Aligning our endowment with our mission

Mark Norbury *and* Jamie Broderick *explain how they are changing their investment approach from maximising financial returns*

"ACROSS UNLTD'S GRANTS, SOCIAL INVESTMENTS AND ENDOWMENT WE ARE NOW OPERATING ACROSS THE WHOLE SPECTRUM OF CAPITAL"





Mark Norbury, *CEO of UnLtd, and* Jamie Broderick, *trustee and chair of UnLtd's investment committee*

AS TRUSTEE for the £175m endowment of the Millennium Awards Trust (MAT), this year UnLtd revised its investment policy to make a commitment to sustainable investing and introduce impact investing into the portfolio wherever possible. This enables us to align its endowment to its mission, while fulfilling the MAT trust deed, the need to maintain its inflation-adjusted value and distribute income to enable our charitable objectives. In this overhaul, we have streamlined our multi-manager structure by handing over the reins to a single asset manager with proven expertise in sustainable and impact investing.

UnLtd has been finding, funding and providing in-depth support to social entrepreneurs tackling societal challenges for over 20 years including founders like Beth of Patchwork Hub, a recruitment platform and employer advisory service for disabled people. As a result of our backing, Patchwork Hub has opened up over 5,000 jobs for disabled people, trained 900 employees and changed recruitment and retention practice in dozens of employers. Beth is just one example of the thousands UnLtd has helped to create lasting change for good.

Providing that funding and support is only possible thanks to the income generated from MAT, a permanent endowment from the Millennium Commission. UnLtd is the sole corporate trustee of MAT, and it is vital that the charity fulfils the governance, legal and financial requirements of the trust deed – and that its stewardship generates the returns needed to fund its awards for decades to come. This has meant that our investment committee has been focusing exclusively on long-term, risk-adjusted financial returns. However, it is also important that how we invest this endowment is aligned to our mission and values.

> "We were heartened by the Butler-Sloss ruling in 2022"

Investment market orthodoxy, Charity Commission guidance, the terms of MAT's trust deed and our own investment committee precedent all suggested we could not get away from maximising financial returns.

GOING BEYOND ESG

In 2019, we explored this in some depth and reaffirmed our commitment to the UN Principles of Responsible Investment. In the subsequent investment strategy formulation and asset manager selection, the committee consciously sought out those who had an outstanding financial and environment, social and governance performance.

We were heartened by the Butler-Sloss ruling in 2022. The High Court held that trustees' powers to invest must be exercised to further a charity's purposes. Although the court ruled that this would normally mean maximising financial returns, it held that trustees had a discretion as to whether to exclude investments which they reasonably believed were in conflict with their charity's purposes.

We have been exploring how we might interpret the terms of the trust deed to enable us to maintain initial real value (IRV) while taking a more rounded, long-term view of returns.

The first thing we have done is adjust our investment policy to ensure we have this holistic view.

The new paragraphs from the policy now read: "The trustee believes that responsible investment should go beyond exclusions and would expect delegated asset managers to seek to generate positive societal impact through active engagement with companies' management teams in order to pressure and/or guide them to improve their business practices across a spectrum of social and environmental issues.

"The trustee also expects delegated asset managers to seek out opportunities to provide incremental capital or liquidity to enterprises and projects that are actively generating societal good, as long as these are consistent with the MAT's return expectation. These might include social or green bonds, renewable energy infrastructure, affordable housing, healthcare, natural capital, or any number of other sectors that are able to generate market-consistent returns and/or portfolio diversification."

MOVING TO ONE MANAGER

In parallel to the board approving this important change in policy, our

investment committee looked at how this change should be expressed through the investment strategy and asset management. Historically, the committee members had chosen and overseen fund managers themselves which meant that each fund had to individually meet the terms of the trust deed. We decided to step away from such a granular, hands-on approach.

This liberated us to seek to meet the terms of the trust deed (maintain IRV) at portfolio, not at fund level.

At the start of this year, we went out to find and select an asset manager who would seek to maintain IRV long-term for the whole portfolio while also looking to weave in impact for some specific funds and holdings. This means that the chosen asset manager must develop a strategy across the whole portfolio which meets ambitious, long-term, risk-adjusted returns (4% + inflation), income requirement (UnLtd has a spend rate of 3.5%), while also being thoughtful and ambitious on impact.

After a highly competitive process, Cazenove was chosen. In addition to the usual elements of financial track record, charity client understanding and satisfaction, Cazenove showed a real culture, mindset and delivery around impact. Most important of all, there was a significant appetite for, and commitment to, a flexible, dynamic learning partnership.

This is crucial as it will not be straightforward to both:

- Invest in enterprises that are actively generating societal good, consistent with the risk, return and income expectation and the requirements of the trust deed.
- Engage actively with the public companies invested in to get them to improve their business practices and the effect they have on society and the environment.

We will be reporting back on our progress, the opportunities, the challenges, the learnings – in the hope that sharing these experiences will encourage more endowments to take a step towards 100% mission alignment. The transition of our legacy holdings will take a year or two, but it is great to be explicitly and ambitiously on this path to align our mission with the MAT endowment.

Having evolved the investment committee's policy, portfolio and partner, we have now taken the opportunity to bring additional expertise and leadership to the committee by welcoming three new people. They are: Cecil Adjalo, co-founder and chief operating officer of FounderVine, Mathu Jeyaloganathan, chief investment officer of Camden Council and Anu Shetty, founding partner of Bramble Ventures.

Adjalo says: "I'll be contributing to how the MAT is strategically managed as part of a new direction in its investment approach. My goal is simple: to ensure this capital drives societal good across a range of assets while achieving market-consistent returns.

> "The transition of our legacy holdings will take a year or two"

"Finance is the number one barrier cited by founders I work with, so being able to influence where and how investment flows, particularly in a way that enables a more diverse society, really matters to me."

This powerful commitment to equity, inclusion and impact will be how the investment committee, through the strategy and governance of the endowment, seeks to remain accountable to our mission and values. We are, however, conscious that there is no magic wand, and we are not promising 100% impact but, instead, seeking 100% mission alignment. There will always be tensions and trade-offs in any investment – managing these with ambition, intent and accountability is key. Part of that accountability will come through capturing and sharing learning – including challenges, setbacks and mistakes – as well as listening and learning from others.

As part of this process, we are working with the Impact Investing Institute to develop a live case study and track how things go over the first year. It will be an interesting and exciting first part of the journey with the full picture likely to be known in 10 to 20 years' time. Anticipating that people's attention may be lost over such a time span, a group of sensible indicators and typical metrics have been put in place – such as benchmarked returns, income yield, volatility as well as portfolio and fund-level reporting.

A LIBERATING MOVE

This is an exciting opportunity: it is liberating because we are looking to generate great returns and generate great impact – this is not about avoiding negatives.

Happily, this dynamic of going after positive impact has taken us to a new strategic position – across UnLtd's grants, social investments and endowment we are now operating across the whole spectrum of capital.

For the endowment, we will practice both impact investment and responsible investment. We have a social investment fund which deploys our own and other investors' funds (philanthropic and commercial) to generate both social and financial returns, with impact and social justice as our priority.

It is not just the whole spectrum of capital, it is also the whole spectrum of our operations. Every day, our organisation finds innovative and worthwhile ways to spend the yield on our endowment, channel our partners' philanthropy, make grants, develop leaders and offer business advice to maximise impact.

We will learn as we progress how we can best understand, evidence and improve this range of both impact and financial return-generating approaches. Having the opportunity to do so puts us in a powerfully distinctive position – it is both a real opportunity and responsibility.

UnLtd is committed to transparency and long-term learning. We welcome conversations with other endowments interested in its experience, the dynamics of the transition, and lessons learned along the way. In addition to sharing outcomes in the years ahead, we are prepared to provide its investment policy, request for proposal documentation, and insights into its asset manager selection process. For those exploring similar changes, the organisation offers itself as a resource and an open partner in dialogue. ●