COMMONFUND INSTITUTE AND COUNCIL ON FOUNDATIONS STUDY OF RESPONSIBLE INVESTING HIGHLIGHTS IMPORTANCE TO FOUNDATIONS OF IMPACT / MISSION RELATED INVESTING, CONTINUING INTEREST IN SOCIALLY-RESPONSIBLE INVESTING AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

WILTON, CT, July 14, 2016 – The Council on Foundations-Commonfund Study of Responsible Investing was issued jointly today by the two representative organizations. The study, believed to be the most comprehensive and detailed to date on the topic among private and public foundations, analyzed the policies, practices and attitudes with respect to responsible investing among 186 U.S. private and public/community foundations representing a total of $39.7 billion in endowment assets as of December 31, 2014. The study focused on four core areas:

- Current investment practices
- Policies and procedures
- Views on responsible investing
- Potential future changes to portfolios

“The Council on Foundations-Commonfund Study of Responsible Investing is a powerful tool for investment committees, board members, and investment staff who are eager to explore new strategy options. This is particularly relevant today as many foundations are asking if their investments can be invested in other ways beyond traditional grant making to deliver benefits to the communities they serve and complement the efforts central to the foundation’s mission. Our hope is that this study will help inform and educate philanthropy on practices increasing in popularity,” said Council on Foundations President and CEO Vikki Spruill.

Click here to view the complete study. The full study also offers commentary from many of the participating endowments.
**Responsible Investing Defined**

There is not yet a completely standardized vocabulary of responsible investing practices; therefore, to ensure that respondents used consistent terms when completing the survey, the study provided the following definitions:

**Socially responsible investing** (SRI): A portfolio construction process that attempts to avoid investments in certain stocks or industries through negative screening according to defined ethical guidelines.

**Environmental, social and governance** (ESG) investing: An investment practice that involves integrating the three ESG factors into fundamental investment analysis to the extent that they are material to investment performance.

**Impact investing**: Investing in projects, companies, funds, or organizations with the express goal of generating and measuring mission-related social, environmental or economic change alongside financial return (also commonly referred to as Mission-Related Investing (MRI)).

**Divestment of fossil fuels**: A type of exclusionary screening strategy through which investors actively exclude companies involved in fossil fuels from their investment portfolio.

The Study also provided opportunities to indicate whether, and how, a particular strategy at their institution differed from the defined terms.

**Current Practices**

Of the 186 institutions who participated in the study, there were 44 “adopters” of Responsible Investing practices; and 142 “non-adopters” – institutions which, while they do not currently engage in any of the four practices, may have policies and procedures in place that relate to responsible investing, may have views on the topic, or may be considering future changes to their portfolio.

The current state of adoption of responsible investing practices for endowed funds among foundations is reflected in the fact that while 86 percent of Study respondents — both adopters and non-adopters — reported that they have a written investment policy statement (IPS), just 25 percent of those have investment policy statements that refer to one or more of the four responsible investing practices.

Of the four approaches to responsible investing covered by the Study, impact investing/mission-related investing (MRI) was the most widely practiced by foundations. It was followed by SRI, ESG and divestment from fossil fuels. It should be noted that many foundations pursue impact investing through their programmatic budgets, but this survey did not inquire about those practices.
Policies and Procedures

The study also addressed the relationship between responsible investing practices and governance. When asked if long-term investors have an obligation to consider the impact of investment decisions on future generations, 38 percent of all Study respondents said that they agreed, and 20 percent said they strongly agreed. On a scale of 1 to 5, with 5 being the highest (“strongly agree”), the average of all responses was 3.7.

When asked about which entity at their institution develops and oversees responsible investing policy, 87 percent of all respondents cited board members while 56 percent mentioned financial management professionals and 41 percent identified staff.
Participants were asked about the level of board engagement with or education about responsible investing. Fifty percent of all Study respondents said that their board members had “some”, 23 percent said their board had “substantial” involvement, while another 23 percent responded that it had “none.”

**Views on Responsible Investing**

The third section of the study delved into the opinions of both adopter and non-adopter institutions with respect to various issues surrounding responsible investing.

**SRI vs. ESG**

As noted, definitions in the responsible investing area have not yet been standardized and there is, as a result, some vagueness in the minds of many as to what is involved in the various responsible investing practices. This is particularly true when it comes to the difference between SRI, which relies primarily on the exclusion of investments based on an institution’s moral or ethical standards, and ESG, which seeks to include investments with certain specific desirable characteristics.

When asked to assess the degree of their board’s or investment/finance committee’s understanding of the distinction between ESG integration and SRI practices, 37 percent of all Study respondents replied that they had a good understanding, but nearly one-third said that their board or committee had no understanding.

![View on Responsible Investing](image)

Another issue at the forefront of responsible investing is whether or not such practices can add value into the investment process regardless of mission-related motivations. Forty-one percent of all Study respondents neither agreed nor disagreed with this proposition, and another 22 percent responded that they did not know or were uncertain. A combined total of 26 percent agreed or strongly agreed, while a combined total of 9 percent disagreed or strongly disagreed.
When asked which of the three ESG factors have the most impact on the relationship between portfolio risk and return, the largest single response was from the 26 percent of institutions that said all three were equally important, while a large proportion, 48 percent, said they did not know or were uncertain.

The Study also looked closely at impediments to implementing socially responsible investing practices. The first focused on impediments to integrating ESG factors, while the second was dedicated to impact or mission-related investing strategies.

Among ESG factors, study participants said that “concern about the possibility of lower investment performance” was viewed as the greatest concern with 27 percent of respondents seeing it as a substantial impediment and an additional 42 percent seeing it as a moderate one. Similar results were shown when asked relative to impact investing or MRI.

For the full list of impediments and the relative concerns associated with each one, please refer to the full study.

**Potential Changes to Portfolios**

The Study addressed potential future activities and policies, asking whether participating institutions were considering further implementation of responsible investing practices for their portfolios. Forty-five percent of adopters responded in the affirmative, while only 14 percent of non-adopters did, for an overall “yes” response of 22 percent.

The Study also inquired into the likelihood of institutions increasing their investments over the next five years in companies specifically involved with a number of environmental and social activities. The highest average score among all participants was for investment in community economic programs, followed by energy efficiency, renewable energy and sustainable business practices.
Background

The Study analyzed policies, practices and attitudes with respect to responsible investing among 186 U.S. private and public/community foundations. These foundations comprised 52 private/independent foundations, 49 private/family foundations, eight public foundations, and 77 community foundations. Together they represented a total of $39.7 billion in endowment assets as of December 31, 2014 across a wide range of endowment sizes and geographic locations across the U.S.

About Commonfund Institute

Commonfund Institute houses the education and research activities of Commonfund and provides the entire community of long-term investors with investment information and professional development programs. Commonfund Institute is dedicated to the advancement of investment knowledge and the promotion of best practices in financial management. It provides a wide variety of resources, including conferences, seminars and roundtables on topics such as endowments and treasury management; proprietary and third-party research such as the NACUBO–Commonfund Study of Endowments; publications including the Higher Education Price Index (HEPI); and events such as the annual Commonfund Forum and Commonfund Endowment Institute.

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### POTENTIAL CHANGES TO PORTFOLIO

Likelihood of increasing investments over the next 5 years in companies involved with:

<table>
<thead>
<tr>
<th>Numbers in percent (%)</th>
<th>Total Institutions</th>
<th>ADOPTERS</th>
<th>NON-ADOPTERS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>186</td>
<td>Total</td>
<td>Private</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>3.2</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Renewable energy</td>
<td>3.2</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Retrofitting existing power plants to reduce greenhouse gas emissions</td>
<td>2.9</td>
<td>3.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Less water intensive operations</td>
<td>3.0</td>
<td>3.3</td>
<td>3.4</td>
</tr>
<tr>
<td>Drought-resistant agriculture</td>
<td>3.1</td>
<td>3.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Efficiency in transportation</td>
<td>3.0</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Waste management</td>
<td>3.0</td>
<td>3.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Adaptation and resilience to climate change and other environmental factors</td>
<td>3.0</td>
<td>3.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Community economic development programs</td>
<td>3.4</td>
<td>3.7</td>
<td>3.8</td>
</tr>
<tr>
<td>Sustainable business practices</td>
<td>3.2</td>
<td>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Other</td>
<td>3.3</td>
<td>4.0</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Very unlikely = (1), Unlikely = (2), Neither likely nor unlikely = (3), Likely = (4), Very likely = (5)
About the Council on Foundations
An active philanthropic network, the Council on Foundations (www.cof.org), founded in 1949, is a nonprofit leadership association of grantmaking foundations and corporations. It provides the opportunity, leadership, and tools needed by philanthropic organizations to expand, enhance and sustain their ability to advance the common good. With members from all foundation types and sizes, the Council empowers professionals in philanthropy to meet today’s toughest challenges and advances a culture of charitable giving in the U.S. and globally.