



Investment Principles and Policy

Our Principles as an Investor

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

We believe the purpose of investment should be to direct capital to socially and environmentally useful activity, to create social as well as economic value, and to help address societal challenges; rather than to focus on short-term financial returns. We are a long-term investor and steward of our investee companies and enterprises.

The intentional use of our endowment is an important tool for the achievement of our purpose – alongside our grant making, convening, communication, advocacy and other activities. As a participant in the financial system through our endowment we have an opportunity to promote change that serves our mission.

Our capital serves our mission by:

- providing cash for grants and operations
- supporting engagement with our asset managers and capital markets as an asset owner
- supporting engagement with companies and markets as an investor
- social impact investment

We believe that our decisions on what to invest in, what not to invest in, how we exercise our stewardship responsibilities as a shareholder, and how we engage with the financial system as a whole in our capacity as an investor should contribute to our aim of building international, national and local resilience, and an economy that is fair, equitable and environmentally sustainable.

We believe there are certain industries and products that are so inconsistent with our mission that we should not invest in them. There are others that already directly make a positive contribution to the transformation we seek; wherever possible we will invest preferentially in these areas. And as a shareholder we can encourage a transition by all companies towards business models and ways of operating that are aligned with our mission. Our ethos as a foundation is to engage in dialogue and learning that promotes positive change. We seek to reflect this approach in our relationships with the companies in which we invest, and with our fund managers.

We seek to work with fund managers that are supportive of our objectives. We will do our utmost to find funds whose investment criteria match our policy, recognising that some funds may not be fully aligned. By engaging with our fund manager(s) and the market more broadly, and by working

with others, we will seek to raise market standards regarding: investment policy, practice and reporting; and environmental, social and governance (ESG) integration and engagement.

We seek to work with other others who share our goals in our efforts to influence companies and markets as an investor. We reflect the priority that we attach to this area in our staffing and resourcing decisions.

Our Investment Policy

How our investments contribute to our mission

We view the whole of our endowment as a tool to help us achieve our mission. Our aspiration is that all our investments should generate both financial returns and positive social and environmental returns. We allocate ca. 90% of our endowment to generate income to support our grant making, while at the same time supporting investment in line with our investment principles. We expect these investments to generate competitive market returns. We therefore refer to this as our 'market-rate portfolio'.

We aim to commit at least 10% of our endowment to investments that generate particularly strong social benefits, and from which we are prepared to accept higher risk or lower financial returns because these investments further our charitable objectives. We refer to this as our 'social investment portfolio'.

We allocate a small amount to buy direct shareholdings in companies we seek to influence as part of our thematic programmes. These allocated funds are exempt from this policy as programmes may require holdings in companies for the purpose of engagement that otherwise would require exclusion.

Our approach to generating social and environmental returns in our market-rate portfolio is set out below and includes:

- areas that we will particularly favour in our investments wherever possible
- areas where will use our influence as a shareholder, working alone and with other investors, to encourage changes in corporate practices that serve our mission
- areas and corporate practices in which we will not invest because we judge that they are profoundly inconsistent with our mission

Our approach to shareholder engagement and active stewardship includes drawing on learning from our grants programmes, producing ESG research, letter writing, meeting with companies, voting on shareholder resolutions, and collaborating with other investors. We will escalate engagement if required to include public criticism, voting against the re-election of directors, and co-filing shareholder resolutions.

If we judge that a company is behaving in a way that is no longer consistent with our mission, and if it has not responded to our efforts and those of other investors and our fund manager to promote change, we will work with our fund managers to remove the company from our portfolio if this is possible.

We work with our fund managers and others to continually refine our understanding of what business activities and company practices contribute positively to our mission, and to adjust our investments, engagement and other work accordingly.

Our investment policy on specific social and environmental issues

Areas that we will particularly favour:

- Providers of renewable energy generation and storage, energy efficiency and demand management services, and other companies whose business model focus is on net zero carbon transition, resource efficiency and circular economy, and environmental sustainability.
- Companies that excel in actively supporting local economies (e.g. through place-based reinvestment, workforce development, local sourcing and partnerships)
- Banks with a particularly strong approach to addressing financial inclusion and supporting local economies
- Companies that offer employees decent work and fair pay (e.g. via Living Wage accreditation, smaller than sector average executive pay ratios and gender pay gaps)

Areas where we will use our influence as a shareholder:

- Promote a **just and net-zero carbon transition** – call for the adoption of business models that are consistent with keeping global warming below 1.5°C and ensure economic shocks to workers, communities and consumers are mitigated.
 - Promote **support for local economies** – e.g. call for place-based reinvestment and local partnerships that strengthen economic resilience
 - Promote **fair pay** – call for all employees to share in the success of companies, supporting the Living Wage, controlling high executive pay and discouraging wide pay disparities. Also, to encourage pay policy transparency and link executive pay to social, environmental and economic sustainability objectives
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- Promote **decent** work – call for dignity and justice in the workplace, e.g. employees working regular hours to receive regular contracts, allowing unions access to the workplace and employees a right to join
- Promote **diversity in management** – call for a more accurate reflection of society regarding gender, class and ethnicity in upper management, and the provision of training and development to enable career progression. Also, to encourage diversity of thought.
- Promote **responsible payment of tax** – call for tax planning that is transparent and adheres to the spirit and letter of the law, and discourage the use of tax havens and activity with the primary purpose of tax avoidance.
- Promote **responsible corporate lobbying** – call for disclosure of direct and indirect public policy intervention, and to align lobbying (including via intermediaries such as trade associations) with company social and environmental commitments.

Areas and corporate practices in which we will not invest:

- Weapons and arms manufacture
- Extraction, production and distribution of fossil fuels, and similarly high carbon fuels
- Nuclear power
- Unsustainable harvest of natural resources
- Intensive farming methods that degrade the environment or have poor animal welfare standards
- Companies with a track record of illegal and serious pollution incidents
- Companies that fail to implement basic labour rights (as set out in the Fundamental UN ILO Conventions)
- Companies that fail to uphold basic human rights within sphere of influence
- Companies that engage in bribery, corruption, money laundering and tax evasion
- Companies that advocate discrimination and incitement to hatred