

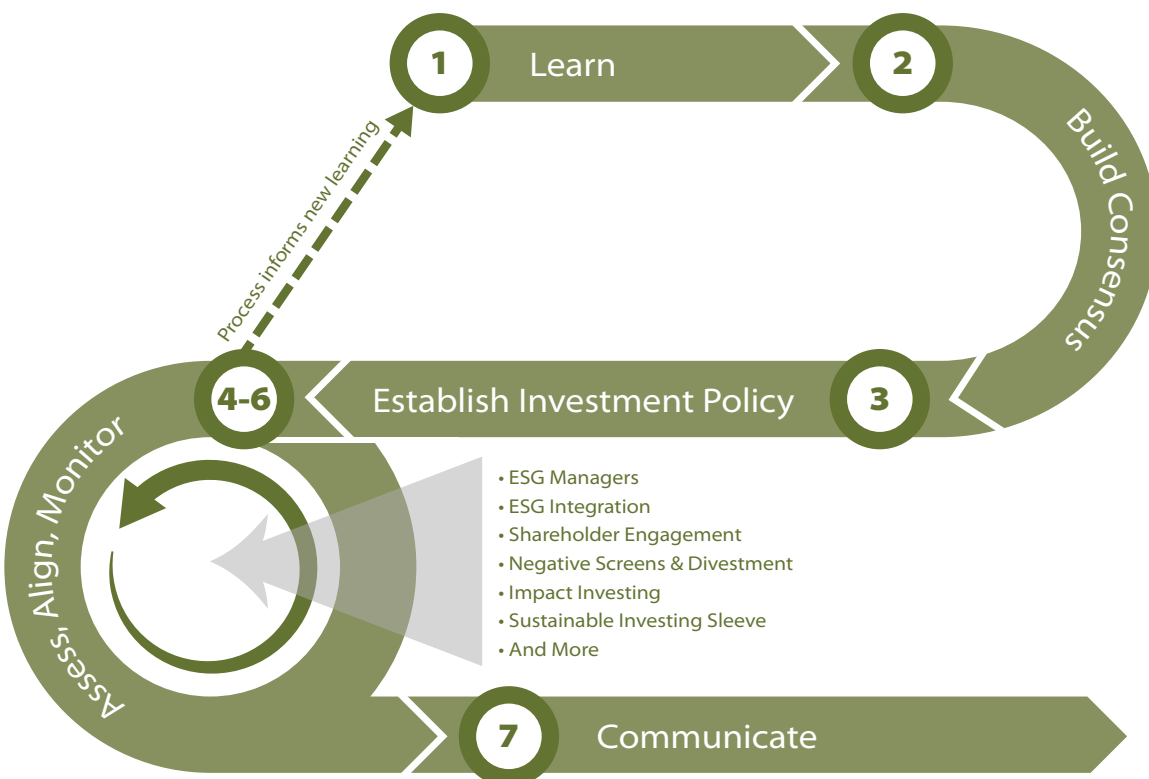
The Intentionally Designed Endowment Roadmap

INCREASINGLY, endowments are exploring and implementing strategies for more closely aligning investment portfolios with institutional mission and sustainability goals.

This Roadmap guides investors through key steps toward creating intentionally designed endowments — those that look to align investment practices with institutional mission, purpose, and values through sustainable investing (SI), which includes explicitly considering long-term environmental, social, and governance issues in the investment process. Throughout the Roadmap you will find links to the IEN website where you will find resources for each of the steps.

There is no “one right way” to approach this process. The steps outlined here are not necessarily linear; each institution may take a different path, taking steps in a different order and at a different speed. The process should be iterative, with mechanisms for revisiting past steps and adjusting if needed as circumstances change or as the Board’s understanding of the issues deepens.

The Roadmap is a living document, with the online version regularly updated as stakeholders provide feedback, new supporting tools and resources become available, and as circumstance change.



Before exploring avenues for aligning the endowment with institutional purpose, it is necessary for the Board to have a common understanding of the mission of the institution and of current sustainable investment practice, and how they both pertain to the endowment.

Sustainability And Sustainable Investing

Often people equate sustainability with the environment, however, sustainability addresses the inter-related social and environmental challenges of today: climate change, racial and gender inequality, resource scarcity, food and water insecurity, human rights, and so on.

Trustees, in their responsibility for the prudent management of endowment assets, will want to understand how sustainable investing aligns with their fiduciary duty. The most frequent concerns that trustees want to address are:

1. Can sustainable investments meet fiduciary requirements of care and diligence?
2. Is this consistent with what my peers are doing at other colleges, universities, and social-purpose institutions?
3. Is this consistent with what my peers are doing at other colleges and universities?

Joining Investor Initiatives

Join investor groups and initiatives to access resources, learn from experts and peers, and signal to stakeholders that the institution is engaged in this process. Membership and participation in these various initiatives are complementary and not mutually exclusive.

Working With Your Consultant

Many, but not all, endowments work with an investment consultant, who may have full or partial discretion over investment decision making. Though your particular consultant may not have expertise in aligning your endowment with your institution's mission, it is likely that there is a group at the consultant's firm that is dedicated to developing expertise in this area.

For more resources www.intentionalendowments.org/learn

Making Sense of the Terms

Socially Responsible Investing (SRI) can use both positive and negative investment criteria, but many now use this term to refer only to the strategy of negative screening.

Environmental, Social, and Governance Investing (ESG) aims to create a more complete picture of potential investment risks and opportunities by factoring environmental, social, and governance criteria into investment decisions.

Impact Investing involves investing in projects or companies with the purpose of generating positive, social, or environmental change as well as generating a financial return.

Negative Screening excludes companies, industries, or countries that the investor considers irresponsible from an investment portfolio.

Divestment refers to selling holdings in a company or sector for ethical or political reasons in order to reduce risk, avoid being complicit, or make a statement.

Positive Screening involves investing in companies that meet certain ESG criteria as determined by the investor, often looking to find "best-in-class" companies within a sector.

Shareholder Engagement or Advocacy is a tactic of using ownership in a company to improve its environmental, social, and governance practices by voting at shareholder meetings (or by proxy), filing shareholder resolutions, and/or establishing ongoing dialogues with companies.

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Build Consensus

Once questions have been answered for one or a few endowment decision makers, it will be necessary to build consensus among a larger group of fiduciaries and other campus stakeholders. This means considering and building consensus around whether and how sustainable investing might be used as a tool for supporting institutional purpose, mission, and values, a conversation that follows naturally from the previous phase of consensus building.

Establishing A Community-Wide Dialogue

Engaging all stakeholders is a way the board and endowment managers can draw on the knowledge, creativity and intellectual capacity of the community. Furthermore, community engagement signals that the university or foundation is taking action on sustainability.

There are as many avenues for this dialogue as there are colleges and universities. Here are a few that have been used successfully by higher education institutions:

1. **A yearlong dialogue:** through town halls, debates, lecture series, articles in campus publications, etc.
2. **Stakeholder engagement position/office/committee:** to liaise between stakeholders and decision makers
3. **Student-led sustainable investing fund:** to function as a pilot

For more resources www.intentionalendowments.org/consensus_building

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Establish Investment Policy

The next step of the process is to formalize your learning and consensus into a set of investment beliefs and/or a mission statement, investment guidelines, and governance processes that will be incorporated into your investment policy statement. This step involves three main considerations:

1. Incorporating your institution's mission into the Investment Policy Statement
2. Establishing oversight responsibilities for board and/or third-party advisor
3. Creating implementation guidelines

For more resources

www.intentionalendowments.org/governance_and_investment_policy_statement

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Assess Current Portfolio

Once the institution's mission has been integrated into its investment policy statement and guidelines have been established to guide the process of aligning the endowment portfolio with the mission, it is helpful to assess the current portfolio in relation to those guidelines. The assessment can take place at the underlying security level (particularly when avoidance of certain products or services is part of the implementation plan) or at the manager level (when consideration of environmental, social and governance risks and opportunities is the focus). Often institutions choose to do both.

For more resources www.intentionalendowments.org/assessing_current_portfolio

www.intentionalendowments.org/roadmap

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Align Endowment With Institutional Mission

An institution may choose to adopt sustainable investment practices across the whole portfolio or to stage in different facets of an intentionally designed endowment. While the concept of the intentionally designed endowment includes integrating material ESG and/or values-related factors into the investment process across all investments in all asset classes, there are several initial steps endowments might take to begin the process, learn, and build on over time.

Initial Exploratory Steps

1. Create a sustainable investing “sleeve” or “ESG donor pool”
2. Allocate a % of the portfolio to specific impact or to a manager with ESG expertise
3. Engage: proxy voting, shareholder resolutions and investor statements
4. Start a student-managed ESG fund
5. Launch a green revolving loan fund for your campus

Toward A More Comprehensive, Whole Portfolio Approach

1. Align: Risk and/or values-based divestment (aka negative screening)
2. Integrate: ESG integration across the portfolio
3. Impact: Create a comprehensive impact investing strategy which can include divestment, ESG integration, engagement and thematic investing

For more resources www.intentionalendowments.org/aligning_portfolio

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Monitor Progress

Aligning the endowment with mission is an iterative process and includes ongoing monitoring of the endowment portfolio in terms of both financial performance and alignment with mission. As with any investment program, total endowment performance should be measured against the long term investment objective of meeting or exceeding spending plus inflation. For ongoing monitoring of alignment with mission, progress can be monitored at both the security level and the manager level.

For more resources www.intentionalendowments.org/monitoring

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Communicate Progress

Colleges and universities can leverage their progress in sustainable investing to create educational and advancement opportunities. Sharing progress publicly on sustainable investment activities can signal to alumni, donors, students, faculty, and other stakeholders that the institution fully embraces its mission. Higher education endowments also have a unique opportunity to lead on encouraging transparency in the financial industry and advancing the field of sustainable investing as they engage students and other stakeholders in a continuous learning process.

For more resources www.intentionalendowments.org/communicating_progress