Philea | Philanthropy Europe Association

Feeling the Heat: How Foundations Can Use Their Investments to Curb Climate Change

European Philanthropy Coalition for Climate

#PhilanthropyForClimate

INTERNATIONAL PHILANTHROPY COMMITMENT ON **CLIMATE CHANGE**

Every foundation has levers at its disposal to take urgent climate action.

PILLAR 1
Education and learning

PILLAR 2
Commitment of resources

PILLAR 3
Integration

PILLAR 4
Endowments and assets

We will consider climate change in relation to the source and management of our operational and any endowed funds. We will seek to align our investment strategy and its implementation with a rapid and just transition to a net-zero economy.

PILLAR 5
Operations

PILLAR 6
Influencing and advocacy

PILLAR 7
Transparency

Read more about the
International Philanthropy Commitment on Climate Change

CONTENTS

2 **INVESTING IN A CLIMATE OF CHANGE**
Towards more climate-aligned investments

- Philanthropy and climate
- Common approaches
- Three foundations, three journeys

5 **FUNDACIÓN ANTONIO ARANZÁBAL**
Investing across three generations

8 **BARROW CADBURY TRUST**
Fostering lasting change through active engagement

11 **NORDEA-FONDEN**
Putting values into action through ethics-driven investments

15 **GLOSSARY**

16 **FURTHER READING**

16 **ENDNOTES**

17 **ABOUT**

17 **CONTACT**

INVESTING IN A CLIMATE OF CHANGE

Towards more climate-aligned investments

Climate change is already impacting the people, places and causes that foundations care about. Still, for a variety of reasons, philanthropy practitioners often struggle to translate their awareness and concern into action at the scale and pace that are required.

2023 was a year of record temperatures: The hottest June on record was followed by the hottest July, August, September, October, November and December. 6 July 2023 was the hottest day ever recorded. Our failure to mitigate climate change[1] has been identified as the biggest long-term global risk, followed by our failure to adapt to climate change.

It is not merely a matter of degrees – the climate crisis has an undeniably human cost. As the preamble of the International Philanthropy Commitment on Climate states, "Climate change is a health issue, a gender equality issue, a racial and social justice issue, an educational issue, an economic issue, a cultural issue, a security issue, a human rights issue, and a local community issue."

Philanthropy and climate

#PhilanthropyForClimate is a growing, global movement of over 700 foundations spread across 20+ countries and 6 continents. This movement revolves around eight commitments – seven national and one international – that provide foundations with a framework to integrate climate across their work, from their programmes to their investments and their operations – regardless of their mission, size or geographic location. These commitments share a pillar-based approach which reflects the resources and levers that philanthropy has at its disposal to take urgent climate action. Individually, as foundations, and collectively, as philanthropy, we have agency to transform ourselves and catalyse wider changes.

Every foundation is on a different climate journey: Given the diversity of the philanthropy sector, there is no "one-size-fits-all" approach to integrating climate. The relative importance – and impact – of each pillar will vary from foundation to foundation. We estimate that the combined assets of European public-benefit foundations total over €647 billion.[2] As such, for many foundations, responsible and sustainable stewardship of a foundation's assets that takes climate change into consideration and seeks alignment with a rapid and just transition to a net-zero economy, is an important part of this journey.

Endowments and assets

Pillar 4 of the International Philanthropy Commitment on Climate Change says:

"We will consider climate change in relation to the source and management of our operational and any endowed funds. We will seek to align our investment strategy and its implementation with a rapid and just transition to a net-zero economy."

Why this is important

Climate change has been widely recognised as a systemic risk to assets. Shifting the financial system to phase out polluting practices and incentivise cleaner approaches and technologies is vital to tackling climate change. Philanthropic organisations, many of which steward significant assets, need to show leadership in this area.[3]

“Individually, as foundations, and collectively, as philanthropy, we have agency to transform ourselves and catalyse wider changes.”

Across Europe, more and more foundations are integrating climate considerations into their investment strategies, for example through negative screening of carbon-intensive investments, positive screening of low-carbon or green investments, and/or by adopting an explicit divestment or engagement policy. However, in the #PhilanthropyForClimate commitments, we are noticing slower progress on this pillar. For example, in France, this pillar has seen the least progress from signatories, with less than half of foundations reporting that they have taken any action.[4] In the UK, this is also the pillar where the largest number of signatories have reported that they have not yet taken action. Despite these indications, foundations are showing some good signs of progress, however difficult and slow it may be: Promisingly, over 50% of UK Commitment signatories reported in 2023 that they have made some progress or are already at an advanced stage when it comes to this pillar.[5]

The three case studies included in this publication aim to illustrate the processes through which very different European foundations, who do not explicitly have climate at the core of their missions, are climate-aligning their investments. This builds on, and is complementary to, guidance published in 2023 by the Cazenove Charities, in association with the Association of Charitable Foundations, and in 2022 by the French Foundation Centre. These publications provide foundations with valuable step-by-step guides to this process.

Common approaches

The case studies here are too diverse and too small in number to be able to draw general conclusions for the European foundation sector. Nonetheless, common themes emerged during the research process regarding the foundations’ approaches that might be applicable to foundations from different national regulatory contexts seeking to start or further climate-align their investments.

Embarking on an internal learning process…

No foundation will change the way it manages its investments overnight. All interviewees emphasised that this was a long-term process that required both a fundamental reflection of the foundation’s core values as well as the development of a pragmatic step-by-step approach. However, there is no time to stand still: With new regulation coming in, better availability of data, new investment products, and the need for continually re-assessing risk and return, foundations are required to remain agile and adapt to changing circumstances. To navigate these sometimes seemingly overwhelming challenges, it is important to have a shared understanding that a focus on climate action is an integral part of a foundation’s current mission and relevant to the different aspects of its work.

As part of the learning process, it is important to address relevant concerns: Will this affect our returns? What approach is best suited to our foundation (divestment, engagement, impact investing, etc.)? How do we know that we are really having an impact? While a healthy dose of scepticism can be useful, it is important to realise that doing nothing is also a choice, one with severe consequences. It is more important to be moving in the right direction than to be 100% sure about each step.

… with the right allies and advisors

The foundation practitioners interviewed emphasised the critical role played by certain individuals, both internally and external to the organisation. Having an internal champion to start the process is vital. As a next step, it is important to find the right allies internally, at board level but also among the foundation staff. Building consensus across the organisation by involving different perspectives (not just on the investment side but also programmes, communications, HR, etc.) makes the implementation of any subsequent measure much easier.

Especially for foundations that do not have much in-house investment expertise, it is important to seek out the right investment advisors who can bring relevant expertise and experience in the field of sustainable, impact and climate-aligned investing. Our interviewees stressed the importance of creating a relationship based on trust and a shared understanding of the foundation’s values with their advisors. At the same time, foundations should not hesitate to seek out a second opinion if they feel this is needed.

Creating commitment and accountability

Two of the foundations profiled here are signatories of a #PhilanthropyForClimate commitment. As part of signing the commitments, they have pledged to use their investments as a lever for positive climate action. This creates an organisational commitment that goes beyond individual changemakers within the foundation and creates a level of expectation and a sense of accountability, within the organisation and externally.

Transparency with regards to progress is a shared pillar across the #PhilanthropyForClimate commitments. Regular progress reports, such as those of the UK and

French Commitments, aggregate and amplify progress across the community and offer valuable examples of how foundations are implementing this framework in practice. The non-signatory foundation highlighted in this publication also emphasises the importance of communicating their investment policy publicly as a way to increase internal motivation and build their reputation.

Shaping the wider field

Finally, a recurrent theme was the recognition by the foundations featured here that they cannot create significant change by acting in isolation. Relative to most other institutional investors in Europe, most foundations are small players in the financial system, and might therefore feel that they are not able to make much of a difference by acting alone. As a sector, however, foundations can punch above their weight: The foundations recognised this by emphasising without exception the importance of sharing lessons with peers, contributing to the development of the field, and supporting national and European foundation networks working to mainstream climate across the different dimensions of philanthropic activity. One important way of doing so is through support for the work of national foundation associations on strengthening climate awareness and promoting climate action in foundation sectors at national level.

Three foundations, three journeys

Through interviews and desk research, we studied the paths taken by the following European foundations – none of which have climate as their core mission – on their way to climate-aligning their investments:

FUNDACIÓN ANTONIO ARANZÁBAL
SPAIN

BARROW CADBURY TRUST
UNITED KINGDOM

NORDEA-FONDEN
DENMARK

In the case studies, you'll read about the motivations behind their journeys, the approaches taken, success and limiting factors, and results of their efforts.

We hope their stories can guide and inspire your foundation on its own journey, or, at a minimum, raise questions and shed light on the issues, challenges and rewards of climate-aligned investing.

CASE STUDY

FUNDACIÓN ANTONIO ARANZÁBAL

FUNDACIÓN ANTONIO ARANZÁBAL

Investing across three generations

COUNTRY	Spain
FOUNDER	Antonio Aranzábal, in 1998
TYPE	Operating foundation
MISSION	The foundation has an entrepreneurial spirit and is focused on the development of best practices in its territory, with family businesses and young people as protagonists.
FOCUS AREAS	Entrepreneurship, family businesses, youth employment
BUDGET	Annual operating budget: €85,000
ENDOWMENT	Size of endowment: €1.6 M

> *"Our investment actions today matter in how we transmit the family values and legacy built into this family foundation to the next generation – our sons, daughters, nephews and nieces."*
>
> **Jokin Aranzábal,** Trustee and Secretary of the Board of Trustees (Fundación Antonio Aranzábal)

1. Motivation

Following the founder's death in 2012, this family foundation underwent a significant governance transition process that involved defining roles for the second generation of family board members and welcoming changes in external board members.

Recognising the need for a revised investment policy statement, the board focused on family values, investment objectives and return expectations, identifying values such as audacity, honesty, collaboration, discretion and long-term contribution. This statement provided a framework for board members and their trusted financial advisor.

As the foundation contemplated integrating the founder's grandchildren, the catalyst for their climate awareness emerged. Jokin Aranzábal, a family board member overseeing strategy, financial planning and investments, raised crucial questions about the foundation's appeal to the next generation and the alignment of its portfolio with their values. Concluding that changes were necessary, the board decided to revisit the foundation's purpose and overall strategy, and to shift incrementally their investment strategy to be climate-aligned.

2. Approach

At the prompting of certain family members and working with their financial advisor, the board decided to start reallocating some of the foundation's portfolio away from non-sustainable investments to ESG investments in 2017.

In these initial stages, they came to realise that not everything that was labelled as "green" was in line with their expectations of a sustainable investment. This set the foundation and their advisor down a path of scrutinising their ESG investments one by one.

While attending a training programme for the Fondo de Fundaciones de Impacto in February 2020, Jokin Aranzábal met an investment manager experienced in impact investing at another Spanish foundation. He advised the foundation on several more impact-oriented investments. These include actively managed funds, for example one funding women entrepreneurs in Latin America, and direct investments in a company working on sustainable mobility in cities. Impact measurements are embedded in these investments which represent 6% of the foundation's investment portfolio. The current goal is to increase such impact investments to 10% over the next year.

The overall approach takes into consideration that the portfolio needs to make returns so the foundation can sustain its programmatic work. It also focuses on creating impact over making major profit. However, at this time, the return on investments falls somewhat short of the annual 5% needed to sustain the grants for the foundation's activities. Aware of this trend, two years ago, the family committed €200,000 more for the endowment which is €50,000 more per family member to address lower returns and ensure that grantmaking can increase in line with a projected 2.5% annual inflation rate.

Additionally, as a result of their impact investment activities, the foundation became a signatory of Fundaciones Por El Clima within the Asociación Española de Fundaciones, the Spanish #PhilanthropyForClimate commitment. As part of this, the foundation is currently putting in place a climate fund with a group of interested foundations. Fundación Aranzábal trustees have committed to putting another 2.5–3% of the endowment into this climate fund initiative. They are hoping this initiative works well and foresee creating a future stock-based climate fund based on the current learning-by-doing experience.

Learning-by-doing: Climate Fund "Inversiones por el Clima"

Fundación Aranzábal is currently putting in place a climate fund, "Inversiones por el Clima" with a group of interested foundations that are part of "Fundaciones por el Clima".

A Spanish company of independent financial analysts will build the fund and will get the fund listed with the appropriate regulators. This group of foundations will "learn by doing" as they build this climate investment vehicle, through involvement in trainings, dissemination and monitoring relevant to the investments of the fund.

The fund is characterised by the following:

- Investments with fixed income, as these are considered by the fund manager to be the asset type that best aligns with the profile of the foundation sector.
- The fund is deemed "sustainable" in accordance with Article 9 of the European Sustainable Financial Disclosure Regulation (SFDR) (see page 13).
- The fund will have daily liquidity, i.e. any foundation will be able to redeem its investments on a daily basis without any additional requirements.

> *The genesis of our climate awareness comes from a reflection on the investment of our endowment because when I think about the next generation, I wonder when I show this portfolio to them, are they going to be happy? And the answer is a very loud 'NO'."*

Jokin Aranzábal, Trustee and Secretary of the Board of Trustees (Fundación Antonio Aranzábal)

3. Success and limiting factors

Success factors

Founder's family commitment

The driving force behind the shift was the commitment and enthusiasm of the founder's family members.

Shared values

Board members converged around shared family values, contributing to the success of the transition.

Expert guidance

Supportive and trustworthy investment managers, along with guidance from peers in other foundations, were critical to the process.

Learning culture

The foundation's readiness to learn and ambition to progress further strengthened the success factors.

Limiting factors

Advisory challenges

The process faced delays due to the time-consuming search for a reliable source of advice on understanding climate investments.

Limited opportunities

The speed of change was hindered by a scarcity of genuinely attractive climate-aligned investment opportunities for foundations, emphasising that willingness and ready capital alone are insufficient.

Greenwashing risks

The risk of greenwashing created resistance within the foundation, prompting a thorough evaluation of each investment without relying solely on green labelling.

4. Results

Through sound advice and trial and error, the foundation successfully evolved its portfolio into a **more climate-aligned investment strategy,** with ongoing projections for further improvement.

The process resulted in a sense of rejuvenation and tighter focus of the family foundation to **better transmit the family values to the next generation** and better serve the community's needs.

Active participation led to the creation of an **ecosystem fostering informed actors,** supporting the establishment of a climate fund in Spain. This collaborative effort extends to enhanced advisor/foundation trustee relationships and the development of climate-aware investment managers working on a dedicated fund.

5. Resources

Fundación Antonio Aranzábal

Inversiones por el Clima

CASE STUDY

BARROW CADBURY TRUST

Fostering lasting change through active engagement

COUNTRY	United Kingdom
FOUNDER	Barrow and Geraldine Cadbury, in 1920
TYPE	Grantmaking and operating foundation
MISSION	The trust's mission is to use all of its assets, especially its money, to work with others to bring about structural change for a more just and equal society.
FOCUS AREAS	Criminal Justice, Migration, Economic Justice, Responsible and Social Investment
BUDGET	Annual grantmaking budget: £2.5 M
ENDOWMENT	Size of endowment: £90.9 M

> *"Our mission has always been about change: changing structures and changing systems, changing government policy or getting legal changes rather than just trying to alleviate the symptom. I see that our investments are doing the same thing, getting everybody involved and trying to shift the dial."*
>
> **Mark O'Kelly,** Director of Finance and Administration (Barrow Cadbury Trust)

1. Motivation

The Barrow Cadbury Trust, rooted in Quaker values of simplicity, truth, equality and peace, has a longstanding tradition of ethical investing, aligning with its Quaker-derived social value proposition.[6]

The trust has been involved in ethical investing since its beginning 103 years ago. Operating with a segregated portfolio for over 50 years,[7] the trust maintains a transparent understanding of its investments, conducting quarterly reviews with periodic in-depth analyses. The evolution towards integrating climate-aligned investments in its portfolio occurred organically, driven not solely by climate change concerns but by a broader commitment to activism, reflecting an external shift in understanding and deepening awareness of the global emergency.

> *"The process was organic and wasn't primarily about climate change: It was about activism and full of crossroads along the way."*
>
> **Sara Llewellin,** Chief Executive (Barrow Cadbury Trust)

2. Approach

Sara Llewellin, Chief Executive of the Barrow Cadbury Trust, was appointed in 2009 with expertise in social investment, initiating the foundation's investment in the UK's first Social Impact Bond.

Under her leadership, the board earmarked up to 5% of the endowment for a dedicated social investment portfolio, a commitment later expanded to £6 million (approximately 6.7%). The labour-intensive nature of the trust's social investments, often surpassing the size of its grants, necessitated the hiring of a dedicated professional to oversee these activities.

The organic evolution towards climate-aligned investments was and continues to be rooted in a broader commitment to using the potential of social activism. Recognising the influential role of its investments, the trust actively engages with companies. In 2013, anticipating the labour-intensive nature of such activities, the trust initiated the Charities Responsible Investment Network (CRIN), facilitated by ShareAction. This network serves foundations pursuing responsible investment approaches, enhancing knowledge and collaboration within the field.

From 2016-2017, the Barrow Cadbury Trust began to acknowledge more strongly the significant risk climate poses to the various issues of its work, from economic justice to migration. Undertaking internal work to align finance with social justice, the foundation incorporated a climate-active approach in its investment policy. This approach prioritises positive and active engagement before considering divestment: The trust consciously chooses not to exclusively invest in companies already aligned with the Paris Agreement goals, opting instead to create opportunities for progress, such as transitioning from fossil fuels to green energy. Engagement occurs through various coalitions, shareholder meetings, letters and resolutions. Mark O'Kelly, Director of Finance and Administration, supported an asset management firm to launch the Climate Active Endowments Fund in 2018. The trust invests alongside the fund with shared investments, supporting engagement activities.

In 2019, the trust became a founding signatory to the UK Funder Commitment on Climate Change, which later become part of the global #PhilanthropyForClimate movement. This commitment prompted the trust to demonstrate its climate change approach publicly. In 2021, the trust posted a comprehensive Climate Change statement on its website, outlining an annual action plan aligned with the UK Funder Commitment's pillars. The action plan details various ways the trust leverages its investments to address climate change, emphasising portfolio alignment, company engagement and investments with positive environmental impacts.

Building the field: The Charities Responsible Investment Network

As part of its journey to climate-align its endowment through active engagement, the Barrow Cadbury Trust supported the creation of the Charities Responsible Investment Network (CRIN). CRIN is facilitated and managed by ShareAction, a responsible investment advocacy organisation.

In the UK, charities collectively hold over £115 billion in investments, presenting a significant opportunity for impactful change. CRIN plays a crucial role in leveraging this potential by bringing together charities with investments to align their financial resources with their missions through responsible investment practices. Over the past few years, CRIN has actively engaged with investee companies, investment managers and policymakers on a diverse range of environmental, social and governance issues. These include advocating for the Living Wage, addressing workers' rights in supply chains, scrutinising executive pay, challenging corporate lobbying practices, and evaluating investment managers' voting records.

Through collaborative efforts, CRIN empowers charities to integrate responsible investment strategies, allowing their financial assets to contribute meaningfully to their charitable objectives and drive positive societal and environmental impact.

3. Success and limiting factors

Success factors

Extensive experience:

Leveraging the trust's considerable experience in ethical, responsible and social investment, along with a track record in supporting social change, provided a strong prerequisite for success.

Strategic expertise

The foundation's ability to bring the right expertise on board played a pivotal role in navigating the complexities of climate-aligned investing and ensuring informed decision-making.

Holistic recognition of climate change

Recognising climate change as a cross-cutting issue allowed the trust to instil its relevance throughout the organisation, garnering commitment from board members, staff and broader partners in the field.

Inclusive engagement

Encouraging commitment from the entire organisation fostered a coordinated effort, aligning stakeholders with the trust's climate goals.

Collaborative learning

Actively engaging with other foundations through discussions and formal networks, such as CRIN and the UK Funder Commitment on Climate Change, facilitated shared learning, contributing to an informed and effective approach.

Limiting factors

Resource-intensive engagement

The active engagement approach demanded significant time and expertise, posing a challenge in terms of resource allocation.

Complex impact assessment

Assessing, capturing and attributing the impact of investments proved challenging due to the long-term nature of structural change work. The difficulty in quantifying and attributing specific outcomes posed limitations on evaluating the success of the investments. For example, some changes in company behaviour brought about by active engagement seem significant but are demonstrated to be short term. This is illustrated by the case of Barclays bank which, in 2020, in response to a shareholder resolution, agreed to align its activities to the Paris Agreement and to bring emissions down to net zero by 2050, but continues to finance new oil fields.

> *"It's important to ask, what's the acceptable risk profile of your organisation? And how often do you interrogate that in light of current events?"*
>
> **Sara Llewellin,** Chief Executive (Barrow Cadbury Trust)

4. Results

Barrow Cadbury Trust's **investment portfolio is now fully aligned with the climate active approach** of their investment manager.

The trust's mission fundamentally revolves around driving change, aiming not merely to alleviate symptoms but to transform structures, systems and government policies, and enact legal changes. It recognises that **its investments now play a similarly transformative role,** engaging all stakeholders and actively working to shift paradigms. According to the trust's leadership, the development of an ecosystem in the field generates more impact than the impact of an individual trust's investment portfolio.

This signifies a shift in focus towards collaborative and systemic efforts, recognising the significance of **broader engagement and the network effect** in creating lasting and meaningful change within the responsible investment landscape of the UK charity sector through CRIN and the UK Funder Commitment on Climate Change.

5. Resources

Barrow Cadbury Trust's climate action plan and progress 2023-2024

Charities Responsible Investment Network (CRIN), facilitated and managed by ShareAction

CASE STUDY

NORDEA-FONDEN

Putting values into action through ethics-driven investments

COUNTRY	Denmark
FOUNDER	Sparekassen SDS, in 1989
TYPE	Grantmaking foundation
MISSION	The foundation's mission is to support a good quality of life by means of health, exercise, nature and cultural initiatives that bring people together.
FOCUS AREAS	Local life, helping children and young people on their way, getting outdoors, encouraging participation (civic life)
BUDGET	Annual grantmaking budget: €120 M
ENDOWMENT	Size of endowment: €2.1 B

> *"We cannot as a foundation save the world. But it's very important for us to do something and to act on what we are saying."*
>
> **Lars Ingemann Nielsen,** Executive Vice-President and Chief Financial Officer (Nordea-fonden)

1. Motivation

The Nordea-fonden board played a pivotal role in reshaping the investment strategy, starting with the formulation of the foundation's core values.

The establishment of ethical conduct as a fundamental value, crucial for public trust, guided the board's governance vision. Committing to these values, the board embraced a defined strategic direction which, ultimately, sparked a change in the endowment investment strategy starting in 2017. This transformation was driven by a steadfast dedication to their ethical guidelines, underscoring Nordea-fonden's commitment to responsible and principled financial management.

2. Approach

Starting in 2017, Nordea-fonden embarked on a comprehensive approach to reshape its investment strategy focusing on gradual diversification and the integration of environmental, social and governance (ESG) criteria. This transformative journey was driven by a commitment to align the foundation's investments, as well as its grantmaking and operations, with its core values, fostering ethical conduct as a cornerstone for public trust.

The foundation's learning process during this period culminated in a refined investment strategy outlined in 2019, marking a significant shift toward a strong ESG focus. Since then, Nordea-fonden has systematically integrated climate-aligned elements across its endowment, grantmaking and overall organisational operations. This holistic approach demonstrates the foundation's dedication to responsible investing as a means to enact positive change. Moreover, the foundation decided recently to make all their investment decisions publicly accessible.

Internally, Nordea-fonden has established a more collaborative way of working, resembling a partnership among the board, investment committee and administration. The daily operation is managed by an internal investment team of two, led by Lars Ingemann Nielsen and with investment officer Martin Jessen Nielsen. This strategic alignment allows for clear strategic direction, in-depth analysis and innovative proposals. The internal investment team is crucial for implementing and managing the investment strategy, which includes seeking new investment types, monitoring ongoing engagements via their asset managers, and ensuring conformity with the foundation's guidelines. Collaborating closely with the communications team, they prioritise transparency and awareness, aiming to showcase how the foundation's investments align with its Ethical Guidelines.

A notable development in 2022 was the creation of a "living document", termed the "3 × 3 matrix", which sets out ESG criteria for the different components of the foundation's work on one axis and the foundation's investments, grantmaking and operations on the other. This matrix exemplifies the foundation's holistic approach, which includes documenting actions, disseminating information internally, making continual updates and incorporating staff input.

The major advances so far are in the investments: Approved in February 2023, the Nordea-fonden Ethical Guidelines now cover all investments made by the foundation and are based on the foundation's core values. They lay out the foundation's adherence to the ten principles of the UN Global Compact and the Sustainable Development Goals. Notably, they include a commitment to phase out fossil fuel investments by 2029, with exceptions for companies contributing positively to a low-emission society. The Ethical Guidelines prioritise principles over returns, allowing the foundation to reject any investments that do not align with its values. The foundation, working with external asset managers, emphasises compliance with these guidelines, committing to address any breaches collaboratively or divest if necessary.

> *"Transparency is also part of this journey for us. We support good living, but we don't have one recipe for it, neither do we have one recipe for how to go about climate and sustainability investment. But we're all learning here, and we believe that if we share our learnings, together with each other and with other organisations, we can all become better. We try to lead the change and inspire others – just as we are inspired by others."*
>
> **Tine Wickers,** Head of Communications and Knowledge Sharing (Nordea-fonden)

To uphold these guidelines, monitoring is paramount. External data providers conduct periodic screenings against the UN Global Compact principles and Ethical Guidelines. The due diligence process has evolved to focus more on ESG compliance, emphasising documentation of support for environmental, sustainability and governance aspects. Concretely, this means asking the asset managers to document how they support the different ESG-related aspects of the UN Sustainable Development Goals. The foundation can demonstrate clear evidence of progress because of this vigorous process. When Nordea-fonden started, about 10% of all companies showed a red flag (i.e. non-compliance), today the clean share of the screening is very close to 100%.

Nordea-fonden's commitment to climate change and ESG investments has guided the team towards Article 9 funds (see sidebar) as well as venture funds for early-stage start-ups, for example in the construction sector. This strategic shift reflects the foundation's evolving interests and its proactive approach to staying at the forefront of responsible investing trends.

In essence, Nordea-fonden's approach is a detailed and intricate framework that intertwines values, strategy and collaboration, underpinned by a commitment to responsible investing that extends beyond financial returns. This multifaceted approach demonstrates the foundation's dedication to fostering positive change, not only through its investments but also through active engagement, transparency and collaboration within the broader philanthropic and investment communities.

Navigating an evolving regulatory context: The Sustainable Finance Disclosures Regulation (SFDR)

This is an EU regulation that aims to improve transparency, reduce greenwashing practices and make it easier to compare financial products, as part of the EU's commitment to the implementation of the Paris Agreement and the 2030 Agenda. It sets out requirements regarding how financial market participants and financial advisors disclose information about integrating ESG factors into their investment decisions and advice.

The SFDR distinguishes between three types of financial products:

Article 6 investment

Financial product that does not promote environmental or social characteristics, nor has sustainable investment objectives.

Article 8 (or light green) investment

Financial product that promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practice.

Article 9 (or dark green) investment

Financial product that has sustainable investment objectives, in alignment with the EU's taxonomy for sustainable activities.[8]

3. Success and limiting factors

Success factors

Organisational support

The approach's success is attributed to unwavering support from the entire organisation, spanning from the board to staff members. This collective backing underscores a strategic decision to align values, mission, ethical engagement and guidelines across investments, grantmaking and operations.

Ethical Guidelines

Nordea-fonden's commitment to its Ethical Guidelines, rooted in the ten principles of the UN Global Compact and the Sustainable Development Goals (SDGs), is a foundational factor. The guidelines also demonstrate a clear alignment with the objectives of the Paris Climate Agreement.

Screening process

The diligent and consistent screening process for investments, coupled with regular dialogue with asset managers and benchmarking of responses, ensures the foundation's adherence to ethical and sustainable criteria.

Inspiration and networking

Drawing inspiration from other organisations and networks engaging in similar approaches – including the UN Global Compact, Philea and other Danish foundations – plays a crucial role in sustaining the momentum and driving the process forward.

Limiting factors

Changing landscape

The continually changing landscape, characterised by evolving meanings and shifting goals, poses challenges. Ambiguity, especially in defining sustainability, and recent changes in the ESG classification taxonomy for funds contribute to complexities in decision-making.

Data availability

Limited availability of data for ESG criteria, despite improvement, remains a challenge. Robust data is crucial, particularly for measuring alignment with the UN SDGs. Addressing this limitation is essential for informed decision-making.

Asset manager challenges

Asset managers face challenges in assessing criteria and data within a dynamic environment, impacting the comprehensive understanding of certain investments. Overcoming these challenges requires continuous adaptation to evolving standards and practices in responsible investing.

> *“We have ethical guidelines which are not just words on a paper but something that's actually living and followed. If there is a breach, then we need to follow up on it.”*
>
> **Martin Jessen Nielsen,**
> Investment Officer (Nordea-fonden)

4. Results

Nordea-fonden's **investment portfolio is now nearly 100% compliant with ESG criteria.**

The foundation has also prioritised a **greater level of transparency** by sharing its commitments and framework for investing, as well as through stronger **internal collaboration.** This transparency has proven important for internal motivation as well as for reputation management.

The shift in investment priorities has sparked an interest within the foundation in **different types of investment vehicles** such as venture funds and mission-related investments.

Nordea-fonden is contributing to conversations on sustainable investments in Denmark and Europe. The foundation seeks to be part of large networks comprising fellow foundations, asset managers driven to perform, and professional organisations that **contribute to a growing knowledge base.**

5. Resources

Nordea-fonden webpage on investment

United Nations Global Compact – The Ten Principles

GLOSSARY

Engagement

The process whereby investors attempt through correspondence and dialogue to improve the climate performance of a company. According to the Intentional Endowments Networks, “Engagement is central to net-zero commitments on three levels:

(1) Shareholder engagement **directly with companies** is a powerful tool for driving corporate action to reduce emissions and adjust business models. This can include developing guidelines for the foundation’s shares, filing shareholder resolutions, and signing public or private letters that express concern.

(2) For most endowments, engaging **with external managers** is required to ensure that a just transition is central to their investment process and engagement with companies.

(3) Engaging **on policy issues** is important to ensure a policy environment that drives the shift to a low-carbon economy with a level playing field.”[9]

ESG standards

ESG stands for environmental, social and governance. It refers to a set of criteria that investors use to assess a company’s performance in these three areas. Environmental criteria evaluate a company’s impact on the planet; social criteria assess its relationships with employees, communities and customers; and governance criteria examine the company’s leadership, ethics and internal controls.

Impact investing

These are investments that aim to generate a financial return as well as a clear and measurable positive social and environmental impact. The climate impact of an investment might be measured, for example, in tons of carbon absorbed (for instance, through reforestation or other nature-based solutions).

Negative screening

This involves excluding certain sectors or companies based on either their conduct or the type of products they produce. This may apply to whole sectors or individual stocks. Examples are tobacco, guns or oil and gas.

Positive screening

This involves investing in companies whose aims, practices or products are aligned with the foundation’s ESG priorities. These may be “best-in-class” companies, which employ the best practice in their industry. Foundations might also choose to only invest in companies with a carbon footprint under a minimum threshold. This can be done by replacing traditional indexes tracked in passive investments with ESG filtered indexes.

Thematic investing

This strategy focuses on investing in specific themes or sectors that address sustainability challenges. Foundations can invest in climate-focussed sectors such as renewable energy, clean technology, energy storage or green infrastructure.

FURTHER READING

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ENDNOTES

1 World Economic Forum (2023). The Global Risks Report 2023: Insight report (18th edition).

2 Data from 21 European countries (Philea, 2023).

3 Nick Perks (2022). International Philanthropy Commitment on Climate Change: Implementation Guide. Philea and WINGS.

4 Centre Français des Fonds et Fondations – Coalition Française des Fondations pour le Climat (2023). Bilan annuel des actions mises en place par les signataires du Manifeste pour le Climat.

5 Rachel Heydecker (2023). Stepping up to the climate crisis: Funder Commitment on Climate Change 2023. Association of Charitable Foundations.

6 Quakers in Britain. Our values.

7 A **segregated portfolio** is a set of assets separated from a larger group that are managed according to the risk parameters, the investment objectives, and the ethical constraints defined by a client. A key advantage is that the client can identify at all times exactly which stocks are being held. This is in contrast to a pooled investment which is a professionally managed fund with determined objectives and a risk-return trade-off that brings together capital from many investors. Investopedia. Segregation: Definition, how it works works with securities and example.

8 European Parliament and European Council Regulation (2019). Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (text with EEA relevance). European Commission. EU Taxonomy Navigator.

9 Intentional Endowments Network (2021). Net Zero Endowments to address the climate crisis and lead a just transition.

10 Nick Perks (2022). International Philanthropy Commitment on Climate Change: Implementation Guide. Philea and WINGS.

ABOUT

Philea – Philanthropy Europe Association

Our vision is for philanthropy to use its full potential to co-shape and support a pluralistic, just and resilient society that centres people and planet. To achieve this, our mission is to enable, encourage and empower the philanthropic community to build a better today and tomorrow.

We nurture a diverse and inclusive ecosystem of foundations, philanthropic organisations and networks in over 30 countries that work for the common good. With individual and national-level infrastructure organisations as members, we unite over 10,000 public-benefit foundations that seek to improve life for people and communities in Europe and around the world.

We galvanise collective action and amplify the voice of European philanthropy. Together we:

- Co-create knowledge and learn **from effective practices**
- Collaborate **around current and emerging issues**
- Promote enabling environments **for doing good**

In all we do, we are committed to enhancing trust, collaboration, transparency, innovation, inclusion and diversity.

www.philea.eu

The European Philanthropy Coalition for Climate (Climate Coalition) is an initiative of Philea and was co-initiated by the PEXcommunity. We believe that all foundations and philanthropic organisations, regardless of their mission, can and should commit to meaningful climate action. We want to offer a framework for this journey.

Since 2021, the Climate Coalition has worked in partnership with WINGS to launch and scale the global #PhilanthropyForClimate movement and the International Commitment. Philea leads on supporting the emergence of new national commitments in Europe and acts as the main point of contact for European signatories to the International Commitment.

www.philea.eu/climatecoalition

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