

# ETHICAL CS

NEW SOLUTIONS TO CHANGING CLIENT NEEDS

CCLA

## IMPORTANT INFORMATION

- Changes to the existing COIF Charities Investment Fund
- Launching a new fund, the COIF Charities Ethical Investment Fund
- Improving performance reporting

If you are happy with the changes suggested in this document, **no action is required**

If you wish to take advantage of a time limited offer to transfer to the new COIF Charities Ethical Investment Fund **on preferential terms**, action must be taken by **Friday, 18 December** (see page 7 for instructions)

# A WELCOME BY THE COIF CHAIRMAN

The COIF Charity Funds were created to serve the needs of the charity sector, and the COIF Board is committed to ensuring that they continue to do so effectively in the future. On our behalf, CCLA periodically carries out a survey of the major COIF investors to assess their needs. The most recent survey has shown how the ethical and responsible requirements of our investors have developed and diverged. To address this, we have decided, in conjunction with CCLA, to change the ethical and responsible investment policy followed by most of the existing COIF Charity Funds, and launch a new COIF Charities Ethical Investment Fund. These changes will give our investors a greater choice in the future.

This newsletter also sets out some improvements to the COIF Charities Investment Fund's benchmark which will provide a more useful measure of the success of both this fund and the new COIF Charities Ethical Investment Fund.

## **David Henderson**

Chairman  
COIF Board

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# ETHICS: NEW SOLUTIONS TO CHANGING CLIENT NEEDS

**Client requirements do not stand unchanged over time. CCLA has asked what they need today, and is responding.**

## **MICHAEL QUICKE, CHIEF EXECUTIVE**

CCLA is one of the pre-eminent charity fund managers in the UK and we are owned by our charity and faith clients. As a result, we have always made it a priority to enable our clients to reflect their principles in the management of their investments.

Following an extensive consultation period, it has become clear that our clients are interested in following two distinct approaches to ethical and responsible investment, and that there is therefore a need to broaden our fund range to reflect this divergence of interests.

In response to this consultation, we will make some changes to the ethical and responsible investment policy followed by three of the current COIF Charity Funds and launch a new COIF Charities Ethical Investment Fund. These changes will enable more clients to align their investments with their values.

From January the existing Investment Fund, Global Equity Income Fund and Fixed Interest Fund will follow a policy primarily based on engaging with companies about human rights and other international norms. A few exclusions will remain.

The new COIF Charities Ethical Investment Fund will have a broader set of ethical exclusions than we offer currently, and will be backed by a programme of additional corporate engagement in the areas of greatest interest to clients.

The new fund will be run with the same investment strategy as the COIF Charities Investment Fund: a focus on delivering a good and growing income, together with attractive long-term capital growth. We do not expect the ethical screening policies to have a material effect on long-term investment performance.

**If you are comfortable with the new ethical and responsible investment policy for the three existing COIF Charity Funds (see page 5), then no action is required.**

**If you would like to transfer your units to the new COIF Charities Ethical Investment Fund on preferential terms, please contact us as soon as possible to ensure the necessary paperwork is completed and returned no later than Friday, 18th December 2009 (see page 7).**

Please do get in touch if you have any questions.

**Michael Quicke**  
September 2009

# THE BACKGROUND TO THE ETHICAL CHANGES

## Tailoring the investment policies of the Funds to match more closely the investment requirements of our customers.

Traditionally ethical investment has been a challenge for the charity sector. Trustees have a duty to invest in a way that furthers the purpose of their charity, which often means preserving and growing the value of the assets they were entrusted with, but doing so in a way that is aligned with the charity's mission.

"Because nearly all our clients are churches and charities, we have a great deal of experience in balancing clients' values with the need for return", says Michael Quicke, CCLA's Chief Executive. "Last year we recruited Helen Wildsmith, the former Executive Director of UKSIF [the Sustainable Investment and Finance Association] as Head of Ethical & Responsible Investment. Her first project was to survey the views and requirements of our clients".

The findings from this survey have resulted in innovative changes to some of the existing COIF Charity Funds, and the launch of a new COIF Charities Ethical Investment Fund. Helen notes, "It's very rare for fund managers to canvass the opinions of their clients on these issues".

The survey revealed two groups of clients. The first group, representing about a third of assets, wanted to exclude contentious products and services like weapons and gambling. This group of clients also wanted to avoid companies that support oppressive regimes in countries like Burma and Sudan.

A second group was much more interested in international norms and the relatively small

numbers of major companies that fail to meet these minimum standards. "Clients felt that companies that continue to violate widely accepted standards in areas like human rights should be excluded after a period of engagement," adds Helen.

A perennial accusation aimed at funds that exclude stocks for ethical reasons is that they are sacrificing long-term returns. There is no evidence for this, says James Bevan, Chief Investment Officer, "it used to be thought that there was a performance risk because there was less choice, but thanks to richer data and greater computer power we can now exclude particular stocks but retain desirable characteristics by re-weighting other holdings".

Combining engagement and exclusion allows charities to meet their needs in a very innovative way. For example, alcohol was a concern for 80% of clients surveyed. A number of clients for the COIF Charities Ethical Investment Fund wanted to exclude alcohol producers and pub groups from the outset, but they also wanted CCLA to engage with supermarkets selling alcohol, and ultimately exclude them if they fail to address poor practice. Other clients were more interested in encouraging better practice across the alcohol sector, so there will continue to be no exclusions based upon the proportion of income generated by the sale of alcohol in most of the COIF Charity Funds. Failure to address poor practices however could ultimately lead to companies being restricted.

### CCLA's postal survey of clients found that:

- A** – 79% of charities supported ultimate divestment from companies violating the Universal Declaration of Human Rights.
- B** – 68% of charities supported ultimate divestment from companies violating ILO Core Labour Standards.
- C** – 73% of charities supported ultimate divestment from companies violating international norms on Climate Change Disclosure.



# THE ETHICAL CHANGES IN DETAIL

**From January 2010, The COIF Charities Investment Fund, Global Equity Income Fund, and Fixed Interest Fund will have the following ethical and responsibility policy:**

**Any involvement** by companies in the production of **landmines** or **cluster bombs** will lead to exclusion from these three funds.

Companies **with significant involvement** in **tobacco**, the **production of pornography** and **online gambling** will also be excluded.

These are the only restrictions relating to armaments and gambling. The effect of these changes in ethical policy will mean those charities wishing to retain arms and gambling exclusions should ensure a transfer to the new COIF Charities Ethical Investment Fund is processed by Friday, 18 December 2009.

Company **engagement** (with the ultimate sanction of exclusion) will focus on poor sales and marketing practices relating to **alcohol**, and violations of international conventions and norms in the areas of **human rights, employment practices** and **climate change disclosure**.

There are no other changes to the investment policies of these Funds.

**The new COIF Charities Ethical Investment Fund will have the following ethical and responsible policy:**

**The Ethical Fund** will exclude all companies with **any involvement** in supporting oppressive regimes (currently **Burma** and **Sudan**) or the production of **landmines, cluster bombs** or **nuclear weapons**.

Companies with **significant involvement** in **tobacco, alcohol, pornography, gambling** and **conventional weapons** will also be excluded. Importantly the total exposure of the Fund to any form of weapons manufacturing will not exceed 1% of total assets.

Company **engagement** (with the ultimate sanction of exclusion) will focus on poor practice by any remaining companies with exposure to the products and services above and violations of international conventions and norms in the areas of **human rights, employment practices** and **climate change disclosure**.

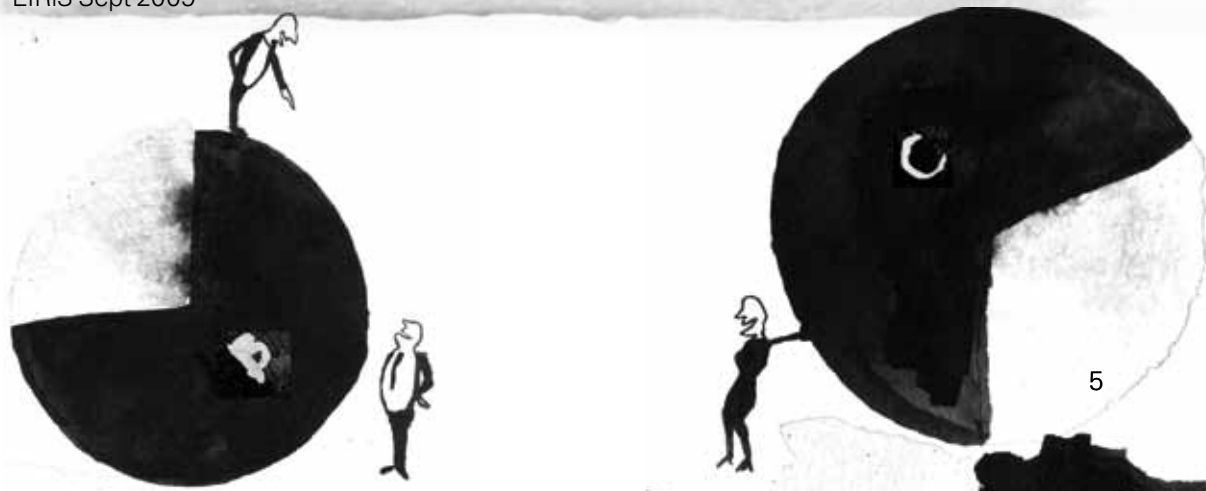
The new Fund will follow the same investment objectives and have the same charges and other administrative arrangements as the existing COIF Charities Investment Fund.

Both funds will keep under review investment opportunities in asset classes and investment themes that simultaneously strengthen the overall risk and return characteristics of the portfolios, and provide social and/or environmental benefits. These might include **micro-finance** and **green technologies**.

**Examples of FTSE350 companies that will only be excluded by the Ethical Fund:**

Diageo (Alcohol), Ladbrokes (Gambling), and Rolls Royce (Defence)

**Examples of FTSE350 companies that will be excluded by all four funds:** British American Tobacco (Tobacco), Party Gaming (Online Gambling) and BAE Systems (Cluster Bombs) Source: EIRIS Sept 2009



# IMPROVING THE CLARITY OF PERFORMANCE REPORTING:

## Benchmarks for the COIF Charities Investment Fund and the COIF Charities Ethical Investment Fund.

The COIF Charities Investment Fund has always been managed to provide a balance between income and growth. In order to gauge how well this fund has performed in pursuit of these objectives the historic approach has been to consider not just the returns achieved themselves but also to review them against those achieved by the WM Co Charity Fund Service Universe.

The expectation has been that this would provide a good insight into the relative performance of the Fund and so allow comparisons with the performance of other managers. There are two issues however which have disappointed these expectations.

Firstly the WM peer group has become small and is no longer representative of underlying markets. Secondly, the group does not share common objectives or follow similar strategies. This means that the average structure of a fund in the survey does not represent accurately the actual structure of any funds, whilst the median return calculated from it does not represent actual returns that have been achieved. The result of these shortcomings is that the comparison with the median return gives little real insight into what individual funds are actually achieving.

These concerns have been discussed at length with the COIF Board. We have agreed that the long term objective of the Investment Funds is to provide an average annual real total

return to investors of 5% whilst maintaining the value of income after inflation, and that this objective should be achieved at a controlled level of risk. Our focus must be on delivering these objectives and that focus should not be distracted by reference to a peer group which is not representative of our clients' interests.

Of course the business cycle will extend over several years and within this period trustees must be able to see how their investments are performing. To aid this our quarterly bulletins will publish returns against those of a composite index which reflects the returns of investment markets and therefore provides the comparison that trustees need. The composite index will be structured to reflect the long term strategy of the Investment Funds and will be comprised of the asset classes which are best placed to produce the long term returns required.

The index will reflect an 80% allocation to equities of which 60% will be invested in the domestic market and 20% in markets overseas. Property will account for 10% with the balance of 10% allocated to UK government bonds.

The COIF Board is confident that the new benchmark will reflect better the true objectives of the Funds and that the composite index will make performance comparisons more relevant and more transparent.

# NEXT STEPS

If you are happy with the changes proposed to the COIF Charities Investment Fund, Global Equity Income Fund and Fixed Interest Fund, **you do not need to take any action.**

If you would like to move across to the new COIF Charities Ethical Investment Fund, you can do this at any time from the 7 January 2010 at the normal Bid and Offer price. Please contact CCLA's Client Services Department on 0800 022 3505. They will arrange to forward the appropriate documentation for completion.

However, to take advantage of a time limited offer to transfer to the new fund **on preferential terms**, CCLA must receive your completed form by Friday, 18 December 2009. To register your interest in this offer, and receive the necessary transfer documentation, please e-mail [ethicalfund@ccla.co.uk](mailto:ethicalfund@ccla.co.uk) or telephone Alison Jermey on 0800 022 3505.

## Reminder: Charity Commission Guidance CC14 says,



CC14 states that trustees must “invest in a way that furthers the purpose of the charity”, and that this can be consistent with an ethical investment policy which “does not detract from the object of obtaining the best direct financial return from investment” or involves:

- “Avoiding investments in a particular business that would for practical reasons conflict with the aims of the charity”.
- “Avoiding investments that might hamper a charity’s work, either by making potential beneficiaries unwilling to be helped ... or by alienating supporters” if the costs are likely to outweigh the benefits of investment.

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