paulramsay FOUNDATION

INSIGHTS PAPER

Total Impact Approach

Embedding Responsible Investing into PRF's Investment Policy Statement

DECEMBER 2023

Executive Summary

The Australian Charities and Not-for-profits Commission's (ACNC) latest Australian Charities Report states that charity assets now stand at $422 billion[i]. If a fraction of these assets are invested in ways which contribute to solutions to society and the environment, then Australia would make significant strides in improving outcomes for people across the nation.

This is the concept behind a 'total impact approach' in which charitable foundations consider all the ways in which they can create a positive impact – as opposed to targeting impact through a small percentage of total assets for grant making. Heron Foundation in the United States is credited by many as pioneering this model when it made the decision to commit 100% of its assets for mission in 2012; the practice in Australia, however, remains nascent relative to many global peers.

In August 2023, the Paul Ramsay Foundation (PRF) approved a new Investment Policy Statement (IPS) which signalled the formalisation of its total impact approach. For the first time, this key governance document included the addition of core commitments to responsible investing across its entire Balance Sheet[1]:

- Establishing Impact Objectives;
- Negative screens;
- Impact risk analysis;
- Stewardship;
- Fund Manager selection; and
- Reporting.

This paper explores PRF's responsible investing across whole of Balance Sheet, and the process, learnings, and future considerations captured in amending PRF's Investment Policy Statement.

Whilst PRF, like many others, is at the beginning of its journey, we are excited by the path ahead. We believe that to accelerate the growth of total impact approaches to ensure that the impact of how capital is invested is inherently considered, we must work together and share our findings. We hope that this paper stimulates discussion, and we look forward to working with others on this collective journey.

1 References to PRF's Balance Sheet refer to freely available Balance Sheet which excludes PRF's Ramsay Health Care shareholding.

Background / Problem

Every investment has an impact on society and the environment. This impact may be positive, or negative, intended, or unintended. More and more we are seeing the financial world taking the responsibility of this impact more seriously. This has resulted in the practice of 'responsible investing' – considering Environmental, Social and Governance (ESG) issues when making investment decisions – growing significantly over recent years.

Foundations have been at the heart of considering the social and environmental implications of the ways in which they invest their funds. Motivations behind alignment of foundation investment portfolios with responsible investing practice have become common practice and are now well understood:

1. Impact lens, always: A principle that, as a mission-driven entity, a foundation should apply an impact lens to all aspects of its operations, whether that be how it procures supplies or how it invests its portfolio.
2. Mitigating impact risk: Given that all investments have an impact, whether intentional or otherwise, it is possible that investments made within an investment portfolio can inadvertently contribute to the problems that foundations are trying to solve.

What is an Investment Policy Statement?

An organisation's Investment Policy Statement governs the way in which its funds are managed. An IPS describes an organisation's investment objectives, approach to risk, liquidity requirements and roles and responsibilities of all parties involved in managing its Investment Portfolio.

As such, it serves as the critical governance document and the principal method of entrenching responsible investment within a foundation's Investment Portfolio (i.e., across whole of Balance Sheet), therefore offering a proven method to employ a total impact approach.

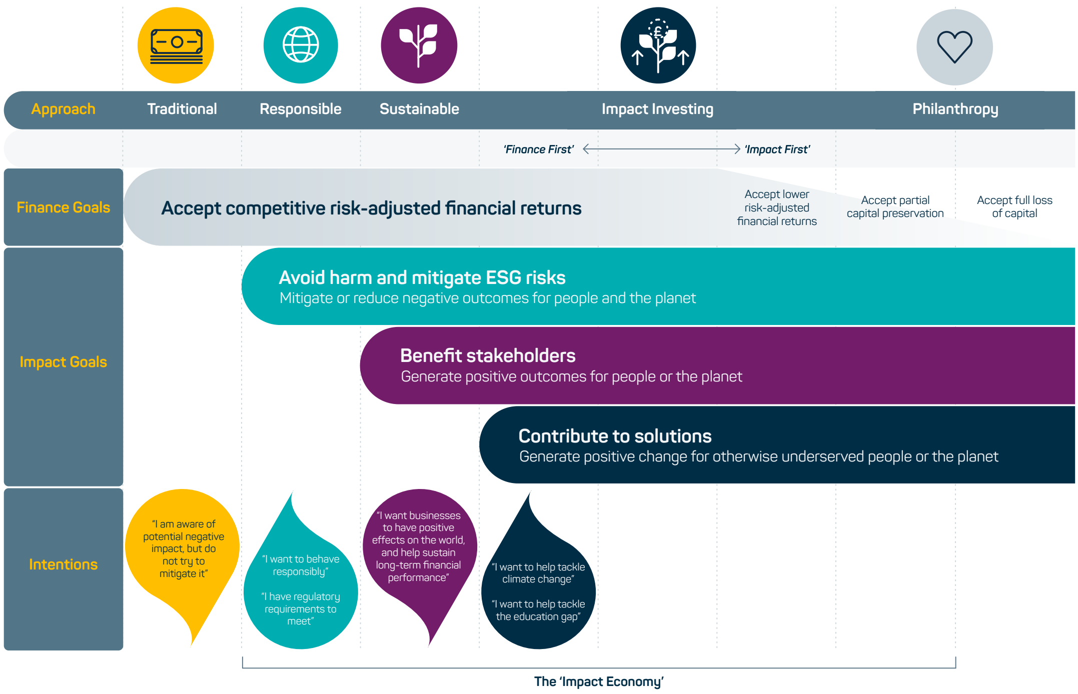
Business model foundations typically employ

Foundations vary in size, structure and focus. What is typically constant is their nonprofit nature and the activity of providing funding and support to other for-purpose organisations, often through grant-making. Often, foundations are endowed by an individual or family which establishes an endowment (or corpus). A foundation's business model typically comprises two elements:

- Endowment Investment Portfolio (Investment Portfolio) – the investment (or composition) of the Investment Portfolio funds which are designed to generate returns to enable distributions and support operating costs (and often enable the foundation to exist in perpetuity); and
- Investment Portfolio proceeds – the distributions made from the Investment Portfolio to enable the foundation to operate (operational expenditure) and support for-purpose organisations (grant-making and in some instances impact investments).

The risk profile across the two elements varies. Assuming the foundation seeks to exist in perpetuity, the Investment Portfolio needs to invest in relatively secure assets to meet financial return expectations (often an inflation + objective); the proceeds from the investment portfolio would typically have an extremely high-risk tolerance (grant making with inherently no financial return expectation, and / or PRIs).

Spectrum of Capital



Source: Bridges Fund Management and Impact Management Project. Available at https://www.impactinvest.org.uk/resources/publications/investing-with-impact-in-the-endowment/

What is a total impact approach?

There is no fixed definition for a total impact approach, however it is generally accepted that a *total impact approach is when a charitable foundation considers all of the different ways that it can achieve impact with the breadth of its resources.*

This could entail many activities – moving resources within a grant portfolio, from one area to another; redirecting resources within a supply chain, towards organisations that better align with the foundation's mission; and relocating funds from purely investments that are impact-agnostic to investments that consider social and / or environmental impact across the 'Spectrum of Capital' typically through:

- **Impact-first Program Related Investments** – investments which seek to deliver capital that is patient, risk-tolerant and flexible to support a foundation's pursuit of its impact goals, rather than primarily to generate income. Program Related Investments (PRIs) are primarily focused on impact return, accepting concessionary financial returns as a consequence. Impact-first investments are, therefore, typically made from the proceeds of an Endowment Investment Portfolio

- **Carve outs** – a proportion of the Endowment Investment Portfolio that is committed to impact investing opportunities which seek to achieve both financial returns in line with the foundation's overall return requirements and achieve positive outcomes which may be aligned with the foundation's Charitable Mission. These investments are often called Mission Related Investments (MRIs).

Case study – Esmée Fairbairn Foundation

The Esmée Fairbairn Foundation was founded in 1961 and is one of the UK's largest independent funders. Esmée aims to "improve our natural world, secure a fairer future and strengthen the bonds in communities in the UK."

In 1997 Esmée Fairbairn Foundation made its first Program Related Investment which led to the establishment of a £45m allocation to PRIs. Esmée became signatories to the UN PRI in 2013. In 2017, Esmée established a £25m ESG carve out from its Endowment Investment Portfolio (renamed the 'Enhanced Sustainability Allocation' and increased to a target 5% of total Endowment Investment Portfolio in 2023).

In 2021, Esmée established an additional carve out for impact investing which sought to provide risk-adjusted market returns alongside the generation of positive social and environmental outcomes.

Esmée Fairbairn Foundation's Investment Policy Statement which governs its £1.3bn[2] contains several commits to ESG.

- **Responsible investing[4] across whole of Balance Sheet** – all foundation assets (i.e., its total Endowment Investment Portfolio) are managed with the intention of, at minimum, avoiding harm to society and the environment and, ideally, supporting positive practice through, for example, active management and stewardship. This is accomplished by embedding ESG practice across its investing primarily by amending the foundation's Investment Policy Statement.

This paper principally concerns PRF's responsible investing across whole of Balance Sheet and the process and learnings in amending PRF's Investment Policy Statement.

Case study – Ford Foundation

The Ford Foundation was established in 1936. The Foundation's mission is to "reduce poverty and injustice, strengthen democratic values, promote international cooperation, and advance human achievement." With an endowment of US$16bn[3], the Ford Foundation is one of the US' largest private foundations.

In 2017, the Ford Foundation made a US$1bn commitment to impact investment, making it the largest carve out commitment to Mission Related Investments among all foundation endowments. At end of 2021, US$385m of its allocation had been committed with investments in the allocation having generated a compound annual return rate of 28%[ii]. Ford Foundation aims to have committed its US$1bn impact investment allocation by 2027.

2 As at end of 2022.

3 As at 2023.

4 Please note that responsible investing is distinct from impact investing. Impact investments have the intention of generating positive measurement impact alongside a financial return; responsible investing principally aims to mitigate ESG risk and avoid harm.

Our Solution

We believe that by considering the impact of the way in which our whole Balance Sheet is invested (rather than a pure focus on impact through our grant making and impact investing) PRF will have greater success in the pursuit of its Charitable Purpose: to break cycles of disadvantage.

Whilst screening and divestment are two strategies employed to address a whole-of-funds approach to impact, PRF believes that engaging with Investment Portfolio holding companies and Fund Managers is another effective way of supporting a shift towards a society which considers both the positive and negative impact companies have on society and the environment, and alter fund allocation as a result; we define this shift we wish to see in the way that finance is considered as 'Finance 2.0'.

PRF's impact investing

PRF's impact investing activities began in early 2020 with a strategy which identified several barriers (limited finance for early-stage social enterprises; social enterprises struggling to becoming financially sustainable; institutional investor interest failing to translate into activity).

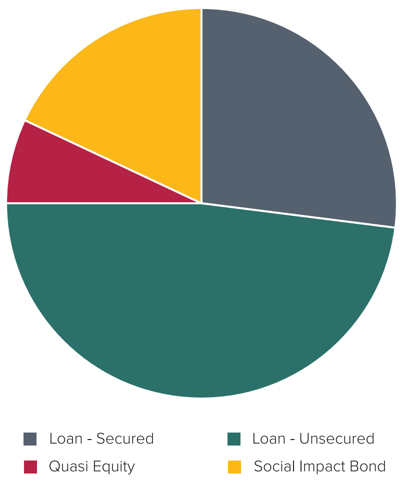
This original strategy was evolutionary in nature, designed to alter over time based on emerging evidence and best practice within, and outside of, Australia.

In mid-2022, a new impact investing strategy was approved which built on these learnings and established a strategy with three pillars:

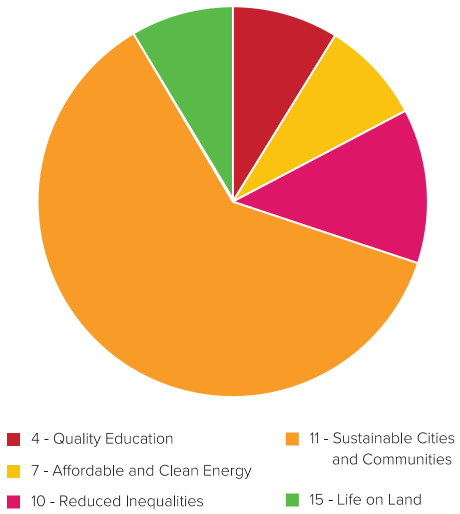
1. **Impact-first Program Related Investing and market building**. Impact investments which align with PRF's impact areas and can accept concessionary financial returns due to the strength of impact created, as well as targeted grants to support market building. This is delivered through a $60m evergreen fund (seeking a non-inflationary adjusted break-even financial return across portfolio to enable recycling in perpetuity) allocation established through the Investment Portfolio proceeds.
2. **Mission Related Investing at scale.** Investing into impact funds – through a 10% allocation from PRF's Investment Portfolio – which seek to generate financial returns consistent with PRF's Investment Policy Statement stated financial return object (CPI+3.5%) alongside demonstrable positive impact.
3. **Pioneering responsible asset management.** Ensuring the way in which PRF's Investment Portfolio is deployed embeds responsible investing principles.

As at November 2023, PRF's active Program Related Investing portfolio (pillar (1)) stands at $23.9m into 16 impact investments across various investment instruments aligned with PRF's impact areas.

Portfolio by Investment Instrument (PRI)



Portfolio by Primary SDG (MRI)

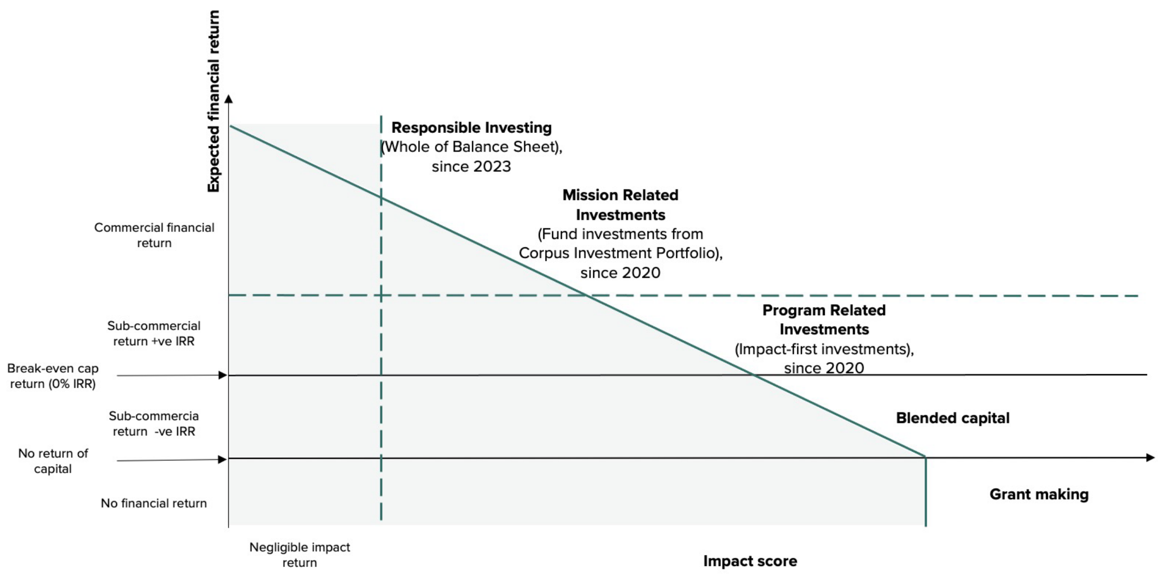


PRF's active Mission Related Investment portfolio (pillar (2)) stands at $117.4m into 9 impact funds contributing towards a range of Sustainable Development Goals.

To further our desire to pioneer responsible asset management (pillar (3)), and to an extent to enable our Mission Related Investing by defining the parameters and conditions within which this 10% allocation should operate, we needed to rewrite our Investment Policy Statement.

PRF Capital Continuum - Commercial Returns to Grants

Financial Returns vs Impact (illustrative)



PRF's new Investment Policy Statement

Over a 14 months period, beginning in June 2022, we embarked on a journey to rewrite PRF's IPS. Working closely with our Investment Committee, Investment Advisors, and global peers, PRF's new IPS received Board approval in August 2023.

In addition to a comprehensive review of the previous IPS (established in May 2020), this version of the governing document included the introduction of responsible investing through seven core commitments:

1. **Establishing Impact Objectives.** The addition of Impact Objectives sitting alongside, and on an equal footing with, PRF's Investment Portfolio's Financial Objectives with a commitment that investments which comprise the Investment Portfolio cannot be made which achieve the Financial Objectives at the detriment to the Impact Objectives and vice versa.

> *"In accordance with the Impact Management Project's Impact Asset Class definition, the Investment Portfolio seeks to 'Avoid Harm' to society and the environment in ways which would contradict PRF's Purpose and values. To achieve this objective, Responsible Investing considerations are embedded into PRF's Investment Portfolio investing practice."*
> **- PRF's stated Impact Objectives**

The specific activities embedded to enable the delivery of the Impact Objectives are:

2. **Negative screens.** Application of absolute screens (zero tolerance) which prevent direct investments from entering the Investment Portfolio which cause harm to society and / or the environment and which contravene PRF's Charitable Purpose. These negative screens apply to investments into the direct producers of:
   - Gambling
   - Pornography
   - Tobacco
   - Weapons
3. **Impact risk analysis.** In addition to negative screens, a commitment to conduct continual thorough impact risk analysis – principally through PRF's Investment Advisors – to identify holdings which may undermine PRF's Charitable Purpose. These investments will be subject to consideration for divestment or stewardship and engagement. Impact risk analysis applies to investments into the direct producers of:
   - Alcohol
   - Coal
   - Predatory Lending
   - Private Prisons
4. **Stewardship**. PRF places a strong emphasis on stewardship and engagement strategies, in addition to divestment. PRF's Stewardship Policy provides guidance on when stewardship and engagement activities may be deemed most appropriate to create the positive change PRF wishes to see.
5. **Fund Manager selection.** Fund Managers are powerful conduits to enact PRF's responsible investing activities, making Fund Manager selection and audit critical. The existence of a documented approach to how Fund Managers (and Investment Advisors) incorporate ESG factors into their investment selection and portfolio management became an essential feature of selection.

6. **Reporting**. A commitment to report against Impact Objectives. Specific reporting includes:
    - The proportion of the Investment Portfolio which contains investments which have been identified through PRF's impact risk analysis.
    - The proportion of the Investment Portfolio which contains Fund Managers which do not meet PRF's requirement for a documented approach to ESG considerations in investment selection and portfolio management.
    - The proportion of the Investment Portfolio which report contribution towards the United Nations Sustainable Development Goals (UN SDGs).
    - The proportion of the Investment Portfolio which does not respond to ESG audits and hence do not comply with PRF's reporting requirements.

7. **Mission Related Investing**. Whilst PRF's first Mission Related Investment can be traced to 2020, the practice had, until this point been undocumented within PRF and hence, undefined. The IPS, through an appendix, introduced the Terms of Reference which established the MRI Allocation's objective, budget, return target, liquidity, risk appetite, management, recommendation criteria, construction, and performance monitoring. Critically, the Allocation's Terms of Reference contained an explicit intent to catalyse new funds.

> *"The Mission Related Allocation is expected to invest predominantly in first-time impact funds or first-time Fund Managers with the intention to catalyse and generate positive, measurable social or environmental impact alongside a financial return consistent with PRF's Investment Objectives."*
> - **PRF's stated Mission Related Investing Allocation risk appetite**

How we got there – practical steps PRF went through to approve a new IPS

We note that there is no single or 'correct' way to develop an Investment Policy Statement. These steps worked for Paul Ramsay Foundation, though we are careful to add that this is not to be taken as advice.

1. **Obtain an internal mandate for responsible (and impact) investing**. PRF is fortunate to have a progressive Board who are keen to undertake impact investing.
2. **Establish financial and impact expectations for the Investment Portfolio.** PRF's financial expectations across the Investment Portfolio have long been established. The impact – or rather responsible investing expectations – necessitated significant discussion and agreement among Investment Committee members and PRF's Investment Advisors.
3. **Understanding ability to deliver.** Whilst conceptual conversations around a total impact approach were useful, we needed to understand whether we can deliver in practice. PRF's Investment Advisors undertook a thorough audit of the existing Investment Portfolio to understand the existing status of the Investment Portfolio and whether responsible investment activities could be delivered. The Investment Portfolio was shown to be compliant with the proposed responsible investment introductions and the additional information gathered enabled open and informed discussions within Investment Committee who gained comfort from PRF's ability to deliver responsible investment integration.
4. **Engaging with (global) peers.** The advancements made by several global peers (notably foundations in the UK and North America) relative to Australia is well documented. In addition to talking with counterparts at Australian foundations, we spoke with many progressive global foundations. The CEO of one pioneering foundation (Esmée Fairbairn Foundation) spoke openly and transparently with PRF's Investment Committee about the journey Esmée had been on in embedding responsible investing within their Investment Portfolio. This provided comfort and support to our Investment Committee.
5. **Update the Investment Policy Statement**. Rewriting the IPS was a lengthy process which consisted of:
   - **Gathering data from other (global) foundations.** Many peers were happy to share their IPS documents (and some make theirs publicly available) given their desire for a 'total impact approach' to spread. Those who didn't share the governing document were happy to talk through their approach.
   - **Working closely with Investment Committee**. Once the concept and ability to deliver had been cemented, the devil became in the detail of the wording. The IPS' development became a standing item on Investment Committee meeting agendas.
   - **Working with Investment Advisors**. As important as working with Investment Committee was working closely with PRF's Investment Advisor given that much of the delivery of the IPS fell on them. We felt that building this relationship with our Investment Advisors was particularly critical given that we wished (and have succeeded in) developing a genuine delivery partnership rather than a linear client-advisor relationship.
6. **Board approval**. Following successful approval from Investment Committee, PRF's Board approved the IPS in August 2023.

Now in execution mode, we are working closely with our Investment Advisors and Investment Committee to deliver the IPS. Monthly meetings with PRF's Investment Advisors are helping us to develop our partnership further, as well as identify better ways of working – including deal sharing, reporting, identifying trends in responsible investing and more broadly ensuring that we are capturing the learning and developing our practice as we go.

In essence, the IPS has consisted of a process of consulting with, working with, and where necessary, building the capacity of stakeholders, embedding support across the organisation and drawing on expert knowledge as necessary. We believe that this is critical in the delivery of a sustained and effective approach.

Learnings

Unsurprisingly, developing a new IPS is a complex – and often lengthy – process which requires patience and deep collaboration so that the diversity and breadth of perspectives are considered. Altering an organisation's IPS is a seismic activity given the inherent commitments and ways of working which it dictates, therefore neither the process, nor the decisions taken should be rushed.

Inevitably we have learned several lessons along the way.

- **Complexity.** The world of responsible investing is complex. Taking negative screens as an example, the concept of excluding investments from selection (or an 'investible universe') seems simple, however, negative screens have sub-components which can have a material effect on activities.
  - Should negative screens compose of direct investments only (i.e., excluding direct holdings into the producers of certain industries of sectors), or should they extend to indirect exposure (i.e., excluding fund investments which contain sub-holdings in the producers of certain industries and sectors)?
  - Should an absolute screen zero tolerance (i.e., complete exclusion of companies, sectors, or geographies) or materiality threshold (i.e., a partial allowance) be employed?
  - Identifying the exclusion of particular companies vs the exclusion of sectors or geographies. And therein, if a company delivers a range of products and services, one of which is on the negative screen 'register' is that holding permissible, and if so, at what point does the level of 'excluded' activity become dominant to the point that a negative screen should be employed?
- **Negative screens vs Engagement.** By their nature, negative screens restrict the investible universe. They are motivated by the idea that some investment opportunities are so opposed to values or objectives that avoiding them is both the moral and strategic thing to do. There is also value in the signalling effect of deliberately avoiding specific companies and industries. However, negative screening has valid criticisms, one of which is the observation that the practice doesn't result in change, rather it simply creates a transfer of investment ownership to another. It can even be argued that negative screening is counterproductive and results in short-termism by organisations who fall foul of the most common negative screens because their cost of capital may increase (because there is less demand from investors to invest, meaning returns must increase to attract investment) which makes long term investment into, for example better ESG practice, less likely. We believe, therefore, that negative screens, should remain one tool, though not the sole tool, and have made the deliberate choice to also focus on engagement and stewardship activities through our IPS. Instead of avoiding a specific company or industry, this entails working more actively with organisations to drive the behaviour and practice change we seek.

- **Education.** Knowledge of responsible investment (and impact investing) is growing, however, absolute knowledge should not be assumed. The discussion on whether financial trade-offs driven by the reduction in investible universe remains rife. Recognising and acknowledging that a Spectrum of Capital exists and ensuring that all stakeholders involved in the process begin the discussion on an even keel so that informed decisions can be made is critical.
- **Lack of data.** Whilst responsible investing has become more prevalent globally over the last 10 years, high quality data on investment strategies and parameters – such as on returns and volatility – remains limited and inconclusive.
- **Few local examples.** Many Australian foundations have made strides in this area – such as The Myer Foundation and Australian Communities Foundation – however, Australia remains behind global peers. Rather than being viewed negatively, this can be embraced, leading to strong conversations within Australia, the establishment of communities of practice, and working and learning from one another.
- **Learning from others.** In addition to looking for good practice from within Australia, learning from global peers has been instrumental to our practice. The generosity of Esmée Fairbairn Foundation's CEO (Dame Caroline Mason) meant that our Investment Committee could hear directly from a global leader, ask questions, and receive genuine and transparent responses to inform our discussions.

Future

The ACNC's latest Australian Charities Report states that charity assets now stand at $422 billion.[vi] We hope, and believe, that transitioning this significant wealth to consider the impact it has on society and the environment and subsequently embedding responsible investment principles (as a minimum) will result in better outcomes – to society, to the environment – and alter the way in which capital is placed, resulting in a change to our financial system.

However, barriers preventing this transition persist.

- **Complexity and capability gaps.** The aforementioned complexity and nascency of this practice in Australia means that there are inevitably capability gaps – among staff, Investment Committees, Boards and advisors. As such, the practical application process of a new IPS needs to be made as easy as possible. The creation and sharing of models, templates, and existing IPS documents enables a far greater likelihood of adoption rather than each organisation having to independently trawl through mountains of data and reports. Equally, sharing among peers – be that through formal community of practices, or informally – will aid learning, demystify complexity, and fill capability gaps. Templates and forums do not yet widely exist.
- **Education.** Initiatives such as Goodwolf's 'Endowment for Impact' program[iii] – which is itself based on a similar program run by the UK's Impact Investing Institute[iv] – has sought to support market education. Lack of understanding on the practice, and benefits, of responsible investing (and by extension a total impact approach) prevents adoption. The provision of more (useful and practical) educational content to support informed conversations on IPS amendments remains a need.
- **Lack of standardised measurement and ESG data.** A criticism levelled at impact investing has been the lack of standardised impact measurement – despite the prospect of one universal standardised measurement being a pipedream given the complexity of impact . The same criticism is aimed at responsible investing with ESG data inconsistent and many of the large firms using proprietary data which differs between providers. This is unhelpful and leads to confusion. PRF uses the Impact Management Project Norms' Impact Class model alongside the integration of the Efficient Impact Frontier[v] across our PRI and MRI portfolio; we are working with our Impact Advisors on reporting and alignment across our MRI Allocation and Corpus.

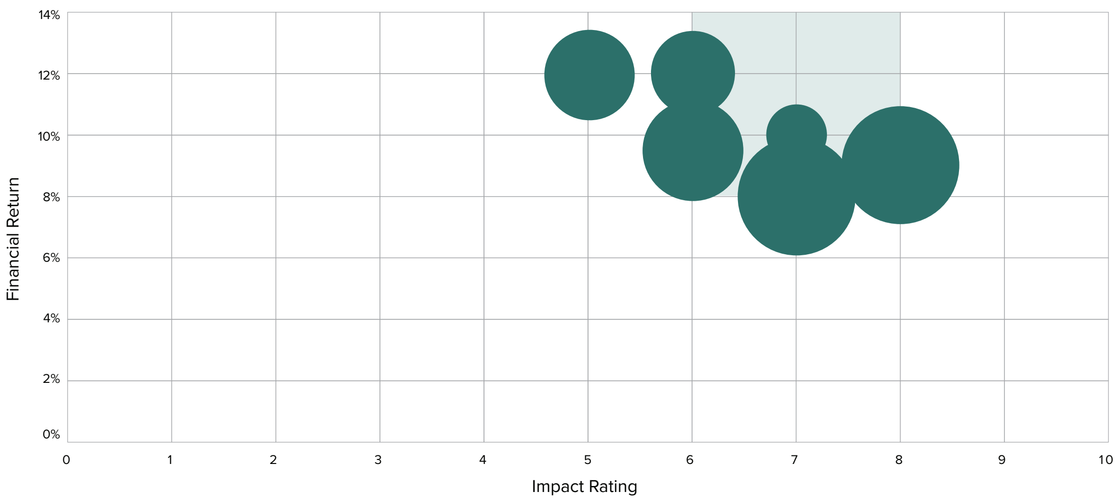
- **Lack of market transparency.** The sparse nature of data means that the evidence-base for responsible investing needs to build. Case studies demonstrating practical application of IPS documents alongside sharing of data points indicating performance will aid transparency.
- **Impact washing.** Impact washing – an unsubstantiated claim to a sustainable practice – creates understandable nervousness; recent history has been littered with example of impact (or green) washing. Regulation has a role to play in reducing this risk. The European Union's EU Taxonomy and Sustainable Finance Disclosure Regulation (SFDR) introduced mandatory ESG disclosure obligations and a classification system which labels funds based on their sustainable practice. Data is showing that more funds are flowing to Article 9 funds (funds targeting sustainable investments) which points to a greater level of investor confidence and comfort. Similarly, the International Sustainability Standards Board (IISB) unanimously voted to require that global climate and sustainability disclosure rules take effect in 2024.

Impact Management Project Norms: Five Dimensions of Impact and Impact Class Model

	Intentions	Avoid harm	Benefit stakeholders	Contribute to solutions
Five Dimension of Impact	**What** ☐	Important negative outcomes	Important positive outcomes	Specific important positive outcomes
	Who ○	Underserved	Various	Underserved
	How much	Marginal and for few	Various	Deep and / or for many and / or long-term
	Contribution ✚	Likely same or better	Likely same or better	Likely better
	Risk △	Various	Various	Various

Source: Adapted from the Impact Management Project. Available at https://impactfrontiers.org/

PRF's MRI Portfolio mapped onto the Efficient Impact Frontier



Concluding Statement

By no means are we suggesting that PRF's approach towards 'total impact' is the only path, nor is it necessarily the best - with each organisation having to consider their own particular circumstances.

PRF, like many others, is at the beginning of its journey and we have a stated desire to evolve and develop our approach as understanding and data points continue to emerge. We are excited about the journey we are embarking upon and are committed to sharing as we progress. Importantly, we believe that as a market – within Australia and globally – considering the impact of capital placement (and hence its effect on society and the environment) is critical in the path to 'conscious capitalism' (or a 'Finance 2.0') which we see as essential to addressing a broad gamut of social and environmental challenges, including to supporting our more specific purpose of breaking cycles of disadvantage in Australia.

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Date: December 2023

Disclaimer:
Ben Smith is the Head of Impact Investing at PRF. This paper is a reflection on PRF's 'total impact approach', contains information and opinions about approaches to impact capital investment, and does not constitute advice.

Glossary

Carve Out – an allocation, typically from an Endowment Investment Portfolio.

Cost of Capital – the cost of a company's funds dictated by the investor's required rate of financial return.

Efficient Impact Frontier – a framework which integrates risk, return, and impact for analysis and decision making.

Endowment (corpus) – a donation of money or property to a non-profit organisation which uses the resulting investment income for a specific purpose.

Environmental, Social and Governance (ESG) investing – an approach to investing which considers investments based on corporate policies and practice to encourage companies to act responsibly.

Impact Management Project – a practitioner community established in 2018 to build global consensus on how to measure, improve and disclose impact management.

Impact washing – an unsubstantiated claim to a sustainable practice.

International Sustainability Standards Board (ISSB) – an independent body that develops and approves disclosure standards.

Investment Policy Statement (IPS) – a governing document which stipulates the way in which its funds are managed.

Mission Related Investments (MRIs) – impact investments which advance a foundation's mission whilst typically seeking risk-adjusted market rate financial returns.

Negative Screens – process of finding investments which score poorly on ESG factors and / or feature on an investor's list of companies, sectors or geographies to exclude.

Program Related Investments (PRIs) – impact investments made primarily to support a foundation's pursuit of its mission, rather than primarily to generate income.

Responsible investment – the strategy and practice of incorporating ESG factors into investment decisions.

Spectrum of Capital – a graphical representation of the broad range of risk / return / impact strategies that exist within finance.

Stewardship – the use of an investor's influence to alter the behaviour of a portfolio company.

Sustainable Finance Disclosure Regulation (SFDR) – a European Union regulation introduced in 2022 which introduced mandatory sustainable finance disclosure obligations.

Total Impact Approach – when a charitable foundation considers all the different ways that it can achieve impact, focusing resources on areas that have the maximum impact.

United Nations Principles for Responsible Investment (UN PRI) – an international network of investors (signatories) working together towards a common goal to understand the implications of ESG to investment and ownership decisions and practices.

Endnotes

i ACNC (2023). Australian Charities Report; 9th edition

ii Ford Foundation (2022). Five years of Mission Investments. Available at https://www.fordfoundation.org/news-and-stories/stories/five-years-of-mission-investments/

iii Goodwolf (2022). Endowments for Impact kicks off in New South Wales. Available at https://www.goodwolf.com.au/insights/endowments-for-impact-kicks-off-in-new-south-wales

iv Impact Investing Institute (2023). Endowments. Available at https://www.impactinvest.org.uk/our-work/projects/endowments/

v Impact Frontiers (2023). The Efficient Impact Frontier. Available at https://impactfrontiers.org/online-curriculum/the-efficient-impact-frontier/

vi ACNC (2023). Australian Charities Report; 9th edition

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