# Mission-Related Investing: Current Practices and Views of Non-Profit Investors

2016

CAMBRIDGE ASSOCIATES

# Introduction

Cambridge Associates' Mission-Related Investing (MRI) Practice was formally established in 2008 to assist clients in the development and implementation of mission-related and socially responsible investment strategies.

While the practice has grown significantly since then—with our MRI work encompassing a broad range of strategies such as positive and negative screening; integration of environmental, social, and governance (ESG) considerations; mission-focused impact investments; shareholder activism; faith-based investing; and program-related investments—we are always seeking to better understand the motivations of and challenges facing mission-related investors, as well as associated trends in the broader investment industry.

To that end, in early 2016 we surveyed our non-profit clients to explore current institutional thinking and practice in the mission-related and impact investing space.

The results presented in this report are organized around three main topics:

- Implementation Themes and Strategies
- Structure, Governance, and Measurement
- Expectations for Future Growth

These findings provide direct insights into the ways in which investors are structuring and implementing MRI programs, as well as honest evaluations of the challenges they face in doing so.

In concert with our topical research and field-building efforts in the MRI space, the views and actions of practitioners as expressed in these survey results paint a more holistic picture of the MRI landscape at large and will better enable us to support the diverse social and environmental goals pursued by our clients.

# Summary of Findings

- Of the 159 survey respondents, 50 reported engaging in mission-related investing. By institution type, the breakdown of respondents active in MRI is reflective of the broader survey base. These institutions are at various stages of MRI program development and implementation, but all are part of a growing base of investors in the industry at large that are fueling development and awareness of mission-related investing.
- Contrary to common belief, performance concerns are not the primary "barrier to entry" for institutions not currently making mission-related investments. Of the 69% of respondents not engaged in MRI, an equal number selected the fulfillment of mission by programmatic activities and perceived negative impact on returns as the principal reasons for not pursuing mission-related investments in the long-term investment pool. Concerns over fiduciary duty and pure lack of interest were also cited, among other factors.
- MRI activity shows distinct trends by institution type. Foundations, which often have well-defined missions embodied by the organization as a whole, display interest in a wide range of themes and use multiple strategies for deployment, with a particular focus on impact investing. Colleges and universities, by contrast, are more narrowly focused on key issues, including ESG and the environment, and are less active in impact investing. They also tend to have fewer staff or committee members devoted to MRI than foundations.
- While different types of investors reported diverse approaches to MRI, the environment and climate change were common areas of focus across respondents. Acute external pressures to consider environmental factors in the investment decision-making process—such as the fossil fuel divestment movement on college campuses and Pope Francis's 2015 encyclical—are likely one reason for an increased focus on the issue by all types of investors.
- Despite broad interest in the environment and climate change, only 30% of mission-related investors consider climate risk in the investment decision-making process. A further 30% anticipate considering climate risk in the future, indicating a growing awareness among investors of the materiality of the risks climate change poses to investment portfolios.

# Summary of Findings

- In terms of MRI implementation strategies, the highest proportion of respondents reported using negative screens (72%), followed by ESG investing strategies (62%), and impact investing strategies (44%). These trends reflect the size of the investment universe and complexity associated with each strategy. Negative screening has been used by values-based investors for decades and is relatively simple to define and implement across asset classes. ESG and impact investing, by contrast, are relatively newer concepts and are subject to more nuance in interpretation. They require more expertise to execute successfully and today offer a smaller set of investable options.
- The number and quality of MRI opportunities varies significantly by asset class. Investors have generally deployed the most capital into negatively screened and ESG strategies across public equity and fixed income allocations; for impact investments, the most capital has been deployed in private equity & venture capital and fixed income. Regardless of the MRI strategy employed, investors singled out hedge funds as the most difficult asset class in which to allocate mission-aligned capital.
- MRI objectives are often formally incorporated in an institution's investment policy, but governance and oversight of MRI programs are structured less consistently. Only 30% of respondents reported discussing MRI strategies at board or investment committee meetings more than annually, and only 14% reported having staff dedicated to MRI. Given these trends, it is not surprising that many institutions cited personnel or resource constraints as a primary challenge to implementing MRI strategies.
- Investors are focused on the financial performance of MRI programs. The largest number of institutions reported financial results as the primary means by which they measure the success of their MRI programs, followed by social or environmental results. Only two institutions reported that they monitored social and environmental results without regard to financial performance, helping to dispel the myth that investors must compromise on financial return when pursuing an MRI strategy.

# Summary of Findings

- Impact reporting is not yet commonplace among investors. Only a small subset of respondents report on the social and environmental outcomes of their MRI programs. Lack of data availability was a primary reason for not reporting on impact; those investors who do report rely heavily on investment managers to provide impact data. This response is illustrative of the broader MRI space—though demand for impact reporting is high, data collection and standardization issues have hindered widespread adoption.

- Among MRI-engaged investors, a lack of adequate investment options was cited as the primary impediment to implementing MRI programs. Investors have been challenged to find sufficient MRI investment strategies that meet their standards. Across asset classes, Cambridge Associates tracks over 1,000 MRI funds in our manager databases. While this number has grown substantially in recent years and continues to expand rapidly, MRI funds remain a small subset of the broader investment universe.

- Despite these challenges, most MRI respondents (62%) expect to increase their allocation to mission-related investing over the next five years, and none expect their allocations to decrease. We have seen the growth in this space firsthand; each year, we receive inquiries and make MRI recommendations to more and more institutions.

- Respondents indicated that the environment and ESG investing will continue to be key areas of interest going forward. A growing body of research has highlighted the materiality of non-financial issues in investment analyses as well as the risks and opportunities posed by the changing climate, spurring the development of new investment strategies addressing these themes.

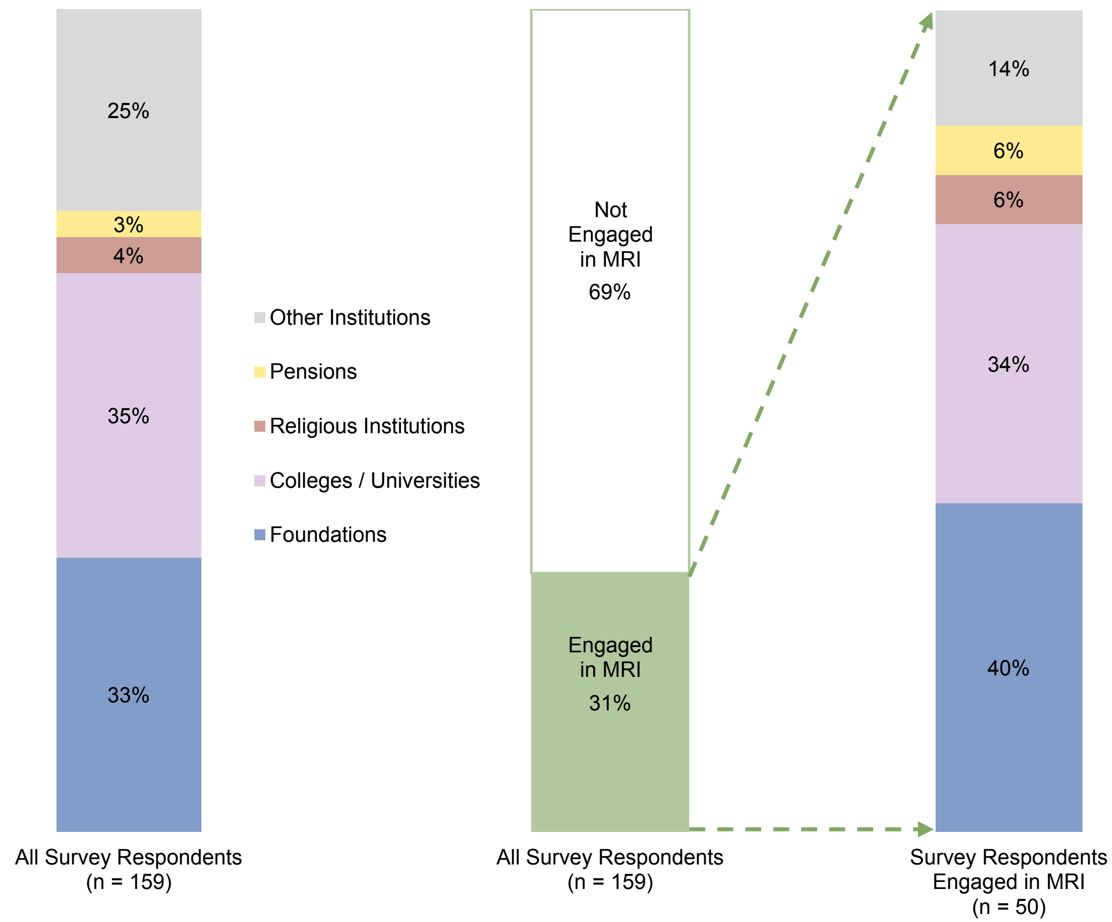
# Notes on the Data

- In February 2016, Cambridge Associates invited non-profit clients to participate in a study of mission-related investing practices; 162 clients chose to participate. Of those respondents, 50 reported that they are engaged in mission-related investing, and 109 reported that they are not engaged. Three respondents replied that they did not know and as a result are not included in exhibits that address the total universe of survey respondents.
- The 159 clients that responded yes or no to engagement in mission-related investing comprise colleges & universities (55), foundations (53), cultural & research institutions (13), independent schools (9), pensions (7), hospitals (5), religious institutions (5), and other non-profit institutions (12).
- The 50 clients that reported that engaging in MRI are referred to as "MRI Respondents" in this report. These respondents comprise foundations (20), colleges & universities (17), pensions (3), religious institutions (3), cultural & research institutions (2), hospitals (1), and other non-profit institutions (4).
- The MRI Respondents range in size from $50 million to $15 billion in assets under management, with a median size of $850 million. Respondents are located globally, with the majority (78%) in the United States; other domiciles of respondents include Italy, Japan, New Zealand, Switzerland, and the United Kingdom.
- Not all participants answered all questions in the survey. Therefore, some data may represent responses from a smaller pool of institutions than the total universe. The notation of *n* represents the number of institutions included in each analysis.

## Roughly one-third of survey respondents are engaged in mission-related investing

- The 159 respondents to our Mission-Related Investing Survey represent a diverse group of institutions. The majority of responses came from foundations and colleges and universities.
- Of the 159 respondents:
  - 31% are engaged in mission-related investing, while
  - 69% do not currently make mission-related investments.

**Overview of Survey Respondents**

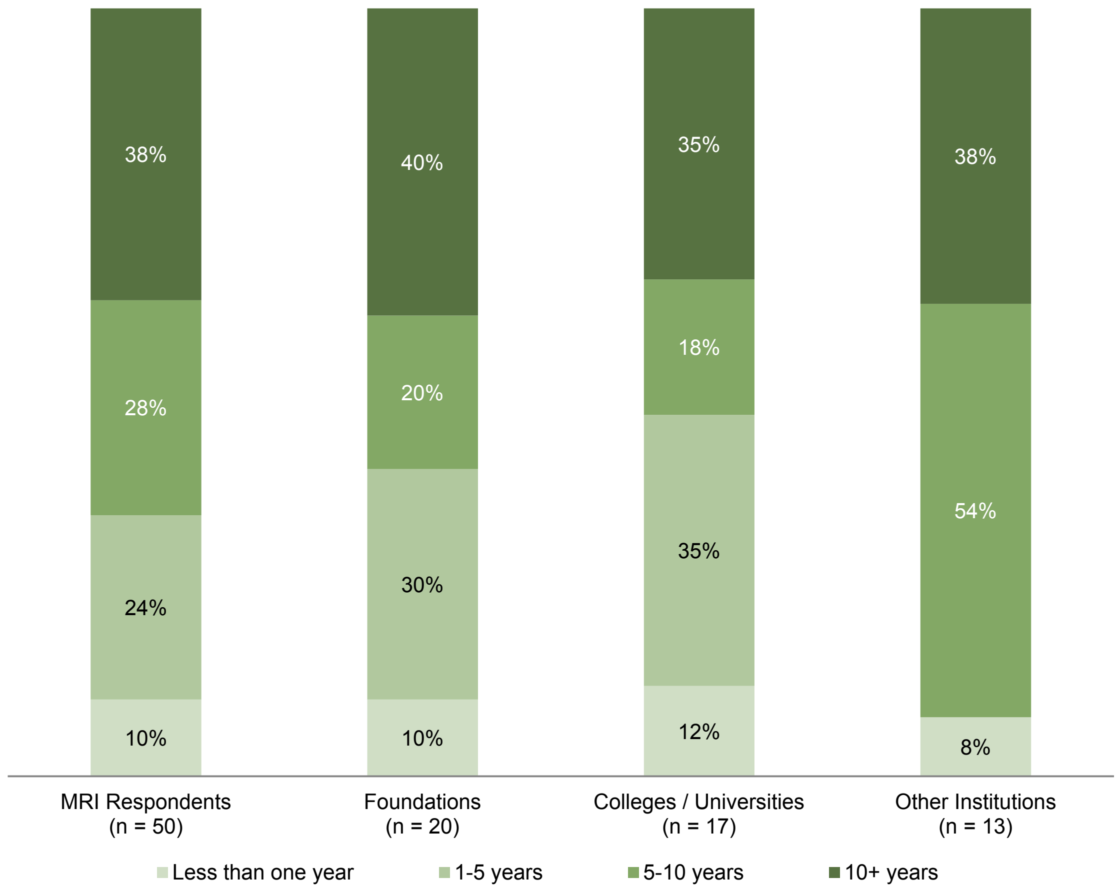



Source: Cambridge Associates Mission Related Investing Survey 2016.
Notes: "Other institutions" includes cultural & research institutions, hospitals, and other non-profit institutions.

## Most MRI-engaged institutions have been active in the space for at least five years

- Colleges and universities are the newest entrants to the space, with nearly half of these institutions reporting five years or less of MRI activity.
- Religious institutions, while a small subset of respondents, reported the lengthiest engagement with MRI, reflecting a longstanding tradition of values-based investing through exclusionary screening, among other strategies.
- These findings are consistent with broader trends in MRI activity among our non-profit clients; while religious institutions have traditionally been associated with mission-related investing, colleges and universities have become more active in the space in recent years.

**Length of Time Institutions Have Been Making Mission-Related Investments**



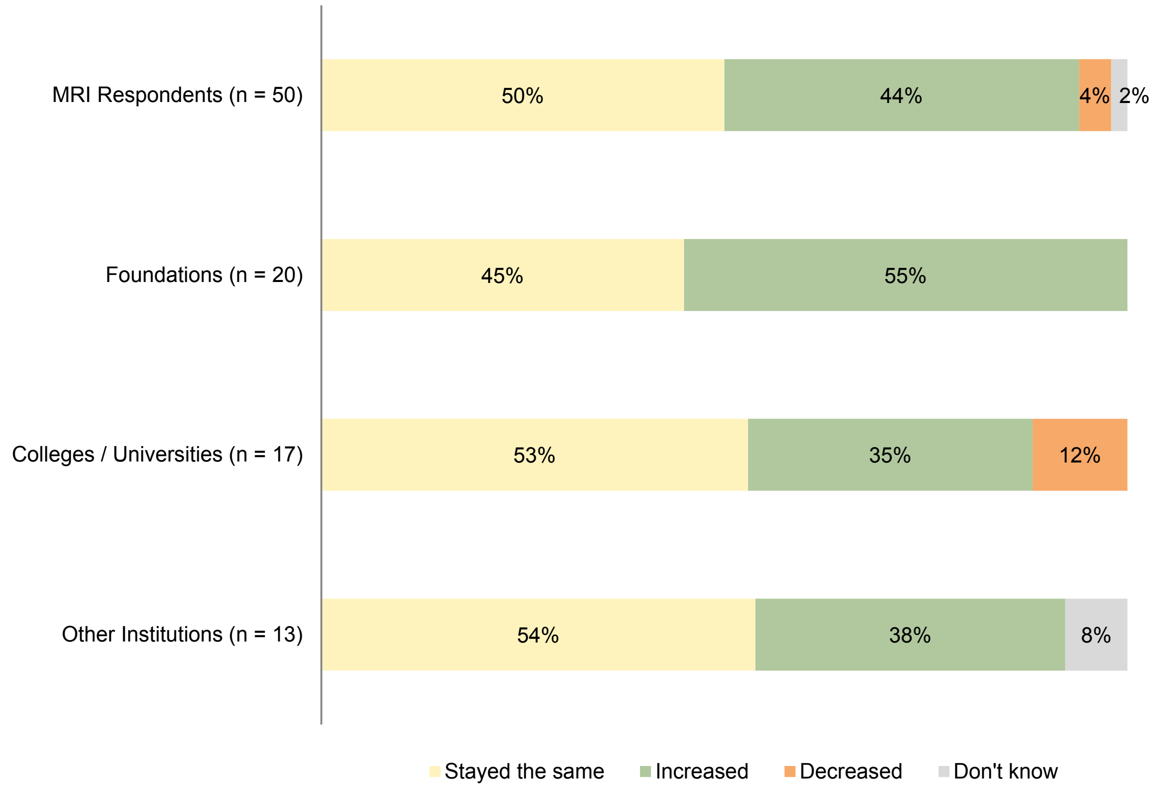

Source: Cambridge Associates Mission Related Investing Survey 2016.
Note: "Other institutions" includes cultural & research institutions, hospitals, pensions, religious institutions, and other non-profit institutions.

## Nearly half of MRI respondents have increased their allocation to MRI over the past five years

- 44% of respondents reported increasing their allocation to MRI over the past five years.
- For the other 56%, allocations were steady across most institution types, with only two institutions reporting a decrease in MRI allocations.

**Recent Trends in Allocation to MRI in the Long-Term Investment Pool**

Changes to Allocations Over the Past Five Years

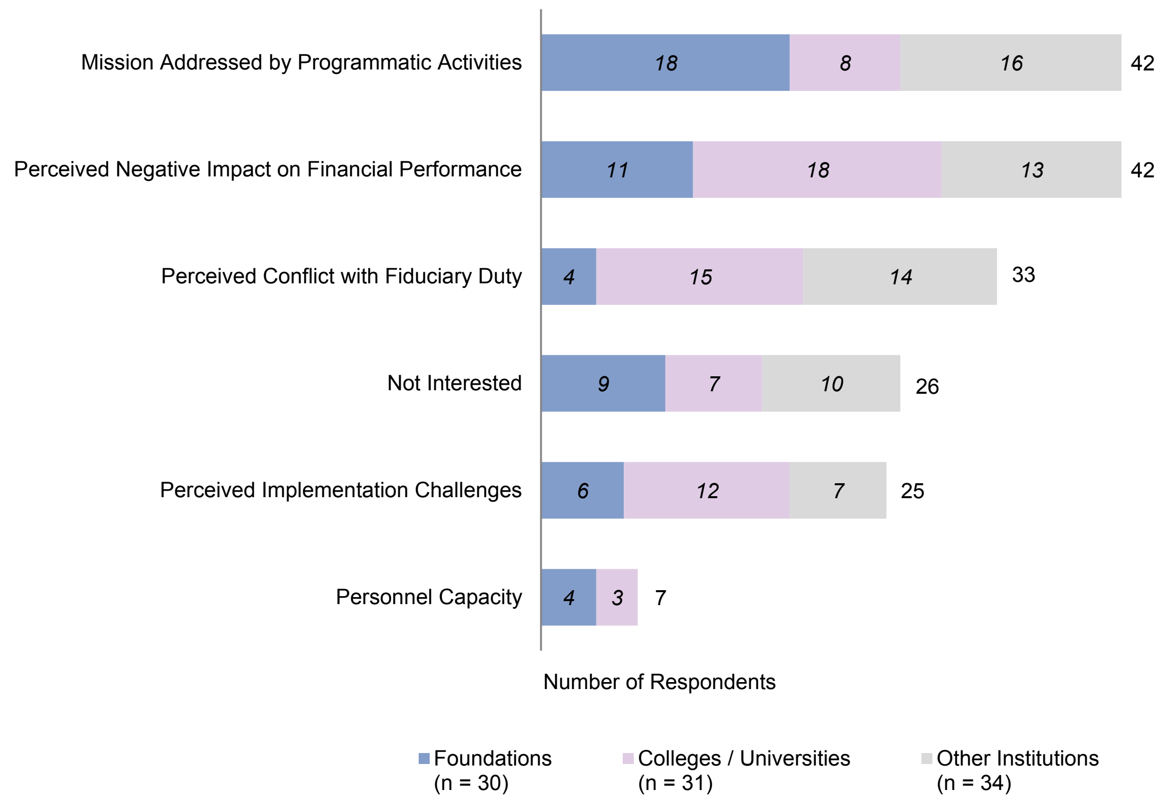



Source: Cambridge Associates Mission Related Investing Survey 2016.
Note: "Other institutions" includes cultural & research institutions, hospitals, pensions, religious institutions, and other non-profit institutions.

## Investors choosing *not* to engage in MRI cited a variety of reasons, from performance to concerns regarding fiduciary duty

- 69% of overall survey respondents are not currently engaged in MRI.
- Addressing mission through programmatic activities was cited as frequently as perceived negative impact on financial performance. Perceived conflicts of interest with fiduciary duty are also of concern.
- More colleges and universities noted performance concerns, while more foundations noted addressing their mission objectives through programmatic activities and therefore not pursuing them via the long-term investment pool.
- Of those respondents not currently making mission-related investments, 8% anticipate doing so in the future, 50% do not anticipate doing so, and the remainder are undecided.

**Reasons Institutions Are Not Engaged in Mission-Related Investing**

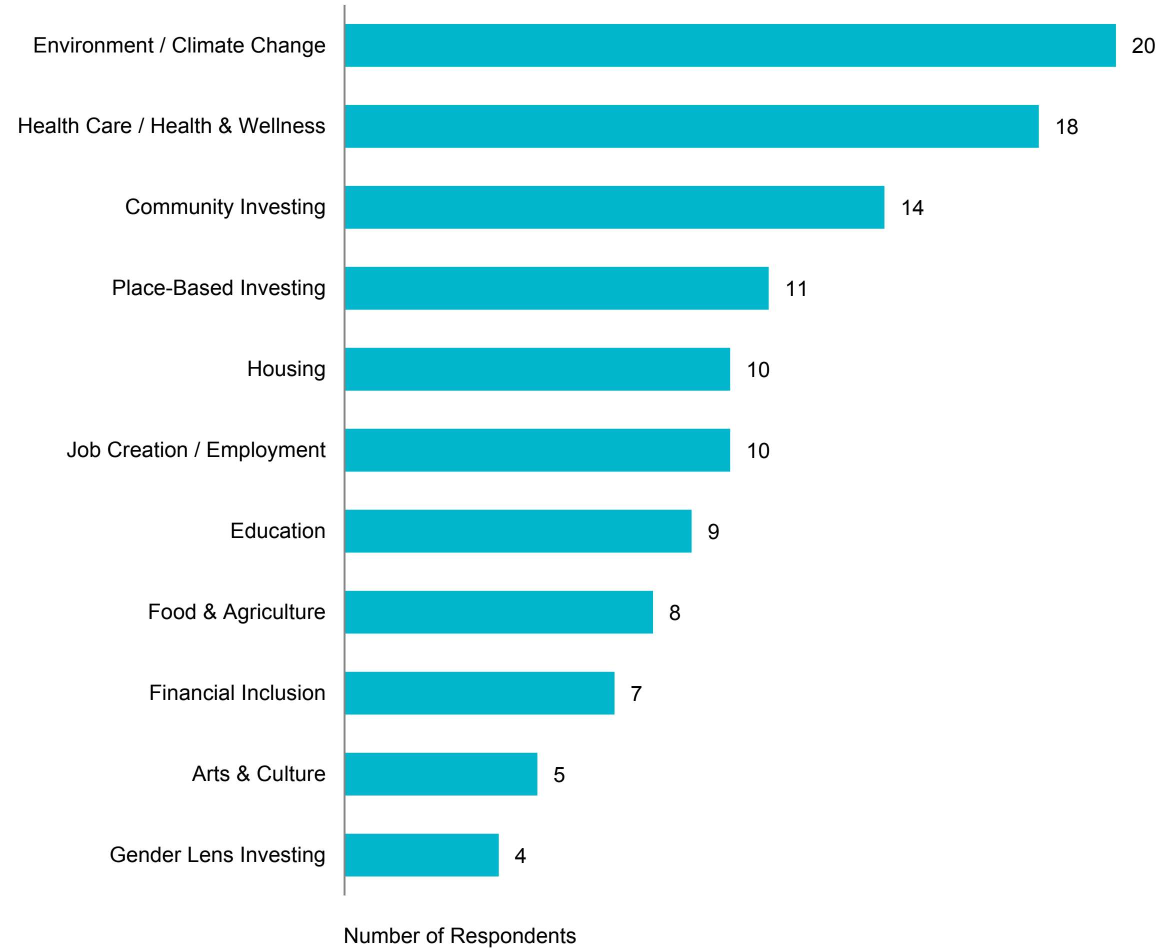



Source: Cambridge Associates Mission Related Investing Survey 2016.
Notes: Of 109 institutions not engaged in MRI, 95 selected at least one of these six reasons. "Other institutions" includes cultural & research institutions, hospitals, pensions, religious institutions, and other non-profit institutions.

## MRI-engaged institutions indicated a variety of thematic issues of focus, with the environment topping the list

- Colleges and universities were particularly interested in the environment; 53% selected it as an area of focus. This trend is likely attributable in part to the growing fossil fuel divestment movement on campuses around the world.
- Interests were more varied among foundations, reflective of the diversity of the stated missions of many of these organizations. On average, foundations reported four thematic areas of focus versus two for the broader respondent base.
- The community and place-based themes were predominantly selected by foundations.

**Thematic Issue Areas Taken into Account During Investment Process**



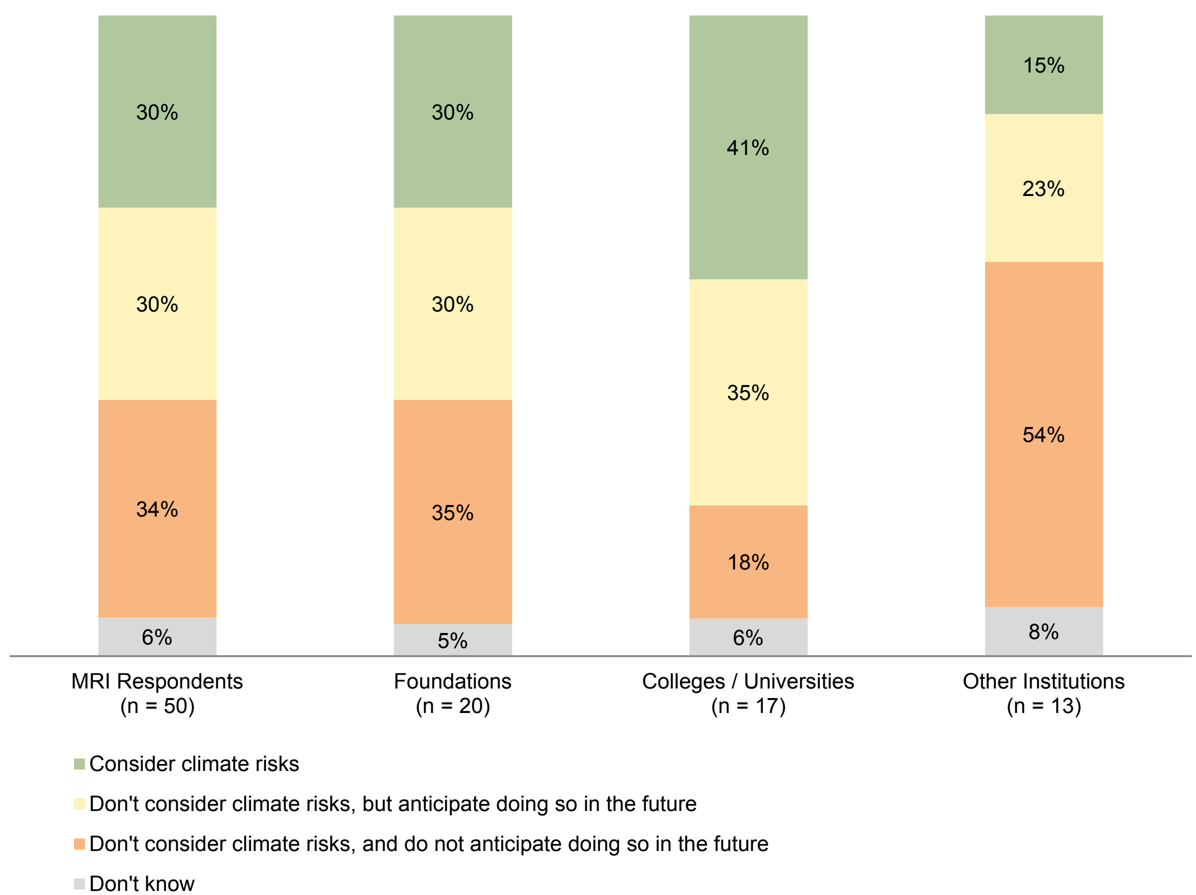

Source: Cambridge Associates Mission Related Investing Survey 2016.
Notes: Answered by 50 institutions who had the option to select multiple themes. Three institutions did not select any themes.

## Though the environment and climate change were listed as key focus areas, only 30% of MRI respondents currently consider climate risk in their investment decisions

- Both economic risk to current or prospective investments and alignment with the institution's mission or values were cited as motivations for evaluating climate risk.
- 30% responded that they anticipate considering climate risk factors in the future, while 34% have no plans to do so.

In 2015, CA published *Risks and Opportunities From the Changing Climate: Playbook for the Truly Long-Term Investor*, a report highlighting strategies to manage risks and capitalize on opportunities associated with climate change in the investment portfolio.

### Consideration of Climate Risk in Investment Decisions

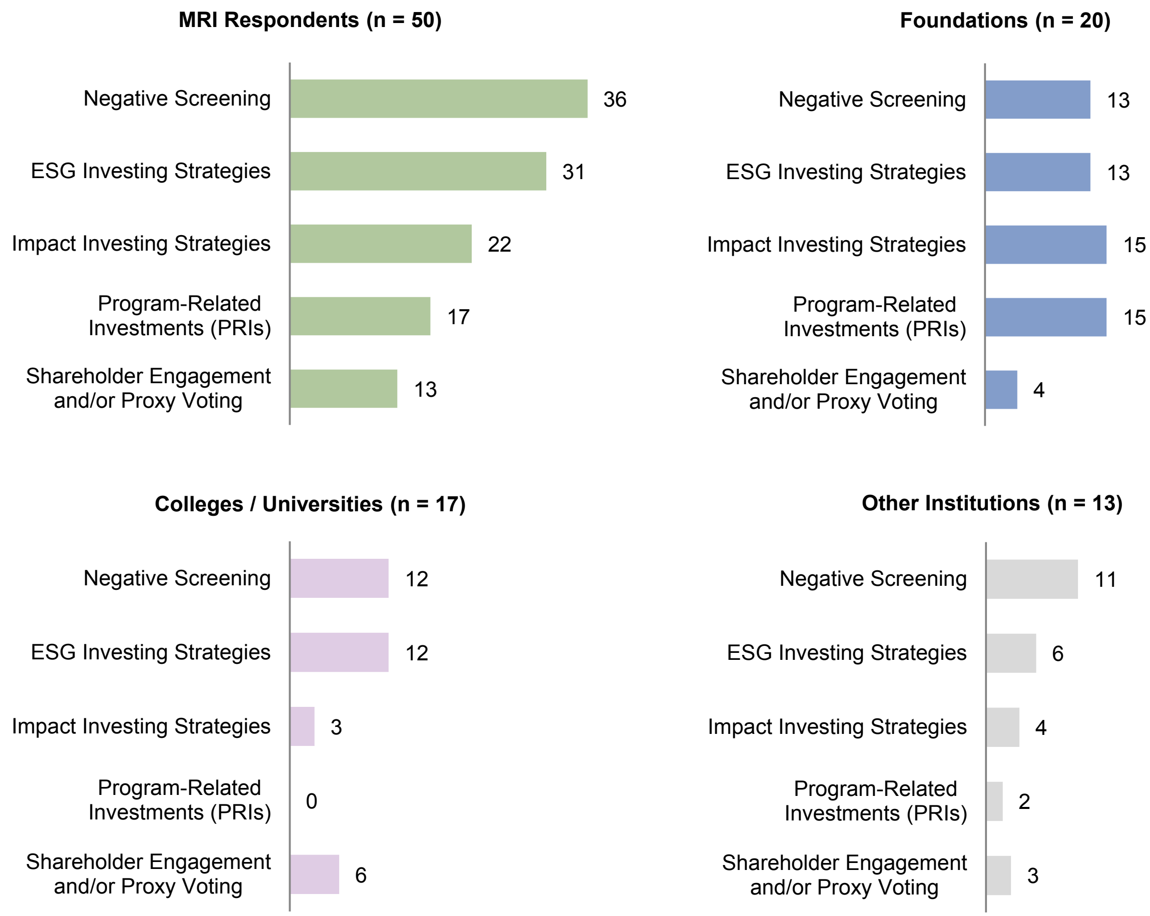



Source: Cambridge Associates Mission Related Investing Survey 2016.
Note: "Other institutions" includes cultural & research institutions, hospitals, pensions, religious institutions, and other non-profit institutions.

## MRI-engaged institutions deploy capital across a range of strategies, often employing two or more

- Negative screening remains the most employed MRI strategy, though use of ESG and impact investing were also commonly reported.
- Three-quarters of MRI respondents reported employing two or more of these strategies.
- Foundations, which have been at the forefront of impact investing in particular, reported the greatest diversity of implementation strategies. This finding comports with CA's long experience working with foundations, which often use every investment tool at their disposal to deploy capital to support their mission objectives.

### Types of MRI Strategies Employed

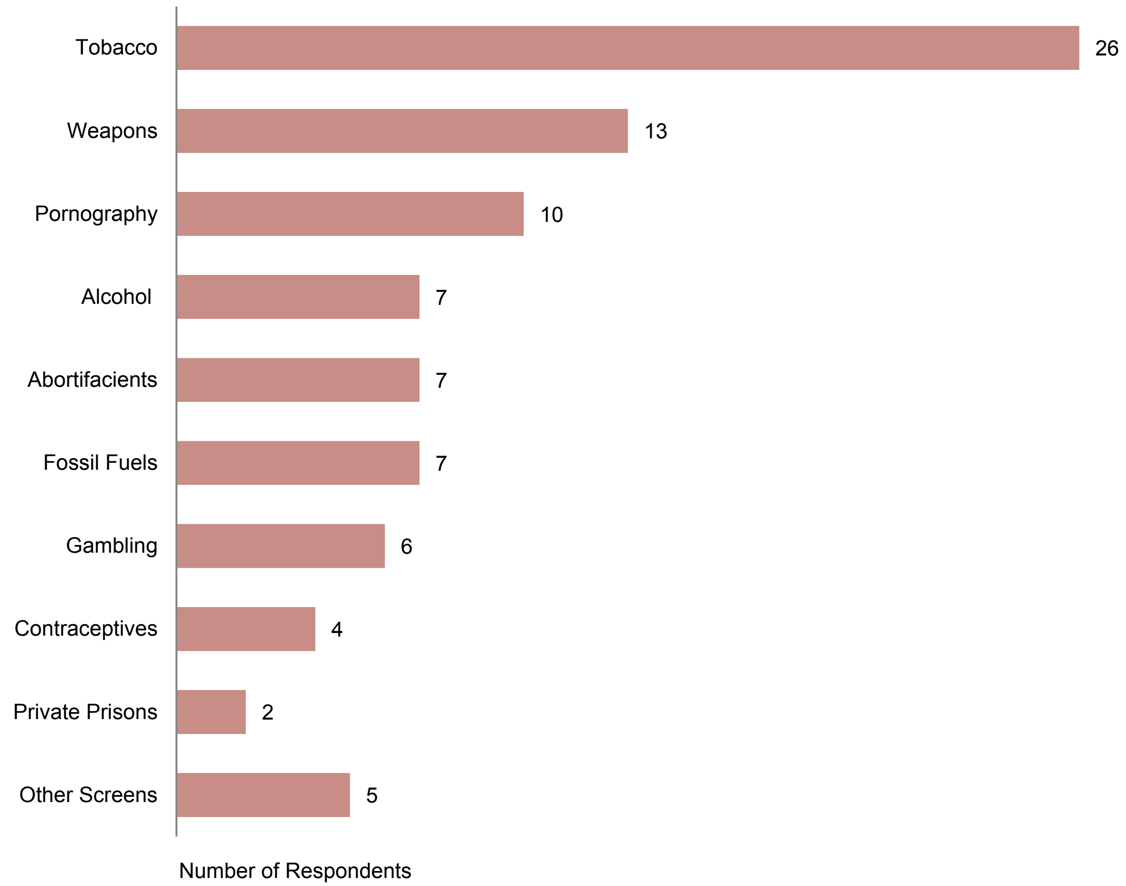



Source: Cambridge Associates Mission Related Investing Survey 2016.
Notes: "Other institutions" includes cultural & research institutions, hospitals, pensions, religious institutions, and other non-profit institutions. Respondents had the option to select multiple answers.

## 72% of MRI respondents reported applying negative screens to some or all of their portfolio, but specific exclusions vary by institution type

- Tobacco was far and away the most commonly employed exclusionary screen; the societal health risks associated with the industry appear to resonate across institutions.
- Other screens were more specific to distinct client types, such as abortifacients and contraceptives to religious and religiously-affiliated institutions, or fossil fuels to colleges and universities.
- Negative screens are applied with the most consistency across public equity and fixed income allocations, while many institutions appeared to exempt asset classes with a smaller universe of investable options, such as hedge funds and private investments.

**Negative Screens Taken into Account During the Investment Process**

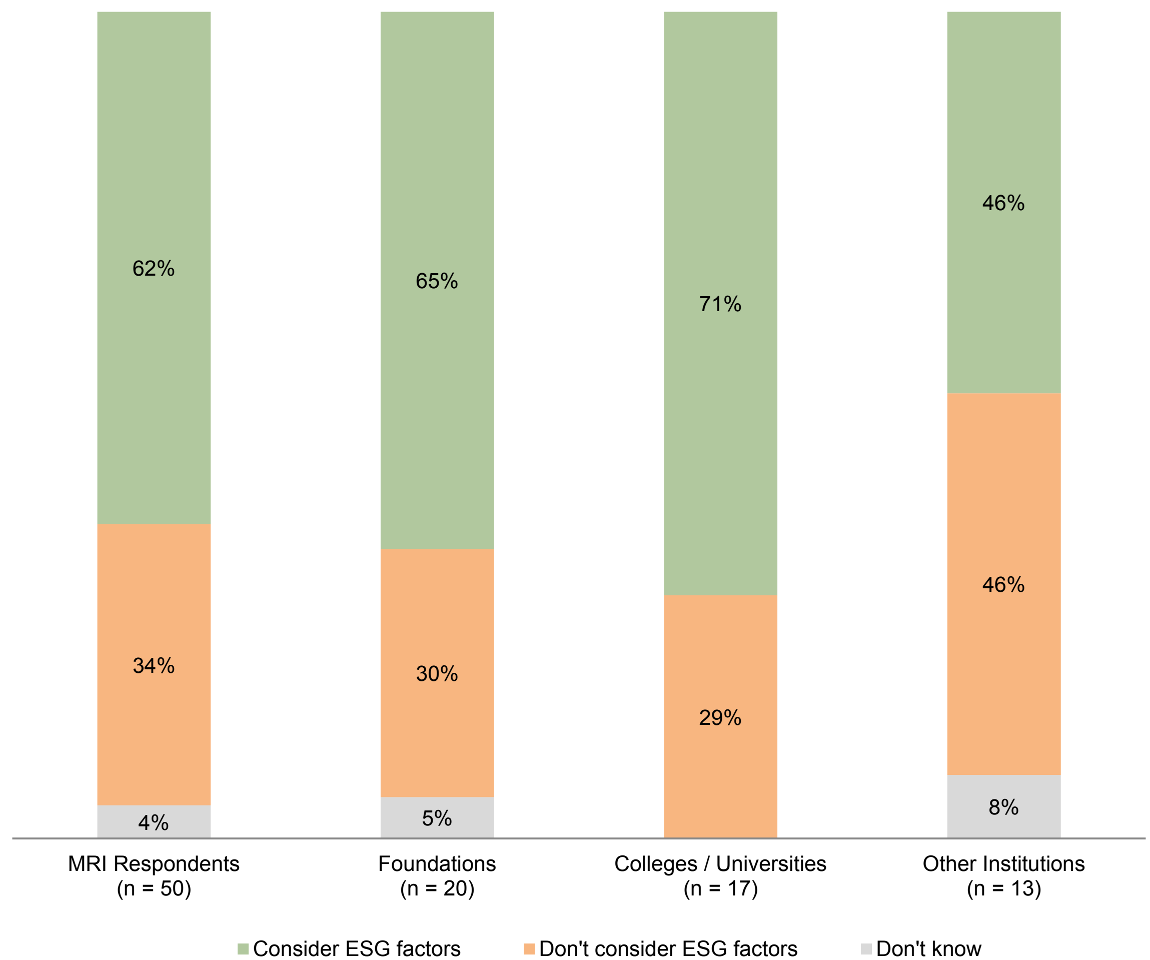



Source: Cambridge Associates Mission Related Investing Survey 2016.
Note: Answered by 36 institutions who had the option to select multiple responses.

## ESG is a common implementation strategy across institution types

- 62% of MRI respondents reported considering ESG factors during their investment process.
- 61% of these institutions highlighted public equity as the asset class in which they have invested the most capital in ESG strategies, followed by fixed income.
- 42% of those considering ESG factors cited hedge funds as the asset class in which it is *most difficult* to find ESG opportunities.
- These trends are reflective of the broader ESG manager universe; hedge funds have remained a relatively static component of the ESG strategies in our database despite rapid growth in the segment as a whole.

**Consideration of ESG Factors in Investment Decisions**

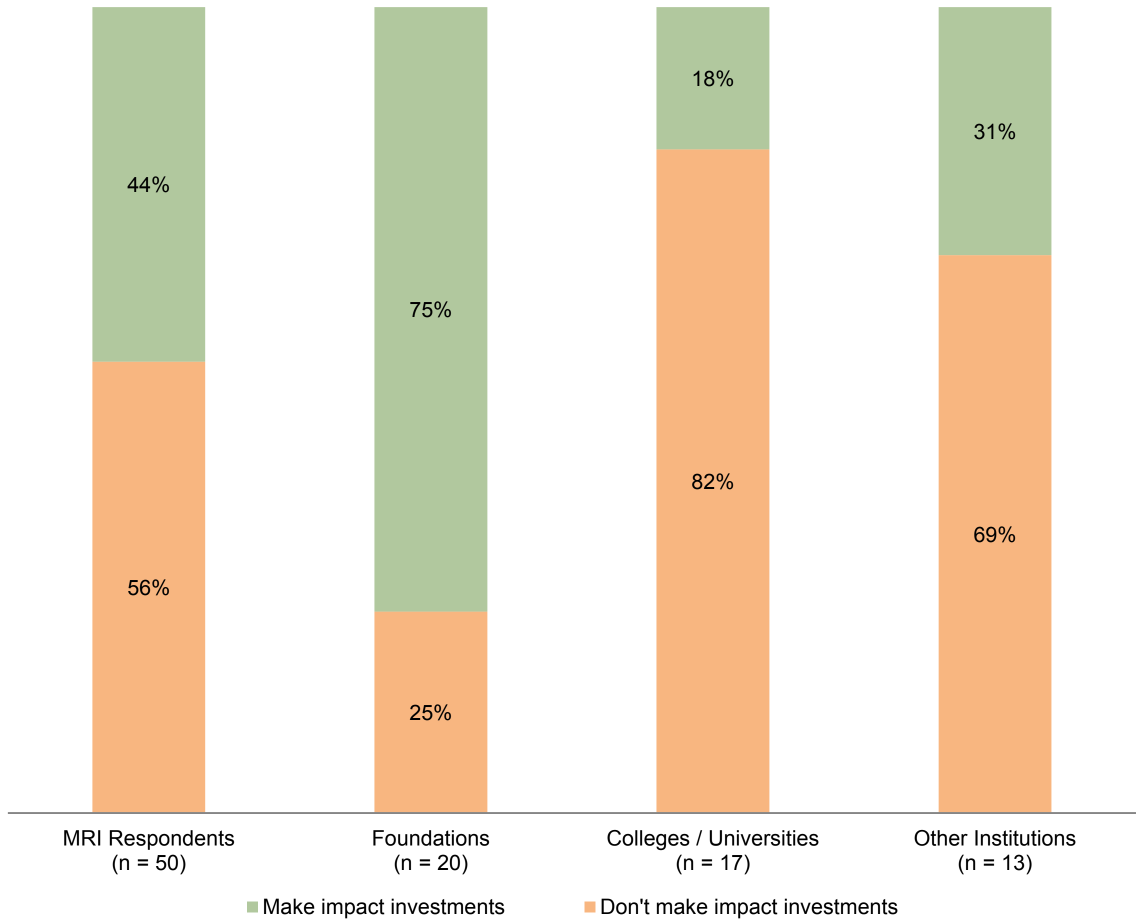



Source: Cambridge Associates Mission Related Investing Survey 2016.
Note: “Other institutions” includes cultural & research institutions, hospitals, pensions, religious institutions, and other non-profit institutions.

## Less than half of MRI respondents make impact investments, which are most commonly used in foundation portfolios

- Most foundation respondents (75%) make impact investments, and foundations compose 68% of institutions making impact investments.
- Colleges and universities are much less active in impact investing.
- Respondents noted having the most impact investing capital in private equity & venture capital and fixed income. Both of these asset classes offer investors a more direct ownership stake in investees, a feature important to many impact investors.
- Respondents singled out hedge funds as the asset class with the least opportunity for making impact investments.

**Institutions Making Impact Investments**

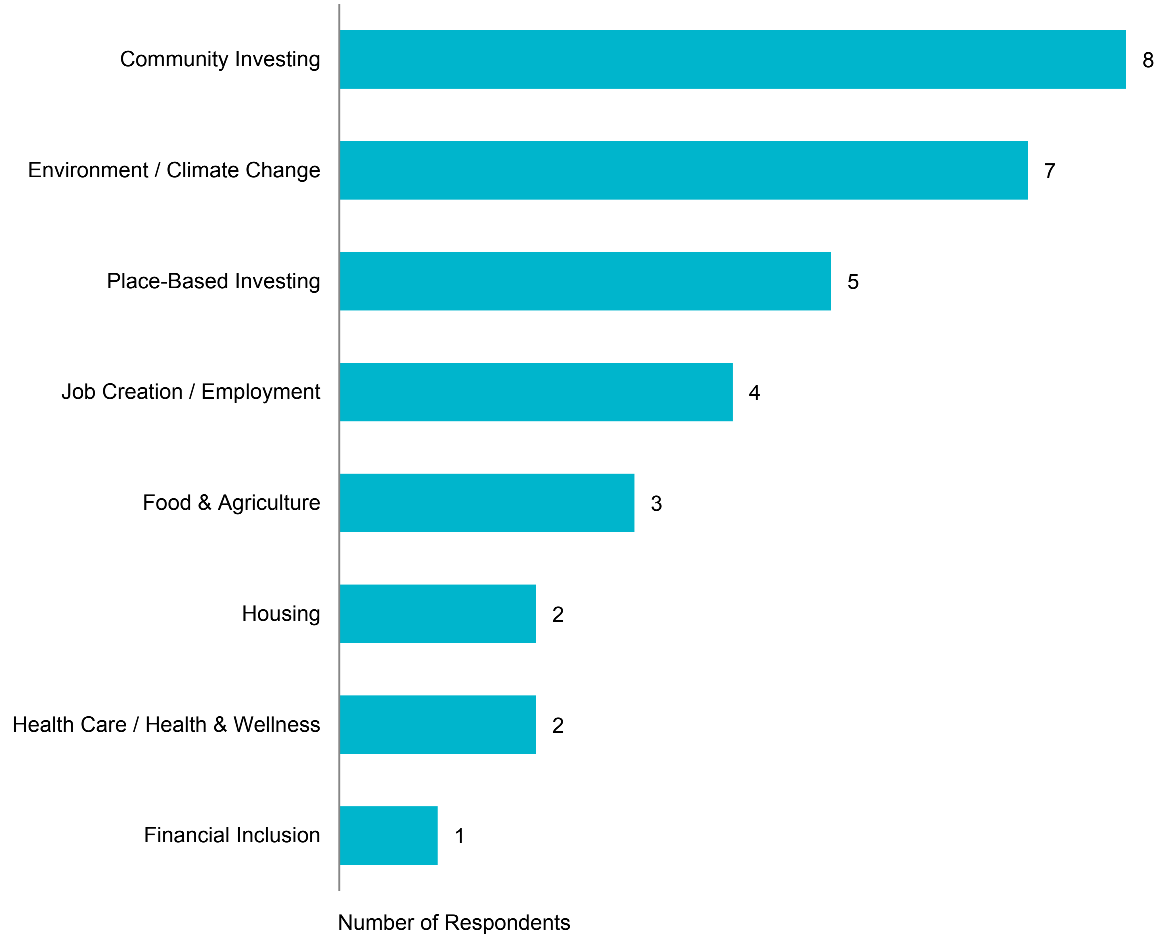



Source: Cambridge Associates Mission Related Investing Survey 2016.
Note: "Other institutions" includes cultural & research institutions, hospitals, pensions, religious institutions, and other non-profit institutions.

## Within impact investments, the allocation of capital across themes varies significantly among institutions

- Foundations, two-thirds of the impact investment respondents, tend to be more geographically or community focused than other institutions. Unsurprisingly, community and place-based investing emerged from our survey as two of the most common impact investing themes in which investors have deployed capital.
- Place-based investing was also noted by respondents as one of the most difficult areas in which to deploy impact investing capital, reflecting the lack of a robust market for quality, investable opportunities that are also geographically specific.
- The environmental space was also noted as an area where respondents making impact investments have deployed the most capital, matching trends noted earlier on thematic issues taken into account during the investment process.

**Impact Investments: Themes with the Most Invested Capital**

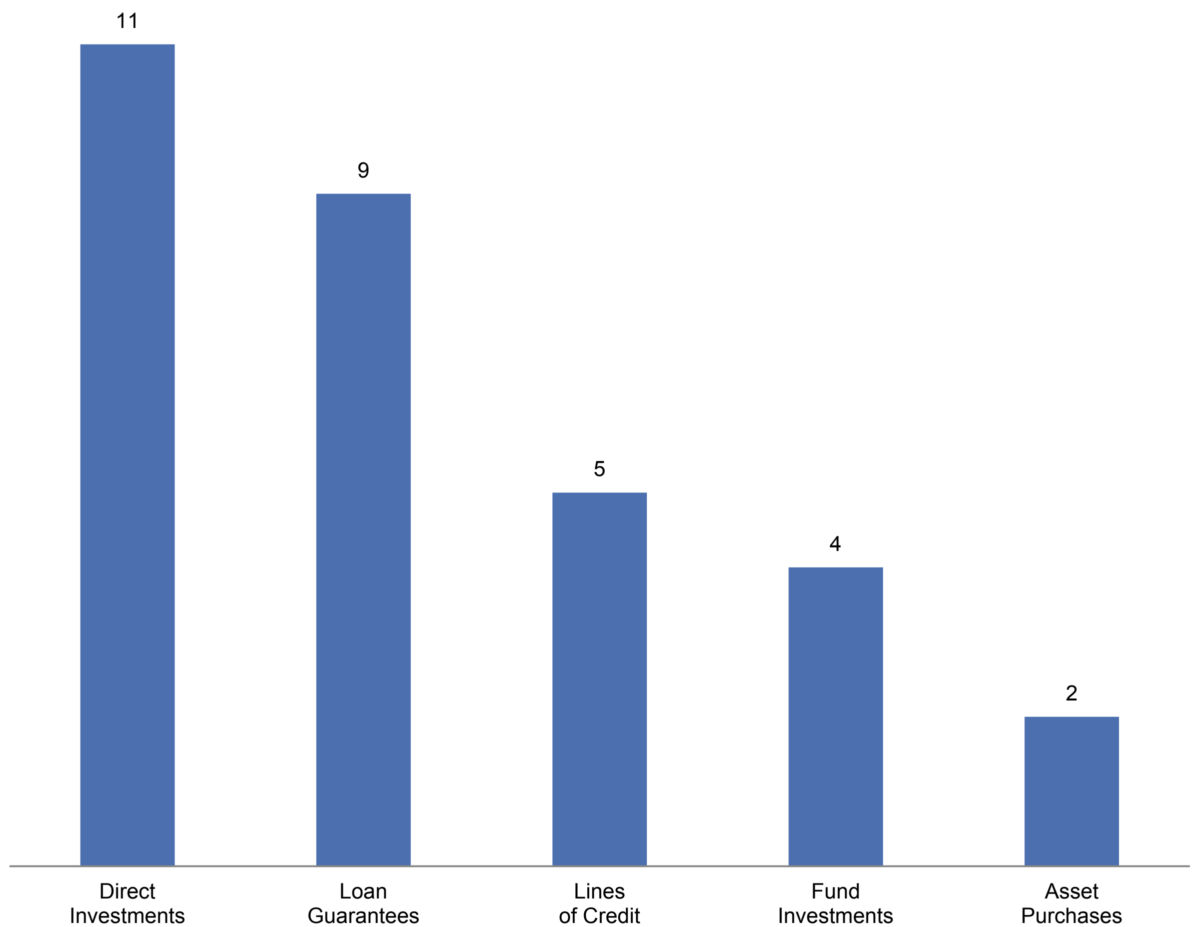



Source: Cambridge Associates Mission Related Investing Survey 2016.
Note: Reflects the number of institutions that selected the theme as their first or second choice of the 18 institutions that responded.

## Program-related investments (PRIs) are another strategy commonly used by foundations; PRI implementation takes a variety of forms

- While PRIs were not a common form of MRI implementation overall, 75% of foundations reported making PRIs. Given the legal and tax structure related to the use of PRIs by non-profit organizations, it is not surprising that PRI activity was concentrated among foundations.
- Of those institutions making PRIs, direct investments and loan guarantees were the most commonly used structures.
- 53% reported using more than one form of implementation.
- 82% reported that they measure the financial performance of PRIs separately from the long-term investment pool.

**Structures Used to Make Program-Related Investments**




Source: Cambridge Associates Mission Related Investing Survey 2016.
Notes: Answered by 17 institutions that had the option to select multiple answers.

## One-quarter of MRI respondents engage in active ownership strategies

- Nearly all of those engaged in active ownership reported using both proxy voting and shareholder engagement to execute these strategies.
- For proxy voting, a larger proportion of respondents work with external service providers versus managing activities in-house or relying on investment managers.
- Methods of implementation were more evenly distributed for share-holder engagement activities. Most of the institutions managing active ownership in-house had more than $1 billion in assets under manage-ment.

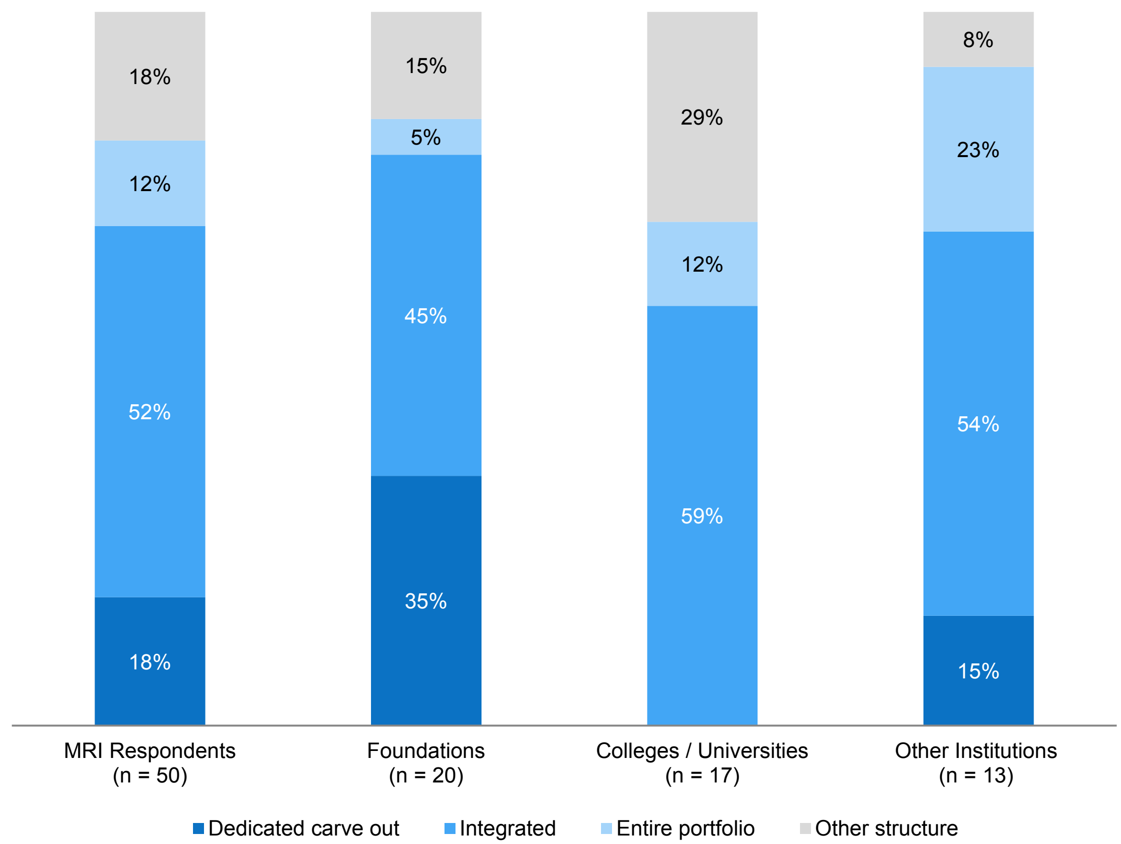
**How Institutions Engage in Active Ownership Strategies**


Source: Cambridge Associates Mission Related Investing Survey 2016.
Note: Respondents had the option to select multiple answers.

## Most institutions favor an integrated approach when structuring their MRI programs

- The majority of respondents have integrated their mission-related investments alongside traditional managers in the broader investment portfolio.
- A smaller subset of institutions, primarily in the foundation space, has carved out a portion of the long-term investment portfolio to devote to MRI. An even smaller subset seeks total portfolio alignment with MRI objectives.

**MRI Program Structure Among Institutions**

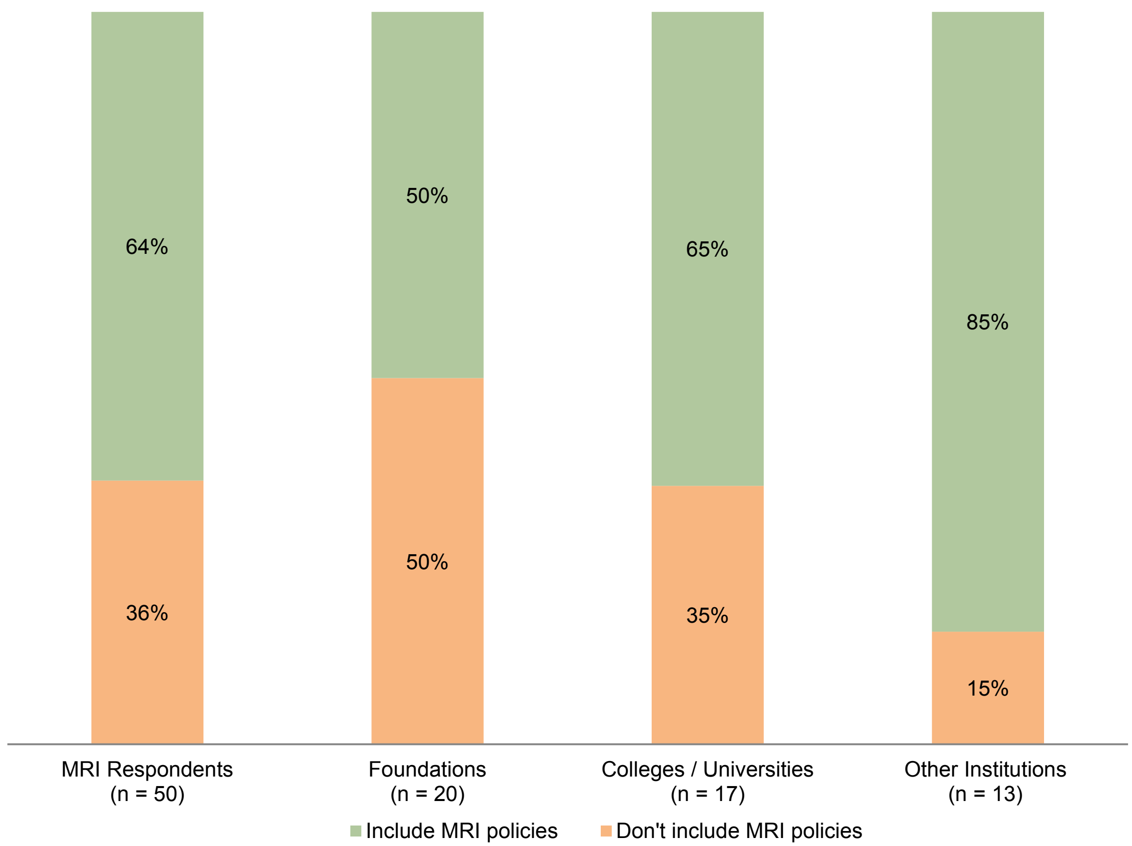



Source: Cambridge Associates Mission Related Investing Survey 2016.
Note: "Other institutions" includes cultural & research institutions, hospitals, pensions, religious institutions, and other non-profit institutions.

## Most institutions include MRI objectives within their investment policy statement (IPS)

- 64% of respondents reported that MRI objectives are addressed within the institution's IPS.
- 32% of respondents have a distinct policy document that specifically addresses MRI objectives; such documents include MRI policy statements, criteria for making PRIs, and guidelines for shareholder engagement, among others.

**Inclusion of MRI Policies in the Investment Policy Statement**

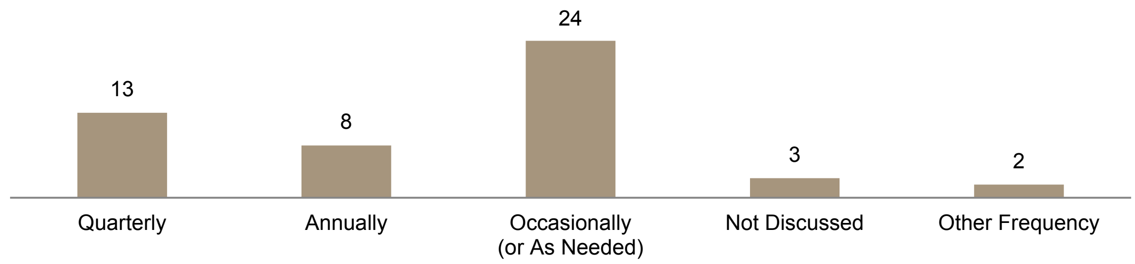



Source: Cambridge Associates Mission Related Investing Survey 2016.
Note: "Other institutions" includes cultural & research institutions, hospitals, pensions, religious institutions, and other non-profit institutions.

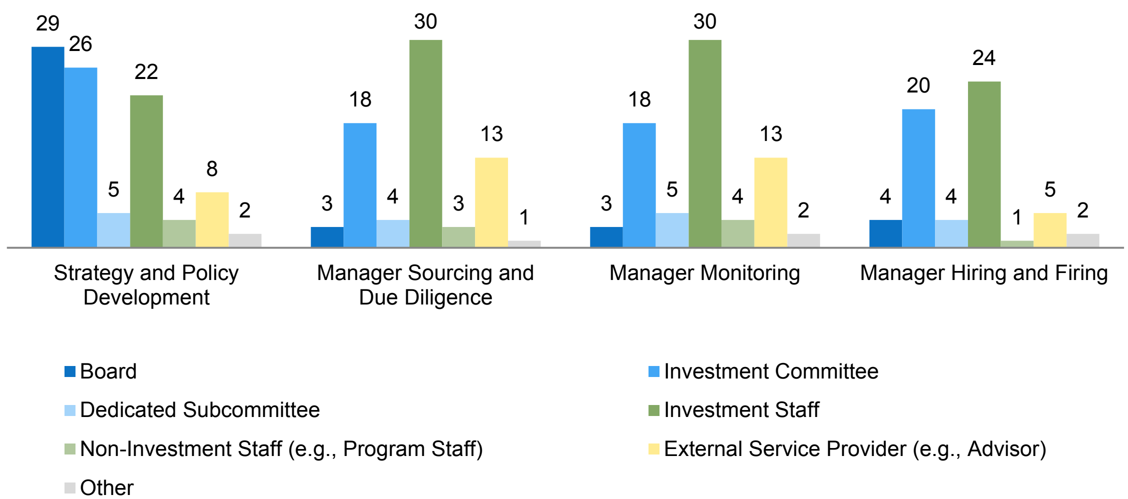
## There is no one-size-fits-all approach to development and oversight of MRI programs; governance takes a variety of forms

- MRI is not a regular agenda item at board or investment committee meetings for most respondents. Foundations were most likely to address MRI on a routine basis, with 60% reporting it as an agenda item either annually, quarterly, or "frequently." Colleges and universities, by contrast, primarily reported discussing MRI on an ad hoc basis.
- In terms of developing and executing MRI strategies, most institutions only involve the board at the strategy level, while the investment committee and investment staff are active across all MRI activities.
- Only a small subset of respondents have a subcommittee dedicated to MRI; most of these institutions have upwards of $500 million in assets.

**Frequency of MRI Strategy Discussions at Board or Investment Committee Meetings**




**Responsibility for Developing and Executing MRI Policies**



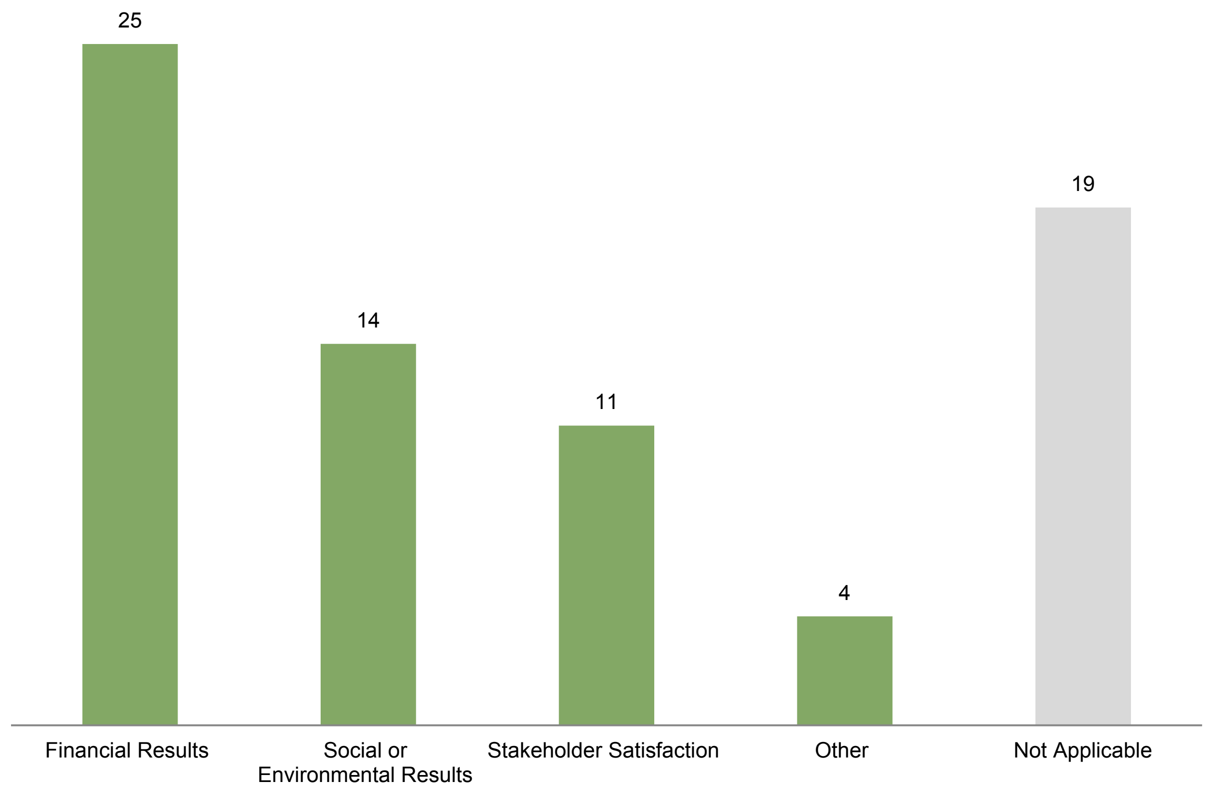

Source: Cambridge Associates Mission Related Investing Survey 2016.

Notes: Reflects the responses of 50 institutions. "Other" responses on MRI strategy discussions were "three times a year" and "frequently." Respondents had the option to select multiple answers for who has responsibility to develop and execute MRI policies.

## When evaluating outcomes, investors consider financial performance the most important measure of an MRI program's success

- This finding indicates that many MRI investors are not willing to sacrifice returns for mission-alignment.
- Approximately half of the respondents using financial performance as a measure of success are also considering social and environmental results. Only two institutions measure success on social or environmental outcomes without regard to financial performance.
- Foundations—more so than any other institution type—are considering social and environmental results alongside of financial performance.

**Measures Used to Evaluate the Success of MRI Programs**

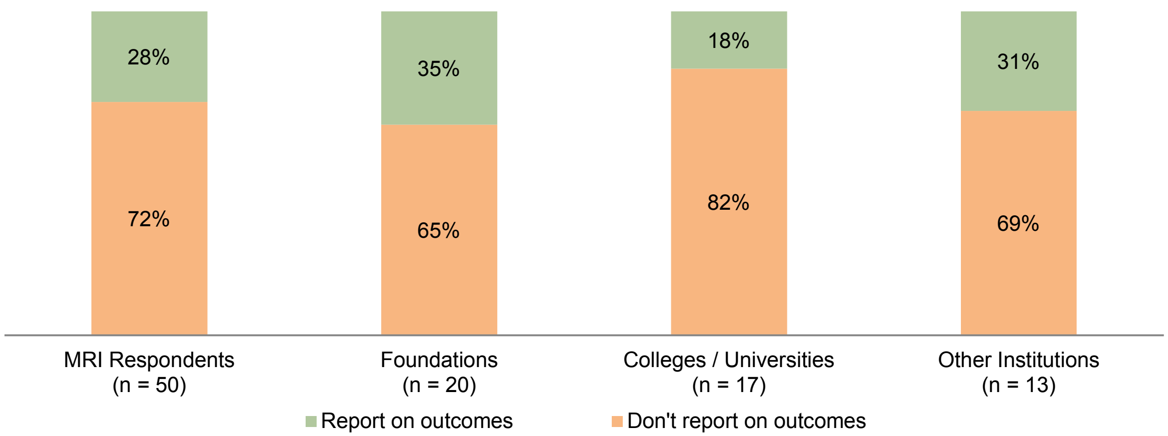



Source: Cambridge Associates Mission Related Investing Survey 2016.
Note: Answered by 50 institutions that had the option to select multiple answers.

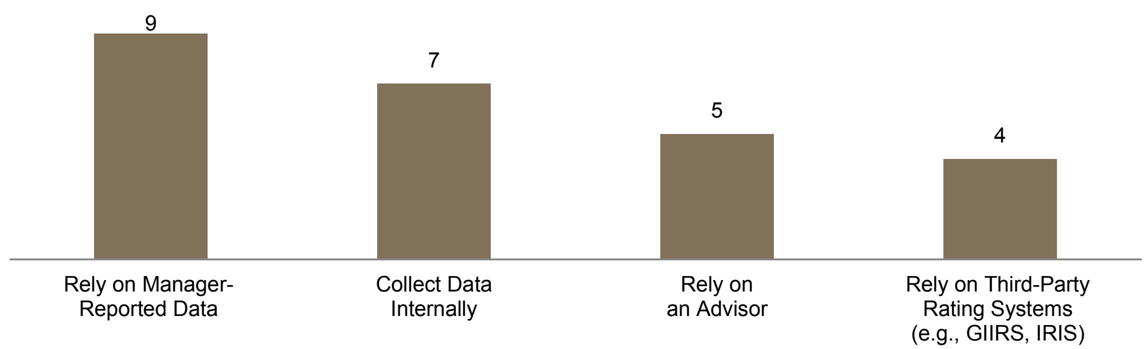
## Few respondents are reporting impact outcomes

- Reasons cited for not reporting on non-financial outcomes include a lack of available data and/or a lack of resources to do so.
- Of those who do report on social or environmental outcomes, most rely on fund managers to provide relevant impact data.

### Institutions Reporting on Social or Environmental Outcomes of MRI Programs




### Methods for Collecting Social or Environmental Impact Data



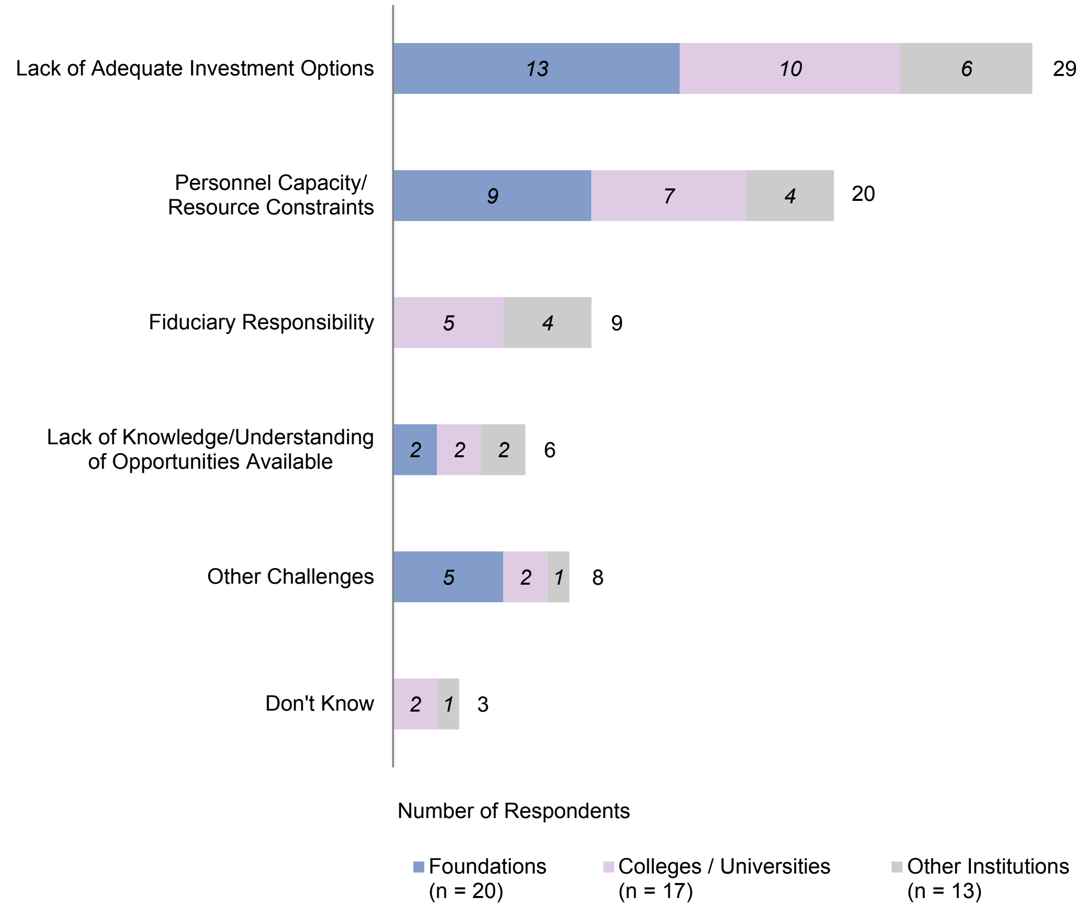

Source: Cambridge Associates Mission Related Investing Survey 2016.

Notes: "Other institutions" includes cultural & research institutions, hospitals, pensions, religious institutions, and other non-profit institutions. Question on methods for collecting data answered by 13 institutions who had the option to select multiple answers.

## When considering challenges to implementing MRI programs, respondents cited a limited investment universe as a primary concern

- The lack of adequate investment options was of concern to all respondent types as they looked to implement MRI programs.
- Personnel and resource capacity was also cited as a consistent concern. Only 14% of respondents reported having staff members dedicated to MRI. Mission-related investing is a complex and diverse space that can be difficult to navigate without sector expertise.
- A handful of respondents also pointed to concerns regarding fiduciary responsibility as an impediment to deploying more capital into MRI. Notably, no foundations view this as challenge.

**Challenges in Implementing MRI Strategies**



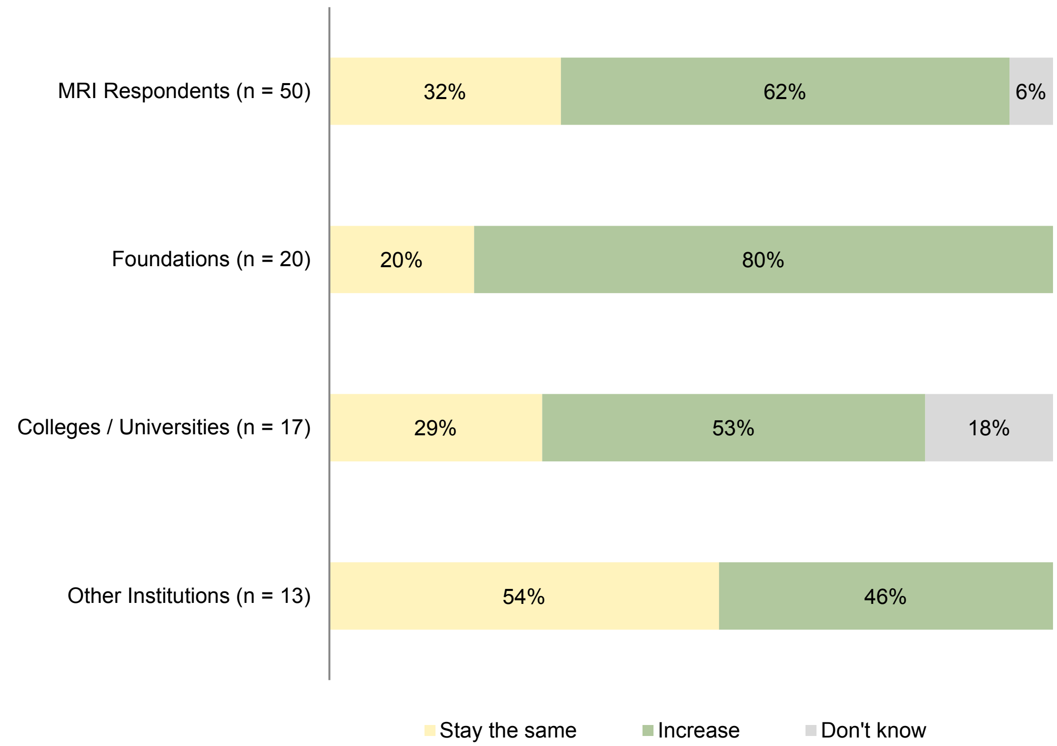

Source: Cambridge Associates Mission Related Investing Survey 2016.
Notes: "Other institutions" includes cultural & research institutions, hospitals, pensions, religious institutions, and other non-profit institutions. Respondents had the option to select multiple answers.

## Almost two-thirds of MRI respondents plan to increase their allocation to MRI over the next five years

- This trend was consistent across client types, but particularly strong among foundations, 80% of which expect to increase their allocation.
- None of the respondents expect to decrease their allocation over the next five years, which reflects the continuing commitmant to mission-related investing.

**Future Trends in Allocation to MRI in the Long-Term Investment Pool**

Anticipated Changes to Allocations Over the Next Five Years

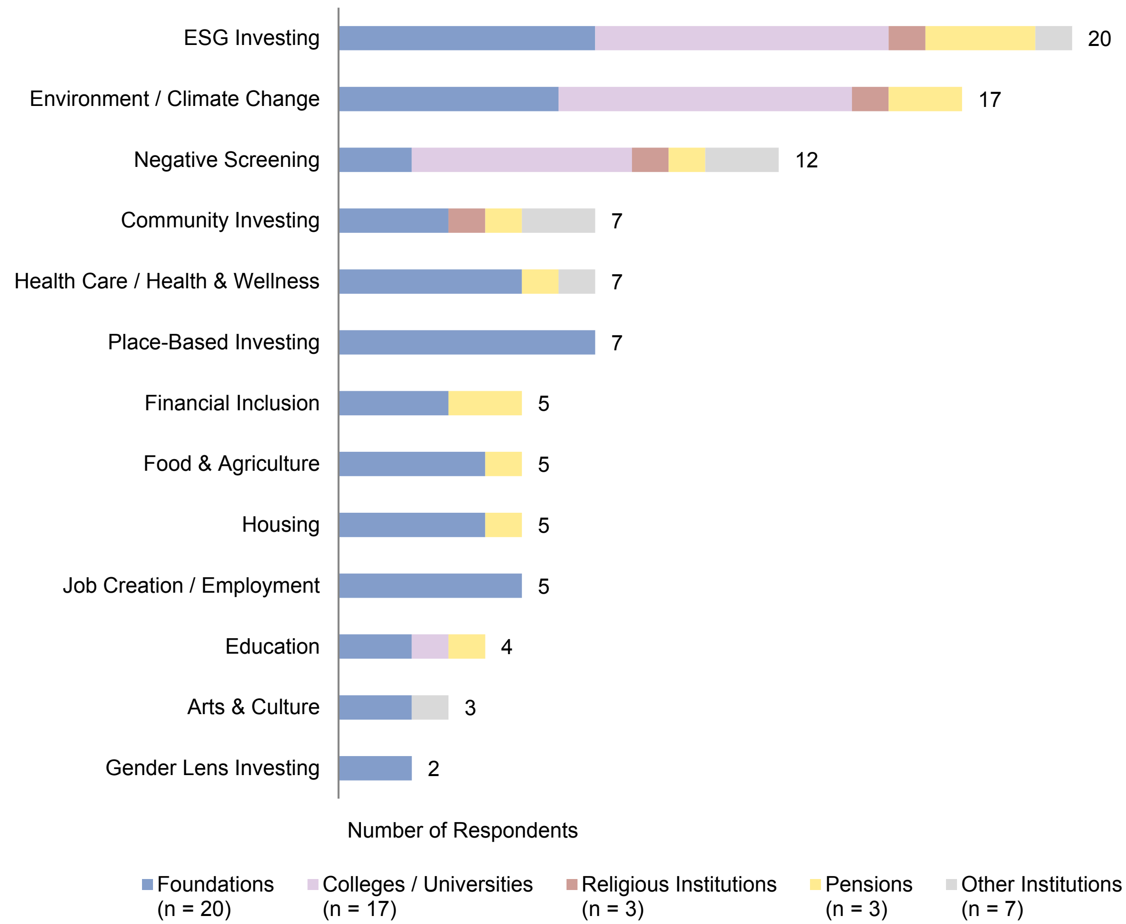



Source: Cambridge Associates Mission Related Investing Survey 2016.
Note: "Other institutions" includes cultural & research institutions, hospitals, pensions, religious institutions, and other non-profit institutions.

## Looking forward, ESG and environmental investing will continue to be prominent themes for mission-related investors

- The greatest number of respondents expect to increase investments into ESG and environment/climate change–related investment strategies.
- Colleges and universities are primarily focused on ESG and the environment, while areas of growth for foundations and other institutions are more diffuse across themes and implementation strategies.
- Regardless of theme or focus, the MRI opportunity set is poised for continued growth as more strategies come to market to meet investor demand and address these concerns.

**MRI Themes with the Most Anticipated Growth in Investment Activity**




Source: Cambridge Associates Mission Related Investing Survey 2016.
Notes: Institutions had the option to select multiple responses; eight did not select any of these themes. "Other institutions" includes cultural & research institutions, hospitals, and other non-profit institutions.

# Glossary of Terms

**Active Ownership:** Using one's position as a shareholder to influence corporate culture and to shape corporate policies and decisions. Specific strategies include: proxy voting, shareholder resolutions, and informal engagement with corporate management.

**Climate Risk:** The risk that climate change—defined as the long-term evolution of global and regional weather patterns driven by the rising level of greenhouse gas emissions—has the potential to materially impact businesses, economic assets, and communities over the coming decades.

**Community Investing:** The practice of directing capital from investors and lenders to communities that are under-served by traditional financial services institutions. Community investing provides access to credit, equity, capital, and basic banking products that these communities would otherwise lack.

**Environment, Social, and Governance (ESG) Investing:** The incorporation of environmental, social, and corporate governance criteria into investment analysis, decision making, and portfolio construction.

**Financial Inclusion:** The delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society. This includes microfinance strategies.

**Impact Investing:** The practice of investing capital with the objective of achieving measurable positive social and/or environmental impact alongside financial returns.

**Loan Guarantees:** The practice of an investor pledging collateral assets to provide a guarantee to a financial intermediary who in turn makes a loan to a third party organization.

**Mission-Related Investing (MRI):** The practice of using investments to directly achieve, or be aligned with, an institution's mission goals. This can include a variety of strategies and approaches, including, but not limited to: negative screening, ESG investing and strategies, impact investing, and program-related investments.

# Glossary of Terms

**Negative Screening:** The practice of excluding a security or securities from a portfolio based on certain environmental, social, or governance criteria.

**Place-Based Investing:** The practice of investing capital locally, through community ownership and access mechanisms such as local banks and municipal bonds.

**Program-Related Investments (PRIs):** Investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame. PRIs are counted as part of the annual distribution (at least 5% of its endowment) a private foundation is required to make. The IRS defines program-related investments as those in which:

- the primary purpose is to accomplish one or more of the foundation's exempt purposes;
- production of income or appreciation of property is not a significant purpose; and
- influencing legislation or taking part in political campaigns on behalf of candidates is not a purpose.

**Proxy Voting:** An avenue by which institutional stock owners have the potential to influence a company's operations, corporate governance, and social responsibility by voting proxies in a manner that is consistent with the institution's non-monetary objectives.

**Shareholder Engagement:** The active exercise of the rights of shareownership, including proposing or co-filing shareholder resolutions and engaging with corporate management.

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