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 listed in Schedule 1. This excludes working capital and other funds on deposit in sterling and dollar-denominated accounts, also listed in Schedule 1, 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, as detailed in Schedule 1. 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 Trustees[1], 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, are provided in Schedule 1.

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. An example for 2023 is detailed in Schedule 1.

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 (see Schedule 1 below).

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 (see Schedule 1 below).

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 (refer to Schedule 1).

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/Schedule 1 ensures that the majority of the Society's investment portfolio is capable of being realised within 5 days.

6. Responsible Investment Policy

6.1.1 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.

6.1.2 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.

6.1.3 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

6.1.4 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.

6.1.5 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 6.1.3 above. The Investment Committee will monitor the investment manager's continued compliance with these requirements.

7. Management, Reporting and Monitoring

7.1.1 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.

7.1.2 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 (per Schedule 1), and against the investment objective outlined above.

7.1.3 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.

7.1.4 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.

7.1.5 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.

7.1.6 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.

8. Approval and review

8.1.1 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