

NCRP STAFF

Aaron Dorfman
Executive Director

Kevin Faria
Development Director

Niki Jagpal
Research & Policy Director

Kourtney Ginn
Field Assistant

Kevin Laskowski
Senior Research & Policy Associate

Anna Kristina ("Yna") C. Moore
Communications Director

Gabrielle McCaffrey
Communications Assistant

Dan Petegorsky
Senior Fellow

Lisa Raghelli
Director of Foundation Assessment

Christine Reeves
Senior Field Associate

Beverly Samuda-Wylder
Senior Administrative Associate



Responsive Philanthropy is the quarterly journal of the National Committee for Responsive Philanthropy.

2013, Issue No. 4
Yearly subscription: \$25
(free to members)
ISBN: 1065-0008

© 2014 All rights reserved.
National Committee for
Responsive Philanthropy
1331 H Street NW, Suite 200
Washington, DC 20005
Phone 202.387.9177
Fax 202.332.5084
E-mail: info@ncrp.org

Blending Mission, Values, Fiduciary Duty and Investments

By Timothy Smith

For decades, a small number of foundations put their mission and grant-giving priorities on the table simultaneously with their investment portfolio as they sought ways to “invest with integrity” or have their investments help to advance their grantmaking priorities.

No one formula or “secret sauce” allows a foundation to exercise its mission-related investment (MRI) commitment. Rather, the foundation and its board must determine its best route. Also, motivations vary for different foundations:

- Acting with integrity: A foundation dedicated to health is unlikely to invest in tobacco companies, just as a leader in environmental grant giving would not invest in a major polluter.
- Advancing grant-giving priori-

ties: Another foundation, focused on economic justice issues, may decide to invest in program-related investments (PRI) or economically targeted investments (ETI) that provide empowerment to the poor. Others decide to promote issues consistent with their grant giving.

- Acting as a prudent fiduciary: All foundations obviously should seek to invest in ways that are consistent with their fiduciary duty. Many foundations are rethinking what this responsibility means in light of rapidly changing markets.

So, what are examples of ways in which foundations can translate their desire to be a mission-related investor into reality?



1. Voting proxies. Since the proxy is considered an “asset,” it is arguably a foundation’s responsibility to ensure that its proxies are voted thoughtfully. Many proxy votes allow investors to protect their economic interests as shareowners. But voting proxies also allows a foundation to speak clearly to companies they “own” through their shareholdings about issues of concern like climate change, diversity or sweatshops.

2. Being an active shareowner. Many foundations, such as the Nathan Cummings Foundation, the Needmor Fund and the Christopher Reynolds Foundation, are active leaders as shareholders and work with other investors to expand their reach and impact.

For example, they sign investor statements and open letters to companies on issues like climate or the tragedy in Bangladesh, citing the responsibilities of clothing companies that source from factories in Bangladesh. They also file shareholder resolutions to stimulate changes in company policies and practices and engage with these companies’ management or attend stockholder meetings.

Some foundations choose active engagement through their stock holdings to promote change, and they can cite examples of how such advocacy precipitated changes.

Other foundations believe it is important to “screen out” companies they believe conflict with their values or grant-giving priorities. For example, the debate about fossil fuel divestment has led some foundations to avoid owning stock in 200 fossil fuel companies. Others avoid investments in coal companies or companies with egregious records producing greenhouse gases.

And, as noted, some choose not to invest in tobacco companies,

MRI is not only

consistent with

fiduciary duty but

is a duty

of a fiduciary.

handgun manufacturers or major defense contractors. There are no “right” or “best” screens but a foundation certainly can decide if and how it wishes to filter out certain types of companies.

3. Community development investing (CDI), PRIs and impact investing.

There is a new energy in the foundation community around impact investing or targeting parts of a portfolio to have a positive impact on such problems as poverty in Kenya or environmental sustainability in Peru.

This often requires willingness to use a private equity route to support impactful development projects. The investment risk may be higher but the possibility of being able to measure a distinct change is very appealing.

Likewise, CDI’s offer opportunities to invest in social change, whether in South Africa or the South Bronx. CDI’s often are fixed income vehicles making modest (1–3 per-

cent) returns, but with a strong “social dividend.” Foundations often set aside a designated portion of their portfolio for such purposes.

Other foundations, such as the Ford Foundation, have done PRIs for decades, often linking the investment to an organization with which it had a strong grant relationship.

PRACTICING FIDUCIARY DUTY

In the past, a traditional response by some foundation trustees was that engaging in mission-related investing would violate their fiduciary duty. But from another view, one could argue that MRI is not only consistent with fiduciary duty but is a duty of a fiduciary.

Here is how the context has changed. The Principles for Responsible Investment presently have global investors with approximately \$35 trillion of assets under management (AUM) who declare that environmental, social and governance (ESG) issues must be considered in the investment process because they impact shareholder value.

They say these are not fringe issues but actively affect the portfolio’s worth, and that a foundation investment committee is acting responsibly by ensuring that its investment managers evaluate ESG factors. In addition, nonprofit directors have another fiduciary duty: one of obedience to the organization’s charitable mission and purpose.

Thus, fiduciary duty should not be an excuse for inaction but a motivating force for MRI.

This is a fascinating time for this debate in the foundation community. There is new energy and numerous new examples of foundation leadership in MRI well-worth watching. ■

Timothy Smith is director of environmental, social and governance shareholder engagement at Walden Asset Management, a leader in sustainable and responsible investing.