Our Process

When members of the Arnow Family Fund (AFF) expressed interest in aligning the investment portfolio with the foundation’s values, it charged a working group with the task of developing a new investment policy. An ESG (Environmental, Social, Governance) working group was formed. The group consisted of six people, representing three families and two generations (with ages ranging between 24 and 65) and with very different levels of experience in investing and involvement with ESG issues. Building consensus within such a diverse group required an intensive series of 40+ meetings (typically from 8AM to 9AM) extending over a ten month period.

The working group reviewed a variety of written materials, met with a number of thought leaders in the field, frequently consulted with Cambridge Associates (our investment advisors), and engaged in conversations that ran the gamut from the impact of divestment on portfolio returns to the impact that divestment by a relatively small foundation could have on global climate change. Along with generating a set of guiding ESG investment principles and arriving at a decision to divest from fossil fuels, the process described above strengthened mutual respect and enhanced the working relationships among all who participated. The statement below represents the fruit of these efforts and was approved by members of AFF on September 3, 2015.

Fossil Fuel Divestment Approach

Rationale:
The Arnow Family Fund understands that human induced global warming/climate change is a grave risk to the well-being of current and future generations, and a serious threat to ecosystem health. As reflected in AFF’s value statement, AFF embraces its responsibility to repair our communities and the world and strives to create a world that honors the dignity and equal rights of all human beings. Therefore, we have both a moral and fiduciary responsibility to help mitigate the devastating social, economic, and environmental impacts of climate change, the majority of which are now falling on the world’s poorest people, but will inevitably affect us all. AFF recognizes that as a society we must reduce the worldwide human impact on the earth’s climate and replace fossil-fuels with cleaner, renewable energy. Thus, AFF has decided to divest from the fossil fuel industry in order to achieve greater alignment with our values. Through this decision we are joining with other foundations and investors who share our sense of urgency and responsibility.

Implementation:
Our research indicates that it is unlikely that there will be a material negative impact on risk adjusted financial performance over the long term. Currently, AFF is exploring the asset allocation implications of this policy as well as investment manager options. We chose not to establish a hard deadline for implementation but instead to take a measured approach in
collaboration with our investment advisor, Cambridge Associates, based on the availability of managers that can best meet our risk profile, investment objectives, and divestment criteria.

**AFF’s Definition and Guidelines for Fossil Fuel Divestment:**

The bullet-points below comprise our ideal set of fossil fuel exclusionary criteria. We do not intend to use these exclusions as strict proscriptive requirements. We aim to use them as guidelines to assist AFF and our investment advisor in comparing different managers’ approaches to fossil fuel screens and in identifying degrees of manager alignment with our divestment criteria.

AFF defines “Fossil Fuel” as oil, coal, natural gas and oil/tar sands.

AFF’s exclusionary criteria:

- No exposure to companies deriving revenues from fossil fuel exploration, mining, production, refining, distribution, pipelines and related equipment and services.
- No exposure to companies that report assets in and/or revenues from proven fossil fuel reserves as published in their most recent annual report and financial statements.
- No exposure to electric utilities with significant revenues (5% or greater) from coal fired power generation.
- No exposure to diversified conglomerates with significant revenues (5% or greater) from fossil fuel related business activities.

**Investment Approach**

**Rationale:**

The Arnow Family Fund is committed to actively building an investment portfolio that is well aligned with our values. Grants are one way to make an impact; investing our endowment with the same intention is another. Taken together we can do more to drive positive change and fulfill our “responsibility to repair our communities and the world.”

**Implementation:**

In addition to AFF’s decision to fully divest from the fossil fuel industry, we will continue to analyze and select investment managers that fully incorporate environmental, social and governance (ESG) criteria into their investment process. Over time, AFF aims to invest 100% of its endowment with ESG managers that enable us to meet our annual financial return objectives (5% + inflation) while also achieving measurable positive impacts.

In keeping with AFF’s commitment to build a 100% ESG/Impact endowment portfolio, the following set of values shall serve as a guiding framework for all investment decisions.
AFF’s Guidelines for Investment:

Environmental values
AFF values companies that measure, manage, disclose, actively plan and take action to reduce their environmental impact through their operations, products, supply chain, and within their surrounding community. AFF values companies that promote solutions including, but not limited to, renewable and clean energy, clean water, environmental conservation and remediation, resource efficiency and stewardship, and sustainable food and agriculture systems.

Social Values
AFF values companies that actively maintain policies and practices that support inclusivity and diversity, human rights and equality, fair/direct trade, workforce well being, human health, and safety. AFF values companies that provide wellness programs and fair compensation to their employees and are positively benefiting the regional economy.

Governance Values
AFF values companies with a corporate governance culture that promotes shareholder engagement, fair executive compensation policies, board diversity, anti-corruption and anti-bribery practices, and full governance disclosure.

We believe that companies that are aligned with these environmental, social, and governance values and rigorously integrate them into every aspect of their business will both outperform financially and contribute significantly to repairing our communities and the world.