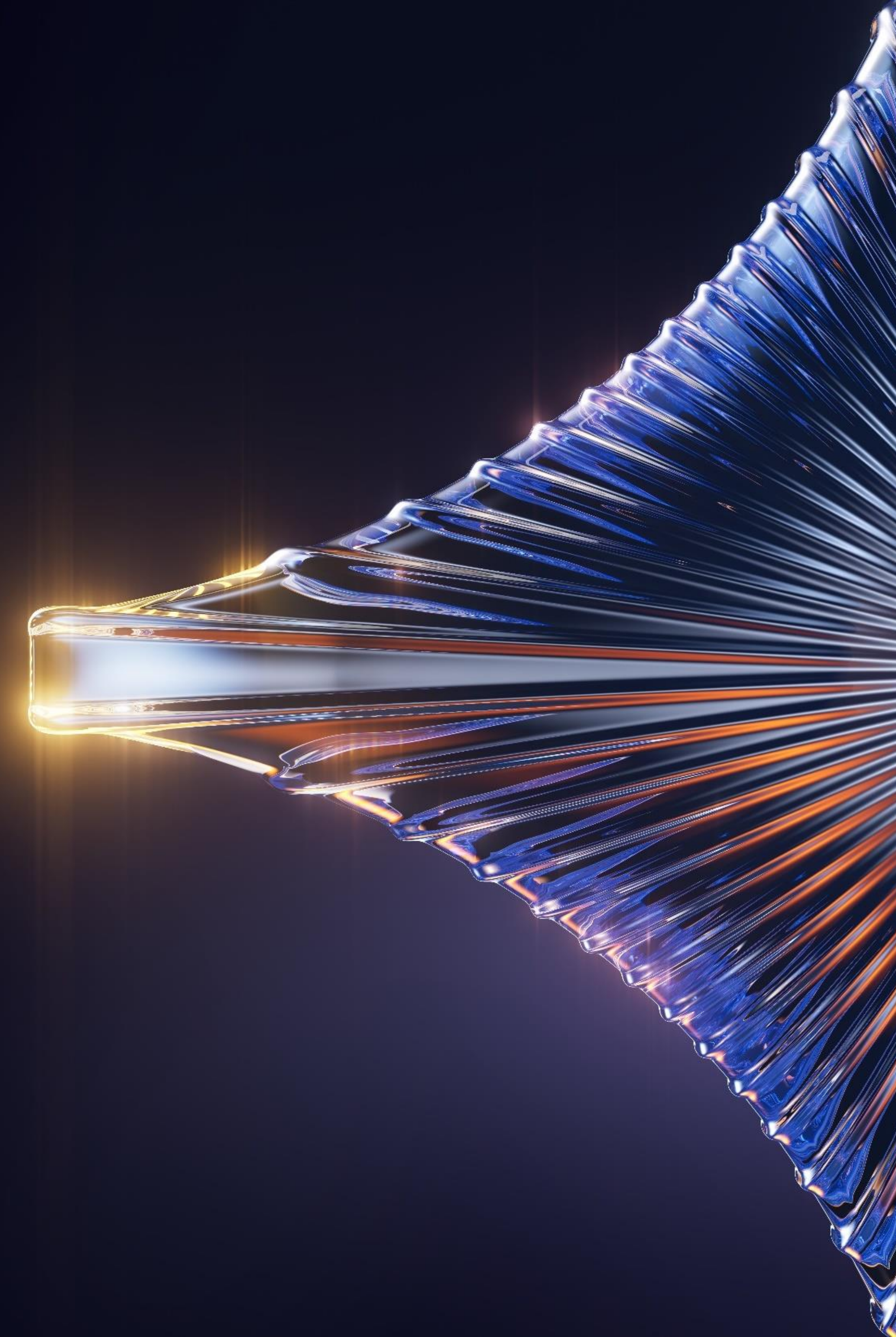
Financial Confidence for Leaders: Strategy, Oversight and the Investor's Lens



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Strategy – Why?

Someone is sitting in the shade today because someone planted a tree a long time ago." — Warren Buffett, American business magnate, investor and philanthropist – VISION

The competitor to be feared is one who never bothers about you at all, but goes on making his own business better all the time. — Henry Ford – DELIVERING YOUR OBJECTS

If you're competitor-focused, you have to wait until there is a competitor doing something. Being customer-focused allows you to be more pioneering. — Jeff Bezos, Founder & CEO of Amazon – MEMBERS

However beautiful the strategy, you should occasionally look at the results. — Sir Winston Churchill – REPORTING

Strategy and why it is important

- Clear direction
- Planned actions, informed decisions
- Financial sustainability
- Delivers desired outcomes
- Enables you to monitor your successes

What is important?

- Finding time
- Involving stakeholders
- Understanding your objectives and member needs
- Deciding what you can do v. signposting

NPC – Developing and following a strategy results in clear purposes, effective decisions, better implementation and ultimately greater impact – Strategy for Impact (March 2017)

Financial influences

Funding – memberships, publications, investment income, other income

Infrastructure – owned property or leased. Regional structure?

Known knowns? What do you know will happen in the course of the plan and what will it involve and cost?

Unknown knowns? What could happen and what contingency might you need?

Reserves and cash – what do you have, is it sufficient to meet your short term needs and longer term strategic plans?

Impact on reserves and cash:

- What is your reserves policy?
- Impact of scenario planning
- Utilisation
  - **Safety net**
  - **To fund unfunded activity**
  - **Cash flow operations**

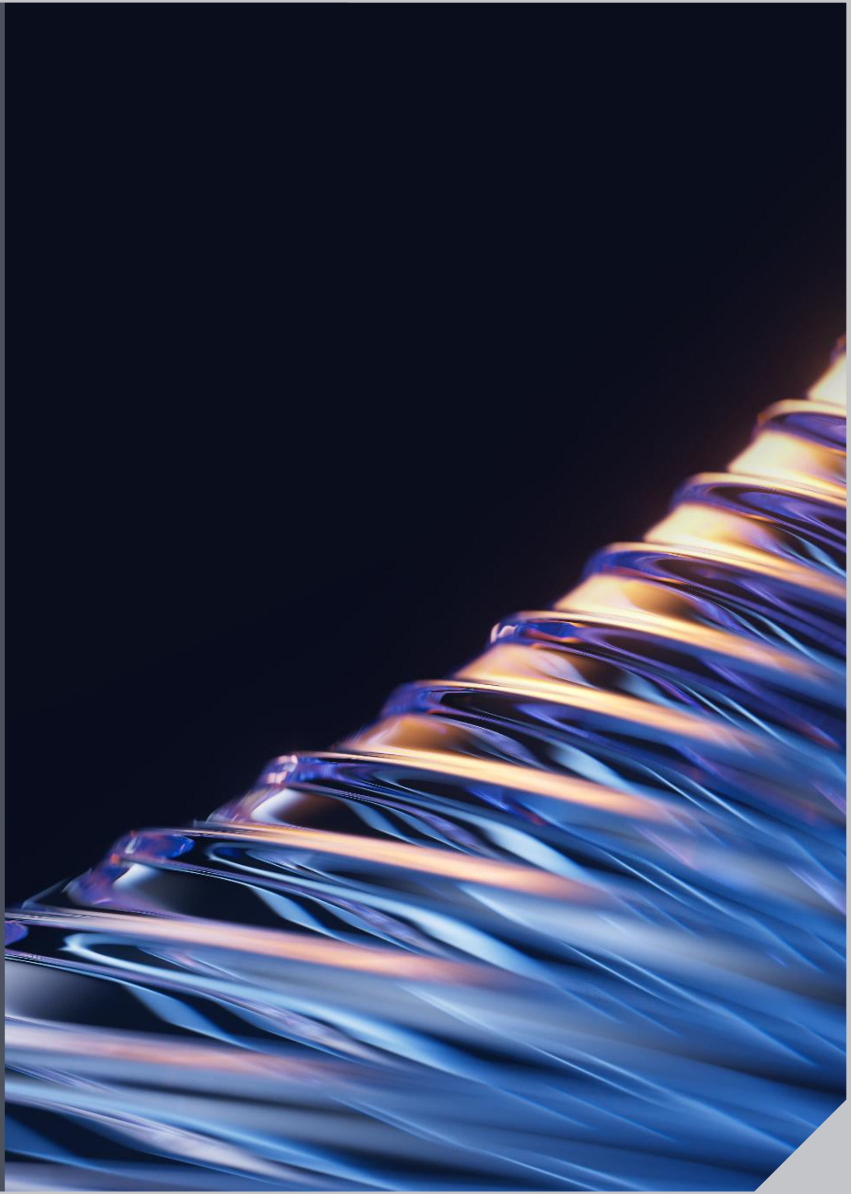
What are the potential risks in strategies?

- Are activities within your constitution?
- Grade different operations for risk
- Are there trading considerations/critical third party providers
- Group structure
- VAT and tax implications
- Restricted or unrestricted activity?
- Do current staff have the knowledge/experience to enact plans?

When a plan or strategy fails, people are tempted to assume it was the wrong vision. Plans and strategies can always be changed and improved. But vision doesn't change. Visions are simply refined with time. –Andy Stanley

Talent is the No. 1 priority for a CEO. You think it's about vision and strategy, but you have to get the right people first. – Andrea Jung

External financial reporting



What are your accounts for?

Compliance document

Communication tool

Who are the readership?

What do you have to disclose?

Make conscious decisions to disclose more

Fund Accounting – charities only

Fundamental difference for charity accounting

Unrestricted funds

Restricted Funds

Endowment Funds:

- Permanent
- Expendable

Linkage to reserve and resources

Reserves position does it align with your strategy, short and long term?

Resource (People) – do you have the people to deliver your strategy ?

What do you plan to do and can you do it with what you have?

Member fees/rates – justification linkage to strategy and business plan?

Decisions on other activities – internal or external resources – publishing for example

What do you have?

What do you need?

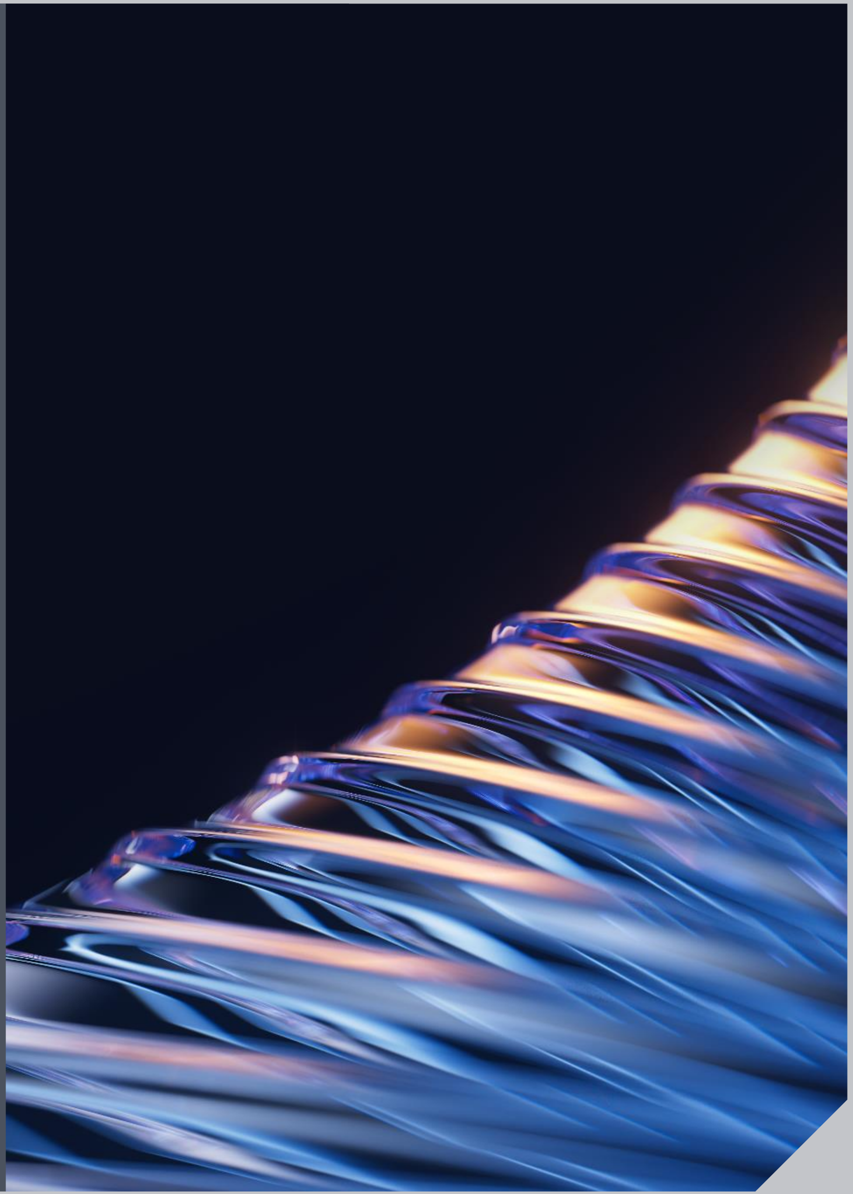
Reserves policy

- Charities – defined by SORP.
- Non charities – useful comm for members.

How do you intend to get from one to the other?

Reserving for future events/costs

Internal financial reporting



Budgeting

Annual budgets:

Understand the assumptions

- Cash v. accruals
- Depreciation
- Fundraising
- Investment income generation

Analyse the sensitivities

- Capacity v voids
- Leases ending
- Capital and project spend
- Room hire – any seasonality Reliance on significant tenants?

Restricted funds v unrestricted funds

Impact of future commitments/structuring

Financial monitoring - the here and now

What should you receive

- Income and expenditure
- Outturn for the year
- Funds analysis – RF v UF
- Cash-flow
- Prior year comparisons
- Commentary/explanations
- Key indicators/benchmarks

Have the right level of information to understand more than the results!

Going forward...

- FRS102
- Accounting periods commencing on or after 1 January 2026. So if you have a December year end, December 2026.
- Transitional arrangements

- Critical changes to:
  - Income recognition – five step model – exchange contracts
  - Leasing – critical to balance sheet and potential banking covenants.

Thank You

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Turning financial literacy into investment leadership

Putting momentum into your money

You are not the expert. You are the client.

The goal is not to become an investment professional. It is to become an intelligent, demanding client of the people who are. Good oversight is built on better questions, not better answers.

You set the objectives

What the money is for, and over what horizon. The manager delivers against that, not the other way round.

You hold the strategy to account

Your job is to challenge the approach and the results, not to run the portfolio day to day.

Your questions set the standard

The quality of your oversight rarely exceeds the quality of the questions you are willing to ask.

Begin with ROTA

Before anyone mentions funds or managers, four questions set the whole strategy. Get these right and the portfolio largely follows.

R

Risk

How much volatility and drawdown can the organisation truly bear, financially and behaviourally?

O

Objectives

What is the money actually for? The limb most often left vague, and the one we test next.

T

Time horizon

When is the money needed, and in what tranches across the reserves?

A

Affordability

What can you commit, and what could you afford to lose, without harming the mission?

ROTA is the conversation to have before the investment conversation.

Test the objective: CPR(M)

The Objective in ROTA is where boards most often go wrong. A well-set objective passes four tests.

C **Clear** One unambiguous meaning. “Around 4%” is not clear if it could mean a natural yield or a total-return draw, because those have opposite answers.

P **Prioritised** Income, growth and risk pull against each other. Which one gives way when they conflict?

R **Realistic** Achievable at a risk level you will actually accept, on credible return assumptions, not just on a spreadsheet.

M **Measurable** Pinned to numbers you can report against, not good intentions you cannot test.

If the objective fails CPR(M), no manager or portfolio can rescue it. Most “underperformance” is an objective that was never well set.

Write it down: the Investment Policy Statement

The IPS is where ROTA and CPR(M) get written down, and where your manager is actually held to them. If it is vague, out of date or sitting in a drawer, nothing downstream can be sound.

What a good IPS sets out

- The objective, tied to your purpose and reserves policy
- Time horizon and any tranche structure
- A return target, often inflation plus a real return
- Risk tolerance, including in drawdown terms
- Restrictions: ethical, sustainability or excluded sectors
- Benchmarking, reporting standards and review cadence

Is yours fit for purpose?

- When was it last reviewed and re-signed?
- Does it actually constrain the manager, or just describe them?
- Could a new trustee tell what success looks like from it?
- Does it still match the organisation you are today?

A fit-for-purpose IPS is the difference between holding a manager to account and hoping for the best.

Reserves are not a single pot

Most boards manage reserves as one number. The investor's lens splits them by job and by time horizon, because each layer should be invested differently.

Operational buffer

Months of running costs

Job: certainty. Held in cash and near cash. It must be there on the day it is needed.

Strategic reserves

Known plans, one to five years

Job: stability with modest growth. Funds committed projects without taking long-term market risk.

Long-term funds

Five years and beyond

Job: real growth that outpaces inflation. This is where investment risk earns its keep.

The risk you can take is set by the time horizon, not by how the money feels today.

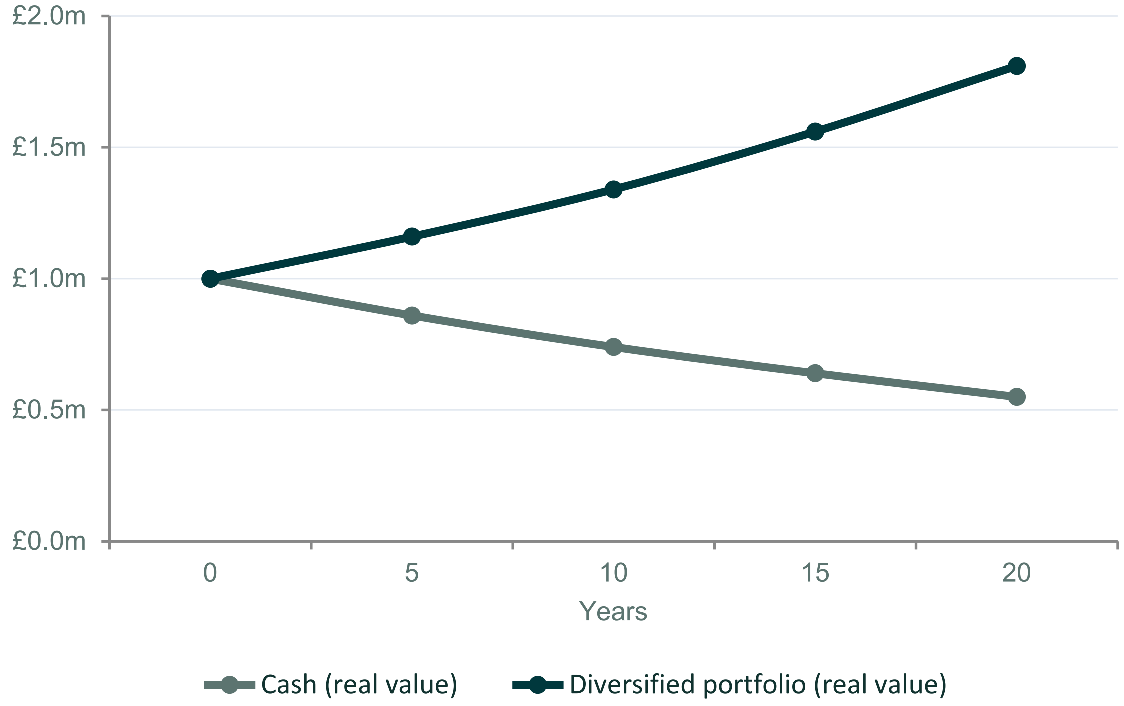
The cost of feeling safe

Cash feels like the safe choice. Over long horizons it is often the riskiest, because inflation erodes its real value while the headline number sits still.

The real question

Not *“could we lose money this year”*, but ***“will this still buy what we need in twenty years”.***

Real value of £1m over 20 years (illustrative)



Income versus total return

The distinction that trips up most charity and membership boards. Spending only the natural income can quietly distort the portfolio and starve the mission.

Spending the income only

- Tempts boards to chase yield, which concentrates risk
- High income can quietly erode the capital behind it
- Spending rises and falls with whatever the portfolio happens to pay

A total return approach

- Funds spending from income and capital growth together
- Sets a sustainable withdrawal rate, for example a real percentage of the fund
- Separates what we spend from what the portfolio happens to yield

Decide what the organisation needs to spend first, then build a portfolio to sustain it.

Risk is not the same as volatility

A falling quarter is volatility. For a long-term fund, the risks that actually matter are different, and reacting to short-term noise is often where the damage is done.

Permanent loss of capital
Crystallising a loss you never recover, as opposed to a paper dip that passes.

Falling behind inflation
The slow risk: keeping pace in pounds but losing ground in real spending power.

Forced selling at the wrong time
Needing cash in a downturn because the horizons were never matched to the money.

Missing the objective
Failing to deliver what the fund exists to do, whatever the quarterly numbers say.

Volatility is the price of long-term return, not the danger to avoid.

Holding your manager to account

You do not need to run the portfolio. You need to know whether it is being run well. Four tools do most of the work.

01 **Read it like a principal**
Look past the headline return to risk and drawdown. “It has done well” is not an answer. You set the objectives, so read the report as the principal, not a passenger receiving an update.

02 **Benchmarks, net of fees**
Judge performance after all costs, against a comparator that reflects your strategy. A gross return that ignores fees flatters everyone.

03 **Skill versus market**
Is good performance the manager, or simply a rising market lifting everything? Ask what they added beyond the benchmark, and how.

04 **Total cost of ownership**
The headline fee is rarely the whole cost. Ask for everything: management, platform, underlying funds and transaction costs.

Mission, members and money

For membership bodies, investment is not only financial. Members increasingly expect the money to reflect the organisation's purpose, and regulators expect any claims to be substantiated.

Align, do not undermine
The portfolio should not contradict what the organisation stands for in front of its members.

Substance over labels
Distinguish genuine responsible investment from marketing. Know what a fund actually does, not just what it is called.

Be deliberate
Be clear on what you are screening, tilting or engaging on, and why. Vague good intentions are not a policy.

Document the decision
Record the reasoning so it is defensible to members and stands up to regulatory scrutiny.

The labelling regime is still settling, so the durable test is substance, not the badge on the fund.

THE TAKEAWAY

Good oversight is not about knowing the answers. It is about asking the questions a good manager will welcome.

1. What is this money for, and over what time horizon?
2. What have we actually committed to in our investment policy?
3. How are we doing after fees, against the right benchmark?
4. Is our performance skill, or simply the market?
5. Does the portfolio reflect our mission and our members?

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