Connecting investments to mission – the challenge to charitable foundations

David Carrington is an independent consultant with 25 years experience of senior management positions in charities, the last 13 as Chief Executive – from a £500 million foundation to the Housing Associations Charitable Trust. In this article, he challenges foundations and trusts to marry their mission and their investments.

There's a remarkable dissonance at the heart of the way most endowed charitable foundations and trusts use their resources. For most, there is no deliberate connection between what the investment managers are doing with the bulk of the foundation's resources (94-97% in most cases) and the 3-6% that the foundation trustees and staff spend so much time and care distributing each year to support charitable activity.

Indeed, grants may be made to support services or advocacy for people and communities that are harmed by the behaviour of companies that some of the foundation's endowment assets are invested in.

Some foundations in the UK – but by no means all – do instruct their investment managers to adopt some screening of the investments they make with the foundation's funds, for example by introducing:

- negative, ethical investment criteria, avoiding, for example, tobacco, armaments and alcohol
- a few have, in addition, taken a more positive approach, deliberately seeking out funds and supporting companies that claim to be socially responsible in some way, for example on climate change, good governance or human rights
- a tiny number of foundations also choose to be activist investors, using their shareholdings to pressurise companies into amending their practice or adopting more socially responsible behaviour – behaviour that will contribute to the achievement of the charity's aims and aspirations.

Why are foundations so reluctant to consider investing some of their assets long-term in products, services and activities that could also further their

Choosing to invest in values-driven organisations - like social landlords the Ethical Property Company - is one way charities can link their finances to their mission.

charitable purposes, their programmes, their wish to have positive and lasting social impact?

There is now a growing argument (not just in the UK) that foundation trustees' fiduciary duties would be better served if they did adopt long-term responsible investment strategies – that the traditional short term investment orthodoxy is, in the long-term, likely to have harmful consequences economically, socially and environmentally.

The trustees of one United States foundation asked themselves the question: "Are we more than a private investment company which uses some of its excess cash flow for charitable purposes?" The answer to their own question has led them to adopt a wholly different investment strategy and methodology – that connects investment to mission.[1]

In the UK, some foundation trustees have accepted that the orthodox, polarised approach (that there should be no or minimal connection between their investment strategy and their charitable aims) may need to be changed – but they question whether the investment rules which charity trustees must observe allow them to do so; they also argue that they may be exposed to greater risk, a lower financial return and higher administrative costs. The latter concerns have been assessed in a number of recent studies, especially in the USA.[2] In the UK, a project currently underway at new economics foundation is intended to explore the extent to which genuinely mission connected investment opportunities are available.

As to the investment powers of charity trustees in the UK, the regulator - the Charity Commission - has always emphasised that trustees, as stewards of assets held 'in trust' to be used for charitable purposes, cannot follow personal investment whims and fancies. But that doesn't mean that they must always invest for maximum financial return, irrespective of what sort of activity those investments are supporting; trustees must use the resources for which they are responsible to carry out the charity's purpose to the best of their ability. If some of those resources are being used in ways that harm or contradict those purposes, they can take action to ensure that does not happen. As long as their investment practice remains 'prudent' they can adopt a mission connected investment strategy. By so doing, they could ensure that the 'dissonance' between their charitable aims and how the bulk of their resources are invested is removed – surely a splendid charitable ambition?

David Carrington

This article is based on a talk given by the author to a seminar organised for Dutch charities by Triodos Bank at their Zeist office in September 2007.

[1] See www.fbheron.org

[2] See, for example, www.fsg-impact.org/app/content/ideas/item/535

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