Income-only or total return investing?

What you need to know about the choice facing charity trustees.

Rathbones
Look forward

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Introduction

Over recent years, charity trustees have increasingly asked their investment managers whether they should take an 'income-only' or a 'total return' approach.

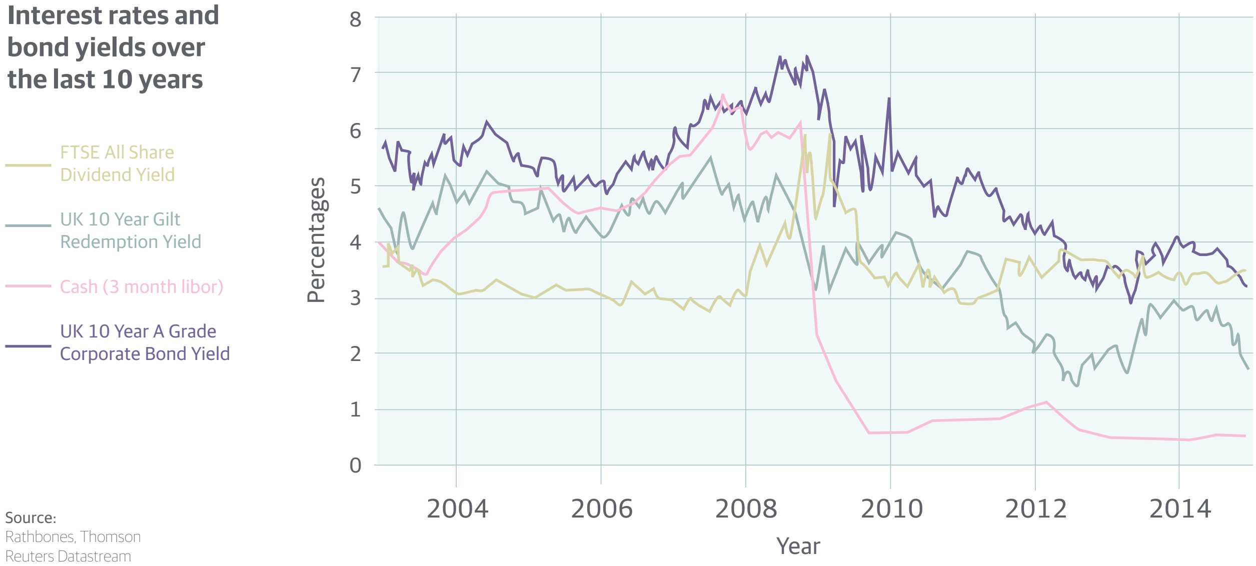
In this paper we will review the factors that trustees should consider when deciding which approach to adopt. It is important to stress that there is no 'right answer' to any given situation. There are certain arguments in favour of adopting a total return strategy, and some against. It is up to trustees to weigh up the respective advantages and disadvantages of each approach and then make an informed decision, having considered their charity's specific circumstances.

So why has interest in this subject increased? For many years, until the mid-1990s, an income-only approach was the norm for most charities, probably because this sat comfortably with the investment practices and conditions of the time. The choices available to investors were more limited than they are today. Overseas equities, alternative investments (such as hedge funds, absolute return funds, commodities, structured products, private equity, etc.) and even corporate bonds were not yet in the 'mainstream'. In addition, the Trustee Investments Act 1961 (now largely repealed and replaced by the Trustee Act 2000) restricted what charities could invest in. As a result, UK equities and UK government bonds (gilts) were the main constituents of an 'average' charity's investment portfolio. The equities (generally the majority of the invested capital) provided an income yield which grew over time in line with inflation. The gilt exposure boosted the income level (gilts provided a higher yield than equities until 2008) and reduced the overall volatility of a portfolio.

Benign investment conditions and, in retrospect, a somewhat limited opportunity set disguised a number of rigidities inherent within an income-only approach. What initially challenged the status quo was the increased availability of overseas equities, which generally offered lower income yields than here in the UK, with capital appreciation playing a larger role in expected investment returns. In addition, more companies began returning money to shareholders in the form of share buy-backs (providing a capital gain), rather than dividends. Subsequently, alternative investments (often offering little, no or variable income) became more readily available: any return such investments provide is generally in the form of capital gain.

At the same time as this new 'investment technology' was being introduced, interest rates and bond yields were steadily reducing throughout the 1990s and 2000s, as inflation was gradually squeezed out of the system. This was the result of a number of factors including increasing globalisation, supply side reforms, greater use of technology, ageing populations and central banks that were increasingly adopting formal inflation targets. This made it increasingly difficult for income-only approaches to meet the required income target, at least without increasing the levels of risk being taken. The financial crisis that began in 2007 accelerated this trend, with interest rates and bond yields collapsing over the next few years, as can be seen in the chart below.

Interest rates and bond yields over the last 10 years



Source:
Rathbones, Thomson Reuters Datastream

As investment conditions evolved and the choices available to investors increased, asset allocation and investment choice for those charities operating an income-only distribution policy became increasingly concerned about income loss (the need to avoid putting a portfolio's sustainable income distribution at risk), rather than investing for the best overall return in the most diversified manner over the long term. This led many charities to 'skew' their portfolios towards asset classes (and investments within asset classes) that produced income, while avoiding those that didn't. Many charities continue this today.

The debate about the extent to which it might be safe to 'top up' income by distributing accumulated capital gains, while preserving the real value, was fuelled by the Charity Commission.

In 2001, it allowed for the first time charities with a permanent endowment, which traditionally would only have been allowed to spend income, to adopt a total return approach provided the Commission's consent was received. More recently it has introduced a new regime which allows the 14,000 or so permanently-endowed charities in the UK to take a total return approach if the trustees pass an appropriate resolution.

There is now no longer any need for the Charity Commission's consent, as long as the relevant rules are followed:

www.charitycommission.gov.uk/media/585298/total_return_investment_for_permanently_endowed_charities.pdf

Many permanently-endowed charities are therefore actively reviewing their approach in this area. However, in our view, many other charities (with expendable endowments) that take an income-only approach should also consider whether to adopt a total return strategy. We do not prescribe a specific approach, but suggest that charities should reach an informed decision having properly considered the relevant issues.

A related issue, namely how much trustees can safely take out of their charity portfolio (whether from income or capital) without damaging its real long-term value, is not considered in this paper. There have been a number of studies done in this area recently and no further analysis is offered about sustainable withdrawal rates in this paper. However, it should be noted that any estimate of what a sustainable withdrawal rate might be applies as much to those trustees who take an income-only approach as to those that adopt a total return approach.

Definitions

These are the definitions of income-only return and total return as used throughout this paper:

Income-only
Where only the income (equity dividends, bond coupons, cash interest, etc.) physically produced by the portfolio is withdrawn on a regular basis

Total return
Where an amount, comprising either income or capital growth, is withdrawn from the portfolio on a regular basis

The use of the word 'return' in this context is perhaps unfortunate as it suggests that it in some way relates to a portfolio's overall performance, whereas in reality it merely refers to the amount that is physically withdrawn from a portfolio on an ongoing basis.

The difference between the two approaches is simply that a charity taking a total return approach need not distinguish between whether the amount extracted from the portfolio is in the form of income or capital growth. That offers a number of advantages (and some potential disadvantages) which we will consider later.

Not so different?

It should be noted that the two approaches are not ‘polar opposites’.

For starters, we are not suggesting that income generation shouldn’t be a key goal for most charities (or, indeed, investors generally). It is, after all, one of the two components of the total return equation. The other is price appreciation which may itself be driven by income growth. So when we talk about a total return approach, we are not saying we should be exclusively investing in securities (or asset classes) with growth potential that pay little in the way of income. We saw the downside of that type of strategy during the late 1990s during the boom and subsequent bust in technology stocks (which were generally ‘growth’ stocks offering little or no dividend). Income producers such as bonds or dividend-paying stocks should be important components of any sensible investor’s toolkit.

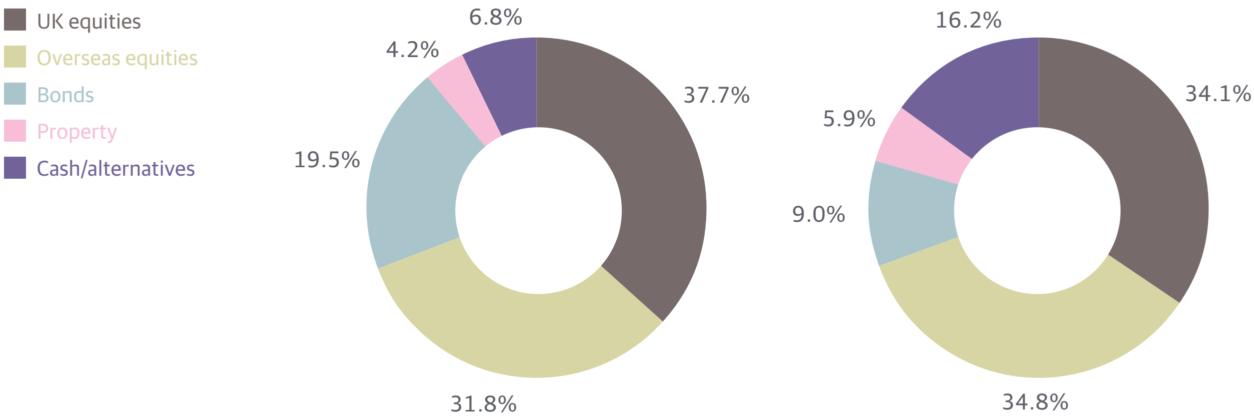
What we are therefore debating in this paper is a difference in logistics - the method by which trustees should extract cash from a portfolio - more than some sort of grand ideological divide as to how one should be investing.

The asset allocation of the 'average' charity

Before considering income-only versus total return, we should review how the 'average' charity is invested as a reference point for this paper. It should be noted, however, that charities are very diverse in nature.

We have used two major surveys, both compiled by WM, to work out what the average charity's investments look like[1]. The results are as follows (as at 31 December 2014):

Charity asset allocation research results



Source: State Street Global Services and Rathbones

WM Common Investment Fund Universe

WM Total Charity Fund Universe

[1] Firstly, we calculated the average asset allocation of the universe of mixed (multi-asset) common investment funds (currently comprising 16 funds with invested assets of over £5 billion within the 'WM Common Investment Fund Universe' that are invested on behalf of thousands of UK charities). Secondly, we looked at the survey of those charities that submit their asset allocations to WM on a quarterly basis (currently comprising 229 funds with invested assets of over £8 billion in the 'WM Total Charity Fund Universe').

Both surveys indicate a clear bias towards equities (close to 70%) with the remainder being allocated to bonds, commercial property, alternative investments and cash. This overall balance should be borne in mind as we consider the respective merits of the income-only and total return approaches. However in our experience charities that continue to adopt the former will often have less exposure to overseas equities and alternative investments than the table would suggest.

Income-only

Advantages

- Ease of identification
- Reliability of income
- Income is a good measure of ‘value’
- Long-term protection from inflation
- Global income

Disadvantages

- Current income levels are low
- An income-only approach may reduce your investment opportunity set
- Income is only part of the return
- Focusing on income to excess may reduce portfolio growth potential
- An income-only approach can make a pooled investment approach less attractive
- An income-only approach may be incompatible with an ‘absolute return’ approach

Advantages of an income-only approach

1.Ease of identification

Perhaps the most obvious (and practical) benefit of an income-only approach is that any income arising from an investment portfolio is easily identifiable compared to capital appreciation, especially when it is paid into an income cash account that is separate from the capital cash account. It is easy to ensure that only income is spent and to assess whether you are achieving your income objective.

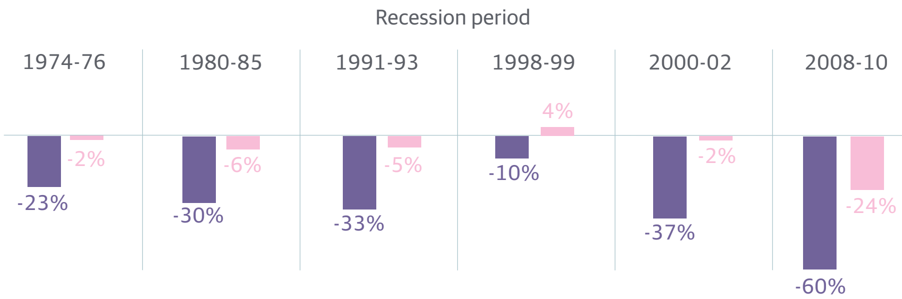
2.Reliability of income

History shows that a suitably diversified income-only strategy tends to produce a fairly stable level of income, whatever the state of the economy or financial markets. Conventional bonds produce pre-defined levels of income. As far as shares go, even when company earnings fall in a recession, equity dividends tend not to decline as much because directors try to maintain dividends at such times to uphold shareholder confidence. This can be seen in the table below.

Company earnings and dividend performance during recessions

Earnings performance

Dividend performance



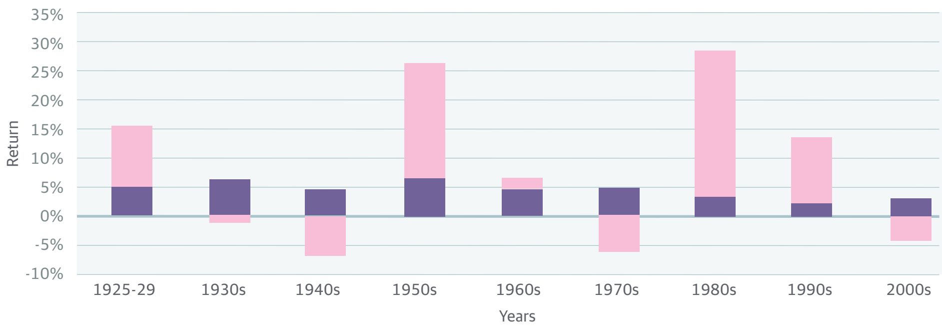
Source:
Fidelity and Datastream, using MSCI World Index in USD

Similarly when financial markets are weak and capital returns fall (as for example in the 1970s), dividends display a remarkable stability, as observed in the table below.

World equity returns (inflation-adjusted), split between income and capital

Income return

Capital return



Source:
Newton, Global Financial Data

This means that, provided the income target that has been set is not too high and that the portfolio is adequately diversified, an income-only strategy will rarely give trustees any really nasty surprises, at least in terms of income production. Of course, companies do cut their dividends, and sometimes dramatically as in the case of BP immediately following the Deepwater Horizon disaster in 2010. But, if the portfolio is well diversified, this should rarely be a material cause for concern at an overall portfolio level. Trustees should never need to liquidate a portion of their portfolio in weak markets to help fund the required withdrawal (as one might have to with a total return strategy), unless the investment manager has failed to meet the income target set. This means that the short-term volatility of the portfolio should be of secondary importance.

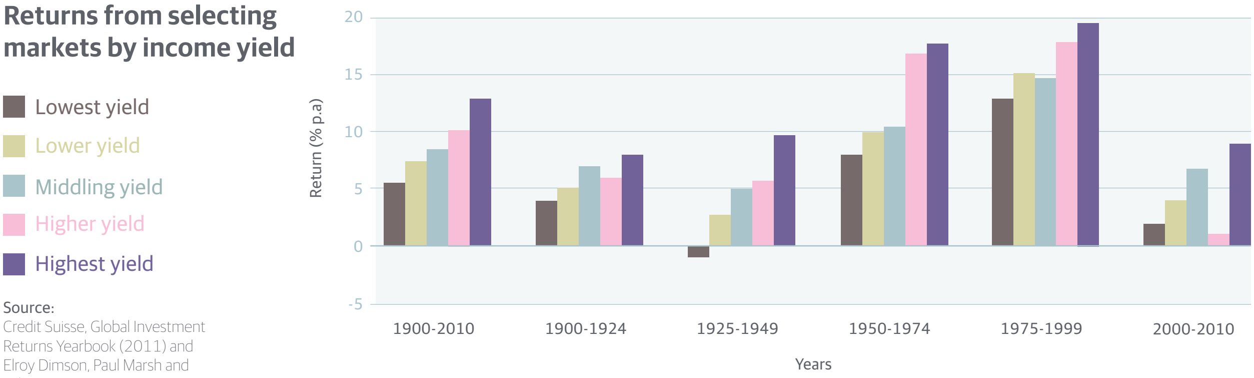
An additional benefit of this dividend stability is that dividend-paying shares have historically provided some downside capital protection in volatile market environments, compared to non-dividend payers[2]. Investors clearly value a steady income stream in turbulent markets.

[2] See, for example, Fuller and Goldstein, *'Do dividends matter in a declining market?'* University of Mississippi and Babson College, 2005.

3. Income is a good measure of 'value'

Another advantage of an income-only strategy is that income represents one of the more reliable measures of 'value'. If there is no income (e.g. as with a commodity such as gold), it is more difficult to value an investment. In contrast, bonds pay reliable cash flows that can be easily discounted back to give a net present value (the theoretical value). For equities, dividends represent a tangible measure of profitability that can be valued (and which will hopefully grow over time). Focusing on securities that pay income therefore adds a useful 'quality' overlay to a portfolio, as the production of income can be an important demonstration of a company's financial health. There is also evidence that companies offering higher dividend yields tend to outperform in the long run, providing evidence that investors tend to overpay for the growth implicit within the price of a lower income yielding share. The chart below illustrates this effect.

Returns from selecting markets by income yield



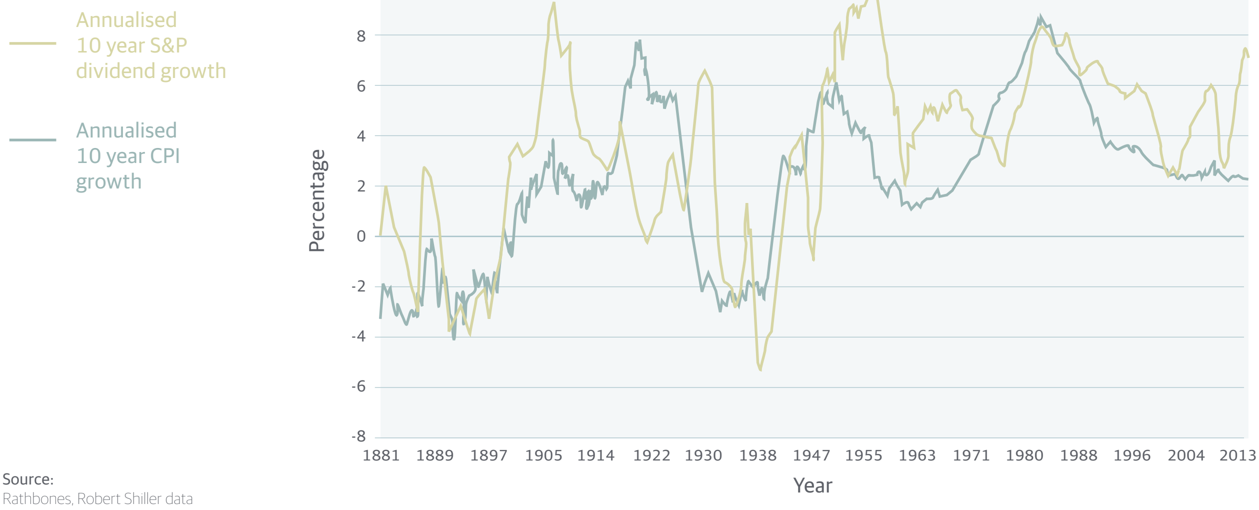
Source:
Credit Suisse, Global Investment Returns Yearbook (2011) and Elroy Dimson, Paul Marsh and Mike Staunton

The stock market rewards dividend-paying companies that are available at attractive prices. Investors can also benefit from perceived qualities, such as the alignment of company and shareholder interests (i.e. companies that are well-managed and financed, that generate cash and which are prepared to return this cash to shareholders). Companies that pay dividends might be judged to be less risky than non-dividend payers because their business models and managements are less aggressive. In addition, dividends (unlike earnings) cannot be 'falsified' and over the long term require consistent cash flow to be maintained.

4. Long-term protection from inflation

We have already observed that dividend-paying shares can offer some capital protection in turbulent markets. Another advantage of an income-only strategy is that the capital value should be protected against the effects of inflation over the long term, assuming the majority of the portfolio is substantially invested in real assets such as equities (as with the 'average' charity). This is because income from real assets rises over time, thus boosting nominal capital values. This effect is demonstrated in the chart below, where it can be seen that dividends tend to increase at least as quickly as the rate of inflation.

US equity market dividends and inflation

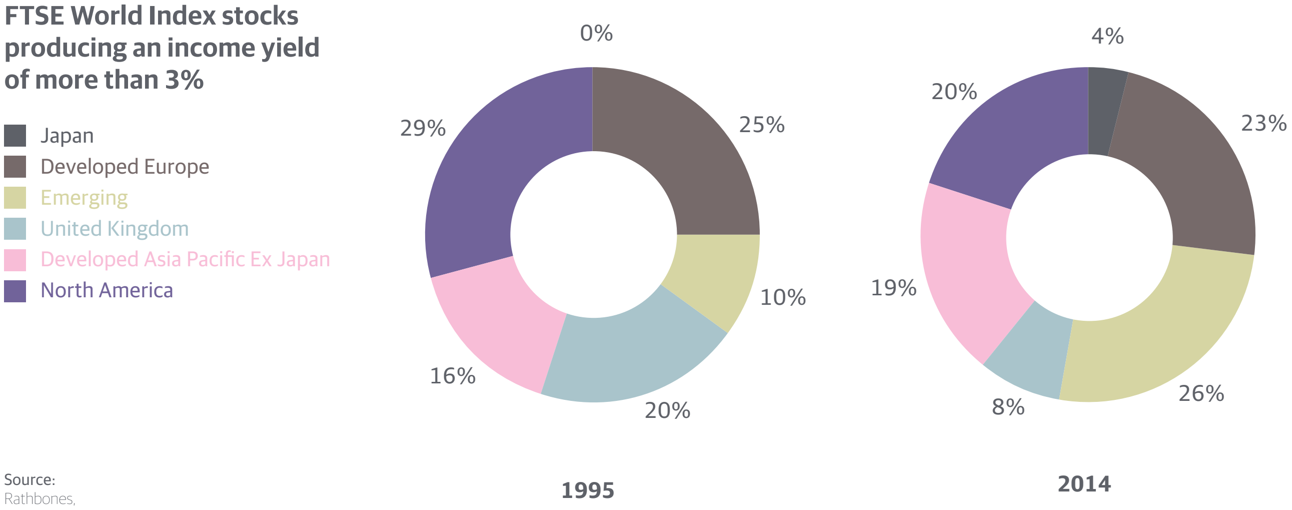


Source:
Rathbones, Robert Shiller data

5. Global income

One feature of income investing that has changed significantly in recent years is that high yielding shares have become more global in nature. It used to be the case that an investor wishing to invest for income was largely restricted to developed markets excluding Japan, as there were relatively few emerging market or Japanese stocks that provided higher yields. This has changed and it is now possible to have a more globally diversified higher income yielding portfolio than was the case previously, as can be observed in the chart below. This is not so much an advantage as opposed to no longer being a material disadvantage for those taking an income-oriented approach.

Geographical split of FTSE World Index stocks producing an income yield of more than 3%



Source:
Rathbones,
FTSE World Index

Disadvantages of an income-only approach

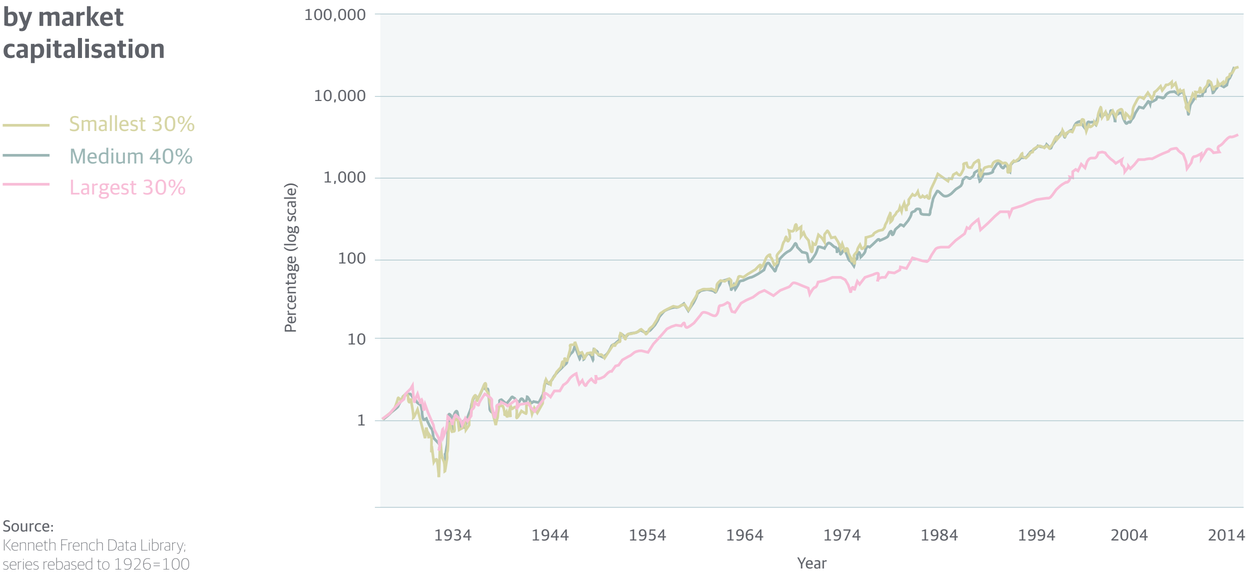
1. Current income levels are low

Today's market environment makes it harder than ever to achieve decent levels of income. One only has to look at the Bank of England's base rate, which at the time of writing is set at 0.5%, the lowest since the Bank's foundation in 1694, to appreciate the scale of the problem. But it isn't just interest rates that are the problem. The yield on the 10 year gilt is around 2.0% currently compared with 5.0% in early 2007 and the yields available on corporate bonds have also reduced dramatically. In equities, income yields have also reduced as capital values have increased over the past six years following the low point reached in March 2009 to around 3.3% on the FTSE All Share now. Interest rates are unlikely to rise significantly in the near future as the world economy remains subject to a number of headwinds.

2. An income-only approach may reduce your investment opportunity set (and thus the return achieved and/or portfolio diversification)

If you are investing for income only, then you naturally introduce a bias against stocks, asset classes, funds or investment approaches that pay little or no income. Does it make sense, for example, to ignore smaller, fast-growing companies that need to reinvest all of their profits to fund their growth? They may be great investments, even though they currently pay low (or even no) dividends. The chart below shows that smaller companies significantly outperform larger companies over time. It shows the performance since 1926 of the smallest 30% of US stocks by market capitalisation (small cap stocks), the middle 40% (mid-cap) and the largest 30% (large cap). A US dollar invested in the mid and small cap stocks generated a return almost 14x larger than the return on a US dollar invested in large cap stocks (note the logarithmic scale of the y-axis of the chart!).

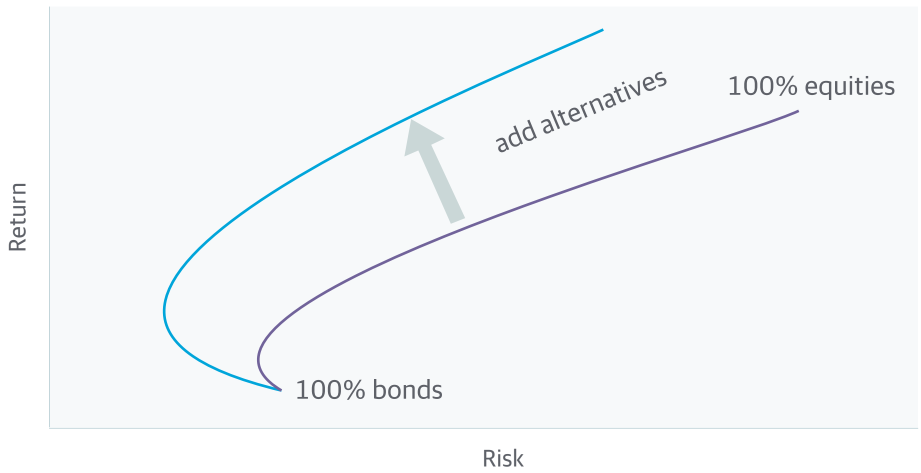
US equity returns by market capitalisation



Source:
Kenneth French Data Library; series rebased to 1926=100

Similarly, certain alternative investments such as private equity, absolute return funds, structured products and commodities can also be attractive. Should one exclude them and have a less well diversified portfolio, just because those asset classes don't produce dividends in the traditional sense? The chart below illustrates the theory that the risk/return trade-off of a portfolio can be improved by introducing such alternative investments.

Improving the risk/return trade off



Source:
Rathbones

3. Income is only part of the return

An income-only approach doesn’t utilise any capital gains that might arise and, perhaps more importantly, ignores capital losses. If you strip out dividends, equities produce real capital returns over long periods of time, so why ignore this element completely? Equally, if you are invested in bonds and ‘skimming off’ the extra income they may produce (relative to equities) to help keep your income levels up, you are anything but safe.

Today's real value of £100 invested at the end of 1899 without reinvesting income

Equities	**£184.00**
Gilts	**£0.75**

Source: Barclays Equity Gilt Study 2015 (data as at 31 December 2014)

If you invested £100 in UK equities at the beginning of 1900 and spent all the dividends arising over the years until the end of December 2014 (i.e. dividends not reinvested), then the real (inflation adjusted) capital value of the principal would have nearly doubled over the period, increasing to £184. Does it make sense to ignore such a (real) capital gain when deciding what amount to withdraw from a portfolio?

To demonstrate the issue of capital losses being ignored, if you invested £100 in UK government bonds (gilts) at the beginning of 1900 and spent all the coupons arising until the end of December 2014, then the real capital value of the principal would have been reduced to a mere 75 pence! It is all too easy to focus on the income produced by a portfolio and assume that the invested capital will take care of itself. Spending the income arising on a portfolio of gilts, or indeed bonds generally, is a pretty sure way to end up with next to nothing over the long term.

4. Focusing on income to excess may reduce portfolio growth potential

If you specify an income target that is unrealistically high (perhaps 4% plus in the current environment for our 'average' charity) then you may well be encouraging your investment manager into bonds or equities that are unusually high yielding. A very high income yield might be available from a company that is in a highly distressed state (i.e. about to go bust), with investors placing a low value on the shares/bonds, which pushes up the yield.

Similarly, your investment manager may be tempted to engage in a technique called dividend or coupon ‘stripping’ if the income target that has been set is very demanding. Dividend stripping is where an investment manager buys a stock that is about to pay a dividend. The dividend is subsequently paid and the stock consequently drops in value to reflect the fact that the investor has now received the dividend. The investment manager then sells the stock and with the proceeds buys another stock that is about to pay a dividend, and repeats the process. All the manager has achieved is to convert capital into income for no other reason than he had an income target to meet - he has effectively 'robbed Peter to pay Paul'. Nobody has benefited, except the investment manager and the trustees who can say that their income target has been met, while conveniently forgetting that the charity's capital has been depleted by an equivalent amount.

5. An income-only approach can make a pooled investment approach less attractive

If a pooled approach is sought (perhaps as a result of having a relatively small sum to invest), trustees may find their options somewhat reduced. This is because the dividend paid by many funds is artificially reduced as fund fees/charges are often taken from the gross income of a fund before the dividend is paid. This is a direct result of the UK tax system as it is advantageous for UK tax payers to have the fees paid out of the gross income of a fund as this gives tax relief at an investor's marginal rate of tax on the various charges incurred within the fund. This can distort the proportions that trustees might have to hold in the different asset classes in their portfolio to achieve the desired income level (which may not be optimal from a risk/return perspective). This is a bigger issue in the current low income environment as fees and charges represent a bigger 'slice' of the gross dividend.

Aim to achieve long-term real growth in capital

Relative return

Typical attributes
1. Index-based or peer group benchmark
2. Tactical asset allocation ranges
3. Consistent income
4. Higher volatility

Absolute return

Typical attributes
1. Cash/inflation +x% benchmark
2. Unconstrained
3. Variable income
4. Lower volatility

Source:
Rathbones

6. An income-only approach may be incompatible with an 'absolute return' approach

It can be difficult to utilise an 'absolute return' investment strategy if one has adopted an income-only approach, especially if the income target is at all demanding. Absolute return is where an investor aims for a positive return in (ideally) all market conditions, the aim being to outperform cash or perhaps inflation by a margin over, say, a 12-month period. This contrasts with the more traditional 'relative return' approach whereby the objective is to beat an agreed benchmark - either a composite market index in the proportions in which the portfolio is invested in those asset classes, or a 'peer group' benchmark such as that provided for the charity sector by WM. While the ideal for any portfolio is to offer positive returns all the time, an investment manager that has been set a relative return benchmark should not be considered to be doing a bad job if he produces a negative return so long as he outperforms the benchmark. Conversely, an absolute return investor is not interested in relative returns, just positive returns.

By implication, an absolute return strategy suggests an investment approach that is highly responsive to changing markets, the aim being to tilt a portfolio aggressively towards more defensive assets (such as, for example, bonds and cash) and employing hedging techniques as necessary when markets are expected to be weak. When markets are in a stronger phase, the aim is to capture the upside by being more exposed to higher risk assets, such as equities. As a result, an absolute return strategy can display high portfolio turnover and the income produced by such a strategy tends to be a by-product of such an approach that will fluctuate through time, rather than being in any way something that is targeted by the investment manager. It is therefore fair to say that many absolute return strategies are incompatible with a formal income target.

Total return

Advantages
- It doesn't matter that income levels are low
- A total return approach maximises your investment choices
- Higher withdrawals?
- Less danger of focusing unduly on income
- Compatible with an 'absolute return' approach

Disadvantages
- Reduced ease of identification
- Potential for poor market timing

Advantages of a total return approach

The advantages outlined previously for an income-only approach (except for the ease of identification, on which see more below) can also apply to a total return approach. Given the greater flexibility offered by total return, such an approach can incorporate almost everything that an income-only strategy can, but without the disadvantages. The disadvantages simply fall away, as explained below.

1. It doesn't matter that income levels are low
The fact that current income levels are low isn't such a big issue for a total return investor. It is likely that total returns will also be lower for the foreseeable future than may have been the case in the past, but that factor isn't forcing a total return investor to be less well diversified.

2. A total return approach maximises your investment choices
A total return investor is indifferent as to whether returns are derived from income or capital gain. That gives the broadest universe of potential investments and asset classes to choose from, as those that produce a higher level of income are no longer favoured. This should offer benefits from both a risk and a return perspective. High-quality bonds and cash are an excellent case in point. It is hard to argue that their income yields are attractive at present, and the prospect of higher interest rates means that longer-term bonds could perform poorly in capital terms. But as the equity market sell-off in 2008 illustrated, such securities can provide valuable stability at a time when shares may be plunging in value. The same goes for smaller company and growth stocks. Although many don't pay dividends, they can smooth the performance of a portfolio. Likewise for absolute return funds and other alternative investments, such as private equity or commodities.

3. Higher withdrawals?
A total return strategy may enable you to make a slightly higher withdrawal than if you pursue an income-only strategy because, as we have already seen, equities produce real capital returns over the long term. This assumes that the portfolio is substantially invested in real assets such as equities at all times (as for our 'average' charity) or that you have a good 'absolute return' investment manager that can achieve the same result.

4. Less danger of focusing unduly on income
There's also no incentive to invest in higher yielding stocks that may offer an elevated level of income for a very good reason (i.e. they're about to go bust or have gone ex-growth), and no need for an investment manager to dividend strip. In addition, there is also no bias introduced into the decision as to whether one invests in a pooled or segregated fashion.

5. Compatible with an 'absolute return' approach
Finally, a total return approach enables one to invest on either a relative or absolute return basis. As observed earlier, an absolute return approach is generally incompatible with an income-only strategy.

Disadvantages of a total return approach

1. Reduced ease of identification
A total return approach is slightly more complicated than an income-only approach, in so far as 'identification' of the return goes.

Firstly, the capital gain element is not as easily separated out in the way that income is and it is not as easy to have capital gain paid into a separate account as income can be. You need to work out how much of the capital gain is 'realised gain' (when stocks have been sold at a profit) and that which is 'unrealised gain' (when stocks that have not been sold are standing at a higher price than the original purchase price). But this is not difficult to deal with if you have a competent book keeper or accountant.

Secondly, you have to apply a total return withdrawal percentage to a portfolio value to work out what should be taken out in monetary terms. Two questions then arise. Firstly, what should the total return withdrawal percentage be? As mentioned earlier, there have been a number of studies done in this area recently and no further commentary is offered on this aspect here, save to say that the percentage is likely to be lower than would have been commonplace a few years ago, given the current economic and investment environment. Secondly, what portfolio value should one use for these purposes? Should it be the last financial year-end value, the expected value in a year's time (assuming certain market movements), or perhaps a value averaged over the past few years?

We mentioned earlier that one of the advantages of an income-only approach is that history shows that such a strategy tends to produce a fairly stable level of income whatever the state of the economy or financial markets. With a total return strategy, because you are applying the total return withdrawal percentage to a fluctuating portfolio value, the amount that you can take out will change as the portfolio increases and decreases in value over time. This issue can however be mitigated by adopting a 'smoothing' policy. Trustees can smooth the volatility of their withdrawal (and reduce concerns of over-distributing in one year and potentially jeopardising future pay-outs) by basing their distribution policy on a moving average (over several years) of the

[3] Research conducted by Bernstein Global Wealth Management (Sustainable Spending for Endowments and Public Foundations – January 2011) suggested that a US charity with a portfolio invested 70% in equities and 30% in bonds, and distributing 5% of the value of the endowment annually without a distribution smoothing policy would suffer a 10% or greater decline in annual distribution in approximately one year in every seven. If the same portfolio adopted a five-year smoothing policy, it would see this risk drop to approximately one year in every 50. This reduction argues strongly for incorporating this methodology into any total return approach.

valuation of their portfolio. Smoothing slows the rate of spending increases during market rises, and helps support spending levels through declines. Smoothing formulae also facilitate a more aggressive risk/return profile for the investment portfolio. Provided that the organisation can tolerate the resulting portfolio volatility, the volatility of spending will be reduced. A number of studies have suggested that a five-year smoothing period is optimal[3].

2. Potential for poor market timing

An argument commonly advanced against a total return approach is that it might be necessary to sell investments to fund a withdrawal at a time when markets have just crashed. This concern can to some extent be mitigated by taking the required withdrawal out in bite-sized chunks from the portfolio on a regular basis (perhaps taking one quarter of the required annual withdrawal every three months), rather than taking the whole amount once a year. In addition, as income will tend to form a major component of many total return strategies for several of the reasons outlined earlier, the amount of capital having to be extracted under a total return strategy is unlikely to be more than a very small proportion of total portfolio value. If an absolute return strategy was adopted, then it would not be unreasonable to expect that the portfolio should be somewhat protected from the vagaries of market volatility, thus reducing the impact of having to liquidate at an inopportune time. Finally, most portfolios carry a small capital cash balance at all times which could be used to fund the withdrawal. Taking all of these factors into account should mean that the potential for poor market timing being responsible for a diminution in portfolio value is largely a theoretical risk (provided that the portfolio is largely invested in liquid, easily realisable investments).

Conclusion

We believe that most charities should give due consideration to the many benefits that an income-only approach can offer, but do so within a total return framework.

This allows trustees to dispense with the somewhat arbitrary distinction that exists these days between income and capital gain, much of which results from modern investment technology. Blending the two approaches allows a charity to benefit from the stability that income-producing securities can give without sacrificing diversification or chasing securities that, in hindsight, turn out to be yield traps.

This allows trustees far more flexibility when drawing up their investment strategy and enables them to consider all asset classes (thus increasing diversification) and investment approaches rather than just those that produce income. The ability to diversify risk is greater for a charity adopting a total return approach, which is a benefit that should certainly be considered given the challenging investment environment that is likely to persist for the foreseeable future.

Speak to one of our charity investment specialists today to know more about the issues raised in this white paper or on Rathbones' services for charities.

Please contact: Andrew Pitt (Head of Charities - London) or Francesca Monti (Senior Marketing Executive for Charities) on 020 7399 0119.

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Look forward

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The value of investments and income arising from them may fall as well as rise and you might get back less than you originally invested.