

Overview of mission investing by European foundations

Main approaches and recent developments

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Overview

- Why mission alignment
- How leading foundations are doing it
- The available „toolkit“
- Trends we are observing in Europe
- Answers to 6 questions that all trustees ask
 - Compatible with fiduciary duty?
 - Will it hurt returns?
 - Can it be applied to the whole endowment?
 - How efficient and - Resource intensive is it?
 - How can I get started?

Two different reactions to lower portfolio returns since the financial crisis...

- „Forget about mission – We need to reduce investment costs to the max by investing in passive index trackers“
- „More than ever we need to use all our resources in a creative way (including the capital) to achieve our mission“

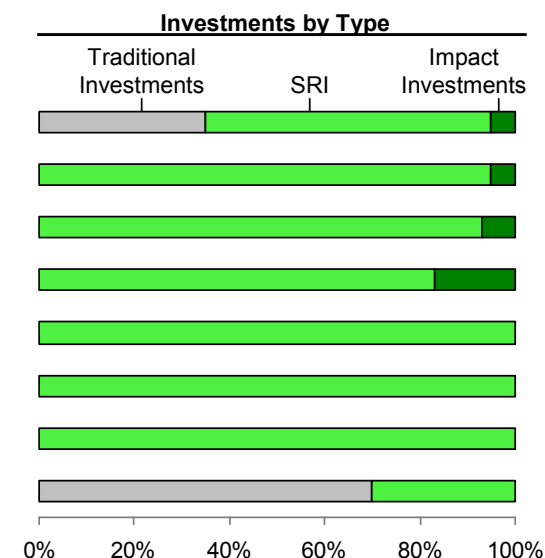
...and what stakeholders increasingly expect

- A greater degree of transparency and consistency, including the investment side
- A stronger focus on enabling a sustainable development of our economy and financial system
- A wider „toolbox“ that includes entrepreneurial approaches for solving societal challenges

Successful examples of European foundations that are practicing mission-aligned investing

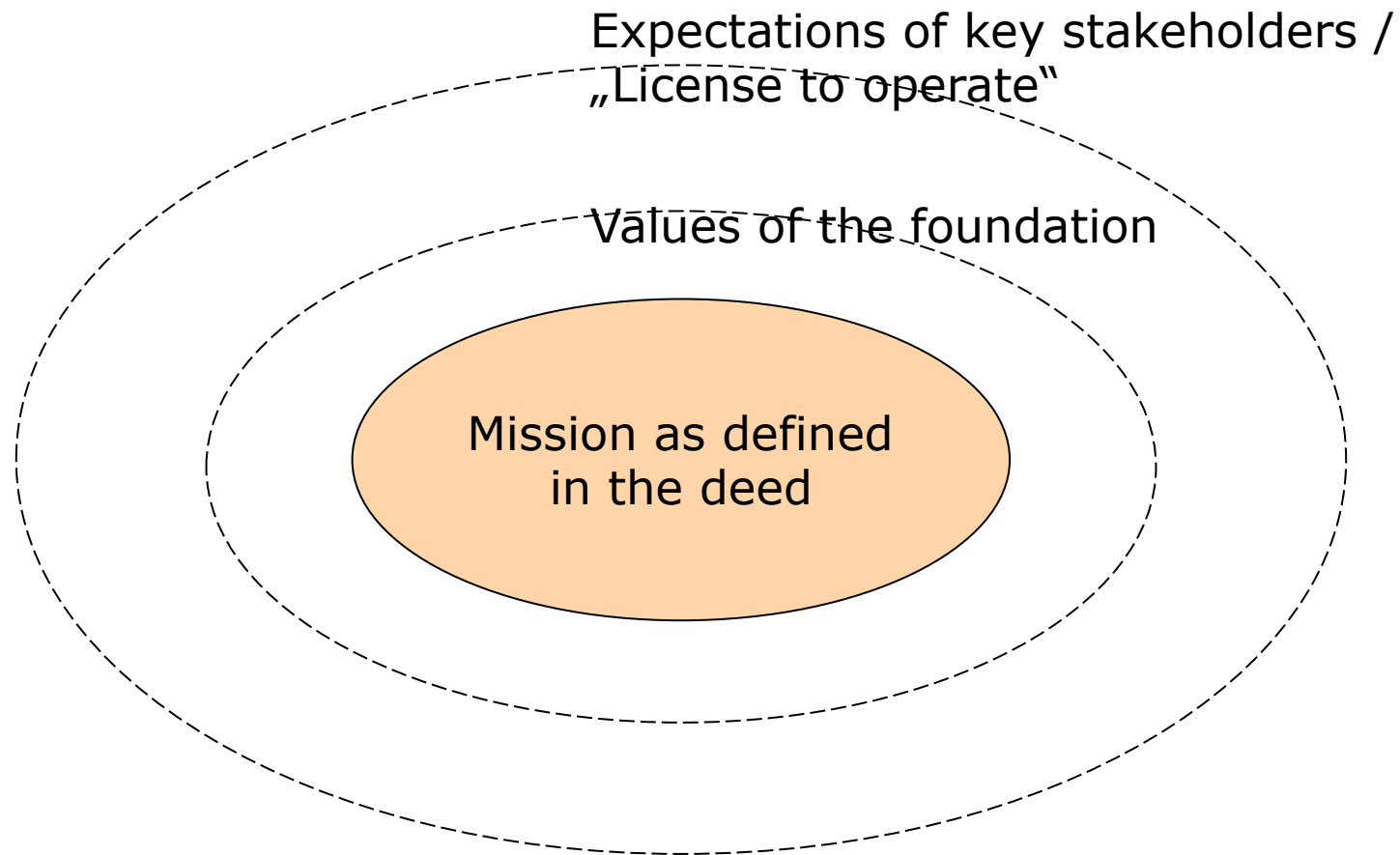


	SRI Approach					Impact Investing
	Negative Screening	Positive Screening	Thematic Funds	ESG Integration	Active Ownership	
Fonds 1818	✓				✓	✓
Friends Provident	✓	✓				✓
Fondazione Cariplo	✓	✓				✓
Dreilinden		✓				✓
Church of Sweden	✓	✓		✓	✓	
Mistra	✓	✓	✓	✓	✓	
Fondation de Luxembourg	✓	✓				
DBU	✓	✓	✓			



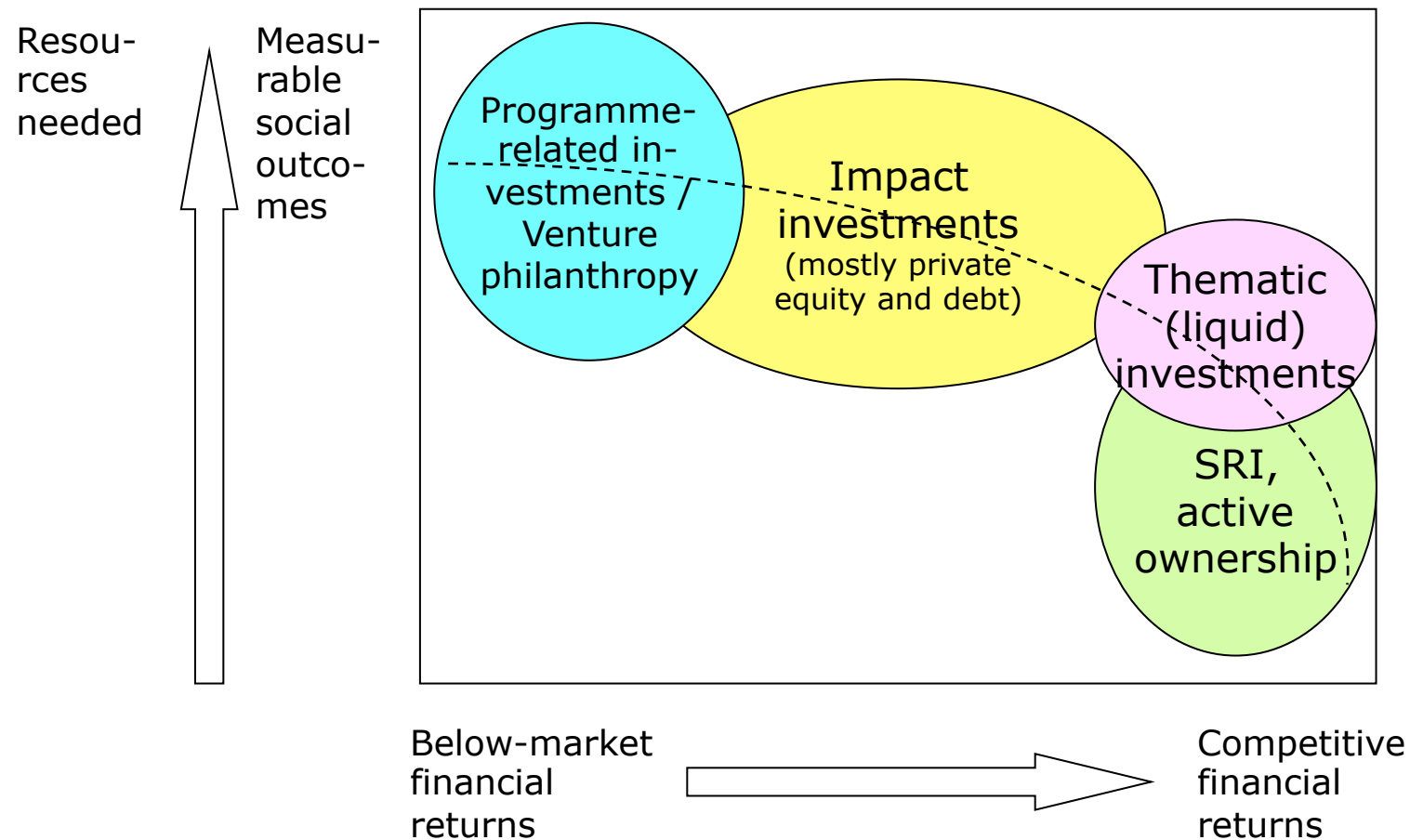
Source: Mistra/onValues

Importance of not defining „mission-alignment“ too narrowly











Source:
onValues

Importance of knowing the mission alignment „toolkit“ well



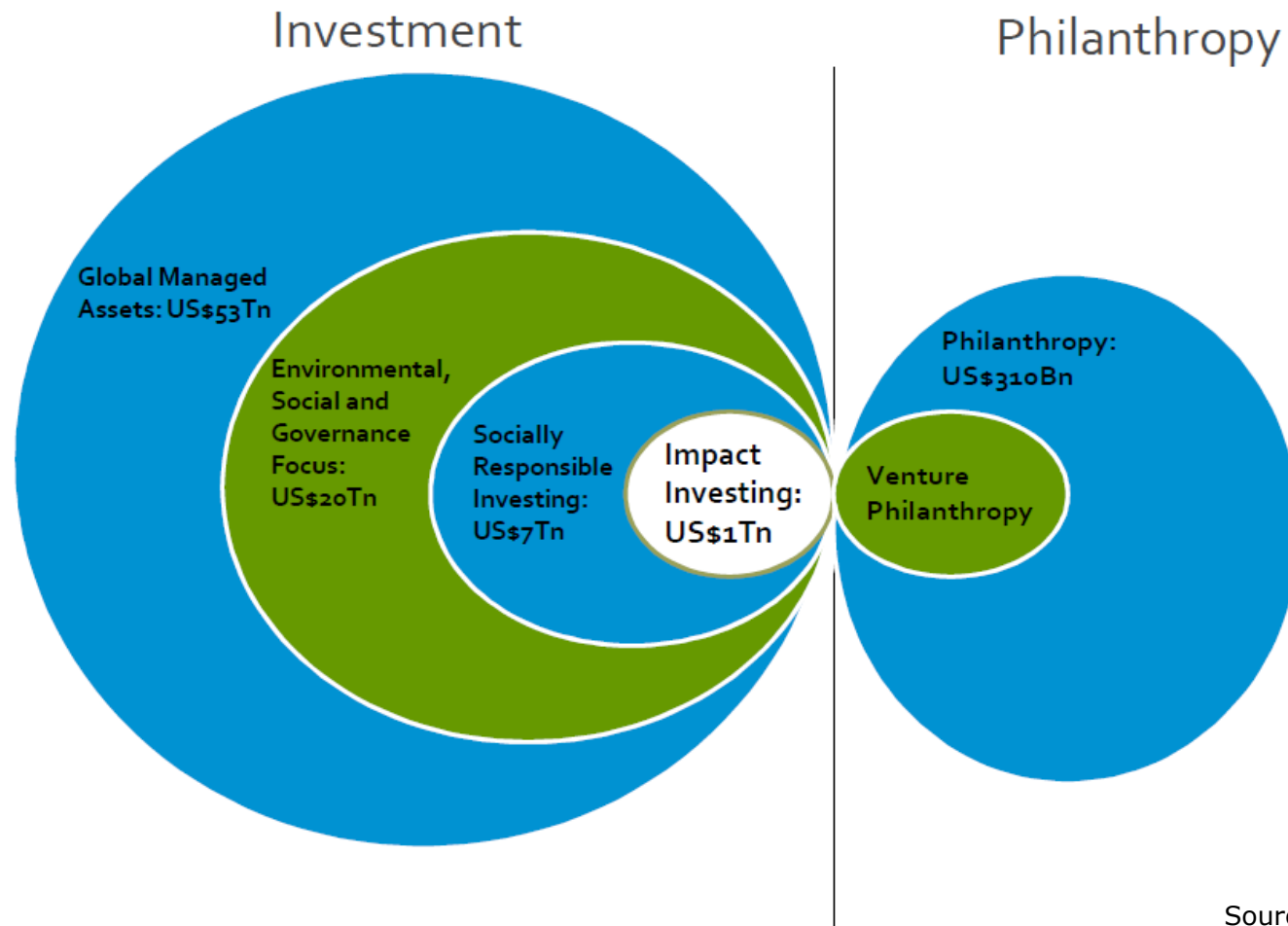
Source:
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Impact investments strike a balance between financial returns and specificity of social outcomes

Sector	Illustrative Examples of Measurable Social or Environmental Outcomes
 Agriculture	Increase in productivity or crop yield as a result of improved technology or training
 Education	Participation rates of girls in secondary education in sub-Saharan Africa
 Energy	Number of individuals at the base-of-the-pyramid who gain access to electricity
 Environment	Tonnes of CO ₂ equivalent offset as a result of organization's product or service
 Financial Services	Number of micro-insurance products sold to people with AIDS and infected with HIV
 Health	Readmission rate of diabetes patients using innovative product for monitoring health
 Housing	Reduction in the rate of homelessness among major US cities
 Water	Number of individuals at the base-of-the-pyramid who gain access to clean water

Source: WEF, 2013

Very different size of markets



Source: www.asiaiiix.com

A country example: UK

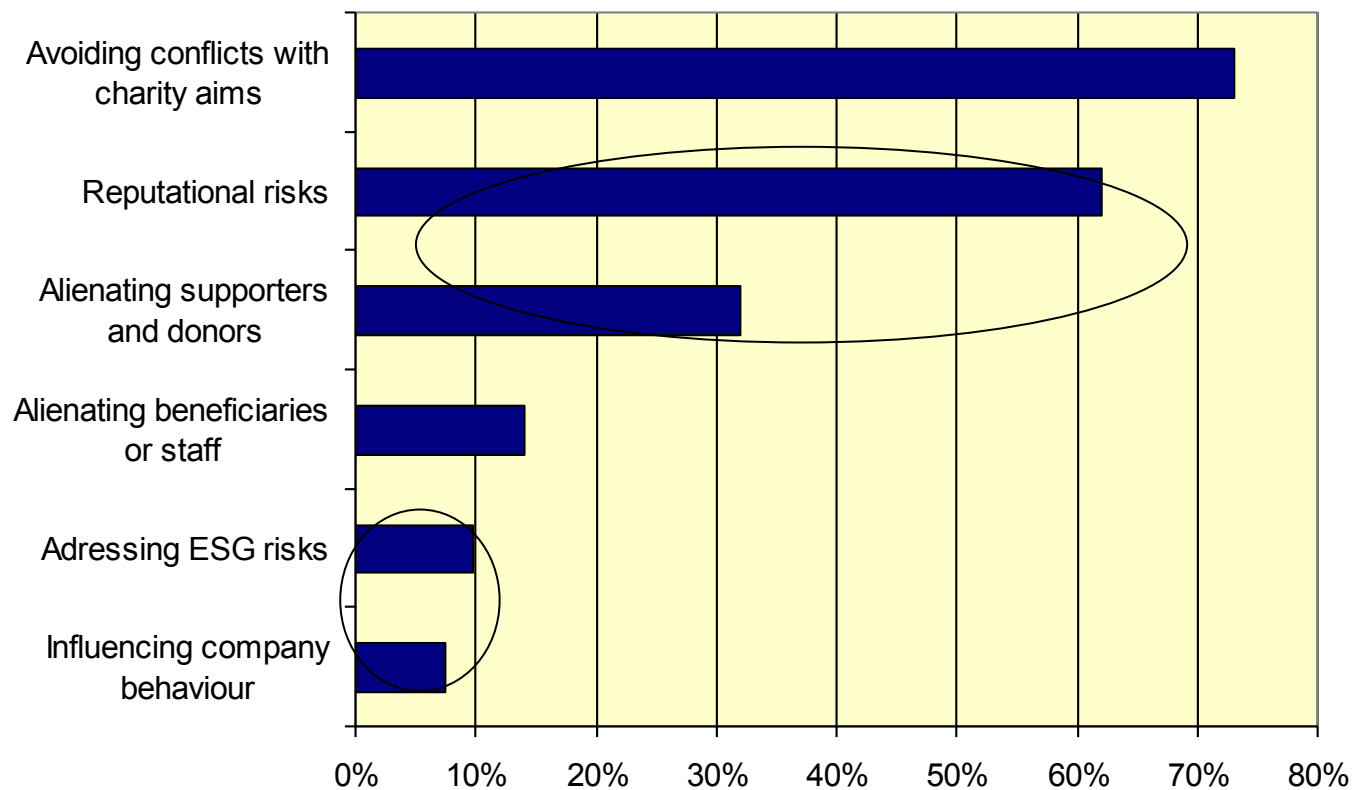
(Eiris/CFDG survey 2009)

- 91% of the general public believes that charities should invest 'ethically'
- 46% of respondents had an ethical investment policy
- 88% use negative screens, 25% use positive screens, 19% engage with companies via their fund managers and 9% vote shares on ethical issues
- The drive for ethical investment comes mainly from trustees (75%), followed by finance directors (45%), chief executives (30%) and supporters (30%).



Country example UK /2

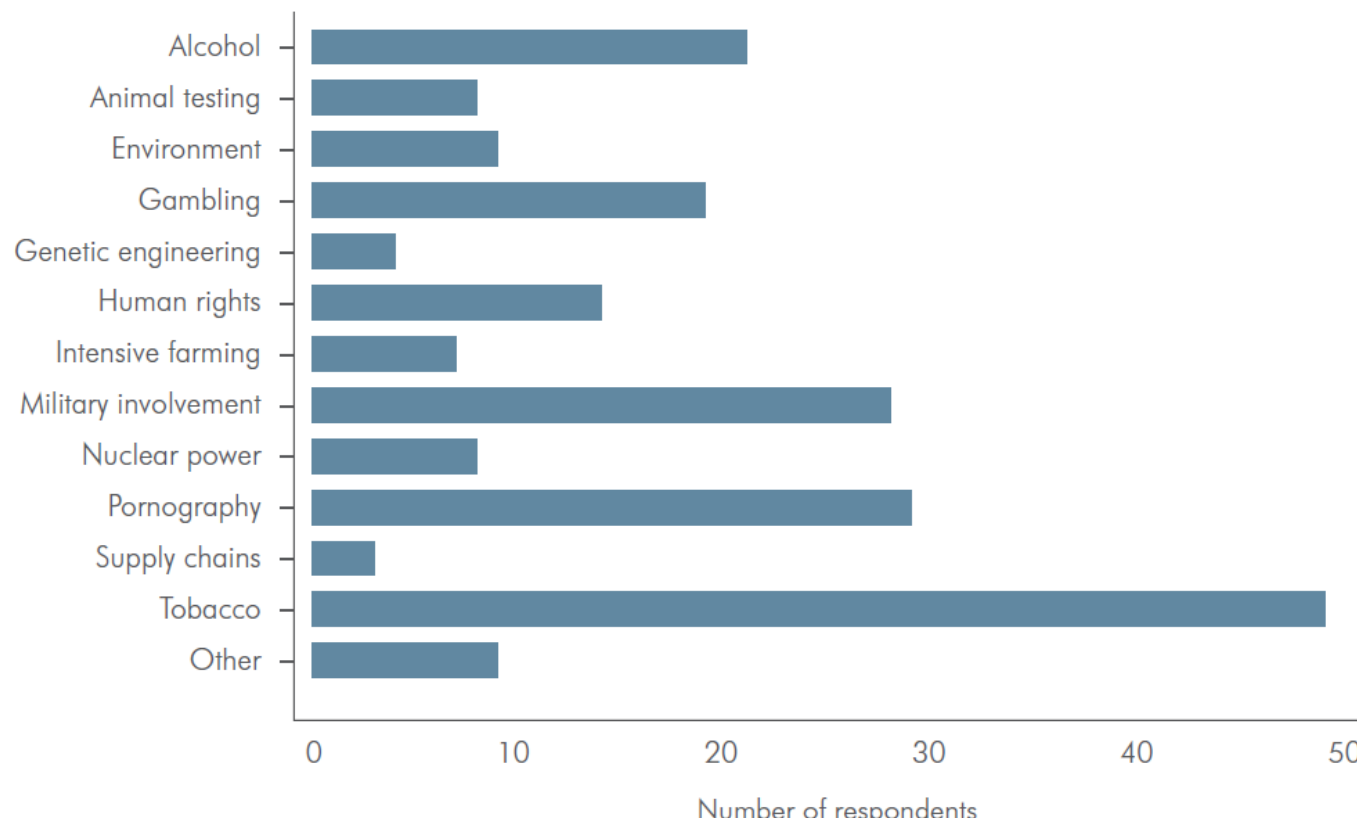
Reasons for introducing an ethical policy



Source: Eiris/CFDG survey 2009

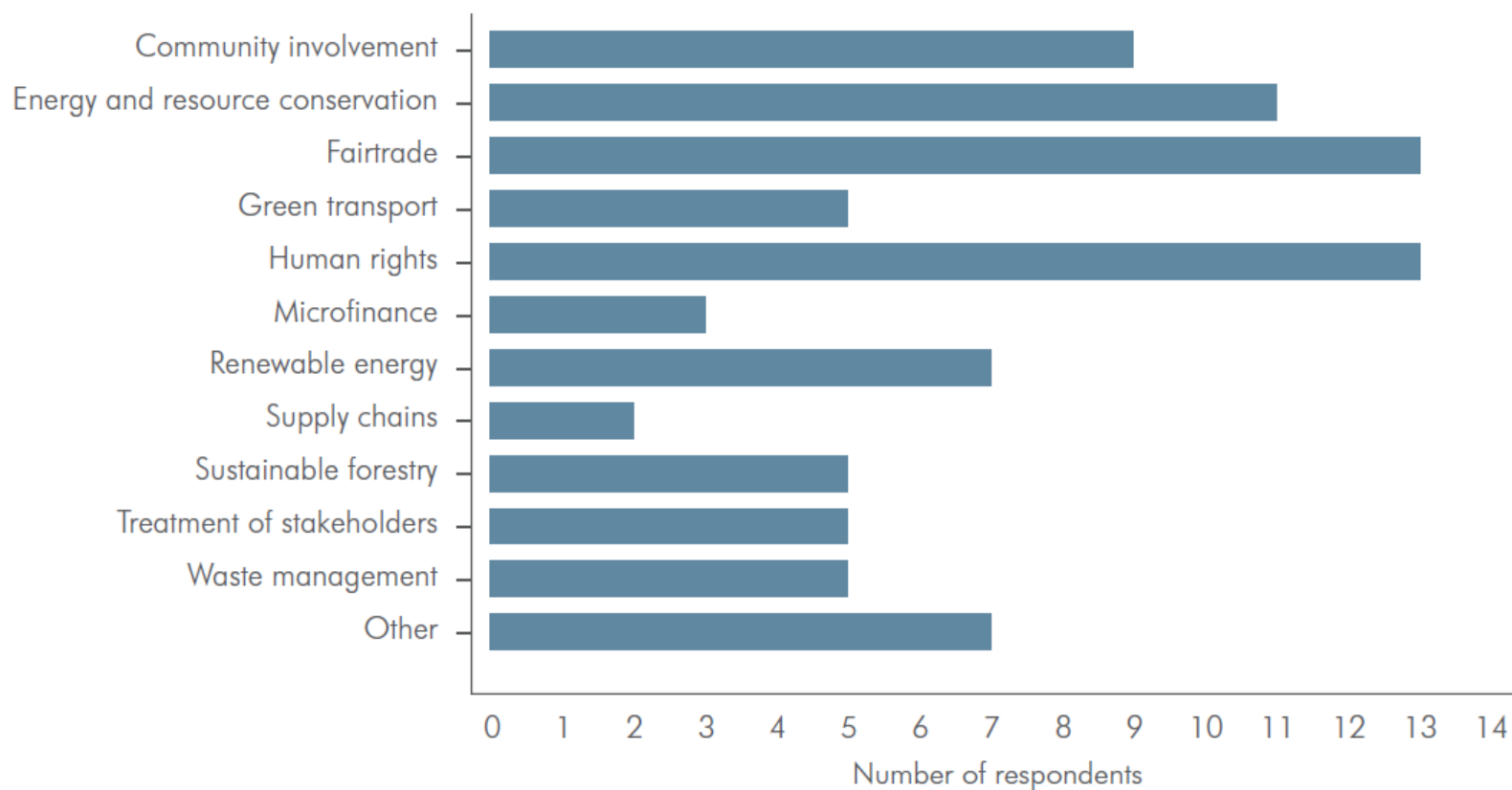
Negative screening issues

(Eiris/CFDG survey 2009)



Positive screening issues

(Eiris/CFDG survey 2009)



Trends in the European foundations world

1. Creation of national-level working groups
2. Collaborations with academia
3. Lack of support from investment consultants and mainstream financial institutions
4. Interest is growing: increasing number of events and reports
5. Translating activity to action still a challenge

National working groups

- UK Social Impact Investing Group established by foundations, with national association providing secretarial support
- Working group at German national association
- SwissFoundations working group on mission investing. Focus on developing resources for stimulating trustee discussions and exploring opportunities for foundations to pool resources.

Mission investing a growing topic in events and reports

- In the Netherlands, VBDO publishes benchmark study “Responsible Investment at Dutch Foundations” every year since 2010
- 2012/13 – UK national association issues a major paper on the investment governance of foundations with a dedicated section on connecting mission and investment
- May 2012 – Liechtenstein Congress on Sustainable Development dedicates its opening day to the topic of responsible investing at foundations
- June 2012 - French “Ateliers de la Finance Responsable” in Paris has roundtable of foundation participants
- July 2012 – German national association issues major report on mission investing (author here today)
- Mission investing by foundations features regularly at **EFC, EVPA, GIIN** conferences



What is the current state of mission investing in Europe?

- Rough estimate of total European foundation assets: €1 trillion
 - Negative screens 20-30% → ca. €250B ?
 - Positive screens 5-10% → ca. €75B ?
 - Programme-related/
Impact investments <1% → ca. €5-10B ?
- **The most important figure is the question mark!**

Source: CSI Heidelberg, Feasibility Study for a European Foundation Statute, 2007, onValues analysis

6 key questions

1. Is it compatible with fiduciary duty?
2. Will it hurt financial returns?
3. Can I apply it to my whole investment portfolio? Is there enough choice?
4. Does it involve more work/ require special expertise? Who will help me?
5. Is it efficient in terms of generating impact?
6. How do I get started?

1. Compatible with fiduciary duty?

“Trustees have many important responsibilities, perhaps none more so than deciding how and where to invest their organisation’s assets”

Caron Bradshaw
Chief Executive
Charity Finance Directors Group



(cont.) ..compatible with fiduciary duty?

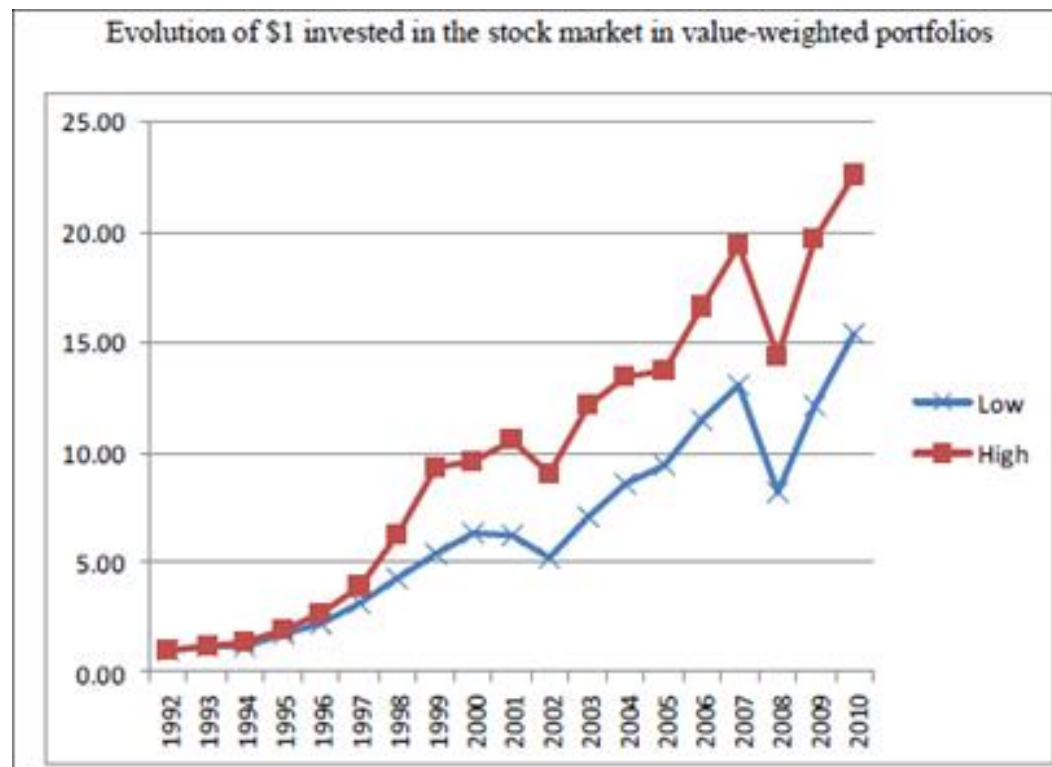
- CFDG: *„Trustees may both be permitted and obliged to prioritise ethical over financial considerations if an investment decision would be unsuitable because it would conflict with the charity’s objectives or constitution; or alienate supporters or beneficiaries”*
- Answered positively by leading pension funds (UN Principles for Responsible Investment, >500 institutions, \$30+ trillion) and law firms
- Situation for impact investments/PRI depends on jurisdiction (usually seen as related to grantmaking)

2. Will it hurt financial returns?

- Studies for the UK CFDG and several academic programs have repeatedly confirmed that there does not appear to be a performance penalty
- UK Investment Management Association:
„Investing ethically does not mean that you have to sacrifice investment performance. As with any investments, some perform better than others”

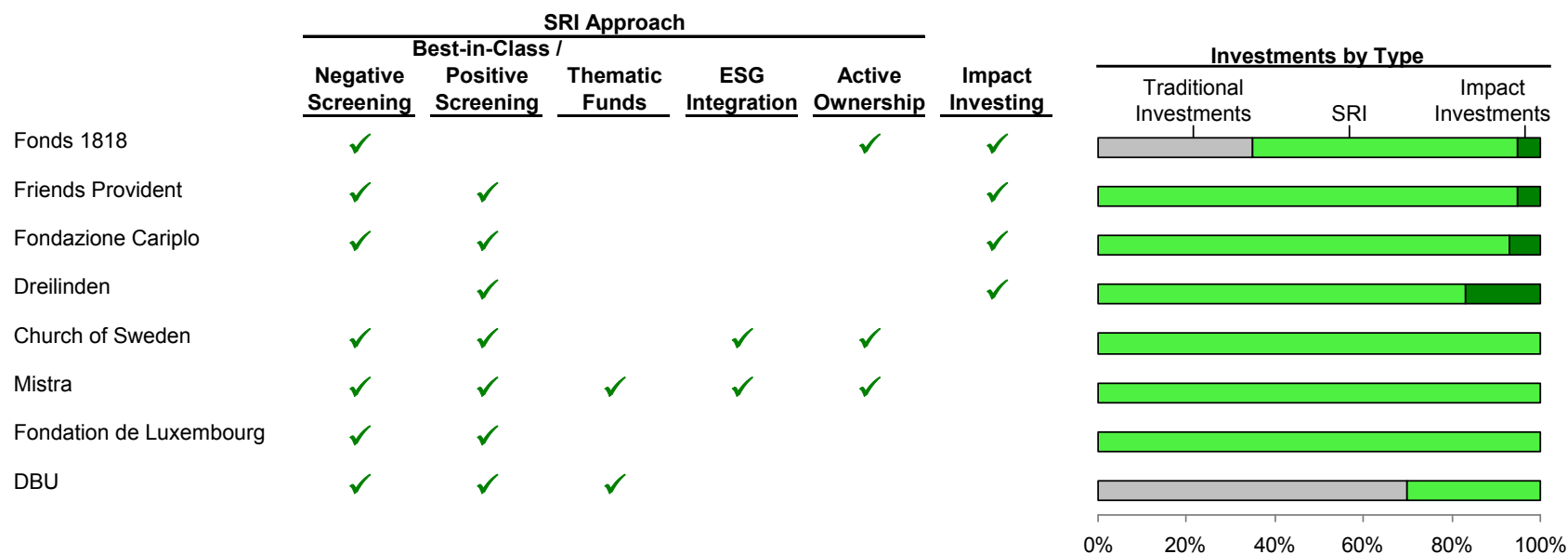
(cont.) ..will it hurt financial returns?

Harvard Business School study comparing top vs. bottom sustainability performing companies



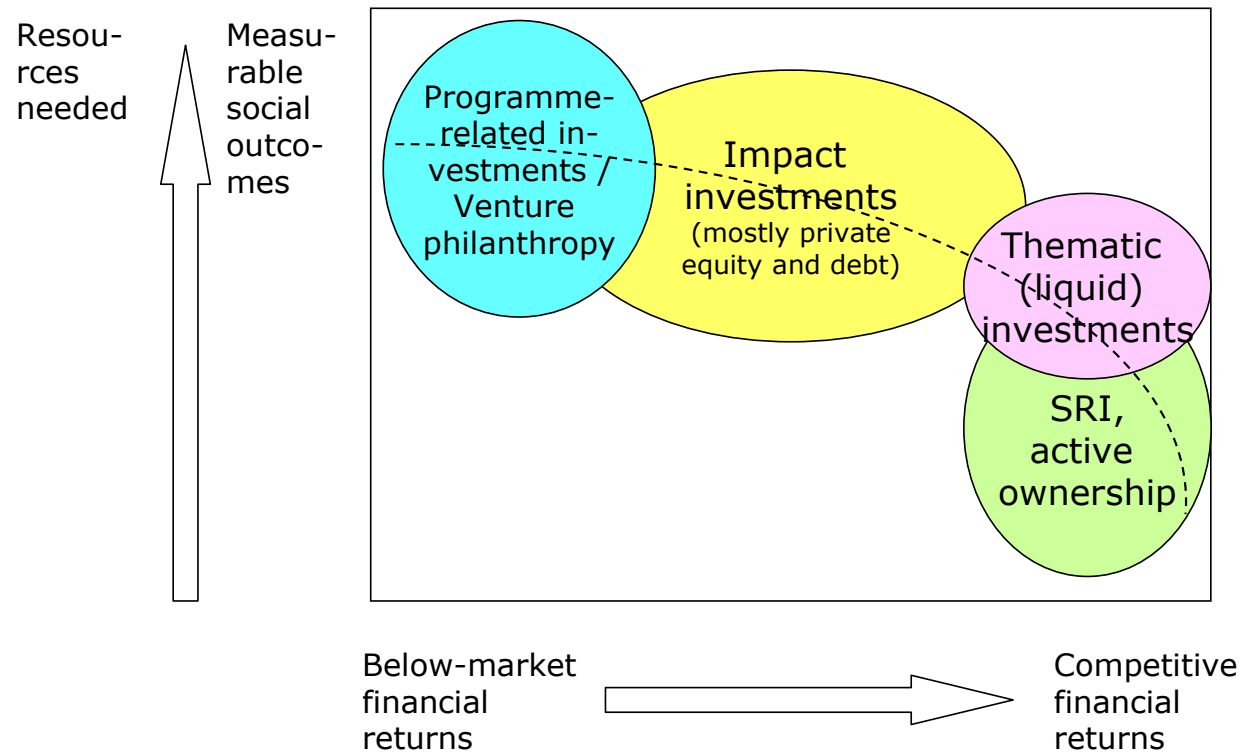
Source: Robert G. Eccles, Ioannis Ioannou, and George Serafeim:
"The Impact of a Corporate Culture of Sustainability on Corporate Behavior
and Performance", Harvard Business School Working Paper 12-035, Nov. 2011

3. Applicable to whole investment portfolio?



4. Is it particularly resource intensive?

5. Is it efficient in generating impact?



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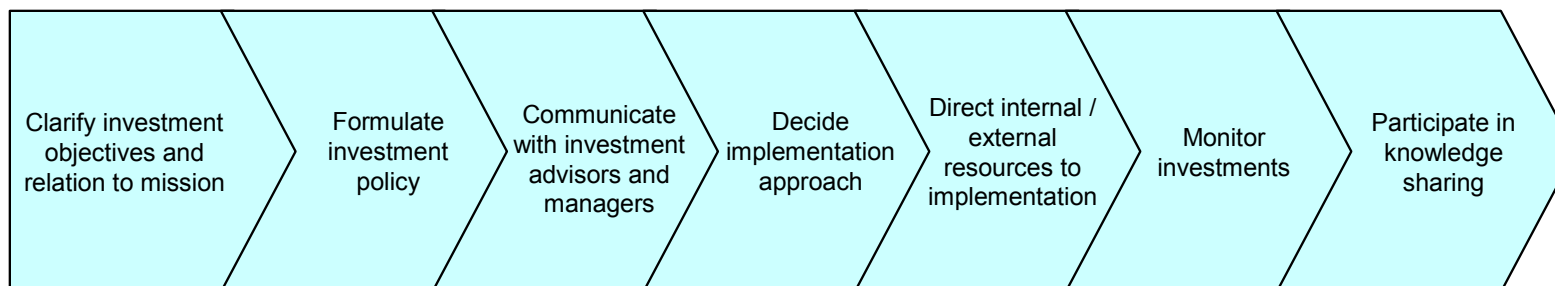
“Impact investing opened up the foundation. Now we are engaged in the market in new ways and talking to people we would never have met otherwise”.

– DANIELLE WALKER PALMOUR



6. How do I get started?

“For every foundation there is a way to make investments socially responsible. Be pragmatic, make your first steps and find your own way. It is easier than you think and it is the right thing to do for foundations”. – BOUDEWIJN DE BLIJ



Conclusions

- Big “toolbox” available – possible to achieve an interesting blend of financial and social returns
- But it needs the right degree of investment governance and know-how
- For smaller foundations collaborations with other foundations, the services of umbrella foundations and the support of consultants are key
- Mainstream consultants are not active in the field, and this is a problem. Banks/asset managers are slowly becoming more active, and this is positive
- National associations are becoming key centers of gravity for developing resources and spreading understanding
- Teaming up with academia is a win-win for bringing data and analysis to an under-researched topic with clear practical relevance