

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 prod-

ucts, 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 Tiederman