

Compounding Impact:

Mission Investing at the VCF

In recent years, the Vermont Community Foundation has taken a closer look at developing a more meaningful approach to investments. The goal is to synchronize the necessary return-oriented investment strategy with a mission-oriented investment philosophy—a philosophy driven by the same values that guide the Foundation’s charitable spending.

“We’re taking a hard look at how we can more closely align our investments with our mission,” says VCF president & CEO Brian T. Byrnes. “When investing our pooled assets, we have a fiduciary responsibility to get the best possible return on our money. At the same time, we’re actively looking for ways in which these investment dollars can help advance the foundation’s values and extend the reach of our charitable giving programs.” With more than 500 distinct charitable funds under its umbrella, the VCF oversees approximately \$117 million in invested assets—ranking it among the top ten percent of U.S. community foundations—and awarded nearly \$14 million in total grants last year.

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Traditionally, many community and private foundations across the country have established a “firewall” between how the organization’s money is invested and how the resulting grant dollars are spent. But there is another approach, and it is on the rise—not only at VCF, but also at other like-minded foundations nationwide. One example is the Nathan Cummings Foundation, based in New York City, which manages an endowment of approximately \$500 million. “Companies that do not consider the long-term implications of their environmental and social practices may maximize short-term profitability but fail to develop sustainable, long-term business models,” says the Foundation’s position statement. “Such a failure impacts not only long-term shareholder value but also the quality of our society.” This dynamic link between social

responsibility and the bottom line also drives the financial decision-making at the Jessie Smith Noyes Foundation, which monitors its investments and advances its mission by introducing shareholder resolutions, voting proxies, and encouraging companies such as McDonalds, Goodyear, and Samsung to adopt better business practices.

Investing Locally

The question — how can an organization invest its assets in ways that advance, rather than sidestep or, at worst, undermine the resulting grant dollars that it spends? — is common to many foundations. But it's not a new subject at the VCF. It has been the topic of thoughtful discussion, and successful action, at the VCF since 2001, when the foundation's board of directors first requested that five percent of its invested assets be invested to directly benefit Vermont. Two years in development, this well-established community-investing component at the VCF now includes low-interest community development loans, high-quality bonds made up of low-income mortgages, and start-up business ventures.

“As we began to talk to people around the state and across the country about this initiative, we were surprised to learn we were doing something quite unusual,” says Faith I. Brown, the VCF executive vice president for finance and operations. “Not many foundations are doing this work, mostly because it's not easy. It's not like you can buy a mutual fund that consists only of Vermont-based direct investments in low-income communities. You have to be committed to finding the opportunities and making it work.” One solution involved working with intermediary organizations, such as the well-regarded Calvert Foundation. Calvert recommends investments, provides due diligence, and administers the community-investment portfolio for the VCF.

Investing Socially

Besides direct community investing, the VCF now provides a socially responsive investment (SRI) pool for its donors. Separate from the Foundation's primary investment pool, the SRI includes only companies that have passed a series of screens. The screening policies vary by investment fund, but typically include such parameters as environmental impact, corporate governance, labor relations, workplace diversity, product safety, and human rights. All share in the belief that companies with socially responsible business practices, in the end, offer a better long-term investment vehicle for shareholders.

Socially responsible investing, which now represents approximately \$40 billion across the country, is still being defined—and debated—by money managers and shareholders alike. The VCF is actively engaged in this complex dialogue. “When investing our dollars, we look for skilled money managers, appropriate asset allocation, and performance,” says Brown. “As we move beyond those key financial criteria into SRI, a number of questions emerge. What does it mean for a company to be ‘socially responsible,’ and how is that defined? The definition can vary by individual, by company, by money manager, and by investment fund. Along with other foundations, we’re sorting through these definitions and developing some of our own.”

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Shareholder Action

The VCF has adopted other ways of connecting its investments with its mission. It has recently developed proxy voting guidance that it distributes to its investment managers. The managers are encouraged to use this guidance when voting on behalf of the VCF as a corporate shareholder. The recommendations take a stand on four key areas that advance the VCF mission: good corporate governance, environmental stewardship, community well-being and citizenship, and workplace diversity and equity.

“How we define ‘socially responsible’ will reflect our core values, which center on the greater good for the community,” says VCF President & CEO Byrnes. “We will look for investment vehicles that adhere to key environmental, social and governance principles that benefit healthy and vital communities here in Vermont, across the nation, and around the globe.”

The VCF also serves as an active shareholder in its own right. In 2003, the VCF joined the Interfaith Center for Corporate Responsibility in co-filing a shareholder resolution aimed at improving diversity and equal opportunity in the workforce, as well as on the board of directors, at corporate giant Bed Bath & Beyond, Inc. (Bed Bath & Beyond eventually changed its management practices and the resolution was withdrawn.) The VCF believes it is the first community foundation in the nation to take such action. “We see shareholder activism as an important tool,” says Byrnes. “It uses democratic process to put pressure on a company to do what is right.”

The VCF has also joined the Sudan Divestment Task Force, a national network that's helping institutional investors divest responsibly from companies linked to the genocide in that nation. The task force published a list of the worst corporate offenders in the Sudan; the VCF followed up by researching its extensive portfolio to see if it included any of these firms. Two of its funds did, so the VCF wrote letters to the respective fund managers. "The dialogue has just begun," says Brown. "We see it as an exchange of information. The more money managers learn about these companies, and the more they hear from investors and shareholders like the VCF, the more they'll have to consider whether this is a critical investment to keep."

The proactive efforts to grapple with this complex issue — through open dialogue and new initiatives — has made the VCF an engaged and important voice in the debate about mission investing that is just starting to take hold among community foundations. The VCF staff has presented these ideas at several national conferences and has received some corresponding attention from the media.

"We're taking a hard look at how we manage the money behind the grants, and we want to engage with other foundations in this complex work," says Byrnes. "It's not easy to balance financial and social interests; the issue is complicated and challenging. But we're obligated to roll up our sleeves and find some answers."