

Financial Investment Policy

April 2023

1. Context

- 1.1.1 This policy addresses only financial investment (investment to achieve the best financial return within an acceptable level of risk, as characterised by the Charity Commission) and does not address programme-related or mixed-motive investments (refer to Annex A).
- 1.1.2 In accordance with the Bye-Laws of the Society, Council of the Society is authorised to invest funds in excess of the probable expenses of the Society and to sell any of its stocks and securities for the purpose of a change of investment. The Treasurer is responsible for oversight of the proper financial management and control of the Society's income and expenditure including investments and funds on deposit. In conjunction with the Society's investment manager, oversight of investments is achieved through the Investment Committee, a reporting committee of the Finance and Planning Committee (FPC).
- 1.1.3 The Terms of Reference of the Investment Committee (Annex B) indicate that the Trustees of the Society, while having regard to the need to adhere to the requirement of charity law to maximise the return consistent with commercial prudence, will seek to ensure that investments are not made that are judged likely to alienate benefactors of the charity.
- 1.1.4 The Terms of Reference of the Investment Committee indicate that the Investment Committee's role is both advisory (to FPC) and executive (in respect of oversight of both the portfolio and investment manager's performance). This Financial Investment Policy is designed to expand upon the Investment Committee Terms of Reference by specifying in detail the context, objectives, portfolio requirements and governance framework within which the Investment Committee oversees the Society's financial investments and to ensure continued compliance with charity law requirements.

2. Introduction

2.1 General Background

- 2.1.1 The Society has an investment portfolio with a total value of c. £5.5m. This excludes working capital and other funds on deposit in sterling and dollar-denominated accounts, which do not presently fall within the Society's managed investment portfolio or the present mandate of the Investment Committee.

- 2.1.2 The investment portfolio consists of unrestricted, restricted and endowment funds, which make up a significant proportion of the Society's balance sheet fixed assets and overall value. The restrictions which apply are in respect of use of funds for Society activities, not in terms of the manner in which funds may be invested.

The Society does not hold all of its restricted and endowment funds within the investment portfolio and has to date utilised those monies held outside the portfolio in particular for expenditure in line with the purpose of specific restricted/endowment funds, meaning that it has not to date needed to liquidate investments for expenditure purposes.

- 2.1.3 Annual income from the investment portfolio represents several percent of the Society's annual income, the bulk of which is derived from its publishing activities and Fellowship subscriptions. The investment portfolio's share of annual income also roughly approximates to the typical value target of the Society's annual financial surplus before unrealised gains/losses on investments and foreign exchange. The investment portfolio has typically yielded 1.8% - 2.1% in recent years.

2.2 Investment Objectives

- 2.2.1 The primary purpose of the Society's investment portfolio is to provide income and capital resources to support the current and future aims of the Society. Financial investments will be made to achieve the best financial return within an acceptable level of risk.
- 2.2.2 The Society aims to grow the long term Capital Value of its Investment Portfolio in real terms with reference to the Consumer Price Index (CPI). Long Term is considered to be periods in excess of 5 years.

The annual Total Return target is the increase in CPI + 3.5% pa measured on a rolling 5 year basis.

Desired annual receipts from the portfolio will be determined through the Society's annual budget process and would not normally exceed 3.5% of the capital value each year. Where this requirement exceeds the natural dividend/interest payments received in the year the excess will be withdrawn from the capital value of the investments

Please note, paragraph 2.2.2 reflects the current policy. It may be subject to change following discussions and agreement with the investment manager.

2.3 Investment Powers and Governance

2.3.1 The Trustees have delegated to the Finance and Planning Committee (FPC) the task of ensuring that all monies and investments held in the Society's various funds are properly managed. Direct oversight of the investment portfolio is conducted by the Investment Committee, which reports to the FPC. The Society's funds on deposit outside of the managed investment portfolio are not within the responsibility of the Investment Committee and remain as the remit of FPC.

2.3.2 The Investment Committee is responsible to FPC for the performance of the investment portfolio and of the investment managers appointed to advise and manage the portfolio, including:

- Responsibility for ensuring the investment manager's compliance with the agreed investment mandate and for changes to the portfolio and investment strategy, within the detailed requirements and limitations imposed by this Investment Policy;
- Advising FPC on investment policies, including risk profile, and on targets for income generation from investments;
- The appointment of investment managers who are knowledgeable and competent in the provision of investment advice;
- Periodic review of the performance of the investment managers to ensure that the advice given is adequate to discharge the responsibilities of the Investment Committee and to ensure compliance with the Society's Investment Policy;
- Monitoring the performance of the investment managers against targets/benchmarks;
- Advising the Finance and Planning Committee on expected short term (c. 1 year) and long term (5 years +) performance of the Society's investment assets for both income generation and capital growth.

2.3.3 Through these delegations, the legal requirements on Trustees¹, as summarised below, are deemed to be satisfied:

- To use their skills and knowledge and take advice from individuals experienced in investment management where needed;
- To select investments that are right for the Society (reflecting diversification and suitability i.e. the investment type or class and suitability of the investment within that type or class).

[Note 1: per the Charities (Protection and Social Investment) Act 2016]

3. Risk

3.1 Attitude to risk

- 3.1.1 Whilst the Society neither depends upon, nor hypothecates, income from its investment portfolio, investment income at or around targeted levels is assumed in the Society's annual expenditure budget. Since it is a small share of the Society's annual income, the Society can tolerate moderate volatility in annual income.
- 3.1.2 Long term maintenance of the portfolio value in real terms is an important objective and Trustees and members of the Investment Committee understand that in realising this objective, the capital value will fluctuate significantly over short to medium term timelines.
- 3.1.3 Key risk metrics of the portfolio, based on a backward-looking assessment of the historic performance of a comparable portfolio.

3.2 Assets

- 3.2.1 The Society's assets can be invested widely and should be diversified by asset class, by manager and by security. Asset classes could include cash, bonds, equities, property, hedge funds, structured products, private equity, commodities and any other asset that is deemed suitable for the Society.
- 3.2.2 The Investment Committee are charged with agreeing with the investment managers a suitable allocation strategy for asset classes identified in 3.2.1, in order to achieve the overall investment objective. Asset allocation is discussed and agreed annually with the investment manager.
- 3.2.3 Investments in the portfolio will be diversified across Fixed Income (UK Gilts, Corporate Bonds and other fixed income), Equities (public market UK and Overseas Equities), Alternatives (Property, Infrastructure, Hedge Funds, Commodities, Private Debt, Private Equity and Others) and Cash with the long term Asset Allocation, percentage Ranges and Benchmarks of these 4 major Asset Classes agreed with the Investment Manager.

Investments in the first two of these classes will be in 'public market' and 'liquid' holdings and any 'private' or 'illiquid' holdings will be held in the Alternatives class. The total of the Illiquid holdings (considered as not being potentially able to be withdrawn within 5 working days) will be kept below a maximum portfolio percentage as agreed with the Investment Manager as will the overall Sterling Weighting of the portfolio.

3.3 Currency

- 3.3.1 The base currency of the investment portfolio is Sterling.
- 3.3.2 The Investment Committee will decide with the investment manager the overall portfolio weighting to Sterling.
- 3.3.3 The Investment Committee will decide with the investment manager a suitable approach to currency hedging, to be reviewed annually.

3.4 Credit/Counterparty

- 3.4.1 The Investment Committee will decide with the investment manager appropriate credit and counter-party limitations such as the minimum credit rating of a bond issuer or deposit taking institution, maximum amount to be invested or deposited with a single institution, etc.

4. Liquidity Requirements

- 4.1.1 The Society does not rely upon its investment fund to cover its day-to-day liquidity needs and holds sufficient funds on deposit such that it has no requirement for liquidity reasons to hold a minimum percentage of its investment portfolio in cash.
- 4.1.2 Notwithstanding 4.1.1, the asset allocation prescribed by 3.2.2 ensures that the majority of the Society's investment portfolio is capable of being realised within 5 days.

5. Responsible Investment Policy

- 5.1.1 Investments should be consistent with the Society's values and ethos and neither conflict with its aims nor have the potential to cause the Society to lose supporters or beneficiaries. The Society seeks to be a responsible investor, having regard for environmental, social and corporate governance (ESG) considerations in the prioritisation of suitable investments.
- 5.1.2 In respect of extractive industry companies, the Society's investments should be made into well governed, responsible companies operating at or beyond industry norms for governance, social responsibility, and environmental management. Investment in fossil fuel companies should prioritise those leading companies with meaningful commitments to reduce their carbon footprint and in the vanguard of strategic and operational change towards meeting the Paris Climate Accord goals.
- 5.1.3 The Trustees have adopted an exclusionary policy as detailed below:

Theme	Exclusion
High emissions fossil fuels extraction and utilisation	Companies deriving material revenue from coal and/or high emissions oil, as detailed below, except where CCS and/or operating practices reduce emissions to global norms: A. Coal: thermal (but not metallurgical) coal production and/or utilisation in power generation; B. High emissions oil extraction: for example production of tar sands/steam assisted crude production/crude from upgraded bitumen. Mitigating factors: the above exclusions can be overruled where relevant mitigating factors are recognized. Examples might be a company converting coal-fired power plant to lower emissions fuels, or when high emissions assets are in a divestment process (and exceptionally if the divestment is likely to lead to a significant deterioration in ESG performance).
Egregious environmental, social or governance (ESG) performance	Relative to accepted international standards, clear/persistent breaches of environmental and social norms of behaviour, unethical business practices, persistent illegality and/or a failed governance structure.
Other exclusions	A. Companies that are involved in the production of illegal/indiscriminate weaponry or the production and/or manufacture of tobacco. B. Companies that derive material (greater than 10%) revenue from socially harmful activities e.g. tobacco, gambling, the manufacture of arms and pornography.

5.1.4 The appointment and ongoing monitoring of investment managers will include an assessment of the investment manager's adherence to the principles of the Financial Reporting Council's UK Stewardship Code and the Principles for Responsible Investment (PRI). The Society will require its investment manager to be a recognised Tier One signatory to the UK Stewardship Code and a formal signatory to the PRI.

5.1.5 The Society's investment manager will be expected to follow 'best practice' in the environmental, social and corporate governance (ESG) stewardship of investments held on the Society's behalf, as exemplified by continued conformance with 5.1.3 above. The Investment Committee will monitor the investment manager's continued compliance with these requirements.

6. Management, Reporting and Monitoring

- 6.1.1 The Society will appoint a professional investment management firm to manage the investment portfolio on a discretionary basis in line with this policy. The investment manager will provide for custody of assets via a bank to be approved by investment committee. Managers are required to produce a valuation and performance report and to present to the Investment Committee on a quarterly basis. The Society will maintain a list of up to six authorised signatories, two of whom will be required to sign instructions to the investment manager; one member of staff and one Trustee.
- 6.1.2 The Investment Committee is responsible to the Finance and Planning Committee FPC on behalf of Trustees for oversight of the performance of the appointed investment manager and of the investment portfolio within the constraints imposed by this Investment Policy and the Investment Committee's Terms of Reference. The committee meets quarterly to review the portfolio, including an analysis of return, risk and asset allocation. Performance will be monitored against agreed market benchmarks, and against the investment objective outlined above.
- 6.1.3 FPC receives minutes of the quarterly Investment Committee meetings and the forecast capital and income performance of the investment portfolio is reported to meetings of the FPC through the Society's management accounts.
- 6.1.4 The Investment Committee will report formally to the FPC and Trustee board (Council) on an annual basis. This report will include a review of asset allocation strategy, performance, risk profile and consistency with long term investment objective.
- 6.1.5 In addition to the performance of the Society's investments, an outline of the Society's investment policy will be contained within the Society's annual report.
- 6.1.6 Approximately every 5 years, Investment Committee will consider whether it is appropriate to re-tender the role of the Society's investment manager. If the decision is to do so, Investment Committee will liaise with the Society's Director of Finance and Operations to undertake a competitive tender process to select a suitable investment manager, which could include retention of the incumbent.

7. Approval and review

- 7.1.1 This Investment Policy was prepared by the Investment Committee of the Geological Society to provide a framework for the management of its investment assets for the ultimate approval of the Council of the Society. It will be reviewed on an annual basis to ensure continued appropriateness.

Approved by the Investment Committee

Date: 06 April 2023

Approved by the Council of the Geological Society

Date: 26 April 2023

Annex A: Responsibilities of Charity Trustees

Legal requirements and definitions

(Charity Commission Guidance 1st August 2016, per the Charities (Protection and Social Investment) Act 2016)

The legal and best practice framework (as of 1st August 2016) for financial investments as outlined by the Charity Commission is outlined below.

The purpose of financial investment is to achieve the best financial return within an acceptable level of risk. Trustees are *required* to exercise skill and care, take advice, select suitable investments and periodically review their investments. Trustees are *advised* to decide the overall investment policy and objectives and agree the appropriate risk: return balance, having regard to other factors that will influence the level of return (e.g. environmental and social impacts or corporate governance). The development of an ethical investment policy is *recommended* by the Charity Commission but if that policy might lead to a lower rate of return, trustees would need to assess the risks since they are required to be able to justify such a policy in terms of conflict with the society's aims, risk of reputation damage or loss of support.

Discussion

Charities invest to further their charitable aims and can do so in several ways:

- Investment to achieve the best financial return within an acceptable level of risk is categorized by the Charity Commission as 'financial investment';
- Investment to further the aims of the charity and to seek a financial return is regarded as 'programme-related investment';
- 'Mixed motive investments' where the investment does not fit wholly within these categories can also be made if the trustees consider this to be in the charity's best interests.

The purpose of financial investment is to achieve the best financial return within an acceptable level of risk. Trustees are required to, inter alia:

- Act within the charity's power to invest, exercise skill and care and take advice in investing;
- Select investments that are right for their charity (reflecting diversification and suitability i.e. the investment type or class and suitability of the investment within that type or class);
- Periodically review investments and if they have an investment policy, explain it in the annual report.

It is also recommended that trustees:

- Decide the overall investment policy and objectives and agree the appropriate risk: return balance;
- Have regard to other factors that will influence the level of return (e.g. environmental and social impact of the companies invested in and the quality of their governance);
- Decide whether to adopt an ethical, socially responsible or mission-related

approach to investment and ensure that it can be justified.

In respect of ethical investments:

Ethical investing means investing in a way that reflects the GSL's values and ethos and does not run counter to its aims. Trustees are free to adopt any ethical investment policy which they reasonably believe will provide the best balance of risk and reward for their charity. Trustees can decide to invest ethically even if the investment might provide a lower rate of return but must be able to justify why this is in the charity's best interests. Several reasons are permitted by charity law:

- A particular investment conflicts with the aims of the charity;
- The charity might lose supporters or beneficiaries if it does not invest ethically;
- (There is no significant financial detriment).

Thus overall, whilst the development of an ethical investment policy is *recommended* by the Charity Commission, if that policy might lead to a lower rate of return, trustees need to be able to *justify* such a policy within the above criteria. Trustees therefore need to assess the risk to their charity of lower returns against the risks of reputational damage or loss of support.

Several approaches to reputational investing can be considered:

- Negative screening: to avoid investing in activities, companies or sectors which may harm the charity's interests;
- Positive screening: investing in companies or sectors which reflect a charity's values or demonstrate good social responsibility and governance;
- Stakeholder activism: exercising voting rights to influence a company's policies in ways that reflects the charity's values and ethos, which could involve investing in companies in order to encourage better corporate practices or policies.

Annex B: Investment Committee Terms of Reference

Investment Committee - Terms of Reference

Approved by Council of the Geological Society, 4th July 2018, amended 18th September 2020

Purpose

In accordance with the Bye-Laws of the Society, the Treasurer is responsible for oversight of the proper financial management and control of the Society's income and expenditure, including investments and funds on deposit. The latter is achieved through the actions of the Investment Committee, in conjunction with the Society's investment manager.

The primary purpose of the investment portfolio is to provide income and capital resources to support the current and future aims of The Geological Society of London. However, the Trustees of the Society, while having regard to the need to adhere to the requirement of charity law to maximise the return consistent with commercial prudence, will seek to ensure that investments are not made that are judged likely to alienate benefactors of the charity.

Aims

- To ensure the delivery of a budgeted level of income in each year and maintain the real capital value of the value of funds under investment.

Terms of Reference

- To ensure the investment manager's compliance with the agreed investment mandate and for changes to the portfolio and investment strategy, within the requirements and limitations imposed by the Society's Investment Policy.
- To advise the Finance and Planning Committee on investment policies, including risk profile, and on targets for income generation from investments.
- To appoint investment managers to the Investment Committee who are knowledgeable and competent in the provision of investment advice.
- To periodically review the performance of the investment managers to ensure that the advice given is adequate to discharge the responsibilities of the Investment Committee and to ensure compliance with the Society's Investment Policy.
- After due consideration of advice received, to monitor the performance of the investment managers against targets or benchmarks. The appointment and on-going monitoring of investment managers will include an assessment of the investment manager's adherence to the principles of the Financial Reporting Council's UK Stewardship Code, the Principles for Responsible Investment (PRI) and best practice in environmental, social and corporate governance (ESG) stewardship.

- To advise the Finance and Planning Committee on expected short and long term performance of the Society's investment assets for both income generation and capital growth.
- To report to the Finance and Planning Committee through the routine reports of the Treasurer and Director of Finance & Operations.

Method of Working

There will normally be four meetings of the Investment Committee per year. Further business may be conducted by email. The secretariat will be provided by the Director of Finance & Operations.

Membership

Members, who do not need to be Fellows of the Society, will be invited to serve by the Treasurer and new members will be subject to the approval of the Finance and Planning Committee. Members will ideally include at least one Trustee in addition to the Treasurer and selection will be based on their experience, in particular of making investment decisions.

Chair: Treasurer – Dr Keith Myers (2021)

Other members:

Keith Nunn (2013)

David Latin (2020)

Staff members:

Director of Finance & Operations (secretary)

Chief Executive