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**How do charities approach investing in line with their purpose and values? We want to know, and we want to help**

Posted by:Sian Hawkrigg, Strategic Policy Advisor, Posted on:15 January 2020 - Categories:Finance, Governance, Public Trust

Charities are driven by a passion to make the world a better place in line with their purpose and values, so it is reasonable to assume that everything a charity does should reflect this. But, in the area of financial investments, some charities have historically – and understandably – focussed on making the best financial return, without taking into consideration all the potential unintended consequences of their investments.

Trustees have a duty to maximise the financial returns generated from the way in which they invest their charity's assets, but the Commission also encourages them to consider whether their investments are consistent with their charity's aims. As public expectations and attitudes evolve, there are welcome signals that charities are thinking about how to reconcile achieving good returns with responsible investments that align with the charity's mission and purposes. Many in and around the sector are championing this way of thinking and leading the way, but as the regulator we want to understand what is holding others back, and give more charities the confidence to follow suit where possible.

There are two reasons for this. Firstly, there are clear indications of shifting public expectations, a changing public mood. People place increasing value on transparency, which research shows is a key driver of public trust in charities. And we are all – as donors, beneficiaries, tax-payers – increasingly interested not just in what a charity achieves, but how it behaves along the way. The number of charities that have responded to outcry from their supporters by taking purposeful financial decisions is evidence of this.

Secondly, it is increasingly prudent for trustees to consider the factors affecting the longer-term financial sustainability of their investments. And there is evidence to suggest that removing certain industries or companies from their investment portfolio doesn't necessarily impact financial return. The report 'Intentional Investing', published by the Association of Charitable Foundations (ACF) in 2015, notes:

"Evidence even suggests that, in some cases, the pursuit of responsible business practices can be positive from a financial as well as a values perspective."

The law is clear that charities can take ethical and other non-financial considerations into account when deciding how to invest their assets in a number of scenarios, such as where there is a conflict with the charity's purposes; where the investments would hamper the charity's work; or where there is no risk of significant financial detriment. The Commission's guidance in this area is also permissive, and indeed we know of charities that already have responsible or ethical investment policies in place.

But we want to ensure that others are not shying away from this due to a lack of awareness or the area being seen as too difficult. We want to ensure charities are aware of what they can do in this area, to understand their options when it comes to investing responsibly, and if necessary, equip them with tools to help make thoughtfully considered decisions. In short, we want more trustees to feel empowered to take a fresh look at their financial investments and make informed decisions that are right for their charity.

That's why we have established a programme of work to seek to understand the barriers trustees currently feel prevent them from investing responsibly and in line with their purposes.

**What does the Commission mean when it refers to responsible investment?**

Responsible investment, for us, means demonstrating that you have thought about your charity's purpose as well as your investment duties when making investment decisions. What is of principal concern to supporters of a health charity will differ to that of a conservation charity, and so the balancing act will play out in different ways. Indeed, this is not solely about climate change – a range of social and other issues such as human rights records, or treatment of workforce, may need to be considered if a charity is to live its values.

Often there won't be an easy answer. It will always be for trustees to decide what is right in their specific case, and what that means in practice will vary between different charities – what is ethical may not always be universally accepted.

**We want to hear from you**

Charities are independent. We will not be telling trustees what conclusions they should reach when deciding how to invest their charity's assets. But we want to put this issue at the forefront of trustees' minds and encourage and support them to ask the right questions.

We want to hear from charity trustees, charity investment managers, employees or anyone with an interest in this issue to share their thoughts. What are your experiences and current considerations around responsible investments? What do you think are the barriers to more widespread responsible investments and what more could be done to support trustees to invest in a way that reflects the charity's purpose and values?

The Commission will be seeking views until Tuesday 31 March 2020. Please email contributions to policy@charitycommission.gov.uk

We want charity to thrive and inspire public trust, so the time is now for us all to start thinking more purposefully about how charities invest their funds.

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