Your Money, Your Mission

Creating a Responsible Investment Policy for your Foundation

ShareAction»

About ShareAction

ShareAction is building a movement for Responsible Investment. In particular, we work to encourage institutional investors to be active owners of listed companies, and to integrate long-term environmental, social and governance (ESG) risks into investment analysis and shareholder engagement. We are the UK's leading civil society organisation promoting an investment system that better serves the public interest. We believe that Responsible Investment helps to safeguard investments as well as securing environmental and social benefits. We bring together leading charities, unions, faith groups and individuals to scrutinise the big investors in our economy and to remove barriers to Responsible Investment. In 2012 we were named as one of the Observer's Brand New Radicals and we have twice been highly commended in the Charity Awards.

About the Charities Responsible Investment Network

The Charities Responsible Investment Network supports charitable investors in pursuing constructive dialogue, individually and in groups, with companies in their investment portfolio. It does this by providing in-depth research into environmental, social and governance (ESG) topics, delivering training tailored to Network members' interests and needs, and facilitating a range of engagement activities with selected companies.

Contact

Catherine Howarth
Chief Executive Officer
ShareAction
catherine.howarth@shareaction.org

Author

Frances Joanne Mountford
Responsible Investment Officer
ShareAction
jo.mountford@shareaction.org

Acknowledgements

We would like to acknowledge the contribution of all those who shared their expertise with us in the preparation of this report. In particular, our thanks go to members of the Charities Responsible Investment Network who attended a workshop on the report, Sara Longmuir for sharing her pro forma design with us, and Rob Lake and Anthony Tomei for their valuable comments on draft versions of the report.

November 2014

Contents

Introduction

This guide has been created to assist foundations, particularly those with an endowment or significant invested assets, in creating a Responsible Investment policy. For simplicity, we use the term foundation throughout this guide but, in doing so, we are referring to a range of charitable institutions with invested assets including trusts and companies limited by guarantee.

For foundations, Responsible Investment provides a way to use their investments to further their mission and ensure that there is no conflict between their investments and their charitable objects.[1] It is also a strategy that can help to reduce investment risks and enhance risk-adjusted returns.[2] Responsible Investment is a particularly useful approach for foundations because it utilises a mix of tools which can be adapted to different investment objectives and charitable purposes.[3]

For foundations that want to be responsible investors it will be helpful to develop a dedicated policy. This will set out objectives and guidelines for Responsible Investment activities, and support the foundation in applying established standards and processes. A policy will also provide clarity to a foundation's investment managers on how it would like them to integrate environmental, social, governance (ESG)[i] and ethical factors into their investment decisions. Developing a clear policy will also help to demonstrate that ESG and ethical issues have been considered which will serve to protect, and even enhance, a foundation's public reputation.

This guide aims to assist foundations in creating a Responsible Investment policy that is appropriate for their organisation. It should also be useful for other organisations, such as operational charities, who wish to pursue Responsible Investment. Part 1 explains the regulatory environment which charities and foundations need to consider and abide by when implementing a Responsible Investment policy. It also discusses what 'Responsible Investment' means for foundations. Part 2 provides practical support with creating a policy, including deciding who will provide input, setting policy objectives, using different Responsible Investment tools, communicating the policy to asset managers and creating a reporting structure to review Responsible Investment activities. We hope that this guide provides a clear framework that will assist foundations to create excellent Responsible Investment policies that support their financial and non-financial objectives.

i | 'ESG' refers to environmental, social and governance factors, which may be taken into account in investment decision making. 'E' refers to factors with an environmental impact, such as carbon emission levels, 'S' refers to factors with a social impact, such as workers' rights, and 'G' refers to factors that impact on how institutions are governed, such as board diversity and executive pay.

Part 1

The **Responsible Investment** Environment

The regulatory environment for foundations

Foundations operate in a complex regulatory environment in which they are subject to laws relating to charities (especially the Charities Act 2011) and may also be subject to laws relating to trusts or companies, according to their individual structure. Foundations are also subject to their own governance documents, which specify how their assets or endowment can be used and may regulate their investment decisions. Foundations are regulated by the Charity Commission which has issued guidance on how charity trustees should deal with investments, most significantly *Charity and investment matters: a guide for trustees* (CC14).[4] However, the regulatory environment is continuing to evolve; in September 2014 the Law Commission published recommendations on social investment by charities, which recommend that charity trustees be given a statutory power to make social investments and that CC14 be updated to reflect this. If a foundation intends to implement a Responsible Investment policy it must take into account the regulatory requirements. Fortunately, the regulatory environment enables and supports a Responsible Investment approach.

Guidance on trustees' duties

The Charity Commission's guidance states that "trustees have and must accept ultimate responsibility for directing the affairs of a charity and ensuring that it is solvent, well-run and delivering the charitable outcomes for the benefit of the public for which it has been set up."[5] It then outlines in more detail a number of duties which charity trustees must fulfil, which includes the *Duty of Compliance* and the *Duty of Prudence.* Trustees are obligated to fulfil all of these duties, which will require finding a balance between them. The particular duties that are most relevant for trustees with respect to Responsible Investment are outlined below.

Firstly, the Duty of Compliance states that trustees must "ensure that the charity does not breach any of the requirements or rules set out in its governing document and that it remains true to the charitable purpose and objects set out there."[6] Governing documents may have a significant impact on how foundations can use their endowment. For example, permanently endowed foundations are not permitted by their original governing documents to spend their capital on grants and must seek approval from the Charity Commission to do so, unless engaging in Total Return Investing.[ii,7] Trustees must also ensure that their investment policies remain "true to the charitable purpose and the objects set out there,"[8] by endeavouring to align their investments with their charitable objects.

Secondly, the Duty of Prudence states that trustees must "ensure that the charity is and will remain solvent."[9] This means trustees have a duty to ensure

> *"If a foundation intends to implement a Responsible Investment policy it must take into account the regulatory requirements. Fortunately, the regulatory environment enables and supports a Responsible Investment approach."*

ii | Total Return Investing is an approach to managing investments which allows charities to use any form of return, including capital growth, as income. Until recently, charities with permanent endowments needed express permission to do this, but the Charity Commission now allows them to engage in Total Return Investing without having to seek permission (Charity Commission, 2013).

that the investments they make produce reasonable financial returns. However, trustees may find that investments which are designed to generate the highest financial returns conflict with the charity's mission or governing documents, which means they will need to find a way to balance their duty to produce financial returns with that to further the charity's mission.

Thirdly, the Duty of Prudence states that trustees must "use charitable funds and assets reasonably, and only in furtherance of the charity's objects."[10] Trustees therefore need to consider the best way that funds and assets can be used to further their charity's objects.

Charities and investment matters: a guide for trustees (CC14)

In addition to the duties outlined above, the Charity Commission has issued specific guidance on how trustees should make investment decisions; *Charities and investment matters: a guide for trustees* (CC14). This guidance recommends that trustees should "have regard to other factors that will influence the level of return, such as the environmental and social impact of the companies invested in and the quality of their governance."[13] The guidance also specifies situations where a charity is permitted to make investment decisions that are not based on financial returns, and instead governed by other factors. These are when: "a particular investment conflicts with the aims of the charity; or the charity might lose supporters or beneficiaries if it does not invest ethically; or there is no significant financial detriment."[14] CC14 further recommends that trustees should invest funds in a way that helps them meet both short and long term goals, so trustees need to consider the long term impact of their investments. CC14 provides foundations with permission to consider non-financial factors relating to their mission objectives in investment decision-making.

> *"Responsible Investment is a particularly useful tool for trustees ... because it allows foundations to utilise their financial investments, including those in mainstream 'finance first' portfolios, to support their charitable objects."*

Finally, the Duty of Prudence states that trustees must "avoid undertaking activities that might place the charity's endowment, funds, assets or reputation at undue risk."[11] Trustees therefore need to consider risk factors that might affect financial returns or the value of their assets when designing their investment policies. Trustees also need to consider how their investments could affect the reputation of their foundation and avoid making investments that could unduly damage it.

Trustees may find some aspects of these duties seem to conflict with each other. It will be up to them to make a decision about how to prioritise what is most important for their foundation. However, the Charity Commission is clear that "Trustees are unlikely to be criticised for their decisions if they have considered the relevant issues, taken advice where appropriate and reached a reasonable decision."[12]

It is clear from the regulation outlined above that trustees have a duty to ensure that investments further the charitable purpose of their organisation. This means striking an appropriate balance between securing financial returns that can be distributed to support that purpose and investing in ways that directly sustain that purpose. Responsible Investment is a particularly useful tool for trustees seeking to strike that balance because it allows

foundations to utilise their financial investments, including those in mainstream 'finance first' portfolios, to support their charitable objects. CC14 suggests that trustees who would like to use their investments to further their mission also consider Programme Related Investment and Mixed Motive Investment.[iii] These can be excellent approaches for furthering a mission, however foundations' ability to engage in these types of investment may be limited due to a lack of appropriate investment opportunities or their desire not to compromise financial returns.

Law Commission Recommendations on Social Investment by Charities

On 24th September 2014 the Law Commission published recommendations on social investment by charities. It defines social investment as "the use of funds to achieve both a financial return and a social good."[15] The Law Commission recognises that current Charity Commission guidance is somewhat unclear, with resulting confusion over whether charity trustees are allowed to make investment decisions that do not prioritise financial returns. The Law Commission has therefore recommended that a "new statutory power should be created, conferring on charity trustees the power to make social investments,"[16] unless expressly excluded by the charity's governing document. The Law Commission recommends that this applies to all charity trustees, including those of charities with a permanent endowment providing they do not contravene the current restrictions on spending. The Law Commission also recommends that CC14 be revised to reflect these changes and recommends that, when making social investments, trustees consider the duration of the investment, the risks of it failing to deliver the expected mission benefit and financial return, how its performance will be monitored and the relationship between social investments and the charity's wider investment portfolio and grant-making programme. If these recommendations come in to law they will provide a clear mandate for foundations to make social investments.

Understanding Responsible Investment

What is Responsible Investment?

There is no precise, commonly agreed definition of Responsible Investment and a range of definitions are in use. Through surveying the definitions of a number of different organisations working in the Responsible Investment field it is possible to identify three key themes which form the core of Responsible Investment. These are that:

- It takes into account environmental, social and governance (ESG) concerns in investment decisions and recognises the impact that ESG issues can have on the financial performance of investments;
- It utilises a broad range of tools for doing this within an investment portfolio;
- It allows mission-driven organisations, including foundations, to align their investments with their mission.

These three themes are explored below. Whilst some organisations may use the term differently, in this guide 'Responsible Investment' is used to refer to all three themes, believing these to form the core of Responsible Investment.

1. Responsible Investment recognises the impact ESG issues have on financial returns

The first defining feature of Responsible Investment is that it addresses ESG issues in a way that can protect and enhance financial returns, particularly in the long term. Foundations will normally want to secure a good return on their investments in order to generate income for use on charitable purposes, notably grant-making. It is therefore important for them to consider the impact that ESG issues might have on investment returns and on the value of their portfolio. As stated by the Principles for Responsible

iii | Programme Related Investment refers to "using assets directly further the charity's aims whilst potentially also generating a financial return", and Mixed Motive Investment refers to "investing both to further a charity's aims and to generate a financial return" (Charity Commission, 2011).

Investment (PRI)[iv] "sustainability (or ESG) issues are important drivers of investment value, and a failure to effectively manage them can destroy investment value."[17] Responsible Investment also allows flexibility in terms of where ESG and ethical issues are prioritised over financial returns and vice versa. For example, for particularly mission-relevant ESG and ethical issues, a foundation may choose to engage actively with companies without any expectation of financial gain; in other cases, ESG and ethical issues may be a concern but less aligned with foundation objectives, and therefore financial motivations may be the priority.

2. The broad range of tools used in Responsible Investment

The second defining feature of Responsible Investment is the broad range of tools that it encompasses, which includes positive and negative screening, engagement with investee companies, voting and relevant policy advocacy (See Box 1). These different tools are in no way mutually exclusive and many foundations employ a mix of these in a way that complement each other and overcome the limitations of each. For example, a foundation can use negative screening to exclude investments that directly contradict its objects, but trustees may wish to limit its use as applying multiple screens will narrow the investible universe

Box 1: Responsible Investment tools

- *Positive screening:* this involves investing in companies whose aims, practices or products align with the foundation's ESG priorities. These may be 'best-in-class' companies, which have the best practice in their industry, or thematic investing related to a foundation's aims.
- *Negative screening:* this involves excluding certain sectors or companies who do not meet specific ESG criteria from an investment portfolio. This may involve excluding whole sectors or individual stocks from an investment portfolio or setting thresholds to exclude companies that derive a certain amount of income from undesirable activities.
- *Engagement:* this is the process whereby investors attempt through correspondence and dialogue to improve the ESG performance of a company and more closely align companies' practices to charitable aims.
- *Voting*: shareholders have voting rights in companies they invest in and can use the vote to signal their support for bringing a company's practices more in line with their objectives as an investor.
- *Policy advocacy*: investors can lobby policy makers on issues that are relevant to their investments and ESG priorities. This could be done by making submissions to relevant policy consultations or communicating views on relevant issues to policy makers through letters or meetings.

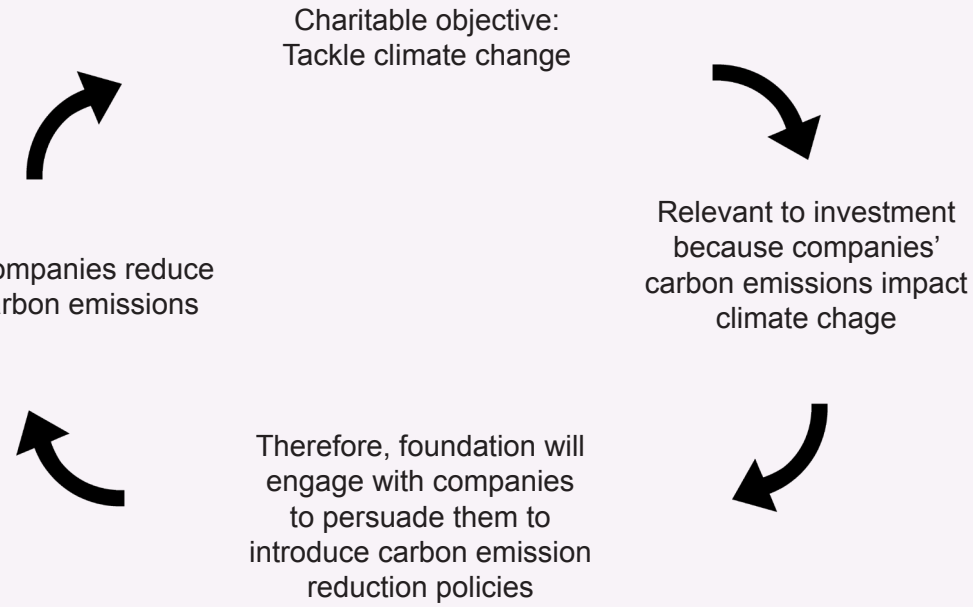
iv | The Principles for Responsible Investment (PRI) is an initiative established by the UN which aims to "understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices." (PRI, 2014) Signatories commit to 6 voluntary, aspirational Principles, which assist them to incorporate ESG issues in to their investment practices.

and potentially increase risk in a portfolio. Similarly, a foundation may wish to use positive screening to undertake investments which support its mission, but there may not be sufficient suitable investment vehicles available, depending on the foundation's particular mission. Engagement with investee companies is a tool which can overcome some of these limitations as it allows a foundation to remain invested in companies that promise market rate returns, whilst still addressing ESG and ethical concerns. Furthermore, company engagement allows foundations to invest responsibly where it is difficult to apply screening, such as in passive indices and pooled funds.

3. Responsible Investment aligns investments with mission

The third defining feature of Responsible Investment is that it can help to align a foundation's investment portfolio with its mission, ensuring that its investments complement rather than conflict with its charitable objectives. Responsible Investment is a particularly useful strategy in this regard because it allows alignment to occur at both the pre-investment stage, through positive and negative screening, and the post-investment stage, through engagement and voting. Aligning a foundation's investments with its mission enables the foundation to utilise more of its resources to support its charitable objectives and therefore increase its impact.

Diagram 1:
Example of how Responsible Investment can support mission objectives



Part 2

Creating a **Responsible Investment** policy

Components of a Responsible Investment policy

Drawing on published guidance such as that issued by the Principles for Responsible Investment (PRI),[18] and a wide variety of Responsible Investment practice, we have identified a number of constituent elements of a Responsible Investment policy, which are shown below.

1. *Responsible Investment objectives*: this section defines the objectives of the policy, in particular how it supports the foundation's charitable objects.

2. *Responsible Investment tools and approaches*: this section provides details on how a foundation might operationalise the objectives of the policy using various Responsible Investment tools.

3. *Working with asset managers*: this section provides guidance for working with external asset managers, including:
   a. Selecting asset managers;
   b. Communicating with asset managers;
   c. Reporting requirements for asset managers.

4. *Reporting and communication*: this section outlines how the foundation will report on, and communicate about, its Responsible Investment policy and activities. It may include detail on reporting to trustees and communicating with external stakeholders and the public.

5. *Using and reviewing the policy*: this section provides detail on how the policy should be used and the process for reviewing it and implementing changes.

We believe that the above structure will accommodate the requirements of the majority of foundations. However you may wish to include additional sections according to your specific requirements, or exclude components which are less relevant to your foundation.

Box 2: The benefits of having a Responsible Investment policy

- A policy provides a clear framework for a foundation's investment managers, helping them to make investment decisions that best align with the foundation's objectives and mission.
- A policy holds the foundation to established standards and processes.
- A policy is the basis for incorporating Responsible Investment activity into business and operational planning within a foundation.
- A policy, if effectively implemented, can serve to protect a foundation's reputation by demonstrating that ESG and ethical issues have been considered in investment decisions.[19]

Preparing to draft your policy

Questions to consider:

- Do trustees want to create and implement a Responsible Investment policy?
- Who could usefully input into the development of a policy?
- Given the potential impact on charitable mission of Responsible Investment activities, what internal or external resources should be allocated to Responsible Investment?
- How do Responsible Investment activities fit within current investment mandates and practices?

When preparing to draft a Responsible Investment policy the following steps could be considered:

1. Create a proposal for trustees
2. Decide who will provide input
3. Consider the available resources
4. Consider your investment context

1. Creating a proposal for trustees:

Before drafting a Responsible Investment policy it may be useful to seek the formal approval of trustees. A proposal for trustees would likely set out a case for how Responsible Investment could benefit your foundation and the benefits of having a dedicated Responsible Investment policy or a dedicated section on Responsible Investment within a wider investment policy. Some of the benefits of having a policy are outlined in Box 2.

2. Deciding who will provide input

You may wish to consider whose input would be useful when drafting your Responsible Investment policy and what training, if any, they may need. Responsible Investment is clearly relevant to staff who deal with investments and may also be relevant to those dealing with programme work or grant giving, so foundations may wish to seek input from across the organisation. In order to do this it may be helpful to inform staff early on, perhaps by circulating an explanatory note or hosting a workshop where staff can provide their input.

Each foundation will need to decide if it is appropriate to include asset managers or other external parties in the policy creation process. Asset managers and investment advisors can provide useful expertise and guidance on formulating and implementing a policy, particularly as it is likely to affect how asset managers approach a foundation's assets and the engagement activities they undertake on a foundation's behalf. Alternatively, foundations may prefer to formulate a policy without managers' influence and discuss it with their managers once it has been approved.

3. Considering the resources required to implement a policy

Before drafting your Responsible Investment policy it will be useful to consider the resources you wish to dedicate to implementing your policy. Historically, a very modest level of internal resource at foundations has been focused on Responsible Investment activity because few foundations have considered the potential for this type of activity to advance their charitable objects relative to traditional grant-giving activity. Being a responsible investor need not be resource intensive, but it is likely to involve some level of resource for activities such as corresponding with companies and monitoring fund managers. Foundations will want to consider and incorporate the resource requirements of implementing a Responsible Investment policy in their annual business planning.

4. Considering your investment context

Your investment context refers to documents and regulations which determine the investments your foundation is permitted to make, your current investment policies and any Responsible Investment initiatives you are already signed up to.

The legal and regulatory context relating to the investments of foundations is outlined in Part 1. This should be kept in mind when creating your policy. Each foundation will also want to consider its own governing documents, which may contain guidance on how the foundation should make investments. It will also be useful to consider your foundation's current investment strategy and how your

Responsible Investment policy will be integrated with that.

If your foundation already utilises some Responsible Investment approaches or is, for example, a signatory to the PRI or makes a Stewardship Code[v] disclosure, you will want to incorporate these into the policy.

Setting objectives

The opening section of your policy should set out how the policy supports the charitable objects of the foundation. For example, a foundation with a mission to reduce inequality and help the most disadvantaged people in the UK might set as an objective of its policy:

> *"To promote policies and practices by investee companies that reduce inequality and help the most disadvantaged."*

Responsible Investment priorities

It will be helpful to consider whether you wish to address a broad range of Responsible Investment topics (see Box 3) in your policy, or prefer to focus on ones that relate most closely to your charitable objects and grant-giving priorities. When considering which Responsible Investment topics are most relevant to your charitable objects you may find the pro forma in Appendix 1, based on a design by Sara Longmuir of LankellyChase Foundation, to be a useful tool. This provides a mechanism for considering the relevance of different topics to your mission, the risk of making investments in each area, and the ease of addressing these with available tools. Numerical scores are assigned in each column, which can then be combined to identify thematic priorities for Responsible Investment.

Box 3: Examples of Responsible Investment topics

Environmental:
- Carbon emissions
- Climate change
- Environmental management practices
- Pollution and waste management
- Sustainability plans
- Deforestation

Social:
- Working conditions
- Modern day slavery
- Living Wage
- Pay-day loans
- Tobacco
- Alcohol
- Gambling
- Pornography
- Armaments
- Tax avoidance

Governance:
- Executive pay
- Board diversity
- Independent board leadership
- Shareholder rights
- Conflicts of Interest

v | The UK Stewardship Code is an initiative by the Financial Reporting Council which "aims to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders." (FRC, 2014). It sets out a number of areas of good practice which the FRC believes institutional investors should aspire to. Signatories to the Stewardship Code make a statement on how their activities comply with the 7 principles of the Code.

Responsible Investment tools and approaches

Questions to consider:

- Which Responsible Investment tools are most appropriate for your foundation and its investments?
- How can you work with other investors to achieve your Responsible Investment objectives?

Having set the objectives of the policy it will be useful to consider how you will achieve these using various Responsible Investment tools. When considering how to use these it may be helpful to consider the available resources, the timeline in which you wish to achieve results, and the tools which may be most appropriate for the asset classes you are invested in.

Screening guidelines:

If your foundation has segregated portfolios and employs, or intends to employ, negative screening, your policy will want to include details of what you want excluded from your portfolio. For example, the Barrow Cadbury Trust states in their Annual Report:

> *"The Trust and Fund avoid investments in companies which are associated with human rights violations or engage in activities that cause social harm. Specifically the Trust and Fund avoid investments in companies which are materially involved in the production or sale of armaments, tobacco, alcohol, gambling or pornography. The Trust and Fund will not hold any government bonds in countries with high military expenditure."*[20]

You could also consider setting materiality thresholds for screening out companies which derive a certain proportion of their income from undesirable activities. For example, the Church of England's Statement of Ethical Investment Policy says:

> *"The EIAG… recommends against investment in companies involved in conventional weapons if their strategic military supplies exceed 10% of turnover; and in companies deriving more than 10% of their turnover from the production or sale of non-military firearms or ammunition, excepting companies specialising exclusively in products specifically designed for hunting or sporting purposes."*[21]

If your foundation intends to employ positive screening or impact investment you may wish to outline in the policy what you would like to invest in, and how much of your portfolio you would like to commit to this. For example, the Mark Leonard Trust, JJ Charitable Trust and the Ashden Trust state in their Annual Reports that:

> *"The Trustees are committed to using some of the Trust's expendable endowment for "impact" investing that will not only result in a financial return, but also produce social and environmental benefits that accord with the Trust's objectives. Initially, focus will be on four different sectors: forestry, microfinance in developing countries, renewable energy and clean technology infrastructure."*[22]

Voting guidelines:

You may wish to develop guidelines for voting the foundation's shares. For example members of the Church Investors Group have developed a voting policy which is provided to the asset managers used by members of the group. In practice, many foundations will not have the opportunity to direct votes, either because their asset managers do not accommodate this or because their investments are in pooled funds. Therefore, it is likely that the votes of many foundations will be determined by their asset managers, although where this can be accommodated, you may wish to reserve the right to direct votes on issues of particular interest to your foundation.

Research undertaken by ShareAction indicates that, in many cases, those asset managers who are most transparent about their voting are also those who make the most effort to consider ESG factors when voting.[23] Therefore, it may be useful to state in your Responsible Investment policy that you want reports

on voting decisions from managers, listing votes cast and the rationale for any controversial votes. ShareAction's previous research on best practice in voting by asset managers established the following criteria:

- Managers should prepare a searchable report on all votes cast on a client's behalf, setting out for each resolution voted upon whether the vote cast is for, against or withheld;
- The manager should provide summary explanations of any votes cast or withheld on shareholder resolutions;
- The manager should provide summary explanations of votes cast against management and abstentions, and votes cast in favour of management on issues that might be regarded as controversial, such as bankers' remuneration or on votes which generated considerable publicity at the time of the vote;
- The managers should send quarterly updates on their voting activity on each client's behalf.

Engagement with companies and policy makers

An element of the policy will address dialogue and engagement with investee companies, which may be undertaken by asset managers or directly by trustees and officers of the foundation. Typical methods of engagement with companies include:

- Signing on to public or private letters raising issues of concern with a company or group of companies;
- Writing directly to a company;
- Holding a meeting with company board members and/or investor relations team;
- Attending the Annual General Meeting of a company and asking a question of the board of directors;
- Filing shareholder resolutions;
- Public expressions of concern.

It may be helpful to provide guidance in your policy on how you would like your asset manager(s) to engage on your behalf and how you will engage directly. For example, the Joseph Rowntree Charitable Trust (JRCT) states that it expects its asset managers:

> *"to engage with companies in which they invest on matters such as strategy, performance, risk, capital structure and ESG issues, including culture and remuneration; to escalate this engagement when necessary and, if over time this engagement is not successful, consider divestment."*[24]

You may wish to provide specific guidelines to asset managers on the issues you expect them to engage on, for example if your foundation has a mission which supports human rights you may wish to direct asset managers to engage with companies that are known to have a poor record of upholding human rights, including in their supply chains.

JRCT also details the engagement methods it will use, and its strategy for escalating engagement with an investee company who is unresponsive:

- *"When we have concerns about a company, irrespective of the size of the holding, on a matter not being dealt with by our fund managers, we are willing to raise the issue in writing through our office in an open and constructive but confidential manner.*
- *…In the event of a non-response, or a response being considered unsatisfactory, we will engage further by correspondence or by meetings, with board members or their advisers. Our trustees will lead on this.*
- *…If appropriate, we are willing to make a statement ahead of General Meetings, submit resolutions to and speak at General Meetings and, if necessary, requisition a General Meeting, in some cases proposing to change the board membership.*
- *Ultimately, we are willing to express our concerns publically through the media."*[25]

This may be more detail than a foundation wishes to include in its policy but, equally, there can be value in being explicit on these factors to ensure a clear communication of your intentions to fund managers.

Engaging with policy makers

It can be valuable to engage with policy makers on matters that are relevant to your investments. Policy engagement by investors is increasing, nationally and globally. Typical methods include submitting responses to public consultations and writing to, or meeting with, policy makers. For example, in August 2014 a number of foundations signed a submission to the Public Bill Committee asking them to consider the inclusion of a clause in the Modern Slavery Bill requiring large companies operating in the UK to make annual disclosures about steps taken to tackle modern day slavery. This, together with coordinated action by civil society groups, likely contributed to the announcement by the UK government in October 2014 that such a clause would be included.[26,vi]

Collaborative networks

Foundations can enhance the impact of engagement by collaborating with other responsible investors, which may be done by joining networks and initiatives (see Box 4). Networks enable their members to pool resources or outsource Responsible Investment activities to external organisations, which improves members' capacity to achieve impact. Networks also allow members to coordinate engagement action, which amplifies their voice on an issue and often produces greater results. For example, throughout 2013 members of the Church Investors Group (CIG) worked together to contact companies in the FTSE 350 to encourage them to disclose and manage carbon emissions. A Carbon Disclosure Project report in November 2013 revealed that out of 53 companies that were contacted by CIG members, 72% improved their practices.[27] You may wish to set out a position on collaboration with other like-minded investors in your policy.

Box 4: Some collaborative networks and initiatives

Charities Responsible Investment Network
http://shareaction.org/Charityinvestment

Institutional Investors Group on Climate Change (IIGCC)
http://www.iigcc.org/

Carbon Disclosure Project (CDP)
https://www.cdp.net/en-US/Pages/HomePage.aspx

Principles for Responsible Investment (PRI)
http://www.unpri.org/

Church Investors Group
http://www.churchinvestorsgroup.org.uk/

vi | At time of writing the precise details of this provision are yet to be determined, and will likely require further input from industry and civil society.

Working with asset managers

Questions to consider:

- Are your asset managers able to implement your Responsible Investment policy?
- Are your asset managers clear on how you wish them to implement your Responsible Investment policy?
- Are you able to monitor your asset managers' implementation of your Responsible Investment policy?

As day-to-day portfolio level decisions will be made by external asset managers, it may be helpful to detail in a Responsible Investment policy how your foundation will ensure that asset managers act in line with it. This could include how you will select asset managers, communicate with them and monitor their activities.

Setting criteria for selecting asset managers:

For foundations considering changing their asset managers it may be helpful to include selection criteria for choosing managers with strong Responsible Investment practices, which will allow them to manage your investments in a way that contributes to your mission. Criteria for this could include requirements that managers:

- are signatories to PRI and the Stewardship Code;
- have their own Responsible Investment policy;
- can demonstrate how they integrate ESG issues into their investment decisions;
- are transparent about voting and engagement practices and explain their rationale;
- seek the views of their clients in relation to ESG issues and engagement activities;
- conduct research on ESG issues;
- make regular and comprehensive reports to clients on Responisble Investment activities.

Information about the Responsible Investment practices of different asset managers may be found on their own websites. ShareAction also publishes regular asset manager surveys and rankings of different firms.[28]

Communicating with asset managers

Your foundation will want to communicate to your asset managers how you wish them to implement your Responsible Investment policy. This will usually be verbal communication, but may also usefully be included in mandates or formal side letters. An example of wording you could include in an investment management mandate is:

> *"The Manager will ensure that its investment processes and individual decisions as relevant reflect the policies and standards set out in the Responsible Investment policy. Where the Manager believes that any policies or standards conflict with one another or with the Manager's aim to generate investment performance, whether generally or in specific circumstances, the Manager will consult in good faith with the Client as to which policies and standards shall and shall not be applied. The Manager will have an investment process which incorporates relevant long-term factors such as ESG issues consistent with the Client's Responsible Investment policy and will establish relevant guidelines to this end. The Manager will ensure that its staff apply due care and diligence to following this process, ensure staff adhere to these guidelines, and report on implementation."*[29]

Further helpful forms of wording can be found in the *International Corporate Governance Network's Model Mandate Initiative: Model contract terms between asset owners and their fund managers*.[30]

Reporting requirements for asset managers:

In your policy you may wish to set out how often you would like to receive reports on Responsible Investment activities from asset managers, and how; for example through written reports, meetings or presentations. It will be helpful to be clear with managers in order to avoid being sent too much information or information that does not relate to the Responsible Investment priorities you hope to monitor. A further example of wording that could be used here is:

- *"In addition to reporting requirements set forth elsewhere, the Manager will prepare no later than x business days after the end of the relevant [quarter], written reports covering the reporting period, including:*
- *…the key material ESG concerns associated with Portfolio investments and an explanation of how the Manager has sought to identify, monitor and manage them;*
- *…a brief summary of the reporting period stewardship activities, including evidence of the effectiveness of those activities;*
- *…full disclosure of voting activities over the reporting period, including an explanation of any exercises of discretion under the Manager's or Client's voting guidelines and conflicts of interest."*[31]

Reporting and communication

Questions to consider:

- Is your Responsible Investment policy fulfilling its objectives?
- Is your Responsible Investment policy contributing to your overall mission?

It will be helpful to establish a process for reporting on the implementation of your Responsible Investment policy and you may want to include details on this in the policy itself in order to ensure that the process is transparent. You may also wish to establish a process for communicating about your Responsible Investment activities to a wider audience. When designing a reporting and communication process you will need to consider who needs to know how the policy is working, what they need to know, and the best ways to report or communicate.

Who:

- *Trustees*: It is likely that trustees will be the main recipients of reports as they have overall responsibility for the running of the foundation and will need to be kept informed about the effectiveness of the Responsible Investment policy.
- *Staff*: You may want to consider communicating about the policy and its implementation to staff to keep them up to date and ensure they are aware of any implications it may have for their work.
- *Stakeholders and the public*: You should decide whether you want to communicate about your policy to other stakeholders. Public reporting can enhance reputation and demonstrate awareness of your investments' impact to the wider public. In addition, it can serve to demonstrate alignment between investments and programme activities.

What:

The information that is relevant to include in your Responsible Investment reporting will depend on your audience, and it may be helpful to seek their input on what they would like to receive. You will also need to consider who to seek the relevant

information from. You could consider including information on specific activities undertaken, including voting and engagement with companies, negative or positive screening decisions, and engagement with policy makers. Staff and asset managers are likely to be best placed to provide details on activities that have been undertaken. You may also wish to include information on how these activities are contributing to your mission.

How:

When designing how you will report you may wish to consider:

- Whether to use existing reporting structures and communication channels, or create new ones to communicate specifically about Responsible Investment activities.
- Whether to make information available publicly on a website, or send it directly to your intended audiences.
- Whether to be more or less pro-active about communicating your Responsible Investment activities, for example through press releases.

Using the policy

Questions to consider:

- How will Responsible Investment be incorporated in to other foundation documentation and plans?
- Who should be responsible for monitoring and reviewing the policy?

Integration with other policies

If your foundation has other relevant policies, it may be useful to show how the Responsible Investment policy relates to these, particularly for complementary policies such as an environmental policy.

Reviewing the policy

It is important that alterations to the policy can be made to enhance impact and risk management. When designing a policy, you could consider:

- How often should the policy be reviewed?
- Who should provide input into a review? This could include those to whom you report, to get feedback on whether it is achieving its aims, and your asset managers to get their views on the ease of implementing the policy.
- What feedback to seek in the review process? The feedback you seek is likely to vary according to the respondent, but may include the effect of the policy on investment value, the effect of the policy on realising your mission, the breadth of the policy and the ease of implementation.
- Who is responsible for making changes to the policy after the review process? This could be the same person or persons who drafted the original policy, but trustees may also wish to take charge of making revisions.

Conclusion

For a foundation wishing to engage in Responsible Investment there are many advantages to creating a Responsible Investment policy or a dedicated section of a wider Investment policy that addresses Responsible Investment. However, as yet few foundations have done so. The aim of this guide is to equip foundations with the tools to create Responsible Investment policies, which will assist them in becoming effective and thoughtful responsible investors. It will be up to each foundation to develop a policy that is most appropriate for their particular institution. However, we hope that this guide will assist the majority of foundations in creating a robust and usable policy.

ShareAction is happy to provide assistance to foundations who wish to design and implement a Responsible Investment policy. Members of our Charities Responsible Investment Network will receive individual guidance, based on the processes outlined in this document and tailored to their unique characteristics and circumstances. Details of our Charities Responsible Investment Network can be found at http://shareaction.org/Charityinvestment.

Appendix 1

Pro forma for setting your **Responsible Investment** objectives

Topic	Issue	Relevance to your objects and mission Scale 1 - 10	Risk of expos in this Scale
e.g. Low pay	*e.g. Workers paid less than Living Wage*		
e.g. Carbon emissions	*e.g. High carbon companies lobby against restrictions on emissions*		
e.g. Executive pay	*e.g. Executive pay too high*		
e.g. Tobacco	*e.g. Health problems caused by tobacco*		
e.g. Modern day slavery	*e.g. Companies have poor measures to prevent slavery in their supply chain*		
e.g. Energy efficiency	*e.g. Companies have poor energy efficiency*		
e.g. Corporate tax policy	*e.g. Company aggressively avoids tax*		

ure to issues s area 1 - 10	Ease of addressing issues in this area with Responsible Investment tools Scale 1 - 10	Total score (high means this topic will be a priority for your Responsible Investment strategy)	Action to be taken
			e.g. Engage with companies on implementing Living Wage
			e.g. Sign shareholder resolutions demanding greater disclosure on public policy engagement
			e.g. Vote against remuneration proposals for contracts including high termination payments
			e.g. Screen out tobacco companies
			e.g. Engage with companies on implementing measures to ensure supply chains are slavery free
			e.g. Positively screen for energy efficient technology companies
			e.g. Engage with companies to change their tax policy and no longer utilise tax havens

References

1 | Jenkins, R. and Rogers, K. (2013) *For good and not for keeps: how long-term charity investors approach spending on their charitable aims* Association of Charitable Foundations
2 | Kurtz, L. (2012) 'Moskowitz Winner 2012: The Benefits of CSR Engagement' in EIRIS Foundation (2013) *Responsible Investment in Pooled Funds: a guide for charity trustees* EIRIS Foundation Charity Project
3 | EIRIS (2014) 'The case for Responsible Investment' http://www.eiris.org/charities/
4 | Charity Commission (2011) *Charities and Investment Matters: a guide for trustees* (CC14)
5 | Charity Commission (2008) *The Essential Trustee: what you need to know* (CC3) p.8
6 | Ibid, p.8
7 | Charity Commission (2013) *Total Return Investment for permanently endowed charities*
8 | Charity Commission (2008) *The Essential Trustee: what you need to know* (CC3) p.8
9 | Ibid, p.8
10 | Ibid, p.8
11 | Ibid, p.8
12 | Charity Commission (2011) *Charities and Investment Matters: a guide for trustees* (CC14) p.39
13 | Ibid, p.4
14 | Ibid, p.7
15 | Law Commission (2014) *Social Investment by Charities. The Law Commission's Recommendations*. Executive Summary. p.1
16 | Ibid, p.2
17 | Principles for Responsible Investment *Why be an active owner?* http://www.unpri.org/viewer/?file=wp-content/uploads/4.Whybeanactiveowner.pdf p.1
18 | Principles for Responsible Investment *Writing a responsible investment policy: guidance for asset owners* http://intranet.unpri.org/resources/files/PRI_tool_Writing_a_responsible_investment_policy_Guidance_for_asset_owners.pdf
19 | EIRIS (2014) 'The case for Responsible Investment' http://www.eiris.org/charities/
20 | Barrow Cadbury Trust (2014) *Annual report and consolidated financial statements for the year ended 31 March 2014* p.20
21 | Church of England Ethical Investment Advisory Group (2013) *Statement of Ethical Investment Policy*
22 | The Ashden Trust (2013) *Annual Report 2013* p.4; JJ Sainsbury Trust (2013) *Annual Report 2013* p.3; Mark Leonard Trust (2013) *Annual Report 2013* p.3
23 | FairPensions (2010) *Stewardship in the spotlight: UK asset managers' public disclosure practices on voting and engagement*
24 | Joseph Rowntree Charitable Trust (2014) *JRCT's response to the UK Stewardship Code 2014*
25 | Ibid.
26 | Home Office and Karen Bradley MP (2014) 'Big Business to be held to account to keep supply chains slavery free' https://www.gov.uk/government/news/big-business-to-be-held-to-account-to-keep-supply-chains-slavery-free
27 | Revell, T. (2013) 'Church investors "making a real difference" on pushing for sustainability' *Blue and Green Tomorrow* 22 November 2013
28 | ShareAction 'Benchmarking surveys' http://shareaction.org/research/surveys
29 | International Corporate Governance Network (2012) *ICGN Model Mandate Initiative: Model contract terms between asset owners and their fund managers* International Corporate Governance Network p.15
30 | Ibid.
31 | Ibid, p. 20-21

Printed using waterless printing presses, vegetable based inks, FSC accredited paper and energy sourced from 100% renewable sources.

ShareAction
Ground Floor
16 Crucifix Lane
London SE1 3JW

+44 (0)20 7403 7800
info@shareaction.org
shareaction.org