

Mission and Markets Episode 24

Speaker: 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, each episode shares research, resources, and recommendations from industry insiders.

So your nonprofit can focus on what's most important, the mission.

Heather Shanahan: Hello, and welcome to our latest episode of "Mission and Markets." My name is Heather Shanahan, and I am your host. And today I am joined by James Ross, who is an advisor with CAPTRUST, as well as Rehana Nathoo with Spectrum. And I will let you guys introduce yourselves a little bit further and tell a little bit more about yourselves.

So Rehana, I'll start with you

Rehana Nathoo: Sure, and very happy to be here, so thank you for having me. So I run an impact investing and ESG consulting firm called Spectrum Impact. We've been in the market for almost nine years now, after a career, in the impact investing space. I spent most of my time the, 12 years prior doing impact investing strategy and portfolio design at places like Rockefeller Foundation, Bank of New York Mellon, and then the Case Foundation.

And then started Spectrum really in an attempt to do a better job of distilling what I had learned broadly across the field as opposed to just taking it to the next spot, which of course happens when you move from place to place. I felt like there was a lot that I had learned about what it takes to build a really compelling values-based strategy.

most of that was what not to do, and felt that there was just an opportunity to share that more broadly, especially as capital is increasingly scarce, but people are incredibly motivated to do this values-based work. And that's what we focus on. I live in New Orleans, which I love. It's quite hot today, so love it just 1% less, but for most of the time, it's the perfect place to be to do some of this work.

Heather Shanahan: Fantastic. Thank you so much for joining us, and we're delighted to have your expertise with us, as really the subject of impact investing, seems to come up most often with some of James' clients and with

our community foundation clients. So James, if you'd be willing to introduce yourself

James Ross: Yeah, James Ross. One, I'm excited to be here, really more to learn along with everyone else. my focus is on endowments and foundations, primarily community foundations. I've been working in that area for, I think this is my 19th year. And I've worked with about 100 nonprofits, mostly community foundations.

And as you can imagine, this conversation comes up frequently where these types of organizations want their 95 or 96% money to be mission-centric as well, right? Not just the 4 or 5% that they grant out. They really want to know that the rest of the money is also mission-aligned, and this kind of ties into that and how they think about it.

And candidly, I think we're gonna touch on this today, there are challenges from the outset from an education standpoint, et cetera, that we'd love to work through

Heather Shanahan: Rehana, I'll back-- I'll bounce it back to you. So can you give us some definitions? What is impact investing? What is place-based investing? How are they similar? How do they overlap, and how are they different potentially?

Rehana Nathoo: Yeah, it's an important place to start. and so I'll answer both of those. I'll maybe just take a half step back to say, I think broadly both of those tools exist within an ecosystem of values-based investing or mission-related investing, which is a little bit different from MRIs, which we'll I'm sure we can touch on in a moment.

we're not kind with the jargon in this space, although maybe that's the crime of every sort of sub-industry. So when we think about values-based investing as a whole, the idea is that all of the assets that you're working with can be in service to mission, and that there isn't quite the same, idea of mission in one place and then actual financial performance in another.

So that's the umbrella that we're operating within. within that, some of these sub-strategies really lend themselves better to certain asset types than others. So when I think about impact investing, we define that as investments into companies, funds, or organizations that are trying to drive not just financial returns, but then impact returns, sometimes referred to as the double bottom line.

Those types of investments lend themselves better to what we might see in the alternatives, so venture capital, private equity, even private debt to an extent, because you're able to really direct that capital to businesses that are smaller, that are still private. You might have a spot on the board. You might have real opportunity to change, to see that change.

So when we talk about impact investing, we're really focused on the private side of the market. There's a ton, of really compelling strategies on the public side, and we can go there if that's of interest. But then I would say within impact investing, there is this place-based approach, and the place-based approach is basically saying, "We'd like to have our cake and eat it too, but we'd specifically like to do it in the communities that we serve."

For some of our clients, that is literally where the organization is based, but for others, it's actually just organizations of incredible need. We have clients, particularly in the high net worth individual and family space, that care very deeply about communities that they're not located in.

And I'm sure we'll get into this. That brings a ton of both opportunity and complexity when you're not actually rooted in that place. but the place-based piece is really thinking about location as the locus for change, and then all the things that are required to make that happen. All the field building, all the ecosystem building, all the entrepreneur, preparedness.

All the stuff, that you all know well is a very real challenge when you're constrained to place.

Heather Shanahan: That's helpful. let's transition then. How do we get started? James, some real-life examples from you maybe of, clients that you've worked with and things that they've considered

James Ross: I think it's interesting and really great to touch on this upfront. think that where most of the clients that I've worked with have struggled is understanding that it's both. There's a financial return and that measurable social return. For whatever reason, when people start to think about impact investing, they think it's like a light switch.

You're getting one or the other. And there's pros and cons to that, right? I it's heartwarming to see that somebody's willing to give up the financial return and say, "Hey, we're gonna do this because we think it's the right thing to do." But then they're almost certainly setting themselves up for failure in the future when

they look down and they review this in some timeframe, two, three, five years, because ultimately there is an opportunity cost with that money.

It comes from somewhere, right? There's a finite amount of dollars. The way that we've primarily seen this play out, with my clients and community foundations has been on the debt side, right? If you think of an investment and we just strip this back to its basics, Stocks and bonds, Debt or equity.

More often than not, the debt side is a little bit, quote-unquote, "easier" to get their head around versus ownership of something that might require some degree of expertise. Unfortunately, are pitfalls that most of my clients have run into where they didn't do the front-end education. We come into the game a little bit late.

Maybe they already have some of this capital deployed. They've already gone through a cycle where money's gone out, and maybe some of it hasn't come back, a lot of it hasn't come back, it colors their experience in a way because they didn't have that foundation in the right spot. that can be a little bit challenging because if somebody has a bad first experience at almost anything, it's really hard to, use the analogy, get back on the horse.

And then we get involved and we try and educate folks and sometimes we're successful and sometimes we're not

Heather Shanahan: Rehana, what would you add to that?

Rehana Nathoo: I think that's exactly right. Y- one of the conversations that has evolved in this space, particularly in the last sort of 10 to 12 years, is we used to talk about it as if there wasn't enough viable pipeline. There couldn't possibly be enough investment opportunities that could deliver both.

I would actually argue that has changed. The real missing piece is exactly what James referenced, which is the decision maker, whether that's an asset owner or an allocator, knowing very clearly what they are targeting. And there's this pre-step of, know thyself, right? There's this pre-step of being very clear about what the expectations are, not just for a particular investment, just the portfolio writ large.

So when we work with clients, we have a very honest conversation about limitations. Do you have liquidity needs? Is there a particular level of risk you simply couldn't take on? For what James said, which is that some of these

organizations exist in perpetuity. If you do make the wrong kind of investment, there is a real risk, a real penalty on what you could do in the future.

We have a lot of conversations around what sounds like negatives, a lot of red lines of what could you possibly not do. another one we see a lot is an organization having expertise in a certain area but wanting to pursue investments in another. So if you are really well-versed in geography X and asset type Y, maybe we don't go all the way to the other end for the first investment, right?

Maybe we play to our strengths a little bit. So I think that the self-discovery from the decision maker perspective is really important because we believe that it is possible to have impact in every single part of the portfolio. Maybe it's not impact investing, but it's absolutely possible in every single sleeve.

But that can only happen if we're very clear about the goals that we're trying to pursue, and then we're very honest about the trade-offs. what we might find in VC is just not gonna be what we find in fixed income, and that would be true impact or not. So weaving those conversations together actually to give us more impact, to give us more opportunity, even though it'll look sort of variable from sleeve to sleeve in your portfolio.

Heather Shanahan: So I'm sure we've all sat at the table with committees and boards that, really wanna explore in this area, and we go through a pretty long process, and we get to the finish line, and they go, "Huh," and don't pull the trigger for whatever reason. So how do you distinguish between curiosity and real readiness for an organization to take this on?

How does that conversation go? And Rehana, that might be a good one for you to start with.

Rehana Nathoo: I would say there's probably three dimensions we're looking for. I think the first is real understanding of what these tools require. And for us, that doesn't mean that the client needs to come in educated. to James' point, we take that job very seriously, the education piece.

And we have to, right? This is a relatively new field. We forget sometimes this has only been around for a little while. So a willingness to learn, because ultimately that is a, bellwether for a willingness to change the way that we think about capital working, within our financial system and our traditional ecosystem. So I think that's one. I think the second one, and this one is hard, is putting real resources to this work. So it needs to be someone's full-time job.

That doesn't have to be an internal person. That can be a partner. But I think I have learned from my roles of the past, but also just being able to work with such a diverse set of clients through Spectrum Impact, that, it has to be someone's job.

You can't do 5% of this person's time and 5% of this person's time. There needs to be real leadership, and that includes resources, and that's not always, always right for all organizations. So I think real resources. And then the third thing that I would say is patience. If this was possible easily, we all probably wouldn't be here.

Impact investing would be all investing. The terminology would be gone. The markets would've solved for it, so we know that that's not true. So just having a really honest sense of how hard it is and how long it takes, is really critical. And it's one of the reasons that we encourage our clients to think about not just integrating impact across the whole portfolio, which is the dream, but starting small and slow.

And for some of our clients, that means a carve-out. That means a small percentage of assets that go into thoughtful and rigorous, but experimental stuff. And I think both can be true. You can be really rigorous and have a really thoughtful process, and have partners that stand up a really thoughtful process, and be catalytic and patient and flexible.

I don't think they're mutually exclusive. So I think there are steps along the way that get folks there, and maybe that's what we encourage is, one tiny step at a time. You don't have to have solved the whole thing. It's incremental.

Heather Shanahan: James, have you found there are any consistent themes in terms of what boards tend to oversimplify?

James Ross: first of all, I thought there was a great point in there. When you say it out loud, it's funny, Because if you were to take any other piece of anyone's portfolio of size, and you were to say, "I'm going to take 5% or 10% and I'm gonna let somebody run this two days a month," our expectation of success would be what?

Zero. Like, we would absolutely expect failure. Like, I'm gonna hire, a fixed income manager that comes in on the second Tuesday of the month and that's it. And that's really how a lot of these organizations start to address it because they're doing it around board schedules and volunteer schedules, which is absolutely noble and puts them in a bad spot,

So I think the other piece, and this ties into the patience, your third topic, we have to recognize that a lot of this is gonna be driven and supported by folks that are part-time. They are volunteers. And having that candid conversation upfront that this is something that is going to have a lag time that probably exceeds a board term, and you have to be willing to invest.

and look, ultimately these are folks that are looking through life through their own personal lens. "I'm gonna be on the board for, two, three-year terms maybe if I re-up, and I may or may not see this through." And does that diminish their enthusiasm to not just do it, but to be educated on the front end?

And I think that can be a real challenge. However, if you say that upfront and you have an honest conversation and let people know where this is going, then you can get that buy-in. But I think that the challenge that some in the industry or some other folks, the way that they address this is they wanna try and fit this square peg into a round hole, which is take something that they know is gonna be wildly complicated, that's going to definitely be the hardest lift that any of these organizations has done, and convince them that they can do it on their existing schedule of monthly board meetings and, you can have a subcommittee that's gonna pick it up and put it down, and then they are surprised in 18 months when maybe they make, nine or 10 small loans and seven of them first payment default and they can't figure out why.

I actually think that's why we index so heavily on strategy. I think what gets missed in this conversation is there is such a desire, and it's a good thing, to deploy. let's deploy quickly, let's find the right deal. what I have found over the course of my career is that it's the strategy that protects you in both cases, in the upturns and the downswings, like both are true.

Rehana Nathoo: So,if there is leadership turnover, if the board changes, if your principal changes, if the market conditions change, you've created a bit of a roadmap to say, " This is how we should be doing and this is where we are. Are we okay?" 'Cause some of the transaction-to-transaction orientation allows a level of panic, actually, when things start to go awry.

It doesn't allow you to lift up and look at the entire portfolio or the whole strategy. One of the best examples of this is, in the indexing towards impact investments. Many of our foundation clients forget that grants are their superpower. They are subject matter experts in a particular area, sector, geography.

Those can live together. You can create a field building opportunity with grants and then a follow-on investment for scale. You can structure them in the same transaction. You can use grants for a while and then transition. There is this silo that we create artificially that's not necessary.

and I wonder if it's because there is such a concern when we put investment in it that we forget that it's still a tool. It's still in service of the same goals. All of the tools in your toolbox should be working together. You don't need to do A and then B is all the way over here. So that, strategy for us just creates a little bit of a stronger ecosystem, to lift up and stop worrying about one individual transaction or market conditions that you can't control or whatever the case may be.

Heather Shanahan: you've talked a little bit about geography, caring about X but being focused on Y, for instance. how does limiting your universe to a single region change how you define a credible investment opportunity?

Rehana Nathoo: it adds such a level of complexity that grant-making doesn't have to deal with. So after advocating for both, I think place-based really creates some complexity because without actual pipeline of investable opportunities, you really are constrained by what should be an impact investment.

And particularly when we think about developing that pipeline, this is true, of any investment strategy impact or not, the tighter and narrower you are, the smaller that set is, the smaller the set of opportunities. So that's one, that any concentration risk is very real on the investment side. But then the other piece of it is you're likely working in a community where there is ecosystem loss.

And what I mean by that is you probably don't have a very strong local market. There's probably a lot of work to do to build local solutions. There's probably a lot of work to do to build a local capital base. that's why you're there. And so it's a little bit counterintuitive that you're really focused on a place, but you're focused on the place because it has great need.

So Given that, one of the conversations we have with our clients is, I'd say it's two things. The first thing is my earlier point about grants seeding the field before investments can really be successful. This has to be an and strategy. You have to use philanthropic capital to build up the enabling ecosystem to eventually invest in it.

It has to be both together. I think that gets lost sometimes 'cause we're so excited to deploy impact investments. The other piece, though, is really encouraging our clients to not reinvent the wheel. There are very strong strategies that have worked in other place-based, investment approaches all over the country, divided by really thoughtful criteria, rural versus urban, this industry versus this industry.

There's a lot of really great work that's been done to build these investments. If you happen to be working in a community that has similar characteristics to another, lift it out. Lift it out and bring it to your community. You don't have to start from scratch. You don't have to completely reinvent the wheel.

particularly for place-based investing, replication is one of the biggest strengths that we have that doesn't always work in other parts of the portfolio. And that can sometimes be a hard sell because some of our clients wanna do something new and exciting and untested. So having the conversation around what capital goes towards the new untested things and then where do we, for lack of a better word, rinse and repeat and maybe celebrate that as opposed to, "Ugh, someone else is already doing it."

I actually think that's a strength here, not a risk.

Heather Shanahan: James, have you found, any situations where that single region focus has created distraction of, we're looking in our backyard and, oh, we should go in this direction because it's in our backyard, but wow, wildly inappropriate?

James Ross: first of all, I think they're absolutely right. there's a pro and con to, especially in the community foundation world where all of these folks have local cohorts, regional cohorts that they lean on, and man, that is absolutely an idea center which is awesome.

Heather Shanahan: With the big asterisk, no different than in our industry, right?

James Ross: You get a cohort of advisors together and it can turn into an echo chamber. And what did or didn't work usually didn't, will then get replicated over and over And especially when you think about how, for whatever reason in this space, a lot of folks wanna always look upmarket.

It doesn't matter how big they are. It's "I'm gonna look at my next biggest peer and what are they doing?" And that next biggest peer is looking at their next biggest peer. And so sometimes what happens is people cycle bad ideas down,

Heather Shanahan: where really good ideas can come from anywhere. And having resources that you can step outside of your own local cohort and go, "Hey, this worked in Wichita, it might work here.

James Ross: This worked in, rural Alabama, it might work in rural Indiana." those are conversations that you respect those folks would never have. And as far as bad ideas, I've seen all of them. I've had committees that wanted to buy hotels. I've had committees that wanted to buy the local power plant.

none of which they had any expertise in. and you know, all of these are based where there is a need, and again, to everyone's credit, they're trying to leverage the capital they have. it's an important point worth mentioning or re-mentioning, these do not have to be separate items.

tying grants and impact investing, using grants to seed the ground for impact investing. I don't know that almost anyone thinks of it that way. They tend to wanna bifurcate these for whatever reason. And again, you just think of when you watch these play out in real time and there's a lack of success, maybe let's not keep doing it that way.

Heather Shanahan: So Rehana, when a community foundation board, for example, decides it wants to look at an affordable housing project, we'll just throw that out there, how do we stop them from comparing its liquidity and returns to something like an index fund? How do we educate them about the evaluation process and what our metrics for success look like?

Rehana Nathoo: It's so funny. I think about this all the time, how much of our job is actually investment education and not impact investment education. And I don't mean for that to sound pedantic, but it's just a reminder to all of us that we all start from the same place. and so we try and do that. We come in and we say, " Okay, you're really interested in affordable housing.

Do you have, timing flexibility? Do you have loss flexibility? Are you okay with the fact that maybe if we go into this particular fund, 80% of the deals will underperform, 20% will overperform? Maybe your overall performance will be great, but on a net basis, the number of deals that succeeded is not positive.

How do you feel about that?" We'll run these simulations to say "Let's imagine worst case scenario and best case scenario." What usually comes out of that conversation is the values, and so that's the way that we sort of reverse engineer a conversation around values, is we start with, "Okay, you wanna do affordable housing."

Let's paint all of the affordable housing pictures." And what comes out in the wash is often a lot of consensus on, "Oh, we don't like that. We don't actually wanna do anything that's in 25% AMI. We actually wanna serve people who are living, at the 50% level," or, "We wanna serve a community and we wanna do mixed housing."

So Simulating best and worst case scenario within the particular investment has been really successful for us because it just makes it all concrete as opposed to all sort of jargon and technical. the other thing that I would say is, and this has been referenced a few times,

James made a point around expertise. if we had a client that wants to do affordable housing and they're, really good at seed investments into entrepreneurs, we would come back and say, "Why do you wanna do affordable housing? Do you wanna do affordable housing because you're looking for diversification and you want it to be highly impactful?"

Okay, that's a very different strategy. That's probably an affordable housing fund. That might actually be a listed product. We can do that in another way. are you doing it because it actually serves your mission? Then let's talk about what your role is in an affordable housing deal." It may not actually be an off-taker.

It may not be subordinated debt. It might actually be a grant that brings community together to do planning or to do a feasibility study or an environmental study. So I actually love that you led with that example because as you sort of suggested, it's really popular. So starting with the example and then really playing back what would this look like for you?

that is where we get a really interesting conversation around expectations, which then actually sidesteps in a way the conversation around benchmarks and performance. 'Cause I think our clients index on that. They index on performance, they index on benchmarks because that's the vernacular that we have all been taught to analyze and evaluate success and not success.

We actually try and step all the way aside from that and say, "Okay, let's actually look at the parameters of what this deal would be," and do a bit of a shortcut

Heather Shanahan: what do you find that boards and investment committees most need to understand to do this well? What do those conversations in the room look like? James, I'll start with you

James Ross: I'll be honest, usually when I have these conversations and I've had probably 70 of these at the board level, it almost sounds like I'm talking them out of it because you're having a direct conversation about, the work that has to go in. Again, I'm just upfront, it's gonna be the most work, hardest piece of the portfolio by a factor, like not even close. And so you want them to know on the front end that they're gonna have to put in the work, and usually that work is a lot of education to think about the world as specifically investing in a way that they just haven't in the past, And more often than not, we see this conversation come up and, we've talked about different vehicles, but we've seen this conversation come up where these organizations don't have any alts, they don't have any privates,

So it's not like you're talking about somebody that has an understanding of a J-curve or they have an understanding of these long time horizons or lockups or illiquidity premiums or any of these things. They just don't have them. They know that they've gotten to a point where they've now stepped into a community leadership role, so their assets have grown to a point where they're the nexus in their community.

They're bringing together stakeholders and they think this is the next right thing. And there's nothing wrong with that, but they don't have even that base level, understanding of some of these components. So, our goal is to lay out an education platform for them where, again, candidly, you have to educate folks just to where they can even understand the questions. So there's a base level of education that we would wanna do just so that they can make an informed decision. too many people get to the do we wanna do it or not before they even really know what they're committing to. and that can have pros and cons, usually cons. for us it's getting people to understand the work they're gonna have to do, getting them to understand the resources, whether it's internal or external that they're gonna have to commit, and just starting that long process of chipping away at the education gap, which is what all of this breaks down to.

We're just trying to close an education gap

Heather Shanahan: James, you talk about lack of understanding sometimes on the board or the committee. Rehana, what we also bump into though sometimes is distrust within the community, regarding capital systems. So what does that look like? How do we navigate that? what can you share there?

Rehana Nathoo: this is one of the areas that place-based investing can really get it right. End users are rarely involved in capital allocation decisions. They're just not in the room, on a macro scale. That doesn't have to be true on the place-based side, and one of the evolutions in the place-based space that I think has been very interesting is community-led, community driven decision-making.

So what that looks like for some of the engagements we've worked on is community members sitting on the investment committee. So let's say that there's a community foundation there. They've gone through a really rigorous, thoughtful process. They've landed on doing some impact investing in some way or another, and they put together an IC.

that's specifically focused on these deals because it's a different skill set, You want folks that understand the mission, but you also need folks that understand the actual vehicles. There are seats on some of these ICs for community members. There is a solicitation process that is community-led and community-driven.

Some of our clients are very clear in the types of deals they're looking for. It's ultimate transparency. They push that information out into the community, and then the community responds with actual potential opportunities that fit the criteria. if the voice is not there and the transparency is not there, we're gonna repeat the cycle of power and capital concentrated at the top, and potentially solutions not meeting where communities are.

there is a ton of opportunity to build in voice. I'm not advocating for completely turning over the whole process to the community, and I think sometimes that gets lost in translation. But there is absolutely a role, for the community experience to be part of selection, decision-making, and then evaluation.

some of our clients are afraid of opening the aperture in case what comes back is it didn't work. But I would argue if you had a direct line to it didn't work, that's a capital preservation strategy. Great. Let's not do that anymore. If it's not having the goals that we want, we can pivot. And in some of the deals we're talking about on the place-based side, they don't have to be really long tenors.

They can actually be short and thoughtful. So there are pivot opportunities, perhaps a reframing of thinking about the community as an asset and not necessarily just a judgment of whether we're doing the right thing.

James Ross: I would just agree 100%, I think Reana touched on something. People are afraid of what they don't understand, and if you're on the outside of this black box and you can't see what's going on on the inside, the output really doesn't matter, i- in light of actual information, the public and the community members will fill in the blanks themselves, and usually it's in a non-flattering way.

That transparency works both ways too, right? It prevents boards and committees from chasing vanity projects that may or may not really fit in the vein of what the organization wants, and they wouldn't see that because they're so close to each other. Whereas when you pull in somebody that is, quote-unquote, "from the outside" of a group, a handful of committee seats that are community members, you're gonna get that feedback really quick.

and this was let's say, a side message in what Reana said, missing is okay. and I don't think that enough organizations go into it thinking that way, they assume that it needs to be a 100% success rate. But again, let's use a public investment, mutual fund or an ETF on the equity side.

If you were to strip that out at the end of the year, not all of those stocks are up for the year. You know what I mean? And nobody would freak out about that. if you look down at your S&P 500 index fund and you look down last year and you're like, "Wait, only 10 of the companies were positive," but I was still positive,

I was still positive for the year. So what's more important? That you have 100% success rate or your outcome is what you wanted it to be? and I think that people get those confused,

Rehana Nathoo: I would just add too that I think that we just need to reconcile, and it's difficult for those of us that come from the investment side. But it's important to just reconcile that the way that we have built the capital markets were not and are not democratized, and that's not a judgment on them.

we just need to own that, It's meant to consolidate and concentrate resources, power, and decision-making. So if that's true, then the communities that we work in, we're working in them because they don't have access to that. Once again, if they did, we all wouldn't be here. So just creating space to account for

that distrust and mistrust and that it's earned, and then starting from there and saying, "And yet we can educate and activate and inform and use these tools for good."

being able to do both, sometimes organizations are uncomfortable with, but what I've seen in our work is that if you acknowledge that, you actually have a far better chance of then turning the whole ship around. and acknowledging it doesn't mean we don't use it. We just acknowledge it.

We acknowledge that's how it started and that mistrust is probably earned. Fine. So now where do we go from here? I think there's sometimes a missing piece 'cause it's uncomfortable. but doing it, gets you closer to the outcomes that you want, to James' point.

Heather Shanahan: all right. let's close with some practical takeaways here. Rehana, what would you say is, the first honest conversation an impact-curious board should have? Where do we start?

Rehana Nathoo: for us it is the know thyself piece. So there needs to be an honest conversation about your limitations. Start there. It sounds negative, but it's actually the most empowering thing you can do. Just be clear about what can't happen, and that could be technical, it could be risk return, liquidity, spend needs, and it could be values.

What are we not willing to do? Once you start there, I do believe that there are opportunities across your whole portfolio. So think about the goal being all of it, but then start with something small, which sounds a little counterintuitive, but I think it's important to think about an incremental step in service of a broad vision.

So start with what you can't do, try and shoot for the stars in terms of what it might look like, but know that it'll be small, tiny bets where you'll learn a lot about what it takes to do this work in service of true portfolio alignment, which is attainable, not quickly, but it is attainable

Heather Shanahan: James, what would you say one thing to stop doing, and one practice that defines serious impact allocators?

James Ross: the one thing to stop doing is, trying to go at all of this alone. I think a lot of times a lot of organizations come into this with a preconceived notion on what they're going to go with and where they're going to go and what

it should look like, and they kind of have the deal set before, to Rehana's point, they've had the know thyself conversation.

And even inside of that vein, it's worth mentioning, the way that we do things like risk tolerance surveys is they're anonymous. We do them digitally so that it's not three loud voices in the room, right? we forget as, quote-unquote, "outsiders" to these organizations, all of these folks in the room are peers with each other.

A lot of them do business together with each other, and it's very challenging in a group environment for somebody to raise their hand and say, "I don't understand that," or, "I don't know." So even the know thyself piece, in a perfect world, it seems like everyone's sitting around a round table and there's a lot of sharing of feelings, it really does need to be somewhat anonymous so that you or I or, some other person can tease through the data and go, "Here's what they actually think."

Because people will say things in public that does not match up with how they actually believe, and a lot of organizations get themselves in trouble doing that. They have what are perceived to be a handful of experts, two, three, four finance folks on the board or committee. They tend to run the ship.

The other 12 people go along with it, and then at the end when they do the after action, everybody's upset with the result because they really weren't honest with where they were at to start. So, number one is have that real honest conversation in a way that captures actual risk tolerance, not what they're willing to say in public.

Rehana Nathoo: the difficulty is trying to just land on one thing to stop. but I think the thing at the top of my list, in addition to what James said, which I totally agree, the thing on top-- of my list is stop thinking that, having impact is one size fits all.

You can have it in the way that you want it.

There will be some real trade-offs that are important to talk about, impact versus returns versus time versus tolerance versus risk. But stop thinking that it just has to be one, flavor, because we have learned that's just not the case.

Heather Shanahan: Great conversation. complicated topic, and so certainly appreciate the expertise that both of you bring to the table, and thank you so much for joining us today

Rehana Nathoo: Thank you. Thanks for

having

me

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