



## **Making a Difference with Mission Related Investing**

By [Deborah Kobak](#)

**An introductory article from ShoreBank describing how mission related investments can help you fulfill your mission without harming your philanthropy's bottom line by offering both a general definition of the term and several short case-studies. It includes the stories of both the F. B. Heron Foundation and the Gaylord and Dorothy Donnelley Foundation, and how they have successfully used mission-related investment strategies to bring their financial policies in harmony with their philanthropic goals.**

ShoreBank is America's first and leading community development and environmental bank holding company that provides individuals, small businesses, nonprofits and faith-based organizations in underserved communities with access to the financial resources and information that is a catalyst for new opportunities that build strong, healthy communities and reinvigorate peoples' lives. Headquartered in Chicago, ShoreBank Corporation is a \$1.8 billion company with banks and affiliated nonprofits in Chicago, Cleveland, Detroit, Ilwaco, Washington, and Portland, Oregon. ShoreBank also provides business development services in Michigan's Upper Peninsula and consulting services around the world.



## Making a Difference with Mission Related Investing

By Deborah Kobak

Since its inception in 1973, ShoreBank Corporation and its affiliated companies have been successfully experimenting with the concept of *doing-well* by *doing-good* in low wealth communities. Focusing on providing credit and basic banking services in urban neighborhoods that have largely been over-looked by traditional financial institutions, ShoreBank is the pioneering practitioner of socially responsible investing. ShoreBank provides loans to individuals, small businesses, churches, and nonprofits which have helped transform underserved neighborhoods into stable and vibrant communities – all while earning a profit.

Today, ShoreBank and other socially responsible organizations are urging for-profit and non-profit entities to adopt targeted and well-defined business development strategies intended to generate a positive financial return as well as community benefits. Consumers, clamoring for the private sector to be mindful of more than just its financial performance or "bottom-line" are forcing many companies to consider the impact their products and services are having on society.

In 2005, General Electric Co. rolled out Ecomagination, a major new sustainability initiative, because it realized that consumers are demanding environmentally sustainable technologies. In addition to pledging every business unit of GE to significantly reduce its emission of greenhouse gasses, CEO Jeffrey Immelt is investing heavily in clean technologies, steering GE away from future reliance on fossil fuel power plants and nuclear energy. Corporate investment practices are also responding to the market. Some of the world's leading financial institutions such as Goldman Sachs are now weaving social and environmental considerations into investment management decisions.<sup>1</sup>

Mission related investments (MRI), defined as investments that generate both a market rate return and a social benefit closely aligned with an organization's core social purpose, are excellent mechanisms for foundations of all types to integrate social values with prudent financial management. However, only a fraction of the 68,000 reported grant-making foundations in the U.S. with aggregate net assets of \$477 billion (2004 data)<sup>2</sup> have adopted investment policies that explicitly link philanthropic goals to the investment decision-making process. Given that foundations are only required by law to give away five percent of their net assets per year, the remaining 95%, or \$453 billion, is not used for charitable purposes. Why are so many foundations missing the opportunity to leverage the impact of their grant-making programs with additional financial resources?

---

<sup>1</sup> "Mainstreaming of SRI," Pension and Investment, February 6, 2006.

<sup>2</sup> "Foundation Growth and Giving Estimate," Foundation Center, April 2006, [www.fdncenter.org](http://www.fdncenter.org).

Many foundation fiduciaries have been advised that socially responsible investments will reduce the foundation's net assets over time, depleting the amount of money available for making future grants. Investment consultants often conclude that investments made on the basis of social or environmental criteria, rather than financial criteria solely, will not produce market rates of return. This can be traced back to the origins of socially responsible investing, where shareholder activism and other investment strategies were implemented for the primary purpose of creating political change. This view does not take into account the evolution of socially responsible investing, which has grown to encompass a wide range of investment strategies and products that can be tailored to meet both the financial targets and the social concerns of the investor.

Investment consultants who offer investment products that fail to serve the mission of the foundation or charitable endowment, or worse, select investments that actively work against the social concerns that the foundation was intended to address, are not serving the best interests of the charity. As institutions intended to advance social progress and help protect the most vulnerable among us, foundations can and should do better. Several foundations, a few of whom are identified in this paper, are leading the way by developing investment policies and making investment decisions that explicitly link financial and social returns as their primary objectives.

The F.B. Heron Foundation is foremost in the group of foundations breaking down the "firewall" between their grant-making and financial management practices. A number of years ago, Heron's board members asked themselves the question: "Should a private foundation be more than a private investment company that uses some of its excess cash flow for charitable purposes?"<sup>3</sup> What followed was a comprehensive examination and re-tooling of the foundation's investment policy and portfolio that by 2006 saw 24% of the Foundation's net assets placed in mission-related investments, three quarters of which are market-rate.

"What we have learned is that there are a variety of solid investment opportunities to be had across asset classes and return hurdles that not only align with our mission, but can increase the impact and reach of our work," says Luther Ragin, Jr., Vice President of Investments. "We have also learned that we had to cultivate an investment mind-set in both our program and financial staff as well as board members. What didn't change was the responsibility we exercised as fiduciaries and stewards of the Foundation's assets." In fact, the F.B. Heron Foundation total return in the past three years placed it at or above the median for foundations and endowments in several recognized investment surveys.

The Gaylord and Dorothy Donnelley Foundation is committed to aligning its investment portfolio with its grant-making mission, land conservation and the arts in Chicago and the Lowcountry of South Carolina. Going back to the mid-1990s, the Foundation began exploring socially responsible investment options in anticipation of the settlement of its founder's estate. Initially the Foundation invested in three socially responsible mutual funds which used "negative screens" to exclude companies with certain products and practices, but was not fully satisfied with the returns and eventually liquidated those investments.

The Foundation was again exploring alternative investment options in 2002 and realized that a number of real estate development deals it was considering were antithetical to its mission. From this experience, the Foundation formed a working group to seek out mission-related

---

<sup>3</sup> "New Frontiers in Mission Related Investing," The F.B. Heron Foundation, 2003.

investments to include “smart-growth” real estate and sustainable forestry investments, and similar to the F.B. Heron Foundation, concluded that it needed to more systemically address the manner in which mission-related investment decisions were incorporated into the full spectrum of its investment practices. They did this by drafting a document called “Mission-related Guiding Principles” and folded it into their investment policy.

“One way we are integrating our mission with our financial management decisions,” says Tom Trinley, Donnelley’s Director of Finance and Administration, “is to make program related investments (PRIs) in the form of below-market rate interest loans to existing grantees. From a financial standpoint, a PRI counts toward our required charitable contributions for the year and allows us to re-use (either in the form of a subsequent grant or investment) the funds once the term of the PRI has expired. This recycling of dollars benefits the missions of the Donnelley Foundation and our grantees.”

The Foundation is leveraging its use of PRIs even further by establishing reserves against its portfolio of loans and guarantees with below-market rate certificates of deposit at ShoreBank, a community development financial institution (CDFI). ShoreBank, which is providing credit and other basic banking services to underserved, low-wealth communities, in turn uses the deposit to offer competitive rate loans to community developers and organizations who share the Foundation’s conservation mission.

Says Trinley, “It may sound like a contradiction to place assets in below-market rate investments, but since the principal amount of the CDs is deducted from our five percent payout calculation (as allowed by the IRS) all we need to earn is the rate of inflation in order to maintain our corpus. We like the idea that the interest rate savings spread is passed on to ShoreBank customers. The indirect consequence of this is that community developers are receiving affordable loans—managed by ShoreBank—to do good things, which align with our mission.”

The technique of mission related investing is evolving as foundation pioneers demonstrate positive financial performance and additional products are brought to market that make it easier to invest. As a result, serious interest in mission related investing is developing among foundation board members and executives. Board members, along with fiduciaries and professional financial advisors, are interested in the concept because of the emphasis that it places on market rate financial returns. Family foundation members in particular see mission related investing as a tool to extend the vision of the charity to the management of its financial assets. And many foundation executives are intrigued by having all of the financial resources of the foundation aligned with the mission of the organization.

There are four characteristics that have emerged to define mission related investing. These are:

MRI is the process of searching first for investments that provide a competitive, market rate of return, and then selecting the products that best align with the stated purpose or mission of the institution.

MRI is highly tailored to the investor’s interests, incorporating the mission, or concern around a specific social benefit, into the investment research and decision-making process.

Mission related investments can be made across all asset classes, requiring no change in the asset allocation guidelines that guide the traditional investment portfolio.

Product selection within asset classes is matched to the foundation's mission, or charitable purpose.

Foundations have more tools than ever before at their disposal to make a difference. Many of the foundations who are currently practicing mission related investing are available and willing to engage in conversations about their methods and results. A variety of product choices within portfolio asset classes that align with the mission of the foundation can be easily identified, some of which are as safe and simple to initiate as opening money market accounts or certificates of deposits at a community development financial institution. With the use of mission related investments, pursuing the mission of the foundation and prudent fiscal management of the investment portfolio can be one and the same.

## *Glossary of Key Terms*

**Socially Responsible Investing:** SRI is the process of integrating personal values and societal concerns with investment decisions. SRI has been a common alternative investment practice since the early 1980s, used by individuals, pension funds, religious groups and other organizations focused on having an impact and drawing attention to a specific social/political issue (e.g., divestment from South Africa during apartheid). It is a big tent under which many types of investment strategies are practiced. The most common SRI investment methods are screening equity investments based on social concerns (negative screens exclude investments that do not meet the investor's social criteria, while positive screens include investments that meet or exceed the investor's social criteria); shareholder advocacy, which includes investor efforts to submit and vote corporate proxy resolutions as a means of influencing company behavior; and community investing, in which investors direct capital to communities that are overlooked and underserved by "traditional" financial institutions.

**Mission Related Investing:** MRI is the process of aligning investments with the stated charitable purpose, or mission, of the institution while achieving a competitive, market rate return. MRI products are mainstream and widely available across asset classes. The benefit of MRI is that a larger share of assets can be used to pursue the foundation's mission.

**Program Related Investing:** A PRI is made by a foundation to support charitable activities that involve the potential return of capital within an established time frame. A PRI is considered a qualifying distribution counted towards a foundation's 5% payout requirement if:

- it's primary goal is to accomplish one or more of the charitable and other permissible exempt purposes of the applicable US tax code.
- it is not made to influence the political process or specific legislation under consideration.
- it is not made for the primary purpose of realizing a financial gain. This has been interpreted to mean the investment carries a below market rate of return or a higher risk than similar type investments.

## List of Resources

### Internet

*Ceres*, a national network of investment funds, environmental organizations and other public interest groups, maintains on its website corporate environmental sustainability reports: [www.ceres.org](http://www.ceres.org)

*F.B. Heron Foundation*, a private foundation based in New York. The Heron Foundation is committed to investing all of its endowment in MRI instruments and in sharing learnings along the way: [www.heronfdn.org](http://www.heronfdn.org)

*Jessie Smith Noyes Foundation*, a private foundation that coined the term “mission related investing” in the 1990s when it decided to align its investment practices with philanthropic purpose: [www.noyes.org](http://www.noyes.org)

*KLD Research & Analytics, Inc.*, an independent investment research firm that provides tools for professional managers to integrate environmental, social and governance criteria into investment decisions: [www.kld.com](http://www.kld.com)

*PRI Makers Network*, an association of grantmakers who use PRIs and other mission related investment strategies: [www.primakers.net](http://www.primakers.net)

*ShoreBank*, the nation’s first and leading community development and conservation bank: 1-800-669-7725 [www.shorebank-online.com](http://www.shorebank-online.com)

*Social Investment Forum*, membership association of financial professionals and institutions, provides research, client services and advocacy: [www.socialinvest.org](http://www.socialinvest.org) and [communityinvest.org](http://communityinvest.org)

### Articles

Brody, Frances, Kevin McQueen, Christa Velasquez and John Weiser. “Current Practices in Program-Related Investing.” *Brody Weiser Burns Social Investing Series*, 2002.

Coe, Karen and Lewis D. Solomon. “The Legal Aspects of Social Investing by Non-Profit Fiduciaries.” *Journal of Investing*, Winter 1997.

Emerson, Jed. “Where Money Meets Mission: Breaking Down the Firewall Between Foundation Investments and Programming,” *Stanford Social Innovation Review*, Summer 2003.

Goldman, Aron P. “From Creative Chaos to Convergence: Social Investing Today, and the Way Forward.” *Policy Development: Social Investing Research Initiative*, November 2004.

McKeown, W.B. “On Being True to Your Mission: Social Investments for Endowments.” *Journal of Investing*, Winter 1997.

“Thinking About Mission-Related Investing,” National Center for Family Philanthropy. “Investment Issues for Family Foundations: Managing and Monitoring Your Philanthropic Assets,” *National Center Journal*, Vol. 2, Washington DC, NCFP, 1999.

Viederman, Stephen. “Foundations and Mission-Related Investing,” *Merging Money and Values*, Foundation Partnership for Corporate Responsibility, August 2002.

## Books

- Brill, Hal and Jack A. Brill and Cliff Fiegenbaum. Investing with Your Values: Making Money and Making a Difference. (New Society Publishers 2000).
- Camejo, Peter. The SRI Advantage: Why Socially Responsible Investing has Outperformed Financially. (New Society 2002).
- Domini, Amy. Socially Responsible Investing: Making a Difference and Making Money. (Kaplan Business 2001).

## Reports/Speeches

- F.B Heron Foundation. “New Frontiers in Mission-Related Investing.” 2003.
- Grzywinski, Ronald. “John W. Gardner Award Acceptance Speech,” Independent Sector Annual Conference, October 21, 2005.
- Investors’ Circle. “Mission-Related Investing: Strategies for Philanthropic Institutions.” 2001.
- National Committee for Responsive Philanthropy. “A Call for Mission-Based Investing by America’s Private Foundations.” 2005.
- 2001 SRI Report by Social Investment Forum,  
[www.socialinvestmentforum.org/areas/research/trends/SRI\\_Trends\\_Report\\_2001.pdf](http://www.socialinvestmentforum.org/areas/research/trends/SRI_Trends_Report_2001.pdf).
- World Economic Forum workshop report, “Private Investment for Social Goals: Building the Blended Value Capital Market,” September 2004.