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Two More Major Funders Are Moving Assets Away from Fossil Fuels, in a Shift Years in the Making

Michael Kavate



WIND FARM IN MINNESOTA. PHOTO COURTESY MCKNIGHT FOUNDATION

Two multibillion-dollar climate funders joined the steadily growing list of philanthropies that have

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committed to move their endowments away from fossil fuels this week, heeding years of calls for foundations to align their investments with their grantmaking and putting new pressure on peer institutions as critical climate negotiations continue in [Washington, D.C.](#), and get underway in [Glasgow](#).

The Ford Foundation is the largest foundation yet to publicly commit to [divest from fossil fuels](#), and the McKnight Foundation is the largest to publicly commit to a [net-zero endowment](#). Coming on the heels of the MacArthur Foundation's pledge last month to divest, the announcements mark a seismic shift among the upper levels of climate philanthropy—albeit one that climate activists and many impact investing experts would say is long overdue.

“All of the big foundations were anti-divestment for a very long time, so it's a big deal,” said [Dana Lanza](#), president and CEO of Confluence Philanthropy, a network focused on values-aligned investing. “It creates the space to have much easier conversations about that transition than we've been able to have in the past.”

In addition to the symbolic importance, such reorientations can also mobilize resources for an overdue energy transition. Ford and McKnight were both already engaged in impact investing, but each says the commitments will lead to more investments in climate solutions. The broader potential is immense, should the dam break and peer funders follow suit en masse. Foundations sit on over \$1 trillion in assets, representing a potential investment pool that dwarfs their annual giving. Climate grantmaking [totaled \\$1.9](#)

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[billion](#) in 2019, according to the ClimateWorks Foundation.

The decisions also bolster a wider societal and financial backlash against fossil fuel producers, which has [constrained](#) some companies' ability to raise funds. They also provide a further signal to the financial markets of the waning days of oil and gas, and the consensus that we must achieve a net zero world by 2050, in line with the Paris Agreement. A long line of academic institutions, most recently [Harvard University](#), and pension funds, such as New York state's \$9 billion public employee fund, have committed to either divesting, moving toward net zero, or both. Massive asset managers, such as BlackRock and Vanguard, have also pledged to reach net zero by 2050.

Divestment trends and differing opinions on returns

As the largest U.S. foundation to publicly divest, the Ford Foundation's announcement carries enormous symbolic weight. It also follows a recent pattern among divesting foundations: The process was close to complete by the time it was announced.

Only 0.3% of the New York-based grantmaker's \$16 billion endowment is directly invested in fossil fuels, according to President Darren Walker's [statement](#) on the decision. MacArthur, similarly, [ceased](#) new investments in private funds that invest in oil and gas exploration in late 2019, nearly two years before its announcement. For another funder that recently divested, the Rockefeller Foundation, the [process](#)

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unfolded over decades, with the final decision to divest made nearly a year before it was publicly shared.

One mark of the shifting field is that the Rockefeller Foundation was the largest U.S. foundation to publicly divest when it [announced](#) it was on that path last December. The \$6 billion grantmaker now ranks third after Ford and MacArthur. And that ordering does not count the Bill and Melinda Gates Foundation, which quietly divested its direct oil and gas holdings in 2019, according to [Bill Gates' recent book on climate change](#). Gates was a [prominent target](#) of the divest-invest movement for several years, and has [dismissed](#) and [criticized](#) climate activists on more than one occasion, ultimately doing what they asked of him, albeit behind closed doors.

Unlike other divestment announcements, Ford President Darren Walker emphasized the possibility of harming returns in his [statement](#) on the decision. “As with any significant decision in a dynamic organization, this choice did not come without trade-offs,” he wrote, noting the challenge of growing the endowment faster than inflation. It is worth noting that Ford’s total assets have seen a windfall in recent years, climbing from [\\$13 billion](#) in 2018 to [nearly \\$18 billion](#) in 2020. Walker later added: “We’re mindful that if we put restrictions on our investments, we may forsake some amount of return for future generations.”

(Read IP’s in-depth series on why large foundations resist divesting from fossil fuels, [here](#) and [here](#).)

Rockefeller, McKnight and others have, on the contrary, emphasized that they expect to continue to earn market-rate returns, if not better. Rockefeller, for

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instance, says it averaged 8.3% returns over the past six years as the foundation accelerated its withdrawal from fossil fuel holdings.

Some research backs up that expectation, if indirectly. A [recent study](#) by the Nathan Cummings Foundation, which is working to make its entire \$500 million endowment align with its values, found no correlation between investment firms' returns and their share of mission-aligned assets.

McKnight's process in choosing net zero

McKnight has been a major player in climate philanthropy for more than a decade. The Minneapolis-based grantmaker was one of the three funders that, in 2008, [jumpstarted](#) philanthropic climate funding with a combined \$1 billion commitment over five years. It has recently expanded its program in the Midwest—it is the region's largest climate funder—and plans to double its budget to \$32 million by 2022.

This May, foundation staff began looking into what it would take to make a net-zero pledge. They discovered that the foundation already had many of the necessary practices in place. For instance, they had worked with one fund manager to create a tracker fund of a major index, the Russell 3000, that underweights companies whose emissions exceed others in their industry and overweights highly efficient firms. It had also already ended investments in companies holding coal and Canadian tar sands assets.

McKnight's [impact investing program](#) also informed the decision. Launched in 2014, the program includes

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about \$500 million invested in companies working on climate solutions. Overall, about 44% of the foundation’s \$3 billion endowment is in what it calls “aligned” or “high impact” investments.

Undeterred by the limited options in the financial sector and committed to doing its part to limit warming, the board this month approved the public pledge to reach net zero by 2050 at the latest. Goals for 2030 will be set soon. “You’re setting a destination, but you don’t know exactly how you are going to get there,” said [Elizabeth McGeeveran](#), director of investments. “The infrastructure in the investment industry isn’t there yet.”

McKnight’s portfolio still includes “plenty” of investments that are not climate-friendly, McGeeveran told me. But the goal is to move away from the worst emitters, such as fossil fuel producers, while also funding projects that accelerate the green energy transition. For instance, the foundation was an early investor in a company that finances electric bus purchases—an investment that more than tripled in value by the time the team sold it off. “We’re very clear that we need to have less and less exposure to companies that emit a lot of greenhouse gases,” she said.

McGeeveran sees it as imperative to get started now. Some of the investments her team makes today will still be around in 15 or 20 years. She says she’s been inspired by how many climate-concerned peers have wielded their capital to make impact, naming MacArthur and Rockefeller foundations, among others. McGeeveran hopes McKnight’s move will encourage other philanthropies to consider a net zero

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approach. “It’s a big problem, there’s room for lots of solutions and this is one of them,” she told me.

Net zero: Simple at first glance, but complicated under the hood

The goal for a net zero endowment pledge is simple in theory: Net emissions from all investments should total zero by some future date, typically 2050, in line with the climate target agreed to in the Paris Agreement. But the details are tricky.

Data on emissions of certain investments is still limited, particularly private funds. Carbon offsets—which many companies are relying on for their net zero pledges—have [well-documented flaws](#). For certain financial products and bets, such as derivatives or shorting a stock, it’s unclear how to tally the carbon impact.

“The more complicated the endowment, including private equity holding and hedge holdings, the more complicated it is to measure your footprint with a great deal of accuracy,” said Lukas Haynes, CEO of the [David Rockefeller Fund](#), which made a net-zero pledge in 2020 and was the first foundation to [join](#) the Net-Zero Asset Owner Alliance, organized by the United Nations.

Overall, when it comes to the fine print, there is not yet widespread agreement as to what qualifies as net zero, said [Georges Dyer](#), co-founder and executive director of the [Intentional Endowments Network](#). A multitude of questions still need resolving. How fast should companies be expected to decarbonize? To what degree are offsets acceptable, if at all? How do

investors fully account for scope 3 emissions—the various indirect emissions related to a company’s operations—particularly in overlapping industries?

There are emerging standards and best practices around net zero commitments, notably the [Science Based Targets](#) initiative, but the field is still in flux, Dyer said.

Net zero pledges also face growing skepticism, even accusations of greenwashing. The last few years have seen a range of heavy-emissions companies, even oil giants like BP and Royal Dutch Shell, make commitments that have been called [misleading](#), if not worse. Some experts think such promises distract from the need for more fundamental change to the economy. Individual investment managers can choose to screen out companies or industries, but the approach the field adopts will have a much broader impact.

Divestment more common among U.S. foundations, but is net zero the future?

Divestment remains, for now, uncommon among American foundations. Just 432 U.S. foundations and charitable trusts are listed on Divest-Invest’s [pledge](#), accounting for less than 0.004% of the [nation’s philanthropies](#). Net-zero pledges are positively rare. McKnight is only the second U.S. foundation to publicly make such a pledge, according to sources consulted for this article. The \$67-million David Rockefeller Fund became the first last year, after divesting in 2016.

Yet for some experts, net-zero pledges are the preferred option. Lanza says it opens a “more sophisticated” discussion than divestment and offers a “multi-solving approach” to both a foundation’s portfolio and its other institutional emissions. The Intentional Endowments Network is agnostic about which approach members take, but Dyer says that while divestment sends a “really strong signal” to the market, it is only one step. “Net zero can be much more impactful in taking a much more holistic, long-term approach to the climate crisis,” he said.

If Ford and MacArthur are any guide, the pioneering work of smaller funders on divestment can lead to action by the field’s biggest funders. The heads of both institutions thanked other foundations for their guidance, with Walker specifically citing [Ellen Dorsey](#), executive director of the Wallace Global Fund and founder of the Divest-Invest Philanthropy coalition, as well as [Stephen Heintz](#), president of the Rockefeller Brothers Fund, who has also been a leader in the movement.

Of course, inspiration can work both ways. “We’re hopeful that McKnight and Ford Foundation’s commitment to taking bold action on the climate crisis will serve as important examples for others in the field to leverage more of their assets for deep impact,” said [Matt Onek](#), CEO of Mission Investors Exchange, an impact investing network for foundations, in an email.

Given the potential for leadership, Lanza urges philanthropies considering net zero not to be deterred by the current uncertainties. She would like to see all of her network’s members make an “aspirational” commitment to net zero and begin the process, both

for their investments and operations, even if all the support needed to carry it out is not yet available. Dyer agrees that acting now is particularly powerful.

“It’s a real act of leadership to make these commitments when there are still open questions,” he said. “It only drives and accelerates the solutions in the financial services industry and actions in the economy.”

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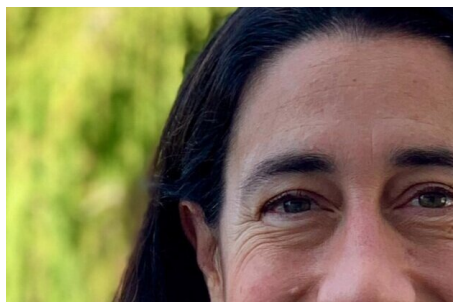
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