December 2015 Edition
A Collection of Quarterly Editorials for ABFE Members

ABFE MAGAZINE

A Philanthropic Partnership for Black Communities

THE OTHER 95%

HASHTAG: #TheOther95% | #ABFE | #EmpowerPhilanthropy

IN THIS ISSUE:

SMART Investing

FORWARD...

Greetings ABFE Members and Supporters;

In 2011, ABFE launched a new body of work called *Smart Investing;* an effort to increase opportunities for minority and women-owned investment management firms to manage foundation endowments. We decided to do a deep "dive" into the area of investment management to further demonstrate that foundations need to look beyond the five percent of its assets that they are required to give away in grants to achieve their social mission and focus on the remaining **95%** of endowed funds for achieving their results. *Smart Investing* asks the question, "who manages the money?" Why is this important? Hiring minority-firms to manage foundation endowments is a strategy for employment, income generation and wealth creation; issues central to most philanthropies. We have also found that some of the largest Black-owned investment firms are philanthropic themselves donating millions of dollars to support education, the arts, youth development, research and the advancement of race relations.

While addressing the hiring of diverse talent to manage foundation endowments is one take on looking at "the other 95%" of a foundation's assets, many colleagues in the field are utilizing various tools of social and mission investing over-and-above grantmaking (and the required 5% payout) to advance their work. What does it mean to look at impact investing through a racial equity lens? Given the heightened discussion on issues of race and inclusion in this country today, it is important to do so to increase opportunities in Black communities.

In this edition of ABFE Magazine, you will read about ways in which close partners are using the full set of foundation resources to further the impact of their philanthropy. One foundation leader on inclusive investment management (The Winthrop Rockefeller Foundation) and two principles of minority-owned firms (Garcia Hamilton and Herndon Capital Management) share their recommendations for foundations regarding sourcing diverse talent. We have also included the names of minority and women-owned firms that are a part of our *Smart Investing* database in this edition as well as our latest white paper on this issue *Philanthropy's Next Hurdle*. In addition, you will hear thoughts from a foundation CEO (Lori Bezahler) on how philanthropic institutions can use capital to further goals of racial justice through screened investments, shareholder advocacy, and mission investing. Much more work needs to be done in this area!

We have several next steps for *Smart Investing* in the works; key among them are an Investment Management Diversity Pledge that we are asking CEOs to support; a survey and score card that will help foundations understand the track record of investment consultant organizations in identifying and hiring minority and women-owned firms and a best practices report that will share examples for foundations on how to implement inclusive investment management practices.

We look forward to your thoughts and opinions on this work!

Health and progress,

Susan Taylor Batten

Investing in Mission: Leveraging All Our Assets

EDWARD W. HAZEN FOUNDATION

The Edward W. Hazen Foundation received the 2013 Institutional Award from ABFE at the Annual Conference in Chicago, Illinois. This award is given annually to an organization to recognize its' leadership in effective and responsive philanthropy in Black communities. ABFE Magazine features Lori Bezahler, President of Edward W. Hazen Foundation on Investing in Mission: Leveraging All Our Assets.

As president of the Edward W. Hazen Foundation, Lori Bezahler leads national grantmaking programs supporting organizing and leadership of young people and communities of color in dismantling structural inequity based on race and class. Lori has served on the boards of Philanthropy New York, Grantmakers for Education, Center for Community Alternatives, and the National Center on Schools and Communities at Fordham University. In 2014 she was a Senior Fellow for the Center for Social Inclusion where she now serves on the Board. Her writing and commentary have been published in The Nation, Time Magazine, the Washington Post, Foundation Review, and various other media outlets. Lori has taught as an Adjunct Assistant Professor at the Wagner School of Public Service at New York University from which she earned a Masters in Public Administration. She holds a Bachelor of Arts degree from Oberlin College.

My first contact with investing as a political act was during the anti-apartheid protests of my college years. Like many students, I participated in a divestment campaign, targeting the college's holdings in corporations in and doing business with South Africa. Some have cited the pressure from economic sanctions by the US as critical to the negotiations in South Africa that ultimately led to the dismantlement of that racist system. For me, it was a lesson in the power of capital markets.

While once it was common in philanthropy to bifurcate our practice – pursuing mission on the program side and generating the resources to do the work on the investment side – today many foundations seek to harness the power of the corpus more fully to advance mission goals. Institutions such as the Edward Hazen Foundation, which seek to address issues of racism and structural inequity, find ourselves confronting the reality that capital markets have long been tools of racial oppression; finding ways to align our investments with our values is both critical and complex.

There are a variety of steps foundations can take to reflect our mission, goals, and values through our investment practices. Perhaps the most straightforward is to put your money where your values are, by banking with a community financial institution, a minority depository institution, or a bank or credit union with a constituency or geographic focus. Harvard's Initiative for Responsible Investment calls this mission banking.

At Hazen, we started there. We have also hired managers and advisors with expertise in socially responsible investing practices and, with their support, developed environmental, social, and governance guidelines that we apply to the entire portfolio. In addition to standards on corporate governance and diversity, extractive industries, defense contracting, and others, we are now implementing screens to insure that we are not supporting corporations that are profiting from mass incarceration by owning and operating for profit prisons and probation services.

Hazen's guidelines also set out principles for shareholder engagement, another way that foundations can use the power of our corpus in service to our mission. We have found opportunities to sign on to resolutions that are being led by other investors, for example calling for reductions in the use of fossil fuels or shareholder say on CEO compensation, but there are far fewer opportunities at present to address issues of race head on through shareholder activism.

Most recently, Hazen has begun making direct mission investments. The board elected to make 5% of the foundation's corpus available for investments that may provide the foundation at the end of their term with a return that may be at or below the anticipated market return. Given what we know of the economic components of structural racism, Hazen is concerned that any such investments not be extractive by shackling families and communities with unsustainable debt, or generate business income by shifting the cost of education or other public obligations from a shared public responsibility to an individual one.

By taking steps such as these, we can all direct the full value and impact of our resources towards racial justice. ♦

A Foundation Who Prioritizes Diversity in Hiring Asset Managers

Andrea M. Dobson, C.P.A.

Chief Operating & Financial Officer

Winthrop Rockefeller Foundation

As the chief operating & financial officer of the Winthrop Rockefeller Foundation, Andrea oversees the investment, finance, accounting, human resources, operating, and information technology functions of the Foundation. WRF is dedicated to improving the lives of all Arkansans in three interrelated areas of education; economic development; racial and social justice. Recognizing the broadness of that mandate, WRF focuses its work on the people and communities with the least wealth and opportunity, using its resources to understand the problems contributing to poverty in Arkansas and developing a long-term action plan to address the underlying issues.

Andrea is responsible for ensuring WRF generates sufficient revenue to achieve its programmatic objectives and maintains good stewardship of its financial resources. Andrea leads the Foundation's efforts in mission investing and provides support to the Finance and Audit Committees of the Board. She is committed to addressing the issues related to poverty, racial and social justice, education, and community development, particularly through sound fiscal policies and transparency.

ABFE Magazine: Why did your foundation decide to prioritize diversity of asset managers in the selection process? How did you go about moving that agenda?

Andrea M. Dobson: The Winthrop Rockefeller Foundation mission is to improve the lives of Arkansans in three interrelated areas: education, economic development, and economic, racial and social justice. Our commitment to justice has been reflected in our governance and our grant making from the beginning. We consistently work to eliminate systemic bias where ever we encounter it. A natural extension of this value has been reflected in our practice of including diversity in the investment managers employed by the Foundation. When searches occur we consistently communicate our value to our advisory consultant and expect manager searches to include investment management firms led by women and minorities. Advisors are held accountable for open, transparent sourcing and diligence processes that yield viable diversity candidates for any external manager search. When we conducted an advisory search recently, the search included questions specifically targeting information on how firms identify minority and women-owned investment managers, and how many firms are currently in their data base and client portfolios. We also examined the diversity of staff within the firm and the positions held. We expect similar questions to be included by our advisor in any search conducted on our behalf.

ABFE Magazine: What have you learned about your foundation as you move through this process? Values alignment, hidden bias, etc.

Andrea M. Dobson: In our case, this value has been embedded in our work from the beginning. Diverse investment managers have been included in our line-up for over 25 years. It is also embedded in our board make-up. I think the alignment has enabled the Foundation to maintain a strong commitment to diversity in our investment management. There is no question that top tier performance can be achieved with firms led by women and minorities. Our results since inception are at the 15th percentile of peer organizations, net of fees, and extend over several market cycles.

ABFE Magazine: What are your recommendations for your peers who are interested, but haven't yet moved on diversifying their asset managers?

Andrea M. Dobson: Start first with your internal governance. If a commitment to diversity isn't reflected within your board, it is unlikely to be reflected elsewhere. That may mean expanding the board make-up, or adding advisory members to the committee overseeing investments. If the commitment exists within the board, have frank discussions with your advisors. Look at the firms that are currently providing services to your foundation. Are they owned by women or minorities? What is the makeup of their senior staff and how do they reflect their internal commitment to diversity? If diversity is lacking, advocate for them to diversify their senior teams. When a search is conducted, communicate your values to your consultant throughout the process. Set a clear expectation for a transparent and inclusive process. If your advisor doesn't have any clients employing diverse managers, it may be time to consider whether the advisory firm is well suited to your objectives. Look to resources outside of your advisory firm for potential diverse manager candidates and make sure that you introduce them to your advisor. ♦

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45 ABFE
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In 2016, ABFE will commemorate 45 years of advocacy and service in promoting effective and responsive philanthropy in Black communities. ABFE is at the center of a movement that inspires grantmaking entities, philanthropic individuals and nonprofits in the US to work collectively towards a brighter future for Black communities and the country as a whole. We are committed to helping empower philanthropy, by leveraging our collective action, as a unified and strategic force.

#Empower Philanthropy! 2016 offers the best and most promising practices in the field to strengthen our families and communities. Each year we offer attendees a set of informative workshops, plenaries and networking opportunities to increase the impact of their work. In addition, our conference makes space for recognizing important leaders for their work and contributions. Please join us!

Kenneth Holley, CFA

Principal
Portfolio Manager
CIO
Herdon Capital Management

INVESTMENT MANAGERS ON MISSED OPPORTUNITIES

Kenneth ("Ken") Holley is the portfolio manager responsible for Herndon Capital Management's Large Cap Core International Equity product and one of the portfolio managers responsible for managing our Large Cap US Core Equity product. He oversees the firm's investment activities: setting policy and directing the activities of the investment staff. Before coming to Herndon, Ken spent more than eight years at Morgan Stanley Asset Management (MSAM). In his first four years there he managed a domestic intermediate fixed-income portfolio. For the last four years at Morgan Stanley he was the co-manager of an international equity portfolio. In addition, he served on Morgan Stanley's Asset Allocation Committee which determined MSAM's investment policies and positions in the various asset classes. Prior to that Ken spent almost three years at the African Development Bank (ADB) in Abidjan, Cote d'Ivoire as the Senior Finance Officer where he developed and implemented the investment philosophy and trading strategies for the Bank's portfolios in U.S. dollars, Canadian dollars, French francs, Deutsche marks and Japanese yen. Before the ADB, he managed the portfolios at Ward & Associates Asset Management, a fixed-income asset management firm serving public and private pension plans. Ken began his career in finance as a fixed-income salesman at Salomon Brothers in 1986.

ABFE Magazine: What prompted you to step out to launch your own firm?

Kenneth Holley: My partners and I, having experienced both large firms and small ones wanted to create a boutique firm where we could keep that intimate feel which so many small firms have while still being able to provide all of the capabilities and services clients would expect/demand from larger firms. We also wanted to give every employee the sense of being an owner. That leads to a lot of situations where you have goal congruence which is a really good thing when you are working in a service business.

ABFE Magazine: What opportunities are foundations missing by not including this pool of talent?

Kenneth Holley: Small firms have to do something to get the client's attention. Larger firms don't have that chip on their shoulder. Small firms, I think, always feel compelled to prove they belong. That usually winds up helping the client. When I worked at a really large firm we had thousands of clients, here we have fewer than two hundred. That allows us to focus on improving the client experience.

ABFE Magazine: What are your recommendations for foundations interested in sourcing diverse talent?

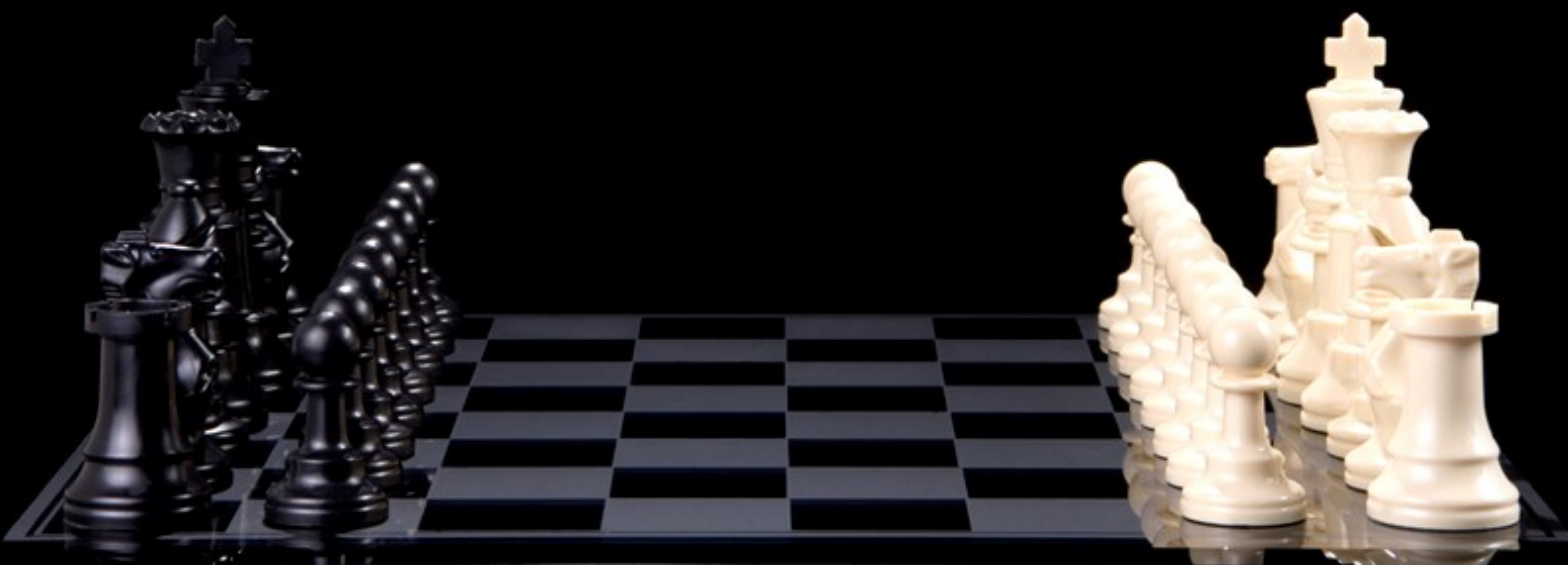
Kenneth Holley: First, they have to accept the premise that smaller firms can cut the mustard, that we are capable of outperforming. Minority firms tend to be on the smaller side, so there must be an acceptance to deal with smaller firms. There are some who believe that smaller firms are inherently less capable than larger firms. That has been proven not to be the case. Once a client has accepted the idea that small firms have a place in a portfolio then we can address the question of whether they believe minority-owned firms are capable of outperforming. That, too, has been proven. So, once a client has accepted that small, minority-owned firms can do the job, then they have to actually find one which fits their needs. It is clear that this is not an easy task, or at least not as simple as it ought to be. But I think if they do the work they will find the result rewarding. We believe the view is definitely worth the climb.

ABFE Magazine: Our thesis is that growing diverse management firms also grows philanthropy in diverse communities. Talk about your own philanthropy.

THE OTHER 95%

Kenneth Holley: Herndon Capital Management's philanthropic efforts are a big part of who we are and is representative of our mission, to be wise stewards of clients' assets and relationships. In our opinion, diverse managers are often more aware of issues in diverse communities, and because they tend to have greater access into those communities the philanthropy they do there can be more impactful by providing greater awareness and greater access to opportunities which otherwise might not have been available. Herndon is committed to establishing a lasting, responsible and purposeful philanthropic footprint within our community and has committed resources both in the form of human capital and financial assistance to local philanthropic organizations. ♦

Don’t make this common mistake: Internalizing institutional barriers



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THE

GARCIA RULE

Gilbert Andrew Garcia, CFA

Managing Partner

Garcia Hamilton& Associates

Mr. Garcia received a B.A. in Economics from Yale University. After graduating in 1985, he joined Salomon Brothers in New York City where he became a Vice-President specializing in mortgage-backed securities. In 1990, he joined former Mayor Henry Cisneros to build Cisneros Asset Management Company, ultimately becoming its President. In 2002, he joined Garcia Hamilton & Associates, and is the firm's Managing Partner. Under his leadership, the firm has reached approximately $6.2 billion (November 2015) in fixed income assets under management. In 2014, the firm was named Fixed Income Investment Grade Manager of the Year by Institutional Investor. In 2015, it was named Intermediate-Term Fixed Income Manager of the Year, which was the firm's second year in a row to be awarded by the magazine. Mr. Garcia has served on many boards and currently serves as Chairman of the Metropolitan Transit Authority of Harris County and as a member of the Board of Directors of Sanchez Energy [NYSE:SN]. He also serves on the Board of Directors of Sponsors for Educational Opportunity (SEO), a non-profit providing summer internships on Wall Street for minority undergraduates. At this year's Annual Awards Dinner, Mr. Garcia was awarded the SEO Alumni Leadership Award alongside other honorees, including former Mayor of New York City, Michael R. Bloomberg, and Co-Founder & Co-CEO of The Carlyle Group, David M. Rubenstein.

The "Garcia Rule" is a new investment manager search process adopted by the $231 million Metropolitan Transit Authority of Harris County (Texas) Union Pension Plan and $148 million Metropolitan Transit Authority of Harris County Non-Union Pension Plan & Trust (METRO) that will require at least one emerging investment manager* to be included in every asset class search going forward. The plans have defined emerging managers as women-, minority-, veteran- and disabled-owned firms and also firms with less than $1 billion in assets under management at the time of hiring.

The plans are calling the rule the "Garcia Rule" after its chairman Gilbert Garcia, managing partner at minority-owned asset manager Garcia Hamilton & Associates. The name borrows from the National Football League's "Rooney Rule," which requires minority candidates to be considered for head coaching and other front office positions.

ABFE Magazine: Why did your Plan decide to prioritize diversity of asset managers in the selection process? How did you go about moving that agenda?

Gilbert Andrew Garcia: At METRO (Metropolitan Transit Authority of Harris County), we are strong believers in transparency and inclusion. Furthermore, we are industry leaders in many areas. For example, METRO is the recipient of the 2015 "Outstanding Public Transportation System Achievement Award" by the American Public Transportation Association (APTA), while our pension funds recently reduced our return assumptions to 6.75%. Thus, it is natural for us to take a leadership role regarding asset managers. With the "Garcia Rule," everybody wins. The emerging firms gain valuable experience and exposure. Meanwhile, the plan might find an excellent firm that wouldn't get the exposure otherwise due to a variety of artificial barriers that presently exist. In today's low return environment, pension funds must turn over every stone possible to find quality managers who can consistently outperform their benchmarks.

ABFE Magazine: What have you learned about your Plan as you move through this process? Values alignment, hidden bias, etc.

Gilbert Andrew Garcia: The concentration of assets among the top consulting firms as well as the top managers is quite remarkable. The path of least resistance is for the same Top 10 consultants in assets under advisement to choose the same Top 10 managers in assets under management. The

"Garcia Rule" does not require emerging managers to be hired. It only requires that some emerging firms, inevitably the best firms, get exposure. We believe that excellent emerging managers exist and will begin to win more mandates if given the opportunity.

ABFE Magazine: What are your recommendations for your peers who are interested, but haven't yet moved on diversifying their asset managers?

Gilbert Andrew Garcia: They should adopt the "Garcia Rule" right away. Again, in today's low return environment, they can't afford not to adopt it. We all need the alpha! We also believe that in today's poor liquidity environment, smaller emerging firms have a competitive advantage. Compared to the industry behemoths, smaller emerging firms are more nimble, allowing them to make market movements more efficiently and to exploit smaller markets more thoroughly. Furthermore, the key players typically own their own firm. Thus, they are hungrier which brings greater intensity to how they approach the markets, how they approach client service and how they approach the running of their own businesses. ♦

**The term Emerging Manager may refer to certain characteristics of a firm including assets under management (AUM) and track record in addition to majority firm ownership by women or racial/ethnic minorities. ABFE does not use the term and encourages foundations to be explicit about engaging minority- and women-owned investment management firms.*

ADOPT

"THE GARCIA"

RULE

Highlights of ABFE's Smart Investing Work in 2016...

- Promoting the Investment Manager Diversity Pledge in the field to encourage foundations to adopt inclusive practices in their manager selection process.
- Releasing Best Practices for Foundations & Endowments on Inclusive Investing, an instructional roadmap for foundations interested in implementing or optimizing an effective and sustainable effort to invest with women and minority-owned asset managers.
- Hosting learning and networking convenings for foundations seeking to exchange ideas and experiences with peers, engage diverse talent, and deepen their understanding of embedding an equity lens in endowment management practices.
- Launching the Foundation Working Group on Diverse Managers to support a community of practice for foundation decision makers to share ideas, experiences and useful tools to move the needle on hiring diverse managers.
- Sharing an assessment tool with the field which can be used to measure the culture and accountability of consulting firms regarding diversity, equity and inclusion in operations and manager engagement.
- Continuing to publish ABFE's Directory of Minority- and Women-Owned Investment Management Firms.

Will you take the pledge?

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The Investment Manager Diversity Pledge:

A Commitment to Inclusive Investment Management Practices

Take the Pledge>>

DIVERSE MANAGERS:
PHILANTHROPY'S NEXT HURDLE

ABFE's Newest White Paper on SMART Investing

In recent years, philanthropic organizations have made concerted efforts to diversify their leadership, culture, and staff, seeking to become more inclusive and representative. Diversity initiatives have flourished in philanthropic institutions as a result. Today the public is no longer surprised when our nation's largest grantmaking foundations and corporations appoint African American, Latino, and women leaders as chief executive officers, chief investment officers, and chief operating officers.

While foundations and corporations are working to make their own institutions more inclusive, their diversity initiatives are not only directed toward internal innovation. Funders are beginning to look outwards, as well, asking their grantees, contractors, and partners to provide data about diversity in their organizations. In their external initiatives, they seek to determine whether their investments are actually affecting diversity outside the field of philanthropy and to track their spending on businesses owned by minorities and women.

As their initiatives have gained momentum, philanthropic organizations have become aware of a phenomenon that many of us predicted all along: prioritizing diversity energizes organizations, making them more competitive and successful in our evolving economy.

Nevertheless, although they have actively engaged women and minority staff, appointing them to leadership positions, and have contracted with businesses owned by women and members of minorities, philanthropic organizations still have a lot of work to do. In particular, philanthropic investors and other institutional investors involved in asset management need to lend their strength to the diversity movement.

According to a study published in the September 2014 issue of Chief Investment Officer Magazine, "Whiteout: The Staggering Sameness of Asset Managers," nearly 90 percent of asset managers are white and approximately 75 percent are white men. African American and Latino employees together make up 28 percent of the nation's workforce—but these workers only hold 3 percent of leadership positions in the investment industry. The percentage of asset managers who belong to minorities and who own their own firms is even smaller.

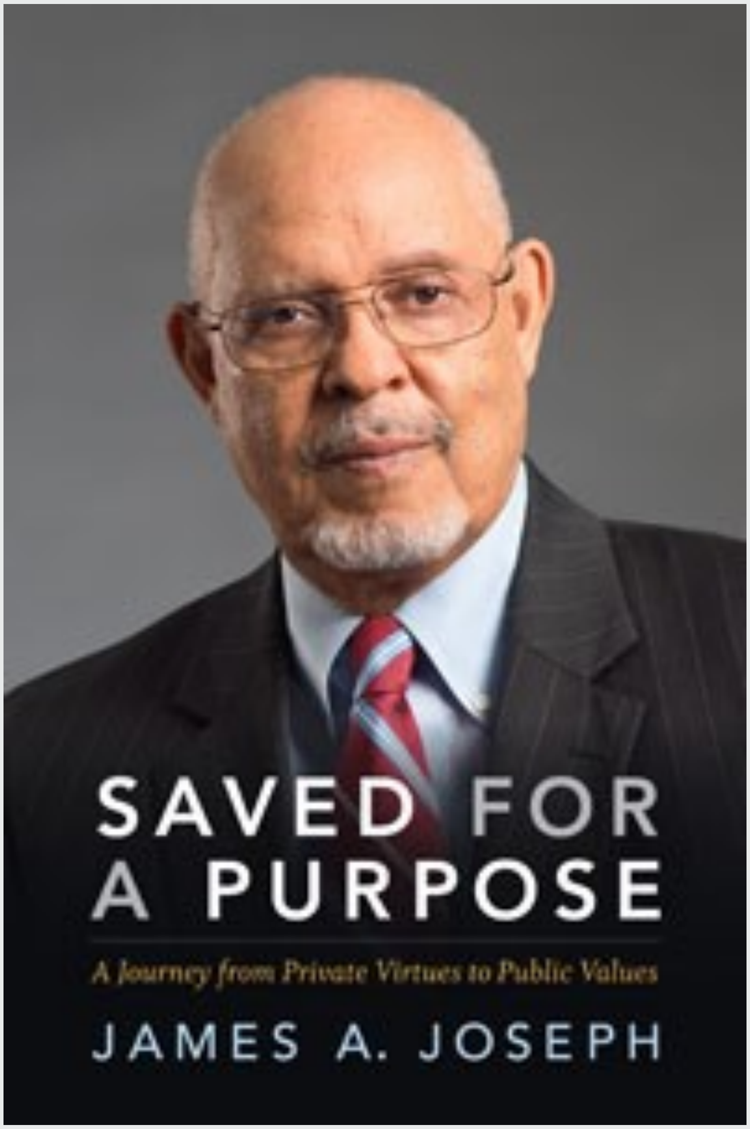
Women and members of minority groups face many barriers when they seek to enter the field of asset management, especially when they own their own investment firms. Investment firm owners in this demographic encounter a predominant perception that they lack the ability and qualifications to compete with other firms and to produce comparable or superior returns on investment. They also encounter a perception that their firms lack sufficient experience in the investment industry or that they have an inadequate amount of assets under management.

However, research on the performance of firms owned by women and members of minority groups does not bear out this prejudice. On average, asset management firms owned by women and minorities show a stronger performance than firms whose owners are not among these groups. This comparison holds true across asset classes, whether calculated in absolute returns or risk-adjusted returns.

Having perceived the strengths of asset management firms owned by women and minorities, these philanthropic organizations are working to engage these firms. In the process, they are revising their foundations' policies to institutionalize inclusive practices.

Continue reading Philanthropy's Next Hurdle.

Investing in a Brighter Future for Black Communities



James A. Joseph's New Book is a Must Read!

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ABFE is a membership organization that advocates for responsive and transformative investments in Black communities. Partnering with foundations, nonprofits and individuals, ABFE provides its members with professional development, technical assistance and networking opportunities to increase the impact of their work. Established in 1971 as the Association of Black Foundation Executives, the organization was credited with many of philanthropy's early gains in diversity. It since has evolved into an influential network. In 2013, the organization shed its descriptor and adopted the simpler ABFE (ab-fee) to better reflect its broadening membership. For more information, visit www.abfe.org.

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