

Mission-Related Investing: An Overview

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What is the name for this type of investing?

- Mission-related investing
- Mission-based investing
- Mission investing
- Impact investing
- Aligned investing
- Active investing
- Full value investing
- Double (or triple) bottom line investing
- Environmental, social, and corporate governance (ESG) investing
- Sustainable investing
- Socially responsible investing (SRI)
- Ethical investing
- Targeted investing
- Blended value investing

The Premise

- Investments can generate collateral benefits – or costs – in addition to financial returns
- Social, environmental and governance factors can positively (or negatively) affect the performance of the financial asset
- Investment decisions are better when based on financial returns and extra-financial impacts

Mission-Related Investment (MRI): *Definition*

Financial investment made with the intention of:

- (1) Furthering a foundation's strategic goals, and
- (2) Advancing the principal invested or earning a financial return
- (3) Expected returns may be risk-adjusted market-rate or below-market-rate

Program-Related Investing (PRI): *Definition*

- (1) A concessionary investment for a charitable purpose.
- (2) PRI has a legal definition for private foundations, which can use PRIs towards their payout requirement. In this case, PRIs must meet three criteria:
 - (a) The investment's primary purpose is to advance the foundation's charitable objectives;
 - (b) Neither the production of income nor appreciation of property can be a significant purpose; and
 - (c) The funds cannot be used directly or indirectly to lobby or for political purposes.

Important MRI Features for Philanthropy

- Using both investment and grant dollars increases institution's impact
- Applicable to wide range of missions
- Funds are recycled, extending reach of foundation
- Produces benefits beyond those provided by grants, e.g., helping organizations build credit, leveraging funds to attract additional market capital, facilitating new financial instruments

History of MRI

- 19th cent. Quakers and Methodists brought attention to investments in alcohol and gambling; abolitionists used screening to protest slavery
- 1970s Divestment from South Africa; nuclear power; launch of Pax World Fund, first screened mutual fund
- 1980s Increasing numbers of mutual funds and issues addressed
- 1990s Addition of positive screens, community investing, shareowner activism
- 2000s Corporate scandals increase attention to corporate governance; upsurge in activity by mainstream investors/funds/managers; U.K. law requires pension funds to identify which social, environmental or ethical factors considered in investment decisions
- 2005 Over \$2.3 trillion invested, up > 250% since 1995, more than 9% of assets under management in U.S.
- 2006 U.N. launches Principles for Responsible Investment; by 2007, signed by institutional investors with more than \$10 trillion in assets
- 2007 Sudan engagement/divestment grows
- 2009 Private Equity Council members adopt responsible investment guidelines covering environment, health, safety, labor, governance and social issues, to be applied prior to and during ownership of companies

Performance

- October 2007 Mercer/UN review of research of ESG investing -- 20 key academic and 10 broker studies -- finds no cost to incorporating ESG into investment decisions
 - 10 academic studies found positive relationship, 7 neutral, 3 negative
 - 5 qualitative broker studies were positive; 3 quantitative were positive, 2 neutral

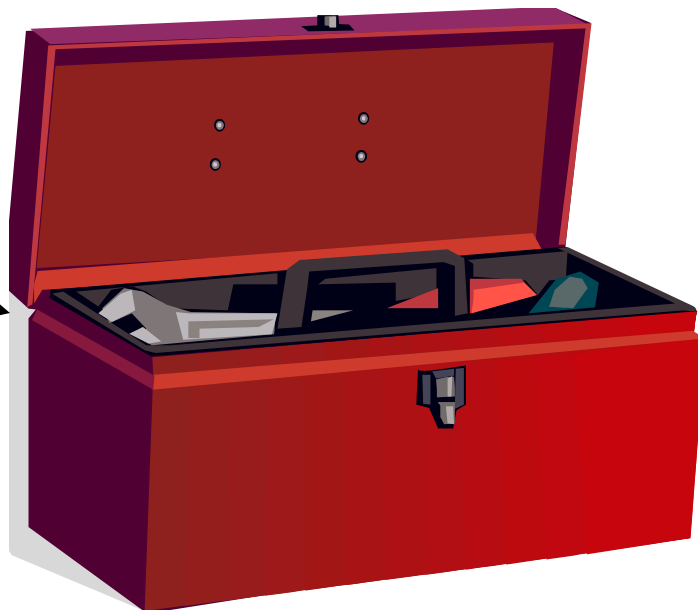
Mission-Related Investments Toolbox

PRI TOOLS

- Grants
- Recoverable Grants
- Guarantees / Credit Enhancement
- Below-Market Loans
 - Revolving Loan Funds
 - Gap Financing
 - First-Loss Loans
- Community Development Venture Capital

MARKET-RATE MRI TOOLS

- Cash (deposits)
- Loans
 - Senior
 - Subordinated
 - Guarantees
 - Loan Funds
 - Line of Credit
- Fixed Income
 - Bonds
 - Bond Funds
 - Asset-Backed Securities
- Public Equity
 - Screened Funds
 - Direct Public Equity
 - Shareholder Engagement
- Alternative Assets
 - Direct Private Equity
 - Private Equity Funds
 - VC Funds
 - Fund of Funds
 - Buyout Funds
 - Hedge Funds
 - Real Estate
 - Natural Resources



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