This Policy has been prepared using the Scottish Charity Regulator [OSCR] guidance "Charity investments guidance" [April 2025]. The legal position in Scotland with regard to Programme Related Investment and Mixed Motive Investments has been checked with OSCR.

2 Scope

2.1 Stewardship of FS's investments is one of the main responsibilities of the Board of FS. The Board has delegated this responsibility – to the Audit and Assurance Committee [AAC].

3 Abbreviations and Definitions

Abbreviations

- AAC – Audit and Assurance Committee

4 Policy

FS's Investment Context

4.1 Under section 3 of FS's Articles of Association FS has the following powers in relation to its investment activity: -

- acquire and hold shares, stocks, debentures and other interests in companies or other bodies with objects similar to any or all of the Objects and carry out in relation to any such company which is a subsidiary of the Foundation all such functions as may be associated with a holding company;
- invest any funds which are not immediately required for the Foundation's activities as may be considered appropriate (and to dispose of, and vary, such investments);
- to engage such consultants and advisers as are considered appropriate from time to time;

4.2 The level of funds allocated for investment is set by the Board, with advice from the AAC and is based on identified risks and the strategic plan.

4.3 The level of funds held as reserves is set by the Board and is described in the Reserves Policy.

Investment Objectives

4.4 Endowments

4.4.1 Through its discretionary managed portfolios FS pursues an investment objective of maximising total return from income and capital growth over the longer-term, while seeking to maintain the real value of its investments taking into account any withdrawals for grant making. The portfolios seek to control risk via diversity across a wide range of holdings held predominantly in pooled funds. Income is either re-invested or held as cash for distribution.

4.4.2 So long as not detrimental to the financial return purpose at 4.4.1, the portfolios also seek to be invested in a sustainable way. Attention is paid both to the products and services provided by the underlying companies held in the portfolios, and also to their business practices.

4.4.3 Where FS is entrusted with a fund whose donor has a finite time-frame to utilise their donation or may choose to spend out their capital such as with a Community Endowment, FS may adjust the investment objective specific to these funds to reflect the donor's ultimate objectives.

4.4.4 The Board agrees a level of cash to be withdrawn from the funds on an annual basis from capital [excluding Matched Endowments which are permanent in nature] and income. The level is reviewed periodically to try and achieve long term sustainability. In setting the withdrawal rate the AAC will consider a range of issues including but not exclusively: investment performance, inflation, needs of beneficiaries and also the needs of FS.

4.5 Investment Property

4.5.1 FS aims to minimise its operating costs consistent with operational efficiency. With the assistance of a donor supportive of this objective, FS purchased a building in 2017 and rents out office suites and meetings rooms within the building. The AAC monitors the income generated from this investment on a quarterly basis as part of their review of the management accounts. The property is valued every five years by an external expert.

4.6 Programme Related Investment / Mixed Motive Investment

4.6.1 FS does not generally undertake Programme Related Investments / Mixed Motive Investments[1] however it remains opens to opportunities should they present themselves. Client directed investments include loans to charitable projects and a small investment in a community hydro-electric scheme.

4.7 Client Cash

4.7.1 FS holds cash in respect of non-invested grant making funds. The majority of these funds are held in an interest-bearing deposit account with sums being transferred to FS's operating bank account as grants are made. The procedures around the management of cash accounts and the banks used is covered under FS's Treasury Management Policy.

4.7.2 One fund, with the agreement of the Board, is held in its own dedicated bank accounts. For operational efficiency FS aims to keep such segregated bank accounts to a minimum permitted only in exceptional circumstances.

4.8 Operating Cash /Unrestricted funds

4.8.1 FS currently places surplus operating cash across its operating account, interest bearing deposit accounts and fixed term deposits. From time-to-time FS may hold unrestricted funds in the form of investments.

Risk

4.9 The Board recognises that the investment process exposes FS to several risks - consistent with the Investment Objectives noted in section 4.4 – and that inevitably capital values and income will vary from time to time and may result in lower capital values. The long-term nature of the organisation is such that the Board understand and accepts these risks. The risk mitigation protocol is set out below.

4.10 Capital and Income Risk

4.10.1 The risk of loss of capital or income as the value of investments change is managed by having a diverse investment portfolio.

4.11 Market Risk

4.11.1 The risks arising from general market movements, inflation, interest rates, exchange rates and company specific issues are managed by regular monitoring of Investment Manager performance against the benchmark and by regular contact with Investment Managers. Investment will only be permitted in equity and fixed interest markets with accepted financial regulations.

4.12 Valuation Risk

4.12.1 With the exception of the Investment Property, all investments are independently valued, and valuations verified against published prices. The Investment property is valued triennially.

4.13 Counterparty Risk

[1] The term 'social investments' describes programme related and mixed motive investments. Programme related investments are held to further the charitable purposes of the investing charity. Although programme related investments can generate a financial return, the achievement of a financial return is incidental to furthering the charitable purposes of the investing charity. Mixed motive investments are a form of social investment made in part to further the charitable purposes of the investing charity and in part to generate a financial return.

4.13.1 For the most part, FS does not undertake any investments directly and relies on several Investment Managers with whom it has discretionary mandates. The mandates with these managers are reviewed at the time of their presentation to the AAC.

4.13.2 FS holds its cash at UK clearing banks whose credit ratings are checked regularly. In addition, it has sums on deposit with the Nationwide Building Society and Epworth Affirmative Deposit Fund whose ratings are also checked regularly.

4.14 Ethical Risk

4.14.1 There are no specific environmental, social or governance (ESG) restrictions on the majority of our investment portfolios. However, where FS has day-to-day investment management responsibility, funds are now all invested in the Rathbones Charity Growth & Income Fund. Further details are available on the FS website.

4.14.2 With regard to Donor Directed investment portfolios, an overriding principle is applied prohibiting the holding of securities which risk bringing FS into disrepute. The AAC and ultimately the Board have the final say on this matter.

4.14.3 Notwithstanding the foregoing, the Trustees consider that both fund managers and Board directors of invested companies have a stewardship responsibility to all their stakeholders. They also believe that funds and companies which ignore ESG issues will be more at risk of reputational, and consequently financial damage. External investment managers have been directed to be mindful of this when selecting funds and companies for inclusion in FS portfolios. However, it is noted that ESG judgements are subjective by nature. Due consideration will also be paid to materiality of holdings where ESG concerns pertain.

4.14.4 The IC, which monitors the performance of the Investment Managers and the operation of the Investment Policy, includes members who have held senior positions within Investment Management Firms. Conflicts of Interest are declared at each meeting and links to firms are fully disclosed under the Declarations of Interest Register.

Types of Investments

4.15 The discretionary mandates with Investment Managers allow for investment in:-

- Cash
- Equities
- Bonds and Gilts
- Buildings or Land
- Investment Funds / Unit Trusts

4.16 The investment objective as set out in 4.4 drives the portfolio weightings and will vary from manager to manager. Historically this has resulted in approximately 80% in equities, 15% in fixed income and 5% in cash or alternatives. The Rathbones Charity Growth & Income Fund is invested in 75% equities, 15% in fixed income, 5% in cash and 5% in Real Assets.

Classification of Investment Portfolios

4.17 FS will accept transfers of investment assets as donations. Unless FS has agreed with the donor to set up a Standalone Discretionary or Donor Directed Fund, transferred assets will normally be realised and invested in the Rathbones Charity Growth and Income Fund. Below an absolute minimum of £500,000 assets will normally be realised and transferred to the Rathbones Charity Growth and Income Fund unless an exception has been agreed.

4.18 FS is the custodian of many small trusts as well as its own assets. Given the nature of these funds this necessitates the use of a collective vehicle to ensure an efficient administration of the investments held. The ideal investment vehicle is considered to be a balanced Charity Investment Fund (CIF). Other pooled funds, investment or unit trusts may be used. Where a donation is made by way of a transfer of invested assets and the fund is to be converted to a CIF, FS will undertake to move these assets in an efficient and managed way. This would not apply to Donor Managed Funds.

4.19 The Board has determined that FS will permit a variety of investment portfolios described as follows:

4.19.1 Pooled Discretionary Funds - these funds comprise donations to FS which become part of the pooled investment portfolio and which are invested in a unitised fund or directly in pooled investment or unit trust funds. There will be no direct equities held in this fund. There may be situations where the sum donated is of a size that the funds are directed to a cash account rather than being in an invested fund. This is considered a preferred strategy for donations of less than £25,000.

4.19.2 Stand-alone Discretionary Funds - these funds usually comprise portfolios which have been donated to FS for the purpose of philanthropic giving but which at the request of the donor, and are of a large enough size, are segregated. The absolute minimum size for such a fund is £500,000 or a lower sum with a commitment to build the fund to this level within a five-year period. The portfolio would be managed by an Investment Manager approved by FS. Should this commitment prove unfulfilled in the longer-term, FS reserve the right to transfer such investments to a pooled fund following appropriate donor engagement.

4.19.3 Donor Directed Funds - these funds have been donated by donors with specific expertise in investment and where the donors are permitted after proper review to direct the investment transactions within their fund. See also 4.14.2 and 4.14.3 As with the Stand-Alone Discretionary funds the absolute minimum size of a fund in this category is £500,000.

4.19.4 Strategic Reserve Fund - this fund represents the reserves and core capital of FS. It comprises surpluses from previous years and donations with no specific purpose which can be used to fund the operations of FS and any annual surpluses generated from the FS charitable activities and general reserves.

Monitoring Investment Performance

4.20 Measuring Investment Performance

4.20.1 The Board have delegated the review and monitoring of investment performance to the AAC. The AAC reviews the performance of the portfolios against agreed benchmarks on a quarterly basis and the minutes of these meetings are reviewed in turn by the Board.

4.21 Review the Services Offered by Investment Managers

4.21.1 A review of the Terms and Conditions offered by the individual Investment Managers will be undertaken every 3 years or more regularly on an individual basis where there is a change of circumstances i.e. in the case of a takeover or merger of one of the Managers, loss of key personnel in the Manager or notification of a material change in their Terms and Conditions.

4.22 Intervention

4.22.1 As a result of a period of consistent underperformance over a three-year period the AAC will instigate a more detailed review of performance and initiate dialogue with the said Manager and/or donor to resolve the issue which might lead to the funds being moved to a new Manager.

4.22.2 Managers' performance is regularly reviewed, and if there became an unacceptable risk because of over reliance on a single manager, our policy is to seek diversification as appropriate.

Reporting Requirements for Investment Managers

4.23 FS requires Investment Managers to produce a suite of reconciled reports to an agreed format within five working days of the month end.

4.24 Investment Managers will also be expected to attend the AAC once every 12 months at which they are expected to present a summary of their portfolio'(s) performance and to answer questions from members on this and other investment related matters. The AAC has the discretion to ask Investment Managers with smaller funds to present at least every 24 months

5 Roles and Responsibilities

5.1 Roles and responsibilities are detailed throughout the Policy

6 Training

- Training on the Foundation Scotland Investment Portfolio is available

7 References

- There are no references linked to this Policy

8 Review

8.1 The Investment Policy will be subject to an annual review by the AAC who will consider the policy and if appropriate make recommendations to the Board of Trustees to consider.

8.2 A summary of the Investment Policy will be included in the Annual Report and Accounts.

9 Document Properties

Title	Investment Policy		
Type	Policy	Classification	Finance
Reference Number	27	Version - auto-generated	0.7
Status	Approved	Approval Date	01/03/2021
Author	CFOO	Approver	FS Board
Last Reviewed regardless of whether changed	31/01/2026	Next Review Date	31/01/2027