

**Fiducient Advisors, Nonprofit Investment Stewards Podcast  
Episode 60, May 3, 2023**

**How Nonprofit Leaders Can Think Long-Term To Better Manage Your  
Money And Your Organization With David Nierenberg**

[00:00:00] Welcome to Nonprofit Investment Stewards with Bob DiMeo and Devon Francis from Fiducient Advisors. Bob and Devon are passionate about helping nonprofit organizations prosper. Whether you oversee endowment, foundation or retirement plan investments, this podcast exists to help stewards improve performance, reduce costs, and discover strategies that enable your charitable organization to prosper and advance its mission.

[00:00:26] Now onto the show. Hello, and welcome back to the Nonprofit Investment Stewards podcast. I'm Bob DiMeo, always good to be joined by co-host Devon Francis. On today's episode, our guest joins us at what I would say is just the right time. We've not known each other very long. He chairs the investment committee for a nonprofit that's a newer client of ours, but from our very first interaction, I knew we'd have to have him on the.

[00:00:54] Beyond sharing insights for all of you, oversee endowments, foundations, retirement plan portfolios, he's about to offer up wisdom to help you and your organization think about long-term success and what we all know has become a very short-term centric environment. Before we go to our guest, Devon, always good to see you. With all that's going on in this crazy world.

[00:01:16] What do you think about the timing to tap into our guest's expertise? Great to see you. As always, Bob. And I do think that the timing is absolutely perfect. David would've been a wonderful guest at any point in time, but right now, I think it's just, uh, really relevant. I'm excited to introduce David Nierenberg.

[00:01:35] David wears many hats, including one that relates to Fiducient. He is a director and chairs the investment committee for the National World War II Museum in New Orleans. He's also the longest serving member of the Washington State Investment Board, which for the past two decades, has been a top performing state pension fund, priding itself on being transparent and ethical.

[00:01:55] David is also chair of the Ira Millstein Center for Global Markets and Corporate Ownership at Columbia Law School, a world leader in corporate governance. In addition, David estimates that he has about 200 man-years of

service on public company, private company, government, and not-for-profit boards, which involved him in dozens of strategic plans, CEO searches and many other activities.

[00:02:18] His volunteer efforts for investment committees is vast and spans all sizes from 15 million portfolios to over 200 billion dollar portfolios. Finally, David attended Yale for both his undergraduate and law degrees, and he and his wife Patricia were named philanthropists of the year in southwest Washington.

[00:02:36] David, welcome to the show. We are so thankful that you're here. Thank you. It's a pleasure and a privilege to join you today. Wonderful. Thanks so much, David. We'll jump right into things and it truly is timely to have you on the show now with all that's happening. We'll jump to the investment side in just a bit though.

[00:02:55] Let's start with organizations and people if we can. Uh, some of the nonprofit boards I serve, like Catholic Charities in Europe, Chicago, they've embarked on very meaningful organizational change. So if we can get your take on nonprofit organizations and how leaders might think about focus and their future for their organizations in these very unusual times with things like purpose and economics and resources and so on.

[00:03:23] If I try to, there's still these 200 tortoise years of, uh, board service and all the many things that have been written on the subject of not-for-profit governance. I'm gonna begin, uh, with, uh, a little joke that is timely because today is the, uh, eve of Passover. It's one of the three Jewish holidays that celebrate freedom.

[00:03:47] And if someone were to ask me to summarize in 10 words, those thousands of years of lessons of Jewish history and independence, it would be the following. They attacked us, we won. Now, let's eat and drink.

[00:04:06] Let's see if I can do the same thing on the subject of not-for-profit governance. But a few more words than 10. I would start by saying that, um, the mission of the organization should never excuse poor governance, poor leadership, lack of focus, or poor resource allocation. The learning I have from my own experience and from working with Ira Millstein, who's now 96 and still pitching, is this, in terms of governance, these are the most important things, I believe, who's in the boardroom?

[00:04:46] And starting with that, one of the frequent issues that arises with not-for-profits is that the boards often have a fundraising purpose and a governance

purpose. And so, there's an embedded question right away, which is should they be separated? Should there be a foundation board that does fundraising?

[00:05:03] Should there be a governing board that does governance? But who's in the room? How do they spend their time? And what's the culture in the boardroom? Culture, meaning do the people who run the meetings encourage questioning? Do they encourage dissent? Do they encourage disagreement? And do they not punish people who ask questions and who disagree so long as they disagree without being disagreeable?

[00:05:32] So those three things are very important. And then after that, what's the mission of the organization? What's the strategy that realizes that mission? Who is the leader of the organization responsible for executing the strategy? How does the board monitor and evaluate their performance? And how is the leader compensated?

[00:05:56] Those are eight questions. If you get them right, or most of them right, you can be very successful. And if you get most of them wrong, success is probably accidental and probably not durable.

[00:06:11] Boy, those would be great questions for boards and committees, just to periodically come back to and, and, and pond around. So, thanks for that beginning. Let's unpack this a little bit more. You and I are both former General Electric or worked for divisions of GE or GE Finance back in the day, and I think of Jack Welch, who was very focused on being focused in the businesses that GE was in and that they were really.

[00:06:35] If they were in a business, they were gonna be good in that business. So, I guess I would ask you, when you think of nonprofit organizations, some of them have to make some really tough decisions right now about what is our primary purpose? And then, what may we be doing that sounds good but might be distracting from the primary mission?

[00:06:57] And just hope you can share some insights on [00:07:00] that as well for these nonprofit leaders. Well, back to Jack Welch for a moment. The most memorable thing that he ever said when I was with him was to note the difference between doing the right thing and doing the thing right. And he felt that his emphasis was on the first question, not the second.

[00:07:24] Not that he was casual about the second, but do the right thing. And that's a very important, often hard to answer, existential question. Now my wife Patricia and I are involved with many not-for-profits and have been for the 27

years we've lived here in southwest Washington. And the unifying theme of what we do, I would submit is relevant here.

[00:07:48] It is about what is the impact of this not-for-profit on the served community. And in our case, we usually ask what is the impact of what we do on the lives, circumstances, health, education of ordinary people? We're all God's children, but they're always a group of people who are at risk of being left behind. We think that that's why God gave us two arms.

[00:08:18] One to pull ourselves up the ladder and the other to reach down and pull up other people with us. And so, addressing those questions and making the hard resource allocation choices that result from that are critically important because I have rarely seen a not-for-profit that had too much money.

[00:08:40] That's a valid point, David. Certainly. Um, let's dig a little bit more into governance. So, you opened up the conversation by talking about governance. You've had so much experience and so many different boards and committees, and are there any common threads to your experience in when boards and committees have really worked well?

[00:09:01] Is there any, you know, common, oh, they're all doing this one thing, or these handful of things? I would note the parallels between the learning I've had about not-for-profits and for-profits. I think the governance issues are basically the same. I mentioned those eight factors. Who's in the room? How does it spend, how do they spend their time and so forth.

[00:09:26] So I won't repeat those things. I will add one other thing culturally that's very important and that is the willingness to confront and tell the truth. To do it diplomatically, not hurtfully, but to tell the truth. So that people don't feel that there are adverse consequences such as punishment if they're bold enough to tell the truth, and then to debate them. To debate what, what, what to do.

[00:09:56] So often, people are on not-for-profit boards for good reason, but the their reasons for being there may discourage truth telling, may discourage questioning, may discourage debate. Sometimes people are there because they're big donors. Sometimes people are there because they have status in the community, and they think that being on those boards burnishes their status and their influence.

[00:10:27] With that kind of motivation, sometimes it can be problematic for people to be truth tellers because they fear the consequences of doing that. But I think it's imperative that the leaders of the board and the leaders of the

organization set this tone about truth telling and about, uh, fearlessly, uh, confronting and discussing reality.

[00:10:51] Think about how precious board time is during the course of the year. For instance, our investment committee at the World War II Museum is in meetings maybe six, at most eight, hours per year. If we don't use that precious time focused on the right things, and if we don't use that to dig at the truth and make the hard decisions, if we don't do that, we have wasted the most important resource that we have, which is the time and experience and openness of 15 great committee members.

[00:11:29] That's the scarcest resource we have, and every board is like that. David, that's so helpful. You're really talking about characteristics of a healthy organization, be it nonprofit or for-profit. And when you talk about truth, I always try to deliver the proper ratios of candor and compassion. Right? And, uh, Tim Keller, I read recently, he calls it Truth and Love, but having that right combination really matters.

[00:12:01] And it sounds like that's been a big part of the success that the organizations you've been a part of brings to the table. And one of the challenges that we face in all of our board work is the evolution of the governance movement. In Ira's opinion and my own, sometimes down to the point of minutia, Ira, who is the pioneer of this movement, starting with his work for the Board of General Motors four decades ago when he taught the most prestigious business leaders of America that they had the right and the duty to determine who would run the company.

[00:12:44] Having started that, now we're at the point where there are rules and rule books that get down to such a level of detail that it makes you scratch your head about how you should spend your time in your board meetings. For instance, in one of our portfolio companies, we were advised by proxy advisors to vote against the reappointment of the outside auditor.

[00:13:12] Because the relative of one of the members of the audit team was on the consulting side of the house that was doing some work for the company. Or take a look, for instance, at the board of Silicon Valley Bank, which just blew up. It was a model of diversity, equity, and inclusion, which is laudable. Half the board were women.

[00:13:39] But when I looked at the experience that the board members brought to the board, only one of them had significant relevant banking industry experience. And when you think about the circumstances of that bank's demise,

you can see the importance of people with that kind of experience not being in the room. And so, it's very easy today to get distracted by the minutia of ESG.

[00:14:14] Those things are important. Those things are important. Boards should not be all comprised of 70-year-old white men like me. I understand that because four decades ago when Ira talked with the board of GM, that's what the world was like at the time. And the world has changed in a good way, but we have to stay riveted on those eight questions that I ask, must stay riveted. And at the same time, we must continue to make forward progress on diversity, not just gender, age, race, ethnicity, diversity of experience, and diversity of communication styles.

[00:14:53] So many elements of relevant diversity are subjective.

[00:15:01] Yeah, I think those are really important points, David, and let's just dig in a little bit more to ESG from an investment perspective. Um, so, you know, ESG and DEI go hand in hand. You had the honor of being Ira Millstein's partner in crime at the institute for many years. And as we know, he was a pioneer in corporate governance, which essentially has evolved into the ESG movement.

[00:15:26] And as you mentioned, he was the lawyer that taught GM's board that they had both the right and the duty to fire Roger Smith, GM's former CEO. So that was really revolutionary at the time. So, what are your overall thoughts on, you know, perhaps the history of ESG, but also where we're headed? Where we're headed?

[00:15:49] Why don't I, uh, uh, address that by, by talking about where Ira has been headed? Because although he's 96, he's still playing. God bless him. I've already shared with you his, his wonderful comment about what he calls box checking compliance idiocy. So we don't wanna go there, we wanna stay riveted on the, on the eight things.

[00:16:12] But here are some other things that have emerged in his thinking. Directors, particularly new directors, need to be trained and they need to be mentored. They need to be told what's expected of them and they need to be provided with resources to do their job well. And sometimes when a person joins a board and they have recently or still occupy an operating position in another organization, they need to be reminded that while it was helpful to put them on the board because they were the CFO of something else, or the CEO of something else, they are coming into the boardroom to be a director.

[00:16:51] And they are there to exercise business judgment, good judgment, not to replicate their day job role. So that's subtle, but it's real. Another point he would say is re-election to a board should not be treated as some sort of automatic entitlement. It's hard to take people off boards cuz they're good people. And they're often contributors, but circumstances of organizations, needs of organizations evolve, and it's important that the composition of a board be forward looking, not backward reflecting the history of the company.

[00:17:33] Another thing that I can say, turning 70 in with Ira being 96, is we're in strong agreement that age and term limits are stupid. Because so long as you maintain your physical and mental health, you should get even better at pattern recognition and the quality of your judgment should improve. I think, uh, Charlie Munger and Warren Buffet are, are proof of that.

[00:17:57] Another thing that's important about boardmanship is the need to make judicious selections of who chairs the standing committees and who chairs the board. And relative to that, it's important to make good decision. Good. It's important to engage in good succession planning for all of those important posts.

[00:18:21] It's important in the context of my earlier comment about mentoring to be bringing people along so that when the torch is passed to them, they're ready to pick it up and run with it. And finally, there's an important subjective point that's embedded in all the board work all of us have ever done. It's a subjective point, hard to evaluate, but fit matters.

[00:18:43] Does the person fit? Do they share the mission? Do they operate as, as Bob said, in, in, in a loving, constructive, diplomatic manner? Or, or are they there because of ego or to burn the house down? Those subjective factors really make a difference because in the area that we're talking about, people are volunteering their time.

[00:19:05] They're not compelled to do this. They do it because they want to, and they do it because their service makes them feel good. And what I'm saying here is what makes you feel good shouldn't be the status that you have as a director of an organization. What makes you feel good should be the impact that your mission has on the lives of ordinary people.

[00:19:28] David, I, I, I already think we should have you on for another show simply to drill down more on this, on, on the governance, on the constitution of, of committees and, and, and, and leadership, if you will. But we wanna make

sure we jump to investments because that's an area also that you have a, a great amount of expertise in.

[00:19:47] It's to use your term laudable to see some of the performance that has been experienced by some of the nonprofits that you've been involved with. Perhaps you can share just general thoughts on the current landscape. You mentioned Silicon Valley by the time listeners hear this. There could be more who knows what, but, but perhaps you can talk a little bit, uh, about the current landscape and then good stewards overseeing investments, what they're contending with today, and, and how you'd unpack that.

[00:20:17] Don't panic, leave your emotions at the door. History does, uh, what did Mark Twain say? History doesn't rhyme, but it does repeat itself. Think back, for instance, to the abrupt market crash of September, I think, uh, 1987 when the market dropped 26%. October. Yes. October. 26% in one day. Unprecedented.

[00:20:47] What did David Swenson the Chief Investment Officer of Yale do immediately after that? He took the bold and correct move of rebalancing the portfolio right? There are gonna be plenty of rebalancing opportunities given to us last year and probably this year as well. So, keeping emotion under control, staying focused on the mission is important, and depending on the, the mission and circumstances of the organization, it could well be worthwhile to make significant asset allocation commitments.

[00:21:23] To what's called alternative investments. Private equity, private credit, um, absolute return, venture capital, and so forth. For instance, if you're the World War II Museum in New Orleans, what do you think is the annual cost of maintenance and preservation of buildings and grounds relative to other cities when that city is hurricane and flood central?

[00:21:54] So, you know, if, uh, a normal, uh, undistinguished, uh, portfolio produces over time, say a 6% annual return net, and if you have not the fed's 2% inflation, but maybe 3% inflation. 4% spending rule can be kind of problematic because it eats into capital. And if you have the high maintenance costs that we have, you have to aim higher.

[00:22:22] And the, the only prudent way I can think of aiming higher, uh, is, is to, uh, uh, make wise asset allocation decisions that get you into asset classes, where the markets for those classes are what I might call informationally imperfect, where the spread between the best performers and the worst

performers is very high, and then make judicious decisions about which managers to invest with in those categories.

[00:22:55] Because the compounded benefit of doing eight or 9% per year over decades versus 6 is huge. It preserves the intergenerational spending power of the endowment and it can allow you to expand program. And in our case, in New Orleans, it helps us to maintain six acres of physical plant, multiple buildings, which has been a \$400 million capital investment, which we have a fiduciary obligation to preserve.

[00:23:28] To continue teaching the lessons of the greatest generation to our children and future generations, many of whom have never experienced a just war and who may not understand for that reason, that as our founders said, freedom is not free. When, when I was invited to, to, uh, join the board of the National World War II Museum, my decision was a no-brainer because between my wife, Patricia, and myself, seven uh, members of our family.

[00:24:03] Of our immediate families had served the United States and England during the war. And the wonderful thing about them in terms of the melting pot of America is that six of them were first generation Americans born to recent immigrants to the United States. Going back, many of them to the geographies their ancestors came from to serve the cause of freedom.

[00:24:28] Six of them, first gen Americans and the seventh, my Uncle Jay, who couldn't get into the, uh, armed forces because his vision was bad, was nonetheless hired to be an ambulance driver for the British Army in North Africa. And he met my Aunt Inga there, who was a Holocaust survivor who left Germany through a sham marriage to get to Palestine where she joined the British Eighth Army.

[00:24:54] So we honor those seven and 16 million other Americans like them who served in uniform and tens of a million, tens of millions of Americans who supported them back on the home side. Why is this important? Because younger generations have not seen what theologians would call a just war in their lifetimes, and therefore they do not appreciate that freedom is not free.

[00:25:19] Freedom has to be paid for. And that's what the mission of this museum is all about. And it comes all the way back to asset allocation because not only do we have to make the money to sustain our physical plant in a challenging physical environment in New Orleans, we want to grow our educational programs so we can reach out to children and to college students

and teach them these incredibly important lessons, which we are all being reminded about every day now.

[00:25:53] By Russia's war against Ukraine. Freedom is not free. David, it's just absolutely wonderful how you're so clear on the mission and how that ultimately translates into asset allocation. And quite frankly, even to risk taking, like you can't afford to not take risk if you're out to advance this mission. So thank you.

[00:26:12] So talk about risk taking. What did Winston Churchill do when he stood alone before we were attacked at Pearl Harbour? For those several years, he was the bastion of freedom. In fact, in my opinion, he was probably the greatest political leader of the 20th century because we'd probably be speaking German if it weren't for that.

[00:26:37] Well, we've covered a lot and you know, thank you so much for sharing not only your years, many years of expertise, but also your personal story and your connection, and it's just really touching. And we thank you for the time that you've spent. Uh, we have covered so much, but is there anything that you'd like to underscore or add to the conversation?

[00:26:59] I'd like to bring my wife into this discussion in an important way. We all have choices about where to spend our time and money in supporting not for profits. And I would say almost accidentally a pattern has emerged in our philanthropy and our service, and that is that almost everything that we do in that domain turns out to involve what I might call, not only focusing on the impact.

[00:27:25] Of these organization on the circumstances of ordinary people, but almost everything we do involves some sort of unifying theme in a nation which is badly, badly divided. A nation which probably hasn't been this badly divided since right before we entered World War II. For example, Patricia has been two decades on the board of our local humane society.

[00:27:53] When she joined the board, its physical plant was so bad that half the animals presented to them were euthanized cuz there was no other place to put them. And she led a capital campaign that built a new animal shelter and the euthanasia rate is down to 4%. Animals that are truly sick. And we have helped over a hundred thousand families adopt pets during her service on that board.

[00:28:21] Some people think it's about animals. Patricia thinks it's about the companionship and the meaning which animals bring to the lives of ordinary

people who otherwise might be lonely. And so, her work there is unifying. Together, we made a major gift to our community hospital, giving a 24 bed neonatal intensive care unit named for my mother and her identical twin who were born in Northern New Jersey, November 18th, 1928, in their home to first time parents.

[00:28:55] Weighed between them a grand total of four and three quarter. And the first thing the doctor who delivered them said to my grandparents was, do you have a cemetery plot? But he came to their home every day until they were out of danger. And I exist because of the miracle of my mom's survival. So, on their 76th birthday, we gave this NICU to the hospital.

[00:29:20] And between assisted births and time in the nicu, it's now helped over 31,000 babies in our community. And everybody loves babies. And everybody can identify with the premies because we all know someone who's had them. So there's another unifying theme, and of course, World War II Museum is a unifying theme because we all have family connections to the war.

[00:29:42] And so it turns out accidentally, but now on purpose, we focus on unifying themes because there are too many things dividing this country. Thank you, David. Um, wow, such a wealth of knowledge, such a passionate person. If listeners want to learn more about you or perhaps the passion that you share for, you know, your various endeavors, where might you point to them?

[00:30:11] Well, you ain't gonna find me on social media, not a guy with this gigantic Rolodex behind me. But you know, if you wanna find stuff out, there's probably been a lot, uh, uh, accumulated in Google. But I want to close by just talking about what inspires me because it probably inspires other people as well.

[00:30:33] I've talked a lot about leadership today. When you think about who are the greatest leaders, you think about people like Teddy Roosevelt, Franklin Roosevelt, Abraham Lincoln, Winston Churchill, and there are wonderful biographies written of those people. I find them inspiring and instructive, and of all of the many, probably the single best I would say is Andrew Roberts' biography of Winston Churchill called Churchill, Walking With Destiny.

[00:31:02] And then there are other, other things that I read and reread because they continue to inspire me. Victor Frankl, who spent, uh, years in concentration camps, uh, during the war, uh, a Vienna psychiatrist in six weeks after his discharge wrote a wonderful book called Man's Search for Meaning. Highly recommend that book. Hemingway, the old man in the sea.

[00:31:27] Maybe now that I'm turning 70, a story of discipline, experience, sacrifice, and accomplishment. Couple other things that, uh, another thing I love is Kazu Issu Guru's book *The Remains of the Day*, which also has a World War II connection. And would it surprise you if, when I talk about the films that inspire me with the World War II connection, I talk about *Casablanca* or *Schindler's List*?

[00:31:54] As well as the most important kind of New York, New Jersey films like *Moonstruck* and my cousin *Vinny*. Uh, so those are some of the things that, uh, inspire me. Don't look for me on the social media. Put your nose in some of those books and extract life's lessons from, uh, the, the people, in my opinion, the greatest leaders of the 20th century and the greatest leaders in the 19th century because, but for them.

[00:32:22] I don't wanna complicate, uh, uh, contemplate, uh, what our lives and circumstances would be like. That's great advice. Thank you so much, um, for those recommendations. Thank you for your expertise. Thank you for your very generous time that you've shared with us today. Uh, it's been wonderful having you and, and as Bob said, we'd love to have you back cuz you have so much more to share.

[00:32:42] So thank you for joining us and um, thank you for the opportunity to join you. Thanks too, David. I look forward to having you on the show again and just to getting to know you better over time. So, I'm a board member for the Associated Colleges of Illinois, and depending on when you're listening to this, I will likely have just been joined by my colleague, Shreya Canakapalli, to address a group of university presidents on the topic of endowment management, including the challenges for endowments in their institutions.

[00:33:11] Devon and I, we often speak at conferences, stewardship gatherings and so on. If that's of interest to you, feel free to reach out to either one of us on LinkedIn or at the email on the show notes and until then, to all you good stewards, thanks for investing time to help your nonprofits prosper. We'll connect with you soon on the next episode.

[00:33:33] Thank you for listening to the Nonprofit Investment Stewards podcast. Click the subscribe button below to be notified of new episodes and visit [fiducientadvisors.com](https://fiducientadvisors.com) for more information. The information covered and posted represents the views and opinions of the guest and does not necessarily represent the views or opinions of Fiducient Advisors.

[00:33:51] Content is made available for informational and educational purposes only and does not represent a specific recommendation. Always seek the advice of qualified professionals familiar with your unique circumstances.