

# Mission Related Investing Building a Portfolio

A Study Commissioned By Meyer Memorial Trust

Equilibrium Capital Group, LLC  
Kipp Baratoff  
David Chen

February 15, 2008

# Contents

- ❖ Introduction
- ❖ State of Mission Related Investing
- ❖ MRI Implementation Strategy
- ❖ Appendices
  - a. MRI – Actions and Instruments
  - b. MRI Strategy Implementation – Other Steps for Consideration
  - c. ESG Research Providers
  - d. Proxy / Shareholder Resolution Resources
  - e. Fund Managers and Intermediary Resources
  - f. Preliminary Manager Selection Criteria
  - g. Sustainability Market Data
  - h. Selected Bibliography

## Special Thanks and Acknowledgement

We have tremendous gratitude for the individuals and organizations that have taken the time to speak with us and help shape our thinking.

In addition, we would like to acknowledge the following individuals for their specific contributions:

---

---

Scott Budde	TIAA CFEF
Jed Emerson	Generation Foundation
Paul Frankel	Aquillian Investments, LLC
Tim Freundlich	Good Capital
Mark Kramer	FSG Social Impact, Advisors
Lance Lindblom	Nathan Cummings Foundation
Michael Murray	UBS: Foundation and Endowments
Sargon Nissan	New Economics Foundation
Luther Ragin	F.B. Heron Foundation
Mary Anne Rodgers	Packard Foundation
Adam Seitchick	Trillium Asset Management
David Wood	Institute for Responsible Investment
Whitni Thomas	Triodos Bank

# Interviewed/Researched Set of Thought Leaders

Limited Partners	Intermediaries	Public Equities	Private Equity (PE&VC)
<ul style="list-style-type: none"> <li>• Packard</li> <li>• FB Heron</li> <li>• Nathan Cummings</li> <li>• Lemelson</li> <li>• Jesse Smith Noyes</li> <li>• Annie E. Casey</li> </ul>	<ul style="list-style-type: none"> <li>• Cambridge Associates</li> <li>• Aquillian</li> <li>• FSG</li> <li>• KLD</li> <li>• Highwater Research (Paul Hawken)</li> <li>• B-Lab</li> <li>• Morningstar</li> <li>• Innovest</li> <li>• Mercer</li> </ul>	<ul style="list-style-type: none"> <li>• Dodge &amp; Cox</li> <li>• Trillium</li> <li>• Alliance Bernstein</li> <li>• Wellington</li> <li>• Generation</li> <li>• UBS</li> <li>• Triodos</li> <li>• Calvert Foundation</li> <li>• Portfolio 21</li> <li>• TIAA CREF</li> </ul>	<ul style="list-style-type: none"> <li>• NGEN</li> <li>• Good Capital</li> <li>• Nth Power</li> <li>• VantagePoint</li> <li>• USRG</li> <li>• SJF</li> <li>• Rockport</li> <li>• Enertech</li> <li>• Riverstone</li> <li>• Arclight</li> <li>• Black River</li> </ul>
Social Enterprise Funds	Banks	Carbon	Other
<ul style="list-style-type: none"> <li>• Acumen</li> <li>• E&amp;Co</li> <li>• Bridges Community Ventures</li> <li>• Benetech</li> <li>• Good Capital</li> <li>• SJF</li> </ul>	<ul style="list-style-type: none"> <li>• Piper Jaffray</li> <li>• Climate Change Capital</li> <li>• Triodos</li> <li>• UBS</li> <li>• Goldman Sachs</li> <li>• Shorebank</li> <li>• New Resource Bank</li> </ul>	<ul style="list-style-type: none"> <li>• EcoSecurities</li> <li>• Climate Change Capital</li> <li>• Carbon Trust</li> <li>• EEA</li> </ul>	<ul style="list-style-type: none"> <li>• New Economics Foundation</li> <li>• McKinsey</li> <li>• Deloitte</li> <li>• Green Order</li> <li>• SustainAbility</li> <li>• IDEO</li> <li>• Investor's Circle</li> <li>• Generation Foundation</li> </ul>

# Multitude of Fields, Related Concepts and Definitions, Often Over-lapping

## Definitions:

- **Mission Related Investing (MRI)** – “financial investments made with the intention of 1) furthering a foundation’s mission and 2) recovering the principal invested or earning financial return. Mission investments can take the form of debt or equity and can be funded by either program or endowment funds.” (Adapted from original source: FSG Social Impact Advisors)
- **Socially Responsible Investing (SRI)** – “considers both the investor’s financial needs and the investment’s impact on society” (Social Investment Forum)
- **Corporate Social Responsibility (CSR)** – whereby corporations act as “corporate citizens” addressing the impact their activities have not only on shareholder value, but also on the communities, employees, and environment in which they operate
- **Environmental / Social / Governance (ESG)** – extra-financial issues that can be factored into investment decision making
- **Triple Bottom Line** – expanded set of values and criteria for measuring success at (1) financial, (2) social and (3) environmental levels

# MRI Strategies Tie Philanthropic Actions and Financial Investments to the Foundation's Mission

## A Foundation's Primary Mission:

- Broadly: pursuit of both financial (endowment) and social value (programs) in perpetuity
- Specifically: Programs are unique to each foundation, but financial goals fairly uniform

## Dominant Operational Paradigm:

- *“5% of capital returns is assigned in pursuit of 100% of the institution's larger social mission, while 95% of capital assets is assigned in pursuit of increasing financial value, with 0% consideration of the social mission”* (2002 Emerson)
- *“We recognized that the endowment, left perpetually warehoused, was losing the time value of its potential mission impact.”* (2007 – Dietel, F.B. Heron)

## Innovation:

- By using the foundation's asset investments to maximize financial AND social value, MRI becomes an additional tool (alongside philanthropic investments) in the foundation “toolkit” to create social value, as defined by the foundation
- *“The challenge is getting both sides [finance and program officers] to work together – by encouraging them and giving them the right incentives – so that everyone is contributing their distinct competencies and maximizing the potential impact of the foundation.”* (2007 – Ragin, F.B. Heron)

# An Example of MRI Innovation

## Excerpts From the Jesse Smith Noyes Investment Policy

### Fiduciary Responsibility:

*“We recognize that our fiduciary responsibility does not end with maximizing return and minimizing risk... We believe that efforts to mitigate environmental degradation, address issues of social justice and promote healthy communities should be incorporated as part of business and investment decision making...”*

### Investment Philosophy:

*“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, we seek, where possible, to invest our endowment assets in companies that:*

- provide commercial solutions to major social and environmental problems; and/or*
- build corporate culture with concerns for environmental impact, equity and community.”*

<http://www.noyes.org/investpol.html>

# MRI Requires Changes to The Organization That Can Be Challenging

## At the Organizational level...

- Board/Trustee commitment and vision
- CEO and CIO commitment and vision
- Staff understanding and buy-in
- Processes, structure and resource allocation
- Complicates peer comparison on basis of financial performance

## For Implementation...

- Requires creativity to define and execute new investment policy
- Collaboration between and integration of program officer and investment officer skill-sets
- Defining appropriate investment return framework that seeks to maximize social and financial value (blended return)

## Risk and Return (Financial and Social) Varies Between The Three Primary Categories of Capital to Choose From When Implementing MRI

Categories of Capital		
Market-Rate	Below market-rate (PRI)	Grant
<ul style="list-style-type: none"> <li>•Earns market-rate risk adjusted return</li> <li>•Blend of social and financial return</li> </ul>	<ul style="list-style-type: none"> <li>•Earns less than market-rate risk adjusted return</li> <li>•Blend of social and financial return</li> </ul>	<ul style="list-style-type: none"> <li>•Earns no financial return</li> <li>•Purely social return</li> </ul>

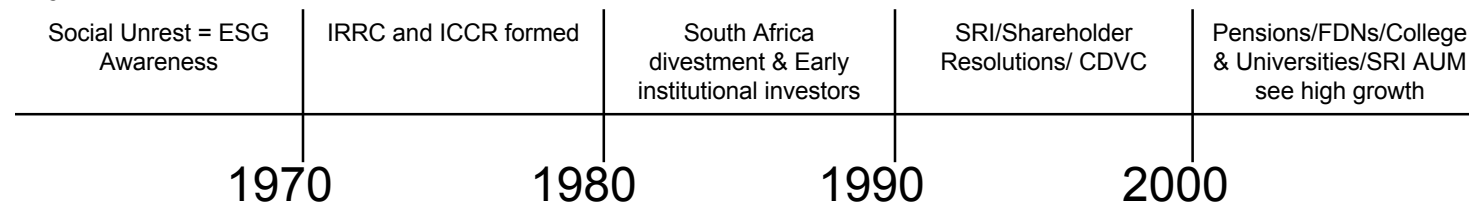
Despite the marked difference in financial return between each capital category, it is difficult to argue that one category provides more social return than another. Social returns are determined by many factors, such as the scale, stage and management of an organization, making comparison across categories complicated.



# State of Mission Related Investing

# A Long History of Socially Motivated Investments, Ready For Next Phase

## History



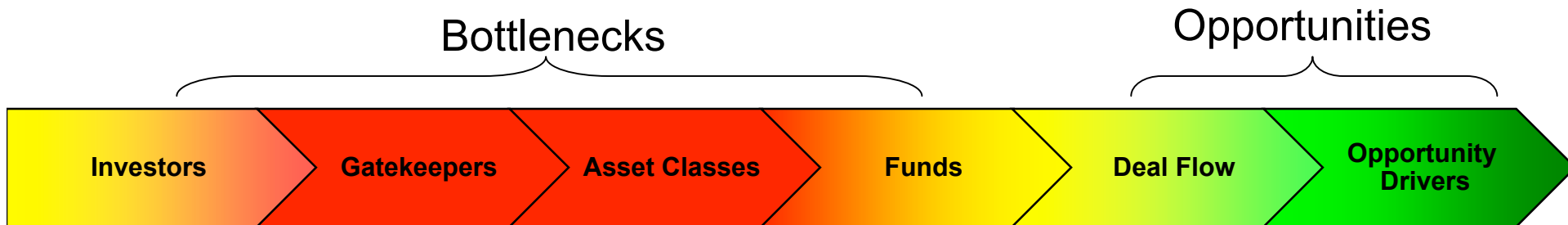
## Historic Pillars

- Screening, Shareholder Advocacy, Community Investments, Below Market Lending
- On the brink of a next phase of evolution – total portfolio approach

## Actors – Starting to push boundaries of MRI beyond basic pillars

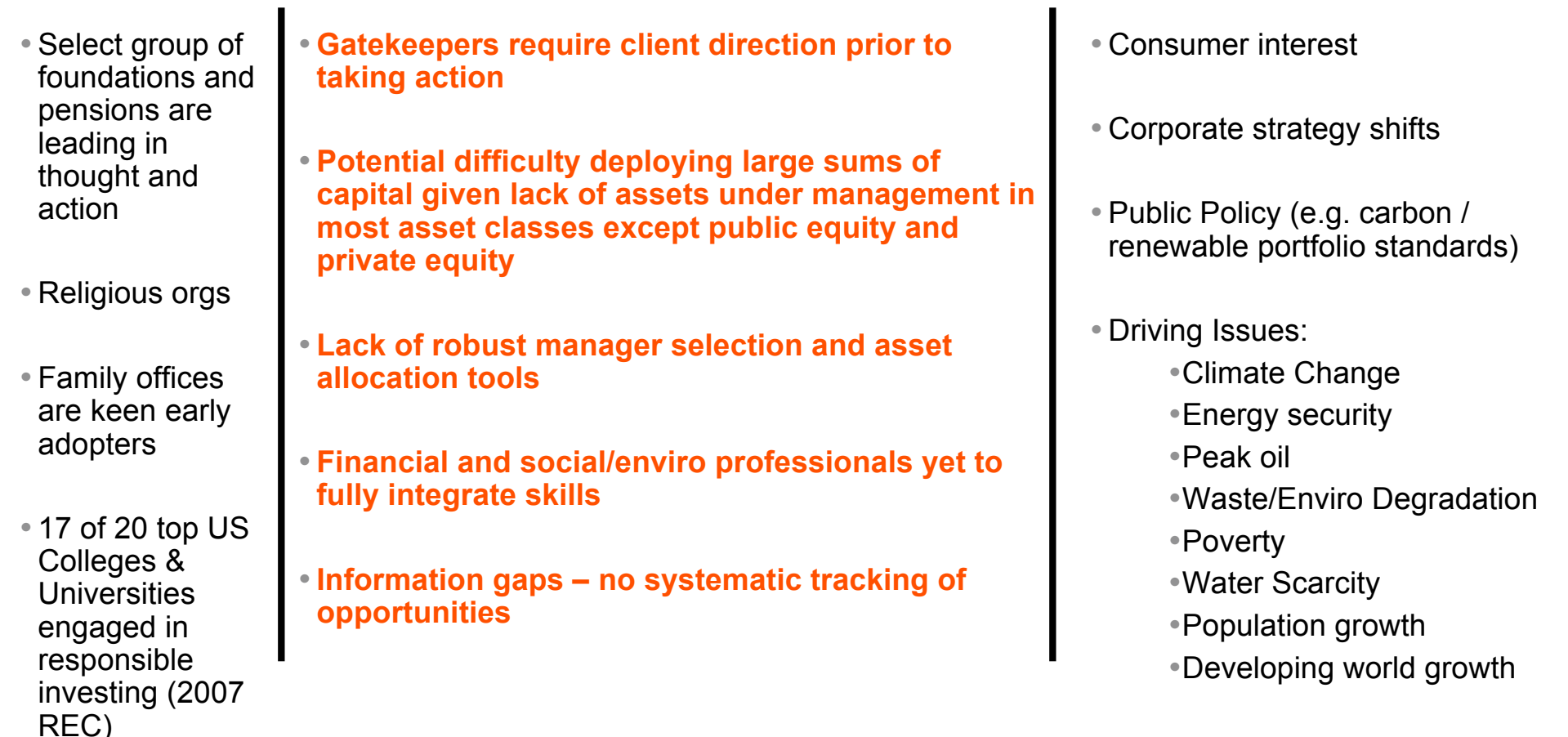
- 17 of top 20 US colleges & universities ('07 ranking) engage in ESG investing (2007 REC)
- Family offices very active
- Religious affiliated institutions - Interfaith Center for Corporate Responsibility
- Many active pension funds
- Foundations – early adopters implementing while many more strongly considering

# MRI Needs to Address Key Bottlenecks Before It Goes Mainstream



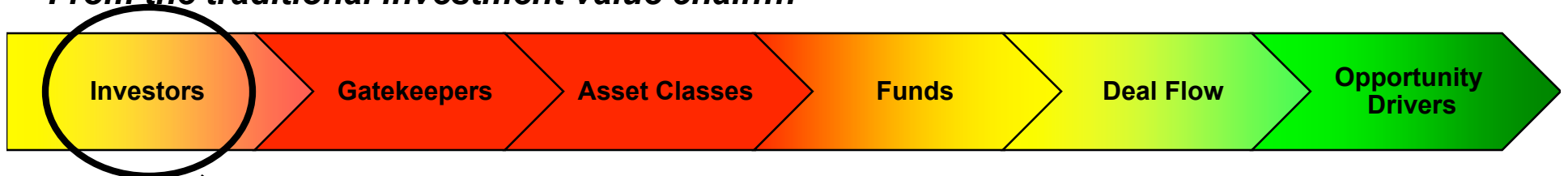
## Bottlenecks

## Opportunities

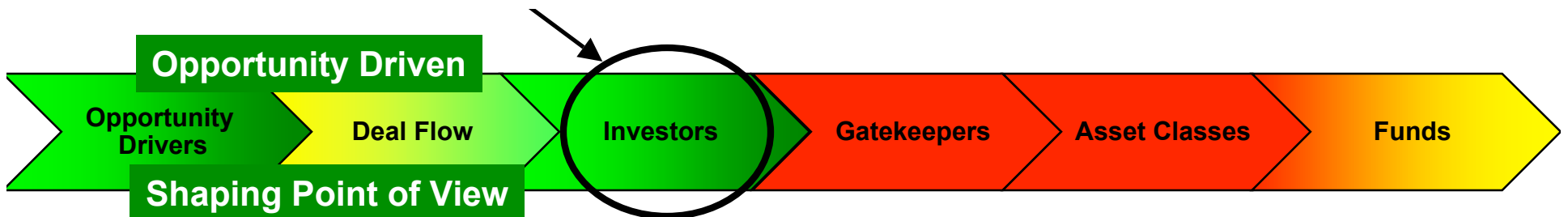


# Institutional Investors Need to Pro-actively Signal to The Market

*From the traditional investment value chain...*



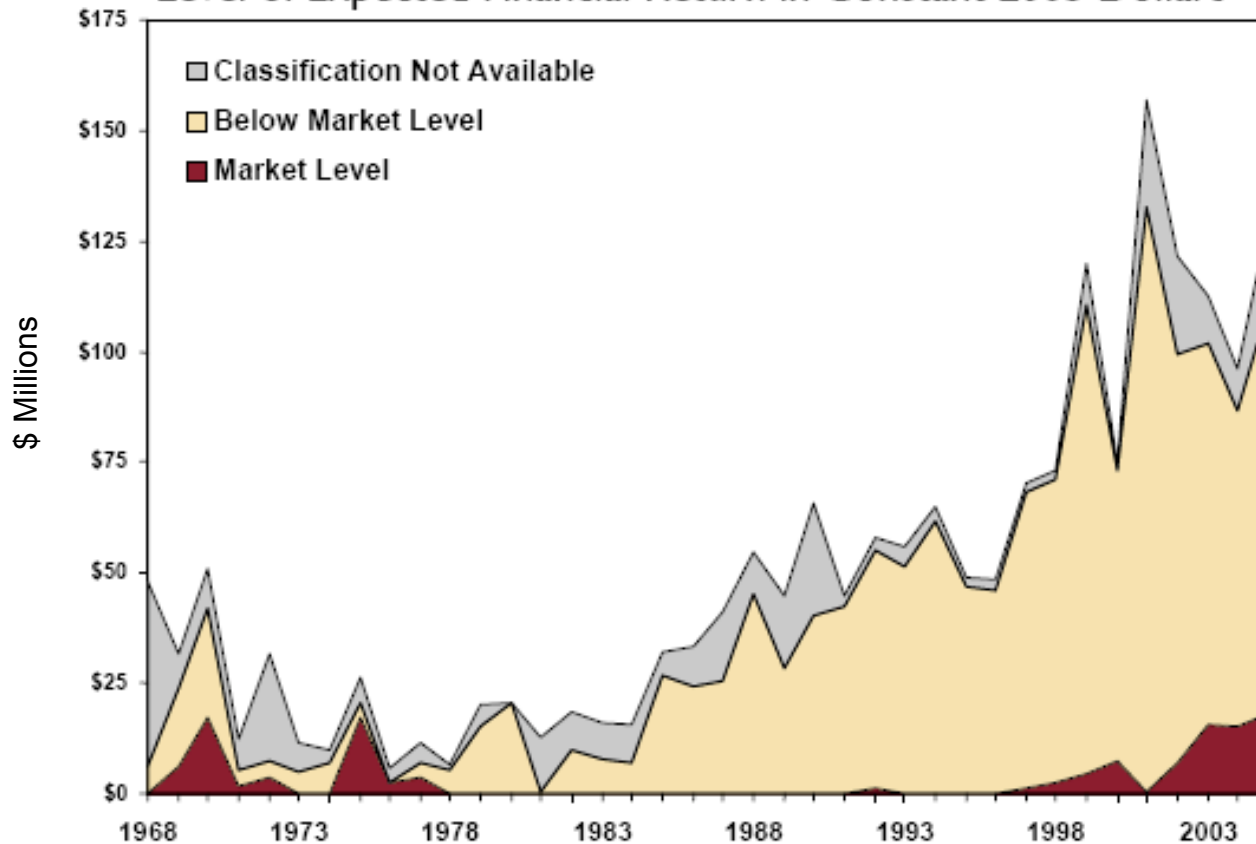
*To a different view, where institutional investors are market drivers pursuing opportunities in advance of gatekeepers and asset classes, influencing the development of MRI and sustainability domain expertise across the value chain:*



- *Investors are now active instead of passive*
- *CalPERS is example; OPERS is not far behind*
- *Signal market with demand for gatekeeper expertise and asset class product*

# Despite Long History, Small Investment Dollars Deployed in Social Funds/MRI

Total Committed Dollar Amount of New Mission Investments By Level of Expected Financial Return in Constant 2005 Dollars



Source: FSG Impact Advisors

Notes: In constant 2005 dollars based on annual average CPI, all urban consumers as reported by the U.S. Department of Labor. To avoid major swings due to periodic large investments, one foundation's infrequent and large equity investments (all Below Market Mission Investments) are not included in this trend analysis. Mission Investments of \$201 million were made in 2006 or had unavailable years so they are not included in this analysis.

# Sector Screening and ESG Does Not Adversely Impact Performance

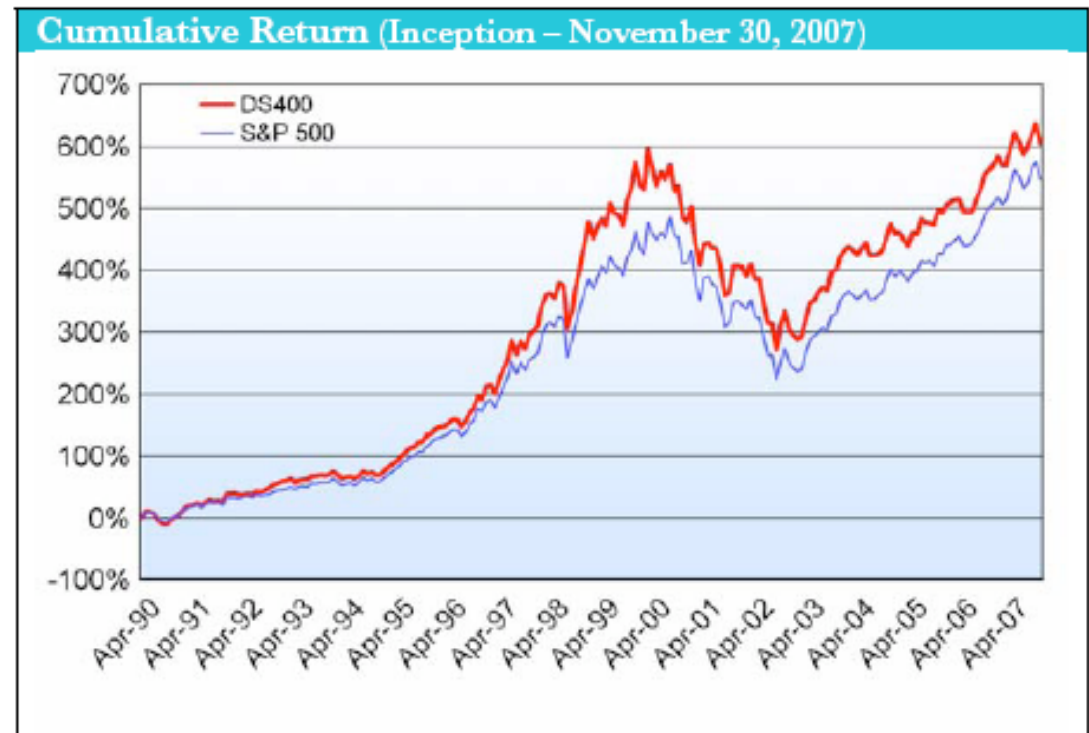
As of November 30, 2007

Index Performance (%)								
	Month	3 <sup>rd</sup> Quarter	YTD	One Year	Three Year*	Five Year*	Ten Year*	Since 5/1/90 Inception*
DS400	-4.20	1.71	5.10	6.52	8.31	10.22	5.96	11.75
S&P 500	-4.18	2.03	6.23	7.72	10.09	11.63	6.16	11.21

\*Annualized Returns

•“...most studies conclude that socially screened index portfolios have attained risk-adjusted returns roughly equivalent to those of unscreened portfolios...”  
(Socially Responsible Investing - Cambridge 2003)

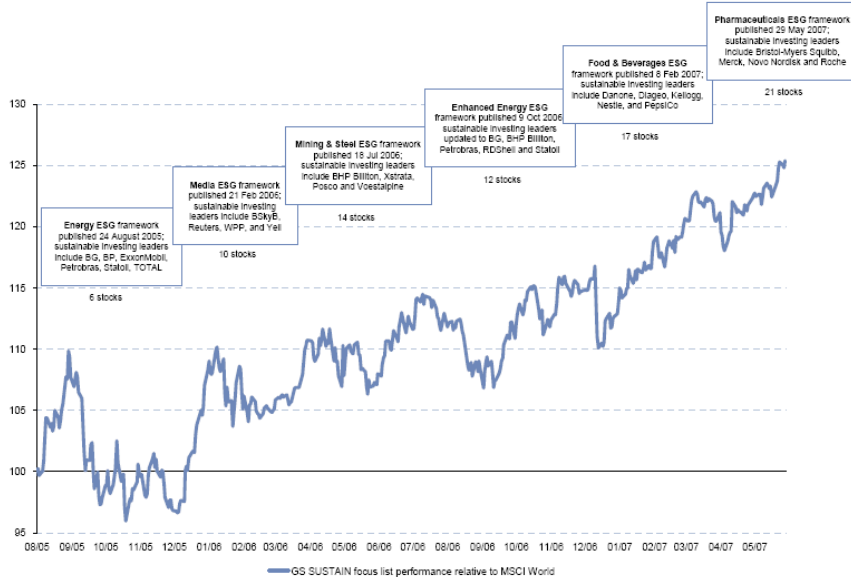
•Data is equivocal – sector screening and ESG stock selection does not yield superior performance, nor does it hurt performance



Source: KLD Research & Analytics

# Integration of ESG Factors May Even Yield Superior Performance

Exhibit 2: GS SUSTAIN focus list outperformance relative to MSCI World since August 2005



Source: Datastream, MSCI, Goldman Sachs Research.

Source: Goldman Sachs 2007 "GS Sustain"

## Goldman Sachs Sustain

- Quantitative assessment of ESG factors and traditional valuation to generate 44 stock picks
- Spanning 5 sectors: energy, metals & mining, food & bev, pharma, and Euro media
- Outperform MSCI World by 25% since Aug 2005

## Other Examples: UN Asset Mgmt Working Group

- 12 reports from 10 brokerage houses found ESG material (3 partially)
- Quantified in 6 reports and partially in 3

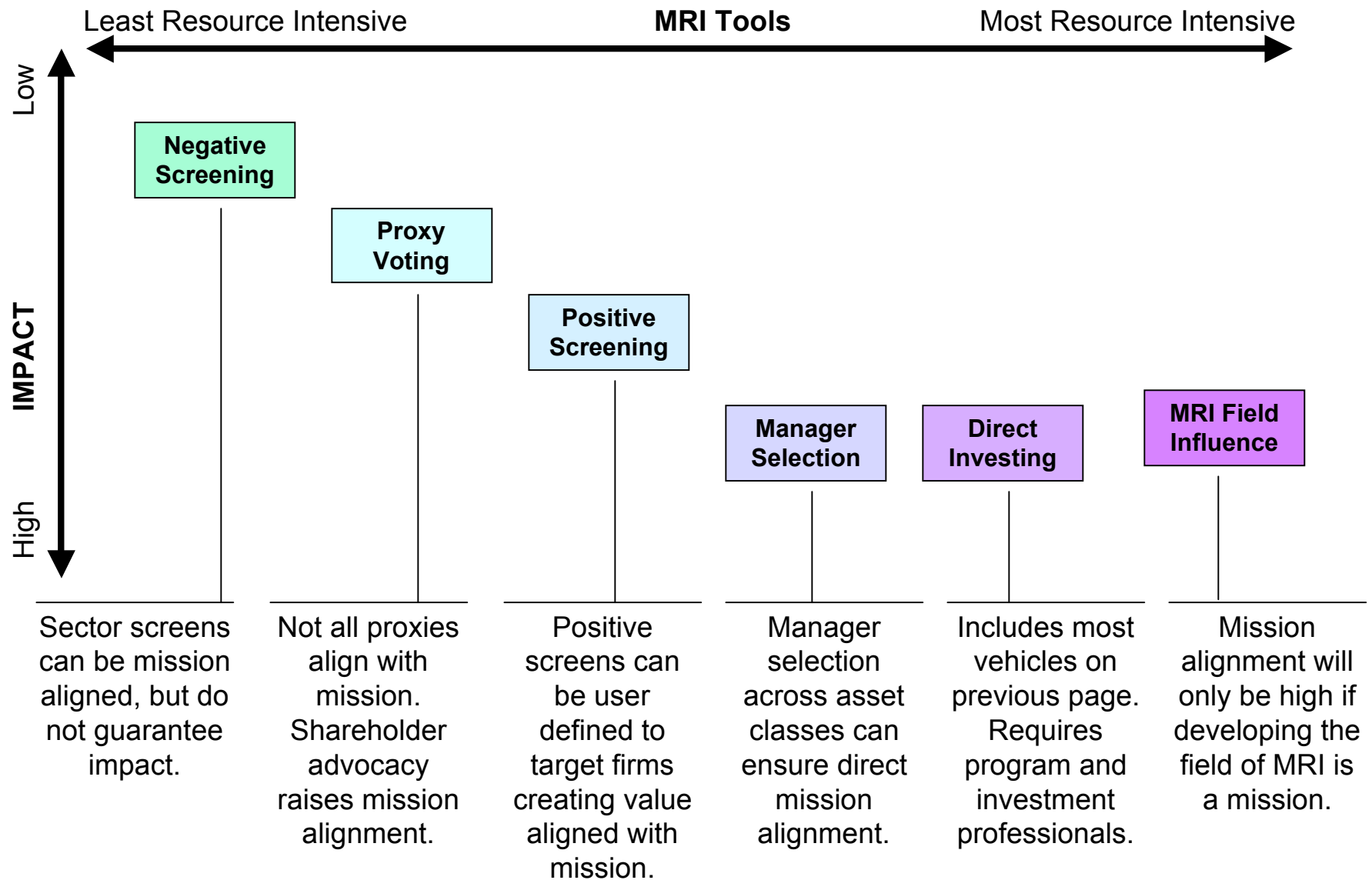
## Yet Few Sell Side Analysts Integrate ESG Frameworks

- ESG will not mainstream for 3 – 10 years
  - 66% of 51 global managers believe that enviro/social/corp gov (ESG) will be integrated into mainstream processes and strategies in 3 – 10 years (Mercer Fearless Forecast 2007)
- Many sell-side analysts don't consider extra-financial issues (EFI)
  - PWC 2005 report, "Knowing the Price but also the Value", indicates that most sell-side analysts don't consider extra-financial issues in company reports
- Growth & Quality of EFI reports improving, but still problematic
  - The Enhanced Analytics Initiative (EAI) includes 27 institutions representing 2.4 trillion in assets
  - 2006 EAI Study
    - suggests growth in volume (8 to 33 providers) and quality of extra financial reports (6 to 12 providers) over the last 4 years
    - Most not well integrated with financial research

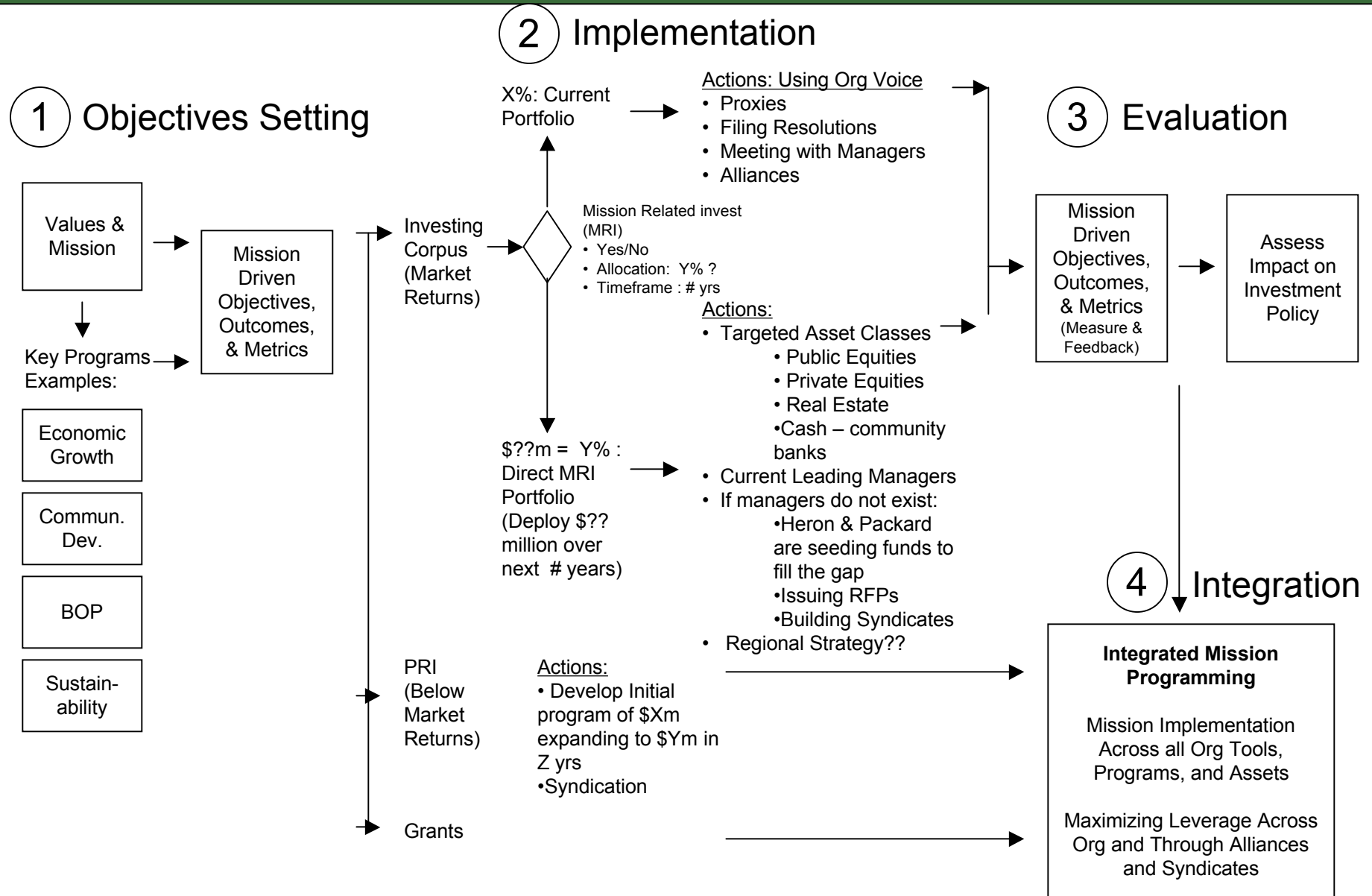


# MRI Implementation Strategy

# MRI Spans a Set Actions – Ranging In Impact, Commitment, & Pro-Activity



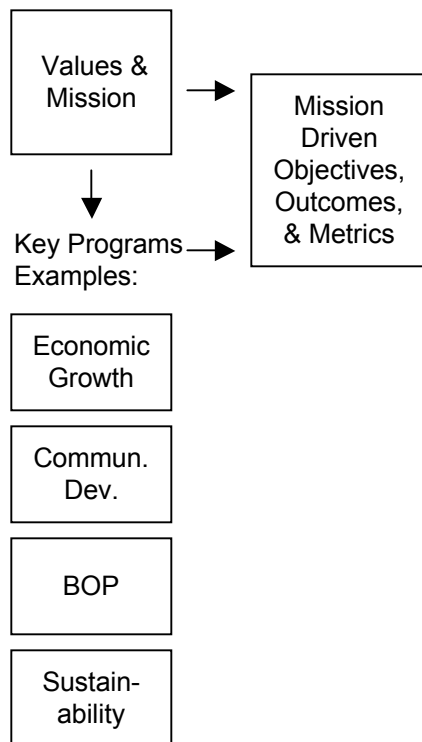
# Implementing a Mission Related Investing Strategy



# Implementing a Mission Related Investing Strategy

## Getting Started: ① Objectives Setting

### ① Objectives Setting

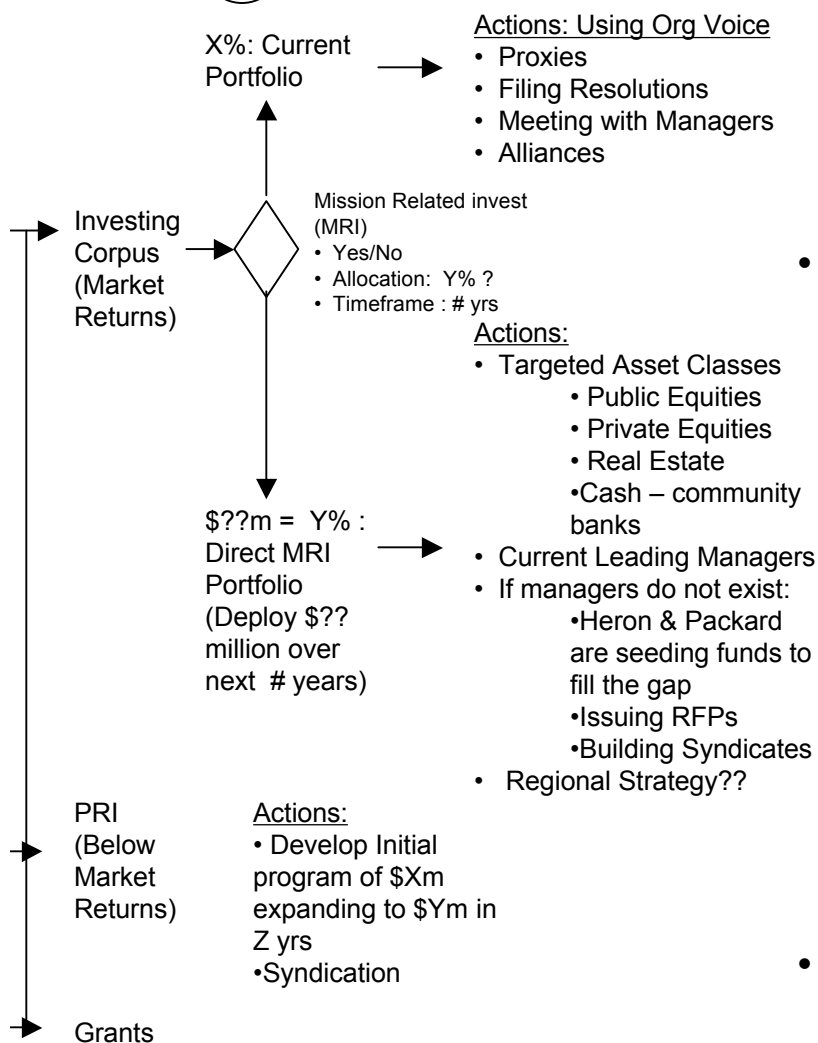


- Linking Core Organization Values and Mission
  - Example: Sustainability
  - Example: Entrepreneurship
  - Example: Community Development
  - Example: Emerging Markets
- To the Organization's strategic Programs
- **Example Objectives** (can be broad or specific):
  - Developing  $x$  % or unit growth in affordable housing in  $y$  years
  - Reducing waterborne pollution
  - Reducing carbon emissions by  $x\%$  in  $y$  years.
    - Encouraging companies to sign up for voluntary commitments to these objectives
  - Fostering innovations in carbon reduction and resource efficiencies
  - Building sustainable industries
  - Enabling job growth in local communities
  - Supporting businesses that do not harm bio-diversity

# Implementing a Mission Related Investing Strategy

## Getting Started: ② Implementation

### ② Implementation

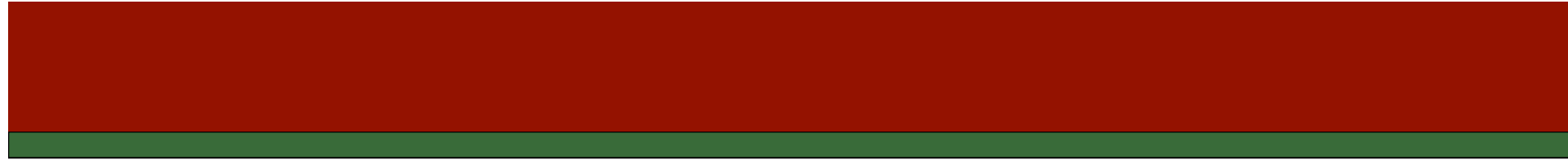


- **Low-Hanging Fruit (for current portfolio – the X%)**
  - Negative screens and proxy voting are bare minimums for implementing MRI strategy, but do not guarantee impact
  - Filing shareholder resolutions
  - Advocating for ESG reporting from all managers
  - Community bank deposits
- **High Impact Investing Opportunities (for direct MRI portion of corpus – the Y%)**
  - Target asset classes with large product volume (assets under management)
    - Public equity
    - Private Equity
  - Target asset classes with very clear impact potential:
    - Real estate
    - Private Equity
  - Develop direct investment capabilities
    - Structured debt portfolio in tailored investment opportunities
  - Create product where necessary
  - Consider Social Enterprise Funds as a potential fit with MRI financial criteria
- **Develop active PRI (program related investments) portfolio if not exist already**

# Sample Managers For The Direct That Potentially Fit a MRI Mandate in Sustainability

- Public Equity
  - UBS – Eco-Performance Fund
  - Trillium
  - Generation
  - Rhumblin
  - Accuity
- Inflation Hedge
  - Timber: Forest Capital, Global Forest Partners
  - Real Estate: Cherokee, Revival, Kennedy
- Carbon Fund
  - Climate Change Capital
  - EcoSecurities
- VC/PE
  - Nth Power
  - Enertech
  - NGEN
  - Rockport
  - Khosla





# Timetable

## Example Summary Three Year Implementation Timetable

Initial	Year 1	Year 2	Year 3
Set Org MRI Objectives and Allocation	Begin sourcing Fund Managers for MRI Allocation	Evaluation of the organization's MRI program (Year 1 performance)	Evaluation of the organization's MRI program (Year 2 performance)
Join the 2% Campaign spearheaded by MMT, Anne E. Casey and F.B. Heron	Put in place facilities and processes to exercise organization "voice" in current portfolio (proxy, resolution, etc)	Assess organizational impact & implications for changes in foundation processes, policies and structure.	
Evaluate the opportunity to execute a "regional MRI component" if org has regional mission	Develop active PRI program		
Assess PRI capabilities	Join a foundation led Consortium to fund an academic center for MRI practices		
	Join a Consortium to influence the gatekeepers		



# Issues to Consider

# Multiple Issues & Risks in MRI

## Issues for Consideration

1. Competency gaps in terms of social/enviro impact assessment will persist, making risk-impact-adjusted return calcs difficult.
2. Volume of extra-financial info is enormous and non-standardized approaches to mainstream integration will make assessing impact difficult.
3. Cultural shifts at foundations may prove difficult to manage when implementing integrated mission programming strategy across all capital types: market-rate, below market-rate and grants.
4. Short-term focus incentives for investment professionals.
5. MRI asset allocation and manager selection tools never fully mature or mainstream

## About Meyer Memorial Trust

Meyer Memorial Trust was created by the late Fred G. Meyer, who built the chain of retail stores bearing his name throughout the Pacific Northwest. When Mr. Meyer died in 1978 at the age of 92, his will established the Trust, which began operating in 1982. Meyer Memorial Trust is a private, independent foundation representing Mr. Meyer's personal philanthropy. The Meyer Trust is not connected in any way with Fred Meyer Inc., the retail enterprise.

The Meyer Memorial Trust makes grants to qualified tax-exempt applicants in Oregon and Clark County, Washington. The Trust operates three programs: Strategic Initiatives, Grants, and Program Related Investments. Specific information, including grant application guidelines for each program, is available at this website. Not favoring a particular field of interest, the Trust awards grants in arts and humanities, education, health, social welfare, community development, and environmental conservation and restoration.

## About Equilibrium Capital Group

Founded in 2007, Equilibrium Capital Group invests in and partners with entrepreneurs to build companies in multi-hundred billion dollar sectors that are being transformed by global sustainability trends. We target high growth, revenue generating companies that are both capitalizing on these trends, and actively catalyzing innovative solutions to the disruptions created by these trends. We focus in the areas of green building, food & agriculture, and resource & waste management. As these sectors are being transformed by changing consumer needs, corporate strategies, environmental factors, and government regulation and incentives, we see opportunity.

The Equilibrium Capital team is comprised of investors and company builders, with extensive networks in the cleantech and sustainability areas, but perhaps most importantly, we strive to be the kind of team that entrepreneurs seek out to help grow their successful firms into the leading companies that deliver a sustainable future.

We are based in Portland, Oregon one of the epicenters of sustainability; a deep resource pool of executives, leading companies & institutions, innovations, and investment opportunities.

Contact: [baratoff@eq-cap.com](mailto:baratoff@eq-cap.com) for further information.

## Equilibrium Capital Group – Our Commitment

As part of our commitment to be a catalyst for change, Equilibrium Capital Group agreed to conduct this independent study for Meyer Memorial Trust. Equilibrium believes that the growing interest in mission related investing is indicative of the innovation and disruption that the macro trends of environmental and social sustainability bring to the financial services industry. Financial service professionals will be increasingly asked to reconcile what Equilibrium calls the dichotomy of commerce and conscience. Part of Equilibrium's mission as an asset manager is to not only deliver compelling financial returns, but also contribute meaningful thought to the dialogue regarding this dichotomy. In order to execute on these two goals, cultivating partnerships that heretofore have been unconventional is essential.



# Appendices



# Appendix A: MRI Actions and Instruments

# Numerous Investment Vehicles Exist For Deploying Capital When Implementing MRI

## Mission Investment Asset Classes

Debt												
Conditional Investments		Deposits		Loans					Fixed Income Securities			
Loan Guarantee	Recoverable Grant	Insured Deposit	Linked Deposit	Senior Loan	Subordinated Loan	Line of Credit	Senior Loan Fund	Subordinated Loan Fund	Bond	Bond Fund	Mortgage Backed Security	Other Asset Backed Security

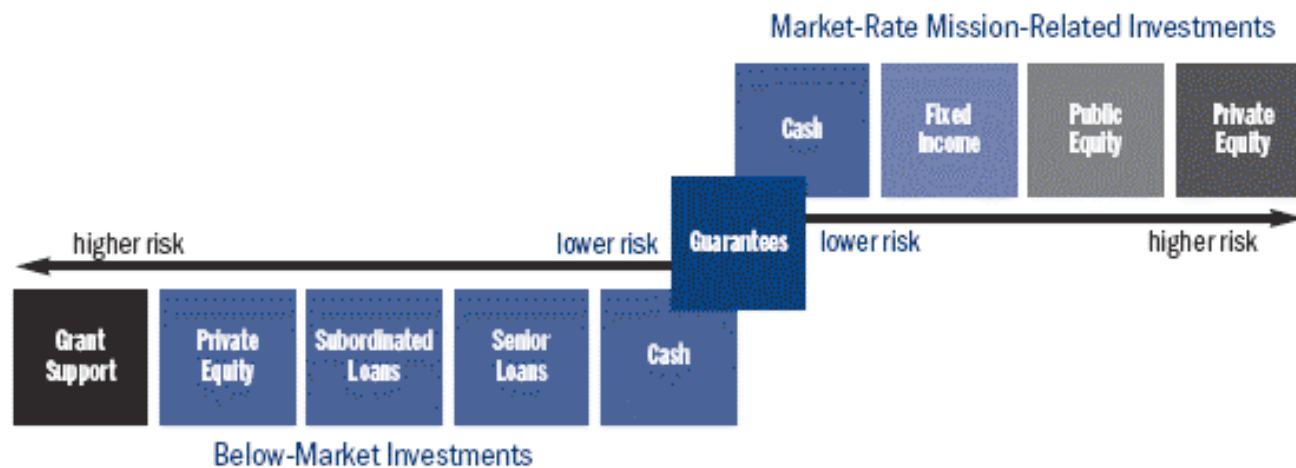
Equity						
Real Estate		Public Equity		Private Equity		
Real Estate (individual investments)	Real Estate Fund	Public Equity Fund (includes SRI Funds)	Direct Public Equity (individual companies)	Direct Private Equity (individual companies)	Private Equity Fund	Venture Capital Fund

Notes: This study collected data on at least one investment in each of these asset classes except Other Asset Backed Securities and Direct Public Equity. See the Appendix for definitions of each asset class.

Source: FSG Impact Advisors

# An Example of The MRI Asset Classes and Capital Categories Combined: F.B. Heron's Mission-Related Investment Continuum

## F.B. Heron's Mission-Related Investment Continuum



# Combining the Capital Categories and Vehicles Yields a Set of Tools to Implement MRI

Asset Class	Categories of Capital		
	Market-Rate	Below market-rate	Non-Financial Return
<b>Public Equity</b>	<ul style="list-style-type: none"> <li>•Screen ( - / +)</li> <li>•Manager selection</li> <li>•Proxy voting / Shareholder advocacy</li> </ul>	<ul style="list-style-type: none"> <li>•PRI new manager or ESG research in the space</li> </ul>	NA
<b>Inflation Hedge</b>	<ul style="list-style-type: none"> <li>•Screen ( - / +)</li> <li>•Manager selection</li> <li>•Direct real estate</li> </ul>	<ul style="list-style-type: none"> <li>•PRI new manager</li> <li>•PRI real estate</li> </ul>	<ul style="list-style-type: none"> <li>•Project specific grants</li> <li>•Seed grants</li> <li>•R&amp;D grants</li> </ul>
<b>VC/PE</b>	<ul style="list-style-type: none"> <li>•Screen ( - / +)</li> <li>•Direct investments</li> <li>•Microfinance</li> </ul>	<ul style="list-style-type: none"> <li>•Community Development VC</li> <li>•Social enterprise VC and PE</li> </ul>	<ul style="list-style-type: none"> <li>•Grants to venture philanthropy funds</li> <li>•Seed grant to launch new fund</li> </ul>
<b>Fixed Income</b>	<ul style="list-style-type: none"> <li>•Screen ( - / +)</li> <li>•Manager selection</li> <li>•Microfinance</li> </ul>	<ul style="list-style-type: none"> <li>•Community Development Investment Notes, Loan Funds</li> <li>•Direct lending to non-profits (PRI)</li> <li>•Long-term recoverable grants</li> </ul>	<ul style="list-style-type: none"> <li>•Seed grant to launch new fund</li> </ul>
<b>Cash</b>	<ul style="list-style-type: none"> <li>•Certificates of deposit (CRA banks)</li> <li>•Community Development Financial Institutions – Banks, Credit Unions</li> <li>•Linked deposits</li> <li>•CDARS</li> </ul>	<ul style="list-style-type: none"> <li>•Deposits with community development banks</li> <li>•Loan guarantee</li> </ul>	NA

# Examples of Implementation



	Screening (- / +)	Manager Selection
Implementation	<ul style="list-style-type: none"> <li>•<b>Negative</b> = eliminating sectors/asset classes based on institutional mission (e.g. tobacco, weapons oil &amp; gas)</li> <li>•<b>Positive</b> = emphasize industries creating solutions to ESG issues (e.g. renewable energy, recycling)</li> </ul>	<ul style="list-style-type: none"> <li>•Incorporate ESG into investment mandates</li> <li>•Identify ESG research purveyors</li> <li>•Request ESG information on portfolio</li> <li>•Assess attitudes/beliefs towards your institution's missions</li> <li>•Assess willingness to customize separate accounts</li> </ul>
Examples	<p><b>Jesse Smith Noyes:</b></p> <ul style="list-style-type: none"> <li>–<b>Mission:</b> Sustainable Ag</li> <li>–<b>Screen:</b> GMO; synthetic pesticides</li> </ul> <ul style="list-style-type: none"> <li>–<b>Mission:</b> Toxic Emissions</li> <li>–<b>Screen:</b> Nuclear; revenue from mountain top mining</li> </ul>	<p><b>CalSTRS:</b></p> <ul style="list-style-type: none"> <li>–<b>Mission:</b> Greenwave Initiative designed to develop clean technology</li> <li>–<b>Mgr Selection:</b> NGEN, a clean tech VC firm (one of many mgrs selected)</li> </ul>

# Examples of Implementation

	Proxies / Shareholder Advocacy	Request for Proposal
Implementation	<p><b>Proxy</b> - Actively vote shares on all or particular issues</p> <ul style="list-style-type: none"> <li>–Create policy for entire portfolio on certain ESG issues (e.g. human rights, carbon footprint) that is consistently executed</li> </ul> <p><b>Advocacy</b> - Must own \$2000 worth or 1% of shares for 1 yr prior to filing shareholder (i.e. can not do through mutual fund)</p> <ul style="list-style-type: none"> <li>–File resolutions that are promote institutional mission</li> </ul>	<ul style="list-style-type: none"> <li>•Developing an RFP process to conduct outreach to identify new product</li> <li>•Incorporate mission relevant ESG factors into RFP</li> <li>•Require ESG reporting</li> </ul>
Examples	<p><b>General:</b></p> <ul style="list-style-type: none"> <li>–<b>Mission:</b> climate change</li> <li>–<b>Resolution:</b> 43 climate change resolutions filed in 07 proxy season – 15 led to positive action</li> </ul> <p><b>Swarthmore:</b></p> <ul style="list-style-type: none"> <li>–<b>Mission:</b> gay rights</li> <li>–<b>Resolution:</b> prompt Lockheed Martin provide domestic partnership benefits</li> </ul>	<p><b>F.B. Heron:</b></p> <ul style="list-style-type: none"> <li>–<b>Mission:</b> Community development</li> <li>–<b>RFP:</b> To find market-rate fixed-income managers capable of creating separate account product aligned with mission</li> </ul>



# Public Equity Actions & Instruments

***MRI options for Public Equity are primarily comprised of market rate opportunities that maintain traditional MPT benefits.***

	<b><i>Actions &amp; Instruments</i></b>	<b><i>Example Firms</i></b>
 Market Driven	<ul style="list-style-type: none"> <li>➤ Screening</li> <li>➤ Divestment</li> <li>➤ Manager Selection</li> <li>➤ Shareholder Advocacy               <ul style="list-style-type: none"> <li>•ICCR, Swarthmore, Investor Network on Climate Risk have had resolutions passed with Coca Cola, Lockheed Martin, and 4 US electric power companies (REC 2007)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ UBS</li> <li>➤ Generation</li> <li>➤ Trillium</li> <li>➤ Domini</li> <li>➤ Rhumblin</li> <li>➤ Accuity</li> <li>➤ Calvert</li> </ul>
 Socially Driven	<p>NA – If I give up return points or diversification benefit I can not quantify impact directly.</p>	<p>NA</p>



# Fixed Income & Cash Actions & Instruments

***Foundations can find alternatives for cash management, but fixed income appears to lack enough product for institutional investor appetites.***

	<b><i>Actions &amp; Instruments</i></b>	<b><i>Example Firms</i></b>
 	<ul style="list-style-type: none"> <li>➤ Cash – deposit with bank that makes impact loans; insured deposits</li> <li>➤ Fixed Income                             <ul style="list-style-type: none"> <li>• Manager selection</li> <li>• Screening/Divestment</li> <li>• Micro Finance initiatives</li> <li>• Create direct structured debt capabilities</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ Cash                             <ul style="list-style-type: none"> <li>• New Resource Bank</li> <li>• Shorebank</li> <li>• Other?</li> </ul> </li> <li>➤ Fixed Income                             <ul style="list-style-type: none"> <li>• General lack of product</li> <li>• F&amp;C (only manager we have heard of)</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>➤ PRI debt</li> <li>➤ Community Investment Notes</li> </ul>	<ul style="list-style-type: none"> <li>➤ Calvert Foundation</li> </ul>

# Inflation Hedge Actions & Instruments

**Green building and timber are the largest traditionally oriented investment opportunities, but product volume appears low. Carbon investing and divesting Oil & Gas are other options.**

	<b>Actions &amp; Instruments</b>	<b>Example Firms</b>
 	<ul style="list-style-type: none"> <li>➤ Green building (REITS or direct)</li> <li>➤ Invest in carbon</li> <li>➤ Keep TIPS</li> <li>➤ Invest in sustainable timber</li> </ul>	<ul style="list-style-type: none"> <li>➤ GMO</li> <li>➤ Global Forest Partners</li> <li>➤ Forest Legacy</li> <li>➤ Forest Capital</li> <li>➤ Revival</li> <li>➤ Kennedy</li> <li>➤ Cherokee</li> </ul>
	<ul style="list-style-type: none"> <li>➤ Divest Oil &amp; Gas (O&amp;G)</li> <li>➤ Divest traditional commodities</li> <li>➤ PRI</li> <li>➤ Direct loans to non-profits providing valuable services to industry</li> </ul>	<ul style="list-style-type: none"> <li>➤ EcoTrust</li> </ul>



# Hedge Fund and Absolute Return Actions & Instruments

***Given lack of transparency with hedge fund and absolute return managers, it is difficult to assess options.***

	<b><i>Actions &amp; Instruments</i></b>	<b><i>Example Firms</i></b>
Market Driven	?	?
Socially Driven	?	?

# VC & PE Actions & Instruments

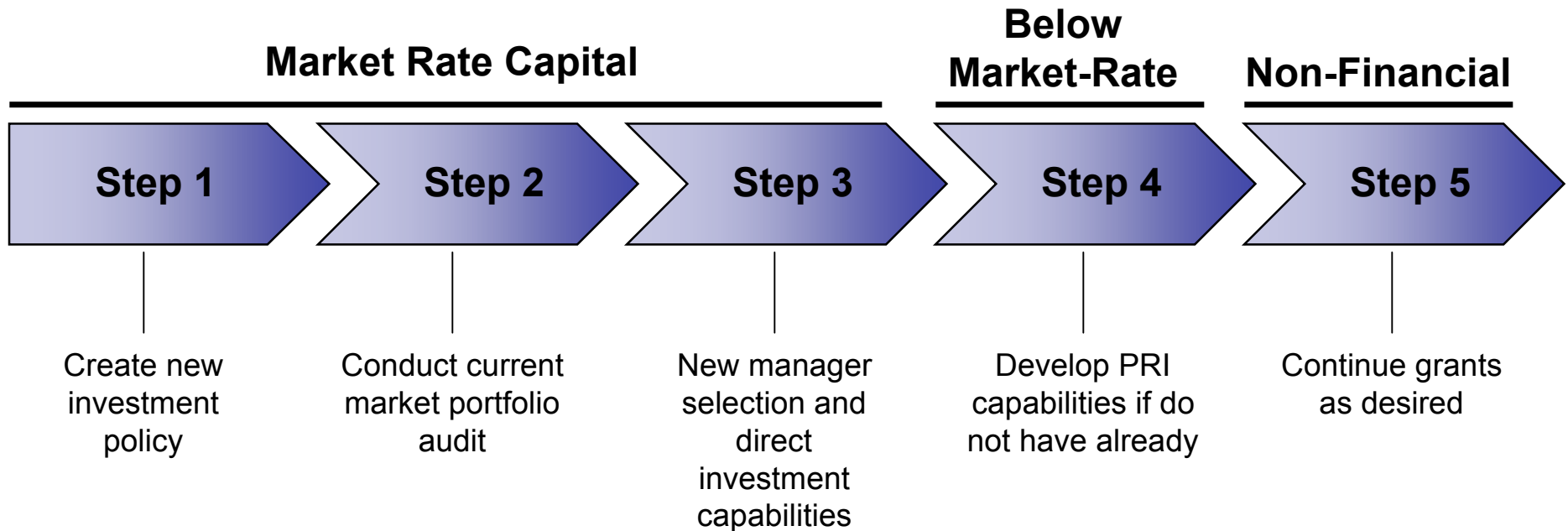
**Multiple market driven and social agenda options exist for VC & PE equity manager selection.**

	<b>Actions &amp; Instruments</b>	<b>Example Firms</b>
 Market Driven	<ul style="list-style-type: none"> <li>➤ Make direct investments</li> <li>➤ Manager selection</li> <li>➤ Clean tech is largest opportunity, but a potential bubble may exist in the space over the course of the next 12 months.</li> <li>➤ PE appears dominated by renewable energy generation interest</li> </ul>	<ul style="list-style-type: none"> <li>➤ SJF</li> <li>➤ Good Capital</li> <li>➤ Khosla Ventures</li> <li>➤ NGEN</li> <li>➤ Nth Power</li> <li>➤ Enertech</li> <li>➤ Riverstone and Arclight</li> </ul>
 Socially Driven	<ul style="list-style-type: none"> <li>➤ Enviro/Social oriented funds or vehicles</li> <li>➤ Community Development Venture Capital</li> </ul>	<ul style="list-style-type: none"> <li>➤ Good Capital</li> <li>➤ Solstice</li> <li>➤ Commons</li> <li>➤ Acumen</li> <li>➤ E+Co</li> <li>➤ Pacific Community Ventures</li> </ul>



## Appendix B: MRI Strategy Implementation – Other Steps for Consideration

# 5 Steps



Continually assess organizational strategy, capabilities and resources (human and financial) to successfully implement MRI strategy across the whole foundation. Adjust as needed.

## Step 1: The New Investment Policy

1. Create new investment policy
  - a. Set governing investment philosophy on how missions will be incorporated into investments
    - Decide what ESG factors are relevant to your missions
    - Decide metrics that embody your missions and create investment strategy around those
  - b. Set screens on industries / managers not aligned with mission
    - (-) Exclude anything externalizing environmental costs, such as oil & gas, extractive mining, etc.
    - (+) Target investments doing good for environment, such as renewable energy, companies working to reduce carbon footprint or better environment, companies building affordable housing, etc.
  - c. Develop proxy voting guidelines (e.g. decide what issues you will vote on and how) that can be communicated with managers
  - d. Develop manager selection criteria (see step 3 for detail)

## Step 2: The Current Portfolio Audit

2. Audit current market portfolio to assess mission alignment
  - a. Adjust portfolio as needed based on investment policy set in step 1
    - Engage current managers
      - Rewrite investment mandates based on your investment policy
      - Adjust holdings in separate accounts
      - Divest if necessary
      - Ask them about ESG analysis capabilities
    - Engage ESG research providers (see Appendix A) to help assess how ESG can be incorporated into portfolio or with certain managers
    - Seek outside consultant help if necessary

## Step 3: New Manager Selection

3. Develop new manager selection criteria
  - a. Select based ability to integrate ESG into financial analysis
  - b. Select based on attitudes towards mission you care about (e.g. sustainability)
    - See Appendix D
  - c. Require ESG reporting on fund
  - d. Create metrics (other than financial return) to assess performance
    - Use ESG oriented metrics from investment policy
  - e. Issue RFP to stimulate market and create product you desire
    - Understand that track records may not always be long
    - Understand you may need be creative with managers to get product you desire
  - f. Seek gatekeeper or another intermediary for help, such as:
    - Aquillian
    - Cambridge
    - FSG
    - Boston College Institute for Responsible Investment
  - g. Decide if direct investing is an option for the foundation
    - May dovetail with PRI program

## Step 4: Develop Robust PRI Program and Consider PRIs to Promote MRI Agenda

4. Develop a strong PRI program – learn by example from other foundations (Meyer Memorial Trust, MacArthur, Packard, Rockefeller) if not already developed
  - a. PRIs and other below market-rate investments should be considered where possible to augment MRI strategy
  - b. Given that the majority of market rate instruments will likely be national in scope pending on implementation approach, PRIs could be of local focus where possible
    - PRIs to organizations promoting sustainability, affordable housing, economic development of region, environmental protection, diversity, etc. Many options exist across value chain of each mission...
      - Service providers (e.g. clean edge)
      - Trade associations
      - Carbon management
      - Sustainable media orgs
      - Conservation

## Step 5: Continue With Grants As Desired

5. Most foundations have a strong history of grant giving. In addition to current grant programs, the foundation could consider providing grants to organizations attempting to advance field of MRI.

## Appendix C: ESG Research Providers

- **EIRIS** (*UK*)
- **GES Services** (*Sweden*)
- **Innovest** (*international*)
- **Institutional Shareholder Services** (*international*);
- **KLD Research and Analytics** (*U.S.*)
- **Michael Jantzi Research Associates** (*Canada*)
- **SAM Group** (*Switzerland*)
- **SiRi Company** (*Switzerland*)
- **SIRIS** (*Australia*)
- **Vigeo** (*France*).

## Appendix D: Proxy / Shareholder Resolution Resources

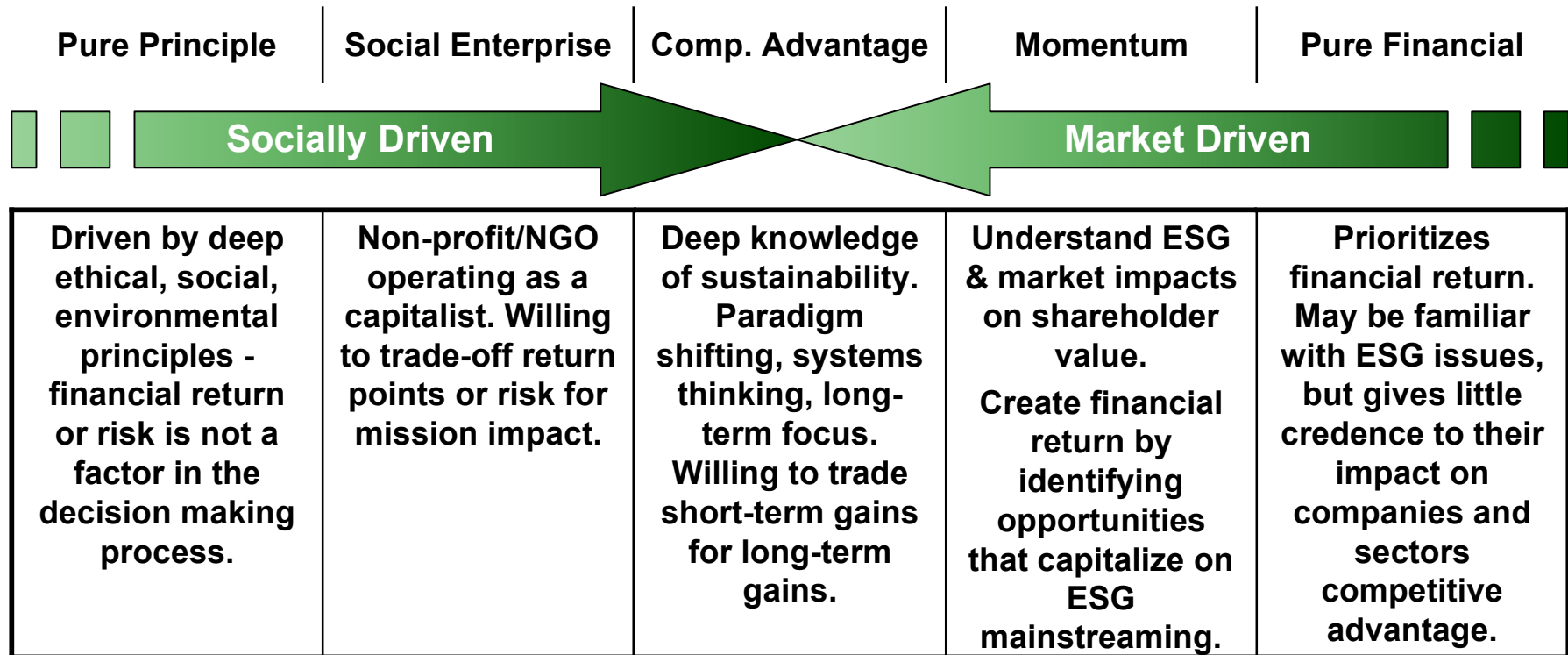
- First-time filers often work with experienced shareholder activists who are familiar with SEC regulations.
- First-time filers can file a proposal by joining an existing group of filers as a co-filer by lending shares to the coalition.
- Some coalitions: CERES, the Interfaith Center on Corporate Responsibility (ICCR), As You Sow Foundation.
- *Unlocking the Power of the Proxy: How Active Proxy Voting Can Protect Endowments and Boost Philanthropic Missions* – Rockefeller Philanthropy Advisors & As You Sow Foundation
- Proxy Season Reviews – e.g. Mercer Consulting, Rockefeller, As you Sow
- Proxy service providers: ISS or Proxy Governance Inc. (PGI)

## Appendix E: Fund Managers & Intermediary Resources

- See FSG Aggregating Impact report on and list of over 1000 intermediaries spanning market-rate and below-market rate capital categories
- Aquillian Investments, LLC
- Cambridge Associates, LLC
- Peers: F.B. Heron, Anne E. Casey, CalSTRS, CalPERS etc.
  - Good source for gatekeeper information
  - Good source for manager names

# Appendix F: Preliminary Manager Selection Criteria

## Preliminary Manager Selection Framework - Based on attitudes towards and understanding of sustainability.





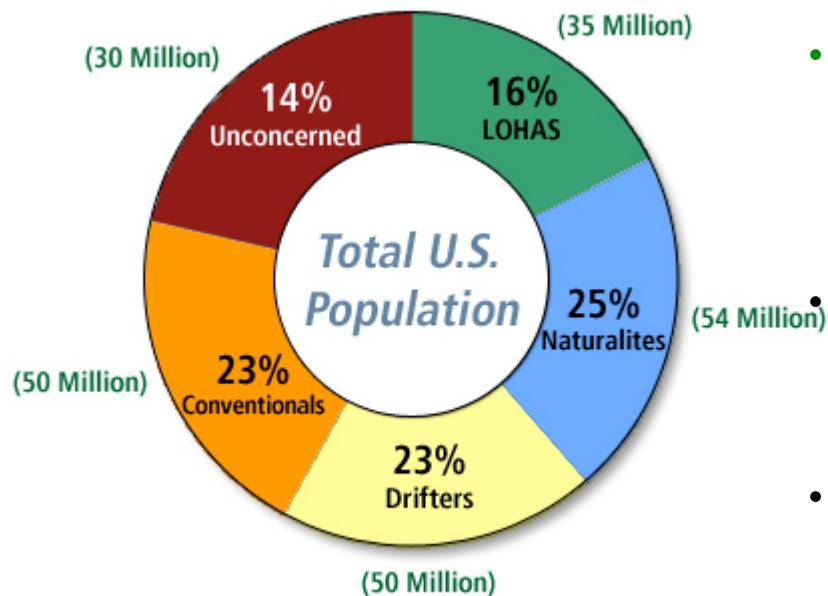
# Appendix G: Sustainability Market Data

# Sustainability's Macro Drivers Include Shifting Priorities Among Consumers, Regulation, Corporate Strategy and Investors

- **Consumers**
  - 41% of US adults potentially inclined to make ESG motivated purchase decisions (Natural Marketing Institute 2007)
  - the LOHAS market is \$208bn and growing
- **Corporate Strategy**
  - 93% of 391 CEOs signing the UN Global Compact are integrating ESG into their firms' core strategy more compared to 5 years ago (McKinsey 2007)
- **Policy**
  - Nearly a dozen cap-and-trade compliance proposals are being considered by US Congress ... California and the Northeastern states (RGGI) moving on their own
  - 53 cities offer incentives or set requirements for green building design (Deloitte)
  - 11 federal agencies, 17 states, and 10 countries have passed green building requirements (Deloitte)
  - Renewable Portfolio standards in 26 states
- **Investors**
  - Impacts all traditional sectors of investments
  - \$2.4 billion invested in 2006, roughly 9.4% of total VC invested (Clean Edge)
  - SRI 2.3 trillion figure (verify actual amount in funds from SIF report) – breakdown by CDVC, screens and social PE/VC
  - Current CDM demand not including any potential US demand - 3.36 billion tCO<sub>2</sub> to 2012 (Point Carbon)
- **Demographics and Natural Resource Constraints**
  - Population growth
  - Developing world growth – Bottom of Pyramid: 4bn living on less than \$2 a day
  - 1/3 of the world has no access to sanitation facilities
  - Only 1% of the earth's water resources are available for human use

# 41% of US Adults (89 million) Make Environmental and Socially Motivated Purchase Decisions

Natural Marketing Institute  
2006 Consumer Segmentation Model  
(% general population U.S. adults)



Source: Natural Marketing Institute 2007

- **LOHAS** – Lifestyles of Health & Sustainability – buy green and take action; behave like environmental stewards
- **Naturalites** – organic/natural focus in food & beverage, not politically committed to the environmental movement, don't purchase green durable goods
- **Drifters** – good intentions, but many reasons/factors influence decision over environment (e.g. price sensitive)
- **Conventionals** – no green attitudes, but “municipal” mainstream behaviors (e.g. recycling, energy efficiency)
- **Unconcerned** – environment and society not priorities

# Consumers, Employees and Governments Influencing Corporate Response to ESG & Competitive Advantage

93% of 391 CEOs signing the UN Global Compact indicate they are integrating ESG into their firms' core strategy more compared to 5 years ago (McKinsey 2007). Here is why:

## Stakeholder Drivers

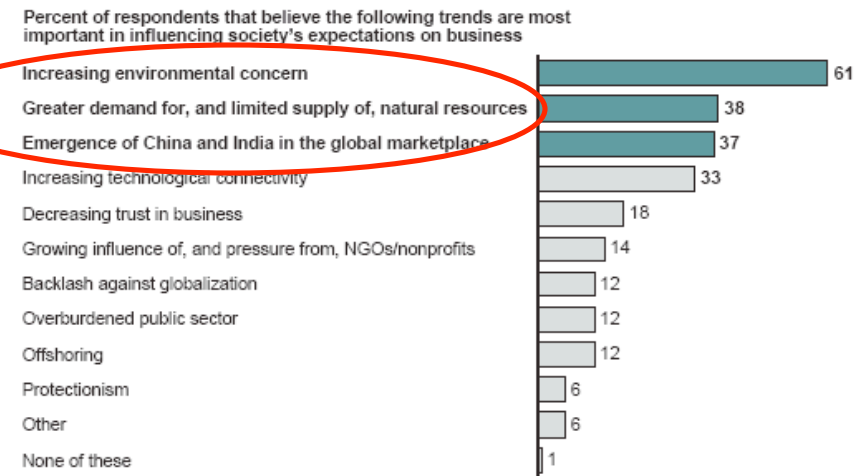
Exhibit 2: Stakeholder impact



Source: Feb 2007 McKinsey survey of 391 UN Global Compact participant CEOs

## Trend Drivers

Exhibit 3: Trends influencing society's expectations on business



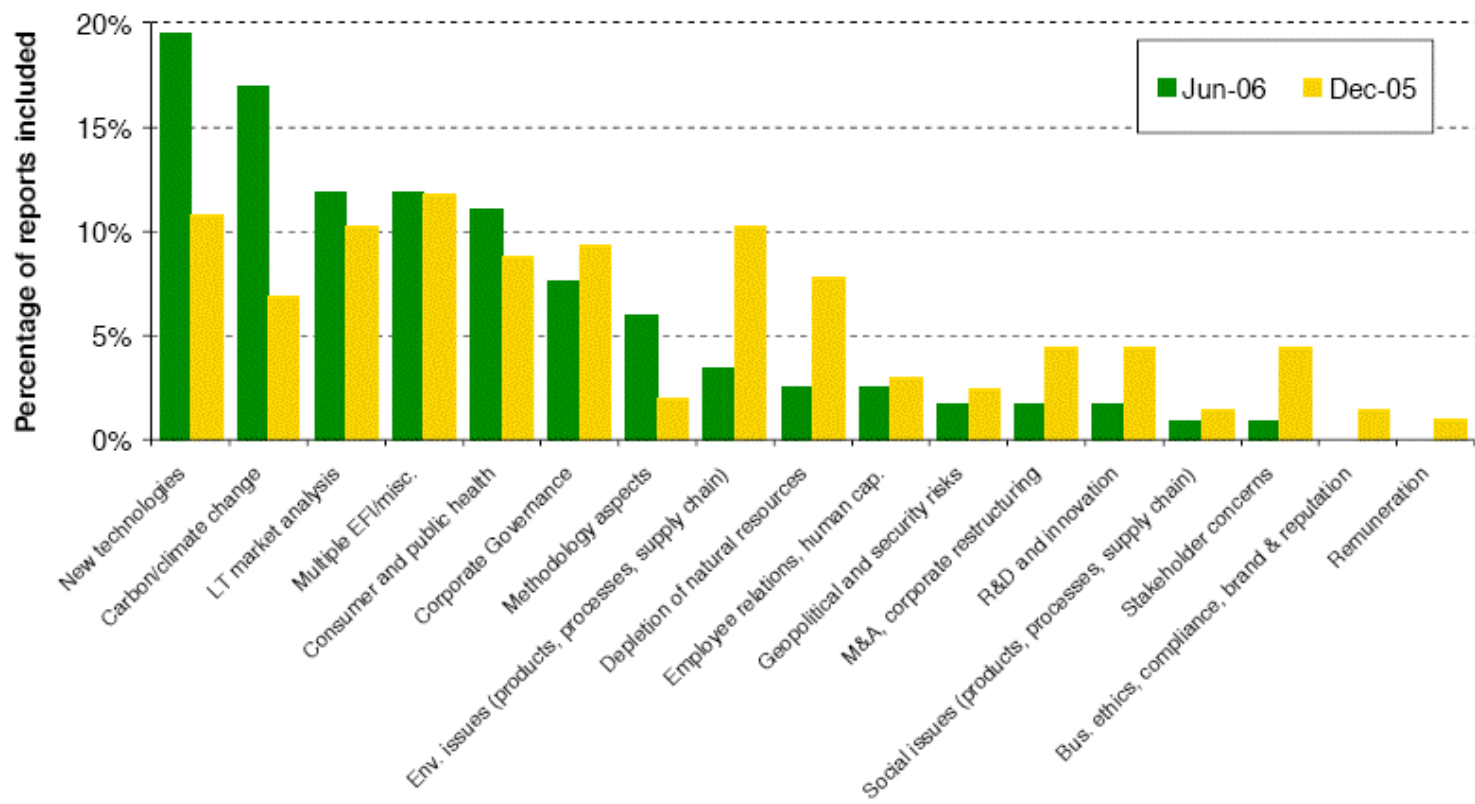
Source: Feb 2007 McKinsey survey of 391 UN Global Compact participant CEOs

Source: McKinsey&Company 2007  
"Shaping New Rules of Competition"

Source: McKinsey&Company 2007  
"Shaping New Rules of Competition"

# Climate Change is One of The Leading Non-Financial Factors Covered by Sell-Side Analysts – Corporate Governance Ranks Surprisingly Low

Distribution of reports by EFI (Jun-06 and Dec-05)

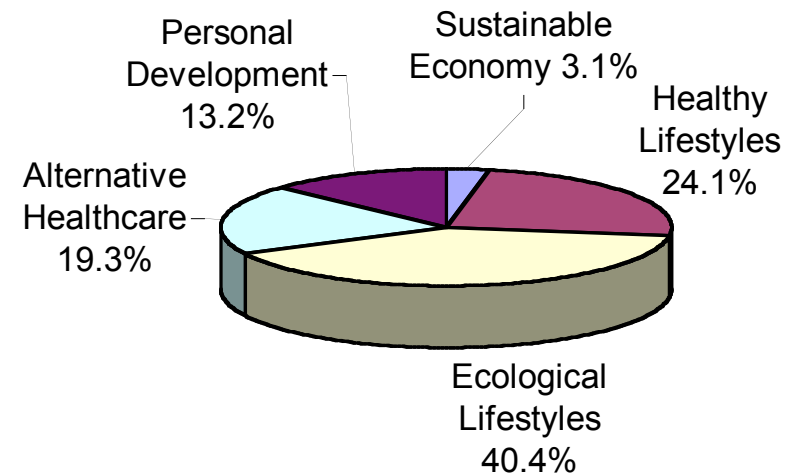


Source: EAI 2006; includes 27 institutions representing over \$2.4 trillion

# Healthy and Ecological Lifestyles are 65% of The \$208 Billion US LOHAS Market

- **Healthy Lifestyles** (e.g. natural, organics, food & beverage, dietary supplements, etc.)
- **Ecological Lifestyles** (e.g. ecological home and office products, organic/recycled products, enviro appliance, etc.)
- **Sustainable Economy** (e.g. green building & industrial goods, renewable energy, SRI, alt transport, etc.)
- **Alternative Healthcare** (e.g., acupuncture, homeopathy, etc)
- **Personal Development** (e.g. mind, body & spirit products like CDs & books)

2006 LOHAS Markets (\$208 bn)



## The UK Ethical Market Was \$60 billion in 2005, Up 11% From 2004

*The UK market is dominated by banking and investment product (>\$ 20billion), followed by organic food, fair trade, energy efficiency, household products, and local shopping (all approximately \$3 billion).*

### UK Ethical Consumer Market (\$ bn)

	<u>2004</u>	<u>2005</u>	<u>Growth Rate</u>	<u>% Total</u>
Ethical Food	\$9.2	\$10.8	18.1%	18.5%
Green Home	\$7.5	\$8.3	10.6%	14.2%
Eco-travel	\$3.4	\$3.6	4.7%	6.1%
Personal Prod	\$2.5	\$2.6	4.9%	4.5%
Community	\$8.9	\$10.1	13.3%	17.3%
<b>Finance</b>	<b>\$21.2</b>	<b>\$23.1</b>	<b>8.7%</b>	<b>39.5%</b>
<b>TOTAL</b>	<b>\$52.8</b>	<b>\$58.5</b>	<b>11.0%</b>	<b>100.0%</b>

Source: 2006 Ethical Consumer Report

# Appendix H: Selected Bibliography

- Amnesty International and Responsible Endowments Coalition. Integrating Environmental, Social and Governance Issues Into Institutional Investment - A Handbook for Colleges and Universities. 2007.
- Bolton, Margaret. Foundations and social investment: making money work harder in order to achieve more. October 2005.
- Boston College Institute for Responsible Investment. Handbook on Responsible Investment Across Asset Classes. November 2007.
- Carbon Trust. Climate Change and Shareholder Value. March 2006.
- Cooch, Sarah and Kramer, Mark. Aggregating Impact: A Funder's Guide to Mission Investment Intermediaries. FSG Impact Advisors. November 2007.
- Cooch, Sarah and Kramer, Mark. Compounding Impact: Mission Investing by US Foundations. FSG Impact Advisors. March 2007.
- Cooch, Sarah and Kramer, Mark. The Power of Strategic Mission Investing. Stanford Social Innovation Review. Fall 2007.
- Dietel, William M. F.B. Heron Foundation. Mission Stewardship. Aligning Programs, Investments, and administration to achieve impact. 2006.
- Dunn, Brian and Tasch, Edward. Mission Related Investing: Strategies for Philanthropic Institutions. Investor's Circle. May 2001.
- Emerson, Jed, et al. The Investor's Tool Kit: Generating Multiple Returns through a Unified Investment Strategy. 2004.
- Emerson, Jed. A Capital Idea: Total Foundation Asset Management and The Unified Investment Strategy. 2002.
- Emerson, Jed and Little, Tim. The Prudent Trustee - The Evolution of the Long-term investor. Generation Investment Foundation. 2005.
- Emerson, Jed; Freundlich, Tim; and Fruchterman, Jim. Nothing Ventured, Nothing Gained - Addressing the Critical Gaps in Risk-Taking Capital for Social Enterprise.
- Enhanced Analytics Institute. Strengthening Institutional Commitment. June 2006.

# Appendix H (continued): Selected Bibliography

- Goldman Sachs. Introducing GS SUSTAIN. June 2007.
- Guyatt, Danyelle. A Summary of the findings of a survey into: "Investment beliefs relating to corporate governance and corporate responsibility. September 2005.
- Hudson, Julia. The Social Responsibility of the Investment Profession. Research Foundation of the CFA Institute. July 2006.
- IIGC, Mercer Consulting, Carbon Trust. A Climate for Change: A trustee's guide to understanding and addressing climate risk. August 2005.
- Jantzi, Michael. Investing in Change: Mission-Based Investing for Foundations, Endowments and NGOs. 2003.
- Kinder, Peter D. The Virtue of Consistency: The Gates Foundation & Mission-Based Investing. KLD. 2007.
- Kramer, Mark and Porter, Michael. Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility. Harvard Business Review. December 2006.
- Llewellyn, John and Chaix, Camille. Lehman Brothers. The Business of Climate Change II: Policy is accelerating, with major implications for companies and investors. September 2007.
- Llewellyn, John. Lehman Brothers. The Business of Climate Change: Challenges and Opportunities. February 2007.
- McKinsey & Company. Shaping the New Rules of Competition: UN Global Compact Participant Mirror. July 2007.
- Mercer Consulting and UNEP Finance Initiative Asset Management Working Group. Demystifying Responsible Investment Performance: A review of key academic and broker research on ESG factors. October 2007.
- Mercer Investment Consulting and Social Investment Forum. Defined contribution plans and social responsible investing in the United States. June 2007
- Mercer Investment Consulting. 2007 Fearless Forecast. 2007.
- Mills, Evan. Ceres. From Risk to Opportunity: 2007 Insurers Responses to Climate Change. October 2007.
- Olsen, Sara. Mission Related Investing: A workshop for foundations. Investor's Circle. 2003.
- Price Waterhouse Coopers. Knowing the price, but also the value. Financial Analysts on social, environmental information. September 2005.

## Appendix H (continued): Selected Bibliography

- Price Waterhouse Coopers. Knowing the price, but also the value. Financial Analysts on social, environmental information. September 2005.
- Social Investment Forum Foundation. The Mission in the Marketplace: How Responsible Investing Can Strengthen the Fiduciary Oversight of Foundation Endowments and Enhance Philanthropic Missions. April 2007.
- Social Investment Forum. 2005 Report on Socially Responsible Investing Trends in the United States. January 2006.
- Southern New Hampshire University. A Case Study Expanding Philanthropy: Mission-Related Investing at F.B. Heron Foundation. 2007.
- Trillium Asset Management. Mission-Related Investing for Foundations and Non-Profit Organizations: Practice tools for mission/investment integration. 2007.
- UBS. Climate Change: beyond whether. January 2007
- UNEP Finance Initiative Asset Management Working Group. Show Me the Money: Linking Environmental, Social and Governance Issues to Company Value. 2006.
- World Economic Forum. Mainstreaming Responsible Investment. January 2005.
- [www.sristudies.org](http://www.sristudies.org)