

## Investment strategy

### Aim and objectives

We are a Quaker trust, which supports people who address the root causes of conflict and injustice. This support is primarily provided through funding applied for by applicants. However, our investments, and our behaviour as an investor and that of our fund managers, also 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, following our decennial review in 2018, we agreed to significantly increase our expenditure for the next ten years to £11.7m, uplifted each year by inflation. We believe that this still gives us a reasonable chance of maintaining the real value of our endowment. However, if our total return falls short of what is required to support this strategy, we are prepared to accept a reduction in the size of 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 has shown that investing ethically, responsibly and sustainably over the long term enhances returns. Even if this was not the case over the short term we would still not allow financial returns to be our sole concern 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, on occasion, to invest in programme related investments and mixed motive investments 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 do not invest in companies whose primary business is the extraction of fossil fuels

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.

We do not invest directly in companies which are profiting from the illegal occupation of Palestine.

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.

To assist our fund managers in understanding our engagement priorities, we occasionally produce publicly available statements outlining our expectations of our fund managers when engaging with companies on certain topics such as a corporate tax or in certain sectors such as the technology sector. We encourage other asset owners to use these statements when engaging with their own investment managers to share best practice.

We recognise that collaborative engagement can often be more effective than engaging alone. We are therefore happy to collaborate with other investors, such with our colleagues in the Church Investors Group and through the Principles for Responsible Investment (PRI)'s Collaboration Platform. Collaborative engagement has the advantage of improving the efficiency of engagement programmes for all participants by sharing best practice, pooling resources and leveraging a greater shareholder base to effect change.

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

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 PRI and we have responded to the Financial Reporting Council (FRC)'s 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 to, and adhere to, the PRI and FRC UK Stewardship Code. We look for fund managers who integrate environmental, social and governance (ESG) issues into their routine investment processes. In selecting our fund managers we are careful to differentiate between the growing band of investment managers who claim integration but whose investment practice does not rely on it and those for whom such integration forms the basis of their investment approach and is a key driver of investment returns.

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 initiatives 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 over the long term against an estimate of the real value of the portfolio. Where market values deviate too far above or below this estimate, 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 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 periodically review how comfortable we are with the level of risk inherent in equity markets given that we 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
- 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 one year 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 appoint co-opted members to Investment Committee to ensure that individuals with relevant expertise serve on it
- at least once a year our Operations and Finance Committee review the operational risks around our investments at a granular level to ensure that they are properly managed.

## Transparency

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

- our investment strategy, engagement policy, voting policy and statements of our expectations of our fund managers are published on our website [www.jrct.org.uk](http://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 shareholdings which trustees directly manage themselves is available on request
- all outcomes from our annual reporting to PRI are made publicly available through the PRI website [www.unpri.org](http://www.unpri.org)
- our response to the FRC UK Stewardship Code is published on our website.

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