Introduction

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. In particular, we try to avoid investing in corporations whose activities conflict with our aims and seek to encourage businesses to be ethical, socially responsible and to protect the environment.

Recognising the challenges and opportunities presented by climate change, we have acknowledged the need to identify and understand the carbon impact of our investments. To this end, we were one of the first organisations to sign up to the Montreal Carbon Pledge, committing to measure and disclose the carbon footprint of our investments annually.

The overwhelming majority of our investments are externally managed by carefully selected fund managers who run responsible and sustainable funds and invest in sustainable companies which operate with integrity and whose products or services meet the basic needs of people and protect the natural environment. We expect our managers to reflect climate change considerations in their investment choices, and to engage with investee companies and vote our shares in a way which reflects our concern about climate change.

To the extent that they are already measuring the carbon impact of the funds in which we are invested, we do not seek to replicate their work and are happy to rely on their findings. However, because our fund managers carry out their individual assessments on different dates using different methodologies and benchmarks, we recognise that this opens up the possibility of inconsistencies creeping into the measurement of our portfolio carbon footprint as a whole.

We acknowledge that measuring the carbon footprint of a portfolio only tells one side of the story. For example, it may be that while some activities may have a relatively high carbon impact, improvements may be being made to reduce this impact over time or they may be substituting for even higher carbon impact activities. In reviewing our fund managers’ carbon footprint, we look at the whole picture and do not judge them solely on this measure.

Reported outcomes

As at 31 December 2018, 99% of our non-cash portfolio was externally managed. Of those funds in which we were invested in at the end of 2018, the split was:

- 60% overseas equity funds
32% UK equity funds
• 8% thematic fund.

We are pleased to report that all of our fund managers have reported to us on the carbon footprint of the funds in which we are invested over the last year. All of our funds which report against a benchmark significantly outperformed their benchmark in this respect.

The carbon footprint of one of the three global equity funds in which we are invested was independently measured by Trucost as at 24 September 2018. It outperformed its benchmark, the MSCI All Country World Index, with its carbon footprint equating to 32% of that of its benchmark.

The carbon footprint of the other two global equity funds in which we are invested were independently measured by MSCI ESG Research (UK) as at 30 September 2018. One outperformed its benchmark, the MSCI All Country Asia Pacific ex Japan, with its carbon footprint equating to 13.9% of that of its benchmark, and the other outperformed its benchmark, the MSCI All Country World Index, with its carbon footprint equating to 18.1% of that of its benchmark.

The carbon footprint of one of the two UK equity funds in which we are invested in was measured by MSCI Carbon PortfolioAnalytics reported as at 28 January 2019 and outperformed its benchmark, MSCI UK Index with its carbon footprint equating to 32.5% of that of its benchmark.

The carbon footprint of the other UK equity fund in which we are invested was calculated using data from MSCI’s Carbon Portfolio Analytics and Carbon Footprint Calculators as at 30 October 2018. It outperformed its benchmark, the FTSE All Share Index, with its carbon footprint equating to 41% of that of its benchmark.

The two thematic funds in which we were invested in the year and in which we continue to be invested do not measure their carbon footprint against benchmark. However, they were able to demonstrate that in 2018 a US$10 million investment in the two funds had produced a net carbon reduction of 5,800 and 5,590 tonnes of CO2 emissions respectively.

**Conclusion**

We are delighted by the impressive results reported by all our fund managers.

We recognise that part of this outperformance arose because it is not in the nature of sustainable fund managers to invest in fossil fuel and similar, carbon intensive, industries despite the presence of such companies in the benchmark indices.

However, it is also clear from our conversations with our fund managers that their strong commitment to long term sustainable growth plays out in positive ways as well, for example through their investment in companies which are developing the low carbon solutions of the future.
Going forward we would welcome more consistency around reporting although, as previously stated, we do appreciate that the current carbon footprint of a company or a fund is only one measure of their carbon performance. We also look forward to much wider reporting on carbon impact throughout the fund management industry.

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