

Investing for Impact

Why and how we transformed
our investment portfolio to
have an impact on Vocational
Learning Technology

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Available on request

Appendix 1

Ufi Revised Investment Policy

Investment Policy

Positive impact on Ufi's mission

Appendix 2

Request for Proposals for Investment Services

Part 2: Request For Proposals

Introduction

Introduction from Rebecca Garrod-Waters, CEO Ufi VocTech Trust

I write this in the week Ufi has finally been able to announce our new investment policy to align our investment portfolio with our mission. This means that we now have a holistic framework across all our funding instruments – grants, venture investment and investment capital - to support vocational educational technology and have a positive impact.

This is a significant piece of work, which started as the kernel of an idea back in the early 2010s when I attended a charity investment event to consider the question: “What if you could use your whole investment portfolio to deliver impact and go beyond grant investing only?”

In 2019, Ufi developed our new five year strategy, “Learning Without Walls: Beyond 2020” link. A lot has changed in the world since then, not least as a result of the COVID19 pandemic, and we have adapted our plans at Ufi to reflect these changes, whilst continuing to deliver on our mission.

Part of that plan related to our core investment portfolio:

Outside of Ufi Ventures, we also put our money in investment funds. Recognising that all of our investments have a social and environmental impact, we are looking carefully at the impact of these fund investments. Our goal is to invest in funds that contribute towards our mission whilst continuing to generate the financial returns we need. To achieve this, we are assessing our current portfolio, developing our investment policy, and we will then make changes to our fund investments to deliver greater impact.

Over the last 18 months, Ufi set about implementing our new strategy. As a charity focussed on innovation within education, it is in keeping with our mission to innovate and to share our learnings for public good. This document records our journey. Its aim is to help other organisations considering using their financial assets to advance their mission to learn from our experience. Each organisation differs in so many ways and each will have their own journey to undertake; our hope is that our experience will be of benefit to them.

We share detail of “how” we implemented our strategy, and the processes and tools we used and some of the outcomes. Please note that this document is neither a guide, nor investment advice or legal advice; we encourage others to speak with professionals to help them on their journey.

We hope that you find this useful when considering how to align your investments with your mission and values and we encourage you to share it with your networks. If you would like to discuss this further, please do not hesitate to contact Joe Ludlow link and/or Paul Blyth link, the authors of this paper. #neverstoplearning

Rebecca Garrod-Waters
CEO Ufi VocTech Trust

Acknowledgements

Many individuals and organisations were incredibly generous with their time, advice, and ideas as we undertook this journey. Our thanks especially to:

David Chapman

Friends Provident Foundation

Access - The foundation for social investment

Snowball Investment Management

Guys & St Thomas' Charitable Trust

KL Felicitas Foundation

Panahpur Trust

David Carrington

For further reading, we suggest;

[Ufi Learning Without Walls Strategy Report](#)

[Credit Suisse Learning to Earning Report](#)

[Credit Suisse Future Skills Report](#)

[Global Impact Investing Network](#)

[theimpact.Org](#)

[Intentional Endowments Network](#)

[toniic.com](#)

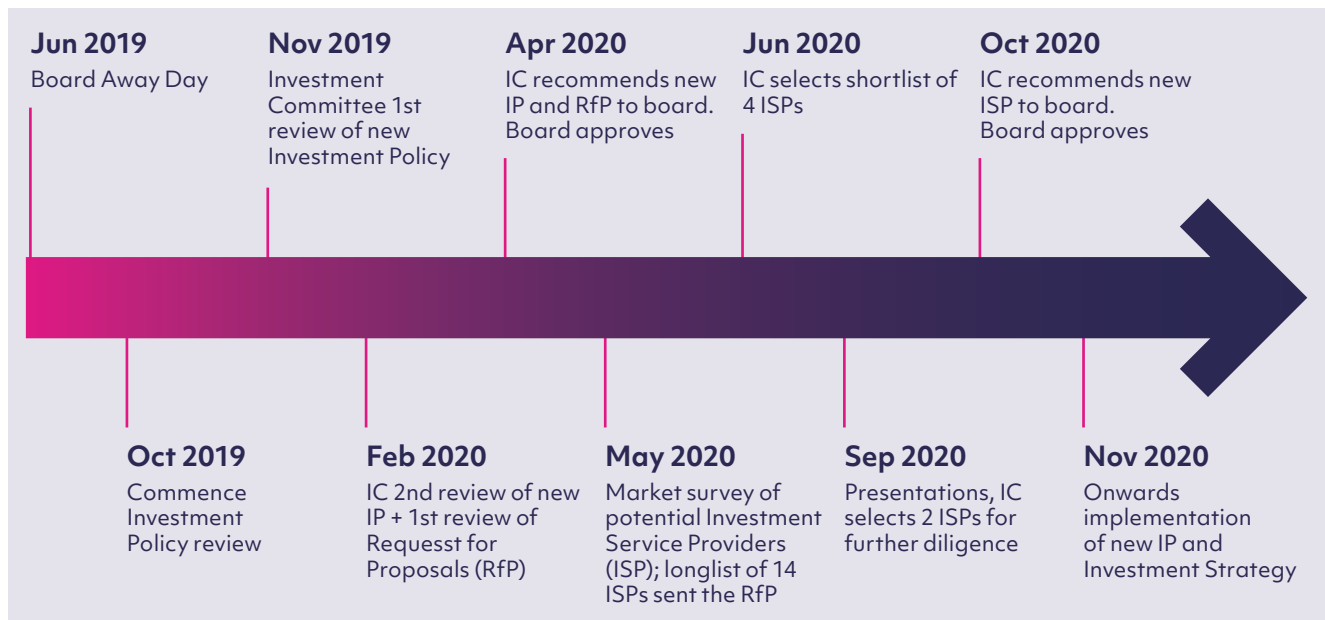
[The Impact Investing Institute](#)



An overview of the journey

Over the past five years, and more intensely over the last 18 months, Ufi has undertaken a significant transition in its approach to managing its financial investments. We've moved from being a charity that invested the vast majority of our capital with the sole aim of making money (to fund our charitable activities), to one which seeks to further our mission via all of our assets. Today Ufi provides grants to cutting edge VocTech projects, advocates for the positive role of technology in building skills for work, invests venture capital in innovative early stage VocTech companies, and now we invest our financial assets to meet our financial needs and further our mission.

Figure 1: Timeline of new investment strategy



In order to achieve this change, we've been through a process that ultimately led to a new Investment Policy, Investment Strategy, and the selection of a new Investment Service Provider (ISP) to support us to deliver the new Investment Strategy.

At the start of the process we learned that it was possible for Ufi to invest our financial capital to meet our financial needs and further our mission from both a legal and fiduciary responsibility perspective. There are several peer organisations who have already made a similar shift in their investment strategy and execution, and they have often shared their experience – we are following their example and sharing our experience here.

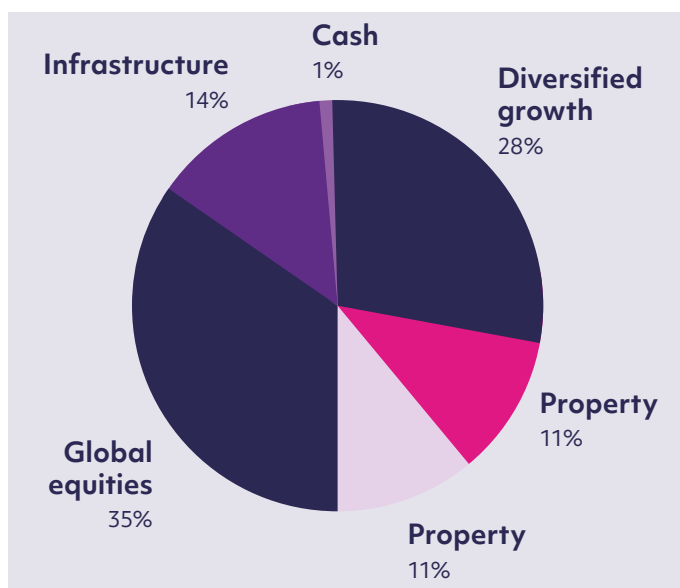
In this document we share some of the process, outputs, tools and techniques that we employed in making this transition. We go into as much detail as we can whilst protecting confidentiality. In summary the document shows:

- What we did: showing and comparing our previous portfolio and what we are investing in now.
- Why we did it: explaining the origins of the project.
- How we did it:
 - Establishing our requirements and objectives
 - Revising the Investment policy
 - Selecting an Investment Services Provider (ISP)
- What we learned: the experience and what we see as critical success factors



What we've done: the transformation of Ufi VocTech Trust's investment portfolio

Ufi first gained substantial financial assets in late 2011 following the sale of its subsidiary. When Ufi developed its first investment strategy, it was expected that the charity would be in existence for five years because capital would quickly be used up by grant funding. Following the development of a five-year strategy in 2014, the board decided that Ufi should be in existence for much longer than originally anticipated and so a different investment strategy would be needed. This led us to take investment advice and then to adopt a strategy that accepted greater illiquidity and volatility in order to generate higher returns and provide diversification.



Our portfolio continued to develop iteratively over the next five years, including introducing an allocation to property in 2014, and to equities in 2015, and to infrastructure in 2018.

As Ufi began to consider how it could align its financial assets with its mission in 2019, our portfolio looked like this:

- 35% in a passive global equities tracker fund
- 28% in a multi-asset managed account
- 22% in two commercial property funds
- 14% in a global infrastructure fund
- 1% in cash.

With our new five-year strategy (2019–2024) developed, we realised in 2019 that we needed a new Investment Policy and investment strategy, as this document explores in depth.

We are now transforming our portfolio to meet our financial needs over the next ten years and align our financial assets with our mission to the greatest extent possible. We appointed a new ISP in Autumn 2020 to help us do this. We are now transitioning the portfolio towards greater liquidity and lower risk over time, starting with a balanced allocation of equity (~50%) and fixed income (~50%).

In the fixed income portfolio, the bonds we hold are matched in duration to our expected cash drawings whilst 100% being aligned with our ISP's Sustainable Investment Framework which is cross-referenced with the Impact Management Project's Impact Classes Matrix (<https://impactmanagementproject.com/investor-impact-matrix/>).

The equity element of the portfolio is designed to deliver growth and positive impact in line with Ufi's mission. We are investing in thematic funds, mapped to the United Nations Sustainable Development Goals (SDGs), and to the Impact Management Project's Impact Classes Matrix, as shown below:

Equity fund theme	% of equity portfolio	Mission alignment	ABC*	Investor additionality**
Edtech and VocTech	13	Closest to mission	C	E
Robotics	5	Closest to mission	A	S
Automation and Robotics	7	Closest to mission	A	S
Cybersecurity	7.5	Close to mission	B	S
Gender Equity	7.5	Close to mission	C	E
Smart Mobility	6.5	Close to mission	C	E
Smart City Infrastructure	3.5	Close to mission	A	S
Digital Health	8	Supportive of mission	C	E
Climate and Environment	6	Furthest from mission	C	E
Multi-themed Sustainability	13	Mixed SDGs	C	E
Socially Responsible Passive Fund	23	Mixed SDGs	A	S

*Impact Management Project ABC:

A – avoids harm; **B** – benefits stakeholders; **C** – contributes to solutions

**We have adapted Impact Management Project Investor Contributions to the following classifiers: Purely Financial; Signalling that Impact Matters; Engage Actively; Provides Undersupplied and/or flexible capital

As we write this document, we are working hard to transition our portfolio from the old strategy to the new. We held a number of funds which have quarterly redemption dates and so we expect to be fully allocated to the new strategy by mid 2021.

When the transition is complete, 100% of our financial assets will be invested under our framework that avoids negative impacts and aims to make a positive contribution to Ufi's mission whilst achieving our financial goals. We are very excited by this portfolio as we see it represents an investment by Ufi to have a positive impact on some of the biggest issues facing society, education, work and workers in the next ten years.

Why we made these changes to our investments

The context in which we made the decision to use our investment capital to further our mission is an important part of our journey.

Our CEO, Rebecca Garrod-Waters, joined Ufi in August 2014. Soon after joining Ufi, Rebecca attended a charity investment event to explore the question: “What if you could use your whole investment portfolio fund to deliver impact and go beyond grant investing only?”. This kicked off our journey towards impact investing.

Impact Investing has come a long way in the roughly fifteen years the term has been in use: pioneering charities have worked hard to think creatively about new ways of investing to increase social impact whilst achieving financial returns, and, simultaneously, the impact investing offering and product suite has also significantly matured. As a new field, there is a culture of openness and peer learning. We – the Ufi team and the Trustee board - have learnt greatly from people like James Perry and Mitch Kapoor, and organisations including Friends Provident Foundation, Panahpur Trust and Access – The Foundation for Social Investment who have shared publicly their work.

For many charities and Trustee boards, fulfilling “fiduciary duty” is seen as an obstacle to investing for positive impact; our Investment Committee was highly conscious of its fiduciary responsibilities as we began to explore Impact Investing in more detail. We consulted with colleagues and advisors about the law in this area. Investment matters for charities in England and Wales are governed by Charities and Investment Matters; A Guide to Trustees (CC14) link written by the UK Charity Commission. CC14 recognises that investment returns are a critical source of funding for charities but acknowledges that investments can contribute to how charities deliver their mission. And it also makes plain that charities – taking appropriate advice and following good process - can do this. To quote CC14:

“If trustees have considered the relevant issues, taken advice where appropriate and reached a reasonable decision, they are unlikely to be criticised for their decisions or adopting a particular investment policy.”

The outcome of our process of discovery between 2014 and 2018 was to plant the early seeds of what has become both Ufi’s venture investing programme and our impact investing strategy. Having learned about what might be possible, we committed to executing on both of these new activities in our new strategy and five year plan launched in Autumn 2019 “Learning Without Walls: Beyond 2020” link, which includes the following objective

“Our goal is to invest in funds that contribute towards our mission whilst continuing to generate the financial returns we need.”

Under this strategy we are working to support game-changing innovation in VocTech through our project grants and field-building, to invest in early-stage VocTech ventures as social investment, and to invest our financial assets to enable our grants and venture investing programmes but also to contribute to our mission.

Having set the ball rolling with the new strategy we began our journey from aspiration to implementation.



How we did it

Our main objective in this document is to share the process that we followed to develop our new policy and appoint an Investment Services Provider (ISP). We try to highlight some of the more subtle areas of our approach and interactions with the ISPs we worked with that go beyond the standard step-by-step how-to guide.

The critical steps along the way were:

1. Establishing our requirements and objectives
2. Redrafting our Investment Policy
3. Seeking proposals from and selecting an Investment Services Providers (ISPs)
4. Transition planning, ways of working, detailed policy and contracting

Establishing our requirements and objectives

Having agreed our aim to make investments that contribute to our mission, we started to explore what this could mean in practice. We did three pieces of initial work:

- We held a workshop as part of our Trustees' Away Day to explore the growing diversity of impact investing, to discuss examples of investments which may be relevant to Ufi's mission, and to begin a conversation about what - in an investment context - we felt to be contributing to Ufi's mission, etc. We distilled this into a high-level set of principles to inform a new investment policy.
- We commissioned our existing Investment Advisor to present their views and examples of impact investing opportunities that may be relevant to us.
- We decided to recruit an additional Trustee with experience of asset management and impact investing.

Working out what investments might contribute to our mission

To work out these principles, we decided to use the SDGs as a communication tool. Underpinning the SDGs there are a set of targets and metrics but drawing on this detail was not our aim. Rather, we found that the SDGs are a fabulous communication tool enabling groups, such as our board, to use a common language to discuss different impact themes and we found - in mid 2019 - there were a growing number of investment funds who articulated the thematic focus of their impact using the SDGs. For Ufi they were a useful way for board members to express and discuss different priorities for our investment portfolio.

Inspired by an approach used by Access - the foundation for social investment (<https://access-socialinvestment.org.uk/us/total-impact-approach/>), we used targets and stickers with each SDG on, and through discussion, came to a prioritisation of SDGs with those closest to mission in the bullseye, those furthest away in the outer rings.

The output of the exercise was:

Table 1: Alignment with Ufi mission

Advancement of Ufi mission	UN Sustainable Development Goals
Closest contribution to mission	 4. Quality Education
	 8. Decent Work and Economic Growth
Close to mission	 9. Industry, Innovation and Infrastructure
	 10. Reduced Inequalities
	 5. Gender Equality
	 11. Sustainable cities and communities
	 1. No poverty
Supportive of mission	 16. Peace Justice and Strong Institutions
	 17. Partnerships for the goals
	 3. Good health and well-being
	 2. Zero Hunger
Further from mission	 12. Responsible consumption and production
	 7. Affordable and Clean Energy
Furthest from mission	 6. Clean water and sanitation
	 15. Life on land
	 13. Climate Action
	 14. Life below water
No contribution to mission	No measurable contribution

Ufi Mission Target



The board was able to very efficiently come to a common understanding of where the focus (from a mission perspective) of our investment portfolio should be.

Thinking about the contribution of Ufi as an investor:

We explored in our discussions at the away day and in subsequent Investment Committee meetings the issue of exclusions, and this developed into a discussion about what contribution to change we were looking to make as an investor. With help from our Trustee [Paolo Fresia](#) we adapted the Impact Management Project (IMP) investor impact classes [matrix link](#). This helped us to discuss and clarify the types of investment contribution we would like to see in our portfolio.

Table 2: Contribution to mission

		Impact of enterprises			
		May Cause Harm	Act to Avoid Harm	Benefit Stakeholders	Contribute to Solutions
Investor additionality	Purely Financial	(Not permitted / for progressive divestment)	Only if necessary for risk hedging or liquidity purposes		(Unlikely to exist)
	Signaling that Impact Matters	(Unlikely to exist)			
	Engage Actively	(Only purposefully and with strong proof of engagement)			
	Provide undersupplied and/or flexible capital	(Not appropriate)	(Not appropriate)		

Legend:

Adapted from Impact Management Project Investor Impact Classes [Matrix link](#)

Impact of Enterprises: **A** – act to avoid harm; **B** – benefits stakeholders; **C** – contributes to solutions

Investor additionality: Purely Financial; Signalling that Impact Matters; Engage Actively; Provides Undersupplied and/or flexible capital

Colour coding: **Blue** – prefer investments in these categories; **Pink** – we accept investments in these categories subject to the notes in the table; **Navy** – we wish to divest from these categories and will not make new investments here.

We took the principles established at the away day and developed in subsequent Investment Committee discussions and prepared a paper which was approved at the next board meeting (Autumn 2019). At that meeting, the board also decided that it would run a tendering exercise for investment advice and/or services to support us to execute the new Investment Policy we planned to write.

Revising the Investment policy

Our Investment Policy can be seen in the Appendix.

We began to draft a new Investment Policy for Ufi to reflect the principles agreed by the board. We read and drew from many other Investment Policies from other charities and other pioneers in the impact and sustainable investment field. Of particular note were those of Friends Provident Foundation and Access – the Foundation for Social Investment. Our drafting was then discussed by the Investment Committee who provided commentary and feedback and there were iterations over c. 3 months. The final policy was agreed by the board in April 2020.

We feel that the details of our Investment Policy that are of particular relevance to our journey to impact investing are:

- Our statement of philosophy at the start “1.4: Ufi believes all investments have an impact on society and the environment. Ufi believes that its decisions on what to invest in, what not to invest in, and how it exercises its stewardship responsibilities as an investor should where possible contribute to advancing the charity’s mission and purposes and should always be in line with its values, in addition to meeting Ufi’s financial return objectives.”
- The articulation of our investment objectives “3.2 The objectives of Ufi’s financial investments are to
 - Provide sufficient liquidity for grant making and operating expenditure;
 - Provide sufficient liquidity such that Ufi may invest in ventures;
 - Make a positive impact on Ufi’s charitable purposes and mission, as determined by the allocation of funds as set out in Appendix 1;
 - supporting cash drawings at the level and for at least the period indicated in Appendix 2, or as subsequently amended by the Board of Trustees.”
- Our approach to assessing impact 3.7.3 Social and Environmental Impact Performance
 - 3.7.3.1 The social and environmental impact of the portfolio will be assessed and reported by the allocation of funds by pound sterling value to thematic alignment and contribution to impact, as shown in Appendix 1.

The details of our Investment Policy may seem either straightforward or highly unusual. For Ufi this policy is a significant change from our previous approach and it represents the outcome of the long journey we travelled from the original aspiration to beginning to be impact investors.

A note on Ufi’s financial objectives from its investments

Ufi is slowly spending down its funds under a long-standing strategy that the board of Trustees has regularly reviewed and recommitted to. When reviewing the draft Investment Policy, the Investment Committee identified the opportunity to describe Ufi’s financial objectives in relation to our cashflow requirements rather than by referring to typical financial objectives of benchmarks, volatility levels, risk budgets, inflation-linked targets etc.

This may not appear particularly innovative, but we have learned that it is an atypical approach. We feel it helps articulate our actual requirements in plain english. We discovered that specifying our needs in this way created scope for Investment Services Providers to respond creatively in proposing

how best to organise our investment portfolio to deliver the required resourcing levels. There was no intermediate step where we defined performance metrics because what matters to us is delivering the required resourcing levels.

In practice, our Finance Director worked with the Ufi team to estimate the detailed cashflow requirements over the current strategic planning period of five years, and then made reasonable assumptions beyond that, including a conservative view about returns from our early-stage venture investments. A 10-year cashflow was produced which was a critical input to developing the investment proposition. Any investment strategy that Ufi will adopt has to be able to satisfy that need. This is important as it both satisfies the financial needs of Ufi and the legal requirement for trustees to “exercise care and skill when making investment decisions” ([From Charities and investment matters: a guide for trustees link](#)).

Selecting an Investment Services Provider (ISP)

Further to the board’s decision to seek tenders for investment advice or services to support implementation of the investment policy, we had to design a process for inviting proposals, reviewing them and selecting one.

Approach

A few key things were important to us in the approach we took:

- Clear and transparent process for Trustees

We ensured there was clarity amongst and control by Trustees of the overall process, Trustees made all material decisions, had access to all working papers and submissions from third parties. This required substantially more Investment Committee and Trustee meetings than is usual for Ufi.

We paid attention to documenting our processes, activities, and outputs. In addition to providing material for this document, we feel that when innovating it is essential to show good process in deriving the results.

- Clear process and open communication with potential providers

We realised that we were seeking detailed, thoughtful and innovative proposals from the providers we engaged with and felt it was our responsibility to provide a clear process, a timeline, frequent communications (especially as the timescales slipped as we worked through a pandemic). As an educational charity we wanted this to be a learning experience for all and built into our processes the time and resources to provide fulsome written and oral feedback to providers and also sought feedback on our process and interactions. We were told that the level, candour, and detail of the feedback was rare and very much welcomed.

- Mixed methods for decision making

We also wanted to encourage diversity and independence of thought into our process; at each stage we used techniques such as anonymised voting alongside traditional discussion to achieve this.

Process scope and timeline

The scope of the process was to find an external Investment Service Provider (ISP) to advise Ufi on the execution of its Investment Policy for financial investments. We wanted to look for a variety of potential solutions i.e. the ISP could be anything from an investment consultant through to an organisation with delegated authority with regard to management of the investments.

We wanted to progress quickly (c. 3-4 months) but extended the timeline on account of the Covid-19 pandemic. Ultimately, we concluded the process in November 2020.

Responsibilities, roles, and resources

Each organisation is different and each will approach this type of activity in their own way. Our successful experience is that this activity is similar to most projects i.e. it is very helpful to agree roles, responsibilities, skill and resource requirements, and deliverables at the start of the process and set it up to succeed with the appropriate governance and resourcing.

We agreed the following responsibilities:

- Board: approval of the process, timeline and final decision
- Investment Committee: oversight of the process and all material intermediate decisions and final decision
- Executive: development and execution of process, communications.

As we've described earlier, we had put in place permanent management and governance resources in order to embark upon this impact investing work – a Finance Director, an Investment Director, and a Trustee with impact investing experience to Chair the Investment Committee.

However, we recognised that to undertake a high-quality tendering exercise that included and evaluated established financial services providers and specialists in impact investing we required additional consulting support to add breadth of market knowledge, analytical skills, and capacity. We appointed Paul Blyth as a Senior Advisor to support us in developing and executing the process.

Selection criteria for choosing an Investment Service Provider (ISP)

We began developing the selection process by developing and agreeing with the Investment Committee the selection criteria shown below.

We found these criteria sufficiently detailed to frame an assessment of strengths and weaknesses of the submissions we subsequently received whilst being sufficiently high level to accommodate the diversity of submissions we sought. We found that we developed increasing precision about what good, great, and not good look like as we applied the framework, and in some cases we refined our emphasis e.g. focusing on evidence of a proactive and engaged approach.

Criterion	Evidence Sought	Importance weighting	Means of assessment
Understanding of Ufi's mission, strategy, investment policy and current fund investments; ability to translate this into appropriate investment solution	Proposed investment solution for Ufi that meets our strategy and investment policy	25%	Written submission Face to face presentation and Q&A
Positive working relationship with comparable clients, demonstrating a proactive and engaged approach	Example reporting Referees	10%	Written submission Reference calls to be made by Ufi staff
Excellent track record of supporting clients to achieve or exceed their investment objectives	Historical performance data Risk management approach Example reporting References	15%	Written submission Face to face presentation and Q&A Reference calls to be made by Ufi staff
Expert knowledge and experience of best practice in ESG and of advising on impact investing	Proposed investment solution Institutional track record in ESG and impact investing Referees	15%	Written submission Reference calls to be made by Ufi staff
High quality reporting with deep transparency over underlying assets including ESG / Impact performance	Examples reporting Referees	15%	Written submission Reference calls to be made by Ufi staff
Robust and stable business and team	Description of investment processes and team Risk management approach	10%	Written tender submission Reference calls to be made by Ufi staff
Value for money	Proposed fee structure broken down into components Added value / additionality in proposal	10%	Written tender submission Further negotiation

Preparing a Request for Proposals (RfP)

We then drafted a RfP (sometimes referred to by other names e.g. Invitation To Tender) to both market the opportunity to potential providers and set out the selection process, criteria and timelines.

Please see Appendix 2 for a copy of our RfP

We chose to split the RfP into two parts: the Brief and the RfP itself. In the Brief we introduced our organisation, our Investment Policy, governance and management structure, our existing portfolio and where it was invested, and the high-level process and timeline for selection of the ISP. In the RfP we outlined our submission requirements.

Of particular note is that we stressed to ISPs that we did not want to receive hundreds of pages to review as this was counter-productive in a process that involves time constrained, volunteer Trustees and IC members. We restricted ISPs to a covering letter and 10 pages in their core response. This was partially successful (see more below).

How we identified potential providers and selected our appointed provider



We established a four-step selection process:

1. Building a long list
2. Desk review and feedback
3. Presentation, further submission and feedback
4. Further due diligence, final decision and feedback

1. Market survey, long-list, conference calls and FAQs

We wanted to invite 10-15 ISPs to respond to our RfP. This number reflected: (i) our intention to receive submissions from a range of different style services (consultants through to delegated managers) and from mainstream and impact investing specialists; (ii) we wanted to ensure we could honour the effort each provider would put into their submission with quality feedback and a longer list would not have been possible for us to manage.

In order to generate the long list we:

- Generated a list of c. 100 potential firms
- Connected with 45 of these to ascertain interest and ability to respond in our timeframe; almost all felt able to respond although one felt our funds of c£50m were too small to justify the effort of competing in the process.
- We used our team's specialist knowledge (Executive and Trustees/IC members) to build a preferred list of fourteen organisations to invite to make a proposal.

The long list of ISPs was spread across Large Asset Managers, Investment Consultants, boutique wealth managers, boutique financial advisors, large wealth managers/ banks. Having reviewed the detailed RfP two withdrew, and we were left with twelve candidates willing and able to participate in the process.

We sent out the RfP to the potential ISPs on 30 May 2020 giving them 23 days to respond. In addition to this we offered all providers a 30-minute Q&A to respond to any questions they had. All ISPs took up the offer of the Q&A and we collected a list of their Questions and our Answers. From this we prepared a formal FAQs (Frequently Asked Questions) document which was reviewed and signed off by the Chair of the IC and provided to all potential ISPs. This meant that all had, as much as we could affect, similar knowledge. We sought feedback on this part of our process, and it was universally positive¹.

2. Desk review, short-list, and feedback

All ISP submissions were received on or before 22 June 2020. We gave ourselves 5 days to review the responses in preparation for the Investment Committee meeting on 29 June; in retrospect we would have liked more time i.e. if you were undertaking a similar process, we would recommend more time for this stage. There was considerable material sent through, far in excess of the 10 pages we had specified². Whilst this was the most time-consuming part of the process, it was also the most rewarding. All IC members and executives had access to all submissions. Two of us independently reviewed all materials and independently assessed and scored each against the agreed set of criteria (see above). These two members of the team then met to discuss the merits of the various responses including scoring each provider against the criteria. They then prepared a summary report including one page on each ISP detailing: financial solution, impact solution, provider overview, Ufi Executive commentary, and overall recommendation.

There was a wide range of scores 46%-78% with a mean of 61% and a median of 60%. There were three clear leaders with others that were worth considering on account of their unique nature; some were not up to the standard we were looking for.

1. We acknowledge that in practice asset owners like Ufi are unlikely to receive negative feedback; however, Ufi believes that it is important to give people the opportunity and also it shows respect to those undertaking considerable work pro bono.

2. It is worth noting that the number of pages sent by the ISPs ranged from 32-531 with an average of about 150 pages. In total we received over 2,000 pages to review.

The diversity in the various investment strategies proposed by the ISPs was of considerable interest e.g. the ranges of asset class mix were marked (see below), although the mean and median were often close (see below). We found that highly experienced professionals can differ widely on their opinion on the best asset allocation to achieve a set of cashflows i.e. there is not “one correct answer”, which should demonstrate the degree of latitude available to charities when considering e.g. strategic asset allocation. As expected, all ISPs recommended material allocations to both public equity and fixed income.

Asset Class	Range	Mean	Median
Public equity	22%-53%	37%	36%
Alternatives	0-38%	13%	2%
Real assets	0%-33%	10%	8%
Fixed income	25%-77%	45%	43%
Cash	0-26%	7%	6%

A meeting of the Investment Committee was convened to decide upon a shortlist. Ahead of the meeting, we circulated the report and asked all IC members to indicate in advance of the meeting their top five preferred proposals via a digital form. The pre-assessments helped to establish in advance where there was consensus and areas for further debate. The conclusion of the discussion was to select four proposals for the short-list: an investment consultant, a specialist wealth manager, a large wealth manager, and a global bank. This was a unanimous decision.

The successful submissions differentiated themselves by:

- Better understanding of the brief, the customer, the customer’s mission/ purpose, and the mandate.
- Having expert knowledge and experience of best practice in ESG and of advising on impact investing
- Their level of transparency in reporting
- Recognising the challenges within the mandate, their inability to meet it in its entirety and that they were on a learning journey and are looking to continuously improve and work with their clients to improve.

We offered oral and written feedback to all ISPs regardless of whether they were proceeding to the next round. All ISPs took up our offer of feedback, and we understand such feedback is unusual.

At this point it became clear that we would need to defer the next stage until the early Autumn due to the ongoing challenges presented by Covid-19.

3. Presentations to Investment Committee and further submissions, decision making, and feedback

We provided full feedback to each short-listed ISP emphasising where they were strong and where we were looking for more. We also briefed them on the nature of the presentation meeting i.e. a 50 minute videoconference session with 20 minutes of presentation and 30 minutes of Q&A.

We asked each to cover in their presentations six questions and to send their presentations five days in advance so that we would have an opportunity to review and prepare questions for the Q&A. We provided a briefing document to the IC covering the 4 proposals and some areas that the IC might want to focus on during Q&A. We set up another digital form (similar to the one we used at the short-listing IC) for IC members to express their preferences and make comments on the various providers.

All presentations were credible, and we felt we'd met the objective of considering in detail a broad range of investment solutions and service offers. The results of the scoring and end of day discussion demonstrated two preferred providers and further questions the IC had for each of them before it could determine a final selection. We took forward these additional enquiries with each provider and gave detailed feedback with follow-up calls to the two unsuccessful candidates.

The real differentiators between the candidates were: 1. Their ability to demonstrate their understanding of Ufi, the field of VocTech and how we might be able to work together to support our mission 2. Their understanding of our operating model and financial plan and the distinct challenges that presents for investment management 3. their detailed understanding and expertise in Impact and ESG investing. This is best illustrated by anonymised quotes from some of the feedback forms:

"Really well thought through understanding of VocTech, our mission and translation into investment solution"

"Presented coherent understanding and opinion on the future of the workforce both pre and post COVID."

"Opportunities for partnership on philanthropic and venture investing activity"

"Good knowledge of our sector, not just EdTech but VocTech."

"Wide range of impact knowledge and options in-house; a good partner on this"

"Best mapping to SDGs and research on what is in each fund; dedicated analyst analysing each underlying portfolio company, and whether they contribute to the SDGs (including, distinctively, the use of proceeds for bonds)."

"Strong ESG offering – especially demonstrating Share Action's opinion of various managers"

4. Further Due Diligence (DD), recommendation, and final selection

Many of the specific due diligence matters we pursued are confidential to the ISPs and so we can't go into detail. But some are generic and we would like to highlight four areas: operations, transition management, fees and costs, and market risk management.

Operations

Of particular importance to us are the operational aspects of working with an ISP i.e. financial planning, ways of working, processes and tools of how we work together. In some of the proposals we received the entire focus was on the investment strategy, risk/return of the portfolio, cost etc., and the operational side was overlooked. Our Finance Director led discussion with each ISP on the practicalities of working together and their understanding of our needs and operating model as a grant maker and early-stage investor.

Transition risk and management

We were concerned that the transition of our existing portfolio to the new solution could involve complex administrative processes and potentially periods where we had sold assets but not yet bought new ones. We are aware of evidence that indicates if you miss a few of the "best days" in the stock market you may miss most of the return that you would gain over a long time period. We therefore sought reassurance that the ISPs had considered this issue in respect of our portfolio and had relevant experience of handling transitions for other clients.

Market risk management

We were also concerned by the consequences of our spend down profile for our ability to take market risk, e.g. that whilst for impact and returns reasons a meaningful allocation to equities was needed, we may be exposed to periods of time where markets fall and we are forced to crystallise losses to meet our operating cashflow requirements when markets might be subsequently expected to recover. In our further due diligence we explored how each ISP could use risk management techniques to increase equity exposure (to benefit from equity risk premia) whilst putting in place sources of liquidity/ tools to manage extreme downside risk in the public markets.

Fees and costs

Despite what we thought were straightforward questions in our RfP, we found it surprisingly difficult to find out what it would actually cost us to use an ISP's service. There are myriad services, costs, and fees and not everyone charges in the same way e.g. for some ISPs custody is a material charge, for others it is "free" or close to free, and for yet others they charge different custody rates for different asset classes. We did and would encourage others to do the boring painstaking work of getting into the detail of costs and fees - understanding a true comparison was material to our decision.

Final Selection

There were strengths and weaknesses to our two preferred candidates, and it was a challenging decision. Following our further due diligence, we prepared a five-page summary paper (with ~20 pages of appendices) including an executive recommendation for choice of ISP. The paper included:

- A refresher on the process that we had followed to date
- A summary analysis of the two propositions and providers
- A detailed report on the outcome of the specific further diligence we were instructed to do by the IC including a RAG (Red Amber Green) analysis on the outcomes
- A comparative analysis of both providers using our original scoring system, but informed by our further due diligence
- A detailed cost analysis of the different proposals
- Appendices covering:
 - Cost due diligence
 - Notes of meetings with each provider and Q&A from the due diligence
 - Summary of the entire selection process
 - Further submissions from both providers

In late October 2020, the IC met to take a final decision. A unanimous recommendation was agreed and this was approved by the board in early November.

Having made our selection, we informed both parties and provided fulsome feedback to both; for our first choice there remained a set of matters to be negotiated and for the runners-up no doubt it was really tough for the other party to come second in the process.

For smaller suppliers the costs of participating in such processes can be a barrier to doing so, so we are extremely grateful to all of the participants in this tender process, particularly the runner-up who is one of the leaders in this field – it was hard to say no to them.





Planning the transition

We then got down to the detailed work of setting up the transition plans, the ways of working, the detailed policies, and the contracting with the ISP. We built a shared project plan and worked through it persistently. This work is still underway.

To respect confidentiality, we will not go into too much detail here. Suffice to say that we put energy into the following matters:

- Contracting – ensuring we were comfortable with the terms and conditions and these reflected what was agreed through the selection process
- Operations - primarily the financial management of the portfolio and the tools and techniques for managing the treasury function, cashflow planning, financial planning and the processes, tools, techniques, and people involved in the day-to-day operations of managing our portfolio.
- Transition plans – we hold/held material investment in semi-liquid investments as well as considerably more equity exposure than our new investment strategy. Part of our work involves setting up liquidity facilities and transition strategies to enable optimise how we migrate to our new portfolio and manage market risk going forwards.
- Detailed policies – similar to the operations side of our relationship we spent time working on the detailed policies and processes related to investment decision making. As we are delegating more than in the past, we wanted to ensure that there was transparency, best execution, and the appropriate level of governance (by the board and the IC) over investment execution. We also spent time discussing the nature of frequency of reporting.
- Wider partnership – the opportunity to work with the ISP beyond the management of our investments was a significant added benefit of their proposal and we have detailed how this will work and begun to execute on this.

What we learned: the experience and some critical success factors

So what did we learn, what did we prove, what would we do again, and what are the critical pieces to get right?

The experience:

This was an overwhelmingly positive experience for Ufi. There was a lot of work involved, but, on reflection, both the process and the outcome materially exceeded our expectations, and we are excited about the potential for our new relationship with our ISP to deliver benefit to our mission alongside a financial return.

The feedback from the ISPs was overwhelmingly positive. They said that this was one of the most innovative and challenging mandates that they had received. They found it challenging to answer the exam question of capital growth and spending down at the same time, and then having to combine this with as much impact as possible. Most rose to, and enjoyed, the challenge. They particularly also welcomed a charity asking for them to meet a set of cashflows rather than to hit arbitrary targets or beat the market. They also welcomed the fulsome written and verbal feedback we gave, as they see Impact and ESG investing as a big growth area for them and then are keen to learn.

The proposals we received illustrated that it is entirely possible to invest to meet our financial needs and, with those reasonably satisfied, to also further the mission of the organisation.

Critical Success Factors:

These are not an exhaustive list, but some of the things that we learned along the way that we hope will be useful to others.

- Learning from peers: if there is one piece of advice we have, it is the idea of seeking out and listening to peers about their experiences – you are likely to learn more from them than anything you do. It will also be the thing that is most likely to give you the confidence to progress. We are very grateful for the advice we received and examples we were able to draw on.
- Change management: moving away from the established norm is always more about changing attitudes and behaviours than it is about anything else like laws, fiduciary duty, and financial goals. Our process was slow moving at first, aiming to engage key stakeholders at Ufi in discovering what might be possible and establishing principles before we committed to do something; with that foundation – and despite delays from the pandemic – we have moved a long way very quickly.
- Strategy: Put energy and time into gaining consensus on the board around the objectives of your exercise. In our case we used examples and the SDGs to establish principles, but there are many tools and techniques you can use. Without strategic consensus at the start of a process, things can crop up later that derail a project at the later stages.

- Governance: Have clear roles and responsibilities. For Ufi the board has ultimate authority over all and sets strategy, the IC governs the detailed implementation of that strategy by directing the executive to undertake the detailed work.
- Frequent, clear communications: we've worked hard to be in frequent succinct communication backed by access to all underlying documents to ensure that the board and the IC are always in control of the process. It also builds a lot of trust in the process and the team.
- "Trust but verify". Particularly as you complete final stages, spend the time and effort to do the detailed Due Diligence on any aspect that concerns you – you may be surprised by what you might find!
- Investment Policy: The process of drafting our new investment policy identified lots of issues that we worked through and resolved, including innovations like attaching our financial plan. It's worth taking your time over this to "get it right" as it is likely to govern most of what you do and stay in place for quite a few years. If you are considering Impact elements to this, then take your time – it's challenging and that's OK and part of the process.
- Core team: As you plan the project take the time to think through who is going to do the bulk of the work and whether, across the team, there is the right blend of skills, experience and capacity to succeed.

In Ufi's case we were blessed with an expert Impact Investment IC Chair, a knowledgeable CEO, an experienced Finance Director, and an excellent Impact Investment Director. We combined this with an external consultant to add extra muscle and market knowledge to round out the team.



Key Factors in getting a good result from the process

These are the things we think really made a difference to us in getting a good result.

Request for Proposals: A clear and concise RfP explaining a little bit about who you are and your aims for your organisation, the timeline and plan for the process and the expectations of the organisations who will tender, is very helpful to everyone. Within this we recommend:

- Insist on clear plain English from the ISPs – this helps folks in your organisation who are less familiar with the investment nomenclature to participate fully in your process
- Limit the number of pages in responses by the ISPs – it is simply unfair/ unrealistic (in our opinion) to expect volunteer members of charity boards to read thousands of pages to e.g. to short-list potential ISPs
- Take the time to brief ISPs on your process and answer questions once they've been able to read the RfP – 30 minutes is plenty – this really helps them with their work – of course, it is a “time-sink”, but they are working really hard for you and 30 minutes of your time will enable them to do a much better job for you.
- Keep track of the questions that the ISPs ask and develop a set of FAQs and share this with all.
- Give full, honest written and oral feedback. It is tough not to win a mandate, particularly when you've put a lot of effort into winning it. Feedback is a gift and it reflects well on your organisation when you take the time and effort to give feedback to the unsuccessful – it's what you would want – so apply the golden rule.

Decision making: We spent time and effort considering how we made decisions. At each major decision we did our utmost to use mixed methods to solicit opinion and ensure a diverse group was involved in decision making. There are many techniques and tools that you can use. Some things that worked well for us were to have anonymised on-line voting, 100% transparent access to all documentation, and an IC Chair who spent time and effort on planning and preparing the process of IC meetings in advance of the meeting and including everyone at IC meetings.

Finance and Operations: Take the time to work with the executive team, particularly the Finance team, to map out the long-term financial plan for the organisation. This will ultimately lead to a cashflow forecast. The better this is, the more likely the ISP is able to optimise the investment portfolio to deliver what the organisation really needs. As you start to narrow down the number of options of people you are going to work with, actively involve (if they are not actively involved already) the finance team as owners of the operational side of managing the relationship with the ISP. They have to be 100% comfortable with the choice of ISP from an operational perspective.



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