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Museums With Long Road To Reach Impact Investment Adoption Of E&Fs: Survey

By DANIELLE CORREA

Interest in impact investing among U.S. museums is severely lagging compared to their higher education and foundation peers, however, a recent study finds there is room for improvement if more museums can get board and committee members to drive conversations on the impact investment space.

Nonprofit **Upstart Co-Lab**'s *Cultural Capital: The state of museums and their investing* report surveyed 61 independent art and design museums in the U.S. and found that only 13% of museums are engaged in impact investing, compared to 47% of college and university endowments and 51% of foundations.

Upstart Co-Lab partnered with the **Association of Art Museum Directors** and the **Black Trustee Alliance for Art Museums** to better understand how museums engage on the topic of impact investing.

Impact investing has become a mainstream investment approach as [US SIF: The Forum for Sustainable and Responsible Investment] finds that one-third, or $17.1 trillion, of assets under professional management in the U.S. “are invested following impact investing strategies” and Upstart Co-Lab finds that museums aligning the “vast amounts of capital” controlled through their endowments with their values and mission can help them manage their reputations and follow through on various declarations and initiatives.

To achieve that, Upstart Co-Lab Founding Partner **Laura Callanan** believes that there needs to be a moment when institutions move from conversation and consideration into action.

“We think that is happening now [given that] we profiled museums [in this study] that are taking the conversation and putting those new learnings to work. We are big advocates that learning and study are key and necessary, but you can’t just stop there. You need to put it into practice, make changes in your investment policy statement and adopt these approaches in your overall approach to your portfolio,” Callanan said.

To move impact investing discussions beyond the hypothetical, the report suggests museums engage champions on their boards and investment committees, clearly define impact investing priorities and goals and start their commitment through small steps.

Baltimore-based **Walters Art Museum** indicated in the report that it began impact investing efforts in 2015 in response to its commitment to diversity and inclusion in its new strategic plan. The museum's board placed over 10% of its endowment with "four best-in-class, diverse-owned managers" and, as of April 2022, about 20% of the portfolio is handled by diverse managers.

"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," said **Michelle RhodesBrown**, director of finance at the Walters Art Museum.

A majority of respondents' investment committees, 80%, have discussed impact investment and two-thirds of respondents indicated their investment committees and leadership teams are leading the conversation, but other important stakeholders are lagging behind, according to the survey.

Just 31% of respondents indicated their boards were driving the conversation on impact investing, while 16% said staff were driving discussions, the survey indicated.

Meanwhile, nearly half of respondents reported they have some impact investing expertise on their investment committee, yet only 27% indicated their professional investment advisors are driving the impact investing conversation, with Callanan finding two reasons behind this.

“Not all investment advisors are familiar and knowledgeable about impact investing though most of the firms that are serving the respondents to our survey do have impact investing expertise. That doesn’t necessarily mean that every individual, every advisor at the firm is familiar and knowledgeable and likely to be able to support their clients on this topic,” Callanan said.

Secondly, “To our chagrin, a lot of investment advisors feel like they should follow their client’s lead rather than bring professional expertise to keep their clients abreast of what’s new and what’s next. They’ll help and support their clients about impact investing if the client raises the question, but they are shy or hesitant to be the ones to initiate that discussion and we find that very disappointing,” she continued.

Expertise may vary among the individual advisors within an advisor or consultant, which may result in a gap between a firm’s capacity and the capacity of individual advisors, according to the survey, which finds there are a variety of factors driving impact investing discussions with values alignment cited as the most significant driver with 90% of respondents.

Callanan indicated this is attributed to the “strong movement” by museums in the summer of 2020 to publicly express alignment with social justice initiatives such as Black Lives Matter and a commitment to anti-racist practices.

“We think that looking for ways to live your values of diversity, equity and inclusion throughout your entire museum operation, including your endowment investment strategy, makes a lot of sense,” she said.

Other important key topics driving the conversation were investment returns, cited by 55% of respondents, 33% that indicated donor recruitment and retention and 27% that cited reputational risk management.

While conversations on impact investing have become more actionable, the report finds only one-third of respondents have turned those conversations into action.

About 35% reported that a portion of their endowment portfolio is currently managed by Black, Indigenous and people of color and/or women fund managers, while 31% indicated their endowment portfolio is currently invested in impact investing strategies.

However, 47% of respondents are not sure or have not assessed how much of their portfolio is managed by diverse managers, with another 34% indicating they are not sure or have not assessed how much of their endowment is managed according to impact investing strategies, according to the survey.

As a significant portion of the institutions have work to do when it comes to implementing and identifying impact investments, the report finds that expertise and leadership matter as respondents with investment committee members and advisors who have impact investing expertise report more impact investing activity.

The study found 49% of museums have some impact investing expertise on their investment committee, while 90% have at least one outside investment advisor and 66% have an investment advisor with impact investing expertise.

Investment advisor **Cambridge Associates**, which maintains a sustainable and impact investing team and a dedicated diverse manager team, serves the most respondents to this survey at 12%, according to the report, which noted that of the 40 firms named by respondents, only **Monticello Associates** and **Vanguard Group** do not describe having expertise in impact investing on their website.

Despite the efforts of these museums, other barriers stand in the way and hold them back from a larger commitment to impact investing, and their concerns are largely in line with those of universities, foundations and other institutions.

Implications on the ability to achieve targeted financial returns was cited by 80% of boards and 84% of investment committees; concerns about the ability to measure the social and environmental impact was cited by 54% of boards and 51% of investment committees; and the availability of high-quality impact investing options across all asset classes was concerning for 49% of boards and 61% of investment committees, according to the survey.

https://www.fin-news.com/2022/07/21/museums-with-long-road-to-reach-impact-investment-adoption-of-efs-survey/

“Trustees of all nonprofit organizations take their fiduciary responsibility seriously. It’s not surprising that the first and foremost question is always, ‘Will we give up financial return if we invest our endowment using this different approach?’ The answer of course is no, but it’s a reasonable and appropriate question for trustees to be raising because of their responsibility as fiduciaries and stewards of the institution,” Callanan said.

The complete survey of 61 independent art and design museums in the U.S. was conducted online during the first quarter of 2022 and targeted museums represented in the Association of Art Museum Directors.