NCRP
Responsive Philanthropy
THE NCRP QUARTERLY | SUMMER 2007

Beyond Grantmaking: Letting Our Foundation Assets Work Full-Time

By Dave Beckwith

Early this year, the Los Angeles Times *published a series of reports on the Bill and Melinda Gates Foundation's investments in companies whose business practices undermined the programmatic objectives of the foundation. This brought attention to the seeming conundrum that many nonprofits face: As they engage in efforts to address pressing social, economic and environmental issues, they seek to increase their assets through high-return investments. Unfortunately, many national and international companies most attractive to fund managers, such as oil and pharmaceutical giants, contribute to the very problems nonprofits and foundations are trying to fight.*

NCRP asked board member Dave Beckwith, executive director of the Needmor Fund, to share its foundation's experience with the kind of investing that uses the foundation's endowment to generate income and further its mission.

"Every dollar bears a burden of mission."

"Every dollar is a tool to use to build a better world."

"Every dollar is public. It's not just our money."

Different takes on the same idea—that philanthropists should consider all our resources, both the dollars we spend on grants and administration and the dollars we invest, as important vehicles for achieving our objectives.

In reality, every foundation has investment goals, whether they are to maximize return or to make safe, dependable, non-risky investments. Every financial manager is instructed by the client. The question we first raised at the Needmor Fund in the 1980s was: "what should be the nature of those instructions?" Are they limited to risk and return, liquidity and strategy, or do they include instructions as to the impact on our values—our mission and the (*continued on page 11*)

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spirit of progressive engagement bequeathed to us by the founders along with the money? It's a question asked increasingly by Board members, trustees and financial managers of the massive resources held by philanthropic entities around the country.

In our case, a number of key factors converged to bring our values and our investments together. The founders, Duane and Virginia Secor Stranahan, had largely passed on the management of the foundation to their children, and the next generation—teenagers and twenty-somethings who had been taught to believe in something and take action on those beliefs—was coming up behind. The foundation was one of the places where both generations converged. The anti-apartheid movement had raised the question of the complicity of investors in companies doing business in South Africa. Campus and corporate campaigns for disinvestment had spread widely. Family members were involved in both the foundation and the family business (Champion Sparkplugs). They were faced with tough decisions about shareholder resolutions concerning Champion's business operations in South Africa. In the ensuing debate, one of the family members who served on the Champion board asked, "Why are you picking on Champion when there are far worse offender's in Needmor's portfolio?" The young people began looking at all the portfolio holdings. We found ourselves to be investors in a company that was locked in battle with local environmental groups and employees over their policies related to nuclear pollution. When we realized that one of our grantees was working to combat the pollution of Kerr-McGee,[1] of which we were shareholders—owners, in fact—the wall between our investment decisions, our grants and our values weakened.

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The next year, the Board invited Amy Domini, founder of Domini Social Investments, to come and talk about Socially Responsible Investing. It took us several years to bring our investments into line, and we're still looking for new ways. The most important moment, though, was when we asked ourselves the question, "How do our investments reflect our values?"

Now, our Investment Policy[2] and our Guiding Paper on Mission Related Investing describe our "values congruent investing" approach—and we use many tools.

First, **we screen our investments to avoid investing in areas that clash with our values.** We expect our fund managers to have the internal capability to research

THE NEEDMOR FUND AND MISSION-RELATED INVESTING

Why It Does It

The Needmor Fund's Mission-Related Investment Program is guided by its mission statement, which is "to work with others to bring about social justice. The Needmor Fund supports people who work together to change the social, economic, or political conditions which bar their access to participation in a democratic society."

In carrying out our work, the Needmor Fund is a steward of an endowment with a portfolio of investments. We believe that it is our responsibility to carry out our mission with all the resources available to us, not just the funds allocated to grantmaking. We have both internal and external motivations for our investment program. Internally, we desire that our investment program reflect our institutional values. Externally, we hope to use our investments as a tool of social change, to support fair and sustainable corporate practices.

How It Does It

The Needmor Fund achieves its Community-Related Investment Goals through the following strategies:

- Investing our cash reserves in community development banks or credit unions located in the communities in which we make grants.
- Partnering with intermediaries like Calvert and Access Capital to invest in debt instruments targeting low-income community home ownership and small business or non-profit development in the communities where we make grants.

companies and ensure they fit both our investment goals and our values. Although we may invest in non-screened companies as part of our campaign to change corporate behavior (we currently hold small amounts of Exxon and Occidental Petroleum, for example), we consider ourselves "100% screened."

Second, **we vote our proxies**. As responsible co-owners of these companies, we believe that ethical behavior and sound management practices are exactly congruent with long-term corporate soundness, and that our fiduciary duty as share owners requires us to take an active role in the management decisions we are asked to vote on.

Third, **we look for investments that do good as well as make money**. Needmor began its community-related investment program in the 1990s after Molly Stranahan, then chair of the Finance Committee, attended the "SRI in the Rockies" conference for the first time. There she learned of the "1% for Community" campaign, which was a drive to increase the level of community-based investments by requesting that all investors using screens commit 1 percent of their portfolios to community-based investments such as community development banks, credit unions, housing and community development projects. Needmor decided to participate and partnered with the Calvert Foundation to develop guidelines and procedures. Since then, our community-related investments have grown and our partnerships have expanded.

At its May 2005 board meeting, the Needmor Board approved an Investment Policy that stated:

> "A portion of Needmor's endowment may be committed to support community development projects with a potential for high positive social impact. These investments will use the values and strategies of community economic development and include community empowerment and local control as critical components. These investments may take the form of debt financing, certificates of deposit, or equity investments."

Right now, 14 percent of our assets is invested in community development programs, with both a financial return and a positive link to the low-income communities we seek to benefit. None of these investments is below-market.

So why doesn't every foundation engage in mission-related investing? Well, many actually do. The F. B. Heron Foundation, the Nathan Cummings Foundation, the Ford Foundation, the David and Lucile Packard Foundation, and many others—large and small—have broken or are looking at breaking the barrier between investments and values.

Even the Gates Foundation seems to be open to moving toward mission-related investing. "We do think that advocacy toward corporations is important," said CEO Patty Stonesifer during the Council on Foundations' recent conference in Seattle. "We are placing [program-related investments] and making loans to organizations that benefit communities. We are interested in a wide range of tools. We were delighted to receive just this week the Proxy season guide from Rockefeller Advisors. We do vote our proxies in accordance with the values of Bill and Melinda. For now, though, we are concentrating on our giving through our payout, but we'd like to learn more."

There are a number of concerns, however, that foundation leaders raise regarding mission-related investments for their organizations. We certainly considered each of these as we developed our approach, and we continue to keep these questions in mind as we evaluate our strategies on an ongoing basis.

First, there is the **question of return**. Isn't the main job of the financial managers to maximize return so as to maximize the dollars available for charitable giving? We view this as a false choice. Our expectation is that our professional managers will meet or exceed the performance of the benchmarks for their strategy—and if they don't, we will move resources to new managers. The return on our portfolio over the last five years has been 7.8 percent, which compares favorably to the combined indexes (8.2 percent) and to most foundation endowments.

It's important to note that there are plenty of investment opportunities that carry a positive community or mission impact with absolutely no risk or lowered expectation of return. These include the U.S. Treasury's Community Development Financial Institutions Fund[3] and the Certificate of Deposit Account Registry Service, which aggregates these insured deposits and offers investments that are fully liquid and fully insured at competitive rates for up to $30 million.

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Second, many express concern that **the skills of managing investments and of monitoring the behavior of corporations are divergent and hard to find.** At Needmor, we require all our managers to be skilled in their strategy area and in mission-related investments, screening companies, voting proxies, etc. In every area we have effective managers, some who are veterans and others who are newly engaged in the screening field. This is a growing field—the Social Investment Forum lists 224 advisors and planners on its website, which includes a service that reports on the performance of socially responsible mutual funds. Clearly, as finance committees and investment consultants demand these skills, the supply of capable managers will continue to expand.

There also is **the powerlessness argument**: will our little investment decisions or our few proxy votes really change the behavior of giant corporations? There are two answers to this. First, it's as much about your own behavior as an investor as it is about the behavior of the corporations you choose to own or not own. For a foundation funding teen health to make money from investing in tobacco is just not right. The other answer is that, in fact, we can make a difference. There are shareholder action experts and investment responsibility organizations that have worked to aggregate

SOME ADDITIONAL RESOURCES

PUBLICATIONS

Compounding Impact: Mission Investing by US Foundations,
From FSG Advisors
www.fsg-impact.org

"Maximizing Charitable Returns: Mission-Related and Socially-Responsible Investing" in Family Giving News
By National Center for Family Philanthropy
www.ncfp.org/FGN-Mar_2006/Maximizing_Charitable_Returns.pdf

Sample Investment Policy for Mission-Related Investing
From Foundation Partnership for Corporate Responsibility
www.foundationpartnership.org/SmplPlcy.htm

WEBSITES

Interfaith Center on Corporate Responsibility
www.iccr.org

Social Investment Forum
www.socialinvest.org

Socially Responsible Investment Coalition
www.sric-south.org

SRI in the Rockies
www.sriintherockies.com

the voices of investors concerned with corporate behavior, and those voices, together, are strong. The ultimate example is the Carbon Disclosure Project.[4] Started in December 2000, hosted by the Rockefeller Philanthropy advisors, this international effort has enlisted the owners and managers of $41 *trillion* dollars in assets in their campaign. The results have been startling: corporations are beginning to understand that their investors care about their policies in regard to carbon emissions—and expect action.

The **ultimate barrier to bringing investment practices in line with an organization's values is more about culture than policy or finance.** It's the division of labor in most family and private foundations between the "mission" or "program" people and the "money" folks. In a family foundation, the rift may be generational, skill- or experience-based. In a private foundation, it's likely that finance committee members were recruited more for their experience with investments than for their values or social conscience.

This division does a disservice to both sides. It assumes that the fund managers couldn't—or wouldn't—agree with the values of the foundation, and robs them of the chance to deepen their understanding of the work that the foundation does, and why. It says that the board members who carry the mission couldn't—or wouldn't—respect the parallel goals of prudent financial management and positive impact, that they'd somehow diminish the effective investment agenda with their peripheral concerns.

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The experience of our foundation, and of hundreds of other institutional and individual investors, tells a different story. In dozens of ways, through careful construction of investment policies and selection of consultants, managers or investment vehicles, it's possible for foundations to do less harm and more good while growing their financial assets. It's a powerful feeling to put all your resources to work to accomplish your mission; it has brought our foundation together in many exciting ways.

Dave Beckwith directs the Needmor Fund, an Ohio-based family foundation with more than $27 million in assets that seeks to empower individuals whose basic rights to justice and opportunity are systematically ignored or denied.

NOTES

1. During that time, Kerr-McGee Corporation was an energy company involved in gas and oil exploration and production. In 2006, Anadarko Petroleum Corporation in Houston acquired Kerr-McGee.
2. Available online at www.needmorfund.org.
3. The Community Development Financial Institutions Fund offer federally insured CDs, including those from local credit unions and development banks.
4. The Carbon Disclosure Project (CDP) provides a secretariat for the world's largest institutional investor collaboration on the business implications of climate change. CDP represents an efficient process whereby many institutional investors collectively sign a single global request for disclosure of information on greenhouse gas emissions. More than 1,000 large corporations report on their emissions through this website. On 1 February 2007, this request was sent to more than 2,400 companies. For more information, visit http://www.cdproject.net/aboutus.asp.