Mobilizing Assets, Multiplying Impact:

Fully Leveraging Philanthropic Capital for Environmental Change

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The foundation community is currently undergoing a sea change in the way it uses philanthropic capital to advance charitable goals. Consider:

- Recent research from FSG Social Impact advisors, a philanthropy consulting firm, identified some $2.3 billion in what it described as "proactive" or "strategic" mission investments made by more than 90 foundations surveyed in 2007;
- According to the *Chronicle of Philanthropy,* more than one-quarter of the top 50 largest foundations incorporate at least one social or environmental factor into endowment management;
- The Social Investment Forum has documented more than $57 billion in foundation endowment assets that were screened according to at least one social or environmental issue;
- The Forum also identified nearly 20 foundations that filed or co-filed a shareholder resolution on a social or environmental issue during 2005-2007; collectively, they control $1.5 billion in investment assets.

Increasingly, foundation officers, trustees, and program officers are reexamining the assets at their disposal and considering how to deploy them as deliberately as they can. In addition to making grants for environmental programs, many foundations have mobilized financing through program-related investments (PRIs; *see definition, page 7*), and many members of the Environmental Grantmakers Association are already leading the way in developing and executing creative, more fully leveraged philanthropic strategies, from investing in "double-bottom-line" enterprises and intermediaries that produce both financial and environmental returns to actively voting proxies in companies they own, filing shareholder resolutions, and joining with other shareholders in investor coalitions and networks of mutual concern.

Although financial markets have recently suffered from the turmoil of the sub-prime lending crisis and record-high oil prices, capital markets have also seen an unprecedented wave of innovation in environmental and social investing over the last several years. New investment products, services, and vehicles are seeking to capture opportunities presented by environmental issues while mitigating the financial risks posed by environmental liabilities. Investment managers and consultants are developing the capacity to incorporate environmental, social and corporate-governance (ESG) factors into investment analysis because they recognize them as long-term fiduciary issues.

Foundations with environmental programs thus find themselves poised to take unprecedented advantage of this emerging landscape of experimentation and innovation within both philanthropy and finance. By more actively mobilizing their assets in these ways, foundations can use untapped endowment resources to take on specific environmental issues that reinforce or extend the reach of their grantmaking activities. And far from compromising financial responsibility, institutional investors are finding, mission-aligned environmental investing strategies can help strengthen the long-term stewardship of assets.

Finding More for Mission

Quantifying the leverage that EGA members currently wield to produce environmental impact remains a challenge. EGA's own efforts to "track the field" of environmental grantmaking has identified approximately $200 billion in EGA-member endowments, which constitutes around one-third of the more than $615 billion in assets held in all US-based foundation endowments. EGA members pay out nearly $697 million in grants for environmental programs each year, a rate that many worry simply pales beside today's environmental challenges. (For comparison, in the wider US philanthropic community, around $39 billion was paid out in grants in 2006, the most recent year documented by the Foundation Center.)

Last year at the Council of Foundations meeting in Seattle, several foundations involved in mission-related investing issued an unprecedented challenge to the foundation community to dedicate 2 percent of endowment assets to investments that produce social outcomes in support of philanthropic missions. Lead by the Annie E. Casey Foundation, the F. B. Heron Foundation, and the Meyer Memorial Trust, the "Two Percent for Mission" challenge seeks to mobilize more than $10 billion of philanthropic capital into mission investments over the next five years. Several environmental grantmakers including the Gaylord & Dorothy Donnelley Foundation, Needmor Fund, Russell Family Foundation, and Tides Foundation have joined the initiative, along with an expanding group of more than a dozen other foundations with more than $18 billion in combined investment assets. If EGA members were to join the campaign and commit at least 2 percent of endowment assets to mission, $4 billion in capital could be rapidly channeled into this growing area.

Exploring Opportunities, Reinventing Portfolios

Whatever percentage grantmakers choose to devote, they can take advantage of the recent growth of environmental investing opportunities in the capital markets. Last year, the Social Investment Forum documented $45 billion in total net assets managed with explicit environmental criteria in 146 different investment vehicles spanning a variety of investment companies and asset classes, from mutual funds to exchange-traded funds (ETFs) to alternative investment funds. By 2007 environmentally oriented ETFs managed more than $2 billion in total net assets, tracking indices focused on issues such as climate change, renewable and alternative energy, clean and green technology, and environmental and water resource management.

One of the fastest growing areas in environmental investing is in alternative asset classes such as private equity and venture capital, hedge funds, and responsible real estate funds. The Social Investment Forum identified nearly $5 billion in capital raised through approximately 40 different US-based alternative investment vehicles incorporating a variety of

The growing demand for wind power offers green investment opportunities.

environmental issues into their portfolios. According to the Sustainable Energy Finance Initiative of the United Nations Environment Programme (UNEP), global investment in sustainable energy broke all previous records in 2007, with $148.4 billion of new money raised.

According to David Wood, director of the Institute for Responsible Investment (IRI) at Boston College's Center for Corporate Citizenship, the climate crisis has created new environmental investing opportunities. "Investors have become increasingly sensitive to the risks and opportunities that climate change brings to their entire portfolio," he said. "New strategies are evolving, from environmental banking, to green and transit-oriented real estate development, to careful consideration of the carbon implications of infrastructure investments."

Global investments in sustainable energy, such as solar power (above) broke all previous records in 2007.

Tackling Climate Change

One of the most ambitious recent efforts to leverage investment assets to address the risks and opportunities of climate change is the Investor Network on Climate Risk (INCR), a project of the coalition Ceres. INCR was launched in 2003 at the first UN Investor Summit on Climate Risk with an action plan to promote enhanced disclosure and improved corporate governance practices. Initially a coalition of 10 institutional investors with $600 billion in total assets under management, it has since grown to a $5 trillion network of more than 60 investors, including six environmental grantmaking foundations. Nineteen foundations joined other institutional investors, state treasurers, and fiduciaries to convene the most recent UN Investor Summit on Climate Risk, which took place earlier this year, and 14 foundations have become signatories to INCR's Action Plan that emerged from the summit.

Not all INCR signatories necessarily leverage their assets according to the same blueprint. Some are actively committing portions of their endowment assets to the growing number of climate-related investment vehicles; others are voting their proxies actively on climate issues or engaging directly with companies they own. A small number of foundations, such as the Needmor Fund and the Nathan Cummings Foundation, have filed or co-filed shareholder resolutions on issues of concern. Indeed, the Needmor Fund, an Ohio-based family foundation of heirs to the founders of The Champion Spark Plug Company, addresses climate matters as part of a much more comprehensive mission-related investing policy, which incorporates a broad array of social and environmental screening criteria, avoiding poor environmental performers, divesting from nuclear power producers, and seeking investment opportunities in companies with positive environmental attributes.

The Impact of Active Ownership

The Nathan Cummings Foundation, a family foundation created by the founder of the Sara Lee Corporation with more than $560 billion in assets, established shareholder policies on proxy voting and resolution filing in 2002. As Lance E. Lindblom, President and CEO of the foundation, explained, "The foundation is an active shareholder, filing shareholder proposals on issues with implications for both societal well-being and long-term corporate profits. We don't view this approach as 'green' investing, but rather responsible investing." He added, "Our philosophy is that implementing policies to enhance energy efficiency, reduce greenhouse-gas emissions, or simply improve the way environmental issues are handled is good for long-term shareholder value. Rather than divest from a company that appears to be doing a poor job of addressing environmental issues—and leave a premium on the table for bad management—we use our standing as share holders to push for better disclosure and improved environmental, social and governance practices." Since 2003, the foundation has filed or co-filed more than 35 different resolutions on environmental issues, and in several cases obtained measurable changes in corporate disclosure policies or practices at companies such as Smithfield Foods, XTO Energy, and Apache Corporation.

> Shareholder resolutions have led to measurable changes in corporate disclosure policies and practices.

Indeed, the leverage that shareholders can exert highlights the vital role that proxy voting (see box, page 6) plays in the resolution process. Proxy votes are material assets, governed by fiduciary duty, so institutions have a responsibility to make sure their votes are cast prudently in ways that reflect their concerns as asset owners and investors. And proxy votes provide the most immediate way for investors to communicate their concerns about environmental, social, and governance issues to companies, and are one of the simplest ways for foundations to begin aligning mission with investments. Leading foundation shareholder advocates such as the As You Sow Foundation and the Jesse Smith Noyes Foundation have worked closely with Rockefeller Philanthropy Advisors to develop proxy voting resources designed specifically for foundations (see Resources, page 6).

More Power in Numbers

Finally, joining investor coalitions can give environmental foundations a front row seat on leading trends in responsible investing. For example, in addition to participating in INCR, they can join the Carbon Disclosure Project, a special project of Rockefeller Philanthropy Advisors that provides a nonprofit coordinating secretariat for more than 380 institutional investors with a combined $57 trillion of assets under management to gain information on the business risks and opportunities presented by climate change and greenhouse gas emissions from 3,000 of the world's largest companies. They can sign on to the United Nations Principles for Responsible Investment (UNPRI), sponsored by the UN Environment Programme and Global Compact, which provides voluntary and aspirational guidelines on incorporating environmental, social and governance issues into investment management, and gives signatories access to a growing global network of responsible institutional investors, investment managers, and ESG service providers. There is also the Investor Environmental Health Network (IEHN), a relatively new shareholder network for investors concerned about the financial and public health risks associated with toxic chemicals policies. Through direct dialogue and filing shareholder resolutions at corporations around the world, IEHN members encourage companies they own to adopt policies to reduce and eliminate toxic chemicals from their products in order to mitigate risks of litigation and enhance long-term shareholder value. The network is sponsored by an EGA member, The Rose Foundation for Communities and the Environment, as part of its Environmental Fiduciary Project. Many other groups are actively seeking new members.

Taking the Next Steps

For program officers and foundation executives who are interested in exploring the ways that mission-related investing and other more fully leveraged philanthropic strategies can expand the impact of their foundation's environmental work, the biggest barrier to breach is often the internal firewall erected between foundation programs and finances. Program staff will need to develop a greater comfort level with the concepts and tools of investing in order to address the fiduciary concerns of foundation trustees and finance officers. The examples and resources cited in this article and in Resources show the real potential benefits of leveraging foundation assets more fully for mission. And the time to do so is now. ■

RESOURCES

"Unlocking the Power of the Proxy: How Active Foundation Proxy Voting Can Protect Endowments and Boost Philanthropic Missions" (2004), available at www.asyousow. org/publications/powerproxy.pdf

"Managing the Risks and Opportunities of Climate Change: A Practical Toolkit for Investors" (2008), available at www.ceres.org/NETCOMMUNITY/Document.Doc?id=332

"Toxic Stock Syndrome: How Corporate Financial Reports Fail to Apprise Investors of the Risks of Product Recalls and Toxic Liabilities" (2008), available at www.iehn.org/documents/IEHN%20Toxic%20Stock%20Report%203-08.pdf

"Handbook on Responsible Investment Across Asset Classes"(2007), available at http://bcccc.net/index.cfm?fuseaction=document.showDocumentByID&nodeID=1&DocumentID=1170

"The New Passing Gear: Mission-Related Investing, A Policy and Implementation Guide for Foundation Trustees" (2008), available at http://rockpa.org/wp-content/uploads/2008/01/MRI.pdf

"Mission in the Marketplace: How Responsible Investing Can Strengthen the Fiduciary Oversight of Foundation Endowments and Enhance Philanthropic Missions" (2007), available at www.social-invest.org/pdf/research/Mission%20in%20Marketplace%20-%20Resource%20Guide.pdf

"Demystifying Responsible Investment Performance" (2007), available at www.unepfi.org/fileadmin/documents/Demystifying_Responsible_Investment_Performance.01.pdf

Investment Tools to Support Your Mission:

A Primer

Mobilizing assets is not a style of investing, like large-cap, small cap, value or growth. Rather, it is a way of looking at the investable universe to achieve long-term value. Consideration of the political, environmental, cultural, and social context in which all investments are made, and assessment of the risks and opportunities thus presented, are integrated with traditional financial analysis — resulting in insights to strengthen a portfolio over the long term.

Deciding to get involved is not an either/or decision. It is a process of finding your comfort level with the various investment tools available for harmonizing, to the extent possible, your philanthropic goals with your investment process. Some of the most promising tools include:

1. Community investment: Cash kept for administrative and grant expenses can be invested in community-development financial institutions (CDFI) that are federally insured, provide full liquidity, and offer rates of return competitive with commercial banks. These CDFIs can be found in your local community, or in communities in the United States and overseas in which you have grantmaking interests. Community investments may also be made at market rates as part of a fixed-income portfolio.
2. Shareholder activity: "Shareholder" implies a passive relationship between the investor and the company in which his or her money is invested. But the term carries with it the responsibilities of ownership. Shareholders thus have a responsibility to let their portfolio companies know how they feel about important environmental and social issues by voting their proxies and eventually co-filing and, perhaps, filing their own shareholder resolutions. These activities can be an especially powerful tool adding value to the grant where grantees are involved in corporate campaigns and where the foundation is seeking to change corporate behavior around general program areas.
3. Portfolio management: Equity and fixed-income investments are managed in a number of ways: active, passive, indexed, directly, or through mutual funds and other common funds. Over the last decades many foundations have harmonized their portfolios by screening out companies whose products, processes, and activities they find problematic and by creating portfolios of companies whose actions they believe to be positive, and/or portfolios that reflect the companies that are rated best-in-class in their economic sectors. More recently, special topic funds have reached the market, including The U.S. Community Investing Index, climate change funds, water funds, clean tech funds, and more. Combinations of these approaches are also possible, and many foundations start by investing a small portion of their portfolio in these areas, expanding as their comfort level increases.
4. Alternative investments: Private equity funds, venture funds, hedge funds, and real estate investments that integrate social as well as financial goals are available with special concerns for climate, water, real estate, forestry, and health, among other topic areas. Alternative investments invest in non-publicly traded companies at different stages of development. Just as they vary by subject, this type of investment varies by risk profile and fees (both higher). It is especially important to examine them closely to ensure their goals are similar to yours. For example, many "sustainable forestry" funds focus almost exclusively on the forests but do little to sustain communities adjacent to the forests in ways that add value for all.
5. Program-related investment (PRI): PRIs are below market and market-rate repayable loans that are charged to the grant budget—the 5 percent payout—rather than to the general endowment. Nevertheless, they are an important tool to add value to grantmaking where grantees and others cannot obtain loans from regular banks and other lending institutions.

All of the above investment tools are as applicable to small foundations as to large ones. Many believe that without a large endowment or large numbers of shares in companies for proxy voting their efforts are not likely to have an impact. Recall, however, the great anonymous philosopher who said: "If you think you are too small to make a difference, you have never been in bed with a mosquito."

—*Stephen Viederman*