

CASE STUDY:

JOHN S. AND JAMES L. KNIGHT FOUNDATION⁵⁴

In 2010, the Knight Foundation President and CEO, Alberto Ibargüen, sat on a panel at the Black Corporate Directors Conference. When a conference attendee asked him point blank how much of the Foundation's assets were invested with diverse firms, he did not know the answer and resolved to find out. Upon returning from the conference, he enlisted the help of the Foundation's CFO, Juan Martinez, and outsourced CIO and investment consultant, Kevin Stephenson of Cambridge Associates, to determine the amount. They discovered that only \$7 million (less than .05% of the Foundation's assets) was invested with just one minority private equity manager. Ibargüen and Martinez felt that this result did not reflect the value of diversity, which was a strong tenet of the Foundation, and began a process to increase manager diversity while not adding investment risk or diluting portfolio returns.

The Foundation's commitment to diversity in its investment practices started with an organic conversation driven by staff with support from both the board chair and the investment committee. The plan was developed through regular discussions with the investment committee on their progress. Because there was no intent to change the portfolio's investment risk or return expectations, there was no official vote by the investment committee. The staff had the agency to move this agenda forward. "I wish I could say there is a magic bullet or magic lever that we pull," said Martinez. "The reality is we sat with our investment consultants, and we said this is something we want to do and here are the criteria.... We know they exist, we know they're out there, and we want to be a part of this."⁵⁵

As of May 2016, the Knight Foundation had invested \$465 million, or 22% of the total \$2.1 billion endowment, with 12 minority/women-owned firms.

Cambridge Associates was an active partner in implementing the agenda. For example, it helped the Foundation develop clear definitions of "minority- and women-owned," the framework decided upon by the Foundation, and how this new instruction would fit into the Foundation's investment plan. The Foundation pursued this approach, believing that the diverse set of voices and unique perspectives brought to the investment process would provide an additive value; this could only be guaranteed if diversity was reflected throughout the firm. "It's not hard to see how many people in a firm are minorities or women," said Martinez. "Firms usually have their entire investment team on their website. It's not a ton of extra research to ask someone to do, and it tells something about a firm's diversity without even having to ask the question."

With support from the investment committee, which annually approves the investment policy, Martinez followed up with Stephenson on multiple occasions to explore how the Foundation could both increase the number of and assets under management by minority- and women-owned firms and be purposeful in integrating this interest into its current investment plan.

For the investment committee, it was important that working with any new diverse managers be non-dilutive in returns and non-additive to risk on both the implementation and execution side, in accordance with the policy for investing with any manager. The investment committee trusted staff and the outsourced CIO to execute the investment policy and asset allocation policy in a way that would maximize returns.

The Foundation has chosen not to adopt a specific mandate or policy concerning investment with diverse management firms. Rather, it holds Cambridge Associates accountable to taking a strong consideration of including minority- and women-owned firms within the portfolio. Cambridge Associates reports to the investment committee quarterly and includes an update on investments with minority- and women-owned firms. In the interim, Martinez works with the consultants to understand what they are doing within the markets, how this reflects the intentions and desires of the investment committee, and any implications this might have on the Foundation.

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ENDNOTES

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54. Unless otherwise noted, information in the following section is drawn from: Juan Martinez, Chief Investment Officer of the John S. and James L. Knight Foundation, telephone interview by the author, January 25, 2016.
55. Whyte, "Asset Management's Jackie Robinson Moment."