Total Portfolio Activation

A Framework for Creating Social and Environmental Impact across Asset Classes

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Foreword from Melissa Bradley, CEO, Tides

Tides is a firm believer in the concept of Total Portfolio Activation—the idea that endowment and foundation investors have an opportunity and responsibility to leverage impact across all asset classes in alignment with their programmatic focus. We believe this report provides a beneficial framework and guide for any mission driven organization to consider how to put their investments to work in support of their long-term social, economic, and environmental goals. We look forward to a day when individual and institutional investors talk equally about their impact returns and their investment returns. At Tides we remain committed to supporting investors, donors, and doers in creating the world they want to see through the use of traditional and philanthropic asset allocation and management.

Foreword from Matt Patsky, CEO, Trillium Asset Management

Trillium Asset Management, LLC has been active in moving assets into action since 1982. As a boutique SRI asset management firm with a focus on domestic equities, we are pleased to see the growing attention given to impact investing. While at present most of that attention has been focused on private equity, we believe a great impact opportunity lies with public equities, which typically have a much larger allocation within a traditional investment portfolio. We are finding that many of our clients are actively engaging in a rigorous process of working to include impact across all asset classes in which they invest. While the tools and investment options may be somewhat different in each asset class, there is no question that there are opportunities to leverage all aspects of a portfolio. For this reason, we are strong supporters of the Total Portfolio Activation concept. As a firm with a deep commitment to shareholder advocacy and public policy, we believe that public equities offer a unique place to engage in very specific types of impact activities that can have profound outcomes in areas such as workplace diversity, human rights, environmental protection, consumer protection, and product safety. We look forward to working with many more mission-driven clients who use this TPA framework as a way to engage currently untapped assets in support of their mission.

Introducing Total Portfolio Activation: A Guide for Mission-focused Institutional Investors

Interest in investment that pursues social and environmental impact has exploded in recent years. Although opportunities for impact investing have emerged across asset classes, most impact-investment activity has remained largely confined to a limited array of private investments, touching only a small percentage of investor portfolios.[1]

For organizations and individuals seeking greater impact and better alignment between their investment activities and their mission or values, there remains a pressing need for tools to help investors identify and seize opportunities to activate more of their assets for social and environmental benefit.

To help fill this gap, this paper introduces a simple conceptual framework: **Total Portfolio Activation.**

Building upon the long-standing work of socially responsible money managers, corporate accountability researchers, community investors, and institutional investors from the philanthropic and faith communities, as well as more recent efforts of impact investors and Slow Money advocates, Total Portfolio Activation provides both a framework and a set of analytical tools to help mission-driven investors understand the specific impact opportunity set that can be pursued across every asset class in their portfolios.

The Total Portfolio Activation framework is applicable to any investor seeking to generate greater environmental or social value, and its underlying tools can be tailored to very specific issue areas of concern, whether they be climate change or human rights, women's empowerment or affordable housing, nature conservation or Lesbian, Gay, Bisexual, Transgender, and Queer (LGBTQ) equality, economic development among Native Americans or fair trade with small farmers in low-income countries. The tools are particularly helpful to foundations, endowments, faith-based investors, nonprofits, and other mission-driven organizations looking to align their investments with their programmatic goals and values.

The framework also provides an analytical recognition of the specific activities that increase the potential for social and environmental impact both within and across asset classes — from private-equity investments in sustainable businesses to public-equity investments in listed securities; from debt investments in micro-finance institutions, bond funds and other fixed-income instruments to highly liquid, money market investments in community development financial institutions; and from real estate investments in the built environment to investments in other real assets such as timber and farmland.

The basic insight that drives Total Portfolio Activation is that every investment across every asset class has social and environmental impacts—positive and negative. That goes as much to investments that fail to take environmental, social, or governance issues into consideration as to those that explicitly pursue sustainability, corporate responsibility, or positive social and environmental impact.

In the following pages, we present a guide that provides concrete steps to help any institutional investor begin working toward a fuller activation of their portfolio in support of their mission, drawing upon specific examples of investors who have already activated assets in certain asset classes. We highlight the efforts of numerous mission-driven institutional investors that have begun

A Note on Inspiration

Although the concept of "Total Portfolio Activation," as elaborated here, is new, it owes important debts to earlier notions rooted in concerns about aligning philanthropy and finance, such as Jed Emerson's "total foundation asset management and the unified investment strategy" and Carol Newell's more geographically targeted notion of "whole portfolio activation." The framework of Total Portfolio Activation aims to extend the concerns of these pioneering philanthropic concepts to the portfolios not simply of donors or foundations but of any investor seeking greater social and environmental impact across every asset class in a portfolio.

to seize opportunities for greater impact within their portfolios, giving particular attention to the Dominican Sisters of Hope, a Roman Catholic religious congregation in New York; Equity Foundation, a community foundation in the Pacific Northwest supported by donors drawn from the LGBTQ community; the Oneida Trust, a Native American institution responsible for managing the trust funds of the Oneida tribal nation in Wisconsin; RSF Social Finance, a nonprofit financial services organization focused on food and agriculture, ecology, and education; and Tides, a progressive philanthropic foundation making donor-advised grants to nonprofits working toward social change.

We also analyze the activities of several high-impact asset managers and investment organizations that are deploying capital within various asset classes in order to generate positive social and environmental benefits in addition to financial returns. In order to increase an investor's potential for social or environmental impact, we have identified four related areas of activity where opportunities for impact can be readily seized within each asset class:

1. **Investment selection —** incorporating environmental, social or governance (ESG) issues and impact into investment review, decision-making and performance analysis. Investors will have specific criteria related to environmental or social issue areas or targeted geographies around which they structure their investment selection process and then monitor their impact.
2. **Active ownership —** exercising the stewardship rights and responsibilities, voice and votes, that often accompany owning an asset. Investing in assets can often open opportunities to engage in activities as an owner, whether directly or indirectly.
3. **Networks —** joining wider groups and coalitions of stakeholders around common environmental and social issues of concern, in order to leverage collective power to generate greater impact than any single investor could on its own.
4. **Policy —** engaging in public-policy activities as an investor in order to tap government resources and incentives or encourage regulatory oversight and intervention in support of impact objectives. Policy activity acknowledges the potential role government support, regulation and intervention can play in the investment process to encourage positive social and environmental outcomes.

Each activity area can be applied within each asset class, although the relative importance of each activity for increasing potential impact will vary for each asset class and depend on the investor's specific social or environmental concerns or goals. The process of selecting an investment because of its impact attributes is key for every asset class, but we have also found meaningful opportunities to increase the potential for impact in the other activity areas as well: by taking more active ownership of assets, joining with other stakeholders in networks of common concern, and using policy tools and strategies.

Specific asset classes are also better suited for generating particular kinds of impact, so investors with targeted issue areas of concern will need to place greater stress on the activities and investments that align with their impact objectives. Cash and fixed-income investments in community development financial institutions, for example, are particularly useful ways to support affordable housing in targeted, low-income geographies. Active ownership initiatives, by contrast, appear particularly germane to investments in public and private equity and real assets, though they take very different forms in each asset class, ranging from high-impact shareholder engagement with publicly traded companies, to directly influencing companies through a board seat in private equity, to sustainably managing timberlands in real assets.

Consequently, an institution might work on multiple issues related to its core mission, but vary the focus across the portfolio to match the specific opportunities presented by each asset class. For example, a local environmental organization may find geographically targeted investment opportunities to finance green building or regional land conservation efforts in cash and real property asset classes, but pursue broader national or global climate-related investing strategies using active ownership in public equities, while supporting renewable energy innovation through cleantech venture capital in private equity.

Ultimately, each investor will therefore need to assess the primary social and environmental issue areas that are core to its mission and then evaluate the activities within each asset class that are most appropriate for increasing its potential for impact in those areas. The framework of Total Portfolio Activation provides a clear process for identifying what we term an investor's "impact opportunity set," by assessing the impact activities and investment opportunities within each asset class of its portfolio that are most relevant to increasing potential social or environmental impact.

Below we chart ten key steps that investors can take in order to implement the Total Portfolio Activation framework:

1. Take an inventory of environmental and social issues of concern;
2. Evaluate the impact of current investment activities across asset classes;
3. Identify the Impact Opportunity Set specific to issues and asset allocation;
4. Conduct a "gap" analysis between current activities and the Impact Opportunity Set in order to identify new areas of activity that will increase impact potential;
5. Identify specific investment opportunities that fill the gaps analyzed;
6. Revise Investment Policy Statement to reflect new strategy of Total Portfolio Activation, specifying how impact issues shape investment selection, active ownership, network participation, and policy initiatives across asset classes;
7. Conduct a capacity analysis in order to determine which investment activities can be taken directly by the investor and which should be delegated to experienced impact asset managers;
8. Re-allocate assets to higher impact investment opportunities identified;
9. Monitor portfolio performance according to impact objectives; and
10. Continually assess ongoing Total Portfolio Activation impact opportunities according to Investment Policy Statement.

In the next section, the guide walks an investor through the kinds of opportunities that exist across asset classes commonly found in a diversified portfolio, before turning to an example of how a mission-focused investor can use the 10-step process of identifying its impact opportunity set and re-allocating assets across its portfolio.

CASE STUDY TIDES

EVOLUTION AND INNOVATION IN IMPACT INVESTING ACROSS ASSET CLASSES

Tides is a multifaceted social enterprise pursuing diverse strategies to promote change so that a society founded on principles of social justice, broadly shared economic opportunity, a robust democratic process, and sustainable environmental practices, can be a reality. In short, Tides helps people invest in the world they want to see. Tides was one of the pioneering philanthropic groups to create donor advised funds, which provide charitable giving vehicles that are also invested in alignment with donors' philanthropic objectives.

Tides' mission-related investing through donor advised funds began over 15 years ago. Provoked by donor demand, Tides' mission investing evolved informally. Tides' donor advised funds invested in enterprises and funds based purely on donor interest, evaluating impact investment opportunities as they arose. Today, the resulting portfolio of mission-related investments spans asset classes and impact areas ranging from media and film projects to microfinance, from community development deposits with Self-Help to property investments with GreenSpace Development Funds. Additionally, Tides has long incorporated ESG analysis and selection across its donor advised fund portfolio and, in its public equity investments, engaged in shareholder advocacy on executive pay, environmental issues, and LGBTQ equality.

More recently, Tides has conducted an in-depth analysis of its investments, to evaluate the overall alignment between its holdings and mission. Recognizing the opportunity to increase its use of impact investments, Tides is moving forward with new investment strategies. Internally, Tides is reviewing its investment policies to increase the integration of ESG screens and impact opportunities into how the organization leverages its donor and doer assets. Tides is also creating new products for its donors and investors to leverage capital for social good — from grants to equity investments, and all in between. Several areas in which the organization sees particular opportunity to expand its impact include wider investment in enterprises focused on arts and culture, international initiatives, and affordable "social purpose real estate" for nonprofit organizations. Tides is now actively looking for new ways to collaborate with other like-minded investors, such as ImpactAssets, Calvert Foundation, and the California Endowment, in the development of new ways to pool capital among investors seeking to invest in high-impact ways.

Impact Opportunities across Asset Classes

Asset classes are the central focus for the Total Portfolio Activation framework because each has distinctive social and environmental functions, as emerging research has begun to show.[2] For the purposes of this guide, we concentrate on five asset classes commonly found in a diversified investor's portfolio:

1. Cash and cash equivalents;
2. Fixed income;
3. Public equities;
4. Private equity; and
5. Real property.

By understanding the specific social and environmental functions of asset classes and the kinds of activities that generate impact within them, investors can pursue impact in much more deliberate and strategic ways and move toward the activation of an entire portfolio for mission-related impact.

CASH AND CASH EQUIVALENTS

Although investors place a premium on capital preservation and liquidity in the asset class of cash and cash equivalents, opportunities abound for putting money to work in pursuit of greater social and environmental impact, particularly in responsible consumer lending and community development, affordable housing, green business promotion, and sustainable agriculture. Investment analysis and selection as well as policy work are particularly salient activities for investors pursuing impact within cash, primarily in community development financial institutions and sustainability-focused banks.[3]

For philanthropic institutions with active grant-making activities, liquidity is vital to their charitable gift giving, so groups such as Tides and RSF Social Finance have looked carefully at how they can generate mission-related impacts through their cash investments. Both have made cash deposits in community development credit unions, which are cooperative non-profit, member-owned financial institutions with specific missions of serving low-income and minority communities that are typically underserved by conventional banks. RSF's programmatic concerns with ecological stewardship and sustainable food and agriculture have led it to invest a portion of its cash allocation in deposits with the Permaculture Credit Union in Santa Fe, New Mexico, a credit union whose lending policies operate according to permaculture principles of ecological ethics by supporting resource conservation, weatherization, solar heating and energy systems, organic farming and gardening, and fuel-efficient automobiles.

Tides has deposited a portion of its cash allocations in the Hope Credit Union, a community development credit union providing financial services to distressed, underserved communities in the Mississippi Delta states of Arkansas, Louisiana, Mississippi, and Tennessee, including New Orleans and other areas affected by Hurricane Katrina. Hope focuses its lending on small- and medium-sized businesses, nonprofits, healthcare, childcare and community facilities, and housing finance. It also expands its regional impact by collaborating with public, private, and philanthropic groups and engaging in policy advocacy in support of responsible financial services, tax fairness, and family self-sufficiency. The credit union has developed a wide range of high impact certificates of deposit that target specific areas, such as community building, employment creation, first-time home buyers with low wealth, and hurricane rebuilding.

Both RSF and Tides have also made investments in Self-Help, the North Carolina-based community development credit union that has expanded its operations to California. Deposits or money market investments with Self-Help support the credit union's responsible lending to low-income people and small businesses. Self-Help's credit counseling programs for delinquent borrowers, which focus on early intervention, have a long-standing track record of helping low- and moderate-income homeowners to avoid foreclosure.[4] Investors such as RSF and Tides concerned with environmental sustainability or women's empowerment can target their deposits through Self-Help's Green CDs or Women and Children CDs in order to support loans to help finance solar contractors and residential energy retrofits or women-owned businesses and childcare centers in underserved communities. Investing cash in Self-Help also magnifies an investor's use of policy tools by supporting the activities of the credit union's nonprofit affiliate, the award-winning Center for Responsible Lending, one of the strongest advocates for foreclosure prevention and restrictions against predatory finance.[5] Thus in addition to directly providing capital for targeted community development, Self-Help investors are also supporting a vigorous policy presence on Capitol Hill to fight abusive payday lending practices.[6]

The Oneida Trust has identified high-impact, mission-aligned investment opportunities for the cash management needs of its trust funds by investing in the Lakota Funds, a community development financial institution that makes micro-loans to Lakota businesses and individuals on the Pine Ridge Indian Reservation in South Dakota. Investing with the Lakota Funds deepened the Trust's impact objectives of supporting fellow Native Americans while providing income and liquidity for its own tribal members. In fact, the Oneida commitment was one of the first intertribal investments for community economic development. By making investments in Lakota Funds, the Oneida Trust has helped support one of the most effective organizations working to alleviate persistent poverty in Indian Country.[7]

Several networks within this asset class offer resources for investors to learn more about cash investment opportunities, including the National Federation of Community Development Credit Unions, the Global Alliance for Banking on Values, and the Community Development Bankers Association. Confluence Philanthropy, a philanthropic affinity group of mission-related investors, provides resources to foundations, donors, and nonprofits on cash investments in community financial institutions, through its "Carry the Cash" initiative. The Responsible Endowments Coalition helps colleges to move their money into community development financial institutions through its community investment campaign and toolkit. US SIF: the Forum for Sustainable and Responsible Investment has similarly created a toolkit specifically for faith-based investors seeking to re-allocate cash to community investments.[8]

We have spotlighted only a few of the ways in which mission-driven investors are activating their cash holdings for meaningful and measurable impact, often in targeted geographies, but also in support of responsible-lending policies. In addition to community development banks and credit unions, socially responsible money market funds managed by firms such as Calvert and PAX World and a number of sustainable banks such as New Resource Bank in San Francisco or Triodos in the Netherlands can play an important role in expanding an investor's impact opportunity set within the cash and cash-equivalent asset class. For investors seeking impact on a variety of social and environmental issues — ranging from the economic empowerment of low-income communities to financing of affordable housing and green retrofits — opportunities to move their money into more meaningful investments are abundant.

FIXED INCOME

The impact opportunity set for fixed-income investment can have considerable overlap with cash, though fixed-income investment vehicles often involve longer investment terms, and far more international investment opportunities present themselves through microfinance vehicles or green bonds in emerging markets. Additionally, debt investments in loan or bond funds can often finance more unconventional initiatives than the financing provided by regulated depository institutions, such as credit unions or banks eligible for federal depository insurance. Debt financing can also support organizations such as nonprofits and co-operatives that simply cannot take equity capital. Investment selection around environmental and social issues is therefore a critical area of activity in this asset class, and the impact of fixed-income investments can be amplified by tapping the tools of policy and wider networks.

One of the simplest ways for investors to increase their impact opportunity set in fixed income is to re-allocate into municipal and corporate bonds that finance projects with social or environmental impacts that align with investors' mission-related concerns. RSF Social Finance, for example, has worked with Community Capital Management to develop a customized fixed-income portfolio that targets environmentally sustainable projects — in essence, a green muni-bond fund. It now constitutes one of the largest holdings within its Impact Portfolio. Among the investments made through this strategy, RSF has purchased Build America Bonds from the Florida Department of Environmental Protection, the proceeds of which help fund the 35-year, $10.5 billion Comprehensive Everglades Restoration Plan.[9] The project highlights how fixed-income investments can provide capital to support projects that have a much longer duration than many cash or public-equity investments.

Calvert Investments has taken a different approach to green bonds, on a more global scale, providing capital for projects that address environmental challenges, in a geographically diversified portfolio. Calvert's Institutional ESG/Green Fixed Income Strategy uses the firm's in-house ESG sustainability research team alongside its credit analysts and portfolio managers. The fund invests roughly 50% in high-quality corporate bonds in clean technology and other environmentally sustainable companies, which must generate at least half their revenue from cleantech or innovations that shift the sustainability profile of their respective industries. The balance of the strategy is directed to project-focused municipal bonds, real estate or international development, including World Bank Green Bonds, which have financed large-scale climate-change mitigation and adaptation in emerging markets since their launch in 2008. World Bank Green Bonds, which Trillium Asset Management has also purchased for its clients' fixed-income portfolios, are AAA-rated sovereign securities that have helped provide debt financing for projects ranging from rapid transit systems in Colombia to flood prevention infrastructure in China. Waste treatment, reforestation, solar and wind installations, and energy efficiency in buildings and manufacturing are among the key themes for projects financed by World Bank Green Bonds, and coal and nuclear power generation projects are explicitly excluded from consideration. As Trillium Portfolio Manager and Managing Partner Cheryl Smith has noted, "Green bonds are the first fixed-income investment I know of that allows the investor to actively increase the funding for carbon footprint reduction and improved energy efficiency."[10]

For investors seeking to deploy debt internationally in pursuit of impact focused specifically on agriculture and food systems, short-term note investments in Root Capital support the livelihood of the rural poor in Latin America and Africa by providing reliable financing to small farmers and small, growing rural agricultural businesses. In addition to making loans, Root Capital works with borrowers to ensure that their businesses and farming operations are ecologically and financially sustainable. The group has begun measuring its impact performance, and at the first quarter of 2012 it reported $31 million in loan disbursements across 96 borrowers in 99 loans, reaching 93,000 farmers or artisans, including 43,000 women. Root Capital is a Global Impact Investment Rating System (GIIRS) Pioneer Fund, one of the first funds to be rated according to this social and environmental impact evaluation system developed by B Lab, the organization behind B Corporations.[11]

In addition to listed fixed-income securities and bond funds, community development loan funds provide high-impact debt investment opportunities, often targeted at domestic geographies. In New England, for example, Coastal Enterprises Inc. (CEI) in Wiscasset, Maine, and Boston Community Capital provide two very different examples of community development financial institutions using debt financing to create sustainable community impacts in low- and moderate-income regions. The impact of both funds is rated using the CARS™ rating system of CDFIs, an independent rating system originally developed by Opportunity Finance Network.[12] CEI Investment Notes use debt to support CEI's mission to help create economically and environmentally healthy communities in rural Maine.

Family foundations with an interest in rural issues and targeted work in Maine, such as the Betterment Fund, the Rocking Moon Foundation, and the Sandy River Charitable Foundation, sustainable and responsible mutual funds such as the PAX World Balanced Fund, and clients of Trillium Asset Management have been among initial investors in the CEI Investment Notes since the product's launch in 2009. Unlike more liquid investments, CEI notes are available only to accredited investors, and they have longer terms over 3, 5, 7, or 10 years with fixed interest rates ranging from 2.0% to 3.5%. The debt provides valuable working capital to enterprises delivering social benefits, such as sustainable farms with carbon-neutral greenhouse operations, working waterfronts on the coast of Maine, green cleaning services, and educational opportunities for low-income students.[13]

Boston Community Capital (BCC) pursues social and environmental impact by building healthy low- and moderate-income neighborhoods through a diverse set of investment vehicles. After beginning as a single-line loan fund three decades ago, BCC has expanded its own portfolio across asset classes, from lending in support of affordable housing to equity investments in businesses that benefit low-income communities. Since its founding in 1985, the Boston Community Loan Fund has provided more than $335 million in loans to support affordable homeownership and rental housing, community facilities and inner-city commercial real estate, supportive housing and shelters, and child care centers, schools, and youth programs in low- and moderate-income communities. Investors have included a variety of religious organizations and philanthropic foundations including the Boston Foundation, the Funding Exchange, and F. B. Heron Foundation.

One of BCC's most recent initiatives is known as Stabilizing Urban Neighborhoods (SUN), a loan fund that supports distressed communities hard-hit by the foreclosure crisis. Investments in SUN notes finance BCC's repositioning of homes for homeowners facing foreclosure in low-income communities in Massachusetts, keeping residents in place and stabilizing neighborhoods from decline. At the same time, BCC's involvement in affordable housing has increasingly included sustainability initiatives that provide critical upfront financing to put solar panels on residential rooftops in low-income communities and make other energy-efficient improvements. BCC's effectiveness has depended on the depth and breadth of its local networks, with community development corporations, nonprofits, legal-aid groups, and local developers that provide housing and vital services for underserved communities.

CASE STUDY THE ONEIDA TRUST

STEWARDSHIP OF NATIVE AMERICAN ASSETS

The Oneida Nation of Wisconsin's Trust Committee was founded in 1974 to oversee management of assets awarded to the Oneidas by the US federal government after the settlement of nearly 200 years of disputed treaties and land claims. The Oneida Trust's funds are now directed toward a number of benefits for tribe members ranging from pensions for elders to scholarships for higher education to Oneida language revitalization efforts. In 1999, the Oneidas began a process of re-aligning the Trust's investment policy statement around the core values of the tribe, and since then the Trust has worked with its investment managers, Trillium Asset Management and Walden Asset Management, to incorporate socially responsible investment analysis and selection into the management of its funds and its activities as a shareholder. As part of its overall investment strategy, the Trust Committee incorporated explicit language about its social and environmental goals, recognizing "the responsibility to invest in a manner that does not enable harm to the environment or the spiritual and cultural values of Native Americans. The Trust Committee prefers to invest in companies that make positive contributions to alleviating the problems facing society and the environment."

The investment policy goes on to specify community development investments as an important strategy to generate positive impact. Consequently, the Trust's cash allocation includes deposits in Lakota Funds, a community development financial institution that makes micro-loans to entrepreneurs and small businesses on the Pine Ridge Indian Reservation in South Dakota. The Lakota Fund's investment and technical assistance activities, capitalized by depositors such as the Oneida Trust, have consistently increased real incomes and wealth in one of the most persistently impoverished Native American areas while creating wider social benefits.[14]

The Trust also instructs its managers to support shareholder resolutions "of particular importance to the Oneida Nation and to other Native American groups or lands." However, the Oneidas' active ownership activities go well beyond this statement in their investment policy. Since the late 1990s, the Oneida Trust has leveraged its public equity investments to realize positive change by working with Trillium and Walden to file or co-file shareholder resolutions and engage in dialogue with several companies in solidarity with Native American advocacy efforts around the country and with indigenous peoples internationally.

In 2005, the Trust became concerned about the pollution of Onondaga Lake near Syracuse, New York, a Superfund Site described as one of the nation's most polluted lakes due to industrial contamination from the operations of Allied Corporation, which had merged with Honeywell (NYSE:HON) in 1999. Onondaga is a brethren Tribe of the Oneida in the Iroquois Confederacy who live near the lake and consider it sacred. The Trust contacted Trillium to see if there was a way to file a resolution with Honeywell International in order to support the historical land claims of the Onondaga Nation and to help clean up Onondaga Lake. Trillium identified a client which held shares in Honeywell and filed a resolution on their behalf. In this way the Trust helped amplify the marginalized voices of the Onondaga Nation in its negotiations with Honeywell over the ongoing cleanup of the lake.

The Trust is also actively involved with networks like US SIF's Indigenous People's Working Group, First Nations Development Institute, and the Interfaith Center on Corporate Responsibility (ICCR) to engage with companies not only on Native American issues but also on human rights, environmental impact and indigenous peoples concerns internationally, including engaging with ConocoPhillips (NYSE:COP) over environmental damage from legacy oil and gas operations in Ecuador.

Whether focused on international or local geographies, environmental issues or community impact, increasing numbers of fixed-income opportunities have emerged for mission-driven investors. They now range from highly-rated, liquid corporate and muni bonds to notes, senior debt, and loan funds available only to accredited investors. Because many of the themes that fixed-income investments finance rely upon an enabling public-policy environment, engagement in policy with public agencies is a key strategy to enhance an investor's impact opportunity set. CDFIs such as CEI and BCC have expanded their reach by tapping into federal tax credits, and Opportunity Finance Network has played an important role at the national level in supporting federal appropriations to the US Treasury's CDFI Fund and ensuring the ongoing effectiveness of the Community Reinvestment Act. Similarly, as we have seen, being actively involved in networks, like Opportunity Finance Network, the Global Impact Investing Network, and their related rating systems, allows investors to have the tools to identify, measure, and monitor the kinds of impacts they seek to have.

PUBLIC EQUITIES

For many investors who seek equity investments but require the transparency and liquidity that public markets provide, public equities represent the largest allocation of assets within a portfolio, and we have identified a wide spectrum of impact opportunities within public-equity investing. Investment selection among publicly traded securities can take a variety of forms in listed equities, from integrating ESG considerations as part of financial analysis to making active decisions to invest or divest in a company because of impact areas of concern. Recently, an increasing number of pro-active, thematic investments in public equities have been created, targeting issues such as alternative energy, clean technology, sustainable water, women's equality, and workplace practices.

The highest impact potential in public equities, though, is found in active-ownership initiatives related to shareholder advocacy. Once an investor owns shares in a publicly traded company, a spectrum of opportunities to engage as a shareholder presents itself, from voting proxies, to filing shareholder resolutions, to directly engaging with companies about issues of concern as part of wider networks and public campaigns. Casting proxy votes in favor of social and environmental shareholder resolutions at publicly listed corporations has a very diffuse impact when done in isolation, but large pluralities of support for any shareholder proposal can send a very strong message to corporate management and lead to changes in policies and procedures.

Investors can move up the impact continuum within public equities by developing clear, written proxy-voting guidelines on their impact issues of concern, advertising their votes publicly to management in advance of meetings, or investing with fund managers that actively vote in support of their mission-aligned concerns. An investor can increase the potential for impact even further by filing or co-filing shareholder resolutions on issues of concern or investing with engaged managers that have the capacity and expertise to navigate the proxy-filing process successfully, including firms such as Boston Common Asset Management, Calvert, Domini Social Investments, PAX World, Trillium Asset Management, and Walden Asset Management. Naturally, an investor's active-ownership posture is strengthened when resolutions are filed in concert with public campaigns and networks, and our case studies highlight how groups such as Equity Foundation, the Dominican Sisters of Hope, and the Oneida Trust have all leveraged their ownership stakes in listed corporations to generate tangible changes in the way companies do business, in fuller alignment with their own mission-related social or environmental concerns, whether related to anti-discrimination policies, gender equality, human rights, Native American claims, or toxins and environmental clean-up.

A shareholder resolution need not win a majority vote in order to sway corporate management to change its ways; indeed, even relatively small votes and even smaller ownership stakes can provide catalytic footholds to increased impact when investors in publicly traded companies find like-minded allies in their networks. Some investors prefer to engage in direct dialogue with companies they own rather than using the shareholder-resolution process. Ceres, the Conflict Risk Network, the Interfaith Center on Corporate Responsibility (ICCR), the Investor Environmental Health Network, the Investor Network on Climate Risk, the Open Media and Information Companies Initiative (Open MIC) are among leading networks where investors work together to engage with publicly traded companies about social or environmental issues of common concern. With the assistance of resources developed by groups such as As You Sow, ICCR and Responsible Endowments Coalition, increasing numbers of foundations, college endowments and religious investors are working together to co-file high-impact shareholder resolutions on issues such as hydraulic fracturing of natural gas, mountaintop removal coal mining, greenhouse gas emissions, pesticide use and fair-labor practices in fast-food supply chains, recycling, packaging, and product takebacks.[16]

Engagement in public-policy advocacy can also enhance an investor's impact opportunity set in public equities, and we have found that acting collectively in the policy arena tends to increase the potential for impact. Working with networks such as the Investor Network on Climate Risk or US SIF: the Forum for Sustainable and Responsible Investment, for example, has given investors access to policy developments and opportunities to engage with regulators at the Securities and Exchange Commission and the Environmental Protection Agency, legislators in Congress, and the White House on vital issues. In recent years investor networks have been influential in the policy debates on disclosing corporate political spending, curtailing the trade of conflict minerals, tackling corruption and transparency in extractive industries, supporting shareholder rights, and defending financial reforms around executive compensation and pay disparity, among others.[17] Investors played a particularly important role in petitioning the SEC to require that companies disclose business risks and developments related to climate change in their SEC filings.

Given how heavily many diversified investors' portfolios remain allocated to listed equities and how large a social and environmental footprint publicly traded corporations can have (Walmart [NYSE:WMT] and McDonald's [NYSE:MCD] combined employ nearly four million people globally; the Coca-Cola Co. [NYSE: KO] is the largest private employer on the African continent), public equities present considerable impact opportunities for mission-focused investors when they incorporate environmental and social criteria into

CASE STUDY EQUITY FOUNDATION

SUPPORTING DIVERSITY THROUGH SHAREHOLDER ENGAGEMENT

Portland-based Equity Foundation was founded in 1989 by a group of LGBTQ Oregonians who, in the wake of local homophobic ballot initiatives, sought "to eradicate prejudice against gender and sexual minorities" and "build communities that advance dignity and the worth of all people." As a philanthropic foundation, Equity Foundation initially focused on realizing its mission through grantmaking in Oregon and southwest Washington but soon came to view its endowment investments as an "untapped potential" for expanding the foundation's impact. Working in partnership with Trillium Asset Management, its investment manager, Equity Foundation's investment activities have helped catalyze substantial changes in corporate policies and practices with broad impact for LGBTQ people. Equity Foundation has further magnified the impact of its investment activities through networks, by providing a platform for the foundation's donors to work in concert with other organizations and wider social movements.

When Equity Foundation learned in 2010 that Target (NYSE:TGT) and Best Buy (NYSE:BBY) had made contributions to a political action committee supporting a Minnesota gubernatorial candidate outspoken in his opposition to same-sex marriage, the Foundation felt compelled to divest from both companies. However, Equity Foundation continued to engage in dialogue with the companies about its concerns. Working alongside a wider campaign that included consumer boycotts, petitions, and flash-mob protests, Equity Foundation was able to raise its distinctive voice as an investor and ultimately gained a receptive hearing. Within months of the campaign's start, Target's CEO apologized for the shortsightedness of its political contribution and committed to re-evaluate the company's political spending guidelines.[15] As a result, Target is now back on the Foundation's "buy list."

In 2011, Equity Foundation took a more direct active ownership approach to advance LGBTQ rights at Lowe's (NYSE:LOW), the hardware retail giant. Equity Foundation's public campaign in combination with Trillium's 30-years of experience with shareholder activism led to a swift adoption of the proposal made in the Foundation's shareholder resolution—the addition of "gender identity or expression" to the corporation's Equal Employment Opportunity policy. By establishing a protection of gender expression at Lowe's, Trillium and Equity Foundation created an immediate impact in the lives of LGBTQ workers at Lowe's, which employs over 200,000 people across North America. Equity Foundation's shareholder advocacy continues in an ongoing campaign to compel AFLAC, Inc. (NYSE:AFL) to offer domestic partner benefits. Equity Foundation's successful activism demonstrates that even an investor with relatively small stakes in large publicly traded corporations can activate its portfolio in strategic ways to create real impact through investment.

investment selection and then leverage their ownership stakes through networked shareholder engagement.

PRIVATE EQUITY

Although allocations to private equity within a portfolio may be smaller than to public equities, a considerable amount of impact-investment activity is occurring in private capital markets, through direct investments in private companies and in private equity and venture capital funds making direct investments on behalf of limited partners. Investment selection is the key area of impact activity for private equity. Networks can support deal flow and the identification of investment opportunities, and savvy private equity investors can take advantage of opportunities that policy and active ownership present.

Private equity, as an asset class, has been predominantly associated with environmental investing themes, such as clean technology, renewable and alternative energy, and energy efficiency. In terms of social impact, community development in domestic underserved markets and microfinance abroad have been key issue areas that private equity has also addressed. RSF Social Finance has allocated 18 percent of its Impact Portfolio to private equity in a cleantech fund of funds, a climate-focused fund, an emerging market fund investing in early-stage microfinance institutions in India, Latin America and southeast Asia, and funds focused on health, wellness, and sustainability. Tides, for its part, has invested in funds as well as directly in green businesses and film projects that fit its impact objectives.

A good example of the fundamental role that investment selection can play in enhancing impact opportunities in private equity is found in the strategy of Pacific Community Ventures (PCV), a "double-bottom-line," community development venture capital fund, based in San Francisco. PCV invests in growth businesses that maintain and create high-quality jobs in low-income communities in California, and its close analysis of the social profile of the employees of potential companies in which it might invest is part of a wider due-diligence process. The firm has identified a distinctive opportunity for preserving and creating good, sustainable jobs in distressed communities by acquiring companies at an inflection point in their evolution between roughly $2.5 million to $15 million in annual revenues. PCV has found that companies at this stage are poised for growth-equity capital and are often ready to expand their employee base, so private equity has a distinctive role to play in that evolution. A recent $2.7 million investment in Galaxy Desserts, a gourmet French-style bakery, increased high-quality jobs at the company by 33 percent in the working-class area of Richmond, California.

CASE STUDY DOMINICAN SISTERS OF HOPE

EXPANDING OWNERSHIP IMPACT OPPORTUNITIES THROUGH NETWORKS

The Dominican Sisters of Hope, a congregation of Roman Catholic nuns based in Ossining, New York, have managed to enhance their influence over major corporations on a wide range of social and environmental issues by working with experienced asset managers like Trillium and through networks of like-minded investors like the Tri-State Coalition for Responsible Investment. Promoting social justice is core to the congregation's work and the Sisters have developed a set of policy positions on social and environmental issues they believe are particularly critical to their mission, including immigration reform and stances against the death penalty, genetically modified crops, nuclear weapons, and human trafficking. The Sisters' investment activities are guided by these concerns and the congregation regularly participates in shareholder resolutions and dialogue activities when it can generate impact on these issues.

In 2011, the Sisters worked in collaboration with the Interfaith Center on Corporate Responsibility and End Child Prostitution and Trafficking USA (ECPAT-USA) to persuade Delta Airlines (NYSE:DAL) to be the first airline to sign the Code of Conduct for the Protection of Children from Sexual Exploitation in Travel and Tourism. Signatories of the Code commit to establish ethical policies on the commercial exploitation of children, to include language on child trafficking in their supplier contracts, and to provide trainings to their employees on this issue. The proactive work of corporations like Delta is a vital component to curtailing this atrocious industry. More recently, the congregation has been actively involved in a campaign to compel GEO Group (NYSE:GEO) to adhere to the Universal Declaration of Human Rights in the management of its 116 prisons globally.

PCV's due diligence includes rigorous assessment of investments' risk-return profile as well as prospective portfolio companies' alignment with impact goals. The social impact metrics PCV examines have been developed over the organization's 12-year history of community development investing and include criteria such as potential for job creation, employee wages and benefits, and income levels in the communities where employees live. As a pioneer fund of the Global Impact Investing Rating System (GIIRS), PCV is also using the newly developed rating system to measure the impacts generated by its investments. And unlike typical private equity, which seeks to maximize its profits often at the expense of employees, the firm aims to embed its impact expectations into its exits; its sale of Galaxy Desserts to a European buyer included commitments to keeping the enlarged Richmond operation, expand into other northern California communities, and preserve the high-quality jobs that PCV's investment had enabled. These kinds of social outcomes help explain why investors such as the Rockefeller Foundation, which made an early program-related investment in PCV's first fund, re-invested in its most recent $40 million fund.

In private equity, ownership stakes open opportunities for investors to serve directly on the boards of companies held in their portfolios, giving them unusual access to and influence on management. Limited partners can sometimes serve on advisory councils to inform management as well. SJF Ventures, a venture capital partnership focused on generating positive community and environmental impact often in low-income communities across the US, will use its board positions, where appropriate, to advise its portfolio companies on ways to enhance social and environmental policies, particularly related to the firm's core themes of workforce development, employee benefits, and environmental impact. In the case of a recently exited portfolio company, Salvage Direct in Titusville, Pennsylvania, one of SJF's board members even became CEO to help the founding team add value and scale a business that proved to be both capital-efficient and environmentally sustainable. Rarely could such an opportunity for hands-on, direct ownership activities arise in other asset classes.

SJF's nonprofit affiliate, the SJF Institute, also provides technical advice to the firm's portfolio companies and other early-stage entrepreneurs seeking to implement systems to create, measure, and monitor their impact. The Institute will introduce entrepreneurs to opportunities that might be available through CDFIs such as Self-Help. (Both SJF and Self-Help are based in Durham, NC.) Recently SJF Institute strategically merged with Investors' Circle, one of the oldest angel investor networks focused on early stage private investing in pursuit of double- and triple-bottom-line returns. This newly established collaboration between a leading convener of sustainable entrepreneurs and an extensive network of angel investors promises to improve the flow of investment from impact investors to triple-bottom-line enterprises and to foster broader collaborative opportunities. Networking, collaborating, nurturing, mentoring, and providing technical expertise, particularly around issues of social and environmental performance and monitoring, are the kinds of activities that private-equity investors are well positioned to do, beyond their financial commitments of capital. For firms like PCV and SJF, active ownership and collaborative networking are integral to how they do business.

Both PCV and SJF have also taken advantage of policy tools to expand their reach. Through its InSight research program, PCV has begun to develop a policy framework to support institutional investors' deployment of capital into impact investment vehicles.[18] In its most recent fund, SJF has become licensed by the US Small Business Administration's new Impact Investment initiative as a Small Business Investment Corporation (SBIC). The designation gives SJF access to up to $80 million of low-interest leverage in order to pursue place-based impact investments in underserved markets, highlighting the vital role government can play in expanding the scale of private equity investment when there are quantifiable social outcomes at stake.

REAL PROPERTY

Real estate investments present distinctive opportunities for social and environmental impact because of the intrinsically placed-based nature of property. The potential impacts pursued in the property asset class nevertheless range widely, from affordable, multi-family residential housing or green commercial development in urban areas to sustainably managed timberland or farmland in rural settings. While all of our identified areas of investment activity play a role in this asset class, active ownership is particularly salient in property investing because of the physical imprint that real estate leaves upon neighborhoods, communities, and ecosystems.

CASE STUDY RSF SOCIAL FINANCE

INTEGRATED CAPITAL STRATEGY FOR POSITIVE IMPACT

RSF Social Finance's approach to investment is inspired by the thinking of Rudolf Steiner (1861-1925), the Austrian philosopher and social reformer from which the organization originally drew its name when it was founded in 1936 as the Rudolf Steiner Foundation. RSF has broadened its scope of activities a great deal since its founding, but the San Francisco-based non-profit remains committed to three primary issues that shaped Steiner's own concerns: food and agriculture, education and the arts, and ecological stewardship. For RSF, investment is a central means to realizing its mission, and the organization employs several strategies to deploy capital for impact.

In 1984, RSF launched the Social Investment Fund, a cash-equivalent investment vehicle for values-driven individual and institutional investors. The Social Investment Fund is a revolving loan fund that supports social enterprises in education and the arts, food and agriculture, and ecological stewardship. Though investment in the Social Investment Fund is not insured, as deposits in community development credit unions or banks are, the notes' three-month term and $1,000 minimum investment make them accessible and relatively liquid investments. Following RSF's progressive approach to finance, the organization's investment selection and analysis ensure that its non-profit and for-profit borrowers are not only financially sound, but also embrace sustainable design, strong management and governance practices, and good workforce policies.

Furthering RSF's integrated capital strategy, the organization created two investment portfolios for their donor advised fund clients, enabling donor advisors to make additional impact by investing their capital in mission-aligned investments prior to making grants. RSF's Impact Portfolio is a diversified portfolio of cash, fixed income, private equity, and property investments that enables the organization to further its positive impact by supporting social enterprises that are solving some of the world's most difficult issues. RSF's investment team conducts an in-depth analysis and selection process to identify funds across asset classes that are best aligned with RSF's investment strategy to be direct, transparent, long-term and relationship based and that create positive social and environmental impact. In fixed income, the Impact Portfolio invests with Community Capital Management, a manager of municipal and agency bonds that support housing and economic development in low- and moderate-income communities as well as local environmental projects. Physic Ventures, a health and sustainability focused venture capital firm, is among RSF's private equity investments. Physic's portfolio companies range from online tools to encourage healthier lifestyles to systems for homeowners to manage their energy use. RSF's real assets allocation includes commitments to the Lyme Timber Company, a leading sustainable timberland investment management organization with a strong stewardship ethic and Beartooth Capital, a conservation-focused ranchland investment fund. Beartooth acquires ranches in the western US and achieves returns by working with communities and nonprofits to restore the properties' ecological and financial value. This sample of investments illustrates ways in which RSF's Impact Portfolio has strategically aligned its entire portfolio with its impact targets.

RSF is also focused on creating community through its work. One such example is its pricing meetings in which a group of borrowers, investors and RSF representatives meet to discuss what rates will best meet the needs of all stakeholders and to make recommendations for raising or lowering the interest rate. In addition, RSF supports the larger impact investing space by partnering with networks including the Global Impact Investing Network, the Business Alliance for Local Living Economies, Social Venture Network, and B Corporations. Through membership and collaboration in larger networks, RSF Social Finance is building the social and environmental investment field.

For investors such as Tides that are concerned about the built environment in urban areas, opportunities for supporting sustainable commercial real estate and affordable housing abound. GreenSpace Developments, for example, is a real estate investment firm specializing in the financing of sustainably designed facilities for non-profit organizations. As part of its "Shared Spaces" initiative, Tides has invested in GreenSpace, which is currently developing a debt fund that will provide financing to nonprofits to own and occupy green, affordable office space in high-rent locations like New York and San Francisco. GreenSpace's investment analysis and selection identifies nonprofits with the financial capacity to take on property ownership, and their sustainable design standards ensure that the offices are owned and managed in a way that maximizes resource efficiency.

Jonathan Rose Companies' real estate funds are similarly focused on US cities but with distinctive impact goals. Rose Companies is a leading developer and designer of built space that incorporates environmental sustainability, social responsibility, and community needs. Trillium clients seeking triple-bottom-line returns in real assets have invested in Jonathan Rose's Smart Growth Investment Fund. By taking direct ownership over "undermanaged" portfolio properties, the fund can ensure that they are developed in more holistically sustainable ways, according to the US Green Building Council's LEED silver or gold standards, by introducing digital control systems to monitor power use, using low-VOC paints and green cleaning products, creating more natural light, and salvaging and recycling building and construction waste.

The Rose Smart Growth fund invests in properties around the country designed according to smart growth principles, including the preservation of open space, proximity to public transit, walkable neighborhoods, and mixed-income communities. At the same time, the firm works concertedly on the policy front to develop and enhance government programs to support healthy cities, by consulting with the EPA, for example, on smart-growth strategies and tapping federal funding from HUD for deep green retrofits of affordable housing under the American Recovery and Reinvestment Act. The Rose New Jersey Green Affordable Housing Preservation Fund pursues similar sustainable development strategies, but in a more geographically and thematically targeted way. The fund invests in existing affordable housing and finances revitalization that improves resource efficiency and ensures continued affordability for low-income New Jersey residents.

For environmentally concerned investors interested in supporting conservation and sustainability, the Lyme Timber Company, based in Hanover, New Hampshire, is a private timberland investment management organization that applies a strong stewardship ethic over the land it acquires. This is the principal reason why RSF Social Finance and numerous Trillium clients have committed capital to the firm's timberland investment funds. Ninety-five percent of the timberland the company owns, amounting to some 625,000 acres, is certified as sustainably managed by the Forest Stewardship Council. Analysis and selection of properties' conservation value are critical parts of Lyme's impact strategy as well. By working with nature conservation groups and state and local governments, the company has helped to conserve more than two million acres of land, the majority of which provide valuable "buffering benefits" to existing protected lands.

Because these are working forests as well, Lyme's investments are able to maintain and stimulate job creation in often very isolated rural communities, providing community-development benefits as well as environmental conservation. Consequently, Lyme has worked in partnership with CDFIs such as Coastal Enterprises Inc. and Boston Community Capital to make innovative use of New Market Tax Credits, a federal economic development tax incentive program, to finance its acquisition of multiple timber properties. In 2004, CEI facilitated Lyme's use of New Market Tax Credits to acquire the 85,500-acre Chateaugay Woodlands in New York's Adirondack State Park. As part of the same transaction, The Nature Conservancy acquired 20,000 acres of adjacent land for ecological reserves. During its ownership, Lyme managed the timberlands according to Forest Stewardship Council standards, creating jobs for local residents, and entering into a conservation easement with the New York State Department of Environmental Conservation in order to protect the lands from unchecked development. Although Lyme ultimately exited its holdings by selling to another timber investment manager in 2009, the conservation measures taken during Lyme's ownership ensure that Chateaugay will remain a working forest in perpetuity. This case provides just one illustration of how Lyme Timber's investment strategy brings together a wide range of high-impact areas of investment activity — from the investment selection and exit process to stewardship activities as an owner, from networking to taking full advantage of government incentives — by working collaboratively with conservation, community development, and government partners to achieve diverse social and environmental impacts.

Identifying the Impact Opportunity Set across the Total Portfolio

The sample of investment opportunities introduced earlier — from green bonds to shareholder engagement, from Slow Money investments in sustainable food systems to targeted cash deposits, from loan fund initiatives to help borrowers facing foreclosure to green property development — illustrates the wide array of approaches to activating portions of a portfolio for social and environmental impact. To help mission-driven investors pursue impact across asset classes in these ways, Total Portfolio Activation involves ten key steps that take investors from evaluation and analysis to identification of opportunities, and then from implementation to ongoing assessment.

The steps walk investors through a deliberate process to identify the specific impact opportunity set tailored to their areas of social or environmental concern — and then to revise their Investment Policy Statement and re-allocate their portfolios accordingly.

Consider, for example, a hypothetical mission investor, a foundation with programs in environmental sustainability and poverty alleviation in urban and rural areas, in both the US and the developing world. Creating an impact issue inventory is a key first step, followed by an evaluation of the impact footprint of current investments. The foundation's current investments are mapped in Figure 2 on page 16.

ISSUE INVENTORY ↓
EVALUATE CURRENT INVESTMENTS ↓
IDENTIFY IMPACT OPPORTUNITY SET ↓
GAP ANALYSIS OF INVESTMENTS ↓
IDENTIFY INVESTMENTS TO FILL GAPS ↓
REVISE IPS TO GUIDE ACTIVITIES ↓
ANALYZE CAPACITY ↓
REALLOCATE INVESTMENTS FOR TPA ↓
MONITOR IMPACT PERFORMANCE ↓
CONTINUALLY ASSESS TPA OPPORTUNITIES

Figure 1. Key Steps in the Total Portfolio Activation Process

Every circle on the four-quadrant map represents a distinct investment holding in the investor's portfolio, each with its own social or environmental impact profile, sized according to its asset weighting within the portfolio. The greater positive social or environmental impact pursued through any individual investment, the farther along the axes of the upper right-hand quadrant the specific portfolio holding lies. Investments with more negative impacts, in social and environmental terms, are arrayed in the lower left-hand quadrant.

This foundation has already begun to allocate some of its investments for greater impact by investing small amounts in a Slow Money debt fund focused on sustainable food systems, a cleantech venture capital fund investing in companies providing innovative technologies in renewable energy and resource efficiency, and a screened SRI fund that does very little in the way of shareholder advocacy. From a Total Portfolio Activation perspective, however, there are numerous missed impact opportunities in many of the foundation's current investments across several asset classes: money-market investments through a conventional financial institution that lends without consideration of the communities it serves, a corporate bond fund, an international public equity fund, a private equity fund doing leveraged buy-outs, and a conventional Real Estate Investment Trust focused on suburban commercial property and ex-urban housing development. Figure 3, a Total Portfolio Activation matrix, highlights the relative impact potential as well as the missed impact opportunities for each inventoried issue area and each asset class.

As the portfolio map in Figure 2 makes clear, the conventional investments that dominate the investor's portfolio are in the best case relatively neutral when it comes to impact (fixed income) and in worse cases generating negative social and environmental impacts. By ignoring environmental and social issues, the foundation is, perhaps unwittingly, financing activities that undermine its impact objectives: mountaintop removal coal mining and subprime lending in cash equivalents, unsustainable development in real estate, wealth inequality and job displacement in private equity, and extractive industries in emerging markets with poor environmental and supply-chain management practices.

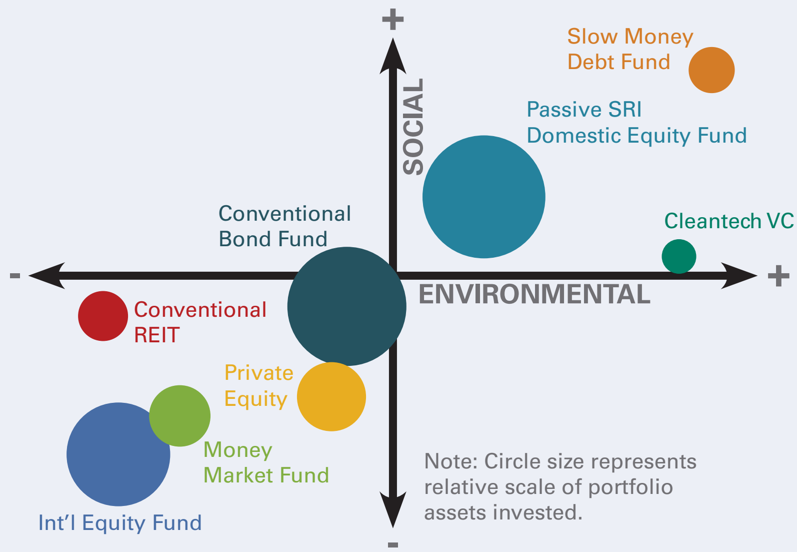

Figure 2. BEFORE: Partially Activated Portfolio Map

By engaging in the Total Portfolio Activation process, issue by issue and asset class by asset class, investors can begin to see more clearly where impact investment opportunities are being left on the table and which investments might be re-allocated to create a higher impact potential. Asking which investment activities within each asset class can pursue the greatest potential impact for an investor's specific concerns generates what we term the "impact opportunity set."

With a fuller understanding of its impact investment profile, an investor can conduct a "gap analysis" between its current portfolio asset allocation and its impact opportunity set, as seen in Figure 3. Investment opportunities will then need to be identified to fill the gaps, and to formalize the process, investors should revise their Investment Policy Statement to reflect their more fully activated approach to portfolio management in each asset class. Investors will also need to determine whether they have the internal capacity to engage in the impact activities identified through the process, or instead may need to turn to outside investment managers and consultants to take action and re-allocate their assets into higher impact opportunities.

For our hypothetical foundation, the process of Total Portfolio Activation has helped it to identify clear opportunities for expanding its impact potential well beyond its earlier alternative investments in cleantech VC and the Slow Money debt fund. Figure 4 provides a Total Portfolio Activation map highlighting how concerted efforts to fill the gaps in each asset class can dramatically increase the investor's potential impact profile in order to enhance its mission, through investment, of supporting environmental sustainability and helping alleviate poverty.

The investor has re-allocated its SRI domestic equity strategy to an engaged manager using higher-impact

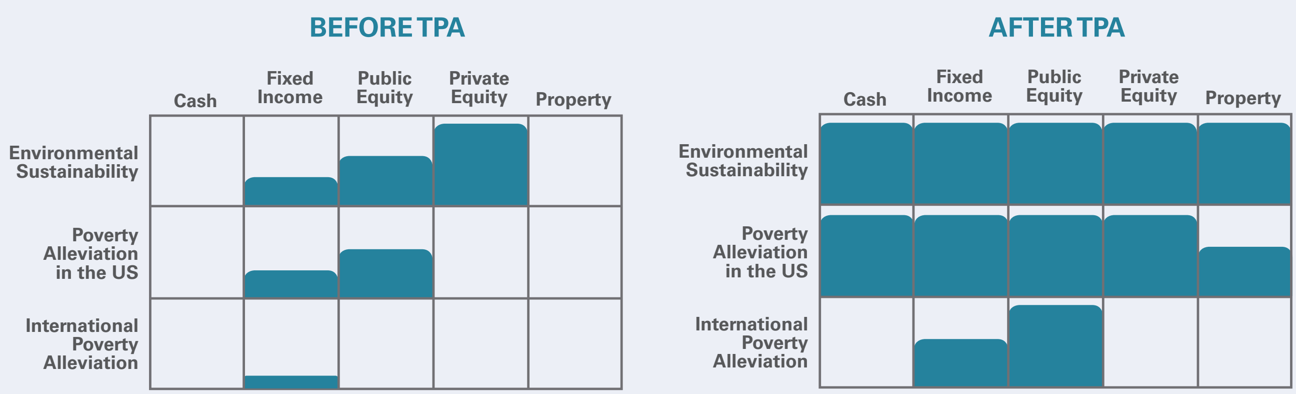

Figure 3. Total Portfolio Activation Matrix: Seeing the Impact Opportunity Set

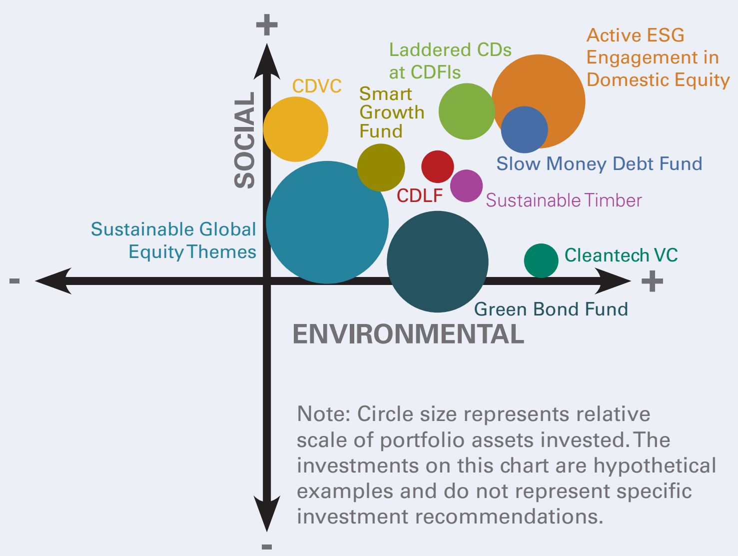

Figure 4. AFTER: Total Portfolio Activation Map

shareholder advocacy strategies, including direct dialogue with corporate management and co-filing resolutions on the investor's behalf when issues of concern arise. The conventional international public equity strategy has been replaced with thematic global equity strategies focused on sustainable water, energy, and clean technology. Instead of the plain-vanilla bond fund, the investor has re-allocated to diversified green bond strategies and invested in community development loan funds focused on green affordable housing and small, green business lending in underserved communities.

Rather than renewing its private-equity commitments, it has re-allocated to a community development venture capital fund, making growth-equity investments in businesses that provide good jobs in distressed communities. In real property, the investor liquidated its REIT holdings and split them into a sustainable timberland fund and a real estate fund focused on green urban renewal. Finally, the foundation "moved its money" out of a conventional financial institution and into laddered CDs at various banks and credit unions that focus on sustainability and community development.

This rapid overview of the Total Portfolio Activation process for one mission investor is a condensed illustration of what, in actuality, will be a deliberate and thoughtful progression for each mission-driven investor. It should also be stressed that Total Portfolio Activation is not an end in itself; instead, it provides a framework and tools for an on-going process of portfolio assessment and re-evaluation. After re-allocating assets in more activated ways, investors will need to monitor the impact of their activities and to evaluate new opportunities as they arise. Mission-focused investors will consequently want to create an internal process for regularly evaluating their portfolios against the impact opportunity set that matches their issue areas — as they themselves may evolve — and the corresponding investment opportunities that emerge.

Conclusion

Total Portfolio Activation provides investors with a fresh approach to pursuing social and environmental impact and alignment across every asset class in a portfolio. Through the identification of an investor's specific impact opportunity set, the framework allows an investor to see more clearly where it is leaving opportunities on the table and how to take action to seize them. Opportunities for impact through investment are rapidly expanding and evolving due, in no small part, to an increasing number of mission-driven investors committing portions of their portfolio to investments with explicit social or environmental benefits, primarily in small-scale private equity and debt. Despite these exciting developments, we need to grapple with the persisting reality that much more can be done across an entire portfolio, especially in cash and equivalents, fixed income and listed equities, to pursue meaningful impact at serious scale.

At the same time, as increasing numbers of investors and money managers make commitments to incorporate ESG factors into their investment analysis, decision-making and active-ownership strategies, we need more robust tools to evaluate the quality and depth of the social and environmental features of these investments. The process of activating an entire portfolio for greater impact across asset classes requires the development of precisely such tools. In this sense, we think Total Portfolio Activation has great potential to provide the kind of conceptual framework needed not only to help investors to activate a greater proportion of their assets for impact but also to re-envision the role of finance in the development of a more resilient future.

Resources

INVESTMENT PROFILES

Cash and Cash Equivalents

HOPE Credit Union
http://www.hopecu.org/

New Resource Bank
https://www.newresourcebank.com/

PAX World
http://www.paxworld.com/

Permaculture Credit Union
http://www.pcuonline.org/

RSF Social Finance
http://rsfsocialfinance.org/

Self-Help
http://www.self-help.org/

Fixed Income

Boston Community Capital
http://www.bostoncommunitycapital.org/

Calvert Investments
http://www.calvert.com/

Coastal Enterprises Inc.
http://www.ceimaine.org/

Community Capital Management
http://www.ccmfixedincome.com/

Lakota Funds
http://www.lakotafunds.org/

Root Capital
http://www.rootcapital.org/

World Bank Green Bonds
http://treasury.worldbank.org/cmd/htm/WorldBankGreenBonds.html

Public Equities

Boston Common Asset Management
http://www.bostoncommonasset.com/

Calvert Investments
http://www.calvert.com/

Domini Social Investments
http://www.domini.com/

PAX World
http://www.paxworld.com/

Trillium Asset Management
http://www.trilliuminvest.com/

Walden Asset Management
http://www.waldenassetmgmt.com/

Private Equity

Pacific Community Ventures
http://www.pacificcommunityventures.org/

Physic Ventures
http://www.physicventures.com/

SJF Ventures
http://www.sjfventures.com/

Real Property

Beartooth Capital
http://www.beartoothcap.com/

GreenSpaces Development Funds
http://www.gsdfunds.com/

Jonathan Rose Companies
http://www.rose-network.com/

The Lyme Timber Company
http://www.lymetimber.com/

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HIGH-IMPACT INVESTOR NETWORKS

Conflict Risk Network
http://crn.genocideintervention.net/

Confluence Philanthropy
http://www.confluencephilanthropy.org/

Global Impact Investing Network
http://www.thegiin.org

Interfaith Center on Corporate Responsibility
http://www.iccr.org/

International Corporate Governance Network
https://www.icgn.org/

Investor Environmental Health Network
http://iehn.org/home.php

Investor Network on Climate Risk
http://www.ceres.org/incr/

Investors' Circle
http://www.investorscircle.net/

Mission Investors Exchange
http://www.missioninvestors.org/

Open MIC
http://www.openmic.org/

Principles for Responsible Investment
http://www.unpri.org/

Resource Generation
http://www.resourcegeneration.org/

Slow Money
http://www.slowmoney.org/

Social Venture Network
http://svn.org/

Toniic
http://toniic.com/

US SIF: The Forum for Sustainable and Responsible Investment
http://ussif.org/

RESEARCH AND INTERMEDIARY ORGANIZATIONS

Capital Institute
http://capitalinstitute.org/

Center for the Advancement of Social Entrepreneurship, Fuqua School of Business, Duke University
http://www.caseatduke.org

Center for Responsible Lending
http://www.responsiblelending.org/

Ceres
http://www.ceres.org/

Global Impact Investment Rating System
http://giirs.org/

ImpactAssets
http://www.impactassets.org/

Initiative for Responsible Investing at Harvard Kennedy School
http://hausercenter.org/iri/

Insight @ Pacific Community Ventures
http://www.pacificcommunityventures.org/research/

National Community Investment Fund
http://www.ncif.org/

National Federation for Community Development Credit Unions
http://www.natfed.org/i4a/pages/index.cfm?pageid=1

New Economics Institute
http://neweconomicsinstitute.org/

Opportunity Finance Network
http://www.opportunityfinance.net/

SJF Institute
http://www.sjfinstitute.org/

Tellus Institute
http://www.tellus.org/

US SIF Foundation
http://ussif.org/

Watershed Capital and the Five Fund Forum
http://www.watershedcapital.com/Five_Fund_Forum.html

Endnotes

1 See Yasemin Saltuk, Amit Bouri, and Giselle Leung, *Insight into the Impact Investment Market,* J.P. Morgan and the GIIN, December 2011, available at http://www.thegiin.org/cgi-bin/iowa/resources/research/334.html (accessed April 13, 2012), which found that private debt and private equity collectively account for 90% of impact investments in asset-weighted terms. Additionally, the investor survey found that High Net Worth Individuals projected allocating a median of 10% to impact investments in 10 years time, while institutions projected a 5% allocation to impact.

2 See, for example, Steve Lydenberg, "Beyond Risk: Notes toward Responsible Alternatives to Investment Theory," working paper, September 28, 2009, available at http://www.unpri.org/files/Lydenberg_PRI2009.pdf; David Wood and Belinda Hoff, *Handbook on Responsible Investment across Asset Classes*, Institute for Responsible Investment, Boston College, Carroll School of Management, 2007, available at http://www.cof.org/files/images/ExecEd/bcrespinvesthndbk.pdf; and "Investing for Impact: Case Studies across Asset Classes," Bridges Ventures and Parthenon Group, n.d. [2010], available at http://www.parthenon.com/ThoughtLeadership/InvestingforImpactCaseStudiesAcrossAssetClasses (accessed April 13, 2012).

3 The Initiative for Responsible Investment at Harvard has begun to conduct research on the social function of cash as an asset class. For preliminary approaches, see "Understanding Cash as an Asset Class within a Theory of Responsible Investment," Initiative for Responsible Investment, Harvard Kennedy School, 2011, available at http://hausercenter.org/iri/wp-content/uploads/2011/01/Summary-of-March-4-Cash-Convening.pdf (accessed June 14, 2012).

4 See, e.g., Lei Ding, *et al.*, "Post-purchase Counseling and Default Resolution among Low- and Moderate-Income Borrowers," *Journal of Real Estate Research* 30, no. 3 (2008): 315-44, available at http://www.ccc.unc.edu/documents/PostPurchase.Counseling.2008.pdf (accessed June 14, 2012).

5 The Center for Responsible Lending was recently named a 2012 winner of the MacArthur Foundation's Award for Creative and Effective Institutions because of its impressive track record of research and advocacy in defense of vulnerable consumers, particularly low-income families seeking basic financial security. See http://www.responsiblelending.org/about-us/.

6 For one example, see Rebecca Borné, *et al.*, "Big Bank Payday Loans: High-Interest Loans through Checking Accounts Keep Customers in Long-Term Debt," Center for Responsible Lending, July 2011, available at http://www.responsiblelending.org/payday-lending/research-analysis/big-bank-payday-loans.pdf (accessed June 4, 2012).

7 David A. Benson, *et al.*, "Economic impact of a private sector micro-financing scheme in South Dakota," *Small Business Economics* 36, no. 2 (2011): 157-168, available at http://lakotafunds.org/docs/SDmicrofinance.pdf (accessed June 14, 2012).

8 See Responsible Endowments Coalition, "Move Our Money: A Community Investment Toolkit for Students," 2012, available at http://www.endowmentethics.org/component/jdownloads/finish/3/3/0; and US SIF Foundation, "Community Investing Toolkit for the Faith Community," 2009, available at http://ussif.org/resources/req/?fileID=5. For Confluence Philanthropy's "Carry the Cash" initiative, see http://www.confluencephilanthropy.org/?page=Carry_the_Cash.

9 See Shelly Sigo, "Targeting Investors Who Want Both Green Portfolios and Market Rates," *The Bond Buyer*, August 5, 2010, available at http://www.ccmfixedincome.com/files/Bond%20Buyer%20Article%208_5_10%20FINAL.pdf (accessed June 4, 2012).

10 Cited in The World Bank Green Bond Newsletter, Third Annual Investor Update (2011), available at http://treasury.worldbank.org/cmd/pdf/WorldBankGreenBondNewsletter2011.pdf (accessed June 14, 2012).

11 The Global Impact Investment Rating System (GIIRS) is a robust impact-investment measurement tool. To learn more, visit GIIRS at http://giirs.org/about-giirs/about.

12 Trillium Asset Management was among the initial funders of the rating system along with various philanthropic and corporate foundations. For more information, see http://www.carsratingsystem.net/.

13 For a discussion of CEI's use of "stakeholder finance" to create what our colleague Marjorie Kelly has recently called a "generative economy," see Kelly, *Owning Our Future* (San Francisco: Berrett-Koehler, 2012), ch. 8.

14 See Benson, *et al.*, "Economic impact of a private sector micro-financing scheme in South Dakota," available at http://lakotafunds.org/docs/SDmicrofinance.pdf.

15 For more on the Target Minnesota Forward controversy, see Tom Scheck, "Target Apologizes for Donation to MN Forward," *MPR News*, August 5, 2010, available at http://minnesota.publicradio.org/display/web/2010/08/05/target-apology-donation/ (accessed May 11, 2012).

16 See As You Sow's *Proxy Preview* (2012), available at http://www.asyousow.org/csr/proxyvoting.shtml (accessed May 22, 2012), as well as its initial report, "Unlocking the Power of the Proxy: How Active Foundation Proxy Voting Can Protect Endowments and Boost Philanthropic Missions," As You Sow and Rockefeller Philanthropy Advisors, n.d. [2004], available at http://www.asyousow.org/publications/powerproxy.pdf (accessed May 22, 2012); and for colleges and universities, see Responsible Endowment Coalition's "Vote and Engage Initiative," at http://www.endowmentethics.org/vote-and-engage-initiative.

17 For a brief discussion of US SIF's impacts, particularly in the policy arena, see "Making a Difference: The Impact of Sustainable and Responsible Investing," US SIF, March 2012, available at http://ussif.org/resources/factsheets_resources/documents/SRIImpactOverview.pdf (accessed June 4, 2012).

18 Ben Thornley, *et al.*, "Impact Investing: A Framework for Policy Design and Analysis," Insight at Pacific Community Ventures and the Initiative for Responsible Investment at Harvard University, January 2011, available at http://www.rockefellerfoundation.org/uploads/files/88fdd93f-b778-461e-828c-5c526ffed184-impact.pdf; and David Wood, *et al.*, "Impact at Scale: Policy Innovation for Institutional Investment with Social and Environmental Benefit," Insight at Pacific Community Ventures and the Initiative for Responsible Investment at Harvard University, February 2012, available at http://hausercenter.org/iri/wp-content/uploads/2010/05/FINAL_Impact-at-Scale_InSight_IRI_February-2012_FULL-REPORT.pdf.

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Tellus Institute is a Boston-based non-profit, interdisciplinary think tank pursuing a "Great Transition" to a future of enriched lives, human solidarity, and environmental sustainability. Since its founding in 1976, the Institute has worked at every geographic level, bringing analytic rigor and a systemic, global perspective to a wide range of critical problems, from energy and environmental resource use to climate change, corporate responsibility and sustainable development. Among the Institute's current research and action initiatives are major projects on global citizenship, sustainable consumption, green job creation, finance and fairness, food systems and social equity, ownership design and impact investing. For more information, contact Joshua Humphreys, lead author of this study, at (617) 266-5400 or jhumphreys@tellus.org.

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