

The Orr Mackintosh Foundation Limited (known as “ShareGift”)

ShareGift policy	Reserves & Investment Policy
Last review date	Created/approved: 29 March 2024 Amended 14.05.24 to clarify how instructions may be communicated to the Investment Manager Amended 08.10.24 to limit the exclusion of fixed rate products Amended 25.02.24 to extend grant-making designation and clarify other language.
Next review date	31 March 2025

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1. Purpose of the policy

The purpose of this policy is to set out how The Orr Mackintosh Foundation Limited (known as ShareGift) determines its target level of reserves, designates funds for specific purposes and the way in which those reserves and designated funds are held or invested.

The Orr Mackintosh Foundation Limited (known as ShareGift) is a registered charity (number 1052686) and company limited by guarantee (number 03150478). It is governed by a board of trustees who are also board directors under the Companies Act 2006 (the "Trustees"). An employee team led by the Chief Executive has delegated responsibility for all day-to-day activities.

2. Definition of reserves

The Charity Commission has provided a specific definition for "reserves" as "that part of a charity's unrestricted funds that is freely available to spend on any of the Charity's purposes. This definition excludes restricted income funds and endowment funds, although holding such funds may influence a charity's reserves policy. Reserves will also normally exclude tangible fixed assets held for the Charity's use and amounts designated for essential future spending." This definition is intended to provide the Charity with a way of identifying those reserves that are readily available in relatively liquid form if required by the Charity.

The free reserves of the Charity for which a policy is needed are represented by unrestricted general funds of the Charity and exclude both the restricted funds held and funds that have been designated by the Trustees.

3. Legal authority to hold reserves

The Charity Commission has identified that all charities have legal authority to hold reserves. Specifically they state: "Trustees of every charity must ensure that the charity's funds are used appropriately, prudently, lawfully and in accordance with the charity's purposes for the public benefit. The general principle of trust law¹ is that funds received as income should be spent within a reasonable period of receipt.

The holding of reserves will be authorised either by using an express or implied power to hold reserves. Trustees are justified in exercising their power to hold income reserves, whether express or implied only if, in their considered view, it is necessary in the Charity's best interests." For ShareGift there is no explicit legal authority to hold reserves set out in its Memorandum and Articles of Association, but the implied authority is deemed sufficient. Specifically, the Charity has no constitutional need to formally accumulate reserves.

4. Why does ShareGift hold reserves?

The Charity is required to consider what level of reserves it is appropriate to hold in order to demonstrate appropriate financial management, stewardship and sustainability. The Trustees wish to do this to provide assurance to all the Charity's stakeholders that the Charity is being managed in a prudent manner for the best interests of its beneficiaries. The Trustees also want to provide confidence that there is a strong justification for the reserves held by the Charity, and that they wish to be open and transparent on all aspects concerning the Charity's reserves policy.

¹ Although not subject to Trust Law, ShareGift's policy is to spend funds received as income within a reasonable period of receipt, subject to holding appropriate reserves.

In doing this the Charity has considered working capital requirements and financial risk management.

ShareGift holds reserves for two key purposes:

- to cover the costs of an orderly winding-up of the Charity in the event that the Trustees decide this to be an appropriate course of action, and
- to cover a proportion of the working capital costs of the Charity. The desired level of reserves is expressed as a range that is kept under regular review by the CEO and Trustees.

5. Financial risks that are mitigated by the holding of reserves

Financial risks that are mitigated by the holding of reserves include:

5.1 Variability of income – income generating activities based on activity levels, the as-yet unquantified impact of Digitisation on the UK share ownership landscape and thus ShareGift’s income from share donation, and investment income derived from the Charity’s investment portfolio;

5.2 Risk of closure and costs associated with winding up – including the costs of an extensive winding-up period potentially involving skeleton staffing levels. This period would be considerably longer than for many other organisations due to the time-consuming complexities of divesting of ShareGift’s residual portfolio;

5.3 Risks noted in risk register – those identified as Top 5 risks with a financial impact on ShareGift, including the erosion of the ‘unwanted shareholding’ concept principally by digitisation, and the redirection of large donors to other routes for charitable share donation (both are reflected in the variability of income section above).

6. Reserve fulfilment

By their nature free reserves are deemed to be readily available for application, however they are not required to be held in either cash or “near cash” assets. As a result there may be a need to convert underlying assets into cash in order to fulfil a reserve utilisation.

7. Calculation of reserves

ShareGift’s target level of reserves comprises the following two elements:

7.1 Funds reserved to meet winding-up costs

Winding-up costs are calculated with reference to ShareGift’s long-tail of illiquid assets, held both in own name and with several regulated intermediaries. ShareGift is currently the only charitable repository which operates as a transferee of last resort and in the event of winding-up there would be no natural transferee for these assets. Additionally, for assets held in own name, the register may be closed to transfers in respect of certain unlisted assets.

Any winding-up would involve finding an individual solution for all own name securities, which must be in keeping with our charitable aims, as well as being acceptable to the Charity Commission.

For those securities held with intermediaries, a bespoke solution would have to be found for each intermediary with which the assets are held, and their regulators (whether in the UK or overseas) as well as being in keeping with our charitable aims and acceptable to the Charity Commission.

Due to the intractable nature of these transfers, ShareGift estimates that any winding-up process may take approximately 2 years to complete, albeit at reduced staffing levels

Calculations as to the estimated winding-up costs are updated annually.

7.2 Funds reserved for working capital contingency costs

ShareGift holds an amount in reserves which is to be applied against costs at the discretion of the Trustees. These reserves assist the Charity in weathering any period of reduced income or widespread industry change which may otherwise affect its operations, enabling the Trustees to designate other funds for specific purposes (see 8. below).

Funds are reserved to allow for 2- 4 years of drawdown of £150,000 to be applied against costs. The Charity retains the flexibility to drawdown more or less than this figure according to need.

The range for this element of this reserves is therefore £300,000-£600,000 and this range is kept under review annually.

8. Designated funds

The Trustees of the Charity have designated specific funds for the below purposes. As designated funds they do not form part of ShareGift's reserves.

8.1 Digitisation Response Designation - a sum of £100,000 to be held specifically to meet potential structural challenges the organisation expects to face with the introduction of Digitisation within the registration industry. Such changes may require exceptional costs including computer system rebuilds, consultancy and internal restructuring. The recommended timetable and model for Digitisation in the UK is expected to be published shortly. The requirement to designate funds for this purpose is kept under review and is formally considered by the Board at least annually.

8.2 Grant-making Designation - the following income sources are designated to pay grants to beneficiary charities in accordance with ShareGift's Grant-making Policy:

- Donated shares and securities holdings, and any funds realised from their sale.
- Except as detailed below, all legacy entitlements, whether due or received in the form of shares and securities holdings or as cash. This designation includes funds realised from the sale of shares and securities holdings.

At the discretion of the Chair of the Board, or in their absence two Trustees acting together, and with the agreement of the Chief Executive, a total amount received from legacies that would be sufficient to cover up to one-year of expenditure (excluding grant payments)² may be excluded from this designation and retained to fund ShareGift's operations. This exception is to apply each financial year.

² The calculation of one-year of expenditure (excluding grant payments) must be based on reasonable assumptions. Such assumptions may include reference to the current budget, current expenditure run-rate, inflation and any additional exceptional costs which may reasonably be anticipated.

The details of the Grant-making Designation will be as determined by the Board from time to time, and will include any amounts, however sourced, that have been approved for distribution by the Executive Grant-making Committee (EGCO). In determining this designation, the Trustees are mindful of the positive impact on donations resulting from donors' awareness that consideration realised from all gifted securities will be distributed as grants in accordance with ShareGift's Grant-making Policy, and that its operational expenditure is funded either by way of a legacy entitlement or from other sources of income.

9. Form of reserves and designated funds

The following table summarises the way in which ShareGift's reserves and designated funds are held:

Element	Component of:	Forming part of:
Funds reserved to meet winding-up costs	Reserves	The Investment Portfolio
Funds reserved for working capital contingency costs	Reserves	
Digitisation Response Designation	Designated funds	
Grant-making Designation	Designated funds	The Grant-making Portfolio

Additionally, ShareGift maintains working capital in its operational bank accounts. These will also be included when assessing the actual level of ShareGift's reserves, except for any amounts that fall within the Grant-making Designation.

9.1 The Investment Portfolio

This is managed by an external investment manager with the primary aim of acting as the long-term reserves to support the Charity (see 10 below).

The investment Portfolio is expected to generate attractive returns over the long term and funds are drawn-down periodically to cover a proportion of the Charity's costs and grant-making activities, as approved by the Trustees. Income generated by the portfolio is reinvested.

9.2 The Grant-making Portfolio

Donated securities for ShareGift's beneficial ownership are held both in own name and via a wide range of intermediaries both in the UK and overseas.

These portfolios are not held to generate investment income. Consequently, the Trustees and management do not take an investment view on these donated assets in relation to markets, sectors or of the individual characteristics of shareholdings held in ShareGift's name prior to sale in fulfilment of the Charity's purpose.

Other than in respect of the Investment Portfolio (see 9.1), it is not the Charity's policy to purchase shares.

10. Mandate for the Investment Portfolio

10.1 Risk - The Investment Portfolio is managed on a low to medium-risk mandate, balanced between capital growth and income. The capacity for capital loss is set at 'medium' and the capacity for income loss is set at 'higher'. The current mandate seeks specifically to limit the volatility of the fund.

10.2 Assets - The Charity's assets can be invested widely and should be diversified by asset class, by manager and by security. Asset classes may include cash, bonds, equities, property, hedge funds, structured products, private equity, commodities and any other asset that is deemed suitable for the Fund, with the exclusion of primarily fixed interest collective investments and non-investment grade bonds.

10.3 Currency - The base currency of the investment portfolio is Sterling. Investment may be made in non-Sterling assets but should not exceed 50% of the total investment portfolio value.

10.4 Creditworthiness of institutions

The portfolio's cash balances should be deposited with institutions with a minimum rating of A- or invested in a diversified money market fund. Deposits should be spread by counterparty, subject to a maximum exposure of £200k per institution. Bond exposure should be focused on investment grade issuers.

10.5 Liquidity requirements

The Trustees wish to keep at least 75% of the assets in investments that can be realised within 3 months. A minimum of 10% of the total investments should be kept in cash or near cash investments at all times.

10.6 Time horizon

The investment time horizon is currently set as long term, i.e. 10+ years.

11. Disclosure of the Reserves & Investment Policy in the Accounts

The Charities Statement of Recommended Practice (SORP) 2019 requires disclosure of ShareGift's policy on reserves in the Trustees' Annual Report – as follows:

- state the amount of the total funds the Charity holds at the end of the reporting period;
- state the amount of any funds which are restricted and not available for general purposes of the Charity at the end of the reporting period;
- state any material amounts which have been designated or otherwise committed as at the end of the reporting period;
- state the likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period;
- identify the amount of any funds that can only be realised by disposing of tangible fixed assets or programme related investments;
- state the amount of reserves the Charity holds at the end of the reporting period after making allowance for any restricted funds, and the amount of designations, commitments (not provided for as a liability in the accounts) or the carrying amount of functional assets which the Charity considers to represent a commitment of the reserves they hold; and
- compare the amount of reserves with the Charity's reserves policy and explain, where relevant, what steps it is taking to bring the amount of reserves it holds into line with the

levels of reserves identified by the Trustees as appropriate given their plans for the future activities of the Charity.

A summary of this reserves and investment policy will therefore be included in the Trustees Annual Report as required each year. The wording shall be considered by the Audit Committee and Board as part of their consideration of the annual financial statements.

Where actual reserves held are significantly different to the desired range, an explanation will be included on how the Charity is seeking to resolve this disparity. The notes to the accounts will identify any designated funds, the purpose of each fund and the expected date of future application of those funds.

12. Reserves and Investments Policy and going concern considerations

The Charity's policy for reserves and investments is linked to and part of its formal consideration of the Charity's going concern presumption. An appropriate level of reserves underlies the forecasts and budgets that are used by the Board to confirm that the Charity is a going concern and is able to meet its liabilities as they arise.

At the year end the reserves and investments policy, actual reserves held and future business planning forecasts are used to confirm the going concern principle applies for at least 12 months from the date that the statutory accounts are approved by the Board.

13. Management reporting and monitoring

ShareGift has appointed a professional investment management firm to manage the Investment Portfolio on a discretionary basis in line with this policy. Investment managers provide custody of assets. The investment manager is required to produce a valuation and performance report quarterly. ShareGift has nominated a list of authorised signatories, two of which are required to provide instructions to the investment manager (which may be completed via email) to withdraw funds to the nominated bank account such as the annual drawdown. The signature of two authorised signatories are required for any changes to the nominated bank account(s).

ShareGift's Audit Committee has responsibility for monitoring the Investment Portfolio and ensuring it is being managed in alignment with the overall risk appetite of ShareGift as set-out in the Risk Management Policy and the agreed mandate set-out in this policy. The Audit Committee reviews the portfolio at least yearly, including an analysis of return, risk and asset allocation. Performance is monitored against agreed market benchmarks, and against the current investment objective of inflation plus 2% over the long term. The investment manager is required to present to the Audit Committee on request.

The Audit Committee reports formally to the full Trustee board on the management of the Investment Portfolio on an annual basis. This report should include a review of asset allocation strategy, performance, risk profile and consistency with long term investment objective.

14. Approval and review

This policy will be reviewed 12 months after its initial creation and then at least every two years, by our Board of Trustees, to ensure a) that it is achieving its objectives and b) that these objectives remain relevant.