Who Manages The Money?

How foundations should help “democratize capital”

A case study of the W.K. Kellogg Foundation

By Thurman V. White, Jr. in cooperation with
ABFE: A Philanthropic Partnership for Black Communities

September 2014

PROGRESS INVESTMENT MANAGEMENT COMPANY

ABFE

The author wishes to thank the W.K. Kellogg Foundation's La June Montgomery Tabron, Roderick Gillum and Joel Wittenberg for graciously agreeing to be interviewed for this case study.

Introduction: **It is time for foundations to "democratize capital"**

For the past twenty-five years or more, there has been a groundswell of activity among investment managers, institutional investors, consultants and diversity advocates to democratize capital — that is, to create more opportunities for diverse investment professionals, and the firms they lead, to manage institutional capital. This effort, grounded in both fiduciary and equity principles, has led to the growth of many diverse investment management firms like Progress Investment Management Company, LLC ("Progress") and others. A range of stakeholders now recognizes that democratization of capital brings a range of positive benefits to our industry and society at large.

One might expect that foundations would be at the forefront of this trend. Many, after all, are dedicated to creating opportunity and equity for those who have historically been shut out or underserved. Yet, this is not the case. Ironically, most U.S. private and community foundations, along with college and university endowments, have been slower to invest with diverse investment managers. These institutions' diversity efforts (if they've had any focus at all) have centered on their grant-making programs, staff and leadership initiatives, or expanding financial aid to broader student demographics.

In taking such a narrow approach, these institutions are missing an opportunity to leverage new investment talent to enhance their returns. Indeed, numerous studies have shown that small, independent investment management firms outperform their larger counterparts in many asset and sub-asset classes.[1] Foundations are also overlooking a critical means by which they can create positive social impact that would holistically align with their missions.

In fact, utilizing diverse investment management firms holds the potential to bring multiple benefits to foundations. U.S. pension plan sponsors have already realized financial gains by diversifying their mix of investment managers, who generate a broader range of investment ideas and provide the performance advantage of smaller, nimble boutique firms. As I noted in a prior paper, "It has almost become a truism that the greater the assets under management (AUM), the less the likelihood of outperformance." In other words, assets are inversely proportional to alpha. The 2008-2009 global financial crisis demonstrated in dramatic fashion — with the demise of such industry stalwarts as Lehman Brothers and Bear Stearns — that large investment firms are no less risky or less subject to market, organizational and regulatory challenges. PIMCO's recent key personnel turnover further illustrates this risk.

Yet, the bulk of institutional assets are still managed by just a handful of very large firms. Recent data shows that of the 3,100 U.S. SEC-registered investment advisers, the 376 investment firms that manage more than $10B each in assets under management (roughly 13% of the industry) control almost 85% ($29 trillion) of the industry's assets, with 50 mega firms controlling over 50% of this total. At the other extreme, investment managers that are Minority or Women-owned Business Enterprises (MWBE's) total 361 firms and manage slightly more than $1 trillion in aggregate. This amounts to about 3.2% of total industry AUM, with women-owned firms managing most of the combined MWBE AUM.[2] These figures illustrate an untenable large firm concentration risk.

U.S. public and corporate pension plans have been early adopters and strong advocates of using more diverse investment firms. These strategies have come to be known, among other names, as "emerging manager programs." But foundation and endowment assets lag behind, creating risk and continuing the historical inequity in the investment landscape. In 2012, ABFE published a paper, "Foundation Investment Management Practices: Thoughts on Alpha and Access for the Field," to spark dialogue and change. The Tides Foundation has also published a case study on the early stages of the W.K. Kellogg Foundation's emerging managers program — "Building The Market For Mission." This year, Dr. Emmett D. Carson, of the Silicon Valley Community Foundation, and Michael Miller, of Colonial Consulting, published "Investment Manager Diversity — The Hardest Taboo to Break."

> The bulk of institutional assets are still managed by just a handful of very large investment firms.

This case study expands on these efforts by examining how the W.K. Kellogg Foundation, a leading private philanthropic investor, has begun to utilize diverse investment managers in partnership with Progress. We also identify lessons learned to help other philanthropic investors adopt similar strategies — chief among them, the need for strong leadership, the will to create change and a commitment to build a culture of diversity. Our hope is that other foundations and endowments will begin a dialogue about how they, too, can benefit from increased manager diversity for their investment portfolios.

The W.K. Kellogg Foundation Story: **How investment diversity enhances the Foundation's mission**

Based in Battle Creek, Michigan, the W.K. Kellogg Foundation was created in 1930 by the breakfast cereal founder Will Keith Kellogg. Initially funded with

Kellogg stock, its foundation and trust assets have grown to a pool of more than $8 billion, becoming one of the largest private philanthropic foundations in the U.S. With geographic-targeted community and civic engagements and programs to achieve racial equity, the Foundation works with communities to create better conditions for vulnerable children — especially children of color — so they can realize their full potential in school, work and life.

Diversity is a fundamental lens through which the Kellogg Foundation views both its mission and its operations.

La June Montgomery Tabron

"Diversity is embraced by our people. It's very much reflective of the views of our board. We engage in these authentic conversations [about diversity] with all of our grantees and our vendors. It's just part of our DNA," notes La June Montgomery Tabron, the Foundation's President and CEO. Its board reflects this commitment. In 2013, the Foundation promoted Ms. Montgomery Tabron, a 27-year Kellogg Foundation veteran, to become its first female and African American President and CEO.

The Foundation's decision to expand the diversity of its investment managers is built on earlier innovation to link its mission with its investment portfolio. A dedicated portion of investments is now made with for-profit as well as non-profit enterprises that achieve both market rates of return and improve the lives of vulnerable children and their families. In 2009, the Foundation's board and senior staff saw another opportunity to imbue diversity into their investment strategy by hiring diverse investment managers.

"After scrubbing many areas in the entire organization, we began to look at where the significant wealth of the organization resided, and that's in our investment portfolio," stated Ms. Montgomery Tabron. "And we realized that we had these principles around racial equity and access to opportunity that applied to that space, but unfortunately our portfolio management wasn't as diverse as we wanted. So we decided to provide opportunities for investment managers of color to grow in this space."

> "We focus on diversity with our grantees so a logical extension applies to the people who work for us."
>
> — Roderick D. Gillum

The Foundation's board provided critical support for this shift. Roderick D. Gillum, a trustee and previous board chair who helped oversee the Foundation's investment portfolio, said it was important that "we walk the talk." He added, "You will observe the importance of diversity and inclusion in virtually every aspect of our business. We focus externally on diversity with our grantees, and our work centers on racial equity and vulnerable kids. So a logical extension of this applies to the people who work for us. That includes consultants and those involved in managing our investment portfolio."

The Foundation's Vice President and Chief Investment Officer, Joel Wittenberg, had previous experience at the Kellogg Company working with a minority-owned investment bank, which he noted provided services superior to those of Wall Street household names. This experience proved critical in shaping his openness and eagerness to diversify the Foundation's investment managers.

"I didn't just want to go and hire a big firm ... anyone can just do that and check the box," says Wittenberg, who asked Progress to support his efforts. "I wanted to find a way to get involved with firms that are starting out and looking for capital, but have tremendous opportunity to deliver. We wanted a partner that had done significant work in this area. This was right in the Progress sweet spot." Wittenberg sought to leverage the Progress proprietary emerging manager research and database of over 1,100 managers and almost 3,000 different investment strategies. He also valued the firm's focus on the financial performance and business risk dimensions of investing with diverse managers.

Designing a portfolio strategy: **How the Kellogg Foundation incorporated diverse investment managers**

One of the threshold decisions for a foundation or any institutional investor designing an emerging manager investment strategy is how this sub-strategy will work within the institution's asset allocation model. Based upon our experience, there are several approaches:

Model 1: Multi-asset class

Create a multi-asset class emerging manager investment strategy that mirrors the foundation's overall portfolio asset allocation. This model may or may not include alternatives. In effect, this creates a diversified multi-asset portfolio within a larger portfolio.

Model 2: Single-asset class or sub-asset class specific

Create a targeted equity-only model (or fixed income only, even hedge fund or private equity-only strategy) that provides more alpha potential through exposure to a specific asset class or sub-asset class. For example, Progress runs diversified U.S. mid-cap, U.S. small-cap, and global equity-only portfolios as separately managed accounts for several of its institutional clients. Our experience has been that separately managed accounts require a minimum commitment of $50–$100M to achieve optimum manager diversification across style and capitalization dimensions.

Model 3: Integrated

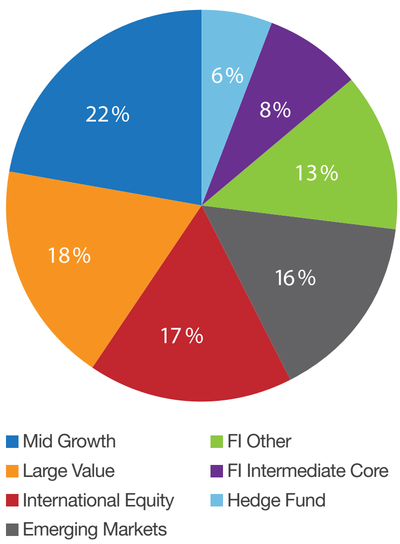
Working with the general consultant, identify diverse manager candidates for hiring consideration and integrate them in the manager selection process for all asset classes. Hold the general consultant accountable for open, more transparent sourcing and diligence processes that yield viable diversity candidates for any external manager search. In this model, diverse managers compete with others and, if selected, become part of the foundation or endowment's external manager roster with similarly sized asset mandates, etc., as mainstream firms.

After considering their options, Wittenberg and his team chose to create a diverse manager portfolio that would eventually mirror the overall asset allocation for the Kellogg Foundation's assets. In addition, to the extent practical, the Foundation wanted to use MWBE investment firms based in communities where it also had experience through its grants. By hiring firms outside Wall Street, it sought to create a multiplier effect, since those firms are more likely to hire diverse investment professionals themselves, as well as give back to charitable causes in those communities. This approach underscores how the Foundation connects different aspects of its overall investment strategy to create greater social impact, as they build from and reinforce each other.

The Foundation's asset allocation design suggested exposure to U.S. equities, non-U.S. equities, U.S. fixed income and hedged equity strategies. After Progress searched its proprietary databases and identified appropriate minority-owned firms, the Foundation's investment team met with these managers. "We don't rely exclusively on a consultant to make our investment decisions," says Wittenberg, noting that he and his team are hands-on investors. "I want our people to have responsibility for the entire portfolio — it's best practice for us." (Customarily, Progress has complete investment discretion to hire and fire its portfolio of managers. But many foundations require direct involvement with manager decisions, and our business model can accommodate their needs).

The Foundation funded its diverse manager portfolio over a 12-month period (rather than the entire $100 million portfolio at once). The portfolio is structured as a separately managed account for managers. Progress adds a top-down asset allocation overlay that's reflected in the respective manager allocations. We stayed consistent with how the Foundation approaches its overall risk budget categories: Capital Preservation, Capital Appreciation, and Inflation Hedges. The overall portfolio has a custom-weighted benchmark that is a composite of the underlying managers and their respective portfolio weightings. The portfolio mix is:

Portfolio Allocation



As of June 30, 2014, the current market value for the total Kellogg Foundation portfolio is $111 million. The overall Kellogg Foundation - Progress portfolio has posted a positive gross return versus its custom-weighted benchmark since its April 2010 inception. Six of the seven Progress managers have outperformed their specific benchmarks as of June 30, 2014.[3] Although early, these returns confirm the performance thesis to hire diverse investment managers — namely, that they not only help to democratize capital but bring a bottom-line benefit.

Foundation and Endowment asset allocation models: **Are they a fit for emerging managers?**

One possible objection to diversifying investment managers in the case of foundations is their greater use of alternatives — namely, private equity, real estate, hedge funds and even real assets. Some foundation and endowment investment officers may say that they do not manage their portfolios like public pension plans, which employ more traditional long-only investment strategies, primarily in U.S. equity and fixed income. They may argue that a preference for alternatives renders investment diversity more elusive for foundations and endowments since there are fewer MWBE alternative managers.[4]

There are certainly more traditional long-only managers in the overall MWBE investment universe than there are MWBE hedge fund managers. But our emerging manager research indicates there is a growing pool of high-quality MWBE hedge fund (and private equity) managers. Indeed, the Kellogg Foundation portfolio included two MWBE hedge fund strategies in its initial allocation. Our emerging hedge fund research began in 2012, and, as the charts on the next page show, nearly 20% of the emerging hedge fund universe of approximately 1,500 funds are MWBE firms.[5]

The predominant emerging hedge fund strategies in our research universe are long/short equities, credit and event-driven, and global macro. Half of the emerging hedge fund strategies are U.S.-based; but we also follow funds that operate from Asia and Europe. The upshot: There is a healthy supply of MWBE hedge fund talent to achieve diversity goals as well as investment innovation and competitive risk-adjusted returns. Yet, just as within the larger asset management industry, the largest hedge funds manage the most assets. Thus, the same rationale for manager diversification can and should be made for hedge funds as for their long-only firm counterparts.

Looking ahead: **Lessons from the WKKF model for other foundations**

Joel Wittenberg, Vice President and CIO of the Kellogg Foundation, has expressed interest in taking the Foundation's vision for diversification even further by hiring diverse managers to manage trust as well as foundation assets (the Foundation's trust assets significantly exceed its Foundation assets). "Part of the idea with our strategy is that as the managers grow and their business risks diminish, their performance will drive them into managing larger mandates for our trust."

This thinking reflects the Foundation's broader commitment to find opportunities to align how it does business with the ideals that drive the organization. The recognition that such coherence matters is key to the Foundation's progress in hiring diverse investment managers. Such alignment also opens up opportunities for the Foundation to create both financial gains and positive social impact.

What else can we learn from the W.K. Kellogg Foundation's experience with hiring diverse investment managers? Several salient points are listed below:

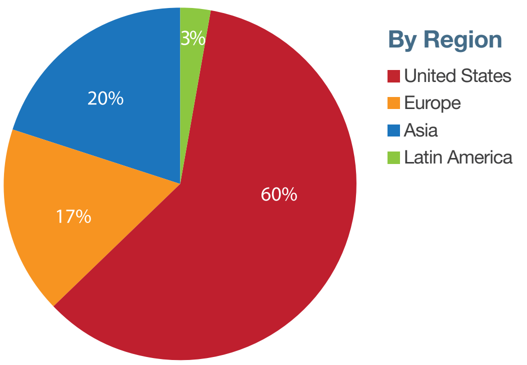
Joel R. Wittenberg

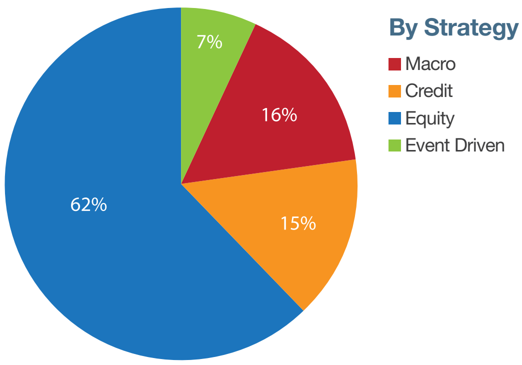
Lesson 1: Foundation boards and senior executives must support diversity

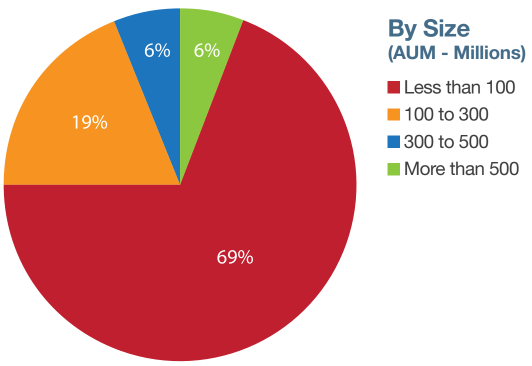
All significant change requires commitment at the top, and the Kellogg Foundation case study shows how foundation and endowment boards, along with senior leadership, must be a voice for the idea that diversity matters. As Wittenberg explains bluntly, "I'm not about to take the risk with this type of program unless I've got the Board's support. At the end of the day, you have to have a board that gets behind you."

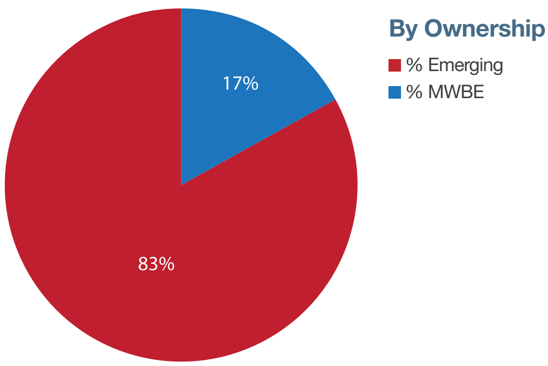
The Kellogg Foundation's President and CEO stresses that "creating an authorizing environment" is a prerequisite to making any core change. This means the board needs to authorize key leaders to move. "If you don't have that, staffs won't do anything because they're too afraid," she says. As we saw with the Carson and Miller paper,

There is a healthy supply of MWBE hedge funds to achieve diversity and investment goals.



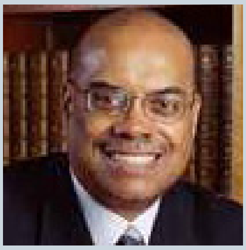






Leadership Matters:

Foundation boards need to intensify their efforts to make investment manager diversity a reality



Roderick D. Gillum

Rod Gillum, a trustee for the W.K. Kellogg Foundation, underscores that trustees and directors play a critical role in enabling foundation staff to go beyond business-as-usual to make their investment processes more inclusive.

"We do set a tone," he says. "It is incumbent upon those of us in the room to ask the question: Aren't there people of color and women who can manage and invest foundation assets? And if staff needs some help from board members to identify qualified candidates, we are willing to assist in this regard."

When boards make diversity an organizational priority, it becomes a natural and recurring part of the agenda for their review with senior management. "As we were looking at the people managing our Foundation's investment portfolio, it was obvious that there were no diverse managers," Gillum recalls. "This just wasn't what many of us [on the Board] would like to see. So it's not by happenstance when foundation staffs reach out to minorities. It's because a tone has been set."

Board advocates for greater diversity often face objections, ranging from fiduciary concerns about the supply of MWBE investment managers and whether they are the "best talent available." Another common concern is that small firms are inherently more risky and that it is safer to go with tried and true name-brand firms.

Gillum spent 31 years with General Motors, a company known for its robust minority supplier diversity program, prior to his current law firm. "You have to be ready with answers," he says. "So our messaging was more than just 'You ought to do this.' It was 'We – the Board – can help you make this happen if you need this level of support.'"

Gillum adds that the Kellogg Foundation's investment staff embraced the idea. "They have done a remarkable job to make diverse managers an integral part of our investment portfolio," he says, adding, "And I must say the performance of the minority managers we hired has been reflective of the excellence of each of the individual firms. The board and its policies may have been a catalyst to get you on the list, but your ability to stay in the room is because of your performance."

it also helps if this senior champion is in a position to influence an investment consultant to support change — and if the consultant has had success working with diverse investment managers in the past (consultants are discussed in more detail below).

Even if the board has not yet embraced the idea of diversifying its investment managers, small changes can be effected at the staff level. It can be supported simply by the fiduciary rationale than smaller boutique firms bring added value. What is critical is that some key investment or policy decision maker is curious enough to want to learn more and serve as a champion for exploring investment manager diversity. Ideally, this is a senior person who is viewed as a thought leader and/or someone who can forge a consensus about new ideas. In addition, board education can help to cultivate a commitment to diversity within the board and/or senior staff.

Lesson 2: Consider utilizing a manager of emerging managers

Kellogg Foundation Vice President and CIO Wittenberg and his investment team are active hands-on investors, so they did their own investment underwriting of our manager recommendations. Many foundations and endowments may not have staff resources or the desire to devote time to manager selection. In these cases, a foundation can direct its general consultant to conduct the requisite searches, or it can identify an emerging "Manager of Managers" who specializes in investing with diverse managers in a multi-manager strategy. If the foundation's investment staff desires to be directly involved with manager decisions, a Manager of Managers can still flexibly complement this model.

If the foundation chooses to work through its general consultant, then the foundation staff and/or board must hold the consultant accountable for conducting transparent and inclusive sourcing and diligence processes. Transparent processes should include feedback to the client about outreach, numbers of diligence meetings with diverse managers in various asset classes and, ultimately, hiring recommendations.

Regardless of ethnicity, gender or size, it is critical to get manager selection right. Thus, insightful sourcing, due diligence and experience in understanding the nuances of investment manager risk are key to finding the best talent. There are two fundamental risks when investing with emerging and MWBE managers

— investment risk, of course, but also business risk. While all emerging manager investors are experienced, many are not experienced with starting and scaling businesses. The unique skills and experience necessary to understand, provide oversight and coach smaller and newer managers around such issues as aligning incentives, or founders learning to delegate and share authority with other senior professionals, may be less familiar to foundation and endowment investment staffs and their consultants. This is why many public and corporate pensions have chosen to use an expert intermediary, such as an emerging Manager of Managers, to oversee these investments.

The work of an outsourced emerging manager specialist can complement the work of a general investment consultant. These two roles should not be in conflict. While there may be some functional overlap, our clients and their consultants acknowledge that we can meet specialized needs more efficiently than they can on their own. The Kellogg Foundation, for example, partnered with Progress in addition to working with Cambridge Associates, its general consultant.

"Progress allowed us to make progress," Ms. Montgomery Tabron laughed as she explained our role. "The big issue for us was how to find and select the best diverse managers. Our staff didn't have the resources to get to a level of confidence for hiring several emerging managers. But that's where the Progress business model allowed us to scale in this space quickly."

Key benefits of our value proposition as a Manager of Managers for foundation and endowment assets are listed below (Figure 1).

> "Progress allowed us to make progress... to scale in this space quickly."
> — La June Montgomery Tabron

Lesson 3: Invest with diverse managers in all asset classes

The Kellogg Foundation took a multi-asset class approach to its deployment of capital with diverse investment managers, targeting public market investments (long-only and hedge funds) as its entry point. And as described earlier, there is an ample supply of emerging long-only and hedge fund strategies led by MWBE firms from which to choose. The universe of best-in-class diverse investment firms is robust enough to enable successful investing across all asset classes to meet overall asset allocation goals. WKKF's multi-asset class approach is a best practice that is also used by other institutional investors, making it highly relevant for other foundations and endowments to consider.

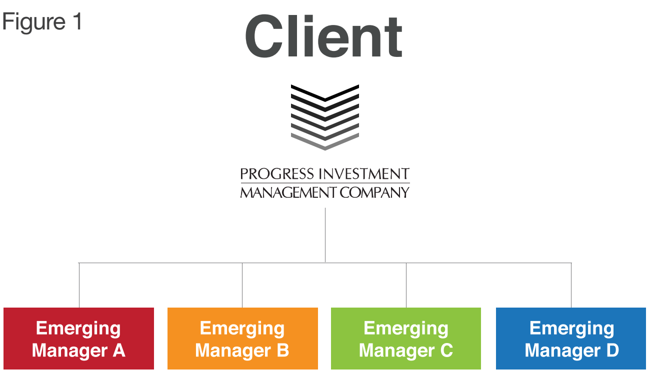
Another best practice is that, regardless of the mix of asset classes, foundations should allocate more assets to diverse managers just as they would with any other investment strategy — because it performs, complements other strategies and/or provides needed asset or sub asset class exposure to the overall portfolio. This approach also helps to integrate emerging manager investing into the mainstream of the overall portfolio discussion. As emerging managers perform, they should compete internally with other strategies for opportunities to receive scarce allocations.

Lesson 4: Understand the nuances of "emerging managers"and how to "graduate" or hire them directly

Learning the landscape of emerging managers is critical for achieving both equity and investment goals. The definition of emerging manager, in the case of public pension funds, has typically revolved around size; i.e., assets under management. While this umbrella includes minority-owned, women-owned and disabled veteran-owned firms, size has been the defining factor.

Progress uses a working definition for "emerging firms" as being those that are independently owned (at least 51% by employees) with less than \$2B–\$3B in assets under management (AUM) for equity firms, and up to \$5B for fixed income firms. One reason for a size-related definition is the potential legal quagmire for public entities, especially in our home state of California with Prop. 209, of reverse discrimination claims about investment strategies targeting specific ethnic groups. Foundations, however, are private entities. So there should be no legal concern over explicit strategies to utilize the best ethnically and gender-diverse investment managers.

Figure 1



Diversification Through a Single Point of Contact

- Enhance risk-adjusted returns
- Conduct robust due diligence
- Manage tracking error
- Reduce monitoring load
- Mitigate business risk
- Streamline hiring and firing
- Provide business assistance and coaching

"You don't want to miss opportunities."
— La June Montgomery Tabron

Nonetheless, with such emphasis on the size of emerging firms, it is critical that they do not end up being penalized as they grow, due to their proven performance and success. As any investment professional knows, assets follow performance. So it is likely that those emerging or diverse firms that beat their performance benchmarks consistently will grow and soon eclipse the typical firm AUM definitional ceilings.

The ability to identify future talent and manager capacity and take advantage of pre-existing relationships is a win/win for institutional investors when hiring diverse investment managers from smaller to larger mandates. It allows an organization to be more efficient and to avoid incurring costly manager search expenses.

As noted above, a firm should not be penalized because of its "success" in performing and hence growing its AUM without some place to go. Until an institutional investor has a place or a desire to hire the firm directly, our recommendation is to continue to use the firm on our Progress multi-manager platform to leverage its performance and enhance investor portfolios.

It is worth underscoring that "emerging manager programs" are simply investment strategies like any other, such as investing in emerging markets (a strategy for which emerging manager investing is often mistaken) or small cap investing. Moreover, the success of these strategies should be evaluated by the same traditional metrics as mainstream investments — e.g., accepted benchmarks, fees, and standard risk metrics, such as tracking error, information ratio, etc. Ultimately, the goal is to evaluate all managers — unique as they may be — in the same manner.

Lesson 5: Conduct ongoing outreach to emerging MWBE manager communities

Successfully using the best of the diverse investment manager pool requires institutional investors and/or their consultants to cast the widest possible net within this targeted universe. Casting the widest net, in turn, requires open door policies and resources to cultivate engagement with the MWBE manager community. We have seen several successful approaches to this targeted outreach — such as attending emerging manager conferences, networking at industry events, hosting investment seminars or MWBE manager "open house" meetings and becoming active members of minority and women-focused affinity investment groups.

Closing comments: **Are foundations willing to extend diversity to their investment management?**

It is time for foundations to apply the principles of equity not just to the grants they issue but also to their own professional services and how they conduct business. Our goal with this paper is to help foundations and endowments make this mind-set shift and better understand how to achieve the benefits of diversity in investment management. The issue is not capacity or capability – rather, it's one of opportunity and overcoming traditional biases about manager size, perceptions of greater risk, and what creates new and different sources of alpha. As we've said in another paper: "Emerging managers do not want special favors. They want an opportunity to compete. But the biggest barriers to true competition are still fear of change and comfort with the status quo."

If foundations and endowments continue to invest exclusively with the same larger asset managers in which they have traditionally invested, they will do a major disservice to future growth possibilities for their respective portfolios, as well as their fiduciary responsibility to find the best sources of alpha and new investment talent. They are also failing to align their choice of investment managers with their broader mission to expand opportunity for everyone – thus creating a gap between their overall focus on changing society and their own actions. A failure to diversify their investment managers means that foundations are not just potentially harming their bottom line – they are also falling short in realizing their potential to create positive impact.

"You don't want to miss opportunities," WKKF's Ms. Montgomery Tabron emphasized. "I think about the Yale model of asset allocation a few years ago when everyone in the foundation world went out to imitate this investment model because they didn't want to miss an opportunity. We need to get people thinking in a similar way about hiring diverse managers."

The Kellogg Foundation Vice President and CIO Wittenberg describes the hiring of emerging managers as far

"Emerging Managers are a great source of future ideas."
— Joel Wittenberg

We hope that more foundations and endowments will use the Kellogg Foundation model.

from an obligation, but an exciting opportunity. "You get extra benefits when you hire someone from a different background with a different thinking process, investment perspective, life lessons and history than you get from the J. P. Morgans of the world," he says. "It's pretty exciting to add some diversification to your investment portfolio. It all comes down to returns in the end. Diversity provides us with different ideas than we would otherwise have from a large manager located on Avenue of the Americas in New York City. It really pays off as emerging managers are a great source of future ideas."

We have outlined a range of ways to seek performance value, gain new and diverse investment inputs, leverage new talent and identify future capacity. One of the goals for this type of strategy is to ensure sustainable future investment partners. Diverse and/or emerging managers provide a vital resource to foundation and endowment communities, just as they have for many years for public, corporate and Taft-Hartley institutional investors.

We hope that more foundations and endowments will use the Kellogg Foundation model to design their own initiatives. We want to stimulate more dialogue and respect for the ability of diverse investment managers to contribute to the bottom line of foundation and endowment portfolios. Greater investment management diversity can enhance philanthropy's impact on making our communities and our world better for all.

NOTES:

[1] Sources: (i) "Emerging Managers | No Contest: Emerging Managers Lap Investment Elephants." Insights On ... A Northern Trust Global Advisors Publication, September 2010; (ii) Markowitz, Harry, Robert Snigaroff and David Wroblewski. "The Supply and Demand of Alpha." Journal of Investment Management 9, no. 1 (2011): 4-16. (iii) Aggarwal, Rajesh K. and Philippe Jorion. "The Risk of Emerging Hedge Fund Managers." The Journal of Investing 18, no. 1 (2009): 100-107. (Winner Best Article - Progress Emerging Manager Research Prize). Additional articles are cited on the Progress website: www.progressinvestment.com.

[2] Sources: Standard & Poor's Money Market Directory; Progress Investment Management Company Analysis. Data as of June 30, 2014.

[3] Source: Kellogg/Progress Multi-Asset Class Portfolio Performance computed as of June 30, 2014. Past performance is not necessarily indicative of future results. Gross of fee performance is calculated after the deduction of trading expenses but does not reflect the deduction of management fees, custodial or other fees. Fees will reduce the returns of a client portfolio.

[4] This preference has gained traction due to the so-called "Yale Model" championed by then Chief Investment Officer David Swenson, which calls for more investment with alternative strategies and includes passive indexing for the more traditional equity and fixed income investments. The theory is that this mix of lower correlated active investments in different asset classes (especially private markets) reduces portfolio volatility and risk while allowing for improved investment returns.

[5] Our working definition for an "emerging hedge fund" is a fund that is independently-owned with generally less than $500 million in assets under management or a fund with less than a three-year investment track record. MWBE hedge funds are funds that fit these same size/track record criteria and have at least 51% ownership by ethnic minorities and/or women.

About the Author

Thurman V. White, Jr. is President and Chief Executive Officer of Progress Investment Management Company, LLC ("Progress"). Progress is a pioneer in the field of investing with emerging managers — small, independent, diverse asset management firms, including those owned and led by ethnic minorities, women and disabled veterans. Progress specializes in multi-manager investment strategies featuring emerging firms. Progress manages almost $9 billion in assets for some of the world's largest and most sophisticated institutional investors, including public, corporate and Taft-Hartley pensions and foundations. Progress is 100% employee-owned and a certified MWBE-owned enterprise. For the past 22 years, Mr. White has held a variety of Progress leadership roles; he has been in his current position since 2004. Mr. White has served on several non-profit boards. He is currently a member of the Board of Directors and the Investment Committee for the Silicon Valley Community Foundation, the largest community foundation in the United States.

About ABFE

ABFE is a membership-based philanthropic organization that advocates for responsive and transformative investments in Black communities. Partnering with foundations, non-profits and individuals, ABFE provides its members with professional development and technical assistance resources that further the philanthropic sector's connection and responsiveness to issues of equity, diversity and inclusion. ABFE's advocacy has ranged from increasing diversity among foundation leadership and staff, to promoting greater awareness of grant-making impacts in Black communities within the United States. 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. ABFE has recently expanded its advocacy platform to focus on increasing opportunities for minority-owned investment managers to act as fiduciaries on behalf of foundations and endowments.

Who Manages The Money?

How foundations should help "democratize capital"

PROGRESS INVESTMENT MANAGEMENT COMPANY

Progress Investment Management Company, LLC
33 New Montgomery Street, 19th Floor
San Francisco, CA 94105

Main: 415.512.3480 | Fax: 415.512.3475

www.progressinvestment.com

ABFE

ABFE: A Philanthropic Partnership for Black Communities
333 Seventh Avenue, 14th Floor
New York, NY 10001

Main: 646.230.0306 | Fax: 646.230.0310

www.abfe.org