



Investment Principles and Policy

Our Principles as an Investor

Friends Provident Foundation focuses on exploring the role of money and financial systems as a force for social good. We aim to:

- encourage thinking that deals with the cause of the problem
- transform the use of financial systems so that they offer social as well as economic benefits, alleviating social disharmony and inequality
- pioneer new ways of thinking about how money is used to solve social problems.

The intentional use of our endowment is an important tool for the achievement of our purpose – alongside our grant making, convening, communication, advocacy and other activities. As a participant in the financial system through our endowment we have an opportunity to promote change that serves our mission.

We believe that our decisions on what to invest in, what not to invest in, how we exercise our stewardship *responsibilities* as a shareholder, and how we engage with the financial system as a whole in our capacity as an investor should contribute to our aim of building international, national and local resilience, and an economy that is fair, equitable and environmentally sustainable.

We believe there are certain industries and products that are so inconsistent with our mission that we should not invest in them under any circumstances. There are others that already directly make a positive contribution to the transformation we seek; wherever possible we will invest preferentially in these areas. And as a shareholder we can encourage a transition by all companies towards business models and ways of operating that are aligned with our mission. Our ethos as a foundation is to engage in dialogue and learning that promotes positive change. We seek to reflect this approach in our relationships with the companies in which we invest, and with our fund managers.

We are a small investor. We therefore invest in pooled investment funds. We will do our utmost to find pooled funds whose investment criteria match our policy, recognising that some funds may have additional exclusion criteria or may not be fully aligned with our vision of resilience. By engaging with our fund manager(s) and the market more broadly, and by working with others, we will seek to promote the supply of a broader range of investment options for mission-led investors.

Our small size also means that we seek to work with other others who share our goals in our efforts to influence companies and markets as an investor. We reflect the priority that we attach to this area in our staffing and resourcing decisions.

Our Investment Policy

How our investments contribute to our mission

We view the whole of our endowment as a tool to help us achieve our mission. Our aspiration is that all our investments should generate both financial returns and positive social and environmental returns. We allocate ca. 90% of our endowment to generate income to support our grant making, while at the same time supporting established companies whose business contributes to the kind of economy and financial system we wish to see, and encouraging all companies to move in this direction through our role as a shareholder. We expect these investments to generate competitive market returns. We therefore refer to this as our 'market-rate portfolio'.

We allocate up to 10% of our endowment to investments that generate particularly strong social benefits, and from which we are prepared to accept lower financial returns because these investments further our charitable objectives. We refer to this as our 'social investment portfolio'.

Our approach to generating social and environmental returns in our market-rate portfolio is set out below. The table shows:

- areas in which we will not invest under any circumstances because we judge that they are profoundly inconsistent with our mission
- areas that we will particularly favour in our investments wherever possible
- areas where we will use our influence as a shareholder, working alone and with other investors, to encourage changes in corporate practices that serve our mission.

If we judge that a company is behaving in a way that is no longer consistent with our mission, and if it has not responded to our efforts and those of other investors and our fund manager to promote change, we will work with our fund managers to remove the company from our portfolio if this is possible.

We work with our fund managers and others to continually refine our understanding of what business activities and company practices contribute positively to our mission, and to adjust our investments, engagement and other work accordingly.

Our investment policy on specific social and environmental issues

| | Areas in which we will not invest | Areas we will particularly favour for investment | Areas where we will use our influence as a shareholder to change company practice |
|--|--|--|--|
| Reduce the risk of armed conflict | Weapons manufacture and trade | | |
| Promote the transition to a low-carbon economy | Companies for which coal and/or tar sands account for more than 10% of revenues Nuclear power | Energy producers and users whose business models focus on low/zero carbon fuels Energy efficiency | Promote the low-carbon transition – call for adaptation of business models by energy producers and users so that they are consistent with a maximum global temperature rise of 2 °C – including emission reduction, energy efficiency and the development of climate-friendly products and services. |
| Promote diverse local economies | | Companies that excel in actively supporting local economies (e.g. through local sourcing and recruitment) | Promote support for local economies |
| Promote a resilient, fair and environmentally sustainable financial system and economy | | Banks with a particularly strong approach to financial inclusion and supporting local economies Green bonds | Promote the highest standards of business ethics in all companies, including the prohibition of bribery and corruption, and the treatment of consumers |
| Reduce income and wealth inequality | | Companies that support the Living Wage and those with smaller than average pay disparities | Promote the Living wage Control high pay and discourage wide pay disparities within companies Link pay to social, environmental and economic resilience objectives |