

**Fiducient Advisors, Nonprofit Investment Stewards Podcast  
Episode 57, February 1st, 2022**

**How Nonprofits Can Add “Sustainability” to Your Endowment With Dr. Troy Hammond**

[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, we have an interesting and forward-thinking guest with expertise in at least three areas. Beyond sharing insights on how nonprofit leaders can be successful, our guest is about to share actionable ideas on managing endowments in this tricky environment.

[00:00:55] He'll also share some unusual but highly effective approaches to impact

[00:01:00] and mission aligned investing. We'll be with our guest in just a moment, but first, Devon, how are you today? I'm great, Bob. Thanks for asking. Always good to be here. I'm so pleased today that we're welcoming Dr. Troy Hammond to the show.

[00:01:14] Troy is a scientist, business leader and entrepreneur who was appointed as the North Central College's president in 2013. In his nearly 10 years as president of North Central, he brought visionary leadership, including the bold, brilliant future campaign, a 150-million-dollar fundraising initiative which brought sweeping physical changes to campus. During his tenure, several athletic programs soared to new heights, including the college's first ever football national championship.

[00:01:42] Mm-hmm. And numerous national championships in other sports as well. Troy also elevated diversity as a key strategic imperative. He guided the college's response to Covid-19 and much, much more. Dr. Hammond holds undergraduate degrees in both mathematics and physics, which paved his [00:02:00] way to the doctoral program in experimental atomic physics at M.I.T.

[00:02:04] So Bob, I think it's safe to say that he's smarter than both you and me probably combined. Indeed. So, uh, prior to joining North Central, Troy was at McKinsey and Company and then Plextronics Inc. where he helped grow the

technology company into a global leader in printed electronics. He also served as adjunct professor of business at Milligan College.

[00:02:25] Dr. Hammond holds numerous patents and has published extensively on physics, nanotechnology, polymer electronics, and solar technology. Dr. Hammond, welcome to the show. We are so thrilled that you're here. Well, it's an honor to be here. Thank you for having me today. Troy. Thanks. It, it, it really is great, and we've known each other a while and it's good to, uh, have an opportunity to have you as a show, as a guest on the show.

[00:02:50] So you have a background in energy, renewable technology, higher ed, venture capital, and a whole lot more as Devon mentioned. Tell us how that played into your [00:03:00] role in leading a large nonprofit organization. Well, thank you. Yeah. When I think back to the different roles that I played, there was the opportunity to develop competencies along the way that I think played a, a significant role in preparing me for what the last 10 years have held as a, a, a leader in the university setting.

[00:03:24] My first role really was doing my PhD, uh, at MIT in physics, and what a fantastic opportunity to, to really go deep on critical problem solving and, uh, data and analytically driven problem solving. My time at McKinsey, uh, McKinsey is, uh, is nothing, if not a, a laboratory for learning, uh, strategy, teamwork.

[00:03:48] Change management, client and customer service. A lot of tremendous experience there. Helping to build a startup from really zero to [00:04:00] ultimately a hundred million dollar valuation was an incredible learning experience as well, being driven by innovation, fundraising. Uh, and, and other leadership requirements there.

[00:04:13] Uh, and then finally, my, my last role before beginning at the university was leading an energy management project-based business to a successful exit. And so, when I think about those different experiences and my conversations with the, the trustees, as I took on this challenging leadership role.

[00:04:37] They were really looking for a leader that could bring significant change to the university to prepare it as an institution for quite challenging headwinds in higher education. So, all of those skills around change management, innovation, fundraising as well as of course my, my academic credentials, all played into the role of [00:05:00] leading such an institution.

[00:05:02] That's great, Troy. So, one of the areas of opportunity you identified was the institution's endowment. What are some of the goals of your stakeholders with regard to the university's endowment? I think first and

foremost, an institution like the one that I've been leading looks to its endowment for a steady financial draw that supports both core operations, and in cases where donors, uh, made gifts with specific goals, fulfilling those objectives.

[00:05:34] So ensuring that there is that annual sort of four to 5% of, uh, of, of the endowment to be able to draw to support those core elements, uh, of the operations is really critical. And schools like, like mine, and there are, you know, a thousand or more across the country.

[00:05:53] These are not institutions large multi-billion-dollar endowments with tremendous flexibility to do [00:06:00] a lot of different things with those funds. Many of these institutions, uh, like mine, have endowments in the 50 to \$500 million range, and that, that draw being able to rely on that, that, that four to 5% draw for, for operations is critical.

[00:06:17] I would, I would say also though, especially in the last 10 years, there's increasing interest in how the returns are achieved. The conversations in investment committees around investing with a, a goal towards supporting institutions and companies that care about ESG considerations, environmental social governance issues in the marketplace, is increasingly a conversation well with the stakeholders.

[00:06:50] So along those lines, you have a unique view of the potential impact endowments can have on sustainability. So, tell us about your approach. Yeah, thank you. [00:07:00] I think to describe this, I need to back up just a minute and comment from my business leadership experience, why, uh, positive, uh, return projects, positive economic projects around renewables.

[00:07:16] For example, building out a solar array or, or retrofitting a, uh, facility with, uh, efficient LED lighting, projects like that many times don't actually get done. And the reason is that, in my experience, businesses fail to act on projects when financially you look at the return, it makes sense.

[00:07:40] There's really three reasons. First is the time horizon. Many times, these projects require years to fully pay back and return their, their investment with, you know, return and interest. And sometimes companies aren't willing to think that far out into the future and count on [00:08:00] three, five or more years to return in investment.

[00:08:05] A second reason is just internal expertise. A lack of, uh, of, of understanding within the team, of the business for, uh, for example, around the technology so that they truly have confidence in the project. And, and the third one has to do with the upfront capital investment that's required. Even if you find a way to finance these projects other than just paying for them directly with

cash, it's generally creating a liability on your balance sheet in some way or form.

[00:08:39] And so all three of those reasons, the time horizon, the expertise and the capital present hurdles for projects like this to get done. I realized when I came into the university setting that we could, we could overcome these in a unique way. First of all, my institution, the time horizon is, is there. We, we make [00:09:00] decisions thinking five, 10, even 50 years out into the future in some cases.

[00:09:05] So that wasn't, uh, a, a concern here. Secondly, we have expertise on campus for any kind of technology or project that you could imagine, whether it's through our, our, our engineering and operations staff or through faculty, uh, themselves to provide input in that area. But the, it's the third element that really brings the endowments into play.

[00:09:29] How do we finance these, these projects? My, uh, insight into this was that in our investment committee discussions, we work with our, uh, investment advisor to identify a diversified portfolio of investments. And in terms of managing the endowment, like I think most do. And one of those asset classes is just long-term fixed income.

[00:09:56] You're investing in bond-like assets because you want a [00:10:00] steady state return over time. Well, the return on, for example, installing a solar array, like we've done here on our campus is, uh, is a very reliable, steady state, return on investment, very bond-like, if you will. So why not take some of those funds and invest in ourselves?

[00:10:21] Set up a sustainability fund that is funded by some of those assets that otherwise would go into fixed incomes, and fund projects on our campus that provide an equivalent kind of financial return. So really those three hurdles, the time horizon, the expertise and, and coming up with the upfront capital, we could efficiently and effectively overcome those here within the university.

[00:10:47] Troy, as you described, that you can almost, uh, put together your background between both business leadership and nonprofit leadership, and of course, the quantitative side that, uh, that you're so [00:11:00] strong in. And, and so perhaps you can just share with us, and I know you're evolving your career. And I think there's application both on the, uh, not only the university side, but broadly in the nonprofit world and even beyond into the for-profit world.

[00:11:13] But perhaps you can share a little bit about the impact. Give us examples of really how you've seen that bear fruit. Absolutely. We're very proud that we are able to use this model here on our campus to build out one of

the largest rooftop solar arrays of any university in the country. It's an impressive array on our field house recreation center, as well as a number of other smaller but important solar projects in retrofitting large portions of the campus with LED lighting, all funded by this sustainability fund that we set aside within the endowment and returning that principle plus, uh, plus interest back to the endowment.

[00:11:57] So it's had a significant impact here. [00:12:00] I also serve as a trustee of an important, uh, nonprofit fixture here in Chicago land, uh, called The Morton Arboretum, and have taken this model there as well. And it has inspired a project that is getting ready to break ground in this next year that will offset a large portion, if not all, of the electricity consumption of, of that operation through, through solar power.

[00:12:30] So, um, have taken it to, to others and, and hopefully additional institutions can pick up on that idea and carry it forward. So, I imagine that in order to make these projects a reality, um, endowment governance must have been a really crucial component. Can you talk to us a bit about that? It really was, Devon.

[00:12:53] That's, uh, that's a great point. And for, for us, and, and, and this would be [00:13:00] tailored to each institution, of course, but for us, the finance and investment committee has a specific role in approving the, the financials for any project that we wanna do. But secondly, we have a, uh, buildings and grounds committee.

[00:13:17] You might call it an operations committee, that reviews the project itself for uh, for how it fits in with the campus needs. And then third, the team that really executes on it. We have both our operations team and quite frankly uh, you know, professors and students engaged and involved in designing and executing on the project.

[00:13:41] And then, and then of course, the CFO sets up a, a, a regular quarterly, or it might be monthly, payment back to the endowment from all the energy savings that are received to pay back. So, all of those pieces need to be put together. The details might be unique for each [00:14:00] institution, but, but we've kind of put that on paper and agreed as a, as a board of trustees, as an institution, exactly how we would manage those projects.

[00:14:09] But there's one other, uh, that, that might all be kind of obvious, but I think there's another piece of it that might be less so, uh, to your listeners, and that is just the reporting of the performance of the endowment. Because one unique thing about this model is that the dollars actually as an asset do leave the

endowment when you invest in this project, and then they get returned over time with interest.

[00:14:35] But we uh, we received great assistance from, uh, from our advisors, in this case, Fiducient, any of the, of your, your listeners would wanna, I'm sure your investment committee would want to be able to see reporting for the endowment's performance that both, that includes this investment through the sustainability fund.

[00:14:56] So you really see it both with and without the investment, and that's an

[00:15:00] important piece for the investment committee, uh, to be able to see how the endowment is doing over time. And, and Troy, to that point, and, and sort of thinking about broader application, this model of investing in renewable energy projects, it also has a, a missional component for your stakeholders, wouldn't you say?

[00:15:18] Uh, right, Bob. I mean, this, the interesting thing about this model and the sustainability fund, in our conversations, of course our campus, like many, we're conscious of the environment. We want to be good stewards, but when you think about the impact of these project investments, we're having a far greater impact on carbon reduction and impact, uh, positive impact on the environment than you could ever have by adjustments in the way that you invest the entire rest of the endowment.

[00:15:51] If you tried to be selective in terms of where and what kind of companies you invested in. We're having much greater [00:16:00] impact by actually financing these kinds of projects on our campus. Um, so that's, that's the first piece of it. And then the second piece, of course, is, uh, in our case, our, our mission is education.

[00:16:10] And we actually included, if you, if you go back to that governance piece, we included a requirement that all the projects that we do have some level of faculty and student involvement in terms of the project design, the financial modeling, what have you. So, so that they can learn from, from that experience.

[00:16:30] And, and The Arboretum as well, you know, their mission, educating their visitors and patrons, and this is an important element of that too. So, so really there's, there's kind of a dual impact from a missional component. And Troy, I imagine, you know, some of these initiatives, they're not exactly, um, common and, uh, it required a little bit of, or maybe a good amount of thought leadership and buy-in.



[00:16:57] And do you have any thoughts on really [00:17:00] how you were able to, um, align committees and boards and, and really get them behind some of these, somewhat more progressive initiatives? Yeah, I, I think it comes down to communicating a compelling vision around this that is aligned very clearly with our mission as an institution. Our mission both from an education standpoint, ensuring that the endowment can fund and support that mission into the future, but also the, the passion and interest.

[00:17:34] Of stakeholders on campus to, um, be able to impact the environment going forward in this. So, so communicating that, which, and you'll be shocked to hear me say this, but with a clear, uh, analytic model and a financial model of how this can work and be beneficial, uh, alongside it. All of those elements were key components [00:18:00].

[00:18:00] To winning support for this at the board level and at the institution and, and stakeholder level. Such an interesting approach. Uh, it's, it's been really, uh, enlightening to hear about it. So, Troy, in the remaining time we have with you, I'd like to shift a little bit to perhaps insights you can share for leaders in nonprofit organizations broadly.

[00:18:23] So I guess first I'll start with, you know, obviously today's leaders face many challenges, uncertainty seems to be growing by the day. Is there any guidance that, that you feel that you can offer nonprofit leaders? Thanks, Devon. There's a lot of directions we could go with that. But one thing that comes to mind for me is as we're sort of coming out of this pandemic and the world of work, we're preparing the, the students and, and the employees that your listeners are, are hiring and [00:19:00] all are struggling with the balance of returning to work in person.

[00:19:05] Uh, and, and how much to do that. You know, like I said, we're generating that next generation of talent. And I guess an observation that I would share with the listeners is, to be clear, the vast majority of our students wanted to be in their classes in person. As an institution, we were able right away in the pandemic, in the fall of, of 2020, we were able to provide at least some in-person component to literally two thirds of our classes that first fall, and that percentage increased each semester.

[00:19:41] Very little of our, our classes are, are online now, and, and I think research shows that the majority of this generation don't want a fully remote work experience, just like they don't prefer in our experience, a fully remote education. Many of us that have been [00:20:00] around the block, uh, uh, a time or two, know the value of, of in-person work.

[00:20:04] It, it's not just valuable in terms of, uh, of an individual's own personal development. But, but quite frankly in the workplace, their team needs to be able to benefit fully from what that person brings to an organization. So, I guess the thought around the guidance would be that investing in your future leaders, it's gonna require investing, in my opinion, in the in-person work experience.

[00:20:31] But perhaps in more creative and flexible ways. The students that I see on, on our campus here, the young graduates, they, they're, they're ready and willing to work hard. They also appreciate flexibility in that, and they're skilled at juggling lots of demands. You know, most of my students work, um, if not part-time, sometimes full-time jobs while carrying on their education endeavors.

[00:20:53] And so the, these are hard workers. They're, they, they [00:21:00] value that in-person experience. Um, they also appreciate flexibility. I think our challenge as leaders is finding new ways to, to meet that demand while we, we mentor and, and develop the next generation of leaders. It sounds like you're preaching to the choir here, Troy.

[00:21:15] And, and uh, you know, what we're striving for at Fiducient is ideally a best of both worlds, sort of the collaboration and right where we're built to be together and, have this sort of in-person contact. And if we can combine, you know, sort of pre pandemic um, qualities with the flexibility and some of the, uh, other, uh, things that we've come to appreciate, uh, since the beginning of the pandemic.

[00:21:39] That would be the best of both worlds. But I hear you saying it's a lot of intentionality and, and, uh, and flexibility and nobody's fully cracked the code yet. Uh, indeed. Yeah. So, you have covered a lot and we're so grateful, be it on the leadership front or the endowment or the sustainable front. I wonder if there's anything you'd like to add at this point, or maybe even

[00:22:00] underscore?

[00:22:01] Yeah, Bob, I think just circling back to the investing topic, uh, and, and, and to summarize, really what we're talking about is investing for, for impact, uh, that's in alignment with an institution's, uh, mission or goals. One way to think about this is it's a little bit of a different spin on passive versus active investing.

[00:22:24] We talk about investing, using that language and think about active investing, uh, being one where you have managers making decisions to intentionally include or exclude investments, say from a fund or portfolio. But I



think what we've talked about here today is really about taking active and, and put it on, on steroids.

[00:22:45] It's taking active to a whole different level and investing in yourselves in an impactful way, doing projects that, that serve your operations, but also meet, uh, mission-aligned goals. And, uh, and, and, and it's doable. It, [00:23:00] it's, it's within reach and so, encourage your, your listeners to, to give it a try.

[00:23:06] So Troy, before we let you go, since you are both an expert in and a student of so many various topics, is there a favorite book or perhaps a white paper or recent read that you'd like to recommend to the listeners? Yeah, I'd like to bring the listeners attention to, uh, a book called Social Enterprise 2.0, um, by Mike Hamel.

[00:23:29] And the reason I'm passionate about this book, I am the, the board chair for a pharmaceuticals company, OWP Pharmaceuticals, that has a really unique business model where it has a symbiotic relationship with a not-for-profit foundation that works in parallel with it. And the mission of that, their specific mission is to resolve epilepsy in under-resourced countries around the world.

[00:23:59] But, but [00:24:00] Scott Boyer who's the CEO and founder and, and helped author this book along with Mike, this is a little bit of the history of how this idea and this model came to be. And then there's a second book that's, that's forthcoming called Powering Social Enterprise with Profit and Purpose: The Tandem Hybrid.

[00:24:20] Which describes in more detail how this business model really works to marry up true for-profit business and the incentives that are around that with a model that benefits a not-for-profit, that then can take, in this case, those pharmaceutical products that the for-profit business is making and take that to the, to under-resourced countries and provide it philanthropically, provide it for free to really.

[00:24:46] Tackle health challenges in the third world. And so, kind of passionate about this new social enterprise model and your readers can, can, uh, can find that online. Great. That sounds really interesting. Well, Troy, we are [00:25:00] so appreciative of the time that you've spent with us and really your vision is so inspiring and you brought such a unique perspective.

[00:25:08] If listeners wanna learn more or perhaps get in touch, uh, how might they go about doing that? I think the best way would just be on LinkedIn. Uh, my profile should be up to date there and, and can be easily searched. Uh, I would also highlight that featured on there is the, the TEDx talk or a link to the

TEDx talk that I gave on the sustainability fund model that we talked about today.

[00:25:33] Great. Well, thank you again, Troy. It has been such a pleasure chatting with you. Oh, my pleasure, Devon and Bob. Troy, terrific to have you on this show and, and best wishes on, on all fronts. Really appreciate you being here. And I've got, uh, Social Enterprise 2.0 on my reading list. Thanks for that too. Excellent.

[00:25:51] So we want our listeners to know that Fiducient recently released our 2023 capital markets updates. Really good piece that conveys our expected risk [00:26:00] and return on stocks, bonds, private equity, and just about every asset class. And given the wild ride we've seen in stocks and the higher yield in bonds, I think many of you who oversee investments might find a few surprises in our expectations going forward.

[00:26:16] So just use the email in the show notes or reach out to me or Devon on LinkedIn if you'd like a complimentary copy. So, to all you good stewards, thanks for investing time to help your nonprofits prosper. We'll connect with you soon on the next episode. Thank you for listening to the Nonprofit Investment Stewards podcast.

[00:26:35] 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. Content is made available for informational and educational purposes only and does not represent a specific recommendation.

[00:26:57] Always seek the advice of qualified [00:27:00] professionals familiar with your unique circumstances.