IVEY FOUNDATION

ACTIVATING THE INVESTMENT PORTFOLIO

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The world of “sustainable investing” is advancing rapidly. While the concept of sustainable investing has been around for many years, the landscape of opportunity has broadened immeasurably. While this is good news, it makes navigating the myriad alternatives a challenge. Consensus is building around the language of sustainable investing, but it remains confusing at best; from making an impact to being responsible. There is, however, fairly broad agreement that a multi-layered continuum that captures the sustainable investing spectrum is available for foundations of all sizes to deliberately “activate” their portfolios.

At one end of the continuum are private investment opportunities designed to bring about or support a specific outcome, having a measurable impact on a defined goal. Let's call that an impact investment. At the other end is a traditional portfolio of publicly-traded stocks that screens out industries such as fossil fuels. In the centre is an investment portfolio that has been subject to a filter identifying companies operating sustainably, and/or producing products and services that benefit society, do no harm to the environment, while adhering to prudent and proven good governance practices. Let's call that esg investing: incorporating Environment/Social/Governance factors into the investment decision-making process. The key feature of the continuum is the degree of measurable impact achieved, but once the decision is made to “activate,” there are variable investment strategies, approaches and practices to consider.

Foundations have traditionally separated the financially-focused investment side of their operations—managing an endowment for financial return and growth —from the charitable side—making grants seeking impact on the achievement of socio/environmental goals. This has been the case at the Ivey Foundation throughout its history.

“New” thinking around this siloed model highlights a lost opportunity: if only 3.5% of an endowment’s assets (the charitable side) are directed annually toward achieving impact, what about the other 96.5%? If they were invested with the same mission in mind, the result could be a substantial increase in impact. Considering all a foundation's assets as a tool for making progress toward achieving impact can be referred to as activating the portfolio.

Ten years ago, the Ivey Foundation began activating its portfolio as investment opportunities presented themselves. The first steps took into consideration its investment history, the resources in terms of time and expertise of staff and board, as well as the alignment of mission and impact. A more recent decision to fully activate the portfolio for sustainable investing recognizes not only that opportunities are expanding rapidly, but also that we are now able to more easily choose the esg investment practices that suit our values and operations.

ESG investing itself is a continuum. At its core is the goal of building a portfolio for which a defined set of industry-relevant factors—those management and operational practices that meet a pre-defined standard—has been integrated into the investment analysis and subsequent decision to buy the portfolio or not. The filtering process seeks to determine the risks and opportunities of the companies in the portfolio, including financial performance and reputational risk, which could lead in turn to valuation (stock price) risk.

The value or quality of esg practice is based on the degree to which esg is incorporated into decision-making. While there is evolving thinking around what exactly is “quality” decision making, assessing relevant esg factors must be embedded in the investment analysis. It must be “baked-in” as opposed to “tacked-on.”

The Ivey Foundation’s current portfolio lands on multiple points along the sustainable investing continuum. The more recent decision to fully activate the portfolio begins a process which includes defining esg factor preferences, examining the universe of esg managers, determining the standard by which the Foundation will be satisfied that the integration process is sufficiently robust (and how do we define robust?), all the while continuing to learn about the rapidly evolving esg “industry.” For example, as the green bond market has evolved in Canada, the Foundation requested its bond managers to add holdings of green bonds issued by provinces (Ontario and Quebec) and corporations (TD Bank).

The Ivey Foundation is committed to achieving full activation through a phased-in approach that carves out funds from the existing portfolio recognizing the need to maintain traditional granting practices and, to make that possible, maintaining a healthy portfolio. Evaluation sophistication will be added over time.

Within the considerable uncertainty of esg investing is a core truth: that there is no right way to activate a portfolio, no “one-size-fits all” approach. Each foundation's history, operations, resources and goals should lead it toward the most appropriate investment approach. Most important is the choice to take the first step.