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 closely aligned to our charitable purpose. 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 investments may be linked to corporate strategies or products which are in conflict with our own aim and values. We cannot completely eliminate exposure to these but seek to minimise both the potential and actual damage caused by our investments, particularly in relation to the climate and nature emergencies, by taking account of environmental, social and governance issues in all our investment activities. The tools and opportunities which help us achieve this include: our investment policy and strategy; the mandates with our fund managers who are responsible for the day to day investment activity undertaken on our behalf; engagement with the companies in which we invest and wider systemic actors (such as regulators, banks and other service providers); the exercise of our voting rights at company meetings and investment that may contribute more directly to our aims.

Our Investment Policy is available as a public document because we think that transparency across all of our activities is important in helping maintain accountability to all of our stakeholders, including the public. It is in alignment with our commitments under the Funder Commitment on Climate Change, to which we are a signatory. This Policy commits us to a future where our investing activities are more closely aligned to our organisational aim and values, and at the same time recognises that financial returns must be sustainable to allow us to continue 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 CBE
Chair, John Ellerman Foundation

Keith Shepherd
Chair of the Finance and Investment Committee, John Ellerman Foundation

1. INTRODUCTION

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 for work that has national significance in the fields of the arts, environment and social action (our funding categories), believing these areas can make an important contribution to wellbeing. This publicly available Policy outlines the agreed principles and policies underlying the Foundation's investment of its endowment.

Until 2020 our primary focus was to manage the endowment in a way that mainly prioritised financial returns. Over recent years, we have become increasingly aware of the importance of also addressing the fact that some of our investments are poorly aligned to our aim and values. We now aim to invest and manage our funds in a way that balances the desire to maintain the financial capacity for grantmaking over the long-term, with direct support for our aims through our investment activities. Since 2020, we have been more proactive in seeking to address the fact that some of the investment decisions made on our behalf end up supporting corporate strategies, approaches or products that are poorly aligned with our aim. In practice, this means that we want to:

- Invest in a sustainable way i.e. to support long-term environmental and societal sustainability and to help address the climate and nature emergencies
- Be a responsible investor i.e. to take full account of ESG issues in our investment activities.
- Be transparent, accountable and effective.
- Work with other actors, including trusts and foundations, in the financial system in the transformation of systems and institutions for managing investments.
- Identify and make investments that could act in support of our aims.
- 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, grantmaking and financial management. This document is based on decisions agreed by the Finance and Investment Committee (which normally meets four times a year) and approved by the Board of Trustees, in addition to the legal and regulatory requirements for our investing as set out in Section 3 below.

The level of proposed spending by the Foundation for the coming year is discussed at the February Finance and Investment Committee Meeting, before being approved by the Board of Trustees in March in the same year. Historically, the agreed policy 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. In the case of a grant under or overspend, the Trustee Board makes a decision that year as to whether to carry forward the balance to the following year.

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.

Investments make up the vast majority of our balance sheet and are the only actively income generating assets. The base currency of the investment portfolio is pounds sterling.

3. INVESTMENT POWERS

The assets of the charity must be invested in accordance with the governing instrument, Trustee Act 2000 and relevant case law. The latest guidance from the Charity Commission is also fully 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 they could make if they 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.

Together these confirm that Trustees are permitted to exclude investments which conflict with their charitable purpose, even if this is expected to affect financial performance adversely, but that they should exercise their discretion by reasonably balancing all relevant factors including, in particular, the likelihood and seriousness of any potential financial effect from the exclusion of such investments.

To-date the only area of potential investment where the Foundation has agreed an exclusion policy is that no direct investment in tobacco companies is permitted. This is a tool that we may extend the use of to additional areas, particularly where an approach of engaging with the investee companies has failed to improve their activities in line with our aim.

4. FINANCIAL OBJECTIVE

The Foundation's financial objective is to generate a total investment return sufficient to enable the charity to carry out its operations continuously over the long-term with due and proper consideration for future needs and the maintenance of, and if possible, enhancement of, the real value of the portfolio. The current financial objective is to achieve a real return of 4% per annum (calculated as a Total Return target of 4% + CPIH) in the long term.

5. INVESTMENT STRATEGY

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

a) **Our Aim and Values:** Our priority at all times is the pursuit of our aim to advance the wellbeing of people, society and the natural world. We recognise that investing for a financial return can help further our aim over time by providing funds for our activities. However, we also recognise that some investments can damage our mission and that this must influence our approach. It may be that by sacrificing financial returns we are better able to advance our mission, but of course we recognise that this will mean there are lower financial resources available in future for grantmaking. We also believe that our values (to be responsive, discerning, connected, flexible and to apply a personal touch) should be applied to the management of our endowment just as they are applied to our grantmaking and wider operations.

b) **Risk and Return:** In order to pursue our mission over the long term, we have to achieve a financial return on our endowment. In order to generate a return, we have to accept risk. A reasonably high level of volatility in the portfolio is considered acceptable by the Trustees on the understanding that it is necessary to achieve the portfolio's real return target and appropriate in light of the investment horizon, which provides sufficient time for any short-term capital losses to be recovered. Our limited liabilities, diversified portfolio and the small proportion of the total endowment required to finance annual spending, also allow us to tolerate higher risk.

c) **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 means for us 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. This helps us make better informed decisions about the way in which our endowment is invested and ensure that our Financial Objective is not inconsistent with the expected lifespan of the endowment, the agreed risk level and the rate of grant spending.

d) **Liquidity:** There is a need to ensure adequate liquidity for ongoing operations (i.e. operations and grantmaking). Given the modest annual requirements for ongoing operations compared to the size of the total endowment, a degree of illiquidity in our investments may be acceptable and even desirable.

e) **The Investment Opportunity Set:** The Foundation does not place any restrictions on the asset classes that can be invested in beyond those set out in law. Each mandate with an external fund manager may specify a tighter range of potential investments for that particular portion of the endowment. Given our demanding financial return objective, we expect our endowment normally to be predominantly invested in equities.

f) **The Scope for Partnership Working:** We recognise that we are a small investor compared to many organisations and as such our ability to influence policy and actions on our own is limited. We therefore see the value of working with other institutions with similar objectives and in supporting industry-wide initiatives such as the Charities Responsible Investment Network (CRIN) and the Funder Commitment on Climate Change, in order to achieve a louder voice and greater influence.

6. OUR APPROACH

We have adopted the following approach to investing:

a) **Financial Investing that is sustainable and responsible:** *Long-term investing motivated by financial returns, whilst taking fully into account ESG factors.*
These are implemented by working with external fund managers appointed to specific mandates which include financial targets and non-financial requirements reflecting our aims. We believe that good financial investments are those in companies that operate in a way that is environmentally and economically sustainable and socially responsible and we expect our fund managers to allocate our capital accordingly.

We discuss with our fund managers our views on ESG factors, sustainability and responsibility. We expect them to follow our Investment Policy, using both initial capital allocation and engagement with their chosen investee companies as tools for leverage, to use voting rights attached to equity holdings in support of these views where appropriate and to report back to us on their performance and compliance with our Policy. From time to time the Foundation may decide to set priorities for its engagement activity. We currently expect our fund managers to engage with companies on our behalf over sustainability matters, especially with regards to the climate and nature emergencies. Additionally, we may undertake collective engagement through investor initiatives and groups which seek to influence change in the wider capital market.

We 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, or to produce other measures that accurately denote the carbon implications of our investments. We will normally expect each of our fund managers to be committed to achieving carbon neutrality in their own operations, to be PRI signatories and members of the Net Zero Asset Manager Initiative. We will use the COP26 Asset Owner Declaration as a tool that supports our work with fund managers in understanding how they intend to respond to the climate and nature crises, particularly in relation to meeting the targets set out in the Paris Climate Agreement and achieving Net Zero, and how we can work together to progress the work that is happening further.

Our approach is evolving, and increasingly we are addressing the level to which our fund managers invest in industries and corporate practices that are materially misaligned to our aim and funding categories. As a long-term investor we also aim to influence and work within the existing system and in furtherance of wider sectoral change.

b) **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 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. Any such investments 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 aim, 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 Foundation and the recipient organisation than providing a grant, and if the investment outcome is additional or different to what could be achieved with a grant.

Our approach to social and impact Investing is nascent, and we are developing and scoping our approach with a view to making investments of this nature in the near future. Our criteria will evolve as we gain experience through investing in this way and finding out what works.

7. IMPLEMENTING THIS POLICY

Our Director, Finance and Operations Manager, and Head of Research and Impact are 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.

8. PERFORMANCE MEASUREMENT

The performance of our investments will be reviewed regularly throughout the year. In addition to the 4% real financial return objective, portfolio performance is also assessed against the Simple Benchmark of 85% MSCI World and 15% FTSE Government All Stocks. The Finance and Operations Manager is responsible for this on a day-to-day basis, with support from the Director and Head of Research and Impact. The Finance and Investment Committee assumes overall responsibility and oversight on behalf of the Board.

Individual fund manager performance will be measured against specific benchmarks set out in each manager's mandate. This may include the measurement and benchmarking of non-financial impacts.

We work with our fund managers and other service providers through annual review meetings and other relevant meetings to monitor compliance with our Policy, and any issues or opportunities arising from this. This helps us to develop measures and benchmarks, as well as enabling us to take action when the Policy is not being met. If compliance is not forthcoming and improvements are not made, this will result in changes to our suppliers.

9. REVIEW OF THIS DOCUMENT

This document is formally reviewed and updated annually by the Finance and Investment Committee, as part of the Investment Strategy Review.

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Published: July 2020 (Revised in February 2022 and May 2023)