GOOD WITH MONEY

Why Charity Investments Matter

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PREFACE BY SIR STEPHEN BUBB, CEO, ACEVO

When BBC Panorama aired their special about charity investments last December, there was a great deal of public debate. In turn, this started a very healthy debate in the third sector. How should charities be investing? Why do charities even have investments in the first place? Should charities really be investing in arms and tobacco? I was clear that we needed to get some facts on the table. That's why the ACEVO team brought together some of the leading experts in this field to set up this Commission.

The results are fascinating. More than 80 per cent of charity chief executives, based on our original research, are on top of their investment policy and up to half play an active role in setting it. This is a real testament to our sector's professionalism.

But it is abundantly clear that there is room for improvement. 30 per cent of charity chief executives who are not playing an active role may yet find that, because of market fluctuations or shifts in policy from their investment advisers or finance teams, that their understanding of their investment policy does not reflect reality. That way lies danger, which is why the commission's report sets out a framework for charities to get their investment policy and strategy right. We outline a key role for the CEO. I want every CEO to place this report's recommendations to their next board meeting.

We want to use this report to create a new norm within our sector. I am pleased that this is not only a compelling piece of thought leadership and an analysis of the charity investment landscape but also a useful tool. It contains practical guidance, figures and case studies to support all charities in viewing their investments as part of their identity; to help align their money better with their mission; to communicate better and to agitate for change.

The stakes are high. That's why I fully endorse the idea that all charities, no matter how small or large, have a *Responsibility to Reflect* on their investments. This is not about insisting that charities always invest in certain funds which are badged 'ethical' or 'responsible' but rather it is about considering the principal forms of ethical and responsible investment we have identified – controlling for environmental or governance issues, engaging with companies to change behaviours, excluding certain companies from your portfolio or positively investing in companies or organisations that deliver social impact – and giving time to the idea of whether each is in line with a charity's mission.

Some of the case studies of best practice in the area – from The Church Commissioners to Action for Children are truly inspiring. This report is a platform to talk more about them. People often say that charities can learn from business; this report is a blue print to enabling the charity sector to lead the way across society.

I want to see us do much more as a sector to communicate our excellence in this area. Only around half of charities surveyed do something as simple as talk about their ethical and responsible investment policies in their annual reports. The sector is all too often silent on how we manage our money; yet our story is of success.

This is why I'm also fully behind the report's proposed further *Responsibility to Innovate* for larger foundations. Those with the most have the greatest responsibility within the charity movement. The recommendation that 1per cent of foundations' endowments are released to social investment, for example, may not be right for an operational charity at this moment in time, but for foundations, this should be part of a new norm. Charities are constant innovators in society; now let's show the world how innovative we can be throughout the wider economy too.

And let's be clear, no charity should ever be in a position where it does not know where its funds are. The Panorama programme did us a service in highlighting the dangers of not ensuring we are on top of this. We have a good record, now let's build on it. We have the will, so let's deliver.

Stephen Bubb

Sir Stephen Bubb

FOREWORD BY DAVID GAUKE MP, FINANCIAL SECRETARY TO THE TREASURY

This report is a valuable contribution to the debate on ethical investing, examining the need for charities to manage their investments actively and to make decisions that best reflect their mission.

When making investment decisions, economic success and the pursuit of your social and environmental objectives should not be regarded as mutually exclusive.

Investments present a good opportunity for charities to further their cause. Allied together, profitable investments and a social mission can be a powerful force: strengthening communities, changing lives, developing new solutions and transforming the way we deliver public services in this country.

In the UK, we have one of the most developed markets for positive investing in the world, and it's growing all the time.

We are encouraging increased participation through the introduction of a new tax relief for social investment. The Social Investment Tax Relief is primed to unlock an estimated £480 million of social investment in the next five years. Big Society Capital, established in 2012 as a wholesale investor, has made commitments of over £150 million, with matching funding from third party investors alongside its signed investments.

With the development of the Social Impact Bond market, investors and philanthropists can invest in projects to address complex, entrenched social problems, and expect a return in the process. The UK has launched 17 social impact bonds, more than the rest of the world put together.

There is now more opportunity than ever for socially-minded individuals and organisations to align their investment decisions with social objectives. Of course, investment decisions are ultimately the responsibility of trustees and executives. But when good governance and responsible investment is allied to a social mission, the results can be transformational.

David Gauke MP
Financial Secretary to the Treasury

FOREWORD BY MARTIN CLARKE, CHAIR

In much the same way that, as shoppers, we expect food retailers to monitor their ingredients and supply chains, we have a natural tendency to think that those who manage our charitable assets do so with some diligence. And where that body is one that has values or a concern for the well-being of society, we have good reason to expect those values to be observed in practice.

So we are rightly outraged when those we have trusted in this way fall some way short of deserving that trust.

When I was asked by ACEVO to chair this Commission on Charity Investments I was only too happy to accept since I had direct experience of the sort of issues that had been faced recently by some high profile charitable bodies over their investment policies. And that had failed to live up to sometimes unspoken expectations of trust by their stakeholders.

Indeed, the one lesson my own experience taught me was that stakeholder expectations of principled organisations are challengingly high. This is tellingly illustrated in the research that we quote in section 4 of this report.

And therein lies the risk...to the reputation and, *in extremis*, to the viability of the charitable institution.

During the course of the summer, the Commission convened to receive evidence and discuss many aspects of the investment process for charitable bodies, looking for good responsible investment practice on one hand and, on the other, to identify and consider the obstacles that inhibit the spread of that good practice.

From my own experience, the biggest obstacles can be found in governance arrangements. All too often investment matters are delegated away from the trustee board, or the extent that trustees engage in them at board meetings is wrongly directed. Yet the financial objectives of the charity, its investment strategy and policies such as ethical or responsible investment principles are close to heart of the charity's mission and are matters deserving of the highest level of governance. And trustees must be engaged in them.

The Commission believes that there is sufficient regulatory freedom to address the issues of responsible and ethical investment thoroughly and encourages trustee bodies to do so. We hope to help inform the discussions by providing, in this report, a resource for trustees and Chief Executives to help navigate what can seem an impenetrable lexicon of technical jargon and we also provide some analysis and examples from which to draw inspiration.

I am indebted to ACEVO for conceiving of this timely piece of work, to my fellow Commissioners for their contribution to our discussions and their many and several material inputs to the technical content of our report and to CCLA and SIB for their valuable sponsorship without which our work would not have taken place at all.

Martin Clarke

Former Chair, UK Sustainable Investment and Finance Association

Chair of the ACEVO Commission on Ethical and Responsible Investments for Charities and Social Enterprises

EXECUTIVE SUMMARY

Investment is an important source of revenue for charities. Every year the active investment of charities' reserves, and other assets, provides over £3.5bn of funding for third sector activities.

However, as shown by the 2013 BBC Panorama documentary on charity investments, the otherwise productive process of investing in companies can pose a number of reputational challenges for mission-driven organisations – especially when those companies' activities are perceived to be contradictory to that mission.

The ACEVO Commission on Ethical and Responsible Investment was set up to investigate these challenges, specifically:

- The reputational risk and mission-enhancing potential of different kinds of charity investment.
- The current state of charities' attitudes and policies with respect to their investments generally and ethical and responsible investing in particular.
- Knowledge deficits, such as may exist across the charity sector, the market, in law and in regulation.
- Recommendations and improvements that can be easily implemented by charity boards, senior management and key decision makers.

The report of the Commission contains:

State of the market data. It is surprising to some that charities have investments at all. However, on average, around 6 per cent of charities' annual income derives from their investment portfolios and 1,990 very large charities have invested reserves of over £5 million.

Technical content. Ethical and responsible investment is complex, jargon-laden, territory. This report seeks to establish some clarity on the key terms and concepts that are often, unhelpfully, used interchangeably. For the sake of clarity the Commission has defined *responsible investment* as being motivated by the desire to safeguard the long-term value of investments. This includes the incorporation of environmental, social, and governance data into a charity's investment manager's decision-making. It also involves promoting active ownership of and engagement with companies. In contrast the Commission posited *ethical investing* as reflecting a charity's *values* in their investments. Here, the Commission identified three commonly used approaches:

- Altering a charity's investment portfolio by refusing to invest in sectors or companies whose core business contradicts the charity's values (for example, cancer research organisations avoiding investment in tobacco) – or positively identifying sectors that further their charity's aims.

- Asking a charity's investment manager to conduct engagement with companies in line with a charity's mission.
- Investment 'for impact' to tackle specific social problems.

Polling data and research. The Commission conducted primary research and polling of ACEVO members – around 1500 charity and social enterprise leaders across the UK – and across the networks of each of the Commission's own members. It conducted more than 30 hours of hearings with practitioners from the investment and charity sectors. It co-commissioned a study with PwC of 35 major charities' disclosures and undertook a comprehensive review of academic and practitioner literature.

Practical advice. Every charity is different, and will require a different approach befitting their own mission and financial context to ethical, responsible, or mainstream investment. One of the goals of the Commission was to help third sector organisations with this challenge. Its remit was to give practical advice on how to develop policies that may protect a charity from the reputational damage that can be caused by poorly-aligned investments – and where possible also to take the further step of identifying areas that enable charities to better align their money with their mission.

The breadth, depth and variety of organisations contained within the third sector means that there is no one approach that fits all. However, the Commission drew upon these areas to make recommendations to the charity sector, the government, and investment managers under four themes.

1. A charity's investment policy should be part of its identity

How a particular charity invests differs from another according to its mission, its size and its motivations. However, if the possibility for reputational damage from investment is to be limited, or the mission benefits that investment can bring is to be maximised, *every charity's investment policy must be shaped in the context of its financial need, and regarded as a part of its identity.*

That is why this identity needs to be established and stewarded by those at the very top of the organisation. The leadership, senior management team, and trustees, who have an overarching view of the charity's life, all need to understand their charity's investment policy.

The Commission welcomed the progress that has already been made in the charity sector on this – the vast majority are on top of their remit. Nevertheless there remains room for improvement.

CHARITY INVESTMENTS: WHO IS IN THE LOOP?

- 80.2 per cent of charity leaders knew what their investment policy was and could speak to it.

- 49.3 per cent of charity leaders surveyed took an active role in setting investment policy and deciding where money was to be invested.
- 29.9 per cent delegated details to finance teams though knew what the policy was.
- 1 in 5 Chief Executives did not feel qualified to play a role and kept out of conversations about investments, or did not know what their charity's responsible investment policy was.

Source: ACEVO data, Aug 2014. Of those surveyed, 75 per cent had investment portfolios under £1m

The Commission identified several barriers that currently prevent charity leaders from fully understanding, and where applicable, influencing a charity's approach to investment in this way. Appropriate charity governance was key. While charities will be keen to ensure that their investment policy and practice is developed by the people with the appropriate knowledge and skills, whatever the size of a charity, it must be careful to create *conversation loops* within their organisation to ensure that senior staff are aware and can explain their decisions.

Recommendations

1.1. A charity's investment policy is part of its identity. Charity trustees, charity leaders and senior charity management should be conscious of and be able to speak to their charity's investment policy and to be able to explain how the charity's investment policy relates to its mission.

1.2. Charity leaders should engage their organisation in a conversation as to whether an ethical investment policy is appropriate for the charity.

1.3. Charities should routinely ask their investment manager about their practices and processes in relation to their ethical and/or responsible investment policy. This should start with the investment manager procurement process and continue through the ongoing monitoring of the manager.

1.4. We recommend that charities reappraise their investment policies to ensure they are fit for purpose every year as part of the process of producing their annual report. This should coincide with a whole board 'check in' with their investment manager to ensure that the strategy is reflecting the board and the leaders' policy.

1.5. The full board and Chair must take responsibility for retaining the setting of a charity's investment policy. They must be further held responsible for working with Chief Executives and ensuring that they have full understanding of the nature of investments being made. Investment strategy may then be delegated to the appropriate committee of experts where applicable. These two conversation loops are key to protecting a charity's leadership against reputational risk from inappropriate investments and to aligning money most effectively with mission.

2. Charities must be proactively transparent about their investment policies

The Commission considered several pieces of public polling data. A study by EIRIS and Holly Hill was particularly compelling.[1] 87 per cent of those who took part in this poll either worked for, volunteered for or donated to charities.

- 84 per cent of people surveyed agreed that charities should be fully transparent about their investments.
- 78 per cent 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.
- The Charity sector is already highly transparent and significantly regulated and so the Commission does not believe that further regulation in this area would be constructive. It is for individual charities to decide how to report on their investments, but within the context of the channels available to them, the Commission advocates a principle of *proactive transparency*.

Examples are to be found in the report and the Commission welcomed the innovation and ingenuity already present in the charity sector on this issue. The Commission urges those who do not yet see their investment policy as part of their identity to learn from these examples of good practice.

INVESTMENT IN CHARITIES: COMMUNICATIONS

- 49 per cent of charity leaders ensured details of their investments appeared in their Annual Report.
- 21.9 per cent don't report their investments anywhere.
- 1.6 per cent used the press and social media to platform their investment strategy.

Source: ACEVO data, Aug 2014. Of those surveyed, 75 per cent had investment portfolios under 1m

Recommendations

2.1. The Commission recommends that charities should adopt a *proactive transparency* approach to their investments. Policies should be made public rather than retained on internal documentation. We urge charities to follow the examples of best practice on communication highlighted in the Commission's report.

2.2. Irrespective as to whether they have adopted an ethical investment approach charities should disclose how their approach to investment best fits them as an organisation.

2.3. A charity's approach to responsible and ethical investment should form an important part of the main investment policy document. The published policy should reflect at least in part the decisions made by the trustees and senior charity leadership to invest in none, one or more of the responsible and ethical investment pathways highlighted in this report.

CASE STUDY: THE JOSEPH ROWNTREE CHARITABLE TRUST

The Joseph Rowntree Charitable Trust are proactively transparent in the information they have released online about their responsible investment policy. They detail their:

- investment policy;
- response to the Stewardship Code;
- holdings.

They have an investment policy which they have reflected upon and delivered, which they have made instantly available wto anybody who is interested. Stakeholders and beneficiaries can engage with what they are doing with ease.

3. Charities must come together and advocate to try to reduce the barriers – legislative and economic – to enabling their money to better match their mission

Public perceptions of the dilemmas and difficulties around ethical and responsible investment are incomplete. There remains little understanding of the risks, compromises and fee structures associated with more complex forms of ethical and responsible investment, the continuously developing state of the marketplace, and its relationship to a modern charity's holdings.

The Commission identified a significant gap in the market around knowledge sharing and collaboration to overcome these barriers – and to advocate for change using charity leaders' unique voice.

Recommendations

3.1. Collaboration is key. The Commission supports efforts from within the sector to create further knowledge sharing around investment communications, knowledge sharing, and activism corporate engagement. The sector should proactively investigate opportunities to strengthen existing groups by linking them together and creating a stronger collective voice.

3.2. The Commission's challenge to responsible and ethical investment providers is to engage with charities and to work with charity infrastructure bodies to create more products to cater to this expanding subset of clientele. This Commission will explore, beyond this report, the scope to create a special interest group for charities and financiers to discuss matters relating to advocacy and awareness-raising around ethical and responsible investment barriers and issues.

4. Charities have a *Responsibility to Reflect* on their Investments – and the largest foundations have a further *Responsibility to Innovate*

As our knowledge base grows the costs of not accounting for these impacts – and the public sentiment against them – will grow with it.

The Commission argues for development, reflection and, where necessary, change among all those with an interest in charity investments including charity leaders, trustees, finance professionals, regulators and legislators.

In line with the principles expressed above, further regulation in terms of duties or requirements is undesirable; we believe the change needs to be cultural, backed up by empowering legislation and dynamic leadership.

We need new norms and powers that help organisations move towards better understanding how they can align their mission with their money. Recent recommendations made in the Law Commission Review on Social Investments propose helpful new powers. Charity Commission Guidance CC14 and the terminology it uses is a helpful document but requires amendment in light of Law Commission proposals and would benefit from simplification. The dilemmas are complex enough when charitable organisations invest without the law making it even more so.

Recommendations

4.1. The Commission recommends that Charities recognise a *Responsibility to Reflect* on their investments, the communications around them and the arrangements that lead to them. The Commission has been impressed by the quality of case studies and leadership present in the third sector around this issue. The Commission hopes that these leading lights will encourage more charities and social enterprises to adopt good governance protocols and transparent communications processes that ensure that the integrity and well-deserved trust that accrues to third sector organisations is maintained.

4.2. The Commission recommends that all trustees and charity leaders recognise financial and investment education as part of their continuing professional development.

4.3. The Commission supports the Law Commission Review Proposals to create a Statutory Power of Social Investment for Charity Trustees. The Commission supports amendment of CC14 along these lines and further amendment and simplification of CC14 where possible.

4.4. Alongside the Law Commission's proposed powers and changes to guidance in this area, the Commission welcomes the proposed charity tax law changes driven by the Law Commission, which serve to explicitly permit social investment – and urges that they be implemented as soon as possible.

4.5. The Commission has further identified a leading role for major foundations around charity investments, to 'err on the side of innovation' with their investment policies. It proposes a *Responsibility to Innovate* incumbent on the largest organisations in their approach to their investments.

To find out more visit www.acevo.org.uk

A full list of Commission members and their biographies can be found in Appendix III of the report.

1. CONTEXT: CHARITY INVESTMENTS IN FOCUS

Consider the following dilemmas:

A large charity with significant investments is found to have some of their money invested in arms, alcohol and tobacco. They are the subject of intense media scrutiny. In response, they convene a steering committee to look at their investments and after a period of reflection announce a raft of measures including that they will "not make investments in companies that manufacture armaments or tobacco products or whose primary business is the manufacture of alcohol products". Have they done the right thing? Have they gone far enough?

A religious organisation which has argued against payday lending is found to inadvertently have indirect investment exposure, through a pooled fund, to a payday lender. They are criticised in the press. How can their behaviour be explained? How could they have avoided their difficulties?

A charitable foundation with several investments in impact funds – which invest directly and indirectly in social causes – decided that all of their investments should be in line with their mission. Rather than withdrawing any investments with large businesses, they decided to use more of these holdings to influence the world for good. Have they gone off-mission or are they on to something?

Charities invest for a variety of reasons. The majority, as per the Charity Commission's Guidance on Charity Investments, CC14 invest:

> *"in order to achieve a return so they can further their charity's aims."*[2]

The context for this report lies in the difficulties this apparently simple injunction presents; the dilemmas that often present themselves when social organisations engage in the wider marketplace. The three dilemmas above are all, in their own way, examples of this.

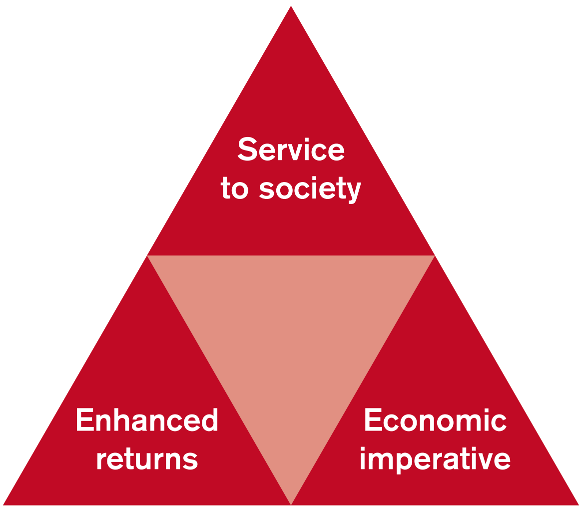
The first story above is that of Comic Relief, who were the subject of a Panorama documentary in 2013, and which provides some of the impetus for this report.

The second is the Church of England where the Church Commissioners, one of the Church's investing bodies, had indirect investment exposure, through a pooled fund, to payday lender Wonga. Whilst the investment did not breach the Commissioners' pooled funds policy, it generated a high amount of media attention before it was eventually sold. Those two stories present the challenge that this Commission has identified – the *reputational threat* caused by poorly aligned investments.

However, our work is not predicated merely upon threat. On the positive side there is opportunity to consider how a charity's money might further its mission: to use investments to *enhance an organisation's mission*. The third story is that of the Panahpur Foundation, whose journey to better align their money with their mission, among others, we will discuss later in the report.

1.1 Motivations

Figure 1: Spectrum of motivations for ethical and/or responsible investment



The above diagram is a very simple analysis of some of the *motivations* that inform the investment question.

Some investments are made purely to keep a charity's money under good management: the 'economic imperative.' Most charities can clearly argue that by keeping their money managed well, their services can continue to help their beneficiaries and the wider public. Some investments are made to 'enhance returns' and actually contribute to the coffers; for a charity this can translate to doing even more good with the money they have.

A third group takes us further still: its motivation is to use its investments to provide a further 'service to society' in and of themselves while generating various levels of financial return. In technical terms, this is where it can get complicated as different kinds of investment must be grappled with to meet different kinds of motivation or need. A further complicating factor is that more than ever the public are interested in these questions.

No one size will fit every single charity. But it is to assist with the technicalities and provide practical recommendations to brook the risks that this Commission was convened.

This report will not make the decision for charities on what to invest in. But we will provide a framework to understand the investment marketplace and how it can relate to a charity's mission and motivation – and indeed how this marketplace can enhance its ability to help others.

We begin with some definitions.

2. DEFINITIONS

One of the most difficult things about the charity investment marketplace is the fluidity of terms often used. Practitioners are often the worst culprits. Different people often use the same terms interchangeably or use hybrid, catch-all terms like 'socially responsible investment,' or 'sustainable investment' which are similar to key definitions within the marketplace.

We aim in this chapter to provide a commonly agreed, solid set of terms that go with the grain of the industry but that work for the charitable sector. A consolidated table of definitions (our 'Jargon Buster') is to be found in the appendix.

> EXPERT ADVICE FROM JAMES CORAH, CHURCH INVESTORS GROUP
>
> An important starting point for those considering investing ethically is to gain a solid understanding of the central terms from the sector. This will help to deliver your ideas to finance advisors and other investors.

2.1 Setting the Scene: Responsible and Ethical Investment

Charities looking to invest beyond the mainstream are initially confronted by a key distinction between *responsible* and *ethical* investment. Put simply, responsible investment is about safeguarding the long term *value* of an organisation's investments, while ethical investing is about reflecting an organisation's *values* in their investments. Let us drill down into the detail.

2.1.1 Responsible investment

The United Nations Principles on Responsible Investment (UNPRI) use an oft iterated definition of responsible investment:

> *"Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems. It is driven by a growing recognition in the financial community that effective research, analysis and evaluation of ESG issues is a fundamental part of assessing the value and performance of an investment over the medium and longer term, and that this analysis should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting. Responsible investment requires investors and companies to take a wider view, acknowledging the full spectrum of risks and opportunities facing them,*

in order to allocate capital in a manner that is aligned with the short and long-term interests of their clients and beneficiaries."[3]

CC14 – the Charity Commission's Guide for Trustees on investment matters – is clear in its recommendation that charities invest responsibly:

"We ... recommend that trustees should:

- *Agree the balance between risk and return that is right for their charity. This may include a wide range of factors that will impact on return including environmental, social and governance factors.*

- *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."*[4]

In practice this means working with investment managers who *control for* companies according to their environmental, social and governance [ESG] risks or *engaging with* them to improve their processes. The Commission articulates this as the first of four major pathways into the marketplace.

Pathway 1: Controlling for Environmental, Social, and Governance factors [ESG]

How a charity *controls for* ESG factors is ultimately down to their mission.

To take an example from business, companies operating in some emerging markets may be at higher risk of being implicated in bribery if inadequate corporate governance policies and processes have been implemented. Charity investments can adopt similar controls.

There is no established formula by which ESG risks are controlled for across the investment industry. For charity trustees and senior management it is therefore crucial to ascertain if the criteria that the investment manager has considered are germane to the charity's mission.

Charities must set out clearly in their investment policy their views on the relevance of ESG factors to long-term investment returns and their expectation that their fund managers should reflect this.

Their investment managers then have obligations that include *factoring in ESG risk* to investment decision making.

Charities should routinely ask their investment manager about their practices and processes. We provide examples of the key questions to ask later in this report.

Pathway 2: Corporate engagement

Engaging with the companies that a charity has investments in to influence a change in business practice is the second pathway.

CC14 is clear that *"Investment managers should vote and engage with the company management as a matter of course."*[5]

The Financial Reporting Council's *Stewardship Code* also plays a key role here. It was produced by the UK's independent regulator for promoting high standards of corporate governance. It seeks to encourage higher levels of engagement between investors and investee companies. Investment managers are strongly encouraged by the Financial Reporting Council to adopt and to make a public response to the Stewardship Code.[6] In the Code, 'stewardship' is defined as follows:

> *"Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole... For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings."*[7]

There are many forms this can take. Larger organisations may engage with companies directly. Investment managers may seek to engage on an investor's behalf, in accordance with the Stewardship Code.[8] This often includes engagement over ESG issues and ensuring that responsible investment practices are being followed.

Some charities also seek for engagement to be conducted with companies on the ethical issues that matter to them. This is the juncture at which responsible investing moves into ethical investing.

2.1.2 Ethical Investing

Ethical investing means "investing in a way that reflects a charity's values and ethos and does not run counter to its aims."[9]

Ethical investing is about ensuring that the values that inform a charity's mission are captured within the terms of its investments. There are two additional major pathways into ethical investment: *screening* and *positive investment*, but first let us consider the how corporate engagement can promote a charity's values.

Pathway 2 (continued): Corporate Engagement

Corporate engagement can have a significant role to play in promoting a charity's values and ethos.

There is a flourishing ecosystem in this area. Third party organisations like ShareAction's Charities Responsible Investment Network and the Church Investors Group bring charities together to engage on specific issues. And some activist organisations buy shares with the sole intention of positively engaging on these issues.[10] We include some case studies below.

VOTING AT AGMS TO INFLUENCE POLICY: SHAREACTION

ShareAction, a registered charity, organised questions at 80 company AGMs in 2014, involving 91 people, mostly from the charity sector. Charities who were involved in AGM season include: Access, Action Aid, Christian Aid, Citizens UK, WWF-UK, Friends of the Earth, Oxfam, Reprieve, World Development Movement.

The range of topics raised at AGMs was broad. These were: living wage; tax justice; climate change/sustainability; workers' rights abroad; gender equality; high pay; company lobbying/political donations; farm animal welfare; financial transparency; ethics of the communications industry; digital rights; human trafficking and modern day slavery; product safety; zero hours contracts; child labour.

72 questions received answers. 37 confirmed the company was open to further discussion or to meeting on the issue. 35 that the company was actively engaged with the issue and committed to taking action on it.

INFLUENCING AGMS: CHARITIES ARGUING FOR CHANGE

While investment managers will conduct much of their engagement activity in private with senior representatives several, larger, charities have been able to use their shareholdings as a means to ask companies questions in public.

Sustained questioning from shareholders on a topic can ensure an issue remains a high priority for a company from one AGM to the next. This can lead to a change in corporate behaviour over time.

In 2013, an employee from Christian Aid went to the Lloyds AGM asking about the company's reliance on tax havens. The CEO said the firm would embark on a systematic review of the practice.

Another employee from Christian Aid's Edinburgh office asked the CEO for an update on his pledge made at the 2013 AGM, following shareholder pressure, to close the bank's subsidiaries in tax havens unless there was a strong business case for its customers to hold assets and do business there.

The Chairman replied that much progress had been made, stating that the bank now has operations in only three jurisdictions that might be labelled tax havens – down from more than 200 in 2013, when Lloyds was thought to be the seventh largest user of tax havens in the FTSE 100. He revealed he was satisfied that there were legitimate business reasons for being there.

Pathway 3: Screening

Ethical screening predominantly involves organisations coming to an understanding about the kind of corporate activities that they do not wish to support and restricting investment in this area (so-called 'negative' screening). Of charities investing ethically or responsibly, around three quarters use negative screening.

Screening typically begins with an appraisal by the trustees and senior staff of the unacceptable activities a potential investee could carry out. The CEO and trustees might create a list of the kinds of industries and activities that their charity is not prepared to support through their investment. This is their ‘exclusions’ or ‘restrictions’ policy.

Some exclusions are simple. A cancer charity will almost certainly not wish to invest in tobacco. However many companies may have some exposure to activities that a charity may consider to be undesirable. Businesses, such as supermarkets, that profit from the sale of tobacco products can present a problem for the policy maker. To solve this and similar problems, charities often set a *materiality* threshold: if more than a certain percentage of the company’s income is from an excluded industry, the charity will not invest. This approach normally captures most of the companies that you would immediately associate with the undesired activity.

Charities may also want to adopt zero-tolerance limits on activities that they consider to be the most unacceptable, such as the production of cluster bombs (a weapon banned by international law).

It is the job of the investment manager to understand and implement the policy. Evidence and research suggest that well controlled and targeted restrictions should not negatively impact a charity’s investment returns over the long term.[12] Many investment managers suggest that charities use a ‘restriction budget’, a percentage of the investible universe that they can restrict in order to limit the risk of adverse financial consequences. Implementation is a constant conversation; a charity’s investment manager should be able to highlight how any ethical restrictions work in practice and over time.

And while we will discuss this further later in the report, it is important at this juncture to acknowledge that, through positive engagement, ethical investment practices can be used to encourage changes in business behavior. Many leading charities are using their ‘restriction budget’ to target the companies that most contradict their values and asking their fund manager to conduct engagement with companies on issues of secondary concern.

SCREENING AS PART OF A MOVEMENT: FOSSIL FUELS

A study by the University of Oxford found that divestment from fossil fuel companies has outstripped that from tobacco, armaments, gambling and pornography. Already around 900 organisations, including nearly 200 charities, have divested from fossil fuels – compared to 80 organisations and funds that have divested from tobacco equity.[13] Indeed divestment from fossil fuels is the fastest growing divestment campaign that there has ever been.

Current campaigns including Divest-Invest, gofossilfree.org, 350.org, and Operation Noah are trying to persuade individuals, large companies and charities to divest from fossil fuel companies. Estimates are that groups managing around $50 billion have joined the movement, and it is continuing to grow. Here are some approaches.

Pledging: group exclusions

Many divestment campaigns involve a 'pledge.' These are the divestment commitments made by the signatories to the campaign, and often define the terms – and sometimes the method – of the charity's divestment Divestfossilfuels.org asks signatories to pledge "to divest from all direct investment in the prospecting, extraction, transport, sale and the burning of fossil fuels and maintain our investments as fossil fuel free."

Divest-Invest recommend three steps for divestment. First, conducting an assessment of exposure to climate change risk, then launching a dialogue amongst board and staff on investment strategies that align investments with mission, and then commit to a timetable and process.

More complex screening based on mission

The Joseph Rowntree Charitable Trust (JRCT) pledged to a divestment campaign. Their decision was based on how their own charitable mission was affected by climate change: that it represents an injustice, as it is predominantly created by the rich, and predominantly affects the poor. Alongside their pledge, the JRCT have come up with a number of other exclusion criteria. For example, they will not fund measures that are limited to adapting to the effects of climate change rather than leading to long-term change.

Debating exclusions

Oxford Diocese pledged to examine its own investments and called on the Church of England to divest from fossil fuel companies, following a full debate. They felt that any decisions made should come from a debate and a vote, as these divestments are an ambiguous and complicated issue.

Pathway 4: Positive investing

Positive investing involves making investments which generally accept a lower rate of return whilst seeking to actively promote good, rather than simply seeking to minimise or avoid causing harm.

Impact investing and *social investing* are types of positive investing. These terms are used interchangeably by some commentators. Other commentators make the distinction that impact investments are investments in companies dealing with social problems whose performance is a significant factor in making the investments, while social investments are investments in any organisation dealing with a social problem, where the need to find a solution trumps unequivocally the investee's financial performance.

Positive investing of any kind is challenging. A charity must identify a cause with which it wishes to engage. Specialist firms will help with the process of creating a policy that 'screens in' and includes appropriate investments – rather than screening them out. Impact or social investments are moreover something of an unknown quantity that the charity sector is only just beginning to understand – but that is generating a great deal of interest as a way to do well and do good in an innovative way.

The promise of positive investing is that it allows money to be aligned absolutely with the mission of the charity. The dilemma however with which charity leaders must grapple is whether higher risks and lower returns associated with some of these relatively new products will lead to problems.

2.2 Overlap Between Ethical and Responsible Investment

The issues that many charities care about from an ethical, values-based approach are also responsible investment issues.

For example, a cancer research charity may choose to restrict investment in tobacco companies because they contradict their values; responsible investors may have concerns over the impact of future regulation on their invested value.

The major methodologies for ethical and responsible investment can also be similar, as investors alter their investment portfolio by screening out or in, or engage with companies to fit responsible or ethical criteria. As we have seen, corporate engagement can be both a responsible and an ethical strategy.

	Altering your portfolio	Engaging
Ethical Investment Policy (set by the charity)	Avoiding/promoting (screening out or in) companies to fit a charity's aims	Getting active: bringing about corporate change in line with your charities mission
Responsible Investment (covered by the fund manager)	Avoiding investing in companies who are behind the curve on ESG – and who may be more likely to experience a significant negative event due to their poor practices or future regulation	Helping companies transition to changing contexts (for example working with utilities companies moving to a low carbon economy)

The key question for a charity is: how do each of these pathways serve the mission? To use the language of the previous chapter: what balance between 'service to society', 'enhanced return' and 'economic sustainability' does the ethical or responsible option and some or all or none of pathways within each, offer relative to the requirements of the trustees, the leadership, supporters, beneficiaries and an increasingly activist, interested public?

A NOTE ON TERMINOLOGY

The terms used by the ACEVO Commission to describe the charity investment marketplace deviate slightly from those used by the Charity Commission, most obviously in the (SORP) and CC14. Two additional terms in particular are used throughout those pieces of guidance that this Commission does not advert to: Programme Related Investment and Mixed Motive Investments.

Per the Charity Commission, a programme related investment is an asset held by a charity that provides investment funding to individuals or organisations in order to directly further the charitable purposes of the investing charity; any financial return obtained is not a primary reason for making the investment. This is covered under the heading of positive investment in this Commission's work.

A mixed motive (or mixed purpose) investment is an asset held by a charity that provides funding to individuals or organisations in order to generate a financial return for the investing charity and it also contributes to the investing charity's purposes through the activities or related tangible fixed assets funded by the investment. A mixed motive investment can be distinguished from a programme related investment in that the investment is not made wholly to further the investing charity's charitable purposes.

The Commission believes that the latter term does not best reflect the purposes and motivations behind charity investments. All charity investments are motivated by the charity's mission, whether it is to secure maximum resources to fund their activities (a means to an end), or where their investments are directly part of their activities (an end in themselves). Following similar sentiments expressed across the sector, the Charity Commission has acknowledged these deficiencies. As such the term plays no part in this work.

2.3 Mission Control: The Challenge

Competitive returns

Ensuring against risk for the long term

Turning reputational risk into an opportunity to align money with mission

Service to Society

Return	Responsible and Ethical Investment				Impact
Limited or no focus on ESG factors of underlying investments	**Focus on ESG risks** ranging from a wide consideration of ESG factors to negative screening of harmful products	**Focus on ESG opportunities and ethical screening** through investment selection, portfolio management and engagement with companies	**Focus on one or a cluster of issue areas** where social or environmental need creates commercial growth opportunity for market rate or market beating returns	**Focus on one or a cluster of issue areas** where social or environmental need requires some financial trade off	Focus on one or a cluster of issue areas where social or environmental need requires 100 per cent financial trade-off

The above diagram, adapted from a chart by impact investor Bridges Ventures from 2012,[14] synthesises the above chapter into a spectrum of motivations for any charity with investments to make. The coloured bars represent those motivations. To the furthest left you have a purely financial investment. To the furthest right, you have a grant.

To reiterate, it is not the intention of the Commission to mandate that charities adopt any of the ethical or responsible investment practices identified; every charity will have a different context and will need to take a different approach. The commission's challenge for the sector, for charity leaders and trustees is that, wherever on the spectrum of motivations you fall, you should understand why, relative to your mission, your investments are as they are – and be satisfied that they are right for your mission and that you can explain this reasoning to others.

How effectively are charities currently engaging with this proposition? This is the subject of the next chapter.

3. THE STATE OF THE MARKET: RESPONSIBLE AND ETHICAL INVESTMENT IN THE CHARITY AND SOCIAL ENTERPRISE SECTOR TODAY

Currently, charity reserves are being used to generate an investment income of over £3,614,000,000 per year. On average, around 6 per cent of charities' annual income comes from their investment portfolios. 1,990 very large charities, with reserves of over £5 million, account for nearly £2 billion of charity investment income. How is this block of money being invested? That is the subject of this chapter.

3.1 Charity Investments Today: An Overview

There are 164,097 charities in the UK, holding over £63.8 billion of reserves as of September 2014. This figure has been steadily increasing, rising from a low of £37.4 billion in 2008/9.

Charity reserves are essential for the health and longevity of individual charities, and the sector as a whole: they form a vital 'buffer zone' for charity sustainability. Maintaining and growing these reserves is a priority for the majority of operational charities.

These funds can also be, depending on the reserves policy of the charity, available to be invested. Charity Commission Guidance CC19 recommends that a good reserves policy will take into account the charity's financial circumstances and other relevant factors. Dependent on the financial requirements of the charity, reserves may or may not be used for investment.

Reserves held by charity as at 30 September 2014	Charities with this level of reserves	Investment Income £000s	Total Income £000s
£0 to £10k	77,602	38,431	238,004
£10k to £100k	55,207	300,747	2,021,498
£100k to £500k	20,940	526,366	4,651,079
£500k to £5m	8,358	790,051	12,643,927
Over £5m	1,990	1,958,799	45,285,378
Total	164,097	3,614,394	64,839,886

3.2 The Development of the Marketplace

TOWARDS TODAY'S ETHICAL AND RESPONSIBLE INVESTMENT MARKETPLACE

It is worth for a moment considering how today's ethical and responsible marketplace has developed, before we reflect on charities' engagement with it.

Investing to do no harm – or indeed to do good – is as old as capitalism itself. Even before the first forays into stock exchange that took place in Sweetings Alley in London in the seventeenth century, church elders in Perugia, Italy had found ways to help the poor through a system of loans that helped them circumvent theological rules against usury. This was an early form of impact investment, of the church investing as part of its mission.

Quaker-owned companies such as Rowntree and Cadbury were pioneers in aligning mission and capital. But a widespread, global movement of funds only began to take place and be reported upon in the last few decades, most notably during the 1980s when investors were keen to 'screen out' investments in certain companies (notably Outspan oranges in Apartheid-era South Africa). An ecosystem has developed of stocks, shares and funds that seek to limit the harm of corporate activity and indeed to do good, with their own index series, including the most well known in the UK, FTSE4Good.

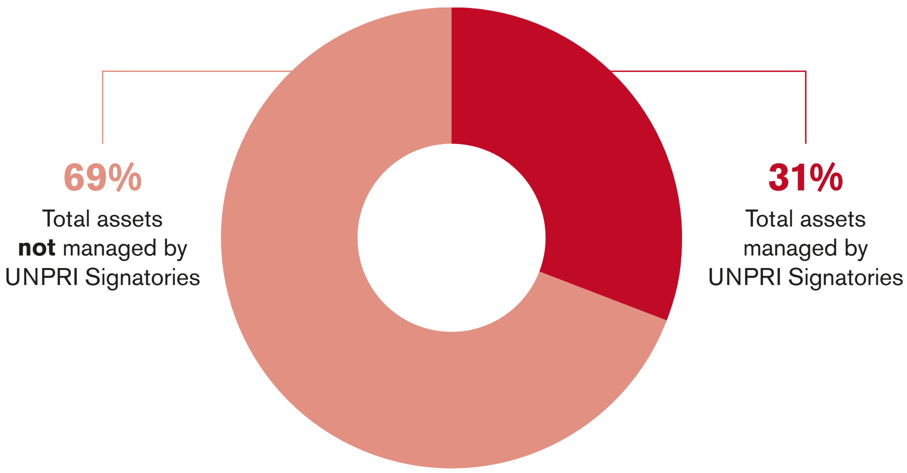
Institutional awareness of ethical and responsible investment was aided by law. The 1995 Pensions Act acted as a catalyst for the wider adoption of ethical and responsible investment by institutional investors.[15]

The Act amended the Statement of Investment Principles (SIP), that all pension funds need to make, adding a disclosure as to, 'the extent to which social, environmental or ethical considerations are taken into account in the selection, retention, and realization of investments,' and their policy in regards to, 'the exercise of the rights (including voting rights) attaching to the investments'. As such, a survey by the UK Sustainable Investment and Finance Association in 2011 found 'early signs of a step change in the number of corporate pension funds that are responding to the case for responsible ownership and investment.'[16]

According to research company EIRIS, the UK responsible investment market was estimated at £4.2 billion at the end of 2003.[17] On the 30th June 2013 there was approximately £12.2 billion invested in Britain's ethical retail funds.[18] This also represents a 10-fold increase since June 1996. Across the world, ethical investment institutions now have $13.6 trillion in assets.[19]

There have been parallel movements. $45 trillion are held in funds which are signatories to the UN's Principles of Responsible Investment.[20] They are used by 1,277 signatories; 185 are UK-based. Currently there are limited numbers of non-profit organisations that have become UN PRI signatories in their own right. Notable examples of those who have signed up include Comic Relief and the Joseph Rowntree Charitable Trust.

Figure 2: Percentage of Global Fund Management Industry's Total Assets ($146 trillion)[21] managed by UNPRI Signatories in 2013[22]



From a standing start, impact investment has grown to £202 billion worldwide in 2012,[23] aided by strong government intervention and alliances of business, finance and lawmakers. Forecasts from the City of London Corporation suggest that the marketplace could top half a trillion by 2015.[24]

RESPONSIBLE INVESTMENTS: PERFORMANCE

A 2012 study by Deutsche Bank pitted 150 'responsible' S&P 500 firms – companies that did not raise concerns regarding their approach to the environment, product safety, or employee relations – against the performance of the S&P 500 as a whole. This analysis revealed that the 'responsible' portfolio had 'slightly superior average returns and only marginally more risk despite having 70 per cent fewer stocks.' The graphs below indicate that in the short term, returns on responsible investments are similar to those of the S&P 500 as a whole, but in the long-term, cumulative returns from 'responsible' companies can outperform.

Figure 3: Industry-based responsible portfolio vs. S&P 500, monthly returns

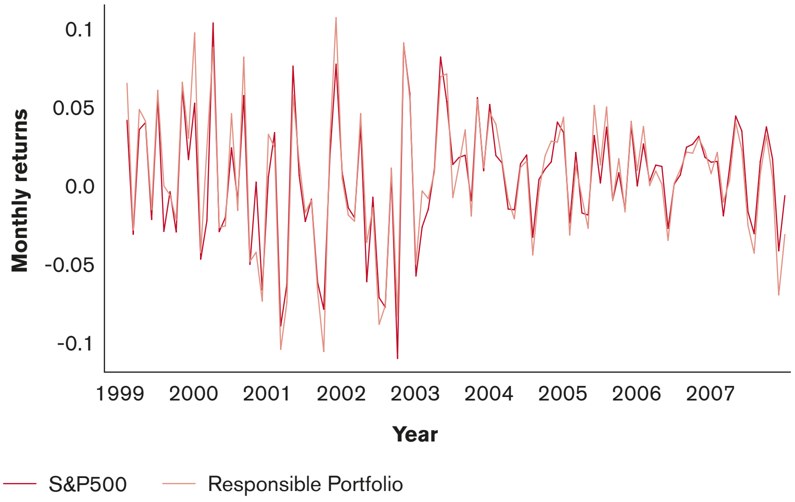


Figure 4: Industry-based responsible portfolio vs. S&P 500, cumulative returns

Source: See 'Investing for Change: Profit from Sustainable Investment', Landier, Augustin, & Nair, Oxford University Press, 2009

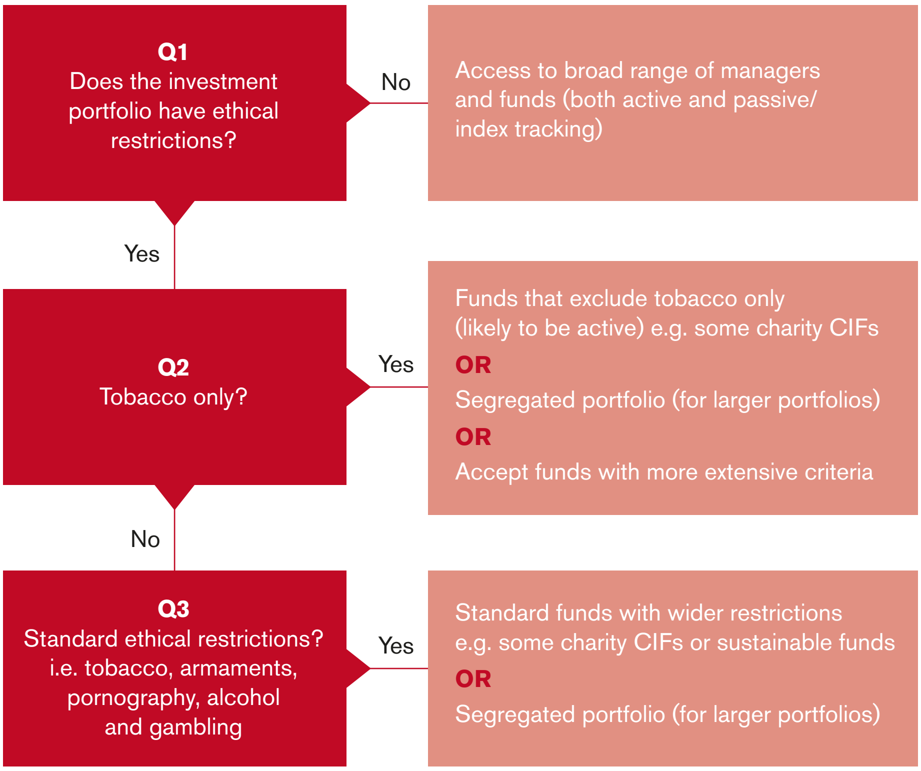
3.3 Charities and the Marketplace – market-based dilemmas for small and medium sized charities

Even for a larger charity, engaging with the fast-developing ethical and responsible marketplace poses dilemmas and trade-offs.

There is a further layer of complication for smaller and medium sized charities. This sizeable majority, with an investment portfolio of less than £5 million (as per the table above) are effectively restricted to 'pooled' investment management options. It is more difficult and cost-prohibitive for these charities to have a bespoke responsible and ethical policy and so they often accept standard restrictions. Clearly, the more standardised the restrictions, the lower the risks to financial return. However also, without knowing precisely what companies are in the pool, the greater the chance there is of going – or being seen to be going – off mission. Investing in a fund that in turn has holdings in an undesirable organisation – the Church Investors' group's operation with Wonga was an example of this sort of *indirect investment* – can catch out even the most mission-attuned investor.

Moving to more specialist or bespoke options carries higher fees and costs. Proliferating restrictions can increase risks and reduce the choice available to the charity investor as the portfolio becomes more volatile – as demonstrated below.

Figure 5: Investment management options for charity portfolios with ethical investment criteria



A tougher financial climate has provided further challenges. Since the financial crisis, according to a survey conducted by *Charity Times* magazine of foundations in the UK and Europe whose portfolios total £64.2bn, around half those surveyed had restructured their portfolio. Of that half, 38 per cent moved to a more conservative investment strategy. Only 19 per cent of the remainder increased their allocation to responsible or ethical funds.

This contrasts unfavourably with the US, where 81 per cent of foundations were looking to increase their exposure to ethical or responsible funds, even following the recession.

This suggests a level of conservatism or caution in the UK relative to the US that may be exacerbated by the different appetites for risk of donors to and trustees of US charities – or indeed of the wider investment advice industry. Or it may be a reflection of the fact that the marketplace – despite the great strides it has made – is still not quite adequately catering to the very diverse requirements of a very diverse charity sector.

3.4 Polling and Research

As part of this enquiry, ACEVO commissioned a broad ranging survey into the current state of charity investment.[25]

While it is not an exhaustive survey of the sector, in concert with data from other sources, it gives us a picture of how the sector is currently going about its investing.

INVESTING ON MISSION: UPTAKE

- 47 per cent of those surveyed ensure that anything they invest in is consistent with their charity's mission, even if it means compromising returns.
    - 30 per cent invest in a way that supports their mission, and are able to do so without compromising returns.
    - 7.5 per cent consider the return on their investment is unimportant, and make investments solely to achieve impact.
- 36.9 per cent perform a history check of the companies they invest in:
    - 26.4 per cent have their deposits or reserves invested in ethically screened funds.
    - 7.5 per cent invest in impact or programme-related investments whose work furthers their charitable objectives.
    - 2.4 per cent have funds invested in social investment programmes.

Source: ACEVO data, Aug 2014. Of those surveyed, 75 per cent had investment portfolios under £1m

ETHICAL INVESTMENT: STRATEGY

- The most screened-out stock was tobacco, with 79.5 per cent of charities with ethical screening strategies refusing to invest in it.
- Armaments run a close second, avoided by 74.7 per cent of charities.
- Over half of charities didn't invest in alcohol (50.6 per cent).
- Gambling (61.4).
- Pornography (72.3 per cent).
- Animal testing for cosmetics (53.0 per cent).
- The fur trade (54.2 per cent).

Source: ACEVO data, Aug 2014. Of those surveyed, 75 per cent had investment portfolios under £1m

4.3.1 The conversation around ethical and responsible investment

As germane to the question of how charities are investing is the question of how they are communicating their investment policies.

INVESTMENT IN CHARITIES: COMMUNICATIONS

- 49 per cent ensured details of their investments appeared in their Annual Report.
- 21.9 per cent don't report their investments anywhere.
- 1.6 per cent of those surveyed used the press to platform their investment strategy.

Source: ACEVO data, Aug 2014. Of those surveyed, 75 per cent had investment portfolios under 1m

The Commission worked with PwC to examine the investment disclosures of 35 major charities, including several of the largest charities by turnover in the UK, in their Annual Reports and public statements of investment principles.

We located several examples of good practice, where a clear statement has been made of policy, motivation and strategy. We share them here as an example to others.

- Save the Children UK exclude companies whose practices are considered to be in conflict with the United Nations Convention on the Rights of the Child 1989 and with Save the Children's objectives.
- Cancer Research UK write that 'Smoking causes around a quarter of all cancer deaths in the UK and it is the Charity's policy not to invest, directly or indirectly, in tobacco companies or related businesses'. Macmillan and the British Heart Foundation also avoid direct investment in tobacco.
- The Church Commissioners are clear that their investments made not to profit from or provide capital to activities that conflict with Christian values. They want to see Christian values in interaction with world of business.
- Marie Stopes will not invest if the company compromises the charity's commitment to sexual and reproductive rights.

Where external bodies – such as the Methodist Church's Central Finance Board – had been used, reference was made to this and to their policies. For example:

ACTION FOR CHILDREN

'The CFB has a social, environmental and ethical investment policy that is consistent with the aims, objectives and ethical policy of the charity.... The CFB ethical investment policy precludes investment in companies whose principal purpose in involvement with alcohol, tobacco, pornography and armaments, or the companies that use child labour.'

Some charities mentioned using ESG criteria.

CONSTRUCTION INDUSTRY TRAINING BOARD

'CITB invests available funds within strict guidelines set by Government. These are designed to ensure that the risk of loss is minimised and the range of investments available is consequently tightly controlled. Environmental, social and ethical factors are considered to the extent permitted by current guidelines.'

The Church Commissioners disclosed their corporate engagement.

THE CHURCH COMMISSIONERS

'We are active owners of investments, vote at company AGMs and engage with companies in which we invest.'

ACEVO/PwC Analysis – The Good Practice Table

The amount of information charity presents on its investment policy and strategy in its Annual Report	Charity Name		
Best practice case studies	Save the Children UK (Charities investment policy gives a clear explanation of Charities attitude to responsible and ethical investment. There is also a separate section in the report dedicated specifically to ethical investment)	The Church Commissioners (Present a very detailed report on its ethical investment strategy. The only charity which reports to be guided by more than one responsible and ethical investment strategy)	Action for Children (Provides a detailed description off the investment policies of the Methodist CFB)
Commended: Charity reported in its Annual Report that it had an ethical investment strategy in its Annual Report and gave details of it	United Church Schools Foundation, British Heart Foundation, British Red Cross, Barnardos, Construction Industry Training Board, Sightsavers, Macmillan Cancer Support, Methodist Homes, Leonard Cheshire, Action for Children, Wellcome Trust, Marie Stopes International Charity, Cancer Research UK		

4.3.3 Leadership

EXPERT ADVICE FROM EMILY KENWAY, SHAREACTION

CEOs of charities should take a leadership role in construction of their organisation's ethical investment policy in order to provide the best possible expertise on the ethical values of the charity.

Despite the expert advice above, the research highlighted some knowledge gaps among charity Chief Executives on their organisation's ethical and responsible investment policy.

ETHICAL AND RESPONSIBLE INVESTMENT: WHO IS 'IN THE LOOP'?

- 80.2 per cent of charity leaders knew what their investment policy was and could speak to it.
- 49.3 per cent of charity leaders surveyed took an active role in setting investment policy and deciding where money was to be invested.
- 29.9 per cent delegated details to finance teams though knew what the policy was.
- 1 in 5 Chief Executives didn't feel qualified to play a role and kept out of conversations about investments, or did not know what their charity's responsible investment policy was.

Source: ACEVO data, Aug 2014. Of those surveyed, 75 per cent had investment portfolios under £1m

We strongly recommend that charity leaders create the conditions for conscious investment policy setting and communicate these ideas within their organisation and to their supporters, beneficiaries and to the wider public. We are clear that charity leaders – including the Chief Executives and senior leadership team as well as charity trustees – must be part of that conversation and able to speak to it. This is a widely shared view, as we discuss in the next chapter.

4. PEOPLE CARE: OPINION DATA ON CHARITY INVESTMENTS

Polling research demonstrates that, when brought to the public's attention, the issue of charity investments elicits strong responses among the public.

4.1 Research Data

A GfK NOP poll of 2,000 UK adults for EIRIS found that 52 per cent of the general public would be unwilling to give to charities that are investing in a way that is against their objectives, and a further 31 per cent would be less likely to give overall.[26]

- 91 per cent of those surveyed in that poll agreed that charities should be investing their money in an ethically or socially responsible way.
- 81 per cent said that if they discovered a charity was not investing in this way it would negatively affect their view of the charity.
- 83 per cent indicated that it would make them less likely or unwilling to give to the charity.

EIRIS in conjunction with Holly Hill Trust conducted a similar exercise in 2011.[27] 87 per cent of those who took part in this poll either worked for, volunteered for or donated to charities.

- 84 per cent of people surveyed agreed that charities should be fully transparent about their investments.
- Crucially, 78 per cent 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.
- 77 per cent said they would think worse of a charity if they knew it had funds invested in any activities with 'harmful impacts'. In this context, the sample were most interested in companies with human rights records and animal abuse records.
- 70 per cent of people felt charities should not invest in companies with a poor human rights record. This was followed by animal rights where 58 per cent of people felt charities shouldn't invest in companies with a bad record in this area.

On the positive side, 78 per cent of those surveyed would 'think better' of a charity if it invested in socially or environmentally beneficial services and products and 60 per cent felt that impact investments presented an opportunity for larger charities to move their portfolio across.

The overwhelming message from the public polling connects the idea of responsible and ethical investment with trust. Trust in charities, according to 2014 data from Ipsos Mori,[28] remains high. However the data suggests that this trust could be compromised on this issue.

It should be remarked that all polls on this subject are skewed to the extent that these issues must be brought to the attention of the public before they are to be commented upon. It is surprising to some that charities even have reserve funds to invest, despite the fact that all organisations need at least some reserves to give them a modicum of stability. This feeds into a wider debate about public perception and opinion of the role of charity in the twenty first century and the importance of transparency more generally to twenty first century organisations, institutions and to the public.

The good news is that the charity sector is willing to rise to that challenge.

4.2 Interest

The primary research conducted for the Commission captured a broad range of current *opinion* from the charity sector on ethical and responsible investment.

ETHICAL AND RESPONSIBLE INVESTMENT: INTEREST[29]

- 83.3 per cent of Charity Leaders wanted their organisations to prioritise ethical concerns over financial concerns in their investments in theory.
- 47 per cent of the above respondents said that they would be prepared to compromise profits in pursuit of these aims.
- 28.8 per cent would like their organisations to invest in mainstream companies in a way which positively supports their own mission/society more broadly.
- Only 5.7 per cent said that there was a lack of interest amongst trustees.
- Only 2.9 per cent of respondents said they didn't know or had no interest in knowing why they didn't use ethical or responsible investment.

Source: ACEVO data, Aug 2014. Of those surveyed, 75 per cent had investment portfolios under 1m

4.3 Why Invest Ethically and/or Responsibly (and Why Not)?

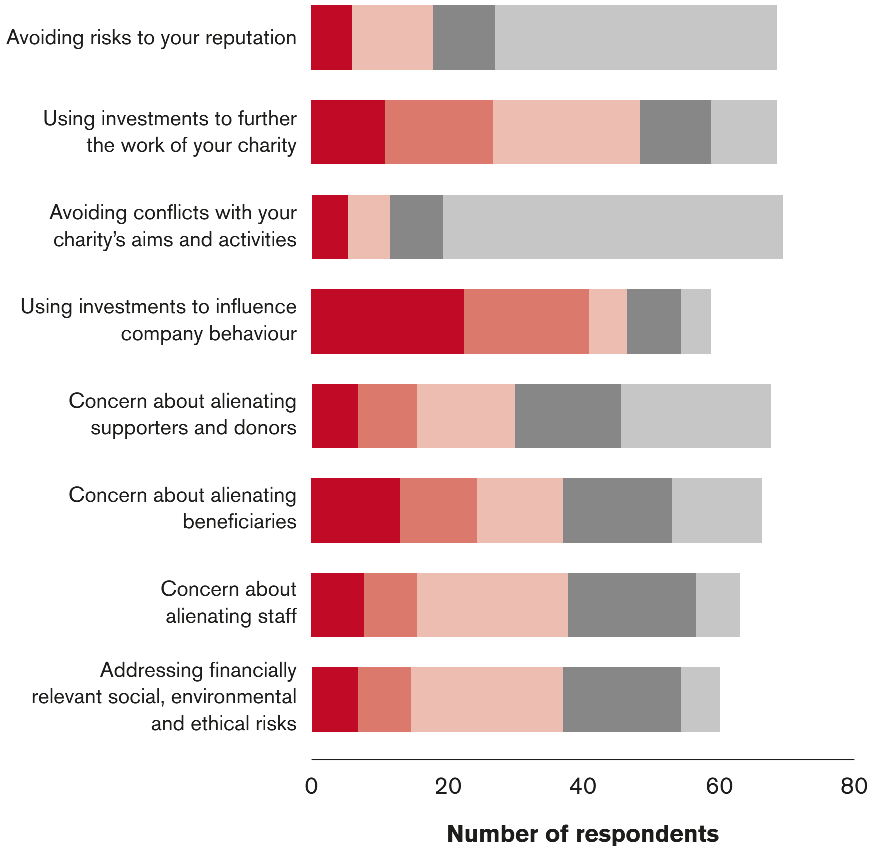
The PwC study examined what larger charities disclosed in their annual report and accounts as to the reasons for investing ethically in their disclosures. The following received commendations from the commissioners for their transparency around their reasoning behind their investment policies:

- Leonard Cheshire: 'The trustees believe that the charity should have a social conscience and be prepared to invest in ethical investment products, provided the investment return is similar or better than other equity investments.'
- The Church Commissioners: 'We seek to witness Christian values in our interactions with the worlds of investment and business'.
- Save the Children UK: 'Investment should not alienate either our beneficiaries or supporters.'

A complementary piece of work was undertaken by the CDFG (now CFG) and EIRIS in 2009 examining charity foundations.[30]

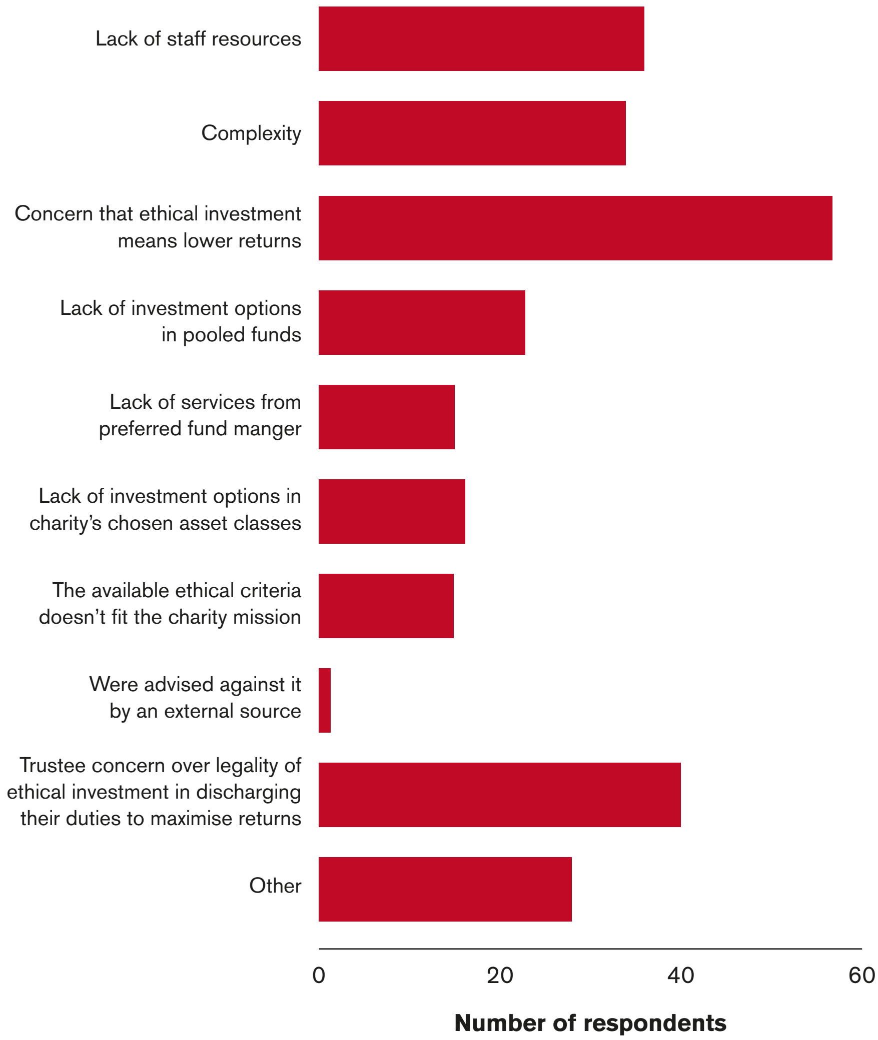
Figure 6: Drivers for socially reponsible investment

In the CFDG/EIRIS Foundation survey, the key reasons charities gave for investing ethically were avoiding conflicts with the charity's aims and activities (73 per cent) and reputational risk (62 per cent). These were followed by concern about alienating supporters and donors (32 per cent). This suggests a growing understanding of the importance of investments in risk management and the dangers of undermining charitable activities.



At that time in particular, there were concerns that ethical and responsible investments resulted in lower returns and that trustees remained concerned about their fiduciary duties.

Figure 7: Barriers to socially responsible investment



4.4 The Marketplace

ETHICAL AND RESPONSIBLE INVESTMENT: OPINIONS ON MARKETPLACE AND MARKET INTELLIGENCE[31]

- 56.1 per cent of charities received advice around ethical and responsible investment while investing their money.
- 31.4 per cent of charities not investing responsibly or ethically cited lack of information on implications for their returns as the reason.
- 45.7 per cent of charities not investing responsibly or ethically cited a lack of suitable investment vehicles as the reason.

Source: ACEVO data, Aug 2014. Of those surveyed, 75 per cent had investment portfolios under 1m

The opinion polling data on the marketplace provides a challenge. With half of those polled citing a lack of suitable vehicles as the issue, there is clearly work for the investment industry to do if it is to better meet the needs of charities – or communicate the products that already exist.

And there is work for charity leaders, trustees and finance experts to do if they are to explain the needs of charities to the market. Or indeed to create conditions in which they have the knowledge at their disposal to be satisfied with the marketplace as is – and their power to engage with it.

5. POWERS AND BARRIERS: THE DEVELOPING FRAMEWORK FOR CHARITY INVESTMENTS

This chapter is not an exhaustive guide to the law as it stands or as it has developed. It is designed to illustrate some of the key legislative powers and to highlight some of the behavioural barriers that arise for a charity looking to align their money with their mission. We summarise the key points of law and guidance in this area and debunk some common myths.

5.1 A Charity's Duties

Charities have unique duties and obligations in law to ensure that a charity's funds are well-managed. These fiduciary duties are incumbent upon a charity's **Chair and trustees** who must ensure that all investments are made sensibly with an eye on a charity's future financial stability. They also have a number of powers including a *power to spend* a charity's money and a *power to invest* a charity's reserves.

The **Chief Executive and Senior Management Team** of a charity or social enterprise report to the board of trustees and have a professional responsibility to ensure their organisation's sustainability and to ensure that funds are invested and disposed of appropriately.

A number of different pieces of legislation and regulation give further shape to these duties.

5.2 The Trustee Act

The Trustee Act (2000) legally obliges trustees to manage the financial affairs of the charity with prudence, and to seek to maximise returns. The Act provides for:

- A statutory duty of care placed upon charity trustees.
- Statutory investment powers for charity trustees.
- Over-riding responsibility to follow the objects and powers set out in the charity's constitution.

Compliance with these legal duties underlies executive and trustee attitude to risk.

More specifically, in order to act within the law, trustees must:

- know, and act within, their charity's powers to invest (legal requirement);
- exercise care and skill when making investment decisions (legal requirement).

Trustees must also select investments that are right for their charity. This means taking account of:

- how suitable any investment is for the charity;
- the need to diversify investments (legal requirement);
- take advice from someone experienced in investment matters unless they have good reason for not doing so (legal requirement);
- follow certain legal requirements if they are going to use someone to manage investments on their behalf (legal requirement);
- review investments from time to time (legal requirement);
- explain their investment policy (if they have one) in the Trustees' Annual Report (legal requirement).

KEY INFORMATION: SORP DISCLOSURES REQUIREMENTS FOR INVESTMENTS

The charities SORP (Statement of Recommended Practice) gives guidance on financial accounting and reporting for charitable entities. The Charity Commission and the Office of the Scottish Charities Regulator are responsible for issuing the Statement of Recommended Practice (SORP) for charities. The current SORP applicable to charities preparing their accounts, effective from 1 January 2015 was published in July 2014.

The SORP requires that larger charities that are subject to statutory audit must include an explanation of the charity's policy for the use of programme related investments and mixed motive investments in the trustees' Annual Report when such holdings are material.

Per the SORP, the Trustees' annual report must include an explanation of the use the charity makes of the following:

Ethical investment policies and the value of investments held in pursuit of particular ethical investment policies may be identified separately in the note to the accounts analysing investments.

Social investment, when this forms a material part of its charitable and investment activities. In particular, the report must provide an explanation of its social investment policies and explain how any programme related investments contributed to the achievement of its aims and objectives,

The report must also explain the investment's performance in relation to the objectives set by the trustees.

Small charities use the SORP for the Financial Reporting Standard for Smaller Entities. Small charities are defined as a charity where any two of the following three criteria are met in both the current and preceding financial years: annual turnover not more than £6.5m; balance sheet total not more than £3.26m; average number of employees not more than 50. The requirements for disclosure of ethical and social investments are the same for both large and small charities under the two SORPs.

5.3 Guidance: CC14

This matrix of laws has historically led to some confusion within the sector about when charities can and cannot pursue ethical and responsible investment policies.

In deference to this, the Charity Commission produced CC14 in its current incarnation in October 2011. The purpose of this guidance was to explicitly empower and make clear the rules on ethical and responsible investment for charities.

Per CC14 there are four situations where an investment strategy can be governed by considerations other than solely the level of investment return. These are where:

- Investment in a particular type of business would conflict with the charity's aims.
- An investment might hinder the charity's work, either by alienating supporters or staff or by making potential beneficiaries unwilling to be helped because of the source of the charity's money.
- Trustees can also accommodate the views of those who consider an investment to be inappropriate on moral grounds, even if an investment does not come into either of the previous two categories, provided that they are satisfied that this would not involve 'a risk of significant financial detriment.
- With engagement, a charity wishes 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 charities' ethical and responsible investment policy.

The Commission noted a general positivity towards the guidance from the third sector. 45.8 per cent of respondents to the ACEVO survey rated CC14 as very helpful or helpful. 40 per cent rated it as neither helpful nor unhelpful. Only a small number regarded CC14 as unhelpful.[32]

Principally those who were equivocal towards the guidance or found it unhelpful had issues with the jargon used in the document. As disclosed in chapter 2, the Commission consciously departed from this jargon in the context of producing this report. There was also a perceived lack of clarity around social investment and a smaller number of respondees cited a perceived lack of clarity around ethical investment.

As such, the Commission wanted to use this opportunity to put to rest any questions about whether the investment pathways outlined in this report are available to charities.

5.3.1 Powers to make ethical investments

There is no confusion about whether charities can make responsible investments. However, despite CC14, there remains a modicum of confusion around whether charity trustees have the standing to make ethical as opposed to responsible investments. The clear answer is that **a charity can make ethical investments**.

Trustees of any charity can decide to invest ethically, even if the investment might provide a lower rate of return than an alternative investment. Ethical investment means investing in a way that reflects a charity's values and ethos and does not run counter to its aims. However, a charity's trustees might just be able to justify why it is in the charity's best interests to invest in this way. The law, as reflected in CC14, permits the following reasons:

- A particular investment conflicts with the aims of the charity;
- The charity might lose supporters or beneficiaries if it does not invest ethically; or
- There is no significant financial detriment.

5.3.2 Powers to make positive investments

There are fewer regulatory barriers for impact or social investing than people think. There are no restrictions on retail investors and the

Government is actively encouraging their participation in the market by designing a specific tax relief for social investment. However, there is a lack of clarity that emerges specifically around social investments, which the Law Commission have recently reviewed.

5.4 The Law Commission Review

The recent revised Charity Commission guidance CC14 makes it clear that there are no restrictions on trusts and foundations making social investments.

However, this may not be sufficient. Social investments in particular may or may not generate positive financial returns and this may give rise to certain legal difficulties:

- Some lawyers argue that social investments require trustees to use their *power to invest* and their *power to spend* simultaneously. There is a question as to whether these two powers can be combined.
- As a result, there are questions around whether the fiduciary duties of trustees are properly capable of being discharged through social investments.

CONCERNS WITH CC14 AROUND SOCIAL INVESTMENTS – SUMMARY OF CONSULTATION SUBMISSIONS TO THE LAW COMMISSION REVIEW

'It is guidance and not law, so cannot entirely overcome charity trustees' fears about their powers to make, and duties when making, social investments.'

'Many consultees thought that aspects of it were onerous, unclear, inconsistent or difficult to understand, and that it would therefore benefit from amendment.'

This resulted in the Law Commission's proposals.

The Law Commission's headline recommendation is to bring in a new statutory power, to give trustees the power to make social investments. This would put the law beyond doubt, and remove any concerns trustees might have.

This would involve changes in how the purpose of investment is conceptualised. The Law Commission recommended that charities must be satisfied that it is in the best interest of the charity to make a social investment. Best interest would no longer be defined in narrow financial terms, but instead be an amalgam of the financial and mission benefits to the charity. This would be extended to endowed trusts, on the proviso that social investments did not significantly damage their returns.

CC14 would have to be updated in order to reflect this change, and to offer support under the new legal directives. CC14 would advise trustees to consider the duration of the social investment, how funds might be withdrawn, and how well the investment performed in terms of financial return and mission benefit. How the portfolio fitted in with the overall investment portfolio, spending and grant making policies of the charity must be considered.

KEY INFORMATION: LAW COMMISSION REVIEW OF SOCIAL INVESTMENTS FOR CHARITY TRUSTEES: KEY RECOMMENDATIONS

- A new statutory power, conferring on charity trustees the power to make social investments, so as to put the law beyond doubt, unless explicitly prohibited by charity's governing documents.
- The duties to consider these investments from time to time and to take advice where necessary.
- New statutory power to be extended to endowed trusts, but with caveat that funds must still be preserved during the making of social investments.
- CC14 should be revised to reflect these changes to the law.
- It should advise trustees to consider: the duration of social investment and how (and when) funds might be withdrawn; the risks of the social investment failing to deliver, or under-performing in the delivery of, the expected mission benefit and the expected financial.
- Return; how the performance of the social investment will be measured, assessed and monitored; the relationship between the social investment and the charity's overall investment portfolio (if any) and its spending or grant-making policies; and the tax treatment of the social investment.

The ACEVO Commission supports the Law Commission Review Proposals to create a Statutory Power of Social Investment for Charity Trustees. The Commission supports amendment of CC14 along these lines and further amendment and simplification of CC14 where possible.

6. GOOD WITH MONEY: SHIFTING THE CULTURE, MOVING ALONG A JOURNEY TOWARDS ALIGNING MISSION WITH MONEY

In this chapter, we will outline principles and practices that can help charities reach a conscious, communicable position on their investments.

Getting Started

We begin with a key distinction: between investment policy and investment strategy. This distinction is key to getting the journey right.

To deliver a charity's *investment policy*, a charity must begin by articulating the philosophy which underlies it and the financial requirements that the charity may have.

It is only once this is outlined that decisions on *investment strategy* – and which, if any, responsible and ethical investment pathways are appropriate, which will be different for each charity – can be made.

Key to the successful creation and implementation of both is the charity's capacity to have the right sort of actionable conversation. This is the first stage.

Stage 1: Getting the Conversation Right

A charity's investment policy must be the product of a conversation between (at minimum) the charity leadership: trustees, Chief Executives and senior management. It must not be siloed within the finance committee of a charity. And in many cases it can be part of a wider organisational conversation.

To conduct this conversation the leadership should gather documentation that enables them to consider:

- The core values and objects of the charity;
- The long-term direction of the charity;
- Mission statements;
- Areas of campaigning.

Additional factors to consider include:

- The importance of maintaining the trust of beneficiaries, stakeholders and the public;
- Cost implications of these options;
- The balance between financial return from investments and the alignment of its investments with its mission.

EXPERT ADVICE FROM HELEN WILDSMITH, CCLA

When discussing a possible ethical and responsible investment policy it is vital that you focus on the specific context of your charity. This will mean incorporating both your financial requirements and organization's values at the same time. This delicate balance can only be achieved through a shared process between your chief executive, trustees and fund manager.

A WIDE-RANGING LEADERSHIP CONVERSATION CREATES A WIDE-RANGING INVESTMENT POLICY: THE BARROW CADBURY TRUST

The charitable mission of the Barrow Cadbury Trust is to bring about socially just change to the UK society.

Sara Llewellyn, their CEO, is strongly committed to responsible investment – to promoting it both within and beyond the Barrow Cadbury Trust. Under her leadership Barrow Cadbury Trust has not only begun impact investing and taking part in shareholder activism itself, but also sponsored and contributed to various publications on ethical investment within the voluntary sector. Sara Llewellyn is very outspoken on the matter of social investment in the media and her organisation follows a similar line. The Barrow Cadbury Trust has one of the most significant media imprints in the voluntary sector on the issue.

The investment policy of the Barrow Cadbury Trust sets out to promote strategic aims of the charity, such as promotion of social justice, by social investment and attending the Annual General Meetings of companies it holds investments in. For example, it is currently involved in persuading large organisations to introduce the living wage for all staff. They also seek to develop a secondary social investment marketplace, both through their own involvement and the encouragement of others in the voluntary sector.

The Commission encourages charities to involve their investment manager in this process to ensure that they are able to implement their policy and they continue to meet their financial requirements.

Who is saying what, to whom? Getting the conversation loops right

The size of the charity, the expertise of the trustees and the structure of the organisation all lead to variations in how investment policy – and indeed investment strategy – are decided upon. Each of the following variations contain the potential for difficulty:

- The board are not experts in making investments, so are obliged to seek external advice.
- The board uses finance committees or advisers to formulate all of the investment policy.
- The board contain 'expert' trustees with financial experience who are 'hands on' and sit on finance subcommittees.

Delegation is crucial within an organisation, but handing away decision-making powers means that trustees have less control of where investments are being made and how well the charity's responsible investment strategy reflects their policy. At the same time, keeping control can mean that the trustees are making decisions that they feel underqualified for or do not understand.

It is crucial that, no matter the size of the charity, it is set up so that conversations about the setting of investment policy and strategy happen in the right places, among the right people. Setting up appropriate conversation loops for each is key.

The policy loop and the strategy loop

Research by the CFDG (2010) found that in 75 per cent of charities with responsible and/or ethical investment policies, the trustees had driven the policy forward. This was true for finance committees in only 45 per cent of cases.[33]

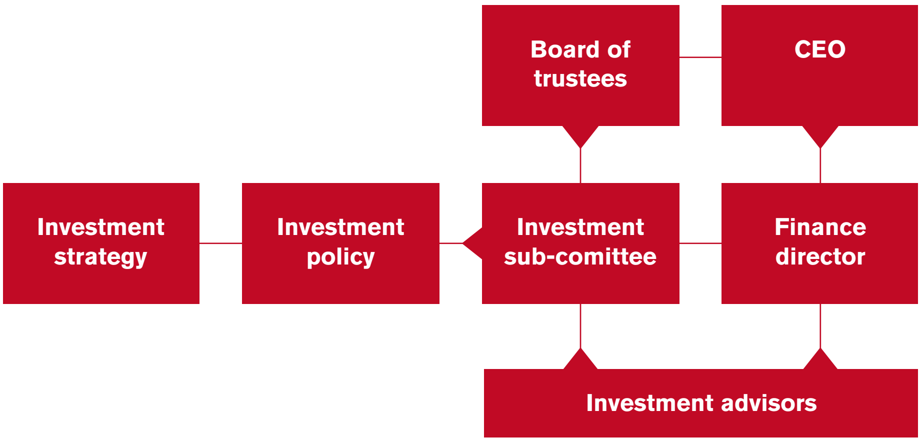
In larger charities, finance committees, audit committees and investment committees often take on the more technical decision making. Trustees frequently delegate control of investments to subcommittees within the charity.

For smaller charities, there may be little opportunity to use a subcommittee. Pared down governance means that the burden of investment decisions may fall solely upon the 'most qualified' trustee. Trustees may end up seeking external guidance and in the most egregious cases hope to delegate the decision making process – both policy and strategy – entirely.

In charities large and small the leadership may not feel able to argue in favour of developing a strategy and may therefore presume that policy lies beyond their remit too. Reputational risks and missed opportunities are the result. **A charity's leadership must not make the mistake of delegating both investment policy and strategy.**

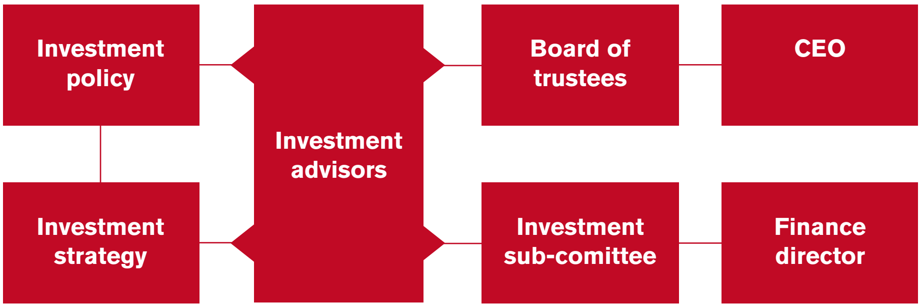
The diagram below shows the wrong approach for a larger organisation. Despite the arrangements in place, the trustees and the CEO are out of the loop in terms of both strategy and policy. Charity investment has become a 'finance matter.' In a smaller charity there might not be the layer of investment subcommittee or finance director but the risk from inappropriate delegation is just as great.

Figure 8: Negative model – investment strategy and policy delegated 'by default' engendering risk and missed opportunity



The key to solving this dilemma is to ensure that a charity's investment policy and strategy is vested in the appropriate part of the organisation – and that both parts are in constant communication. Investment policy is a leadership issue. Strategy – the implementation of that policy – can then be taken forward by the finance layer, as in the below example, or by the investment advisor directly in a smaller organisation. With responsibility spread in this way, as below, we have the correct conversation loops in place.

Figure 9: Risk and responsibility sharing



Stage 1: Recommendations at a glance

6.1.1. The golden rule is that charity trustees, charity leaders and senior charity management should be conscious of and be able to speak to their charity's investment policy and to be able to explain how the charity's investment policy relates to its mission.

6.1.2. Avoid siloes; make sure the investment policy doesn't sit in isolation in the charity's finance committee.

6.1.3. Be clear which investment pathways (responsible or ethical or otherwise) are chosen, why they are chosen and how this ties in to an organisation's mission, should be expressible on an appropriate public document or a webpage.

6.1.4. A charity investment policy that reflects a charity's values as described by its board and leadership should be the result of an organisation-wide conversation. The investment policy's relationship to responsible or ethical investing should be explicitly stated in the course of that investment policy, whether as part of the main policy or separately located within the document.

6.1.5. If charity Chief Executives want to insure against all pitfalls associated with charity investment, we advise that they adopt an appropriate delegation policy.

6.1.6. The board and Chair must take responsibility for retaining the setting of a charity's investment policy. They must be further held responsible for working with Chief Executives and ensuring that they have full understanding of the nature of investments being made.

6.1.7. Investment strategy may then be delegated to the appropriate committee of experts where applicable. These two conversation loops are key to protecting a charity's leadership against reputational risk from inappropriate investments and to aligning money most effectively with mission.

AN EVOLVING CONVERSATION: THE PANAHPUR FOUNDATION

The Panahpur foundation is a UK based foundation which believes it has put responsible and ethical investment at the centre of how they carry out their mission – and who have made interesting changes in the way they invest.

Their board first became interested in ethical investment in early 2000s. They became uncomfortable with the fact that there was a dissociation between charitable foundations' investments and their mission.

Their concern was supported by data which showed that the financial markets in which they were investing were increasing the inequalities which they wished to eradicate. Panahpur felt that their financial and charitable activities were conflicting with one another. They decided to change their investment policy, and in order to create an investment portfolio which was more consistent with their charitable goals, they began impact investing.

Panahpur now has three investment funds. Their Hope Fund carries out programme related social investment in other voluntary organisations, social enterprises and ethical businesses; the Impact Fund, which makes mission related social investments through intermediaries; and the Venture Fund, which uses shareholder activism as a method to make sure these investments still further their mission.

Stage 2: Collaboration. Working with Others to Stay on Mission and Achieve Change

Tips for creating more collaborative conversation loops with investment advisers and managers

Collaboration is key to converting a conscious investment policy into a conscious investment strategy.

Collaboration with external investment professionals is often seen as the link in the chain that can be delegated, as the relationship with the investment manager need not be handled exclusively by the trustees or Chief Executive. And indeed on matters of strategy it can. However, a charity's leadership must remain vigilant and be aware as the relationship between strategy and policy can slip.

This is especially a problem in larger charities – and was indeed the reason that Comic Relief gave for their difficulties, documented at the beginning of this report. The main board of trustees may have no contact at all with the investment adviser if they liaise through finance subcommittees (often made up of groups of financially literate board members and the organisation's finance executive). Even if trustees have direct access to their adviser, there may not be capacities on the board or among the leadership to help steer an investment adviser to design a policy in line with their intent or to design a strategy in line with their policy.

A process of review is crucial. Creating an appropriate collaborative environment is key.

- The investment adviser should be involved and collaborating from the outset – sitting in on meetings and taking part in discussions. This helps them to understand what the charity's intentions are for the investments they are about to manage.
- Lay trustees may find it easier to consult with mainstream investment consultants alongside specialist sustainability consultants when taking decisions.
- Seeking the appropriate guidance from a variety of sources can make understanding investments and evaluating decisions much simpler.

Make use of practitioner forums

Practitioner forums provide the opportunity to gain support from charities and organisations who have already begun investing ethically. They can give advice from their experience and offer practical guidance. Examples of good practice and good leadership – as we have seen throughout this report – demonstrate how a responsible investment policy should look.

WORKING TOGETHER ON INVESTMENTS: A CALL TO ARMS

The Value of Responsible Investment (Investment Leaders Group, 2014)[34] reported useful advice for businesses around integrating ESG investments into their activities. Their 3 point plan was:

- Scale up capital allocation to the 'green' economy.
- Underpin this commitment with research on the economic impact of environmental risks.
- Find tactical opportunities to support ESG integration.

The charity sector context is different, but the message resonates. Devote organisational time to a responsible and ethical policy, group together to research but also to work out ways of investing in on mission causes – or indeed in influencing the behaviour of companies in a way that works with a charity's mission.

The Commission noted that there currently exists little for the would-be charity shareholder activist. Senior charity executives – who would be sanctioning the time it would take for their staff to engage with their investments or giving instructions to their investment managers present their causes – have little by way of support. The Church of England are trailblazers in this area yet they have few fellows in this domain. **This is a gap in the market that the sector would do well to address.**[35]

From collaboration to change: coming together to talk about barriers

EXPERT ADVICE FROM NORMAN CUMMING, UNLTD

The more people are involved in creation and implementation of you investment policy – the better. Seek advice and help your co-workers, members of the board and external stakeholders... It is crucial to create a realistic and transparent report on the costs of the transition towards ethical investment.

There is no doubt that the market could do more to cater to the needs of the UK's 164,000 charities. Many ethical investment funds for example screen out alcohol, a remnant of the religious heritage of many of their forebears. This layer of screening is not appropriate to all; for instance, many charities are more concerned about the way that some alcohol retailers and producers promote its misuse and would rather target their endeavors on this instead of restricting all alcohol producers. More options are entering the marketplace but as we have discussed, choice becomes more limited – and expenses increase – the more one screens out or moves into positive investment and more proactive engagement.

Good ethical investment houses will survey their clients to make sure that their policies are genuinely reflective of the ethos of their clients. Investment in pooled funds throws up obvious risks: ensuring that all of the investments being made on their behalf are in line with the charity's ethical requirements is a challenge. And as we noted earlier, ACEVO data shows that 45.7 per cent of charities that don't invest ethically responsibly cited a lack of suitable investment vehicles as the reason. *This is therefore not a negligible issue.*

Collaboration is where the charity sector excels. One example is the 'Move Your Money' campaign, where the Barrow Cadbury Trust and The Joseph Rowntree Charitable Trust, with the support of other groups, came together to persuade the public to move their money from banks who committed what the campaign saw as ethical violations. They take on a variety of campaigns, produce ethical banking scorecards and rankings, and lobby banks to address their concerns.

Charities can come together and raise awareness around the need for ever more appropriate investment vehicles, around fairer fee structure for investment funds and clarity around their legal powers.

Indeed it is imperative that they do. And as attitudes from the public align with the drive for change from within charity sector, we believe there will be further market opportunities for the investment industry to engage with the sector – and more research should be committed to increase the number of options available.

Stage 2: Recommendations at a glance

6.2.1. Charities should frame responsible investment as part of their wider investment activities and routinely ask their investment manager about their practices and processes.

This should start with the investment manager procurement process and continue through the ongoing monitoring of the manager.

6.2.2. We recommend that charities reappraise their investment policies to ensure they are fit for purpose every year as part of the process of producing their Annual Report. This should coincide with a whole board ‘check in’ with their investment manager annually to ensure that the strategy is reflecting the board and the leaders’ policy.

6.2.3. We recommend that all trustees and charity leaders recognise financial and investment education as part of their continuing professional development. This will enable them to play a proactive role in the policy setting – and even in the strategic – conversation.

6.2.4. The Commission supports efforts from within the sector to create further knowledge sharing and activist networks for charities’ corporate engagement. We will proactively investigate opportunities to link these networks of leaders together.

6.2.5. The Commission’s further challenge to responsible and ethical investment providers is to engage with charities and to work with charity infrastructure bodies to research and create more products to cater to this expanding subset of clientele. This Commission will explore, beyond this report, the scope to create an ACEVO special interest group for charities and financiers to discuss matters relating to advocacy and awareness-raising around ethical and responsible investment barriers and issues.

Stage 3: Being Proactive, Being Transparent, Communicating

When news of Comic Relief’s investments broke, their Chief Executive, Kevin Cahill, was called to explain what the charity had been doing with its money. He stepped up to speak about the matter on the BBC’s World at One.

Cahill had played no role in making the investments. And what happened with Cahill and Comic Relief illustrates an essential point about what happens when something goes publicly wrong for a charity: regardless of who makes the investment decisions, it is the Chief Executive and board of trustees who must be able to explain what has been happening under their aegis. The role of senior staff in communicating their charity’s investment policy is essential. It is with them that the responsibility for managing reputational risk lies. They are the key focus of crisis communications.

Some charities may have decided that an ethical investment policy is not best suited to their – and their beneficiaries’ – needs. A similar crisis point may be avoided by robust, regular, communications policy on the part of the Chief Executive: by adopting a ‘proactive transpaarency’ approach.

6.3.1. It is the view of the Commission that charities should adopt a ‘proactive transparency’ approach to their investments. Investment policies should be made public rather than be retained on internal documentation. We urge charities to follow the examples of best practice on communication highlighted in this report.

6.3.2. The published policy should reflect at least in part the decisions made by the trustees and senior charity leadership to invest in none, one or more of the responsible and ethical investment pathways highlighted in this report. When articulating these decisions, clarity should be key.

Where to communicate

Some forms of communication are required by law. As noted in chapter three, **The Annual Report and Accounts** – per ACEVO research, by far the most often used outlet across the sector, perhaps by virtue of its legal requirement – provides the opportunity to regularly communicate investment policy and investment decisions to stakeholders, beneficiaries and interested parties. The SORP provides an additional incentive. It is the key channel for regular communication of the state of the charity's finances. It can be used to explain investment decisions in the context of the charity's finances and can be used to highlight any decisions around approaches to ethical or responsible investment Beyond this requirement, charities can use new media and their website to communicate their policies with their beneficiaries and stakeholders. For example, the Joseph Rowntree Charitable Trust have a vast amount of information on their website about their responsible investment policy.

Beyond this requirement, charities can use new media and their website to communicate their policies with their beneficiaries and stakeholders. For example, the **Joseph Rowntree Charitable Trust** have a vast amount of information on their website about their responsible investment policy. They detail their:

- Investment policy;
- Response to the Stewardship Code; and
- Their holdings.

They have an investment policy which they are proud of, which they have made instantly available to anybody who is interested. Stakeholders and beneficiaries can engage with what they are doing with ease.

Social media enables charities to communicate *with* the public, rather than just *to* them. There is also the opportunity for people to give feedback to the charity on where they think investments should be made, or assets they think should be avoided. For example, **Clare College, Cambridge**, does not currently have an ethical or responsible investment policy. They have, however, instigated a system whereby people can contact the investment committee and question their decisions. Members of the college are able to find out more detail about the investments that are being made in their name, and to raise any problems they may have with them.

Communication does not always involve an overt explanation of what the charity is doing. Much more simply, it can involve linking the charity's name to **campaigns** which stand for ethical or responsible investment, such as the Divest Invest movement referenced in Chapter 3.

ACTIVE CRISIS COMMUNICATIONS: CHURCH COMMISSIONERS

The Church of England is a study in how good communications can help to manage a reputational catastrophe. Only days after the Archbishop Welby had been declaring that the Church would be the force that drove payday lenders out of business, it was revealed that the Church of England was, in fact, indirectly invested in Wonga through pooled funds.

Immediately after the Church of England discovered that its endowment fund had indirect investment exposure to Wonga it leapt into crisis management mode. As the Church Commissioners examined their options, Justin Welby became the spokesperson of the campaign against the Church of England's involvement with Wonga. There was a robust media campaign, apologies, promises of change and explanations of what had gone wrong.

The Church of England's example goes to show that having an involved leader, who is able to address the issues and manage the press from a basis of understanding, is absolutely key in crisis communications.

Spreading the word through forums

As we discussed in the section on collaboration, to help to develop the sector's understanding as a whole, the charities at the forefront of the responsible investment movement need to be prepared to pass on their knowledge and understanding.

The Church Investors Group (CIG) provides a forum for the senior staff and trustees of church bodies to collaborate on all aspects of ethical investment. The CIG allows members to help each other develop and implement ethical investment policies, and brings church investors together to encourage further responsible business practices in investee companies through engagement. The Group makes it possible for smaller members to benefit from the activities of their better resourced peers and provides the stage to showcase best practice.

Forums offer the chance for two-way communication within the sector – for charities to share what they have done and receive support in furthering it.

6.3.3. We recommend that the sector follows the Church Investors Group's and CRIN's example and creates more useful forums for the wider charity community to share their experiences and best practices of responsible and ethical investment – and indeed of proactive communications around their investment policies.

SETTING YOUR INVESTMENT POLICY: THE KEY QUESTIONS

When setting out a responsible investment policy there are many factors for a charity leader to consider.

What are the financial requirements of the charity?

- Have you reviewed whether your assets are 'best invested?'

Does your fund manager adopt a responsible approach?

Do you have an ethical investment policy?

- What type of investment would contradict your core mission?
- Is there anty investments that you could make that would further the aims of your charity?
- Can your investment manager implement this?
- Can you easily explain your approach?

Is your Governance up to the challenge?

- Is your investment policy a product of a conversation between the full board and the senior staff?
- Have you done enough to explain or educate the full board and senior staff on the merits of the policy?
- Is the policy reviewed annually in line with the Annual Report?
- Are you confident that the best arrangements exist to ensure that your investment strategy is aligned with your investment policy?

Is your reputation protected against risk?

- Will having investments which are not aligned with the values of the charity impact negatively upon the charity's reputation?
- What are you doing to publicise your charity's investment policy?
- Are you being proactive in your communications about them?
- Are you prepared to adopt a 'transparency first' policy on your investments?

Are you confident of your returns?

- What are the expected rates of return for the responsible and ethical investments being considered?
- How long will it take for responsible and ethical investments to show the return you require?
- Is there a greater funding risk associated with making ethical investments and are you comfortable with it, if this is the case?
- What are the costs and risks associated with each option including management costs?

7. A RESPONSIBILITY TO REFLECT: FURTHER IDEAS

7.1. A *Responsibility to Reflect* and a *Responsibility to Innovate*

The Commission was convinced by submissions that the investments of the future will increasingly tend towards a three-axis structure, where risk and return are joined by social impact as key considerations to be weighed. As our knowledge base grows, the costs of not accounting for these impacts – and the public sentiment against them – will grow with it.

Here, the Commission argues that charities have an opportunity to show leadership. In line with the principles expressed above, further regulation in terms of duties or requirements is undesirable; we believe the change needs to be cultural, backed up by empowering legislation and dynamic leadership.

The Commission is of the view that charities of all sizes have a Responsibility to Reflect on their investments, their communications around their investments and their internal and collaborative working to ensure that they are fit for purpose, in line with the recommendations of this report.

Chief Executives and Trustees should drive their charity's investment policy. An involved Chief Executive and dedicated trustees must take an active part in ensuring that their charity makes investments that they feel further its aims and mission. They must understand and feel capable of representing these policies and be confident that not only do their explanations insure them against reputational damage, but that they are able to communicate how their investments and their mission are in harmony.

The larger the charity or foundation, the greater the Responsibility to Reflect. The Commission has been impressed by the quality of case studies and leadership present in the third sector around this issue. Nevertheless the Commission hopes that these leading lights will encourage more charities and social enterprises to adopt good governance protocols and transparent communications processes that ensure that the integrity and well-deserved trust that accrues to third sector organisations is maintained. We believe that step-change is possible – and that it is not optional.

As such, where it fits with their mission and the terms of their endowment, the Commission would like to see them erring on the side of innovation with their investment policies and suggests a Responsibility to Innovate incumbent on the largest organisations in their approach to their investments.

RESPONSIBILITY TO REFLECT AND INNOVATE: BILL AND MELINDA GATES FOUNDATION

An example of the negative publicity a charity could face if it was exposed as investing in areas that were either contrary to its mission or at odds with positive social change generally can be seen in the case of the Bill & Melinda Gates Foundation, one of the world's largest charitable foundations with more than $30 billion under management. In 2007, the Los Angeles Times revealed instances in which its investment partner organisation had reaped financial returns from investments in companies whose practices could be considered to contravene the spirit of its good work. For example, the Foundation donated $218 million to prevent polio and measles in places like the Niger Delta, yet invested $423 million in oil companies such as Royal Dutch Shell, Exxon Mobil Corp, and Chevron which were alleged to have polluting the Delta, and were alleged to have contributed to serious health problems in the region. It also had large holdings in the global pharmaceutical companies which were accused of keeping the price of antiretroviral drugs artificially high, while championing the cause of AIDS awareness. The Los Angeles Times referred to the scandal as a 'dark cloud' over the good works of the Foundation.

The public opprobrium was a direct result of the foundation failing to exercise the Responsibility to Reflect on these matters – and indeed it was suggested that the foundation should seek to be innovative in its use of investment pathways as it was innovative in its approaches to tackling poverty. In 2007 the foundation, in concert with its partner, took this advice and reassessed its investment policy.

7.2. Tax Changes

The Law Commission Review discussed in chapter 5 also highlighted the difficulties with tax issues.

For those considering the most direct forms of social investment, legal and tax considerations can be significant barriers.

HMRC rules are focussed on conventional investment and grant tax exemptions to charities as long as they represent either a 'qualifying investment or loan.' Failing the test risks social investments creating a tax liability on what HMRC considers to be non-charitable expenditure.

KEY INFORMATION: THE LAW COMMISSION REVIEW RECOMMENDATIONS ON TAX

- We recommend that HMRC produce revised guidance and amendment of tax treatment of charities' social investment. Relevant guidance also to include anonymised details of social investments that have previously been approved, or not approved, as charitable investments or loans. Guidance should be consistent with the Charity Commission's revised guidance.
- We recommend that HM Treasury introduce a procedure by which charities can obtain prior clearance from HMRC as to the tax treatment of a proposed social investment.
- We recommend that HM Treasury review and seek to amend the legislation concerning approved charitable investments and loans as necessary in light of the above.

As such, alongside the proposed powers and changes to guidance, The Commission welcomes the proposed charity tax law changes driven by the Law Commission, which serve to explicitly permit social investment- and urges that they be implemented as soon as possible.

As we have seen throughout this report, the dilemmas are complex enough when charitable organisations invest without the law making it even more so. It should not be in question that charities can make any responsible or ethical investments or indeed make any of the sorts of investment decisions we have outlined in this report – as long as it is in line with their mission. That way lies the opportunity to further charitable causes – and help improve more lives.

APPENDIX I: JARGON BUSTER

Responsible and Ethical Investment

A number of contested terms have been adopted to describe this part of the investment sector. For the sake of clarity this Report has used 'ethical' and 'responsible' investment as follows.

Ethical Investment

Ethical investment is a blanket term used to describe how an organisation can reflect its values within the management of their money.

This includes techniques such as:

Negative screening – the process of avoiding investing in companies which go against the stated aims of the investor.

Corporate engagement – using investment holdings, and the position as a part owner of the company, to encourage changes in corporate behaviour. A variety of engagement approaches are used depending upon the outcome sought and the time available to commit to the issue. The major approaches are private meetings with company management, letter writing, and attendance at AGMs. Whilst well resourced charities may consider conducting this activity directly the majority of charity investors are able to mandate their investment manager to do this on their behalf.

Impact investment (of which a subset is 'social' investment) – investing in organisations which may deliver a financial return, but also produce a positive societal gain. Programme-related Investment (PRI) is an alternative term used in this context – and it is the term used in the Charity Commission SORP. Mixed motive investments combine impact investing with investing for a high rate of return: these may be investments in businesses which fit with the mission of the charity, for example.

Charities may chose to adopt a combination of any, all, or none of these techniques depending upon the particular context in which they operate.

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Responsible Investment

Whereas ethical investments reflect a charity's values, to protect its reputation or to further its mission, responsible investment is distinguished by concern for safeguarding long term invested value.

The most common form that this takes is through the integration of Environmental, Social and Governance (ESG) risks to investment management decisions and subsequent engagement with the company.

Responsible investment decisions are typically made by the investment managers appointed by the charity.

Investment Policy

An investment policy should lay out the philosophy underlying the charity's investments. It clarifies the criteria on which investments are made, the acceptable risks and returns for the charity.

Any ethical policy or requirement to use investment managers who deliver responsible investment approaches can be included in the policy.

Whilst each charity will require different investment policies your fund manager, investment consultant, or other advisors should be able to help you through the process of drafting.

Reputational Risk

Reputational Risk falls outside financial risk. It is the threat to the good standing of an organisation caused by the investments that the organisation makes. An investment may be "low-risk" in financial terms, but still present a significant reputational risk to a charity.

The Charity Commission explicitly recognises reputational risk avoidance as being one motivation for adopting an ethical investment policy.

Charity investment assets

Charity investment assets are made up of a number of sources.

The most common is its reserves; the money that it holds to protect the financial viability of the organisation for the longer term, rather than for immediate spending on its beneficiaries and charitable aims.

Some charities benefit from endowments. Endowments are invested in a way that means the charity can spend the investment income whilst maintaining the real value of the original sum of money.

A small number of, predominantly, larger charities may also be directly responsible for pension funds.

Returns

Returns refers to the benefit gained from an investment: whether in terms of income or capital gain.

Risk

Risk is the chance that the return on the investment will be different – less – than expected. This can include the potential of losing the original money invested.

Asset Class

An Asset Class is the name for a group of investments which exhibit similar characteristics and behave similarly in the market. The major asset classes for charities are cash, bonds, commercial property and equities (for example stocks and shares).

Fiduciary Duty

Broadly speaking, a fiduciary duty is the requirement to act solely in the interests of another party. In the case of trustees as relates to investments, the fiduciary duty obliges the trustee to act with due care and prudence with the finances of the charity. Particularly, the trustee must consider their expertise and experience in financial and investment matters, and if this is lacking they must seek advice for financial decisions. The Law Commission's recent review into Fiduciary Duty highlighted the financial importance of integrating ESG factors where they are financially material, and set out circumstances in which it permissible for pension trustees to base investment decisions 'non-financial' factors.

Investment Consultant/Investment Manager

Investment consultants often help to provide the investment expertise required by trustees. Their job is to work with the charity to suggest investment opportunities and funds in which the charity can invest. Investment managers will manage the funds in which charities can invest, and can work with charities to find a fund or "vehicle" which best meets their needs.

Investment custodians also feature in some of these relationships. They hold the share certificates on behalf of the investor, while the investment manager conducts the deals. This adds a layer of accountability to certain (often larger) investments.

Index tracking fund

Usually a pooled fund which has a portfolio designed to match or track a market index. The purpose of an *index tracking fund* is to provide broad market exposure with low operating expenses.

UN PRI

The United Nations backed Principles for Responsible Investment (UN PRI) consists of 6 principles for sustainable investment and a network of investors committed to putting these principles into practice. It aims to help signatories understand the implications. The principles are voluntary, and deliberately broad so as to be applicable to the majority of organisations.

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APPENDIX III: MEMBERS OF THE COMMISSION

Chair

Martin Clarke – Former Chair, UKSIF

Martin was, until recently, chair of the UK Sustainable Finance and Investment Association (UKSIF) which promotes responsible investment and other forms of finance that support sustainable economic development, enhance the quality of life and safeguard the environment.

He is an actuary who has a long association with ethical and responsible investment issues, having been instrumental in developing responsible investment policies and products at Co-operative Insurance during the 1990s. More recently he was the executive lead on investments, risk and actuarial at the Pension Protection Fund which quickly established a reputation for responsible investment, collecting the Portfolio Institutional Award for the Best Implementation of Responsible Investment in 2013.

Martin is also a trustee board member and chair of the investment committee at LankellyChase Foundation.

Following the Commission's work during the summer, Martin took up his latest appointment as Government Actuary.

Commissioners

Caron Bradshaw – Chief Executive, Charity Finance Group

Caron Bradshaw joined CFG in June 2010 from the ICAEW, where she was Head of the Charity and Voluntary Sector and had responsibility for shaping the ICAEW's engagement with the sector and delivery of technical and member support.

Having trained as a Barrister, Caron held a variety of roles at the ICAEW during 16 years including providing front line support to members as Head of the Ethics Advisory Service and technical/policy input as a Business Law Manager.

In addition to supporting a number of small charities and community organisations Caron is a member of the NCVO's National Assembly, sits on the CIPFA Charities panel and has recently joined the board of the Directory of Social Change.

Peter DeGraaf – Senior Partner, Carnstone Partners LLP

Carnstone Partners LLP is a management consultancy specialising in corporate responsibility and sustainability. Peter has a specific interest in Responsible Investment developed over a career in public policy and finance. He was a Managing Director with FTSE / London Stock Exchange where he was heavily involved with FTSE4Good, the responsible investment index series, and he served on the board of Trucost Plc, an environmental investment research organisation.

At Carnstone Partners, Peter has worked with several organisations in the field of sustainable investing. Most recently he advised the UN Principles for Responsible Investment on the review of their governance structures, worked with a UK pension fund on integrating corporate responsibility criteria into its investment manager selection and monitoring process and advised the UK Sustainable Investment and Finance Association on its three-year strategy.

Jill Halford – Director at PricewaterhouseCoopers LLP

Jill has over fifteen years of experience in working in the charities sector on multi location and complex engagements and has extensive knowledge of reporting under UK GAAP and Charities SORP. Jill is a member of PwC's national Charities Group, leading on marketing and leads the Charities Centre of excellence, providing support and advice to over 500 staff UK wide. Jill has spent time over the last few years on a part time secondment to a charity providing support to the Executive Director, President and Treasurer in a number of business areas. Jill is the Audit Director for currently over 20 of the firms charity clients.

Jill was also a trustee of a small domestic violence charity in London for five years and set up a small environmental NGO, where she sits on the Board as Treasurer.

Jill is ACEVO's Treasurer, is based in London and has been a board member since 2014.

Catherine Howarth – Chief Executive, ShareAction

ShareAction is an NGO that promotes responsible investment by pension funds, charities and other institutional investors. In 2013, ShareAction launched the Charities Responsible Investment Network, to develop and share best practice in responsible investment across the foundation and charity sectors and to assist charities in fulfilling their charitable purposes through shareholder engagement with companies. Catherine is a board member of Green Alliance, the UK's leading environmental think-tank. She also serves on the investment committee of Trust for London. Catherine holds an MSc from LSE in Industrial Relations and a First Class BA from Oxford University in Modern History. In 2014, Catherine was named a Young Global Leader by the World Economic Forum.

Jonathan Jenkins – Chief Executive, Social Investment Business

Jonathan joined the Social Investment Business (SIB) as Chief Executive in September 2011. Under his leadership the Social Investment Business is pioneering new ways to raise money for social investment. Jonathan was instrumental in the Social Investment Business forming a partnership with, and investing in, a new FCA regulated fund manager; Social and Sustainable Capital, which will aim to access new funds from the private sector. Jonathan also oversaw the management of the world leading Investment and Contract Readiness Fund, which has so far helped eight charities and social enterprises raise investment and win contracts worth £35 million from relatively small business support grants.

Jonathan has over 15 years of experience in fundraising for SMEs from his City career, which included time at a UK merchant bank and culminated in his role as managing director of Plus Markets, a stock exchange created by his family to enable access to capital for smaller companies. In his time at Plus, over 500 companies raised over £1bn. Jonathan joined UnLtd in September 2008 as Director of Ventures and went on to launch UnLtd's seed co-investment programme Big Venture Challenge. Jonathan also sits on a number of industry panels/advisory boards and is trustee/non-exec of Bright, Ethex and Isleworth Blue School Foundation.

Rob Lake – Principal, Rob Lake Advisors Ltd.

Rob Lake is an Independent Responsible Investment Advisor focusing in particular on asset owners. His experience at a leading asset owner, an investment management house and a global investor network gives him a unique perspective on the complexity and diversity of responsible investment and the implications of sustainability and environmental, social and governance issues for investors.

Rob advises a number of pension funds in various countries. In 2013 he was a member of the Strategy Council to the Norwegian Government Pension Fund Global, set up to review the fund's approach to responsible investment. He was previously Director of Responsible Investment at the Principles for Responsible Investment, London; Head of Sustainability and Governance at APG Asset Management, Amsterdam; and Head of Corporate Engagement at Henderson Global Investors, London.

Nick Mott – Head of Policy Development, Guidance and Review, Charity Commission

Long experienced in working in charity regulation, Nick oversees the development of much of the Charity Commission's policy and guidance, including charity investment and wider trustee duties and responsibilities.

Michael Quicke OBE – Chief Executive, CCLA

Before joining CCLA Investment Management Ltd (CCLA), Michael was the Chief Executive of Leopold Joseph Holdings PLC, the private banking and asset management group which was quoted on the London Stock Exchange. Until September 2012, he was a Trustee of the National Trust and Chairman of its Audit Committee. Michael was awarded an OBE for his services to national heritage in 2013. He was appointed an Executive Director of CCLA in 2006.

Alice Ryder – Senior Director, Stanhope Consulting

Alice has over 25 years of investment experience. She is Head of Stanhope Consulting and is responsible for client relationships with substantial charity clients. After graduating from Bristol University, Alice spent 17 years as an investment manager, initially at Henderson Administration and then at Framlington Investment Management where she was a director. During this period she managed portfolios for leading institutional clients, including substantial pension funds and a large ethically constrained charity.

Alice is a non-executive director of BlackRock North American Income Trust PLC and a member of the Chartered Institute for Securities and Investment

Sudhir Singh – Partner, MHA MacIntyre Hudson

Sudhir is a highly experienced not for profit specialist Chartered Accountant who has worked in the sector for 25 years, leading the not for profit practices of two top 20 accountancy firms. He is a expert in charity accounting, finance, governance, law and regulation and has served on several working parties. His clients have included charities, independent schools, academies, free schools, further and higher education establishments, executive non departmental public bodies and other not for profit entities.

He has acted for over 25 top 250 registered charities, including a large number with substantial investment portfolios. His personal sector commitment in a voluntary capacity also extends over 25 years. He is currently a member of the finance committee of a cathedral and until recently Honorary Treasurer of ACEVO and Vice-Chairman of Governors at an independent school.

Secretariat

Asheem Singh, Lead Researcher

Rosie Olliver, Senior Researcher

Emily Wymer, Researcher

Kate Brittain, Researcher

Lauren Kelly, Researcher

James Wilderspin, Researcher

Thanks

The Commission would like to thank all those who took part who contributed to our work and to this report. All mistakes contained herein are our own.

ENDNOTES

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35. The Kay review made a similar recommendation, that an investors' forum should be established to facilitate collective engagement by investors in UK companies. This would be an opportunity for collective action to help "improve the performance of a company: the more opportunity there is for people who collectively own 30, 40 or 50 per cent of the company to act together, the more offset we have against that particular free rider issue". See: House of Commons Business, Innovation and Skills Committee (2013) 'The Kay Review of UK Equity Markets and Long–Term Decision Making' Available at: www.publications.parliament.uk/pa/cm201314/cmselect/cmbis/603/603.pdf [Accessed on 27/11/2014]