

JUST PENSIONS

DO UK CHARITIES INVEST RESPONSIBLY?

A SURVEY OF CURRENT PRACTICE

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EXECUTIVE SUMMARY

This report explores the investment policies and practices of the UK voluntary sector, in particular its approach to ethical and socially responsible investment. It is based on a survey of over 100 of the UK's largest charities and foundations, backed up by in-depth interviews with a number of key informants. The report is intended both as a survey of current practice and a source of advice on future action for those concerned with charitable investments, be they trustees, staff, donors or the investment community.

In 2001, registered charities held £68bn in assets, of which some £47bn was invested, largely in equities and bonds. Exempt charities such as universities also have significant investments.

The UK government recently proposed that large charities should follow the example of pension funds in reporting annually on the extent of their investment policies on social, environmental and ethical (SEE) issues, while the Charity Commission has given new encouragement to trustees not already investing according to ethical principles to consider doing so.

SURVEY HIGHLIGHTS

- 60% (34 out of 57) of top charities surveyed (36% when weighted by assets) have no written ethical or socially responsible investment policy.
- Most of these have not considered socially responsible investment issues to date, but a third of them are planning to do so in the next year.
- Those with ethical or socially responsible investment policies overwhelmingly (22 out of 23) opt for negative screening policies. The most common reason for doing so is coherence with the charity's purpose.
- Far fewer use voting their shares (7 out of 23), direct engagement with companies (6 out of 23) or positive screening (4 out of 23).
- Almost two thirds (14 out of 23) of those charities with written policies do not report to supporters or donors on their policies or implementation.

The survey and interviews identify a number of key drivers in encouraging charities to consider ethical or socially responsible investing. These include reputational risk, staff morale, charities' wider role in society and peer pressure from other charities.

The key obstacle is trustees' perception that ethical or socially responsible investment policies will lead to lower returns and therefore harm charities' ability to fund their

work. The available research suggests these fears are not well founded. The short-termism and conservatism of some investment institutions also inhibits charities from considering these issues, as does the lack of suitable investment products, particularly ethical or socially responsible Common Investment Funds.

Charities wishing to move forward on socially responsible investment will have to decide on the appropriate balance of screening and engagement. This is likely to vary according to the size and purpose of the charity:

- Large campaigning, fund-raising charities are likely to see a thorough screen on their investments as an essential first step, perhaps backed up by engagement linking their investment and campaigning activities.
- Smaller fund-raising charities may decide to limit their policies to screening out undesirable stocks.
- Endowed, grant-making charities may find engagement a more attractive option.

In conclusion, many charities face serious risks over the way they manage their investments. Many of them are likely to be caught unprepared by new guidance from the Charity Commission and legislation from the government. Growing interest in corporate responsibility and socially responsible investment in other fields is likely to widen the gap between expectations and practice, unless charities move to close it.

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INTRODUCTION

This report explores the investment policies and practices of the UK voluntary sector, in particular its approach to ethical and socially responsible investment. It is intended both as a survey of current practice and a source of advice on future action for those concerned with charitable investments, be they trustees, staff, donors or the investment community.

Do UK Charities Invest Responsibly? is based on a survey of over 100 of the UK's largest charities and foundations, backed up by in-depth interviews with a number of key informants. Its remit covers charitable investments, particularly those held in the form of equities, which remain the largest single form of investment, despite heavy losses in the last three years. The report does not cover charity pension funds, since that issue is largely covered by previous Just Pensions reports.

The report is co-published by three organisations: Just Pensions, the Ethical Investment Research Service (EIRIS)¹ and the Charities Aid Foundation (CAF).² Just Pensions is a consortium set up in 2000 by the development charities War on Want and Traidcraft to promote Socially Responsible Investment (SRI), particularly with regard to its impact on the developing world. Since late 2002, it has been part of the UK Social Investment Forum (UKSIF).³ It has been supported during this period by both the UK government's Department for International Development and the Community Fund, as well as by some investment and research institutions. Drawing on the expertise of an advisory board comprising major SRI practitioners and other specialists, Just Pensions has published a series of guides on different aspects of SRI and the pensions industry, all available on the Just Pensions website - www.justpensions.org.

EIRIS provides independent social, environmental and ethical (SEE) research for a range of clients, including charities and their investment managers. EIRIS was established in 1983 as the first UK provider of SEE corporate research for ethical investors with the help of a group of churches and charities that wanted to put their principles into practice in relation to their investments. As well as providing research, EIRIS can help institutions develop and apply SRI policies through a variety of means, including EIRIS' proprietary software, Ethical Portfolio Manager. CAF provides financial, investment and banking services, designed to meet the specific needs of voluntary organisations and those who support them. CAF handles more than £1bn in funds every year on behalf of many thousands of charities. CafCash Ltd, its

banking subsidiary, has over £800m in its charity accounts and CAF's common investment funds have over £430m of assets under management. In 2000, CAF designed an SRI vehicle for the charity sector, and today the CAF Socially Responsible Fund has almost 200 charity investors.

This report turns the spotlight on the UK voluntary sector's approach to SRI. It does so because the sector is a major investor: in 2001, registered charities held £68bn in assets, of which some £47bn was invested, largely in equities and bonds.⁴ Exempt charities such as universities also have significant investments, but figures are harder to come by.

In recent months, the UK government has proposed that large charities should follow the example of pension funds in reporting annually on the extent of their policies on social, environmental and ethical (SEE) issues, while the Charity Commission has given new encouragement to trustees not already investing according to ethical principles to consider doing so. Just Pensions' knowledge of the pension fund experience may therefore be of use to trustees, charity supporters and staff in exploring this issue.

There is some confusion over terminology, which therefore deserves a brief discussion. Many organisations, such as the UK Social Investment Forum (UKSIF), use 'ethical investment' to describe investment based on negative screening – the exclusion of stocks such as tobacco and arms. They see 'Socially Responsible Investment' or 'Responsible Investment' as an umbrella term which covers: negative screening; positive selection of stocks in companies who are social, environmental or ethical leaders; and direct engagement with investee companies through dialogue or voting at AGMs. Others working in the field, however, use SRI to describe only engagement processes, rather than any kind of stock selection.

Trustees and others involved in this area would be well advised to seek clarity both in their own policies, and from their fund managers and advisers, over what kind of activity is actually being discussed and implemented (and in the case of fund managers, paid for).

This report uses the term 'charities' and 'voluntary sector' interchangeably to describe organisations with social aims, most (but not all) of which are overseen by an unpaid board of trustees, and many of which also have other volunteer input.

¹ www.eiris.org

² www.cafonline.org

³ www.uksif.org

⁴ NCVO, *UK Voluntary Sector Almanac 2002*, p. 83

THE CHANGING WORLD OF SRI

SRI has come of age in recent years. The amount of money invested in both screened and engagement-based investment funds (including both retail and institutional funds) has risen to an estimated £225bn in 2001 – roughly £4,000 for every person in Britain.⁵ The development of SRI is both a response to government initiatives such as the amendment to the Pensions Act, which from July 2000 required all pension funds to state the extent of their SEE policies, and a range of private initiatives such as the creation of the FTSE4Good index, and the introduction by the Association of British Insurers (ABI) of guidelines requiring companies in which its members invest to report on their management of material social and environmental risks.

Initially, charities appeared to be sidelined in these developments, but this is now changing:

- The Trustee Act 2000, which came into force in February 2001, requires charity trustees to make sure investments are ‘suitable’, not only financially, but, according to the Charity Commission guidance, they should include ‘any relevant ethical considerations as to the kind of investments that are appropriate for the trust to make’.⁶
- A Cabinet Office Strategy Unit review of charity law,⁷ published in September 2002, proposed that all charities with an income of over £1m should submit an annual Standard Information Return including answers to the question: ‘What is your investment strategy, including your policy on ethical investment?’ This proposal may at some point become part of new legislation.
- In February 2003, the Charity Commission issued new guidance on charity investments, which contained much more detailed advice on ethical and socially responsible investment (see Box 1&2). According to Shirley Scott, director of the Charity Finance Directors’ Group (CFDG), ‘the new guidance is a big improvement on the old CC14 and will bring the issue into focus. It will cause trustees to worry, to consider the issues and give them a better basis for making decisions.’¹ Importantly, the Charity Commission gave guidance on both screening and engagement with investee companies, either directly or through fund managers.

BOX 1

THE VIEW FROM THE CHARITY COMMISSION IN 2003

ON SCREENING

84. An ethical investment policy may be entirely consistent with this principle of seeking the best returns. For example, there is an increasingly held view that companies which act in a socially responsible way are more likely to flourish and to deliver the best long term balance between risk and return. Trustees are free to adopt any ethical investment policy which they reasonably believe will provide the best balance of risk and reward for their charity.

85. The next question is how far trustees can allow their investment strategy to be governed by considerations other than the level of investment return. The Bishop of Oxford case⁸ recognised three situations where they can properly do so.

86. First, there are cases where investment in a particular type of business would conflict with the aims of the charity. A charity with objects for the protection of the environment and wildlife may decide not to invest in businesses that pollute what the charity is trying to protect. But the point here is a practical conflict with the charity’s aims and activities; not just moral disapproval. Where the judgment is a moral one, the trustees’ room for manoeuvre is more limited, as explained below.

89. Secondly, a charity can avoid investments which might hamper its work, either by making potential beneficiaries unwilling to be helped because of the source of the charity’s money, or by alienating supporters. This requires a balancing exercise. On one side are the difficulties which the charity would encounter, or the likely cost of lost support, if it were to hold the investments. On the other side there may be a risk of financial underperformance if those investments are excluded from its portfolio. The greater the risk of underperformance, the more certain the trustees need to be of the countervailing disadvantages to the charity before they incur that risk.

90. Thirdly, even if an investment does not come into either of the previous two categories, trustees can accommodate the views of those who consider it to be inappropriate on moral grounds, provided that they are satisfied that this would not involve “a risk of significant financial detriment”. In many cases, trustees may be able to conclude, after taking advice where appropriate, that a particular ethical policy is likely to perform as well as an unrestricted policy. But trustees are not free to use their investment powers to make moral statements at the expense of their charity.

Source: Charity Commission, CC14: Investment of Charitable Funds, revised February 2003 (paragraph numbers from the original)

⁵ Russell Sparkes, *Socially Responsible Investment: A Global Revolution*, 2002

⁶ Operational Guidance, Trustee Act 2000, *General Power of Investment*, OG 86 B1, Charity Commission, 8 February 2002

⁷ UK Government Cabinet Office Strategy Unit, *Private Action, Public Benefit: A Review of Charities and the Wider Not-For-Profit Sector*, September 2002

⁸ Harries (Bishop of Oxford) v Church Commissioners [1992] 1 WLR 1241

BOX2

THE VIEW FROM THE CHARITY COMMISSION IN 2003

ON ENGAGEMENT

169. Where a charity is concerned to pursue an ethical or socially responsible investment policy, its trustees may well expect the manager to engage with companies in which the charity's funds are invested so as to ensure that the charity's policy is not being compromised by the activities of the company. Disinvestment is, of course, one option for the charity which decides that the business of a particular company does not fit in with its particular policy. But disinvestment will not always be in the charity's best interests: the use of shareholder rights in particular ways can influence the way in which the company does business, and this may be enough to end the conflict with the charity's policy.

171. Trustees should consider asking their investment manager, in the process of reviewing its performance, about the steps which it takes to ensure that the business of investee companies fits in with the charity's declared ethical or socially responsible investment policy; and is conducted with a proper regard to the interests of the shareholders.

Source: Charity Commission, CC14: Investment of Charitable Funds, revised February 2003 (paragraph numbers from the original)

Developments within charities themselves have also encouraged thinking about SRI. Charities with strong brand names have grown faster than the rest, but with greater public recognition comes a need to protect charities' most important asset – their reputation. According to Les Jones, Finance Director of the Worldwide Fund for Nature UK:

Every year, WWF identifies its main risk areas and the biggest risk is always reputational. Charities live by their reputation – lose that and you could be driven out of existence. If our supporters found out we were doing something wrong, they would simply stop giving us money. When an animal rights group mounted a campaign over our animal testing policy, (WWF tolerates testing for medical purposes, subject to good practice guidelines) 15,000 supporters resigned!

A growing number of charities are also working more closely with companies, not least in urging them to pursue policies of Corporate Social Responsibility through initiatives such as the Ethical Trading Initiative. Others work closely with some of the leading SRI investment managers on issues such as shareholder resolutions and dialogue with companies on specific environmental or development issues. Such contacts have increased both their awareness of SRI and the reputational dangers of ignoring SRI in their own investment strategies.

THE UK CHARITY UNIVERSE

UK charities are numerous and diverse. The 163,000 charities that register with the Charity Commission include the large 'brand-name' fundraising charities such as Oxfam and Guide Dogs for the Blind, as well as less well-known, but much richer endowed grant-making charities such as the Wellcome Trust. A range of organisations are not currently required to register with the Charity Commission but nonetheless enjoy charitable status, including universities, grant-maintained schools, housing associations and major museums, as well as small organisations with an annual income of less than £1,000. The government hopes to extend the registration process to many of the larger organisations currently enjoying exemption.⁹

From a sample of the main household UK charities surveyed in 2001, the National Council for Voluntary Organisations (NCVO) estimated that registered charities held about £68bn in assets, of which some £47bn was invested. £29bn was invested directly in equities, while a further £7.2bn was invested in Common Investment Funds, and £2.9bn in Unit Trusts.¹⁰ The majority of these would also be invested in equities. Throughout the 1990s, earnings from investments provided one of the fastest-growing sources of charitable income, rising over 50% from 1991-2001, although clearly, equity investments have fallen sharply in the ensuing bear market. Investment income has been particularly important to smaller charities with less than £100,000 annual income.¹¹

In terms of assets (see table A), the giants of the charity world are the endowed grant-making trusts. The Wellcome Trust, with £11.3bn (September 2001), and the Church Commissioners for England with £4.0bn (December 2001) dominate a field in which only four charities topped £1bn in 2001/2. The fundraising charities with the largest net assets are the National Trust, with £685m (February 2002) and The Royal National Lifeboat Institution, with £504m (December 2001).¹²

Smaller charities tend to invest in pooled funds similar to unit trusts, especially the Common Investment Funds (CIF), themselves registered charities. Charitable status enables CIFs to reclaim tax on investment income on behalf of their charity clients, saving those clients the time and resources required to do so for themselves. Larger charities generally prefer to hold their investments in segregated funds, tailored to their

own requirements. Very few charities manage their investments in house, most preferring to employ investment managers to run both segregated and pooled funds. The top four firms in terms of charitable business are CCLA (primarily serving the Church of England), Barclays Global Investors, Merrill Lynch and Cazenove.¹³

The information on unregistered charities is much sparser. Churches such as the Church of England (through CCLA) and the Methodist Church (through its Central Finance Board) hold considerable funds and have often been pioneers in SRI. With £5.2bn in charitable funds under management in mid-2002, CCLA is the largest charity fund manager, while the Central Finance Board managed a further £454m for a range of charities, mostly church-based.¹⁴ The total investments of higher education institutions in 2000/01 came to a further £2.9bn, while university income from endowments and investments came to some £292m.¹⁵

TABLE A:
TOP 20 CHARITIES AND FOUNDATIONS, BY NET ASSETS

Charity	Year End	Net Assets (£bn)
1 Wellcome Trust	30-Sep-01	11.3
2 Church Commissioners for England	31-Dec-01	4.0
3 Weston [Garfield] Foundation	05-Apr-02	2.3
4 Leverhulme Trust	31-Dec-01	1.1
5 National Trust	28-Feb-02	0.7
6 Esmee Fairbairn Foundation	31-Dec-01	0.6
7 Wolfson Foundation	05-Apr-02	0.6
8 Smith [Henry] Charity	31-Dec-01	0.6
9 Bridge House Estates	31-Mar-02	0.6
10 PPP Foundation	31-Dec-01	0.5
11 Royal National Lifeboat Institution (RNLI)	31-Dec-01	0.5
12 Gatsby Charitable Foundation	05-Apr-02	0.5
13 British Library	31-Mar-02	0.5
14 Society of Jesus Trust of 1929	30-Sep-01	0.4
15 British Museum	31-Mar-02	0.4
16 Guy's & St Thomas' Charitable Foundation	31-Mar-02	0.4
17 Tudor Trust	31-Mar-02	0.3
18 Salvation Army Trust	31-Mar-02	0.3
19 Victoria and Albert Museum	31-Mar-02	0.3
20 Charities Aid Foundation (CAF)	30-Apr-02	0.3

Source: Allianz Dresdner Asset Management, Top 3000 Charities 2003, February 2003.

⁹ UK Government Cabinet Office Strategy Unit, *Private Action, Public Benefit: A Review of Charities and the Wider Not-For-Profit Sector*, September 2002, paragraph 7.91

¹⁰ NCVO, *UK Voluntary Sector Almanac 2002*, p. 83

¹¹ UK Government Cabinet Office Strategy Unit, *Private Action, Public Benefit: A Review of Charities and the Wider Not-For-Profit Sector*, September 2002, paragraph 2.32

¹² Allianz Dresdner Asset Management, *Top 3000 Charities 2003*, February 2003

¹³ Charity Finance, *Charity Fund Management Survey*, November 2002

¹⁴ Charity Finance, *Charity Fund Management Survey*, November 2002

¹⁵ Resources of Higher Education Institutions 2000/01, HEFCE

CHARITIES AND SRI: THE FINDINGS OF THE SURVEY

The following summary is based on questionnaire returns from 57 top charities and foundations. The information gathered covers £18.7bn in investments, or 40% of the estimated total of charitable investments. A blank copy of the questionnaire is available at www.justpensions.org.

SURVEY HIGHLIGHTS

- 60% (34 out of 57) of top charities surveyed (36% when weighted by assets) have no written ethical or socially responsible investment policy.
- Most of these have not considered SRI issues to date, but a third of them are planning to look at the issue in the next year.
- Those with ethical or socially responsible investment policies overwhelmingly (22 out of 23) opt for negative screening policies. The most common reason for doing so is coherence with the charity's chief purpose.
- Far fewer use voting their shares (7 out of 23), direct engagement with companies (6 out of 23) or positive screening (4 out of 23).
- Almost two thirds (14 out of 23) of those charities with written policies do not report to supporters or donors on their policies or implementation.

ASSET ALLOCATION

The charities surveyed invest almost two thirds (62%) of their assets in segregated funds (43%) or collective investment schemes (18%). The bulk of the remainder is held in cash deposits (27%) and property (9%).

Despite the falling stock market, equities predominate both in segregated funds (64%) and collective investment schemes (76%).

SRI POLICIES

Only 40% of the charities surveyed (23 out of 57) have a written ethical or SRI policy. When weighted by assets, this figure becomes 64%, reflecting the fact that large charities are more likely to have a written policy.

Of those with formal written policies, almost all (21 out of 23) cite coherence with a charity's chief purpose as one of the main reasons for adopting the policy, while around half see reputational damage of ignoring SRI issues, and donor expectations as important factors. Fewer cited staff expectations (9 out of 23) or

the personal commitment of trustees (6 out of 23) as driving forces behind the adoption of SRI policies.

The predominance of coherence and reputational arguments is reflected in the overwhelming preference for negative screening (pursued by 22 of the 23 charities with written policies). Only a relatively small number of charities with written policies go beyond negative screens into exercising voting rights (7 out of 23), direct engagement with companies (6 out of 23) or positive screening (4 out of 23).

Barnardos provides an example of a comprehensive and coherent screening policy aimed at excluding from its portfolio 'companies whose activities are considered to be to the detriment of children and where we believe donor support might be adversely affected'. The list includes child exploitation, arms, pornography, tobacco and powdered milk producers as well as 'utility companies with a high domestic disconnection rate.'

Similarly, the People's Dispensary for Sick Animals avoids investing in companies involved in testing on animals for cosmetic and other non-medical purposes, as well as companies involved in any aspect of the fur trade. Other charities with well-developed exclusion policies include the Salvation Army, Save the Children Fund and Action Aid.

Most charities with SRI policies apply them largely to their equity holdings. An interesting exception is provided by Tearfund, which holds 100% of its reserves as cash deposits, but still manages to apply an ethical policy to the banks and building societies that it uses. Oxfam has a similar approach. A sample of charity investment policies is available at www.justpensions.org.

IMPLEMENTATION AND MONITORING

The funds of most surveyed charities with formal SRI policies for their equity holdings (15 out of 22) are handled by external fund managers, while four manage their funds internally, and three manage it through a combination of in-house and external fund managers.

A large majority (14 out of 18) of those charities with external fund managers delegate all responsibility for implementing their SRI policies to them, while a further three see it as an issue of shared responsibility. Nearly all (15 out of 17) undertake some kind of monitoring, mainly through fund managers reporting regularly to trustees (10 charities) or through annual reviews by trustees (5 charities). Three charities include SRI in performance measurement and two monitor via their investment

committee. Only one of the charities surveyed includes SRI as a consideration when awarding new mandates, engages regularly with its fund manager, produces an internal report or receives reports from EIRIS, a specialist SRI research provider (different charities in each case).

REPORTING

Almost two thirds of charities with written policies (14 out of 23) do not report to supporters or donors on their SRI policies and performance. Only five charities said that SRI performance is reported internally; in all cases reports were to members of the board of trustees.

CHARITIES WITH NO FORMAL POLICY

Over two thirds of surveyed charities with no written policy (23 out of 34) have never considered SRI issues, while nearly a quarter (8 out of 34) considered and rejected the idea. A further three charities are currently discussing or developing SRI policies. Interestingly, no charity has abandoned an SRI policy, once adopted. The main reason given for not adopting SRI policies was the desire to maximise charity funds. Despite the evidence, SRI is clearly seen by many trustees as having a potentially negative impact on returns. By comparison only one out of 34 charities with no formal policy saw fiduciary obligations or the wish to keep policy separate from investments as reasons for not adopting an SRI approach.

THE FUTURE

A third of charities with no written policy (12 out of 34) reported that they are considering an SRI policy over the next 12 months, and three others may do so. Charities in this position raised a number of considerations, mainly the need to set a policy that meets the charity's aims and purposes, perhaps through a relatively simple screen of 'undesirable investments' such as tobacco or polluting industries. Other respondents stressed the need to ensure that such a policy does not reduce, and if possible maximises, returns.

THE WORLDWIDE FUND FOR NATURE

WWF is one of the pioneers in the charity SRI field, with a detailed policy, and a serious effort to align its approach to investment with its lobbying and advocacy work. According to Finance Director Les Jones, WWF's investment policy has evolved over the last ten years from a defensive policy based on exclusion into a mix of policies involving:

- Engagement with a limited number of companies.
- Positive selection of stocks in sectors such as renewable forms of energy generation.
- Best of sector approach in 'extreme caution' sectors, e.g. oil & gas, pesticides or genetic engineering.
- Exclusion of sectors such as arms and tobacco.

A standard questionnaire is sent to a limited number of priority companies (about six per year, building up over time). This becomes the basis for a dialogue, which can turn into a long term relationship. According to Jones, WWF is keen to 'explore the boundaries between investment and campaigning'. It does not vote all its shares (for reasons of staff time and capacity), but has run organised shareholder resolution campaigns, for example on BP's environmental performance.

Levels of engagement by WWF with individual companies range from 'deep partnership', through to 'rational confrontation' ('we don't do abseiling', explains Jones). Campaigns such as shareholder resolutions are managed by buying 'campaigning shares' on top of the current portfolio.

Returns were above the universal charity benchmark until 2002, when they fell slightly below. Detailed engagement with companies is part of WWF's programme work, and so is not counted against its investment budget. However the finance department budget covers the fund manager's fee, EIRIS' research, and some staff time (e.g. sending out and processing questionnaires and company research). This has not so far been costed, but Jones thinks it probably breaks down as follows:

- Investment advisors' fees: £30,000 p.a. (standard charity fee, despite extra work on the policy).
- EIRIS + staff time: £10-15,000 p.a.

THE JOSEPH ROWNTREE CHARITABLE TRUST

As of the end of December 2002, the Joseph Rowntree Charitable Trust (JRCT) had assets of £113m, 98% held in equities. According to its website,¹⁶ JRCT operates 'an ethical investment policy, aiming to ensure that, as far as possible, the Trust's income is earned in ways which are compatible with the Trust's Quaker roots and its grant making policies.'

In particular, JRCT aims to invest in companies

- Whose products or services are of benefit to humankind with minimal harmful impacts and with an emphasis on meeting basic needs rather than luxuries.
- Whose profits in the long term grow at least in line with the economies in which they operate.

JRCT excludes companies materially involved in armaments; the brewing/distilling/retailing of alcohol as a main activity; gambling; tobacco manufacture and/or retailing as a major activity or other activities that are felt to harm society more than they benefit it. As well as sectoral exclusions, the trust has regard to the way companies conduct their businesses, including: employment conditions; equal opportunities; environmental impact and attitude to the communities in which they operate.

Current policies date from 1975, when the trust first diversified out of Rowntree shares. Although the investment policy has subsequently been refined, the core principles remain essentially the same. Research on potential investee companies is provided by EIRIS (which JRCT helped found), which divides up companies into 'yes', 'no' or 'check' categories. JRCT arrives at its own view of those in the 'check' class, often in alliance with its fund managers.

According to Roger Morton, one of the JRCT trustees and Chair of the JRCT Investment Committee, this process currently excludes about a third of the FTSE All-Share. Until recently, the exclusions came closer to half of the index, but then JRCT started to look at the very big sectors that were emerging within the FTSE and in which it had low representation to see if it could add 'best in sector' companies back to its portfolio. It feels it was able to do so without compromising its policies, partly because of improvements which had been taking place in companies' behaviour.

In its engagement activities, JRCT supports the occasional shareholder resolution (e.g. the Worldwide Fund for Nature resolution on BP), but in general prefers to act on its own; 'if we are concerned we see the companies ourselves', says Morton. 'We have found it surprisingly easy to get to senior people in companies when we want to; the name may help', he adds.

Since the late 1990s, about 90% of JRCT's assets have been managed by two external fund managers (Hendersons and RC Brown). Contact with these consists of regular informal communications plus two meetings a year with each manager. 'The managers run an intelligent eye over what comes from EIRIS and if they spot a mistake, they say so, but it's not formally part of their duty to us. The fee we pay them reflects that - we pay a standard fee,' says Morton.

Fund managers are formally reviewed every three years, but Morton believes that many current managers have limited capacity on SRI. 'The problem with fund managers is distinguishing between those who see squeezing good performance out of a restricted universe as a professional challenge and a matter of pride, and those who approach it as providing a permanent alibi for poor performance. The latter group tends to end up with poor performance for that very reason, but some of them are still picking up charity business!'

Morton, who has been involved with JRCT since it first developed its ethical policy, expresses himself 'entirely happy with the financial consequences of our investment policy. We have performance figures since 1978, and from then until 2002, our UK equity performance is bang in line with the FTSE All Share. It's been slightly more volatile, but relative returns have been fine.'

¹⁶ www.jrct.org.uk

CHARITIES AND SRI: DRIVERS OF CHANGE

As charities face up to the need to consider the issue of ethical or socially responsible investment, both our survey and the supporting interviews identified a number of factors which are encouraging them to get involved, but also a number of barriers to progress.

Reputational Risk: As mentioned earlier, fund-raising charities' most important asset is their reputation, and reputational risk management is becoming a part of good practice in the charitable sector. Surveys by CAF suggest a worrying gap between what donors think or expect charities to do with their money, and what is actually occurring. Over 40% of the general public questioned in a NOP survey carried out for CAF in July 2001 said they would prefer to support charities that invest ethically, and a further 14% said they were only prepared to invest in this way.

Lee Coates, director of the Ethical Investors Group, puts it more starkly: 'I ask them [charities], "When you rattle a tin on the street, are you practising fraud?" If you have no caveat on what you will do with people's money, then you could be obtaining it under false pretences.' For endowed charities, reputational arguments are less important than issues such as social purpose, the views of their founders, the long-term business case for SRI and staff morale. However, even here, trusts have found grantees rejecting their support on the basis of the origin in the funds, as Roger Morton of the Joseph Rowntree Charitable Trust (JRCT) points out: 'I think that the integrity of the work we support would be called seriously into question if we did not have an ethical policy which sits easily with (and to a degree reinforces) the objects we try to promote with our income and we owe it to grantees to protect them from the risk of their work being compromised by exposure of how it is funded.'

Staff Morale: Charity staff are typically highly motivated, often prepared to accept low wages and long hours in return for a job that brings fulfillment and a heightened sense of purpose. That can be severely tested if they have to read attacks on their organisation's investment practices in the morning paper. According to Les Jones of WWF, 'we're destroyed if we invest in the wrong companies'.

Charities' Wider Role in Society: Charities often see themselves as part of a 'social sector', with a wider duty to contribute towards a more just, equitable and

sustainable future. According to Nigel Saxby-Soffe, Action Aid's Finance Director, protecting its own reputation 'is always there in the background', but his organisation's move into SRI is much more driven by 'doing the right thing'. Public expectations of charities are also higher than for other investors, according to Lee Coates, 'Charity trustees will have to be very brave to say "as a social organisation, we have no policy." We have clients who have donated to particular charities all their lives and say "I want to know". Press interest is also far higher - journalists could have a field day if charities show double standards - expectations of charities will be far higher than for pension funds.'

Staff and Trustees: While many supporters and donors appear to expect a degree of SRI, charities report a more varied picture in terms of staff and trustees. In some cases, programme staff and/or the finance director are showing leadership in raising the issue of SRI at board level. Sometimes the driver is a trustee 'SRI champion' who brings some personal experience of the issues from their lives outside. In other cases, trustees from the older generation may take a more conservative view. According to one experienced fund manager, 'There will be a generational shift in response to things like the Myners report'.¹⁷ Shirley Scott of CFDG thinks that finance directors (FDs) are more likely to play an active role in larger charities: 'In the larger charities, FDs are integrated members of the senior management team, and act as a bridge between staff and the investment committee of the board. In smaller organisations, FDs can be more isolated and may be more resistant to SRI-type arguments.'

Peer Pressure and Collaboration: Several FDs point to the influence of peer organisations, suggesting that once a critical mass of charities starts to move forward on SRI, many others will find it easier to follow suit. However, they also noted that the level of collaboration and information exchange on SRI issues is much more ad hoc and unstructured than between, for example, pension funds or investment houses. Campaigning charities come together around particular shareholder resolutions or dialogue with specific companies, but there is no standing body which discusses these issues with any regularity. Relatively few charities are active in the UK Social Investment Forum (UKSIF), which serves as a general point of contact for a range of bodies involved in SRI.

¹⁷ Paul Myners, *Institutional Investment in the United Kingdom: A Review*, March 2001

THE \$64,000 QUESTION: DO ETHICS REDUCE RETURNS?

I believe that it [Corporate Social Responsibility] is part of building good sustainable businesses to help establish safe, secure, stable and peaceful societies. Business thrives where society thrives.

Peter Sutherland, Chairman BP and Goldman Sachs

There is a correlation between good practices and good investment results. People in the investment industry often want to put up a wall between the two things, but they are related.

Philip Angelides, state treasurer of California and a board member of CalPERS, California's \$131bn public employees' pension fund.

The question of how different forms of SRI affect returns is not yet settled. Many corporate leaders clearly agree with Peter Sutherland that social responsibility is part of good management, with long term benefits to the bottom line. A growing number of city investors share this view, as witnessed by the introduction of the ABI guidelines in October 2001.¹⁸ According to one endowed grant-making foundation, 'We do believe in the business case for SRI. When we circulated our fund managers, we found that they consider this a success factor for businesses.'

The academic evidence is summarised in the first Just Pensions guide.¹⁹ Most of the academic research compares the performance of screened funds against general stock market performance. Broadly, existing research concludes that over the long term, the impact of a cautious exclusion policy is at worst neutral (no impact on returns), and can be positive. This is echoed by the recent Cabinet Office Strategy Unit report into charities, which concluded:

The current position is that trustees can follow an ethical investment strategy - but only if this does not result in significant economic detriment for the charity. Since ethical funds, on average, produce an economic return that is very similar to non-ethical ones, this means that trustees are free to choose from a wide range of ethical funds. This choice should be made clear to them.²⁰

Hard figures on the impact of engagement are much harder to come by, partly because engagement is a much less well-defined concept than simply excluding a set of stocks from a portfolio. For engagement, the calculus is different: the investment universe should

remain roughly the same, so returns should be unaffected in the short run, and better in the long run (since companies that take material SEE issues seriously generate higher returns). However, most measures of performance consist in comparisons of relative performance, whereas engagement, if successful, should raise absolute returns by making companies more profitable, but will not produce a difference in relative performance between funds invested across the whole stock market.

In the short term trustees must weigh the costs of any engagement policy in staff time and potentially higher fund manager or research fees against the benefits in terms of reputation, staff morale and achievement of the charity's objectives, where relevant. One time-efficient means by which a charity can increase its SRI impact is by working in coalition with other charities and SRI investors in initiatives such as the UK Social Investment Forum (UKSIF)²¹ or the campaign on pharmaceuticals and access to medicines.²²

OTHER OBSTACLES TO PROGRESS

As our survey shows, the greatest single factor in deterring charities from exploring SRI is the largely unfounded fear of lower returns. This is driven not so much by concerns over breaching fiduciary duty (which in any cases have been largely allayed by the new Charity Commission guidance), but by a genuine desire to maximise the charity's ability to carry out its work, compounded by the deeply rooted short-termism in the investment industry, which concentrates on quarterly fund management performance to the detriment of more long-term issues such as the benefits to companies of social and environmental responsibility.

Other actors in the decision chain also play a role. According to the finance director of one charity, fund managers 'may be part of the problem, not part of the solution', covering up their own lack of expertise on SRI by advising trustees against it on performance grounds. Fund managers see things rather differently. According to Mike Shaw of Henderson Global Investors, 'Those Charity trustees that do adopt SRI are more demanding of their fund managers than pension funds usually are - they really do dig into what you do. From our point of view it's more work, but it's more stimulating'. Shaw goes on to suggest that SRI mandates be given the same benchmarks and targets as other investment mandates in similar asset classes.

¹⁸ http://www.abi.org.uk/Display/File/38/SRI_Guidelines.doc

¹⁹ Just Pensions, *Just Pensions: A Guide for Trustees and Fund Managers*, May 2001

²⁰ UK Government Cabinet Office Strategy Unit, *Private Action, Public Benefit: A Review of Charities and the Wider Not-For-Profit Sector*, September 2002, paragraph 6.14

²¹ www.uksif.org

²² www.pharmaproject.org

One foundation includes SRI competence as one of the questions in requests for proposals for new mandates from fund managers, but accepts that ‘it’s not the decisive factor’. Shirley Scott of CFDG, sees a leadership effect as likely to encourage fund managers to improve their SRI capabilities: ‘Oxfam, WWF and so on choose their fund manager to meet their activist requirements and other charities tend to look at who they choose and follow suit. There’s a lot of informal networking on this.’

Only the largest charities generally employ professional investment consultants such as Edward Jewson, Cambridge Associates, Mercer or Watson Wyatt. At present, many consultants reportedly adopt a ‘wait and see’ attitude to SRI, showing little leadership. Others actively deter trustees from adopting SRI policies.

Trustees of charities holding their investments in a Common Investment Fund (CIF) also face a lack of choice. Only about 30 CIFs have been granted Charity Commission approval, and while a handful employ a limited screen, few open CIFs appear to employ any kind of positive engagement strategy. This is clearly an area of potential product innovation by fund managers and other providers, but trustees could also take the lead by including SRI in their discussions with current CIF providers.

SCREENING V ENGAGEMENT

Charities wishing to move forward on SRI will have to decide on the appropriate balance of screening and engagement. This is likely to vary according to the size and purpose of the charity.

As discussed above, for the large campaigning, fund-raising charities, a high public profile is a crucial means of finding donors, but brings with it far higher risks to their reputation, should they be accused of failing to practice what they preach on social responsibility. Staff morale is particularly important, and can be easily undermined.

Such charities are therefore likely to see a thorough screen on their investments as an essential first step, and many will have already thought through some of these issues in deciding their policies on accepting corporate donations. Some may want to move further and include engagement in their investment policies and practices. This can be particularly effective if engagement becomes part of a charity’s core campaigning activity, as in the case of WWF. Even the larger fund-raising charities are unlikely to have

sufficient investments to influence company policies on the basis of market clout alone, but their ability to generate media and public attention can give them significant extra leverage.

Smaller fund-raising charities may conclude that they do not have sufficient resources to carry out successful engagement. Moreover, if their charitable objectives are very specific (e.g. animal rights, or drug addiction), fund managers may not be able to provide the engagement for them at an acceptable cost. In these circumstances, screening may be a more sensible choice.

For endowed, grant-making charities, reputational risk is not always such a serious issue. For these, the business case for good corporate social and environmental performance, allied to the wider social role of the voluntary sector is likely to make engagement an attractive option. Few endowed trusts are self-managed, so they will have to work with their fund managers to ensure policies are put into practice. They might also wish to team up with some of those groups who they fund, in order to pursue joint engagement strategies with specific companies.

For both large and small charities, the current choices remain somewhat limited, and systemic inertia is great. Smaller charities seeking ethical or socially responsible Common Investment Funds will find few suitable candidates, while the quality of SRI carried out by fund managers is often questionable. For all charities, however, the legislative, political and commercial climate is changing; ethical and socially responsible investment is likely to become a more important issue in the coming years.

To help charity donors, staff and trustees, Just Pensions has therefore put together an appendix (appendix A) setting out a brief set of relevant questions for staff, donors and trustees that may be of help in assessing a charity’s SRI policies and practices.

CONCLUSIONS: A CHALLENGE FOR CHARITIES

Both our survey and the supporting interviews show that many charities face serious risks over the way they manage their investments. Many of them are likely to be caught unprepared by new guidance from the Charity Commission and legislation from the government. Growing interest in corporate responsibility and SRI in other fields is likely to widen the gap between expectations and practice, unless charities move to close it.

This is a cause for concern, firstly because charities, as social organisations, should reasonably be expected to be in the vanguard of thinking on the social and environmental impacts of their activities. Secondly, good SRI policies are increasingly considered by mainstream investors to form part of a sound long-term investment strategy. Thirdly, failing to act on their investment policies could expose charities to reputational risk at the hands of press and public with, in the case of fund-raising charities, potentially grave implications for their donor base.

All is not gloom, however. Some charities are moving ahead in devising and implementing ethical and SRI policies, and others can learn both from them, and from other investors such as pension funds, the largest of which have given considerable thought to engagement issues in recent years. 40% of charities surveyed, and a greater percentage of the bigger players, already have a written policy (generally a negative screen), and have thus placed a foot on the SRI ladder. It is worth noting that by contrast, only 11% of the top 250 pension funds screen their investments.^{23 24}

Charities also frequently have a huge asset in the shape of their trustees, some of whom are highly placed in the investment community, helping charities on a *pro bono* basis. Such trustees have a wealth of experience and understanding of different types of investment and the arguments in favour of SRI, especially compared to the less experienced or knowledgeable trustees in charge of many pension funds.

For nearly three years, occupational pension funds have been required to state the extent of their SEE policies, a requirement that the government intends to apply to charities. Just Pensions has monitored the impact of the disclosure requirement and found that, while most pension funds have amended their policies, only the largest and most dynamic have moved onto a genuine attempt to implement those policies in their investment

practices.²⁵ However, charities are different from pension funds in several crucial ways that give good reasons to believe they are likely to do things differently, as they start to develop their SRI policies.

The new Charity Commission guidance and the Cabinet Office Strategy Unit proposals on charity reform are signs of a shift in the climate of thinking. Up to now, charities may have lagged behind developments in the City, or the pension funds in some areas. As social organisations with a profound commitment to the betterment of society and the environment, this is surely an anomaly. With their customary dynamism, and the encouragement of staff, donors and government, it should not be too long before they resume their rightful place in the vanguard of the move towards socially responsible investment.

²³ EIRIS, *How Responsible is Your Pension?*, May 2003 – www.eiris.org

²⁴ The author would like to thank Paul Palmer for suggesting this comparison

²⁵ Just Pensions, *Do UK Pension Funds Invest Responsibly?*, July 2002

COMMENTARIES

COMMENTARY:

LES JONES OBE
FINANCE DIRECTOR
WORLDWIDE FUND FOR NATURE UK

I greatly welcome the Just Pensions report on charities and the way in which the sector invests its funds. I believe the report is a timely and powerful reminder to charities that they must wholly embrace the philosophy of Socially Responsible Investment (SRI) and lead the way in developing this philosophy, thereby setting an example to be followed by others.

Charities are an intrinsic and important part of civil society in this country and currently enjoy a credibility that is the envy of many other institutions from governments to the corporate sector. The *raison d'être* of charities is carrying out good works across a large range of activities. Against this background I would contend that charities must lead the way in their investment policies and practices. They must ensure their own financial practices and policies reflect the trust and support that they generally receive from all sectors of society.

The Just Pensions report reveals that all is not well with charity investment - from a significant sample taken it informs us that only '60% of top charities surveyed (36% when weighted by assets) have no written ethical or socially responsible investment policy'. The report goes on to say that even where policies do exist they very often pay only lip service to the full implications of SRI. This is not good enough. I firmly believe all charities should have written SRI policies wherever their investments are placed, even if their money is invested in common funds. The policies should embrace all facets of SRI and should be published and commented upon in Annual Reports and Accounts. The policies should also be compatible with the other ways in which individual charities have relationships with the corporate sector - who they take money from, who they partner, who they contract with etc.

The Just Pensions report is also very informative with regard to the modern role of SRI. SRI is about negative criteria but it is also about positively investing in companies that can help a charity achieve its objectives. SRI is also about engagement and dialogue with companies so that their ways can be changed and charitable objects better achieved.

Charities should be doing all this from a moral point of view, but the report points out that the argument doesn't stop here. The greatest asset any charity has is its reputation. This is irreplaceable and a good reputation is a pre-requisite for fundraising, credibility, influencing and ultimately achieving its charitable outputs and impacts. With no SRI policy, (or an inadequate one), charities are hugely exposed. The report points out the gap between supporter's expectations and reality and it is wide enough to be dangerous.

Finally the report comments on the financial viability of SRI. At WWF-UK we firmly believe that sustainable companies will ultimately outperform the market - eventually they will be the market.

SO PLEASE TAKE NOTICE OF THE JUST PENSIONS REPORT AND ENSURE THAT YOUR CHARITY IS NOT A FOLLOWER BUT A LEADER IN THIS FIELD.

COMMENTARY:**ROGER MORTON****CHAIR OF INVESTMENT COMMITTEE****JOSEPH ROWNTREE CHARITABLE TRUST**

Charities have been the principal pioneers of ethical investment in this country, if the churches are included within the charity sector. There have been pragmatic as well as principled reasons. It is over thirty years ago since I first saw an exposé of holdings of tobacco shares by medical charities. But purely grant-giving charities have had problems too. When the Joseph Rowntree Charitable Trust's (JRCT) main investment was a holding in Rowntree Mackintosh a grant offer was refused because the recipients were, for reasons it was difficult to argue with, uncomfortable with the source of the money. Today, some charities are not prepared to accept money from the National Lottery.

Few charities have therefore been able to avoid thinking about whether they needed to have an ethical policy for their investments, either because the integrity of their core work could otherwise be called into question or because, more positively, such a policy could add strength to it.

Just Pensions, itself initially an initiative of a group of charities, has joined forces with CAF and EIRIS to produce this paper, partly in response to the idea floated in last year's Cabinet Office review of charity law that larger charities - those with an income of over £1m - should be obliged to disclose their ethical policy, if any.

The paper includes the results of a survey of 57 of the largest charities. Rather surprisingly, only 40% of them have any explicit ethical policy, though a case is cited where its absence is the result of a considered decision rather than neglect.

The report offers useful examples of practice in different charities and some background information, which includes relevant extracts from the recently revised Charity Commission leaflet on charity investment and the judgement in the Bishop of Oxford case. Mention might also have been made of *Martin v. City of Edinburgh District Council*, for what by inference it tells trustees about how they should go about determining an ethical policy.

Perhaps the most difficult issue tackled in the report is the place of 'engagement' with companies in the pursuit of an ethical policy. Engagement has long been a complement to an ethical policy, especially where it has embraced

positive as well as negative selection criteria. However a result of the campaigning for pension funds to adopt ethical policies led by Just Pensions and others, as well as some commercial initiatives, has been to create a lot of engagement activity without any expectation that the shares of unresponsive companies will necessarily be sold. Thus companies whose core business is damaging to society - like arms and tobacco manufacturers - will be acceptable if they treat their employees well, recycle their waste, etc.

The adoption of this engagement-only approach is a great deal better than doing nothing but it has, for instance, had the effect of deflecting the campaign of members of such funds as the Universities Superannuation Scheme from their original concern about their fund's holdings in companies like arms manufacturers. I cannot see engagement that does not address harm intrinsic to companies' business satisfying many charities, whose own core business is necessarily the pursuit of 'purposes beneficial to the community'.

This debate will intensify if all larger charities have to disclose their ethical policies and the booklet at least airs the issues even if the analysis is in some places controversial.

COMMENTARY:**PAUL PALMER****PROFESSOR OF CHARITY FINANCE****LONDON SOUTH BANK UNIVERSITY**

This timely report builds on the ‘transparency and accountability’ debate that has been dominating the charity sector. The report identifies issues and challenges them from a critical perspective.

The report has a number of weaknesses, in particular its overt political message and positioning of charities separately from the wider investment market. A comparative statistical analysis of the charity sector would have been useful.

The report raises some very interesting issues on the diversity of the sector, but then places on charities a homogeneity as ‘social organisations’, which is not defined. Similarly the very useful interview with Les Jones of WWF explicitly demonstrates why fundraising charities that have investments should have a pro-active stance and the link to reputation risk. What is not covered is who the stakeholders are in a historic endowed grant making charity.

A very interesting finding is the perspective that many charity trustees are resistant to SRI, believing that returns are inferior and that fund manager charges are higher. As the report identifies, there is no conclusive evidence as to whether ethical or non-ethical funds perform better or worse. Perhaps of greater interest is whether there is a cultural issue for charity trustees and their response to this issue.

Commercial awareness may be the key factor rather than, as the report naturally assumes, that an ethical perspective is one that all charities should adopt. An often-cited positive characteristic of the voluntary sector is its very diversity. Before being persuaded to join an attractive but emotional bandwagon, consideration should be made of what this could mean to charities for both charges and the range of investment managers from which charities could choose - homogeneity here might not be a good thing!

For example the report assumes that investment managers are making profits and therefore could absorb such costs, when the current reality is that some fund managers are currently losing money, while others are barely breaking even. The request for additional work on ethical funds does equate to cost and the report does not really explore the true nature of these. In part this is

reflected in the weaknesses of the reports’ statistical framework. The report’s focus is on very large charities with a segregated approach or at the other extreme, small charities in Common Investment Funds. However many charities fall between these two stools. Even if they are a sizeable fund, should they perhaps consider a pooled fund for overseas equities and a segregated approach for the UK?

To conclude, this is a valuable report, which raises issues for debate. There are flaws, but this should not obscure its very valuable message and contribution to the transparency debate. If I were its author I would perhaps have concluded differently with the following messages:

- Activism will continue to grow and charities are not immune from these pressures.
- The leadership role that the National Association of Pension Funds (NAPF) has developed is a model to be considered by the sector.
- Charity trustees are the decision-makers and need to have the best information to enable them to do this.
- When making decisions in this area trustees need to be clear about costs.

COMMENTARY:**SHIRLEY SCOTT****DIRECTOR****CHARITY FINANCE DIRECTORS' GROUP**

It is only about ten years since the idea of trustees having any investment policy that specified much more than the required return became a topic for seminars. The Bishop of Oxford case raised awareness in a sector that has traditionally concentrated more on cure than prevention and there has been steady development since. This report shows that many charities have actively considered what they can do to influence the environment or society that they work in, otherwise than through the direct application of charitable funds. Many more are starting to consider it. The example of others and findings of this report may be the encouragement they need.

The guidance now given by the Charity Commission has helped charities in this area and the requirement to maximise the return on investments is not so absolute as it used to be. Also, as more portfolios and special vehicles are developed with an ethical or SRI base, it will be easier to assess the returns and show whether or not they have a negative impact on charity funds. Hopefully, methods of valuing the less direct benefits to the organisation, such as the increase in donors due to adoption of an ethical policy, will become more developed too so that charities can justify a policy both in terms of their chief purpose and the returns they expect.

Charities are investing for the long haul, so to me it is not so surprising that their asset allocation is heavy in equities - as we are always told, values can go up as well as down. Perhaps fund managers will advise those thinking of switching to an ethical or SRI policy that this could be the time to do it while the market is down.

One finding in the report that is surprising is that two thirds of charities do not report externally on their SRI policies and performance. The Strategy Unit Report recommends that, when there is an ethical investment policy, it should be reported in the Trustees' annual report and I think that increased exposure will lead to a more holistic approach to the use of charity funds. However, whilst I find it encouraging that more charities are assessing the risks and benefits of their investment policy, there does need to be a root in the purpose of the charity. Peer group activity, donor expectation and other pressures should not lead to

charities adopting screening policies that have no real relevance to their objects and create work which they can't afford to resource.

I am glad to see members of CFDG quoted in this report, as this is a subject we have been discussing in the group for a long time and will continue with in the future. By sharing with other members what they have done, or tried to do, CFDG members can often help each other to re-paint the wheel, rather than reinvent it. Those charities who were the first with clearly defined policies and monitoring methods have done much of the hard work so many more will be able to follow if it suits their needs.

APPENDIX A: ASSESSING A CHARITY'S SRI PERFORMANCE

This appendix provides some initial guidance on assessing charities' policies and practices on ethical and socially responsible investment. Just Pensions sees this as an evolving document and welcomes all feedback (to info@justpensions.org) so that future versions can be improved in light of experience.

QUESTIONS STAFF AND DONORS MAY WISH TO ASK

Has the charity ever sought the views of donors and/or beneficiaries, or staff, on its investment policies?

- If so, how are these monitored over time?

Does the charity have a written SRI policy?

- If so, is it publicly available?
- If not, does it plan to introduce one?

Does the charity include reputational risk in its risk management process?

- If so, how does it analyse the reputational risk arising from its investments?

Does the policy select companies in line with charitable objectives?

- If so, how many companies are excluded, and how does the charity decide?
- Does the charity invest on a 'best of sector' basis (i.e. Does it select the best social or environmental performers within a given sector such as oil and gas, or pharmaceuticals)?

If the policy includes engagement with investee companies:

- Does the charity vote its shares at company AGMs?
- Does the charity engage in dialogue with companies, either directly or via its fund managers?
- Has the charity considered the potential for engagement to help achieve the charity's particular objectives and identified areas where it may be the most effective approach?
- Has the charity considered working with other investors, supporters or beneficiaries to pursue these aims?

If the charity delegates implementation of its SRI policies to an external fund manager:

- Does the charity see merit in encouraging its fund manager to pay more attention to SEE issues as part of its own 'good citizen' role?
- Do the trustees review the fund manager's SEE performance on a regular basis? (Why not send them

a copy of the questions on monitoring fund managers, set out below?)

- Does SEE performance form part of the process for choosing new fund managers or reviewing existing mandates?

QUESTIONS TRUSTEES SHOULD ASK ABOUT POLICIES AND IMPLEMENTATION

Setting an investment policy

- Has the inclusion of SEE matters in a written investment policy been discussed at a trustee meeting?
- If the charity's objectives are narrowly defined, did the discussion include consideration of broader issues such as human rights, labour standards, poverty reduction and environmental issues?

Appointing and monitoring your investment manager

- Has the investment manager been asked to explain how it incorporates SEE matters into its risk management framework and investment processes?
- Does your investment manager have the means to exercise voting rights according to trustees' instructions?
- Do the trustees see assessments of investment manager capability, which include assessments of its SEE research and engagement capability?
- Do you know how much the investment manager spends on SEE research and engagement (i.e. the total spend on people and knowledge)?
- Is it clear in the terms of engagement of the investment manager what additional fee, if any, is charged by the manager for SRI services by comparison with what would be payable without them?
- Has the investment manager been asked to explain how it identifies emerging SEE issues by engaging with academics, Government and NGOs?
- Do the reports to the trustees of investment manager performance include information on how the manager is performing on SEE matters?
- Do you know which companies the investment manager has engaged with, on which SEE issues, and with what outcomes?
- Do you know that the investment manager can exercise your voting rights on some SEE issues and whether occasions have arisen on which it has done so?
- Is SEE performance considered in deciding on the appointment and continuation of fund managers?

JUSTPENSIONS

SOCIALLY RESPONSIBLE
INVESTMENT
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DEVELOPMENT

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