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SRI, ESG Adoption at College- And University-Affiliated Foundations Lags Interest: Study

By DANIELLE CORREA

Interest in the use of socially responsible investing or environmental, social and governance strategies at college- and university-affiliated foundations is high despite "relatively low" usage, according to a recent study.

SEI Investments and the **Association of Governing Boards of Universities and Colleges'** 2022 joint study on *Operations and Investment Practices of Institutionally Related Foundations* found that 29% of surveyed institutions invested in SRI or ESG strategies in 2021 with another 5% indicating that they plan to do so in 2022.

Of the 29% that invest in SRI or ESG strategies, 65% implemented the investments by including it as a criterion in their investment policy statement, followed by 14% that directly invest in companies/organizations that support their mission and another 14% that use positive screens to add/overweight securities with higher ESG rankings, the survey found.

Mary Jane Bobyock, managing director of the nonprofit advisory team at SEI, finds that the number of institutions indicating in the survey that they implemented the strategies is "much higher" than it has historically been from other industry surveys, which have reported closer to or below 20%.

"I think part of the issue is that from a governance perspective, it takes a while to get your arms around what it is you actually want to do and how you're going to implement it and making sure that you're doing the right analysis around risk management. This has been a dialogue we've been following for about a decade and it's just taken that long for the topic to get to the top of the agenda," she said.

"As these sometimes very large boards, in particular at higher ed[ucation] supporting foundations, it takes a while for them to all have a consensus and agree how they want to move forward around this topic and so it's not really surprising that the majority of them have it as a criterion and their investment policy statement is maybe that first step as they continue to evolve how they want to actually implement," she continued.

The asset classes most widely used to implement SRI and ESG strategies were U.S. equity at 34% and private equity at 24%. Another 7% of institutions implemented the strategies via fixed-income, while hedge funds, high-yield and international equity were each used by 1% of respondents.

College- and university-affiliated foundations' future use of SRI and ESG strategies could be potentially affected by student pressure as 41% of surveyed institutions have experienced some level of pressure from students to increase sustainable investing consideration, according to the study, which also found that external partners play a big role in monitoring underlying investment managers to ensure they meet screening requirements.

Forty-six percent of foundations reported that outsourced/discretionary investment partners are responsible for ensuring managers meet the requirements, while 43% said investment consultants should monitor managers and 25% indicated their internal staff carries the responsibility.

Foundations have historically depended on external support from an investment management provider to track products and managers and the study finds that many have shifted from the traditional consultant model to an outsourced cio.

Investment consultants are the current investment management provider for 34% of surveyed foundations, while 54% utilize the services of an outsourced cio, according to the survey.

Bobyock found it interesting that the outsourced consulting figure surpassed that of traditional consulting as the figures are usually more “neck and neck.” She also mentioned that the data is “not necessarily exclusive” to smaller institutions as “more and more mid-sized and larger organizations have started to adopt this because there’s so many more OCIO providers and models out there that may make it more compelling.”

The benefits of the outsourced cio model have attracted larger organizations to adopt the approach as 61% of those currently using an outsourced cio have an endowment with more than $100 million in assets and 19% have $500 million or more in assets, according to the survey, which indicated that the trend should persist as 46% of respondents said they will consider adopting an outsourced cio when they conduct their next investment provider review.

Institutional interest in outsourced cios has come as the complexity of their portfolios has grown with a vast majority of foundations investing in alternative or illiquid asset classes and planning to increase their allocations in 2022.

Almost all of surveyed foundations, 94%, are investing in alternative strategies and 32% indicated their plan to increase their allocations with 21% saying they will do so “slightly” and 11% planning to do so “moderately.”

“There’s just more tools in the toolbox. It’s easily accessible and you don’t have to do the due diligence if you’re delegating that responsibility to your OCIO partner. That allows even the smaller foundations to have access [to alternatives] at a reasonable price and have professional due diligence being done on their behalf,” Bobyock said.

More than half, 53%, of the foundations that plan to increase their allocations to alternatives currently invest 20% or less of their assets in the alternatives space, while institutions that are not planning on making a change to their alternative allocation already invest 21% or more to the space, the survey found.

“When you look at the forward-looking 10-year capital market assumptions, many of the institutional providers, including SEI, have kind of a 4% to 6% number on the **S**[**tandard**] **& P**[**oor’s**] 500 and so where public equities in the past have been a big driver of return sources, the anticipation of that is less going forward so you have to look at alternatives,” Bobyock said.

Private equity is the most widely invested alternative asset class among respondents, cited by 73%, followed by private real estate at 50% and venture capital at 45%.

Alternatives aside, affiliated foundations must also focus on strategic asset allocation that is inclusive of fixed-income and domestic and global equity strategies to generate returns, the study noted.

Among the global strategies that foundations are using, 87% reported that they invest in developed international equity and 49% in global fixed-income. Emerging markets equity is the most popular with 97% invested, and Bobyock made note that she wonders how much that will change over the next year.

The emerging markets figure is, “Actually even higher than developed and I just wonder if maybe some answers there were kind of a mix,” she said.

The inaugural study was conducted from July 2021 through September 2021 and included data from 130 institutionally related foundations that are members of AGB. The full research report may be found on SEI’s website.