Investment strategy

Aim and objectives

We are a Quaker trust, which seeks to transform the world by supporting people who address the root causes of conflict and injustice. Our investments, and our behaviour as an investor, contribute to this aim.

It follows that our investment strategy needs to strike the right balance, financially and in terms of trustee and staff time, between:

- funding the Trust's grant making programmes over the long term
- investing in enterprises which seek to realise our aims
- avoiding investing in corporations whose activities conflict with our aims
- encouraging business to be ethical, socially responsible and to protect the environment.

These four aims are in order of priority, and expanded upon below.

Funding the trust's grant-making programmes over the long term

We consider ourselves to be a trust that looks to the long term but we do not perceive longevity to be an over-riding aim. Therefore, although in the face of on uncertain market we have frozen total expenditure at the 2013 level of £6.85m per annum (after investment fees) up to our decennial review in 2018, if our total return falls short of what is required to support this strategy, we are prepared to accept a reduction in our endowment.

That said, we believe that as a foundation we can take, and benefit from, a long term investor perspective and our investments are weighted towards assets, usually equities, which can be expected to grow their value and the income they generate over time. We do not look to make short term, speculative, gains. Instead we align our interests with those of the companies in which we invest and take our responsibilities as the owner of these assets seriously. We expect to be long term shareholders, sharing the rewards of the success of the companies in which we are invested.

Our experience over the last 30 years underpins our belief that we do not necessarily need to sacrifice financial returns to invest ethically or responsibly, but neither will we allow financial returns to be our sole consideration when making investment decisions.

Investing in enterprises which seek to realise our aims

We aim to invest in sustainable companies which operate with integrity and whose products or services meet the basic needs of people and protect the natural environment on which we all depend.

We wish to invest in companies which offer solutions to problems such as climate change, resource constraints and loss of biodiversity.

We are also prepared to invest in enterprises which aim to generate social and environmental returns in line with our mission and our grantees' work, even if they are not expecting to produce market levels of financial returns.

Avoiding investing activities which conflict with our aims

We avoid companies materially involved in armaments, gambling, tobacco and new generation nuclear power stations, and government bonds issued by states with high military expenditure or oppressive regimes. We avoid extractive industries with poor human rights or environmental practices, and have committed to divest completely from companies whose primary business is the extraction of fossil fuels by 2020.

We recognise that ethics are not always clear-cut and that difficult judgements need to be made. While on some issues a firm position is taken, on others the degree of a company's involvement in a questionable area is taken into account, along with indications of improving practices and positive features of its activities.

Encouraging business to be ethical, socially responsible and to protect the environment

The Trust engages with companies, both directly and through its fund managers, to try to improve practices and may, in the event of on-going concerns, sell its shares and/or change its fund managers.

We are delighted at the growth of responsible investment since we began these practices and are happy to collaborate with other investors, such as our colleagues in the Church Investors Group and Charities Responsible Investors Network. On many issues others with stronger voices than ours will lead the engagement. While collaborative engagement has the advantage of reducing the pressure on our own limited resources, more importantly we appreciate the added impact which group engagement offers.

We are also happy to support organisations working in areas of concern to us including the Institutional Investors Group on Climate Change and the Carbon Disclosure Project.

We wish to continue to lead by example as a responsible investor with the aim of improving corporate governance and social and environmental impacts. We encourage other investors to join us in following best practice as set out in standards such as the UN Principles of Responsible Investment and we have responded to the FRC UK Stewardship Code. We believe this to be in the interest of society at large as well as in our long term financial interest.

How we invest

The majority of our endowment is invested through fund managers who have signed up, and adhere to, to FRC UK Stewardship Code. We recognise the growing expertise on responsible investment within the investment industry and feel that the most effective way to align our investments with our values is to look for fund managers who take a responsible and sustainable investment approach. We believe that the growing band of fund managers who incorporate environmental, social and governance issues into their routine investment processes will invest in companies which are sustainable in the long term and will produce financial rewards which reflect this.

We also appreciate those fund managers who are willing to take into account our engagement objectives through:

1. following up our specific concerns with investee companies
2. taking our/our grantees' engagement ideas forward
3. taking part in collaborative engagement groups which we support.

There are a small number of companies in which we directly invest. We accept that the way we look at these investments is not as a financial analyst/fund manager would do but by building a relationship with the management team over time and familiarising ourselves with the business.

How we measure performance

We take a long term view of performance as is appropriate for our time horizon and above average risk tolerance. We monitor the market value of our fund holdings and other securities using returns over a rolling three year period. We are not concerned about short term market volatility and so use a rolling three year period to smooth out such movements.

We chart market values against a projection of the desired portfolio value needed to maintain expenditure in real terms. Where market values deviate too far above or below the desired level a review of investment or spending plans may be triggered. We try to keep alert to possible paradigm changes, which could undermine the concepts on which our strategy is based.

We measure the performance of our managers against bespoke benchmarks and where screening has a material impact will run a concurrent screened benchmark. On an annual basis we look at the aggregate performance of the managers, compare their performance against each other and from time to time will monitor how comparative endowments are performing.

We measure performance post fees and ask our managers to provide performance data that is annualised, post fees and in sterling, where fees are measured as a total expense ratio.

How we deal with risk

We take a holistic view of risk, both measuring risk within portfolios, of the whole portfolio at an aggregate level and most importantly ensuring we know our managers and understand our investments. We manage risk in a number of ways:

- we are comfortable with the level of risk inherent in equity markets and run a predominantly equity based portfolio
- although our endowment is primarily invested equities, it is diversified with the aim of avoiding over-dependence on individual companies, industry sectors or geographical market
- we encourage our managers to take active risk and deviate from the benchmark as we believe this is how good managers can enhance performance
- we avoid speculative and opaque investments and other investments that we do not understand
- all fund managers are expected to submit an annual AAF 01/06 which is subject to internal review
- our main portfolio is split over a number of different fund managers with different styles
- we meet regularly with, and receive reports from, our fund managers and have robust procedures in place for monitoring their financial and non-financial performance, including engagement
- our fund managers and directly managed investments are kept under regular review
- we aim to maintain sufficient liquidity to meet our commitments to grantees, staff and creditors for two years ahead to reduce the likelihood of being a forced seller of equities
- we employ the services of an independent investment advisor and an independent performance measuring agency. We also ensure that individuals with relevant expertise serve on our Investment Committee.

Transparency

We report on our investment activities in a number of ways:

- our investment strategy is published on our website www.jrct.org.uk
- our investment performance, both financial and non-financial, including for example, our engagement activities over the course of the last year, are included in our annual report which is published on our website
- information on our holdings is published on our website
- we expect all our fund managers to disclose their policy on voting on their website and we encourage them to publically disclose their voting record. Voting information on those share holdings which trustees directly manage themselves is available on request
- our response to the FRC UK Stewardship Code is published on our website.

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