Lankelly Chase

Lankelly Chase
First Floor │Greenworks
Dog and Duck Yard
Princeton Street
London │WC1R 4BH

Friday, 15 May 2020

By email: policy@charitycommission.gov.uk

Dear Sian,

Re: How do charities approach investing in line with their purpose and values?

Lankelly Chase Foundation's mission is to change the systems which perpetuate severe and multiple disadvantage. We understand that our own investment practices play a role in these systems and therefore that how we and others act as investors can help to either positively transform or sustain them.

We agree with the Charity Commission that "the time is now for us all to start thinking more purposefully about how charities invest their funds", not least given the increasing likelihood of catastrophic climate change. In fact, our own approach to investing is currently evolving as we seek to ensure it more closely supports our purpose and values.

We therefore welcome the opportunity to share our perspectives at this point and would be very happy to discuss our response with you further. We have structured this in response to the three questions posed in the Charity Commission's blog.

1. **What are your experiences and current considerations around responsible investment?**

On some measures, responsible investment has gone "mainstream". Inflows of capital into so-called sustainable and ESG (environmental, social and governance) funds have more than doubled in Europe and quadrupled in the US over the last few years, while stewardship teams at the largest investment firms have almost doubled in size.[i] Signatories to the UN-Principles for Responsible Investment have quadrupled in the last decade.

Yet we see insufficient evidence of the positive impact this shift has had on our socio-ecological systems and peoples' lives, with indicators of inequality and environmental degradation heading in the wrong direction. Alongside our deepening understanding of how our investments are interconnected within the wider systems we seek to change, this has caused us to re-examine our own approach.

Responsible investment privileges financial returns above positive real world outcomes

Our experience is that responsible investment – whether pursued through sustainable, ESG and/ or stewardship approaches – remains concerned above all with preserving and

The LankellyChase Foundation
Is a registered charity Limited by
Guarantee number 5309739 and
Registered charity number 1107583

enhancing the value of financial capital, and often over the short-term. Social and environmental challenges tend to be considered in terms of the risks and opportunities they present for the investment case, rather than whether investments help cause, exacerbate or address them. Meanwhile, outcomes which advance or are simply aligned with charities' missions are pursued only if they are consistent with financial return objectives.

For example, a large UK charity asset manager explained to us that they would not support a shareholder resolution committing a company to wind down its material fossil fuel financing. Their rationale was that, since forgoing such activity might negatively impact the company's profits, their "fiduciary obligation" to clients meant they could not "prioritise climate change over financials". This is perhaps also representative of a short-term mind-set which fails to attend to the consequences for people, planet and our collective wealth if we do not act with a long-term, interconnected perspective.

It is now well-established that ESG factors can be financially material to investment returns.[ii] But, if charities attend to them only for this reason, it does not follow that their approach to investing will be aligned with or advance their purposes, nor indeed the public benefit.

We seek to invest in a way which furthers our mission

This recognition has led us to review our own approach to investing to ensure that it more directly supports our mission. The objective of our future investment approach is likely to be to seek sustainable financial returns in a manner which is wholly consistent with our values and purposes. We do not wish to use income derived from short-term investment practices as a means of mitigating the real world consequences which those very practices contribute to.

This is leading us to actively seek investments which contribute positively to addressing the systems which perpetuate severe and multiple disadvantage, and avoid those which contribute negatively to and sustain them. This objective includes contributing to the rapid and equitable reduction of global greenhouse gas emissions to net-zero, since we know that climate change will be a poverty multiplier which increases inequality and deprivation among already disadvantaged groups.[iii] In doing so, we wish to be as ambitious as possible and, at least, aligned with the Paris Agreement goal to limit global heating to 1.5 degrees.

We are exploring how best to implement this approach, including how we can measure our investment managers' performance and a more holistic understanding of investment risk in the context of our objective.

In this approach, our purpose is not a secondary or contingent consideration, nor something which is only relevant to a portion of our assets. It guides our strategy and decision-making and is an explicit priority for the Board's Investment Committee.

Among other activity, we have also started to engage directly with underlying portfolio companies on issues which are important for our mission.

Attending to how we do things

The Commission's blog notes that how charities act is of increasing interest and importance. This resonates with the emphasis we place in our grant-making on how change happens, how decisions are made, and who is involved.

The LankellyChase Foundation
Is a registered charity Limited by
Guarantee number 5309739 and
Registered charity number 1107583

We are trying to apply this lens to our investments too. For example, we think it is important that our grantee partners understand the sources of our financial resource and the extent to which these are supportive of or perhaps in tension with our shared objectives. We publish a list of our portfolio holdings on our website each quarter to facilitate this and we encourage open discussion of our approach with our partners.

Given growing public concern around our climate breakdown, we expect this to become increasingly important for us to maintain trust as institution operating in the public interest. In addition, we are supportive of and engaging with long-overdue action around racial injustice in the sector.[iv] This requires us to question and seek to change the often extractive nature of the global financial system and investment practices.

As part of our current review, we are also exploring how we can adopt a more relational approach to our investment mandates. As well as agreeing on a more holistic understanding of investment objectives and risks, this includes considering the degree of alignment between our purpose and values and those of the individuals and institutions who may be managing the Foundation's assets.

2. **What do you think are the barriers to more widespread responsible investment?**

Our impression is that, while it is increasingly common for charity investment approaches to integrate and engage on financially material ESG factors, purpose and the public benefit are considered to a lesser extent.

A key reason for that, in our view, is the perceived hierarchy of importance between maximising financial returns on charities' investments and ensuring that they are consistent with their purposes and values. The Commission's blog on this topic describes the former as a "duty", while the latter is only "encourage[d]". This suggests it is an option to invest responsibly, rather than a requirement.

This optional, secondary status may explain why even funds which purport to be sustainable or responsible remain focused on financial returns over positive real-world outcomes. Our supposition is that most investment mandates do not stipulate more holistic risk and reward parameters relevant to charities' purposes as rigorously as financial measures, if at all.

This perpetuates the separation and indeed privileging of financial returns over real-world outcomes which are directly relevant to charities' purposes. For example, at its 2019 conference, 'Funding on a Finite Planet', the Chief Executive of the Association of Charitable Foundations ('ACF') said that "the changing climate is going to be one of the lenses through which we *all* have to view our work" and asked:

> Are we ignoring the 68 billion elephants in the room – our £68 billion pounds worth of endowments? A significant portion of which are invested in a financial system that is harming our environment and exacerbating inequality. Have we *really* thought about what it means to fund on a finite planet?[v]

However, a later session by an investment consultancy firm on the "The future of foundation investing" treated climate change as an optional or bespoke consideration, rather than central to how charities should approach their investments.

The LankellyChase Foundation
Is a registered charity Limited by
Guarantee number 5309739 and
Registered charity number 1107583

It is perhaps no surprise, then, that the Financial Conduct Authority recently found that "the 'sustainable' label is applied to a very wide range of products. On the face of it, some of these do not appear to have materially different exposures to products that do not have such a label."[vi]

Clarification of the legitimacy, and indeed centrality, of charities' purposes when investing could also support the emergence of more holistic, responsible investment mandates and strategies, making it easier for a greater number of charities to invest in this way.

3. <u>What more could be done to support trustees to invest in a way that reflects the charity's purpose and values?</u>

Update guidance to make responsible investing the norm

Although the Charity Commission describes its approach to investment practices as "permissive", current guidance still appears to emphasise the maximisation of financial returns over the pursuit of charities' purposes and values. This seems to be grounded in case law, known as the 'Bishop of Oxford' judgement, which is almost three decades old and, we would suggest, no longer fit for purpose.

As the Commission notes in its blog, charities must respond to "shifting public expectations, a changing public mood". The sector itself acknowledges that that "the facts about climate change may urge us to reconsider" how we work, and that charities "are asking how they can shift more of their funding, their investments, and use all of their assets to help tackle the climate crisis."[vii]

We think this is the right question to ask about all of the socio-ecological challenges we face. In short, how can charities ensure that their investments support their purposes and the public benefit? By bringing its guidance on investments up to date, the Commission can empower charities to put all their resources in service of their purpose and values. Given the scale of our shared challenges, we call on the Commission to do so urgently.

The Commission defines responsible investment as "demonstrating that you have thought about your charity's purpose as well as your investment duties when making investment decisions." Given charities exist for public benefit, to do anything other than this – to practice what we might call "irresponsible investing" – seems like an inappropriate use of investment powers. Trustees should be required to invest in a way which is consistent with charities' purposes rather than only encouraged or permitted to.

Drive ambition and openness

We agree with the Commission that what this means in practice this should be determined by each charity given its own purposes and values. However, the Commission can drive ambition by requiring all Trustee boards to report annually on how they have used their powers of investment to further their purpose and values for public benefit.

Not all may be able to publish regular updates on their investments and stewardship activities, but the Commission should raise the bar of openness and ambition.

We believe that capitalised charities will ultimately be judged on whether they used their assets to mitigate, reverse or perpetuate an economic model which is driving irreversible breakdown in our socio-ecological systems. It seems increasingly likely that this will be a major focus for public trust in charities.

Imagine if we could point to the £68 billion cited by the CEO of ACF as one of the key drivers which caused the investment industry to shift its focus and practices. This surely would represent public benefit at the scale which our collective future on this planet now requires.

Yours sincerely,

Dominic Burke

Investment Director, Lankelly Chase

---

[i] Financial Times, 'Jobs bonanza in stewardship and sustainable investing teams', 8th March 2020, and '"Monstrous" run for responsible stocks stokes fears for a bubble', 21st February 2020.
[ii] UN Environment Programme Finance initiative and Principles for Responsible Investment, 'Fiduciary duty in the 21st Century', 2019.
iii International Panel on Climate Change, 'Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty' (2018).
iii United Nations Office of the High Commissioner for Human Rights, 'Climate Change and poverty', 2019.
[iv] We note the work of 'Charity So White' (https://charitysowhite.org/) and the recent launch of the Resourcing Racial Justice fund (http://www.resourcingracialjustice.org/), for example.
[v] https://www.acf.org.uk/news/funding-on-a-finite-planet-carol-macks-speech-at-acf-conference
[vi] Financial Conduct Authority, 'Climate Change and Green Finance: summary of responses and next steps', section 4.43, October 2019.
[vii] https://www.acf.org.uk/news/funding-on-a-finite-planet-carol-macks-speech-at-acf-conference

lankellychase.org.uk | 020 3747 9930

The LankellyChase Foundation
Is a registered charity Limited by
Guarantee number 5309739 and
Registered charity number 1107583