Investing for an Equitable Southern California

A REPORT BY THE WEINGART FOUNDATION

weingartfnd.org

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This report is intended for mission-driven foundations and their partners, offering valuable insights, guidance, and resources on aligning investments with their mission to achieve impact and drive social change through impact investing.

- **For Mission-Driven Foundations, Boards of Directors and Investment Committees,** it shares the experiences and lessons learned from the Weingart Foundation's journey in operationalizing their investment mandate and evaluating investment opportunities that contribute to both financial performance and social impact.
- **For CFOs,** it emphasizes the need to leverage a foundation's full financial and philanthropic capital to advance its mission. It provides an example of how CFOs can play a crucial role in developing and implementing an investment strategy and discusses potential trade-offs and risk factors involved in mission-aligned investing, as well as the importance of prudent risk management.
- **For Investment Managers and Partners,** it offers insights into how foundations approach mission-aligned investing and their commitments to equity, social, and economic justice. It also provides information on investment priorities, which can help potential partners align their efforts when working together.
- **For Advocates for Social Change,** it showcases how mission-aligned investing can be a powerful tool for driving social change and advancing equity. By promoting economic access, mobility, and opportunity for Black, Indigenous, and other people of color, it encourages advocates for social change to consider the role of investment strategies in creating more equitable communities and to explore partnerships with mission-driven foundations.

Overall, this report serves as a valuable resource for mission-driven foundations, CFOs, partners, and advocates for social change interested in aligning their investments with their mission, achieving impact, and driving social change through impact investing.

INTRODUCTION

"This is a transformational moment in the Foundation's history. We've determined that to create the greatest impact we must use all the tools available to us. The Foundation is most effective when grantmaking, investments, including program related investments, and advocacy are integrated rather than existing in independent silos."

Miriam Muscarolas

Weingart Foundation Director,
Investment Committee Chair 2015 – 2024

For foundations looking to accelerate achievement of mission goals, expanding the philanthropic toolkit with mission investment strategies is increasingly seen as a strategic—if not essential—step *(see Defining Terms, next page)*. But parsing why this is important and how a foundation can undertake a process in a holistic way that enhances grantmaking and other philanthropic activities remains less well understood.

A number of foundations have chronicled their impact investing "journeys," and part of what these stories make clear is that the details and challenges vary widely across institutions, but the paths have typical phases and steps. This is likely as it should be, given the diversity of foundation types, sizes, geographies, missions, and programmatic priorities.

With this report, the Weingart Foundation (Weingart or the Foundation), a Los Angeles-based regional funder whose mission is to partner with communities across Southern California to advance racial, social, and economic justice for all, adds its own perspective on the process of holistically aligning its investment portfolio with its mission and values and launching its own mission-related investing program. Deepening its commitment to equity, in 2016 Weingart's Board of Directors made a decision to base all its policy and program decisions on advancing fairness, inclusion, and opportunity for all—especially those communities of color hit hardest by persistent inequality.

Weingart Foundation

Founded in 1951 by Ben and Stella Weingart, the Foundation is a private grantmaking foundation advancing racial, social and economic justice in the five Southern California counties of Los Angeles, Orange, Riverside, San Bernardino, and Ventura.

Weingart has provided over $1 billion in grants and loans to thousands of organizations across the region. As such, many would call it a "place-based" foundation. Assets as of December 31, 2023 were approximately $850 million.

"By strengthening organizations focused on providing critical services and building power in communities of color, the Weingart Foundation is demonstrating what is possible when we invest and trust in our partners."

Weingart quickly recognized the need to understand the implications of this **"Equity Commitment"** on its investment holdings and practices. By late 2016, the Foundation began a learning and action agenda with its board. This subsequently led to Weingart's board further committing to the full and comprehensive utilization of the Foundation's financial and philanthropic capital to advance its mission while still pursuing its financial and investment performance objectives.

This report chronicles Weingart's journey in operationalizing their investment mandate, along with the Foundation's progress to date. As described by the Foundation's former board Chair, Monica Lozano, it is more a story of how an organization evolves, than a how-to guide for mission investing success. Working with board, staff, advisors, and other trusted partners over a period of years, Weingart has built the capacity to execute an investment strategy that can advance its Equity Commitment. This story also portrays the evolution within capital markets, where visionary leaders are harnessing the power of investment capital to create more equitable access to opportunity. As a result, mission-oriented investors can choose from an increasing number of values-driven investment advisors and high impact investment opportunities.

While their journey continues, Weingart's experience is strengthening its conviction that it can invest in opportunities that help to create a more equitable Southern California, while also sustaining its grantmaking and other philanthropic activities. Weingart is excited to share its results thus far, along with its plans for continued effort and enhanced impact through partnership with like-minded investors of any size. The Foundation welcomes inquiries and hopes there may be opportunities to collaborate to achieve a more equitable region and nation.

Defining Terms

Over the almost sixty years that U.S. investors have incorporated Environmental, Social and Governance **(ESG)** criteria into their investment strategies, the language to describe these practices has continued to evolve. Most recently, the term **"sustainable investing"** is gaining currency as a general term for investments that incorporate social and/or environmental criteria, and we use that term when referring to broad trends in the capital markets.

We use the term **"mission investing"** as an umbrella term that describes Weingart Foundation's investing in *both* publicly traded, market-rate stocks *and* bonds using **ESG** screens and proactive **impact investing** designed to generate measurable social and/or environmental benefit alongside financial return. Impact investments can be structured to earn either a market- or a below market-rate of return. Among foundations and for Weingart, market-rate impact investments are known as mission-related investments or **MRIs**. Below market-rate investments are known as program-related investments or **PRIs.**

Weingart Foundation's **Equity Commitment** refers its commitment to **racial and socioeconomic equity and justice,** and advance fairness, inclusion, and opportunity for all Southern Californians-especially those communities of color hit hardest by persistent poverty. The Foundation's **mission alignment** mandate calls for the full and comprehensive use of the Foundation's resources in support of this Commitment. The full text of the commitment can be found at: **weingartfnd.org/commitment-to-equity-and-justice/**

2 BUILDING A FOUNDATION FOR TRANSFORMATIONAL CHANGE

> "If an executive wants to move changes, then look at who is sitting around the board table. At the same time, the mistake many make is to jump before there is a readiness. There needs to be an education process."

Fred Ali

Weingart Foundation
President & CEO 1999 – 2021

Weingart's Equity Commitment and mission investing mandate naturally evolved from the organization's 1951 launch and development to become a strong partner to Southern California nonprofit organizations. This profile gained prominence under the Foundation's leadership by Fred Ali beginning in 1999. Fred came from the nonprofit community, taking the Weingart helm with a charge from nonprofit colleagues to "not forget where he came from." He fostered an organizational culture of listening and learning from the communities Weingart served, including by building a Board of Directors and staff with nonprofit experience and diversity reflecting those communities.

Board Diversity

The Foundation's early governance reflected friends and business associates of its founder, Ben Weingart, a successful real estate investor in Los Angeles. Efforts to bring more diverse perspectives began with the recruitment of business and civic leader, Steve Soboroff, who joined the board in 2001 and became chair in 2008. In 2005, John Mack and Monica Lozano joined the board as Weingart's first African American and Latina directors, respectively. John had served as President of the L.A. Chapter of the National Urban League and Monica was then Editor and Publisher of La Opinión. In 2008, Bill Allen and Miriam Muscarolas joined, Bill bringing experience in community economic development from his leadership of the Los Angeles County Economic Development Corporation and Miriam added professional investment experience as a Partner and Senior Managing Director at Kayne Anderson Capital Advisors. In 2013, Aileen Adams joined, bringing leadership experience from all levels of government, including most recently serving as Los Angeles Deputy Mayor, Office of Strategic Partnerships under Mayor Antonio Villaraigosa. In 2016, Dr. Robert Ross joined the board, bringing decades of experience in philanthropic leadership as President & CEO of The California Endowment. Later that same year Miguel Santana joined, adding his government experience from serving in senior roles in both the City and County. These leaders strengthened Weingart Foundation's ability to better serve communities, including through its Equity Commitment and related mission investment strategy, particularly Ms. Muscarolas, who assumed the role of Investment Committee chair in 2015. Her influence and support were pivotal in galvanizing leadership to align the Foundation's commitment to diversity with its investment strategy.

Staff Capacity

Staff developments in two areas strengthened Weingart's hand in implementing a mission investment strategy to drive social equity.

In 2008, Rosa Benitez joined the Foundation, initially as a consultant and later joining the Foundation as a senior program officer. Rosa had developed expertise in nonprofit housing developments. Noting her financing acumen and interest in housing, Fred asked Rosa to lead the Foundation's growing PRI program. Rosa actively worked with the Foundation's program officers to source PRI opportunities as well as collaborated with Weingart's peers on underwriting and due diligence, deepening her skillset.

In 2015, the Foundation's long-standing CFO decided to retire. In searching for a replacement, Fred and Miriam decided to emphasize candidates possessing strong investment skills. After an exhaustive search that vetted scores of candidates, the Foundation selected Tim Ortez. Tim not only possessed the broad and technical experience necessary in endowment management, but he also possessed the lived experiences that caused him to passionately embrace the Foundation's core mission and values. Tim's hiring coincided with the Foundation's Equity Commitment, and he was immediately charged with developing an investment strategy that could operationalize this commitment.

Fostering Foundation Leadership

Monica Lozano's tenure as Board Chair began in 2014 and continued through 2019. In discussing President & CEO Fred Ali's performance review, Lozano noted that he had prepared the usual metrics but she pushed those aside and asked the question: "Fred what do you really want to do here? You don't have to answer right now." Fred's response was: "No I think I know what I want to do. I think we ought to use all of our resources to advance social, economic, and racial equity."

In 2016, the Foundation announced its commitment to equity and has been working to carry through on it ever since.

Institutional Culture

In 2021, after leading the Foundation for more than 21 years, Fred decided to retire. While the operationalization of Weingart's Equity Commitment and related investment strategy were well underway, a leadership transition posed a risk for continuity in direction and priority. What became clear was that the Board's deliberate approach and ownership of its mandate, as well as the close interplay between the board, staff, and advisors, needed a transition in which the mission investing strategy could continue to grow in impact and effectiveness.

Fred had emphasized the importance of a deeper understanding of the Foundation's investments among the board and staff, and embraced the belief that screening out investments that may cause social harm simply did not go far enough. Fred saw a tremendous opportunity in demonstrating how a foundation's investment strategies could promote catalytic change without sacrificing financial return.

Miguel Santana, one of the Foundation's board members, expressed interest in assuming Fred's role. Miguel attributed the Foundation's commitment to mission investing as his primary motivation for taking on the role.

Investors with a traditional mindset may be frustrated by the Foundation's risk appetite, while those with a programmatic mindset may undervalue the benefit of investing for the long-term growth of its grant making. Miguel saw this tension between performance and impact—the potential trade-offs and risk factors—as a foundation's sweet spot. Shifting the focus from the Foundation's $40 million annual grant budget to its $850 million endowment invited a reimagining of how philanthropy could work to advance mission.

This investment approach also countered arguments for spending down, since being able to invest an endowment in mission-related strategies over time could have an exponentially more powerful, intergenerational impact, a case frequently made by longtime Investment Committee member, Bill Allen.

The Board had cautiously come to accept that high impact opportunities inevitably involve more risk. Transparency of risk factors were and would continue to be critical to both building consensus and collaboration toward creative solutions for risk mitigation. Finally, if the Foundation chose not to invest, it would endeavor to be transparent about the reasons why.

While the Foundation currently considers about two thirds of its investment portfolio to be "mission aligned," future progress would require more proactive pipeline development and may call for the Foundation to invest in more innovative, albeit riskier, investment concepts.

3 COMMITTING FULL AND COMPREHENSIVE FINANCIAL AND PHILANTHROPIC CAPITAL

"We seek to steward our assets as equitably and responsibly as we can. We don't have the hubris to believe we can solve problems solely by ourselves. The Weingart Way asks, what is the vision of grantees that we want to support for many years to come? Our job is to protect and utilize the Foundation's resources toward these ends. In optimizing place-based impact even when seeking market rates of return, we can back firms that are local as well as seek out firms headquartered elsewhere that invest in Southern California."

Bill Allen

Weingart Foundation Director,
Investment Committee Vice Chair

Weingart had a long history of structuring flexible financial support for community-based nonprofit organizations. The Foundation was an early champion of Unrestricted Operative Support (UOS), particularly for organizations focused on providing critical services and building power in communities of color. In the mid-2000s Weingart supplemented its grant relationships by providing grantees with opportunistic low-cost, flexible program-related investment (PRI) loans.

By the time of Weingart's 2016 Equity Commitment, both board and staff understood that the Foundation could not deliver on that mandate through its grantmaking alone. The scale of needs would dwarf any foundation's grant budget, however large.[1] Basing all Weingart policy and program decisions on mission thus meant not only changing how to target and structure grants, but also engaging the Foundation's full endowment assets—and where possible those of peer foundations—to drive equity and fairness.

Understanding this need and knowing how to proceed are two different things. While by now the board and staff were familiar with the emerging fields of mission investing and broader ESG or sustainable investing, they were less experienced in designing and implementing such strategies. And while they were interested in strategies that could advance equity, they also felt their fiduciary responsibility to ensure these would not trigger imprudent financial risk.

Early conversations with Weingart's incumbent investment advisor provided limited insight. To better understand how the Foundation might use mission investing, as well as to ensure that doing so involved manageable risk, the Foundation sought the help of Avivar Capital, an SEC-registered investment advisor focused exclusively on impact and broader sustainable investing. Tim began working with Avivar to develop a learning agenda that could build board consensus on the following questions:

1. What does mission alignment look like?
2. What does being "mission aligned" mean for its existing portfolio?

Initial conversations with Weingart's board led to a desire for a deeper understanding. Consequently, Avivar facilitated surveys, board member interviews, and additional meetings throughout 2017.

[1] https://www.bloomberg.com/news/articles/2022-12-21/the-price-of-ending-homelessness-in-california-8-billion-a-year

Figure 1 WEINGART FOUNDATION VALUES FOR PORTFOLIO ALIGNMENT

Diversity & Inclusion

Having greater representation of ethnic minorities and women among the ranks of owners and key management within organizations is an important indicator of fairness and inclusion. In addition, research has shown that increased diversity and a more inclusive workforce are increasingly correlated with strong financial performance, offering similar returns with lower volatility. As such, *the Foundation expects its investment advisor, managers and portfolio companies to prioritize diversity and inclusion in their investment practices.*

Fair & Equitable Workforce Practices

Fair and equitable workforce practices prioritize inclusive talent acquisition and engagement; development and retention; benefits and compensation; and safety and health care. They foster improved recruitment, public relations and community support, while helping organizations avoid costs associated with high employee turnover and low levels of motivation. For these reasons, *the Foundation expects its investment advisor and managers to consider fair and equitable workforce practices as part of their investment analysis and to maintain fair and equitable workforce practices themselves.*

Good Corporate Stewardship

Businesses show good corporate stewardship when they prudently use their power and resources in the community to improve the lives of other people. This includes demonstrating fairness in protecting community assets and improving the safety and quality of life for residents. Corporate stewardship can help firms reduce costs and risks, gain competitive advantage, develop reputation and legitimacy, and achieve win-win outcomes with communities, creating the opportunity to increase shareholder value while advancing values of equity. As such, *the Foundation expects its investment advisor and managers to consider corporate stewardship as part of their investment analysis and to be good corporate stewards themselves.*

Transparency

Transparent reporting allows analysis of company performance, including with respect to values prioritizing equity. There are many industry guidelines for comprehensive and transparent ESG reporting. As such, *the Foundation expects its investment advisor and managers to consider transparent disclosure of data, particularly related to Weingart's priorities and values, as part of their investment analysis and to maintain transparent disclosure practices themselves.*

AVIVAR CAPITAL

The conversations with the Board also dispelled certain myths about mission investing and elevated positive investor experience, including but not limited to:

- While early examples of "socially responsible investing" (SRI) relied primarily on the exclusion of publicly traded securities in sectors deemed socially harmful, new techniques were emerging to create social value through investing, including, sustainability investing, ESG integration, impact investing, and shareholder activism (Figure 2). Given the close connection between Weingart's new investing approach and its Equity Commitment, the Foundation's embrace of all techniques would be collectively referred to as "mission alignment."
- Despite early criticism of ESG investing through public securities as necessarily requiring trade-offs with risk-adjusted financial return, there was a growing body of evidence suggesting that these practices not only produced alpha but mitigated investment risk.[2] Additionally, a vast majority of proactive impact investors reported that their investments met or exceeded their financial expectations.[3]

[2] https://www.ussif.org/performance
[3] https://www.bloomberg.com/news/articles/2022-12-21/the-price-of-ending-homelessness-in-california-8-billion-a-year
Global Impact Investing Network, Annual Survey, 2020. https://thegiin.org/publication/research/impinv-survey-2020/

Figure 2 TECHNIQUES FOR PORTFOLIO ALIGNMENT

	Inclusionary Screens	Exclusionary Screens	Mission Investing	Shareholder Activism
Diversity & Inclusion	+Women and people of color on boards and in top management.[1]	- Private prisons, gun manufacturers, tobacco, and environmentally destructive industries or technologies.	Expand program-related investing and target selection of private market vehicles to advance equity criteria.	Engage with companies on issues of central importance to Weingart's equity criteria through proxy voting and letter writing.
Workforce Practices	+Living wages, pay equity, collective bargaining, access to healthcare, training and development opportunities.			
Corporate Stewardship	+ Responsive giving, community development and engagement, environmentally friendly designs.			
Transparency	+ Proactively share information about their diversity & inclusion, workforce and corporate stewardship practices, including improvement plans and performance to plan.			

- In determining whether to exclude certain investments from endowment portfolios, the issue of materiality needed to be considered. The reality was that it is challenging to find a major corporation with no ESG blemishes.
- Realizing a commitment to full and comprehensive utilization of a foundation's financial and philanthropic capital is understood to require time as well as fiduciary care. Even among the most dedicated practitioners in the field, achieving 100% alignment could take years.
- Given growing demand for sustainable investing services, there is an increasing number of qualified investment advisors to support institutional investors, as well as a steadily expanding universe of investment opportunities across asset classes, styles, sectors, and risk profiles.

Armed with a better understanding of how the field of sustainable investing had evolved over the decades, Weingart's Board, Investment Committee, and leadership felt confident that they could move toward aligning the Foundation's endowment investments with its mission and values.

That analysis also highlighted that, in addition to aligning their publicly traded stocks and bonds with the values outlined above, they could make investments that advanced the Foundation's mission. For example, the Foundation could seek diverse asset managers, helping correct the lack of representation of women and people of color in the investment sector. They could further query asset managers about firm diversity activities, elevating the importance of equitable and inclusive hiring practices.

However, analysis also revealed that, while the volume of sustainable investing continues to increase, benefits do not necessarily flow to low-income communities, communities of color, and rural and tribal areas. This is where PRIs could be used in tandem with grants to catalyze inclusive development. Such catalytic investing is needed not only to address community-level needs, but to demonstrate that the risks of investing in previously marginalized communities were manageable. As such, Weingart steadily increased its PRI volume as it implemented its mission alignment strategy.

Finding The Right Partner – Investment Advisor

Upon becoming the chair of the Investment Committee, one of Ms. Muscarolas' top priorities was to evaluate the Foundation's existing investment advisory relationship. Early in the mission alignment journey, staff determined that unlocking the full potential of its investment portfolio would require additional resources. Due to the challenges associated with compensation, development and retention of investment expertise for a Foundation of Weingart's size, the CFO hesitated to build internal capacity. So, it became apparent that finding an investment advisor with the resources, values and track record would be crucial to realizing the Foundation's goals. In September of 2017, the CFO developed an RFI and distributed it to over two dozen investment advisory firms, a process that yielded less than a half dozen firms that the Foundation's considered sufficiently qualified to advise a portfolio of the size and complexity of Weingart's. An RFP followed and in May of 2018, the Foundation's Investment Committee selected Cambridge Associates (Cambridge) as the Foundation's new investment advisor.

Cambridge had assembled an impressive team of professionals to support the Foundation's objectives, including one of the field's most experienced advisors, Chairman Emeritus, Sandy Urie. Sandy's experience and knowledge of the field would be invaluable to the Foundation operationalizing its mission alignment objectives. Also key to Cambridge's selection was the firm's growing emphasis on sourcing diverse-led asset managers, an initiative led by Jasmine Richards who at the time had recently joined the firm.

Figure 3 MISSION INVESTING TECHNIQUES

NEGATIVE/ EXCLUSIONARY SCREENING	POSITIVE/ INCLUSIONARY SCREENING	ESG INTEGRATION	SUSTAINABLE INVESTING	MISSION INVESTING (MRI & PRI)	SHAREHOLDER ENGAGEMENT
Robert Wood Johnson Foundation amalgamated bank Leonardo DiCaprio Foundation	The McKnight Foundation Jessie Smith Noyes Foundation	incourage community foundation CommonSpirit	Kaiser Permanente meyer Memorial Trust	Weingart Foundation Ford Foundation W.K. Kellogg Foundation The Kresge Foundation California Community Foundation The California Endowment The California Wellness Foundation California Health Care Foundation The SCAN Foundation AARP	The Nathan Cummings Foundation The Boston Foundation The Educational Foundation of America Trinity Healt

(1) Adapted from US SIF, www.ussif.org. Profiled investors may use one or more of the techniques.
(2) Source: https://divestmentdatabase.org

AVIVAR CAPITAL

Operationalizing The Commitment – Investment Policy Statement

Weingart's CFO had recognized the Foundation's Investment Policy (IPS) didn't reflect the values and priorities staff would use in evaluating and prioritizing the use of Foundation resources or deployment of capital. With the assistance of its new advisor, Cambridge Associates, the Foundation's Investment Committee began a comprehensive overhaul of the Foundation's IPS, with the intention of being very transparent about the Foundation's strategy. The statement's introduction, principles and priorities are what follows.

Mission Alignment

The Weingart Foundation is committed to achieving social, economic and racial justice for all. In making this commitment, the Foundation will pursue Mission Related Investments ("MRIs") holistically across its portfolio. The Board recognizes the evolving nature of mission related and impact investing strategies, and the limitations of opportunities within various asset classes. Accordingly, the Foundation shall employ a pragmatic approach to implementation of mission alignment across its investment portfolio.

Principles

The following principles shall guide the Foundation's mission related and program related investment program:

- **Do no harm.** The Foundation shall seek investments that minimize negative impacts on our communities.
- **Be bold but be practical.** The Foundation shall embrace opportunities for continuous learning and reflection on its investment activities. Investments may be undertaken in newer and/or untested strategies but with a constant eye towards prudent risk management.
- **Implement over time, as market conditions allow.** Investment decisions shall be based on strong due diligence and a clear understanding of risks.
- **Investment activities should support the Foundation's commitment to equity while providing opportunities to enhance returns and/or reduce risk.**

Priorities

The Foundation seeks to make a positive impact through its investments focusing on the priorities outlined below. These priorities may evolve as the Foundation learns more about its ability to drive positive impact and as the universe of investment opportunities expands.

- Economic and Community Empowerment: investments that promote economic access and mobility, quality employment, financial inclusion, affordable and/or workforce housing, education and opportunity for BIPOC communities, particularly in Southern California.
- Diversity / Inclusion: investments promote diversity within asset managers, entrepreneurs and communities, with the aim of increasing inclusion within the investment industry.

4 DEPLOYING CAPITAL TO PROMOTE TRANSFORMATIONAL CHANGE

> "Asking investment managers: What is the opportunity set you can invest in that will lead to social change? How can you create opportunity? Who is on your team? What does your leadership look like? This brings a broader lens and allows thinking about how to transform the investment industry itself to be more diverse, inclusive and equitable."

Monica Lozano

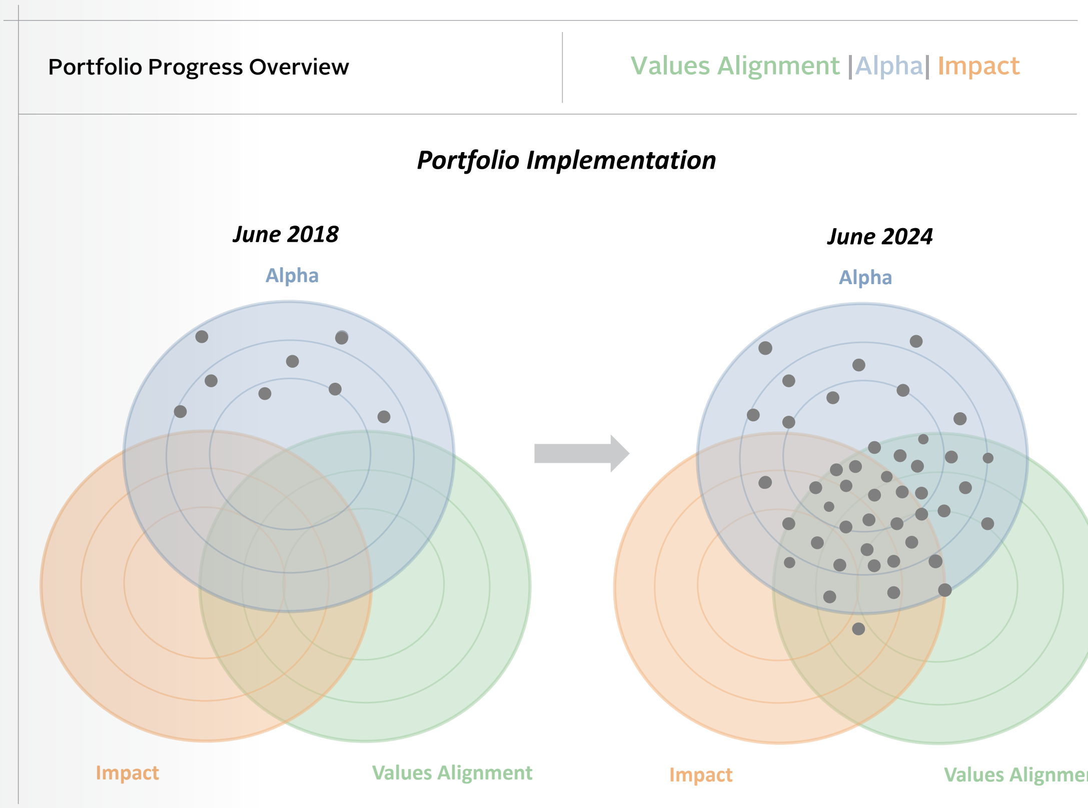
Weingart Foundation Director,
Board Chair 2014 – 2019 and 2023 – 2024

New Frameworks for Evaluating Investment Opportunities

In beginning its support of Weingart's mission alignment strategy, Cambridge worked with the CFO to develop a new approach for evaluating investment opportunities.

As depicted in Figures 4-5, Cambridge incorporated Weingart's values and objectives into a high-level framework that assessed the degree to which an investment opportunity might contribute Performance, Values Alignment and/or Impact to the investment portfolio. While understanding there would often be trade-offs, the primary goal of this emerging strategy would be to find asset managers with the potential to contribute strongly to all three areas.

Figure 4 WEINGART'S EVALUATION FRAMEWORK ALLOWED TRACKING OF PROGRESS TOWARD MISSION ALIGNMENT



Weingart's new investment evaluation framework significantly altered the Foundation's investment decision making. Among its first investments focused on driving systems change, to address implicit bias in the deployment of investment capital, in 2018 the Foundation made a commitment to Illumen Capital (Figure 5). This investment illustrates how the Foundation sought to advance its equity agenda by addressing the systemic barriers to the access to capital by BIPOC entrepreneurs and fund managers.

Figure 5 WEINGART'S REVISED INVESTMENT EVALUATION FRAMEWORK SUMMARIZED THE DIVERSITY, IMPACT & ALPHA POTENTIAL FOR ILLUMEN CAPITAL, A BLACK-LED VENTURE CAPITAL FIRM FOCUSED ON ELIMINATING IMPLICIT RACIAL BIAS.

Investment Example: Illumen Capital

Weingart Foundation committed $5.0 million to Illumen Capital, a private fund of funds dedicated to venture capital, growth equity, and private equity funds. The firm will target funds across five sectors: education, health & wellness, financial inclusion, clean energy & sustainability, and opportunity communities. Illumen will seek managers with seasoned investment teams, proven impact theses, and strong track records. In addition to working to create a best-in-class impact fund of funds, Illumen will seek to mitigate "implicit bias" among its managers and in the industry as a whole through various channels, including baseline audit surveys, bias workshops, and idea sharing events.

The Weingart Foundation's Manager Evaluation Framework

Value Alignment

>***Diverse firm ownership and team:*** *Illumen is minority-owned by Founder/Managing Director Daryn Dodson and supported by a diverse team.*

Impact

>***Impact Focus:*** *Illumen's investments will target five impact sectors ranging from financial inclusion to education, with job creation as a cross-cutting theme.*

>***Implicit bias reduction:*** *In addition to building a diversified portfolio of impact funds, Illumen will pursue implicit bias through various channels. These efforts will provide underlying managers with the tools necessary to build diverse, equitable, and inclusive teams.*

Alpha

>***Strong potential in impact space:*** *Although Illumen is a newly formed firm, Dodson and his investment committee have substantial impact investing experience and are well-established in the space. The opportunity has the potential to give investors diversified exposure to impact sectors and enterprises while supporting the goals of increasing diversity and inclusion in asset management.*

Proof of Concept – Investment Performance

One of the biggest reasons for investor hesitation is the belief that social and impact-oriented investments require investors to accept concessionary returns. In a recent peer survey, 92% reported implementing an active PRI or MRI strategy; however, only a quarter of respondents rated those strategies as highly successful. Fiduciaries generally see their primary responsibility as maximizing financial returns, and fear that making impact investments may jeopardize investment performance. Yet, many investors have demonstrated that it is possible to design mission-aligned portfolios that generate competitive financial returns while making social impact.

While Weingart's Board and leadership didn't believe the Foundation needed to sacrifice performance, results would be important in sustaining the Foundation's grant making and achieving intergenerational equity, the primary stated financial objective of the Foundation's investment program.

Although the Foundation continues its journey, results to date have been largely favorable. Performance has been commensurate with the Board's risk tolerance and exceeds the portfolio's long-term benchmarks, as well as the returns of many similarly sized foundations.

5 REFLECTIONS

"Equity and impact investing are two sides of the same coin. In twenty years of practicing philanthropy two imperatives leap out. 1. Saving our democracy—voice, power, activism, organization, and advocacy; and 2. Understanding how to resource communities that have been oppressed and marginalized."

Dr. Robert Ross

Weingart Foundation Director,
Board Chair

Weingart's mission alignment approach has been built upon the Foundation's reputation for being a responsive partner to community-based nonprofit organizations and enables the Foundation to deepen its partnerships with an expanded toolkit of support. The strategy further stimulates a reimagining of philanthropy on how best to integrate the Foundation's grant, PRI, and MRI resources, as well as mission-align its more traditional investments to maximize the advancement of its Equity Commitment.

Reflections

Weingart's experience has built optimism within the Foundation that its mission alignment strategy can fulfill its Equity Commitment, while meeting its investment and financial objectives.

Building upon early success, Weingart increasingly embraces the belief that mission investing offers an essential element for re-imaging philanthropy.

As Weingart reflects on the history of its journey to date, key inflection points include:

- Weingart's mission alignment approach continues to evolve as a means to advance its mission, particularly its Equity Commitment.
- Foundation leadership began by building an organization that reflected the communities it serves. Weingart adjusted its hiring practices to build a staff that not only brought the skills but shared the vision to develop and implement its mission alignment approach.
- Board and staff took the time to carefully study all aspects of the mission investing field to develop its approach.
- In implementation, Weingart partnered with experienced advisors with a demonstrated commitment to its mission and values.
- In making investments, the Foundation has been willing to challenge presumed risk levels and traditional asset classification assumptions.
- As Weingart seeks systems change, the Foundation sees a need for an all-in approach and believes that expanding the Foundation's partnerships to include mission-aligned for-profit entities is essential to driving transformational change. As Weingart re-imagines philanthropy, it seeks to model a way in which investors allocate capital in ways that catalyze rather than obstruct equitable communities.

"The future of investing will undoubtedly include new models of social responsibility and innovation. We have a duty to ask ourselves if we are doing enough to align our investments with our values and whether we are building a future where the benefits of growth are shared by all."

Katie Kalvoda

Weingart Foundation Director,
Investment Committee Chair

Among Weingart's considerations in enhancing its strategy are to more systematically track and report social impact and seek opportunities to leverage its impact through co-investment.

Tracking & Reporting Social Metrics

The importance of tracking and reporting the social impact of mission investments has long challenged the impact investing sector. Unlike the standard metrics that investment professionals agree upon to assess traditional financial performance, the range of social metrics foundations care about is as diverse as foundation missions and program areas. Even so, the field continues to make strides in standardizing the tracking of social metrics, including through:

- Mapping social impact goals to the United Nations Sustainable Development Goals
- Applying the Impact Management Project's Five Dimensions of Impact—often summarized by using an ABC test to determine whether an investment Acts to Avoid Harm, Benefits Stakeholders or Contributes to Solutions
- Using the IRIS metrics established by the Global Impact Investing Network as a standard taxonomy for tracking social impact.

For Weingart, as for many mission investors, designing a system of social metrics calls for balancing the desire for performance data with a commitment to minimize the burden on already overstretched community organizations. The Foundation is studying its approach to impact reporting and tracking, such as the use of a web-based tool designed by one of its longstanding partners, Avivar Capital.

In closing: Weingart continues its journey towards full alignment, and has made significant strides through partnership with many others. The Foundation is currently undergoing another transition in leadership as Joanna Jackson assumes the role of CEO, Bob Ross assumes the Board Chair role, and Katie Kalvoda takes over as Chair of the Investment Committee. Both leaders are dedicated and eager to expand and cultivate new partnerships to further advance Weingart's Equity Commitment through its investments over the many years to come.

RESOURCES

Foundation Mission Investing Journeys

Heron Foundation - *Mission Stewardship - Aligning Programs, Investments, And Administration To Achieve Impact*
https://www.heron.org/wp-content/uploads/2015/05/fb_heron_foundation_Mission_Stewardship_Aligning_Programs.pdf

The Nathan Cummings Foundation - *Values Proposition: How and Why We Transformed Our Investment Model to Align Our Capital with Our Mission*
https://impact.nathancummings.org/

Surdna Foundation - *Impact Investing for Social Justice: Looking Back and Moving Forward*
https://greenmoney.com/impact-investing-for-social-justice-looking-back-and-moving-forward/

Surdna Foundation - *Mapping the Journey to Impact Investing*
https://surdna.org/wp-content/uploads/2017/02/Mapping-the-Journey-to-Impact-Investing_FINAL.pdf

Builders Vision - *Breaking Barriers: A Practical Guide to Unlocking Foundation Endowments for Mission and Returns*
https://www.buildersvision.com/whats-happening/social-finance-builders-initiative-report

Jesse Smith Noyes Foundation - Guidance on OCIO Selection and Other Resources from an Industry Trailblazer
https://noyes.org/investing/

K.L. Felicitas Foundation - Overview of Practices from Industry Leader
https://klfelicitasfoundation.org/impact-investing-overview/

Diverse Asset Managers

Knight Foundation - *Knight Diversity of Asset Managers Research Series: Ownership and Teams Diversity Metrics*
https://knightfoundation.org/reports/kdam-metrics/

Diverse Asset Managers Initiative
https://www.diverseassetmanagers.org/

Diverse Asset Managers Initiative - *The Importance of Tracking and Reporting*
https://www.diverseassetmanagers.org/tracking-and-reporting

Diverse Asset Managers Initiative - *Annual Investment Consultant Survey, 2021*
https://static1.squarespace.com/static/5d35efa6690f4000010e09f2/t/620b9b786122627708c0c81c/1644927867518/

Diverse Asset Managers Initiative - *Fiduciary Guide to Investing With Diverse Asset Managers and Firms*
https://static1.squarespace.com/static/5d35efa6690f4000010e09f2/t/5d49f3bbbf13a80001c1c082/1565127612982/

Cambridge Associates - *In Private Investment, Diverse Fund Management Teams Have Opened Doors*
https://www.cambridgeassociates.com/insight/in-private-investment-diverse-fund-management-teams-have-opened-doors/

Cambridge Associates - *Racial Equity Investing: The Time Is Now*
https://www.cambridgeassociates.com/insight/racial-equity-investing-the-time-is-now/

Financial Performance & Trends of Mission / Sustainable Investing

USSIF - Financial Performance with Sustainable Investing
https://www.ussif.org/performance

GIIN - *Impact Investing in Action: Perspectives on Financial Performance*
https://thegiin.org/impact-investing-in-action-perspectives-on-financial-performance/

Forbes - *Diversity: The Holy Grail of VC*
https://www.forbes.com/sites/forbesbusinesscouncil/2022/05/26/diversity-the-holy-grail-of-venture-capital/

The Global Impact Investing Network - *Six Impact Investing Developments to Watch in 2023*
https://www.linkedin.com/pulse/six-impact-investing-developments-watch-2023-amit-bouri/

Social Metrics for Mission Investing

Impact Frontiers
https://impactfrontiers.org/

The Global Impact Investing Network - IRIS (Impact Reporting and Investing Services)
https://iris.thegiin.org/

Cambridge Associates - *Social Equity Investing: Righting Institutional Wrongs*
https://www.cambridgeassociates.com/insight/social-equity-investing-righting-institutional-wrongs/

Trade Associations Focused on Mission Investing

Confluence Philanthropy
https://www.confluencephilanthropy.org/

Global Impact Investing Network
https://thegiin.org/impact-investing/

Mission Investors Exchange
https://missioninvestors.org/