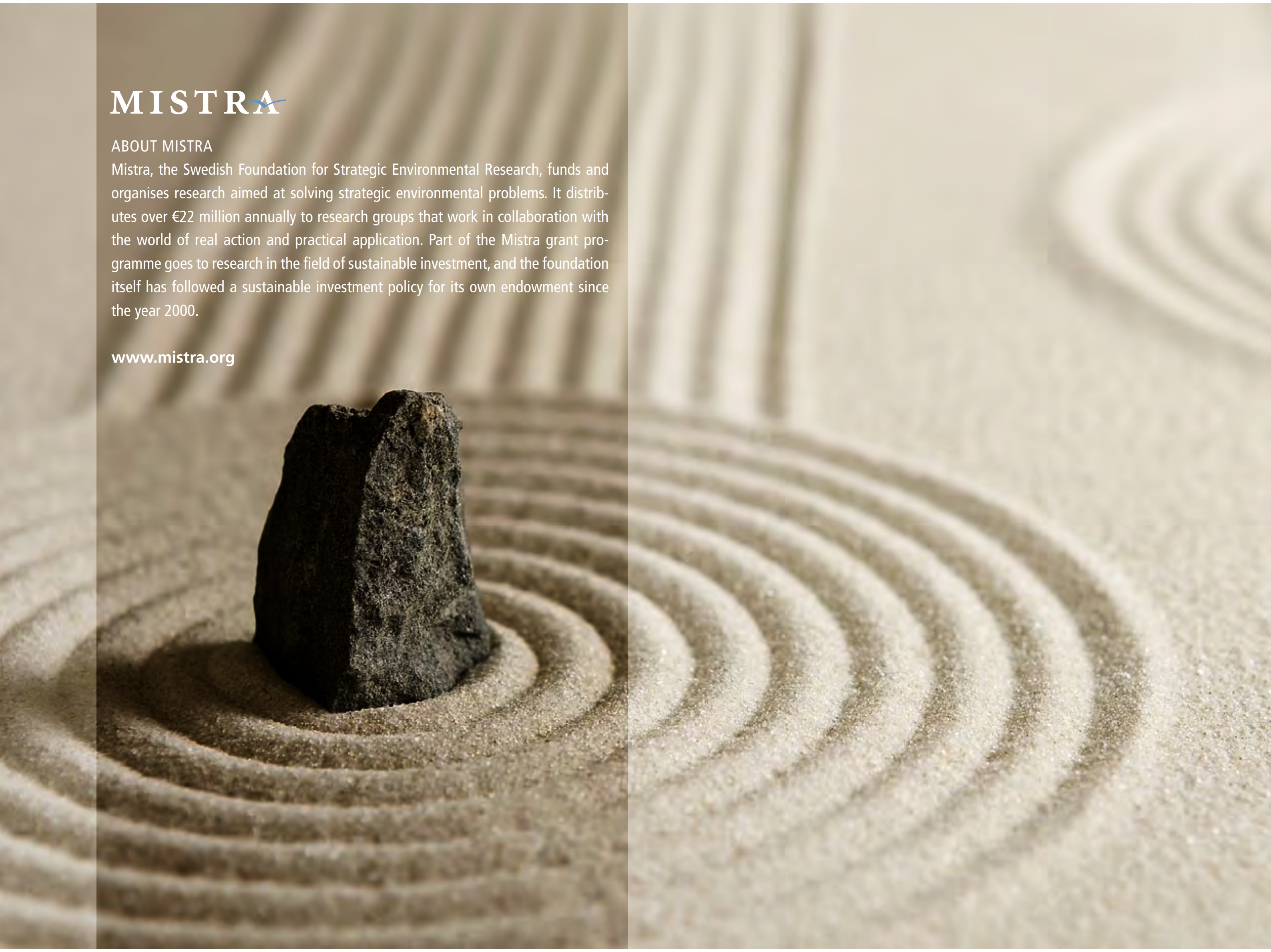
# 360-DEGREES FOR MISSION

**How leading European foundations use their investments to support their mission and the greater good.**

David Imbert and Ivo Knoepfel, May 2011

MISTRA



MISTRA

ABOUT MISTRA

Mistra, the Swedish Foundation for Strategic Environmental Research, funds and organises research aimed at solving strategic environmental problems. It distributes over €22 million annually to research groups that work in collaboration with the world of real action and practical application. Part of the Mistra grant programme goes to research in the field of sustainable investment, and the foundation itself has followed a sustainable investment policy for its own endowment since the year 2000.

**www.mistra.org**

onValues
*investment strategies & research*

ABOUT THE AUTHORS

onValues is an independent investment consultancy located in Zürich, Switzerland. The firm advises foundations and other asset owners on integrating environmental, social and governance strategies into their investment management. It also provides advice in the emerging field of impact investment. onValues actively participates in shaping the further development of the sustainable, responsible and social investment markets by contributing original research and facilitating investor networks.

David Imbert and Ivo Knoepfel co-authored 360-degrees for Mission. They would welcome comments or feedback at info@onvalues.ch.

**www.onvalues.ch**

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# Foreword

by Lars-Erik Liljelund

**DEAR READER,** as a foundation that supports academic research in the field of sustainable development, Mistra has been in a privileged position to see the challenges that will confront our societies in the coming decades in areas such as demographics, social disparities, climate change, water, and energy. This will inevitably affect the risk and return characteristics of our investments and this is why Mistra believes that it makes financial sense to include these factors in the management of our endowment.

In addition, a whole new range of social investment and active ownership approaches allow foundations to manage investments that potentially harm reputation and mission, and actively contribute to the greater good and to the mission without hurting financial returns.

This is a world of new opportunities and innovation, allowing foundations to combine grantmaking and investment approaches for the sake of maximising the "mission return". The eight European foundations surveyed in this report show how it works and how investment approaches can be tailored to the individual needs of each foundation.

This has been a rewarding journey for Mistra and we therefore encourage other foundations to "test the water" by considering a few simple initial implementation steps. Both at the national and at the European level you will find other foundations and platforms willing to share their experiences and support you.

Yours sincerely,

*SIGNATURE*

*Lars-Erik Liljelund*
Executive Director of Mistra

## Acknowledgements

The authors would like to acknowledge the foundations that contributed to the report. Their perspectives filled this report with life and real world experience. The condensed wisdom presented through their case studies is this report's most-valuable asset, and we are grateful for their time and interest in this project. By name, they are: *The Church of Sweden* (Svenska kyrkan), *Deutsche Bundesstiftung Umwelt DBU, Dreilinden gGmbH, Fondation du Luxembourg, Fondazione Cariplo, Fonds 1818, Friends Provident Foundation,* and *Mistra.*

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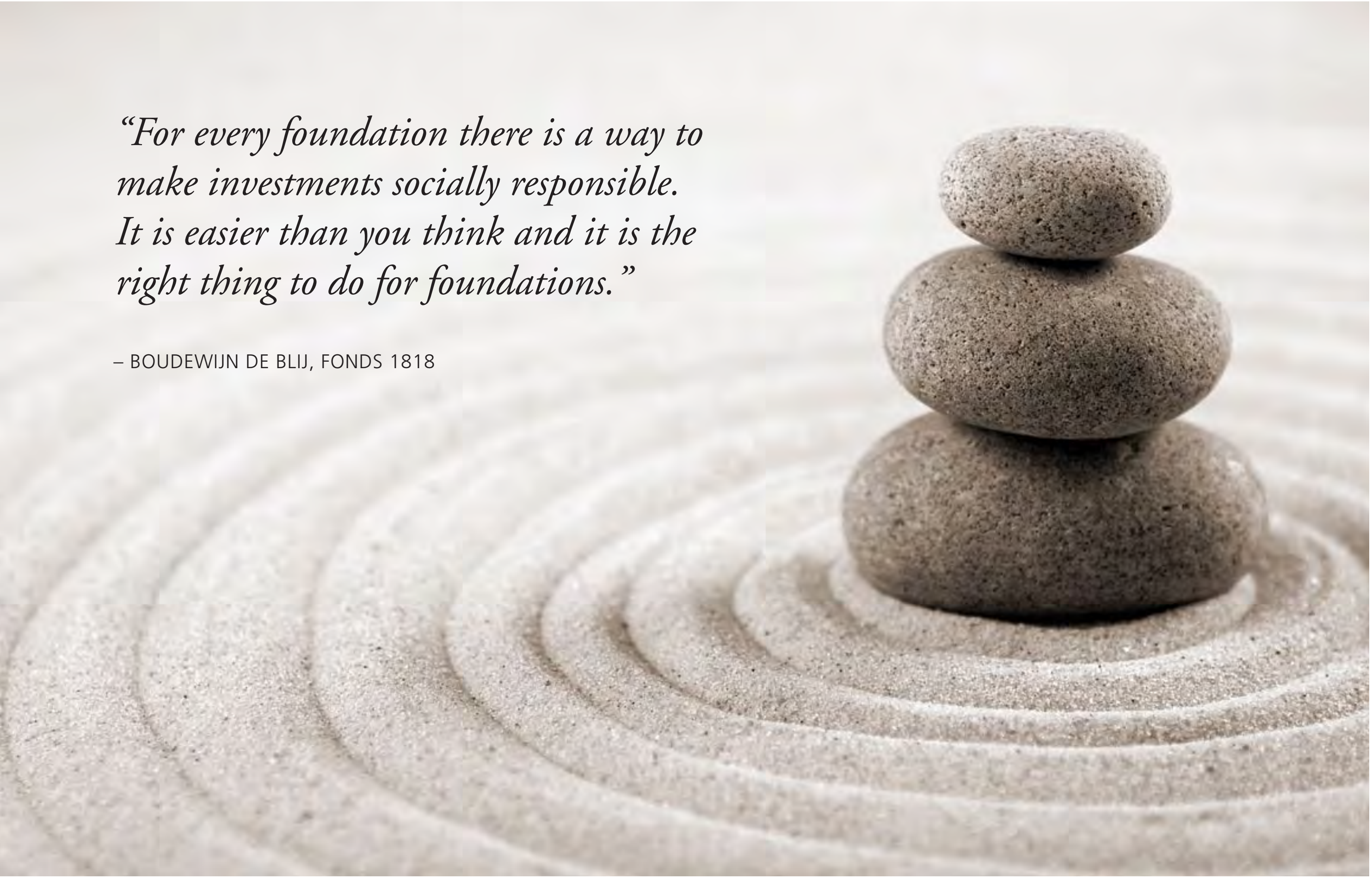


*"For every foundation there is a way to make investments socially responsible. It is easier than you think and it is the right thing to do for foundations."*

– BOUDEWIJN DE BLIJ, FONDS 1818

# Executive Summary

**OVER THE PAST DECADE,** a diverse range of European foundations have successfully adopted sustainable and responsible investment (SRI) approaches in managing their capital endowments. Recently, foundations have also expanded their philanthropic toolset by devoting a portion of their assets to impact investments, which prioritize social returns above financial returns. While their approaches differ, these foundations all believe that their investments can enhance the pursuit of their mission. The experiences of these leading foundations can offer valuable guidance to those considering SRI or impact investments of their own.

360-degrees for Mission aims to spark the interest of European foundations in the opportunities offered by SRI and impact investments to advance their mission using the full spectrum of foundation resources. Ultimately, the report should support the work of existing platforms, such as the EFC Social Investment Group, and the creation of new initiatives aimed at connecting foundations that currently make SRI and impact investments with foundations that are interested in developing that capacity.

The report clarifies the concepts of SRI and impact investing and points foundations to high-quality resources for further investigation. It makes a candid assessment of the obstacles that currently hinder the adoption of SRI and impact investing at foundations and offers information for foundations to gain confidence that a well-designed investment policy incorporating these elements is a realistic, financially-sound option. The report also describes how foundations might practically implement the decision to invest their capital endowments under SRI and impact investing principles.

The core of the report, however, consists of eight individual case studies of innovative European foundations in the field. These foundations represent a wide range of sizes, institutional heritages and geographic locations, and therefore show diverse examples of sustainable investment. Combining personal reflections with detailed information on the development of their investment strategies, the case studies provide a window into some of the most successful European foundations in the area of SRI and impact investment. While each of these foundations emphasizes different aspects of their stories, some common themes were apparent:

# KEY MESSAGES FROM THE STUDY

1. There are a diversity of SRI approaches that can fit any foundation's requirements

2. SRI is financially viable. If carefully implemented it does not lead to lower returns or higher risk, as shown by academic research and foundations that have invested successfully this way for several years.

3. The argument that SRI destroys returns is losing ground. The main barriers are the lack of internal know-how/resources and the perceived low efficiency (small contribution to mission compared to the time/cost invested relative to the grant-side). Here, collaborations between foundations, the use of umbrella foundations and joint fiduciary management platforms can play an important role in lowering costs and resource needs.

4. There is a new, younger generation of foundation staff that is more in-tune with SRI and is more willing to experiment new approaches. It is often the staff that takes the lead in proposing an SRI approach.

5. Perceived reputation risks are an important trigger for introducing SRI. An active media and/or legal reporting requirements increase the likelihood that foundations will adopt SRI.

6. Take a step-by-step approach to introducing SRI. Foundations can start with a modest approach, which considerably lowers initial barriers. Learn by doing, but also be patient.

7. In private foundations, a new, younger generation of endowers is very open to considering SRI if it is available as a standard, easy-to-implement option. This is an opportunity for banks, advisers, and umbrella foundations to offer such solutions and thereby differentiate themselves.

8. There is a new awareness that negative screening alone will not change the world. For foundations it is important to contribute to positive change in line with their mission (e.g. through best-in-class, thematic, integrated or impact investment approaches)

9. Most foundations approach environmental, social, and governance (ESG) issues from an investment management point of view and are not aware of the possibility to vote their shares or engage with companies (active ownership). If they are aware of this approach, they often believe they are too small to make a difference. Here, a way to pool foundations' ownership activities and lower transaction costs would be helpful.

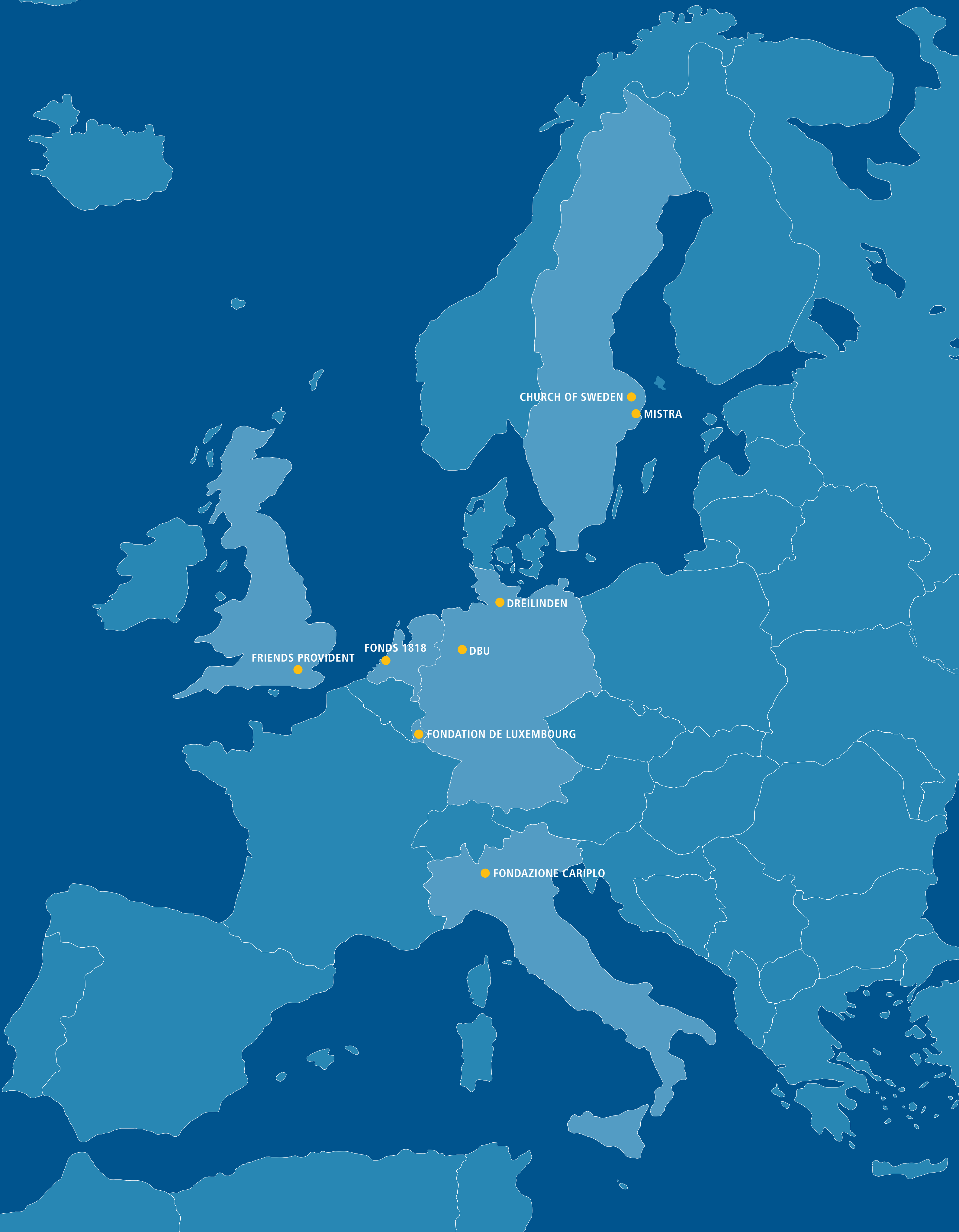
10. Foundations currently have a window of opportunity to deploy their program-related expertise in the formative stages of the impact investing industry and forge investment products suited to their needs. Linking grant making expertise to impact or SRI investing taps a foundation's most valuable resource.

11. While it is relatively easy to implement SRI, impact investing is much more challenging. New products need to be developed and seeded, and investments require private-equity type due-diligence work. Here it is crucial that foundations collaborate and share resources to lower transaction costs. A European platform for this would be helpful.

12. National sustainable investment forums (SIFs) and the Principles for Responsible Investment initiative provide services and resources to foundations, often for free. At the same time, national foundation associations should play a more active role in disseminating know-how about the use of SRI and impact investing at foundations.

13. Communicating about its SRI and impact investment approach multiplies a foundation's impact.

14. Leading foundations support research and awareness-building initiatives aimed at improving the understanding and quality of ESG integration in the financial sector. The last financial crisis showed that helping the financial sector become more sustainable is an imperative for our societies. Foundations should contribute to this goal.


CHURCH OF SWEDEN
MISTRA
DREILINDEN
FONDS 1818
DBU
FRIENDS PROVIDENT
FONDATION DE LUXEMBOURG
FONDAZIONE CARIPLO

*"Impact investing opened up the foundation. Now we are engaged in the market in new ways and talking to people we would never have met otherwise."*

DANIELLE WALKER PALMOUR, FRIENDS PROVIDENT FOUNDATION

The report concludes by proposing practical next steps for readers interested in pursuing SRI and impact investing at their foundation. Most significantly, foundations are invited to participate in initiatives at the national and European level aimed at sharing the know-how and resources as a basis for implementing SRI and impact investing at their institution.

The time is right for foundations to seize the opportunity provided by SRI and impact investing to advance their overall mission. The lessons contained in this report show how this can be done in a way that is tailored to the goals of any foundation.

*“Should a private foundation be more than a private investment company that uses some of its excess cash flow for charitable purposes?”*

– THE F.B. HERON FOUNDATION[3]

I.

# Introduction

**TWO KEY TERMS:**

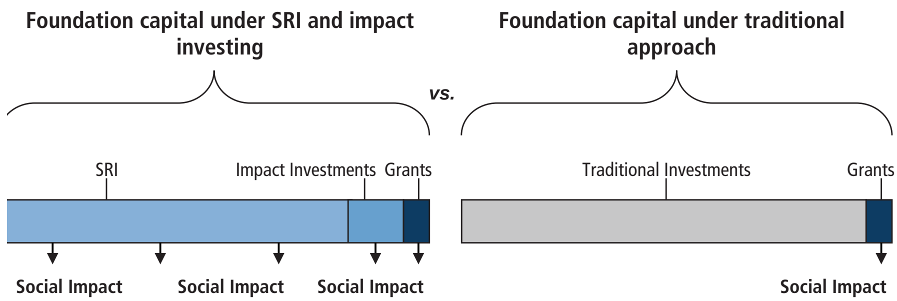
• Sustainable and responsible investment (SRI) – an approach to investing that takes into account the long-term economic, environmental and social risks and opportunities facing the global economy and the ethical priorities of an investor. This can take a variety of forms, from excluding investments in companies that violate basic international norms to integration of environmental, social and governance (ESG) factors in investment analysis and company engagement. Sustainable and responsible investing seeks competitive financial returns. Though constantly evolving, SRI is a well-established discipline with a track record of implementation at major financial institutions around the world.[4]

• Impact investment[5] – actively providing capital to enterprises and funds that contribute to defined social goals and at least return nominal principle to the investor. Impact investors are willing to relax expectations for risk-adjusted returns in exchange for substantial and tangible social impacts. While innovation in this discipline has been going on for decades, impact investing is a relatively new field and only in recent years have centres of coordinated activity and international standards begun to develop around this emerging type of investment.[6]

**EUROPE’S TRADITION** of institutional philanthropy dates back to the Middle Ages, and today foundations occupy an important place in civil society. There are over 100,000 public-benefit foundations in Europe, which distribute roughly €100 billion per year to charitable causes.[1] Capital endowments, entrusted to foundations by individuals, families, companies or public entities, generate much of the income that supports this giving. European foundation endowments collectively represent an estimated €1 trillion in capital, invested across all asset classes.[2]

The stability and continuity of a foundation’s philanthropic activities depends on the successful management of these investments. Foundations have historically viewed their own operations in two distinct sections: their investments generate financial returns and their grant making generates social impact. In this classical formulation, only programmatic grantmaking contributes directly to the foundation’s mission. Investment teams serve the mission by securing and maximizing the funds available for grantmaking.

The traditional division between investment and impact, however, neglects the opportunity to use synergies between the finance and grantmaking sides. In any year, a foundation will spend about 5% of its available capital on program grants and operations, while 95% will be reinvested for the future. That 95% in the capital endowment represents a significant untapped resource for a foundation to extend its mission and program. While investments can never replace the role of grantmaking, they can and do have a so-




[1] Max Planck Institute for Comparative and International Private Law and the Centre for Social Investment at the University of Heidelberg, “Feasibility Study on the European Foundation Statute”, 2007.
[2] ibid., Note: Estimates for foundation assets span a wide range, from €350 billion to €3 trillion.
[3] The F.B. Heron Foundation, “New Frontiers in Mission-Related Investing”, 2003.
[4] Krosinsky, C. and Robins, N., eds. Sustainable Investing. London: Earthscan, 2008.
[5] “Impact investment” here stands for a collection of terms with related but slightly different meanings: social investment, mission-related investment, mission-connected investment, program-related investment, blended value investment, etc. In general, all describe investments that prioritize social returns over financial returns. These terms are clarified in: Monitor Institute, “Investing for Social and Environmental Impact” (2009), and on the website www.moreformission.org.
[6] J.P. Morgan, “Impact Investments: An emerging asset class”, 2010. This report estimates that the value of impact investments will grow to over $400 billion by 2020 and calls on capital markets to create investment vehicles to facilitate this growth.

## Obstacles to SRI and impact investing at foundations

| FINANCIAL CONCERNS | LACK OF INFORMATION AND SUPPORT | INSTITUTIONAL CAPACITY | OTHER |
|---|---|---|---|
| • Fear of reduced investment returns<br>• Belief that SRI conflicts with trustees' fiduciary duty<br>• Investment managers reluctant to explore SRI<br>• Preference for passive investment approach to preserve focus on core activities<br>• Limited number of impact investment opportunities<br>• High transaction costs of impact investments | • Lack of awareness among foundations and asset managers of appropriate opportunities<br>• Lack of information sharing and networking<br>• Belief that SRI is more resource-intensive<br>• Confusion around terminology<br>• Lack of effective evidence of social impact | • Investment process is outsourced (esp. small foundations)<br>• Desire to preserve manpower for program work<br>• Board lacks knowledgeable financial advisor<br>• Trustees lack relevant training<br>• Lack of competence to monitor impact of investments | • Orthodox division of investment and charitable activities<br>• Program staff fear loss of importance<br>• Reluctance to change long-held investment policy<br>• Feeling that the foundation is already de facto impact investing by operating social enterprises such as hospitals, schools, etc. |

cial impact. Without jeopardizing the financial performance of their investments, foundations can look to invest their money in ways that maximize the overall contribution to society.

There is no single approach to SRI or impact investing. As the case studies in this report will show, foundations implement SRI and impact investments in a diversity of ways suited to their own purposes. One foundation may wish to avoid investing in companies that contribute to the social problems addressed in their own mission. Another foundation may feel that preferential investment in ESG-aware companies drives business in general toward more sustainable practices. Motivations can range from enhancing financial returns to reducing reputational risk. There are numerous ways to design a sustainable investment approach fit to a foundation's purpose, and just as numerous reasons for a foundation to implement SRI and impact investing principles in managing its capital endowment.

## II. Overcoming Obstacles to Implementing SRI and Impact Investment

Why, then, are most foundations not acting on the opportunities offered by SRI and impact investing? Despite their dedication to the common good, evidence shows that foundations currently lag other asset owners in implementing sustainable investment practices. There are several reasons why foundations may hesitate to adopt SRI and impact investing. Some of these issues can be addressed simply through improved understanding of the concepts, while others call for more substantive remediation. In general, fears over financial impacts, lack of information, and perceived or real lack of capacity all hinder foundations from bringing sustainable investment principles into their asset management policies.

Further information and support can address many, if not all, of these obstacles. While this report does not intend to make a point-by-point response to the above list, it will highlight some key facts that should be useful in moving forward with SRI and impact investing. It also will direct readers to better resources where possible.

### Addressing Financial Concerns

SRI strategies have been shown by academic and applied research to reliably deliver financial returns comparable to mainstream investments. On balance, research on using environmental, social and governance (ESG) analysis in financial decision making has established that this practice has a neutral or even positive impact on returns. Summarizing 36 peer-reviewed studies from 1995 to 2009, the United Nations Environment Programme Finance Initiative (UNEP FI) and Mercer Investment Consulting found that 20 studies showed a positive relationship between ESG factors and financial performance, 13 showed a neutral relationship, and 3 showed a negative relationship.[7, 8] These academic studies came from universities such as Princeton, UPenn Wharton, NYU Stern, and Erasmus University Rotterdam. While the future financial advantages of any investment strategy can never

> *"We have the strong belief that sustainable investments in responsible companies generate better performance in the long run".*
> – ANDERS THORENDAL, THE CHURCH OF SWEDEN

[7] UNEP Finance Initiative and Mercer, "Demystifying Responsible Investment Performance", 2007.
[8] Mercer, "Shedding Light on Responsible Investment", 2009.

*"Integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required"*

– FRESHFIELDS BRUCKHAUS DERINGER ON FIDUCIARY DUTY

be proven absolutely, there is enough evidence on SRI investments to show that reasonable investment strategies will perform at least in-line with status quo options.

Companies with high ESG ratings have, for example, been shown to outperform those with low ESG ratings. Long time series of data, such as the Dow Jones Sustainability Index (DJSI), which was launched in 1999, show how a consistently applied ESG methodology could have predicted a significant performance gap between the best and worst rated companies.[9]

There are numerous studies that indicate a performance advantage for SRI. In the context of making the investment case for SRI to foundations, the PRIME Toolkit produced by the Bellagio Forum for Sustainable Development cites evidence of the most sustainable companies outperforming their industry peers.[10] Also aimed at foundations, a report by the EIRIS Foundation / UKSIF Charity Project (www.charitysri.org) concludes that "there is growing evidence that ESG integration can safeguard and enhance returns".[11]

The mechanisms that translate ESG rating into investment results are as complex and varied as any other mechanism linking company fundamentals to security performance. For example, ESG ratings are often understood as a proxy for management quality. In this formulation, companies with strong ESG performance generally have management teams with a strong understanding of the long-term strategic issues in their industries. Or, ESG ratings can be understood to signal risk exposure. In today's business world, some of the most financially significant developments for a company can arise externally in the actions of regulators, consumers, suppliers, employees or media. A company that shows responsible management of its ESG profile is less likely to be adversely affected by sudden external developments. There are many ways to understand how a company's environmental, social and governance conduct can impact investment performance, but the fact that such extra-financial factors can and often do affect shareholder value is beyond doubt.[12]

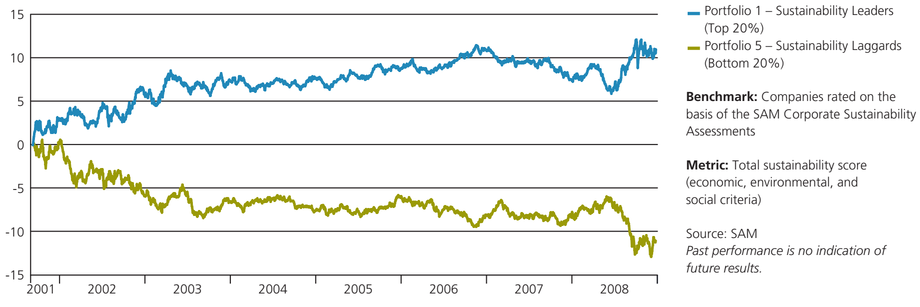
Given the materiality of ESG issues, any definition of "fiduciary duty" should allow for their consideration. A 2005 report on fiduciary duty by the international law firm Freshfields Bruckhaus Deringer established this position by finding that, "integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required".[13] UNEP FI built on the work of Freshfields by publishing a 2009 report that focuses on the legal considerations of implementing ESG analysis in an institution's investment process.[14] The analysis conducted by these experts clarifies that trustees may freely consider SRI options in managing their foundations' capital endowments.

However, even if foundation trustees become comfortable with the investment case for SRI and recognize that such a policy would be consistent with their fiduciary duty, they may still hesitate to enter a "niche" area they see as having limited investment options. In fact, SRI is already a large field. In Europe alone, an estimated €5 trillion in assets are managed under SRI strategies.[15] Globally, there are over 2800 public SRI funds offered by over 430 investment managers, with some of the financial industry's leading firms among their ranks (e.g. Goldman Sachs Asset Management, HSBC Global Asset Management, JP Morgan Asset Management).[16] There are prod-

## NAMING AND SHAMING

**In December 2010, a member of the Dutch Parliament called for an annual "naming and shaming" of charities and foundations that fail to invest responsibly. The proposal came after a television program exposed a number of controversial investments held by prominent foundations in the Netherlands.**

**SUSTAINABILITY CAN OUTPERFORM**
Cumulative Log Outperformance in %
Source: SAM




9 SAM Sustainable Asset Management AG, "Alpha from Sustainability", 2009.
10 Bellagio Forum for Sustainable Development and Eurosif, "PRIME Toolkit: Primer for Responsible Investment Management of Endowments", 2006.
11 EIRIS Foundation Charity Project, "The value of environmental, social and governance factors for foundation investments", 2009.
12 UNEP Finance Initiative Asset Management Working Group, "Show Me The Money: Linking Environmental, Social and Governance Issues to Company Value", 2006.
13 Freshfields Bruckhaus Deringer "A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment", 2005.
14 UNEP Finance Initiative Asset Management Working Group, "Fiduciary Responsibility: Legal and practical aspects
15 Eurosif, "European SRI Study", 2010.
16 Data from Morningstar Direct

ucts in all major asset classes following both active and passive approaches, to say nothing of private investment funds and individual mandates customized for specific clients. In short, foundations interested in SRI will have sufficient choice among investment options to create a successful investment strategy.

Impact investing, admittedly, is not as mature a field and generally entails higher transaction costs than SRI. It is important to recall, though, that impact investments do not target market-rate returns. Even fully implemented, they often represent only a minor fraction (typically less than 20%, and more often less than 10%) of a foundation's portfolio. As the case studies in this report will show, however, there are intelligent ways for a foundation to pursue impact investments by drawing on the support of others.

### Accessing Information and Support to Strengthen Institutional Capacity

Above all, this report aims to provide foundations with information that will enable them to place their capital endowments in SRI and impact investments. The case studies presented here are a new source of such information, but there are also important existing supports for foundations wishing to engage in sustainable investment.

• The European Foundation Centre Social Investment Group is a platform for learning and collaboration among foundations active in the impact investment area. The group holds regular meetings to discuss recent research and explore opportunities to improve the impact investing field, such as through the creation of new investment vehicles or reporting standards.

### FOUNDATION SRI AND IMPACT INVESTMENT IN THE UK

The United Kingdom occupies a unique place among European countries due to the multi-tiered endorsement it gives to SRI and impact investment at foundations. The Charity Commission, the legal body that regulates charities and foundations in England and Wales, requires that all foundations subject to statutory audit and holding material investments must disclose their "investment policy and objectives, including the extent to which social, ethical or environmental considerations are taken into account". [17] While this does not obligate foundations to invest in a certain way, it nevertheless creates an indirect expectation for SRI. Regarding impact investments, the regulations similarly call attention to their availability as a tool, saying, "where social or programme related investment activities are material in the context of charitable activities undertaken, the policies adopted in making such investments should be explained".[18]

Below the level of regulations, UK best practice organizations provide foundations with guidance that actively encourages the adoption of SRI policies. The Charity Finance Directors Group is an umbrella organization that draws members from the entire UK non-profit sector. In 2009 and 2010 it issued papers aimed at helping the increasing number of UK trustees that are considering or implementing SRI policies.[19,20] In the second of these reports it collaborated with the EIRIS Foundation, a UK foundation that supports ethical investment. EIRIS, together with UKSIF, has recently launched the website www.charitysri.org to encourage and assist foundations in developing SRI approaches in their investments.

The support system in the UK has produced a situation where over 60% of larger foundations have an SRI policy and 91% of the public feel that foundations should be investing their money in a socially responsible way.[21] The UK is home to some of the most well-respected foundation SRI and impact investors, such as the Joseph Rowntree Charitable Trust, The Tudor Trust, Friends Provident Foundation and the Esmée Fairbairn Foundation. As a whole, the country is a good example of practical actions that can advance sustainable investment among foundations.

[17] The Charity Commission, "Accounting And Reporting By Charities: Statement Of Recommended Practice", Paragraph 55, Section d, 2005.
[18] ibid., Paragraph 50.
[19] CFGD, "Unlocking Socially Responsible Investment", 2009.
[20] CFDG and EIRIS Foundation, "Socially Responsible Investment: A practical introduction for charity trustees", 2010.
[21] ibid.

• The Bellagio Forum for Sustainable Development is a network of primarily European foundations and other grantmaking organizations that focuses on partnership opportunities in the field of sustainable development. Significantly, the Bellagio Forum in collaboration with Eurosif, the European Social Investment Forum, produced the PRIME Toolkit, which outlines the importance of SRI investment at foundations and offers an implementation guide.

• The European Venture Philanthropy Association (EVPA) is a group of foundations that engage in the variant of impact investing called venture philanthropy, which combines the private sector model of hands on engagement with beneficiary charities with the use of innovative financing mechanisms to complement grants.

These initiatives provide valuable resources for European foundations, especially in the area of impact investing. An American initiative, More for Mission, provides information and support for foundations aligning their investment portfolios with their philanthropic goals, both in financially oriented SRI investments and socially oriented impact investments. The website www.moreformission.org contains detailed information on how foundations can adopt, implement and monitor "mission investing". More for Mission receives support from 87 U.S. foundations with assets of $31 billion.

A similar initiative in Europe could significantly accelerate the adoption of SRI and impact investing at foundations. By providing comprehensive access to the latest information and structuring interactive support mechanisms, such a knowledge sharing platform would help foundations gain confidence in their capacity to transition their assets into investments that contribute to their mission.

## III. Implementing SRI and Impact Investing

SRI is a well-established, financially sound investment approach, and impact investing is a fast-emerging discipline with an already robust support infrastructure. Together, they offer foundations a further way to put their values into action. But what should trustees do if they accept these proposi-

### Resources for SRI and impact investment

| SRI | IMPACT INVESTMENT |
|---|---|
| IMPLEMENTATION RESOURCES | |
| • CFDG and EIRIS Foundation, "Socially Responsible Investment: A practical introduction for charity trustees", 2010. www.charitysri.org/homearea/documents/Charitytrusteetoolkit2010.pdf<br><br>• Bellagio Forum for Sustainable Development and Eurosif, "PRIME Toolkit: Primer for Responsible Investment Management of Endowments", 2006. www.eurosif.org/sri-resources/prime-toolkit | • Rockefeller Philanthropy Advisors, "Solutions for Impact Investors: From Strategy to Implementation", 2009. www.rockefellerfoundation.org<br><br>• Rockefeller Philanthropy Advisors, "Philanthropy's New Passing Gear: Mission-Related Investing. A Policy and Implementation Guide for Foundation Trustees", 2008. www.rockefellerfoundation.org |
| INTERNATIONAL STANDARDS AND NETWORKS | |
| • United Nations-backed Principles for Responsible Investment (PRI) – www.unpri.org - This framework of investment principles was established in 2006 to help investors achieve better long-term investment returns and create sustainable markets through better analysis of ESG issues in investment process and the exercise of responsible ownership practices.<br>The network includes over 800 institutional investors representing $22 trillion in assets. | • The Global Impact Investing Network (GIIN) – www.thegiin.org - This non-for-profit organization was founded in 2009 to be a forum for identifying and addressing the systemic barriers that hinder the impact investing industry's efficiency and effectiveness. It develops standards, organizes knowledge sharing activities, and distributes emerging research in the field of impact investing.<br><br>• Social Capital Markets (SOCAP) - www.socialcapitalmarkets.net – Runs a series of events connecting foundations, social entrepreneurs, investors and other institutions involved in impact investment.<br><br>• Take Action! - http://www.takeactionforimpact.com – Annual conference for impact investors focused on "premium or above market returns". |

tions? There are several valuable resources for foundations considering this question, which provide detailed suggestions on how to structure a process to bring SRI and/or impact investments into a foundation.

### Types of SRI

Before starting the implementation process, it is first important to understand the different investment approaches that fall under the rubric of SRI:

• Screening – Negative screening excludes companies from the investment universe whose activities relate to an unacceptable degree to defined industries (e.g. tobacco) or whose scores on certain ESG metrics fail to pass a defined threshold (e.g. avoidance of child labour). Positive screening actively selects companies into an investment universe based on passing a certain ESG threshold. In both cases, the screens limit the available investment universe. Fund managers then choose investments based on traditional financial considerations.

• Best in class – ESG metrics are used to determine the sustainability performance of companies relative to their industry peers. For each industry group, the sustainability leaders are selected for investment, provided they meet the financial requirements of the fund manager.  This allows funds to preserve a sector weighting that is comparable to their mainstream benchmark.

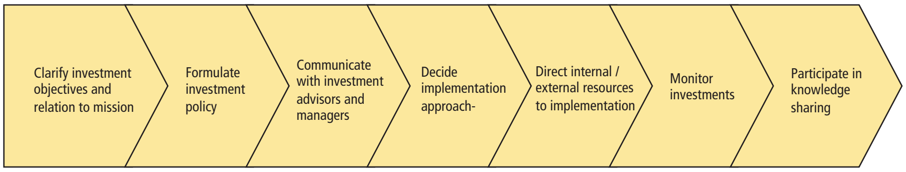
• ESG Integrated and Thematic Funds – In this approach, no division between ESG analysis and financial analysis exists. ESG metrics and outlooks are analyzed alongside traditional company fundamentals as another critical driver of long-term value. Thematic funds are a subset of the ESG integrated approach, in that they start from the premise that certain ESG challenges will create investment opportunities (e.g. water scarcity), and then look to make investments in companies who are correctly positioned to either create solutions to or avoid the consequences of these issues (e.g. desalination technology firms).

### ACTIVE OWNERSHIP

On top of using ESG information in investment management, an investor can also conduct a further SRI activity known as "active ownership", which consists of engagement and share voting. Working directly with companies, or through an external partner offering engagement services, investors can use dialog to address ESG concerns and propose constructive solutions. Equity investors can also participate in shareholder resolutions and vote their shares in annual meetings or via proxy. Ultimately, investors reserve the right to disinvest from companies that are non-responsive to their concerns.

A 2010 report by the Nathan Cummings Foundation, entitled "Changing Corporate Behavior through Shareholder Activism" argues that foundations should maximize their financial resources by practicing the active ownership disciplines of engagement and proxy voting. Like using ESG information in investment management, active ownership furthers a foundations mission and looks to preserve long-term value.

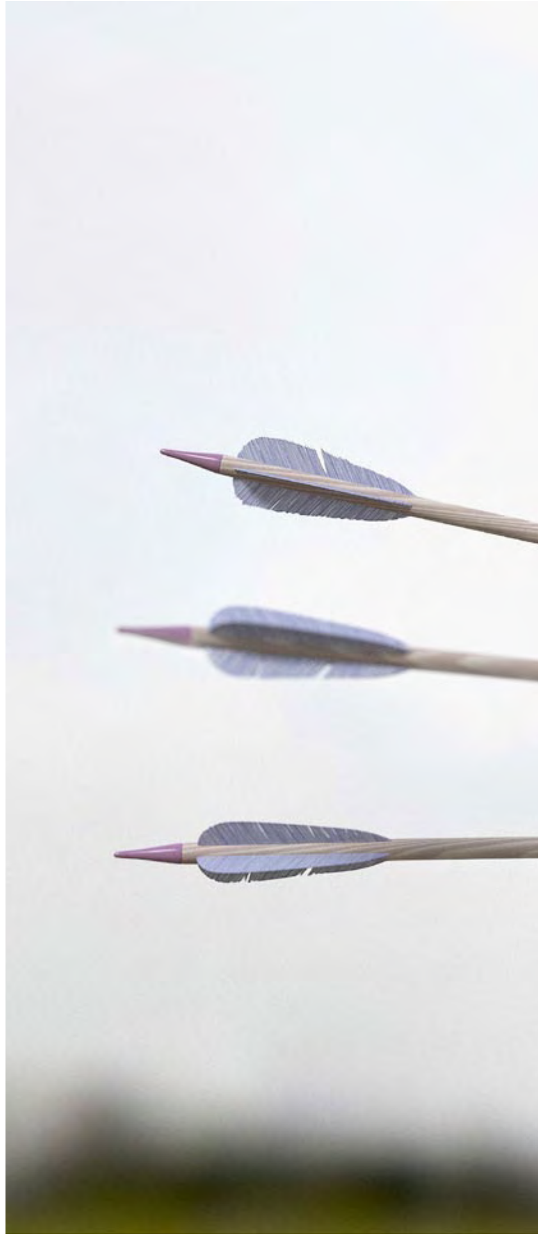
## IV. Designing an Implementation Process




In general, the process aimed at implementing SRI or impact investments is a combination of internal dialog and action, external communication and working with service providers. Once a foundation becomes interested in adopting SRI or impact investing it should discuss the idea in a meeting of trustees and key staff. This discussion should aim to clarify the objectives of any potential investment policy and articulate how they fit within the overall mission of the foundation. With this sense of purpose in hand, the foundation should assess what resources it has in-house that could be used to develop the desired investment policy. Often, foundations will have good expertise in certain areas, but will need external help on specialist topics, such as the evaluation of SRI managers or the linking of program knowledge to impact investment due diligence. Using external help where needed, the foundation should formulate a general investment policy, which the institution should then communicate to its investment managers and ideally publish in its annual report or its website.

After (or in the process of) formulating a high-level policy, the foundation should start a dialog with its existing asset managers to assess their willingness and ability to offer investment solutions in line with the foundation's goals. Here, foundations may use investment consultants that have a view across many asset managers that offer sustainable investment solutions. Many managers will have access to SRI products and to impact investments, in which case the foundation and its advisors must determine whether these meet its requirements. If they do not meet the foundation's requirements, or if a manager has no SRI or impact investment capabilities, the foundation should determine whether that manager would and could develop that capacity. Again, external advisors can help here. Alternatively, if a foundation determines that it must change asset managers to comply with its investment policy, it should conduct a thorough manager search and interview managers on questions related both to ESG analysis and traditional investment practices. Impact investments may take the form of investments in funds or direct investments that do not go through managers, in which case the foundation will have to develop this capacity in house, possibly leveraging the expertise and resources of other organizations active in the impact investing space.

Importantly, after a foundation makes its investments, it should monitor them for financial and social performance and ongoing compliance with the SRI and impact investment policy. This can be integrated with an active ownership strategy, where problematic investments can be addressed through company engagement. Finally, a foundation that determines to adopt SRI or impact investing in its capital endowment should participate in the ongoing dialog on these topics, by joining relevant networks or groups and by communicating its experiences for the benefit of others.



## V. Case Studies of European Foundations

The following case studies showcase European foundations that have been through the process of adopting SRI or impact investing principles and that wish to communicate their learning experiences to others considering the same journey. We selected these eight because they reflect

the diverse landscape of European foundations generally. They are spread geographically across six countries; they range in size from €37 million to €7 billion; and they come from a variety of organizational traditions spanning privately-endowed to state-funded. Most importantly, though, we selected these foundations because their leaders have thoughtfully examined what it means to invest in line with their principles. We hope the factual information and candid views expressed in these case studies spur other foundation leaders to the same reflection.

A sample investment policy:
**FRIENDS PROVIDENT FOUNDATION**
(excerpt from 2010 Annual Report)

**Ethical Investment Policy** (SRI)

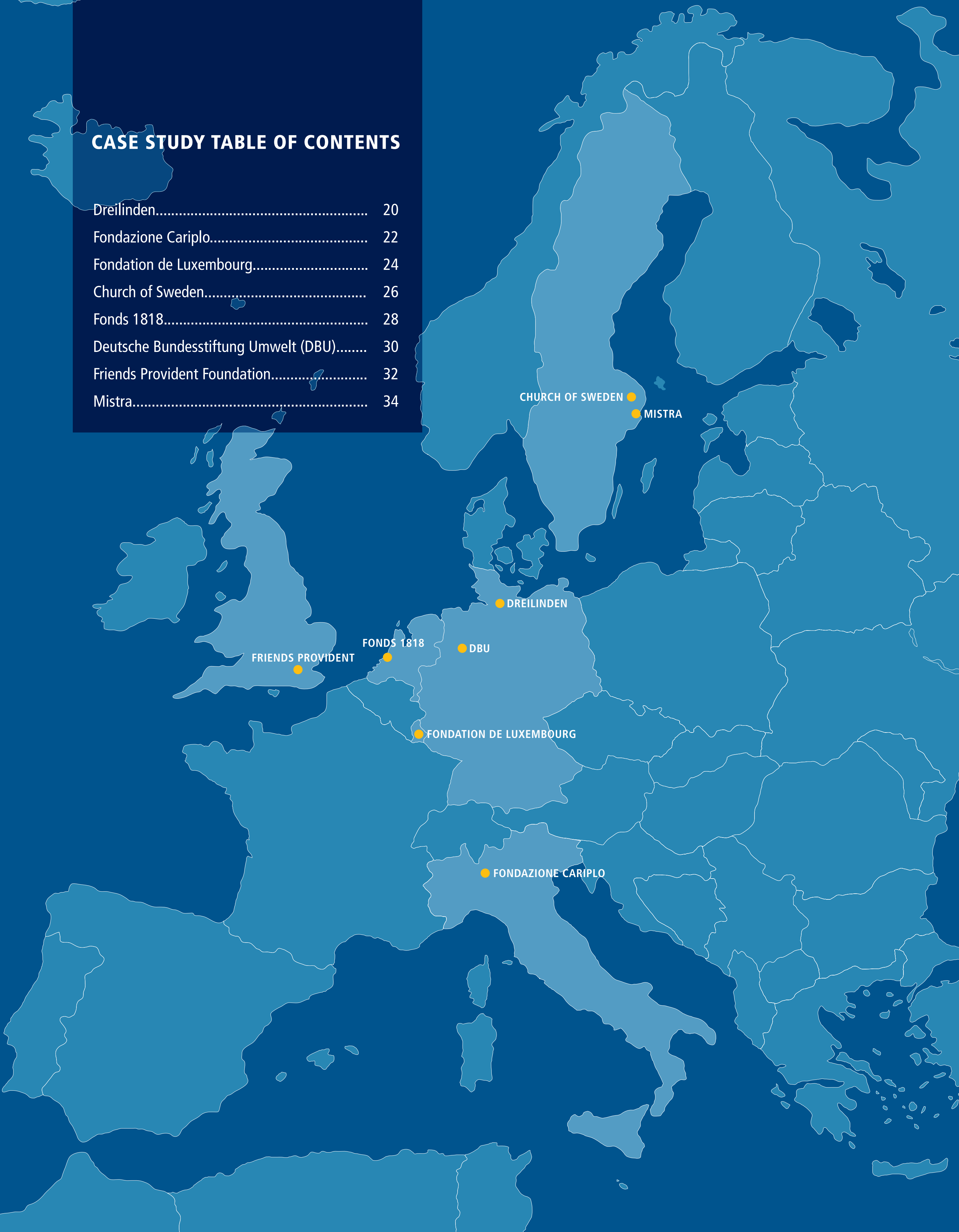
The Foundation's investment policy reflects its continued commitment to ethical investment approaches. Our funds are in ethically screened funds to ensure that activities such as tobacco, armaments and gambling, and investments in companies and products which could harm civil society or adversely impact the name and reputation of the Foundation are avoided. Furthermore, as more opportunities arise to pursue a positive ethical investment approach that delivers market rates of return, the Foundation will consider those investments as appropriate, balancing the need for diversification and minimizing management fees.

**Social investment policy**
(Impact investment)

Trustees have agreed that up to 5% of the investible funds could be invested into instruments to which the Foundation's general charitable objectives and specific programme aims could be applied. The primary aim of social investments is to pursue the Foundation's broad charitable objectives and focused programmatic objectives using financial instruments other than grants. The secondary aim of social investments is to produce a financial return. Trustees are prepared to consider accepting a higher level of risk or a lower level of financial return than the market norm, especially for those social investments that are closely aligned with the Foundation's specific programme aims. For investments that generate broader positive social impact and meet the Foundation's general charitable objectives but without specific alignment with programme aims, trustees might look for levels of risk and return that are closer to the benchmark for that asset class.

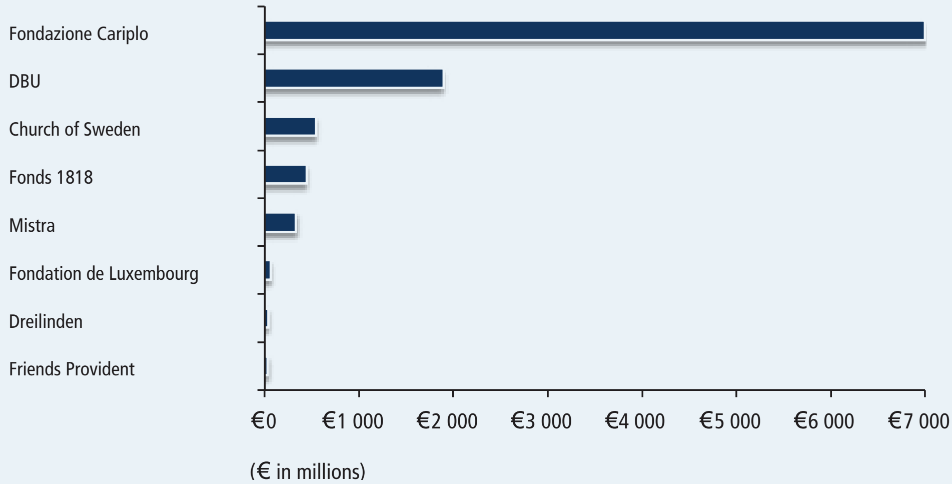
## CASE STUDY TABLE OF CONTENTS





# Case Studies Overview

## FOUNDATION ENDOWMENT SIZE




## TYPE

Private (banking origin)

Private (publicly funded)

Faith-based

Private (banking origin)

Independent public

Umbrella foundation

Private / family

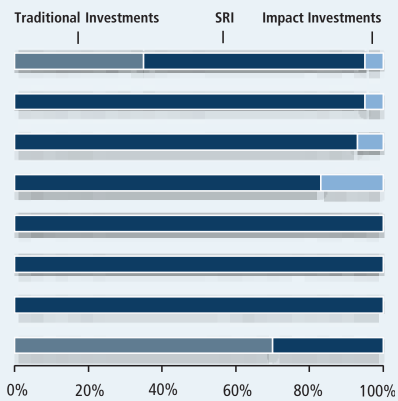
Private (corporate origin)

Our wide-ranging tour of foundations begins in Germany with **DREILINDEN,** a small but powerful example of a foundation using every investment tool possible to further its mission. Next, we move south to present the large foundation **CARIPLO,** which has used the weight of its leadership to establish an investment platform exclusively for other foundations, and which supports one of the largest impact investing programmes in Europe. The case of **FONDATION DE LUXEMBOURG** provides an excellent example of an umbrella foundation that sees SRI as an opportunity to better service its clients, while the **CHURCH OF SWEDEN** makes the case for an SRI style that looks for investments that positively contribute to sustainable development. The story of the **DUTCH FONDS 1818** is an open account of testing and exploring different sustainable investment options, and demonstrates the importance of communication with the broader community. **THE DEUTSCHE BUNDESSTIFTUNG UMWELT (DBU)** reinforces this need to contribute to the sustainability dialog, and shows how another multi-billion euro foundation is taking a pragmatic approach to adopting SRI. In England, a traditional stronghold of sustainable investment in Europe, **FRIENDS PROVIDENT FOUNDATION** has adopted a creative, integrated approach to impact investing that has vastly magnified the presence of this small foundation. For our final study, we return to Sweden to showcase **MISTRA,** one of the first fully SRI invested foundations in Europe and the sponsor of this report.

## SRI APPROACH

| | Negative Screening | Best-in-Class / Positive Screening | Thematic Funds | ESG Integration | Active Ownership | Impact Investing |
|---|---|---|---|---|---|---|
| Fonds 1818 | ✓ | | | | ✓ | ✓ |
| Friends Provident | ✓ | ✓ | | | | ✓ |
| Fondazione Cariplo | ✓ | ✓ | | | | ✓ |
| Dreilinden | | ✓ | | | | ✓ |
| Church of Sweden | ✓ | ✓ | | ✓ | ✓ | |
| Mistra | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Fondation de Luxembourg | ✓ | ✓ | | | | |
| DBU | ✓ | ✓ | ✓ | | | |

## INVESTMENTS BY TYPE




DREILINDEN

Gesellschaft für gemeinnütziges Privatkapital mbH

**Foundation description**

| | |
|---|---|
| Mission | To empower women and sexual minorities and support the mainstreaming of gender issues<br>Private / family foundation |
| Type | Private / family foundation |

| **Key data** | | **% of assets in:** | |
|---|---|---|---|
| Total assets | **€39 million** | **SRI** | **83%** |
| SRI investor since | **2006** | **Impact investments** | **17%** |

**SRI and impact investment activity**

| | |
|---|---|
| Goal of SRI / impact investment activity | Dreilinden uses SRI and impact investments to support its mission on multiple levels. It targets a 4% annual return on investment, which comes from lower-yielding (0.5-1.5%) impact investments mixed with public market SRI investments. These SRI investments have outperformed their equity and fixed income benchmarks since the launch of the foundation in 2006. |
| Brief description of SRI and impact investment activity | The foundation invests 41% of its capital in equities and 42% in bonds, all of which are screened on customized SRI criteria based on the foundation's mission. 17% of capital goes to impact investments in funds supporting microfinance, base of the pyramid SMEs, and independent media enterprises. |
| Organization and process | For the SRI portion of Dreilinden's assets, the foundation works with a specialist SRI rating agency to develop an investable universe of issuers. The agency provides data regarding the sustainability performance of issuers and Dreilinden inserts a customized weighting of those metrics based on the foundation's overall objectives. Issuers that score high in areas such as gender equality and human rights are more likely to be included in the investable universe. This list is passed on to the foundation's asset manager, which applies traditional financial analysis to select individual securities and has discretion as to the timing of trades. The board regularly reviews and challenges the list.<br>The foundation generates impact investment opportunities through personal knowledge of the space and performs risk assessment and financial due diligence on each opportunity. These investments aim to contribute directly to the foundation's mission, and Dreilinden regularly works with fund managers to improve impact. |
| **Innovative features** | Despite being a relatively small foundation, Dreilinden achieves an outsized impact through its hands-on approach to sharing its specialist knowledge in areas such as gender issues, human rights and monitoring social impact with fund managers and other investors. |
| **Plans for the future** | Dreilinden is working with ratings agencies to integrate the leading standards on gender issues in company ratings. |
| **Most important recommendation to other foundations** | Use your specialist knowledge. Your foundation likely has expertise that the investment community will value and that will enable your foundation to create investment opportunities that directly further your mission. |

*"What I was most interested in was not just to follow the patterns that other people had laid around impact investing but really to look what it meant for the mission statement that we have at Dreilinden".* –ISE BOSCH

## A CONVERSATION WITH ISE BOSCH, FOUNDER

**ISE BOSCH HAS** been a sustainable investor for almost 20 years. Starting in 1990, she began putting her personal and family money into SRI, and in 2006 she founded Dreilinden for the express purpose of making investments that improve the lives of women and girls. Thanks to the deep experience of Ise Bosch and the Dreilinden board, the foundation's €39 million capital endowment creates impacts on a scale normally reserved for much larger entities. This happens because of—not in spite of—the high customization Dreilinden demands from its investments.

Dreilinden's capital is divided between traditional SRI investments in public securities and impact investments in illiquid private funds. In both of these areas, the foundation applies a tailor-made investment framework that directly reflects its organizational values and goals. In the SRI portion (83% of total assets) Dreilinden selected an SRI rating agency to design company screens based on a specific set of concerns and beliefs regarding gender equality and human rights. As a result, the foundation preferentially invests in companies that take a progressive stance on women's issues, to the extent that this can be measured. In its impact investments (17% of total assets), Dreilinden looks for funds that directly benefit women in developing countries. Such funds may consciously incorporate these values in their investment policy, for example by requiring that a certain quota of portfolio companies be led by women, or they may reach these same ends indirectly, for example by enabling free media, which tends to have an outsized benefit on minority and gender rights.

Drelinden's expertise on gender issues allows them to work with partners to create investment opportunities that advance the foundation's mission. Ise Bosch proactively takes gender-relevant international standards to Dreilinden's SRI rating provider and suggests ways they can become new metrics used in SRI ratings. The fund managers of Dreilinden's impact investments also welcome the foundation's expert input on ways to improve social monitoring with simple but effective gender equality measures. Moreover, the other investors in these private funds, which often are much larger organizations, look to Dreilinden as a source of knowledge on women's issues. The foundation also engages the broader investment community through its membership in the PRI. Dreilinden thus has a significant influence on how the financial sector addresses gender inequality.

Nevertheless, Ise Bosch recognizes that there are limits to the inclusion of Dreilinden's principles in investment decision making. Despite working with rating agencies and fund managers to integrate mission-related metrics, the data and investment options in this area remain limited. The foundation has discovered that if it gives too much weight to human rights performance the investment universe shrinks to a financially unacceptable degree. Constantly pushing this boundary, however, keeps Dreilinden at the cutting edge of the possibilities for gender empowerment through investment.

Dreilinden's knowledge-based engagement with the investment community should encourage other foundations to connect their program expertise with their investment philosophy. Currently this is a missed opportunity according to Ise Bosch, who says that at most foundations "all the knowledge around grant making is not connected to investment", though this is "changing slowly". Just as Dreilinden uses its knowledge of gender issues to improve the range and quality of investment options in this space, so could other foundations leverage their own specialist knowledge to engage constructively as investors.

While enthusiasm and a desire for progress should motivate foundations who take up the challenge of SRI and impact investing, these impulses must not cause foundations to become impatient in their investment strategy. "This is long term work" says Ise Bosch. "We want to evaluate our strategy based on 5-10 years of experience before changing it". Since 2006, Dreilinden's only portfolio change has been to increase the share of impact investments from 14% to 17% Otherwise their strategy has been constant, which will provide a reliable benchmark to consider improvements in the future.

In the future, Dreilinden expects more options to become available for foundations seeking to make investments that advance their core values. Notably, impact investing will become mainstream and products will proliferate. This evolution will require key interventions and support from foundations and intermediaries. Critically, national foundation organizations can advance SRI and impact investing among their members. In Germany, for example, the Bundesverband Deutscher Stiftungen has offered free sustainability rating of member foundations' portfolios from April 2010. At the same time however, national organizations that deal only with traditional foundations may be missing the experience of new grant making institutions that are organized under novel structures (such as Dreilinden). National organizations and foundations should raise this issue as an important topic for discussion, and should look to foundations like Dreilinden for examples of the highly customized and mission-relevant investment strategies that are available today to institutions of any size.

**Recommendations to other foundations:**

- Leverage your program expertise to find and create highly-relevant investment options both in SRI and impact investing.
- Be patient with your investment strategy after you have designed it. This will allow you to make adjustments confidently after 5-10 years of track record.
- Express your interest in SRI and impact investing to your national organization, and then actively participate in advancing the subject.


# fondazione cariplo

## Foundation description

| | |
|---|---|
| Mission | To be a resource that helps social and civil organizations better serve their own communities. This is achieved through four main program areas: environment, arts and culture, scientific research / technology transfer, and social services |
| Type | Private foundation (banking origin) |

## Key data

| | | % of assets in: | |
|---|---|---|---|
| Total assets | **€7'000 million** | **SRI** | **96%** |
| SRI investor since | **1998** | **Impact investments** | **4%** (7% target) |

## SRI and impact investment activity

| | |
|---|---|
| Goal of SRI / impact investment activity | Fondazione Cariplo believes that in some cases financial tools can address social needs more efficiently than grants. It also believes that all its assets should be invested in companies and issuers that demonstrate social responsibility and avoid controversial business practices.<br>The foundation's impact investments target returns of inflation plus 2%, while the SRI investments target market-rate returns. |
| Brief description of SRI and impact investment activity | The foundation has set a goal to invest 7% of its total assets in impact investments. Such investments span microfinance, social housing / urban regeneration, infrastructure, public-private partnerships, technology innovation, international cooperation and SME private equity. Currently, impact investments account for 4% of the foundation's portfolio.<br>The remaining 96% of the foundation's assets are managed according to an SRI screening approach. The foundation excludes all investments in companies that are active in the production of antipersonnel mines, cluster bombs and nuclear weapons, or that violate human rights and environmental conventions. Fondazione Cariplo also uses an external ESG rating provider to score companies based on sustainability performance and thereby define an investable universe. |
| Organization and process | Fondazione Cariplo makes impact investments via specialist fund managers selected in consultation with its program and investment staff. For SRI investments, the foundation's investment personnel review the investable universe suggested by the sustainability rating agency on a regular basis. The investable universe is passed through the asset manager platform that Cariplo uses to manage the bulk of its assets and on to the individual fund managers, who then must adjust their portfolios accordingly. |
| **Innovative features** | The foundation created, together with other foundations, an independent fiduciary asset manager platform serving the specific needs of the Italian non-profit sector. This independent asset manager is a power-house for the development of new impact investment funds and further advancing SRI products. Impact investments have been explicitly included in the benchmark used for measuring the foundation's investment performance. |
| **Plans for the future** | Professionally implement the 7% target allocation to impact investments. |
| **Most important recommendation to other foundations** | Join forces in developing new impact investing opportunities. Larger foundations should take the lead in establishing new vehicles and fiduciary platforms that allow smaller organizations to also enter the SRI/impact investing field. Improve your understanding of private equity investments, which are the basis for impact investments. |

*"Our banking background makes us passionate about financial innovations that combine both financial and social goals. Because impact investments are developed in collaboration between the grant-making and the investment departments, they are strongly supported by the entire organization".* – FRANCESCO LORENZETTI

## A CONVERSATION WITH FRANCESCO LORENZETTI, CFO, AND PATRICIA FRIAS, INTERNATIONAL RELATIONS & FUND RAISING OFFICER

**FONDAZIONE CARIPLO TRACES** its roots back through 200 years of community investment and philanthropy. Established first as a charitable organization and savings bank, the present-day foundation took its current form in the 1990s, when the foundation separated from and sold its banking business. The proceeds from the sale and their subsequent investment allowed Cariplo to become one of the world's largest foundations by endowment assets.

In 1998—the same year that Fondazione Cariplo sold its banking business—it initiated an impact investing program. The Steering Board of the foundation entrusted the CFO and the Board of Directors with developing financial tools that would advance the foundation's social program. As a result, the foundation began underwriting below-market rate bonds from banking institutions that in turn made low-interest loans to social initiatives such as infrastructural works, research activities, healthcare and educational projects.

In 2005 and 2006 Cariplo began expanding its impact investment activities. "We were convinced that return-seeking investments could often achieve better philanthropic results than grants", says Francesco Lorenzetti. The foundation began looking for new financial tools to promote its mission. In 2005 it seeded €10 million in an ethical real estate fund dedicated to social housing. In 2007 it seeded another €10 million in a fund focused on commercializing successful scientific research. The foundation also restructured its bond underwriting program to provide even better terms to socially-oriented borrowers.

A crucial development in Fondazione Cariplo's impact investing history came in 2007, when the foundation, along with other Italian foundations and charities, helped establish an independent multi-manager platform specifically dedicated to the non-profit sector. Fully-owned by the non-profits it services, Polaris Investment SGR can respond directly to their needs for both traditional asset classes and emerging impact investments. According to Francesco Lorenzetti, "pooling the resources of many foundations is a powerful way to spur financial innovation customized to our needs, especially in the field of impact investing". It also provides a solution for smaller and less-professional foundations to approach SRI and impact investing by accessing the expertise of the platform's staff. For its part, Fondazione Cariplo has played a leading role in driving this initiative, having placed €5.3 billion (75% of its total assets) under Polaris's management.

Today, Cariplo's impact investments total over €300 million and span social housing / urban regeneration, public infrastructure, public-private partnerships, technology innovation, international cooperation and small and medium enterprise (SME) private equity. They also include a €70 million investment in a microfinance fund of funds, one of the largest institutional microfinance investments in Europe. Furthermore, in 2010, the foundation resolved to increase its impact investments to €470 million. This decision has met with broad approval at the foundation. "Because impact investments are developed in collaboration between the grant-making and the investment departments, they are strongly supported by the entire organization" explains Francesco Lorenzetti.

At the same time, Fondazione Cariplo applies an SRI policy to the other assets contained in its endowment. As resolved in 2010, the foundation targets asset allocations of 53% for fixed income, 40% for equity and 7% for impact investments. Since 2008, investments in the fixed income and equity allocations must comply with positive and negative screening criteria established by the foundation in cooperation with a SRI rating agency. Investments in producers of anti-personnel mines, cluster bombs and nuclear weapons are strictly excluded, as are companies that violate human rights and environmental conventions. On the other hand, companies must score highly on ESG ratings to be included in the investable universe.

Taken together, the SRI and impact investing activities of this €7 billion foundation demonstrate that these investment approaches are realistic for even the largest foundations. Fondazione Cariplo has also contributed to innovation in sustainable investment by providing support to new funds and platforms that enable foundations to align their investments more closely with their missions.

**Recommendations for other foundations:**

- Pool your resources with other foundations to develop solutions that address your needs. This could take the form of cooperating on research, hiring external experts, or even establishing an asset management platform.

- There is no limit to the amount of money that can be responsibly invested under an SRI policy. A wide range of products and high quality managers are available across all asset classes, which allow a full opportunity for competitive financial returns.


FONDATION DE LUXEMBOURG

**Foundation description**

| | |
|---|---|
| Mission | The Fondation de Luxembourg shelters a number of sub-foundations which have been established by individual or corporate founders. Its mission is to facilitate the philanthropic engagement of those founders and to strengthen Luxembourg's position as an attractive philanthropic centre. |
| Type | Umbrella foundation |

| **Key data** | | **% of assets in:** | |
|---|---|---|---|
| Total committed assets | **€50 million** | **SRI** | **100%** |
| SRI investor since | **2009** | **Impact investments** | **N.A.** |

**SRI and impact investment activity**

| | |
|---|---|
| Goal of SRI / impact investment activity | The Fondation de Luxembourg's SRI policy ensures a consistency between the philanthropic values of its individual founders and their investments. Importantly, the foundation wants to avoid situations where a founder's investment activity directly undermines grant-making activity. Furthermore, as a prominent body in Luxembourg, the foundation views its SRI policy as a way to minimize reputational risk for the foundation and Luxembourg as the country strengthens its position as a world financial center. |
| Brief description of SRI and impact investment activity | Though the Fondation de Luxembourg takes legal custody of its founders' assets, the founders still control asset management decisions. Founders can implement the foundation's SRI policy in one of three ways: 1) invest in approved SRI funds; 2) hire managers with internal SRI analysis platforms; or 3) have a manager subcontract SRI analysis to an external advisor. For individual stocks and bonds, the SRI analysis should incorporate both specific negative screens (e.g., armaments, pornography, tobacco) and also a positive best in class approach. For funds, the SRI policy specifies a preferred list of socially responsible mutual fund products. Impact investments are not covered by the policy because it is up to founders to decide on their use and potential contribution to the mission. |
| Organization and process | For each founder, the Fondation de Luxembourg establishes a sheltered foundation with a management committee consisting of the founder, an external advisor and a member of the Fondation de Luxembourg staff. This management committee is in charge of making the strategic decisions for the portfolio. Fondation de Luxembourg monitors the investments and reports to the management committee. Fondation de Luxembourg can react directly to a breach of the SRI policy and is responsible for making sure the founders' requirements are fulfilled. This includes supervising the investments of the selected asset managers and compliance with the SRI policy. If an issue arises with a certain holding, the Fondation de Luxembourg will work with the asset manager until it is resolved. |
| **Innovative features** | The Fondation de Luxembourg has succeeded in defining a consistent SRI approach which finds the support of founders and gives investment managers enough flexibility in implementing it, while still holding them accountable to a common standard. |
| **Plans for the future** | The foundation is currently growing rapidly. As the number of founders and their assets increase to critical mass, the Fondation de Luxembourg will be able to push for further enhancements in its SRI approach. |
| **Most important recommendation to other foundations** | Founders are often so passionate about their philanthropic causes that they may not give enough thought to the management of their endowments. Establishing SRI as the default investment approach is both positively received by donors and seen as an important differentiation factor vis-à-vis other umbrella foundations. |

*"It's a special moment in one's life when establishing a foundation. Founders focus on what's in their heart—their philanthropic goals—not necessarily the means to achieve them. SRI is a means, and we provide an easy solution to invest sustainably. Though founders may not have thought of it, when we present the idea, they immediately support it".* – RAOUL CHEVIGNARD

## A CONVERSATION WITH RAOUL CHEVIGNARD, SENIOR PHILANTHROPY ADVISOR

**THE FONDATION DE LUXEMBOURG** came into existence in January 2009. It forms a key part of Luxembourg's overall strategy to encourage philanthropy and strengthen the country's position as an international financial centre. As an "umbrella foundation", the Fondation de Luxembourg shelters sub-foundations that are funded by individuals or companies, which the foundation refers to as "founders". Founders entrust their assets to the foundation in exchange for legal, structuring, and administrative services supporting their philanthropy. Among these services, the foundation provides a group-wide SRI policy, which guides the asset managers who invest the founders' endowment capital. Raoul Chevignard, Senior Philanthropy Advisor, took time to speak with us about this new institution in Luxembourg and the role of its SRI policy.

"Pragmatic, flexible and clear"; these are words Raoul Chevignard uses to describe the Fondation de Luxembourg's approach to SRI investing. "We wanted a policy that all of our founders could implement, which provided direct guidance on socially responsible investing". Being a foundation of foundations, the Fondation de Luxembourg takes legal custody of a founder's endowment assets but leaves the founders free to manage these assets as they choose, either remaining with their current asset managers or selecting new managers for the foundation portfolio. Given the diversity of founders and their financial management situations, the Fondation de Luxembourg sought to introduce an SRI policy that would be straightforward to adopt and would leave room for individualized implementation.

The resulting SRI policy covers funds, equities, bonds, and derivatives of equities and bonds. If a founder wishes to invest in funds, they are recommended to choose from a regularly updated list of over 50 Luxembourg-domiciled SRI funds. For individual securities, the SRI policy stipulates total exclusion of certain sectors (armaments, pornography and tobacco) and requires a best in class approach to investments in other sectors, with particularly high scrutiny directed at certain "controversial sectors", such as nuclear power or gaming. The Fondation de Luxembourg expects that asset managers will be able to comply with the SRI policy either through internal resources or the use of a specialist rating agency that can complement the asset manager's financial analysis with sustainability analysis. "We understand that some managers are very well-equipped but others are not, and it may not make sense for them to build an SRI capability for relatively small mandates. In this case we encourage them to seek external support and assist in getting 'the foundation rate' from providers of SRI research", explains Chevignard. He also told us that leading European SRI rating agencies have offered preferred access to their research in such a case.

While the SRI policy is technically optional, in practice all 15 foundations currently under the umbrella of the Fondation de Luxembourg have invested 100% of their assets according to the policy. "The founders are very happy with the SRI policy", states Chevignard, who believes that the founders' comfort with the financial viability of SRI stems from a long history of research at places like Dexia BIL, Banque de Luxembourg, or ABN AMRO that made the economic case for including extra-financial analysis to augment traditional investment analysis. The asset managers too were "surprisingly open to SRI", which he attributes to the pragmatic nature of the foundation's policy.

At the same time, however, it is not clear that these benefactors would have opted for an SRI approach without the foundation's policy. This underscores an important point that should be relevant to the SRI community as a whole: setting SRI as the default option is acceptable and even positively viewed in a mainstream context. Though foundation benefactors are certainly a unique group, this experience offers at least one data point to suggest that a general transition to SRI investment could be powerfully enabled by policies that preferentially select sustainable options still practical for the circumstances of individual investors.

The young and dynamic management of the Fondation de Luxembourg deserves credit for proposing the establishment of an SRI policy to the foundation's Board of Directors, who immediately supported the idea. They also deserve credit for the flexible, "founder-focused" style of the policy, which can become an important differentiation factor vis-à-vis competitors. In this sense, the example of Fondation de Luxembourg is highly relevant for other umbrella foundations and similar institutions.

**Recommendations for other foundations:**

- An SRI policy ensures that investments that provide income for social projects do not promote or encourage socially irresponsible behavior among corporate actors, which would result in doing one thing and its exact opposite at the same time.

- Use SRI as a differentiating factor. Choose a simple and pragmatic solution at the beginning, and you will be surprised by the support you will encounter from trustees and service providers.

- There are a diversity of ways to implement an SRI strategy, and chances are there will be a practical solution that suits your foundation's specific needs and resources.

- People who otherwise may not even have considered SRI will often be amenable to the idea if it is the standard option for investments in a given context.


# Church of Sweden

**Foundation description**

| | |
|---|---|
| Mission | To provide pastoral care as an Evangelical Lutheran community of faith |
| Type | Faith-based institution |

**Key data**

| | | % of assets in: | |
|---|---|---|---|
| Total assets | **€543 million** | **SRI** | **100%** |
| SRI investor since | **1990s** | **Impact investments** | **Planned** |

**SRI and impact investment activity**

| | |
|---|---|
| Goal of SRI / impact investment activity | To invest the Church's funds according to the Christian principles of human dignity and stewardship while at the same time contributing to required financial returns. |
| Brief description of SRI and impact investment activity | The Church of Sweden applies an SRI policy across all of its assets, which consists of negative screening, positive screening, ESG integration and company engagement. In recent years, the Church has increasingly focused on investments that contribute positively to major global issues, in particular global climate change. |
| Organization and process | The Church of Sweden national office has an internal financial team that selects external asset managers with the approval of an Investment Committee. Based on the institution's Financial Policy, responsible investment guidelines have been defined, with sector by sector detail on the standards a company must meet to be considered for investment. External managers must construct their portfolios in accordance with these guidelines. At year end, the Church employs SRI rating agencies to screen the managers' holdings and check whether portfolios are in line with the policy. |
| **Innovative features** | As a religious organization, the Church of Sweden views its investments as a way to contribute to shaping a better world. It does this not just through avoiding investments it views as harmful, but by consciously seeking out investments that do good. |
| **Plans for the future** | As part of its allocation to alternative investments, the Church plans to invest more in areas with a tangible contribution to its mission, e.g. in areas such as clean-tech and developing country investments. Closer direct engagement with companies will allow the Church to exert greater influence and make its voice heard. |
| **Most important recommendation to other foundations** | Don't focus only on negative screening. Choose active asset managers and push asset managers to integrate environmental and social issues in their strategies. Use engagement with companies and 'high impact' investments to enhance your impact. |

*"We have the strong belief that sustainable investments in responsible companies generate better performance in the long run".* – ANDERS THORENDAL

# A CONVERSATION WITH GUNNELA HAHN, HEAD OF RESPONSIBLE INVESTMENTS, AND ANDERS THORENDAL, TREASURER AND CIO

**AS WITH MANY** faith-based organizations, the Church of Sweden has for a long time naturally avoided investments in certain industries based on ethical grounds. This practice of negative screening represented historically the first era of responsible investment, with asset owners excluding companies active in areas such as alcohol, tobacco, gambling and pornography. However, as the 20th century drew to a close, the Church found that its exclusionary policy was simply not satisfactory to many of its members and the Swedish people in general. Media criticism frequently surrounded Church investments especially in defense companies. In response, the Church tightened its restrictions and sought to exit problematic investments, but still, according to Gunnela Hahn, it remained the occasional object of negative media attention.

In 2006, the Church of Sweden decided to fundamentally rethink its investment strategy. Rather than focus on companies where they should not invest, they would focus on companies where they should invest. "This was an important turning point" says Anders Thorendal. If exclusion was the Church's main tool, critics could always point to reasons why certain holdings should have been excluded. If, on the other hand, the Church focused its energies on qualitative assessments rather than quantitative calculations and investing in companies whose goods and services contribute to sustainable development, it would elevate the discourse around investment and direct people's attention at the positive steps that could be taken.

Without abandoning the principle of excluding certain sectors (e.g. weapons, tobacco) or putting tight demands on others (e.g. extractive industries and oil/coal sectors), the Church of Sweden now also requires that companies in its investment funds strive to respect principles of environmental stewardship, community development and intergenerational equity. It prefers to hire asset managers that integrate ESG analysis into their overall investment approach and that recognize sustainability as a key value driver for the future. "We concentrate on managers that focus on finding the opportunities, while handling the risks" emphasizes Anders Thorendal. This usually implies a more active stock picking approach (rather than traditional index-tracking).

The Church of Sweden's €543 million investment portfolio covers a range of asset classes: Swedish equity (25%), global equity (30%), emerging market equity (5%), Swedish fixed income (30%), global fixed income (10%), and a recent allocation to microfinance as part of the new alternative investment portfolio. Performance since 2005 has been in-line with the market. In each asset class, to the extent possible, they select funds that integrate ESG analysis. "For our global mandates, the SRI approaches are well-developed and we have a wide selection of managers that run positive or ESG-integrated strategies. However, our domestic mandates mostly use negative screening, as SRI is still underdeveloped with Swedish asset managers, but we hope that this will change in the future" says Gunnela Hahn.

Nevertheless, the Church sees its investment policy as a whole creating positive impact. Rather than dividing off a percentage of assets for "impact investments", the Church looks at each investment decision as a signal to the market and strives to make those signals reflect the vision of the Church. In the words of Gunnela Hahn, "our impact comes from improving the ethical, environmental and social performance of companies and asset managers".

Another important tool for generating such impacts, and a key part of the Church of Sweden's future plans, is company engagement. However, Gunnela Hahn cautions, "engagement can also be a way to hide investment decisions that run counter to an SRI policy. If a holding violates policy, but the investor does not want to sell, it may claim to be 'engaging' with that company". While the Church of Sweden resolves firmly never to do this, it does recognize that engagement is often the only way for very large investors that cannot have concentrated portfolios to advance their values. In the future the Church of Sweden plans to make strategic use of their engagement resources, and work with companies specifically on topics that larger investors currently neglect, such as ecosystem services, living wages, and tax avoidance.

Beyond engagement, a final component of the Church of Sweden's ever-evolving SRI approach will be to invest more directly in assets and alternative investment funds. Always seeking impact, the Church will look at investments such as cleantech private equity, carbon emissions projects, or agricultural land in developing countries.

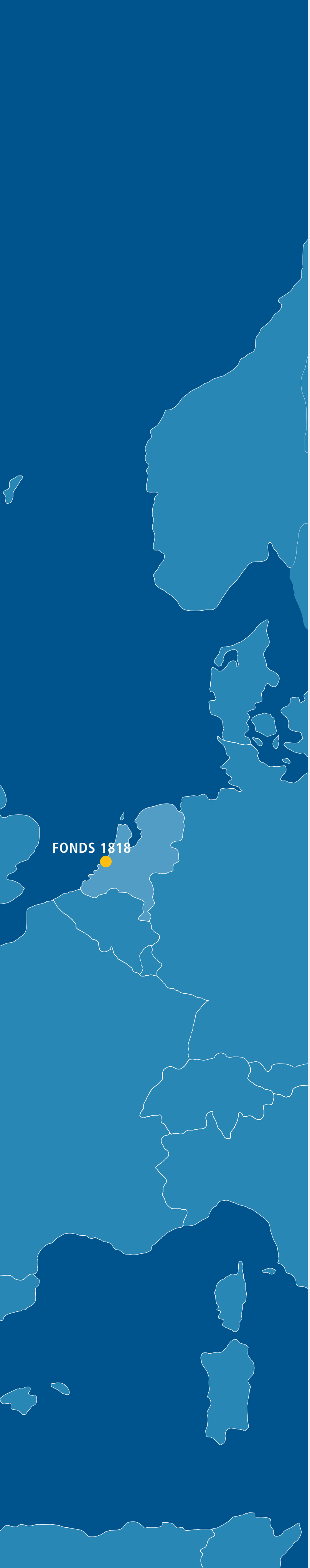
**Recommendations for other foundations:**

- Faith-based investors should look beyond negative exclusion and see the positive good that their investments can do in the world.

- Set an ambitious target with proper supports: an investment policy that states the financial and moral goals of your foundation, backed by external experts on your investment committee with expertise covering these diverse objectives.

- Choose active asset managers who really understand sustainability.

- Get in touch with your national-level sustainable investment forum (SIF) or global initiatives such as the UN Principles for Responsible Investment to learn from the experiences of others.




# Fonds 1818

**Foundation description**

Mission
To support social projects in the region of The Hague, Netherlands, in a variety of areas: heritage, culture, education, arts, environment, nature, sports, health and welfare.

Type
Private (banking origin)

| **Key data** | | **% of assets in:** | |
|---|---|---|---|
| Total assets | **€445 million** | **SRI** | **60%** |
| SRI investor since | **2007** | **Impact investments** | **5%** (target) |

**SRI and impact investment activity**

Goal of SRI / impact investment activity
Fonds 1818 believes that a foundation's values should influence its capital investment. It therefore instituted an investment process that would favor SRI investments and also set aside a portion of assets for impact investing. The foundation expects market returns on the SRI portion of its assets.

Brief description of SRI and impact investment activity
Fonds 1818 is currently in the process of fully implementing its SRI and impact investment strategy. The target asset allocation is 40% equities, 20% fixed income, 15% real estate, 10% commodities, 10% fund of hedge funds, and 5% impact investments. So far the SRI policy is applied to equities and bonds. Investments include sustainability index trackers and actively-managed funds. Fonds 1818 also strives to find SRI solutions for other asset classes.

As with its grants, Fonds 1818 looks to make impact investments specifically in and around the city of The Hague. Current impact investments include issuing loan guarantees to clients of a sustainable bank and offering office space to NGOs at below-market rates in a building owned by the foundation. The foundation has also invested in microfinance. Alongside its impact investments, Fonds 1818 also provides social enterprises

Organization and process
The board is directly involved in developing the SRI policy and monitoring its implementation. While the foundation consulted with a sustainability rating agency and an investment advisor during the design of the SRI and impact investing strategy, it currently manages the investment approach in-house with an investment committee that includes the foundation's Executive Director. The investment committee proposes investments in funds and managers that are approved by the board. The Executive Director takes special responsibility for finding impact investment opportunities that are connected to the foundation's mission.

**Innovative features**
Fonds 1818 makes a point of openly communicating its experience with SRI and impact investing. Sharing this knowledge is part of the foundation's impact, and is in fact a way of multiplying the progress the foundation has achieved.

**Plans for the future**
The foundation will continue to fill its target asset allocations as appropriate SRI and impact investment opportunities arise. In the impact investment segment, this could also mean transitioning out of some global microfinance funds into investments that directly benefit the people living in The Hague and its environs.

**Most important recommendation to other foundations**
Learn by doing. Even a modest foray into SRI and impact investing will provide strong learning experiences unobtainable elsewhere.

*"For every foundation there is a way to make investments socially responsible. Be pragmatic, make your first steps and find your own way. It is easier than you think and it is the right thing to do for foundations".* – BOUDEWIJN DE BLIJ

## A CONVERSATION WITH BOUDEWIJN DE BLIJ, EXECUTIVE DIRECTOR

**FONDS 1818** is an independently funded foundation whose endowment came from the sale of a community banking business in The Hague. Community savings banks such as these originated in the 19th century with a primarily social mission to finance development around the Netherlands. Coming from this background, and thus well-aware of the power of finance to contribute to the common good, it is no surprise that in 2007 Fonds 1818 decided to adopt a socially responsible investment strategy for its capital endowment to complement its grant-making activities.

The foundation board first considered implementing negative and positive screening. With the help of a sustainability rating agency, they designed a customized weighting of SRI metrics to be used to define an investable universe of companies. After careful evaluation, however, they rejected this approach for two main reasons. First, as Boudewijn de Blij explains, "the board members realized that by defining the customized weighting, they were personally creating the foundation's investment signature". Not comfortable with this, the board members wanted something more objective, which would not change with the composition of the board. Second, a highly-customized SRI screen would limit the foundation's ability to invest in index products. "For simplicity and cost-efficiency, we want to have 80% of our equity allocation in indexes. Likewise with corporate bonds we prefer an index approach. It would be nearly impossible to find index products that conformed to such a specific screen".

Having gone through this learning process, the Fonds 1818 board decided on an SRI approach that was practical for the needs of their foundation. They determined to implement minimal but widely accepted negative screening (i.e. the exclusion of firms making landmines and cluster bombs), which still left them wide investment options. Currently the foundation invests 60% of its assets according to SRI principles: 40% in equities, consisting of indexes and seven actively managed ESG mandates, and 20% in fixed income, where the foundation invests in the ECPI Ethical Index Euro Corporate Bond and also the sovereign debt of European countries. According to Boudewijn de Blij, "Fond 1818's particular interest in indexes deserves some credit for market innovation in this area, as one product, the DJSI Pacific was started mainly because of the interest of the foundation". In the remaining traditional asset classes, Fonds 1818 continues to look for SRI investment opportunities that meet its standards.

In 2008, Fonds 1818 also added a target 5% asset allocation dedicated to impact investments. A Dutch consultancy assisted them in this process by conducting an analysis showing that such investments would only marginally reduce risk-adjusted returns. At the same time, the foundation would be able to achieve targeted social and environmental benefits through its investments. Furthermore, introducing impact investments as a separate asset class with a defined allocation forced Fonds 1818 to consciously focus on it. Currently, the foundation is working to fill this asset allocation with investments that directly relate to the mission of improving life in The Hague.

Impact investing, however, was not a skill set that Fonds 1818 already had. Boudewijn de Blij admits "I had been in the non-profit world my whole career and didn't have any experience judging business plans". To remedy this and simultaneously enrich the foundation's range of expertise, Fonds 1818 works with trusted partners who can provide guidance on making impact investments. For example, Fonds 1818 has recently teamed up with ASN Bank—a for-profit institution dedicated to sustainable finance—to support a social enterprise in The Hague that proposed to use a closed church to offer Eastern mind and body classes such as tai chi and yoga. ASN Bank took a lead role in assessing the business plan of Chizone and granted the business a €165,000 loan, which Fonds 1818 supported with a loan guarantee.

Active ownership forms a final pillar of the foundation's SRI approach. As with the asset management and impact investment components, Fonds 1818 here looked for a smart way to engage with companies without using substantial additional resources. The solution devised leverages the active ownership services of VBDO, the Dutch Social Investment Forum. The foundation plans to make a similar arrangement with UKSIF and potentially other European social investment fora. "It's a practical, cost-efficient solution, just like our preference for index investments" explains Boudewijn de Blij, highlighting the importance of easy implementation for the foundation.

While Fonds 1818 does value pragmatic SRI solutions, it is not afraid to make mistakes in order to find those solutions. "We believe in learning by doing", says Boudewijn de Blij, "a foundation can think endlessly about its SRI strategy, but jumping in and just trying it is an approach where you learn the most in a short time". Fonds 1818 has also made an effort to openly communicate its experience along the way, with multiple contributions to magazines and seminars since 2008. This policy allows the foundation to multiply its impact by sharing the lessons it has learned with others.

**Recommendations to other foundations:**

- Whatever your foundation's goals and resources, there will be an appropriate SRI solution. Be confident that you can find something manageable that still delivers impact.
- Start with simple and pragmatic steps. Find partners for sourcing and managing impact investments, given that this is a very time and resource intensive part of the portfolio.
- Don't be afraid to make mistakes, as long as you learn from them. At the same time, don't be afraid to ask for advice. People are surprisingly open to phone calls and questions.
- Share what you have tried with others. Communication multiplies your impact.


DBU

| | | | |
|---|---|---|---|
| **Foundation description** | | | |
| Mission | To support innovative projects in environmental research, technology and education. | | |
| Type | Private foundation (publicly funded) | | |
| **Key data** | | **% of assets in:** | |
| Total assets | **€1.9 billion** | **SRI** | **30%** |
| SRI investor since | **2005** | **Impact investments** | **0%** |

**SRI and impact investment activity**

| | |
|---|---|
| Goal of SRI / impact investment activity | The DBU believes that foundations should not invest in areas that directly counteract the goals of their charitable work. Furthermore, the foundation is convinced that SRI investments can provide competitive financial returns. |
| Brief description of SRI and impact investment activity | The DBU requires at least 80% of its public equity and corporate bond holdings to come from issuers that are included in sustainability indexes, such as the DJSI or the FTSE4Good. Currently, 90% of companies held by the DBU meet this criterion. The foundation also applies a negative screening for especially problematic titles. In addition, the foundation invests in certain sustainability-themed funds in areas such as water, renewable energy, and microfinance. |
| Organization and process | 95% of the foundation's assets are managed in-house by a professional investment team (73% corporate and sovereign bonds, 20% equity, 5 % real estate, 2% cash). An asset management committee (which includes a representative from the German Federal Bank) decides on strategic investment policy (including SRI requirements) and then gives this team the freedom to implement this strategy in the most appropriate manner. The remaining 5% of assets are managed externally. |
| **Innovative features** | By adopting a pragmatic, step-by-step approach to SRI investing, the DBU initiated a process that has continued to bring new advancements and sophistication to the foundation's sustainable investment practices. DBU recently dedicated its Summer Academy to the topic of sustainable investments and sponsored research in the field. |
| **Plans for the future** | DBU is currently looking at possible investments in the area of sustainable real estate. The foundation will also continue to engage with the larger research and investment community to increase understanding of SRI investments and to push for more sustainable practices at financial institutions. |
| **Most important recommendation to other foundations** | Be methodical. Educate yourself and your institution on the facts of SRI investment. Once you feel comfortable about the financial performance of SRI, build consensus around a practical first step to introduce a sustainable investment policy. From there, you can work to expand or improve your SRI activities. |

*"Many people associate SRI with higher costs and lower returns. We accept no reduction to our investment returns by implementing our sustainable investment policy, and our SRI policy allows for a highly-efficient financial management process".* – MICHAEL DITTRICH

## A CONVERSATION WITH MICHAEL DITTRICH, HEAD OF THE DEPARTMENT OF FINANCE AND ADMINISTRATION

THE DEUTSCHE BUNDESSTIFTUNG UMWELT (DBU) is one of Europe's largest foundations dedicated to environmental issues, with an annual grant-making budget of about €50 million. Given its mission and public profile, the DBU first began to consider sustainable investments as a way to avoid counter-productive activities and reputational risk for the foundation. "We believe that the non-profit sector should be particularly aware of how it invests", states Michael Dittrich. "Investments in companies and industries that actually cause the problems we are trying to solve are not only illogical but also irresponsible for a foundation such as ours".

Moving a nearly €2 billion endowment into SRI, however, took some planning. Beginning in 2004, Michael Dittrich and his colleagues began reviewing the investment case for SRI. "Contrary to popular belief at the time, we found that sustainable investment strategies could deliver returns that were just as good as mainstream investments", he explains. Where the need and opportunity arose, the DBU also sponsored additional research on SRI as part of its grant-making program. Information about SRI and professional knowledge of the members supported the emergence of a consensus among the DBU's investment committee that SRI was a realistic possibility for the foundation.

To implement SRI at the foundation, in 2005 Michael Dittrich proposed an approach that was simple to manage. "We decided to require that at least 80% of our company holdings (equity and corporate debt) must be listed on a major sustainability index such as the Dow Jones Sustainability Index (DJSI)", says Dittrich, "and currently 90% of our holdings are on such indexes". This strategy gives a clearly defined universe from which the DBU investment team can select stocks and bonds based on their investment analysis. On top of this, a preference for taking long-term positions rather than frequent trading allows the foundation to minimize management costs and staff requirements. This SRI approach was also easy to accept as financially viable. The corporate sustainability leaders that are included on indexes are often well-known names such as GE, Siemens, and Novartis, and a portfolio manager should have ample choice among high-quality companies to deliver good financial returns.

While the DBU manages most of its assets in house, it has also begun to expand its SRI investment scope by investing in a number of thematic funds and other specialized products. The foundation has bought "green bonds" from the World Bank and KfW, where the proceeds are earmarked for environmentally-friendly economic development projects. It also has begun to invest in water and renewable energy funds. "In all of these investments, rigorous financial standards must first be met, as the foundation will not sacrifice returns", emphasizes Michael Dittrich.

Beyond the investment of its endowment, the DBU also advances sustainable investment in the wider financial community. It has hosted the Secretariat of the Bellagio Forum for Sustainable Development, which was one of the first initiatives among European foundations to look at how investment activities could contribute to social goals. The DBU also serves as a bridge between SRI research and practice. It holds an annual Summer Academy, which last year focused on sustainable investment. "We have learned from the last financial crisis that society must require the finance sector to be more sustainable", says Michael Dittrich. "Our mission is environmental sustainability, but we cannot leave out the financial sector in thinking about the broader issues at play". A book published by the DBU in 2011 explores exactly this topic of introducing more sustainable practices in finance and investment.

Still, Michael Dittrich sees a number of challenges ahead for SRI at foundations. "Many people associate SRI with higher costs and lower returns" he says, "but at DBU we understand this need not be the case". The example set by the DBU shows that a wide, high-quality investment universe is still available to SRI investors, and that the costs of running such a strategy are not higher than mainstream alternatives. Michael Dittrich also stresses that foundations should become more-transparent if sustainable investing is to gain more traction. "In countries where foundations are not required to disclose their financial activities, the pressure to reform investment practices will be limited", he predicts.

**Recommendations to other foundations:**

- Start with a pragmatic first step for your organization to gain comfort and develop support for the idea of SRI. From there, you can work on more ambitious SRI approaches.

- Research the SRI investment case. You will find that competitive or superior financial returns are fully possible under an SRI policy.


FRIENDS PROVIDENT Foundation

**Foundation description**

| | |
|---|---|
| Mission | To create the conditions throughout the UK for improved access to appropriate financial services for those who are currently excluded, particularly those on low incomes or otherwise vulnerable to market failure |
| Type | Corporate foundation |

**Key data**

| | | % of assets in: | |
|---|---|---|---|
| Total assets | **€29 million** | **SRI** | **95%** |
| SRI investor since | **2007** | **Impact investments** | **5%** |

**SRI and impact investment activity**

| | |
|---|---|
| Goal of SRI / impact investment activity | Friends Provident Foundation believes that investments can create social value in addition to financial value. Its SRI investment policy also seeks to minimize reputational risk for the foundation. The foundation targets market rates of return from its SRI investments. |
| Brief description of SRI and impact investment activity | The foundation invests 95% of its assets in equity and fixed income funds that are managed according to a negative and positive SRI screening overlay. Trustees aim to invest the remaining 5% of assets in impact investments that further the foundation's general mission of socially conscious finance as well as specific grant program objectives. |
| Organization and process | The Board of Trustees of Friends Provident Foundation defines the investment policy and approves external investment managers/products. A sub-committee of the board takes special responsibility for implementing the policy and monitoring investments on an ongoing basis. They receive support from two external financial advisors, one who provides general investment advice and another who works with trustees and staff to identify suitable impact investing opportunities. |

**Innovative features**

The foundation uses its expertise in the field of financial inclusion to push for the creation of innovative impact investment solutions to the issues addressed in its mission.

**Plans for the future**

The foundation plans to systematize its impact investing activities so that, going forward, it can select the very best uses of its limited capital.

**Most important recommendation to other foundations**

Pick your battles. As a small organization, Friends Provident Foundation must be very strategic about putting its time and money into SRI and impact investing. A clearly defined mission and a realistic sense of where impact can be achieved will help foundations efficiently allocate their resources.

*"Impact investing opened up the foundation. Now we are engaged in the market in new ways and talking to people we would never have met otherwise".*

– DANIELLE WALKER PALMOUR

## A CONVERSATION WITH DANIELLE WALKER PALMOUR, FOUNDATION DIRECTOR

**FRIENDS PROVIDENT FOUNDATION** emerged out of the demutualized Friends Provident insurance company in 2004, endowed with an initial allocation of unclaimed shares. As an independent charity, the foundation sold those shares and in 2007 invested in two SRI funds covering stocks and bonds. Danielle Walker Palmour attributes the ease of adopting an SRI approach partially to the historical legacy of Friends Provident, which launched the United Kingdom's first ethical investment fund in 1984: "in some ways the foundation continues what was already the conviction of the company, i.e. that investments can create social value in addition to financial value". She also credits her young board of trustees (most of whom are under 45) for being open to the idea of SRI.

After a first year as an SRI investor, however, Friends Provident Foundation realized that some of the holdings within their funds did not perfectly match their values. "There were some things we would not have invested in on our own", says the Director of the foundation, which has a mission centered on financial inclusion, "but we realized that trying to unpackage the fund to exactly match our preferences would not be cost efficient for a foundation of our size". Instead, the foundation resolved to allocate a portion of its assets to investments that would make a direct contribution to its charitable mission. "We decided it was more important to invest positively than to focus on the negative", says Danielle Walker Palmour.

In 2007, therefore, Friends Provident Foundation made its first impact investment, a £250,000 subordinated loan to Charity Bank Limited. While still keeping 95% of its assets in traditional SRI equity and fixed income funds (which apply positive and negative screening alongside company engagement), the foundation now also devotes 5% of its endowment capital to direct investments for impact. The foundation works with a specialist advisor to help screen for impact investments appropriate to its mission. As with any investment process, this involves looking at many options before finding the right one and can be time consuming, especially for a small foundation without dedicated investment staff. Still, as Danielle Walker Palmour observes, "it's given us an excellent idea of what's out there". Currently, Friends Provident Foundation has other impact investments with an ethical property company, a community development bank, and a social enterprise that works with prisoners to reduce recidivism.

Impact investing has also enhanced the capacity of the foundation and added a new dynamic to its management. "Trustees are interested in what investees have done. They want to know how things are going in general, not just if they have paid our loan back", says Danielle Walker Palmour. Actively participating in the UK impact investment community has also opened up the foundation to the outside. "We're talking to people we would never have met otherwise" she says. Through this work, Friends Provident Foundation has been invited by the UK government to contribute advice on its creation of a "Social Investment Wholesale Bank", a unique role for the small foundation and a way to generate a potentially large impact.

Impact investing provides the foundation not just with a new tool, but a new way of thinking about all its tools. For example, the foundation saw from its grant activities that UK credit unions will need a new source of financing after the government terminates its current support in 2012. Having gained the impact investment mindset, it recognized this as an investment need and opportunity but also saw that there were no "investment ready" solutions as of yet. Consequently, the foundation is now discussing with credit unions how to operate independently and eventually attract outside investment. "We only thought to do this because we are making both grants and impact investments", says Danielle Walker Palmour.

Next year, the foundation will introduce consistent metrics for comparing opportunities side by side and against the mission. "It's critical to stay tightly focused on the mission" emphasizes Danielle Walker Palmour, "rather than spreading ourselves thin, we ideally look for impact investments that leverage our existing expertise and contribute in some way to financial inclusion". The foundation is also considering collaborating with other impact investors to jointly evaluate multiple potential investments at a time.

In general, Danielle Walker Palmour sees steps like these as part of a necessary process to make impact investing more accessible to all investors. This will require an improved infrastructure of social finance intermediaries delivering greater choice. As more institutions like Friends Provident Foundation take an interest, impact investing will become easier. Still, right now in the early stages of this process, the foundation values its place among the early-adopters that can have a significant impact on the future.

**Recommendations to other foundations:**

- Engage your Board in actively shaping the SRI / impact investment strategy and linking it to the general mission of the foundation.
- Clarify your impact investing goals. Know what types of enterprises you want to support and how they connect to your mission.
- Look for impact investments that leverage your existing expertise. Push managers to develop new impact investment solutions that fit with your mission. Consider collaborating with other impact investors to share resources and reduce costs.
- Find a good external advisor who can accompany you through the process of developing your investment strategy.
- Participate in dialog and thought-leadership around your investment activities. It will strengthen your foundation by exposing you to new ideas and generating opportunities to advance your mission.


# MISTRA

THE SWEDISH FOUNDATION FOR STRATEGIC ENVIRONMENTAL RESEARCH

**Foundation description**

| | |
|---|---|
| Mission | To fund research of strategic importance for a good living environment in Sweden and abroad |
| Type | Independent public foundation |

| **Key data** | | **% of assets in:** | |
|---|---|---|---|
| Total assets | **€329 million** | **SRI** | **100%** |
| SRI investor since | **2000** | **Impact investments** | **0%** |

**SRI and impact investment activity**

| | |
|---|---|
| Goal of SRI / impact investment activity | Mistra believes that integrating sustainability criteria in investment management will contribute positively to both risk-adjusted financial performance and a more sustainable development of the economy. |
| Brief description of SRI and impact investment activity | Mistra's investment policy requires consideration of ESG across all asset classes (42% international equity, 10% Swedish equity, 46% Swedish fixed income, and 3% international fixed income). Mistra invests through external managers, 96% of whom are PRI signatories. On average, Mistra's portfolio has performed in line with or slightly above market benchmarks. |
| Organization and process | Mistra's investment policy contains a commitment to consider sustainability in the management of the foundation's assets. Mistra's asset management committee, with the help of external consultants, oversees its implementation in asset manager selection and monitoring. Notably, the committee includes independent experts with knowledge in the SRI field. After investment, Mistra annually reviews its managers and engages with them on ways to improve ESG integration.<br>Separate from its asset management, Mistra also funds an academic research program on SRI and actively engages with the investment community to share knowledge and improve ESG-integration across the industry, often playing a lead role in groups and networks. These include the UN PRI, SweSIF, The Bellagio Forum, The Carbon Disclosure Project, and several internal Mistra initiatives. |
| **Innovative features** | Mistra uses annual reviews to engage its asset managers with the goal of pushing the boundary of ESG integration. Results from the reviews are posted on the Mistra website. Not satisfied simply to implement its own internal SRI policy, Mistra seeks new ways to support academic research and engage the wider financial industry on the topic of sustainable investment. |
| **Plans for the future** | Mistra is planning to share its experience in implementing SRI with other European foundations (e.g. in the context of the European Foundation Centre membership). It hopes to foster collaborations among foundations that will ultimately also benefit its own asset management. |
| **Most important recommendation to other foundations** | With a well-formulated strategy and proper monitoring, SRI can deliver excellent financial returns year after year. Once a foundation feels confident in this, though, it should look beyond its doors to see how it can advance the understanding of SRI generally. |

*"As a publicly funded foundation, transparency and civic engagement are part of our DNA. When we started to explore sustainable investing we understood our internal work had an external value as well. Over the past decade, we've continued to communicate our experiences openly in the hopes that the mainstream investment community will embrace sustainability".* – LARS-ERIK LILJELUND

## A CONVERSATION WITH LARS-ERIK LILJELUND, EXECUTIVE DIRECTOR

IN 1993, THE SWEDISH government established Mistra as an independent foundation to support environmental research that "plays a significant role in solving major environmental problems and contributes to the development of a sustainable society". In its research areas, this has lead Mistra to focus on interdisciplinary projects with a strong emphasis on practical implementation of the knowledge they generate. In its investment activities, this has lead Mistra to become one of the strongest advocates for sustainable investment in Europe.

Like many foundations that have adopted SRI, Mistra first became acquainted with sustainable investing out of concern for reputational risk. In the years leading into 2000, the Swedish press ran a number of high-profile stories on organizations whose investments conflicted with their institutional missions. "We started with a basic negative exclusion policy, but we quickly understood that our public mission would call us to do more", explains Lars-Erik Liljelund. "At the same time, sacrificing financial performance was never an option".

In 2001, Mistra started a process that would lead it in 2007 to be 100% invested in managers that include ESG criteria in their analysis. With board approval, the then Executive Director, Måns Lönnroth, established a committee to assess Mistra's SRI options. "It helps tremendously if you have people in the management pushing SRI along with the board", says Lars-Erik Liljelund, who was a board member at the time. Pursuing a positive SRI strategy that would take the foundation beyond simple exclusion, Mistra conducted research on the availability and quality of SRI research provided by independent rating companies. This led to the report "Screening of Screening Companies", the first of many public contributions the foundation would make to the field of SRI investing.

Today, Mistra's investment policy calls for the foundation to "provide a model for how investments can promote progress towards long-term sustainability in society and the private sector". This happens first through profitable asset management, which Lars-Erik Liljelund firmly believes can come from "investing in good companies with a strong internal grasp of social responsibility". The foundation has thus far succeeded on this front. Its managers—which employ mostly active strategies—have delivered strong results meeting or exceeding the foundation's target return.

On top of demonstrating financial viability, Mistra then promotes SRI through funding research, knowledge sharing among investors, engagement with asset managers, and internal transparency. These initiatives and processes aim to build an ecosystem of knowledge around sustainable investing.

As part of its grantmaking, Mistra launched a large international academic research program entitled "Sustainable Investment - Towards a New Role for Institutional Investors" with an annual budget of €1.6 million. Areas researched have included behavioral patterns in institutional owners, the investment case for SRI, and the contribution of SRI to sustainable development. Here, Mistra played a key role in bridging the world of institutional investors and academia.

Mistra actively participates in knowledge sharing aimed at developing the SRI industry. It is one of the few foundation signatories of the UN PRI, and likewise one of the few foundation members of SweSIF (the Swedish Sustainable Investment Forum). It also supports the Carbon Disclosure Project and its advancement of transparent reporting. Annually Mistra organizes a meeting of the Sustainable Investment Platform, which is a forum designed to connect academic research on SRI with private sector practitioners. Mistra funded the launch of the Enhanced Analytics Initiative, a program to evaluate and reward the best providers of extra-financial investment research. Mistra was also a principle sponsor of the Bellagio Forum, which produced the PRIME Toolkit, a guide for foundations to implement SRI in their capital endowments. Mistra sees these activities as contributing to its mission as well as contributing to better SRI investment opportunities that will ultimately also benefit the quality of its asset management.

The foundation brings home insights from external dialogs through engagement with its own asset managers. Never presuming that Mistra's own SRI approach has reached perfection, Lars-Erik Liljelund stresses that "because sustainability is a moving target, it is crucial that we engage with our managers in order to further evolve our approach to ESG integration". Mistra encourages all of its managers to sign the UN PRI, and as of this year 100% of them have. Mistra transparently publishes all its SRI activities. On the Mistra website, the public can download summary reports of the annual asset manager ESG reviews conducted by the foundation. Mistra also makes public its responses to the UN PRI survey, which includes detailed information on the foundation's overall investment management approach.

**RECOMMENDATIONS TO OTHER FOUNDATIONS:**

- Be confident that a professionally designed and implemented SRI strategy produces financial returns that are comparable to and sometimes exceed those of traditional investments.
- Include independent experts with knowledge in the SRI field in your investment committee.
- Where your foundation has gone through a learning process, consider ways to communicate this new knowledge for the benefit of other foundations. Stay abreast of the fast-evolving SRI field by participating in collaborative initiatives that connect the many different repositories of knowledge on this subject.

VI.

# Key Messages from the Study

Looking across the case studies in this report, several key messages present themselves.

### 1 Diversity of SRI approaches

There are as many unique approaches to SRI as there are foundations. Some foundations will want a highly-personalized SRI investment style, while others will want a solution that can be applied quickly and efficiently. Dreilinden, for example, works directly with an SRI rating agency to develop a customized company screen that focuses on respect for women and gender rights. On the other extreme, DBU requires simply that the companies it invests in be quoted in one of the major sustainability indexes, thereby effectively outsourcing the SRI research process. The awareness of this diversity of SRI approaches is perhaps best expressed by the SRI policy of the Fondation de Luxembourg, which gives its philanthropists multiple paths to comply with the policy, rather than prescribing one single approach.

### 2 SRI is financially viable

Every foundation interviewed for this report found that SRI investing gave them at least market rate returns. Furthermore, six of the eight foundations had applied SRI across 100% of their investments (apart from impact investments). Indeed, foundations such as Mistra, DBU and the Church of Sweden contend that considering ESG factors can have a positive effect on long-term investment performance, and therefore expect SRI investing to improve the risk-adjusted performance of their portfolios.

### 3 Overcoming the obstacle of limited capacity

While the argument that SRI destroys returns is losing ground, a significant barrier still exists in the lack of internal resources and the perceived low efficiency of SRI (small contribution to mission compared to the time/cost invested relative to the grant-side). Here umbrella foundations such as Fondation de Luxembourg and joint fiduciary management platforms such as the one created by Fondazione Cariplo can play an important role in lowering costs and resource needs.

### 4 The next generation

In several cases we found that young foundation staff members or directors had catalysed the move toward SRI or impact investing. This next generation of foundation leaders is more in-tune with the logic of SRI at foundations and also more willing to experiment with new investment approaches. For example, the young officers of the Fondation de Luxembourg used their prior experience in the SRI field to introduce the concept as an integral part of the foundation's design.

### 5 Reputation risks

The Church of Sweden, Fondation de Luxembourg, DBU and Mistra all cited reputation risk as a strong reason to adopt an SRI policy. These foundations all have a public profile and rely on the goodwill of the general population, if not on its continued financial support. There have been many news stories of foundations that seem to undo their own philanthropy with their investments. A prominent example came in 2007 when the Los Angeles Times ran a story on the Gates Foundation, which was working to improve living conditions in the Niger Delta even as it was invested in oil companies whose operations created public health problems in that region. If foundation investments face public scrutiny, either via the press or disclosure requirements (see the box "Foundation SRI and Impact Investment in the UK"), SRI will gain traction.

### 6 Learn by doing

Foundations can and should take a step-by-step approach to introducing SRI, rather than trying to design their system 100% in the first attempt. In our studies we saw DBU laying the groundwork for progressively more SRI measures, beginning at first with the investment case for SRI. Fonds 1818 considered several SRI concepts, which it ultimately discarded, before it reached its present approach of using cost-efficient SRI index products and impact investments. Significantly, Fonds 1818 and many other foundations are still developing their investment approach. A modest initial approach lowers internal barriers. Still, foundations must be patient to allow a sufficient monitoring period before making major course corrections.

## 7 SRI comes standard

In private foundations, a new, younger generation of endowers is very open to considering SRI if it is available as a standard, easy-to-implement option. This fact arose from our conversation with Fondation de Luxembourg, which has established its SRI policy in part to differentiate itself from other umbrella foundations and banks. SRI is an attractive addition to services offered by philanthropy advisors.

## 8 Beyond negative screening

Using negative screening to simply avoid objectionable companies will not change the world. Investors such as the Church of Sweden and Mistra create a positive incentive for businesses to behave responsibly by actively seeking to invest in companies that contribute to sustainable development. Negative screening can still form a component of an SRI strategy, but it is important to combine it with best-in-class, ESG integration or impact investing approaches.

## 9 Active ownership

Most foundations approach ESG from an investment management point of view and are not using the active ownership approach. Active ownership includes voting equity shares and engaging with companies on critical issues. Exceptions to this are Mistra, Fonds 1818 and the Church of Sweden, which do have active ownership policies. Some foundations feel they are too small to make a difference through active ownership. Here, a way to pool foundations' ownership activities and lower transaction costs could magnify the influence of active foundations. Such pooling options are already offered by equity ownership service providers, and investor initiatives such as national SIFs and the PRI. Foundations could efficiently access these resources as a group after coming together to share know-how and develop joint positions on ownership issues.

## 10 Leverage foundation expertise

Foundation staff have a deep practical knowledge of social issues. As the nascent impact investing industry matures, foundations have a window of opportunity to deploy their program-related expertise to shape the marketplace of the future. Fonds 1818, Friends Provident and Dreilinden all stand as strong examples of how a foundation can have an outsized impact on the investment world by using their expertise to help in the formation of new mission-specific investment products that in turn attract other investors.

## 11 Teaming up on impact investing

While it is relatively easy to implement SRI, impact investing is much more challenging. New products need to be developed and seeded, and investments require private-equity type due-diligence work. This requires time and expertise. Here it is crucial that foundations collaborate and share resources to lower transaction costs. A European platform for this would be helpful.

## 12 Tapping association resources
(PRI, SIFs, foundation groups)

The PRI initiative, national SIFs (sustainable investment forums) and foundation associations provide services and resources to foundations, often for free. In Germany, the national foundation association, the Bundesverband Deutscher Stiftungen, has arranged with an ESG ratings agency to provide an "SRI check-up" on foundations' portfolios free of charge. Checking the sustainability of existing investments is a basic step toward forming a comprehensive SRI policy. In the Netherlands, the local sustainable investment forum, VBDO, allows foundations such as Fond 1818 to assign them proxy voting rights. This allows foundations to tap the active ownership expertise of a specialised team and to pool their votes alongside other sustainable investors. Similarly, the PRI Clearinghouse offers investors the opportunity to join company engagement initiatives and thereby act as a larger interest group. Foundations should discuss their interests and needs with the relevant associations to see what is available. At the same time, however, foundation associations should pay closer attention to the cutting edge impact investments conducted at foundations that do not fit into the traditional grant-giving model. Keeping abreast of the developments in impact investing and venture philanthropy will allow foundation associations to continue offering useful resources to their members.

## 13 Spread the word

In keeping with the spirit of public benefit, foundations that undertake the sustainable investment journey should communicate their experiences with others. This information will be invaluable to interested foundations, for guidance and for the basic proof that other foundations are moving their assets to SRI and impact investments, and are doing so with success in the end. Mistra, Fonds 1818 and DBU are stand-out examples of dedicated communication policies. Their efforts benefit others individually, and also bolster the sustainable investment space as a whole.

## 14 Knowledgeable about financial sustainability

Foundations that implement sustainable investments enjoy a unique position. On one hand they are dedicated to the common good and on the other they have firsthand experience with sustainability in the financial sector. Foundations such as DBU and Mistra use this position as a springboard to support research and awareness-building initiatives aimed at improving the understanding and quality of ESG integration in the financial sector. The last financial crisis showed that helping the financial sector become more sustainable is an imperative for our societies. Foundations can and should contribute to this goal.

VII.

# Next Steps

The information contained in this study of leading European foundations can assist others in implementing their own SRI or impact investing programme. The resources to begin this process exist today, and this study points to ways to access those resources, including following the examples of the foundations profiled here.

At the same time though, this report has identified the need for further resources to assist foundations with SRI and impact investment. Initiatives to share knowledge and take collective action could accelerate the adoption of SRI and impact investing at foundations. Existing institutions, such as the European Foundation Centre and the Principles for Responsible Investment have a key role to play in addressing these needs.

Work and research continues, but action can be taken today. The time is right and the opportunity is large. European foundations can work together and learn from each other as they seek to make their investments a further extension of their noble pursuit.

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MISTRA

Gamla Brogatan 36-38
SE-111 20 Stockholm, Sweden
Phone +46 8 791 10 20, Fax +46 8 791 10 29
mail@mistra.org