

360-Degrees for Mission

Engaging European foundations on mission aligned investing

Summary of a workshop hosted by the Mistra Sustainable Investment Platform in collaboration with Fondazione Cariplo, Fonds 1818 and the European Foundation Centre

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onValues Ltd.
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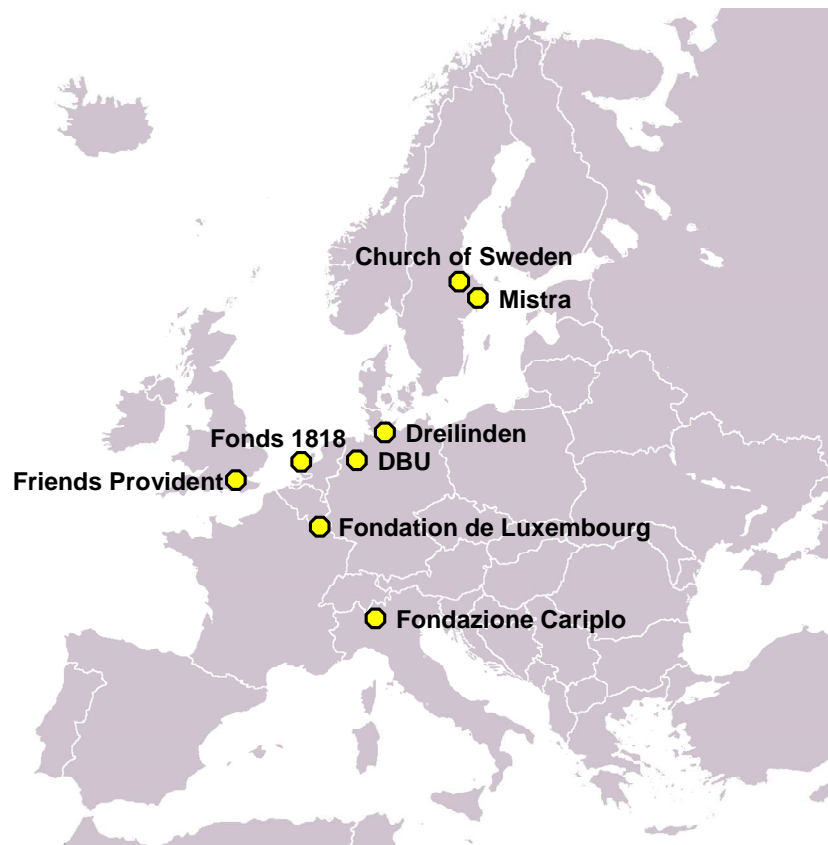
“We decided to lift the iron curtain between our investments and our donations.”
—*Boudewijn de Blij, Executive Director, Fonds 1818*

Background

In May 2011, MISTRA published *360-degrees for Mission*¹, a report showcasing European foundations that use their investments to advance their mission without compromising financial returns. The report aimed to provide foundations with a resource to learn more about responsible investment² and impact investment³, and to take practical steps in implementing these approaches in the management of their capital endowments.

The publication of *360-degrees for Mission*, generated significant interest in the topic of mission-aligned investing. Wishing to advance the European dialogue on foundation investment practices further, MISTRA selected this topic for the 2011 Sustainable Investment Platform Workshop. In conjunction with the European Foundation Centre (EFC) and co-hosted by Fondazione Cariplo and Fonds 1818, MISTRA organised a day-long meeting for foundation trustees, directors and investment staff.

Participants came from 20 foundations around Europe, and were generally well-acquainted with the concepts of responsible and impact investing. The workshop, therefore, focused on finding practical opportunities for foundations in Europe to work together on mission-aligned investing. This report summarizes the key insights from the day.



¹ Full *360-degrees for Mission* report at www.mistra.org/360-degrees

² Responsible investing is an approach 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.

³ Impact investments (or mission-related investments) aim to solve social or environmental challenges while generating financial returns, which can range from producing a return of principal capital to offering market-rate or even market-beating financial returns. Impact investors actively seek to place capital in businesses and funds that can harness the positive power of enterprise and actively contribute to achieving their mission.

Dinner Keynote: Susan Seymour, Joseph Rowntree Charitable Trust

At dinner the night before the workshop, Susan Seymour, Trustee of the Joseph Rowntree Charitable Trust (JRCT) addressed participants on her foundation's history of making investments that are consistent with their organizational mission.

Joseph Rowntree was a Quaker businessman who endowed JRCT with shares from the English chocolate company Rowntree's in 1904. After the company's 1988 acquisition by Nestlé, JRCT implemented a diversified investment plan covering the stocks and bonds of publicly-listed companies.

Quaker values are central to the Joseph Rowntree Charitable Trust's mission, and trustees at the time clearly would not support investments in companies active in armaments, gambling, tobacco or alcohol. The foundation became one of the first "ethical" investors in the UK by applying a negative screen to their investments that excluded these sectors. While the religious background of the foundation informed these investment decisions, Susan Seymour stressed that every foundation has fundamental values that can be articulated in its investment policy. She encouraged foundations not to shy away from having a discussion about the organisation's core values at the Board level: such a discussion can be challenging but ultimately clarifies the mission and strengthens the organisation.

JRCT continued with its negative screening approach until a few years ago, when it reformulated its investment policy to contribute positively to "radical change towards a more peaceful, equal and just world". "While earlier we had been at the forefront of ethical investing, now we looked around and realized the market had come much further than we had. We were pleasantly surprised to discover the range of investment options available", said Susan Seymour.

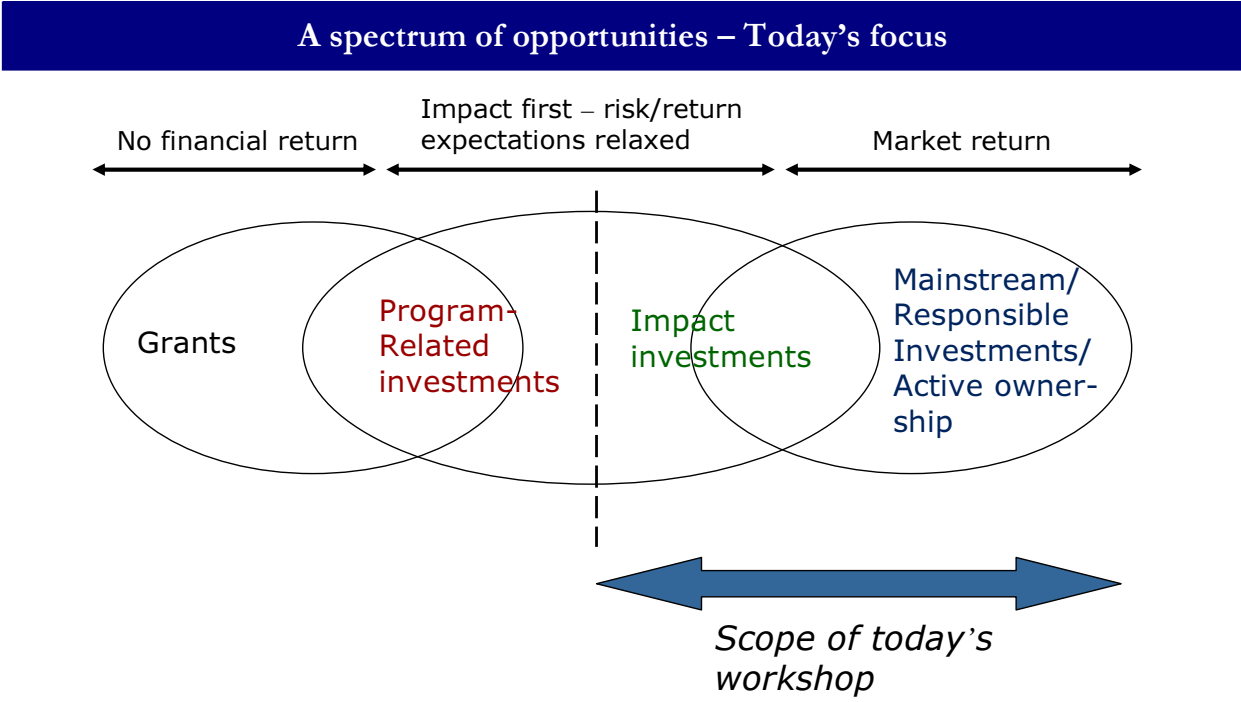
The reformulated investment policy of JRCT consists of four major points:

1. Investing for the long term to fund grantmaking
2. Supporting businesses that operate with integrity and whose products or services meet the basic needs of people and protect the natural environment, including a 5% allocation to impact investments
3. Exclusion of companies active in armaments, alcohol, gambling, tobacco and new generation nuclear power stations, and government bonds issued by states with high military expenditure or oppressive regimes. The foundation also avoids extractive industry companies with poor human rights records and does not invest in speculative or opaque investment strategies.
4. Engaging with companies to improve practices, including collaborative engagements with the Church Investors Group

Speaking particularly about the third point on this list, Susan Seymour stressed that it is up to foundations to challenge asset managers. "We require managers to explain in plain language why something has to be a certain way, and if we're not convinced, we say so". This message about the unique role of foundations as asset owners set the tone for the discussions on the following day.

Setting the Stage

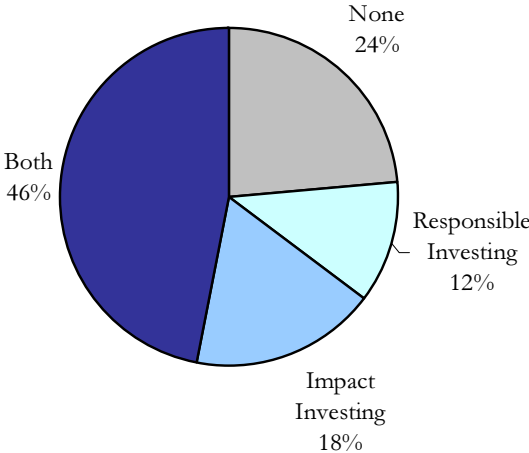
The workshop began with a presentation by Ivo Knoepfel and David Imbert from onValues, the authors of *360-degrees for Mission*. The scope of the day’s discussion was confined to investments from the endowment side of the foundation. Venture philanthropy and programme related investments that are managed from the grant side were not part of the focus of the meeting. The diagram below illustrates the scope of the day within the spectrum of opportunities for a foundation’s capital budget.



Source: onValues

To start the discussion, foundations stated whether they had any responsible investments or impact investments. The results showed a mix of activities, with almost all participants involved in at least one or the other approach, and many involved in both.

Mission-Aligned Investment Approaches of Participants

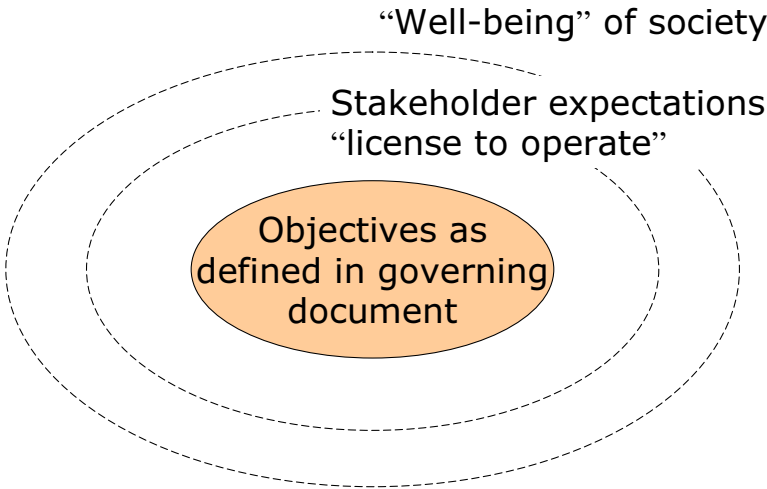


Source: onValues

The presentation briefly reviewed the findings and recommendations from the *360-degrees for Mission* study, including the different approaches to responsible and impact investing, the key role of trustees, compatibility with fiduciary duty, and financial return characteristics.

Clarifying what “aligning investments to mission” means played a central role in the opening presentation and throughout the day. As the definition of mission widens, a foundation often becomes more inclined to consider responsible or impact investing. A foundation solely focused on achieving narrow objectives defined in its governing document might not see much value in aligning investments to mission. If foundations, however, also consider protecting their general “license to operate” (earned by responding to expectations of key stakeholders and society as a whole) as part of their mission, then trustees must think very seriously about how they invest. For example, in the UK 91% of the general public believe that charities should invest “ethically”. In times of tighter government budgets it is also likely that policy makers will take a closer look at foundations’ effectiveness in contributing to the well-being of society and challenge the fact that they are not aligning investments to mission.

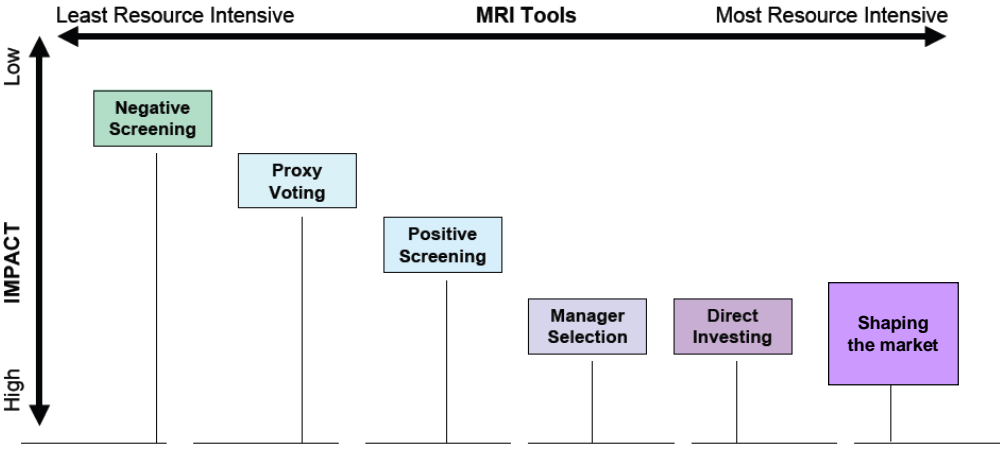
A Wider Interpretation of Mission



Source: onValues

Finding an investment approach suitable to an organization’s mission is the next step in mission-aligned investing. This also raises the question of an organisation’s “governance budget”, or the resources available to manage an investment strategy. There are a wide variety of approaches, which all yield a different degree of impact in serving a foundation’s mission.

Resource Intensity and Impact



Source: Meyer Memorial Trust, Mission Related Investing, 2008

Panel Discussion: Moving the Practice On

While the opening presentation covered the historical and conceptual background of mission-aligned investing, the following panel discussion focused on practitioner experiences and steps forward for the future.

Danielle Walker-Palmour, Executive Director of Friends Provident Foundation, moderated a panel consisting of:

- Boudewijn de Blij, Executive Director, Fonds 1818
- Ise Bosch, Founder, Managing Director, Dreilinden
- Francesco Lorenzetti, CFO, Fondazione Cariplo
- Lars-Erik Liljelund, Managing Director, Mistra

The discussion between the panel and the audience covered four major topics: engaging trustees, accessing expertise, pooling resources, and assessing impact (key insights summarized below).

Engaging trustees:

- Engaging trustees and convincing them to include an element of “mission alignment” in the institution’s investment policy is the single most important step on the path to better alignment
- To successfully transition to mission-aligned investing, at least one trustee must champion the topic within the board
- One participant observed that trustees became interested in responsible investment when they understood it was itself a topic of relevance to the grant giving programme (e.g. the example of Mistra that launched an academic research programme in the field of responsible investing)
- Entering a process of mission-aligned investing was “an incredible learning experience” for trustees who were asked to diversify their knowledge and expand their thinking around the foundation’s purpose.

Accessing expertise:

- The question of how to implement mission-aligned investing after trustees have made this decision directed the discussion of accessing investment expertise
- One foundation created an investment committee from external experts in various fields (microfinance, academia, NGOs, asset management), which takes responsibility for the investment strategy
- Another foundation had to change its pre-existing investment committee by replacing some members with people who had the know-how to implement responsible investments
- A unique example of sourcing expertise was one foundation’s creation of an independent fiduciary manager that serves only foundation clients and is wholly owned by foundations. This stand-alone company can then hire the talent needed to advise on responsible and impact investments
- Other foundations rely on independent experts in the area of responsible and impact investing to advise their boards on professionally implementing and monitoring their investment strategy.

Pooling resources:

- There was debate over the utility of pooling resources. On one hand, as a representative from an umbrella foundation said, if an easy and flexible solution is available for foundations to “plug-in to”, the willingness to make responsible and impact investments is there. On the other hand, one foundation representative observed that his foundation (like many) is a regional foundation, and therefore they are interested in specific impact investment opportunities close to home, not pooled opportunities. In the same vein, another foundation said that the expertise and interest in their type of impact investments was present more in the United States, and so they would not think a pooled solution among Europeans would be valuable for them.
- “What we have in common is that we all have completely different missions”, said one foundation, hinting at the challenges to group action in the impact investing field, but also the

opportunity to find common ground as organizations driven foremost by missions to serve the greater good.

- Overall, the panel supported the notion of pooling resources on projects of a more-general nature (sharing know-how, creating an enabling environment, developing tools, etc.). This is covered in the final section of the report. It was less optimistic about the possibility of pooling investment resources (e.g. using pooled funds) because of the different needs of foundations. .

Assessing the contribution of impact investments:

- “Impact investing changed the spirit of our staff from clerical to entrepreneurial”, said one participant, whose foundation has developed its impact investments over the past three years
- “Beyond the measurable good we can see in our impact investments, we also make them as a reputational hedge”, said another participant, whose foundation has recognized that its public profile receives a boost from being at the leading-edge of addressing social issues through finance
- Other participants stressed that, relative to the amount of money that can be lost in “normal” investments, impact investments are small and fear of failure should not prevent experimentation and learning.

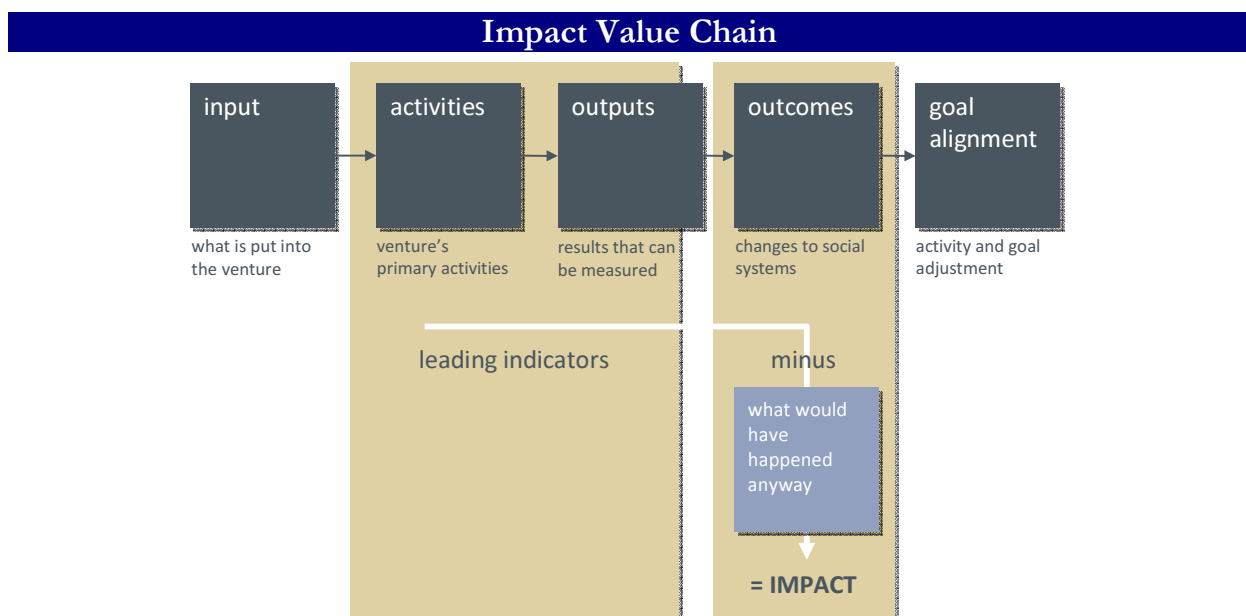
The panel session concluded with a round of comments on “moving from debate to practice”. The ideas raised in this discussion are incorporated in the final section of this report.

Practitioner Input: Impact Assessment

For foundations it is important to understand how investments contribute to achieving their mission, particularly for impact investments. The meeting organisers, therefore, invited an expert to share current best-practices in the field.

Pieter Oostlander, Director of the Noaber Foundation and Shærpa, gave participants an overview of current impact assessment approaches. Measuring impact is critical for *impact* investors. As Pieter Oostlander stated, “if an impact investor wants to take themselves seriously they have to do something about measuring their impact”. Yet, most impact investors do not have a method of measurement. A study by Alphamundi found that of 60 impact funds surveyed only a few had impact assessment procedures.

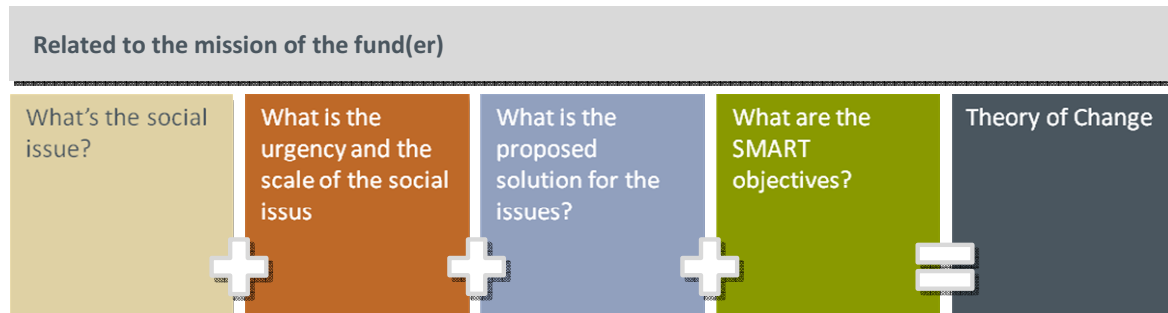
Nevertheless, as Pieter Oostlander contended, it is possible to assess the contribution to mission of social investments. The diagram below presents a conceptual framework for identifying and tracing impact.



Source: Shærpa

“Social performance *management* is the purpose of impact *measurement*” said Pieter Oostlander. Foundations that engage in impact investing should constantly re-evaluate their activities to ensure the intended and most effective use of their capital. Impact measurement provides feedback to adjust an organization’s “theory of change” (see below), and thereby facilitates better decision making.

Theory of Change



Source: Shærpa

Pieter Oostlander closed by stressing that impact assessment should become more broadly accepted. One observed hindrance is the diversity of impact assessment methods. Standardizing assessment methods is important for greater uptake, but in comparison it took roughly 400 years for Generally Accepted Accounting Principles to emerge and during that time people still found it important to keep financial records. Similarly, people cite the additional cost of impact assessment as an obstacle, but the substantial costs of bookkeeping and aggregation in mainstream business are judged a fair price for the smooth flow of commerce. Impact assessment is possible, and makes sense for organizations that are serious about their missions.

Looking Ahead

The day began with a challenge to participants: “What do we need to do to mainstream ‘mission-aligned’ investing in 10 years?”. Collaboration among foundations at the European level was seen as an important way to achieve that goal. The afternoon of the meeting was spent in small groups and in the plenary brainstorming concrete ideas for collaborations among European foundations.

A range of creative, practical suggestions emerged in the following areas:

- The role of trustees and legal requirements
- Leveraging existing initiatives and resources
- Engagement with the investment industry
- Basic education and definitions

The workshop ended with the decision to form a task force of foundations that will triage the ideas that emerged from the meeting and propose a work plan for possible collective action at the European level beginning in 2012. The proposal will detail a suggested course of action and solicit support from foundations in Europe broadly.

Appendices

About the hosts

Mistra

Stockholm, Sweden

www.mistra.org

MISTRA

Mistra, the Foundation for Strategic Environmental Research, aims to make a difference in the field of sustainable development. The Foundation funds groups in the academic community that contribute to solving major environmental problems through applied research. Each year Mistra invests approximately SEK 200 million in the research programmes it supports. The entirety of Mistra's endowment, which is valued at approximately SEK 2.9 billion, is invested using external asset managers that explicitly take account of environmental, social and governance issues.

Fondazione Cariplo

Milan, Italy

www.fondazione cariplo.it



Fondazione Cariplo is a foundation of banking origin with program areas in environment, arts and culture, scientific research / technology transfer, and social services. The foundation has invested its €7 billion endowment since 1998 according to an responsible investment screening policy, and has recently dedicated €470 million to impact investments in social housing / urban regeneration, public infrastructure, public-private partnerships, technology innovation, international cooperation and small and medium enterprise (SME) private equity.

Fonds 1818

The Hague, Netherlands

www.fonds1818.nl

Fonds 1818

Fonds 1818 is a Dutch foundation focused primarily on the region around The Hague. It funds programmes in heritage, culture, education, arts, environment, nature, sports, health and welfare. Since 2007, the foundation has been implementing its responsible investment policy across all assets classes in its €445 million endowment. It has also set a target of 5% in impact investments, which will have a dedicated focus on The Hague.

Event conceptualisation and facilitation

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Agenda

29 August 2011		
19:00	Welcome and Networking Dinner - Basil & Co, Avenue Louise 156, 1050 Brussels Dinner Speaker: Susan Seymour, Trustee, Joseph Rowntree Charitable Trust	
30 August 2011 – EFC Offices, Avenue de la Toison d'Or 78, 1060 Brussels		
8:30	<i>Registration</i>	
9:00	Welcome by co-hosts/organizers; Presentation of participants	Gerry Salole, Chief Executive, EFC Lars-Erik Liljelund, Managing Director, Mistra
9:20	Setting the stage: <ul style="list-style-type: none"> Findings and recommendations from '360-degrees for Mission' study The spectrum of available investment approaches and the focus of today's meeting Fiduciary duty and the role of boards; risk and financial return characteristics 	Ivo Knoepfel, Founder, Managing Director, onValues David Imbert, Consultant, onValues Short presentation followed by discussion with all participants
10:15	Coffee break / Networking	
10:45	Practical experiences: <ul style="list-style-type: none"> What is participants' experience with SRI/responsible investments? Is there enough choice of solutions suited for foundations? Can all asset classes be covered or are there limitations? How do foundations access outside expertise to fill gaps in their knowledge? From experience, what are the best ways to implement an SRI/responsible investment policy? What are the main challenges? What role do foundation boards need to play? What options are available in the impact investing field? How can a foundation generate mission-relevant deal flow? What are the main opportunities and challenges in this emerging field? 	Panel discussion with: Boudewijn de Blij, Executive Director, Fonds 1818 Ise Bosch, Founder, Managing Director, Dreilinden Francesco Lorenzetti, CFO, Fondazione Cariplo Lars-Erik Liljelund, Managing Director, Mistra ...and all participants Moderated by: Danielle Walker-Palmour, Executive Director, Friends Provident Foundation
12:30	Can the contribution to mission (or social impact) of investments be assessed? An overview of approaches by practitioners	Pieter Oostlander, Director, Shærpa / Noaber Foundation
13:00	Networking lunch	
13:45	Group discussion: Needs, gaps and potential areas for collaboration <ul style="list-style-type: none"> Where do participants see the greatest need for additional clarification, support by EFC? Where could collaboration between foundations help? 	Discussion in two break-out groups: <ul style="list-style-type: none"> SRI/responsible investments Impact investments
14:30	Plenary discussion: Group findings and a way forward <ul style="list-style-type: none"> Groups report back to plenary Discussion on ways to fill the gaps and support foundations in implementing mission enhancing investments Areas for collaboration 	Short presentations followed by discussion with all participants, which will focus on concrete opportunities for group action
15:20	Concluding remarks / Summary of planned next steps	
15:30	Adjourn	

Participants

Name	Function	Organisation	Country
Peter Spinnler	Managing Trustee	Animato Foundation	Switzerland
Kathrin Dombrowski	Project Manager	Bertelsmann Foundation	Germany
Barbara Börner	Deputy Director	CANOPUS Foundation	Germany
Beatrice de Durfort	General Delegate	Ctr. Français des Fonds et Fondations	France
Anders Thorendal	Investment Director	Church of Sweden	Sweden
Anna Nöst	Head of Internal Management	ERSTE Stiftung	Austria
Danyal Sattar	Finance Fund Manager	Esmée Fairbairn Foundation	UK
Rosien Herweijer	Director, GrantCraft	European Foundation Centre	Belgium
Leticia Ruiz-Capillas	COO	European Foundation Centre	Belgium
Sevdalina Rukanova	Senior Officer	European Foundation Centre	Belgium
Gerry Salole	CEO	European Foundation Centre	Belgium
Beate Trück	Managing Director	EVPA	Belgium
Ise Bosch	Executive Board Member	Dreilinden gGmbH	Germany
Raoul Chevignard	Philanthropy Advisor	Fondation de Luxembourg	Luxembourg
Olivier de Guerre	President	Fondation PhiTrust	France
Francesco Lorenzetti	Chief Financial Officer	Fondazione Cariplo	Italy
Carlo Mango	Head of Scientific Research	Fondazione Cariplo	Italy
Danielle Walker-Palmour	Director	Friends Provident Foundation	UK
Martin Stanley	Trustee	Holly Hill Charitable Trust	UK
Susan Seymour	Trustee	Joseph Rowntree Charitable Trust	UK
Jan Vander Elst	Philanthropy Adviser	King Baudouin Foundation	Belgium
Fredrik Gunnarsson	Chief Financial Officer	MISTRA	Sweden
Lars-Erik Liljelund	Chief Executive	MISTRA	Sweden
Luciano Balbo	President	Oltre Venture	Italy
David Imbert	Consultant	onValues	Switzerland
Ivo Knoepfel	Managing Director	onValues	Switzerland
Pieter Oostlander	Director	Noaber Foundation	Netherlands
Harry Hummels	Managing Director	SNS Impact Investing	Netherlands
Judith Safford	Executive Director	Stanley Thomas Johnson Stiftung	Switzerland
Boudewijn de Blij	Managing Director	Stichting Fonds 1818	Netherlands