

# **The Virtue of Consistency: The Gates Foundation & Mission-Based Investing<sup>1</sup>**

by

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*Whatever the rights and wrongs of mission-related investment, the bad press of the past few weeks may mark a shift for the foundation, into an era when public opinion no longer takes for granted that giving alone is virtuous. -The Economist (2007)<sup>2</sup>*

By May the uproar caused by the stories in January about the inconsistencies between the Gates Foundation's investments and its programs had subsided to a dull roar. The story then exploded again around Warren Buffett's coming \$31 billion contribution to the Foundation and his company's investments and Darfur.<sup>3</sup>

It seems, therefore, the right moment to take stock of some lessons to be drawn from the renewed furor.

Of these lessons, the most important to me is the virtue of consistency. Consistency, that is, between a foundation's mission and the actions, policies and characters of the companies in which it invests to fund the programs through which it carries out its mission.

Achieving consistency can be neither difficult nor expensive. Failing to try to gain it risks harm to an institution's reputation from the taint of hypocrisy.

## ***The Gates Foundation Mission***

The Gates Foundation's website describes its mission as follows:

Guided by the belief that every life has equal value, the Bill & Melinda Gates Foundation works to reduce inequities and improve lives around the world. In developing countries, it focuses on improving health, reducing extreme poverty, and increasing access to technology in public libraries. In the United States, the foundation seeks to ensure that all people have access to a great education and to technology in public libraries. In its local region, it focuses on improving the lives of low-income families.<sup>4</sup>

The Foundation has spent hundreds of millions on these objectives.

### ***The Gates Foundation Investments***

On January 7 and 8, 2007, the *Los Angeles Times* carried a 9000-word, front-page report on inconsistencies between the program objectives and the investments of the Bill & Melinda Gates Foundation.<sup>5</sup>

The series' opening example: a 14-month old Nigerian vaccinated against polio and measles in a Gates-sponsored program lives in the light of oil-plant "flares blanketing the [Niger] delta with pollution ... beyond anything permitted in the United States or Europe". The foundation owns \$423 million in shares of "Eni, Royal Dutch Shell, Exxon Mobil..., Chevron..., and Total", which operate these plants.<sup>6</sup>

Other examples followed.

Within a week, the *L.A. Times* stories had appeared in one form or another in more than 20 important newspapers in the US, the UK and Canada, and on NPR's Weekend Edition. The blogosphere hummed about them.<sup>7</sup>

### ***Public Expectations***

*[On investing in "vice" stocks:] ...I need you to be thinking that you can make the money and then ... do whatever you want with the money. I have made a fortune in firearms stocks, and I've given a fortune to gun control. Somebody somewhere is going to take it. Why shouldn't it be you?*  
-Jim Cramer (2006)<sup>8</sup>

There is nothing new – apart from the detail and the individuals involved – in stories exposing inconsistencies between an organization's good works and its investments.<sup>9</sup>

Compare, for example, the *L.A. Times* description of Delta life with this one of New York's lower East Side tenements. "Drunken, disreputable, decayed, topsyturvy old houses, the homes of thousands of families and the breeding places for so

many children that are to carry on the world's work – who owns these terrible places? Who draws the wretched profit of their existence?" asked Charles Edward Russell in *Everybody's* magazine in 1908.<sup>10</sup>

The answer, in part, was Trinity Church, then the richest in New York City and probably the country.<sup>11</sup> Known popularly as Trinity Wall Street, this Episcopal parish resisted changes to its real estate investment policy. After a two-year battle and the death of its rector, the church reversed position. By 1910 Trinity had pulled down 225 tenements and reconditioned the remaining 367 by 1916.<sup>12</sup>

People remember things like that – slums enriching an already wealthy church – for a long time. The recollection of hypocrisy will obscure generations of good.

Outside the world of foundations and endowments, people expect program and investment to be consistent. The exposure of inconsistency jars them at first; then they become cynical, especially if the difference in magnitude between the program expenditure and the offending investment is great.

That is certainly the case with Gates. Over the years, "[t]he Gates Foundation has poured \$218 million into polio and measles immunization and research..."<sup>13</sup> or about 51.5 percent of the *L.A. Times* valuation of its shares in the five oil companies.

From this and similar comparisons will come the lasting effects from the stories.

### ***Gates & Mission-based Investing***

A foundation can align its program and its investments.

The urge for consistency is the major force behind the adoption of a mission-based investing policy. Many adopters – foundations, endowments, religious institutions, NGOs – want their investment policies to reflect their aspirations, their view of themselves. Others wish to avoid the consequences – especially the embarrassment – of inconsistency.

The Gates Foundation's main founders, Bill and Melinda Gates, oversee the endowment's investments. According to Gates' chief operating officer, Cheryl Scott:

In giving guidance to the investment managers, they have chosen not to get involved in ranking companies based upon [extra-financial] factors.... There are dozens of factors that could be considered, almost all of which are outside the foundation's areas of expertise.<sup>14</sup>

Ms. Scott cites "lending policies or environmental record" as difficult factors to evaluate and implement or as unrelated to Gates's mission.<sup>15</sup>

Ms. Scott's difficulty argument may be dismissed summarily given the hundreds of institutions that make this type of evaluation and implement their conclusions. Several companies – ours for 17 years – have helped them in this process.

Her "relation to mission" argument merits more attention. Leave aside her examples of burdensome portfolio screening that neither the *L.A. Times* nor any published source I can identify urged Gates to do. Focus instead on what the Gates website describes as its mission which is quoted at the beginning of this essay.

Literacy in the US and public health in Africa: Those are the Gates missions and the Foundation has carried them out.

But presumably in making investment decisions, the Gates would not attend to research that might link mortgage redlining and subprime lending by the companies whose stock it owns to the illiteracy in the US it seeks to remedy. Nor would it draw on the expertise in public health the foundation has developed through its work in Africa.

Put simply, the Gates Foundation is comfortable with spending millions to remedy problems that the companies in which it invests billions make worse. Nor is it willing to put the prestige of its founders and donors behind actions to make the companies change.

### ***The Philanthropic Perspective***

Consider a 2004 speech given by a former non-executive director of Shell, an oil company the *L.A. Times* criticized Gates for holding. Sir Geoffrey Chandler said:

Let us be clear: if the billions of dollars that companies spend on their direct operations are spent in a principled manner and fall within the skills and direct responsibilities of the company, this will have a far greater impact on world problems than any arbitrary philanthropy, even if this runs into millions.<sup>16</sup>

This is mission-based investing's objective: using investments to move companies to behave "in a principled manner". Foundations, endowments, NGOs and their allies have accomplished much in this way. With more participants, they will accomplish still more.

### ***The Investment Perspective***

Leave aside the moral dimensions of the environmental degradation in the Niger delta. Consider only the risks to the companies in terms of a change in government to one willing to regulate the oil fields, the potential liabilities for remediation, and the health and safety of their workers.

Wouldn't a long-term investor expect corporate management to deal with such issues? Shouldn't a long-term investor with a mission inconsistent with management's position seek to change it?

In 2005 Ian Davis, worldwide managing director of the consultancy, McKinsey & Company, wrote in *The Economist*:

Companies that treat social issues as either irritating distractions or simply unjustified vehicles for attacks on business are turning a blind eye to impending forces that have the potential fundamentally to alter their strategic future.<sup>17</sup>

In echoing language, *The L.A. Times* would summarize some experts' views of the Gates' investment approach:

Moreover, investing in destructive or unethical companies is not what is most harmful.... Worse,... is investing purely for profit, without attempting to improve a company's way of operating. Such blind-eye investing ... rewards bad behav-

ior.<sup>18</sup>

Blind-eye investing in blind-eye management....

That hardly sounds like the investment philosophy that made the billions for Bill Gates and Warren Buffett they are now giving the Gates Foundation. Is it too much to expect them as the Foundation's visionaries to turn their eagle eyes – and sharp pens – to bear on the corporations preventing them from achieving their charitable objectives?

Perhaps Messrs Gates and Buffett should think of these companies as competitors.

## Endnotes

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<sup>1</sup> Emilia Sibley provided invaluable research and editorial assistance on this article.

<sup>2</sup>"Bill Gates's Other Chief Executive", *Economist*, Jan. 18, 2007,  
[http://www.economist.com/people/displaystory.cfm?story\\_id=E1\\_RVVDGDS](http://www.economist.com/people/displaystory.cfm?story_id=E1_RVVDGDS)

<sup>3</sup> Charles Piller, "Buffett's Stock Conflicts with Gates Charity Aims", *Los Angeles Times*, May 4, 2007, p. A1. Here the issue is Berkshire Hathaway's investment in PetroChina, a publicly traded company 88 percent of which is owned by the China National Petroleum Board (CNPB). CNPB has extensive interests in Sudan. Buffett claims PetroChina is independent of CNPB and therefore untainted by its parent.

<sup>4</sup> "Bill & Melinda Gates Foundation"  
<http://www.gatesfoundation.org/AboutUs/Announcements/Announce-070109.htm>

<sup>5</sup> Charles Piller, *et al.*, "Dark Clouds Over Good Works of Gates Foundation", *Los Angeles Times*, Jan. 7, 2007, p. A1; Charles Piller, "Money Clashes with Mission", *Los Angeles Times*, Jan. 8, 2007, p. A1.

<sup>6</sup> Piller, *et al.*, *op. cit.*

<sup>7</sup> Factiva and Google searches conducted by the author, Jan. 12 through Feb. 3, 2007.

<sup>8</sup> Nancy Franklin, "All in the Game", *New Yorker*, June 5, 2006, pp. 88, 89. Cramer offers widely followed financial comment on many news and finance shows and on his website,  
<http://www.thestreet.com/>

<sup>9</sup> Ironically, Harvard found itself caught in a minor inconsistency with its Sudan divestiture policy on the second day of the Gates Foundation series. Daniel J. Hemel, "Harvard Still Holds Sudan Stake", *Harvard Crimson*, Jan. 8, 2007 <http://www.thecrimson.com/article.aspx?ref=516566>

<sup>10</sup> Robert Miraldi, *The Pen is Mightier: The Muckraking Life of Charles Edward Russell* (New York: Palgrave Macmillan, 2003), p. 143.

<sup>11</sup> *Id.*, p. 135.

<sup>12</sup> *Id.*, p. 150.

<sup>13</sup> Charles Piller, *et al.*, *op. cit.* The stories do not make this comparison or this point.

<sup>14</sup>"A note from chief operating officer Cheryl Scott", Bill & Melinda Gates Foundation, Jan. 9, 2007. <http://www.gatesfoundation.org/AboutUs/Announcements/Announce-070109.htm>

<sup>15</sup> *Id.*

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<sup>16</sup>Sir Geoffrey Chandler, "Corporate Social Responsibility: The International Aspects", Keynote Address, Conference on Corporate Social Responsibility and the Role of the Lawyer, Amsterdam, June 25, 2004. <http://209.238.219.111/Chandler-IBA.doc>

<sup>17</sup>Ian Davis, "The Biggest Contract", *Economist*, May 28, 2005, p. 69.

<sup>18</sup>Piller, *et al.*, *op. cit.*