Investing for Values and Mission

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Clockwise from top left: Mari Kuraishi, President, Jessie Ball duPont Fund; Laura Callanan, Founding Partner, Upstart Co-Lab; Max Anderson, President, Souls Grown Deep; Michelle RhodesBrown, Director of Finance, The Walters Art Museum in the webinar "Impact Investing and the Arts."

Editor's Note: This year AAM's *TrendsWatch* leads with a call for museums to help close the racial gaps in wealth and power that divide the United States. As the report points out, one way museums can do this is through restorative investing—using the financial clout of their endowments to dismantle existing wealth structures, democratize capital, strengthen local businesses, and prioritize racial inclusion and diversity. In 2019, Laura Callanan, Founding Partner of Upstart Co-Lab, introduced readers of this blog to the concept of investing in the creative economy. In today's guest post she revisits the topic in more depth, with particular attention to how such investing can address racial inequity.

—Elizabeth Merritt – Vice President, Strategic Foresight and Founding Director, Center for the Future of Museums, American Alliance of Museums

There is growing interest among American museum leaders to use their endowments—more than forty billion dollars in aggregate—to signal the values of diversity, equity, inclusion, and access. Since more than 40 percent of museum trustees are affiliated with the finance industry—many with major firms that are already implementing impact investing strategies—it seems like this would be a cinch. With the help of knowledgeable trustees, museums should be able to ask and answer the right questions; develop investment strategies that amplify purpose while ensuring profit; and serve as a model for libraries, art schools, and other endowed cultural institutions.

Impact investing is already beginning to take hold in the museum sector. The Walters Art Museum, MASS MoCA, and the Louvre Museum have all adopted investment strategies designed to advance their missions and values. This post presents a brief introduction to impact investing, to help you start the conversation in your organization. I hope you follow up downloading *The Guide: what cultural institutions need to know about investing for values and mission*, a primer on impact investing published last year by Upstart Co-Lab and Rockefeller Philanthropy Advisors specifically for leaders of museums and other arts organizations.

What is Impact Investing?

Impact investing is defined as 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. Nonprofit institutions can use both their values and their missions to guide an impact investing strategy that meets financial goals.

Values-Aligned Investing

Many museums have values statements that guide their corporate cultures. Like board composition, personnel hiring, and programming, investment choices can be informed by these values. Many museums share a commitment to diversity, equity, inclusion, and access (DEIA), which can be expressed in a variety of ways through investment policy and practices. One approach is a commitment to hiring Black, Indigenous, and other people of color (BIPOC) and women as fund managers.

Implicit bias and related factors currently constrain capital allocations to BIPOC- and women-led companies. Currently, investment firms owned by white men control 98.7 percent of all assets under management in the US, and only 2.7 percent of venture capital goes to women founders and only 2.4 percent of venture capital goes to Black and Latinx founders. Impact investors can take action—consistent with their values of DEIA—by investing with BIPOC and women fund managers, who in turn have been shown to invest in companies led by BIPOC and women founders.

Not only does investing in funds led by BIPOC and women express a museum's commitment to DEIA, but this approach can also yield strong financial results. BIPOC and women fund managers are overrepresented in the top quartile for financial performance, and companies with BIPOC and women leaders are more likely to outperform, by 30 percent according to some research.

Mission-Related Investing

Mission-related investing targets risk-adjusted, market-rate opportunities that advance a nonprofit's mission and purpose. For art museums, a mission-related investment strategy would likely focus on opportunities in the creative economy.

The creative economy is a way of thinking and doing that revitalizes manufacturing, services, retailing, and entertainment industries with a focus on art, culture, design, and innovation. The US creative economy is more than 5 percent of gross domestic product, comprised of businesses engaged in the inputs, production, and distribution of products and services across 145 creative industries such as food, fashion, film and TV, and video games.

Impact investors are already backing companies in creative industries: fashion companies addressing job quality and resource conservation, food and beverage producers and hospitality companies focused on healthy people and a healthy planet, and film and TV and video game companies that give voice to marginalized groups.

Investing for Values and Mission Together

A range of sustainable and impact funds offer viable investment options consistent with the values of DEIA and aligned with art, design, culture, heritage, and creativity.

Up to 36 percent of the small businesses in the US are in the creative economy, driving local economic development and community wealth-building while reflecting the culture, tradition, and heritage of a place. Funds managed by community development finance institutions and socially responsible fintech lenders frequently include a significant allocation to these smaller creative economy businesses.

Impact funds investing in women and BIPOC entrepreneurs often have meaningful exposure to the creative economy given that in the US up to 35 percent of all woman-owned businesses, and approximately 38 percent of minority-owned businesses, are in the creative economy. BIPOC and women entrepreneurs often launch businesses in the creative economy because of the sector's lower barriers to entry and the role that originality and merit play in business success.

Many of the businesses that artists, designers, and other creatives start inherently balance financial profitability with concern for the environment. As a result, businesses in creative industries—particularly in the food and fashion sectors—are well-represented in environmentally sustainable venture capital funds.

Does Impact Investing Mean Sacrificing Financial Return?

Often the first question asked about impact investing is whether investors sacrifice financial returns when incorporating social and environmental concerns into their investment considerations. The answer is no. There is a preponderance of evidence, looking back over decades, demonstrating that impact investing does not inherently sacrifice financial return and can actually outperform conventional investment strategies. Just to cite one study: Morgan Stanley reviewed the performance of nearly eleven thousand sustainable mutual funds from 2004 to 2018 and concluded that “there is no financial trade-off in the returns of sustainable funds compared to traditional funds, and they demonstrate lower downside risk.”

In 2020, sustainable funds held up as well as—or better than—their traditional counterparts: sustainable equity funds outperformed their traditional peers by a median of 4.3 percent and sustainable bond funds outperformed their traditional peers by a median of 0.9 percent.

The *Financial Times* commented that nothing about the COVID crisis will dislodge the prevailing trend, quoting James Rich, Senior Portfolio Manager at Aegon Asset Management, as saying, “The link between sustainability and index-beating returns is clear—if anything [COVID] has probably put a period at the end of that sentence.”

Is Impact Investing Here to Stay?

According to US SIF, The Forum for Sustainable and Responsible Investment, 17.1 trillion dollars, or one-third of assets under professional management in the United States, were invested in impact investing strategies in 2020. This reflects a 42 percent increase over 2018.

While some observers thought values would be pushed aside by COVID-related economic uncertainty, issues related to the environment, society, and good corporate governance have grown even more important as investors pay greater attention to business continuity efforts and how companies are weathering the pandemic. In the fourth quarter of 2020, global quarterly inflows to sustainable funds were 153 billion dollars—or an increase of 88 percent from the prior quarter—bringing the total capital invested in global sustainable funds to a record amount of 1.63 trillion dollars.

Top firms are responding to client demand for impact investing, further validating this investment approach. Impact investing has expanded beyond boutique firms to 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.

How to Get Started

Begin in the spirit of learning and inquiry. The move to values-aligned and mission-related investing is an incremental process. Given an investment portfolio's starting point and level of liquidity, fully implementing a new strategy can take five to ten years. But it's possible to begin at any time.

The first step towards exploring an impact investing strategy is to link the investment policy statement to the institution's values and mission statements. Next, know what the museum is currently invested in, and if any holdings are in deep alignment—or in deep contradiction—with the institution's values and mission.

Ensure you have access to expertise. If your existing investment advisor does not offer impact investing options to clients, consider engaging a qualified advisor who does to work with board and staff. If your trustees do not have experience with impact strategies, consider adding impact investing experts to the investment committee or as part of a working group of the board.

There are choices to be made, such as whether a portion of the portfolio will be carved out for mission and values or if new criteria will be applied throughout the portfolio. Once the approach has been determined, be open to opportunities like an endowment fundraising campaign, an unexpected bequest, or a new manager selection as an opportunity to implement the new approach.

Many endowed nonprofit organizations, including foundations and universities, have been through this process and are happy to share their lessons. Communities and conferences are a source of research and access to like-minded peers.

Additional Resources

Read about the experiences of the Brooklyn Museum, Massachusetts Museum of Contemporary Art (MASS MoCA), the Walters Art Museum, and the Louvre Museum in *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 arts organizations from Upstart Co-Lab and Rockefeller Philanthropy Advisors.

Hear about the experiences of the Walters Art Museum, the Cummer Museum of Art & Gardens, and Souls Grown Deep, with a focus on diverse manager strategy and providing access to capital to BIPOC entrepreneurs, in *How Museums and Cultural Institutions Invest With Their Values*, a webinar hosted by Mission Investors Exchange and Upstart Co-Lab.

About the author:

Laura Callanan is the founding partner of Upstart Co-Lab, and former senior deputy chair of the National Endowment of the Arts