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# THINKING ABOUT *Mission-Related* INVESTING

*By Stephen Viederman and Miriam A. Ballert*

*Some foundations choose to align their investment portfolios with their values to fulfill more completely their philanthropic mission. This type of portfolio management is referred to as mission-related or socially responsive investing. This chapter describes the experiences of the Jessie Smith Noyes Foundation-an organization that has achieved substantial success in mission-related investing over the past seven years-and provides guidelines and advice to others who wish to undertake a similar strategy in portfolio investing.*

IT BECAME UNCOMFORTABLE INVESTING IN COMPANIES whose activities flagrantly contradicted our environmental goals," says Nick Jacangelo, long-time treasurer of the Jessie Smith Noyes Foundation.[32] He was recalling the foundation's 1999 review of its seven-year effort to eliminate the dissonance between its investments and its philanthropic activities. "During the mid-1980s, board and staff believed strongly that the foundation should move to make things as seamless as possible between our giving and our investing." As a result, in 1992 the Noyes Foundation began the process of better aligning investments with the values that shape its grantmaking. That process continues today. Through mission-related investing, the foundation has empowered its grantmaking in new and valuable ways.[33] Its investment portfolio has funded both grantmaking activities and become a catalyst for change, thereby advancing the work of the foundation in new and exciting ways.

In 1998, private foundations made a total of $16 billion in grants. Most of those grant dollars stem from returns on a total of approximately $320

billion in investment assets. Preceding chapters in this Journal focused on essential elements in developing and implementing the investment strategies required to manage that $320 billion. This chapter describes the experiences of the Noyes and other foundations that have attempted to align their investment portfolios with their values to fulfill more completely their philanthropic mission.[34]

Mahatma Gandhi pinpointed "the dissonance between deed and creed" as a source of fracture in people's lives and communities. As a philanthropic institution, a goal of the Noyes Foundation is to repair that fracture for itself. Foundation efforts in that regard have led to the conclusion that mission-related investing can:

- Produce competitive financial rates of return.
- Accommodate a foundation's need for a financial rate of return and social, environmental, and cultural returns on investments.
- Contribute market-based solutions for solving social and environmental problems.
- Add value to a foundation's grantmaking by aligning values and purposes with asset management.
- Remind a foundation that stock ownership carries with it an obligation to ensure that the stewardship of a corporation involves both financial resources and meeting responsibilities toward the larger community and the environment.
- Result in a new and deeper relationship between philanthropic mission and the foundation's constituencies.

## MOVING TOWARD MISSION-RELATED INVESTING AT THE NOYES FOUNDATION

As an organization that focuses primarily on the environment, the Noyes Foundation has a special interest in preventing the destruction of natural resources upon which all life depends. To that end, in the early 1980s its board began asking existing money managers-who at that time were not involved in what is generally referred to as socially responsible investing-to eliminate investments in companies in the nuclear, agricultural chemical, and tobacco sectors from its portfolio. As Edith

Muma, then president of the foundation and daughter of Jessie Smith Noyes, recounts, "Foundation grantmaking was targeted toward stopping the use of pesticides, so it seemed incongruous to own stock in the chemical companies that produced them."

By the end of the 1980s most of the foundation's investment assets had been transferred to firms committed to socially responsible investing because those types of firms were better able to meet foundation goals of using both positive and negative social screens. These investment managers were asked to find companies rated "best in class" on environmental and social issues. Ideally, the foundation wanted to buy into companies that offered solutions to the problems it sought to correct. At the same time, board members also asked them to exclude companies deemed egregious offenders. Because of their own social commitments and research capabilities, the foundation board believed that the investment managers it selected because of their track records in socially responsible investing were better able to monitor its portfolio for companies with changing social and environmental performance. In addition, the foundation was able to vote its proxies in a manner that was consistent with its social and environmental concerns. Thus the proxies, as well as the investments, furthered Noyes Foundation social and environmental goals.

A mission-related investing program includes four components that can be used singly or in combination:

1. *Social screening*. Portfolio screening is the use of social, ethical, environmental, or other nonfinancial criteria to select portfolio assets. Typically, such screening consists of: exclusionary screens, which eliminate companies whose activities or products have a negative impact on society in the investor's perception; and inclusionary or qualitative screens, which pinpoint companies as prospects for investment based on qualitative assessments of strength and positive impact on society.
2. *Shareholder advocacy.* Voting proxies, engaging directly with corporation management to seek positive change, and communicating indirectly with companies through letter writing, co-filing shareholder resolutions, and filing shareholder resolutions directly related to

foundation mission-related activities-as appropriate-are all forms of shareholder advocacy.

3. *Mission-related venture capital.* Direct investment in new and early-stage, mezzanine, or late-stage companies that are attempting to develop commercial solutions to the problems that a foundation addresses all falls under the rubric of mission-related venture capital investments.
4. *Community development or program-related investing.* Support, usually in the form of loans but sometimes from a foundation's assets, to financial institutions or projects directly benefiting specific communities or groups, falls into this category of investments.

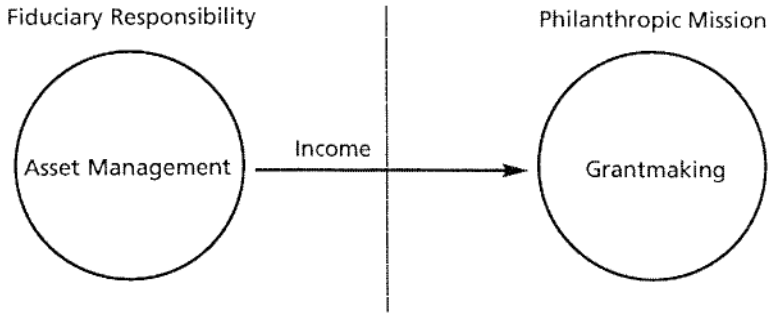
At Noyes, shareholder activity and mission-related venture capital have been key components of its overall program. In addition, domestic and international equity and fixed-income portfolios are screened.[35] Although Noyes currently has no community development investments, it is exploring direct investment options that meet its goal of building self-reliance in the communities.

## MAKING THE CASE FOR MISSION-RELATED INVESTING

In the early days of the Noyes Foundation, the men made the money, and the women made the grants-and Noyes was not unusual in this respect. The approach to investing was conservative. As one long-term board member observed, "Our view of an alternative investment was a stock listed on the American Stock Exchange or NASDAQ."

Well into the 1980s, the boundaries that separated the finance committee from the grants committee seemed almost impenetrable (see Figure 1). Those on the board and program side of the foundation had little interest or experience in investing and did not know the language of finance. Those on the investment side had little knowledge of or interest in the nonfinancial criteria of investments, especially because traditional finance provided only fragmentary performance data on "social investing," which was generally perceived as in conflict with fiduciary responsibility.

**Figure 1: Traditional Foundation Culture**




*In traditional foundation culture fiduciary responsibility dictates that assets be managed as a passive income generating pool of securities. The only connection to grantmaking is the generation of cash.*

Then, in 1991 the Noyes board decided to seek out new members with experience in social investing and an interest in the grantmaking values of the foundation. Within two years, a social venture capitalist and a Harvard finance professor, working closely with the board and the president, had laid the framework for the foundation's dissonance-reduction activities.

RETHINKING FIDUCIARY RESPONSIBILITY

Noyes' commitment to its mission of "protecting and restoring Earth's natural systems and promoting a sustainable society by strengthening individuals, institutions, and communities pledged to pursuing those goals," led to the formation of a series of questions:

- Can fiduciary responsibility be achieved without addressing the social and environmental consequences of economic growth?[36]
- How do concepts of fiduciary responsibility affect the foundation's corporate culture?
- What relationship exists between fiduciary responsibility and institutional or corporate responsibility?
- Can investments become an effective agent for change?

In answering these questions, the foundation board concluded that

fiduciary responsibility should be subsumed within a more comprehensive structure of social and fiduciary responsibility. This conclusion raised additional questions for the foundation board, including:

- Given its program interests, should Noyes passively hold the stock of a company that: Is a major polluter of the environment? Is not responsive to the needs of community groups the foundation supports? Or does not recognize the reproductive rights of women—another of the foundation's areas of concern?
- Should a health funder passively hold stock in a corporation that produces or contributes to the production of tobacco products? Or stock in a health maintenance organization whose practices the funder is trying to change?
- Should a faith-based funding organization passively hold stock in a company selling products and services that are contrary to its beliefs and practices?

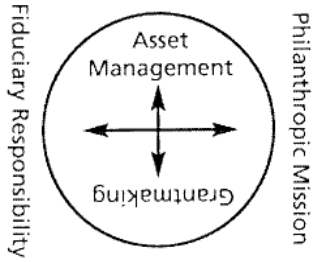
Answering these questions is not as simple as it might appear. For instance, oil companies are by definition polluters. As such, they should be excluded automatically from the portfolio of a foundation that is looking for solutions to environmental pollution. But one oil company, Sunoco, committed itself to annual public reporting on its environmental practices and to continued environmental improvement by becoming the first in its industry to sign the CERES Principles. Noyes chose to purchase stock in that company because it is financially sound and the board believed it to be the "best in class." Although decisions such as these were not easy, the process was instructive, causing the Noyes board to focus efforts to balance fiduciary responsibility with environmental responsibility. This approach also raised additional questions:

- Can companies balance the social and environmental needs of their communities with the financial demands of remote shareholders?
- Do high financial returns on investments compensate for destroying the environment and the local communities? and,

- How can businesses deal with the alleged dissonance between shareholder value (narrowly defined) and the social and environmental costs to society of commercial activity?

Before addressing these issues, Noyes board members realized that it was time to put the foundation house in order. This necessitated a close and ongoing collaboration between the foundation president and the finance committee and between the finance committee and the board. The board needed to be educated on the investment process. To accomplish this, the new members of the finance committee, who had been selected for their financial expertise, were teamed with other board members who had program-related expertise but no financial experience. English rather than "finance" became the common language of the investment committee. In addition, at every board meeting some time was set aside for discussions of the investment process and its potential social consequences. A new, fuller understanding of fiduciary responsibility that challenged the board to use all of the resources at its disposal to pursue the foundation mission emerged from those discussions (see Figure 2).

**FIGURE 2: DISSONANCE REDUCTION CULTURE**




*By seeing philanthropic mission and fiduciary responsibility both, as key elements of our purpose, grantmaking, and asset management become mutually reinforcing instruments of change.*

Armed with a more informed board and finance committee, Noyes was now ready to answer some very specific questions:

- What kind of companies do we wish to support?
- What kind of corporate cultures do we wish to encourage?
- What kind of economy do we wish to build, and, through it, what kind of communities and world shall we attempt to shape?37

FREQUENTLY ASKED QUESTIONS ABOUT MISSION-RELATED INVESTING

Each month, the Noyes Foundation receives about a half-dozen calls from small private and family foundations concerning its mission-related investment activities. Many of these calls are from younger family or staff members who are motivated by a strong sense of values in their grantmaking and are looking for a more focused approach to their investment portfolios. The three most frequently asked questions are:

- Is mission-related investing legal?
- Can the foundation obtain a competitive rate of financial return?
- How does mission-related investing contribute to the long-term goals of the foundation?

**Is Mission-Related Investing Legal?**

One of the mantras of endowment management is that financial rate of return is the *sine qua non* of fiduciary responsibility under the prudent person or business care rule. Historically, any other considerations, such as the social and environmental consequences of an investment, have been considered extraneous. Yet, as William B. McKeown, recently of Patterson, Belknap and Webb, observed, board members of charities "may have a duty to consider the effect on program of their investment decisions [and] to consider whether their investment decisions will further those charitable purposes, or at least not run counter to them."[38]

Under the law, fiduciary responsibility includes three duties as part of a trustee's standard of care. The first, the duty of care, specifies that trustees act as a prudent person would in like circumstances.[39] The second, the duty of loyalty, states that trustees must avoid conflicts of interest. The third, the duty of obedience, mandates that trustees act in a manner that ensures that the organization operates in keeping with the

rules and laws governing its formulation, and in accordance with its bylaws and mission. Thus, obedience to mission calls for a linkage between investments and mission.[40] (For a discussion of trustee responsibilities, see Chapter VI.)

Although this view of fiduciary responsibility is growing, it is far from the mainstream. Noyes board members find its logic compelling to believe that institutional integrity has a place in investment decisions. Unfortunately, the body of law on this subject is not extensive.

In a path-breaking review of judicial decisions and state statutes, Lewis Solomon, Theodore Rinehart Professor of Business Law at the George Washington University Law School, and Karen Coe, conclude that:

> *Directors and trustees of nonprofit entities, including foundations, may undertake social investing without violating their fiduciary duties. They may consider social and environmental factors when making investment decisions, whether the prudent investor rule or the business binds them care rule. Under the prudent investor rule, a fiduciary may consider the social implications of her investments only if they do not take precedence over financial considerations. Under the business care rule, a fiduciary may consider social and financial factors equally when making investment decisions.*[41]

## Can the Foundation Obtain a Competitive Rate of Financial Return?

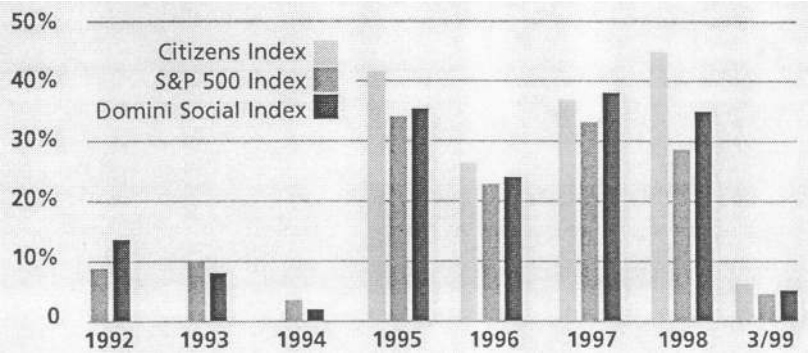
A second mantra of endowment management is that any reduction in the universe from which a money manager may select stocks or bonds for a portfolio produces "opportunity costs" that lower returns. For years, consultants and money managers have argued against social screening, suggesting that social screens create unintended portfolio risk and/or performance degradation by ignoring financial screens.

Over the past decade, a growing number of research studies have shown that screened portfolios do not necessarily deliver lower returns. For instance, a 1997 study conducted by John B. Guerard found "no statistically significant difference between the average returns of a socially screened and an unscreened universe during the 1987-1996

period."[42] Other studies reached similar conclusions.[43]

Since May 1, 1990, on a total return basis the Domini 400 Social Index, a broad-based index of 400 socially screened corporations, has increased by 570 percent compared with an increase of 489 percent in the S&P 500 Index. The value of the Citizens Index, a market-weighted portfolio of 300 screened. companies, has increased by 275 percent since its inception on December 31, 1994, compared with a 205 percent return for the S&P 500 during that same period. Since 1995, screened mutual funds have performed at least on a par with unscreened funds, overcoming slightly below average performance during the 1971 to 1995 period.

**FIGURE 3: RETURNS OF DOMINI INDEX VS. S&P 500**

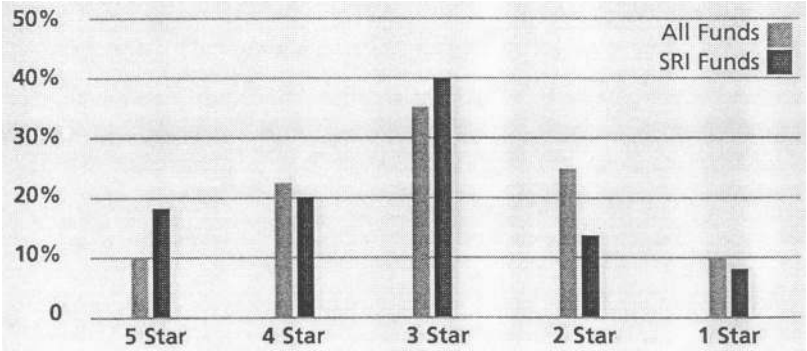



**Source: Jon Hale, Morningstar Inc.*

Socially screened funds represented 49 percent of Morningstar's top quartile funds for the one-year period ending September 1998; 34 percent for the three-year period; and 32 percent for the five-year pcriod.[44] Additional Morningstar data, as of March 1999, underline the growing competitiveness of screened

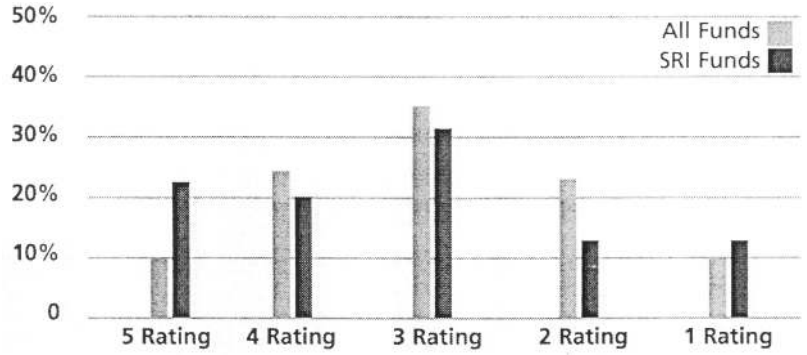
**Figure 4: Comparisons of Funds by Star Ratings**

portfolios. (See Figures 4 and 5).




**Source: Jon Hale, Morningstar Inc.*

**Figure 4: Comparisons of Funds by Category Ratings**




**Source: Jon Hale, Morningstar Inc.*

*Domestic Equities*

A growing body of research shows significant correlation between specific corporate activities and greater shareholder value. For example, a live simulation run by Innovest Strategic Advisers in concert with a leading Wall Street investment bank using a newly developed set of environmental screens showed a risk-adjusted "outperformance" premium in the range of 100 to 170 basis points per year for highly diversified, S&P portfolios. For high environmental risk sectors of the economy, such as chemicals and petroleum, the premium is as high as 500 basis points. Furthermore, there is reason to believe that the out-performance premium may increase in the future as environmental

regulations tighten, globalize, and impact corporate balance sheets with even greater force. More than 50 other studies show correlations, ranging from 50 to 450 basis points, between improving a corporation's environmental management system and improved shareholder value. Thus, under certain circumstances, an environmentally screened portfolio may outperform a more traditional portfolio.

Research also shows that companies that have made a public commitment to follow ethical business practices are more profitable than companies that do not make ethics a key component in overall management.[45]

*International Equities*

Currently, only a few screened international equity investment vehicles are available to investors. Limited data indicates outperformance by screened international managers. The brief history and lack of appropriate benchmarks make it difficult to draw any firm conclusions.[46] Still, interest in this asset category is growing.

*Fixed Income*

No publicly available performance history currently exists for screened fixed-income portfolios. Although the product was never marketed, Robert Buhr, formerly of Loomis Sayles in Boston, ran a screened bond fund for a number of years with excellent results. Noyes has screened its fixed-income instruments for more than a decade. Its experience is that screened fixed-income portfolios have met or exceeded the fixed-income benchmark employed by the foundation—the Lehman index. Research shows that "should socially responsible investors choose to broaden their investment set to encompass bonds, there should be no penalty for following their social values after adjusting for credit risk."[47]

*Venture Capital*

Mission-related venture capital, or social venture capital, is a relatively new investment approach. As with traditional venture capital investing, data on financial performance over time are difficult to amass. Although no socially responsible "home runs" exist as yet, what has been called

"patient capital" is helping to create new firms, with new corporate cultures that are financially sound and create valuable social returns through their work.

*Investment Cost of Mission-Related Investing*

Rates of return on investments reflect investment costs. Most managers of separately managed institutional accounts report no extra fees for managing screened portfolios. Weisenberger reports an expense ratio for nonsocially screened funds of 1.40 percent and a ratio of 1.62 percent for screened portfolios. When Morningstar compared large-cap growth funds it found an average expense ratio for socially screened funds that is slightly lower—1.44 percent versus 1.47 for non-screened funds.

*Financial Risk*

Noyes has concluded that the financial risk associated with mission-related investing is no different from that of investing in other asset classes. Over time, because of the large universe of publicly traded stocks and bonds, a skilled money manager who applies mission-related screens is as likely to achieve benchmark goals as a manager who has no screens. As a long-time asset manager who is involved in mission-related investing for Noyes observes, "If there is something in the portfolio that you don't like, let me know. There are many options so I can respond to differing needs, taking into account your level of risk, need for diversification, and other factors."

**How Does Mission-Related Investing Contribute to the Long-Term Goals of the Foundation?**

This is the most difficult question to answer because each mission-related "leg" must be evaluated separately.

Every foundation board discussion on *screening* begins with awareness of the fact that investments have nonfinancial, social, and environmental consequences, in addition to financial returns. Inevitably, degrees of dissonance among foundation values, grantmaking, and investments vary. Ultimately, it is "the dissonance between creed and deed" that institutions must address.[48] Noyes finds the process of addressing

dissonance actually deepens and strengthens board members' understanding of the foundation's mission and values, which is of great value regardless of whether the world is changed through the Noyes investment process.

No one path will reduce dissonance. Negative screens can weed out the worst offenders and positive screens can identify "best-in-class" companies. Many foundations choose to screen only a portion of their portfolio to become comfortable with the process over time.

Instead of exclusionary screens, a foundation may decide it would be more effective to engage the "offending" company through proxy voting, letter writing, attending meetings with management, or filing shareholder resolutions on issues of concern. Noyes, for example, occasionally buys stock in companies to engage in shareholder activity in support of its grantees. The San Francisco-based Foundation for Deep Ecology does no screening but has an advocacy fund for the sole purpose of engaging companies in dialogue around its program concerns. Moreover, the Education Foundation of America, which has a shareholder advocacy program, filed shareholder resolutions with Home Depot and others on environmental issues when efforts to reach some consensus from dialogue with management failed.

Effectiveness is not always a function of the size of a foundation's holdings in a particular company. Noyes had just 100 shares when it filed a resolution with Intel. A foundation's assets, combined with other social investors, can provide a powerful voice for corporate change.

Mission-related venture capital consists of investments in young, privately held companies that offer products, services, processes, and corporate cultures that are aligned with the foundation's mission, in varying degrees. Because Noyes is committed to developing a sustainable and environmentally sound agriculture and food system in the United States—one that is socially just and economically viable—it decided to participate in a venture capital opportunity with Stonyfield Farm, a profitable yogurt manufacturer in New Hampshire that believes that sustainable agriculture is integral to its mission. Stonyfield sources organic milk from family farms, uses containers with minimal plastic to reduce chemical inputs and damage to the environment, and gives 10

percent of its profits "to the planet." Noyes believes its investment in Stonyfield will both further its mission-related goals and provide healthy returns on its investment. Other mission-related venture capital opportunities include a new technique for detecting leaks in underground storage tanks, environmentally sound aquaculture, apparel from organic and recycled cotton, and bio-degradable cleaners.[49] Each provides market-based solutions to environmental problems.

The David Gold Foundation of San Francisco provides grants to young university-based scientists who are developing medical and environmental technologies. This effort is linked with private venture investments that bring the technologies to market, benefiting both the universities and the foundation.

Shareholder activity can add value to grantmaking. For instance, as a result of intervention by Noyes— on behalf of its grantee, the SouthWest Organizing Project (SWOP) in Albuquerque, New Mexico— Intel came to the table for discussion with SWOP, although it had previously refused such a meeting. Subsequently, Intel agreed to change its Environmental, Health and Safety Policy and to share information with communities. SWOP also earned respect within the state because of its role in the process.[50]

Another example is the William Casper Graustein Memorial Foundation, an organization that focuses on improving the effectiveness of education in Connecticut. This foundation engaged companies in its portfolio over issues of violence in the media. A number of other family foundations concerned with the environment, including the Wray Charitable Trust in Texas, the Utah-based Laird Norton Foundation, and the Weeden Foundation in New York, have co-filed shareholder resolutions on global warming, corporate environmental reporting, and other issues of concern to them. Almost 100 small foundations now regularly receive information about shareholder resolutions from the Foundation Partnership on Corporate Responsibility, which assists them in deciding how to vote their proxies in line with their philanthropic missions.[51]

Many foundations neither vote their proxies themselves nor direct their managers in the voting of proxies and, consequently, abrogate the

opportunity to let management know their program-related concerns. Interestingly, Taft-Hartley pension plans are required by law to vote their proxies in a manner that benefits pensioners and to report their votes**.** Proxies in this case are seen as assets, in addition to the underlying value of the stocks.

PLA.NNING AND IMPLEMENTING MISSION-RELATED INVESTING

Based on discussions with other foundations, Noyes has determined that four issues need to be addressed to move a foundation's investment policies and programs toward mission-related investing. Before exploring these four issues, the board must:

- First, identify areas of dissonance between its investments and grantmaking values; and .
- Second, evaluate its level of discomfort with this dissonance. Assuming some discomfort, the conversation can be directed toward exploring ways to minimize dissonance given the foundation's circumstances and its resolve.

Issues identified need not be constraints or barriers to change.

**Issue #1: The Culture of Finance**

Business schools do not teach students how to incorporate social, political, cultural, and environmental criteria into the investment decision-making process. Driven by short-term incentives, few investors see reasons to consider the long-term effects of harmful products and business practices. As Dee Hock, founder, president and CEO emeritus of Visa, observes:

> *Institutions that operate so as to capitalize all gain in the interests of the few, while socializing all loss to the detriment of the many, are ethically, socially and operationally unsound. Yet that is precisely what far too many corporations demand and far too many societies tolerate. It must change.*[52]

Some years ago financial analysts in London were surveyed about the way they brought environmental considerations into their analysis.

Despite evidence that good environmental performance can increase shareholder value most viewed the protection of the environment an ethical and moral issue and, therefore, not relevant to their financial analysis. This survey underscores the market's inattention to so-called "externalities." A more recent study found an overall insignificant capital market response to a sample of 98 negative environmental events in which electric power companies or oil firms were involved (as reported in *The Wall Street Journal* between 1970 and 1992).[53]

These examples underline the sensitivity needed in raising the issue of mission-related investment with a finance committee. This point is especially important in circumstances when finance committee members are advisors, not board members. As a rule, such advisors are often unfamiliar with the foundation's programs and values.

**Issue #2**: **Board Politics**

Board politics is not a subject often addressed in the philanthropic literature. Still, anyone who has worked in or around philanthropy is no stranger to the subject. Whether the issue intensifies when "family" is added to the mix is an empirical question, although many would suggest that it does.

Experience suggests that a committed board member, who is willing to champion the issue of mission-related investment and work until there is resolution, is essential. That member must have the respect of other board members, be well informed on the issues, and be willing to use his or her political capital within the institution to make things happen. The problem of not having such an individual is illustrated by a large family foundation whose executive director had a strong commitment to aligning grantmaking and investment strategies. When the executive director wanted to move forward with the concept, the board chair —a professional in the financial industry—directed that the matter was not to be raised at a board meeting.

**Issue #3. Underlying Financial and Economic Assumptions and Culture**

MIT economist Paul Krugman once observed that "simplistic ideas of

economics often become badges of identity for groups of like-minded people, who repeat certain phrases to each other, and eventually mistake repetition for truth."[54] The same may be said for finance, especially around the topic of socially responsive or mission related investing.

Economics, which defines the rules of the game, also sets constraints on the discussion. Consider, for example, the convention that the environment is an "externality;" that the "commons"—our shared heritage of air, land and water—is not "valued"; that equity as an issue of justice is not found in the index of economic texts; and that the future is to be discounted. This world-view further constrains the discussion of mission investing.

**Issue #4. Time**

Mission-related investing takes time. If the process is defined as adding value to grants and program rather than simply spending more time on finance, however, the time spent is justifiable. At Noyes, much of the mission-related investing, especially the shareholder activity, is seen as a program rather than financial activity.

Time is needed to determine which screens are most appropriate to a foundation's mission, and which advocacy strategies will advance the foundation's goals. If the portfolio is to be actively managed, it takes some time to review portfolio constraints with the manager and to determine if the companies held still reflect foundation goals. If the manager is professionally involved in social investing, this process is relatively easy. If the manager is not a social investment professional, more time may be needed because he or she may be less sensitive to the social issues impacting the corporations.[55]

Finally, time is needed to develop and review proxy guidelines. If undertaken internally, voting proxies may also require significant amounts of time. Monitoring how managers vote the foundation's proxies will take additional time, although, once again, if the manager is professionally involved in social investment, less time will be needed to oversee proxy voting.[56] Letter writing, engagement with management, and/or filing shareholder resolutions will require substantial commitments of time and perhaps additional budget resources.

## SUMMING UP

According to the Council on Foundations' Management Survey, fewer than 20 percent of family foundations currently screen their portfolios.[57] Much of the screening may reflect a singular concern, such as tobacco, which is quite prevalent among health funders. An informal survey of environmental grantmakers done by Noyes and the Interfaith Center on Corporate Responsibility in 1995, suggests that perhaps as many as 25 percent of these foundations screen at least some portion of their investment portfolios.[58]

Data on proxy voting are not available. During the 1999 proxy season, however, 10 foundations co-filed and two foundations filed shareholder resolutions. They were all family foundations. It is clear that some progress has been made when these admittedly small numbers are measured against the fact that the first foundation-initiated shareholder resolution was filed in 1994 by Noyes. The number of foundations doing mission-related venture capital is also very small, but again it is family foundations that are doing it.

Mission-related investing is not a "one size fits all" activity nor does it require one to implement all four legs. Some foundations may choose to screen all or part of their investments while they develop a comfort level with the activity. Others may choose to direct their attention to voting proxies and engaging corporate management in a variety of ways. Still others may choose community investment or focus on mission-related venture capital with part of their assets. The best approaches are those that support the mission-goals of the foundation and the skill sets of foundation board members.

It has been suggested that the obscure takes a while to see, the obvious takes even longer. The philosopher Schopenhauer believed that all truth passes through three stages: first it is ridiculed; second it is violently opposed; and third, it is accepted as being self-evident. For many foundations, mission-related investing appears to be somewhere between stages one and two. For the Noyes Foundation, which has begun to see the fruits of its efforts, mission-related investing is becoming self-evident—part of what the foundation is and what it does. The foundation

would be delighted to assist other foundations and share the excitement of its journey to Schopenhauer's third stage for mission-related investing.

**Chapter IX**

32 For further information about the Noyes Foundation, its programs, and its mission-related investment activities, please visit the foundation web site at www.noyes.org, or write for a copy of the foundation's annual report.

33 Mission-related investing is the term the Noyes Foundation coined to describe efforts to reduce the dissonance between investments and philanthropic activities. This term was chosen over the more generic terms, socially responsive and socially responsible investing, because it describes better the focused approach to investing employed by the foundation.

34 See Appendix D, "Jessie Smith Noyes Foundation Investment Policy."

35 Noyes Foundation investment policy allows for up to 30 percent of assets to be invested in nonscreened investments either for purposes of shareholder activity, or asset allocation where screened asset classes do not exist, such as hedge funds.

36 For example, is it a coincidence that in 1992, 230 times more toxic waste was emitted in neighborhoods near the plants of the 50 largest industrial toxic polluters than in the communities where the chief officers of those companies reside, 70 percent of which show no evidence of toxic emissions from industrial facilities? (Citizens Fund, 1992)

37 For further discussion of some of these issues see Stephen Viederman and Edward Tasch, "Dissonance, Responsibility, and Corporate Culture Or, How Two Camps Struggle for Our Hearts and Minds and What We Can Do About It," *Jessie Smith Noyes Foundation Annual Report,* 1994, pp. 5-10, (Also available at www.noyes.org/94essay.htm) and Edward Tasch and Stephen Viederman, "New Concepts of Fiduciary Responsibility," in *Steering Business Towards Sustainability:* United Nations University Press, 1995, pp. 125-141. (Also available at www.noyes.org/concepts.htm.)

38 W. B. McKeown, "On Being True to Your Mission: Social Investments for Endowments." *Journal of Investing* Vol. 6, no. 4 (Winter 1997), pp. 71-78.

39 It is important to observe that, in its original meaning, to be prudent is to be farseeing. This sense of the term is lost in the more modem usage, which implies looking backward.

40 See the Restatement of the Law Third, Trusts, section 227, as quoted in Mark Dowie. "Passive, Dissonant or Making a Difference: Which Way for Foundation Investing?" *Financial Markets and Society*. Philomont, Va.: Financial Markets Center, 1998.

41 Lewis D. Solomon and Karen C. Coe. "Social Investments by Nonprofit Corporations and Charitable Trusts: A Legal and Business Primer for Foundation Managers and Other Nonprofit Fiduciaries." *UMKC Law Review* Vol.. 66, no. 2 (Winter 1997), pp. 213-250; and Lewis D. Solomon and Karen C. Coe. "The Legal Aspects of Social Investing by Non-Profit Fiduciaries,"*Journal of Investing* Vol. 6, no. 4 (Winter 1997), pp. 112-119.

42 John B. Guerard. "Additional Evidence on the Cost of Being Socially Responsible in Investing." *Journal of Investing* Vol. 6, no. 4 (Winter 1997): pp. 31-36; see also Lloyd Kurtz. "No Effect, or No Net Effect? Studies on Socially Responsible Investing," *Journal of Investing,* Vol. 6, no. 4 (Winter 1997), pp. 37-49.

43 For a more complete discussion of the financial performance of screened portfolios, see *Journal of Investing* Vol. 6, no. 4 (Winter 1997) and Brian R. Bruce, ed. *The Investment Research Guide to Socially Responsible Investment*, Colloquium on Socially Responsible Investing, Plano, TX: Investment Research Forums, 1998, which provide a compendium of some of the most relevant research.

44 Hal Brill, et. al., *Investing With Your Values*. Princeton, NJ: Bloomberg Press, 1999: pp. 56-7.

45 Curtis Verschoor. "Internal Control: A Weapon in the War Against Fraud." *Director's Monthly*. February 1999: p. 7. Washington, DC: National Association of Corporate Directors.

46 Frank J. Travers. "Socially Responsible Investing on a Global Basis: Mixing Money and Morality Outside the U.S." *Journal of Investing*

Vol. 6, no. 4 (Winter 1997): 50-56. For example, the Walden International Social Index, the first international screened index fund, outperformed the MCSI EAFE Index by 2.7 percent from its inception in June 1998 through the first quarter of 1999.

47 Louis D'Antonio, Tommi Johnsen, and R. Bruce Hutton. "Expanding Socially Screened Portfolios: An Attribution Analysis of Bond Performance," *Journal of Investing*, Vol. 6, no. 4 (Winter 1997): pp. 79-86.

48 "Foundation Grants and Investments on Opposite Sides of Global Warming Debates," *Climate Change Report*, April 29, 1998, Vol. 1, no. 2: pp. 1-6. This report noted that all of the large funders of global warming activities held stocks of the major producers of global warming chemicals, yet none had engaged these corporations in discussions of the issues, nor would any discuss this dissonance with the reporter.

49 See the *Noyes Foundation Annual Report,* available by mail or through the foundation web site, www.noyes.org/97altern.htm, for the up-to-date list of alternative investments.

50 See Stephen Viederman. "Shareholder Activity and Community Organizing." *1997 Annual Report, Jessie Smith Noyes Foundation* (available at www.noyes.org/97pres.htm) and Stephen Viederman. "Adding Value to Your Grants," *Foundation News & Commentary*, January/February 1997: p. 68 (also available through the foundation web site). The issues of concern to the Southwest Organizing Project are reflected in its report, *Intel Inside New Mexico*, Albuquerque, New Mexico, Southwest Organizing Project, 1995.

51 The Foundation Partnership on Corporate Responsibility is a joint project of the Noyes Foundation and the Interfaith Center on Corporate Responsibility, which has for more than 30 years represented religious institutional investors that use shareholder activities to pursue their social concerns on global finance, militarism, international health (including tobacco), global corporate accountability, equality, and energy and the environment. For further information contact: Tim Smith, FPCR, 475 Riverside Drive, New York, NY 10115; 212 870 2295; fax 212 870 2023; info@iccr.org.

52 Personal communication with Stephen Viederman, January 13, 1998.

53 Kari Jones and Paul Rubin. "Effects of Harmful Events on Reputations of Firms." April 1999. Department of Economics, Emory University, (www.service.emory.edu/-cozden/ruben 99 26 paper.pdf).

54 *The Economist*, August 31, 1996: p. 19.

55 Noyes held shares of Potash of Saskatchewan, which is a naturally available substance necessary for agriculture, in its portfolio. When the foundation read that the company had acquired a chemical nitrogen fertilizer plant, its screen manager and Noyes agreed to sell the shares because the corporation no longer supported low-input agriculture. A portfolio manager who is not sensitive to these issues probably would not have noticed this, or would have reacted positively assuming that combining the sale of both potash and nitrogen fertilized would be more efficient.

56 The time required for these activities can be greatly reduced as the substantive background on the proxy issues can be obtained from the FPCR (see note 20). Currently, FPCR service is free to foundations. Other entities that can assist include the IRRC and Proxy Monitor, both of which charge for proxy voting information and services.

57 Data from the Management Survey should be interpreted with caution because it only reflects the experiences of members of the Council on Foundations who respond to the survey. No effort is made to normalize the data to the foundation community as a whole.

58 These data should also be interpreted with caution. A brief report is available from the Noyes Foundation.

## CHAPTER IX THINKING ABOUT MISSION-RELATED INVESTING

Brody, Weiser, and Matthew McCreight. "Alternatives for Socially Responsible Investing." Social *Venture Network,* July 1992. Outlines a variety of investment options that address social needs from pure philanthropy to profit maximizing capitalism

Bruce, Brian R., ed. The *Investment Research Guide to Socially Responsible Investment* Plano, TX: Colloquium on Socially Responsible Investing, Investment Research Forums, 1998.

Dowie, Mark. "Passive, Dissonant or Making a Difference: Which Way for Foundation Investing?" *Financial Market and Society.* Philomont, Va.: Financial Markets Center, 1998. Argues that through socially responsible investing foundations possess potential for thoughtful investor strategies that broadly benefit society.

Guerard, John B. "Additional Evidence on the Cost of Being Socially Responsible in Investing." *Journal of Investing,* Vol. 6, no. 4 (Winter 1997): pp. 31-36. Demonstrates that manager selection and stock picking, rather than social and environmental screens, account for differences between screened and non-screened portfolios.

Kurtz, Lloyd. "No Effect, or No Net Effect? Studies on Socially Responsible Investing." *Journal of Investing,* Vol. 6, no. 4 (Winter 1997), pp. 37-49. Demonstrates that manager selection and stock picking, rather than social and environmental screens, account for differences between screened and non-screened portfolios.

Massarsky, Cynthia W, and Loren Renz. *Program-Related Investments: A Guide to Funders and Trends.* New York: Foundation Center, 1995. Study of program-related investments at foundations across the country.

Nylen, Robert. "Henry Corning's Best Intentions: One Man's Trek Through the Social Side of Venture Capital." *The American Benefactor,* Summer 1998: pp. 62-66. Provides a look at one philanthropist's history of social investing.

*Program Related Investment Primer.* Washington, D.C.: Council on Foundations, 1993. Guidelines for foundations considering their first program-related investment.

Tasch, Edward and Stephen Viederman. "New Concepts of Fiduciary Responsibility," in *Steering Business Towards Sustainability:* United Nations University Press, 1995, pp. 125-141. Argues that new notions of prudence and fiduciary responsibility need to include concern for the impact of commercial activity on the environment and local communities.

Van Dyck, Thomas. "Do the Math." *Foundation News & Commentary,* May/June 1998: pp. 22-24. Dispels the "myth" that foundations have to sacrifice return to keep investment goals consistent with grantmaking goals.

Viederman, Stephen. "Adding Value to Your Grants." *Foundation News & Commentary,* January/February 1997: pp. 65-66, 68. Illustrates how being an active shareholder can add value to the work being done with one's grantmaking dollars.

Viederman, Stephen and Edward Tasch. "Dissonance, Responsibility, and Corporate Culture Or, How Two Camps Struggle for Our Hearts and Minds and What We Can Do About It." *Jessie Smith Noyes Foundation Annual Report*, 1994, pp. 5-10. Describes foundation's beginning efforts to align its philanthropic mission and its investment activities.

Williams, Roger M. "Yang, Meet Yin." *Foundation News & Commentary.* January/February 1998: pp. 18-23. Discusses new research that show socially responsible investing does not necessarily penalize returns and addressing new thinking on whether social investing is worthwhile even if it does decrease returns.

*The authors*

Stephen Viederman will retire as President of the Jessie Smith Noyes Foundation at the end of March 2000, after 14 years. The Foundation supports organizing and advocacy at the intersections of environment, reproductive rights, community and social justice. It has been a leader in mission-related investing, seeking to redefine fiduciary responsibility by reducing the dissonance between its asset management and grantmaking. He will continue working on these issues and can be reached, after March 31, 2000, at 135 East 83rd Street, 15A, New York, N.Y. 10028, s.viederman@gmail.com, 212 639 9497

Miriam Ballert, Chair of the Foundation's Finance Committee, is the Vice President of a large financial services organization that serves foundations, endowments and other institutional clients.

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