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Foundations and Mission-Related Investing

By Stephen Viederman[1]

All investments have effects. That is a simple fact. If, however, you were to ask your personal money manager, or the people who have fiduciary responsibility for your pension fund, or your church's endowment, or other institutional investors like the trustees of foundations and of educational institutions you would be hard pressed to find someone who considers it important to consider these effects in the investment process. For example, some years ago London financial analysts were asked about the environment and their responsibilities. The majority reported that the environment was a moral and ethical issue and, therefore, not relevant to their work.

The president of a subsidiary of BP Amoco observed in an article in the *Wall Street Journal* in March 2000 that the environment was on the table at every corporate boardroom discussion. The public cares about the environment, and a well-governed company pays attention to its shareholders and its customers. An effort to be more environmentally sensitive has become for many companies a part of their license to operate. The corporate boardrooms of America are considering the environment as a business issue; as a way of reducing costs by reducing waste; and as a source of new opportunities for new products and services. They also believe that trying to be good stewards enhances their reputation. Why is it, therefore, that most money managers and institutional investors continue investing the old-fashioned way, largely oblivious to the social and environmental consequences of their investments?

For more than a decade I have been engaged in efforts to help social institutions, especially philanthropic foundations, reduce the dissonance between the ways they invest their endowments, and the social purposes those endowments serve. The results have been sobering. Fiduciaries are supposed to act as prudent persons, under the law. The original meaning of the word *prudent* is farseeing. But these fiduciaries look backward through rear-view mirrors at the past, rather than through the windshield to the future.

The Jessie Smith Noyes Foundation, from which I retired as president in March 2000, is one of a very small number of foundations that align

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their investment practices with their philanthropic purposes. The foundation, with assets of about $90 million, supports community organizing and advocacy on issues of the environment and reproductive rights. Particular attention is paid to the intersections between these issues and economic and social justice. We coined the term "mission-related investing" to describe our efforts.

The discussion began in earnest in the early 1990s when new finance Committee members joined the board. They were people skilled in financial matters who shared the values of the foundation, and who were committed to exploring ways that the foundation's endowment could be used as an instrument of change in addition to making grants. The discussions that ensued required that all of the board members, not just the members Of the finance committee, become knowledgeable about investment issues, To ensure that the links between program and investment were made, and so that the board as a whole could exercise its fiduciary responsibility. English rather than "financese" became the lingua franca.

The program that emerged was like a stool with three legs: screening, shareholder activity, and mission-related venture capital.

Screening

The first board effort to define screens left us with a long list of concerns on newsprint pasted on the wall of the boardroom. A cursory review of the cumulative concerns of the individual members of the board suggested that there was nothing publicly traded that the foundation might hold in its portfolio. As individuals the concerns of the members of the board were comprehensive.

Further discussion led to a set of positive and negative screens around the environment and women's issues, reflecting the foundation's programs and its mission. Both the equity and fixed-income portfolios were invested with managers who had long experience in screening investment portfolios. The financial rates of return for the decade were competitive. As Peter Camejo argues, there was no reason to accept lower rates of return, nor did we receive lower rates of return. In fact, the foundation believes there was some outperformance in comparison to benchmarks.

Does screening make a difference? Since most trading is in secondary markets, inclusion or exclusion of a particular stock is not likely to have much, if any effect on the cost of capital to a company. The research efforts of organizations such as KLD, CEP, and IRRC in the 1990s to identify the social and environmental impacts of corporate behavior did raise awareness of these issues. This does in part explain the greater attention to social and environmental reporting we now see. But until very recently, the argument for screening was largely to maintain a sense of personal or institutional integrity.

Recently, however, there is some admittedly anecdotal evidence that

screening is making a difference. Innovest Strategic Value Advisors provides information to the financial world on the environmental performance and management capacities of corporations, and has recently been approached by CEOs of a number Fortune 100 companies asking what they needed to do to obtain higher Innovest ratings. Some of the other organizations that provide ratings of companies, including KLD, report similar approaches.

It is striking, however, how few institutional investors see screening as a fiduciary responsibility, even when they are informed that there is no cost in terms of return, or, as Peter Camejo suggests, there may even be some outperformance. Though data are hard to obtain, the best estimates suggest that fewer than 15 percent of foundations screen any part of their portfolios, and much of that screening involves only tobacco. But even most health funders do *not* screen for tobacco, despite the fact that it causes 10,000 deaths per day worldwide when "used according to manufacturer's instructions," and that continuing to hold the stock costs the funds hundreds of thousands of dollars in lost net asset value. Funders that support efforts to expand human rights around the world do not consider the human rights records of the companies in their portfolios. Most Environmental philanthropies and nonprofts passively hold stock in some of the very companies that their grants and campaigns are directed against. The firewall between investments and grantmaking or program seems almost impenetrable. These groups tell the world to be aware of a particular problem or issue, but they are in denial about ways that they can use their assets to further their programmatic goals.

Screening is, of course, not the only way for an institution to use its portfolio in support of program. It can hold the stock in a company whose behavior it finds egregious and become an active shareholder. Many religious orders and a few pension funds and foundations, including Noyes, have chosen to follow this route with portions of their portfolios. This admittedly requires an expenditure of time but can be very effective.

Shareholder Activity

The foundation's managers had always voted the foundation's proxies. But the decision was made in the 1990s that the foundation had to take on the responsibility directly. It had to inform itself about the issues and vote according to its mission. The foundation could not be a passive bystander.

In 1993 the SouthWest Organizing Project (SWOP) prepared a report on Intel's expansion in New Mexico fueled by huge state financial incentives. SWOP argued that the returns for the people were minimal, while the costs were considerable. Intel refused to talk with SWOP, a community organization in Albuquerque. Noyes discovered it held Intel stock (all of 100 shares) and asked SWOP how it, as a shareholder, could help them, as stakeholders. When Intel failed to respond to our request for them to meet with the community, Noyes filed a shareholder resolution to be voted in 1995, asking the company to change its Environmental, Health and Safety

(EHS) Policy, committing them to share information and be responsible to the community. This brought Intel to the table with SWOP on the issues of their concern, and with the foundation on issues of transparency and accountability. The first resolution received enough support from stockholders to make it possible for Noyes to refile our resolution the next year, which the foundation did, while discussions continued. However, in December 1995 Intel proposed an acceptable revision of its EHS Policy, and the resolution was withdrawn. The process strengthened the hand of SWOP in their negotiations and gained them greater standing in the state. It demonstrated conclusively that a foundation could add value to its grants through shareholder activity.

In order to encourage other foundations to become more involved shareholders, Noyes collaborated with the Interfaith Center on Corporate Responsibility (ICCR) to form the Foundation Partnership on Corporate Responsibility. ICCR's thirty-year history of social shareholder activity and experience is now available to foundations. In 1999 a dozen foundations cofiled shareholder resolutions. Though a seemingly small number, it is a significant increase over just a few years earlier, when the number was zero. Now about 150 foundations receive information to guide their proxy voting. Again, that is a small number compared with the tens of thousands of foundations — but it is a beginning.

Mission-Related Venture Capital

The third leg of Noyes' investment stool is mission-related venture capital. Setting up its own partnership, the foundation sought investments in young companies that provided commercial solutions to the problems that the foundation supported through its grantmaking. A good example of the venture capital investments is Stony field Farm. Based in New Hampshire, Stonyfield produces yogurt that is organic and/or made from milk from family farms that follow sustainable agricultural practices. Since the foundation has a major grantmaking program in sustainable agriculture, the investment and the grants are supportive.

If We're So Smart, Why Aren't Others?

William McKeown, a leading lawyer specializing on nonprofits and foundations, suggests that foundations and nonprofit groups may not be fulfilling their fiduciary responsibility if they do not consider the consequences of their investments on their missions. Even if the boards of these organizations groups felt that their only responsibility was to maximize their returns, they would have to consider social or mission-related investing, as Peter Camejo shows. The financial performance of social funds has demonstrated over the last five and more years that taking into account the social and environmental consequences of an investment is an important adjunct to financial analysis.

There are a number of reasons, based upon almost a decade of work in

this area, that I believe keep the finance committees and boards of institutions from considering social investing.

The culture and psychology of finance focuses on a single bottom line, which is what members of the committees have been trained to do. Furthermore, their institutional connection is secondary to their primary occupational role, and "being social" may raise issues in that portion of their life. Citizenship in corporate life, all too often, seems to be exercised in the evenings and on weekends, like going to the gym. Consultants and other gatekeepers reinforce this culture. Within the institutions, finance staff claim it is not part of their job description, nor do they have the core competencies.

The politics of boards must be accounted for. Experience suggests that there must be a strong advocate, knowledgeable and committed and willing to give up some of her political capital, is necessary for action to be taken. Interest alone is not sufficient.

Intellectually what is taught in economics departments and business schools discourages thinking about mission-related investing. The environment is considered an externality. The dollar is discounted, thus placing less value on the future than on the present. Equity is ownership, not justice. Any effort to reduce the opportunity set of a portfolio is considered a drag on financial performance, even though no one holds the entire market.

Legal impediments are assumed to exist, even though the best legal advice argues that if fiduciaries follow generally accepted rules of due diligence, no legal barriers prohibit them from practicing mission-related investing.

"We aren't big enough to make a difference" is a lament often heard¸— even from foundations with many billions of dollars in assets.

Is the Glass Half-Full or Half-Empty?

As an impatient person, I wish that I could report a groundswell of enthusiasm for mission-related investment among institutions. Yes, we are much further along than we were a decade or even five years ago. The subject is at least becoming part of the agenda. I have spoken at many conferences of trustees and staff of foundations and endowments with more people expressing great interest and follow up. Trade associations at state and national levels are putting the issue on the agenda, often for the first time. The press has become interested with articles appearing, for example, in the *New York Times* (June 11, 2000) and the *San Jose* (California) *Mercury* (June 23, 2000). Students for the Reform of Corporations is very active on campuses. While some higher educational institutions remain obstinate even on tobacco, Columbia University has, for example, formed an advisory committee to its trustees on social investing. Contra Costa County's pension fund is leading the way in California, joining a few other funds

like the New York City pension fund.

It has been suggested that the obscure takes a while to see, the obvious even longer. 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 most institutional investors, social investing is somewhere between stage one and two. All in all, there is reason for hope despite a there being long row to hoe. But the journey has begun.