The State of Responsible Investing at Canadian Foundations

Opportunities Abound

GROW INVESTMENTS FOR A SUSTAINABLE CANADA

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by Sandra Odendahl

CEGN
Canadian Environmental Grantmakers' Network

Executive Summary

Responsible investing, also known as sustainable investing, is a rapidly growing practice, representing almost 40% of all assets under management in Canada.[1] Responsible investing represents an opportunity for mission-driven organizations, such as charitable foundations, to drive positive social and environmental impact through their capital assets. However, data shows that only 12% of responsibly invested assets are held by foundations and endowments.

In July 2017, CEGN commissioned a high-level review of responsible investing activities among Canadian foundations. The study set out to learn how philanthropic funders are currently using their endowments to support a sustainable future for Canada, and what they see as challenges and opportunities going forward. The study included an online survey, personal interviews and desktop research.

What we found was a deep desire among Canadian grantmakers to better align their foundations' investment portfolio with their social mission. Among respondents to CEGN's survey, 83% reported that they were following some type of responsible investment strategy, primarily screening, environmental, social and governance (ESG) integration or impact investing.[1a] Typically, grantmakers reported first adopting a responsible investing approach because staff, management and/or the board pushed the foundation to use the investment portfolio to support the institutional mission. Several study participants observed that as a younger generation takes the helm at foundations, on their boards, and on investment committees, there is even greater interest in exploring responsible investing. Overall awareness of E, S and G issues is another driver, rising in recent years with discussions of environmental and social issues, including climate change, appearing more frequently in the business pages of newspapers, and as large pension funds adopt ESG screening strategies.

While an organization's staff and board were instrumental in adopting a responsible investing strategy with their endowment, the finance committee of the board was often cited as a major obstacle. Traditional finance professionals on foundation boards or investment committees were described as hesitant to embrace responsible investing because they erroneously assume it will lower returns. Investment managers were also accused of being poorly informed about, or resistant to, helping foundation endowments develop a responsible investing strategy. However, in many cases a failure to adopt any kind of responsible investing strategy was simply a matter of resource constraints and competing priorities, particularly at small foundations.

[1] RIA. February 2017. 2016 *Canadian Responsible Investment Trends Report*. https://www.riacanada.ca/trendsreport/

[1a] This high response rate may be partly because those foundations already active in the field of responsible investing were more prone to answer the questionnaire; and it may also be the result of the growing prevalence of ESG integration in a large number of mainstream investment products.

Our study found that the supply of responsible investment products for foundations and endowments is growing quickly, with most new products following an ESG integration strategy. However, foundations complain that there is a shortage of customized products that meet the specific environmental, social, governance and financial (risk and return) impact needs of these organizations. Forty percent of survey respondents admitted that while they held responsible investments, they were not sure that their responsible investing strategy was mission-aligned. Mission-aligned impact investments are in short supply. A study participant opined that the supply of impact investment options in Canada is so limited that Canadian impact investors all end up with the same handful of investments. However, with the overall growth in responsible investment products, there are signs of more customized, higher impact options that may help with mission-alignment.

Going forward, expect to see a growing number of foundations work to align their investment portfolios with their missions. But they will need help. CEGN is well-positioned to support its members in their transition to mission-aligned investing through a wide range of activities including:

- Launch a responsible investment event series that covers a selection of topics and is designed for foundation staff, board members and investment managers;
- Launch a webinar education series for members. Invite CEGN members with more responsible investing experience to share best practices in addition to other experts; and
- Develop a members-only repository of examples of responsible investment tools including, but not limited to, statements of investment beliefs, responsible investment policies and legal agreements.

This report ends with a curated list of resources that may be helpful to foundations interested in responsible investing. We hope that the findings of this study help CEGN members increase their impact and effectiveness and spur creative new approaches to driving environmental and social change.