Cazenove Capital

Climate Confident

CHARITY INVESTMENTS AND NET ZERO

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ACF
Association of Charitable Foundations

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CLIMATE CHANGE IS THE ULTIMATE PUBLIC DISBENEFIT, A STUBBORN OBSTACLE IN THE WAY OF A BETTER WORLD.

Executive Summary

54% HAVE A CLIMATE COMMITMENT†

10% TARGET NET ZERO INVESTMENTS†

ALL CHARITIES EXIST FOR THE PUBLIC BENEFIT.

Climate change is the ultimate public disbenefit, a stubborn obstacle in the way of a better world. Many UK charities already recognise the relevance of climate change to their charitable objects: highlighting the risks to the causes and communities they support, advocating for a just and rapid transition, and adapting to a changing policy context.

THE OPPORTUNITIES FOR GREATEST IMPACT WILL VARY FROM CHARITY TO CHARITY.

For charities that hold investment assets, getting the right investment approach is likely to be one key opportunity for taking positive climate action.

RESPONSIBLE INVESTMENT APPROACHES ARE NOW THE NORM FOR ASSET-HOLDING CHARITIES.

84% of respondents to our survey have, or plan to have, such an approach.†

ON CLIMATE, THERE IS A SIGNIFICANT GAP BETWEEN CHARITIES' BELIEFS, PLANS AND COMMITMENTS.

76% of respondents believe charities should be making commitments to act on climate change but only **54%** have made a climate commitment to date.

More strikingly only **16%** of all respondents have set a net zero target, and only **10%** of all respondents had a net zero target that also applies to their investment portfolios.

THE MOST COMMON BARRIERS TO DEVELOPING A NET ZERO APPROACH TO INVESTMENTS THAT CHARITIES IDENTIFY ARE:

- concerns over investment returns

and

- unconvinced by available investment solutions.

There is a high awareness of the recent Butler-Sloss charity investment case, but only **5%** of respondents judge it will have a significant impact on their investment approach.

MANY CHARITIES LACK CONFIDENCE ON CLIMATE RELATED INVESTMENT POLICIES.

Charities and investment managers find themselves in a cycle of low expectations, weak mandates, ineffective engagement and unclear reporting. Charities need to set more ambitious targets to align investments to their mission and climate commitments, and investment managers need to rise to this challenge.

FOR CHARITY INVESTORS WHO WISH TO ACT EFFECTIVELY ON CLIMATE CHANGE, KEY STEPS INCLUDE:

- determining a net zero target;
- putting this into their investment mandate;
- agreeing a means to track progress and hold managers accountable;

and

- asking investment managers for evidence of stewardship which has real world impact.

† Results of a Cazenove survey

50%

Asset managers representing nearly **50%** of the world's assets under management have pledged to support investing aligned with **net zero emissions by 2050**

Foreword

CLIMATE CHANGE IS A PRESSING ISSUE FOR CHARITIES.

The growing, visible impacts of climate change, and necessary steps to cut emissions, are already reshaping our world and our country. Civil society has a crucial role in fostering positive social change, raising up marginalised voices and protecting the most vulnerable, as well as adapting its own operations to cope with rising temperatures and weather extremes. While environmental charities were some of the first organisations to raise public awareness of global warming back in the 1980s, today all charities need to consider the links between climate and their mission. Already, more than 100 diverse funders and grantmaking charities in the UK have made a public commitment to act through the ACF Funder Commitment on Climate Change.

Climate change is also a live challenge for the investment world. Asset managers representing nearly half of the world's assets under management have pledged to support investing aligned with net zero emissions by 2050 or sooner[1]. The financial system has a crucial role to play in helping to realign resources to adapt and develop the technologies and industries we need for a liveable future. However, this is a fast developing field where methods of measurement and accountability are evolving, and claims and actions are coming under increased scrutiny by governments, regulators and charities themselves.

In this context, it is timely to take a step back and take a fresh look at charity investments, and particularly to offer practical guidance and examples to help trustees to turn their intentions on climate into effective investment approaches. This report does not tell trustees what they should do, but instead offers a framework to understand some of the choices available. For those charities who have made commitments to act on climate, this report offers help and examples. For those who have yet to make such a commitment, we hope it will give added encouragement to do so.

While we already know what is required to cut emissions globally, the optimum approaches for asset owners and investment managers to catalyse and benefit from this transition are still emerging. Taking the next step is the best way to learn. Charities, established for the public benefit, are well placed to take a long term view, set high standards and spark innovation. We hope this report will support charities, wherever they are in their climate journey, to take the next step with confidence. For their part, the investment manager community should relish the opportunity to rise to this challenge.

Carol Mack
Association of Charitable Foundations

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Cazenove Capital

1. https://www.netzeroassetmanagers.org/; https://expertinvestoreurope.com/over-half-of-global-aum-in-funds-committed-to-climate-goals

Introduction:
If not now, when? If not us, who?

ALL CHARITIES EXIST FOR THE PUBLIC BENEFIT. CLIMATE CHANGE IS THE ULTIMATE PUBLIC DISBENEFIT, A STUBBORN OBSTACLE IN THE WAY OF A BETTER WORLD.

Whether we wish to solve poverty, save children, or beat cancer, it will be hard to succeed in the teeth of literal and metaphorical climate storms. Climate change is not only an "existential threat to humanity"[2], it is also a threat to charitable purposes.

Conversely, many necessary measures to address climate change also have significant public co-benefits: walking and cycling are not only the cleanest local transport options, they also have proven benefits for mental and physical health and boost local economies; better insulated homes use less energy and are healthier, cheaper and more comfortable to live in.

Climate science shows that in order to avert the worst impacts of climate change, the global temperature increase needs to be limited to 1.5°C above pre-industrial levels. We have a clear international framework in the Paris Agreement, signed by 196 countries, to keep global warming within that limit. This will require emissions to be reduced by 45% by 2030 and reach net zero by 2050.[3] To get there we need huge structural shifts in societies and economies, from the ways we generate power to the ways we produce and consume goods and services.

70 countries covering 90% of global emissions and over 4,000 companies have already made a net zero commitment of some kind.[4] Globally there are some indications that emissions are also beginning to flatten, but not yet to fall. Here in the UK, we have a legally binding 2050 net zero target, with ambitious interim targets, and we have already cut emissions by more than 40% relative to a 1990 baseline. Yet current UK policies are not expected to deliver net zero. Progress has been incremental to date; it now needs to be transformative.

70 COUNTRIES

covering 90% of global emissions have already made a net zero commitment

Both public and private finance will need to be redirected to enable that transformation. The necessary and profound shift from a linear fossil fuel economy to a circular economy powered by renewables comes with significant costs and significant opportunities. The fairer the allocation of costs and opportunities, the less likely that vulnerable groups will be left behind and the more public support there will be for change.

Many UK charities already recognise the importance of climate change to their work: highlighting the risks to the causes and communities they support, advocating for a just and rapid transition, and adapting to a changing policy context.

UK charities collectively hold more than £118bn in investments, and have a responsibility to ensure that these are used as effectively as possible to further their charitable aims. What factors are shaping charity investments now? And how are charities bringing their values, mission and climate commitments into their investment choices?

In order to help answer these questions, we have undertaken a survey of charity asset holders, hosted focus groups with charity professionals, and interviewed four charities as case study examples of current practice. More detail on our approach can be found at the end of the report.

The first section below considers the broad context of charity investment and its relationship to climate change. We then explore the apparent gap between what charities say and what they actually do, and how greater confidence is a key element in change. Finally, we offer some practical questions, options and examples for charities to consider.

NOW IS THE TIME FOR CHARITIES AND THEIR ADVISERS TO BE STRATEGIC, AND TO MAKE THE MOST OF THEIR UNIQUE POSITION.

2. UN Secretary-General António Guterres, https://news.un.org/en/story/2018/05/1009782
3. https://www.un.org/en/climatechange/net-zero-coalition
4. https://climateactiontracker.org/global/cat-net-zero-target-evaluations

Understanding the context

Our infinite variety

EVERY CHARITY IS DIFFERENT. 45% OF ALL UK CHARITIES HAVE AN ANNUAL INCOME OF UNDER £10,000, WHILE FIVE UK CHARITIES HAVE INCOME APPROACHING OR EXCEEDING £1BN PER YEAR[5].

Funds are raised and held for every conceivable charitable cause from Antibiotic Research UK (assets £440k) to the Zoological Society of London (assets £86m).

Around 9% of all voluntary sector income is from investments[6]. In particular, investments are the main source of income for many grantmaking foundations, which in turn provide significant financial support for the third sector more widely. Investment assets also come with opportunities for influence, for example through active shareholder engagement, to push for a faster transition towards a more sustainable global economy. Charity investment assets can take many forms, including historical holdings in family firms and physical properties, alongside equities, bonds and other alternative market investments.

The degree of awareness, understanding and action on climate change varies greatly across charities. Some environmental, international development and faith groups have been at the forefront of public concern on climate since the 1980s, but until recently the issue received little general recognition in the sector. This is now rapidly changing. Infrastructure bodies including ACEVO, the Association of Charitable Foundations, Charity Finance Group, the Institute of Fundraising and SCVO have all championed action on climate recently.

Ethical and responsible investment approaches also date back to the 1980s, but it is only in the past decade that climate change has become a significant issue in charity investments. For example, Quakers in Britain were one of the first charities in the UK to choose to divest from fossil fuel holdings in 2013, with the Joseph Rowntree Charitable Trust following suit in 2014. In 2019, the Gates Foundation reversed a previous policy position and also divested from direct holdings in oil and gas companies[7]. **Today, amongst our respondents, 41% screen out coal and tar sands (the most carbon intensive fossil fuels) and 32% exclude all oil and gas companies. Engagement approaches have also evolved over time**. Effective engagement strategies have moved away from a focus on quantity of communications, towards prioritising specific outcomes, alongside more collaboration and clear escalation policies.

Charities and climate

EVERY CHARITY HAS THE OPPORTUNITY TO ACT ON CLIMATE, OFTEN IN MULTIPLE WAYS.

The ACEVO climate and environmental leadership principles suggest a structure of Acknowledgement, Ambition and Action.

The Funder Commitment on Climate Change, hosted by the Association of Charitable Foundations, has six pillars of learning, resources, programmes, operations, investments and reporting.

The opportunities for greatest impact will vary from charity to charity. For many charities, operational emissions may be quite modest, and there is likely to be far greater scope for impact through supporting beneficiaries, influencing stakeholders or advocating for policy change[8].

For example, one regional conservation charity reports operational (Scope 1 and 2) emissions of 403tonnes CO2e[9] (2020/21). However, the personal footprint of its 45,000 members will be in the region of 288,000tonnes CO2e. **Influencing just 10% of its membership to cut emissions by 10% would have over seven times the impact of reducing its own operational emissions to zero.** Through partnerships and advocacy the charity also seeks to influence statutory and commercial actors in its region.

For charities that hold investment assets, getting the right investment approach is likely to be one key opportunity for taking positive climate action. In our responding group of asset-holding charities, more than half judged that their investment related emissions were likely to be higher than operational emissions. For example, one external analysis of emissions for a large, endowed UK foundation estimated that investment assets and properties accounted for 85% of the organisation's emissions (Scope 1, 2 and 3) with grant funded work and operations making up the remaining 15%.

SCOPE 1
Direct emissions

For example:

Gas heating in the charity office, petrol used in charity vehicles.

SCOPE 2
Indirect (energy)

For example:

Emissions while generating electricity used in charity buildings.

SCOPE 3
Indirect (other)

For example:

Purchased goods and services, user travel, activities supported by grants, financed emissions including through investments held.

5. The five largest charities by income in the UK at the time of writing are The Charities Aid Foundation, Lloyd's Register Foundation, Nuffield Health, Save the Children International and The Arts Council for England. https://register-ofcharities.charitycommission.gov.uk/sector-data/top-10-charities
6. NCVO Almanac
7. See https://www.bloomberg.com/news/articles/2021-02-15/bill-gates-in-new-climate-book-talks-about-finally-divesting-from-oil
8. https://scvo.scot/p/49564/2022/03/23/mission-critical-how-third-sector-organisations-can-play-to-their-strengths-in-responding-to-the-climate-emergency
9. Co2e = Carbon Dioxide equivalent, the standard currency for measuring combined greenhouse gas emissions.

41%

SCREEN OUT COAL AND TAR SANDS†

32%

EXCLUDE ALL OIL AND GAS COMPANIES†

† Results from Cazenove survey

Charities and responsible investment

OUR DATA SHOWS THAT RESPONSIBLE INVESTMENT HAS BECOME THE NORM FOR ASSET-HOLDING CHARITIES.

Even back in 2014, research for the ACF report *Intentional Investing*, showed 59% of survey respondents had – or were planning to have – a responsible investment policy. This year, the equivalent figure is 84%.

Responsible investment is not a precisely defined term, and may be understood and used in a range of ways. Some charities may have answered yes to this question while doing little in practice, or having little impact, as we explore below. However, after decades in which responsible investment was framed as a minority, opt-in approach for charities, there is evidence that it is now the mainstream position, from which a minority of charities opt out by maintaining more traditional approaches.

The scope and discretion that trustees have in their choice of investment policy was tested in the courts in 2022 in *Butler-Sloss and others v Charity Commission,* which built on the substantive legal judgement in *Harries v Church Commissioners for England* thirty years earlier. Views on the implications of the case have ranged widely.

The Charity Commission's position was that "the judgment offers welcome clarification of how existing legal principles should be interpreted by trustees in a modern context, but that it does not fundamentally alter those principles[10]".

Some legal analysis agreed that there was no fundamental change in principles, but other commentators have suggested that the ruling is more significant than the above quote implies. Certainly the third sector press was bullish about the implications[11].

Our survey and focus groups revealed high awareness of the Butler-Sloss case (81% had heard of it), but uncertainty about its impact: only 5% of respondents felt it would have a significant impact on their charity's investment approach, with 25% anticipating a slight impact, 34% expecting no impact, and the remainder not sure.

In the best traditions of charity law, the Butler-Sloss judgement encourages trustees to have confidence in their own role: emphasising the need for trustees to act honestly, reasonably and responsibly in formulating an investment policy in the best interests of their charity and its purposes, to take into account all relevant factors – including charitable purposes and reputational risks – and to exercise judgement where difficult decisions are required. The judgement goes on: "If that balancing exercise is properly done and a reasonable and proportionate investment policy is thereby adopted, the trustees have complied with their legal duties in such respect and cannot be criticised, even if the court or other trustees might have come to a different conclusion".

10. Charity Commission 15 November 2022 www.gov.uk/government/news/update-on-investment-guidance-following-butler-sloss-case

11. "Charities can use their investment portfolios to fight climate change even if this excludes investing in a large part of the market, the High Court has ruled." Civil Society magazine, April 2022 https://www.civilsociety.co.uk/news/charities-can-exclude-large-part-of-investment-market-in-fight-against-climate-change-high-court-says.html

CHARITIES THAT HAVE – OR ARE PLANNING – A RESPONSIBLE INVESTMENT POLICY

2014

59%†

2023

84%†

† Results from Cazenove survey

Getting to the heart of the matter

> "By the early 2030s we'll be seeing a lot more physical impacts of climate change … we need to make sure that … in ten years' time we will have made real progress"
>
> Focus group participant

The say-do gap

OUR RESEARCH SHOWS A SIGNIFICANT GAP BETWEEN BELIEFS, COMMITMENTS AND PLANS.

76% of respondents to our survey believe charities should be making commitments to act on climate change but only 54% have made some sort of climate commitment to date. More strikingly only 16% of all respondents have set a net zero target. And despite the importance of financed emissions for this group of charities, only 10% of all respondents had a net zero target that also applies to their investment portfolios[12].

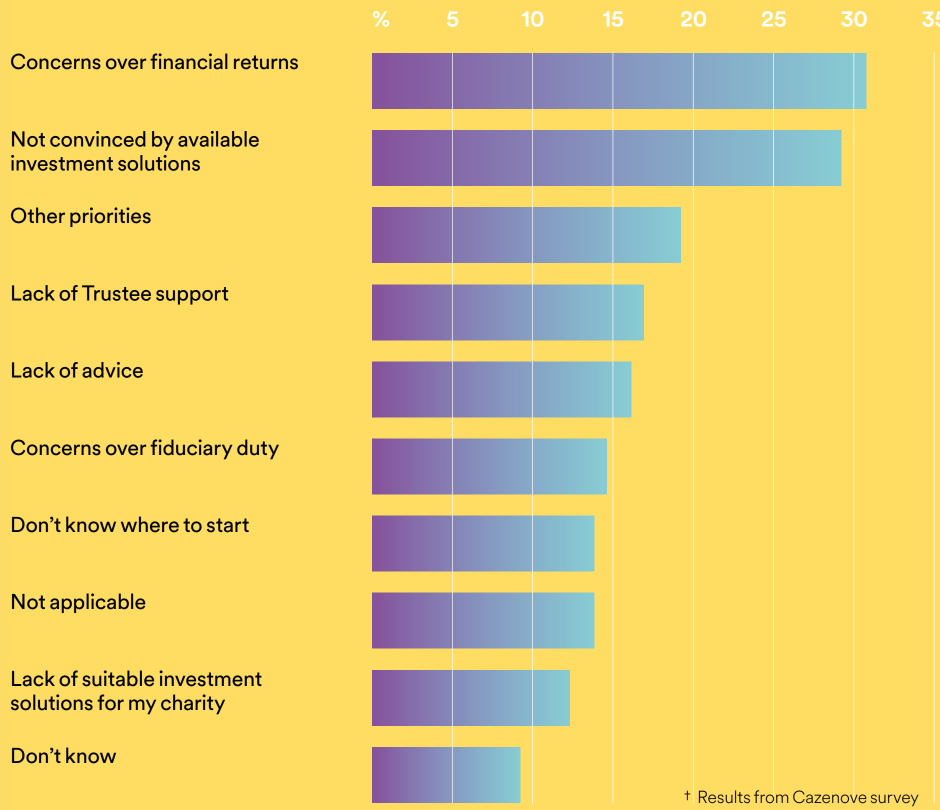
While respondents identified a number of internal and external barriers to progress towards decarbonising investments, the most cited reasons (by some distance) were concerns over investment returns and being unconvinced by the available investment solutions.

These findings present a challenge to the investment management industry, to demonstrate more clearly that with strong research, prudent stewardship and effective management of risks and opportunities, it is possible to deliver both sound financial returns and meaningful portfolio decarbonisation. However, charities that wish to play their part in tackling climate change also need to be proactive, for example setting a net zero goal for their investments, even if they are not yet clear on all the detail of how this will be delivered. Charities are significantly lagging behind some other sectors, with four in ten European institutional investors having already set net zero targets[13].

There is no denying that exclusions can, at times, produce uncomfortable results in the short-term and require trustees to hold their nerve. However, Schroders' analysis implies that companies able to reduce their emissions quicker than peers have typically outperformed in recent years. Short term movements also need to be seen in the broader context: for example, even allowing for the spike in gas prices in 2022, resulting from the war in Ukraine, which has seen bumper profits for energy companies, the MSCI World ex Fossil-Fuel and MSCI ACWI ex Fossil Fuel indices (which exclude fossil fuel companies) have outperformed their parent indices (which include oil and gas companies) over 5 and 10 years to 30th June 2023[14].

The longer a charity that wants to decarbonise its portfolio waits, the faster and more dramatic the investment strategy may have to be, and the greater the chance that this will be affected by transition risks and stranded assets, such as defunct fossil fuel infrastructure.

WHAT ARE THE BARRIERS TO DEVELOPING A NET ZERO APPROACH FOR YOUR INVESTMENTS?†



† Results from Cazenove survey

12. The data strongly suggests that some respondents with climate commitments consider investments in the light of those commitments, without a specific net zero target, but we did not specifically ask that question in the survey.
13. https://www.schroders.com/en-gb/uk/institutional/insights/institutional-investor-study-2022-what-is-the-most-popular-approach-to-sustainable-investing/
14. www.msci.com/documents/10199/fc4bcbc4-8f21-e47f-5c71-d9ea13b8839b
www.msci.com/documents/10199/b9fc9a1e-e1ac-4210-af4d-a0f58cbf4cb7

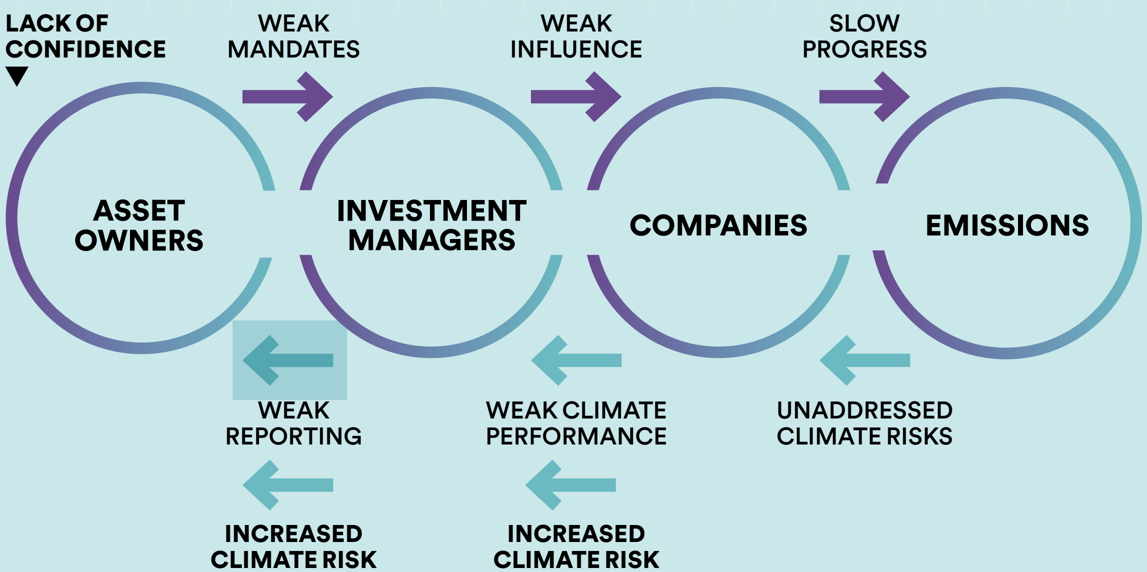
The cycle of low expectations

OUR SURVEY RESPONDENTS INCLUDED TRUSTEES, INVESTMENT COMMITTEE MEMBERS AND EXECUTIVES FROM CHARITIES WITH INVESTMENT ASSETS.

Within this group, 76% believe charities should be making commitments on climate change, and 54% of charities have done so, but only 15% of our respondents would describe themselves as "knowledgeable" about climate related investment policies. This is perhaps understandable – only a handful of the largest and wealthiest charities can afford in-house staff with professional investment expertise.

However, we also saw in the previous section that charities have low expectations of whether current investment products can meet their financial and climate goals together. If charities have low confidence in both their own abilities and market providers, they are not well placed to address climate risk through investments. **This situation seems to be exacerbated by poor communication – for example, only 34% of our survey respondents thought that the carbon emissions of their portfolio were measured, even though this data should be readily available from their managers.** Investment managers in turn respond to the formal mandates they are given, which rarely include clear net zero goals, and may lag well behind the true aspirations of the client. There is no incentive for managers to ask clients to make greater demands on them, but the status quo can be a source of recurring frustration and disappointment all round.

UNADDRESSED CLIMATE RISK



> "Assessing investment options is much more complicated than it used to be. We need greater literacy for staff and trustees … to keep the quality of decision making, that understands the nuance and pace of change." Focus group participant

Stepping Up

ALL GOOD CHARITIES ARE RIGHTLY RELENTLESS IN THEIR PURSUIT OF THEIR CHARITABLE GOALS.

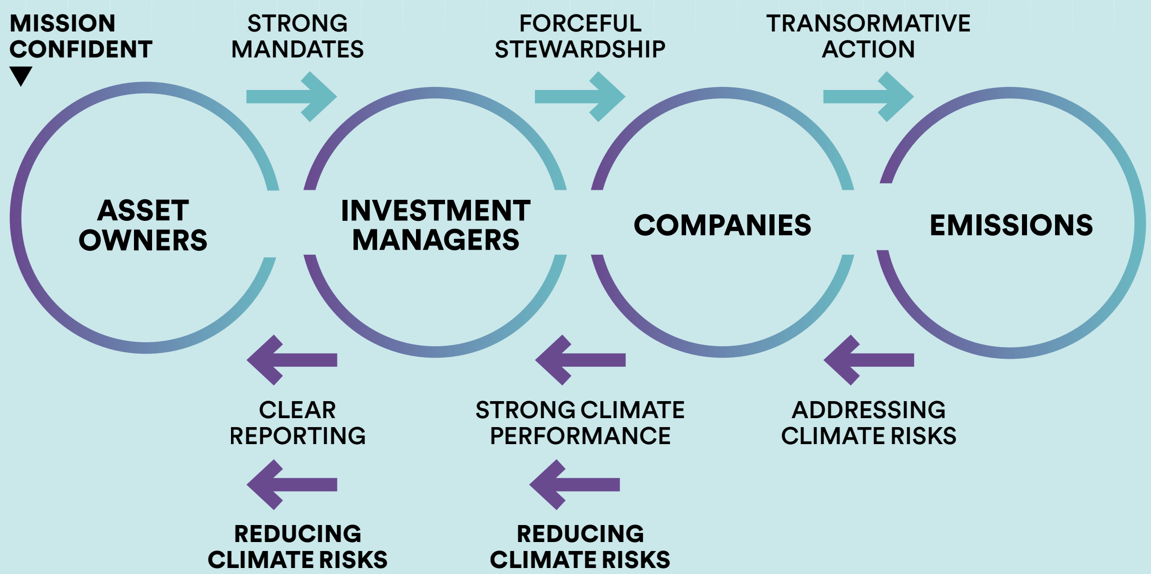
Whether standing up for the rights of refugees, creating cultural events or caring for vulnerable people, charities set high goals and standards, and use all their energy and skill to achieve them. Charities can and should bring similar ambitions and attention to aligning their investments with their mission, and their climate commitments. Investment managers should support and rise to this challenge.

Crucially, charities' investment policies and mandates need regular review. Charities who wish to demonstrate leadership in this area should explicitly include net zero targets in their formal investment mandate, and require asset managers to provide evidence of stewardship that has real world impact which is fit for purpose (sometimes known as "forceful stewardship").

Investment managers should practically support their charity clients by offering clearer guidance on how investment policies will be enacted and the importance of explicit inclusion of net zero targets, designing client reporting with client priorities and clarity firmly in mind, and by delivering focused and effective active ownership.

By taking full responsibility for their respective roles within this system, both charities and investment managers can contribute to a relationship that has more real world value – both in terms of meeting general investment goals and also accelerating decarbonisation.

ADDRESSING CLIMATE RISK



"We need an active and collaborative journey in terms of learning and understanding" Focus group participant

16%

ONLY 16% OF ALL RESPONDENTS HAVE SET A NET ZERO TARGET

10%

OF ALL RESPONDENTS HAD A NET ZERO TARGET THAT ALSO APPLIES TO THEIR INVESTMENT PORTFOLIOS

CHARITIES' INVESTMENT POLICIES AND MANDATES NEED REGULAR REVIEW

Putting it into action: developing a net zero investment strategy

1

Agree motivation and priorities

- Managing climate risk vs real world impact i.e. materiality vs double materiality
- Climate priorities vs mission and returns

2

Set time horizon and targets

- Target year and base year
- Interim targets
- Coverage

3

Agree which levers are preferable

- Avoid / divest
- Active ownership
- Climate solutions

4

Agree what is going to be measured and how you'll track progress

- Measurement methodology and metrics
- Active ownership targets
- Climate solution targets
- Exposure to climate risk

5

Document the plan in your Investment Policy Statement

- E.g. 'The portfolio should align to a 2050 net zero pathway whilst consistent with the risk and return objectives'

Request annual reports from your asset manager

- Annual data report against agreed metrics
- Evidence of robust stewardship

1 Agree motivation and priorities

BEFORE SETTING A NET ZERO STRATEGY, CHARITY BOARDS MAY FIND IT USEFUL TO CONSIDER THE TWO QUESTIONS BELOW.

1 What is the objective of our net zero strategy?

The motivation for your organisation's net zero goal will be an important determinant of the most appropriate investment strategy. Is there a direct conflict between your charitable purposes and your current strategy or holdings that you are seeking to address? How important are the reputational risks of inaction? Are you primarily concerned about the financial risks of climate to your long-term investment returns? Are you also seeking to further your charitable goals through the impact of your investments on the wider environment and society? Being clear on your reason, or reasons, will help you to communicate your needs and expectations clearly to your investment manager.

2 How do we weigh climate priorities in relation to mission and financial returns?

Trustees have a duty to act in the best overall interests of the charity in all activities that they undertake, and need to balance different factors when setting an investment strategy. In general, charities will seek to invest for the best financial return at an appropriate level of risk, and therefore most charity investors will not wish to compromise financial returns while pursuing net zero targets. However, where trustees recognise climate goals as relevant to a charity's purposes, strategy or reputation, trustees may be willing to accept a greater risk of lower returns or less diversification. The overall ambition of the strategy, and the appropriate pace and approach of decarbonisation, will be influenced by these variables and should be agreed by the board.

COMMUNICATE YOUR NEEDS AND EXPECTATIONS

'**Materiality**' or '**inward materiality**' is the effect of climate change on a company's finances and activities.

'**Outward materiality**' measures the effect of finance and corporate activities on climate change, the wider environment and society.

'**Double materiality**' incorporates both; managing climate risks of your investments and the impact your investments may have in the world. Investors focused on double materiality are likely to have a strategy that incorporates active ownership, to encourage real world change, as well as include an allocation to positive climate solutions in their net zero strategy. This is the approach that leading charity investors are adopting.

2

Set time horizon and targets

ONCE TRUSTEES HAVE CLARIFIED THEIR MOTIVATION FOR A NET ZERO INVESTMENT STRATEGY, TIME HORIZON AND TARGETS SHOULD BE SET.

45%

OF SURVEY RESPONDENTS WHO HAVE ALREADY SET NET ZERO TARGETS THAT INCLUDE THEIR INVESTMENTS HAVE SET A TARGET OF 2030

These decisions will then translate into the formal requirements in a segregated mandate or in the choice of pooled funds. They may also influence the choice of investment manager(s).

Time horizon

SET A NET ZERO TARGET YEAR, AND INCLUDE SHORT AND MEDIUM TERM INTERIM TARGETS WITH A BASELINE FROM WHICH TO MEASURE PROGRESS.

For asset owners generally, 2050 is a common target year for those that have set financed emission targets, consistent with the UK government[15] and many company pledges.

However, our research has suggested that many charities have opted to be far more ambitious. **45% of survey respondents who have already set net zero targets that include their investments have set a target of 2030** (or sooner).

Interim portfolio emissions targets are important both to track progress and because in climate terms, rapid action is crucial. A baseline year is required to make interim targets meaningful. **2019 is a popular choice, to avoid any distortion caused by the temporary drop in global emissions during the COVID pandemic.** If you haven't been tracking emissions to date, setting the current year as the base year avoids having to collect historical data.

Calculation targets ought to reflect the starting point; a charity that has already divested from carbon intensive industries before setting a base year and starting to track progress has less capacity for emissions reductions whilst maintaining a broad investible universe; conversely, if there has been no prior divestment, some modest investment reallocation can bring very significant cuts in portfolio emissions and so more ambitious interim targets will be required.

Data is continually evolving and the speed of market decarbonisation to 2050 is not yet known, but Cazenove's current projections are that a 2040 net zero target is likely to be compatible with a typical long term charity's risk and return profile. A 2030 target may require meaningful exclusions and variation from the market over time, should companies not decarbonise as quickly as anticipated, potentially affecting the risk / return profile of the portfolio.

Each case should be subject to a risk / return profile analysis. which should be part of determining whether a net zero strategy be adopted.

15. https://zerotracker.net/analysis/post-cop26-snapshot

3 Agree which levers are preferable

INVESTMENT IMPLEMENTATION

BEFORE SETTING A STRATEGY, IT MAY ALSO BE HELPFUL TO ENSURE THAT THERE IS A GOOD BASIC UNDERSTANDING AMONGST TRUSTEES OF THE TWO KEY INVESTMENT LEVERS THROUGH WHICH A CHARITY'S INVESTMENTS CAN CONTRIBUTE TOWARDS A NET ZERO TARGET:

Investment reallocation

SUCH AS DIVESTING FROM THE MOST CARBON INTENSIVE COMPANIES AND ALLOCATING CAPITAL TOWARDS COMPANIES REDUCING THEIR FOOTPRINT OR PROVIDING CLIMATE SOLUTIONS.

This can help manage some financial and reputational risks of investment in the highest carbon assets, reduce your reported financed emissions, and may be an important element of seeking to ensure that investments align with charitable values or mission. There may be some opportunities, in both climate and social investment, to contribute more directly towards financing real world solutions (see case studies below), though often with higher risk and complexity and sometimes lower returns.

Active ownership

USING INFLUENCE AS A SHAREHOLDER OR OWNER TO PUSH FOR MORE AMBITIOUS AND JUST CLIMATE ACTION FROM THE COMPANIES OR OTHER ASSETS IN WHICH YOU INVEST.

This can lead to faster and more equitable decarbonisation of these companies or other assets, thereby contributing to real world greenhouse gas reductions, as well as have positive effects on asset values if executed successfully.

In addition, the overall market trajectory is broadly towards decarbonisation. With increasing regulatory pressure and consumer expectations, this trend is likely to continue and hopefully accelerate. This means that charities may see falling emissions even in parts of their portfolio where they are not taking more proactive action.

Active ownership can include dialogue and engagement with companies to clarify the potential impact of sustainability challenges and to encourage action in the areas where change is required. Asset owners can also use their voice and rights as shareholders to make sure changes are implemented, for example through voting. In practise, most charities outsource active ownership to their investment manager(s), which means it is crucial for trustees to understand how their managers act on their behalf and if required, set clear engagement and voting expectations.

Effective engagement needs to be targeted and focused on specific outcomes. It requires continuous monitoring and ongoing dialogue and can be time consuming. Where progress is too slow, escalation is likely to be required. Voting against individual directors is one powerful option. Effective engagement is often based on collaboration, through networks such as ShareAction's Charity Responsible Investment Network, the European Shareholders for Change, or the global Institutional Investors Group on Climate Change.

Charities may also have direct influence where for example they hold investment properties, or have close historical, corporate or family connections to specific companies.

SOME OF THE WAYS INVESTMENT MANAGERS CAN ESCALATE ENGAGEMENT

Active ownership

AS DISCUSSED ABOVE, ENGAGEMENT WITH COMPANIES IS A KEY APPROACH FOR CHARITIES AND THEIR INVESTMENT MANAGERS SEEKING TO CONTRIBUTE TOWARDS DECARBONISATION IN BOTH THEIR PORTFOLIO AND THE REAL WORLD.

Engagement goals should align with overall net zero aims and successful strategies will focus on the quality of outcomes rather than quantity of interactions. There might be a requirement for an active engagement strategy for any sector which is held that is not net zero or net zero aligned, or for a percentage of the overall emissions to be subject to active engagement.

'Popular requirement is a presumption to vote in favour of climate resolutions, on a 'comply or explain' basis. Charities might also expect managers to make their voting records publicly available to increase transparency and accountability.

Climate solutions

SOME CHARITIES MAY WISH FOR FINANCIAL AND / OR MISSION-RELATED REASONS TO LOOK TO INVEST IN CLIMATE SOLUTIONS.

The potential climate benefits of such investments are often not well captured by emissions measurement, and so an overarching net zero target may not in itself encourage such investments in a portfolio. A charity that wishes to have a positive impact as well as manage climate risk may therefore wish to set a target for a % of their portfolio to be invested in climate solutions.

ESCALATION IS LIKELY TO BE REQUIRED

Which tools to use when?

INVESTMENT REALLOCATION

In theory, a charity investor could align their portfolio close to net-zero today, moving all investments to the least carbon-intensive securities available. This would avoid any mission conflict or reputation risk associated with holding high carbon stocks. However, this approach would leave the portfolio heavily concentrated in low carbon sectors (such as software companies, financial institutions and healthcare), and in developed market economies that are typically less carbon intensive than their emerging market peers. This can limit diversification as well as reduce the opportunities available to meet financial return targets. In itself, this approach is also likely to have little direct impact on real world emissions[16].

ACTIVE OWNERSHIP

Alternatively, an asset owner could wait until the last moment to shift their portfolio to net-zero, leaving the maximum amount of time for markets to decarbonise on their own and for engagement to deliver outcomes, providing the greatest flexibility on investment decisions. But this approach would also carry risks. Given the structural shifts in the global economy and growing numbers of investors setting net zero targets, increasing demand for low-carbon assets could drive a premium between low and high carbon assets over time, and some higher carbon assets may become effectively stranded. Those that wait to reallocate assets towards lower carbon sectors may find it more expensive later on. The portfolio may also be more sensitive to transition risks, for example potential increases in carbon prices, taxes and regulatory change.

As can be seen in the case studies later in this report, most leading charity investors seem likely to opt for an approach somewhere in between the two scenarios described above; a combination of investment reallocation over time and targeted active ownership.

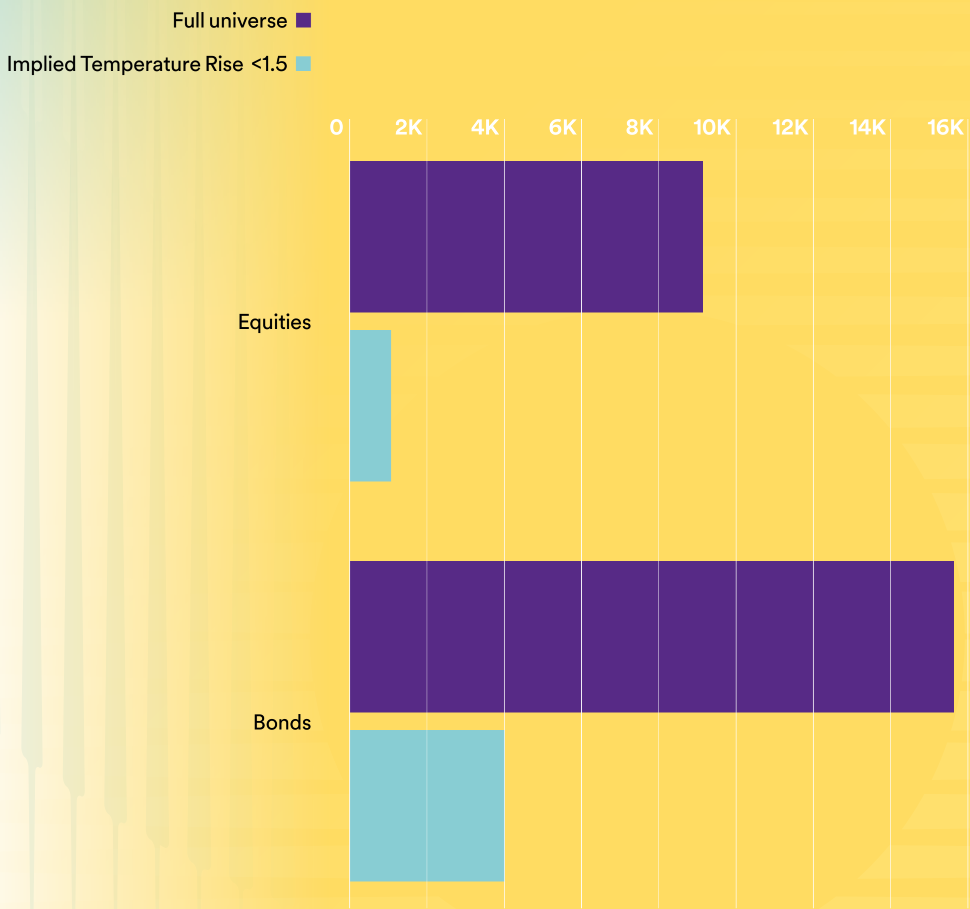
This is also supported by our survey findings, where a majority of respondents were open to using exclusions (63%), investing in climate solutions (62%) and influencing companies through engagement (57%). Of respondents that have net zero targets, only 9% don't currently have any exclusions – so avoiding certain sectors is at least part of the plan for most organisations.

There are important nuances to bear in mind. Active ownership strategies will be more effective in regions and sectors where companies are more sensitive to shareholder pressures. The provision of primary capital may be significant for some climate solutions. Divestment from certain industries or companies can send a social signal. Overall, investment managers need to apply tools where they are most effective and adapt the strategy as time goes on.

16. For further discussion, see for example www.responsible-investor.com/Major-study-highlights-real-economy-impacts-of-climate-divestment and www.tom-gosling.com/blog/does-divestment-work

"A couple of years ago the conversation was focused on divestment over engagement. It's a bit more nuanced now and most people recognise it is a combination of both".
Focus group participant

CURRENTLY, ONLY A SMALL PROPORTION OF EQUITIES AND BONDS ARE ALIGNED WITH A 1.5 DEGREE FUTURE



Source: Schroders, MSCI, Bloomberg

4

Agree what is going to be measured and how you'll track progress

Measurement

THE CHOICE OF MEASURE IS IMPORTANT, AS IT WILL HAVE AN IMPACT ON HOW THE NET ZERO STRATEGY IS IMPLEMENTED.

For example, do you want to focus on the amount of carbon emissions associated with your portfolio today, or a forward-looking measure such as temperature alignment, which takes into account emissions trajectories. Whatever metrics are chosen, it is important that the charity is receiving data in a format that they understand and find helpful.

Good quality, objective data is not yet available for all sectors and geographies, but charities should push for clear, accessible and meaningful reporting.

Commonly used methods include:

Absolute emissions

Carbon footprint

Weighted Average Carbon Intensity

Temperature alignment

More detail of the different methodologies is available from page 52.

Coverage

WHILE MOST INVESTORS ACKNOWLEDGE THAT SCOPE 1,2 AND 3 EMISSIONS ARE ALL IMPORTANT, THE CURRENT DATA FOR SCOPE 3 EMISSIONS IS PATCHY AT BEST.

Ideally emissions targets will also cover all asset classes, but in practice targets and measurement for some asset classes – such as listed equity and credit – may prove more feasible than others at the moment.

A net zero investment strategy ought to state what is to be included, and also seek to extend coverage over time.

Some managers or charities may wish to include offsets in net zero calculations. While natural – and possibly artificial – sequestration of carbon does have a role to play in limiting climate change, there is significant scepticism about the role of offsets, including problems with additionality, viability and social impact. In our survey, **only 9% of charities are open to offsets** as part of their strategy.

5

Document the plan in your Investment Policy Statement

DOCUMENTATION

IT IS VITAL THAT THE CHARITY'S INTENTIONS AND STRATEGY ARE REFLECTED IN THE FORMAL INVESTMENT POLICY, AS THIS IS THE KEY DOCUMENT THAT WILL DRIVE INVESTMENT MANAGER BEHAVIOUR. WE HAVE GIVEN SOME POSSIBLE EXAMPLES BELOW.

WE'VE OUTLINED THREE EXAMPLE APPROACHES TO A NET ZERO INVESTMENT STRATEGY. IN PRACTISE, ANY STRATEGY IS LIKELY TO EVOLVE OVER TIME. CHARITIES AND THEIR ADVISERS, INCLUDING THEIR INVESTMENT MANAGERS, WILL NEED TO ADAPT TO THE PACE OF BROAD MARKET DECARBONISATION, CLIMATE SCIENCE, DATA AVAILABILITY, TECHNOLOGICAL ADVANCES AND THE ECONOMIC AND MARKET ENVIRONMENT, AS WELL AS MONITORING CONSISTENCY WITH THE DESIRED RISK AND RETURN PROFILE.

Net Zero Aligned

TARGET

Net zero by 2050 or sooner

MOTIVATION

Managing risks and generating returns are paramount

No specific objective for positive climate impact

PRIORITIES

1. Focused on active ownership rather than divestment
2. Request all fund managers and underlying companies to set science based net zero targets of 2050 or sooner and track progress

Net Zero Active

TARGET

Net zero by 2040 or sooner

1.5 degree aligned by 2030

MOTIVATION

Managing risks and positive impact are equally important

Potentially consistent with existing risk/return profile

PRIORITIES

1. Divest from most carbon intensive sectors
2. Engagement targets on remaining assets
3. Minimum allocation to climate solutions
4. Track progress against interim targets

Climate impact

TARGET

Reduce long term temperature rises, pollution and environmental degradation

MOTIVATION

Positive climate impact may be more important than financial returns

May require higher risk or greater concentration of assets and / or adjusted risk / return profile

PRIORITIES

1. Significant allocation to climate solutions

EXAMPLE 1 NET ZERO ALIGNED

Motivation and priorities

OVERALL OBJECTIVE
To achieve net zero greenhouse gas emissions by 2050 or sooner, taking account of portfolio scope 1 & 2 emissions and, to the extent possible, material portfolio scope 3 emissions, whilst consistent with the risk and return objectives.

Time horizon and targets

PORTFOLIO COVERED BY NET ZERO COMMITMENTS
Initially only listed equities, but to include other asset classes as data improves. Targeting full coverage by 2050 or sooner.

Investment implementation

INVESTMENT IMPLEMENTATION
Focus on engagement and the management of climate risks.

Measurement metrics and tracking progress

TEMPERATURE ALIGNMENT
Aligned to 1.5 degree pathway by 2040, which approximates to a net zero 2050 trajectory.

TEMPERATURE ALIGNMENT: EXPECTED PATHWAY
Implied temperature pathway consistent with 1.5 degree alignment by 2040, to include 2030 estimated range, and to be reported annually.

CARBON EMISSIONS
Absolute emissions: Target scope 1+2 carbon emissions lower than stated benchmark. Include Scope 3 when broader data coverage is sufficiently available.

Carbon footprint: Target lower carbon footprint per $m invested than stated benchmark. Reviewed at least annually.

Weighted Average Carbon Intensity: Target lower WACI than stated benchmark. Reviewed at least annually.

CARBON EMISSIONS: EXPECTED PATHWAY
Pathway consistent with net zero 2050 relative to benchmark within ranges, to include 2030 and 2040 estimated ranges, and to be reported annually. See chart on page 40.

BINARY TARGETS
Targeting 100% funds / strategies aligned to 1.5 degrees by 2040.

ACTIVE OWNERSHIP: ENGAGEMENT
Engage with all directly held companies and third party fund managers to set a science based net zero target by 2050 or sooner and track progress. Non-aligned assets subject to engagement and escalation framework by 2030. Prioritise climate related issues such as a Just transition and biodiversity loss.

ACTIVE OWNERSHIP: VOTING
Expect managers to vote in favour of climate resolutions that align with the Paris goals, or explain why not. Expect managers to vote against directors at climate laggards.

ASSET ALLOCATION: % INVESTED IN SOLUTIONS
Track exposure to climate solutions, aiming to have a higher allocation than the benchmark.

CLIMATE RISK EXPOSURE: FOSSIL FUEL POLICY, EXPOSURE
Monitor exposure to coal and unconventional oil and gas.

CLIMATE RISK EXPOSURE: FOSSIL FUEL POLICY, EXPANSION
Ambition to track and /or engage to limit primary financing of fossil fuel expansion.

CLIMATE RISK EXPOSURE: TEMPERATURE SCENARIO ANALYSIS
Lower climate risk than benchmark (Climate VAR/Physical risk/TCFD scenario analysis).

REPORTING
Investment managers to report on agreed metrics and evidence of stewardship on an annual basis.

This is a draft example for information purposes only. It does not relate to any existing portfolios and is not advice of any form.

EXAMPLE 2 NET ZERO ACTIVE

Motivation and priorities

OVERALL OBJECTIVE
To achieve net zero greenhouse gas emissions by 2040 or sooner, taking account of portfolio scope 1 & 2 emissions and, to the extent possible, material portfolio scope 3 emissions, whilst consistent with the risk and return objectives. The charity is focused on mitigating climate risks and having a positive climate impact, while aiming to maximise returns.

Time horizon and targets

PORTFOLIO COVERED BY NET ZERO COMMITMENTS
Initially only listed equities, but to include other asset classes as data improves. Targeting full coverage by 2040 or sooner.

Investment implementation

INVESTMENT IMPLEMENTATION
Divest or limit from carbon intensive assets or those with high stranded asset risk, engage with remaining highest emitters to accelerate progress and invest in climate solutions.

Measurement metrics and tracking progress

TEMPERATURE ALIGNMENT
Aligned to 1.5 degree pathway by 2030, which approximates to a net zero 2040 trajectory.

TEMPERATURE ALIGNMENT: EXPECTED PATHWAY
Implied temperature pathway consistent with 1.5 degree alignment by 2030, to include estimated range, and to be reported annually.

CARBON EMISSIONS
Absolute emissions: Target scope 1+2 carbon emissions significantly lower than stated benchmark. Include Scope 3 when broader data coverage is sufficiently available.

Carbon footprint: Target significantly lower carbon footprint per $m invested than stated benchmark. Reviewed at least annually.

Weighted Average Carbon Intensity: Target significantly lower WACI than stated benchmark. Reviewed at least annually.

CARBON EMISSIONS: EXPECTED PATHWAY
Pathway consistent with net zero 2040 relative to benchmark within ranges, to include 2030 estimated ranges be reported annually. See chart on page 41.

BINARY TARGETS
Targeting 100% funds / strategies aligned to 1.5 degrees by 2030.

ACTIVE OWNERSHIP: ENGAGEMENT
Engage with all directly held companies and third party fund managers to set a science based net zero target by 2040 or sooner and track progress. Target company engagement so that by the end of 2030 at least 70% of financed Scope 1& 2 emissions within the equity portfolio are either aligned to a net zero pathway, or the subject of an engagement strategy with escalation that could include divestment. Prioritise climate related issues such as a Just transition and biodiversity loss.

ACTIVE OWNERSHIP: VOTING
Expect managers to vote in favour of climate resolutions that align with the Paris goals, or explain why not. Expect managers to vote against directors at climate laggards.

ASSET ALLOCATION: % INVESTED IN SOLUTIONS
Set an ambition for a minimum allocation to climate solutions, aiming to increase over time.

CLIMATE RISK EXPOSURE: FOSSIL FUEL POLICY, EXPOSURE
Avoid investment in fossil fuel companies.

CLIMATE RISK EXPOSURE: FOSSIL FUEL POLICY, EXPANSION
Ambition to track and avoid primary financing of fossil fuel expansion.

CLIMATE RISK EXPOSURE: TEMPERATURE SCENARIO ANALYSIS
Significantly lower climate risk than benchmark (Climate VAR/Physical risk/ TCFD scenario analysis).

REPORTING
Investment managers to report on agreed metrics and evidence of stewardship on an annual basis.

This is a draft example for information purposes only. It does not relate to any existing portfolios and is not advice of any form.

EXAMPLE 3 CLIMATE IMPACT

Motivation and priorities

OVERALL OBJECTIVE
Typically specific to an organisation and also may only be applicable to one part of an organisation's assets, alongside Net Zero Aligned or Net Zero Active. Will provide capital to investment solutions which can reduce long term temperature rises, pollution and environmental degradation. The organisation may have a dual objective of keeping the Earth and its climate systems within safe planetary boundaries whilst adhering to a specific risk profile.

Time horizon and targets

PORTFOLIO COVERED BY NET ZERO COMMITMENTS
Initially only listed equities, but to include other asset classes and private assets as data improves. Targeting full coverage by 2040 or sooner.

Investment implementation

INVESTMENT IMPLEMENTATION
Focused on investing in climate solutions, alongside limiting exposure to carbon intensive assets and engagement with remaining emitters.

Measurement metrics and tracking progress

TEMPERATURE ALIGNMENT
Listed investments should be aligned to 1.5 degree pathway by 2030, which approximates to a net zero 2040 trajectory. Private market sleeve should be aligned, or committed to aligning to a 1.5 degree pathway by 2030 at the point of commitment.

TEMPERATURE ALIGNMENT: EXPECTED PATHWAY
For listed markets, implied temperature pathway consistent with 1.5 degree alignment by 2030, and to be reported annually. Private markets will be expected to have set a decarbonisation pathway by 2025 aligning with industry initiatives such as those defined by GFANZ, as appropriate for each asset class.

CARBON EMISSIONS
Refer to Net Zero Active carbon emission approach for listed markets. Private markets assets should initially focus on disclosing scope 1 and 2 emissions. Include scope 3 when broader data coverage is sufficiently available.

CARBON EMISSIONS: EXPECTED PATHWAY
Pathway consistent with net zero 2040 relative to benchmark within ranges, to include 2030 estimated ranges reported annually.

BINARY TARGETS
For listed markets, targeting 100% funds / strategies aligned to 1.5 degree pathway by 2030. Private market sleeve should be aligned or committed to aligning to 1.5 degree pathway by 2030 at the point of commitment.

ACTIVE OWNERSHIP: ENGAGEMENT
Refer to Net Zero Active approach to engagement for listed markets. Private markets engagement should consider nuances of each asset class. Priorities to include requesting alignment to appropriate climate industry initiatives and data collection, transparency and reporting.

ACTIVE OWNERSHIP: VOTING
Refer to Net Zero Active approach to voting for listed markets. For private assets, engagement escalation will not involve voting.

ASSET ALLOCATION: % INVESTED IN SOLUTIONS
Likely to include an appropriate allocation to private market climate solutions.

CLIMATE RISK EXPOSURE: FOSSIL FUEL POLICY, EXPOSURE
Avoid investment in fossil fuel companies

CLIMATE RISK EXPOSURE: FOSSIL FUEL POLICY, EXPANSION
Ambition to have zero primary financing of fossil fuel expansion.

CLIMATE RISK EXPOSURE: TEMPERATURE SCENARIO ANALYSIS
Refer to Net Zero or Active policy on climate risk measurement.

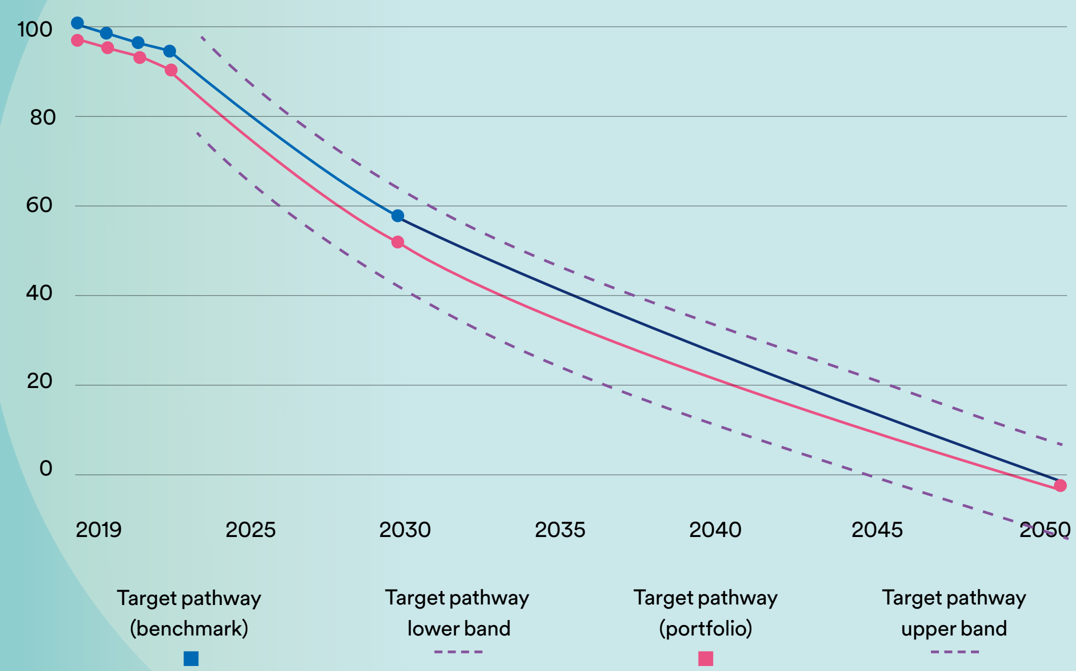
REPORTING
Investment managers to report on agreed metrics and evidence of stewardship on an annual basis.

This is a draft example for information purposes only. It does not relate to any existing portfolios and is not advice of any form.

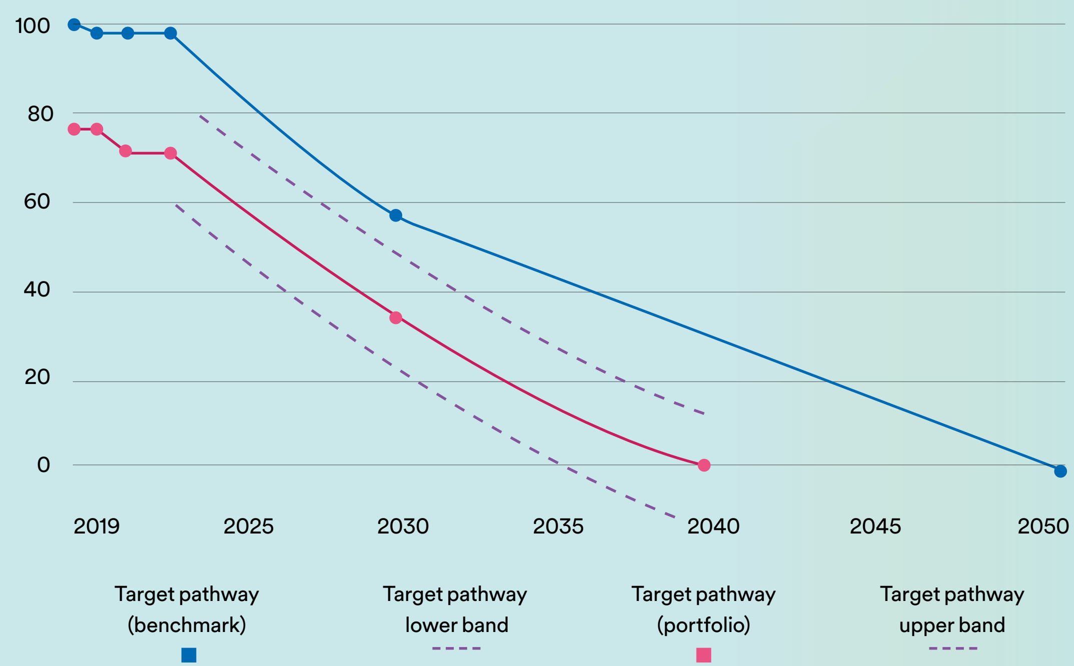
Carbon Emissions Expected Pathway

The example charts below illustrate emission reduction pathways and estimated ranges within upper and lower bands. In reality, decarbonisation will not be linear, but it is important to monitor progress and adapt the investment strategy to achieve the charity's objectives. As noted earlier, calculation targets ought to reflect the starting point; a charity that has already divested from carbon intensive industries before setting a base year and starting to track progress has less capacity for emissions reductions whilst maintaining a broad investible universe; conversely, if there has been no prior divestment, some modest investment reallocation can bring very significant cuts in portfolio emissions and so more ambitious interim targets may be required.

NET ZERO ALIGNED



NET ZERO ACTIVE



Case Studies

Community Foundation serving Tyne & Wear and Northumberland

Esmée Fairbairn Foundation

Guy's & St Thomas' Foundation

Treebeard Trust

Community Foundation

THE COMMUNITY FOUNDATION SERVING TYNE & WEAR AND NORTHUMBERLAND IS THE LARGEST COMMUNITY FOUNDATION IN THE UK AND AIMS TO GROW GIVING AND PHILANTHROPY ACROSS THE NORTHEAST OF ENGLAND, MATCHING GENEROUS PEOPLE WITH THE REGION'S IMPORTANT COMMUNITY CAUSES. IT MAKES WELL OVER 1,000 GRANTS A YEAR. THE FOUNDATION HAS RECENTLY COMPLETED A REVIEW OF ITS INVESTMENT APPROACH.

Investment objective and assets

Value of endowment

£89m

Investment objectives and policy

For the endowment to exist in perpetuity, to produce a total return that meets its grant-giving goals and operational needs whilst preserving the long-term real value of the endowment, and to take a responsible approach to investment that aligns with the charity's purpose, mission and values.

Asset allocation

Total return target of 6% plus inflation (CPI) net of expenses over the medium term. Assets are invested to mitigate risks over the long-term, recognising this may mean investment is concentrated in certain asset classes that may lead to higher levels of volatility. Risk mitigation is through diversification by investment service provider and asset class, and within asset classes by sector, geography, and issuer.

Climate Commitments

- Signatory to the Funder Commitment on Climate Change in 2022
- Investment portfolio to be net zero by 2050 at the latest
- Aiming for 45% emissions reduction by 2030

Net zero approach in practice

Manager selection

The Foundation selects investment managers that regard ESG considerations as a key driver of investment returns, that integrate ESG matters into their investment process and practice, and that are able to report on ESG matters in a way that supports the Foundation's approach.

Engagement

The Foundation expects their investment managers to vote at company meetings, table resolutions, and engage with entities on matters that are important to the Foundation and its stakeholders. More specifically, the Foundation expects their managers to vote in favour of shareholder resolutions on climate change, taking a 'comply or explain' approach.

Tracking progress

The Foundation is currently completing a transition to new investment managers and is in dialogue about how progress can best be measured.

Progress so far

The Foundation Board agreed to take a responsible investment approach, and the charity spent around a year engaging with its trustees, staff, donors and grantees to understand their expectations. There was particularly strong support for ambitious action on climate. A Request For Proposals was developed and interested managers invited to (anonymously) attend a webinar to find out more and pose questions, which proved an effective and efficient approach. Following bids, final shortlisting, interviews, selection and appointment were completed.

Plan for the next 5 years

The short-term priority for the Foundation is to complete the implementation of their new investment policy and to develop effective working relationships with their new investment managers. This will include finalising targets and reporting mechanisms against the investment policy.

The Foundation also expects to reflect on how their investment committee can best oversee the performance of the new policy and managers in relation to ESG issues, climate goals and engagement, and in turn provide accountability to the Foundation's stakeholders. The charity expects to publish annual reports on the impact of the policy each year from autumn 2024.

Advice to other charities

- Take time to work out what is really right for your charity, including listening to the perspectives of your stakeholders. You may not get 100% agreement, but a proper process of engagement will make for a better policy and more buy-in.
- Bring in some independent, external expertise if you possibly can, particularly to support the development of investment policy – don't just rely on investment managers themselves. Ask other charities to share their learning, and use guidance and materials that are publicly available.
- Think about what it is you need from managers, and don't be afraid to ask for it. For example, the Foundation has agreed with one of their managers to aggregate ESG data from the others, to support effective reporting to the charity.

Esmée Fairbairn Foundation

FOUNDED IN 1961, ESMÉE FAIRBAIRN FOUNDATION IS ONE OF THE UK'S LARGEST INDEPENDENT FUNDERS. IT MAKES GRANTS OF AROUND £50M PER YEAR ACROSS THREE THEMES: IMPROVING OUR NATURAL WORLD, SECURING A FAIRER FUTURE AND NURTURING CREATIVE, CONFIDENT COMMUNITIES.

Investment objective and assets

Value of endowment

£1.4bn

Investment objectives and policy
To provide long-term stability and liquidity, while maintaining the real value of the endowment; to align investments with charitable purposes.

Asset allocation
Diversified across a broad range of asset classes, geographies, managers and strategies, including a £45m allocation to social investments, a £10m allocation to impact investments, and 5% (around £70m) towards enhanced sustainability funds.

Climate Commitments

– Founding signatory to the Funder Commitment on Climate Change in 2019

– Portfolio to be net zero by 2040 at the latest, while recognising the importance of early action (pre-2030)

Net zero approach in practice

The Foundation's net zero investment strategy has two main elements:

Aligning the portfolio with a net zero target and thereby aiming to avoid the losers and hold the winners as the economy transitions. This includes excluding funds that hold fossil fuel producers, investment in positive solutions, and making sure that there is good transparency on carbon emissions and carbon intensity analysis of the underlying holdings across the whole portfolio.

Contributing to real world impact primarily through voting and engagement, especially with fossil fuel consuming industries like the power industry. The Foundation works with other foundations and investors, including as an active member of the Charities Responsible Investment Network. The Foundation particularly targets their advisors for influence, as they have reach into hundreds of funds globally.

The Foundation is open to holding positions in some funds which have relatively high current emissions, but are designed around solutions, such as the transition to clean steel.

Tracking progress

Base year
2017

What is being measured
Weighted Average Carbon Intensity over time, compared with the MSCI ACWI.

Progress so far

The Foundation has reduced the carbon intensity of their investment portfolio by around 75% since 2017, mainly by exiting a handful of funds which contained large positions in the highest carbon emitters. The majority of the broadly diversified portfolio is measured, although there is not yet full visibility across all holdings.

Matthew Cox, Investment Director says, "While portfolio emission reductions will be harder from here, we see good opportunities for both investment and environmental impact going forward".

Plan for the next 5 years

The Foundation expects to be increasing their exposure to climate solutions, engaging with managers who are not offering full transparency across the underlying portfolio, and finding replacement funds where necessary.

Advice to other charities

- Where an investment advisor is used, ask them to produce a climate strategy and to suggest some initial steps which might be taken.
- Don't wait for a fully formed, perfect strategy to be ready before taking action.
- Initial steps might include: Asking to see detail on climate solutions funds, finding an engagement letter to sign with other investors or asking an advisor for more information on shareholder voting.
- Set up regular reporting to assess progress against implementation of the strategy. Be willing to dig beneath the headline metrics to understand what is going on with particular funds.
- Keep your approach under review and consider changing advisor if progress is not being made.

Guy's & St Thomas' Foundation

GUY'S & ST THOMAS' FOUNDATION CAN TRACE ITS ROOTS BACK OVER 500 YEARS AND TODAY IS RESPONSIBLE FOR MANAGING ONE OF THE UK'S LARGEST CHARITABLE ENDOWMENTS. THE FOUNDATION SUPPORTS NHS STAFF AND EXCEPTIONAL HEALTHCARE AT GUY'S & ST THOMAS' NHS FOUNDATION TRUST AND ALSO CONTRIBUTES TO WIDER PUBLIC HEALTH GOALS THROUGH ITS IMPACT ON URBAN HEALTH BRAND.

Investment objective and assets

Value of endowment

£1bn

Investment objectives and policy
The Foundation aims for all its investments to meet recognised ethical, environmental and governance standards and to be consistent with its values and need to generate financial returns, with a target of CPI + 4%.

Asset allocation
Target 35% public equity, 5% cash, 5% absolute return, 30% private equity, 2% private debt and 25% directly held property.

In addition, £22m in impact investments, with a target of raising this to £100m by 2026.

Climate Commitments

- Signatory to the Funder Commitment on Climate Change
- Member of the Institutional Investors Group on Climate Change (IIGCC) and IIGCC asset owners' stewardship working group.
- Investments to be net zero by 2050; investment related emissions to have halved by 2030 (against a 2021 baseline). £50m (5%) to be invested in climate strategies and solutions.
- Property portfolio to be operational net zero (Scope 1 and Scope 2) by 2035.

Net zero approach in practice

The Foundation is following the IIGCC Net Zero Investment Framework.

Working with independent investment consultants, the Foundation has scrutinised the net zero alignment of their public equity holdings - using primary data wherever possible, complemented by proxy information. This was an intensive process, and full data is not yet available, but it will enable the Foundation to set 5-year interim targets for portfolio emissions, and to prioritise managers and sectors for engagement.

The portfolio has only very minimal holdings in fossil fuel companies, and intends to reduce this further.

Tracking progress

The Foundation assesses and allocates its holdings against five categories:

- already *net zero*
- *aligned* (to future net zero targets)
- in the process of *aligning*
- *commitment* made
- *not aligned.*

There is also an administrative category of *insufficient data* to record where gaps lie.

Progress so far

As of September 2022, no holdings were yet net zero (typical for the vast majority of companies), but 50% were aligned, aligning or with a commitment made. 43% were not aligned, and 7% remained in the insufficient data category, even after using proxy measures.

The Foundation is also about two-fifths of the way to achieving their 2026 target for investments in climate solutions.

Plan for the next 5 years:

The Foundation is working with others, particularly through the IIGCC, to improve the information flows from managers to asset owners on both engagement and alignment data.

The Foundation will undertake a similar alignment process with other asset classes, with private equity next to do.

When capacity allows, they would be keen to work with others to prioritise and engage companies in their portfolios with the most significant emissions to better align and implement net zero targets, as well as continuing to encourage their managers to do this.

They expect to further reduce fossil fuel company holdings (already <0.3%).

Advice to other charities

Forward looking metrics are crucial if we are to limit climate change – i.e. it is not just about a company's emissions now, but also what their capital investment and other indicators show about its likely future emissions trajectory. Push your managers to seek out and share this information with you.

Most investors (such as pension funds) have limited scope to take into account factors that are not directly financial. Charities, with a mission and values led approach, do have more flexibility and so should be leading demands for managers and companies to do more.

treebeard trust

TREEBEARD TRUST IS A CHARITABLE FOUNDATION SET UP BY BARNABY AND CASSANDRA WIENER IN 2011. THE TRUST'S MISSION IS TO SUPPORT TRANSFORMATIONAL INITIATIVES WHICH HAVE THE POTENTIAL TO CREATE A HEALTHIER PLANET AND FAIRER SOCIETY.

Investment objective and assets

Value of endowment

£22m

Investment objectives and policy
To drive as much positive impact as possible through investments, without materially compromising financial objectives.

Asset allocation
Currently around 30% Impact Investments in a range of asset classes (equity, debt, property) with a goal of 50%; the balance is held in responsible investments in both public and private markets.

Climate Commitments
– Signatory to the Funder Commitment on Climate Change in 2020

Net zero approach in practice

Impact investments
These are direct injections of capital into projects or enterprises which have an explicit social or environmental purpose. The Trust sees investment potential across a range of activities with direct relevance to climate, including nature-based solutions, the circular economy, and the blue economy[19], but also considers climate as closely integrated with other environmental issues, and are sector agnostic in approach. An in-house, part-time Impact Investment Advisor, supported by trustees with relevant expertise, leads on identifying, assessing and managing individual investments.

Responsible investments
The Trust's funds are currently invested through a manager that supports alignment with the Paris Agreement and the goal of limiting temperature increases to less than 1.5 degrees. The manager's approach is founded on engagement, encouraging companies to set climate net zero goals in line with the Science-Based Targets initiative. The manager has a public target of 90% of in scope[20] assets under management to be net zero aligned or aligning by 2030.

Tracking progress

The Trust is cautious about the value of portfolio emissions targets, which it feels tend to incentivise changes of asset ownership, rather than real world emission reductions.

Impact Investments are publicly listed on the charity website.

Progress so far

The Trust has made impact investments in ten different climate and environmental initiatives. These include **Highlands Rewilding**, which aims to sustainably manage land including through forestry, regenerative agriculture, eco-tourism and eco-homes, and **Winnow** – a software platform enabling organisations of any size to measure, track, and reduce food waste.

Plan for the next 5 years

Treebeard is in the process of moving from a Trust structure to a CIO, which will help to simplify the direct holding of impact investments (as they can be held by the incorporated charity itself, rather than in the name of trustees).

The Trust thinks it is likely that in future they will conduct more of their impact investment through funds, partly as funds can provide opportunities to participate in larger scale initiatives. However, they have a preference to invest directly where possible.

The Trust also anticipates that mainstream investment approaches to net zero will continue to develop dynamically, influenced by global politics and new technologies amongst other factors. The charity expects to review their approach in due course.

Advice to other charities

- Direct investments in initiatives with explicit social or environmental purpose is a powerful option for charities with assets to make a difference with their resources, and can complement more traditional grantmaking channels.
- Think carefully about how your investment approach and activity can encourage or contribute to real world cuts in emissions. If you want to change corporate behaviour, selling your stake should only be a last resort. Voting is crucial, particularly where it targets directors.
- Short-termism is rife amongst investors, and the demand for short-term profitability from companies drives higher margins, share buy backs and cost cutting, often to the detriment of environmental and social factors and overall financial returns. Explicitly encouraging a longer-term view should be a key part of responsible investment.

Metrics and progress explainers

Absolute emissions

TYPE:
ABSOLUTE GREENHOUSE GAS EMISSIONS

REPORTED AS:
TONS OF CO2 EQUIVALENT (CO2E)

Overview
Measures the absolute greenhouse gas emissions that are financed or 'owned' by the investor. The emissions are allocated based on the investor's current value of its investment relative to the issuer's enterprise value including cash (EVIC). EVIC is a measure of the size of a company which includes its outstanding equity market capitalisation, the book value of debt it has issued and the cash it holds. This allocates emissions based on the principle of ownership. For instance, if an investor's investment represents 5% of the value of a company's EVIC, then 5% of the emissions will be attributed to the investor. Under the Partnership for Carbon Accounting Financials (PCAF), this is know as a portfolios 'financed emissions' as it is the % of the emissions financed by the investor's investment.

Considerations
Absolute emissions will grow as the size of your portfolio grows – whether that is driven by cash paid in or by positive investment returns increasing the size of your investments. So if your goal is to grow your portfolio value and decarbonise your portfolio, these two factors will be pushing carbon emissions in opposite directions. Also, in the EVIC measure, the split between (volatile) equity market value and the fairly stable but lumpy changes in the book value of debt may also shift how much of the carbon emissions of a company is 'owned' by debt or equity investors. This may make your financed emissions go up or down, without the underlying company having actually made any change.

Carbon footprint (investment intensity)

TYPE:
INTENSITY-METRIC

UNITS:
CO2E/$M INVESTED

Overview
Normalises the total carbon emissions of a portfolio by its market value. Carbon footprint can therefore be compared across portfolios of different sizes to see how much carbon a portfolio is financing per $M invested.

Considerations
This measure solves for the problem of emissions growing as the value of the portfolio grows. The value of the investment, the EVIC and the current portfolio value are all susceptible to changing asset values. If they all move in step this is not a problem, but this is fairly unlikely to happen. In particular, EVIC can be based on stale data and does not typically use the market value of bonds. This means that a fall in the value of the portfolio may lead to an increase in the reported carbon footprint, even though the emissions produced by the companies invested in haven't changed.

Weighted Average Carbon Intensity

TYPE:
INTENSITY-METRIC

UNITS:
CO2E/$M REVENUE

Overview
Measures a portfolio's exposure to carbon-intensive companies but using revenue to estimate company size. This varies from other carbon-related metrics mentioned that are based on an equity or debt ownership approach.

Considerations
WACI is recommended by Task Force on Climate-related Financial Disclosures (TCFD) . It provides a good metric to compare portfolios and is suitable for target setting and attribution analysis. It does favour higher margin businesses (that would have higher revenue relative costs) and is susceptible to volatility of reported revenue. However, revenue is generally more stable than EVIC. The use of portfolio weights does also make the metric sensitive to outliers.

Interestingly, when two stocks are compared using the two intensity measures, they can show different results. For example, stock A might have a higher Carbon footprint than stock B, but stock B may have a higher WACI than stock A. This is due to the relative revenue and EVIC numbers of the companies. In this example, stock A has a lower valuation when compared to stock B. Therefore, focussing on only one of these metrics can lead to investment decisions that tilt a portfolio more towards either under or over valued stocks.

Temperature alignment

TYPE:
TEMPERATURE ALIGNMENT METRIC

UNITS:
DEGREES CELSIUS (°C)

Overview
Assesses the alignment of a company and/or portfolio to a temperature outcome using the targets of the Paris Agreement as a guide; limit "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels." Though there are several competing methodologies, they all aim to combine company emissions with climate commitment and action to arrive at an implied degrees Celsius of warming.

Consideration
In theory, this forward looking metric should capture how the ambitions of a company align to the Paris Agreement. However, there are multiple, complex methodologies that make portfolio comparison and aggregation challenging. They have higher degrees of complexity when compared with other metrics.

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ACF

The Association of Charitable Foundations (ACF) is the leading membership association for foundations and independent grant-makers in the UK. We strengthen trusts and foundations so they can rise to the challenges of our times. Our vision is diverse, vibrant and effective foundations, working together for social good. Our **440 members** collectively hold assets of around **£50bn** and give over **£2.5bn** annually.

Cazenove Charities

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A note on methodology

THE SURVEY WAS CONDUCTED OVER A PERIOD OF ONE MONTH FROM LATE JANUARY 2023 AND WAS PUBLICISED THROUGH SOCIAL MEDIA CHANNELS, PROFESSIONAL NETWORKS AND GENERAL CIVIL SOCIETY NETWORKS. 139 COMPLETED RESPONSES WERE RECEIVED.

The survey incorporated some questions that had been used in previous Cazenove / ACF research, allowing some longitudinal comparisons, with the caveat that the cohort of respondents is not static across the surveys. In this report we have focused on findings in relation to climate and net zero as noted throughout the report. **We hope to share other results on spend rates and strategies elsewhere.**

Focus groups to explore the survey findings and wider context for the report were held on 14 March and 16 March 2023 with a small number of experienced charity and foundation professionals to help inform the research.

Case studies were developed in discussion with the charities concerned. A draft report was circulated for review to a selected number of readers with experience across charity management, finance and law, and the investment management industry.

Legal information

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