



## Mission Related Investing

- a new perspective for charities, trusts &  
individual investors

## Delivering on charitable aims through investment



What's your mission? The very question probably stirs images of evangelical fervour in far-off parts of the globe, or else of trite-sounding corporate strap-lines. Yet the question is a very pertinent one for both individuals and organisations, and it is especially relevant for charities, whose very existence is defined by their mission. Most charities and trusts have a very clear mission as stated in their Trust Deed, whilst many individuals have equally strong values, but in both cases these are generally not reflected in investment policy. This paper explains why this is the case and sets out a way of aligning mission with money.

Today over £36 billion is managed on behalf of the biggest 700 charities and trusts in the UK<sup>1</sup>. Clearly, this is a considerable amount of money, which carries significant influence and confers major responsibilities on trustees to whom these monies are entrusted. Likewise, as individuals we have a personal responsibility to manage our money that extends beyond meeting our family's needs, to consider the impact on a much wider scale. Scarcely a day goes by without some mention of climate change, societal unrest or pressure on resources. Like never before, as a society we are globally inter-related through business, trade and services, and this confers greater responsibilities than ever before. Historically, trustees have interpreted these responsibilities as maximising risk-adjusted investment returns to the benefit of the charity. This is enshrined in Charity law which requires trustees to seek to maximise financial returns on behalf of the charity, and was affirmed in two landmark court

cases – The Bishop Of Oxford vs The Church Commissioners and Arthur Scargill vs The Coal Board Pensions Scheme. In both cases the judge ruled that the fiduciary duty to maximise returns came before any other consideration, but he also determined that extra-financial issues may be considered if financial returns were not compromised. Subsequent guidance from the Charity Commissioners builds on this by stating that ethical exclusions are permitted if:

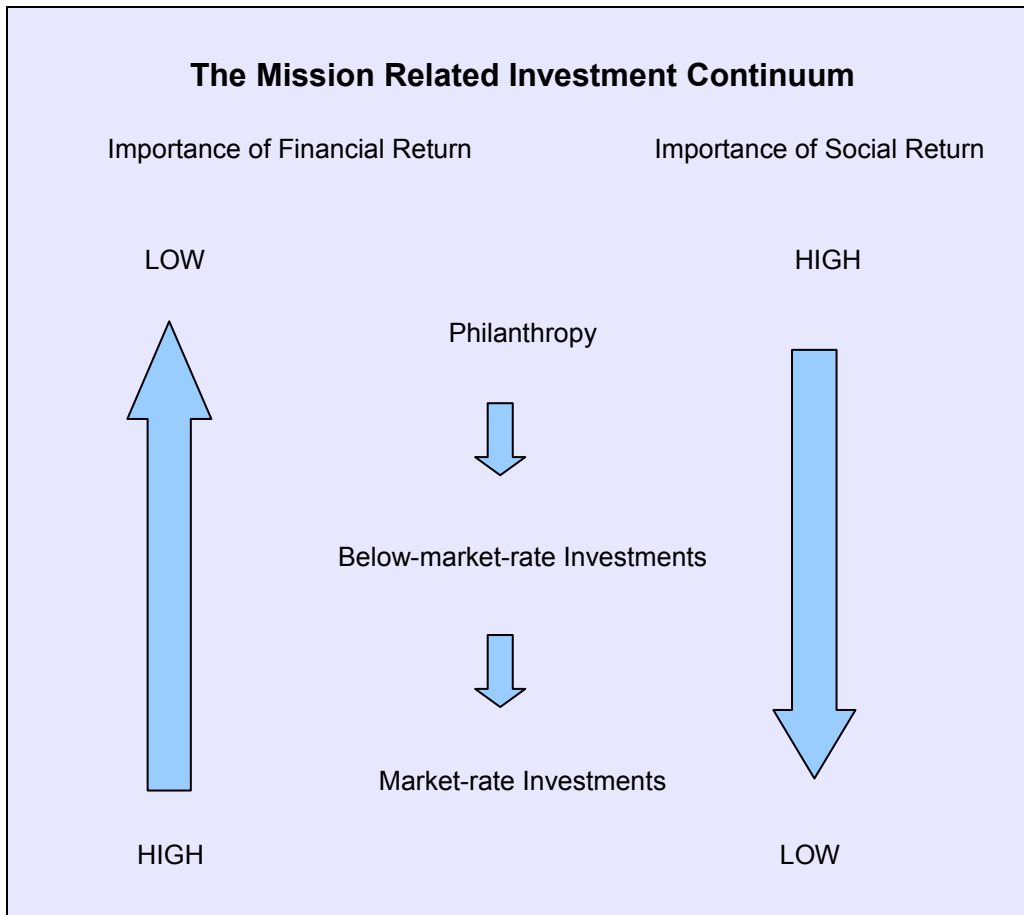
- i) An investment might otherwise conflict with the charity's aims
- ii) An investment may hamper the work of the charity by alienating supporters or beneficiaries
- iii) There is no extra risk of significant financial detriment

The first criterion will only have a small impact on the management of funds since there are unlikely to be many ethical criteria that can be clearly seen to be in conflict with the charity's core aims. For example, an animal welfare charity may decide to avoid investments involved in animal testing, or a cancer charity might avoid the tobacco industry, but they probably won't avoid armaments companies on the first criterion as this isn't in direct conflict with their core purpose. The second criterion is more open to interpretation, because it calls on trustees to consider what might alienate its supporters. This might include issues that are more indirectly related to a charity, such as controversial environmental issues for a charity whose core purpose is not concerned with environmental issues, but whose supporters are environmentally minded. Some care is necessary here, because Trustees will need to be able to demonstrate that supporters are so minded and it is not just their personal views that are being reflected in investment policy. A survey of supporters might help to provide the necessary evidence and this will be of use to develop a better understanding of the supporter base anyway.

Lastly, any ethical policy that can deliver equal or greater financial returns may be pursued, which potentially opens up the door to a whole range of ethical approaches. Studies of performance have repeatedly found that the imposition of an ethical policy has no clear negative impact on the financial performance of a portfolio. Indeed, a report from the Association of British Insurers in 2004 concluded that incorporating social

<sup>1</sup> Source: Charity Trends, July 2007

responsibility factors can reduce portfolio volatility and increase returns. This conclusion draws on a wide range of approaches, some of which involve very few exclusions, but the FB Heron Foundation, an innovative US endowment fund has proven that performance can also be good for charitable organisations that employ both ethical exclusions and pursue an investment policy that furthers their charitable objectives. The Foundation has maintained a second quartile performance whilst allocating 25% of its assets to investments that actively deliver on their social objectives, clearly demonstrating that a comprehensive and challenging ethical policy can be followed without necessarily harming financial returns. The duty of trustees, therefore, is to consider and clearly state the rationale behind any ethical policy and to ensure that both the financial and extra-financial objectives continue to be met.



This is where it gets really interesting. At the base level trustees might decide to adopt a limited exclusion policy simply to avoid alienating members or conflicting with the charity's aims and this can be clearly referenced with regard to the latter. However, a wider view might consider a charity's assets as a means of delivering on its charitable aims, thus reducing the dissonance between its philanthropic mission and the management of its financial assets. Instead of just using the income from funds to finance charitable activities, the capital might be invested in enterprises that further the charity's aims. This form of investing has been dubbed 'mission related investing', whereby investments further the mission of the investor, and it can equally be applied to the individual investor as to a charity, since we can all use our money to further enterprises that meet our deeply-held aspirations for the betterment of the world in which we live. This might sound somewhat trite, but as the great philanthropists of the past have known, you can't take your money with you when you're dead and gone, and once we've satisfied our personal needs, it's what it can achieve beyond ourselves that matters. Charity's are all about achieving social and environmental change, but just considering the income from charitable funds effectively discounts the vast majority of the assets in terms of delivering on charitable

aims. In effect this creates an opportunity cost in that it defers investment in enterprises that could deliver on the charity's aims today rather than tomorrow – assets are being warehoused for the future which could be used productively today. Giving usually represents a relatively small proportion of total assets. Mission related investing releases the remainder – the majority of assets – for the furtherance of the charitable trust's aims.

This approach is entirely congruent with the responsibility of trustees to deploy assets to the highest and best use, which doesn't simply equate to maximisation of financial returns alone. This accountability extends to delivering on mission and requires trustees to demonstrate proper stewardship in all areas and this may mean developing metrics for measuring social impact (see Africa Invest box), with a similar discipline for measuring social as well as financial returns. This approach ensures that investment policies don't become disconnected from mission, a charge that the Los Angeles Times levelled at the Gates Foundation when it revealed that 41% of its equity investments were in companies that were counter to its social objectives<sup>2</sup>. Apart from negating the very positive work of the Foundation, this sort of adverse publicity is hardly helpful in building relationships with supporters.

However, as already discussed, the main reason for a mission related approach to investing is to advance the objects of the charity. Philanthropy has historically been viewed as giving funds to accelerate new ideas that change society, but there is an increasing recognition that market-based solutions are sometimes better than public funding (see Africa Invest box above). The answer to very problem is not a gift and commercial enterprises can sometimes deliver solutions that are both more sustainable and far-reaching than non-profit making organisations. Not that such ideas are entirely new. Back in 1918 the Carnegie Foundation for the Advancement of Teaching realised that professors were retiring with no savings, so instead of just giving them money,

<sup>2</sup> Source: Los Angeles Times, 7 January 2007

## Africa Invest – A Mission Related Investment in the Poor

The problems of Africa are well rehearsed – drought, corruption, war, famine, exploitation. It seems that the continent will never escape from the crushing poverty which most of its peoples endure, and the succession of aid projects seem like sticking plasters over gaping wounds that never heal. Even the longer-term aid projects are too few and too small to make a big enough difference in a land ravaged by exploitation of many kinds.



Source: Africa Invest

Sustainable investments in Africa are scarce enough, but ones with the vision to make a big enough difference are much scarcer still. Africa Invest is one such investment. Recognising that agriculture is the only industry that is going to make an immediate and big difference to the lives of the poor, and that the key problems are ones of access to capital and markets, Africa Invest offers both by investing in irrigation, simple technology inputs and processing plants, and by establishing international markets for produce and paying a fair, guaranteed price to smallholders. What sets Africa Invest apart, however, is the combination of social goals with ambition and business orientation that promise to make a huge social impact with the following metrics:

- £8 million fund impacts on 325,000 people
- i.e. £1,000 invested impacts on 40 people
- Over 5,500 vulnerables supported
- Projected returns for investors of 30-40% p.a.

the Foundation used a \$1 million gift to establish a life insurance company for university employees. This life insurance company now invests over \$400 billion on behalf of its policyholders.

It is in recent years, however, that the concept of mission related investing has really been established in the US by pioneers including the FB Heron, Noyes, WK Kellogg and Russell Family Foundations. For example, the Packard Foundation helped to establish the Sea Change Investment Fund through a loan matched by private equity. The Fund invests in seafood companies which meet strict sustainability and financial criteria, with the dual objectives of increasing consumer choice by expanding the sustainable seafood market and of demonstrating that seafood is profitable for the fisherman and for the investor. Many other examples abound (see box) but perhaps the most serious mission related investor has been the FB Heron Foundation, which has allocated 25% of its assets to mission related investments whilst also adopting an ethical investment strategy for the remainder. The Foundation invests in the continuum of social investments from outright gifts to private equity with a high risk/reward, regarding mission related investing as an expansion of its philanthropic toolbox. Part of its asset base is invested in below-market-rate investments in order to leverage additional capital and thereby achieve incremental social impact. The Foundation estimates that for every \$ of below-market-rate funding, \$12 of capital is generated from other sources., and it has also found that such investments exhibit

### Mission Related Investment In Practice



The Foundation was established following the sale of the Frank Russell Company with assets totalling \$150 million. Of this \$1 million is invested in Shorebank Community Bank, whilst \$2 million was made as a low interest loan to help fund affordable green housing. \$7 million is also invested in socially screened funds and clean technology venture capital funds.

#### Noyes Foundation

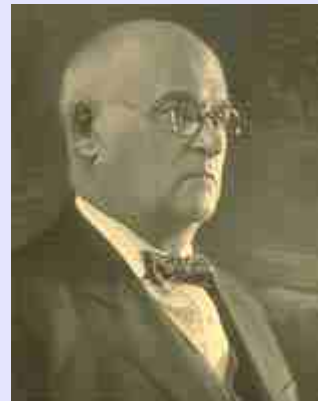
The Jessie Smith Noyes Foundation is committed to protecting and restoring Earth's natural systems and to promoting a sustainable society. The Foundation recognized the dissonance between its investment in Monsanto and its support of sustainable agriculture, which led to it invest in socially screened funds and latterly to allocating 5% of its \$95 million in mission related private equity. This included a retailer of renewable energy products, a manufacturer of organic yoghurt and a publisher of sustainable living books.

#### WK Kellogg Foundation

\$25 is invested in mission related investments in South Africa

#### FB Heron Foundation

This pioneer of mission related investing holds around 18% of its total assets in market rate mission related investments and a further 6% in below market rate investments, with the balance in socially screened funds. The mission related investments vary from public and private equity to loans, fixed interest securities, guarantees and cash deposits. The Foundation has also used grants and mission related investments in tandem.



WK Kellogg – WK Kellogg Foundation

low volatility. As a pioneer in this area, the Foundation has not only had to seek out opportunities, but has also had to adapt existing vehicles and design new solutions, both on its own and in conjunction with other investment managers.

In the UK, mission related investing is less developed, but there is an increasing recognition that philanthropic aims can sometimes be served better by investment than by gifts. After all, it's pretty attractive to be able to recycle money rather than give it away, if that money can achieve the same or greater social benefit. Africa Invest demonstrates that investment can have a huge multiplier effect and the money is still available to fund future innovation. The challenge to charities, trusts and individuals is firstly to change how we think about the assets at our disposal and then to seek out opportunities that truly deliver on the triple bottom line – financial, social and environmental. These opportunities are fast developing, from community enterprises to sustainable forestry, micro-credit and affordable housing, so the time is ripe for a wholesale change in philanthropic investment. Let's meet that challenge!

## About Ethical Money

**Ethical Money** is at the forefront of developing and promoting new and innovative investment funds which deliver '3D returns'. We work with major investment institutions and private clients, providing investment research, as well helping to develop and promote investments with a high social impact. Our ethical commitment is borne out by being one of the first companies to be awarded the prestigious [Ethics Mark](#).

**John Fleetwood** founded Ethical Money and has been advising on ethical investments since 1991. He also jointly developed Ethical Analyst, the ethical analysis software for financial advisers, and founded the [Ethical](#)



[Investment Association](#), the industry body for ethical financial advisers. John is Ethical Funds Development Manager at [King & Shaxson](#), a specialist manager of distinctive ethical funds and portfolios. He is also the author of '[The Money Test](#)', the first UK book on Christian financial planning.

### Contact

Telephone: 0845 641 0674

Email: [info@3dinvesting.com](mailto:info@3dinvesting.com)

Web: [www.3dinvesting.com](http://www.3dinvesting.com)

Post: Garnett Bridge, Kendal, Cumbria, LA8 9AZ