ENDOWMENT STARTER KIT FOR FOUNDATIONS

On Mission Aligned Investing

Here's a fun and fast three-minute primer on why endowments are now a hot topic.

Let it whet your appetite, but read on, because this starter kit will give you everything you need to know.

UnTours Foundation
foundation@untours.com
www.untoursfoundation.com

mission
first and foremost

Endowments are an overlooked and underutilized tool. When put to work, they can increase a foundation's impact 20-fold or more. Here's why.

Foundations are required by the Internal Revenue Service (IRS) to use 5% of their assets annually toward their missions: this amount goes to grants and some overhead. Most foundation boards follow a one-hundred-year-old paradigm of handing the other 95% over to asset managers to grow the endowments as much as possible. Typically, this growth strategy includes investments in companies that use extractive and exploitative practices, including polluting technologies and poverty level wages. Financial gain is the single goal in this paradigm, with no attention to mission, values, or cost to society and our planet.

The result of this century-old money management formula is that endowment investments are typically at odds with foundations' missions. Think about it – it's 5% for mission and up to 95% ***against*** mission: clearly a negative sum. The **LA Times expose** on the Gates Foundation is an excellent look at how this foundation paradigm results in many foundations doing more harm than good for society. The Gates Foundation wasn't singled out as an exception but selected, unfortunately, for representing the standard fare.

Further, this paradigm results in boards of directors believing that fiduciary responsibility means preserving and growing their endowments when, in fact, fiduciary responsibility is to mission, first and foremost. Considering that foundation endowments in the United States total over $1.25 trillion dollars, there exists a tremendous opportunity to invest these funds in mission-related work that addresses some of our most critical issues, from climate breakdown to gender and racial equity. Isn't that what philanthropy is all about!?

So fear not! It is not as difficult and daunting to align your endowment with your mission as you may think! Other foundations have blazed an eco-friendly trail for you and are eager to share what they have learned. And this toolkit provides markers on the trail to guide you.

What is MIssion Aligned Investing (MAI)?

Simply put, it is the process of aligning your assets with your values and mission by investing in organizations that generate positive social andenvironmental impact alongside a financial return.

Where to Start: This is a pool party with no correct starting point. The most important thing is to simply start, whether by jumping off the high dive or wading slowly into the shallow end. For example, some foundations begin the journey with a speaker to their board from another foundation that is further along in the mission aligned journey. (Ask us! We will matchmake you to that foundation!) Others begin simply by jumping into the waters and moving their cash out of their Money Market account into a banking institution that is enhancing its community, such as a local credit union, a BIPOC-owned bank, or a Community Development Financial Institution (CDFI).

Or, take a deep dive into uncovering what's actually in your current endowment through a "Know What You Own" report by Andorra. A "Know What You Own" report is a great starting point, as it unveils and highlights holdings hidden deep within your endowment, many of which may undermine your mission. This new knowledge most often generates buy-in from the board and staff, and helps you make informed decisions about your investments based on the facts. Knowledge and motivation rolled into one! If you would like an even shorter step-by-step roadmap to mission alignment than what is provided in this Toolkit, we produced one for a HuffPost blog: **"Getting Past Inertia: Ten Simple, Valiant Steps To Align Your Foundation's Endowment With Your Mission – Or Not."**

Remember, you don't need the full board on board to take the learning steps. And once most board members understand and appreciate the opportunities through mission alignment, action steps will come easily.

Financial and Impact Gobbledegook

Investing your endowment does not require you to know every term. Industry lingo is often a smokescreen convincing us that money management is too complicated to understand and do ourselves. A great asset manager or consultant can speak effectively in lay terms. Here's a glossary of some of the basic terms to get you started.

Some Basic Financial Terms/Concepts for Foundations

Fiduciary Responsibility

This means staying true to your mission in all aspects of the work. It does not mean guarding and growing your endowment at all costs to your mission. **Here's our article in wealthmanagement.com** on the topic. The IRS Uniform Prudent Management of Institutional Funds Act (UPMIFA), approved in July 2006, states that funds should be invested "in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances." When Googling "prudent," the first definition that comes up is: "acting with or showing care and thought for the future." With climate crisis, racism, anti-semitism, genocide and other emergencies everywhere we turn, how can investing in things that fuel these crises ever be considered "prudent"?

Socially Responsible Investing (SRI)

SRI screens out things you do not want. This could include tobacco products, fossil fuels, animal testing, and armaments. As screens, SRI doesn't automatically invest you into things you do want. Depending on the specific screens and your foundation's mission, the SRI approach may in fact keep or put you in investments that harm your mission.

ESG Investing

Environmental, Social, and Governance (ESG) investing refers to a set of standards for a company's behavior. ESG is self-reported by some companies and is a work in progress. It is a hot button issue between some Democrats and Republicans. It is one of many tools to consider, but not to use alone. Low E, S, and/or G is also helpful in identifying companies that need pushing to be better; you can do that pushing through shareholder advocacy by your foundation (see below).

Program Related Investments (PRIs)

A PRI is an investment that fulfills a foundation's mission. It can take many forms, including a loan, an equity investment in a small business (like buying stock), or a loan guarantee. It may be part of the 5% that goes toward mission, or it may come out of the 95%. We encourage the latter, so that grants are not shortchanged in any given year. A PRI may be an investment that generates a below-market return, such as a low-interest loan to one of your grantees for them to start a revenue-generating business. When the PRI is repaid to the foundation, it can be recycled into other PRI's or given as a grant, but it cannot be counted toward

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of some of the basic terms

the required 5% distribution in future years. PRIs require the same year-end expenditure reporting as grants, and any income they generate is taxed at the same 2% rate as the income from stocks and bonds and the capital gains from stocks. Here's a sample template for your PRIs.

The Ford Foundation offers this short film on PRIs.

Mission Related Investments (MRIs)

An MRI is an investment that fulfills a foundation's mission. As with a PRI, it can be in many forms, including a loan, an equity investment in a small business (like buying stock), a public stock or bond, or a loan guarantee. Unlike PRIs, it is always part of the 95%.

Through MRIs, foundations consider their missions when selecting investments and not just financial return. By adding mission to the selection process, foundations may choose investments with lower or longer-term returns than they receive through conventional investments (that may counteract their missions), though the returns are still considered market rate by regulatory authorities. A 2015 statement from the IRS provided long-awaited clarity in support of MRIs. With both PRIs and MRIs, there are no ranges or limitations on the size and duration of the investments. The need informs the details.

MRIs require no more expenditure reporting than stock and bond holdings in your portfolio. We recommend using this category for most of your mission aligned investments. Once you get started, it's actually easy.

The Ford Foundation produced this two-minute film on MRIs.

Direct Community Investments

Many PRIs and MRIs are just that: investments into the community where your foundation also gives grants; it's an umbrella term. These can be PRIs or MRIs. Again, MRIs are less labor intensive for your staff since they don't require year-end expenditure reporting (as with grants), and most direct investments can be under the MRI rubric, whether they are local, national, or international.

Loan Guarantees

Without moving any money, foundations may offer financial backing on investments made to a third party such as a bank line-of-credit given to a foundation's grantee.

Guarantees allow the backed entities to receive lower interest rates and sometimes other benefits. Of course, if the lines-of-credit or loans are not repaid, the guarantee will be called, and the foundation will have to pay.

Catalytic Capital

This refers to "patient," higher risk, and flexible funding that is an essential tool supporting for-profits and nonprofits that are doing mission-driven, world-enhancing work and are denied access to capital at fair prices through conventional banks and other sources. This capital often helps de-risk investments by representing the confidence of early investors who are the first to jump in. This in turn unlocks these opportunities for more cautious investors and generates the capital necessary for the endeavor to succeed. PRI and MRI investments can act as "catalytic capital."

Community Development Financial Institutions (CDFIs)

CDFIs are banking institutions that provide capital and services to low-wealth and underserved communities. Some have a particular focus, such as revitalizing neighborhoods or supporting BIPOC entrepreneurs. They receive federal funding along with investments from individuals and institutions such as foundations.

matching your values with your investments

Your Asset Management

Between direct commissions plus hidden fees in many investments, you are invariably paying your asset manager a great deal. For that amount, you should receive excellent and clear guidance and service.

Your asset managers should be able to talk you through these MAI options without shutting you down and without talking you out of matching your values with your investments. If not, you probably have the wrong managers. Do they have experience in matching investments with mission and values? Can they, will they perform due diligence on investments you bring to them from outside the stock and bond markets? Can they, will they suggest such investments to you on their own? Your managers should make this work lighter for you, not heavier.

Somewhere along the line, we all received the message that it is akin to infidelity to switch asset managers – and hairdressers! – but the biggest part of fiduciary responsibility is doing what is best to fulfill our foundations' missions. And remember, it's YOUR foundation's money, not theirs. Don't worry about making them feel bad; they'll do just fine without you.

Identifying the right asset manager or consultant to work with your foundation:

If you need new asset management, ask us and others for suggestions. Here's a list with a start of asset managers and consultants to reach out to. Or, ValuesAdvisor, a subscription service at $250/year, offers a curated list of those with experience in investing through a mission lens.

Submit Requests for Proposals (RFPs) to those that look to be a potential match for your foundation. Here's a short and sweet sample.

The short, sweet, and to-the-point RFP

Founded in ______ (year), the _____________ Foundation seeks a financial advisor/consultant to help us move our $____________ endowment into 100% mission alignment. Advisor/consultant shall provide strategy, guidance, and investment due diligence in public and private markets. We invite meetings with advisors who are familiar with our ________________ (region? size? mission?) and experienced in using a mission lens in selecting investments.

Our alignment priorities include ____________________ (for ex., racial equity, gender justice, climate justice, families and children).

[Belief statement to help attract the right advisors. Sample:] We believe that foundations and other nonprofits, as holders of wealth created from exploitative and extractive activities, must lead in investing funds to repair centuries of injustice. As fiduciaries, we believe our commitment is to our mission and not to hoard wealth.

Our mission statement is: [Insert here].

Our current Investment Policy Statement is attached.

Please include your fee schedule and if it includes performing due diligence on potential investments that are outside of the stock and bond markets.

Please contact _________________ at _________________________ (email or phone).

Investment Policy Statement (IPS)

Once you've found the right investment partner, it is important to clearly articulate your mission aligned investing intentions and expectations to your advisor; you do that through the Investment Policy Statement.

Most foundations have an Investment Policy Statement (IPS) that is a fill-in template provided by their asset managers. Many IPSs don't even include a foundation's mission statement. Most foundation board members have not read their IPS or even know one exists.

There are no legal qualities for an IPS, but here are some ingredients to consider including in yours:

- Your mission statement. This is your IPS guiding star.
- Your overall investment strategy and philosophy. A commitment to 100% or ______% mission alignment? A desire to maintain, grow, or spend down your endowment and at what rate? A commitment to racial and gender equity, from who manages your funds all the way to what the funds are invested in? A commitment to "doing no harm?" Etc.
- Your spending policy. Will you be distributing 5% annually – or more? What percentage toward PRIs?

- Your risk tolerance. This category normally applies to the actual investments: how risky are they and will you be paid back? And/but what is your risk tolerance for investing in things that harm your mission and harm our communities, waterways, and air? What is the risk of not addressing these critical issues now?

- Identify who is selecting and watching over your investments. Ultimately, this is the board's responsibility, but who is doing the day-to-day? The Heron Foundation assigned this responsibility to their staff, who work in part with asset managers, but the staff is responsible for looking at all investments through the lens of their mission. Some foundations select forward-thinking asset managers and/or consultants who know how to select investments through their mission lens. Still others divide the task: staff for PRIs and some MRIs and asset managers for the stock and bond markets of Wall Street.

Investment Policy Statement (IPS) Samples

- van Ameringen Foundation

- UnTours Foundation (You can see that ours is quite nontraditional!)

When You Are Ready, How/Where to Find Potential Investees, i.e., Potential PRIs & MRIs

- Offer PRIs and MRIs on your website along with your grants, including how and when to apply. Have potential "investees" come to you, just as many of your potential grantees do.

- Check in with your own grantees with whom you have relationships. Ask if they need capital to buy their buildings, start a business, expand, etc.

- Move your cash accounts to Community Development Financial Institutions (CDFIs) that are local to you and/or have missions that most closely align with yours. And/or move your cash to local or BIPOC-owned banks or credit unions.

- Ask other foundations where their PRIs and MRIs are invested.

- Secure an excellent asset management firm or consultant (see above) that can and will recommend superb choices for you and will perform due diligence when asked.

- Ask us!

Due Diligence in Selecting Investments

Foundations perform due diligence regularly in their grant-making process. First and foremost, they consider whether the potential grantee is fulfilling the foundation's mission and reflecting its values, which could include principles such as racial and gender equity or climate justice. From there, they review financials to make certain a nonprofit is viable; take stock of leadership and organizational efficiency; decide how realistic the deliverables are; consider the competition, as well as how the nonprofit cooperates with others working on the same issues; look at the track record and the vision forward; etc. Whether it's a nonprofit or for-profit being considered, the due diligence is much the same as you decide where to offer loans, equity, and other forms of capital.

Lending through PRIs and MRIs is an opportunity to move capital to where it is most needed: to those who cannot access capital from traditional sources and at fair rates. It offers foundations a chance to support world-enhancing projects and ones worth emulating. Sometimes, it inspires additional investment by others by being the first or second to jump in. This investing can catalyze nonprofits and for-profits that are poised to create critical changes and improvements for society. Hence, while it is important to be as thorough as possible in due diligence, the vetting process should recognize that new ideas and start-ups sometimes don't meet all the criteria that traditional bank lending demands. A thoughtful due diligence process does not have to mean running potential "investees" through the wringer. Instead, it can mean "walking" with potential investees, asking smart questions, assessing the potential for success, and understanding that every ingredient on the list below may not be available for review.

Trust your instincts, just as you do when selecting grantees. Things to consider:

- **Mission:** Quite simply, just as with looking for grantees, does this project advance your mission? Or is it complementary to your mission? For example, if you work on children's health, an investment in a clean air or water project is complementary and would qualify as a PRI or MRI.
- **Leadership and staff structure:** Look at resumes and the power flow within the organization. Do you trust the leaders? Is their structure well-designed with clear, fair lines of authority and decision-making processes? Do they pay their employees a living wage and offer opportunities for advancement?
- **Finances:** Ask for the following, and if these things are not readily available, consider whether they are truly necessary when making a wise decision:
  – Business or strategic plan
  – Incorporation and other legal documents, including for intellectual property
  – Profit & Loss statement from previous year(s) and year-to-date P&L
  – Budget and financial projections
  – Tax returns
  – Credit report
  – Valuation (if applicable)
  – Capitalization of project thus far

– References from other investors

– B Impact Assessment: B Corp welcomes businesses to take this assessment for free. It will help evaluate environmental and social responsibilities, relationships with customers and suppliers and employees – and more. It is a powerful tool for measuring the overall holistic impact of a business and areas that need improvement.

- **Marketing plans:** Is the organization spreading the word about the good work it is doing? Do their actions match their marketing?
- **Operations:** Is this company efficient?
- **Impact demographics:** What will be captured, measured, and reported? This includes metrics anywhere from racial and gender equity issues to carbon capture, LEED Certification, or Cradle-to-Cradle manufacturing.
- **Certifications:** This includes B Corporation, Fair Trade, Certified Organic, vegan, etc.
- **Competition:** Who is it? What is their "Plan B" if their product or service proves obsolete? Remember, Ford's early cars were not the ones that made the company money.
- **Exit plan:** This helps inform when your investment can be repaid. Do you want to invest in a progressive company that plans to sell to a multinational company in ten years, like Tom's of Maine, or do you want the company to continue under similar management?

Ask for help: You may hire consultants to perform due diligence for you. Or you can take the advice above AND ask friends and acquaintances in the field of the business or nonprofit that you are investigating to take a look under the hood for you, pro bono! People want to help make this world a better, healthier place, especially with clearly defined asks. So ask!

Making Direct Investments

When you find a nonprofit or for-profit to invest in, use this sample template for your loan/equity agreement. Edit to your liking!

Shareholder Advocacy

We want you to move your endowments into investments that fulfill your missions, that are world-enhancing, that are replicable, and that inspire other endowment holders to do the same. And/but, moving the needle on public companies that are doing harm to all of us might do more good in the world than all the steps we take toward fulfilling our missions. Shareholders have more power than we realize and utilize, and as shareholders in public companies, this begins with voting your own proxies and not leaving them to your asset

shareholders

vote your own proxies

managers – or at least not without clear directives. Proxies can offer the opportunity to diversify corporate boards, challenge the growing gap between the lowest and highest paid employees (a gap that has gone from 50:1 thirty years ago to almost 300:1 in 2024), support efforts to challenge dangerous environmental practices, and more.

Then, there are Shareholder Resolutions, our new favorite tool! The Securities and Exchange Commission (SEC) keeps raising the bar on who may submit shareholder resolutions, but it is doable and not too time consuming. You can draft and advance your own shareholder resolutions, or you can ride the wonderful coattails of the **Interfaith Center for Corporate Responsibility (ICCR)** and **As You Sow** simply by adding your name to their shareholder resolutions. Your foundation's support will bolster their great work and success rates.

To file a resolution or join one, you have to have owned at least $25,000 of stock in a company for one year, or at least $15,000 for two years, or at least $2,000 for three years. You can file a resolution by December 1st of any year. The SEC reviews it, decides if they will allow it, asks both parties to dialogue (in hopes of avoiding a proxy vote), then hopefully allows it on a proxy if the dialogue did not result in an agreement. **ICCR** and **As You Sow** can guide you through this process.

Again, your resolutions could do more in terms of substantive change to advance your mission than all the grants together that you have ever given and all the mission aligned investments you make. This is a reminder to consider the possible and full impact of ALL that your investments can do, and to look beyond a grants-only approach to fulfilling your mission.

Transparency

For-profit, public companies – such as Exxon and the Campbell Soup Company – must list all of their holdings for the public to see. This is strangely not a requirement for public charities. It is, however, a requirement for "private foundations" though most do not and the IRS is not enforcing it. We encourage you to be transparent in your work, in your mission, and to list all your holdings on your 990 or 990 PF tax return. It is as easy as adding your balance sheet to your return. **Here's a simple guide**.

Perpetuity

We offer this category last, but in many ways it should be first. (We thought if this were first, you might stop reading!) This issue is part of your overall strategy and should not be dismissed out of hand by the documents that set up your foundation. Read on!

In this context, "perpetuity" refers to a foundation's institutional intention to remain in existence and fulfill its mission for the foreseeable future, which necessarily requires the maintenance and indefinite stewardship of the financial resources to do so. Perpetuity stands in contrast to the other option, which is a planned "spend-down" of the foundation's endowment with the intention of fulfilling the mission within a specified period of time. Most foundation leaders consider this decision to be already made – sometimes by the long-ago founders whose word is considered sacred. They view the issue of perpetuity to be beyond their purview.

Clara Miller, F. B. Heron Foundation President Emerita, offers creative comments on perpetuity in her "Inside Philanthropy" interview entitled "**It's a False Dichotomy; Questioning Perpetuity & Spend Down**." Here are some of her points.

A foundation's reason for being is its mission. The question of perpetuity should not start with a founder's intent of perpetuity; that can be changed in many cases. The question is how can you best use your foundation's assets to meet your mission and over what period of time. This is the exact question that foundations require of potential grantees all the time. Why shouldn't we ask that same question of ourselves? Why shouldn't the IRS ask foundations that? How can we do the most with our assets now and over time to fulfill our mission?

So yes, it's a false dichotomy to begin the conversation of whether perpetuity is better than a spend down approach. That answer all depends on what your mission is and how best to meet it. Many foundations gently touched on this very question during Covid as some opted to use more than 5% of their assets to meet immediate needs.

The Irene Diamond Foundation offers a powerful example of looking at mission and timeline. It opted to spend most of its assets in the 1990's – over $220 million – on AIDS research. It was the largest private supporter of AIDS research in the country. The research it supported helped identify a gene mutation that creates immunity to HIV. This work then championed the anti-retroviral "cocktails" of medications that suppress HIV infection to undetectable levels allowing people to live for decades beyond their HIV diagnoses. Thank goodness this foundation went for spend-down over perpetuity.

Clara challenges the implication that preserving endowments is always prudent, always the default. Now that we are up against existential risks – including to nature itself – perpetuity as the standard has no legs to stand on: "Without functional natural systems, financial assets are worthless." Or, as a Wall Street friend of hers said, "Who cares about the market if everybody's dead?"

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Conclusion

Directly stated, most foundation endowments are inherited, tax-sheltered wealth gathered through exploitative and extractive means. If these funds continue to grow through traditional stock and bond markets, they are continuing their destructive legacy. MAI turns the tide by generating prosperity and creating value without the use of extractive investment practices.

We encourage you to reassess your vision for your endowment from one of a large and growing pile of money that does a little bit of good – and a lot of harm – to a vibrant pile of money that does a tremendous amount of good growing in positive impact. MAI provides organic fertilizer to your mission and grows it in ways you never thought possible. It brings other investors and contributors along for the ride expanding your reach.

Yes, MAI requires a new mindset, a new paradigm, and more work than quarterly or semi-annual meetings to get there. But this is philanthropy's moment to mend a broken system, to raise the bar, and to lead the way to change and not charity.