RESPONSE TO THE SCOTTISH CHARITY REGULATOR'S (OSCR) CONSULTATION ON CHARITY INVESTMENT GUIDANCE AND GOOD PRACTICE

21 September 2018

INTRODUCTION

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 2100 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US $80 trillion in assets under management.

Over 300 PRI signatories are based in the UK, 50 of which are asset owners (including 12 foundations and endowments). They manage assets worth approximately £927 billion. The PRI currently has 16 signatories based in Scotland, eight of which are asset owners representing £255 billion of assets.

Signatories to the PRI commit to the six Principles of responsible investment. Responsible investment explicitly acknowledges the relevance to investors of environmental, social and governance (ESG) factors in investment decision-making, for the long-term health and stability of financial markets.

The PRI welcomes the opportunity to contribute evidence to the Scottish Charity Regulator's (OSCR) consultation on guidance and good practice for charity investments, which aims to support trustees of charities with investments.

SUMMARY OF PRI'S POSITION

We welcome the OSCR's guidance for Scottish charity trustees regarding rules and responsibilities associated with investing their assets, however, we recommend that the guidance makes a clear distinction between:

i) the consideration of ESG issues as a necessary component of making investment decisions to manage financial risk and return in the best interests of the charity, and;
ii) investment decisions which take ethical and other non-financial factors into account.

The incorporation of ESG factors into investment decision-making to better manage financial risk and return is not the same as ethical, social or impact investing, which seeks to combine financial return with moral and/or ethical considerations.

Specifically we recommend that the OSCR:

1. Amend SORP (FRS 102) section 1.47 to remove the word "ethical" and to also replace the clause which suggest consideration of ESG factors is an optional consideration in the investment policy. An example of alternative wording might be: *the financial review should also explain: where the charity holds material financial investments, and how it takes environmental, social and governance considerations into account in its investment policy."* Section 8 of the guidance should be likewise updated. These changes would be well-aligned with recent amendments made to the Investment Regulations on the investment duties for trustees of occupational pension funds in the UK.[1]

2. Remove the guidance wording *"social and environmental returns (non-financial returns)"* in section 5.1, and consider how it can best leverage and align with social impact investment opportunities identified in the report "Growing a Culture of Social Impact investing in the UK."

3. Align section 5.2 of the guidance on methods used to select investments with common definitions and practices used within responsible investment. For example, we believe that considering ESG factors is relevant for all investment decision-making, rather than an optional method. In addition, we recommend using PRI's practical guide to equity investing to enhance the guidance on ESG integration (including negative and positive screening).

4. Include a statement in the guidance that charity trustees should seek disclosure from investment managers acting on their behalf about how they integrate ESG issues in stock selection, portfolio construction, voting and stewardship activities. This addition would be aligned with the Charity Commission's CC14 guidance which states that investment managers of charity assets *"should vote and engage [with investee companies] as a matter of course."*

For further details, please contact policy@unpri.org.

[1] See the government's response to the Department for Work and Pensions consultation on clarifying and strengthening trustees' investment duties (September 2018).