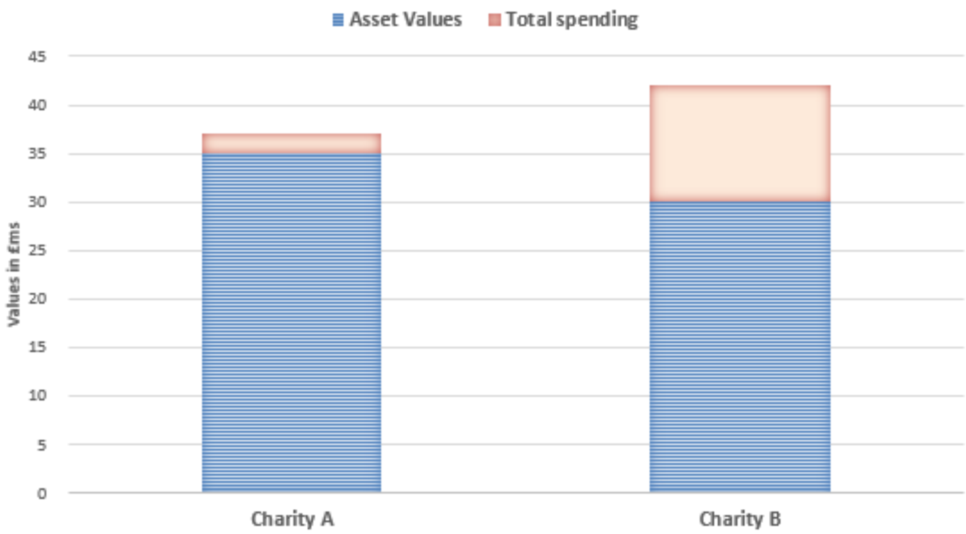
Is Total Return still too terrifying? Now is the time to use some investment reserves

Many charities that rely on investment income are having to make hard choices about their finances for this year and next. According to Newton Investment Management, the vast majority of charity investors anticipate a drop in investment income this year, and more than half are rethinking their reserves policy (early results from the Newton 2020 survey, to be published later this year). It's good to have options about how to continue to fund your purpose, not least because many beneficiaries don't have that choice.

For any charity investor, even ones with permanent endowments, now is the time to use some investment reserves. These could be used to top up income to 2019 levels with some sales of capital to maintain support over the next two or three years. Charities that do this are unlikely to find themselves any worse off than a few years ago because recent stock market returns have been so generous to investors.

So why is Total Return terrifying? Concepts like 'Unapplied Total Return' and 'Trust for Application' are only relevant for the small minority of usually ancient permanent endowments, but everyone else can just dip into their unrestricted reserves and top up their income. The other reason is that many trustees see raiding their reserves as a sign of failure. We like to use this chart to show what real failure is:



Charity A never sold any capital, so it has more left than Charity B, but it never achieved very much. Charity B made more and then spent more. Since what makes us charitable is what we spend, it is Charity A, with its bigger pile of money, that will be the failure unless it does something useful with it. Reserves are there for a purpose. Use them.

To find out more about the financial governance support we offer and how we can help you make better financial decisions, please email us or call 07866 314400.