

Impact Funds:

A foundation for greater social impact



*Giles Ruck, CEO
Foundation Scotland*

Over the last 20 years, Foundation Scotland has grown its stewarded funds to almost €60m. In 2019 it took a decision to review its investment strategy to achieve greater alignment with the values of the foundation and to ensure consistency with its objective of incorporating the SDGs throughout its work.

Here Giles Ruck, Foundation Scotland CEO, reflects on the journey, how the experience is being shared throughout the UK network of 46 community foundations and the reaction by donors - with Impact Funds attracting new donors and existing donors investing more.

Established as the Community Foundation for Scotland in 1996, Foundation Scotland has distributed over £100 million to charitable organisations during our 25-year history. Helping people and organisations fund good causes, strengthening our communities and creating lasting impact.

We set up our first endowment fund in 2001 and, in common with most charitable organisations, we used external fund managers to manage our investments. Historically, with the sole aim of preserving and growing endowment potential. Less attention was paid to the impact our investments might have on society, so long as our investments didn't risk damaging the reputation of the Foundation.

In 2019, we decided to revisit our investment strategy. We wanted to continue building our assets, but in a more socially responsible way. In keeping with our purpose and roots as a community foundation, our vision was to align our investments more closely with the values of the Foundation. To make environmental, social or governance (ESG) considerations across our investment portfolios, but without compromising on future performance.

While we knew that incorporating ESG inputs was core to our decision-making, we also wanted to consider the wider behaviour of the organisations within our portfolio. Companies that paid due attention to their stakeholders' long-term interests were more likely to thrive than those focused exclusively on short term profit maximisation.

Naturally, we had to ensure that an exclusive focus on positively impactful businesses would not necessarily detract from investment returns. In the first quarter of 2020, we reviewed the historical performances of several unitised vehicles and investment trust all run with a dual investment return and positive social impact purpose. We found no evidence to indicate that impact investing leads to lower returns and a reasonable chance that long term values could be enhanced. Following an extensive review and interview process we chose to work with EQ Investors.

EQ had a strong track record which included other clients in the third sector. We valued how their approach went far beyond ESG investing. Their investment process is largely guided by the United Nations' Sustainable Development Goals. This dovetails perfectly with a new Impact Framework we're currently developing to incorporate SDGs throughout our daily work.

Our EQ Impact Fund launched in December 2020. We initially invested £15 million, which represents around a third of our stewarded funds. Our donors were kept informed of our journey and invited to an online information session. Not only was the attendance incredibly high, but the feedback from our donors was overwhelmingly positive.

The new fund also ignited a huge amount of interest from other community foundations across the UK. Many had already discussed socially responsible investment policies, but our experience offered them insights into how to go about making the change, through a focussed session for them. More than 40 community foundations took part, and we've continued to offer support and advice to those who are about to embark on a similar journey in the UK and in Europe.

Moving to EQ investors also meant that we could provide our donors with real time 24/7 access to their portfolio information. Via the portal, donors can track their funds, generate reports, and monitor performance against benchmarks. Financial returns are important but for our donors the social impact their funds are generating is just as important. The portal also gives donors access to impact information such as how many litres of clean water and how many hours of education have been delivered through their funds.

It is far too soon to draw any conclusions on financial performance. The all-equity fund nature of the Foundation Scotland Impact Fund portfolio is likely to result in significant short-term fluctuations in its value. Therefore, we must take a long-term view on performance. What is clear is that our donors are investing more, and new donors have come on board. Impact Funds are here to stay.

About Foundation Scotland

Foundation Scotland is Scotland's community foundation, helping communities take action, create positive change and deliver lasting impact. Through innovative funding



programmes, the Foundation has distributed more than £100 million to charitable organisations and community groups across Scotland since its launch in 1996. Foundation Scotland is one of 46 community foundations within the UK and part of a global network of more than 2,000.

For more information about Foundation Scotland, please visit

www.foundationscotland.org.uk

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