More for our mission: making our endowment work harder

Remarkable research for healthy ageing

THE DUNHILL MEDICAL TRUST

Investing for impact: achieving more for our mission

1. Our history

The Dunhill Medical Trust's mission is focused on understanding the mechanisms of ageing and improving health and social care for older people. The genesis of the Trust was in a £250k legacy from the personal estate of Herbert Dunhill who left the money to use to support medical research into finding a cure for tuberculosis in 1950.

> We fund the remarkable science and the radical social change needed for healthier older age
> Dunhill Medical Trust's statement of purpose

By the 1980s, the Trust was receiving an increasing number of grant applications related to issues associated with ageing and the care of older people. Although there was a clear case of unmet need, many applications could not be supported because they fell outside the original aims of the Trust. The Trust Deed was therefore formally amended and in 1986 the Charity registered with the Charity Commission as the renamed "Dunhill Medical Trust". The legacy has been prudently and successfully invested and managed by the independent trust throughout these administrative changes and is now worth over £170M today.

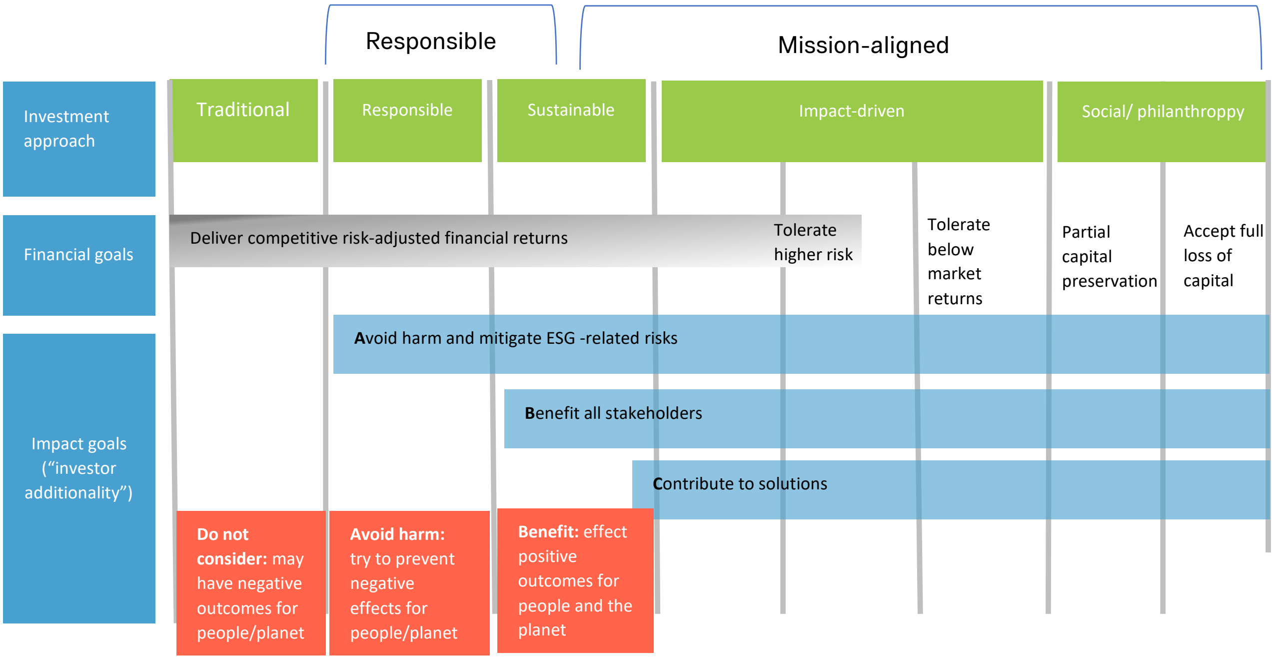
As an endowed foundation, we have practised the traditional method of using the proceeds of our endowment (capital growth and investment returns) to support our charitable purpose since we were established. We aim to generate a real rate of return of 4.5%, which currently enables us to cover our operational costs and distribute c. £5million per year in grant funding.

> A stronger foundation prioritises its mission when setting its investment objectives and considers how investments may work against mission
> Association of Charitable Foundations

But what if there was a way to make our assets work even harder in pursuit of our aims? The trust and foundation sector has, in recent years, been considering how it might put more of its substantial wealth to work, rather than just using the proceeds of its endowment. Charitable foundations such as the Joseph Rowntree Foundation, The Esmée Fairbairn Foundation, the Bank Workers Charity, the City Bridge Trust and Guy's and St Thomas' Charity, amongst others, have led the way on this, supported by Big Society Capital, and in 2020, the Association of Charitable Foundations published its white paper, following extensive sector consultation entitled "[Investment: the Pillars of Stronger Foundation Practice]".

2. The spectrum of capital

The language of this topic can be confusing. There are differences between responsible investment, sustainable investment, impact investment and social investment and Bridges Fund Management's "Spectrum of Capital" aims to describe these by considering investment goals, risk appetite and charitable mission.



Spectrum of Capital, Bridges Fund Management

Broadly, **responsible investors** are typically concerned with environmental, social and governance risks and opportunities that are likely to have "financial materiality": those risks and opportunities that may affect the financial performance of their investments in the medium to long term. Responsible investors are doing so for financial return regardless of the focus of the underlying businesses in which they are invested, although those with positive ESG principles which they have chosen to implement via exclusion are unlikely to be invested in the so-called "sin stocks".

Impact investors go further – they invest where either the underlying product or service, or their capital or engagement, seeks to contribute to solutions to one or more big world problems, usually, in the case of charity investors, those which are aligned with, or have a positive contribution to achieving, the charity's mission.

Social investors seek to achieve a combination of financial and social return for investments aligned with their mission and, depending on their primary perspective - whether "finance first" or "impact-first") - may be prepared to tolerate below market financial returns:

- **Finance-first investors** prioritise making a financial return on a social investment and are often only interested in investments that offer a rate of return that is near to or competitive with mainstream, commercial investments. Finance-first investors often approach social investment with a view to diversifying beyond mainstream investments or aligning their portfolio with their value and/or social mission. Being a finance-first social investor does not necessarily mean sacrificing social impact, but it can narrow the number of opportunities.
- **Impact-first investors** prioritise investments that generate a high social impact. While impact-first investors *may* receive high financial returns from their social investments, they are usually prepared to accept lower or even no financial return if the social impact created is high enough. Some impact-first investors are even willing to sacrifice their financial returns so that more attractive rates can be offered to other investors demanding higher returns.

3. The Trust's policy on positions along the spectrum

Our endowment has traditionally been deployed at the far left and at the far right of this spectrum (traditional/responsible investment and grant-giving, respectively). This policy sets out how we intend to make our investment portfolio work harder for us and engage in the points in between.

> Award-holders and funding partners are increasingly wanting to know that the funding they are accepting has not come from an industry or practice that conflicts with the purpose of their organisation.

3.1 The Trust as a responsible investor

Our linked **investment policy** sets out our long-term approach to managing our endowment and our intention to invest responsibly and sustainably and in a way that does not conflict with our charitable aims. We believe it is in our long-term financial interests and the interest of society as a whole to ensure that the risks and opportunities associated with environmental, social and governance (ESG) issues are properly managed. We therefore seek to:

- follow “best practice” in ESG risk management and ensure that our fund managers take ESG issues fully into account in their investment process;
- engage through our fund managers with companies, as appropriate, to try and encourage improvement in practices;
- require each of our external fund managers to regularly report back on their ESG risk management, engagement and voting activities and to engage with them on their performance in this regard;
- invest in organisations and projects which support our aims.

3.2 The Trust as a “mission-aligned” impact investor

In relation to investing in organisations and projects which support our aims: the market(s) in impact and social investment is still immature and, based on the experience of our sister charities, we are aware that, engaging in this part of the investment spectrum needs to be seen as a long-term (ten-year plus) learning journey. We acknowledge that the majority of our portfolio will remain invested at the “responsible” end of the investment spectrum in the medium term.

3.2.2 The Trust as a “finance first” social investor

Understanding that to be entirely “mission-aligned” would (currently) significantly narrow the number of investable opportunities available to us, we have taken the decision to define impact in broader terms and prioritise investment opportunities that have the greatest possible positive impact on health and wellbeing more generally: social (e.g. more equal, diverse and inclusive participation, development of age-friendly/intergenerational opportunities and community development, positive working environments, equal pay, public policy and services, health and well-being outcomes, positive cultural and environmental impact).

> Private equity is arguably the asset class best suited to address the UN Sustainable Development Goals and deliver impact. For example, many growth capital investors emphasise the importance of “additionality” or generating social or environmental impact that would not have occurred without the investment. Furthermore, the typical “buy-for-control” investment model in the asset class means that private equity managers have the greatest scope for mitigating negative impacts and driving positive outcomes.

Keimpe Keuning, Executive Director, LGT Capital Partners in *Institutional Asset Manager*, Jan 2021

We will first apply this mission-aligned approach to the tranche (up to 10%) of our investment portfolio which we intend to dedicate to private equity, ensuring that we learn from the experience before applying this approach to the rest of the portfolio.

Figure 1

Allocation	10% of portfolio value
Asset class	Private equity
Investment size	£3M-£5M
Financial objective	8-15% nominal (market risk-adjusted returns)
Geographical focus	Selected global funds
Sectors	Those contributing to achieving the UN Sustainable Development Goals, prioritised per Figure 2
Oversight	Investment Committee within usual delegated authority of Board up to £10M

We intend to start with a core of secondary funds and "funds of funds" to manage our initial risk and then to respond to opportunities to invest in satellite funds which are, ideally, mapped to the United Nations' Sustainable Development Goals, prioritising those which are closest to our mission but not excluding those which are close to or supportive of our mission (wider positive health implications, prevention of ill-health and addressing social inequalities) to widen the pool of available opportunities. See figure 2.

Figure 2

Advancement of the Trust's mission	**UN Sustainable Development Goals**
Closest to mission	Good health and well-being Reduced inequalities/broader social determinants of health Sustainable cities and communities
Supportive of mission	Affordable and clean energy Climate action Quality education Decent work Gender equality Industry, innovation, and infrastructure Clean water and sanitation No poverty Zero hunger
Further from mission	Life on land Life below water Responsible consumption and production Peace, justice, and strong institutions Partnerships for the goals

3.2.3 The Trust as an "impact first" social investor

We know, however, that many of the issues we seek to address are the result of "market failure" and will not have the potential for profitable revenue streams, so often rely on state provision. For those investments, by definition, we will need to be less ambitious around the financial return we are looking to achieve.

> Compared to grants, social investments are often (although not always) complex, which can be off-putting to funders that do not have professional staff or in-house skills. It can be challenging to value accurately social investments in terms of the likely social and financial risk and return; the legal structures involved are complex (and often bespoke for each investment); and it can be difficult to obtain investment advice (which is regulated). In addition, [foundations'] investment decisions tend to be outsourced to professionals who are not comfortable or familiar with the blending of the financial goals of investment with the social goals of grant-making.
>
> New Philanthropy Capital's Guide to Social Investment for Funders

Social investments can be much more "grant-like" in their nature: the outcomes come with a high degree of risk attached. They will also encompass a range of financial structures ranging from low-interest repayable loans to equity stakes and, being focused largely on the social sector where confidence to participate in these sorts of finance is still relatively low, opportunities are still relatively few in number. We will consider:

- Direct investment in a charity or social enterprise which is wholly or substantially aligned with our mission.
- Investment in a fund managed by another organisation, where the purpose of such a fund and its underlying businesses aligns wholly or substantially with the Trust's objectives. In this way, we can pool risk and spread it across several different investments. The managing organisation can also provide expertise in assessing and managing the financial and operational risks of the projects they support.
- Investment to support the Trust's strategic priorities for community-organisations. For example, investment in a reputable delivery organisation with national reach which is able to support smaller, locally-based community organisations.

The due diligence process will comprise both financial due diligence and social impact evaluation – the latter being similar to that applied to our community grants portfolio and will encompass track record in delivering social impact outcomes and so focus on the people, the mission, and the social assets available to them, together with their motivations and personal track records and experience. We need to understand and be comfortable with any financial return traded off against the social impact to be gained. The Impact Management Project's "Dimensions of Impact" approach (Figure 3) summarises the broad due diligence framework, and this, together with the track record of the individuals and their organisations in delivering their impact objectives will be taken into account. Those which also come with financial claims will be subjected to similar due diligence processes as those undertaken by Investment Committee and more complex proposals and structures may require the sourcing of external expert consultancy support. Decisions on these opportunities will fall under the purview of the Community Grants Committee with suitable Investment Committee member(s) co-opted, together with consultancy support, where appropriate.

Figure 3

Impact Management Project's Dimensions of Impact

1. Who is experiencing the outcome and how disadvantaged/underserved are they?
2. What outcome do the activities produce and how important are these outcomes for those who are experiencing them?
3. What is the scale, depth, and duration of the outcome?
4. What is the enterprise's contribution to achieving the outcome and how much of it would have happened without it?
5. What are the risks that the outcome will not be achieved as planned?

Figure 4

Allocation	£5M (from the proceeds of the land sale). This is currently invested as part of the wider portfolio but the intention is to ring-fence this pool of funds and not subject it to the investment objective for the wider portfolio. See below on objective).
Financial instruments	Convertible loan note, equity stake, loan, repayable grant
Investment size	£250k-£1M
Objective	To return the investment in nominal terms, at a minimum, but preferably in real terms (i.e. to protect against inflation), plus deliver its social impact objectives which must be substantially aligned with our mission
Geographical focus	Primarily UK
Sectors	Accessible housing, community services, food and nutrition, financial inclusion, health and social care delivery, medical interventions and devices, assistive technology, home adaptation, affordable energy, accessible transport and mobility solutions, digital education and inclusion etc.
Oversight	Community Grants Committee (with Investment Committee co-optees and expert consultancy support) for recommendation to Board.
Duration	Social Investments would predominantly not exceed a twenty-year maturity / repayment period.

4. Statement of intent

This document is intended to be a statement of our intent and our acknowledgement that this is the start of a journey on which we will learn and make adjustments along the way. It is not the ultimate destination. We hope that by publishing this policy, we will encourage others to share their experiences and demonstrate that we are open to collaborate on seizing important opportunities and addressing challenges which we don't have the resources to tackle alone.

In preparing this policy, we acknowledge the work of the Social Impact Investors Group (hosted by the Association of Charitable Foundations) and its members, too many to mention, but in particular, the leadership of Joseph Rowntree Foundation, the City Bridge Trust, the Bank Workers Charity, the Esmée Fairbairn Foundation and Guy's and St Thomas' Charity. We also thank the Ufi Voc Tech Trust in sharing its journey to producing its own policy. Thanks are also due to our investment consultants, Cambridge Associates and members, current and past, of our Investment Committee for their thoughtful input and advice.

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