TRFF's Impact Investing Journey: *Summary*

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THE RUSSELL FAMILY FOUNDATION

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Since we opened our doors in 1999, The Russell Family Foundation (TRFF) has been focused on **protecting the environment and empowering communities.**

Maximizing positive impact has always been a primary objective of our work. In fact, it's a big part of who we are. In 1969, our founder – George F. Russell, Jr. – saw a need in the market and helped kickstart the era of investment consulting. Over the years, Russell Investments has created the gold standard for evaluating the best money managers, designing innovative funds and crafting industry-wide benchmarks across the financial sector. The company was also known for its commitment and practice of taking care of its employees ("associates"), enabling them to invest back in to their communities. This culture was recognized globally. It is because of that history that our identity is deeply tied into the idea of **creating the right frameworks to empower others with our decades-long investment expertise at the center.**

But we know that we fall short of that commitment if we don't use **every tool in our toolbox.**

To this end, The Russell Family Foundation took an exploratory leap in 2004 into impact investing - Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return[1].

Our commitment as a philanthropic leader and field-builder also includes a focus on transparency. In service of that commitment, we wanted to create a resource that reflects on our impact investing journey, demonstrating how we've delivered on our mission with impact at the center.

1 https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing

What we've learned

1 **Foundations are meant to be catalytic.**	This requires us to look back at our origins, maximize our mission and stay plugged in on how the field is evolving.
2 **In order to lead by example, we need to invest in being an example.**	It can be hard to align your investments with your values, but it's a critical part to living the change you want to see. All of the tools at our disposal need to work together – inclusive of grantmaking and investing.
3 **Impact needs to be present in every decision we undertake.**	And in order to demonstrate that impact we need to continue to revisit how we capture impact, measure it, plan for it, and talk about it. Whether it's updating internal controls or creating new thought leadership, sharing what we've learned is critical.
4 **Impact Investing gives us the opportunity to invest in place.**	Where you live can be a direct beneficiary of enhanced impact. Our work in the Pacific Northwest and Puget Sound - and the investments we made in our own community - offer a rich example of successful impact investing.
5 **Tradeoffs are a choice - not an inherent condition of this type of work.**	Impact investing doesn't require tradeoffs. Maximizing mission and returns may require compromise, but they can support one another.

The Most Catalytic Moments from Our Journey: *Engaging in a Pilot (2004)*

+ In order to learn by doing, we allocated $1 million from the foundation's endowment to pilot mission-aligned investments
+ But to get to that point, we needed to reconnect with the ethos of the Russell Family – an ethos of experimentation and hands-on learning
+ Our decision to move forward with the pilot was closely tied to the legacy of the Russell Family. We leveraged a collective desire to act, experiment, and learn from instructive failures to understand how this pilot could add value
+ This investment activity would allow us to test the hypothesis that we could better meet our philanthropic goals if we used tools beyond simply grantmaking
+ To determine the types of investments we wanted to make, we had to ask ourselves a fundamental question – Does an environmental foundation that funds nonprofits to improve water quality undermine itself by investing in a business that pollutes local waterways?
+ In service of this question, we explored socially-responsible investments that supported the businesses aligned with our core beliefs
+ These included a range of environmentally-oriented mutual funds, investments into Community Development Finance Institutions (CDFIs), and program-related investments
+ We also used our unique position as asset owner and field-builder to vote our proxies, exercising our rights as shareholders to further our mission
+ We went even further, exploring a range of education and advocacy tools that would support systems change alongside individual investment impact

Our pilot allowed us to experiment in impact investing, but it also created an opportunity to combine a range of tools that we consider catalytic. By leveraging our experiences around conservation and activating other pathways – alongside investments – we were able to increase our impact as an organization.

Learning from Our Mistakes (2006)

- After the execution of our pilot, ensuing impact investments were made sporadically -though with enthusiasm – since they sat outside of our core program competencies
- But after a key misfire, we realized we could do better by combining our talents – bringing investment expertise and diligence into our foundation structure
- That misfire was a program-related investment in the Interra Project, a non-profit dedicated to promoting local sustainable businesses in the Puget Sound region of Washington
- In 2006 and 2007, we financed the expansion of Interra's community loyalty card, which intended to provide access to finance for consumers, merchants, and nonprofits focused on a more socially and environmentally responsible economy
- Interra had a strong concept and visionary leadership, but its business model and execution risks were high. It lacked sufficient capital, robust operational systems, and appropriate organizational design
- At the same time, TRFF was not prepared to review or monitor such a complex model, and didn't truly understand the best way to finance this investment
- After making the initial interest payments, the Interra Project began to falter and later failed
- In the spirit of learning, we conducted an in-depth post mortem on the investment which led us to this conclusion around a skills-mismatch. Armed with this hard-earned knowledge, we created our Mission Related Investment Committee (MRIC)
- The committee includes TRFF's program and finance staff, our investment advisors, and meets quarterly to vet new impact investments

In order to engage in impact investing more effectively, we needed to build in-house capabilities and expertise to make these investments work. So we brought on diverse talent, created an opportunity to examine what went wrong, and created the MRIC to establish a set of checks and balances that together will help generate the most effective impact.

Continuing with Experimentation (2006-2013)

- Throughout these targeted moments of learning, we also wanted to ensure that we continued to deploy capital in the name of experimentation
- After our initial $1M pilot, the Board allocated an additional $2 million Program-Related Investment in Enterprise Community Partners to support green and affordable housing in the Puget Sound region
- We also purchased a $100,000 certificate of deposit with the Thurston Union of Low Income People (TULIP) to put our capital to work in our local community
- This steady drumbeat also gave us an opportunity to experiment across a range of field-building and advocacy opportunities, including:

    1. Inviting experts like Doug Bauer, who then served as Vice President, Rockefeller Philanthropy Advisors, to address the TRFF Board on mission-related investing, including program-related investments, proxy voting, social investment screens, etc.
    2. Identifying how much of TRFF's total investment portfolio was under management that uses Institutional Shareholder Services (ISS)*, the world's leading provider of proxy voting, which includes social investment research and voting services
    3. Organizing Northwest foundations to sign the 2006 investor letter from the Carbon Disclosure Project – an investors movement to address greenhouse gas emissions by global corporations

A combination of all these investments and field-building efforts continued to keep the ball rolling. They provided momentum and encouraging results, which gave us the confidence to explore further.

The Tug of War Exercise (2014)

- We consider our endowment – and the investment activity within it – as a key tool for making impact
- By adopting "total portfolio activation," we aim to make impact investments across all asset classes
- While this was a key transformation in our learning journey, we didn't have a roadmap to guide us in our early days
- We struggled with a key question – Could we have the best of both worlds; a way to invest that bolsters our mission while generating competitive returns?
- In order to settle the matter, we staged a "tug of war" exercise
- Two of our investment advisors squared off in an effort to rethink the portfolio structure, tasked with designing a mission-aligned portfolio from scratch that would maximize impact without sacrificing our return expectations
    1. On one side, our advisor advocated for continuing to make traditional investments, and using our proxies and other tools to influence our voice. With enhanced returns, we would simply further the impact of our grantmaking
    2. On the other, our advisor was looking for impact investments that maximized our mission but also met our expectations around returns
- The primary objective of this exercise was to determine if there was any overlap in the two approaches. In other words, what stood out?
- Both sides made their case based on exposure to risk, mission alignment, and financial performance
- By juxtaposing these two approaches we landed somewhere in the middle – creating a range of strategies to maximize our financial and impact objectives
- This exercise was critical in creating a strategic plan that would later become our Impact Approaches

Testing these investment approaches was a big moment for us. It allowed us to establish an asset allocation framework that satisfied our liquidity, risk, and performance needs. It also provided concrete proof that we can utilize the entire portfolio to further our mission.

Using a Spectrum of Impact Approaches (2015)

- Armed with what we'd learned, our investment advisors guided us through creating a framework that championed a range of tools to use across our portfolio
- It includes five levels with increasing mission alignment and impact potential
- For us, this framework provides a structure for asset allocation (or reallocation) decisions, in a way that evolves with our overall objectives
- Level 1 uses **"negative screens"** on securities or industries to avoid investments that run counter to our mission, such as fossil fuels that can harm the environment
- Level 2 uses **"positive screens"** or "tilts" to overweight our portfolio towards certain investments such as clean technology. As shareholders, we take advantage of voting proxies and co-filing corporate resolutions on topics that support our mission
- Level 3 focuses on investment strategies that integrate **environmental, social, and governance (ESG)** factors actively into investment selection and evaluation. For example, in response to a global trend around climate change and resource scarcity, we seek to invest in companies that lower greenhouse gas emissions and increase food production in climate-sensitive ways
- Level 4 uses **"thematic investing"** to further focus our portfolio on specific categories that align with our mission, such as sustainable forestry, agriculture, clean tech, equity, inclusion, affordable housing, etc. This approach also allows us to focus on a **"place-based" approach** – deploying capital to the Pacific Northwest
- Level 5 allows for smaller **"catalytic"** investment opportunities that have the potential for outsized environmental or social returns. These investments may be higher risk or might have lower return expectations in the short term; but we consider them to be truly innovative and transformative business models
- As of June 30, 2018, approximately 74% of the Foundation's total portfolio is mission-aligned (a little over $100 million of the $140 million endowment) across these five levels
- The five year period between 2013 and 2018 is when a majority of the portfolio was transitioned towards impact investments
- During the same timeframe, the portfolio has outperformed its blended benchmark by +2.7% annualized (7.9% versus 5.2% annualized returns)
- Getting to 100% portfolio activation is an aspirational goal for us, but our decision will depend on where the data leads us

Our commitment to utilize a range of impact approaches was a result of our early learnings on how to maximize both financial and impact returns. We relied on our investment advisor to educate us on the tools available, and actively re-evaluate our portfolio based on a range of impact-maximizing strategies.

Using a Spectrum of Impact Approaches

Working with our investment advisors, we developed a straightforward framework encompassing the range of tools we might use and the impact we may realize across our portfolio. It includes five levels with increasingly greater mission alignment and intentional, measurable, and quantifiable impact.

For us, this framework optimizes structure and consistency for asset allocation (or reallocation) decisions in a way that evolves with our mission and objectives.

LOW

Level 1 Negative ESG Screening	We use "negative screens" on securities or industries to avoid investments that run counter to our mission, including fossil fuels and highly carbon intensive industries that can harm the environment.
Level 2 Positive ESG Screening and Shareholder Engagement	We also use "positive screens" or "tilts" to overweight our portfolio towards certain investments such as clean technology. The large exposure for this part of the portfolio is passive investments or an index-based approach. As shareholders, we take advantage of voting proxies and co-filing corporate resolutions on topics that support our mission.
Level 3 ESG Integration	A significant portion of the portfolio is structured around investment strategies that integrate "environmental, social, and governance" (ESG) factors. For example, in response to a global trend around climate change and resource scarcity, we seek to invest in companies that lower greenhouse gas emissions and increase food production in climate sensitive ways. The exposure for this part of the portfolio is active management, and includes public equities, fixed income, and alternative investments.
Level 4 Thematic/ Place-Based Investing	We use "thematic investing" to further focus our portfolio on specific categories that align with our mission, such as sustainable forestry, agriculture, clean tech, equity, inclusion, affordable housing, etc. We also make investments that are "place-based" – deploying capital to the Pacific Northwest region, which is where we do a majority of grant making in fulfillment of our mission.
Level 5 Capacity Building/ Program-Related Investments	Our investing strategy allows for smaller "catalytic" investment opportunities that have the potential for outsized environmental or social returns. These investments may be higher risk or might have lower return expectations in the short term; but we consider them to be truly innovative and transformative business models. Included in this bucket are first-time funds, direct investments, and new business models that advance social and environmental goals.

HIGH

Bringing Responsible Risk Taking and Catalytic Action Together (2016)

+ It has been a learning process to get to a place where we can practice impact investing without guesswork

+ With the tools we have developed, we know what's in our portfolio and how it supports our mission. And we expect competitive returns over the long term

+ That said, as a **catalyst for change**, we continue to be interested in taking calculated risks

+ Level 5 is where we embrace an ethos of higher risk, deep mission alignment, and the potential for catalytic change. We do this by supporting innovative enterprises, creative partnerships and early stage companies

+ One specific strategy we employ is in partnership with incubator funds, which support early-stage companies as they develop their strategies, staff and resources. Connecting with these incubators, which can either be non-profit or for-profit entities, provides us with access to a wider array of innovative ideas than we may not have found on our own

+ To create this important layer of activity, we had to revise the Investment Policy Statement (IPS)

+ Because these types of catalytic investments have the greatest potential for mission alignment, we have developed **thematic guidelines** to identify and select opportunities across three areas:

    1. Equitable Communities includes opportunities that promote affordable housing, access to capital, low-impact development, food security, and job creation

    2. Responsible Economies includes managers that promote new economic development, entrepreneurship, minority/women/native-owned enterprises, and innovative partnerships

    3. Sustainable Environments includes managers that promote sustainable land management, local agriculture and farming, climate change mitigation and adaption, and water quality improvements

+ Much like our own origin story, we understood that investing in a new generation of investment managers and investment solutions will be critical to future scale

+ And so we created Level 5 to invest in these new thinkers and solution providers, in the hope that they would move across our portfolio over time

While maximizing impact and financial returns is paramount to our long-term goals, we can't forget our roots. As a catalytic foundation, it was important that we create room to experiment, test, and share those learnings with the field. Only then will we be able to collectively fund and scale new solutions to some of our most pervasive problems.

We've crafted this case study as a resource to those who are searching for how to get started in impact investing. But our hope is that this report also serves as a resource for those exploring how to amplify their impact, and to do so in a way that continues to serve their core mission.

By providing actionable learnings and tactics from our own experience - and leveraging our unique position as field-builder and asset owner - we hope to empower others who are ready to use all the tools available to them.

You can explore a timeline of our major milestones here.

[i] https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing

Evolution of TRFF's Impact Investing Journey

1999

The Russell Family Foundation opens its doors and creates the **Investment & Audit Committee (IAC).**

2004

We committed $1M to a pilot experiment in Mission Related Investing.

2005

Based on the findings from our pilot, we made a **follow-on commitment of $2M,** which also explored additional advocacy and fieldbuilding tools.

This work continued through 2013.

2006

We made a Program Related Investment in The Interra Project, **a failure** that taught us the importance of building better internal capabilities.

2006

We established the Mission Related **Investment Committee (MRIC)** to help evaluate our impact investments.

2014

The DivestInvest Philanthropy Pledge launches, and **TRFF divests $10M of the portfolio (roughly 7%).**

2014

With the help of our investment advisors, we structured **a simulation** across our portfolio to understand all the tools we could use to intensify our impact.

2015

Based on our simulation, we worked with our investment advisors to create a **full portfolio approach** of all the ways we can have impact.

2016

We revised our Investment Policy Statement (IPS) to formally create room in the portfolio for **catalytic investments.**

2018

We committed to **field building** by releasing our Impact Case Study to share what we've learned.