Friends Provident Foundation

Investment Principles and Policy

Fair economy. Better world.

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 that serves people and planet.

In seeking to achieve our vision and mission, we recognise that we are part of systems we seek to change and aim to use our position and resources positively. We operationalise this through grantmaking, investing in alignment with our purpose, being transparent, convening and collaborating with others.

We believe our investments should direct capital to socially and environmentally useful activity and focus on long-term impacts rather than short-term financial returns. We take the positive and negative impacts on people and planet as seriously as financial risk and return.

As a participant in the financial system through our endowment we have an opportunity to promote positive change that serves people and planet. Our investments allow us to do this by:

- Providing cash for grants and operations.
- Giving us the opportunity to engage with our investment managers, wider financial markets, companies, and government as an investor.
- Directly having a positive social and/or environmental impact.

However, we recognise that investing as a charitable foundation involves navigating trade-offs. For example:

- Some investments with a higher financial return may not align as well with impact objectives but may allow the foundation to spend more on grants and operations.
- Highly impactful investments might offer lower financial returns, higher financial risk or less liquidity.
- Our investment approach seeks to hold these objectives in constructive tension, with ultimate priority given to our purpose and values.

We believe that our decisions on what to invest in, what not to invest in, how we exercise our stewardship responsibilities, and how we engage with the financial system in our capacity as an investor should contribute to our purpose of building an economy that is fair and sustainable.

We seek to raise market standards regarding investment policy and practice, engagement, impact and social investment, and environmental, social and governance (ESG) integration. We 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

We view the whole of our endowment as a tool to help us achieve our purpose. Our aspiration is that all our investments should generate both financial returns and positive social and environmental impact. We allocate most of our endowment to investments from which we expect to generate a market rate financial return, while at the same time remaining consistent with our investment principles and policy, including our exclusions. We refer to these as our 'financial investments'. Included in this category are some impact investments that are more intentional about contributing to positive social and/or environmental outcomes, alongside financial return, and other more traditional investments.

We seek to work with investment managers that are supportive of our objectives. We will do our utmost to find managers whose investment criteria best match our policy. We work to continually refine our understanding of what economic activities contribute positively and negatively to our purpose, and to adjust our investments, engagement and other work accordingly.

We are committing a growing part of our endowment to investments that directly support achieving our purpose as well as making a financial return. We refer to these as our 'social investments'. With social investments, we are willing to accept higher risk and/or lower financial return because these investments directly contribute towards a fair and sustainable economy.

We allocate a small amount (< 1%) of our investments to shareholdings in companies we seek to influence as part of our engagement. These allocated funds are exempt from this policy as it may be required hold companies for the purpose of influencing that otherwise would be excluded.

Our approach to specific areas of social and environmental impact in our investments is set out in appendices to this policy and includes:

- Social investment priorities: areas that we will particularly favour in our investments that support our purpose (Appendix 1).
- Investment engagement priorities: areas where will use our influence as an investor, working alone and with other investors, to encourage changes in practices (Appendix 2).
- Investment exclusions: areas in which we will not invest because we judge that they are inconsistent with our purpose (Appendix 3).

We recognise the impact of climate change, especially on poorer communities and vulnerable people, and our responsibility to support the global effort to transition to a low-carbon economy. Therefore, we seek to align with the United Nations Paris Agreement and the Science Based Targets initiative and commit to our investment portfolio being net zero by 2050 at the latest. In doing this, we will set near-term and long-term measurable science-based targets on our investment portfolio.

We will review our investment principles and policy as a whole at least every five years, and the individual appendices at least every two years.

Updated: June 2025

Appendix 1: Social investment priorities

Our approach to social investment includes making direct and fund investments that support our purpose, working with peer investors to build and shape the social investment market, and communicate lessons arising from our programmes and investments. We primarily invest in funds, community shares, equity and loans, and will consider other asset types, if appropriate. We particularly favour investments in the following:

- Organisations challenging the current financial and economic systems (tax, regulation, investment models etc.) and seeking ways to promote a more fair and sustainable economy.
- Organisations that support local economies by centring local communities and voices in their business model, whether through community ownership, job creation, or other social and/or environmental benefits.
- Impact funds that demonstrate a strong alignment with a 4D economy and have a systems change lens.

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Appendix 2: Investment engagement priorities

Our approach to investment engagement and active stewardship is based fundamentally on collaborating with other stakeholders and investors. Our engagement involves: drawing on learning from our grants and wider research, establishing expectations of companies, and meeting with companies, including AGM appearances. We will escalate engagement if required to include public criticism, co-filing shareholder resolutions, and voting against the re-election of directors.

Our thematic investment engagement priorities are crucial changes in the economy we believe we can contribute to most through investment engagement. They are:

- Just transition to a net zero economy – companies adopt business models that keep global temperature rises as low as possible compared to pre-industrial levels, whilst ensuring shocks to workers, communities, consumers, and supply chains are managed and mitigated.
- Workplace equality in the UK – companies respect freedom of association and collective bargaining; workers build power and are involved in company governance and decision-making. Workers earn at least the real Living Wage, have fair contracts, working conditions, pension arrangements, and a share in company success. There is diversity of thought and representation at every level of companies. Pay gaps are closed and barriers to progression are reduced.

To contribute to these changes, we engage with:

- Our investment managers, in our role as a client.
- Other investment and financial sector actors (including asset owners, investment managers and investment advisers) recognising that investment takes place within a complex system.
- Companies, on their own policies and practices and how they interact with government.
- Government and regulators, recognising the importance of the legal and policy framework.

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Appendix 3: Investment exclusions

Our exclusion list, which applies to all asset classes, intends to avoid investing in issuers that are strongly inconsistent with our purpose. To make the list more enforceable, we apply a revenue threshold to some of our exclusions. This means that we will not invest in companies that derive more than the specified % of their revenue from certain activities. For others, a revenue threshold is not required or appropriate. We have judged the threshold (0% / 5% / 10%) based on the relative misalignment with our purpose.

We will do our utmost to find investment products with exclusion criteria that match this policy, recognising that some investments may not be fully aligned. We will regularly monitor how our investment manager(s) implement their own investment exclusions in the product(s) we invest in and compare to our own. If we judge that a holding is no longer consistent with our policy, and if it has not responded to our efforts and those of other investors and our investment manager(s) to promote change, we will work with our managers to remove the holding from our portfolio if possible.

Our exclusions list is as follows:

Exclusions without a revenue threshold:

- Companies that are deemed to have failed in respect of established norms such as those referenced in the Principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles for Business and Human Rights.
- Companies engaging in the manufacture, distribution or sale of nuclear or other controversial weapons.
- Companies that engage in severe and repeated efforts to lower the amount of tax paid. This could include, but is not limited to, participating in tax arrangements that:
    - deliberately exploit mismatches between tax jurisdictions in ways that materially reduce reported taxable profits (as identified by credible regulatory or intergovernmental assessments; or
    - utilise non-transparent tax structures or operate in secrecy jurisdictions without substantial economic presence (e.g., jurisdictions listed on the EU list of non-cooperative tax jurisdictions).
- Companies that directly contribute to discrimination and incitement to hatred.
- Government bonds issued by states included on the UK sanctions regimes list.
- Companies that have a severe and sustained negative impact on the natural world and ecosystems. This could include companies engaged in:
    - extraction or harvest of natural resources, deforestation, or other practices that contribute towards environmental degradation or biodiversity loss;
    - intensive farming practices that contribute to poor animal welfare standards; or
    - serious pollution incidents, including repeated violations of environmental laws or significant contributions to air, water, and soil contamination.

Exclusions with a revenue threshold:

Activity / product	Criteria	Revenue threshold
Fossil fuels or similarly high carbon fuels	Exploration, extraction, production or distribution	5%
Weapons and arms including systems and secondary components	Manufacture, distribution, sale	5%
	Systems and secondary components	5%
Tobacco	Production, distribution, sale	5%
Alcohol	Production, distribution, sale	10%
Gambling	Operations	5%
Adult entertainment	Production, distribution, sale	5%
Lending	Predatory lending practices	5%

We recognise that investing in nuclear power is a divisive topic when considering the transition to net zero. We are further considering whether to include the production and distribution of nuclear power in our exclusions list. In the meantime, we will research, learn and monitor any nuclear power-related investments in our portfolio.

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