THE ROCKEFELLER FOUNDATION
ETHICAL INVESTING POLICY

PREAMBLE

Between 1913 and 1929, the Rockefeller family endowed The Rockefeller Foundation with (in today's dollars) approximately $4 billion in capital to promote the well-being of humanity throughout the world. Since that time, the Foundation has provided more than $22 billion towards that mission, while maintaining an endowment of over $6 billion today.

The endowment is the sole source of financial support for our institution: we have not raised a single additional dollar since 1929. The endowment provides the means by which the Foundation addressed yesterday's problems, tackles today's challenges, and will aid future generations. As such, the endowment is our institution's single most important asset.

The primary, mission-aligned purpose of the endowment is to maximize risk-adjusted investment returns prudently to support the Foundation's programmatic initiatives. After more than 100 years of promoting the well-being of humanity and unleashing human potential, we aspire to maintain the perpetuity of the endowment such that future generations derive the same benefits of our programmatic initiatives as do current and past recipients.

ENDOWMENT MISSION

The Rockefeller Foundation seeks to prudently generate the highest level of returns, commensurate with the goal of ensuring intergenerational equity, while integrating into its investment management activities ethical practices that adhere to its core commitment to promoting the wellbeing of humanity and unleashing human potential.

INVESTMENT APPROACH

The Rockefeller Foundation's endowment holds a wide variety of investments across asset classes, managed almost exclusively by external parties. These external parties make investment decisions regarding specific securities (e.g., whether to buy/sell positions and how to size/time them). The Foundation carefully chooses these third parties for their skill, judgment, and alignment of interests with the Foundation. We seek to ensure our external partners have a strong moral framework as part of that alignment.

Given the Foundation must disburse on average at least 5% of the endowment annually towards programmatic initiatives, the endowment must be invested to keep up with spending plus inflation to maintain intergenerational equity – a high hurdle to meet or surpass through economic cycles. To achieve this goal, a long-term perspective is essential. The past and future success of the endowment is built on what are typically enduring relationships with investment managers demonstrating sustainable competitive advantages, prudent risk management, and disciplined capital deployment. These characteristics are, in combination, differentiated and not easily replicable. Some of our managers have been partners with the Foundation for decades – indeed, the Foundation's long-term perspective and steady investment approach is a competitive advantage in accessing the most compelling and sought-after managers.

As part of the Foundation's selection of and relationships with its managers, the Foundation focuses attention on ethical and social practices followed by the managers and their portfolio investments. Our managers understand that the businesses in their portfolios are far more likely to endure, grow, and generate sustainable returns on capital by being mindful of the interests and concerns of employees, investors, communities, and other stakeholders. They recognize that the value of the businesses they own is significantly affected by the positive or negative impact they have on society as a whole.

This philosophy underpins the Foundation's integration approach to ESG (environmental, social, and governance issues), in which we believe that the consideration of relevant ESG factors in investment analysis, due diligence and portfolio construction can enhance long-term investment value and manage downside risk. Through ESG integration, we continually seek to expand our asset allocation and research lens to include the full spectrum of risks, opportunities and megatrends that can inform investment decision-making. As a long-term investor, the ability to foresee and adapt to emerging industry and market trends requires an understanding of material ESG factors, their potential impact on the planet and society, and their implications for asset valuations.

As the Foundation considers it an essential and commercial best practice to incorporate all material ESG considerations in the investment process, in conducting our due diligence on managers, the Foundation looks for consistent evidence of ESG integration in terms of both policy and practice.

While the Foundation's endowment includes investments that, in addition to targeting a market rate of return, also explicitly generate social and/or environmental impact, it does not actively pursue impact (double or triple bottom line) investments. The Foundation's impact investments are in the form of program related investments, concessionary investments that seek to generate a charitable purpose aligned with the Foundation's programmatic activities and are carried out by a separate team.

STEWARDSHIP PRINCIPLES

Stewardship of the Foundation's endowment is informed by principles that encompass both fiduciary and ethical responsibilities.

First, under the Uniform Prudent Management of Institutional Funds Act of New York, the Foundation is required to exercise a duty of care and loyalty in managing and investing the endowment. Commonly known as the "prudent investor" rules, this legislation requires trustees of financial assets to consider and weigh all factors that may affect the long-term economic interests of their beneficiaries. Similarly, under the Internal Revenue Code and its regulations that govern private foundations, the Foundation is prohibited from investing its assets in a manner that jeopardizes the accomplishment of the Foundation's exempt purposes. These "jeopardizing investments" generally are investments that show a lack of reasonable business care and prudence in providing for the long- and short-term financial needs of the Foundation for it to carry out its exempt function.

Second, as part of the Foundation's commitment to both prudent and ethical management of the endowment, the investment staff engages in any number of activities to align its investments with the mission of the Foundation as much as possible, including (but not limited to):

- Integrating all material ESG factor considerations into the investment process, both in the Foundation's asset allocation decisions as well as in underwriting and maintaining ongoing relationships with managers; and
- Incorporating the Foundation's core principles of diversity, equity and inclusion in selecting and retaining managers; and
- Where possible, direct proxy voting for publicly traded securities, thus allowing the Foundation to vote in accordance with its mission and values.

POTENTIAL CONFLICTS

Social and ethical issues are often controversial and are anticipated to arise from time to time in the course of managing a global endowment portfolio that is invested across thousands of companies and securities. The Foundation seeks to make investments that are not at odds with the Foundation's philanthropic mission. When a questionable investment exposure does arise, the Foundation will apply the principles of fiduciary and ethical stewardship in its consideration of what actions, if any, it may take. The Foundation is a long-term investor and does not take extraordinary actions based on the news of the day; however, there may be instances where a particular exposure is concerning enough such that the Foundation will choose to take extraordinary action to mitigate or eliminate the exposure. Such action may take different forms depending on any number of

considerations, including asset class, fund structure, materiality, duration, and more. Guidelines for reviewing and taking such actions are outlined in the Foundation's *Ethical Investing Policy Implementation*.

CONCLUSION

The Rockefeller Foundation's endowment provides the sole financial means by which the Foundation can solve global problems, effect lasting impact, and achieve its mission. As such, it is managed in a way that (i) meets the Foundation's fiduciary responsibilities, and (ii) generates the resources necessary to advance the Foundation's mission in a manner consistent with its values. The Foundation will continue to communicate the principles and expectations of this policy framework to its external investment managers, and will favor managers that incorporate the strategies and principles set forth in this policy.

A Standing Committee comprised of representatives across the Foundation will offer advice and guidance regarding potential conflicts when and if they arise. The Standing Committee's governance and process for reviewing investment responsibility matters is detailed in the Foundation's *Ethical Investing Policy Implementation*.

THE ROCKEFELLER FOUNDATION
ETHICAL INVESTING POLICY IMPLEMENTATION

The Foundation's endowment holds a broadly diversified portfolio of investments that is managed by third-party, external asset managers. Because of the range of legal structures and asset types in which the Foundation invests, the Investments Office is required to carry out the implementation of the Foundation's *Ethical Investing Policy* in different ways. As such, we take distinct approaches for Marketable (publicly traded) asset classes and Non-Marketable (privately held) asset classes.

Across both Marketable and Non-Marketable asset classes, the Foundation is most commonly an indirect investor in commingled fund vehicles managed by its asset manager partners. In these cases, the Foundation will underwrite upfront the mandate that the vehicle intends to pursue on behalf of all investors, including the Foundation, taking into account the principles outlined in the Foundation's *Ethical Investing Policy*.

In Marketable asset classes, the Foundation seeks to invest through separately managed account vehicles with its external partners wherever possible, so that it can be an active investor exerting specific and ongoing discretion over the investment mandate. Separately managed accounts are most commonly available in the long-only equity asset classes. In these cases, the Foundation directly votes its proxies as an active shareholder and may, in rare circumstances, screen out certain investments or sectors that may be deemed inherently in conflict with the Foundation's mission.

In Marketable funds in which the Foundation cannot invest via a separate account, it invests through a commingled fund as an indirect investor. In these cases, the Foundation does not have ongoing discretion over the investment mandate or individual security positions. Therefore, if some exposure at odds with the Foundation's mission emerges in a fund, the Foundation would first consider strategies of moral suasion and dialogue with the fund manager, either to effect change at an individual company and/or to request the exposure be exited. Failing that, the Foundation would consider terminating the manager relationship by redeeming from the fund, which could take as little as one month or as long as three years depending on the redemption terms. In considering such a decision, the Foundation would weigh the myriad costs and benefits of such a decision, including the consequences for the Foundation's reputation as a desirable investor and as a charitable institution.

In Non-Marketable asset classes, the Foundation is in all cases an indirect investor in commingled, privately held fund vehicles. Because these funds consist of private investments in a multi-investor context with durations typically

exceeding 10 years, options available to the Foundation ex-post a commitment to a fund are limited. Despite these limitations, the Foundation continuously works with its fund managers to implement its ethical investment policies. In situations whereby either a particular investment and/or sector conflicts with the Foundation's mission or ethics, the Foundation first considers strategies of moral suasion and engagement with the manager. Failing a successful resolution to a conflict, the Foundation will consider terminating the manager relationship by declining to participate in its subsequent funds. As a last resort, in extreme circumstances the Foundation will consider completely separating from the fund manager through a sale of the Foundation's fund interest(s) in the secondary market. Once again, any actions would be made only after carefully accounting for their costs and benefits.

OPERATING GUIDELINES FOR EXTRAORDINARY ACTIONS

Social and ethical issues are wide-ranging, evolving and often controversial. Inevitably, the Foundation's global portfolio encompassing thousands of portfolio companies will include some that may be engaged in a business or practice, or whose products are used in a manner, considered objectionable by some. For those exceptional circumstances when an investment or sector is deemed to be so egregious as to be at odds with the Foundation's mission, a Standing Committee on Responsible Investing ("Standing Committee") is tasked with formally reviewing such situations. Through the Standing Committee, the Foundation seeks to balance the principles of fiduciary and ethical stewardship to best manage the endowment in accordance with the mission of the Foundation.

Standing Committee on Responsible Investing

Membership

The Standing Committee shall be comprised of eight voting members as follows:

- Chief Financial Officer
- General Counsel
- Senior Vice President of Communications, Policy and Advocacy
- Senior Vice President of Innovative Finance
- A senior program initiative representative appointed by the President of the Foundation
- Chief Investment Officer
- Two representatives of the Investments Office appointed by the Chief Investment Officer

The Chair of the Standing Committee shall be appointed by the President of the Foundation.

Review Process

In determining whether a proposed issue will rise to the level of Standing Committee review, the first criteria is whether the identified exposure is fundamentally at odds with the Foundation's mission. Second is whether it is a material position totaling at least (i) 0.2% of the endowment, if a single security, or (ii) 1% of the endowment, if a group of securities in a sector.

If the answer to these two threshold questions is affirmatively yes, the Standing Committee shall proceed to review the details and circumstances of the identified exposure to determine whether and what extraordinary action should be taken. The Standing Committee may engage an outside expert in the area of concern.

As discussed in the previous section, actions considered will vary between the Marketable and Non-Marketable asset classes with respect to whether they are direct or indirect holdings, and will range on a continuum from dialogue and engagement with the investment manager all the way to full redemption and termination of the manager relationship.

In its deliberation, the Standing Committee will consider all circumstances: for example, in the case of commingled private funds, whether there are positively aligned or impactful investments in the commingled fund alongside the problematic investment. In the case of marketable funds, it will consider whether the problematic exposure is a core position that is within the investment manager's mandate, or rather an ancillary or trading position that is not expected to persist.

After gathering all relevant information, the Standing Committee will apply a balancing test, assessing the expected benefits of the considered action(s) alongside the expected costs and consequences of the considered action(s). The balancing test results in a comprehensive basis on which a determination can be made as to whether the combined fiduciary and ethical considerations support proceeding with an extraordinary action in the endowment portfolio.

The Standing Committee will consult with the President prior to recommending a proposed action to the Investment Committee. The Investment Committee has the ultimate authority to approve or reject the Standing Committee's recommendations for extraordinary action(s) and will inform the Board of Trustees at the time of the decision.

EXAMPLES OF EXTRAORDINARY ACTIONS

<u>Tobacco</u>

Tobacco represents an illustrative case example of a controversial investment exposure that was evaluated by the Foundation and resulted in an extraordinary

action being taken in the endowment portfolio. In 2000, a question was raised as to whether it was consistent with the Foundation's philanthropic mission for the endowment to hold investments in the Tobacco industry. At the time, the Foundation was pursuing a key programmatic initiative to reduce smoking and tobacco use among youth and vulnerable populations in developing countries, as part of the Foundation's enduring focus on public health. The question was put to internal review, and, after a comprehensive deliberation of the circumstances in which the Foundation sought to balance its prudent investment responsibilities with its philanthropic mission, the Board of Trustees ultimately decided to divest from all directly held tobacco securities.

The rationale for tobacco divestment was based on the Board's assessment and conclusion that: (i) the product is definitely harmful when used as intended and represents an unambiguous health risk; and (ii) the product is contrary to the Foundation's public health mission.

Following this conclusion, the Foundation proceeded to divest from all directly held tobacco securities and put in place a negative screen for tobacco in its directly held separate accounts. The Foundation also negatively screens for tobacco where possible in the commingled funds in which it is an indirect investor. The residual exposure to tobacco through indirect funds currently sits at less than 0.1% of the endowment.

Fossil Fuels

Fossil fuels represent another example of a controversial exposure that was evaluated by the Foundation and resulted in an extraordinary policy action. Cognizant of global energy transition trends and heightened sustainability risks in the fossil fuel sector, in the years leading up to 2020 the Foundation reduced its overall exposure and avoided dedicated investments in the heaviest emitting fossil fuels. Over the course of 2020, the Foundation proceeded to formally re-evaluate whether this strategically-narrowed approach to the sector was enough.

The question turned to whether fossil fuel investments should be in the endowment, particularly given the convergence of both mission alignment and financial considerations surrounding this exposure. The most salient of these considerations were:

(1) The Foundation scaling its programmatic commitments to end energy poverty globally in a climate-protective way, and innovating climate solutions more broadly; and,
(2) The challenged financial case for fossil fuel investment, with extractive business models subject to energy transition risk, stranded asset and regulatory risk, and increasingly negative public sentiment risk.

The potential costs and consequences associated with both ceasing to invest and continuing to invest in fossil fuels were carefully weighed against the assessed benefits. As a result of this evaluation, in November 2020 the Investment Committee of the Board of Trustees unanimously approved an extraordinary policy to cease direct and dedicated investment in the exploration and production of fossil fuels. It is expected the residual exposure of below 2% in fossil fuel investments will be reduced over time to a de minimis level.