Council on Foundations—Commonfund Study of Responsible Investing

Foundations Survey 2016

COUNCIL on FOUNDATIONS

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Table of Contents

RESPONSIBLE INVESTING DEFINED 1

DEMOGRAPHICS AND ANALYTICAL APPROACH 1

RESPONSIBLE INVESTING PRACTICES - DEFINITIONS 2

EXECUTIVE SUMMARY 4

Current Investment Practices 4

Policies and Procedures Regarding Responsible Investing 5

Views on Responsible Investing 5

Potential Changes to Portfolios 6

CURRENT INVESTMENT PRACTICES 7

POLICIES AND PROCEDURES 9

VIEWS ON RESPONSIBLE INVESTING 11

POTENTIAL CHANGES TO PORTFOLIOS 18

CLOSING COMMENTS 20

APPENDIX 23

Authors

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About Commonfund Institute

Commonfund Institute houses the education and research activities of Commonfund and provides the entire community of long-term investors with investment information and professional development programs. Commonfund Institute is dedicated to the advancement of investment knowledge and the promotion of best practices in financial management. It provides a wide variety of resources, including conferences, seminars and roundtables on topics such as endowments and treasury management; proprietary and third-party research such as the NACUBO–Commonfund Study of Endowments; publications including the Higher Education Price Index (HEPI); and events such as the annual Commonfund Forum and Commonfund Endowment Institute.

About the Council on Foundations

An active philanthropic network, the Council on Foundations (www.cof.org), founded in 1949, is a nonprofit leadership association of grantmaking foundations and corporations. It provides the opportunity, leadership, and tools needed by philanthropic organizations to expand, enhance and sustain their ability to advance the common good. With members from all foundation types and sizes, the Council empowers professionals in philanthropy to meet today's toughest challenges and advances a culture of charitable giving in the U.S. and globally.

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Commonfund Study of Responsible Investing

A Survey of Practices and Policies Among Private and Public Foundations

This Study analyzes policies, practices and attitudes with respect to responsible investing (as defined on the following page) among 186 U.S. private and public/community foundations. These respondents comprised 52 private/independent foundations, 49 private/family foundations, eight public foundations and 77 community foundations, together representing a total of $39.7 billion in endowment assets as of December 31, 2014 and encompassing a wide range of endowment sizes and geographic locations across the U.S.

Data gathering took place in the winter of 2015-2016 using an online survey instrument. We are grateful to our partners at The Council on Foundations, who assisted in the structuring and sponsorship of the Study. We also owe sincere thanks to the members of the Advisory Board for this Study, who assisted in developing the survey questionnaire, contributed topics and questions, and reviewed the final survey instrument for relevance and accuracy.

England Associates, Inc., our research partner since the inception of Commonfund's benchmarking studies in 2000, provided leadership and project management throughout this Study's design, development, fielding and analysis. The entire England Associates team have our thanks for their continued vision and efforts in creating this valuable tool for our Study participants.

While many surveys on responsible investing have been published in recent years, we believe that this Study is the most comprehensive and detailed such effort to date on this topic among private and public foundations, and are grateful to the professionals at participating institutions who contributed their time and knowledge to its creation.

Responsible Investing Defined

There is not yet a completely standardized vocabulary of responsible investing practices; therefore, to ensure that respondents used reasonably consistent terms when completing the survey, we provided the definitions listed in the accompanying box. For respondents who found that these terms did not accurately or completely describe their institution's current practice, and in recognition of the fluid nature of the current responsible investing environment, we provided opportunities to indicate whether, and how, a particular strategy at their institution differed from the defined terms. Excerpts from these comments are included in this paper.

Demographics and Analytical Approach

This Study had its origins in the 2014 Council on Foundations – Commonfund Study of Investment of Endowments for Private and Community Foundations (CCSF), which, like its predecessors, contained an analysis of responses to a suite of general questions about responsible investing practices (excerpts from this section of the CCSF are found in the Appendix to this paper). The purpose of this Study was to inquire more deeply into four specific areas regarding responsible investing:

- Current practices
- Policies and procedures
- Views on responsible investing
- Potential future changes to portfolios

The distribution of participating institutions by endowment size and by share of endowment dollars represented showed the same general pattern as the CCSF, as shown in the table below.

Of the 186 participating institutions, 159 responded to our question about whether their investment policy statement (IPS) permits or refers to at least one of the responsible investing practices defined in the box on the right. Forty institutions, or 25.2 percent of respondents to this question, reported that their IPS does permit or refer to at least one of the four. The first analytical section in this report, therefore, reviews the responsible investing practices of this group of "adopters." The remaining three sections analyze responses from both the 44 adopters and the 142 "non-adopters"—the latter being institutions which, while they do not currently engage in any of the four practices, may have policies and procedures in place that relate to responsible investing, may have views on the topic, or may be considering future changes to their portfolio.

Responsible Investing Practices Definitions

Socially responsible investing (SRI)
A portfolio construction process that attempts to avoid investment in certain stocks or industries through negative screening according to defined ethical guidelines.

Environmental, social and governance (ESG)
An investment practice that involves integrating the three ESG factors into fundamental investment analysis to the extent that they are material to investment performance.

Impact investing
Investment in projects, companies, funds or organizations with the express goal of generating and measuring mission-related economic, social or environmental change alongside financial return. Also commonly referred to as Mission-Related Investing (MRI).

Divestment of fossil fuel
A type of exclusionary screening strategy through which investors actively exclude companies involved with fossil fuels from their investment portfolio.

COMPARISON OF PARTICIPANTS IN THE 2014 CCSF AND 2015 RESPONSIBLE INVESTING STUDY

	Number of Participating Institutions		Percent		Endowment Dollars ($ billions)		Percent	
	CCSF	RI Study	CCSF	RI Study	CCSF	RI Study	CCSF	RI Study
Endowment Size								
Over $500 Million	36	42	14.8	10.0	$77.6	$70.0	72.3	78.8
$101-$500 Million	107	63	43.9	11.0	$25.0	$14.7	23.2	16.6
Under $101 Million	101	95	41.4	31.5	$4.8	$4.1	4.5	4.6
Total	**244**	**200**	**100.0**	**52.5**	**$107.4**	**$88.8**	**100.0**	**100.0**
Type of Institution								
Private	142	123	58.2	61.5	$87.6	$57.5	81.6	64.8
Community	102	77	41.8	38.5	$19.8	$31.3	18.4	35.2
Total	**244**	**200**	**100.0**	**100.0**	**$107.4**	**$88.8**	**100.0**	**100.0**

Source: *2014 Council on Foundations-Commonfund Study of Investment of Endowments for Private and Community Foundations, 2015 Commonfund Study of Responsible Investing*

GEOGRAPHIC DISTRIBUTION OF PARTICIPANTS

		U.S. Census Bureau Region			
Numbers in percent (%)		Northeast	South	Midwest	West
(A)	2014 CCSF Participants	29	17	30	24
(B)	2014 Responsible Investing Survey Participants	28	12	41	19
(C)	Adopters	27	16	36	21
(B-A)	Over- (Under-) representation of CCSF Participants among Responsible Investing Survey Participants	-1	-5	11	-5
(C-B)	Over- (Under-) representation of Adopters among Responsible Investing Survey Participants	-1	4	-5	2
(C-A)	Over- (Under-) representation of Adopters among CCSF Participants	-2	-1	6	-3

Note: The four regions correspond to the U.S. Census Bureau's classification, as found at http://www2.census.gov/geo/pdfs/maps-data/maps/reference/us_regdiv.pdf.

Where relevant to the analysis, these two main participant categories are subdivided further into private and public foundations. The private category includes independent and family foundations, while the latter includes public and community foundations. Of the 186 institutions participating in the Study, 101, or 54 percent, were either private/independent foundations or private/family foundations, while 85, or 46 percent, were either public foundations or community foundations. By comparison, 142 independent/private foundations participated in the 2014 CCSF, comprising 58 percent of participating institutions, while 102 community foundations made up 42 percent of the participant universe.

Among the adopter group, 27, or 61.4 percent, are private foundations, while 17, or 38.6 percent, are public. This is a more balanced distribution than was found in last year's Commonfund Study of Responsible Investing among colleges and universities,[1] in which 79.2 percent of adopters were private and 20.8 percent were public. Among non-adopters, 74 private foundations accounted for 52 percent of this group while 68 public foundations accounted for the remaining 48 percent. In the Study of Responsible Investing among colleges and universities, 55.1 percent of non-adopters were private and 44.9 percent were public—a pattern very similar to that found in this Study of foundations.

While there were differences in geographic distribution among participants in this Study of Responsible Investing, the overall proportion of participants from each of four regions aligned reasonably well with the proportion of adopters and non-adopters from each region. The Midwest was the best-represented region, with 41 percent of Study participants overall and for 36 percent of adopters and 42 percent of non-adopters. Foundations in the Northeast accounted for 28 percent of Study participants, 27 percent of adopters and 28 percent of non-adopters. Foundations in the West accounted for 19 percent of all participants, 21 percent of adopters and 19 percent of non-adopters. Twelve percent of all participants came from the South, breaking down into 16 percent of adopters and 11 percent of non-adopters. This is somewhat at variance with the Study of Responsible Investing among colleges and universities, where the South was under-represented and the West was over-represented among responding institutions overall.

In the case of many questions, the sample size was quite small, particularly for the adopter group, and while it is difficult to draw broad conclusions from these differences, they reinforce our point that this was a voluntary survey and the respondent group was, therefore, entirely self-selecting. In this regard, although we believe that the results are representative for this group, some caution is warranted in interpreting this information as being representative of foundations broadly or the nation as a whole.

[1] *Commonfund Study of Responsible Investing*, April 2015, based on a subset of institutions of higher learning to have participated in the *2014 NACUBO-Commonfund Study of Endowments (NCSE)*.

We would also be remiss if we did not acknowledge the presence throughout this Study of a large proportion of institutions—both adopters and non-adopters—that, in good faith, stand firmly in the middle of the road on many responsible investing topics. These are the respondents who say, for example, that they "neither agree nor disagree" with a given proposition or who, when given a 5-point scale, rate their institution a 3 out of 5 on the question at hand. They are joined by another, frequently substantial, group of respondents who candidly acknowledge that they are unsure of, or do not know, their institution's position.

The existence of these groups, which we will note throughout this analysis, is in our view a sign of the extreme fluidity of the current dialogue about responsible investing. The evolving nature of this dialogue is borne out by the large number of thoughtful comments received in response to our invitation to amplify or add to the answers given by institutions to the questions themselves. The broad range of these comments, and the fact that in almost every case they reveal an active debate taking place within the institution, indicate to us that the field of responsible investing is changing rapidly as boards of trustees and investment committees strive to understand the issues involved in these practices, assimilate them where appropriate to the mission and practice of their own institutions, and determine objective measures whereby success or failure may be discerned.

Executive Summary

This survey asked responding private and public foundations about the responsible investing policies and practices that they apply to their endowed assets. Many foundations also conduct mission-related investment activity out of their programmatic budgets, but that topic was not addressed here. In addition, public foundations typically hold various component funds that may be invested and operated apart from their core endowed assets. All the information contained in this survey refers to the endowment funds of responding foundations and the means by which they are invested to sustain and support future charitable activities.

The survey instrument and methodology used for this study mirrored those used in Commonfund's 2015 Study of Responsible Investing among colleges and universities. Where appropriate, we have referenced the findings of that study to paint a more complete picture of practices across endowed institutions that are set up to serve the public good. We note, however, that foundations and universities are two distinct types of organization and that they that play different but complementary roles in society. There are, nonetheless, many useful comparisons to be observed between the two in the context of this study.

One hundred eighty-six private and public foundations participated in this Study. Forty-four foundations—the "adopters," or 23.7 percent of the participant group—reported that they have implemented at least one of the four types of responsible investment practice addressed in the Study, while 142 institutions—the "non-adopters"—said they have not. Among the adopters, 27 foundations, or 61.4 percent, are private foundations; among the non-adopters, 52.1 percent are private foundations.

Current Investment Practices

The current state of adoption of responsible investing practices among foundations is reflected in the fact that while 86 percent of Study respondents—both adopters and non-adopters—reported that they have a written investment policy statement[2] (IPS), just 25 percent have investment policy statements that refer to one or more of the four responsible investing practices. Fully 71 percent of this group—and 95 percent of non-adopters—said that their policy neither permits nor refers to one of the four responsible investing practices addressed in the Study, and 4 percent did not know or were uncertain.

Impact Investing

Of the four approaches to responsible investing covered by the Study, impact investing/mission-related investing (MRI) was the most widely practiced. Among all responding institutions, 16 percent said their IPS permits or refers to MRI. By comparison, in the Study of Responsible Investing among educational endowments, the most commonly used practice was SRI, at 21 percent of all respondents, while MRI was third, at just 3 percent. Among foundation adopters, 65 percent reported that their IPS permits or refers to MRI,

[2] Written Investment Policy Statements are not a requirement under most state regulations; however, the Council on Foundations and Commonfund encourage their adoption as a best practice. Furthermore, public foundations seeking accreditation through the National Standards for U.S. Community Foundations® program are required to have written Investment and Spending Policy Statements, and must maintain these statements to remain in compliance.

including 83 percent of private foundations and 41 percent of public foundations. Citing the types of MRI they practice, 69 percent of adopters mentioned community economic development investments, while 42 percent of adopters cited support for companies serving less-developed or underprivileged communities and 38 percent cited municipal bonds dedicated to supporting projects in the community.

Socially Responsible Investing

After MRI, socially responsible investing (SRI) was the most widely practiced approach, with 12 percent of Study participants saying that their IPS permits or refers to SRI. Among adopter institutions, this proportion rose to 48 percent. Sixty-three percent of adopters, including 70 percent of public foundations and 56 percent of private foundations, reported dedicating between 1 and 20 percent of endowment assets to this practice. Looking at the specific negative screens used by those practicing SRI, 63 percent of adopters reported that they screen out investments in companies related to tobacco, followed by 53 percent that screen for armaments and weapons. The other most frequently mentioned screens were gambling, alcohol, unfair labor practices and fossil fuels.

Environmental, Social and Governance Factors

Environmental, social and governance (ESG) investing is permitted or referenced in 9 percent of Study participants' investment policy statements and 35 percent of adopters' statements. Among foundations citing ESG, 57 percent invest between 1 and 20 percent of endowment assets in strategies seeking to integrate ESG factors, while 29 percent commit between 61 and 99 percent of endowment assets to ESG investing. Regarding the three specific ESG criteria factored into the investment decision, 43 percent of adopters cited environmental factors and 29 percent each cited social and governance factors. The largest proportion, 64 percent, said all three factors were managed together in a single strategy (multiple answers were allowed).

Divestment from Fossil Fuels

As in the Study of Responsible Investing among educational institutions, the number of foundations whose IPS permits or refers to divestment of fossil fuels was small—just 3 percent of Study participants overall and 10 percent of adopters.

Policies and Procedures Regarding Responsible Investing

Having established a base of current practice, the Study turned next to questions relating to institutional policies on an array of responsible investing topics. In an initial question, when asked if long-term investors have an obligation to consider the impact of investments on future generations, 38 percent of all Study respondents said that they agreed while 20 percent said they strongly agreed. Only 2 percent said they strongly disagreed and another 4 percent said they disagreed. Twenty-eight percent of all Study respondents neither agreed nor disagreed.

Turning to governance matters, when asked about which entity at their institution develops and oversees responsible investing policy, 87 percent of all respondents cited board members while 56 percent mentioned financial management professionals and 41 percent identified staff. There was relatively little difference between adopters and non-adopters on board involvement and even less on the involvement of financial management professionals, but the role of staff varied widely, with nearly twice as many adopters citing staff as did non-adopters.

When asked about the level of board engagement with or education about responsible investing, 50 percent of all Study respondents said that their board members had "some." Twenty-three percent said their board had "substantial" involvement while another 23 percent responded that it had "none." Unsurprisingly, a higher proportion of adopters, at 39 percent, replied that their board members had a "substantial" level of engagement compared to 18 percent of non-adopters.

Views on Responsible Investing

This section of the Study questionnaire investigated the opinions of both adopter and non-adopter institutions with respect to various issues surrounding responsible investing.

Definitions in the responsible investing area have not yet been standardized and there is some vagueness as to what is involved in the various responsible investing practices. When asked to assess the degree of their board's or investment/finance committee's understanding of the distinction between ESG integration and SRI practices, 37 percent of all Study respondents replied that they had a "good" understanding, but 31 percent said that their board or committee had "no" understanding. Eight percent of respondents said their boards or committees had a "complete" understanding. "Don't know/uncertain" responses accounted for another 22 percent.

A key point in the debate surrounding the integration of ESG factors into the investment process is whether it can add value to an investment process regardless of mission-related motivations. In responding to this question, 41 percent of all Study respondents neither agreed nor disagreed with this proposition, and another 22 percent responded that they did not know or were uncertain. A combined total of 26 percent agreed or strongly agreed, while a combined total of 9 percent disagreed or strongly disagreed. When asked which of the three ESG factors have the most impact on the relationship between portfolio risk and return, the largest single response was from the 26 percent of institutions that said all three were equally important while a large proportion, 48 percent, said they did not know or were uncertain.

One of the main claims of the proponents of responsible investing is that it can aid in achieving both investment-related and mission-related objectives. Study respondents were generally neutral on this question. On a scale of 1 to 5 (1 being strongly disagree, 5 being strongly agree and 3 being neither agree nor disagree), the average responses for total Study respondents, adopters and non-adopters varied relatively little. The statement eliciting the highest mean score was that responsible investing helps to "further institutional mission," which averaged 3.4 among all respondents, breaking into 3.9 among adopters and 3.3 among non-adopters. Adopters were more likely than non-adopters to agree with the statement that responsible investing "improves investment performance," at an average of 3.1 versus 2.7.

The Study inquired whether a conclusion had been reached—with or without the benefit of counsel—as to whether responsible investing practices are consistent with fiduciary duty. It is apparent that the issue remains quite open, with 48 percent of respondents saying that they did not know or were uncertain how the matter stands and a further 11 percent not answering the question. Of interest, 19 percent of all Study participants said that they had reached the conclusion that responsible investing practices are consistent with fiduciary duty. Of the foundations saying that responsible investing is consistent with fiduciary duties, 38 percent were adopters while 13 percent were non-adopters. Five percent of total respondents said responsible investing practices are not consistent with fiduciary duty; none of the respondents holding this view were adopters. Finally, 17 percent of the Study universe said they were still debating the issue, including a fairly uniform rate of 16 percent of adopters and 17 percent of non-adopters.

Potential Changes to Portfolios

The Study sought to understand potential future activities and policies, asking whether participating institutions were considering further implementation of responsible investing practices for their portfolios. While 45 percent of adopters responded in the affirmative, only 14 percent of non-adopters did, for an overall "yes" response of 22 percent. Of the remainder, 41 percent of all Study respondents said that they were not planning to take further action – non-adopters more than double the adopters group—while a further 33 percent, relatively evenly split between adopters and non-adopters (34 percent and 33 percent, respectively)—did not know or were uncertain.

The Study probed the likelihood of institutions' increasing their investments over the next five years in companies specifically involved with a number of various environmental and social activities. Using a five-point scale—from 1, or "very unlikely," to 5, or "very likely," with 3 being "neither likely nor unlikely"— respondents overall appeared to be open to increased investing in the enumerated areas, but only marginally above the neutral "neither likely nor unlikely" level of 3. The highest average score among all Study participants was 3.4 for investment in community economic programs. That was followed by an average of 3.2 for energy efficiency, renewable energy and sustainable business practices and an average of 3.1 for drought-resistant agriculture.

Twenty-seven percent of Study respondents, including 48 percent of adopters, indicated they were likely or very likely to increase investment in community economic development programs over the next five years. Following this, 24 percent of the Study universe said they would likely or very likely increase investment in sustainable business practices, while 23 percent said they would likely or very likely increase investment in energy efficiency and 21 percent cited renewable energy. At the opposite end of the spectrum, just

11 percent said were likely or very likely to increase investment in retrofitting existing power plants to reduce greenhouse gas emissions.

Current Investment Practices

An institution's investment policy statement (IPS) is perhaps the main foundational document for endowment management. Accordingly, the Study questionnaire first inquired about the existence of a written IPS among participating institutions. Eighty-six percent of all participants—including 91 percent of adopters and 84 percent of non-adopters—confirmed that they had such a written statement. We note that this is a somewhat lower rate than the 96 percent of all participants in the Study of Responsible Investing among educational endowments that reported having a written IPS, including 98 percent of adopters and 95 percent of non-adopters.

Sharpening the focus of the inquiry, the Study then asked whether the IPS permits or refers to specific types of responsible investing practices.

Of the four approaches to responsible investing covered by the Study, impact investing/mission-related investing (MRI) was the most widely practiced, followed by socially responsible investing (SRI), environmental, social and governance (ESG) investing and divestment from fossil fuels. Among all responding institutions, 16 percent said their IPS permits or refers to MRI; 12 percent said it permits or refers to SRI; 9 percent specifically cited ESG investing; and 3 percent said the IPS addresses divestment of fossil fuels. By far the largest proportion, 71 percent, said that their IPS neither permits nor refers to any of the four. In the Study of Responsible Investing among educational endowments, the most commonly used practice was SRI, at 21 percent of all respondents, while MRI was third, at just 3 percent. MRI's greater frequency of use among foundations confirms anecdotal and other evidence that sees this practice as being aligned with the missions of many foundations.

Among the adopters group, 65 percent reported that their IPS permits or refers to MRI, including 83 percent of private foundations and 41 percent of public foundations. Forty-eight percent said their IPS permits or refers to SRI, including 59 percent of public foundations and 39 percent of private foundations. Thirty-five percent cited ESG in their investment policy statements, comprising 43 percent of private foundations and 24 percent of public foundations, while 10 percent said their IPS permits or refers to fossil fuel divestment, including 13 percent of private foundations and 6 percent of their public counterparts.

CURRENT INVESTMENT PRACTICES

Investment policy statement permits or refers to:*

		ADOPTERS			NON-ADOPTERS		
Numbers in percent (%)	Total Institutions	Total	Private	Public	Total	Private	Public
Responding Institutions	**159**	**40**	**23**	**17**	**119**	**56**	**63**
Socially responsible investing (SRI)	12	48	39	59	0	0	0
Environmental, social and governance (ESG) investing	9	35	43	24	0	0	0
Impact investing/ Mission-Related Investing (MRI)	16	65	83	41	0	0	0
Divestment from fossil fuels	3	10	13	6	0	0	0
None of the above	71	0	0	0	95	95	95
Don't know/ uncertain	3	0	0	0	3	4	3
Did not answer	1	0	0	0	2	2	2

*Multiple responses allowed

Turning to the percentage of endowment assets dedicated to MRI, 81 percent of adopters said that between 1 and 20 percent of their endowment assets were dedicated to this approach. Eight percent said the total was between 61 and 99 percent of endowment assets and another 11 percent said they didn't know or were uncertain. Viewed by type of foundation, 86 percent of public foundations and 79 percent of private foundations said that between 1 and 20 percent of endowment assets were dedicated to MRI; among those saying that between 61 and 99 percent of assets were dedicated to MRI, 10 percent were private, while none were public.

Seventy-seven percent of adopters said they were "very likely" or "likely" to invest in MRI, comprising 85 percent of private foundations and 57 percent of public foundations. Conversely, only 4 percent of all adopters were "unlikely" or "very unlikely" to invest.

Citing the types of MRI they practice, 69 percent of adopters mentioned community economic development investments, including 74 percent of private foundations and 57 percent of public foundations. Forty-two percent of adopters said they support companies serving less-developed or underprivileged communities, including 47 percent of private foundations and 29 percent of their public counterparts. Thirty-eight percent of adopters singled out municipal bonds dedicated to supporting projects in their community, comprising 42 percent of private organizations and 29 percent of public foundations. Among all adopters, eight percent each cited green bonds, green revolving funds and pay-for-success bonds.

Focusing on the practice of SRI and the use of screens—perhaps the responsible investing practice that has been in relatively wide use for the longest period of time—63 percent of adopters, including 70 percent of public foundations and 56 percent private foundations, reported dedicating between 1 and 20 percent of endowment assets to this practice. Sixteen percent of adopters, including 33 percent of private and no public institutions, said that between 61 and 99 percent of endowment assets were dedicated to SRI. Five percent of all adopters, including 10 percent of public foundations and no private foundations, said that they invest 100 percent of their assets using SRI screens.

Looking at the specific negative screens used by those practicing SRI, 63 percent of adopters reported that they screen out investments in companies related to tobacco, followed by 53 percent of adopters that screen for armaments and weapons. After that, 42 percent screen for gambling, 37 percent for alcohol, 21 percent each for unfair labor practices and fossil fuels, 16 percent each for pornography and poor environmental compliance, and 11 percent each for abortion, animal welfare, birth control and geopolitical/location-specific issues. Five percent cited cloning.

Among foundations citing ESG, 57 percent invest between 1 and 20 percent of endowment assets in strategies seeking to integrate ESG factors, while 29 percent commit between 61 and 99 percent of endowment assets to ESG investing. Regarding the three specific ESG criteria factored into the investment decision, 43 percent of the adopters group cited environmental factors and 29 percent each cited social and governance factors. The largest proportion, 64 percent, said all three factors were managed together in a single strategy (multiple answers were allowed).

Asked about the percentage of their managers that consider ESG factors, 22 percent of adopters reported that between 1 and 25 percent of their managers do so, while another 22 percent put the proportion at 76 to 99 percent. Asked how fully their managers integrate ESG factors into the investment process, 43 percent of adopters said that they "fully" integrate it, 29 percent said they "moderately" integrate it and 7 percent said they "slightly" integrate it. Asked about manager reporting on ESG, 43 percent of adopters said that their managers report regularly (monthly or quarterly) with written reports, while 7 percent said they report annually and another 7 percent reported that they do not use external managers. The remaining 36 percent reported that they didn't know or were uncertain, or did not answer. (The base of responders to all three questions was small, at 14.)

As in the Study of Responsible Investing among educational institutions, the number of foundations practicing divestment of fossil fuels was small. Only four adopters reported implementing this policy. Among those, two said that between 61 and 99 percent of their total endowment assets were divested from fossil fuels. One said that between 1 and 20 percent of endowment assets were divested from fossil fuels and one other said that 100 percent was divested. Asked about the investment strategies used to exclude or hedge fossil fuel-related investments, three identified actively-managed, long-only strategies that specifically exclude investment in fossil fuel or carbon-related investments, while two cited index funds that specifically exclude these investments (multiple responses were allowed.)

Policies and Procedures

Having reviewed current practices, the Study questionnaire next turned to matters more closely related to the relationship between responsible investing practices and governance. As an initial question, when asked if long-term investors have an obligation to consider the impact of investment decisions on future generations, 38 percent of all Study respondents said that they agreed, and 20 percent said they strongly agreed. Only 2 percent said they strongly disagreed and another 4 percent said they disagreed. Twenty-eight percent of all Study respondents neither agreed nor disagreed. On a scale of 1 to 5, with 5 being the highest ("strongly agree"), the average of all responses was 3.7.[3]

It is worth noting that all of these responses track the Study of Responsible Investing among educational endowments quite closely. For instance, 40 percent of respondents to that Study said that they agreed with the statement, compared with 38 percent among foundations, and 3 percent said they disagreed, compared with 4 percent among foundations. On the 1 to 5 scale, the average among educational endowments was 3.8, virtually the same as the 3.7 response among foundations.

While most foundations agreed that there is an obligation to consider the impact of investments on future generations, adopters tended to feel more strongly about this issue than non-adopters. For example, 43 percent of adopters agreed with this statement versus 37 percent of non-adopters. Thirty-two percent of adopters strongly agreed but only 16 percent of non-adopters did. While no adopters strongly disagreed, 3 percent of non-adopters took this stance. And while 43 percent of adopters neither agreed nor disagreed, 37 percent of non-adopters took this neutral stance. On the 1 to 5 scale in which 5 is "strongly agree," adopters averaged 4.0 versus 3.6 for non-adopters.

Turning to governance matters, when asked about which entity at their institution develops and oversees responsible investing policy, 87 percent of all respondents cited board members while 56 percent mentioned financial management professionals and 41 percent identified staff.

[3] Throughout this paper, responses to certain questions are reported on a five-point scale. In those instances, 1 = strongly disagree; 2 = disagree; 3 = neither agree nor disagree; 4 = agree; and 5 = strongly agree. In other instances, the scale may measure the "likelihood" of taking action, i.e., 1 = very unlikely and 5 = very likely.

POLICIES AND PROCEDURES

Long-term investors have an obligation to consider impact of their current investments on future generations

		ADOPTERS			NON-ADOPTERS		
Numbers in percent (%)	Total Institutions	Total	Private	Public	Total	Private	Public
	186	44	27	17	142	74	68
Strongly disagree	2	0	0	0	3	3	4
Disagree	4	5	0	12	4	6	2
Neither agree nor disagree	28	18	11	29	31	27	35
Agree	38	43	48	35	37	39	34
Strongly agree	20	32	41	18	16	15	18
Don't know/ uncertain	4	2	0	6	4	5	3
Did not answer	4	0	0	0	5	5	4
Average	3.7	4.0	4.3	3.6	3.6	3.7	3.6

There was relatively little difference between adopters and non-adopters on board involvement—93 percent of adopters and 85 percent of non-adopters cited board members—and even less on the involvement of financial management professionals—57 percent among adopters and 56 percent among non-adopters. The role of staff in developing and overseeing responsible investing policy varied widely, however, as 64 percent of adopters cited staff against just 35 percent of non-adopters.

When asked about the level of board engagement with or education about responsible investing, 50 percent of all Study respondents said that their board members had “some.” Twenty-three percent said their board had “substantial” involvement while another 23 percent responded that it had “none.” Unsurprisingly (and similarly to the respondents of the educational endowment Study), a higher proportion of adopters, at 39 percent, replied that their board members had a “substantial” level of engagement compared to 18 percent of non-adopters. Similarly, just 11 percent of adopters said the board has no involvement, while this response rose to 26 percent among non-adopters. Forty-eight percent of adopters replied that the board had “some” involvement, a rate that rose to 51 percent among non-adopters. Among the 39 percent of adopters saying their board had “substantial” involvement, 48 percent were private foundations and 24 percent were public. And among adopters stating that their board had no involvement, 29 percent were public foundations and none were private.

Some institutions, in addition to engaging in responsible investing practices, have taken steps to reduce energy consumption in their facilities. In this regard, when asked if the board had approved a written sustainability strategy governing the use of natural and environmental resources by their institution, only 4 percent replied in the affirmative and an overwhelming 92 percent said they had not. This group included 84 percent of adopters and 95 percent of non-adopters.

A number of national and global groups exist to promote responsible investing among institutional investors, some of which are open to investment management firms as well as to asset owners. Asked about the importance of involvement by investment managers in sustainability-oriented groups, 60 percent of all respondents said it was unimportant versus 9 percent saying it was important and 2 percent saying it was very important. Among adopters and non-adopters, the proportion of saying it was unimportant was all but equal, at 59 percent of adopters and 60 percent of non-adopters. As expected, it was very important to 7 percent of adopters, but only 1 percent of non-adopters.

Asked which sustainability-oriented groups are important in hiring managers, 35 percent of all respondents cited the UN Principles for Responsible Investment (PRI), while 30 percent singled out Mission Investors Exchange and 25 percent identified the Global Impact Investing Network. Others cited were Confluence Philanthropy, UN Global Compact, Carbon Disclosure Project, the Forum for Sustainable and Responsible Investment and Ceres.

The Study questionnaire then turned to the question of proxy voting, a well-established method for institutions to raise specific responsible investing issues. When asked whether their institution had a proxy voting policy, 73 per-

POLICIES AND PROCEDURES

Institution has proxy voting policy

		ADOPTERS			NON-ADOPTERS		
Numbers in percent (%)	Total Institutions	Total	Private	Public	Total	Private	Public
	186	44	27	17	142	74	68
Yes	14	27	30	23	11	14	7
No	73	59	63	53	77	77	76
Don’t know/ uncertain	12	14	7	24	11	8	15
Did not answer	1	0	0	0	1	1	2

cent of all respondents said it did not while 14 percent said it did. Twenty-seven percent of adopters said their foundation had such a policy, while just 11 percent of non-adopters did. This is somewhat at variance with the Study of Responsible Investing among college and university endowments, where 26 percent said that their institution had a policy and 61 percent said that it did not. In that Study, among adopters, 45 percent responded that they had a policy while for non-adopters the rate was 67 percent without a policy.

In a follow-on question, the Study asked how their proxy voting policy was developed. Forty-one percent of the total respondent group said that their policy was written internally while 18 percent said it was developed in concert with International Shareholder Services (ISS). Among adopters, 33 percent said their policy was written internally and 25 percent stated it was written with ISS. Forty-seven percent of non-adopters said their policy was written internally, while 13 percent cited ISS.

One community foundation in the Midwest said its policy was developed by an attorney, and a family foundation in the same region said theirs was developed through its relationship with mutual funds. A private foundation in the Upper Midwest said its policy "is specific to areas that overlap with the foundation's mission," while a family foundation in the Midwest said it leaves proxy voting to the discretion of its manager.

Moving to the question of what activist investing practices are pursued through the proxy voting process, when asked how they engage with portfolio companies, the most frequently-cited practice was instructing direct managers to vote the proxies in a specific way. This was practiced by 33 percent of all respondents, 50 percent of adopters (75 percent of private foundations and no public foundations) and 20 percent of non-adopters (20 percent of both private and public).

With respect to other activist investing practices beyond proxy voting, the level of reported activity was quite low. Among total Study respondents, just 6 percent reported that they engage in activist investing policies related to responsible investing, a level similar to the 4 percent found among respondents to the educational endowment Study. Eighty-nine percent said they did not engage in activist practices. A similar pattern held for both adopters and non-adopters.

In a follow-on question, of 10 total institutions who reported "yes" to engaging in activist investing policies, four reported that they seek to influence company management regarding specific responsible investing issues and another four said they sought to change certain undesirable corporate behaviors on SRI grounds. Two said they encourage certain desirable corporate behaviors based on ESG grounds and two said they do not use external managers.

Views on Responsible Investing

This section of the Study questionnaire investigated the opinions of both adopter and non-adopter institutions with respect to various issues surrounding responsible investing. As more widespread attention is being paid to these policies and practices, it is to be expected that views on them would cover a wide spectrum.

We have remarked that definitions in the responsible investing area have not yet been standardized and, as a result, that there is some vagueness in the minds of many as to what is involved in the various responsible investing practices. This is particularly true when it comes to the difference between SRI, which relies primarily on the exclusion of investments based on an institution's moral or ethical standards, and ESG, which seeks to include investments with certain specific desirable characteristics. When asked to assess the degree of their board's or investment/finance committee's understanding of the distinction between ESG integration and SRI practices, 37 percent of all Study respondents replied that they had a "good" understanding (see the table on page 12). But nearly one-third, or 31 percent, said that their board or committee had no understanding. In the Study among educational endowments, 50 percent participating institutions said their board or committee had a "good" understanding while 18 percent had no understanding. In both Studies, 8 percent of all respondents said their boards or committees had a "complete" understanding. "Don't know/uncertain" responses were nearly identical, at 22 percent among foundations and 23 percent among educational endowments.

Among adopter foundations, the proportion having a "good" understanding rose to 55 percent and the share having a "complete" understanding rose to 11 percent, while the proportion of boards and committees with no understand-

VIEWS ON RESPONSIBLE INVESTING

Board and Investment or Finance Committee understanding of distinction between ESG integration and SRI practices

		ADOPTERS			NON-ADOPTERS		
Numbers in percent (%)	Total Institutions	Total	Private	Public	Total	Private	Public
	186	44	27	17	142	74	68
No understanding	31	18	11	30	35	43	26
Good understanding	37	55	67	35	32	30	34
Complete understanding	8	11	18	0	6	7	6
Don't know/ uncertain	22	16	4	35	24	17	31
Did not answer	2	0	0	0	3	3	3

ing fell to 18 percent. Among adopters, private foundations appeared to have a better understanding than did public foundations. For example, 67 percent of private foundations had a "good" understanding and 18 percent had a "complete" understanding versus 35 percent and zero percent, respectively, among public foundations. Among non-adopters, the share having no understanding was nearly double that of adopters, at 35 percent versus 18 percent. And the share of non-adopters having a "good" understanding declined to 32 percent.

Delving more deeply into the question of institutions' understanding of ESG practices, among total Study respondents, 35 percent said that their board or finance/investment committee had a good understanding of the meaning and consequences of integrating ESG practices into their portfolio. Four percent replied that they had a complete understanding. But a combined total of 59 percent said they had no understanding, did not know or were uncertain. As might be anticipated, the level of understanding was higher among adopter institutions than non-adopters; among adopters, the level of understanding was higher among private foundations than among public foundations. Compared with the educational endowment Study, foundations' understanding of ESG practices appears to be somewhat lower; for example, among educational institutions, 45 percent of all respondents reported having no understanding, did not know or were uncertain, while 48 percent reported having a good understanding and 7 percent said that they had a complete understanding.

A key point in the debate surrounding the integration of ESG factors into the investment process is whether it can add value to an investment process regardless of mission-related motivations. Forty-one percent of all Study respondents neither agreed nor disagreed with this proposition, and another 22 percent responded that they did not know or were uncertain. A combined total of 26 percent agreed or strongly agreed, while a combined total of 9 percent disagreed or strongly disagreed. Taken as a whole, the average response on a scale of 1 to 5 (1 being "strongly disagree" and 5 being "strongly agree") was very close to the mid-range value, at 3.2. The difference between the responses of adopters and those of non-adopters indicated more divergent views, however, with adopters averaging 3.8 while non-adopters averaged 3.0. Other key differences between adopters and non-adopters were a combined total of 45 percent of adopters that neither agreed nor disagreed or were uncertain versus a combined total of 68 percent among non-adopters; and while 2 percent of adopters disagreed or strongly disagreed, the proportion among non-adopters rose to 11 percent. Among adopters, no private foundations disagreed or strongly disagreed, while 6 percent of public foundations strongly disagreed; 63 percent of private foundations agreed or strongly agreed, versus 35 percent of public foundations.

When asked which of the three ESG factors have the most impact on the relationship between portfolio risk and return, the largest single response was from the 26 percent of institutions that said all three were equally important, while a large proportion, 48 percent, said they did not know or were uncertain. Among all respondents, 11 percent cited governance factors, 9 percent singled out environmental factors and 6 percent identified social factors. Among adopters, the share of respondents citing all three factors rose to 34 percent while among non-adopters it declined by three percentage points. Among adopters, only 27 percent said they didn't know or were uncertain, while 55 percent of non-adopters chose that response. Eleven to 18 percent of adopters cited one of the three specific factors as having the most impact versus a range of 5 to 8 percent of non-adopters. Among adopters, private foundations cited all three as equal or singled out one of the three as most important at consistently higher rates than public foundations, and the share of private foundations that said they didn't know or were uncertain was less than one-third that of their public counterparts.

One of the more urgent issues confronting those trying to develop their integration of ESG factors is the relative dearth of reliable metrics by which to measure progress. In this regard, the Study questionnaire inquired into the use of third-party research providers to support measurement of ESG factors. The data indicated that use of these providers is very low among foundations. Five percent of all respondents said they used Bloomberg, 3 percent used MSCI and 1 percent used Sustainalytics. Seven percent said they used some other provider. Sixty-three percent reported using none and 21 percent said they didn't know or were uncertain—another indication of the relatively immature stage of the evolution of ESG evaluation metrics at the current time.

In recent years, a number of academic studies have reviewed the performance of portfolios that integrate ESG factors.[4] When asked their view about whether these studies have been generally supportive of ESG integration, the vast majority of Study participants—a combined total of 71 percent—responded that in their view the studies have shown no clear trend of over/underperformance, or that they did not know or were uncertain. This is similar to the 74 percent of educational endowments holding the same viewpoints. Sixteen percent thought that the studies showed that ESG portfolios performed about the same, compared with 12 percent among educational endowments, while 8 percent said the studies showed they performed better, versus 7 percent among educational endowments. Only 4 percent said they performed worse, compared with 7 percent among educational endowments. Among adopters, 35 percent said they didn't know or were uncertain, segmenting into 15 percent of private foundations but 60 percent of public foundations. Respectively, similar percentages among non-adopters were more consistent at 58 percent, 55 percent and 59 percent. Also among adopters, a combined 63 percent of private foundations said that portfolios integrating ESG have performed about the same or better versus 30 percent of public foundations. No foundation among the adopter group believed that performance was worse, while 5 percent of non-adopters did so.

One of the main claims of the proponents of responsible investing is that it can aid in achieving both investment-related and mission-related objectives. When asked if

[4] For a review of these studies, see Caplan, Griswold and Jarvis, *From SRI to ESG: The Changing World of Responsible Investing*, Commonfund Institute, 2013.

INTEGRATION OF RESPONSIBLE INVESTING CONSIDERATIONS HELPS IN ACHIEVING THE FOLLOWING OBJECTIVES

		ADOPTERS			NON-ADOPTERS		
Numbers in percent (%)	Total Institutions	Total	Private	Public	Total	Private	Public
	186	44	27	17	142	74	68
Further institutional mission	3.4	3.9	4.1	3.6	3.3	3.1	3.4
Improve investment performance	2.8	3.1	3.3	2.7	2.7	2.7	2.7
Decrease volatility	2.7	2.8	2.9	2.4	2.7	2.7	2.7
Manage portfolio risk	2.8	2.9	3.2	2.5	2.8	2.8	2.8

VIEWS ON RESPONSIBLE INVESTING

Issues representing substantial or moderate impediments to implementing ESG integration

		ADOPTERS			NON-ADOPTERS		
Numbers in percent (%)	**Total Institutions**	**Total**	**Private**	**Public**	**Total**	**Private**	**Public**
	186	44	27	17	142	74	68
Substantial Impediment							
Concern about violating fiduciary duty	9	2	0	6	11	14	9
Concern about the possibility of lower investment performance	27	18	15	24	30	34	25
Need for more research to determine how ESG integration affects investment returns	20	18	15	24	20	27	13
Finding managers that integrate ESG	15	16	19	12	15	18	12
Lack of transparency due to investment in commingled funds	18	18	26	6	18	24	10
Lack of interest	17	7	0	18	20	23	16
Lack of understanding among key decision makers	12	11	7	18	13	16	9
Other	4	2	0	6	4	8	0
Moderate Impediment							
Concern about violating fiduciary duty	26	25	26	24	27	22	32
Concern about the possibility of lower investment performance	42	57	67	41	37	39	35
Need for more research to determine how ESG integration affects investment returns	37	45	56	29	35	35	34
Finding managers that integrate ESG	40	50	59	35	37	41	32
Lack of transparency due to investment in commingled funds	32	43	41	47	28	28	28
Lack of interest	31	32	33	29	31	30	32
Lack of understanding among key decision makers	37	39	41	35	36	38	34
Other	1	5	4	6	0	0	0
Averages *							
Concern about violating fiduciary duty	1.6	1.4	1.3	1.5	1.7	1.7	1.9
Concern about the possibility of lower investment performance	2.3	2.1	2.0	2.2	2.3	2.4	2.3
Need for more research to determine how ESG integration affects investment returns	2.2	2.1	2.0	2.2	2.2	2.3	2.1
Finding managers that integrate ESG	2.0	2.0	2.0	1.9	2.0	2.0	2.0
Lack of transparency due to investment in commingled funds	2.0	1.9	2.0	1.8	2.0	2.1	1.9
Lack of interest	1.9	1.6	1.4	1.9	2.1	2.0	2.1
Lack of understanding among key decision makers	1.8	1.7	1.6	1.9	1.9	1.9	1.8
Other	2.0	1.9	2.0	1.8	2.0	2.1	1.9

* No impediment = (1), Moderate impediment = (2), Substantial impediment = (3)

responsible investing considerations help in achieving a range of such objectives[5], Study respondents were generally neutral to slightly positive as shown in the table on page 13. On a scale of 1 to 5 (1 being "strongly disagree," 5 being "strongly agree" and 3 being "neither agree nor disagree"), the average responses for total Study respondents, adopters and non-adopters were fairly close. The statement with the highest average was "further institutional mission," at 3.4 among all respondents, 3.9 among adopters and 3.3 among non-adopters. Adopters were more likely than non-adopters to agree with the statement that responsible investing can "improve investment performance," at an average of 3.1 versus 2.7.Respondents felt most strongly about the potential for responsible investing practices to further the institutional mission and had a somewhat lower degree of conviction regarding the potential of such practices to contribute to investment performance, decrease volatility and management of portfolio risk. Forty-three percent of all respondents agreed or strongly agreed that responsible investing helps to further institutional mission (71 percent of adopters versus 35 percent of non-adopters). Only 10 percent of all Study participants agreed or strongly agreed that it improves investment performance, divided between 25 percent of adopters and 5 percent of non-adopters. Eight percent of all Study respondents agreed that it decreases volatility (none strongly agreed), while 11 percent agreed or strongly agreed that it helps to manage portfolio risk.

Two suites of questions probed impediments to implementing socially responsible investing practices. The first focused on impediments to integrating ESG factors, while the second was dedicated to impact or mission-related investing strategies. Both probed seven areas (plus "other") that represented potential impediments, and sought to discern whether these impediments were viewed as "moderate" or "substantial." We first review the responses to the ESG inquiry; we then focus on respondents' views on impact or mission-related investing, which is more widely practiced among foundations.

With regard to ESG, across the seven areas that are viewed as impediments, the proportion of total Study respondents, including both adopters and non-adopters, that saw each area as a moderate impediment was larger than the proportion that saw it as a substantial impediment. For example, in the key area of potentially violating fiduciary duty, only 9 percent of all respondents viewed this as a substantial impediment, whereas 26 percent saw it as a moderate impediment. Only 2 percent of adopters believed it was a substantial impediment while 25 percent saw it as a moderate impediment; these rates increased to 11 percent and 27 percent, respectively, among non-adopters. The greatest concern with ESG factors among the Study universe was about the possibility of lower investment performance. Twenty-seven percent saw it as a substantial impediment and 42 percent saw it as a moderate impediment. Among adopters, 18 percent saw it as a substantial impediment while 57 percent saw it as a moderate impediment. Among non-adopters, 30 percent saw it as a substantial impediment while 37 percent viewed it as a moderate impediment.

Relating foundations' views on ESG to those held by college and university endowments, in the earlier Study of Responsible Investing, 15 percent of all participating educational institutions saw concern about violating fiduciary duty as a substantial impediment and 47 percent viewed it as a moderate impediment. On the possibility of lower investment performance, 36 percent of participating educational institutions believed it to be a substantial impediment, while 43 percent viewed it as a moderate impediment.

Turning to impact or mission-related investing as an impediment to responsible investing, the same issues—the potential for violating fiduciary duty and lower investment performance—were again the areas of least and greatest concern, respectively. Among the total Study universe, 12 percent of respondents believed concerns about fiduciary duty to be a substantial impediment to implementation of MRI, while 25 percent viewed these concerns as a moderate impediment. Among adopters, only 2 percent viewed them as a substantial impediment, including no private foundations and 6 percent of public foundations. Twenty percent of adopters believed fiduciary duty issues to be a moderate impediment, divided between 11 percent of private foundations and 35 percent of public foundations. Among non-adopters, 15 percent saw fiduciary duty concerns as a substantial impediment, comprising 20 percent of private foundations and 9 percent of their public counterparts. Twenty-six percent of non-adopters believe issues relating to fiduciary duty are a moderate impediment to implemen-

[5] The objectives were "further institutional mission," "improve investment performance," "decrease volatility," "manage portfolio risk" and "other."

VIEWS ON RESPONSIBLE INVESTING

Issues representing substantial or moderate impediments to implementing Impact Investing or Mission-Related Investing (MRI)

		ADOPTERS			NON-ADOPTERS		
Numbers in percent (%)	Total Institutions	Total	Private	Public	Total	Private	Public
	186	44	27	17	142	74	68
Substantial Impediment							
Concern about violating fiduciary duty	12	2	0	6	15	20	9
Concern about the possibility of lower investment performance	23	11	11	12	26	30	22
Need for more research to determine how impact or mission-related investing affects investment returns	20	9	7	12	23	28	18
Finding managers that integrate impact or mission-related investing	19	16	19	12	20	23	16
Lack of transparency due to investment in commingled funds	16	11	11	12	18	23	12
Lack of interest	16	5	0	12	20	26	13
Lack of understanding among key decision makers	13	9	0	24	14	15	13
Other	4	9	7	12	2	4	0
Moderate Impediment							
Concern about violating fiduciary duty	25	20	11	35	26	16	37
Concern about the possibility of lower investment performance	48	73	78	65	40	41	40
Need for more research to determine how impact or mission-related investing affects investment returns	34	45	52	35	31	32	29
Finding managers that integrate impact or mission-r elated investing	36	57	67	41	30	31	28
Lack of transparency due to investment in commingled funds	26	34	41	24	24	23	25
Lack of interest	26	25	30	18	27	24	29
Lack of understanding among key decision makers	35	39	48	24	35	39	29
Other	0	0	0	0	0	0	0
Averages *							
Concern about violating fiduciary duty	1.7	1.3	1.1	1.7	1.8	1.7	1.9
Concern about the possibility of lower investment performance	2.2	2.0	2.0	2.0	2.2	2.3	2.2
Need for more research to determine how impact or mission-related investing affects investment returns	2.0	1.8	1.7	1.8	2.2	2.2	2.1
Finding managers that integrate impact or mission-related investing	2.0	2.0	2.1	1.9	2.0	2.0	2.0
Lack of transparency due to investment in commingled funds	1.9	1.7	1.7	1.7	1.9	2.0	1.9
Lack of interest	1.8	1.4	1.3	1.6	2.0	2.0	2.0
Lack of understanding among key decision makers	1.8	1.6	1.5	1.9	1.9	1.9	1.9
Other	1.9	1.7	1.7	1.7	1.9	2.0	1.9

* No impediment = (1), Moderate impediment = (2), Substantial impediment = (3)

tation of MRI, including 16 percent of private foundations and 37 percent of public foundations. On a scale of 1 to 3, with 1 being no impediment, 2 being moderate impediment and 3 being substantial impediment, concern about MRI implementation violating fiduciary duty scored 1.7 among all Study respondents, 1.3 among adopters and 1.8 among non-adopters.

On the issue of potentially lower investment performance, 23 percent of all Study participants believed it to be a substantial impediment, while 48 percent saw it as a moderate impediment. Eleven percent of adopters saw it as a substantial impediment, almost equally divided into 11 percent of private foundations and 12 percent of public foundations. Among non-adopters, 26 percent viewed the potential for lower investment performance as a substantial problem, a view held by 30 percent of private institutions and 22 percent of public foundations. By far, the risk of lower investment performance was held to be a moderate impediment—a view expressed by 73 percent of adopters and, surprisingly, just 40 percent of non-adopters. Among adopters, fully 78 percent of private foundations saw MRI as a moderate impediment while 65 percent of public institutions shared the same view. Non-adopters were almost equally divided, at 41 percent of private foundations and 40 percent of public ones. On the previously-mentioned scale of 1 to 3, concern about MRI possibly leading to lower investment performance scored 2.2 among all Study respondents, 2.0 among adopters and 2.2 among non-adopters.

Following concerns about potentially lower investment performance, the substantial impediments cited with the greatest frequency were the need for more research to determine how MRI integration affects investment returns and finding managers that integrate MRI. Among the Study universe, these concerns were noted by 20 percent and 19 percent of respondents, respectively. These two issues were frequently seen as moderate impediments as well; 36 percent of Study participants cited finding managers that integrate MRI and 34 percent cited the need for more research. However, 35 percent singled out a lack of understanding among key decision-makers as a moderate impediment (only 13 percent saw it as a substantial impediment).

There were a few comments from respondents in this section. A private foundation in the Southeast said, "[The] largest impediment is finding investments directly related to our mission in our geographic footprint." A community foundation in the Southwest cited its small portfolio size. A community foundation in the Midwest commented, "Donor understanding/influence. Each person has his or her own definition of MRI." A private foundation in the Northeast cited, "Lack of shorter-term investment strategies and also strategies specifically aligned with our grant-making."

For some institutions, the governance questions raised by responsible investing issues are viewed as requiring advice from legal counsel. When asked if they had consulted an attorney or other expert about responsible investing, 15 percent of the total respondent group reported that they had while 75 percent replied that they had not. Among the adopter group, the proportion seeking advice from counsel or an expert was twice as high, at 30 percent, versus 11 percent of non-adopters. There was little substantial difference between adopter foundations, where 30 percent of private institutions had consulted an attorney or other expert, compared with 29 percent of public institutions.

As a follow-up to this question, the Study inquired about whether a conclusion had been reached—with or without the benefit of counsel—as to whether responsible investing practices are consistent with fiduciary duty. It is apparent that the issue remains quite open, with 48 percent of respondents saying that they did not know or were uncertain how the matter stands and another 11 percent not answering the question. Nineteen percent of all Study participants said that they had reached the conclusion that responsible investing practices are consistent with fiduciary duty, a rate more than twice the 9 percent reported in the Study of Responsible Investing among educational institutions. (The combined don't know/uncertain or not answering totaled 59 percent among all foundation Study participants and 66 percent among educational endowments.) Of the foundations saying that responsible investing is consistent with fiduciary duties, 38 percent were adopters (44 percent private and 29 percent public) while 13 percent were non-adopters (18 percent private and 7 percent public). Five percent of total respondents to the foundation study said that responsible investing practices are not consistent with fiduciary duty; none of the respondents holding this view were adopters. Finally, 17 percent of the Study universe said they were still debating the issue, including a fairly uniform rate of 16 percent of adopters and 17 percent of non-adopters.

Generally, foundations' concern about exposure to a collapse in fossil fuel companies' value due to potential carbon regulations was quite low. Among the Study universe, 34 percent said they were not concerned, and a combined 33 percent were slightly or somewhat concerned. Five percent said they were very concerned and only 2 percent expressed extreme concern. On a scale of 1 to 5, the average for all Study respondents was 2.0, which is the precise average for "somewhat concerned." Concern among adopters was slightly higher than for non-adopters, averaging 2.2 among the former and 1.9 among the latter.

Potential Changes to Portfolios

In this, the final section, the Study questionnaire turned to potential future activities and policies, asking whether participating institutions were considering further implementation of responsible investing practices for their portfolios. While 45 percent of adopters responded in the affirmative, only 14 percent of non-adopters did, for an overall "yes" response of 22 percent. Of the remainder, 41 percent of all Study respondents said that they were not planning to take further action—nearly evenly divided between adopters and non-adopters—while another 33 percent, relatively evenly split between adopters and non-adopters (34 percent and 33 percent, respectively)—did not know or were uncertain. Four percent did not answer the question.

Compared to educational endowments, adopter foundations appear to be poised for a greater commitment to responsible investing, as the 45 percent of foundation adopters considering further implementation of responsible investing practices is nearly twice the 23 percent of educational endowments planning to do so. However, the 14 percent of non-adopter foundations indicating they would be considering further implementation was nearly identical to the 13 percent of educational endowments with a similar response. Among all educational endowments, the overall "yes" response rate was 16 percent, six percentage points behind all participating foundations.

Participating endowments offered a number of comments in response to this query. A community foundation in the Midwest commented, "[We are] consulting with our investment professional to determine the viability of instituting responsible investing practices into our portfolio." A community foundation on the West Coast said, "[We are in] the early stages … we are still in design of what we will implement." A community foundation in the Midwest said that its staff is considering a recommendation to the board, which makes the final decision. The respondent for a private foundation on the West Coast said, "I am gathering more information and ideas to present to the board and finance committee. Also trying to get a conversation going with our financial managers." Other comments included:

- A private foundation in the Middle Atlantic said, "An education series will go over responsible investing practices for our board later this year. A vote will then be taken to see if this is something our organization should consider. Currently, we are considering changing our investment adviser. Our RFP included a question on whether the firm had experience with ESG practice."
- A similar comment came from a private foundation in the Northeast: "[We] just changed our investment advisers so that we can move forward in this area. We have started board member education, and will be drafting a new investment policy in the coming months. We are very early in our process."
- A community foundation in the Midwest said, "[We] are just starting to research the issue," while a private foundation in the Middle Atlantic region said, "Our investment managers are currently researching options to present to the committee for further consideration."
- A private foundation in the Southwest commented, "The foundation is transitioning to a 100 percent ESG portfolio. The transition will be complete in 2017."
- A family foundation in the Middle Atlantic said, "[We are] starting with the fixed income portion of the portfolio, adding a new manager."
- A family foundation in the Midwest reported, "The trustees and staff have had preliminary conversations regarding researching the feasibility and potential issues with responsible investing practices."

- A private foundation in the Rocky Mountain region commented, "We are in the process of changing our investment adviser. One of the top criteria in picking a new adviser is their experience in mission-related investing and/or their willingness to work with us to do so."

- A community foundation in the Mid-South said, "We have a number of donors who have specific ESG or SRI requirements that must be met before investing with the community foundation. This has led our staff and investment committee to look more closely at our offerings."

- A private foundation in the Northwest that focuses on the environment said, "We are moving to 100 percent divestment of fossil fuels and are 80 percent there. Continue to proactively look for investments with impact that meet our long-term and liquidity requirements."

- A private foundation in the Upper Midwest commented, "We are involved in a process of assessing the capability of all our managers to enhance ESG across the portfolio. We are currently removing coal exposure from our fixed income portfolio, which should be completed in Q1:16. We are also in the process of deploying 10 percent of the endowment to impact investment opportunities—some market rate and some with a slight concession."

- A private foundation in the Northeast said, "We've created a small portfolio for shareholder activism, mostly in stocks that preserve our right to file on palm oil and other deforestation issues."

We next probed the likelihood of institutions increasing their investments over the next five years in companies specifically involved with a number of various environmental and social activities as shown in the table below. Using a five-point scale—from 1, or "very unlikely," to 5, or "very likely," with 3 being "neither likely nor unlikely"— respondents overall appeared to be open to increased investing in the enumerated areas, but only marginally above the neutral "neither likely nor unlikely" level of 3. The highest average score among all Study participants was 3.4 for investment

POTENTIAL CHANGES TO PORTFOLIO

Likelihood of increasing investments over the next 5 years in companies involved with:

		ADOPTERS			NON-ADOPTERS		
Numbers in percent (%)	Total Institutions	Total	Private	Public	Total	Private	Public
	186	44	27	17	142	74	68
Energy efficiency	3.2	3.4	3.4	3.5	3.1	3.0	3.1
Renewable energy	3.2	3.5	3.5	3.4	3.1	3.0	3.1
Retrofitting existing power plants to reduce greenhouse gas emissions	2.9	3.1	3.0	3.4	2.8	2.7	3.0
Less water intensive operations	3.0	3.3	3.4	3.3	2.9	2.8	3.0
Drought-resistant agriculture	3.1	3.4	3.3	3.4	2.9	2.9	3.1
Efficiency in transportation	3.0	3.3	3.3	3.4	2.9	2.9	3.0
Waste management	3.0	3.2	3.2	3.3	2.9	2.9	3.0
Adaptation and resilience to climate change and other environmental factors	3.0	3.4	3.5	3.0	2.9	2.8	3.0
Community economic development programs	3.4	3.7	3.8	3.3	3.2	3.0	3.5
Sustainable business practices	3.2	3.6	3.6	3.5	3.1	3.1	3.1
Other	3.3	4.0	4.0	0.0	3.2	3.0	3.4

Very unlikely = (1), Unlikely = (2), Neither likely nor unlikely = (3), Likely = (4), Very likely = (5)

in community economic programs. (Somewhat understandably, this was the lowest-scoring area cited in the earlier survey of educational endowments.) That was followed by an average of 3.2 for energy efficiency, renewable energy and sustainable business practices and an average of 3.1 for drought-resistant agriculture. An average of 3.0 was registered for less water-intensive operations, efficiency in transportation, waste management and adaptation and resilience to climate change and other environment factors. Only one area averaged below 3.0 (at 2.9), which was retrofitting existing power plants to reduce greenhouse gas emissions.

When the data are analyzed among adopters and non-adopters, the area that ranked highest among the entire group of Study participants—community economic development programs—ranked highest once again, at 3.7 among adopters and 3.2 among non-adopters. Among adopters this area averaged 3.8 among private foundations and 3.3 among public foundations. Among adopters, each of the 10 areas averaged at or above 3.0, while among non-adopters only four did.

Expressed in percentage terms, investment in community economic development programs slipped to second among all Study participants, at 62 percent of respondents saying that they are likely to make increased investment in this area over the next five years. It was narrowly surpassed, at 63 percent, by sustainable business practices and energy efficiency. All other areas were in the range of 58 to 61 percent. Across all 10 areas for potential increased investment, adopters were more likely to increase their financial commitment than were non-adopters. And, in every instance among both adopters and non-adopters, private foundations were more likely to increase investment than were their public counterparts.

Focusing on specific investment areas using the five-point scale, 27 percent of Study respondents, including 48 percent of adopters, indicated they were likely or very likely to increase investment in community economic development programs over the next five years. Following this, 24 percent of the Study universe said they would likely or very likely increase investment in sustainable business practices, while 23 percent said they would likely or very likely increase investment in energy efficiency and 21 percent cited renewable energy. At the opposite end of the spectrum, just 11 percent said were likely or very likely to increase investment in retrofitting existing power plants to reduce greenhouse gas emissions.

Turning to the topic of fossil fuels, 5 percent of total Study participants said that their institution has decided to reduce exposure to fossil fuel companies, compared with 2 percent among participants in the higher education study. Seventy-eight percent of participating foundations said they had not decided to reduce exposure. Among adopters, the proportion of foundations saying they had decided to reduce exposure to fossil fuel companies was more than triple, at 16 percent, comprising 26 percent of private foundations and no public foundation. Among non-adopters, just 1 percent had made a similar decision.

In terms of the steps foundations plan to take to reduce their exposure to fossil fuel companies, only nine Study participants (seven adopters and two non-adopters) provided a response. Of the nine responding, three said they would reallocate to companies that support a move to less carbon-intensive operations while another three cited "other." Two said that they would overweight their portfolio to non-fossil fuel investments and one said that it would invest in a fossil fuel-free fund.

Closing Comments

At the end of the Study questionnaire, we invited respondents to share their overall comments regarding the issues covered in the Study. The responses constituted a rich trove of thoughtful observations on a wide range of responsible investing topics. Here are excerpts from some of them, indicating the lively nature of institutional debate on these subjects at the present time:

Said a private foundation in the Middle Atlantic region, "We have faith that the market will reflect a proper balance [of] social, environmental, governmental issues without handicapping ourselves in meeting our investment goals. If a policy proves to be helpful the investors in the market will follow it. The market is now and will continue to lead us in the right direction."

A community foundation in the Southeast commented, "Honestly, our foundation has never even considered any of these investing practices. This survey is the first exposure we have had that this should even be considered. It will be discussed at our next investment committee meeting."

The respondent for a private foundation in the Southeast noted, "While we did have a full board discussion about these investment issues, you have raised some interesting points through the survey that were not included in the thought process. I will bring those issues back to the board to see if it changes their ideas and attitudes. Thank you for the survey."

Said a family foundation in the Midwest, "We have completed the survey without having had a conversation with the foundation's investment managers as to how their decision-making and investment selection is affected by these trends and as to how ESG and SRI are included in their management of the foundation's endowment. It would be interesting to compare our views as board and staff with theirs as managers."

A family foundation in the Rocky Mountain region said, "We are in the very initial stages of determining our strategy, therefore our answers to this questionnaire are a bit all over the map. Our intentions are to move forward with mission and values-aligned investing. But how that will be implemented is still to be determined. Hope to have more clarity [in the next year]."

Said a community foundation in the Midwest, "We do not implement the referenced responsible investing practices since we are focused on investing for economic benefit."

A community foundation in the Mid-South wrote, "One of our major concerns is that each person's definition of responsible investing varies and our investment committee feels its only true goal is finding the best investment for long-term growth and stability."

A family foundation in the Northeast commented, "We instruct investment managers to achieve risk-balanced reward without handcuffing their recommendations. Our responsibility is to maximize our ability to fund our interest areas, which do not reflect these investment strategies."

A community foundation said, "We understand that the foundations should invest in financial instruments that advance their missions and at the same time receive economic returns."

Said a community foundation in the Midwest, "Currently, our investment policy only references the finance committee's right to require an investment manager to divest of any securities deemed unsuitable. Our current asset allocation strategy does not include an allocation to socially responsible investments."

A private foundation in the Upper Midwest wrote, "This is, indeed, a hard topic to write a survey for given the vast, myriad interpretations and approaches. You've done a really good job with this. I would unpack 'fossil fuel divestment' so that coal-free stands alone ... there are plenty of opportunistic divesters doing it in some places and not others and you don't really tease that out."

Some foundations reiterated a topic that has engendered much discussion over the years, namely that responsible investing can be challenging to implement:

A family foundation in the Middle Atlantic region said, "We are making our first investment in the MRI space using a fixed income mutual fund. It has taken about five years to get to this place. There have been several challenges. One has been the perception that one has to give up investment returns. The other is that some investments in the MRI/ESG/SRI space seem to be more in name only without much substance . . . . We have found that there are more investment opportunities if you just want a superficial SRI/MRI/ESG investment portfolio. To have an impact portfolio takes hard work."

A community foundation in the Middle Atlantic region said, "Since we are a small community foundation it is difficult to implement socially responsible investment strategies at this time. However, it is something that, as we continue to grow, will certainly attract our attention and effort."

A private foundation on the West Coast said, "We are undertaking research in many of the areas in this survey. Being a small-staffed foundation it takes time."

A community foundation on the West Coast said, "We are too small to be concerned about these issues vis á vis our foundations. Money in, money out is how we operate."

A community foundation in the Southwest said, "[This] really only applies to those community foundations with sufficient assets to warrant the discussion/concern."

A family foundation in the Southeast said, "We are a small family foundation and our goal with investing has been asset protection. We just are not at the point where we are making these investment decisions."

A private foundation in the Upper Midwest commented, "We are a small foundation and have not found much flexibility on these issues with the investment advisers available to us. Stuck for the short term. Thanks for raising our level of awareness with this survey."

A private foundation in the Northeast wrote, "Our small board of three middle class, educated women would likely be open to more education about investments, including 'socially responsible investing' if it is done in a user-friendly way. As retiring executive director, I have some exposure and training on this matter, but not enough to convince me; nor do I have enough depth of knowledge to compile a clear training approach for my board. Frankly, investment professionals tend to come across as vaguely disingenuous and mostly focused on sales. They asked about socially responsible investing, but if you cannot tell them, with self-confidence, what you want you don't feel comfortable or supported . . . . These investment firms are just not acclimated to the concerns of middle America or nonprofits trying to help moderate/low-income Americans—unless the firm can maximize profits."

A community foundation in the Midwest said, "This is an area that is basically untouched by us. We have one faith-based portfolio because we had a large fund request it, but otherwise we haven't had any request for these types of investments."

Other foundations are not addressing socially responsible investing at this time because of circumstances specific to their current situation, including generational issues:

A private foundation in the Midwest said, "The average age of our trustees is 70 years. To the extent that environmentally responsible investing, impact investing, etc. are generational issues, it may take years of attrition on our board before these practices are considered or acted upon."

Another private foundation in the Midwest wrote, "The average age of our trustees, including me, is 70-something. These issues generally are not on our radar screen. Our bigger challenge is finding qualified investment managers in various asset classes with account minimums within our range. Adding the overlay of social responsible investing, impact investing, etc. would seem to make our search for quality and performance even more challenging. In any event, I suspect that it will take years of attrition on our board before these issues are front and center."

A private foundation in the Northeast said, "We are at a transitional point in our investing, moving toward greater commitment to mission investing."

A community foundation in the Northwest said, "The foundation is in transition. Many of the questions in the survey have come up for discussion [and] more information is being gathered, but no action has been initiated . . . being in the middle, in transition."

With respect to fossil fuel divestment, some responses reflect regional points of view:

A community foundation in the Midwest opined, "We are [in] a region that has relied on fossil fuel production, wind energy, water/drought issues as a basis for our economic survival/success! These questions are somewhat offensive to two-thirds of our board members who have 'wildcatted' so many back East [who] rely on fossil fuel to stay warm in the winter had done just that—stay warm. Are these 'wildcatters' responsible business people—YES. Is conservation important to our environment—yes."

A family foundation in the Rocky Mountain region said, "The foundation of our foundation is oil and gas investments, which have produced fairly good returns over 50-plus years. The family connection to the investments in closely-held companies deters any divestment. The very few assets we have invested in something other than those holdings are in PRIs or in mutual funds that allow for socially responsible investing."

Finally, the survey elicited some moderate to strongly-held negative responses:

A family foundation the Midwest commented, "Given that there are millions of people around the world living in hunger, poverty and disease because they have no access to reliable power of any source suggests that 'doing away' with all fossil fuel is actually quite inhumane . . . . Society will solve the problems of clean, affordable and efficient sources of energy over the next 25-plus years, and the main issue now is filtering out all of the hysteria . . . ."

Another community foundation in the Northeast said, "Our foundation does not participate in social engineering agendas. We are concerned about performance and meeting donor needs."

Taken as a whole, this Study reflects a broad range of philosophies, policy approaches, and states of implementation with respect to responsible investing at the participating institutions. We expect this debate to continue and flourish in the coming years.

Appendix

Responsible Investment Practices

Excerpted from the 2014 Council on Foundations-Commonfund Study of Foundations® (CCSF)

The annual CCSF surveys the investment management and governance practices of U.S. foundations, both private and public, and has included a suite of questions about responsible investing since 2010. The material in this Appendix is excerpted from the responsible investing discussion in the 2014 CCSF. Note that in the CCSF responses are analyzed by foundations' endowment size, with participants categorized into those with assets greater than $500 million, those with assets between $101 and $500 million and those with assets under $101 million. Responses are also sorted by type of foundation: independent/private, family and community. The 244 foundations participating in the 2014 CCSF represented $107.4 billion in assets. The Study covered the 2014 fiscal year, January 1– December 31, 2014.

The Study found that 43 percent of participating private foundations and 39 percent of participating community foundations have adopted or are considering adopting some form of responsible investing practice for their endowed funds. The Study did not inquire about program-related investments or responsible investing practices of donor-advised, agency or affiliate funds.

To begin, we asked if the foundation's board had explicitly decided to exclude responsible investing considerations from portfolio decisions. A small minority, just 8 percent of private foundations and 6 percent of community foundations, said they had made such a decision while 82 percent of the former and 88 percent of the latter said they had not.

The frequency of this decision was consistently in the 8–9 percent range for both types of foundations in the two largest size cohorts. That rate fell to 5 percent among private foundations with assets under $101 million and to 4 percent among community foundations in the same size cohort.

A similarly small percentage of Study respondents said they are considering changing their investment policy to include ESG integration. Eight percent of private foundations and 13 percent of community foundations said they are considering such a change. Seventy-seven percent and 75 percent, respectively, said they are not considering a change in policy

Among private foundations, 8–9 percent of all three size cohorts said they were considering a change in investment policy. Replies from community foundations showed more variability. None of the community foundations in the largest size cohorts reported that they were considering a change. Fifteen percent of community foundations with assets between $101 and $500 million replied that they were considering a change, as did 14 percent of those with assets under $101 million.

The study did not ask if respondents were considering other changes to their investment policy to include SRI or mission-investing strategies.

Asked if their managers integrate responsible investing in their decision-making, 15 percent of private foundations said they did, as did 6 percent of community foundations. Eighteen percent of private foundations said their managers exclude undesirable investments that are inconsistent with the institution's mission, as did 12 percent of community foundations.

Asked if their managers vote proxies consistent with responsible investing criteria, 9 percent of private foundations and 4 percent of community foundations said their managers vote proxies consistent with their ESG policy, while 8 percent of private foundations and 6 percent of community foundations said they vote proxies consistent with their SRI policy. Fifteen percent of private foundations and 8 percent of community foundations said their managers vote proxies consistent with other responsible investing criteria.

Generally, the largest foundations were most likely to direct their managers to vote proxies consistent with their responsible investing criteria. The largest community foundations were especially disposed to follow this course of action; among these foundations, 27 percent each directed their managers to vote proxies consistent with ESG and SRI policies, while 36 percent directed them to vote proxies consistent with other responsible investing criteria.

For most participating foundations, proxy voting was not essential in hiring an investment manager. Only 9 percent of private foundations and 6 percent of community foundations said that proxy voting was an essential consideration in hiring. Eighty-two percent of private foundations and 73 percent of community foundations said it was not essential.

The Study inquired about currently required or permitted responsible investing practices. Among Study respondents, 35 percent of private foundations and 26 percent of community foundations responded that they required or permitted one or more of the following strategies: ESG criteria, negative screens and/or mission-related investing.

Among private foundations, 15 percent said that they seek to include investments ranking high on ESG criteria; 18 percent exclude or screen out investments inconsistent with the institution’s mission; and 24 percent allocated a portion of the foundation to investments furthering the institution’s mission.

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