Sustainable Investing: A Governance Guide for Nonprofit Fiduciaries

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11:00 AM Session 4

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Sustainable Responsible Investing – Covid-19 Impact

- Responsible Investor’s snap survey taken in the last week of March 2020.
- 300 respondents, simple Y or N requested.

Source: https://www.responsible-investor.com/articles/ri-survey-pandemic-could-be-tipping-point-for-esg
Steps to Policy Success

“Willingness to change is a strength, even if it means plunging part of the company into total confusion for a while.”

Jack Welch
Duty of a Fiduciary

- Most nonprofits are incorporated and managed by board of directors
  - Duty of loyalty to the nonprofit
  - Duty of care and prudence in investing
  - Duty of obedience to the grantor wishes
- Understanding duties when applying investment strategy within ESG framework.
Latitude

- A charitable pool has ability to **not only** achieve returns but to further its charitable purpose
  - Not governed by ERISA, but follow UPMIFA*
  - But a nonprofit should not invest in vague social benefits unrelated to the mission of the organization.
  - Investment decisions should be specific to support mission of organization.

* UPMIFA: Uniform Prudent Management of Institutional Funds Act, Est. 2006
UNPRI Principles for Responsible Investing

• The SIX Principles

1. We will incorporate ESG issues into investment analysis and decision-making.

2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4. We will promote acceptance and implementation of the Principles within the investment industry.

5. We will work together to enhance our effectiveness in implementing the Principles.

6. We will each report on our activities and progress towards implementing the Principles.

Source: UNPRI
Steps to Policy Success

• Before you get started
  ➢ Map out a plan
    • Create a diverse working group
    • Set a reasonable timetable with critical success points
    • Calendar regular meetings
  ➢ Educate on language, terminology, trends, current institutional use
    • Peer review
    • Current surveys
  ➢ Lean on third party resources
Steps to Policy Success

1. Introduction - Preamble
   - Motives for development of the policy
   - Background
   - Reference to an existing policy
   - Scope of the policy
     • Positive or negative screening, ESG integration, Themed investing, other?
Steps to Policy Success

2. Definitions
   - Define ESG/SRI for your organization
   - How is ESG/SRI interpreted by asset class?
   - What are your objectives by asset class?
   - Roles and responsibilities of board, committee, staff, managers and consultant
Steps to Policy Success

3. Responsible Investment Guidelines
   - Identify the responsible investment strategies/practices that fit with your culture
   - Consider any local, state or other regulations that might impact your guidelines
   - Consider which, if not all, asset classes to include and their specific guidelines
     • Can expand later
   - External managers
     • Selection criteria
     • Monitoring requirements
Steps to Policy Success

4. Engagement and Active Ownership

Procedures/Approaches

- Proxy voting
- Annual General Meeting participation
- Company engagement
Steps to Policy Success

5. Reporting
   - How, when and to whom
   - Internal versus external constituencies
   - Connection to the Principles of Responsible Investing
   - Internal review processes
     • Investment Managers
     • External Engagement
     • Proxy votes
   - Performance metrics related to your Responsible Investing program
     • Overall
     • By asset class, manager
Steps to Policy Success

6. Reviewing the Policy
   - Is it working? Are you achieving your stated goals?
   - Are the policies still consistent with investment beliefs?
   - Has anything changed that needs to be reflected in the current policy?
   - Review timeline
Steps to Success in Action

- ESG Goal
- Map Out A Plan
- Education Resources
- Third Party Resources
Additional Insights

• Governance readiness
• Investment resources:
  – Investment Advisors
  – MCN Investment Strategies
  – USSIF and GIIN Publications
  – Peer Networks

~Doing Well by Doing Good~
## Framework for Picking Investment Managers

**Latitude**

<table>
<thead>
<tr>
<th>Type of Investment Strategy</th>
<th>Description</th>
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<tbody>
<tr>
<td>Public markets versus private markets</td>
<td></td>
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</table>
  - Public markets – investing in the securities of companies that meet certain ESG criteria. Focus on investment managers whose selection criteria matches nonprofit.  
  - Private markets – investing with managers that invest in private projects that advance the ESG criteria of the nonprofit.  
    - i.e. farmland that has positive water treatment and carbon offsets.  
    - i.e. infrastructure fund that has projects in renewable energy |
## Framework for Picking Investment Managers

### How to choose investment strategies that fit within the nonprofit’s culture.

Manager A may only engage in portfolio screening will remove companies that engage in business that run counter to mission of nonprofit.

Manager B may score companies and rank them based upon ESG criteria. Be aware that not all managers rank criteria the same way.

- i.e. One manager may rank environmental factors more highly than another manager. If your mission is centered around environment, then that may be a more appropriate fit.
Framework for Picking Investment Managers

### How to choose investment strategies that fit within the nonprofit’s culture?

There are always tradeoffs when making a proactive investment decision on a manager strategy.

Will the criteria that is chosen by the nonprofit lead to tangible returns or will it sacrifice returns?

- Investment returns allow the nonprofit to fund its day-to-day operations.
Framework for Picking Investment Managers

Proliferation of ESG considered strategies

At the end of 2019, there were 564 ESG consideration funds (public) with $933 billion in AUM, per Morningstar.

- At the end of 2018, about 50 funds were ESG consideration funds.

Not all of funds treat ESG considerations the same way. The large amount of choices can lead to “analysis paralysis”.
What factors are most transparent?

Governance factors are most easily analyzed. The SEC has long mandated board and management compensation and governance structures.

Environmental factors transparency lags as company disclosures are haphazard. Also how do private funds choose projects that benefit the environment, yet earn an adequate return?

Social factors are least transparent as many factors are ill-defined. i.e. what is a “living wage?”
## How to rank ESG within the investment process

<table>
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<th>Comments / Considerations</th>
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<tr>
<td>Strategy does not incorporate any SRI or ESG.</td>
</tr>
<tr>
<td>Strategy may incorporate negative screening or components of SRI/ESG into their investment process, but scope and depth is limited.</td>
</tr>
<tr>
<td>Strategy may incorporate negative screening or components of SRI/ESG into their investment process. Strategy/firm has significant resources dedicated to ESG analysis and its inclusion is significant to the investment process.</td>
</tr>
<tr>
<td>SRI/ESG is the central component of the investment strategy, with considerable research and resources dedicated to research and analysis in these areas. Strategy is designed and marketed as an SRI/ESG investment product.</td>
</tr>
</tbody>
</table>
# Framework for Picking Investment Managers

## Data sources

Not all ESG processes are the same.

- What factors do investment managers emphasize?
- Where do investment managers get ESG scoring information?
- Have investment managers created in-house analysis?
Call to Action

“The secret of getting ahead is starting. The secret of getting started is breaking your tasks into smaller manageable tasks, and then starting on the first one.”

Mark Twain
Blandin Foundation is a private foundation based in Grand Rapids, Minnesota. As of December 31, 2018, the foundation leveraged the proceeds from a trust worth approximately $374 million.

Our mission is to be a trusted partner and advocate to strengthen rural Minnesota communities, especially the Grand Rapids area. Our vision is healthy, inclusive rural communities.

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