

October 23, 2009

Mission Investing Draws Institutional Assets

by Whitney Kvasager

Foundations are showing growing interest in the young field known as mission-related investing. A new survey from mission investing advocate More for Mission shows that a small group of those investors now has about \$1.4 billion in combined mission-related investments.

Experts say the growth is sparked by the acknowledgement that such strategies can further foundations' causes and, in some cases, generate returns that beat the rest of the portfolio. A Cambridge Associates consultant says managers hoping to tap into foundations' interest in mission investing must clearly state how their products are constructed and how they measure the social impact.

Good investment returns are helping drive the interest in mission-related investing.

“Part of the interest that’s been generated is that foundations see this as a viable investment strategy,” says Lisa Hagerman, director of More for Mission. “As of year-end 2008, foundations were down 30% in some cases, and are now saying, ‘Let’s rethink our overall investment strategy.’ It’s opening up an opportunity for them to think about how they can use their funds for full impact.”

Mission-related investing is the practice of a foundation investing in areas that further its mission, such as an environmentally-focused foundation investing in green or clean-tech strategies. Mission-related investment portfolios can include market rate investments, below market rate investments, or a combination, and can be considered one type of socially responsible investment strategy, or SRI.

The More for Mission survey questioned 39 foundations with combined assets of \$26.6 billion in 2008, including the Annie E. Casey Foundation and the W.K. Kellogg Foundation, and found that mission-related investments made up about 5% of the group’s overall investments – about \$1.3 billion. The foundations said they expect their mission-related investments to increase by two percentage points this year, to make up 7% of the group’s overall investments.

It’s not clear how much that translates to in dollars, as most foundations suffered in last year’s turmoil, Hagerman says. Based on Commonfund’s estimate that average foundations lost 26% of assets in 2008, the dollar amount would be about \$1.4 billion total in mission investments for the group this year.

Interest has also been driven by success stories of foundations already participating in mission-related investments, Hagerman says.

The Annie E. Casey Foundation’s mission-related investments folder, for example, was the best-performing portion of its overall portfolio during last year’s market crash, says Christa Velasquez, the foundation’s director of social investments. While the rest of the portfolio dropped about 24% last year to \$2.5 billion, the mission-related portfolio returned around 3.4%. The foundation has set aside \$100 million for mission-related investments; just over \$62 million is committed. (Over)

“We were delighted that it was the best performing part of the portfolio,” Velasquez says, adding that mission-related investing is a way for foundations to continue fulfilling their philanthropic activities even after assets were depleted last year.

“We’re not going to be a \$3.5 billion foundation for a long time. With our ‘new normal’ as a \$2.5 billion foundation, we have to think in more creative ways to fulfill our mission. Lots of other foundations are thinking the same thing,” she says.

Michelle Rogers, senior v.p. and portfolio manager at fixed income boutique Community Capital Management, has seen similar success. The firm, which has \$1.2 billion in assets under management, actively manages mission-related fixed income portfolios, among other strategies.

“We’ve had a large increase in interest, just in people calling, especially on green portfolios. The foundation world seems to be picking up a lot of momentum,” Rogers says, adding that the interest isn’t just talk – it has translated into new mandates for the firm. Community Capital now has 18 accounts; it added six new accounts in 2008, and after a slow first two quarters, added three new ones this year.

Mission-related investments have generally performed better than mainstream fixed income investments, says Craig Metrick, head of Mercer’s US responsible investment consulting group. He notes that results from microfinance investments have been especially encouraging but says it’s difficult to pin an exact performance figure on the overall category of mission-related investments, because it encompasses multiple investment strategies and styles. In order to provide some type of perspective, some foundations are creating case studies of how their own mission investment portfolios have fared.

Being able to show how specific foundations’ mission-related investments have performed and how they have furthered their social mission will help managers, too, says Jessica Matthews, manager of the 14-person mission-related investing group at Cambridge.

“They have to have a clear story about what it is they are going to accomplish,” she says. “If they say they’re going to integrate environmental, social and governance factors into the mandates, it’s important to know how they’re doing that research, making it clear that it’s not just ‘greenwashing’ or screening out a couple things. It’s important to demonstrate what they’re doing has an impact.”

Matthews also says firms that have done the best are those that have put resources into building out a specific team to handle SRI strategies.

“The firms that are the most likely to be in a position to advance the field are the ones that have put the resources in. A lot of firms are finding that they need to have dedicated teams,” she says.

More for Mission’s survey comes after institutional investors of all kinds have taken an interest in the social impact of their investments in recent years – such as pension plans divesting assets connected to Sudan and Iran and endowments and foundations investing in their local communities’ infrastructure.

The industry group Social Investment Forum says investments in SRI strategies, which include mission investing, grew from \$639 billion in 1995 to \$2.7 trillion in 2007. It’s unclear what types of investments the group includes in its calculation of those figures, how much it believes to be invested in SRI now, or whether it’s known how much is invested specifically in mission-related strategies. A spokeswoman did not return a phone call.