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Foundations align investments with their charitable goals

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In a sharp break from past practice, major charitable foundations are initiating or strengthening efforts to harmonize the social and environmental effect of their endowment investments with their philanthropic goals.

"A head of steam has been created around the issue of 'mission-related investing,' " said Douglas Bauer, senior vice president of Rockefeller Philanthropy Advisors, which consults with foundations. "More and more foundations are wrestling with the issue."

The \$8.5-billion William and Flora Hewlett Foundation, based in Menlo Park, Calif., recently decided to vote shareholder proxies to reflect its charitable aims. When possible, Hewlett's investment choices also will be guided by effect upon society as a whole, not just financial gain. Endowment managers, the foundations said, "see the greatest investment promise in companies with enlightened managements that recognize that sustainable practices and sound employment policies are in the best long-term interest of their companies and shareholders."

The \$6.1-billion John D. and Catherine T. MacArthur Foundation, based in Chicago, formalized a policy for voting shareholder proxies "to reduce or eliminate a substantial social injury caused by a company's actions."

The \$7.8-billion W.K. Kellogg Foundation, based in Battle Creek, Mich., established a \$100-million fund for social and mission-

related investing in the United States and Africa.

"Few foundations have fully realized the potential of what is commonly referred to as 'double-bottom line investing,' " achieving both social and financial returns, said Sterling Speirn, Kellogg's chief executive, when he announced the fund in October. "We want to maximize our social return on the investment front."

The Kellogg Foundation will use the new fund to bolster grant support for needy children, families and communities, said Anne Mosely, vice president for programs. It might invest in education or supermarket development in distressed areas, or in programs to mitigate the sub-prime lending crisis, she said. If successful, the fund would be expanded.

To avoid paying most taxes, foundations generally give away about 5% of their endowments annually and invest the rest. Conventional approaches to fiduciary responsibility have considered endowments separate from charitable aims. Many trustees have avoided investing for social benefit for fear that returns would suffer.

Against the grain of this approach, the Ford Foundation, the nation's second-largest, and some smaller foundations, such as the F.B. Herron Foundation, the Jessie Smith Noyes Foundation and the Nathan Cummings Foundation, have long worked to align their charitable and investment practices.

Foundation executives and analysts said those foundations' efforts and a series of Los Angeles Times articles this year about the investments of the Bill & Melinda Gates Foundation, the world's largest philanthropy, provided much of the impetus for recent changes.

Joshua Humphries, who lectures on philanthropy at Harvard University and founded a research group, the Center for Social Philanthropy, said The Times' reports "sent shock waves through the philanthropy community."

Many trustees finally realized that "if they are serious about social change and social impact . . . they have to look beyond grant making," said Bauer of Rockefeller Philanthropy Advisors. "Everybody now gets it. The light bulb went on."

In 2007, speakers on mission investing packed philanthropy conferences. "If this year is like most years, we will earn more money to dedicate to the enlargement of our endowments than we will give away in grants," Douglas W. Nelson, president of the Annie E. Casey Foundation, said in April at the annual meeting of the Council on Foundations, a leading industry group.

"For many people, inside and outside foundations," Nelson said, "there is something troubling, or at least challenging, in all this."

In 2003, the \$3.1-billion Casey Foundation, based in Baltimore, set aside 3% of its endowment for investments related to its philanthropic mission. In part, the funds have underwritten affordable housing for victims of Hurricane Katrina and financial agencies in low-income areas – augmenting the foundation's grants for such causes.

This year, Nelson challenged other foundations to devote 2% of their assets to mission-related investments in an effort to create a national pool of \$10 billion to be leveraged with as much as \$60 billion more from other sources.

Other large philanthropies have begun exploring mission-related investments.

The \$6.4-billion David and Lucile Packard Foundation in Los Altos, Calif., has long funded "program investments" from grants. This year Packard announced that it would examine "approaches to socially responsible investing" from its endowment, with a goal of learning "where the Foundation can further its mission without meaningfully sacrificing the portfolio's expected return," according to a statement on its website.

The Rockefeller Foundation, with assets of \$3.5 billion, makes endowment investments in operations that reflect its charitable goals, such as renewable energy, and those with a track record in job creation, said Donna Dean, its chief investment officer. "Increasingly, we look for investments that provide a social benefit as well as the financial return we expect."

The \$1.8-billion Doris Duke Charitable Foundation, which funds environmental causes, recently directed its endowment managers to invest in timber only where forests are managed for sustainability, according to the Chronicle of Philanthropy.

Other foundations, such as the Meyer Memorial Trust, have placed some endowment funds in banks that serve communities where the foundations focus their grants, said Doug Stamm, chief executive of the \$730-million foundation in Portland, Ore.

The definition of "fiduciary duty" is evolving, Stamm said. "We're just at the beginning."

The Times reported in January that much of the Gates Foundation's \$35-billion portfolio was invested in companies whose poor records on environmental stewardship, governance or human rights – in some cases involving the exploitation of child slaves – worked counter to the foundation's charitable goals.

After The Times' stories appeared, the Gates Foundation issued a series of statements in which it said it would examine its investment policies – but then backed away.

In early May, a second report by The Times showed that \$22.4 million in investments by the foundation were in companies accused of supporting the Sudanese government. Sudan has been implicated in what the U.S. has called genocide against citizens in its Darfur region. The Times also detailed an investment of \$3.3 billion in one of the Sudan-linked firms by Berkshire Hathaway Inc., whose chief executive, Warren E. Buffett, has pledged \$31 billion of his personal fortune, held in Berkshire stock, to the Gates Foundation. These investments by the foundation and by Berkshire contravened the foundation's donations to groups providing relief for Darfur refugees.

Soon after, the foundation divested itself of its Sudan-linked holdings, citing concerns raised about that nation. Buffett sold Berkshire's PetroChina holdings in October. He did not respond to inquiries about his motivation for the sale.

Bill and Melinda Gates declined requests from The Times for an interview, and their foundation referred questions about its endowment to Michael Larson, the Gates Trust investment manager. Larson did not return calls for comment.

Stamm, at the Meyer Trust, said the larger foundation community was showing sudden flexibility on investment strategies.

"I am amazed," he said. "This field is moving far faster than anyone could have predicted."