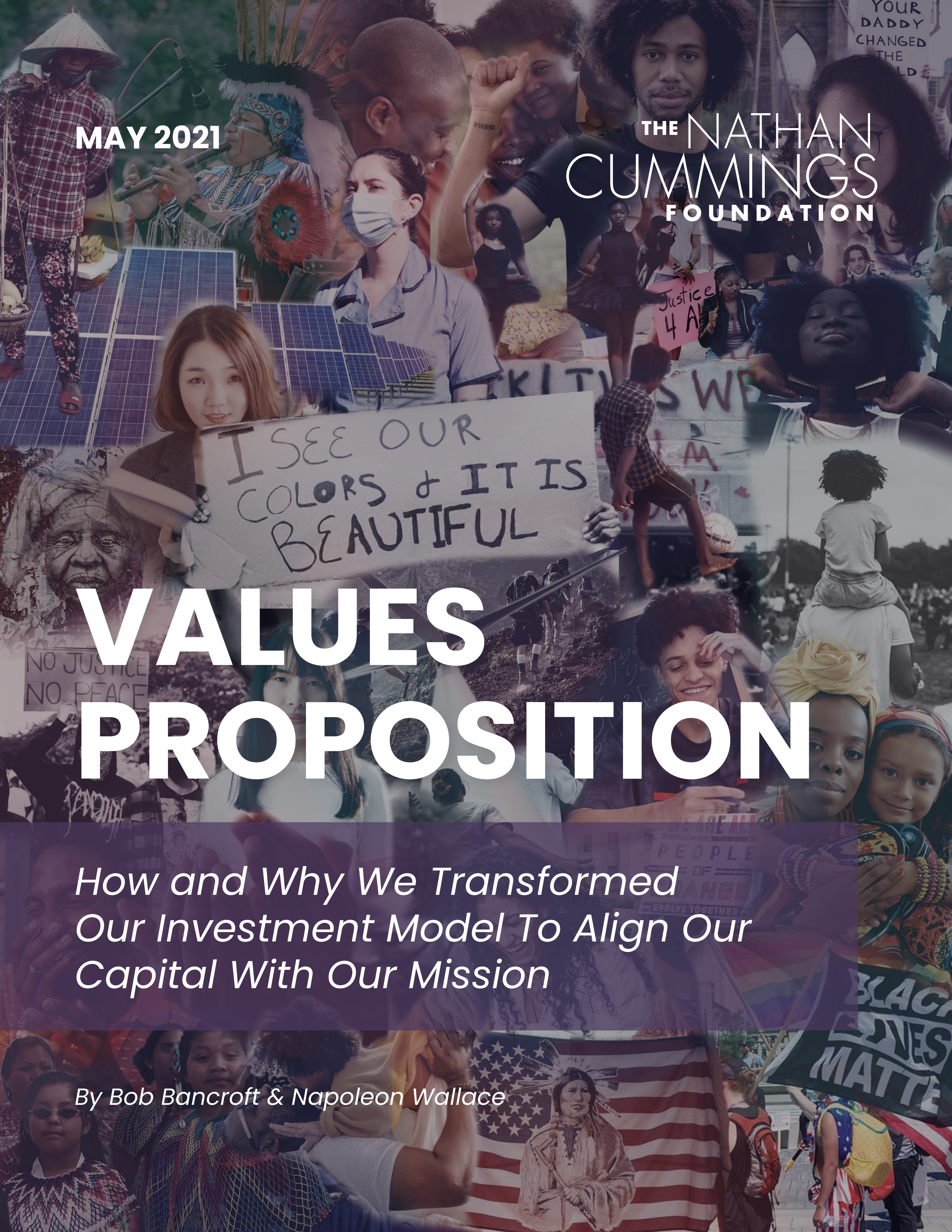
MAY 2021

THE NATHAN CUMMINGS FOUNDATION



VALUES PROPOSITION

How and Why We Transformed Our Investment Model To Align Our Capital With Our Mission

By Bob Bancroft & Napoleon Wallace

Our goal for this report is to encourage others to embark on their own journey to align their investments with their values. If you need some ideas to help you get started on that journey, please feel free to reach out to us, at impact@nathancummings.org*. We'll help make connections to professionals with skills that match your needs.*

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WE MUST ADDRESS POWER TO ACHIEVE REAL IMPACT:

A Letter to Peer Funders

Nathan Cummings frequently said that "nothing will ever be attempted if all possible objections must be first overcome." That entrepreneurial guidance served us well in November 2017, when our Board took a major leap of faith to advance our mission of creating a more just, vibrant, sustainable, and democratic society.

Breaking from foundations' longstanding practice of using only about 5 percent of their assets (their grants budget) to advance their mission, we committed to deploying 100 percent of our assets (our grants and financial investments) in service of our mission.

We made this unanimous decision for a number of reasons. We didn't want to invest in the companies that cause harm in the communities we serve. Why give with one hand while taking away with the other? Instead, we wanted to make investments that could amplify the work of our grantees. Why use only a portion of our assets for impact when we could use them all?

Most important of all, we determined there was no way we could claim to be focused on transforming systems that are neither sustainable nor fair if we didn't lend our weight and voice to altering the status quo in America's enormously influential financial markets. They have profound impact on the issues and communities we care about. Philanthropic institutions like ours are products of, and active participants in, these markets. Impact investing is about how we participate — how we show up and change these systems from within.

As a result, we looked at every aspect of how we invest. We started by removing investments that held positions in companies that were causing harm to people or the planet. Then we began shifting increasingly large portions of our assets into a) companies that actively seek to benefit a broad range of stakeholders and b) those that meet the even-higher bar of helping to solve systemic challenges.

Then we realized we had to go deeper. To be true disrupters of the status quo, we had to look at not only those who would receive our capital but also all of those professionals involved in allocating it. Far too few foundations think about the race and background of the investment advisors and fund managers making decisions about their endowment resources — how these managers make their decisions and how they impact economic power within our communities. Yet, such decisions govern the vast majority of philanthropic capital at work in our society today. Given our focus on racial and economic justice, why not make these questions both visible and indispensable?

Now you might be asking yourself, “What about your financial returns? How much have you had to sacrifice on the altar of your values?”

Thanks to the skill and dedication of our investment advisors, our new investment approach has not required any financial sacrifice. None. We believe that our new mission-aligned strategy produced stronger returns than our traditional approach would have despite all of the challenges in 2020. Our research had convinced us this would be the case over the long term. We are pleased to see it proving out in the short term as well.

In this report, we will share all the details of this journey with you, including the things that we wrestled with and had to learn the hard way, as we want to help others learn from our successes and missteps.

Three years into that journey, we can say, unequivocally, that we made the right decision. We’ve learned that the value proposition — and *values* proposition — for impact investing is even clearer than we knew. We hope that you’ll consider joining us.

In solidarity,

Jaimie Mayer, *Board Chair*
Rey Ramsey, *Interim Chief Executive Officer*

INTRODUCTION

Making the Case for Mission-Aligned Investing and Research Highlights

Mission-aligned investing presents a compelling opportunity for philanthropic organizations to reimagine how they use their financial resources to affect change. All of the institution's capital is harmonized in service of its mission — a **total-enterprise approach** to impact. Yet, such an approach is relatively novel and still often met with skepticism or confusion.

Our report addresses this skepticism by demonstrating the potential for mission-aligned investing to enhance mission impact while continuing to meet financial goals. We are also candid about where we see gaps and shortcomings in the marketplace. Although our research focused on mission-aligned investing practices among outsourced chief investment officers (OCIOs), we believe these findings will be of interest to any institutional investor — including those who work with nondiscretionary investment advisors and/or in-house investment teams.

Our toolkit provides mission-aligned investing advocates with resources that were developed based on our experience of aligning our $450 million endowment with our mission over the past three years. It likely mirrors the experiences of others as well. The toolkit consists of a framework to conduct a situational analysis at your organization and a four-pillar approach to make the case for mission-aligned investing. We provide some working definitions for clarity, but we do not focus on them. We recognize that each institution is unique. We offer a construct that can be adapted to your circumstances.

TOOLKIT FOR THE MISSION-ALIGNED INVESTING ADVOCATE

Conduct a situational analysis using three dimensions of organizational change:

Governance: Understand how decisions are made.

Capacity: Consider structures, knowledge, and time required.

Mindset: Examine attitudes, biases, and beliefs.

Make a case for mission-aligned investing that resonates with your institution:

Risk Mitigation: Extra-financial data strengthen investment underwriting.

Values Alignment: Authentic and intentional actions improve market behavior.

Impact: Investments are activated for social and environmental gain.

Opportunity: An expanded view reveals new and underrated investments.

TOOLKIT FOR THE MISSION-ALIGNED INVESTING ADVOCATE

Working Definitions

We define mission-aligned investing as a range of complementary practices that help an institution achieve its financial goals, produce positive and mission-relevant impacts in the world, and promote greater alignment with institutional values and priorities. We view the sum of these contributions as a significant enhancement of the Board of Directors' fiduciary oversight.

Mission-aligned investing practices include: negative screening; integrating environmental, social, and governance (ESG) data, including diversity, equity, and inclusion (DEI) data; emphasizing diverse-led funds and emerging managers; active ownership; socially responsible investing (SRI); mission-related investments (MRI); program-related investments (PRI); and impact investing. For the purpose of this report, the distinctions between these strategies are not important. Rather, we focus on how they overlap and work together to enable a total-enterprise approach to impact.

We refer to diverse-led funds throughout this report. Our experience has taught us the importance of establishing a clear definition and benchmarks for diversity. We define diverse-led funds as those that are majority-owned by women and/or people of color. We acknowledge that ownership is not the only relevant metric for DEI. We also recognize that our commitment to inclusivity will need to be expansive to include other communities and identities beyond women and people of color. However, adopting this imperfect definition allowed us to get started, which was critical.

Dimensions of Organizational Change

A clear understanding of **governance** — how decisions are made – is where successful change processes begin. Like many small- to medium-sized foundations, we delegate our investment decisions to an OCIO. This outsourced firm has the authority to make most investment decisions on our behalf (e.g., to hire or fire investment managers). However, those decisions are governed by an investment policy statement (IPS) that is the responsibility of the Investment Committee and, ultimately, the Board of Directors. The fiduciary duties of the Board of Directors include ensuring that all activities advance the organization's mission. Incorporating mission-aligned investing within the IPS is consistent with this objective.

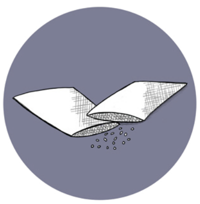
Next, consider **capacity** – what structures, knowledge, and time will be required to do the work well. This is idiosyncratic to each institution and requires a candid assessment of whether the current mix of internal and external capacities aligns with aspirations. There is no doubt that a commitment to mission-aligned investing will require scaling organizational bandwidth and flexing new muscles. As mentioned, one capacity we emphasize in this report is mission-aligned investing among OCIOs in the US. Our findings are also relevant to a broad audience of institutional investors.

Lastly, **mindset** – individual and collective attitudes, biases, and beliefs – may be the most nuanced and important dimension of change. There is a persistent myth of tradeoff in impact investing — the notion that a unit of social impact requires more risk or sacrifices potential returns. This has not been our experience, nor do the data or our research support this position. Nevertheless, this misperception remains common among investors. We recommend establishing an intentional learning agenda to engage all decision makers and overcome such obstacles. We describe how such a process enabled courageous transformation within our organization later in the report.

Making the Case

There are four reasons every institution should consider a more intentional and mission-aligned approach to investing. Each is credible and compelling, yet they are not mutually exclusive. We encourage you to determine which reasons are most relevant to your organization and where there might be overlap. We endeavor to operate at the intersection of all four, but we acknowledge that some investments will emphasize a subset of these pillars.

Risk mitigation: There is growing consensus among investors that incorporating extra-financial data, such as ESG considerations, makes an investing process stronger. ESG factors can be material to the short- and long-term performance of a company. Therefore, the ability to identify and quantify such risk exposure is an enhancement of the traditional investing process, providing a new perspective on the challenges and opportunities faced by the companies in your portfolio. We believe that applying this enhanced risk lens will ultimately yield more resilient returns for investors.



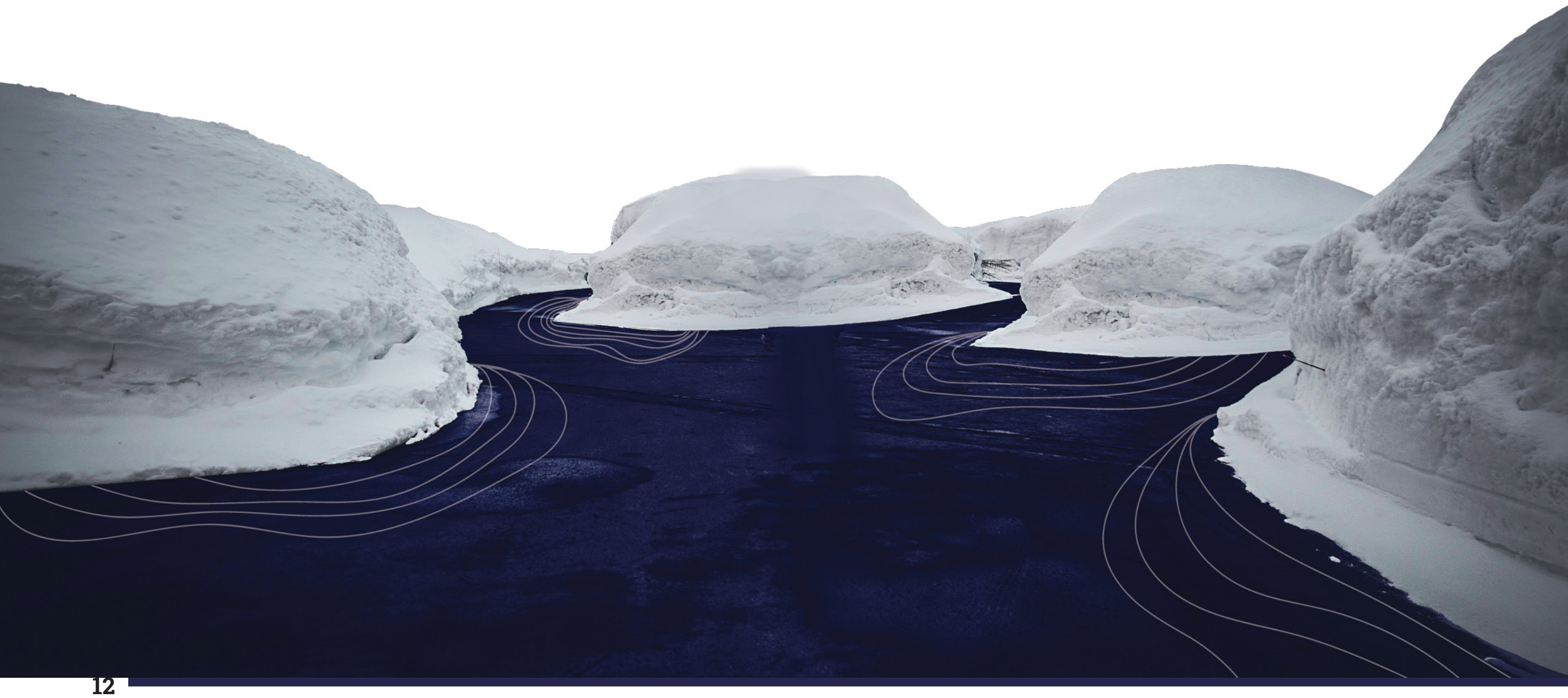
Opportunity: The best investors are adept at identifying opportunities and "hidden gems" that most of the market misvalues or overlooks. This often means analyzing demographic, social, and/or economic trends to find mispricing and other inefficiencies in pursuit of alpha – financial outperformance above the markets. We see the incorporation of an environmental, social, and governance lens as fundamentally similar. One market inefficiency we are keenly examining is underinvestment in funds managed by women and/or people of color – over 98 percent of a $69 trillion universe of funds has been invested in funds managed by white men. These data suggest there are great reservoirs of talent that are not receiving commensurate investment, which presents an opportunity to outperform.

Impact: The notion that businesses have an enormous impact on society is hardly controversial. In 2021, businesses are poised to create 6.7 million jobs, emit thirty-four billion tons of pollution, and create and distribute vaccines that will save millions of lives. Corporate impacts are as vast as they are varied. Until recently, we lacked the tools to measure or manage such impacts within an investment portfolio.

Our desire to optimize portfolio impact is rooted in our belief that our society's enormous challenges will not be solved by philanthropy alone. Consider, for example, that the United Nations estimates a funding gap of $2.5 trillion each year over the next decade to achieve the sustainable development goals and avert the worst effects of climate change. The combined resources of all private foundations in the US amount to $1 trillion by contrast — a great deal of wealth but far short of what is required. Impact investing creates a powerful convergence of public, private, and philanthropic interests. It enables philanthropic organizations to leverage private sector resources in service of their missions.

Values alignment: It is said that private foundations are investors who award grants on the side. This is not intended to understate the importance of grantmaking — rather, it reminds us that our investment team deploys the vast majority of our financial resources. Such decisions have been siloed, sometimes barricaded, from the rest of the organization in the past. While investors may aspire for their decisions to be objective and data-driven, no decision is values-neutral. Therefore, the task is to raise the visibility of these values and examine the underlying assumptions beneath them.

An increasing number of investors seek alignment between their investments and their institutional and/or personal values. They see their investments as a means to communicate with corporations, change behaviors, or repair relationships with other stakeholders. Perhaps the greatest movement toward alignment will result from the intergenerational wealth transfer now underway. Baby boomers are expected to transfer $30 trillion in wealth to their heirs by 2030, and that number may exceed seventy trillion by 2060. **This seismic shift has created a race among large, institutional asset managers to create products to meet the new demand — spurring progress and innovation but raising the risk of inauthentic or superficial treatment. Values-driven investors will need more transparent and consistent forms of impact measurement to avoid so-called "impact washing."**



RESEARCH HIGHLIGHTS

In 2020, we surveyed 115 OCIOs, ultimately engaging eighteen leading firms in a conversation to inform the next chapter of our approach to mission-aligned investing. We studied the relationship between impact and performance. We deepened our understanding of best practices among these firms and gaps and opportunities for improvement. Here are the highlights of our research:

- **You don't need to sacrifice financial returns to cultivate impact.** We observed no negative correlation between the portion of a firm's assets dedicated to impact and the firm's performance relative to peers.

- **Traditional measures of capacity are stifling growth and innovation.** Many of the most innovative, impact-oriented firms tended to be younger and have fewer assets under management, which may disadvantage them in a traditional search. This trend was particularly evident among Black-owned firms.

- **Diverse, inclusive portfolios start with purpose and measurement.** Firms with a clear mandate and an intentional approach to measuring fund manager diversity exhibited less racial or gender bias when selecting funds for their clients.

- **Advisors are often barriers between investors' values and their investments.** Firms frequently touted their ability to engage with fund managers and leverage professional relationships, but most avoid doing so around matters of diversity and inclusion, ESG performance, or impact.

- **Impact measurement and management (IMM) is still a work in progress.** Most firms employ a proprietary approach to ESG and impact measurement, attempting to aggregate dissimilar data from their funds. We found none that subject their impact reporting to external audit or review.

- **Even among impact investors, too few focus on social, racial, or economic justice.** Many firms offer well-defined strategies for incorporating ESG data into their investing approach, but few have integrated measures for advancing social, racial, or economic justice.

Our research was by no means exhaustive, and there were innovative firms we did not hear from in our process. Rather, we sought to examine the contours and direction of a sea change underway. We believe this work stands as a credible snapshot of an industry that is transforming. **There is capacity among advisors and OCIOs to support mission-aligned investing, and that capacity is rapidly evolving.** Three years into our own transformation, and after nine months of research, we are more convinced than ever: this can be done.

FINDINGS

Our Landscape Analysis of the Mission-Aligned Investing Field

Photo by Pierre-Richard Raphael

We were at a crossroads two years into our journey to implement a mission-aligned investing strategy across the entire endowment. We made significant progress, yet we remained restless. We wanted to understand the extent to which our social justice mission could be authentically reflected in every facet of our investing. We saw an opportunity to engage leading OCIOs to help find the answers, and we retained Frontline Solutions to conduct the research.

We would like to express deep gratitude to the eighteen firms who took considerable time and effort to participate in our process. We have listed each of them in the acknowledgments section of the report.

THE POWER OF THE OCIO

We felt it was important to highlight the significance of the OCIO model in the philanthropic sector before presenting our findings. The model emerged to satisfy the need for a total portfolio management solution, which bridges the gap between investment consulting and asset management. A key facet of this model is the notion of "full discretion," meaning that the OCIO has the authority and the power to allocate capital on behalf of the asset owner. In essence, the OCIO acts as an intermediary between the asset owner and the fund managers within the portfolio.

According to Federal Reserve estimates, private foundations in the US held $968 billion in total assets as of the first quarter of 2020, up from $573 billion a decade ago and $459 billion a decade prior. The OCIO model's adoption has been on an upward trajectory over the last decade, surging by 37 percent annually since the Great Financial Crisis. This growth has been fueled especially by small- and medium-sized institutions, who seek a sophisticated approach to investment management but lack the scale to viably recruit an in-house team. In 2018, more than 90 percent of private foundations surveyed used some form of investment advisors to facilitate manager selection, and 30 percent of foundations surveyed utilized OCIO services, per the Council on Foundations and Commonfund.

> ***"We must clearly identify and address the transfer of economic power through our investments to better align our investments with our mission."***

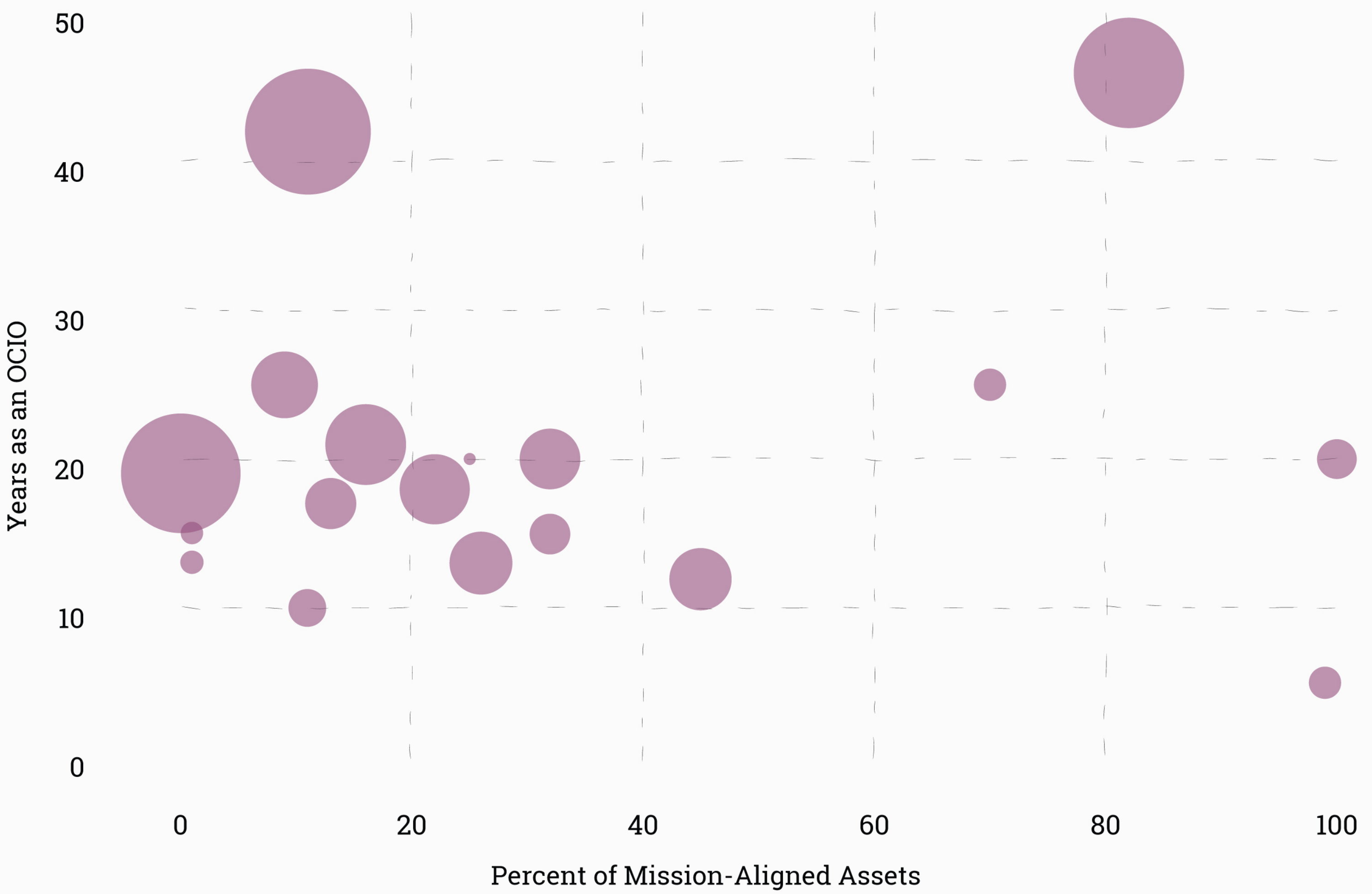
These firms are gatekeepers to the vast majority of philanthropic capital. Such capital can confer power and self-determination or, if not equitably allocated, cause deep and lasting harm. Recognizing this, we made an understanding of these dynamics a key part of our inquiry. We must clearly identify and address the transfer of economic power through our investments to better align our investments with our mission.

METHODOLOGY

We conducted our research in two phases. In phase one, we cast a wide net across the OCIO space to ensure a broad sampling of styles and approaches to mission-aligned investing. In addition to a preliminary universe of OCIOs, we leveraged both traditional industry resources, such as Ai-CIO and Skorina, and less traditional ones, such as the Diverse Asset Managers Initiative, to produce a broad and representative sampling of this dynamic market.

We initially studied 115 OCIOs, primarily through desk research, to catalog a breadth of firm attributes we deemed relevant to mission-driven organizations. **These included size and**

Casting a Wide Net



*Size of circle indicates assets under management (AUM).

structure, asset class capabilities, firm demographics, mission-aligned investing capacity, thought leadership, financial performance, and impact measurement and reporting. Each attribute was scored and standardized based on its relative importance to the foundation in order to compare firms and identify best practices.

We identified twenty-five leading firms using this ranking system along with other insights gleaned from the first phase. We then invited them to participate in the second phase of our research through a confidential request for information (RFI). Eighteen of the firms chose to participate. We did not set out to create a definitive ranking for others. Institutions with other priorities may have ranked these leading firms differently.

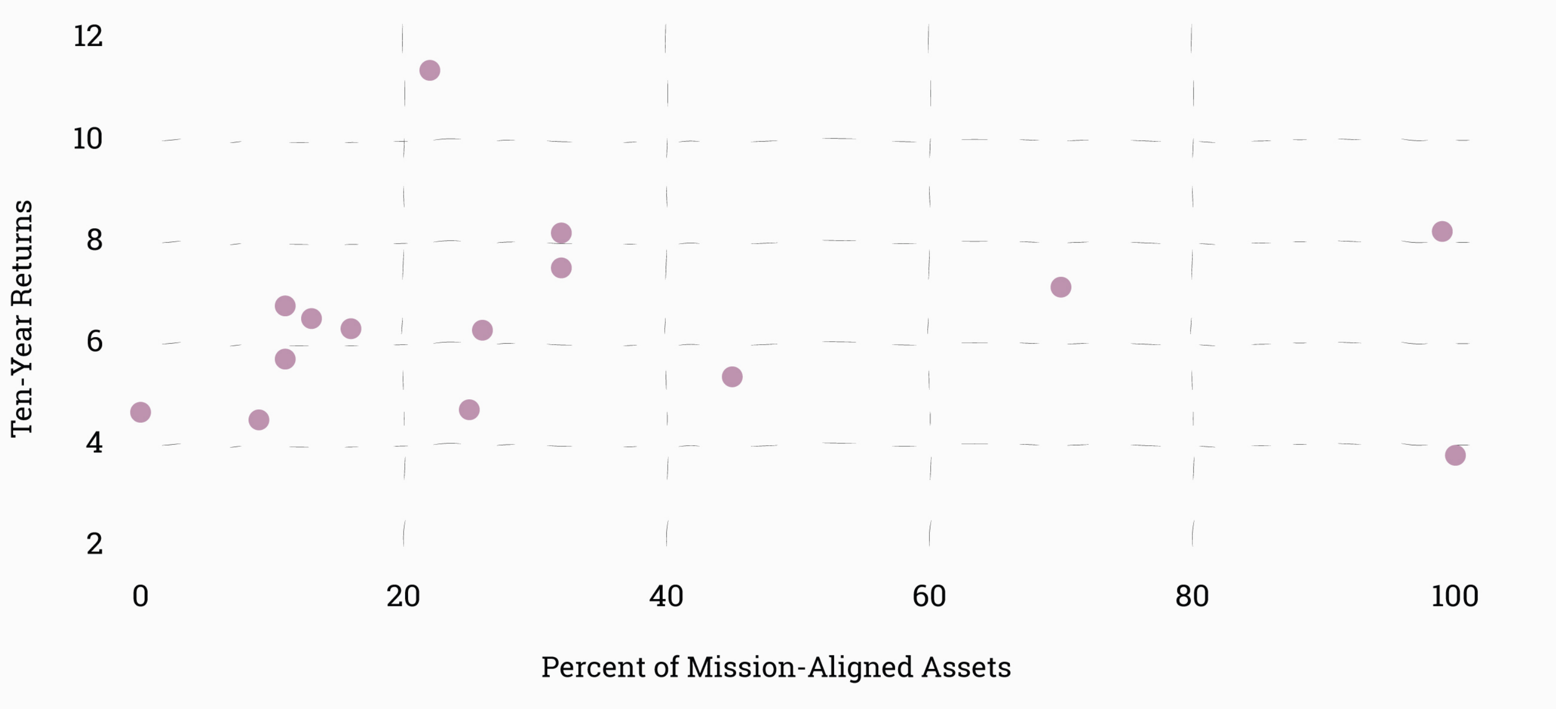
We augmented the phase two RFI with an optional Diversity, Equity, and Inclusion Addendum (Appendix Three) because we were especially interested in understanding how OCIOs thought about issues of diversity, equity, and inclusion. The document requested transparency around a variety of metrics, including internal DEI practices, staff diversity statistics, the number of diverse-led funds researched versus placed in client portfolios, and any improvements that the firm had made toward inclusive sourcing and engagement. Our intention was also to signal that these firms should anticipate similar requests from clients and prospects in the future. In the end, half of the respondents completed the Addendum, although many were not able to provide complete data.

Photo by Marcel Brown

FINDING ONE: YOU DON'T NEED TO SACRIFICE FINANCIAL RETURNS TO CULTIVATE IMPACT

A growing interest in mission-aligned investing is often met with concerns about the potential for increased risk or dampened returns. Yet, **we observed no negative correlation between the portion of a firm's assets dedicated to impact and its financial performance from our analysis of the RFI responses.** On the contrary, we found that institutions working with an OCIO are not required to sacrifice financial returns to apply a mission-aligned approach to their investing. This finding builds on empirical research that concluded that portfolios screened for ESG performance do not negatively impact returns, nor do they experience additional volatility.

Performance vs. Percent of Mission-Aligned Assets



Sixty-three percent of the 115 firms that we reviewed incorporated some form of ESG factors into their assessment of managers and their underlying investments. Fifty-six percent featured SRI and/or impact prominently in their marketing. Therefore, **we consider any firm that does not offer robust ESG and impact integration to be lagging in the market.**

We observed two distinct approaches to constructing mission-aligned portfolios, which we describe below.

Traditional, with impact as a lens. This approach first identified the financial needs of a client to determine asset class allocation, building the portfolio in a conventional manner. Products were often: identified as a subset from an existing platform; screened based on ESG, responsibility, diversity, and/or impact; and then placed within the predetermined allocations. We observed this to be the most common approach. These firms treated impact as an add-on to the existing model rather than a fundamental shift in thinking. We believe this approach can contribute to achieving mission alignment, but it may be less likely to maximize impact.

Impact-first, with impact as alpha. This approach first considered the pressing, mission-relevant challenges and opportunities that may be suitable for private-market solutions. It then worked backward to construct a portfolio that meets their clients' financial goals. These investors typically identified social and environmental impacts as hidden sources of alpha. Essential to this approach was an understanding that there was unrecognized value in investments that meet impact goals, and, therefore, impact goals should lead the asset allocation process. For the purpose of our research, we considered a firm to be "impact-first" if it had at least 70 percent of its assets under management in impact or other mission-aligned strategies. We saw few firms pursuing this model.

In terms of structure, we observed that the majority of firms treat mission-aligned investing as a line of business catering to a specific client segment. In such cases, a relatively small team was responsible for the implementation and execution of a firm's mission-aligned investing. Rarely was it the sole focus or integrated across the entirety of a firm's infrastructure (i.e., sourcing, investment research, execution, operations). While this may be an appropriate entry point for traditional firms, we would encourage them to adopt a more integrated approach and utilize these tools across their entire platforms.

Many Investment Committee discussions about mission-aligned investing are cut short by the falsehood that it would come at the cost of performance. We believe that employing an impact-first approach that uses impact alpha drivers allows any mission-driven asset owner to optimize for both financial and mission returns. **The data are clear that mission-driven institutions, such as private foundations, do not need to sacrifice financial returns for mission alignment.**

FINDING TWO: TRADITIONAL MEASURES OF CAPACITY ARE STIFLING GROWTH AND INNOVATION

The few firms that took a fully integrated, impact-first approach tended to be younger, had fewer assets under management (AUM), and were generally launched explicitly to pursue impact. Nearly all were launched in the past twenty years, and most were created within the past decade. The firms themselves tended to have shorter track records, even while the founders and leaders carried considerable experience. This was especially true for firms led by people of color and/or women. In some cases, these firms tended to focus on a subset of asset classes and/or geographical sectors, perhaps because of having smaller teams.

"Mission-aligned investors will need courage and creativity to find ways to support these emerging impact leaders and benefit from the work they are doing."

These characteristics may disadvantage these firms in traditional searches and create barriers to their adoption among larger institutional clients. **A perceived lack of client management experience and/or full asset class diversification — even when there is risk-adjusted outperformance — can result in innovative OCIOs being screened out of search processes prematurely, which has the consequence of keeping them artificially small.** Few endowments or foundations want to be the first or the only large asset owner being managed by an advisor, leading to unspoken but real impediments. Thus, we see a chasm between those firms already operating at scale and those seeking to achieve it. Mission-aligned investors will need courage and creativity to find ways to support these emerging impact leaders and benefit from the work they are doing.

FINDING THREE: DIVERSE, INCLUSIVE PORTFOLIOS START WITH PURPOSE AND MEASUREMENT

We are committed to promoting diversity, equity, and inclusion in every aspect of our institution — and our investing process can be no exception. We seek an inclusive and antiracist approach that promotes diversity and inclusivity throughout the investment value chain, starting with the OCIO or advisor, continuing with the portfolio fund managers, and resulting in investments in enterprises that integrate a justice and equity lens to have a positive impact on the communities we serve.

Value Chain

In addition to a moral argument, asset owners have a well-founded business case to promote diversity, equity, and inclusion. As highlighted in recent McKinsey research, firm profitability, growth, and job satisfaction all positively correlate with higher levels of diversity and inclusivity. Specific to investment management, we also know that diverse-led private equity funds continue to outperform the Burgiss Median Quartile in 79 percent of the vintage years studied, according to NAIC. However, despite consistently delivering strong returns, diverse- and women-owned firms collectively manage only 1.3 percent of the industry's $69 trillion in assets under management — clear evidence of the biases and structural barriers present in the sector.

As a mission-driven foundation that prioritizes racial justice, we wanted to know what OCIOs were doing to address this disparity and how investors might benefit by tapping into these vast reserves of overlooked or undervalued talent. Accordingly, we asked these firms to tell us what an equitable and inclusive investment portfolio would look like, what barriers were impeding them from making more investments in diverse-led funds, what types of diversity and inclusion data they were collecting, how they were using it, and to what effect.

Unfortunately, the responses we received indicated a collective weakness in this area. **This weakness manifested as underdeveloped or absent processes relating to hiring and advancing a diverse workforce within the firms, making investments into diverse-led funds, and/or investing in products that incorporate a perspective on racial, gender, ethnic, and/or economic justice.** For example, only five of the 115 firms in our initial survey explicitly addressed the diversity of fund managers within their portfolios, which we considered a significant oversight and shortcoming. Only thirty of the 707 senior leaders across these same firms were Black or Latinx.

Total Staff Diversity Among OCIOs

Some respondents attributed these outcomes to a dearth of talent or investment opportunities in the pipeline. While we think efforts to improve the pipeline can be helpful, we disagree with the assertion that the talent pipeline is the limiting factor. We believe our position is well-supported by the facts, including a recent study from Stanford SPARQ, Illumen Capital, and the Global Projects Center, which surfaced how racial blind spots interfere with investors' judgment in the absence of an intentional focus on diversity.

Yet, there is reason to be hopeful. Through our analysis, we identified several factors that appear to reduce bias and strengthen the investing process, such as:

- A clear mandate, including internal audits and support from senior executives
- Diverse staff, particularly at the leadership and investment committee levels
- An intentional approach to collecting and measuring diversity and inclusion data throughout the investing pipeline

We observed that firms that adopt one or more of these practices exhibit demonstrably less bias in selecting funds for their clients, thereby creating an opportunity to outperform by selecting underestimated managers. **Measurement was the most clearly correlated to bias reduction, reinforcing our belief that institutional barriers and personal biases are the primary impediments to sourcing and placing more capital with diverse-led funds.**

FINDING FOUR: ADVISORS ARE OFTEN BARRIERS BETWEEN INVESTORS' VALUES AND THEIR INVESTMENTS

Since 2002, we have sought to leverage our standing as a shareholder to advance ESG issues at some of the largest, publicly traded companies in the US. For almost two decades, we have used this form of shareholder engagement – filing shareholder proposals and voting our proxies intentionally – to shine a light on harmful practices and change corporate behavior. For example, our recent engagement with Discovery Communication spanned several year and resulted in their Board's commitment to instruct any external partners identifying Board of Directors candidates to include diverse candidates in their list. Discovery added Robert L. Johnson, founder of Black Entertainment Television (BET), to its Board of Directors following the conclusion of our engagement.

There is a catch: we can only pursue this line of engagement when we own shares of stock in the companies. The vast majority of our endowment is invested in commingled funds like most of our peers. In that case, the funds are considered the shareholders and thus the parties with the power to vote proxies or file proposals. Therefore, we were keenly interested in knowing how OCIOs are working with fund managers to monitor and/or influence this important activity.

Unfortunately, we found nearly all OCIOs are hands-off about this. The few exceptions tended to partner with outside organizations, like As You Sow, for guidance. This approach is certainly a step in the right direction, but it may not always fully represent asset owners' priorities. Only one OCIO articulated a clear vision and mandate around shareholder engagement as a tool for impact. Despite this,

> ***"We see clear evidence that OCIOs have the power to extend that engagement to include issues of diversity and inclusion, ESG, and impact. The motivation or the will to do it is what appears to be lacking."***

nearly all respondents touted their ability to engage fund managers and leverage closely held relationships in ways that enhance performance for their clients. Thus, we see clear evidence that OCIOs have the power to extend that engagement to include issues of diversity and inclusion, ESG, and impact. The motivation or the will to do it is what appears to be lacking.

Most OCIOs instead tend to guard their relationships with fund managers and minimize contact with clients. This creates certain efficiencies for the intermediaries, but it can also create barriers that erode or prevent the transmission of values between the asset owner (the client) and those making decisions across the portfolio (the fund managers). **We believe mission-driven institutions need to reexamine this arrangement and establish new ground rules, new forums, and new modes of access to ensure the transmission of values and priorities is direct and strong.**

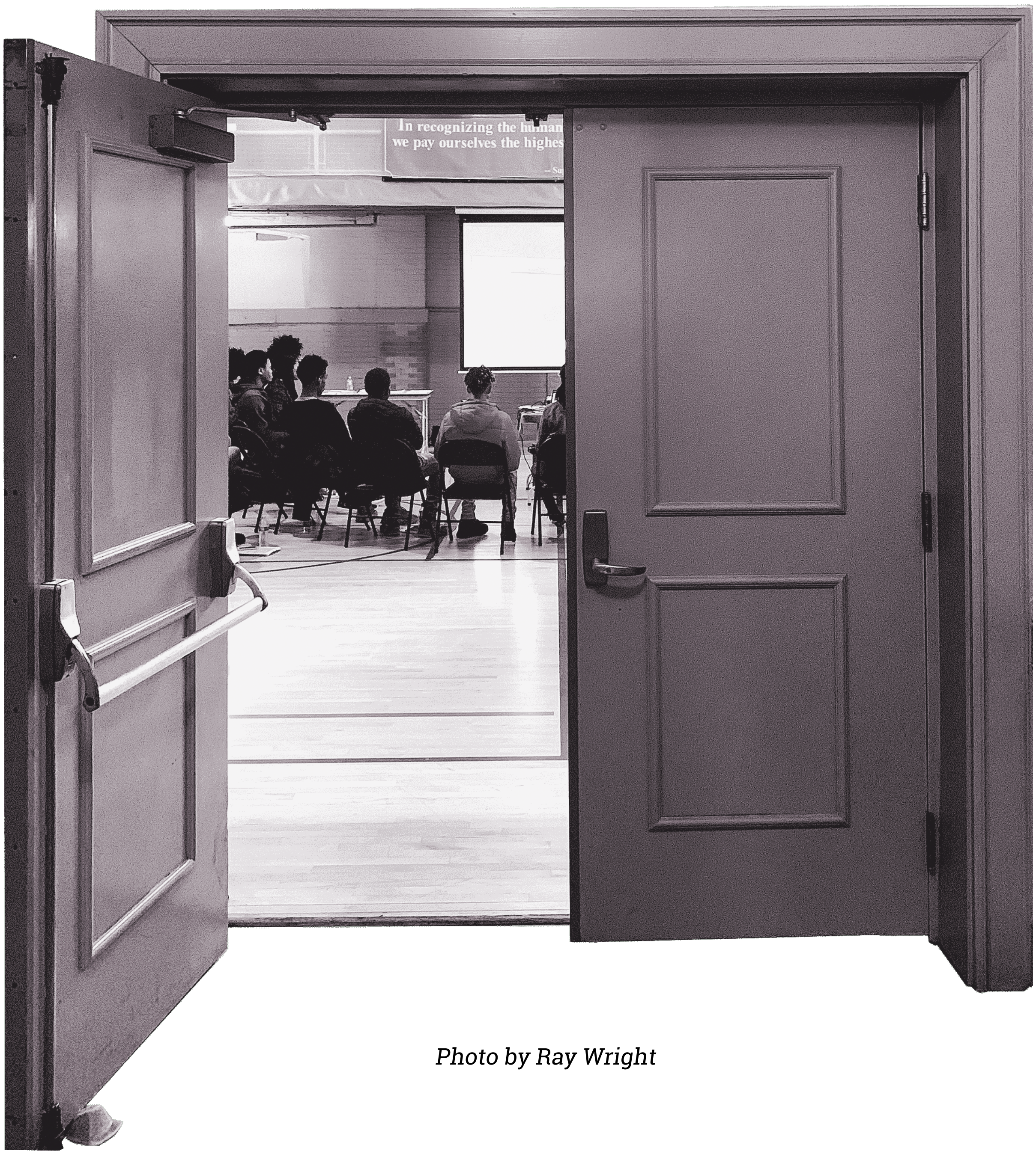


Photo by Ray Wright

FINDING FIVE: IMPACT MEASUREMENT AND MANAGEMENT (IMM) IS STILL A WORK IN PROGRESS

Most firms employ a proprietary impact measurement system, which is often positioned as a firm's unique advantage. Most have also tied their system to the United Nations Sustainable Development Goals to some extent, but only a few fully integrate more widely accepted ESG or impact measurement platforms, such as the SASB Materiality Map, IRIS+, GIIRS / B-Analytics, or the Impact Management Project. We worry that the proliferation of closed-box, proprietary systems among asset allocators creates barriers for new investors, and we believe it may undermine credibility and accountability for the impact investing movement. We encourage investors and advisors to leverage existing tools and frameworks to the greatest extent possible and contribute to these projects rather than creating entirely new systems.

In addition to impact measurement, we observed a range of practices around identifying and assessing impact risk. Some firms pursued a traditional approach to underwriting, centered on financial risk. Others sought investments where the impact and financial theses were sufficiently co-dependent so that one was not likely to happen without the other. Only a few firms appeared to rigorously examine each investment's impact thesis and consider the likelihood that the desired impact(s) may or may not occur. We believe such rigor will be required to properly optimize the portfolio's risk, return, and impact characteristics.

> ***"We conclude that there is a significant opportunity to improve the rigor and transparency of impact reporting by incorporating reliable third-party data and audits."***

Lastly, we found that OCIOs are largely reliant on self-reported data provided by the funds. To further complicate matters, these data come in all shapes and sizes, and there are no agreed-upon standards for how they should be aggregated. This can significantly impair the utility of whichever tools OCIOs use to report impact performance to their clients.

We conclude that there is a significant opportunity to improve the rigor and transparency of impact reporting by incorporating reliable third-party data and audits. After all, we depend on financial audits as a standard practice that strengthens our capital markets. We imagine that impact audits will eventually have the same degree of acceptance or perhaps become integrated with financial audits.

We also observed the following best practices:

- Leverage and contribute to existing frameworks and systems that measure impact
- Establish clear and appropriate benchmarks for impact performance
- Incorporate reliable third-party research and listings, such as the Carbon Disclosure Project's A-List, or the Adasina's Racial Justice Exclusion List
- Engage an assessor experienced with sourcing diverse-led funds, such as the Diverse Asset Managers Initiative, to serve as a credible partner to develop and implement a DEI audit and other tools to reduce bias
- Engage a third party, such as Trucost, to conduct an impact audit to evaluate the appropriateness of reported data around ESG performance

FINDING SIX: EVEN AMONG IMPACT INVESTORS, TOO FEW FOCUS ON SOCIAL, RACIAL, OR ECONOMIC JUSTICE

In this report, we offered an assessment of the state of play among mission-aligned investors and advisors. We presented our findings as a snapshot of a field that is undergoing rapid change. We indicated what is possible today, what we saw as best practices, and where we found gaps. This research eventually led to what we see as the impact frontier — investments that integrate and directly advance social, racial, or economic justice. We found the possibilities compelling, but such investments remain uncommon and elusive.

Consider, for example, environmental impact. This topic was widely addressed by the respondents, many of whom provided a clear analysis of how to measure the impact that companies have on climate change and what investments are needed to transition to a clean economy. Few appeared to be thinking about how these challenges and opportunities intersect with issues of racial or economic justice. In the US, our most vulnerable communities — including communities of color and other disinvested communities — have borne a disproportionate share of corporate pollution for decades. Without an explicit focus on justice, these same communities will likely be excluded from the economic benefits of a clean energy transition or bear the worst effects of climate change.

We see the potential for a new, more enlightened capitalism, where economically and environmentally restorative investments are made to empower those communities most harmed by such behaviors. After a global pandemic laid bare the inequities of our existing systems while also reminding us of our interdependence, we have never felt greater urgency. **If mission-aligned investing is to realize its potential as a tool for achieving systems change — if we are to create real and lasting impact — then we must test our social justice thesis at each step of the investing process.**

That requires us to address power. All investments impact and confer economic power, but the tools and intentionality to manage this at scale have lagged. Therefore, we suggest the following analysis be incorporated into the evaluation of any potential investment:

- **Who controls the resources?**
- **How are decisions made?**
- **Where is economic power built?**

We believe such an analysis will be additive to investment performance over time, which is consistent with our previous assertions. We see proximity to community and diversity of lived experience as new sources of alpha, because they can overcome blind spots and spur innovation. **They expand the aperture of our thinking, and they will enable investors to identify the next wave of breakthrough and economically transformative opportunities. Private capital can be recruited as a force for good. We get there by integrating a social justice thesis throughout our investment decisions.**

‘GO TO THE PLACE THAT IS YOUR OWN’

An Inside Account of the Foundation’s Eighteen-Year Journey to Align Investments with Mission

By Lowell Weiss

18 YEARS IN THE MAKING

The Nathan Cummings Foundation's Journey to 100% Mission-Aligned Investing

2002
NCF adopts Shareholder Activity Guidelines

2003: NCF files its first shareholder proposal

2006
NCF is a founding signatory of the UN Principles for Responsible Investment

2010: NCF issues report on active ownership strategy

2010
NCF hires GEM as its first OCIO

2011: NCF files its 100th shareholder proposal

2012
NCF carves out $6.5 MM for impact pilot

2016: GEM completes its first total portfolio ESG Exposure Review

2017
NCF hires Sonen Capital to guide its learning

2018
NCF commits to 100% mission-aligned investing

AUG 2018: NCF and GEM engage in candid conversation around diversity, equity, and inclusion

2019
NCF, GEM and Bridges implement impact framework using IMP

JAN
2020
NCF divests from $129 MM unaligned assets and invests $89 MM in impact

AUG
2020
NCF adopts racial equity lens for investing

On November 12, 2017, the trustees of the Nathan Cummings Foundation filed into the 14th floor Board room of the foundation's Midtown Manhattan headquarters. It was a crisp, glorious Sunday, but none of the trustees resented being stuck inside on the weekend because this was no ordinary Board meeting. The trustees would be making the foundation's biggest, most consequential decision in decades, the culmination of fourteen years of learning and intense debate. "Our CEO at the time cared so deeply about the outcome that she was placing calls to trustees until the eleventh hour," recalls Jaimie Mayer, current Board chair. "The future of the foundation was riding on this decision."

The issue on the table: should the foundation use its $450 million endowment, not just its $20 million in annual grants, to advance the foundation's social mission?

> ***"Today, we have an opportunity to go to a place we don't know, for the benefit of the foundation's mission."***

The Board room was packed. In addition to ten trustees from the Cummings family and four independent trustees, the group included one associate (a fourth-generation Cummings family member in training for a future governance role), two professional advisors to the Board's Investment Committee, fifteen staff members, and seven guests with expertise in impact investing.

Then-chair Ruth Cummings, who had flown in from Jerusalem for the meeting, sat a few paces from a bronze bust of her paternal grandfather, the foundation's namesake. After bringing the meeting to order, she shared a few thoughts about the serendipitous relevance of the week's Torah (Hebrew Bible) portion.

Respecting the fact that fewer than half of the attendees were Jewish, Ruth explained that the Torah portion corresponding to that week was called *Lech Lecha*, a Hebrew phrase that means "go to the place that is your own" or "go to your self." She shared that this portion discussed the story of Abraham — the patriarch of Judaism, Islam, and Christianity — and his courageous decision to leave his father's house and native land to begin anew in the land of Canaan. She told the trustees that they, too, could break from tradition and seek courageous transformation. "Today, we have an opportunity to go to a place we don't know, for the benefit of the foundation's mission," she said. "We can embrace a new investment model, and if we're successful, we will lead the way for other foundations, including those with much greater resources. The stakes are high."

Ruth was unambiguous about her desire to go all in on impact investment. But a "yes" vote was no foregone conclusion. No foundation of Nathan Cummings' size had done so. Several

of the foundation's Investment Committee members, to whom the Board had traditionally delegated all key endowment decisions, were not ready to take a leap of faith. While she felt she had a pretty good read on how her family members would vote, she was not as clear about where the foundation's four independent trustees stood.

The two co-chairs of the Board's Investment Committee, Ruth's cousin James K. Cummings and independent committee member John Levy, had a good working relationship but did not always see eye-to-eye on impact investment. James, who had lived on a commune in the 1960s and still wears an earring in his left ear, was the number one champion of aligning investments with the mission. He had been bringing up the topic since the 1980s when his father was the foundation's president. "He was polite, an impeccable person," James explains. "And he made it emphatically clear that we were not going to have that Board-level discussion."

Levy, a New York tech venture capitalist with experience in early-stage social enterprise investing, approached impact investment "with a healthy dose of skepticism," in his words. Although he believed that aligning investments with the mission would be desirable, he was worried that it wasn't feasible — at least not with the market-rate financial returns the foundation needed to maintain its grant budget and pay its talented staff of nineteen professionals. "We can't do anything good unless we have money coming in," Levy told James at one point. "If we don't have strong returns and sufficient liquidity to pay for operations and grants, then all the other tools become unavailable."

Despite the differing perspectives, when Ruth kicked off the Board's impact investment discussion, it felt to her like she was pushing on an open door. One big factor was that Levy had flipped to the "pro" side. He explained that he had recently concluded that Global Endowment

Management (GEM), the firm that managed the foundation's investments, would put the necessary resources into building its own capacity to deliver both social impact and competitive financial returns using the same infrastructure and processes that enabled them to be so successful for the foundation in the past. "John was the big wild card going into that meeting," Mayer reported later. "John's mindset shift was critical for me."

"It never even occurred to me that we could end up at 100 percent, let alone a unanimous decision to go there."

Two other issues played a significant role. While the name Donald Trump never came up in the discussion, **several trustees felt a great urgency to give the foundation new tools to address issues like racial equity and climate change in light of the ways the new Administration was undermining progress.** In addition, the trustees had engaged together in an intensive learning process that was conducted by San Francisco–based Sonen Capital. The trustees had nothing but praise for the nine-month process. It had given them ample opportunity to meet with experts, ask lots of questions, and assuage concerns.

Ruth's passionate and outspoken brother, Adam Cummings, made a plea for the foundation to "develop our risk-taking muscles" and "use our privilege to make as much of a difference as we can." The Board voted to approve a proposed investment values statement focused on aligning investments with the mission. The vote was unanimous.

Then came the real moment of truth. **Ruth raised a motion to move 100 percent of the foundation's endowment into investments aligned with the foundation's mission, with a first step of moving approximately 20 percent ($100 million).** The entire Board voted in favor. "Going into the meeting, I thought that if we could agree to move 50 percent into impact investments, that would be amazing," Mayer said. "It never even occurred to me that we could end up at 100 percent, let alone a unanimous decision to go there. I was shell-shocked."

Rick Cummings, James' brother, made a point of publicly acknowledging James for his persistence and leadership. "This is something that James has been pushing for and lobbying for quite a good number of years," he said. "How perfect to vote to do this within days of his 70th birthday. It's a fitting way to honor James' commitment to helping heal the world."

A TOE IN THE WATER

The foundation's first foray into using its whole endowment, not just its grants, to make change came over a decade earlier, in the form of shareholder engagement.

When Lance Lindblom, a progressive lawyer with decades of policy and foundation experience, interviewed for the role of foundation president and CEO, he shared his view **that the foundation was missing a big opportunity by using only its grant budget — typically 5 percent of its assets — to affect change; it was failing to leverage the other 95 percent.** He argued that the foundation could punch above its weight by being an active investor, without spending additional money on grants and with only modest administrative costs. This active-investor strategy would mean filing proposals at publicly traded companies whose shares it owned and voting on these and other proposals relevant to the foundation's mission. He told the trustees he was surprised and a bit dismayed that very few foundations were using this point of leverage, given that foundations are among the largest shareholders in the US.

The Board, which had already begun discussions about voting its values, liked what Lindblom was proposing, and they hired him. Less than two years later, the Board adopted a set of guidelines specifying how it would begin to engage with public companies in which it invested. **Shareholder activism quickly became a central component of the foundation's work and self-identity.** "It's now one of the most powerful tools we have," according to Ruth Cummings.

> *"Shareholder activism quickly became a central component of the foundation's work and self-identity."*

To date, the foundation has filed more than 225 proposals for inclusion in corporations' proxy statements, often in close collaboration with its grantees. The foundation also votes its values on others' proposals. In 2020 alone, it cast more than 6,500 proxy votes.

Although the foundation has succeeded only a handful of times in getting a majority of shareholders to approve its proposals, it has discovered that **having a positive influence does not require outright wins.** The foundation has scored numerous victories simply by filing motions that generate interest from other shareholders and the press, because that often brings the corporation's senior leadership to the negotiation table.

In 2003, the foundation led its first

shareholder action, a proposal it filed with Smithfield Foods. Smithfield Foods was a large and successful food-processor, like the company Nathan Cummings founded in the same era. The foundation's resolution focused on getting Smithfield to measure and report on its environmental impacts, an issue several of the foundation's grantees had tried unsuccessfully to get Smithfield to address.

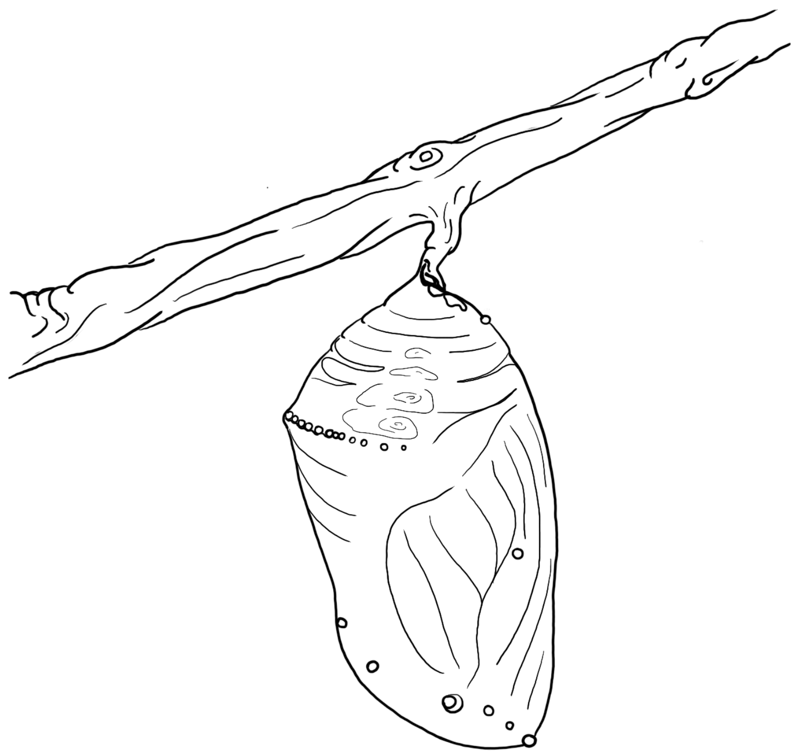
Although the Securities and Exchange Commission rejected the resolution on technical grounds, it gave the foundation entrée to the company's vice president for environmental and corporate affairs and its chief legal officer, who flew to New York to meet with Lindblom, his colleague Laura Campos, and executives from several other foundations. The negotiations yielded concrete results. A National Research Council report later concluded that the foundation "caused Smithfield to critically examine its own reporting and how its supply chain is reviewed.... The expectation by all parties is that increased transparency will support continuous improvement and sustainable environmental outcomes in Smithfield Foods' operations."

In the subsequent seventeen years, the foundation scored many David-versus-Goliath wins. For example, it used its voice and votes to get Apple, UnitedHealth Group, and other huge companies to implement "say-on-pay" provisions, giving investors the ability to influence the companies' executive-compensation policies, a key driver of income inequality. This say-on-pay advocacy was so successful that it's no longer necessary; it was made mandatory for all United States publicly traded companies under the Dodd-Frank Act passed in the aftermath of the 2008 financial crisis. NCF successfully pushed Walmart to use more effective supply-chain screens to identify suppliers that use diversion programs or prison labor. Its first attempt to affect corporate behavior on climate change was so successful that its target, Valero Energy, committed to carbon-reduction measures that went beyond what the foundation was requesting. The foundation won significant commitments from some of the nation's largest homebuilders, reducing carbon dioxide emissions by thousands of tons each year. In 2017, the foundation and Wespath, the investment arm of the United Methodist Church, spearheaded the first oil-and-gas resolution in US history that earned a majority vote — thanks in great measure to the fact that it won the support of mega-investors Blackrock and Vanguard.

For a decade now, the foundation's executives and trustees have been making the case that "the way in which a company approaches major public policy issues has important implications for long-term shareholder value," in the words of its report *Changing Corporate Behavior Through Activism*. To their delight, many other influential players have joined the choir. "In the past five years, we've benefitted from a real sea change in attitudes in the investor community," says Campos, who now serves as director of the foundation's corporate and political accountability program. **"I can't point to one thing that produced the change. It's been the culmination of many years of efforts. Investors are now able to build air-tight cases that environmental and social issues have an impact on companies' bottom line, just as much as governance does."**

IMPACT INVESTMENT, SILO STYLE

The trustees decided to create a new Assets Aligned for Impact Committee in 2012 to build on the foundation's shareholder activism. James Cummings was the natural choice to lead the new committee, given his many years of advocacy. "For a long time, I wanted to bridge the divide between the investment team and the program team. I didn't have a bunch of letters after my name, so I didn't feel comfortable pushing too hard. The new committee gave me the right platform to explore what more we could do," he says.



The foundation had been screening out tobacco and weapons companies from its portfolio since the early 1990s. Several trustees felt it was time to dive into impact investment. "That was a no-brainer for me," Ruth Cummings recalls. "I said, 'Let's do it!'"

Other trustees, and most of the external advisors who served on the foundation's Investment Committee, were skittish. Myra Drucker, a respected pension fund administrator who chaired the Investment Committee at the time, felt that the impact investment field was in an early stage, with limited deal flow. She also didn't want to hamstring the foundation's investment managers, who already faced the challenge of earning steady returns to fund the foundation's programs while keeping financial risks to a minimum.

Nonetheless, the new Assets Aligned for Impact Committee convinced the trustees to earmark $6.5 million, about 1.5 percent of the endowment, for impact investments, starting in 2013. The decision marked a major break from the Board's tradition of deferring to the outside experts on its Investment Committee on all matters related to the foundation's portfolio.

The trustees agreed that no single impact investment would be greater than $250,000 or longer in term than six months to assuage fears about straying from the foundation’s traditional approach to endowment management. They also agreed that they would choose investments that had limited downside risk, focusing primarily on investments in credit unions, community banks, and loan pools for low-income homebuyers. According to James, “We agreed that we would make very safe investments initially. That was important for the Board. That was certainly important for the Investment Committee.”

Over the next three years, the foundation deployed roughly $4.5 million in new impact investments, which eventually included some with longer terms or higher risk, like private equity. **These investments generally outperformed their benchmarks and returned about 4 percent annually.** Yet, today the trustees do not look back at the experiment as a clear success. With twenty-twenty hindsight, it’s easy to see that the trustees made three missteps.

- **First,** they didn’t create enough internal transparency. The Board and staff had little opportunity to learn what worked and what did not, because the impact investment portfolio was so siloed. Even the Investment Committee was in the dark. “When I began as chair of the Investment Committee, I didn’t know anything about the impact investment portfolio,” John Levy says. The only entities with visibility were the Assets Aligned for Impact Committee and its investment advisor, Imprint Capital Advisors.

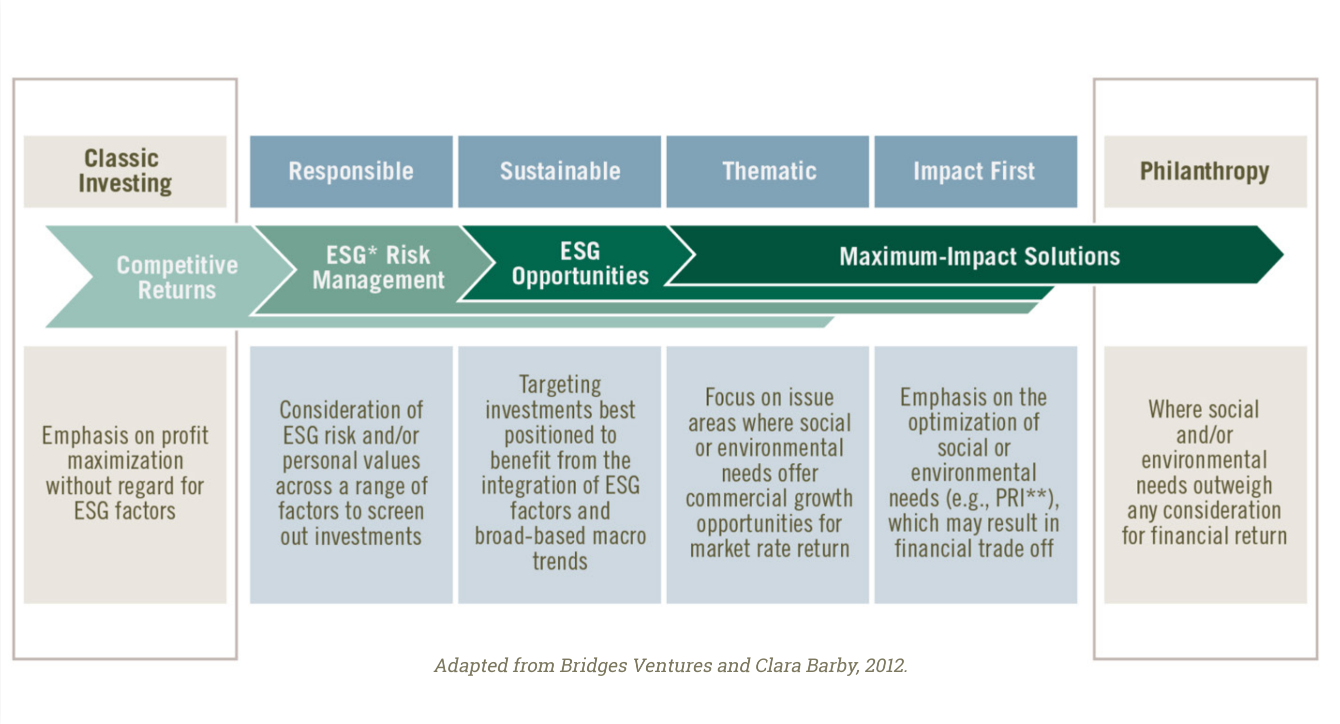
- **Second,** “the money could have been put to work more quickly,” James acknowledges. “With a slower-than-anticipated pace, these early investments did not pique people’s interest as they could have.”

- **Finally,** the foundation put no metrics in place to measure the social impact of these early investments. In the words of former trustee and Board treasurer Michael Cummings, “There was never any evidence presented or shared about whether or not these investments were working or providing actual impact.”

A YEAR OF LEARNING INTENTIONALLY

Once it became clear that the siloed approach to impact investment was not ideal, the Board decided to test the feasibility and desirability of a fully integrated approach. In early 2017, the foundation's then-president and CEO Sharon Alpert sent out a request for proposals to help her and the Board select a firm to guide an intensive learning process. She and the Board selected Sonen Capital. Although Sonen's main line of business was managing impact investments, their expertise and sensibilities were just right for the foundation's needs. "Sharon brought new voices and perspectives to our table," reflects Rey Ramsey, one of the foundation's independent trustees. "It was critical to our process."

In April 2017, Sonen founder Raúl Pomares met with the Board in a small conference room to share an overview of the impact investment field. He started by aligning the group around a common definition of impact investment: "The full range of investment opportunities which address an investor's desire to realize financial return while achieving meaningful and measurable positive social and/or environmental impact." His definition embraced a broad spectrum of approaches, ranging from basic ESG screens to targeted, "impact-first" opportunities.



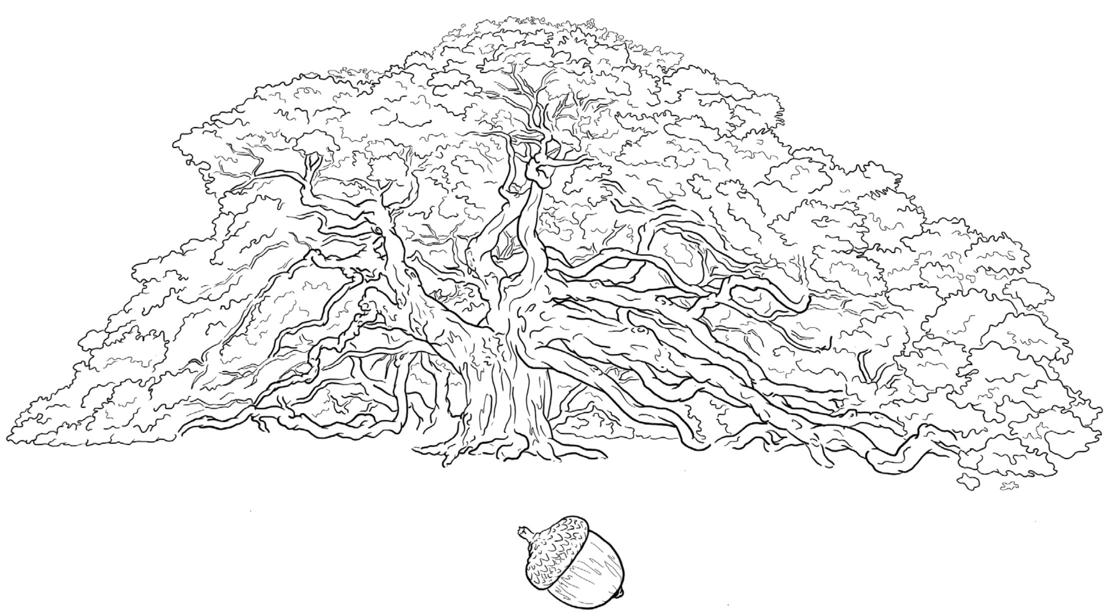
A slide from Sonen's April 2017 presentation to the foundation's Board and staff.

Financial returns were top-of-mind for every trustee. Would the foundation have to sacrifice returns if it were to commit to make impact investment a core component of its portfolio? If so, how much of a "haircut" might they have to take? What would be the implications for the foundation's grantmaking?

To the surprise of most Board and staff members, Pomares told them that they wouldn't have to sacrifice returns. He then projected a chart showing that each asset class in the foundation's existing portfolio — cash, fixed income, public equity, private equity, hedge funds, real estate, and commodities — had mission-aligned analogs that were likely to produce equivalent returns.

During May and June, Sonen conducted in-person and phone interviews with twenty-five of the foundation's trustees, associates, independent Investment Committee members, staff, and outside investment managers. The interviewees offered many probing questions about risks, cost, and operational implications. Most interviewees expressed the view that impact investment could be a natural complement to the foundation's shareholder advocacy work and would align with the foundation's mission, vision, and culture.

Armed with these insights, Pomares and his team then prepared reports calling out areas where interviewees were already in alignment, where they differed, and what issues were most ripe for additional learning. Pomares also teed up conversations with the leaders of foundations in the vanguard of impact investing, including the Rockefeller Brothers Fund and McKnight Foundation. These conversations allowed the trustees and Investment Committee members to engage with peers to understand what impact investment looked like in real life.

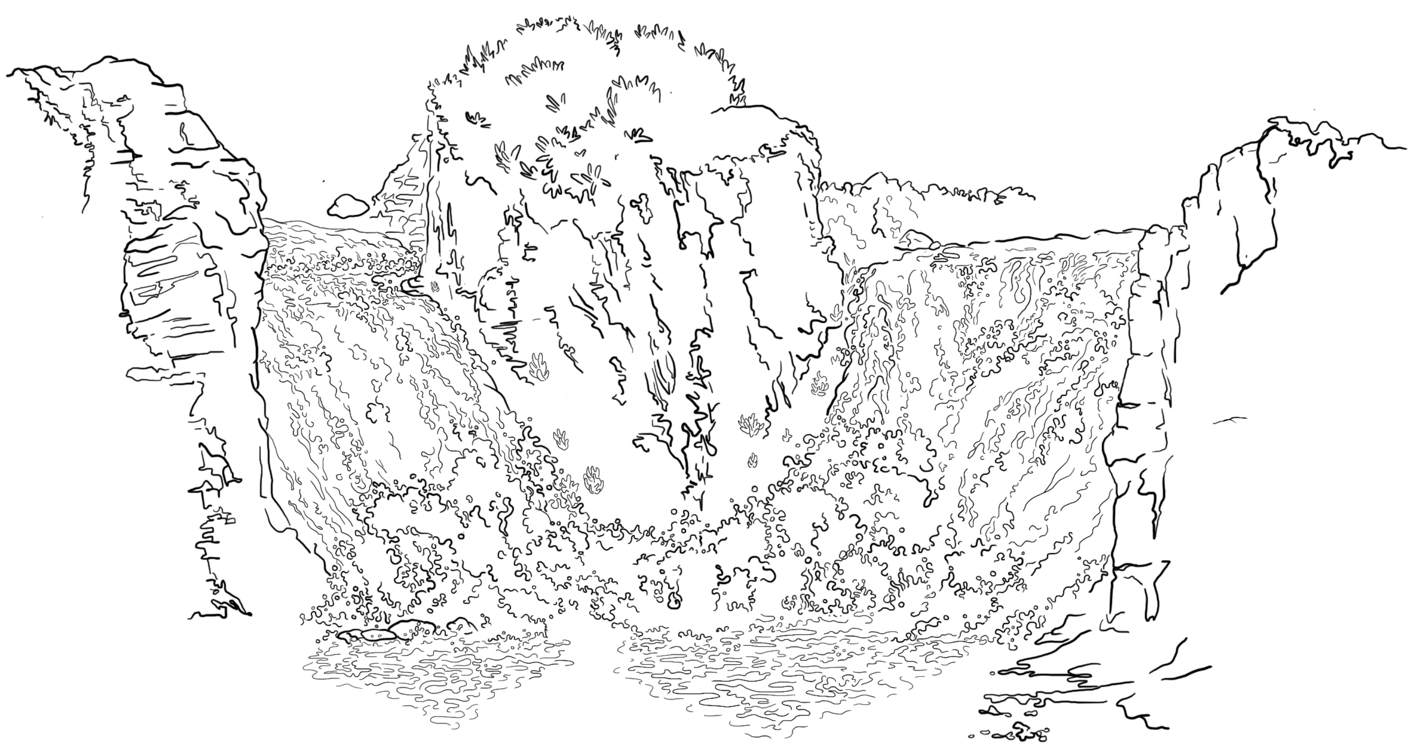


THE DEVIL IN THE DETAILS

When Ruth Cummings convened the trustees with her *Lech Lecha* invocation, all of the trustees felt that Sonen had done a great job of answering their questions and giving them the confidence to cast a "yes" vote. The reality of the challenges ahead of them sunk in soon after they cast their votes.

The Board had answered first-order questions ("Should we become serious impact investors, and if so, should we go all in?"), but it quickly became clear that the next-order questions were "almost endless," in the words of Jaimie Mayer, Board chair. "At first, everyone was caught up in excitement," says Rey Ramsey. "Then we had to figure out exactly what we had all agreed to. Transitioning to impact work affects everything that you do, every decision that you make."

Weeks after the vote, Bob Bancroft joined the foundation as its new vice president of finance. He quickly became a key player in implementing their decision to align all investments with the foundation's mission. "Bob's leadership cannot be overestimated," says Meredith Heimburger, the director of impact at GEM. "He's an incredible barrier crosser. I've learned so much watching him in that role."



Bancroft, a thoughtful, soft-spoken man who had spent a decade honing his craft at the Jack Kent Cooke Foundation, admits he had a steep learning curve on impact investments when he joined the foundation; the Cooke Foundation was a traditional investor. Yet, the challenges appealed to both his head and heart.

While Bancroft may appear to be a chief financial officer out of central casting, he did not grow up a child of privilege. When he was only a few months old, his father died, leaving the family in difficult financial straits. "The experience of being financially broken, and the struggle to put the pieces back together, is part of who I am. It animates my belief that all people should have the opportunity to thrive."

Over the next three years, Bancroft helped the foundation navigate not just one impact investment transition but three.

SCREEN TIME

The first transition was using the foundation's new investment values statement to screen the portfolio for investments that had to go. In the words of Ramsey, "We had to find out exactly what we had in our portfolio and get rid of the bad stuff."

In many cases, it was easy to determine what the "bad stuff" was but not always. For example, one of the foundation's earliest moves was to shift some of its fixed-income portfolio to a socially responsible manager. There was a catch: a tiny portion of the fund was invested in several "best in class" fossil fuel companies. "It was a corner case for us," explains John Levy. "It tested our thinking and led us to identify several qualitative factors for assessing potential investments: intentionality, directionality, and materiality."

> ***"ESG data give you a static snapshot. They don't tell you anything about how fund managers will make decisions tomorrow."***

Then there was the challenge of timing. The foundation could not liquidate all legacy investments quickly.

Jaimie Mayer acknowledges that the pace frustrated her. She felt pressure to follow the Board's bold announcement with concrete action, even though she fully understood the Board's fiduciary obligation to unwind responsibly. "We were at every conference known to man talking about our decision, but after a while, it started to feel so empty."

The methodical pace of unwinding and the communications challenges that flowed from it were far from the biggest problems Bancroft and the Board faced. More importantly, they came to see that ESG screening was too limited. “ESG data give you a static snapshot. They don’t tell you anything about how fund managers will make decisions tomorrow,” Bancroft says. To illustrate his point, Bancroft points to an analysis of a particular hedge fund that scored well according to standard ESG metrics. At that particular moment, it didn’t have any fossil fuels in the portfolio, but the firm was not obligated to avoid fossil fuels if a good opportunity presented itself. “We needed to understand more about the managers’ intentions,” Bancroft says.

THE ABCs OF MEASURING IMPACT

That realization led Bancroft to initiate the foundation’s second transition, from ESG screening to a more sophisticated system of assessing investments’ positive and negative impacts.

GEM brought in Brian Trelstad, a veteran impact investor, to help. Trelstad was one of the architects of the Impact Management Project (IMP), an open-source project facilitated by Bridges Fund Management and created with input from more than 2,000 impact investment practitioners and standard-setting bodies. Over the next nine months, GEM and the Bridges team applied the IMP framework to every investment in GEM’s $10 billion portfolio — a massive undertaking that required 1,200 hours and 14,000 points of data.

Lisa Hall, an impact investment leader and one of the key members of the foundation’s Investment Committee, had co-authored the report, *More than Measurement*, that would eventually inspire the creation of the IMP. She recognized its strength in theory and was excited for GEM to apply it in practice; the framework would be applied to a large, multi-asset-class portfolio for the first time. “When Lisa suggested we look at IMP, I was immediately struck by its clarity,” Bancroft recalls. “IMP looks at impact across multiple stakeholders and along two dimensions: the impact of the fund and the fund manager’s contribution to the impact. This got to the question of intentionality we’d been struggling with.”

It was implementing the IMP system that allowed GEM to break down the foundation’s current and potential investments into four categories:

- **No-go investments:** those that do not act to avoid harm
- **Category A:** those that work to avoid harm to stakeholders
- **Category B:** those that seek to benefit stakeholders
- **Category C:** those that aim to change the world for the better by contributing to solving some of the world’s greatest problems

When the foundation's trustees made their mission-alignment commitment, nearly half of their portfolio was out of alignment with the mission (no-go investments), and only 0.1 percent were contributing to solutions (category C).

Today, the portfolio looks very different. Only 5 percent is out of alignment with the mission (no-go); most of these investments are illiquid assets that the foundation will unwind over the next five to ten years. The foundation has more than doubled its investments that seek to benefit stakeholders (category B) — from 13 to 27 percent. Even more significant, it has increased investments in contributing to solutions (category C) from 0.1 percent to 19 percent. These category C investments include L+M Development (an affordable housing developer and manager), Precursor Ventures (a Black-owned firm with a focus on diverse entrepreneurs), BBG Ventures (a women-led firm with a focus on supporting diverse women entrepreneurs), and a fund investing in the largest battery-storage project in the world.

The Foundation Before and After, ABCs

GEM's work with Trelstad and IMP had ripple effects beyond the foundation. GEM implemented the IMP framework across all of its clients. Honoring the open-source nature of IMP's framework, the GEM team freely shares their insights with other firms — even competitors. Across all of their clients, including traditional investors, GEM has collectively made $1.5 billion in new impact investments and commitments. "We believe that impact investing is critical to the future of our industry," GEM's Heimburger says.

FOCUSING ON RACIAL EQUITY

While the work with GEM and IMP progressed, Ramsey and Bancroft triggered the third transition. It started with a painful meeting in August 2018.

> ***“How can we expect to solve these problems by following the same playbook that helped create them in the first place?”***

At GEM’s offices in Charlotte, North Carolina, the GEM team shared with the foundation’s Investment Committee its decision to decline an investment in a fund led by a woman of color. GEM’s rationale seemed reasonable and logical, but it did not sit well with the foundation’s team. The foundation saw a significant impact and financial potential in the fund, and they were deeply impressed with the fund’s manager. Bancroft was the first to speak up. He asked, “How can we expect to solve these problems by following the same playbook that helped create them in the first place?” He was referring to entrenched barriers that have perpetuated an investment world managed almost entirely by white men.

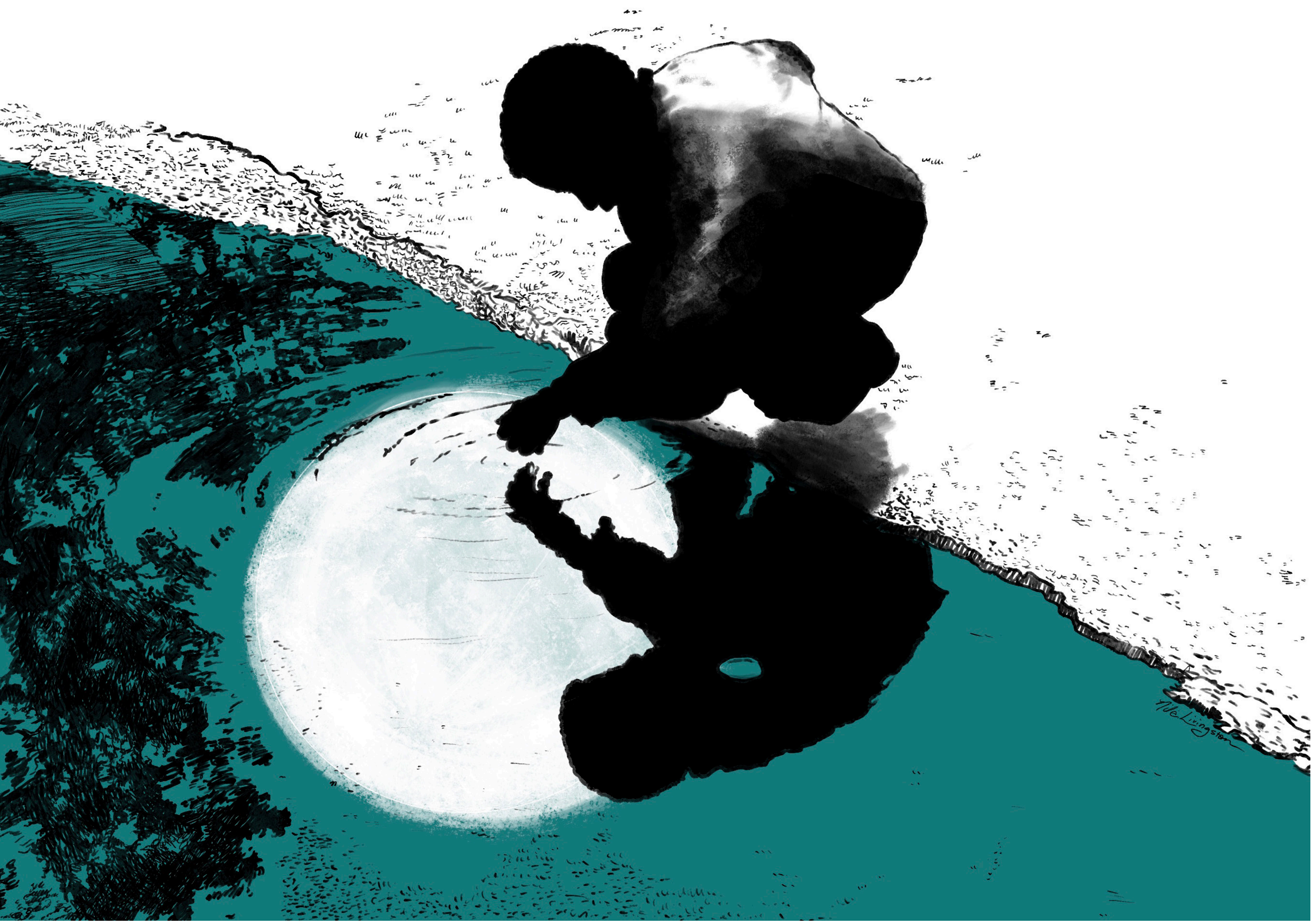
Ramsey, a Black man, felt the same way. “I’ve faced these challenges my whole life, professionally and personally,” Ramsey says. “I was grateful that Bob was asking those questions. For once, I didn’t have to be the one to do it.”

Later that day, Ramsey opened up to Bancroft, whom he did not yet know well. Ramsey shared that in the early 1960s, his welder father and hospital-worker mother moved the family to a town in New Jersey, where they became the only Black family. The day after their move, local members of the Klu Klux Klan spray-painted a hateful “greeting” near the Ramseys’ house. His Catholic elementary school should have been a refuge, but it became a crucible of bullying, and not just by jeering classmates; the ringleader was his third-grade teacher. Ramsey overcame many such challenges and would go on to build an impressive career, with leadership roles spanning the public, private, and philanthropic sectors. But those memories of overt racism and exclusion reverberate to this day.

The conversation led Bancroft and Ramsey to commit to doing their part to dismantle such barriers and shift capital to funds and communities that had been underrepresented in the sector for far too long. Over the next two years, the foundation would follow a model that had worked well in the past: leaning into tough conversations, gathering data, and listening to those who had wrestled with the issues before.

GEM's team also left the August meeting with a sense of commitment. They began to incorporate questions around diversity, equity, and inclusion into their standard due-diligence questionnaire and began to expand their networks. Within a year, they had grown their pipeline of potential investments dramatically, expanding tenfold the number of funds led by women and/or people of color.

The foundation's Investment Committee heard from peers and outside experts about the obstacles faced by Black and Brown fund managers, both emerging and established. In August 2020, in the wake of George Floyd's murder and the uprisings that followed, the committee adopted an equity lens framework that laid out four guiding principles and a set of commitments based on the recommendations of the Association of Black Foundation Executives (See Appendix Two).



By that time, GEM had completed a project to study best practices and address racial and social equity in the portfolio, including a report with metrics for diversity, social equity, and racial equity. **As of December 2020, 28 percent of the foundation’s portfolio was managed by funds that are majority-owned by women and/or people of color, but only 9 percent had applied a racial equity lens to the underlying investment decisions.**

For Ramsey and Bancroft, these metrics were signs of progress and indicators that much remained to be done. The two express regret that they didn’t identify the need to be explicit about applying a racial equity lens sooner. **“The Investment Committee approved the equity framework almost three years after our Board fully committed to mission-aligned investing,” Bancroft says. “This would have been first if we could do it all over again.”**

As of this writing, Bancroft, Ramsey, and the foundation’s Investment Committee are still in the process of implementing the equity lens framework. The third transition is not complete.

CONCLUSION

In addition to implementing the new racial equity lens, the foundation will face many key decisions in the years ahead, including the selection of a new president and CEO. High on the incoming leader's action list will be determining what organizational changes might be necessary to ensure the foundation has all the right skill sets covered and can build more connective tissue between the investment team and the program team.

"Investments alone will not repair what's economically broken in our society."

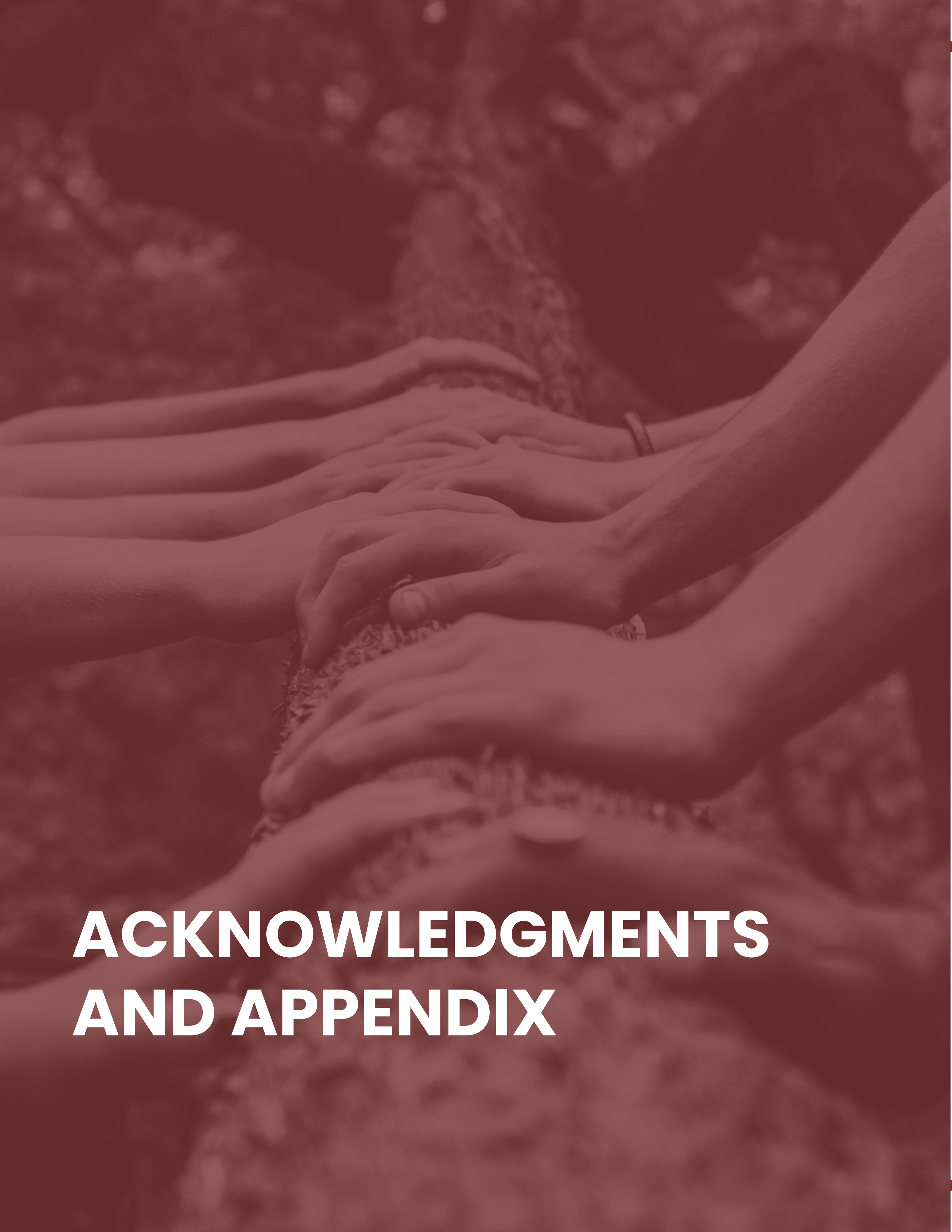
Jaimie Mayer is acutely focused on maximizing cross-pollination in the foundation — so that the foundation's investments amplify its programs and vice versa. Ideally, she would like the new president and CEO to hire staff with both sets of experiences, but she acknowledges that this will be tricky. "Ninety-nine percent of foundations are not operating this way, so there aren't a lot of people out there who understand both cultures. We're looking for unicorns."

After the foundation wrestles with these important organizational issues, Mayer will ask the Board a literally existential question: Should the foundation remain a perpetual foundation, or should it be willing to spend down its endowment over time? "I'm not fully in the perpetuity camp anymore," Mayer says. "It's not that I would like to sunset, but I also don't want to sit on these resources when the world is burning. I'm willing to put everything on the table in pursuit of greater impact."

Mayer intends to center the Board's June 2022 retreat on perpetuity versus the urgency of now, a theme that operates at the intersection of the foundation's investing and spending policies, and one that touches on the very heart of its social justice mission. When she opens that retreat, she will not use the *Lech Lecha* portion of the Torah. But she may remind her fellow trustees of Abraham's willingness to break from his forebears' traditions in pursuit of his own courageous transformation.

Mayer and the other trustees recognize that their investments alone will not repair what's economically broken in our society. Inspired by *Lech Lecha*, they will keep asking themselves what more they can do to "go to the place that is your own" and bend the arc of their philanthropic journey toward justice.

Lowell Weiss, a former Atlantic Monthly *editor and White House speechwriter for President Bill Clinton, is the president of [Cascade Philanthropy Advisors.]*



ACKNOWLEDGMENTS AND APPENDIX

ACKNOWLEDGMENTS

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- **Kyle DeMartazzi**, finance assistant, *Nathan Cummings Foundation*
- **Micah Gilmer**, senior partner, *Frontline Solutions*
- **Nealon DeVore**, chief of staff, *Nathan Cummings Foundation*
- **Rey Ramsey,** interim president and CEO, *Nathan Cummings Foundation*

This report was produced in collaboration with:

Nathan Cummings Foundation

The Nathan Cummings Foundation is a multigenerational family foundation working to create a more just, vibrant, sustainable, and democratic society, rooted in the Jewish tradition of social justice. The foundation has four main focuses to promote a healthy planet and democracy: advancing racial and economic justice, transitioning to an inclusive clean economy, activating corporate and political accountability, and building solidarity through voice, creativity, and culture. Its 100 percent commitment to mission-aligned investing is a bold continuation of this legacy and a testament to Nathan Cummings' anchoring ethos that "nothing will ever be attempted if all possible objections must be first overcome."

Frontline Solutions

Frontline Solutions is a Black-owned national consulting firm that delivers a full range of services in strategic and business planning and program design that includes implementation, research, evaluation, technical assistance, and community engagement. With eighteen full-time staff in Washington, DC and Durham, North Carolina, the Frontline team is comprised of organizers, scholars, strategists, artists, and coaches who are adept at utilizing consulting as a tool for social change. Frontline's capacity is further augmented by a robust team of part-time subject-matter and technical experts.

Cascade Philanthropy Advisors

Cascade Philanthropy Advisors, based in Seattle, helps donors use their money, time, and brainpower to create meaningful change in the world. The firm works with many different types of philanthropists — from multibillion-dollar foundations operating on a global scale to individual donors investing in their own communities. The common denominator is helping clients use their resources as effectively as possible. The firm's services include: focusing philanthropic goals, developing grant strategies, developing learning goals, conducting qualitative assessments of past philanthropic efforts, authoring issue briefs that present good opportunities for impact, engaging next-generation family members, and helping Boards assess their strengths and develop improvement plans.

Creative Repute

Creative Repute®, LLC is an award-winning graphic design and website development agency. It designs exclusively for social justice driven organizations and transformative brands who are interested in making the world a better place.

In addition, we would like to thank the eighteen OCIO firms whose participation in the RFI process formed the basis for this report. We are grateful for their cooperation and engagement throughout the process. The firms and their contact information are as follows:

FIRM	ADDRESS	PHONE
Agility/Perella Weinberg Partners	7979 East Tufts Ave, Suite 700, Denver, CO 80237	303-813-7913
Bivium Capital	601 Montgomery St, Suite 1212, San Francisco, CA 94111	415-825-0610
Cambridge Associates	125 High St, Boston, MA 02110	617-457-7500
Commonfund	15 Old Danbury Rd, Wilton, CT 06897	203-563-5000
Cornerstone Capital Group	550 Fifth Ave, 11th Floor, New York, NY 10036	212-874-7400
Disciplina Group LLC	1033 Demonbreun St, Suite 300, Nashville, TN 37203	615-490-6007
FEG Investment Advisors	201 East Fifth St, Suite 1600, Cincinnati, OH 45202	513-977-4400
Flat World Partners	257 Park Ave S, New York, NY 10010	212-228-3800
Glenmede	1650 Market St, Unit 1200, Philadelphia, PA 19103	215-419-6027
Global Endowment Management	227 West Tremont Ave, Charlotte, NC 28203	704-333-8282
Graystone/Morgan Stanley	227 West Monroe St, Suite 3400, Chicago, IL 60606	312-648-3013
Hall Capital Partners	One Maritime Plaza, 6th Floor, San Francisco, CA 94111	415-288-0544
Pathstone Federal Street	24 Federal St, 8th Floor, Boston, MA 02110	888-750-7284
Rock Creek Group	1133 Connecticut Ave NW, Washington, DC 20036	202-331-3400
SRI Wealth Management Group, RBC Wealth Management	345 California St, San Francisco, CA 94104	415-445-8304
The CAPROCK Group	520 Newport Center Dr, Suite 470, Newport Beach, CA 92660	800-344-6458
Tiedemann Advisors	520 Madison Ave, 26th Floor, New York, NY 10022	212-396-5900
Veris Wealth Partners	17 State St, Suite 2450, New York, NY 10004	212-349-4172

APPENDIX ONE: NCF'S STATEMENT OF VALUES

In Jewish tradition, the guiding principle of *Tikkun Olam* positions justice as a pathway to repairing the world. The following values statement is rooted in an understanding of history and the ways in which philanthropy has the potential to perpetuate or disrupt a status quo of hierarchical systems that are neither sustainable nor fair. These values have been created to strengthen our ability to learn from the past, acknowledge the complexity of the present, and imagine a more just and vibrant future.

Justice and Equity

There is a long, devastating, and sanctioned history of racialized violence and anti-Blackness that has resulted in the destruction and continued social and economic exclusion of Black, Brown, and Indigenous people and communities. Policies and practices rooted in capitalism, white supremacy, anti-Semitism, and patriarchy have worked together to prevent the vast majority of people — across identities — from reaching their full potential. We believe that philanthropy is a product of this history and that the foundation, with its power and privilege, has a responsibility to work in partnership with and be led by those individuals and communities most harmed. We are committed to investing in strategies and solutions that seek to dismantle oppressive systems and promote just, fair, and sustainable outcomes.

Interdependence

We know that all life on this planet is interconnected and part of a broader ecosystem. We believe that prosperity can be abundant, resources shared in ways that are not extractive, and that we are more powerful when we work together toward common goals. However, these beliefs will always be in conflict with a society that operates through rugged individualism and scarcity. Therefore, we are committed to working in community with others, the equitable distribution of power and resources, and contributing to the restoration of our communities, humanity, and planet.

Learning and Listening

We believe that no one person has all the answers. We also acknowledge the reality that all voices and types of knowledge are not valued equally. This means we must participate in spaces where we are actively listening to diverse perspectives, valuing, and compensating lived experience as expertise, and entering conversations with curiosity and humility. In this approach, we honor the work that has come before us and seek to support, build on, and credit the collective knowledge and wisdom that already exists.

Courageous Transformation

We believe that structural change requires disruptive thinking and a bold vision for the future. The radical transformation of our society and economy relies on partnership with those whose knowledge and ideas call into question our assumptions. Even through discomfort, it is those critical partnerships that prompt us to interrogate our biases, confront systems that seek to maintain harmful power structures, and show us our potential to courageously reimagine and transform our world.

Integrity

We believe our values are what ground our work and, in difficult times, illuminate the path forward. Clear and open lines of communication and systems of accountability will be paramount to us finding our way if and when we stray from that path. However, the presence of wealth and power can create blind spots and relationships where accountability is one way and unbalanced. We believe that shifting that balance means being transparent about our priorities and decision-making processes, being honest and open about our failures and successes, and making way for feedback with a willingness to change course to strengthen us to be better partners to the communities we serve.

APPENDIX TWO: EQUITY LENS FRAMEWORK

Guiding Principles:

- We recognize that diversity of thought yields superior investment performance over time.
- We acknowledge the role that institutional and structural barriers play in hindering diversity and equitable access to capital.
- We believe investors have the opportunity to transform broken systems by designing a process that is robust, inclusive, and antiracist.
- We begin this work today with a series of commitments around accountability, engagement, and transparency.

Commitments:

- **Accountability:** we establish a clear definition of a diverse-led fund and require regular reporting of metrics and benchmarks to measure progress.
- **Engagement:** we engage our Board, Investment Committee, staff, consultants, and investment managers around the foundation's commitment to building an investing process that is robust, inclusive, and antiracist.
- **Transparency:** we share our story (e.g., metrics, progress, learning) with other foundations and investment professionals, communicate selection criteria clearly, and provide constructive feedback to investment managers, including around rejections.

We define diverse-led funds as those that are majority-owned by women and/or people of color. In the case of private funds, we consider only ownership among the general partners. We are initially focused on US managers but will develop an approach to measuring diversity and inclusion among managers outside of the US in time. We acknowledge that ownership is not the only relevant metric for DEI. We also recognize that our commitment to inclusivity will need to be expansive to include other communities and identities beyond women and people of color.

APPENDIX THREE: REQUEST FOR INFORMATION – DIVERSITY, EQUITY, AND INCLUSION ADDENDUM

We recognize that diversity of thought yields superior investment returns. We also acknowledge the role institutional barriers and our personal biases play when sourcing and placing capital with diverse-led funds, which we define as those that are majority-owned by women and/or people of color. Please complete the information below as a demonstration of your firm's commitment to transparency as it relates to our efforts to construct portfolios that capitalize on the full universe of managers, especially diverse managers.

Please provide a diversity summary of the equity partners of your firm.

TOTAL	% WOMEN	% LGBTQ	% BLACK	% LATINX	% ASIAN	% NATIVE AMERICAN

Please provide a diversity summary of the investment professionals of your firm.

TOTAL	% WOMEN	% LGBTQ	% BLACK	% LATINX	% ASIAN	% NATIVE AMERICAN

Please provide a diversity summary of the total employees of your firm.

TOTAL	% WOMEN	% LGBTQ	% BLACK	% LATINX	% ASIAN	% NATIVE AMERICAN

We have conducted an internal audit of the firm's culture as it relates to diversity, equity, and inclusion.

- ☐ Yes
- ☐ No

We have developed an internal mission statement (or equivalent) that summarizes our commitment to promoting an inclusive firm culture.

- ☐ Yes
- ☐ No

If yes, we are willing to share this statement with existing and prospective clients.

- ☐ Yes
- ☐ No

Diverse manager meetings:

MAJORITY OWNERSHIP	2016	2017	2018	2019	2020 (TARGET)
Women-owned					
Black and Latinx					
People of color					
Total					
% of overall					

Diverse manager recommendations:

MAJORITY OWNERSHIP	2016	2017	2018	2019	2020 (TARGET)
Women-owned					
Black and Latinx					
People of color					
Total					
% of overall					

Diverse managers hired:

MAJORITY OWNERSHIP	2016	2017	2018	2019	2020 (TARGET)
Women-owned					
Black and Latinx					
People of color					
Total					
% of overall					

What percent of each asset class in your portfolio is managed by diverse managers?

	EQUITY	FIXED INCOME	PRIVATE INVESTMENTS	HEDGE FUNDS	TOTAL
Total by assets					
Percentage of overall					

To what organizations that prioritize diversity are you affiliated?

What conferences that promote diversity did/will you attend in 2020?