

**Where Money Meets Mission**  
**Breaking Down the Firewall Between Foundation Investments**  
**and Programming**

**By Jed Emerson**

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Foundations must  
bridge the social  
and financial  
investment gap

# where MONEY M meets MISSION

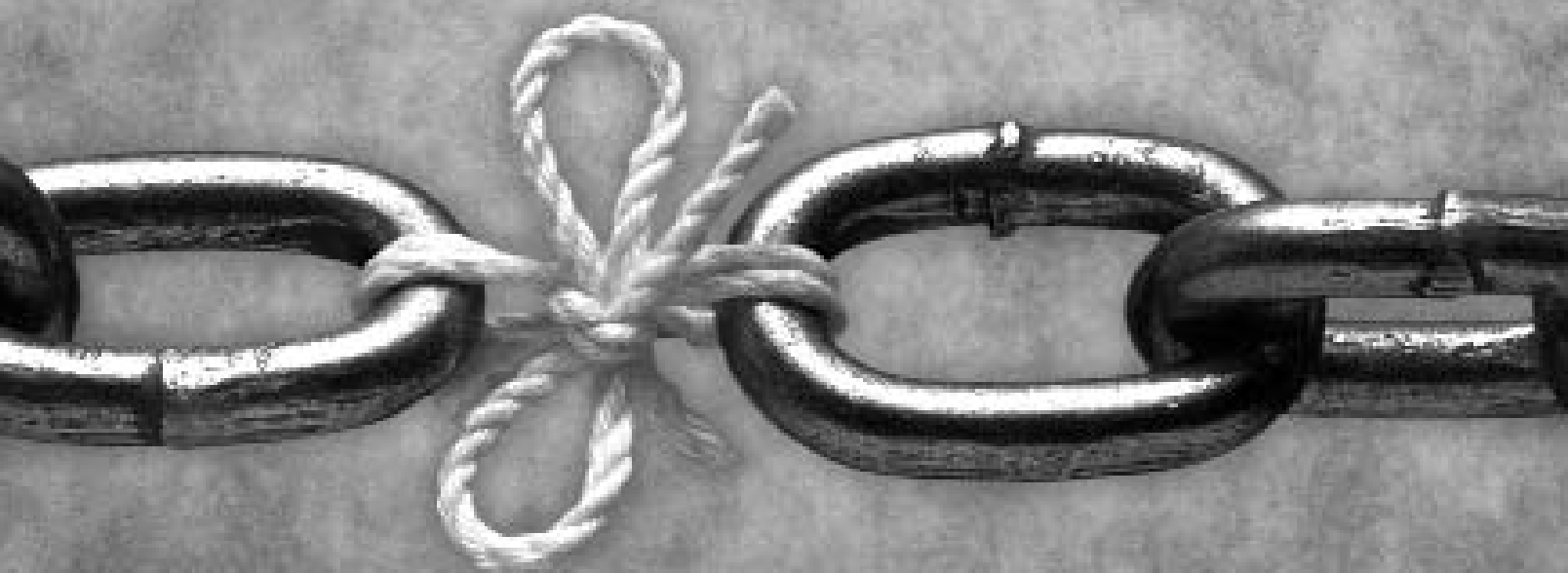
FOUNDATION LEADERS EXPERIENCE the moment at different times. For the Nathan Cummings Foundation, it was Caroline L. Williams, chief financial and investment officer, who first noticed the dissonance.

While reviewing grants last year, Williams realized that the New York City-based foundation had spent \$650,000 on four grants aimed at holding big agribusiness environmentally accountable – with a particular focus on the hog industry. And yet, Williams knew, the foundation had a significant investment in Smithfield Foods, the largest hog producer and pork processor in the world – and one with a checkered environmental record.

How did 31,600 shares of Smithfield Foods, with a market value of \$717,952,<sup>1</sup> wind up in the foundation's portfolio? The Cummings Foundation, like most others, leaves it to its money managers to invest its \$350 million endowment, seeking only to maximize returns, while spending about 6 percent annually – \$19.8 million in 2002 – on grants in support of mission. J.L. Kaplan Associates, one of the foundation's small cap managers, bought the Smithfield shares without considering the foundation's overall goals – and that's exactly how the foundation's investment committee wants it.

PHOTOGRAPH BY MASTERFILE

by JED EMERSON





*The Cummings Foundation requested a shareholder resolution on the Smithfield Foods proxy ballot, asking the hog processing giant to assess the environmental impact of its operations.*

In effect, the foundation has a “firewall” between fund management and grantmaking – a clear separation that is consistent with the way most foundations operate. Historically, foundations have maintained this impermeable wall between investing and programming – the idea being that what’s business is business, and what’s social is social, and never the twain shall meet.

Yet in this case, Williams saw that the investment was in direct conflict with the foundation’s program objectives. “I looked at it and I realized, ‘What a great opportunity,’” Williams recalled recently. “We were giving grants to people who say the environmental impact of large-scale hog farming is really bad, yet we owned shares in the largest hog processor in the world.” And so

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Williams found a creative way to breach the firewall, linking investing and programming.

In March, Williams and Cummings Foundation President and CEO Lance E. Lindblom wrote a letter to Smithfield Chairman and CEO Joseph W. Luter, III, requesting that a shareholder resolution appear on the company’s proxy ballot. The resolution notes that Smithfield “has been cited for serious environmental violations, most notably from the breaching of hog waste lagoons into public waterways during hurricanes in 1995 and 1999.” It points out that hog waste lagoons and certain feeding practices pose not only environmental, but also “financial and reputational risks.” And it asks management to prepare a report describing the environmental, social, and economic impacts of its hog production operations. The Sierra Club, also a shareholder, has signed on as a co-filer.

“The investment manager who bought this stock for us may have found it an attractive investment for the near-term,” Williams explained, “but we question the long-term viability of a business model with such negative impacts.”

By filing this resolution, the foundation is making a start at bridging an “investment gap” – the chasm between the financial capital that foundations invest in economic worth, and the social capital through which foundations pursue investments in social value. The goal for all foundations should be to bridge this gap, creating the largest set of overall returns possible – financial, social, and environmental – to maximize total value and total returns on investments.

“The practice in foundations has typically been for the program areas to focus on mission and the investment committee to focus on financial returns, with little – if any – awareness between these silos,” says Lindblom. “And yet, social and economic justice requires an integrated society. Corporations and business cannot be separated from concerns about health, the environment, the arts, about how we live our lives.”

## Foundations Yesterday and Today

Foundations in the United States first emerged in the early 20th century. According to the Foundation Center, a nonprofit that tracks foundation trends, the number of grantmaking foundations has been steadily increasing, most recently rising from 32,000 in 1991 to nearly 62,000 today.<sup>2</sup> According to the Foundation Center’s Foundation Growth and Giving Estimates preview, foundations hold \$476.8 billion in assets today, and they gave away an estimated \$30.3 billion in 2002.

Though 5 percent annual payout of foundation assets is the legal minimum, many foundations operate as if it were the maximum. According to the Foundation Center’s most recent survey, for example, the 55,120 independent foundations gave away

# For Most Foundations, It Still Comes Down to the Bottom Line

It seems like it would be a no-brainer.

Foundations that support the environment wouldn't invest in companies that degrade it. Foundations promoting corporate accountability wouldn't invest in firms that are unresponsive to community needs. Foundations with a mission to foster healthy living would not invest in tobacco. And yet, few foundations would even consider such an approach.

"The traditional thinking that still runs very strong through the foundation community is that investments should be made for the purposes of maximizing return," says Doug Cogan, deputy director of the social issues service for the Investor Responsibility Research Center (IRRC), a Washington, D.C.-based organization that provides research and guidance to assist investors.

"We have every indication that it is a very small minority of foundations that are actively voting their proxies or screening their portfolios," Cogan said. "It's still only a relative handful of foundations that are willing to make that leap. Most give discretion to outside fund managers to pursue whatever investments they think are most appropriate in terms of risk and return objectives, without any concern for broader social or environmental goals."

Why is it still so uncommon?

For starters, says Victor De Luca, president of the Jessie Smith Noyes Foundation, voting proxies and establishing screens is inconvenient. "It's harder to do what we are doing," says De Luca. "It's easier just to let your managers go off ... and not have to worry about it, and just hope the

money keeps rolling in."

Additionally, De Luca says, there is a fear that over the long haul, socially responsible investing will not yield strong returns, and foundations will therefore have less to give away on the programming side – a fear he believes is unfounded.

The Noyes Foundation posts its investment guidelines online (<http://www.noyes.org/2000ar/investmentpol.htm>), and periodically takes calls from other foundations that want to use its policy as a model.

"The firewall between the program side and the investment side is slow to come down," De Luca said.

Cogan, for his part, would agree. "The prevailing philosophy," he said, "is still that you make your money the old-fashioned way – which is any way you can."

about 5.8 percent of their assets in 2001. This happens in large part because of the traditional assumption that the primary fiduciary responsibility of foundation trustees is to wisely manage the foundation's financial assets so that there will always be additional resources generating 5 percent returns to support grants.

The *raison d'être* for foundations is to create "social value" – to provide a public good traditionally not viewed as being generated by the market. But by focusing on their role as providers of charitable gifts, many foundations end up engaged in practices that look more like strategies for wealth redistribution than true value creation. Indeed, according to preliminary data from the Council on Foundations, more than 82 percent of foundations do not take social, environmental, or other nonfinancial factors into account when managing their greatest economic tool for fulfilling their organizational mission – their financial assets. (Sidebar, above) These foundations measure the success of their investments on a strictly financial basis.

For the vast majority of foundations, then, grants become the sole vehicle by which they pursue their mission. What that means is that for most foundations, 5 percent of capital returns is assigned in pursuit of 100 percent of the institution's larger social mission, while 95 percent of capital assets are managed in pursuit of increasing financial value, with zero percent consideration for the institution's social mission.

If the foundation's intent is simply to perpetuate its own existence while annually allocating 5 percent of its wealth to charity, then this is fine. Such a strategy may be precisely what donors and boards of directors intend. However, shouldn't a foundation's investment strategy seek to maximize not only financial value, but social and environmental value as well?

The questions of what the appropriate payout rate is for foundations and whether they should exist in perpetuity are important. In the same way individuals can't spend their way to wealth, foundations interested in maximizing both the impact they achieve and the value they create cannot simply make more and larger grants; a balance must be struck. Foundations must complement their philanthropic investment strategies with financial strategies that leverage the total power of foundation resources for the greatest value creation possible.

When attempting to maximize the value created through investment of financial assets,<sup>3</sup> a comprehensive investment strategy is required – one that views grantmaking, asset investment, and the use of low-interest loans – as three integral parts of a holistic approach to applying, and maximizing the impact of, foundation capital resources. If an investing institution seeks to maximize total value, it should consider pursuing a "unified investment strategy," based on the fact that true value is not just a function of financial success. It is created by maximizing social and environmental performance as well.<sup>4</sup>

For foundations, there are five primary ways to implement a value maximizing strategy of financial asset management: (1) engaged investing of mainstream assets, (2) socially responsible investing of core assets, (3) investing in alternative asset classes and small and medium enterprises, (4) low-interest loans and below market-rate investments in nonprofits, and (5) investing in a way that enables significant corporate transformation.

## Engaged Investing of Mainstream Assets: Proxies

Within a unified investment strategy, the majority of a foundation's asset base may remain invested in mainstream companies





## Tear Down the Wall: Investing with a Cause

The Rose Foundation had a problem.

Founded in 1992 with a mission to foster environmental stewardship, it soon became keenly interested in saving the Headwaters Forest, part of a 60,000-acre expanse of giant redwoods in Northern California. The forest was owned by the Pacific Lumber Company, which critics say had logged old-growth woods and had no plans to stop.

But the foundation, which has about \$1 million in assets, was constrained by its funding structure. It receives court-ordered restitution payments – settlements from companies accused of polluting, for instance – and makes grants to affected communities. Because of this, it did not have the flexibility to shift funding to embattled environmentalists.

As the situation grew increasingly urgent in 1996, the Oakland, Calif.-based foundation took a step that might, at first blush, have seemed counterproductive: They bought stock in the Maxxam Corporation, Pacific Lumber's

parent company.

In effect, the foundation bought the stock in the Houston-based firm solely as a way to advance its mission – obliterating any notion of a firewall between programming and investing.

"It was a strategic buy," said Rose Foundation President Jill Ratner, "but it wasn't like we had a clear plan from the beginning.

"It seemed like a good way to learn more about the company. It was clear to us there were some issues that we were not going to be able to address or raise unless we were shareholders."

For years, Ratner said, Pacific Lumber had been a family-owned company with a commitment to sustainability. But in 1986, Maxxam President Charles Hurwitz acquired the timber company in a hostile takeover, using junk bonds, and tripled its logging output to pay for the sale.<sup>1</sup>

Ratner knew that the Federal Deposit Insurance Corporation (FDIC) had filed suit against Hurwitz to recover

\$250 million that taxpayers lost when Hurwitz's United Savings Association of Texas collapsed in 1988.

In 1997, the foundation filed a shareholder resolution, asking Pacific Lumber to transfer the Headwaters Forest to the federal government in return for partial forgiveness of the debt incurred by the savings and loan failure.

The foundation also fielded two independent candidates for the company's board of directors and ran newspaper ads in the *Sacramento Bee*, reaching out to California's public employees.

"We realized that there were some significant structural issues that needed to be addressed," Ratner said. "The board was very isolated. It was made up of five insiders who were longtime associates of Hurwitz. Management had adopted a bunker mentality, and there was nobody on the board to bring a different view."

The foundation's resolution and candidates received minimal backing, but the foundation came back in 1998 with

not traditionally thought of as "socially responsible." However, the foundation can operate as an "engaged capitalist," consistently challenging companies in which it is invested to improve overall performance through greater consideration of social and environmental factors affecting the firm. For example, foundations can encourage corporations in which they are invested to follow the 10-point environmental code established by the Coalition for Environmentally Responsible Economies (CERES) – the "CERES principles." Foundations can also encourage corporations to function with greater transparency for shareholders and stakeholders alike. The most straightforward way for foundations to assist companies in this process is for them to simply make active and strategic use of their right to vote proxies.

Most recently, the Cummings Foundation has been leading the charge in this area. "The proxy is an important asset that comes with our investment portfolio," Lindblom said. "We have a fiduciary responsibility to vote our proxies, but we take it further. ...

The proxy is a great tool to leverage our programmatic work. We think we have a responsibility to use this important asset to increase awareness of systemic issues, to encourage dialogue, and to bring about sustainable change."

To that end, the foundation board adopted shareholder activity guidelines in April 2002, outlining when it will vote on proxies. The policy states, in part, "When a program interest is at stake, the foundation will vote in line with the program interest. On matters of corporate governance, the foundation will vote in line with the broader programmatic objectives of accountability, transparency, [and] incentives for appropriate institutional reforms."<sup>5</sup>

The foundation's grantmaking hovers around 6 percent of its assets annually, slightly more than is required by law. But, Williams notes, by voting proxies, "We can have a bigger voice than our actual dollars."

At the Cummings Foundation, proxy ballots go directly to Williams, who briefs program directors on relevant proxy dis-

a structural resolution calling for annual election of all five board members (only two trustees were elected annually).

Once again, the initiative failed. But the Rose Foundation continued to press, and in 1999, it persuaded retired U.S. Sen. Howard Metzenbaum of Ohio and retired judge, Illinois congressman, and White House Counsel Abner Mikvah to run for Maxxam's board. In 2000, Mikvah ran again, along with former U.S. Sen. Paul Simon of Illinois.

Though the Rose Foundation never succeeded in getting its candidates on the board, Ratner said it was in part investor pressure that in 1999 finally pushed the company to cut a deal. Pacific Lumber agreed to turn over 10,000 acres of ancient redwoods to the state and federal government in exchange for \$480 million. Today, the forest is known as the Headwaters Preserve, and is home to threatened species that include the marbled murrelet, an endangered seabird that lays its eggs only in the mossy upper limbs of old-



growth trees.

Ratner said that running independent board candidates and filing shareholder resolutions “really does focus attention on an issue in a way that very few things can.” For maximum impact, she added, shareholder activism can occur in conjunction with grantmaking.

Ultimately, Ratner believes, shareholders will be most effective where they can show company trustees why it

is that a given environmental issue represents a threat to their bottom line.

“If you can get a company to look seriously at that and to change its conduct,” Ratner said, “you have an opportunity not only to improve the security of your investment, but to improve the security of the world.”

1 *The New York Times*, “Lumber Company Approves U.S. Deal to Save Redwoods,” March 3, 1999.

discussions. “This is fairly new in the foundation world,” Williams said. “Most foundations delegate the proxy voting to the investment managers. The managers bought the stock, so they can deal with the paperwork, too.”

In 2002, the Cummings Foundation voted on 154 proxy ballots and cast 425 votes. In April 2002, for example, the company voted for a resolution asking Sprint to issue a report outlining total annual greenhouse gas emissions for company operations – in line with the foundation’s mission to “facilitate environmental justice” and to “promote the environmental accountability of corporations.” The resolution garnered only 7.3 percent of shareholder votes, with abstentions counting against it, but the idea, Williams says, is to raise public awareness and bring shareholder concerns to a company’s attention.

The foundation also takes an active role encouraging others to follow its lead. In April 2003, Lindblom and Bullitt Foundation President and CEO Denis Hayes sent a letter to members of the

Environmental Grantmakers Association, alerting them to upcoming resolutions at 12 corporations<sup>6</sup> calling for increased disclosure on greenhouse gas emissions, which lead to global warming. “Asking a company to look at its operations and impacts can have several benefits,” Lindblom and Hayes wrote. “The focus may lead to improved environmental practices, operating risks and opportunities may be identified and, if taken seriously, the company’s overall business strategy and competitiveness may be improved.”

Actively making use of proxy voting is just one option in building a unified investment strategy. Foundations can take more active roles as shareholders as well. Consider the case of the Jessie Smith Noyes Foundation, a New York City-based foundation with about \$59 million in assets, which makes grants in areas including sustainable agriculture, sustainable communities, and reproductive rights.

In 1992 the Noyes Foundation began making grants to the



SouthWest Organizing Project (SWOP), an Albuquerque, N.M., nonprofit working to empower local communities. In 1993, SWOP prepared a report, “Inside Intel,” raising questions about Intel’s proposed expansion of a chip-making plant in New Mexico. Among the problems outlined were excessive water usage and excessive emissions.

According to a report by then-Noyes President Stephen Viederman, Intel refused to give SWOP a satisfactory meeting on these issues. Noyes, however, just happened to own shares in Intel, and the foundation asked SWOP how it could help. “Holding the stock and doing nothing would have been normative for foundations,” Viederman wrote in the foundation’s 1997 annual report. “Divesting would have no impact. Taking an active role as a shareholder in the company would be a new role for us, but it was consistent with our goal of reducing dissonance between the way we managed our money and our grantmaking values.”<sup>7</sup>

Noyes officials went to a shareholder meeting in May 1994 and asked Intel when it would respond to SWOP’s report. Intel replied that it did not deal with “vocal minorities.” Over the next few months, Noyes managers urged Intel officials to open a dialogue with SWOP, to no avail. Noyes then filed a shareholder resolution asking the company to revise its policies and commit to sharing information with the community.

The resolution got Intel’s attention, and company officials went to New York to meet with the foundation. In January 1995, Intel finally initiated discussions with SWOP. At the company’s annual meeting in April 1995, Noyes’ shareholder resolution garnered 5 percent of the vote – above the threshold that would have allowed them to refile the following year. But as it turned out, that would be unnecessary. In December 1995, Intel agreed to revise its environmental health and safety policy, including new language committing the company to sharing information with communities. Members of SWOP were subsequently invited to sit with plant managers and corporate executives to explain their concerns.

The plant expansion was eventually completed. But the Noyes Foundation continues to monitor Intel’s implementation of its new policy, helping to ensure that local communities have a voice on issues that affect them most.

### **Socially Responsible Investing: Using Screens**

Rather than investing all its assets under strategies that solely track financial performance, a unified investment strategy may call for all or some percentage of assets to be invested on a socially responsible basis. There are two approaches: “positive valuation” frameworks and investment screens.

A positive valuation framework starts with the assumption that within any industry, some companies work to limit environmental and other risk exposure and other companies do not. The

investor identifies companies within a group that engage in practices decreasing the likelihood that the company will be the target of lawsuits for violating U.S. Environmental Protection Agency regulations or spilling hazardous chemicals. A positive valuation framework assumes that those companies with better environmental practices will generate greater financial returns by avoiding lawsuits and penalties. Investment advisors such as New York City-based Innovest use such a framework to guide foundations, pension funds, and other asset managers in creating portfolios that maintain traditional diversification while selecting the “best of breed” within a given industry group.

A second approach is that of investment “screens,” which can assist asset managers in ensuring they do not invest in stocks that run counter to the foundation mission. Foundations may engage in the practice themselves or simply invest with managers who seek out companies that promote social responsibility, in alignment with foundation mission.

According to the Council on Foundations survey, about 18 percent of foundations screen their portfolios for social or ethical considerations, up from 10.6 percent in 1994. More than 21 percent of larger foundations – those with assets of \$100 million or more – said they use screens, compared to between 16 and 17 percent of foundations with under \$100 million in assets. The foundations surveyed screened out firms in various industries, including tobacco, alcohol, gambling, pornography, defense and military, and employment practices.<sup>8</sup>

The Noyes Foundation, which established a mission-related investment strategy in 1993, has been a leader in this area as well. As the foundation’s investment policy states: “We recognize that our fiduciary responsibility does not end with maximizing return and minimizing risk. ... We believe that it is essential to reduce the dissonance between philanthropic mission and endowment management.”<sup>9</sup>

The policy goes on to state that Noyes will not invest in companies that (1) produce and/or use nuclear power; (2) produce synthetic pesticides, herbicides, or other agricultural chemicals; or (3) derive more than 5 percent of revenue from tobacco products. Companies that have passed these screens include the Dell Computer Corporation, Avon Products, and the Target Corporation.

The foundation also seeks to invest in companies under a positive valuation framework, seeking out firms that are committed to the environment, sustainable natural resources, and a safe and healthy workplace. To that end, Noyes has placed about \$3.5 million of its corpus with the Winslow Management Company, which has investments including Vestas Wind Systems A/S (a leader in the development of wind power), FuelCell Energy (a developer of clean and efficient power generators), and Whole



# “It makes no sense to use 5 percent of your assets to try to promote something, while the other 95 percent might be doing something totally contrary”

Foods Market (the world’s largest retailer of natural and organic foods). Noyes has invested an additional \$8 million in a fund with similarly compatible screens.

“It makes no sense to use 5 percent of your assets to try to promote something, while the other 95 percent might be doing something totally contrary,” said Victor De Luca, president of the Noyes Foundation, which gave out about \$4 million in grants in 2002, including administrative costs. “We try to use 100 percent of our assets to promote our values.”

## Small and Medium Enterprises: Startup Investments

The main drivers of job creation and market innovation are found in a region’s small and medium enterprises, also referred to as “SMEs.” A foundation concerned with a given geographic area – and seeking to create greater economic opportunity for residents or to diversify the overall economy of a region – might identify and invest in emerging small- and medium-sized businesses willing to locate in targeted areas. Such firms often require capital on terms that the mainstream market does not provide.

One foundation exploring this strategic approach is the Baltimore-based Abell Foundation, which has since its inception 15 years ago been committed to a mission of improving the quality of life for residents in Baltimore.

The Abell Foundation, which has an investment portfolio of around \$200 million, generally grants about \$10 million a year.

“If you try to give away more than [5 percent], it reduces the size of your corpus, and eventually leads to going out of business,” says Abell President Robert Embry, adding that the foundation has come up with another solution. “We think we not only have an obligation to try to benefit society by our giving, but through our investments, which are 20 times as large.”

Abell sets aside about 15 percent of its portfolio for “venture investments” in SME startups, primarily so that they will locate in Baltimore. “Our mission is primarily to improve the situation in Baltimore,” Embry said. “So to the extent that we create jobs and establish corporate headquarters in Baltimore, we are benefiting the city, and those in it, who are disproportionately poor.”

The foundation has made 15 such investments to date. The first was made in the early 1990s, when Guilford Pharmaceuticals – a startup company working on new ways to treat brain cancer, Parkinson’s disease, and Alzheimer’s disease – was trying to decide between Boston, Philadelphia, and Baltimore for its corporate headquarters. Abell invested \$2.5 million in Guilford, contingent upon the company locating in Baltimore. The firm opened its doors in the city in July 1993 with four employees. Today, the company has 290 employees and is publicly traded on the Nasdaq. Its proprietary drug therapy, GLIADEL® Wafer, delivers chemotherapy directly to the site of a brain tumor.

## Below Market-Rate Investments

As a complement to its market-rate financial investments in for-profit enterprises, a foundation pursuing a unified investment strategy views its grantmaking and below market-rate capital activities with nonprofits and for-profit social ventures as an integral component of its overall investment portfolio.

One foundation pursuing such an approach is the F.B. Heron Foundation, a New York City-based organization founded in 1992 with a mission to help low-income people create wealth through home ownership, access to capital, enterprise development, and quality childcare.

Luther M. Ragin, Jr., vice president for social investing, says that for its first five years, the Heron Foundation was fairly traditional, giving out 5 percent of its assets each year. Beginning in 1997, the board decided it wanted to explore ways to use more of its corpus in support of mission. “The objective,” Ragin says, “was to see how much of the endowment could be profitably invested in community economic development strategies.”

Today, the foundation, which made about \$9.6 million in grants in 2002, has about \$14.3 million in 40 program-related investments, representing about 6 percent of its total endowment.

Most of the program-related investments are in the form of low-interest loans to nonprofits. To take just one recent example, in 2000, Heron approved a five-year, \$250,000 loan to the Greyston Foundation, a system of nonprofit and for-profit organizations in Yonkers, N.Y., that offers a wide array of programs and services for individuals seeking self-sufficiency. Greyston Bakery, the sole supplier of fudge brownies for Ben & Jerry’s ice



*The Noyes Foundation invests in companies like Whole Foods, the world’s largest retailer of natural and organic foods, along with other firms that are committed to the environment.*



cream, employs and trains 65 workers, most of whom are “hard to employ” – for example, employees recently released from jail. The Heron Foundation provided its unsecured loan at a 6 percent interest rate, well below market, to help Greyston build a new production facility.

Ragin says the average interest rate for its loans is about 3 percent, and many nonprofits that get Heron low-interest loans are not prime candidates for unsecured bank loans. Last year, while the foundation’s traditional investment portfolio lost about 7 percent, the program-related investment portfolio gained 3 percent, with no loss of principal. This is an important point because, traditionally, fund managers and investment committees have felt that any consideration of nonfinancial performance would require sacrificing financial returns. The experience of the Heron Foundation and other investors is proving that assumption wrong.

The foundation has several other categories of program-related investments as well, including investments in community development venture capital funds. For example, Heron has made a \$350,000 commitment to Adena Ventures, an Athens, Ohio-based economic development partnership that provides equity capital to businesses in Appalachian regions of Ohio, West Virginia, Maryland, and Kentucky. It’s an equity investment, because Heron owns a portion of the venture fund, but it’s considered a program-related investment because of its charitable purpose and because the foundation does not expect a market rate of return. To date, Adena has drawn down \$52,500 for investments in three West Virginia companies.

### For-Profit Venture Capital

A unified investment strategy may also allow foundations to look beyond a given region or community toward impacting an industry or issue. The Program Venture Experiment (ProVenEx) fund, launched by the Rockefeller Foundation in 1998, is a philanthropic investment tool that follows this approach.

The ProVenEx fund is slightly different than the others in that its \$18 million “portfolio” was allotted from the program budget of the Rockefeller Foundation, which has an endowment close to \$3 billion. The ProVenEx fund currently has \$11 million in nine investments that are directly related to the Rockefeller Foundation’s overarching mission.

One of the foundation’s aims, for example, is to advance health equity by reducing unfair differences in the health status of populations around the globe. To that end, ProVenEx invested \$3.5 million, through a subsidiary, in Biosyn, a Philadelphia-based pharmaceutical company developing microbicides, intravaginal gels that prevent the transmission of sexually transmitted diseases.

Large pharmaceutical companies are not investing in micro-

bicides, says Jackie Khor, associate director for program venture investments, because the risks are considered to be too high relative to the potential financial return. Knowing this, ProVenEx provided venture capital to help achieve what a direct grant never could. Khor said that it is not easy for foundation investment managers to find viable “double bottom line” investment opportunities that meet criteria for both specific social outcomes and financial returns, mainly because “there are currently not enough of those [businesses] around – especially that are publicly traded in the capital markets.”

“We are trying to provide early stage capital to prove a concept and lower risks,” Khor added, “so that commercial investors might invest more capital and expertise toward a product or service that fulfilled an unmet need in one of our program areas.”

The ProVenEx fund expects to make back its capital plus a return of between 3 and 10 percent. “These are all fairly early stage,” Khor said, “so we are not seeing any returns yet.”

ProVenEx is a flexible investment tool, with investments in for-profit companies, nonprofit agencies, and community development venture capital funds across several mission areas. “We hope to create economically sustainable social value using a different strategy that better engages the expertise, energy, and capital of the private sector,” Khor says. “Our grantmaking would otherwise be less able to do this.”

### Principles for a Blended Portfolio

There is no single approach to creating and executing a unified investment strategy for foundation asset management. There are, however, stages of development that foundations can engage in to explore the relevance of the approach and begin to create an effective strategy.

The first step is to recognize foundations are not simply vehicles for distribution of charitable gifts, but rather investors in value creation. Before attempting a comprehensive assessment of foundation strategy, the leadership of the foundation must engage in a discussion, identifying this shift in perspective and embracing the idea that the foundation’s mission is to do more than make grants or support “good organizations.”

Secondly, as part of this discussion, foundation leaders should try to identify which tools make the most sense for them. Some might want to begin to maximize value by voting proxies and paying closer attention to shareholder resolutions. There are several organizations that can help foundations track proxies, including, for example, the Investor Responsibility Research Center (Sidebar, p. 41). For others, making low-interest loans or investing in community development venture capital funds may make more sense. The key is for foundation leaders to open a discussion – particularly if the topic of program-related investing has been taboo

# Foundation leaders who are serious about maximizing impact should bring money managers and program directors together. The firewall must be breached.

– fostering recognition that grants are only one tool among many for advancing mission.

Third, senior foundation leadership, led by the foundation board, must begin to articulate the new investment policy, and explain how it is consistent in affirming overall institutional mission. The Noyes Foundation's investment policy provides an example. "In concert with the foundation's mission to protect and restore Earth's natural systems and promote a sustainable society by strengthening individuals, institutions, and communities pledged to pursuing those goals," the policy states, "we seek, where possible, to invest our endowment assets in companies that (1) provide commercial solutions to major social and environmental problems, and/or (2) include concerns for environmental impact, equity, and community." Adopting such a statement can provide a building block for a policy that begins breaking down the wall between programming and investing. Simply by affirming these policy statements, boards enable senior staff to begin exploring how the foundation might better manage its overall assets and make use of a wider set of strategic tools.

Fourth, senior foundation leaders must work to explain the new policy to staff and, perhaps most importantly, outside asset managers. Traditional asset managers know how to invest funds on the basis of financial performance, but will naturally resist modifying existing investment strategies. Senior leadership should not accept statements from fund managers such as "Program-related investing will compromise our financial returns" or "We're not positioned to execute such an investment strategy." Foundation leaders must take a lead role in working with fund managers to create better strategies by which foundation mission may be realized. If a fund manager continually insists this cannot be done, that manager should be replaced. The foundation is paying fund managers a fee to not only manage financial assets, but to manage those assets according to an agreed upon set of metrics. It is the foundation's right to determine what those metrics will be.

Finally, the firewall must be breached. Foundation leaders who are serious about truly maximizing the impact of their resources should convene discussions that bring together money managers and program directors to explore how the work of each can inform the other to maximize the value of both. The focus of these discussions should not be on what separates the two sides, but rather how both sides are necessary for overall value maximization. The players should start by exploring what they have in common. For instance, a program director may favor a shareholder resolution calling for a firm to do an environmental impact study, hoping that pollution would be curtailed. A money manager might be able to support the same resolution, hoping that the resolution can lead to improved efficiencies and reduced

finances, and therefore better financial performance. The foundation can then cast a win-win vote in favor of such a resolution. Convening regular discussions between the two sides is the first step toward breaking down the silos that separate them.

What constitutes an "appropriate investment strategy?" This will vary depending on the institution. In the same way that there is no single investment portfolio strategy that fits for all individual investors, there is no single portfolio allocation strategy that fits every foundation. The correct mix of mainstream market investments, community targeted investments, SME investing, long-term fixed rate investments, and so forth will differ depending upon overall goals and mission. The point is not that all foundations should advance identical strategies, but that all foundations should recognize the 5 percent they pay out in grants is only one available tool – and that to allow 95 percent of assets to remain on the sidelines conflicts with a fiduciary's responsibility to invest institutional resources in fulfillment of the foundation's corporate mission.

Foundations have been correct in working to ensure their grantmaking practices create the highest impact and value possible. Foundation leadership must now work to ensure *all* foundation resources and practices are in alignment with the goals and interests of the institution. They must begin the process of exploring how to maximize not only financial returns, but social and environmental returns as well. It will certainly take time. But the time has come. □

1 At the time of this writing.

2 The great majority of those, 55,120, are independent foundations; there are also 2,170 corporate foundations, 602 community foundations, and 3,918 operating foundations.

3 In addition to financial assets, foundations also have grant, human, intellectual, and political assets. For a discussion of these, see "Total Foundation Asset Management: Exploring Elements of Engagement in Philanthropic Practice," (Jed Emerson, 2003). Copies of this paper may be downloaded from [http://gobi.stanford.edu/researchpapers/detail1.asp?Document\\_ID=1818](http://gobi.stanford.edu/researchpapers/detail1.asp?Document_ID=1818).

4 For an extended discussion of the "Blended Value Proposition," please see my forthcoming article on the topic in the Summer 2003 *California Management Review*.

5 See complete guidelines at [www.nathancummings.org/shareholderguidelines.htm](http://www.nathancummings.org/shareholderguidelines.htm).

6 Ford, General Motors, American Electric Power, PG&E, Southern, TXU, Chevron-Texaco, ExxonMobil, Petro-Canada, Citigroup, General Electric, and Weyerhaeuser.

7 See <http://www.noyes.org/admin/97pres.html>.

8 Large foundations that have dropped tobacco companies, for example, include the Henry J. Kaiser Family Foundation, the Robert Wood Johnson Foundation, the Rockefeller Family Fund, and the Rockefeller Foundation.

9 See policy at <http://www.noyes.org/2000ar/investmentpol.htm>.