

# Fully Leveraged Philanthropy

**Joshua Humphreys**

Harvard University

Harvard Kennedy School, Hauser  
Center presentation, 4/22/09

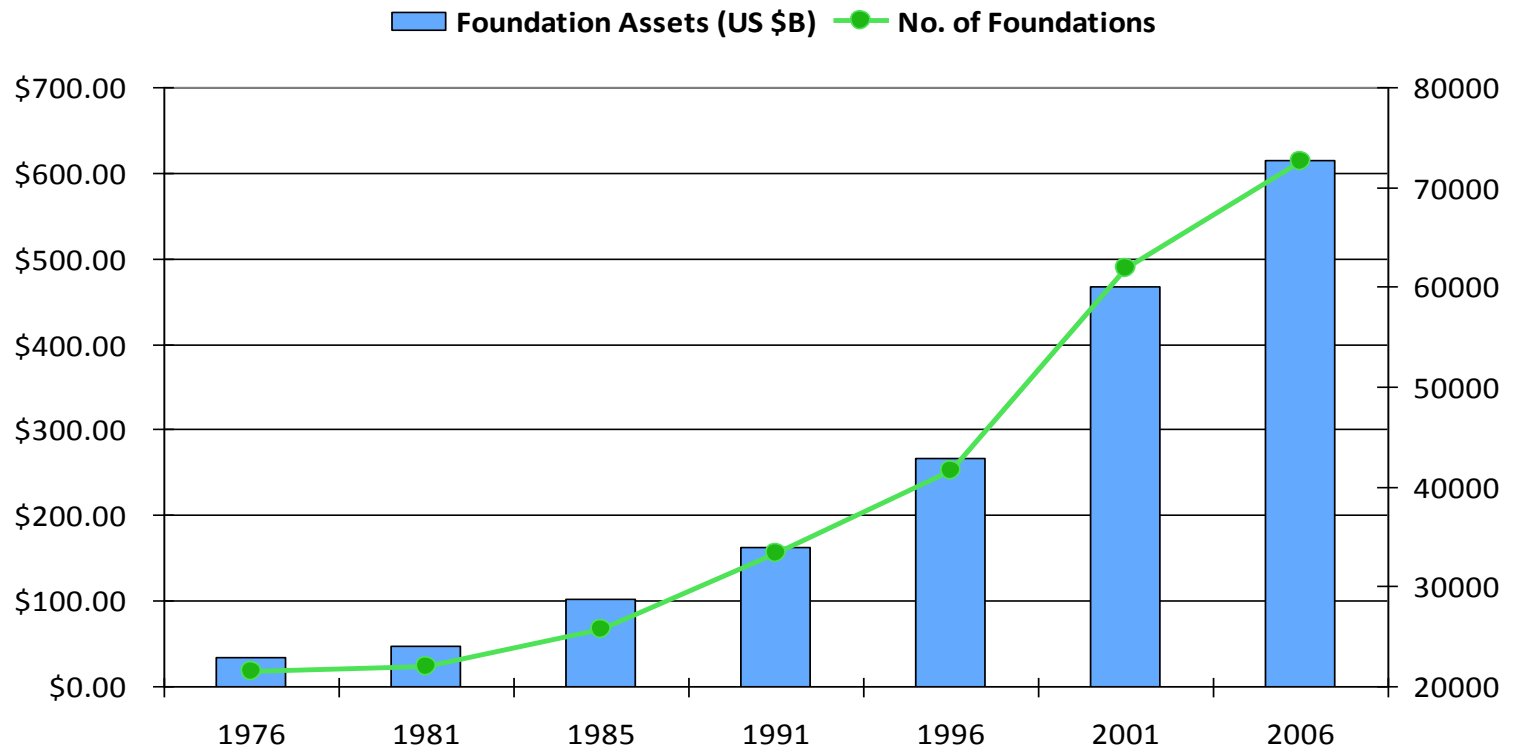


CENTER FOR  
**SOCIAL**  
**PHILANTHROPY**

# Foundations and the Financial Crisis: Doing More with Less?

- Nearly 2/3 of foundations anticipate reducing grants in 2009
- Foundation endowments are off 20-30% over the last year
- 54% of funders are turning to non-grantmaking activities for impact opportunities during the crisis
- Foundation Center doesn't track how foundations are using their endowment assets for mission

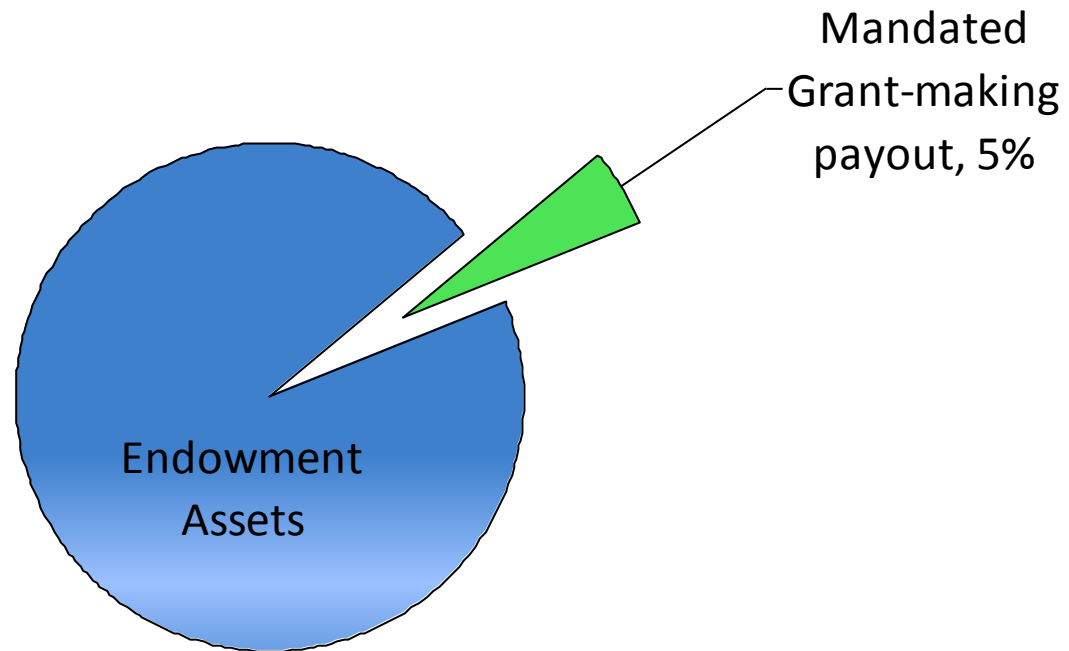
# Philanthropic Capital Accumulation: Three Decades of Foundation Growth



**SOURCE:** Foundation Center, 2008. Data not available for 1986.

# The Structure of Philanthropic Capital

Untapped  
Leverage in  
the other  
95%



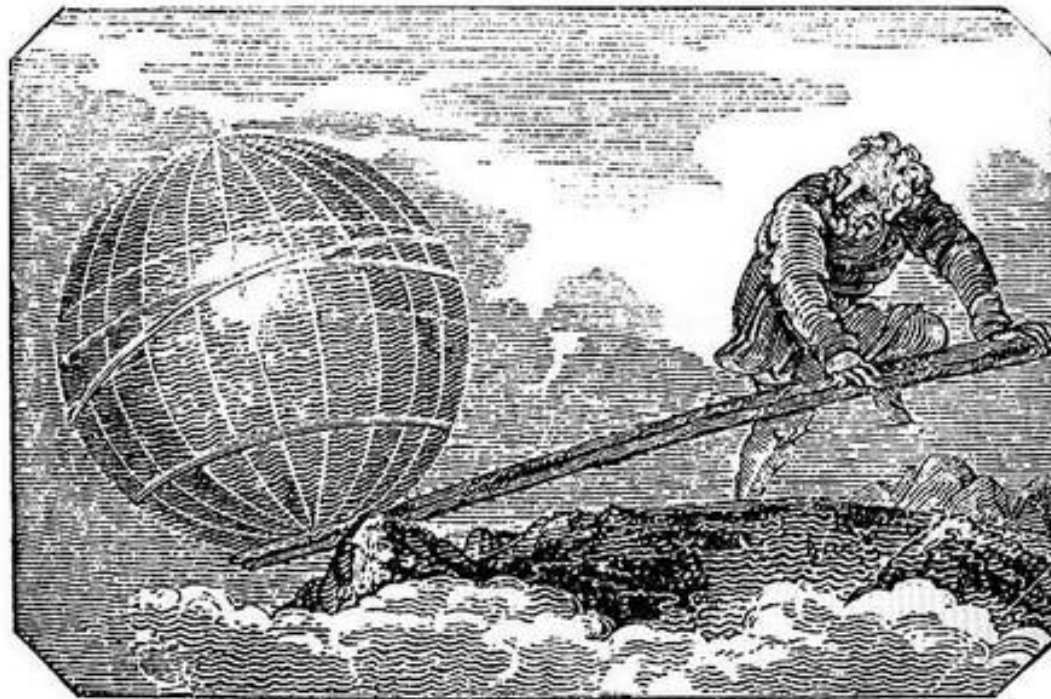


# C-SocPhil's Action Agenda

- Conduct novel research on foundations: data aggregation and development, surveys, case studies
- Benchmark foundation activity
- Identify and overcome obstacles
- Develop data-driven strategies
- Consult and convene

# C-SocPhil: The Archimedes Project

## Reclaiming Leverage



# C-SocPhil: The Archimedes Project

## Six Core Strategies of Fully Leveraged Philanthropy

1. Mission-Related Investment
2. Program-Related Investment
3. Active Ownership Strategies
4. Historical Asset Management
5. Sustainable Operations
6. Responsive Grantmaking

# Mission-Related Investment (MRI)

Mobilizing Assets to  
Maximize Impact



# MRI vs. PRI

## Mission-Related Investment

- An investment that generates financial returns and mission-related social or environmental returns
- MRI is a conceptual language within philanthropy, not a legal or fiscal term
- Competing concepts: (proactive) social investing, socially responsible investing, values-based investing, impact investing, double (or triple) bottom line investing
- Increasingly understood as an investment seeking competitive, market-rate returns
- Generally made from endowment assets

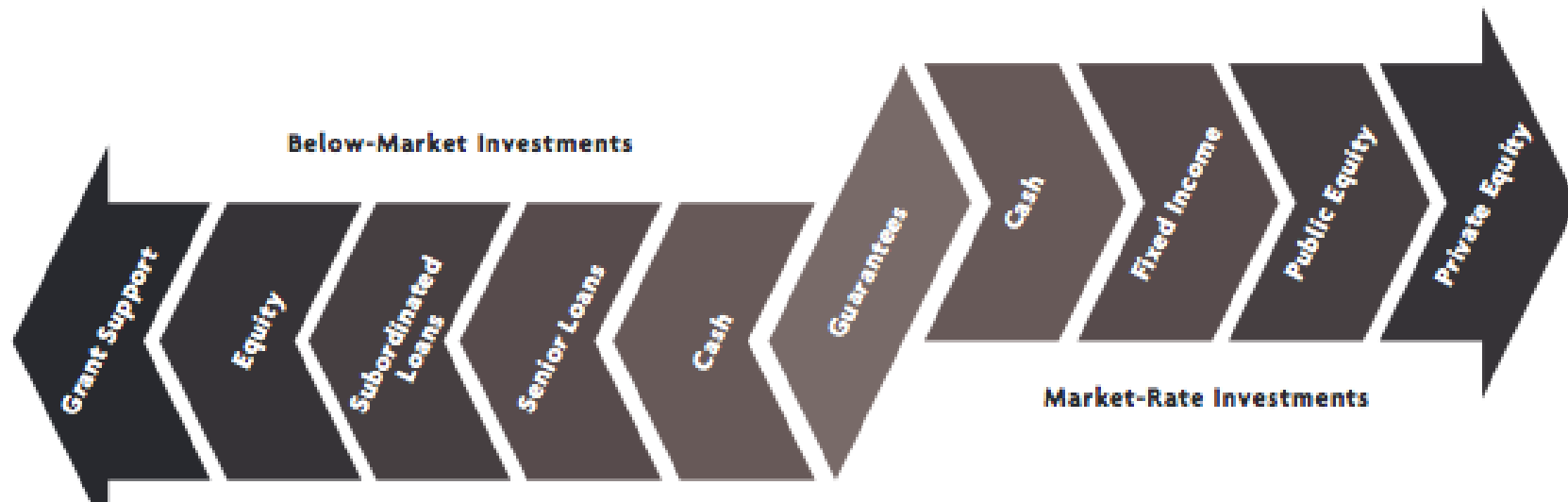
# MRI vs. PRI

## Program-Related Investments

- PRIs are defined in the US tax code:
  1. an investment whose primary purpose is to accomplish one or more of the foundation's exempt purposes,
  2. where production of income or appreciation of property is not a significant purpose, and
  3. where influencing legislation or taking part in political campaigns on behalf of candidates is not a purpose.
- Typically low-interest loans but can be equity, guarantees or other investments
- Count toward grantmaking payout, not typically drawn from endowment assets

# Mission-Related Investment

## Mission-Related Investment Opportunity Continuum

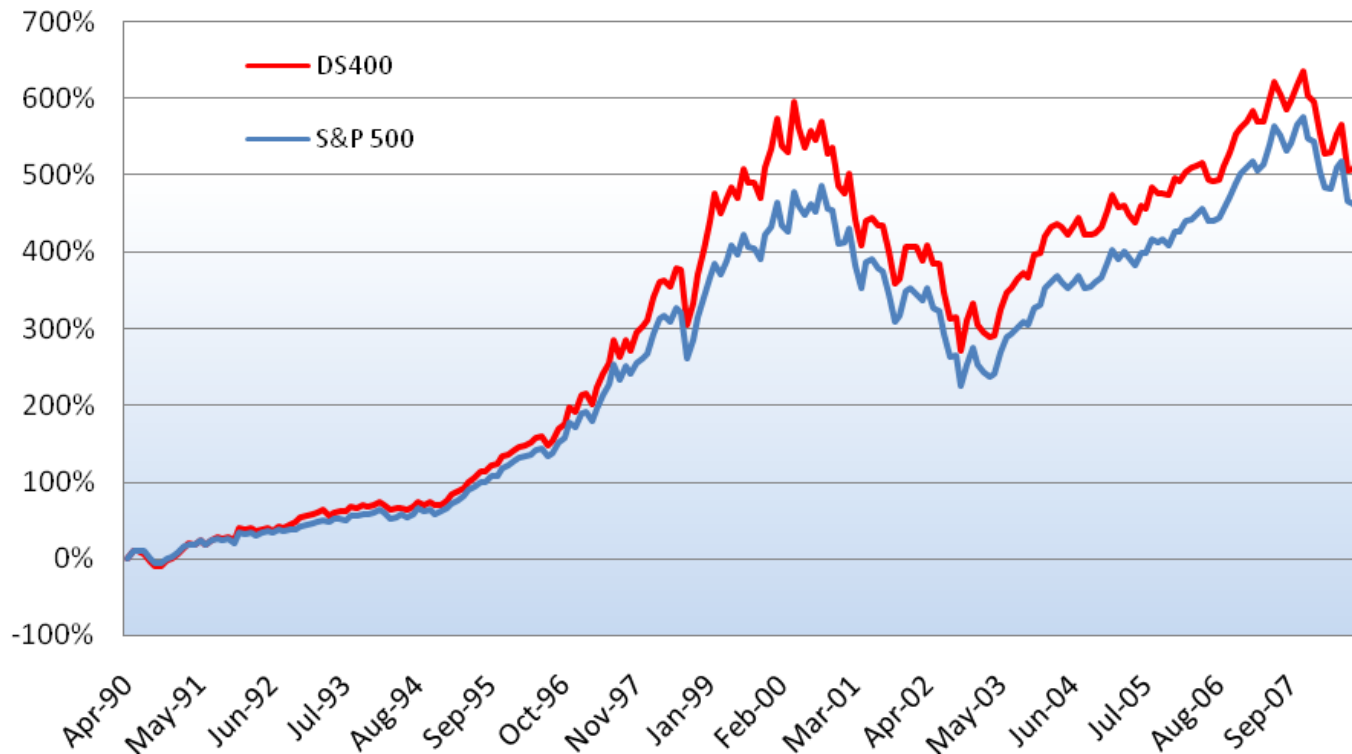


# Mission-Related Investment Opportunities across Asset Classes

- ❖ **Public equity**
  - SRI Portfolios (Large/Small-Cap, Domestic and International, Indexed or Active)
  - Tailored Mission-Based Separate Accounts
- ❖ **Debt/Fixed income**
  - SRI Bond Funds (including High-Yield)
  - Community Development Loan Funds
  - International Microfinance
- ❖ **Cash**
  - Operating Accounts at CDFIs (Banks and Credit Unions)
  - CDs for Affordable Housing & Energy Efficiency
- ❖ **Real Estate: Responsible Property Funds**
  - Urban Infill and Smart Growth
  - Green Building
- ❖ **Private equity**
  - Social Venture Capital: Cleantech, Green energy, and Community development
  - Hedge Funds (limited)
- ❖ **Commodities**
  - Sustainable Timber, Carbon, Biodiesel

# Compelling Long-Term Performance

## Domini 400 Social Index vs. S&P 500 Index



SOURCE: KLD Research & Analytics, Inc.

# Growth and Innovation in Social Investing

## From SRI Screening to ESG Integration

- Avoid investments that weaken mission
- Pro-actively seek responsible investments
- Best-in-class
- Apply sustainability analysis

## Theme-Based Portfolios Open Opportunities

- Environmental: Climate, Cleantech, Green Energy
- Place-based community investing
- Microfinance
- Women's Empowerment

# Increasing Interest among Foundations and Philanthropic Consultants



## Philanthropic consultants



MONITOR

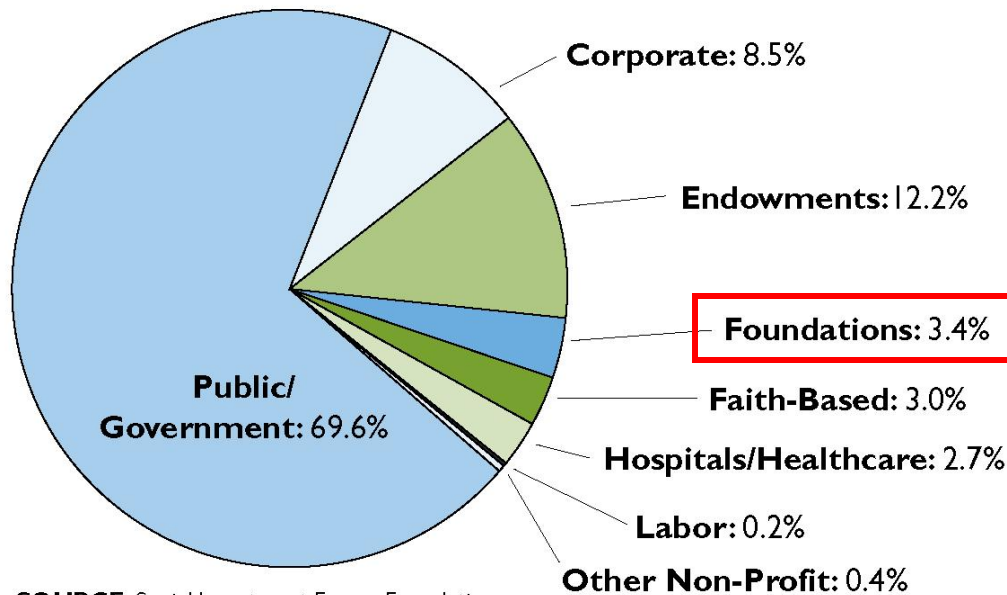


**Environmental Grantmakers Association**

**International Human Rights  
Funders Group**  
“Get Off Your Assets!”  
Working Group (GOYA)

# Less than 10% of foundation endowment assets apply mission-related ESG criteria

Socially Screened Institutional Investment Assets 2007



SOURCE: Social Investment Forum Foundation

	Assets (In Billions)
Endowments	\$202.45
Corporate	\$141.62
<b>Foundations</b>	<b>\$57.30</b>
Faith-Based	\$49.52
Hospitals/Healthcare	\$45.50
Other Non-Profit	\$6.58
Labor	\$2.60
Public/Government	\$1,157.08
<b>TOTAL</b>	<b>\$ 1,662.65</b>

# Largest Foundations Incorporating ESG Criteria into Endowment Management

- **Bill and Melinda Gates Foundation**
- **Ford Foundation**
- **David and Lucile Packard Foundation**
- **California Endowment**
- **Annie E. Casey Foundation**
- **Rockefeller Foundation**
- **Carnegie Corporation of New York**
- **California Wellness Foundation**
- **Robert Wood Johnson Foundation**
- **Charles Stewart Mott Foundation**
- **Carnegie Corporation of New York**
- **Heinz Endowments**
- **William Penn Foundation**

# Foundation leaders issue challenge: Commit “More for Mission”



33 foundations:  
\$25 Billion

Annie E. Casey Foundation  
Baton Rouge Area Foundation  
Betsy & Jesse Fink Foundation  
Blue Moon Fund  
The Boston Foundation  
The California Endowment  
Christopher Reynolds Foundation  
Cleveland Foundation  
Columbus Foundation  
Community Foundation for Greater Atlanta  
Consumer Health Foundation  
Deutsche Bank  
Edward W. Hazen Foundation  
F.B. Heron Foundation

Gaylord & Dorothy Donnelley Foundation  
Hitachi Foundation  
Hyams Foundation  
Jacobs Family Foundation  
Jessie Smith Noyes Foundation  
Kalamazoo Community Foundation  
KL Felicitas Foundation  
Lutheran Community Foundation  
Mary Reynolds Babcock Foundation  
Meyer Memorial Trust  
Needmor Fund  
Prudential Foundation  
Russell Family Foundation  
S.H. Cowell Foundation  
Seattle Foundation  
Skoll Foundation  
Tides Foundation  
Vermont Community Foundation  
W.K. Kellogg Foundation

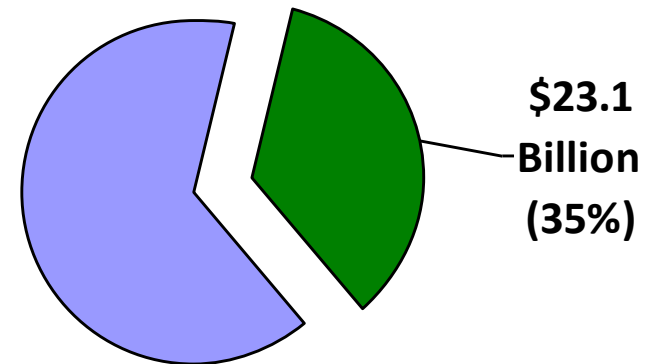
# C-SocPhil Survey: Mission Investing by Environmental Grantmakers



Environmental Grantmakers Association

- 27 of 43 EGA members (63%) invest \$23.1 Billion according to ESG criteria
- 35% of \$66 Billion in total assets analyzed
- 15 use environmental factors: \$676 Million
- 14 screen on tobacco: \$22 Billion

## Social and Environmental Investing by EGA Members



# Mission Investing Case Study



- 2007: Mission-Driven Investing pilot launched
- \$100m from endowment
- 75% domestic, 25% in southern Africa
- Seek social and financial returns
- Program and finance staff work together

## Core Strategies:

- Education and learning
- Wealth creation
- Place-based opportunities: S. Africa, Michigan, Mississippi delta and Gulf Coast, New Mexico
- Program-staff generated

# WKKF Mission-Driven Investing




- Investments Made:
- \$22m in local Community Development Financial Institutions (CDFIs)
- \$2m in real assets in NW Louisiana
- \$3m in social VC and educational private equity

## Social Impacts Measured:

- Jobs created
- Mortgages stabilized
- Youth engagement
- Increased educational opportunities
- Community environment enhanced

# Active Ownership Strategies

Adding Value through  
Shareholder Advocacy

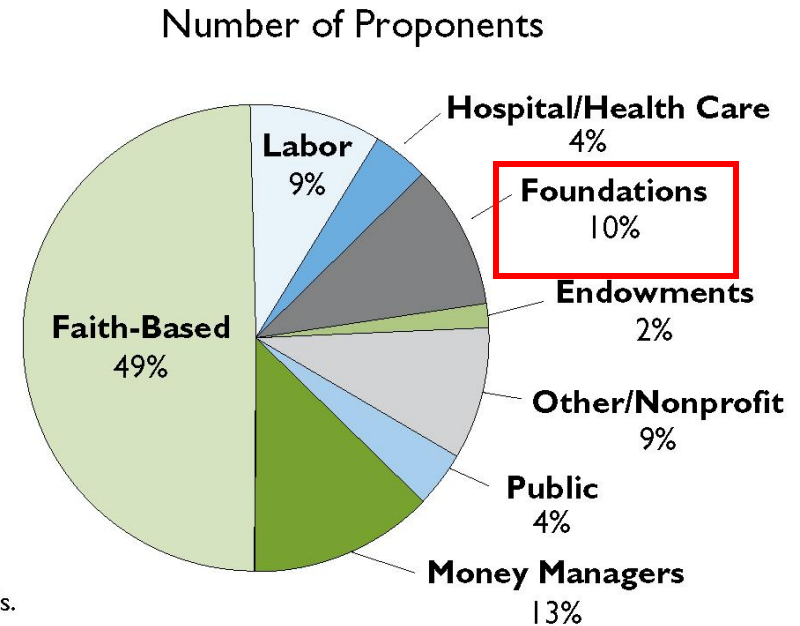
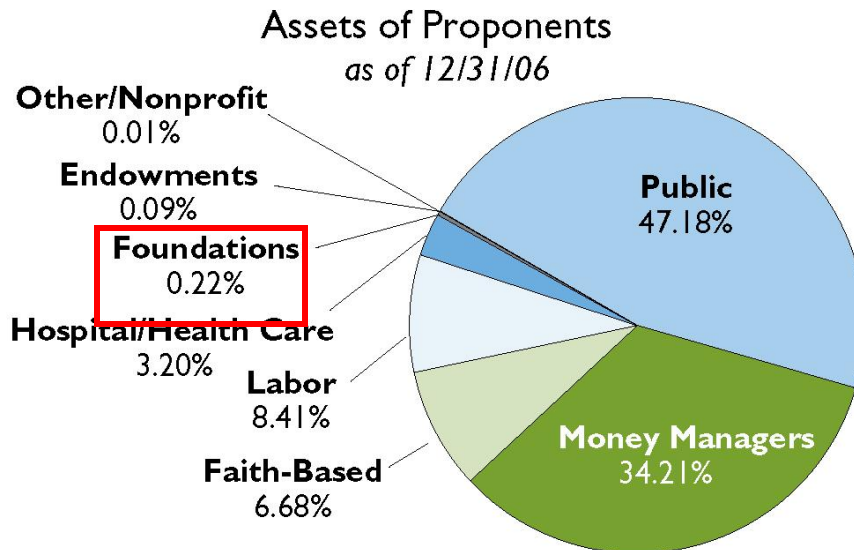
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# C-SocPhil's Active Ownership Agenda

Encourage active shareowner initiatives:

1. Actively vote proxies in support of environmental, social and governance (ESG) issues, based on written guidelines and/or advisory committees
2. Insist that investment managers vote proxies actively according to guidelines
3. File or co-file shareowner resolutions
4. Directly dialogue with companies about issues of concern
5. Engage through investor coalitions
6. Support shareholder rights (SEC and public policy)

# ESG Shareholder Resolutions Help Hold Corporations Accountable



**Source:** RiskMetrics Group; ICCR; Social Investment Forum Foundation analysis.

**Note:** Individual shareowners are not included.

# C-SocPhil is tracking shareholder resolutions filed by foundations

 **PROXYDEMOCRACY**

[HOME](#) [FOR MUTUAL FUND OWNERS](#) [FOR SHAREHOLDERS](#) [DATA](#) [ABOUT](#) [HELP](#)

[MUTUAL FUND PROFILES](#) | [ISSUE AREAS](#) | [FOCUS LISTS](#)

## SEARCH

### Mutual funds

e.g. Vanguard

### Companies

e.g. Exxon, AAPL

[More search options](#)

[Home](#) » [For mutual fund owners](#) » [Focus Lists](#) » "Foundation Resolutions 2008"

## "FOUNDATION RESOLUTIONS 2008"

Published by [Center for Social Philanthropy](#) on May 06, 2008. Viewed 559 times

Shareholder resolutions on environmental, social or governance concerns or other mission-related investing issues filed or co-filed by philanthropic or religious foundations. This is by no means exhaustive, but it gives a quick sense of foundations' leading concerns on the proxy in 2008. For more information about the Center for Social Philanthropy's Active Ownership Agenda, visit us at [www.socialphilanthropy.org](http://www.socialphilanthropy.org).

## FEATURED PROPOSALS

There are 31 proposals in this Focus List. "**Executive Compensation**" is the most common proposal category in this list.

For

### [Report on Foreign Military Sales](#)

CATERPILLAR INC., Jun 11, 2008

Center for Social Philanthropy's remarks on this proposal:

**As You Sow Foundation, Sisters of Mercy Regional Community of Detroit Charitable Trust**

▶ **3 Voters agreeing**

▶ **27 Voters disagreeing**

For

### [Report on Social and Reputation Impact of Failure to Comply with ILO Conventions](#)

WAL-MART STORES, INC., Jun 06, 2008

# Investors are increasingly engaging through shareholder networks



Social Investment Forum



**GENOCIDE INTERVENTION NETWORK**  
Have a Hand in Stopping Genocide®



**Investor Environmental  
Health Network**  
HEALTHY PEOPLE...HEALTHY BUSINESS



**Council of Institutional Investors**  
The Voice of Corporate Governance



**Principles  
for Responsible  
Investment**



**Investor Network on  
CLIMATE RISK**

# But foundation involvement – while growing – remains relatively limited



1. Christopher Reynolds Foundation
2. Fondation Guilé
3. Jessie Smith Noyes Foundation
4. KEHATI -- The Indonesia Biodiversity Foundation
5. Nathan Cummings Foundation



1. As You Sow Foundation
2. Rose Foundation



1. Bullitt Foundation
2. Christopher Reynolds Foundation
3. Doris Duke Charitable Foundation
4. Laird Norton Family Foundation
5. Lemelson Foundation
6. Nathan Cummings Foundation
7. Needmor Fund
8. Rockefeller Brothers Fund
9. Vermont Community Foundation

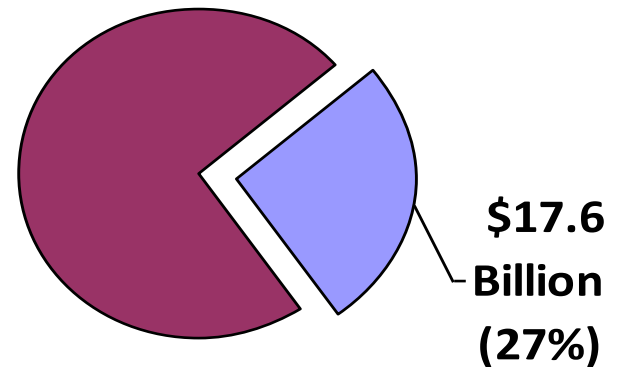
# Active Ownership Strategies by Environmental Grantmakers



Environmental Grantmakers Association

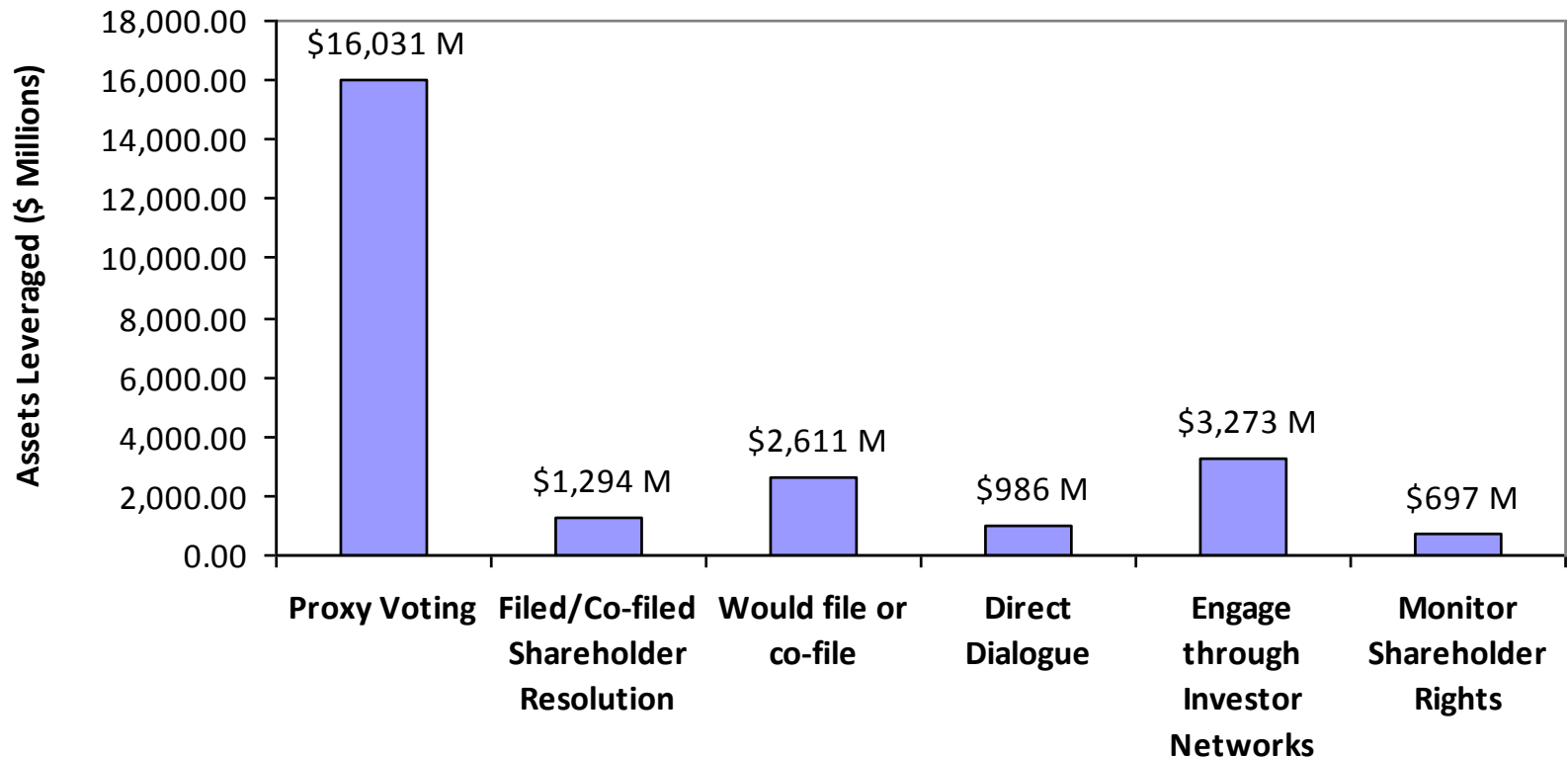
- 23 of 43 EGA members surveyed, with \$17.6 Billion, reported using shareholder strategies:
- 17 reported active proxy voting
- 11 have (co-)filed shareowner resolutions
- 15 said they would consider filing
- 18 engage through investor networks

## Active Ownership by EGA Members



# Shareowner Strategies: Assets Leveraged by Environmental Grantmakers

Active Ownership by EGA Members 2008



# Active Ownership Case Study

THE NATHAN  
CUMMINGS  
FOUNDATION

\$500m private family foundation in  
New York, rooted in Jewish values

## Core programs:

- arts and culture
- environment and “contemplative practice”
- health
- Jewish life and values
- interprogram initiatives for social and economic justice

- 2002: new shareholder guidelines
- Began voting proxies actively
- 2003: Filed a shareholder resolution at Smithfield due to concerns about hog farming
- Has since filed or co-filed +60 shareholder resolutions on a wide range of concerns, making it the most active foundation shareholder advocate
- 2008: won majority support for “Say on Pay” at Apple, co-filed with a labor organization
- Has become a leading philanthropic voice in wider investor coalitions: CDP, CII, ICCR, INCR, UN PRI...

# Added Value of Active Ownership

THE NATHAN  
CUMMINGS  
FOUNDATION

## Financial Performance

- 2002-2007: tobacco-free investment assets have grown +60% from \$350m to +\$550m
- +12% annual growth
- Outperformed unscreened 60/40 endowment benchmark

## Social Impact

Demonstrable changes in corporate behavior on environmental, social and governance issues

## Philanthropic Added Value

Shareholder activities have enhanced reputation as a leader in responsible investing

## **Next Steps for C-SocPhil**

- **Relaunch website**
- **Seek foundation funding for The Archimedes Project**
- **Pursue research and consulting engagements – and partnerships with philanthropic advisers**
- **Develop case studies on foundation experiences**
- **Publish resource guides tailored for funders in human rights, health, and other program areas**
- **Launch LevLab for experiments in data visualization and fully leveraged philanthropy**
- **Benchmark foundation performance**



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**Joshua Humphreys**

[jh@socialphilanthropy.org](mailto:jh@socialphilanthropy.org)

[jhumphr@fas.harvard.edu](mailto:jhumphr@fas.harvard.edu)

(617) 710-2853

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[www.socialphilanthropy.org](http://www.socialphilanthropy.org)