What is the UK public's opinion of charitable investments?

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Foreword

Charities are under increasing pressure to be accountable and transparent in all that they do. At a time when charities are facing a tough funding environment, the public seem as keen as ever to see that charities are run efficiently and that their investments further, rather than counter, their charitable aims.

A large numbers of charities have substantial investments. In 2011 UK registered charities held nearly £78 billion in investments[1]. If more charities invested ethically it would therefore result in significant amounts of money being invested in more socially and environmentally responsible companies and social enterprises.

Both the EIRIS Foundation and the Holly Hill Trust would like to see more charites considering the environmental, social and governance impacts of their investments. We therefore wanted to find out the general public's opinions on how charity's invest their money and consider what charities could and should do with this information.

The results of our research are compelling with 84% of those people we surveyed agreeing that charities should be fully transparent about their investments. We hope this publication will encourage more charities to broaden their investment approach and link investment activity with their charitable aims.

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[1] http://www.charity-commission.gov.uk/about_us/about_the_commission/consultation_char_invest.aspx

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1. Introduction

The EIRIS Foundation is a charity that supports socially responsible investment (SRI). 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. For the last 6 years the Foundation has managed a Charity Project which encourages and assists charities and their trustees in the development of an ethical and socially responsible approach to their investments through education, research and the provision of resources.

The Holly Hill Trust is a small charity which sponsors environmental and education projects. It is a member of the Environmental Funders Network.

This survey seeks to gauge the general public's opinion on how charities invest their money. Suggestions as to what charities could and should in light of the survey results are also provided.

Key Findings

- **84% of people agreed that charities should be fully transparent about their investments**
- **74% of people agreed that large charities should adopt ethical investment policies prohibiting investment in activities that are contrary to their specific work and values**
- **71% agreed that large charities or their fund managers should be pro-active shareholders, engaging with companies to demand high standards of environmental and social responsibility from the companies they invest in**
- **78% of people agreed that they would think worse of a charity if they knew it had funds invested in activities contrary to its specific work and values**

2. Transparency

We believe it is important for fundraising charities and foundations to be transparent about their investments. The public have a right to more information about charities. Where charities receive funding from public donations there is a clear reason for showing where this money is invested if it is not spent straight away. Even where a charity's income is from a private endowement the charity is working in the public interest and receiving tax benefits; the public still has a right to more information about the investment policies and practises of the charity.

Transparency gives donors, supporters, beneficiaries, funders and other stakeholders important information about the organization.

- **87% of those we surveyed either donated to charities and/or worked for them. Of these 89% were not familiar with the investments or investment policies of the charities they worked for/donated to.**

Charities that are subject to a statutory audit requirement, (those with an income over £500,000 or total assets of £2.8m or more) who hold material investments are required to report on their investment policy and objectives including the extent (if any) to which social, environmental or ethical considerations are taken into account. They are also required to report on the performance of the investments against the investment objectives set.

There is currently no stipulation that charities should consider socially responsible issues when making their investment decisions nor is there a regulation that states that charities should make lists of their investments available to the general public.

- **We asked everyone we surveyed if they thought large charities[2] should be fully transparent about their investments, for example by publishing lists of investments on their websites or in their annual reports. 84% agreed that they should be fully transparent.**

Many felt strongly about this:

- **"I think they should be more open as to what and where they invest"[3]**

- **"This survey has really opened my eyes about charities. I wasn't aware of the amount of investments that they made. I would like to see charities being forced to publish their investment portfolios."**

3. Negative Screening

When charities do consider social, environmental and ethical factors in their investments it most often takes the form of negative screening. Negative screening involves avoiding investments that do not meet the environmental, social and governance (ESG) standards which a charity has set. Negative screening can involve avoiding investments in certain companies or sectors. In the case of government bonds it may also be possible to avoid investing in particular countries. Investors can set materiality thresholds to determine which investments will be excluded – for example avoiding companies which derive more than 10% of turnover from armaments, rather than avoiding companies with any involvement in armaments. It is also possible to avoid the worst performing companies within a particular sector, for example those with the poorest human rights record.

In 2009 a survey of charities conducted by the Charity Finance Director's Group (CFDG)[4] and the EIRIS Foundation found that 88% of charities with an ethical policy had a negative screening element to their policy[5].

We therefore wanted to get the public's opinions on whether they also felt this was an important aspect of managing a charity's investments and if so what issues they were particularly concerned about.

2 In the survey we defined large charities as those with other £10 million in investments

3 All quotes are comments people have made as part of filling in the survey

4 The Charity Finance Directors' Group is a membership organisation set up in 1987 and specialises in helping charities to manage their accounting, taxation, audit and other finance related functions. www.cfdg.org.uk

5 www.cfdg.org.uk/cfdg/files/best_practice/ethical_investment_survey_results.pdf

- **74% of the people we surveyed agreed that large charities should adopt ethical investment policies prohibiting investment in activities that are contrary to their specific work and values.**

- **70% of people agreed that large charity investment policies should prohibit investing in any company with poor social, environmental or ethical practices, even if this means that their investment returns might be slightly reduced[6].**

We gave people a list of criteria and asked if they would be less likely to give to a charity if they knew its investments were damaging in terms of these various impacts.

- **When given a choice of criteria that a charity might choose to use to screen companies out of their investment portfolio those companies with a bad record on human rights was clearly on the top of the list, with 70% of people feeling charities should not invest in companies with a poor human rights record. This was followed by animal rights where 58% of people felt charities shouldn't invest in companies with a bad record in this area.[7]**

- **"I was not aware that they did not demand high standards - I think it is shocking that if you give to a charity you may be causing harm and discomfort in other areas."**

- **"…it is important that investments don't counteract the effect of the charity's work"**

4. Engagement

Some charities engage with the companies they invest in in order to improve social, environmental, ethical or governance policy, management or performance. Engagement usually take the form of dialogue with companies and is typically carried out by fund managers on behalf of investors. Charites choose to engage with companies for a number of reasons including encouraging more responsible business practices, encouraging greater transparency and disclosure, and influencing corporate behaviour to further the mission of the charity.

- **We asked the people we surveyed about charites engaging with companies they hold investments in and 71% agreed that large charities or their fund managers should be pro-active shareholders, demanding high standards of environmental and social responsibility from the companies they invest in.**

- **There will inevitably be instances when a charity is unable to change the policies or practises of a company it invests in. 62% of the people we surveyed felt that in this instance the charity should disinvest from the company.**

6 The adoption of such policies might require changes to charity law

7 The other criteria were: workers' rights (e.g. worker safety, policy towards trade unions) 54%; Environmental issues (e.g. climate change, pollution, loss of biodiversity)53%; Developing countries (e.g. treatment of indigenous people, marketing of breast milk substitutes) 51%; Health and social issues (e.g. tobacco, gambling) 51%; The charity's own work and values 48%; Other impacts 3% None of the above 11%

5. Mission Investing

When considering a socially responsible approach to investment charities also have the option to engage in 'mission investing'. This means making investments that produce a positive social or environmental impact as well as generating a financial return. For example, a charity could invest in a certificate of deposit at a community development bank, on the understanding that the funds will be used to provide loans to local businesses to spur economic development and job creation. The bank pays 1.5% interest to the charity and charges 3.5% interest to the businesses (a below-market rate).Mission investing involves increased management and oversight, and some additional risks, but it also eliminates the potential for doing harm through stock market investments.

- **We asked if people thought that, where possible, large charities should shift some of their funds currently invested in the stock market into mission investments. 60% of people agreed with this proposal.**

6. Perceptions of Charities

Charities site a variety of reasons as their motivations for developing a socially responsible investment policy; one of these is often concerns about public perceptions of them if they are found to be holding controversial investments – e.g a health charity with investments in a tobacco firm or an evironmental charity with investments in a company with a poor environmental record. We wanted to examine this issue further in the survey: how could a charity's investment practises affect its reputation?

- **78% of people agreed that they would think worse of a charity if they knew it had funds invested in activities contrary to its specific work and values.**

- **Interestingly almost exactly the same amount, 77%, said they would think worse of a charity if they knew it had funds invested in** any **activities with harmful impacts; supporting the view that charities should consider a policy broader than exclusion of investments contrary to its specific objectives.**

Charities can consider positive screening as part of their investment policy. Positive screening can be used to further the aims of a charity and encourage responsible business practices. It involves investing in companies with a commitment to responsible business practices, companies that produce positive products and services, or companies that address environmental or social challenges. It can also take the form of investing in the company with the best responsible business practices within its sector – a best in class approach.

- **We asked if people would think better of a charity that had funds invested in socially and environmentally positive products and services and 78% agreed that they would.**

7. Developing a Socially Responsible Investment Policy

When charities review their investment policies they generally consult within the staff and trustee teams to seeks views about, and reactions to, the new policy. It is more unusual for charites to consult with other stakeholders about these policies and yet there is a lot to be gained from doing so including building stronger links with them and presenting a positive image of the charity. We wanted to seek opinions on whether a charity's donors and beneficiaries should be consulted as part of the process of reviewing investment policies.

- **We asked if large charities should formulate investment policies in consultation with the people who they are set up to benefit and 66% of people agreed with this.**

- **We also asked if large charities should formulate investment policies in consultation with their donors and 69% agreed that they should.**

- **We also asked if charites should let individual donors specify how their donations should or should not be invested, even if this means more administrative work. 49% of people thought that charities should allow donors to do this.**

Five Key Action Points for charities to consider

It is clear from the survey that the public would like charities to think more about the environmental, social and governance impacts that their investments have. They would also like charities to be more trasparent about their investment policies and processes.

- **Increase transparency about your investment policy and the investments you make - as part of this process explain why you invest money; a significant number of people made comments in our survey that indicated they did not understand why charities didn't spend all the money they received straight away**
- **Review your current investment policy to see if it contradicts your specific work and values**
- **Consider how you could use your investments to further your work and values through engagement, investing in socially and environmentally positive products, and mission investing**
- **Consult widely to seek views on your investment policy including seeking the views of your charities donors and beneficiaries**
- **Look at the resources available on www.charitysri.org for charities considering developing a socially responsible investment policy.**

Appendix – Methodology

The survey was developed by George MacKerron from London School of Economics. The research panel and survey technology provider Toluna were paid to carry out the survey.

The sample was a quota sample picked to be representative on specific variables rather than a true random sample. We set quotas on gender, age (in three broad bands) and work status (employees vs non-employees). 1018 people responded to the survey.

Where we have reported a percentage that agreed with a statement people have selected that they either 'agree strongly' or 'agree slightly', as opposed to 'neither agree nor disagree', 'disagree slightly' or 'disagree strongly'.

For further information, resources, databases of fund managers and independent financial advisors that specialise in SRI visit www.charitysri.org, call 020 7840 5700 or email charitysri@eiris.org

This toolkit is a joint initiative between the EIRIS Foundation www.eirisfoundation.org and the Holly Hill Charitable Trust.