Should charities align investment strategy closely with charitable objects?

YES

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Charity trustees have a ‘fiduciary responsibility’ to ensure that the resources that they hold ‘in trust’ are used in the best interests of their beneficiaries. How is it, then, that the trustees of most endowed charities choose to pay little or no attention to this responsibility when making decisions about the investment of the assets from which they generate the funds they give away or use for charitable activity?

‘Do no harm’ investment requirements

At the very least, one might think that the duties of care and of ‘suitability’ of investment choices – duties to which all trustees are subject – would include a requirement that they ensure that the investments ‘do no harm’ to their beneficiaries. Yet only about half of the charities that have investment portfolios apply any screening at all to ensure that the companies and products in which they invest pass such a minimal test. Time and again, in the US and in Europe, when charity investment portfolios are scrutinised, they are found to contain investments in companies which are clearly involved in products, services or actions which have negative impact – socially, financially or environmentally – on the lives or communities of the beneficiaries of those charities. Even those that do impose some screening constraints on their investment managers seldom go beyond a few negative exclusions, for example on investments in armaments or tobacco stocks. In January 2007, for example, the *Los Angeles Times* analysed the investments made by

the Gates Foundation, the largest in the world. They revealed with some harrowing examples that, though the foundation does steer clear of investment exposure to things like tobacco, they are deeply invested in some companies that (to quote the articles) 'contribute to the problems of health, housing and social welfare that the foundation is trying to solve through its grant programmes.'

If challenged in this way, most trustees in the UK (and their investment advisers and managers) would retort that they are obliged to seek the maximum or 'best' financial return. I wonder how, if pressed on this assertion of the orthodox view, they would define these terms? If securing a financial return also imposes social, financial or environmental costs on beneficiary communities, what is the 'real' maximum or best return? Should not a 'suitable' investment choice be one which sought to calculate and measure the net rather than the gross return?

Mission-related investment strategy

As the trustees of one US Foundation asked: 'Are we more than a private investment company which uses its excess cash flow for charitable purposes?' Their answer was no – they decided to adopt a mission-related investment strategy; they remain one of a tiny number of endowed charities that have done so. The majority tolerate – indeed, often defend – what one commentator has described as a 'chasm or firewall between the financial capital that foundations invest in economic worth, and the social capital through which foundations pursue investments in social value.' For most foundations, the proportion of their total worth that is distributed for charitable purposes annually will be less than 5 per cent of their total resources; 95 per cent or more will be invested with only minimal – or no – regard for their charitable mission.

Times may be changing – significantly, contemporary concern about how investments may impact on climate change may be encouraging some trustees of some foundations to challenge the investment orthodoxy that asserts their resources must be kept in two separate and polarised silos; the one within which trustees focus almost all their attention – the charitable causes to which they will allocate just 3 to 6 per cent of the assets they control; the other, the vast majority of the charitable funds for which they are

responsible, being invested without any link to the charitable purposes for which the foundation was first set up.

Foundations in Europe and the USA are now debating how they could do more to bridge this investment gap, not only to avoid ‘doing harm’ but also to establish a different set of ‘best’ or maximum returns, adopting a blend of financial, social, and environmental measures to maximize total returns on all their assets and resources – to connect better their approach to investment to their mission and programme priorities. In its latest coverage of this issue (29 December 2007), the *Los Angeles Times* reported that, ‘in a sharp break from past practice, major charitable foundations are initiating…efforts to harmonize the social and environmental effect of their endowment investments with their philanthropic goals.’ In the UK, foundations seem to have been less keen to do so.

According to the Charity Commission, trustees have a duty to keep their charity’s investment policy under review, and, where they decide that there is any need to revise or replace the policy, they must do so. Perhaps a ‘do no harm’ test is worth applying in such cases to ensure that all of a charitable foundation’s resources are being used for ‘public benefit’? Perhaps trustees should be expected to go further and explore how they might use more of their charitable assets to further their charitable purpose?