John Ellerman
Foundation

John Ellerman Foundation's Social Investment Policy

1. Context

This is John Ellerman Foundation's first Social Investment Policy. It has been informed by extensive engagement with peers in our sector including independent Trusts & Foundations, specialist advisory organisations and infrastructure bodies, and we are grateful for their support.

Trustees made a commitment to start social investing in our (main) Investment Policy in July 2020. The Foundation had made two social investments prior to 2020, but at the time did not have an ambition to become a social investor in the longer term and so both investments were made outside of a structured approach to building a social investment portfolio.

Our current Investment Policy, published in May 2024, commits us to: *"determine our strategy for making social investments… 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."*

This Social Investment Policy is a concrete step towards delivering on that commitment. We intend to use it as a decision-making guide to begin making social investments from 2025.

Key milestones: The following table outlines the key milestones in our journey towards becoming a social investor to date.

Date	Milestone
May 2017	Trustees approved the Finance & Investment Committee's recommendations on mission-related investing. The paper looked at three broad approaches, one of which was social/impact investing.
November 2018	Presentation to the Finance & Investment Committee by Paul Simon, consultant to some of the Sainsbury Family Charitable Trusts (amongst others).
September 2019	Paper presented to Finance & Investment Committee on next steps for social/impact investment, with a request for direction from the Board.
July 2020	Investment Policy updated to include a commitment to social investing for the first time.
September 2020	The Board agreed that they were in favour of the Finance & Investment Committee continuing to explore opportunities and support investing in line with the Foundation's mission.
November 2021	Impact Investment paper presented to Finance & Investment Committee with three potential social investments included as examples, to inform a conversation about potential investment criteria.

April 2022	Publication of our 2022-2025 strategy, subtitled *'Advancing wellbeing with 100% of our assets'.* This strategy committed us to invest and manage our funds in such a way that balances the desire to maintain grantmaking capacity, operating in the long-term, and addressing the risk that our investments are poorly aligned to our aim and values.
January 2023	New Head of Research and Impact role now in post, with responsibility for taking forward our ambitions on social investment.
November 2023	Paper presented to Finance & Investment Committee on impact and social investment, outlining different types of social investments including example investment opportunities. This paper also covered the opportunities and challenges of investing in private equity.
February 2024	Paper presented to the Finance & Investment Committee summarising how peer foundations have approached the strategy, resourcing and sourcing of social investments, plus key learning.
September 2024	Paper presented to the Finance & Investment Committee outlining a draft approach to social investment. That paper and discussion has formed the basis of this Social Investment Policy.

2. Aims and ambitions

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.

Our ambition is to achieve a positive impact through our endowment and ensure that it is invested in a way that aligns with our charitable aims. One way in which we do this is through using our influence as an asset owner to drive more responsible investment practices, and encourage our fund managers to challenge corporate behaviour that is poorly aligned to our aim and values. Social investing is another tool available that will enable us to further our ambition of using our endowment to achieve a positive impact. We recognise that it will take some time to implement and are committed to learning and improving our approach over time. We will aim to be transparent about our progress, what we have achieved and where we could do more.

Definitions: 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."*

We also find the Impact Investing Institute's definition of impact investments helpful: *"Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."*

Whilst the terms 'social investing' and 'impact investing' are often used interchangeably, we prefer to use the term 'social investing' in order to align with the Charity Commission's CC14 guidance.

Social investment portfolio aim: 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 impaired 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.

Social investment portfolio size: 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.

How we will build our social investment portfolio: We intend to appoint a specialist investment consultant to advise us on developing a structured portfolio of investments in social impact funds forming approximately 75% of our total social investment portfolio.

We will allocate the remainder of our social investment portfolio to a combination of direct investments into charities and social enterprises, limited companies and social impact funds which would otherwise fall below the threshold of our social investment consultant (by virtue of being too small, without sufficient track record, and/or too specialist to fall within their usual remit). We will apply the same selection criteria to these opportunities as when selecting funds advised by the specialist consultant, but will manage these social investments entirely in-house.

Accepting financial sacrifice: We acknowledge that making social investment decisions that involve financial sacrifice will impact the market value of our endowment. Given that our budgeted expenditure is normally calculated as a percentage of the value of our endowment, this means that our spending in future years will be lower than if we had not made social investments with a financial sacrifice involved.

3. Impact

> **Key investment criteria 1:** We will only make social investments that further our charitable aim to promote wellbeing for people, society and the natural world, and where the intended impact clearly aligns with the ambitions set out in our funding guidelines.

We will explore social investment opportunities with social or environmental impact ambitions, or both. We want to do this in order to further our charitable aim and to learn more about the social investment market and the types of opportunities available for investment. In future, we may choose to specialise in a smaller number of impact areas.

Assessing social and environmental impact: In line with our grants funding guidelines, we will make social investments that can demonstrate national significance – for example, because they are investing in environmental assets that have national importance, or because they are seeking to achieve social impact that has the potential for national reach or relevance. We will draw on our expertise as a charitable grantmaker to assess whether the intended social and/or environmental impact of each social investment opportunity is realistically achievable and sufficient to justify any financial sacrifice.

Geographical scope: We will make social investments in organisations and/or funds based in the UK, for positive social and/or environmental impact in the UK. This is the area in which we are active as a grantmaker and where our expertise lies, meaning it is where we are best placed to assess whether the intended impact of social investment opportunities justifies any potential financial sacrifice.

Sourcing investment opportunities: Our specialist social investment consultant will develop a structured programme of investments for us and will source the majority of investment opportunities accordingly. We will source the remainder of our social investment portfolio – opportunities that fall below our consultant's threshold – through peers and trusted networks.

4. Returns

Key investment criteria 2: We will only make social investments where the intended social and/or environmental impact is greater than the opportunity cost of not investing for financial returns to fund our grantmaking. In other words, we will only make social investments where any financial sacrifice is outweighed by the value of the intended impact.

We will compare the expected financial return and intended impact of different social investment opportunities with each other using the methodology outlined below. Overall, we will seek to maximise the total return (financial and non-financial) of our investments.

Calculating opportunity costs: We will compare the expected financial returns from each social investment opportunity to those that might be expected if the funds were invested in our main endowment. If the social investment will deliver lower returns, we will estimate the difference over the full time period of the investment – this is the financial opportunity cost, or in other words, the additional amount of money we could have expected to generate to fund our grantmaking if the funds remained invested in our main endowment. We will then compare this opportunity cost to the impact that is expected to be achieved by the social investment opportunity, to inform our decision on whether the financial sacrifice (if any) is justified.

Liquidity expectations: Our main endowment is predominantly invested in equities, which means we benefit from a good level of liquidity. As such, we are able to accept illiquidity in our social investment portfolio. We will closely monitor our liquidity needs over time.

5. Risk

Key investment criteria 3: We will assess both the financial risks and the impact risks of each social investment opportunity to inform our decision of whether the forecast financial returns and intended impact justify the risks involved. We will accept higher financial risk for higher returns and/or for higher certainty of achieving positive social and/or environmental impact.

Impact risks: By impact risks, we mean risks that the intended impact is not achieved to the extent that was hoped, or risks that the impact could inadvertently be negative. We will consider a social investment opportunity to have a lower social impact risk if there is a track record of delivering clearly evidenced social and/or environmental impact. We will consider a social investment opportunity to have a higher social impact risk if the proposed activities are untested and/or if the intended impact is contested.

Financial risks: We recognise that in making social investments there is a risk of losing our capital, and will mitigate this risk through diversifying our investments across time and sectors, and by capping the total amount that we will invest in any one opportunity.

Types of investment: We will consider making direct social investments and investments in social impact funds and/or funds of funds. We consider it desirable to invest in both types of social investment opportunities, in order to learn more about the potential financial, impact and resourcing implications of each.

Asset classes: We will consider private debt, private equity and property/land investments.

6. Resourcing

Financing social investments: We will draw the capital needed to make social investments from our main endowment and add realised returns to it.

Managing social investments: Social investments that are sourced by our specialist investment consultant will be managed by each fund manager in a similar way to that in which our main endowment is managed, with overall advisory support provided by the specialist investment consultant and with specialist advice in areas such as legal and tax sought in addition to this, as required.

Social investments that fall below this consultant's threshold will be managed in-house within our existing staffing structure. We will draw on externally commissioned specialist financial due diligence advice and other specialist advice as required for each investment opportunity. We will prioritise making social investments where we can do so alongside peer Trusts and Foundations that are more experienced social investors, and we will particularly prioritise opportunities where we can conduct due diligence and ongoing management jointly, thereby limiting costs and maximising the opportunity to learn from others.

When our social investment portfolio has grown to a size that is no longer feasible to manage within our existing staffing structure, we will consider recruiting for a new role and/or appointing an external consultant to manage the investments, in order to provide more consistent resourcing at the level required.

Minimum and maximum investment size: Setting a minimum parameter is necessary to reduce the resourcing challenge of managing a large number of small investments, and setting a maximum parameter is necessary to manage the level of financial risk represented by any one investment in our portfolio.

We expect the size of individual investments sourced by our investment consultant to be a minimum of £500k and a maximum of £1m.

We will invest a minimum of £150k and a maximum of £500k in each social investment opportunity that do not meet the threshold for consideration by our specialist investment consultant and that we source ourselves.

7. Process and governance

Decision-making process for investments sourced by our investment consultant: We will take investment advice on each social investment opportunity. The Finance and

Investment Committee will assess the financial impact of each opportunity and will advise the Board of this, to inform its decision (alongside the non-financial impact) on whether or not to invest.

Decision-making process for investments that we source ourselves: Social investments in charities, social enterprises, and small social impact funds that we source ourselves will be sufficiently different in nature from investments in our main endowment, and our grantmaking, that a new process is required. The following flow chart outlines the process for identifying, making decisions about, and managing these investments, broken down into five main stages. This process has been designed to resemble the decision-making process and controls used in our grantmaking, whilst taking into account the necessary differences in making decisions about investments as opposed to grants. We will involve the whole Board in decision-making about these types of social investments as an opportunity to build a shared understanding and vision for the Foundation's social investment portfolio and as part of our commitment to taking a 'total assets' approach.

Sourcing and eligibility

1. Sourcing: investment opportunity sourced by HoRI and FOM through trusted networks.	**2. Eligibility:** HoRI and FOM assess fit with key investment criteria and calculate the expected opportunity cost.

Due diligence

3. Due diligence: Director approves whether to proceed with due diligence process delivered by externally commissioned financial expert.	**4. Investment proposal:** Director approves whether HoRI should develop an investment proposal, informed by due diligence findings.

Approvals

5. Finance & Investment Committee meeting: Investment proposal is presented to FIC for decision on whether to proceed to the Board.	**6. Full Trustee Board meeting:** Decision on whether to invest is taken at a Board meeting, by majority vote.

Contracting and drawdowns

7. Investment agreement: Investment agreement is drafted by an externally commissioned legal advisor and signed by FIC Trustee(s).	8. **Drawdowns:** Investment is drawn down assuming any conditions outlined in the investment agreement are met.

Ongoing management

9. Ongoing updates: Updates on the investment's financial and impact performance will be reviewed by HoRI & FOM, and Director if required.	**10. Reporting:** The financial and impact performance of each investment is reported to FIC quarterly (if possible) and annually to the Board.

N.B. HoRI = Head of Research and Impact; FOM = Finance & Operations Manager

Throughout this process we will take an iterative approach by, for example, asking additional questions of the due diligence process if further information is required to make an informed decision. Proposals can be turned down at stage 3 (by the Director, if eligibility criteria are not met); stage 4 (by the Director, if the due diligence report is not supportive of the investment); stage 5 (by the Finance & Investment Committee, if they are not supportive of the investment); and at stage 6 (if the Board decides against the investment). It is also possible that an investment may not go ahead at stage 7, if the terms of the investment agreement do not meet our expectations.

Governance: We expect all social investment proposals to be reviewed and assessed at the Finance & Investment Committee and full Board meetings scheduled throughout the year, co-opting the support of external advisors, consultants and relevant experts as necessary. Where possible the financial and impact-related performance of each investment will be reported to the Finance and Investment Committee on a quarterly basis, with a summary of performance provided to the Board on an annual basis.

Date: December 2024

Next review date: February 2026