Giving Done Right, Season 6, Episode 7 – Beyond the Binary: Tracy Palandjian on Impact

Tracy Palandjian: Give a lot, give very effectively, and give in a way that gives again. Whether the money's sitting in a private foundation or a DAF, you enjoy a massive tax privilege and the North Star should be to maximize your impact through these three levers.

Phil Buchanan: Welcome to Giving Done Right. I'm Phil Buchanan. A lot of critique of philanthropy focuses on what can sometimes be portrayed as a missed opportunity to make a difference with the investment capital that resides in donor-advised funds or private foundation. Couldn't those resources be put to work, too? When can positive social impact be generated while simultaneously generating investment returns? When are these things in tension? And when, in fact, can only philanthropy really get to desired results? And how do we even tell the difference? I can't think of anyone better to explore these tough questions with than Tracy Palandjian, the co-founder and CEO of Social Finance, a national nonprofit and registered investment advisor based in Boston. Tracy has built Social Finance into a powerhouse, mobilizing more than $500 million in investments aimed at improving outcomes across economic mobility, health, and housing. Tracy herself is an incredibly powerful player in the nonprofit sector, serving on the governing boards of, among other institutions, Harvard University, the Surdna Foundation, the Bar Foundation, and the Boston Foundation. I've known Tracy for more than a quarter century, unbelievably, dating back to our days working together at the Parthenon Group, a strategy consulting firm where Tracy established the group's nonprofit practice. Tracy's a friend and someone I've turned to over the years for advice and counsel. Thanks for being here.

Welcome to the show, Tracy.

Tracy Palandjian: Thank you, Phil. Yes, I am still remarking well over 25 years ago because we were working together at Parthenon way before you started CEP, way before you knew CEP was a thing.

Phil Buchanan: I only lasted, like, a year at that firm, so-

Tracy Palandjian: Okay, fine ...

Phil Buchanan: I wasn't there that long. Yeah.

Tracy Palandjian: But you made an impression. And I have, yes, valued our friendship over these three decades, so right back at you Phil.

Phil Buchanan: Let's start, Tracy, with Social Finance and just explaining a bit about what it is to folks who are not aware.

Tracy Palandjian: You did such a beautiful introduction, Phil, but as the name suggests, Social Finance, we try to use the principles of finance, the mechanisms of markets, to address social problems when it's appropriate to do so. And as you already said in the opening, not every problem should be addressed with this kind of capital, and most problems, I still believe, should be addressed with traditional philanthropy. But when there's an opportunity to power solutions where there is a repayment mechanism, where there is a business model behind it, we'd like to power it with a different kind of capital. Now, we shouldn't start the show with all these technical terms, but I think that the false binary of investment capital and grant capital already sets up the conversation in a very tricky way. We see that as two poles, traditional grant-making, negative 100% in financial terms, and then traditional investments like alpha maximizing, as people on Wall Street call it. Those are the two poles, and there's, like, all this space in between, and hopefully we'll get into that. But before I do that, you also mentioned that we're a nonprofit and an RIA, a registered investment advisor, and that is a very funky corporate form. We're a 501(c)(3) nonprofit. That's the parent company, and underneath it is an SEC-regulated entity, a registered investment advisor. But that relationship, who's the child, who's the parent, speaks to the way we show up in the world, which is impact first, mission first, and the RIA is subordinate to serve that higher mission of impact. We literally can count on one hand how many organizations in the country have this kind of dual corporate form.

Phil Buchanan: That's so interesting. So, like, how then do you work with institutions and individuals? Like, whose investment capital are you investing?

Tracy Palandjian: We work across the spectrum, and we work a lot with different players across philanthropy. Sometimes it's professionals in a private foundation, institutional philanthropy, if you will. Sometimes it's a corporate foundation. Increasingly, we're working with more and more families and individuals and donor-advised funds. Like, I remember, you know, 15 years ago when we got started, more likely than not, it would be a private foundation showing up on the term sheet as a limited partner in our deals, and increasingly it would be a donor-advised fund sponsor investing on behalf of the underlying DAF holder. But Phil, we work across philanthropy because at the end of the day, we don't show up with a financing mechanism in mind, and it's like a hammer looking for a nail. We start with the problem. Like, what problem are we trying to solve? What impact are we trying to get? And then you think about what is the right set of partners, what is the right kind of capital, and sometimes it's even outside of philanthropy. Sometimes it's actually working with policymakers to reshape how government funds certain things. Sometimes it's working with employers, the private sector, who, by the way, one could even argue free rides on a lot of public resources, right? So it's about shaping different kinds of capital flows, but all with the North Star of achieving impact.

Phil Buchanan: Okay, so make it tangible for us then with an example. Like, what would you point to as a sort of signature initiative that you feel really worked where you were able to deploy folks' capital that otherwise would've been, I don't know, invested in Tesla or whatever?

Tracy Palandjian: Exactly. And you say it so beautifully because impact investing, and you opened the show with this term impact investing, like, it's been around now for what? Almost 20 years. The Rockefeller Foundation coined it in 2008 or something like that in Bellagio, and I would say that the first 10 years of coining the term, the field was really enamored with what I call have your cake and eat it too, right? Like, you can achieve…

Phil Buchanan: I refer to that as floor wax and a dessert topping from the very old SNL skit. “It's a floor wax and a dessert topping.” And it sounds too good to be true because it is too good to be true. Sorry, I'm interrupting you, but doesn't it go back further than 20 years? Like, didn't the Ford Foundation…

Tracy Palandjian: Yes

Phil Buchanan: do essentially impact investing in the '60s, investing in…

Tracy Palandjian: That's exactly right. That's exactly right. So the Tax Reform Code of 1969 enabled these things called PRIs, program-related investments, mission-related investments. But today, despite the fact that it's been in the tax code for decades, it's really underutilized. And we can get into why PRIs are so underutilized. In fact, the Social Finance Institute just put out a research paper that in the year 2023, looking at tax returns, 990s, that we found 0.4% of private foundations did a PRI in 2023. I mean, it's always been underutilized, and it remains underutilized. And we can get into that. But you're absolutely right. The community development finance institution ecosystem is almost like the OG of impact investing. But, you know, for what it's worth, it was a bright, shiny object that was birthed at Bellagio, and lots of people were enamored. But the spirit behind it, Phil, genuinely was a good one, right? Like, the thesis was: government and philanthropy aren't sufficient in solving problems through government grants, philanthropic grants, and we should enlist the private sector into the arena to solve problems. So it's, it's like the spirit is great, but then, you know, I would say the first decade of this movement was largely dominated by have your cake and eat it too, your SNL floor wax dessert analogy, that you can get killer returns, alpha, you know, risk-adjusted market rate returns, and have great impact. Like, what is there not to love about it? And that's a great thing. If people can do that's great. Go for it. But then for philanthropy…

Phil Buchanan: w- wait, wait. But if they could do that, that would just be a good investment right?

Tracy Palandjian: Bingo. Yeah. Okay If they can do that, that would just be a great investment. In fact, green cement, it's like, you know, the talk these days. It's a great thing. But socially…

Phil Buchanan: I'm not hip to that conversation, but good to know. Yeah.

Tracy Palandjian: The climate investors are very excited about green cement. Okay. And I would say that a socially agnostic and environmentally agnostic investor would go into that deal because it's a great way to make money. So, like, there's no

quote... our mutual friend Paul Brest would say there's no additionality, and he wrote a beautiful paper, you know, well over 10 years ago or maybe longer. So that's, like, kind of what dominated the impact investing conversation in the first decade. Actually, when we were at Parthenon, well, you weren't there with me, but the last thing that I did at Parthenon was actually writing a paper which is called *Investing for Impact Across Asset Classes*, and we basically did a framework bifurcating it finance first impact investment and impact first impact investments, meaning finance first is like, hey, you gotta seek and maximize financial return, and then you should be aware and measure and monitor the kind of impact that these products and services that companies produce. Nothing wrong with that, and there's a whole movement around impact measurement and disclosure and for public companies and all of that, private companies. But then impact first investment flips the order. If you don't pass the impact diligence, if impact is not, like, the highest order in your decision-making, you shouldn't even look at the financial return. But if it passes the impact, then you should think about is this a sustainable way to even call it an investment? Can you get 100 cents back on the dollar? Maybe it's, you tell your investors, it's actually gonna be below 100%, so maybe it's 50 cents on the dollar, 80 cents on the dollar. But sometimes it's over 100 cents, but the idea that the money can come back and then you can redeploy it and have impact again and again. We've always, in the last 16 years of leading and running Social Finance, always been on the impact-first side of things in the impact investing debate.

Phil Buchanan: Okay.

Tracy Palandjian: Sorry, I did not give you an example.

Phil Buchanan: No, no, no, and that's because I interrupted you, like, four times. So give us an example. Okay. Make it tangible for us.

Tracy Palandjian: Make it tangible. Okay, I'll give you a few examples. I'll give you an example that is not even an investment, but what we call a recycling philanthropic fund. So we're raising pure grants right now to power a vehicle to address the national nursing shortage crisis. There are 3 million registered nurses around the country, and depending on which state you go to, you will consistently see that RNs are the top three labor gaps in every single state. Some states are close to 20% vacancy rates, but most states are around the 10% vacancy rate. It's aging of America, it's restrictive immigration policy, so that's where we have today is a big nursing shortage gap, yet it's a great job. I mean, depending on where you work, you can… in New York City, if you have a bachelor's degree in nursing, you start at over 100K. But even in certain states, you're guaranteed to be over, like, $80,000 with full benefits, and you'll never be out of job and continued upward mobility. Yet, for a lot of people, it's actually really hard to, one, come up with last mile tuition dollars even after you've exhausted Pell and other grants and scholarships. There's still last mile tuition dollars. But importantly, a lot of people can't afford to take four years out of their lives to get a bachelor's degree in nursing. Like, they gotta put food on the table and pay for life. So we are really excited about this partnership with Western Governors University, which is a nonprofit university that works across the country to pair the innovative education curriculum with an innovative financing model. So we're only working with Pell-eligible students. So after they have exhausted all the grants

and scholarships, we give them the last mile financing, as well as enough money to make life work in a zero-interest loan arrangement. But not just zero interest, but it's also outcome space, meaning if the person gets a job that pays over a minimum income threshold, they would only repay the principal, so no interest. And if they don't get a job, because by definition, certain people don't like it, they change their mind, they can't get a job, we don't wanna saddle them with debt, and they owe nothing. So you can imagine, there's no way you can recover the full philanthropic dollar back, right? So it's almost like a declining balance, but the money comes back, and then it pays it forward to serve the next learner and the next learner. So it's a revolving grant. It is not an investment. So that's one example on the, what we call the recoverable grant side.

Phil Buchanan: It's super interesting. And before you go to your next example, is that what you meant when you said it's not a binary? I mean, between

Tracy Palandjian: It is not a binary. It is so much gray.

Phil Buchanan: That's very helpful because I had this experience, like, 20 years ago or so when I feel like there was this moment where impact investing and PRIs were kinda hot at some big foundations, and a program officer said, "Would you be interested in, like, a loan instead of a grant?" And I'm like, "Why? Definitely not." You know? Like, "What are you talking about?" There was no rationale or logic to it, but it felt very binary to me in that moment. Loan, I gotta pay it back. Grant, I just get it.

Tracy Palandjian: But here, hold on, but, but Phil, that's actually an important distinction. For the student, and we don't gloss over this, of course you should get a full ride, a full scholarship. If I'm a student trying to become a nurse, I'd much rather get a full-ride scholarship than a zero-interest loan.

Phil Buchanan: Of course.

Tracy Palandjian: Much better for me. However, we try to… at the end of the day, there's only so much money to go around, and we would love for all aspiring nursing students to get a full scholarship from the government or from philanthropy. But short of that, how do we apportion responsibility, who pays, who benefits, who takes on the risk, and have a fair arrangement so that you can serve many, many more people, right? I think that if you're going from making an hourly wage working at fast food, making $27,000 a year, to making $90,000 a year as a nurse, repaying your principal seems pretty fair, and you don't have to repay it if you don't get there, compared to a traditional loan. When that money comes back, it serves the next student. But for the student, it's still a loan. It is not a grant.

Phil Buchanan: Okay, last question on this before we go to your second example. So for this nursing initiative-

Tracy Palandjian: Yep

Phil Buchanan: Who's invested in this? Is this individual DAF holders? Is it foundations? All of the above. Is it a mix?

Tracy Palandjian: All of the above. We're trying to get to $100 million, and we're on our way, but it's resonating with people because you can get more impact from $1, because it works and works again. Yeah.

Phil Buchanan: And what's the minimum threshold? Like, if somebody's listening to this right now and they say, "Boy, that sounds amazing, and I just heard her say we don't have it all yet," what's the minimum threshold level for them to be able to call you and say, "I want in on this nursing thing"?

Tracy Palandjian: Maybe, Phil, you can help me. I'd love to really democratize this, right? And make this, like, a crowdfunding thing. Maybe we should. We're not really good at sales and marketing, frankly Phil. But to date, it's been more sophisticated philanthropists. So we're, we're working with people who are able to write, you know, six-figure checks.

Phil Buchanan: Got it. Got it. Okay. Helpful.

Tracy Palandjian: And more.

Phil Buchanan: All right.

Tracy Palandjian: Yeah.

Phil Buchanan: Go to your next example.

Tracy Palandjian: Okay, on the investment side. You can pick your journey. Do you wanna talk about homeownership or employee ownership?

Phil Buchanan: Let's talk about homeownership

Tracy Palandjian: Let's just talk about homeownership. Okay. So I had never heard of this, Phil. So there exists in the United States a loan product called contract for deed. Have you heard of this thing?

Phil Buchanan: No.

Tracy Palandjian: I hadn't heard of it five years ago either. So these are home loans. This is people who wanna buy their homes, who need financing in order to buy their homes, yet they do not qualify for a traditional mortgage from, you know, the big banks. This is largely in the South and Southeast. This is obviously a legacy of redlining where, you know, certain zip codes, it's just really hard for traditional financial institutions to operate. So this form of lending emerged, and it's called a contract for deed. So what is a contract for deed? You have all the downsides of a

traditional mortgage and none of the upside. You have to pay monthly payments at a high interest rate. You have to pay your taxes. You have to keep up with your home. But this is the catch. You actually do not hold title to your home. The deed does not belong to you until the very last payment at the end of 20 years, 30 years. And how does a lender make money? When you miss a month's payment, two months' payment, and these are people living on financial margins, they have the right to evict you, foreclose on the home, flip the property. That's how they make money. And guess how large this industry is in the United States?

Phil Buchanan: Enormous.

Tracy Palandjian: Two hundred billion dollar industry And so many families are just trapped into these situations, and you cannot, like, grant make out of this problem. It's just, like, too big, right? So this amazing set of entrepreneurs with a track record of traditional real estate, commercial real estate investing background decided to take on this problem, and this is what they do. They buy up packages of these contracts of deeds. They work patiently with the borrowers and season their loan to convert them into traditional mortgages. And to date, they've converted over 300 home loans into traditional mortgages, on average transferring $69,000 in home equity to the borrowers. I mean, extraordinary, and lowering monthly interest rates. Amazing.

Phil Buchanan: That is very cool.

Tracy Palandjian: I mean homeownership is one of the biggest building blocks of wealth for most Americans, so.

Phil Buchanan: It reminds me sort of vaguely, it's different, but of, do you know the organization Undue Medical Debt?

Tracy Palandjian: Yes, I've heard of it. Yes.

Phil Buchanan: Allison Sesso, we had her on the podcast, and it used to be called RIP Medical Debt, I believe, but they changed their name. Seriously, but it's another example of bad practice in our economy that, like, in an ideal world, you would want regulated out of existence, right? Like, it shouldn't be possible. At the same time, here we are, and so what her view is, like, yes, it should not be possible for people to rack up this amount of medical debt, but they do, and we can relieve it for them, and we can change their lives. But it's interesting. I see that people will push back on that and say, like, "Yeah, but aren't you just tinkering around the edges of a broken system and therefore perpetuating it?" And how would you respond to that? And is that a critique you've heard?

Tracy Palandjian: I've heard that a lot. It's of course, it's a second-best solution. The first is using the policy lever and change the regulation. But we're pragmatists, right? Like, you, you just have to make it better every day until that policy lever is pulled. So we're optimists and pragmatists, so every day if we can see an opportunity to do something knowing that it's the second-best solution or maybe even the third-best

solution, it's having impact in people's lives here and now. But Phil, let me finish the thing on the contracts for deed. So it's a huge market, but traditional investors would never touch this thing. The risk-return profile is, is not gonna be what they're looking for, right? If they're seeking alpha. They won't touch it, yet, like, it's too big of a problem to use traditional grants to address, hence this… Like, this is a perfect PRI, and we have lots of great peer foundations in investments with us, and they're deploying their PRI capital.

Phil Buchanan: Stick around. We'll be right back

BREAK

Phil Buchanan: So I'm not sure that I know another person, I actually am quite sure that I don't, who sits on three major foundation boards.

Tracy Palandjian: I've termed off of one.

Phil Buchanan: Okay. Uh, which one did you term off?

Tracy Palandjian: Surdna, your OG.

Phil Buchanan: Yeah, they're an initial funder of CEP's.

Tracy Palandjian: Yeah. Yes.

Phil Buchanan: So in that role, when you were on the Surdna board, in your role on the Bar Foundation board, which is, for folks who don't know it, the biggest private foundation in Massachusetts, you're on the Boston Foundation board, Community Foundation. Are you pushing them to try to think differently about their investments and have you been successful in shifting the conversation? I know you were gonna say, "Oh, it wasn't me, da, da, da." But, like, I'm just curious about that experience as a board member, given your perspective.

Tracy Palandjian: I don't run around with a hammer, right? And again, if you run around the world and you think that every problem should be solved by an impact-first investment or an impact investments, you are, like, looking at the world wrong, right? Like like most problems, you know, whether it's all the changes in SNAP, right, like, and all the other very disturbing changes under HR1, like, philanthropy needs to respond immediately, right? Or disaster relief, humanitarian, civic institutions, basic science research. Like, there is so much role for traditional grant capital to power these things. But if the mission and the program areas lend to these types of practices, I really hope that I have teed up a good conversation with my board

colleagues to explore it. So I'm very proud of my 12-year tenure on the Surdna board, that we made some significant changes to how we think about impact investing. But not just, like, you know, kinda money out the door. There are some really important structural elements to even enable this to happen, right? Like, most foundation staff is, like, so siloed. The investment people sit over here, the program people sit over here, and they never come together. And by definition, an impact investment, and especially an impact-first investment or PRI, you're required to, actually do both. And so structurally, a lot of foundations are not staffed in a way to lend to it easily… hence, like, so few PRIs are, are being done. So, and even at Surdna, like, there's one investment committee. We don't have two investment committees for, you know, the PRI stuff and then the traditional endowment investing is one. And the Boston Foundation is also a pioneer among community foundations. You know, even before I joined the board, they were into impact investing. There are various pools thinking about finance-first impact investing, impact-first investing, and now we're taking it to a whole new level, and core to, like, the next chapter's strategy. Really, really exciting. And the Bar Foundation is also exploring all these practices.

Phil Buchanan: Is it true that at the Boston Foundation now, if you have a donor-advised fund and you don't elect otherwise, a portion of your invested capital is sort of automatically invested in impact-related accounts. Is that right?

Tracy Palandjian: That's exactly right. You know, we're trying to take advantage of behavioral science. So the default is... And we dip it up, and it's not a big amount. So the first year is 1%, it caps at 5% in the fifth year toward the impact-first investing portfolio. And if you don't like it, you can opt out. And most people stay in. The vast majority stay in.

Phil Buchanan: Right. And do you know, I actually don't, if this is a common practice at other community foundations?

Tracy Palandjian: It's a rare practice, but we hope to evangelize it.

Phil Buchanan: Yeah. Yeah. That's great.

Tracy Palandjian: Cause there's so many place-based impact-first investments. Think about housing. Think about your first down payment for your first home. Think about microloans for small business formation. Like, it's, it's... Community foundations are such a rich area to explore impact-first investing.

Phil Buchanan: Just to sort of make sure I'm thinking about this clearly, there's impact first, and then there's also sort of what you were alluding to earlier in the conversation, which is kind of like the avoidance of harms or, like, negative screens, right? Where an individual might do this or a foundation might do this, say, like, "I do not want to invest in for-profit prisons. I do not want to invest in tobacco." However, this is very hard, right? Because you get to certain companies that, like, they might not, for example, be weapons manufacturers, but they're servicing, or a vendor to weapons manufacturers or you know. I guess I'm kinda curious your take on if you

were advising somebody really wanting to be philanthropic, but they're also wanting to deploy some impact-first investments, but then they also wanna stay clear of certain things. How possible is it even to do that, and what is your take on that?

Tracy Palandjian: I think it's really admirable if people have certain ideas about how their 401K, their mutual fund holdings should express their own values, right? And negative screens, like divestments from certain industries, is typically the way to go, and you can go to, you know, BlackRock, Vanguard, Fidelity, and you can have all kinds of funds to screen out all kinds of things. And that's fine, and that's great, but as you can imagine, your values are different from my values. You know, what you call a tomato, I can call a tomato. Like, it's a way for people to express certain beliefs and values, right? Impact-first investing is actually, you start with the problem you try to solve. For the contracts for deeds, we actually want people to convert these predatory loans into traditional mortgages and begin to build wealth. Or the nursing fund, we want more low-income students to get their bachelor's degree in nursing. You start with the problem. You start with where you wanna go, and then the right financial structure and the right set of partners follow it, rather than like, "Oh, I have a portfolio of public equity holdings, and I wanna turn it into impact." Public equity's a great expression of your values, but it's a very blunt instrument if you wanna create impact.

Phil Buchanan: Yeah. What about if you come into contact with a donor, they've had a big liquidity event, their tax advisor says, "Establish a donor-advised fund," and they do, and then they come to you, and they say, "Okay, now what do I do?" Like, I'm curious. How would you counsel that person so that they don't just do the usual and make a few grants over many years and have the rest sitting in investment accounts that they don't even think about?

Tracy Palandjian: It's such a great question, and, and we run into this all the time, and increasingly a lot more with the wealth transfer and all this new wealth coming out of places like Silicon Valley, right? I mean, and these are significant liquidity events, and it's great that they have the philanthropic instinct to put some of it, even if their tax advisor tells them that it's the wise thing to do to put it in a donor-advised fund. And many of them actually haven't spent enough time in their lives to think about what they care about, and it takes time, right? Jeff Bradach just wrote in Slow Philanthropy, it's like decision-making is actually takes a lot of time to do it right. So what we-

Phil Buchanan: Yeah, that was a great piece, I thought.

Tracy Palandjian: That was a great piece. I love that piece. By the way, it also said that if you count the households over $500 million in net worth, they're only giving away 1.2% of their assets. I mean, extraordinary opportunity speaking of setting up these tax-exempt entities, either a foundation or a DAF. But what we hear a lot, Phil, is that they set up this thing 'cause their tax advisor tells them to do so, and then they don't know what to do. So what do they do? They give a little bit here to their kids' school. Their friend's on this board, and, and they actually don't know what to do, and they really wanna do it well. They're actually well-intentioned, but it takes time to figure it out. So what we typically say is instead of just parking there and invest it in

the market, why don't you invest it for impact and actually have it work for you before you decide whether you care about climate or education or animal welfare or whatever it is, right? So my wonderful colleague, Kirstin Hill, who's our president, wrote a CEP blog about exactly that. Have impact while it's sitting in your DAF, and then when you decide ultimately what you wanna do, then do it. Grant it away. Or some of our funders say, "You know what? I actually just like this approach. It's gonna be kind of like a more steady allocation to my philanthropy. I'm just gonna fund all kinds of these homeownership approaches, employee ownership approaches, regenerative agriculture approaches, all these things that would benefit from this kinda capital." So we hope that that message gets through. You don't need to just park it in a money market fund or the S&P, you know, ETF, that you can actually put it to work right away.

Phil Buchanan: Yeah, I love that. And you give yourself some time knowing that your money's doing something positive even as you're figuring out maybe the thing that you're most passionate about.

Tracy Palandjian: Exactly.

Phil Buchanan: What about people who look at big foundations, maybe even foundations that are doing, you know, impact-first investing with some of their resources, but then a big chunk of their endowment is invested, let's say, in private equity? And, you know, private equity is not a monolith, but there's certainly been a lot of documentation of some of the harms to certain industries and services as private equity has tried to roll up certain businesses or whatever. So people just kinda roll their eyes and say, like, "Okay, you're doing way more harm with this hand than you are over here with this little sliver of impact-first investing." What's your take on that? I think what I'm grappling with and not asking very well is, like, is it even possible for, like, a very large foundation? I know a couple have, not very large, but decent-sized foundations have said they're, like, 100% impact-aligned. Is that even possible in our economy?

Tracy Palandjian: Again, it's how you define the impact, right? I have seen various families going, you know, Heron Foundation it did a long time ago, but increasingly there are amazing families, you know, whether it's ... And some of them are really interested in impact first too, like Blue Haven, Ceniarth, Grass Meadow. Some of these families really focus on 100% impact, and they're incredibly thoughtful in thinking about all the nuances. But for the average person, I mean, you and I probably own stuff in our 401K that we don't even know about. But this is the catch, and I'd love to get your take on this, Phil. We have resolved that, okay, I am not an investment professional, so I should outsource my money management, whether it's for my 401K or my savings. Let's let an expert called the mutual fund manager or whatever investment manager do it, right? And you and I won't ask many questions because we see our statement and the balance is growing, and it's, like, good, right? Whereas, like, with philanthropy, and especially with impact-first investing, because we built a product because some of our partners said, "We wanna outsource this function too. Like, how am I ... Like, now I'm, I'm sold on impact-first investing, but how am I supposed to go out and source and vet and build a diversified portfolio of this approach of making change in the world? And I'm gonna outsource it, whether

it's to Social Finance and, or our peers in, in the sector." But it's been harder because most philanthropists wanna be more hands-on and involved with their philanthropy, and this is still kind of seen as more philanthropically driven. What do you think? Why are people... And some people are willing to outsource because we work with all of them, but it seems like a harder sale than we wouldn't blink an eye to give our money to a mutual fund manager rather than pick your own stocks.

Phil Buchanan: I see. I don't know, because it's inchoate because people don't understand it. Like, they just don't trust yet. I'm not sure. I mean, I see you as, like, this real path breaker in the sense that you are building something that wasn't there that actually allows people to even think about being able to hand over a big chunk of capital that you can then deploy as part of one of these projects to do good. But it's a new thing. It's not something folks are used to thinking about, you know? So I mean, I think you maybe look at it and say, "Oh, I wish there was much more openness." I look at it and say, "You've built this from nothing," which is quite impressive, and it takes time to change mindsets. That is clear to me. I mean, in all kinds of ways in philanthropy right now. I mean, I think the, the tendency, I have no idea how you feel about this topic, but even the, the sort of default to 5%, I am absolutely stunned that more foundations have not stepped up from typical spending levels in this crisis. We just fielded a survey, and we asked foundations, like, you know, very simple question 'cause it's complicated if you ask about the actual percentage and all of that. But we just said, "Is your payout rate typical, below typical, or above typical in 2026? And the majority say it's typical in the face of a huge existential crisis for nonprofits that I think is way beyond what the pandemic challenged nonprofits with, and yet the philanthropic response has been less. I mean, I think the year-over-year increase in foundation giving 2020 over 2019 was something like 17%.

Tracy Palandjian: Right.

Phil Buchanan: 2025 relative to 2024, it was, like, 5%.

Tracy Palandjian: Wow.

Phil Buchanan: Yet in both cases, demand was up for different reasons. Pandemic in one case, cuts to social safety net in another. In one case, federal funding was going into nonprofits in the pandemic through the PPP. They were grants, basically. I mean, they were loans, but they were all forgiven. In this case, we've got tens of billions of dollars coming out of the nonprofit sector. So I don't understand. Like, I cannot understand why there hasn't been... Like, I know philanthropy can't fill all the gaps. I get all that. So I come back to this, the norms are so strong, the investment committee operates a certain way. They focus on purchasing power of the principle of the endowment is sort of the, that's just how they're oriented. They fixate on whatever the highest value was. Anything less feels like we're down, even if it's way higher than the inception value, you know, or way higher than 10 or 20 years. I don't know how to think about that, but I think it's just, like, changing norms, and I don't know what your take is on the spending levels.

Tracy Palandjian: Changing norms is, I mean, that's the human condition. It's just hard to rewire our brains, right? Like the frontal lobe is dominating or whatever. But in terms of spending levels, it's so interesting to me because I completely agree with you. The sector talks a lot about spending levels, and we have, I mean, look at, you know, John Palfrey and MacArthur, right? Like, how brave to, like, lead that and increase it.

Phil Buchanan: Yeah, and there, just to be clear, there are folks who've stepped up admirably-

Tracy Palandjian: Exactly like MacArthur.

Phil Buchanan: They're just more the exception than the norm.

Tracy Palandjian: And, and so, okay, so how much you give is a perennial conversation in philanthropy. How effective that giving is, that's you. That's, like, your namesake: The Center for Effective Philanthropy. So give a lot. We should be as effective as we can in our giving. And what we at Social Finance, our team, is trying to do is take it to the next thing too, which is, where possible, give in a way that the impact can be compounded and the money can be recycled to have more impact over time. You can give a lot, give very effectively, and give in a way that gives again. Like we can just have so much more cumulative impact in our philanthropic assets over time, right? Whether the money's sitting in a private foundation or a DAF, you enjoy a massive tax privilege, and the North Star should be maximize your impact through these three levers

Phil Buchanan: What I hear you doing is, like, challenging people's mental models about how change is made, you know? And I think that's why I so appreciate what you're doing, and I think we just need more of that kind of thinking, more of the rejection of what Lincoln called the dogmas of the quiet past, which are inadequate to the stormy present, and that is so true right now. I wanna take us in a bit of a different direction here, Tracy, and ask, where does your passion for all this come from? Because, you know, we were much younger when we met. You could have done any number of things. You're a brilliant leader. I don't actually know why you decided to devote your professional career to this kind of work. Where did that come from?

Tracy Palandjian: I wish I had some grand answer for you, Phil. And yes, we've known each other for a long time, so maybe you know, maybe you don't, but I'm not, like, a huge planner. Does it surprise you? I don't know. Maybe not. But the fact that I'm sitting here talking to you in Belmont, Massachusetts, doing the work that I do, having made a life in America, is in the first place highly improbable. I mean, I grew up in Hong Kong. I came here to go to school on my own. And then I stayed here for college, and I decided that I want to build a life and build a family in America, and then the rest of it. But all of this was highly improbable, and the first half of my career was, you know, working in consulting, working in investment management, and it was all good, and I feel very lucky to have accidentally gotten into this work. You know, at the back half of my almost 12 years at Parthenon, I started to really focus

on the non-profit sector and led that practice, and it was through that work that I saw this emerging world of using finance and using markets to solve problems in a different way. And the last 15 years have been like there's no blueprint. You're just figuring it out. And now the best part of it is, I get to come to work every day, 120 colleagues across the country, working on really interesting and hard problems. Yeah, I don't have, like, a grand answer for you. Your other guests probably have, like, this hallelujah moment when they were 10. I don't have it.

Phil Buchanan: I love it. I mean, you obviously get a lot from this work. Like, you, you're motivated by a desire to make a difference, and it's funny because I have such a clear memory of you coming over to visit me At CEP, and you said, "I'm gonna leave Parthenon, and I'm starting this thing called Social Finance." And you said, you know, "I wanna know what you learned as the first employee of a nonprofit." Within, like, a half a second, your organization was bigger than than CEP. Like, it took no time for you to create something that has really become quite a force in this world that we both inhabit.

Tracy Palandjian: But if you really kinda double-click behind the work, I mean, fine, we have these big labels, you know, using finance to improve people's lives and, you know, da, da, da. But if you think about, like, the work that our team does every day, it is all kinds of muscles that, you don't find in one traditional sector, right? You know, you have to translate across government people, big tech. You know, we have a big partnership with Google and with Anthropic. You know, traditional kind of service providers in the nonprofit sector, big philanthropy, traditional investors. And you have to, like, bridge all these worlds, translate languages, pull tools from different… One day you're a carpenter, another day you're a plumber. I guess if there's one through line in my life, it's, like, this idea of bridging worlds. You know, initially when I came here, it was like bridging cultures, countries, learning how to speak English, and now it's like, you know, learning to translate in a different way. So maybe that's a through line.

Phil Buchanan: I love that. I mean, I think that's great. And one of the things I appreciate about you is that you don't try to say that you've got the answer to every problem, you know, and it's the same answer to every problem. You embrace the nuance and try to help people figure out, given what you're trying to do, what is gonna be the most effective approach to doing it. And I think that's the right way to think about it. And for whatever reason, in our sector, and maybe it's true in every sector, I don't know, there's a sort of tendency to wanna say, "This is the thing," you know? Capacity building is the thing. Impact investing is the thing. Even multi-year general operating support is the thing. You know, it's not done enough, but also there are times when a program restricted grant makes sense, actually. You know, hopefully I don't get in too much trouble for saying that. You know, like, there's certain dogmas, you know-

Tracy Palandjian: Right ...

Phil Buchanan: and sort of trendy, you know. And I think what you're saying is, like, step back and look at what you're trying to do, and then figure out the best way to do it. And I think what you've done is really innovative, and I appreciate you taking the

time to share with us what you're doing. And I hope that, you know, more folks who are thinking about, "Okay, I have resources. I wanna make a difference in the world," will recognize the range of approaches that are out there, and I hope some of them find you, and you can help them to make more of a difference than they otherwise would. So thanks, Tracy, for spending this time with me.

Tracy Palandjian: Thank you, Phil. It's always so great to be with you.

Phil Buchanan: There are a ton of resources about effective giving on The Center for Effective Philanthropy's website, cep.org, as well as givingdoneright.org, where you'll find all of our episodes and show notes. You can also send us a note at gdrpodcast@cep.org.

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