



PRIME

Primer for the Responsible Investment and Management of Endowments

The Bellagio Forum / Eurosif PRIME Toolkit, produced in cooperation with the European Foundation Centre, aims at helping trustees better understand and integrate Responsible Investment practices (often called Socially Responsible Investment or SRI) into mandates they give to asset managers entrusted with the management of their endowments. We aim to provide readers with a resource to assist them as these factors become increasingly relevant to good asset management and the expectations of the public and various stakeholders.

Over the last decade, we have observed a growing tendency to take into account non-financial aspects of asset management. The Primer for Responsible Investment Management of Endowments (PRIME) is an initiative by the Bellagio Forum for Sustainable Development to ensure that the assets endowed to foundations will be invested responsibly in line with the foundations' ethical and long-term sustainability objectives. The need for a practical guide for foundation trustees emerged after the Bellagio Forum conducted a survey among European and some other international foundations to map the current practices of investing and managing the foundations' endowments.

Our aim is to provide more clarity and greater understanding for all interested parties about how to better implement Responsible Investment practices. The Toolkit will serve not only endowed foundations, but also the mainstream financial service providers interested in better understanding Responsible Investment. We aim to provide readers with the resources they will need as these factors become more and more enshrined in national and trans-national legislations.

Objectives

The PRIME Toolkit is intended for trustees, officers and directors of foundations.

It addresses the following questions:

- Why should my foundation be interested in Responsible Investment at all?
- Should my foundation's boards be concerned about how our endowment is invested?
- Which Responsible Investment approaches are most appropriate to our foundation's overall mission and goals?
- Can a Responsible Investment strategy give returns equivalent to other investment approaches?
- What Responsible Investing mean in terms of fulfilling my fiduciary responsibility?

Readers should:

- Understand how their foundations might benefit from a Responsible Investment strategy.
- Be familiar with issues, players, strategies and ongoing initiatives
- Know what actions to take to get started
- Know where to look for further guidance

Main questions addressed in the Toolkit:

- (1) What is Responsible Investment? And what are perceptions of it?
- (2) Why is Responsible Investment important for foundations?
- (3) What is the fiduciary issue and evolving responsibility of trustees?
- (4) What are others doing?
- (5) What strategies are available?
- (6) What are emerging trends in Responsible Investment?
- (7) What should I ask asset managers and consultants about Responsible Investment?
- (8) How might I integrate Corporate Governance (CG) / social, environmental, and ethical (SEE) practices into investment principles?
- (9) What practical steps can I take – How do I “walk the talk”?



Highlights of the Toolkit

(1) What is Responsible Investment? And what are perceptions of it?

- There is a spectrum of financial tools to assist fund managers and trustees in engaging in more Responsible Investment practices. These tools include grants, programme/mission related investing, loan guarantees, 'blended value investing,' management of the asset corpus, venture philanthropy, and public market indices.

- Responsible Investment is an evolving movement, reflected in a growing awareness by the general population, the larger investment community, companies and governments of the impact of social, environmental and ethical (SEE) risks.

- While current investor research and practices challenge this belief, more than 43% of foundations surveyed in the Bellagio Forum study indicated that using sustainable/social criteria in managing an institution's assets reduces returns, compared with 16% who believed they increased it and 15% who thought that it made no difference.

- Only 39% of the foundations surveyed stated they presently coordinate their mission/programmes and asset management practices, whereas 61% said that there should be links.



(2) Why is Responsible Investment important for foundations?

- Some want to align the ethical guidelines set in their programmes to help guide their investment practices.
- Others feel that Responsible Investment helps them to reduce their reputational risk.
 - RI often includes factors such as Corporate Governance and management quality, which allow shareholders to voice their perspective on critical corporate issues while also protecting their interests as shareholders.
 - The business case for RI, in part, is that engaging in such practices helps investors and the companies in which they invest to minimise reputational risk, address possible environmental liabilities and account for governance practices that may affect financial performance over the long-term.
 - RI may assist trustees in greater fulfilment of their fiduciary responsibilities by engaging them in deeper oversight of how their institution's total assets are managed, and not simply the grant making programme.



(3) What is the fiduciary issue? The evolving responsibility of trustees

A 'prudent trustee' understands that 'assets managed to satisfy long-term liabilities should be invested to achieve returns over the long-term'. Trustees understand there are a variety of factors that might affect the long-term financial performance of their investments, including: corporate culture; emerging macro-economic trends; environmental growth potential; future license to operate; global climate change; human capital; stakeholder practices; strategic philanthropy; and unqualified environmental liabilities. This section also reviews the other guidelines for Responsible Investment.

(4) What are others doing?

Examples from the real world.

This section reviews examples of Responsible Investment practices at European and US foundations which may be of interest to other foundations exploring this topic.

Such practices include:

- Management of a venture fund
- Screens (positive, negative, and mixed screens)
- Investment in employee-owned businesses
- Letters to companies in their portfolio
- Participation in discussions about engagement strategies

(5) What strategies are available?

- Negative screening
- Positive screening
- Best-in-class portfolios
- Engagement
- Proxy voting
- Combining strategies

(6) What are emerging trends in Responsible Investment?

- Collaborative engagement and voting
- Global Compact initiative
- Integrated Asset Management Strategies

(7) What questions should I ask asset managers and consultants about Responsible Investment?

- Collaborating with existing managers
- Criteria for the evaluation of fund managers

(8) How might I integrate Corporate Governance (CG)/social, environmental, and ethical (SEE) practices into investment principles?

- Discussion of strategies

(9) Practical Steps: Walk the Talk

- Discuss
- Promote
- Decide
- Draft
- Follow-up



CONTACT:

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