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How Grant Makers Can Curb Global Warming

By Stephen Viederman

Foundations operate with one large arm tied behind their backs. Acting like investment bankers rather than philanthropists, every day they direct most of their resources away from their philanthropic missions.

Foundations own at least \$600-billion of the global economy — it is those investable assets that earn the money most foundations give away each year. Using these assets more actively will add value to the grants that foundations award and is a key component of a grant maker's fiduciary responsibility.

Two recent reports on foundations and climate change demonstrate the chasm between financial and philanthropic investing. Both focus on actions that could mitigate the effects of global warming, help the world adapt to climate change, and provide long-term solutions to slow the pace of this change.

"Taking Action on Climate Change," a report from the William and Flora Hewlett Foundation, is concise and colorful.

"Design to Win: Philanthropy's Role in the Fight Against Global Warming," prepared by California Environmental Associates with support from six foundations, including Hewlett, is the more detailed of the two reports.

"Design to Win" estimates that foundations now make about \$200-million in grants annually to fight global warming and that at least an additional \$600-million is needed.

Sadly, but not surprisingly, neither report gives even a hint that financial investment of foundations' endowments could have value. The \$600-billion or so remains uninvolved.

Climate change is not just an environmental issue. It affects all parts of society and therefore encompasses virtually every cause that foundations support. To use the endowment to support market-based solutions to climate change does not require a change in program guidelines. It does require a change in thinking about the way that financial assets can and should be used constructively.

So what should these reports have said about what else foundations can do to win the fight against global warming?

- Foundations should vote their proxies on climate change.

As large and small shareowners of corporations, foundations have a right and an obligation to let the companies know their concerns about climate change.

In the next few months, at least 60 shareowner resolutions will be filed with more than 50 companies

on a wide range of issues related to climate change. The proponents of these resolutions are state and city pension funds, labor unions, religious orders, a few foundations, and other institutional investors. The groups behind these resolutions collectively manage more than \$200-billion in assets.

Proxy voting makes a difference. For example, in 2004, American Electric Power responded to shareowner pressure by issuing a report on the actions the company was taking to significantly reduce carbon dioxide and other emissions.

In 2007 a number of resolutions were withdrawn after companies agreed to comply with the filers' requests. Among them were Anadarko Petroleum, ConocoPhillips, Costco, Hartford Insurance, Prudential Financial, Starwood Hotels & Resorts, Toll Brothers, TXU Energy, and Wells Fargo.

Other companies, like ExxonMobil, have remained unmoved by shareowner efforts on climate-change issues. Each year, however, more shareowners are voting in favor of resolutions that urge the company to take steps to reduce its greenhouse-gas emissions. Last year, 31 percent of shareowners approved a resolution asking for a reduction of greenhouse gases.

The time is now for foundations to add their names to the list of proxy voters expressing their sentiments.

To be counted, foundations simply instruct their investment managers how they wish to have their proxies voted on climate-change resolutions.

- Foundations should consider making investments in companies and funds that are working for marketplace solutions to climate change and seeking business opportunities that arise as a result of business and social risks of global warming.

There is a strong business case for climate-change investing. Innovest Strategic Value Advisors, a financial-research company, concludes "there is increasing evidence showing that superior performance in managing climate risk is a useful proxy for superior, more strategic corporate management, and therefore for superior financial value and shareholder value-creation."

Innovest's latest global analysis shows that companies that do the best in managing their carbon emissions surpassed the returns of companies rated below average in carbon-emission management by an annualized rate of return of 3.06 percent. The comparable figure for the United States is 2.4 percent, and for Europe 6.6 percent.

In short, climate investing is not simply social investing, it is investment for financial return.

Deutsche Bank, Goldman Sachs, McKinsey & Company, and other financial and management institutions have all urged investors to pay attention to climate change.

McKinsey, for example, says that "tackling carbon exposure is more than good environmental stewardship; it could also protect a company's share price in the near term and create long-term competitive advantage."

The commitment of these mainstream financial institutions should give comfort to foundations' risk-averse boards.

Any investor can find an appropriate fund focused on equities — income or growth, domestic, and international — as well as bonds and alternative investments.

The last years have seen remarkable growth in numbers and sizes of climate-change investment vehicles offered by large mainstream investment houses, as well as by smaller firms that have consistently considered environmental, social, and governance issues in their financial management.

Foundations should take advantage of opportunities while climate-change investing is still in an early stage.

- Foundations should consider investments in community-development financial institutions with the explicit purpose of responding to the problems that people will face due to climate change.

Cities and towns that are located near bodies of water and subject to high rains and winds and extremes of temperature will suffer the ravages of climate change.

As Hurricane Katrina demonstrated, these communities are the least prepared and cannot rely on the state and the federal government for assistance. Preparedness and planning among all the key players in a community are essential, and financial institutions that serve those communities play an instrumental role in that process. Foundations should especially consider making such investments in the cities and towns where their offices are located.

- Foundations should align themselves with coalitions of like-minded investors concerned about climate change.

Three main investor groups focus on climate change.

The Carbon Disclosure Project is a global coalition of more than 300 institutional investors, including a very small number of foundations, with combined assets of more than \$41-trillion. Now in its seventh year, it seeks information on the business risks and opportunities presented by climate change and collects greenhouse-gas emissions data from the world's largest companies: 2,400 in 2007.

The Investor Network on Climate Risk, coordinated by the social-responsibility group Ceres, comprises more than 50 American institutional investors, including a number of state treasurers, pension funds, leading labor funds, and some foundations, with total assets of more than \$4-trillion.

Together they have filed a number of shareowner resolutions on climate risk, have called on Congress to enact strong federal legislation to curb greenhouse-gas emissions, and have published a number of groundbreaking studies on the risks climate change can pose to companies' financial performance.

The third group, the Institutional Investors Group on Climate Change, includes 35 of Europe's leading institutional investors.

Voting proxies on shareowner resolutions, investing some of the endowment in climate-related investment vehicles, assisting communities to become more prepared for climate-related incidents, and joining with other institutional investors to make their voices heard more loudly and clearly are among the ways that foundations can play a significant role through the use of their endowments in the fight against global warming.

Passive capital should be made active, expanding philanthropy's mission and its impact on society. Foundations of all sizes can and should use their financial assets to make a difference. Foundations cannot and must not waste their assets.

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