



Writing your charity investment policy

December 2020



Writing your charity's investment policy

A guide

www.cfg.org.uk

www.charityinvestorsgroup.org.uk

Writing your charity investment policy



Developing a charity's investment strategy with values and aims in mind



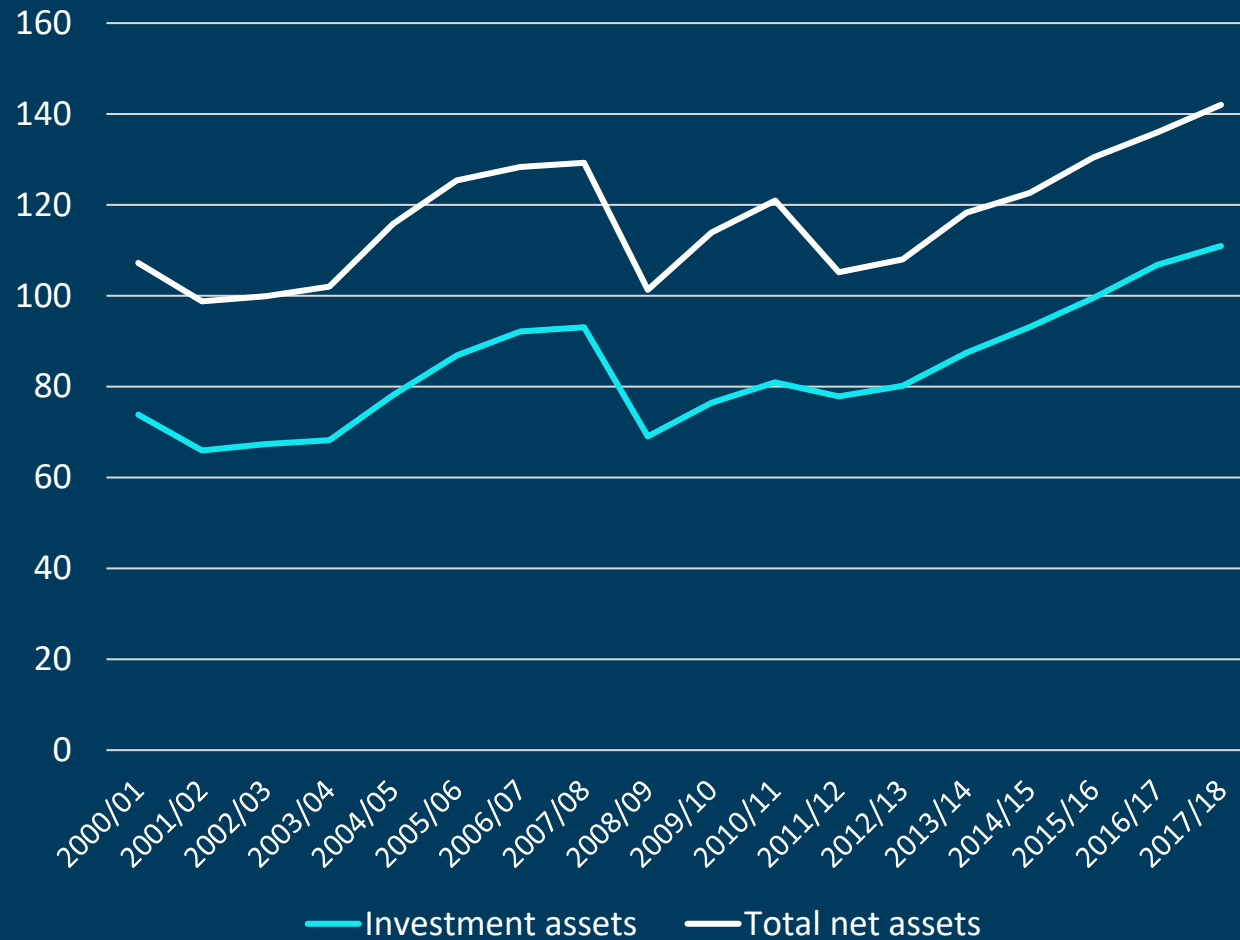
Cazenove
Capital

Part of the Schroders Group



Charity sector
investment assets

£111bn



Source: NCVO/TSCR, Charity Commission

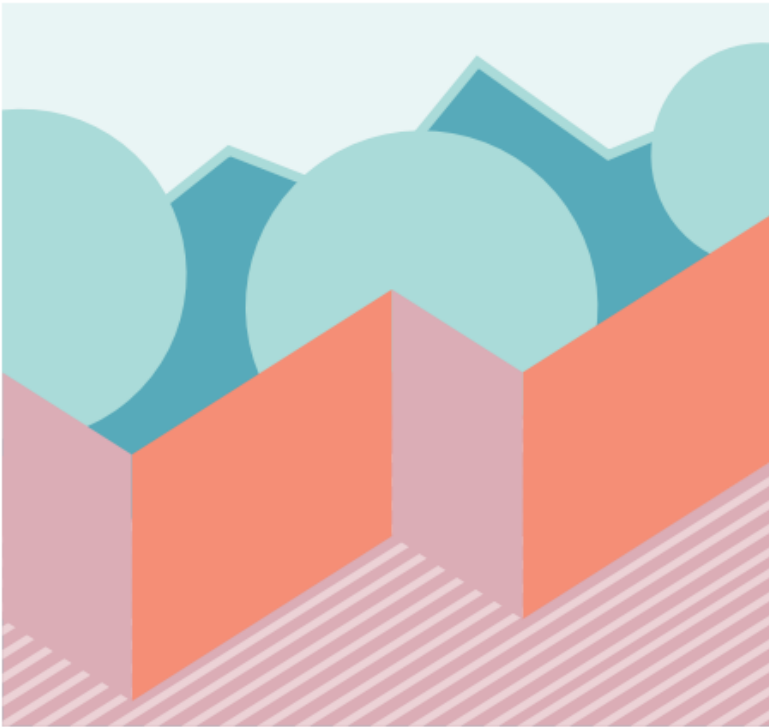
FOUNDATION GIVING TRENDS 2019

TOP 300 FOUNDATION GRANT-MAKERS

KEY FACTS AND FIGURES ON GIVING, INCOME AND ASSETS IN THE TOP UK INDEPENDENT CHARITABLE FOUNDATIONS

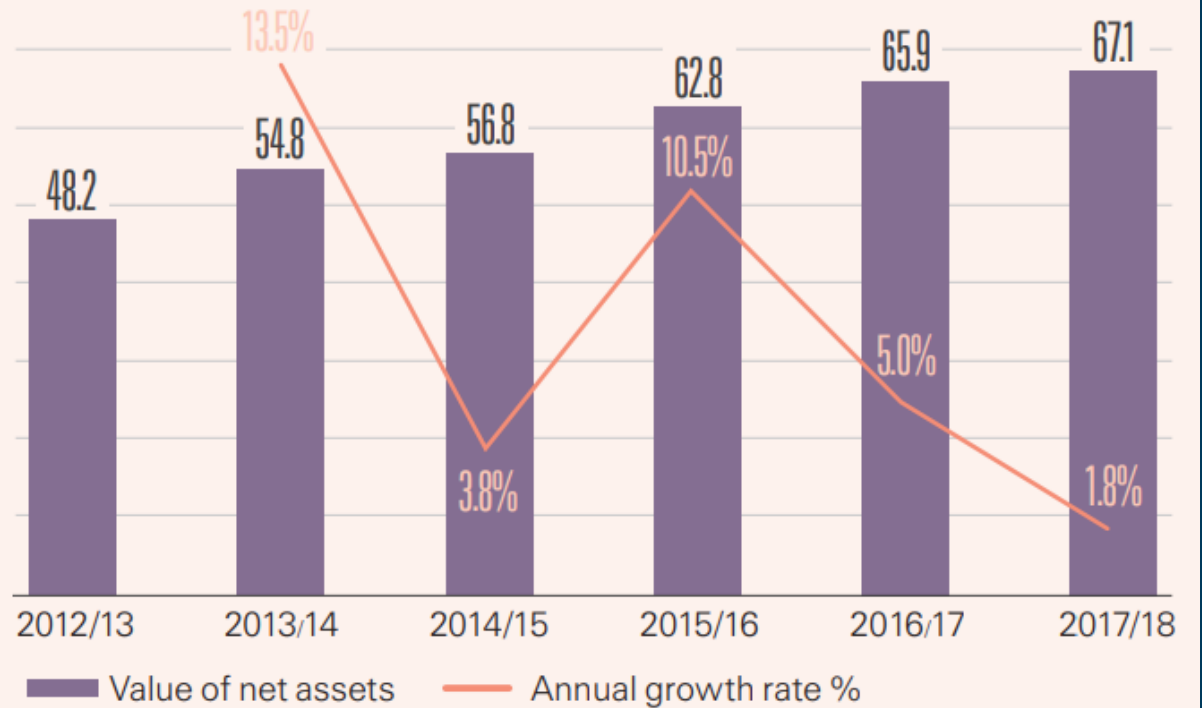


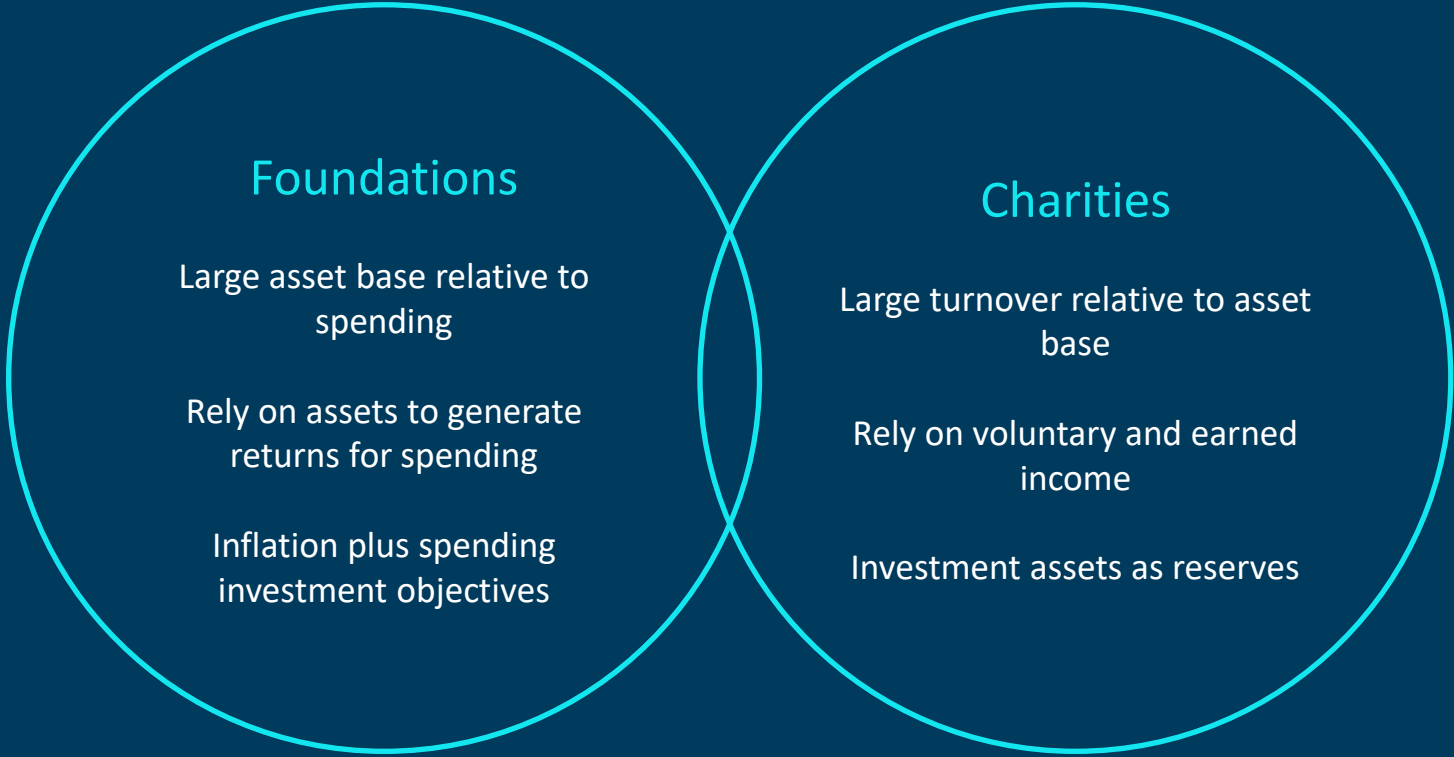
CATHY PHAROAH
CATHERINE WALKER



Top 300 Foundations £67bn

VALUE OF NET ASSETS (£) BILLION (INCLUDING WELLCOME TRUST)





What, who and how?



Investing Charitable Assets

Charity Commission Guidance – CC14

When you invest your charity's funds, by law you must:

- ✓ Know what you can and can't invest in – follow any restrictions in your governing document
- ✓ Make sure you know what you're doing when making investment decisions – take advice from an expert where necessary
- ✓ Minimise risk to your charity's funds, for example by having a mix of investments rather than a single large investment which could drop in value – diversification
- ✓ Explain your investment policy in your trustees' annual report – transparency and trust

The purpose of financial investment is to yield the best financial return within the level of risk considered to be acceptable

...this return can then be spent on the charity's aims.

Advice

‘ In order to act within the law, trustees must take advice from someone experienced in investment matters unless they have good reason for not doing so. ’

In practise:

1. Delegated to investment adviser or manager
2. Rely on the financial experience of trustees or co-opted adviser

However

- Post 2012 (RDR) a number of managers stopped providing advice
- Don't presume investment advice is part of the service

Investment Policy Statement

‘ ..provides a framework for making investment decisions, helping trustees to manage the charity’s resources effectively and demonstrate good governance ’

Investment Policy Statement should cover:

1. Introduction – general background and financial objective, investment powers, governance
2. Investment Objectives
3. Risk
4. Liquidity Requirements
5. Time Horizon
6. Responsible Investment
7. Management, Reporting and Monitoring
8. Approval and Review

Requirement if delegate investment management

Investment Objective

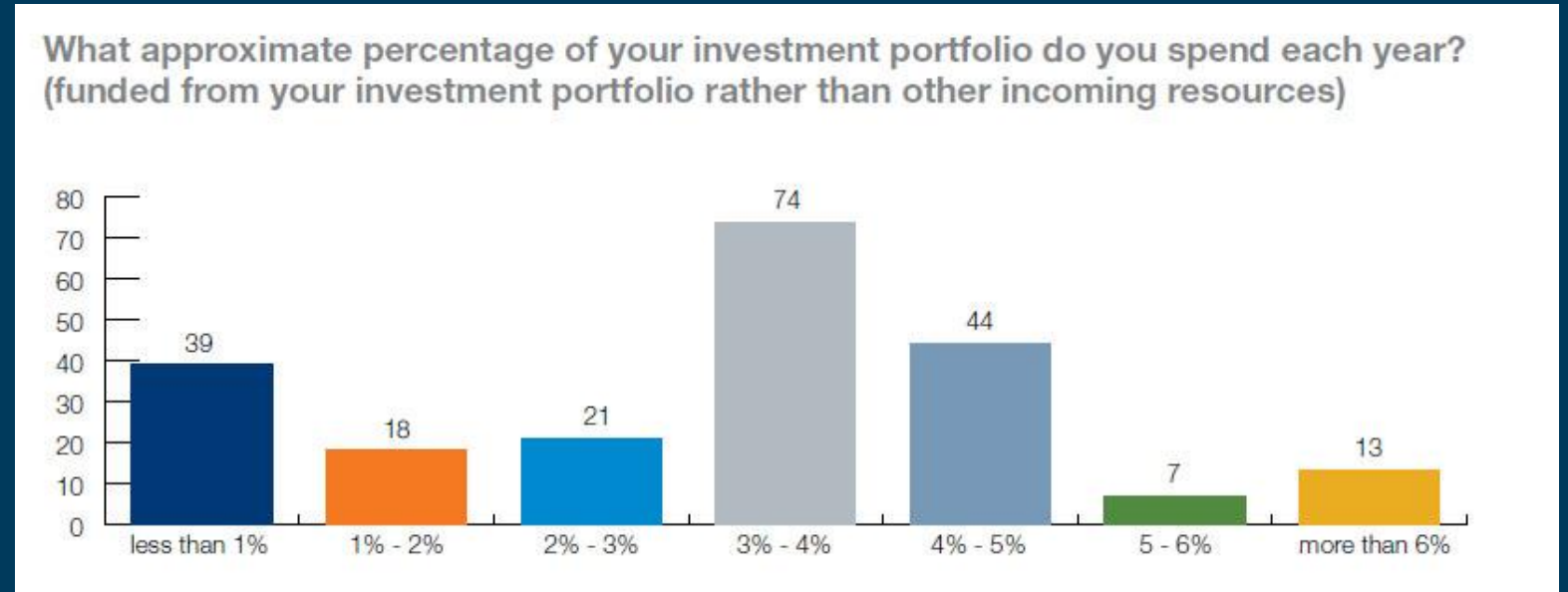
Risk and Return

Perpetual time horizon



Inflation is the key risk over the long term

Investments supporting spending



Average spending of 3-4% per annum

Investment Policy Statement

Key decisions and challenges

4. Liquidity Requirements

Regular draw down requirement? Income and/or capital?

Other planned spending?

Likelihood of unanticipated need for cash?



Spending
Policy

5. Time Horizon

Charity life?

Investment asset life?

Expected changes in capital, income or expenditure?



Governance &
Investment
Beliefs

6. Responsible investment

Areas to avoid?

Areas to invest in?



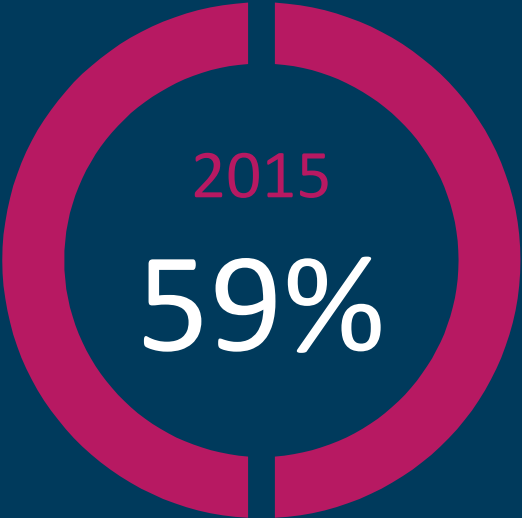
Alignment
Reflecting aims in
investments



We advocate intentional investing, which means that trustees have thought about the management and use of their charity's assets so that their approach supports the delivery of their charitable aims.

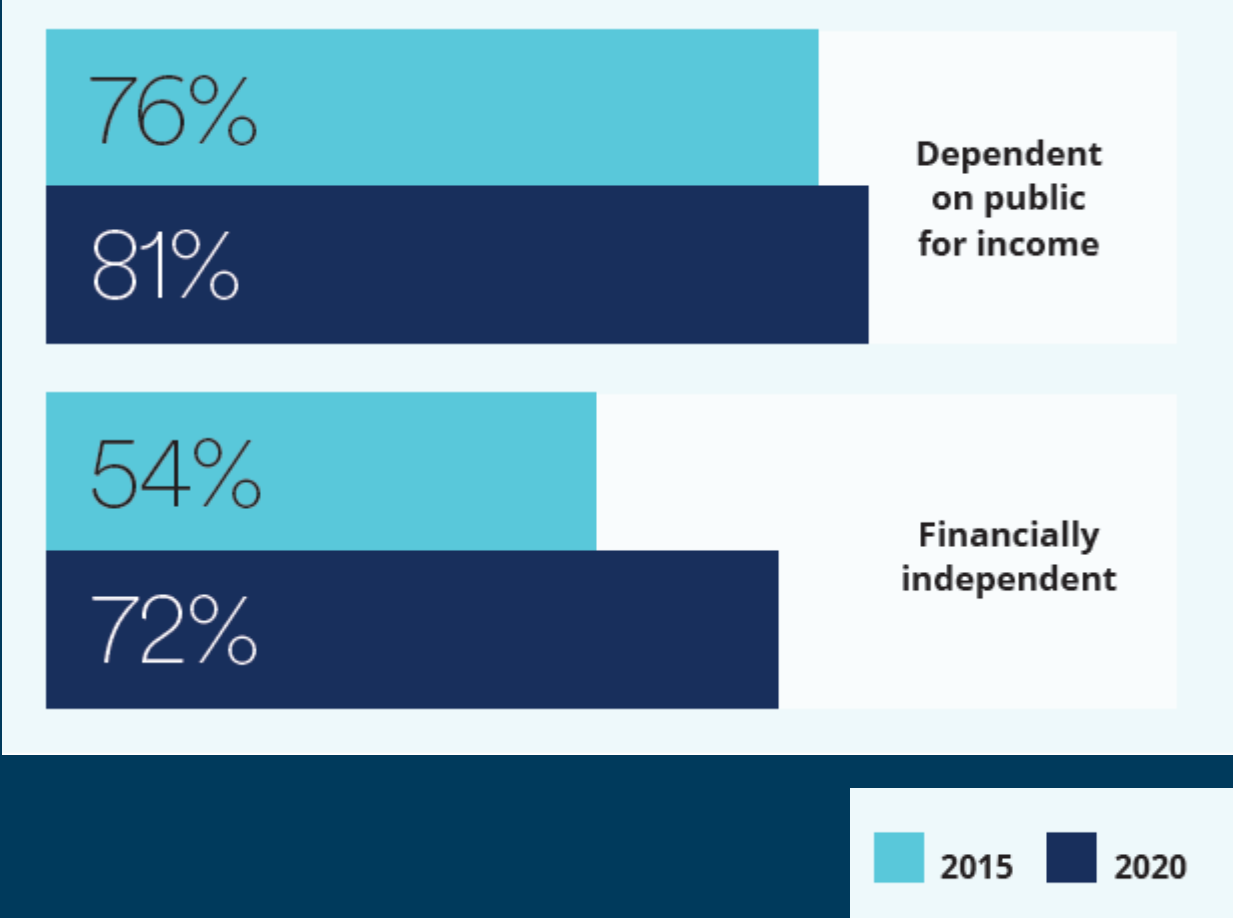
From minority to mainstream

An increasing percentage of UK charities and Foundations have a policy to link mission to investment

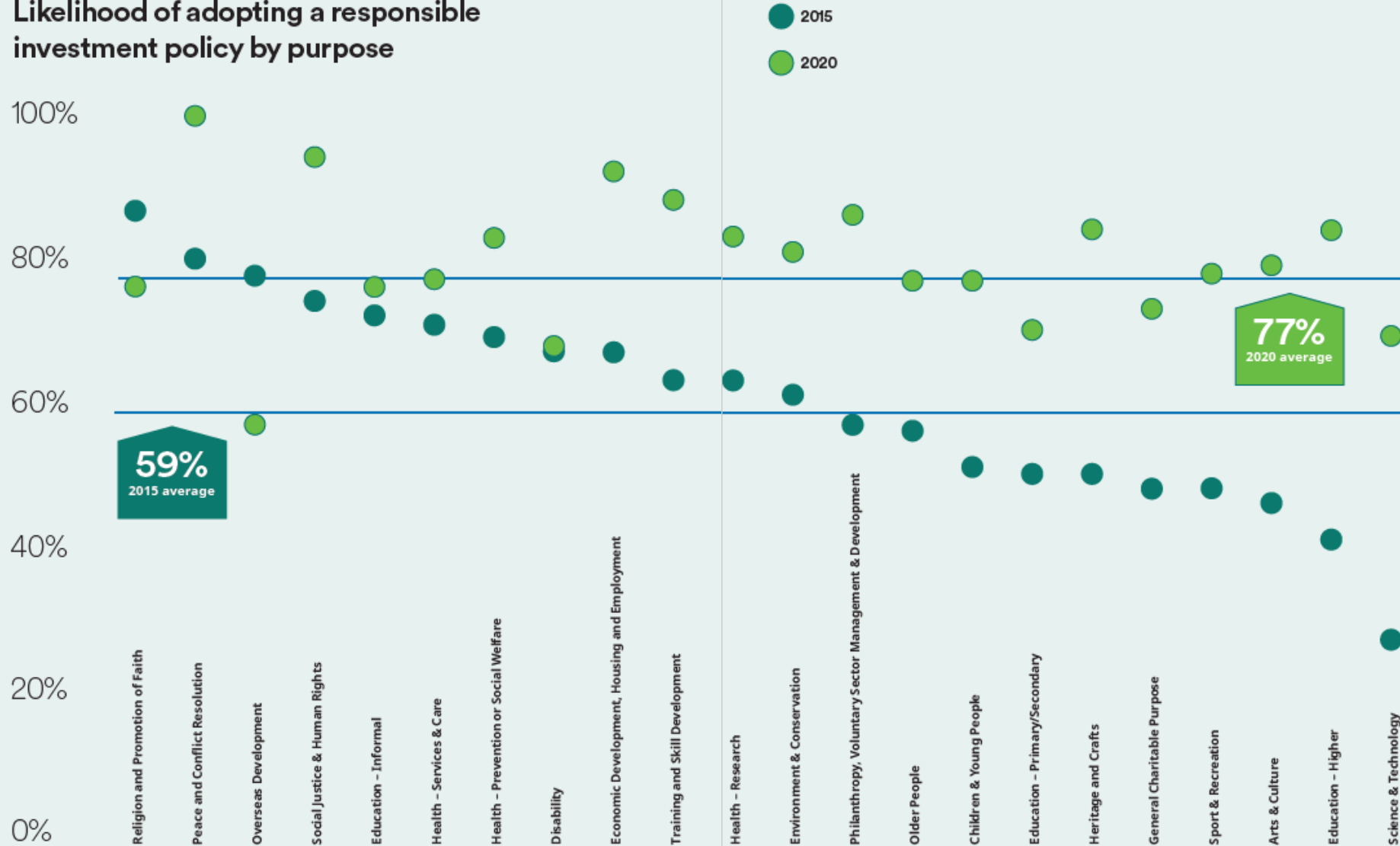


Source: Cazenove Charities, ACF. Intentional Investing 2015, 2020

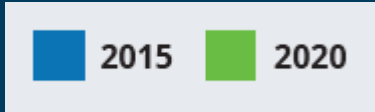
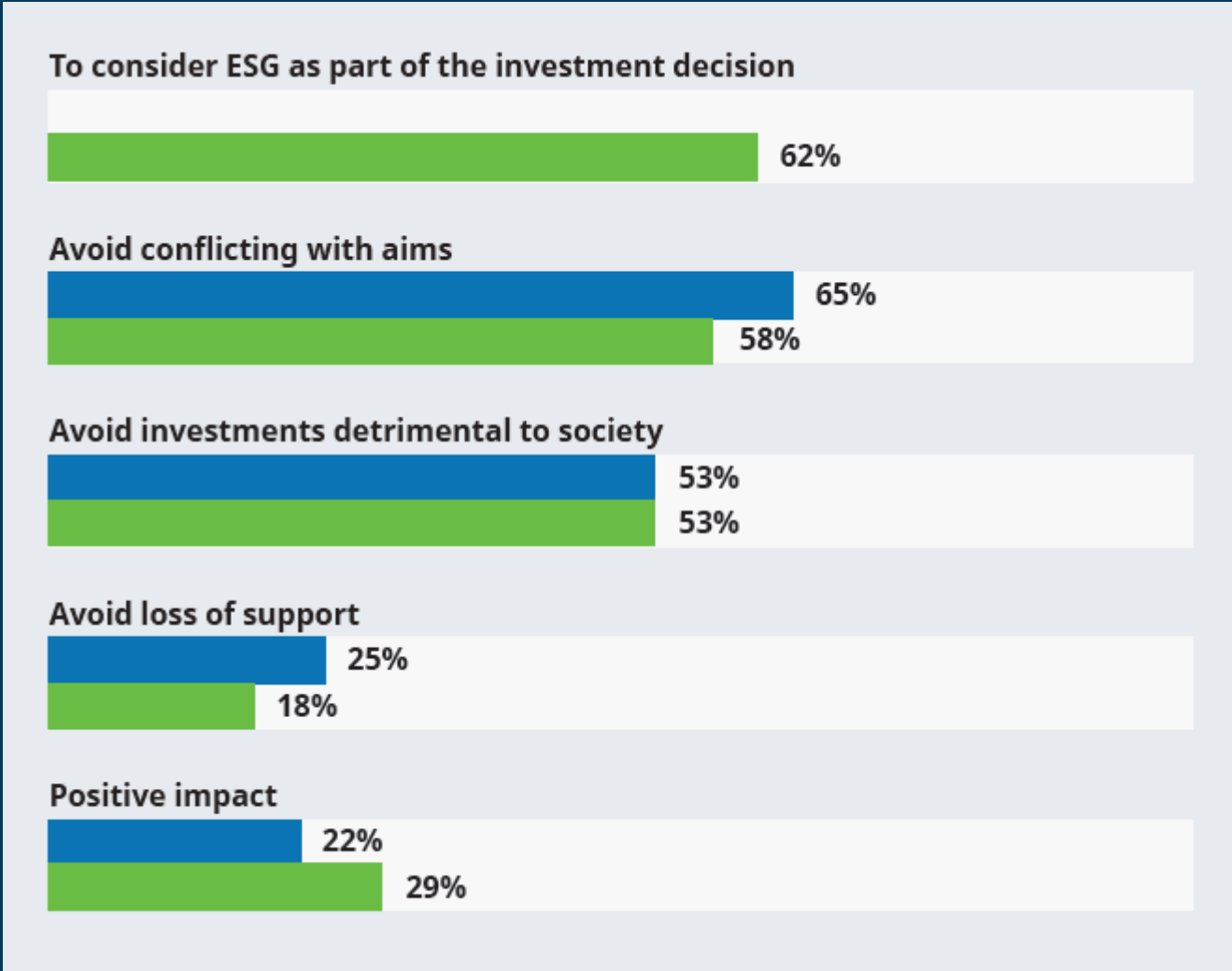
More likely to invest with mission in mind if dependent on public for income



Likelihood of adopting a responsible investment policy by purpose



Why?



In the press

Comic Relief money invested in arms and tobacco shares

By Declan Lawn
BBC Panorama

10 December 2013



Extracts from Panorama - All in a Good Cause

Church of England ends Wonga investment

11 July 2014



The Church of England has ended its investment in the payday Wonga.

The move ends an embarrassing situation for the Archbishop of Canterbury, who last year pledged to try to put Wonga out of business by unions compete with it.

It later emerged that the Church had indirectly staked about £75,000 in Wonga through an investment fund.

National Trust has £30m invested in fossil fuels

Exclusive: investments in oil, gas and mining companies held indirectly via portfolio fund

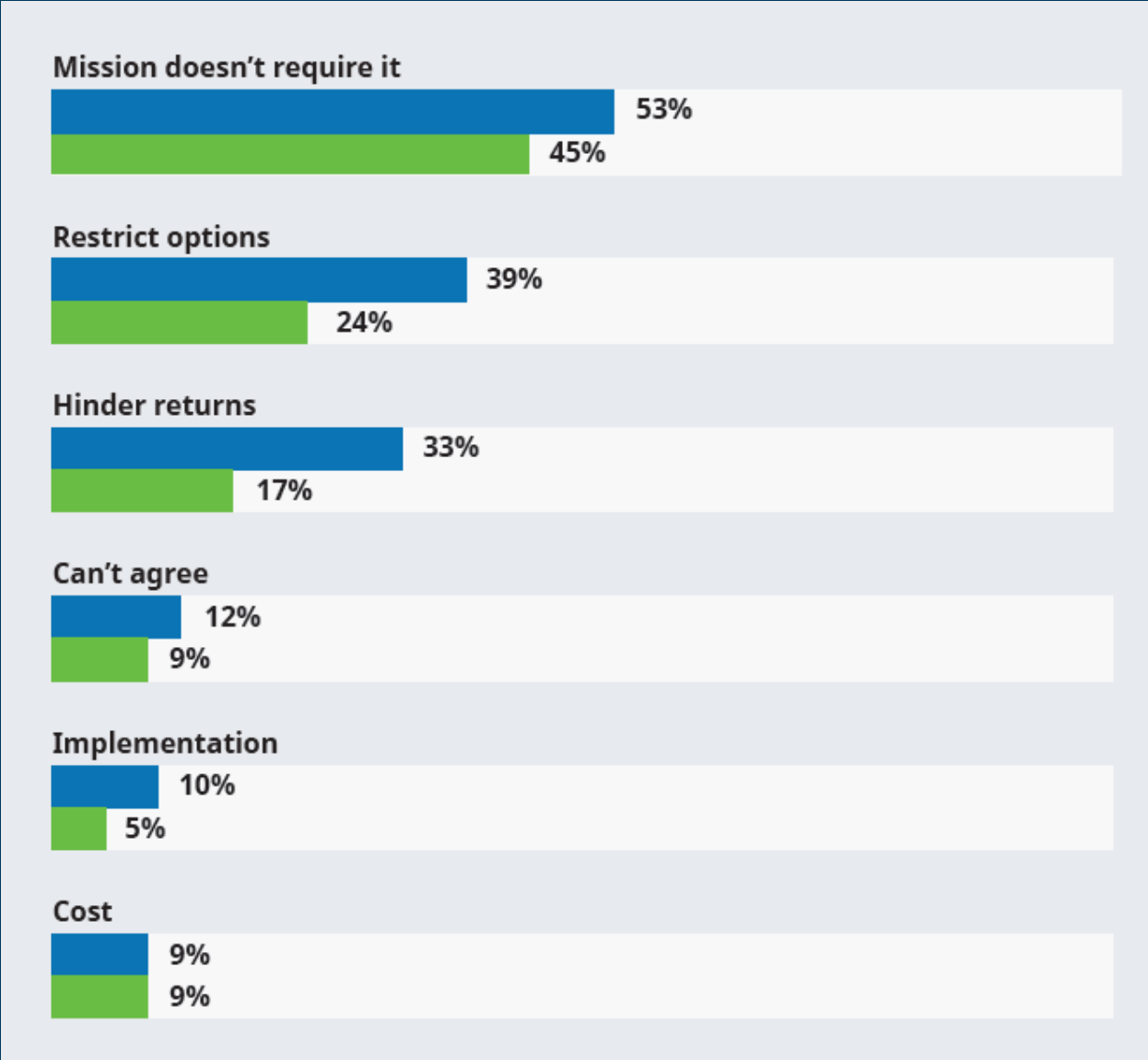


▲ The National Trust is being criticised by MPs. Photograph: Alamy

The National Trust has invested tens of millions of pounds in oil, gas and mining firms - despite the conservation charity pledging to cut down its own use of fossil fuels and warning about the impact of climate change.

An investigation by the Guardian has found that the trust - which aims to "nurse the environment back to health" - has more than £30m of investments in oil, gas and mining companies, including BP and Shell, held indirectly via a portfolio fund.

Why not?

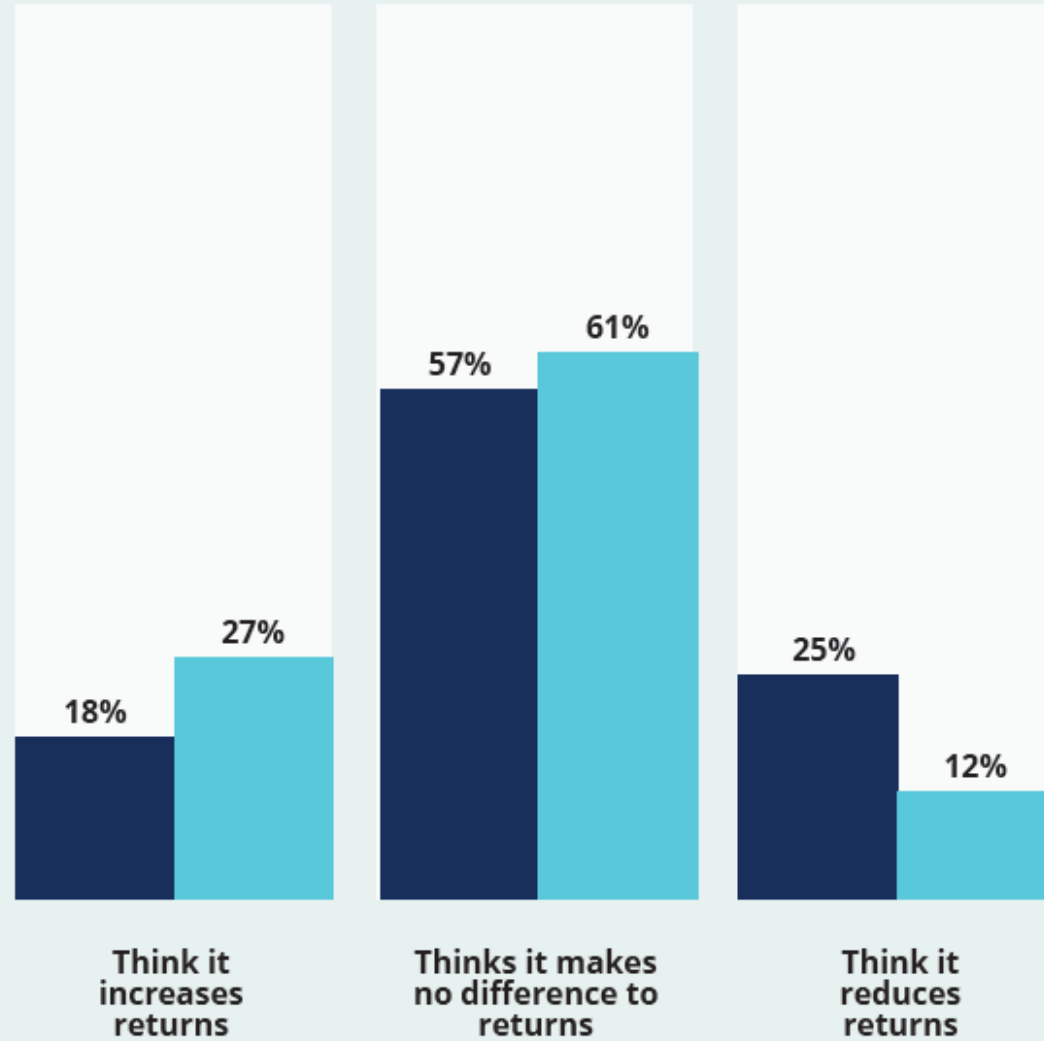


Is there a tension between doing good and making money?

■ 2015 ■ 2020

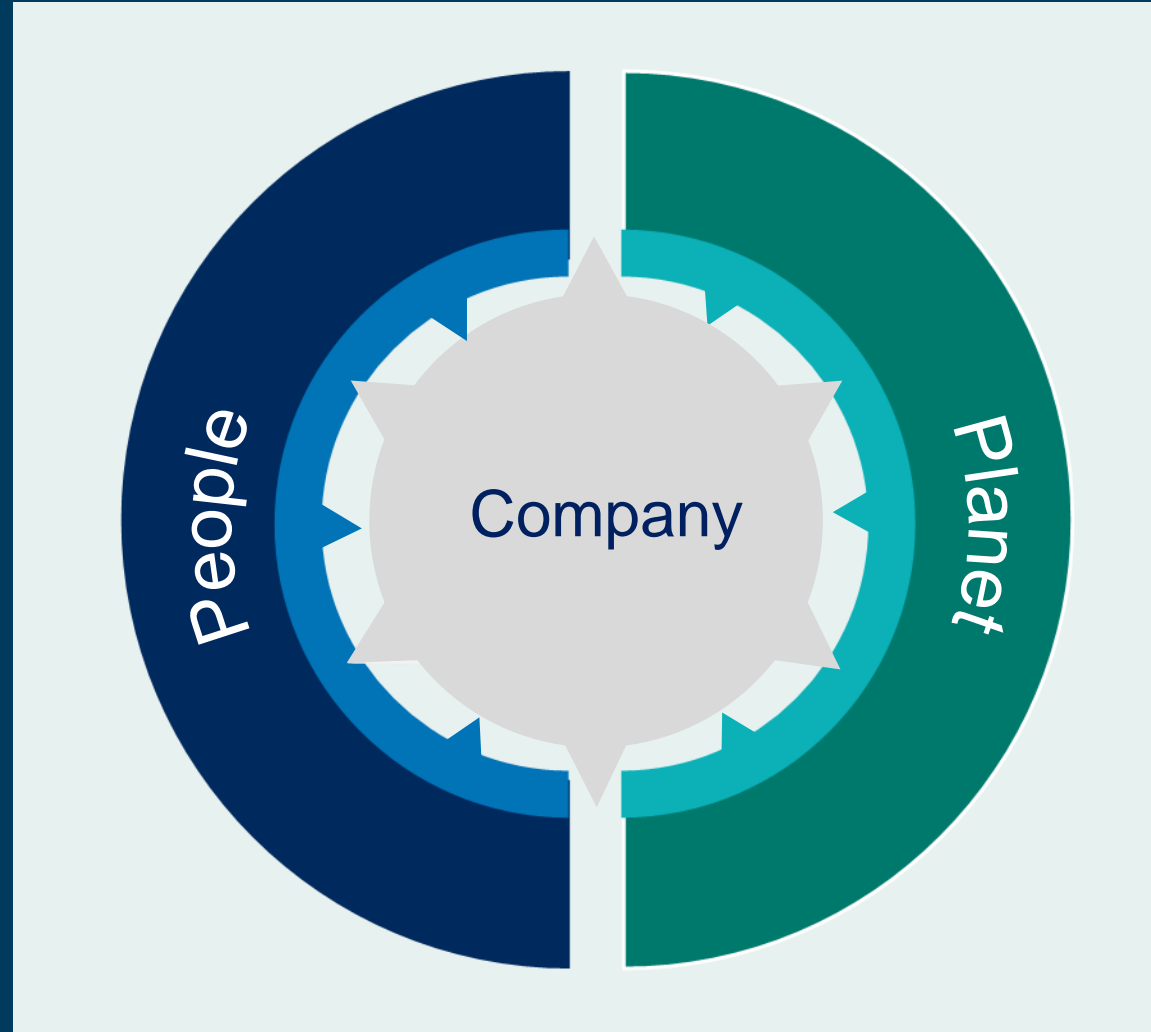
KEY TRENDS

- More think it increases returns
- Fewer think reduces returns



How?

Recognise all investments have an impact on people and planet



Investing for a better future



Intention

- ✓ to meet your financial goals
- ✓ to have a positive impact on people and planet



Action

- ✓ **investing** to avoid harm, to benefit people and planet and contribute to solutions
- ✓ **influencing** companies, managers and policy makers to make progress towards the sustainable development goals



Impact

- ✓ measuring and managing the impact of your investments

Action - Investment

Aligning your mission with your investment strategy



- ✓ Screening
- ✓ Integrating ESG

63% of charities with a policy



- ✓ Seeking a positive impact on stakeholders
- ✓ Best in class

35% of charities with a policy



- ✓ Providing capital for solutions
- ✓ Social/impact investment

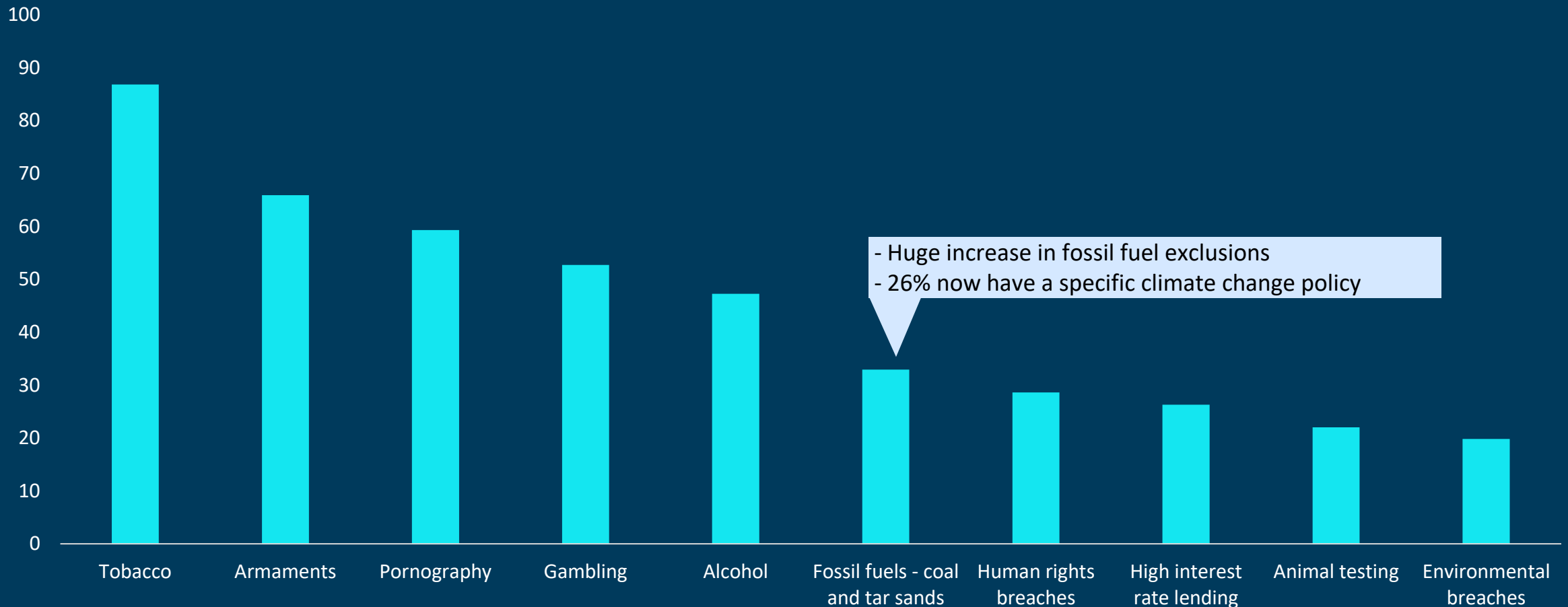
17% of charities with a policy

Source: Cazenove Charities Intentional Investing Survey 2020 (295 respondents).

Avoiding conflicts

Common charity exclusions

% of charities with a responsible investment policy that exclude the following sectors

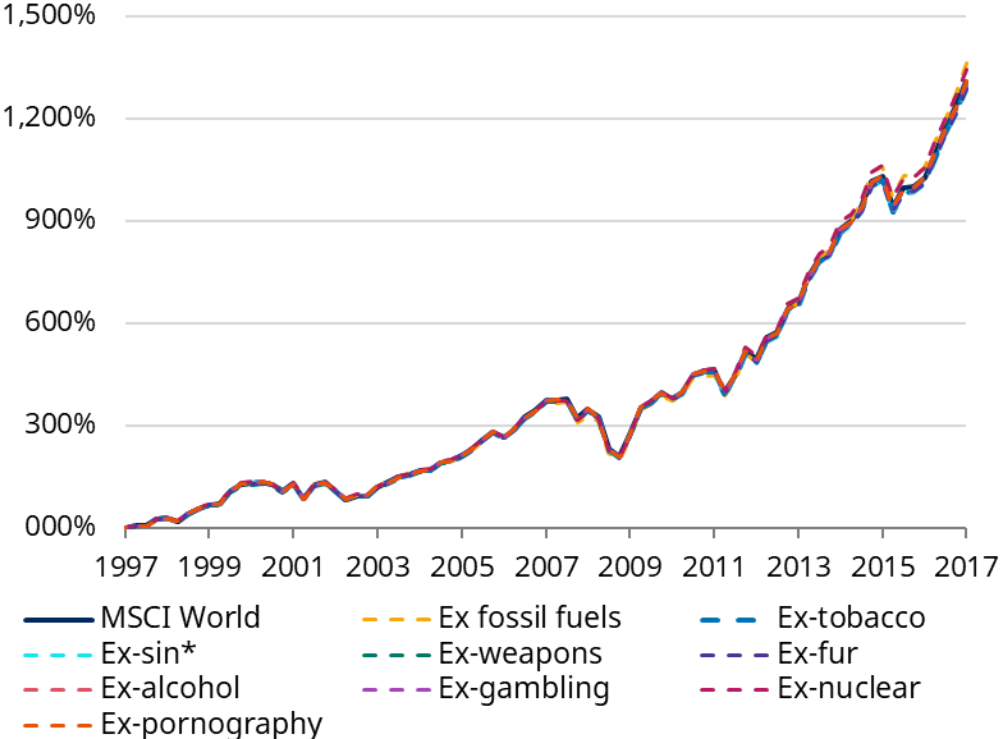


Source: Cazenove Charities Intentional Investing Survey 2020 (295 respondents).

Performance implications

Screens have minimal effect on long-term returns

Cumulative returns of MSCI World Index with different screens applied†



Stronger ESG scores correlate to lower price declines



Source: Schroders, 2017; Datastream, 2017. All data as at 30 June 2017. †Exclusions for fossil fuels and all sin stocks are based on 10% revenue cut off, as defined by MSCI. Exclusions for weapons, fur and nuclear are based on business involvement, as defined by MSCI. *Sin stocks include tobacco, alcohol, gambling and pornography. Past performance is no guarantee of future results. Investors cannot invest directly in any index.

In practise

Responsible Investment Policy: Responsible Multi-Asset Fund

Intention is for the Fund to have a positive **impact** on people and the planet by:

- ✓ Avoiding harm through ESG integration and screening,
- ✓ Benefiting stakeholders through responsible business activities and
- ✓ Contributing to solutions through influence and investing for impact

✓ **Screening:** companies that do not meet the responsible investment policy are excluded

✓ **Integration:** environmental, social and governance factors are integrated within the equity selection process

✓ **Engagement and voting:** influencing companies to promote environmental, social and governance best practice

✓ **Impact:** investing in social and environmental impact investments where appropriate

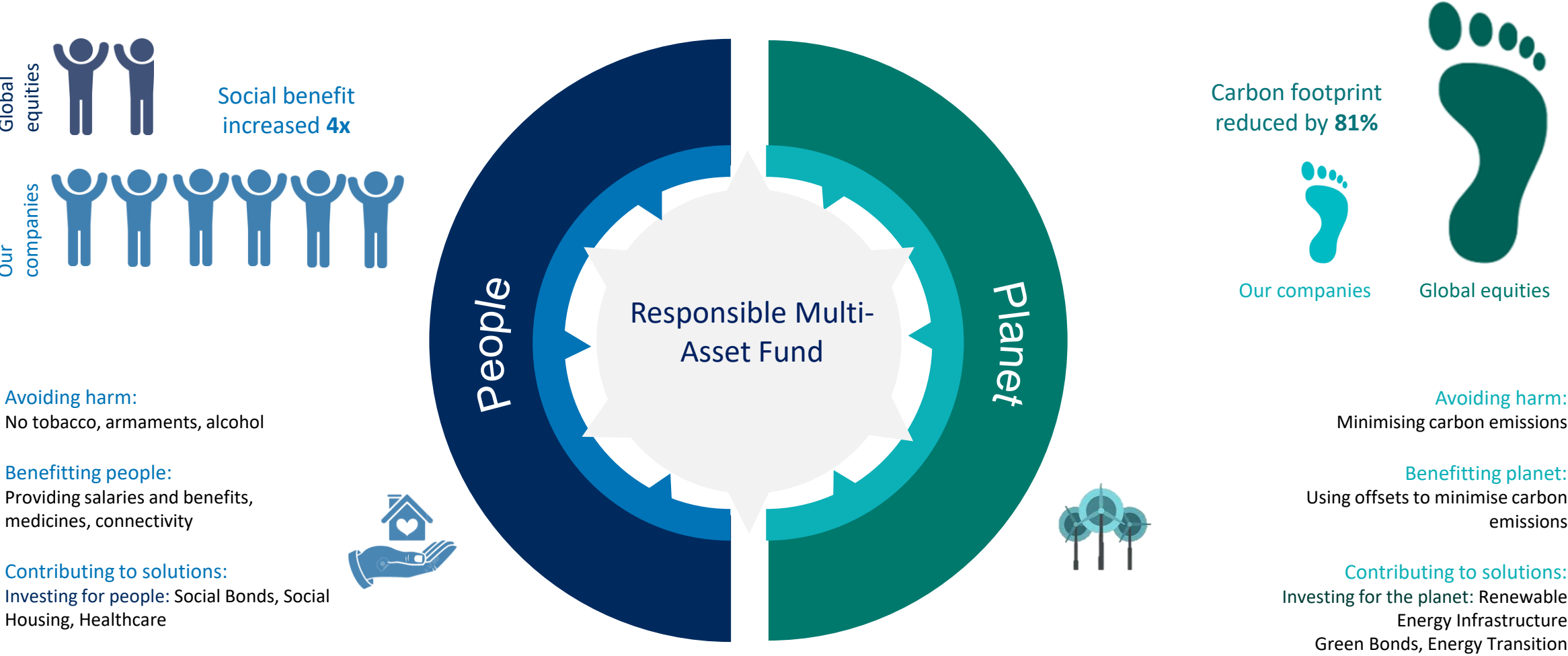
✓ **Collaboration:** working with other investors to drive positive change

Exclusions

- ✗ Alcohol
- ✗ Pornography
- ✗ Armaments
- ✗ Tobacco
- ✗ Gambling
- ✗ High interest rate lending
- ✗ Human embryonic cloning
- ✗ Climate change

Responsible Multi-Asset Fund

One fifth of the carbon emissions, four times the social benefit



Source: Carbon footprint is based on the average carbon emissions (tonnes CO2e) of portfolio companies, weighted by their position size based on MSCI data. Social benefit is calculated using SustainEx, a proprietary impact measurement tool created by Schroders: MSCI AC World 1.7%, Portfolio +6.0%

Responsible Multi-Asset Fund

£1m invested

Our companies



6% social 'dividend' per year

Key contributors



Medicine provision



Fair wages

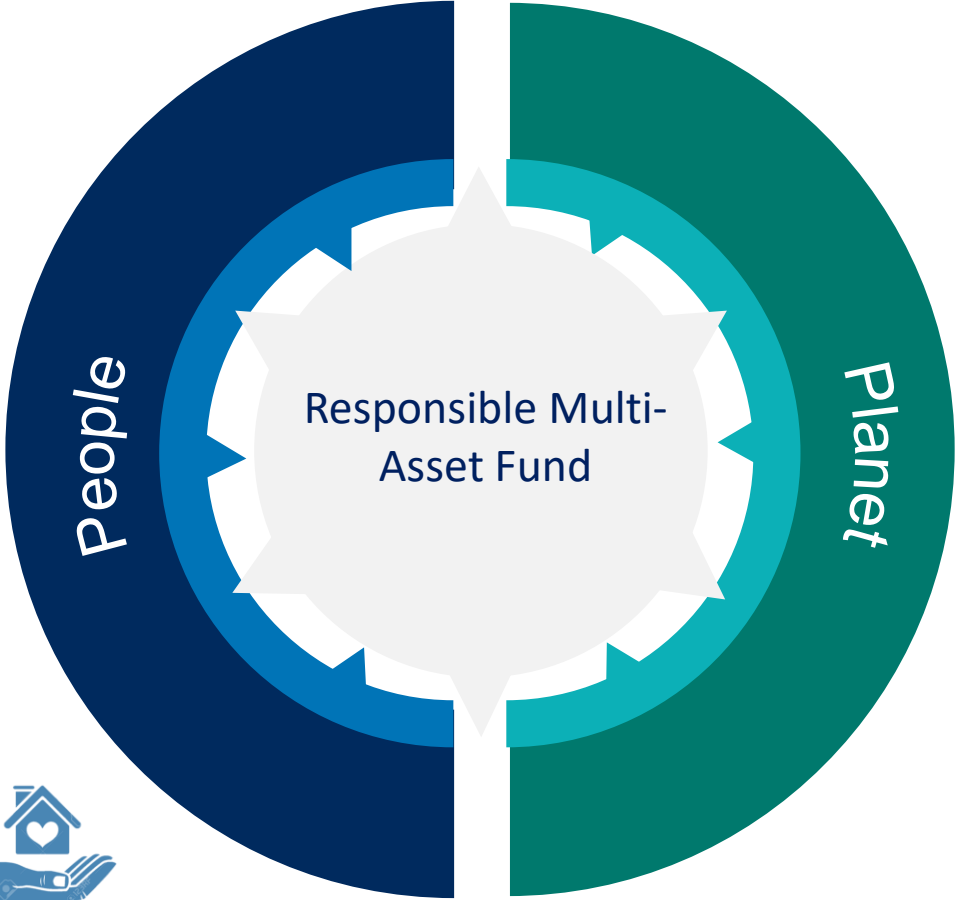


Connectivity



Healthcare

Investing in specialist impact strategies to drive **equality** and **wellbeing**



Our companies



Carbon emissions 125 mtonnes CO₂ less than global equities

Equivalent to



The annual energy use of **14** homes



Taking **27** cars off the road for a year



Planting and growing **2,067** tree seedlings for 10 years

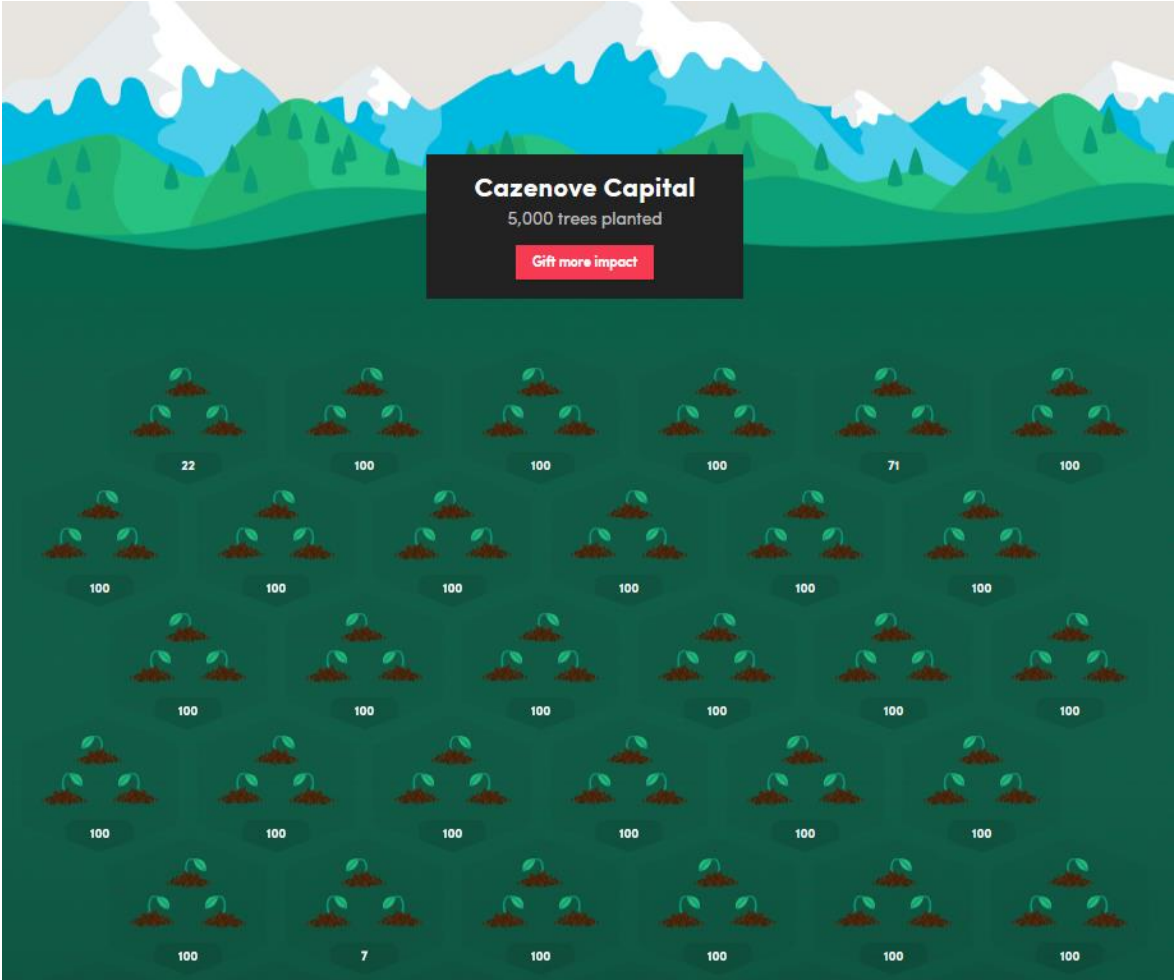


Offsetting remaining portfolio carbon emissions

Source: Carbon footprint is based on the average carbon emissions (tonnes CO₂e) of portfolio companies, weighted by their position size based on MSCI data. CO₂ reduction does not include the impact of carbon offset projects. Social benefit is calculated using SustainEx, a proprietary impact measurement tool created by Schroders: Portfolio +6.0%. Equivalency data EPA.

Innovative Carbon Offset partnership with Ecologi

Quarterly tree dividend



Supporting high quality reforestation and protection projects



Protecting and restoring the Pacific Coast of Colombia

Protecting and restoring 83,452 hectares of Colombia forests

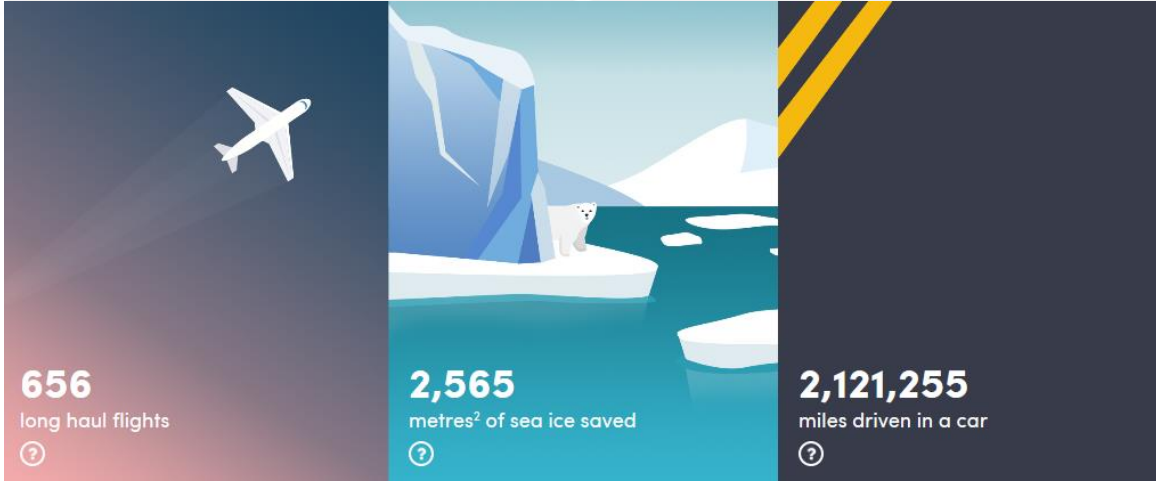
285T CO2 REMOVED



Forest plantation on degraded grassland in Uruguay

Over 20,000 hectares of land used for cattle grazing to be used for forestry.

570T CO2 REMOVED



Source: Ecologi, as at 5th November 2020

Investment Policy

- ✓ Cover the basics – risk, return, liquidity
- ✓ Get governance right – advice
- ✓ Think about your time horizon – consider investment beliefs
- ✓ Invest with intention – aligning aims to investment strategy

Writing your charity investment policy – updated version published December 2020



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