



Annual Review

For the year ended **30 September 2022**

Friends Provident Charitable Foundation

(A Company Limited By Guarantee)

Charity No: 1087053

Company No: 04228843





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Friends Provident Charitable Foundation

Report of the trustees - year ended 30 September 2022

Charity Name Friends Provident Charitable Foundation	Other names by which the charity is known Friends Provident Foundation	Charity Number 1087053 (England & Wales)	Company Number 04228843 (England & Wales)
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Registered address

Blake House, 18 Blake Street
York YO1 8QG

Board of trustees

Members

Abraham Baldry
Paul Dickinson
Ann Don Bosco
Joanna Elson (Vice-chair)
Kathleen Kelly
Priya Lukka (until 30th Sept 2022)
Stephanie Maier
Stephen Muers (Chair)
Aphra Sklair

Key management personnel

Foundation Director

Danielle Walker Palmour

Investment Engagement Manager

Colin Baines

Grants Manager

Abigail Gibson

Finance and Operations Manager

Kate Kendall

Communications Manager

Jake Furby

Reference and administration information

Principal advisors

Principal Bankers

CAF BANK Limited
PO Box 289
Kent
ME19 4TA

Auditor

Buzzacott LLP
130 Wood Street
London
EC2V 6DL

Investment Advisor

Peter Jones, Independent Advisor

Solicitors

Wrigley's Solicitors LLP
19 Cookridge Street
Leeds
LS2 3AG

Investment Managers

BMO Asset Management
55 Baker Street
London
W1U 7EU

Snowball Impact Management
5th Floor, Mitre House
44-46 Fleet Street
London
EC4Y 1BP

Chair's introduction

This is the second year in which I have had the privilege of introducing the Foundation's annual review and reflecting on what the organisation has achieved over the past year.

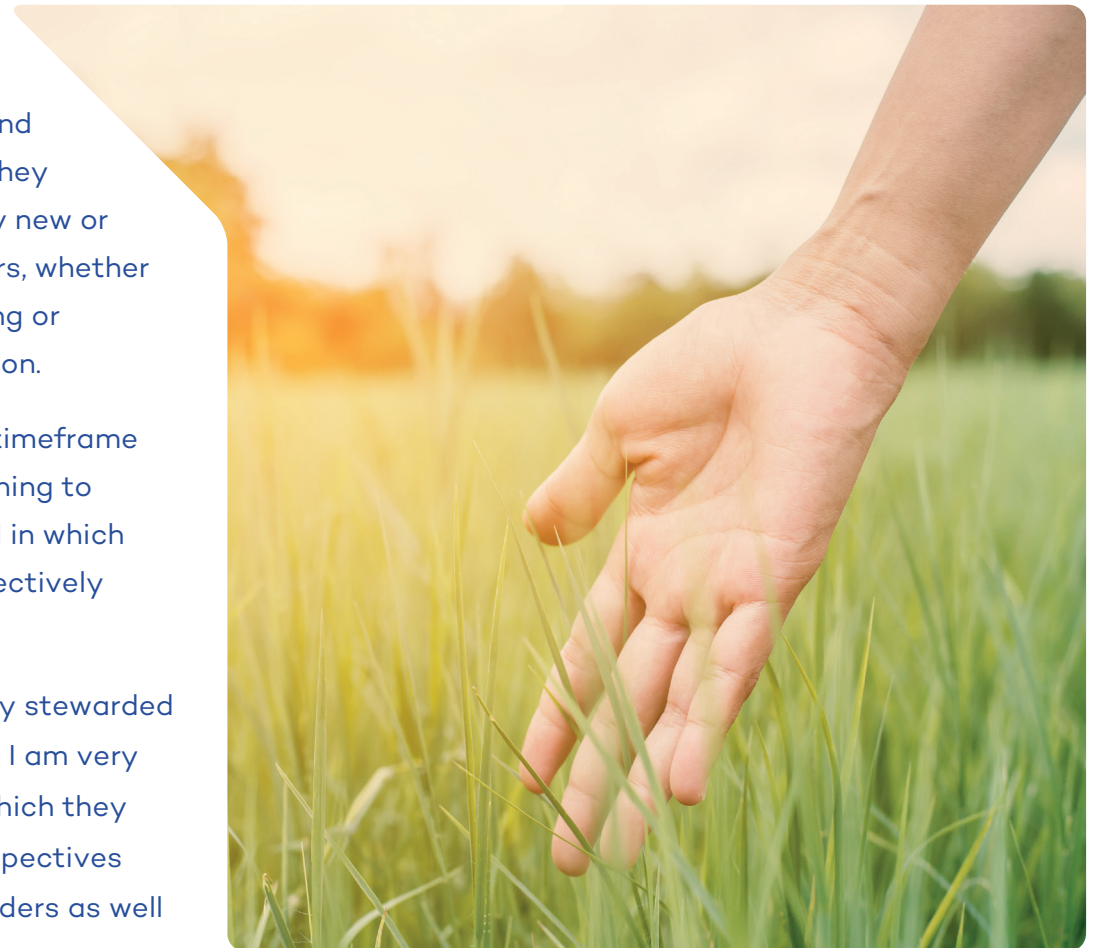
Although the impact of the Covid-19 pandemic has now lessened, the environment for achieving our mission of building a fairer and more sustainable economy is even more challenging. Sharply rising inflation and interest rates have the biggest impact on those with the most limited resources and in the most precarious economic position. Building a system that promotes fairness is more important than ever.

This remains central to the Foundation's work, and is the main theme of this year's annual report. The most significant activity the Foundation undertook this year was reviewing and changing our main grants programme. We took a detailed look at particular aspects

of the projects we fund, such as the balance between large and small projects, whether they were being conducted by new or more established partners, whether they were for core funding or specific projects, and so on.

We also considered the timeframe over which we were planning to spend our resources, and in which areas we could most effectively work with partners.

This process was expertly stewarded by our Grants Team, and I am very grateful for the way in which they managed to draw in perspectives from all our key stakeholders as well as the trustees.



The outcome was that we were able to re-launch our grants programme in the summer of 2022 with three clear pillars where we think we can make the biggest contribution:

- **Building a strong and diverse movement to explore new economic thinking;**
- **Supporting a fair transition to a new economic model that is decarbonised, democratised, decentralised and diversified – a ‘4D economy’; and,**
- **Transforming society’s financial systems using models that will support a fairer economy.**

The third pillar is closely linked to another key area of our work – how we act as an investor to bring about change. This relates to our direct social investments, and also to how we invest our endowment and use it to push for change at a system level. I am very grateful to Colin Baines, who has led this work for the Foundation for the last six years but is now sadly moving on. It has been a very active and productive year for the Foundation’s investment, with highlights

including investing in community energy pioneer Energy Garden, increasing our allocation to award-winning impact fund Snowball, and working with Royal London Asset Management to persuade major energy companies to publish clear plans around the necessity for a just transition to a low-carbon future.

Amid the changes we have made to our grants programme, we continued to back exciting new initiatives that promote our overall goal of fairness. To highlight just two, we are funding the Institute of Public Policy Research’s work on what a fair tax system for the UK would look like, and Medact’s work to enable health workers to run local campaigns around fair access to housing.

Finally, I would like to thank the Foundation’s staff, trustees and partners for their commitment, solidarity and achievements over the last year. Particular thanks go to Priya Lukka, who steps down as a trustee, for her extremely valuable contribution to the Foundation’s work.

Stephen Muers - October 2022

**Building a system
that promotes
fairness is more
important
than ever**



Our purpose

Friends Provident Foundation is an independent charity that makes grants and uses its endowment towards a fair and sustainable economic system that serves people and planet.

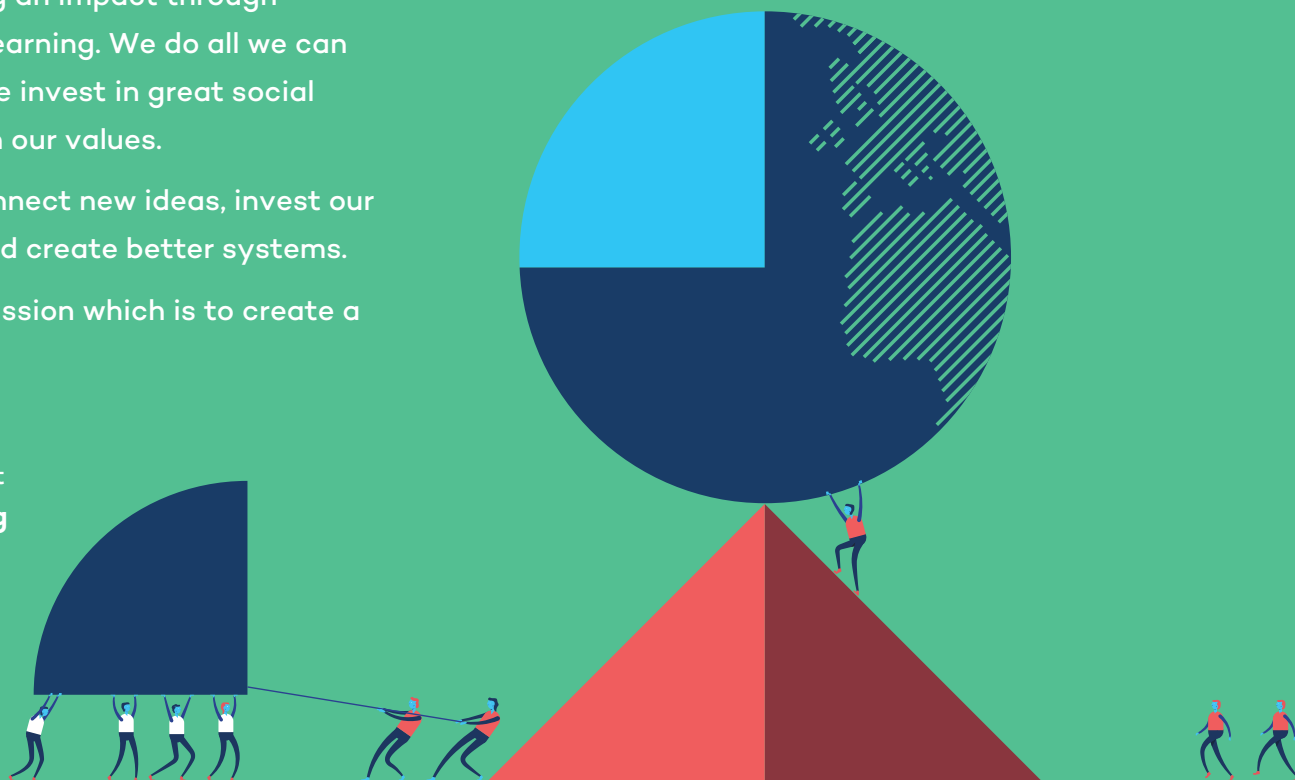
We connect, fund, support and invest in new thinking to shape a future economy that works for all. This annual report has been written in the current context of the cost-of-living crisis, rising inflation and a pending recession that makes the creation of a fair economy more imperative.

We're a catalyst for wider change, making an impact through continuous experimentation and shared learning. We do all we can to embody the change we want to see. We invest in great social enterprises and use our money in line with our values.

We will continue to fund new thinking, connect new ideas, invest our capital in line with our aims and values and create better systems.

This annual report focuses on our main mission which is to create a fair and sustainable economy.

For more information go to our website at www.friendsprovidentfoundation.org



What we set out to achieve this year

Trustees set the Foundation these objectives for 2021–22:

1. To reduce the rate of spend to approximately £2m per annum over the course of the financial year, in order to ensure we can honour existing commitments.

Reflections

We achieved this goal alongside the wider strategy review. Our hope is that maintaining our capital base will ensure we are able to support the sector for longer. Additionally, we commissioned Collective Discovery to hold engagement exercises with our grantholders and they helped us to set priorities for the re-shaped programme.

2. To learn from our activity through the LearningStrategy, which will be given further impetus in 2021-22.

Reflections

We consulted key stakeholders to help us shape our new strategy. We are also members of learning networks such as the Institute for Voluntary Action Research (IVAR)'s Open and Trusting Funders, the Grant Givers' Movement, Charities Responsible Investment Network and the Social Impact Investors Group. We initiated the Foundation Practice Rating, which assesses foundations' actions in order to incentivise better practice in key areas of diversity, accountability and transparency. These have all informed improvements we have made to the way we work. We will continue to progress with this next year, embedding learning from the start in the development of our revised strategy.





3. To fully review and implement new human resources policies and procedures.

Reflections

This was partially achieved with the establishment of a new HR system; we are working toward full implementation in 2022-23.

4. To develop a programme of work to increase investment engagement/ impact investment capacity.

Reflections

This objective was fully achieved, with an expansion of our investment capacity in 2022-23. We also held an Investment Conference to bring like-minded people together to explore how to start, progress and implement meaningful change.

5. To develop communications as a strategic tool. This could be expanded in the following directions:

- i. Capacity building the foundations' communications sector in key areas such as equity and inclusion.
- ii. Collaborative working.
- iii. Investment engagement.

Reflections

This was fully achieved. A new strategy was agreed by trustees that ensured greater integration of communications in our approach to change, through the framing of the 4D economy, and we expanded our use of social media.

6. To revise the Foundation's Theory of Change and develop related metrics for the strategy refresh from June 2022.

Reflections

This was not completed this year due to a lack of staff capacity, although work on an approach to metrics was included in the strategy refresh.

Our activities this year

The 4D Economy

Friends Provident Foundation's mission remains the pursuit of a fair and sustainable economy, but this year we have clarified our vision of such an economy. Our revised strategy is shaped around the concept of a '4D economy' that will:

Decarbonise the economy to tackle climate change, keep global warming below 1.5 degrees Celsius and ensure a planet that is habitable for future generations, ensuring that this transition to a low-carbon future is fair and equitable.

Decentralise the economy to build a fair and sustainable system where people can create and retain value locally and focus on the well-being of their community.

Democratise the economy to ensure communities and workers have power, ownership and control of the assets and businesses that sit at the heart of society.

Diversify the economy to address social and economic injustices.

Ensuring that this transition to a low-carbon future is fair and equitable.



Below are some examples of projects that have contributed toward a 4D economy this year through our grants and investments.



Decarbonise

Ethical Consumer Research Association Ltd have developed a five star, points-based rating system for comparing funds based on their commitment to tackling climate change.



Decentralise

Community Energy Association (England) Ltd are developing the kinds of support they provide to an increasingly diverse sector in order to play a stronger facilitative and coordinating role. They want to ensure that learning is shared effectively, duplication of effort reduced and sector capacity and skills are increased.



Democratise

Balanced Economy are establishing an expert hub of anti-monopoly knowledge, analysis and activism to change how to tackle excessive corporate power.



Diversify

ShareAction aims to increase the number of businesses reporting ethnicity pay gap data and ultimately influence the UK government.

Strategy

The current economic system produces and reproduces inequality and environmental degradation and undermines responsible business behaviours and positive social interactions. It needn't be this way.

Following this year's strategic review, we have reframed our work to support the creation of a fair economy. Our new approach features a more explicit impact framework built around the 4D economy:



Decarbonise

The economy is structured to facilitate sustainable activity that is framed within a move from carbon dependency.



Decentralised

Economic processes that disperse wealth, risk, capital and power across geographies, sectors and demographics.



Democratised

Economic structures that support people's participation in economic institutions and in shaping how the economy works.



Diversity

An economy that values and embodies diversity of thought and characteristics, informed by a strong inclusive and diverse movement.

Through our grants and investment work we aim to:

- support a wider range of organisations to engage in the global movement for economic change;
- support the transition to a 4D economy;
- fund research that is focused on informing financial systems to be more responsive to the needs of society.

A review of grants made in 2021/22

This year has been one of both continuity and change for our grants programme.

Midway through the year we paused our application process to allow time to work on our new strategy and related grant-giving programme. The grants programme closed for new applications in January and re-opened on 31 August 2022.

During this time, we reviewed the Foundation's programme against best practice in the sector and in consultation with our partners and grantholders. We received valuable feedback and have integrated this into our new programme. The consultation with grantholders was undertaken for us by an external consultancy – Collective Discovery – and their report can be found on our website.

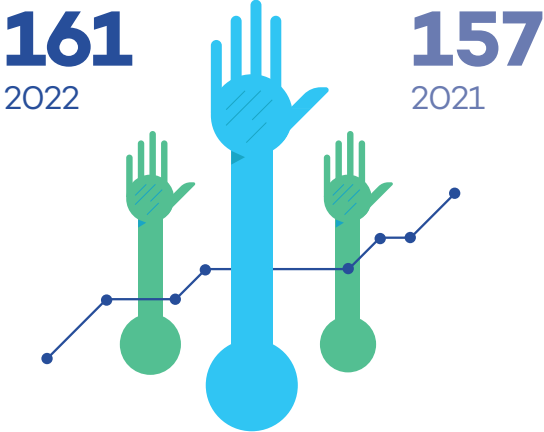
The strategy section above outlines the changes we've made in what we are trying to do, but the feedback process also highlighted areas where we could make improvements to how the Foundation operates. These include: moving from payment in arrears to paying in advance; easier access to grants staff for prospective

applicants (including open access to the grants diary to book in face-to-face meetings); and clearer and more directive communication of the Foundation's reporting and learning requirements.

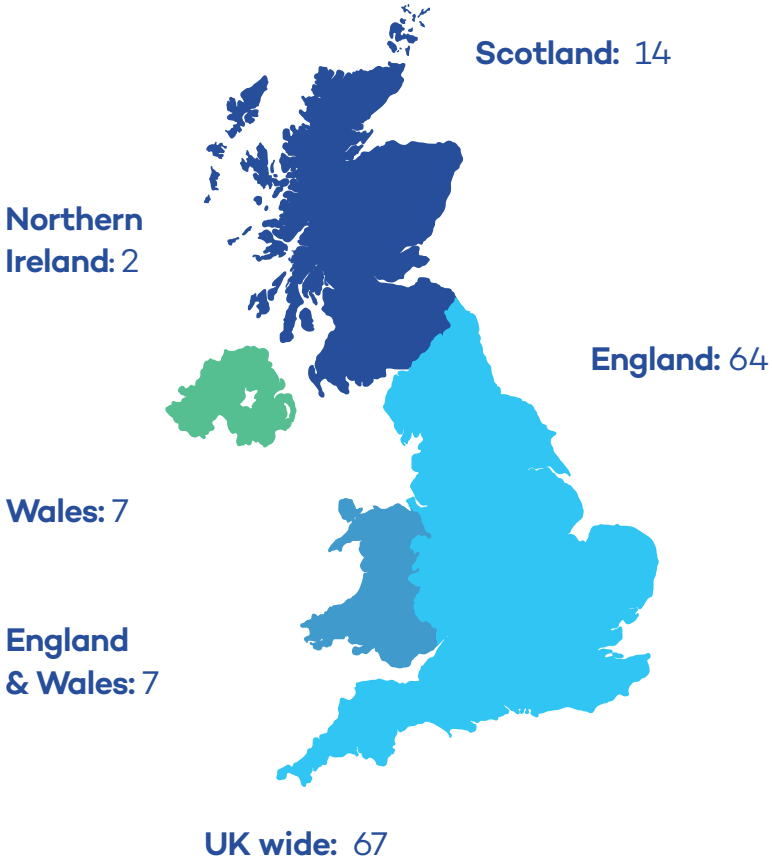
We also put in place new systems to allow us to record and report against the diversity, equity and inclusion (DEI) Data Standard, a framework to categorize organizations either led by, or targeting and supporting, groups experiencing structural inequity. This will enable us to be more transparent about who applies to us for funding and who accesses it, and supports our commitment to being accountable, transparent and welcoming of diverse groups and perspectives. We will report on this in the 2022-23 annual report.

Stage One Applications

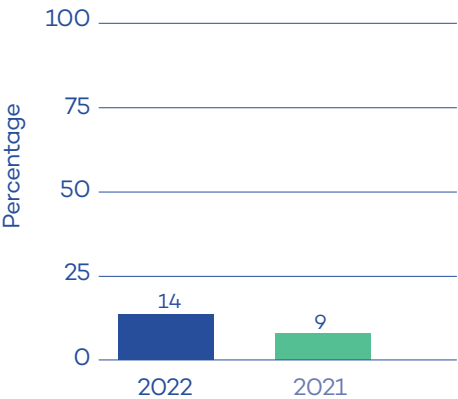
Applications submitted



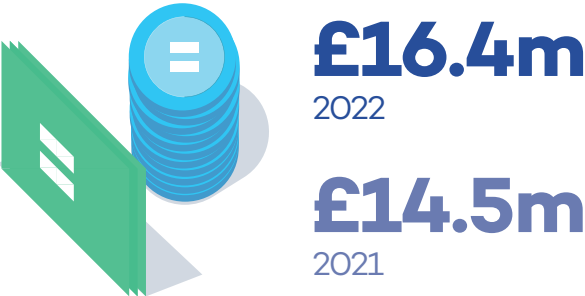
Geographic distribution



Average success rate

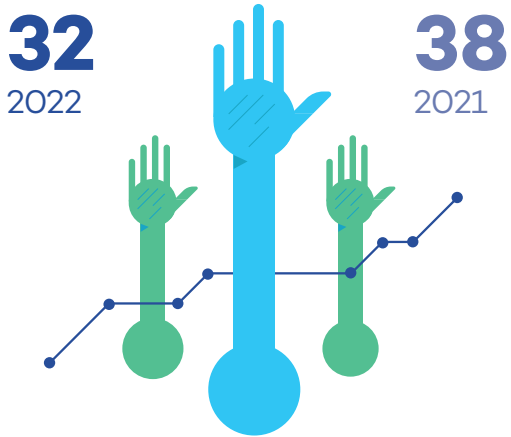


Value of applications

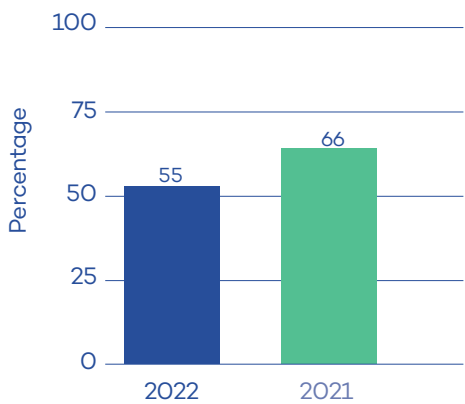


Stage Two Applications

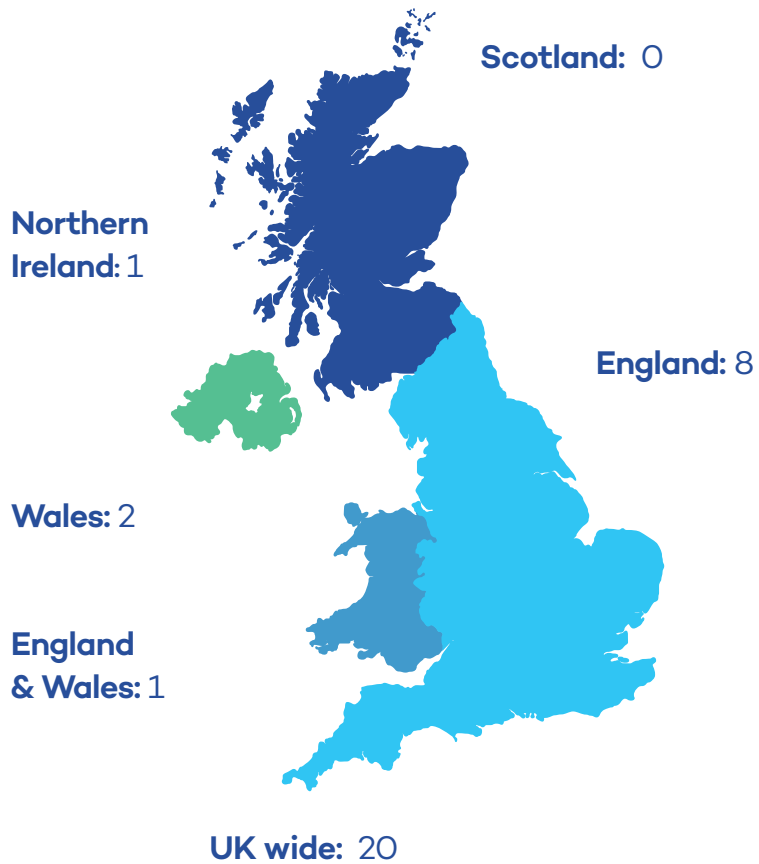
Applications granted



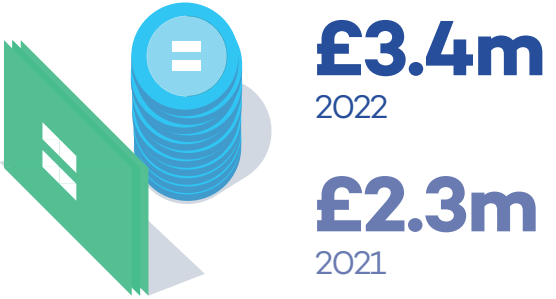
Average success rate



Geographic distribution

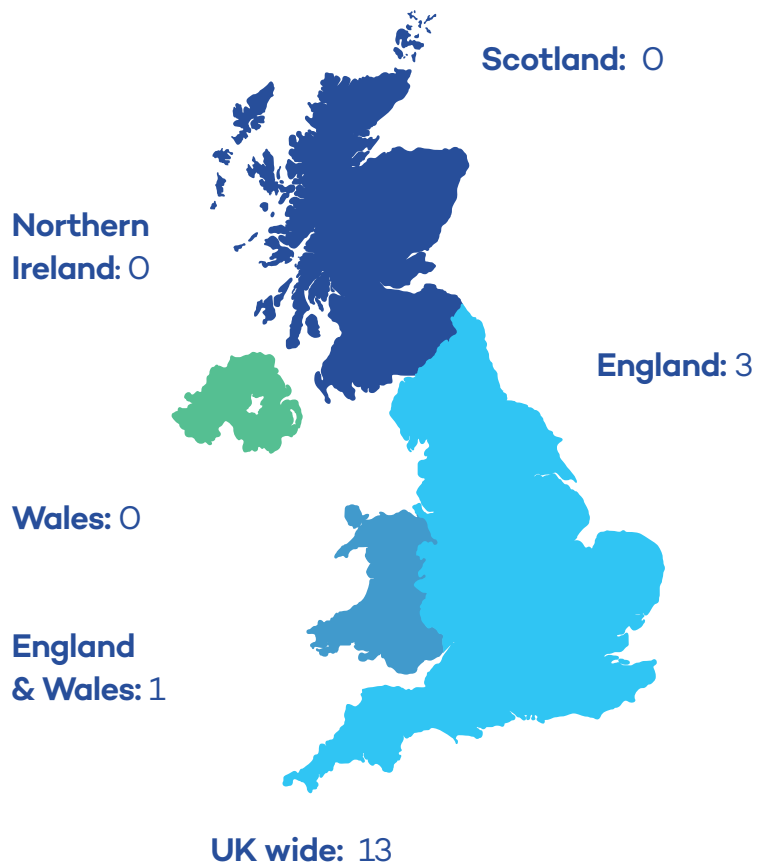


Value of applications



Unrestricted funding

Geographic distribution



	2022	2021
New Unrestricted	0	2
Applied before	3	5
Total	3	7

We consider unrestricted (or core) multi-year funding to be a vital type of support, allowing organisations to focus their energies on strengthening and developing themselves and their services, and the flexibility to adapt and innovate as circumstances dictate.

Currently, 36% of the value of our funding portfolio comprises unrestricted grants.

At the end of 2022 we had 71 live grants, worth a total of £9.08m.

New grants - projects



Balanced Economy Project

Tackling monopoly power. Balanced Economy are establishing an expert hub of anti-monopoly knowledge, analysis and activism to 'change the weather' on how to tackle excessive corporate power.

Amount awarded:
£80,000



Community Energy Association (England) Ltd.

Nurturing resilience and accelerating growth in the community energy sector. Community Energy Association (England) Ltd will support a diverse sector and increase sector capacity and skills.

Amount awarded:
£100,000



Decolonising Economics

Building an economic democracy rooted in racial justice and social equity. Decolonising Economics will offer strategic analysis, educational frameworks and creative exploration to increase Black and People of Colour perspectives to system-change.

Amount awarded:
£75,000



Ethical Consumer Research Association Ltd (ECRA)

Fossil-free investment fund ratings system. ECRA will develop a five star, points-based rating system for comparing funds based on their commitment to tackling climate change.

Amount awarded:
£25,500

New grants – projects

ShareAction»

Fairshare Educational Foundation (operating as ShareAction)

Ethnicity pay gap reporting. ShareAction aim to increase the number of businesses reporting ethnicity data, and ultimately influence the UK government, to make it a statutory requirement for businesses to report on this (similar to the gender pay gap).

Amount awarded:
£122,000

FEEDBACK

Global Feedback Ltd.

Seeing reparations: Addressing British agribusiness corporations' destruction of nature & communities. Global Feedback Ltd aims to address the former British Empire's legacy in creating the current destructive food system and establish a framework to attribute current and historical damages.

Amount awarded:
£100,000



Institute for Public Policy Research (IPPR)

Fair tax now: Shaping the post-pandemic debate for progressive taxation reform. The IPPR aims to shape a consensus and wider public debate about taxation reform to deliver economic and environmental justice.

Amount awarded:
£110,000



King's College London

Citizens' assembly on national debt. A 100-person citizens' assembly will be created, dedicated to understanding national finances and voting on alternative policies

Amount awarded:
£85,802

New grants - projects



London School of Economics and Political Science

Financing the Just Transition 2.0: Moving to implementation. This project aims to support system-level innovation that enables investors and the financial sector to deliver a just transition to a low-carbon future in the UK.

Amount awarded:
£85,000



New Economics Foundation (NEF)

Developing regional economies. Four leading new economic organisations (NEF, Cooperatives UK, Centre for Local Economic Strategies and Centre for Thriving Places) are working with three combined authorities, local partners and community groups to co-produce regional plans based on well-being outcomes.

Amount awarded:
£200,000



Power To Change

Community power group. The creation of a consortium of individuals and organisations with an interest in community power.

Amount awarded:
£5,000



Solidarity Economy Association

Solidarity Economy Organisers' Network (SEON). The Solidarity Economy Association aims to empower local and national organisations and build a collaboration between disparate groups.

Amount awarded:
£86,028

New grants - projects



Students Organising for Sustainability (SOS)

Invest for change: Universities leading a transformational shift in responsible investment practices. SOS will seek to mobilise students and university influence to drive transformative change in the finance sector that supports sustainability.

Amount awarded:
£150,000



The 10:10 Foundation

Riding Sunbeams. A new strategy will be developed for Riding Sunbeams, an organization that aims to decarbonise rail traction networks.

Amount awarded:
£100,000



The Class Work Project

Building the Class Work Project: A working-class co-op for social, cultural, and economic system. This project aims to centre the leadership and knowledge of poor and working-class people in creating a fair economic system.

Amount awarded:
£88,800



The William and Flora Hewlett Foundation

New Economic Paradigm Funders' Group. Funding to support the costs of consultant Parker Blackman to coordinate meetings of the New Economic Paradigm Group, of which FPF is a member.

Amount awarded:
£10,000

New grants - core



**Centre for Local
Economic Strategies**

Amount awarded:
£94,500



**Institute for
Welsh Affairs**

Amount awarded:
£100,000



PositiveMoney

**Positive
Money**

Amount awarded:
£150,000

Inflationary grant increases

In recognition of the growing cost of living and the impact of this on our grantholders we offered all grantholders a cost-of-living increase in April 2022. The following grant uplifts were made in response to this: Carbon Coop (£3,539), Jubilee Scotland (£2,366), Rethinking Economics (£3,598), Stir to Action (£4,200), Tax Justice UK (£2,170), Trade Justice Movement (£5,000), Wessex Community Assets (£3,325), Women's Budget Group (£7,959), Economy (£10,000), Medact (£7,556), New Economy Organisers' Network (NEON) (£9,941.46), and CLES (£4,500).



Other grant increases

Grant increases were requested and granted to the following grantholders over the course of the year:

- Finance Innovation Lab (core funding): £50,000.
- Wellbeing Economy Alliance Scotland (project funding): £33,750.

Review of investment activity in 2021-22

How we use our endowment

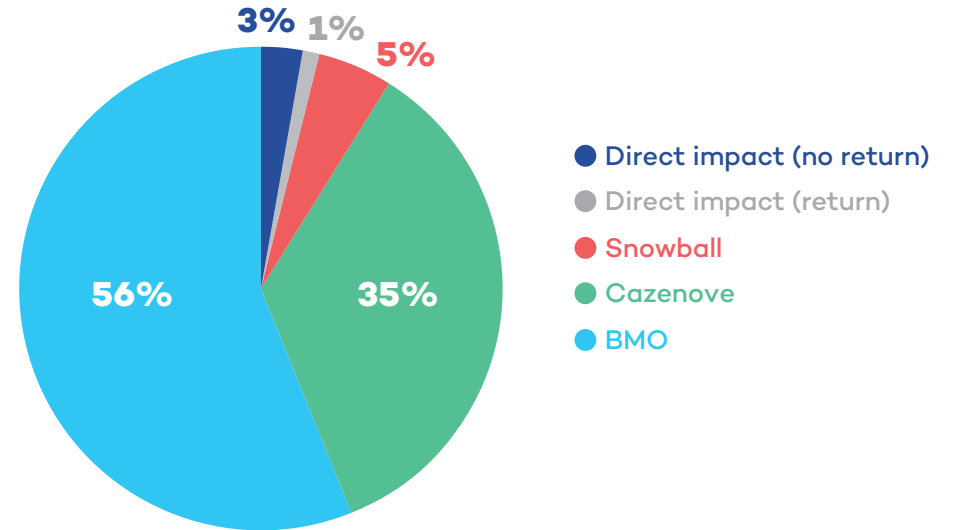
We take an integrated approach to our mission and capital base and use our endowment as a tool for change, including through social investments and asset manager and shareholder engagement.

In June 2022, trustees approved a new target investment portfolio and transition plan as part of the Foundation's strategy review. The target investment portfolio increases our allocation to impact investing from 10% of the endowment to 33%.

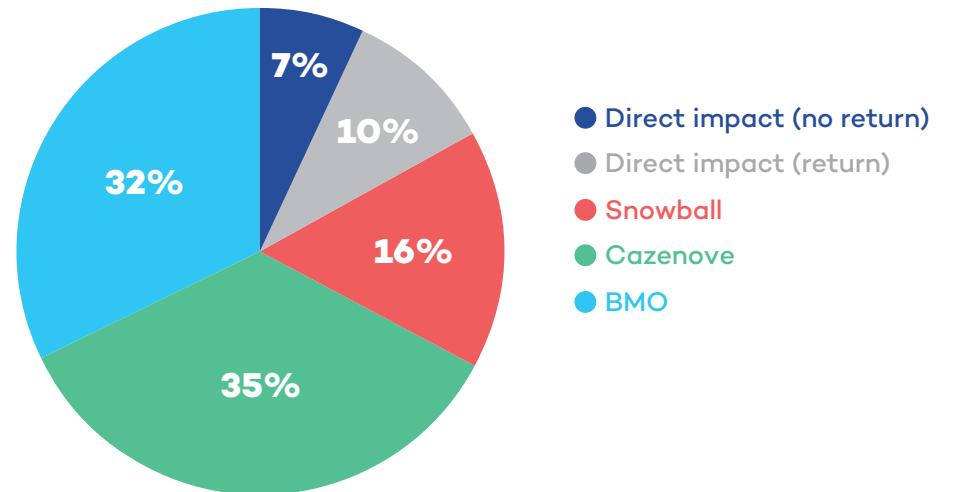
We estimate the target portfolio will take until 2026 to achieve and estimate a financial return foregone of 0.46%. The Investment Committee will regularly review and monitor progress, income and risk.

We focus our engagement and social investing efforts on strategic themes to underpin and focus our proactive work, drawn from what we have learned from or key developments in our programme areas.

Current portfolio



Target portfolio (estimated 2026)



Shareholder engagement

Just Transition - The Foundation has partnered with Royal London Asset Management to engage energy utility companies on the trends transforming the power sector and to secure a just transition to a low-carbon future. This programme of engagement has informed and been informed by recommendations from the grant funded London School of Economics Grantham Research Institute 'Financing a Just Transition' programme.

We proposed that the companies develop formal 'just transition' strategies that mitigate negative social impacts and embrace opportunities. In response, SSE plc published the world's first formal just transition strategy in November 2020. Following further engagement, Eon, Centrica, EDF and Scottish Power published formal strategies by our deadline of COP26 in November 2021.

Real Living Wage - Along with 10 other members of the ShareAction-led Good Work Coalition, we co-filed a shareholder resolution at Sainsbury's AGM calling for Living Wage accreditation. This was the first ever such shareholder resolution.

Sainsbury's responded to the resolution by agreeing to increase pay to the Real Living Wage (RLW) for its 19,000 direct employees currently paid below it. The investor coalition declined to withdraw the resolution as Sainsbury's would not agree to accreditation or extend RLW to outsourced employees. 17% of shareholders voted in support at the AGM in July 2022.

See the section 'Climate Emergency Declaration: Annual Statement' (page XX-XX) for further examples of shareholder engagement.



Direct shareholdings

In addition to investing in energy utility companies via our pooled fund investments, the Foundation buys direct shareholdings in companies we wish to influence as part of our thematic priorities. Current direct shareholdings include Centrica, Iberdrola, RWE, SSE, EDF, Drax Group, HSBC, Standard Chartered and Sainsbury's.

Social investments



Snowball Impact Management Ltd

In 2017 the Foundation became the third partner to join Snowball, a ground-breaking multi-asset impact investment fund. Snowball applies a social and environmental impact lens to all its investment analysis, reporting and decision-making. The purpose of Snowball Impact Management, as embedded in its articles, is to 'change behaviours in capital markets so that all capital is invested for social and environmental as well as financial returns'.



Riding Sunbeams Apollo Ltd

A joint venture between Community Energy South, the climate charity Possible, Thrive Renewables and the Foundation. It seeks to decarbonise the transport system by developing community owned renewable energy assets and using the electricity generated to power trains and other forms of transport. The Foundation invested £199,960 in 2020 for equity.



Egni Solar Co-op

Installing up to 5MW of rooftop solar on over 200 sites across Wales, including council buildings, university campuses, primary schools, community centres, breweries and sports clubs. The Foundation invested £100,000 in a community share offer in September 2019.

Social investments



Awel Wind Co-op

A 4.7MW two wind turbine project that is wholly owned and controlled by, and benefits, the local community. The Foundation invested £100,000 in a community share offer in March 2017. Capital of £5,000 has since been repaid.



Energy Garden Ltd

A community benefit society raising funds to develop and acquire solar PV arrays. The income generated will be used to transform London Overground platforms and stations into community gardens and food growing plots and to support volunteers and youth training. The Foundation committed to invest £100,000 in a community share offer in November 2022.

PEOPLE POWERED RETROFIT

People Powered Retrofit

Formed, following a pilot funded by BEIS and a Foundation grant to Carbon Co-op. Its purpose is to develop and deliver domestic energy efficiency, energy management and renewable energy generation services in Greater Manchester and beyond, to advocate for citizen involvement in the energy system and support the dissemination of models. The Foundation invested £40,000 in a community share offer in November 2021.

Social investments



Wyre Catchment CIC

A pioneering nature-based solution involving land-use change on up to twelve farms and estates in the upper Wyre catchment in Lancashire. It involves tree planting, restoration of wetlands and re-wetting of peatland, with ecosystem services including flood prevention, carbon sequestration and biodiversity, plus local and downstream economic benefits, including much reduced flood risk. The Foundation is committed to an investment of £90,000 in a nine-year loan via Triodos Bank. The first tranche of £27,000 was paid in September 2022.



Stichting Equileap Foundation

A Dutch-based foundation that established Equileap Information Services as a way of addressing gender equality through gender lens investing. Equileap aims to accelerate progress towards gender equality in the workplace as a powerful lever in tackling inequality. We were delighted that Equileap was successful in attracting new investors to support their further growth and they repaid our 2019 investment of £100,000.



Ethex

A non-profit ethical investment club, which has both ethical investors and ethical businesses as members. Through collaboration and the pooling of resources, it aims to promote and encourage businesses that have both social and commercial goals. The Foundation invested £50,000 in 2013, structured as a loan. £10,000 has since been repaid but a further loan note for £17,000 was issued in January 2022, following a restructure.


The Foundation's mainstream investments

Trustees take into account the Foundation's cash flow requirements, potential investment funds, the cost of fund management and their decision to invest ethically when they decide where to invest the Foundation's portfolio.

It is currently invested in a range of funds managed by Columbia Threadneedle Investments: CT Responsible Global Equity Fund, CT Responsible UK Equity Fund and CT Responsible Sterling Corporate Bond Fund, and in the Cazenove Capital Sustainable Growth Fund. In addition, funds held in Snowball Impact Investment LP have been reclassified as mainstream investments, having been included within social investments previously.

As part of the transition plan to the new target portfolio, we doubled our investment in the Snowball fund to £3m in October 2022 and entered into an agreement to invest a further £1m for every new £10m of investment Snowball raises until the Foundation's investment in the fund totals £5m.

The Foundation maintains a facility to deposit cash it does not immediately require for operational purposes with Triodos Bank NV, thereby seeking to ensure the ethical management of the Foundation's cash as well as its investments.



Seeking to ensure the ethical management of the Foundation's cash as well as its investments.

Top 20

company investments in our
Columbia Threadneedle Investments
funds at September 2022

- Apple
- Linde
- Thermo Fisher Scientific
- Accenture
- Humana
- Mastercard
- Roper Technologies
- CVS Health
- Autodesk
- Scheider Electric
- Mettler-Toldeo Intl
- AstraZeneca
- CSL
- Intercontinental Exchange
- Becton Dickinson
- HDFC Bank
- Xylem
- NetApp
- Acuity Brands
- Wolters Kluwer

Top 10

underlying funds in Cazenove
Capital fund at September 2022

- Global Direct Equities
- Schroder Global Sustainable Growth Fund
- Sparinvest Ethical Global Value Fund
- Schroders Sustainable Alternative Assets Fund
- UBAM Positive Impact
- WisdomTree Hedged Gold ETC
- iShares Physical Gold ETC
- Invesco USD Treasury UCITS
- HSBC Global Equity Sustainable Healthcare Fund
- Ninety One Global Environment Fund

Trustees have developed our thinking about our priorities in terms of investment, as well as our policy relating to climate change; the full outline of our investment beliefs and policies are available on our website. We continue to work with other trusts and foundations in the Charities Responsible Investment Network, which is a project of ShareAction UK, supporting a growing number of trusts interested in being more effective stewards of our resources. We are also members of a wider network of charities and other organisations, including the Church Investors Group, Shareholders for Change, UK Sustainable Investment and Finance Association, Good Work Coalition and Workforce Disclosure Initiative.

Review of convening and communications

Communications tools are central to our purpose of achieving a fair economy and a better world.

Strategy

Our communications strategy has been updated to reflect the change in our main grants programme. This year we introduced key performance indicators to monitor our impact. We have set a baseline grounded on previous years and are pleased to have met our targets. We will continue to improve how we measure our impact.

Social media is a big part of how we communicate and disseminate information. We have implemented our second stage of our social media plan and have established the Foundation on Instagram, Facebook and LinkedIn, alongside Twitter.

We updated the Foundation's website to support our revised strategy and grant tools, such as an eligibility quiz and a

common application form that applies across grants and social investment. We want the website to be a hub of information, reports, blogs and videos, and aim to increase its accessibility and usability.

We believe that convening events and projects in collaboration with others enables change to occur. Last year, we hosted:

- o our annual conference on Zoom (October 2021) with over 65 participants;
- o the launch of the Foundation Practice Rating on Zoom (March 2022) with over 200 participants; and,
- o a peer learning event on utilising foundation endowments for mission at Toynbee Hall (September 2022) with over 70 participants.

The dissemination of our funded work underpins our charitable aims and public benefit objectives, and during 2021-22 we were pleased to support a number of publications, all of which are available in our website library.



Equity & Social Justice

As an organisation, we are aware of how the economy impacts and (re)produces inequality.

We were pleased to be assessed by the Foundation Practice Rating as part of the funding group of foundations. Its aim is to improve and change practices in charitable foundations in relation to diversity, accountability and transparency.

The assessment highlighted a number of deficiencies in our

practices, including: not providing equal access to our funding, for example not having alternative documentation on the website, resulting in barriers for disabled people; and not publishing a diversity plan with improvement targets. We have been working to address equity and social justice issues such as these through the establishment of a working group of staff and trustees.

This year we have:



Improved the variety of documentation available on the website.



Created more ways that prospective grant holders can contact us.



Surveyed trustees and staff on their protected characteristics and class.

Protected characteristics

The protected characteristics and class of the Foundation's eight trustees were as follows:

- 7** identified as white
- 1** identified as a person of colour.
- 1** identified as having a disability.
- 5** identified as women.
- 3** identified as men.
- 4** had caring responsibilities.
- 7** had attended state schools.

The age range was evenly distributed and everyone was of working age.

When they were growing up, five out of eight trustees had a parent who was at senior management or other professional level.

The protected characteristics and class of the Foundation's eight staff were as follows:

- 4** identified as white
- 2** identified as non-white
- 3** identified as having a disability.
- 4** identified as women.
- 1** identified as men.
- 1** identified as a non-binary person.
- 4** had caring responsibilities.
- 5** had attended state schools.
- 1** educated outside the UK.
- 4** were middle aged (over 45 years old)
- 1** was aged 35-44
- 1** was below 34 years old.

There was no single pattern for parental occupation.

We commissioned Guppi Bola (Independent Advisor) to help us consider implementing diversity and intersectionality policies and practices within the Foundation.

The results of this report will inform the work of the Equity and Social Justice Working Group for 2022-23.

Climate emergency declaration

Annual statement

In September 2019, the Foundation published a Climate Emergency Declaration, stating our view that *'the prevention of runaway climate change is an eco-socio-economic challenge and prerequisite to achieving our objective of a sustainable and fair economy'* and that we believe *'it is the responsibility of every institution, business, investor and employer to transition their purpose and operations to be consistent with keeping global heating below 1.5°C'*.



We made commitments covering investments, grants and operations, which are available on our website, including to report annually on progress as part of our annual report.



In 2021-22:

We used our influence as a shareholder to ‘promote a just and net-zero carbon transition’.

Since 2020, we have worked with a ShareAction-led investor coalition to engage HSBC on net zero transition and fossil fuel finance. In April 2022, we withdrew our second shareholder resolution in two years following important commitments secured from HSBC, including to:

- phase down financing of fossil fuels in line with limiting global temperature rise to 1.5°C;
- update the scope of its oil, gas and thermal coal policies by the end of 2022;
- update the scope of its fossil fuel targets to cover capital markets activities by the end of 2022; and,
- publish a transition plan in 2023, which will clearly explain how HSBC will implement its net zero ambition and will be aligned with the 1.5°C goal and just transition principles.

Further action will be taken in 2023 if the bank's new policies fall short of its commitments.

In 2022, we also co-filed a shareholder resolution at Standard Chartered with NGO Market Forces. It called on the bank to:

- cease the provision of finance to fossil fuel expansion, including new projects and expansion of existing projects; and,
- adopt short-, medium- and long-term targets to reduce fossil fuel exposure consistent with the goal of net zero by 2050.

The resolution was the first to be aligned with the new International Energy Agency's (IEA) net zero by 2050 pathway and the first ESG resolution to be tabled at Standard Chartered. 12% of shareholders voted in support at the AGM.

We have also been using shareholdings in energy utility companies to successfully engage them to adopt formal just transition strategies (see ‘Review of Investment Activity in 2021-22 page XX - XX).).

We have used our influence with asset managers and the market to ‘ensure active and high standards of shareholder engagement on climate change’.

Working alongside grant recipient Students Organising for Sustainability (SOS) and the Charities Responsible Investment Network, we produced the ‘COP26 Declaration of Asset Owner Expectations’, which was launched at a fringe event at the COP26 climate talks in November 2021, with 27 founding signatories representing assets of £7 billion.

The Declaration sets minimum standards to judge asset manager claims against and assist others to judge what is good practice and what is greenwashing. During 2022, signatories have been engaging their managers on these standards to help establish them as market norms. Cazenove/Schroders adopted new policies following our engagement and are approaching compliance with the declaration.



We have particularly favoured investments in companies whose business models focus on net zero carbon transition.

Our social investments have a focus on community energy, and in 2021-22 we invested £40,000 in People Powered Retrofit and committed to a new investment of £100,000 in Energy Garden. We also invested £27,000 in nature-based solutions with Wyre Catchment CIC as the first tranche of a £90,000 investment. Our mainstream and Snowball investments include renewable energy, green bonds and energy transition (see 'Review of Investment Activity in 2021-22 page 17 – 21).

We committed a strand of our grant work to 'fair transition'.

To address the risk of people and communities being affected by a lack of appropriate skills and economic utility, including as a result of the rapid and far-reaching changes needed to decarbonise the economy. We view a fair transition as a necessity for a rapid and resilient net-zero transition.

In 2021-22, we gave a grant of £100,000 to Community Energy England to support sector resilience and growth, £85,000 to the London

School of Economics Grantham Institute for its 'Financing the Just Transition' programme, £150,000 to Students Organising for Sustainability (SOS) for its 'Invest for Change' programme, with students engaging universities to invest endowments sustainably, £25,500 to Ethical Consumer for its fossil-free investment fund ratings system and £10,000 to Riding Sunbeams to support its reorganisation (see New Grants – Projects', page XX - XX).

Whilst the pandemic has disrupted the delivery of some operational commitments, we have:

- reduced our catering carbon footprint by switching to meat-free catering;
- signed up to the 'Climate Perks' commitment from climate charity Possible to offer staff paid 'journey days' to encourage low-carbon holiday travel;
- engaged our property manager and supported them to introduce building-wide recycling and basic energy efficiency measures; and,
- reviewed our travel policy to privilege public and sustainable transport.

We will continue to deploy our resources and use our influence to help accelerate the transition to a low-carbon future.

The future: Our plans for 2022-23

Trustees have set following organisational objectives for 2022-23:

- 1** Implement our rebalanced strategy to reduce grant expenditure and commit more strategic resources to actively use our capital base.
- 2** Recruit and induct new board member(s) and staff members.
- 3** Make equity and inclusion central to our work.
- 4** Build additional capital allocation for impact investment or near market investment.
- 5** Focus our communications on developing leadership within the foundation sector.
- 6** Scope, procure and implement new systems to support foundation functions.
- 7** Design and implement a staff development plan to increase knowledge and productivity.





Our policies, governance and operations

Management and advice

During the year, Columbia Threadneedle [formerly Bank of Montreal (BMO)] continued to act as one of our investment managers, with discretion to manage the Foundation's funds within agreed investment objectives, regarding asset allocation and investment performance.

- Cazenove Capital, the largest charity investment manager in the UK, also managed funds on our behalf.
- Snowball Impact Management Limited also managed funds on our behalf.
- To support Foundation staff and trustees in their commitment to the responsible use of its assets and as a means of sharing our practice, the Foundation continued as a member of the Charities Responsible Investment Network.
- Peter Jones, an independent investment advisor, continued to provide general investment advice to the trustees, who instruct the investment managers to reflect that advice in their management of the Foundation's assets. Trustees are grateful for his continued support of our work.
- Wrigley's Solicitors LLP was retained to provide legal advice on direct investment documentation and on our general charitable activities.

Climate risk and our investments

- Trustees are mindful of a wide range of experts who consider that climate risk is arguably the biggest risk to economies today.
- Trustees understand that climate-related systemic risk could have a highly negative impact not only on the Foundation's assets but also on its core mission and stakeholders through disruption of the financial system, with implications for jobs, incomes and inequality.
- Trustees seek, therefore, to do whatever they reasonably can to progress a rapid transition to a low-carbon economy and to safeguard the Foundation's capital.

Using our resources

- Trustees took the decision that the Foundation can spend its capital as well as its income in pursuit of our mission, but at a reduced rate.
- Trustees actively review both strategy and resources to manage the risk of this approach.
- The current rate of spend is £2.6 million per annum.

Trustees are prepared to consider accepting a higher level of risk or a lower level of financial return than the market norm, especially for those social investments that are closely aligned with the Foundation's specific programme aims. For investments that generate broader positive social impact and meet the Foundation's general charitable objectives, but without specific alignment with programme aims, trustees might look for levels of risk and return that are closer to the benchmark for that asset class.

Trustees actively review both strategy and resources to manage the risk of this approach.



Risk management

The trustees are responsible for overseeing the effective management of the Foundation and for safeguarding its assets. Risk management is an ongoing activity involving all trustees and is reviewed by trustees at least annually.

During the year, the trustees have reviewed the risks facing the Foundation covering governance and management issues, financial, regulatory, legal and operational risks. Mitigating actions have been taken regarding the major risks that have been identified, namely:

- **Investment risk with loss of income impacting operations and mission:** Trustees tolerate this risk whilst closely monitoring the markets and the Foundation's investment portfolios.
- **Staff sickness or absence risk** arising from having a small team: Plans are in place to mitigate this risk.
- **Mission risk** – having an ambitious mission with limited resources: Trustees tolerate this risk.
- **Reputational risk**, such as poor publicity arising from the actions of organisations we fund or inaccurate information on our

website: Trustees mitigate and manage this risk.

- **Financial risk** relating to internal operations and the management of resources: Trustees mitigate and manage this risk with staff and external advisors.

Each risk identified was assessed in terms of the potential impact and likelihood of occurrence, and the trustees confirm that they believe that, for each of these risks, appropriate controls are in place to mitigate the significant risks to an acceptable degree.

Reserves and going concern

The total charity funds at the year-end of £23.88 million (2021: £29.93 million) were held in the endowment fund. The capital comprising the Foundation's expendable endowment is the principal source of income to meet the Foundation's objectives and running costs. The trustees consider that there are no material uncertainties about the Foundation's ability to continue as a going concern.

In 2016, trustees took the strategic decision to expend capital from the endowment in pursuit of our mission. In order to ensure there are adequate funds to support a potentially higher level of expenditure, the Foundation adopted a policy to 'draw down' a sum from the endowment each year to match the difference between our projected income and our projected expenditure as set by trustees in the annual business planning process.

In 2021 trustees decided to slow down the reduction of the capital base. This was to enable a rebalance of internal resources to allow greater focus on investment engagement and impact. Trustees also recognise that Foundation income from investments can fall. To mitigate this risk, it is the trustees' intention to hold three to six months' operating costs as a cash reserve; estimated at £750,000 to £1,500,000. This is held as part of Foundation funds and will not be expended, although trustees do not consider it necessary to have a separate reserves account. The reserves policy was reviewed and approved by the trustees in September 2022. Trustees will continue to review the level of reserves, taking into consideration the cost base of the Foundation.

Financial review

The Foundation's income is derived from investment performance. Total income for the year ended 30 September 2022 was £689,814 (2021: £534,602), mainly attributable to dividends and interest received from the principal investments – open-ended investment trusts with underlying investments in equities and corporate bonds.

This year, a donation and grant funding for the Foundation Rating Project, being coordinated by the Foundation, added to the income. The total expenditure for the year was £2,950,988 (2021: £3,462,439).

Of this, grant commitments amounted to £1,790,313 (2021: £2,588,219) and other expenditure was £1,160,675 (2021: £874,220). Net expenditure for the year was £2,261,174 (2020: £2,927,837) before investment losses of £3,789,640 (2021: gains of £4,049,93), leading to net expenditure of £6,050,814 (2021: net income of £1,122,093).

As per our investment policy, trustees expect our mainstream portfolio to produce competitive market returns, as well as reflecting our investment beliefs. Regular reviews of performance by the Investment Committee and advice from our Investment Advisor indicate that performance is in line with market expectations.



Remuneration of staff

Trustees have adopted and reviewed the pay policy that is applied to all staff members.

Trustees adjusted the measures against which salaries are reviewed annually to ensure a reasonable reflection of the cost of living. This now reflects a cost-of-living measure weighted equally with average wages.

Reflecting our programme focus on pay transparency and in line with NCVO guidance, the ratio between the highest salary (£89,915) and the median salary (£32,130) in the Foundation is 2.8:1. The ratio of the top salary to the lowest is 3.5:1. These calculations are based on full-time equivalent salaries, net of salary sacrifice deductions.

The charity made contributions to employees' personal pension plans based on a fixed percentage of salary. In September 2014, trustees established a company pension scheme in which contributions are made to NEST.

Statement of fundraising practice

The Foundation does not engage in public fundraising and does not use professional fundraisers or commercial participators. The Foundation, nevertheless, observes the relevant fundraising regulations and codes.

During the year there were no instances of non-compliance with these regulations and codes and the Foundation received no complaints relating to its fundraising practice.

Governance arrangements – How we organise our work

A Board of Trustees, of up to ten individuals who must hold at least two meetings each year, administers and controls the Foundation and has control of its property and funds. Trustees are subject to fixed-term appointments as set out in the Memorandum and Articles of Association updated in January 2022. During the year, trustees have formally met four times. The trustees have complied with the duty in Section 17 of The Charities Act 2011 to have due regard to the Charity Commission's published guidance concerning the operation of the Public Benefit requirement under that Act.



The role of trustees

An individual induction programme is in place and implemented for new trustees, covering all relevant aspects of the role and the Foundation. We hold regular training and engagement sessions before Trustee meetings with guest speakers to share learning and engage staff and trustees.

The role of the trustees includes setting strategic direction and agreeing the financial plan, approving grant-making applications and monitoring the Foundation's grant activities, ensuring that all activities are within its agreed charitable objectives and pursued for the public benefit. Matters reserved for the trustees are approved by the trustees and are subject to annual review.

Trustees act on advice and information from regular meetings with the Director and their appointed advisers and from the Foundation's Resources Committee and Investment Committee under terms of reference approved by the Board of Trustees.

Recruitment of trustees

Trustees are recruited through open advertisement. They are interviewed by a panel of existing trustees against a set of advertised criteria and with due regard to the Foundation's commitment to equality of opportunity and fair treatment. We monitor the response to all vacancies in terms of gender, ethnicity and disability.



Statement of responsibilities of the trustees

The trustees (who are also directors of Friends Provident Charitable Foundation for the purposes of company law) are responsible for preparing the report of the trustees and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs and of the income and expenditure of the charitable company for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP (FRS 102);

- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in operation.

The trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the trustees are aware:

- there is no relevant audit information of which the charitable company's auditor is unaware; and,
- each trustee has taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The trustees are responsible for the maintenance and integrity of the organisational and financial information included on the charitable company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The report of the trustees has been prepared in accordance with the special provisions applicable to companies subject to the small companies' regime.

Approved by the trustees on 14 March 2023 and signed on their behalf by:



Handwritten signature of Stephen Muers.

Stephen Muers
Chair of the
Board of Trustees