Morgan Stanley

Mission Align 360°

Maximizing an organization's connection between mission and capital

Organizations, families and individuals responsible for overseeing capital intended for charitable purposes are increasingly investing in opportunities that positively impact our global society, environment and economy. These efforts will not only help solve some of the biggest challenges of our times, but also help transform impact investing and philanthropy as we know them. This primer provides an overview and roadmap to achieve Mission Align 360°—the process by which an organization, such as a foundation, examines all capital including human, financial and philanthropic—for allocation toward its mission and creating positive impact.

Today, in addition to the more than 1,000,000 tax-exempt public charities in the United States, there are over 105,000 private foundations and over 368,000 other types of nonprofit organizations such as chambers of commerce, fraternal organizations and civic leagues.[1] Private foundations are required to distribute at least 5% of their investable assets through grants, program-related investments and qualifying expenses annually. This amounts to nearly $60 billion in giving.[2]

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GLOSSARY

HUMAN CAPITAL: The collective skills, talents, knowledge or other intangible assets of individuals that can be used to create economic value.

PHILANTHROPIC CAPITAL: Capital that has no, or low, expectation of financial return such as grant-making and program-related investments.

FINANCIAL CAPITAL: Investments that seek to achieve specific social goals while targeting market-rate financial returns.

Other nonprofit organizations, such as universities with endowment programs, enter into binding agreements with donors that generally have a payout range of between 3% to 5% percent. The endowed assets are then used to generate sufficient return to meet the financial needs of the organization. When you combine philanthropic capital with financial or invested capital, together these exempt organizations have a combined $3 trillion in total assets,[3] with approximately $715 billion of that amount constituting private foundation assets.[4] This vast ocean of capital—both philanthropic and financial—when aligned with the organization's mission, offers an opportunity to generate even greater positive impact.

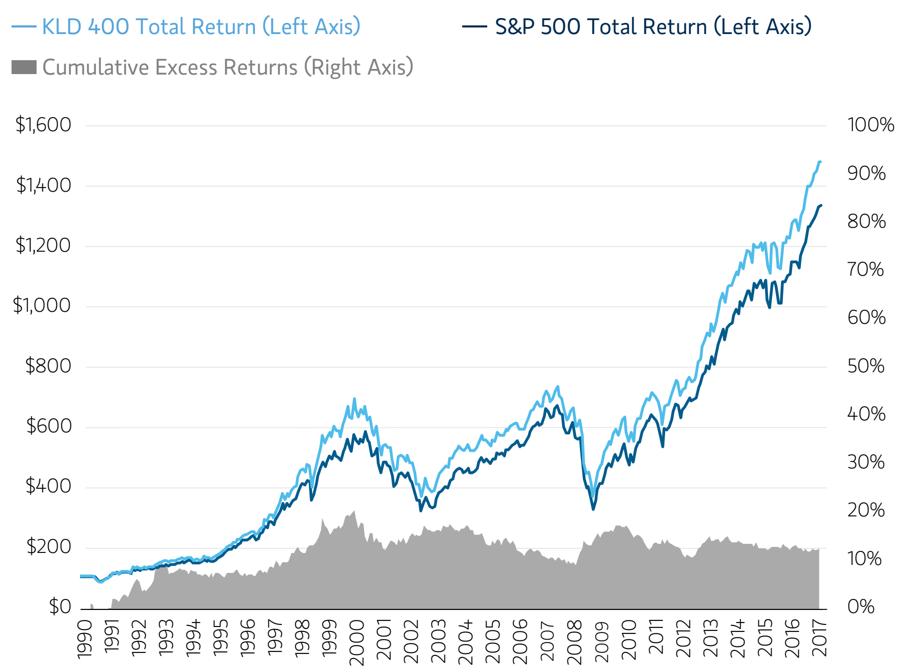
As an increasing number of institutions deploy sustainable and impact investing to meet today's global challenges such as poverty alleviation, access to education, health care and climate change mitigation, organizations are uniquely positioned to take the lead. First and foremost, they have experience. Organizations, such as foundations, have been engaging in mission-related investing since long before the term "impact investing" was coined in 2007. Foundations also have a deep understanding of, and fundamental commitment to, creating and measuring impact. Finally, foundations can often provide more flexible, risk-tolerant and patient capital than other types of investors.[5]

At Morgan Stanley, we understand that organizations of all types have the capacity—and increasingly the desire—to do more. Few have been leveraging the full spectrum of their human, financial and philanthropic capital to meet their long-term financial objectives and create mission alignment. However, we see a maturation of the market to encourage this approach, which we call Mission Align 360°. For example, a growing body of evidence has demonstrated that sustainable and impact investments, which can be activated for mission alignment within financial pools of capital, do not pose a significant risk to returns nor have they generated below-market-rate returns. In fact, impact investments can align with the fiduciary responsibility of foundation trustees (see Exhibit 1). This is a critical point, given that foundation trustees have historically perceived sustainable and impact investments to be incompatible with their fiduciary duty. However, given supporting evidence, organizations can seek to maximize the deployment of all capital toward mission, specifically through innovative methods of harnessing communities, expertise and people to exponentially increase the impact of each dollar they invest.

What is unique about Morgan Stanley is that we offer a vast array of capabilities and deliver the experience required to be a trusted advisor in helping organizations transition to Mission Align 360°—an approach to aligning total portfolios with purpose—across all dimensions. The goal of Mission Align 360° is to advance the broader industry by making it easy for organizations to align all of their resources and capital with mission and generate positive impact.

Exhibit 1. May 1, 1990–Dec 29, 2017 (Single Computation)

(Cumulative Return (%))



Past performance is not necessarily indicative of future results.

Source: Bloomberg, MSCI.

Mission Align 360° Defined

Morgan Stanley defines Mission Align 360° as the process by which an organization examines itself from every vantage point—a 360 degree view. That examination requires the organization to assess its human, financial and philanthropic capital and how such capital is allocated in order to accomplish its mission. Through Mission Align 360°, organizations can leverage their own endowed funds to generate positive impact and avoid missional misalignment while seeking to achieve their financial objectives.

In an ideal state, Mission Align 360° represents all capital pools fully aligned to the organization's mission. The reality is that sourcing precise mission-tailored financial investments and philanthropic opportunities can be challenging. Therefore, in practice, Mission Align 360° does not always mean that 100% of assets are aligned, but it does mean that all pools of capital are being thoughtfully and diligently considered for furthering the mission of the organization, as well as alignment with impact objectives. Creativity and flexibility are required to ensure that assets are activated to the extent possible to further goals and maximize impact.

Background and Context

For nearly 20 years, the field of philanthropy has been engaged in an important conversation about impact—both how to measure it and how to deliver it programmatically. More recently, the focus of the discussion has expanded beyond traditional grant-making and program-related investments to include the advancement of impact through the capital markets, thereby folding investment professionals into conversations around mission alignment and positive impact.

For many organizations, grant-making and other mission-related work has remained separate from the stewardship of the organization's financial capital such as the endowment, cash management or operating pools and retirement accounts for employees. This creates an intrinsic tension as organizations spend most of their time thinking about achieving their social and/or environmental mission through grant-making while the majority of their capital is in financial investments that are put to work in the investment market with the goal of earning financial returns that sustain the grant-making power of their endowments. Mission Align 360° is an approach that enables organizations to more deliberately leverage all their pools of capital—human, financial and philanthropic—as tools for social transformation to advance, and align with, their missions.

The practice of using investment capital to create positive environmental and social impact is not new; it spans many generations and over a century of history, beginning with faith-based institutions and individuals who have considered the social and environmental impact of their investments since the 19th century.

In the 1970s, the first mutual funds that restricted exposure to certain objectionable industries were launched. The first of such funds avoided tobacco, alcohol, nuclear power and military defense contractors considered to have labor and employment issues.

Around this time, several organizations were founded to assist investors seeking to align capital with purpose. For example, a consortium of colleges, universities and foundations established the Investor Responsibility Research Center (IRRC) in 1972, while religious investors founded the Interfaith Center on Corporate Responsibility (ICCR) a year later and filed their first shareholder resolution. In 1984, a trade association for this approach to investing—US SIF, the Forum for Sustainable and Responsible Investing—was launched and still holds annual conferences across industry stakeholders.

> "If philanthropy's past has been about leveraging grants to make a positive impact, its future is about leveraging all available capital to create a better world."
>
> – Tom Nides, Managing Director, Vice Chairman, Morgan Stanley

In recent years, numerous trends have shaped the evolution and growth of sustainable and impact investing within global financial markets, including the launching of the United Nations Principles for Responsible Investing (UN PRI) in 2006. In 2017, there were over 1,750 UN PRI signatories representing approximately $70 trillion in assets, including 364 asset owners, including 17 foundations and endowments with approximately $52.7 billion in assets.[6] In 2015, the United Nations adopted 17 goals, called the UN Sustainable Development Goals, aimed at creating a more equitable, prosperous and sustainable planet. These goals seek to provide a common language for asset owners and managers to understand the macro sustainability challenges that require global resources to solve.

Further, the infrastructure continues to evolve to support this growing field. For example, the Global Reporting Initiative, the Sustainability Accounting Standards Board and the International Integrated Reporting Council are three initiatives that seek to promote and standardize corporate reporting of the data that investors need to assess companies' societal and environmental impact and long-term investment potential. Third-party data providers such as Bloomberg, ISS Ethix, MSCI, Sustainalytics, and others are also contributing to this ecosystem of data and research standardization.

From a policy perspective, in recent years, both the Department of Labor and Internal Revenue Service have issued rulings with the intention of clarifying the fiduciary responsibility of pension and foundation leadership. Specifically, the DOL ruled that private pension plans subject to the Employee Retirement Income Security Act of 1974 (ERISA) are allowed to consider environmental, social and governance factors as part of the investment selection process, and the IRS ruled that foundations can make investments related to mission and keep tax-exempt status so long as they also produce financial returns.

Furthermore, assets invested to achieve both financial and environmental or social performance have continued to show momentum given continued education, awareness and the availability of high quality investment products; Morgan Stanley offers many sustainable and impact investments through our Investing with Impact Platform.

Over the last 20 years, the assets invested toward positive environmental and/or social impact have grown significantly in the United States (see Exhibit 2).

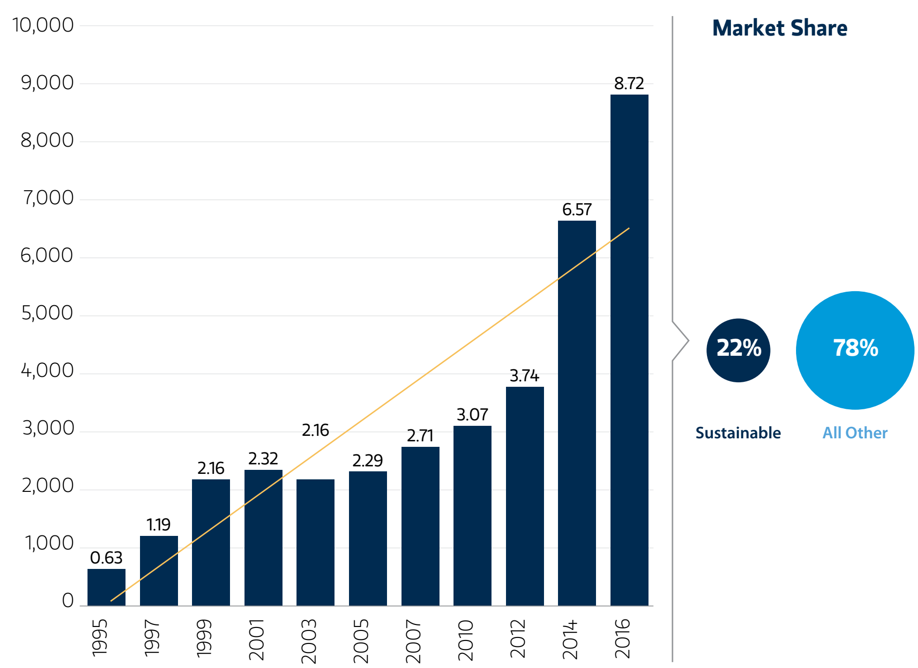
MILESTONES INCLUDE:

- **IN 1995,** when US SIF published its first report on SRI trends, $639 billion were identified as using "sustainable, responsible and impact" strategies.
- **BY 2005,** that figure had grown to $2.29 trillion.
- **IN 2010,** US SIF identified $3.07 trillion in "sustainable, responsible and impact" assets under management, up more than 13 percent over the start of 2007 despite the decline in several broad market indices such as the S&P 500 over the same period.
- **BETWEEN 2010 AND 2016,** growth tripled in the assets and number of mutual funds considering ESG criteria.
- **IN 2016,** the total amount of capital committed to sustainable, responsible and impact investing had risen to $8.72 trillion, or more than one out of every five dollars under professional management in the U.S.

Globally, Europe continues to be the dominant region for sustainable investing. Approximately 53% of managed assets in this region are invested with a sustainable, responsible or impact approach. In the Asia-Pacific region, Australia and New Zealand are leading the way with a sustainability approach applied to approximately 50% of total managed assets, whereas Japan is 3% and Asia ex Japan is closer to 1% according to the Global Sustainable Investment Alliance.

Exhibit 2. Sustainable, Responsible and Impact Investing in U.S. 1995-2016

($ Trillion)



Past performance is not necessarily indicative of future results.

Source: Report on the Sustainable and Responsible Investing Trends in the United States. U.S. SIF Foundation, 2016.

A Snapshot: 360° of an Organization

Organizations, such as public and private foundations, exist to direct capital to solve social and environmental problems. Organizations utilizing the Mission Align 360° roadmap are encouraged to consider all available pools of capital for potential alignment to their missions:

HUMAN CAPITAL. This refers to the collective skills, talents, knowledge or other intangible assets of individuals that can be used to create economic value for the individuals, their organization or their community. Organizations that most effectively utilize their assets are those that support emerging non-profit staff leaders, cultivate and retain strong board members, and leverage their people to define an organization's culture and values. Therefore, periodic review of the board of directors, CEO and staff is essential to Mission Align 360°.

PHILANTHROPIC CAPITAL. This is a broad term which describes capital that has no, or low, expectation of financial return such as grant-making and program-related investments. Conducting a thoughtful, comprehensive evaluation of an organization's priorities and approach to their grant-making strategies is an essential step to Mission Align 360°. An organization should evaluate existing grant commitments to ensure mission alignment in the context of its impact-driven grant-making guidelines.

FINANCIAL CAPITAL. These are investments that seek to achieve specific social and/or environmental goals while targeting market-rate financial returns. Market-rate investments can be activated toward a foundation's mission using a variety of products and solutions, including the foundation's endowment corpus, employee retirement plans and cash management.

Exhibit 3. Charitable Organizational Capital Available for Mission Align 360°

Mission Align 360° Approaches Across All Capital

Mission Align 360° comprises a full spectrum of approaches ranging from minimizing mission misalignment to increasing direct impact through a range of financial and philanthropic capital including grants, program-related investments, impact investing, thematic exposure, environmental, social and governance integration and restriction screening. Human capital is the critical element that an organization utilizes to deploy its financial and philanthropic capital. An organization's board is responsible for developing and overseeing the strategic direction of its financial and philanthropic capital while its staff is responsible for administering its best use on a day-to-day basis. Effective human capital management, such as sourcing diverse and talented individuals and offering continuing education and training opportunities, is essential to ensuring that an organization has the right people in the right positions to achieve its mission.

Financial Capital

Financial capital can be activated across a spectrum of mission-aligned investment approaches with the commonality that all are seeking commercial or market-rate returns to support the short- and long-term financial needs of the organization. Further, these investment strategies can be selected to achieve either broad or specific social and/or environmental goals in accordance with the mission and charitable objectives of the organization. Mission-aligned investments include:

RESTRICTION SCREENING

Organizations may choose to restrict their exposure to companies that directly contradict their mission or values. For example, an organization focused on addressing climate change may opt to avoid enterprises with significant carbon reserves. This can be implemented either by investing in managed strategies that employ restriction screens as part of their investment selection process or by utilizing Morgan Stanley's restriction overlay screens on top of separately managed account and single-stock portfolios.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") INTEGRATION

Organizations may choose to invest in companies that, in addition to strong financial performance, also have strong environmental, social and governance performance. This approach assesses companies on the performance of their corporate operations relative to companies in similar industries. Investors seek to use material ESG data as part of their investment process, that is, to focus on integrating environmental, social and governance data that have a significant impact on the financial conditions or operating performance of a company into their valuation model or as a way to optimize for higher ESG-rated companies. There are ESG-integrated strategies across asset classes, and each strategy tends to utilize different data and integration process.

THEMATIC EXPOSURE

Organizations may choose to invest across asset classes in thematic opportunities that align with their mission. An example of this is an organization dedicated to expanding access to clean water in emerging markets that in turn invests in public companies developing water purification technology. This approach focuses on companies that are creating products and services that are advancing solutions to global social and environmental challenges and generating positive impact.

GLOSSARY

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG): Sustainable corporate practice data used as part of the ESG integration process. Data available across public and private companies can include carbon emissions reporting, energy efficiency, water intensity, board diversity and more.

THEMATIC EXPOSURE: Focusing on themes and sectors dedicated to solving sustainability-related domestic and global challenges.

IMPACT INVESTING: Allocating investment funds to private enterprises structured to deliver specific positive impacts.

IMPACT INVESTING
Some organizations may be qualified to allocate capital to investment strategies that focus on private enterprises aligned with their mission either through equity or debt investments. This approach can complement public market investments and/or often allow an organization to target closer to the ground impact.

SHAREHOLDER ENGAGEMENT
Shareholder engagement through proxy voting, filing of resolutions and ongoing dialogue with companies can be activated across all mission-related investment approaches in the public markets. For example, an organization focused on gender equality may work with a company to disclose its equal pay results, and an organization focused on combatting climate change may request that a company set renewable energy goals and publish progress against them. Today, many asset managers utilize shareholder engagement as a tool to improve the sustainable corporate practices of the companies in which they invest. As long-term owners, asset managers can seek to play a more active role as shareowners and act on your behalf as an investor in their strategy. Organizations can also use the tools of shareholder engagement by working through an advocacy organization or other like-minded institutions to aggregate shares owned and influence corporations.

Philanthropic Capital

Philanthropic capital can be activated across a spectrum of approaches to address the organization's fiscal position, its current strategies and its assessment of mission alignment and impact.

PROGRAM-RELATED INVESTMENTS
Program-related investments (PRIs) employ varying financing methods—including loan guarantees, lines of credit and equity investments—to achieve the organization's mission. These investments are differentiated by a direct focus on mission and regulation against purposeful creation of income, with an expectation of below-market returns; this type of philanthropic capital counts toward a foundation's 5% distribution requirement.

GRANTS
Grants involve awarding non-repayable funds to businesses, individuals or other entities to help promote and advance the organization's mission. Grants can have the most direct and immediate impact on mission because they provide capital directly to the end-user with no expectation of return.

GLOSSARY

MISSION-RELATED INVESTING (MRI): Aligning a charitable organization's mission for social or environmental impact with the investment of assets while seeking a long-term financial return.

PROGRAM-RELATED INVESTING (PRI): A loan or other investment made by a foundation to a for-profit or nonprofit organization. Program-related investments are an exception to the general rule barring jeopardy investments. The foundation generally expects to receive its money back with limited or concessionary returns. This return can then be recycled to provide additional funds for loans or investments to other organizations. A program-related investment may involve loan guarantees, purchases of stock or other kinds of financial support.

"The urgency and size of the problems we face require that we work differently. Everything at our disposal is now a mission-critical resource. Organizations' financial tool kit should include every investment instrument, all asset classes, and all enterprise types..."

– former president of a U.S.-based private foundation

Exhibit 4. Morgan Stanley Mission Align 360° Financial and Philanthropic Capital Approaches

MINIMIZING MISSION MISALIGNMENT → INCREASING DIRECT IMPACT

	Restriction Screening	Environmental, Social and Governance (ESG) Integration	Thematic Exposure	Impact Investing	Program-related Investments	Grants
DEFINITION	• Managing exposure by intentionally avoiding investments based on specific criteria	• Proactively considering ESG criteria alongside financial analysis to identify opportunities and risks during investment process	• Focusing on themes and sectors dedicated to solving sustainability-related domestic and global challenges	• Allocating investment funds focused on private enterprises structured to deliver specific positive social and/or environmental impacts	• Employing varying financing methods (loan guarantees, lines of credit, equity investments, etc.) in order to achieve mission of foundation	• Awarding non-repayable funds to businesses, indiduals or other entities to help promote and advance mission of foundation
CHARACTERISTICS	• Differentiated by restriction criteria and degree of shareholder advocacy • Not proactively seeking environmental and social impact • Shareholder engagement	• Differentiated by ESG integration process and degree of shareholder advocacy • May also include screens • Shareholder engagement	• Differentiated by macro-analysis, sustainability research and sector focus • Shareholder engagement	• Differentiated by impact approach, regional focus, liquidity and impact reporting • May have investor restrictions • Shareholder engagement	• Differentiated by direct focus on mission and regulation against purposeful creation of income • Returns must be invested or granted the year repaid	• Differentiated by non-requirement for repayment
EXAMPLES	• Mutual fund that excludes companies from buy universe (e.g., tobacco, firearms, coal mining companies)	• Separately Managed Account (SMA) incorporating analysis of ESG performance into stock selection process	• Exchange-traded fund (ETF) tracking index of renewable energy companies	• A private equity fund focused on emerging consumers or project-level renewable energy investment	• A loan to a small business that provides healthy food options to a low-income area	• Monetary support to homeless shelter to fund new staff positions
RETURN	• Market-rate returns	• Market-rate returns	• Market-rate returns	• Market-rate returns	• Provide uncompensated risk and/or below-market returns	• No return

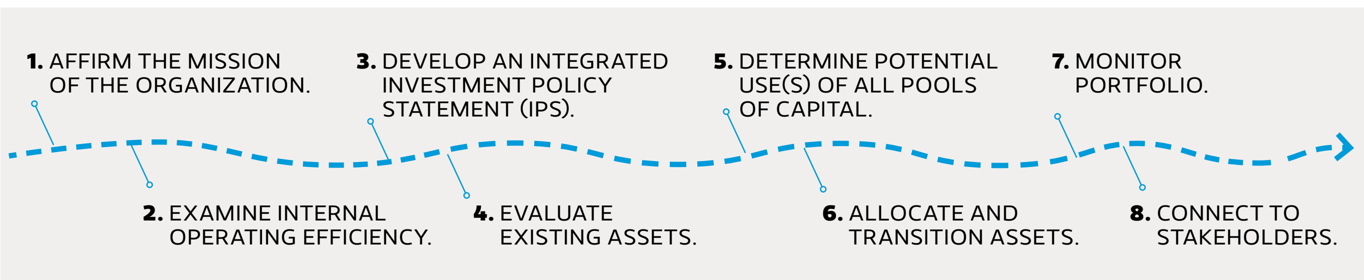
FINANCIAL CAPITAL

PHILANTHROPIC CAPITAL

HUMAN CAPITAL STRATEGY & IMPLEMENTATION

Mission Align 360° Implementation Roadmap

Just as each organization is different, their respective processes for aligning assets with mission and creating positive impact will differ as well. The aim of this Mission Align 360° roadmap is to provide an actionable process that can be customized by each organization to meet its particular needs. Not every organization will begin with step one and continue through to step eight; steps may be skipped or iterated upon as needed.



1. AFFIRM THE MISSION OF THE ORGANIZATION. This includes how that mission is currently pursued and how it is envisioned for the future. For organizations with existing mission statements as well as those establishing them, it is critical to affirm that mission statements successfully define the organization's purpose and values. They should also provide donors and external stakeholders with a clear vision of what the organization is working to achieve. The mission statement should guide decisions that influence how capital—including human, financial and philanthropic—is aligned with organizational goals.

2. EXAMINE INTERNAL OPERATING EFFICIENCY. The Mission Align 360°journey requires that a foundation or other organization be introspective of its internal structure from both operations and human capital perspectives. In order for the organization to successfully implement the process, buy-in and support from the board are crucial requirements. Key team members should be selected to help propel mission-aligned investing efforts, inform stakeholders of the collective vision, and carry out the following responsibilities:

- Providing clarity on Spending Policy Statement (SPS) in regard to achieving mission
- Educating staff and stakeholders and identifying internal team members responsible for Mission Align 360° implementation
- Approving processes and operations that ensure maximum mission alignment
- Ensuring that the Mission Align 360° implementation roadmap is carried out effectively

A best practice is to identify the key team members who will be driving implementation at the beginning of the process. As advocates for aligning mission and assets, these champions should possess the skills necessary to translate the organization's mission into actionable items and be agile enough to help other staff navigate the learning curve. Morgan Stanley has experience in assessing organizational staffing needs and could act as an Outsourced Chief Investment Officer ("OCIO"), if needed.

Once key members have been identified, the organization can begin to organize processes and staff who are critical to Mission Align 360°. Traditional organizations typically operate with two discrete teams:

1. **PROGRAM SIDE,** responsible for grant-making and giving
2. **INVESTMENT SIDE,** tasked with generating the maximum return on assets

The transition to Mission Align 360° calls for alignment of program and investment teams with shared impact and financial goals. With a Mission Align 360° approach, collaborative and/or integrated teams can better achieve the organization's overall vision and execute strategy collectively. Organizations can consider different methods for avoiding internal silos, including consolidation of these two teams or the creation of liaison roles to help bridge the gap.

Exhibit 5. Potential Organization of Key Teams

Program Staff | Key Staff | Investment Staff

The key staff team can be the link between the program and investment departments

Program, Investment and Key Staff

The key staff team can be part of an integrated program and investment department

3. DEVELOP AN INTEGRATED INVESTMENT POLICY STATEMENT (IPS). The IPS should clearly articulate the organization's impact goals alongside its financial goals. The purpose of the IPS is to guide the organization's board, investment committee, advisors or OCIO in properly managing and monitoring assets by clarifying and formalizing priorities, risk and return objectives. It should include guidelines and procedures for handling asset classes and outside managers, as well as the type of Mission Align 360° approaches intended for use and how they relate to achieving the organization's mission. The IPS is a guiding document, and it should not be so specific that it might limit the ability to implement effectively. Further detail can be documented in an investment approach or strategy document.

4. EVALUATE EXISTING ASSETS. The full breadth of an organization's assets should be evaluated according to both impact and financial goals. For each asset, the evaluation should explore its alignment to mission and determine whether that alignment, or misalignment, is incidental or intentional. If alignment is incidental, how can it be made intentional to maximize both impact and return?

- **EVALUATING HUMAN CAPITAL.** An organization's people are its most valuable resource. People are not only the source of the organization's ability to effect change, but also the ultimate decision-makers regarding its strategy to do so. Organizations that most effectively utilize their assets are those that support emerging non-profit staff leaders, cultivate and retain strong board members, and leverage their people to define their organizational culture and values. Therefore, periodic review of the board of directors, CEO and staff is essential to ensuring that the organization is positioned for achieving Mission Align 360°.
- **EVALUATING FINANCIAL CAPITAL.** A best practice is to determine the impact approach being utilized for each asset class. This requires looking at the existing investments, such as individual securities, exchange-traded funds, mutual funds, separately managed accounts and alternatives, to see what, if any, Investing with Impact approach is intentionally integrated into investment selection. Reference the Morgan Stanley Investing with Impact framework for this process.

  The results of this evaluation will indicate where there are opportunities to strengthen mission and impact alignment.
- **EVALUATING PHILANTHROPIC CAPITAL.** Conducting a thoughtful, comprehensive evaluation of an organization's priorities and grant-making strategies is an essential step in ensuring Mission Align 360°. An organization should evaluate existing grant commitments to ensure alignment in the context of its impact-driven grant-making guidelines. New opportunities for existing philanthropic capital may be revealed during the evaluation process. For example, an evaluation of current strategies may reveal that the foundation is ready to deploy PRIs as a vehicle to disburse philanthropic capital to create positive impact. The interest from the PRIs could ultimately be recycled to be deployed again by the organization to achieve mission alignment and positive impact. Because a PRI fulfills a foundation's charitable purpose, funds distributed count toward satisfying a foundation's 5% payout requirement in the year in which they are distributed. Topics that may be addressed during the evaluation include the foundation's fiscal position, its current strategies and an assessment of impact.

Did You Know?

Philanthropy Management works with charitable organizations on creating or revising mission and vision, improving organizational governance, board education and placement, streamlining operations, and enhancing fundraising strategies. The team also works with charitable organizations to assist in the evaluation of philanthropic and human capital to help ensure deployment is aligned with mission.

5. DETERMINE POTENTIAL USE(S) OF ALL POOLS OF CAPITAL. A key characteristic of organizations that have successfully implemented Mission Align 360° is their flexibility with respect to investment decisions. Morgan Stanley believes that achieving Mission Align 360° requires an open mind and creative thinking and encourages organizations to consider all available pools of capital for potential allocation to mission. (See Exhibit 3.) Though there is a wide variety of solutions and products available to organizations, customizing investments precisely to a specific mission can be challenging.

Further, some organizations have missions that are broad, meaning the impact they intend to make is not limited to specific issue areas. This is often true for organizations that are place-based and choose to focus on opportunities in geographic proximity without stipulating what the exact programmatic, mission or impact objectives must be.

Taking a holistic view of impact provides organizations with a more expansive spectrum of products and solutions and gives rise to an important concept known as the bridge to mission (Exhibit 6). The bridge spans the gap between directly targeted program-led tools, such as grants and program-related investments, and mission-related Investing with Impact solutions that aim to achieve market-rate returns. Organizations looking to transition to Mission Align 360° will want to seek potential investments that function as a bridge between program-led philanthropy and mission-led investing.

To better illustrate how the bridge to mission can be utilized, Exhibit 7 details a private foundation's approach to Mission Align 360°. The *Application to Mission* column demonstrates that, although not every strategy is directly aligned with the private foundation's mission, each strategy is carefully chosen to ensure that its broader impact contributes to and advances the organization's values or at a minimum is not contrary.

Exhibit 6. Bridge to Mission

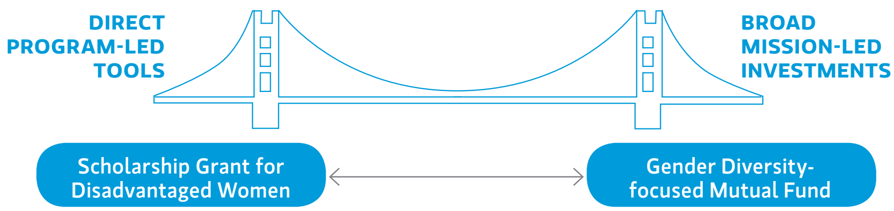


Exhibit 7. Example of Private Foundation Mission Align 360° Approach

PRIVATE FOUNDATION

Mission: Advancing women's health care

	Strategies	Impact/Theme	Approach	Application to Mission
FINANCIAL CAPITAL	MUTUAL FUND	Focuses on gender diversity	ESG integration, thematic exposure	• Invest in companies with highest representation of women, including in management positions • Requires companies to meet broad ESG criteria
FINANCIAL CAPITAL	FIXED INCOME	Lending to women-owned business and empowerment programs	Restriction screening, ESG integration, thematic exposure	• Provides capital to empowerment programs and low- to moderate-income women
FINANCIAL CAPITAL	PRIVATE EQUITY	Focuses on improving health outcomes in emerging markets	Impact investment	• Targets business that provide goods and services addressing quality health care in Africa and South Asia, including women and girls
FINANCIAL CAPITAL	DEFINED CONTRIBUTION PLAN	Focused on gender diversity and global sustainability	ESG integration, thematic exposure	• Adding appropriate investment options aligned with the organizational mission to retirement plan menus can allow employees to maximize impact while saving for retirement
PHILANTHROPIC CAPITAL	PROGRAM RELATED INVESTMENT (PRI)	Funding for expansion of women's health clinic facility	Seed funding/ equity investment	• Provides capital for expansion of facility to increase women's access to health care services
PHILANTHROPIC CAPITAL	GRANT	Contribution for clinic to establish training center	Unrestricted, multi-year	• Contributes funds (without expectation of repayment) for health care clinic to train new physicians
HUMAN CAPITAL	TALENT DEVELOPMENT	Aligning people with mission	Professional development	• Ensures staff is experienced in handling women's health care issues
HUMAN CAPITAL	PROFESSIONAL PLACEMENT	Aligning leadership with mission	Recruitment	• Elects board members with experience promoting access to health care for low-income women

For illustrative purposes only.

6. ALLOCATE AND TRANSITION ASSETS.
The act of shifting capital to align with mission can be challenging. However, the exercise of thinking how each dollar controlled by an organization can be activated to create positive impact can be deeply rewarding. A trusted Morgan Stanley advisor can serve as a valuable resource for successfully navigating the transition of human, financial and philanthropic capital, as well as helping to understand any potential trade-offs or considerations.

HUMAN CAPITAL
Strengthening human capital may require reallocation of resources from talent development toward talent recruitment. Morgan Stanley Philanthropy Management's Non-profit Board and Professional Placement services may be leveraged to assist in these efforts. If allocation of funds is better directed toward talent development, the Morgan Stanley Exemplary Board Leadership Program can provide education and training. Another aspect of human capital is connecting with donors. In an environment where every dollar matters and many organizations are competing for donor attention, the ability to showcase Mission Align 360° can forge a deeper connection between donors and an organization's efforts. One way to do this is through highlighting the organization's Mission Align 360° strategy at events and online website and by educating the development team on how to speak about the Mission Align 360° strategy, all of which could play an important role in connecting more deeply to new and existing donors.

Did You Know?

Morgan Stanley's Investing with Impact Platform has over $7.5 billion across 140+ Investing with Impact ETFs, mutual funds, separately managed accounts and alternative investments across a range of mission and impact objectives. Plus overlay restriction screening capabilities to accommodate further customization.

Exhibit 8. Determining the Most Appropriate Use of Financial and Philanthropic Capital

ORGANIZATION-RELATED	INVESTEE-RELATED
Appetite for risk	Needs of investee (e.g., size of investment, purpose of investment)
Capacity to conduct due diligence for investments across the full spectrum of impact approaches	Ability to repay
Return expectations	Ability and resources to provide data and metrics on investment
Impact outcome (positive environmental and social) expectations	
Availability of resources to monitor investments	

FINANCIAL CAPITAL
Factors to consider when deciding amongst investments include both organization-related and investee-related variables.

Mission Align 360° is a unique journey to be navigated by each individual organization, and there is no "one size fits all" approach. Each organization's motivations to pursue Mission Align 360° can vary widely and across geographic, political, economic and theory of change lines. Another important factor to keep in mind is that the transition can be implemented from the beginning (e.g., for a newly formed or allocated organization) or for organizations with existing asset allocations and underlying investments as either a gradual process to total or partial portfolio or as a carve-out (see Exhibit 9).

The process of allocating capital to achieve financial and mission alignment is rooted in the traditional tenets of asset allocation, manager research and portfolio construction. Evidence demonstrates that asset allocation is the most important determinant of investment outcomes (91%), followed by security selection (5%), market timing (2%) and other factors (2%).[7] As a result, all successful Mission Align 360° implementation across financial capital begins with appropriate asset allocation. Diversified portfolios built with uncorrelated asset classes may lead to a reduction in overall volatility. Once the financial parameters and impact goals have been established, an organization can begin to align capital with mission across the portfolio.

This integration can be done in a number of ways, from total portfolio activation across all appropriate asset classes to a more measured approach looking at activating a portion of the portfolio or by creating an impact carve-out dedicated to these types of investments (Exhibit 9). It is important to note that the ability to target an organization's specific impact goals may become more difficult across a fully diversified portfolio as a result of limited product availability. Therefore, impact approaches might move across the spectrum from a specific targeted impact

Exhibit 9. Transitioning to Mission Align 360°: Financial Capital Portfolio Construction

PARTIAL PORTFOLIO ACTIVATION
Beginning to go all in where available and appropriate with the intention of scaling

CARVE-OUT
Setting aside a dedicated portion of portfolio with the intention of scaling

to broader best-in-class ESG integration or restriction screening or no-impact-at-all approach in line with the financial objectives of the portfolio.

TOTAL PORTFOLIO ACTIVATION: In line with an organization's proposed asset allocation, total portfolio activation can be implemented to achieve both broad and specific impact and mission alignment objectives. Organizations can gradually activate across all asset classes for impact and financial objectives utilizing different impact approaches, as well as a combination of investments (single-stock portfolios, mutual funds, exchange-traded funds, separately managed accounts, etc.). Morgan Stanley offers a broad array of investment products across most asset classes that are researched by a team of over 50 due diligence analysts, including dedicated resources to Investing with Impact. For organizations that are ready to fully align their investments with their stated mission and are clear on both their impact goals and financial objectives within the context of a given opportunity set, total portfolio activation is a useful approach to achieving alignment.

FIT WITHIN AN EXISTING PORTFOLIO (PARTIAL PORTFOLIO ACTIVATION): This approach commits a portion of the portfolio to investments that align financial and impact goals. This could evolve to include a larger allocation (%) of assets activated toward mission alignment over time. Partial portfolio activation could also be used as a replacement strategy. For example, when an asset manager search is required for new capital or to replace an existing strategy, this approach seeks to find alternatives (asset managers or individual securities) that are on equal financial ground and also take into consideration the organization's mission alignment and impact objectives. This process of committing a portion of the overall portfolio could be very useful for organizations where there may not be consensus among investment decision-makers or where there may be low comfort level and familiarity with newer asset manager names and investment styles.

CARVE-OUT STRATEGY: This could be a separate legal entity, managed to its own risk and return parameters and/or thought of as a separate portion of the total assets, but included in the total portfolio risk and return parameters. Organizations may use the carve-out to identify promising investment opportunities, and then integrate these successful investments into the core portfolio if appropriate and in line with the portfolio's strategic financial objectives. The carve-out approach could be useful for organizations that want to empower an impact-focused group to control a smaller, but fully contained, portion of the portfolio and implement impact objectives.

IMPLEMENTATION CONSIDERATIONS: At times, organizations are invested in commingled funds that contain holdings contradictory to their missions or illiquid investments that are subject to redemption lock-ups, which may prevent them from transitioning a portion of assets in line with our Mission Align 360° roadmap. In these situations, a best

> "Experience has taught us that acting as institutional investors and flexing our collective muscles to drive more sustainable and transparent investments can effectively advance our mission."
>
> — president of a U.S.-based family foundation

Exhibit 10. Additional Investment Strategy Activities and Reporting

PROXY VOTING	SHAREHOLDER ENGAGEMENT	REPORTING	INDUSTRY AFFILIATIONS	GIVING CIRCLES
Managers casting a vote on company resolutions	Managers opening dialogue with companies on sustainable issues	Managers disclosing company, bond or other investment impact	Managers contributing to external discussions about key issues	Managers engaging a particular community in collective action around a shared area of interest
EXAMPLES • Voting in favor of proposal to increase sustainability reporting • Voting against board candidate lists due to insufficient diversity	EXAMPLES • Working with company to disclose its equal pay results • Requesting that a company set renewable energy goals	EXAMPLES • Investing in green bond used to fund corporation's construction of sustainable building • Investing in company providing clean technology solutions to fight climate change	EXAMPLES • Integrating UN Sustainable Development Goals into investment decisions • Supporting progress of the Sustainability Accounting Standards Board	EXAMPLES: • Knowledge-sharing of new strategies for investing in renewable energy solutions • Leveraging external experts to bring forward potential funding, advocacy, and mission-aligned investments as a group

practice is to work with fund managers to determine the next best course of action, which may include screening out contradictory holdings or planning a strategy for exit.

PHILANTHROPIC CAPITAL

An organization seeking Mission Align 360° has numerous opportunities to allocate additional philanthropic capital to produce greater impact. For example, to complement traditional grant-making strategies, an organization may opt to allocate philanthropic capital by providing a grant to a donor-advised fund (DAF). A DAF is a private fund administered by a third party and created for the purpose of managing charitable donations. Gifts or grants to a DAF can be in the form of cash, marketable securities, and other assets. Donor-Sponsored Supporting Organizations (DSSO) and Private Label Donor-Advised Funds represent additional types of DAFs that can be leveraged to allocate additional philanthropic capital. This is a common practice for many community foundations, and Morgan Stanley has designed a DAF platform that includes sustainable and impact investing options.

7. MONITOR PORTFOLIO. This includes monitoring for current mission alignment, adherence to the Investment Policy Statement and opportunities to activate assets further to create a positive impact. Impact measurement can be complex and often lacks a standardized method of reporting. However, it is a key evaluative tool to assist organizations in understanding the value of their investments. Morgan Stanley believes that an integrated approach to monitoring the portfolio—from the perspectives of financial performance, mission alignment and impact reporting—is critical to Mission Align 360°.

Investment manager impact data is released as aggregated standardized data, and Morgan Stanley requests impact data from all asset managers with products on the Investing with Impact Platform. In order to be considered for the Platform, investment managers must demonstrate a systematic process for embedding impact approaches into their investment selection process.

8. CONNECT TO STAKEHOLDERS. Connecting to stakeholders enables organizations to effectively communicate the steps they are taking to better achieve mission and the values they are working to uphold. It also enables organizations to better understand their stakeholders' perspectives and concerns. Morgan Stanley is a committed partner to organizations transitioning assets to a Mission Align 360° approach and understands the need for ongoing resources, communication and support. Organizations interested in publicly sharing their Mission Align 360° journey can consider highlighting the details, successes and lessons learned on their own websites.

Exhibit 11. Morgan Stanley Ongoing Support and Resources

THOUGHT LEADERSHIP AND RESEARCH	• Morgan Stanley Institute for Sustainable Investing thought leadership • MS + Co. Sustainability Research • Investing with Impact Tool Kits and research
DIGITAL	• Subscribe to the Morgan Stanley Ideas podcast • Visit the Morgan Stanley website • Social media engagement
FOCUS STORIES	• Perspectives in Philanthropy Journal • Investing with Impact success stories
EXTERNAL COMMUNICATION	• External networks • Peer organizations • Stakeholders and donors

Key considerations in transitioning an organization's capital for mission alignment and positive impact:

START BIG. START SMALL. START SOMEWHERE: Mission Align 360° requires a collaborative partner and trusted advisor with the expertise and resources to advise your organization in navigating all potential ways to maximize positive impact.

ACKNOWLEDGE THAT THE INVESTMENT MARKET IS EVOLVING: While investment approaches aimed to align capital with values have existed for at least a century, the evolution of the space is accelerating. Industry trends such as increased investor emphasis on improved corporate reporting, greater accessibility to ESG data, emerging investor consciousness and increasingly sophisticated tools for advisors highlight the momentum around sustainable investing and alignment of mission with financial returns.

AVOID ANALYSIS PARALYSIS AS A BARRIER TO IMPLEMENTATION: Assessing all available pools of capital for mission alignment can be complex, especially when considering all possible options and outcomes. One way to overcome endless philosophical conversations is to take action, engage in some capacity and then re-evaluate over time as the industry evolves. Keep in mind that you may not even have to change the asset allocation as part of this process.

LOOK FOR OPPORTUNITIES IN THE CHALLENGES: Implementation is both an exploratory and iterative process. In identifying mission-maximizing uses of capital—including financial and philanthropic opportunities—organizations stand to benefit from greater knowledge about their goals and vision for their place in society, which in turn can be leveraged to attract new donors and deepen relationships with existing donors.

JOIN A COLLABORATION NETWORK: Some investors and philanthropists see their capital as catalytic and seek to take an active role in developing the marketplace through participation in affinity groups. For example:

- Interfaith Center for Corporate Responsibility (ICCR): Coalition of faith and values-driven organizations who collaborate to file shareholder resolutions and share key Investing with Impact best practices
- Global Impact Investing Network (GIIN): Non-profit dedicated to increasing the scale and effectiveness of impact investing through building a network of investors
- Women Moving Millions Giving Circles Program: The Circles Program provides members with the opportunity for interaction, knowledge sharing, and collective action for new strategies within gender-lens philanthropy

Conclusion

Mission Align 360° is more than an aspiration; it's an imperative for organizations seeking to leverage all available pools of capital to advance their mission and create positive impact. It's also a rewarding and transformational process that aims to achieve intentional alignment between an organization's financial objectives and its mission statement. Each organization is unique and will need to chart its own distinct Mission Align 360° journey. We are proud to partner with organizations to advance the industry and develop actionable strategies to maximize the positive environmental and social impact of organizations, both locally and globally.

[1] National Center for Charitable Statistics, April, 2016.

[2] Giving USA, 2017.

[3] National Center for Charitable Statistics, 2013.

[4] Giving USA, 2013.

[5] Stanford Social Innovation Review. Philanthropic Pioneers: Foundations and the Rise of Impact Investing, January 17, 2017.

[6] United Nations Principles for Responsible Investment and foundation websites, as of the latest reported data.

[7] Source: Roger G. Ibbotson. Does Asset Allocation Policy Explain 40, 90 or 100 Percent of Performance? Financial Analyst Journal, January, February 2000; Brinson, Singer and Beebower. Determination of Performance II: An Update, Financial Analyst Journal, May/June 1991. Based on US pension-fund data from 1977 to 1987.

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