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Institutional versus retail investing for charities

Investors are often described as being either ‘institutional’ or ‘retail’. What difference does that categorisation make and what issues should charitable organisations consider in this area to help them meet their fiduciary duty?

Cartwright is passionate about bettering our society and being an advocate for the non-profit space. We believe that charitable organisations have been getting a raw deal in the investment world. Typically charities are advised by wealth managers and invested alongside individuals and high-net-worth clients in the retail space. We think all charities, from the smallest to the largest, deserve access to a quality institutional investment offering instead.

So what do we mean by 'retail' and 'institutional' investors?

Institutional investors are typically large organisations, investing on behalf of others with professional expertise. Entities such as pension funds, mutual funds, hedge funds, insurance companies and sovereign wealth funds would generally be included in this category.

Retail investors on the other hand would include usually individual investors and smaller businesses that make their own investment decisions about their own assets. The category would also include investors and high-net-worth clients who invest via a wealth management firm, typically using individual pooled funds or model portfolios.

In our experience we have seen many charities fall into the 'retail' box, investing through wealth management firms.

Institutional Advantages

The scale that institutional investors have typically gives them advantages in terms of the variety of assets they can access and the lower levels of cost they can secure for their investments. Due to their importance in the market they are also likely to have better access to information and the management of companies they invest in or third-party investment managers.

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Institutional investors may also have access to a wider array of investment strategies whereas a retail investor might be limited to a single or reduced range of off-the-shelf pooled funds. Typically a charity might have to choose a model portfolio from a small range. Such a portfolio might take account of an overall risk tolerance, but may not match the organisation's needs well in terms of cashflow or ESG preferences. The underlying funds in this portfolio are also likely to have higher management charges as they are share classes designed for smaller retail customers.

An institutional service is likely to offer more bespoke investment strategies that can be tailored to the client's needs, utilising wider range of products. For a charity in particular the service could incorporate bespoke requirements such as exclusions to the investment mandate that better suit the mission of the charity or its ESG desires. A charity may also have restricted or endowed funds that need special treatment.

Cash management can also be an important issue for charities. The bespoke nature and timing of how funds are received (fundraising, donations) compared to spent (salaries, maintenance, grants) means that charities can benefit from institutional level analysis, modelling and design of a cash strategy to maximise opportunities at the same time as securing the ongoing operation of the organisation.

In summary an institutional approach will enable a bespoke investment strategy that takes into account the charities cashflow needs and ESG desires. It can also reduce cost by accessing institutional share classes with lower management charges.

How have you been categorised?

Charitable organisations can vary dramatically in terms of size and the level of financial expertise they have internally. For the last decade or so regulations have required a financial adviser to assess and categorise charity clients as professional or non-professional (retail) and to disclose to each client how they are being categorised. It is important that charity trustees are aware of this categorisation and the implications.

If categorised as professional, Trustees have a responsibility to ensure they have adequate expertise capable of making investment decisions and lose some FCA protections. The charity can benefit however from an institutional investment relationship including lower costs, more bespoke investment strategies and access to wider investments as mentioned above.

Cartwright Charitable Trusts
250 Fowler Avenue
Farnborough Business Park
Farnborough GU14 7JP

Telephone: 01252 894883
Email: enquiries@cartwright.co.uk
Website: charitabletrusts.cartwright.co.uk

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