RESPONSIBLE INVESTMENT IN POOLED FUNDS

A guide for charity trustees

EIRIS Foundation

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EIRIS Foundation Charity Project

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EXECUTIVE SUMMARY

Many charities invest in pooled funds specifically designed for charities. These can allow investors with a similar profile to pool investments and benefit from reduced costs and low minimum investment levels.

This guide is designed to help trustees consider how their social, environmental or ethical concerns can be incorporated into their charity's investment choices and to help fund managers consider where there may be room for development and innovation to meet unmet needs. It also explores how well charity pooled funds cater for the increasing number of charities that are developing responsible investment policies.

This guide outlines the policies of charity pooled funds in relation to environmental, social, governance (ESG) and ethical issues. The future regulation of Common Investment Funds (CIFs) – the most common form of charity pooled fund – is being reviewed; however at the time of going to print the Treasury has said that it intends that regulation will remain with the Charity Commission. In addition, the Charity Commission's guidance on charities' investment (CC14), including ethical investment, has recently been reviewed. It is, therefore, a good moment to review current practice and look at opportunities for future development.[1]

This guide provides details of fund managers' policies regarding a range of factors related to ESG and ethical issues. In particular, the report highlights whether funds have negative and positive screens, or engagement, voting and integration strategies in their policies. Charity trustees may wish to further question individual funds on these points, as the policies of fund managers may vary greatly across the range of funds listed. For example, in terms of negative screening, one fund provider may screen out all military related investments, whereas another may only screen out those investments which derive more than 10% of their income from military products or activities. It is important for charity trustees to ensure they are aware of the details of any investment policy before making an investment.

The term 'responsible investment (RI)' refers to the incorporation of ESG or ethical issues into investment decisions and ownership practices. It is possible to invest responsibly whilst meeting the legal duties of trustees and without sacrificing financial returns.

Since the second edition of this guide was produced in December 2009, there have been many developments in the responsible investment sector. The EIRIS Foundation Charity Project, which provides responsible investment resources and events for charities, has facilitated greater awareness, debate and take-up of responsible investment from across the charity sector.

A survey conducted by the Charity Finance Group (formerly Charity Finance Directors' Group) and the EIRIS Foundation in early 2009 revealed that 60% of charities with investments over £1 million had an ethical investment policy. However, just 46% of all charities had such a policy. In an October 2012 follow up survey, conducted by the Charity Finance Group and EIRIS, the number of charities with an ethical investment policy had risen to 51%. However, for those larger charities with £1 million or more invested, this number had stagnated, with 59% of those surveyed having an ethical investment policy. This is despite the fact that in 2009, of those charities that did not invest ethically, 32% were planning to discuss the issue in the coming year.[2] There therefore appears to be a need for ongoing encouragement, advice and support for charities wishing to invest ethically, or those that are considering their investment approach.

This guide is based on information obtained from forty-five UK pooled funds open only to charity investors. These funds offer investment opportunities in equities, cash, fixed interest, property and hedge fund asset classes.

As pooled investment funds strive to cater for the needs and approaches of a variety of investors, individual investors have limited influence over the responsible investment strategies employed. It is therefore important that charities seek clear information on the responsible investment approaches of funds when deciding where to invest.

Key findings

By far the most common responsible investment issue considered by charity pooled funds is tobacco. This is screened out by twenty six funds. Sixteen of these funds go beyond this to employ other screens. These are predominantly negative screens and the focus and level of rigor varies.

[1] http://www.charitycommission.gov.uk/publications/cc14.aspx
[2] www.cfg.org.uk/Policy/have-your-say/surveys/closed-surveys/2012/october/~/media/Files/Policy/Have%20your%20Say/Key_findings_NEIW12.ashx

Tobacco	**(considered by 26 funds)**
Military	**(15)**
Pornography	**(14)**
Gambling	**(12)**
Alcohol	**(9)**
Human Rights	**(7)**
Labour Standards and Supply Chains	**(5)**
Environment	**(4)**

Most funds consider corporate governance issues often as part of a policy that covers all of a fund manager's funds.

Some funds also have an engagement and voting policy in relation to ESG and ethical issues. This is, in the main, in line with the engagement policy of the fund manager across all of the funds that they manage. Fourteen fund managers provided details of their policies in relation to ESG and ethical issues that apply to their charity funds. A charity may wish to question fund managers in more detail about their policies and practice in relation to engagement in order to assess how well this meets the charity's needs.

Integration occurs when the fund manager includes potentially material ESG risks and opportunities into the normal investment analysis, stock weighting and/ or stock selection processes. There is growing evidence that the consideration of ESG factors in investment management and ownership processes is an astute financial decision and can be used to safeguard and enhance returns.

Trustees may agree with this view and wish to ensure that their fund provider is taking account of ESG risks and opportunities in their investment decisions. The EIRIS Foundation's charity website www.charitysri.org provides independent listings of ethical or socially responsible investment funds and providers, as well as being a comprehensive resource on responsible investment issues for charities.

As compared to the 2009 edition of this report, an increasing proportion of those fund managers included in our survey provided details of a clear responsible investment policy on engagement, voting or integration.

Fund manager assessments have been produced by organisations such as ShareAction (formerly FairPensions)[3], and it is possible to see which fund managers are signatories to the UN-backed Principles for Responsible Investment (UNPRI). Signatories to the UNPRI commit to a series of voluntary and aspirational principles which provide a menu of possible actions for incorporating ESG issues into mainstream investment decision-making and ownership practices.

As part of the European Commission Directive on Alternative Investment Funds, the Financial Services Authority's (FSA) successor, the Financial Conduct Authority (FCA), may change regulation relating to charity pooled funds in July 2013. However, at the time of going to print the Treasury has said that it intends that the Charity Commission will continue to regulate CIFs. The Charity Commission's CC14 guidance on the investment of charity funds was also recently reviewed. Changes in guidance on ethical investment and changes in the regulation of funds have further increased the scope for responsible investment by charity funds and brought further clarity to the limitations and opportunities that trustees have around responsible investment.

[3] www.fairpensions.org.uk/ethicalfunds

Fund managers are only likely to develop new funds or adapt the policies of existing funds if they perceive that there is a demand from charities. Charities should therefore communicate clearly to fund managers and advisers if there are no charity pooled funds which meet their responsible investment objectives.

Guide highlights

- **there remains a limited choice of charity pooled funds with responsible investment criteria beyond tobacco screens.**
- **the funds with responsible investment criteria tend to be faith-based and focus on 'sin stocks' such as alcohol, gambling and pornography.**
- **as compared to the 2009 edition of this report, a higher number of the fund managers included in our survey this time provided details of a clear policy on engagement, voting or integration.**
- **given its financial relevance, all charity investors should consider how their fund manager integrates ESG risks and opportunities into their investment decisions and ownership practices.**
- **trustees may want to encourage fund managers to be more transparent and explicit about their responsible investment policies and practices.**
- **public opinion suggests that charities face risks to their reputation and income if they are found to be investing in ways that are unethical, or contrary to their aims.**
- **looking to the future, there may be increasing demand for charity pooled funds with positive screens, or with a focus on mission and impact related investment.**
- **there may be latent demand for the development of more charity pooled funds that reflect current trends in responsible investment and focus on climate change, human rights and labour standards.**

1 INTRODUCTION

Charity pooled funds, such as Common Investment Funds (CIFs), are a central component of many charities' investment approaches. This guide explores how well such funds cater for the increasing number of charities that are developing responsible investment policies.

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 incorporated into their charity's investment choices.

The second edition of this guide was produced in 2009; since then there have been many developments in the responsible investment sector, including new initiatives, approaches and participants. The EIRIS Foundation provides responsible investment resources and events for charities, principally through CharitySRI.org, and also via YourEthicalMoney.org. Charitysri.org has facilitated greater interest, debate and takeup of responsible investment from across the charity sector.

Since its launch in April 2006 the UN-backed Principles for Responsible Investment (UNPRI) has played an increasingly significant role in promoting good practice in the consideration of ESG issues in investment decisions and ownership practices. At the time of writing, over 1135 organisations, representing US $32 trillion in assets, have now signed up to the principles – an indication of the growing recognition amongst mainstream investors that ESG issues can impact long- term financial value.[4] Total assets under management by UNPRI signatories now total an estimated 22% of the global investment market.[5]

Increasing numbers of individuals and institutional investors are looking to invest responsibly. In June 2012 it was estimated that £11 billion was invested in green or ethical funds in the UK.[6] At the end of 2011 the wider SRI market in Europe reached 6.76 trillion euros.[7]

Within the charity and foundation sector some discussion has focused on mission investment (meaning investment to meet social and environmental goals as well as financial goals). There are now more opportunities to invest in line with mission and more initiatives exist to increase the opportunities and appetite for mission investment. For example, Society Finance provides Social Impact Bonds, and Development Impact Bonds, in which social investors fully or partly pay for services to be delivered that improve social outcomes and the effectiveness of public sector spending.[8] Charities can also invest in the Charity Bank, for example, which operates with a mission to use finance exclusively for social purposes and it only lends to charities, social enterprises and community groups.[9]

The Charity Commission updated its CC14 investment guidance for charities in 2011. This further clarified the legal and regulatory issues surrounding ethical, socially responsible or mission-related approaches to investment.

Of those trustees who have not implemented an ethical investment approach, the most common reason cited for this was a fear of potentially lower financial returns from ethical investments.[10] Although trustees are rightly concerned about maximising financial returns, research (listed in section 1.3) now suggests there is little evidence that an ethical or socially responsible investment strategy can lead to lower returns.

Since the second edition of this guide was produced the after-effects of the financial crisis and subsequent recession have hit the investment community. The slow rate of economic and financial growth has caused many investors to reflect on the longer-term risks that they may be exposed to and the ways that companies manage these risks. It has drawn attention to the role of shareholders as owners, and the significance of acting as responsible owners. The 'shareholder spring' in 2012 saw increased shareholder activism related to executive pay and corporate governance. Similarly, the UK government's Kay Review of Equity Markets and Long-Term Decision Making of July 2012, focused on sound financial stewardship, increased engagement and a closer link between executive pay and performance.[11]

The prominence of climate change as an issue that requires the urgent attention of governments, business, society and investors has also risen significantly in the last decade. Professor Lord Nicholas Stern, amongst many others, has warned that the economic consequences of not addressing climate change will be greater than those of the recent financial crisis.[12] There is a growing consensus that climate change will have financial implications for all companies and poses a systemic risk to investors. The World Economic Forum recently identified climate change risks as amongst the most likely to occur in the next decade. In its 2013 Global Risks Report, the World Economic Forum also highlighted the danger posed by potential clashes between the failure to adapt

[4] See Principles for Responsible Investment website, www.unpri.org
[5] Principles for Responsible Investment Report on Progress 2011, available at www.unpri.org/files/2011_report_on_progress.pdf
[6] www.eiris.org/media.html#Marketstats2012
[7] Eurosif (2012) 'European SRI Study 2012'
[8] www.socialfinance.org.uk/work/sibs
[9] www.charitybank.org
[10] http://www.cfg.org.uk/Policy/have-your-say/surveys/closed-surveys/2012/october/national-ethical-investment-week-2012-survey.aspx
[11] http://bis.gov.uk/assets/biscore/business-law/docs/k/12-917-kay-review-of-equity-markets-final-report.pdf
[12] Stern, N. (2006) 'Stern Review: The Economics of Climate Change'

to climate change and the unprecedented challenges faced in finance and economics.[13] Efforts to mitigate these risks are now in operation. For example, investor initiatives such as the CDP (formerly Carbon Disclosure Project) and Capital Markets Climate Change Initiative are working with companies to understand and address the impacts of climate change.

Since the previous edition of this report in 2009, there have been many developments in the responsible investment sector and wider economy (from the increase in interest in responsible investment, to the CC14 guidance, the impact of the financial crisis and the increasingly-evident risks from climate change). It is against this changing landscape that we explore charity pooled funds in the third edition of this report.

1.1 What is Responsible Investment?

The term 'responsible investment' refers to the incorporation of environmental, social, governance (ESG) or ethical issues into investment decisions and ownership practices.

The terms ethical, sustainable or socially responsible investment (SRI) can also be used for these investment strategies. Responsible investment can encompass a range of approaches. These can be used individually or in combination:

Positive screening

Positive screening involves investing in companies with a commitment to responsible business practices, that produce positive products and services or that address environmental or social challenges. It can be used to further the aims of your charity and to encourage responsible business practices. Forms of positive screening can include:

- Investing in companies that sell positive products – for example, educational materials or essential necessities of life (e.g. food, clothing, electricity, water and housing). For a charity this could mean investing in schemes or companies that further the aims of the charity, or promote sustainable growth. For example, an environmental charity investing in sustainable energy resources.

- Thematic investing – focused on specific ESG themes such as environmental technology or sustainable energy.

- A best-in-class approach – favouring investments with best practice amongst sector peers. For example, an ethical fund might have criteria which enables it to invest in the Oil & Gas Sector, but only to invest in those oil companies which are 'best in their class' as they have a better record on the environment and human rights than others in their sector.

Negative screening

Negative screening involves avoiding investments that do not meet certain ESG or ethical criteria. Forms of negative screening can include:

- Avoiding investments in certain companies or sectors.

- Setting materiality thresholds to determine which investments will be excluded – for example, avoiding companies which derive more than 10% of turnover from gambling, rather than avoiding companies with any involvement in gambling.

- Avoiding the worst performing companies within a particular sector, for example those with the poorest human rights record.

Engagement and voting

Engagement is the process by which investors seek to maintain or improve corporate ESG or ethical policy, management or performance. Engagement can be used to encourage more responsible business practices. It usually takes the form of dialogue and/or meetings with companies or voting at Annual General Meetings (AGMs) and is typically carried out by fund managers on behalf of investors, although asset owner coalitions such as the Church Investors Group also engage directly.

Voting is the process by which, as a shareholder, you have the opportunity to vote on a number of issues at company AGMs. Traditionally, shareholders have let fund managers decide on whether and how to vote, but voting is now increasingly seen as part of a shareholder's duty as a responsible owner. Awareness is growing of how voting can be used to influence companies. Voting can be used to communicate dissatisfaction to companies and the media.

Integration

Integration is the process by which fund managers include potentially material ESG and ethical risks and opportunities into normal investment analysis, stock weighting and/or stock selection processes. It is based on the premise that ESG criteria can have an impact on the financial bottom line in the long term.

Sections two and three of this guide explore how managers of charity pooled funds may use a combination of these approaches.

[13] World Economic Forum, (2013) 'Global Risks 2013'

1.2
Why choose responsible investment?

There are a variety of reasons to adopt responsible investment. Outlined below are some of the reasons, accompanied by statistics from a 2011 Holly Hill & EIRIS survey into public opinion of charities' investments.[14]

- Avoiding risks to your reputation: 78% of those surveyed agreed they would think worse of a charity if it had invested in activities contrary to its specific work and values. Charities may face a loss of prestige, public trust and support if their investments are found to be unethical.
- Concern about alienating supporters, beneficiaries and staff: 77% of those surveyed would think worse of a charity that had invested in activities with harmful impacts. If a charity were to find itself in this position it may lose funding, volunteer support and trust from its beneficiaries.
- Avoiding conflict with your charity's aims: 74% of those surveyed agreed that large charities should adopt ethical investment policies prohibiting investments in activities contrary to their work or values. Charities making investments, particularly large sums, can create sizeable impacts with their capital investment. It is important to ensure these impacts are positive, and that any negative impacts are mitigated.
- Using investments to further the work of your charity: 60% of those surveyed agreed charities should move some funds into mission investments if possible. Mission investments may allow charities to invest in projects that directly advance the cause of the charity, and potentially produce financial returns.
- Using investments to influence corporate behaviour: 71% of those surveyed agreed that large charities and their fund managers should be proactive shareholders, demanding high environmental and social responsibility from investments. Charities have a responsibility to be responsible shareholders, and to influence their fund managers and leverage their shareholder power effectively.
- Addressing financially-relevant ESG and ethical risks: companies with less exposure to risks to their reputation or earnings caused by ESG and ethical issues may be more financially stable investments.
- Acting as a responsible owner: 69% of those surveyed agreed that large charities should formulate investment policies in consultation with their donors. Charities manage assets donated to them and they may therefore wish to consider investing in a manner that mirrors the aims and beliefs of supporters and stakeholders

1.3
What are the financial and legal implications of responsible investment?

Legal issues

Trustees are required to invest to further the purposes of the charity. This is usually seen as being achieved by seeking the best financial return from investments at an acceptable level of risk. The Charity Commission recognises that an ethical investment policy may be entirely consistent with this.

"[trustees should] have regard to other factors that will influence the level of return, such as the environmental and social impact of the companies invested in and the quality of their governance"[15]

The Charity Commission currently recognises three situations where the investment strategy can be governed by considerations other than level of investment return – ethical investments. 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
- 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'.

The Commission recognises that a charity may wish to influence a company both to ensure that its business is conducted in the charity's best financial interests and that its business does not conflict with the charity's responsible investment policy.

The Charity Commission updated its ethical investment guidance (CC14) in October 2011. The Charity Commission noted that charities can engage in stakeholder activism, either through information requests, expression of views, or voting rights.

[14] http://www.eiris.org/files/public%20information%20type%20publications/2011CharitySurvey.pdf
[15] Charity commission (2011) 'Charities and Investment matters: A guide for trustees', p.4

"investment managers should vote and engage with the company management as a matter of course"[16]

The Charity Commission noted that charities can also invest in Programme Related Investment (PRI). This type of investment is aimed at furthering the charity's aims in a way that may produce a financial return. As the justification for the investment differs from a purely financial investment, the Charity Commission states that PRI are not bound by the principles or law for investment, so long as the trustee has fulfilled their duties by:

- showing the PRI is wholly in furtherance of the charity's aims
- making sure that any benefit to private individuals is necessary, reasonable and in the interest of the charity
- considering reasonable and practical ways to exit the PRI if it no longer furthers the charity's aims

Charities may also consider making mixed motive investments. These are investments that combine elements of financial and programme related investment, but cannot be wholly justified by either. If trustees chose to make this type of investment, they must exercise the same duties as with a PRI, and ensure that the investment is justified by the combination of financial returns and furthering the charity's aims, whilst ensuring that any private benefit that may arise is appropriate.[17]

A study by leading international law firm Freshfields Bruckhaus Deringer, for the United Nations Environment Programme's Finance Initiative (UNEP FI), also considered the legal implications of integrating ESG considerations into investment decisions. The study was primarily focused on pension funds but its findings are relevant for all long-term institutional investors, including foundations and charities.

In the firm's legal opinion, 'it may be a breach of fiduciary duties to fail to take account of ESG considerations that are relevant and to give them appropriate weight, bearing in mind that some important economic analysts and leading financial institutions are satisfied that a strong link between good ESG performance and good financial performance exists.' Freshfields also states that, 'we think there is a strong argument that there will be a class of investments that could reasonably be assumed offensive to the average beneficiary such that they could lawfully be excluded from an investment portfolio without all the beneficiaries' express consent. That class of investments will not be fixed and a conservative approach is advisable, but the types of investment that might fall into that class include investments that are linked to clear breaches of widely recognised norms, such as international conventions on human rights, labour conditions, tackling corruption and environmental protection.'[18]

A 2009 sequel to the report extends the legal arguments for ESG responsibility and provides a legal roadmap for fiduciaries looking for concrete steps to operationalise their commitment to responsible investment. It also asserts that institutional investment consultants and fund managers face a "very real risk" of being sued for negligence if they are not proactive in incorporating ESG factors into legal contracts with clients. The report highlights commentary from Lord McKenzie during the passage of the UK Pensions Bill in 2008 stating that there was no reason in law why trustees could not consider social and moral criteria in addition to their usual criteria of financial returns, security and diversification.[19]

In addition, in 2010 the Financial Reporting Council (FRC) set up The UK Stewardship Code, which focuses on engagement between institutional investors and companies to advance long-term returns to shareholders and efficient exercise of governance responsibilities. The Code includes good practice on engagement with investee companies which institutional investors can work toward. The Code operates on a 'comply or explain' basis. The FSA requires UK authorised asset managers to report on whether or not they apply the Code.

More recently the UK government's Kay Review of UK Equity Markets and Long-Term Decision Making in July 2012, noted that asset managers have a responsibility not only to meet their fiduciary duties but to meet common standards of ethics and decency.[20]

Organisations such as Tomorrow's Company, in association with UNEP FI, have made the case that future regulation, both globally and in the UK, can further encourage responsible investment, and are working to ensure that dialogue between investors, asset managers and policymakers encourages this.[21]

Financial returns

All charities will be concerned that their investments provide good financial returns. There are now many years of practical experience that demonstrate that ethical funds need not underperform. In fact a well-managed, balanced ethical portfolio can outperform its non-ethical peers.

The degree to which a particular responsible investment approach has a beneficial or a detrimental impact on performance will primarily rest with the skill of the fund manager and their team – and in particular, their stock selection abilities.

There is a long history of studies of responsible investment and financial performance indicating the positive benefits of responsible investment, including:

[16] Charity Commission (2011), 'Charities and Investment Matters: A guide for trustees' p33
[17] http://www.charitycommission.gov.uk/publications/cc14.aspx
[18] Freshfields Bruckhaus Deringer (2005) 'A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment' (UNEP Finance Initiative).
[19] Asset Management Working group of the UNEP FI (2009) 'Fiduciary Responsibility – Legal and Practical Aspects of Integrating Environmental, Social and Governance Issues into Institutional Investment'
[20] http://bis.gov.uk/assets/biscore/business-law/docs/k/12-917-kay-review-of-equity-markets-final-report.pdf
[21] See www.tomorrowscompany.com/tommorrows-capital-markets for further details

- Margolis and Walsh synthesised eighty studies on SRI portfolios, and found that more than 50% of the studies indicated a positive link between CSR practice by companies and SRI fund performance. 5% of these studies showed a negative link, whilst the remainder failed to evidence the link. Thus, the conclusions testify largely to a neutral or positive link.[22]

- An analysis of fifty two quantitative studies produced over thirty years, by the University of Sydney found a statistically significant association between corporate social performance and financial performance exists, which varies "from highly positive to modestly positive."[23]

- A 2008 survey conducted by independent investment consultants Jewson Associates reported that investment in ethical funds does not automatically lead to poor performance. The survey, commissioned by Oxford University, found that SRI funds can perform better than non-SRI funds, but levels of volatility or risk may be higher. The review compared UK, US, European and global equity SRI funds with non-SRI funds over a ten year period.[24]

- In 2007, UNEP FI and Mercer reviewed academic and broker research on the relationship between ESG factors and portfolio performance of twenty academic studies. It found evidence of a positive relationship in half of these, with seven reporting a neutral effect and three a negative association. The study also comments 'we are already seeing evidence of materiality in the returns that ESG integrated strategies are producing amongst practitioners (as evidenced by the broker studies also reviewed in this report).'[25]

- In 2011, a study by Hoepner, Rezec & Siegl found that pension funds integrating corporate environmental responsibility ratings had no detrimental financial effects.[26]

- In 2011 the UNEP FI and Mercer report was updated by a report from the Stockholm School of Economics. Reviewing a further twenty one studies, the report found a slight tendency toward positive performance for SRI funds as compared to conventional funds.[27]

- A 2012 study by experts from the London Business School, Boston College and Temple University found that institutional investors who successfully engaged with companies on sustainability issues experienced a higher level of return, particularly in the year after engagement.[28]

A focus on ESG issues can enhance understanding of how companies are likely to adapt, excel or suffer in a changing context. The inclusion of ESG factors in investment analysis can help to mitigate risks and take advantage of opportunities, and thus can have an impact on financial performance. The UNEP FI Asset management Working Group commissioned a study into the links between ESG issues, financial value and company profitability. The study concluded:

1) ESG issues are material – there is robust evidence that ESG issues affect shareholder value in both the short and long term.

2) The impact of ESG issues on share price can be valued and quantified.[29]

In addition, a 2012 study by Deutsche Bank Climate Change Group found that those companies with better Corporate Social Responsibility (CSR) performance had lower levels of risk in all cases, and exhibited neutral or positive performance as compared to the wider market.[30]

1.4 How to develop a responsible investment policy

Any charity wishing to align their investments and mission and looking to consider ESG and ethical issues in their investment decisions, should have a responsible investment policy. Developing a policy enables trustees to agree and articulate the motivation for investing responsibly, the ESG and ethical issues they wish to address and their preferred approach to positive and negative screening, engagement, voting and integration. Advisers, research providers and investment managers can help charities to ensure that their policy is realistic and implementable. A pragmatic approach may be needed, particularly if the charity is investing in pooled funds.

Further guidance on the process of developing and implementing a policy and on the selection of funds and fund managers can be found at: www.charitysri.org/downloads/key_publications/toolkit_for_charity_trustees.pdf and at YourEthicalMoney.org.

[22] Margolis, J. D. and Walsh, J. P., (2001) 'People and profits? The search for a link between a company's social and financial performance'
[23] Orlitzky, M., (University of Sydney) and Schmidt, F., and Rynes, S., (University of Iowa). (2003) 'Corporate Social and Financial Performance'
[24] Jewson Associates, (2008), 'An SRI paper'
[25] United Nations Environment Programme Finance Initiative and Mercer (2007) 'Demystifying responsible investment performance: A review of key academic and broker research on ESG factors'
[26] Hoepner, A., Rezec, M & Siegl, S., (University of St Andrews), (2011), 'Does pension funds' fiduciary duty prohibit the integration of environmental responsibility criteria in investment processes?'
[27] Sjostrom, E. (2011), 'The Performance of Socially Responsible Investment: A review of scholarly studies published 2008-2010'
[28] Kurtz, L.,(2012) 'Moskowitz Winner 2012: The Benefits of CSR Engagement'
[29] UNEP Finance Initiative Asset Management Working Group, (2006) 'Show me the money: linking Environmental, Social and Governance Issues to company value'
[30] Fulton, M., Kahn B. M. & Sharples C, (2012) 'Sustainable Investing: Establishing Long-Term Value and Performance'

As with other parts of the investment process, many trustees delegate responsible investment to fund managers. Therefore the transparency of fund managers and clear mandates are important – trustees are not necessarily expected to become complete experts in responsible investment.

1.5 What are Common Investment Funds (CIFs)?

CIFs, constituted as charities in their own right, are pooled investment vehicles – similar to unit trusts – specifically set up for charities. Charities in the UK can invest in CIFs, which offer investment opportunities in equities, cash, fixed interest, property and hedge fund asset classes.

CIFs have proved to be popular investment vehicles for charities. At present, there are forty five CIFs managing at least £8.2 billion of charity assets.[31] 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)

Many charities also invest through other forms of pooled funds, such as OEICs and unit trusts, which are not specifically for charities. 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.[32]

Whilst CIFs are currently regulated by the Charity Commission it should be noted that this does not mean the Charity Commission makes any judgement on the acceptability of risk or performance and it is not a 'kitemark' of quality. Charities must take proper advice when making investments.

The rules on charities and responsible investment discussed above (see section 1.3) 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.

At present the Charity Commission regulates CIFs, as registered charities. In doing so, the Charity Commission requires CIFs to be administered and managed by a fund manager and trustee who are authorised by the Financial Services Authority (FSA) and independent of one another.

In June 2011, the European Commission (EC) reached agreement on its Directive for Alternative Investment Funds (AIFMD). This agreement covers many areas of financial investment, and may have an impact on the future regulation of CIFs. At present the Government and FSA are undergoing consultations with stakeholders on the new Directive. One element of change under the Directive is that regulation of CIFs could potentially be transferred to the body due to replace the FSA in April 2013, the Financial Conduct Authority (FCA), although the Treasury has stated that it intends to maintain the current regulators at the present time. Even if this change does not occur, there are likely to be changes to the requirements placed on CIFs when AIFMD is implemented.

To keep up to date on this consultation please refer to http://www.hm-treasury.gov.uk/consult_fullindex.htm

1.6 How this guide was constructed

The Charity Commission kindly provided a current list of active CIFs. For this guide, we contacted all of the providers of the forty five CIFs to ask for information about their funds, particularly information on any responsible investment approach. Some fund managers also provide a variety of other funds that cater specifically for charities and their ethical and responsible investment requirements. For example, CAF's Socially Responsible Portfolio screens out a wide variety of issues and Sarasin provides a range of charity specific funds with a range of investment criteria, such as the UK Equity Fund. Whilst these funds do not provide the range of tax benefits that CIFs provide, they may also be of interest to charity trustees. There are many other options, including, but not limited to: Epworth's Affirmative Common Deposit Fund for charities, Newton's SRI Fund for Charities and Ecclesiastical's Amity Charity funds. Further information can be found at CharitySRI.org. Information was obtained on forty two, with three funds declining to provide information. Before this guide was published, each fund manager was given an opportunity to comment on the information regarding their funds.

[31] http://www.charity-commission.gov.uk/supportingcharities/cifs.asp
[32] It should be noted that this paper does not represent an endorsement of CIFs over any other type of investment.

2 Environmental, social and ethical issues

Pooled investment funds strive to cater for the needs and approaches of a variety of investors. Individual investors may have limited influence over the responsible investment strategies employed. It is therefore important that charities seek sufficient information from fund managers to make an informed and balanced judgement on whether the responsible investment policy of a pooled fund meets trustee expectations.

ESG and ethical issues can be considered by fund managers through positive and negative screens, engagement and integration. This section looks at the most common ESG and ethical issues that are explicitly part of the responsible investment strategy of numerous charity pooled funds. Whilst there is a focus on “traditional” negative screening issues, there is a recognition that broader environmental and social challenges can affect corporate financial performance as well as being integrally linked to the mission of many charities and foundations.

2.1 Environment the issue

The environment is a very broad issue, encompassing a variety of factors and activities including, but not limited to:

- environmental management, policy, reporting and performance
- chemicals of concern
- climate change and greenhouse gases
- nuclear power
- sustainable timber
- water resource scarcity & pollution
- biodiversity

Its relevance for charities

Environmental issues are likely to be of relevance to all charities especially as companies that have a poor record of environmental management or performance could be a riskier investment financially and/or subject to future litigation. Such companies may not be well placed to deal with the environmental challenges facing them and the planet. The issue is of particular concern to environmental, wildlife and conservation charities.

As highlighted earlier, the implications of climate change will be relevant for all investors and all companies. Factors such as regulation, licence to operate, the price of energy and carbon trading schemes, changing weather patterns and the resulting impact on resources, reputational issues, as well as the cost (and opportunity) of the transition to a post-carbon economy all serve to underline the substantial financial relevance of climate change for investors. It is therefore surprising that few charity pooled funds mention climate change in their investment policy, and that there are no funds that have added this issue to their investment policy since 2009.

How fund managers may incorporate the issue into investments

It is possible to use positive screening, negative screening and engagement approaches in relation to environmental issues. If a fund manager is approaching responsible investment from the perspective of ESG or ethical risk management, it is likely to pay particular attention to companies which have a high exposure to this area and to seek to understand how these companies will manage and mitigate the resulting risks in order to better safeguard longer-term investments.

Funds with an environment screen

CCLA COIF Charities Ethical Investment Fund
CCLA COIF Charities Fixed Interest Fund
CCLA COIF Charities Global Equity Income Fund
CCLA COIF Charities Investment Fund

In addition, the CCLA funds will focus on climate change disclosure in their engagement approach and failed engagement will lead to divestment from 2013. The CCLA Charities Property Fund undertakes environmental impact assessments on its properties and has environmental clauses within leases.

2.2 Human Rights

The issue

Human rights have become central to the corporate social responsibility agenda over the last few years. This is partly driven by the debate about whether globalisation is detrimental or beneficial for developing countries. It is also partly driven by concern about whether corporate behaviour is reinforcing or undermining human rights.

A number of campaigns focusing on corporate behaviour, most recently in Burma, have placed the spotlight on particular countries where human rights are seen as most at risk (whilst not detracting from the fact that violations of human rights may occur in all countries).

While governments have primary responsibility to promote and protect human rights, corporations and other organs of society also have responsibilities. Companies are increasingly assessed on their wider impact on fundamental human rights in their operations in countries where oppressive regimes, weak governance and conflict hold sway. Some investors have traditionally boycotted certain countries on this basis. Others, however, have argued that countries need investment to improve basic social and economic rights. Increasingly, it is what the company does in a country that is of interest.

Its relevance for charities

Allegations of human rights abuses can potentially damage a company's reputation and financial returns so all charities may want to be sure that such companies have appropriately managed these risks. This issue may be of particular interest to charities working in the areas of international development, aid and human rights, as well as to religious groups.

How fund managers may incorporate the issue into investments

Assessing a company's performance on human rights issues is not always straightforward. It is possible to avoid investing in or engaging with companies that poorly manage the risks associated with:

- operating in countries with "oppressive regimes" or specific countries – such as North Korea
- operating in such countries but with insufficient human rights policies and systems
- companies that have been the subject of allegations of breaches of human rights principles
- companies that have been the subject of allegations of breaches of international labour standards

Some fund managers adopt a best in class approach to the issue, investing in companies with the best record on human rights issues within their sector or geographic area.

Funds with a human rights screen

CCLA COIF Charities Ethical Investment Fund
CCLA COIF Charities Fixed Interest Fund
CCLA COIF Charities Global Equity Income Fund
CCLA COIF Charities Investment Fund
Epworth Affirmative Equity Fund for Charities
Epworth Affirmative Fixed Interest Fund for Charities
Epworth Affirmative Corporate Bond Fund for Charities

In addition, the CCLA COIF Ethical Investment Fund, CCLA COIF Charities Fixed Interest Fund, CCLA COIF Charities Global Equity Income Fund and CCLA COIF Charities Investment Fund have a focus on violations of international conventions and norms in the area of human rights in their engagement approach. Failed engagement leads to divestment from 2013.

2.3 Labour standards and supply chains

The issue

The quality of working conditions and the use of child labour in global supply chains is a high profile issue. An ever growing number of products are being assembled or processed in multiple countries. More attention is being paid to the working conditions prevalent in developing countries and/or those with poor human rights records. These countries may be less able, due to factors including lack of resources, to ensure that basic minimum standards are maintained in all workplaces. Whilst many cases of abuse and exploitative conditions have been located in poorer countries, it is also widely acknowledged that trade and foreign investment generate far more employment and wealth in developing countries than is provided by foreign aid projects. Hence, many development organisations consider it vital to ensure that raising concerns about working conditions does not unduly undermine such benefits or lead to 'back door protectionism' by wealthy countries.

John Ruggie, the former UN Special Representative of the Secretary General on business and human rights has indicated that supply chain labour standards come under the 'protect, respect and remedy' framework that he has outlined for human rights. He noted in a foreword to the 2012 Global Business Initiative on Human Rights 'State of Play' Report that '[c]ompanies increasingly make reference to human rights issues in their business operations – in due diligence investigations, in contracts with partners, operational guidelines, and reports to investors and other stakeholders'.[33] The report notes however, that there is still much work to be done.

[33] Global Business Initiative on Human Rights and Institute for Human Rights and Business report (2012) "State of Play: The Corporate Responsibility to Respect Human Rights in Business Relationships" foreword by John Ruggie, p.1

Its relevance for charities

The good management of labour standards and supply chains can avoid or minimise potential reputational and litigation risks. It is also seen by some as a proxy for good management. This issue may be of particular interest to charities working on issues of human rights, equal opportunities, child welfare and health and safety.

Alleged breaches of labour rights in company supply chains tend to be high profile. To mitigate potential financial risk all investors might want to consider ensuring that companies with a high exposure to this area, such as retailers and clothing makers, have properly managed these risks. This issue may be particularly relevant to development and human rights charities, and those working to alleviate poverty in developing countries.

How fund managers may incorporate the issue into investments

It is possible to assess companies on their labour standards and supply chains. Such information could be used to screen out the worst performing companies, or screen in the best performers. In addition companies can be engaged with to improve their policies and management of such risks. Specific criteria could include evidence of policies, systems and reporting on:

- maintaining good relations with customers and/or suppliers labour standards in their own operations
- global supply chain standards

It may also be possible to screen out companies which have allegations of breaches of international labour standards in their supply chains and to engage with companies on stakeholder issues.

Broader labour and employment issues are also recognised as being fundamental to the financial success of companies. Good management of 'human capital' can result in optimum staff recruitment and retention, greater productivity and an enhanced reputation. Issues and criteria include:

- treatment of stakeholders, including engagement and relationships
- equal opportunity and diversity issues
- job creation and security
- maintaining good relations with customers and/or suppliers
- global supply chain standards
- employee relations
- employee training and development
- health and safety

Funds with a labour standards/supply chains screen

BlackRock Charifaith CIF
CCLA COIF Charities Ethical Investment Fund
CCLA COIF Charities Fixed Interest Fund
CCLA COIF Charities Global Equity Income Fund
CCLA COIF Charities Investment Fund

In addition, the CCLA COIF Charities Ethical Investment Fund, CCLA COIF Charities Fixed Interest Fund, CCLA COIF Charities Global Equity Income Fund, and CCLA COIF Charities Investment Funds will focus on violations of norms and conventions on employment practices in their engagement approach. Failed engagement leads to divestment from 2013.

2.4 Tobacco

The issue

Tobacco is the largest cause of preventable death in the UK, claiming over 102,000 lives every year. It is responsible for at least 86%[34] of deaths from lung cancer, chronic bronchitis and emphysema, with smokers also doubling their risk of heart disease.

Its relevance for charities

The significant health impacts of tobacco may be of interest to all charities but will be of most concern to health charities.

How fund managers may incorporate the issue into investments

It is possible to use negative screens to avoid investing in companies that produce or sell tobacco. It is possible to focus only on tobacco producers, or apply materiality thresholds to exclude only companies that derive a particular proportion of their turnover from tobacco, for example avoiding only companies that derive 33% or above of turnover from tobacco sale or manufacture.
It may also be possible to engage with companies on tobacco issues – for example in relation to the marketing of tobacco in the UK or developing countries.

Funds with tobacco screens

Tobacco is at present the most common negative screen employed by charity pooled funds, as was the case when this survey was conducted in 2009.

[34] http://www.bhf.org.uk/research/statistics/risk-factors/smoking.aspx

Baring Targeted Return Fund
BlackRock Charifaith CIF
BlackRock Charishare Tobacco Restricted Fund
Cazenove Equity Income Trust for Charities
Cazenove Growth Trust for Charities
Cazenove Income Trust for Charities
CCLA COIF Charities Fixed Interest Fund
CCLA COIF Charities Global Equity Income Fund
CCLA COIF Charities Ethical Investment Fund
CCLA COIF Charities Investment Fund
CCLA COIF Charities Property Fund
Epworth Affirmative Equity Fund for Charities
Epworth Affirmative Fixed Interest Fund for Charities
Epworth Affirmative Corporate Bond Fund for Charities
JP Morgan Bond Fund for Charities
JP Morgan UK Equity Fund for Charities
Lazard Diversified Charity Fund
M & G Charibond Common Investment Fund
M & G Charifund
Newton Global Growth and Income Fund for Charities
Ruffer Charity Assets Trust
Sarasin Alpha Common Investment Fund for Endowments
Sarasin Alpha Common Investment Fund for Income and Reserves
Schroder Charity Equity Fund
Schroder Charity Fixed Interest Fund
The Charities Property Fund

2.5 Alcohol

The issue

Although alcohol can be consumed without harm, it is also a toxic and addictive substance which causes illness, accidents, violence and family suffering. As evidence of the health risks associated with alcohol consumption becomes more widespread, manufacturers have sought new consumer markets and launched new products.

Its relevance for charities

Alcohol has been a long-standing concern for some charity investors who are opposed to it upon moral and religious grounds, for example Muslim organisations and some Christian organisations. Health, welfare and social services charities are also often concerned about this issue owing to its health and social effects.

How fund managers may incorporate the issue into investments

It is possible to apply negative screens in relation to alcohol. This can be focused on companies that manufacture and/or sell alcohol products. A materiality threshold can be applied – for example avoiding only companies that derive 33% or above of turnover from alcohol sale or manufacture. It is also possible to engage with companies in relation to issues such as the marketing of alcoholic drinks.

Funds with alcohol screens

CCLA COIF Charities Ethical Investment Fund
CCLA COIF Charities Property Fund
Epworth Affirmative Equity Fund for Charities
Epworth Affirmative Fixed Interest Fund for Charities
Epworth Affirmative Corporate Bond Fund for Charities
Ruffer Charity Assets Trust
Sarasin Alpha Common Investment Fund for Endowments
Sarasin Alpha Common Investment Fund for Income and Reserves
The Charities Property Fund

In addition, all of the CCLA COIF funds will focus on poor sales and marketing practices relating to alcohol in its engagement with companies. This process could lead to exclusion from 2013.

2.6 Gambling

The issue

With the advent of the National Lottery and the deregulation of the UK gambling industry there have been claims that addiction to gambling is on the increase in the UK. Interest in gambling has been highlighted by recent concerns over the increased accessibility of gambling, particularly through the internet and mobile devices and the increased numbers of women who are gambling.

Its relevance for charities

Gambling is of concern for charity investors that 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.

Gambling concern groups, church bodies and the medical profession have criticised the lottery for encouraging compulsive behaviour, greed, poverty and illness. Children’s organisations have also been critical of the lottery for encouraging under-age gambling.

How fund managers may incorporate the issue into investments

It is possible to apply negative screens in relation to gambling, by screening out companies involved in gambling. A materiality threshold can be applied – for example avoiding companies that derive 33% of turnover from gambling. This can include companies involved in the National Lottery. It may also be possible to engage with companies – for example, to assess how they are addressing issues of under-age gambling.

Funds with gambling screens

CCLA COIF Charities Fixed Interest Fund
CCLA COIF Charities Global Equity Income Fund
CCLA COIF Charities Ethical Investment Fund
CCLA COIF Charities Investment Fund
CCLA COIF Charities Property Fund
Epworth Affirmative Equity Fund for Charities
Epworth Affirmative Fixed Interest Fund for Charities
Epworth Affirmative Corporate Bond Fund for Charities
Ruffer Charity Assets Trust
Sarasin Alpha Common Investment Fund for Endowments
Sarasin Alpha Common Investment Fund for Income and Reserves
The Charities Property Fund

2.7 Military

The issue

Military investments can cause concern to charity investors in both absolute and specific ways. Some people share the fundamental conviction that as the taking of human life is wrong, warfare is wrong also. For others, the use of military force is unacceptable when for offensive purposes. For many people, a specific area of concern is the proliferation of weapons in areas of political instability or conflict. In recent years there has been considerable public outcry over landmines and over arms exports to oppressive regimes.

Its relevance for charities

This issue may be of particular interest to social and religious groups that 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.

Investment by charities in arms-exporting companies has been focused on by some campaigning groups. This may make the issue relevant to any charity concerned about potential risks to their reputation.

How fund managers may incorporate the issue into investments

It is possible to screen out companies involved in military production or sale. The exact criteria used for negative screens can vary. Considerations include:

- the nature of products or services sold to the military (whether this includes civilian products or services, such as non-combat clothing, accommodation and office facilities)
- whether the company's products or services constitute all or part of a weapons system or a nuclear weapons system
- what international military sales activities the company is involved in
- the proportion of turnover received from military sales

It may also be possible to engage with companies on military issues.

Funds with a military screen

BlackRock Charifaith CIF
Blackrock Charishare Tobacco Restricted Fund
CCLA COIF Charities Fixed Interest Fund
CCLA COIF Charities Global Equity Income Fund
CCLA COIF Charities Ethical Investment Fund
CCLA COIF Charities Investment Fund
CCLA COIF Charities Property Fund
Epworth Affirmative Equity Fund for Charities
Epworth Affirmative Fixed Interest Fund for Charities
Epworth Affirmative Corporate Bond Fund for Charities
Lazard Diversified Charity Fund
Ruffer Charity Assets Trust
Sarasin Alpha Common Investment Fund for Endowments
Sarasin Alpha Common Investment Fund for Income and Reserves
The Charities Property Fund

2.8 Pornography

The issue

Current opponents of pornography argue that it is degrading to both men and women, transmitting the message that women are sex objects available solely for male gratification without any form of emotional attachment. There has been rising public concern recently about internet pornography, about children using the internet and accessing offensive material, and the dangers posed by wi-fi access in public places with no firewalls for hard porn content.

Its relevance for charities

Religious organisations and charities working on social welfare issues may find this issue of concern.

How fund managers may incorporate the issue into investments

It is possible to use negative screens to avoid investing in companies involved in pornography or adult entertainment services. Negative screens or engagement activity could focus on companies which:

- publish or wholesale pornographic magazines or newspapers
- distribute cut 18 certificate films or videos

- provide adult entertainment services (such as adult entertainment TV programmes or channels, table-dancing or lap-dancing, and sex shops)
- distribute pornographic material (e.g. via mobile phones)

Funds with a pornography screen

Baring Targeted Return Fund
BlackRock Charifaith CIF
CCLA COIF Charities Fixed Interest Fund
CCLA COIF Charities Global Equity Income Fund
CCLA COIF Charities Investment Fund
CCLA COIF Charities Ethical Investment Fund
CCLA COIF Charities Property Fund
Epworth Affirmative Equity Fund for Charities
Epworth Affirmative Fixed Interest Fund for Charities
Epworth Affirmative Corporate Bond Fund for Charities
Ruffer Charity Assets Trust
Sarasin Alpha Common Investment Fund for Endowments
Sarasin Alpha Common Investment Fund for Income and Reserves
The Charities Property Fund

2.9 Animal Testing

The issue

Animal welfare organisations have long campaigned against the use of laboratory animals to test the toxicity of chemicals in consumer products, such as toiletries and cosmetics, tobacco and household cleaning products. The European Union agreed to ban most cosmetic tests from 2009 including, importantly, a ban on import into the EU of cosmetics with ingredients tested on animals - so that the problem is not simply exported outside the EU. The animal testing of all new chemicals (not just those used in cosmetics) accounts for many more procedures - these tests include pesticides, food additives and preservatives.

However, fundamental biological research and drug research and development account for the largest proportion of animal testing procedures. Most testing occurs at the development rather than the research stage. By law, before new drugs can be tested on humans they have to be tested on two species to test the 'whole body' effect.

Its relevance for charities

This issue will be of particular concern to animal welfare charities.

How fund managers may incorporate the issue into investments

It is possible to apply negative screens in relation to animal testing, for example screening out companies which

- provide animal testing services
- have tested cosmetic products or their ingredients on animals in recent years
- have tested cosmetic products or their ingredients on animals in line with a fixed cut-off date policy
- have tested medicines on animals in recent years
- have tested other products on animals in recent years

There are currently no funds with an animal testing screen.

2.10 Corporate Governance

The Issue

Corporate governance is 'the direction and control of an organisation for the benefit of its stakeholders.'[35] There are a range of factors involved with maintaining effective corporate governance, including:

- separate Chairman and Chief Executive, with a balance of executive and independent non-executive directors
- strong, independent and transparent audit and remuneration committees and an annual evaluation by the Board of its performance
- effective rights for shareholders, who are encouraged to engage with the companies in which they invest
- issues surrounding bribery and corrupt practices (and the legal implications of these practices)
- overall ESG risk management approach
- equal opportunities and women at board level are areas of legal, moral or societal concern.

In the UK, the Financial Reporting Council regulates corporate governance through the Corporate Governance Code, which operates on the basis of a 'comply or explain' principle.[36] Corporate governance appears likely to become an increasingly important issue in the coming years. The 2012 merger between Glencore-Xstrata can serve as an example. Institutional shareholders blocked several early attempts at a merger based on share valuation and executive remuneration packages included in the merger. Both companies share prices suffered during this period of instability.[37]

[35] http://www.iia.org.uk/
[36] www.frc.org.uk/getattachment/1db9539d-9176-4546-91ee-828b7f-d087a8/The-UK-approach-to-Corporate-Governance.aspx
[37] http://www.guardian.co.uk/business/2012/nov/20/xstrata-chairman-pay-deal-glencore-takeover?INTCMP=SRCH

Its relevance for charities

Good corporate governance should be a concern for any investor. A recent study by Deutsche Bank Climate Change Advisors, which compared over one hundred academic reports, suggests that good governance is a key factor in effecting the ability of a company or investment to outperform the market.[38] Issues such as executive pay, the reputation of the Board and shareholder relations can all impact the performance of a company and is shares. Legal issues surrounding bribery and corruption may further impact on a company's performance and value. Some of the fund managers contacted have enunciated a specific policy regarding corporate governance.

All trustees and fund managers should consider good corporate governance structures, and charity trustees may wish to ask their fund managers for further information regarding the governance of both the fund and the corporate governance of any investments held.

How fund managers may incorporate the issue into investments

Fund managers may utilise a range of tools to manage this issue. They may:

- have a specific policy regarding corporate governance
- employ a third party research body or a voting proxy to advise on corporate governance issues
- choose to tackle the issue on a case by case basis
- utilise voting and engagement policies to influence corporate behaviour: for example, voting against excessive executive remuneration.

All in all, whilst financial performance may indicate a well governed company, other issues, as noted above, may also have to be considered.

Many of the funds we contacted for this report had no specific criteria for corporate governance relating to a specific fund, though the fund management as a whole had a policy regarding corporate governance that applied to all their funds. This often involves assessments of companies' corporate governance, against a varied range of criteria, from environmental and social concerns to executive pay and corporate structure. As with other areas, policies regarding corporate governance vary widely across fund managers. Trustees should consult fund literature or engage with managers on specific policies.

Funds with a corporate governance approach

Aberdeen Charity Select Global (ex Uk) Equity Fund
Aberdeen Charity Select UK Bond Fund
Aberdeen Charity Select UK Equity Fund
Baring Targeted Return Fund
Blackrock Charitrak CIF
Blackrock Armed Forces CIF
BlackRock Charifaith CIF
BlackRock Charinco CIF
BlackRock Charishare CIF
BlackRock Charishare Tobacco Restricted Fund
CAF UK Equitrack Fund
CCLA COIF Charities Global Equity Income Fund
CCLA COIF Charities Investment Fund
CCLA COIF Charities Ethical Investment Fund
Cazenove Equity Income Trust for Charities
Cazenove Growth Trust for Charities
Cazenove Income Trust for Charities
Cazenove Multi Strategy Property Trust for Charities
Epworth Affirmative Corporate Bond Fund for Charities
Epworth Affirmative Equity Fund for Charities
Epworth Affirmative Fixed Interest Fund for Charities
Lazard Diversified Charity Fund
M&G Charibond
M&G Charifund
National Association of Almshouses CIF
Newton Global Growth and Income Fund for Charities
RCM Chariguard Overseas Equity Fund
RCM Chariguard Fixed Interest Fund
RCM Chariguard UK Equity Fund
Ruffer Charity Assets Trust
Sarasin Alpha Common Investment Fund for Endowments
Sarasin Alpha Common Investment Fund for Income and Reserves
Schroder Charity Equity Fund
Schroder Charity Fixed Interest Fund
Schroder Charity Multi Asset Fund

[38] Fulton, M., Kahn B. M. & Sharples C, (2012) 'Sustainable Investing: establishing Long-Term Value and Performance'

3 RESPONSIBLE INVESTMENT STRATEGIES

3.1 Negative screens

Negative screens are a popular responsible investment strategy for pooled funds. By far the most common negative screen deployed by the pooled funds included in our survey is tobacco. Tobacco is screened out by twenty six funds. Sixteen of these funds go beyond this to employ other negative screens. Here the focus tends to be on 'sin stocks' such as alcohol, gambling and pornography as well as armaments. The following funds employ one or more negative screens (details of their policies can be found in the Appendix):

Baring Targeted Return Fund
BlackRock Charifaith CIF
BlackRock Charishare Tobacco Restricted
Baring Targeted Return Fund
Cazenove Equity Income Trust for Charities
Cazenove Growth Trust for Charities
Cazenove Income Trust for Charities
CCLA COIF Charities Ethical Investment Fund
CCLA COIF Charities Investment Fund
CCLA COIF Charities Fixed Interest Fund
CCLA COIF Charities Global Equity Income Fund
CCLA COIF Charities Property Fund
Epworth Affirmative Equity Fund for Charities
Epworth Affirmative Fixed Interest Fund for Charities
Epworth Affirmative Corporate Bond Fund for Charities
Lazard Diversified Charity Fund
M & G Charibond Common Investment Fund
M & G Charifund
National Association of Almshouses CIF
Newton Global Growth and Income Fund for Charities
Ruffer Charity Assets Trust
Sarasin Alpha Common Investment Fund for Endowments
Sarasin Alpha Common Investment Fund for Income and Reserves
Schroder Charity Equity Fund
Schroder Charity Fixed Interest Fund
Cordea Savills: The Charities Property Fund

3.2 Positive screens

Positive screens are only employed by a handful of funds. For example: the CCLA COIF Charities Ethical Investment and COIF Charities Investment Funds will make appropriate high impact investments. In the past this has included investment in microfinance, timber and immunization bonds.

There therefore remains a lot of scope for a greater focus on positive screens, thematic investments and mission-related issues.

3.3 Engagement and voting

All funds, including tracker funds, are able to engage with companies on ESG and ethical concerns. The influence that an individual charity is able to have on the engagement approach of a pooled fund may be limited. Trustees may therefore wish to consider the engagement approach of a fund before deciding to invest.

Engagement can take many forms. A fund manager may choose to exercise the right to vote as a shareholder, often at AGMs. Fund managers may seek dialogue with companies' boards on an ongoing, or case-specific issue. They may also use public statements to criticise a board or company where it is felt that an area of ESG or responsible investment is not being addressed.

Engagement and voting can be important tools for fund managers. They can be used to ensure that the concerns of both the fund manager and client regarding ESG and responsible investment are not breached by investee companies. Charity trustees may wish to further examine the details of their fund managers' engagement and voting policies, and to engage with their fund managers to ensure these policies meet their needs.

At its best, engagement with companies on ESG issues can drive innovation, increase efficiency, mitigate risk and encourage more responsible action in ways that protect or enhance shareholder value. With clear objectives, a careful choice of companies, and a focus on the right methods, much can be achieved.

A fund's engagement policy is often in line with the engagement policy of the fund manager across all of the funds that they manage. Some fund managers may be more inclined to consult with clients about their engagement policy. Fund managers may publish engagement reports and provide details to their investors of their voting record and of any meetings with companies. If such reports are not available, trustees may wish to encourage fund managers to be more transparent about their engagement activities.

Some fund managers focus on corporate governance issues around the management company (such as directors' remuneration, separation of chair and chief executive functions, non-executive directors and audit committees) whereas others include an assessment of other ESG and ethical factors in their engagement approach. It could be argued that a proper understanding of corporate governance logically leads to a broader appreciation of risk management that incorporates environmental and social issues as well as corporate governance, and therefore these engagement priorities are linked.

The engagement and voting policies of funds can vary greatly. The following fund managers provided details of the engagement and voting policies in relation to ESG or ethical issues that apply to their charity funds. Unless otherwise stated, these approaches to engagement and voting cover all the funds listed in this report that are provided by the fund management body, and also cover all of the asset management companies' investments. To give a sense of current approaches, below is a synopsis of the responses, rather than an interpretation:

> ABERDEEN ASSET MANAGEMENT

Aberdeen states that it engages with all the companies in which it invests on ESG matters.

Engagement with companies on ESG and other, more traditional SRI topics is a fundamental part of its business. Aberdeen states that it has engaged companies on SRI issues for a number of years in conjunction with managing traditional SRI funds. Aberdeen also engages with companies on wider ESG matters as it sees these extra-financial topics as critical to understanding the whole picture of the companies in which it invests.

> BARING ASSET MANAGEMENT

Barings believes it is in the interest of clients to develop and maintain a purposeful dialogue with companies on strategy, performance and the management of risk. For equities and sub-investment grade corporate bonds, its analysts assess corporate governance and social and environmental factors prior to investing. This means that they tend not to invest in companies where they consider corporate governance is poor. When assessing corporate governance or social or environment factors for companies prior to investing, they will hold them to local standards. Barings do not believe it is appropriate to impose a particular set of cultural values on companies – indeed they believe that trying to do so could make it more difficult to engage effectively with them.

Barings aim to meet most companies they invest in on a regular basis. They recognise the importance of corporate governance by taking advice from a provider of corporate governance solutions. In the absence of an instruction from a client, they will request a recommendation on proxy votes from that third party. By utilising this third party provider, they monitor the resolutions put forward at annual and extraordinary meetings. Barings review their research and where they deem it to be in the interests of their clients, vote with their recommendations. They vote against management resolutions where they believe it is right to do so in the interest of their clients.

> BLACKROCK

BlackRock states that it believes good corporate governance, including social, ethical and environmental (SEE) factors, can protect and enhance long-term shareholder value. As a fiduciary, BlackRock monitors companies' performance on SEE matters, as with other operational factors underpinning financial performance. Concerns are communicated through engagement, either by way of voting at shareholder meetings or direct contact with management or boards. Blackrock's voting decisions are based on achieving the outcome that it believes would be in the best economic interests of long-term shareholders (i.e. BlackRock's clients). Blackrock's voting records are published annually on its website, as are its global and regional voting policies. In addition, BlackRock's Corporate Governance and Responsible Investment (CGRI) team, consisting of 20 professionals, is responsible for encouraging sound corporate governance practices at the companies in which BlackRock invests on behalf of clients.

>CAZENOVE CAPITAL MANAGEMENT

If its assessment indicates that a company's approach to social, environmental and ethical (SEE) issues could have an adverse impact on shareholder value, Cazenove Capital states it will try to reduce this risk. Cazenove Capital says it highlights its assessment of the SEE risks to the company in bespoke meetings/ conference calls and aims to promote best practice. If this 'dialogue' proves futile and the risk increases, as a last resort Cazenove Capital may sell its holding. In terms of voting, Cazenove Capital states that in deciding upon its position on such matters as remuneration, incentives and board structure, the general aim is to promote best practice, but Cazenove Capital recognises that a precise set of rules cannot fit every company's circumstances and Cazenove Capital wishes to be flexible. In deciding upon best practice, Cazenove Capital follow closely the guidelines issued by the Association of British Insurers ("ABI") and the principles of the Combined Code but does not feel bound to follow the recommendations of any particular body when Cazenove Capital feels that either a stricter or a lighter touch is appropriate. Cazenove Capital strongly supports the principle of pre-emption rights to protect clients' interests in companies from dilution.

> CCLA INVESTMENT MANAGEMENT

Client-driven engagement (which could lead to exclusion) focuses on poor sales and marketing practices relating to public health issues and violations of international conventions and norms in the areas of human rights, employment practices and climate change disclosure. In addition companies are also engaged with on behalf of COIF Charities Ethical Fund clients, as determined by the Advisory Group (made up of main client groups). Stewardship Code driven engagement is prioritised based on objective ESG information that is used to track and monitor progress. CCLA undertakes both broad market wide engagement programmes, gradually encouraging good practice amongst UK-listed companies, as well as in depth engagement work that addresses specific situations amongst CCLA's UK and overseas holdings. 50% of holdings are engaged with each year, (20% of engagement is client-driven and the rest is driven by the Stewardship Code and/or the UN Principles of Responsible Investment). In 2012 on-going market-wide engagement with FTSE350 companies with poor responses to the CDP had a 60% success rate amongst CCLA's holdings.

CCLA seeks to vote at all meetings globally where possible, and collaborates with like-minded investors to develop bespoke voting templates that its proxy voting providers implement. CCLA policy covers routine governance issues informed by the UK Corporate Governance Code and emerging best practice. Of particular concern is executive remuneration where awards are assessed both in regards to client's ethical considerations as well as whether rewards are promoting long-term shareholder value. Each meeting is reviewed by the CCLA team and investee companies are informed where CCLA will vote against management or abstain. Proposals regarding environmental, social and ethical issues are dealt with on a case by case basis in line with clients' views. A full record of voting undertaken is publically available on the CCLA website.

> CORDEA SAVILLS

Cordea Savills has a policy on engagement in relation to indirect property investments. This focuses on evaluation of the manager of the investment vehicle and their SRI policies and then monitoring the implementation of the policies on an on-going basis. For direct property investments, a higher level of engagement is possible, including setting service charges for multi-let buildings taking into account best environmental practice, encouraging tenants where they control their own accommodation to implement environmental best practice and when selecting tenants checking tenants that are compatible with SRI. In addition, the sale of a building can be considered and executed in the event that the assignment of a lease took place, outside the control of the landlord, to a tenant that did not meet a SRI policy. The aim of the engagement policy is to ensure that the occupation of buildings continues to be in accordance with any SRI policies set by a client and the effectiveness can be measured through annual inspection of the properties in the portfolio. However, Cordea Savills does not have any clients at present where the portfolio is managed on an SRI basis.

> EPWORTH INVESTMENT MANAGEMENT LTD

The Central Finance Board/ Epworth states that its ethical approach involves engaging in constructive dialogue with the management of companies to influence their behaviour. This may be by meeting with management or by visiting the company's operations on site. This is done either directly, or by working with other groups such as the Institutional Investors Group on Climate Change or the Church Investors Group.

> LAZARD ASSET MANAGEMENT

Lazard states that investment professionals may consider pursuing engagement with corporate management on a variety of issues, including, without limitation, ESG and operational performance issues. Lazard states it does not utilise external providers for engagement activities, as Lazard believe that its investment professionals are in the best position to evaluate the impact that ESG issues or the outcome of a given proposal will have on long-term shareholder value. Lazard has adopted a written policy, the "Proxy Voting Policy," which is based on the view that, in its role as investment managers, Lazard must vote proxies based on what it believes will maximise shareholder value as a long-term investor, and the relevant votes it casts on behalf of all its clients are intended to accomplish that objective.

> M & G SECURITIES LIMITED

M&G states that it believes strongly that it should maintain a constructive dialogue with the management of companies in which they have a significant interest and consequently have always set great store in getting to know the management of those companies. This helps M&G to monitor the activities of the companies in which they invest and enables them to keep abreast of any developments. If, in its view, a company's actions seem likely to jeopardise the interests of shareholders, M & G find that constructive intervention can often be preferable to disposing of holdings.

M&G has a long established policy on voting and they vote on all resolutions proposed at general meetings of companies in which they have a holding. They normally support a company's board but if they believe that a resolution is not in the best interests of shareholders they will oppose it. In cases where a resolution is opposed, where practicable, they attend the meeting and give reasons for their opposition.

> NEWTON INVESTMENT MANAGEMENT

Newton publishes a responsible investment quarterly report that includes aggregated voting activity, explanations behind all votes instructed against the recommendations of companies' managements, examples of engagement activity and a log of all one-on-one meetings with companies. These reports can be made available in hardcopy or found online at www.newton.co.uk/responsibleinvestment. In addition, Newton's segregated account clients can receive a log of all voting activity and explanations behind any negative votes within their individual quarterly reports, which is specific to their investments. The report also provides examples of engagement on corporate governance, environmental and social matters.

> RCM

RCM states that, with regard to its segregated mandates (not exclusively available to charities) its sustainability team is responsible for managing proxy voting guidelines. The team works closely with regional offices to align guidelines to ensure that RCM vote in the best interests of clients on all proxy voting decisions. RCM currently outsources the implementation of proxy voting policy. For segregated mandates RCM is happy to discuss individual client requirements with regard to proxy voting.

> RUFFER

Ruffer states that it treats corporate governance seriously and it is an active consideration when deciding to invest in a company. Ruffer supports the UK Corporate Governance Code and is in the privileged position to engage the directors of companies in which it invests in frequent 'one-to-one' meetings. Ruffer believes this is the most effective forum at which to exert influence on issues of corporate governance, but when necessary, it will also attend and/or vote at company shareholder meetings.

It is Ruffer's standard policy to vote on AGM/EGM resolutions and corporate actions where either clients have a material interest in the outcome of the resolution or action, or holdings managed by Ruffer are material to the outcome of the resolution or action. Where a client requests that Ruffer votes its shares on a particular resolution, it will instruct the custodian to vote accordingly. For clients that have a voting policy they are seeking to implement, Ruffer works with the client to interpret and act on the policy appropriately and practically.

> SARASIN & PARTNERS

Sarasin states that its funds will publish a regular sustainability audit of its investments, will be active in voting on company resolutions and will engage in direct dialogue with companies where appropriate.

Sarasin are currently updating their website to enable public disclosure of its voting record for its main funds. Voting may be supplemented through dialogue with boards of investee companies. This is normally through direct contact, but on occasion through collective discussion with shareholders. Engagement is considered on the basis of the specific needs of each company, and may include ESG factors identified by Sarasin or its clients. Sarasin considers carefully when and how to engage in active dialogue with investee boards.

> SCHRODERS CHARITIES

Schroders states that it has a socially responsible investment policy that ensures that environmental and social issues are considered when making an investment in any company, in the belief that environmentally and socially sustainable companies are more likely to be successful in the long run. Schroders actively engages with companies to encourage best practice in environmental, social and ethical standards.

Schroders states that its overall SRI approach applies to all global equities holdings and is implemented for all funds. The Schroder Charity Equity Fund and Schroder Charity Fixed Interest Fund specifically exclude exposure to tobacco. The Schroder Charity Multi-Asset Fund invests in markets through pooled funds, but it does not have any explicit exclusions as it cannot control the ethical policies within those underlying investments. However, the Schroder funds in which it invests are covered by Schroders mainstream ESG engagement policy.

Rather than analyse the engagement approach and reporting of fund providers from an EIRIS perspective we have produced a list of questions that trustees may wish to ask fund managers so as to help ascertain which fund's engagement approach best fits with their charity's mission and reflects their 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 and AGMs?

3 What is the fund manager's voting record at AGMs and Extraordinary General Meetings?

4 What kinds of resources are devoted to engagement? Does the fund manager have a dedicated in-house team, purchase independent data and/or use an external engagement specialist?

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 ESG and ethical 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 (e.g. member of UKSIF, Institutional Investors Group on Climate Change, Responsible Investors' Network, UN Principles for Responsible Investment and its reporting framework, or CDP)?

8 Is there an independent review of engagement activity?

3.4 Integration

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 ESG risks and opportunities into the normal investment analysis, stock weighting and/or stock selection processes. Fund managers may have in-house or third-party research, which allow the fund management to assess investments against a range of ESG and RI themes. Fund managers can look at a wide range of factors, from environmental impact, to human rights violations or corporate governance issues. In doing so, investments that carry a lower risk, a potential for a more sustainable yield, or more closely match a clients' particular ESG or RI concerns, can be prioritized by integrating a wide range of issues into the selection of an investment, with the aim of creating a more ethical and sustainable portfolio.

ESG integration can be as simple as raising questions for analysts to consider, to formally including an ESG "factor" in valuation models. ESG data may have both short and longer term uses. Some investors have undertaken back testing models to look for value links. For others it is a question of where to place ESG factors within the wider investment process.

One approach might involve simply extending an existing approach to corporate governance by looking at the governance of environmental and social impacts, or adding an issue such as countering bribery to governance concerns. We expect approaches to become more diverse as many more managers enter this field.

There is growing evidence that the consideration of ESG factors in investment management and ownership processes is an astute financial decision and can be used to safeguard and enhance returns.[39]

Trustees agreeing with this view may wish to ensure that their fund providers are taking account of ESG risks and opportunities in their investment decisions. Trustee engagement with fund managers may enable greater integration of ESG factors of concern, or highlight to fund managers the need for a wider or more detailed range of products that integrate ESG and RI concerns. Integration can be carried out alongside the use of positive and negative screens.

Policies of fund providers

Again, the approaches of fund managers to integration can vary. Twelve fund providers gave information on their approach to ESG integration, up from seven in the 2009 report. Unless otherwise stated, these approaches to integration cover all the funds listed in this report that are provided by the fund management body, and also cover all of the asset management companies' investments. Again, we have provided a summary of every response, rather than an analysis or judgement:

[39] See section 1.3 of this report for financial and legal implication of responsible investment

>BARING ASSET MANAGEMENT

Barings states that, as a responsible and active manager it takes corporate governance and social responsibility seriously.

Barings states that it believes that well managed companies who operate in an environmental and socially sustainable manner are well placed to deliver long-term shareholder value. Barings can discuss particular restrictions for segregated mandates, and currently manages several accounts using religious, ethical and social screens.

Barings outsources the screening process to a third party, which provides insight into company's revenue streams and behaviours.

Barings currently receives research on the following themes: Abortion, Adult Entertainment, Alcohol, Contraception, Firearms, Gambling, Military, Nuclear power and Tobacco. Barings' investment managers apply security screens in the final stages of portfolio construction as directed by the client's investment management agreement.

>BLACKROCK

BlackRock states that it actively monitors management of governance and SEE issues alongside other operations underpinning financial performance at investee companies using a variety of external resources. In addition, BlackRock's Corporate Governance and Responsible Investment (CGRI) team, consisting of 20 professionals, is responsible for encouraging sound corporate governance practices at the companies in which it invests on behalf of clients. BlackRock states that the CGRI team is a specialist resource, organisationally positioned for the mutual exchange of views across BlackRock's portfolio management teams.

>CAZENOVE CAPITAL MANAGEMENT

Cazenove Capital states that its investment process ensures that all its Pan-European analysts and fund managers are aware of the Social, Environmental and Ethical (SEE) issues effecting their sectors and stocks. This knowledge is gleaned from specialist research providers, brokers, company meetings, conference calls, publicly available information, government sources, industry bodies, non-governmental organisations and CSR & SRI networks. It is distributed via daily morning pan-European team meetings, weekly UK team meetings and regular emails/informal conversations. Cazenove Capital states that its SEE analysts have autonomy to access any mainstream company meeting and to organise specialist engagement meetings with companies when necessary. Sustainable investment thematics are also integrated into the investment process.

>CCLA INVESTMENT MANAGEMENT

CCLA states that it combines the use of proprietary quantitative screens and stock picking to inform its investment decisions. FTSE ESG Ratings are used alongside internal evaluation of companies. CCLA states that it finds that most companies which the FTSE ESG Ratings identify as having low/no evidence (rated '0') of mitigating high ESG risks (rated '3'), are already filtered out by the quantitative and stock picking processes that CCLA's CIO team uses. However, CCLA builds on its internal system by integrating a FTSE ESG risk management filter into the core investment process. The additional '3/0' companies, as CCLA refers to them, are no longer eligible for investment in any fund or portfolio managed by CCLA as part of its commitment to the UN-backed Principles of Responsible Investment.

>COLLINS STEWART

Collins Stewart states that it uses a comprehensive third-party SRI research facility, and that the results of this research will be analysed by its experienced investment managers and integrated into the portfolio in line with the house investment philosophy and process.

>CORDEA SAVILLS

Cordea Savills selects and manages property investments rather than selecting companies for investments. Research is integrated as part of the due diligence undertaken for any property investment, new lease or lease assignment.

Cordea Savills states that in order to assess the nature of the tenant in any potential building acquisition, new letting or assignment of a lease, Cordea Savills uses externally provided databases which give information about the tenant's activities. Potential tenants are required to provide background information about their business and, where available, recent report and accounts. Cordea Savills also inspect all potential purchases to determine the occupational use and commission independent reviews of the environmental risk and impact, including energy use and pollution, resulting from the building and occupier of the building.

>EPWORTH INVESTMENT MANAGEMENT

Epworth and the Central Finance Board of the Methodist Church describe themselves as ethical specialists; they see financial and ethical performance as indivisible. This integrated approach to investment ethics is perhaps the most distinctive thing about it. Ethical constraints are integrated into portfolio construction. An amended version of the FTSE All Share index is created which adjusts sector weightings for all companies excluded on ethical grounds. The impact of ethical exclusions upon investment performance is also closely monitored.

>LAZARD ASSET MANAGEMENT

Lazard states that investment professionals may consider pursuing engagement with corporate management on a variety of issues, including, without limitation, ESG and operational performance issues. Lazard states it does not utilise external providers for engagement activities, as Lazard believe that its investment professionals are in the best position to evaluate the impact that ESG issues or the outcome of a given proposal will have on long-term shareholder value. Lazard has adopted a written policy, the "Proxy Voting Policy," which is based on the view that, in its role as investment managers, Lazard must vote proxies based on what it believes will maximise shareholder value as a long-term investor, and the relevant votes it casts on behalf of all its clients are intended to accomplish that objective.

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Principles for Responsible Investment (PRI)

The UN-backed Principles for Responsible Investment (UNPRI) encourages investors to integrate ESG factors into investment and become active shareholders. It is one of the largest ever institutional investment coalitions.

Signatories to the UNPRI commit to a series of voluntary and aspirational principles which provide a menu of possible actions for incorporating ESG issues into mainstream investment decision-making and ownership practices.

UNPRI signatories may join collaborative engagements that seek to improve company behaviours, policies or systemic conditions. The UNPRI Clearinghouse is specifically designed to facilitate these joint initiatives, and has so far supported over 400 collaborative engagements.

UNPRI signatories can also utilise the Implementation Support facility, designed to enable signatories to implement UNPRI principles. UNPRI signatories can then assess their performance using the UNPRI's annual reporting framework.[40]

Several charity fund providers are PRI signatories. Whilst this does not necessarily mean that the charity fund has an SRI approach, it does signify that the investment manager has made a commitment to ESG integration.

The following investment managers are signatories:
Aberdeen Asset Management
BlackRock
Cazenove Capital Management
CCLA Investment Management
Epworth Investment Management
HSBC Global Asset Management
Legal & General – manager of the CAF UK Equitrack Fund
Newton Investment Management
RCM
Sarasin and Partners
Schroder Investment Management

4 OTHER POOLED FUNDS

For charities that invest in or are looking to invest in pooled funds other than CIFs, there are 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. As mentioned previously, numerous fund managers provide non CIF pooled funds with a range of ESG and RI criteria: for example, CAF (with its Socially Responsible Portfolio); Ecclesiastical with its Amity Charity funds; Epworth with its Affirmative Common Deposit Fund for charities; Newton with its SRI Fund for Charities and Sarasin.

These pooled funds may offer an approach which fits with a charity's responsible investment policy or its investment strategy more closely than any CIF currently available. Other available funds include:

- Ethical Funds – The majority of these employ negative screens but it is also possible to invest in funds which focus instead on positive screens, a best in class approach or engagement, or in many cases a combination of these.
- Green Tech/Climate Change Funds – These seek to invest in companies in specific sectors like renewable/ alternative energy, carbon offsetting, sustainable timber and waste management.
- Shariah Funds – These funds may be of interest to Muslim and non-Muslim ethical investors alike, as they tend to avoid investment in areas like alcohol, tobacco, gambling and pornography. In addition to this, investing in banks or other similar financial institutions is not allowed due to the restriction on excessive 'gearing' or interest charging.

A charity's existing fund manager may be able to offer responsible investment funds either through 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. Many of the fund managers contacted for this survey manage segregated charity funds that cater to the differing needs of charitable investors. Of these, many operate with an SRI approach.

Charities may also wish to consider impact investments (otherwise known as Programme Related Investments), whereby the charity invests directly, or through an investment manager, in companies or projects that further promote the aims and policy of the charity. However, this type of investment focuses on charity objectives, and therefore may not be suitable for those charities purely seeking to maximize financial returns. At present, 8.75 billion euros is invested in impact investments across Europe.[41]

The EIRIS Foundation's consumer website provides details of over 80 green and ethical retail funds in the UK, including unit trusts/ OEICs and Investment Trusts. It provides fund profiles and is intended to assist investors and their advisers who want to compare the policies and practices of retail green and ethical funds. Trustees may also find CharitySRI.org, another EIRIS Foundation initiative, to be a useful source of information on the range of charity specific funds available.

The Eurosif SRI Resources website provides details of UK SRI funds, including information on the sector and its growth. www.eurosif.org/sri-resources/sri-country-resources/united-kingdom

[40] www.unpri.org/areas-of-work/implementation-support/
[41] Eurosif (2012) 'European Sip1Study2012',p23

5 CONCLUSIONS

This guide has been designed to help trustees consider how suited their pooled fund investments are (or could be) to their charity's views on ESG and ethical issues.

The charity sector is diverse and so a wide range of investment products are needed to meet its needs – both in terms of financial and ESG criteria. The most relevant and significant ESG issues will vary according to the missions and activities of different charities. However, there remains a limited choice of pooled charity funds with responsible investment criteria beyond tobacco screens. Funds with responsible investment criteria tend to be faith-based and focus on 'sin stocks' such as alcohol, gambling and pornography.

Responsible investment is not just about screening out companies. It relates to the whole investment process – the decisions about which companies or products to invest in and the ownership practices relating to engagement and voting. As mentioned, there is a growing recognition that ESG factors can potentially be financially material and the consideration of such issues can help to mitigate risks and identify opportunities. For the future, it will become increasingly important for fund managers to consider and integrate ESG factors into their investment processes. A growing number of the fund managers responding to our survey provided details of a clear policy on engagement, voting and integration.

How do fund managers incorporate ESG risks and opportunities?

Given its financial relevance, all charity investors should consider how their fund manager incorporates ESG risks and opportunities into their investment decisions and ownership practices. There are a number of sources of information on this, in addition to the information in this report including the range of studies carried out by ShareAction (formerly FairPensions) which ranks fund managers. These studies rank fund managers on the basis of a range of criteria relating to responsible investment, including engagement, integration of environmental and social issues, and transparency.[42]

How transparent is a fund or fund manager?

For charity trustees making investment decisions, the transparency of a charity pooled fund regarding its portfolio holdings and engagement and integration practices is important. Trustees may wish to encourage fund managers to be more transparent and explicit about their responsible investment policies and practices.

Some charities may be satisfied that the adoption of an overall ESG integration strategy by their fund manager meets their responsible investment requirements. For others, an approach more connected with their mission may be sought.

How responsive are fund managers to emerging issues?

Issues such as international norms and conventions on human rights, labour standards, bribery and corruption, are increasingly seen as key considerations for responsible investors. Breaches of such standards can be used as the basis for screening or engagement with companies. Other emerging ESG issues include corporate tax and commodities dealing. It is striking that few charity pooled funds make reference to such issues in their policy statements. Charity trustees may wish to discuss these issues, and to ensure that they are able to engage with their fund managers on an ongoing basis, to tackle new issues that emerge in responsible investment and ESG fields.

It is also surprising that very few charity pooled funds make any explicit reference to climate change as a responsible investment issue. Given its financial relevance, and its prominence as a widespread societal concern, this could be an issue that charity pooled funds should consider in the future. Professor Lord Stern recently highlighted this issue, noting that climate change concerns have increased in scale and speed of change since his 2006 report into the economic damage climate change may cause.[43]

Recommendations

There is scope for development of further charity pooled funds that reflect current trends in responsible investment.

There appears to be an emerging latent demand for funds which focus on issues such as climate change, human rights and labour standards. In addition, investments which positively seek to invest in line with charities' mission are increasingly attractive, as they are allowed under Charity Commission guidance, and may maximise a charity's positive impact during a period of financial constraint for many charities.

The more general trend amongst CIFs to increase the range of screens they implement, and to increase levels of engagement and integration, show that CIFs are increasingly willing to mirror charities' responsible investment needs. This shift recognises that the needs of charity clients differ and evolve over time. In some instances, funds which have applied multiple screens have done so in response to their investors' wishes.

[42] See FairPensions (2010) "UK asset managers' public disclosure practices on voting & engagement" or www.fairpensions.org.uk/research#FM
[43] http://www.guardian.co.uk/environment/2013/jan/27/nicholas-stern-climate-change-davos

For example, CCLA Investment Management conducted a client consultation which resulted in a change of policy for its funds. The survey revealed strong and polarised views about ethical exclusions which led CCLA to offer two new investment funds with different responsible investment criteria. Another example of a fund manager responding to investors' wishes was Epworth's launch of The Affirmative Corporate Bond Fund. Epworth report that this was developed in response to clients seeking exposure to a high quality/low risk corporate bond fund. See the box 'Responding to Investors' Wishes' in this Conclusions section for examples.

The regulation of charity pooled funds may change after July 2013, although at the time of going to print this seems unlikely. Charity trustees should ensure they monitor this situation, and that their investments continue to serve their financial needs, whilst working to increase their ESG, responsible investment and societal policies and impacts.

The Charity Commission CC14 guidance on charities' investment of funds was reviewed in 2011. Changes in guidance on ethical investment and changes in the regulation of funds have increased the scope for responsible investment by charities and clarified the limitations and opportunities that trustees have when it comes to investing responsibly.

More charities are looking to make mission investments and are seeking to make a positive impact with their investments as well as a financial return. Opportunities to do this are currently limited and tend to require large investment sums and a high level of commitment to research and due diligence. It may be a good time to develop a pooled charity fund that focuses on high impact social investment. Initiatives such as the planned Social Stock Exchange could help to increase the availability and liquidity of such investments. New or amended funds may engage the rising interest in this area and enable more charities to make mission investments.

Fund managers are only likely to develop new funds or adapt the policies of existing funds if they perceive there is demand from charities. Charities should therefore clearly communicate to fund managers and advisers if there are no charity pooled funds which meet their responsible investment objectives. They should feel able to encourage their fund managers to address a broader range of material and mission-related ESG issues in their fund offering and in their overall investment practice.

Summary of conclusions and recommendations

- There is a case for charities to invest ethically to avoid reputational risks. Those charities that do not invest ethically or consider ESG and RI concerns face serious risks to their reputation, which may impact on future fundraising.
- There remains a limited choice of pooled charity funds with responsible investment criteria beyond tobacco screens.
- The funds with responsible investment criteria tend to be faith-based and focus on 'sin stocks' such as alcohol, gambling and pornography.
- A growing number of the fund managers included in our survey provided details of a clear policy on engagement, voting and integration.
- Given its financial relevance, all charity investors should consider how their fund manager integrates ESG risks and opportunities into their investment decisions and ownership practices.
- Trustees may wish to encourage fund managers to be more transparent and explicit about their responsible investment policies and practices.
- There may be latent demand for more charity pooled funds that reflect current trends in responsible investment and focus on climate change, human rights and labour standards.
- It may be a good time to develop a pooled charity fund that focuses on high impact, mission-related investment.
- Charities should clearly communicate to fund managers and advisers if there are no charity pooled funds which meet their responsible investment objectives.

Responding to Investors' Wishes

Charity investors should be encouraged to communicate with fund managers and advisers about their responsible investment objectives. Here are some examples of fund managers developing funds in direct response to charity investors' requests:

- CCLA report that they conduct a client consultation which resulted in a change of policy for its funds. The survey revealed strong and polarised views about ethical exclusions which led CCLA to offer two new investment funds with different responsible investment criteria.
- Epworth report that the launch of The Affirmative Corporate Bond Fund was in response to clients seeking exposure to a high quality/low risk corporate bond fund whilst benefitting from the higher yields available from the sector.
- Sarasin report that their enhanced Corporate Governance Reporting was designed to give clients more and greater transparency as regards the way Sarasin votes and engages with companies it invests in on their clients' behalf. Each Alpha CIF for Endowments report contains a selection of recent votes cast and the results, together with commentary. Sarasin report that they have been pleased with the interaction this has generated between trustees and the custodians of their assets, which in turn, empowers Sarasin to engage and discuss issues with management teams with confidence.

Next Steps: EIRIS' work to support charities

EIRIS can help you to:

- Develop an investment and/or partnership/donor policy which reflects your mission statement.
- Assist in different approaches available for each objective, positive/negative screening, best of sector.
- Create a final policy to utilise with fund managers and/ or internally.

Further information on EIRIS' work with charities, and on how to contact EIRIS, can be found at http://www.eiris.org/charities/charities.html.

APPENDIX: **SUMMARY OF CIF CHARITY POOLED FUND POLICIES ON RESPONSIBLE INVESTMENT**

Fund Name	Responsible Investment Approach	Type of Fund	Top 10 Holdings
Aberdeen Charity Select Global (ex UK) Equity Fund	No responsible investment approach	Global equity	TSMC ADS, Roche Holdings, Philip Morris International, Johnson & Johnson, Samsung Electronics GDR, Royal Dutch Shell A, Zurich Insurance, Tenaris, Standard Chartered, PepsiCo (31 December 2012)
Aberdeen Charity Select UK Bond Fund	No responsible investment approach	UK Bonds	UK Treasury 4.25% 07/09/39, UK Treasury 4.25% 07/12/49, UK Treasury 2% 22/01/16, UK Treasury 4% 07/03/22, UK Treasury 4.25% 07/12/46, UK Treasury 4.5% 07/03/13, UK Treasury 4.25% 07/12/27, UK Treasury 2.25% 07/03/14, UK Treasury 3.75% 22/07/52, UK Treasury 4.25% 07/03/36 (31 December 2012)
Aberdeen Charity Select UK Equity Fund	No responsible investment approach	UK equity	Standard Chartered, Royal Dutch Shell A, BHP Billiton, Aberdeen UK Smaller Companies Fund, HSBC, British American Tobacco, Unilever, Prudential, Pearson, Rolls Royce (31 December 2012)
Baring Targeted Return Fund	No direct investment in tobacco companies or pornography or prostitution	Targeted return	Gold Bullion Note, Vertias Global Equity Income, M & G Securities Corporate Bond, Mayfair Capital Property Trust, AXA Investment Managers Short Duration High Yield, Australia Treasury 5.75% 15th July 2022, U.S Treasury 3.125% 15th February 2032, British Government 4.25% 7th March 2036, Skandia Investment Management Property Fund, Aberdeen Unit Trust Emerging Markets (31 December 2012)

Fund Name	Responsible Investment Approach	Type of Fund	Top 10 Holdings
BlackRock ChariTrak CIF	No responsible investment approach	UK equity	HSBC, BP, Royal Dutch Shell (class A), Vodafone, GlaxoSmithKline, British American Tobacco, Royal Dutch Shell (class B), Diageo, BHP Billiton, Rio Tinto (31 December 2012)
BlackRock Armed Forces Common Investment Fund	No responsible investment approach	Mixed – UK and global equity, fixed income, property and hedge funds	BlackRock Property Fund, Stone Harbor Emerging Market Debt, Goldman Sachs Global High Yield Portfolio, BGF - GBL High Yield BD FD X3 GBP HDG, British American Tobacco PLC, Royal Dutch Shell (Class B), HSBC, BIBF All Stocks Corp Bond, Vodafone Group PLC, Institutional Liquidity Fund (30 November 2012)
BlackRock Charifaith CIF	Charifaith reflects the ethos and beliefs of the Catholic Church and, as such, eschews investment in activities deemed contrary to these, including: armaments, pornography, tobacco, abortion and contraception. Furthermore, the fund will monitor companies for breaches of core International Labour Organisation standards, be they age, race or creed related.	Mixed: UK and global equity, bonds, property and cash	Royal Dutch Shell, HSBC, Charities Prop Property Fund, Ruffer Investment Company, Vodafone, COIF Charity Funds Property Inc, Rio Tinto, Diageo, Blackrock UK Smaller Companies A, BHP Billiton (31 December 2012)
BlackRock Charinco CIF	No responsible investment approach.	Fixed interest	UK Treasury 8.75% 25/8/17, UK Treasury 8% 27/9/13, UK Treasury 8% 07/06/21, UK Treasury 4.75% 07/12/38, UK Treasury 6% 07/12/28, UK Treasury 4.25% 7/12/49, UK Treasury 4.25% 07/12/55, UK Treasury 5% 07/03/25, UK Treasury 4% 22/01/60, UK Treasury 8% 07/12/2015 (30 November 2012)
BlackRock Charishare CIF	No responsible investment approach	Equity	33 KWS Growth & Recovery Fund, British American Tobacco, HSBC, Royal Dutch Shell, Rio Tinto, Vodafone, BP, Prudential, Compass Group PLC, BG Group (30 November 2012)
BlackRock Charishare Tobacco Restricted Fund	Excludes companies which invest in tobacco and defence-related securities.	Equity	HSBC, Rio Tinto, Royal Dutch Shell, Vodafone, Standard Chartered, Compass Group, BP, BG Group, Diageo, Shire (December 2012)

Fund Name	Responsible Investment Approach	Type of Fund	Top 10 Holdings
CAF UK Equitrack Fund	No responsible investment approach	UK equity	Royal Dutch Shell, HSBC, Vodafone, BP, GlaxoSmithKline, British American Tobacco, Diageo, BG Group, BHP Billiton, AstraZeneca (30 September 2012)
Cazenove Equity Income Trust for Charities	Social, environmental and ethical research is integrated in the investment process. Management of companies with poor social, environmental and ethical ratings are engaged with via both mainstream investor meetings and one-on-one meetings. The CIFs exclude tobacco.	UK equity	BP, GlaxoSmithKline, HSBC, Royal Dutch Shell, Vodafone, Rio Tinto, AstraZeneca, Tesco, Barclays, BT Group (December 2012)
Cazenove Growth Trust for Charities		UK equity	BP, HSBC, Royal Dutch Shell, GlaxoSmithKline, Vodafone, AstraZeneca, Anglo American, BG Group, Barclays, Rio Tinto (December 2012)
Cazenove Income Trust for Charities	Negative screen for tobacco	UK fixed income	UK Treasury 8.75% 2017, UK Treasury 4.25% 2036 , UK Treasury 4.25% 2046 , UK Treasury 6% 2028 , UK Treasury 4.75% 2038, Hydro Quebec 2015, UK Treasury 4.25% 2055, UK Treasury 3.5% 2049, Annington Finance 2021, UK Treasury 8% 2021 (December 2012)
Cazenove Multi-Strategy Property Trust for Charities	No responsible investment approach	Property (IPD Balanced Property Unit Trust Index)	Retail 18.5%, Office 43.0%, Industrial 33.6% Other 4.9% (December 2012)
CCLA COIF Charities Fixed Interest Fund	Negative screens for companies involved in the production of landmines or cluster bombs (or critical strategic parts), and for companies with significant business activity (33% of turnover) relating to the production of pornography, online gambling or tobacco. Where investments meet the financial criteria of the fund, the fund can incorporate a limited amount of impact investment. Client-driven engagement (with the ultimate sanction of exclusion) focuses on poor sales and marketing practices relating to alcohol and obesity, and violations of international conventions and norms in the areas of human rights, employment practices and climate change disclosure. CCLA is a signatory to the UK Stewardship Code and the UN-backed Principles of Responsible Investment.	UK Fixed interest (government and corporate bonds)	UK Treasury 8.75% 2017, UK Treasury 4.75% 2038, UK Treasury 6% 2028, UK Treasury 4.5% 2042, UK Treasury 8% 2021, UK Treasury 3.75% 2052, UK Treasury 4.25% 2032, UK Treasury 4.5% 2034, Abbey 5.75% 2026, BT 8.625% 2020 (30 September 2012)
CCLA COIF Charities Global Equity Income Fund		Global equity	Royal Dutch Shell, GlaxoSmithKline, HSBC, Costco Wholesale, BHP Billiton, Wolseley, Vodafone, Macquarie Korea Infrastructure, Seadrill, SSE (30 September 2012)
CCLA COIF Charities Investment Fund		UK and global equity, fixed income, infrastructure, property and cash	HSBC, GlaxoSmithKline, Royal, Dutch Shell, BHP Billiton, Vodafone, Rio Tinto, BP, Chevron, Diageo, Exxon Mobil (30 September 2012)

Fund Name	Responsible Investment Approach	Type of Fund	Top 10 Holdings
CCLA COIF Charities Ethical Investment Fund	Fund excludes all companies with *any involvement* in supporting oppressive regimes (initially Sudan), or the production of landmines, cluster bombs or nuclear weapons. Companies *with significant involvement (>10% of turnover)* in alcohol, energy coal extraction, gambling, pornography, tobacco or strategic military sales will also be excluded. The total exposure of the fund to any form of conventional weapons manufacturing will not exceed 1% of total assets. Companies in the FTSE All-Share and All-World Developed indices will need to score 2 or higher across FTSE's ESG ratings, in order to remain in the fund after March 2013. Companies that would be excluded under EIRIS' standard Burma screen will need to score a 3 or better on FTSE's Human & Labour Rights rating in order not to be excluded. In the spirit of ecumenical co-operation, the fund also uses the FTSE4Good Index screen for baby milk substitutes, EIRIS' standard screen for abortifacients, and the high interest rate lending policy the CBF Church of England funds follow. The fund has an aspirational 2% target for high impact investments: as of 31st August 2012 high impact investments like microfinance, immunisation bonds and timber make up nearly 1% of the Ethical Fund. The fund has an extensive client driven engagement programme and CCLA is a signatory to the UK Stewardship Code and the UN-backed Principles for Responsible Investment.	UK Equity, Overseas Equity, UK Fixed Interest, Overseas Fixed Interest, Property, Infrastructure, Cash	HSBC, GlaxoSmithKline, Royal Dutch Shell, Vodafone, BHP Billiton, BP, Rio Tinto (UK), Exxon Mobil, Direct Line Insurance, Prudential (30 September 2012)
CCLA COIF Charities Property Fund	The nature of tenants' business is considered and a range of ethical restrictions are in place including: alcohol, arms, gambling, high interest rate lending, human embryonic cloning, pornography, and tobacco. The fund also undertakes environmental impact assessments on its properties and has environmental clauses within leases that provide an indication of the expectations and responsibilities of the tenant with regard to environmental practice.	UK property	Tamworth, Jolly Sailor Retail Park., London, Falcon Lane., London, Eastcheap., London, Ealing Road., London, College Hill., Milton Keynes, Snowdon Drive., Hook, Bartley Wood Business Park., Bristol, Aztec West., Glasgow, West Regent Street., Chorley, Chorley Retail Park (1 December 2012)

Fund Name	Responsible Investment Approach	Type of Fund	Top 10 Holdings
Collins Stewart Combined Charitable Capital Fund	No responsible investment approach	Mixed – including global equity, fixed interest and hedge funds	M&G Strategic Corporate Bond, BH Macro Ord NPV GBP, Findlay Park American, Schroder UK Alpha Plus, Invesco Perpetual Income, Henderson UK Absolute Return, M&G Inflation Linked Corp Bond, Blackrock Gold and General, TSY 4.125% 2030 Index Linked, Investec Enhanced Natural Resources (30 November 2012)
Collins Stewart Combined Charitable Income Fund	No responsible investment approach	Fixed income- including UK government, foreign government and corporates	EIB 2.65% 16/04/2020, Skandinaviska Enskilda 6.625% 09/07/2014, Kommunalbanken AS 2.623% 26/07/16, IPIC GMTN LTD 6.975% 14/03/2026, Natixis 5.875% 24/02/20, KFW 5.5% 07/12/2015, GE Capital UK Funding 5.625% 25/04/19, QBE Insurance Group Ltd 6.125% 28/09/2015, Treasury 3 ¾% 2021 3.75% 07/09/2021, Svenska Handelsbanken AB 5.5% 26/05/2016 (30 November 2012)
Epworth Affirmative Equity Fund for Charities	Epworth excludes securities issued by organisations whose business is wholly or mainly involved in: alcohol, armaments, gaming, pornography and tobacco. Epworth engages and acts to improve the performance of companies in a range of issues including: environmental performance, corporate governance, children's issues, supply chain, medical and food safety, and human rights. Epworth engages in constructive dialogue and practises active voting to challenge social, environmental and ethical considerations. The Ethics Advisory Committee provides a unique and robust mechanism for testing ethical investment decisions against theological principles.	UK and global equity	Royal Dutch Shell Class B, Vodafone, HSBC, GlaxoSmithkline, BP, BG Group, BHP Billiton, Astrazeneca, Rio Tinto, iShares KLD 400 (30 October 2012)
Epworth Affirmative Fixed Interest Fund for Charities		Fixed income- UK gilts and corporate bonds	Affirmative Corporate Bond Fund, UK Treasury 4.75% 09/07/15, UK Treasury 4.25% 06/07/32, UK Treasury 5% 09/07/14, UK Treasury 5% 03/07/18, UK Treasury 3.75% 09/07/21, UK Treasury 4.5% 03/07/19, UK Treasury 4% 09/07/16, UK Treasury 4.25% 12/07/40, UK Treasury 4.75% 03/07/20 (31 December 2012)
Epworth Affirmative Corporate Bond Fund for Charities		Sterling corporate bonds	Pfizer Inc 6.5% 06/03/38, Statoil 6.875% 03/11/31, Johnson & Johnson 5.5% 11/06/24, Nationwide 5.625% 09/09/19, Toyota 4 12/07/17, European Investment Bank 5 37.5% 06/07/21, WSTP 5% 10/21/19, KFW 4.875% 02/01/18, France Telecom 7.25% 11/10/20, RWE 5.5% 07/06/22 (31 December 2012)

Fund Name	Responsible Investment Approach	Type of Fund	Top 10 Holdings
HSBC Common Fund for Growth	No information supplied		
HSBC Common Fund for Income	No information supplied		
JP Morgan Bond Fund for Charities	Will not invest in the sector directly involved in tobacco manufacturing	Fixed income	UK Treasury 3.75%, UK Treasury 4%, UK Treasury 5%, European Investment Bank 6%, HSBC Holdings 6.5%, CitiGroup 7.625%, UK Treasury 4.75%, UK Treasury 4.5%, Abbey National 5.125%, Annington No1 8%, (21 January 2013)
JP Morgan UK Equity Fund for Charities	Will not invest in the sector directly involved in tobacco manufacturing	UK equity	BP, Royal Dutch Shell, HSBC, GlaxoSmithKline, Vodafone, AstraZeneca, BHP Billiton, Rio Tinto, JPM UK Smaller Companies Fund, Barclays (21 January 2013)
Lazard Diversified Charity Fund	Investments in companies where 5% or more of revenue is derived from tobacco, military or firearm-related industries is excluded, subject to the fund manager override if deemed inappropriately restrictive. These ethical restrictions will only be applicable to directly held equities and will not apply to exchange traded funds (ETFs) or closed end funds (CEFs). ESG factors are taken into account where it is felt that any issues that arise could have a material impact on financial returns. As such, certain ESG considerations are taken into account at the company research stage of the investment process.	Mixed inc. UK and global equity, bonds and alternatives	Vodafone, BP, HSBC, Royal Dutch Shell, Diageo, Unilever, BHP Billiton, Rio Tinto, AstraZeneca, Associated British Foods (30 September 2012)

Fund Name	Responsible Investment Approach	Type of Fund	Top 10 Holdings
M & G Charibond Common Investment Fund	The focus is on the integrity of the management of companies rather than ethical exclusions, but tobacco companies will not be included in the portfolios.	Fixed interest. 49% UK Gilts, 51% Corporate Bonds (Investment Grade)	BAA, London Power Networks, Housing Finance Corporation, National Grid, HSBC, Verizon Communications, Segro, France Telecom, Fonterra, Motability Operations (31 November 2012)
M & G Charifund	The NAACIF has no ethical screens, but its largest shareholdings are in the M & G Charibond and Charifund, which do apply screens as outlined above.	UK equity income-93% UK equity, 6% Overseas equity, 1% Cash	BP, Vodafone, Royal Dutch Shell, HSBC, GlaxoSmithKline, AstraZeneca, BT Group, National Grid, SSE, United Utilities (31 October 2012)
National Association of Almshouses CIF (NAACIF)		Mixed funds: equity, bonds, cash	Charifund 63%, M&G Global Dividend Fund 18%, Charibond 19% (30 November 2012)
Newton Global Growth and Income Fund for Charities	Excludes tobacco stocks	Mixed – including UK and global equity, fixed income and property	Royal Dutch Shell, BP, Standard Life, GlaxoSmithKline, Reed Elsevier, UK Treasury Stock, Daily Mail & General Trust, Associated British Foods, UK Treasury Gilt, Bayer AG (31 December 2012)
RCM Chariguard Overseas Equity Fund (Allianz Global investors)	No responsible investment approach	Overseas equity	Apple Inc, Samsung Electronics Co Ltd, Exxon Mobil Corp, Nestle SA, Novartis AG, Roche Holding AG, BHP Billiton Ltd, Microsoft Corp, Sanofi, General Electric Co (31 December 2012)
RCM Chariguard Fixed Interest Fund (Allianz Global investors)	No responsible investment approach	Fixed income (gilts)	United Kingdom Gilt 2.25% 07/03/14, United Kingdom Gilt 4.25% 07/12/55, United Kingdom Gilt 4.00% 07/09/16, United Kingdom Gilt 3.75% 07/09/20, United Kingdom Gilt 4.25% 07/03/36, United Kingdom Gilt 4.75% 07/09/2015, United Kingdom Gilt 5.00% 07/03/18, United Kingdom Gilt 4.50% 07/03/19, United Kingdom Gilt 4.50% 07/12/42, United Kingdom Gilt 4. 50% 07/12/42 (31 December 2012)
RCM Chariguard UK Equity Fund (Allianz Global Investors)	No responsible investment approach	UK equity	HSBC, BP, Royal Dutch Shell class A, Vodafone Group, GlaxoSmithKline, British American Tobacco, Royal Dutch Shell class B, Diageo, BHP Billiton, Rio Tinto (31 December 2012)

Fund Name	Responsible Investment Approach	Type of Fund	Top 10 Holdings
Ruffer Charity Assets Trust	The fund has an ethical screening policy which restricts investment in alcohol, armaments, gambling, pornography and tobacco	Mixed – including UK equity, overseas equity, gilts and cash	0.375% Treasury Index-Linked 22/03/2062, 1.25% Treasury Index-Linked 22/11/2017, ETFS Metal Security Physical Gold (USD), USA Treasury Notes 0.125% TIPS 15/04/16 USD, 2.5% Treasury Index-Linked 26/07/2016, USA Treasury Notes 1.625% TIPS 15/01/18 USD, USA Treasury Notes 1.625% TIPS 15/01/15 USD, 0.5% Treasury Index-Linked 22/03/2050, BP Plc Ord USD0.25, USA Treasury BDS 0.75 TIPS 15/02/42 USD1000 (31 December 2012)
Sarasin Alpha Common Investment Fund for Endowments	No holdings in companies with exposure to the production of tobacco or tobacco-related manufacturing. The policy is to avoid investment in companies with more than 10% of their turnover in alcohol manufacture, armaments, gambling or pornography. The fund will publish a regular sustainability audit of its investments, will be active in voting on company resolutions and will engage in direct dialogue with companies where appropriate.	Multi-Asset: bonds, UK & global equities, property, alternatives and cash	BHP Billiton, BP, AstraZeneca, Sarasin IE Real Estate Equity, Old Mutual UK Select Smaller Companies, Swiss Re, Weyerhaeuser Co, General Electric Co, Salar Fund, The Property Income Fund For Charities (31 December 2012)
Sarasin Alpha Common Investment Fund for Income and Reserves		Predominantly fixed income with a small allocation to UK & global equities	UK Treasury 8% 06/07/21, UK Treasury 4% 07/09/16, European Investment Bank 8.75% 25/08/17, UK Treasury 4.5% 07/12/27, UK Treasury 4.5% 07/09/34, UK Treasury 3.75% 07/09/21, UK Treasury 4% 07/03/22, UK Treasury 4.5% 07/12/42, Bank Nederlandse Gemeenten 5.75% 18/01/19, Tesco 5.8006% 13/10/40 (31 December 2012)
Schroder Charity Equity Fund	The Fund does not invest in tobacco companies (as defined by the FTSE tobacco sector)	UK equity	BP, GlaxoSmithKline, Vodafone Group, AstraZeneca, Legal & General Group, Rentokil Initial, Royal Dutch Shell, HSBC, Old Mutual, Daily Mail & General Trust (31 December 2012)
Schroder Charity Fixed Interest Fund	The Fund does not invest in tobacco companies (as defined by the FTSE tobacco sector)	Fixed Income	Treasury 4% 07/03/22, Treasury 4.75% 07/09/15, Treasury 2.75% 22nd January 22/01/15, Treasury 5% 07/03/18, Treasury 5% 07/03/25, Treasury 4.75% 07/03/20, Treasury 3.75% 07/09/19, Treasury 4% 07/09/16, Treasury 3.75% 07/09/21, Treasury 2% 22/01/16 (31 December 2012)

Fund Name	Responsible Investment Approach	Type of Fund	Top 10 Holdings
Schroder Charity Multi-Asset Fund	The Schroder Charity Multi-Asset Fund invests in markets through pooled funds, it does not have any explicit exclusions as it cannot control the ethical policies within those underlying investments. However, the Schroder Funds in which it invests are covered by Schroders mainstream ESG engagement policy. Schroders screen the fund on a regular basis (based on 10% of turnover) for indirect exposure to gambling, armaments, tobacco and alcohol.	Multi-Asset: (equities, bonds, property, absolute return, commodities and cash)	Schroder UK Alpha Plus, Schroder UK Equity Fund, Schroder UK Charity Equity Fund, Artemis UK Special Situations Fund, M & G Corporate Bond Fund, Troy Trojan Income Fund, AXA Framlington UK Select Opps Fund, Schroder Global Emerging Market Fund, SISF Emerging Market Debt Absolute Return Fund, AXA US Short Duration High Yield Fund (31 December 2012)
Smith & Williamson Charity Value and Income	No information supplied	Predominantly UK equity	BP, Royal Dutch Shell class B, Vodafone, GlaxoSmithKline, Unilever, United Utilities Group, HSBC, Halma PLC, Brown Group, Spectris PLC (31 December 2012)
Cordea Savills The Charities Property Fund	The Fund does not have any formal SRI investment criteria. The fund undertakes an environmental risk assessment for each property purchase and monitors the occupation of the building to assess the environmental impact. In general the fund avoids investments that are let to tenants whose main business is in tobacco, gambling, alcohol, armaments or pornography. All tenants are listed in the annual and interim Report and Accounts and the fund does have some investments, for example, where part of the building is let to tenants in the restaurant / pub sector. All investment proposals, including full tenancy details, are reviewed by an Advisory Committee which is made up of representatives of four charities that are investors in The Charities Property Fund and they would specifically consult with them for their views on whether a proposed tenant was unacceptable.	Property	

The Charity Project is an EIRIS Foundation initiative which encourages and assists charities and their trustees in the development of a responsible and sustainable approach to their investments through education, research and the provision of resources.

The EIRIS Foundation (www.eirisfoundation.org) is a charity, established in 1983, that supports ethical investment. It researches the social and ethical aspects of companies and provides other charities with information and advice to enable them to choose investments which do not conflict with their work.

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CCLA

CCLA invests money for more charities than any other fund manager in the UK. Being owned by charity, church and public sector clients means they are in a unique position and not under pressure to favour shareholders at the expense of clients. As pioneers of ethical and responsible investment, they are committed to pushing forward a positive agenda for change

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