John Ellerman Foundation

Investment Policy

Foreword

John Ellerman Foundation is an independent, endowed grantmaker with an aim to advance the wellbeing of people, society and the natural world.

We recognise that our aim should apply across all that we are and do, so that the consequences for society and the environment of our investing activities should be as aligned to our charitable purpose as our grantmaking. We welcome the increasing scrutiny that society is bringing to bear, both on the original source of philanthropic wealth, and on the investment decisions that are taken or delegated by those with endowments.

We recognise that our endowment is invested in the real world. Consequently, there is a risk that our investment policies and those investment decisions made on our behalf may be linked to corporate strategies or products which are in conflict with our own aim and values. This risk may have both reputational and financial consequences, but also consequences in the real world. We seek to minimise both the risk and the actual damage caused by our investments by actively taking account of environmental, social and governance (ESG) issues when considering our investment policies and strategy, through our engagement with the fund managers who are responsible for our day to day investment decisions and through deliberate, meaningful application of our investment capital including our voting powers to cause no further harm and to aid regeneration for historic harm done.

We have applied this balanced approach in our Investment Policy, which we make available as a public document because we think that transparency is an important part of our active response to public scrutiny. It is also in alignment with our commitments under the Funder Commitment on Climate Change, as well as the COP26 Declaration: Asset Owner climate expectations of Asset Management, to which we are signatories. This Policy commits us to a future where our investing activities are aligned to our organisational aim, in the expectation that financial returns must be sustainable to allow us to make grants over the long term.

This Policy also recognises an opportunity to work with others to try to mitigate the consequences of the world's major social and environmental issues through our investing, and not just our grantmaking, and to do so in a way that is transparent, accountable and effective. We encourage all our stakeholders to join us in seeking to achieve this objective.

Peter Kyle OBE
Chair, John Ellerman Foundation

Gary Steinberg
Chair of the Finance and Investment Committee, John Ellerman Foundation

1. INTRODUCTION

The John Ellerman Foundation's aim is to advance the wellbeing of people, society and the natural world. The main way we achieve this is by funding charities with grants for work which has national significance in the fields of arts, environment and social action (our funding categories), believing these areas, both separately and together, can make an important contribution to wellbeing. Over recent years, we have become increasingly aware of the importance of managing our investments in a way that supports our aim. This publicly available policy outlines the agreed principles and policies underlying the Foundation's investment of its endowment.

To-date, our primary focus has been to manage the endowment in a way that prioritised financial returns, while balancing the desire to maintain our grant-making capacity with operating in the long-term. We have also sought to address the risk that our investment policies and the investment decisions made on our behalf end up supporting corporate strategies, approaches or products that are poorly aligned to our aims and values. This policy sets out in one place **our ambition to manage our endowment in support of our aim. In practice, this means that we want:**

- To reduce the risk that investment decisions made on our behalf support activities that are poorly aligned to our aims and values.
- To invest in a sustainable way i.e. to support long-term environmental and societal sustainability and to help address the climate and nature emergency;
- To be a responsible investor i.e. to take full account of environmental, social and governance risks in our investment activities.
- To be transparent, accountable and effective.
- To work with the trust and foundations sector in the transformation of systems and institutions for managing endowments.
- To achieve the above in such a way that any positive non-financial impact from our investments exceeds any financial returns foregone to achieve them.

The Foundation is run by a small group of staff and trustees with a range of professional and personal expertise in our funding categories, grant-making and financial management. The management and administration of the investments must be carried out in accordance with The Scheme (the Foundation's governing document), the Trustee Act 2000 and the Charity Commission's guidance. This document is based on these and decisions agreed by the Finance and Investment Committee and approved by the Board of Trustees.

2. GENERAL BACKGROUND

The original Foundation was set up in 1971 through the wealth and generosity of the second Sir John Ellerman, a distinguished zoologist and world expert in the study of rodents, who in 1933 inherited his father's baronetcy and considerable wealth that had been built up from scratch in the early 20th century into an empire of shipping and other businesses. The current Foundation has been in operation since 1993 and brings together the funds originally donated in 1971 with a smaller trust fund set up by the first Sir John Ellerman in his will.

3. INVESTMENT POWERS

The assets of the charity must be invested in accordance with the governing instrument and the Trustee Act 2000. The latest guidance from the Charity Commission is also taken into account.

a) The Scheme (Trust Deed – the Foundation's governing document, approved by the Charity Commission England and Wales in March 2002)

Clause 20. Powers of Investment: The trustees will have the powers of investment specified in the Trustee Act 2000 (as amended or replaced from time to time).
Clause 22. Use of Income and Capital: (1) The trustees must firstly apply: (a) the charity's income; and (b) if the trustees think fit, expendable endowment; in meeting the proper costs of administering the charity and of managing its assets (including the repair and insurance of its buildings).

b) Trustee Act 2000

The 'General Power of Investment' states that a trustee may make any kind of investment, except land, and subject to any restriction in the governing document, that he could make if he were absolutely entitled to the assets of the trust.

c) Charity Commission Guidance

The latest guidance from the Charity Commission is followed, in particular CC14 – Charities and Investment Matters – a guide for Trustees.

4. INVESTMENT OBJECTIVE

The financial objective is to achieve a real return of 4% pa (calculated as 4% + CPIH) in the long term.

5. INVESTMENT STRATEGY

In order to deliver our investment policy successfully, we have considered carefully the following six key factors:

a) **Our Values:** Our values are to be responsive, discerning, connected, flexible and to apply a personal touch. They reflect how we work, and we believe they should be applied to the management of our endowment just as they are applied to our grant-making work.

b) **Financial, Social and Impact Investing:** We want to use all appropriate tools to deliver against our vision in the most impactful ways available to us, whilst still achieving both social and financial returns of varying degrees based on the type of investment made.

c) **Risk and Spending:** In order to pursue our mission for the long term, we cannot simply spend the endowment that we have been entrusted with; we have to achieve a financial return on our endowment. The Trustee Board has set a level of risk, which is defined as expected volatility of returns, that it is prepared to tolerate in order to generate a level of financial returns required to support its grant spending. Striving for sustainability should also mitigate against the risk of permanent impairment of capital.

d) **Working in Partnership:** To deliver this policy effectively we will consult with other key stakeholders – namely: those we fund and those that apply to us; fund managers and other advisers; social and impact investors; and other trusts and foundations, including those we work with through initiatives such as the Charities Responsible Investment Network (CRIN) and the Funder Commitment on Climate Change.

e) **Time Horizon:** In January 2012, the decision was taken for the Foundation to move from existing in perpetuity, to existing in the long term, which for us means in excess of 30 years. We have decided to review our choice to exist in the long term every three years to determine if an end date should be chosen for the Foundation. By reviewing this decision periodically, we can:

- Determine our annual spend rate more flexibly, including increasing or decreasing our spend rate by adjusting our spend from the endowment more easily in response to unexpected and unplanned for emergencies.

- Make better informed decisions about the way in which our endowment is invested.

- Ensure our Investment Objective is not inconsistent with the expected lifespan of the endowment and, the agreed risk level and the rate of grant spending.

6. OUR APPROACH

We recognise that our endowment is invested in the real world, and so our ambitions as set out in this policy, may not always be possible to achieve in full. There is a clear risk that our investment policies and investment decisions made on our behalf may be linked to corporate strategies, approaches or products which are in conflict with our own aim and values. This risk may have both reputational and financial consequences. We minimise this by working towards the following approach to investing:

1. **Financial Investing that is sustainable and responsible:** *Long-term investing motivated by financial returns, whilst taking fully into account environmental, social and governance factors.*

   Working with fund managers appointed by us through competitive selection processes administered by the Finance and Investment Committee and staff, we expect that our investments will remain invested predominantly in equities. We believe that good financial investments are those in companies that operate in a way that is environmentally and economically sustainable and socially responsible.

   We will be proactive in discussing with our fund managers our views on Environmental, Social and Governance (ESG) factors, sustainability and responsibility. We will expect them to engage with their investee companies, to use voting rights attached to equity holdings in support of these views and to report back to us on these activities.

We will encourage our fund managers to make investments that support the just transition to net zero carbon and a carbon positive future and to review the carbon footprint of our investments annually.

Our approach is evolving, and we recognise that our aspirations require pragmatism too – meaning that it is our ambition to address the level to which our fund managers and investors invest in industries and corporate practices that are materially misaligned to our aim and funding categories. However, we recognise that there are difficulties in setting thresholds for contentious activities within large and diverse global businesses and in determining just where to draw the line within an integrated sector or supply chain. We expect our fund managers to engage with companies on our behalf over sustainability matters and report the outcomes of any engagement activity back to us. We will review regularly our approach and progress in order to develop the appropriate policies with regard to collective engagement strategies, direct engagement activities through our fund managers, divestment and exclusions.

2. **Impact and Social Investing:** *Investing where both financial and non-financial returns, in support of the Foundation's aim, are expected.*

   This can represent a range of different approaches from no sacrifice of financial return, to no financial return, balanced by a compensating social benefit, and in line with our organisational aim. For example, we might provide organisations with repayable financing models in order for them to achieve their social and charitable purpose and grow their impact.

   Normally, investments will be managed through fund managers appointed by us through the Finance and Investment Committee, and subject to the required due diligence and assessment processes being undertaken. The investments made will offer social and environmental benefits and be a good match for one or more of our three funding categories.

   The Board will consider the expected financial return and the expected financial return foregone in order to further the Foundation's aims, before making decisions on potential investments. It will take appropriate advice where necessary.

   Investments will be made when it is mutually agreed that it is a better option for the recipient organisation than providing them with a grant, and if the investment offered is additional or different to what could be achieved with a grant.

The performance of our Investments will be reviewed periodically throughout the year. The Head of Finance and Resources is responsible for this on a day-to-day basis, with support from the Director, and the Finance and Investment Committee assumes overall responsibility and oversight on behalf of the Board. We will continue to delegate day-to-day responsibility for our investments to the relevant specialists and practitioners, meaning we are a step removed from the investments we make on a day-to-day basis. However, by actively engaging with our fund managers, the Foundation, through its Finance and Investment Committee, can ensure that our investments are more closely aligned to this policy.

7. PERFORMANCE BENCHMARKS

Individual fund manager mandates are set against specific individual financial benchmarks. The total portfolio financial return is measured against:

1. Total Return Target of 4% + CPIH.
2. Simple Benchmark of 85% MSCI AC (Morgan Stanley Capital International All Country) World Index and 15% British Government All Stocks Bond Index.

The measurement and benchmarking of non-financial impacts will need to be developed in order that value for money can be assessed.

8. SPENDING POLICY

A spending policy is set annually, at the February Finance and Investment Committee Meeting, before being approved by the Board of Trustees in March in the same year. We recognise the need to balance available funds between current and future beneficiary charities, while taking into account the potential for generating real investment returns over the long term. Historically, the agreed formula has been an annual total expenditure budget of 4.5% of the Foundation’s net assets (net of investment management fees) averaged over the quarter end values of the last three calendar years.

Trustees can and do apply flexibility to spending to ensure they can support the best work at the right time and respond to changes in the investment market and relevant economic, political and societal changes. In the case of a grant under or overspend, the Trustee Board will make a decision that year as to whether to carry forward the balance to the following year.

9. IMPLEMENTING THIS POLICY

Ultimately, our Director and Head of Finance and Resources are both responsible for the delivery of this policy, with oversight by our Board of Trustees – which in the main will be delegated to the Finance and Investment Committee. An annual report on our progress against this policy will be shared with the Board, with key elements shared externally. The policy is accompanied by an internally-facing operational guidance and notes document, which will be reviewed and updated annually by the Finance and Investment Committee.

We will need to work with our fund managers and other related stakeholders through annual review meetings and other relevant meetings to monitor compliance with our policy, and any issues or opportunities arising from this. This will help us develop measures and benchmarks, as well as enabling us to take action when the policy is not being met.

10. RESPONSIBILITIES OF THE FINANCE & INVESTMENT COMMITTEE

The responsibilities of the Finance & Investment Committee are set out in the Terms of Reference which are reviewed and confirmed annually by the Committee and the Board of Trustees.

11. MANDATES FOR ALL INVESTMENTS

The mandates for each fund manager are such that any two signatories from the pool of signatories are authorised to effect instructions. The pool of signatories includes the Finance & Investment Committee Trustees, the Chairman and the Director. The Head of Finance & Resources is the authorised administrator and correspondent.

12. REVIEW OF THIS DOCUMENT

This document was first approved by the Finance & Investment Committee in February 2006 and presented to the Board of Trustees in March 2006. Following the implementation of a new investment structure, the document was substantially changed in February 2014 and again in July 2020 following the agreement to make this a publicly available policy, as part of a five-year strategy for the Foundation. It is formally reviewed and updated annually by the Finance and Investment Committee, as part of the Investment Strategy Review.

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