UKSIF
UK Sustainable Investment and Finance Association

David Robb
Chief Executive
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Dear Mr Robb,

Thank you for the opportunity to respond to OSCR's public consultation, *Charity Investments: Guidance and Good Practice*. I am responding in my capacity as Chief Executive of the UK Sustainable Investment and Finance Association (UKSIF). For some time we have been calling on the Charity Commission to publish similar advice relating to ESG and ethical investment, and we welcome OSCR leading the way in the UK on this issue.

UKSIF is the membership network for sustainable and responsible financial services in the UK. We act as the voice of the responsible investment sector and promote long-term investment aimed at sustainable economic development, enhancing quality of life and safeguarding the environment. Our members include many of the UK's largest pension funds, banks, insurance firms and asset managers, all of whom are committed to long-term sustainable economic growth.

Our comments focus specifically Chapter 5 where we feel more clarity would be helpful. We welcome the reference to non-financial returns on investments in paragraph 5.1. Adequate guidance on this from regulators has been lacking for some years. Linking the additional social and environmental returns to a charity's purpose can be extremely useful in helping to explain how it meets its objective and it is right the regulator makes this clear.

Given the target of this guidance is lay trustees, we would favour even more clarity from the regulator that this section specifically relates to non-financial social and environmental returns associated with investments. In other words that it is different from "social investment" for which new laws have recently been developed for charities in England and Wales and which also generates social or environmental returns and "ESG investment" where financially material environmental, social and governance factors are considered.

Paragraph 5.2 outlines "ESG investment", which we take to mean consideration of financially material ESG factors, as well as negative screening and positive screening. You helpfully outline that this is where investors consider ESG risks to enhance financial returns although we would also include the financial opportunities associated with ESG factors. We appreciate this may be included to make clear that just because a charity chooses to invest through an ESG lens, this does not mean they necessarily screen out investments which may run contrary to their purpose. In our opinion all charities should therefore be considering financially material ESG factors. While we appreciate there is no law requiring charities to invest in such a manner, we cannot understand why investors would not wish to consider the full range of risks and opportunities relevant to their investments, and believe this is a crucial opportunity for the regulator to make that clear.

We think that, just as supporters of a charity could become alienated where investments run contrary to a charity's purpose, supporters would be equally concerned with a charity which through poor financial returns may limit its ability to meet its charitable purpose in the future. Therefore we think "ESG investment" should be referred to not as a potential investment strategy choice, as is currently stated in the guidance, and we would welcome stronger language in the guidance that this is simply the way in which prudent charities should invest.

Linked to this is our slight concern that negative and positive screening appear directly under "ESG investment". This risks conflation between consideration of financially material and non-financially material factors. In England and Wales this is something that was found to be a source of confusion and a key obstacle for *pension scheme* trustees trying to understand their investment duties.

The materiality of ESG factors is something that has been recognised by many other institutions which now require their regulated asset-owner bodies to act where a factor is material to their investments. These include, among others, DCLG for LGPS schemes, TPR for trust-based pension schemes, and most recently DWP have laid new regulations to clarify that pension scheme trustees are required to consider all financially material factors. We also expect a consultation on similar provisions for contract-based pension schemes from the FCA in Q1 2019. Once again, the point is that consideration of all financially material risk and opportunities, including those stemming from ESG factors, has become quasi-mandatory for other types of asset owner in the UK. It would be disappointing if the regulator missed this opportunity to encourage charities to ensure this is their default approach to investment and we would welcome stronger language that reflects this.

Overall we thoroughly welcome this new guidance for charity investors which is timely and reflect the Scottish regulator taking the lead on these important issues. I hope our comments are clear, but if you have any comments please feel free to contact me via fergus.moffatt@uksif.org.

Yours sincerely,

Simon Howard
Chief Executive
UK Sustainable Investment and Finance Association