Ten Years In: Park Foundation's Mission Related Investing Journey

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Mission Related Investing (MRI)

At the outset of Park Foundation's MRI journey, we asked ourselves the question, "How can the work of a relatively small foundation like ours ($350M) impact major, often multibillion-dollar corporations?" The response to that was our belief that it was important to "walk the talk" regardless of the size of the impact. For the Foundation, that meant doing what we believed was the right thing within the boundaries of our investment and other investment related actions.

Secondarily was our belief in the grassroots analogy that while any one organization might have little individual measurable impact, the combined actions of many organizations can have a real impact. For example, Park was an early leader in carbon divestment initiatives. That movement now has over 1,400 investors (representing $8 *trillion* in assets) who have divested their carbon holdings and invested in companies that provide sustainable and clean solutions across many industries.

Third, we also believed that Park could show leadership in this arena by demonstrating how different MRI tools could be executed with limited staff and organizational capacity.

Consequently, the Foundation's entry into mission related investing focused on two main areas:

- Moving from "doing bad" with our investments to "doing good." By using screening, proxy voting and divestment tools to avoid "doing bad" and focusing on shareholder resolutions, impact investing and PRI's as tools for "doing good".

- Aligning our investment strategy with grantmaking program strategy.

The following table outlines the Foundation's six MRI program elements.

MRI Program Elements

Element	Year Initiated	Notes
Proxy Voting	2005	Initially Riskmetrics, then Confluence Philanthropy, now via fund managers on ISS guidelines and staff on SAA holdings.
Carbon Divestment/Climate Solutions Invest	2008	Climate Solutions investing commenced in 2008 with Generation Climate Solutions Fund. Carbon divest in 2014. Additional investments since then include Generation Climate Solutions II and III, DBL, SJF Ventures and North Sky Clean Tech Fund.
Impact Investing	2008	Generation Climate Solutions in 2008. North Sky 2009, SJF 2013, DBL and Generation Climate Solutions in 2014, KBI Water Fund 2015, Generation Climate Solutions in 2018 and KBI Water Fund in 2015.
Program Related Investments	2010	Now $3.9M in loans outstanding.
Portfolio ESG Framework	2011	ESG framework implemented Some prior screening. Latest revision in 2017.
Shareholder Resolutions	2011	First SR with ExxonMobil. Shareholder Action Account established 2012 now has 34 holdings. Multiple resolutions ongoing each year.

Park Foundation initiated six elements of our MRI program from 2008 to 2014. This was made possible because of the capacity of advisors (Royal Bank of Canada's SRI Wealth Management Group - RBC) to screen and provide manager selection and due diligence. Also critical to the process was the assistance from consultants Dan Apfel (Water Risk/Values Report) and As You Sow (shareholder resolutions) to supplement staff's limited time and capacity to conduct other elements of the program. Although this allowed us to quickly develop a broader program, it probably resulted in the Foundation bypassing doing a more in-depth analysis of each of those elements; something that might have happened had we moved more slowly.

The Foundation also relied on outside resources (conferences, workshops, webinars and one-on-one conversations) to expand our knowledge of mission related investing. These have included:

- **Confluence Philanthropy** – General networking and workshops on MRI
- **Interfaith Center for Corporate Responsibility (ICCR)** – Tracking water related corporate dialogues and resolutions
- **Ceres** – Investors Water Hub, Water Investors Toolkit
- **Carbon Disclosure Project** – Specific ratings of corporate water sector
- **As You Sow** – Execution of specific resolutions, research on water resolution opportunities.

Proxy Voting

Proxy voting was the first MRI tool that the Foundation exercised. This occurred around 2005 when our first contract with RiskMetrics was executed. We briefly (for one year) had a contract with Confluence to vote our proxies (as part of the startup of their proxy voting service). This terminated when Confluence decided not to continue that program.

A real boon for the Foundation was when RBC negotiated with fund managers to require them to vote our proxies along ISS SRI guidelines. This has had the dual value of automatically applying our values to our proxy votes and eliminating what could be significant staff time if we had to vote them individually ourselves.

The one exception to this is the Shareholder Action Account (SAA) that holds 34 companies in a separate Northern Trust account. We receive these proxy forms at the office and vote them individually. Since the SAA companies are ones of particularly egregious nature (e.g. oil and gas), voting the shares ourselves gives us the opportunity to pay special attention to these companies.

As a percentage of the immense pool of shares for any company, the impact of voting our individual holdings is, not surprisingly, negligible. Actively voting our proxies is fundamentally “walking the talk” through participation in the broader movement of shareholder action. Future plans include reconfirming our proxy voting preferences with our fund manager (if those preferences have been updated or modified) and requiring each fund manager to send, at the end of proxy season, a report on how our proxies were voted.

Carbon Divestment/Climate Solutions Investing

In 2014, the Foundation joined with 16 other Foundations in the initial round of the Carbon Divest/Invest movement. Based on the “Carbon 200” list, the pledge was easy to meet as the Foundation had already traded out the bulk of its holdings on the Carbon 200 list. This movement has now expanded to over 1,000 institutions representing $8 trillion in combined assets.

The Foundation has a loosely defined “climate solutions” commitment that totals $55M or approximately 16% of current portfolio value. This was accomplished via RBC’s selection of private equity impact investment firms (Generation Climate Solutions I and II, North Sky Clean Tech and Direct, SJF Ventures, and DBL partners). To date, $34.6M has been called. One of the challenges in climate solutions investing is that, while the ends of the spectrum are clear (oil/gas = bad while solar/wind = good), we have yet to find a more nuanced definition of what constitutes a climate solutions investment.

The Generation Climate Solutions table (below) provides a more comprehensive list of climate solutions investment categories that can be used to more accurately characterize our holdings. Future plans include utilizing this framework to examine the Foundation’s portfolio.

SUSTAINABLE SYSTEMS			SUSTAINABLE ENTERPRISES	SUSTAINABLE CONSUMERS
TRANSPORT & SUPPLY CHAIN	AGRICULTURE & FOOD	BUILDING & ENERGY	ENTERPRISE & INDUSTRIAL	CONSUMER & HEALTH
EV'S, AUTONOMY, & SHARED MOBILITY	EARTH OBSERVATION/ REMOTE SENSING	DIGITISED CONSTRUCTION	IoT/PREDICTIVE MAINTENANCE	CIRCULAR ECONOMY & JOBS MARKETPLACES
MULTI-MODAL TRANSPORT	ALTERNATIVE PROTEIN	BUILDING MANAGEMENT SOFTWARE	INDUSTRIAL AR/VR	SUSTAINABLE BRANDS
A.I.-ENABLED SUPPLY CHAIN	INDUSTRIAL BIOTECH	CONNECTED HOME	3D PRINTING/CLOUD SOFTWARE	DIGITAL HEALTH
FLEET TELEMATICS	FOOD TRACEABILITY AND SAFETY	DISTRIBUTED ENERGY/ STORAGE	DIGITAL ENTERPRISE	OPTIMISED NUTRITION
REVERSE LOGISTICS	LAST MILE DELIVERY	SMART GRID	INDUSTRIAL CYBERSECURITY	WELLBEING

Impact Investing

The Foundation’s impact investing role has been largely driven by RBC advisors as an outgrowth of the screening policy. Currently RBC defines our impact investing as those holdings in the private equity portion of our portfolio. As noted above, this now stands at $55.5M committed to date and $43.6M called representing overall approximately 13% committed and 7% of capital invested of our total portfolio. Broadly, our impact investing is concentrated on climate solutions and water stewardship through the following fund managers:

Fund	Date	Amount (as of 9/30/18)
• Generation Climate Solutions I	2008	$1,523,554
• North Sky	2009	$2,679,401
• SJF	2013	$2,551,494
• DBL	2014	$6,925,413
• Generation Climate Solutions II	2014	$10,564,215
• Generation Climate Solutions III	2018	(funded 12/18)

KBI remains Park's only water fund and represents a small portion of its portfolio. The Foundation could benefit from a deeper understanding of the other sustainable water investments in our portfolio. Future plans include seeking new, more sustainable water funds comparable to KBI. It is worth noting that in 2019 the Foundation still lacks the technical capacity to make direct investments and smaller investments in emerging companies.

Program Related Investments (PRIs)

The PRI program was created in 2010 as an additional tool to advance the Foundation's mission via lending to select organizations. This was in direct response to our diminished capacity to make six-figure grants to local organizations, particularly when those requests were primarily for capital projects. While the PRI program explicitly reinforces elements of our local grantmaking programs (Sustainable Ithaca, Community Needs), its scope goes beyond those programs to assist a wider range of nonprofits (and some for-profits) benefiting the Tompkins County community. The following criteria for awarding PRIs was established at the outset in 2010:

- Loans are for local organizations only (Tompkins County);
- Pool is capped at 1% of portfolio value (currently approximately $3.9M)
- Rates are below market (.5-2%)
- Loans must be mission related
- No collateral is required.

In the eight years in which the Foundation has been involved with PRIs, the program has evolved. Initially the Foundation was open to select for-profit ventures, but, over time, the nonprofit sector has risen to consume available funds. Every PRI is structured differently and is specific to the lendee. The terms may be for principal and interest, or involve delayed principal and interest, or interest only with a balloon payment. The types of loans made to date include:

- Loan guarantees;
- Capital construction;
- Lines of credit;
- Bridge loans;
- Revolving loan funds.

The PRI program has been a boon to those organizations with the capacity to take on a loan and repay it. Often the Foundation's PRI has been part of a loan "package" that includes other lenders. Of all the MRI tools that we utilize, PRIs represent the "brightest line" between grantmaking mission and investing, in that we are directly investing in our grantees. To date there have been no defaults, although a few organizations have requested (and been approved) adjustments to payment schedules.

Loans are wide ranging in scope, including community banks (secondary capital and residential energy efficiency loans) affordable housing, land conservation, sustainable food business, historic theater renovations, childcare facility construction, recycling facilities, history museum renovation, handicapped employment, theater bridge loans and car sharing vehicle purchase.

Park Foundation Active and Closed PRIs **Active PRIs = $3,689,673** Blue = loans repaid/closed		**March 2019**
Alternatives Federal Credit Union	$ 200,000	Secondary capital
Alternatives Federal Credit Union	$ 500,000	Residential energy efficiency loan fund
Ithaca Neighborhood Housing Services	$ 500,000	Green affordable housing loan fund
Finger Lakes Land Trust	300,000	Land acquisition fund line of credit
Tompkins County Area Development	$ 100,100	Sustainable business loan fund line of credit - Piggery
Tompkins County Area Development	60,000	Sustainable business loan fund line of credit – Finger Lakes Food Hub
Tompkins County Area Development	75,000	Sustainable business loan fund line of credit - Ithaca Hummus
RSF Financial	200,000	Loan guarantee for Regional Access food distributor
State Theater Inc.	$ 200,000	Bathroom renovations
TCAction	$ 200,000	Dryden HeadStart facility renovation/expansion
Finger Lakes ReUse	$ 450,000	Transition to new retail/training facility
Ithaca CarShare	$ 200,000	Financing of vehicles
TCAction	$ 194,573	Construction Harriet Giannellis Child Care Center
Challenge Industries	$ 300,000	Cash flow stability
Finger Lakes Land Trust	$ 120,000	Purchase of undeveloped land identified as priority for protection.
Hangar Theatre	$ 150,000	Cash flow - inaugural year of *A Christmas Carol*
The History Center	$ 500,000	Renovations to building for the Tompkins Center for History & Culture

Our capacity to lend has generally kept up with demand and our early experiences with PRIs have informed later loan recommendations and documents. Staff has become increasingly sophisticated in evaluating repayment capacity and in scrutinizing the fine print of loan documents.

ESG Framework

The Foundation's portfolio screening is based on the 2011 *Park Foundation ESG Policy Statement* (last updated June 2017). This statement was developed from an RBC questionnaire that polled our values for a set of investment categories (see table below).

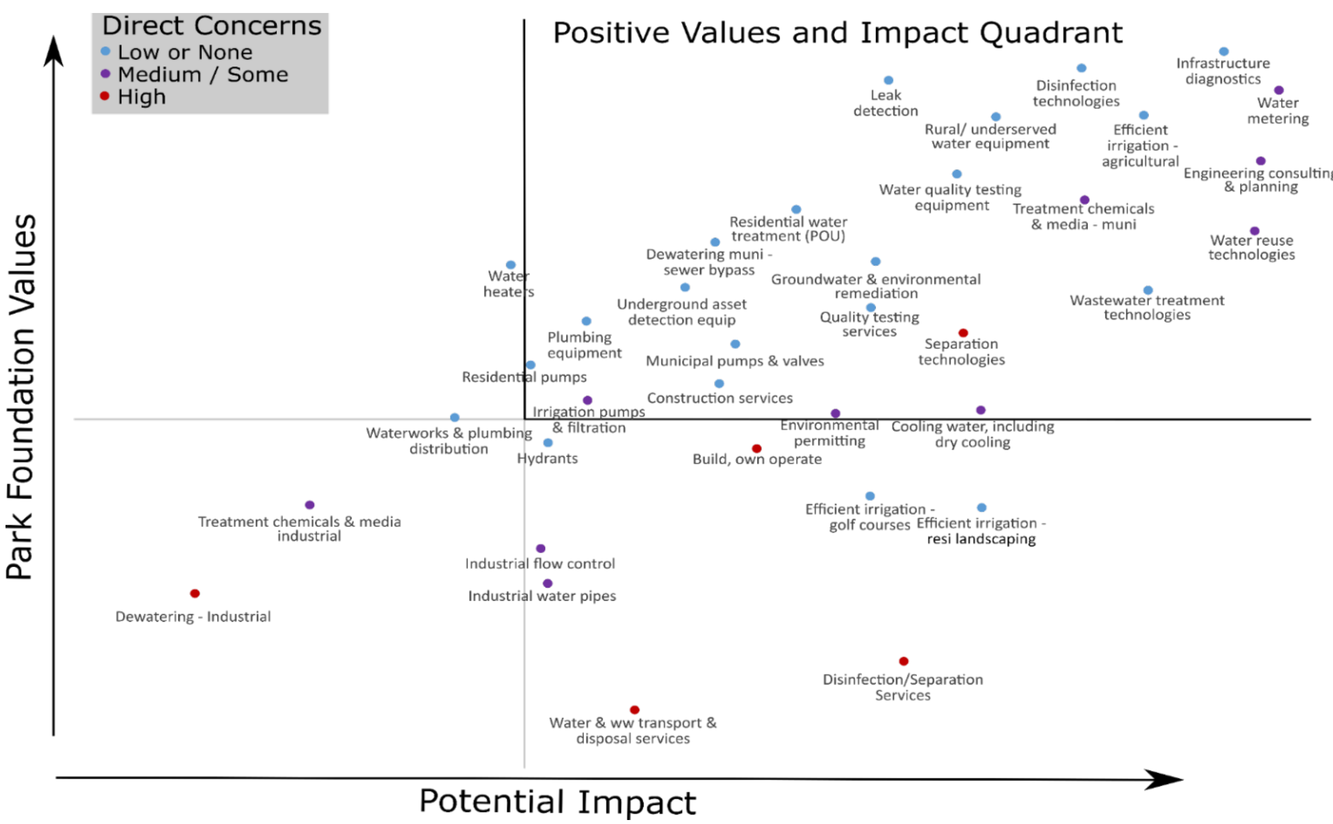
2017 ESG Framework Categories and Criteria		
Category	**Level**	**Notes**
Qualitative Analysis		
Environment	Best of Sector	13 specific criteria
Fossil Fuel Industry	Restrict	3 specific criteria
Water	Invest/Avoid	8 specific criteria
Employee Relations	Best of Sector	11 specific criteria
Product Liability and Corporate Governance	Avoid Worst Performers	11 specific criteria
Animal Welfare	Restricted	2 specific criteria
Community Relations	Invest	4 specific criteria
Revenue-Based Analysis		
Nuclear & Conventional Weapons	No more than 5% of revenue derived from	
Nuclear Power	No more than 5% of revenue derived from	
Tobacco	No more than 5% of revenue derived from	
Alcohol	No more than 5% of revenue derived from	
Gambling	No more than 5% of revenue derived from	
Customized Criteria		
Media	Invest/Avoid	2 specific criteria. Under continuing development.
Nanotechnology	Avoid	1 criterion

RBC regularly utilizes the *Statement* to make recommendations for restrictions on companies our fund managers wish to purchase. These recommendations are presented quarterly at Trustee meetings.

Consistent with the Foundation's focus on water stewardship, Park Foundation began in 2015 to take a particularly strong stand on water values/risk as part of our portfolio. We saw this as two sides of the same coin in that a value driven decision process would be complemented by a risk driven process. In addition, we recognized that risk analysis might be more compelling to those investors who might not embrace *values* as a driver for investment decisions, but who would respond to *investment risk factors*.

Water Values: The Foundation's water values discussion was driven primarily by the examination of select categories of water investments from the portfolio of KBI, one of our fund managers. These categories (and the more extensive analyses found in the 2016 report by Dan Apfel) represent a snapshot-in-time of Park's water holdings. They have provided a structure for asking key questions about which types of water investments fit our value structure and which ones do not. As such, they serve as a specific "litmus test" for our more generally expressed values.

The 2016 report by Apfel also translated the KBI water categories into a graph (see below) illustrating the relative strength of each category's match with our values vs. degree of positive impact on water stewardship.



Water Risk: Water risk analysis has been increasingly supported by outside analytical resources. In the 2016 Apfel report, six water risk analytic tools were identified. Three of those tools (MSCI, Sustainalytics and EIRIS) were then compared for consistency of their scoring across ten of the Foundation's holdings. While the scores for three of the tools were similar, it was clear that at the time (2015) there were too many gaps in company reporting for the analyses to be useful to us.

Examinations of our portfolio that have been done to date have been useful in delineating the realm of water investing values and risk and the complexity of factors intrinsic to this arena. However, we believe that we have not delved deeply enough into the reports to feel sufficiently knowledgeable about the categories and the holdings in them. Undoubtedly exceptions to our values exist in our current portfolio. In the few years since the report was written, the availability of information from companies has increased significantly, and there are now online tools such as the Ceres Investor Water Toolkit (https://www.ceres.org/resources/toolkits/investor-water-toolkit) that present a selection of evaluation tools.

Future plans include a revisit to our portfolio by the Investment Committee to enhance understanding of our holdings and values as applied to water investing. This might result in conducting a more detailed water screening for the Foundation that could then be communicated to our fund managers. Efforts should also be made to ensure that we are not letting inappropriate investments slip in, such as supporting industries for oil and gas.

In 2019, the Foundation entered discussion with Ceres (https://www.ceres.org/about-us) to facilitate the utilization of our portfolio (or a portion thereof) for a "water footprinting" exercise. The intent was to provide a graphically compelling presentation that would increase understanding of our portfolio and also illustrate our water risk by sector and individual company holding. See an example of water footprinting below:

Source: Ceres Investor Water Toolkit. Portfolio water-risk heat mapping conducted by Florida SBA using MSCI data and FactSet. Red indicates high risk, black indicates medium risk and green indicates low risk. The squares represent the size of individual holdings.

Shareholder Resolutions (SR)

Park's engagement with shareholder resolutions began in 2010, when As You Sow contacted the Foundation to see if we would let them use our stock holdings to execute a shareholder resolution with ExxonMobil on hydrofracking of natural gas. We agreed to their request at the time and since then we have regularly filed or co-filed SRs (primarily with intermediaries such as As You Sow, but also with Trillium and Walden). We have also expanded our scope from fracking environmental hazards to include carbon asset risk, methane escape, internet privacy and access, and water stewardship.

A significant element of our shareholder resolution effort was the creation of the Shareholder Action Account (SAA) in 2011. The purpose of the account was to sequester stocks that might otherwise be screened out of our portfolio by fund managers or our advisers. This action was undertaken with the intent to then utilize these stocks expressly for resolutions. Each holding is set at $10,000 (to buffer market fluctuations) so that we maintain the required minimum of $2,000 per holding. Currently there are 34 stocks in the SAA, primarily oil and gas companies, as well as some media, and food related companies (for water resolutions). Administration of this element of our MRI work is modest. Aside from a flurry of requests that occur near shareholder resolution deadlines, staff work is limited to issuing authorization letters to intermediaries (such as AYS) and instructing Northern Trust, Park's custodian, to issue an ownership verification letter.

Over this ten-year period the Foundation participated in 64 shareholder resolutions. Of those, ten instances resulted in the companies agreeing to withdraw the report that had been sought by the resolution. The impact of other votes is less clear since shareholder resolutions are not binding, even at 50% + approval rates. Out of the 64 resolutions submitted, there were only two "Omitted" shareholder resolutions. These occur when the SEC rules that an SR cannot be put on the ballot.

The rationale for continuing efforts in this area derives from the assumption that high approval rates send signals to management of shareholder interest and reinforce pressure on the company from other quarters. The "dialogues" conducted with corporations by the Interface Center for Corporate Responsibility (ICCR) are examples of this.

Anecdotal feedback suggests that our Shareholder Action Account is a unique tool for foundation mission related investing. It has had the value of allowing us to screen out the "dirty" stocks while retaining the capacity to conduct shareholder resolutions. An October 2018 report initiated and funded by the Foundation and developed by As You Sow identified 100 companies in ten categories that might be candidates for water-related SRs. Those categories include: Automotive, Mining and diversified metals, Utilities, Semi-conductors, Agriculture and food production, Beverage, Oil and gas, Textiles and garments, Consumer products, and Information technology industries. Next steps might include expanding shareholder resolutions into these areas.

Summary

This reflection on Park Foundation's work in mission related investing provides the groundwork for future efforts. The following strategies provide a basis from which to grow the Foundation's MRI program:

1. Reconfirming proxy voting preferences.
2. Requiring fund managers to provide annual report on proxy voting.
3. Revisiting water investing categories for fit with Foundation values.
4. Considering more detailed water screening criteria.
5. Examining the Foundation's portfolio for any inappropriate holdings.
6. Continuing Ceres Water Footprinting project.
7. Reviewing recommended As You Sow stocks for addition to the Shareholder Action Account.
8. Exploring more detailed and nuanced definitions of climate solutions investments.
9. Articulating priorities for the Program Related Investment Program.
10. Revisiting options to expand water stewardship investing.

Additional Reports on Park Foundation's MRI work can be found at:

https://parkfoundation.org/our-initiatives/?id=1

- Improving the Planet and Walking the Talk: Park Foundation's Engagement with Mission-Related Investing (2014) Park Foundation
- Park Foundation - Five Years of Program Related Investments (2015) Roberta Norman
- Park Foundation Water Risk Report (2015) Dan Apfel and Jon M. Jensen
- Park Foundation - Revised ESG Policy Statement (March 2017)
- Park Foundation Portfolio Carbon Footprint (June 2017)