Surdna Foundation's Journey: Navigating the Evolution of Impact Investing

INVESTMENT STRATEGY SPOTLIGHT

This Spotlight was compiled by Katherine Gagen and Sheryl Seller.

Surdna Foundation, a family foundation based in New York City and founded in 1917, seeks to foster sustainable communities. The foundation's work is marked by a commitment to social justice and diversity. As such, Surdna aims to integrate impact investing with social equity criteria into its endowment. As of 2023, almost two-thirds of the endowment's assets were invested with managers who have strong diversity characteristics and are intentionally tackling issues such as racial bias within financial systems and local economies.

The foundation began its foray into impact investing in 2014, working with Cambridge Associates (an investment firm whose clients include foundations, endowments, and other institutional investors), forming an investment committee, and hiring a Director of Impact Investing. Surdna sought to understand how its endowment, as well as the larger global financial system, could enhance its efforts to serve communities in need. The foundation staff and board came to prioritize aligning investments with its values. This prompted engagement of BIPOC investment managers for the long-term, and investments responsive to social and environmental goals.

Surdna staff worked with board members to explore other avenues for socially responsible investing. For example, Adam Connaker, Director of Impact Investments at Surdna, explained: "It's not just the managers we're investing with. What about the places that they invest? The products they invest in? The companies, and the diversity of the teams, and portfolio companies?"

The board's commitment to aligning values with investments led to public acknowledgement that an endowment exists for purposes that go beyond mere wealth accumulation. "It starts with chipping away at the assumption that the endowment is separate…and exists for only one purpose, [rather than having a] shared purpose with the institution" explained Connaker. This new conception led to a $100 million mandate to impact investing in 2017, marking thae integration of impact investing into the foundation's ethos.

"It starts with chipping away at the assumption that the endowment is separate…and exists for only one pur-pose, [rather than having a] shared purpose with the institution."

— Adam Connaker, Director of Impact Investments at Surdna

Surdna also recognized the need to continually evolve and evaluate its goals, strategies, and impact. For example, the strategy of graduating investments, particularly into new asset classes, showcased an innovative approach to impact investing. Surdna's commitment to racial justice and equity underscored the potential for impact investments to address systemic problems such as economic inequality as well as environmental and climate injustices.

Surdna Foundation staff faced challenges during the transition from traditional investing methods to impact investing strategies. Some of these challenges included the new responsibility of demon-strating to stakeholders the financial viability of impact investing, the establishment of a resilient impact investment ecosystem, and the assurance of substantial and meaningful impact. They addressed these challenges by setting clear goals, demonstrating financial creativity, and creating a risk-tiered approach. The 80/20 allocation split between Mission-Related Investments (MRIs) and Program-Related Investments (PRIs) was a deliberate pathway for integrating impact investments into the broader endowment, with the ultimate goal, as explained by Connaker, "of building a mission-aligned, responsibly allocated endowment…and not have the portfolio be a carve out."

Surdna's impact investing work was further propelled by leadership staff's intentional education of board members and other colleagues. This included fostering a shared understanding of the intricacies and potential impact of the chosen strategy. Clear communication and demonstration of alignment with board objectives were integral to building trust and ensuring sustained support for impact investing.

Ultimately, Surdna's initial allocation of 10 percent of its endowment into impact investments allowed for a meaningful yet manageable testing ground. This approach facilitated learning, adaptation, and the development of an impact investing muscle that helped provide a pathway for the subsequent iterations of their impact investing journey.

Brandeis
THE HELLER SCHOOL FOR SOCIAL POLICY AND MANAGEMENT
Sillerman Center for the Advancement of Philanthropy