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 our grantmaking, operations and investing. Accordingly, the consequences of our investment activities for society and the environment should be closely aligned to our charitable aim.

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.

We seek to generate sufficient financial returns to at least maintain the real value of our endowment over the long-term. In pursuing this 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 triple planetary crisis. Our response to this is to identify 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 influence as an asset owner to encourage changes in investee behaviour. This means that we wish to engage effectively with the companies in which we 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 tobacco, thermal coal and tar sands companies, where we do not see the potential for successful engagement, based on a view that their activities can never be compatible with our charitable aim. We will also not supply new capital for fossil fuel production and infrastructure. At the same time, we will seek to allocate 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.

Our ambition is to achieve a positive impact through our endowment and ensure that our investment activity aligns with our charitable aims. We encourage all our stakeholders, including fellow charitable investors, to join us in seeking to achieve this objective.

Geraldine Blake
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 present-day Foundation is run by a small group of staff and Trustees with a range of professional and personal expertise in the type of work that we fund, as well as in grantmaking, investment and financial management.

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 furthers our aim, in line with our organisational strategy;
b) investing and managing our funds responsibly, using our influence as an asset owner to promote corporate activity which furthers our aim and challenge corporate behaviour that is poorly aligned to our aim and values, whilst also generating financial returns to sustain our grantmaking activities; and
c) making social investments that generate financial returns as well as social and/or environmental impact in line with our organisational aim.

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.

Our new Social Investment Policy sits beneath this main Investment Policy, and aligns with the overall ambitions set out in this Policy. We will review both policies alongside each other annually, ensuring that the Social Investment Policy continues to align with the overall approach to investing that is set out in this main Investment Policy.

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 will of the first John Reeves Ellerman, 1st Baronet, Order of the Companion of Honour (1862–1933). 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.

3. INVESTMENT STRATEGY

In order to deliver our Investment Policy successfully, we have carefully considered the following strategic factors:

a) **Our Aim and Values:** Our ambition is to achieve a positive impact through our endowment and ensure that our investment activity aligns with 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.

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 time horizon as part of our 2022-25 strategy period, and will share the outcome of this review as part of our new strategy covering the period from 2025-2030. 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.

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 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 averaged over a rolling three-year period.

In the last few years, we have struggled to reach our financial return target and expect this to continue to be challenging. Consistently spending more than we make on average means that the real value of our endowment would decrease, making it harder to support our scale of grant-making in the long term. We have therefore 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 under-spending in the previous year.

5. TOTAL IMPACT APPROACH

The majority of our endowment is invested primarily for financial returns, which fund our grantmaking, mainly in public equities 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.

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 outcomes may advance or conflict with our aims and values.

Our aims are 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 triple planetary crisis[1] and reducing suffering for people, society and the natural world.
- Be a responsible investor i.e. ensure that our fund managers take full account of environmental, social and governance issues in their investment activities, considering both the underlying risks of a company's impact on society and the environment as well as the implications for a company's financial value.
- Encourage our fund managers take a systematic and effective approach to stewardship and engagement, and ask them to actively engage with underlying investee companies or sectors 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, through avenues such as the Charities Responsible Investment Network and the COP26 Asset Owners Declaration in pursuit of the transformation of financial systems, policy and regulation, and institutions to better support long-term environmental and societal sustainability.
- Achieve the above in such a way that any financial returns foregone are outweighed by positive non-financial impacts.

We expect each of our fund managers to have in place an investment strategy covering all assets under management to achieve net zero emissions by at least 2050, with at least 50% emissions reduction by 2030 at the latest. The scenario used should be aligned to the 1.5°C ambition in the Paris Agreement and not overly reliant on negative emissions technologies. Rather than achieving this through the removal of high emissions companies from equity portfolios, we expect fund managers to actively engage with investee companies to set 1.5°C aligned transition plans including short and medium term science based targets, and a net zero target for no later than 2050 that is not overly reliant on negative emissions technologies.

We also expect fund managers to be committed to achieving carbon neutrality in their own operations and to be signatories to the Principles for Responsible Investment.

6. STEWARDSHIP

We expect our fund managers to take a stewardship approach to the portfolio of companies that they are invested in; this includes engagement to promote socially and environmentally responsible business practices, voting at shareholder meetings, the promotion/support of relevant motions, and seeking to drive change through systemic guardrails which protect society and the environment, not just on a company-by-company basis but on a sectoral or thematic basis.

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 environmental and societal aim. Currently the main focus of our work with fund managers is to use our influence as an asset owner to drive up responsible investing practices in the industry. For this reason, we meet with each of our fund managers at least twice a year, including one meeting with our Finance & Investment Committee. Since 2023, we have set up a new structure and agenda for these meetings, which means that a significant proportion of the presentation and discussions relate to sustainability and responsible investing.

[1] The triple planetary crisis refers to three interlinked issues that humanity currently faces: climate change, pollution and biodiversity loss.

As a responsible asset owner we also wish to influence policy makers, and to contribute to research and public discussions to promote sustainable investment practices in the wider investment sector. We are currently exploring how we can work alongside others to use our influence with banks to press for the banking sector to cease providing financing and service provision to fossil fuel exploration and development.

7. EXCLUSIONS POLICY

Investment in tobacco, thermal coal and tar sands companies is excluded across all holdings, including indirect investment like holdings in pooled funds.

We also do not permit the investment of primary market capital into fossil fuel production and infrastructure, i.e. the purchase of new securities. We feel that providing new investment into these activities 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.

The application of exclusions is kept under review. Should there be any breaches of this policy we endeavour to resolve these issues as soon as possible, or to dispose of those investments where there is no possibility of influencing fund manager(s) to change their investment approach in order to become compliant. Where possible, we will act transparently and make public the reason for our need to dispose of any investments.

8. SOCIAL INVESTMENT

In line with the Charity Commission's CC14 guidance, we define social investment as *"investing with a view to both achieving your charity's purposes directly through the investment and making a financial return."*

In January 2025 Trustees approved our new Social Investment Policy, which outlines in detail our approach to social investing, including our aims, key investment criteria, specific parameters, investment processes and governance approach. Our aim in developing a social investment portfolio is to achieve greater impact with our funds than could have been achieved had we invested for financial returns and given this money out as grants. This means that we will take into account both the financial returns and the non-financial impact of each social investment opportunity, and consider whether these outweigh the value of grants foregone by not investing primarily for financial return.

We may choose to make social investments across a spectrum of financial returns – from no financial sacrifice, where returns are comparable to those in our main endowment, through to significantly impaird financial return, which we will accept if there is a strong case for positive social and/or environmental impact in line with our charitable aim. We will consider both direct investments and investments in social impact funds.

We intend to work towards investing approximately 10% of our endowment (currently equivalent to c.£15m) in social investments over the coming years. We expect the majority, if not all, of our social investments to be in private markets. We will develop more specific timescales for this ambition as we build the portfolio, but recognise that this type of investment is a long-term commitment and the full programme will take a number of years to build up.

9. 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 is delegated to the Finance and Investment Committee.

10. PERFORMANCE MEASUREMENT

The financial 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. Individual fund manager performance will also 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 conduct annual review meetings and other relevant meetings to monitor compliance with this Investment Policy, including fund managers' performance on engagement and stewardship, and compliance with our policy on exclusions.. This helps us to develop measures and benchmarks, as well as enabling us to take action when the Policy is not being met. If improved performance or compliance is not forthcoming, this could result in changes to our products, managers or other service providers. Where possible and appropriate we will communicate this publicly, to practice our approach to transparency and to improve flows of information within the industry.

11. 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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