EIRIS Foundation Responsible Investment Policy

1. Purpose

The purpose of this policy is to set the framework and principles for individual investment decisions and the approach that we would expect advisers and fund managers to take on our behalf. It is written in the context of having decided to divide our investments into two portions (initially £1 million each):

1. A Deposit Portfolio which we envisage spending down over the next five years in line with our strategy and which we will largely manage ourselves; and
2. A Growth Portfolio of at risk investments that we make with a view to contributing to the replenishment of our reserves in five years' time by growing significantly faster than inflation across that time.

Our own charitable objectives are to carry out research to the ESG impact of companies and investments and make that research publicly available; and secondly to assist other charities by helping them with ethical or responsible investment policies.

2. Key elements of our approach

We start from the following principles:

a. **Positive focus**: As we exist partly to work with other charities to advance the contribution of ethical or responsible investment to their objectives, we would prefer to see our own investments in companies whose products services and practices align with one or more of the heads of charity under which charities may operate in the UK. We see the Sustainable Development Goals (SDGs) as a useful framework for this. While we are not seeking to restrict our whole portfolio to a small number of sectors meeting such criteria, we would be happy to invest in funds or assets which did have this focus as one part of an overall portfolio. We would also consider positively companies or funds that scored well in our own research projects.

b. **Negative screening**: We want to avoid any investment (across all direct or indirect investments) in companies whose activities directly undermine any of the objectives of charities we might support and would prefer to avoid any investments that have less direct negative impacts on their missions. We would want to avoid investments in companies or funds that are rated badly in our research work or whose activities are part of the cause of any particular problem we are addressing in any part of our work.

c. **Public Benefit**: We believe that the obligation of public benefit on charities includes a responsibility to consider major public ills and threats to society and the environment beyond the specifics of the charity's own objectives. We consider the climate and biodiversity emergencies and the widespread public desire to build back better in response to the Coronavirus pandemic to fall into this category. We therefore want to avoid investments significantly contributing to biodiversity loss or climate change (unless on a clear 1.5° pathway) and wish to see companies in our portfolio contributing to building back better.

d. **<u>High Impact Social investments</u>**: We are enthusiastic about investments in entities created for the purpose of addressing pressing social or environmental problems (particularly in our deposit portfolio), although we don't envisage being able to identify any that directly address our particular charitable objects. In those cases where such investments also come with below market rate returns we wouldn't generally invest our Growth Portfolio in them, but we are open to considering them as a small part or as a source of uncorrelated risk/return within a wider portfolio.

e. **<u>Engagement and Stewardship</u>**: To advance many of the objectives of the charities we seek to help, we would expect the managers we appoint (or who run the funds we invest in) to be able to demonstrate clear engagement and Stewardship plans advancing the Paris Agreement, the SDGs and the Build Back Better agenda (levelling up, reducing inequality and supporting diversity and inclusion). We also expect them to have a clear analysis of systemic risks that relate to any charitable objective or public benefit more generally as part of their Stewardship activity combined with plans to act with others to address the risks they have identified. We would expect them to take advantage of engagement activities created by our own work and to be open with others about their plans and progress.

f. **<u>ESG integration</u>**: With the growth that we observe in our work in the understanding of the value of taking account of ESG factors in optimising risk and return in investment portfolios we would look to managers we appoint or who run the funds we invest in to be able to give a good account of the integration of ESG factors in their work. We would expect well developed models, taking advantage of the insights of charities and NGOs generally, and including those areas in which we work. We are looking for clarity about how ESG factors affect valuations or decisions to buy, sell or hold individual assets as part of giving us confidence in the ability of the manager to manage our portfolio successfully for the long-term.

3. Practical application and review of these principles

a. **<u>Areas that we will favour (Positive Focus)</u>**:

- Companies who advance a range of charitable activities through their business practices: **decent work** and **fair play** practices (e.g. Living wage accreditation, small gender pay gaps, equality and diversity initiatives) and companies who have achieved or are set to achieve a **net zero carbon target**.
- Companies who advance a range of charitable activities through the products and services they provide, including **good health practices, education, employment** and those that focus on a net zero carbon transition e.g. renewable energy generation & storage, energy efficiency
- Companies who have good **human rights practices**, particularly those scoring well in our Corporate Human Rights Benchmark (CHRB), unless excluded by virtue of their business activities
- Companies who provide products and/or services that focus on **Building Back Better** e.g. health practices, education, employment in a post covid-world

b. **Areas and corporate practices we will avoid (Negative Screening)**:

- Investments we *wish to avoid*: Companies and/or products which directly conflict with the objects of any charity we might assist
  - Tobacco
  - Gambling
  - Alcohol
  - Weapons and arms manufacturing
  - Pornography
  - Fossil Fuels (with the exception of those on a clear 1.5^{o} pathway), unsustainable harvesting of natural resources or intensive farming that degrade the environment.
  - Those which significantly contribute to biodiversity loss
- Investment we *prefer to avoid*: Companies and/or products which conflict indirectly or to a lesser extent with the objects of any charities we might assist
  - Unhealthy or 'junk food'
  - Fast fashion
  - Companies evading their corporate responsibility: engaging in bribery, corruption, money laundering, tax evasion and/or avoidance
  - Companies which have poor diversity standards (including race & gender, particularly among senior staff and board members)

4. **Public Benefit considerations** involve areas and/or companies to focus on and avoid that have been listed above. This includes focusing on companies which have good employment practices, promoting a net-zero carbon transition and the Build Back Better initiative. It includes avoiding investments contributing significantly to biodiversity loss or climate change and those which have poor labour standards or other human rights records.

5. **High Impact Social Investments:** We are not aware of any current high impact, lower return investments that would directly address our specific charitable objectives. We are open to consider such investments, if they address other charitable objectives, as a small proportion or as a source of uncorrelated risk/return within a wider portfolio.

6. **Areas where we will aim to use our influence as a shareholder (Engagement and Stewardship)**: It is important that our chosen fund manager is aligned with our desire to promote the following areas:

- Promoting a just and net-zero carbon transition in line with the Paris Agreement, by calling for the adoption of business models that are consistent with keeping global warming below 1. 5^{o}C.
- Promoting the need for human rights due diligence and heightened due diligence in the case of Conflict Risk. Our CHRB or Conflict Risk services can be used as a basis for engagement.
- Promoting activities which align with the Sustainable Development Goals (SDGs)
- Promoting good employment practices including decent work, fair pay and Equality & Diversity practices.

7. **ESG Integration**:

- Fund managers should be able to explain how ESG considerations feed into investment decisions
- Fund managers should explain how they partner with NGOs or use their own expertise to build their own models of evaluation and long-term stewardship
- Fund managers should have clear approaches to integrating human rights, conflict risk as well as the Paris climate agreement and the SDGs.
- Fund managers should be considering how their investment decisions and engagements align with the Build Back Better initiative.

EIRIS Foundation

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