



Mission Investing for Foundation Trustees

Mission investing has received an increasing amount of attention over the past decade, and has continued to be adopted as a tool globally by a growing number of foundations. Over this time, the conversation about mission investing has gradually moved from a discussion about the possibility of investing for mission to a more practical discussion about how to create strategies for mission investing that support the work of foundations. Despite increasing interest and foundation participation, however, mission investing remains a fundamental challenge to traditional foundation practice.

One way to think about the challenges of implementing a mission investing program is to look through the lenses of various actors within a foundation—such as staff, leadership, or trustees—and how they might react to or see mission investing, and their opportunities to promote the practice. Trustees, who are ultimately responsible for approving the financial and operational direction of a foundation, are crucial to instituting a mission investing program, and their position within the leadership structure of a foundation gives them a particularly strong ability to drive the adoption of the practice.

On June 7, 2011, the More for Mission Campaign Resource Center hosted a half-day meeting at the Harvard Kennedy School to discuss just this issue—what is the role of foundation trustees in facilitating mission investing? More specifically, what are the sorts of legal and capacity-related barriers that trustees face in implementing mission investing strategies? We brought together a group of foundation trustees engaged in mission investing and related stakeholders from the foundation, financial consulting, money management, and legal communities to help us outline potential research and engagement opportunities to better analyze the actual and potential role of trustees in advancing the field. This first step focused on outlining straightforward challenges and testing intuitions developed through ongoing interactions with foundations trustees and other stakeholders.

The meeting focused on four core issues that present particular challenges, and opportunities, to mission investing for foundation trustees:

- **Fiduciary duty**
- **Internal and external capacity constraints**
- **Developing a mission-related investment strategy**
- **Managing consultants, advisors, and other service providers**

Fiduciary Duty: Misconceptions about the Law and Mission Investing

The convening began with a briefing by financial legal counsel on the **fiduciary duties** that define investors and discussion on whether the legal authority is inconsistent with mission investing. The group generally agreed that mission investing fell within the scope of fiduciary duty, but that the broad community of trustees had not fully considered the issue.

Although fiduciary duties are predominantly a matter of state law, there are a series of uniform laws that define fiduciary duty that have been adopted by almost all fifty states. Of those, The Uniform Prudent Investment Act (UPIA) and Uniform Management of Institutional Funds Act (UPMIFA) are of most relevance to the practice of mission investing for foundations. The UPIA, which regulates trusts and charitable trusts, applies the standard of due diligence to be made to any investment to the total portfolio instead of individual investments. Under UPMIFA, the language and stipulations of UPIA were expanded to nonprofits, including most private foundations (with the exception of private foundations that have individual trustees or an institutional trustee other than a charity). According to these laws, fiduciaries must act in accordance with the **duty of loyalty**; “solely in the interest of their beneficiaries,” and exercise **prudence**; “care, skill, and caution” in investment decision-making.

For charitable trusts, in which case beneficiaries are the charities themselves and often a broad diffuse class of charitable causes, social considerations can be taken into account to the extent that the investment decision can be justified, “on grounds of advancing, financially or operationally, a charitable activity conducted by the trust.”

In addition, UPIA and UPMIFA outline a series of required considerations for prudent investors of charitable trusts, including the special relationship of the investment to the charitable purpose of the foundation. According to UPIA, trustees are supposed to consider the "purposes, terms, distribution requirements, and other circumstances of the trust." Similarly, in UPMIFA, trustees should take into account "the charitable purposes of the institution and the purposes of the institutional fund." Thus, fiduciaries can make mission investments if the investment decisions are made with the intent of fulfilling the purpose of the institution and have undergone a prudent process of selection and judgment. These decisions are embedded in the organization's design - foundations created as perpetual institutions, for instance, face specific fiduciary responsibilities challenges related to that time horizon.

Even though mission investing, practiced prudently, that serves the interest of foundations' beneficiaries can meet fiduciary requirements, several trustees pointed to it as a potential barrier to moving the conversation about mission investing forward on boards. Where there is lack of unanimous enthusiasm for mission investing on boards, whether legal misperceptions or doubts concerning efficacy, overcoming the fiduciary obstacle is more difficult.

Finally, because mission investing requires additional costs and time, putting it into practice can be a significant challenge for investment staffs with limited capacity to develop new processes that can result in competent and prudent decision-making. Though participants noted that discussion of "fiduciary duty" may be a road-block for moving the conversation forward, they pointed out that if capacity issues were addressed legal objections to mission investments would be more difficult to make.

Capacity-Related Barriers to Mission Investing

Capacity-related barriers to mission investing - specifically in the context of trustees - revolve largely around issues of experience and knowledge. As mission investing is a new field, foundations and boards generally lack expertise in, and familiarity with, mission investing. This void in knowledge among board members, as well as other foundation staff, contributes

significantly to the reluctance to spend time and money advocating for mission investing and finding investment opportunities.

Definitional ambiguity—lack of agreement on one definition of mission investing—also complicates efforts to educate trustees and staff. Definitions of what constitutes a mission investment range broadly, from conceptions that include a spectrum of different investments promoting the whole of a foundation’s mission, to narrower definitions such as tax-exempt, below-market rate investments that fit within a more specifically defined impact mission. How a foundation chooses to define what constitutes a mission investment includes decisions on how closely the investment should relate to a foundation’s mission, what the appropriate rate of return should be, and what metrics to use to measure impact.

Trustee-staff relationships can also complicate adoption of mission investing strategies, as can the conventional divide between investment and program staff in between whose functions mission investing may fall. If a board of trustees does not have a strong relationship with staff, and clear lines of communication that allow for open discussion both of goals and the challenges of achieving them, implementation gets tricky. Trustees may have a role to play here in providing incentives for both program staff and investment staff to integrate functions, not least by making a clear and explicit statement of investment beliefs about the role of investing in achieving mission goals.

Participants agreed that capacity issues are real and cannot be ignored in strategy design or implementation. Ignoring these challenges will undermine the adoption of effective investment strategies.

Designing a Mission-Related Investment Strategy

Given some of the challenges addressed above, a trustee leadership-driven approach may help overcome cultural and operational challenges to mission investing more efficiently than other methods. That approach, however, requires experienced and financially sophisticated

trustees to move the conversation forward, suggesting that a more strategic use of materials for educating and training trustees might be of use.

One strategy for educating boards about mission investing is the development of a series of case studies on successful and unsuccessful mission investments. Case studies could be an important tool for reference on the technicalities and structure of mission investments and how they compare to more traditional investments. Examples of successful investments might also be an effective method for prefacing the conversation around fiduciary duty and capacity on boards that are having trouble with deciding whether or not mission investing is feasible. Examples of failed investments and processes can teach valuable lessons, and also temper enthusiasm.

In addition, increased coordination between the board's investment committee and the broader group of trustees can add to the robustness of the conversation around mission investing. In some foundations, there is a high degree of operational independence between the investment committee and other board members. Including the broader board in financial discussions and decision-making can be an effective strategy for familiarizing non-investment committee trustees with financial concepts, and improving the investment committees' understanding of the foundation's program goals. A top-down model of collaboration might also improve the culture of engagement between the organization's program and investing staffs.

Developing an investment beliefs statement that explicitly connects the organization's financial resources with its philanthropic objectives might be one significant space for broader board collaboration and education. Such a statement of investment beliefs can outline the foundation's investing philosophy and force discussion about how investments are made and the extent to which they should be aligned with mission.

An investment beliefs statement can also be an important tool for directing consultants. A statement that lays out a foundation's stance on mission investing may lessen the coercive tendencies of service providers to shut out mission investing from investment conversations. Further, these types of conversations around what the institution is trying to do beyond its target

financial returns can provide a valuable framework for consultants and advisors for allocation and implementation.

Managing and Challenging Consultants and Advisors

Effectively managing and challenging service providers is a particular challenge for trustees in implementing mission investing. Service providers are not typically experts in the field and may not be particularly familiar with it, although expertise is growing in conventional practice and boutique mission investment providers have increased in number and capacity. Lack of familiarity can lead service providers to deflect conversation or resist efforts to change strategies or tactics. More active trustee efforts to engage providers, to offer examples of foundations or funds that exemplify their goals, can be used as a tool for trustees trying to encourage their advisors and consultants to seek out mission investing opportunities. Questions about how staff and service providers identify mission investment opportunities, what the relationship dynamic is between the board and consultants or advisors, and how willing the board is to push back against its service providers are important to ensuring that a mission investing policy is implemented successfully.

Whether or not foundations should develop the necessary resources and expertise required for prudent mission investing internally or externally is a crucial question. Many investment staffs don't have the size or expertise to seek out and properly assess potential mission investments to develop portfolios in alignment with a foundation's values. While it is important to educate internal staff about mission investing, it may not make sense for many foundations to fully internalize the mission investing function. It may be more efficient to direct resources towards finding intermediaries with mission investing expertise, which requires revising requests for proposals (RFPs) to include mission-related criteria. RFPs have the advantage of allowing a foundation to establish its priorities prior to entering into an arrangement with a service provider, helping to ensure that mission isn't obscured.

Sometimes, to meet the increasing demand for services related to mission investing, consultants have taken a more integrated approach to working with clients. Foundations interested in mission investing but lost in where to go have relied on some of their consultants to

help them determine what kind of investments to include in their portfolios. One participant described a questionnaire, developed by a consultant, which asked specific questions about the board's mission and philosophy to help illuminate the focus and goals of the foundation's mission investments. To promote meaningful conversation and educate boards, consultants may consider developing more comprehensive approaches for measuring the prospects and risks related to mission investments.

Possible Research and Advocacy Steps for Trustee Education

We concluded the meeting by asking participants for practicable suggestions that would further research and education of trustees. They included:

Research

- Promote academic research and case studies of mission investments.
- Survey foundations about attitudes and current investment practices.
- Update the Handbook on Responsible Investment across Asset Classes to include mission investments, with particular examples of how they have been structured.
- Create a document outlining fiduciary objections to mission investing and legitimate responses.

Advocacy

- Conduct gatherings of peer group and trustees that delve into particular programmatic or sector areas, such as mission investing in health or rural communities.
- Create resource pools for the education of non-investment committee trustees, and program-oriented staff members on financial and investing terms and concepts.
- Develop more comprehensive strategies for internal team building.
- Create a prize for exciting new mission investments.