

Endowments and Foundations CIO Corner

A conversation with Joel Wittenberg, CIO at the W.K. Kellogg Foundation

Winter 2020

JOEL WITTENBERG, CHIEF INVESTMENT OFFICER AT THE W.K. KELLOGG FOUNDATION, RECENTLY RECEIVED THE 2019 CIO INDUSTRY INNOVATION AWARD FOR FOUNDATIONS. HE DISCUSSES WHY HE'S STILL A FIRM BELIEVER IN VALUE INVESTING, HOW HIS TEAM IS INVESTING IN DISRUPTION AND LESSONS LEARNED AS A LONG-TERM IMPACT INVESTOR.

Q: You've been known to be faithful to the philosophy of value investing. Has that changed?

WITTENBERG: The answer is no; I'll always be a value-driven allocator, but it's always evolving. The goal is to focus on the upside while protecting yourself on the downside. And the key thread that flows through any value investment philosophy is cash flow. If you look over history, value investing started with the Ben Graham style of buying net-net investments, then evolved into University of Chicago bottom-decile cheapness and then turned into quality cash flows with the Warren Buffett style. Today, value is the longer-term focus on companies with growing and repeat sales, and high margins and cash flow.

Q: What about the value *factor* approach?

WITTENBERG: The factor perspective on value is dated. Price-to-book doesn't really give you information anymore because AI-driven systems are squeezing the value out of the market. So you have to go to longer-term thinking, solid companies with high margins, good cash flows and growing sales. And there are a lot of those out there.

Q: How have you balanced growth and preservation? Do you use certain tools to seek both?

WITTENBERG: In every investment that we make, we look to identify the sources of positive returns and to manage the downside. We think of this as positive convexity for each strategy. Speaking generically, on a private investment we focus on ideas that can generate midteens-type returns and then we try to identify what tools the manager will use to take those returns up to maybe 20% or more, if things go well. We also look at what could go wrong, and we have to see a very large skew to the upside vs. the downside. Doing that, we've been able to combine preservation of capital and growth into the same investment.

Q: Looking to the year ahead, what investment themes do you and your team find most compelling?

WITTENBERG: The biggest opportunities are in disruption. It is amazing how fast it's happening. You have to identify disruptions early and invest in them quickly. The big opportunities I see today are those offered by the cloud, AI and machine learning.

PROFILE

Joel Wittenberg,
Chief Investment Officer,
W.K. Kellogg Foundation



- **Hometown:**
I moved to Detroit when I was five.
- **Education:**
B.S., Michigan State University;
M.B.A., University of Michigan.
- **Career highlights:**
This job has allowed me to see the entire world and to meet some of the most incredible people.
- **First job:**
When I was 12, I was a dishwasher in a Chinese restaurant. I earned very little, but they gave me a lot of food.
- **Hobbies:**
Traveling with my family; the Detroit Red Wings.
- **Favorite series:**
Right now, I'm enjoying *Schitt's Creek*.
- **Last thing you read that made a strong impression?**
I couldn't put down *Machine, Platform, Crowd: Harnessing Our Digital Future* by Andrew McAfee and Erik Brynjolfsson.

The business-to-business technology companies are where we're seeing the most growth and the best margins. We're adding to our venture capital and growth equity allocations. We're also focused on biotech and renewable energy investments, which can be driven by the cloud. We look for managers who are open to change. Conversely, we're identifying public companies that are not embracing the cloud and machine learning and making sure we're not invested in those.

Q: What other strategies and geographies interest you currently?

WITTENBERG: I think there are two key areas: inefficient markets and complexity. I like to find managers who understand and can buy complexity. If I can find investments that are complex and inefficient, they will be cheap. The local China market is a great example of inefficiency. We're also seeing some interesting opportunities in Mexico and Latin America. Some other geographies are interesting, but we don't have the same ability to exit the investments there.

Q: Are you doing any passive investing?

WITTENBERG: We are absolutely not passive investors. I don't believe in it.

Q: Do you co-invest and, if so, how are your co-investments structured?

WITTENBERG: We've got a portfolio of interesting co-investments, with managers we've defined as "core" managers with whom we've done deep due diligence. This allows us to move quickly when they call with a co-investment. Almost all co-investments are done with very minimal or no fees.

Q: You've overseen a very interesting impact program. Can you discuss your impact philosophy?

WITTENBERG: We've been in impact investing for 13 years. About nine years ago, the impact team started to report jointly into the investment and program departments. It's been a great experience and it starts with our mission: children, their families and communities—and widening equitable opportunities with them in mind. Equity—racial equity—is a thread that goes through our entire organization and impact investments. Our success comes from combining that mission with a focus on investment returns.

The problem that I'm seeing is that most other impact programs have paid little attention to financial returns. Our impact investing team sits with the rest of the investment staff, for financial due diligence, and we apply a different set of best practices that we've developed internally. You've got to evaluate the combination of social impact plus investment return. The movement isn't going to work unless people earn a good rate of return.

Q: How scalable do you think your impact investing program can become?

WITTENBERG: I think ultimately it will be very scalable. We don't fully know yet. There's very little performance information across the industry. And even 13 years into this at Kellogg Foundation, we're still writing that chapter.

Q: Can you talk about sourcing impact investments? Is there an ecosystem of social entrepreneurs?

WITTENBERG: Yes. There's an incredible ecosystem, and it's growing quickly. We were so early and so public about it that everyone knows who we are. We tend to get virtually every call on the ideas that are out there. The ecosystem is made up of smaller investment firms, although some of the major firms are coming into it now. It's in the Bay Area, certainly, but also all over the country and around the world. We've made mission investments in South Africa, for example.

This year, one particular fund ended up in both our impact and diversified portfolios. It's led by a woman with a significant VC background who built an advisory team of Silicon Valley operators, mostly women, with diverse racial and ethnic backgrounds. They can identify the underlying investments and then bring their expertise to the entrepreneurs to create further value. From an impact side, we see the opportunity for women and people of diverse backgrounds to build wealth and start companies. And it's a VC investment that can potentially be a top decile fund. It was exciting to see an investment meet the parameters of both our teams.

Q: What has most motivated you in your years as CIO and before that, Treasurer of the Kellogg Company?

WITTENBERG: I love the financial markets. They are my work and my hobby. I love that the markets are different every single day. I also take it personally, the people I'm investing for. Whether it's an endowment or, in my previous role, a pension or a 401(k), I wanted to make sure I could walk through the cereal plant and look the employees in the eye and say, "There's a great fund behind you."

Here at the Kellogg Foundation, children have been our primary focus for 90 years. Our team is making sure that Mr. Kellogg's legacy supports our mission for another 90 at least.

Q: What's your advice for someone who'd like to build a CIO career?

WITTENBERG: More so even than being a great investor, a CIO needs to have leadership and team building skills. This business is stressful and taxing. The keys are keeping people motivated and making sure they have clear and achievable goals and are working together for the greater good. And you need to know what you don't know. I'm the first to admit if I don't understand something. I've seen so many failures from a simple lack of humility.

Q: Heading into a new decade, what concerns you most and what makes you most optimistic, for your investment program and in general?

WITTENBERG: One general concern is how the markets will come out of this negative interest rate cycle we're in, the bubble of all bubbles. Our country always seems to come out of adversity well, but I'm looking to the bigger experts to tell me how this will work itself out. The second concern is the inequity in our country—around race, around the lack of a middle class.

On the positive side, the people at the Kellogg Foundation are so focused on our mission and they are fantastic. They're doing some unbelievable things on this side and their dedication to addressing the inequities and building up our society is really inspiring. I look at my 14-person investment team and I'm really excited about the future of the Kellogg Foundation. Long after I leave, they'll be driving a great financial performance and taking this endowment to the next level.

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