

## Through the Looking-Glass: Investment Transparency of Canadian Foundations

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### ABSTRACT

Foundations are under increased scrutiny as to the source, investment, and use of their assets. Although disclosure of total assets and disbursements is mandatory in many countries, information on investment portfolios is not required and, historically, foundations have rarely volunteered such information. However, the rise of trust-based philanthropy and interest in impact and responsible investing encourage greater voluntary investment transparency. This article examines the current state of investment transparency among Canadian foundations, which collectively hold over \$135 billion in long-term investment portfolios. Through interviews with foundation leaders, it explores the perceived benefits and barriers to investment transparency, and the factors that support or inhibit greater openness. While the findings indicate that Canadian foundations value transparency in general, voluntary disclosure on investments is limited due to a variety of risk factors and the lack of demand from stakeholders or the public. The study also points to emerging trends that are raising expectations for greater investment transparency by foundations.

### RÉSUMÉ

Les fondations font l'objet d'une surveillance accrue en ce qui concerne la provenance, l'investissement et l'utilisation de leurs actifs. Bien que la divulgation du total des actifs et des déboursements soit obligatoire dans de nombreux pays, les informations sur les portefeuilles d'investissement ne sont pas requises et, historiquement, les fondations ont rarement communiqué ces informations de leur propre initiative. Cependant, l'essor de la philanthropie fondée sur la confiance et l'intérêt pour l'investissement responsable encouragent une plus grande transparence volontaire en matière d'investissement. Cet article examine l'état actuel de la transparence des investissements parmi les fondations canadiennes, qui détiennent collectivement plus de 135 milliards de dollars dans des portefeuilles d'investissement à long terme. À travers des entretiens avec des dirigeants de fondations, il explore les avantages et obstacles perçus quant à la transparence des investissements, ainsi que les facteurs qui favorisent ou entravent une plus grande ouverture. Si les résultats indiquent que les fondations canadiennes accordent généralement de l'importance à la transparence, la divulgation volontaire des investissements est limitée en raison

de divers facteurs de risque et du manque de demande de la part des parties prenantes ou du public. L'étude souligne également les nouvelles tendances qui suscitent des attentes accrues en matière de transparence des investissements par les fondations.

**Keywords / Mots clés :** transparency, philanthropic foundations, financial reporting, nonprofit governance, investment practices / transparence, fondations philanthropiques, information financière, gouvernance des organismes sans but lucratif, pratique d'investissement

Foundations are increasingly being called upon to be more transparent and accountable to their stakeholders and the general public (Johnson Center, 2023). This expectation arises from increased scrutiny of how wealth has been generated, the industries and locales in which assets are invested, and the potential of the billions held by foundations to have greater societal impact when stewarded accordingly. Although in many countries, foundations are required to publicly report their total assets and disbursements on an annual charitable tax return, they do not need to provide information on their long-term investment portfolios. Historically, foundations have rarely volunteered information about their investments (Buteau, Glickman, Leiwan & Loh, 2016; Lasby & Barr, 2012). As a result, little external attention has been given to how these assets are managed or the implications for the work of foundations and the communities they serve.

This article examines the current reporting practices of foundations in Canada, their leaders' perspectives on investment transparency, and the challenges involved in greater public disclosure of investments.<sup>1</sup> We define *investment transparency* as public disclosure relating to investment portfolios, policies and practices, including but not limited to specific investment holdings, governance and decision-making processes, policy statements, and arrangements with asset managers. To be useful in advancing accountability, such information needs to be visible and accessible, readily understood, and "free from pretense or deceit" (WINGS, 2015). Transparency of investment portfolios is complicated because these assets are invested in various financial mechanisms, including endowments, bonds, equities, mutual funds and impact investment tools. In addition, funds are often pooled and managed by external asset managers. Recognizing such complications, we ask: to what extent do Canadian foundations voluntarily disclose their investments? What are the perceived benefits and barriers to investment transparency, and what factors support or inhibit greater openness? The analysis is intended not only to contribute to the literature on philanthropy, but also to be of practical value to board directors, foundation staff, investment managers, and policy makers in assessing whether and how current practices might be adapted for enhanced transparency.

The article first considers the role of transparency across different accountability mechanisms, outlining arguments for and against transparency by foundations. We then briefly outline the requirements for foundation transparency in the Canadian regulatory system. The bulk of the article focuses on findings from interviews with leaders of Canadian foundations and concludes with recommendations for enhancing investment transparency.

## TRANSPARENCY IN ACCOUNTABILITY SYSTEMS

Transparency operates within broader accountability systems. Accountability is the obligation to

accept responsibility for one's actions in light of an organization's mission and agreed-upon expectations, take action to address problems created, and explain and justify those actions to others (Fox, 2007; PAGVS, 1999; WINGS, 2015). It is inherently relational, involving interactions with an authority or other stakeholders (Bovens, 2010; Pilon & Brouard, 2022). These external relations can take three forms, which often co-exist as a "polycentric" accountability system whose components may or may not be complementary (Phillips, 2013). Authority-based accountability rests with a government regulator that has the power to compel certain information and issue sanctions if the required information is not provided in a timely and accurate manner. "Regulation by transparency" is premised on the power of information per se and typically involves a (self-appointed) third party that collects and disseminates information, often providing ratings of organizational performance that are intended to become encoded as organizational and public norms. Because organizations value their reputations and seek to maintain public trust, it is assumed that they will adjust their behaviour accordingly (Weil, Fung, Graham & Fagotto, 2006). The third form is "horizontal" (Phillips & Smith, 2011; Schillemans, 2008) or "democratic" accountability (Kraeger & Robichau, 2017), which rests on the benefits of responsiveness and answerability to stakeholders as well as support for shared values and sector norms of conduct. In the first two forms, transparency is what Kraeger and Robichau (2017) call "instrumental"—a means of avoiding sanctions or protecting reputation—while in the third, transparency is voluntary and a vital component of relationship-building and performance improvement.

The case for government-mandated or third-party-led foundation transparency is based primarily on the public obligations that flow from the tax incentives provided to donors: authorities need to ensure that foundations serve charitable purposes (Alepin, 2021; Tyler, 2011). Although they are legally private institutions created by private wealth, foundations nevertheless have some basic obligations to the public and to governments as a result of tax subsidies on these donations and exemption from other taxation. Fleishman (2007) argues that foundations "have no excuses for non-transparency, because of their quasi-public nature created by the tax benefits they enjoy." In contrast, Brody and Tyler (2010, p. 579) debunk the "myth" that foundations can be considered public institutions whose assets belong to the public at large and that should be subject to democratic controls. Their case is that foundations are required to serve the charitable purposes for which they were established and, while important to society, this does not render their operations "public," subject to government or other public controls. Further, to single out foundations from other private entities (including for-profits that also receive tax credits and other tax-favoured treatment) for greater public information on their operations would be unfair. Finally, because foundation assets have been created through private wealth, respect for the privacy of donors and grantees justifies limits on transparency.

Kraeger and Robichau argue that, even if one accepts a case for mandated accountability and instrumental transparency, these approaches are inadequate and do not serve foundations well, particularly in the current context, where their legitimacy is called into question (Heydemann & Toepler, 2006; Reich, 2018). The rise of trust-based philanthropy underpins the case for voluntary transparency. A reciprocal trust-based approach creates goodwill in relationships with stakeholders and promotes greater accessibility and equity among grantees. Transparency is one means of building trust, as it enhances a foundation's ability to demonstrate achievement of its mission and commit-

ment to values of clarity, openness and honesty (Buteau et al., 2016; Schorr, 2004). It provides better data for more informed decision making, is seen as a reflection of professionalism and good governance (Commonfund Institute, 2019), and deepens engagement among diverse sector actors (Dhami, 2021; Tyler, 2013). Transparency can also improve investor education (Boston College, 2008; Fleishman, 2007; Mahlab & Harrison, 2016; OECD, 2020) and is linked to success in impact investing, which relies on knowledge and metrics on financial and social returns (Millani Investments, 2020; Wood, 2020). The risk inherent in transparency, however, is that actual impact will be shown to be less than anticipated.

The cases for and against the value and imperatives of transparency have been argued mainly on principle, while systematic analysis of the actual practices of investment transparency is lacking. This study aims to fill that gap by providing the first exploration of views and practices on investment transparency in a Canadian context. Before examining voluntary transparency, the next section briefly reviews regulatory requirements in Canada, identifying the relative strength of the three bases of accountability.

## THE CANADIAN REGULATORY REGIME

The Canadian charity accountability regime is largely authority- and government-driven, with the tax agency serving as regulator. As registered charities, public and private foundations are subject to regulations under the *Income Tax Act* and guidance administered by the Charities Directorate of the Canada Revenue Agency (CRA).<sup>2</sup> CRA oversight requires annual financial reporting on Form T3010 for the approximate 86,000 registered charities, including information on a foundation's revenues and expenses and granting activities (by recipient organization and amount) to ensure that disbursements are directed toward charitable purposes. An additional concern of the tax agency is the prevention of private benefit by foundation directors, which includes restricting business ownership through the foundation (in contrast to some European countries where business ownership is allowed).<sup>3</sup> The information required on investments is limited to general disclosure, which includes reporting lines for cash and short-term investments, long-term investments, real estate, other capital assets, impact investments, and investments made with persons not at arm's length (Canada Revenue Agency, 2024).<sup>4</sup> While these offer total amounts, there is no requirement for specific details of investments, descriptions of the alignment with a foundation's mission, or how this wealth is managed.

The role of third parties as quasi-regulators, or at least as public sources of information, is relatively limited in Canada compared to other countries. For example, the U.S. has a long history of "watch-dogs" such as Charity Navigator, which provide information about and ratings of charities (Cnaan, Jones, Dickin & Salomon, 2011; Szper & Prakash, 2011). In the U.K., the Sarasin Compendium offers a practical handbook for charitable investment practices, including an overview of the performance of different asset classes, aimed at achieving reasonable returns without undue risk (Sarasin & Partners, 2020). The Canadian approach tends toward general guidance on investment policy. In particular, Imagine Canada's (voluntary) Standards Program provides a broad-based indicator of investment good practices: "Organizations with investable assets over \$100,000 must have an investment policy setting out asset allocation, procedures for investments, and asset protection issues" (Imagine Canada, 2018, Standard B8). Any third-party public reporting is limited by the

availability of data, however. While not calling itself a “watchdog” agency and viewed with skepticism by many (Phillips, 2013), Charity Intelligence Canada (CIC) presents itself as a research analyst that “holds charities to account.” Using a rating scheme that draws data primarily from T3010 filings, CIC rates charities—mainly operating charities as opposed to foundations—on their financial transparency, overhead spending and impact, although it does not assess their commitment to investment transparency. Similarly, on a subscription basis, the Veritas Foundation (2024) provides a somewhat more detailed analysis of financial performance and transparency, but its scope is also constrained by the limited availability of investment data.

The lack of external obligation regarding investment transparency gives foundations latitude to restrict or expand their practices on an individual basis, guided by a foundation’s own convictions and the commitment of its leadership to public transparency. In the U.S., Buteau and colleagues (2016) found that foundations are less transparent than other sector organizations and generally do not disclose performance assessments or reports on their operations “despite their belief that it would be beneficial to do so.” Canadian practice seems to align with that of U.S. foundations, as the information provided has historically been limited to audited financial statements. Although now outdated, a Canadian survey on foundations from 2011 reveals that 39 percent proactively provided financial statements and that 37 percent would release such information upon request (Lasby & Barr, 2012). The remainder of this article examines whether current practices have become more open to transparency, first outlining our methodology.

## METHODOLOGY

This study assesses the current reporting practices on investments by Canadian foundations and leaders’ perspectives on them. The methodology was designed in two phases: first, a set of 100 public and private foundations provides a “baseline” of transparency practices across the sector; and second, interviews with the leaders of a subset of foundations from this group focus on self-reported practices and perceptions of the advantages and challenges of investment transparency. There are about 11,000 foundations in Canada, of which 6,200 are private and 4,800 public (including about 200 place-based community foundations (Fugiel Gartner, 2024)). The selection frame for the baseline set comprises Canada’s top 100 private and public foundations based on asset size (all exceeding \$100 million according to their 2022 charity tax return), with the rationale that the investment strategies of these large foundations have consequential effects on philanthropy. We expect that larger foundations will have professional staff and investment committees and are likely to be at the forefront of transparency (Saxton, Kuo & Ho, 2012).

The baseline set is broadly representative of the Canadian foundation population, with 54 private, 37 public and 9 (public) community foundations. The extent to which these foundations demonstrate financial and investment transparency was assessed through a review of the information available on their websites, as well as in annual reports, other relevant documents and Investment Policy Statements (IPSs—internal policy documents that establish guidelines for the prudent investment of a foundation’s assets). The criteria used to assess transparency (with a point assigned to each criterion) included information on:

- Board members and their positions



- Participation in impact investing
- Audited financial statements
- Annual reports, including investment information
- Investment committee
- Investment policy or statement of investment philosophy
- Holdings or other fund details
- Fund managers

Based on their total scores on these criteria, the 100 foundations were categorized as either “higher/some” transparency (the top 50 percent) or “lower/no” transparency (the lower 50 percent).<sup>5</sup> Since even many large foundations do not have websites or provide other publicly accessible information, few score very highly on these criteria (Pearson, 2023; Phillips, 2018). We thus divided the set into two broad categories and sampled more from the top half.

A sample of 32 foundations was selected for interviews based on a cross-section of: 1) those with higher transparency (intentionally over-represented) and lower levels of transparency; 2) legal status as public, community or private (family) foundations; and 3) geographical representation across Canada. The research followed the protocols approved by the University Ethics Review Board. Invitees were first contacted by an email outlining the study’s purpose and indicating collaboration with the partner foundation, followed up with a reminder email one week later. The response rate of this first round was 16 percent, with five foundations accepting the invitation to participate: 12 declined, and 15 did not respond to the reminder emails. Of the 12 who declined, 42 percent did not provide reasons, 33 percent declined due to lack of capacity, and eight percent declined for privacy concerns. Due to the low response rate in the first round, a second round of invitations was sent to 10 foundations to increase participation among private family foundations, which were under-represented. Of these, four participated in interviews, a response rate of 40 percent; one declined with no reason, and the remaining five did not respond.

In total, the study consisted of nine semi-structured interviews lasting 30–45 minutes each with the leaders of four public foundations, three private foundations and two community foundations, conducted from mid-March to late May 2024. Two of these were primarily sponsors of Donor Advised Funds (DAFs), one of which was closely affiliated with a financial institution, and one with a hospital. Of the nine participants, four operated in the Western provinces and five were based in Ontario or Québec. Relative to the broader Canadian foundation sector, the interview sample had an over-representation of public foundations, as well as DAF holders and hospital foundations.

Participants held a variety of senior staff positions within the foundations: three were CEO/EDs (Chief Executive Officers/Executive Directors), two were CFOs (Chief Financial Officers), three were Directors of Investment, and one was a CIO (Chief Information Officer). Informed consent forms were signed before the interviews began, and participants were assured of the confidentiality of their information and anonymity (including from the partner foundation), unless they explicitly chose to be identified by name or organization. Interviews were recorded, transcribed and uploaded to NVivo, then coded and analyzed according to the themes presented in Appendix 1.

The response rate was disappointing, particularly in comparison with other studies of foundation leaders conducted by our research team, and may be explained in three ways. The first is simply that foundations are reluctant to discuss investment transparency. In addition, two developments inadvertently coincided with recruitment and may have had a significant dampening effect on participation rates. Legislation (Bill 279) introduced for debate in the Senate in October 2023 proposed amending the *Income Tax Act* to require registered charities to report on the diversity of their boards and staff (Omidvar, 2023). Debate around the Bill may have raised concerns that the federal government would regulate other aspects of transparency and board governance that foundations were not yet prepared to address.

The third factor is that the start of the interview period coincided with the protests and encampments on many university campuses across the country and internationally calling upon university pension and endowment funds to disclose and divest from any support for Israel and the occupation of Palestine (Holder, Lu, Sugiura, Beck & Press, 2024). While political action and media attention focused on university endowments, the calls for disclosure and divestment may have raised more general concerns about investments, silencing discussions related to transparency. Although we cannot accurately assess the effects of these factors on study participation, nor impute motives to those who declined to respond or participate, these contextual factors need to be acknowledged. Different timing may have resulted in higher participation rates. Alternatively, rising demands for divestment of certain types of investments may have created a new environment of uncertainty, making such conversations more restrained going forward.

## FINDINGS

The analysis first assesses current reporting practices on investments by Canadian foundations. Drawing on the interviews with foundation leaders, we then explore the perceived benefits and barriers to implementing greater investment transparency. The research considers foundation investments, which include “traditional” investment portfolios—market-based asset classes and government bonds aimed at financial returns that usually constitute the bulk of foundation endowments (Fugiel Gartner, 2024). It also considers the broad categories of impact investments, which seek both a social and financial return, and responsible/ESG (“ethical”) investments. While impact and responsible investments are growing in importance and the foundation leaders interviewed were very keen—indeed, often preferred—to talk about the state of their impact-oriented portfolios, the analysis concentrates on transparency related to “traditional” investments.<sup>6</sup>

### Practices of transparency

A backdrop to self-reported practices is provided by reviewing the information available through websites and other public documents of the full set of 100 foundations. As shown in Table 1, no more than 50 percent of this set publicly reported on any of the criteria. The most commonly available information pertains to board members (49%) and audited financial statements (40%). The self-reported practices of transparency generally aligned with our assessment of actual information. However, given that the interview sample intentionally over-represented “higher transparency” foundations to capture the practices of leading-edge institutions, the transparency of these foundations ( $N = 9$ ) is greater than that of the full set. Over half of the participant sample makes in-

formation on board members and impact investing available, as well as audited financial statements and annual reports. The least transparent aspects were investment holdings (with only one posting its investment holdings on its website) and identification of fund managers.

**Table 1: Public reporting by foundations**

Criteria	Full Set: No. of foundations (N = 100)	Interview sample: No. of foundations (N = 9)
Disclose Board Members	49	8
Participate in Impact Investing	16	7
Audited Financial Statements publicly available	40	6
Annual Report includes investment information	Not included	6
Disclose Investment Committee	14	4
IPS Publicly available	13	4
Disclose holdings or fund details	Not included	3*
Disclose Fund Managers	8	1

Notes: \* No foundations disclose actual holdings; 1 lists all funds but no percentages; 2 list fund details of their impact investments only, not the entire portfolio

As shown in Table 2, very few (N = 2) interviewees confirmed that their foundations proactively disclosed specific information about investments. However, 44 percent (N = 4) indicated that they would have no problem sharing such information and would be transparent with anyone who asked. When those who did not make their IPS public were asked if they would be willing or able to share their statements confidentially for this research, each required permission from a superior. Of these, 22 percent were granted permission, while the others were unable to share the foundation's IPS.

Asset managers are important intermediaries in investing, and all but one foundation relies on external managers. Half of the interviewees could name their asset managers, which suggests such management is hived off from the overall governance of their organizations.

**Table 2: Practices of reporting on investments**

	Routinely, proactively report	Share information when asked	Other / Strategy not clear
Number of foundations	2	4	3

When asked about specific practices for their investment portfolios, participants typically listed asset mixes (such as infrastructure and fixed income) or class percentages and targets. Several highlighted specific companies or broader industries in which they were invested, and 44 percent noted their divestment strategies to avoid what they deemed unethical investments, including industries such as weapons, alcohol, gambling, and fossil fuels. Six foundations (67%) noted their investments in potentially contentious industries without suggesting they were divesting from these, while two named specific companies of concern.<sup>7</sup> Only one would or could share any specific holdings. One foundation stood out as well above the sector norm, publishing its investments, including naming specific funds, on its website. While the sample size is too small to assess differences across types of foundations, the common factor among those with a public IPS



is that they were more engaged with peers through peak associations, affinity networks or by other collaborations noted during the interviews. Foundations that operated in more isolated contexts tended to be less transparent.

Limits to transparency appear to be partially explainable by limited public demand:

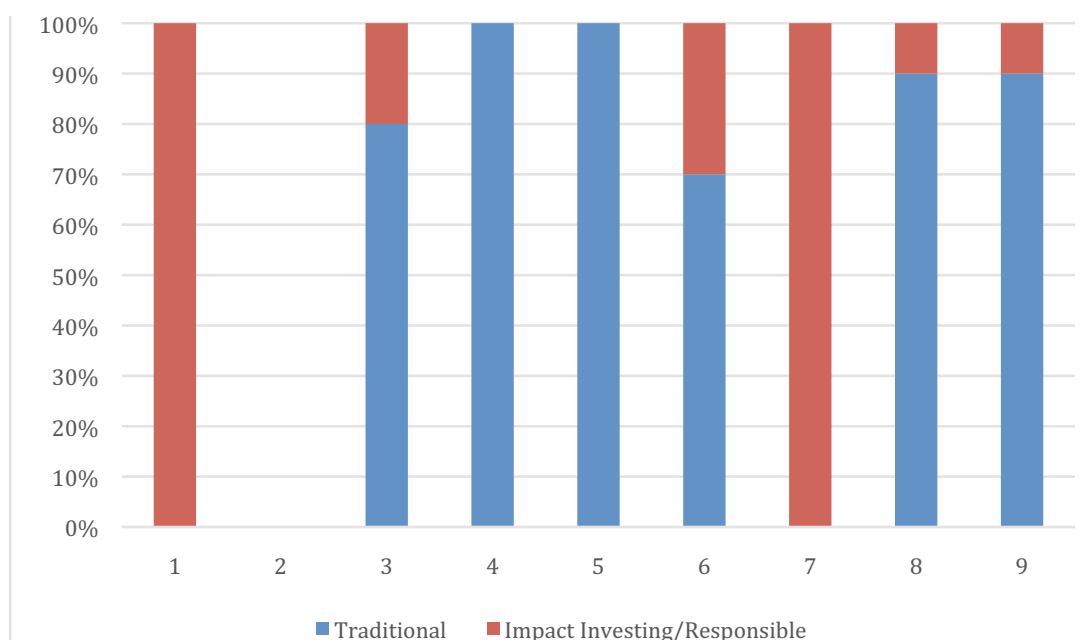
We don't get a ton of questions about the investments. (Participant 8)

I'm surprised that [transparency] is not brought up more, to be honest. It is quite interesting, but it isn't asked about more by donors ... it's not something they really worry about, even our partners. It rarely gets asked "what is in your portfolio" or "how are you managing it." Honestly, over the time I have been with this organization, there's never been a query from a donor. (Participant 4)

Several interviewees thus raised concerns about the amount of time it would take to provide regular public reporting on investments—information that, to their knowledge, stakeholders are not requesting.

Traditional financial-return investments still dominate portfolios, although several foundations indicated that they have taken up impact-oriented and responsible investing in a serious way. By comparison, a 2021 survey of 93 foundations conducted for Philanthropic Foundations Canada (Fugiel Gartner, 2024:54), finds that most foundations are still in the early stages of impact and responsible investing. Of those with over \$100 million in assets, 56 percent said they undertook responsible investing, while 36 percent were involved in impact investing—a lower proportion than our sample. In our interviews, those engaged in impact investing tended to discuss the philosophies behind it, which often extends into responsible investing, such as the principles of screens, divestment, and shareholder engagement that they consider when making decisions about investments. The conflation of responsible and impact investing likely accounts for the portfolios of at least two of the foundations in Figure 1.

Figure 1: Foundations investment portfolio splits



A strong preference across participants was to showcase their impact investing funds and projects, if they had them, rather than discuss the bulk of their financial-first investment portfolios, despite clarification that the focus was on “traditional” investments. Most participants preferred to highlight the work they are the proudest of, including their impact investment activities. This tendency is reinforced by higher expectations of reporting on impact investments:

The more traditional portfolio doesn't get as much external attention, I would say. I think it's partially ... a capacity issue in that it takes basically our whole team's effort to do the impact investing report each year. (Participant 3)

While definitions of impact investing varied widely among participants, each indicated that transitioning 100 percent of their portfolio to an impact lens on investing was a long-term goal.

### **Perceived benefits of investment transparency**

The findings demonstrate that a high value is placed on transparency, although practices vary considerably and are tailored to different audiences. All participants noted the priority their foundation places on transparency in everything they do, notably highlighting openness about their grantmaking and information sharing with donors. In particular, many describe their missions and operations as open, transparent, equity-driven, and trust-based.

I think that transparency is an important part of doing trust-based philanthropy. We want to have the trust of community organizations, donors, partners and other organizations that we work with, and this requires a degree of transparency. Transparency also allows the community to hold us accountable for the commitments we've made to them. (Participant 9)

Yet, the same participant observed that practice may not fully meet aspirations:

Transparency is something that our foundation would probably be a champion for as it aligns well with our trust-based philanthropy ... I would say there's definitely transparency missing in our foundation. (Participant 9)

In general, the foundation leaders who placed the greatest value on transparency were those who worked from an equity-oriented and trust-based approach and those engaged in peer networks (which tend to be the same foundations). Consistently, foundations operating in more siloed ways did not see the value of being transparent and perceived more serious barriers to its implementation.

Participants observed that the meaning and practices of transparency are highly dependent upon the audience—whether donor, grantee, regulator or the broader public. One-third of participants highlighted transparency with grantees regarding how the foundation spends its funds as their primary concern, while one-third emphasized transparency with donors in how funds are used. Only two foundation leaders mentioned sharing information regarding investments, one of whom indicated that sharing investment information with grantees was a priority, as it clarified where the funding comes from and how the foundation uses its resources for good. In addition, four (44%) participants noted their desire to be transparent with the public about *what* they fund, while an equal number expressed their desire to be transparent with donors on *how* they fund.

Having conversations is fine. It's not that we ever want to avoid conversations. I don't know if that (discussing holdings) drives a good conversation with donors. I think more about allocation, talking about where you're putting the money in, and then try to talk about how much good you're doing with the money. (Participant 8)

If often implied or conveyed indirectly, the advantages of transparency were nevertheless clear and consistent. The main benefit is linked to foundations' strong desire to communicate the positive outcomes of their work and their commitment to trust-based philanthropy. A second benefit is the education of board members and support for the work of the board as a whole. While none of the participants were board members of their foundations, many sat on the boards of other organizations and noted that boards tended to be bifurcated. Some directors had a great deal of investment knowledge and placed their trust in their investment committee or asset managers to manage the money appropriately; others held fast to traditional methods of investment with considerable resistance and skepticism towards change or risk. Less knowledgeable and more hesitant board members often generated a passive governance stance around investments. Greater transparency with a variety of stakeholders might prompt boards to exercise more strategic oversight of investment strategies.

I think it's still a belief held by boards that their fiduciary responsibility is only about making money for the organization. And I believe that has been totally debunked now. [Lawyers] made the case that it's about what that money does. If that money is doing harmful things, then you are not meeting your fiduciary responsibility. (Participant 6)

Third, greater transparency can make for better relationships with asset managers. The study revealed concerns that some investment managers are incentivized to "greenwash" investments by making unfounded claims about the impact, sustainability and ethical nature of funds (Northcott, 2022). The growing use of ESG claims increases skepticism about the metrics being used and precisely what is being presented as impact or responsible investing. Transparency could generate greater confidence in metrics and serve to hold external asset managers to greater account.

If foundations were more transparent about what their portfolios looked like, there would be more opportunity to engage with asset managers to push for positive change. Without that openness, it's just sort of everyone operating in their vacuums. (Participant 3)

A final benefit is the learning process associated with conversations and collaborations related to transparency. A challenge of increasing transparency is finding an appropriate fit of approaches with different audiences—the *hows* and *whats* rather than the *whys* of transparency. Engaging with peers on this can advance adoption of suitable approaches, encourage a greater commitment by boards and, through collective action, create change in the broader philanthropic system.

### **Perceived barriers to transparency**

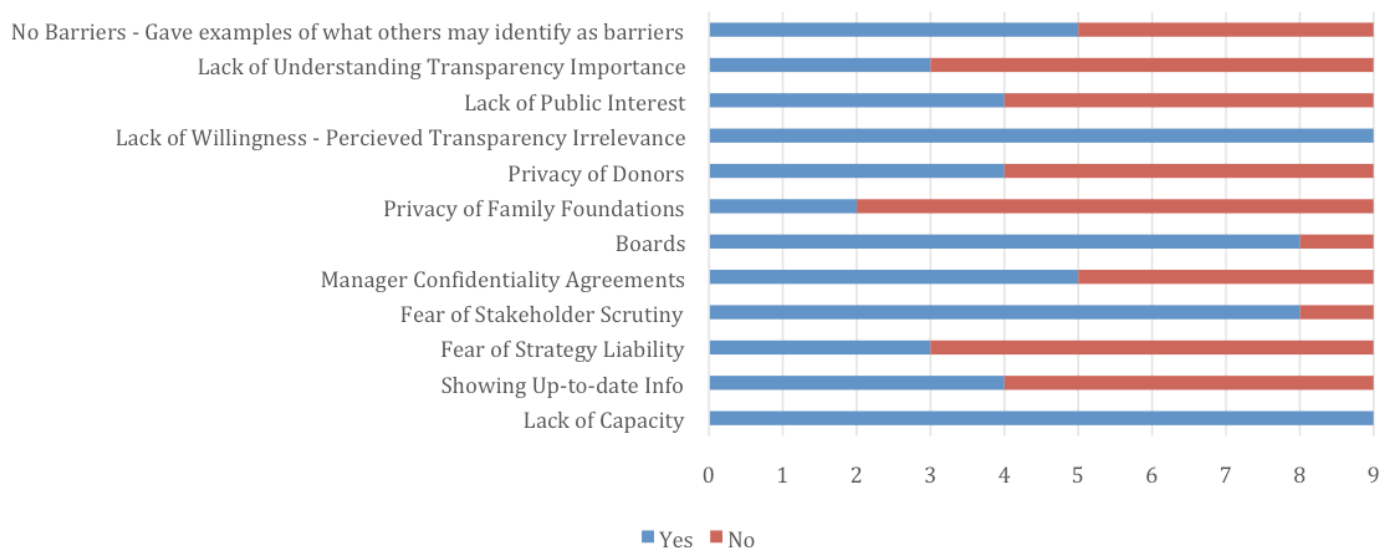
Views on increased transparency varied widely, ranging from those who believed that nothing should hold foundations back from greater transparency to those who felt it was unnecessary. Over half ( $N = 5$ ) of foundation leaders indicated they did not perceive any serious barriers to greater transparency, although they noted several issues that may have contributed to hesitancy among

others. They also stressed that foundations needed to discount the common excuses often offered by reluctant peers.

I wouldn't have been comfortable talking about investing at all, but I've gotten much more involved in it since our donor asked. That's kind of a soft barrier because, you know, one can always get their game up in terms of knowledge. But I think that some CEOs are just intimidated in getting involved in those conversations because they don't have the skills that their investment committee members have. (Participant 6)

As summarized from Figure 2, four key factors and risk considerations stand out as constraining more proactive investment transparency by foundations: 1) lack of relevance for stakeholders; 2) legal risks; 3) reputational risks; and 4) the practical challenges of implementation.

**Figure 2: Barriers to investment transparency in foundations**



### Lack of relevance

Foundations tend to give priority to stakeholders who are more important and demanding, specifically key donors and regulators (WINGS, 2015). For many foundations, there is little incentive to devote time and effort to investment transparency, since it does not seem of importance or benefit to their organization, their stakeholders or the charity regulator. This perspective often stems from the foundation's core mission: the fact that it is grantmaking, rather than investing, which directs the organization's attention and resources. In pursuing this mission, directors and donors are the focus of accountability, and they receive any information requested. A related rationale we heard frequently was the lack of demand from donors or other stakeholders. If a stakeholder requests detailed information on any part of a foundation's work, it would generally be provided. However, there is no utility in routinely providing such information if it is unrequested or unlikely to be used.

I guess my first question would be to what end? So that we can all make data-informed decisions as a sector? [There is no point if] it is just sitting there as a compliance measure where we're spending weeks preparing reports that ultimately just get shelved. (Participant 9)

### Legal risk

Risks of competing legal requirements are inherent to greater transparency and, while not the primary barrier to greater investment transparency, can be significant. The legal framework, which includes privacy, trustee and income tax law, creates complexities and potential conflicts of responsibilities to different audiences. Although such legislation is intended to protect the public, trustees, and donors, differing requirements create inconsistencies in how foundations practice transparency. A core concern is the potential conflict between the board's commitment to social responsibility toward stakeholders and its fiduciary responsibilities, including its legal duty to meet a prudent investor standard under trustee law. This conflict is accentuated with impact investments and is further complicated by the lack of clarity and consistency of the statutory rules governing investment of charitable funds across provinces and with the CRA (Carter, Lazier & Westerhof, 2023). In addition, transparency may run counter to certain privacy legislation and contracts with asset managers. A concern was also raised that open information about investment strategies may encourage others to emulate them, potentially leading to legal troubles.

We could open ourselves to all sorts of legal trouble as well, because what if an individual goes on the website, sees all the holdings that we have and says, "Oh, I'm going to mimic exactly that because they are saying they make an 8 or 9 percent return" ... we are opening ourselves to legal trouble there. (Participant 1)

Given that legal concerns readily make boards risk averse, the reality—or perception—of differing legal requirements is an impediment to advancing strategies governing transparency. While not within the scope of this study, an important area for further research is to review the *Privacy, Trustee, Freedom of Information*, and *Income Tax Acts* to assess their individual and combined effects on transparency.

### Reputational risk

Risks to a foundation's reputation arising from greater scrutiny that exposes it to criticism or controversy are reported as among the most serious barriers. This includes fear of criticism from peers and other stakeholders that the foundation's investments might not align with its mission. For community and other foundations that need to fundraise on an ongoing basis, such criticism can directly lead to a loss of donors. The potential for reputational risk is exacerbated by the difficulty of satisfying all stakeholders, given divergent expectations regarding investments.

I'm being very frank with you—people are worried about being criticized for it ... There are groups [grantees/organizations] who are saying we won't accept money if it comes from this or that area. (Participant 2)

One problem is you're opening yourself to too much scrutiny. Everyone has a moral ground and everyone has a bias towards some things. And you know, as a small foundation, we just don't have the capacity to defend ourselves for every single position that we have. We just don't have the time. (Participant 1)

For family foundations, there is particular concern about respecting and protecting the privacy of the donor family, who may wish to avoid a public spotlight on their wealth. This concern is pronounced for small foundations and for those in small communities.



I think particularly the private foundation world where the family is still very much wanting to stay in the shadows on these things. (Participant 6)

Rather than a possible source of criticism or reputational risk, investment transparency may simply be perceived as an unnecessary distraction by the board, donors or other stakeholders.

The foundation's mission is to do philanthropic work. It's not to manage an investment portfolio. So, you know, we don't want our website to become a place where people are coming to learn about our investments. People should be coming to our website to learn about the philanthropic work we do. (Participant 1)

### **Practical challenges of implementation**

The lack of capacity for additional reporting, including difficulties in providing current investment information, is cited as the main impediment to increased investment transparency. Reporting requires time and staff resources, which are in short supply even in larger organizations. Investment data is a niche domain, and the ability to analyze and explain it to a broader audience requires specialized expertise, which is generally lacking among foundation staff. Technology and data limitations compound these implementation challenges, as it is often difficult to obtain accurate current information due to market volatility.

It's more of a capacity issue ... there's a lot of insider investment language used in here. (Participant 6)

In addition, when a foundation has a "winning" strategy that is producing above-average returns, it may be hesitant to share specific information on the investment mix.

I wonder if people are more hesitant to share information if they're the ones doing the work of what to invest and what the mix should be and giving the advice. (Participant 4)

Funds are usually managed externally and are often pooled, which presents distinct challenges. With pooled funds, it is difficult to disaggregate information on specific investments. We also heard the comment that "investment managers can get in the way." This included concerns that asset managers may require Non-disclosure Agreements (NDAs) or may not be very creative in relation to a foundation's needs.

On the investment side, we're a bit restricted because ... you need an NDAs with our managers so ... because of their product, and they don't want anyone else to know the products that they don't want out because that's their competitive advantage. (Participant 8)

As Sjögren (2024) notes, foundation assets are primarily managed by firms that specialize in pension funds or the portfolios of wealthy families, rather than in foundation endowments. Consequently, they may "bring little expertise and fresh thinking to foundations." In particular, the lack of expertise of conventional fund managers may constrain impact investing, although it has also created an emerging market for a new breed of asset managers.

In sum, the perceived barriers are significant, and many participants mentioned more than one. The cumulative effect results in hesitation by boards to promote greater investment transparency.

Although we did not interview board members, it seems apparent that senior staff are more open to transparency than many of their boards.

I do think the boards are our biggest barrier to change in investment and strategy, but not because they're assholes around it, but because they take so seriously their role and they don't want to lose money for a charity ... I would love our board members to have the excuse that we have to be transparent. (Participant 6)

While the multiple barriers appear significant, those who favoured greater investment transparency were emphatic that some of these impediments can be quite readily overcome, and that some function as excuses from reluctant peers rather than significant constraints. With the rise of equity-oriented and trust-based philanthropy, which is associated with a positive attitude toward and more extensive practices of transparency, the influence of these perceived barriers may diminish in the coming years.

## **DISCUSSION: TOWARD INCREASED INVESTMENT TRANSPARENCY**

The foundation leaders interviewed for this study emphasized the value placed by their organizations on transparency, particularly related to their grantmaking and impact, and specifically for their donors and other key stakeholders. Practices of transparency related to investments are more limited, however, as few foundations report their holdings, investment committees, fund managers or Investment Policy Statements. Nevertheless, the benefits of greater transparency are recognized, including the ability to showcase outcomes of the foundations' work and their commitment to trust-based philanthropy, as well as educate board members, foster better relationships with asset managers, and facilitate learning processes and collaborations. We also noted multiple barriers—whether real or perceived—to the implementation of greater transparency. These are centred on limited public, stakeholder and regulator demand, legal considerations, reputational risks and lack of capacity. While many leaders felt these risks could be addressed, the cumulative effect is to make boards cautious about information on investments. The rise in impact investing, which necessitates greater reporting, is a driver for increased transparency. However, reporting on impact investments consumes time and resources, diverting those available for public reporting on more traditional investments.

Given both the perceived benefits and barriers to investment transparency, how might greater transparency be achieved, and at what costs? We explored three pathways with foundation leaders: government regulation; third party “regulation by transparency”; and sector- or organizational-led changes in practices.

The reactions to government regulation varied, although more than half of the leaders (56%) expressed serious reservations about additional regulation. Their arguments included the following: that governments should not regulate the internal operations of private organizations; that regulation could not account for the many differences among foundations and would therefore be unworkable; that regulation would further strain organizational capacity; and that it could introduce additional legal risks. By contrast, those who supported increased regulation made the case that foundations should not be so closed about the bulk of their assets, and regulation could, moreover, prompt boards to become more open:

My view is that any regulatory strengthening would be positive. I think it's kind of ludicrous that foundations can be so closed off with what they do with 95 percent of their portfolio. (Participant 3)

I think that whatever it takes to move the sector is important. For years boards leaned on their fiduciary accountability as an excuse to do whatever they wanted with investments to make the most money possible. (Participant 6)

When asked about their perspectives on third-party certifying organizations, many participants responded with deep hesitation and a great many questions, including about the credibility and reliability of any third-party “watchdog.”

The routes to increased investment transparency appear to be through learning, peer networks, and the innovations and leadership of individual organizations. Some of this adaptation is already occurring through roundtables and sector conversations, although these are often seen to be “preaching to the converted.” When asked to discuss their awareness of current discussions around investment transparency in Canada and their participation in any of these, four leaders (44%) said they were aware and actively involved; two said they were aware of such discussions, but only within a context that was significant to them; while three said they had little to no awareness of this discourse and so did not feel it was something they needed to take part in.

[More roundtables] would be like preaching to the converted. I'm already at a table and I will say, I'm glad to be here and to lend evidence, but it doesn't feel like the best use of my time because I'm already on the train. (Participant 6)

One recommendation is to broaden the net and diversity of participants in such conversations, while raising awareness among foundations that remain on the sidelines.

So how do you get those foundations to start thinking about transparency? For me, that's the biggest challenge. There are probably 30 or 40 [private] foundations in the country that are doing this well or are interested in it. And we have thousands of foundations that just don't ... How do we raise awareness about the need to have these conversations for people who say we are sitting on billions of dollars? (Participant 2)

Looking to the future, most foundation leaders envision an evolution toward increased transparency, which—if it were to become the norm, and however facilitated—would also encourage more impact and ESG investing.

[The sector is] not static. It's evolving. And I find foundations either move really fast or really slow ... So it will change and it could change really fast or it could change more gradually, but it will change because there's almost always a willingness. (Participant 8)

As an exploratory study of foundation practices and perceptions of investment transparency, the research seeks to open avenues for more in-depth future research. As an initial examination, this study has many limitations. Most significant among these is the small sample size, which constrains nuanced analysis by type, size and other organizational factors, and impedes broader generalization. Our sense is that there are significant differences both between public versus private foundations, and between those that have adopted a trust-based and equity-oriented approach versus those

with more traditional top-down granting strategies. Our expectation is that, in general, public and trust-based foundations are more responsive to and likely to lead change. Given that early adopters of innovations tend to be emulated (DiMaggio & Powell, 1983), thereby recasting and shaping sector norms, we need a better understanding of the factors that might drive change toward increased investment transparency.

## CONCLUSION

A clear message from this study is that Canadian foundations value transparency. They seek to showcase their good work, and many want to do so through a trust-based approach that is grounded in openness and information-sharing with donors, grantees and other stakeholders. Foundations also aim to expand their impact and ESG investments, which require metrics on financial and social returns. As the study also shows, approaches to transparency are dependent upon and tailored to different audiences, among which donors, partners and regulators are key.

In contrast to the transparency practices surrounding grantmaking and outcomes, those on investments are limited. Less than half share basic information on their board members or make audited financial statements available, and very few make their investment policies public. It is even rarer for foundations to routinely report on their investments, although most will readily share such information if asked to do so. Yet, since donors and other stakeholders rarely request it, devoting time and staff expertise to standardizing investment reporting does not appear justified. Investment data is a niche area, and funds are generally managed externally and often pooled, which makes foundations reliant on their asset managers for timely, accurate market information. Boards tend to be more cautious about investment transparency than foundation staff. A challenge for boards is navigating the conflicting fiduciary and legal responsibilities of being prudent investors while adhering to privacy laws and also fulfilling the foundation's mission. Furthermore, greater scrutiny poses a reputational risk if investments are disappointing or perceived as not aligning with the overall mission. Public foundations that need to fundraise can be concerned about losing donors, and private, family foundations may wish to avoid the spotlight about their wealth. Collectively, these concerns have fostered some hesitancy regarding investment transparency.

It is essential, however, to look ahead and consider whether emerging trends might alter expectations, thereby placing new pressures on foundations. In recent years, institutional philanthropy has come under greater scrutiny about the sources of wealth, its uses, and the value of perpetual endowments in promoting systems change and intergenerational justice. The growing calls for responsible, ethical investing and for disclosure and divestment from certain industries or support for war efforts are creating a new, more uncertain environment for institutional philanthropy. Far from representing a strange fantasy world beyond the looking glass, these recent developments may be an opportunity for foundations to enhance stakeholder and public understanding and engagement in philanthropy. As our research shows, Canadian foundations were already questioning the whys and hows of greater investment transparency: why should we be transparent, how do we do so, and what information is relevant?

This study provides a first step toward understanding differing perspectives and narratives on investment transparency. Its limited participation rate also leaves many questions unanswered and

prompts new ones. A larger sample of foundations would enable more nuanced analysis of the differences between private and public foundations, as well as differences by asset size, locale and other factors. Topics for further inquiry include a closer look at the combined effects of taxation, investor, reporting and privacy regulations by province. While foundations were generally found to support greater investment transparency, views diverged as to how to affect change, but with a general sense that it should come from the foundation sector rather than through regulation. If greater regulation were introduced, how could it be made to fit the diversity among foundations? A closer examination of the existing networks and discussion tables, as well as what is shared within these spaces, would help the sector better assess opportunities for learning and collective action. Due to divergent beliefs about the public responsibilities of private wealth, there may never be a common ground across all philanthropic institutions, but cross-sector conversations offer a promising starting point.

## NOTES

1. The study was conducted in collaboration with the MakeWay Foundation, with support from a Mitacs internship. A public foundation dedicated to advancing social, economic, ecological and culture justice, MakeWay is interested in better understanding how greater transparency could affect how investments are managed and used for greater impact.
2. Private foundations typically derive more than 50 percent of their assets from a single donor (an individual, family, or corporation), and at least half of their trustees or board members are not at arm's length from one another. While they can conduct their own charitable activities, most operate as grantmaking organizations. By contrast, public foundations generally receive funding from a diversity of sources and must have more than 50 percent of their board members at arm's length from one another.
3. Foundations must indicate on their tax forms if they own more than two percent of any class of shares of a corporation at any time during the fiscal period (Canada Revenue Agency, 2024).
4. As of the 2023 fiscal year, the T3010 also requires reporting on the number and value of Donor Advised Funds (DAFs).
5. This analysis of public documents built on a study conducted for MakeWay Foundation by Rheann Quenneville.
6. As reported in a 2021 survey, the target distribution of Canadian foundation investment portfolios was: cash or equivalents, 7 percent; fixed income, 27 percent; Canadian equities, 31 percent; non-Canadian equities, 40 percent; alternative investments, 21 percent; and real estate, 8 percent (Fugiel Gartner, 2024:48)
7. The literature and conversations are divided on the benefits of divesting from contentious industries; an alternative would be to use the position as shareholder to push corporations for change (Boston College, 2008; MPNL Philanthrothink, 2023: <https://carleton.ca/mpnl/2023/wise-investment-esg-impact-responsible-investing-a-philanthrothink-mpnl-webinar-may-11/>).

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## APPENDIX 1

### Thematic Coding Chart

- Participant Information
  - Public Foundation
  - Private Foundation
  - Mission & Vision
  - Granting priorities
  - Regional work
  - National work
  - International work
  - Participant Role in Foundation
- Transparency Discourse
  - Definition/Language
  - Perspective
  - Exposure
  - In granting
  - In finances
  - In investments
- Stakeholder Relationships
  - Grantees
  - Donors
  - Public
  - Peers
- Transparency Practices
  - Website
  - Reports
- Investment Practices
  - Fund Managers
  - ESG/Socially Responsible Investing
  - Impact Investing
- Barriers
  - Lack of capacity

- Showing Up-to-date info
- Fear of Liability
- Fear of Stakeholder scrutiny
- Manager Confidentiality Agreements
- Unwilling/hesitant boards
- Privacy of Family Foundations
- Privacy of Donors
- Lack of willingness — perceived irrelevance
- Lack of Public interest (no one is asking)
- Lack of understanding the importance of Transparency
- Indicated No Barriers, but listed off some that others may consider to be barriers
- Sector Engagement
  - Involved in Networks
  - Transparency Legislation Perspective
  - Transparency Certification Perspective