

INVESTMENT:



THE PILLARS OF STRONGER FOUNDATION PRACTICE

STRONGER
FOUNDATIONS

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WHAT IS THE STRONGER FOUNDATIONS INITIATIVE?

A foreword from Janet Morrison, Chair, Association of Charitable Foundations (ACF)

Thirty years ago, at a time of political turbulence, economic uncertainty and growing inequalities, a group of grantmaking charities came together to create an independent association that could offer them and others a space for robust discussion about what it meant to be a charitable foundation, to identify best practice and ensure that philanthropy kept pace with social need.

Three decades later, the Association of Charitable Foundations' 400 members collectively hold assets of around £60bn and give more than £3bn each year. As a society, we are experiencing one of the biggest upheavals to our lives that many of us have ever known. Against a backdrop of significant entrenched social, environmental and economic challenges, we are witnessing a global health emergency whose impact will be borne out for years to come. The voluntary and community sector – already facing rising

demand for its services – has faced an unprecedented challenge in meeting overwhelming new and evolving need. The role of philanthropy is more critical than ever.

At ACF our mission is to support members to be dynamic, ambitious, effective and expert, so that their resources are allocated for social good in a way that maximises the potential benefit to the individuals, causes and communities they serve.

Foundations are ideally placed to take a long-term and independent view, to respond creatively to change and emergent needs, catalysing social good and energising communities. From medical research to children's rights, the arts to environmental activism, community spaces to international development – many foundations are active agents of change. This plurality generates a funding ecosystem that is as varied as the communities that foundations support.

In the last decade, a more intense spotlight has shone on all charities, including on their fundraising, safeguarding and investing practices. Foundations, as charities themselves, are not immune from criticism, and in recent years there has been a noticeable increase in public scrutiny of philanthropy. Doing good by giving financial support to others is not enough. Thinking hard about how we behave and how we embody our values in everything we do is vital. This means asking hard questions about how we work, adapting and changing – not simply doing what we have always done. As society changes, we need to ensure philanthropy evolves too.

DOING GOOD BY GIVING FINANCIAL SUPPORT TO OTHERS IS NOT ENOUGH

MORE THAN 100 FOUNDATIONS HAVE BEEN INVOLVED TO DATE, WHICH WE BELIEVE MAY BE THE LARGEST FOUNDATION ENGAGEMENT INITIATIVE OF ITS KIND IN THE WORLD

ACF launched Stronger Foundations in December 2017, a flagship initiative to help charitable foundations identify and pursue excellent practice. At the heart of the project were six working groups, established and launched between May 2018 and February 2019, each focused on a different aspect of foundation practice:

▶ **DIVERSITY, EQUITY AND INCLUSION**

▶ **IMPACT AND LEARNING**

▶ **TRANSPARENCY AND ENGAGEMENT**

▶ **STRATEGY AND GOVERNANCE**

▶ **INVESTMENT**

▶ **FUNDING PRACTICES**

Every group's principal purpose was to examine, discuss and debate challenging questions about foundation practice related to its theme, as well as drawing on learning that is emerging from the others. Each group comprised up to 15 senior foundation representatives drawn from across ACF's membership, who met seven times over a 12-month period. The meetings varied in format depending on the topic and area of inquiry, and included presentation of evidence by experts from within and beyond the foundation sector, small group discussions, whole group exercises and visits. The working groups' full terms of reference can be found [here](#).

Through this process, staff and board representatives from more than 100 foundations have been involved to date, which we believe may be the largest foundation engagement initiative of its kind in the world. I believe strongly that its findings will play a key role in shaping the priorities – and more importantly, the actions – of the sector in the months and years to come. As the working groups conclude their inquiries, ACF is reporting on the groups' discussions and developing pillars of good practice – or what it means to be a 'stronger foundation'.

This report is based on the inquiry of the working group which looked at investment. A summary of the group's seven meetings is presented in Part 2 of this report. Thanks to the dedication and efforts of the working group, experts from beyond the foundation sector who have contributed, and the wider literature, ACF has been able to gather a huge amount of raw material, which we have used to create this report. The pillars of stronger foundation practice that we present here (and in reports on other topics) are our initial offering to our sector. We hope that foundations will consider these recommendations carefully in their own context and take steps to enhance their existing practice. With individual and collective effort, we can achieve a stronger foundation sector to the benefit of all.

INVESTMENT WHY IT MATTERS

*An introduction by Carol Mack, CEO,
Association of Charitable Foundations
(ACF)*

For many foundations, an endowment is their ‘super-power’. Financial independence and a long time horizon provide unique opportunities to work towards achieving the foundation’s long-term impact, to effect change, and to withstand financial turbulence. A well-managed investment portfolio is the engine that powers a foundation’s activity – providing vital resource for grant-making and other activities. Financial returns are important to ensure the ongoing viability of the foundation model. But maintaining the value of a foundation’s capital is not a charitable purpose nor an end in itself.

There is a wide range of resources available to foundations to support them in achieving financial returns from their investments. This report has a different focus, looking at how investments can be more closely integrated with a foundation’s grant-making and other activities.

Many trustees have a deep understanding of their foundation’s mission and how to pursue this, whether this be through delivering effective grant-making, research, advocacy, or other ways of pursuing social good or achieving change. Many trustees have investment expertise and provide essential oversight and governance of the foundation’s investments. But too often foundation governance structures divide trustees into one of these two groups, with the result that discussions about a foundation’s mission and its money only consider one side of the equation. It is important that all trustees have the opportunity to understand and contribute to both sides, and to consider them as a whole.

All foundation investments exist to serve the mission of the charity. But this simple principle is challenging to put into practice. Considering how, and to what extent, investments can align with mission, and how to take the wider social and environmental impact of investments into account, is not straightforward. A pragmatic and proportionate response is required, which above all must be achievable. Reorientation may be needed to ensure investments are considered at the same depth and with the same prominence as grant-making.

A WELL-MANAGED INVESTMENT PORTFOLIO IS THE ENGINE THAT POWERS A FOUNDATION’S ACTIVITY...BUT MAINTAINING THE VALUE OF A FOUNDATION’S CAPITAL IS NOT A CHARITABLE PURPOSE NOR AN END IN ITSELF

Society is demanding ever greater transparency from institutions and asset holders about the sources of their wealth and how it is invested and stewarded. New approaches to creating a sustainable economy are emerging and the climate crisis means action is both necessary and urgent. Foundations will need to move forward to avoid falling behind.

This is not a report for a niche group of foundations, who have a particular interest in 'responsible, ethical, sustainable' investing. It is relevant to all foundations. The pillars can be applied to those holding cash in the thousands as well as investment portfolios in the millions. As with other aspects of foundation activity examined by the Stronger Foundations initiative, this report maps out pillars of stronger practice that encapsulate not so much a journey with a clear end point but rather a process of continuous improvement. And what matters in all of this is not the starting point – each foundation will come to this issue with a unique set of circumstances and challenges. What is important is to begin now.

IT IS NOT...

JUST FOR INVESTMENT SPECIALISTS AND LARGE FOUNDATIONS

As the report makes clear, responsibility for investments both legally and in stronger practice rests with each and every member of a foundation's trustee board – not just those with investment expertise. In a stronger foundation all trustees understand, examine and contribute to the foundation's thinking on investments and how investments connect to the foundation's overall strategy. We have aimed to make this report jargon-free and referenced additional resources. There are a wide range of training courses available which provide an introduction to investment.

This report is for all foundations, not just those with large investment portfolios. A feature of all foundations is that they have capital, monies invested in an endowment, in property, held in the bank in cash. Whilst the scale of a foundation's assets might affect the level of time and resource it devotes to managing its investments, all foundations can work towards a greater understanding of the potential and impact of their investments.

IT IS NOT...

A MANUAL

Each foundation will follow their own path; seeking to integrate their investments with the foundation's work, to align their investments with their mission and to consider how to take into account wider societal and environmental factors. Many of the pillars deliberately focus on the bigger picture, detailing the thinking that foundation trustees and staff need to undertake individually and collectively, in order to engage effectively with investment specialists.

For those new to investment, please refer to pages [37–38](#) for an explanation of how foundations manage their investments and the terms used in this report.

QUICK TO IMPLEMENT

We want to prompt a challenging and open conversation across the foundation sector. Investment practice has moved forward rapidly in recent years. Some foundations are already integrating their investments into their wider work, whilst many still treat investing as a separate function. All foundations have further to travel and much to gain from interrogating their investment practice. For some foundations this will not be easy, and will necessitate engaging with and examining entrenched practice and at times, those with opposing interests.

A stronger foundation recognises that learning will continue indefinitely, and that the process of engaging with investments in a deep and wide-ranging manner will feed into stronger practice across the foundation.

WHAT DO FOUNDATIONS MEAN BY INVESTMENT?

A range of terms – ‘mission-aligned’, ‘intentional’, ‘responsible’, ‘ethical’ – are used in referring to investments. Organisations, including investment managers, will define these in different ways, occasionally to meet their own commercial ends. We have here adapted the Spectrum of Capital (originally created by Bridges Fund Management) to provide a framework for discussing investments as they relate to a foundation’s financial and impact goals. It should be noted that the Spectrum of Capital is only one of a number of approaches to considering the impact of investments.

ESG refers to environmental (how a company manages and minimises its environmental impact), social (how a company manages relationships with

employees, suppliers, customers and the communities in which it operates) and governance (how a company is run, its leadership, pay, audits, internal controls and relationships with shareholders) factors. Many companies will also refer to how they are contributing to achieving particular UN Sustainable Development Goals (UN SDGs).

Responsible, sustainable and ESG are frequently used interchangeably; for more on the development of terms see ShareAction’s recent publication [‘What’s in a definition?’](#).

This report will focus on the middle columns of the table, positioning responsible, sustainable and impact-driven approaches as alternatives to a finance first approach.

‘Investment’ means using the foundation’s money to purchase financial assets, for example equity (shares in a company), bonds (loans to companies or government) or real estate. Most foundations won’t purchase these assets directly but will invest their money in a fund where assets are grouped together (for example shares

in a range of companies) and managed by an investment manager. Foundations invest in order to protect and increase the value of their endowment, to have monies to spend on grant-making and, growingly, as a tool for mission-related impact.

FOUNDATIONS INVEST IN ORDER TO PROTECT AND INCREASE THE VALUE OF THEIR ENDOWMENT, TO HAVE MONIES TO SPEND ON GRANT-MAKING AND...AS A TOOL FOR MISSION-RELATED IMPACT

Investment Approach	Finance first	Responsible	Sustainable	Impact driven	Impact first
Financial and impact goals	Aiming to maximise financial returns with little or no consideration of negative outcomes for people and the planet	Aiming to maximise financial returns while trying to avoid negative outcomes for people and the planet	Aiming to maximise financial returns while trying to effect positive outcomes for people and the planet	Aiming to balance financial returns with strong positive outcomes for marginalised people and/or the planet	Will accept a lower financial return (and potentially not achieving a full return of funds invested) to achieve positive outcomes for marginalised people and/or the planet
Examples of where capital is invested	For example investments in companies with a poor record on human rights or environmental protection	For example avoiding investments in companies with a poor ESG record, such as those which damage the environment or have a poor human rights record, often as part of a risk management strategy	For example investing in companies which manage ESG factors in a sustainable long-term way (eg companies with strong governance processes, environmental protection, a focus on human rights)	For example investing in a property fund that provides housing for individuals with learning disabilities or an environmental impact bond funding infrastructure to manage storm waters	For example providing loans to social enterprises operating in deprived communities which will make only a small profit but provide quality jobs for local people
Stewardship and engagement		Both responsible and sustainable investment offer opportunities to engage with companies to seek improvements in ESG performance, for example through voting for ESG related shareholder resolutions or investment managers/investors engaging directly with a company			

Terms are continuously evolving, often 'responsible investment' is used to cover both responsible and sustainable approaches. 'Total impact' approaches might use elements of responsible and impact investing.

Impact-first investments

ACF members, in particular those in the [Social Impact Investors Group](#), make 'impact-driven' and 'impact-first investments'. Whilst 'impact-first' investing is a growing area of interest to foundations it currently represents less than 0.5% of assets held by ACF members (approx. £240 million of £50 billion). [ACF](#) and [Good Finance](#) provide further resources on social investment.

For those new to investment, please refer to pages [37–38](#) for an explanation of how foundations manage their investments and the terms used in this report.

INVESTMENT:

THE PILLARS OF STRONGER FOUNDATION PRACTICE

1 UNDERSTANDS THAT RESPONSIBILITY FOR ITS INVESTMENTS SITS WITH EACH AND EVERY MEMBER OF THE TRUSTEE BOARD

2 PRIORITISES ITS MISSION WHEN SETTING ITS INVESTMENT OBJECTIVES

3 ENGAGES WITH AND HOLDS TO ACCOUNT THOSE MANAGING ITS INVESTMENTS

4 PURSUES TRANSPARENCY AND RESPONDS TO SCRUTINY

5 ACTIVELY SEEKS A VARIETY OF RESEARCH AND VIEWS TO INFORM ITS APPROACH TO INVESTMENT

6 REVIEWS ITS OWN TIME-HORIZON

7 SEEKS TO POSITIVELY INFLUENCE THE BEHAVIOUR OF OTHERS IN RELATION TO INVESTMENTS

A STRONGER FOUNDATION:

1

UNDERSTANDS THAT RESPONSIBILITY FOR ITS INVESTMENTS SITS WITH EACH AND EVERY MEMBER OF THE TRUSTEE BOARD

- ▶ Recognises that each and every trustee has equal responsibility for investments as a core function of charity governance
- ▶ Empowers trustees to participate in big picture discussions on investments and how the foundation's investments relate to its wider goals
- ▶ Ensures investment discussions are demystified and jargon-free

2

PRIORITISES ITS MISSION WHEN SETTING ITS INVESTMENT OBJECTIVES

- ▶ Recognises that its investments are in service of its mission
- ▶ Considers how investments may work against mission
- ▶ Engages trustees and staff in determining the financial needs of the foundation and the investment process that meets these needs, including consideration of the wider societal and environmental context
- ▶ Considers how investments can be used to advance the foundation's mission over and above finance for grant-making

3

ENGAGES WITH AND HOLDS TO ACCOUNT THOSE MANAGING ITS INVESTMENTS

- ▶ Values investment expertise, and creates a structure within which those with investment expertise can be heard and challenged
- ▶ Balances measurement based on financial performance with measurement based on mission alignment and the wider impacts of investments on society and the environment, and chooses and incentivises investment managers accordingly
- ▶ Engages deeply with those managing its investments to understand their investment criteria, assessment process and research, and to identify areas of mission alignment and points of difference
- ▶ Recognises how drivers, such as management costs or long-term relationships with external investment managers, may affect decision-making

4

PURSUES TRANSPARENCY AND RESPONDS TO SCRUTINY

- ▶ Recognises transparency is an ongoing exercise, resulting in increased trust and legitimacy
- ▶ Understands internal and external drivers for transparency relating to the foundation's investments
- ▶ Devotes time and harnesses technology to develop an effective and workable process for investment transparency
- ▶ Considers external stakeholders, in particular how investment transparency can empower grantees

5

ACTIVELY SEEKS A VARIETY OF RESEARCH AND VIEWS TO INFORM ITS APPROACH TO INVESTMENT

- ▶ Explores new approaches to responsible, sustainable and impact-driven investing
- ▶ Considers where data is sourced from and ways to incorporate a range of views
- ▶ Ensures diverse voices are heard and equity of participation
- ▶ Learns from peers in the foundation sector and beyond

6

REVIEWS ITS OWN TIME-HORIZON

- ▶ Recognises the importance and implications of its chosen time-horizon
- ▶ Understands that financial perpetuity is not a goal in itself and that a foundation's chosen time-horizon is in service of its mission
- ▶ Considers its time-horizon in relation to the urgency of the climate crisis

7

SEEKS TO POSITIVELY INFLUENCE THE BEHAVIOUR OF OTHERS IN RELATION TO INVESTMENTS

- ▶ Considers all the tools it has available to advocate for improvements in the financial and regulatory system
- ▶ Shares learning with others and acts collaboratively to achieve common aims
- ▶ Engages with the climate crisis and other societal challenges, through its investments

PART 1

INVESTMENT: THE PILLARS OF STRONGER FOUNDATION PRACTICE

A STRONGER FOUNDATION UNDERSTANDS THAT RESPONSIBILITY FOR ITS INVESTMENTS SITS WITH EACH AND EVERY MEMBER OF THE TRUSTEE BOARD

It is important to emphasise “each and every”. The pillar reflects the basic legal requirement across the UK that all of a charity’s trustees have equal responsibility for all of a charity’s activities, including investment. The oversight of investments is a core function of charity governance and there is a clear governance risk where investments are siloed or delegated without an opportunity for all trustees to contribute to oversight.

Trustees are best placed to determine the financial needs of the foundation, for example how much they are intending to spend to achieve their mission, over what time period and taking consideration of the wider environmental and social context. ACF’s 2013 report *For Good and Not For Keeps* provides a useful framework for considering this.

Whilst many trustees will not have investment expertise, they do have a deep understanding of, and relevant expertise regarding, the foundation’s mission and broader societal and environmental challenges. Many trustees also have a wealth of knowledge on how to effect change. In order to enable all trustees to deliver on their legal responsibilities effectively, discussion of investments must be demystified and jargon-free. The role of trustees is to ask probing and pertinent questions of those with investment expertise, not to become investment experts themselves.

Investment expertise is clearly required. Where trustees are appointed for their investment expertise, they hold equal responsibility for the foundation’s mission. Investment expertise will also frequently come from external investment managers

and advisors. This investment expertise will be needed to manage investments day-to-day, provide strategic guidance and advise on risk and return considerations in line with the foundation’s time horizon and spending plan. Anyone providing investment expertise is acting in the name of the foundation’s board of trustees, and the trustees remain ultimately responsible.

Techniques used to facilitate this include:

- ▶ Access to basic investment training for all trustees.
- ▶ Ensuring all trustees, including those appointed for their investment expertise, have a thorough and comprehensive understanding of the foundation’s mission and the wider societal and environmental context through training, meeting with foundation staff and stakeholders, and discussions at board level.

THE ROLE OF TRUSTEES IS TO ASK PROBING AND PERTINENT QUESTIONS OF THOSE WITH INVESTMENT EXPERTISE

- ▶ Reviewing the mix of skills on the trustee board to ensure investment expertise is present to provide strong oversight.
- ▶ Providing opportunities for investment discussions on bigger picture questions relating to the foundation’s mission and the wider societal and environmental context, rather than solely on financial returns.
- ▶ Effective chairing so that all trustees can contribute to investment discussions.
- ▶ Creating a more equal balance between discussions on grant-making and those focused on the foundation’s investments.
- ▶ Committing to keeping investment discussions jargon-free, ensuring a forum where there are ‘no stupid questions’ and that those providing answers do so in a way that can be understood by trustees without investment expertise.
- ▶ Where needed, a reorienting of the foundation’s process and structures, for example a foundation investment committee could maintain delegated oversight of investments while a new or additional process ensures all trustees can contribute to discussions on the bigger picture.



A STRONGER FOUNDATION PRIORITISES ITS MISSION WHEN SETTING ITS INVESTMENT OBJECTIVES

Like all registered charities, foundations in the UK have charitable purposes, set out in their governing document. As detailed in [ACF's impact and learning report](#), a foundation's mission reflects its strategic choices, values, motivations and history, and a stronger foundation has a clear and comprehensive understanding of its own mission. Whilst a foundation's mission may have formally remained the same for hundreds of years, it is likely that the strategic choices, values and motivations underpinning that mission will have evolved in line with societal norms.

In considering investment, many trustees and staff make a distinction between the foundation's mission and the wider societal and environmental impacts of the foundation's investments. A clear and comprehensive understanding of mission will include the wider context within which the foundation operates.

Many foundations have historically separated the function of investments from grant-making, and viewed the contribution of investments to mission as solely the generation of a financial return to be spent on grant-making. This is reflected in the investment policies of many foundations, which focus heavily on the parameters for financial performance. Approaches to more closely integrate investments with the foundation's wider work include:

- ▶ Ensuring that time and resources are devoted to considering the foundation's investments. If sufficient trustee/staff time or expertise is not available, this means reviewing the skills matrix of the board and staff.
- ▶ Examining the balance between time spent by trustees and staff on grant-making versus time spent on the foundation's investments. For example, some foundations now employ an internal staff member tasked with ensuring investments are integrated into the foundation's work and highlighting issues relating to mission alignment and the wider societal and environmental implications of their investments. For foundations with small staff teams, a trustee can be tasked with this role to ensure investment discussions are not siloed.

A CLEAR AND COMPREHENSIVE UNDERSTANDING OF MISSION WILL INCLUDE THE WIDER CONTEXT WITHIN WHICH THE FOUNDATION OPERATES

- ▶ Engaging trustees and staff in determining the financial needs of the foundation and understanding how the investment process meets those needs. For example opportunities to discuss the returns needed to meet the foundation's grant-making goals, how those managing the foundation's investments intend to achieve these returns and considering returns in relation to the wider environmental and social context.
- ▶ Ensure that investments are not working against mission in the short and long-term, for example a foundation making grants to help decrease child obesity will have a far higher negative impact in the short term by investing in companies which produce highly processed food. Options to address this could include [engaging with food producers and supermarkets](#) and investing in companies producing healthier foods.
- ▶ Explore ways to use investments to further the foundation's mission, for example investing to support areas of the economy resonant with the foundation's mission such as green technology or businesses offering quality jobs in deprived areas.

Concerns may be raised about how to determine to what extent investments will align with mission or take account of environmental, social and governance factors. For example, for a foundation wishing to avoid investing in alcohol, avoiding companies which produce alcohol is an obvious strategy; whether to also avoid supermarkets which derive income from alcohol sales is more complex. Foundations can use a 'revenue cut-off' where they set parameters, for example that they will invest in companies which derive up to 10% of their income from alcohol sales but avoid companies that derive 95% of their income from producing alcohol. Challenging and rewarding discussions will need to be undertaken among trustees and staff to explore to what extent investments will align with mission and take into account ESG factors, and the boundaries for both may change over time.

Investing in our Future published by ShareAction on behalf of the Charities Responsible Investment Network, provides a useful framework for how investment can support charitable objectives.

Creating investment objectives which prioritise mission and reflect the foundation's consideration of broader environmental and social implications, is a difficult but rewarding exercise, requiring consistent engagement, not a one-off tick-box exercise. Making changes will take time and sustained attention, from trustees agreeing an approach, to discussions with investment managers on the best way to implement this, to reorienting the foundation's investments.

CREATING INVESTMENT OBJECTIVES WHICH PRIORITISE MISSION AND REFLECT THE FOUNDATION'S CONSIDERATION OF BROADER ENVIRONMENTAL AND SOCIAL IMPLICATIONS...REQUIRES CONSISTENT ENGAGEMENT

The regulatory framework

Guidance from The Scottish Charity Regulator (OSCR) is clear that *"charity trustees have a duty to act with care and diligence so that the investments are in the interests of the charity. This could mean making sure investments are consistent with the charity's aims... It's not the case that charity trustees in Scotland have 'a duty to maximise financial returns' "*.

The Charity Commission for England and Wales updated its guidance 'Investing charity money: a guide for trustees (CC14)' in 2023 following the Butler Sloss legal judgement. It explains that your principal duty is to further your charity's purposes including investment decisions overtime and contains useful case studies for charities.

Where you identify that an investment (current or planned) could conflict with your charity's purposes or harm its reputation, should inform your decision. The law says it is up to trustees to determine whether to make an investment, whilst acting in compliance with your trustee duties, and balancing the following:

- all factors that are relevant to your charity's circumstances and investment decisions
- extent of any potential conflict and how likely and serious it is
- any potential financial effect of a decision to exclude the investment and how likely and serious this is

However you invest, you must balance the potential benefits of an approach with any risks it brings to your charity. Your approach must be in the best interests of your charity. The guidance also offers a range of example approaches for charities.

At the time of publication, the Charity Commission for Northern Ireland has not published standalone guidance with regard to charity investments or duties.

There are legal obligations on charity trustees with regard to investment. This report does not offer legal or financial advice, and is for information only. Trustees should seek their own legal and financial advice.

¹ Correct as at May 2024.



A STRONGER FOUNDATION ENGAGES WITH AND HOLDS TO ACCOUNT THOSE MANAGING ITS INVESTMENTS

Foundations have played a significant and positive role in pushing forward and mainstreaming responsible, ethical and sustainable investing, helping to move it from a niche activity to a mainstream investment option.

Investment expertise, whether from an internal or external source, is required for day-to-day management of investments, and to provide guidance on issues such as risk and how to achieve the returns required for the foundation’s grant-making. Whilst some investment managers and advisors have developed sophisticated approaches to responsible, sustainable and impact-driven investing and can provide important thought leadership, ultimate responsibility lies with each and every trustee. It is the foundation rather than externally appointed managers that sets the agenda. Approaches to achieve this could include:

IT IS THE FOUNDATION RATHER THAN EXTERNALLY APPOINTED MANAGERS THAT SETS THE AGENDA

- ▶ Carefully and regularly reviewing the foundation’s investment policy and mandate to ensure that in addition to the foundation’s financial goals and risk tolerance, it clearly sets out the parameters within which these will be achieved, for example investing in a responsible or sustainable manner, avoiding investments which conflict with the foundation’s mission and how it will measure both financial and ESG performance.
- ▶ Asking big picture questions within the trustee board and staff team, and of investment managers, such as: What is the investment you’ve most regretted? What motivates you in relation to investments? Is investing morally neutral? How can you balance economic growth with a sustainable future? What is an appropriate level of return going forward given the climate crisis?
- ▶ Ensuring there is sufficient resource within the trustee board and/or staff team to engage with and hold to account those managing the foundation’s investments. For example, this might include employing a staff member or nominating a trustee dedicated to overseeing, engaging with and integrating the foundation’s investments.
- ▶ Exploring the criteria, assessment process and research which investment managers are using to determine whether companies have strong ESG processes and are sustainable or impact-driven, and how these criteria are integrated into investment decision-making. It can be helpful to drill down into one or two of the companies being invested in, to understand how they meet the mission, sustainability and impact investment objectives of the foundation and the process for determining this.
- ▶ Discussing the foundation’s time horizon; a long-term or perpetual time horizon offers opportunities for foundations to invest in ways that promote a future sustainable and equitable economy (see Pillar 6).
- ▶ Encouraging investment managers to provide challenge to the foundation’s thinking and opportunities to discuss key issues, for example on executive pay or modern slavery.

- ▶ Understanding how investment managers are incentivised; is it only in relation to financial returns or also on ESG factors? Implementing a clear structure and targets for reviewing investment performance against mission and ESG factors, and engaging deeply with investment managers once or twice a year rather than more frequent shallow interactions, can help to drive this approach and discourage short-termism.
- ▶ Interrogating how the investment manager votes on shareholder resolutions (see box), especially in areas of concern to the foundation.
- ▶ Exploring the consequences of different approaches, for example examining the effect on financial returns of excluding particular companies or sectors; looking at how a responsible or sustainable approach might lead to more stable returns; considering how the foundation's investments might be affected by the climate crisis as environmental degradation affects the ability of companies to operate.

- ▶ Bringing together different investment managers and advisors to explore these issues, compare approaches and examine differences.
- ▶ Considering both direct financial, and wider societal, costs when selecting an investment management style. There are a range of approaches available. Active managers select investments (such as companies, bonds or funds) to invest in. At the other end of the spectrum, passive funds invest in relation to an index. Where active managers pick investments to align with a responsible, sustainable or impact-driven investment strategy, passive managers screen out companies or sectors. Both styles can also engage with the underlying companies that they hold, though their methods and approaches differ. Consideration can be given to whether a particular style has a low direct cost but potentially higher societal or environmental cost.

By engaging deeply with their investment managers, foundations can ensure strong values alignment, a clear understanding of mission and identify areas of divergence. These approaches can be used during the appointment of those managing investments and as part of an ongoing structure of engagement and review.

For some foundations a long-term relationship may exist between trustees, staff or co-opted volunteers, and external investment managers. As evidenced in [ACF's strategy and governance report](#), a stronger foundation regularly tests its internal structure and external relationships to examine how well they support the delivery of its mission.

This won't be a one-off conversation but an ongoing relationship setting expectations and following up, containing many challenging and rewarding discussions as the foundation moves forward in its thinking.

Shareholder engagement

Investors can influence a company's behaviour by engaging through their investment manager, with the company directly and via policy makers. For most foundations, the vast majority of interactions will be conducted by their investment managers (either directly or through companies which provide research and proxy voting). Foundations themselves are thus one or more steps away from the companies they invest in and need to understand how their investment manager conducts its interactions with companies and how they plan to vote in relation to key issues. As an investor, a foundation is essentially approving the practice of the companies it invests into, regardless of the layers of investment management in between. There are also financial benefits to effective stewardship (voting and company engagement) which can improve a company's performance and therefore the value of its shares.

4 A STRONGER FOUNDATION PURSUES TRANSPARENCY AND RESPONDS TO SCRUTINY

Transparency in relation to a foundation's investments has many benefits, in particular increased trust and legitimacy both internally and externally. Transparency is an ongoing process not a one-off exercise. The process of setting the parameters of and preparing for transparency in relation to investments enables trustees and staff to deeply engage with and examine their foundation's approach to investment. Technology permits greater transparency, though a clear process is required to ensure effective use of data (see [ACF's transparency and engagement report for more on this theme](#)).

When considering transparency in relation to investments there are clear distinctions between, and different drivers for, internal and external transparency.

▶ INTERNAL TRANSPARENCY

A stronger foundation ensures that trustees have a clear understanding of what their foundation is invested in and the process for making decisions related to investment. Time and resources are spent to ensure that each and every trustee has access to information about, and sufficient knowledge to be able to explore, the foundation's investments. The following can be provided to each and every trustee, and to staff:

- ▶ Investment policy, and any supplementary documentation demonstrating how this aligns with mission or key areas of ESG concern such as the climate crisis or workers' rights.

- ▶ Investment mandate.
- ▶ List of members of the investment committee, the process for recruitment and its terms of reference.
- ▶ A list of external managers and advisors, and the process for appointment and review.
- ▶ A quarterly list of major holdings, for example where a large number of shares in one company are held.
- ▶ An annual list of all holdings held at any point throughout the year (ie not holdings on one particular day but everything that has been held at any point).

Lists of holdings may not be available due to 'commercial sensitivities' or an inability to gather and share data. Foundations can work with their investment managers to determine an appropriate time lag with regard to commercial sensitivities, for example three or six months, and to set out the parameters or confidentiality statements required to access lists of holdings. With regard to an inability to gather or share data, where a responsible, sustainable or impact-driven approach is being advertised, investment managers must know the underlying holdings in order to ascertain that these meet the requirements. We live in an information age where reams of data can be easily accessed and safely shared.

There have been well-publicised instances of charities holding investments in conflict with their mission, which they were unaware of because they hadn't investigated the underlying holdings or set a firm enough investment mandate ruling out these investments (see pillar 3).

It is not anticipated that trustees and staff will want, or have the time, to delve into every underlying holding. The purpose is to begin the transparency conversation. Developing a process for interrogating a few holdings can lead to a deeper understanding of how an investment manager is applying the foundation's investment policy in practice. Improvements to the mandate can then be made if necessary, for example ruling out particular companies or sectors.

Examples of investment policies and investment transparency among foundations, include:

[Joseph Rowntree Charitable Trust](#)

[Esmée Fairbairn Foundation](#)

[Friends Provident Foundation](#)

[Access Foundation](#)

EXTERNAL TRANSPARENCY

A stronger foundation understands the motivations for different sources of external scrutiny. For example:

- ▶ Other foundations might be able to learn how to improve their own investment processes.
- ▶ Grantees may wish to know that funding they are accepting has not come from an industry or practice at cross-purposes to their organisation.
- ▶ The media, on behalf of the public, may be interested in understanding sources of wealth within society.

Endowed foundations are not subject to external scrutiny in the way that fundraising charities or government bodies are. However increasing transparency in wider society, and media interest, have led to conversations within foundations about adopting a clear approach to transparency, and where a foundation has chosen or is not able to be transparent to explain the reasons for this. Trustees and staff can consider whether they would be happy for details of their investments to be made public and, if not, examine why and what alterations would be needed for comfortable disclosure.

Through this process trustees and staff will gain a deeper understanding of their foundation.

At the [ESG Investing Olympics](#) foundations opened their investment manager appointment process so that experts on sustainable and impact-driven investing and other foundations could question and probe potential investment managers. Inviting external representatives to participate in a foundation's investment discussions and appointment processes can help to widen the debate and identify areas for improvement.

The [Charities Statement of Recommended Practice](#) (SORP), which sets out the framework for how charities compile their statutory accounts, states that charities should report on *"investment performance against the investment objectives set where material financial investments are held"*. Foundations which prioritise mission in setting investment objectives can therefore report on how their investment policy connects to their charitable purposes. The Charity Commission for England and Wales notes that *"your annual report must include how your charity's investments have performed and what your investment policy is."* For foundations registered in Scotland, guidance from OSCR goes further, noting that annual reports should include:

"an explanation of the extent to which the [investment] policy takes into account social, environmental or ethical factors". [Guidance](#) from the Charity Commission for Northern Ireland states that, *"Charities subject to statutory audit are required by the Charities SORP and the [Regulations](#) to set out their investment policy, including their investment objectives and the performance of the investments against those objectives in the trustees' annual report."*

A stronger foundation considers how it can go further, for example:

- ▶ Ensuring its annual report narrative includes how they have implemented its investment strategy and held its investment managers to account; and the impact, positive and negative, of its investments as well as its grant-making.
- ▶ Sharing its investment policy and any supplementary documents on its website.
- ▶ Sharing its investment mandate with other foundations.
- ▶ Sharing its largest holdings in its annual report.

In recent years many foundations have increased transparency to empower grantees, for example releasing details about grants given through the [360Giving initiative](#). There has also been a small but

noted increase in fundraising charities conducting 'reverse due diligence' – refusing or returning donations from foundations where they disagree with the source of the foundation's wealth, for example from sale of fossil fuels or highly addictive opioid pharmaceuticals. A stronger foundation recognises that grantees are responsible to their own stakeholders, and that foundations have a duty of care to inform grantees about their source of income so that grantees can make informed decisions about accepting funding.

[Guidance from the Institute of Fundraising](#) aimed at fundraising charities notes that:

"Trustees are under an overall legal duty to consider which course of action will be in the charity's overall best interests, including the issue of accepting or refusing donations. The law allows practical and ethical factors to be taken into account as long as they are relevant to the specific charity and situation."

A STRONGER FOUNDATION ACTIVELY SEEKS A VARIETY OF RESEARCH AND VIEWS TO INFORM ITS APPROACH TO INVESTMENT

Diversity strengthens all aspects of foundation practice, including investment. Careful consideration of new approaches to investment, where data is gathered from, how diverse voices can be heard and equity of participation achieved, and incorporating learning from peers are all key ways for foundations to improve their investment approach.

▶ NEW APPROACHES

Over the last ten years society has seen an increasing recognition that those who invest in companies which are extractive and exploitative are to some measure culpable for the negative effects engendered by those companies. The existential threat of the climate crisis and the importance of sustainable development are now widely recognised. This has been reflected in movements to advocate for a transition to a post-carbon

DIVERSITY STRENGTHENS ALL ASPECTS OF FOUNDATION PRACTICE, INCLUDING INVESTMENT

economy, efforts within the investment industry to transition portfolios, and through an increase in the creation of investment products focused on green technology and sustainable development. Investors are increasingly aware of the risks posed by ‘stranded assets’, where investments in carbon-intensive companies may offer lower growth and returns than expected due to factors such as changes in regulation or lower than anticipated demand as use of renewable energy increases.

Research demonstrates that companies with strong environmental, social and governance processes perform better over the long-term, and that companies with sustainable business models will be better positioned to meet the challenges of the climate crisis. Protecting the foundation’s endowment by taking account of ESG risks is part of a trustee’s fiduciary duty.

There are also a range of emerging approaches which consider particular issues, for example applying a lens to consider investments in the context of

gender. Research demonstrates that companies with diverse workforces perform better financially.

The appointment and review of investment managers provides an opportunity to seek out those managers which are at the forefront of responsible, sustainable and impact-driven investing approaches, and use this to compare and challenge existing approaches.

▶ WHERE DATA IS GATHERED FROM

Investing is data driven; how have companies performed in the past? How will sectors respond to opportunities and threats? How will different approaches help to balance risk? Investment managers can provide an insight into the indices, ratings and research they use; how they engage with companies directly and their proxy voting approach; and opportunities for discussion with their internal ESG assessors. From this, trustees and staff can form a more complete picture of the variety of research and views being taken into account, whether the measures being used match their own understanding of good practice, and consider the independence of advice they are receiving.

Looking beyond the data from external managers to seek out a range of views, including learning from grantees, academia or campaign groups, or actively considering the opposing view, can help to strengthen practice. If indices on responsible, sustainable or impact-driven investing are not being used, trustees and staff can question why these were discounted. Foundations can also consider where it is necessary to pay to ensure a variety of research and views is being taken into account, for example paying for alternative advice or third party review.

Foundations can examine whether the modelling (looking at the risks to a foundation's investment portfolio or how it performs relative to a benchmark) being undertaken by those managing their investments is truly taking into account wider societal issues, such as workers' rights or the climate crisis. We recognise that trustees and staff will not have sufficient time to analyse every investment decision in this way; rather the foundation can take one issue and interrogate this to reveal weaknesses or differences of understanding.

▶ HOW DIVERSE VOICES CAN BE HEARD AND EQUITY OF PARTICIPATION ACHIEVED

In a stronger foundation, trustees and staff consider whose voices are not being heard when investment is discussed, as well as equity and inclusion factors that might prevent some voices being heard. Consideration is also given to how the age, ethnicity, gender and social class of trustees, staff, the foundation investment committee, and external managers might affect the investment approach being taken and lead to feedback loops and group think. ACF's reports on [diversity, equity and inclusion](#) and [strategy and governance](#) explore this in more depth.

Foundation investment committees can be strengthened through careful recruitment, seeking those able to ensure the foundation's prioritisation of mission, bring in bigger picture questions and generate diversity of thought, and by ensuring effective chairing so a range of views are heard. To provoke broader discussions, investment committees can invite external observers, from within the wider trustee board, staff or other

stakeholders, including grantees, and those with expertise on particular issues such as modern slavery or impact-driven investing, to attend investment committee meetings and ask questions.

In appointing and assessing their investment managers, foundations can also consider diversity, equity and inclusion; asking questions about the diversity of the team, how equity and inclusion are implemented to ensure a range of experience and expertise among staff, the manager's commitment to DEI principles, and how a variety of research and views are considered. Bringing together different investment managers along with internal and external expertise around a particular issue, for example gender or race equality, can help to ensure investment discussions are not siloed and that differences and commonalities in approach can be explored and challenged.

Foundations are increasingly seeking more equitable relationships with their grantees, focusing on working together to achieve change. This can be reflected on the investment side by creating ways for all stakeholder views to be considered as part of the investment process. The movement for universities to embrace [responsible investment practice](#) and divest from [fossil fuel investments](#) are pertinent examples of the power of engaging with stakeholders.

▶ LEARNING FROM PEERS

Foundations in the UK have the benefit of a strong and vibrant foundation sector, with opportunities to exchange learning through networks such as ACF. Asking other foundations what research and views they take into account when considering investments can provide new avenues to explore. Foundations can also seek out the latest thinking from pension funds or university investors which have their own drivers for strong environmental, social and governance performance.

Access to a variety of research and views must not result in paralysis. Foundations are already skilled at considering a range of issues to make strategic decisions on grant-making programmes and can translate this to investments, drawing on expertise within their trustee board, staff team, grantees and wider networks to ensure those managing investments are asked probing questions with a focus on the big picture.



A STRONGER FOUNDATION REVIEWS ITS OWN TIME-HORIZON

For most foundations, time is one of their greatest assets, enabling them to tackle issues relating to their mission over the long-term, without needing to respond to fluctuations in the political or economic cycle, or public opinion. Time is likely to be viewed differently for the minority of other kinds of foundations, such as those that fundraise each year, corporate foundations receiving an annual budget or time-limited foundations. Whatever a foundation’s specific context, nearly all will be in a position to consider short-, medium- and long-term implications within its strategy.

Time can give foundations multiple advantages in relation to their investments, for example a long-term time horizon enables foundations to:

- ▶ Ride out economic volatility to achieve a stable financial return.
- ▶ Seek out sustainable and impact-driven investments which require patience, for example as climate crisis legislation makes green technology a long-term win.
- ▶ Build up a significant capital base which provides opportunities for influence as an institution with capital independent of government.

However, as explored in [ACF’s strategy and governance report](#), time is an asset to be deployed strategically, with time horizons kept under review. Financial perpetuity is not an end in itself.

In considering the foundation’s time-horizon, a balance needs to be struck between internal review and the involvement of external partners. Internal review within the trustee board, independent of those receiving ongoing investment management fees, will help to ensure the foundation’s priorities remain the focus. External expertise will likely be needed on how to achieve the financial returns appropriate to the foundation’s mission and chosen time horizon, whilst taking into account the wider societal and environmental context. For all time-horizons, a stronger foundation avoids chasing short-term financial gain, preferring longer-term investments which deliver positive results for people and the planet.

The climate crisis is leading many foundations to consider the purpose of perpetuity when faced with existential threat. This is of particular importance in relation to foundation investments, where certain companies or sectors may be hastening the crisis and causing clear detriment to a foundation’s ability to deliver its mission over the long-term.

THE CLIMATE CRISIS IS LEADING MANY FOUNDATIONS TO CONSIDER THE PURPOSE OF PERPETUITY WHEN FACED WITH EXISTENTIAL THREAT

Permanent endowment

ACF understands that only a very small proportion of foundation endowments are ‘permanent’ in a legal sense and foundations with a permanent endowment will need to consider this when interrogating their own time-horizon.

All three of the UK’s charity regulators recognise a ‘permanent endowment’ as assets (for example money, investments, land, property) that were gifted with the condition that they be held forever and the capital cannot be spent. Foundations in England and Wales can seek permission from the Charity Commission to take a ‘total return’ approach which allows increases in the value of an investment (capital gains) to be spent as well as the income.

A STRONGER FOUNDATION SEEKS TO POSITIVELY INFLUENCE THE BEHAVIOUR OF OTHERS IN RELATION TO INVESTMENTS

Foundation investments are part of a continuum where philanthropic bodies interact directly with commerce and industry. Foundations have an opportunity to push for systemic change in the financial and regulatory system in a way that charities without capital cannot. For example, in relation to the financial system, foundations are involved in the UN Principles for Responsible Investment, in shareholder activism campaigns or as signatories to the Funder Commitment on Climate Change (hosted by ACF).

Meanwhile, the engagement of foundations with regulators across the UK has, and continues to be, necessary to ensure guidance on investments evolves.

New approaches to investment management with a focus on responsible, sustainable and impact-driven investing give foundations a wider range of options than ever before.

The opportunity to engage with companies – directly, through collective action and via investment managers – allows foundations to advocate on issues of importance to them. Indices, research and measurement tools give foundations the opportunity to compare performance and the resources to examine their own approach. For example ShareAction produces a range of rankings and surveys. Foundations can discuss with their investment managers which indices, research and measurement tools they use and explore the parameters of these.

Although foundations are only a small proportion of the total UK investment market, they can exert outsize influence within the investment management industry and beyond. Many investment managers already offer specific charitable products in response to demand from charities and in some instances these are being offered to other large investors and the general public. Foundations are valuable long-term clients, willing to pay for the additional expertise required to invest in responsible, sustainable and impact-driven ways. This means foundations can explore opportunities for advocacy and leverage, engaging with investment managers to push for more action on key issues, for example workers' rights or the climate crisis.

ALTHOUGH FOUNDATIONS ARE ONLY A SMALL PROPORTION OF THE TOTAL UK INVESTMENT MARKET, THEY CAN EXERT OUTSIZE INFLUENCE WITHIN THE INVESTMENT MANAGEMENT INDUSTRY AND BEYOND

Foundations can make use of tools they are already comfortable with, for example convening, advocacy, supporting activism, collaborating and sharing learning. As non-competitive holders of capital, foundations can be open, sharing challenges with each other and with other investors, for example pension funds and universities.

As philanthropic bodies external to the political and corporate infrastructure, foundations have unique opportunities to bring disenfranchised groups into the discussion and ensure a focus on bigger picture questions beyond financial returns.

FOUNDATIONS CAN MAKE USE OF TOOLS THEY ARE ALREADY COMFORTABLE WITH, FOR EXAMPLE CONVENING, ADVOCACY, SUPPORTING ACTIVISM, COLLABORATING AND SHARING LEARNING

Climate crisis

The climate crisis is the largest existential emergency of our time. The social upheaval caused by climate change, from large-scale food insecurity to the mass movement of climate refugees, will dwarf previous humanitarian disasters and pandemics.

Investments do not stand in isolation. The curve of acceptable and sustainable investment practice is moving quickly and some foundations risk being left behind in investment practice which is outmoded both morally and financially.

Over 40 foundations in the UK have signed the [Funder Commitment on Climate Change](#), which includes a commitment to:

“Steward our investments for a post-carbon future: we will recognise climate change as a high-level risk to our investments, and therefore to our mission. We will proactively address the risks and opportunities of a transition to a post carbon economy in our investment strategy and its implementation, recognising that our decisions can contribute to this transition being achieved.”

Individual foundations have incorporated a commitment to achieving the target of 1.5 degrees warming set by the Intergovernmental Panel on Climate Change and to achieving zero carbon in their investments, into their investment policy or in an investment statement on climate change. Foundations have also joined divestment movements such as [Divest Invest](#) to move forward the transition to a low carbon economy.

The climate crisis is not the preserve of environmental grant-makers. The impact on current and future beneficiaries makes it a focus for all foundations. Foundations will need to work together, to compare approaches and increase pressure on law-makers and investment product providers to achieve these aims.

PART 2

RAPPORTEUR'S REPORT OF THE INVESTMENT WORKING GROUP

Between February 2019 and March 2020, the Investment working group undertook a process of inquiry. The group heard significant challenge, provocation and critique from a wide range of external contributors, which acted as evidence to stimulate critical analysis of foundation practice. These discussions held across the group's seven meetings are summarised in this part of the report. The group chose to focus on investments in their broadest sense, rather than dive deeply into contested terminology or particular investment approaches.

Working group members contributed their views on a confidential basis and are not quoted in this report. Although they drew upon their experiences as staff and trustees of foundations, they were not necessarily representing the views of these organisations. The summaries of the meetings below reflect the range of views expressed, both by members, external contributors and the wider literature. It was not a task of the group to find consensus, nor to identify recommendations for this report, and the concept and content of the pillars were developed by ACF after the group's work concluded.

An introduction from Danielle Walker Palmour, Chair of the Investment working group.

INVESTMENT STRATEGY AS INTEGRAL TO FOUNDATION STRATEGY

As UK charitable foundations, some of the most capital-rich organisations in the charity sector representing over £67 billion¹, the reality is that most of our assets are invisible, even to us. The most typical model for the management of charitable resources is that most staff are focused on the expenditure of a marginal proportion of our total assets – sometimes as small as 4%. The rest of our funds are overseen by a small number of board members and outsourced to external investment managers. In governance terms, it is possible that even well monitored investment functions take up less than 10% of governance time, with the primary focus of strategic consideration on performance and returns.

It is right and proper for the financial health of the charity to concern trustees and their advisers. A stronger foundation must use its charitable funds even more effectively to meet the challenges facing us – inequality, global pandemic, climate crisis and loss of biodiversity, unprecedented revenue challenges to arts

and social organisations and an economy undergoing a range of rapid transitions. Some of these challenges are existential and there is very little time left in which to act. But recent technological innovation has been rapid and the solutions now exist for meaningfully addressing problems such as the climate crisis. Responsible investors have a role to play in driving adoption and ensuring that their companies are ready to adapt and thrive.

With the support of experts and senior foundation staff drawn from across our community, we have explored how investments can be brought into our strategic arsenal to be of true service to our missions. Our money is doing work for our charities in the world – it is vital we engage with and shape that work to ensure it is consistent with our objectives. And there are many foundations active in all aspects of this agenda; networks supporting learning about investment, learning from and enlisting our investment managers in our mission and exploring shareholder activism and mission investing.

I would like to thank my colleagues for their time, engagement, wisdom and expertise over the past year. Our collective hope is that this report is the beginning of a journey toward greater foundation effectiveness.

¹ *Foundation Giving Trends*, ACF 2019.

MEETING 1

INTRODUCTION

The chair outlined that investments are often overlooked when foundations consider their impact and that both staff and trustees without direct investment expertise can tend to ‘switch off’ during investment discussions.



Danielle Walker Palmour,
working group chair

Some members of the group outlined how they see themselves as ‘capitalised charities’, with a focus on achieving their mission through both grant-making and their investments. Initially given the remit of exploring ‘intentional investing’, building on a report ACF published in 2015, members discussed whether this was the most appropriate title for the working group. ‘Mission-aligned investing’ was suggested as an alternative, but it was felt that this unhelpfully implied that investing could be seen as separate from (although linked to) mission. Another suggestion was ‘good investing’, or to hold off naming the group until further deliberations. (As the meetings progressed the group moved to the title ‘Investment’).

The group was keen to get a better understanding of different practice among foundations and to examine the counterfactuals. Clear themes emerged including: using foundation investments to challenge the status quo, the importance of a foundation’s time horizon and its consequences, the public benefit requirement as a guiding principle, building bridges between grant-making and investments, ensuring

investments aren’t contradicting mission, the infrastructure of foundation investing, what transparency means when considering investments, engaging as a shareholder, sustainable investing and the climate crisis. These themes manifested in the questions that arose for the group to consider, ranging from constructing ethical portfolios to asking why more foundations are not currently viewing their investments as a key lever for impact.

SOME MEMBERS OF THE GROUP OUTLINED HOW THEY SEE THEMSELVES AS ‘CAPITALISED CHARITIES’, WITH A FOCUS ON ACHIEVING THEIR MISSION THROUGH BOTH GRANT-MAKING AND THEIR INVESTMENTS

MEETING 2

MISSION-LED INVESTING VS MAXIMISING RETURNS: SEEING BOTH SIDES



Larry Kramer addressed the group via video

Larry Kramer, President of the US-based Hewlett Foundation, joined the group's second meeting via a pre-recorded video interview. Following on from an article in which he 'made the case against impact investing', Larry gave a nuanced perspective on how foundations can achieve impact; in his view, strategic grant-making can have greater impact than making low return impact investments that may over time risk eroding the value of the endowment.

Larry also touched on the different tactics foundations can deploy in tackling issues such as climate change, and the merits of the perpetuity model.

The group then dissected what they'd heard. Reflections from the group included:

- ▶ Is there a heightened risk of remaining invested in fossil fuels as increased regulation decreases profitability? Does foundation divestment make any difference to fossil fuel companies, or do other investors step in with less benign intentions? Is shareholder activism an effective tactic and are there ways to increase the impact of divesting? Does impact-driven investing take the focus away from trying to engage with major corporations? What were the lessons from the anti-apartheid movement in relation to investments?
- ▶ Is the need for engaging with specialist investment expertise putting some foundations off considering using their investments in different ways? Does the question of where to draw lines put some foundations off starting the conversation?

- ▶ How do foundations change their investment approach given the constraints of their size and existing portfolios? Are foundations constrained by needing to maintain their size in order to preserve influence?
- ▶ Are foundations concerned about their external reputation and stakeholders? Should foundations hold themselves to higher standards than other investors?
- ▶ Is intentionality enough? Should foundations take into account the impact of investments on people and the planet?

The discussion covered themes including the power of collective action, the range of tools that can influence corporate behaviour, systemic change and the lack of transparency around investments.

LARRY TOUCHED ON THE DIFFERENT TACTICS FOUNDATIONS CAN DEPLOY IN TACKLING ISSUES SUCH AS CLIMATE CHANGE, AND THE MERITS OF THE PERPETUITY MODEL

MEETING 3

THE INTENTIONAL INVESTING LANDSCAPE

Two speakers joined the group for this session; Kate Rogers, Co-head of Charities at Cazenove Capital, and Richard Jenkins, an independent consultant. Kate and Richard co-authored *Intentional Investing*, published by ACF in 2015.

The group considered the questions: what has changed in the four years since the *Intentional Investing* report came out? Have the investment options outlined in that report changed (exclude, select, influence, deliver, or financial return only)? What additional opportunities have arisen over the last four years?

The speakers made many observations of the intentional investing landscape based on their experience and expertise:

- ▶ The law is permissive of foundations investing in line with their mission, but this message is often lost, and many foundation investment committees still focus on maximising financial returns without sufficient consideration of mission and the broader social and environmental context¹.

- ▶ There are more investment managers providing responsible, sustainable and impact-driven investments, and the available research on these areas of investing has increased. The speakers increasingly see foundations wanting to make more use of their, as yet, underutilised endowments, as well as an increase in foundations looking to influence corporate behaviours. The 2015 report set out the typical layers between the foundation investor and the end company being invested in, for example via a fund structure and/or through investment managers. The relationship between a foundation and its investment managers and advisors is therefore key.

- ▶ Over the past ten years, taking into account environmental, social and governance factors has become a risk reduction measure. Research shows that companies with strong ESG processes are likely to be more stable and successful over the long-term.

The speakers posed that there should be a 'baseline' of responsible investment that all foundations should be achieving as society is demanding this. They also discussed the importance of board diversity in bringing fresh approaches.

The working group considered questions from its members, including: how can foundations be encouraged to move from

finance first to responsible, sustainable and impact-driven investing? Looking back in a decade, will the decisions foundations are making now seem lacking? What are the fundamental questions that foundations might want to ask (of regulators, investment managers and each other) to change opinion and practice? How do we educate ourselves and ask questions of our trustees, without letting knowledge reside with one investment expert? Is there an issue with the entire paradigm of judging companies based solely on financial returns rather than balancing this with wider societal impacts?

Some of the group's reflections included:

- ▶ Trustees could be encouraged to revisit their mission in relation to their investments, and consider the public benefit requirement on charities.
- ▶ Foundations can be clear with investment managers about what they want, and can employ an advisor to help with the process. Foundations also need to examine investment products labelled as 'impact' or 'green' to ensure the parameters match with their foundation's understanding.
- ▶ Could foundations disclose investments in their annual reports to create more transparency, in a similar way to how transparency has increased around grant-making?

¹ Meeting took place in 2019, prior to the Butler Sloss legal case and the update to the Charity Commission for England and Wales' *'Investing charity money: a guide for trustees (CC14)'*.

MEETING 4

INVESTMENT – A TOTAL IMPACT APPROACH

Chris Coghlan, former Director of Finance and Operations – The Foundation for Social Investment (Access), and a member of the working group, presented to the group. Access works to make charities and social enterprises in England more financially resilient and self-reliant, by helping them to develop and grow enterprise activity to generate income. Access received a £60 million endowment from government which it will spend over 10 years.

Access has pursued a ‘total impact’ approach, considering the social and environmental impact of all its activities including investments. As Access has a ten-year time horizon, which is short in comparison to other foundations, it is invested in bonds to ensure it has a clear timescale for when it will receive income and can therefore plan its spending.

Access looks to invest in bonds in tiers in the following order: bonds issued by UK charities and social enterprises, bonds issued by charities and social enterprises outside the UK, bonds issued by social purpose companies and similar organisations, and bonds issued by companies which have exceptional environmental, social and governance records and processes.

In addition to a total impact approach, Access pursues full transparency around its investment portfolio, publishing its investment policy, its approach, a list of all holdings and regular blogs on its approach. Both the total impact and transparency approach were clearly detailed in the mandate when Access conducted the process of appointing its investment managers.

The working group discussed:

- ▶ That UK charity and social enterprise bonds are currently only a tiny proportion of the bond market, and what factors will ensure the continued growth of these bonds.
- ▶ Access’ receipt of public monies as a driver for transparency, its approach to transparency and how Access works with its investment managers to achieve transparency. For example the need for granularity in investment data as there are some registered charities such as private schools which wouldn’t meet Access’ ESG criteria.

- ▶ Assessing the investments through a bullseye, with the most impactful at the centre through to the least impactful or those causing harm, can be a useful way to see the proportion of different types of investment in the portfolio.
- ▶ The work needed from its investment managers in the early years of the endowment to source appropriate investments. Once the bulk of the money was invested this became easier and the focus shifted to monitoring the impact of the investments.
- ▶ How the total impact approach ensures a focus on both financial returns and ESG factors, and ensures that companies with high financial returns but a destructive impact are not invested in.
- ▶ How the spectrum of capital (as laid out in the introduction to this report) can be a helpful way for foundations to compare what different investment managers consider to be responsible, sustainable and impact-driven investments and if this aligns with the foundation’s position.

ACCESS HAS PURSUED A ‘TOTAL IMPACT’ APPROACH, CONSIDERING THE SOCIAL AND ENVIRONMENTAL IMPACT OF ALL ITS ACTIVITIES INCLUDING INVESTMENTS

MEETING 5

ALIGNING INVESTMENT STRATEGY WITH MISSION



Dave Gorman, Director for Social Responsibility and Sustainability at Edinburgh University

Dave Gorman, Director for Social Responsibility and Sustainability at Edinburgh University, presented the university's work to align their investment strategy with their mission and values. Edinburgh University signed up to the UN Principles for Responsible Investment in 2013 and over time its investment strategy has moved to include investment in renewable energy, sustainable companies and social investments. Dave suggested that the approach to responsible investment was clearly nested within an overall, institutional commitment to sustainability and social responsibility.

The University of Edinburgh has 12,000 staff, 42,000 students and £700 million of investments (endowment fund plus co-invested treasury funds). Universities need to achieve financial returns to meet their current and future costs, whilst also responding to pressure from students and academic staff to align their investments with their mission and values.

A recent example is the pressure from stakeholders contributing to a decision to divest from fossil fuel investments. Decisions needed to be made on which investments to divest from and over what time period. Edinburgh was one of the first universities in the UK to have set a net zero carbon target. More broadly, the university needed to create a mechanism where the views of stakeholders on a range of issues could be heard whilst at the same time those with responsibility for the endowment were able to plan a long-term strategy which integrated environmental, social and governance considerations into decision-making. Dave outlined how decisions to divest were made by the university's investment committee and they used external advisors to help understand the risks and consequences of doing this.

The university consulted stakeholders and developed a new investment policy with a focus on responsible, sustainable and impact investing. As part of its responsible investment strategy, the university has dedicated £60 million to invest in sustainable businesses that directly benefit the environment and £8 million to social impact (impact-first or impact-driven) investments. The university also engages with companies, for example representatives met with the CEO of Shell to explain their reasons for divesting and regularly interacts with other companies on key issues. They also run events on topics such as modern slavery to highlight how universities and others can use their investment powers to put a spotlight on such issues.

EDINBURGH WAS ONE OF THE FIRST UNIVERSITIES IN THE UK TO HAVE SET A NET ZERO CARBON TARGET

MEETING 5

Dave emphasised that it took a lot of time, energy and difficult conversations to get to this point. There were students and academic staff on both sides of the argument, and developing a policy that integrates ESG factors while maintaining the necessary financial growth and income to meet the university's current and future needs. It was also important to reconcile the university's long time horizon with the typically much shorter timeline focus among investment managers.

The group considered the similarities between the university and foundation sectors with both having a mission and values focussed on delivering public benefit. The group also considered a key difference in that universities have pressure from students and academic staff, whereas sources of stakeholder pressure for foundations are unclear.

Key questions for foundations to consider included:

- ▶ How should foundations behave in the absence of stakeholder pressure and to what standards will they need to hold themselves? Where there is increasing pressure on foundations, how can they ensure that their investment policies stand up to public scrutiny?

- ▶ How can trustees and staff engender urgency without stakeholder pressure? How to address these key issues and would increased transparency create more urgency by enabling scrutiny and stakeholder pressure?

- ▶ How can foundations hear the voices of their stakeholders?

- ▶ How can foundations use divestment to exert pressure on particular companies or sectors?

IT WAS IMPORTANT TO RECONCILE THE UNIVERSITY'S LONG TIME HORIZON WITH THE TYPICALLY MUCH SHORTER TIMELINE FOCUS AMONG INVESTMENT MANAGERS

MEETING 6

PORTFOLIO CREATION AND WORKING WITH AN INVESTMENT ADVISOR

Joseph Rowntree Charitable Trust (JRCT), a member of the working group, was named as one of 47 global leaders for 2019 by the UN Principles for Responsible Investment. The only European foundation to make the list, JRCT was recognised alongside investors such as the Church Commissioners for England and the Environmental Agency Pension Fund.

JRCT outlined how working with independent advisor, Nicola Parker, had enhanced its approach to responsible and sustainable investing. An investment advisor acts as a consultant to the foundation, in Nicola's case helping to appoint investment managers whose sustainability approach to investment was consistent with JRCT's mission and values. Key points Nicola raised in her presentation included:

- ▶ That in her experience, trustee boards which have dived in to consider ESG investment in a comprehensive way, engaged with a range of material ESG issues and allowed time for a thorough process of consideration, have achieved more than those who have tentatively tinkered or treated it as a tick-box exercise. Trustees with investment expertise can tend to have a narrow focus on traditional risk metrics and financial returns; bringing in other trustees can help to ensure a more holistic understanding of financial risk and allow for a big picture focus on how investments affect people and the planet.
- ▶ That the investment policy will need to be regularly reviewed and discussed with investment managers to ensure they have understood the nuances and specific needs of the endowment. This is important with a pooled fund where the fund may no longer be appropriate for the needs of the charity. A regular review can draw attention to any issues and with a segregated account where the mandate may need to be altered to fit with the evolving needs of the charity, as expressed by the policy.
- ▶ Trustees and staff can engage with their investment managers to a greater degree of depth than most do; ensuring that managers are continuing to identify ESG issues that reflect the foundation's mission and values; gathering together different managers to compare approaches to particular issues to encourage learnings, for example gender equality or the climate crisis, and researching the approaches of different managers to encourage best practise.
- ▶ To consider returns and risk in relation to both financial performance and ESG factors, such as the positive and negative impacts of a company on people and the planet, and to interrogate impact reporting where it feels like greenwash or does not reflect the factors that managers are considering when analysing the ESG impact of a company.
- ▶ Push back when managers state that applying an ESG screen will negatively impact financial returns as the body of research does not support this.

MEETING 6

► To explore how investments can be aligned with mission and values within the investment structures the foundation is currently using and whether these need to be assessed. For example, is it easier to set ESG parameters in a 'segregated mandate' where the foundation's monies are kept separate to other investors so that additional requirements (eg screening out particular companies) can be adhered to? Or does the foundation have the flexibility to trust in the criteria and process of a pooled fund where a team will rigorously identify those companies that lead best practise? Foundations can still engage with their investment managers in a pooled fund to ensure they understand the parameters and to push for stronger exclusions.

Members of the working group then discussed key questions raised by the presentation including:

► Grantees are frequently assessed on an annual or tri-annual basis while investment managers may be in place for a decade or more without re-assessment on issues beyond financial performance. This can lead to foundations not being in touch with thought leadership on ESG and investment.

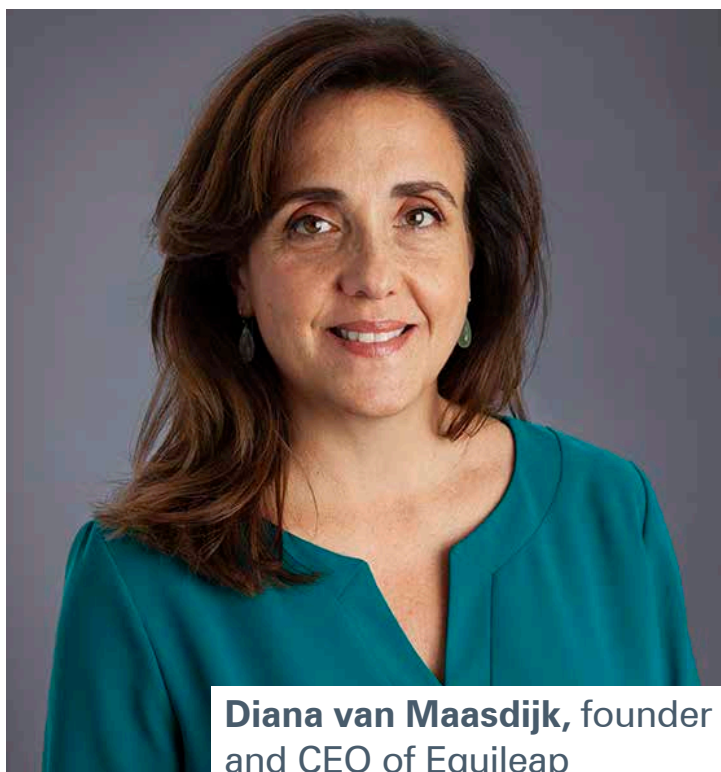
► That when a foundation's investment policy focuses only on financial return and doesn't align with its mission and values, this is a signal to investment managers that the foundation favours finance first investments which don't take account of ESG considerations. Policies ideally integrate ESG, risk and return factors as the three are interlinked and mutually dependent.

► Foundations can use the expertise of their trustees, grantees and staff to ask bigger picture questions of investment managers so that their portfolio is an enabling tool for their broader purpose.

FOUNDATIONS CAN USE THE EXPERTISE OF THEIR TRUSTEES, GRANTEES AND STAFF TO ASK BIGGER PICTURE QUESTIONS OF INVESTMENT MANAGERS SO THAT THEIR PORTFOLIO IS AN ENABLING TOOL FOR THEIR BROADER PURPOSE

MEETING 7

INVESTING THROUGH A DIVERSITY, EQUITY AND INCLUSION LENS



Diana van Maasdijk, founder and CEO of Equileap

Those managing investments can use a variety of 'screens' or 'lenses' to consider environmental, social and governance factors. This might include assessing and ranking companies based on whether they are carbon-intensive or if they have effective oversight to avoid human rights abuses in their supply chain. Assessment might include evidence in company annual reports and through engaging with the company directly. Assessment and ranking might be conducted internally or through using external agencies and research from activist organisations.

For its final meeting, the group heard from Diana van Maasdijk, founder and CEO of Equileap. Diana spent most of her career in the NGO sector working on women's rights.

Despite many years of work on gender in the workplace, women have still not achieved parity on wages, executive and board representation and many still face harassment. Much of the available data is focused on women at the most senior levels, particularly company boards. Equileap aims to accelerate gender equality at all levels by assessing and ranking thousands of companies globally across 19 criteria. Equileap has a database of companies with a market cap (the number of shares multiplied by the value of each share) of more than £2 billion covering 23 developed economies. Equileap assesses companies based on a 'scorecard' covering gender balance and leadership, promotion and development; equal compensation and work-life balance; sexual harassment policy; and corporate commitments to gender equality. Data is gathered from visits to over 3,500 companies and researching Corporate Social Responsibility reports and data published by the company. Equileap's data and indices (ranking of companies) have been used to create financial products (for example funds focused on companies with strong

performance across the 19 criteria) and to help investment managers consider gender when assessing ESG performance.

Women's economic participation has clear benefits for them and their families. The inclusion of women in the workplace at equal participation levels would be worth £28 trillion to the global economy and research has shown that companies with more gender balance in leadership have better financial performance. Thus Equileap's work has both social and financial benefit.

The working group then discussed how foundations and those managing their investments can use gender and other lenses to consider different aspects of a company's performance. Screens exist to assess companies based on environmental and governance performance. The group was keen to explore whether similar rankings could help to shed light on other elements of diversity, equity and inclusion, for example how well a company engages with and serves those from marginalised communities, or disabled people. The group also discussed the importance of knowing what data is being used to assess and rank companies; a ranking is not worthwhile if the foundation doesn't understand and agree with the criteria behind it.

GLOSSARY AND EXPLANATION OF TERMS

The Charity Commission for England & Wales expects all charities that invest to have a written investment policy. OSCR's charity investments guidance notes that 'it is good practice for a Scottish charity which owns investments to have an up-to-date investment policy statement'. A variety of resources and legal guidance exist to assist foundations in creating an investment policy. In addition to objectives relating to financial performance, foundations can consider objectives relating to its mission, for example:

- ▶ How closely investments will reflect the foundation's mission, whether the foundation wants to invest in a responsible, sustainable or impact-driven way?
- ▶ How will the foundation engage with companies it is invested in, for example public criticism, filing shareholder resolutions or divesting (selling shares)?

- ▶ How will the foundation measure the performance of investments against mission, and communicate this to stakeholders?

An **investment mandate** directs those managing the foundation's investments and is what investment managers respond to when seeking to win a foundation's business.

For a majority of foundations, day-to-day investment decisions are outsourced to one or more external **investment managers**. An external manager might only offer their own investment products (for example a fund with a range of companies' shares) or might provide advice across a range of investment options provided by themselves and other managers. **Investment advisors** will typically provide advice between products and managers. Many investment managers and advisors will also offer strategic advice on risk,

likely returns from different approaches and updates on developments affecting investments. Any external investment managers or advisors will ultimately report to trustees, often via a volunteer advisory investment committee and/or via an Investment Director or Finance Director employed by the foundation.

Many foundations will have an **investment committee**, a group of trustees or co-opted advisors which help to oversee the foundation's investments and act as the primary liaison between the trustee board and external managers and advisors.

An **investment portfolio** is a collection of financial assets, such as equities (shares in a company), bonds (loans to companies or government), commercial real estate, or commodities (such as gold or oil). A portfolio can include **listed/publicly traded assets**, which can be bought or sold in a marketplace such as the stock

market and **non-publicly traded assets**, for example directly-owned property or private investments (such as investments in companies which are owned privately and aren't listed on a stock exchange). With publicly traded assets, if an investor chooses to sell the share for ethical reasons, they can make a public statement on their reasons for selling. As the share will be sold to another investor, the sale won't affect the share price of the company. In contrast, with non-public investments, a choice to buy or sell will affect the access that the company has to money.

GLOSSARY AND EXPLANATION OF TERMS

A **fund** gathers together different assets, for example a range of stocks, or a combination of stocks and bonds. This diversification can help to decrease risk as the foundation is invested in a range of stocks rather than only investing in one company. Many funds will in turn invest into other funds, for example in order to further diversify or to access specialist expertise in one sector or geography.

Many foundations invest via **pooled funds** where money from multiple charities, or multiple investors, is combined. Pooled funds enable foundations to take advantage of benefits usually only available to larger investors.

Some foundations, particularly large ones, will have a **segregated mandate** or **segregated portfolio**. This means that although their monies may be invested in existing funds, including passive funds, it will be kept separate so that any additional requirements (eg screening out particular companies) can be adhered to.

Holdings refers to what is in an investment portfolio. **Underlying holdings** refers to each individual stock or bond. In a fund which is in turn invested in other funds, there can be tens or even hundreds of underlying holdings. In a large foundation investment portfolio with multiple funds, there could be thousands of underlying holdings.

Passive or 'tracker' funds invest in all or a sample of the underlying holdings in a particular index. For example, they might invest in all the companies in the FTSE100, in a calculated proportion of their market value in the index. 'Ethical' tracker funds will screen out or change the proportion holding of certain companies, for example carbon intensive or tobacco companies.

Active fund managers pick and choose investments aiming to achieve better financial returns than the index, and/or to implement a particular investment strategy, for example to focus on sustainable or impact-driven investments.

Foundations can choose whether to only spend the income from their investments or to use a **total returns approach** where they spend both income and monies from the capital gains made on their investments (see earlier note for those foundations with permanent endowments). For the purposes of this report we have referred to 'income' and 'financial returns' which depending on the foundation's approach could mean either income on their investments or from both income and capital gains.

Online resources such as [Investopedia](#) can provide a useful introduction to frequently used terms.