

Foundations Finding Proxy Power

By Jay Cooper

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Foundations are grabbing the reins from their managers by actively voting on the proxy statements for the companies they invest in. Following the lead of public pensions that have voted their own proxies for years, foundation board members see proxy voting as a way to align the majority of their funds with the foundation's goals and mission.

“While we were doing a lot of good things with the 5% we use for grant-making, there was a lot more we could do with the other 95% in voting proxies along the same set of values that the foundation uses in its grant-making,” says **Jim Pitts**, the former CIO of the **The Boston Foundation**.

That foundation was one of the first community foundations to take an active role in proxy voting. The Boston Foundation wrote a set of guidelines establishing how it will vote its proxies that is still used by many other community foundations. Pitts says the foundation started involving itself in the proxy process about four years ago and the number of votes or shareholder resolutions written by the foundation has risen steadily since that time.

Other foundations are following suit, either voting their proxies or writing shareholder resolutions to companies asking them to put a new social or financial issue on its annual proxy statement. In the past, most foundations left voting on a particular company's proxy statement up to their asset managers who invested the foundation's money into those companies. Most often, the managers would then vote in accordance with that companies' recommendations which are almost uniformly against the social proposals on the proxy statement, according to the “Proxy Season Preview Spring 2005” report from the **As You Sow Foundation**, a foundation focusing on corporate accountability.

The report details many of the social and financial issues on individual companies' proxy statements this year. While it says most foundations still pass off the duties of proxy voting to their managers, the report also notes a marked increase in foundations getting involved. More than 200 proxy proposals will be voted on by shareholders this spring, a record setting year for proxy proposals, the report states.

Mutual fund and other investment scandals led more foundations to write shareholder resolutions or vote their proxies, according to **Michael Passoff**, the report's author and the associate director of the As You Sow Foundation's corporate social responsibility program. The stock market crash also played a role. As foundations saw the value of their assets drop, it meant less money for grants. That pressured foundations to align all of its other funds with the foundation's goals.

Before the crash "the mentality has been the more money you make the more you can give away," Passoff says. That meant leaving the proxy issues to managers. But "a new generation of board members" led the charge in getting foundations to vote their proxies. Many of today's foundation board members are more investment savvy, and realize that a company's social or environmental practices can cause a drop in the company's stock, so they're taking a more active role in monitoring those practices, Passoff says.

Public pensions have voted on proxy statements for a long time. Foundations took longer to follow suit because they are not under the same public pressure as large pensions, Passoff says. Now more foundations are writing their own shareholder resolutions, or voting proxies or coming up with a set of guidelines on how they would vote on certain proxy issues. Often those guidelines are turned over to a custodian who monitors all of a foundation's shareholdings and makes sure all proxies are voted along the foundation's guidelines.

"What we've seen in the last two years is more foundations have jumped into it," Passoff says. "Now you're having the issue raised at conferences, on Web sites and social briefings."

The **Council on Foundations** held a special session titled "Ethical Investing and Shareholder Engagement: The Overlooked Power of the Proxy" at its annual conference this month attended by more than 2,000 people from foundations across the country. "People are becoming aware of another tool to advance their mission," says **Karen Green**, the director of the governing boards program for the council. "It's another way of having influence beyond the public policy arena and the grant-making arena."

Green adds that proxies are still a tool that is underutilized by foundations. Many foundations still just carry out their foundation's mission by screening out some of the managers or companies who invest in something that is out of line with the foundation's goals. "That's a better known tool that has to do with your investments," Green says. While interest is growing, "this is something most foundations still haven't really thought about."

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