

Reflections on How The Denver Foundation Addressed Socially Responsible Investments, Impact Investing, Divestment, and Related Issues

Presentation to the DU Board of Trustees Divestment Task Force

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THREE BASIC TYPES OF FOUNDATIONS IN THE UNITED STATES

<u>Type of foundation</u>	<u>Sources of funds</u>	<u>Uses of funds</u>
Fundraising arm of a nonprofit organization	Many	One
Private foundations	One	Many
Community foundations	Many	Many

About The Denver Foundation

- Established in 1925; the oldest foundation in Colorado
- Traditional role—a community endowment
- More recent role—managing and administering charitable funds

The Unitized Accounting System

- Established in 1997
- Each of more than 1,000 funds owns unites or shares in the overall portfolio
- This gives fund-holders much more diversity in their investments
- It also allows the foundation to invest much more strategically

The Denver Foundation Investment Committee

- Trustees and non-Trustees
- The Board established the overall investment objective: long-term capital appreciation.
- The Board has delegated all other investment decisions to the Investment Committee:
 - Investment policies
 - Asset allocations
 - Manager selection
- The Investment Committee uses Monticello Associates as their investment advisor.
- The Denver Foundation investments are in more than 40 different investment funds.

Socially Responsible Investing (SRI) — *definition*

An investment strategy that seeks to consider both financial return and social good to bring about a social change.

Socially Responsible Investing—The Denver Foundation Investment Committee's initial arguments against

- It's not our money. It would be different if we were a private foundation. Note: In this regard, DU is somewhere in between a community foundation and a private foundation.
- Our donors span the political spectrum. So does our Board.
- There is no standard or regulation for SRI or the various SRI screens.
- How do you decide which screens to use?
- Our charge as an investment committee is to maximize returns while minimizing risk.

Socially Responsible Investing— The Denver Foundation Investment Committee's subsequent decision to establish an SRI pool

- A separate pool was established and managed the same way as the unitized pool
- Fund-holders could invest some, all, or none of their assets in the SRI pool
- Primary reasons for the Investment Committee's change of mind:
 - Give donors more control and more choices
 - Marketing to prospective donors
 - It's the wave of the future

Socially Responsible Investing— Denver Foundation preliminary results

- The Denver Foundation's SRI pool is still relatively small, but it's growing steadily
- Investment results have been good
- Donors seem pleased
- I worry about the lack of standards and accountability in the marketplace.

Impact Investing— *definition*

Investments made with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.

Impact Investing— The Denver Foundation Investment Committee's initial arguments against

- It's not our money. It would be different if we were a private foundation.
- Our donors and Board span the political spectrum.
- How do you decide which investments to make and what are the appropriate terms and levels of risk?
- Our charge as an investment committee is to maximize returns while minimizing risk.
- We shouldn't invade the foundation's endowment corpus for any reason.

Impact Investing— The Denver Foundation Investment Committee's subsequent decision to establish an impact investing pilot project

- They took \$1 million from the foundation's administrative reserve; thus they weren't invading the endowment and they weren't using any donor advised fund money.
- They created an Impact Investing Committee of the Board, chaired by KC Gallagher. It consisted of other Denver Foundation Trustees, including Denise O'Leary, and several non-Trustees.
- The committee was given two years to invest the money and report back to the Board.

Impact Investing— Denver Foundation preliminary results

- The money has been put to work—a total of 6 investments.
- The largest of these was the Denver Social Impact Bond to reduce homelessness; the smallest was the Prodigy Coffee House on 40th and Colorado Blvd. (\$25,000).
- Several donor-advised funds “co-invested” with The Denver Foundation.
- The Denver Foundation Board voted in April to make this an ongoing program.

Divestment

- The Denver Foundation did not face this issue directly. A few donors and fund-holders inquired about divesting from fossil fuel investments, but never pursued it.
- Given the exclusive use of investment funds, divestment would require a major change in how The Denver Foundation made all of its investments.
- There was discussion about hiring a Chief Investment Officer and possibly doing some or all investing in-house once The Denver Foundation's assets reached \$1 billion. They are currently about \$750 million.

Related Issues

- Shareholder voting
- Denver Foundation grantmaking—the position on the Boy Scouts angered some conservatives
- Denver Foundation positions on ballot issues—the decision not to take positions angered some liberals

Questions I know the Task Force is pondering

- How do you weigh and balance the conflicting opinions of important constituents?
 - No matter what you do or don't do, just like The Denver Foundation's decisions on grants and ballot issues, you will anger some donors, some prospective donors, some faculty, and some students.
- If you start down the path of divestment, what criteria will you use for future divestment requests? Of course, it is important to try to articulate these clearly.
- Is there a “Solomonic solution” like The Denver Foundation did in giving donors a choice and letting the market respond?
 - As with Solomon, one might argue that this is the worst of all worlds or the best of all worlds.

QUESTIONS, CONVERSATION, AND DISCUSSION