

Values Based Investing in Action

In today's world, organizations are reviewing their business plans to consider how their missions and culture align with their collective values. A question that is frequently arising is: "Should values help dictate or guide how financial reserves should be allocated?"

Aligning an organization's financial portfolio with its overall mission is a multistep process. It can help clarify the purpose of holding reserve investments. The process serves to educate the board, staff and other stakeholders on topics such as: portfolio structure, investment policy, and the organization's core values.

In our opinion, terms such as socially responsible investing, ESG (environment, social and governance), impact investing and other similar terms are useful, but we consider them as subsets of the values-based investing concept. Reviewing these as individual concepts can be helpful since not all participants are likely to have the same level of experience and understanding.

In the past, social concepts were straightforward. For example, a medically related association might choose to screen out direct investments in alcohol or tobacco related companies. In more modern times, broader themes such as the effects of climate change and diversity have become more prevalent considerations.

Articulating both corporate values and mission often begin during quarterly reserve reviews in which additional options, industry trends and firm capabilities are discussed. If board or committee members are interested in exploring these ideas, it can be helpful to begin with a discussion of definitions and concepts. Our team prefers the term values-based investing since we think it incorporates the broadest concepts.

Personal opinions on these topics can vary widely. Therefore, it is important that these discussions remain related to the organization's values. The focus should be directly on the areas of concern for the non-profit and the profession it represented, rather than each board member seeking to incorporate their personal preferences.

From a purely investment perspective, there is no definitive "right" or "wrong" answer. There is some argument to be made that restricting one's investment options in any way could negatively impact returns. Consequently, even organizations with a significant social justice focus might not want to constrain their portfolio. In fact, we have worked with organizations who wanted specifically to own shares in the companies on their "bad guy" list so they could attend the shareholders meetings to bring their issues directly to those company's board members.

It is important to understand that as corporate and social values have changed over time, available investment strategies to address a very wide variety of values-based approaches have also changed. Many traditional investment managers have found ways to incorporate the more

sophisticated approaches of modern social considerations. These approaches can be cyclical in their potential to outperform or underperform market-based strategies.

If it is determined that the organization would like to align values and investments, it is necessary to determine how to implement the decision. An organization might choose to make any such restrictions to include only direct investments, where they own individual stocks and bonds, but might not apply the restriction to a commingled investment such as mutual funds or exchange traded funds (ETFs). They might also choose to allocate a specific amount of reserves to values based investment or they might apply these concepts to the entire portfolio.

Once these issues are decided upon, it is important to update the investment policy to reflect how portfolio structure and investment selection will be managed. Performance monitoring metrics might change depending on the changes made to the portfolio.

We believe that an organization is most effective when it can channel its core values and beliefs toward a shared vision. Having these discussions with board and committee members, as well as with donors, members and other stakeholders, can clarify many issues relating to reserve and endowment investments.

When everyone understands the purposes and structure of an organization's investments, it makes it easier for everyone involved to see how the organization's investments support the mission of the organization and can lead to better outcomes.

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