



## Are foundation investment funds a solution for sustainable investing at grant-making foundations?

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Grant-making foundations use the financial returns on their investments to pursue their charitable purposes. Foundations are usually conservative in their investment strategies and separate their investments strategy (focus on financial returns) from their spending and mission (focus on purpose). Simultaneously, investments funds are offering Socially Responsible Investing (SRI) opportunities increasing the potential of foundations to generate a social benefit also through their investments.

In this article, the authors explore the characteristics of the market for foundation investment funds in Germany and whether these funds are useful for foundations pursuing an SRI strategy.

The authors conclude that these funds may not be the best option for supporting foundation's SRI strategies and that foundations should find better options to pursue their charitable purpose through investments. These conclusions are limited to the specific legal situation of grant-making foundations in Germany, which has tight restrictions and risk-bearing capabilities.

[#foundations](#) [#investments](#) [#SRI](#) [#sustainability](#)

### Background

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### Context



- Most foundations still follow a traditional grant-making model whereas capital is invested in assets seeking financial returns and a percentage of the endowment goes to the foundation's charitable purpose. However, due to a low interest rates environment and the raise of the of the SRI field, the **interest in pursuing a charitable purpose with a foundation's capital is increasing.**
- The **use of foundation's capital is strict and very regulated in Germany.** Board members are liable through their private assets, and thus foundations 'portfolios are built around conservative fixed-interest securities or bonds, real estate and cash. They are also limited in terms of geographies where they can invest.
- As the sustainable investing field develops, **financial institutions have created specific foundation investment funds.** These funds respect the restrictions and risk specificities that foundations face in Germany and other countries with similar or stricter regulations.
- These investment funds aim to increase the potential of foundations. **Foundations would be able to generate a social benefit not only through their spending and mission, but also through their investment strategy.** Social criteria is then integrated into the investment processes, strengthening foundation's level of purpose and realisation.

# ERNOP Research Note

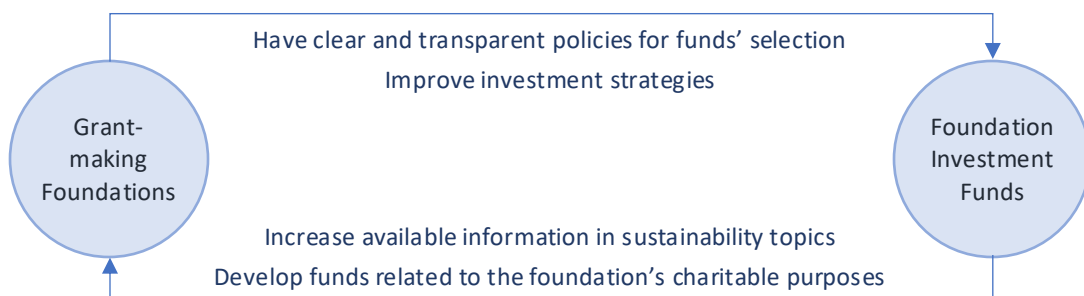
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## Take aways & Learnings



- To explore the **characteristics of the market for foundation investment funds in Germany**, the authors present two clusters:
  - Discrete cluster: Includes 43 small-size funds with a narrow geographical focus. These are stand-alone products with limited target groups and smaller investment volumes.
  - Attached cluster: Includes 9 large open existing funds (offered also to foundations) provided by either international banks or very specialised private banks.
- It is not clear **whether these investment funds are useful for foundations pursuing an SRI strategy**.
  - Foundations have limited information about the SDGs, screening criteria or climate-related policies applied to foundation investment funds.
  - Most of these funds do not seem to offer higher value in terms of SRI and sustainability. Foundations need investment opportunities that are more advanced than the general market offers.
  - Foundations looking to integrate their purpose into their investment strategy should select funds with clear and transparent policies. Foundations need to improve their investment strategies to find financial products that support their charitable purpose.
  - Fund managers do not relate the charitable purpose of foundations with the overall current trend in sustainability. They should develop funds based on specific fields of activity of foundations (e.g., environment, education). This would allow foundations to integrate their purpose into their investment activity.

Figure 1. Recommendations for foundations and fund-managers



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