

Education and Training on Responsible Investing for Canadian Foundations and Endowments: An Inventory and Needs Analysis

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INTRODUCTION

Responsible investing (RI) now accounts for roughly 20% of the Canadian investment market. With more than \$609 billion now invested, RI is an increasingly important approach to investing and one in which foundations and endowments are increasingly interested. RI, also referred to as socially responsible investing and mission-based or mission-related investing, is an investment process by which foundations and endowments can align the investment of their assets with their mission and have greater impact on the issues that matter to their organization, with the potential to generate long-term improved financial returns.

The Social Investment Organization (SIO), with funding from Environment Canada, commissioned this research to:

1. Identify the key RI education and training resources for trustees and staff of Canadian foundations and endowments;
2. Identify and analyze gaps in RI education and training, and
3. Recommend steps to help the foundation and endowment sector move forward on RI.

SCOPE AND METHODOLOGY

This study looks at the availability of resources and training on responsible investment targeted at Canadian foundations and endowments. Whereas the responsible investment industry often goes by the term “socially responsible investment” (SRI) this study will use the term “responsible investment”. Responsible investing for foundations and endowments incorporates the following approaches:

- **Environmental, Social and Governance (ESG) integration** – considering environmental, social and governance factors in investment decisions.
- **Screening** – the process by which industries or companies a foundation or endowment specifically wants to support or avoid because they are contrary to the organization’s mission are screened in or out of the investment universe, e.g. tobacco.
- **Shareholder engagement** – using the position as a shareholder to engage companies on issues that are important to a foundation or endowment.
- **Proxy voting** – actively voting proxies or working with fund managers to ensure that the foundation or endowment’s proxies are voted in a way that is consistent with their mission.
- **Mission/community investing** – investing assets in non-profit or for-profit enterprises and communities that are underserved by traditional financial services with the intent of earning financial returns and achieving mission-related objectives. Examples are mortgages for low-income housing, community loan funds, microfinance programs, sustainable venture capital and green infrastructure.

The resource inventory covered recent Canadian, US, European and UK publications, resources and websites targeted specifically to foundations and endowments and launched or produced primarily in the past 5 years. The training inventory focused on Canadian and American training specifically for foundations and endowments provided in 2008 and 2009. The scans were conducted in English.

The authors have RI experience with the foundation sector, and used this knowledge to develop the resource and training inventories, analyze the current state of RI education and training, and make recommendations to improve it. The foundation sector is represented by Community Foundations of Canada and Philanthropic Foundations of Canada.

Community Foundations of Canada (CFC) is the membership organization for Canada’s 165 community foundations which collectively manage \$2.4 billion in assets and made \$170 million in grants in 2007. It has a Responsible Investing Pilot Program to advance RI within the community foundation sector in Canada.
<http://www.cfc-fcc.ca>

Philanthropic Foundations of Canada (PFC) PFC is a national non-profit member association of Canada’s independent grantmaking foundations. It has 93 member foundations which collectively manage over \$7.7 billion in assets, granted over \$195 million in 2007 and disbursed \$69 million on foundation-managed charitable activities.
<http://www.pfc.ca>

To conduct the resource and training inventory with the university, college and healthcare/hospital endowment sectors, the authors contacted membership associations representing each of these sectors, as follows:

The **Association of Canadian Community Colleges (ACCC)** is the national, voluntary membership organization created in 1972 to represent colleges and institutes to government, business and industry, both in Canada and internationally.
<http://www.accc.ca>

The **Association for Healthcare Philanthropy (AHP)** is the leading education organization and advocacy body for healthcare fundraising professionals in Canada.
<http://www.ahpcanada.com>

Canadian Association of University Business Officers (CAUBO) is a non-profit professional organization representing the interest of administrative and financial officers in Canadian universities and affiliated colleges.
<http://www.caubo.ca>

This report:

- analyzes the key RI considerations and themes from the inventory
- lists the most relevant publications and websites found in the resource scan
- summarizes the current training opportunities
- conducts a needs analysis for future training and education requirements
- recommends an educational and training strategy aimed at dramatically increasing the RI activity of foundations and endowments.

HOW TO USE THIS REPORT

Foundation and endowment trustees and staff who are beginning to explore RI will want to focus on the following sections: Key Themes; Educational Resources; and Organizations, Websites and Conferences, and to identify resources from the inventory for further study.

Trustees and staff who are further along the RI path will most likely be interested in the Educational Resources; Organizations, Websites and Conferences; and Training Opportunities sections, and in identifying resources that address their current learning needs.

Sector leaders, foundation and endowment membership associations, the SRI industry, governments, and others with a specific interest in advancing RI in Canada will be especially interested in the Training Opportunities; Resource and Training Needs Assessment; Recommendations and Conclusions sections.

KEY CONSIDERATIONS / THEMES IN RESPONSIBLE INVESTING

For foundations and endowments interested in responsible investing, there are five key considerations or themes found in the literature and from our experience:

1. Motivation

Why would a foundation or endowment pursue responsible investing? There are a range of motivations from legal and financial, to marketing, to values alignment and impact. First, there is now robust evidence that social, environmental and governance performance affect financial performance. Factoring ESG into investment policies and practice makes both good financial sense and has a clear fit with the fiduciary duties of foundation and endowment trustees.

Second, from the point of view of organizational integrity and consistency, mission-based organizations like foundations and endowments may want to invest in ways that at a minimum don't contradict and at best actively support their missions. Stakeholders, like student groups at universities, often use the mission of the university to bring pressure to change investment policies. Think Apartheid historically and Darfur more recently. In the foundation world, the Bill and Melinda Gates Foundation came under intense criticism for its investments in companies that seemed to contribute to the problems the foundation was trying to solve. As the Gates Foundation found out, more active oversight of the environmental and social impacts of an investment portfolio can reduce a foundation's reputational risk.

For foundations, other reasons are that asset investments that support mission can achieve benefits that grants cannot, like creating community loan funds that attract and leverage other capital, helping organizations establish credit histories or providing financing to support green ventures¹. Repayable community investments also recycle the capital back to the foundation so it can be reinvested, unlike a grant which only gives once.

Through targeted investments, universities and hospitals can improve conditions in their local communities. Universities committed to sustainable development can also advance their mission through their investments. Hospital endowments similarly could promote advances in health care research through innovative investments in sustainable venture capital.

And for public foundations and endowments that are trying to attract donors, RI is a marketing opportunity. Some donors prefer to donate where they know their donation is being invested in ways aligned with their social and environmental values.

2. Process

How does a foundation or endowment pursue a responsible investing strategy? It will vary tremendously within different organizations and will happen more or less quickly depending on organizational culture and the particular foundation or endowment's starting point. But the typical process begins with research and increasing knowledge of RI and identifying issues and challenges in moving RI forward in the foundation or endowment. The next step is to bring the information forward to the board, investment committee or trustees to introduce or help them become comfortable with RI. This begins a process of dialogue that will help to make the case for RI within the foundation or endowment.

Once sufficient support and interest is built, a foundation or endowment has to identify objectives for adopting RI and consider links to its mission, strategies and investment approach. Engaging financial professionals or asset managers with RI expertise typically follows. If they have the right background, these professionals can help a foundation or endowment develop an RI policy. Either

with the help of an RI professional or on its own, the foundation or endowment needs to develop an RI policy that fits into the organization's overall investment policy.

With this groundwork properly done, the foundation or endowment begins implementation by directing current fund managers or engaging new ones to invest according to the RI policy. The process comes full circle with monitoring performance and refining the policy.²

3. Policy

What policies are necessary and how does a foundation or endowment develop them? A foundation or endowment needs to articulate responsible investing as part of its investment policy, in keeping with its overall policy framework. This would include integrating RI into existing trust agreements and ensuring that the policy complies with the trust document and applicable legislation³. In doing so, a foundation or endowment would need to determine which ESG issues are most relevant, what percentage of assets will be allocated to RI, which assets the policy will apply to⁴, and which RI tools – ESG integration, screening, shareholder engagement, proxy voting, mission/community investing – it will include in its RI policy, among other considerations.

As it tackles these questions it needs to consider what asset classes and types of investments it will use to further its RI goals. US foundations doing RI historically have concentrated their mission/community investments in loans but are now using a range of other investments, both debt and equity. For example, within their debt portfolios, foundations are using loan guarantees, loan funds and insured or linked deposits, lines of credit and recoverable grants while equity investments include real estate and real estate funds, venture capital funds, private or public equity funds, and direct private equity⁵.

4. Financial Performance and Fiduciary Considerations

Study after study has shown that RI screened portfolios have returns that are comparable to non-screened portfolios, putting to rest the common misconception that responsible investing leads to lower returns. Furthermore, as evidence mounts of the connection between ESG performance and long-term financial returns, the case for RI grows stronger.

In the case of mission/community investing, foundations and endowments may intentionally invest in below-market instruments in order to achieve mission-based results they couldn't otherwise achieve. But they do earn a return, in addition to recovering the capital to use to further their mission. And repeated studies have shown that loans to low-income individuals and groups perform as well as more traditional bank loans⁶.

During the recent market turmoil, some foundations and endowments found that their supposedly below-market investments outperformed – in some case dramatically – their conventional portfolios.

Further, research on the legality of RI has confirmed that RI is legal and is possibly a requirement of fiduciary responsibility⁷. Given the conclusive financial and legal analysis that has been conducted on RI to date, the case is now strongly in favour of adopting an RI framework.

5. Capacity and Expertise

A key consideration of foundations and endowments as they move along this path is developing the staff and trustee capacity to effectively manage a different approach to investing. Shareholder engagement and voting proxies are not activities typically undertaken by investment committees and finance staff. Community/mission investing which takes the form of direct investments in organizations requires program and finance staff to work closely together to assess, structure and monitor investments. This collaboration is unusual in most foundations and endowments.

A foundation or endowment's fund managers and the growing cadre of other RI professionals and RI oriented investment managers are important resources for addressing problems of capacity and expertise. Foundations and endowments need to consider the opportunity of getting advice from RI professionals on the development and implementation of their policy. They can also provide other assistance, including outsourcing of certain RI functions, conducting audits of their current portfolios to assess alignment, and initiating discussions with the foundation or endowment's current fund managers on their interest in RI and determining the degree to which the existing

fund manager can assist them in this direction. RI professionals can provide guidance on questions to ask fund managers, how to incorporate RI into an RFP for asset management services, and how to evaluate existing fund manager relationships. As experience with RI grows in the foundation and endowment sectors, the focus will move to monitoring of alignment and impact, steps for future consideration on the RI path.

EDUCATIONAL RESOURCES

Due to the growth in interest in RI in recent years, there are now a number of very good print resources for foundations and endowments that want to explore or embark on RI. We have identified a list of ten recommended handbooks and guides based on the following criteria: particular usefulness to foundations and/or endowments, scope, effectiveness at addressing the five key considerations described above, readability, recent publication date and relevance to current market conditions. Three are from Canada, two from UK/Europe and five from the United States. Each resource is described briefly.

CANADA

Investing in Change: Mission-Based Investing for Foundations, Endowments and NGOs, Michael Jantzi Research Associates Inc. for Canadian Council for International Co-operation. 2003.

<http://www.jantziresearch.com/downloads/MBI.pdf>

The first comprehensive review of responsible investing for the mission-based sector in Canada.

Sustainable Investing Handbook for Mission-Based Organizations, Guardian Ethical Management Inc. 2008
http://www.corostrandberg.com/publications_Socially_Responsible_Investment.html#13f

An overview of sustainable investing with a comprehensive set of steps for developing an RI policy.

Putting Responsible Investment Into Practice: A Toolkit for Pension Funds, Foundations and Endowments, SHARE, 2008.
http://www.share.ca/files/RI_Toolkit_WEB.pdf

An RI toolkit which includes a policy development roadmap.

UK/EUROPE

PRIME Toolkit: Primer for Responsible Investment

Management of Foundations, Bellagio Forum for Sustainable Development and Eurosif. 2006.

http://www.eurosif.org/publications/prime_primer_for_responsible_investment_management_of_endowments

For trustees, officers and directors of foundations to better understand and integrate RI practices into mandates they give to asset managers.

The Value of Environmental, Social and Governance Factors for Foundation Investments, EIRIS Foundation Charity

Project. 2009.

<http://www.charitysri.org/documents/SustainableReturns.pdf>

A recent review of how the current financial crisis highlights the importance of RI for foundations and the particular risk climate change poses to management of investments.

UNITED STATES

Compounding Impact: Mission Investing by US Foundations,

Sarah Cooch and Mark Cramer. FSG Social Impact Advisors, 2007.

[http://www.fsg-impact.org/ideas/pdf/Compounding%20Impact\(5\).pdf](http://www.fsg-impact.org/ideas/pdf/Compounding%20Impact(5).pdf)

The first comprehensive look at the landscape of mission investing in the US.

Integrating ESG Issues into Institutional Investment –

A handbook for colleges and universities. Responsible Endowment Coalition and Amnesty International, 2007.

<http://www.endowmentethics.org/downloads/UniversityHandbook.pdf>

Reviews principal ESG investing strategies and focuses on the important role that colleges and universities can play in promoting corporate social responsibility through shareholder advocacy.

Maximizing Returns to Colleges and Universities –

A Handbook on Community Investing, Responsible Endowment Coalition, 2009.

http://www.endowmentethics.org/downloads/Community_Investment_Handbook.pdf

A review of how the strategic investment of university endowment funds can improve the quality of life in local communities.

Mission-Related Investing: A Policy and Implementation Guide for Foundation Trustees, Steven Godeke with Doug Bauer for Rockefeller Philanthropy Advisors, 2008.

<http://rockpa.org/wp-content/uploads/2008/01/MRI.pdf>

A community investment guide for foundations targeted at trustees, with a process to create both an overall policy for community investing (referred to as mission-related investing) as well as specific paths for implementation.

The Mission in the Marketplace: How Responsible Investing Can Strengthen the Fiduciary Oversight of Foundation Endowments and Enhance Philanthropic Missions,

Social Investment Forum Foundation. 2007.

<http://www.socialinvest.org/pdf/research/Mission%20in%20Marketplace%20-%20Resource%20Guide.pdf>

An overview of how to use RI strategies to enhance mission without compromising fundamental fiduciary duties.

The following provides an at-a-glance summary of the key resources available by jurisdiction and by target sector.

TITLE	ESG	SCREENING	PROXY VOTING	SHAREHOLDER ENGAGEMENT	COMMUNITY INVESTING
SECTOR: FOUNDATIONS					
CANADA					
Investing in Change: MBI for Foundations, Endowments and NGOs, Jantzi	Y	Y	Y	Y	Y
Sustainable Investing Handbook for Mission-Based Organizations, GEM	Y	Y	Y	Y	Y
Putting Responsible Investment into Practice: A Toolkit for Pension Funds, Foundations and Endowments, SHARE	Y	Y	Y	Y	Y
UNITED STATES					
Compounding Impact: Mission Investing by US Foundations, FSG Social Impact Advisors	N	N	N	N	Y
Mission-Related Investing: A Policy and Implementation Guide for Foundation Trustees, Rockefeller Philanthropy Advisors	Y	Y	Y	Y	Y
The Mission in the Marketplace: How Responsible Investing Can Strengthen the Fiduciary Oversight of Foundation Endowments and Enhance Philanthropic Missions, SIF Foundation	Y	Y	Y	Y	Y
UK/EUROPE					
Prime Toolkit: Primer for Responsible Investment Management of Foundations, Bellagio Forum and Eurosif	Y	Y	Y	Y	N
The Value of Environmental, Social and Governance Factors For Foundation Investments, EIRIS	Y	N	N	N	N
SECTOR: UNIVERSITIES AND COLLEGES					
Integrating ESG Issues into Institutional Investment: A handbook for colleges and universities, Responsible Endowments Coalition	Y	Y	Y	Y	N
Maximizing Returns to Colleges and Universities – a Handbook on Community Investing, Responsible Endowments Coalition	N	N	N	N	Y

There are no known resources targeted specifically at the hospital and health care foundation sector as reported through a survey of select major hospitals across the country and confirmed by the US and Canadian Associations for Healthcare Philanthropy.

The Association of Canadian Community Colleges surveyed its membership to determine if there were Canadian RI publications or training available to the college foundation sector. Seventeen colleges and institutes from across Canada (BC: 2; Alberta: 4; Saskatchewan: 4; Ontario: 6; Nova Scotia: 1) replied indicating they are not aware of any RI publications or training targeted at their sector.

ORGANIZATIONS, WEBSITES AND CONFERENCES

In addition to the guides and handbooks described above, the following organizations and networks have resources and information available on their websites as well as conferences that address RI.

CANADA

Social Investment Organization (SIO) is the national, non-profit association for the responsible investment industry. Established in 1989, the SIO currently has more than 450 members.

www.socialinvestment.ca

SIO moderates a listserv to provide a medium for the exchange of questions, advice, and resources on socially responsible investment in Canada and globally.

<http://list.web.net/lists/listinfo/sio-professionals>

Community Foundations of Canada (CFC) is the membership organization for Canada's 165 community foundations which collectively manage \$2.4 billion in assets and made \$170 million in grants in 2007. It has a Responsible Investing Pilot Program to advance RI within the community foundation sector in Canada.

<http://www.cfc-fcc.ca>

Philanthropic Foundations of Canada (PFC) is a national non-profit member association of Canada's independent grantmaking foundations. It has 93 member foundations which collectively manage over \$7.7 billion in assets, granted over \$195 million in 2007 and disbursed \$69 million on foundation-managed charitable activities.

<http://www.pfc.ca>

Socialfinance.ca is an online platform for the community of people and organizations that are actively trying to advance the development of a social finance "marketspace" in Canada. The site provides news, tools and resources to build a shared understanding of social finance and a communications platform to stimulate conversations around the key issues in social finance.

www.socialfinance.ca

INTERNATIONAL

The Bellagio Forum for Sustainable Development (BFSD)

is an international network of grant-providing institutions striving to attain environmental balance, economic stability and social progress. The Forum brings together individuals from foundations and businesses to build trust, dialogue and effective partnerships.

<http://bfdserver.enovum.com/en/>

UNITED STATES

More for Mission Campaign Resource Centre was established in 2008 to support the US campaign to challenge private, community and corporate foundations to increase the percent of a foundation's endowment allocated to mission investments and to help other foundation endowments do the same. The website offers extensive online resources and links to training and conferences as well as an e-journal.

<http://www.moreformission.org>

Responsible Endowments Coalition (REC) works to build and unify the college and university-based responsible investment movement, both by educating and empowering a diverse network of individuals to act on their campuses, and by fostering a national network for collective action. Training includes webinars and a national conference.

<http://www.endowmentethics.org>

SRI in the Rockies is the premier annual gathering of investment professionals and related organizations who work to direct the flow of investment capital in transformative ways. Education and information to community/mission investors, including endowments and foundations, is a common workshop theme within the annual conference.

<http://www.sriintherockies.com/>

In addition to the foregoing, there are a number of international organizations that promote RI and educate investors, including endowments and foundations on RI, such as US Social Investment Forum, UK Social Investment Forum and the European Sustainable Investment Forum modeled similarly to the Canadian SIO.

TRAINING OPPORTUNITIES

Currently membership associations are playing lead roles in RI training in Canada. Community Foundations of Canada (CFC), Philanthropic Foundations Canada (PFC), and Canadian Association of University Business Officers (CAUBO) are providing generalized, introductory information on responsible investment performance information, policy development and implementation, primarily through tele-learning and at their regional and national meetings, as follows:

Foundation Sector

CFC: One session on CI and one session on RI at its 2008 National Conference; three regional sessions on RI in 2009. Costs for participation were included in conference registration fees.

CFC is in its second and final year of a Responsible Investing Pilot Project which provides ongoing learning opportunities for seven participating community foundations including an Introduction to RI, tele-learning sessions, a collaborative on-line site with extensive resources, and individualized support from an RI expert. The seven foundations represent 5% of the total membership of CFC and more than 40% of total community foundation assets. This fall, CFC will launch an open source RI policy development process and a primer on the legal and regulatory issues related to community investing, the latter in collaboration with PFC. Additionally, CFC will launch an extensive RI section on its website with resources for foundations, including CI resources. The Pilot Project completes December 31, 2009.

PFC: one tele-learning session on RI in 2008 and one tele-learning session on RI in 2009; one session planned on CI at their 2009 National Conference. For the tele-learning sessions PFC charged \$65 for members and \$90 for non-members. Twenty foundations participated in each of the two tele-learning sessions and presentations are posted on the member section of PFC's website which all members can access. This fall, in collaboration with CFC, PFC will publish a primer on the legal and regulatory issues related to community investing.

University Endowment Sector

CAUBO: One session on RI at their 2009 National Conference. Cost for participation included in registration fees.

College Endowment Sector

The scan did not identify any training sessions on RI for college foundations or endowments available in Canada.

Hospital/Health Care Endowment Sector

The scan did not identify any training sessions on RI for hospital or healthcare foundations or endowments available in Canada.

Other Training Resources

Limited research was conducted to compile a list of organizations and individuals that can provide information and training sessions on RI and CI for foundations and endowments; they are sourced from the SIO website at: <http://www.socialinvestment.ca/AdditionalAdservices.htm>. The majority of them can provide sessions on RI, but with limited ability to provide specific training on CI. This is not an exhaustive list, nor have those listed confirmed their capacity or interest in offering this service.

- Brenda Plant Consulting
- E.T. Jackson and Associates Ltd.
- Hebb, Knight and Associates
- Jantzi Research, Inc.
- Le Groupe Investissement Responsable
- Mercer
- SHARE (Shareholder Association for Research and Education)
- Strandberg Consulting

RESOURCE AND TRAINING NEEDS ASSESSMENT

Publications

Of the top publications we have identified, there are three Canadian resources, two in the UK/Europe and five in the US. Canada approaches the sectors generically while the US is targeting the sectors specifically in this case towards

foundations and universities and colleges. There are no known resources for the hospital sector and no Canadian resources specifically targeted at the college sector. None of the Canadian publications focused specifically on CI; there were two US publications specifically focused on CI and none in the UK/Europe. The other eight resources covered RI comprehensively. Of the list of ten resources, three were generic, five were for foundations solely and two were targeted at universities and colleges. There is some evidence that RI trade associations are playing a role in developing guides on RI; in the Canadian context the guides are produced by RI firms with interests in providing services to the foundation and endowment sector.

Most of the publications included in the inventory provide some, and in some cases, significant, information for later stage RI learning in the key areas of consideration described earlier – motivation, policy, process, financial performance and fiduciary consideration, and capacity and expertise.

Specific gaps in publications include:

- There is no industry-mandated guide to RI for foundations and endowments in Canada (i.e. a guide sponsored by the SIO and/or one or more of the membership associations identified in this report). Guides that are provided by “for hire” companies may not be as well received as those endorsed by the industry or particular sector itself.
- There is a lack of detailed guidance on how to develop and implement a CI policy in the Canadian context, although a legal analysis has been commissioned by CFC and PFC for production this year. The legal analysis will not be targeted at hospital, university or college endowments.
- The hospital, university and college endowment sectors are relatively under-served and there do not appear to be any organizations with a strong mandate in this area.
- There are no generic templates for RI and CI policies for foundations and endowments (although CFC might be in a position to develop one after their collaborative project to draft a policy for one of their foundations in late 2009).

- There is limited foundation and endowment specific guidance on proxy voting and shareholder engagement given many of their investments are in pooled funds.

Training

The scan of training opportunities for Canadian foundations and endowments revealed there is limited formalized, comprehensive, practical training available beyond introductory information sessions. As well, the training provided to date has focused on the foundation sector with just one session for the university endowment sector, and none for the hospital/health care or college endowment sectors.

Training needs depend largely on where foundations and endowments are on the RI continuum. At the early stages the focus needs to be on making the case for RI, with examples from experienced foundations and endowments. There are a number of good resources in the inventory which do this, but people first have to be drawn to reading them. Membership associations are ideal providers of this interest-generating early stage education because of the credibility they have with their members and thereby confer to the topic and the opportunities they have to create positive peer pressure. CFC, PFC and to a lesser extent CAUBO, provide some of this early stage education and training but it is still ad hoc and sporadic. The Association of Healthcare Philanthropy in Canada and the US report that they can do literature searches on RI at member request, but otherwise do not provide information or training on RI. The Association of Canadian Community Colleges does not offer any RI training.

Further, it would be useful for the training to incorporate case study examples of the different approaches to RI in practice as foundations and endowments find they learn best by understanding the experience of others.

Specific gaps in training available to foundations and endowments in Canada include:

- There are no comprehensive and widely promoted RI training programs for foundations and endowments in Canada. The training that is available is limited, ad hoc, generic, introductory, sporadic and not widely available. What little training exists is focused primarily on early-stage foundational learning.

- There is no training provided in the more complex area of community investing.

RECOMMENDATIONS

This is an opportune time for RI proponents to develop and pursue an educational and training strategy aimed at dramatically increasing the RI activity of foundations and endowments for the following reasons:

- The market crisis of the last year has caused foundations and endowments to rethink their traditional approaches and explore alternative ways of investing
- RI generally has proven itself and become an accepted approach to investing
- Diminished granting budgets caused by recent market losses have many community and philanthropic foundations looking for ways to support the causes and organizations that depend on them and community investing is a good option
- Specific to this sector, a number of leading foundations in the US and UK, and increasingly in Canada, have good, solid experience under their belts and are proving that RI is feasible, legal and doesn't necessarily lead to under-performance
- CFC, PFC and to a lesser extent CAUBO, have been tilling the RI soil for the last couple of years; some of their members are moving on the RI continuum and others are reviewing their opportunities for advancing in this area
- The social finance field is emerging in Canada, which will lead to greater interest, experience, investment vehicles and deal flow in the field of community/mission investing.

But the capacity to advance RI within the foundation and endowment sector is still limited. There are not enough large Canadian foundations and endowments with sufficient experience to assume the role as RI champions. The leadership of some membership associations is very keen but they can't get too far out ahead of their members.

Those with an interest in advancing RI – the SRI industry, federal and provincial governments, and leading members

of the sector – will need to invest in building RI knowledge and training capacity in the foundation and endowment sector until we reach a tipping point.

Specific recommendations for these capacity-building investments are:

GENERAL RI GUIDELINES, POLICIES AND TRAINING

Recommendation 1:

Provide resources for a guide to RI for foundations and endowments in Canada to be produced by one or more RI and/or foundation/endowment membership organizations (some combination of SIO, CFC, PFC, CAUBO, etc.) This will insure sector engagement, confer credibility and objectivity, and provide distribution channels.

Recommendation 2:

Resource the membership organizations to develop and promote a generic RI policy for foundations and endowments which could be incorporated into their current investment policies.

The organizations offer generic policies for many other aspects of their business and this would help to put RI on par with other foundation/endowment activities and save interested members time and resources, making it easier for them to adopt RI policies.

Recommendation 3:

Conduct market research with university, college and hospital foundations and endowments to determine their RI education and training priorities and opportunities to effectively tailor initiatives to these sectors and develop a training and education plan to address their priorities.

This would address the relative lack of resources within the university, college and hospital sectors in Canada and begin to build momentum and peer pressure within these institutions.

Recommendation 4:

Provide resources to CFC and PFC to conduct market research with foundations to determine their specific RI training requirements, curriculum priorities and pricing and delivery models (e.g. on-site or sector-wide) and develop and pilot a national RI training program that goes beyond introductory information sessions.

As the early stage education by CFC and PFC continues, demand for substantive RI training will quickly increase. These organizations want to be ready when it does. It is much more efficient for CFC and PFC to work together on such a program than do so independently. Also, these organizations offer more fully developed training programs in many other areas of activity. A national program would put RI on par with other areas of focus.

COMMUNITY INVESTING

Recommendation 5:

Pilot a community investing training workshop for foundations and endowments targeted at their finance and program staff in 2010.

Community investing is emerging as a very attractive strategy for foundations because of the positive experiences of the Canadian CI trail blazers and as partial antidote to the impact of market losses on granting budgets. CI requires finance and program staff to work together in non-traditional ways. Given that there is currently no CI training in Canada, a pilot workshop developed for finance and program staff, delivered in the first half of 2010 would address a pressing need.

Recommendation 6:

Produce a generic how-to guide on community investing for foundations and endowments.

There is nothing of this sort available and as described in Recommendation 4, CI is emerging as a key strategy for foundations and endowments. A timely how-to guide would be very useful.

WEBSITE

Recommendation 7:

Provide support to CFC for the website resource on RI and CI so that it can reach a broad foundation audience. Consider how the website can be further enhanced to support the endowment sector.

CFC is the furthest along in developing a web-based resource and it makes sense to leverage the investment they've made to date

FUND MANAGER EDUCATION

Recommendation 8:

In collaboration with the foundation and endowment membership organizations, hold a roundtable dialogue with major fund managers of foundation and endowment assets regarding the sector's interest in moving forward on RI, including a discussion on ESG, Screening, Shareholder Engagement and Proxy-Voting and possibly also CI, and solicit support, engagement and collaboration in the training and education strategy.

This will help leverage the significant expertise of some of the major fund managers and may also bring additional private sector resources to the implementation of an RI education and training strategy. It would also signal the growing interest to RI within the sector to those managers who may be lagging so that they recognize the competitive advantage of building their own RI expertise.

CONCLUSION

There are some good resources available in Canada and internationally to help foundations and endowments along the path to adopting and implementing an RI policy. However, there is limited awareness of the existing resources and no proactive approach to furthering RI implementation within the sectors, apart from CFC's RI Pilot Project which completes in December 2009. While much groundwork has been done by some of the early adopters and membership organizations, training opportunities are insufficient and not comprehensive, limiting RI take-up in Canada. Although the foundation sector is starting to build its capacity in this area, universities, colleges and hospital endowments have not developed any programming on RI.

Now that the RI industry has overcome initial negative stereotyping regarding its financial performance, legality and fiduciary viability, it is well positioned to tell a positive story of financial and social returns. It appears that we are on the verge of a tipping point in catalyzing considerable investment in responsible, mission and community investing. The timely investment of resources in a strategic approach to building the RI capacity of foundations and endowments in Canada could significantly increase the percentage of their assets committed to RI and CI across the country in the next ten years.

- ¹ Compounding Impact: Mission Investing by US Foundations, p. 3.
- ² Sustainable Investing Handbook for Mission-based Organizations, p. 12-13
- ³ Investing in Change, p. 61
- ⁴ Sustainable Investing Handbook for Mission-based Organizations, p. 13
- ⁵ Compounding Impact: Mission Investing by US Foundations, p. 16-17
- ⁶ The Mission in the Marketplace, p. 14
- ⁷ A Legal Framework for the Integration of ESG Issues Into Institutional Investment, Freshfields Bruckhaus Deringer

APPENDIX

Other Reports of Note

There are two other very recent reports that merit mention. Neither is specifically directed at foundations and endowments, but both make the case for the potential of RI, especially in light of the financial and economic crisis.

Investing for Social and Environmental Impact, The Monitor Group, 2009.

http://www.monitorinstitute.com/impactinvesting/documents/InvestingforSocialandEnvlImpact_FullReport_004.pdf

An overview of the promise and peril of the emerging field of impact investing that demonstrates that using profit-seeking investment to generate social and environmental good is moving from a periphery of activist investors to the core of mainstream financial institutions.

Fiduciary Responsibility – Legal and practical aspects of integrating environmental, social and governance issues into institutional investment, UNEP FI Asset Management Working Group, 2009.

<http://www.unepfi.org/fileadmin/documents/fiduciaryII.pdf>

This latest AMWG report is a sequel to its landmark 2005 **Freshfields Report**. It provides a legal roadmap for fiduciaries looking for concrete steps to operationalise their commitment to responsible investment. The report explains how the financial meltdown actually represents a unique opportunity to ‘recast’ some of the most basic tenets of fiduciary investment. After the fallout of the crisis, many fiduciaries will wisely look at the impact of the crisis on their investments, and look for new approaches to steward and allocate their assets.