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Compton Foundation and Sonen Capital, February 2024

# Impact Investing from Surface to Bedrock

One foundation digs deep  
to discover new forms of impact

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# Foreword

“Impact investing” has been a term of art in institutional philanthropy for decades now. Common practices have evolved beyond simply assessing a foundation’s portfolio against a sustainability index to crafting thoughtful, often complex, mission-related and program-related investments. [Compton Foundation](#) is delving even deeper by making fiscal decisions with direct reference to pervasive racial and gender inequities in the financial systems where their capital is held, and the philanthropic structures through which it moves.

Our commitment, which is decidedly aspirational, is to activate 100 percent of our portfolio with targeted impact investments relevant to addressing inequities. This report looks at some of the steps Compton Foundation has taken, and shows how [Sonen Capital](#) has supported our intentions with research and creative investment strategies.

# Background

For the past two years, Compton Foundation has engaged overtly in conversations and programming focused on racial repair. This commitment has roots in the foundation's 78-year history, and yet our recent actions are of a different character. We're not waiting for government or institutional reparations policies to shift at a geologic pace; instead, we're funding change-makers who are nurturing a reparations ecosystem and who are working right now to return labor, land, and cultural assets to communities from which they were stolen. We're facilitating and learning from cross-racial relational repair cohorts. And as a foundation using untaxed wealth in service of the commons, we are defining reparative standards of behavior for ourselves to inform and guide our operational and decision-making practices.

We believe that racial repair can be practiced at multiple levels: structural, institutional, personal, and interpersonal. We believe that as a philanthropic enterprise we are in the best position to explore, engage and implement practices of repair at all levels. We also acknowledge that, even as we seek to redress how systems of supremacy operate, we can be blind to our own complicity and must hold ourselves accountable to the unending practice of repair.

This work has led us to look beyond *where* Compton Foundation assets are invested to *with whom and in what manner* they're invested—and *what leads us to make those choices, consciously or unconsciously, now or in the past.*



Photo by Melisa Cardona, Illustration by Taslim van Hattum

# Fiduciary Responsibility and Spending Everything

Mission-centered investing begins with the Compton Foundation board of directors, who have taken a very particular view of “fiduciary duty” in the context of a private foundation’s investment choices:

- Our primary responsibility is to our mission. Viewing every facet of that mission through an equity lens, we recognize that prioritizing maximized gains, continually growing our endowment, and holding it in perpetuity may not be the best ways to achieve our purpose.
- We are accountable for equitable practices in our relationships with grant partners. Our commitment to [“trust-based philanthropy”](#) includes confidence in nonprofit leaders’ discretion to hold capital, make sound investment decisions, and benefit from gains made available to them when realized instead of being reinvested in a foundation’s endowment.
- We view employees, consultants, vendors and others with whom we collaborate as organizational stakeholders. We approach our interactions with them as relational.



Photo by Melisa Cardona



Photo by Melisa Cardona

## Evolving from Reaction to Strategy

Although Compton Foundation has had a long record of spending more than the required five percent payout of its assets each year, historically those decisions were based on opportunities of the moment without raising concerns about depleting the endowment. Investment returns were largely strong, and spending more to support a compelling strategy seemed an easy “Yes.”

The foundation also has stepped out of a traditional “apply and we’ll respond” grantmaking profile for many years, using capital strategically and investing in movement-building. Beginning in the early 2000s, the foundation created pooled funds supporting efforts to stop the Iraq War, launched a five-year initiative to make emergency contraception more accessible and affordable worldwide, promoted civic engagement and public art for climate action, and led an effort advancing women’s leadership in foreign policy, which helped set the stage for passage of the [Women, Peace and Security Act](#).

By 2016, escalating crises of climate change, attacks on abortion rights and anti-democratic political shifts brought the foundation to a decision point. We could either cut back spending, maintain the endowment and continue operating in perpetuity; or accelerate giving, spend up to meet these challenges, and eventually close the foundation as a result. For over two decades, the idea of foundations going “[beyond 5%](#)” or even spending their entire endowments had gained traction in philanthropy, so the board had plenty of inspiration and models to consider. After many deep, often difficult conversations, in 2018 Compton Foundation decided to [spend everything](#) over a strategic timeline.

This [decision was controversial](#) among members of the founders’ family who still sat on the board. Ultimately, some members left, taking roughly a third of the endowment to create a separate entity. One family member and several other board members remained as Compton Foundation’s governing board, overseeing the remaining \$37 million in assets.



Illustration by Taslim van Hattum



*Photo by Constance Faulk / Courtesy of Women Cross DMZ*

Adopting a radically “mission first” mindset freed the foundation to think freshly about grant partner and movement needs. We could make larger, longer-term grants and streamline processes to meet urgent requests in a matter of days. In the context of COVID-19, demands for racial justice and serious threats to U.S. elections, Compton Foundation increased its 2021 grants budget by 35 percent, even securing a line of credit to honor existing grant commitments while flowing more up-front resources to communities in distress. Doing so made one-time investments in election and democracy infrastructure possible, along with multi-year commitments to BIPOC-led intermediary funds and other key movement organizations and networks. It also set the foundation on track to spend its endowment and wrap up operations by 2025.

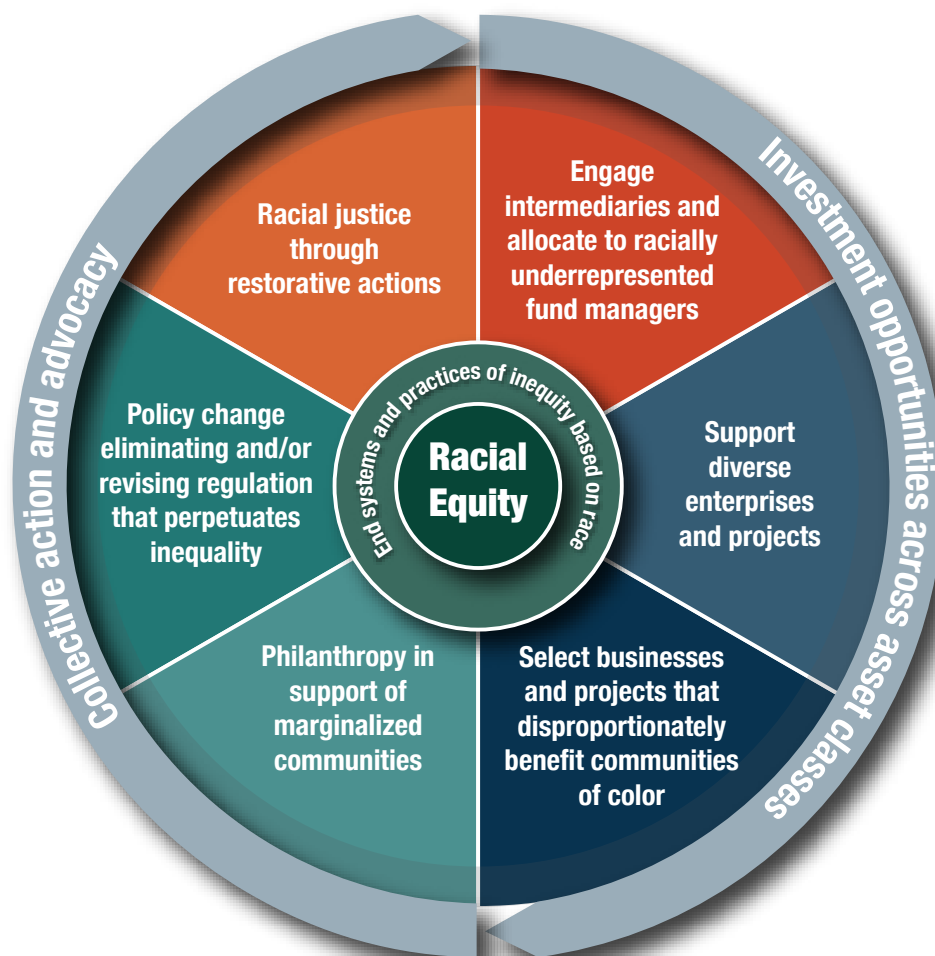
The board had an extreme sense of urgency to make sure every investment made in grants, technical assistance and infrastructure would leave organizations and movements stronger when Compton Foundation was gone. This movement-builder framework in turn led the board to scrutinize its holdings for more than their “clean conscience” credentials. With the board treasurer leading and Sonen Capital as a partner, they began to look beyond surface “values alignment” to the core structures behind investment management and lending—seeking ways to promote racial equity within the investment advisory, banking and investment management system.



# Sustaining a Sense of Direction

[Confluence Philanthropy](#) has created a Racial Equity Compass to envision multi-layered systemic support for equity. The compass tears down walls that traditionally separate a foundation's investing, grantmaking and movement-building priorities, and challenges advisors to envision "impact investment" in a more holistic way. All points on the compass are needed to end racially discriminatory systems and build equitable practices.

Philanthropy leads the actions to the compass's "west," with investment advisors focused on the "east," and constant collaboration is required to reach the center. Sonen Capital's partnership with Compton Foundation became a touchstone for exploring how these concepts might guide integrated action. Activating the whole Compton Foundation portfolio required deep communication across disciplines and competencies, not only between the foundation and Sonen Capital, but also with nonprofits, activists, other foundations and advisors. The following case studies illustrate how we have worked together to design investments that address multiple points on the Racial Equity Compass.



# Allocating for Equity: Include Ventures

As in other industries, systemic racism, limited access to resources and investor bias are self-perpetuating in the venture capital world. Women and BIPOC fund managers are more likely to fund underrepresented founders. Those founders achieve 30 percent higher returns than their white male counterparts, and yet recent reports from the National Venture Capital Association and McKinsey underscore a troubling racial gap in fund management—especially a lack of investment in underrepresented venture capital startups:

- Only 4% of employees in the VC workforce are Black, and of management company owners, only 3% are Black
- In 2022, only 1% of VC funding went to Black startups and 1.5% to Latine startups
- Women represent only 1.9% of startup founders, with VC funding going to only 0.1% of Black and Latina women founders
- When BIPOC- and women-led companies do receive VC funding, it is 43% less than white male founders (\$91.1 million compared to \$210 million in 2022).

In this context, Sonen Capital (an investment advisor with a diverse team) recommended that Compton Foundation support a Black woman pioneer in the VC investment space as she developed a team and worked toward a first close for her fund-of-funds startup, [Include Ventures](#).

Despite the team's stellar professional credentials, strong relationships with institutional investors and the expanding spotlight on racial equity as an investment consideration, the Include Ventures founder encountered systemic bias as a first-time manager and as a Black woman. Include Ventures struggled to secure capital to build a robust initial team. Sonen Capital worked with Compton Foundation to craft a \$1 million non-recourse loan for the sole purpose of assembling a team at an accelerated pace. Rather than waiting for revenue from a first close, Include Ventures was able to hire team members immediately and show a capital base capable of supporting them through the fundraising cycle.

Compton Foundation's loan made way for this newly-established fund to continue operating. Include Ventures provided a platform for BIPOC fund managers to invest in underrepresented entrepreneurs—who, in turn, are more likely to hire gender-diverse and racially-diverse staff. This “virtuous cycle” is a model of the multiplier effect that's possible when startups are supported with a racial equity lens, with enormous potential for helping to close the pervasive [U.S. racial wealth gap](#).

*Photo by Kayla Renie / Courtesy of [Acts of Reparation](#)*





# Lending Relief: Southern Opportunity and Resilience Fund

*Courtesy of SOAR*

The COVID-19 pandemic in the U.S. struck small and medium-sized businesses particularly hard. Many relied on in-person interactions or were unable to set up remote working systems. They, along with their employees, encountered unprecedented financial hardships. BIPOC- and women-led companies were among the most vulnerable enterprises. Leading into the pandemic, some 58 percent of Black-owned businesses were already at risk of financial distress, compared to about 27 percent of white-owned businesses. When necessary COVID-19 shutdowns came into effect, many small businesses either closed permanently or were on the verge of collapse. Between February and April of 2020, more than 40 percent of Black-owned businesses were unable to operate, compared to 17 percent of white-owned businesses.

As public and private sectors worked to adapt and recover losses, Sonen Capital was underwriting a mission-driven conduit loan fund created to support small businesses and nonprofits in the southern U.S. [The Southern Opportunity and Resilience Fund \(SOAR\)](#) leveraged capital from 28 investors to purchase loans from Community Development Financial Institutions (CDFIs) based in the southeast, scaling the CDFIs' capacity to lend to small businesses, and prioritizing minority-led businesses. The fund was structured with three classes of participation: Class A senior debt offered a market-based risk/return profile, and Class B subordinated debt was an impact-first, higher-risk exposure. Class C served as first loss and was structured as a philanthropic grant.

Sonen Capital advised Compton Foundation to invest in the Class B debt and also provide grant funding for Class C interest. Coupled with another client's commitment in the Class B tranche, this hybrid investment was catalytic: the CDFI was able to unlock existing commitments to Class A senior debt, an ability that was predicated on holding a certain amount of subordinated capital in the form of Class B, Class C and philanthropic support. Because the program featured a wide range of forms of capital, it allowed investors with varied risk appetites to come together and support a unified goal. Another Sonen Capital client provided grant funding for technical assistance to BIPOC business owners seeking loans through SOAR. This assistance was critical to make the loan program more accessible and successful.

For every \$1 of lending capacity on balance sheet, the CDFIs were able to offer up to \$20 in new small business loans. SOAR made over 1,000 loans, investing over \$62 million in capital for small businesses and nonprofits. Of these loans, 83 percent went to businesses owned by women or people of color. Underbanked businesses were another focus: 41 percent of recipients had never borrowed money for their business prior to applying for this loan, and 62 percent of participating BIPOC-led businesses were first-time borrowers. Beyond keeping their businesses alive, 79 percent of SOAR loan recipients said their ability to maintain employee levels increased because of the loan.

Photo by Melisa Cardona



# Reparative Relationships: Compton Foundation

The [wealth behind Compton Foundation](#), like all historic fortunes in our racialized capital system, was built from land that was taken and commodified, forced labor, and extractive economic practices. As our understanding has deepened and as a nationwide movement for racial reparations has expanded, the foundation has set aside specific funding and devoted the majority of its organizational time to experiments in relational repair.

When we invoke “reparations,” we may reference a history of harm but our efforts are more strongly rooted in a desire to avoid perpetuating the harms still prevalent in institutional philanthropy. Growing critiques of the sector point to a tendency to protect endowments at the expense of responding to urgencies, make top-down decisions with little reference to community-based expertise, change guidelines and policies capriciously, and treat foundation resources as a proxy for personal wealth. Compton Foundation is far from being the first voice to call for accountability and better practices. Thanks to innovators in the field, we are able to adapt our own approach to repair from the many models around us. And thanks to Sonen Capital’s openness to both learning and reparative thinking, we can experiment with sound new financial models.

On the organizational side of our work, we have made several grants investing in advocacy for reparations, and in nonprofits and networks that practice reparative action on the local level without waiting for large-scale government action.

We are also experimenting with frameworks for individual reparations. Over the past two years, we have supported a growing number of cohorts that engage Black women artists, activists, and entrepreneurs along with white women who hold wealth through a process of relationship-building and material wealth redistribution. In the first experiment, wealth holders have made use of their gift tax exclusion to transfer money to Black participants, re-creating the kind of no-strings, no-return-expected investments that often have supported white well-being and ambitions through the passing on of generational wealth. We have retained [Informing Change](#) to assess the outcomes of this process and will release the findings in the fall of 2024.

As a staff and board, we continue to assess our own institutional practices. In 2022, we responded to surging inflation by providing grant partners with the organizational equivalent of a “cost of living raise,” revising each original grant amount upward to help offset runaway expenses. After considering how the Compton Foundation endowment is enriched by compounded interest on monies we hold back for multi-year grants, we decided to pass those gains on to our multi-year grant partners in the form of annual increases.





These course corrections reflect a nonstop evolution in our thinking and in our recognition of how every financial choice we make impacts equity. Mission-first investing applies not only to portfolio activation but also to the human cost associated with how we operate and the daily budget decisions we make. For example, we recently hosted a convening where nonprofit staff and activists received a stipend for their time and travel, lodging and meals were sponsored, and attendees were not expected to produce a tangible return for Compton Foundation’s investment in them. For us, it was an experiment in moving beyond the unthinkingly extractive nature of many foundation-grantee relationships. For participants, it was a chance to learn from each other, share priorities, rest, re-energize, and attend to personal and organizational needs.

*Photo by Melisa Cardona*



# Layered Urgency: Emerging Legal Climate

The U.S. Supreme Court's 2023 [ruling against affirmative action](#) makes increased investments in BIPOC communities even more critical. An [excellent opinion piece](#) in the Chronicle of Philanthropy explains how Black and brown leaders already perceive a chilling effect as some foundations become wary of legal peril around grantmaking, advocacy and even the language they use in support of racial justice. Some equity-oriented organizations have already been sued. As the op-ed authors point out, in the face of such attacks "Preparation is good. Concession is not." Former Georgia state house minority leader Stacey Abrams [puts it more bluntly](#) describing what's at stake when institutions pull back before a potential threat is even realized: "Lawsuits are designed not for victory, but for a chilling effect." She continued, "It's working."

# Conclusion:

## Philanthropy as a Financial Engine

Compton Foundation will spend its assets and wrap up operations in early 2025, so our capacity for new and bold investments has obvious constraints. Although seeded in the foundation's early years, our core mission and reparative relationship strategies bloomed late. Evolution won't change where we were before but we firmly believe that what we do now is all that matters now.

We would be disingenuous if we didn't acknowledge this discussion takes place in the context of a broken, highly racialized capital system. While our investments in initiatives like SOAR and our early support for Include Ventures have seen some success, the leaders and entrepreneurs of color involved—who are our first priority—continue to struggle within that system. The impact of systemic bias is so strong that long-term sustainability beyond outside support is questionable. In essence, our investments played into a racialized system by leveraging startup capital for economic gain in lieu of challenging the system itself. One of the most valuable outcomes of this process has been the chance for Compton Foundation and Sonen Capital to learn and experiment together, getting closer over time to developing models that can challenge the capitalistic status quo. But the question remains: what has really changed for those Black and brown leaders?

*Courtesy of [Movement Generation](#)*



United States foundation assets were [projected to reach \\$1.5 trillion in 2024](#), and foundation investments (including all categories) represent wealth that is equivalent to three percent of the entire U.S. stock market. The idea that small and medium foundation portfolios are a miniscule financial force is an illusion. In reality, if we follow the communities we're here to serve and use our voices to ignite change, if we refuse to concede and instead escalate our commitments, the impact of our decisions can be greater than sheer wealth. As foundations we sit in a position to take risks and innovate models without losing our livelihoods or our families' well being. We invite all foundations to join us in reparative action and in thoughtful risk taking, no matter how long or short your timeline might be.



Courtesy of [Indivisible Georgia 6th District](#)

# Appendix A:

## Portfolio Activation by the Numbers

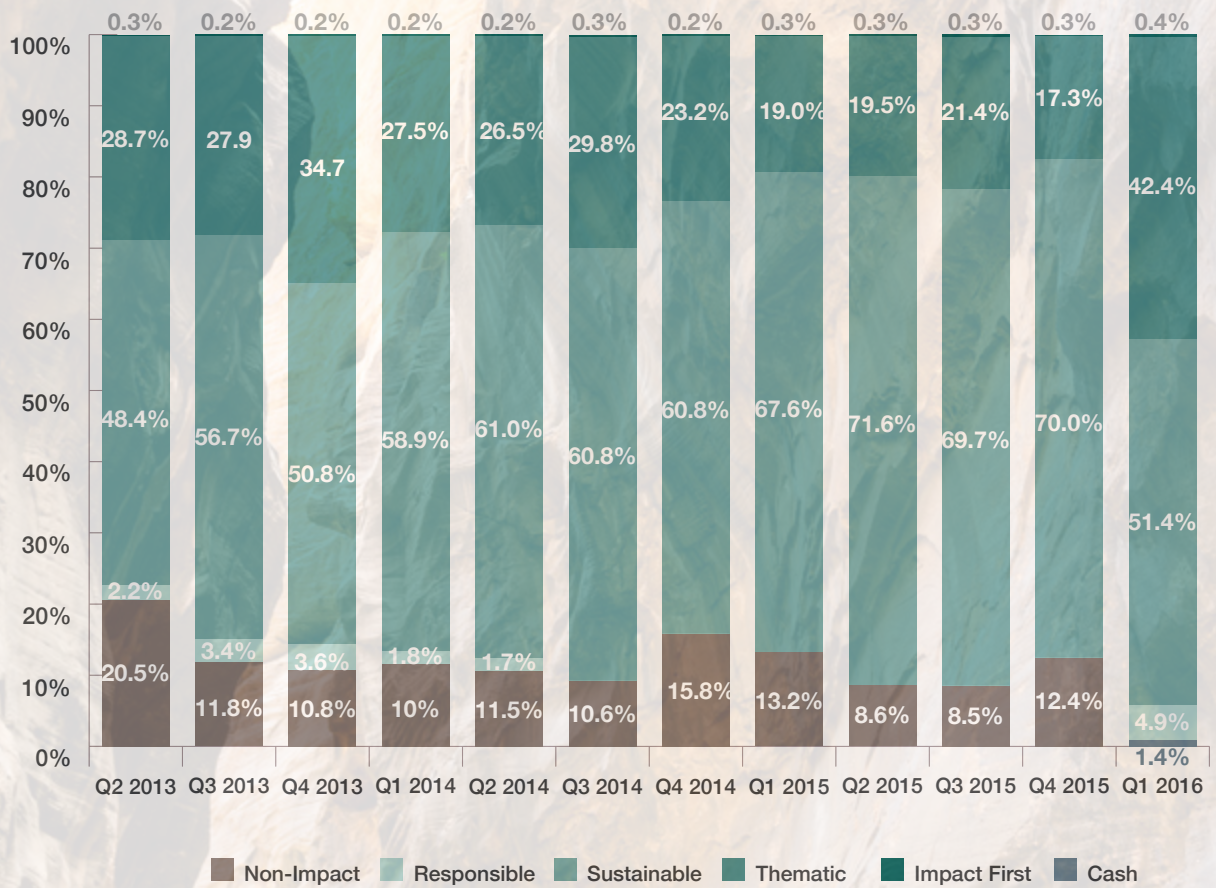
### Phase 1: Alignment and Innovation

When Sonen Capital began advising Compton Foundation, the foundation had already been screening investments for responsibility, and had begun some sustainable investing. Sonen Capital clarified and refined how the portfolio could be better aligned to serve mission and financial objectives simultaneously. Together, we adopted a strategy of shifting to more thematic investment to drive greater impact. We also shifted to more private investments to enhance returns, manage risk and target more thematic impact. This process was the first phase of activating the portfolio to a point of 100 percent impact investment.

To determine the probability of realizing many different investment results, we implemented an endowment-style asset allocation strategy using stochastic modeling to generate thousands of potential outcomes. This long-term portfolio strategy used factors such as capital market assumptions (return, risk, correlations), time horizon, liquidity needs, risk tolerance, spending needs, taxes and inflation among others. Sonen Capital identified the opportunity for the Foundation to increase its target allocation in private investments, which had the potential to enhance the portfolio's risk-adjusted return profile and maximize impact. We then developed an impact framework incorporating the revised asset allocation strategy into an updated investment policy statement.

As depicted in the table below, Compton Foundation progressed to a portfolio that was ~50% thematic impact and ~46% responsible and sustainable impact. The remaining ~4% consisted of cash needed for short-term purposes.

## Quarter over Quarter Growth of Impact



## Phase 2: Strategies for Spending Everything

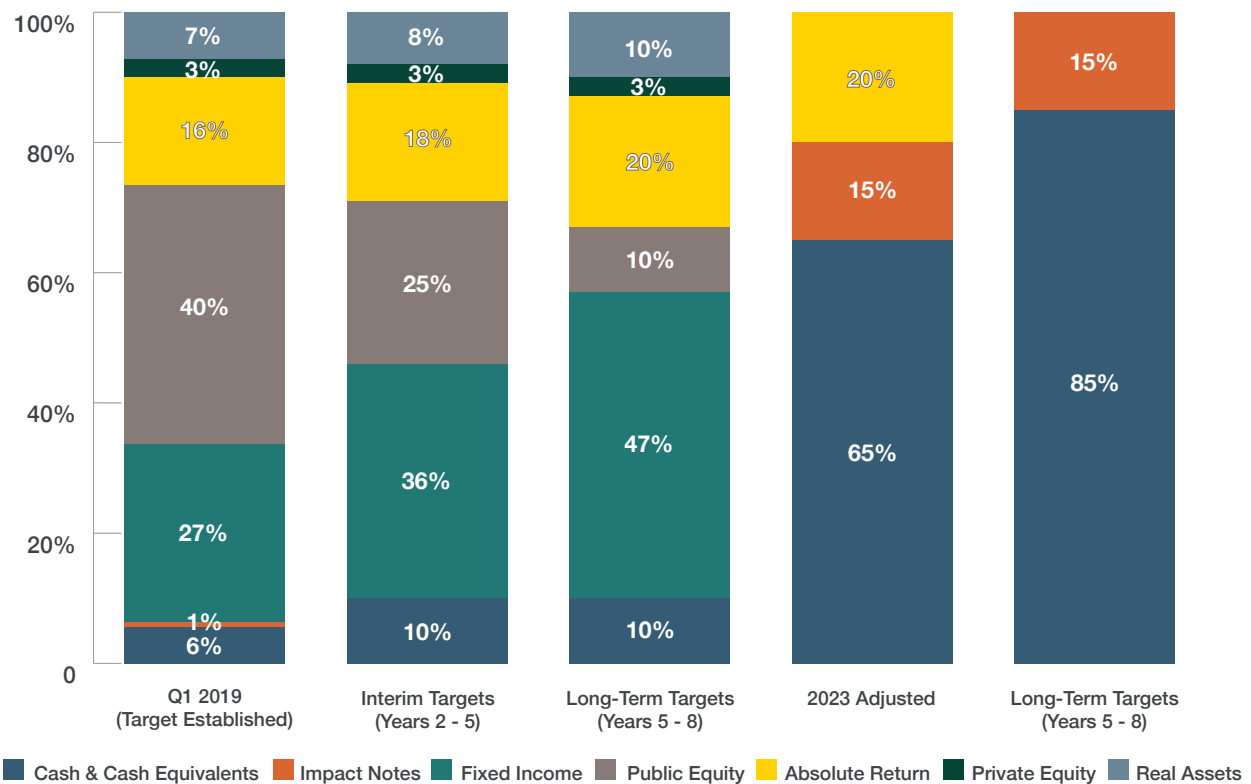
Compton Foundation's decision to spend its endowment launched a second phase of strategy development. As referenced above, the decision was split between board members who wanted to spend up and those who wanted to maintain a perpetuity model. Sonen Capital created a new glide path for rebalancing the portfolio to manage financial risk and liquidity over an accelerated investment time frame, while looking for creative ways to continue aligning impact. Sonen Capital also explored solutions that could honor the objectives of all board members, ultimately spinning out a [separate entity](#) with an initial \$15 million investment and the intention to exist in perpetuity. Compton Foundation was the fiscal sponsor for this entity for the first three years, after which it was able to exist as a standalone organization.



Photo by Melisa Cardona

Once the organizational spin out was complete in 2019, Sonen Capital revised Compton Foundation’s asset allocation strategy to accommodate the particular needs of spending up a portfolio’s assets. We shifted from an endowment strategy to a strategy that optimized for liquidity and stability. A phased approach used interim (2-5 year) and long-term (5-8 year) asset allocation targets that significantly increased exposure to stable asset classes such as cash and fixed income, and reduced more volatile and illiquid asset classes such as private equity. The final year target (9-10 years) would result in a portfolio with 85% cash and 15% highly aligned, impact-first investments.

## Asset Allocation Path Strategy





*Illustration by Taslim van Hattum*

In 2022, macroeconomic conditions and market volatility increased as the effects of COVID-19 continued, interest rates skyrocketed, inflation rose dramatically and the war in Ukraine emerged. Successful navigation required flexibility, creativity and close collaboration between Compton Foundation and Sonen Capital. Acting quickly, Sonen Capital made a tactical decision to deviate from the asset allocation glide path and better position Compton Foundation for a bear market. The foundation decreased its public equity exposure and increased exposure to more moderate risk/return investments in responsible and sustainable fixed income and hedge fund impact investments. Sonen Capital continues to manage Compton's existing portfolio actively so the foundation can fulfill its commitments and flow critical funding to reparative work.



# Appendix B:

## Sources and Related Articles

### Allocating for Equity

- [Deconstructing the Pipeline Myth and the Case for More Diverse Fund Managers](#)
- [Underestimated Start-up Founders: the Untapped Opportunity](#)
- [VC Human Capital Survey](#)
- [How Foundations Fail Diverse Fund Managers and How to Fix it](#)
- [Why the Racial Wealth Gap is So Hard to Close](#)

### Lending Relief

- [Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities](#)
- [Coronavirus is Hitting Black Business Owners Hardest](#)

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