

**Mission-Related Investing  
for Foundations and  
Non-Profit Organizations**  
*Practical tools for  
mission/investment integration*

*25 Years of Investing for a Better World™*

Trillium Asset Management Corporation



*Trillium Asset Management Corporation would like to thank  
Elise Lufkin for her substantial contributions to this report.*

Trillium Asset Management Corporation  
**[www.trilliuminvest.com](http://www.trilliuminvest.com)**

Trillium Asset Management Corporation is the oldest and largest independent US investment manager dedicated solely to socially and environmentally responsible investing. We offer customized MRI solutions in screening, shareholder engagement, high-impact investing and asset management. Our web site includes examples of shareholder engagement, high-impact community investments, and links to other resources.

For more information on mission/investment integration,  
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*“Should a private foundation be more than a private investment company that uses some of its excess cash flow for charitable purposes?”<sup>1</sup>*

This is the question board members of The F.B. Heron Foundation asked themselves several years ago. Their answer was yes, and increasing numbers of foundations and non-profits agree with them. And they are turning to mission-related investing (MRI) to help them bring the full power of their endowments to bear on their missions by aligning their investments with their strategic objectives.

This report introduces mission-related investing, and then reviews the following topics:

- ◆ Why MRI?
- ◆ MRI and investment performance
- ◆ The MRI toolkit
- ◆ Getting from here to there: the change process
- ◆ How Trillium Asset Management Corporation can help
- ◆ Resources and Glossary of Terms

*Investing without regard to social or environmental impact can cause the very problems on the asset side of the ledger that the spending side is working to resolve. This is a bit like hitting the accelerator and the brake at the same time.*



A non-profit’s mission is its heart, its core, its reason for being. The mission defines the organization’s “value proposition,” i.e. the value that it seeks to create. It is clear that a non-profit’s value is at best indirectly related to financial return. It instead lies in the creation of environmental and social value. This raises the question: how can a non-profit organization achieve the greatest environmental, social and financial value from its philanthropic resources?

Every investment decision has both social and environmental impact that can further the institution’s mission, or detract from it. Investments also generate financial returns that fund mission-driven grant-making or program services. Investing without regard to social or environmental impact can cause the very problems on the asset side of the ledger that the spending side is working to resolve. This is a bit like hitting the accelerator and the brake at the same time, were it not for the enormous imbalance in the funds allocated to each. Private foundations are required by law to expend five percent of their assets annually in pursuit of their missions. The remaining ninety-five percent is often invested without any explicit regard to mission impact, other than the growth of assets to support programs and services. Essentially, five percent of the assets are driving one hundred percent of the mission, financed by the other 95 percent. MRI goes a step further by factoring in the multiple consequences of investment decisions in order to align them with the organization’s mission and reduce this disparity.

MRI shares some characteristics with socially responsible investing (SRI), an investment process that considers social and environmental returns in addition to financial ones, and employs various methods to achieve these returns. However, MRI is individually targeted to each organization's specific mission. MRI is commonly undertaken for two primary purposes. The first is to align the organization's actions with its objectives, by avoiding investments that would compromise principles. And the second is the desire to actively use investing as a means to further the organization's mission.

MRI requires that a non-profit institution articulate its core values, and seek ways of investing that are consistent with these values. Sometimes this means investment screening. For example, if protecting the environment is a core objective of the organization, investing in companies that cause environmental damage would create a conflict. Or, if protecting human rights were central to the mission of the organization, investing in a company that profits from business relationships with oppressive regimes would create a conflict.

Portfolio screening requires that a money manager is willing and able to do the additional work required to ensure these core values are not abandoned in the process of meeting the philanthropic organization's financial objectives. As we will see, there are a number of ways to pursue MRI other than screening, or in addition to screening.

An MRI investment program works to achieve the financial objectives of the institution—and is assessed using the same established performance measurements. The difference is that MRI techniques seek to directly connect an institution's core values with its financial activities.

*Philanthropy is an outgrowth of the bountiful wealth of capitalism, and has a responsibility to ameliorate the problems not solved by the market system itself.*

## Why MRI?

Why do non-profits and foundations undertake the challenge of aligning their endowment investing with their missions? The reasons are both ethical and practical.

### *Ethical issues*

MRI emanates from the very nature of the philanthropic trust. Non-profit endowments are monies held in trust. Once a donation has been made, the assets no longer belong to the donor, and instead are held in trust for the public good. Society, in the largest sense of the word, is the beneficiary of this trust. In exchange for providing this benefit to society the donor receives a tax advantage. As all assets donated are generally tax-deductible, along with most of the earnings on those assets, there is a duty to manage all the funds in such a way as to provide the greatest benefit to society—the ultimate beneficiary of the trust. MRI provides the means to do this.

The second ethical reason that non-profit organizations use MRI is that philanthropy is an outgrowth of the bountiful wealth of capitalism, and has a responsibility to ameliorate the problems not solved by the market system itself. Indeed, some of the vexing issues addressed by philanthropy are an outgrowth of capitalistic development, disruption and change. The specific problem to focus on, be it the degradation of local water systems or the unmet needs of homeless children, is a matter for each donor to decide. Whatever the issue, non-profits can better fulfill their extra-market responsibilities by making use of their investment program, and MRI provides the means to do this.

## Practical issues

Beyond ethics, there is the practical issue of fiduciary duty. And here mission-driven institutions confront an evolving body of thought. In the 1800s, common stock, real estate, gold, venture capital, hedging, futures, and options were considered too speculative to be held by trusts.<sup>2</sup> In 1830, the Massachusetts Supreme Judicial Court coined the term “prudent man” when it ruled that trustees must invest the assets in their care in the manner in which a prudent man would invest his own assets. Key to this decision was freeing the definition of fiduciary responsibility to evolve with the times—as new investment practices evolved, so too did the prudent man’s behavior. Consequently, trusts are now allowed to hold assets such as common stock, which were once considered too speculative. The guiding definition of prudence is subjective and based upon the goals of the individual investor—the “prudent man” investing for himself.

*“Institutional investors have more freedom to integrate ESG issues into their decision-making than they think. Whilst normally we find ourselves encouraging our clients to be more cautious, in this case we can instead say ‘be more imaginative.’”*

Paul Watchman, Partner at leading international law firm Freshfields Bruckhaus Deringer

Increasing numbers of investors believe that sustainability issues, such as social and environmental concerns, impact long-term shareholder value. In addition, there is now a fiduciary focus on asset-liability matching: an understanding that investment objectives should match the investment time horizon. For most non-profit organizations, the time horizon is ongoing and in some sense infinite. Given this, there is a movement among institutions towards investing for the long term, not the quarterly return. Consider for example, the short-term cost to a company of implementing energy saving measures versus the long-term savings from these measures. A prudent fiduciary of an institution with a time horizon of perpetuity would resist letting short-term considerations dominate over long-term ones.

In recent years the legal case for taking environmental, social and governance issues into account when making fiduciary decisions has been strengthened. In 2005, the United Nations Environment Program’s Finance Initiative commissioned a comprehensive global report by leading international law firm Freshfields Bruckhaus Deringer entitled: “A legal framework for the integration of environmental, social and governance (ESG) issues into institutional investment.” The Freshfield’s analysis concluded that “integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions.”<sup>3</sup>

Paul Watchman, Partner at Freshfields Bruckhaus Deringer and senior author of the study, notes that “Institutional investors have more freedom to integrate ESG issues into their decision-making than they think. Whilst normally we find ourselves encouraging our clients to be more cautious, in this case we can instead say ‘be more imaginative.’”<sup>4</sup>

Institutional investors, led by state and local pension systems in California, New York and Connecticut, are increasingly communicating to companies that “to build long-term shareholder value by including in their business plans responsible economic, environmental and social behavior—the sustainability business model—is a wise and prudent course of action” (Bill Thompson, Comptroller of New York City Pension Funds).<sup>5</sup>

In addition to fiduciary duty, investment practices can have the practical effect of creating reputation risk or benefit. Donors give to an organization because they believe in its mission, and investments that work against the mission can turn current and potential funders against the organization. Conversely, responsible investment practices aligned with mission objectives create brand value and support fundraising efforts.

But perhaps the most important reason to pursue MRI is to increase impact around the mission. A grant is an investment with a -100% direct financial return (total loss), but targeting a high social return. MRI can also create social returns, but with much higher (and often market-competitive) financial returns. Over time, MRI exposure can dwarf the grant-making budget, thus multiplying the organization's positive impact on its mission.

## A Holistic Approach to Business

Growing awareness of the interconnectedness of financial, social and environmental outcomes is not limited to non-profits. Financial institutions themselves are awakening to the role of the capital markets in addressing critical social and environmental challenges. More than 70 institutional investors and asset managers from 16 countries, representing over \$4 trillion in assets, have signed the Principles for Responsible Investment, launched by the United Nations Environment Program in 2006.<sup>6</sup> Signatories commit to incorporating ESG issues into their investment analysis and decision making processes. In addition, they encourage others to do likewise and publicly report on their progress. This is evidence of the awakening of the financial markets to the importance of ESG issues, and signals their importance to the rest of the financial community.<sup>7</sup> Brokerage houses such as Citigroup, UBS and Goldman Sachs have launched responsible investing research groups, and the global investment consultant Mercer now has a team dedicated to responsible investment research and consulting.

In 1989, Trillium Asset Management Corporation president Joan Bavaria co-founded Ceres, a national network of investors, environmental organizations and other public interest groups working with companies and investors to address sustainability challenges such as global climate change. This coalition promotes corporate sustainability by working with companies to encourage accountability, disclosure, and continuous improvement of environmental and social performance. In 1997, Ceres launched the Global Reporting Initiative (GRI), which has now become the international standard for corporate reporting on environmental, social and governance performance. Today over 700 companies from around the world use the GRI reporting guidelines.

A very effective offshoot of Ceres is the Investor Network on Climate Risk, a group of institutional investors and financial institutions dedicated to promoting better understanding of the financial risks and investment opportunities posed by climate change. Founded in November 2003, the network now includes more than 50 institutional investors that collectively represent over \$3 trillion in assets. Much of this interest has been driven by the economic impacts of global warming, which The Stern Review on the Economics of Climate Change, published in fall 2006, estimates could be equivalent to as much as 20% of GDP (while investments to stem the worst impacts of climate change are estimated to cost only 1% of GDP).<sup>8</sup>



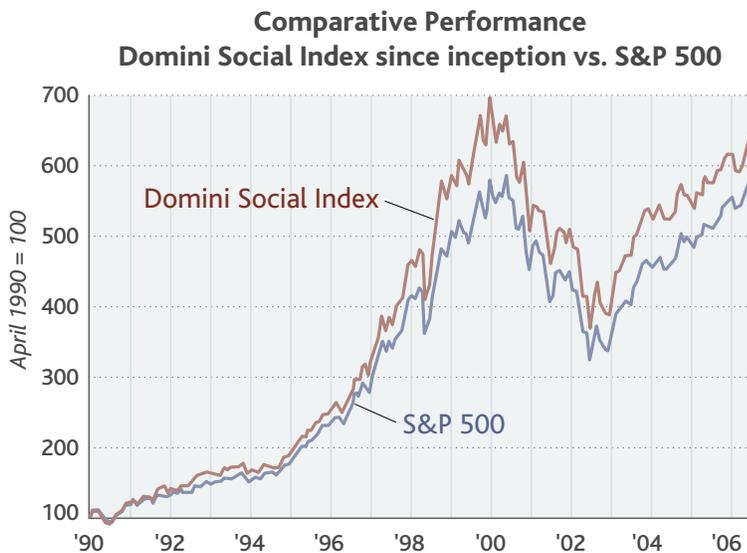
Corporations themselves are now institutionalizing Corporate Social Responsibility (CSR) and enlightened, pragmatic CEOs are moving to a long-term perspective that recognizes the inter-relationship between social, environmental and economic outcomes. There is a strong business case to be made for CSR: avoiding costly litigation and future liability, saving operating costs through measures such as energy conservation, protecting brands, attracting employees, and uncovering new markets.<sup>9</sup>

**OWNED AND OPERATED BY HUMAN BEINGS.** High ideals don't have to conflict with a bottom line. When we started providing health coverage to our part-time employees, we noticed a lot less turnover. When we started setting goals for sustainable agriculture, we developed stronger relationships with coffee farmers. And when we reached out through community programs, people visited our stores more often. Values can actually enhance value, as revolutionary as that may sound. We know there is more to do to foster environmental, ethical, sustainable business practices. We continue to set goals. ~ Full page advertisement for Starbucks, *The New York Times*, 11/17/06, page A21

*No long-term study to date has shown a cost to investment screening on a risk-adjusted basis.*

## MRI and investment performance

In addition to directly promoting the mission, MRI can help foundations and non-profits seek competitive returns without sacrificing values. Though some hang on to a misperception that investors sacrifice financial returns for social or environmental good, there is a broad body of research that indicates social screening does not harm long-term investment performance, and in fact may improve returns.<sup>10</sup> A meta-analysis of 52 studies (the entire population of prior quantitative studies at that time) found that “corporate virtue in the form of social responsibility and, to a lesser extent, environmental responsibility is likely to pay off”.<sup>11</sup>



In sum, no long-term study to date has shown a cost to investment screening on a risk-adjusted basis.<sup>12</sup> In an adequately diversified portfolio, social screens are not a key driver of performance, but are likely to have a neutral or even positive impact on long-term returns. Whether pursuing MRI or not, the primary drivers of return remain asset allocation, security selection and other essential elements of financial risk management and portfolio construction.

The chart at left shows returns for two US stock market indices, the unscreened S&P 500 and the socially screened Domini 400 Social Index. While there have been short-term periods during which one or the other index has outperformed, the return histories are quite similar in the long run.

Also, portfolio construction techniques are readily available to reduce the expected dispersion between screened and unscreened portfolios.

## The MRI toolkit

So how does it work? MRI uses a number of tools to harness the power of invested capital and engaged investors to improve financial returns and the world. The three most common components are screening (avoidance or positive), shareholder engagement, and high-impact investing.

### Screening

Avoidance screening is the process of excluding securities from a portfolio based on certain criteria. This can be done for ethical considerations (for example, an investor may not want to own shares of a company that tests its products on animals) or it can be done for financial reasons (for example, an investor may believe that negative public response to unneeded or inhumane animal testing will adversely impact market value).

While excluding companies with negative social or environmental impact may have important ethical justifications, there are questions about whether such actions will shape corporate behavior. Skeptics argue that other than large institutional investors such as mutual funds or

pension funds, the amount of shares screened out by one owner is too small to have an impact on the company's share price.

However, proponents argue that the process of screening requires the collection and analysis of data to demonstrate a company's performance and that this process itself influences corporate behavior. Research providers such as KLD, EIRIS and Innovest provide comprehensive information on companies' performance on environmental, social, and strategic governance issues, including in some cases their impact on competitiveness, profitability, and share price performance. The Global Reporting Initiative is institutionalizing a format for comprehensive social and environmental reporting. When this knowledge is shared with corporations, consumers and activist groups, it provides the tools they need to take action. What can be measured can be managed, and screening creates a market for information. Thus avoidance screening and social reporting can positively influence corporate behavior over time.

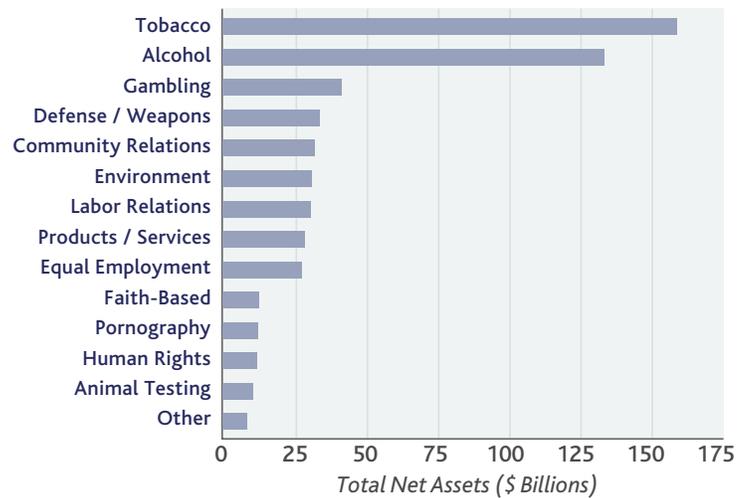
As a service to clients, the Trillium Asset Management Corporation social research group maintains a database that allows for avoidance screening on a number of dimensions, including weapons manufacturing, animal testing, environmental impact and human rights issues.

Positive screening is the flip side of avoidance screening and identifies the "best in class" investments in various sectors on environmental, social and governance issues. Positive screening can also identify solution-oriented businesses such as renewable energy companies. The benefits of positive screening are the same as for avoidance screening, with one addition. Corporations that qualify for inclusion in indices such as the Domini 400 Social Index and the Dow Jones Sustainability Index often use this in their marketing campaigns, both with consumers and with employees. The seal of approval from a social screening provider creates a further incentive for corporations to behave in a responsible fashion.

A number of foundations use screening to align their portfolios with their missions. Among Trillium Asset Management Corporation clients is a foundation whose mission is to improve health outcomes. It avoids investment in for-profit health care providers and emphasizes health and safety practices in its proactive screening approach. Another Trillium Asset Management Corporation client is a foundation whose mission is to help build and sustain rural communities. The foundation avoids investing in companies engaged in large-scale commercial agriculture, including producers of chemicals and pesticides for large-scale commercial agriculture, and commercial biotechnology.

### Mutual Fund Assets By Screen Types<sup>13</sup>

Source: Social Investment Forum



## Shareholder Engagement

Another (and perhaps more powerful) tool for pursuing MRI is becoming an engaged owner of company stock. The Securities and Exchange Commission (SEC) ensures that all shareholders can participate in the oversight of the companies they own through annual voting. Indeed, shareholders, through a structured process, may bring resolutions to the annual meeting for all shareholders to vote on. Because these votes are submitted through a proxy form that informs investors of the issues and provides the means to vote, they are referred to as proxy votes. So, at a minimum, an engaged shareholder can spend time researching the issues and voting proxies. The voting function can also be outsourced to a professional proxy voting service using guidelines approved by the institution.

### Tools for Shareholder Activism

**Proxy  
Voting**

**Company  
Dialogues**

**Sponsoring  
Resolutions**

There is a continuum of engagement ranging from simply voting proxies on issues raised at the annual meeting, through direct dialogue with management, to filing a shareholder resolution. The power and legal rights of share ownership give non-profits a unique opportunity to address social and environmental issues with senior management at some of the largest corporations in the world. This reflects our core belief that the individuals

and institutions that own shares in companies have a right and even a responsibility to provide guidance to management on pressing policy issues the company faces.

*Working with an SRI manager can make the process of shareholder engagement more efficient, and tap into specific expertise working directly with corporate management.*

Shareholder activism is a powerful tool, even though most proposals are non-binding. Companies strive to maintain good relations with investors and to prevent negative public relations; therefore even resolutions that get minimal votes receive attention. In fact, often the threat of a shareholder resolution is enough to bring companies to the table.

### Leaders in Corporate Engagement Strategies

In 2005, the Nathan Cummings Foundation, whose mission includes the protection of ecological balance, made grants of \$650,000 aimed at holding big agribusiness accountable for its environmental impacts. At the same time, Chief Financial and Investment Officer Carolyn Williams noticed that the Foundation held shares in Smithfield Foods, one of the nations largest hog producers, and one with a questionable environmental record. Williams recognized both the dissonance and the opportunity, and rather than simply divest the shares, the Nathan Cummings Foundation used them to file a shareholder resolution calling on Smithfield to issue a report describing the environmental, social, and economic impacts of its hog production operations. As a shareholder, the Foundation was in the unique position of caring about both Smithfield Foods' financial returns and its social and environmental performance.

The Jessie Smith Noyes Foundation successfully used the tool of active share ownership when it found that one of its grantees, a community group, was battling a proposed Intel chip manufacturing plant in New Mexico. The Foundation happened to own shares in Intel, and as part of their efforts to reduce the dissonance between "the way we managed our money and our grant making values,"<sup>14</sup> the Foundation filed a shareholder resolution with Intel, which resulted in the company agreeing to negotiate with the community group.

## Highlights in Corporate Engagement

<b>Climate Change</b>	Investors have played a key role in convincing oil companies like Conoco Phillips, gas companies like Anadarko and insurance companies like AIG to address climate change. The Investor Network on Climate Risk, a network of major institutional investors, is now having significant influence around climate change-related business risks and opportunities.
<b>Banks and the Environment</b>	Resolutions and long-term negotiations with banks since 1999 helped lead Bank of America, Citigroup, and J.P. Morgan Chase to add environmental staff, adopt leadership environmental policies, and integrate environmental and social risks into finance decisions.
<b>Supply Chain Responsibility</b>	Investors pressed high tech companies to meet a new Electronics Industry Code of Conduct to prevent sweatshops in tech factories; are continuing dialogue with Target, Talbots and other retailers around worker standards in overseas factories.
<b>Meeting Developing World Health Needs</b>	Social investors have asked Eli Lilly, Johnson & Johnson, Merck, and Pfizer to increase access to drugs for HIV/AIDs, tuberculosis, and malaria in developing countries. In response, Eli Lilly developed partnerships to enable generics producers to provide its new MDR-TB drugs at low cost.
<b>Fair Treatment of Workers</b>	Investors helped press Wal-Mart to disclose EEO-1 data; similar negotiations are ongoing with Home Depot. Investors continue encouraging companies to include sexual orientation in their non-discrimination policies.

### High-impact investments

An additional strategic tool for mission integration is high-impact investing, through vehicles such as community investments, mortgage pools targeted toward underserved populations, and social venture capital. These investments can range from micro-credit to early stage funding of social entrepreneurship, and fit into the following two categories:

- ◆ high social/environmental impact investments that seek market rates of return (including some venture funds and certificates of deposit), and
- ◆ high social impact promissory notes and other investments that are priced to provide a below-market return.

Private foundations have a unique tool available to them for high-impact investing—program related investments (PRIs). PRIs are legally defined by the IRS as those investments for which:

1. the primary purpose is to accomplish one or more of the foundation's exempt purposes,
2. production of income or appreciation of property is not a significant purpose, and
3. influencing legislation or taking part in political campaigns on behalf of candidates is not a purpose.<sup>15</sup>

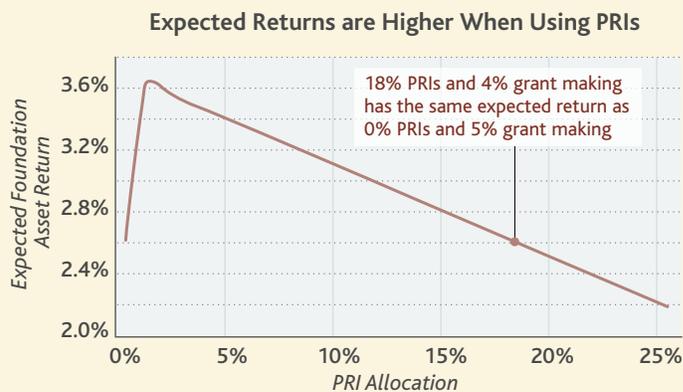
PRIs can contribute toward a private foundation's required charitable distributions and are usually below market rate. However if foundations choose to use their endowments to make high impact investments outside of their grant-making budget, they are free of the IRS restrictions. Examples include community investments that provide loans and financial services to individuals and community organizations that traditional commercial banks often fail to serve, including the poor, minorities, small entrepreneurs, and people in the developing world. Community investment instruments can be targeted both geographically and by area of interest, making them especially suited to helping philanthropic organizations address their specific missions. In addition to their high social impact, community investments can provide diversification and risk control helpful in meeting institutional financial objectives. Given their direct and tangible social benefits, it is not surprising that community investments and PRIs are the fastest growing asset class in mission related investing.

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## The Economics of Program-Related Investments (PRIs)

Working within IRS guidelines, private foundations can use PRIs in addition to grant making to meet their required annual charitable distributions (usually 5% of assets). While grants target a high mission return, by definition they have a financial return of –100%, while PRIs can provide both mission impact and modest financial returns.

The economics of PRIs are powerful (though as with any investment, the expected risk and return profile needs to be well understood). In fact, with 4% grant making instead of 5%, a foundation could allocate up to 18% of its assets to PRIs, with expected financial returns equal to or greater than the conventional 95/5 scenario.



The chart at left assumes 8% returns to a conventional portfolio, 2% net returns to a diversified PRI portfolio (which can include a variety of asset classes, including social venture capital), and –100% financial returns from grant making. Administrative costs are assumed to be 0% for simplicity's sake. The financial return to a conventional portfolio (95% invested, 5% in grant making) is 2.6% under these assumptions  $[(.95 * 8%) + (.05 * -100%) = 2.6\%]$ . However, a 1% allocation to PRIs and a 4% allocation to grants boosts expected return to over 3.6%. In fact, with 4% grant making instead of 5%, the "break-even" PRI allocation (where expected financial returns are equal to the conventional 95/5 scenario), is 18%.

While few foundations will want to begin a PRI program with a large allocation, a 1% annual allocation can significantly boost foundation assets over time. The chart below illustrates the dynamic impact over 20 years for a \$100 million foundation under two different strategies:

**Conventional:** Allocate 5% to grant making annually with 0% in PRIs

**PRI:** Allocate 4% to grant making annually with 1% invested in new PRIs per year

### Financial Impact

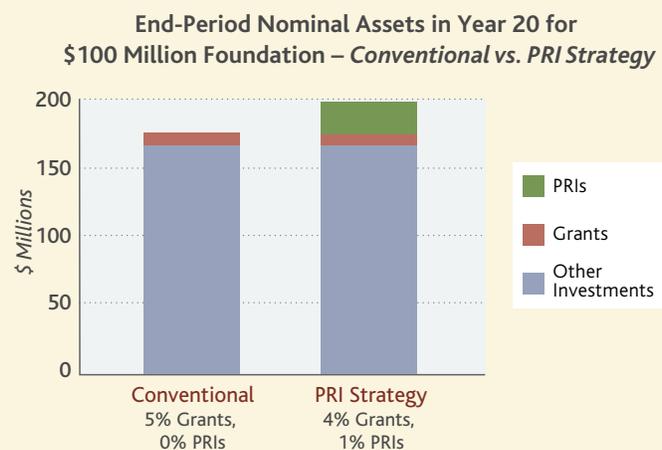
It might be counterintuitive that the PRI strategy is superior for foundation wealth building, but under these assumptions it is. Assets that would have been given away are instead invested, albeit at a below-market return targeting a high social impact. After 20 years foundation assets including PRIs are projected to grow to a nominal value of almost \$200 million, a level over 12% larger than assets under the conventional strategy. The bigger asset base means that more is available for investing, grant making and PRIs, thus increasing the potential for mission impact.

### Financial Impact

Note that by year 20 the traditionally invested corpus would be identical in size under the two strategies:

\$167 million (with no growth in real terms assuming 2.6% inflation). However, the "PRI strategy" in year 20 would finance about \$8 million in grant making and PRI investments totaling over \$23 million, so that total resources deployed toward the mission equal over 16% of assets. In comparison, the "conventional strategy" in year 20 would fund almost \$9 million in grant making and no PRIs, with only 5% of assets deployed toward the mission.

Over time, a commitment to PRIs can have substantial financial and mission impact.

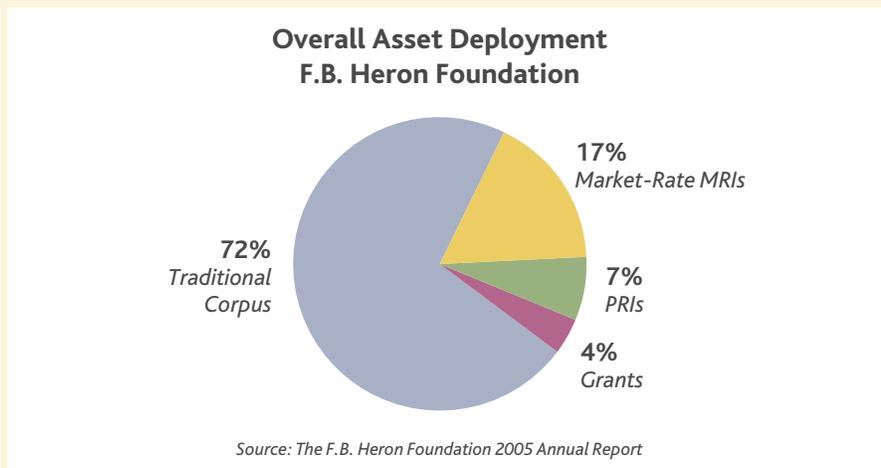


High-impact investment can also include venture capital for enterprises that have social or environmental benefits in addition to financial ones. As with other asset classes, illiquid private equity can target either a market- or below-market return. Examples of such high-impact investments by Trillium Asset Management Corporation clients include:

- **SJF (Sustainable Jobs Fund) Ventures** is a venture capital fund that finances and assists rapidly growing companies with more than \$1 million in sales. SJF specializes in supporting entrepreneurial teams whose competitive advantage includes environmental or workforce innovation. SJF's contribution to the market is to seek out and support unique ventures, often in locations and sectors overlooked by more traditional venture capitalists.
- **Econergy International**, based in Boulder, CO, is a diversified international energy services company focused on clean energy in emerging markets, primarily Mexico and Brazil. The company invests in profitable, low-risk power generating facilities (wind, small hydro, biomass and landfill gas) rather than investing in emerging technologies.

### Frontiers of Mission-Related Investing: the F.B. Heron Foundation

Since 1997 the \$300+ million F.B. Heron Foundation has been working to link its assets as fully as possible to its mission of helping people and communities to help themselves. Heron divides its asset deployment into four categories. The first is grant making, which in 2005 represented 4% of assets. The second is below-market-rate investments (PRIs), at 7% of assets. The third is market-rate MRIs, at 17% of assets, and the fourth is the traditional corpus of (non-MRI) investments. Thus over one-quarter of Heron's assets are deployed in direct service of its mission.



The 2005 Annual Report states that:

*The goal of mission-related investing at F.B. Heron Foundation is to put the assets of the Foundation to work to increase wealth-creation opportunities for low-income people and communities in the United States. We particularly seek opportunities that leverage our resources with those of other investors.*

From a starting point of near zero in the late 1990s, by the end of 2005 Heron had almost \$70 million deployed in PRIs and market-rate MRIs. At the same time, the Foundation's overall investment returns ranked in the second quartile of the Russell/Mellon All Foundation Universe for the year.

Heron's overall benchmark for below-market MRIs is inflation plus 1%, though the target returns for any single investment can range from 1% for cash management to nearly 10% for illiquid equity investments. Market-rate MRIs are made in cash, fixed income securities, equity, and limited partnerships, with returns evaluated using standard benchmarks for those asset classes.

- **Equal Exchange** preferred stock. Equal Exchange was founded in 1986 as a way to create more direct and equitable trading relationships between marginalized developing-country producers and US consumers; clients are invested in the company's preferred stock. All of the company's coffee, cocoa and chocolate products carry the Transfair USA seal, which certifies that they have been produced according to the internationally recognized standards of Fair Trade.

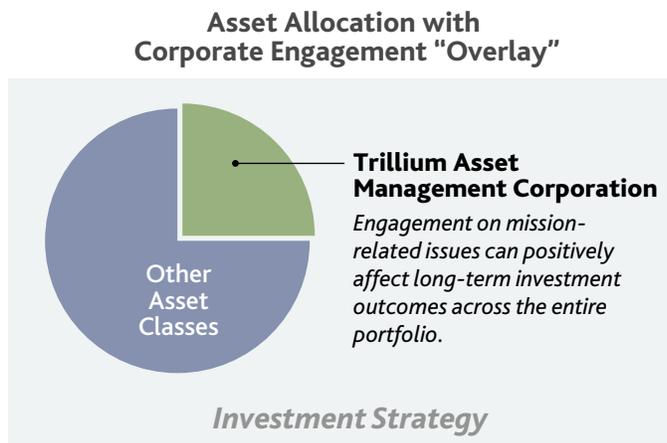
*A non-profit may find itself unknowingly voting against shareholder resolutions supported by its grantees or program work.*

### **Engaging an SRI manager to invest some or all of the assets**

Few non-profits have investment programs that use all components of MRI. Many larger institutions employ consultants to determine their overall asset allocation strategy, and to help select managers to provide the investments. While consultant-driven processes can incorporate MRI, few consultants have expertise in this area. As such, foundations and non-profits are likely missing key opportunities to connect their investment policy to their mission.

For example, in consultant-driven or pooled investment approaches, the power of share ownership through proxy voting is usually unexplored. Most managers vote proxies for their clients, and often without regard to the client's specific mission. A non-profit may find itself unknowingly voting against shareholder resolutions supported by its grantees or program work.

Also, non-profits have regular cash requirements. This presents the opportunity to meet their cash needs with certificates of deposit (CDs) from Community Development Finance Institutions (CDFIs) that align with their missions. Conventional money managers do not usually take advantage of these opportunities.



By hiring managers who operate at arms length from the organization's mission, it is often difficult (if not impossible) for trustees to know exactly what assets the organization owns, thereby creating reputation and ethical risk for the organization. This is increasingly an issue with the use of lightly regulated, opaque investment vehicles such as hedge funds, where the underlying assets are typically not disclosed.

One way to seize these opportunities and to begin to align mission with investments is to hire a SRI manager for a portion of the institution's assets. A focused SRI manager can help an institution make progress on a number of fronts, including screening, voting proxies,

engaging with companies that directly impact the mission, and pursuing high-impact mission-related investment opportunities. Actively aligning money with mission in a portion of the portfolio is often a good way to get started with MRI, and can have broader spillover benefits over time as the institution gains experience with the SRI manager.

Working to improve corporate mission alignment through active engagement in a portion of the portfolio can influence company behavior more generally. As an example, Trillium Asset Management Corporation has been leading a coalition of shareholder and environmental groups

in encouraging the world's largest banks to incorporate environmental issues in their financing decisions, with the goal of eliminating funding for damaging projects. As a result, a number of large banks have recently adopted the Equator Principles, a financial industry benchmark for determining, assessing and managing social and environmental risk in project financing.

Broad-based changes in corporate behavior such as these can provide mission-related (and often financial) benefits across an institution's entire portfolio -- indeed, across the financial markets more generally. Thus shareholder activism holds the potential of leveraged impact beyond the narrow purview of the non-profit's investment portfolio. Greater corporate social responsibility improves the outlook for sustainable long-term investment returns, while supporting mission-related social and environmental objectives.

*Greater corporate social responsibility improves the outlook for sustainable long-term investment returns.*

## Getting from here to there: the change process

As institutions move forward in exploring MRI, they often face challenges. Organizational change brings into question peoples' beliefs and values and forces them to reconsider strongly held positions. Resistance to change often comes from fear of the unknown; however, this can be overcome. Change theory tells us that one of the most effective ways to promote change is to directly involve people in creating it.

One theory posits that change (C) is a result of dissatisfaction (D) with the current situation, multiplied by a vision (V) for the future, multiplied by the first steps (FS) for getting there.  $D \times V \times FS = C$ .<sup>16</sup> The beauty of this model lies in the math. If any of the elements is zero, you get zero change. And if you raise any of them, the results rise proportionately.

Given these aspects of change, what can be done to move an organization towards alignment of mission and action with respect to its investment program?

- Begin discussions within the organization—involve stakeholders broadly in the change (involvement)
- Invite gatekeepers and key decision-makers into the conversation (involvement)
- Bring in staff and board from non-profits that are using MRI to share their experiences (dissatisfaction, vision and first steps)
- Review websites, annual reports, proxy voting policies and investment policies of organizations using MRI (vision and first steps)
- Begin discussions with an SRI manager; consider inviting one to make a presentation to your board (vision and first steps)
- Attend specialized conferences like PRI Makers and workshops on MRI at general conferences (dissatisfaction, vision and first steps)

### Modeling the Change Process

**Dissatisfaction × Vision × First Steps**



**Mission / Investment Alignment**

*Change theory tells us that one of the most effective ways to promote change is to directly involve people in creating it.*

## How Trillium Asset Management Corporation Can Help

Trillium Asset Management Corporation has broad and deep experience in supporting the development of mission-related investing. For twenty-five years, we have been leaders in the social investment field. We are a majority employee- and women-owned firm, guided by a belief that active investing can offer competitive, long-term returns to the investor, while also promoting social and economic justice.

*We believe that mission/investment integration will become the obvious, mainstream approach to asset deployment for non-profit organizations.*

With over \$1 billion in assets, Trillium Asset Management Corporation is the oldest and largest independent investment manager in the US dedicated solely to socially and environmentally responsible investing. We pursue a proactive, change-oriented approach to MRI. We have been instrumental in the development of responsible investing, having co-founded Ceres, the Social Investment Forum (SIF) and the Social Investment Research Analysts Network (SIRAN).

The Trillium Asset Management investment process is focused on diversified investment insights and disciplined risk management. We manage customized portfolios for a variety of non-profit institutions, foundations and high-net worth individuals. Our balanced and all-equity strategies are customized based on clients' financial and mission objectives. Trillium Asset Management Corporation is based in Boston, with offices in San Francisco, Boise and Durham.

The table below illustrates the main differences between conventional asset management and mission-related investing with Trillium Asset Management Corporation.

Investment Service	Conventional asset management	Trillium Asset Management
Seek out high-impact mission-related investments across asset classes, both PRIs and investment-grade		✓
When dialogue fails, file shareholder resolutions		✓
Use leverage as a shareholder in companies to engage on issues impacting mission objectives		✓
Screen and monitor universe of investments to align with mission		✓
Meet customer service and reporting requirements	✓	✓
Construct portfolio in alignment with financial objectives	✓	✓
Develop investment policy	✓	✓

*For more information on mission/investment integration please contact  
Lisa MacKinnon,  
617-423-6655,  
lmackinnon@trilliuminvest.com*

Mission-related investing often starts incrementally and builds on experience and success. At Trillium Asset Management Corporation we have been impressed by the gains that a number of organizations have made in leveraging their assets in support of mission over the last decade. We are now moving from the pioneering stage into a more rapid institutionalization of MRI. More strategies and support services in place make it easier for interested non-profits to get started. We believe that over time mission/investment integration will become the obvious, mainstream approach to asset deployment for non-profit organizations.

## Glossary of Terms and Directory of Resources

### Mission-Related Investing Terms

<b>CDFI</b>	Community Development Financial Institutions
<b>CII</b>	Community Investment Institutions
<b>CSR</b>	Corporate Social Responsibility
<b>ESG</b>	Environmental, Social and Governance
<b>GRI</b>	Global Reporting Initiative
<b>MRI</b>	Mission-Related Investing
<b>PRI</b>	Program-Related Investing
<b>SRI</b>	Socially Responsible Investing

### Resources for Foundations and other Non-Profit Organizations

- ◆ **Foundation Partnership on Corporate Responsibility** ([www.foundationpartnership.org](http://www.foundationpartnership.org))  
*An association of foundations working to link their grant making values with their investments to promote greater social responsibility of corporations.*
- ◆ **The F.B. Heron Foundation** ([www.fbheron.org](http://www.fbheron.org))
- ◆ **Nathan Cummings Foundation** ([www.nathancummings.org](http://www.nathancummings.org))
- ◆ **Jessie Smith Noyes Foundation** ([www.noyes.org](http://www.noyes.org))  
*Leading foundation practitioners of MRI.*
- ◆ **Rockefeller Philanthropy Advisors** ([www.rockpa.org](http://www.rockpa.org))  
*Philanthropy advisors and producers of annual report for foundations on upcoming proxy issues.*
- ◆ **PRI Makers Network** ([www.primakers.net](http://www.primakers.net))  
*An association of grant makers who use program-related and other investments to accomplish their philanthropic goals.*

### Additional Resources

- ◆ **Blended Value** ([www.blendedvalue.org](http://www.blendedvalue.org))  
*The Blended Value Proposition states that all organizations, whether for-profit or not, create value that consists of economic, social and environmental value components—and that investors (whether market-rate, charitable or some mix of the two) simultaneously generate all three forms of value through providing capital to organizations.*
- ◆ **Ceres** ([www.ceres.org](http://www.ceres.org))  
*A national network of investment funds, environmental organizations and other public interest groups working to advance environmental stewardship on the part of businesses. Ceres is renowned for its unique ability to bring diverse groups together to find positive solutions for complex environmental and social challenges.*
- ◆ **Community Investing Center** ([www.communityinvest.org](http://www.communityinvest.org))  
*Community investing is capital from investors that is directed to communities underserved by traditional financial services. It provides access to credit, equity, capital, and basic banking products that these communities would otherwise not have, making it possible for local organizations to provide financial services to low-income individuals, and to supply capital for small businesses and vital community services, such as child care and healthcare.*

- ◆ **The Equator Principles** ([www.equator-principles.com](http://www.equator-principles.com))  
*A financial industry benchmark for determining, assessing and managing social and environmental risk in project financing. Many of the world's largest banks, including the World Bank, Citigroup, and Bank of America, abide by these principles to assure that the projects they fund are socially and environmentally responsible.*
- ◆ **First Affirmative** ([www.firstaffirmative.com](http://www.firstaffirmative.com))  
*A nationwide network of financial advisers specializing in serving SRI investors.*
- ◆ **Global Reporting Initiative (GRI)** ([www.globalreporting.org](http://www.globalreporting.org))  
*The GRI's vision is that reporting on economic, environmental, and social performance by all organizations becomes as routine and comparable as financial reporting. GRI accomplishes this vision by developing, continually improving, and building capacity around the use of its Sustainability Reporting Framework.*
- ◆ **Global Business Coalition on HIV/AIDS** ([www.businessfightsaids.org](http://www.businessfightsaids.org))  
*The pre-eminent organization leading the business fight against HIV/AIDS. The rapidly expanding alliance of over 200 international companies is dedicated to combating the AIDS epidemic through the business sector's unique skills and expertise.*
- ◆ **Initiative for Fiduciary Responsibility** (<http://www.theglobalacademy.org/ifr.asp>)  
*The Global Academy developed the Initiative for Fiduciary Responsibility to facilitate the evolution and implementation of an expanded concept of fiduciary responsibility in the interest of both institutional investors and society as a whole.*
- ◆ **Interfaith Center on Corporate Responsibility (ICCR)** ([www.iccr.org](http://www.iccr.org))  
*For 35 years the Interfaith Center on Corporate Responsibility (ICCR) has been a leader of the corporate social responsibility movement. ICCR and its members press companies to be socially and environmentally responsible. Each year ICCR- member religious institutional investors sponsor over 200 shareholder resolutions on major social and environmental issues.*
- ◆ **Investor Network on Climate Risk (INCR)** ([www.incr.com](http://www.incr.com))  
*A network of institutional investors and financial institutions dedicated to promoting better understanding of the financial risks and investment opportunities posed by climate change.*
- ◆ **Social Investment Forum** ([www.socialinvest.org](http://www.socialinvest.org))  
*A national nonprofit membership organization promoting the concept, practice and growth of socially responsible investing. The Social Investment Forum site offers comprehensive information, contacts and resources on socially responsible investing.*
- ◆ **Social Funds** ([www.socialfunds.com](http://www.socialfunds.com))  
*Leading website for information on SRI mutual funds.*
- ◆ **Social(k)** ([www.socialk.com](http://www.socialk.com))  
*Social(k) has partnered with ExpertPlan to provide a retirement platform for 401(k) and profit sharing plans. Their goal is to offer a broad selection of SRI mutual funds for companies to choose from.*
- ◆ **SRI Studies** ([www.sristudies.org](http://www.sristudies.org))  
*Reviews and bibliography of academic studies of socially responsible investing and business.*
- ◆ **Sudan Divestment Task Force** ([www.sudandivestment.org](http://www.sudandivestment.org))  
*As the national clearinghouse for the Sudan divestment movement, it is actively involved in dozens of campaigns across the country at the university, city and state levels. It has developed a unique approach to divestment, focusing its efforts on the most egregiously offending companies in Sudan. This approach, termed targeted divestment, helps maximize impact on the Sudanese government, while minimizing harms to innocent Sudanese citizens and US investment returns.*
- ◆ **UN Principles for Responsible Investment** ([www.unpri.org](http://www.unpri.org))  
*An initiative of the UN Secretary-General implemented by the UNEP Finance Initiative ([www.unepi.org](http://www.unepi.org)) and the UN Global Compact. Crafted by more than 20 pension funds, foundations and special government funds, backed by a group of 70 experts from around the globe, over \$4 trillion in global assets have signed on to these groundbreaking principles.*

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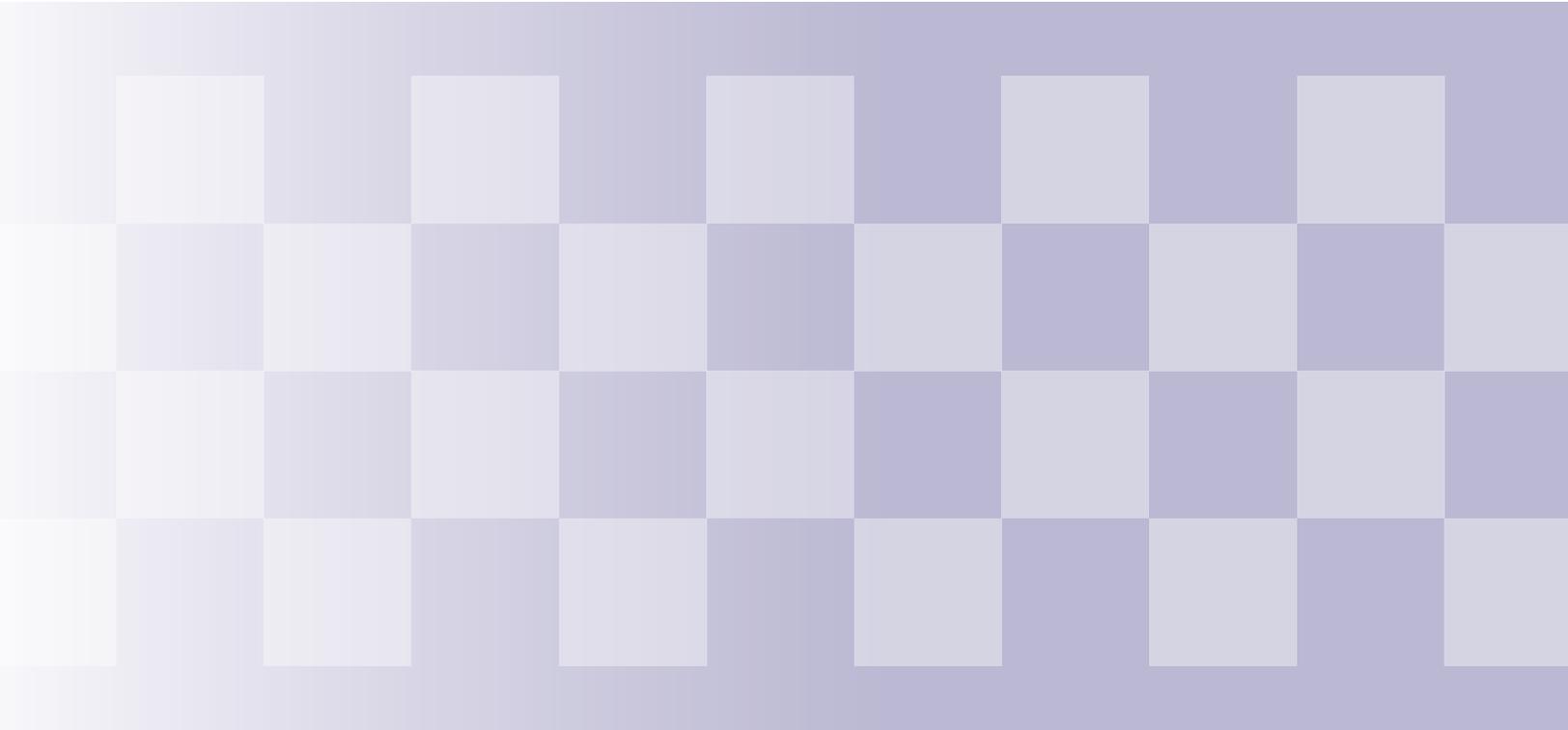
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