

Mindful Fiduciaries at the Wheel

**TEN IDEAS EMERGING FROM
THE WORK OF FOUNDATION
INVESTMENT COMMITTEES ON
RACIAL, GENDER AND SOCIAL EQUITY**

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Putting Racial, Social and Gender Equity at the Heart of the Foundation Business Model

Right now, United States foundations are engaged in a system-wide reckoning of their power and their purpose regarding racial, social and gender inequities. The work includes foundation investing, which we first described in *Forging Ahead: Diversity, Equity and Inclusion (DEI) in Foundation Investing Activities* in 2018.

At that time, we heard over and over how important the investment committee is. Operating well out of the limelight, this group of fiduciaries is “at the wheel,” in the foundation’s engine room, managing millions of dollars more than the grantmaking side of the foundation.

Investment committees accept a truly unique fiduciary role, overseeing assets which are pledged to public good, but live in the financial markets.

Throughout 2019 and 2020, we spoke with foundation trustees, CEOs and investing staff, outside investing advisors, and industry advocates all over the United States. We found that racial, social and gender equity issues are sparking profound reflection, along with tremendous innovation, at the investment committee level. This work is far from sorted out, but important, actionable ideas are bubbling up. We have tried to capture those ideas for the benefit of other thoughtful fiduciary leaders who are at the wheel of their own foundations across the country.

Please know that this discussion is very much in progress, and that these ideas are presented with full humility and curiosity for your reflection.

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These ideas come from foundation investing leaders who are deeply immersed in racial, social and gender equity as it applies to endowment investing. The interviews took place in 2019-2020, and the results were reviewed and edited by more field thought leaders, especially representing leaders who are Black, Indigenous or People of Color.



The investment committee, acting on behalf of the foundation, is the genesis of the capital chain which drives all other activity for advisors, managers, enterprises, consumers and communities.”

— FOUNDATION INVESTING LEADER INTERVIEW

1

The investment committee really is special.

“Investment committees are where the action is.”

— FOUNDATION INVESTING LEADER INTERVIEW

LINCHPIN IN THE FOUNDATION BUSINESS MODEL

United States tax code essentially defines the foundation business model, which is to set funds aside from taxation, and manage them so that at least five percent of the assets are spent on charitable giving. This IRS rule strictly governs only private foundations, but it is roughly followed in many community and public foundations as well. While some foundations consciously spend down their base funds, the general business model is to treat foundation assets as a permanent revenue generator. By investing well, foundations can generate at least their target grantmaking amount, often five percent, basically forever.

The investment committee lives at the center of this unique business model. The committee is also, as one leader said, “the genesis of a capital chain” that is linked to and influences money managers, investees, consumers and communities.

This critical role is played by trustees who make an extraordinary commitment to manage very large amounts of someone else’s money, usually without compensation. Many on the committee come from “money” businesses like banking, real estate or accounting. Still, it could be a

member’s first experience with the investment theories that drive the Investment Policy Statement (IPS). Any gaps in the members’ expertise are filled by professionals and firms hired by the foundation to carry out the committee’s wishes and to staff the committee. These paid positions provide continuity to fund management, as members term on and off the committee.

Being on the investment committee can be extremely interesting and satisfying work. Still, the investment committee is rarely sold as the “fun” trustee assignment. And, as core as the work is, this group is rarely featured with a photo on the first page of the annual report.

A NATURALLY CONSERVATIVE AND CAREFUL CULTURE

Investment committee members really feel the weight of fiduciary duty (more on this in Idea 5). They are responsible for a lot of money, more than most members regularly manage, and it is not theirs. The money could have a long history, which they are now part of. And of course the funds they generate are acutely important to fund the mission, both today and tomorrow, creating dueling investment imperatives for safety, income and growth.

All of these influences make the fiduciary duties of care, obedience and loyalty very present for members, and they pull the group's behavior in a careful and conservative direction.

Group dynamics also contribute to conservative behavior on the committee: most members don't know each other prior to joining the committee, and some are not experts in investing, even if they work in accounting or business management. They could be successful professionals who are learning – and applying – portfolio management theory “on the job” in front of other high-status strangers. That is almost the definition of low psychological safety, and it naturally begets a cautious committee culture.

One investing leader described committee dynamics this way:

“Making decisions by committees is fundamentally hard. And on investment committees it is a volunteer position. It doesn't set you up to take risk or really put yourself out. Everyone cares deeply, but it takes three years to learn the job, and then you are gone. There is low psychological safety.”

LIKE MANY GROUPS OF FINANCIAL EXPERTS, INVESTMENT COMMITTEES CAN BE STUBBORNLY NON-DIVERSE

Most foundation investment committees are subsets of a larger board of directors, or they might comprise the entire board. To the extent the main board is not diverse, the investment committee will likely follow suit. But even when there is a concerted effort to diversify a foundation's board, trustee recruitment often focuses on experience with the foundation mission. That can leave a few board slots that are formally or informally reserved for successful businesspeople who “get” money and can oversee foundation investments. In this way the recruiting pool for the investment committee is funneled toward “finance” people, a group that tends to be older and white, and to under-represent women. As discussed in Idea 6, it often takes a deliberate effort to form a diverse foundation investment committee.

INVESTMENT COMMITTEES HAVE UNIQUE STRENGTHS

To the uninitiated, the task of financial oversight might seem rote, technical and devoid of soul. But there is actually a lot of creativity and comradery in work. And, members bring natural strengths to work on racial, gender and social equity

initiatives. For instance, skilled investing people can see and act in complex three-dimensional systems. They think “mathematically.” They know where the levers are in transactions. They may not enjoy working out-of-the-box, but given a defined box, financial people are talented and creative engineers.

In the current urgency to change the way we invest, foundations will really need to call on these inherent investment committee strengths. At the same time, however, it is important to support the safety members derive from the conservative and careful investment committee culture. Many of the ideas in this publication deal with just this balancing act: how to support innovation and redefine fiduciary caution, in order to take us beyond today’s conception of investing success.

2

Reflecting on equity issues can change your investing perspective.

“For me it was new mindset, that came from hearing and understanding history, and building a shared experience on the committee.”

— FOUNDATION INVESTING LEADER INTERVIEW

FIRST BUILD SHARED KNOWLEDGE AND TRUST

Many foundations across the United States want their investment committees to act on issues of racial and social injustice. But a lot of committees don't feel ready. They don't know how to balance the duty to promote racial and social justice, with the duty of maximizing returns on the portfolio. They need time to feel their way through complex issues, together, and then think through an investment response that is appropriate to their foundation. They need to do this while they continue to oversee millions of foundation dollars that are already invested in the market.

Leader after leader emphasized how important it is for committees to create both time and safety for members involved in this process. It can take a lot of trust to have vulnerable and often very personal conversations about racial, social and gender equity. However, as noted in Idea 1, investment committee members may not know each other well, and they tend to work within a careful and cautious committee culture. These norms don't always translate perfectly to the pain and possibility that trustees are now asked to contemplate. So, investment leaders advised carving out plenty of time dedicated to learning and discussion. This allows members to develop their reflective "muscle" around justice issues.

LEADERSHIP MATTERS

Leadership by the chairperson of the investment committee can be crucial in the learning and reflection phase. Committee members feel an immense responsibility as managers of someone else's money. (As one leader bluntly put it, "we don't want to screw up the endowment.") A chair who is a solid and experienced investor and is also self-reflective and curious sends a powerful signal that reassures members about the process. Along the same lines, it is helpful that any outside consultants in this process have a practical understanding of investing, and basic respect for the work of the committee.

Finally, many leaders pointed out that few investment committees initiate a process reflecting on racial, social and gender equity absent a governance mandate from the foundation:

"When the board makes a commitment (and pursues training) it creates an expectation that the committee will undertake a process to apply an equity lens to its work, and establishes the authorizing environment for approaching endowment management and decision-making differently."

COMMITTING TO DEEP WORK

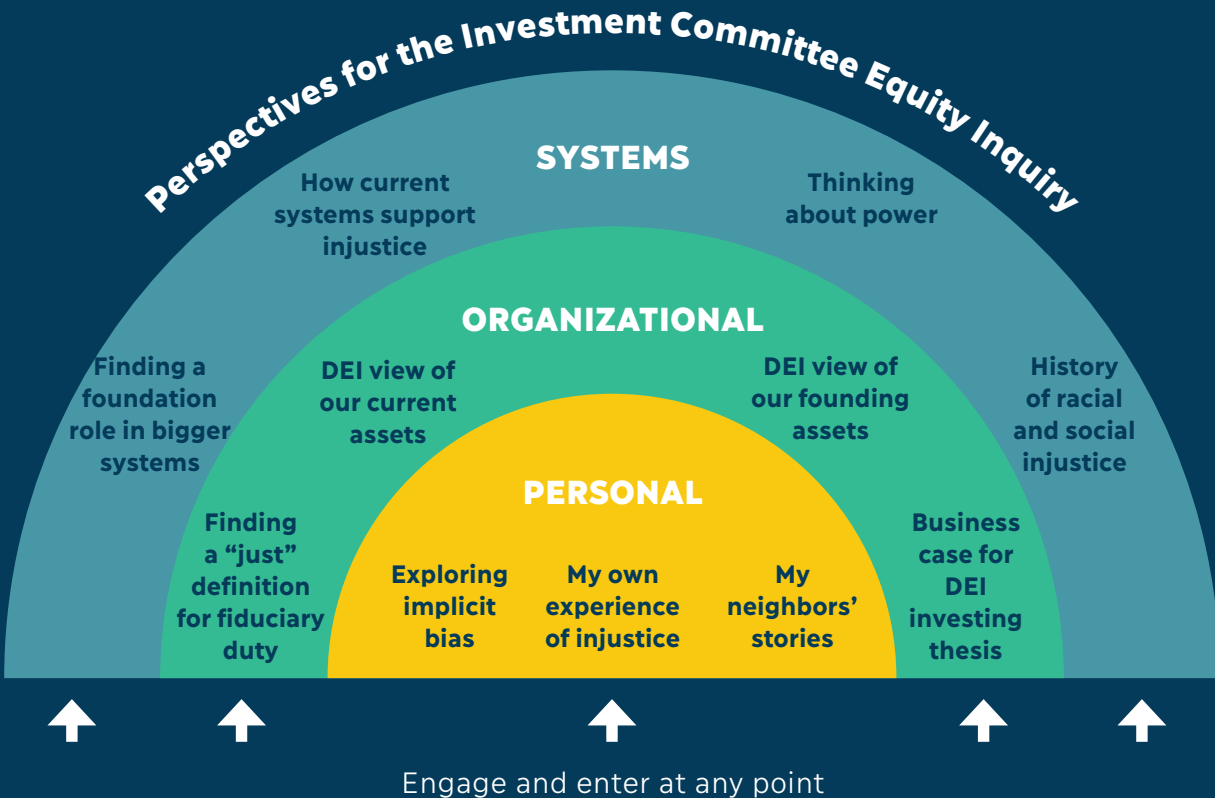
Books and books are written on the personal, organizational and systems questions that committees address when they take on racial, social and gender equity. We don't attempt to catalog all of that content. On the following pages, however, we organize the stories that we heard into a framework. We hope this allows

other investment committees to survey the scope and content that peers have covered as a reflective process. One leader emphasized that this "deep work" requires a significant commitment of time and resources, and is most likely a foundation-wide commitment, as opposed to a stand-alone investment committee initiative.

INVESTMENT COMMITTEE REFLECTIONS ON RACE, GENDER AND SOCIAL EQUITY

Leaders did not describe a prescribed, linear path that investment committees take when they choose to reflect and learn about equity topics. Nevertheless, a pattern of inquiry emerged, with committees moving fluidly between three perspectives on equity issues: personal, organizational and whole-system. We organized the stories we heard around these perspectives, to give other investment committees a sense of the scope and content of an investment committee exploration of equity issues.

- **PERSONAL:** Examining the concept of implicit bias, and inviting stories of how racial and social discrimination has been present in your own life and in the lives of people you care about.
- **ORGANIZATIONAL:** Taking stock of your foundation’s story – the history of assets you oversee – and its mission. Perhaps looking closely at the foundation’s investment holdings, and whether they currently help or hurt the social justice aim of the mission.
- **SYSTEMS:** Thinking broadly about the history of racial, social and gender injustice. Seeing how the foundation fits into larger economic and social systems that often perpetuate injustice.





PERSONAL PERSPECTIVE

This is about how injustice affects real people every day. Committee members consider their own personal biases and experiences, and they hear the stories of other people. They can relate to information about injustice that is presented at the personal, human scale. The conversations lead to their own core beliefs about what matters and what is right. Sharing these thoughts, many committees gain a visceral sense of purpose around racial, gender and social equity.

Some topics addressing the personal perspective include:

Exploring Implicit Bias

The beauty of looking at implicit bias is that each of us is a walking example of being hard-wired toward bias. “Once you roll up your sleeves and look, you see that injustice is structured into the way we treat each other as human beings,” one leader explained. Members build trust, humility and respect for each other as they work through this concept. As members explore implicit bias, they begin to understand that working toward fairness and justice requires extra effort.

A conversation about implicit bias is a risk if the committee does not have an open culture of communication, as it touches deeply personal behaviors. But there can also be a huge payoff – leaders told us that when members engage at a visceral level with their own bias issues, they open up to injustice issues. They get curious, and they have an empathic response that lays the foundation for an authentic and committed DEI perspective.

Hearing Stories of Discrimination from Peers and Community Members

Trustees, community members or grantees might relate their own lived experiences of being excluded or harmed based on their race, class or sexual identity. The stories from our peers on the committee, or people we know in the community, can lead to a powerful reckoning. In one foundation’s example, a trustee listened as community members described their experience of Jim Crow practices at his own family’s business. This wrenching experience was a pivot point for trustees to decide to commit to investing methods that incorporated racial justice values.

Ongoing Opportunities to Learn and Reflect from Stories

Many committees hold book clubs, or sponsor regular conversations that allow trustees to learn and reflect together. One committee schedules regular presentations that highlight the specific perspective of one of the nearly 50 subgroups of Asian people whom the foundation serves. Staff and board members are welcome to join the dialogue. “We have really elevated the conversation to be rich, evolving and pervasive, something that people think about on a daily basis,” this foundation’s representative explained.



ORGANIZATIONAL PERSPECTIVE

Here trustees turn their attention to equity issues at the foundation level. We all hold a mental model of our foundation: why it exists, how it does good in the world and what my job is when I am a fiduciary for the operation. Now we add a question: how are racial and social equity threaded into this model?

As one leader explained, any one foundation is “a confluence of policy, practice and culture” that can be examined to see how it may support and help perpetuate larger systems of injustice. Some topics for exploration at the organization level include:

Reviewing the Story of the Foundation’s Founding

Foundations might review the origin of their endowed assets from an equity perspective. In one example, a health foundation realized that their original assets came from a hospital that was established in part to care for People of Color who, in the early part of the last century, were excluded from other hospitals. This energized the investment committee to include racial equity as part of its criteria for managing those funds. This was a natural responsibility that flowed from the roots of the hospital’s wealth.

The family of another foundation’s founder came to the United States on the Mayflower. They were social justice refugees fleeing religious discrimination. But another part of the story is that the family wealth resulted from the taking of land from Indigenous people. This was a new perspective on the founding assets, and it widened the committee’s sense of fiduciary responsibility to include historic stakeholders, and those who might be collaterally affected by investing in the present day.

Assessing Our Own Diversity

Many foundations find a startling lack of racial, class and gender diversity on their staffs, on their boards and especially on the investment committee itself. The same lack of diversity is found on the staffs of outside advisors and fund managers who are entrusted with foundation assets.

Most investment leaders cautioned that lack of diversity is just the tip of the iceberg for many foundations. Before rushing to recruit new people to staff and govern their investing, the committee should do the fundamental work to center racial and social justice in their core investing values, policies and practices. (This is the topic for Idea 6.)

Assessing Our Portfolio

An obvious question for investment committees is whether the current endowment holdings are “good” or “bad” from an equity perspective. They ask the outsourced chief investment officer or another consultant to help them with this assessment. Foundations often create their own measures for racial, social and gender impact in the portfolio, because the tools are not very well developed in the investment industry. The point is for the committee to look at the portfolio, and to learn and to work together on creating equity concepts for the portfolio. The exercise itself will clarify the emerging organizational perspective on equity and investing.

Revisiting Fiduciary Duty

Committees that adopt “DEI investing” often revisit and expand their notion of fiduciary duty. Applying an equity perspective, many find that their duty of obedience extends to a very broad set of stakeholders in the community. This is the basis, and the imperative, to try to new investing methods. (This is the topic for Idea 5.)



SYSTEMS PERSPECTIVE

This perspective considers issues of injustice over time in the big, societal systems that the foundation is part of. Committee members explore how racial and social bias is built into laws, the economy and culture. They try to see where the foundation fits in this bigger, more layered context, and how best to implement its mission given this new perspective.

Here are some common explorations:

Studying History and Systems Thinking

Committees take time to reckon with the historical role of genocide, land-taking and enslavement in building the wealth now held by relatively few asset owners in the United States. They see how present-day legal, financial and banking systems continue to prevent poorer residents and People of Color from acquiring education, credit and assets. This is the deep cultural mindset that accepts extraction of resources from those with less wealth and power, and from nature. Looking at history and thinking at a systems level, trustees recognize that as powerful institutional investors they are part and parcel of this system.

Seeing Our Own Power

Looking at historical and systemic injustice, investment committees inevitably arrive at the linchpin issue of power. As one leader said, investment committees are asset owners, on behalf of their foundations, sitting at “the genesis of the capital chain which drives all other activity for advisors, managers, enterprises, consumers and communities.” Naming this amount of power is not always comfortable. But it can lead to clarity and action for the committee. (The topic of power is discussed more fully under Idea 4.)

Considering the Foundation Legal Status

As part of “systems thinking,” many investment committees examine the framework of tax laws that enable the foundation business model. Under tax code, foundations can isolate funds for private use without taxes, indefinitely, if they are “organized and operated exclusively for exempt purposes.” Thus tax code defines a unique, tax-privileged role in which foundations exist in the system for one reason, which is to help people. Furthermore, this tax-exempt purpose should guide every single aspect of our operation. This logically includes the management of the endowment. Some trustees see these tax code rules as permission to bring racial and social equity into the investing process. Other see them as a mandate. (This is the topic for Idea 3.)

Rethinking Investing Success, with a Systems Perspective

After committees spend time in systems thinking, they often broaden their idea of “successful investing” of foundation assets. They tend to retain their long-term investing stance, and few change their appetite for strong financial returns. But they add new, social measures of investing success that they feel are intrinsic to the tax-privileged role of the foundation. (This is the topic for Idea 3.)

3

**Foundations
are in a special
position to
transcend
modern portfolio
theory.**

“The only reason to have an investment committee is to make investments with the non-traditional assets that define a foundation. You are wasting the potential of those assets under the traditional rules.”

— FOUNDATION INVESTING LEADER INTERVIEW

A NEW DEFINITION OF INVESTING SUCCESS

For years, success in foundation investing meant earning enough returns each year to cover the grant payout, plus investment fees, plus inflation. This math will maintain the spending power of the foundation's assets in perpetuity, and it is the basis of most Investment Policy Statements. We then rely on modern portfolio theory to deliver the goods, applying technical risk models and constructing diversified portfolios that maximize the chance of reaching the desired returns.

But investing success is being redefined by committees. It is not so much that committees throw out the old goals. Rather, they add ideas for working with diverse managers, and getting portfolio money into the hands of people and communities who have been harmed by or left out of the economic system. This requires many investors to tinker a bit with the risk management prescriptions of modern portfolio theory. For instance, the committee might revisit the "gold standards" used to predict which managers will best serve the foundation's portfolio goals. They might consider smaller funds and shorter manager track records, if that is what it takes to get more high-quality Black, Indigenous, People of Color (BIPOC) managers engaged with their assets.

One pillar of foundation investing success has always been the idea of maintaining assets in perpetuity. We did not hear a lot of investing leaders say that they are giving up on perpetuity, but they do seem more relaxed about it. Their attitude might be called "mindful." They don't feel they have to manage strictly for the "highest probability" of eternal life for foundation assets. They might be satisfied having "reasonable confidence" that the assets will be at work for a very long time.

All of these examples illustrate an evolving definition of success in investing as committees bring racial, social and gender equity into the conversation. Ultimately, it boils down to foundations testing and adopting new approaches to risk that expand the tools available under modern portfolio theory.

It is worth noting that large foundations have some advantages when it comes to testing new approaches to risk. Large foundations can make a number of experimental, institutional-scale investments, without seriously risking overall portfolio returns. In this respect, very large foundations are positioned to provide important leadership to institutional DEI and BIPOC investing, and we see that happening among the investors we interviewed. Smaller foundations, on the other hand, may be more closely tied to a

particular place, and have the agility and relationships to make direct investments that reflect new racial and social equity goals.

IF NOT FOUNDATIONS, WHO?

Foundations hold a unique niche of privilege and power in society. Free from concerns over how to generate revenues, and operating outside the tax system, the philanthropy business model has driven the growth of a huge industry all its own. Philanthropy is worth billions of dollars, and it is serviced by its own professional class. The whole of the effort is legally required to advance social benefit. What all this means is that there is no institution in the world with more professional capacity, legal permission and scale to address racial, social and gender injustice as a systemic investing issue, than the philanthropic foundation.

Where some foundation leaders see these factors as permission to think big, others find a mandate:

“Our tax status demands that the capital we hold generates the most value for society that it can. In our foundation, we are not protective asset owners. We are proactive. We are interested in the power of community rather than a colonial community. We think our capital will create a lot more value that way.”

We interviewed many leaders who echoed this sentiment. They underlined the special potential that philanthropy holds for leadership and mindful disruption of the traditional portfolio management model.¹

¹ For a more technical discussion of this critical issue, please see *The Future of Responsible Investment and Modern Portfolio Theory* by Saphira Rekka and Anne-Claire Bouton for Principles for Responsible Investment (PRI).

4

**We are
talking about
power here.**

**“The DEI conversation is just a
starting point to questions of
power and systems change.”**

— FOUNDATION INVESTING LEADER INTERVIEW

BRINGING POWER INTO THE CONVERSATION

The investment committee's discussion of racial and social justice will inevitably come around to issues of power. Members confront questions of who has power in our society, and who doesn't. They consider the power they hold personally, sitting on the committee, as well as the power of the foundation within the larger investing ecosystem. They may wonder how the foundation can build the power of people and groups that have been harmed by or left out of the economy, and where investments fit into that work.

While at times it seems like the world's most timeless, unsolvable issues have landed in the wrong room, many committees find that naming the enormity of power disparities lights a fire in them to get started, somewhere.

ENGAGING POWER DYNAMICS IN GRANTS AND INVESTMENTS

Some foundations are naturally engaged and fluent in power conversations:

“Talking about power was a natural evolution for us, because we grew up seeing people with fancy degrees and suits who were not from the community telling us what we need. We did not benefit from that culture so we don't have the

fragility about the status quo. But the reality of our philanthropy is that we have a lot of power. And, we have to lean into the discomfort of holding all that power.”

For this foundation, power is a conscious dimension of both grants and investments, and the two activities often work together, in an approach called integrated capital. The foundation makes very long-term grants for general operating support, with the overt goal of building economic, political and cultural power in a community's anchor institutions. The local institutions can become part of the foundation's investing process, advising the committee when investments will affect their interests.

Another foundation imagines divesting power, along with money, to the community level:

“Dispersion is the word: dispersed money, expertise and other capitals. We want to get smart about the integrity of the business models that we invest in, and whether they will create the regenerative capital the community wants and needs. We are interested in the power of the community. Ultimately, our value might be to organize our assets into a dispersed association of assets in various communities.”

THE CRITICAL ROLE OF ACCOUNTABILITY

The practical expression of power, one leader emphasized, is accountability. The investment committee is held accountable to the board of directors, and it also holds accountability relationships with foundation staff and with outside consultants and managers.

“At each relationship layer, there are opportunities for accountability, for process and results, toward racial, gender and social equity, in an industry that has operated without scrutiny for ways it generates and perpetuates inequity. How the investment committee approaches this can vary, but holding different stakeholders accountable for results is crucial.”

THE POWER OF FOUNDATIONS IN THE BIGGER SYSTEM

Some investment committees think about the collective power foundations have within the investing industry. For instance, collective foundation demand has been instrumental in getting advisors and funds to find and present investments that engage BIPOC managers and enterprises. One foundation is very conscious

of wielding this power, talking about building a “culture of DEI” with its investment advisors, with the expectation of “a 100 percent diversity search” on all investments. This committee wants advisors to dig beyond the ownership level of companies, and into the middle-management layers which better indicate the diversity of a company. The foundation is essentially recruiting advisors as partners and co-builders of a more diverse investing system. The foundation leans into its power to encourage new practices and approaches to take root in the industry.

Each foundation has to weigh and choose its own appropriate wielding of power. Whatever direction that members take, the point is to recognize power, and do something with it. As one leader summed it up:

“We have to just name the power we hold – after all it enables us to do what we do. But let’s do something different – don’t make money at the expense of other people. Democratize the investments and the investment process. Support organizations that are building power – political power, and also economic and social power.”

5

Fiduciary duty is ready for version 2.0.

“When we started using an equity lens, we just became very clear that our stakeholders – our shareholders if you will – looked very different.”

– FOUNDATION INVESTING LEADER INTERVIEW

INVESTMENT COMMITTEES HAVE A JOB TO DO

Investment committees can never really leave behind the practical and fiduciary considerations of managing millions of dollars of someone else's money. As fiduciaries they are legally bound to act with care and prudence, and to obey foundation policy as laid out in the Investment Policy Statement (IPS). A traditional IPS will state the foundation's investing goals, allocate foundation assets to various investment types, and set a lot of standards for the committee to use when it chooses investments and assesses portfolio performance. The IPS is a detailed, practical guide to prudent investing, and following it has always been a fair proxy for meeting fiduciary duty.

Adding social justice outcomes to the mix can become a practical puzzle, and fiduciary quandary, for investment committees. Take the example of working with smaller and less experienced funds in order to engage with more BIPOC managers. Should the investment committee waive the "gold standards" in their IPS that favor choosing managers who have worked with large amounts of money, over a long period? What is the right earnings benchmark for smaller funds? What is the risk philosophy for any new investing standards we choose to apply?

These practical matters give rise to a critical fiduciary moment. Trustees cannot really wait for answers, or work in a fiduciary gray area, given the millions of dollars they are responsible for, right now. What happens in many committees is a frank discussion about fiduciary duty.²

RETHINKING THE DUTY OF OBEDIENCE

Trustees have a "duty of obedience" to follow the foundation's mission, their donor's intent and the provisions of the foundation's organizing documents. Committees may expand on these duties once they reflect on the history of their assets, or the larger systems of injustice in the economic system. An investing leader described how one committee experienced a shift in perspective on fiduciary duty:

"We saw that the origin of most foundations' funding comes from power and privilege, and that you are not Mother Theresa just because you are socially aware and want to right the wrongs. We just became very clear that our stakeholders – our shareholders if you will – were very different, once we started looking through an equity lens."

² Please see an example of the legal framework for this discussion: [Evolving Fiduciary Duty of Foundations and Endowments](#).



**A diverse
investment
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**“You bring diversity to the
committee in order to make
meaningful change that is well
articulated and central to the
foundation’s mission.”**

– FOUNDATION INVESTING LEADER INTERVIEW

WHAT IS THE THEORY OF CHANGE FOR A DIVERSE INVESTMENT COMMITTEE?

Many investing leaders see a startling lack of racial, class and gender diversity on investment committees. They see the same thing in their investment advisors and fund managers, the key outsiders who handle foundation assets. Everyone is racing now, to change this picture.

However, leaders cautioned us that checking “diversity boxes” will not create a curious and mindfully brave investment committee that is ready to explore tactics for more socially-just investing.

“Investment committees sometimes try to address a really complex opportunity set with one tool: diversity on the committee. But is a diverse investment committee a theory of change? Do we think bringing in people with a different background will address our myopic thinking?”

Before rushing to recruit, this leader suggests that committees do the harder work, reflecting carefully on what they are trying to achieve with their investments, and what their values are, using an equity lens. This is the real basis for knowing who should be on the committee, and why. It’s not diversity for diversity’s sake: the committee has a larger purpose.

HOW TO THINK ABOUT FILLING THE SEATS

With a clear sense of purpose, committees can seek racial and gender diversity, as well as “thinking diversity.” One leader noted that “the mindset of most people who go to Harvard Business School is not diverse.” Another said that a traditional search, that favors candidates who are “successful in business,” will likely result in older, whiter and male candidates. But committees with a clear sense of equity-based purpose understand that they have to recruit a little outside the box. They are overtly seeking good systems thinkers, good communicators and good problem-solvers. They ask if prospective members are ready to self-reflect, and are willing to apply their reflections at the institutional level.

An important note is that foundations still need seasoned investors to sit on investment committees:

“You need two to three people that have specific investing skills, and who allocate money for their livelihood. These are people who have a feel for reasonable fees, approaches and portfolio construction. As you fill those key slots, make sure you have diversity there, because other committee members will tend to defer to their expertise.”

Seasoned investors can be more important than ever if the foundation is trying out new investing theses that incorporate DEI. The innovations can put staff members and outside advisors “out on a limb” as they experiment with new risk thresholds and new processes for choosing managers. They need committee members who have the technical confidence to evaluate and question staff’s deal structures, and their risk/reward assumptions.

One leader noted the value of recruiting non-board investing committee members, both to diversify the investment committee’s make-up and thinking style, and to add sophisticated investing expertise. This foundation recruited diverse non-board committee members directly out of the investment industry.

Finally, many leaders said how important it is that the entire foundation is on board and is visibly working for racial, social and gender equity. The board, staff and programing can all be seen by candidates. It is difficult to recruit an investment committee for diversity and inclusion, when the core programing and strategies of the foundation are not moving in that direction. There is also the danger of inviting a new committee members into an unsafe or fraught environment. As one leader said:

“People know tokenism when they see it. But if you demonstrate social justice in all of the foundation’s work, and lead with your values to social justice, you simply will attract people who are more diverse. And it is definitely different when a Person of Color shows up to make the request to join the committee.”

Investment Committee Dream Team

When asked to describe the ideal investment committee, investment leaders provided a far-ranging list of desired attitudes, skills and professional backgrounds:

- **A striking number of investment leaders said that teachers make great investment committee members.** One leader summed it up: “The investment committee member I value most is a woman in her eighties. She spent her career as a teacher. She has an amazing ability to cut through the BS and jargon and get right to the heart of the matter. She can translate information so that a three-year-old could understand it.”
- **Youth is good:** “If we are investing on a 15-year horizon, I want to listen to young people. Young activists know important things. I don’t want to be ageist, but a lot of old people don’t listen to activists. They struggle with change.”
- **Traditional finance skills are always needed,** including:
 - Comfort with numbers, described as “quantitative aptitude.”
 - Experience in real estate and private asset management.
 - Knowledge of foundation accounting and tax law.
 - Actual experience as an investment advisor, or as any type of consultant who is comfortable questioning outsourced advisors.
- **Diverse relationships are valuable to the committee:** “It’s a question of who is at the table at the investment committee, *and* who they are in authentic relationship with,” one leader said. Do your members’ relationships increase the committee’s real connections, across lines of race, gender and social status?
- **In the direct words of several leaders, non-finance skills and experience also are important for a Dream Team:**
 - “Philosophy or rhetoric background.”
 - “Very, very active listening.”
 - “Quadratic thinking – investing is not an arithmetic puzzle. We are working in 3D.”
 - “A communications person to translate so the rest of the committee can understand.”

7

**It is not your
grandfather's
investment
advisor.**

**“It’s a journey and you are on it
with your advisors.”**

— FOUNDATION INVESTING LEADER INTERVIEW

SEEKING AN ADVISOR THAT IS READY FOR THE RIDE

The professional financial advising industry takes its share of heat for lack of staff diversity, and for being part of the system that is often seen as contributing to racial and social justice harms. Some foundations have found advisors slow to embrace any non-financial, “mission” variables as part of the investing thesis. But just as many foundations say that outside advisors are a crucial and active part of the movement to bring racial and social justice issues into investing.

“You need advisors who are willing to walk the journey with you. To enact change at the fundamental level of the endowment, the advisors have to have both commitment and knowledge. They have to be willing to ask the hard questions and test their own assumptions.”

Other investing leaders underlined the need for advisors with open minds.

“There are consultants who will say, if you want diversity, that means you are going to lose money. They hold this like a religious belief and that is a red flag for the relationship.”

Another leader was more blunt:

“If the investment advisor tells you it’s not possible to add racial and social equity goals, or makes you feel sheepish, fire them.”

A GENERATIVE RELATIONSHIP

In the right relationship with a foundation, the advisor is a full partner, and the process is positive and generative:

“The managers loved the work. They are not the bad guys! We led them, we talked to them, about what is important to us. A foundation could be top-down with its money and power, telling the advisor how to act. Or you can tell them your values and ask what they can do. If you have a series of conversations and you find that they don’t care or want to change – well, they may be amazing at picking stocks, but it’s not the right firm.”

The right advisor helps and participates as the committee does its initial work of reflecting on the issues. They can assist in developing the committee’s new investment stance and goals. With these in hand, the advisor goes to the market to find, structure and present investments with positive racial, social and gender equity outcomes. The learning never ends, and advisors are also very important in creating measurements, dashboards and procedures to help the committee get smarter and more efficient in working with new investment theses.

FOUNDATIONS ARE LEADING INDUSTRY-WIDE CHANGE

This is all part of a wave of change, driven by foundation demand, that is sweeping through the wealth advisor industry. One thing that seems slow to change, however, is the lack of diversity among senior management in many firms.

“It will be important to advisors’ bottom lines to recruit, hire and mentor new employees,” one investing leader explained. “Especially millennials and women who don’t want to work with their fathers’ and grandfathers’ advisors.”

Foundation demand is probably directly responsible for the launch of a number of smaller advisor firms that specialize in investing for racial, social and gender equity. And most large advising firms have full teams now to work specifically in this area. Both types of firms are critical to the DEI investing movement.

Family foundations bring their own dynamics to the table with advisors. The advisor might be navigating a founding family member who resists “doing things differently” even as younger members chafe for change in investing practices. Or some family boards lack any members with enough expertise to challenge an advisor who is slow to act, especially if the advisor is seen as an old family friend. These dynamics can be tough to disrupt.

What are outside advisors?

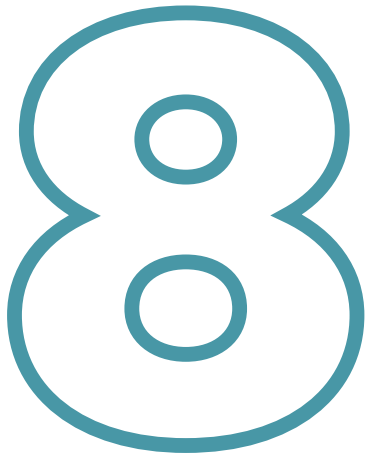
Rather than hire staff for an internal investment office, many foundations contract with outside advisors. These fully staffed investment management companies provide the foundation with a team of investment analysts and managers. The advisor usually writes and updates investment policies, proposes and maintains the asset allocation, sources and provides due diligence on potential investments, and places and manages investments for the foundation.

Most foundations retain decision-making authority on all these matters, at either the board or the investment committee level. But some foundations allow advisors to make investing decisions on behalf of the foundation, as long as they are within board-approved policy.

One bonus for advisors whose clients take up racial and social justice investing is a more engaged constituency at the foundation. Investment committees and the full board of a foundation are often energized by their DEI processes. Members tend to dig into the Investment Policy Statement, and really examine the endowment portfolio. Investment memos are really digested and discussed. This is welcome attention for investment advisors.

ADVISORS AND THE CARVE-OUT DILEMMA

A key decision that will require a trusting partnership between the investment committee and its advisor is whether to integrate racial and social equity concerns into all investing, or to carve out a special portfolio. If they create a carve-out, racial, social and gender equity may be relegated to a “charity case” portfolio. The values might not be aligned into the foundation’s core investing business, across all managers and funds. On the other hand, some investment committees are more comfortable trying new things with a carve-out. They might try bolder tools, and the carve-out allows them to learn incrementally, without the whole portfolio at stake. Advisors need to model options and help the investment committee navigate these choices.



**Investment
policies are
evolving in
real time,
with intention
and care.**

**“The IPS gives people permission
to do what they know is right.”**

— FOUNDATION INVESTING LEADER INTERVIEW

ONE SIZE DOES NOT FIT ALL INVESTMENT COMMITTEES

Revisiting the Investment Policy Statement, and possibly the committee charter, is a natural step that many committees take in order to work on racial, social and gender equity in their investing activities. There is no boilerplate. Rather, policies are evolving organically, and they are all different. This makes sense knowing that any one foundation's equity concerns are a unique reflection of that foundation's history, geography, assets and mission. On top of that, every foundation has its own comfort level with investing risk and reward. So, at least for now, investment committees are unlikely to find a one-size-fits-all DEI investing policy. That said, writing policy is often the pivot to action for committees that have been studying and reflecting on racial, social and gender equity.

Leaders advise patience – the process can definitely be time consuming. For instance, one committee started by having an attorney certify that the committee was working within its fiduciary duty to consider non-financial factors in investments. Then they defined their social and mission goals. Then they turned to the actual investing process, quantifying risk/return thresholds for each type of investing, all the while defining key terms such as “emerging manager,” using their equity lens. This committee

also revisits its policy document annually, a process that brings new members into the conversation and refreshes policy with new learning and insight gained from another year's practice.

In this case, investment policy becomes the focal point for the ongoing conversation on racial, social and gender equity:

“The process of updating the IPS and having these conversations is just as important as getting everything written down. It is more real than any training the investment committee will receive.”

Other foundations believe that stand-alone DEI policies would actually limit their effort to achieve racial and social goals. One leader explained the “no policy” rationale:

“You won't see DEI targets in our investment policy. We have a traditional IPS. We 'do' DEI in asset allocation, and in the process of choosing funds and managers. It is built into the culture of what we do. It is a conversation and an education. DEI is an operational process, not a policy target. If we treat DEI like it is special, that means it is not aligned with our core business, which is patronizing – to our managers and to the idea

of honest diversity and inclusion. You just perpetuate the idea that this is ‘the charity case.’ We do DEI operationally because we think it adds value to investing. And because it is the right thing to do.”

Another leader had less luck with that approach:

“We started by thinking we could just ‘do’ DEI, with no changes to the investment policy. For instance, I started asking about diversity every time a new manager was proposed. When the advisors said no one had ever asked that question, older trustees concluded we would have to make bad investments to find diverse managers.”

Note that investment policies tend to mirror organizational culture. “A highly relational organization will be slowed down by codifying everything,” one leader pointed out. “An extremely metrics-based organization needs those codes.”

DATA HELPS

Quite a few leaders described an intentional, data-assisted learning approach to developing investment policies:

“You create a progression as you move through the process,” one leader explained. “First you surface

the important issues. Second, you measure and assess what you are already doing. It can be hard to look at the facts, but you have to move into measurement without judgment. Third, you decide what to do about it.”

Measuring and assessing, as best they can, gives investment committees a baseline for their emerging work to promote racial, social and gender equity. The definitions they create and the data they collect begin to translate social equity issues into the forms and language of investment, so the committee can get to work. (Please see a discussion of evolving tools and reports in Idea 10.)

Whatever the stance and style of the Investment Policy Statement, foundation leaders agreed that DEI is an ongoing journey of learning, not a one-time exercise of getting the right words on the page. Everyone emphasizes finding a doable starting point and letting the practice lead the way to policy, as the committee watches and learns.

“Perfection is the enemy of good in this stuff. Once you start requiring too many checkboxes, things can freeze up. Just start moving. Once we move, we will get somewhere.”



Program and investment people belong in each other's meetings.

“The investment committee goes to convenings with grantees. We see the challenges in the neighborhoods. We remember that when we make investing decisions.”

— FOUNDATION INVESTING LEADER INTERVIEW

MORE MISSION IN MORE FOUNDATION ACTIVITIES

When the foundation becomes a proactive investor on racial and social justice issues, many investment committees find themselves more integrated with the program side of the foundation. Investing goals become more entwined with program goals, and the lines between the departments can become less absolute.

A common example is for the foundation's program staff members to request help from people on the investment side, so they can make Program Related Investments (PRIs)³ that promote racial equity. Program and investment people often collaborate to put these transactions together, and approval may ultimately fall to the investment committee.

Program staff also help the investment committee to ground their equity conversation in work the foundation is already doing through its grants. Besides grantmaking experience, and established methods for reckoning racial, social and gender equity,

program people will have valuable community relationships that can be extended to the investing committee. These are valuable, both for committee training, and for making investments.

Many foundations deliberately overlap membership of the program and investment committees. One foundation emphasized holding the meetings back-to-back. This foundation allocates a grantmaking budget to the investment committee, so it can build capacity and power in organizations of interest.

Some foundations are working to fully meld their program and investment activities, a strategy often called "integrated capital." These foundations consciously combine and coordinate all their capacities – grantmaking, advocacy, convening and investing – toward mission goals.

The bottom line is that investing and program people from the staff and board have valuable knowledge to share with one another, and that both sides work best on equity issues when their efforts are aligned.

³ PRIs are carried on the foundation balance sheet as investments. However, they are primarily made for mission impact, and they can be counted toward the grantmaking distribution. A foundation could make a PRI loan to a nonprofit organization that makes business loans to entrepreneurs who are Black, Indigenous or People of Color.

10

**Investment
committees
are building
new tools
from scratch.**

**“Everyone is struggling
with reports.”**

**– FOUNDATION INVESTING
LEADER INTERVIEW**

The work of investment committees to address racial and social equity is urgent, but committees have to create a lot of the infrastructure from scratch. They need new benchmarks, new mission impact reports for the portfolio, and new committee training formats. They may see a need to shift their whole culture and its fundamental committee norms. This affects their agendas and deliberation style. The fact is that getting all of these materials and methods in place just takes time.

STRONG, INTENTIONAL TRAINING IS IMPORTANT

Investment committees working on racial and social equity really thrive with the support of intentional training. Part of this is simply about having time within the packed investment committee agenda for reflection and learning. The best investment committees training would provide:

- An ongoing opportunity for deep listening, to each other, and to community members who are affected by injustices in the economic system.
- A format for evaluation, reflection and learning on the foundation's investing thesis and practices.
- Exposure to emerging best practices in institutional investing.

- Connections with peers and thought leaders.

- Trust-building.

Many leaders underlined the importance of trust-building, of being very conscious to build psychological safety for tough conversations about injustice. As one leader explained:

“This is new to all of us. ‘Racial equity lens’ are three words that were never even put together five years ago. People get intimidated unless they get the learning tools and information they need. They need time on the agenda to talk big-picture. They need time for generative conversation, and label it as such, to lessen the intimidation.”

The training plan can make sure the committee is not stagnating:

“We are trying to build a curious, questioning culture. Our education plan will reflect different points of view and new ideas, not just the same people saying the same thing. We are wary of absolutes, of investing mantras, of hearing there is one way to do things.”

Unfortunately, investment committee training at some foundations may be limited to a quick review of the Investment Policy Statement, and a slide or two on fiduciary duty.

This won't prime a committee to explore tough societal issues and the implications for investing policies and practice.

Other investment committees have a robust training culture. Because they have regular committee time for learning, they can simply cycle in content on DEI thinking, policies and practices. An example:

“Our investment committee is just thirsty for any type of investment knowledge. But what is really important in their hearts is mission investing and increasing our diverse managers. They all attend our advisor’s annual conference, and they like to attend conferences with a mission element. The members also spend a lot of one-to-one time with our advisors, on basic things like modern portfolio theory.”

Onboarding new members is a chance to invite them into the committee’s thinking on racial and social equity. You can draw out new members’ unique lived experiences. Committee members already sitting can share their own evolving journey with equity issues. These conversations are critical to set equity norms, build trust and support psychological safety on the committee. An onboarding example:

“As our investment work gets more innovative, we find that we need to do a half-day orientation. We train on fiduciary duty, on our overall portfolio and what mission alignment means. We want to be really clear with new investment committee members about our collective purpose.”

The annual review of the Investing Policy Statement is another important training opportunity. Committee members can reflect on their efforts and consider adjustments. Peers and outside thought leaders can provide an assist. If members also attend national conferences as part of their training commitment, they will be well positioned and informed for these important annual check-ins on the foundation’s investment policy.

TOOLS AND REPORTS FOR INVESTMENT COMMITTEE MEETINGS

Committees that incorporate racial and social equity into their work often shift the way they operate in meetings. New reports and dashboards are needed. New people from other parts of the foundation, or from the community, may begin attending and talking with the investment committee. And time must be devoted, as one leader explained, to “the experience of learning and talking together, of intentional opening up in a generative, inclusive atmosphere.” And yet the committee must handle a substantial workload.

Investment committees that want to invest for racial, social and gender equity often find they have to work from scratch on standards and reports. “Everyone is struggling with reports,” one leader said. In response, foundations and their advisors are creating diversity questionnaires, DEI rating systems and custom narrative reports. But with no industry standards, each outside advisor takes its own path, and multiple approaches are flourishing. For the investment committee, this means they may not be able to compare DEI results across all holdings. Nor do they have an “apples-to-apples” standard for the whole portfolio when they compare and choose new investments based on equity goals.

Leaders said that foundations want advisors to “go deep” when they choose new funds and managers. It is not enough to report on race and gender of the owners. Foundations ask, “Who are your portfolio managers, your

risk managers and your analysts?” This is a lot of work for both advisors and investees. But foundations are seeking deep, systemic staffing changes that indicate true adoption of racial, social and gender equity goals in the financial industry. As one investing leader explained:

“DEI is not an easy topic to apply to investments. You can’t really do it with fixed metrics and criteria. It’s more important to talk to [a fund manager] about what their goals are, how they incorporate concepts of DEI, as opposed to fixed criteria. Diversity can show up in very different ways in a company.”

As they work “from scratch,” some investment committees turn for help to the program side of the foundation. These staff members work every day with the nuances of their foundation’s mission. They know how to apply the lens of values, vision and mission when disbursing foundation funds.

Moving Forward

FROM THE AUTHOR

It was an honor for me to explore the work of foundation investment committees on racial, social and gender equity. This report is an earnest attempt, as one leader said, to “name the dilemmas, offer meaningful commentary/ recommendations from experienced peers and frame the work of the future.”

I hope some of that work gives us better data, for instance on the diversity of foundation investment committees. I also hope for data on DEI portfolio investments that allows us to compare outcomes across foundations, advisors, managers and funds.

I hope lawyers and foundations continue fleshing out the evolved concept of fiduciary duty. Reinhart law firm says, “Fiduciary principles have not changed, but they must be applied in such a manner as to reflect current economic, societal and environmental realities.” More opinions and more documentation will give trustees clear and credible fiduciary guidance for revisiting long-held investing practices.

Our focus here was internal to the investment committee, but reviewers pointed out that there is a board in the background, that has to authorize, fund and often directly participate with the investment committee’s work. Many reviewers highlighted the importance of trust, inside the committee of course, but also trust between the committee, the board, outside advisors and members of the foundation’s executive staff.

We have just scratched the surface on the topic of power. There is more dialog on the sources, legitimacy and consequences of foundation power. There are practices emerging to use power more wisely, or even to consciously release power, sometimes by spending assets down.

I hope readers see that a foundation of any size can take up racial, social and gender equity. It may seem that large foundations have more resources, and more latitude for large investment trials. But smaller foundations have their own advantages, moving quickly, and innovating close to the ground with their tight community relationships. We need all of the work, by all types of foundations, to collectively build the ideas and the practices that move foundation investing toward just outcomes.

As I write, it is easy to get wrapped up in my own circle of power, and to be distracted by shiny new thoughts, better data and new rules. The harsh, everyday effects of racial, social and gender injustice can slip off the screen. Therefore, my most fervent wish is that we create more forums that allow more people to engage directly with the ideas we report here. The process is transformative, personally and professionally. But the crucial outcome is a society that is fair to every person who lives in it.

— *Rosalie Sheehy Cates*

FROM THE CHAIRPERSON OF THE NORTHWEST AREA FOUNDATION INVESTMENT COMMITTEE

Growing up in Duluth, Minnesota, was a good preparation for my career as an executive leader in the financial services industry. I was often the only person of color in meetings, events and social gatherings. I know from experience that real learning and growth comes from being pushed outside your comfort zone, and being intentional with your actions.

This report inspires all of us on investment committees to be uncomfortable, and to move forward intentionally on issues of racial, social and gender equity. The experiences, perspectives and insights in this report are valuable for building more equitable and inclusive communities and investment portfolios. At our foundation, we are three years into this journey. We probably underestimated the adaptive challenges of the structural shifts that we are attempting to make in our investing practices and portfolio. But we see a clear path forward, one that is completely aligned with our values, and the vision of the foundation.

At the Northwest Area Foundation, we are seeking and finding ways to integrate our investing efforts with our grantmaking, which focuses in BIPOC communities, in rural areas, with refugees and immigrants, to provide access to capital and other resources. We are working to apply a DEI lens to our entire investment portfolio, and to our choice of advisors, fund managers and investment firms. We are holding ourselves, our staff and our partners accountable to real outcomes that improve racial, social and gender equity.

Intentional investing requires determination, courage and unwavering commitment. We have to spend a lot of time on our thinking, and on new tools and protocols, but it is worth it! As a foundation, we are motivated to involve more foundations and pension funds in advancing this work. It will generate more ideas and better practices through discourse and debate. Collectively, we are stronger working together on racial, social and gender equity issues, because it requires unrelenting effort from each and every one of us to make a difference in the future. As a person, my motivation is that my experiences and work will help our priority communities, and the people on the beautiful shores of Lake Superior in Duluth.

— *Duane Carter, EdD*

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Philanthropy Northwest and The Giving Practice

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About Philanthropy Northwest

Philanthropy Northwest is the network for philanthropists of all types working in Alaska, Idaho, Montana, Oregon, Washington and Wyoming. Our goal is to support everyone in the Northwest working in philanthropy to strengthen and create more equitable communities. We are also home to **The Giving Practice**, a national consultancy committed to rigorous, generative and joyful philanthropy.

Rosalie Sheehy Cates is an Executive in Residence at Philanthropy Northwest, and a Senior Advisor at The Giving Practice.

