Responsible Investment

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Remaining responsible

Charities continue to invest responsibly in a changing world

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Has the responsible investment climate changed?

Charities are standing firm in wanting to do good with their assets against a backlash to responsible investment, Tristan Blythe *finds*

"WE WILL BE MOVING THE WEALTH WE STEWARD INTO A NEW MIX OF SOCIAL, IMPACT AND TRANSFORMATIONAL INVESTMENTS"

Tristan Blythe
is editor of
Charity Finance

IN CHARITY Finance's Fund Management Survey 2024, 38% of charity respondents said they expected to increase the proportion of their investment portfolio subject to environmental, social and governance (ESG) criteria in the next 12 months. A further 60% expected no change and only 2% said they predicted a decrease.

Meanwhile, 41% of the fund managers who took part in the survey said 100% of their funds were "ethically managed" and 55% said they "actively voted" (an important element of many responsible investment strategies) on 100% of their funds.

This suggests that responsible investment is now a key and growing element of the charity investment world. This plays into charities' increasing focus on a wider ESG agenda and increased stakeholder interest in ensuring charities are making these considerations across their operations and finances.

For example, in 2024, research from a group of charities found that the vast majority of UK adults believe that charities have a responsibility to be environmentally sustainable.

Some 13 large charities including Alzheimer's Research UK, Cancer Research UK, Macmillan Cancer Support and Mind surveyed the public to find out what role it felt the charity sector should play in sustainability.

Almost eight in 10 respondents said that charities have a responsibility to be environmentally sustainable. A similar proportion said environmental sustainability is important for a charity when carrying out its core purpose activities.

Some four in 10 respondents said they would be more likely to donate to a charity if they heard that it invested funds into operating more sustainably.

More broadly, the Principles for Responsible Investment (PRI) said its analysis of trends in its 2024 signatory reporting data demonstrates that investors are "continuing to engage on responsible investment issues such as climate-related risks, governance and human rights and social issues".

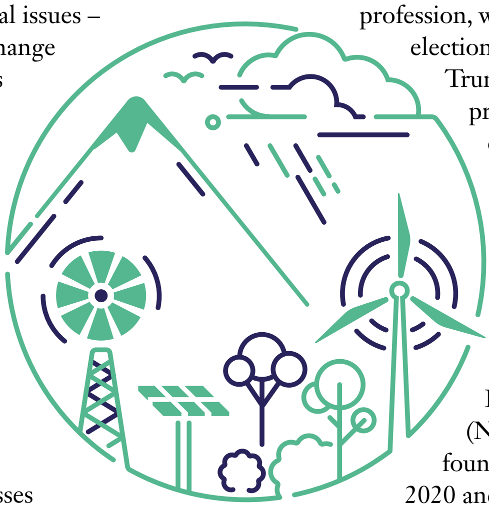
> Only 2% of charities expected to reduce their ESG investments

PRI's 2024 annual reporting process had 3,048 signatories – both asset owners and investment managers. Its signatories are continuing to include material issues – such as climate change and human rights – in the way they pick assets, build portfolios and engage with companies. Financial materiality is the key driver for this activity – with over 90% of investment managers having formalised processes to identify and incorporate material issues such as physical climate risks, human rights and social-related issues into decisions.

Some 93% of signatories also formally assign oversight and accountability for responsible investment to their board members, senior executives or equivalents.

Stewardship remains a widely undertaken activity among signatories. Stewardship actions by a large majority (84%) of signatories include incorporating sustainability issues such as climate-related risk into proxy voting policies and guidelines. The PRI said a lot of signatories now undertake these activities across many asset classes – not just listed equities. Some 81% of signatories are conducting stewardship specifically in relation to their fixed-income investments.

Yet, outside of the charity world, it can feel like 2025 brought with it a pushback on responsible investment, including from some in the investment profession, with the re-election of Donald Trump as US president being one reason.



NET ZERO ASSET MANAGERS INITIATIVE

The Net Zero Asset Managers Initiative (NZAM) was founded in December 2020 and describes itself

Scope selects new sustainable investment fund

Scope has developed an investment strategy that is aligned with its mission of campaigning for an equal future for disabled people.

It worked with Cazenove Capital on the new strategy and will be investing in the SUTL Cazenove Charity Sustainable Multi-Asset Fund which, as at 31 December 2024, managed £2bn on behalf of its clients. The fund has plans to adopt the FCA's Sustainability Disclosure Requirement Sustainability Focus label.

Anna Burman, chief financial officer at Scope, said: "Cazenove Capital's approach to ethical investing, influence in the market and significantly weighting investments towards environmental, social and governance issues were a key part of our decision for Scope to move our investments to the SUTL Cazenove Charity Sustainable Multi-Asset Fund.

"Scope's mission is to campaign for an equal future with disabled people and a key element of that is working with businesses to improve disability employment and attitudes in the workplace. We believe this should be included in ethical investment discussions along with the new reporting and disclosure requirements in this area. While our investments must generate a reasonable return for the charity, where possible they should also be used to support our goals."

as "an international group of asset managers committed, consistent with their fiduciary duty to their clients and beneficiaries, to supporting the goal of net-zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net-zero emissions by 2050 or sooner".

Its 2024 Target Disclosures Report highlights the increase in voluntary, individual net-zero commitments and targets from the asset management industry over time. It says that as of 31 January 2024, the total number of asset managers that had set individual initial targets increased to 264 (at the time it had over 325 signatories).

Most targets focused on real economy decarbonisation. Decarbonisation targets were the predominant target type (63%), followed by alignment targets (53%) and engagement targets (35%). Some 98% have set interim targets for/before 2030, with 26% targeting as early as 2025.

Two-thirds of the fund managers that took part in Charity Finance's Fund Management Survey last year were signatories to the initiative. However, its fortunes took a turn at the start of 2025.

On 10 January 2025, the initiative published a statement following BlackRock's departure from the group.

"We're disappointed to see any investor withdraw, but as a voluntary initiative, we respect any individual decisions signatories take," the statement read. "Climate risk is financial risk. NZAM exists to help investors mitigate these risks and to realise the benefits of the economic transition to net zero."

> "We're disappointed to see any investor withdraw"

The Financial Times reported that BlackRock's vice-chair Philipp Hildebrand had written to institutional investors, claiming that membership of NZAM had "caused confusion regarding BlackRock's practices and subjected us to legal inquiries from various public officials".

Three days later, on 13 January 2025, NZAM suspended its activities as it launched a review into whether how it operates is still fit for purpose.

"Recent developments in the US and different regulatory and client expectations in investors' respective jurisdictions have led to NZAM launching a review of the initiative to ensure NZAM remains fit for purpose in the new global context," a statement says. "Signatories will be consulted throughout the review process and informed of any updates in a timely and transparent fashion.

"As the initiative undergoes this review, it's suspending activities to track signatory implementation and reporting. NZAM will also remove the commitment statement and list of NZAM signatories from its website, as well as their targets and related case studies, pending the outcome of the review.

"As a voluntary initiative, NZAM has successfully supported investors globally as they have sought to navigate their own individual paths in the energy transition in line with their fiduciary duties and clients' long-term financial objectives. NZAM looks forward to continuing to play this constructive role with investors around the world."

Although the departure of BlackRock appears to have triggered this suspension, it was also reported in various investment-focused press that other US-based investment management firms had also left NZAM.

In response to the suspension, ShareAction, a UK charity which promotes and supports responsible investment, said it was a "backwards step".

"As deadly wildfires rage on in Los Angeles, the threat of climate change and the extreme weather it can bring has never been more clear," said Lewis Johnston, director of policy at ShareAction. "Climate risk is financial risk, and any approach to responsible investment must address the ongoing climate crisis.

"Collaboration is critical for addressing this global challenge, and whilst voluntary initiatives have limitations, they can play an important role in sharing best practice and encouraging commitments. The announcement that NZAM is suspending operations is a backwards step.

"Alongside this, we need regulators to set ambitious policies to raise ▶ p28

INTERVIEW L&G

Tackling the threat of a silent pandemic

An interview with

Nancy Kilpatrick
Head of Unit Trust Relationships

Maria Ortino
Director, Investment Stewardship, Health Lead

For professional clients only. Capital at risk

When it comes to responsible investment, there are several areas of concern that have dominated decision-making. Climate change has been at the forefront over recent years, as have wider sustainability issues, and equity, inclusion and diversity. However, at L&G, another element has been added to the responsible portfolio mix: AMR.

"AMR stands for antimicrobial resistance, sometimes referred to as the silent pandemic," says Head of Unit Trust Relationships at L&G Nancy Kilpatrick. "We believe that investors should know more about what it is and its potential impact, not only on humanity but also on long-term returns."

> "AMR undermines modern medicine"

Director of Investment Stewardship and Health Lead Maria Ortino sheds more light on what AMR is and why investors should be considering it as part of their responsible investment strategy: "AMR is the resistance by microbes to medication that has been developed. Microbes are viruses, parasites, bacteria and fungi. The antimicrobial medication has been developed to prevent and treat infections in humans, animals and plants. Over time these microbes can become resistant to medication. This is a natural part of the evolutionary process, but it can be exacerbated by the misuse or overuse of antibiotics.

"AMR undermines modern medicine. We use antimicrobials, like antibiotics, to treat infections such as tonsillitis. Patients undergoing surgery may contract an infection which similarly needs to be treated with antibiotics. Those undergoing chemotherapy are immunocompromised and will often rely on antibiotics for any infection while undergoing treatment. If those antibiotics become ineffective, then it will have a direct impact on survival rates."

According to figures published by the Lancet in 2022, there were 1.27 million deaths in 2019 directly linked to AMR globally, says Ortino. In the same year, the report suggests that 4.95 million deaths could be indirectly related to AMR. For comparison, John Hopkins Coronavirus Resource Center suggests that the cumulative number of deaths throughout Covid was 6.88 million. "Furthermore, the Center for Global Development (CGD) released a study last year with a projection based on 2019 data that suggested that there could 38.5 million AMR-related deaths by 2050."

LEADING THROUGH STEWARDSHIP

Not only are these worrying statistics for health prospects, the economic impact of a global pandemic on this scale would be devastating. "If we don't take action on AMR, the projections by the CGD are that we could have a $1.7tn annual reduction in global economic output by 2050, not to mention the cost of AMR to healthcare expenses, which it estimates could rise to $159bn over the same period," says Kilpatrick. "So, the figures speak for themselves, and action needs to be taken. The approach that we have adopted within the stewardship team is two-pronged, looking at the sectors that are involved, and engaging with policymakers."

FAST FACTS

Top 5 charity manager*

£5.9bn** of charity assets

*Charity Finance Fund Management survey, November 2024
** Source L&G internal data as at 31 December 2024

As the threat of AMR moves up the agenda of multilateral organisations, Ortino says she is seeing an increase in investor interest in antimicrobial use across investees' supply chains. Three AMR shareholder resolutions were filed at high-profile food service companies last year: Yum! Brands, McDonald's and Restaurant Brands International Inc.

> “It is crucial to support actions to mitigate AMR risk”

Ortino cites L&G's work with McDonald's as an example of engagement and stewardship. “With 70% of antibiotics used on animals, it is essential to limit the use of antimicrobials within the animal food production industry to mitigate the spread of AMR. We want market leaders such as McDonald's to rigorously apply World Health Organization standards throughout its supply chain, so that we can shift behaviour.”

THE ROLE OF CHARITIES IN ADDRESSING AMR

Ortino suggests that awareness around AMR is at about the same level as climate change was around 15 or 20 years ago. The first thing charities can do is to help shift that dial. “To start to address the problem, organisations can ask their asset managers about what they are doing on behalf of their clients about AMR. If more charities are taking an interest in the problem and putting pressure on asset managers to look at the companies in their portfolio, their operations and supply chains, the greater the impact.

“There is a tremendous power in the collective investor voice. Asset owners can become members of the Investor Action on AMR initiative (IAAMR). IAAMR was set up between the Access to Medicine Foundation, the FAIRR Initiative and the UK government department of health and social care to galvanise investor efforts to address global AMR.”

Kilpatrick adds that influencing the broader market can result in better returns in the long run. “We realise that the primary concern of all our clients is a return on investment. We believe that by engaging with, for example, companies that are part of the food production or health sectors, through leveraging assets, and by working with policymakers and other stakeholders, we can raise the need for awareness and action on this financially material issue for long-term investors.”

Ortino adds: “As a universal owner on behalf of our clients, it's crucial to support actions to mitigate AMR risk to help manage systemic risks to our clients' portfolios, in addition to supporting the broader health of the economy over the longer term.”

standards and ensure that the financial sector is playing its part in driving the transition to net-zero economies that the world needs."

SHAREHOLDER RESOLUTIONS

ShareAction also had bad news for proponents of responsible investment in February, when it revealed that its latest research showed that investment managers' support for shareholder resolutions aimed at tackling social and environmental issues fell to a "new low" in 2024. Only 1.4% (four out of 279) of the shareholder proposals assessed in Voting Matters 2024 received majority support, down from 21% in 2021.

For example, the charity said that had asset managers supported them, proposals put forward by shareholders at 190 companies could have "improved conditions for low-paid workers".

It added that, as in previous years, there was a "striking gulf in performance between asset managers in the US and Europe".

The 13 US-based asset managers which ShareAction has assessed each year since 2021 supported an average of 19% of resolutions in 2024, compared with 25% in 2023. This is approximately half the average support compared with 2022 and 2021, according to the report. It adds that the 36 European asset managers that ShareAction has also tracked over the same period have increased their average votes in favour from 68% to 82%.

Funding for action on healthy food

Nesta, a charity which promotes innovation to solve the UK's biggest societal issues, has provided ShareAction with grant funding from March 2024 to March 2027 to support investor action on health and nutrition.

ShareAction coordinates the Healthy Markets Initiative, a coalition of investors managing over $5tn in assets who believe nutrition is a material responsible investment topic.

"This is the worst result we've seen from asset managers in the six years we've been monitoring their voting performance and shows a worrying retreat from ambition when it's most needed," said Claudia Gray, head of financial sector research at ShareAction.

"As support for shareholder resolutions hits rock bottom, our first-ever analysis of votes against resolutions proposed by company management paints a similarly bleak and disappointing picture, with asset managers failing to use these votes to hold companies accountable for their social and climate impacts.

> "This is the worst result we've seen from asset managers"

"This should be of great concern to asset owners who are putting their faith in asset managers to act in their best interests. If ever we needed asset owners to be the drivers of responsible investment, it's right now. We need their leadership to hold asset managers to account at such a critical time for people and planet."

Despite its disappointment at the suspension of NZAM, ShareAction's report also found that membership of the initiative had little impact on asset managers' voting on climate resolutions. Members of NZAM voted in favour of an average of 64% of climate resolutions, compared to 55% by non-members.

REGULATORY DELAY

This report will raise the fear of so-called "greenwashing" – whereby investment managers exaggerate or invent green credentials in order to sell investment services to those looking for a responsible investment approach.

As previously reported in this supplement, in an effort to clamp down on greenwashing, the UK's financial regulator, the Financial Conduct Authority, has announced a number of steps. Arguably, the most high-profile of these is the Sustainability Disclosure Requirements (SDR) and investment labels regime. This introduced a series of labels which investment firms could apply to their funds provided they met the criteria outlined by the FCA.

It was initially brought in on individual funds, rather than on portfolio management services – including discretionary fund management services (which many charities will use).

In 2024, the FCA opened a consultation on extending the regime to this type of service, with the aim of publishing a policy statement in the second quarter of this year.

However, in an update in February 2025, the FCA said it was delaying this extension. "We want to ensure an extension of SDR to portfolio management delivers good outcomes for consumers, is practical for firms and supports growth of the sector," it said. "We'll take the necessary time to deliver these outcomes, therefore we no longer intend to publish a policy statement in Q2 2025.

"We'll continue to reflect on the feedback and provide further information in due course."

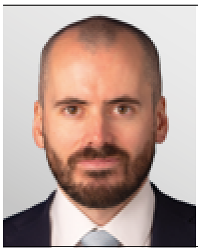
Although this does not seem to be an indication that the FCA is drawing back on its work to protect responsible investors, the delay does represent a lack of progress and could be seen as a potential loss of some momentum.

CHARITIES

While there may be a loss of momentum from some within the investment profession and regulatory world, as the data at the start of p32

Q&A BARCLAYS PRIVATE BANK

Keeping sustainability front of mind amid geopolitical headwinds



An interview with
Michael Topley
Head of Sustainable Portfolio Management

What is your role in Barclays' sustainable offering?

I joined the private bank in 2010 as a portfolio manager, then in 2018 I launched our sustainable offering. We aim to provide our clients with a way of maximising risk-adjusted return, while helping to address global sustainability challenges. We recognised that a lot of our clients who are investing in sustainable strategies are charities and have the primary fiduciary duty to maximise the return of their investment pots in a way that is aligned with their stakeholder interests.

> "The pendulum has swung away from an ESG mindset"

The demand for a sustainable strategy initially came from our university clients, which were under pressure from students around divestment from fossil fuels. By creating a sustainable alternative, we were able to change the narrative, putting investments in a positive light and placing clients at the forefront of driving change in line with the priorities of their stakeholders.

Since then, our sustainable portfolio strategy has grown, becoming not only the default for all our charity and not-for-profit clients, but also for many of our private clients.

How have recent geopolitical events impacted client demand for sustainable investing?

There has been a big change in the global political landscape over recent months, driven by policy change and geopolitics. I think this has seen the pendulum swing away from an environmental, social and governance (ESG) mindset. However, I think this has polarised investors into two camps: those who don't see sustainability as a priority and those that definitely do. Those that do, have become more emboldened and invest further. Perhaps counterintuitively, we've seen stronger demand for our sustainable solutions, especially around climate change, despite this change in the geopolitical narrative. No matter what the political cycle, the planet is still warming, and our charity clients in particular are committed to tackling that.

There is a lot of noise around corporate ESG targets lately, with some companies choosing to be more muted around ambitions publicly. But that doesn't mean they don't still have diversity or environmental policies in place, embedded in how they operate. In the end it comes down to economics. If being diverse and sustainable is good for business, then companies will

FAST FACTS

£209bn in client assets and liabilities and manages £30bn in discretionary portfolios*

Over £3bn AUM for charity and not-for-profit clients*

Top quartile investment performance over 1-, 3- and 5-year for flagship sustainable charity multi-asset endowment strategy vs. ARC Peer Group**

$162.2bn of sustainable and transition financing mobilised as at the end of 2024, as part of our $1tn target

£203m of capital invested into global climate tech start-ups through our Barclays Climate Ventures mandate to invest £500m by the end of 2027

*As at 31 December 2024
**Past performance is not a reliable indicator of future performance. Neither capital nor income are guaranteed. Source: Asset Risk Consultants, https://tinyurl.com/42fkzk3h as at 31st December 2024. ARC Peer Group: Steady Growth ACI

continue to do it. It's got to make financial sense, and a lot of responsible investment does.

What sustainability themes do you invest in?

From an investment perspective, we have always seen a risk in business models which are dependent on government policy and funding. These businesses have become more exposed in recent months as government funding priorities are re-evaluated. But we still see plenty of opportunities within the sustainability space.

We differentiate our sustainability strategy by not having a thematic approach. There is a problem across the industry where managers start with a top-down theme and try to shoehorn companies into those themes. If you have a renewable energy theme, for example, and try to fill the portfolio with only those companies, then the quality of the investments and your ability to effectively diversify will deteriorate.

Thematic investing can increase risk by limiting the opportunity set and your ability to diversify, to the potential detriment of portfolio return. In sustainable investment, it's important to keep the range of opportunities as wide as possible and get broad exposure to as much of the global economy as you can through businesses that are operating with high ESG quality and are providing solutions that address sustainability challenges.

> “Thematic investing can increase risk”

What impact will AI have on sustainable investing?

AI has the potential to be one of the greatest tools we have for addressing a wide range of sustainability challenges – from energy efficiency to drug discovery to educational tools and the development of new resistant materials that can go into battery technology. For instance, some of our companies use AI to optimise how buildings are heated and cooled, a process that accounts for around 20% of global emissions. This could reduce global emissions by one gigaton a year. So, there is huge potential.

I think there is a risk that AI creates an inequality between AI-enabled countries and those that don't even have access to the internet. There is a danger that companies in places such as Silicon Valley will harvest data from around the world to create new consumer products, new drugs and AI tools, and monetise them, leaving the rest of the world behind.

Charity Investment Governance Principles website goes live

A new website with seven principles for charity leaders and trustees making decisions about their investments launched in January.

The Charity Investment Governance Principles (CIGPs) (https://bit.ly/41Wh14y) were developed by sector experts and umbrella bodies to reflect the outcomes of the Butler-Sloss case and are designed to complement the Charity Commission's CC14 guidance and Charity Governance Code.

Launched in December 2023, the project is led by freelance consultant Gail Cunningham and a steering group comprising organisations such as Charity Finance Group (CFG), NCVO and the Association of Charitable Foundations.

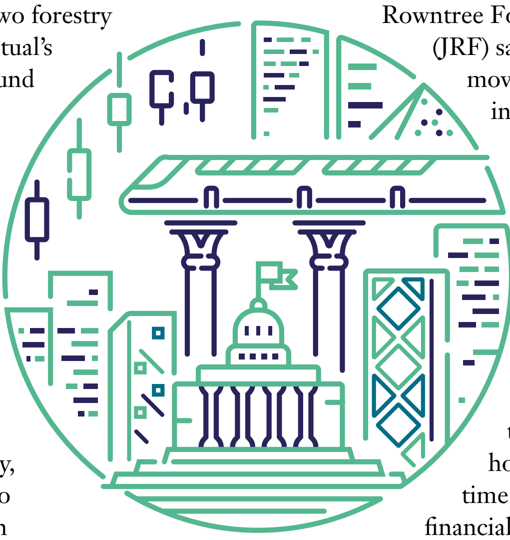
The principles are: purpose of investments; leadership; integrity, decision-making, risk and control; effectiveness; equity, diversity and inclusion; and openness and accountability.

this article suggests, this does not appear to be the case within the charity sector. Demand for responsible investment remains high here.

For example, the National Trust is continuing with its pledge to become net zero – with its investment portfolio playing a role in its plans.

"The National Trust is committed to achieving net zero by 2030 and as part of that, we're aiming to achieve carbon neutrality for our investment portfolio by this date too, all whilst still generating a competitive financial return for our charity," Steve Peacock, the charity's chief financial officer, told Charity Finance.

"Our focus has been on disinvestment from fossil fuels, and engagement with fund managers, and through them individual companies, to reduce gross emissions. In 2023-24 we invested in two forestry funds, BTG Pactual's Reforestation Fund and Gresham House's Forest Growth and Sustainability Fund, which should deliver significant carbon removal. In addition to carbon neutrality, the portfolio also seeks to invest in companies which target a positive environmental impact."



Meanwhile, Scope recently moved to a new investment manager and selected a sustainable option (see boxout on page 25).

Many see responsible investment as a spectrum, with excluding stocks that do harm at one end, engaging with companies to try and make improvements somewhere in the middle and investing to do good (or impact investing) at the other end.

> "We have long applied strong ESG criteria to our financial investments"

Earlier this year, the Joseph Rowntree Foundation (JRF) said it would move to the impact investment end of the spectrum by making its £400m endowment mission-aligned.

"For many years, we have invested the wealth we hold to grow over time, and today JRF's financial endowment is around £400m," Paul Kissack, group chief executive wrote in a statement published on the charity's website in March.

"This investment approach allows us to both fund our annual work programme while also maintaining the real financial value of the endowment over the long term. Of course, we have long applied strong ESG criteria to our financial investments, and we have also shaped a growing social investment portfolio. But it remains the case that the lion's share of the wealth we steward hasn't historically been focused directly on furthering our mission, but instead on growing in financial value.

"It's time to change our approach. Last year, JRF trustees made an important decision – to adopt a new strategy and move to a fully mission-aligned endowment over time. To make that a reality, in the years ahead, we'll be moving the wealth we steward into a new mix of social, impact and transformational investments, better aligned with our mission: investments that will strike a new balance between financial return and contribution to mission, giving greater prioritisation to the latter. And we'll do this alongside spending significantly more on mission-aligned activity and system-changing work, over and above historic levels."

Over the course of 2025, Kissack said the charity will "begin to make meaningful progress on this new endowment strategy" and that as a result, it was looking to hire "someone to take on a brand new role leading this exciting new direction".

"Working closely with the JRF executive, trustees and our investment and social investment committees, the new associate director of investment will lead the work to design, set up, implement and steer JRF's new mission-aligned investment approach, while cultivating an ecosystem of aligned investors, funders and partners," he wrote.

All these examples, and more show that while political will around ESG issues and the approach of some investment firms may both change, charities are staying the course when it comes to responsible investment. ●

Aligning your investments with your values

A guide to faith-based investing can be used by all charities looking to invest in a way that is aligned with their mission, says Stephen Beer

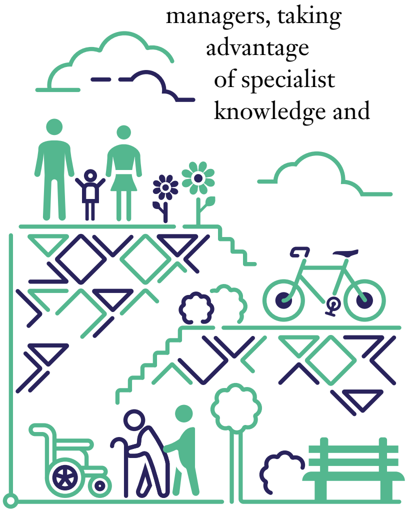
"FOLLOWING THE MANAGER ASSESSMENT, THE GUIDE SUPPORTS INVESTORS WITH MANAGER APPOINTMENT"

Stephen Beer
is chair of the Church Investors Group

AT A time when responsible or environmental, social and governance (ESG) investing is being questioned by some, it is more important than ever that church investors stand for ethics in business and investment, and for the standards to which companies and their leaders should be held. I am sure that there are other values-driven investors, including charities, that have a similar view. How do we actually take that stand in practice?

Church organisations have long sought to invest their assets in a manner consistent with their faith perspective. This can mean avoiding investment in companies involved in specific activities: tobacco, gambling or defence, for example. Many church investors also look to engage with the companies in which they invest, to encourage companies to do well.

As chair of the Church Investors Group, I know that many of our members outsource the management of their investments to investment managers, taking advantage of specialist knowledge and expertise. A church investor is likely to seek investment managers who can implement their policies on ethical issues alongside other investment objectives. The increased popularity of responsible investment in recent years has created greater choice of investment managers promising to match both required returns and investors' ethical values.



While most church investor institutions will not have funds of sufficient size for a tailored, segregated service, they may still require their investments to be managed in a faith-consistent manner.

> "Our aim is to encourage long-term relationships"

In such situations, church investors, working with their professional advisers, need to exercise judgement to identify the investment funds and managers that most closely align with their beliefs and values, while delivering their investment objectives. They can subsequently aim to work with their investment managers to move towards even closer alignment over time.

Over the years, many of our members have sought perspectives and guidance to help them understand how to question and challenge their investment managers. On top of that, we hear questions about what to look for when considering who to appoint – and I know that this is a concern of other charities keen to ensure their values are aligned with their investments.

This is why, at the end of last year, the Church Investors Group published Working With Your Investment Managers: A Guide to Support Church Investors Considering Faith-consistent Approaches (http://bit.ly/3G0jcv6), written in partnership with Chronos Sustainability after extensive engagement with Church Investors Group members.

This new guidance is primarily designed to empower church and other Christian-based asset owners to think about and describe their ethical or faith-based investment perspectives, by providing them with a framework to put those Christian ethical perspectives at the heart of how they assess, select, appoint and monitor managers. It could also appeal to other asset owners who are keen to align their values with their investments. Crucially, the guide does not represent investment advice; that is the responsibility of each investor to seek as appropriate. Rather, our aim is to encourage long-term relationships, based on mutual understanding, enabling both portfolios and humanity to flourish.

ASSESSING MANAGERS

Church investors' ethical investment aims, informed by their beliefs and values, will overlap considerably – but not necessarily fully – with the responsible investment approaches provided by many investment managers. These may focus on mitigating risks associated with ▶ p38

Q&A RATHBONES

Navigating responsible investment in an uncertain economic climate

Victoria Hoskins
Head of Charities at Greenbank, the specialist sustainable investment team within Rathbones Group

How might US policies impact global responsible investment trends?

This is a fundamental question that boards need to be asking themselves. There has been a significant shift in the political backdrop for ESG (environment, social and governance) and sustainable investment recently. Financial institutions are caught between addressing real-world climate risk and escalating political opposition to sustainability. This has seen companies rolling back diversity, equity and inclusion (DEI) programmes and climate initiatives to avoid any political backlash.

> “Investors need to look beyond the current political trends”

There is no doubt that US politics over the next four years is going to influence investment trends, especially for those in the mainstream responsible investment arena. Deregulation in the energy sector, for example, and the threat of government criticism, will be a significant consideration for investment decisions. But responsible investing is about sound, risk-adjusted investment.

Executives still agree that companies should be required to include sustainability metrics in their reporting, while the Securities Exchange Commission has ruled that banks can't exclude climate or socially-related shareholder proposals.

Consequently, investors need to look beyond the current political trends. They might need to adjust their language a little, but they still need to drive companies to act in a responsible manner for the betterment of people and the planet.

How can charities future proof their responsible investment strategies against political and economic volatility?

Irrespective of the political climate, it is important to future proof your investment strategy, while remembering that the responsible investment policy is reflecting the values of your charity, and provides reputational safeguards. Irrespective of the political or economic climate, your values must hold true.

When it comes to investment strategy, an investment manager needs to factor in geopolitical conditions, while making sure that the clients' values are adhered to. There will still be volatile periods where clients will see outperformance and underperformance from their portfolios – but it's the long-term that is important.

How can charities ensure they are engaging in meaningful responsible investment rather than just following trends?

Charities should consider how to use their investments to make positive change and contribute to positive outcomes while working within regulatory frameworks. Definitions can be broad and will change over time. Terms and acronyms that we used 10 or 15 years ago, such as "mixed motive investing", for example, you very rarely hear anymore. Frameworks will change, but by periodically reviewing how you integrate those frameworks into your mission, you can always bring it back to what's important for your values. Make sure whatever the frameworks are, they are clear, actionable and measurable. Whether it is called ESG criteria or a different acronym, they should clarify core objectives and what's going to be meaningful and measurable for the organisation.

> "Most scepticism around lower returns has been dispelled"

It comes back to that long-term quality and leveraging expert advice and partnerships. At the Rathbones Group we regularly review policies and frameworks to define the language and determine what our clients, and wider society, are looking to achieve over the next years or decades.

How should charities prepare for changes in ESG-related regulations?

It depends on how the financial regulator and the Charity Commission interrelate. The CC14 guidance is helpful and whenever that gets updated it is important that it is kept at the forefront of the investment committee's considerations. The FCA's Sustainability Disclosure Requirements (SDR) and the anti-green washing rules continue to be fine-tuned. As advisers and investment managers, we provide guidance to our clients along with trustee training so that they are as informed as possible.

When we look at what's going on more broadly, we are seeing regulatory pushback, both in the UK and the US, especially around DEI and climate change. But notwithstanding, human rights are still centerstage and investors should expect due diligence throughout supply chains. Charities can play a big part in using their voice to be at the forefront of those issues and influence change.

There should also be consideration of the timelines involved. Some of these regulations take a long time to come through. That is useful because this makes sure that they limit unintended consequences. So you need to be aware of what is going on in the background so that you can future proof your responsible investment strategy. It probably doesn't change fundamentally how you are thinking about your investments, but it does help you understand the parameters in which to operate.

How can charities communicate the importance of responsible investment to stakeholders who may be sceptical?

It comes back to understanding the values of the organisation and then reflecting those values in the investment policy and portfolio. It is about having that consistency across the investment piece. The discussion around responsible investment has moved on and most scepticism, especially around lower returns, has been dispelled.

We are increasingly aware that investing in companies that are proactively addressing sustainability factors reduces risk and provides long-term protection for portfolios. There will be short-term volatility, as there is with all strategies, but there's lots of evidence that shows that as long as you can pivot on some of the broader market trends, responsible investment can provide strong financial returns through the cycle. As with any investment strategy, you must continue to consider where market momentum is and be aware of those different cycles. But the long-term underlying principles and protection against reputational risk means that a responsible investment strategy is beneficial, both to the organisation and to the investment outcomes stakeholders wish to achieve.

For further information please contact **Charities Business Development Director, Mark O'Connor – mark.o'connor@rathbones.com**

Q&A CCLA

Addressing the long-term challenge of climate change now

An interview with
Tessa Younger
Better Environment Lead

What is CCLA's approach to sustainable investment?
Our primary goal is to deliver strong financial returns for our clients. Since 1958, we've managed investments for not-for-profits and, more recently, for individual investors. Our aim is to deliver consistent, risk-adjusted returns to our clients in a way that aligns with their values and furthers their mission. We seek to achieve this through our Act, Assess, Align approach.

We believe that markets thrive only when the environment and communities that support them are healthy. That's why we focus our engagement on climate change, nature and biodiversity, human rights and good work practices, health, and corporate governance. Through engagement with companies and policymakers, we push for better practices and collaborate with other investors to amplify our impact.

> “The science is clear: we need action now”

How do you approach engagement on climate change?
Climate change is a long-term challenge that threatens both our environment and the stability of financial markets. The science is clear: we need action now.

The best way to address the risks associated with climate change is not only to manage climate risk in portfolios but also to work towards stopping climate change itself. We engage at both the policy level and with individual companies. For the latter we use clear metrics to measure progress.

In policy engagement, we are working for effective regulation, stronger disclosure standards, and the setting of clear transition pathways especially for high-impact sectors.

Where we engage with companies on climate, we aim to push them to disclose and develop credible transition plans. This includes setting measurable emissions reduction targets and reporting progress against these. We also prioritise areas such as corporate lobbying and alignment with a company's own public climate commitments.

What are the biggest policy challenges for climate action today?
Many countries have yet to update their Nationally Determined Contributions (NDCs) under the Paris Agreement – commitments essential for reducing emissions. Without stronger commitments, the world risks falling further behind on necessary emissions reductions to limit climate change.

At the same time, there are headwinds from regulatory rollbacks, notably in the US, where deregulation is gathering pace, and in Europe, where recent legislative changes such as the omnibus package, have weakened the momentum behind implementing climate transition plans.

Where regulations have been pared back, such as the removal of sector-specific transition standards in the EU, we have continued to work with others to provide

FAST FACTS

- No. 1 investment manager of UK charities*
- £15.3bn in assets under management**
- 60+ years of Good Investment
- £22.3tn of assets supporting CCLA initiatives in mental health and modern slavery**
- 189 team of staff**
- Early signatory (2007) to Principles for Responsible Investment (PRI)**
- 5★ rated by PRI for listed equities**

*By number of charities. Charity Finance Fund Management Survey 2024
**CCLA: Internal as at December 2024

appropriate guidance for companies. For example, we have contributed to the principles set out by the Institutional Investor Group on Climate Change for developing sector decarbonisation roadmaps. This type of guidance helps ensure that investors' perspectives are considered by policymakers.

> “Constantly changing climate regulations creates uncertainty”

We are also actively involved with the GFANZ (Glasgow Financial Alliance for Net Zero) Policy Workstream, which is tackling these broader policy challenges, most recently focusing on how financial institutions can help make NDCs more credible and investable.

Constantly changing climate regulations creates uncertainty, slows progress and complicates future planning for companies. As investors, we can push back against policy setbacks and advocate for stronger frameworks that support both economic resilience and long-term value creation.

What progress have you seen in your engagement?

We have seen progress in the form of stronger climate transition plans, more detailed disclosure on capital allocation to low or zero carbon technologies, and more transparency on the monitoring and governance around climate lobbying.

To give some examples in practice, we encourage companies to provide a visual representation of their climate transition plans, as this helps investors understand the levers for change, and the emission reductions expected from them. The European reporting standards give helpful guidance on this. At our most recent meeting with Siemens, they cited our engagement as a direct reason for producing such a representation.

We also ask companies to detail how they plan to allocate capital to transition-related projects or technology related to their transition plans. Companies that use the EU taxonomy provide the most useful insights, and again Siemens provides a good example of this.

Finally, we work extensively with companies to ensure clarity on their own climate lobbying policies and to assess the positions of their trade associations. We have seen cases where companies publicly support strong climate regulation while their trade associations actively oppose it. To address this, we encourage companies to disclose their trade association memberships, the lobbying positions of these associations, and any misalignments.

We have had notable success with Nestlé and Unilever, both of which have issued climate policy engagement reviews. InfluenceMap, an independent NGO that rates these reviews, gave Unilever a perfect score of 100%.

What will you focus on in 2025?

With growing pushback on climate action and to some degree on engagement, we remain firm in our stance that climate risk is a long-term financial risk. In 2025, we will continue pushing for real-world decarbonisation through both corporate and policy engagement.

Asset owners require clear frameworks to align their investments with climate goals, and we will actively support them in this process.

Addressing climate change as the greatest long-term systemic risk is more crucial than ever. We will advocate for robust corporate disclosure and science-based target setting, using our influence as investors to shape corporate strategies both independently and in collaboration with other investors. We will push for greater transparency in how companies allocate capital related to decarbonisation goals, ensuring that company investments lead to meaningful emissions reductions. We will challenge companies to integrate climate risk into their business strategies, ensuring their transition plans are credible and measurable. At the policy level, we will push for stronger climate regulation, reinforcing the link between climate policy and financial stability.

ESG factors, or on delivering ESG aims as part of an investment objective. That means church and other values-based investors will often find themselves talking the language of ESG and responsible investment with their investment managers, while working to ensure their own distinct ethical approaches are acknowledged as much as possible.

The guide outlines high-level expectations which church investors – along with other values-driven asset owners – can have of asset managers in relation to responsible investment. These are:

- Clear investment beliefs and strategy, which can inform ESG priorities.
- A clear responsible investment policy guiding the organisation's approach to asset allocation, ESG incorporation, stewardship, and reporting.
- Strong governance, with board and senior manager oversight of and accountability for ESG issues.
- Appropriate resources, including training, and incentives to ensure investment managers deliver on their commitments.
- A clear process for integrating ESG issues into investment decision-making.
- Robust, ambitious stewardship with investee companies, plus a clear escalation process for situations where that engagement has not been constructive.
- Robust and ambitious stewardship with policymakers to encourage effective action on systemic issues.
- A clear voting policy, including a commitment to voting all shareholdings.
- Collaborative engagement with other stakeholders and investors, presenting a united front to encourage change.
- Clear, comprehensive reporting to allow clients to assess managers' performance.

The guide also notes external data on how many investment managers meet these expectations – in some areas, such as stewardship with policymakers, it is only a minority, compared with a large majority in others such as voting policy.

The guide then helps an investor form a view on how ambitious an investment manager's approach is to those expectations, ranked on a four-point scale. For example, on reporting:

- No action: The manager does not report on ESG-related activities.

> “Investors will often find themselves talking the language of ESG”

- Basic: The manager provides some information, but not consistently or in a manner that allows tracking over time.
- Intermediate: The manager provides regular information, although this is not tailored to individual clients.
- Advanced: Comprehensive information on ESG-related activities and outcomes are provided, and the manager can provide comprehensive responses to client queries.

MANAGER SELECTION AND APPOINTMENT

Following the manager assessment, the guide supports investors with manager appointment by outlining how to assess whether an investment manager has the resources in place to meet their requirements. An important auxiliary to that, albeit harder to measure, is mutual trust between investor and investment manager, to enable a strong relationship.

The guide suggests a range of questions, linked to the aforementioned expectations, that can be asked about investment managers' approach to responsible investment, as part of the common three-step manager selection process: longlisting, shortlisting, and then in-depth due diligence –

What if I am not a church investor?

While this new guidance from the Church Investors Group is created to support organisations which operate from Christian values, we hope it may be inspiring or useful to other organisations. You could be a charity linked to a different religion, or any other organisation with clear values and ways of looking at the world, which you want to see evidenced and advanced through your investments. The guide shows ways in which you can work outwards from those values to have better conversations with your investment manager, who may have credentials around responsible investment or ESG more broadly, but who may not have specific expertise in or knowledge of your particular priorities and requirements.

Case study: Methodist Church and engagement

This is an edited version of a case study included in the guide.

The Central Finance Board (CFB) is the investment manager for the Methodist Church in Great Britain. Along with its wholly owned subsidiary Epworth Investment Management, it has carried out multiple successful climate-related engagements with investee companies, including:

- Housebuilder MJ Gleeson reported improvements in its environmental performances, including diversification of its brick suppliers and shifting away from clay to concrete bricks (which have half the embedded carbon). This followed engagement from CFB and Epworth over a significant period.
- In December 2022, following the filing of two resolutions by the charity ShareAction and a group of investors including CFB/Epworth, the bank HSBC announced that it would no longer provide direct finance to new oil and gas fields.

before signing an investment manager agreement.

Further questions can be asked about the specific fund or funds in which assets would be placed. Asking investment managers for tangible examples of how non-financial considerations have influenced their decisions can be a key question, as it can test their credibility – whether they are actually doing what they say they are doing.

MANAGER MONITORING

Once an appointment is made, monitoring is key to assessing whether a manager is stewarding their resources in a way that is driving real change. This is primarily done through disclosures, which church investors can request in such a way that allows them to assess progress on the objectives of their faith-consistent investing, as well as whether there have been improvements in the manager's practices.

Our guide highlights that when seeking disclosures, asking for real-life, tangible examples from the reporting year can be valuable in revealing whether manager's claims are legitimate, and address concerns around greenwashing.

Questions are provided which can be used as part of ongoing monitoring of investment managers. These span the investment manager's approach in general and the specific funds in which assets are held.

> "The external geopolitical landscape continues to change"

The guide also provides a number of case studies of faith-consistent investing in action. It is important to be clear that, as with the guide as a whole, these are illustrative examples of potential approaches, rather than prescriptions.

LOOKING AHEAD

In the months since the guide launched, we have received positive feedback from Church Investors Group members. It is gratifying to hear from those who, having read the guide, are increasingly confident to talk about their needs when speaking to asset managers.

Meanwhile, the external geopolitical and investment landscape continues to change. Church and other values-based investors pursuing responsible investment will be interested in any changes to policies or declarations of support for tackling climate change, preserving biodiversity and safeguarding human rights, as well as other fast-moving topics including artificial intelligence and defence. Faith-consistent investment has never been easy – it has always involved a careful balancing act taking into consideration dilemmas and issues of the day – and there is an argument that the unpredictable modern world means it has never been more important.

We hope that our guide equips church investors – as well as charities and other values-driven organisations – with the practical knowledge to work with their investment managers to ensure that their investments reflect and promote their organisation's ethical values. ●

Q&A EVELYN PARTNERS

Are your investments keeping pace with a rapidly changing world?

An interview with

Emma Moffat
Investment Manager

Luke Hunter
Investment Manager

The world is changing at an unprecedented rate. This is having a profound impact on all aspects of our lives, including our investments. Evelyn Partners charity investment managers Emma Moffat and Luke Hunter discuss some of the key trends and risks that are shaping the world today and how investors can position themselves to benefit from these movements.

> “We have experienced seismic changes in AI”

How do we define 'rapidly changing world'?

Just a few years ago, the idea of self-driving cars was unimaginable. Robots were something from a science fiction film. Today, they are a reality. This rapid pace of change is being driven by several factors, including advances in technology, globalisation, market shifts and climate change. Two recent examples are the wildfires in California, which were arguably made worse by climate change, and the rapid developments in the field of artificial intelligence (AI), with the release of an innovative model by Chinese company DeepSeek.

To ensure that investments keep pace with this rapidly changing world, we need to be able to adapt to new trends and technologies. Something that would have been a core holding in your portfolio five years ago might be viewed differently today. We have experienced seismic changes in AI, significant developments in geopolitical tensions, and lived through a pandemic. These events, among many others, have a profound impact on the way businesses may operate moving forwards.

What are some of the investment concerns?

Looking specifically at the devastating California wildfires, it seems appropriate to focus on insurance. Warmer temperatures and drier conditions caused by climate change are fundamentally reshaping the industry and creating significant investment concerns. Insurers face greater financial risk from natural disasters such as higher claims payouts whereas the insured face potential premium hikes, and more worryingly, reduced availability of insurance.

So, how does one adapt to this change? Opportunities exist in companies that are proactively adapting to climate change, such as those investing in renewable energy or offering innovative climate-risk solutions. Insurers, for example, can mitigate risks by diversifying their investment portfolios, investing in climate-resilient infrastructure and developing innovative products that incentivise risk reduction.

Insurance companies aside, the wildfires were a clear reminder that there are increasing risks to business and the economy from climate change-driven environmental

FAST FACTS

- Actively engage and vote across all markets
- Signatories to the UN PRI, 2020 Stewardship Code
- Active members of the Investor Forum, Climate Action 100+, Find it Fix it Prevent it and Corporate Mental Health Benchmark
- Charity reporting including UN SDG and Carbon Emission Metrics

impacts, not least excessive heat, storms and flooding. These types of events will likely continue, and worsen. Therefore, evaluating the risks of environmental factors into your investments is becoming increasingly crucial.

What is the relationship between AI and climate change?

The unpleasant reality for technophiles is that AI uses loads of energy. Worldwide cloud data centre electricity consumption is expected to exceed 1,000 terawatt hours next year (International Energy Agency), over three times the entire UK electricity consumption in 2023 (gov.uk). It is impossible to know how much is directly attributable to artificial intelligence, but Goldman Sachs estimates AI will be 19% of demand by 2030, plus energy used for AI outside of data centres. This usage is meaningful in a world already struggling to achieve its renewable energy goals.

Additionally, a colossal volume of water is needed to cool the AI systems. This will exacerbate water crises.

> “Portfolios should be built to endure a long voyage”

Recent developments offer hope. The new kid-on-the-block DeepSeek claims that its latest AI model is 50-75% more energy efficient than leading US models. Chip designers and manufacturers, such as Nvidia and Taiwan Semiconductor, are constantly battling to improve their products’ energy efficiency. Helpfully, reducing energy usage and increasing profits are closely aligned.

The benefits of AI shouldn’t be overlooked. It can manage energy grids, predict and respond to disasters such as wildfires, and tackle challenges such as nuclear fusion. AI energy usage is concerning at first glance, but the overall impact could go either way. Hopefully these factors are weighted to ensure the benefits outweigh the environmental cost.

How can investors navigate these changes/concerns?

Regardless of responsible investment beliefs, information and opinions change quickly, so portfolios need to be able to respond. Investments should be structured to be flexible and nimble enough to meet the aims of their owners as they develop. For example, the 2022 Russian invasion of Ukraine made some investors reassess their approach to investing in the defence sector in line with supporting the defence of Ukraine. Investors in the sector were largely rewarded.

Despite short-term factors, investors must think long term. For example, choosing to exclude rather than engage with high emitting companies might have the unintended consequence of failing to support the corporate behaviour responsible investors wish to encourage. While some charity investors need to draw red lines under areas they believe should always be avoided, they can extensively engage with companies on other areas of concern before risking divestment.

In a rapidly changing world, you never know what might happen next. However, like a well-crafted boat, portfolios should be built to endure a long voyage but be adaptable enough to benefit from changing winds.