

## RI and Foundations

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## What is the SIO?

- The trade association for SRI/RI in Canada
- Includes fund companies, asset managers, investment consultants, advisors and NGOs
- Mission is to promote the practice and concept of SRI/RI



## What is RI?...

## What is MBI?

- RI is the integration of environmental, social and governance factors in the selection and management of investments (from SIO's website)
- MBI is the incorporation of an institution's mission into its investment decision-making process... The institution's mission may serve as a guide in determining what, if any, non-financial objectives the foundation, endowment, NGO, or other group within the voluntary sector, may set for its portfolio. (from Investing for Change, Jantzi Research Inc.)



## RI and MBI are not just negative screening

- Core SRI (values and financial analysis)
  - Positive and negative screening
  - Community investment (program-related investment)
- Broad SRI
  - Integration of environmental, social and governance (ESG) risks and returns
  - Voting your shares, engaging with companies
  - Sustainable venture capital



## Canadian RI – Canadian SRI Review 2006

- A survey of Canadian RI every two years
- \$503.6 billion in assets invested under SRI guidelines in 2006
- Up from \$65.5 billion in 2004
- Currently almost 20% of the investment market



## Canadian SRI Review 2006 continued

- Growth in last two years primarily due to adoption of RI policies at large public pension funds
- Funds are voting their proxies and sometimes engaging with companies on social and environmental issues
- 3 examples:
  - CPP Investment Board
  - Caisse de depot at placement du Quebec
  - BC Investment Management Corp.



## What are the drivers?

- Climate change is a top-of-mind concern
- AIDS, Darfur are fueling interest in world poverty
- Economic challenges in local communities are making people think about globalization



## What are the drivers?

- People are connecting the dots between concern and action
- Adoption of greener lifestyles (ie fair trade coffee and other goods, organic foods, hybrid cars, low energy appliances, conservation practices)
- Prompting people to think about how they can apply these concerns to their investments



## What are the drivers?

- RI financial performance comparable to conventional investment performance
- Combats the misconception of underperformance

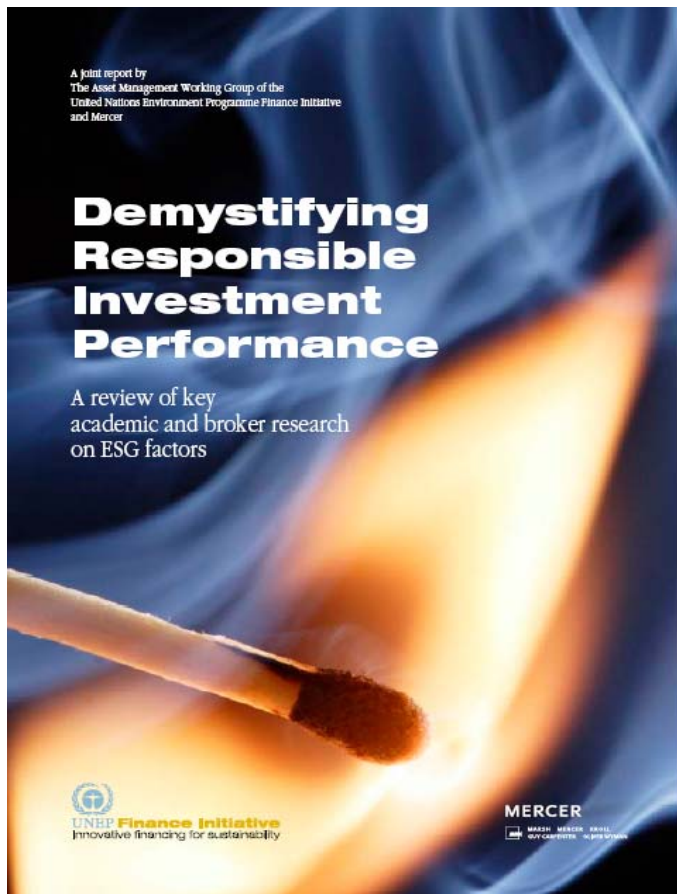


## What are the drivers?

- Domini Social Index – broad market US index of 400 SR stocks operating since May 1990
- Since inception, DSI has increased 10.0% (annualized to Sept 30 08)
- In the same period, S&P 500 has increased 9.4% (annualized)



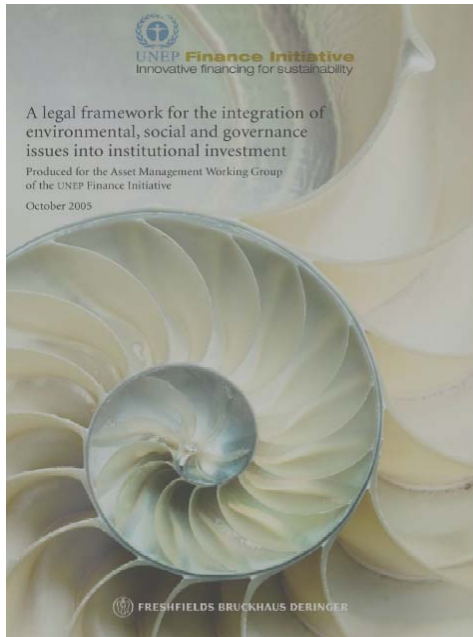
# What are the drivers?



- 10 academic/20 sell-side brokerage studies
- Evidence suggests that there appears to be no performance penalty from taking ESG factors into account in the investment management process
- 10 studies are positive, 7 neutral, and 3 negative
- RI leading to underperformance is a misconception



## What are the drivers for foundations and endowments?



- October 2005 – Freshfields Bruckhaus Deringer
  - *A legal framework for the integration of environmental, social and governance issues into institutional investment*
- Leading international law firm, with over 2,400 lawyers in 28 offices in 18 countries across Europe, Asia and the U.S.
- “...integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions.”



## What are some of the MBI options?

- Core RI (values and financial analysis)
  - Positive and negative screening
    - Putting in place social and environmental screens based on your mission
  - Community investment (program-related investment)
    - Loans to local loan funds, co-ops, community-based enterprise



## What are some of MBI options?

- **Broad RI**
  - Integration of environmental and social ESG risks and returns
    - Investment in green funds, companies
  - Voting your shares
    - Proxy voting policies, corporate engagement on issues
  - Sustainable venture capital
    - Investment in sustainable venture capital funds



## Policy Development Roadmap

“We want to implement responsible investment...now what?”



## Initiate discussion at board level

- Identify the information needs for your board. (i.e. How does RI affect returns? Are other foundations implementing RI strategies?)
- Identify and participate in educational opportunities
- Identify mentors and/or other external experts
- Build your RI team to include staff, board and investment committee members. Identify and support champions
- The role of the investment committee is critical – need to understand their perspectives and constraints and they need to be involved throughout the process



## Set policy objectives

- What does RI mean for your foundation?
- What are the key triggers that led your organization to consider responsible investment?
- Survey stakeholders to better understand priorities in order to reflect these in the responsible investment policy
- How does RI fit within your existing program priorities and activities?



## Identify implementation strategy

- Identify strategies that make the most sense and meet your priorities and objectives (e.g. screening, ESG integration, proxy voting, etc.)
- Incremental approaches allow decision-makers to educate themselves about each strategy, consider its value and monitor the results
- Pathways may include entering the market opportunistically or allocating a portion of the endowment for specific RI strategies



## Stops along the way

- Investment beliefs
- Statement of investment policy and procedures
- Responsible Investment Policy
- Supporting policies (e.g. Proxy Voting Guidelines)



## Conclusion

- “We believe that foundations have a particular role to play... seeing their mission not only in terms of the uses of income to fund programs, but also in terms of the ends toward which endowment assets are managed. We believe that it is essential to reduce the dissonance between philanthropic mission and endowment management.”
  - Investment Policy, The Jessie Smith Noyes Foundation

