KODA

THE 2024 KODA CAPITAL
FOR-PURPOSE RESPONSIBLE
INVESTMENT SURVEY

Rising Tide

How Non-Profit & Philanthropic Investors Approach Responsible Investing

May 2024

Contents

Introduction

In October and November of 2023, Koda surveyed charitable, non-profit and philanthropic investors across Australia in relation to responsible investing and impact investing. We set out to collect, analyse and share information not currently available to Australian for-purpose investors or their advisers. By sharing the results of the survey we aim to:

Shine a light on how charities, non-profits and philanthropic foundations approach responsible investing and impact investing

Highlight opportunities and barriers that exist for for-purpose investors in this context

Create new benchmarking opportunities for curious for-purpose investors

Support and inform for-purpose leaders as they make decisions about how to invest

Help fund managers and investment advisers better serve their for-purpose clients

This report has been prepared by Koda's Philanthropy & Social Capital team. We believe it is the first of its kind, and hope it represents a valuable source of information in a space where information and insights are either lacking or tightly held. We intend to repeat the survey and report in coming years and look forward to sharing trends and developments as they emerge.

Our approach to survey design, analysis and reporting is based on our deep understanding of, and participation in, the for-purpose sector. This understanding comes from our professional and personal experience of investing on behalf of charitable, non-profit and philanthropic entities, and decades of advising many of Australia's leading for-purpose investors in relation to their investment portfolios and their broader missions.

Koda is very grateful to all of the respondents who took the time and effort to complete this survey. In addition, Koda also appreciates the support of our Industry Partners, Philanthropy Australia and the Community Council for Australia, in relation to promoting the survey. We would also like to acknowledge the support we received from our survey Distribution Partners, who are listed in the Acknowledgements, Definitions & References section of this report.

In terms of format, we have presented overall results for all respondents. In order to help people interested in results specific to non-profits and charities (as a group) and philanthropic foundations (as a group), we have also presented results specific to each, separately.

Methodology and Definitions

The survey itself was designed by Koda's Philanthropy & Social Capital team to address fundamental questions about how for-purpose investors approach responsible investment (RI) and impact investing. Survey questions were reviewed by Koda's Investment Strategy Group, by Koda's most experienced for-purpose client advisers and by leading figures in the Australian RI sector. Key terms like "Responsible Investment" were defined in the survey. Definitions can be found in the Acknowledgements, Definitions & References section of this report.

The survey was targeted at financial decision-makers and respondents were asked to complete the survey on behalf of the entity they represented, rather than on behalf of themselves. Respondents were also asked to identify their role and the role of Director/Trustee was the most well represented within the overall cohort. The remaining respondents were either CEOs, CFOs or Investment/Finance Committee members.

The survey was completed by a diverse group of for-purpose investors across Australia, that included many of Australia's best-known and well-respected entities. In total, 126 responses were received. Respondents were asked to identify their entity as either a non-profit, a registered charity or a grant-making philanthropic foundation.

Survey analysis was completed by Koda's Philanthropy & Social Capital team, with support from Koda's Investment Strategy Group. Reporting was completed by the Philanthropy & Social Capital team and reviewed by a number of experienced Koda Partners.

For the remainder of this report, we refer to non-profits and charities as "NPCs" and philanthropic foundations as "Foundations".

Executive Summary

Even before analysing the results of this survey, it was clear to Koda from our work with clients and our broader engagement with the for-purpose sector, that attitudes to responsible investing have changed significantly over the past decade. A decade ago, it could be argued that few for-purpose investors viewed RI as core to their investment approach. While a reasonable proportion of NPCs and Foundations asked their advisers to avoid investments in industries widely regarded as harmful, and some applied hard exclusions – usually to investments that directly undermined their stated mission or purpose - the concept of investing responsibly was not commonly well understood and was often viewed with a degree of scepticism, cynicism, or even hostility.

Today, thanks to our work with clients and the results of this survey, we know that responsible investing is core to how the overwhelming majority of for-purpose investors approach the management of their investment reserves and endowments.

It is equally clear that for-purpose investors are increasingly embracing the idea that their capital, rather than just the earnings on their capital, can be viewed as an asset capable of generating additional impact for them, for society, and for the environment. In summary, this survey reveals that:

NPCs and Foundations overwhelmingly pay attention to responsible investing: 96% of all respondents reported that their entity has some focus on RI.

Investing responsibly has become more important over the last five years: 60% of all respondents said RI had increased in importance and focus at their entity over this period. Only 2% of all respondents said it had reduced in importance and focus.

For-purpose commitment to RI is expected to grow: 43% of all respondents said they expected their entity's commitment to RI to increase in the next 12 months. Only 1% said they expected it to reduce.

The majority of for-purpose investors do not believe RI compromises financial goals: 76% of all respondents said their entity does not think it has to choose between investing responsibly and achieving financial objectives.

The belief that RI negatively impacts returns is still a concern for some: 39% of all respondents said the belief that financial returns will be negatively impacted by RI was a challenge.

The majority of for-purpose investors believe investing responsibly reduces reputational risk: 58% of all respondents believe this and see this as a motivation for increasing their efforts in this area. Only 11% disagree to any extent.

RI is widely considered to be good for improving portfolio outcomes: 51% of respondents think that investing responsibly enhances diversification and offers new ways to generate financial returns.

Different motivations underpin approaches to investing responsibly: The top motivations reported by all respondents were: Alignment with mission and values (72%), avoiding social/environmental harm (57%) and enhancing financial outcomes (51%).

The most commonly applied negative screens are familiar and interesting: 74% of respondents apply negative screening; Tobacco (90%), Armaments (81%) and Gambling (81%) top the list, followed by Adult Entertainment (65%) and Alcohol (65%).

Impact investing is common among for-purpose investors: 44% of all respondents have at least one impact investment in their portfolio.

Those that do not include impact investments in their portfolio tend to lack access or advice: Two of the top reasons cited by respondents for not including impact investments in their portfolios were being unaware of opportunities (33%) and having an Adviser or Fund Manager who does not offer them (13%). Only 6% reported fear of the unknown as a reason.

Impact investments are most commonly viewed as a separate allocation: 39% of for-purpose impact investors have *allocated a portion* of their portfolio to impact investing. 25% aim to include impact investments *across their whole portfolio*.

For-purpose investors have a bias to Australia when it comes to impact investing: 57% of for-purpose impact investors reported an Australian focus. While very few (4%) reported an international focus, many (39%) said they have no geographic bias.

Important Note

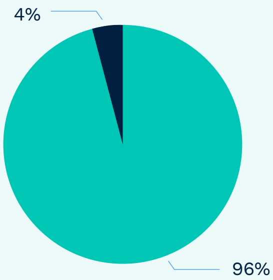
NPCs and Foundations have much in common, which is why these summary results focus on all respondents as a single group. At the same time, they are different, and breaking down the survey results by type reveals subtle differences in how they approach RI. For this reason, later in this report we have separated survey results into two categories and presented results specific to **NPCs** and **Foundations**.

Overall Report Findings – All Respondents

The key findings based on analysing all 126 survey responses are:

60% of for-purpose investors say **responsible investing has grown in importance** for them over the last five years

An overwhelming proportion of for-purpose investors have some **focus on responsible investing**

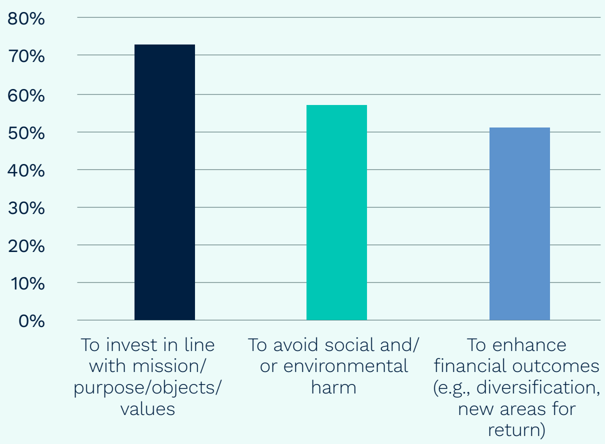


Do focus on responsible investing

Don't focus on responsible investing

Nearly half of all for-purpose investors are **expecting their commitment to responsible investing to grow** in the next 12 months

Top reasons for-purpose **organisations invest responsibly** are



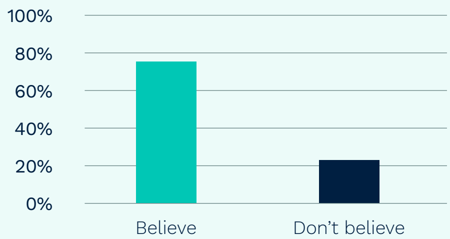
One in four respondents believe there is scepticism in relation to responsible investing at board level

The majority of for-purpose investors **are motivated to invest responsibly** in order to reduce reputational risk

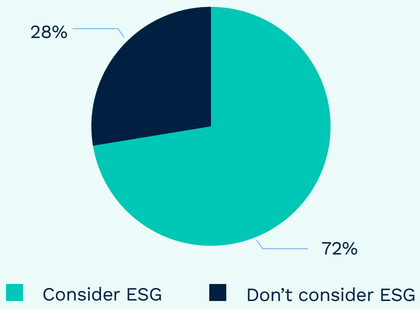
39% of for-purpose investors are **still challenged by the belief** that responsible investing negatively impacts returns

Only 14% of for-purpose investors believe RI increases portfolio risk and **three times as many disagree**

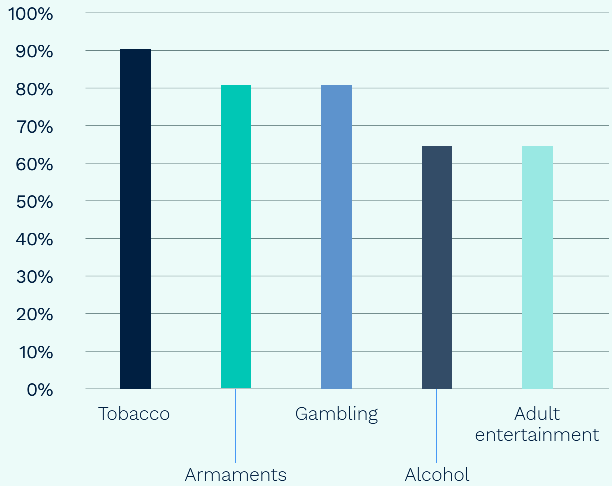
Over three quarters of for-purpose investors **believe they can invest responsibly *and* achieve their financial goals**



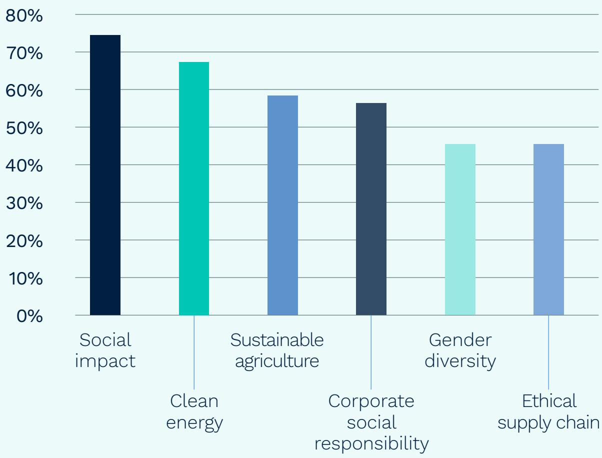
For-purpose investors **commonly incorporate environmental, social and governance (ESG) factors** into their investment process



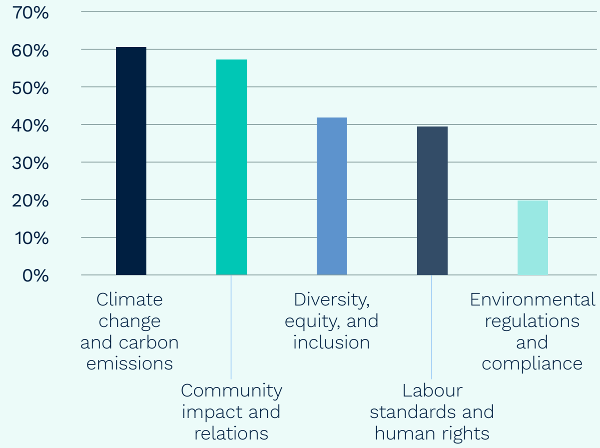
Top **negative screens** applied by for-purpose investors are



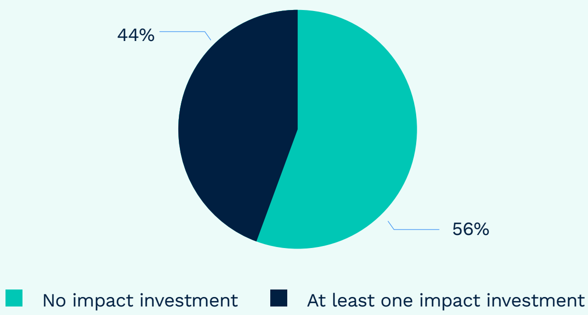
Of the 59% of for-purpose investors that apply **positive screens**, the top six screens are



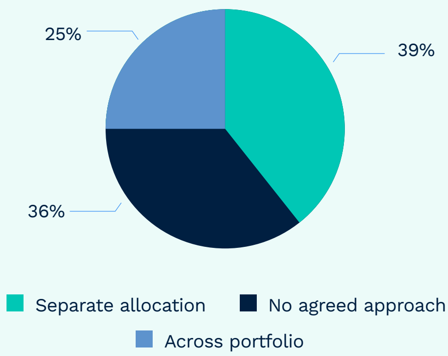
The top five **ESG issues of importance** to for-purpose investors are



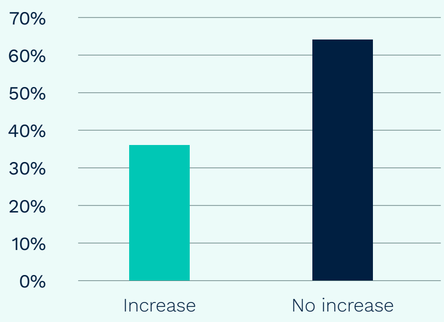
A high proportion of for-purpose **portfolios include at least one impact investment**



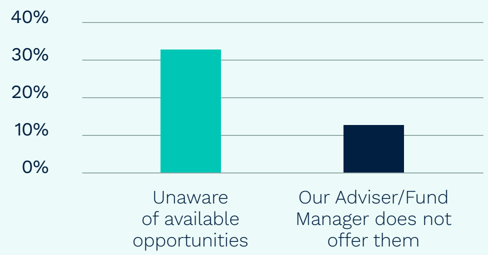
Impact investors vary in how they **incorporate impact investing at the portfolio level**



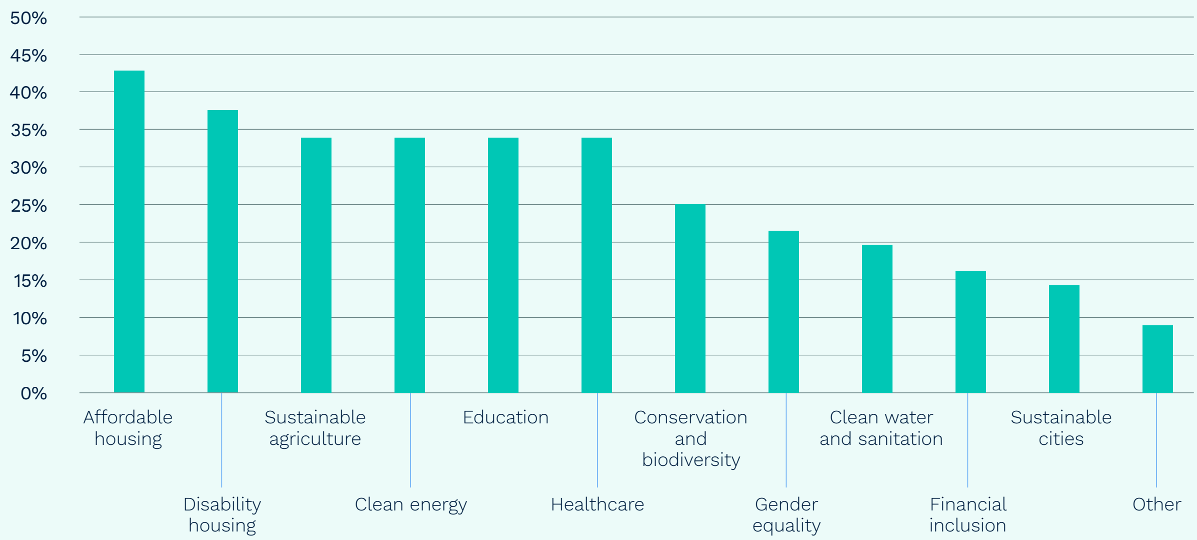
Over a third of for-purpose investors **plan to increase their allocation** to impact investment in the coming 12 months



Impact investing's **growth is hindered by a lack of advice or awareness** about opportunities

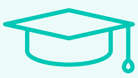


For-purpose impact investors **invest in many areas**



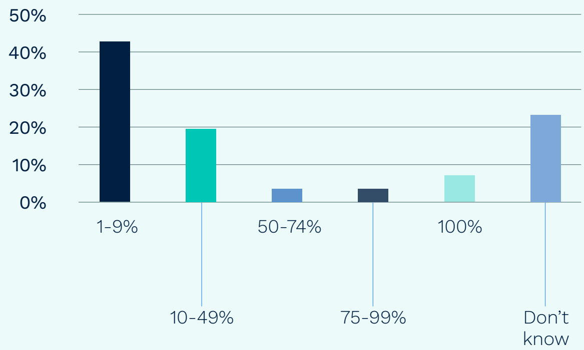
For-purpose impact investors with a geographical bias **prefer investing in Australia**

One in four for-purpose investors say **their financial decision-makers lack knowledge** of responsible investing

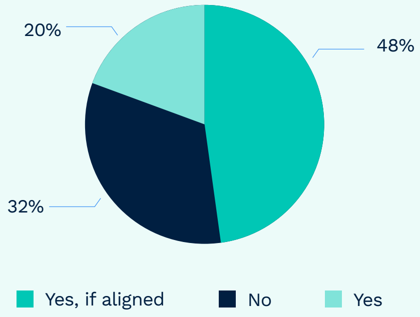


Almost half of for-purpose leaders **want education** to help them meet their responsible investing commitments

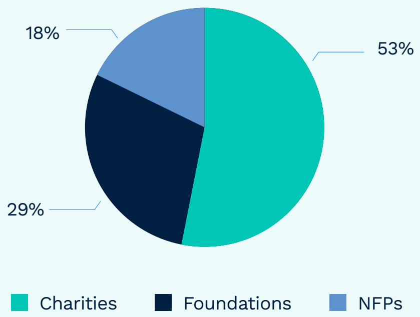
Impact investors **typically allocate between 1-9% of their portfolio** to impact investments



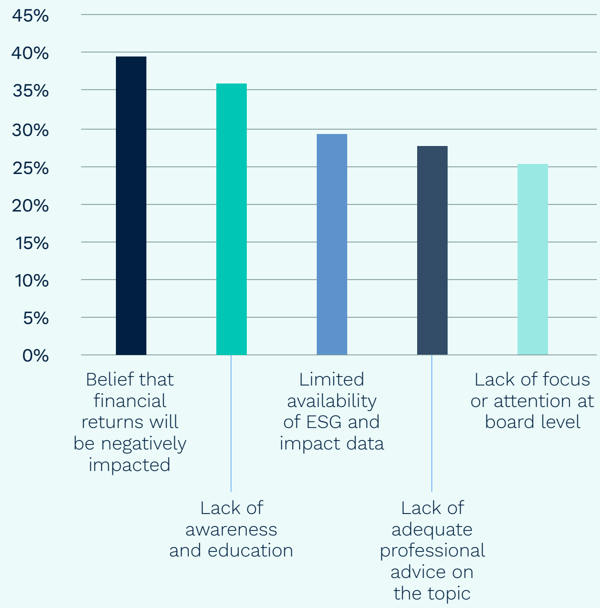
Mission-aligned benefits make for-purpose impact investors more willing to accept concessional returns



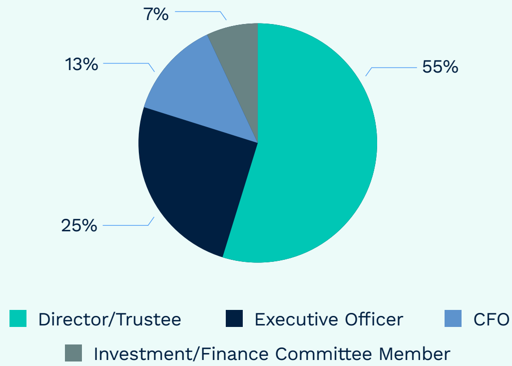
Respondents by **entity type**



Top challenges in relation to RI



Respondents by **role type**



Non-Profit & Charity Findings

Introduction

The results of this survey suggest that investing responsibly is commonplace among NPCs in Australia. They also suggest NPCs do not think there is a need to choose between investing responsibly and achieving financial objectives.

NPCs appear to be hungry to learn more about how to access RI opportunities and are seeking data and education in relation to this style of investing. Hopefully this report will help in this regard. At the same time, it is interesting to note that inside NPCs there is still scepticism in relation to responsible investing and this scepticism is closely tied to concerns around achieving acceptable financial returns.

Climate-related concerns appear to be important to NPCs and carbon-related issues feature heavily in terms of ESG analysis. This focus is less pronounced when it comes to overall values-based investing, where concerns around tobacco, armaments, alcohol and gambling prevail. It is worth noting that philanthropic funders expect NPCs to invest in line with their values.

Impact investing appears to be reasonably commonplace within the NPC sector and sometimes it is the dominant consideration in relation to portfolio construction. It is interesting to note that only 13% of NPC respondents said they are willing to accept concessionary returns from their impact investments. This number grows considerably when the impact in question contributes to organisational mission and purpose, suggesting NPCs are more likely to be attracted to investments that support their work, even when financial returns are below market.

In terms of development, it is interesting to note that despite NPCs being focused on responsible investing, one in four still do not have an investment policy that addresses this topic. This again suggests the need to supply NPCs with education and data.

Public disclosure of RI policy and practice is one way to provide NPCs with education and data. Understandably, public disclosure is approached with caution due to potential concerns around stakeholder and funder perceptions. However, we expect to see greater transparency in the years ahead.

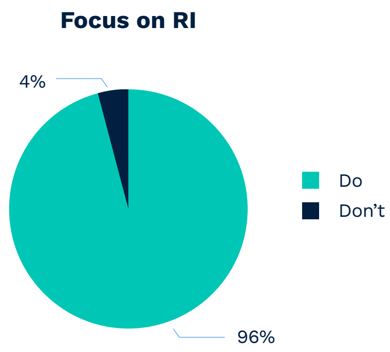
"Many charities and not-for-profits don't leverage their assets. The banks tell us that term deposits are the most common form of investment across our sector. Charities and not-for-profits can and should do more to ensure all their resources are working towards their mission which is why CCA is a strong supporter of responsible investing. Not every charity or not-for-profit is in a position to become strategic investors, but if we can better utilise some of the charity sector's $200 billion in assets to boost responsible investing, we will significantly increase the positive impact of our sector across all the communities we serve."

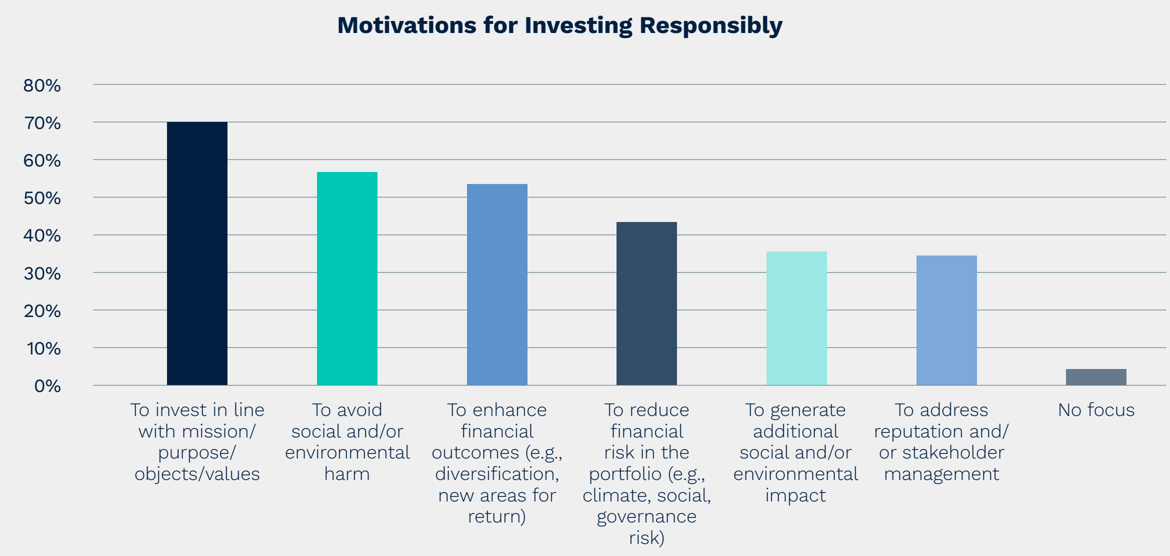
David Crosbie | CEO, Community Council for Australia (CCA)

Key findings for NPCs

RI is a key consideration for NPCs, with 96% focussed on it. The primary motivation for these entities is to invest in line with their mission and values, followed closely by the desire to avoid social and/or environmental harm.

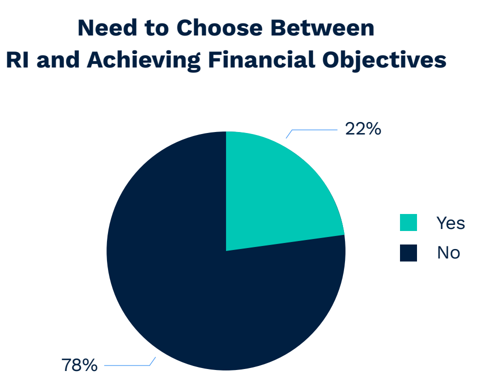
For 53% of NPCs, a key motivation for their responsible investing approach is the desire to enhance financial outcomes. This might be through reducing risks (e.g. diversification) or accessing new areas of return.



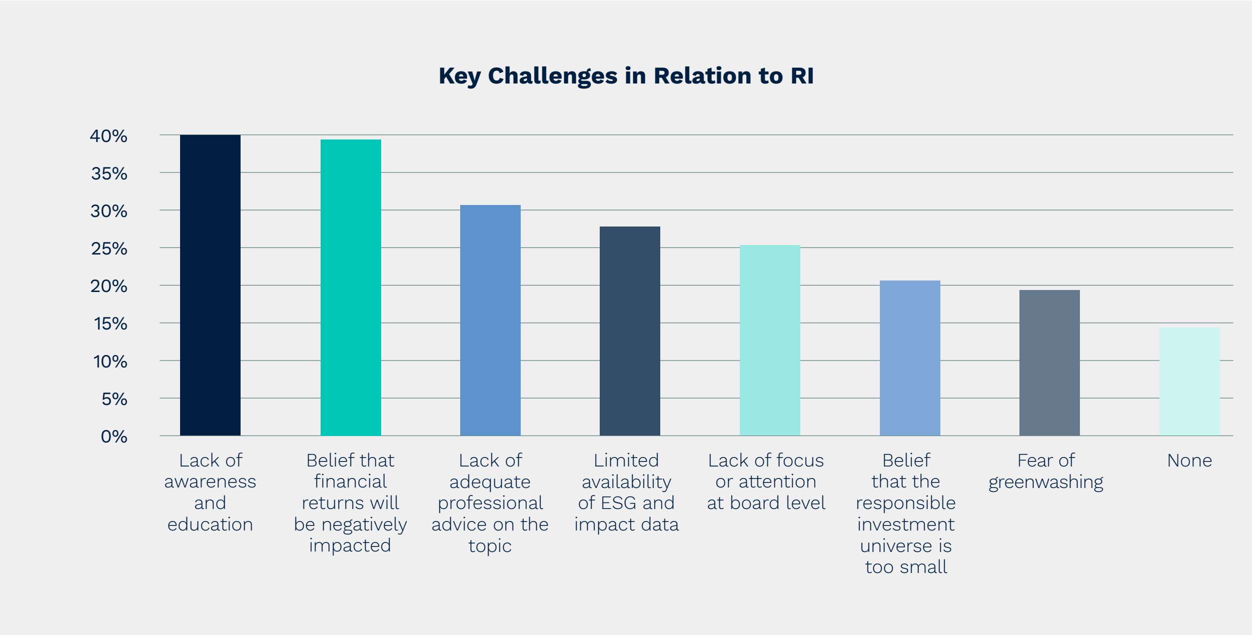


78%

of NPCs don't believe they have to choose between achieving financial objectives and investing responsibly.

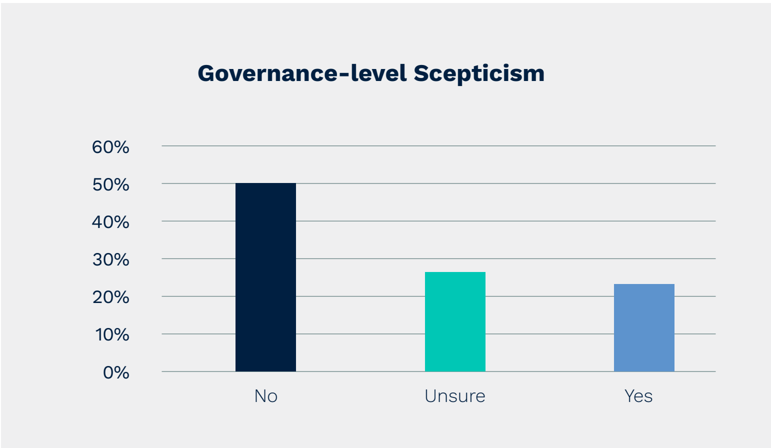


Despite this strong belief that returns will not be impacted and in fact may be enhanced, many NPCs still face substantial challenges with regards to RI; the major concern being a lack of awareness and education on the topic. This was followed closely by the belief that financial returns will be negatively impacted. This apparent anomaly may suggest a wide range in attitudes is common among leaders, board members and investment committee members within individual NPCs. There is more work to be done to fully understand why NPCs consider this such a challenge. This may partly explain why NPCs are hungry for more data, information and education.



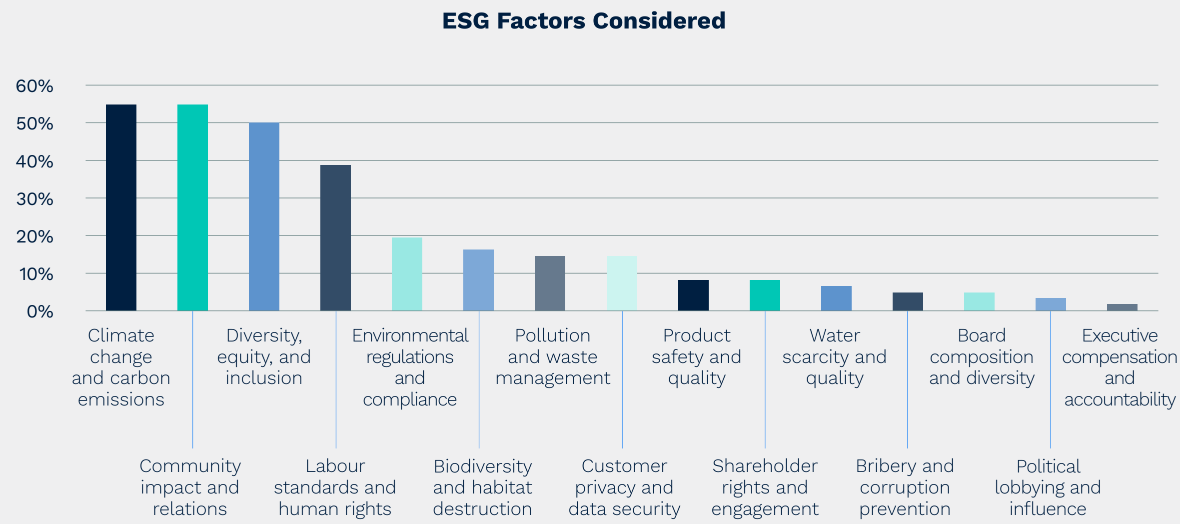
23%

of NPCs reported there to be scepticism about the merits of RI within their entity's board or relevant sub-committee. This again indicates that whilst NPCs believe in the merits of responsible investing, not everyone is on board internally.



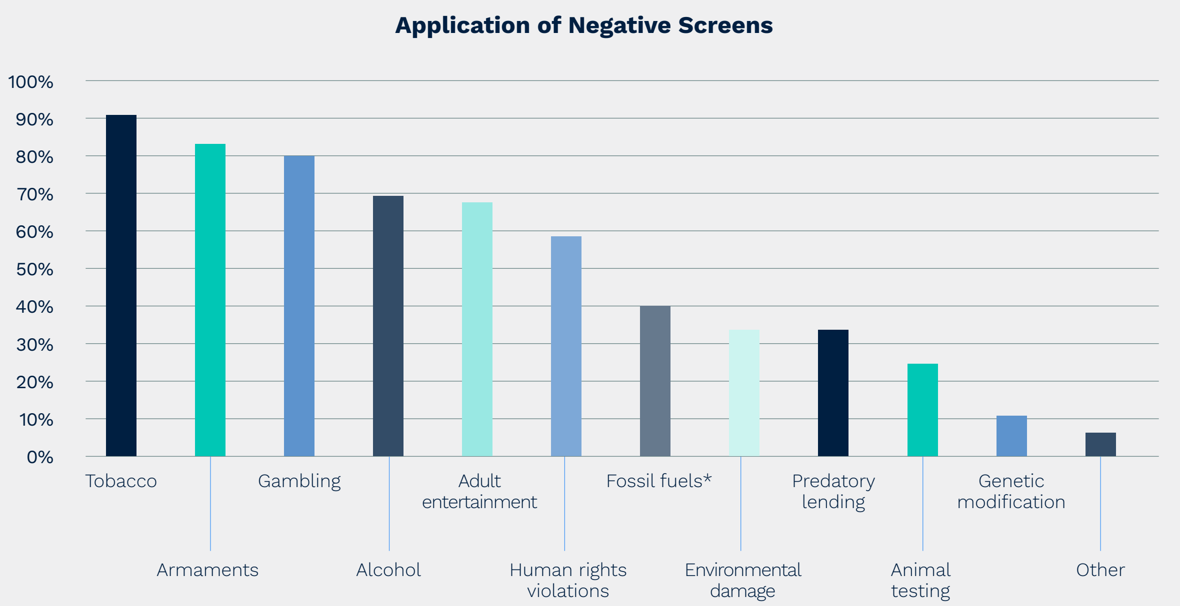
69%

of NPCs consider ESG factors in their investment approach, with 'Climate & Carbon', 'Community Impact' and 'Diversity, Equity and Inclusion' reported as the top three most important issues.



72%

of NPCs employ negative screens, with 'Tobacco' being the most commonly applied to portfolios. In Koda's experience, NPCs are increasingly building out robust negative screening frameworks, primarily focused on areas likely to be harmful to their mission.



*Fossil fuels: companies involved in the exploration, extraction, or production of oil, gas or coal

54%

of those that employ negative screens go on to apply positive screens, with 'Social Impact' being the most common, followed by 'Clean Energy' and companies with strong 'Corporate Social Responsibility' programs.

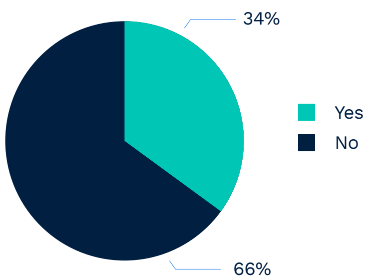
Application of Positive Screens

| **Social impact:** companies that have a positive impact on society, such as those involved in healthcare, education, or community development | **Clean energy:** companies involved in renewable energy sources such as solar, wind, and geothermal power | **Sustainable agriculture:** companies that prioritise sustainable and organic farming practices | **Corporate social responsibility:** companies with a strong commitment to corporate social responsibility and sustainable business practices | **Water conservation:** companies involved in water management and conservation technologies | **Gender diversity:** companies with a diverse and inclusive workforce, including women in leadership positions | **Ethical supply chain:** companies that prioritise ethical sourcing of raw materials and labour practices in their supply chains | **Sustainable transportation:** companies involved in the development and production of electric and hybrid vehicles, as well as those with a focus on public transportation and reducing emissions in transportation.

34%

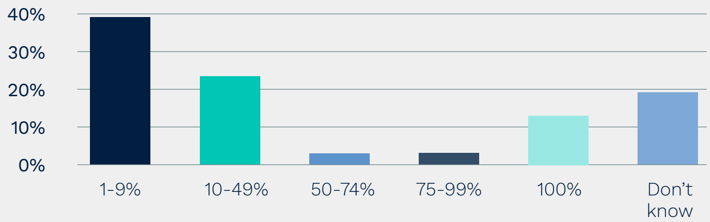
of respondents have at least one impact investment in their portfolio. Over the next 12 months, 32% of NPCs expect to increase their allocation to impact investments.

Prevalence of Impact Investing

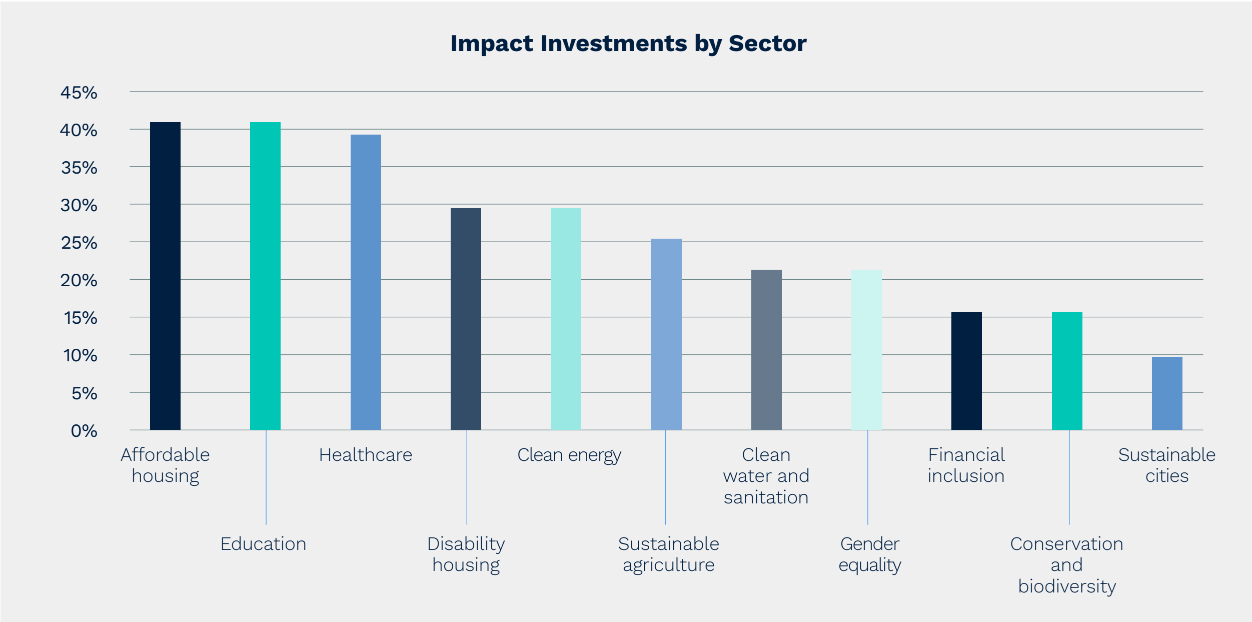


For NPCs with at least one impact investment in their portfolio, impact investments most commonly comprise between 1-9% of total portfolio value. 13% of NPCs have portfolios comprised solely of impact investments. This is interesting given some industry participants question the ability to construct *fully diversified and well-balanced* impact-only portfolios.

Proportion of Portfolio Currently Allocated to Impact Investments

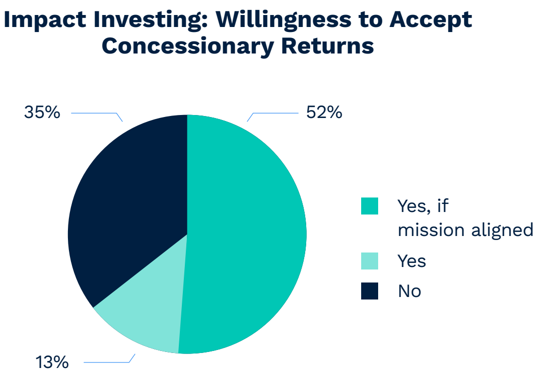


For NPCs with at least one impact investment in their portfolio, 'Affordable Housing', 'Education' and 'Healthcare' are the impact areas with the most take-up. This indicates that for most NPCs looking to actively use their portfolios to achieve measurable impact, social impact is more prevalent than environmental impact.



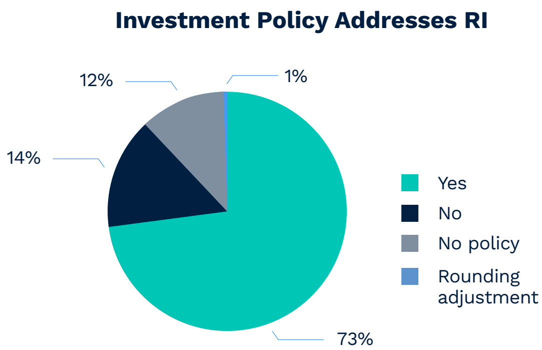
65%

of NPCs that have an impact investment in their portfolio have made an impact investment that is aligned to their mission/purpose. 13% of NPCs with impact investments in their portfolio are willing to accept concessionary returns and a further 52% are willing to, so long as the impact is aligned to their mission.



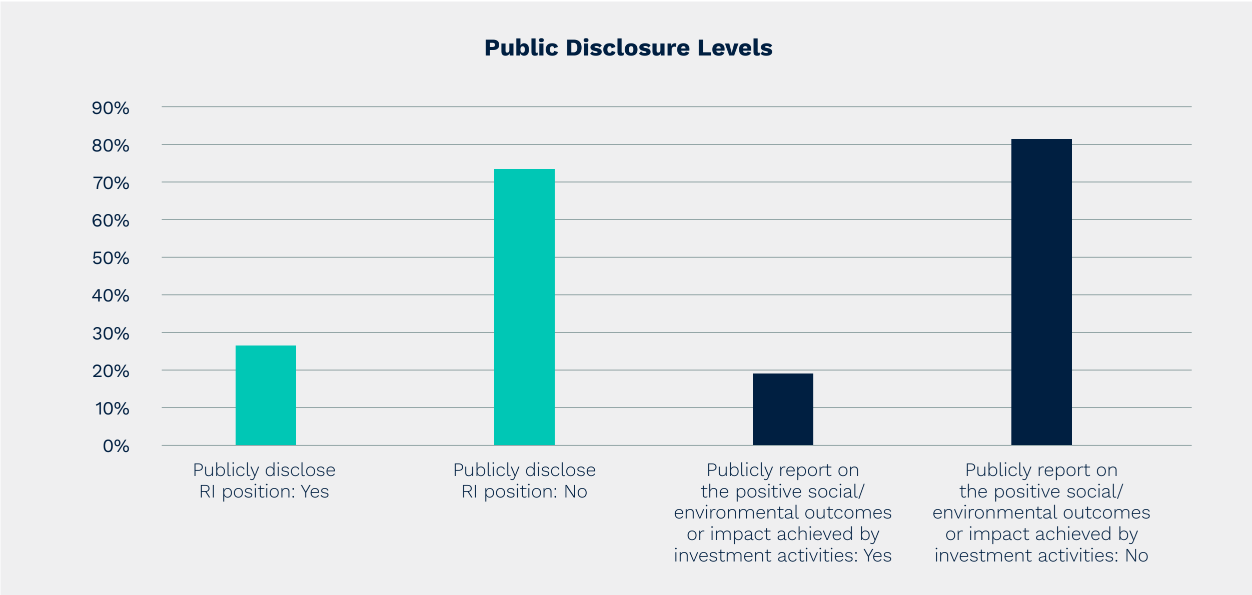
27%

of NPCs either don't have an investment policy that deals with RI or don't have an investment policy at all. On a scale of 0 to 5, NPCs rate their policies/strategies 3.3 in terms of how comprehensively they deal with RI. The formation of an investment policy is a critical moment for boards and committees to discuss RI and build out an organisationally appropriate approach. In addition, these documents hold organisations to account, give clear instruction to investment advisers and fund managers and can be used as a stakeholder management tool, to demonstrate that an organisation's assets are aligned to its mission and values.

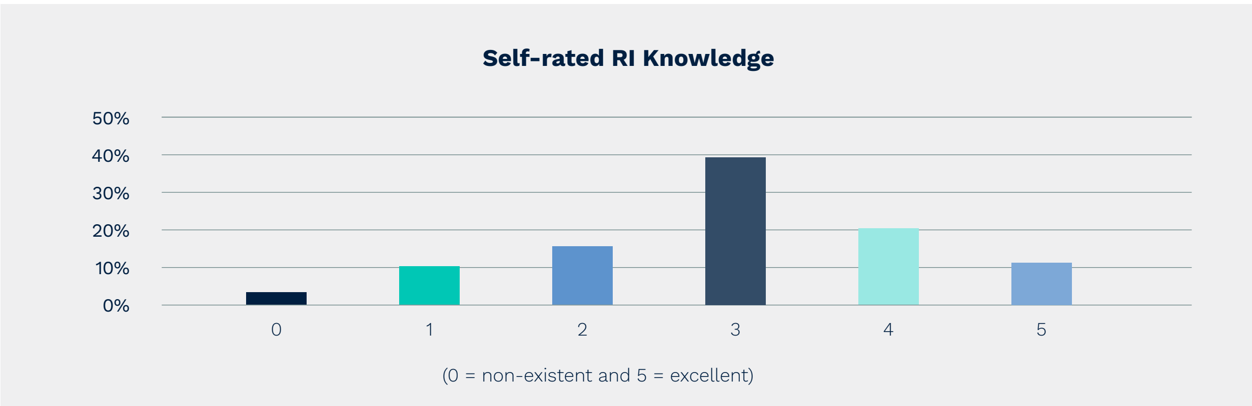


73%

of NPCs don't publicly disclose their responsible investing position and 81% don't report on responsible investing outcomes or the impact of their portfolio. This lack of transparency makes it difficult for NPCs to benchmark their approach and outcomes against their peers in the sector.

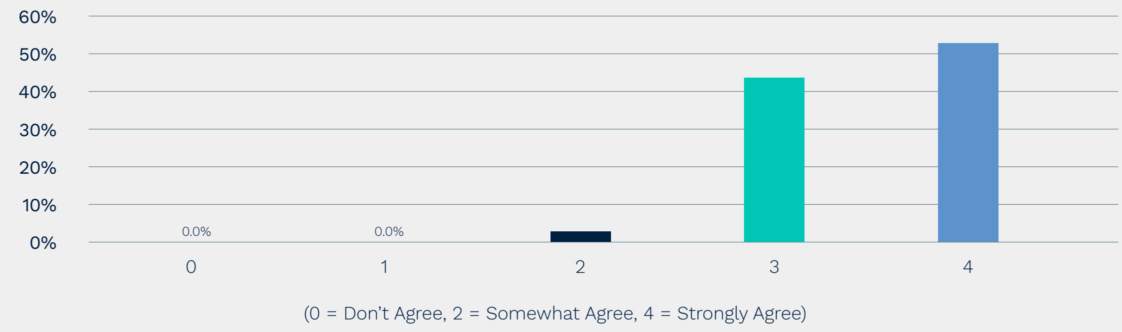


NPCs believe their financial decision makers have reasonable RI knowledge, with an average rating of 3 out of 5.



There is strong consensus from Foundation respondents that NPCs should be investing in line with their values. For fundraising NPCs, this sends a clear message about the expectations of philanthropic funders. Having a robust RI policy and being able to demonstrate the alignment of an NPC's portfolio to its values and mission are important stakeholder management tools.

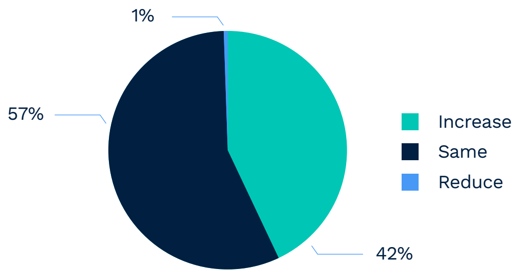
Belief Among Foundations that NPCs Should Invest in Line with Their Values



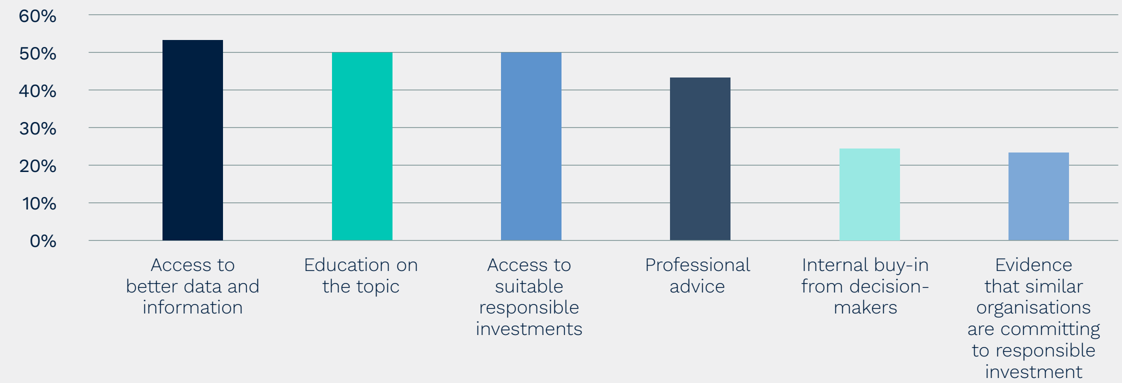
42%

of NPCs expect to grow their commitment to responsible investing over the next 12 months. 'Access to Better Data and Information', 'Education on the Topic' and 'Access to Suitable Responsible Investments' are key to helping NPCs realise this commitment.

Expectation that Commitment to RI Will Grow



What Would Help NPCs Grow Their RI Commitment



"As a sector, we have an opportunity to lead and benefit from the responsible investment movement, particularly through capital allocations to address social disadvantage and environmental issues. Our experience in developing one of Australia's largest social impact bonds, COMPASS, has demonstrated how responsible investing can drive positive change, allowing organisations like Anglicare Victoria to trial better ways of addressing social disadvantage. With the support of investors and the State Government, the COMPASS Social Impact Bond provided young care leavers with life-changing access to housing and social supports. We would encourage others in the Not-for-profit sector to consider the benefits of the responsible investment movement."

Vincent Bucci | Director Finance and Business Services, Anglicare Victoria

Things to consider for NPCs

The following options are intended to offer practical ideas to NPCs thinking about their approach to RI. All NPCs are different and find themselves in unique circumstances, so this list is not intended to apply to all. Rather, it is intended to encourage and stimulate thinking around responsible investing.

Conduct an investment policy statement review: Evaluate your current investment policy statement to determine whether it addresses RI appropriately, with alignment to your organisation's values and mission. An investment policy statement can be a key tool to facilitate a discussion about RI and to draw out individual opinions.

Consider external facilitation: Consider bringing in an external facilitator to guide the discussion on RI. An external perspective can offer fresh insights and help navigate potentially contentious discussions among directors and committee members.

Involve all directors and committee members: Offer all directors and relevant committee members the opportunity to participate in the discussion. Acknowledge and respect the diverse opinions that may arise during the process.

Consider stakeholders, including funders and staff: Take into account the perspectives of stakeholders, funders and staff when formulating your RI approach. Assess arrangements such as sponsorship agreements and event policies (e.g., serving alcohol) through an RI lens.

Benchmark against peers to inform RI discussions: Benchmark your NPC against industry standards and best practices in RI. Use this report to identify areas of development and set goals for enhancing RI practices over time.

Consider going public: Evaluate the potential benefits and drawbacks of publicly disclosing your NPC's RI approach. Public disclosure can enhance transparency and accountability, but may also invite scrutiny from stakeholders.

Be patient: Recognise that adopting a comprehensive RI approach may not happen overnight. Take incremental steps towards integrating RI principles into your NPC's investment strategy.

Collaborate with advisers/fund managers: Collaborate with your NPC's adviser/fund manager to ensure comprehensive access to necessary information, data and education on RI. Work together to identify suitable RI opportunities aligned to your NPC's goals, liquidity profile and risk tolerance.

Explore impact investments before investing: Even if your NPC is not yet ready to allocate capital to impact investments, consider asking for your adviser/fund manager to showcase potential impact investment options during regular investment updates. This will familiarise fiduciaries with the concept and the nature of available opportunities.

Consider RI as a source of capital: Evaluate RI from both a portfolio management perspective and as a potential source of capital for your NPC's balance sheet and programs. As RI grows, capital markets are expected to play a bigger role in providing funding to for-purpose organisations. This report might help those considering building their own impact investments, as several NPCs have done in recent years.

Remember that funders have expectations: Consider the merits of being able to demonstrate how well your NPC's portfolio aligns to its mission and the potential cost of not being able to.

Foundation Findings

Introduction

The results of this survey suggest that Foundations in Australia focus on RI and see it as an effective way to increase and extend the impact of their traditional tool: grant-making. Moreover, an overwhelming majority of Foundations believe that this can be achieved at no financial cost.

At the same time, Foundations are genuinely concerned about the threat of greenwashing and scepticism still exists at board and committee levels in relation to the potential opportunity cost of investing responsibly.

Results suggest that Foundations take ESG analysis seriously and routinely apply negative and positive screens. Interestingly, avoiding environmental damage is well down the list of priorities when screening out potential investments, but high on the list when positively screening investments for their impact. Environmental issues also feature prominently in the list of issues that matter when Foundations make impact investments. This is relevant considering over two-thirds of Foundation portfolios contain at least one impact investment. And when Foundations make impact investments, they tend to prefer sectors like sustainable agriculture, clean energy, and conservation & biodiversity. Like NPCs, Foundations are more likely to accept concessionary returns from impact investments when the impact component of the overall return contributes to their mission/grant-making activities.

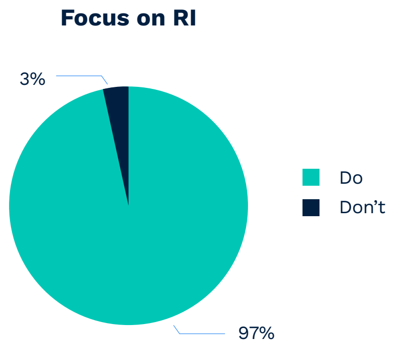
In terms of public disclosure, there is definitely scope for Foundations to be more transparent in relation to their RI policy and the impact of their portfolios. In a general sense, Foundations face less public scrutiny than NPCs. Whether in spite of this, or because of this, some high-profile Foundations are beginning to adopt a very transparent approach, and it is to be hoped that this open and collegiate approach catches on, as it will no doubt inspire other Foundations and grow overall confidence in Australia's philanthropic sector.

"At a minimum, responsible investment provides a mechanism for endowed foundations to build on the impact that comes from their grant-making by investing in sectors that contribute to the philanthropic outcomes they are looking to achieve. Impact investing can take things a step further by both meeting investment objectives while also amplifying social and environmental outcomes. I applaud all foundations who are looking at harnessing their corpus as a lever for positive social change."

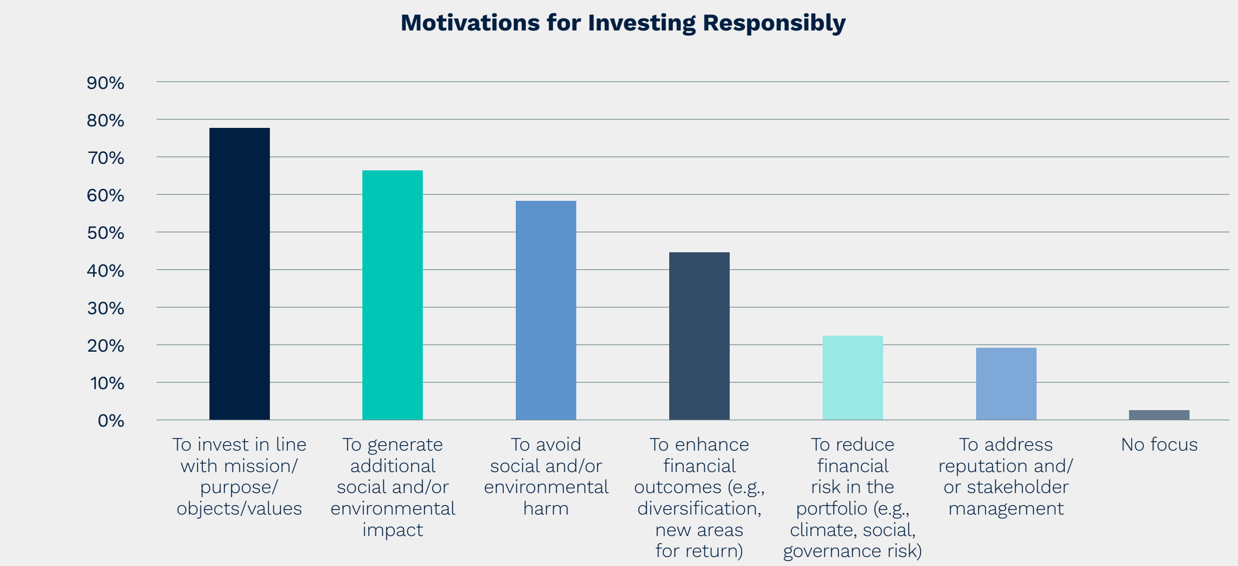
Amanda Miller OAM | Board Co-Chair, Philanthropy Australia

Key findings for Foundations

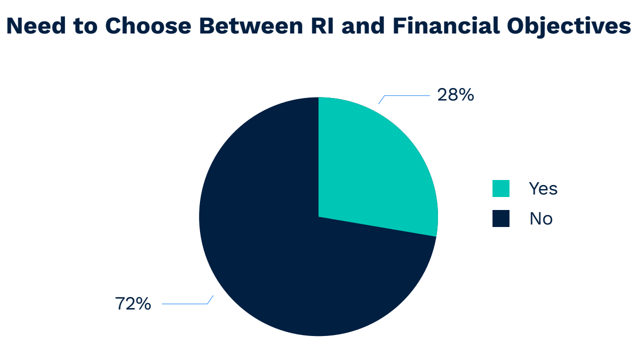
Responsible investing is a key consideration for Foundations, with 97% focussed on it. The primary motivation for these entities is to invest in line with their mission and values, followed closely by the desire to generate additional social and/or environmental impact.



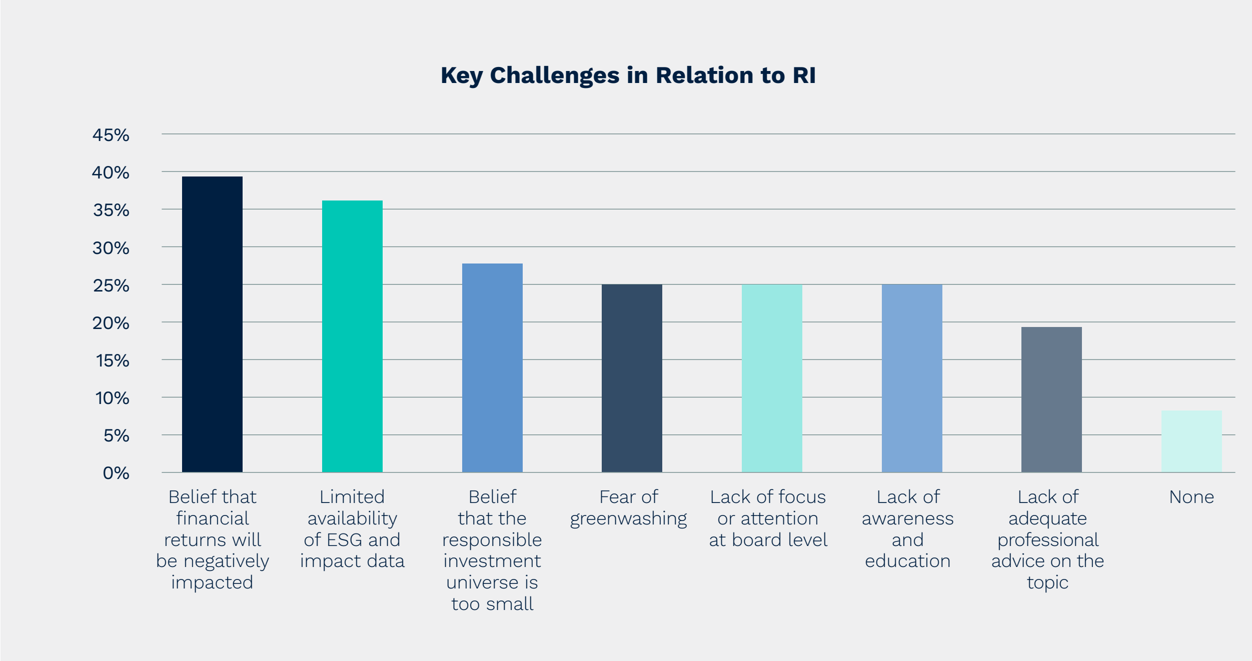
Foundations prioritise generating additional social and/or environmental impact more highly than NPCs. Foundations have limited tools with which to achieve their mission/purpose; grant-making and investing are their major impact levers. For NPCs, their major tools are their programs, and their portfolios often represent capital invested to help support their operating activities.



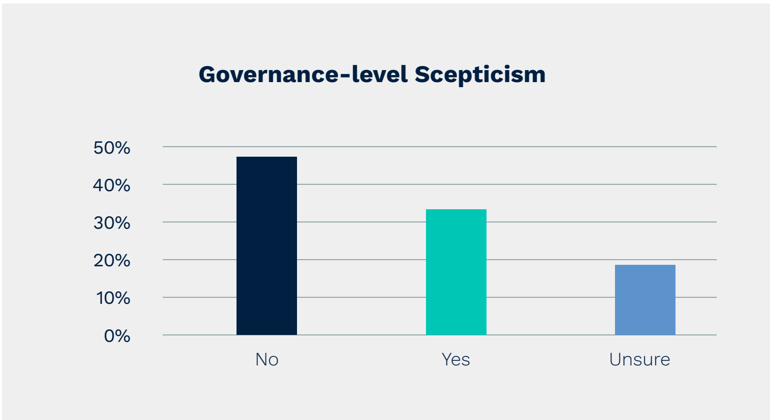
Slightly more Foundations believe they have to choose between achieving financial objectives and investing responsibly than NPCs, however, the overwhelming majority (72%) believe they don’t.



Notwithstanding the previous findings, the biggest challenge Foundations face regarding RI is the belief that returns will be negatively impacted. Foundations also hold concerns about access to relevant data and investment opportunities. Foundations fear greenwashing more than their NPC counterparts.

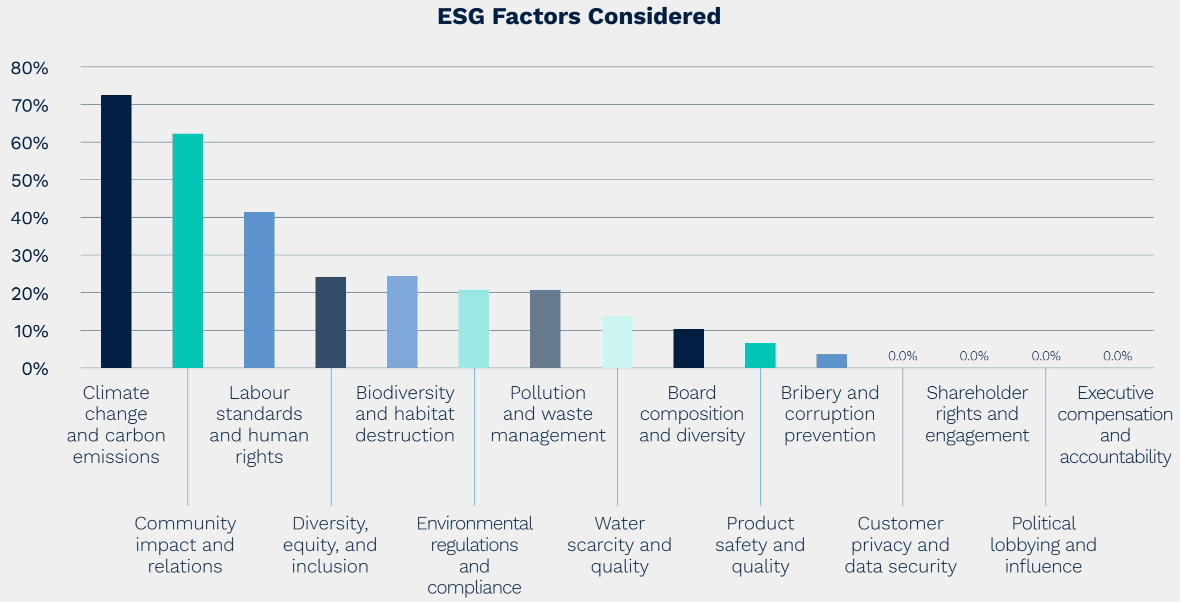


Foundations have far more scepticism about RI at board or sub-committee levels than NCPs (33% versus 23%). 40% of NPCs indicated that a lack of awareness and education was a key challenge, whereas only 25% of Foundations reported this.



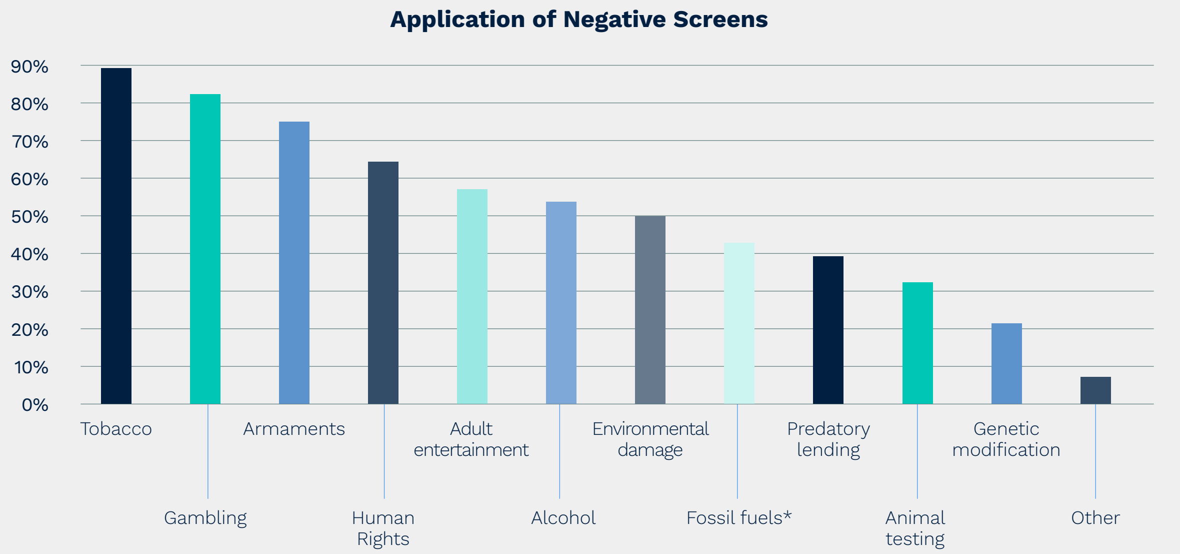
81%

of Foundations consider ESG factors in their investment approach, considerably higher than NPCs (69%). 'Climate Change and Carbon' is the top issue of importance for Foundations. As with NPCs, 'Community Impact and Relations' was a top-two issue, followed by 'Labour Standards and Human Rights' at number three. 'Diversity, Equity, and Inclusion' was lower on the list of priorities for Foundations (24%), whereas this was of much higher importance to NPCs (50%).



78%

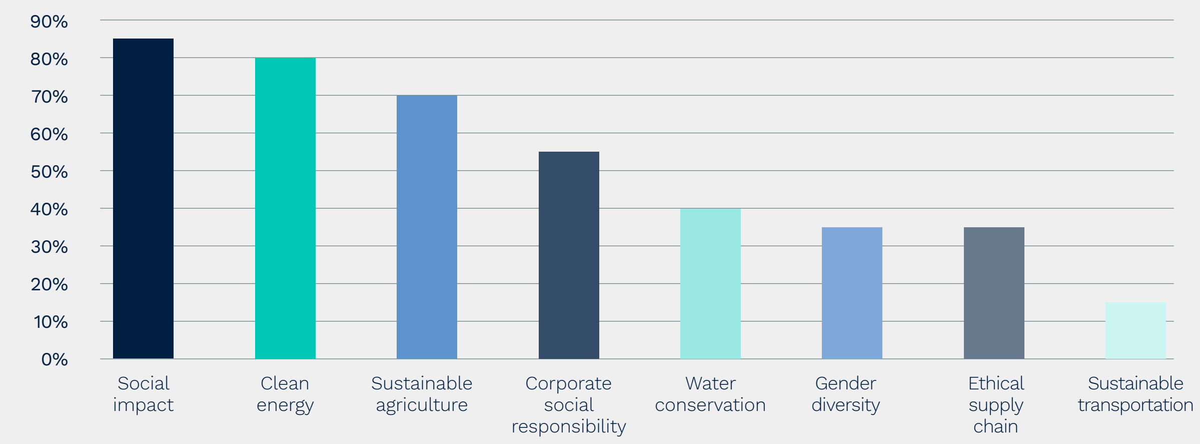
of Foundations employ negative screens, with 'Tobacco', 'Gambling' and 'Armaments' the top three most common screens.



*Fossil fuels: companies involved in the exploration, extraction, or production of oil, gas or coal

71%

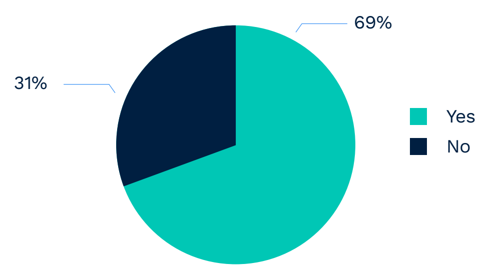
of those that employ negative screening go on to apply positive screens, compared to 54% of NPCs.



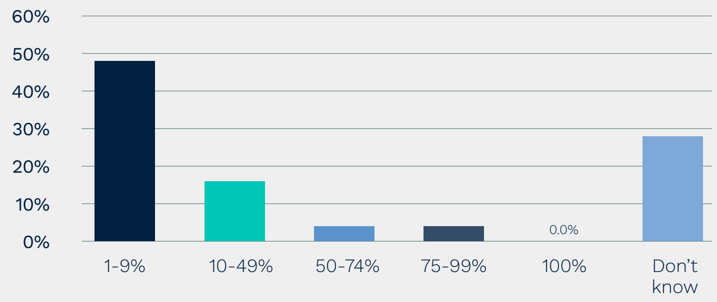
| **Social impact:** companies that have a positive impact on society, such as those involved in healthcare, education, or community development | **Clean energy:** companies involved in renewable energy sources such as solar, wind, and geothermal power | **Sustainable agriculture:** companies that prioritise sustainable and organic farming practices | **Corporate social responsibility:** companies with a strong commitment to corporate social responsibility and sustainable business practices | **Water conservation:** companies involved in water management and conservation technologies | **Gender diversity:** companies with a diverse and inclusive workforce, including women in leadership positions | **Ethical supply chain:** companies that prioritise ethical sourcing of raw materials and labour practices in their supply chains | **Sustainable transportation:** companies involved in the development and production of electric and hybrid vehicles, as well as those with a focus on public transportation and reducing emissions in transportation.

69%

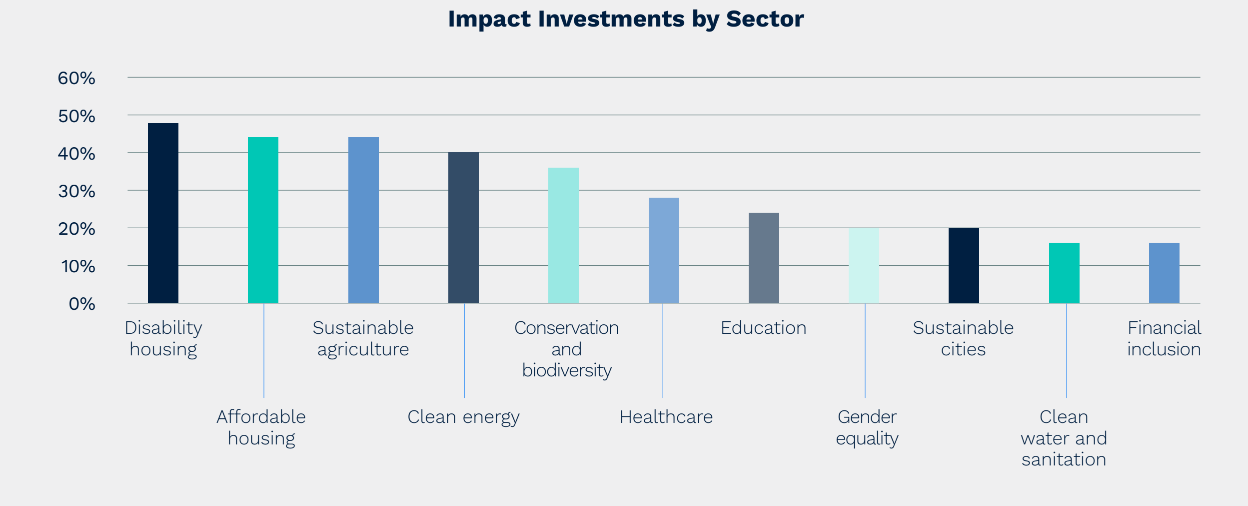
of Foundation respondents have at least one impact investment in their portfolio, considerably higher than NPCs, at 34%. 44% of Foundations expect to increase their allocation to impact investments in the next 12 months, compared to 32% of NPCs.



For Foundations with at least one impact investment in their portfolio, impact investments most commonly comprise between 1-9% of total portfolio value. 40% of these Foundations have 'allocated a portion of their portfolio to impact investments', with 24% 'aiming to include impact investments across the whole portfolio'. The remaining 36% 'consider it important, yet have no agreed approach in place'.

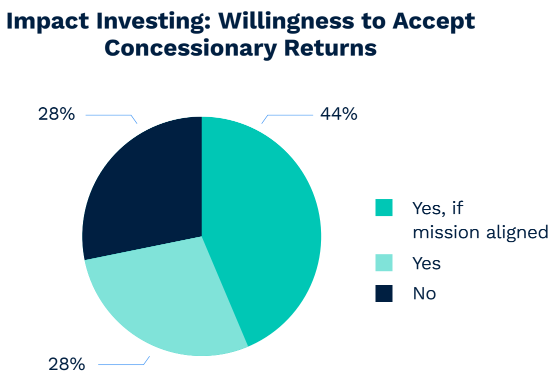


For Foundations with at least one impact investment in their portfolio, 'Disability Housing', 'Affordable Housing' and 'Sustainable Agriculture' are the impact areas with the most take-up.



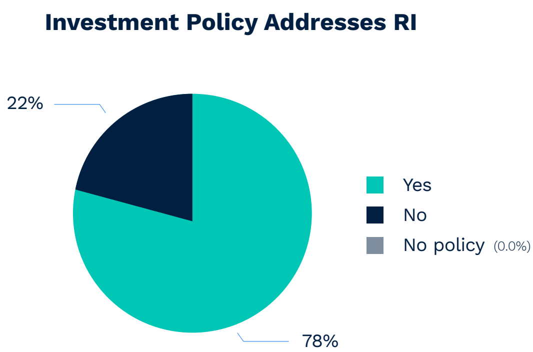
72%

of Foundations that have an impact investment in their portfolio, have made at least one impact investment aligned to their mission/purpose/grant-making. 28% of Foundations are willing to accept concessional returns and a further 44% are willing if the impact is aligned to their mission and purpose. Only 28% of Foundations are not willing to accept concessional returns, compared to 35% of NPCs.



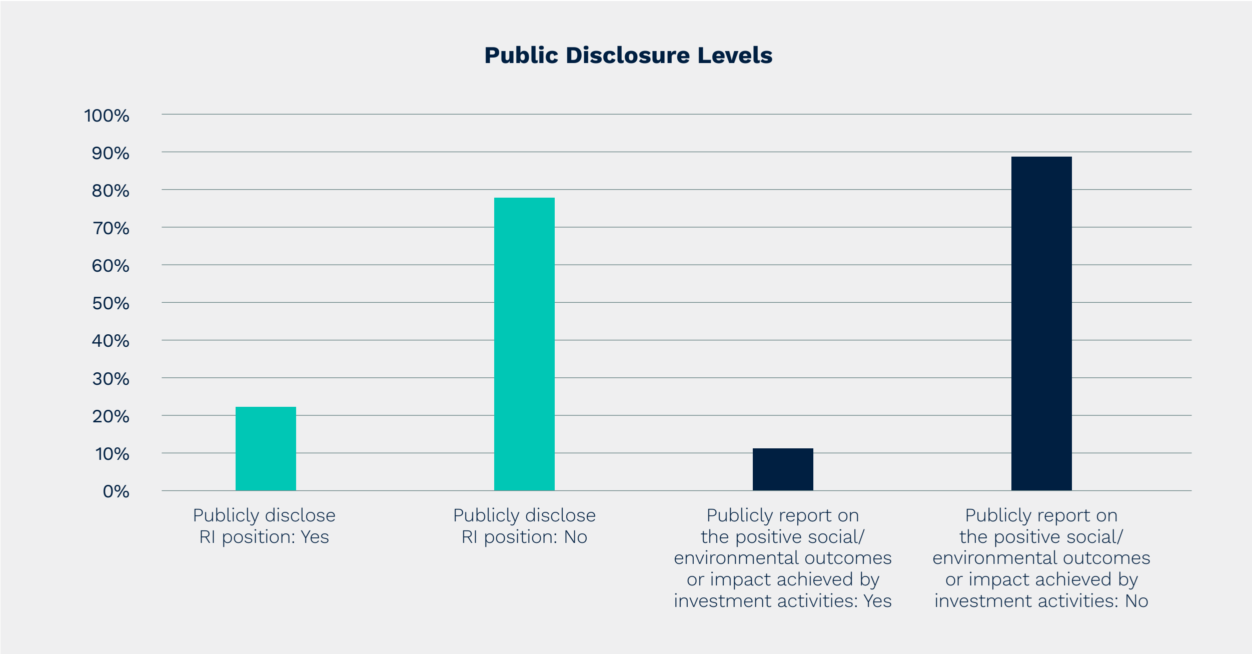
22%

of Foundations either do not have an investment policy/strategy that deals with RI or do not have an investment policy/strategy at all. On a scale of 0-5, Foundations rate their policies/strategies 3.4 in terms of how comprehensively they deal with RI.



78%

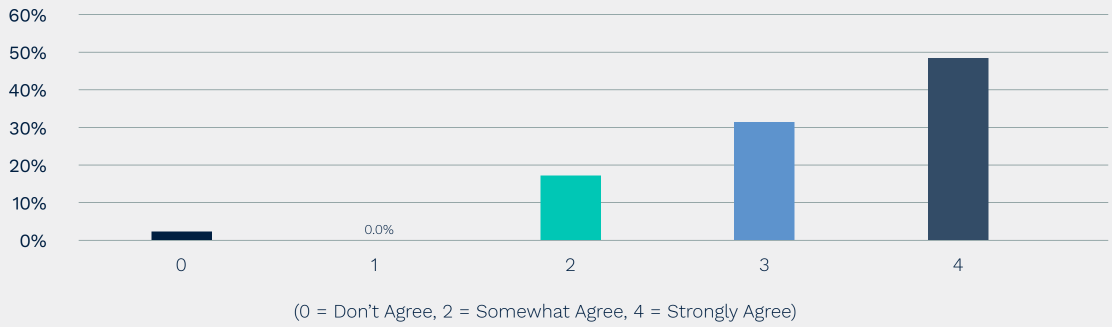
of Foundations don't publicly disclose their RI position and 89% don't report on RI outcomes or the impact of their portfolio. There is an opportunity for Foundations to more publicly disclose their approach and report on their impact. This would be beneficial for other Foundations as well as a range of other investors considering their approach to RI.



Foundations rate the knowledge of their financial decision-makers as 3.4 on a scale of 0 to 5, slightly higher than NPCs.

There is strong consensus among NPCs that Foundations should be investing in line with their values and granting strategy. This appears to be consistent with anecdotal evidence that NPCs increasingly feel the need to consider whether the source of Foundation wealth is adequately aligned to their mission.

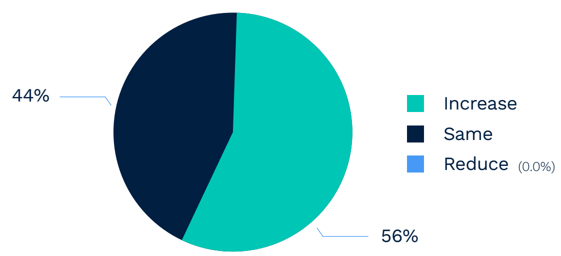
Belief Among NPCs that Foundations Should Invest in Line with Their Values and Granting Strategy



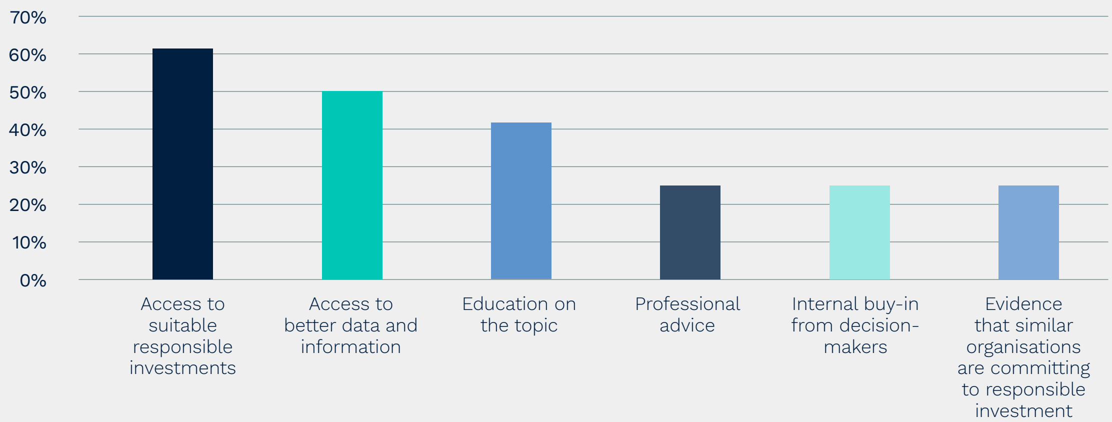
44%

of Foundations expect growth in their RI commitment in the next 12 months. 'Access to Suitable Responsible Investments', 'Access to Better Data and Information', and 'Education on the Topic' are the key areas to help Foundations grow their RI commitment.

Expectation That Commitment to RI Will Grow



What Would Help Foundations Grow Their RI Commitment



"At PRF, we believe that considering the impact of the way in which our balance sheet is invested is a critical element in addressing a broad range of social and environmental challenges. We have no doubt that by being investors with an eye to both impact and social responsibility, we will have greater success in achieving our charitable purpose of breaking cycles of disadvantage in Australia."

Ben Smith | Head, Impact Investing, Paul Ramsay Foundation (PRF)

Things to consider for Foundations

The following options are intended to offer practical ideas to Foundations thinking about their approach to RI. All Foundations are different and find themselves in unique circumstances, so this list is not intended to apply to all. Rather, it is intended to encourage and stimulate thinking around RI.

Review your skills matrix: The rapidly evolving RI landscape means that specialist skillsets should be considered for Foundation boards or investment committees. RI specialists are some of the finance industry's most sought-after talent. Often these specialists are passionate about the community and/or environment and might be willing to contribute in a personal capacity.

Understand incentives to invest impactfully: If your Foundation is a Private or Public Ancillary Fund, the Australian Taxation Office guidelines include provisions for concessional loans to Deductible Gift Recipients which may count towards annual minimum distribution requirements. The difference between the market rate for such a loan and the concessional loan rate can count as a non-cash distribution.

Consider the tools in your toolbox: Foundations have a unique role to play in fostering impact investment, in that they can offer financial support in multiple ways (e.g., grant, concessional debt, commercial debt, equity, etc.). There is an opportunity for Foundations to consider their role not only as an investor, but also potentially as a mobiliser of capital. Foundations could potentially offer financial support on a first-loss, concessionary or flexible basis, to encourage investment by other investors seeking higher returns or lower risk.

Engage the next generation in the process: RI is a subject that captures the interest of the next generation. For family foundations in particular, discussions around RI represent a unique opportunity to get the next generations involved in the investment process.

Become a Responsible Investment Association Australasia member: Consider joining RIAA as a source of data, education and valuable resources, such as its product certification program. The philanthropy sector's peak body, Philanthropy Australia, continues to build out its resources and focus on RI, particularly impact investment. Consider leveraging these resources and other opportunities to connect with and hear from your peers.

Involve grant-making specialists: One of the challenges with RI, especially impact investing, is assessing the true impact of an investment. Many Foundations employ professional grant-making teams that are well-equipped and educated on this topic. There is an opportunity to leverage this talent and involve them in the investment process, to assess and monitor the impact of investments and the overall portfolio. This will also likely further strengthen the connection between a Foundation's grant-making and portfolio management activity.

Consider disclosing your Foundation's RI position: Foundations have an opportunity to promote transparency and best practice in relation to RI by disclosing their approach and reporting on the social and/or environmental outcomes of their investment activity. By doing this, your Foundation may be able to help encourage other owners and managers of capital to invest responsibly.

Benchmark your Foundation against your peers: Use this report to benchmark your Foundation against industry practice. This may enable you to have more informed internal discussions, thereby allowing you to better align your Foundation's investment portfolio with its philanthropic objectives.

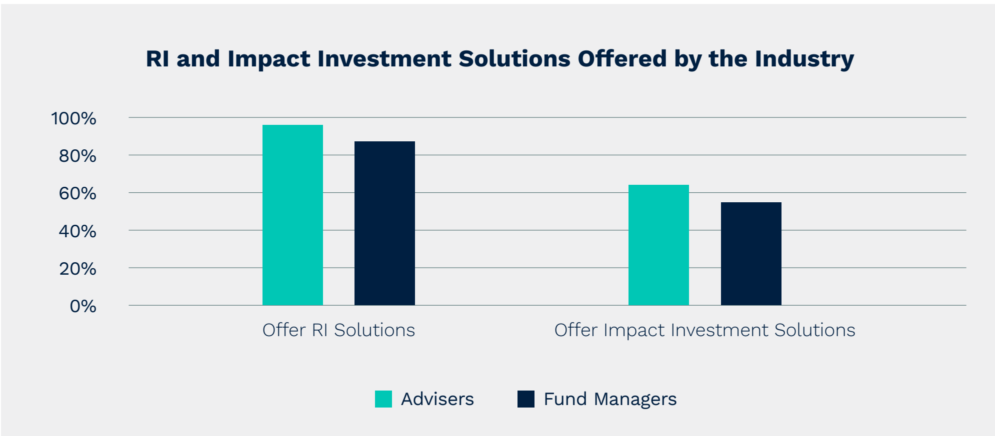
Adviser and Fund Manager Considerations

"We have witnessed the exponential growth of RI in Australia over the last two decades. Investors increasingly recognise the importance of aligning their portfolios with their values. However, the shift isn't just about ethics, it's also driven by financial returns, as investors seek out companies embracing sustainability. Looking forward, increased capital earmarked for RI underscores a promising trajectory. As this evolves, successful investment managers and advisers will adapt to meet client demand."

Dean Hegarty | Co-CEO, Responsible Investment Association Australasia

This report provides fund managers and investment advisers with an opportunity to better serve their for-purpose clients.

Presently, sector-specific data on RI is scarce and sharing information is one way to furnish the investment industry with enhanced insights, thereby improving its capacity to serve this important and growing client segment. Capital invested by for-purpose organisations usually represents a precious community asset. Our hope is that by providing information and ideas to those entrusted with the management of for-purpose investments, Koda can help the investment industry deliver better financial, social and environmental outcomes for charitable, non-profit and philanthropic groups.



Our survey highlights how influential fund managers and investment advisers are in relation to for-purpose portfolio management. Three quarters of all respondents are professionally represented, with investment advisers providing advice to 44% of all respondents and fund managers managing investments on behalf of another 31%. In turn, fund managers may be interested in what investment advisers have to say in relation to their for-purpose clients, given the significant capital they allocate on their behalf.

This survey also suggests there may be further scope for the investment industry to better support clients, given it shows that, on average, respondents rated their satisfaction with their investment adviser at 3.5 (out of a range of 0 to 5) and their satisfaction with their fund manager at 3.6. Overall, respondents also indicated that RI capability is important when selecting an adviser or manager. 85% rated this capability as somewhat important, important or very important. Almost two-thirds of all respondents rated it as either important or very important.

When looking at what the industry can do to better serve the for-purpose sector, two things stand out in our survey: product provision and education. “Access to suitable responsible investments” was the top answer to the question “What would help your entity increase its commitment to responsible investment?”. Three of the top four answers to the question “What are the challenges your entity faces regarding responsible investment?” concerned lack of education, access to data and professional advice. And 39% of respondents that employ an investment adviser or fund manager still do not have access to a pipeline of impact investments.

In light of these results, it seems fairly clear that investment advisers and fund managers focused on this important and growing segment can better serve their clients by:

Understanding that for-purpose investors have a strong and growing appetite for RI and impact investing.

Providing more and better data in relation to the impact of all investments, rather than just responsible investments.

Educating for-purpose clients and the broader sector in relation to responsible investing, in all its forms.

Researching, offering and creating more and better responsible/impact investment products.

Looking Ahead

Based on the findings in this report as well as our client work and market observations, Koda believes RI will become even more central to the way Foundations and NPCs approach portfolio management than it is today. It is notable that 43% of respondents expect the entity they represent to increase its commitment to RI over the coming 12 months and less than 1% expect their entity to reduce it. It is also worth noting that the majority of respondents were Directors or Trustees, as this suggests a serious commitment to RI from those with the ultimate power to shape an organisation's approach.

In looking at how for-purpose investors might increase their commitment to RI, it is worth looking at what respondents reported as the key ingredients that would assist them:

Access to suitable responsible investments

53% of respondents indicated that better access to suitable responsible investments is the primary key to unlocking further commitment. The RI product universe continues to grow, and it is imperative that advisers and fund managers bring this universe to their clients if they are to meet their client needs. This may involve them building out their capabilities, be it through additional research, adding skilled professionals into their research teams, or providing professional development for their advisers so that they can confidently advise and guide their clients in relation to RI.

Access to better data and information

52% of respondents cited better access to data and information as a key to increasing their responsible investing commitment and 26% of respondents believe they are still facing internal scepticism at board/trustee or sub-committee level, with the primary basis for scepticism being the belief that investment returns will be sacrificed through a responsible investing approach. It is critical that the evidence to counter this concern is readily available and forms the basis for continued education at the highest levels within for-purpose organisations. Groups like RIAA have a vital role to play in providing evidence of performance and best practice. As more high-quality investment opportunities emerge across asset classes, robust track records should also bolster confidence in the approach.

Education on responsible investing

There is a clear opportunity for advisers, fund managers and other intermediaries to provide for-purpose investors with education on the concept and practice of responsible investing. 48% of respondents indicated that education would help drive further commitment to responsible investing on their part. Educators can draw on the extensive resources offered by some of the industry's key bodies, including:

- Principles of Responsible Investments (PRI)
- Responsible Investment Association Australasia
- Impact Frontiers
- Global Impact Investing Network (GIIN)
- Global Sustainable Investment Alliance (GSIA)

Should responsible investing continue to grow in popularity as we foresee in this report, Australia's non-profit and philanthropic sectors should benefit in terms of mission fulfilment. A future where risk, return *and* impact form the basis for investment analysis, will see more capital flow into investments that avoid harm and investments that generate positive social and/or environmental benefits.

There exists an opportunity for the sector to set a precedent by demonstrating leadership in the adoption of RI best practice. Yet only 25% of respondents publicly disclose their responsible investing position and only 17% publicly report on the positive impact achieved through their investment activities. While such disclosures may pose challenges for some for-purpose investors, particularly for charities wary of funder perceptions, we believe that visible leadership in this area not only enhances the sector's ability to leverage capital for greater societal and/or environmental benefit, but also helps pave the way for capital markets to become a viable funding source for these organisations and others.

Increased transparency encourages others, provides important evidence to those still sceptical and highlights best practice approaches to responsible investing. Some philanthropic bodies are already demonstrating visible leadership in this arena, including:

- The Paul Ramsay Foundation — Total impact approach
- The Reichstein Foundation — Aligning our investments with our vision and values
- Australian Communities Foundation — 100% Responsible Investment

Looking ahead, the way in which responsible investments are defined looks set to play an important role in determining their credibility and this survey reveals the need for a collective understanding of responsible investing terminology and approaches. Work being done on responsible investing terminology by the CFA Institute, GSIA and PRI is helping standardise definitions in what can be a confusing landscape.

21%

of all our survey respondents said fear of greenwashing was a challenge their entity faced when considering responsible investing. As more owners and managers of capital adopt a responsible investing approach, we expect to see more fund managers and financial institutions entering the market to capture market share. Effectively tackling greenwashing will not only give for-purpose investors confidence, but also promote adoption by other investors as well. It is important that for-purpose investors and their advisers play their part in holding product issuers and promoters to account.

It is clear that corporate regulators like the Australian Securities & Investments Commission (ASIC) intend to do the same and their expectations are clearly laid out in this paper:

How to avoid greenwashing when offering or promoting sustainability-related products | ASIC

Ongoing education and standardisation of impact reporting will also serve to improve confidence and foster greater transparency and accountability. Similarly, important initiatives such as the Climate-Related Financial Disclosure Bill released by the Australian Department of the Treasury look set to play a critical role in providing better transparency and data, in a similar manner to the introduction of the Modern Slavery Act in 2018.

In a more general sense, Koda anticipates continued progress and evolution in the Australian responsible investing landscape. In this kind of dynamic environment, for-purpose boards and investment committees will need to regularly revisit and refine their investment strategies and policies, to keep pace with regulatory changes, market developments and evolving stakeholder expectations. Given the role they play and the calibre of the people they attract to help steward their capital, NPCs & Foundations can influence the broader investment landscape when they prioritise responsible investing. When for-purpose investors lead the way in relation to best practice, they increase the potential to unlock ever-greater flows of capital from significant sources like the Superannuation industry and help to catalyse positive impacts with the potential to alter the course of many ongoing social and environmental issues.

The future appears bright for responsible investors, and we hope that this report represents a valuable source of data, adding transparency where it is needed and helping for-purpose investors to benchmark themselves against their peers.

Acknowledgements, Definitions & References

Acknowledgements

Koda would like to acknowledge and thank our survey Industry Partners, Philanthropy Australia and the Community Council for Australia, as well as our survey Distribution Partners:

- Australian Impact Investments
- Benefolk
- CCS Fundraising
- CPA Australia's NSW Not-for-profit Discussion Group
- Ecotone Partners
- Ethinvest
- First Australians Capital
- Grant Thornton
- HLB Mann Judd
- Institute of Community Directors
- Minter Ellison
- OnImpact
- Our Community
- Wheelton Philanthropy
- Pro Bono Australia
- Responsible Investment Association Australasia
- SEFA
- Social Impact Hub
- Social Ventures Australia
- Tanck
- U-Ethical
- University of Western Australia, Centre for Public Value
- Westpac Foundation
- We would also like to thank our colleagues, Farren Williams, Terusha Ramchund and Noah Bajayo for their input and support.

PHILANTHROPY AUSTRALIA

CCA COMMUNITY COUNCIL FOR AUSTRALIA

Survey Definitions

The following definitions were included in the survey completed by respondents and have been used for the purposes of this report:

- **Responsible Investment:** a broad-based approach to investing that factors in people/society, governance and the environment, along with financial performance, when making and managing investments. This approach includes the full spectrum of negative and positive screens, norms-based screening, stewardship and engagement, ethical investing, ESG analysis and integration, sustainability-themed investing and impact investment.
- **Negative Screens:** the exclusion from a fund or portfolio of certain sectors, companies, practices, or geographic locations based on specific environmental, social and governance ESG criteria, such as unsafe working conditions, inadequate policies and actions to achieve net zero emissions, corruption, etc.
- **Impact Investing:** investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.
- **Positive Screens:** intentionally tilting a proportion of an investment portfolio towards positive solutions (e.g., recycling), or targeting companies or industries assessed to have better ESG performance relative to benchmarks or peers.
- **ESG Integration:** the systematic and explicit inclusion by investment managers of environmental, social and governance factors into the investment decision-making process.
- **Adviser:** Provides financial advice specific to your needs and circumstances
- **Fund Manager:** A company that manages investment products offered to multiple investors.

Thought Leadership from Koda

Koda podcasts

- Andrew Kuper: Andy explains profit with purpose and LeapFrog's social impact.
- Kylie Charlton: Kylie defines impact investing and discusses its mainstream adoption.
- Michael Traill: Michael discusses purposeful investing and his involvement in a number of impact investments.
- Stephen Fitzgerald: Stephen discusses successful investing, common mistakes, effective investment governance and his focus on impact.
- Susheela Peres da Costa: Susheela discusses responsible investing, risk-return-impact and long-term value creation.

Koda papers

- An Effective Investment Policy Statement: This paper discusses investing reserves responsibly including fiduciary duty, governance, mission alignment and policy.
- Investing for Non-Profits: Essential Questions for Board and Investment Committee Members: This paper lists key questions that every non-profit leader needs to consider.
- Philanthropy & Beyond – Building an Impactful Life: This paper explores practical ways to weave purpose into your life.
- Responsible Investment – Using Your Capital for Profit and Purpose: This paper introduces the principles of responsible investment and how to align capital with your values.
- The Principles of Endowment Style Investing: This paper highlights how the principles of endowment-style investing lead to better long-term investment outcomes.
- The Principles of Endowment Style Investing, Part II: This paper discusses the purpose, governance and management of non-profit endowments.
- Top 10 Mistakes of the Australian Non-Profit Investor...And How To Avoid Them: This paper aids non-profit leaders in avoiding common investment mistakes.

Koda information

- Responsible Investment at Koda
- Impact Investing at Koda
- Investing for Non-profits at Koda
- Philanthropic Advice at Koda
- Koda in the Community

Additional resources

- Bridgespan Social Impact, Can Foundation Endowments Achieve Greater Impact?
- Global Impact Investing Network, What You Need to Know About Impact Investing
- Global Sustainable Investment Alliance, Global Sustainable Investment Review 2022
- Responsible Investment Association Australasia, Responsible Investment Benchmark Report 2023

About Koda

Koda is the largest independent investment adviser in Australia. Since day one, we have maintained a core focus on managing portfolios on behalf of philanthropic and non-profit organisations. Of the $12 billion that Koda manages, more than $3 billion is managed on behalf of for-purpose organisations and we are proud to advise some of Australia's best-known and respected organisations. We have a strong focus on RI. In 2018, Koda became the first mainstream wealth manager in Australia to introduce a comprehensive impact investing capability for clients. In 2023, we were awarded 'Best for ESG Investing in Australia' at the Euromoney Global Private Banking Awards and in 2024, Euromoney awarded us 'Australia's Best for Sustainability'.

Koda is a proud member of Philanthropy Australia and the Responsible Investment Association Australasia. We were the first business in Australia to have all staff sign the Banking & Financial Services Oath. We are currently in the process of formulating Koda's second Reconciliation Action Plan (RAP) following our initial *Reflect* RAP. This process is being managed by Koda's RAP Sub-Committee, which resides within our Diversity & Inclusion Committee.

In the early years of Koda Capital, all Koda team members came together to collaborate on the creation of our firm's community engagement initiative: The Allies Program. This program harnesses our combined time, resources and skills to support the communities in which we work. For Koda, our community work through The Allies Program is a centrepiece of our culture. This commitment includes initiatives such as workplace giving, staff volunteering and the Koda Endowment, our newly-established corporate and staff foundation, via which Koda commits 1% of profits.

Contact Us

Contact Koda Capital's Philanthropy & Social Capital team or speak with your Koda Adviser.

David Knowles
Partner | Head of Philanthropy & Social Capital

M 0429 726 277
E david.knowles@kodacapital.com

Chris Wilson
Partner | Philanthropy & Social Capital

M 0428 866 607
E chris.wilson@kodacapital.com

Will Beresford
Manager | Philanthropy & Social Capital

M 0424 587 257
E will.beresford@kodacapital.com

Farial Ameen
Philanthropy Analyst | Philanthropy & Social Capital

M 0423 570 392
E farial.ameen@kodacapital.com

Important Information

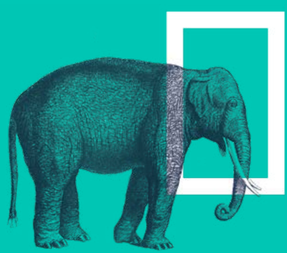
This material has been delivered to you by Koda Capital Pty Ltd ABN 65 166 491 961 AFS Licence No. 452 581 (Koda) and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision.

Past performance is not necessarily indicative of future results and no person guarantees the future performance of any strategy, the amount or timing of any return from it, that asset allocations will be met, that it will be able to be implemented and its investment strategy or that its investment objectives will be achieved. This material may contain forward-looking statements. Actual events or results or the actual performance of a financial product or service may differ materially from those reflected or contemplated in such forward-looking statements. This material may include data, research and other information from third party sources.

Koda makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. This information is subject to change at any time and no person has any responsibility to update any of the information provided in this material. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Koda. Such statements involve known and unknown risks, uncertainties and other factors and undue reliance should not be placed thereon.

Any trademarks, logos and service marks contained herein may be the registered and unregistered trademarks of their respective owners. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of Koda. Please refer to our Financial Services Guide (FSG), using the link below for further information about the type of financial services provided by Koda Capital Pty Ltd.

FSG Link: https://kodacapital.com/wp-content/uploads/Koda-Capital-FSG-Version-8.4-September-2023.pdf



KODA

kodacapital.com