



Responsible Investment Policy

Big Society Capital

March 2023

1. Our Mission and Values

Big Society Capital exists to improve the lives of people in the UK through investment with a sustainable return. Working with expert partners, we seek to understand people's needs first. Then, using our knowledge and capital, we collaborate and invest with fund managers who also want to create a better, sustainable future. They, and the social enterprises and charities they invest in, create the impact.

At the core of Big Society Capital's investment philosophy is the aim to achieve positive impact on people, create systemic change, and deliver a sustainable financial return. To achieve these three aims, Big Society Capital believes that one component of our approach is to invest responsibly by considering environmental, social and governance ("ESG") risks and impacts.

2. Purpose of Responsible Investment Policy

The Responsible Investment Policy ("Policy") details the approach Big Society Capital is taking to assess and manage risk across its social impact investment portfolio. It is integrated in our investment process from due diligence to portfolio management and intermediary support.

This Policy complements our dedicated impact assessment and management approach (focused on many aspects of Social, and at times Environmental, risk), our Organisational Due Diligence approach and ongoing intermediary support (covering aspects of Governance risks amongst others). Given this overlap, this Policy considers ESG risk factors not already captured elsewhere such as the intentional Impact on People an investment is seeking to achieve which is assessed against the [Impact Management Project's Five Dimensions of Impact](#).

This Policy builds on the Responsible Business Principles to reflect international standards, best practice and learning from impact investing peers.

3. Applicability

This Policy will apply to Big Society Capital's conduct as a business and in its making and management of its social impact investments and treasury investments. Big Society Capital may adopt stricter or more stringent requirements in relation to its management of non proprietary capital.

Fund managers (with respect to the fund(s) that Big Society Capital invests in) and other financial organisations that receive investment from Big Society Capital as a social impact investment will be required to adopt and adhere to, and will be required to ensure the charities, social enterprises, and other businesses they in turn invest into adopt and adhere to, the Responsible Business Principles contained in this policy or a statement of business principles similar in form and substance.

For those fund managers that receive investment from Big Society Capital as a treasury investment, the Investment Team will undertake detailed analysis to determine that there is a similar statement of business principles in place together with evidenced practices. Its analysis will also ensure there is an aligned Exclusion List either determined by policy or investment strategy, with a five percent revenue de minimis threshold applied to reflect the limited ability to look through in detail to the underlying holdings in the portfolio.

4. Responsible Business Principles

This Policy is underpinned by the following nine core principles which are most material based on Big Society Capital's investment mandate.

Nine Core Principles

General

1. **Avoid Harm** – To minimise adverse and negative impacts on target beneficiaries and communities, the environment, employees, and all stakeholders.
2. **Business Integrity** – To exhibit honesty, integrity, fairness, diligence and respect in all business dealings and with all stakeholders and communities, including respecting commercial and personal confidentiality.
3. **Proportionate Implementation** – To identify key ESG risks and, as applicable, be proportionately compliant based on the materiality of the ESG risks in line with the other Responsible Business Principles and best practice within the target industry.

Environment

4. **Protect the Environment** – To promote and practice the efficient use of natural resources and protect the environment wherever possible.

5. **Combat Climate Change** – To promote and practice activities which minimise or seek to reverse climate change.

Social

6. **Targeted Social Impact¹** – To intentionally create a positive and measurable social impact for target beneficiaries and communities.
7. **People Centred Approach** – To promote and provide high quality working practices, conditions, and labour rights, and respect the dignity and wellbeing of all employees, contractors, and stakeholders.
8. **Inclusive Practices** – To promote equality, diversity and inclusion practices through governance and decision making, employment, organisational culture and values, and operational delivery.

Governance

9. **Good Governance** – To strive for international best practice corporate governance.

Negative Screen

Organisations that adopt and adhere to the Responsible Business Principles will not finance or engage in any activity that involves the production, use, trade or distribution of:

1. Any products, activities or materials deemed illegal under UK or international law
2. Racist, misogynistic and/or anti-democratic media
3. Gambling, casinos and equivalent enterprises, other than society lotteries as defined by the Gambling Act 2005
4. Tobacco or tobacco related products (where revenue derived from such products is a significant part of the organisation's total revenue)
5. Pornography
6. Weapons, munitions or nuclear products, primarily designed for military purposes or any goods or services with a military end user or goods that are otherwise restricted (e.g., goods that may be used to torture people)
7. Non-pharmaceutical, non-medical animal testing and animal testing that is not aligned with UK or EU legislative and regulatory requirements
8. Fossil fuels (specifically with respect to exploration, production, refining, transportation, energy generation, or construction of fossil fuel related facilities to carry out any of the above but excluding organisations mitigating the harmful externalities of fossil fuels and furthering the goals of protecting the environment and combatting climate change)

¹ Targeted Social Impact is considered as part of Big Society Capital's Impact on People approach.

Organisations that adopt and adhere to the Responsible Business Principles will comply with applicable laws and not do anything that would put any person in violation of UK, EU or US sanctions.

5. Integration of ESG in the Investment Process

Big Society Capital's ESG approach is one way in which the Responsible Business Principles are implemented in its investment process for social impact investments and treasury investments. They form the basis for the ESG Framework which outlines the ESG approach and the tools available to the Investment Team to apply the approach. Broadly, the Investment Team uses such tools to determine the material ESG issues for a new investment, to gather data on fund managers' processes, policies and performance, and to assess any ESG risks surfaced as a result. ESG risks are then reported to the Investment Committee according to the severity of the negative outcome associated with such risk and the likelihood of such negative outcome occurring when a recommendation paper is presented for decision with clear mitigation and/or action plan that will be implemented if needed. With respect to the Negative Screen, fund managers (with respect to the fund(s) that Big Society Capital invests in) and their portfolio companies are required to either adopt the list of exclusions or to demonstrate sufficiently that there is a low risk in practice of investments being made, or activities undertaken, that contravene the Negative Screen.

This is then followed up during Portfolio Management. Progress against identified mitigation and action plans will be monitored as part of the regular portfolio management Performance Committee reporting cycle. In addition, fund managers receiving social impact investment from Big Society Capital from now on will be required to provide an annual statement certifying compliance with the negative screen and compliance with law aspects of the Responsible Business Principles or other information allowing the Investment Team to conclude that there is a low risk of contravention. Big Society Capital may also require the reporting of standardised ESG indicators across segments of its portfolio, such as on an asset-class basis.

For treasury investments, the Investment Team will review fund manager disclosures and reporting to conclude there is a low risk of contravention. Where a contravention has been identified, the Investment Team will actively engage with the manager on the issue. However, if resolution and compliance are not met within a suitable timeframe, determined by the nature of the contravention, or the manager does not engage appropriately on the issue, Big Society Capital will divest from the holding. Big Society Capital aims to collect standard ESG indicators across its treasury investment portfolio.

6. Policy Sponsor and Maintenance

This Policy has been approved by the board of Big Society Capital. Big Society Capital's Chief Investment Officer is the sponsor for this policy and oversight of its implementation is provided by the Big Society Capital Investment Committee. All members of the Investment Team are responsible for implementing this Policy when assessing and managing investments. Big Society Capital's Head of Investment Management is responsible for the maintenance of this Policy. Given this is an area of developing policy externally, it is expected this Policy will be iterated over time.