

# NACUBO/Strategic Investment Group Workshop

## A Roadmap Towards Mission Alignment

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# Aligning Your Portfolio with Your Mission

## Things to Know Before You Go

### **Consider Being Proactive**

- If you believe that your institution will eventually tackle this initiative, developing a framework in advance should be considered so you have time to thoughtfully consider all aspects, potential actions, and outcomes.

### **It's About the Journey, Not the Destination**

- Recognize this will be an ongoing process that will likely be revisited and evolve along the way.
- The establishment of a well-defined process will be helpful to serve as a basis for continual review.

### **Consider if and how this Should be Reflected Through the Whole Institution**

- There is value in evaluating how mission-alignment can appropriately be reflected through each facet of the institution, not just the endowment.

**Good Governance = Success**

# Steps to Consider Taking on Your Journey

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# Step 1: Assemble the Teams

## On-Going Committees That Are Part of the Board and Investment Committee

### **Board of Trustees: Values Alignment Committee**

- Charged with reflecting the voice of all stakeholders and constituents to assess:
  - What does mission and values alignment mean to them?
  - How do they see this manifesting itself holistically throughout the institution?

### **Investment Committee: Responsible Investment Advisory Committee**

- Charged with evaluating if and how alignment of the investment portfolio can be accomplished:
  - What values should and can be reflected in the portfolio?
  - What is the outcome they hope to achieve and how is that best achieved in the portfolio?

# Step 2: Evaluate Courses of Action

## The Plan to Achieve Mission-Alignment Goals

<b>Value</b> \ <b>Path</b>	<b>Divestment</b>	<b>Positive Screening</b>	<b>Active Ownership</b>	<b>Impact</b>
<b>Climate Change</b>	✓	✓	✓	✓
<b>Diversity</b>	✓	✓	✓	✓
<b>Human Rights</b>	✓		✓	

There are many paths towards mission-aligned investing.

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# Some Key Considerations at This Stage

## There Are Often Unforeseen Consequences

- Have past divestment or active investment campaigns achieved the desired impact?
- What have other institutions with similar sized investment pools and similar objectives done in this regard and what did they learn?
- Does taking action align with the board's fiduciary responsibility of ensuring the institution sustains its mission for the long term and represents all constituents, including donors?
- What are your return expectations?
- If your goals are systems change or impact, are you willing to give up return in the investments designed to provide non-financial benefits?
- If there is even a small probability of diminished returns, are there ways to mitigate potential adverse effects?

**All potential outcomes should be thoroughly assessed.**

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# Step 3: Prepare to Implement

## Key Considerations as You Define How to Implement

### **Governance Considerations:**

- Will the governance model need to be changed based on your prescribed course of action?

### **Return Considerations:**

- If your return expectations are higher or equal, how do you expect those to be achieved? By the investments directly or through factor overlay and risk mitigation strategies?

### **Divestment Considerations:**

- How do you define exactly which companies to divest from? What if some of the companies in question are better able to advance the solutions needed to solve the problem, in which case divestment might actually hurt those initiatives?

### **Active Ownership Considerations:**

- Are investor engagement or even activism a viable option for the institution to exercise?



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# Step 4: Document

## The IPS Should Outline the Role of Mission-Alignment in the Investments

### **Statement of Core Responsible Investing Beliefs:**

- Detail how mission-aligned investing is part of the responsibility that the fiduciaries have.

### **Governance:**

- Set alignment and adherence objectives, how they will be monitored and measured.

### **Responsible Investing Initiatives and Materiality:**

- Clearly define, for each initiative, if it is expected to be achieved through divestment, positive screening, active ownership or a combination of these strategies, including the screens and criteria that are to be used to achieve it.

### **Investment Guideline, Return and Risk Objectives:**

- Define if values-alignment is to be reflected across the whole portfolio or in portions and if this will cause a change in asset allocation.
- Describe if and how the mission-alignment initiatives are to be phased in.
- Describe how any over- and under-weights to asset classes, style, sector or region that arise as a result of mission-alignment will be monitored and the associated potential risk mitigated.
- Define the time period over which investment success of the program will be judged.

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# Step 5: Monitor

## Key Questions to Ask:

- Are you able to prove that all of your efforts are meeting the expectations of your constituents?
- Are there unexpected positive or negative effects resulting from your Responsible Investment (RI) initiatives?
- What are you learning from your efforts? How should these learnings shape your RI initiatives and policy going forward?
- Do any of your learnings change your core RI beliefs, the means by which or timing of which you believe they should be reflected in the portfolio?
- Given that both RI techniques and the measurement of results are ever-evolving, are you employing the most effective strategies against the goals you want to achieve?

**And, like any good journey, this one should be fully revisited often.**

# Q & A

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# We Welcome Further Questions

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