Please note: This is a transcription so there may be slight grammatical errors.

Speaker 1 (00:02):

Hello, and welcome to Mission and Markets, a podcast by CAPTRUST, where we explore trends and best practices for endowments and foundations related to mission engagement, fiduciary governance, and investment management. Hosted by CAPTRUST's Heather Shanahan, director of the Endowments and Foundations practice. Each episode shares research resources and recommendations from industry insiders, so your nonprofit can focus on what's most important. The mission.

Heather Shanahan (00:38):

Good afternoon and welcome to our first episode of Mission and Markets. I'm your host, Heather Shanahan. As we kick off today, we want to spend just a little bit of time talking about our podcast and what you can expect from this and future episodes. In conversations with nonprofit organizations, we find common themes emerging. Always paramount is funding and growing assets. These are particularly trying times, with volatility coupled with increasing need. But we also hear the need for innovative ideas for donor alignment, ensuring good board governance, strategy around mission-aligned investing, the need to move the needle to support DEI (diversity, equity, inclusion) initiatives.

(01:21):

So many issues, in addition to the asset management conversation. With this podcast, we will address what we at CAPTRUST consider to be the three pillars of a successful foundation: mission engagement, fiduciary governance, and investment management. First, a little bit about the three of us you'll hear from today.

(01:42):

I had the pleasure of joining CAPTRUST last year as the director of Endowments and Foundations, and I'm based in Raleigh, North Carolina. In addition to over 20 years in the financial services industry, I also have had many years of nonprofit volunteer board experience and for the three years prior to joining CAPTRUST, I served as the executive director of a local nonprofit organization here in the Triangle area of North Carolina. I also serve on the grants and financial literacy committees for the CAPTRUST Community Foundation.

(02:11):

I'm joined today by Grant Verhaeghe, senior director of our Asset Liability practice. Grant joined CAPTRUST in 2010 and is responsible for the development of services for defined benefit plans, endowments, foundations, and other asset liability–focused clients.

(02:27):

James Stenstrom joined CAPTRUST 13 years ago and is a director leading the firm's OCIO, Outsource Chief Investment Officer practice. In that role, he helps nonprofits develop and implement investment strategies which meet their unique goals. James leads the Endowment and Foundation survey development and response review. In addition, James is a past grant committee chair and current board member of the CAPTRUST Community Foundation.

(02:54):

Today, we’ll discuss the findings from our annual survey of endowments and foundations. So, the fifth annual endowment and foundation survey from trusts really covers a lot of different topics and takes a look at the unique needs of nonprofits with long-term investment assets. Between 10 million and 250 million. We surveyed 169 organizations, which included public and private foundations focused on religious, educational, and other charitable missions.

(03:26):

Some great findings, some great information, certainly for the actual results of the survey. You can find that on our website at captrust.com. We will be doing a full-blown hour-long debrief and webinar as well, which is available both live and will be available for recordings afterwards. And the information about that is also available on our website. Thank you both for joining us. James, you've been the author and analyzer of the survey since its inception. Why is the survey important and how'd this year go?

James Stenstrom (03:57):

Well, I appreciate that, Heather. The CAPTRUST Endowment Foundation survey is the largest publicly available nonprofit investment survey, which covers the entire sector, right? Larger than Mercer, BlackRock, SEI. But one of the things that I think really distinguishes it from some of the other well-known things out there is that it really grasps the entire range of the nonprofit universe.

(04:21):

For example, it includes organizations with less than $25 million in assets, which is frankly the majority of nonprofit organizations out there, and it does that across different sectors. One of the things that we really like to do with the survey, and one of the reasons that I think it's a great resource for organizations, is we're tremendously focused on getting qualified responses instead of just running up numbers to make it seem large. We asked throughout the survey, what our respondent, what do you know about? Do you know about fundraising, do you know about board governance? And only ask questions relative to that.

Heather Shanahan (04:54):

So, let's talk about some of the highlights from this year's survey. There were some startling statistics I think that we found and some things that stood out, particularly in the subject theory of DEI, diversity, equity, and inclusion. James, what'd we learn there? What surprised you? Grant, maybe you have some feedback on how did today's respondents—this year's respondents—compare to last year and the topics that we thought were important.

Grant Verhaeghe (05:21):

I think there were some pretty interesting trends, and I know James will go through some of those to start, and then we'll maybe provide some perspective in terms of what we're seeing in boardrooms. But to me, I think the things that really stuck out this year were around diversity, equity, inclusion, and also just values-based investing. I think both of those are pretty hot topics and ones that we spent a significant amount of time on in the surveys, and maybe this year we saw some pretty interesting kind of trends in that space.

(05:47):

I don't know if, James, it maybe makes sense to start with DEI and talk a little bit about some of the observations that we found and I think we can provide some perspective around what we're seeing in boardrooms. When we asked, 60% of nonprofits prioritize DE&I efforts. So, when we go through the numbers, we only ask how successful those organizations were, the folks who were prioritizing it. I think really impressively, 82% believe that that increased emphasis on DE&I improved their nonprofits' efficiency and effectiveness.

(06:18):

I think when we looked at the survey results last year, the numbers were pretty similar in terms of organizations that prioritize DE&I. In fact, if I recall right, I think that number was 69 versus 68%. But I think one of the things that's really interesting about this space in general is just, if you think about the not-for-profit sector and who generally they tend to focus on in terms of constituents or beneficiaries for their philanthropic activities, more often than not it's folks that really would sort of be characterized as diversity, equity, inclusion factors.

(06:52):

So, one thing that's just super apparent is that I think board members, organizations are absolutely focused on trying to improve the diversity, equity, inclusion characteristics of their boards, but I'm not sure that is necessarily showing up in the underlying data. I think you might have some stats on that.

James Stenstrom (07:09):

Absolutely, absolutely. I think, right, you hit the nail on the head in terms of folks who recognize the DE&I as an imperative, have been fairly successful at improving their satisfaction of the communities that they serve. Whether it's from grants or whether it's operating initiatives. And then they've improved their satisfaction level with staffing, although not to as significant an extent.

(07:32):

And so you see organization, who you serve satisfied. Slightly less satisfied with the staff, and then you get to board membership and that's where you see the least satisfaction with the amount of progress made. So, 96% of organizations evaluate DE&I profiles of potential members, but 84% do not possess any diverse talent.

Heather Shanahan (07:55):

Wow, that's a pretty significant disconnect. It's important, but we're not getting there. We're not moving the needle, is kind of what we're hearing on that.

James Stenstrom (08:02):

There was a high degree of correlation with those that were happy with board-level diversification, also being happy with staff-level diversification. I think one of the key things is, if you're successful at creating a diverse board, it's likely to create success at creating a diverse staff and it sort of rolls down through the organization.

Heather Shanahan (08:21):

Do you think the reverse is true?

James Stenstrom (08:22):

I think it potentially could be, right? I mean, we just said over 82% of the organizations make it a focus when they're evaluating it, and 96% of them actually look at those characteristics of board members. Which leads me to my second point, which is tracking the data. If you know what you want to accomplish and you're not tracking and measuring your success, then how do you know if you're actually being successful?

(08:45):

I think it's super important that organizations be authentically honest about what they actually want to accomplish and what it looks like. And I think the more you measure it, the more apparent it will be, whether the activities that you're following actually create that success.

Heather Shanahan (08:58):

One of the things that we see as a best practice is an annual board self-disclosure survey of truly what does your board look like? And people may self-disclose in a way that maybe you actually have more diversity than you realize, but if you're not being intentional about that, then it's hard to really focus on it and move the needle.

(09:17):

I think you also struggle from a board perspective with term limits. This is, in a lot of organizations, a relatively recent discussion. You've got folks that are on your board for six years, it's hard to navigate change and because year over year you may not be changing at all. So I think that's a challenge too.

James Stenstrom (09:33):

Yeah, think about that. If there's small numbers of boards that are actually diverse and people stay for multiple terms, if you will, it's pretty hard to affect change unless you grow your board. And that might not necessarily be a win from a governance perspective either.

Heather Shanahan (09:47):

Correct.

James Stenstrom (09:48):

There was also a trend in last year's survey, which maybe did a little bit of a deeper dive on some of these characteristics, but I think it's really relevant, which was is there a correlation between the expectation that a board member be a financial contributor or supporter of the organization versus someone who's just volunteering their time necessarily? I think what we found is at least there was some anecdotal evidence or some correlation that it wasn't about whether or not there was a contribution or a financial support required. It was about whether there was clarity of that.

(10:17):

In other words, if you just set the expectation, then people will self-select in whether they can do that, and that actually might improve diversity, equity, and inclusion characteristics as opposed to, "Well, we're not sure," and being ambivalent about it. And then people are like, "Well, I don't know whether I can meet that financial need or not." So, I thought that was somewhat interesting in last year's survey as well.

Grant Verhaeghe (10:37):

I think that touch on recruiting is really important. I think with both of what you said in terms of term limits, it brings up sometimes an uncomfortable feeling of how do we increase diversity? Well, we can increase the size of the board, or we can look around the room and say, "One of us isn't here and somebody else is who might fit a profile." I think things like term limits are really effective, not only in terms of potentially increasing diversity, broadening the generational level of inclusion in the organization, but then what we also see, and this is a somewhat unrelated topic, is across all governance best practices, nonprofits with term limits do them more frequently, so have policies related to conflict of interest.

(11:29):

Organizations with term limits do that more frequently. Have formal debt policies, organizations with term limits do that more frequently. Have investment fiduciary training, organizations with term limits do that more frequently. I think it's a really important concept here and I think it's also a really important concept with governance in terms of, I think if all of us, whether it's children or elder care or whatever responsibility you have in life, if you know that you are taking care of something, but in a couple years you won't be there to take care of that individual or that organization. There's a different level of emphasis in terms of how do I make sure that this organization's sustainable, whether that's diversity, whether that's governance.

(12:10):

I think that's a really important topic to touch on is, I think sometimes organizations confuse having term limits or people rolling off with lack of stability. And I think the data may suggest that having term limits actually increases the sustainability of an organization.

Heather Shanahan (12:26):

That's true. Yeah. Just what needs to be memorialized for continuity of business practice is pretty, it's a good focus when you know that in three years you're not there. So, yeah.

James Stenstrom (12:37):

I think one other thing around the tracking data point is just, what is the objective? Because I think if you ask most organizations, they have a sense for what it is that they want to accomplish, but not what that definition of success looks like. I don't think it's realistic that if you have a board that is what we'll call 93% not diverse, that within a year it's going to be 50% diverse, but is moving from 93 to 90 when you have board turnover a win? I would argue that it probably is.

(13:08):

I think these things happen with real slow, methodical intentionality, and the only way that you know whether you're making any progress is to track that and to look at it.

Grant Verhaeghe (13:19):

Yeah. I think it's worth acknowledging that diversity looks different for all sorts of different organizations.

James Stenstrom (13:19):

Sure.

Grant Verhaeghe (13:25):

And we work with religious organizations where diversity may be clergy versus non-clergy members. It's a totally different conceptualization of what diversity is versus what one may be thinking in their organization.

Heather Shanahan (13:38):

What about age diversity? Diversity of youth? That's something that you obviously ran into as well, and why is that important? What do we hear in terms of donor strategy with a younger demographic and how they like to be approached?

James Stenstrom (13:55):

When we ask the composition of investment committees specifically, so part of the board, 93% were described as either senior career or retired, not working. If you look at the younger generations, that's 7% of committee members. And so I think that's emblematic of, I think some of the traditional notions of what a board should be used for, which is, "Hey, we're going to go to these individuals." And in a lot of organizations, board membership is determined somewhat by gift capacity.

Heather Shanahan (14:31):

Yup.

James Stenstrom (14:32):

Is that something which sets the organization up for engaging a new generation of givers and donors and benefactors and depending on the organization, engaging communities to be served? And how do you reach that and what are some of the best techniques to potentially bring in new generations as decision makers? I've heard you make the point too, which I think is a really astute one, which is that with every generation that passes, more diversity happens.

(15:02):

I mean, that's just biology. And then I think there's also a ton of statistics out there about maybe younger generations being far more focused on finding meaning in their life through philanthropy. What are you missing if you don't have some degree of diversity from an age perspective on your board? Probably a lot of fresh ideas, probably a lot of generational turnover and probably a lot of diversity that comes with it. So, I think those things are all important.

Heather Shanahan (15:31):

And one of the things that we see that works well is if you do have a junior advisory committee or a young professionals group, of allowing a couple of them to sit in board meetings, that you start building their knowledge base and helping them feel more comfortable with what the discussions are that are happening in the room.

(15:47):

Maybe not a voting member, but still a participating member, and obviously somebody that you would want to speak up. And then they can also convey that information back to the young professionals group that supports the organization, so that works out well. There's some good strategy there. Let's talk also, we had some interesting feedback too in the survey responses around values-based investing this year. James, what did our survey respondents have to say here?

James Stenstrom (16:17):

Yeah. I think values-based investing, and it certainly goes by a number of different names, ESG, SRI, socially responsible investing, impact investing. What we did is, they're certainly different, so I'm not going to say that they're the same. What we did is we tried to group those together in terms of organizations who look at their mission and look at their investment portfolio as a way to express their mission or express those values, whether that may be religiously influenced, maybe it's diversity, maybe it's environmental, whatever it may be.

(16:54):

What we see is, not statistically, but the implementation's actually down. It was down a percent this year after three consecutive years of increasing. In the past when we ask, what impact do you think ESG or mission- or values-based investing will have in terms of returns, most popular answer was either neutral or additive. Detracting from terms was always last.

(17:18):

What we saw last year was 40% of all respondents believe ESG or values-based investing now detracts from returns. And so a lot of those strategies have things like oil or other fossil fuel type strategies, not all of them, but in a market environment where a lot of those strategies did underperform, and you have leaderships in the energy sector in terms of equities, I think there's a little bit of a realization that these things aren't necessarily going to be additive returns in all market environments forever. Nothing as a leader in all market environments forever.

Grant Verhaeghe (17:56):

Maybe pause on that for a second, because I don't want to blow by the first statistic that you said, which is for the first time in four years, we saw a decline in actual ESG implementation. I think it's probably worth sort of vetting out why is it that we think that happens?

(18:16):

I kind of have my own views. I mean, I think some of that is just this whole idea that we had a really tough market last year. And any time you have a tough market, I think things that maybe are more idealistic sort of go out the window and people are like, "What were my returns?" And I also suspect there's probably just some complexity in this space around implementation and this whole idea of mapping values and trying to create consensus on boards, and the fatigue that comes with that. I mean, how many times, Heather, have you been in front of the board, how does that conversation go?

Heather Shanahan (18:48):

Sure. I mean, I think in a lot of situations the board will agree it's something that's important, they want to talk about it. You know, go around the room and there's a struggle to identify, what am I speaking from in terms of values? Is it my personal beliefs or is it the organization's beliefs? And how do I reconcile that? Everybody comes at it from a different angle. Unless it's an organization that has a very clear mission, something that may be environmentally motivated, for instance.

(19:17):

So, everybody brings the thoughts to the table and then they tend to look at each other and they go, "Huh, okay, well that was kind of exhausting and let's table that and we'll come back to it." It's a tough conversation. It's a heavy lift, and there tends to be, I think, a little bit of a wait and see that's happening right now.

James Stenstrom (19:37):

Yeah, I think the data actually supports that. As we ask individuals how important values-based investing was to them and how important they perceived values-based investing to be to the organization. Across the board, it was less important for individuals than they perceived it for their organization to be.

(19:54):

I think you're absolutely right in terms of, there tends to be conversation, but there's a lack of a champion. I think we all know from personal experience, to make change happen, somebody has to feel passionately that there needs to be change, or else the inertia and tabling it is a much easier decision.

Heather Shanahan (20:13):

Yeah, we checked the box. We've talked about, it's important, but we didn't resolve this at all. Maybe next year.

Grant Verhaeghe (20:19):

Yeah, I think some of this is also, maybe the best way to say it is, perfect is the enemy of good. This is an evolving space. I mean, even the words they use to define it up front, James, I think can be confusing. What's the difference between impact investing and value-based investing and how is that different for one type of organization versus another? If you can't get consensus against committees and there's no perfect solution for anyone, then I think it's, "Well, maybe we shouldn't do anything, we'll just sort of wait and see," like you said, Heather.

(20:49):

But the reality is, I think organizations that are successful at implementing it are also super focused on measuring it and identifying it and saying, "You know what? A baby step towards what we know we want to be involved in or engaged in is better than no step at all, while we wait for the perfect answer to present itself." To me, I think the fatigue element of how much we've seen the buzzword, quote unquote "ESG" over the last five, six years, and the fact that they discuss it and then they never take action, people are just kind of like, "Well, let's talk about it again next year. We'll table it for the third quarter board meeting."

(21:26):

I agree, where you see implementation actually happening. Over time, we've seen this shift from customized investment programs towards standardized products, where now you have people being educated, and the gap between those people who understand the values-based investing and are considering it between adopters and non-adopters is really shrinking. If you look back a couple years, well adopters, they've talked about it and they've adopted it, and non-adopters, there was this big runway in terms of they haven't considered it. And that gap is really shrinking fast. Where you see that gap being filled in terms of adoption is people using standardized products, people moving away from customized solutions in terms of, "Well, we've all got priorities. Let's all agree on this thing that exists and then move on to the next topic of discussion."

(22:17):

I think we've also seen practically, I'm not sure it necessarily showed up in the survey this year, but this whole idea of maybe segmenting a component of my assets, and some of that may be just because, well, it's easy to define a specific mandate to a specific values-based factor, but some of it is also a lot of the desire to include ESG may be aligned with organizational mission, but it also might be aligned with donors.

James Stenstrom (22:44):

Yeah, absolutely. I had a conversation actually with a nonprofit organization yesterday. They segmented out a portion of their portfolio to ESG because they thought that would be important to some donors in the New York metro area.

(23:00):

So, we had a conversation about that and the portfolio's about a year old, and they said, "Well, is this something that's meaningful that we need to continue doing? Or is this a distraction from the rest of the investment program?" And the conversation we had centered around, "Well, just because it hasn't worked yet doesn't mean it won't work." Especially large donors, sometimes those take longer to develop. It's like having a planned giving program and saying, "We've gotten no bequests in the three months, maybe we should stop trying to do planned giving." Should

Heather Shanahan (23:35):

Truly, that should be a good problem. This means nobody died, but anyway. Depends on how you look at it, right?

James Stenstrom (23:41):

Yeah. I think if it is part of a fundraising strategy, it's not something where you put it in place and then if it's not working months later, you pull the plug. You've got to give it an earnest try and give the various party fundraisers, development people, the opportunity to identify the gifters. That's going to be important and position that effectively.

Heather Shanahan (24:07):

So, it's anecdotal evidence, because I know we didn't specifically ask this question in the survey, but I mean, is your sense that most of the clients with whom we work may be choosing a sleeve to accomplish their values-based investing goals, but it's not part of a global portfolio strategy? Is that kind of how you see it panning out for most clients?

Grant Verhaeghe (24:24):

I would say that, or maybe the other trend would be identifying areas where it might be easier to implement their ideas than in others. I think the statistics, and James, you probably have the details on this, but were that higher adoption and alternatives specifically when we were focused on impact investing, right? Because I think you should just think there's more alignment with impact in that space, probably a lot harder to do in fixed income than global equities, for example.

Heather Shanahan (24:50):

Right, yeah.

Grant Verhaeghe (24:51):

People are sort of saying, "Well, I can do it here, but I can't do it there, so that's better than nothing." I think it depends on kind of what nonprofit space you're in. If you're a religious organization, there are things that are antithetical to your value set. Whereas if you may be an environmental organization, you invest according to, maybe you want to avoid fossil fuels, but maybe you want to make a positive difference and you're left trying to measure, "Well, if we have $750,000 in this mutual fund, what does that mean in terms of making an impact?" Versus, the investment portfolio is the investment portfolio. And we may carve out some of that, what we would traditionally invest in stocks and bonds for an impact investment where we know, "Hey, this is going to make a difference in our community with our financial contribution."

Heather Shanahan (25:40):

There's some really great content that we're not going to talk about today. This is really kind of a teaser for our full-blown webinar that debriefs the entire survey. But thank you both for being a guest today. We do have some great upcoming topics planned for our future podcast, too. Our friends who host our sister podcast, Revamping Retirement, always ask their guests the parting question, what does retirement look like to you? I think for Mission and Markets, we're going to ask, what does mission impact mean to you? James, Grant, what's important to you and your philanthropic efforts, and what's your passion? James, you get to go first.

James Stenstrom (26:19):

I like how Grant pointed at me first. Since I'm answering this question first in the podcast, my answer will be the best podcast [inaudible 00:26:28] for at least 30 seconds.

Heather Shanahan (26:29):

Bar setting high.

James Stenstrom (26:31):

In terms of what's important to me in my personal life, I am a big supporter of Land Trusts. So, natural open spaces, both for recreation and preservation. I think there is no planet B, I think is a phrase that gets thrown out there a lot. And so trying to make sure, trying to preserve some of that in a way where future generations can enjoy it.

Heather Shanahan (26:57):

Awesome. All right. Grant?

Grant Verhaeghe (26:59):

Yeah, for me, I think I'm sort of entering the second half of my career. I think it's sort of this personal evaluation of moving past what you would define as a successful career to thinking about what kind of impact you have, maybe when you leave. For me, I'm not sure I've defined exactly what that is, but I know it will pretty heavily involve service to others.

(27:21):

I kind of heard a quote once, which is, "What is the definition of service to you?" And to me, that's identifying the intersection between your talents and your passions and the world's greatest need. For me, I think it's continually looking for opportunities to use those talents and passions and try to intersect them with where there's a need. And I haven't figured that out exactly yet, but I'm on that journey.

Heather Shanahan (27:43):

Awesome. Well, we'll hold you accountable to greater clarity and letting us know how you've executed on that the next time you are on as a guest. Thank you both, Grant and James, for being my guest today on our first episode here. We also have some great upcoming topics planned.

(28:00):

If you've enjoyed today's episode, we ask that you please let us know what you'd like to hear on future episodes. Like us and subscribe. And then of course, please share this with others in your organizations or other organizations in the nonprofit world that would benefit from the content. We thank you so much for joining us.

Speaker 1 (28:20):