



## **Investment mandate: request for proposals (RFP)**

### **Summary**

Friends Provident Foundation, Joffe Trust and Blagrave Trust are inviting asset managers to make proposals for the management of funds totaling £32 million.

We believe that charities should use all their endowment to achieve their mission, not just their income. Whilst we have different charitable objectives, we all believe that the purpose of investment should be to direct capital to socially and environmentally useful activity, to create social as well as economic value, and to help address societal challenges. Like an increasing number of asset owners, we are seeking to maximise the social and environmental impact of our investments.

The market for funds labelled as impact, sustainable, responsible, green or ESG (Environmental, Social, Governance) has grown exponentially in recent years due to the increasing demand from asset owners to have a purpose beyond financial return. However, the quality of these funds and the veracity of marketing claims compared to practice varies greatly.

We wish to send a market signal that asset owners are demanding higher standards of impact and ESG and to help establish these standards as best practice/expectations. Asset managers will recognise that the standards expected by mission led investors today often become the market norms of tomorrow.

We would welcome proposals from a variety of asset managers, from boutique impact funds intentionally seeking out start-ups with solutions, to large ESG funds moving markets and transnational companies via their stewardship. We recognise that there will be trade-offs between different approaches.

We do not wish to be particularly prescriptive for proposals, but we are seeking an asset manager(s) supportive of our objectives and compliant with our investment beliefs and policies (or is willing to actively work with us to comply over time). We will be looking for intentional social and environmental impact, high standards of ESG integration covering exclusion, engagement and its escalation, voting record, and in-house expertise, plus impact reporting.

### **The key instruction is 'impress us!'**

We wish to bring investment management 'out of the shadows' and to this end will be taking a more transparent approach to asset manager selection. We are advertising this Request for Proposals publicly and invite anyone to tender for this investment mandate.

A short list of asset managers will be invited to present their proposals to a room of our Trustees, stakeholders, and like-minded asset owners wishing to learn more or perhaps also invest. We aim to feature the short-listed candidates as best in sector in a 'state of the sector' report in line with our desire to share learning and signal to the market what emerging best practice and asset owner expectations look like.

## The mandate

### Capital sum(s):

Friends Provident Foundation is making £10m available for prospective managers, Joffe Trust is making available £10m and Blagrave Trust £12m, i.e. total £32m; and we are in discussions with other asset owners about potential joining our group.

### Guiding principles for asset managers:

We do not want to be too prescriptive, but these guidelines should be useful.

- **Return on Investment:** Reasonable financial return over the long-term with maximum impact
- **Asset class(es):** Agnostic i.e. could be one, many, mixed, multi-asset etc.
- **Geography:** Global mandate with UK focus.
- **Time horizon:** long-term, high-conviction investor
- **Liquidity and cash generation:** Some short-term liquidity will be required with an option for substantial (>50%) liquidity within twelve years. Joffe Trust will require access to circa £1m per year for grants and operations (i.e. it is spending down), Blagrave Trust requires cash generation for grants, Friends Provident Foundation has no such requirement.
- **Reporting currency:** GBP£ sterling
- **Fees:** Transparent
- **Scalability:** The investment strategy should be scalable to test the hypothesis that other impact orientated pools of capital could join.
- **Ethical screens:** Refer to Friends Provident Foundation's investment principles and policies as indicative for all.
- **Impact:** We are agnostic on impact themes, e.g. specific SDGs, but asset managers should be supportive of our objectives and compliant with our investment beliefs and policies (or willing to actively work with us to comply over time). We will be looking for intentional social and environmental impact, high standards of ESG integration covering exclusion, engagement and its escalation, voting record, and in-house expertise, plus impact reporting.
- **Scope of work:** The appointed asset manager(s) will be expected to provide investment management services over the lifespan of the mandate, subject to reasonable performance clauses. This includes the provision of reports required to monitor and evaluate the performance of the portfolio, both in terms of financial performance as well as the social and environmental impact performance of the portfolio.

## Process

We believe investment management needs to come 'out of the shadows' and to this end will be taking a more transparent approach to asset manager selection. We are advertising this Request for Proposals publicly and invite anyone to tender for this mandate.

A short list of asset managers will be invited to present their proposals to a room of our Trustees, stakeholders, and like-minded asset owners wishing to learn more or perhaps also invest. We will aim to feature the short-listed candidates as best in sector in a 'state of the sector' report (covering Impact/ESG policy and practice, and excluding commercial terms) in line with our desire to share learning and signal to the market what emerging best practice and asset owner expectations look like.

Key dates:

- Proposals to be received by 7 February 2020
- Four or five short listed asset managers will be selected by end of February 2020
- Short listed asset managers will be invited to present proposals to an event in early March 2020

## Proposals

Completed proposals should include:

1. A covering letter
2. Your standard Due Diligence Questionnaire/documents
3. Your standard product information
4. Additional proposal documents that respond to the request for information/questions listed below.
  - a) How important is Impact or ESG Investment to your business? Describe how you hope to shape the broader investment market and how you think this mandate will help.
  - b) Investment philosophy and beliefs and how these link to your strategy.
  - c) Please illustrate your impact strategy.
  - d) Proposed investment strategy, portfolio guidelines and related process; please include your decision-making process on how you reduce the total investment universe to your investible universe.
  - e) Your ESG integration policies, covering exclusions from investable universe, shareholder engagement and its escalation, proxy voting, and disclosure of performance.
  - f) How your investment strategy and policies adhere to FPF's investment policy and principles, and investment statement on climate change; and how it does not. Your appetite to actively work with us to fully comply over time.
  - g) Your model portfolio with as much detail on the underlying investments as possible, and why you believe them to be impactful. Please include *at least* five examples of:
    - Your "stars" i.e. the investments that you are most proud of and the very best in your portfolio at demonstrating reasonable return with high impact
    - Your "dogs" i.e. the investments that you are least proud of in the portfolio, why you are least proud of them, and why they need to be in the portfolio.
  - h) Include details of how the financial performance and social impact will be tracked, measured and reported.
  - i) You should illustrate the target financial return (gross and net after all costs), level of risk, and include a back-test with all the standard financial ratios common to investing. Please benchmark your back-test against what you consider an appropriate benchmark/ benchmarks. N.B. We are not seeking to replicate a benchmark, but it is helpful for illustrative purposes.
  - j) If you have a multi-manager strategy, then how many managers do you anticipate employing
  - k) Within each manager/ mandate how many holdings that you anticipate in the portfolio as a whole and within each part of the portfolio e.g. for illustrative purposes, a public equity manager might seek to have 30 holdings vs a PE fund might seek to have 10 vs. a debt fund may seek to have 60 etc.
  - l) For public investments, your anticipated portfolio turnover p.a.
  - m) Your approach to managing risk and approximate level of risk associated with investments.
  - n) The capacity of your strategy i.e. the upper limit to your AUM under this strategy and why?
  - o) Forecast dividend income – dividends are not a requirement, but it is helpful for us to understand the dividend yield (if any) of your strategy.
  - p) Costs; please quote for the following mandates: £10m; £20m; £30m; £40m
    - Management fees
    - Total costs i.e. your management fees + any brokerage or other costs that may be incurred etc.
    - Total Expense Ratio including an illustration of the expected gross return (before any costs) and expected net return after all costs have been covered with an analysis of the costs.
5. Working together:
  - a) Capacity/willingness to partner with Friends Provident Foundation, Joffe Trust and Blagrave Trust, e.g. on our thematic priorities for company engagement?
  - b) How do you expect to work with us? What level of engagement/ practical involvement do you expect?
6. Experience and stability of your investment team and organization, including in-house expertise on impact/ESG issues.

**We reserve the right to not appoint any manager which has submitted a proposal in response to this RFP. We also reserve the right to appoint more than one manager. In such a circumstance, no mandate would be less than £10m.**

### **Additional documents**

Friends Provident Foundation - investment principles and policy

[http://www.friendsprovidentfoundation.org/wp-content/uploads/2019/09/Investment-Principles-and-Policy\\_new-sept-2019.pdf](http://www.friendsprovidentfoundation.org/wp-content/uploads/2019/09/Investment-Principles-and-Policy_new-sept-2019.pdf)

Friends Provident Foundation - investment statement on climate change

[http://www.friendsprovidentfoundation.org/wp-content/uploads/2019/09/Investment-statement-on-climate-change\\_new-sept-2019.pdf](http://www.friendsprovidentfoundation.org/wp-content/uploads/2019/09/Investment-statement-on-climate-change_new-sept-2019.pdf)

### **Next steps**

Please submit your proposal to [colin.baines@friendsprovidentfoundation.org.uk](mailto:colin.baines@friendsprovidentfoundation.org.uk) by 7 February 2020