CULTURAL CAPITAL: The state of museums and their investing

CREATIVITY
INVESTMENT
IMPACT

Upstart Co-Lab

Upstart Co-Lab connects capital with creative people who make a profit and make a difference. Since 2016, Upstart Co-Lab has framed the creative economy as an impact investing priority, garnered international attention for impact investing in the creative economy, and directly connected more than $18 million of impact capital with creative economy opportunities. Upstart's research has shown that the creative economy offers investors impact value, commercial viability, and innovative edge; correlates with diversity, equity, inclusion; and is relevant in both rural and urban markets. Through its Cultural Institution Study Group, Upstart supports 25 cultural institutions with $6 billion in endowment assets to explore values-aligned and mission-related investing. Visit UpstartCo-Lab.org.

Association of Art Museum Directors

Founded in 1916, the Association of Art Museum Directors (AAMD) represents 225 art museums in the United States, Canada, and Mexico. AAMD advances the profession by cultivating leadership capabilities of directors, advocating for the field, and fostering excellence in art museums. An agile, issues-driven organization, AAMD has three desired outcomes: engagement, leadership, and shared learning. Further information about AAMD's professional practice guidelines and position papers is available at AAMD.org.

BLACK TRUSTEE ALLIANCE FOR ART MUSEUMS

The mission of the Black Trustee Alliance for Art Museums (BTA) is to increase the inclusion of Black perspectives and narratives in North American art museums to make our institutions more equitable and excellent spaces of cultural engagement. BTA was founded on the belief that building a cohesive group of Black trustees that can share insights and problem solve collaboratively would enable them to be more effective not only as trustees but also as resources for the broader field of Black artists, curators, museum leadership, and staff. Launched as a three-year initiative, BTA is working to increase the inclusion of Black perspectives and narratives in art museums through research, community, and communication. Visit BlackTrusteeAlliance.org.

PREFACE

Recently, museums have been put under increased scrutiny for both the company they keep and the public declarations they make. Gifts from major donors whose wealth is associated with opioids, fossil fuels, weapons, private prisons, and authoritarian regimes have led to protests targeting museums receiving donations seen by many to be tainted. Following the Black Lives Matter protests, museums released strong public statements regarding their commitment to the values of diversity, equity, and inclusion — but artists and workers question whether these commitments have been fulfilled.

One way that museums can manage their reputations and follow through on their declarations is by aligning the vast amounts of capital controlled through their endowments with their values and mission. Other investors already do this: one-third of assets under professional management in the U.S., approximately $17.1 trillion, is invested following impact investing strategies.[1] Impact investing has entered the mainstream of investment practice, and many endowed institutions, including universities and foundations, have fully embraced it. The growth of impact investing reflects the fact that companies that consider their workers, their community, and the planet do not sacrifice financial return — and in many cases they beat the market in the long run.

Unfortunately, to date, independent museums of art and design have not yet effectively mobilized their $31 billion[2] in combined endowments in alignment with their values and in service of their mission. To fully manifest their role as stewards of culture and community, museums — guided by their Boards and Leadership Teams — must make this change.

Upstart Co-Lab, the Association of Art Museum Directors, and the Black Trustee Alliance for Art Museums have completed a first-of-its-kind survey of U.S. museums of art and design to establish their current level of impact investing activity and profile first-mover museums exploring the integration of values, mission, and investment. This report shares the findings of the survey and explores insights from the interviews with respondents.

> ***Museums will help chart a path to a more equitable future not only through the artists they present and the audiences they engage, but by what they invest in and who they hire to manage those investments. It's possible to make investments count for the mission, as well as the bottom line.***
>
> Darren Walker, trustee, National Gallery of Art and president, Ford Foundation

EXECUTIVE SUMMARY

This research set out to gauge how museums are integrating their values and mission into their endowment investment strategy. Sixty-one independent museums of art and design in the U.S., representing nearly $10 billion of endowment assets, or 32% of the total endowment assets of their peer group, responded to this survey.

The survey found:

- Most museums are not fully mobilizing their endowment in service of their values and mission. While 80% of their Investment Committees have discussed impact investment, only one-third of respondents have turned those conversations into action.
- Barriers to action include persistent questions which are easily resolved: the ability to achieve targeted financial returns; the ability to measure impact; and the availability of quality impact investing products across asset classes.
- Ninety percent of respondents cited values alignment as the most significant driver of their impact investing conversation. Approximately 35% percent report that a portion of their endowment portfolio is currently managed by BIPOC and/or women fund managers.
- Investment Committees and Leadership Teams are driving the conversation. Nearly half of respondents report having some impact investing expertise on the Investment Committee of their Board. Only 27% of the respondents indicated that their professional Investment Advisors are driving the impact investing conversation.
- Other important stakeholders are lagging behind. Only 31% of respondents said that their Boards were driving the conversation and, unlike on the issue of tainted donations where they have been visible and vocal, Artists and the Public are not engaged on the topic of aligning museum endowments with values and mission. Donors themselves are similarly unengaged.

The goal of this research is to help museums get these conversations started and to take action on impact investing. Everyone committed to the future of America's art museums can play a part in directing museum endowments towards impact investing, including the Board, Leadership Team, Staff, Donors and Artists.

This report explores practical ways to let institutional values guide the impact investment strategy, build champions across the museum ecosystem, and foster incremental actions that create a real difference.

WHAT IS IMPACT INVESTING?

Impact investing is defined as investing with the intent to generate positive, measurable social or environmental impact alongside financial return.[3]

While the term impact investing was coined in 2007,[4] investors have been signaling their principles and beliefs for generations, beginning with the Quakers who refused to allow their money to support the slave trade. More recently, students protested university endowment investments in South Africa as part of the anti-apartheid movement of the 1980s; and in the 1990s, foundations began to realize that their grants and programs were often designed to undo the damage funded by their endowment investments in factory farms,[5] tobacco companies[6] and fossil fuels.[7]

Like all nonprofit institutions, museums can use both their values and their mission to guide an impact investing strategy that meets return on investment goals.

Values-Aligned Investing: A nonprofit organization's values statement can inform its investment choices. Many impact investors find their values of sustainability, community and diversity/equity/inclusion (DEI) expressed in Environmental, Social and Governance (ESG) factors, which are commonly used by impact investment fund managers. These non-financial considerations promote sustainable, fair, and effective practices while mitigating related risks.

Mission-Related Investing: A nonprofit's mission and purpose can be advanced through its investment choices. The commitment to the well-being of a place-based community, a focus on education, or work in the health sector can be manifested in an endowment's investment strategy. Risk-adjusted, market-rate opportunities that generate positive, measurable social or environmental impact exist across asset classes and investment styles.

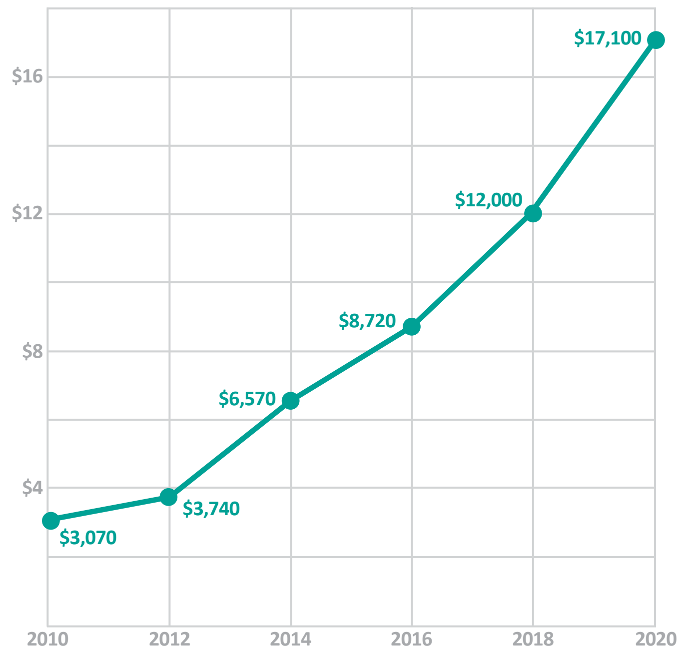
For the purposes of this survey and report, "impact investing" is used as the umbrella term that includes values-aligned and mission-related investing strategies, and related terms such as ESG and socially-responsible, sustainable, and ethical investing. For more information, please consult the Glossary.

IMPACT INVESTING: GROWING AND HERE TO STAY

$17.1 trillion, or one-third of assets under professional management in the United States, are invested following sustainable and impact investing strategies. This reflects a 42% increase over 2018 and a four-fold increase since 2012—the year that slow but steady growth markedly accelerated. Of the capital currently committed to impact investing, $6.2 trillion belongs to institutional investors, including public funds, insurance companies, educational institutions, labor unions, and foundations, a 10% increase from 2018.[8] Globally, sustainable assets under management exceeded $35 trillion as of 2020.[9]

U.S. ASSETS UNDER MANAGEMENT USING SUSTAINABLE INVESTING STRATEGIES, 2010–2020 (IN BILLIONS)

SOURCE: US SIF



Top firms are responding to client demand for impact investing, further validating this investment approach. The largest names in the financial industry — Apollo Global Management, Bain Capital, Bank of America, BlackRock, Blackstone, Goldman Sachs, Morgan Stanley, and UBS — all have dedicated impact investing groups. JPMorgan Chase made sustainability a global research theme in 2020, explaining: “Sustainability will be one of the defining movements of the decade.”[10]

Impact Investing at Universities and Foundations

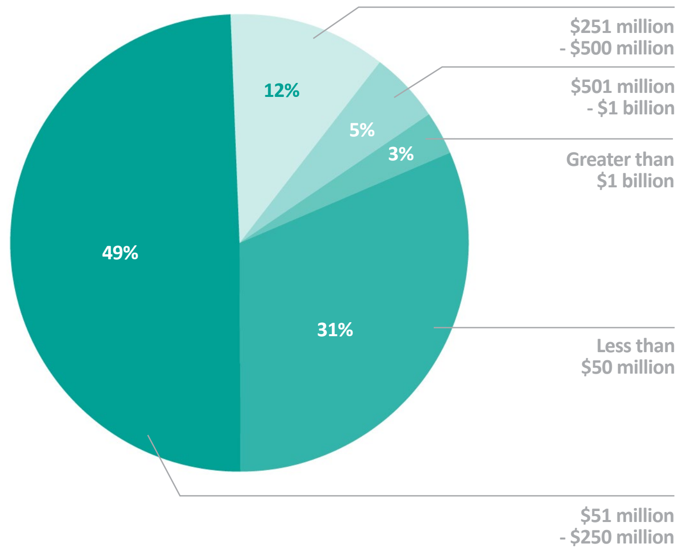
For the past generation, universities and foundations have been integrating their values and missions into their endowment management. $378 billion of educational institutions’ assets and $97 billion of foundations’ assets are values-aligned, an increase of 19% and 43%, respectively, from 2018.[11] Top-tier universities and foundations have embraced this approach: Harvard University announced in 2020 that it would move its endowment to net-zero greenhouse gas emissions by 2050[12]; in 2017, the Ford Foundation committed to aligning $1 billion of its endowment with mission.[13]

MUSEUMS AND IMPACT INVESTING

Sixty-one independent museums of art and design in the U.S., representing nearly $10 billion of endowment assets or 32% of the total endowment assets of their peer group, responded to this survey.

Eighty percent of survey respondents have endowments of $250 million or less. Of the 7 museums with endowments over $1 billion that were eligible to participate, Crystal Bridges Museum of American Art and the National Gallery of Art responded this survey.

RESPONDENTS BY ENDOWMENT SIZE



STRONG LEADERSHIP AND CLEAR PRIORITIES DRIVE ACTION AT THE NATIONAL GALLERY OF ART

Diversity — of the Leadership Team, Board, Investment Committee and audience — became a top strategic priority of the National Gallery of Art in Washington, DC with the arrival of Director Kaywin Feldman in 2019. Once a gender- and racially-diverse Leadership Team and Board were in place, the conversation moved to the investment portfolio beginning in 2020.

The Leadership Team and Board began with a review of portfolio manager diversity. Seven months later, the Board approved a statement on diversity in the investment portfolio, defining a diverse manager as one with at least 33% of their leadership being women or people of color (with leadership defined as owners, management team, investment team, and/or top five earners). The commitment to diverse managers begins with a focus on manager selection (i.e. including diverse managers in every manager search process and as a consideration in the research process) and manager monitoring.

"We are intentionally not considering this a mandate or a separate portfolio allocation but rather as an integrated part of our investment process," said Christine Kelleher, Chief Investment Officer. "The most important part of the statement is that we believe that improving diversity will improve the returns of the portfolio. End point." As of June 30, 2021, 40% of the endowment portfolio meets the diverse manager criteria.

The museum is now developing a sustainability policy and expects to follow a similar path of integrating sustainability into its investment approach. "Sustainability issues are material. All else being equal, a risk management process that takes sustainability into consideration is going to do better than one that doesn't," says Kelleher.

Following are key observations on the state of museums and their investments based on the survey responses.

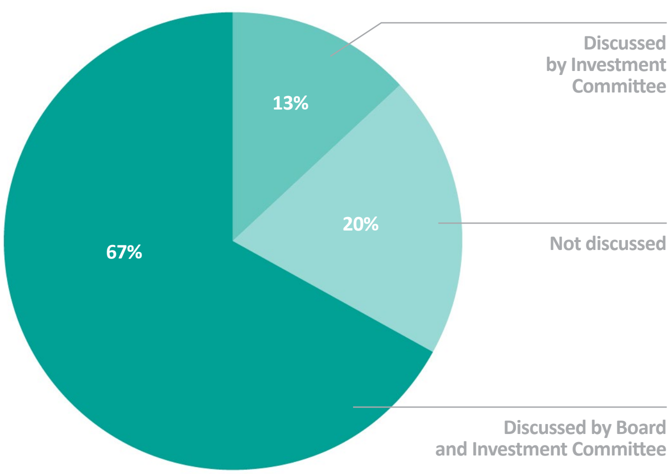
Under Discussion

Impact investing is a topic of interest for the majority of respondents, with 80% of Boards or Investment Committees having discussed it. Only four respondents indicated that their Board or Investment Committee were not interested in exploring impact investing further at this time.

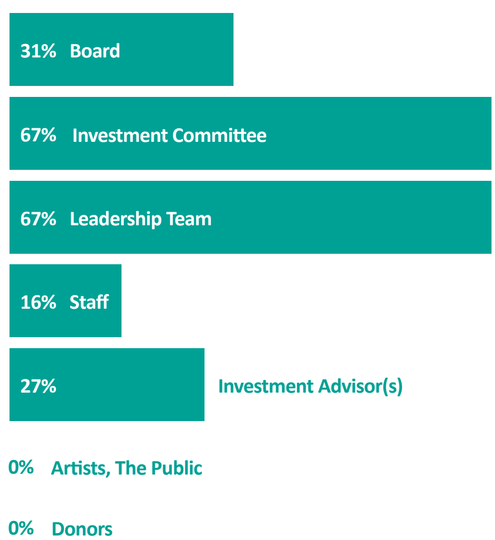
Unlike the issue of tainted donations — where Artists and the Public have played an active and influential role — impact investing is primarily an internally-driven conversation. The Investment Committee and the Leadership Team are each advancing the discussion for 67% of respondents. The Board drives the conversation for 31% of respondents. Museum Staff play a role for only 16% of respondents. Surprisingly, Donors are not reported to be driving the conversation at all.

Most notably, museums report their Investment Advisors are not driving this conversation. Only 27% of respondents indicate that the expert professionals hired to guide museums on their endowment management are leading the impact investing discussion, far below the Investment Committee and Leadership Team, and below the Board as a whole.

DISCUSSED BY BOARD AND/OR INVESTMENT COMMITTEE



WHO IS DRIVING THE CONVERSATION?



IMPACT INVESTING REFLECTS COMMUNITY COMMITMENT AT THE BROOKLYN MUSEUM

"Impact investing is connected to a larger understanding of how we're supporting our local communities and whether our financial practices as a whole are in line with our mission and values," said Anne Pasternak, the Shelley White and Leon Levy Director of the Brooklyn Museum in New York City.

The museum deliberately hires and highlights local vendors and works to hire from local communities. For example, local makers sell their wares at the museum's marketplace on weekends and are represented in the shop, as well as the restaurant and cafe. "Our budget is a representation of our economic power, and the health of the museum can have a direct impact on the health of our neighbors," stressed Pasternak. "We strive to have real impact on people's creative and intellectual lives as well as their livelihoods."

Six years into its impact investing journey, the museum is thinking about its mission alignment comprehensively — from its operations to its endowment. Diversity, equity and inclusion criteria were central to the museum's recent selection of a new investment advisor, and values alignment is now a standing agenda item for every Investment Committee meeting.

Actively Aligning Values

Following the bold public statements made in Summer 2020 by most American museums about standing with Black Lives Matter and committing to anti-racist practices, it is not surprising that values alignment is the most significant driver of the impact investing conversation by far, cited by 90% of respondents. In addition to values of diversity, equity and inclusion, museums are also exploring how their role as community anchor institutions and a commitment to environmental sustainability can be reflected through investment strategy.

Other discussion drivers: 55% of respondents cited investment returns as a key topic; 33% noted donor recruitment and retention as a relevant factor; and 27% cited reputational risk management.

FACTORS DRIVING THE CONVERSATION

THE WALTERS ART MUSEUM DEFINES VALUES AND TAKES ACTION

The Walters Art Museum in Baltimore, MD began its impact investing efforts in 2015, in response to its commitment to diversity and inclusion in its new strategic plan. The Board placed over 10% of its endowment with four best-in-class, diverse-owned managers. As of April 2022, approximately 20% of the portfolio is managed by diverse managers, with performance on par with the rest of the portfolio, as expected.

"Ultimately, the inclusion of a truly diverse group of managers will benefit the portfolio. The importance of having people on the Board, and more specifically, the Investment Committee, who are passionate about taking an inclusive approach to maximizing portfolio returns cannot be overstated. This work is so much easier if you begin with a diverse Leadership Team. At The Walters, we are grateful to the members of our Investment Committee, whose leadership has led to world-class long-term investment results," reflected Michelle RhodesBrown, Director of Finance.

Next, in the process of replacing a manager, The Walters began integrating socially-responsible investing (SRI) criteria to evaluate new and current managers. The museum undertook an SRI analysis of its portfolio, followed by a commitment of 2.5% of the portfolio to SRI-screened funds.

With serving and supporting its community core to its mission, in 2021 The Walters allocated $5 million of its endowment to investments that support the vitality of the Baltimore region. Two investments have been made to-date: a loan to ReBUILD Metro, a nonprofit that revitalizes homes and neighborhoods with a focus on affordability, facilitating homeownership, and preventing displacement; and an investment in a venture capital firm funding businesses that will be headquartered in Baltimore.

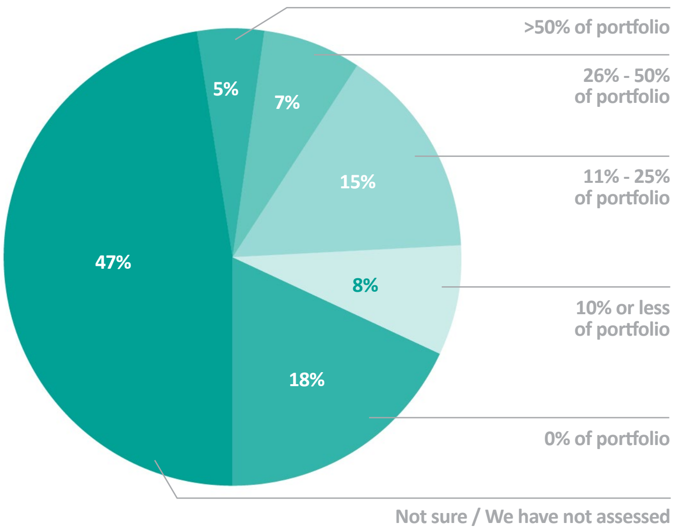
Taking Action

Approximately one-third of respondents have already moved from conversation to action. Approximately 35% report that a portion of their endowment portfolio is currently managed by BIPOC and/or women fund managers. Approximately 31% report that a portion of their endowment portfolio is currently invested in impact investing strategies.

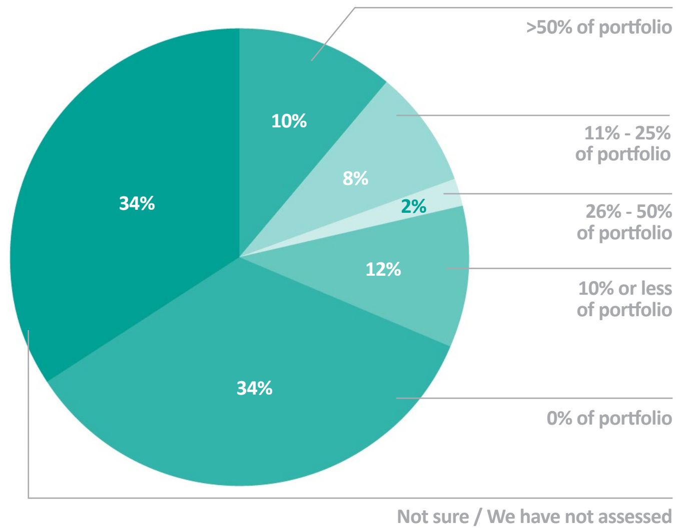
Respondents that are more active in impact investing report that their Board and Leadership Team are pushing the impact investing conversation forward. Interviews confirmed that Board commitment — with Investment Committee leadership — is critical to impact investing activity.

> ***As the nation's art museum located in the heart of Washington, DC, we want to reflect the communities we serve and have a positive impact on the environment in which we operate. To do this, we must align our values and strategic priorities—in this case, diversity and sustainability—in everything we do, including how our long-term capital is invested. Recognizing there is strength in numbers, we are looking to collaborate with our peers to create effective outcomes through the alignment of our values and pursuit of our mission with our long-term capital.***
>
> Kaywin Feldman, director, National Gallery of Art

ENDOWMENT PORTFOLIO MANAGED BY DIVERSE MANAGERS



ENDOWMENT PORTFOLIO MANAGED ACCORDING TO IMPACT INVESTING STRATEGIES



STRATEGY INSPIRES DONORS TO THE CONTEMPORARY ARTS MUSEUM HOUSTON

The Contemporary Arts Museum Houston (CAMH) in Houston, TX began its exploration of impact investing two years ago. “We realized the largest financial decision we make on an annual basis is how to invest our endowment and, typically, there had been very little consideration for where and why. We just started asking if there was a way our investment decisions could reinforce our values more directly,” said Director Hesse McGraw, who joined the museum in January 2020.

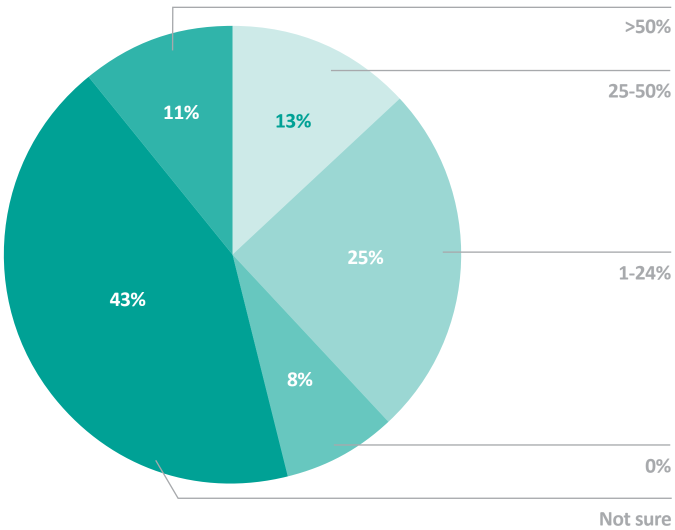
CAMH began by applying an ESG screen to understand their existing portfolio holdings, and is now actively exploring a direct impact investing opportunity: a housing project specifically for artists and museum workers. “That would be a strategic expansion of the activities of the institution that would be both accretive to our mission and beneficial to the overall cultural ecology of the city, while generating ongoing revenue for the museum,” according to McGraw.

Along the way CAMH has found that there is an opportunity to cultivate individual donors around such innovative initiatives, from this housing project to their new resiliency strategy that includes emissions reduction and commissioned artworks that show what’s possible when it comes to sustainability. Said McGraw, “These initiatives have identified immediate, real interest from a donor community that had not previously been engaged with the museum.”

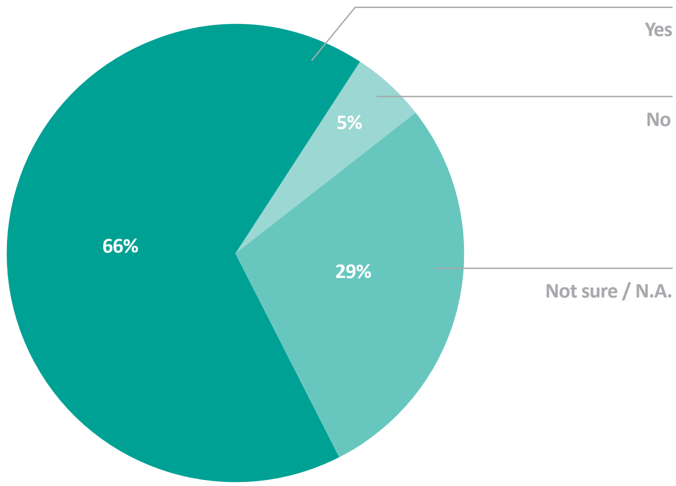
Expertise and Leadership Matter

Museum respondents with Investment Committee members and Investment Advisors who have impact investing expertise report more impact investing activity. Forty-nine percent of respondents report having some impact investing expertise on their Investment Committee.

PERCENTAGE OF INVESTMENT COMMITTEE WITH IMPACT INVESTING EXPERTISE



AT LEAST ONE ADVISOR WITH IMPACT INVESTING EXPERTISE



Ninety percent of respondents report having at least one outside Investment Advisor, and 66% of respondents report having an Investment Advisor with impact investing expertise. Cambridge Associates is serving the most respondents to this survey (12%) and has a sustainable and impact investing team[14] as well as a dedicated diverse manager team.[15] Of the 40 firms named by respondents, only Monticello Associates and Vanguard do not describe having expertise in impact investing on their website.

Still, despite the availability of advisor expertise, only 27% of the respondents indicated that their Investment Advisors are driving the impact investing conversation. Notably, expertise may vary among the individual advisors within a firm — or reside in a dedicated impact investing team — resulting in a gap between a firm's capacity and the capacity of individual advisors.

> ***Impact investing is connected to a larger understanding of how we're supporting our local communities and whether our financial practices as a whole are in line with our mission and values.***
>
> Anne Pasternak, director, Brooklyn Museum

THE TOLEDO MUSEUM OF ART STARTS WITH EDUCATION AND ASSESSMENT

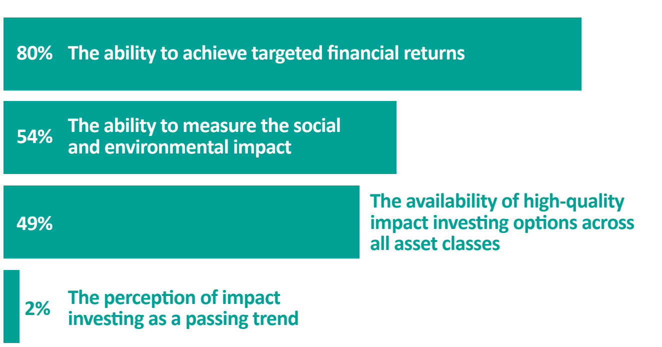
The Toledo Museum of Art in Toledo, OH began its exploration of impact investing a year ago by asking Callan, its investment advisor, to give an educational presentation on environmental, social and governance (ESG) practices to the Investment Review Committee. Callan also conducted an ESG and diversity, equity and inclusion (DEI) assessment of the museum's existing managers which revealed meaningful alignment with ESG and DEI principles. The Committee is continuing the conversation of how the museum may align its investment strategy more fully with its values.

"We think it is important to consider ESG investing as we move forward with our strategic commitment to deeper community engagement," said Patty O'Toole, CFO. "The Investment Review Committee will help define what this means for our museum, and then share that with the full Board of Directors, who must approve our investment policies. Education of and discussion with the Board will be an important component of this process."

BARRIERS REMAIN

Despite the promise of these early efforts shared by the survey's 61 respondents, there are still questions holding back these museums from a larger commitment to impact investing. These are the same questions and concerns that universities, foundations and other institutional investors have previously raised, and which have been answered resoundingly by the impact investing sector. All but one: promisingly, respondents reported that the perception of impact investing as a passing trend was a question for only 2% of Boards and 10% of Investment Committees.

BOARD QUESTIONS & CONCERNS ABOUT IMPACT INVESTING



INVESTMENT COMMITTEE QUESTIONS & CONCERNS ABOUT IMPACT INVESTING

Financial Return

Despite significant evidence that impact investing strategies do not inherently sacrifice financial performance, the ability to achieve targeted financial returns remains the top concern of respondents' Boards and Investment Committees, and the primary barrier to moving forward with impact investing. (See *Asked and Answered* for facts about impact investing and financial performance.)

Some boards focus on financial return alone; our approach is about what is best for the institution in the long term.

Lial Jones, director, Crocker Art Museum

Asked And Answered: Impact Investing Does Not Sacrifice Financial Return

Often the first question asked about impact investing is whether investors sacrifice financial return when incorporating social and environmental concerns into their investment considerations.

The answer is no.

There is a preponderance of evidence demonstrating that impact investment can actually outperform conventional investment strategies, and does not inherently sacrifice financial return. According to Managing Director Tom Mitchell of Cambridge Associates, "There are scores of meta-studies through the last decade, none of which indicate that investing in a manner that integrates ESG costs you performance. Rather, ESG has been additive to performance, as it enhances risk management. And outperformance is possible with active portfolio management."[16]

Morgan Stanley's study of the performance of nearly 11,000 sustainable mutual funds from 2004 to 2018 concluded that "there is no financial trade-off in the returns of sustainable funds compared to traditional funds, and they demonstrate lower downside risk."[17]

In Sacrifice Nothing*, a 2019 report summarizing a review of 2,200 studies assessing the connection between ESG criteria and investment performance in multiple asset classes, advisory firm Cornerstone Capital concluded that "the results of these studies have consistently confirmed that social screens do not compromise investment performance."*[18] *Paying attention to workers, the community, and the environment helps manage material non-financial risks that affect a company's bottom line and an investor's return.*

This conclusion still holds, as ESG and SRI funds exceeded their mainstream benchmarks in 2020 and 2021. According to Morningstar, "On the whole, sustainable funds outperformed their peers in 2021, but by a narrower margin than in previous years," as they tend to hold relatively more growth stocks and fewer traditional energy stocks.[19] *Fixed-income funds outperformed their peers with more downside protection in 2020, and performed in line with their benchmarks in 2021.*[20]

All ESG strategies are seeking competitive investment returns regardless of their approach. On average, ESG stock portfolios performed better relative to the funds in their peer group categories over the 5-year period ending at the end of 2021. Growth stocks have underperformed due to inflation in 2022, so ESG stock portfolios have performed worse than their peers due to their growth bias. This is an important reminder that ESG funds won't outperform under every single market environment, but over time a well-diversified ESG portfolio will perform in line with the market.

For more information, see The Guide: what cultural institutions need to know about investing for values and mission, published in 2020.

Impact Measurement

The ability to measure impact was reported as a concern of 54% of respondents' Boards and 51% of respondents' Investment Committees. Some respondents suggest that the lack of quality impact measurement is holding them back from launching impact investing strategies. One respondent commented, "We want a genuine commitment, not just optics."

But it should be noted that respondents active in impact investing report their Board and Investment Committee are focused on measuring social and environmental impact as well. This suggests that while active respondents take their impact commitment seriously and care about measurement, they do not allow this consideration to delay adoption of an impact investment strategy.

Impact Investment Across Asset Classes

The availability of quality impact investing products across asset classes was cited as a question by 49% of respondents' Boards and 61% of their Investment Committees. While 25 years ago this was a legitimate concern, the type and number of impact investing products have expanded significantly, with ample offerings now available in all major asset classes. The proliferation of offerings across asset classes is so robust that US SIF reports product growth in private equity, venture capital, property funds, REITS and hedge funds in its bi-annual sizing of the impact investment market.

HOW TO GET STARTED

Respondents to this survey represent a spectrum of impact investing activity, from curious to exploring to fully engaged. The most common ways to get started — as well as key elements for moving the conversation forward and taking action — are described below.

> ***I think it is incumbent upon us as cultural institutions to model new possibilities for society, and to do that in a way that is both responsible and aspirational.***
>
> Hesse McGraw, director,
> Contemporary Art Museum Houston

Engage Champions

Museums that are active in impact investing have a strong commitment from their Board, including the Investment Committee. As with any change management, having champions is critical to start and drive the conversation, and move it to action.

Museums lacking or losing Board champions before achieving impact investing targets reported that their impact investing conversations were discontinued, or not moving from the talk to the walk.

FROM LEARNING TO ACTION AT THE PORTLAND MUSEUM OF ART

Mark Bessire, Director of the Portland Museum of Art in Portland, Maine, initiated conversations about impact investing with the museum Board two years ago. Realizing more information was needed, he brought in Upstart Co-Lab to make a presentation and engaged the help of the museum's investment advisor Fund Evaluation Group (FEG) to lead a learning journey. This preparation — coupled with the addition of several millennials who are deeply committed to values-aligned investing to the Board — has resulted in the museum now taking action.

The Investment Committee recently added an environmental, social and governance (ESG) track to its private equity holdings, is seeking ESG fixed income funds including regional ESG opportunities, and is now discussing an overarching ESG investment policy which may include a targeted portfolio allocation. "If you're at the start of this process, begin with education of yourself and the Board, leaning on third parties to help legitimize this approach," said Bessire. "Data is important, but education should focus on peer institutions' experiences and examples to help your organization imagine a path."

Let Values Guide

Museums that are active in impact investing reported clarity — driven by the Board — regarding their top values-aligned impact investing priorities. Whether a focus on a specific value such as manager diversity, or a broader commitment to ESG practices, these museums started by clearly defining their goals.

Incorporating organizational values into the Investment Policy Statement (IPS) is one of the most common action steps for museums moving forward with impact investing. In keeping with the nearly universal values of diversity, equity and inclusion, this frequently results in adding diverse manager criteria to new manager selection and a commitment to allocating assets to diverse fund managers within the IPS.

CROCKER ART MUSEUM EMBRACES ANCHOR INSTITUTION ROLE

The Crocker Art Museum in Sacramento, CA revisited their investment policy statement two years ago.

"We take our responsibility as an anchor institution in the community very seriously. We talked about the fact that we should be thinking about sustainable investments and that we have an opportunity to put our money where our mouth is. We decided that we would transition 100% of our portfolio into ESG/SRI funds," said CEO Lial Jones.

So far, the museum has moved over 60% of its endowment portfolio into screened funds, and is in the process of incorporating a diverse manager strategy into the museum's investment policy statement. "Some boards focus on financial return alone; our approach is about what is best for the institution in the long term," says Jones.

Commit To Incremental Action

Museums that have tangible progress to report started by taking small steps. These museums did not let the lack of a visible path or a fear of “getting it wrong” stop their commitment — and their first step.

Common examples of initial actions include writing a statement on diversity in the investment portfolio; placing capital with a local Community Development Financial Institution (CDFI) or Black-owned bank; or undertaking an ESG assessment on the existing investment portfolio.

USING ALL ASSETS FOR MISSION AT THE CURRIER MUSEUM OF ART

The Currier Museum of Art’s mission is “focused on art, centered in community, committed to inspire.” The museum achieves its mission through innovative programs serving people in greatest need in their Manchester, NH community, from veterans and immigrants to families of those with substance-abuse disorder. This comprehensive approach to the role an art museum can play in the community has extended to management of the financial assets as well.

Two years ago, Currier Director Alan Chong and the Investment Committee began the process of integrating the museum’s values into its Investment Policy Statement. Over 50% of the endowment is now managed consistent with a commitment to ESG and diverse manager strategy. “We don’t put walls around our commitment to mission,” said Director of Finance Charles Lippman. “We expect impact across the board, from the endowment’s investment policy to the sustainability of construction projects.”

The help of an impact investment advisor was instrumental to the museum’s success in aligning all of its assets for mission. “Prime Buchholz had experience going through this process with other institutions, and was both realistic and supportive of our aspirations. I urge museums to just get started. Don’t let the perfect be the enemy of the good,” encourages Lippman.

HOW TO TAKE ACTION

Stakeholders can support meaningful progress in aligning museum investments with values and mission. Here are suggestions of actions all key stakeholder groups can take:

Board

- Recruit new Board and Investment Committee members with impact investing expertise and join them as champions for the impact investing conversation.
- Ask your Investment Advisor about their impact investing expertise; if they do not have experience with impact investing, consider a change in advisors — and possibly even advisory firms.
- Get the facts about impact investment financial performance.
- Speak to trustees of universities, foundations and other cultural institutions that are already impact investing.

Leadership Team

- Include the endowment in the next strategic planning discussion or values review.
- Include your progress towards impact investing among the accomplishments listed in your Annual Report.
- Share this report with your Investment Advisor and Investment Committee.
- Consult peers at universities, foundations, and other museums to benefit from their experience.

Staff

- Inquire how your museum is living its values and mission through its endowment investments.
- Invest in ESG options as part of your employer-sponsored retirement plan.
- Ask for ESG options in your employer-sponsored retirement plan if they are not currently available.

Donors

- Become an impact investor yourself (if you aren't already) and share your personal experience with the museum you support.
- Tell the museum you support how important values-alignment is in all their actions, including investing.
- At the time of your next charitable gift, start a conversation to understand how the museum is engaging in values-aligned and mission-related investing.

Artists

- Become an impact investor yourself (if you aren't already) and share your personal experience publicly.
- Tell museums that exhibit your work how important values-alignment is in all their actions, including investing.
- Let museums know that how they invest matters to you.

CONCLUSION

Many institutional investors have found prudent ways to align their financial goals with their values. With $17 trillion of U.S. assets and $35 trillion of global assets invested in a manner that considers material nonfinancial risks related to environmental, social and governance factors — and with the largest financial institutions including Apollo, Blackrock, Blackstone, Goldman Sachs, JP Morgan, Morgan Stanley, TPG, and UBS offering these types of investment opportunities — it is clear that options are readily available to museum endowments.

This first-of-its-kind survey found impact investing to be a topic of interest for 61 respondents, which comprise approximately 40% of independent art and design museums in the U.S. by number and approximately 32% by endowment assets. While this interest is encouraging — with only one-third of respondents currently engaged in impact investing — most museums are lagging compared to their university and foundation peers when it comes to investing in alignment with values and mission. Our findings demonstrate there is significant room for improvement with 13% of museums engaged in impact investing compared to 47% of colleges and universities[21] and 51% of foundations.[22]

Against a backdrop of critiques by Artists and the Public that museums are accepting tainted donations and failing to translate their commitments to diversity, equity and inclusion into meaningful action, impact investing offers a constructive way to advance museums' values, their role as community anchor institutions, and the unique position museums play as cultural stewards.

In the next 25 years, we will see a major shift in financial power which museums and charitable institutions reliant on philanthropic support ignore at their peril. At least $30 trillion from the Baby Boomer generation will be inherited by Generation X and Millennials; and it is estimated that women will inherit 70% of this wealth.[23] This transfer of wealth is significant, as women and young people (also known as NextGen) are more likely to prioritize impact investing than the Baby Boomers who currently control the majority of wealth.

While only 25% of Baby Boomers are likely to consider impact investments, 33% of Generation X and 43% of Millennials are likely to consider impact investments.[24] In addition, 86% of NextGen art collectors rank social impact and purpose-led investment as their highest motivation when buying art.[25] This outlook is guiding the NextGen's donations to nonprofit institutions that share their commitment to impact investing.[26]

Everyone committed to the future of America's art museums can play a part in shifting museum endowments to impact investing. The findings and recommendations in this report will hopefully help pave the way to lasting and meaningful change.

> ***For cultural institutions, the pandemic emphasized the need to shift their dependency on altruistic giving and support models towards a more purpose-led and impact-oriented giving and investment strategy. The need for this strategy shift will increase as they become more dependent on younger demographics for support.***
>
> Art & Finance Report 2021, Deloitte[27]

METHODOLOGY AND PROFILE OF RESPONDENTS

From February 15 to March 31, 2022, an online survey was administered to art and design museums in the U.S. The outreach targeted museums represented in the Association of Art Museum Directors.

To be eligible to complete the survey, respondents confirmed to be:

- a museum of art and/or design
- located in the United States
- stewarding an endowment of at least $5 million
- an independent organization with its own board of directors and investment committee (i.e. not a college art museum or a museum with an endowment that is under the control of a "parent" institution)

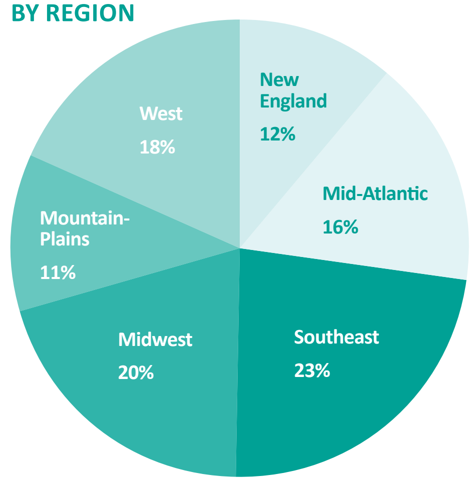
Sixty-one museums responded to the survey, representing 40% of the comparable AAMD membership (i.e. independent museums of art and design located in the United States).

The respondent group has a similar profile to the membership of AAMD overall, suggesting all museums can be exploring impact investing:

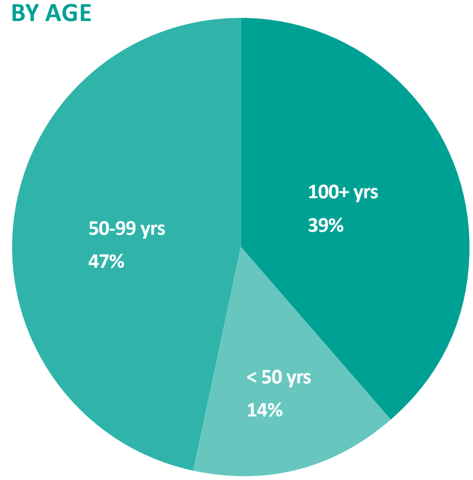
- Respondents represented all regions of the country, with slightly more representation from museums in the Southeast and Midwest.
- Eighty-six percent of the responding institutions are at least 50 years old; 39% were founded over 100 years ago.
- Two-thirds of respondents hold encyclopedic collections, and 98% are collecting institutions.

Thirty-minute follow-up interviews were conducted with 14 respondents to gather additional insights on their experience to date, including the current status of their impact investing efforts; the key drivers of their process; and the barriers and facilitating factors they have encountered.

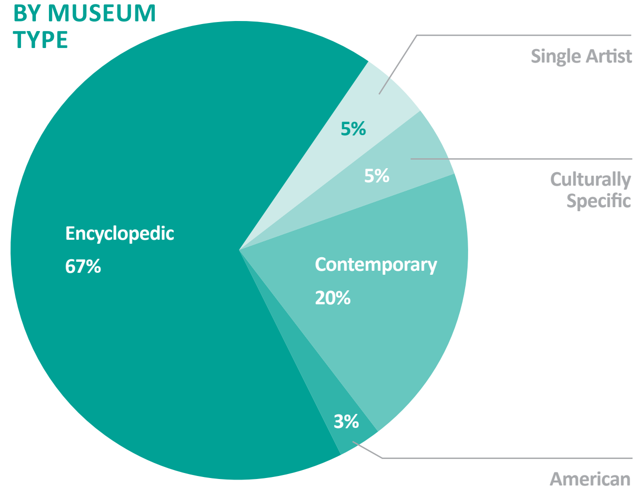
BY REGION



BY AGE



BY MUSEUM TYPE



GLOSSARY

The field of impact investing encompasses many overlapping terms. Please see below for definitions of the most common ones, sourced primarily from the Mission Investors Exchange online glossary:[28]

Diverse Manager Strategy – *is an intentional strategy to invest with BIPOC and women asset managers*. While there is no standard definition for a diverse asset management firm, many investors choose to define it as a firm that is 50% or more owned by BIPOC and women. Some investors take a more expansive definition of diverse to include veterans, LGBTQIA+ individuals, or immigrants. Some investors measure by the percentage of diverse individuals on the leadership team or among investment decision-makers, as opposed to percentage of firm ownership.

Environmental, Social and Governance (ESG) – *investing that considers nonfinancial factors intended to promote sustainable, fair, and effective practices and to mitigate associated risks*. Environmental criteria often include assessment of a company's carbon emissions, water use, or commitment to energy efficiency. Social criteria include a company's "people practices," such as employee benefits, hiring and retention practices, and community engagement efforts. Governance factors focus on criteria such as executive compensation practices and board diversity.

Impact investing – *investing with the intent to generate positive, measurable social or environmental impact alongside financial return*. Paying attention to workers, the community, and the planet helps manage material non-financial risks that affect a company's bottom line and an investor's risk- adjusted return. Impact investments can be made in both emerging and developed markets, across the spectrum of risk and return. Impact investors actively seek to place capital in businesses and funds that can harness the positive power of enterprise.

Mission-Related Investing – *investing to advance a nonprofit's mission and purpose*. The commitment to the well-being of a place-based community, a focus on education, or work in the health sector can be manifested in an endowment's investment strategy.

Negative Screening – *excluding companies that are not aligned with the institution's values, due to the product/service provided, or deficiencies in the company's ESG practices*. Negative screening is an investment approach that stretches back more than 250 years. From Quakers, who refused to allow their financial resources to support the slave trade, to religious orders that would not invest in "sin stocks," to the anti-apartheid divestment movement of the 1980s, through fossil fuel divestment today, investors have understood withholding capital to be a powerful force to discourage unwanted behavior and push for change.

Positive Screening – *selecting companies that are aligned with the institution's values as expressed through the product/service provided, or strengths in the company's ESG practices*. Examples of positive screening include public equity funds aligned with the United Nations Sustainable Development Goals; venture capital funds backing women and Black, Indigenous, and People of Color (BIPOC) entrepreneurs; and investing with community development finance institutions (CDFIs) which are focused on strengthening low-income communities. Positive screening aims to reward activities that are aligned with an investor's values with the capital needed to grow.

Socially-Responsible Investing, or Sustainable, Responsible and Impact Investing (SRI) – *is socially conscious, "green" or ethical investing*. Any investment strategy which seeks to consider both financial return and social good. In general, socially responsible investors encourage corporate practices that promote environmental stewardship, consumer protection, human rights, and diversity.

Sustainable Investing – *investing with a focus on long-term environmental and social sustainability*. A vision of a sustainable future is set as a reference point for developing strategic actions.

Values-Aligned Investing – *investing in accordance with a nonprofit organization's values statement*. Many impact investors find their values of sustainability, community and diversity/equity/inclusion expressed in Environmental, Social and Governance factors which are commonly used by impact investment fund managers. These non-financial considerations promote sustainable, fair, and effective practices while mitigating related risks.

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Former Executive Director
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Survey Respondents

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Birmingham Museum of Art
Brooklyn Museum
Cincinnati Art Museum
The Clyfford Still Museum
Columbia Museum of Art
Columbus Museum of Art
The Columbus Museum, Inc.
Contemporary Arts Museum Houston
Crocker Art Museum
Crystal Bridges Museum of American Art
Currier Museum of Art
Dallas Museum of Art
Denver Art Museum
Des Moines Art Center
The Detroit Institute of Arts
Dia Art Foundation
Dixon Gallery and Gardens
Fine Arts Museums of San Francisco
The Frick Pittsburgh
Frist Art Museum
Grand Rapids Art Museum
Hillwood Estate, Museum & Gardens
The Institute of Contemporary Art, Inc.
The Isamu Noguchi Foundation and Garden Museum
McNay Art Museum
Minneapolis Institute of Art
The Mint Museum of Art
Museum of Contemporary Art, Chicago
Museum of Contemporary Art, Los Angeles
Museum of Contemporary Art, San Diego
Museum of Fine Arts, Boston
Museum of Latin American Art
National Gallery of Art
National Museum of Women in the Arts
The Nelson-Atkins Museum of Art
New Orleans Museum of Art
The Newark Museum or Art
Norman Rockwell Museum
North Carolina Museum of Art
Oakland Museum of California
Palm Springs Art Museum
Peabody Essex Museum
Philbrook Museum of Art
The Phillips Collection
Phoenix Art Museum
Portland Art Museum
Portland Museum of Art
Saint Louis Art Museum
Seattle Art Museum
Sterling & Francine Clark Art Institute
The Studio Museum in Harlem
Taft Museum of Art
Toledo Museum of Art
Virginia Museum of Fine Arts
The Walters Art Museum
Whitney Museum of American Art
Wichita Art Museum

Upstart Co-Lab Cultural Institution Study Group

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Art Institute of Chicago
Asian Art Museum of San Francisco
The Baltimore Museum of Art
Contemporary Arts Museum Houston
Crystal Bridges Museum of American Art
Denver Museum of Nature & Science
Guggenheim Museums and Foundation
Kurt Weill Foundation for Music
McNay Art Museum
Michener Art Museum
Minneapolis Institute of Art
Morgan Library & Museum
Museum of Contemporary Art Denver
National Gallery of Art
Oakland Museum of California
Peabody Essex Museum
The Phillips Collection
Portland Museum of Art
Saint Louis Art Museum
San Francisco Museum of Modern Art
The Studio Museum in Harlem
Virginia Museum of Fine Arts
The Walters Art Museum
Whitney Museum of American Art
World Monuments Fund

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This report builds on The Guide: what cultural institutions need to know about investing for values and mission, *the first primer on impact investing specifically for leaders of museums and other cultural institutions published in 2020. Please visit* UpstartCo-Lab.org *for more information or contact Upstart Co-Lab via email at info@UpstartCo-Lab.org.*

ENDNOTES

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