

Investing in Change

Mission-Based Investing for Foundations, Endowments and NGOs

by Michael Jantzi Research Associates Inc.

**Canadian Council
for International
Co-operation**



**Conseil canadien
pour la coopération
internationale**

Copyright © 2003 Canadian Council for International Co-operation (CCIC).

This on-line publication may be downloaded and printed for personal review, workshop preparation and feedback purposes only. Your [comments](#) are welcome. (Email to info@ccic.ca)

No portion of this material may be mass reproduced without the express, written permission of CCIC.

For further information contact:

Canadian Council for International Co-operation

1 Nicholas Street • Suite 300

Ottawa, Ontario • K1N 7B7

Tel: (613) 241-7007

Fax: (613) 241-5302

Written by Michael Jantzi

Michael Jantzi Research Associates Inc.

87 Front Street East • 2nd Floor

Toronto, Ontario • M5E 1B8

Tel: (416) 861-0403

Fax: (416) 861-01083

E-mail: mjantzi@mjra-jsi.com

Cover:

Photo, second from left, by Roger LeMoyne, © ACIDI/CIDA. Cover design by Joss MacLennan, CEP 91/CLC.

Acknowledgements:

CCIC gratefully acknowledges the financial support of [The Atkinson Charitable Foundation](#), the [Columbia Foundation](#), [The Muttart Foundation](#), and the Endswell Foundation in making possible our work on mission-based investing.

CCIC and the author thank our advisory board for their helpful guidance in the development of this project. Advisory board members were: Charles Pascal and Peter Armstrong ([The Atkinson Charitable Foundation](#)), Joel Solomon (Endswell Foundation), Bob Wyatt ([The Muttart Foundation](#)), Julie White (formerly of Private Foundations Canada, which is now known as [Philanthropic Foundations Canada](#)), Monica Patten and Betsy Martin ([Community Foundations of Canada](#)), Walter Ross ([The Laidlaw Foundation](#)), Tim Draimin ([TIDES Canada](#)), Keith Anatol ([CUSO](#)), Alan Broadbent ([The Maytree Foundation](#)), and Tessa Hebb (the [Douglas-Coldwell Foundation](#)).

Thanks are also extended to Stephen Viederman and Gil Yaron who reviewed portions of this publication.

Finally, the author wishes to thank Mary O'Neill at CCIC for her important contribution to this manual, especially her editing skills. Thanks also to Peter Kinder and Steve Lydenberg for their 1998 publication *Mission Based Investing: Extending the Reach of Foundations, Endowments and NGOs*.

Contents

- I. Introduction** 1
 - Looking Ahead..... 2

- II. Mission-Based Investing** 3
 - Overview 3
 - What is Mission-Based Investing? 3
 - Mission-Based Investing: A Proud Tradition 4
 - A Growth Leader..... 4
 - Canadian Roots of Mission-Based Investing 6
 - Mission-Based Investing: The Four Pillars 7
 - Investment Screening 8
 - Shareholder Action 8
 - Community Economic Development..... 9
 - Social Venture Capital 10
 - Key Points and Lessons Learned..... 10

- III. Why Mission-Based Investing?** 11
 - Overview 11
 - Shareholder Value 11
 - Reputation Management..... 12
 - Consistency: Supporting the Mission 13
 - Effectiveness: Strengthening the Mission 15
 - Leveraging for Change 17
 - Differentiation 18
 - Key Points and Lessons Learned..... 18

Contents – continued

- IV. Key Questions** 19
 - Overview 19
 - Is MBI Legal? 19
 - The Legal Foundations of MBI 20
 - The Canadian Legislative Landscape 22
 - Duty of Loyalty 24
 - Case Law 25
 - Conclusions 33
 - Can We Invest in Equities? 34
 - Provincial Jurisdiction 34
 - Instrument of Creation 37
 - If We Can't Invest in Equities Can We Still Practice MBI? 37
 - Can My Organization Implement MBI and Make Money? 38
 - United States 39
 - Canada 42
 - International 47
 - Can MBI Have a Positive Impact on Corporate Social and Environmental Performance? 49
 - Key Points and Lessons Learned 49

V. Action Framework	51
Overview	51
Create an Environment for Informed MBI Dialogue	53
Organizational Challenges and Opportunities.....	53
Fostering Informed Decision Making.....	56
Next Steps	57
Defining and Testing Your Investment Strategies	57
Setting the Stage	58
Defining and Developing Your Strategies	58
Next Steps	61
The Journey Continues: Embracing MBI	61
Policy Development and Frameworks.....	62
Screening.....	63
Shareholder Advocacy.....	63
Community Economic Development and Social Venture Capital.....	64
Key Points and Lessons Learned.....	64
VI. Resources	65
Books/Articles	65
Organizations.....	67

I. Introduction

A wise person once said that the obscure takes a while to see, the obvious takes even longer. *Investing in Change: Mission-Based Investing for Foundations, Endowments and NGOs* is meant to be an information source for those within the charitable or non-profit sector who wish to explore the obvious – how to align the mission of their organizations with financial decision making.

This handbook is written for foundations, endowments, NGOs, and others within the “voluntary sector” (faith communities, trade and professional associations, and advocacy groups) that are working towards a more just and sustainable society.¹ It provides those in this sector with the information they need to begin to explore the topic, answer some important financial and legal questions, and, if desired, move into the development and implementation of a MBI strategy. Originally, the report was also designed as reference material for a workshop on MBI developed by the [Canadian Council for International Co-operation](#).

Clearly, there are many ways in which voluntary organizations can work to fulfill their missions that extend beyond the traditional boundaries of advocacy, grantmaking, or grass roots involvement. The MBI report focuses on just one of these strategies – investment. It does not highlight other worthwhile initiatives such as working for legislative reform or targeting more comprehensive solutions for systemic change. The goals of MBI are mutually supportive of these initiatives and voluntary sector organizations can pursue these objectives in tandem.

One of the challenges of producing a report such as this, is the recognition that the voluntary sector is not a homogeneous group. A subset of non-profits, the charitable sector, usually refers specifically to those 80,000 organizations that are exempt from paying income taxes and are permitted to provide receipts for donations. This category includes a variety of groups, ranging from small volunteer-run initiatives that provide services to a specific or local population, through to large institutions such as museums, universities and colleges, schools, and hospitals.² Thirty-six percent of registered charities are places of worship or other religious organizations. This report attempts to be relevant to all of these players.

Today, according to the [Canadian Centre for Philanthropy](#), there are almost 1,700 active charitable foundations and endowments in Canada representing \$10.9 billion in assets. There are significant differences within the foundation community with respect to how these organizations are structured.

¹ This broad-based sector enjoys special tax exemptions under the *Income Tax Act* and is estimated, within Canada, to include more than 180,000 organizations. For more information see *Building on Strength: Improving Governance and Accountability in Canada's Voluntary Sector*, Panel on Accountability and Governance in the Voluntary Sector, February 1999. See also a description of the voluntary sector at [Voluntary Sector Initiative](#).

² *Ibid.*

For example, many private foundations are created under some form of a trust, while some community foundations (eg. [Vancouver Foundation](#)) are established directly through legislation.³ Community foundations are also an increasingly important group and provide their own unique challenges when thinking about MBI.⁴ These distinctions are important because how an organization is legally structured and/or defined has implications for the investments of its assets.

In addition to the different classifications of institutions in the voluntary sector, we must recognize that they also operate with varying levels of expertise and sophistication with respect to their financial affairs and investment decision making. This report assumes a certain level of sophistication; and therefore, is not designed as an educational guide or investment primer.⁵

Looking Ahead

As a starting point in the journey, *Investing in Change: Mission-Based Investing for Foundations, Endowments and NGOs* provides a definition of MBI, including a review of its history and its different pillars or strategies. It suggests that organizations do away with terms such as “socially responsible investment,” “ethical,” or “values” investing. It espouses that MBI is the incorporation of an institution’s mission into its investment decision making process and that this is an important part of fiduciary responsibility.

This handbook moves on to explore the reasons why institutions working in the voluntary sector should consider MBI as part of their financial decision making. It also deals with some of the challenges associated with MBI, including fiduciary responsibility, financial return, and the like.

The final part of this handbook provides a framework to guide organizations in the voluntary sector through the difficult choices they face with respect to MBI. It is designed for those institutions in which there is interest in adopting some sort of MBI strategy but uncertainty about what this means or how to proceed. It highlights the fact that there is no single road or path to MBI, nor is there a need to adopt a comprehensive approach from the beginning. MBI strategies can be tailored to the specific needs of the organization and expanded or altered accordingly.

³ Amighetti, Leopold, Dr. Albert J. McClean and Edgar A. Frechette, *Foundations and Not-For-Profits: Developing a Sound Institutional Structure for Investment*, presented at the Foundation, Endowment and Not-For-Profit Investment Summit Conference, Vancouver, BC, September 1999.

⁴ A community foundation is a collection of separate funds established by local citizens and held, in perpetuity, to enhance the quality of life in their community. It is a public charity, registered with Revenue Canada which allows individuals, families, businesses, private foundations and non-profit organizations, through gifts and bequests, to establish permanent endowments under the umbrella of one large foundation. For more information refer to *Foundation Management In Canada: An Introduction for Trustees (3rd Ed.)*, HSBC Asset Management (Canada) Limited, 2002.

⁵ These resources do exist. For example see *Foundation Management In Canada: An Introduction for Trustees (3rd Ed.)*, HSBC Asset Management (Canada) Limited, 2002. Another source includes the hearings of the *Foundation, Endowment and Not-for-Profit Investment Summit*, The Strategy Institute, September 2000.

II. Mission-Based Investing

Overview

In this section you will learn about the following:

- The definition of Mission-Based Investing (MBI);
- The history of MBI; and
- MBI's four pillars.

What is Mission-Based Investing?

Mission-based investing (MBI) is the incorporation of an institution's mission into its investment decision making process. An institution's mission is its central purpose or calling, which is often summarized in its mission statement. Thus, the institution's mission may serve as a guide in determining what, if any, non-financial objectives the foundation, endowment, NGO, or other group within the voluntary sector, may set for its portfolio.

Although MBI has its roots in the socially responsible investment (SRI) movement, it is perhaps helpful to avoid this term, in addition to concepts such as “ethical investing” and “values investing.” While SRI sometimes has certain preconceived connotations attached to it, legitimate or not, MBI provides a much better guide for voluntary sector organizations.⁶ As Stephen Viederman, past president of the [Jessie Smith Noyes Foundation](#) in New York, suggests, at the core of MBI is the realization that all investments have social and environmental consequences. Therefore, MBI is simply a process whereby an institution assesses these consequences, alongside rigorous financial analysis. It can help to identify those companies that have investment risk attached to them.⁷

In addition to being a prudent analytical approach to investing, for institutional investors the MBI process can strengthen the institution's fiduciary responsibility by aligning mission with asset management. It makes it possible for the institution to use all of its resources in pursuit of its mission.

⁶ For example, it is sometimes incorrectly assumed that SRI or ethical investing necessarily means that groups cannot invest in companies that manufacture alcohol, military, or tobacco products. While this may be the case for some, SRI is a broader-based construct that also includes an examination of a company's environmental and human rights record, among a host of other issues. For the purposes of the manual it is assumed that MBI is a subcategory of SRI, in that voluntary sector organizations will focus on the SRI-type issue areas that align with their particular missions.

⁷ This investment risk has been quantified by groups such as [Innovest Strategic Investors](#), a Canadian-based investment advisory group with an international research and client base. Innovest has found a significant correlation between specific progressive environmental corporate activities and greater shareholder value. Its analysis shows a risk-adjusted “out-performance” premium in the range of 100-170 basis points per year for highly diversified S&P portfolios. For high environmental risk sectors of the economy, such as chemicals and petroleum, the premium is as high as 500 basis points.

Mission-Based Investing: A Proud Tradition

Before exploring MBI in greater detail, it is important to get a sense of its broader history in order to put later discussions into a proper context. Although it may be a recent issue for voluntary sector organizations, MBI is not a recent phenomenon that has sprung up in the last ten years. It is a movement whose seeds were sown at the end of the 19th century in the United States and the United Kingdom. In fact, MBI can be traced back to Victorian England, primarily to the early Quaker company pension funds that restricted investments in armament manufacturers – an investment policy that was aligned with the mission and teachings of the church.⁸ In December 1908, the US-based Federal Council of Churches adopted *The Social Creed of the Churches*, which expressed the goals of a just society. With some modernization to bring the issues and language up-to-date, this creed presents a fair statement of the standards that Mission-Based investors apply to corporations today.⁹

A Growth Leader

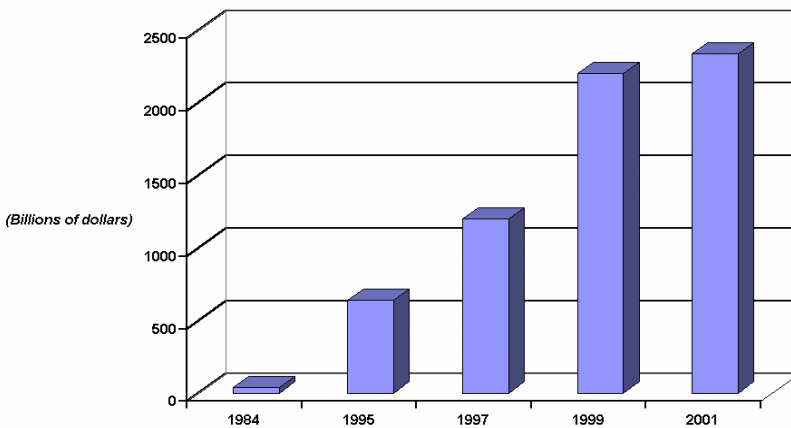
The growth of the SRI movement (of which MBI is a part) in the United States has been nothing less than astounding. In 1984, assets managed with social and/or environmental criteria totalled approximately (US) \$40 billion, a number that ballooned to \$639 billion by 1995. These assets continued to grow and stood at almost \$1.2 trillion by the end of 1997 and approximately \$2.2 trillion in 1999. By the end of 2001, more than \$2.3 trillion was invested in the United States in a socially responsible manner, according to the [Social Investment Forum](#), accounting for almost 12% of the \$19.9 trillion under professional management (as reported by *The 2001 Nelson's Directory of Investment Managers*). The 36% growth rate in SRI assets between 1999 and 2001 was more than 1.5 times the growth rate of all assets under management in the U.S. (including both market appreciation and net cash inflows).¹⁰

⁸ For more information please refer to Kinder, Peter D., Steven D. Lydenberg, and Amy L. Domini, *The Social Investment Almanac*, New York: Henry Holt and Company, 1992.

⁹ For more information please refer to Kinder, Peter D., Steven D. Lydenberg, and Amy L. Domini, *Investing for Good*, New York: Harper Business, 1993.

¹⁰ The Social Investment Forum believes that the data sources included in the study allow the survey to identify nearly all of the assets involved in socially responsible investment in the United States. However, there are certain types of social investment assets that the survey was not able to identify, including: investment assets owned by individuals who directly purchase the equity or debt securities of companies according to the individual's personal social investment criteria; the stocks and bonds of responsibly managed companies purchased for individuals through personal stock brokers and financial planners; the portfolios of socially aware investors whose investment assets are managed through the trust departments of banks or law firms; and smaller investors who participate in the shareholder advocacy process. For more information please refer to www.socialinvest.org.

Figure One: Growth in MBI Assets in the United States



Despite this long history, and the leadership of proponents such as the [Noyes Foundation](#), foundations in the United States have not widely embraced the concept of MBI. When it last surveyed its membership in 1997, the [Council on Foundations](#) found that slightly less than 15% screened for any social or ethical considerations. Small foundations, those with assets of less than (US) \$10 million, were almost twice as likely to do so as large ones, those with assets of \$100 million or more, according to the survey. Nevertheless, some larger foundations, such as the \$9 billion [Robert Wood Johnson Foundation](#) and the \$3 billion [Charles Stewart Mott Foundation](#), have divested their tobacco stocks.¹¹

The picture with respect to proxy voting is not significantly different. The Council on Foundations *2002 Foundation Management Survey* indicates that among 502 foundations responding to a series of questions on proxy voting, 54% delegate voting to investment managers. Less than half of the responding foundations (46%) automatically vote their proxies in accordance with the recommendations of company management. Among those 25 foundations with written guidelines, only 15 have guidelines that cover social or program-related issues (e.g., climate change, pollution, recycling, predatory pricing, discrimination, etc.).¹²

Notwithstanding the previous discussion, there are indications of change in the voluntary sector in the United States. Some environmental and social advocacy organizations, like the [National Wildlife Federation](#) (NWF) and [Amnesty International USA](#), are implementing MBI initiatives.

¹¹ An interesting overview of MBI and US foundations was written by Abelson, Reed, "Charities' Investing: Left Hand, Meet Right," *New York Times*, June 11, 2000. See also Stephen Viederman, "Foundations and Mission Related Investing," in *The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially*, New Society Publishers, August 2002, Pages 205-212.

¹² Williams, Caroline, "Who's Minding The Store?," *Foundation News & Commentary*, March/April 2003, Volume 44, Number 2.

NWF, whose portfolio totals about (US) \$40 million, overlays an environmental screen on its domestic equity portfolios, in line with its mission. Amnesty, with total assets of about (US) \$25 million, applies positive screens that focus on social issues, such as workers' rights, justice and equality for minorities, and support for such initiatives as education, health care, affordable housing, and adequate nutrition.¹³

MBI is pursued overseas as well. The [Joseph Rowntree Charitable Trust](#) (JRCT), which was established in 1904 in the United Kingdom, has operated with an “ethical investment policy” for many years. The foundation aims to ensure that, as far as possible, its income is earned in ways that are compatible with the Trust's Quaker roots and its grant making policies.

[Barnardo's](#), a children's charity operating in the UK, implemented an MBI policy in 1999. It chooses “not to hold investments in companies whose activities are considered to be to the detriment of children and where [it] believe[s] donor support might be adversely affected.” Since 1997 [WWF-UK](#) has placed 10% of its reserves into ethical investment or unit trusts. For the remainder of its portfolio, WWF excludes certain areas such as tobacco and nuclear power, and utilizes a best-of-sector approach with respect to environmental performance. Moreover, WWF uses its rights as a shareholder to attend company annual meetings, put forward resolutions, and raise awareness of issues directly relevant to ongoing WWF activities.¹⁴

In Australia, a 2002 study by the Ethical Investment Association found that churches providing information to the survey had a total of (AUS) \$6.7 billion of funds under management that was invested using MBI criteria (an increase from \$6.3 billion the year before). A substantial portion of this total consisted of funds lent to parishes or churches for local community-based church purposes, and was not all invested in equities. Moreover, seven charitable trusts indicated that they employ MBI criteria when investing, including Australian Bush Heritage and the Australian Sports Foundation.¹⁵

Canadian Roots of Mission-Based Investing

The birth of MBI in Canada can be traced to the formation of the [Taskforce on the Churches and Corporate Responsibility](#) (now part of [KAIROS: Canadian Ecumenical Justice Initiatives/ Initiatives canadiennes oecuméniques pour la justice](#)). TCCR was established in 1975 to assist the participating churches, church agencies, and religious orders to develop strategies for addressing issues related to the social responsibility of corporations that were closely aligned with the social justice mission of

¹³ For more information see <http://www.socialfunds.com/news/article.cgi/1032.html>.

¹⁴ More information regarding screening, best-of-sector, and proxy resolutions is available in the following subsection of this chapter. Additional information about MBI in the United Kingdom is available at <http://www.eiris.org/Files/EIRISnewsletterPDFs/2001/wintersupp.pdf>.

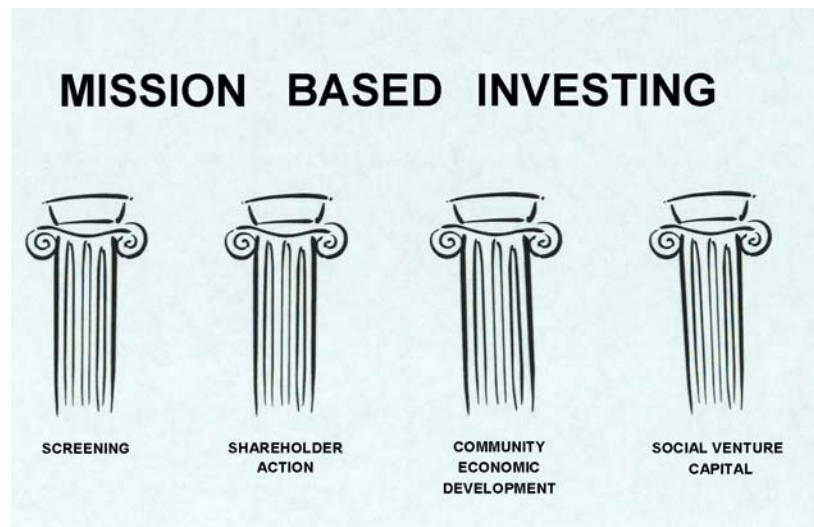
¹⁵ For more information see *Socially Responsible Investment in Australia – 2002*, Ethical Investment Association, September 2002. It is available at <http://www.eia.org.au/PDF/eia-benchmarking-survey-2002.pdf>.

the church. The TCCR agenda has always focused attention on the churches' own investment policies and practices, the development of ethical and alternative investment services, and corporate governance issues affecting corporate accountability and shareholder rights.

The growth of this movement in Canada is not as well documented as compared to south of the border. Nonetheless, every indication is that this market has grown significantly in the last number of years and that this trend will continue. The [Social Investment Organization](#) (SIO) study *Canadian Social Investment Review 2002* highlights that more than \$50 billion is managed with social and/or environmental criteria in place.¹⁶ Indeed, some Canadian foundations have embraced MBI and integrate screening and shareholder advocacy strategies into their investment decision making. Others have begun to educate themselves and are exploring opportunities in this area.¹⁷

Mission-Based Investing: The Four Pillars

Far from being a single tool with which to achieve greater consistency between grantmaking and investing, MBI actually defines a number of different strategies.¹⁸



¹⁶ For more information about the study please refer to <http://www.socialinvest.ca/>.

¹⁷ The Vancouver-based Endswell Foundation and [TIDES Canada](#) have implemented an MBI strategy. Others, like [The Atkinson Charitable Foundation](#), Columbia Foundation, [The Laidlaw Foundation](#), and numerous community foundations across the country, have begun to investigate MBI's opportunities and options.

¹⁸ As highlighted earlier, there are many ways in which voluntary organizations can work to fulfill their missions that extend beyond the traditional boundaries of advocacy, grantmaking, or grass roots involvement. The MBI series focuses on just one of these strategies – investment. It does not highlight other worthwhile initiatives such as working for legislative reform or targeting more comprehensive solutions for systemic change.

Investment Screening

The first pillar of MBI encompasses screening out companies from an investment portfolio if they do not pass some sort of social or environmental screen. Some common screens include avoiding companies that pollute, treat their employees badly, or manufacture weapons. However, most individuals and institutions that practice MBI in Canada also take a more proactive approach. They implement “positive” social screens and seek out investments in companies that demonstrate leading-edge environmental practices, for example.¹⁹

Shareholder Action

MBI encompasses more than screening portfolios. Instead of avoiding problem companies, some organizations put more emphasis on MBI’s second pillar and apply direct pressure as shareholders corporations to improve their social and environmental performance. This shareholder advocacy pillar encompasses various means, including letter writing, meetings, shareholder resolutions, and proxy voting, to dialogue with management and influence corporate behaviour.

Shareholder Association for Research and Education ([SHARE](#))

SHARE co-operates with investor, labour, and civil society organizations in other countries as part of a growing coordinated international movement on corporate social responsibility. It helps Canadian pension funds and other organizations stay informed about these emerging international trends. SHARE’s program encompasses four broad areas:

- comprehensive training for pension trustees and administrators;
- expert research on issues related to fiduciary duty, corporate and trust law, corporate social responsibility, and socially responsible institutional investment;
- assistance in developing and implementing proxy voting policies and procedures, and providing information on specific proxy issues; and
- facilitating shareholder dialogue and action on issues of concern to investors, including corporate governance, corporate social responsibility, and other measures to improve long-term corporate performance.

¹⁹ In evaluating a company’s overall environmental performance record when implementing MBI strategies many organizations utilize a Best-of-Sector (BoS) methodology. Companies are not expected to demonstrate “perfect” behaviour, because each firm is measured against the standard of best practices in its industry. It is important to evaluate each company in relation to its industry counterparts, so that investors can avoid making whole sectors ineligible for investment. The BoS approach is also consistent with the underlying goal of encouraging positive corporate change, a central goal of MBI and institutions in the voluntary sector. It provides an incentive for companies in sectors facing environmental challenges to improve their performance. Therefore, the BoS investment screening methodology is both financially prudent and consistent with the underlying goals of the majority of institutions practising MBI in Canada. For more information about screening and BoS you can refer to [Michael Jantzi Research Associates Inc.](#)

Community Economic Development

The third pillar of MBI is sometimes referred to as community economic development or alternative investing. Although the term is somewhat ill-defined in Canada, the aim of community investment is to confront deep-seated needs of local communities that cannot ordinarily be addressed by traditional corporate models. These needs include the alleviation of poverty and the encouragement of co-operative business models.

Community-based investment institutions include credit unions and loan funds that target small entrepreneurs, co-operative or community-oriented enterprises (such as worker or consumer co-ops, regional development bonds, or not-for-profit enterprises), and funds for job creation programs, infrastructure programs, and housing initiatives. In Canada, the [SIO](#) estimates that there are about 30-40 community loan funds or other investment funds that channel socially responsible investment into micro-enterprise for low income entrepreneurs or community development projects. Current assets are not large (one estimate puts them at \$10 to \$15 million) but interest in these funds is growing.²⁰

Although most of the loan funds in Canada focus on domestic issues, some, like the [Saronia Global Investment Fund](#), raise money in Canada for investment outside of the country to support international development efforts in poor and low-income countries. Other examples include First Oiko Credit Canada, which supports co-ops and small enterprises in developing countries and [VanCity International Community Investment Deposits](#). In other cases, funds like [Ecotrust Canada's Natural Capital Fund](#) provide financing to entrepreneurs whose operations help support social, financial, and conservation goals.

Community equity investment funds operate much like loan funds, except they assume equity positions in the projects they finance. Although they are not common in Canada, an example includes BCA Holdings in Nova Scotia.

Finally, another subset of this third pillar is the strategy of economically targeted investment (ETI). Primarily an American phenomenon, ETI seeks both market-grade returns and economic or social benefits by addressing perceived financing gaps and under investment.²¹ Some Canadian examples include ACM Advisors Ltd., Greystone Properties, and Mortgage Fund One.

²⁰ Some examples of loan funds include the [Access Riverdale Community Loan Fund](#) in Toronto, Montreal Community Loan Association, [Calgary Community Works Civic Loan Fund](#), Circle of Habondia, Edmonton Community Loan Fund, Grindstone Cooperative Venture Fund Inc., The Jubilee Fund, Nova Scotia Co-operative Council, [Saint John Community Loan Fund](#), [The SEED Loan Fund](#) in Kitchener, [VanCity Community Investment Deposits](#), and Women and Rural Economic Development. For more information refer to Skinner, David, *The Ethical Investor: A Guide to Socially Responsible Investing in Canada.*, Stoddard, Toronto, 2001.

²¹ Falconer, Kirk, *Prudence Patience and Jobs: Pension Investment in a Changing Canadian Economy*, Canadian Labour Market and Productivity Centre, 1999.

Social Venture Capital

The fourth pillar of MBI in Canada consists of social venture capital and angel investors. The primary source of social venture capital in Canada is the Labour Sponsored Investment Funds that have signed onto a Statement of Principles that commits them to integrating social and environmental criteria into their investment decision-making processes. These funds include [Working Opportunity Fund](#) in British Columbia (founded in 1992), [Crocus Investment Fund](#) in Manitoba (1992), [First Ontario Fund](#) in Ontario (1994), [Le Fonds de Solidarité in Quebec](#) (1983), and the [Workers' Investment Fund in New Brunswick](#) (1996). [Fondaction](#), a Quebec labour fund, uses social audits as part of its investment selection process as well. All of these funds are sponsored by genuine labour bodies and use a social audit process in screening their investment prospects.²² Through these or other venture capital pools, voluntary sector organizations can explore opportunities to invest in start-ups or provide additional capital to companies that operate in a way which is consistent with their mission.

Key Points and Lessons Learned

In this chapter we learned that:

- Far from being a single tool, MBI defines a number of different strategies, including: screening, shareholder action, community economic development and social venture capital.
- MBI is a prudent investment methodology that can strengthen the institution's fiduciary responsibility by aligning mission with asset management.
- Although MBI has a long history, MBI is a relatively new initiative in the voluntary sector.

With this historical context in mind, the next chapter explores the case for MBI.

²² Social venture capital is better established in the United States. For example, members of the non-profit organization [Investors' Circle](#) have been dedicated to providing venture capital to socially responsible start-up companies since 1992. For more information about the Labour Sponsored Investment Funds see Skinner, David, *The Ethical Investor: A Guide to Socially Responsible Investing in Canada*, Stoddard, Toronto, 2001.

III. Why Mission-Based Investing?

Overview

In this chapter you will learn why organizations in the voluntary sector should explore MBI.

Reasons include:

- Shareholder value;
- Reputation management;
- Leveraging for change;
- Differentiation in the marketplace; and
- Social accountability

Shareholder Value

Social and environmental performance increasingly are recognized as indicators of financial performance. A study published in *The Journal of Investing* in 1997 was one of the first to articulate a conceptual model that establishes the linkages between environmental improvement initiatives and expected or actual enhancements in a company's sales, earnings, competitive position, investment risk profile, or market value. The study's results suggest that "adopting a more environmentally proactive posture has, in addition to any direct environmental and cost reduction benefits, a significant and favorable impact on the firm's perceived riskiness to investors and, accordingly, its costs of equity capital and value in the marketplace."²³ And as John B. Guerard Jr., formerly a senior vice president and director of quantitative research at Vantage Global Investors in New York City, concluded, there is no statistically significant difference between average returns of a socially screened and an unscreened universe.²⁴

[Innovest Strategic Value Advisors](#), a Canadian-based investment advisory group with an international research and client base, undertook a study with a large Wall Street investment bank which showed a significant correlation between specific corporate activities and greater shareholder value. Innovest found that using a set of environmental screens showed a risk-adjusted "out-performance" premium in the range of 100-170 basis points per year for highly diversified, S&P portfolios.

²³ Feldman, Stanley, Peter A. Soya, and Paul G. Ameer, "Does Improving a Firm's Environmental Management System and Environmental Performance Result in a Higher Stock Price?" *The Journal of Investing*, Winter 1997, pp 87-97.

²⁴ Guerard, John B. Jr., "Additional Evidence on the Cost of Being Socially Responsible in Investing," *The Journal of Investing*, Winter 1997, pp 31-35. For a comprehensive survey of the literature see also Kurtz, Lloyd, "No Effect, or No Net Effect? Studies on Socially Responsible Investing." *The Journal of Investing*, Winter 1997, pp 37-49. Also refer to a comprehensive bibliographic listing of MBI studies at www.sristudies.org.

For high environmental risk sectors of the economy, such as chemicals and petroleum, the premium was as high as 500 basis points.

When evaluating investment performance or return it is important to factor risk into the analysis as well. A recent study of the Canadian market focused on the risk effects of the application of ethical screens to equity portfolios. The paper highlighted, using two different methodologies, that socially responsible companies tend to show less diversifiable risk in their stock behavior than non-socially responsible companies. The author concluded that the adoption of a corporate social responsibility code of conduct can help reduce the overall business risk of a company, and can improve its long term risk-adjusted performance.”²⁵

Studies have been published that refute the findings that MBI solidifies shareholder value, but they are becoming increasingly difficult to find. And most interestingly, those studies that show a negative correlation between MBI and financial return have not been particularly well researched, according to MBI professionals. For example, a 1995 study by the Research Foundation of the Institute of Chartered Financial Analysts reached its “negative” conclusions regarding MBI by relying on studies from the 1980s before any data existed on the topic. The study ignored later data and reports, including the Domini Social Index, completely.²⁶

According to the evidence then, MBI allows voluntary sector institutions to protect and enhance the value of their investment portfolios because it provides the analytical framework to incorporate social and environmental parameters into the decision-making process – parameters that can have a direct, positive correlation with financial return.²⁷

Reputation Management

The voluntary sector depends on funding from a variety of sources. Accordingly, an institution’s reputation with a variety of stakeholders is one of its most important assets and one that it makes sense to protect. MBI cannot only help to protect the reputations of organizations in the voluntary sector, but it can assist them in building stronger relationships with governments, funders, staff, and volunteers.

²⁵ Boutin-Dufresne, François, “Corporate Social Responsibility and Financial Risk,” *Journal of Investing*, forthcoming.

²⁶ Marr, M.W., J.R. Nofsinger and J.L. Trimble, “Economically Targeted and Social Investments: Investment Management and Pension Fund Performance,” monograph, Research Foundation of the Institute of Chartered Financial Analysts, Charlottesville, Virginia, 1995.

²⁷ For more information with respect to the actual performance of investment products and indexes that formalize the introduction of social and environmental criteria into the decision-making process please refer to Chapter IV. Also refer to www.innovestgroup.com/library.html and www.sristudies.org for a comprehensive listing of research studies on this topic.

Consistency: Supporting the Mission

One of the fundamental duties of a voluntary sector board is to define the organization's mission or mandate and how it expects to fulfil the same. Unless it fulfils this duty, the board will have no touchstone to determine the appropriateness of its actions, the performance of management, or the success of the organization itself. Among other responsibilities related to the mission, the board should identify the key elements to success in sustaining this mission and establish a strategic planning process as to how to get there.²⁸

According to the Panel on Accountability and Governance in the Voluntary Sector, another primary legal and moral obligation of any board of directors is to ensure that the finances of the organization are being allocated appropriately. In a voluntary, public-benefit organization, the overriding concern is more likely to be that the social benefits of the contributions are as great as possible, and are in keeping with the organization's stated mission and goals.

MBI plays a central role in helping board directors meet each of these important responsibilities. Traditionally, there has been a wall between financial and grant making operations at foundations. Foundation staff or board directors on the programming side often have little experience in, or knowledge of, investing. On the other hand, those working on the investment side often have limited knowledge of, or interest in, the non-financial criteria attached to investing. These two solitudes can lead to inconsistencies within organizations, which serve to impede the foundations' mission or mandate and make it more difficult for directors to meet their responsibilities. As Stephen Viederman says, “[i]f these two functions are not working towards the same goals...the integrity of the whole organization suffers.”

For example, imagine that a foundation with an environmental mandate supports an environmental group fighting to save an ecologically significant piece of land from being mined by a large Canadian gold company. Let's assume that this funding totals \$10,000 a year. Imagine that we discover that this foundation holds this gold company in its investment portfolio and its investment totals \$100,000 in stock. Imagine also that the foundation does not take an active role in supporting its grantee by leveraging its shares to agitate for change. Is this foundation really meeting its mission when its support of David is but a tenth of that for Goliath and it refuses to take an active shareholder role?

“If you have a large endowment, the power of that money to create change is probably more than the power of your grant-making,” states Jill Ratner, president of the Rose Foundation for Communities and the Environment, a foundation with about (US) \$1 million in assets based in Oakland, California. Because their endowments typically dwarf the grants that these charities make,

²⁸ *Building on Strength: Improving Governance and Accountability in Canada's Voluntary Sector*, Panel on Accountability and Governance in the Voluntary Sector, February 1999.

Ms. Ratner says foundations should think more about the principle, or mission, of their portfolio rather than the investment income they give away. “What you have at a lot of foundations are people trying to use their earnings to basically bet against their corpus...It’s weighted the wrong way.”²⁹

MBI can also help NGO or other voluntary sector organizations reduce the dissonance between their programming sides and the management of their financial resources. An NGO that works on human rights concerns in the international arena might find it uncomfortable to be invested in a company that is linked to these types of abuses in jurisdictions where it operates.³⁰ Or a religious institution that has a commitment to peacemaking, might find it objectionable to be involved with a company that manufactures arms. By considering MBI, an organization can enhance the effectiveness of its efforts to achieve its mission.³¹

The point of these examples is not simply that voluntary sector organizations can support companies that are making positive contributions to society or the environment, while withholding support from “non-green” companies. The exercise of reviewing environmental and social parameters by a board has merit, in and of itself. According to Stephen Viederman, such discussions raise awareness of the fact that investments have non-financial, social, and environmental consequences. Moreover, they acknowledge the inevitable and varying degrees of dissonance between the organization’s values, its grantmaking, and its investments. He says that ultimately these discussions raise the question of institutional integrity. “We [[Noyes Foundation](#)] have found that such eye-opening conversations have deepened and strengthened our understanding of our mission and our values, which is of great benefit whether or not we have changed the world through our resulting screened investments.”³²

The fact is that consistency is important for any institution in helping to maximise its impact and more effectively keep its mission intact. How a voluntary sector organization invests can say as much about it as what it funds.

²⁹ Abelson, Reed, “Charities’ Investing: Left Hand, Meet Right,” *New York Times*, June 11, 2000.

³⁰ For example, refer to the Amnesty International USA example in Chapter II.

³¹ MBI might also provide the confidence that some NGOs or voluntary sector organizations need to expand their financial options and opportunities. According to research undertaken by CCIC, some organizations forego a better return on their assets for lack of comfort with equities, preferring instead to confine investment to bonds.

³² Viederman, Stephen, “Adding Value To Your Grants,” *Foundation News and Commentary*, January/February 1997.

The [Bill and Melinda Gates Foundation](#), with an endowment of (US) \$22 billion, spends tens of millions of dollars each year aimed, in its own words, at “helping to improve people’s lives through health and learning.” In addition to making a sweeping effort to vaccinate the world’s children, it has backed charities like Cancer Lifeline, which provides support to people with cancer and their families, and the American Cancer Society. But according to a recent tax return, the Gates Foundation also owned bonds in Philip Morris, the tobacco company, raising the issue of whether the foundation’s behavior as an investor sometimes runs counter to its charitable mission.³³

Effectiveness: Strengthening the Mission

It would be naïve for foundations and other voluntary sector organizations to believe that philanthropic dollars alone will solve all of the problems facing Canada or the world. Although no solution is perfect it simply makes sense to utilize all the tools at their disposal to work towards social justice and support the communities in which they operate. And the reality today is that companies are one of the most powerful institutions on earth. Therefore, MBI is more than just the right thing to do, according to Woody Tasch, formerly the treasurer of the [Noyes Foundation](#) – it is essential. “We’re only going to solve them [the problems] if companies begin to change the way they do things.”³⁴

Writing about his experiences at the [Jessie Smith Noyes Foundation](#), Stephen Viederman stated that after several years of MBI he discovered that the foundation could get more philanthropic bang for its buck than it ever could have imagined. Not only did the investments provide funding for grantmaking activities, but they became a catalyst for positive social and environmental change in their own right.³⁵ For example, although the Noyes Foundation held only 100 shares in [Intel Corporation](#), a company that manufactures microprocessors, the foundation was able to leverage that investment to aid the efforts of one of its grantees, the [SouthWest Organizing Project](#) (SWOP) in Albuquerque, New Mexico. After previously refusing to meet with SWOP on issues of environmental concern, Intel was persuaded through Noyes’ advocacy to come to the table for discussion. Ultimately Intel agreed to change its Environmental, Health and Safety Policy and to share information with communities. SWOP was largely credited with this success.

³³ Abelson, Reed, “Charities’ Investing: Left Hand, Meet Right,” *New York Times*, June 11, 2000.

³⁴ “Linking Foundation Values and Investment Policies,” Council on Foundations Council Columns, Volume 15, Number 12, August 31, 1996.

³⁵ Viederman, Stephen and Miriam A. Ballert, “Investment Issues for Family Funds: Managing and Maximizing Your Philanthropic Assets,” *National Center Journal*, Volume 2. Washington, DC: National Centre for Family Philanthropy, 1999.

The SWOP Story

In 1994, the [South West Organizing Project](#) (SWOP), a grantee of the [Jessie Smith Noyes Foundation](#), prepared a report on the expansion of [Intel Corporation's](#) expansion in New Mexico. Among SWOP's concerns were water usage, air pollution, jobs, tax breaks, and the company's level of accountability to the community. SWOP asked for a response to the report, but Intel did not respond.

At this time, the foundation discovered that it held Intel stock. Its first effort was to contact Intel management. SWOP and the Noyes Foundation then agreed that the foundation's president would appear at Intel's 1994 stockholder's meeting and ask the company to respond to SWOP. Noyes was told that Intel didn't deal with "vocal minorities."

The foundation's next step, in consultation with SWOP, was to file a shareholder resolution for a vote at the April 1995 shareholders meeting, asking Intel to change its Environmental, Health and Safety (EHS) Policy to include a commitment to consulting and sharing information with communities in which it operates. Nine co-filers joined the initiative.

The resolution got Intel's attention. In January of 1995, the company and SWOP started a series of meetings on the issues raised by SWOP. Also, during the year separate discussions between Intel and Noyes continued on the policy issue of accountability to the communities in which Intel operates. Nevertheless, in October 1995 Noyes and 13 co-filers refiled for the 1996 meeting. Shortly thereafter, in December, Intel showed the Noyes foundation a draft of a new EHS policy that responded to our proposed resolution. In consultation with SWOP and the co-filers, Noyes agreed to withdraw the resolution.³⁶

There have been some Canadian experiences in this area as well. Some union pension plans have utilized MBI to more effectively work towards their mission. For example, in March 1998, Local 67 of the [United Steelworkers](#) and the [BC Federation of Labour](#) co-filed shareholder resolutions with five Canadian retailers (Dylex, [Hudson's Bay Company](#), [Mark's Work Warehouse](#), [Reitmans](#), and [Sears Canada](#)) requesting that they deal with the issues of child and sweatshop labour in the apparel industry. The proposals asked the companies to play a leadership role in the establishment of a multi-stakeholder national apparel industry taskforce to begin discussions on how to deal with this problem and to review their own sourcing policies. Negotiations with the company led to the withdrawal of the proposal in exchange for the company's support of the initiative.

Industry members, through the [Retail Council of Canada](#), engaged with labour and human rights organizations in the government-supported Canadian Partnership for Ethical Trading (CPET), which aimed to develop a Canadian-based code of labour practice for the apparel, footwear, and related consumer products industries, as well as establish a process to monitor and ensure compliance

³⁶ For more information please refer to "Shareholder Activity and Community Organizing," in *Jessie Smith Noyes Foundation 1997 Annual Report*, pp. 9-15.

of suppliers with the code. According to the [Maquila Solidarity Network](#) (MSN), a workers rights organization, the process to develop a national public-private code broke down in 1999 “over the unwillingness of the industry associations ... to accept ILO core labour rights, and in particular, the right of workers to organize and bargain collectively, as the basis for a Canadian code,” as well as to accept the labour groups’ demand that the implementation of the code be subject to independent verification. The Retail Council later adopted its own Responsible Trading Guidelines.

In May 2001, Working Enterprises Ltd., the Régime Complémentaire de Retraite du Syndicat des Pompiers du Québec (Section Locale LaSalle/Verdun), and the [Canadian Labour Congress Staff Pension Plan](#) submitted a shareholder resolution to Hudson’s Bay Company on the issue of sweatshop labour. The resolution asked the company to “amend the Hudson’s Bay Company Code of Vendor Conduct and standard purchase contracts to reflect full adoption of the principles articulated by the International Labour Organization (ILO) in its ‘Declaration on Fundamental Principles and Rights at Work’; establish an independent monitoring process that assesses adherence to the amended Code; and report annually in writing on adherence to the amended Code through an independent and transparent process, the first such report to be completed by January 2002.” The shareholder proposal received 15.2% of the votes cast. A similar resolution was filed at the May 2002 annual general meeting by Working Enterprises Ltd., United Investment Counsel Inc., the Régime Complémentaire de Retraite du Syndicat des Pompiers du Québec (Section Locale LaSalle/Verdun), and [Real Assets Investment Management Inc.](#) More than 36% of the shareholders voted in favour.

Although these issues remain unsettled, the use of MBI tools has served to bring the retailers to the table.³⁷

Leveraging for Change

To those working for a more just and sustainable society, sometimes the challenges can appear so overwhelming that an organization might be justified in asking: What difference can we make? One important component of MBI is that effectiveness is not always a function of the size of the organization’s investment holdings in a particular company. The [Jessie Smith Noyes Foundation](#) had just 100 shares when it filed its resolution with [Intel Corporation](#) (see above). The union initiative against the retail stores in Canada had a similar sized investment in each of the companies it targeted as part of the shareholder campaign. Also there are opportunities for voluntary sector organizations to join together with other groups that might be working towards similar goals.³⁸

³⁷ This information is from Michael Jantzi Research Associates’ [Canadian Social Investment Database](#). Also refer to [www.share.ca](#) and [Maquila Solidarity Network](#).

³⁸ In Canada, groups such as the [Social Investment Organization](#), [Shareholder Association for Research and Education](#), and the [Taskforce on the Churches and Corporate Responsibility](#) (now through KAIROS’ global economic justice initiatives) bring together various organizations, including those from the voluntary sector, to work towards common MBI goals. In the United States, initiatives include the [Foundation Partnership on Corporate Responsibility](#) and [Shareholder Action Network](#).

Differentiation

Voluntary sector organizations increasingly rely on private sector fundraising in order to continue to operate. Even groups such as churches, religious orders, synagogues, and temples that rely on their own constituencies for financial support are promoting planned giving and bequests for endowments.

It is a competitive market. One way that institutions can differentiate themselves from others in this crowded space is to highlight the fact that all money donated will go to supporting mission. Donors may be less inclined to give to an organization where investments work at cross purpose to the mission. How might charitable contributions be impacted if donors discovered that an environmental organization invests in companies that significantly and continuously pollute, an international aid group invests in companies that exploit workers and children in less developed countries, or that a health-based charity invests in tobacco firms? How might these donors react if they knew they had other options and could contribute to organizations or direct their money to foundations that bring consistency to these decisions through MBI?

Market research in the United Kingdom provides some answers to these questions. The [Charities Aid Foundation](#) commissioned a survey of the general public in April 2001 to study British attitudes towards ethical and socially responsible investment. The results showed that more than 30% of the general public believed that charities, above all other organizations, should invest their funds in an ethically responsible way. Furthermore, over 40% of people said that they would prefer to support charities that invest ethically, while a further 14% said that they are “only prepared to support charities investing in this way.” According to the market research firm that conducted the study, these findings suggest that “this issue may be a major decider in the future of personal philanthropy.”³⁹

Key Points and Lessons Learned

In this chapter we learned that organizations should explore MBI because it makes good business sense to do so:

- Social and environmental performance are increasingly recognized as indicators of financial performance.
- MBI can protect the reputations of organizations in the voluntary sector and help them build stronger relationships with governments, funders, staff, and volunteers.
- It helps support and strengthen mission.
- MBI can help differentiate organizations within the crowded donor marketplace.

With this information in hand, the next chapter addresses some of the key questions related to MBI.

³⁹ For more information refer to <http://www.cafonline.org/research/default.cfm>.

IV. Key Questions

Overview

In this chapter you will learn about some of the key questions and issues that face foundations and NGOs as they contemplate MBI. These questions include:

- Is MBI legal?
- Does the law allow my organization to invest in equities?
- If not, can my organization still practice MBI?
- Can my organization implement MBI and make money?
- Can MBI have a positive impact on corporate environmental performance?
- Can MBI have a positive impact on corporate social performance?

Is MBI Legal?⁴⁰

In some ways it would be very easy to make this section short and to the point. Why? Because a growing number of practitioners and trustees answer a resounding yes to the question “Is MBI legal?” and as proof offer up the fact that an increasing number of voluntary sector organizations in Canada already practice MBI in its various forms. Moreover, they argue that this is not the correct question to be debated. Instead of asking legal counsel “Can we do MBI?” trustees should be asking their advisors “How can we do MBI?”⁴¹

However true this last statement might be, it remains important to examine these challenging legal issues more fully in order that trustees and other interested parties may better educate themselves. At the end of the day; however, the evidence highlighted in this section supports the answer highlighted previously - that trustees of voluntary sector organizations may implement MBI without transgressing their fiduciary responsibility.⁴²

⁴⁰ The [Canadian Council for International Co-operation](#) is not rendering legal advice nor a legal opinion. Trustees should rely on the advice of legal counsel for a comprehensive discussion of this topic. In preparing this section, the author gratefully acknowledges a debt to research undertaken by Gil Yaron at the [Shareholder Association for Research and Education](#). Murray Gold, a partner at Koskie Minsky, also reviewed this section of the manual. Mr. Gold did not comment as to whether the report fully or accurately describes the law applicable to Mission Based Investing. His comments are incorporated throughout.

⁴¹ The question of “How do we do MBI?” is the subject of Chapter V.

⁴² The word “fiduciary” comes from the Latin word for “trust.” Trustees are sometimes referred to as “fiduciaries” because they are entrusted with the care of assets belonging to a beneficiary (a person or organization). Thus the trustees of voluntary sector institutions are said to have a “fiduciary responsibility” to the organization.

The Legal Foundations of MBI

Trustees take understandable caution in caring for investments because their decisions can have important and long lasting consequences for the voluntary sector organizations with which they are working or volunteering. A poor decision about investing funds could result in the loss of capital and in less money being available to support important programs or grantmaking activities. As such, any discussion of MBI within the foundation, endowment, or NGO framework soon turns to the issue of fiduciary responsibility.

Traditionally, trustees have chosen conservatively when investing funds, usually focusing their attention on three factors when making investment decisions: keeping the principal safe; generating the highest possible rate of return; and offsetting the effects of inflation through capital appreciation. However, as highlighted in Chapter III, there are compelling reasons for trustees to look beyond these three criteria and embrace an evaluation of social and environmental parameters as well.⁴³ Nevertheless, they must do so in the context of their fiduciary responsibilities. Fortunately for supporters of MBI, current practice and supportive court rulings suggest that trustees of voluntary sector organizations may implement MBI within this legal framework.⁴⁴

In the United States, there is a longstanding tradition of applying social criteria to investment decisions. Austin Wakeman Scott, the respected commentator and leading authority on trusts and trust investments said that it is “well settled” that trustees could consider the social behaviour of corporations when making investment decisions.⁴⁵ The Restatement (Third of Trusts) also endorses the right of a trustee to give weight to social considerations in making investment decisions under the prudent investor rule, even if the practice is not expressly authorized by the terms of the trust. It cannot be a means of expressing personal viewpoints, but the trustee is entitled to consider an investment’s social impact if such is appropriate to the purposes of the trust. Moreover, if one investment would produce roughly the same financial result as another, the charitable trustee may consider social and moral factors in deciding between the two investments.

43 In Chapter IV we learned that organizations should explore MBI because it simply makes good business sense to do so. Social and environmental performance are increasingly recognized as indicators of financial performance and so these issues should be incorporated into investment decision making as a matter of course. Also, MBI can not only help to protect the reputations of organizations in the voluntary sector, but it can assist them in building stronger relationships with governments, funders, staff, and volunteers. It helps support and strengthen mission. MBI can help differentiate organizations within the crowded marketplace as they look for contributions from an increasingly demanding donor base as well.

44 This section primarily focuses on screening investments, as opposed to MBI’s three other pillars. Shareholder action involves voting proxies and engaging management in dialogue, activities which have not led to any legal challenges or controversy in the Canadian context. Community economic development opportunities may involve below market returns, while social venture initiatives can be risky. Voluntary sector organizations should consult their financial and legal advisors before embarking on these paths.

45 Some US commentators note that this claim is unsubstantiated.

In a review of judicial decisions and state statutes, legal scholars Lewis Solomon and Karen Coe conclude that fiduciaries of not-for-profit organizations in the US are permitted to consider social and environmental factors when making investment decisions. They state that:

Directors and trustees of nonprofit entities, including foundations, may undertake social investing without violating their fiduciary duties. They may consider social and environmental factors when making investment decisions, whether the prudent investor rule or the business care rule binds them. Under the prudent investor rule, a fiduciary may consider the social implications of her investments only if they do not take precedence over financial considerations. Under the business care rule, a fiduciary may consider social and financial factors equally when making investment decisions.⁴⁶

There is a supportive legal environment for MBI in the United Kingdom as well, much of which rests on the decision reached in *Harries v. Church Commissioners*.⁴⁷ The court noted that where a trust is established for a particular aim or purpose, and the investment clearly conflicts with that aim or purpose, it may be contrary to the terms of the trust to proceed with that investment. It went on to say that “in those circumstances, where trustees are satisfied that investing in a company engaged in a particular type of business would conflict with the very objects their trust is seeking to achieve, *then they are duty bound not to invest.*”

“Accordingly, *Harries* stands for the proposition that charities...may avoid investments that are inconsistent with their purposes,” writes Murray Gold, an expert on Canadian pension and trust law. “In general, the courts presume that this type of exception would not have a material impact on the charities risk/return investment profile.”⁴⁸

In February 2003, the UK Charity Commission provided new guidance on how charitable trustees should balance their responsibility to make the most of charitable donations but not compromise their cause. The new regulations state that “[t]rustees are free to adopt any ethical investment policy which they reasonably believe will provide the best balance of risk and reward for their charity.” Underpinning these new regulations is the Commission’s recognition that the absence of a MBI policy might hamper a charity’s work, “either by making potential beneficiaries unwilling to be helped because of the source of the charity’s money, or by alienating supporters.”⁴⁹

⁴⁶ *Harries v. Church Commissioners* [1993] 2 All E.R. 301 (Ch D). This case is described in detail later in this chapter.

⁴⁷ *Ibid.*

⁴⁸ From an April 2003 letter from Murray Gold to Michael Jantzi Research Associates Inc. Mr. Gold is a partner at Koskie Minsky. In March 2003, Mr. Gold reviewed the sections of this document dealing with legal issues. The review and letter did not constitute a legal opinion.

⁴⁹ For more information refer to <http://www.charity-commission.gov.uk/publications/cc14full.asp> - 24. See also [Clear Profit: The Bulletin of Financial Ethics](#).

But what of the Canadian context? And what do terms such as fiduciary responsibility, prudent person, and standard of care really mean in the context of voluntary sector institutions?

The Canadian Legislative Landscape

The consideration of non-financial interests in investing for voluntary sector organizations has not been addressed by Canadian law. In fact, according to some commentators, including Gil Yaron, Director of Legal Research at the [Shareholder Association for Research and Education](#), the law in this area is deficient, antiquated, and out-of-step with modern investment realities. Basic principles are espoused, but interpretation with respect to virtually every point is unsettled. Nevertheless, Yaron adds, there is nothing in the trustee statutes of any province that prevent trustees from considering non-financial criteria, nor does legislation expressly restrict trustees from applying such criteria at the expense of financial returns on investment.

Despite the confusion, in Canada, trustees are commonly understood to have two duties under the umbrella of fiduciary responsibility: the duty of care and the duty of loyalty. Both of these have an effect on how organizations must approach MBI.

Duty of Care

No matter how a voluntary sector institution is structured, trustees must, by law, exercise an appropriate standard of care. This pertains to selecting and monitoring the investment portfolio. In *Fales v. Canada Permanent Trust Co.*⁵⁰, the judge stated that the standard of care and diligence which trustees must exercise in administering a trust is the care a prudent person would exercise in conducting his or her own affairs. Although there is significant variation among provincial statutory provisions regarding the principle of prudence, as we reviewed previously, pension and trust law generally requires that a trustee exercise the care, skill, diligence, and judgment that a prudent investor would exercise in making investments, including a duty to obtain a reasonable rate of return on investment.⁵¹

⁵⁰ For more information refer to <http://www.charity-commission.gov.uk/publications/cc14full.asp> - 24. See also [Clear Profit: The Bulletin of Financial Ethics](#).

⁵¹ *Ibid.*

Prudent Investor Rule

The common law prudent investor rule was originally articulated in 1830 by the Massachusetts Supreme Judicial Court in *Harvard College v. Amory*. It has, through decades of subsequent re-examination and re-definition, survived in the canon of fiduciary responsibility as “the prudent person rule.” It states: “All that can be required of a trustee to invest is, that he shall conduct himself faithfully and exercise sound discretion. He is to observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering probable income, as well as the probable safety of the capital to be invested.”

The original concept of the prudent person describes a narrow form of “sustainability,” with the concept of prudence built around risk aversion, predictability of income, and preservation of capital. As Stephen Viederman points out, in the mid-nineteenth century, such a definition of sustainability was understandably devoid of a whole range of concerns which had yet to be articulated. But in the early twenty-first century, our knowledge regarding environmental degradation and the social problems which persist in the wake of economic growth and rising standards of living should impel us to ask a host of questions, including: Can there be fiduciary responsibility *without* incorporating questions about the social and environmental impacts of economic growth?⁵²

Another key ingredient in the discussion of the duty of care, is the fact that the concepts of fiduciary responsibility and prudence do not always focus on the need to achieve the highest possible return for the beneficiaries (although MBI and financial returns are not incompatible as we discover later in this chapter). Increasingly, as Professor Eileen Gillese, past chair of the FSCO, has stated, prudence is process, not performance.⁵³ This idea has been reinforced through the limited case law surrounding MBI and fiduciary duty. Notably, because there is not any binding Canadian judicial authority which directly deals with this issue, we need to examine relevant case law from other jurisdictions which can assist in determining how a Canadian court may respond.

⁵² The Financial Services Commission of Ontario (FSCO - formerly known as the Pension Commission of Ontario) seems comfortable with the idea that pension funds may integrate social criteria into their investment guidelines. In the question and answer section of its February 1992 *Bulletin*, the FSCO addressed this issue. The question read: “Is it imprudent for a pension fund to take the position that it will make only ethical investments.” In response the FSCO stated, “No. Ethical investing is permitted, but the SIP&G must state this position and set out the criteria for investments. The members of the plan should be notified of this position.” However, policy statements by regulators such as FSCO are not law, and therefore they are not binding on anyone, including the regulators themselves. Moreover, this statement was directed at pension trustees, not those of voluntary sector organizations.

⁵³ Please refer to Gillese E., “Fiduciary Responsibility – A Regulator’s Viewpoint,” *The Pension Commission of Ontario Bulletin*, Summer 1995, 3-6.

Duty of Loyalty

The principle of loyalty has been referred to as “the most fundamental duty.”⁵⁴ Indeed, the principle refers to the most essential elements of the fiduciary relationship between trustee and beneficiary and its longevity stands as a testament to its importance.

Under the duty of undivided loyalty, trustees are to administer the assets under their care in the exclusive interest of all of the beneficiaries and without regard for their own interests. A trustee cannot unfairly favour one group of beneficiaries over another. Clearly, this seems more applicable in the realm of pensions, but trustees are also bound not to make decisions based on their own personal beliefs or interests.⁵⁵

In the context of MBI, there is a virtual absence of statutory guidance; therefore, for the most part the nature and scope of the duty of loyalty has been left to the courts to decide. That being said, there have been no Canadian decisions discussing the principle of loyalty in the context of MBI. Accordingly, the position in Canada currently is based on English and American common law, which do not represent binding authority on Canadian courts. Nevertheless, they can provide some guidance to trustees dealing with these issues.

Moreover, with the exception of *Harries*, all of the legal cases pertain to pension trusts. This is important because the law relevant to MBI that is applicable to charities, foundations and non-governmental entities may be somewhat different from the law applicable to pension trust funds. While charities and foundations are often structured as trusts, and such trusts are subject to the general law of trusts, they are not the same as pension trusts. For example, charitable trusts, foundations and non-governmental organizations are not bound by the investment requirements of federal and provincial pension benefits legislation, which may afford greater flexibility to those who are creating, or amending, trust agreements to expressly refer to investment criteria or risk investment restrictions in the documents that govern these arrangements. This, according to Mr. Gold, should make MBI considerably more accessible to the charitable sector than it may be to pension funds. Judges are particularly concerned about pension fund trustees adopting non-financial objectives, but charitable trusts are in a somewhat different position, and as the *Harries* case illustrates, where an investment clearly conflicts with the purpose of a charitable trust, the trustees may be duty bound to avoid the investment.⁵⁶

⁵⁴ A. Scott, *The Law of Trusts* (3rd ed.)(1967) §170 at 1297.

⁵⁵ The duty of loyalty includes four subsidiary duties: to act honestly and in good faith and in the best interests of the beneficiaries; to treat all beneficiaries with an even-hand; to exercise discretion and not delegate ultimate responsibility; and to not allow one's personal interests to conflict with those of the beneficiaries.

⁵⁶ From an April 2003 letter from Murray Gold to Michael Jantzi Research Associates Inc. Mr. Gold is a partner at Koskie Minsky. In March 2003, Mr. Gold reviewed the sections of this document dealing with legal issues. The review and letter did not constitute a legal opinion.

Despite the fact that there are differences in the law's applicability, this section reviews legal decisions dealing with MBI issues in the context of pension funds because some lessons can be drawn from these decisions.

Case Law

Harries v. Church Commissioners

Given the fact that this report focuses on MBI and voluntary sector organizations, *Harries v. Church Commissioners*⁵⁷ is the most important and relevant case to be examined. In *Harries*, the duty of the trustees of a charitable trust with respect to investment decisions came under scrutiny. Would trustees breach their fiduciary responsibility in taking into account non-financial considerations when making investment decisions? The case involved an application brought by the Bishop of Oxford and other clergy against the Church Commissioners Board of Governors responsible for investing Church of England assets to fulfil its religious/charitable purposes. The applicants alleged that the Commissioners breached their duties by solely taking into account financial considerations when investing trust property and are required to give weight to the underlying purpose for which they hold the assets being the promotion of the Christian faith through the Church of England. The applicants claimed that the Commissioners should not exercise their investment functions in a manner which would be incompatible with that purpose even if it involved the risk of financial loss.

This case provides strong support for MBI. The court ruled that the basic interest of the trustees should be primarily concerned with furthering the purposes of the trust, and this will be best served by seeking to obtain the maximum return which is consistent with commercial prudence. However the court recognized that in some cases there is an exception to this general principle, but these are rare. It noted that where a trust is established for a particular aim or purpose, and the investment clearly conflicts with that aim or purpose, even though it may be the most prudent investment financially, it may be contrary to the terms of the trust to proceed with that investment. The court cited an example of a cancer research charity holding a tobacco stock or trustees of temperance charities holding brewery and distillery shares. In those circumstances, where trustees are satisfied that investing in a company engaged in a particular type of business would conflict with the very objects their trust is seeking to achieve, *then they are duty bound not to invest*.

According to Judge Nicholls, “[t]rustees may, if they wish, accommodate the views of those who consider that on moral grounds a particular investment would be in conflict with the objects of the charity, so long as the trustees are satisfied that course would not involve a risk of significant

⁵⁷ *Harries v. Church Commissioners* [1993] 2 All E.R. 301 (Ch D.).

financial detriment.”⁵⁸ In this case, the court accepted the Commissioners’ existing socially responsible investment policy, which restricted investment in a number of areas despite widely differing views amongst church members because there remained an “adequate width of alternative investments.”⁵⁹

Also of interest in the case was the fact that the Commissioners had an ethical investment policy in place, and had so since they were constituted in 1948. The policy stated that although financial responsibilities remain of primary importance, then trustees “also continue to take proper account of social, ethical, and environmental issues. As people become increasingly aware of the many factors which can adversely affect both their own and other people’s lives, so we must be responsive to these areas of concern.” In practical terms it meant that there were no investments in armaments, gambling, alcohol, tobacco, and newspapers. The fund looked closely at South Africa and environmental issues. The fund was also an advocate of shareholder dialogue as the policy stated, “[I]t also means that we must continue to be vigilant in our monitoring of the activities of those companies where we do have a shareholding. Our practice is to follow-up with senior management on any major criticisms of a particular company’s activities through confidential correspondence and, where appropriate, direct discussions.” In reviewing this policy, the court noted that the Commissioners in fact had “an ethical investment policy,” and stated that “I can see nothing in this statement of policy which is inconsistent with the general principles I have sought to expand above.”

Lessons Learned From *Harries v. Church Commissioners*

- Trustees may avoid investing in a company if the investment clearly conflicts with the aim or purpose of the organization, even though it may be the most prudent investment financially.
- It may be contrary to the terms of the trust to proceed with investments that conflict with mission.
- Where trustees are satisfied that investing in a particular company would conflict with the very objects their trust is seeking to achieve, then they are duty bound not to invest.

Evans v. London Co-operative Society Ltd.

*Evans v. London Co-operative Society Ltd.*⁶⁰ appears to be the first English case to have considered social criteria in investment decision-making. The 1976 case evolved around the defendant, London Co-operative Society, which had created a jointly-administered pension fund for the benefit of its employees. The president of the Society chaired the Pension Committee, which oversaw the fund. Rule 7 stated that the fund was required to loan fund assets to the Society that were not required for the

⁵⁸ *Harries v. Church Commissioners* [1993] 2 All E.R. 301 (Ch D.).

⁵⁹ *Ibid.*

⁶⁰ *Evans v. London Co-operative Society Limited* [1976] C.L.Y. 2059 (Ch.D.), unofficially reported in R. Ellison, *Private Occupational Pension Schemes*, vol. 1 (1979) App. III at 356.

payment of benefits. Variations to the rule over the years created a minimum interest rate requirement for loans to the Society and made it unclear whether the fund was obligated to loan excess funds to the Society. The Pension Committee continued to loan the fund's excess assets to the Society at below market interest rates with gradual incremental allocations for investment in outside securities.

The plaintiffs claimed that the Society as a fiduciary of the fund was prohibited from placing itself in a position where its interest as recipient of the loan and its duty to ensure reasonable returns on the fund's investment conflicted. On the other hand, the president of the Society argued that it was essential that the loans to the Society continue since the funds were being used to provide employment opportunities and improve employee conditions for members of the fund employed with the Society.

The court held that Rule 7 empowered the Society to borrow and the Pension Committee to lend fund monies at a rate of interest below market rates provided that there was agreement among the parties. The trustees were nevertheless in breach for failing to exercise their discretion in negotiating favourable terms for the loan based on the mistaken belief that Rule 7 gave the Society the right to borrow all of the money it wanted at preferential rates of interest. The Society was also "a full participant in that breach of trust because its Board knew precisely what was happening."⁶¹ Moreover, the court explicitly considered the interests of the employees of the Society in determining for whose benefit the loan was being made.

As the Manitoba Law Reform Commission notes, the Court's comments are significant for a number of reasons, including the fact that the ruling acknowledges the ability of trustees to consider the interests of members of a pension plan as employees and not merely as prospective beneficiaries.

The decision also reinforces the American position in *Donovan v. Walton* that a loan by a fund at below market interest rates does not, in and of itself, constitute a breach of a trustee's fiduciary duties provided that the rules, policy, and/or guidelines of the fund permit such investments. Finally, the court's acceptance of the decision by the trustees to accept a lower rate of return without consulting the entire pool of beneficiaries suggests that the court was willing to determine the interests of the beneficiaries without their expressed unanimous approval.⁶²

⁶¹ *Evans v. London Co-operative Society Limited* [1976] C.L.Y. 2059 (Ch.D.), unofficially reported in R. Ellison, *Private Occupational Pension Schemes*, vol. 1 (1979) App. III at 356.

⁶² Yaron, Gil, *The Socially Responsible Pension Trustee: Reinterpreting the Principles of Prudence and Loyalty in the Context of Socially Responsible Institutional Investing*, [Shareholder Association for Research and Education](#), January 2001.

Lessons Learned from Evans v. London Co-operative Society Ltd.

- Trustees' best interest may incorporate a long-term focus.
- Trustees may determine the interests of the beneficiaries without their unanimous approval.
- Trustees may take into account the interests of members of a pension plan as employees and not merely as prospective beneficiaries.
- Trustees may provide loans at below market interest rates without breaching their fiduciary duties, provided that the rules, policy, and/or guidelines of the fund permit such investments.

Cowan v. Scargill

*Cowan v. Scargill*⁶³ traditionally has been cited as the leading case regarding MBI and trustee investment powers. In the early 1980s in the United Kingdom, the Mineworkers Pension Fund, led by union president Arthur Scargill, sought to apply geographic restrictions on the pension fund's investments. At the time of trial, the fund was valued at near £3,000 million with approximately one third of contributions from members and the remaining two-thirds from National Coal Board (NCB) payments and voluntary contributions. The United Kingdom Chancery Court was asked to advise whether five of the ten trustees of the Mineworkers Pension Fund were in breach of their fiduciary duty for insisting on the introduction of a blanket prohibition on overseas investments and on any investments in any industry in competition with the coal mining industry. The five trustees taking this position were union appointees. The five opposed were appointed by the NCB.

The case went against the union trustees. Sir Robert Megarry held that the trustees must put aside personal interests and views in considering which investments to make. He stated that a trustee could not rule out an investment opportunity on principle for non-financial reasons no matter how repugnant (subject to illegality). However, he seems to have allowed for such principled investment choices provided the trustee could demonstrate that alternative investments were available which provided equal returns and opportunities for investment. However, this was not provided in these circumstances.

The court also ruled that trustees must act in the best financial interests of the trust and beneficiaries and not limit the scope of investments available to them. Scargill provided no evidence to show that eliminating these investments was in the beneficiaries' best interests. However, Judge Megarry also commented that "if the investment in fact made is equally beneficial to the beneficiaries, then criticism would be difficult to sustain in practice, whatever the position in theory."

Since the decision came down in 1984, there has been a considerable amount of commentary on the case. Sir Robert Megarry himself reflected on his decision in a 1989 article entitled *Investing Pension Funds: The Mineworkers Case*. In analysing his own decision, Megarry wrote that if the trustees had not framed their investment policy as an absolute prohibition, but rather a preference, then it would

⁶³ Cowan v. Scargill, [1985] 2 All E.R. 750.

be difficult to criticise any investment so made. He also stated that “Benefit is a word with a very wide meaning, and there are circumstances in which arrangements which work to the financial disadvantage of a beneficiary may yet be for his benefit.”

Also, some leading law firms in the United Kingdom have gone on record in recent times to express their view that the “climate of legal opinion” regarding the ability of pension funds to consider social and environmental factors has “moved on” since the *Scargill* case.⁶⁴

In the final analysis, the decision appears to assert that a trustee may invest in alternative investments if they provide a commensurate rate of return and ensure adequate diversification. Trustee’s may also consider non-financial criteria where such considerations are believed to impact on the financial well-being of the investment, or where there is a clear expression that such criteria are for the benefit and in the best interests of the beneficiaries.

Lessons Learned from *Cowan v. Scargill*

- Trustees must set aside personal interests. They must act in the interests of the whole, based on views held by the entire organization.
- Trustees must examine the financial impact of MBI policies on the investment portfolio.
- Trustees have the burden of proof with respect to showing that non-financial considerations and policies will lead to direct benefit for the plan beneficiaries.
- The concept of benefit has a wide meaning. It does not always mean financial benefit and cases may exist where it was in the beneficiaries’ best interest to avoid investing in certain areas.

Board of Trustees v. City of Baltimore

The case of the *Board of Trustees v. City of Baltimore*⁶⁵ answered some of the practical questions surrounding prudence: How does a trustee implement MBI guidelines? What are the standards against which the trustee must evaluate an investment decision? The 1989 case resulted from the Baltimore City Council’s decision to adopt an ordinance that required its four pension funds to divest themselves of securities doing business in South Africa. The ordinance gave the trustees discretion to cease divesting for an unlimited number of 90-day periods, if they found divestiture imprudent under the circumstances. The trustees sued to have the ordinance declared unconstitutional.

The Maryland Court of Appeal ruled that the trustee’s duty is not necessarily to maximize the return on investments but rather to secure a “just or reasonable” return while avoiding undue risk. “Thus, if...social investment yields economically competitive returns at a comparable level of risk, the investment should not be deemed imprudent.”

⁶⁴ Yaron, Gil, *The Socially Responsible Pension Trustee: Reinterpreting the Principles of Prudence and Loyalty in the Context of Socially Responsible Institutional Investing*, [Shareholder Association for Research and Education](#), January 2001.

⁶⁵ 317 Md. 72, 562, A.2d 720 (1989).

The Baltimore case also dealt with the issue of loyalty and the cost of implementing a MBI policy. The court stated that it did not believe that a trustee necessarily violates the duty of loyalty by considering the social consequences of investment decisions. If, as in this case, the costs are “de minimus,” the trustee ordinarily will not have transgressed that duty.

Interestingly, the court also expressly recognized the importance of acknowledging public opinion. The court stated that:

The Mayor and City Council of Baltimore were motivated to enact the Ordinances in part, because the Trustees’ prior investment practices offended a growing number of the systems’ beneficiaries and residents of the City. Moreover, given the vast power that pension trust funds exert in American society, it would be unwise to bar trustees from considering the social consequences of investment decisions in any case in which it would cost even a penny more to do so.

This case is notable for a number of reasons. It concludes that non-financial considerations by trustees are not necessarily imprudent, but are actually in the interests of beneficiaries in certain instances. Furthermore, divesting from various investments based on non-financial criteria is not imprudent provided that there are alternative options available. It also suggests that in the context of defined benefit plans, there is less concern about screening out individual investments provided the beneficiaries’ right to receive benefits is not impaired.

Lessons Learned From Board of Trustees v. City of Baltimore

- Trustee’s duty is not necessarily to maximise the return on investments but rather to secure a “just or reasonable” return while avoiding undue risk.
- Eliminating through screens otherwise prudent investments is not necessarily inconsistent with trustee duties, provided comparable alternative investments are available.
- If MBI yields economically competitive returns at a comparable level of risk, the investment should not be deemed imprudent.
- Trustees do not necessarily violate the duty of loyalty by considering the social consequences of investment decisions.
- Trustees should retain the discretion to withdraw from the MBI policy if it appears that to continue with it is clearly imprudent. The policy should not bind the trustees to one irreversible course of action.
- Costs associated with undertaking MBI must be “de minimus.”

Martin v. The City of Edinburgh District Council

The Scottish decision in *Martin v. The City of Edinburgh District Council*⁶⁶ is the most recent decision from the United Kingdom addressing the issue of MBI. Like the Baltimore case, Martin dealt with the legal implications of a South Africa-free investment policy.

Subsequent to the Labour Party winning a majority of council seats, the council's policy and resources committee passed recommendations in part calling "for a report on how best and most quickly to withdraw council investments from South Africa." In response, the director of finance drafted a report to the committee outlining the scope of existing investments and the duties of the trustees under the *Trustee Investments Act 1961* (UK), specifically the need for diversification of investment and the need to obtain and consider proper investment advice. The committee then voted "to instruct the investment advisers to report on any council trust fund holdings of companies contained in the United Nations list of transnational corporations with major investments in South Africa, and to propose alternative investments in substitution thereof." This recommendation was then passed by a majority of the council. Based on subsequent advice received from their stockbrokers, the respective trusts funds were reinvested, resulting in the fund's assets actually increasing in value.⁶⁷

While the investment policy itself did not breach the trustees' fiduciary duties, the court did take issue with the process employed by the trustees in reaching the decision. In rendering its decision, the court held that the trustees had breached their duty of loyalty by failing to consider the best interests of the beneficiaries in deciding whether to adopt the disinvestments policy. It is important to note that the court did not address the question of whether such a policy was contrary to trust principles *per se*, but only whether the failure to consider the issue constituted a breach of the trustee's duties.

The court also found that the trustees breached their duty to obtain proper professional advice regarding the best interests of the beneficiaries with respect to the resolution divesting from South African investments. The fact that the council acted on the recommendations of the policy and resources committee, and the advice of its investment manager, was insufficient since neither had addressed themselves to the best interests of the beneficiaries.

⁶⁶ *Martin v. City of Edinburgh District Council*, (1998) S.L.T. 329 (Outer House).

⁶⁷ See Yaron, Gil, *The Socially Responsible Pension Trustee: Reinterpreting the Principles of Prudence and Loyalty in the Context of Socially Responsible Institutional Investing*, [Shareholder Association for Research and Education](#), January 2001 for more information. Also refer to Yaron, Gil, "Redefining Prudence and Loyalty: Pension Trustees and Socially Responsible Institutional Investment," *Corporate Governance Review*, Volume 13, Number 2, February/March 2001.

The judgment is also of interest because of comments made regarding *Cowan v. Scargill*. With respect to financial returns on investment, Lord Murray stated:

I cannot conceive that trustees have an unqualified duty...simply to invest trust funds in the most profitable investment available. To accept that without qualification would, in my view, involve substituting the discretion of financial advisers for the discretion of trustees.⁶⁸

With respect to the issue of integrating personal preferences into decisions, his Lordship also said:

...if this proposition means that a trustee has a duty to apply his mind genuinely and independently to a trust issue which is before him, and not simply to adhere to a decision which he has made previously in a different context, or to a policy or other principle to which he is committed, then I can accept it. But if it means that each individual trustee in genuinely applying his mind and judgement to a trust decision, must divest himself of all personal preferences, of all political beliefs, and of all moral, religious or other conscientiously held principles, then I do not think that this proposition is either reasonable or practicable. What he must do, I think, is to recognize that he has those preferences, commitments or principles but nonetheless do his best to exercise fair and impartial judgement on the merits of the issue before him. If he realizes that he cannot do that, then he should abstain from participating in deciding the issue...or, in the extreme case, resign as a trustee.⁶⁹

Therefore, the notion that trustees must rid themselves of all personal preferences is not required, although one must recognize these preferences and make all efforts to act fairly and impartially in the interests of the beneficiaries.

Lessons Learned from *Martin v. The City of Edinburgh District Council*

- Trustees must seek out professional advice.
- Trustee's duty is not necessarily to maximise the return on investments.
- It is not reasonable or practicable to expect that trustees must divest themselves of all personal preferences, of all political beliefs, and of all moral, religious or other conscientiously held principles, when acting in their role as fiduciaries.

⁶⁸ See Yaron, Gil, *The Socially Responsible Pension Trustee: Reinterpreting the Principles of Prudence and Loyalty in the Context of Socially Responsible Institutional Investing*, [Shareholder Association for Research and Education](#), January 2001 for more information. Also refer to Yaron, Gil, "Redefining Prudence and Loyalty: Pension Trustees and Socially Responsible Institutional Investment," *Corporate Governance Review*, Volume 13, Number 2, February/March 2001.

⁶⁹ *Ibid.*

Conclusions

The evidence highlighted in this section supports the belief that trustees of voluntary sector organizations may implement MBI without transgressing their fiduciary responsibility. Not everyone agrees that it is contrary to the terms of a trust to proceed with investments that conflict with mission, or with the statement that trustees are duty bound not to invest in a company that conflicts with the very aims of their trust. But there is increasing agreement that the consideration of MBI principles in investment decisions, in and of itself, does not constitute a *prima facie* violation of a trustees' duty of prudence and loyalty.

Notwithstanding the above discussion, there is also agreement that financial returns remain paramount to the fiduciary responsibility equation and must be factored into the decision-making process. This does not lead to the conclusion that trustees must achieve the highest return possible, it simply means that they must secure a “just or reasonable” return while avoiding undue risk. Therefore, if MBI yields economically competitive returns at a comparable level of risk, the investment should not be deemed imprudent.

This section also highlighted the point that fiduciary responsibility is really about the process of making decisions – not necessarily about the outcome of those decisions. Therefore, trustees need to keep the following guidelines in mind:

- Trustees should ensure that the organization's investment policy is in compliance with the plan trust document or applicable legislation. Trustees should familiarize themselves with their particular plan document and the investment powers and constraints it contains. In addition, any specific legislation which applies to their plan must be reviewed for any specific rules pertaining to restrictions on investments. Professional advice should be obtained in this regard.
- Trustees should set appropriate diversification rules so as to ensure compliance with applicable legislation or common law. They need to employ proper methods to investigate, evaluate, and structure their investments. Professional advice should be obtained in this regard.
- Trustees should integrate MBI component into the organization's trust agreement and put MBI provisions into the trust document. They should clearly document that financial return is paramount and if an alternative choice is competitive then the corollary social or environmental benefits will be considered. Professional advice should be obtained in this regard.
- Trustees should retain discretion to withdraw from the MBI policy decision if it appears that to continue with it is clearly imprudent. The MBI policy should not bind the trustees to one irreversible course of action.
- Trustees must rely on complete and up-to-date information in reaching their MBI decisions. They must study the potential impacts of MBI and should retain qualified experts and consultants as appropriate in the circumstances.
- The costs associated with undertaking MBI should be “de minimus.”

Can We Invest in Equities?⁷⁰

Although the previous section highlighted that trustees of voluntary sector organizations may implement MBI without transgressing their fiduciary responsibility, it is important to recognize that how an organization is legally structured and/or defined has implications for the investments of its assets.

Provincial Jurisdiction

Trustees must only invest in the vehicles in which the law permits. Foundations structured under provincial law in Alberta and Newfoundland are only able to invest in line with a legal list for trustees investments. Although the “legal list” approach does not make it impossible to practice MBI, it certainly limits the scope and potential to do so.⁷¹

Other provinces and territories, like Manitoba, New Brunswick, the Northwest Territories, Nova Scotia, Prince Edward Island, Quebec, Saskatchewan, and the Yukon have done away with investment lists and adopted the prudent person standard.⁷² In July 1999, the Ontario government adopted a prudent investment standard through changes to the *Trustee Act*, which spelled out criteria that must be considered when making investments on behalf of a voluntary sector organization. These include:

- an examination of the current economic situation;
- the possible effects of inflation and deflation;
- expected tax consequences;
- the role that each investment or course of action plays within the portfolio;
- the expected total returns from income and appreciation of capital; and
- the needs for liquidity, regularity of income, and preservation of capital.

On February 28, 2003 the *Trustee Investment Statutes Amendment Act, 2002 S.B.C. 2002 c.33* came into effect in British Columbia, allowing trustees to invest according to a prudent investor standard. Prior to 2003, the *Trustee Act* confined trustee investments to a list of fixed income securities and a limited range of equities.

⁷⁰ The [Canadian Council for International Co-operation](#) is not rendering legal advice nor a legal opinion. Trustees should rely on the advice of legal counsel for a comprehensive discussion of this topic.

⁷¹ The Alberta Law Reform Institute has recommended changes to existing legislation. For more information please refer to <http://www.law.ualberta.ca/alri/crrntproj/prudinvst.html>.

⁷² Please note that there are significantly different articulations of the principle of prudence for trustees, depending on what provincial jurisdiction the organization operates within. This includes: the “prudent person/investor” rule in Nova Scotia; the “prudent person/investor” rule, qualified by a list of discretionary criteria, in PEI; the “prudent person/investor” rule, qualified by a list of mandatory criteria, in Ontario; the “reasonable prudent person/investor” rule, qualified by a list of mandatory criteria, in Saskatchewan; the “prudent trustee” rule in New Brunswick, Yukon, and the NWT; and the “prudent trustee” rule, with the corollary that consideration of non-financial criteria in the development of investment policy does not in itself constitute imprudent behaviour, in Manitoba. For more information refer to the work done by [Shareholder Association for Research and Education](#).

Statutory Duties of Prudence Under Trustee Legislation

Jurisdiction	Statute	Approach	Wording	Criteria
Alberta		Legal list		
British Columbia	<i>Trustee Investment Statutes Amendment Act, 2002</i> S.B.C. 2002 c.33	Prudent Investor	In investing trust property, a trustee must exercise the care, skill, diligence and judgment that a prudent investor would exercise in making investments.	
Manitoba	<i>Trustee Act</i> , R.S.M. 1987, c.T-160, as amended S.M. 1995, c. 14, s.2.	Prudent person	<p><i>Standard of Care</i> 68(2) Subject to any express provision of the will or other instrument creating the trust, in investing money for the benefit of another person, a trustee shall exercise the judgment and care that a person of prudence, discretion and intelligence would exercise in administering the property of others.</p> <p><i>Defence based on Investment Policy</i> 79 In an action against a trustee for failing to exercise, in respect of a particular investment, the judgement and care that a person of prudence, would exercise in administering the property of others, the trustee is not liable for loss arising from that particular investment if he satisfies the court (a) that the investment was made as the result of a general policy of investing the funds making up the trust property; and (b) that the general policy was not speculative and was a policy which a person of prudence, discretion and intelligence would follow if he were administering the property of others.</p> <p><i>Use of non-financial criteria</i> 79.1 Subject to any express provision in the instrument creating the trust, a trustee who uses non-financial criterion to formulate an investment policy or to make an investment decision does not thereby commit a breach of trust if, in relation to the investment policy or investment decision, the trustee exercises the judgment and care that a person of prudence, discretion and intelligence would exercise in administering the property of others.</p>	None
New Brunswick	<i>Trustee Act</i> , R.S.N.B. 1973, c.T-15, s.2.	Prudent Trustee	...he may invest trust money in any kind of property, real, personal, or mixed, but in so doing, he shall exercise the judgment and care that a man of prudence, discretion and intelligence would exercise as a trustee of the property of others.	None
Newfoundland	<i>Trustee Act</i> , R.S.N. 1990, c.P-46, as amended S.N. 2000, c.28, s.1.	Prudent Person	...a trustee may invest trust funds in any property and in investing trust funds shall exercise the care, diligence and skill that a reasonably prudent person would in comparable circumstances.	Mandatory

Jurisdiction	Statute	Approach	Wording	Criteria
North West Territories	<i>Trustee Act</i> , R.S.N.W.T. 1988, c.T-8, s.2(b).	Prudent Trustee	...in investing money for the benefit of another person, a trustee shall exercise the judgment and care that a person of prudence, discretion and intelligence would exercise as a trustee of the property of others.	None
Nova Scotia	<i>Trustee Act</i> , R.S.N.S. 1989, c.479, as amended S.N.S. 1994-95, c.19.	Prudent person	...a trustee may, for the sound and efficient management of a trust, establish and adhere to investment policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and to obtain a reasonable return.	By regulation. None enacted.
Nunavut	See NWT.			
Ontario	<i>Red Tape Reduction Act</i> , S.O. 1998, c.18, Schedule B, s.16, in force July 1, 1999.	Prudent Investor	In investing trust property, a trustee must exercise the care, skill, diligence and judgment that a prudent investor would exercise in making investments.	Mandatory
Prince Edward Island	Trustee Act, R.S.P.E.I. 1988, c.T-8, as amended S.P.E.I. 1997, c.51, s.3.	Prudent Investor	Same as Ontario.	Discretionary
Quebec	C.C.Q.	Prudence/ Legal List	<p>Art. 1304. An administrator is bound to invest the sums of money under his administration in accordance with the rules of this Title relating to presumed sound investments....</p> <p>Art. 1306. A person charged with full administration shall preserve the property and make it productive, increase the patrimony or appropriate it to a purpose, where the interest of the beneficiary or the pursuit of the purpose of the trust requires it.</p> <p>Art. 1309. An administrator shall act with prudence and diligence. He shall also act honestly and faithfully in the best interest of the beneficiary or of the object pursued.</p> <p>Art. 1310. No administrator may exercise his powers in his own interest or that of a third person or place himself in a position where his personal interest is in conflict with his obligations as administrator. If the administrator himself is a beneficiary, he shall exercise his powers in the common interest giving the same consideration to his own interest as to that of the other beneficiaries.</p> <p>Art. 1339. Investments in the following are presumed sound: [legal list itemized].</p>	None
Saskatchewan	Trustee Act, R.S.S. 1978, c. T-23, as amended 1998, c.40, s.3.	Prudent Investor	In investing trust property, a trustee must exercise the care, skill, diligence and judgment that a reasonable, prudent investor would exercise in making investments	Mandatory
Yukon	R.S.Y. 1986, c.173, s.2(2).	Prudent Trustee	Same as New Brunswick.	None

Source: [Shareholder Association for Research and Education](#)

Instrument of Creation

If the organization is created under Part II of the Canada *Business Corporations Act* (CBCA) then the legislation would seem to confer the ability to invest as a prudent investor. However, this is a matter of some debate. Some would argue that the *CBCA* restricts the organization to a list, unless the organization's bylaws expressly provides otherwise.⁷³

Endowment funds, which are gifts to a registered charity to be used for specific charitable purposes, usually are set up under a trust arrangement. Accordingly, the range of permitted investments is determined by the terms of the instrument that created the fund. The bylaws of the organization do not override these provisions of the “instrument of creation.”

Game Plan

- Determine under what legislation your institution is structured.
- Determine any investment limitations, as defined by legislation.
- If under prudent person regime, your organization has greater flexibility to explore MBI.
- If operating under a defined list of investments, your MBI options will focus primarily on banking relationships.

If We Can't Invest in Equities Can We Still Practice MBI?

If trustees are limited in their investment options due to legislative restrictions, it limits the scope of MBI opportunities, but does not negate them entirely. One of the most common and important financial relationships voluntary sector institutions have is with its bank branch or local credit union. Banking is usually the most common financial activity of voluntary sector organizations. Even through these arrangements, voluntary sector organizations have opportunities to connect financial decisions with organizational mission. By depositing funds in chequing and savings accounts, voluntary sector institutions make funds available for those banks and credit unions to lend and invest. Some organizations may also be customers of the financial institutions through mortgages or the use of short-term financial instruments such as term deposits, commercial paper, or other fixed income instruments.

Although these arrangements are usually based on important practical considerations, such as convenience, access, fees, and service, voluntary sector organizations can also integrate social and environmental considerations into the equation as well. One challenge in doing this is that most financial institutions lack transparency with respect to their reporting on these types of issues.

⁷³ Amighetti, Leopold, Albert McClean, and Edgar Frechette, *Foundations and Not-For-Profits: Developing a Sound Institutional Structure for Investment*, Foundation, Endowment and Not-For-Profit Investment Summit Conference, September 13 and 14, 1999, Vancouver, BC.

Only two Canadian financial institutions in Canada ([Metro Credit Union](#) in Toronto and [Vancouver City Savings Credit Union](#)) have conducted social audits of their operations. These audits focused on assessing the quality of their relationships with all stakeholders in society. Some groups are working to ensure that all Canadian financial institutions become more accountable to stakeholders.⁷⁴

In an attempt to address this lack of transparency in the banking sector, [Citizens Bank of Canada](#) developed an ethical policy in consultation with its members, employees, and non-profit organizations, to guide its business activities. The bank endeavours not to invest in or do business with companies whose practices conflict with the direction of the policy, which includes parameters such as human rights, employee relations, weapons, the environment, treatment of animals, sustainable energy, tobacco, and business conduct. The bank conducts annual audits to measure compliance with the policy.⁷⁵ Citizens Bank, which was opened in 1997 as a subsidiary of VanCity, is modeled on the social banks in the United States, Great Britain, and elsewhere across Europe.

In November 2002, [Real Assets Investment Management](#), whose clients include a variety of voluntary sector organizations that practice MBI, filed shareholder resolutions with the five major Canadian banks.⁷⁶ The resolutions called on each of the banks to report on how social, environmental, and ethical issues impact their business and what they are doing to manage these risks. Deb Abbey, CEO and Portfolio Manager of Real Assets, stated “[b]etter disclosure builds confidence...Investors and consumers have a right to know how the big five compare to their competitors, at home and abroad.” Shareholders seem to agree. At Bank of Montreal’s annual general meeting, held in February 2003, the Real Assets’ proposal received 29.9% of the vote, an incredibly high figure for a shareholder proposal in Canada.

Can My Organization Implement MBI and Make Money?

Although fiduciary responsibility encompasses more than a duty to achieve the best possible return, trustees of voluntary sector institutions must concern themselves with the possible financial impacts that any MBI policy might have on the portfolio. And apart from any fiduciary concerns, it is important to examine this issue because some detractors of MBI argue that incorporating social and environmental parameters into the investment decision-making process negatively affects returns. A comprehensive review of the literature on this topic is beyond the scope of this manual.⁷⁷

⁷⁴ For more information about some of these efforts please refer to [Democracy Watch](#) and the [Canadian Community Reinvestment Coalition](#). Also review some initiatives of the [Canadian Bankers Association](#).

⁷⁵ For more information about Citizens Bank’s ethical policy please refer to the bank’s [Web site](#).

⁷⁶ [Ethical Funds Inc.](#) and [Meritas Financial Inc.](#) were co-filers on the resolution.

⁷⁷ As noted in Chapter IV, social and environmental performance are increasingly recognized as indicators of financial performance. The best source through which to access the bulk of the literature on MBI and financial returns is at [www.sristudies.org](#). Also refer to [www.innovestgroup.com/library.html](#).

Instead, this section will focus on examples of investment products that incorporate social and environmental screens as part of their mandate. Much of the data is focused on US experience, but there is a growing body of evidence from Canada and elsewhere that shows foundations, endowments, NGOs, and other voluntary sector organizations can integrate their missions into their investment policies without fear of adverse financial implications.

United States

Socially Responsible Mutual Funds

Although academic and industry studies are of interest it is also important to review “live” data. One way to do this is to examine the performance of socially responsible mutual funds available for sale. Although reviewing mutual fund returns holds some value, the predictive usefulness of this exercise is limited because the skill of the manager is being tested as much as anything. Moreover, each of these funds has slightly different screening criteria in place, thereby making comparisons challenging. However, the strong financial returns turned in by the managers of these socially-screened mutual funds highlights the fact that it is possible to provide competitive returns while managing a mutual fund portfolio that incorporates social investment principles.

Despite more than three years of down markets, the percentage of US-based socially and environmentally responsible mutual funds earning the two highest marks from either or both [Lipper, Inc.](#) and [Morningstar](#) increased slightly by the end of 2002, according to the [Social Investment Forum](#) (SIF). Nearly two-thirds (65%) of the 51 screened funds tracked by the SIF earned one of the two highest rankings for performance from either one or both of the ratings agencies. With respect to the Morningstar ratings in particular, this data shows that socially responsible mutual funds significantly outperform the universe of mutual funds. A total of 43% of the screened funds tracked by the SIF received 4 or 5 stars from Morningstar versus 32.5% of the general mutual fund universe.

A Morningstar analyst commenting on earlier but similar results commented: “We see from the numbers that socially responsible mutual funds are clearly competitive with non-screened funds....And, from a risk-adjusted performance standpoint, screened funds have generally performed better than non-screened funds. This is the kind of evidence that should help put to rest the old canard that socially responsible funds are incapable of delivering competitive performance.”⁷⁸

⁷⁸ For more information refer to [Social Investment Forum](#) news releases.

The Domini Social Index

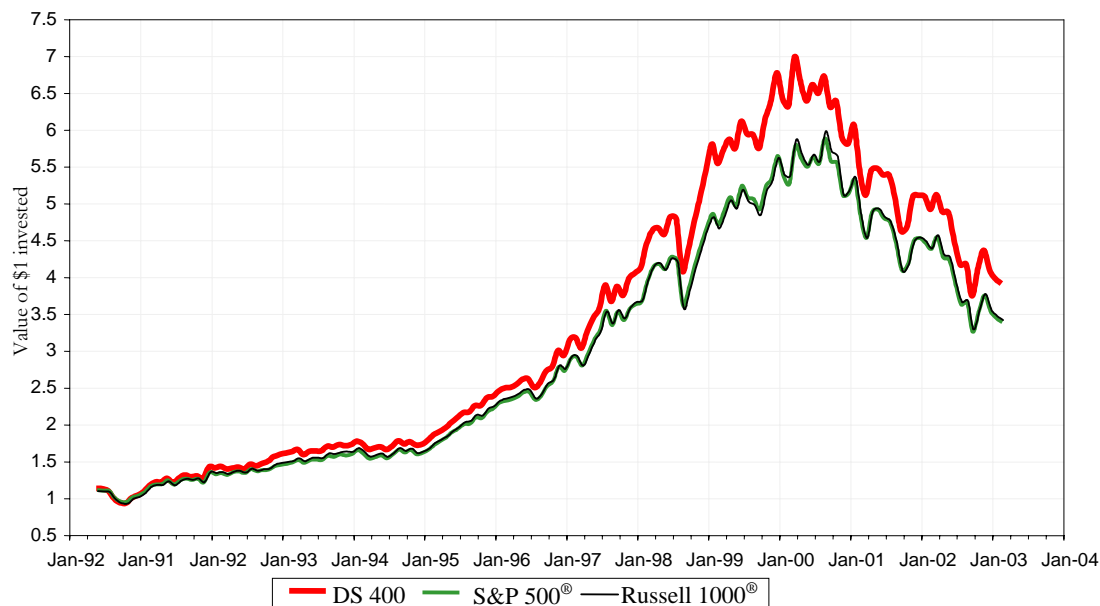
Given the constraints associated with using mutual fund returns analysis as a predictive measure, there is a need to track the performance of a passive group of companies against that of a traditional financial benchmark. This need was identified more than 13 years ago by [KLD Research & Analytics, Inc.](#), a Boston-based social research firm.

The [Domini Social Index](#) (DSI) is a market-capitalization-weighted common stock index. It includes 400 corporations that pass multiple, broad-based social screens. The DSI consists of approximately 250 companies included in the Standard & Poor's 500 Index, about 100 additional large companies not included in the S&P 500 but providing industry representation, and approximately 50 additional companies with particularly strong social characteristics.

In assembling the DSI, KLD screened out major weapons manufacturers, any company that derived revenues from the manufacture of alcohol or tobacco, and firms that provided gaming products or services. The DSI eliminated electric utilities that owned interests in, or derived power from, nuclear power plants as well. It also eliminated companies whose records in the areas of diversity, employee relations, the environment, and product and business practices were on balance negative.

KLD launched the DSI on 1 May 1990. The DSI has outperformed the S&P 500 on a total return basis and on a risk-adjusted basis since its inception. Its annualized return over the last ten years (ended 30 April 2003) is 10.52% versus 9.67% for the S&P 500.

Graph of Domini Social Index Returns (1 May 1990-30 April 2003)



During the ten years of its existence, the DSI has been thoroughly reviewed and analyzed. In 1992, [BARRA](#) used its PC Performance Analysis package to calculate the performance of the DSI against the S&P 500. The BARRA study found that the overperformance of the DSI primarily was due to the specific asset selection return to the index and that the DSI had a smaller-cap “growth” bias accounting for some of the outperformance. However, BARRA also concluded that “socially responsible investing does not necessarily preclude above-average returns.” BARRA went on to say that “...there is a specific return premium to the [DSI] over this time period which is presumably related to the social screens KLD has developed, though the 95% confidence level is not quite statistically significant.”⁷⁹ As highlighted above, since the BARRA study was published in 1992, the DSI has continued to outperform the S&P 500. Numerous research studies have demonstrated that this has not been a fluke.⁸⁰

Other Evidence

In the US, there have been efforts to measure the effectiveness of active shareholder strategies, although only in relation to corporate governance concerns. The [California Public Employees’ Retirement System](#) (CalPERS) targets the poorest performing companies in its portfolio for improvement and uses shareholder proposals as a means to enact corporate governance reforms. There have been several studies of the effectiveness of its approach. A study by Wiltshire Associates of 42 companies targeted by CalPERS from 1987 to 1994 showed that the targeted companies underperformed the S&P 500 by an average of 66% before CalPERS took action. After CalPERS took action, the returns of these companies improved, outperforming the S&P 500 by 41.3%.⁸¹

A recent study by [GovernanceMetrics International](#) confirms a correlation between corporate performance and an attention to governance. The firm studied one-, three- and five-year returns of companies in the S&P 500 and found that the average decline of a stock for the three years ended March 20, 2003 was 2.3%. However, the five companies earning GovernanceMetrics’ highest score rose 23.1% on average. The top 15 companies averaged total returns of 3.4%. Top-ranked companies also outperformed their peers in measures like return on assets, return on investment and return on capital.⁸²

⁷⁹ Luck, Christopher and Nancy Pilotte, “Domini Social Index Performance,” *BARRA Newsletter*. Number 145. November/December 1992.

⁸⁰ For example, see Sharfman, Mark, “The Construct Validity of the Kinder, Lydenberg & Domini Social Performance Data,” *Journal of Business Ethics*, 1996, 287-296.

⁸¹ A catalogue of other studies is available at <http://calpers.thecorporatelibrary.net/Library.htm>. See also Monks, Robert, *The Need for Shareholder Activism: Value Added and Legitimacy*, November 1996 at http://www.ragm.com/archpub/ragm/value_added.html.

⁸² Morgenson, Gretchen, “Shares of Corporate Nice Guys Can Finish First,” *The New York Times*, 27 April 2003.

Canada

Research findings with respect to MBI in the United States do not automatically translate into the Canadian context. The Canadian and US markets are very different, and Canadians define social and environmental responsibility in a slightly different manner than investors in the US. Thus, the DSI may demonstrate that US social portfolios perform very well vis-a-vis the S&P 500, but it does not prove that a socially-screened Canadian stock portfolio will perform likewise.

In Canada, there have been very few comprehensive studies on the screening of stock portfolios and financial performance.⁸³ What follows is a general discussion of a number of MBI products, including the socially screened mutual funds, with which the author is familiar. However, before this general discussion, the report turns its attention to the first piece of Canadian data that attempts to answer the question: How does the financial return of a portfolio of companies that has been analyzed with respect to social and environmental performance compare to that of a standard Canadian stock index?

Jantzi Social Index

As is the case in the US, to best analyze the financial performance of socially responsible companies versus the market overall, one needs a passive test group. The best way to do this in Canada is by utilizing the Jantzi Social Index[®] (JSI[®]), the only socially responsible stock index in the country.

In January 2000, [Michael Jantzi Research Associates Inc.](#) (MJRA) launched the [Jantzi Social Index](#), a market capitalization-weighted common stock index consisting of 60 Canadian companies that pass a set of broadly-based social and environmental screens.⁸⁴ MJRA set out to create a benchmark against which institutional investors could measure the performance of socially screened portfolios. In addition, by tracking the JSI over time, MJRA hoped to answer the question: How does the application of social criteria affect investment performance?

The JSI's exclusionary screens ensure that no company with significant involvement in the production of nuclear power, tobacco products, or weapons-related contracting is a part of the Index. The qualitative screens cover the areas of business practices, community, diversity, employee relations, environment, human rights, and product safety.

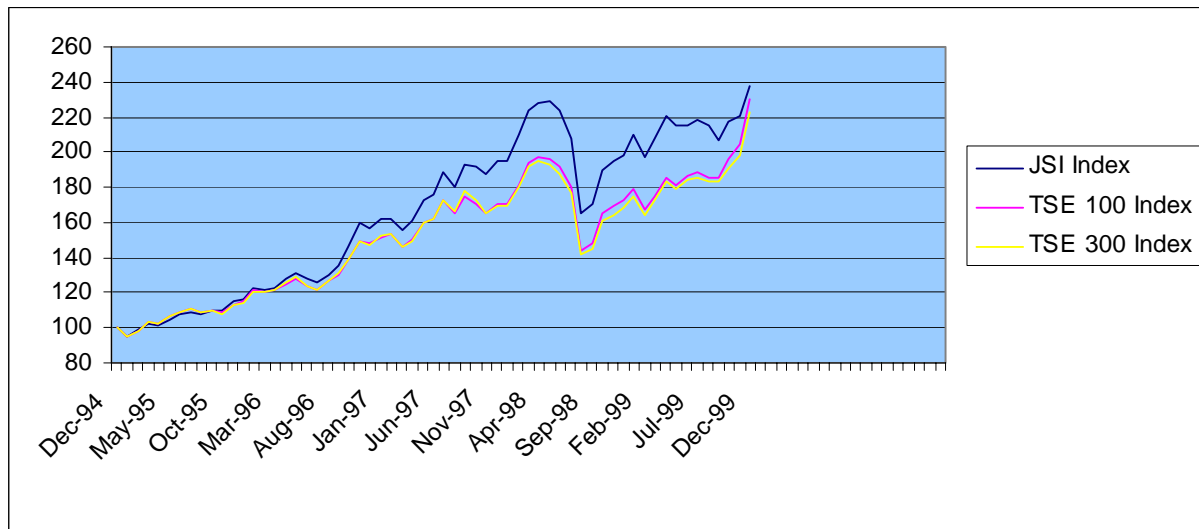
⁸³ Some recent studies have been published. For example, see Asmundson, Paul and Stephen Foerster, "Socially Responsible Investing: Better for Your Soul or Your Bottom Line," [Canadian Investment Review](#), Winter 2001, Volume 14, Number 4. Also see Boutin-Dufresne, François, "Corporate Social Responsibility and Financial Risk," *Journal of Investing*, forthcoming.

⁸⁴ MJRA worked with [State Street Global Advisors](#) (SSgA), which provided quantitative analysis, index construction support, and other services during the JSI's development stage. SSgA continues to provide quantitative support services to MJRA. [Dow Jones Indexes](#) calculates the JSI and provides the index and data elements to the Chicago Board of Trade in real-time data in update cycles of three minutes. MJRA is responsible for maintaining the JSI, including the management of the social and environmental criteria.

In selecting companies to add to the JSI, MJRA considered three primary factors. First, MJRA favoured companies with strong social and environmental records. Second, MJRA favoured companies with larger rather than smaller market capitalizations. Third, MJRA favoured companies in industry sectors in which the JSI was underweighted relative to the TSE 100 (now known as the S&P/TSX 60). And although it was difficult to find companies with all of these characteristics, MJRA also favoured firms that were listed on the TSE 300 (now known as the S&P/TSX Composite).

Before launching the Jantzi Social Index, MJRA undertook analysis of its financial performance vis-a-vis traditional indices in Canada. The JSI was backtested by [State Street Global Advisors \(SSgA\)](#) for the period of December 1994 to December 1999. MJRA provided SSgA with a portfolio of screened companies for each year tested. As no dates of approval for inclusion in the Index were given, the portfolio had to be restated on a yearly basis with the new universe. It was therefore assumed that all companies were eligible for purchase on January 1st of every year but that the eligible universe also changed every year. Companies were only added when historical information was available. Rebalancing occurred monthly and market capitalization weighting was used. Because of lack of historical information, some smaller companies had to be excluded over certain time periods.

Graph of Jantzi Social Index Returns (31 December 1994-31 December 1999)



Jantzi Social Index Returns (31 December 1994-31 December 1999)

	JSI	TSE 100	TSE 300
Annualized Return	18.93%	18.11%	17.35%
Standard Deviation (Risk)	16.12%	16.04%	15.76%
Sharpe Ratio*	0.802	0.755	0.720

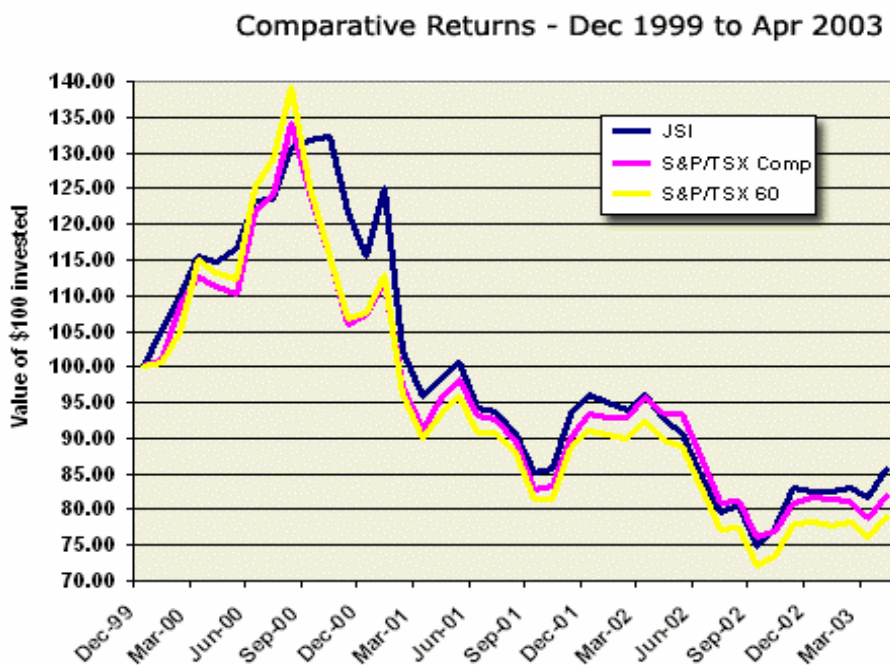
*(Return-RiskFree Return)/Standard Deviation [Assumed R_f=6%]

The SSgA backtesting produced the following results. The JSI outperformed the TSE 100, TSE 300, and the Dow Jones Canada Index. In addition to analysing returns over this period, SSgA analyzed the standard deviation and sharpe ratio of the JSI versus the other indices. The JSI showed results that were superior to all three of the others indices.⁸⁵ Moreover, the JSI achieved these higher returns with less risk than the TSE 100 or TSE 300.

The more relevant test for Canadian voluntary sector organizations interested in MBI will be how the JSI performs going forward. From its inception on 1 January 2000 through 30 April 2003, the JSI lost 14.16%, while the S&P/TSX 60 lost 21.01%, the S&P/TSX Composite (formerly the TSE 300) lost 18.03%, and the Dow Jones Canada Index lost 27.88% over the same period.

Although more time must pass before we can accurately say how a basket of socially responsible Canadian stocks performs versus traditional benchmarks, the message seems to be consistent with findings across the globe: applying social and environmental screens does not hinder your financial return.

Graph of Jantzi Social Index Returns (1 January 2000-30 April 2003)



⁸⁵ Standard deviation (or Risk) is a statistical measure of the range that a stock's (or Index's) return fluctuates within over a specific time period compared with its average return. If two stocks (or Indexes) have the same average return, investors should prefer the one with the lower standard deviation. However, since two stocks may have different average returns, the Sharpe Ratio is used to assess the risk associated with the investment on a relative basis. The Sharpe Ratio is a return-per-unit-of-risk measure. It is equal to the investment return minus the "risk free" rate, divided by the investment's standard deviation. The higher the Sharpe Ratio is the "better" the investment is because the risk-adjusted return of the investment is higher.

Jantzi Social Index Returns (31 December 1999-30 April 2003)

	JSI	S&P/TSX 60	S&P/TSX Composite
Cumulative Return	-14.16%	-21.01%	-18.03%

Socially Responsible Mutual Funds

Although reviewing socially screened mutual fund returns holds some value, the predictive usefulness of this exercise is limited. Moreover, each of these funds has slightly different screening criteria in place, thereby making comparisons challenging. However, the financial returns turned in by the managers of these funds highlights the fact that it is possible to provide competitive returns while managing a mutual fund portfolio that incorporates social and environmental screening principles. A comprehensive review of these mutual funds is available through the [Social Investment Organization](#) and [Michael Jantzi Research Associates Inc.](#)

As highlighted in Chapter II, the primary source of social venture capital in Canada is the Labour Sponsored Investment Funds that have signed onto a Statement of Principles that commits them to integrating social and environmental criteria into their investment decision-making processes. More information about these funds is available through the [Social Investment Organization](#).

Other Statistics

An increasing number of screened products and portfolios exist that incorporate social and environmental criteria into the investment decision-making process. A brief review of these products highlights competitive bottom line results.⁸⁶

[Genus Capital Management](#), a Vancouver-based investment manager, has managed SRI portfolios since 1994. Its Canadian Socially Screened Equity product had a five-year return of 18.58%, compared to the TSE 300 Total Return Index of 15.49%, to 31 December 2000. As of 30 September 2002, Genus' socially responsible unit trust had an annualized return since inception of 8.35%, compared to 6.06% for its benchmark (MSCI World Index) during the same period. A more recent SRI offering, the [Genus Biosphere Plus Canadian Equity](#) fund, had a two-year return of -4.04% compared to the S&P/TSX Cap Composite of -12.51% as of year-end 2002.

[Greystone Managed Investments'](#) family of socially responsible pooled product includes Canadian equity, US equity, EAFE equity, and Canadian bond funds. The SRI Canadian equity fund had a two-year return of -2.5% versus -8.3% for the S&P/TSX Composite (for the period ending 28 February 2003). In addition to measuring the SRI fund's financial returns against the benchmark,

⁸⁶ This section highlights only pooled funds because financial performance data is readily available and verifiable. A growing number of Canadian money managers offer SRI segregated products as well. Moreover, although these pooled products are grouped together under one banner of "socially responsible investment" funds, they differ in various ways, including investment style, asset mix, and social and environmental screening criteria. For additional information on each of the funds please refer to each investment manager directly.

it is also useful to compare its performance against Greystone's traditional Canadian equity product. In this way, we are able to review the difference in returns between an unscreened Canadian equity product and a socially-screened product, as managed by the same investment counselor. As of February 2003, Greystone's traditional Canadian equity product had a two-year return of -3.0%.

The [GWL Ethics Fund](#), managed by Winnipeg-based [GWL Investment Management Ltd.](#), has a two-year return of -3.26% versus -8.3% for the S&P/TSX Composite (for the period ending 28 February 2003). The fund seeks to invest in companies that, relative to their peers, have policies and practices reflecting environmental awareness, progressive labour policies, and make a positive contribution to the communities where they operate. The fund avoids companies that have a substantial involvement in alcohol, gaming, pornography, tobacco, or weapons.

[McLean Budden](#) has had an SRI family of pooled funds available to the institutional market for more than two years. These include the Select Canadian Equity, Global Equity, Fixed Income, and Balanced funds. McLean Budden's [Select Canadian Equity](#) fund had a two-year return of -2.0% versus -8.3% for the S&P/TSX Composite (for the period ending 28 February 2003).

[Phillips, Hager & North](#) (PH&N) is one of Canada's oldest and largest money management firms. PH&N launched its [Community Values Funds](#) in September 2002, building on its expertise in managing socially responsible investment mandates for more than a decade. The family includes Canadian equity, Global equity, Canadian bonds, and balanced funds, which do not invest in companies that score poorly against a broad range of social and environmental criteria. For example, the funds seek to invest in companies that show leadership in environmental practices and are committed to complying with environmental regulations, respect workers' rights and encourage equal employment opportunities, adhere to strong corporate governance practices, and do not support the acts of repressive regimes.⁸⁷

On 31 December 2002, [Acuity Investment Management](#) launched its Acuity Pooled Social Values Canadian Equity Fund, building on its experience in managing socially responsible mutual funds through its Clean Environment and Social Values families. The social criteria upon which the companies are evaluated include excellence in environmental management, positive labour relations, and involvement in promoting human rights.⁸⁸

[Real Assets Investment Management](#) provides a unique feature to the landscape of SRI pooled fund managers because it is the country's only full service investment management firm that focuses exclusively on social and environmental screening. It launched a family of socially-screened index pooled funds in March 2001. Before launching the funds, Real Assets undertook a backtest

⁸⁷ The funds also avoid companies that are engaged primarily in the production and distribution of alcohol, tobacco products, pornographic materials, gaming, and military weapons. For more information about the Community Values Funds and PH&N's involvement in socially responsible investing please refer to http://www.phn.com/accoun/accoun_social.asp.

⁸⁸ For more information also see <http://www.socialinvestment.ca>.

of the portfolios and found that its Canadian pooled fund would have had an annualized return of 18.11% for a five-year period ending December 2000, compared to 15.49 % for the S&P/TSX during the same period. The US pooled fund would have had an annualized return of 19.68% for the same five-year period, compared to 18.35% for the S&P 500. Returns since launch have been competitive for both the Canadian and US products.

Finally, SEI Investments Canada launched its Social Integrity Bond Fund and Social Integrity Canadian Equity Fund in March and September 2002 respectively. SEI works with its Advisory Committee to establish investment policies that identify companies that are leaders in the fair treatment of employees, make safe and useful products, respect the environment and make a positive contribution to their community. Since inception to 31 December 2003 the bond fund returned 9.31% (compared to the Scotia Capital Markets Universe return of 9.44%), while the Canadian equity fund returned 28.68% (compared to the S&P/TSX Composite return of 28.03%).

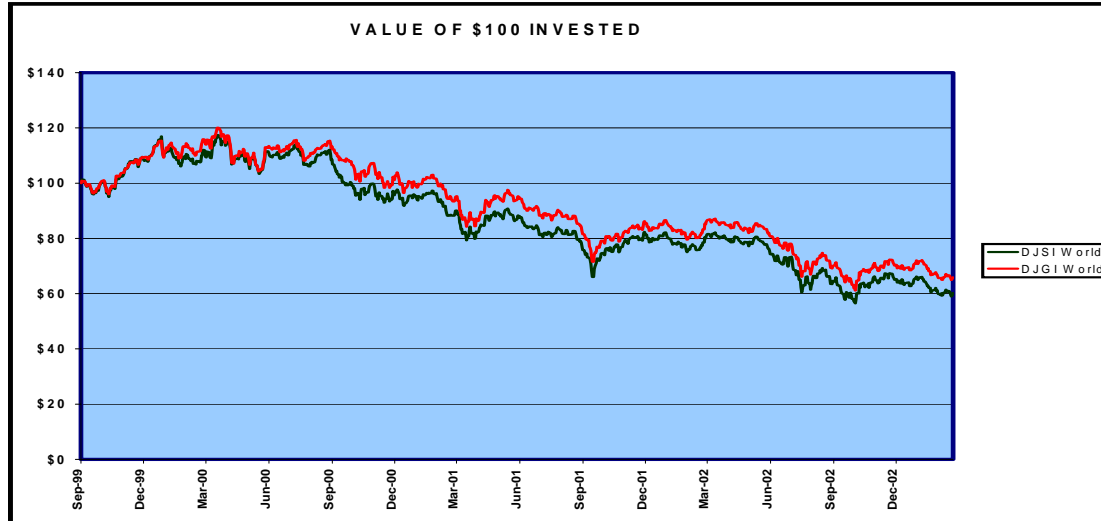
International

Research is beginning to show that screening provides competitive financial returns across international markets. Although much of this data originates from the United Kingdom, the recently launched [Dow Jones Sustainability Indexes](#) and [FTSE4Good Indexes](#) provide a glimpse of a much wider universe.

Dow Jones Sustainability Indexes

In September 1999, [Dow Jones & Company](#) launched its Dow Jones Sustainability Indexes because it believed that environmentally responsible companies have superior performances and favorable risk/return profiles. Sustainability is a catalyst for enlightened and disciplined management, a crucial success factor, according to Dow Jones. The primary index includes more than 300 companies and represents the top 10% (by number of companies) of the leading sustainability companies in 59 industry groups in 33 countries. Overall, the index family includes one global index, three regional indexes (covering North America, Europe and the Asia-Pacific), and one country index covering the United States. The analysis includes and examination of each company's environmental policies, programs, and performance.

Graph of Dow Jones Sustainability Index World Returns (9 September 1999-30 April 2003)



Although the performance of the Dow Jones Sustainability Index (DJSI) has been competitive with the traditional Dow Jones Global Index (DJGI) both in backtesting and since its launch, its performance has dipped recently. Since inception to 30 April 2003, the DJSI World returned -37.54%, compared to the DJGI World at -32.44% and the [MSCI World](#) Index at -35.20%. The [Dow Jones STOXX Sustainability Indexes](#) (DJSI STOXX) track the European sustainability leaders. Since it was launched in October 2001 the DJSI STOXX has returned -29.92% compared to its benchmark (DJ STOXX 600) at -28.69%.

FTSE4Good Indexes

[FTSE4Good](#) is an index series for socially responsible investment designed by [FTSE](#), one of the world's leading global index providers.⁸⁹ The FTSE4Good social and environmental screening criteria focus on companies that are: working towards environmental sustainability; developing positive relationships with stakeholders; and upholding and supporting universal human rights. Including backtesting results, the FTSE4Good Index has a five-year return of -26.2% compared to -24.6% for its benchmark (FTSE All-World Developed Index) for the period ending 28 February 2003.

⁸⁹ The FTSE4Good family includes FTSE4Good UK, FTSE4Good Europe, FTSE4Good Global Index, and the FTSE4Good US Index.

Can MBI Have a Positive Impact on Corporate Social and Environmental Performance?

The answer is yes, although it would be dangerous to overstate the point, especially with respect to screening. Although screening has helped define the field of corporate social responsibility and has set standards for social and environmental performance, it is difficult to link specific screens with changes in corporate behaviour because there are too many variables in the equation.

Some examples of success using the shareholder action pillar have already been highlighted throughout the manual, including the [Noyes Foundation](#) and the [South West Organizing Project](#), and the experience of Canadian labour with sourcing codes of conduct. Other examples include [Home Depot's](#) decision to stop buying lumber unless it is certified by the [Forest Stewardship Council](#), and the success of the Canadian churches in bringing various mission-based issues to the corporate agenda, not the least of which was human rights in South Africa.⁹⁰ There are also countless success stories about the positive impact that community economic development initiatives have had in communities in Canada and around the world.

However, it also bears repeating that MBI is not just about making positive contributions to society or the environment through corporate change. MBI has merit, in and of itself, because such discussions raise awareness of the fact that investments have non-financial, social, and environmental consequences. The MBI debate helps acknowledge the inevitable and varying degrees of dissonance between the organization's values and its investments. Discussions about MBI raise the question of institutional integrity and can deepen and strengthen the understanding of an institution's mission and values. These are of great benefit whether or not voluntary sector organizations change the world through their investments.

Key Points and Lessons Learned

In this chapter we learned that:

- The range of MBI options available to voluntary sector organizations may be limited by provincial jurisdiction, and the legal instrument under which they were created.
- Those institutions operating under the prudent person construct may implement MBI strategies in a thoughtful and prudent manner.
- Screening investments according to social and environmental criteria does not appear to hurt financial return, according to evidence in the US, Canada, and elsewhere.

⁹⁰ More success stories are available at the [Shareholder Action Network](#).

- Practising MBI can strengthen the mission of organizations because it can have a positive affect on corporate performance, although the journey has value in and of itself.

Having looked at some of the legal and financial implications of MBI, in the next chapter, we turn our attention to organizational challenges: How can we deal with MBI at the board and institutional level?

V. Action Framework

Overview

An issue such as MBI can be complicated and challenging. To help trustees of voluntary sector organizations work their way through these challenges, this report lays out a framework they can use to begin to explore MBI. The hope is that the proposed framework will provide some structure for decision makers in the foundation and NGO communities as they work their way through the issues surrounding MBI, weigh pros and cons, explore trade-offs, and together find a level of action with which they are comfortable.

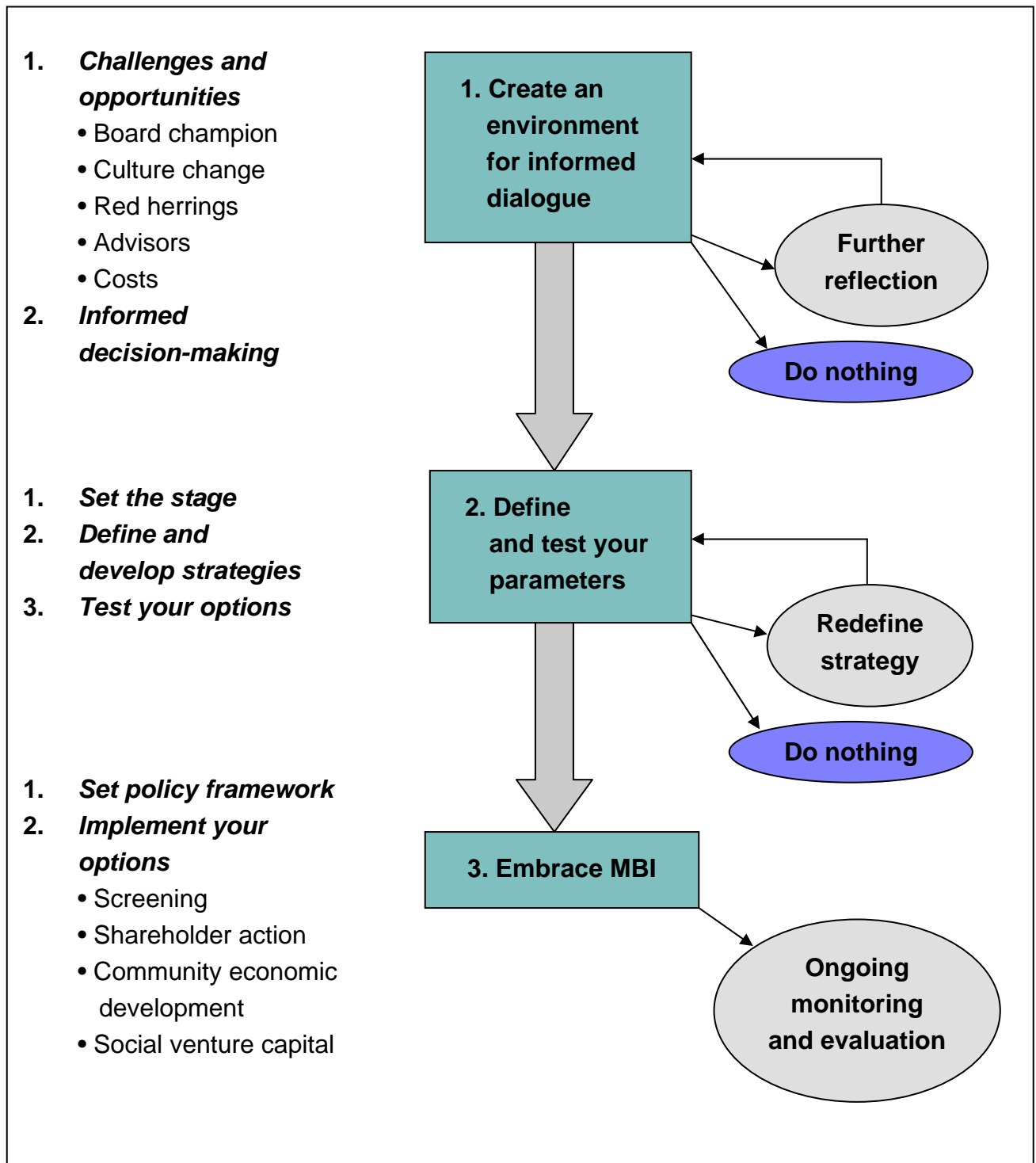
It must be stressed that MBI is not an all or nothing proposition: Those attempting to reconcile their investment decisions with their programming aims have a number of intermediary options to explore. That being said, this report does not deal with a simple “Do Nothing” option. As discussed in sections III and IV, there are compelling reasons for those in the non-profit sector to minimize the “values gap” between their mission and their investments. At the very least, organizations must sufficiently examine their options to justify a decision to implement MBI or not.

This chapter lays out a three-step framework for approaching MBI: These steps include:

1. Creating an environment for informed dialogue on MBI
2. Defining your organization’s investment parameters
3. Beginning to implement MBI

Not all organizations will reach the third stage, or even the second. As shown in figure 5a, each stage concludes with a decision whether or not to proceed to the next, based on what has been learned, and the interpretation of key stakeholders as to how the subsequent stage would impact on the best interests of the intended beneficiaries.

Fig. 5a Mission-Based Investing: Action Framework



Create an Environment for Informed MBI Dialogue

Trustees can decide not to integrate MBI principles into the investment decision-making process. However, they do not have the option of ignoring the issue completely because, as we discovered in Chapter III, MBI is an increasingly important component of investment analysis, which can add shareholder value. Moreover, MBI can not only help to protect the reputations of organizations in the voluntary sector, but it can assist them in building stronger relationships with governments, funders, donors, staff, and volunteers.

So what's the first step for voluntary sector organizations to set the stage for informed discussion? First they need to identify and address the organizational challenges and opportunities that present themselves.

Organizational Challenges and Opportunities

There are numerous challenges and opportunities that may present themselves as your organization considers implementing MBI. These include the following:

Board Champion

Experience suggests that a committed board member, who is willing to champion the issue of MBI and work until there is a resolution, is essential. According to Stephen Viederman, past president of the [Jessie Smith Noyes Foundation](#), this board member must have the respect of other board members, be well informed on the issues, and be willing to use his or her political capital within the institution to make things happen. This avoids the problem of having an Executive Director that wants to move ahead but a board chair that is opposed and directs that the issue never be raised at a meeting. Supporters of MBI should work on identifying and building alliances within the organization.

Culture

You may have found that a barrier has grown between the financial and grant making or programming operations of your foundation or organization. Those on the board and programming sides might have little experience in investing and a limited understanding of the language of finance. They might have little interest in the subject as well. For those working on the investment side, there might be little knowledge of or interest in the non-financial criteria attached to investing. They generally have few tools to measure the performance of mission-based investing and are not knowledgeable of the field. Moreover, they might perceive MBI to be in conflict with fiduciary responsibilities.⁹¹

⁹¹ Viederman, Stephen and Miriam A. Ballert, "Investment Issues for Family Funds: Managing and Maximizing Your Philanthropic Assets," *National Center Journal*, Volume 2. Washington, DC: National Centre for Family Philanthropy, 1999.

How can we effect cultural change within voluntary sector organizations with respect to MBI?

- 1) Seek out board members who have knowledge of and experience with MBI and who share the organization's values. This does not mean that supporters of MBI should stack the board with their nominees, but that MBI should be included as a criterion when selecting new directors.
- 2) Develop close and on-going collaboration between the president and the finance committee as well as between the finance committee and the board.
- 3) Engage the board with respect to the investment process and its potential social consequences. Counter the perception that MBI is not financially remunerative. This can be especially important when finance committee members are advisors, not board directors.
- 4) Engage your organization's investment managers, consultants, and advisors with respect to your programs and values. If they are unaware of MBI, share information with them on the investment process and its potential social consequences.
- 5) Encourage interaction between members of the finance committee who have been selected for their financial expertise with other board members with program-related expertise but no financial experience.
- 6) Create or re-strike the finance committee to include a mix of financial experts and those with program-related experience.
- 7) Ensure board meetings are conducted in plain language – not financial jargon. Also take the time at each board meeting for discussions of the investment process and its potential social consequences.

Most importantly, organizations must remember that MBI takes time – time for members to inform themselves, to decide which investing strategies are most appropriate to your mission, what advocacy strategies will advance your goals, and how companies in the investment portfolio rate on the issues deemed most important to your organization.

Red Herrings

No doubt there will be times when the challenges of MBI seem insurmountable. There are many common misconceptions about what it entails, and factors that restrict an organization's options. While facing these “red herrings” can be frustrating, if approached constructively, the resulting dialogue will help to dispel doubts within your organization. Concerns that commonly emerge include:

1. We have no time.

Creating the right environment for MBI, and developing and implementing appropriate MBI strategies takes concerted effort. In most cases it will entail the allocation of staff time and resources. However, much of the work in the beginning stages can be organized with the help of volunteer directors. The use of ready-made materials and outside consultants can also lighten the workload for staff and trustees.

2. We can't agree on the needs of our stakeholders.

This tends to be an issue for voluntary sector organizations with a wider mandate. Community foundations, for example, represent a diverse group of stakeholders, who might have very different ideas of what social responsibility means. Nevertheless, even organizations with a diverse stakeholder base were created for some purpose; therefore, it may not be as difficult as initially thought to reach some agreement around MBI. For example, community foundations have a role to strengthen local communities, and as such MBI can be developed around this construct. It may be helpful to look at how stakeholder needs have been interpreted on the programming or grant-making side for guidance as to how they can be supported on the investment side.

3. Our investments are in a pooled fund.

In the past, this obstacle might have been difficult to overcome. But times have changed. First, there are numerous investment managers across Canada that offer pooled vehicles that utilize social and environmental screens.⁹² So voluntary sector organizations that wish to explore this type of option have choices in the marketplace. Second, and more specific to the issue of shareholder advocacy, many pooled investment vehicles (screened and conventional) now allow investors to vote their shares independently of other participants. Therefore, if your organization is invested in a pooled fund, the trustees may have the right to vote shares in a way that is consistent with the mission of the institution.

4. There is no appropriate benchmark against which MBI performance can be measured.

This is a misperception, as a quick review of Chapter IV would reveal. The [Jantzi Social Index®](#), [Domini Social Index](#), and the [Dow Jones Sustainability Indexes](#) or [FTSE4Good Indexes](#) may be appropriate benchmarks for Canadian, US, and international equity portfolios, respectively. In January 2001, [KLD & Co., Inc.](#) also launched its [Broad Market Social Index](#), a comprehensive US equity benchmark for mission-based investors, which is modeled on the Russell 3000.

Advisors

Many voluntary sector organizations use advisors or consultants on the legal and/or investment side. The challenge is that few of these individuals are knowledgeable about MBI, and therefore can provide flawed or limited advice on these options. One solution is to actively engage them on MBI, using resources such as this handbook and other tools and events offered by some of the social investment and shareholder action organizations listed in section VI.

⁹² These investment managers include: [Acuity Investment Management](#); [Genus Capital Management](#); [Greystone Managed Investments](#); [GWL Investment Management](#); [McLean Budden](#); [Meritas Financial](#); [Phillips, Hager & North Investment Management](#), and [Real Assets Investment Management](#).

Costs

As highlighted earlier, creating the right environment for MBI, and developing and implementing appropriate MBI strategies likely will entail the allocation of staff time and resources. This has budget implications. And although using outside consultants can lighten the workload for staff and trustees, financial resources will have to be allocated for this purpose. However, once the MBI initiative is in place, costs should be minimal. For example, most investment managers do not charge additional fees for providing MBI services.

Fostering Informed Decision Making

Once your voluntary sector organization has addressed the challenges and obstacles that present themselves, you will want to take steps to create an informed environment for decision-making. There may be a need to explore MBI in greater depth at the staff and/or board levels. MBI may not be well understood by decision makers within the organization. An inclusive process to engage and inform can include various initiatives, including a MBI board session or retreat, or a MBI workshop. Be sure to include all key decision makers, whether they be board or staff members, or consultants and professional advisors upon whose strategic advice you rely.

Depending on the culture of your organization and your policy making process, you may also wish to consult with a wider pool of stakeholders, including beneficiaries and donors, to gauge their perception of how your current and potential investment strategies affect them.

Through this process of informing yourselves, you will start to identify the advantages/disadvantages and costs/benefits of MBI within your environment. The contents of this manual could be used as a framework to guide your exploration of MBI. You would likely want to touch on:

- the reasons why trustees should better understand MBI;
- key questions surrounding financial return;
- a review of studies with respect to the financial performance of companies that have integrated social and environmental criteria into their business decision-making framework; and
- the implications of MBI with respect to fiduciary responsibility .

Trustees may wish to undertake a benchmarking study, to review the experiences of like-minded organizations in Canada and internationally with respect to MBI. Such an exercise would provide trustees with up-to-date data and analysis and reveal the lessons learned by others who have considered these same issues. Trustees might also wish to undertake a portfolio audit using a particular set of MBI criteria. The purpose of this MBI auditing process is not necessarily to remove companies from the portfolio, although the board may decide to do so, but to help identify those companies with a performance profile that runs counter to the organization's mission.

In creating an informed environment, your organization might also undertake a comprehensive review of MBI's four pillars, including screening, shareholder action, community economic development, and social venture capitalism, with an eye to considering which may be most appropriate to your goals and circumstances.

Next Steps

When your organization has addressed the challenges and obstacles that present themselves and has a good sense of what MBI is about, a decision should be made with regard to next steps. If trustees or other decision makers remain skeptical, they may wish to continue identifying organizational challenges and establishing minimum conditions for success. Or, they may decide to do nothing.⁹³ But if your organization is prepared to go further with MBI, the next step is to determine what your investment goals are, and investigate how specific strategies and investment choices might achieve those goals.

Defining and Testing Your Investment Strategies

Before starting out, it is wise to remember that MBI is not a “one size fits all” activity nor does it require one to implement all four pillars. Organizations may choose to screen all or part of their investments while they develop a comfort level with the activity. Or they may choose to direct their attention to voting proxies and engaging corporate management in a variety of ways. Still others may choose community investment or focus on mission-related venture capital with part of their assets. The best approaches are those that support the mission and goals of the organization and the skill sets of the board members and other key personnel.

At this juncture it is wise to recall the words of one Mark Twain. He said that the secret of moving ahead is getting started, and the secret of getting started is to break complex and often overwhelming tasks into small, manageable tasks. The key is to start the first task.

⁹³ This decision might reflect the underlying value that the organization's mission is best served by attempting to maximize returns, and that despite evidence to the contrary, MBI is not an appropriate strategy.

Setting the Stage

Before a voluntary sector organization can begin detailed strategic planning, basic issues need to be addressed. According to Stephen Viederman, to move its investment policies and programs towards MBI the organization must first:

- 1) clearly define its mission and purpose;
- 2) identify areas of dissonance between its investments and grantmaking values; and
- 3) evaluate the level of comfort with this dissonance. Assuming some discomfort, the conversation should be directed towards ways to minimize the dissonance given the organization's circumstances and resolve.

In exploring the relationship between their mission and investment decisions, decision makers should ask themselves:

- 1) In pursuing our mission, what kind of economy should our organization be contributing to? What kind of communities and world should we attempt to shape?
- 2) What kind of corporate cultures and activities are consistent with these goals?
- 3) What kind of companies seem to best reflect these values and support these activities?
- 4) Are such companies present in our current investment portfolio, and if not, can they be added with little or no risk to our rate of return?

In keeping with the fiduciary responsibilities of the trustees, answers to the latter question are crucial. Exploration of the outcomes of specific MBI strategies should be carefully planned and undertaken using qualified expert advice to predict impacts, as outlined below, before any changes in investment are made.

Defining and Developing Your Strategies

Once a voluntary sector organization has reviewed its mission and done some thinking with respect to how it will be reflected in its investment decisions, the trustees or other decision makers must decide on what strategies they are best equipped to employ. Organizations can choose to utilize any one of the four pillars outlined in Chapter II, in any combination. The four MBI strategies are neither mutually exclusive nor dependent on one another for successful implementation. And if your organization does not have a sizeable investment portfolio, you still may wish to explore how MBI can be integrated into everyday financial decision making, as outlined in Chapter IV.

Decision makers should be aware that each MBI strategy entails certain challenges and risks. Social venture capital, for example, is a riskier option than choosing shareholder action.

As markets have demonstrated during the past several years, investing in stocks does not allow for guaranteed returns, whether or not you undertake screening, while exploring a community economic development alternative might provide just that.⁹⁴

Screening

If your organization selects screening as a preferred option, you must decide what issues are most important to the organization, building on the efforts to outline mission and purpose highlighted previously. You need to consider the variety of screening options available and assess whether these are consistent with the underlying objectives of the organization.

Once the organization has decided what screening issues support its mission, you must decide whether it wishes to use an “off-the-shelf” socially screened investment product or develop a custom set of screening criteria and seek its own investment professional to manage to this set of custom guidelines. The off-the-shelf model means less work for boards and other decision makers, which may be an advantage in a volunteer environment where time pressures and a lack of experience may be significant constraints. Chances are this option will also entail lower management fees as compared to the custom alternatives. However, it is unlikely that a generic investment product will provide an exact match with respect to the organization’s social and environmental screens, so you might have to compromise on this front. In any case, if you decide to seek an off-the-shelf solution there are plenty of options from which to choose.⁹⁵

If the organization decides that it wants more control over the process, you need to begin developing draft screens focusing both on what behaviour you want to avoid and what behaviour you want to encourage. These should include clearly defined terms and thresholds, to indicate your degree of tolerance for various kinds of investment. Then, organizations should undertake an impact analysis of the screens to get a concrete sense of the likely impacts of your choices.

The underlying premise behind the need for an impact analysis is that social and environmental investment screens cannot be developed in a vacuum. They must be scrutinized against “live” companies in order to measure whether they will have their desired affect upon an investment portfolio. Working with an investment screening consultant can provide a unique perspective on what impact a selection of the screening options would have on various baskets of stocks, such as the TSX Composite Index or the organization’s own portfolio.⁹⁶ Subsequent to this impact analysis,

⁹⁴ Some community economic development investment vehicles, such as VanCity’s [Community Investment Deposits](#), for example, offer guaranteed rates of return.

⁹⁵ Some options include: [Acuity Investment Management](#); [Genus Capital Management](#); [Greystone Managed Investments](#); [GWL Investment Management](#); [McLean Budden](#); [Meritas Financial](#); [Phillips, Hager & North Investment Management](#), and [Real Assets Investment Management](#).

⁹⁶ For example, the trustees would be able to see what effect an environmental screen would have on the fund manager’s ability to manage a diversified portfolio and the market capitalization of the ineligible stocks, alone and in aggregate.

the resulting company universe(s) – those that fit the screening criteria – could be back-tested to provide as much pertinent performance information as possible. Decision makers can then review, revise, and finalize the draft screens, as required.

Once your organization has finalized its social and environmental screening framework it needs to work with its current investment manager(s) to put the guidelines into operation. Alternatively, your organization needs to find an investment manager that is willing to manage the portfolio to your exact specifications and MBI guidelines.

Shareholder Advocacy

If your organization decides that shareholder advocacy is a preferred option, you must decide how to implement such an approach. Will you limit your engagement to letter writing or attending annual general meetings, or dialoguing with management in some other manner? Or will you decide to take control of your proxy voting or sponsor shareholder resolutions to have a greater influence on corporate behaviour?

If your organization decides to take a more active approach to voting your proxies, the next step would be to integrate social and environmental criteria into your investment portfolio's proxy voting guidelines. This would entail a review of the institution's proxy voting guidelines (if they exist). Subsequent to this review, you would need to review the variety of social, environmental, and other options available for integration into these guidelines. Trustees should also be introduced to proxy voting guidelines which reflect the experience of a variety of like-minded organizations in Canada and the United States. There may also be options to adopt a generic set of social and environmental proxy voting guidelines, some of which exist in Canada.⁹⁷

As with the review of customized screening options, it is important that trustees undertake an impact analysis at this stage. This analysis should identify the frequency with which the trustees historically would have had to deal with the types of proxy issues being explored as part of the draft guidelines. Once again, this exercise brings the concepts of social and environmental proxy voting guidelines from the abstract into the realm of practicality.

Community Economic Development

If community economic development investment is the chosen path then your organization will need to explore these options in greater detail. First, you will need to decide upon your definition of community: Is it your neighbourhood, town or city, country, or the global community? It may not be defined by a geographical border at all, but instead be based on some common belief system or type of work.

⁹⁷ For example, see the [Shareholder Association for Research and Education](#) which has developed a generic set of social and environmental proxy voting criteria.

Then, you must decide what issues are most important to the organization. Is it housing, strengthening micro business in your local community, or some other worthwhile endeavour on the global front? Your organization must also decide what investment return and risk tolerance it has, and how this strategy would fit into your portfolio. The answers to these questions will lead you to assess your options, including: community-based investment institutions, loan funds (domestic or international focus), equity investment funds, or other economically targeted investment opportunities.⁹⁸

Social Venture Capital

Social venture capital may be an option your organization wishes to explore. This pillar of MBI tends to be the most risky, and there are fewer options for organizations to consider in the Canadian context. Once your organization has determined whether or not this strategy is suitable, it needs to consult with a professional in this area to develop a game plan that both protects against the risks involved and ensures that the organization's mission is being fulfilled.⁹⁹

Next Steps

After determining and testing a range of possible MBI strategies, organizations once again face a choice about whether and how to proceed in realigning their investments. Trustees or other decision makers may at this point conclude that they are not ready to embrace MBI, or need to explore a different MBI strategy before moving ahead. If the results of your testing reveal that your chosen strategy is feasible, and if the necessary level of support exists in your organization, you are ready to begin to make the kinds of institutional changes necessary to implement MBI.

The Journey Continues: Embracing MBI

Although the primary components of a MBI policy might be in place at this stage, there are still some outstanding questions and issues which must be dealt with. These decisions are not always left until the end of the process, nor are discussions with other stakeholders left until the final hour. However, for the purposes of this report we introduce some of these questions and issues at this time.¹⁰⁰

⁹⁸ For more information about the choices available please refer to Chapter II.

⁹⁹ There are very few professionals working in the social venture capital arena in Canada. One option is Hebb Knight and Associates based in Ottawa.

¹⁰⁰ This section borrows from the expertise of a variety of professionals and organizations working in the area of MBI, including Stephen Viederman (past president of the [Jessie Smith Noyes Foundation](#)), Gil Yaron ([Shareholder Association for Research and Education](#)), the [Social Investment Organization](#), and [Michael Jantzi Research Associates Inc.](#)

Policy Development and Frameworks

In paving the way for a mission-based approach to investing, it is important to ensure that a framework, consistent with your overall policy framework, is developed to “institutionalize” your investment parameters. In general terms, this framework must both enable your trustees and designated financial advisors to pursue MBI, but also set out clear terms and limits on the scope and objectives of your MBI policy.

Below are some suggestions on key components of such a framework:

1. The board should integrate a MBI component into the existing trust agreement and put MBI provisions into the trust document.
2. The board should ensure that the organization’s investment policy is in compliance with the trust document or applicable legislation. Any legislation that applies to their plan must be reviewed for any specific rules pertaining to restrictions on investments. The organization should seek a legal opinion on this matter. Trustees should ensure that the proposed investment policy:
 - explicitly permits consideration of non-financial criteria;
 - indicates whether rate of return is the paramount consideration;
 - allows for appropriate diversification levels in accordance with any statutory or common law requirements; and
 - provides trustee’s with the discretion not to apply social and environmental screens where it would result in unreasonable harm to the plan.
3. The investment policy should not bind the trustees to one irreversible course of action.
4. More generally, the organization should:
 - select qualified financial managers, legal advisors, and other consultants that have an understanding and appreciation of MBI;
 - provide evidence of due diligence, to ensure compliance with all duties, and to guarantee, unless the organization’s investment policy provides otherwise, that all alternative investments are commensurate with rates of return of non-screened investments with similar risk characteristics;
 - establish a reporting and review structure; and
 - create a mechanism by which the trustees can measure the impact of the MBI policy, both financially and socially.

Screening

There are numerous issues organizations need to grapple with if they decide to employ investment screening. These questions include:

- 1) Does the organization want to begin by setting aside a percentage of assets for screening or include the entire portfolio? If not, what percentage of assets will be used as the starting point?
- 2) Does the organization wish to screen existing assets and/or new contributions?
- 3) Should the institution begin by screening only its Canadian assets until it gains experience? Or should the organization implement screens on its international portfolio as well?
- 4) Does screening include only equities or fixed-income investments such as corporate bonds?
- 5) Does the organization wish to implement a MBI strategy with an actively managed or indexed mandate?
- 6) Does the organization want to invest in pooled funds or develop a customized investment portfolio?
- 7) Does the organization wish to take a “hands on” or “hands off” approach?¹⁰¹

Depending on the answers to these questions, especially the final one, the trustees will have different roles to play in implementing and monitoring the MBI policy. For example, if the organization chooses a ready-made investment product it will lead to less involvement in the monitoring process, as compared to a decision to use a tailored product, especially if the investment manager has little or no MBI experience.

Shareholder Advocacy

Once the organization has decided whether shareholder advocacy means proxy voting only, or dialogue with management and the filing or co-sponsoring of proposals, important questions need to be addressed, including:

- 1) Does the organization want to begin by integrating MBI into the proxy voting guidelines for its entire portfolio? Or should the institution begin by voting only its Canadian assets until it gains experience?
- 2) How will it establish a corporate dialogue framework?
- 3) Does the organization wish to liase with other groups working in this area, such as [KAIROS: Canadian Ecumenical Justice Initiatives](#), [Shareholder Association for Research and Education](#),

¹⁰¹ The terms “hands on” and “hands off” describe two different philosophies for voluntary sector organizations to consider. By taking a “hands on” approach, organizations would be involved in a comprehensive array of issues, including deciding what companies pass/fail the screening criteria and active involvement with companies with respect to shareholder initiatives, etc. For example, organizations would supply the investment manager with an eligible universe of stocks from which it could manage the portfolio. This approach would be more time intensive than the alternative – a “hands off” approach. This approach means more of a monitoring role for the committee, as opposed to active involvement. It means that the committee would rely more heavily on the advice and work of its consultants, including the investment manager.

the [Social Investment Organization](#), [Shareholder Action Network](#), or the [Foundation Partnership on Corporate Responsibility](#)? If so, how?

- 4) Does the organization wish to involve itself in public policy debates or lobbying with respect to shareholder advocacy issues?

Community Economic Development and Social Venture Capital

If your organization wishes to engage in community economic development or invest social venture capital, it must consider the following:

- 1) What amount (or percentage of the portfolio) does it feel comfortable in putting toward these types of asset classes?
- 2) What is the organization's level of risk tolerance for these types of asset classes?
- 3) What return does it expect to achieve on this portion of its portfolio (market or below-market return)?
- 4) How long is the organization willing to commit its investment funds to this type of asset class?
- 5) Where does the organization wish to put this segment of capital to work (locally, domestically, or internationally)? What is it most interested in funding (housing, microcredit, small business, or other forms of community development)?
- 6) How does the organization wish to make its investment in this area?¹⁰²

Key Points and Lessons Learned

This chapter outlined a framework with which trustees of voluntary sector organizations can increase understanding of mission-based investing and create a climate receptive to these investment options. Key steps included:

- Creating an environment for informed dialogue within your organization;
- Choosing and testing strategies that match your mission and goals; and
- Proceeding to implement MBI, after ensuring the requisite policy framework is in place.

¹⁰² Some options include direct investments (Community Development Banks and Credit Unions offer insured accounts and CDs), community investment portfolios, mutual funds (several mutual funds have a community investment component built in), and labour sponsored investment funds.

VI. Resources

While creating the right conditions for applying mission-based investing is no small feat, thankfully, there are numerous resources available which can serve to deepen your own understanding, help to engage others, or address specific questions about MBI options. The lists here are not exhaustive, but reference to the organizations linked below will undoubtedly reveal other avenues to pursue.

If you have other organizations or resources to add to this list, please let the author know using this [feedback link](#).

Books/Articles

Abbey, Deb and Michael Jantzi, *The 50 Best Ethical Stocks for Canadians: High Value Investing*, Toronto: MacMillan Canada, 2000.

Brill, Hal, Jack A. Brill, and Cliff Feigenbaum., *Investing With Your Values: Making Money and Making a Difference*, Princeton: Bloomberg Press, 1999.

Chapman, Peter, *Mission and Investing: A Guide for United Church of Canada Congregations and Organizations*, Toronto: United Church of Canada, 2002.

Dalla Costa, John, *The Ethical Imperative: Why Moral Leadership is Good Business*, Toronto: Harper Collins, 1998.

Ellmen, Eugene, *The 1998 Canadian Ethical Money Guide*, Toronto: James Lorimer & Company, 1997.

Falconer, Kirk, Prudence, *Patience and Jobs: Pension Investment in a Changing Canadian Economy*, Ottawa: Canadian Labour Market and Productivity Centre, 1999.

Foundation Management In Canada: An Introduction for Trustees (2nd Ed.), HSBC Asset Management (Canada) Limited, 1999.

Kinder, Peter D., Steven D. Lydenberg, and Amy L. Domini, *The Social Investment Almanac*, New York: Henry Holt and Company, 1992.

Kinder, Peter D., Steven D. Lydenberg, and Amy L. Domini, *Investing for Good*, New York: Harper Business, 1993.

Kinder, Peter D. and Steven D. Lydenberg, *Mission Based Investing: Extending the Reach of Foundations, Endowments and NGOs*, Boston: KLD, 1998.

Pratt, Renate, *In Good Faith: Canadian Churches Against Apartheid*, Waterloo: Wilfrid Laurier University Press, 1997.

Reder, Alan, *In Pursuit of Principle and Profit: Business Success Through Social Responsibility*, New York: G.P. Putnam's and Sons, 1994.

Skinner, David, *The Ethical Investor: A Guide to Socially Responsible Investing in Canada*, Toronto: Stoddard, 2001.

Solomon, Lewis D. and Karen C. Coe, "Social Investments by Non-profit Corporations and Charitable Trusts: A Legal and Business Primer for Foundation Managers and Other Non-profit Fiduciaries," *University of Missouri-Kansas City Law Review*, Volume 66, Number 2, Winter 1997.

Various Authors, *The Journal of Investing*, Winter 1997.

Viederman, Stephen, "Adding Value To Your Grants," *Foundation News and Commentary*, January/February 1997.

Viederman, Stephen and Miriam A. Ballert, "Investment Issues for Family Funds: Managing and Maximizing Your Philanthropic Assets," *National Center Journal*, Volume 2, Washington, DC: National Center for Philanthropy, 1999.

Viederman, Stephen, *Jessie Smith Noyes Foundation Annual Reports*.

Yaron, Gil, "Redefining Prudence and Loyalty: Pension Trustees and Socially Responsible Institutional Investment," *Corporate Governance Review*, Volume 13, Number 2, February/March 2001.

Organizations

[Business for Social Responsibility](#)

www.bsr.org

415-537-0888

BSR is a membership organization for companies which provides products and services to help them be commercially successful in ways that demonstrate respect for ethical values, people, communities, and the environment.

[Canadian Business for Social Responsibility](#)

www.cbsr.bc.ca

604-323-2714

CBSR is a not for profit organization that aims to define and promote corporate social responsibility. Its members are both small and large Canadian companies. CBSR defines, promotes, and educates on responsible business policies and practices that benefit society, the economy, and the environment.

[Canadian Centre for Philanthropy](#)

www.ccp.ca

416-597-2293

The Canadian Centre for Philanthropy is a national charitable organization dedicated to advancing the role and interests of the charitable sector for the benefit of Canadian communities. It is a membership-based, leadership organization for charitable, voluntary organizations, and the corporations and foundations that support them. The Centre generates and gathers information and analysis about the environment in which Canadian charities operate.

[Canadian Democracy and Corporate Accountability Commission](#)

www.corporate-accountability.ca

416-406-2116

The Canadian Democracy and Corporate Accountability Commission consists of five representatives, including corporate Canada, organized labour and the political sectors, working together to develop practical measures that address issues of corporate accountability. The Commission has embarked on a national consultation process to hear from Canadians how they think these issues should be addressed and resolved.

[Conference Board of Canada](#)**www.conferenceboard.ca****613-526-3280**

The Conference Board of Canada brings Canadian business, government, and public sector organizations together and provides insights which allow members to anticipate and respond to an increasingly changing global economy. Its knowledge areas include organizational strategies and practices, emerging economic and social trends, and key public policy issues acquired from information gained through member and partner networks.

[EthicScan Canada](#)**www.ethicscan.ca****416-783-6776**

EthicScan is a private company that provides resources and managerial advice on ethically responsible corporate behaviour. It undertakes research on the social and environmental performance of Canadian companies and publishes *The Corporate Ethics Monitor*.

[Fairvest: An ISS Company](#)**www.fairvest.com****416-364-9000**

Fairvest provides research on Canadian corporate governance issues to institutional investors. Proxy analysis and voting recommendations on corporate governance issues are offered through their Proxy Review Service and On-Line Proxy Review Service Database.

[Foundation Partnership on Corporate Responsibility](#)**www.foundationpartnership.org****212-870-2318**

The Foundation Partnership on Corporate Responsibility (FPCR) is an association of foundations working to link their grantmaking values with their investments to promote greater social responsibility of corporations. The partners believe foundation endowments can become effective instruments of change to complement grantmaking programs. The purpose of the FPCR is to facilitate and provide technical assistance to foundations that want to become more active as shareholders on social and environmental issues.

Organizations – *continued*

[Le Groupe Investissement Responsable](#)

www.investissementresponsable.com

514- 879-1702

GIR aims to contribute to the achievement of a more just and sustainable economy through the development, practice, and promotion of socially responsible investment.

[Innovest Strategic Value Advisors](#)

www.innovestgroup.com

212-421-2000

Innovest Strategic Value Advisors is an investment research firm specializing in environmental finance and investment opportunities. Innovest provides custom research and portfolio analysis to institutional investors and fund managers throughout the world.

[Interfaith Center on Corporate Responsibility](#)

www.iccr.org

212- 870-2295

ICCR is a faith-based organization, although its broader constituency includes many non-religious groups who look to ICCR for guidance on social issues. It is the leading player in the United States with respect to the shareholder proxy resolution process.

[Investors' Circle](#)

www.investorscircle.net

415-641-0204

Investors' Circle (IC) is a non-profit national network of angel investors, foundation officers, and entrepreneurs who seek to achieve financial, social, and environmental returns. IC is dedicated to facilitating the flow of capital to private companies that deliver commercial solutions to social and environmental problems.

[Jessie Smith Noyes Foundation](#)**www.noyes.org****212-684-6577**

The Jessie Smith Noyes Foundation is committed to protecting and restoring the earth's natural systems and promoting a sustainable society by strengthening individuals, institutions, and communities pledged to pursuing those goals. The Foundation makes grants primarily in the areas of environment and reproductive rights.

[KAIROS: Canadian Ecumenical Justice Initiatives](#)**www.kairoscanada.org****416-923-1758**

KAIROS, formerly known as The Taskforce on the Churches and Corporate Responsibility (TCCR), is an ecumenical coalition of the major churches in Canada. KAIROS is dedicated to promoting human rights, justice and peace, viable human development, and universal solidarity among the peoples of the Earth.

[KLD Research & Analytics, Inc.](#)**www.kld.com****617-426-5270**

KLD Research & Analytics (KLD) provides social research to institutional investors who wish to integrate social criteria into their investment decisions. KLD provides performance benchmarks, corporate accountability research, and consulting services analogous to those provided by financial research service firms. KLD is the creator of SOCRATES, a comprehensive online social research database, and the Domini Social Index.

[Michael Jantzi Research Associates Inc.](#)**www.mjra-jsi.com****416-861-0403**

Michael Jantzi Research Associates Inc. is a private company that undertakes research on the social and environmental performance of Canadian companies. Through its global research partnerships, MJRA provides institutional investors and organizations with access to social and environmental investment research internationally. MJRA developed and maintains the Canadian Social Investment Database and the Jantzi Social Index.

Organizations – *continued*

[New Economics Foundation](#)

www.neweconomics.org

020-7407 7447

The New Economics Foundation (NEF) is a registered charity that works to construct a new economy centred on people and the environment. NEF is one of Britain's most creative and effective independent think tanks, combining research, advocacy, training, and practical action.

[Shareholder Action Network](#)

www.shareholderaction.org

202-872-5313

The Shareholder Action Network seeks to link together institutional investors, financial advisers, faith-based groups, and social justice, labour and environmental organizations to expand the circle of people interested in using their investing power to encourage greater corporate responsibility.

[Shareholder Association for Research and Education](#)

www.share.ca

604-408-2456

The Shareholder Association for Research and Education is a national not-for-profit organization helping Canadian pension funds to build sound investment practices, protect the interest of plan beneficiaries, and to contribute to a just and healthy society. SHARE works with pension trustees, plan administrators, and plan members to develop and implement sound programs and practices that respond effectively to the needs of all stakeholders.

[Social Investment Forum](#)

www.socialinvest.org

202-872-5319

The Social Investment Forum is a non-profit membership association dedicated to promoting the concept and practice of socially responsible investing in the United States.

[Social Investment Organization](#)

www.socialinvestment.ca

416-461-6042

The Social Investment Organization is a national non-profit organization with a mandate to advance a just and sustainable society in Canada and internationally through the development of socially responsible investment and corporate social responsibility. The SIO is Canada's largest socially responsible investment clearinghouse.

[Socialfunds.com](#)

www.socialfunds.com

802-251-0500

SocialFunds.com is a Web site of SRI World Group, Inc., a financial services business that empowers social investors and promotes corporate social responsibility. It offers complete coverage of social mutual funds, community investment, shareholder action, daily news, and investment advice

[Social Venture Network](#)

www.svn.org

415-561-6501

Social Venture Network (SVN) is a nonprofit network committed to building a just and sustainable world through business. SVN champions this effort through initiatives, information services, and forums that strengthen the community and empower its members to work together on behalf of their shared vision.

[Studies in the Field of Socially Responsible Investing](#)

www.sristudies.org

This Web site is intended as a resource for people interested in the impact of social screening on investment performance.

Organizations – *continued*

[Sustainable Investment Research International \(SIRI Group\)](#)

www.sirigroup.org

The Sustainable Investment Research International (SiRi) Group is a coalition of eleven research organizations devoted to the global advancement of social investing. Made up of many of the most prominent social investment research firms in the world, SiRi Group members provide a wide range of social investment research products and services to financial professionals in major markets. SiRi Group members provide coverage of more than 1,500 companies in the major markets worldwide.

[UK Social Investment Forum](#)

www.uksif.org

020-7749-4880

The UK Social Investment Forum's primary purpose is to promote and encourage the development and positive impact of socially responsible investment throughout the UK. It runs a wide range of events on topics reflecting the full spectrum of interest areas in this growing field. The SIF prepares briefings for members and works to educate the public and government about socially responsible investment.