



Aligning Assets with Mission

In 2018, The Denver Foundation made an important decision. It would change the focus of its \$180 million socially responsible investment pool from negative screens (excluding “sin stocks” such as tobacco or firearms companies) towards inclusion of investments with social or environmental impact.

It might seem a modest shift. But for TDF, it was the start of an ambitious strategy to use both its investments and its grantmaking to advance the goals at the heart of its philanthropic mission: diversity, equity, and inclusion.

That strategy was further activated in early 2021, with the launch of The Denver Foundation’s new Strategic Framework. Under this 10-year-plan, the Foundation pledged to bring available assets in alignment with mission. This places the Foundation at the forefront of a growing movement among foundations across the United States.

Meanwhile, many asset owners are recognizing that ESG (environmental, social, and governance) investments can also generate healthy returns.

Donors, too, are looking for an alignment of investment and philanthropic goals, says Daniel Lee, TDF’s chief financial officer. “A community foundation has to walk the talk,” he says. “And our story has really resonated with individuals.”

In pursuing such a strategy, community foundations like TDF have a unique advantage, says Kristine Pelletier, a partner at NEPC, the Boston-based investment advisor that TDF engaged to help it develop its investment strategy.

“With our new Strategic Framework, we looked beyond our grantmaking and programmatic work and challenged ourselves to find new ways to push our racial equity work to the next level.”

“They’re focused on transformational change in their communities,” she says. “And they’re also in the middle of a movement where donors are seeking better alignment with things like diversity, equity, and inclusion.”

But while it is part of broader trends in philanthropy and sustainable finance, TDF is also stepping into unexplored territory. For while the ESG industry has been rapidly going mainstream, much of the funding flow has been into climate change and environmental issues. A specific focus on diversity, equity, and inclusion is relatively new.

“The Denver Foundation has a 25-year history of leading on racial equity,” says Javier Alberto Soto, President and CEO of The Denver Foundation. “With our new Strategic Framework, we looked beyond our grantmaking and programmatic work and challenged ourselves to find new ways to push our racial equity work to the next level. This has meant opening up to new ideas, such as partnering with an equity-minded investment firm and boldly trying new strategies.”

For example, NEPC has partnered with an investment management firm with diverse ownership to develop a product with TDF’s mission in mind. The product, a proprietary bespoke index, will marry the racial equity scores of investments with ESG scores. “The Denver Foundation is going to seed this by being the first investor—that’s a call to action,” says Pelletier.

“We’re trying to be innovative without taking additional risk,” says Tad Kelly, chair of TDF’s investment committee and a managing partner with CHB Capital Partners. “We’re taking on a piece of it that’s underdeveloped compared to other parts of the ESG industry.”

TDF’s investment strategy is going beyond harnessing dollars as it seeks to make an impact. The approach can be seen on several levels, explains Kelly.

“The first level is making sure the right people are at the table,” he says. This means ensuring that diversity, equity, and inclusion are reflected in the individuals sitting on the foundation’s investment committee. “That changes the conversation,” he says.

“Second, in choosing to work with NEPC, TDF has picked an investment consultant that understands the importance of diversity, equity, and inclusion, that has an internal commitment to this, and that seeks out diverse asset managers, both in terms of the individuals building investment portfolios and the owners of the firms that employ them.”



These managers can have an impact through the investment choices they make and by engaging with portfolio companies on their approach to diversity, equity, and inclusion. “This has a huge ripple effect,” says Kelly.

Importantly, none of these changes impact the fundamental asset allocation of the Foundation’s SRI Pool: that is, the deployment of its investments to various asset classes, such as stocks, bonds, and private equity. As defined by its investment policy statement, the investment objective of this Pool is to achieve long-term appreciation while minimizing volatility. These forays into an ESG approach that emphasize diversity and inclusion are focused on new managers, not shifts between asset classes. In addition, all of these managers are mandated to achieve market-rate returns, while still balancing the impact goals.

Pelletier identifies a further way that the Foundation can use its investment strategy to have an impact. “They are willing to be bold and seed new ideas,” she says. “And that gives them a lot of power to demonstrate to the community foundation sector what can be done and to push others to think differently as well.”

Kelly agrees. “We hope that that can help lead the way and be a resource for other community foundations that may not be as far along on this journey,” he says.

The SRI Pool is one internal investment option that The Denver Foundation provides its donors across the variety of charitable funds it offers. Other options include our Long-Term Balanced and Index Pools, and the opportunity for a donor’s personal investment advisors to manage assets on our platform.

For more information, please contact your Engaged Philanthropy Officer, or Ben Perry, Director of Charitable Planning (bperry@denverfoundation.org).

