

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 do, by taking a 'total impact' approach to the use of our endowment, both in grantmaking and investing. Accordingly, the consequences of our investment activities for society and the environment should be closely aligned to our charitable aim. At the same time, we seek to generate sufficient financial returns to at least maintain the real value of our endowment over the long-term.

This Investment Policy has been developed by our Finance and Investment Committee and approved by the Trustee Board. It is rooted in the Foundation's five values and the desire to be transparent, accountable and effective. We are a long-term, sustainable and responsible investor; our financial target returns are ambitious and accordingly we will accept commensurately high volatility.

In pursuing our financial objective, we recognise that our investments may be linked to organisations, activities or products that are in conflict with our own aim and values, particularly in relation to systemic issues such as the climate and nature emergencies. Our response to this is to identify and quantify the potential conflicts and then to consider the range of tools available to us to progress alignment of our investments with our aim and values.

We have decided that in most cases rather than excluding misaligned investments from our portfolio, we will focus on using our investments to forward our mission by driving change in the real world through changes in investee behaviour. This means that we wish to help build and implement effective engagement with the companies in which we may invest. This engagement may be direct, in co-operation with others, or through our external fund managers. We recognise that progress can often best be made through systemic change and will support moves to influence wider systemic actors (such as regulators, banks and other service providers).

Investments are prohibited in a limited number of companies, where we do not see the potential for successful engagement, based on a view that their activities can never be compatible with our mission; these include tobacco, coal and tar sands companies. We will also not supply new capital for fossil fuel production and infrastructure. At the same time, we will seek to allocate new capital to areas of economic activity that support our mission, even where financial returns may be lower, provided that the non-financial impact more than compensates for the lower returns.

This Policy is in alignment with our commitments under the Funder Commitment on Climate Change, to which we are a signatory, as well as Share Action's definition of Responsible Investment. We will implement it through our investment strategy, the investment mandates covering the day-to-day investment activity undertaken on our behalf, dialogue with our fund managers on problematic holdings, the exercise of our voting rights at company AGMs, co-filing resolutions, and working collaboratively with like-minded investors and industry bodies.

In summary, we will invest to make a financial return and to drive forward our mission of advancing wellbeing, by being active stewards of our investments to mitigate the consequences of the world's major social and environmental issues, alongside our grantmaking activities. We encourage all our stakeholders, including fellow charitable investors, 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 was founded by John Reeves Ellerman 2nd Baronet (1909-1973), using the wealth he inherited from his father. The businesses from which our wealth is derived comprise, in brief, shipping, brewery, coal and oil, property and newspaper and publication interests. The Foundation's aim is to advance the wellbeing of people, society and the natural world. The main ways in which we achieve this are by:

- a) grant 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; *and*
- b) investing and managing our funds to generate financial returns to sustain our grant making activities, promote corporate activity which furthers our mission and challenge corporate behaviour that is poorly aligned to our aim and values.

The present-day Foundation is run by a small group of staff and Trustees with a range of professional and personal expertise in our funding categories, grantmaking, investment and financial management. This publicly available Policy outlines the agreed principles and practices underlying the Foundation's investment of its endowment, 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 2 below.

2. INVESTMENT POWERS

We are currently governed by a Scheme, approved by the Charity Commissioners for England and Wales in March 2002. The previous Scheme brought together the funds originally donated in 1971, with a smaller trust fund set up under the first John Reeves Ellerman's, 1st Baronet, Order of the Companion of Honour (1862–1933) will. Trustees were granted incorporation under the Charities Act 1993 as the Trustees of John Ellerman Foundation. The Scheme provides wide powers for the Trustees to carry out their investment duties.

The assets of the charity are invested in accordance with the provisions below:

- 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.

Historically, the only area of potential investment where the Foundation has agreed an exclusion policy is that no direct investment in tobacco companies is permitted. In 2024/25 this has been updated to reflect that we do not allow investment in tobacco companies across all holdings, which includes indirect investment like holdings in pooled funds. Additionally, as of 2024/25, we will not invest primary market capital into fossil fuel production and infrastructure and to exclude completely investments in coal and tar sands companies. The application of exclusions is kept under review; should there be any breaches of this policy we endeavour to dispose of those investments as soon as possible.

3. OUR INVESTMENT APPROACH

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. This return target has a direct impact on our grant expenditure, as we generally set our budgeted spending on the basis of a percentage of the portfolio's market value.

In the last few years we have struggled to reach our financial return target and expect this to continue to be challenging. We have therefore recently reduced our budgeted expenditure slightly and will continue to keep it under review. The Finance and Investment Committee makes spending recommendations for decision by the Board each year, including consideration of the treatment of any over or underspending in the previous year.

Since 2020, we have developed our thinking on investment so that we now take account of non-financial outcomes alongside financial returns. We refer to this as a "total impact approach". Non-financial impact may advance or conflict with our aims and values. We therefore seek through our investment activity to challenge actively the practices of companies that damage our mission and to promote investment in companies whose activities are supportive of our mission.

We aim to:

- Invest in a sustainable way i.e. to support long-term environmental and societal sustainability, with particular focus on helping address the systemic impact of the climate and nature emergencies.
- Be a responsible investor i.e. to take full account of environmental, social and governance (ESG) issues in our investment activities, considering both the implications for a company's financial value, as well as the underlying risks of a company's impact on our mission.
- Be transparent, accountable and effective.
- Actively engage with our underlying investee companies where specific issues are identified that we feel are misaligned with our organisational aim, values and approach.
- Work with other actors, including trusts and foundations, in the financial system in the transformation of systems and institutions for managing investments and responding to consultations on policy and regulatory changes through avenues such as the Charities Responsible Investment Network and the COP26 Asset Owners Declaration.
- Ensure that the fund managers we employ to take day-to-day investment decisions on our behalf share our beliefs about the relevance of ESG factors in investment, and take a systematic and effective approach to stewardship and engagement.

- Allocate capital to investments that 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.

4. INVESTMENT STRATEGY

In order to deliver our Investment Policy successfully, we have carefully considered 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. We also recognise the importance of withholding new capital from investment opportunities which are not aligned with our aim and increasing investment in opportunities that will positively contribute to our mission. These decisions may mean that we sacrifice financial returns but are better able to advance our mission; and 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. We have undertaken an exercise to understand our impact better, resulting in an [Impact Framework](#) for the organisation. We will use the measures of success included in this to assess our progress on the implementation of our Investment Policy.
- 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 as part of our 2022-25 strategy period, and will determine if an end date should be chosen for the Foundation by March 2025. 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 acceptable investment risk level and the rate of grant spending.
- d) Liquidity:** There is a need to ensure adequate liquidity for ongoing activities (i.e. operations and grantmaking). Given the modest annual requirements for ongoing activities 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, however, we work with our investment consultant in regularly assessing opportunities to invest in

other asset classes, taking into consideration the risk, return and impact profile of different options.

- f) **The Scope for Partnership Working:** As a relatively small investor, with limited resources, we have the greatest ability to influence company, sectoral and policy behaviour when working with others. 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, the COP26 Asset Owners Declaration and the Funder Commitment on Climate Change, in order to achieve a louder voice and greater influence. We will continue to work with others, especially on collaborative engagements with common fund managers, escalating matters where we see a requirement for this.

5. OUR APPROACH

All our investment activity is intended to be long term, responsible and sustainable. We want a diversified portfolio suitable for our objectives. We take expert advice where necessary and review the portfolio regularly. We believe we have a responsibility to be an active asset owner, promoting effective stewardship that will produce sustainable financial, environmental and societal benefits.

Our investments are made in both primary and secondary markets. Primary markets are those where shares, bonds and other relevant asset classes are sold to investors and are available to purchase for the first time; they enable companies, governments and other investors to obtain further financing through debt-based or equity-based securities. The majority of our investing is in the secondary markets, where investors buy and sell securities and the trades take place between other investors and traders – not directly with the parties that issue the securities. After securities are sold on the primary markets, they may end up on secondary markets when they are sold again.

We manage our portfolio in the following way (following the terminology from (CC14):

Financial Investing: *i.e. investing motivated by financial returns, whilst taking fully into account the Foundation's aims, financial and reputational risks, and ESG factors.*

These have historically made up the majority of our portfolio and are mainly public equity investments listed on stock markets i.e. providing secondary capital. Implementation is through external fund managers, appointed to specific mandates or acting in accordance with pooled fund product specifications.

We continue to evolve our stewardship approach; it includes shareholder engagement, voting at shareholder meetings, the promotion/support of relevant motions at company meetings, and seeking to drive change through systemic guardrails which drive change, not just on a company-by-company basis but on a sectoral basis. We also wish to influence policy makers, and to contribute to research and public discussions and thinking on these matters. We recognise that because we are primarily invested in pooled funds alongside other investors, our ability to influence responsible investment practices within these funds can be limited. We 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 are prioritising taking systemic and collaborative approaches to our stewardship work, which means working with our fund managers, other like-minded investors and investor initiative groups, in relation to specific engagement activities relating to our environment, social and governance ambitions. Currently the main focus of the work with fund managers

is to drive up responsible investing practices in the industry. We are also prioritising working with others, including the Charities Responsible Investment Network, to press UK banks to cease providing financing and service provision to fossil fuel exploration and development, undertaking engagement as per the COP26 Declaration.¹

Since 2023, we have set up a new structure and agenda for our meetings with fund managers, which means that a significant proportion of the presentation and discussions relate to ESG, sustainability and responsible investing. We receive data on a quarterly basis outlining our exposure to stocks in controversial sectors (tobacco, gambling, indiscriminate weapons, adult entertainment and predatory lending), as well as an analysis of any energy holdings (broken down by gas, thermal coal, oil, and tar sands). We consider data on the carbon intensity, carbon risk, the major carbon emitters and the share of absolute emissions in our investment portfolio. The analysis also outlines ESG scores and SDG (Sustainable Development Goals alignment) for our fund managers. This data also helps us to consider the impact of our investment portfolio and to determine specific matters we wish to engage with our fund managers on.

In primary markets, it is our intention now that we will not invest any new primary capital to fossil fuel production and infrastructure. We feel that doing so is fundamentally misaligned with our organisational aim to advance wellbeing for people, society and the natural world, and is misaligned with the aims of the Paris Agreement, which seeks to keep temperature rises well below 2°C above pre-industrial levels.

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

Social investing is one of the tools available to us which will help to increase our impact and further our charitable aim of advancing the wellbeing of people, society and the natural world. Social investing normally falls within primary markets and represents a range of different approaches from no sacrifice of financial return to significantly impaired financial return.

In the next 12 months, we intend to determine our strategy for making social investments, whilst also recognising that our ability to do so depends on the decision we are due to take by March 2025 in relation to our time horizon, in terms of whether we exist in perpetuity (i.e. forever). The key matters we wish to explore and determine a way forward on are: resource implications, how to source investments, how to undertake the required due diligence, how to appraise the likely impact, and the ongoing management of such investments.

6. 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.

7. 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

¹ We are signatories to the COP26 Declaration, which outlines engagement escalation approaches including for banks in the 'Active ownership' section. The Declaration can be found [here](#). The scope of our engagements covers new general corporate or project financing, underwriting, or other capital markets activities to utility and energy companies pursuing fossil fuel supply and infrastructure expansion.

against the Simple Benchmark of 85% MSCI World and 15% FTSE Government All Stocks. Individual fund manager performance will be measured against specific benchmarks set out in each manager's mandate or product specifications. 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 Board has delegated overall responsibility and oversight to the Finance and Investment Committee.

We use the analysis in discussions 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 could result in changes to our products, managers or other service providers.

8. 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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