How Our Foundation Is Confronting Racial Inequities Through Investments, Not Just Grants

Three years ago, the Nathan Cummings Foundation (NCF) decided to break from foundations' longstanding practice of using only about 5 percent of their assets (their annual grant budget) to advance their mission. We voted unanimously to deploy 100 percent of our assets—our entire endowment—in service of our mission. In this post, I will explain the rationale for our decision, how we've implemented it, what we wish others had told us before we started, and why we're so sure we've done the right thing. We're sharing our story with transparency in the hope that others will explore deploying more than just their grant budgets to advance the causes that motivate them.

We made the decision to align our investments with our mission for three reasons:

- To expand our philanthropic toolset. *Why would we use only five percent of our assets for impact when we could use 100 percent?*
- To stop doing anything on the investment side of the house that subverts or undermines our foundation's programmatic work. *Why give with one*

hand while taking away with the other?

- To address systems of power. Capital markets are among the most powerful systems of power in our country. *How could we claim to be addressing inequitable, unfair systems if we failed to factor race and equity into our investment decisions?*

To begin implementing our decision, we studied the positions we held and then started getting rid of the "bad stuff"—that is, our investments in companies *causing harm* to people or the planet. Then we moved those assets into companies that have a *positive effect* on people or the planet (e.g., community development financial institutions that provide loans to BIPOC entrepreneurs).

Then we raised the bar higher. We ramped up investment in companies that seek to address significant social and planetary challenges (e.g., large scale battery storage). Over three years, we grew this investment category from 0.1 percent of our portfolio to 19 percent. We aim to go even higher in the coming years.

But these shifts left a critical piece off the table. To live up to our racial-equity aspirations, we discovered that we had to look not only at what kinds of companies receive our capital but also *who is involved in allocating the capital*.

This need to focus on who is allocating became clear to me when I was visiting the offices of the outside investment firm managing our assets. In that meeting, my NCF colleagues and I learned that the firm was not going to invest in a fund led by a woman of color we admired greatly. We saw great potential in that fund and were very impressed with the manager, despite the fact that she had a shorter track record than some of her white peers. So a colleague and I pushed back on the investment managers' decision. My colleague said it best: "How can we expect to solve these problems by following the same playbook that helped create them in the first place?"

That difficult interaction prompted us to commission research by the Black-led firm Frontline Solutions on the firms allocating capital for foundations. The research showed that people of color, like the talented woman our investment advisors decided not to support, face significant disadvantages in the marketplace. The research also showed that only a small subset of Outside Chief Investment Officers (OCIOs), the professionals who typically manage investments for small- and medium-sized foundations, have a clear mandate to look at or value the diversity of the fund managers they research. For more detailed findings, please see our new report *Values Proposition: How and Why We Transformed Our Investment Model to Align Our Capital with Our Mission*.

Today, only about one percent of U.S. investment assets are managed by women or people of color. We're committed to outperforming that figure by leaps and bounds. As of the end of 2020, 28 percent of our foundation's portfolio was invested in funds that are majority-owned by women and/or people of color. However, only 9 percent of our fund managers—including managers of color—consider racial equity when making investment decisions. So we have a lot of work to do. In the coming months, we'll be able to announce some changes that will put us in position to do so.

Three years later, we can say, unequivocally, that we made the right decision. We've learned that the value proposition for aligning our investments with our mission is even clearer than we knew. First, it has helped us find good investment opportunities that other investors have overlooked. Second, it has improved our risk management and fiduciary oversight by giving us new visibility into the factors that will affect the long-term performance and sustainability of companies in our portfolio. Third, it has forced us to break down organizational silos, giving our investment team access to the wisdom of our talented program team and vice versa.

As a result of these factors, aligning our investments with our mission has helped us improve—rather than forcing us to sacrifice—our portfolio's financial returns over the past three years. Our due diligence convinced us that would be the case over the long term. We have been pleasantly surprised to see it has proven to be the case in the short term as well.

The bottom line is this: the big challenges foundations care about will not be solved through grantmaking alone. We must activate all of our resources, including our investment assets. This is especially true for those of us who talk about promoting equity in America's key institutions and systems—given that America's capital markets have enormous potential to confer and shift power. Power is too often the invisible elephant in the room. We need to bring that elephant into full view and if we truly want to make progress on the missions we've dedicated our careers to advancing.