Forging Ahead

Diversity, Equity and Inclusion in Foundation Investing Activities

Leaders of eight foundations share their progress

Table of Contents

Dear Colleagues,

One of the things we do at Philanthropy Northwest is create space for conversations that make philanthropy more effective. Right now, one of those conversations is about racism, privilege, social justice and equity. This dialogue has redoubled the commitment to principles of diversity, equity and inclusion (DEI) when foundations select board members, hire staff, make grants and pursue advocacy strategies.

Now the conversation is turning toward how DEI can be applied to foundation investing activities. Investing is very specialized work. It is finely calibrated around financial risk and reward, and it has been difficult to introduce social variables into the process. It can feel dangerous to tinker with this core foundation business process that has shown years of positive operating results. Changes in investing policy and practice touch on the very purpose and responsibility of foundations.

Nevertheless, some foundations are testing the waters. They are seeking portfolios that honor the foundation's "all-in" commitment to DEI, and they are exploring ways to structure themselves to do that work.

Our intention in this paper is to highlight the early thinking and emerging practices at eight foundations, and to create space in the field for this important conversation as it continues to evolve. We interviewed 13 people who are either CEOs or senior investing staff members at eight foundations. Most of these foundations manage close to or more than $1 billion in assets, and all are actively implementing DEI initiatives across foundation operations.

We approach this report with a spirit of respect and humility. DEI illuminates profound issues of money and wealth, race and privilege that are almost always built into a foundation's existence. These topics can be tender and difficult. The economic and social systems involved are strongly established.

In the midst of these challenges the executives we interviewed were candid and curious. While they chart a path to extend DEI into the heart of the foundation's business, they are willing to raise some of the dilemmas inherent in bringing a DEI lens to investment functions. We hope that the conversation we present here is true to the goodwill and creativity we encountered in these professionals.

> "One of the things we do is create space for important conversations that can make philanthropy more effective.

KIRAN AHUJA
CEO, Philanthropy Northwest

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CEO, Philanthropy Northwest

Audrey Haberman
Managing Director, The Giving Practice

Rosalie Sheehy Cates
Senior Advisor, The Giving Practice

Evolution of foundation investing

In a traditional picture, investing might be seen as the engine room of the foundation. Here a team of specialists places the foundation's assets into financial markets, seeking earnings that will pay for all of the foundation activity that the public sees. A board committee that often includes non-board investment experts oversees the work, which is highly technical and involves extensive calculation and judgment about financial risks and returns.

Foundation investment managers usually strive to earn returns that cover program work, plus inflation, plus investment costs. For many foundations, this works out to 5% (the minimum amount the Internal Revenue Service requires private foundations to spend on mission-related activities), plus 2 to 3% (to protect the value of assets from inflation), plus 1% (for investment costs). This level of returns fulfills the core purpose of foundation investing, which is to preserve the core assets while generating revenue for the mission. Some boards seeks higher returns that can either grow the assets, or fund spending above 5% of assets.

Traditionally, this vital investing task churns along somewhat independent of other foundation business. It has its own specialized oversight; it hires specialized investment staff and it is accountable to its own set of asset allocation and financial goals. The function is distinct enough from other foundation functions that some investment teams are housed in other buildings or even other cities than the foundation headquarters.

New investing policies drive the need for new thinking, new investing approaches and new, practical partnerships between the investment and program sides of the foundation.

The strong division of labor and oversight is changing with the advent of mission investing and now DEI initiatives. Boards are adding values-driven, non-financial goals to their investment policies. The new policies drive the need for new thinking, new investing approaches and new, practical partnerships between the investment and program sides of the foundation.

A growing number of foundations are working to extend DEI values into their investing "engine rooms." This is a report to the field on a sample of these early movers that we believe will prompt discussion and learning for the entire field.

Background on how foundations organize and staff the investing function

Foundations manage their endowments under three basic operating models: the model using a completely outsourced CIO, the consultant (or partially outsourced) model, or the model in which an in-house CIO is hired. Each is described below.

Please note that our interview sample is small and may not represent industry norms. For instance, a survey conducted by Group Health Foundation found that 60% of foundations with $1-3 billion in assets had fully staffed in-house CIOs, while more of the large foundations we interviewed use the consultant model.

Staffing models, decision-making and pay structures for the investment function

Outsourced CIO	Consultant	In-house CIO
An advisory firm provides CIO services such as asset allocation models, fund manager identification and research on investment opportunities.	*An advisory firm provides CIO services such as asset allocation models, fund manager identification and research on investment opportunities.*	*A senior or executive-level staff member leads a staff team which carries out asset allocation management, fund manager identification and research, and due diligence on investment opportunities.*
The advisory firm makes investment decisions.	*In-house investment staff works closely with advisor; leads internal due diligence.*	*In-house CIO leads all investing functions.*
Board control is via the Investment Policy Statement.	*· Board defines investing parameter via Investment Policy Statement.* *· Board of directors or investment committee makes investment decisions.*	*· Board defines investing parameters via the Investment Policy Statement.* *· Board of directors or investment committee or CIO makes investment decisions.*
The advisory firm charges a fee based on the amount of assets under management.	*· The advisory firm charges a fee based on the amount of assets under management.* *· In-house investment staff receive market-competitive salaries.* *· Bonuses are paid per foundation policy.*	*· Investing staff receive base salaries.* *· A large part of pay can be received as a portfolio performance incentive, pegged to board-approved metrics.*
We did not interview foundations that use this model.	*Used by:* *» The California Wellness Foundation* *» Colorado Health Foundation* *» Heising-Simons (family office manages assets)* *» McKnight Foundation* *» Surdna Foundation*	*Used by:* *» The California Endowment* *» Casey Family Foundation* *» Northwest Area Foundation*

How did your overall DEI efforts affect your efforts to apply DEI goals to the investment function?

DEI goals for investment "start with the idea that *all* our foundation assets are in alignment," says Judy Belk, President and CEO of The California Wellness Foundation (Cal Wellness). "So much focus had been on the five percent we pay out, and not enough on our endowment and who holds that money."

"With DEI, it's all-in," Belk says. "Change won't happen until the structures change, and we're looking at our entire ecosystem to make changes in power— in who makes the money and who manages the money."

> With DEI, it's all in. We are looking at our entire ecosystem to make changes in power, in who makes the money and who manages the money.

JUDY BELK
President and CEO, The California Wellness Foundation

The DEI conversation caused Cal Wellness to consider their most fundamental assumptions about foundation purpose and operation. "You have to look at tax policy, which sets the minimum payout at five percent," Belk explains. "You have to look at who is on the board and its committees—our board is majority women, but men have consistently been picked to head up the investment committee. You need the right people sitting around the table when you're modeling a payout policy, to say, 'This is just a model—what are we willing to risk to support the communities we serve? And do we truly represent the communities we serve?'"

Colorado Health Foundation also saw the need to diversify staff and governance, according to Rahn Porter, Chief Financial and Administration Officer. He was interim CEO when the foundation began integrating DEI into the organization's DNA.

"We learned through surveys and feedback that our policies and approach to hiring, along with considering staff makeup, could be more focused on DEI systemically," Porter says. "It was important to us that we not only address the DEI gaps at the time, but that we integrate it fully into how we operate and think. Our executive leadership didn't offer any racial diversity at the time. One of our first steps was to establish a staff-driven DEI group. From there, we have holistically been approaching DEI at every level of operations and culture."

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RAHN PORTER
Chief Financial and Administrative Officer, Colorado Health Foundation

Like many of the organizations we interviewed, Colorado Health Foundation scrutinized and began changing many aspects of foundation operations—board selection, hiring, grant programs, vendor selection—and continually looks for ways to apply a DEI lens to each function.

"For example, our evaluation and communications teams have overhauled their strategic approaches to what they traditionally have been taught to ensure that DEI is ever-present in their work. We are applying a DEI lens to our investment portfolio, too," says Porter. "In addition to operations, we also took a cultural approach to DEI. Our staff participate in racial affinity groups. We have begun addressing discourse around race externally in event settings, too, in an effort to put the tough stuff on the table. It's not easy. But we are committed and all-in."

Joseph Boateng, CIO at Casey Family Programs, says DEI is "part of our DNA at Casey. It's the way we work, the way we staff and the way we seek investments for our portfolio. We spend a lot of time, effort and money in this area."

"There are too many buzzwords," Boateng adds. "It's imperative to state how you will implement DEI, how you will define success and measure results. I need commitment from the top to have the right structures and support in place."

What in-house hiring practices most encourage and facilitate DEI outcomes?

"In the investment space, like with any personnel decision, the most direct route to greater diversity is to hire a diverse candidate, of course," says Northwest Area Foundation CEO Kevin Walker. Like most foundations we interviewed, Northwest Area Foundation emphasizes building interview pools that include diverse candidates for all positions. According to Walker, reaching out for more diverse pools has been "very rich—more good candidates have come forward, and we actually have a deeper pool of qualified candidates."

"There are a thousand and one excuses that you can't find the talent," says Joseph Boateng, who hires and supervises a full in-house investment staff for Casey Family Programs. Diversity-driven staff recruitment has resulted in a "deep bench" at Casey, whose team is housed in two separate U.S. cities and sources investments globally. Almost half of the $2.4 billion portfolio is managed by women, and Boateng's staff includes people from around the world.

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JOSEPH BOATENG
CIO, Casey Family Programs

"We have added to our effectiveness by having these points of view on our team," Boateng says. "We don't pick investments with formal quantified standards. We ask questions. We go out to the investment managers as well as portfolio companies, and we look under the hood." This requires investment staff who are curious, creative and ready to tackle a large quantity of hands-on investing work.

Northwest Area Foundation Investment Director Amy Jensen agrees. "Look for investment people who do their own due diligence and are not overly reliant on consultants. It should be a person who can kick the tires, one who takes the meetings," says Jensen. These are people who are "more willing to look at the 'nichier' strategies and smaller funds" that come with DEI investing.

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AMY JENSEN
Investment Director, Northwest Area Foundation

What salary structures do you use for investment staff, and how does compensation affect DEI goals?

In our small sample, five foundations use outside consultants to provide CIO functions. The outside consultants work with senior-level in-house investing staff who are paid a straight salary without portfolio performance incentives.

Three foundations in our sample have internal CIOs. Two receive a significant portion of their pay in incentives pegged to the financial performance of the portfolio, and one receives a straight salary.

The interview responses below are separated for foundations using CIO consultants, and those with in-house CIOs or an equivalent position.

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RICK SCOTT
VP Finance and Compliance, McKnight Foundation

Salary structures in foundations using the consultant model

"All my investment staff make similar salaries to staff on the program side of the foundation," says Rick Scott, VP of Finance and Compliance at McKnight Foundation. "Things are structured by salary tiers, not by program area, using Midwest-comparable salary surveys."

"We avoid using Wall Street methods to compensate CIOs," says Rahn Porter at Colorado Health Foundation, which has an endowment of $2.5 billion. There, the salaries of the CIO and other investment staff are not set in the traditional investment model; rather, they are driven by the investment portfolio strategy and are part of a tiered salary structure that includes every position and role at the foundation. "Our focus is squarely on the mission, and we want more pay equity when it comes to the work all our staff do, because that work is incredibly diverse," Porter adds. "We simply don't have investment staff earning what they might in the traditional sector."

Porter also notes that the Foundation's portfolio strategy is less about moving from $2.5 billion to $5 billion, and more focused on resilience in changing markets, and improving the alignment of the investment portfolio with the mission. "If it was our intent to double our endowment, we'd pay differently," he says.

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Competitive salaries simply are high in the larger investment sector, and for one respondent, that is a big incentive to opt for the fee-based consultant model. "One of the reasons we haven't staffed a team internally is that it is difficult to get the full range of expertise we get through outsourcing, at a reasonable rate. From a cost-benefit standpoint, utilizing an external advisor makes sense," says Margaret "Peggy" Minnich, Chief Financial Officer of The California Wellness Foundation.

Many respondents who use the consultant model are leery of incentive pay structures for their in-house investing staff.

> The finance and investment teams will be the last to fully embrace DEI because those two fields are predominantly white male, and because of compensation structures. You just don't have any internal champions.

JEFF MALLOY
Treasurer and Chief Operating Officer, Heising-Simons Foundations

"To be honest, I think that incentive compensation can get in the way of mission and DEI goals," says Rick Scott at McKnight Foundation. He feels that not having incentive pay makes it clear to all that "I have no interest or perceived interest in managing returns to increase my compensation."

Scott believes program and investment people work together best when all are paid the same way, with straight salaries.

Another issue is that high pay and privilege can go hand in hand. Scott is proud of the "collaborative, cohesive approach" that marks staff relationships at McKnight. But he feels that privilege is naturally part of working in the "very rich" philanthropy sector, a fact further accelerated for investment people. "I go to very nice conferences that aren't available to all levels of staff. That is a privilege that goes specifically with investing. It is job-specific," Scott says.

"Absolutely there is privilege in investing," says Jeff Malloy, Treasurer and Chief Operating Officer at Heising-Simons Foundation. "No one else in the foundation understands their world. They are an elite task force with their own terminology. They are critical to the foundation's existence—and they point that out. They are compensated more highly. So they are elite. And investment is very heavily more white male—the pipeline is getting better, but this is structured into the industry."

Malloy feels that hiring and pay practices are significantly hindering DEI practices for foundation investing. "The finance and investment teams will be the last to fully embrace DEI, because those two fields are predominantly white male, and because of compensation structures. You just don't have any internal champions."

Salary structures in foundations with in-house CIOs

The California Endowment (TCE) staffs an in-house CIO, overseeing a full investment team whose goal is to earn strong financial returns that will grow the endowment and fund payouts. In recent years those payouts are higher than five percent of assets so that TCE programming can address critical Affordable Care Act issues.

The board's ambitious financial goals naturally translate to paying the CIO primarily through incentives for achieving the organization's goal for strong financial returns. "We are aligned as staff," says Ruth Wernig, CIO at TCE. "The performance in the endowment keeps the lights on. We want to do well so the endowment does well and we can continue to spend above five percent."

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RUTH WERNIG
CIO, The California Endowment

"We debated investment staff incentive structures over the years, but we have settled on using incentives," says Dr. Robert Ross, TCE President and CEO. "I've been convinced that the talent pool in most of the private-sector market is compensated in this way, and this is the best way not just to recruit good talent but to retain them. We have had a stable core team for six to seven years."

The incentive pay structure has not prevented TCE from incorporating mission into investing: one-third of the portfolio is aligned with the foundation mission, according to Wernig. They incorporate DEI criteria when choosing money managers, and they are accountable to an annual audit of their results (part of an organization-wide DEI audit).

> When hiring investment staff, you want to highlight mission issues and goals. You can get investment people who seek returns at all costs—they don't want any sort of constraint in how they do the portfolio.

RUTH WERNIG
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"I think when hiring investment staff, you want to highlight mission issues and goals," Wernig says. "You can get investment people who seek returns at all costs—they don't want any sort of constraint in how they do the portfolio. You have to be up-front with mission concerns and possible screens."

Casey Family Programs also has an in-house CIO paid under an incentive structure. Joseph Boateng notes that the incentive pay structure can result in the CIO earning more than the CEO, a situation that requires awareness. "Money makes people act funny," he says, and foundation boards should watch relationships at the executive level carefully. "You don't want to put the endowment at risk with these types of problems, and once the board gets wind of this type of problem it is too late."

He also emphasizes having concrete, structured DEI expectations for investment staff: "You need commitment to the values, and then you need structures and processes in place to facilitate achievement of the stated goals."

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AMY JENSEN
Investment Director, Northwest Area Foundation

Northwest Area Foundation has an in-house Investment Director, paid a straight salary without a bonus based on portfolio performance. "The performance bonus can create disincentives to foundation investment staff to pursue impact or DEI investments out of fear that reduced returns will decrease their compensation,"says Amy Jensen, Investment Director. "Having the performance bonus chains the foundation to a short-term mentality. Once in place you will never get rid of it, and if it is the industry standard, it will never change until we stop doing it."

The CEO of Northwest Area Foundation also addressed the need to foster internal equity around investing: "In any foundation that has internal investment expertise, that CIO salary is going to be robust within the salary structure. And investment professionals do move in a different world to some degree than others on staff," says Kevin Walker. "That could lead to some challenging dynamics within an organization. But we have tried to foster a real spirit of partnership and engagement between our investment staff and program team, where they frequently work closely together to conduct due diligence on our MRIs [mission related investments] and PRIs [program related investments]. What I actually see now is a team that values both investing and grantmaking."

To whom do investment staff report, and is this important for DEI goals?

Among those interviewed, under both consultant and in-house models, just one senior investment person reports to a board of directors. Everyone else in our sample reports directly to the foundation CEO, or to a vice president for finance, administration or operations. (Please note that our interview pool is small enough that these numbers may not align with industry averages.)

This internal reporting arrangement was strongly preferred for the purpose of DEI goals. Most expressed that boards and especially investment committees can not provide the CEO's sharp clarity about the foundation's DEI message, conviction and plan.

Investment committees may be less engaged or comfortable with DEI, even in foundations with strong internal DEI programs. Investment committees typically include non-board members, and rarely are part of board vision and strategy processes. That setup can produce committees that have their own goals and culture.

These are not criticisms of investment committees, just statements of their traditional structure and function as part of foundation governance. But it is important because "in a practical sense the investment officer's main interlocking is with the investment committee. That is the key body," says Phil Henderson, former President of the Surdna Foundation.

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PHIL HENDERSON
Former President, Surdna Foundation

How are investments selected in alignment with DEI values and goals?

> The investments arena has been the last and toughest hill to climb, kind of like the 25th mile in a marathon. The talent pool and pipeline is overwhelmingly white and male, and our DEI ethos plays less well with investing managers.

ROBERT ROSS
President and CEO, The California Endowment

Making endowment investments in accordance with DEI principles often means choosing funds, fund managers and investments in which women and people of color have significant leadership roles. It can also mean finding investments where the underlying business activity benefits women, people of color or communities with low wealth. We asked how foundations begin and implement this investing work.

"On DEI, the investments arena has been the last and toughest hill to climb, kind of like the 25th mile in a marathon," says Dr. Robert Ross, CEO of The California Endowment (TCE). "The talent pool and pipeline is overwhelmingly white and male, and our DEI ethos plays less well with investing managers."

To spur action, it has been very effective for TCE to conduct an organization-wide DEI audit, which inludes the investment function. "Investments will naturally lag behind other elements of the foundation because it's a steeper climb, but you want to see progress," Ross says.

Several foundations report that impact investing led the way for DEI in investing.

"The success we've had with impact investing is wind in our sails for the DEI work," says Kevin Walker of Northwest Area Foundation (NWAF). "Initially there was skepticism about impact investing, but we have done really well: we have market-rate returns, and it is very clear how the investments align with our mission. The investment committee, the entire board, and the staff all feel it is going really well. This helps engage everyone to now step up the work on DEI specifically."

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KEVIN WALKER
President and CEO, Northwest Area Foundation

Impact investing has also taught NWAF how much staff time is needed to source and underwrite new DEI-aligned investments. That is a concern to both Walker and Investment Director Amy Jensen. The foundation is currently evaluating whether outside advisors will be able to provide at least some of the capacity they need when they step up DEI-aligned investments.

Getting help on DEI activities from outside advisors is also important to Phil Henderson, former President at Surdna. He adds that foundations play an important role driving industry change when they seek that help. "When we ask advisors the DEI question, that drives them to answer the question," he says.

At McKnight Foundation, impact investing also paved the way for DEI work. "Looking at impact investing opened up the mind of our investment committee," VP of Finance and Compliance Rick Scott says. "They started looking at all investments in a new way once they grappled with and added the impact lens to even part of the portfolio."

You have to watch out for window dressing, —we want to do it well, and having a female CEO, for example, doesn't necessarily mean a firm has real integrity for DEI.

RICK SCOTT
VP Finance and Compliance, McKnight Foundation

McKnight initially carved out 10% of its portfolio for impact, and concentrated mainly on investing in the foundation's program areas, especially climate change. "But a lot of different forces came together to interest us in DEI. For instance, as we increased our exposure to private equity and venture capital, we were shocked by the culture—very male and very white. "

McKnight looks at its Investment Policy Statement (IPS) every year and plans a major rewrite in the coming year to directly address DEI. "We don't have an explicit goal for women and people of color managers now, but we will," Scott says. He cautioned that "you have to watch out for window dressing—we want to do it well, and having a female CEO, for example, doesn't necessarily mean a firm has real integrity for DEI."

We don't exclude regions, minorities or genders just because they don't have a track record. We give opportunity if you can prove yourself.

JOSEPH BOATENG
CIO, Casey Family Programs

In fact "vetting" for DEI integrity often goes beyond simply tracking metrics. Margaret Minnich at Cal Wellness explains: "I've found it's more important to talk to people about what their goals are, how they incorporate concepts of DEI. Diversity can show up in very different ways. It may imply hiring diverse managers. It may imply hiring managers that invest in companies with diverse ownership or leadership. But it may also imply hiring managers who invest in companies focused on developing products and services that will generate focus on wealth creation in under-served communities."

Cal Wellness has an impact investing carve-out like McKnight's, but "even in our broader portfolio, we assess DEI factors in every manager selection process," says Minnich.

Plans and policies are important to implementing DEI investing, and so is patience.

"This year we have a high-level strategic goal to articulate the foundation's approach to investment manager diversity," says Kevin Walker at Northwest Area Foundation. "This is a soft start: moving from not talking about this, to talking about it."

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MARGARET MINNICH
Chief Financial Officer, The California Wellness Foundation

This process will take the Northwest Area Foundation investment committee the better part of the coming year. The process includes "first saying that we should have a view, and then articulating the view, and then setting out goals for where we want to be. We don't pre-judge what we are going to do," says Walker. The foundation is eager to learn from peers who have already traveled the path for stories, examples of viable approaches and inspiration. For instance, Walker admires the ambitious goals (and investing results) of Knight Foundation.

Joseph Boateng at Casey Family Programs describes DEI-aligned investing this way: "We don't exclude regions, minorities or genders just because they don't have a formal track record. We give opportunity if you can prove yourself. My main emphasis is on gender diversity—not just the 'front people' at funds, but the people making decisions as analysts and portfolio managers."

DEI investing is not a passive activity performed at the desk. "I travel all over the world. We talk to companies. We go out there," Boateng says.

> The traditional investing standards simply reinforce going with the herd, and they absolutely keep investors from hiring women and people of color.

AMY JENSEN
Investment Director, Northwest Area Foundation

Traditional institutional investing practices might not surface the DEI investments that meet both mission and financial criteria for a foundation. For instance, Amy Jensen at Northwest Area Foundation is flexible about using strict quantitative investment screens that might require fund managers to have a minimum three-year track record and $1 billion in assets under management. She questions the validity of these standards, citing some research that shows that smaller managers are more profitable.

"These standards prevent DEI goals from being met," Jensen says. "The traditional investing standards simply reinforce going with the herd, and they absolutely keep investors from hiring women and people of color. But it's better to fail conventionally—no one ever got fired because they hired Pimco to manage their bonds. "

"The investment standards encode existing relationships and power," says Judy Belk at Cal Wellness. She notes that "we're asking nonprofit partners: who's on your board? Is this money going to the community? We ask lots of questions for even the smallest grants. But we give multimillions—billions, collectively—to the investment community without holding them accountable to our missions and values."

How do you apply DEI standards to recruitment, selection and retention of vendors?

While it is not strictly an investment activity, many of the people we interviewed also oversee substantial vending contracts in their foundations, and they actively apply DEI values there.

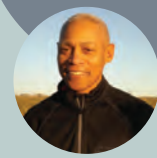
"Part of DEI is to look at our suppliers, our vendors and anyone who works with us through contractual arrangements. When we constructed a new building, we wanted to know about who was onsite working for us, and we sought diverse contractors," says Rahn Porter at Colorado Health Foundation. "Our staff use this same lens in selecting who works with us. In fact, our cornerstones mandate that we and those whom we engage with have to be intentionally focused on achieving health equity and somehow serving the people we know have the least and need the most. With vendors and contractors, that can take shape in staff composition and client base. We will soon launch a new vendor portal that will help us make fair decisions about who is appropriate for us to work with, given their attention to DEI."

> I have to hold myself accountable to my own implicit bias with longtime contractors.

JUDY BELK
President and CEO, California Wellness Foundation

These conversations are not always easy, and they risk disrupting old and productive business relationships. Judy Belk of Cal Wellness says, "I have to hold myself accountable to my own implicit bias with longtime contractors." Asking them about their commitment to DEI doesn't ask them "to do anything we haven't held our own selves accountable to. We want to continue to work with them, but they know they have to up their game."

Two investment committee members weigh in



RODNEY JORDAN

LYNDA BOURQUE MOSS

Lynda Bourque Moss is a board member who chairs the Investment Committee for Northwest Area Foundation (NWAF). Rodney Jordan is the NWAF board chair. He sits on the investment committee and is its former chair.

"At the heart of the DEI issue is having multiple perspectives on the investment committee," says Lynda Moss. She considers herself a non-traditional member, having a background in art and nonprofits. "From my first investment committee meeting I brought a different lens. I could ask an obvious question, such as how to make sure none of our investments harmed the foundation."

As chair, Moss is leading the investment committee in a deliberate DEI policy-building effort, working for a "seamless connection between the foundation's program and investing sides."

"There is a huge learning curve for most people who join investment committees," Moss says. "The pages of charts filled with investing vernacular are mentally painful to me. These data-driven reports by our consultants are complex and can be daunting. In our investment committee meetings I also try to provide time for substantive discussions focused on the long term." Her committee has its own annual retreat, and members are asked to attend one investment industry conference each year.

"In my view, the investment committee has to be the last part of the DEI journey," says board chair Rodney Jordan. "You have to have the framework and culture in place first."

"We are talking about fiduciary responsibility over these investments. If it is not done well it is a problem. I think it starts with competence, with building an investment committee that has the competence around the table to generate the best returns possible. It has to be a high-functioning committee to work on something like DEI. And it can't operate in a vacuum isolated from the foundation as a whole," Jordan says.

"What has driven DEI integration at NWAF is our CEO's leadership and pacing, and the environment in which these discussions unfold," Jordan adds. "The key is our culture of learning and a culture of trust. We know it will be a deliberate and informed process of integrating DEI. If we don't like what we are seeing we will stop—we can make mistakes and stop."

Financial returns are a key investment committee topic, Jordan says. "You can say that impact investment will earn good returns, but investment committee people don't believe it. They have to process it and see it."

"When NWAF first started mission investing 10 years ago, there was a lot of resistance. It was really a skunkworks, outside the regular portfolio. We didn't want to swallow this in one fell swoop. At that time investment committee members didn't think it was worthwhile, didn't think it would have the financial return." Since then the committee recognizes that its mission iinvestments perform as well as the rest of the NWAF portfolio.

"Give the DEI process 10 years," Jordan says. "Give it 10 years, because that is how long it takes."

This conversation is just starting...

For this report, Philanthropy Northwest and The Giving Practice reached out to executives and board members from eight large and influential foundations. Their candid and practical words show that efforts to apply DEI principles to investing are well underway. Foundation boards and investment committees are incorporating DEI principles into investing policy. They are seeking diverse investment hires and considering DEI values and outcomes when structuring salary and reporting. Finally, investment teams are learning how to use DEI principles when they select funds, fund managers and individual investments.

It is no small thing for fiduciaries to make even small changes in investing, the core business activity that is essential to a foundation's existence and sustainability. DEI concerns are that important, and the steps we described here are significant.

It can still feel, however, that philanthropists are working around the edges of a much larger economic system, where power and privilege are indelibly encoded. So, along with heartening progress, we heard that there is much work to do. The process of finding and evaluating DEI-aligned investments is still very customized, almost artisanal. The diverse talent pool of investing professionals that might offer new viewpoints and attitudes is extremely limited. And governance theories and policies that fully embrace principles of DEI and other philanthropic values are still in early days.

So the conversation will continue. We think it can be grounded around the practical questions that DEI is bringing to philanthropic investors. For instance, how can we better involve investment committees in the "all-in" DEI process? What do new investment policies look like when they both protect endowment assets and reflect our values? How are DEI-aligned investments sourced, and how can we efficiently complete due diligence? And finally, are we committed to finding and developing the talent that we need in all areas that touch investing—the board, investment committee, staff and advisors?

In the coming months, Philanthropy Northwest will continue to make space for this important exchange of ideas and practices.

CONTRIBUTORS

The California Endowment

Dr. Robert Ross, President and CEO

Ruth Wernig, CIO

The California Wellness Foundation

Judy Belk, President and CEO

Margaret "Peggy" Minnich, Chief Financial Officer

Casey Family Programs

Joseph Boateng, CIO

Colorado Health Foundation

Rahn Porter, Chief Financial and Administrative Officer

Heising-Simons Foundation

Jeff Malloy, Chief Operating Officer and Treasurer

McKnight Foundation

Rick Scott, Vice President of Finance and Compliance

Northwest Area Foundation

Lynda Bourque Moss, Board Vice Chair and Investment Committee Chair

Amy Jensen, Investment Director

Rodney Jordan, Board of Directors Chair

Kevin Walker, President and CEO

Surdna Foundation

Phil Henderson, former President

THANK YOU

Additional feedback was provided by:

Patricia Farrar-Rivas, CEO, Veris Wealth Partners

Anbar Mahar Sheikh, Research Analyst, The Giving Practice

Cory Sbarbaro, former Acting President and CEO, Group Health Foundation

Doug Stamm, former CEO, Meyer Memorial Trust

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We help people in philanthropy tackle their biggest challenges.

The GIVING PRACTICE

We welcome your comments and questions:
Audrey Haberman: ahaberman@philanthropynw.org
Rosalie Sheehy Cates: rcates@philanthropynw.org

2101 Fourth Avenue, Suite 650 Seattle, WA 98121
thegivingpractice.org