Who manages the money?
How foundations should help “democratize capital”
– A case study of the W.K. Kellogg Foundation

Executive Summary
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Why it is time for foundations to diversify their investment managers
There is a growing trend among institutional investors to take a more inclusive approach to managing institutional capital. This call to “democratize capital” centers on expanding the pool of investment managers to include best-in-class diverse firms. Such a shift advances both equity and fiduciary goals. Research shows that small independent investment firms often outperform larger counterparts in many asset and sub-asset classes.

Foundations lag behind other institutional investors in diversifying their mix of investment managers. Despite the mission of many to address historic inequities, foundations typically focus diversity efforts on grant making, or perhaps leadership and staffing initiatives. But they are missing an opportunity. Using more diverse managers would allow foundations to leverage new investment talent to enhance returns, as well as create a positive social impact that holistically aligns their business practices with their philanthropic missions.

The W.K. Kellogg Foundation story
One standout is the Kellogg Foundation. The Kellogg Foundation’s work with diverse investment managers is a leading example of how to successfully diversify investment managers. The Kellogg Foundation has long embedded diversity into its culture but realized that these principles did not extend as much to its investment portfolio. Committed to “walking the talk,” the foundation board pushed for change, which was taken up by its Vice President and Chief Investment Officer, Joel Wittenberg.

This paper explains how Wittenberg leveraged Progress Investment’s manager of manager capabilities to build a quality portfolio of diverse investment managers. While still early, the Progress-Kellogg portfolio, valued at $111 million, has achieved positive performance since its 2010 inception.

Key Lessons Learned and Looking Ahead
The Kellogg Foundation case study demonstrates how a foundation can align how it does business with the ideals that drive the organization. This paper draws upon interviews with the foundation’s President and Chief Executive Officer, as well as a key Board Trustee, and shares their insights. Key lessons include the need for board leadership around diversity; the value of hiring an outside specialist or “manager of diverse managers”; and the availability of high-performing diverse managers in all asset classes, including hedge funds and private equity.

Looking ahead, this paper argues that it is time for foundations to apply principles of equity not just to the grants they issue but to their own professional services. Investing exclusively with the same larger managers they have traditionally utilized may do a disservice to their portfolios. And it means that foundations will fail to align their choice of investment managers with their broader mission to expand opportunity for everyone.