



FORSights on Foundations: Navigating a Complex Investment Environment with Mission

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Introductions



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Please Join us for Sessions Two & Three of the Fall FORsights on Foundations Series

Grantmaking Considerations & Trends - Tuesday, October 25

Tax Compliance: Avoiding Pitfalls & Anticipating Potential Change – Tuesday, November 22

Register today!

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Agenda

- Introductions

- Mission-Guided Investment

- Investment Policy Statement

- Impact Investing for Foundations & Endowments

- Future Trends & Considerations: ESG, Climate, & Inflation

- Closing

Mission-Guided Investment

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Investing with Mission in Mind

■ Mission-Driven Investment

- Impact Investing playing a significant role
- Strong investment returns have strengthened ability of Foundations to make grants, support operations, & fund long-term objectives
 - Grant spend increased to 5.1% in 2021*
 - Average investment return – 16.3% in 2021
- Allocation of assets to meet program goals
- Minimize excise tax impact

Investing with Mission in Mind

■ Mission-Driven Investment

- Brings values/beliefs into alignment with investment policy & practices
 - Consider perpetuity vs. sunseting
 - Payout rate assumptions
 - Horizon for growth
- How tax considerations play a role
 - Elimination of tiered tax-regime has increased giving flexibility



The best philanthropy is not just about giving money but giving leadership. The best philanthropists bring the gifts that made them successful—the drive, the determination, the refusal to accept that something can't be done if it needs to be—into their philanthropy. ”

Tony Blair

Investment Policy Statement

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Developing an Effective Statement

- **Define Scope & Purpose**

- Define the context or goal of the funds & what the Policy Statement aims to achieve

- **Define the Investor**

- The Foundation or Endowment & the specific pool of funds & use for the funds
- What does this policy govern?

Developing an Effective Statement

■ Define Governance/Users

- The Board or Investment Committee
- Trustee (if one is needed)
- Investment Firm (in the case of assignment)

■ Define Objectives for Investment & Return

- Define investment objectives (asset allocation)
- Types of investments allowed to construct portfolio
- Investment restrictions
- Liquidity needs



Developing an Effective Statement

- **Effective Risk Management**
 - Performance measurement & reporting
 - Establish how to measure & evaluate risk
 - Rebalancing guidelines
- **Keep in Mind Jeopardizing Investment Rules**
 - Investments cannot endanger the Foundation's ability to carry out exempt purpose
 - If present, excise taxes apply – can be onerous
 - Multiple factors to be weighed to determine if an investment is “jeopardizing”
 - PRIs are exempt from excise tax

Risk Management

- Performance measurement/reporting
- Establish how to measure & evaluate risk
- Rebalancing guidelines

Risk Management

- **Asset Allocation & Diversification for Foundations & Endowments**
 - Diversification & why it matters
 - Rethink diversification
 - Cost matters – so control them!

Asset Diversification

■ Stocks

- Equity ownership in a company
- Highest potential for both risk & reward
- Both domestic & international are important in portfolio construction

■ Bonds

- Lending money to an entity
- Dual purpose: Risk reduction & income generation
- Risk levels vary from U.S. Treasuries to corporate high-yield
- Time (Duration) – also important consideration: short-term, intermediate-term, & long-term

Asset Diversification

- **Alternative Assets**
 - Can be both liquid or illiquid
 - Real estate investments
 - Commodities
 - Derivatives, options, futures
 - Hedge funds
 - Venture Capital
 - Possibly Program Related Investments (PRI)
- **Cash/Cash Equivalents**
 - Very low risk
 - Money markets & ultra-short bonds
 - Important to manage for annual distribution requirement

Let's Get Practical – Tax Impact

- **Minimizing Excise Tax on Foundations & Endowments**
 - Like individual investors, a Foundation can benefit from tax-loss harvesting
 - Tax-loss management can minimize the excise tax or help to reduce the annual distribution requirement
 - Coordination between investment advisor & tax advisor is helpful



The best philanthropy is constantly in search of the finalities – a search for a cause, an attempt to cure evils at their source. ”

John Rockefeller



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Impact Investing for Foundations & Endowments

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What Are Impact Investments?

- Impact Investments are designed for two purposes
 - Compliment the purpose of the foundation or endowment in its stated purpose goals
 - Make investments into companies, organizations, & funds with the intention to generate social or environmental impact alongside a financial return

Program Related Investments (PRIs)

- Making loans & equity investments that advance social or charitable causes
- PRIs in the United States can be counted toward the annual distribution requirement for a Private Foundation under IRC 4944(c)
- Confirm with your tax advisor before assuming a PRI will count

PRI Example

- Investment in a nonprofit fund trying to develop affordable homes
- This encourages other lenders to join in
- Over time that money is used to build affordable houses for low-income people. The developers repay the loans with lower rates of interest
- Unlike a grant (which is not repaid), a PRI is exactly that – an investment



No one need wait a single moment to improve the world.”

Anne Frank



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Future Trends & Considerations

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Investment Trends

- **Investment Policy & Asset Allocation Monitoring**
 - **ESG & DRI/SRI**
 - **Climate-focus**
 - **Inflation Protection**

ESG

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- **Environmental, Social, & Governance**
 - Actively looking to identify companies/investments with these attributes
 - Balanced with strong longer-term investment returns
 - Landscape can evolve quickly
 - Integration into investment portfolio
 - Framework to monitor

DEI/SRI

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- **Diversity, Equity, & Inclusion**
 - Includes both internal considerations & DEI efforts with investment partners
 - Can drive portfolio activity
- **Socially Responsible Investing**
 - Screening portfolio to avoid investing in certain types of stocks, *e.g.*, tobacco, firearms, alcohol, fossil fuels
 - Does your investment manager incorporate?
- Give & take between returns & adhering to values

Climate-Focus

- Beyond SRI/ESG, how should Foundations incorporate focus on climate into the portfolio?
 - Inflation Reduction Act – investment in clean energy & accompanying tax incentives
 - Assess exposure to high-emission assets
 - Cost to transition is important to consider
 - Consider investing in assets in renewable energy, innovative technology, & private markets

Inflation Protection in the Portfolio

- What are potential inflation scenarios?
 - Transitory vs. longer-term inflation
- Impact of inflation on investment portfolio
 - High-performing assets in inflationary environment
 - Addition of real estate, infrastructure can improve future portfolio strength
 - Consider suitability of hedging assets
- Stress-testing of portfolio
- Projection of market returns over longer-term



Do all the good you can. By all the means you can. In all the ways you can. In all the places you can. At all the times you can. To all the people you can. As long as ever you can.”

John Wesley



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Thoughts to Close

- How are we measuring success?
 - Investments
 - Program
 - Fundraising
- How are we planning for transition?
 - Investments
 - Governance
 - Generational
- A thoughtful investment approach can position a Foundation to create a sustainable legacy & meet future challenges

QUESTIONS



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