

BRIDGE HOUSE ESTATES INVESTMENT STRATEGY STATEMENT (ISS)

1. Introduction

- 1.1 This Investment Strategy Statement (ISS) is approved by the ~~Policy and Resources Committee, as endorsed by the Investment Committee~~Bridge House Estates Board (BHEB), acting for the City of London Corporation (City Corporation) as Trustee of Bridge House Estates (BHE), to provide a framework for managing the charity's investment portfolio. It establishes investment objectives in line with the overarching strategy of the charity, *Bridging London: 2020 – 2045*, (as approved by the Trustee), and sets out the charity's asset allocation, rebalancing criteria and responsible investment policy. This ISS should act as the common reference point for material investment decisions affecting the portfolio held by the charity.
- 1.2 The investment objectives seek to support the achievement of BHE's vision, as set out in *Bridging London: 2020 – 2045*, for 'every person in London to become truly connected' by delivering upon the charity's objectives of supporting and maintaining five Thames bridges, and through using any available surplus income for charitable purposes for the general benefit of the inhabitants of Greater London. To achieve this, BHE aims to be catalytic, sustainable and impact-driven in its approach.

2. Governance

- 2.1 As Trustee of BHE, the City Corporation acting by its Court of Common Council, has delegated the settling of an overarching investment policy to ~~its Policy and Resources Committee~~the BHEB. Further, acting within the scope of this ISS, investment management responsibilities of the Trustee have been delegated by the Court of Common Council to ~~its Investment Committee~~the BHEB, which is responsible for the strategic oversight and monitoring of the performance of the charity's financial, property and social investment assets. ~~These assets are managed by the Investment Committee's three separate sub-committees (outlined below).~~ The BHEB has resolved to proactively consult with, and seek the advice of the City Corporation's Investment Committee (and its two Boards – Financial Investment Board (FIB) and Property Investment Board (PIB)) to inform the BHEB's decision-making on certain strategic aspects of investment management, with key responsibilities areas for consultation and advice being sought (as defined in the current Terms of Reference) for the charity being with regard to:
- 2.2 Management of investment matters relating to property within the investment portfolio in accordance with the charity's management plans and investment strategies, having regard to the delegations to the City Surveyor;
- 2.3 Management of investment matters relating to financial investments within the investment portfolio in accordance with the charity's management plans and investment strategies, having regard to the delegations to the Chamberlain;
- 2.4 Advice to be sought on matters relating to the implementation of the Climate Action Strategy, to assist the BHEB in taking its decisions independently for the charity.

2.2 Financial Investment Board (FIB)

- ~~a. Appoint and monitor the performance of investment managers;~~
- ~~b. Review the investment strategy for the securities investments of the charity;~~
- ~~c. Authorise investments and approve the overall parameters within which the investment fund managers will be authorised to operate; and~~
- ~~d. Report on, and speak to, the activities and responsibilities of the Board to the Investment Committee and Court of Common Council as required.~~

2.3 Property Investment Board (PIB)

- ~~a. Determine and approve management and investment matters relating to BHE property held in accordance with management plans and investment strategies;~~
- ~~b. Take decisions for the acquisition, management or disposal of all BHE property within its approved remit; and~~
- ~~c. Report during the year to the Investment Committee in relation to its activities and the overall performance of the BHE investment property portfolio.~~

2.4 Social Investment Board (SIB)

- ~~a. Approve the criteria for the charity's social investments and authorisation of social investments in accordance with such criteria;~~
- ~~b. Appoint and monitor the performance of independent advisors tasked with undertaking due diligence of investment proposals and;~~
- ~~c. Ensure that all of the above are consistent with the strategic investment policies determined by the Policy and Resources Committee and the Investment Committee for BHE.~~

3. Guiding Principles

3.1 BHE's guiding principles for its investments are as follows:

- a. The prime objective of this ISS is to ensure consistent funding for the primary object of BHE, meeting the financial needs of the five Thames Bridges across the short, medium and long-term.
- b. Having satisfied the needs of the Bridges, the secondary objective of this ISS is to appropriately manage surplus investment income to support the ancillary object of BHE in line with the latest approved charitable funding strategy.
- c. The charity defines investment risk principally as the danger of failing to meet its primary objective i.e. to ensure consistent funding for the needs of the Bridges in perpetuity. To achieve this, the real value of the permanent endowment is required to be preserved, after providing for annual expenditure, alongside consideration of required levels of income generation.
- d. The charity is aware that its reputation may be undermined if it invests in or derives income from businesses whose activities undermine its values. Given this, transparency is important in identifying where conflicts may arise. BHE is open to involvement in investment strategies with enhanced environmental, social or governance (ESG) impact.

- e. The charity's core expertise is in the management of bridges and philanthropic funding and activity, being the primary and ancillary objects of the charity. The charity may therefore choose to seek external advice in relation to its investments. However, the Trustee remains ultimately responsible and retains final decision rights. Accordingly, it remains essential the charity's Trustee has investment expertise (whether through its elected Members who act collectively on behalf of the Trustee, or employed officers) and takes appropriate external advice in order to provide effective strategic oversight. It is also important that all Members and officers have a strong understanding of the vision, aims and objectives of the charity's overarching strategy, *Bridging London 2020 – 2045*, and its implications on the ISS.
- f. This ISS has been prepared with reference to the investment duties and powers of charity trustees, as applicable to BHE. Appendix A provides detail of these.

4. Investment Objectives

4.1 As BHE is an endowed charity, the Trustee has a duty, when investing permanent endowment, to balance capital growth and income return to meet the charity's purposes. As such, the objective of the ISS is to ensure consistent funding for the primary object of BHE, meeting the financial needs of maintaining and supporting the five Thames Bridges across the short, medium and long-term. Any surplus income generated is available to support the ancillary object of the charity. To achieve this, investments held need to provide for real increases in annual expenditure, whilst preserving the charity's capital base in real terms. The long-term investment objectives of the portfolio are currently to:

- a. Apply a targeted income return of CPI +4% to the financial investment funds held by BHE, ~~and managed by the FIB~~
- b. Outperform the MSCI Benchmark (Greater London Properties) for total return on an annualised 5-year basis and achieve the MSCI Benchmark for income return on completion of the current Gateway refurbishment/redevelopment programme, for the property investment funds held by BHE. ~~and managed by the P~~
- c. Apply a minimum targeted income return of CPI to the Social Investment Fund, ~~managed by the SIB~~. The rate for the Social Investment Fund is to be applied on a portfolio basis, with each individual placement to seek a return which at least matches the average money market rate achievable on that date.

4.2 These targets will be reviewed on an annual basis, in line with budgeting requirements and economic conditions, or more regularly if the circumstances of the charity change significantly.

5. Risk

5.1 The charity defines investment risk principally as the danger of failing to meet its primary objective, being to ensure consistent funding for the needs of the bridges in perpetuity. To achieve this, the real value of the permanent endowment is required to be preserved after providing for annual expenditure. Due to the in-

perpetuity nature of the objects and size of the charity's funds, the charity can take a long-term view and tolerate a reasonable level of short-term volatility to the value of the endowment fund as an investment opportunity rather than as a threat.

5.2 The four main investment risks for BHE that pose a danger of failing to meet this objective are:

- a. Inflation,
- b. Permanent loss of capital,
- c. Asset liability matching, and
- d. Reputational Risk.

5.3 To mitigate these risks, the charity's asset allocation selections are designed to achieve a higher return than the minimum required while managing risk against the need to meet its expenditure requirements.

6. Asset Allocation and Charitable Funds

6.1 Asset allocation for BHE is to be determined by asset type between property, securities and social investments.

6.2 Additionally, asset allocation decisions also need to be mindful of which of the various charitable fund types held by BHE that the investments represent. BHE holds:

- a. Permanent endowment funds
- b. Restricted income funds
- c. Unrestricted income funds – designated and general.

The purpose of the above fund types is set out in Appendix B.

6.3 Permanent endowment funds, and elements of designated funds within the unrestricted income fund, are held for the long term. It is therefore suitable for such funds to be held in less liquid assets, such as investment property.

6.4 Restricted income funds and those elements of the unrestricted income fund which are for short term expenditure are to be held in asset types which are considered reasonably liquid. Amounts held within such funds are required by the Charity Commission to be spent within a reasonable timescale, considered to be within the next five years as a maximum. In practice, timescales are expected to be 1-3 years for BHE unrestricted income funds.

6.5 Social investments, due to the lower level of returns targeted, are not considered suitable for investment of the Permanent Endowment Fund. The aim of this ISS is to hold such investments to the end of the agreed social investment programme established by the charity, unless it is determined to be appropriate to arrange an early exit where early redemption is possible. Social investments would therefore not normally be included within the liquid funds held by BHE.

6.6 The ~~Resource Allocation Sub Committee, on the recommendation of the Investment Committee,~~ BHE Board considers and determines targets for the future

allocation of assets between asset types (property, securities and social investments), informed by the future spending plans of the charity. These are reviewed on a regular basis. Individual targets are subsequently set ~~by FIB, PIB and SIB~~ for the mix of holdings within each asset type. Should allocations fall outside of the approved targets (as stated at Appendix C), a rebalancing assessment may be undertaken to determine actions to be taken. This may result in either disposals of over-weight individual assets held and reinvestment in under-weight asset classes, or revised targets being recommended for approval.

6.7 Geographical location will also be considered in assessing suitability and diversification. Currently, BHE's investment property portfolio is mainly concentrated in the City and Southwark with one building in the West End and industrial buildings in Lewisham and Romford. Due to the origins of the portfolio, the properties are held within Greater London. The location of the portfolio is considered ~~by the PIB~~ within BHE's Property Annual Strategy.

6.8 PIB continues to recommend ~~to the BHEB~~ investment within Greater London due to the historic performance of London properties compared to all UK Property (MSCI Benchmark (Greater London properties) versus MSCI Universe (All UK Property)), alongside the additional costs to the charity of managing assets outside of London. Investing outside of Greater London is considered to reduce the critical mass of the investment and would require placing more reliance on third parties to create market evidence. BHE also ~~maintains~~ utilises an in-house experienced team of London property experts which is considered to be in the best interests of the charity and challenging to replicate if investing throughout the UK.

6.9 As the charity has direct holdings in property, this is specifically excluded as an asset class from within financial investments held. However, BHE's social investments may be held in property fund investments, have partial mortgage over property or be otherwise property related.

6.10 Under Trust law, the income generated from the BHE permanent endowment fund held for investment becomes part of the unrestricted income funds of the charity and must be spent on furthering its charitable purposes. In assessing its future expenditure plans, BHE may decide to designate elements of the unrestricted income funds for specific purposes (i.e. bridge replacement), with such amounts able to be invested on a longer-term basis.

6.11 The characteristics of individual property deals, specifically leasehold transactions, may lead to receipts which are defined as income, as opposed to being capital, if deemed as part of an operating lease. As a result, such transactions are assessed on a case-by-case basis, to determine the allocation of proceeds between both the funds held by the charity and investment types. The ~~Finance Committee~~ BHE Board determines if proceeds defined as income are required to meet the primary or ancillary objectives of the charity or if not whether these should be reinvested for a longer term within the unrestricted income fund.

6.12 BHE does not yet hold the power to apply total return accounting to its Permanent Endowment Fund, which means that any capital growth in the investments held that represent this fund cannot be accessed to support activities

undertaken. Focus is required within this ISS on delivering an appropriate level of income from the Endowment Fund to meet the primary objectives of the charity in the first instance, and otherwise to support an agreed level of philanthropic funding for the ancillary objective.

7. Responsible Investment¹

7.1 BHE is committed to be a Responsible Investor and the long-term steward of the assets in which it invests. It expects this approach to protect and enhance the value of the assets over the long term.

7.2 BHE is aware that its mission or its credibility may be undermined if it invests in businesses whose activities undermine its values and charitable objectives.

7.3 BHE recognises it is consistent with its fiduciary duty of charity investment to manage Environmental, Social and Governance (ESG) issues that may be financially material. This ISS sets out BHE's approach to Responsible Investment (RI) and details the actions it and its external providers take to protect the charity and its assets from ESG and reputational risks.

7.4 As a long-term investor, BHE recognises that it should manage ESG risks, including climate related financial risk, that can be both long-term and short-term in nature. In addition, BHE seeks to identify investment opportunities and managers aligned with its long-term objectives. As the City Corporation, as Trustee of BHE, is a signatory to the Principles for Responsible Investment (PRI), the charity has also agreed to incorporate the six core principles of PRI into its investment analysis and decision-making processes. BHE is also committed to align its financial investment portfolio with the goals of the Paris Agreement on climate change (2015).

7.5 BHE's responsible investment beliefs are set out below:

- a. BHE is a long-term investor and seeks to deliver long-term sustainable returns. Taking a sustainable investment view is more likely to create and preserve long-term investment capital.
- b. The identification and management of ESG risks that may be financially material is consistent with BHE's fiduciary duty.
- c. BHE seeks to integrate ESG issues including climate related financial risk at all stages of its investment decision-making process, from setting investment strategy to monitoring its investment managers.
- d. Active ownership helps the realisation of long-term shareholder value. BHE has a duty to exercise its stewardship and active ownership responsibilities (voting and engagement) effectively by using its influence as a long-term investor to encourage responsible investment behaviour.
- e. BHE recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes.
- f. BHE seeks to identify sustainable investment opportunities where aligned with its broader investment objectives.

¹ BHE's commitment to Responsible Investment is in line with the City of London Corporation's Responsible Investment Policy, which can be accessed [here](#).

- g. It is important that BHE can be transparent and accountable to its Trustee and stakeholders with respect to its RI activities.
- h. Engagement for change is our starting position but this will be kept under review as BHE reviews progress on delivering against its targets and commitments to responsible investment and managing financial risk.
- g.i. BHE recognises that climate change presents a systemic and material risk with the potential to impact our holdings throughout the portfolio. BHE is committed to aligning our approach with the objectives of the Paris Agreement (2015) for a below 2 degrees world. BHE works with managers, partners and networks who are seeking to do the same.

Implementation

7.6 BHE seeks to integrate RI across its investment decision-making process. BHE adopts a flexible approach to managing the investment strategies and asset allocation of its funds in order to ensure they are robust from a risk and return perspective.

7.7 In setting and implementing this ISS, BHE takes advice from professional investment advisors. BHE encourages—expects its investment advisors to proactively consider and integrate ESG issues including climate related financial risk when providing investment advice.

7.8 BHE's financial investments are managed by third-party fund managers responsible for the day-to-day investment decisions, including undertaking voting and engagement activities on behalf of the charity. BHE considers the approach to ESG integration and active ownership when selecting and monitoring investment managers.

~~7.8~~ 7.9 BHE will be looking to actively manage a downward trajectory path on the carbon emissions of the portfolio and set interim targets. Progress against reductions, Paris alignment and PRI agreements will be regularly monitored and reported annually.

~~7.9~~ 7.10 BHE expects its external investment advisors and fund managers, to be signatories, and demonstrate commitment, to the PRI and any disclosure requirements in the jurisdictions in which they are regulated. BHE expects that UK asset managers are actively preparing for TCFD disclosure ahead of regulation and encourages non-UK based managers to consider the same. -

Our Commitment

~~7.10~~ 7.11 BHE is committed to being net zero by 2040 across its full value chain and will work closely with its Trustee to deliver its 2020 – 2027 Climate Action Strategy commitment to reduce its scope 1, 2 and 3 emissions. This is to help ensure BHE and its assets are resilient to climate change. To help achieve this, FIB will provide advice to the BHE Board on: ~~on behalf of the BHE Board:~~

- a. Embedding ESG Integration and Climate Related Financial Risk in Investment Mandates.
- b. Ensuring climate criteria are embedded in Fund Manager selection.
- c. Committing to at least 1060% of portfolio Paris-aligned by 2040.

- d. Joining others in signalling ambition for 100% portfolio ~~aligned by 2030~~aligned with interim targets named for 2025 and 2030 and
- e. Becoming a signatory to the Task Force on Climate-related Financial Disclosures (TCFD) through the City Corporation, as Trustee of the charity, by end of 2021.
- d.f. Publish a list of expectations for fund managers which facilitates the achievement of the above goals (a-e) – see Appendix D.

7.117.12 In support of this commitment, PIB will provide advice to the, ~~on behalf of the BHE Board on:~~

- a. Reviewing risks of future relevant regulations and develop a readiness plan.
- b. Ensuring environmental requirements in new acquisition and leases.
- c. Embedding energy efficient and next zero solutions in refurbishment standards.
- d. Establishing a comprehensive programme to monitor energy consumption.
- e. Implementing Energy Performance Certificate (EPC) Rating B upgrade programme for all directly managed buildings which hold a current certificate by 2030 (in line with proposed regulations). ~~(coming off lease with planned refurbishment works between 2021-2027).~~
- f. Designing and agreeing operational plans to deliver 60% emission reduction across our estate by 2040 with 5-year incremental performance targets named, with yearly reporting on progress against targets.

7.127.13 BHE acknowledges that its approach to RI will need to continually evolve, both due to the changing landscape with respect to ESG issues responsible investment as well as broader industry developments. BHE is committed to making ongoing improvements to its approach and the processes that underpin the delivery of this statement to ensure it remains relevant.

8. Management, Reporting and Monitoring

8.1 The Trustee ~~will appoint~~has appointed an Investment Consultant to provide BHE with advice in respect of its financial investments (excluding property and social investments), in line with this ISS. The City Corporation, as Trustee of BHE, currently engages Mercer as its Investment Consultant.

8.2 The Investment Consultant will provide the following information on a quarterly basis, as aligned with committee dates:

- a. Performance analysis
- b. Overall commentary
- c. Ratings for each fund manager's responsible investment activities.

8.3 FIB has responsibility (within the scope of this ISS) for agreeing the strategy, as approved by the BHE Board, with the Investment Consultant and monitoring the investment assets. The Investment Consultant will also be required to attend each FIB meeting and present four quarterly reports to the Board. FIB also reviews financial performance and valuations (reported from officers on information maintained by the custodian) at each meeting of the Board (five – six times a year). FIB will also challenge and scrutinise the management and performance of the

fund managers against the criteria and objectives set out in this ISS and against agreed benchmarks, including targeted return, and report to the BHE Board.

8.4 Performance of the long-term funds held will be measured against approved targeted returns and agreed market indices. The return of the money market funds² held will be monitored against benchmark treasury deposit rates (against LIBID 3 and 6 months). The level of capital volatility will be monitored to ensure the risk profile remains appropriate for the charity.

8.5 The PIB has responsibility (within the scope of this ISS) for developing, agreeing recommending for approval by the BHE Board and implementing the annual property investment strategy, which seeks to maximise income and capital. PIB should challenge and scrutinise the management and performance of the charity's property portfolio against the criteria and objectives as set out in this strategy and against agreed (comparable) benchmarks, including targeted return, and report to the BHE Board. PIB should be mindful that the property portfolio is managed in accordance with the responsible investment criteria.

8.6 The SIB-BHE Board has responsibility for implementing the social investment strategy. SIB-The BHE Board should challenge and scrutinise the management and performance of the social investment fund, and ensure social investments are made in accordance with the agreed criteria. The SIB-BHE Board also receives reporting from independent advisors tasked with undertaking due diligence of social investment proposals.

8.7 All three Boards FIB and PIB are required to ensure that their portfolio strategies are aligned with this ISS for BHE and are also required to report regularly to the BHE Board Investment Committee on the activities and performance of their respective portfolio relative to benchmarks and targeted return.

9. Tax considerations

9.1 As a registered charity, BHE pays neither income tax nor capital gains tax on its investments. The charity takes account of the tax treatment in determining its strategy for the investment and management of underlying assets and should do nothing that might prejudice the tax exemption status.

10. Conflicts of Interest/Loyalty

10.1 No Member, Fund Manager, Consultant or Property Investment Advisor is to benefit materially from knowledge of, participation in or by virtue of, an investment decision or holding of the portfolio. All parties are to act at all times in the best interests and for the benefit of the charity. Any interest, whether real or potential, must be disclosed at the relevant Committee and such person must refrain from any vote consistent with charity law and the City of London Corporation's standard committee governance requirements.

11. Approval and Review

² BHE's treasury funds are managed in line with the City Corporations' Treasury Management Strategy Statement, which can be accessed [here](#).

- 11.1 The ISS is prepared to provide a framework for the funds held by BHE. It will be reviewed by the Trustee on an annual basis. In addition, if there is a significant change in the investment markets, in the circumstances of the charity or in governing legislation, then an earlier review may be conducted.

Signed by the ~~Policy & Resources Committee and the Investment Committee~~ BHE Board, on behalf of the Trustee, and effective from: ~~21-XX January~~ November 2021

Appendix A - Investment Duties and Powers of Charity Trustees

1. The City Corporation as Trustee of BHE has a number of powers to invest (various express powers conferred by Supplemental Charter and Charity Commission Order as well as the general power of investment conferred by s 3 Trustee Act 2000) and power to acquire property as an investment or for any other reason (under s 8 of the Trustee Act 2000).
2. An investment of a charity's funds must usually be made to obtain maximum return (whether this takes the form of income or capital growth or both) in order to comply with trustee investment duties.³ In investing permanent endowment trustees have a particular duty to balance capital growth and income return in order to be able to meet the charity's current and future needs.⁴
3. There are also various statutory requirements⁵ which trustees must meet when investing: trustees have a duty of care, must have regard to standard investment criteria, must review the investments from time-to-time, and must obtain proper advice. The standard investment criteria are: (a) the suitability of the investment, and (b) the need for diversification insofar as it is appropriate to the circumstances of the charitable trust. In the case of BHE – regard must therefore in considering these matters be had to the size of the charity's funds, that the charity is permanently endowed, and the nature of the charity's primary objects (to maintain and support the five bridges as functional charity assets).
4. **Social investment**⁶ – Currently the charity does not have a social investment power available to it i.e. a power to invest with a view to both directly furthering the charity's purposes and achieving a financial return for the charity. Therefore, in the context of social investment activity, the City Corporation as Trustee of BHE currently from income makes financial investments through the Social Investment Board in accordance with the investment duties noted above i.e. not as social

³ *Harries v Church Commissioners* [1992] 1 WLR 1241, the leading case, referred to this as “the maximum return, whether by way of income or capital growth, which is consistent with commercial prudence”.

⁴ The charity does not have a power to invest or expend the permanent endowment on a **total return basis**. Total return allows trustees of permanently endowed charities, such as BHE, to invest for the best overall return, whether it is income or capital gain (rather than balancing capital growth and income return) and to decide what portion of that overall return to spend in a particular year on the charity's purposes. It is therefore a more flexible approach and can enable greater overall returns. It also enables the trustees to unlock and spend capital gain. Whilst there remains the underlying duty to balance current and future needs of the charity in taking spending decisions, this approach is particularly useful for a charity with long-standing endowment, such as BHE, where there is significant capital gain. A bespoke express power is being sought with the Supplemental Royal Charter (rather than the use of the limited statutory power which is already available).

⁵ Under the Trustee Act 2000. For clarity, the Supplemental Royal Charter is intended to expressly apply these provisions to BHE.

⁶ Currently BHE may only invest the permanent endowment using the investment powers noted above.

investments in the strict sense⁷. BHE is seeking an express social investment power by way of Supplemental Royal Charter.⁸

The City Corporation as Trustee – Managing conflicts

5. Trustees owe a duty of undivided loyalty to their charity. A trustee must not put himself in a position where his duty to the charity and his own interests' conflict (the “**no conflict**” rule). A trustee must not make a profit from his position as trustee of the charity (the “**no profit**” rule), except as authorised by the governing documents⁹ of the charity, authorised by law or expressly authorised by the Charity Commission.¹⁰ These rules apply strictly even if the trustee acts honestly and in good faith and even if the charity has not been disadvantaged or the benefit obtained by the trustee could not have been obtained by the charity. If a trustee breaches this requirement, he may have to reimburse the charity for any benefits received and any disposition of property made can be set aside. A trustee may recover his reasonable costs and expenses for running the charity, as trustees are not expected to be out of pocket.¹¹

⁷ The charity has also made available a very small sum for loans in furtherance of the ancillary object under the Bridging Divides Strategy (i.e. the Stepping Stones Finance Facility through City Bridge Trust); these are sometimes described as “programme-related investments”. It is also possible to use a combination of the Trustee's existing powers to make investments and to make grants within Greater London i.e. as mixed motive investments.

⁸ Specifically we are seeking a social investment power to enable BHE to make social investments out of income for the ancillary object (and possibly also to permit social investments to be made out of capital for the ancillary object as long as this does not jeopardise the ability to meet the primary object).

⁹ There are specific statutory powers under s 9 of the City of London (Various Powers) Act 1962 and s 13 of the City of London (Various Powers) Act 1949 to transfer the beneficial interest in property between BHE and the City Corporation in its own Right. The strict conflict of interest requirements post-date the ancient relationship between the City Corporation and BHE. This is being considered in progressing the Supplemental Royal Charter.

¹⁰ “Profit in the context of charities is often referred to as “**trustee benefits**”.

¹¹ Section 31 of the Trustee Act 2000 which provides that a trustee is entitled to be reimbursed from trust funds and to pay out of trust funds “*expenses properly incurred by him when acting on behalf of the trust.*”

Appendix B – Fund types held

1. **Permanent endowment**¹² - there are two types of permanent endowment (a) assets which the trustees are legally required to retain and use¹³ for the charity's purposes; and; (b) property and investments which the trustees must retain and invest, and only the income return on investment may be spent (an investment permanent endowment fund). In relation to an investment permanent endowment fund, the crucial aspect is that the fund, including capital gain, must be retained and cannot be spent, although the trustee will usually be able to buy, sell and exchange property and investments held within the endowment fund. Any gain or loss forms part of the capital fund. The income generated from BHE's endowment funds must be spent on furthering its charitable purposes.¹⁴ The Investment Strategy Statement guides the investment of BHE's **investment permanent endowment** fund - the property and investments which are held in perpetuity by the Trustee to generate an income to further the charity's purposes, both now and in the future.
2. **Income funds** – are all incoming resources that become available to a charity and that the trustees are legally required to spend in furtherance of its charitable purposes within a reasonable period of receipt. In the case of BHE, the majority of income funds are unrestricted (or general funds of the charity) representing unspent income return on investment of the permanent endowment capital from previous years and income return on that unspent income. **Unrestricted income** is held by the trustees to be applied at their discretion for the general charitable purposes of the charity without restriction, the investment of which is also covered by this Investment Strategy Statement. In the case of BHE, the income is applied for the primary object, with only surplus income (in accordance with the terms of the 1995 cy-près scheme) applicable for the ancillary object. Trustees in prudently managing their charity may designate (or ring-fence) income funds for particular purposes e.g. for BHE future bridge maintenance or replacement, etc. Such designations are not legally binding, and the Trustee can decide to un-designate these funds at any time, should the need no longer exist or other priorities take precedence. A well-run charity will also hold **reserves** of unrestricted income to aid resilience and to mitigate against future risks (e.g. as protection against a future drop in income) or unexpected expenditure. These are known as the charity's **free reserves**.

¹² A charity may also hold **expendable endowment funds**, where there is a power for the trustees to convert the capital to income for expenditure on the charity's purposes. BHE does not hold expendable endowment funds.

¹³ **Functional permanent endowment** – property or other assets which must be retained and used for the purposes of the charity; in the case of BHE this is the five bridges - which are not valued in the Accounts and are not considered within this strategy.

¹⁴ There is no current power for BHE to capitalise income, although this is being considered in seeking the Supplemental Royal Charter.

Appendix C – Current Asset Allocation

1. BHE Investment Portfolio

	Forecast Position post spend of £200m on charitable funding		Position as at 31/03/2021		Position as at 31/03/2020	
	£m	%	£m	%	£m	%
Financial Investments	623.1	42%	834.0	56%	687.2	41%
Property Investments	843.8	57%	843.8	57%	854.9	51%
Social Investments	20.0	1%	9.1	1%	12.6	1%
	1,486.9	100%	1,686.9	113%	1,554.7	92%

2. Assets by Fund type

Position as at 31/03/2021											
Permanent Endowment Fund				Restricted Income Funds		Unrestricted Income Funds				Total	
						Designated funds		General Funds			
£m				%		£m		%		£m	
						%				%	
Financial Investments		106.2	11%	0.0	0%	436.5	98%	291.3	136%	834.0	51%
Property Investments		843.8	86%	0.0	0%	0.0	0%	0.0	0%	843.8	51%
Social Investments		0.0	0%	0.0	0%	9.1	2%	0.0	0%	9.1	1%
Total Investments		950.0		0.0		445.6		291.3		1,686.9	
Treasury Deposits		29.5	3%	3.8	100%	0.0	0%	0.0	0%	33.3	2%
Other net current assets		0.0	0%	0.0	0%	0.0	0%	(77.0)	-36%	(77.0)	-5%
Total funds held		979.5	100%	3.8	100%	445.6	100%	214.3	100%	1,643.2	100%

Forecast position post spend of £200m allocated to charitable funding											
		Permanent Endowment Fund		Restricted Income Funds		Unrestricted Income Funds Designated funds		General Funds		Total	
		£m	%	£m	%	£m	%	£m	%	£m	%
Financial Investments		106.2	11%	0.0	0%	225.6	92%	291.3	136%	623.1	43%
Property Investments		843.8	86%	0.0	0%	0.0	0%	0.0	0%	843.8	58%
Social Investments		0.0	0%	0.0	0%	20.0	8%	0.0	0%	20.0	1%
Total Investments		950.0		0.0		245.6		291.3		1,486.9	
Treasury Deposits		29.5	3%	3.8	100%	0.0	0%	0.0	0%	33.3	2%
Other net current assets		0.0	0%	0.0	0%	0.0	0%	(77.0)	-36%	(77.0)	-5%
Total funds held		979.5	100%	3.8	100%	245.6	100%	214.3	100%	1,443.2	100%

Position as at 31/03/2020

	Permanent		Restricted		Unrestricted Income Funds				Total	
	Endowment		Income		Designated		General			
	Fund		Funds		funds		Funds			
	£m	%	£m	%	£m	%	£m	%	£m	%
Financial Investments	87.2	9%	0.0	0%	428.1	97%	171.9	158%	687.2	45%
Property Investments	854.9	87%	0.0	0%	0.0	0%	0.0	0%	854.9	56%
Social Investments	0.0	0%	0.0	0%	12.6	3%	0.0	0%	12.6	1%
Total Investments	942.1		0.0		440.7		171.9		1,554.7	
Treasury Deposits	42.1	4%	2.8	100%	0.0	0%	0.0	0%	44.9	3%
Other net current assets	0.0	0%	0.0	0%	0.0	0%	(63.2)	-58%	(63.2)	-4%
Total funds held	984.2	100%	2.8	100%	440.7	100%	108.7	100%	1,536.4	100%

3. Financial Investments – Asset Allocation

	Position as at			Current Strategic			Variance v target	
	31/03/2021			Target				
	£m	%		£m	%		£m	%
Equities	378	42%		211	25%		167	17%
Multi-asset	356	44%		464	55%		(108)	-11%
Bonds	0	0%		84	10%		(84)	-10%
Alternative credit	32	4%		0	0%		32	4%
Infrastructure	48	6%		42	5%		6	1%
Private equity	29	4%		42	5%		(13)	-1%
	843	100%		843	100%		(0)	0%

No single direct investment (other than Treasury Stock) to represent > 10% of the overall value of total Funds when purchased.

No single investment into a fund holding underlying investments to represent > 15% of the overall value of total Funds when purchased.

4. Property Investments – Asset Allocation

Position as at
31/03/2021
£m %

Class of property:*

Offices	636.3	78%
Retail	105.1	13%
Industrial	27.9	3%
Education/healthcare/leisure	51.7	6%
	821.0	100%

* Provided by MSCI for MSCI Measured Portfolio with a total value of £821m

Nature of lease/tenancy:**

Ground lease	442.7	53%
Multi-let	203.8	24%
Single-let	97.9	12%
Direct developments	91.0	11%
	835.4	100%

**Calculated by the City Surveyor for MSCI Measured Portfolio and Non MSCI Measured Structural Properties (located beneath the City bridges) with a total value of £835.4m

5. Social Investments – Asset Allocation

Position as at 31/03/2021			Current Strategic		Variance v target	
£m	%		£m	%	£m	%

Exchange listed investments	4.2	21%		5.0	25%		(0.8)	-4%
Unsecured lending	3.3	17%		4.0	20%		(0.7)	-4%
Secured lending	0.9	5%		6.0	30%		(5.1)	-26%
Patient finance	0.7	4%		4.0	20%		(3.3)	-17%
Small loans	0.0	0%		1.0	5%		(1.0)	-5%
Total investments	9.1	46%		20	100%		(10.9)	-55%
Held as treasury deposits	10.9	55%		0.0	0%		10.9	55%
	20.0	100%		20.0	100%		0.0	0%

In 2013, it was agreed to seek a total return equivalent to CPI (being 2.7% at that date) and that individual investments should seek a minimum return that matched the average return earned on treasury cash balances (being 2% at that date).

Appendix D – Climate Expectations for Manager Selection and Monitoring

Time-Bound Expectations

1. By end 2022, all managers should set out a net zero target for 2050 or earlier at firm level. This should be consistent with the Science Based Targets Initiative.
2. By end 2022, all managers should set out a clear transition pathway at firm level, with milestones for 2025 and 2030. Consistent with viable decarbonisation pathways, interim milestones should reflect at least 50% emissions reductions from 2018 levels by 2030 at the latest. Appropriate governance, training and remuneration policies are expected.
3. By end 2022, all managers should have made their disclosure against all 11 recommendations of the Taskforce for Climate-Related Financial Disclosures.

Investment Process

4. Managers will document their process for identifying, evaluating, and managing physical climate and climate transition risks and opportunities in the investment process of the relevant mandate. This should cover fundamental analysis of sector transition pathways, whether an investee company's offerings impair or improve the present and future, and how growth would be impacted by a realistic price on carbon.
5. Investment models should integrate scenarios aligned to the 1.5°C ambition in the Paris Agreement (e.g. IEA NZE 1.5°C) and not overly rely on negative emissions technologies or offsets.
6. A statement regarding treatment of high emission sectors/ assets within the mandate. This should include risk controls, metrics being monitored, and thresholds for exit. Treatment of high emission assets such as thermal coal should be consistent with science-based target requirements for phase out.

Engagement and Active Ownership

7. A presumption to vote in favour of shareholder resolutions on climate change on a comply or explain basis.
8. Engage investee companies to publish 1.5°C transition plans with short- and medium-term science-based targets. These plans should include steps to align capital expenditure, remuneration strategies, and public engagement including corporate lobbying with 1.5°C. Transition plans should also incorporate social risks and opportunities to ensure a just transition. All investee companies should have set a science-based target before 2025.
9. An engagement escalation policy should be disclosed which will include details of how and when engagements will be escalated. This should include escalation to public statements, voting against management-proposed resolutions, and ultimately divestment or refusal to purchase new bonds in active strategies.