

## Episode 11

**VO Artist:** Hello, and welcome to Mission and Markets, a podcast by CAPTRUST, where we explore trends and best practices for endowments and foundations related to mission engagement, fiduciary governance, and investment management, hosted by CAPTRUST. It's Heather Shanahan.

Each episode shares research, resources, and recommendations from industry insiders, so your nonprofit can focus on what's most important: the mission.

**Heather:** Welcome to our latest episode of Mission and Markets. My name is Heather Shanahan. I am your host, and today I am joined by Anthony Marcozzi of Ethic, and Ethic's a great partner of ours and [I am] so delighted to have some time together today. Anthony, maybe you can tell us a little bit about your background before you get rolling.

**Anthony:** Of course, Heather. Pleasure to be here with you, and very grateful to partner with CAPTRUST. A little bit [about] myself: I've been with Ethic for just about five years now. When I joined, we had close to zero dollars under management. We were working with about four to five clients. I head up ethics advisor network relationships, including the CAPTRUST relationship.

And I've been very fortunate, as I said, obviously, to get to work with folks like yourself, but [also] tremendous advisors, consultants, and clients across the country within CAPTRUST. Prior to joining Ethic, I was at one of the largest wealth management firms in the world. And I was working on the team crafting their sustainable investing product platform and ultimately trying to help advisors implement the solutions.

And what drove me to Ethic is really the focus on intentionality, transparency, and education throughout the entire investment experience as it relates to, whatever you want to call it, sustainable investing, values-aligned investing, SRI. I just really felt like there was that intentionality and transparency needed sorely in this space, and there still is today.

**Heather:** Great. Thank you. Thanks for sharing that. So, let's talk a little about Ethic and how you work with endowments and foundations.

**Anthony:** Definitely. So maybe I'll break it into Ethic and then how we work with endowments and foundations. And within the Ethic bucket, we'll do a lot of bucketing. Today, we'll do the who and the why. Ethic was founded in 2015. We manage over \$4 billion today. We do that all in what we call direct index public equity, separately managed accounts.

The power of this investment vehicle is what allows for personalization as it relates to values alignment and mission alignment, and financial objectives. There's always going to be trade-offs within this space. How do we build something that is really uniquely personalized to an organization or an individual based on their specific goals?

And our mission is to accelerate the global transition of sustainable investing by enabling investors to reflect again the values that are most important to them within their portfolios, not a prescribed lens of what that has to mean.

And how we actually do this is all through advisors and institutional consultants delivering this experience and trying to do it in a way that feels approachable, meeting clients where they're at, not something that needs to be a daunting black hole of a conversation. And then the second piece to that is the why.

So one of the things that drove the founding of this business, and the focus on this public equity landscape as a starting point, is the concept of organic finance. It's something that there's white papers about, ultimately saying what happened in the food industry years and years ago of people ultimately starting to ask questions: What's in my food, where's my food coming from, what happened in the financial product space, what's in my portfolio?

Especially when we think about the public equity index space, where you're investing, [it's usually] set it and forget it. Whether it's the S&P 500 or a global fund, you're getting that diversified exposure, but there's not a lot of intentionality behind [it]. That part of the asset allocation, it is one of the largest and fastest-growing sleeves of investors' allocation.

**Heather:** You and I've talked a number of times, obviously, and I don't remember ... the term "organic finance" [being used] like that. That resonates for sure.

You referenced the spectrum, if you will, uh, social impact investing and, you know, ESG, I think, has some connotations with it at this point, good or bad or whatever and different, but let's talk through socially responsible investing or mission-aligned investing, you know, ESG. What do all these terms mean, and what does that spectrum look like?

**Anthony:** Yeah, 100 percent. When I think about topics that have led to the most confusion in client conversations that I've had over the past eight years as it relates to this space in general, it's the terminology and ultimately trying to fit not just complex investment approaches, but complex issues that are systemic, that are interconnected, into neat boxes.

So I personally like to step away from that. I think it is very important. [There's] a lot of work that's being done on a global scale, on a national scale, to build out frameworks, to align on terminology and ultimately get going on the same track in the right direction as an industry, but I like to frame the discussion as values alignment.

I think that's a great term to start a conversation based on what values are important to an individual or an organization. You can then start to think about what investment opportunities may align with those values across all asset classes and styles to implement.

Whether that is in the public equity space, focused on divestment and shareholder engagement, or if you're investing in a private fund that maybe very specifically is

targeting project financing of solar projects in South America, as an example, it's really about understanding the spectrum, but I think it's important.

Thank you. To tie back and start that conversation with values and mission and ultimately get to the product and the types of impact you can have across that allocation downstream. So not to dodge your question, Heather, because there is a ton of terminology and a lot going on in the space that is tremendous work. I just always like to tie back, and that's what I felt has resonated most with individuals all the way up to boards and investment committees of endowments and foundations.

**Heather:** Can we talk about values for a minute? You guys assess on, I think, what, 19 different factors, at least, and it's our experience, certainly, working with clients, that sometimes committees say that they're interested in impact investing or your socially aligned, mission-aligned investing, but it's hard to develop consensus within a committee of what that means to the organization and what that looks like.

Let's talk about that. What does that process look like? What are those values that you guys are looking at?

**Anthony:** Yeah, that is the biggest question that we see in the endowment foundation space. You have a lot of different folks coming from different angles and perspectives on the spectrum of, "Hey, maybe I'm a complete skeptic on this space. I don't even want to hear the term ESG or another word." We get that, and we understand that.

And then there's others that are the ones that are really pushing and advocating to have this conversation. When we think about it, [what's] a little bit different than other providers in the space is we don't want to lead the conversation with asking a board or investment committee if they care about one specific data point, like Arctic oil and gas, right?

Let's frame this in what you said before is we call them sustainability pillars, or it could be anything from climate change and racial justice to health and wellness and leadership and management, thinking about corporate ethics issues. And when you frame it in a more human way, we can get to the data, but we want to start with prioritizing what issues matter most.

And the way that I've seen it work really well, the way that we deliver to endowments and foundations is two key paths, right? There are some that maybe have a defined mission already. It's very clear. They've been doing this. Maybe they haven't invested in this way yet. documented in their investment policy statement and their website.

In that instance, we do something called a mission translation exercise. We could talk about that in a sec, but then there's another path, [in] which we work with a lot of endowments and foundations through their consultants purely on education. How can we think about this landscape? What are the hurdles that are in place that we might run into? What are things that we should be thinking about more broadly as we assess whether this makes sense for us?

And a big piece of that is getting people to the table and around the table that are open to having this conversation. Just to unpack ... actually how we do this, for the firms or for the organizations that are a bit further along, we have an in-house research team that can do something called, again, the mission translation exercise.

It's gathering that information that outlines what your mission is, what your vision is. And then our team does research as to how we could tie that back to a few of those 19 different pillars. Maybe it's up to five or as focused as one of those. Maybe it's a women's-rights-focused organization. From there, we're able to actually come together and facilitate a workshop to educate the group on, "Hey, here's this issue that you say you care about. One, does that make sense? Or is this aligned with the things that you're trying to achieve too? How can we think about the education and what you're doing as it relates to this? What do you own today in your investments? Does this align or maybe not align with the things that we care about? And then three, which is most important, is how do we look at a proposed alternative to what we have today through an Ethic portfolio?"

And this is where we're balancing competing objectives, right? Maybe the folks on the investment committee are very focused on performance and really tightly tracking whatever index exposure that we're seeking to deliver, while maybe some folks on the board and the staff of the organization want to maximize impact.

Everybody can feel aligned ... and feel like their voices are heard and ultimately be managed within expectations of that investment policy statement, so that's just a snapshot. I know there's a lot of components to that.

And then the other thing that we do as well for organizations that are not as far along, have not had this conversation, we have what's called a values mapping exercise. This can be sent to 10 to 15 different stakeholders at an organization and help them start that conversation, and again, have everybody's voice heard.

**Heather:** Awesome. I remember one specific example where we were working with the Family Foundation and the original assets from the father, and then there were additional significant assets that were coming in as a result of the transaction. And you looked at the things that they had historically supported, and there were some things that were pretty specific to the part of the country where the organization was based and where the family lived, and then there's like random outliers like turtles in Florida and those sorts of things.

So can you talk about maybe some examples of what you've worked through with organizations, a couple of things that are like real life of some of the challenges and problems you've solved?

**Anthony:** The first being a \$150 million university endowment. A little bit about the endowment: [There was a] large, multidisciplinary board, so a lot of different perspectives. They did have a very predefined view of what issues and causes were important to them really driven by an investment policy statement and also very clear on their public-facing website: "This is what we stand for. This is what we want to represent."

They're focused on serving really their key constituents, and they're served by an institutional consultant. And then what we did was that mission translation exercise: "Let's take the things that you care about." What we ended up mapping that to is five of our sustainability pillars here at Ethic. That was leadership and management, climate change, clean water, racial justice, and democracy. So really a broad array of things.

Again, it could be as focused as one of those issues for other organizations, but what we did was then got with the consultant and organized a session to facilitate this workshop to present that back to the client—not just "You care about racial justice." What does that actually mean? What is the power of what we're doing here mean for what you can invest in within your portfolio, but to really engage with your community and report back to them and have stories to tell and provide education to those constituents, across the board, the committee, and then the university, the students, right?

**Heather:** Obviously, within CAPTRUST, we work with a lot of private and family foundations.

For sure. So in this example, [a] multigenerational family had a large liquidity event of 400 million. They're coming up on that liquidity event. Their advisor reached out to Ethic because they said, "As we start to, um, you know, come into this more material wealth, the first thing that we want to do is create a family foundation."

They went through our values mapping exercise, all four of them, [with] really different lenses of what's important to each family member, but then what does that unified mission look like on behalf of the family and how that could be applied to a portfolio. When we think about that large liquidity event that they're coming into, the family ultimately invested 35 million on behalf of that foundation to get it started.

And the interesting thing to me is not always just the public equity portfolio and what you could do through Ethic, but that exercise that your consultant or your advisor is bringing to you, what that means for the types of conversations and the way that you're engaging with your family in a really unique way outside of, "Hey, we're just going to invest, we got S& P 500 exposure here."

**Heather:** Absolutely. Yeah, that's such a differentiator. I think [that] often, families struggle to decide, "Is it a private foundation or is it a DAF? What makes the most sense?" And the chance for, there's dynamics of, "Who are we as a family, and what do we want our legacy to be, and how do we bring children along and teach them who we are and what philanthropy means to us?"

It's just a really meaningful opportunity, for sure. But, on that note, our CAPTRUST 2022 survey of endowments and foundations indicated that organizations are becoming a little bit more cautious about impact investing. Why is that? What are you hearing? And what types of legislation might we see to address issues that are causing uncertainty among investors?

**Anthony:** Yeah. Love that question. I think that there's so much noise right now in the space. We can unpack it, maybe like our high-level view, and then two, why investors

might be a bit more cautious right now about impact investing, and then three, what I feel like is the takeaway. But high level, in our experience, and based on research that's out there, I think there's organizations [that] are still increasingly becoming more interested in exploring what impact investing could look like within their own portfolios.

There's actually an interesting report from PwC that says that asset managers globally will increase their impact-related assets under management by 84 percent between 2021 and 2026. So we feel like that momentum is really there.

We hear a lot from clients ... that are interested in local impact investing, and how do you partner with organizations that have interest in that arena?

**Heather:** And then, one of the things that I think is always a big challenge, too, is how they measure the impact of that type of local investing. So how do you, how does Ethic work in that space?

**Anthony:** Yeah, tremendous question that comes up very often. What I tie back to again here at Ethic is that we're providing really broadly diversified index exposure in the public equities market. So you're not always getting super place-based, right? You're getting, we deliver across domestic U.S. exposure, global and international exposures for folks that are looking for hyper localized impact opportunities. For example, I live in Metuchen, New Jersey. [So what] if I wanted to invest in a specific project here? Or, thinking about issues that are really relevant here in town, maybe I want to think about other asset classes, like the private markets or parts of the fixed income space, just to name a few.

And I think what's important there alongside any impact investments that you might want to make is understanding and doing the diligence on the manager. How are they approaching what it means to have a localized impact, how are they approaching investment criteria, the data that they're utilizing, and then what's the transparency around it?

How are they reporting on it to make sure that you feel like you're really getting that intentional solution aligned with what you're seeking to deliver? The thing I'll close out on that I do think is helpful through the Ethic lens is, when I went through the values mapping exercise, one of the things that I cared most about is clean water.

That's an issue here in certain parts of New Jersey. It's a super industrial state with [a] rich history ... in industrial business. And so there's been some issues with pollutants in water. I have an eight-month-old daughter, so that's something that's top of mind. I care a lot about women's rights as well, based on that and a number of other stories within my life, but, for me, I care a lot about clean water.

So ... I think about what I could do with Ethic to one, understanding that and going through that mission statement exercise, to then assessing what types of other managers or partners I would want to work with to have that localized impact. But thinking about for me, yeah, maybe I don't want to invest in the large public companies in my index exposure that are having the highest impact on water pollution, because that's a localized issue.

So you're not getting that like specific localized impact, but it's a way to think about how you invest in any asset class.

**Heather:** Now that makes sense.

Anything that we haven't touched on that you think would be important for our audience to hear?

**Anthony:** Yeah, this has been a tremendous conversation. I think the biggest opportunities in the space are also the biggest challenges in the space for endowments, foundations, and families that are seeking to really achieve mission alignment within their portfolios. I think, opportunity wise, it's working with a trusted advisor like your CAPTRUST advisor or consultant to find partners that can focus on education, right? This can be a conversation that starts today but not something that gets implemented for a year or two years from now, but starting that conversation to explore what your specific values are and not settling for an off-the-shelf lens of what something might mean, right?

Everybody has their own values. Let's meet people where they're at. Let's think about stakeholder alignment, and let's think about that education that we have. And then the second piece is transparency, right? You want to have a transparent solution within this space. And I think that a lot of times, there's analysis paralysis in this space, because there's a lot of stakeholders. There's a lot of different offerings and solutions in the space. It becomes quite complex.

When we think about solutions that you may be considering, they should be living and breathing and personalized to you and things that you can revisit a year from now or five years from now to make sure that as your mission evolves, as things change in the world, that your portfolio is evolving with that. So it really is that partnership structure. And then the last thing [is], I think, there's a huge opportunity [in] being able to report back, not just the impact metrics, but being able to engage your community.

**Heather:** Yeah.

**Anthony:** Not just the board, not just the investment committee, but everybody that's involved, the staff and the people that you're serving, the people that you're bringing together and telling really unique stories about how you're being intentional within your investments, I just think is really powerful for what a lot of these organizations are seeking to achieve.

**Heather:** Yeah, I agree. We have a YWCA with whom we work, and we've had some discussion around that, as ... they're supportive of women in social justice. And so how do you engage the community to tell that story? And then how do you engage the community to find out what that means to them?

So I think it can be a really collaborative opportunity to connect with the organization to programs and the people that they're serving. Thank you for bringing that up. Our parting question here on Mission and Markets is always mission engagement and what does that

mean to you? Anthony, thank you for joining us today, and I'd love to hear from your perspective what that means.

**Anthony:** Yeah, definitely. As it relates to what's important to me, I think it's a few of the different issues that we talked about already, one being women's rights, two being racial justice, three being clean water. We talked about all of those. And lastly, climate change. I think the interesting thing that [I've learned] as I've gotten more and more into this space is the interconnectivity between all of these issues and not thinking about them top line, but tying back to real-life experience the things that are driving that, and we all have our own stories that are really powerful when we think about [it]. I think the term "values" in itself can be ambiguous, right?

What are the things that are driving us in life? And when I think about having an impact, it's about focusing on what we can control, remembering that we can remove ourselves from the center. We're part of something bigger. And if we can have a mindset of "How can we serve the organizations and the clients and the partners that we're working with?" it'll lead to a lot better outcomes than keeping ourselves in the center, and I think to me, as it relates to that mission and impact, the most important thing has been really related to mindfulness and controlling what I can control, focusing on staying grounded and staying centered within my own mind to win that first battle, to be able to do any of the other work that we're trying to do on this global scale.

So I'll keep it tight. I'll keep it at that. And it's been a pleasure spending time with you today, Heather.

**Heather:** Thank you. That's a great response. I can tell that you spend a lot more thoughtful time in this space than a lot of people, because certainly you've mapped out what that means to you personally. So thank you for the work that you're doing and for joining me here today, and we will certainly talk soon.

**Anthony:** Love it. Thanks, Heather.

**Heather:** Thank you.

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