
Investment Review Panel – Recommendation

March 2014

Introduction

Comic Relief's Investment Committee has historically been requested by Trustees to deliver a moderate rate of return at a low level of risk. This was:

- i). to provide a total return (of income plus capital growth) that would contribute towards the costs of the organisation in line with the 'Promise'.
- ii). to guard Comic Relief against the actual and reputational risks of losing the public's money or being unable to meet grants commitments.

The Investment Committee has delivered against this aim: in the three years to October 2013 the Comic Relief portfolio had the lowest risk and the highest risk adjusted return of more than 200 funds analysed by Asset Risk Consultants.

On 10th December 2013, the BBC broadcast a Panorama investigation looking at Comic Relief's investment policy (amongst other issues and other charities). The press coverage of this programme changed the landscape of reputational risk for Comic Relief and prompted the charity to convene an independently chaired panel to review its policy on investments. This review has now been completed and the panel's recommendation is described in this paper. In summary, Comic Relief should aim to do good with all of the money entrusted to the charity, both capital and income.

Summary of Recommendation

The Investment Review Panel recommends that Comic Relief should reflect its vision, mission and values in all of its activities, including the approach that it takes to investment. The focus of Comic Relief's revised investment policy should be on using the charity's capital to do good rather than merely preventing it from doing harm (by negative screening alone). This should include:

1. **Building Internal Linkages** – The panel proposes that the links between the Investment Committee and Trustees be strengthened in order to ensure that Comic Relief's strategy and investment policy are aligned, and that Trustees are able to discuss the opportunities and risks that are inherent in investment decisions.
2. **Joining UN Principles for Responsible Investment** – Signing up to UN PRI would send out a signal of Comic Relief's commitment to responsible investing (backed by the credibility of the UN), as well as providing membership of a club of responsible investors from which Comic Relief could learn best practice. Comic Relief should also join the Charities Responsible Investment Network (a similar club of responsible investors within the UK charity sector).
3. **Becoming more transparent** – Comic Relief should increase transparency around investments as part of a wider organisational drive towards greater transparency and sustainability.
4. **Develop criteria for exclusions** – Comic Relief should screen out the sectors (or companies) that directly conflict with its vision or bring the most reputational risk. To avoid an excessive reduction in the universe available for investment, Trustees should aim for only a small number of absolute prohibitions.
5. **Social Investment** – Comic Relief should continue to set aside a small proportion of its capital for social investment, as this helps to demonstrate the organisation's commitment to using its capital as well as its income in support of its mission.

Executing these proposals and working through their implications for Comic Relief's investments and operations will be a complex task. The panel's recommendation is intended just to set a direction of travel and, if approved, it will be up to Trustees, the executive and the Investment Committee to decide how to apply it.



The Panel

The Investment Review Panel consisted of an independent chair, an independent member and three Trustees, assisted by a two-person secretariat:

Panel:

- **John Kingston OBE (Chair)** – Chair of the Association of Charitable Foundations, Non-Executive Director of Big Society Capital and Trustee of Help Age International.
- **Andrew Hind CB FCA** - Professor of charity governance and finance at Cass Business School; Editor of Charity Finance magazine; Chief Executive of the Charity Commission from 2004-2010.
- **Mike Harris** - Comic Relief Trustee and Chair of Comic Relief's Investment Committee
- **Diana Barran MBE** - Comic Relief Trustee
- **Harry Cayton OBE** - Comic Relief Trustee

Secretariat:

- **Derek Gannon** – COO, Comic Relief
- **Matthew Godfrey** – Special Projects Manager to the CEO, Comic Relief

Observers:

- **Richard Curtis** – Vice Chair, Comic Relief
- **Kevin Cahill** – CEO, Comic Relief

The panel met five times between 21st January 2014 and 4th March 2014.

Terms of Reference

The panel had a focused remit to review the policy and framework guiding Comic Relief's investments. The panel considered that it should understand the knock-on effects of its recommendations but should not work through the operational implications of a revised investment policy (which would be the responsibility of Trustees), or recommend specific allocations of assets (which would remain the responsibility of the Investment Committee).

The size of Comic Relief's investment portfolio was considered to be beyond the remit of the Investment Review Panel as this is determined by Comic Relief's grant making processes - specifically the need to select the right charities to support (which implies that the organisation will hold some unallocated money while these decisions are being made) and the need to drive long term change (which implies that a significant amount of already allocated money will be held before it is paid out in instalments).

There were three tasks within this remit:

- 1. Review the options for a new investment policy, ensuring that they are consistent with Comic Relief's commitment to reinforcing public confidence in the charity whilst balancing financial risk and return**
 - a. Analyse the historic performance of Comic Relief's investment policy to include benchmarking against ethical investments and impact on Comic Relief's business
 - b. Evaluate the charity investment landscape and review investment options
 - c. Agree the criteria for the risk and return of the new investment policy
- 2. Review Comic Relief's transparency in relation to its investment policy**
 - a. Analyse Comic Relief's historic and current approach to financial transparency
 - b. Evaluate practice in the sector with regard to the publication and disclosure of investment policies and holdings
- 3. Recommendations**
 - a. Recommend the principles and framework for a new investment policy
 - b. Recommend levels of transparency for the new investment policy



Principles

Investment choices based on 'ethics' can be subject to legitimate controversy: one person's sin is another's salvation. The panel therefore identified certain principles to guide its work (while recognising that the proposed approach is likely to be described as 'ethical' by the public and the press).

- **Consistency** – Comic Relief has been criticised for the inconsistency between its investment policy and its programme. To counter this, the framework and principles recommended by the panel should seek to be consistent with Comic Relief's Vision and charitable activities.
- **Ambition** – A revised investment policy may carry some operational implications, but Comic Relief should continue to be ambitious in its vision and mission.
- **Communication** – Trust is crucial to fundraising campaigns and restoring the public and other key stakeholders' trust in Comic Relief is the organisation's immediate priority. To do this, any new investment policy should be clear and defensible.
- **Front Foot** – The panel should outline a positive investment policy rather than simply responding to the specific criticisms that have been made in the press.
- **Driving Change** – As with all Comic Relief policies, any revised investment policy should be driven by the need to provide the best outcome for the charity's beneficiaries.

The legal advice that Comic Relief has received indicates that Trustees are not constrained to deliver the maximum return from the charity's investment portfolio - other factors and approaches can be considered.

Options

The panel recognises that the size of Comic Relief's investment portfolio is in part determined by the charity's approach to grant making. Given this and the principles above, there are four main ways in which Comic Relief could invest responsibly:

- **Negative screening** - avoiding investments in certain companies or sectors based on 'ethical' criteria or a set of international standards.
- **ESG integration** - ensuring that environmental, social and governance (ESG) issues are considered alongside traditional financial measures in investment decision-making.
- **Positive screening** – investing proactively in one of three ways: i) 'mission-related' i.e. investing in enterprises that explicitly help to achieve Comic Relief's vision while at the same time offering some level of return; ii) 'best-in-class' i.e. investing in companies that are better than peers on a particular ESG metric; iii) 'themed' screening i.e. investing in specialist companies, funds or products related to particular sustainability themes.
- **Active Ownership** – using the charity's influence as an investor to encourage more responsible business practices.

Recommendation to Trustees

The core of the panel's recommendation is that Comic Relief should act, and be seen to act, as one organisation, applying the same values to its investments as to all other activities, including fundraising, procurement and grant making.

Within this Comic Relief should approach 'responsible investment' with an attitude of positive engagement, not negativity, and should aim to inspire and influence business rather than applying restrictions alone. Comic Relief is a household name and its place in the national consciousness could give it more influence than other foundations with greater assets but a lower profile.

Following from this recommended approach, Trustees are advised to consider:



1. Building linkages in the governance of Comic Relief's investments

Once policy has been agreed, Comic Relief's Investment Committee and Board of Trustees have historically operated in parallel and the strong performance of the charity's investment portfolio has meant that risks relating to investments have not been sent to Trustees for regular review.

In future it would be beneficial to strengthen the relationships between the Investment Committee and Trustees by aiming to find two additional Trustees (perhaps including a 'lay' Trustee without a background in investment) to sit on the Investment Committee, as Mike Harris (Treasurer) does currently. The expertise of the Investment Committee has been hugely valuable to Comic Relief and this committee should remain responsible for guiding investment decisions, allocating assets and ratifying fund managers, alongside the closer links that would be established with Trustees.

Trustees also need to have dedicated time in their business agenda to discuss opportunities, matters of interest and risks relating to investments and a review of these topics should be sent to Trustees every six months. A revised investment policy could bring increased risk, reduced income or gains and greater volatility. Trustees must be fully informed of these issues and given the relevant information regularly.

2. Joining UN Principles for Responsible Investment

The United Nations Principles for Responsible Investment (PRI) initiative is 'an international network of investors working together to incorporate environmental, social and governance (ESG) considerations into their investment decision making and ownership practices'. Signing up to UN PRI could act as a 'badge' indicating that Comic Relief wants to be a responsible investor, as well as providing access to a club of like-minded investors.

UN PRI relates more to the process by which investment decisions are made than to specific allocations of assets, meaning that it would theoretically be possible to join UN PRI without intending to make any changes at all to the investment portfolio. Comic Relief should avoid this box-ticking approach and join UN PRI with a real intent to invest responsibly. At a minimum this would mean favouring fund managers who are themselves UN PRI signatories. Preferably fund managers would also be involved in active engagement to influence the behaviour of investees.

In addition to becoming a member of UN PRI, Comic Relief should also join the Charities Responsible Investment Network¹ and strengthen relationships with experts in the sector (for example by inviting a charity finance or investment director to join the Investment Committee).

3. Transparency

In line with common practice, Comic Relief's published accounts break down the charity's investments by asset class but do not list specific holdings. Comic Relief relies on its donor base for its income, and increased transparency around investments could help to improve public trust. Once an investment strategy has been determined, the information which Comic Relief makes public could, for example, include:

Year round:

- A statement of the information that will be published on investments
- Approach and criteria for investment decision making
- The list of sectors (and potentially also some individual companies) which have been excluded from the portfolio
- The fact that Comic Relief has signed up to UN PRI

As part of published accounts:

- A list of funds
- A breakdown by asset class
- Specific investments of over £5m
- The proportion of Comic Relief's assets that are unallocated or allocated (and yet to be paid out)

This list of information to publish should be reviewed by Trustees after six months.

¹ This is a UK based network of charity investors managed by the charity ShareAction. The network aims to support shareholder engagement and best practice in responsible investment.



4. Criteria for Exclusions

- The panel recommends that a set of principles for excluding companies or sectors is drawn up by management and agreed by Trustees. These principles would then be used to screen out a small number of sectors or stocks that might conflict with the charity's vision² or alienate supporters. This list of excluded investments should be reviewed by Trustees on a six monthly basis.
- An illustrative example of the kind of principles that could guide the exclusion of investments is in the box below. Developing a final set of criteria would require further work by senior managers and sign off by Trustees.

Criteria for Exclusion (from investment and corporate sponsorship)

- A company or sector should not be partnered or invested in if its activities are directly in conflict with Comic Relief's vision, or grant making programme, or if investing in it would harm Comic Relief's reputation with donors, artists or other key stakeholders.
- Many companies (especially conglomerates) are involved in a broad range of business activities. Given this, Comic Relief may need to consider the primary purpose of a business or set a threshold for the maximum percentage of a company or group's turnover that could come from an excluded area (for example, setting a 10% threshold for tobacco would allow Comic Relief to invest in supermarkets while excluding tobacco companies).
- The charity should aim for a clear, defensible policy of which it is confident, rather than screening out any investment that could conceivably be criticised as 'unethical'.

5. Social Investment

Comic Relief already engages in social investment through its grants making (e.g. Kuapa Kokoo in Ghana) and its investment portfolio (e.g. Bridges).

Continuing to explore the potential of social investment by setting aside a small proportion of funds (currently around £5m) to invest in activities and organisations related to Comic Relief's mission and grants programme would reflect the charity's commitment to using its capital to achieve its vision (though the returns from these investments may be below market rates).

Financial Trade-Offs

Comic Relief's approach to investments needs to balance return, the protection of capital, liquidity, and fit with the charity's vision.

Changing the policy which guides Comic Relief's investments could have an impact on the kind of investment approaches available to the Investment Committee, as well as the kind of assets that Comic Relief can hold and ultimately the performance of the portfolio.

Investment Approaches

The investment market may not be able to provide enough suitable pooled funds with the mix of excluded sectors that Comic Relief decides to require.³ Pooled funds can also bring practical difficulties, as it is hard to change the exclusions that apply to a fund or to remain aware of the changing investments within it. One solution to these problems would be to create a segregated portfolio i.e. a bespoke fund put together specifically for Comic Relief. Doing this would give complete control over and visibility of investments, but would also bring increased fund management costs and could reduce the role of the Investment Committee as decisions on asset allocation might be taken by the managers of this fund rather than the Committee itself.⁴

² NB there is some precedent within Comic Relief for screening companies in the form of the Risk Evaluation Group process for evaluating potential corporate partnerships.

³ Many funds have been created with religious clients in mind and may exclude sectors that Comic Relief would be happy to fund (for example contraception).

⁴ Alternatively, decisions could still be made by the Committee with the fund managers simply executing them.

Another solution would be to work with funds that have performed well for Comic Relief in the past and try to persuade them to adopt the required screens. Initial analysis carried out by Cambridge Associates indicates that, with an active approach, manager skill is a more important driver of performance against benchmarks than screening itself. Put differently, the main impact of screens may be through changing the universe of fund managers.

Passive management may also be one of the options available to Comic Relief.

Asset Classes

Some assets are easier to screen than others. Public equities are relatively easy to screen, bonds are harder, and alternatives such as hedge funds or private equity may not be possible to screen at all. The panel recommends that any screens would need to apply to all asset classes, which means that adopting an absolute prohibition on any sector would imply that Comic Relief will no longer be able to invest in alternatives. Therefore in future the charity would no longer hold investments in private equity or hedge funds, and this could have implications for risk and return, and particularly for volatility.

Risk

Alternatives are used to hedge against volatility in the equity market, so excluding them from the portfolio could lead to increased risk. An increase in risk could have an impact on the length of time for which Comic Relief must hold investments (as greater volatility might require the organisation to hold investments through more prolonged downturns) or the size of the organisation's reserves.

Return

To give an example of the impact of negative screening, Cambridge Associates analysed the effect of excluding alcohol, tobacco, gambling and weapons from the global equity universe. These sectors represent around 5% of global equities and Cambridge Associates estimate that excluding these stocks would have reduced average annualised return by around 0.6 points over the last five years.⁵ If 100% of Comic Relief's portfolio was in equities, this would represent a c11% decrease in Comic Relief's budgeted total return of 5.5%⁶. In practice the charity holds many other asset classes, some of which would need to be excluded entirely if screens were adopted (for example hedge funds and private equity).

Providing a detailed quantification of how this might affect the performance of the portfolio is a complex task that should be worked through by the Executive, the Investment Committee and Trustees following the investment review. Comic Relief depends on the public for its income and so must balance this potential reduction in return from investments with the need to protect fundraising income and ensure that the organisation's investment policy is in line with its vision.

Conclusion

The panel recommends that Comic Relief should act as one organisation, with its vision and values manifested in all of its activities, from raising funds to making grants. The review of Comic Relief's investments that is described in this paper was carried out in response to an external threat, but the panel believes that it also represents an opportunity to increase the charity's impact. By revising its investment policy Comic Relief can ensure that it is using all of its money, capital and income, to work towards a just world free from poverty.

NB The panel received written and oral submissions as well as legal advice to inform these recommendations.

⁵ Over a longer period the variance is likely to be lower.

⁶ This is an area of debate and counterclaim. For example, Deutsche Bank's 'Socially Responsible Quant' paper of April 2013 suggested that investments in more socially responsible companies outperform the market.

