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Introduction

It's a pleasure to be here to talk about the RBF's experiences with mission-related investing (MRI) and to exchange ideas on a topic that is vitally important for philanthropy. This is a terrific audience with more expertise on this topic than I have to contribute—so I will not focus my remarks on the technical aspects of MRI.

Instead, I will address three key points. First, I want to stress that this is a matter of some urgency. Second, I want to talk about why real progress seems so difficult—and I will use the RBF as a case study. Finally, I will conclude with some thoughts about how our field can move forward.

I want to have a very honest conversation with you this afternoon. And in that spirit, I will begin by acknowledging that the RBF, like most foundations, has not yet reached its full potential with regard to mission investing. I have often felt frustrated by the challenges we have faced and the slow pace of our progress.

Nevertheless, we remain deeply committed to aligning the management of our endowment more closely with our mission and values—and I believe we have *started* to make important strides in that direction. I hope that by sharing some of our journey with you today we can all think together about how foundations can move forward more rapidly on this complicated but rewarding path.

Turbulent times: the urgency of MRI

Mission investing is more relevant than ever before. In fact, it is increasingly urgent. It is stating the obvious to note that we are living in profoundly turbulent times. From the dangers of climate change to the global financial crisis, growing economic disparities, and protracted military conflicts—the first decade of the 21st century has been marked by constant disequilibrium. There is no doubt that as grantmakers, the challenges we are seeking to address are unprecedented in scale and complexity.

We are also living in a time of deep interdependence. The 6.5 billion human beings who inhabit Earth, along with some 1.8 million other known species, share one planetary ecosystem, one climate, and, increasingly, one financial system and one polity. The challenges we face today are so profoundly interconnected that it is absolutely clear they cannot be solved through the combined efforts of government and the nonprofit sector. The private sector and market forces must also drive solutions.

Leveraging resources

U.S. foundations paid out approximately $43 billion in grants in 2009. At their best, these grant dollars are helping our grantees to do vitally important work on some of the most critical social, economic, and environmental challenges of our times. Forty-three billion dollars is a lot of money. But, unfortunately, I think we can all agree that it is little more than a drop in the ocean when we consider the magnitude of the challenges we face.

Just compare the scale of foundation giving to the roughly $6.5 trillion in total federal, state, and local government spending in the United States, or to the $12 trillion of U.S. GDP. Even *total* charitable giving by Americans of some $350 billion pales in comparison.

In 2009, the RBF paid out $31 million in grants aimed at helping to build a more just, sustainable, and peaceful world. I confess, it sometimes feels arrogant or foolish—or both—to think we can do much to advance such an overwhelming mission with so few grant dollars. And yet the remarkable thing about philanthropy is that we can all point to numerous examples where the creative and bold investment of limited philanthropic resources really made a difference.

And there is much we do at the RBF—and across philanthropy—to multiply the value of our grant dollars. All of us strive to be highly strategic in our grantmaking. By practicing what I call "acupuncture philanthropy," we do our best to target limited grant dollars, putting pressure where we can have the most impact—inserting our tiny needles in ways that trigger larger systemic effects. Through convening and networking, we also increase our impact by helping our grantees to build coalitions and partnerships that combined, are more powerful than the sum of their parts.

We hire talented thought leaders to lead our grantmaking. We strive to make our foundations "learning organizations," capturing and sharing data, insight, and innovative ideas. And we use our unique platforms to contribute to important public debate. We are at our best when we take risks, betting on new ideas or fresh leaders to develop innovative solutions to social and environmental problems. In these and other important ways, we take meticulous steps every day to ensure that the five percent of our resources directed at grantmaking are used to maximum impact. There is no reason why we should not do the same with the remaining 95 percent.

We simply won't meet the profound challenges of our turbulent times if we fail to maximize the use of all the resources at our disposal—intellectual and financial. This is why MRI is now so urgent. The same U.S. foundations that paid out $43 billion in grants in 2009 also held nearly $600 billion in assets.[1] This represents a lot of untapped potential.

MRI

The concepts of socially responsible investing are not new. We can trace their beginnings as far back as Victorian England, when early Quaker pension plans restricted investments in armament companies in order to align their investments with their beliefs.

Today, investors around the world—even those without explicit charitable or social missions—are paying increasing attention to social and environmental issues. Many have acknowledged that issues like inequality, sustainability, community relations, and even human rights have the potential to seriously impact the performance of their investments in the long run.

We can see this interest reflected in the proliferation of sustainable and socially responsible investment funds. It inspired 259 investors representing $15 trillion in assets to sign a statement prior to the November Cancun meeting on climate change calling for policies to unlock the vast potential of low-carbon markets and avoid the economic devastation caused by global warming.[2]

Foundations are important institutional investors. Yet, for a field that prides itself on supporting innovation and catalyzing social change, we have been woefully slow in adopting the principles of responsible and mission investing. The majority of foundations still manage their endowments with inadequate attention to the

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[1] The Foundation Center
[2] http://www.unpri.org/files/20101116_Europeinvestorstatement.pdf

potential benefits of investments that align with their missions, and—crucially—the significant opportunity costs of investments that do not.

And there are numerous examples of foundation leadership from which we can all draw inspiration and concrete approaches. At the RBF we have benefited greatly from the work of Heron, Jessie Smith Noyes, Needmor, Nathan Cummings and numerous other foundations that have been pioneers in this field.

The Heron Foundation, as we all know, has been one of the industry leaders, devoting an impressive 47 percent of their total assets to support their mission in 2009. In addition to paying out $10.9 million in grants, Heron made $20.9 million in program-related investments and $89.3 million in market-rate, mission-related investments.[3] And their returns have been impressive, especially in a volatile market.

Other foundations have had great success with shareholder activism and proxy voting. The Needmor Fund, for example, successfully worked with one of their grantees and other minority shareholders to successfully champion improved working conditions in the fast-food industry. In 2005, after years of shareholder activism, the Fund reached an agreement with "Yum! Brands" that resulted in tangible social benefits for the company's suppliers. In an earlier and well known case, the Jessie Smith Noyes Foundation [Vin Deluca] used its shareholder voting power to push Intel to revise their Environmental, Health, and Safety policy and eventually to become a signatory of the CERES principles[4].

The efforts of these foundations—and many others, including some represented in this room—have demonstrated that foundation investments can be used as effective social tools without sacrificing financial performance. And yet, despite the many excellent examples we can cite, our field continues to lag. And I want to spend the next few minutes looking at why overall progress in philanthropy has been so slow and I will talk about our own experience at the RBF to illustrate the challenges.

The RBF and MRI

The RBF began seriously to examine mission-related investing in 2004. Up until that time, there was a pretty formidable firewall between our philanthropic activities and the management of our portfolio, driven by the conventional wisdom of "absolute return." Our Investment Committee firmly believed that their mission was to make as much money as possible for us to deploy toward the foundation's social change mission. I was in my third year as president of the Fund and with the active support of a few trustees—notably, members of the Rockefeller family—we convened an ad hoc Advisory Committee on Responsible Investing. The Committee included trustees, members of our Investment Committee, and staff. It was tasked with assessing how the RBF could align its endowment more closely with our mission, consistent with the board's policy of managing the Fund to assure perpetuity. As the committee examined various ways we might get started, we quickly concluded that a good first effort would be to focus on shareholder activism and proxy voting.

In 2005, we adopted Proxy Voting Guidelines as the first phase of our MRI initiative. The Guidelines, which are available on our Web site, address issues of corporate governance and ecological and social responsibility. Drawing on work at other foundations, the RBF guidelines are designed to reflect our core programmatic interests: participation, transparency, and accountability in governance; environmental stewardship ; and social responsibility. They are quite detailed—running some 25 pages. Work on the proxy guidelines took nearly a year—but the slow pace of progress reflected a deep conversation about our core institutional values and the need to educate trustees and build consensus. We needed to start dismantling the firewall. This proved enormously valuable to our larger aspirations with regard to mission investing.

In 2007, recognizing that it was no longer appropriate or effective to manage an increasingly complex portfolio with limited investment management staffing, we decided to hire a highly qualified CIO. When the search

[3] www.fbheron.org
[4] http://www.noyes.org/97pres

failed to produce candidates that we could afford, we concluded that we would be best served by outsourcing the CIO function to a firm specializing in the management of university and foundation endowments.

This cost us some time on our MRI agenda and created some additional complexities. Our CIO, an outstanding firm called Investure, serves a total of 11 clients, including six colleges/universities and four foundations. On the upside, the combined assets of these institutions, when the market was up, totaled nearly $7 billion. This offered obvious investment advantages. But it also resulted in a shift from direct stock ownership to pooled investment funds, and as a result we are no longer able to exercise proxy voting rights as an individual institutional investor. On the other hand, if we can persuade Investure and all of its clients to pursue proxy voting and other MRI initiatives, we have the opportunity to put far more capital to work for mission-related purposes.

Since early 2008 we have been engaged in ongoing conversations with Investure and their clients about creating a set of proxy voting *principles* that would apply to the combined assets. These conversations continue today as we struggle to align the needs and values of 10 different institutional investors—no easy task! But, once again, it provides the opportunity for a critically important process of institutional reflection and change.

Since engaging Investure, we have also been involved in an ongoing discussion about other opportunities to align our endowment with our programmatic concerns. As a result of these efforts, we were pleased to announce the creation of a Sustainability Investments Initiative last year.

The Sustainability Investments Initiative, managed by Investure, is a co-mingled investment vehicle focused on generating long-term social, environmental, and economic value. It is based on the belief that corporate management that understands the value of human capital, recognizes the importance of environmental stewardship, and embraces corporate responsibility to shareholders, is inherently focused on creating long-term value.

This initiative was started with the RBF making the lead investment commitment. After some debate, the RBF Investment Committee and then the full board of trustees authorized us to allocate up to 10 percent of our portfolio to the initiative. We are very pleased that two other Investure clients, Middlebury and Dickinson colleges have also joined the initiative with initial commitments totaling $11 million. We hope other Investure clients will join the initiative as it develops a track record of solid performance.

Investure has hired dedicated investment staff to manage the initiative and our own program staff, who are leaders in the sustainable development field, are working closely with them to help identify potential investments opportunities.

By creating an initiative that is open to all of Investure's clients we hope over time to pool enough resources to have significant impact, while prudently managing financial risk. As the Initiative grows, we fully expect to illustrate that mission, performance, and risk concerns can be successfully balanced in a manner that generates high social and financial returns. This, in turn, should enable us to go back to our board for authorization to expand the RBF's mission-investing portfolio. We also hope it might encourage other foundations to become active mission investors.

Our ultimate objective is that heightened interest in sustainable investing will lead businesses to adopt social, environmental, and economic practices in their day-to-day operations, so that the concept of sustainability becomes mainstream in both the investment community and in business more broadly.

Conclusion

Although we are very pleased with the progress of the Sustainability Investments Initiative, we know that we still have a long way to go. This is an ongoing conversation at the RBF, as we work to balance our financial goals with our social change mission and our commitment to excellence in philanthropic stewardship.

The greatest lesson we have learned so far is that MRI is hard work. It is a time-consuming effort to align program interests and long-term financial needs in the context of future uncertainty. It requires a significant organizational shift—at least in foundations like ours that have been operating over quite a few decades. It is a learning process, and it requires commitment and intentionality. It won’t happen without dedicated effort.

At the beginning of these remarks, I noted that we are living in turbulent times. The management guru Peter Drucker once wrote: “The greatest danger in times of turbulence is not the turbulence. It is to act with yesterday’s logic.” I believe mission investing fits with the logic of the future.

Thank you.