

Mobilizing More for Mission: Re-designing Wallace Global Fund’s Endowment

As philanthropic foundations increasingly break down the firewall traditionally separating grant-making from endowment investments, a growing group of funders are also beginning to re-allocate their entire portfolios into “mission-related investments” that incorporate mission-aligned environmental, social, and governance considerations into endowment management.¹ Wallace Global Fund (WGF), a private foundation founded by Henry A. Wallace, Vice President of the United States under Franklin D. Roosevelt, and further endowed by his son Robert B. Wallace, has been at the forefront of this recent wave, gradually shifting 100 percent of its assets into investments that support its mission – “to promote an informed and engaged citizenry, to fight injustice, and to protect the diversity of nature and the natural systems upon which all life depends.”

The Fund specifically seeks investments that bolster its grant-making priorities in areas such as environmental sustainability and protection, corporate accountability, women’s human rights and empowerment, a free and independent media, and strong democratic institutions and civil society. Among other notable strategies, the foundation has divested from fossil fuels and shifted ten percent of its portfolio into positive “high impact” investments that offer solutions to climate change and innovative reproductive health technologies. The decision to move aggressively in this direction over the last five years came from an increasing awareness among the Fund’s

¹ Sarah Cooch and Mark Kramer, “[Compounding Impact: Mission Investing by US Foundations](#),” FSG Social Impact Advisors, March 2007; “[Unleashing the Potential of US Foundation Endowments: Using Responsible Investment to Strengthen Endowment Oversight and Enhance Impact](#),” US SIF Foundation, 2014; Joshua Humphreys, Christi Electricis, and Ann Solomon, “[Total Portfolio Activation: A Framework for Creating Social and Environmental Impact across Asset Classes](#),” Tellus Institute, Tides, and Trillium Asset Management, 2012; Justina Lai, Will Morgan, Josh Newman, Raúl Pomares, “[Evolution of an Impact Portfolio: From Implementation to Results](#),” Sonen Capital, October 2013; Peter Berliner and David Wood, “[Pushing the Envelope: Expanding the Limits of Mission Investing](#),” *Responsive Philanthropy*, winter 2013/2014, pp. 6-8; Cathy Clark and Jorge Soriano, “[RSF Social Finance’s Social Enterprise Lending Program](#),” Impact Investing 2.0, InSight at Pacific Community Ventures, May 2014; Clark, Jed Emerson, and Ben Thornley, “[Mission-Driven Returns](#),” *Stanford Social Innovation Review*, June 2014; Thornley and Brenna McCallick, “[The W. K. Kellogg Foundation Mission Driven Investments \(MDI\): Case Study](#),” Impact Investing 2.0, InSight at Pacific Community Ventures, April 2014; “[Mission Investments at the Packard Foundation](#),” Redstone Strategy Group and the David and Lucile Packard Foundation, October 2015.

Overview:
Endowment: \$158.2million

Executive Director:
Ellen Dorsey

Investment Consultant:
RBC Wealth Management

Three Year Performance:
Wallace Global Fund: 10.66%
Custom Benchmark: 8.59%

Note: Assets as of 6/30/2015. Performance is for most recent three years, ending 6/30/15. Custom benchmark reflects a blended return of the following indices: 25% S&P500, 15% MSCI EAFE, 7% Russell 2000, 5% MSCI Emerging Markets, 30% BGCI, 8% Treasury Bills, and 10% HFRI Index. Returns are net of fees.

leadership that the foundation could be leveraging its endowment more fully to reinforce the impact of the grantees it was also supporting. As the Fund's investment committee co-chair Scott Fitzmorris put it,

We felt simply making grants with five percent of our assets did not sufficiently harness our capabilities or fulfill the purpose of WGF's existence, so we decided to put 100 percent of our capital and energy toward the goals that we think are essential for maintaining a livable planet. With help from knowledgeable people who understand and have aligned concerns, we have made a shift away from the practice of taking 95 steps backward and five forward. Now, we are closer to moving 100 percent in the right direction and are also seeing good, classically positive returns on our investments.

Fully activating Wallace Global Fund's portfolio through mission investing has been a multi-year process that began in 2009, when the foundation's board - including members of the Wallace family - decided to incorporate environmental, social, and governance (ESG) criteria more holistically into their investments. To assist them in this transition, the Fund hired a new investment consulting firm, RBC Wealth Management, with a seasoned team of consultants experienced in ESG investing. Over the next year, WGF and RBC undertook a deliberate process of portfolio review and re-allocation, culminating in a decision in 2010 to make mission-related investing an explicit matter of fiduciary duty. They developed a comprehensive investment strategy of incorporating ESG factors across the portfolio, making targeted high-impact investments, and using shareholder engagement to encourage companies to strengthen their policies and practices around ESG issues, particularly as they relate to WGF's core programmatic mission. The foundation also revamped its investment committee, bringing in a group of experts from the sustainable and responsible investing community to work closely with the Board, Executive Director Ellen Dorsey, and program staff.

Investing in a Fossil Free Future

When the foundation began re-allocating its portfolio in 2009, climate-related investing became a key thematic strategy in order to support the Fund's programmatic focus on funding climate justice. WGF decided to exclude from its portfolio companies that mine or own coal, utilities that generate more than the national average of their base-load power from burning coal, and oil and gas companies exposed to the risks associated with hydraulic fracturing. For other oil and gas companies and utilities, Wallace Global Fund initially took a best-of-class approach. It simultaneously increased its clean technology investments to five percent of its portfolio, including allocations to the North Sky Clean Tech Fund within private equity and to New Alternatives Fund within listed equities.

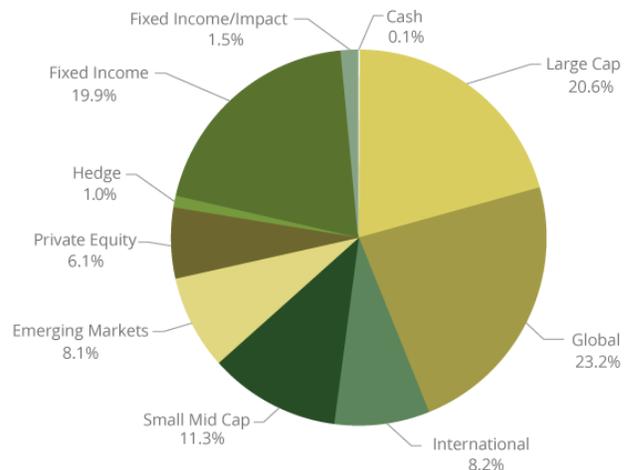
As part of its comprehensive portfolio review, WGF began engaging with its investment managers about its new mission-related investing criteria. It ended relationships with managers that maintained investments in

coal or showed weak financial performance. After discussions with one manager regarding coal company risk, that manager subsequently did a deeper analysis into the sector and agreed with the financial and environmental risks going forward. It liquidated its coal company stocks and other investors in the manager’s commingled fund have ultimately benefitted from the move, given the long-term drop in coal stock prices.

Once this phase of its portfolio re-allocation was complete, the Fund next sought to avoid all investments in integrated oil and gas companies, shifting increasingly away from its best-of-class strategy toward a tighter fossil-free filter. This strategy complemented WGF’s philanthropic support of what has come to be known as the Divest-Invest movement. After funding earlier analysis about the financial impacts of coal divestment, in 2011 the foundation commenced early discussions between college students and climate activists that led to the first campus divestment action. Upon Carbon Tracker Initiative’s release of game-changing analysis of climate risk to investors, Bill McKibben laid out a powerful clarion call in *Rolling Stone* magazine for full fossil fuel divestment, marrying ethical and financial concerns. Key players in this movement, including 350.org, Responsible Endowments Coalition, Sierra Student Coalition, As You Sow, GreenFaith, Sustainable Endowments Institute, and others have received grant funding from Wallace Global Fund for climate justice work. WGF also established Divest-Invest Philanthropy, a coalition of foundations that have committed to divest from fossil fuel companies and reinvest in climate solutions and a new, more sustainable economy, launched in early 2014.²

With the Fund’s deepening involvement in the Divest-Invest movement, the foundation reaffirmed its commitment to eliminate all fossil fuel-related companies from its portfolio within five years of implementing its new mission investing strategy, and it continued its engagement with its asset managers. By 2012, WGF was already over 99 percent divested at the time, with a full ten percent of its portfolio invested in climate solutions. In its direct holdings, WGF had divested from the 200 largest fossil-fuel companies measured by proven carbon reserves, a list now known as the Carbon Underground. The Fund began discussions with a legacy hedge

Asset Allocation as of 6/30/15



² See [Divest-Invest Philanthropy](#).

fund it owned over its exposure to fossil fuels with the hope of moving its account into a fossil-free sleeve. After the hedge fund refused to accommodate the foundation's request, WGF decided to exit the fund in late 2014. By ensuring this kind of alignment between its grant-making to climate justice movements and its investment choices, Wallace Global Fund is now genuinely "walking the walk."

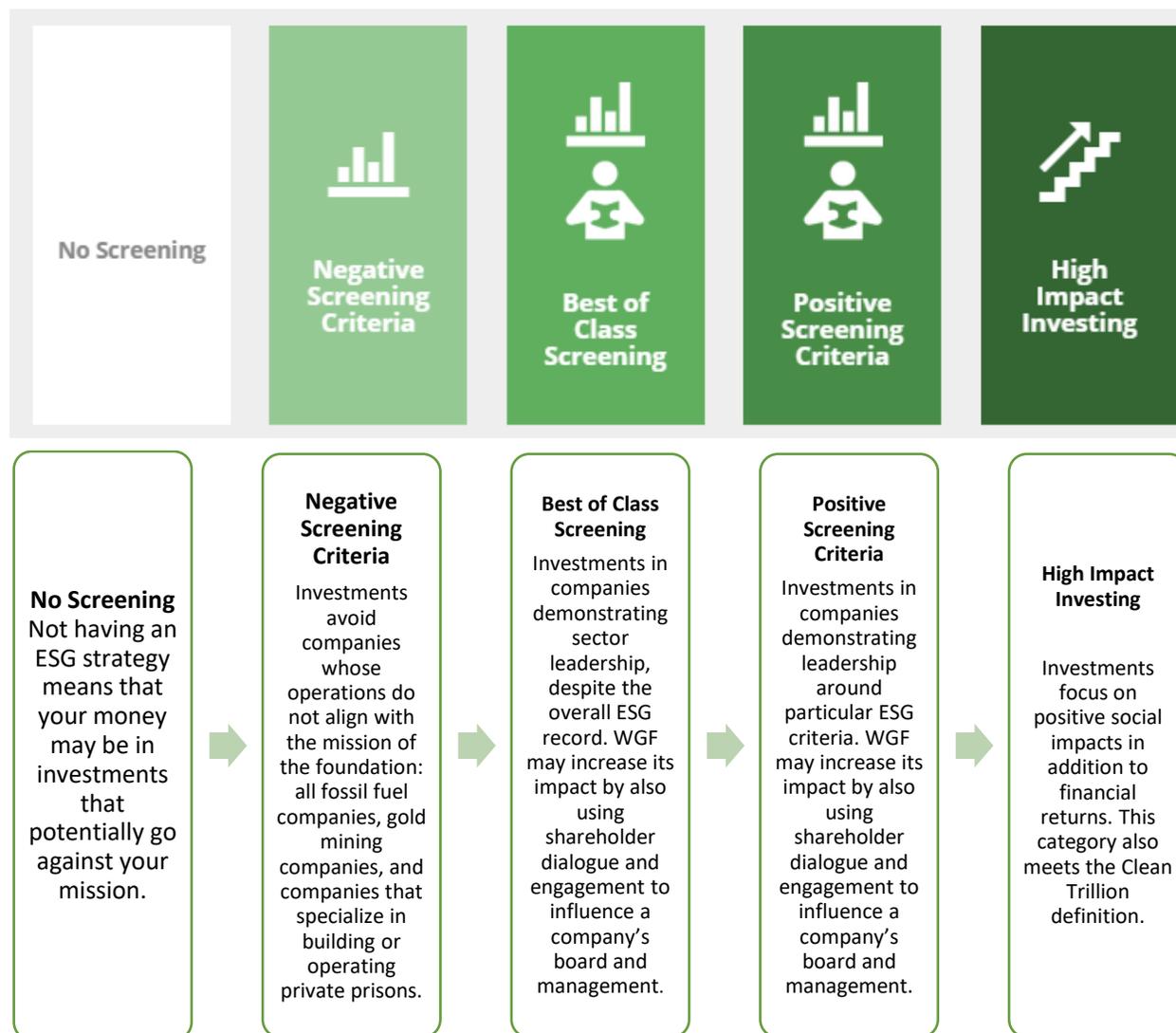
High-Impact Private Investing

In addition to fossil fuel divestment, Wallace Global Fund's mission investing strategy targeted at least five percent of the portfolio to high-impact investments, primarily in private equity. Alongside pro-active investment opportunities in climate solutions, these high-impact investments focus on two other mission-related areas: 1) Africa, with a particular focus on South Africa and 2) women, human rights, and social justice. Some of these have been done through "transformative high impact investments," such as the Africa Renewable Energy Fund, which invests in renewable energy infrastructure in Sub-Saharan Africa, and SJF Ventures, a venture capital partnership which invests in US companies focused on technology-enhanced services, sustainability, and resource efficiency. Within this high-impact strategy, WGF has also made a direct private equity investment in Bioceptive, a women's health company developing the next generation of intrauterine devices (IUDs). An independent consultant working alongside the RBC Wealth Management team undertakes the due diligence for these investments, and then presents recommendations to the foundation's investment committee. The Fund has managed to identify numerous investment opportunities within its high-impact investing strategy. At the outset of 2015, transformative impact investments were valued at 6 percent, with a committed value of 17 percent.

Increasing Impact across the Sustainability Spectrum

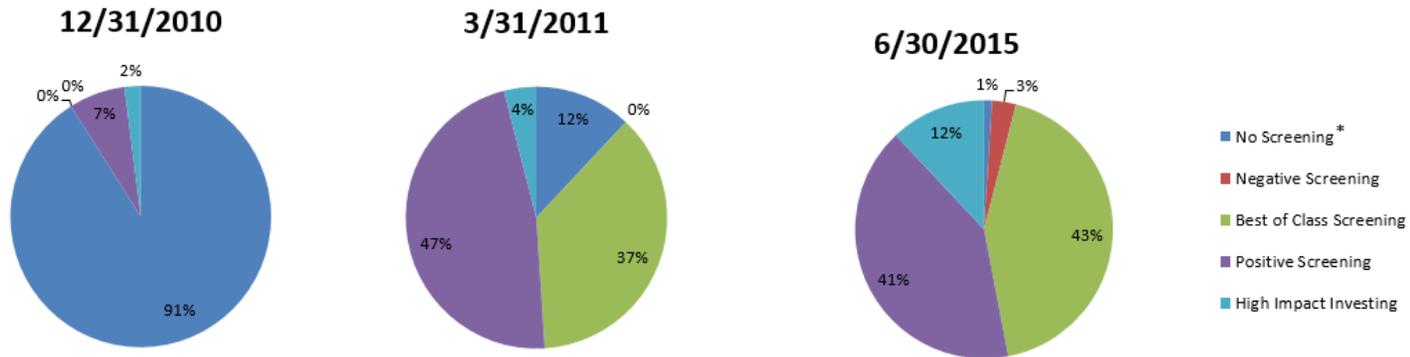
Critical to the portfolio reallocation process was creating criteria for determining what investments aligned with Wallace Global Fund's mission. To do this, the foundation's investment committee worked with RBC Wealth Management to develop an ESG Investment Policy Statement that outlines 16 key ESG criteria, which have subsequently been applied across 100 percent of the portfolio using a variety of exclusionary, positive, and "best-of-class" screening techniques. Managers are rated on a five-point sustainability spectrum, with lower ratings for those that do not incorporate ESG criteria or only apply negative screens and higher ratings accorded to those more actively pursuing positive social and environmental impact or embracing shareholder engagement strategies.

Sustainability Strategies Spectrum



Since the ESG Investment Policy was implemented in 2010, Wallace Global Fund has shifted its investments from a portfolio with less than ten percent of its assets managed according to ESG factors to a more fully activated portfolio with essentially 100 percent of its assets incorporating ESG investment criteria. As part of this transition, the Fund has significantly increased its investments in managers actively investing in companies demonstrating sustainability leadership or engaging with companies to improve their ESG performance. Although the Fund recognizes that its sustainability scoring spectrum does not constitute a social or environmental impact measurement system for its portfolio, its adoption of this framework highlights the Fund's commitment to developing new ways of quantitatively and conceptually evaluating the sustainability and impact of its mission-related investing strategies – across asset classes. Shifting its investments along this sustainability spectrum has helped the foundation to deepen its impact and to harmonize endowment investments with its grant-making objectives.

Wallace Global Fund's Progression across the Sustainability Spectrum



Strong Financial Performance

Along with the positive social and environmental benefits of mission investing comes the potential for positive, competitive financial returns, and Wallace Global Fund's experience provides a living empirical case study of a foundation "doing well by doing good." The foundation's portfolio has regularly outperformed its customized benchmark as it has implemented its new mission investing strategy. Although past performance cannot guarantee future returns, the Fund has outperformed its benchmark by 60 basis points since the inception of the new strategy at the end of 2010 through June 30, 2015. The portfolio has bested its benchmark over one and three years by even wider margins. (See Performance Overview table.) All returns reflect net returns after fees have been deducted.

Performance Overview as of 06/30/15

	Year to Date	1 Year	3 Year	Inception (12/31/10)
WGF Portfolio Return	3.44	4.20	10.66	7.12
Custom Benchmark	2.22	2.42	8.59	6.52

An Emerging Model for Mission Investing

Although relatively new to the mission investing space, Wallace Global Fund has demonstrated its leadership in the field in several ways. First, thanks to its strong mission around combating climate change, WGF has provided a model to other foundations interested in making their entire portfolio fossil fuel free within five years, an aggressive but achievable timeframe. Secondly, it has proven that implementing ESG investing strategies throughout a portfolio can result in successful financial performance—even when fossil fuels are completely divested.

Third, WGF has had financial success thanks to the decision-making process around its portfolio mission alignment. Investment committee member Julie Gorte described it as a largely seamless collaboration of the Board, the investment committee, WGF's staff leadership, and the Fund's investment consultants. Gorte also noted that the process is still ongoing: next steps for WGF include focusing on investments with lower carbon emissions, shareholder engagement around climate justice, and deeper gender lens investing. This approach allows the foundation to continually monitor and evaluate its approach, and make changes as needed.

With this framework set in place, Wallace Global Fund continues to explore ways to deepen alignment between grant-making and mission investing. In the area of women's rights and empowerment, for example, the foundation has moved from funding women through grants and microfinance to incorporating them into their high-impact investments (as described above).³ In order to identify new opportunities, WGF has also been actively involved in creating a community of practice around investing in gender and women's empowerment, bringing together key stakeholders, including investors, international development practitioners, foundations, and women's rights groups. The Criterion Institute's recent report on the state of the field of gender-lens investing was one recent product of this initiative, which highlighted how grant-making and mission investing can be combined in ways to maximize positive impact on women and girls.⁴ To take one example, Root Capital, which Wallace Global Fund has supported, leveraged foundation grants to conduct research on the gender impacts of the businesses with which it was working, often in low-income countries. Investments and grants from WGF and other donors and investors have helped Root Capital refine and strengthen its approach to gender lens investing, currently being advanced through its Women in Agriculture Initiative, which was founded in 2012. This is precisely the kind of highly leveraged activity that WGF seeks to support as a grantmaker, a convener, and an investor.

Finally, for the Wallace Global Fund, one of the most important factors for its success has been the recruitment of like-minded individuals who believe in the foundation's mission, working in tandem with the board and program staff. This has helped ensure that everyone is working toward the same environmental, social, and financial goals. As Gorte concluded, "It's amazing what people can do when they all want to do the right thing."

³ See also the case study on Wallace Global Fund in Kristin Lang, Joshua Humphreys, and Christi Electris, "[Investing in Positive Impact for Women: Integrating Gender into Total Portfolio Activation](#)," Croatan Institute, Global Fund for Women, and Trillium Asset Management, November 2015, p. 15.

⁴ Joy Anderson and Katherine Miles, "[The State of the Field of Gender Lens Investing: A Review and a Roadmap](#)," Criterion Institute, October 2015.



The mission of the Wallace Global Fund is to promote an informed and engaged citizenry, to fight injustice, and to protect the diversity of nature and the natural systems upon which all life depends.

www.wgf.org

This case study was authored by Kristin Lang, Christi Electris, and Joshua Humphreys at the Croatan Institute. Croatan Institute is an independent, nonprofit institute for advanced social and environmental research and engagement, working at the nexus of finance, sustainability, and economic development. Based in the Research Triangle of North Carolina with an extended team of affiliates in Boston, New York, San Francisco, and Geneva, the Institute provides rigorous research and analysis to support strategic decision-making by organizations and practitioners in the field and movements for social and environmental change.

For more information about the Institute's programs, people, and publications, please visit www.croataninstitute.org.

DISCLAIMER The material in this report is for informational purposes only and does not constitute investment advice or research. The Wallace Global Fund does not make any recommendation pertaining to any investment, whether in general or in any specific fund. The funds identified in this case study are cited for purposes of education and transparency only.