



AUSTRALIAN COMMUNITIES FOUNDATION

RESPONSIBLE AND IMPACT INVESTMENT POLICY

June 2020

PREPARED IN COLLABORATION WITH

BRIGHTLIGHT

Contents

ACF's Purpose	3
Guiding Principles & Values.....	3
ACF Values	3
ACF Theory of Change: Building social, environmental, economic and cultural justice.....	3
Principles of Practice.....	4
Our Responsible Investment Approach	4
Our Responsible Investment Commitments	5
DivestInvest.....	5
Principles for Responsible Investment.....	6
IFC Impact Principles.....	6
ESG Integration and SDG Solutions	7
Activism & Engagement.....	7
Proxy Voting.....	7
Engagement.....	7
Screening	8
Restrictions on Screening	9
Impact Investing	9
Impact Investment Definitions	9
Areas of Impact Focus	10
Risk Tolerance	11
Impact Measurement	11
Roles & Responsibilities.....	11
ACF Investment Committee	11
Investment Advisor.....	12
Impact Committee	12
Reporting & Review	12
Appendix A – Impact Investment Process	13
Deal Flow Generation	13
Due Diligence.....	13
Implementation.....	13
Impact Investment Selection.....	13
Appendix B – Responsible Investment Taxonomy	15

ACF's Purpose: Creating a Fairer Australia by Activating a Nation of Givers

We're Powered by a courageous ambition: We believe in a fairer Australia one where social, environmental and cultural justice is the norm.

We're on a collective mission: We will create a fairer Australia by activating a nation of givers.

We are a broker of change: Our role is to enable, support and amplify giving. We connect those who can give with those making positive change.

We tackle social and environmental justice: We say all this because we are an organisation that is built on strong values and uses compassionate capital as a means of achieving change.

Our intention is to leverage the ACF investment portfolio to create additional impact by ensuring our investments are aligned with our values and our key Impact Areas.

Responsible Investing Approach

Australian Communities Foundation achieves impact in two ways; first by building strong and genuine partnerships with our grantees across five key focus areas: tackling inequality; strengthening democracy; supporting Indigenous communities; safeguarding our environment; and building a culturally vibrant society; and second by ensuring positive impact through its corpus investments. To this end, ACF seeks to maximise the degree to which capital in the Investment Portfolio can be used to generate positive social and environmental impact while achieving the risk/return objectives set out in the Investment Policy Statement. ACF also seeks to inspire others in the Australian market to leverage their assets for positive impact. Aligning the investment strategy with the mission and values of the Foundation not only creates greater leverage for impact but is also the right and ethical thing to do. Transparency, accountability, and open source sharing of information are core guiding principles and values.

ACF Values

Inclusion: We believe in respecting and understanding the perspectives and experiences of others. We know that collaboration and working collectively is essential because no one force can solve community issues in isolation.

Agency: We support self-determination and believe that people and communities have the power and the right to determine the solutions to their challenges.

Courage: We believe it takes courage to pursue a fairer and more sustainable Australia. The problems we are tackling are complex and we understand that facing and overcoming challenges is part of the path to solutions.

Fairness: We believe in taking a stand for social, environmental, cultural and economic justice. We believe addressing power imbalances is central to creating a fairer Australia.

ACF Theory of Change (Impact Fund)

Our Unique Opportunity: ACF has an important leadership role in enabling collaborative, social impact focused philanthropy across Australia

Context and Focus: The Impact Fund is focused on systemic issues where there are emerging opportunities to build new momentum and tip the scales towards positive social change

Key Dimensions of work: ACF will identify, broker, and invest in a range of different approaches to find solutions to complex problems

Progress Signs: ACF will support a shift towards collaborative philanthropy with a social impact focus

Ultimate Outcomes: Collaborative, systems-focused philanthropy contributes to a more equitable Australia

ACF Principles of Practice (Impact Fund)

- Collaborative Leadership
- Agile, solutions-focused giving/investing
- Enabling and empowering communities
- Leveraging to build momentum
- Innovation and learning

Our Responsible Investment Approach

Responsible Investment is a fundamental investment belief ACF considers necessary to deliver returns in accordance with the investment strategy objectives. In line with the growing body of research, we believe that Environmental, Social and Governance (“ESG”) management by fund managers and companies in which we invest will reduce risk and improve long-term returns, while poor ESG management will increase risks and reduce long-term returns.

ACF recognises that its fiduciary responsibility does not end with maximising return and minimising risk. It believes that in light of the systemic social, environmental and economic challenges of our time, fiduciary responsibility, as defined for foundations, must include integration of prudent financial management practices with principles of environmental stewardship, concern for community, and corporate accountability to shareholders and stakeholders alike. **ACF believes that aligning the investments of its corpus with its mission and values will amplify over time the opportunity to maximise its total impact.**

As such, the consideration of ESG risks and opportunities in our investment processes and decision making is consistent with maximising long-term investment returns while minimising risk.

We believe that this approach will have the ancillary benefit of contributing to improved environmental and social outcomes, which will in turn:

- contribute to a stronger, fairer and more sustainable world
- improve the overall returns of the portfolio
- increase alignment with the values of the broader ACF community

From time to time, we will engage with our community of giving to identify ways in which donors expect responsible investment factors to be incorporated into the portfolio.

We look for opportunities to align our investment portfolio in ways that support (and avoid damaging) the work being done by our grant-making. This includes ACF's broader impact priority areas:

- Tackling Poverty and Inequality
- Safeguarding the Environment
- Strengthening Democracy
- Supporting Indigenous Self-determination
- Building a Culturally Vibrant Society

In implementing our responsible investment approach, we apply three strategies:

- Impact, SDG & ESG Investing – we make investments that actively consider environmental, social and governance matters and/or target positive social and environmental impact, particularly towards the sustainable development goals.
- Activism & Engagement – we advocate for companies to change in ways that promote our values and exercise our rights as responsible shareholders.
- Screening – we avoid investments that create negative impact.

To assist us in achieving this, ACF has engaged an Impact Advisor – Brightlight Impact Advisory.

Our approach recognises a degree of aspiration. Not everything we want to achieve is possible today, but we continue to develop our investment portfolio so that it represents leading practice in responsible investment.

Our Responsible Investment Commitments

As responsible investors, we have made commitments or become signatories to certain pledges and organisations. Our commitments are captured below.

DivestInvest

In September 2018, ACF pledged its full commitment to DivestInvest. We meet our commitments as follows:

	Commitment	Application
1	Make no new investments in oil, gas, and coal companies.	Negative Screening – Oil, Gas, & Coal
2	Sell existing investments tied to these oil, gas, and coal investments within 3-5 years.	Negative Screening – Oil, Gas, & Coal
3	Invest in climate solutions, such as renewable energy, energy efficiency, sustainable agriculture, water efficiency and more.	Impact Investing – Climate Solutions

Principles for Responsible Investment

ACF is a signatory to the United Nations-backed Principles for Responsible Investment (“PRI”). We meet our commitments as follows:

	Commitment	Application
1	Incorporate ESG issues into investment analysis and decision-making processes.	All managers expected to integrate ESG matters into their portfolio management.
2	Be active owners and incorporate ESG issues into our ownership policies and practices.	All managers expected to exercise voting rights. Some activism and engagement.
3	Seek appropriate disclosure on ESG issues by the entities in which we invest.	Managers expected to advocate for ESG disclosure.
4	Promote acceptance and implementation of the Principles within the investment industry.	We publicly support the PRI.
5	Work together to enhance our effectiveness in implementing the Principles.	We will support appropriate collaborative initiatives
6	Report on our activities and progress towards implementing the Principles.	We will communicate to our stakeholders about ESG issues and the Principles.

IFC Impact Principles

ACF is supportive of the IFC Operating Principles for Impact Management and will consider them as it builds out its impact portfolio, while deferring a decision on whether to become a full signatory until the impact portfolio has taken shape.

	Commitment	Application
1	Define strategic impact objective(s), consistent with the investment strategy.	TBC
2	Manage strategic impact on a portfolio basis.	TBC
3	Establish the Manager’s contribution to the achievement of impact.	TBC
4	Assess the expected impact of each investment, based on a systematic approach.	TBC
5	Assess, address, monitor, and manage potential negative impacts of each investment.	TBC
6	Monitor the progress of each investment in achieving impact against expectations and respond appropriately.	TBC
7	Conduct exits considering the effect on sustained impact.	TBC
8	Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.	TBC
9	Publicly disclose alignment with the Principles and provide regular independent verification of the alignment.	N/A – not a signatory.

ESG Integration and SDG Solutions

Responsible investment is a significant component of the investment manager selection and appointment process. The Trustee requires investment managers to have sound ESG practices and prefers those that seek to invest using both negative and positive screens.

The Investment Advisor will include analysis of relevant ESG considerations in forming investment strategies and recommendations for the portfolio. Due diligence of all new third-party investment managers will include analysis of the manager's capacity to assess and integrate ESG risks and opportunities in their portfolio management. Investments will be monitored periodically to systematically capture ESG related activities that investment managers have undertaken in researching or considering ESG themes through their portfolios.

Additionally, the Investment Advisor will recommend, where possible, managers whose capacities go beyond ESG risk analysis and **include the ability to proactively invest in SDG-linked solutions.**

We expect all investment managers to provide a regular look-through of their portfolio to all underlying holdings, and to consider becoming United Nations Principles for Responsible Investment ("UNPRI") signatories and/or Responsible Investment Association Australasia ("RIAA") members.

The ACF Investment Committee, supported by the Investment Advisor, is responsible for ensuring that external investment managers are aligned with our commitment to responsible investment and are appropriately incorporating ESG issues into the selection and management of investments.

Activism & Engagement

Proxy Voting

We recognise that, in most instances, ACF does not hold investment instruments directly, but invests through pooled structures. Accordingly, we expect our investment managers to exercise their rights as shareholders, including through voting proxies on shareholder resolutions.

We are generally supportive of:

- Resolutions that urge companies towards more ethical and sustainable practice.
- Resolutions that support indigenous communities and promote indigenous employment.
- Resolutions that promote gender diversity.
- Resolutions that promote responsible action on climate change.

We expect our investment managers to vote against the re-election of Directors where a company has made no efforts to incorporate gender diversity into its Board composition.

Engagement

Our donor community has chosen to make a difference with their money. As we invest the portfolio, we recognise that there is an opportunity to influence positively for change not only in our grants, but also in **engaging with the companies we invest** – connecting our many donors with big issues not just in how they give but also in how they act as stewards of the investments we make on their behalf.

We will consider engaging with companies on specific issues where there is a strong link between our grant-making work and the investment portfolio, or where specific shareholder resolutions or potential resolutions arise that are likely to work to support our grant-making efforts. In particular, **we will seek opportunities to align engagement activity with the ACF Impact Fund's initiatives**, to provide an additional lever for social and environmental change.

Screening

Where possible, we screen out of our portfolio companies that cause material harm to people/planet, with the goal of creating a portfolio that is as ethical as possible.

ACF has taken a public stand against the following activities and considers them to be harmful to people and planet. Accordingly, we screen out of our investment portfolio:

Screen	Applies To
Tobacco	Companies with more than 5% of their business revenues derived from the manufacture or sale of tobacco products.
Gambling	Companies with more than 5% of their business revenues derived from gaming.
Alcohol	Companies with more than 10% of their business revenues derived from the manufacture or sale of alcohol products.
Fossil Fuels	Companies with more than 20% of their business revenues derived from mining or electricity generation in oil, gas (including coal seam gas) and coal.
Anti-Climate Advocacy	Companies with material advocacy efforts against a transition to a low carbon economy.
Controversial Weapons	Companies with any involvement in the manufacture or use of atomic, biological or chemical weapons, or land mines or cluster munitions.
Weapons	Companies with more than 5% of their business revenues derived from manufacture or distribution of weapons, including firearms.
Indigenous Rights	Companies that repeatedly violate indigenous rights.
Modern Slavery	Companies that fail to address systemic forced or child labour within their supply chains.
Adult Content	Companies with any involvement in the production of pornographic or excessively violent content.
Animal Cruelty	Companies with more than 5% of their business revenues derived from the live export of livestock.
Uranium	Companies with more than 5% of their business revenues derived from the mining and/or export of uranium.

Additionally, ACF fund managers are expected, in managing their portfolio, to consider the full range of ESG issues and avoid investing in companies with excessive ESG risks, including in the areas of human rights, labour rights and severe environmental destruction. The Impact Advisor will incorporate into its recommendations on manager selection the proposed manager's capabilities in this area.

Restrictions on Screening

The Investment Advisor will identify where implementation of this responsible investment policy (including screening) is likely to cause a non-trivial impact on investment returns. In such instances, the ACF Investment Committee shall be responsible for reviewing such potential investment impacts prior to implementation and weighing up the benefits of applying this policy against the potential investment impacts or risks.

At this point, ACF recognises that overall portfolio size will push towards pooled investments and therefore away from customisability of screens. Over time, as the portfolio grows, we expect to seek more bespoke solutions for screening.

Generally, ACF expects that no more than 20% of the investible universe will be screened out on the basis of the screens outlined above.

Impact Investing

Impact investing is an approach that intentionally seeks to create positive social and environmental impacts alongside financial returns. Impact Investments generally support objectives that are aligned with the organisational vision of an investor.

Broadly, we seek to achieve impact in ways that align to ACF's broader impact priority areas (outlined above), guided by our values and mission, and are consistent with the UN Sustainable Development Goals. Our explicit goal is to optimise economic, social, and environmental returns.

We also seek to progressively increase our exposure to positively screened investments (including impact investments) over the next 1-3 years where these investments meet the required investment criteria. ACF is particularly interested in exploring catalytic blended investments (eg impact investments together with a capacity building grant).

The total return of the impact portfolio will be evaluated relative to the broader responsible portfolio.

It is the responsibility of the Investment Advisor to report to ACF on the positive social and environmental outcomes of these investments on an ongoing basis.

We aspire, over time and as our assets grow, to explore giving our donors more choice by offering different impact investment options for their funds, enabling them to develop investment portfolios that are complementary to their granting strategies.

Impact Investment Definitions

Impact Investments seek to achieve a 'blended' return, i.e., a combination of environmental, social, and financial returns. ACF recognises the benefits of segregating Impact First Investments and Financial First Investments.

Impact First Investments seek to optimize social and/or environmental returns as their primary objective, with a financial floor. ACF believes that some social enterprises and other desired impact themes consistent with the ACF Impact Fund require access to patient flexible capital, operating in markets where traditional purely commercial motivated capital markets may not operate. ACF is therefore willing to consider some of these types of investments in the context of meeting overall portfolio objectives.

ACF may consider Impact First Investments. Any such investments would need to be approved by the Board.

Financial First Investments seek to optimize financial returns with a social and/or environmental impact floor. All Financial First Investments seek financial returns approximating the average risk adjusted returns of similar investments made without regard for sustainability, mission or social considerations.

ACF's multi-faceted mission provides a range of opportunities across asset classes and impact areas. In reconciling impact goals with financial goals, ACF recognizes within its impact investing strategy that the spectrum of possible investments will vary in terms of their direct and indirect benefits to its mission, guiding principles and values.

Areas of Impact Focus

We take a two-tier approach to Impact Investment considerations, with our Key Impact Areas (outlined above) representing Tier 1 direct flagship impact investment interest, and other impact investments that are broadly aligned to ACF donor objectives representing Tier 2 impact investment interest.

This Impact Investment Scope and Purpose will enable the existing philanthropic pathway with donors to extend to an expression of impact through the investment portfolio. Impact investments will sit in close proximity and complementarity to the impact outcomes undertaken on the grant distribution side of the organisation.

The Foundation anticipates the ability to allocate to investments seeking a **positive social and/or environmental** impact in Australia and globally, with interest in the following areas:

- Environment & Climate Change
 - o Conservation and Biodiversity
 - o Climate Change
 - o Sustainable Development
 - o Sustainable Agriculture / Food Security
 - o Resource Management
 - o Disaster Prevention and Response
 - o Sector | Workforce Capacity Building
- Addressing Poverty and Inequality
 - o Community and Economic Development
 - o Education, Training and Employment
 - o Health and Wellbeing
 - o Housing and Homelessness
 - o Sport and Recreation
 - o Individual | Family Support and Welfare
 - o Community Safety and Crime Prevention
 - o Youth Development
 - o Sector | Workforce Capacity Building
- Strengthening Democracy
 - o Civic Engagement, Leadership and Participation
 - o Media and Public Affairs
 - o Public Policy / Research / Advocacy
 - o Social Inclusion, Equity and Justice
 - o Sector | Workforce Capacity Building
- Supporting Indigenous Self-Determination
 - o Indigenous Sea and Land Management
 - o Indigenous Cultural Preservation and Promotion
 - o Indigenous Leadership and Self-Determination
 - o Sector | Workforce Capacity Building

- Building a Culturally Vibrant Society
 - o Celebrating local culture and identity (including placemaking)
 - o Preserving and promoting history / heritage / culture
 - o Supporting and fostering the Arts
 - o Sector | workforce capacity building
 - o Public policy / research / advocacy

Risk Tolerance

Portfolio return volatility is reduced through asset class diversification and monitored on an ongoing basis by comparison to the target asset allocation and the portfolio benchmark. Impact assets often have low correlation to other asset classes so diversification into impact investments is part of a broader risk management strategy for ACF. ACF recognizes and acknowledges that some risk must be assumed in order to achieve long-term investment objectives, and that there are uncertainties and complexities associated with impact investment markets. ACF's Strategic Asset Allocation and Tactical Asset Allocation (refer Investment Policy Statement) seek to ensure the achievement of long-term return objectives, with the expectation that return fluctuations will fall within an acceptable range in normal market conditions.

Impact Measurement

ACF will develop an approach to Impact Measurement & Management in conjunction with the Investment Adviser.

Roles & Responsibilities

ACF targets value-aligned partners and advisors. Team members from the Investment Advisor, Investment Manager and ACF work together on a continuous basis to support the mission and values of the Foundation. The decision-making process for impact investments is outlined in Appendix A – Impact Investment Process.

ACF Investment Committee

The Investment Committee has fiduciary governance duties over the Foundation's assets and ensures that the Foundation's mission and values are always aligned with the investment portfolio. The Investment Committee holds ultimate discretion over the authority to proceed with any given investment opportunity presented to ACF by the Investment Advisor.

Investment Advisor

The Investment Advisor develops the Responsible and Impact Investing Policy with an emphasis on investment portfolio strategy and oversight. The Investment Advisor is responsible for guiding ACF through a disciplined and rigorous investment process.

The primary responsibilities of the Investment Advisor are:

- Obtaining relevant information in order to quantify ACF's responsible and investment objectives and risk tolerance;
- Facilitating portfolio design (asset allocation) and implementation process, including the full integration of responsible and impact investments;
- Delivering ongoing performance measurement against targets and benchmarks;
- Preparing and updating the Responsible and Impact Investing Policy;
- Performing ongoing responsible and impact due diligence on the chosen deals or managers or funds and recommend changes as warranted; and
- Supporting ACF Investment Committee in the effective evaluation process of responsible and impact investments

Philanthropy and Impact Committee

The Philanthropy and Impact Committee develops the philanthropic / impact aspects of the Responsible and Impact Investing Policy with a particular emphasis on impact definition and measurement.

The primary responsibilities of the Committee are:

- Supporting impact assessment and evaluation in due diligence and reporting process
- Proposing impact investments for consideration
- Identifying potential collaboration efforts with peers and networks to enhance and leverage impact investment activities of ACF

Reporting & Review

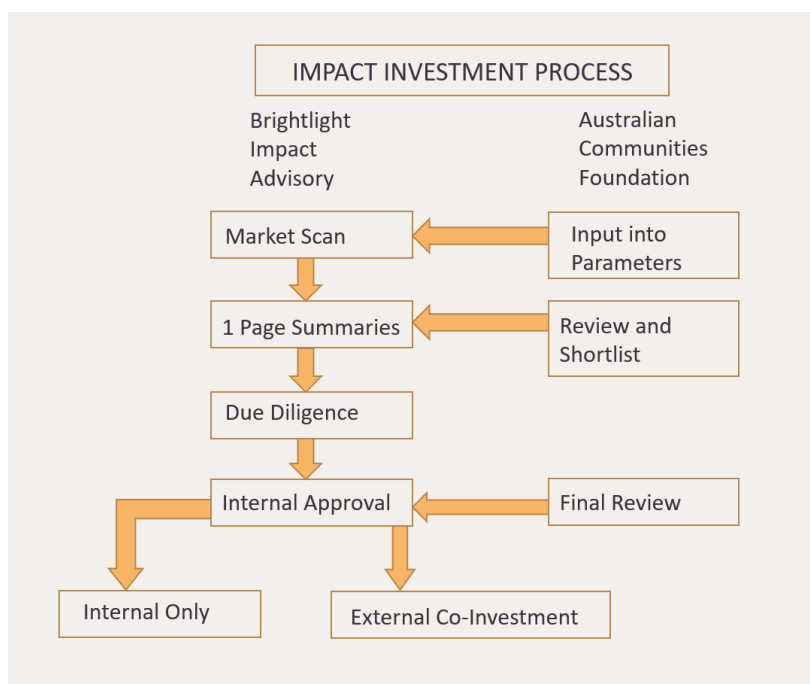
On an annual basis, the Investment Advisor will provide to the ACF Investment Committee and the ACF Philanthropy Committee:

- A report on impact investments, including impact measurement of positive social and environmental outcomes in a manner so as to support ACF as it tells the story of its impact.
- A report on holdings that do not comply with negative screens.
- A report on manager compliance with ESG integration provisions.

In conducting the regular review of the Investment Advisor, emphasis will be placed on evaluating the Investment Advisors' success in achieving ACF's desired level of impact investments, while achieving the stated financial portfolio objectives and manager performance results relative to benchmarks.

This Policy will be reviewed at least annually to determine the continued feasibility of achieving the responsible and impact investment objectives.

Appendix A – Impact Investment Process



Deal Flow Generation

- The Investment Advisor is primarily responsible for generating deal flow for all impact investments.
- The ACF Philanthropy and Impact Committee and/or the ACF Investment Committee has opportunity to identify and/or generate deal flow for due diligence consideration by the Investment Advisor.
- All potential investments need to comply with this Policy and the Investment Policy Statement.

Due Diligence

- For financial first investments, financial due diligence is usually done first. For impact first investments, impact due diligence is usually done first.
- Potential financial first deals that turn out not to be robust enough may be evaluated as an impact first deal.
- Once the financial and impact due diligence are completed, the Board makes the final decision on whether ACF will proceed with the investment.

Implementation

- The Investment Advisor is responsible for implementing the investment, including gathering, reviewing and executing the Investment Agreement Document, and articulating the monitoring and reporting requirements.

Impact Investment Selection

In selecting deal, funds or managers, the Investment Advisor considers the following:

- Firm Quality and Depth - Investee companies should have a history of reliability and sound financial background. The investment advisor should demonstrate a business approach consistent with a prudent fiduciary.

- The investee should exhibit competitive performance relative to an appropriate benchmark and peer group based on investment objectives, holdings, investment style, and market capitalization.
- Diversification – the impact investment portfolio should be sufficiently diverse to minimize risk as much as practical and possible.
- Risk – Investment performance should be competitive on a long-term risk-adjusted basis within each appropriate asset class.
- Measurement – commitment to and ability to deliver 'Impact'-oriented outcomes.
- Fees - selected investments should have competitive fees similar to other comparable offerings.

Appendix B – Responsible Investment Taxonomy¹

		IMPACT OF UNDERLYING ASSETS / ENTERPRISES		
		A	B	C
INVESTOR'S CONTRIBUTION		A ct to avoid harm	B enefit Stakeholders	C ontribute to solutions
		1	Signal that impact matters + Engage Actively + Grow new/undersupplied capital markets + Provide flexible capital	Screening of harmful products & services
2	Signal that impact matters + Engage Actively + Grow new/undersupplied capital markets + Provide flexible capital	Shareholder Activism	ESG Funds with Shareholder Activism	SDG Funds
3	Signal that impact matters + Engage Actively + Grow new/undersupplied capital markets + Provide flexible capital	Screening in new markets	ESG in new markets	Impact Investing
4	Signal that impact matters + Engage Actively + Grow new/undersupplied capital markets + Provide flexible capital	N/A	N/A	Impact Investing
5	Signal that impact matters + Engage Actively + Grow new/undersupplied capital markets + Provide flexible capital	N/A	N/A	Impact Investing
6	Signal that impact matters + Engage Actively + Grow new/undersupplied capital markets + Provide flexible capital	N/A	N/A	Impact Investing

¹ Source: Impact Management Project for Framework, customised to ACF Responsible Investment Approach.