From the Desk of

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Here at The Triple EEE Foundation, we have used close scrutiny of our investment managers and unique investment ideas to weather the recent economic storms and further our mission.

Although our family foundation was created in 1993, I became very interested in foundation investing in 2000. That year, at an ASF conference in Chicago, one of the panels addressed socially responsible investing. I don't remember the speakers or specifically what they said, but I do remember leaving the room thinking, "This is the greatest thing I have ever heard." Within a month, we had moved some of our funds to a community development financial institution, an FDIC-insured bank that pays competitive interest rates and loans its money to needy communities underserved by traditional financial institutions.

We then started to screen our investments to avoid tobacco companies, major polluters, and the like. Meeting our screens was sometimes very difficult, but we persevered with help from the useful website www.socialinvest.org, run by the Social Investment Forum. When we rejected a company or mutual fund, we wrote to the CEO and investor relations department explaining why. This was an effort to let them know that some of their activities were unacceptable to some investors.

We began doing more and more investing in which our goal was to earn a desirable return and simultaneously serve our mission. We used a two-pronged test for all of our investments: Would a potential investment meet our financial risk–reward analysis and would the investment further our mission?

By 2008, we were 100% mission invested, with all investments either serving our mission directly or at least not contrary to it. This strategy served us well during the recent market crash: When most market averages were down 35% or more, our portfolio gained 1%. Since the crash, we have tracked the market's upward movement.

> In today's brave new world of market volatility and enhanced risk, it is more important than ever that foundations pay attention to their investments.

Along the way, two elements have been key to our success: board interest and embracing unique investment opportunities.

Board Interest and Involvement

Some foundations hand off the bulk of their investment decisions to money managers. Instead, our board decided to actively participate in the process.

We directed our investment managers to the types of investments we wanted, and they were essential in helping us find them. With our two-pronged test in mind, the board (with help from our investment managers) determined whether a potential investment was consistent with our mission; the investment manager applied our financial risk–reward analysis.

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Our success also resulted from close monitoring of our investment managers' fees. We insisted that options be presented to us, and board involvement was necessary to make the best choices. Currently, to create the best value for our foundation, part of our funds are managed under one fee arrangement and part under another.

Although not every foundation board is in a position to participate so actively, many are.

Embracing Unique Investments

At ASF's recent National Conference, I heard a golden nugget of information: Although there have traditionally been three broad categories of investments (equities, bonds, cash), times are changing. Many investment products, although traditionally categorized as bonds, have the risk–reward characteristics of equities. Therefore, rebalancing your portfolio might not only involve buying or selling equities but could involve reclassifying your existing holdings to better reflect their risk–reward profiles.

We have been doing this for years, sometimes without realizing it. For example, during the recent financial meltdown, we purchased investment grade private-label collateralized mortgage obligations. Although the same types of instruments helped cause the financial meltdown, once the meltdown occurred, these instruments were an amazing investment opportunity for our foundation. With the risk characteristics of high-quality bonds and the reward characteristics of quality equities, they met the risk–reward part of our two-pronged test. We also thought that purchasing the instruments supported the overall mortgage market and helped to avoid foreclosures.

We have also used other unique investment opportunities to provide a desirable rate of return while furthering our mission. For example, one of our foundation's main focuses is education. Thus, for years we owned bonds issued by the Chicago Board of Education, allowing us to receive competitive rates of return while helping the Chicago Public Schools. You'll find educational entities and public service projects across the country that issue bonds to fund their activities. In many cases, foundation investments in such bonds may well make both financial and "mission" sense.

Note: Many of the bonds mentioned qualify as municipal bonds. Although the tax advantage for purchase is unavailable to foundations, the return is sometimes good enough without the tax break. Use extra caution when buying such bonds at this point, however. Some experts predict that the country's next fiscal crisis will be in the municipal bond market.

We have also used direct loans to our grantees as investment vehicles. Especially in recent years, our loans have been much appreciated by grantees, who are often faced with late payment situations from state and local governments. When our loans are made at below market rates, they can be treated as program related investments (PRIs); if offered at market rates, they are mission related investments (MRIs). For more on PRIs and MRIs, see ASF's resources at www.smallfoundations.org.

There are opportunities just waiting to be found that will enhance our investment returns and further our mission. And in today's brave new world of market volatility and enhanced risk, it is more important than ever that foundations pay attention to their investments.

We certainly intend to.

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