The Responsible Investment Approaches of Common Investment Funds

A guide for charity trustees

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Contents

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Executive Summary

1 Introduction

Common Investment Funds (CIFs) are central components of the investment approach of many charities. CIFs, constituted as charities in their own right, are pooled investment vehicles –similar to unit trusts – specifically set up for charities. Charities in England and Wales can currently invest in CIFs, and provision is due to be extended to Scotland and Northern Ireland in 2006. They were introduced to increase the investment options available to charities and now offer investment opportunities in equities, cash, fixed interest, property and hedge fund asset classes.

Responsible Investment (which is often referred to as ethical or socially responsible investment (SRI)) is about aligning a charity's investments with its objects. It is based on achieving the greatest impact from investments by both pursuing maximum financial return and using investments for non-financial gain. There are three main approaches to Responsible Investment – support, avoidance and engagement – which can be used individually or in combination.

This guide explores how well CIFs and other pooled funds cater for the increasing number of charities that are developing Responsible Investment policies. It has been designed primarily for charity trustees, to help them consider how their social, environmental or ethical (SEE) concerns can be better incorporated into their charity's investment choices.[1] The guide is based on a survey of 32 funds (30 CIFs and two other forms of pooled funds specifically designed for charities).

2 CIFs and Responsible Investment

As CIFs are pooled investment vehicles, the opportunities for a single charity investor to influence the Responsible Investment approach of a CIF may be limited. It is therefore important for trustees to seek information from the CIF manager about the Responsible Investment policies employed by the fund.

The CIFs that participated in the research were asked if they used positive or negative screens. The findings were that:

- 9 did not include any screens
- 15 screened only for tobacco products
- 8 included screens on issues other than tobacco products

The exact criteria and thresholds applied by the CIFs with screens vary. The most common issues considered by the CIFs with multiple screens were tobacco, gambling, armaments, alcohol, pornography, human rights and the environment.

In order to help trustees consider where their assets may be invested currently or in the future, the guide includes a snapshot of 14 CIF portfolios. The snapshot looks at the equity investments made in UK Companies by CIFs against seven sets of Responsible Investment criteria at a particular point in time. The snapshot illustrates how portfolio holdings may be affected by a selection of positive and negative screens and compares this to the exposure of the FTSE All Share.

At the post-investment stage, Responsible Investment is based on investors' engagement with the companies in which they invest. Engagement is the process by which investors seek to maintain or improve a company's SEE performance through dialogue and/or voting on relevant issues at annual general meetings.

A CIF's engagement policy is normally the same as the engagement policy of the fund manager across all the funds they manage. Seeking information on the engagement approach of a fund manager may help trustees to ascertain which CIF's engagement approach best fits with the charity's mission and reflects its issues of interest or concern.

1 For more information about developing a Responsible Investment approach see Investing Responsibly: A practical introduction for charity trustees (2005) EIRIS Foundation, NCVO and UKSIF

3 Other Pooled Funds

There is an increasing range of Responsible Investment pooled funds, other than CIFs, that are available to charities. These pooled funds may offer a broader range of Responsible Investment approaches.

4 Conclusions and Agenda for the future

CIFs are not in themselves ethical funds and – with the exception of the funds with multiple screens– are not necessarily designed to satisfy charities with Responsible Investment policies. What this guide has therefore looked at is the underlying approach of CIFs towards SEE factors and how they are addressed in their investment process. Trustees may wish to consider Responsible Investment approaches as part of their overall consideration of which CIFs to invest in.

The transparency of a CIF in its portfolio holdings and engagement practice is important for trustees making investment decisions. The historical snapshot included in the guide is designed to increase interest in the portfolio holdings of CIFs and how these could be affected by the application of a selection of Responsible Investment criteria.

A number of the funds which avoid tobacco explain that they do so because this reflects what clients want and because they do not consider that avoiding tobacco will have a material effect on the financial performance of the fund. Similarly the funds which have applied multiple screens have done so in response to their investors' wishes.

An important point can be taken from this about what influences CIFs and their approach to SEE issues. As more charities adopt Responsible Investment policies (and with the recognition that this can be entirely consistent with maximising returns) a greater choice of CIFs with Responsible Investment criteria may be demanded. It may therefore be an appropriate time for charity investors to ask fund managers to offer CIFs that better suit their SEE objectives.

1 Introduction

1.1 Introduction

Common Investment Funds (CIFs) are central components of many charities' investment approach. This guide explores how well they and other pooled funds cater for the increasing number of charities that are developing Responsible Investment policies[2].

This guide looks at the underlying approaches of the CIFs and how their fund managers address social, environmental and ethical (SEE) issues throughout the investment process. This guide also briefly looks at Responsible Investment options available to charities through investing in other pooled funds.

This guide has been prepared primarily for charity trustees. It is hoped that it will help trustees to consider how their social, environmental or ethical concerns can be better incorporated into their charity's investment choices.

1.2 About Responsible Investment

Responsible Investment is about aligning a charity's investments with its objects. It is based on achieving the greatest impact from investments by both pursuing maximum financial return and using investments for non-financial gain.

There is no single model of Responsible Investment (which is often referred to as ethical or socially responsible investment (SRI)) but rather there are three approaches that can be combined in different ways:

- support – or positive screening – involves investing in companies with a commitment to responsible business practices, positive products and/or services. This approach comes in a number of forms including best-in-class (investing in companies with the best practice in their industry) and thematic investment (e.g. an environmental charity investing in environmental technologies)
- avoidance – or negative screening – means not investing in companies that do not meet the ethical criteria that the charity sets
- engagement – or shareholder activism – is using the influence of investors and the rights of ownership to encourage more responsible business practice. This might not alter stock selection and mainly takes the form of dialogue between investors and companies. It may extend to voting practices.

These approaches can be used individually or in combination. If used in combination, trustees may wish to consider if one approach should take priority over another.

1.3 Why are charities implementing Responsible Investment?

Charities are mainly value-led organisations and trustees are often concerned to ensure that investments complement rather than counter the charity's work. For example cancer charities may decide to avoid investing in tobacco producers and before deciding on an investment a children's charity may assess whether the company's activities have a detrimental impact on children (e.g. child labour practices).

Charities have also implemented Responsible Investment for risk management purposes. A key asset of charities, particularly fundraising charities, is their reputation and adopting Responsible Investment may boost public perception, prevent negative publicity and meet donors and other stakeholders' expectations. For example donors to an animal welfare charity may expect that there is a policy with regard to investing in companies that undertake animal testing.

2 Preliminary findings from Kreander, N. et al (2005) UK charity ethical investment: policy, practice and disclosure An interim report of ACCA research in progress, ACCA, suggest that the number of large UK charities with ethical investment policies increased in the previous three years.

1.4 About Common Investment Funds

CIFs, constituted as charities in their own right, are pooled investment vehicles –similar to unit trusts – specifically set up for charities. Charities in England and Wales can invest in CIFs and the Charities Bill, due to be passed in 2006, will extend this provision to Scotland and Northern Ireland. They were introduced to increase the investment options available to charities and now offer investment opportunities in equities, cash, fixed interest, property and hedge fund asset classes.
CIFs have proved to be popular investment vehicles for charities: as at July 2006, there were 41 commercial CIFs with total assets under management of approximately £6.8 billion[3]. The advantages of investing in CIFs include:

- they qualify for the charitable exemptions from income tax and capital gains tax
- they are exempt from stamp duty on the purchase of UK equities
- they provide diversification to reduce risk
- minimum investment levels are low
- they allow charities to invest together with other charities with similar risk profiles and income requirements
- they are administratively simple as they are able to distribute income gross of tax where applicable (avoiding the need to make a reclaim)

1.5 About other investment funds

Many charities also invest through pooled funds, such as OEICs and unit trusts, which are not specifically for charities. Such funds are not discussed in this paper. Whilst these funds do not provide the same tax relief as CIFs, they can give access to a wide range of cost effective investment choices which also provide diversification and reduce risk.

It should be noted that this paper does not represent an endorsement of CIFs over any other type of investment.

1.6 The regulatory position

Charities are allowed to develop a Responsible Investment policy, within certain bounds. Trustees are required to maximise return on investment. The Charity Commission recognises that 'an ethical policy may be entirely consistent with this.'

The Charity Commission recognises three situations where the investment strategy can be governed by considerations other than the level of investment return. These are where:

- investment in a particular type of business would conflict with the charity's aims
- an investment 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
- 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 appropriate on moral grounds, provided that they are satisfied that this would not involve 'a risk of significant financial detriment'[4]

The rules on charities and Responsible Investment equally apply to CIFs. The trustees of a CIF have a duty to ensure that any Responsible Investment policy is consistent with the above principles (and their general duties as trustees). Likewise the trustees of any charity investing in that CIF would have the same duty.

Whether or not a particular CIF is managed according to SEE policies which are sympathetic to charities, it should be managed to maximise financial returns[5].

3 Common Investment Funds - A basic guide to their regulation available at www.charitycommission.gov.uk
4 Fuller details are provided in the Charity Commission publication, CC14: Investment of Charitable Funds, available at www.charitycommission.gov.uk
5 A fuller discussion of the regulatory position is given by Robert Meakin in Chapter 3 of Scanlan, C, ed. (2005) Socially Responsible Investment: A Guide for Pension Schemes and Charities Key Haven Publications.
6 The booklet can be found at www.charitycommission.gov.uk

1.7 How the guide was constructed

The Charity Commission lists all CIFs in its booklet Common Investment Funds – A basic guide to their regulation[6]. From this list, the CIFs which are available only to specific groups of charities (for example Almshouse and Army charities) were excluded. The providers of the remaining CIFs were contacted to ask whether they wanted to participate in the survey and to provide information about their funds.

The following information was requested from the fund providers:

- a copy of the investment policy (including any SRI criteria)
- a copy of the engagement/corporate governance policy/report (if applicable)
- details of any conditions for investors (minimum investment size or restricted class of charities who invest in the fund)
- a list of equity holdings as at 30th April 2006 (for those CIFs with UK equity holdings)
- details of the fund – size, number of charity investors, etc

Two providers (who between them offer 3 CIFs) declined to participate in the survey (in one case because they are currently restructuring their CIFs) and another provider declined to provide portfolio information.

Information was obtained for the following funds:

Name of Fund	Fund Manager/Promoter	Asset Class
ChariTrak Common Investment Fund	Barclays Global Investors	UK Equity (tracker fund)
Charinco Common Investment Fund	BlackRock[7]	Gilt & Fixed Interest
Charishare Common Investment Fund	BlackRock	UK Equity
Charishare Tobacco Restricted Common Investment Fund	BlackRock	UK Equity
The Charities Property Fund	Carr Shepherd Crosswaite	Property
Absolute Return Trust for Charities	Cazenove Capital Management	Hedge Fund
The Equity Income Trust for Charities	Cazenove Capital Management	UK Equity
The Growth Trust for Charities	Cazenove Capital Management	UK Equity
The Income Trust for Charities	Cazenove Capital Management	Gilt & Fixed Interest
COIF Charities Fixed Interest Fund	CCLA Investment Management	Gilt & Fixed Interest
COIF Charities Investment Fund	CCLA Investment Management	Mixed
COIF Charities Property Fund	CCLA Investment Management	Property Fund
CAF Bond Income Fund	Charities Aid Foundation	Gilt & Fixed Interest
CAF UK Equitrak Fund	Charities Aid Foundation	UK Equity (tracker fund)
CAF UK Equity Growth Fund	Charities Aid Foundation	UK Equity
Chariguard Fixed Interest Fund	Dresdner RCM	Gilt & Fixed Interest
Chariguard Overseas Equity Fund	Dresdner RCM	Overseas Equity (tracker fund)

7 Formerly Merrill Lynch Investment Managers

Chariguard UK Equity Fund	Dresdner RCM	UK Equity (tracker fund)
The Affirmative Equity Fund for Charities	Epworth Investment Management Ltd	UK and Overseas Equity
The Affirmative Fixed Interest Fund for Charities	Epworth Investment Management Ltd	Gilt & Fixed Interest
The Common Fund for Growth	HSBC Investment Management	UK Equity
The Common Fund for Income	HSBC Investment Management	Gilt & Fixed Interest
Fledgeling Bond Fund	JP Morgan Fleming Asset Management	Gilt & Fixed Interest
Fledgeling UK Equity Fund	JP Morgan Fleming Asset Management	UK Equity
Charibond Charities Fixed Interest Common Investment Fund	M & G Securities Limited	Gilt & Fixed Interest
Global Growth and Income Fund for Charities	Newton Investment Management	Mixed
The Alpha Common Investment Fund for Endowments	Sarasin Chiswell	Mixed
The Alpha Common Investment Fund for Income and Reserves	Sarasin Chiswell	Mixed
Charity Fixed Interest Fund	Schroder Investment Management Ltd	Gilt & Fixed Interest
The Charity Equity Fund	Schroder Investment Management Ltd	UK Equity

In addition to the above CIFs, two funds have been included in the survey as they are offered only to charities.

Name of Fund (type)	Fund Manager/Promoter	Asset Class
CAF Socially Responsible Fund (OEIC)[8]	Charities Aid Foundation	Mixed
Charifund (unit trust)	M & G Securities Limited	UK Equity

This paper is therefore based on information provided by 32 funds.[9] Before this guide was completed, each Fund Manager was given an opportunity to comment on the information regarding their CIFs.

2 CIFs and Responsible Investment

The investment process can be divided between the pre-investment and post-investment stages. The pre-investment stage refers to the process of constructing a portfolio and the decision to invest in specific stocks. The post-investment stage refers to what happens when the investor owns the stock, such as engaging with companies to influence responsible business practices. Responsible Investment strategies are open to investors throughout these stages.

As CIFs are pooled investments, they strive to cater for the needs and approaches of a variety of charities. Individual charity investors may have limited influence over the Responsible Investment strategies employed. It is therefore important that the charity seek sufficient information from the fund manager to make an informed and balanced judgement on how the Responsible Investment policy meets trustee expectations.

8 The CAF Socially Responsible Fund is due to be replaced by the CAF Socially Responsible Portfolio in late 2006.
9 It should be noted that since the research was conducted five new CIFs have been developed. These include the UK Bond Fund, the UK Equities Fund and the Global ex UK Equity Fund managed by Aberdeen Asset Managers. The Charifaith CIF will aim to reflect Catholic ethos and teaching within its investments and is due to be launched in October 2006 by BlackRock. The Accommodation Investment Fund for Charities has been launched by Cordea Savills, and will invest in residential accommodation typically let on long leases to housing associations, government bodies, universities and charities.

2.1 How are SEE issues integrated into the investment approach?

A broad range of non-financial factors can affect the sustainability of a business and its ability to deliver long-term financial return for investors. Integration occurs when the fund manager includes potentially material SEE and corporate governance risks and opportunities into the normal investment analysis, stock weighting and/or stock selection processes.

Fund managers have different approaches to incorporating SEE issues into the investment process and charities may wish to compare these. This applies to all CIFs and not just those with screens.

2.2 Which CIFs have screens?

Of the CIFs included in the survey:

- 9 do not include any screens
- 15 screen only for tobacco products
- 8 Include screens on issues other than tobacco products

CIFs which screen only on tobacco have been classified separately owing to the large number of CIFs which fall into this category.

2.2.1 CIFs which screen-out tobacco only

The CIFs which screen out tobacco do so applying different criteria. The table below lists the CIFs with screens and what their policy on tobacco is:

Name of CIF	Tobacco Screening Policy
CAF UK Equity Growth Fund	Does not invest in the equities of tobacco manufacturers
CAF Bond Income Fund	Does not invest in securities issued by tobacco manufacturers
Charibond	Tobacco companies not included in portfolio
Charifund	Tobacco companies not included in portfolio
Charishare Tobacco Restricted	Excludes companies which have any turnover from the production of tobacco and tobacco-related products. The restriction also extends to companies which have more than 10% of their turnover from the sale or distribution of tobacco products.
Charity Equity Fund	Does not invest in tobacco companies (defined as those companies classified within the FTSE Tobacco sector)
Charity Fixed Interest Fund	Does not invest in bonds issued by tobacco companies (defined as those companies classified within the FTSE Tobacco sector)
Fledgeling Bond Fund	Will not invest in the sector directly involved in tobacco manufacturing
Fledgeling UK Equity Fund	Will not invest in the sector directly involved in tobacco manufacturing
Global Growth and Income Fund for Charities	Will not invest in companies directly involved in tobacco manufacture
The Common Fund for Growth	Tobacco stocks are excluded
The Common Fund for Income	Tobacco stocks are excluded
The Equity Income Trust for Charities	Excludes companies that manufacture cigarettes and tobacco products
The Growth Trust for Charities	Excludes companies that manufacture cigarettes and tobacco products
The Income Trust for Charities	Excludes companies that manufacture cigarettes and tobacco products

2.2.2 CIFs which have multiple screens

The following table lists the CIFs which have multiple screens (both avoidance and support). Please note that all these funds have a tobacco avoidance policy.

Name of CIF	Responsible Investment Approach
CAF Socially Responsible Fund	Focuses on 'best-in-class' – companies which demonstrate leadership in their approach to environmental management and social responsibility. Companies are assessed to identify those which are delivering both a social return (progressive attitudes towards their business and stakeholders) and an environmental return (superior environmental management policies and practices). The fund also avoids companies engaged in serious violations of human rights or which are active in a material way in gaming or casinos; tobacco and alcohol manufacture or sale; landmine or arms manufacture. The fund will also avoid investment in electricity utility companies which generate nuclear power and in companies which have a controlling interest in a firm undertaking uranium mining.
COIF Charities Investment Fund	Aims to avoid investment in companies whose main business is gambling, tobacco or armaments, where this is 50% or more of turnover for gambling and tobacco, and 40% or more of turnover for armaments.
COIF Charities Fixed Interest Fund	Will not hold corporate bonds issued by companies that are excluded by the COIF Charities Investment Fund
COIF Charities Property Fund	Will generally avoid purchasing properties with occupational leases where the main activity of such tenants contravenes the guidelines of the COIF Charities Investment Fund. The Fund will include external environmental impact assessments on its properties and environmental clauses within leases that provide an indication of the expectations and responsibilities of the tenant with regard to environmental best practice.
The Affirmative Fixed Interest Fund for Charities	The policy mirrors that of the Central Finance Board of the Methodist Church which is to construct the portfolios consistent with the moral stance and the teachings of the Christian faith. The policy is guided by the Methodist Joint Advisory Committee on the Ethics of Investments and relates to issues including alcohol, tobacco, gambling, military, pornography, environment, extractives and human rights.
The Affirmative Equity Fund for Charities	The policy mirrors that of the Central Finance Board of the Methodist Church which is to construct the portfolios consistent with the moral stance and the teachings of the Christian faith. The policy is guided by the Methodist Joint Advisory Committee on the Ethics of Investments and relates to issues including alcohol, tobacco, gambling, military, pornography, environment, extractives and human rights.
The Alpha Common Investment Fund for Endowments	The policy is to generally avoid investment in companies with more than 10% of their turnover in alcohol manufacture, armaments, gambling or pornography. In recognition of the increasing importance of non-financial aspects of business and the financial risks involved in irresponsible behaviour, a published audit of the "sustainability" of the underlying investments is also undertaken (this includes both support and avoidance criteria).
The Alpha Common Investment Fund for Income and Reserves	The policy is to generally avoid investment in companies with more than 10% of their turnover in alcohol manufacture, armaments, gambling or pornography. In recognition of the increasing importance of non-financial aspects of business and the financial risks involved in irresponsible behaviour, a published audit of the "sustainability" of the underlying investments is also undertaken (this includes both support and avoidance criteria).

2.3 Portfolio snapshot

2.3.1 About the portfolio snapshot

This section looks at the equity investments made in UK Companies by CIFs against seven sets of Responsible Investment criteria at a particular point in time[10]. This section is designed to

- help trustees consider where their assets might be invested. The snapshot is intended to raise questions about the portfolio holdings of CIFs and how they relate to SEE issues of common concern to charities. These issues are also of concern to some members of the general public[11]. Charity trustees may therefore wish to consider if their portfolio holdings are in line with the charity's mission as well as the views of supporters and, if not, whether this could carry future risks to their reputation.
- help those who may be considering Responsible Investment issues to understand how a selection of SEE criteria would affect the portfolio holdings of a range of CIFs at a given point in time. This section may be informative for those concerned about how the application of screens would affect their options for stock selection.

The snapshot provides a broad brush illustration at an historic point in time. It is not intended to be a detailed analysis of portfolio holdings over a longer period of time.

How the snapshot was produced

The snapshot was produced by:

- collecting details of the CIFs portfolio holdings as at 30th April 2006 (unless an alternative date is given)
- comparing the CIF portfolios to seven Responsible Investment criteria to discover the percentage of each CIFs UK portfolio (in terms of market capitalisation) which would be screened out (for the negative screens) or screened in (for the positive screens).
- comparing the FTSE All Share (as at 30th April 2006) to the same seven Responsible Investment criteria.
- presenting the overall results of the CIF portfolio analysis in comparison to the result for the FTSE All Share

Full results for each CIF are given in the Appendix.

What criteria were used?

The seven sets of criteria used are amongst those most frequently of interest to charities. Of course not all the criteria may interest a specific charity and the inclusion of these criteria does not imply that these are necessarily of more importance or relevance than any other criteria.

The portfolio snapshot includes both negative screening (avoidance) and positive screening (support) of portfolios. The negative screens employed are

- alcohol
- gambling
- animal testing
- human rights
- military

The positive screens relate to practice in the fields of

- environment
- corporate governance

Tobacco is not included in the snapshot owing to the number of CIFs which avoid tobacco investments.

10 The term 'Companies' covers parent Companies whose shares are quoted on the London Stock Exchange, together with any subsidiaries or associated Companies where the parent Company has a holding of at least 20%
11 See for example The Evolution of the SRI Market (2004) Henderson Global Investors

Charities with an interest in these issues may wish to address each of the criteria in different ways. For this reason an explanation for each criterion is provided together with a discussion of other related issues or factors a charity investor may wish to address. Different CIFs may apply different screening criteria and materiality levels, which results in different numbers of companies being excluded. For example, the criteria used in the snapshot below screens out companies with more than 5% of turnover estimated to relate to military sales. This differs from the turnover levels applied by the COIF and Alpha funds.

A greater exposure to a particular sector within the portfolio snapshot does not necessarily mean that the CIF applies a more robust screen. Rather it may reflect the fact that CIFs adopt different criteria levels which may result in different lists of companies being acceptable to them. Other CIFs may apply no criteria at all and the results in the snapshot are not meant to suggest that their exposure to areas such as gambling, alcohol and military reflect a particular policy of the fund.

Charities may also choose to focus on different factors within each issue.
Regarding the environment a charity investor may be more concerned about actual environmental impact rather than how well the company manages its impact (the focus of the criteria below). This would affect how screening criteria are constructed and the basis on which decisions of which companies to screen in or out are made.

The focus on UK equities
The snapshot in this section includes only CIFs with exposure to UK equities. This is owing to charities preference for investing in equities and predominantly in UK equities. For those funds where UK equities are only part of the overall portfolio, the percentage figures given are as a percentage of the value of UK equity holdings within the fund and not the fund's total value[12]. The tracker funds are not included in the snapshot. The snapshot is therefore based on the portfolio holdings of 14 funds.

The data on Companies used to analyse the CIFs has been drawn from the data routinely reviewed and updated by Ethical Investment Research Services (EIRIS) Ltd as part of its services. At September 2006, over 2,700 Companies were monitored by EIRIS.

Issues to consider when viewing the snapshot
The snapshot aims to clarify some issues concerning exposure to SEE issues. The reason why some funds without a screen are underweight in respect of particular criteria is the result of the investment strategy adopted by the fund manager at that point (and not because of any screening criteria). This is the way the fund manager believes that their (financial) investment objectives will be best achieved. What this helps to explain is that any discussions on the impact of Responsible Investment screening on investment returns needs to be understood in the context of fund managers' investment approaches and performance and the investment objectives of the funds.

Care needs to be taken when drawing conclusions from this snapshot. The market capitalisation of the FTSE All Share Index and the relative different sizes of companies and sectors mean that comparisons need to be more nuanced.

The different investment approaches of the CIFs are another factor to consider before comparison. The portfolio characteristics of an equity fund aiming for growth tend to differ from those for income funds. Moreover large cap companies are more likely than smaller companies to have good environmental and SEE management systems. This bias means that funds which invest in small cap firms or avoid sectors dominated by large cap companies may have a smaller percentage of their portfolio screened in by the positive screens. For example the tobacco companies (large cap) may have good environmental and SEE risk management systems. In respect of the funds for which UK equities only represent a part of their holdings, being overweight in one UK sector may not be replicated across the whole portfolio.

12 UK Investment Companies were not included in the analysis.

The information in this section is based on a snapshot of the holdings of CIFs at a particular time. The actual holdings of any CIF change over time and the snapshot is therefore only intended to raise awareness. Up-to-date information about portfolio holdings may be sought from fund managers. Investment decisions should not be made on the basis of this snapshot. Trustees requiring guidance on financial matters should obtain appropriate expert advice.

2.3.2 Negative screens

1) Alcohol

To what extent does the CIF invest in alcohol?

Screening Criteria

The screen that was applied excluded companies where over 10% of their turnover comes from alcohol sale or production.

Alcohol production includes the brewing, distilling, blending and bottling of various alcoholic drinks. Alcohol sale relates to either retailing or wholesaling and includes distribution, importing and the sale of alcohol through concessions.

Screening Results

If applied to the FTSE All Share as at 30th April 2006, this screen would exclude 3.3% of market capitalisation (or 15 companies). Of the 15 companies excluded by the alcohol screen, 12 obtain more than 33% of their turnover from alcohol. The results for the CIFs UK equities range from 0% to 4.8% being excluded. Five of the surveyed CIFs have screens in this area, four of which were included in the portfolio analysis. If these CIFs are removed from the analysis, the range of excluded UK equities starts at 1.2%. The mean average for all the analysed CIFs is 2.3%.

Comment

Alcohol has been a long standing concern for some charity investors who are opposed to it on moral and religious grounds, for example Muslim and some Christian organisations. Health, welfare and social service charities are also often concerned about this issue owing to its health and social effects. Interest in this has been highlighted by recent concerns over binge and under-age drinking.

The criteria covered by this screen might not completely address the concerns of all charities. For example a number of children's charities have focussed on the inappropriate marketing of alcohol to children. A charity's response to this may not be to avoid investing in alcohol producing companies but rather engagement with the drinks industry and perhaps divestment from the worst offending companies only.

2) Gambling

To what extent does the CIF invest in gambling?

Screening Criteria

The screen that was applied excluded companies where over 10% of their turnover comes from gambling.

Gambling includes the operating of betting shops, horse and greyhound tracks, licensed bingo halls, casinos and the provision of on-line services. Companies whose primary business is gambling represent only a small percentage of the FTSE All Share.

Screening Results

If applied to the FTSE All Share as at 30th April 2006, this screen would exclude 1.2% of market capitalisation (or 12 companies). The results for the CIFs UK equities range from 0% to 1.6% being excluded. Eight of the surveyed CIFs have screens in this area, five of which were included in the portfolio analysis. Ten of the analysed portfolios had results of 0%.

Comment

Gambling is a concern of many charity investors who are opposed to the activity on moral and religious grounds. Social service charities, particularly those dealing with addiction and its social impacts, are also often concerned about gambling. Interest in this has been highlighted by recent concerns over the increased accessibility of gambling, particularly through the internet.

3) Animal Testing

To what extent does the CIF invest in animal testing for non-medical purposes?

Screening Criteria

The animal testing criteria relates only to animal testing for non-medical purposes. The criteria excluded companies that:

a) have tested their cosmetic products on animals in the last five years (or not disclosed this information) or

b) whilst not having tested do not require this of their suppliers;

This includes companies' own-brand cosmetics manufacturers (products manufactured by a third party contract manufacturer which are sold under the company's own-label).

Screening Results

10.8% of the market capitalisation of the FTSE All Share (24 companies) would have been excluded if this screen was applied. The results for CIFs were more wide-ranging than for many of the other negative screens applied and ranged from 2.8% to 14.5%. All but three CIFs fell within the 7.9% to 14.5% range and the mean average was 10.0%. None of the surveyed CIFs have a specific screen in relation to this issue.

Comment

The testing of cosmetic finished products and ingredients on animals is no longer allowed in the UK. However, testing for cosmetic purposes, especially of new ingredients, can be carried out in other countries on behalf of UK companies. This information may be of particular interest to animal welfare organisations and wildlife charities.

4) Human Rights

To what extent does the CIF invest in companies that operate in countries with serious human rights problems, and which do not address human rights issues?

Screening Criteria

The screen identifies companies that operate in countries with serious human rights concerns where the company either does not have any or only has a basic (or not fully developed) level policy or systems addressing human rights concerns.

The countries with 'serious human rights concerns' have been identified by using the Freedom House list of 'not free' countries, cross referenced with reports by Amnesty International and Human Rights Watch[13]. Currently 28 countries are included in this category.

Screening Results

68 companies, representing 4.4% of market capitalisation, of the FTSE All Share would have been excluded if this screen was applied. The results for CIFs ranged from 0% to 8.2% and the mean average was 2.8%. Three of the surveyed CIFs have screens in relation to this issue and two of these were included in the portfolio analysis.

Comment

This criteria may be of particular interest to charities working in the areas of international development, aid and human rights, as well as religious groups.

13 Freedom House is an international NGO that promotes democracy and freedom.

Human rights have become increasingly central to the corporate social responsibility agenda over the last few years. This is partly driven by concern about whether corporate behaviour is reinforcing or undermining human rights. While governments have the primary responsibility to promote and protect human rights, corporations and other organs of society also have responsibilities. Companies have direct responsibility for their own operations, for example that their labour rights policies apply throughout their global operations. Recently however, companies are starting to be assessed on their wider social impact on local communities, under the banner of fundamental human rights as recognised in the Universal Declaration of Human Rights.

There are a number of ways in which human rights concerns can be integrated into a charity's investment approach. The above screen includes all companies that have a presence in those countries where human rights issues are a concern. An investor may choose to focus on companies with a large presence in these 28 countries or an investor may take a sector specific approach, focussing on strategic industries.

5) Military

To what extent does the CIF invest in military production and sales?

Screening Criteria

The criteria avoids companies with more than 5% of turnover estimated to relate to military sales.

Screening Results

19 companies of the FTSE All Share, representing 2.1% of market capitalisation, would have been excluded if this screen was applied. The results for CIFs ranged from 0% to 4.8%. Eight CIFs had less than 1% of their portfolio in companies that would have been excluded and the mean average was 1.5%. Eight CIFs apply screens in relation to this issue and five of these were included in the portfolio analysis.

Comment

This criteria may be of particular interest to social and religious groups which campaign for arms reduction, or object to arms trading on moral grounds. Other charities may have more specific concerns relating to the sale of specific military products (e.g. landmines or nuclear weapons systems) or exports to oppressive regimes.

Varying threshold levels are applied in this area. For example, the COIF Charities Investment Fund avoids investments in companies whose main business is armaments, where this is 40% or more of turnover; the Alpha Common Investment Funds aim to avoid investments in companies with more than 10% of their turnover in armaments.

2.3.3 Positive screens

Two positive screens have been applied to the CIF portfolios. They have been included to highlight investments in companies with best practice or the best records in the areas the screens cover. In the Appendix, the figures presented are for those companies (and their market capitalisation) that would be screened in after the screen had been applied.

6) Environment

To what extent does the CIF invest in companies with good environmental management systems?

Screening Criteria

All companies were graded according to their environmental management systems (EMS) by EIRIS on a scale from 'exceptional' to 'inadequate'. The positive screen that was applied focused on those companies with either an 'exceptional' or 'good' system.
An environmental management system can be understood as a structure of responsibilities, practices, procedures and processes for identifying, assessing and managing an organisation's significant environmental aspects and driving continual improvement in performance. The rating is based on 6 EMS indicators and how well they have been implemented and the percentage of the company which the system covers. Good standards can also be evidenced by external certifications such as ISO 14001 or EMAS.

Screening Results
85 companies (representing 61.3% of the FTSE All Share market capitalisation) were rated as 'exceptional'. 90 companies (representing 19.3% of the FTSE All Share) were rated as 'good'. The percentage of CIFs' portfolios invested in 'exceptional' companies ranged from 39.1% to 62.8% and the mean average was 51.5%. The percentage of portfolios invested in 'good' companies ranged from 10.8% to 32.5% and the mean average was 18.5%.

Four of the surveyed CIFs include environmental issues within their Responsible Investment policy.

Comment
A company's management of its environmental impact is of primary concern to environmental, conservation and wildlife charities. It is also a concern to other investors considering the material risks that may arise from poor environmental management.

It is important to note that the criteria used above relate to environmental management and not environmental performance; a company with exceptional environmental management systems may still have poor environmental performance (for example high carbon emission). Charities may wish to focus their concerns about environmental practice on those companies in high impact sectors such as agriculture, air transport, mining and oil and gas.

There are other Responsible Investment approaches with regard to the environment that a charity may wish to adopt. A charity may wish to avoid investing in companies in specific sectors or who have been convicted of pollution offences. A support approach that a number of charities have taken has been to invest in companies developing 'clean' environment technologies or who are involved in sectors such as recycling.

7) Corporate Governance / Social, Environmental and Ethical Risk Management

To what extent does the CIF invest in companies whose board and senior management address the company's SEE risks and opportunities?

Screening Criteria
Companies were assessed to ascertain how well social, environmental and ethical risks and opportunities are addressed using four criteria:

- the Board – including how these issues are managed and reviewed
- risk management systems – including whether SEE risks are considered as part of the general risk management system and whether they are regularly assessed
- identification of specific SEE risks – including how they are disclosed
- quantified potential liabilities/opportunities – including the existence of systems to measure them

All companies were assessed on a scale from 'no evidence of' to 'advanced'. The results presented focus on those companies in the 'good' or 'advanced' categories.

Screening Results
37 companies (representing 33.3% of the FTSE All Share market capitalisation) were rated as 'exceptional'. 109 companies (representing 37.2% of the FTSE All Share market capitalisation) were rated as 'good'. The percentage of CIFs' portfolios invested in 'exceptional' companies ranged from 25.3% to 44.0%. The mean average was 34.1%. The percentage of portfolios invested in 'good' companies ranged from 13.8% to 45.5% and the mean average was 35.2%.

Comment
This screen may be of interest to all charities as it helps to identify well run companies.

Companies have traditionally undertaken financial risk management. Indeed a well functioning system of internal controls has been regarded as an element of good governance practice. Recently the concept of SEE risks has emerged, providing a governance dimension to SEE issues. The premise is that 'non-financial' risk could have a damaging impact on the financial health of the company and ultimately on shareholder value. Future financial damage can, for example, result from unrecognised or unmanaged risks, from the costs of defending allegations or lawsuits or from future regulations and liabilities.

SEE risks vary from sector to sector and from company to company, but can arise from issues as varied as: discrimination practices, child labour (especially for clothing retailers, obesity (for food producers) and climate change. If these risks are badly handled the company's reputation can be damaged, casting a shadow over its long-term financial prospects.

SEE risk management lies at the interface between SEE issues, corporate governance and financial health. If SEE risk is not integrated into a company's risk management policy, the company may face unanticipated liabilities or be driven to reactive or short-sighted damage limitation behaviour.

This screen assesses how well a company integrates SEE analysis into its management. It does not assess the company's performance and reflects what the company believes its SEE risks may be. Nor does the criterion judge which issues may be most material. For example an oil or mining company is more likely to face material environmental risks than a computer software company.

2.4 Post-investment: engagement and corporate governance

At the post-investment stage, Responsible Investment is based on investors' engagement with the companies in which they invest. Engagement is the process by which investors seek to maintain or improve a company's SEE performance through dialogue and/or voting on relevant issues at annual general meetings. Engagement can take many forms and can be designed to achieve a variety of objectives (such as information gathering, disclosure or to affect change). Benchmarking success is therefore difficult. It is often difficult to determine the extent to which any company's shift in policy and practice is due to any one investor's engagement with it.

There is no widely accepted definition of engagement. For some it particularly relates to the rights and responsibilities of ownership. Active ownership includes voting shares and dialogue with companies, but it can also refer to an investor's understanding of, and approach to, the broader responsibility of company ownership, the activities of the company and its role in society and the economy.

All funds, including tracker funds, are able to engage with companies on SEE and corporate governance concerns. The ACEVO CHIPs investment template states that:

"Many charities invest using a passive strategy through Common Investment Funds or tracker funds. This should not stop trustees requiring investment managers to follow an activist strategy [engagement] and trustees should be aware of where their funds are invested even when pursuing a passive strategy."[14]

Trustees may wish to consider the CIFs' different engagement approaches. As CIFs are pooled funds the influence that an individual charity can have on the engagement approach may be limited but a charity can still encourage the adoption of a particular engagement policy by a CIF.

The CIFs engagement policy is often in line with the engagement policy of the fund manager across all the funds they manage. For example the ChariTrak CIF applies the Corporate Governance Policy from Barclays Global Investors.

Fund managers take different approaches to engagement. They place different emphases and have employed different strategies. This may be influenced by the size and resources of the fund manager and the size and nature of the companies they invest in. Engagement can take the form of telephone calls, emails, letters, group meetings or one-to-one meetings and can take place on a variety of levels, such as governance, disclosure reporting policy or practice.

14 The CHIPs are down – a template for improving Charity Investment Practice, (2003) Association of Chief Executives of Voluntary Organisations (ACEVO)

Some fund managers see engagement as part of the holistic process of fund management. Some fund managers mainly focus on corporate governance issues around the management of the company (such as directors' remuneration, separation of chair and chief executive functions, non-executive directors and audit committees) whereas others include an assessment of SEE factors in their engagement approach. Some fund managers may also be more inclined to consult with clients about their engagement policy. Fund managers tend to publish engagement reports and can provide details to their investors of their voting record and of any meetings with companies.

Some fund managers publish details of the focus of their engagement policy. An example is given below:

COIF Charities Investment Funds
As well as using negative screens, the COIF Charities Investment Fund adopts corporate governance and engagement policies. It:
Undertakes informed shareholder voting at all shareholder meetings for UK companies held within the Investment Fund; and
Engages, on behalf of the COIF Charities Investment Fund, with the companies in which it invests. Engagement focuses on non-financial issues that may have a material impact on the business, such as supply chain management, environmental impacts, human rights and labour standards.

It is beyond the scope of this paper to examine the engagement policies of each fund. Rather we have produced a list of questions that trustees may wish to ask fund managers to help ascertain which CIF's engagement approach best fits with the charity's mission and reflects issues of interest or concern.

Questions for Fund Managers on Engagement:

1) **What is the focus and emphasis of the engagement policy? What are the main themes and priorities and how are they decided? What is the strategy to select companies for engagement? Does the engagement policy only apply to UK equities?**
2) **What engagement methods are used? Is it one-to-one meetings, letters, or attendance at company presentations?**
3) **What is the fund manager's voting record at AGMs and EGMs?**
4) **What kinds of resources are devoted to engagement? Does the fund manager have a dedicated in-house team and/or purchase independent data?**
5) **How does the fund manager report on their engagement activities? How much information is made available to clients? (Good reports demonstrate that the fund manager has a full understanding of SEE issues and, equally importantly, how this impacts the company's bottom line.)**
6) **How does the fund manager measure the impact of their engagement?**
7) **Is the fund manager involved in any Responsible Investment initiatives (member of UK Social Investment Forum, Institutional Investors Group on Climate Change, Responsible Investors' Network, Carbon Disclosure Project or Enhanced Analytics Initiative)?**
8) **What independent review is there of engagement activity?**

Over time engagement can improve a company's management which will result in more companies being rated as good at environmental and SEE risk management and therefore being included by positive 'best-in-sector' screens such as the ones used above. Engagement is not necessarily distinct from support or avoidance approaches, and the three strategies can be used in combination.

3 Other pooled funds

3.1 What are the investment options?

For charities that invest in pooled funds other than CIFs, there is an increasing range of Responsible Investment funds that are available to them. A number of these funds are marketed to charities, often with discounts or with gross share classes. These pooled funds may offer an approach which fits more than any CIF with a charity's Responsible Investment policy or more generally its investment strategy.

For example, a charity can choose to invest in a tracker fund based on the FTSE4Good family of indices. FTSE4Good has been designed to measure the performance of companies that meet globally recognised corporate responsibility standards. For inclusion companies must meet minimal criteria: environmental sustainability, positive relations with stakeholders and human rights. FTSE are currently introducing further criteria relating to supply chain management and bribery. The index excludes companies which produce tobacco, manufacture whole weapons systems and nuclear weapons or are involved in nuclear power.

Within the range of actively managed screened funds, a charity may find an investment which better fits its Responsible Investment policy (as it covers issues not screened by a CIF) or its investment goals (there are a range of funds with growth and income objectives). There are also some pooled funds which offer thematic investments. Thematic investments allow investors to adopt a support approach and focus their investments in companies that are responding to sustainability challenges or who operate in sectors a charity may believe is beneficial. Pooled funds also offer Responsible Investment options in the fixed interest (bonds) asset class.

3.2 How to find them

A charity's existing fund manager may be able to offer Responsible Investment funds by way of either the funds they manage in-house or through an 'open architecture' approach where they can buy into a fund to gain exposure to the market as required.

The EIRIS Guide to Ethical Funds provides details of over 70 UK-domiciled ethical retail funds, including unit trusts/OEICs, Investment Trusts, Life and Pension Funds. It provides fund profiles, ethical performance ratings and portfolio analysis tables and is intended to assist investors and their advisers who want to compare the policies and practices of retail ethical funds.[15]

The Eurosif SRI Funds Service provides details of European SRI funds, including information on performance and risk measures.[16]

4 Conclusions and agenda for the future

This guide has been designed to help trustees consider how sympathetic their CIF investments are (or could be) to their charity's views on social, environmental and ethical issues. As explained above, CIFs are not in themselves ethical funds and – with the exception of the funds with multiple screens listed in section 2.2.2 – are not necessarily designed to satisfy charities with Responsible Investment policies. What this guide has therefore looked at is the underlying approach of the CIFs towards SEE factors and how they are addressed in the investment process. In some cases, fund managers have been able to satisfy charity clients that their Responsible Investment objectives are taken into account through this process even where there is no screening, e.g. by engagement.

There are a range of CIF products and approaches that charities can choose from. Trustees may wish to consider Responsible Investment approaches as part of their overall considerations of which CIFs to invest in. As part of this, trustees may wish to assess not only whether a CIF satisfies their Responsible Investment objectives but also how well this is achieved throughout the investment process. For example would a charity prefer that its concerns about the environment or any other issue be incorporated into the investment process through screening or engagement, or both?

15 see www.eiris.org
16 see www.eurosif.org/sri/sri_funds_service

The transparency of a CIF regarding its portfolio holdings and engagement practice is therefore important for trustees making investment decisions. The historical snapshot included in the guide is designed to increase interest in the portfolio holdings of CIFs and how these could be affected by the application of a selection of Responsible Investment criteria.

It is worth noting that the majority of CIFs screen out tobacco investments. (Tobacco represents around 2.6% of the FTSE All Share market cap). A number of the funds which avoid tobacco explain that they do so because it reflects what clients want and because they do not consider that avoiding tobacco will have a material effect on the financial performance of the fund.

An important point can be taken from this about what drives CIFs and their approach to SEE issues. CIFs are popular investments with charities because they are designed to meet charity fund objectives. Charities would not choose to invest in CIFs if this was not the case. That the majority of CIFs avoid tobacco reflects this as charities' attitudes toward tobacco investments has driven this avoidance.

Similarly the funds which have applied multiple screens have done so in response to their investors' wishes. The COIF Charities Investment Fund's requirements were reviewed by CCLA Investment Management in light of the revised Charity Commission guidance in 2003 and after a survey of 3,000 clients. The result of this was that some avoidance criteria were altered, engagement was incorporated as part of the fund's offer and the fund was repositioned as a 'responsible' fund. Even with these changes the fund has a 'primary purpose of obtaining the best return for unit holders, consistent with commercial prudence and in accordance with the duties of trustees'[17.] The recent transition of Sarasin Chiswell's Alpha Funds has also occurred in recognition of social and environmental responsibility becoming increasingly important issues for charities.

As more charities adopt Responsible Investment policies (and with the recognition that this can be entirely consistent with maximising returns), a greater choice of CIFs with Responsible Investment criteria may be demanded. It may therefore be an appropriate time for charity investors to ask fund managers to provide CIFs that better suit their SEE objectives.

For example conservation and environmental charities and grant-makers involved in these fields may wish for a CIF with specific environmental criteria to be offered. There may also be demand for a CIF which focuses on companies that produce positive products or services (for example healthcare or involvement in community regeneration)[18]. Different fund managers may also be able to provide different engagement opportunities in areas such as human rights.

These developments would present trustees with an investment approach which not only pursues maximum financial returns but also ensures that returns are obtained through investing in a responsible and sustainable way which matches the mission and aspirations of charity investors.

Disclaimer:

17 Taken from the COIF Funds Socially Responsible Investment policy. www.ccla.co.uk
18 Robert Meakin raises the idea of a CIF which invests in companies with good track records in charitable giving or community involvement. See footnote 5.

Appendix: snapshot results for CIF portfolios

This appendix lists the snapshot results for each CIF screened against the criteria detailed in section 2.3.

Each CIF provided details of its UK equity holdings as at 30th April 2006 (unless otherwise stated). This information was compared to seven Responsible Investment criteria[19] to identify what portion of the portfolio (if any) would be screened out (in the case of negative screens) or screened in (in the case of positive screens). The tables that follow provide details of the number of companies included in each CIF's portfolio that would be affected by each screening criteria. It also gives details of the percentage of the CIF's UK equities that this represents, as measured by market value.

The information should be viewed as historical snapshots and not an analysis of current portfolio holdings. This appendix should be considered in the context of section 2.3 above, bearing in mind issues of investment strategy and performance. It is included to increase interest in the portfolio holdings of CIFs and how these could potentially be affected by the application of Responsible Investment screens. More up-to-date information on portfolio holdings should be sought from the CIF fund mangers.

The first snapshot gives details of how the screens would apply to the FTSE All Share Index.

FTSE All Share Index

Negative Screens

	No. of companies	% of UK equities by market cap
Alcohol	15	3.3
Gambling	12	1.2
Animal Testing	24	10.8
Human Rights	68	4.4
Military	19	2.1

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	85	61.3	90	19.3
SEE Risk Management	37	33.3	109	37.2

Fund: The Affirmative Equity Fund for Charities

Negative Screens

	No. of companies in fund	% of UK equities by market cap
Alcohol	1	0.4
Gambling	0	0
Animal Testing	7	10.1
Human Rights	6	2.7
Military	0	0

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	27	41.9	21	15.7
SEE Risk Management	17	28.5	30	13.8

19 The definitions used for each criteria are given in sections 2.3.2 and 2.3.3.

Fund: Alpha Endowments (as at 06/07/06)

Negative Screens

	No. of companies	% of UK equities by market cap
Alcohol	0	0
Gambling	0	0
Animal Testing	6	14.0
Human Rights	2	2.3
Military	0	0

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	29	50.8	9	19.5
SEE Risk Management	10	25.3	20	45.5

Fund: Alpha Income and Reserves (as at 06/07/06)

Negative Screens

	No. of companies in fund	% of UK equities by market cap
Alcohol	0	0
Gambling	0	0
Animal Testing	5	11.1
Human Rights	0	0
Military	0	0

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	16	50.3	7	18.2
SEE Risk Management	9	26.8	13	41.4

Fund: CAF Socially Responsible Fund

Negative Screens

	No. of companies in fund	% of UK equities by market cap
Alcohol	1	0.9
Gambling	0	0
Animal Testing	10	14.5
Human Rights	1	0.6
Military	0	0

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	28	57.4	19	32.5
SEE Risk Management	16	32.5	32	41.5

Fund: CAF UK Equity Growth Fund

Negative Screens

	No. of companies in fund	% of UK equities by market cap
Alcohol	1	3.5
Gambling	0	0
Animal Testing	7	8.2
Human Rights	8	2.8
Military	2	0.4

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	22	55.4	14	18.4
SEE Risk Management	11	39.4	21	35.4

Fund: Charifund

Negative Screens

	No. of companies in fund	% of UK equities by market cap
Alcohol	3	3.0
Gambling	1	0.9
Animal Testing	3	2.8
Human Rights	5	4.0
Military	3	3.3

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	28	44.2	29	29.1
SEE Risk Management	13	25.7	30	35.9

Fund: Charishare (as at 31/05/06)

Negative Screens

	No. of companies in fund	% of UK equities by market cap
Alcohol	3	4.4
Gambling	0	0
Animal Testing	5	12.3
Human Rights	1	0.7
Military	0	0

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	14	39.1	6	10.8
SEE Risk Management	11	38.8	16	33.2

Fund: Charishare Tobacco Restricted (as at 31/05/06)

Negative Screens

	No. of companies in fund	% of UK equities by market cap
Alcohol	3	4.8
Gambling	0	0
Animal Testing	6	13.7
Human Rights	1	0.8
Military	0	0

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	20	54.2	6	11.4
SEE Risk Management	9	36.5	16	35.0

Fund: The Charity Equity Fund

Negative Screens

	No. of companies in fund	% of UK equities by market cap
Alcohol	3	4.4
Gambling	2	1.6
Animal Testing	4	10.9
Human Rights	2	3.2
Military	1	2.1

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	21	45.1	9	18.4
SEE Risk Management	11	43.7	18	38.6

Fund: COIF Charities Investment Fund (as at 31/12/05)

Negative Screens

	No. of companies in fund	% of UK equities by market cap
Alcohol	2	1.2
Gambling	0	0
Animal Testing	7	12.7
Human Rights	5	2.0
Military	2	0.8

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	25	56.6	24	10.9
SEE Risk Management	14	34.5	30	38.4

Fund: The Equity Income Trust for Charities

Negative Screens

	No. of companies in fund	% of UK equities by market cap
Alcohol	4	3.1
Gambling	2	0.8
Animal Testing	5	9.4
Human Rights	7	8.2
Military	4	3.2

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	34	61.6	21	14.2
SEE Risk Management	18	36.1	28	35.2

Fund: Fledgeling UK Equity Fund (as at 31/03/06)

Negative Screens

	No. of companies in fund	% of UK equities by market cap
Alcohol	3	2.6
Gambling	0	0
Animal Testing	3	7.9
Human Rights	2	1.9
Military	2	3.2

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	25	62.8	21	18.7
SEE Risk Management	16	44.0	18	30.1

Fund: Global Growth and Income Fund (as at 31/12/05)

Negative Screens

	No. of companies in fund	% of UK equities by market cap
Alcohol	2	2.2
Gambling	0	0
Animal Testing	4	5.9
Human Rights	6	5.0
Military	6	4.8

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	21	43.2	16	21.9
SEE Risk Management	11	28.2	22	35.1

Fund: The Growth Trust for Charities

Negative Screens

	No. of companies in fund	% of UK equities by market cap
Alcohol	2	1.5
Gambling	2	1.0
Animal Testing	5	6.9
Human Rights	9	4.9
Military	7	4.2

Positive Screens

	No. of 'Exceptional' companies	% of UK equities in 'Exceptional' companies by market cap	No. of 'Good' companies	% of UK equities in 'Good' companies by market cap
Environment	30	59.1	28	19.6
SEE Risk Management	16	37.0	33	33.3

The EIRIS/UKSIF Charity Project is supported and guided by an expert advisory group, which consists of the following members:

Clare Brook	Morley Fund Management
Mark Campanale	Henderson Global Investors
Lee Coates	Ethical Investors Group
Graham Collins	NCVO Sustainable Funding Project
Alastair Hanton	EIRIS Foundation
Jeff Hayes	Cazenove Capital Management
Stephen Hine	Ethical Investment Research Services (EIRIS)
Mark Mansley	Rathbone Greenbank Investments
Roger Morton	Charity Trustee and Investment Adviser
Gill Nunn	Charities Aid Foundation (CAF)
Penny Shepherd	UK Social Investment Forum (UKSIF), chair
Andrew Studd	Bates, Wells and Braithwaite
Peter Webster	Ethical Investment Research Services (EIRIS)
Neville White	CCLA Investment Management

The EIRIS/UKSIF Charity Project encourages and assists charities and their trustees in the development of an ethical and socially responsible approach to their investments through education, research and the provision of resources.

It is a joint project between the EIRIS Foundation and the UK Social Investment Forum (UKSIF).

For more information about the EIRIS/UKSIF Charity Project please contact Sam Collin Tel: 020 7840 5738
Email: sam.collin@eiris.org
Web: www.eiris.org www.uksif.org

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