Foundation 3.0

Foundation 3.0 – Strategic Round Table

on

Investing foundations' endowments for societal change

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Mission-aligned investment policy **2**

A wide range of practices **3**

FAQs on *mission investing* **4**
- Q: Is mission investing compatible with the Foundation's mission, its fiduciary obligations, and certain legal or regulatory constraints? 4
- Q: Does this affect the investment portfolio's return? 4
- Q: How can we assess the social impact of these new investments? 4
- Q: Does selling one's shares in a company means that one no longer has any means of putting pressure / entering into discussions on its future development? 5
- Q: How can we overcome internal obstacles and the reluctance of the Board / investment committees? 5

Four examples **6**
- Fondation de Luxembourg: 'best in class' and tailor-made services for foundations under its umbrella 6
- Church of Sweden: managing its own ethical fund 6
- Esmée Fairbairn Foundation: a new instrument, a new market 7
- Wallace Global Fund: divesting to reinvest 7

By way of conclusion **8**

Appendices **9**
- Participants list 9
- Useful resources 10

Structured report written by Mr Michel Teller.

Mission-aligned investment policy

More and more philanthropic organisations are now following a strategy of *mission investing* or *mission alignment*. In other words, they are seeking to align their investment policy with their societal mission, with endowment management to be used not only to gain income for financing projects and programmes, but also to help achieve positive societal change.

But what means and instruments are available to turn investment strategy into an action lever? What are the challenges, opportunities and risks? These were the key questions discussed at the second Foundation 3.0 Strategic Round Table. At the invitation of the Foundation for Future Generations and the Fondation de France, representatives from 18 foundations from 8 countries (Be, Fr, UK, Se, Ch, Nl, It, USA) with a total endowment of € 13.7bn discussed their visions and experiences in this matter with the aim of gaining new insights and sources of inspiration for their own practices.

Why practice *mission investing*?

The banking and financial crisis have contributed to putting a question-mark over foundations' investment policies (see box). But *mission investing* is also a trend, explained by structural factors. According to a 2009 British survey, the three main reasons prompting philanthropic organisations to opt for ethical investment products are linked to the need for consistency and transparency:

- avoiding conflicts with an organisation's objectives;
- avoiding risks for the organisation's reputation;
- avoiding losing the support of sympathisers and donors.

Indeed, the public at large is very sensitive in this respect, with 91% of the British population holding the opinion that *charities* should make ethical investments. In fact, this is what nearly half of them actually do, even if it is generally done in a low-risk manner: in 88% of cases, their Socially Responsible Investment (SRI) strategy is limited to negative *screenings* with a view to avoiding business sectors in blatant contradiction to their missions (in particular the tobacco industry, pornography, defence, alcohol or gaming).

"You should not waste a good crisis!"

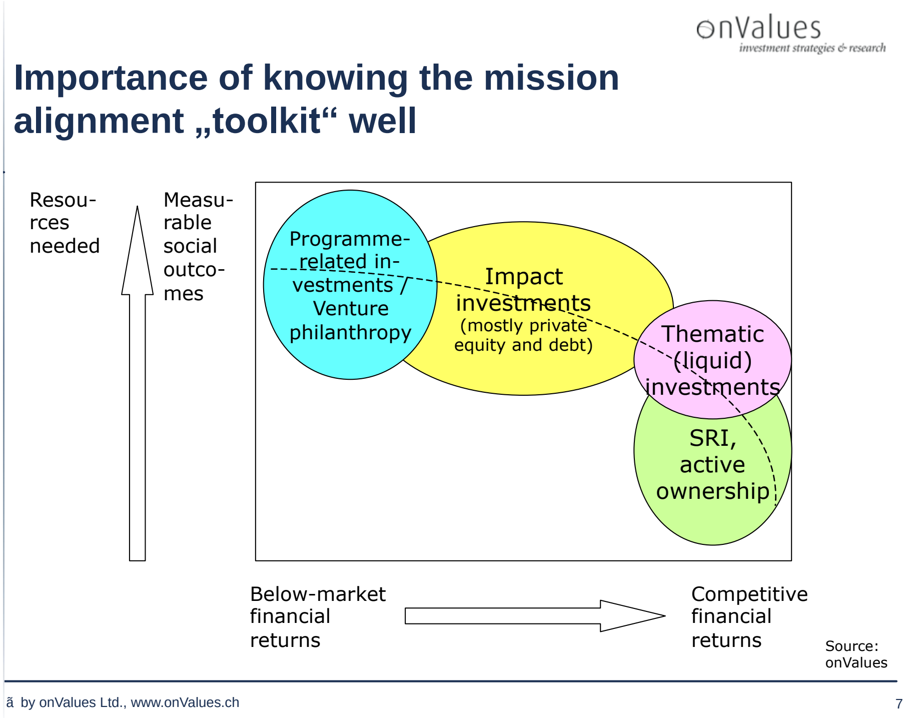
The collapse of the financial markets revealed the fragility of traditional investment products, prodding foundations to become more creative. As there are no longer any no-risk ("widows and orphan") investments, has not the moment come to explore other paths?

Ellen Dorsey put this in a humorous way, saying "*you should not waste a good crisis!*" This saw her suggesting to her own organisation, the Wallace Global Fund, that it should start re-examining its whole investment policy. This analysis revealed a discrepancy between the WGF's 'traditional' investment portfolio and its mission, leading to very interesting discussions with the Board. "*It turned out that this discrepancy was very disconcerting for a number of Board members when they realised that our investments were helping to fuel the problems against which we were campaigning via our programmes. But up to that point in time, nobody had ever said anything. Reviewing one's investment policy automatically means starting a fundamental debate on one's values, objectives and mission. And that's really exciting.*"

A wide range of practices

Mission investing can cover a wide range of tools and practices which foundations can use in full or in part. One practical way of visualising the main *mission investing* tools is to classify them in a matrix showing:

- horizontally, the expected financial returns, sorted in ascending order;
- vertically, the measurable social impact and the resources (human, etc.) needed.



- A prudent **SRI** strategy, in particular featuring negative (eliminating toxic investments) and positive (‘best of class’ selection) screening allows a competitive (in relation to the market) return to be hoped for, though with a societal impact difficult to identify;
- At the other end of the spectrum, we find **Programme-Related Investments**: instead of making grants, a foundation invests money in an organisation to help it develop, in the hope of recuperating its investment when the targets are met. The impact here is direct and more clearly measurable than with SRI, though the financial return might be less promising and the degree of risk somewhat higher;
- Intermediate strategies achieve a certain balance between the two aspects, combining an acceptable return with relatively tangible results on the societal level: investments in **thematic funds** (specialised for instance in fighting climate change) and **impact investing**, for instance in social economy funds, micro-finance instruments or social housing.

For more information: [download Ivo Knoepfel's (OnValues) introductory paper]

FAQs on *mission investing*

Q: Is mission investing compatible with the Foundation's mission, its fiduciary obligations, and certain legal or regulatory constraints?

We need to distinguish between the mission as such - which is to work to promote the common good - and the way this is worded in the statutes. Generally speaking, this wording does not explicitly foresee the possibility of adopting a *mission investing* strategy, but neither does it exclude such (and when this is the case, this should certainly prompt an internal debate on the reasons for such exclusion). The mission definition in the statutes must thus not be too restrictively interpreted, but in the light of the foundation's fundamental values and the expectations of stakeholders and society in this respect.

"In addition to what is explicitly foreseen in its mission statement, a foundation has a license to operate linked to its values and societal expectations."

The same applies to the fiduciary obligations, which are not an end in themselves but must be put at the service of the organisation's basic mission. Where a foundation enjoys certain legal advantages - such as the tax deductibility of any donations it receives - on account of its working for the common good, it is normal for endowment management to obey certain prudential rules. But we need to go beyond such purely technical questions to pose this key question: do the foundation's investments serve the common good or not?

Several participants stated that legal provisions at European, national or sometimes even regional (as in Switzerland) level can be an obstacle in the way of certain forms of *mission investing*. For instance, Luxembourg legislation does not up to now allow the Fondation de Luxembourg to invest directly in companies. One of the issues facing foundations is therefore to achieve a more flexible legal framework better adapted to these new mission-aligned investment strategies

Q: Does this affect the investment portfolio's return?

The statements made at this round table do not point to any decline in performance. Quite the contrary, both the Church of Sweden and the Wallace Global Fund have achieved returns on their investments higher than their reference values via their SRI strategy.

Sifting through its investment portfolio and the resulting costs, the Wallace Global Fund also decided to change its financial intermediary, thereby saving U.S. $500.000 per year in management fees, brokerage and commission! Ellen Dorsey: "*These savings constitute a buffer allowing us to absorb any write-downs, should certain socially responsible investments turn out to be less profitable. However that has not been the case up to now ...*"

Q: How can we assess the social impact of these new investments?

We undoubtedly still lack assessment tools, even if major effort is being invested in standardisation, in particular via such bodies as GIIN, EVPA and Novethic.

But we should also be willing to pose the following question: are we sure of always having the means to properly assess the impact of the projects and programmes that we support? Can we affirm that they always meet their targets? In practice, we tolerate a certain margin of failure or flux with regard to results, without this preventing us from considering our strategy as effective from an overall perspective. Why should it be different for our investments?

"We should not demand from our investments a level of perfection not achieved in our programmes!"

Q: Does selling one's shares in a company means that one no longer has any means of putting pressure / entering into discussions on its future development?

That depends on several factors: a foundation's strategies and aims, the type of investment and existing opportunities facilitating shareholder activism. This is the case for example in Switzerland with the Ethos-SwissFoundations platform. This facilitates the bundling of foundations' voting rights, allowing greater pressure to be exercised in the annual general assemblies of private companies - in line with societal criteria.

However, there are doubts with regard to the effectiveness of such strategies. In contrast to the era of the anti-apartheid movement where NGOs could put pressure on commercial companies with a precise objective (their withdrawal from South Africa), sustainable development often implies a fundamental questioning of a company's ‘core business’, and sometimes even of the whole economic system. This is true in particular - but not only - for the oil industry and its derivatives: dialogue can only bring about ‘marginal’ changes in the business model, and it is often illusionary to hope to transform it into something completely different. It is therefore useless to invest either capital or human resources in shareholder activism without any realistic perspective of achieving an impact.

Q: How can we overcome internal obstacles and the reluctance of the Board / investment committees?

The presentations underline the effectiveness of a peer-to-peer approach. Faced with a reluctant Board, one can for instance turn to a foundation which has already taken the step in question, inviting a Board member to answer questions.

Four examples

Four concrete examples of *mission investing* were presented and discussed at the Round Table. These illustrate, to varying degrees, a number of paths taken by foundations and philanthropic organisations to better align their investment policy with their overall objectives.

Fondation de Luxembourg: 'best in class' and tailor-made services for foundations under its umbrella

- Context. The Fondation de Luxembourg acts as an umbrella for philanthropic organisations and is responsible for managing their endowments. It previously applied a conservative low-risk investment policy, generating an annual return of 3%.
- Objective. To ensure greater consistency with its philanthropic mission, it has opted for a pragmatic, flexible and transparent SRI approach.
- After having eliminated certain industries through negative screening, it went on to select the 'bests in class' in each sector in accordance with certain ethical, environmental and social criteria.
- The sheltered foundations can either invest in the Fondation de Luxembourg's joint portfolio, or can opt for a tailor-made portfolio, with a weighting of criteria they choose themselves.
- It is a straightforward system adapted to small sheltered foundations and allowing them to engage in an initial SRI approach without having to do any in-depth screening of the market or to supervise the work of a fund manager.
- However, there is always a certain amount of subjectivity involved in SRI. Hence the importance of clear communications showing the SRI content.

"The majority of sheltered foundations do not have any SRI instinct of their own, but when we give them this opportunity, they take it up straight away."

For more details: Download the Fondation de Luxembourg presentation

Church of Sweden: managing its own ethical fund

- Context and objective. The policy adopted by the Church of Sweden follows the same logic, though with different accents. In 2006, the Swedish Synod took the decision to manage its entire endowment (some US$ 855 million) in accordance with SRI principles. Here as well, this decision is explained both by a desire to deepen its mission and by the fear of being the target of media attacks, as had already occurred in the past.
- The Church of Sweden therefore set up an ethical fund under the name of Ethos, which it manages itself and which it now offers to local parishes at extremely low administration rates (a mere 0.1%). Though the selection of company shares and bonds is based on internationally recognised criteria (environmental, social and governance-related), the Church of Sweden goes even further, conducting its own screening and excluding some 40% of SRI-labelled companies.
- As with the Fondation de Luxembourg, the Church of Sweden believes that dialogue with the private sector can get things changed. It is starting a dialogue with companies not meeting the SRI criteria they claim to implement. The divestment weapon is used as a last resort, should such dialogue prove to be pointless.

For more details: [Download the Church of Sweden presentation]

Esmée Fairbairn Foundation: a new instrument, a new market

- In 2008, the Esmée Fairbairn Foundation developed its own financing instrument, the Finance Fund. This social investment fund provides loans to non-profit organisations or takes up holdings in projects with a view to generating a financial return and a positive social impact. Up to now, the Finance Fund has financed 70 investment projects with an average duration of seven years in a variety of sectors (education, social innovation, the environment, culture, etc.) The internal rate of return, i.e. after deducting costs, is 1.7%, although achieving a financial return was not initially a goal in itself.

- The Finance Fund can for instance advance money to an environmental organisation wanting to purchase a threatened nature site, providing it with enough time to repay the low-interest loan. It operates solely as a financial partner, without interfering in the project's operational management. Social Impact Bonds constitute another innovative scheme, with the fund investing in associations working for example on a project for reinserting prisoners. In this case, the Ministry of Justice has agreed to pay a return on investment when the set targets are achieved, as any reduction in the recidivism rate leads to substantial budget savings.

- For the Esmée Fairbairn Foundation, the Financial Fund is an instrument complementing the traditional support schemes which remain indispensable in many cases. The Fund also requires a wide range of competences insofar as its aim is to construct bridges between different worlds: the financial world and the selection of programmes. Following an initial feasibility assessment, a project is discussed within a mixed committee made up of financial decision-makers and others with grant-making experience. There is no watertight distinction between the Foundation's 'investment' and 'grant-making' approach and a project may often pass from one to the other.

- In sum, the Esmée Fairbairn Foundation has not just created new financing tools, but has also created a previously non-existent market.

"We mustn't confuse risk with uncertainty. A new and unconventional approach often causes uncertainty on account of the uncharted territory. But that doesn't mean it's risky."

For more details: [Download the Esmée Fairbairn Foundation presentation]

Wallace Global Fund: divesting to reinvest

- At the instigation of its new director, Ellen Dorsey, the Wallace Global Fund (WGF) has completely reviewed its investment portfolio with a view to better aligning it with its environmental protection and human rights objectives. A group of high-level experts with skills in both traditional financial consulting and in SRI was set up to evaluate the ethical nature of the WGF's existing investments and to come up with alternatives.

- The initial idea was to limit this exercise to half of the WGF portfolio. However, with the advantages greatly outweighing the minor risks, this perspective very quickly generated so much enthusiasm that the whole portfolio was subjected to scrutiny. The evaluation method developed combines some fifteen positive and negative criteria, though it is important that this screening method remains open to change, with its validity being permanently checked.

- More recently, the WGF has become one of the drivers of the Divest-Invest movement. The starting point of this movement is the conviction that climate change is a major issue for all foundations, even if they are not directly working in the environmental field. The movement emphasises, on the one hand, the financial risk of not divesting shares in all companies associated with exploiting fossil fuels: a large number of specialists now reckon that oil shares are overvalued in relation to available reserves, predicting that the ‘carbon bubble’ can burst any day now.

- On the other hand, Divest-Invest represents a concrete opportunity for foundations to help meet their mission objectives and to make a clear and concrete gesture consistent with their values. Network partners have an exemplary function, being publicly committed to reinvest at least 5% of their endowment in promoting solutions to climate change. It is estimated that, to achieve a structural energy transition and avoid the worst global warming scenarios, US$ 1,000 billion needs to be invested each year up to 2030 in developing renewables, clean technologies and energy efficiency - an amount corresponding to 5% of total global investment.
- As with the anti-apartheid movement thirty years ago, Divest-Invest saw the light of day on American university campuses. Drawing its inspiration from this example, it is rapidly spreading and now includes foundations, pension funds, universities, religious communities, etc. in the USA and throughout the world. The movement is completely overturning conventional - and sometimes ambiguous - conceptions of socially responsible investment.

For more details: Download the Wallace Global Fund presentation

For more information on Divest-Invest, see: http://divestinvest.org/philanthropy

By way of conclusion

The Round Table has highlighted a few of the practices and strategies that foundations can use to align their investment policies with their missions. Other ones exist, adapted to the size and context of each organisation.

This groundswell can increase more rapidly when foundations work together in this field, sharing their experience and know-how, achieving greater negotiating power vis-à-vis asset managers, and developing new instruments or even joint investment funds.

Foundation 3.0

Foundation 3.0 is an initiative of the Foundation for Future Generations, supported by the Fondation de France. It questions the various fields of activity of our foundations - grant-making, endowment management and operations - aiming at deploying all foundations assets to induce systemic change towards sustainable development.

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Appendices

Participants list

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DOEN Foundation	Nina	Tellegen	Netherlands	CEO
Esmée Fairbairn Foundation	Danyal	Sattar	United Kingdom	Social Investment Manager
Fondation Bernheim Stichting	France	de Kinder	Belgium	Director
Fondation Ch. L. Mayer pour le Progrès de l'Homme	Matthieu	Calame	France/ Switzerland	Director
Fondation Chimay - Wartoise	Philippe	Dumont	Belgium	Secrétaire général
Fondation Daniel et Nina Carasso	Marie-Stéphane	Maradeix	France	Executive Director
Fondation de France	Jean-Pierre	Lefranc	France	Chief Financial Officer
Fondation de France	Dominique	Lemaîstre	France	Director Sponsorship
Fondation de France	Martin	Spitz	France	Responsable Solidarité
Fondation de Luxembourg	Tonika	Hirdman	France	General Director
Fondation Ensemble	Olivier	Braunsteffer	France	Director
Fondation pour les Générations Futures	Benoît	Derenne	Belgium	Director
Fondation pour les Générations Futures	Aline	Goethals	Belgium	Project Manager
Fondation pour les Générations Futures	Tanguy	Vanloqueren	Belgium	Project Manager
Fondazione Cariplo	Francesco	Lorenzetti	Italy	Chief financial and Fundraising officer
Friends Provident Charitable Foundation	Rob	Lake	United Kingdom	Trustee
Mistra	Johan	Edman	Sweden	Programme Director
onValues	Ivo	Knoepfel	Switzerland	Founder and Managing Director
Polden-Puckham Charitable Foundation	Bevis	Gillett	United Kingdom	Acting chair
Progressio Foundation	Marcello	Palazzi	Netherlands	Founder and President

Wallace Global Fund	Ellen	Dorsey	United States	Executive director

Useful resources

Publications

Knoepfel and Imbert, onValues Ltd., "360-degrees for Mission: How leading European foundations use their investments to support their mission and the greater good", Mistra, 2011.	Introduces the concept of mission investing and 8 leading European foundations in detailed case studies.
Hand, K. ed., "Unlocking Socially Responsible Investment", Charity Finance Directors Group, 2010.	Chapter 6 provides a step by step guide to generating and implementing a responsible investment policy. This detailed section ranges from getting mission investing on the agenda to selecting and monitoring asset managers.
Cummings and Hehenberger, "Strategies for Foundations: When, Why and How to Use Venture Philanthropy", European Venture Philanthropy Association, 2010.	Detailed introduction for foundations interested in implementing venture philanthropy approaches, with multiple strategies tailored to specific foundation situations. Includes 4 large case studies of foundations focused on venture philanthropy.
EIRIS Foundation, "Socially Responsible Investment: A practical introduction for charity trustees" Charity SRI, 2010.	Chapter 5 presents a step by step process for implementing responsible investments at a foundation.
Gootjes, Verstappen and Hummels, "VBDO Benchmark Responsible Investment: Fundraising charities and foundations in the Netherlands 2011", VBDO, 2011.	Annual review of foundations' and charities' mission investing practices in the Netherlands, with details on how each foundation implements their policy.
Imbert and Knoepfel, onvalues Ltd. "Report on 1st European foundations meeting on mission investing", Mistra, 2011.	Summary report
Jenkins, R. "The Governance & Financial Management of Endowed Charitable Foundations", Association of Charitable Foundations, 2012.	Major report on best practice investment governance at foundations with a dedicated section on connecting mission and investment.
Knoepfel, I., "Impact Investments für Stiftungen ", in "Schweizer Stiftungsreport 2012" (Eckhardt, Jakob and Schurbein) Swiss Foundations, CEPS and Universität Zürich, 2012. (also in French)	Short article highlighting how mission investing is of strategic interest to foundations and presenting various alternatives of responsible and impact investment.

Websites

Principles for Responsible Investment (PRI)	For responsible investing across asset classes
Global Impact Investing Network (GIIN)	For impact investing
Charity SRI	Information for foundations on resp. investing
Mission Investors Exchange	North American foundation mission investing network

Divest-Invest Philanthropy	Campaign & resources on fossil fuels divestment and clean energy investment strategy