



**Fondo  
Acción** 

# **100% SUSTAINABLE INVESTMENT PORTFOLIOS**

**An ethical imperative**

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The following case study summarizes the path and main milestones in the transition of the investment portfolio of the equity resources managed by Fondo Acción, from a traditional investment modality to a sustainable investment portfolio. It is a process that has been underway for nearly two years and that we want to share with the philanthropic community dedicated to environmental and social development projects.

## Introduction

An ethical imperative is understood as the ethical obligation to take a specific action or to stop taking it. It is conceived as an imperative when the subject (or the organization) falls within a specific set of values and principles that give rise to an obligation, which is considered mandatory for the individuals who adhere to it. Fondo Acción and all of us who are part of its team are committed to an ethical system of respect for the rights of human beings and nature, as well as for environmental conservation. For Fondo Acción, sustainability is an ethical imperative and therefore we must ensure that all its actions address and are framed within this imperative.

Fondo Acción is an organization focused on building a sustainable relationship between the community and the environment and on supporting child development processes. To achieve this, Fondo Acción promotes activities aimed at preserving, protecting, or managing natural and biological resources in a sustainable and ecologically viable manner and at the same time promotes the integral development of children, within the concept of sustainable development in Colombia.

For 20 years the Fondo Acción has managed and delivered resources to improve environmental conservation and the protection of children's rights in Colombia. Created in 2000 as a financial facilitator, it has adopted strategies that also guarantee the financial sustainability of environmental and children's initiatives and of the organization itself. Some of these financial sustainability strategies are supported by the administration of equity funds.

An equity fund is a savings and investment modality that permanently preserves existing funds, derived from or entering the institution. The existence of an equity fund contributes to the generation of resources for the fulfilment of the mission of any institution (returns), being a financial and institutional response to the instability of external financing. Equity funds are the heart of many philanthropic organizations around the world.

Convinced that the ethical imperative applies both to the organization's goals and to the means of achieving them, in 2018 the Executive Directorate set out to build a 100% sustainable portfolio of Fondo Acción's equity investments. A sustainable portfolio is one that excludes all investments that are not eligible for the investor due to environmental or social considerations and includes investments in instruments of companies that are characterized by good environmental, social and governance practices; it also includes investments in instruments that are consistent with the investor's mission and ideally includes investments in instruments that have a positive social and environmental impact, as well as financial returns.

The strong support and accompaniment of the Americas Initiative Account Board of Directors and the Tropical Forest Conservation Agreement Account Oversight Committee allowed us to share today with the philanthropic community in the region the steps we have taken on the road to sustainable investments in these two years and the achievements that we are proud of.

## **Local context and problem to be solved**

Over the past 10 years, philanthropic organizations around the world have embarked on a journey of aligning their investments with their corporate purpose or mission. This movement is based on the understanding that it is not consistent to make donations and invest efforts in projects for social or environmental causes and at the same time maintain investments in assets whose very nature or management runs counter to efforts for social equity, respect for human rights or the conservation of biodiversity and ecosystems.

This movement begins with a conscious effort by investors to know in detail where their investments are (under the motto of own what you own). A community of practice of philanthropic entities has been generated, sharing experiences and lessons learned to motivate others to take the same path of coherence. Since 2018, and on the recommendation of the Mexican Fund for the Conservation of Nature, Fondo Acción has been part of Confluence Philanthropy, one of these communities, which has been key in this process.

Until 2018, the Fondo Acción, advised by financial experts from J.P. Morgan, had been managing its equity resources, following an investment policy that managed a balance between risk and return, where the balance was tilted towards moderate risk and real returns of no less than 5% per year, a return comparable to that of portfolios of similar entities. This management fulfilled the financial performance expected by the Fund's Board of Directors and the parties to the bilateral agreement that gave rise to the organization.

## **The intervention**

The transition of the portfolio of investments managed by Fondo Acción began in Brooklyn in February 2019, during an annual meeting of Confluence Philanthropy members. At that meeting, the Executive Board team of Fondo Acción learned first-hand

about the experience of many U.S. “family offices” and philanthropic organizations, such as The Sierra Club, or The Russel Family Foundation, in moving toward sustainable portfolios. Many of these announced with great pride that they had already achieved the goal of having 100% of their investments in sustainable alternatives. It was also clear that sustainable portfolios did not require taking greater risks or losing financial returns.

In sustainable portfolios, investments meet a set of minimum criteria: 1) reject investments in assets that have negative impacts on communities or ecosystems and their biodiversity, 2) select investments in assets with good environmental, social and governance performance (also known as integrating environmental, social and governance (ESG) criteria), 3) have investments in thematic assets, which are consistent with the organization’s mission or programs, and finally 4) include impact investments, understood as those investments that in addition to financial returns also deliver positive environmental and social returns to their investors and society.

Encouraged by these experiences, we met with JP Morgan’s sustainable investment team in New York, with whom we discussed the meaning and performance of sustainable investments. With their guidance, we mapped out the path and defined the milestones that would make part of the transition of the portfolio managed by the Acción Fund to 100% sustainable. This has been the journey to date.

## Step 1. Exclusion filter

The first step towards a sustainable portfolio in the Fondo Acción was to perform an exclusion filter (negative screening), in which the financial administrator’s experts analyse the portfolio’s investments in detail to detect those that were not aligned with the corporate purpose and mission of the investor. In the case of Fondo Acción, the exclusion criteria for the analysis were: 1) carbon intensity, 2) adult entertainment, 3) gambling, 4) tobacco, 5) alcohol, 6) weapons, 7) nuclear energy and 8) environmental disputes. This analysis was provided in the first half of 2019 and allowed to guide disinvestment decisions of some investment funds that did not pass the filter with acceptable scores.

## Step 2. ESG Integration

Based on detailed knowledge of the portfolio’s investments, the Executive Management team worked with its advisors at JP Morgan to transition investments, which, while acceptable under the exclusion criteria, were not aligned with ESG criteria. The ESG criteria commonly used in these analyses are summarized in the table below.

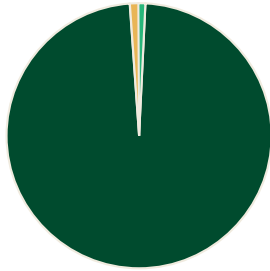
| ESG SCOPE            | VARIABLES  |
|----------------------|--|
| <b>Environmental</b> | Water conservation and usage                               |
|                      | Sustainable use of natural resources                       |
|                      | Minimization of pollution and toxic spills                 |
|                      | Clean technology   |
|                      | Low carbon emissions                                       |
|                      | Green construction   |
| <b>Social</b>        | Human rights   |
|                      | Restrictions on harmful products                           |
|                      | Community development                                      |
|                      | Diversity and equity (gender, race, ethnicity, and others) |
|                      | Employment benefits  |
|                      | Labour relations   |
|                      | Safety at work   |
| <b>Governance</b>    | Diversity on boards of directors                           |
|                      | Executive compensation                                     |
|                      | Anti-corruption policies                                   |
|                      | Board of Directors Independence                            |

Portfolio migration involves divestment of assets that aligned with ESG criteria, identification of investment opportunities, and making new investments. In Fondo Acción, the migration of the investment portfolio with ESG integration began by the end of 2019 and during the first half of 2020, in accordance with the investment policy of the equity funds in force at that time. As of June 2020, the transformation of the portfolio is illustrated in the figure below.

Over the past 12 months, Fondo Acción's portfolio has become more aligned with ESG guidelines

### June 30<sup>th</sup>, 2019

There was no ESG focus in the portfolio



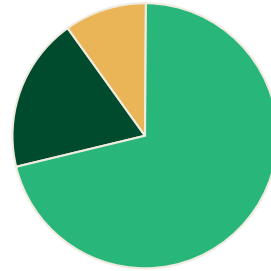
● Yes ● No ● Cash

ESG's investments were limited to some private investments.

The portfolio guidelines did not take into consideration ESG issues.

### June 30<sup>th</sup>, 2020

We are transitioning portfolios to focus on ESG



● Yes ● No ● Cash

Some of the existing private investment commitments do not follow the ESG guidelines that new investments do.

8.5% of the portfolio is invested in hedge funds that are in the process of liquidation. As these funds become available, they will be invested in ESG strategies.

## Step 3. Updating the Wealth Investment Policy

The decision of Fondo Acción to manage a 100% sustainable investment portfolio is embodied as an institutional commitment to society as a whole in version 4 of its Equity Investment Policy. This policy is the roadmap that guides the task of the financial administrator and becomes another instrument of transparency, accountability, and institutional coherence vis-à-vis donors, governments, and the community. The policy makes explicit the concepts associated with applicable sustainable investments, the exclusion criteria (characterising prohibited investments with them), the criteria for ESG alignment, and presents impact investments and investments related to its mission and ethical imperative as other alternatives for the portfolio.

## Step 4. Impact Investment

Fondo Acción entered the impact investment ecosystem in 2018 with the launch of its Missionary Impact Investment Fund. This patient investment fund seeks to support ventures in Colombia that are in the acceleration phase and that offer environmental, social and financial returns; the latter with a minimum return of 5%, once the ventures are consolidated. As of the date of this document, FIMI has made two investments in Colombia (Mucho and Awake Travel) and continues to build and strengthen its investment pipeline.

The equity portfolio managed by J.P. Morgan has also been making impact investments, through important funds, which are also aligned with ESG criteria.

## **What's next**

The transition of the investment portfolio to a 100% sustainable portfolio is still ongoing. Fondo Acción team expects that 90% of the transition will be completed by December 2020. The challenge now is to include in the portfolio investments in areas associated with the Fund's mission, such as climate change mitigation or adaptation, sustainable rural development, or recognition of the provision of environmental services.

## **Achievements and recommendations**

It is still too early to share achievements in terms of social, environmental, or financial returns. The world of investments is a race against time and not against speed. For equity investors, there are very good years and very bad years and the balance can only be made by taking into account long periods. However, it is particularly encouraging to see the performance of investments in instruments with ESG alignment in the first half of the year 2020, a period of great falls in the world's stock market due to the collapse of the price of oil and the effects of COVID 19 on the world economy. The data shows that ESG investments did not fall more than traditional investments between February and May, but recovered faster than these, showing an overall better performance in times of crisis.

Today it is sufficiently supported that betting on sustainable investment does not require sacrificing returns or assuming more risk. Financial managers are increasingly using more dedicated and rigorous investment instruments with respect to the environmental and social performance of companies, and socially and environmentally responsible companies are showing better financial performance than their traditional counterparts. It is very valuable that investors around the world are starting to count environmental and social returns in addition to financial returns. Only in this way will there be any possibility of real transformation towards socially and ethically conscious and environmentally responsible economies.

The experience described above has counted with the active participation of the financial team of Fondo Acción, with Germán Botero at the head and the full support of the Board of Directors of Fondo Acción and the Supervisory Committee of the Tropical Forest Conservation Agreement (TFCA), the highest governing bodies of the equity funds managed in the investment portfolio. It has also been possible thanks to the recommendations and attention of the team of specialists of the financial administrator, JPMorgan.





We are a Colombian private fund with 20 years of experience in sustainable investments in environment and childhood. We create opportunities and generate connections that facilitates learning and collective work within the organization and with other public and private institutions.

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